

# Finance (No.2) Act 2011 – Pensions Levy

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## Pensions Advisory Services – Irish Life

The Finance (No.2) Act 2011 was signed into law on 22 June and provides the legislation for the introduction of the levy on pension schemes announced in the Jobs Initiative.

### Key Points:

#### **Government Pension Levy**

- Levy of 0.6% on the market value of assets under management, to raise €470 million per year.
- The legislation specifically refers to the years 2011 to 2014. As such the Levy will apply for four years.
- First valuation date is 30<sup>th</sup> June 2011
- For 2012, 2013 and 2014 the valuation date will also be 30<sup>th</sup> June
- Applies to company pensions, buy out bonds, personal pensions and PRSAs
- The Levy will not apply to ARF/AMRF plans or to vested PRSAs

#### **What plans will this apply to?**

The Act imposes an annual levy of 0.6% on the value of company pension schemes, buy-out bonds, personal pensions and PRSAs for a four year period up until the end of 2014. The legislation is specifically limited to the years 2011 to 2014.

#### **What plans are exempt from the Pensions Levy?**

The Pensions Levy will not apply to the following

- ARFs, AMRFs and vested PRSAs.
- Company pension schemes where the trustees have passed a resolution to wind up the scheme provided that the employer is insolvent for the purpose of the Protection of Employees (Employers' Insolvency) Act 1984. We are not in a position to determine if schemes meet these criteria and so we are required pay the levy. In view of this Revenue will allow schemes which satisfy these criteria to apply for a refund after it has been paid.
- Company pension schemes set up for the benefit of employees employed wholly outside the State

#### **Are annuities exempted from the levy?**

Annuity contracts will not be affected by the levy and Irish Life will not reduce annuity contracts that are in payment.

However, defined benefit schemes that pay pensioners directly out of the scheme assets will be subject to the levy on the assets backing the pensioner liabilities. This includes the situation where a life office or third party administrator provides payroll services for these arrangements. It is up to the trustees of the scheme to determine the impact of the levy on the pensions in payment. Potentially, trustees may reduce these pensions that are paid directly out of the assets of defined benefit schemes.

#### **When will the Pensions Levy be due?**

For 2011 the pension levy is based on the market value of assets on 30<sup>th</sup> June 2011.

Irish Life will deduct the pension levy and remit this to the Revenue Commissioners as required. This will be done by deducting the appropriate number of units from the policy once the unit prices for the 30 June 2011 are available. In each case the units will be deducted based on the proportion of funds relative to the policy value. This will include property funds. For SIF cases however, the levy will be deducted from the liquidity account.

We intend to have the levy deducted from all eligible plans by the end of the first week in July.

For 2012, 2013 and 2014 the valuation date will also be 30 June.



### How will the levy work for small self-administered schemes?

For small self-administered schemes, the scheme administrator will be responsible for deducting the pension levy based on the market value of assets, other than for pension contracts held by the scheme with an insurer. Assets will be valued either as at 30 June or the last day of the accounting period ending before 30 June.

If the scheme holds a pension investment only contract with an insurer the contract will be valued as at 30 June. No other date may be chosen. The insurer will be responsible for deducting the pension levy on such pension investment only contracts.

In some cases a small self administered scheme may hold a life investment only contract with an insurer. In such cases it is the scheme administrator, not the life office, that is responsible for the levy.

### What is Irish Life's stance on the pension levy?

We issued the following statement on 10 May 2011 in response and we will of course continue to work hard in the days and months ahead to get greater clarity on future pension policy.

#### Statement by Gerry Hassett, Irish Life CEO

“While we are all conscious of the critical challenges facing the country and the importance of job creation in particular, I am disappointed that ordinary workers trying to save for retirement are being targeted to help fund this jobs initiative. We would urge the Minister to offer clarity around future policy on pension taxation and to reassure the million plus workers who are saving in pensions that he will continue to support them in their efforts to save for their retirement.

Just a few years ago there was a broad consensus that we needed to plan now to avoid a pensions time bomb in this country. Unfortunately every policy announcement on pensions since that time has undermined confidence in retirement planning and has contributed to an escalating pensions problem.

Clearly we have to deal with today's crisis in the public finances....but we must avoid creating an even bigger fiscal crisis for the next generation in the process.”

### What does the pension levy mean for tax relief on pensions?

No change has been made to income tax relief for pension contributions, and saving into a pension plan still offers very valuable and tax efficient benefits for people saving for their retirement.

Irish Life has spoken up on behalf of customers to maintain income tax relief on pension contributions at the marginal rate, and we will continue to do so. It's important that customers saving for retirement have clarity and reassurance on how their pension contributions will be treated.

As a society, we're getting older, so it's really important that we take a long term view on pensions. Increasing longevity means that by 2050, there is expected to be less than two workers for every older person, compared to six today. So it's clear that the State will no longer be able to pay pensions to older people to the same extent as it does currently. This places the onus back on individuals to save to ensure that they are financially secure in retirement. And this is why it's so important for all our futures that pension savings continue to be encouraged.

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