The Aon Ireland Master Trust Glossary

Your A to Z of pension terms

2020 Edition

Empower Results®

About this Glossary

To ensure you fully understand The Aon Ireland MasterTrust, we have made every effort to avoid the use of unnecessary technical terminology in our suite of guides.

However, you may find some terminology within these guides which you do not understand. We have compiled this *Glossary* to help you with these terms.

Glossary

Active management is a system of investment management which aims for returns that are higher than a particular market index.

To try and achieve this, the investment manager carries out research (of a specific company or fund, for example) before deciding whether or not to buy individual shares or other types of assets.

Active management allows the investment manager to pick and choose the investments they think will perform well.

Actively managed funds offer the potential for higher-than-average returns, but with the risk of a return below the market index.

Actuarial Assumptions These are the figures and estimates that an actuary uses when they make an actuarial valuation.

This can include how long people are expected to live, price rises, how much people are expected to earn, and the income from the pension scheme investments.

Additional Voluntary Contributions (AVCs) are additional voluntary contributions paid by the individual into their Retirement Account. If a person wants to increase the value of their pension pot they can, by making regular AVCs or by making a lump sum additional voluntary contribution. Tax relief is available on these contributions up to certain limits, which are determined by age and capped earnings, as illustrated below.

Age attained during tax year	% of Taxable earnings (up to €115,000)	Maximum contributions based on earnings of €115,000 (€)
Under age 30	15%	17,250
age 30 – 39	20%	23,000
age 40 – 49	25%	28,750
age 50 – 54	30%	34,500
age 55 – 59	35%	40,250
age 60 and over	40%	46,000

Tax relief can be claimed directly from the Revenue Commissioners in respect of the previous tax year on a lump sum AVC paid after the end of that year as long as it is paid before 31 October of the current year (or later if you file your tax return online), assuming it does not breach the tax relief limits for the earlier year.

Additional Fund Expenses are costs that are necessary to the management of the portfolio, but not covered by the manager's AMC. Most fund managers have to pay fees, for example, for auditors, solicitors, trustees and valuers involved in the day-to-day operation of the funds. These fees are taken from the underlying funds and are reflected in the value of your investment. These costs are regularly monitored and reviewed, and can change.

Administrator This is the person or entity responsible for managing a pension scheme on a day-to-day basis.

Annual Management Charge (AMC) is a percentage charge applied to each fund and represents the amount that will be deducted from the fund's value each year to cover managing the funds (including delegated investment manager costs and underlying investment manager costs) and investment consultancy. The AMC may include some or all of the costs of managing and administering The Aon Ireland MasterTrust. The AMC is calculated and deducted from each fund on a daily basis. The AMC will vary according to the mix of managers and investments underlying a particular fund. For example, if a manager is replaced the AMC may rise or fall depending on the revised selection of investment managers and investment funds.

As an example, an AMC of 0.45% on an annual investment worth €1,000 would attract a charge of €4.50 for that year.

Annuity is an insurance policy that provides you with a guaranteed retirement income. Depending on the type of annuity you choose, an annuity can include a minimum guaranteed payment period; it can increase annually; and it can provide for continued payments to a Dependant after you die.

Aon plc, whose shares are quoted on the New York stock exchange, is a leading global provider of risk management, insurance brokerage and reinsurance brokerage, and human resources solutions and outsourcing services. Aon Solutions Ireland Limited, Aon Investments Limited (AIL) and The Aon Ireland MasterTrustee Limited are all subsidiaries of Aon plc.

Aon Funds are a range of funds designed by AIL and provided by Irish Life Assurance plc. More information about these funds can be found in *Your Guide to Investing*.

Aon Investments Limited (AIL) has been chosen by the Trustee as Delegated Investment Manager of The Aon Ireland MasterTrust. AIL has chosen to invest in a policy on behalf of the Trustee, which is provided by Irish Life. Under the policy, investments are made into a number of investment funds, including the Aon Funds.

Aon Solutions Ireland Limited is the Founder of The Aon Ireland MasterTrust and is a subsidiary of Aon plc. Aon Solutions Ireland Limited has been chosen by the Trustee to administer The Aon Ireland MasterTrust. Aon Solutions Ireland Limited is registered with the Pensions Authority to administer pension plans and is regulated by the Central Bank of Ireland.

Approved Minimum Retirement Fund (AMRF) If you want to invest in an ARF (see below) but you fail the guaranteed pension income test, you must first, after you take your Cash Lump Sum, invest €63,500 or the balance of your Retirement Account if less, in an AMRF or purchase an Annuity with this amount or combine both options. You may (but you are not obliged to) make one taxable withdrawal each year from an AMRF which cannot be greater than 4% of your Retirement Account at that time. From age 75 an AMRF becomes an ARF.

Approved Retirement Fund (ARF) is an investment option which may be available to you upon retirement, which allows you to retain ownership of your Retirement Account. It can provide you with flexibility in terms of how you receive income during your retirement.

Before you invest in an ARF, you must meet one of the following conditions:

- You must be in receipt of a guaranteed pension income for life of €12,700 a year. This can include the state pension; or
- After you take your Cash Lump Sum, you must set aside €63,500 of your Retirement Account to buy a pension (Annuity), or invest in an Approved Minimum Retirement Fund (AMRF), or you may combine both options.

An ARF allows you to draw a variable income at a pace which best suits you, while continuing to invest the remainder of your Retirement Account. This is more flexible than buying an Annuity. For example, the amount and frequency of the income from an ARF can be varied according to a person's needs. Income does not have to be drawn on a regular basis and can be drawn as lump sum payments.

Any withdrawals you take from your ARF will be subject to income tax, the Universal Social Charge, and PRSI (if you are liable for this).

For those between the age of 61 and 70, there is a minimum withdrawal of 4% of the value of the ARF each year. This increases to 5% each year for those who have reached age 71 and to 6% for those who have reached age 61 and have one or more ARFs with an overall value in excess of €2 million.

By continuing to invest the remainder of your ARF, you can benefit from any future investment growth and you can determine the investment strategy for your ARF. However, there is no guarantee that the investments will rise in value.

Poor investment performance and the frequency and amount of withdrawals will affect the value of your ARF. The effect of these pressures could mean that an ARF eventually runs out of money before you die. As you retain ownership of the ARF, when you die, any remaining funds will be left to your spouse/civil partner or other beneficiaries.

Asset/Asset Class is a type of investment. There are many different types or classes of assets, including equities and bonds.

Benchmark A benchmark is a standard against which the performance of a security, mutual fund or investment manager can be measured. Generally, broad market and market-segment stock and bond indexes are used for this purpose.

Cash Lump Sum This is the cash that you take as a lump sum payment when you retire. The amount of cash you can take as a lump sum payment can be calculated in one of two ways:

Option 1

You can take 1.5 times your Final Remuneration less any cash lump sums you have in previous pension arrangements, if you have completed at least 20 years' service with your employer at your Normal Retirement Age. For members with shorter service, or who leave before Normal Retirement Age, a lower limit is imposed by the Revenue Commissioners.

or

Option 2

You can take up to 25% of the value of your Retirement Account.

You may take the greater of these two amounts (subject to meeting the stated criteria for option 1 above). However if you choose to take option 1, then the balance of your Retirement Account (other than AVCs) must be used to buy a lifetime income (i.e. an Annuity) rather than be invested in an ARF or AMRF.

The Revenue Commissioners apply overall limits to the tax-free cash lump sum that you can take. Any cash lump sum entitlement up to €200,000 is tax-free. Where your lump sum entitlement exceeds €200,000:

- The maximum tax-free sum you may receive is restricted to €200,000
- The next €300,000 will be subject to the standard rate of tax (currently 20%)
- Any excess over €500,000 will be taxed at the higher rate (currently 40%)
- Amounts in excess of €500,000 will also be subject to the Universal Social Charge and PRSI (if you are liable for this).

Consumer Prices Index (CPI) is a measure of inflation that's published each month by the Central Statistics Office. In effect, it is a 'basket' of everyday goods and services, the prices of which are monitored each month.

Contributions The amount you pay, and/or your employer pays on your behalf, as a member of your employer's section of The Aon Ireland MasterTrust (please see *Your Plan Summary*).

Contributory Salary The salary on which your contributions are based (please see *Your Plan Summary*).

Defined Contribution Plan Money is usually paid into the plan by both an individual and their employer. At the point of retirement, the pot of money an individual has will be based on how much has been paid in, plus any growth on the money (less the costs of running the plan). Other benefits may also be provided under the plan.

At retirement the pot may be paid out in various ways - for instance, as an ARF/AMRF, as a cash sum or as an Annuity. Each option has an associated risk linked to the level of secure income received. For example, Annuities provide a guaranteed level of income, whereas an ARF can provide a flexible income.

The Aon Ireland MasterTrust is a Defined Contribution Plan.

Dependant Your dependant is your spouse or civil partner; your child (including a step-child or a legally adopted child) who is under age 18 or 23 if in full-time education or who, due to disability, is dependent on you; or any other individual who the Trustee considers is financially dependent on you or was so dependent at the time of your death.

Derivative A derivative is a contract between two or more parties whose value is based on an agreed-upon underlying financial asset, index, or security. Its value is determined by fluctuations in the underlying instrument. Common underlying instruments include: bonds, commodities, currencies, interest rates, market indexes, and stocks. Derivatives can be used for efficient portfolio management and for risk reduction as well as for speculation.

Diversified / Diversification means spreading capital risk by investing in a range of different assets so that in the case of one asset type performing poorly, it won't impact the whole. Most funds use this approach to invest across a range of individual securities and avoid concentration in any single holding. Funds which use this approach across asset classes are often called multi-asset or diversified growth funds.

Employee is defined as a person who has agreed, by contract, to perform a certain task or specialist work for another person or business in return for payment.

Employer is defined as your employer and associated and subsidiary companies who are participating employers in The Aon Ireland MasterTrust.

Euribor Europe Inter Bank Offer Rate.

Euro Hedged The hedged share class aims to provide investors with a return correlated to the base currency performance of the fund (Euro), by reducing the effect of exchange rate fluctuations between the base and hedged currency.

Fund Factsheet A short document which provides useful information on an investment fund including its objective, asset allocation, historical performance and volatility.

Final Remuneration The term used by the Revenue Commissioners for the maximum amount of earnings which it will permit to be used for the purpose of calculating maximum approvable benefits. The permissible alternatives are set out fully in the Practice Notes issued by the Retirement Benefits District of the Revenue Commissioners.

FTSE Refers to the FTSE (Financial Times Stock Exchange) indexes. The indexes are published by FTSE International Limited, a company that specialises in index calculation (and is not actually part of any stock exchange).

Glossary The Aon Ireland MasterTrust *Glossary*. This is a compilation of explanations of terminology used in our explanatory guides together with other commonly used pensions' terminology.

Inflation Over time, the prices of goods and services generally increase. In other words, the cost of living rises.

Inflation is important to consider when making investment choices, because if returns fall below the level of inflation, the buying power of your Retirement Account falls.

Lifestyle Strategy or Strategy A Lifestyle Strategy automatically moves your Retirement Account to more appropriate investment funds as you age. The objective is to allow your Retirement Account to grow while you are younger by investing in higher risk, higher potential return funds; and gradually move your Retirement Account to more appropriate investment funds as you age, depending on how you plan to take your benefits at retirement.

For further information on the Lifestyle Strategies available to you, see **Overview of Your Investment Options** in *Your Guide to Investing* and the **Investments** section of *Your Plan Summary.*

Market Index A market index is intended to represent an entire stock or bond market and thus track the market's changes over time.

Maximum Retirement Benefits The maximum retirement benefit that the Revenue Commissioners allow upon retiring at Normal Retirement Age is an annual pension of 2/3rds of your final salary (as defined by the Revenue Commissioners).

This applies if you have completed at least ten years' service with your employer, with a lower scale applying for shorter service or if you leave service before Normal Retirement Age.

The maximum pension includes the pension equivalent of: any Cash Lump Sum received; AVCs; transfers to an ARF or AMRF; Taxable Cash; and benefits earned in previous pension arrangements. These maximum benefits apply even where you do not elect a pension upon retirement, meaning that the benefits you do elect are converted into a pension value to determine if you exceed the maximum benefits.

MSCI Morgan Stanley Capital International.

Normal Retirement Age This is the default retirement age for your employer's section of The Aon Ireland MasterTrust and is the age when you are scheduled to retire and start receiving your retirement benefits.

Normal Retirement Date The date when you are scheduled to retire and start receiving your retirement benefits.

Outgoing Worker is a term introduced by Directive 2014/50/EU, ("the Portability Directive"). To be an Outgoing Worker, a person must be (i) an active member of a pension plan (ii) their current employment terminates for reasons other than becoming entitled to an occupational pension and (iii) they move employment between EU member states. An individual who meets these requirements can become an Outgoing Worker (i) at the point where they join an employer's service if this is after 13 September 2019 and they are eligible to join their new employer's pension scheme; or (ii) on 13 September 2019, if they are in a waiting period to join their employer's pension plan at that date; or (iii) when they leave their employer after 13 September 2019. If a new employee becomes an Outgoing Worker upon joining an employer, or on 13 September 2019 if later, they will remain an Outgoing Worker for all the purposes of that employment and any pension plan related to that employment. Where a member, who is an Outgoing Worker, ceases relevant employment without qualifying for a preserved benefit under the Pensions Act they will be entitled to a refund of all employee and employer contributions paid on their behalf to their employer's pension scheme after 13th September 2019, or a refund of the value of those employee and employer contributions.

Also, a waiting period before joining a pension plan for an Outgoing Worker cannot exceed 12 months from the date of commencement of relevant employment.

Passive management This is a method of investment that tries to limit manager risk by following a market.

Passive management aims for returns that are in line with a particular market index. To try and achieve this, the investment manager invests in broadly the same investments as the market, and in the same proportions, rather than selecting specific shares or securities that may or may not perform better.

Pay Related Social Insurance (PRSI) PRSI Contributions are paid on earnings above a certain level. A person's contributions build up their entitlement to benefits, including the State Pension. How much an individual will pay depends on how much they earn and whether they are employed or self-employed.

Once a person reaches State Pension Age, they stop paying PRSI Contributions.

Personal Fund Threshold When the Standard Fund Threshold (SFT) was introduced on 7 December 2005 and on subsequent occasions when the SFT limit was altered, for a limited time only and upon application, the Revenue Commissioners issued Personal Fund Threshold Certificates to those individuals whose pension fund values exceeded the PFT limit at the relevant time. It is currently not possible to apply for a PFT certificate.

Plan The Aon Ireland MasterTrust under which your employer's pension arrangement is established.

Qualifying Service Service in the Plan, or in any other plan of your employer, or any plan of a previous employer from which a transfer has been paid into the Plan.

Standard Fund Threshold (SFT) Under current legislation, the Standard Fund Threshold allowed for tax relief purposes is €2 million (this maximum amount includes any pension benefits you have already received since 7 December 2005 and pension benefits you may receive in future).

Any pension funds in excess of this amount are liable to a one-off income tax charge at the top rate of tax (currently 40%) when they are drawn down on retirement, in addition to the normal income tax and Universal Social Charge payable on your retirement benefits. This limit may be adjusted annually in line with an earnings index at the discretion of the Minister for Finance.

The value of your benefits for comparison with the SFT is calculated as follows:

- If you have a defined contribution arrangement, you look at your total fund value.
- If you have a defined benefit arrangement, you look at your accrued annual pension multiplied by 20 or at a higher rate for benefits accrued after 2014, and add in any separate stand-alone Cash Lump Sum entitlement accrued. If your benefits are

more than the SFT, there will be a tax charge on the excess amount at the time you take your benefits. See also Personal Fund Threshold (PFT) above.

Retirement Account This is the individual account set up for you into which the contributions you and your employer are held together with any funds you transfer in from any previous Revenue approved pension arrangements. Your Retirement Account is used to provide your pension benefits when you retire. The value of your Retirement Account depends on the amount of contributions paid in plus the investment returns gained less any Plan charges.

Risk rating To help you select the funds that are appropriate to you, each fund has been given a risk rating using a scale of one to seven, with one being the lowest risk and seven the highest risk.

The risk ratings are relative to other funds in The Aon Ireland MasterTrust's overall fund range, and it is important to note that there is some investment risk for all of the funds - even those with a very low relative risk rating of one.

Self-Select Funds These are the investment funds made available to members of your employer's section of The Aon Ireland MasterTrust who wish to self-direct their investments rather than avail of one of the Lifestyle Strategies.

Statement of Reasonable Projections (SRPs)
This is a document which provides an estimate of the potential value of your Retirement Account, at your Normal Retirement Age. It also estimates the potential pension that this estimated Retirement Account might purchase should you wish to avail of this option when you reach your Normal Retirement Age. SRPs must be prepared in line with statutory guidance, including prescribed assumptions and may not accurately reflect the actual value of your Retirement Account or the pension it may purchase upon reaching your Normal Retirement Age.

State Pension Age This is the age at which people begin to receive the State Pension. The current State Pension Age is 66. The State Pension Age will increase to 67 in 2021 and to 68 in 2028.

Taxable Cash Taxable cash can arise in two different circumstances:

(i) Firstly, if you qualify for an ARF, you may as an alternative, take the balance of your Retirement Account, after you take your Cash Lump Sum, as an additional lump sum which will be subject to income tax, the Universal Social Charge, and PRSI (if you are liable for this).

(ii) Secondly, if, when your pension benefits come to be paid, the total value of all your lifetime pension arrangements including your Retirement Account in this Plan, after payment of all Cash Lump Sum benefits, is less than €20,000, the balance of your Retirement Account may be paid subject to a deduction of income tax, the Universal Social Charge, and PRSI (if you are liable for this).

The Aon Ireland MasterTrust This is the pension plan under which your employer's pension arrangement is established.

Total Expense Ratio (TER) The sum of the Annual Management Charges (AMC) and Additional Fund Expenses is sometimes referred to as the Total Expense Ratio (TER).

Transfer value If you want to move your pension savings from one pension plan to another, the plan you are leaving will quote a transfer value. This represents the value of the benefits built up under the plan.

The Trust Deed and Rules The Aon Ireland MasterTrust Definitive Trust Deed and Rules between Aon Solutions Ireland Limited and The Aon Ireland MasterTrustee Limited dated 20 June 2017.

Trustee The Trustee is responsible for the proper running of The Aon Ireland MasterTrust. The Trustee of The Aon Ireland MasterTrust is The Aon Ireland MasterTrustee Limited.

Your Plan Summary *Your Plan Summary* is the document that sets out the specific details of your employer's section of The Aon Ireland MasterTrust. A copy of *Your Plan Summary* is available in the

Knowledge Centre on The Aon Ireland MasterTrust website.

Your Guide to Investing *Your Guide to Investing* aims to help you to understand your investment options and to assist you to make your investment choices.

Your Guide to Saving *Your Guide to Saving* for your retirement is a savings guide which outlines key features of The Aon Ireland MasterTrust for members, like you, whose employer has established a section within the Plan.

Important: This *Glossary* reflects government legislation in force at the date on the front cover. The information in this document is current as of the date shown on the front cover but is subject to change. For the most up-to-date information, please see the latest version of this *Glossary* and other documents in the **Knowledge Centre** on The Aon Ireland MasterTrust website. For the most up-to-date information, please see the latest version of this **Glossary** and other documents in the **Knowledge Centre** on The Aon Ireland MasterTrust website.

The information presented in this document is provided to you as guidance. However, nothing stated in this *Glossary* either imposes any legal obligation on you, or gives you any legal rights, as these only arise under the Trust Deed and Rules (including the **Benefits Annex** for your employer's section of The Aon Ireland MasterTrust).

Please note that where there is any inconsistency between this *Glossary* and the Trust Deed and Rules, the Trust Deed and Rules takes precedence. You can get a copy of the Trust Deed and Rules by contacting The Aon Ireland MasterTrust Team.

Notes

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