

Occupational pension schemes

Many employers choose to provide their employees with retirement benefits under an occupational pension scheme.

Benefits at retirement

Revenue maximum benefits on retirement are:

- pension - 2/3rds of final remuneration, provided a minimum of 10 years' service has been completed to normal retirement age
- tax-free lump sum - 1.5 times final remuneration provided a minimum of 20 years' service has been completed to normal retirement age. Where a lump sum is taken, this reduces the maximum amount of pension available.

These limits are subject to certain requirements being satisfied.

Proprietary directors may elect for the options available under Approved Retirement Funds (ARFs) and are not obliged to buy a pension. This provision also applies to all Additional Voluntary Contribution (AVC) funds.

At retirement, proprietary directors may opt to take up to 25% of their fund as a tax-free lump sum. From the balance they must invest the first €63,500 in an Approved Minimum Retirement Fund (AMRF) if they do not already have pension income in excess of €12,700 per annum. The remainder may be taken as a taxable lump sum or used to purchase an ARF.

The maximum tax allowable pension fund (from all pension arrangements) at retirement is €5,418,000 or the value of the personal fund threshold (as agreed with Revenue) if higher. The maximum tax-free lump sum entitlement (from all pension arrangements) is €1,354,521. The maximum limits will not be indexed for 2009.

An annual income tax charge applies on the value of assets invested in an ARF (3% from 2009 onwards). Any actual withdrawals from the ARF are offset against this charge. The tax charge applies to all ARFs created on or after 6 April 2000. AMRF funds are not affected by this tax charge.

Contributions to occupational pension schemes

An employer must make a "meaningful" contribution to an occupational pension scheme; however, the benefits at retirement must not exceed Revenue limits. Ordinary annual employer contributions are tax deductible in the accounting period in which they are paid. Special contributions in excess of set limits may need to be spread forward over a period of up to five years.

Employees may claim tax relief on contributions from their remuneration subject to the earnings limit of €150,000 for 2009. The earnings limit may be indexed in future years. It may be possible to have personal contributions relieved through payroll to achieve immediate relief for tax/PRSI.

Pension schemes

The allowable personal contributions are expressed as a percentage of remuneration and are age related as follows:

Age attained during tax year	Maximum relief
Less than 30	15%
30 but less than 40	20%
40 but less than 50	25%
50 but less than 55	30%
55 but less than 60	35%
60 and over	40%

Contributions paid between 1 January 2009 and the tax return filing date may, if an election is made, be treated as paid in 2008.

Normal retirement age

Normal retirement age can be at any time from age 60 to 70 with some limited exceptions. With consent, individuals may retire early from age 50, or at any age in the case of ill health.

Retirement annuity contracts (RACs)

Retirement annuity contracts, also known as personal pension plans, are established by individuals (the self-employed or those in non pensionable employment) in their own name.

Benefits at retirement

Individuals may opt to take up to 25% of their fund as a tax-free lump sum and may, from the balance, elect for a taxable lump sum, purchase a pension or elect for the Approved (Minimum) Retirement Fund rules (see "Occupational pension schemes" on previous page).

Contributions

Contributions are based on net relevant earnings; the same earnings limit and age related contribution limits apply as they do for members of occupational pension schemes (see above).

PRSAs

Employers who do not provide their staff with access to an occupational pension scheme must provide access to a Personal Retirement Savings Account (PRSA). Employers are not obliged to contribute to a PRSA but must provide the facility to have pension contributions deducted directly from the employee's salary and transmitted to the PRSA provider.

Similar to RACs above, PRSAs can be established by the self-employed or those with non pensionable earnings. In addition, employees may elect to pay PRSA contributions in lieu of AVCs.

Planning tip!

Ensure you maximise your personal pension contributions using the 2008 earnings cap (€275,239) before 31st October 2009. The earnings cap for 2009 is reduced to €150,000.

Planning tip!

Remember occupational pension schemes may permit greater overall pension funding than personal pension plans.

Benefits at retirement

The benefits are broadly in line with those outlined above for RACs.

Contributions

The overall contribution limits are those outlined in the table above. The overall limits include contributions made by the employer (where applicable).

Retirement age for RACs and PRSAs

Benefits are generally accessed from age 60 and must be accessed before age 75; however employees with PRSAs may retire early from age 50.

Planning tip!

Recent falls in pension fund values may create additional scope for tax efficient pension funding.

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