

Pensions Training

Occupational Pension Schemes

- Who can take out a Company Pension Plan
- Structure / Trusts
- Employer Contributions
- Employee Contributions
- Revenue Maximum Contributions
- Benefits / Tax advantages
- AVC Withdrawal Option
- Retirement options
- Death in Service Benefits

Who can take out a Company Pension Plan?

Who can take out a Company Pension Plan? Irish Life

- Source of remuneration assessable to Schedule E
 - ❖ Must be employer / employee relationship
 - ❖ Schedule D income consultants do not qualify for inclusion

- Proprietary directors can be included subject to certain restrictions
 - ❖ Must be registered as PAYE employee
 - ❖ But proprietary director of *investment* company can *not* be included in scheme



Structure / Trusts

- Benefits must be held under trust
 - ❖ Letter of Exchange (one person scheme)
 - ❖ Declaration of Trust / Trust Deed (group schemes)
- Trustees
 - ❖ Employer usually in the case of smaller schemes
- Member
 - ❖ The individual who is covered by the scheme

An arrangement under which a person or group of people known as Trustees hold and look after property on behalf of others known as beneficiaries.

- Separates the employer's assets from any pension scheme assets
- Trust assets are secure / safe from creditors of the employer if employer goes into liquidation
- Revenue Approval requires a scheme to be set up under an irrevocable trust in order to avail of tax relief
- Provides Third Party beneficiaries e.g. spouse of member with enforceable rights



- The employer
- Individuals (min of 2 required)
 - ❖ need home addresses for Pensions Board
- Corporate trustees e.g. professional trustee company





Employer Contributions

■ Employer must contribute

- ❖ 10% of total costs, excluding AVCs for one man defined contribution scheme

■ Member does not have to contribute

- ❖ Under Irish Life scheme rules this is for the employer and employee to agree





- Employer usually pays a regular annual premium
- Employer must pay min 1/10th of total cost excluding AVCs
- Must be paid in Company tax year
- Tax relief on employer annual premiums granted in the company tax year paid
- Back dating tax relief not allowed

When can employer pay a Single premium? Irish Life

- If there is a shortfall in employee's pension

For example

- Previous service not already funded for
 - ❖ e.g. Joined company 1990
 - ❖ Joined pension scheme 2000
 - ❖ Employer can pay single premium for 10 years back service (i.e. from 1990 to 2000)
- Rev Max calculator available on bline.ie for quotes

Establishing Funding Opportunity

Company Pension Plan - Revenue Max for Annual and Single Premiums

(Sample Client Using
Irish Life's Rev Max
calculator on bline.ie)

AGE AT 31ST DECEMBER IN RELEVANT TAX YEAR	<input type="text" value="40"/>
NORMAL RETIREMENT AGE	<input type="text" value="60"/>
GENDER	MARITAL STATUS
Male	Married
CURRENT INCOME FROM THIS EMPLOYMENT	<input type="text" value="50000"/>
YEARS WITH CURRENT EMPLOYER	<input type="text" value="1"/>
CURRENT EMPLOYMENT - CURRENT VALUE OF PENSION PLANS FROM THIS EMPLOYMENT	<input type="text" value="25000"/>
PREVIOUS EMPLOYMENT - CURRENT VALUE OF PENSION PLANS FROM PAST EMPLOYMENT	<input type="text" value="0"/>
<input type="button" value="Calculate"/>	

These figures are based on a typical customer and your client should seek professional tax advice as the information given is a guideline only and does not take into account your personal circumstances.



- Relief given in same year if
 - ❖ Single premium equals employer annual premium
 - ❖ Single premium is €6,350 or less

- If single premium exceeds total employer annual premium relief spread forward

Formula

- ❖ Total Single Premium divided by Total Employer Annual Premium
or
 - ❖ €6350 if annual premium less than €6350
-
- Spread forward to a max of 5 years



Employee Contributions

- Employee's can pay between 15% and 40% of salary depending on age
- Subject to salary cap €115,000

Age	% of Salary
Under 30	15%
30 – 39	20%
40 – 49	25%
50 – 54	30%
55 – 59	35%
60 and over	40%

- Income tax relief at marginal rate (20% or 41%)
- No relief against PRSI or the Universal Social Charge





- Backdating allowed provided employee is still in same employment
- Employee can claim tax relief on single premium in previous tax year
 - ❖ If employee pays single premium on or before 31st October
 - ❖ Employee files a tax return on or before 31st October
 - ❖ Tax relief granted in previous tax year



Revenue Maximum Contributions

Calculations based on

- **Current** Salary
 - Years of Service Completed
 - Years of Service to NRA
 - Existing pension values
-
- Capitalisation Factors - Table of rates which are set by Revenue and the Society of Actuaries
Example – NRA / Gender / Marital status



Benefits / Tax advantages

Benefits of starting a Company Pension Plan Irish Life

- Significant tax savings for employer
 - ❖ Corporation tax relief 12.5%
- No BIK for Employee
- Tax exempt investment returns
- Providing additional security for the future
 - ❖ In retirement
 - ❖ On death before/after retirement

- Contributions invested in Tax Exempt Fund
- Tax Free Lump Sum at Retirement
- Tax relief on contributions
 - ❖ Employer - corporation tax relief 12.5%
 - ❖ Employee- income tax relief at 20% / 41%
- Employee can backdate to previous tax year if in same job and premium paid before self assessment tax deadline (31 October)



AVC Withdrawal Option

- This option is available to those who have paid AVCs into any of the following
 - ❖ Company Pension Scheme
 - ❖ AVC Scheme
 - ❖ PRSA AVC
 - ❖ Personal Retirement Bond / Buy Out Bond
- Up to 30% of the value of the AVCs can be withdrawn.
- Only one withdrawal is allowed per scheme.
- Any AVC withdrawal will be subject to marginal rate income tax. Irish Life will deduct tax at higher rate unless we get a valid tax cert
- This option is available until 26 March 2016

Retirement Options

When may retirement benefits be taken Irish Life

- At normal retirement age
 - ❖ Usually set between 60 and 70
- On ill health early retirement at any time
- On voluntary early retirement from age 50 onwards
 - ❖ With employer's consent

- Members Pension $\frac{2}{3}$ of final salary (if 10 years service)
or
- Retirement lump sum : 1.5 times final salary
and
- A reduced pension
and
- Spouses Pension : 100% of members pension
- Pensions increasing by CPI or 3% pa

Max Pension less than 10 years service

Service - n/60ths of final remuneration

1	4/60ths
2	8/60ths
3	12/60ths
4	16/60ths
5	20/60ths
6	24/60ths
7	28/60th
8	32/60ths
9	36/60ths
10 or more	40/60ths

Max Lump sum if less than 20 years service

Years of service n/80th of FS

1-8	3/80ths
9	30
10	36
11	42
12	48
13	54
14	63
15	72
16	81
17	90
18	99
19	108
20 or more	120

- Members in DC schemes have two options to choose from at retirement
 1. Salary & Service Route
 2. ARF Route

- Defined Benefits Schemes
 - ❖ Employees must take their retirement benefits the salary & service route. Only AVCs will have ARF options

 - ❖ Proprietary directors may have ARF options

- Pension up to 2/3rds of Final Salary (10yrs)
- OR**
- Retirement Lump sum up to 150% of Final Salary (20 yrs) and reduced pension

AVC Fund:

- Can augment lump sum received from main scheme (subject to max – up to 150% x Final Salary)
- After Lump sum, balance of AVC fund can be used to:
 - ❖ Purchase pension annuity
 - ❖ Invest in ARF/ AMRF*
 - ❖ Can be taken as cash, subject to tax*

*Min guaranteed pension €12,700 pa or
AMRF €63,500 rule applies

Lump Sum Option

- 25% of the value of the pension fund

With Balance of fund

- Buy a pension
- Invest in an ARF*
- Take as a taxable lump sum*

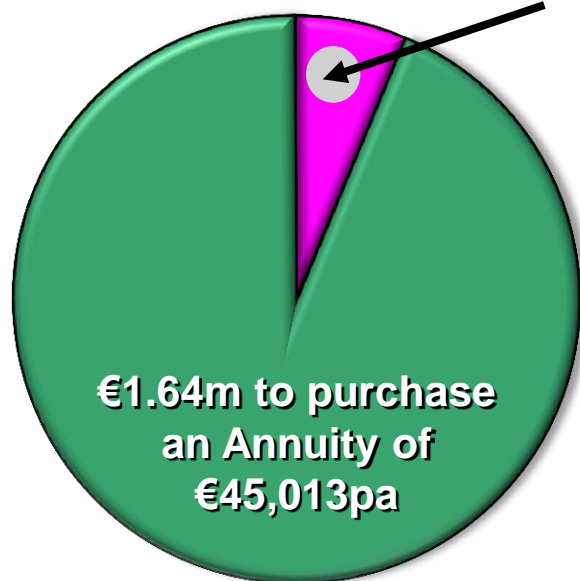
* Subject to €12,700pa guaranteed income or €63,500 AMRF

Retirement Benefits Example

Male Aged 40, NRA 60, Current Salary €40,000 - Revenue Maximum Fund €1,748,387
Maximum Yearly Contribution €43,200 p.a.

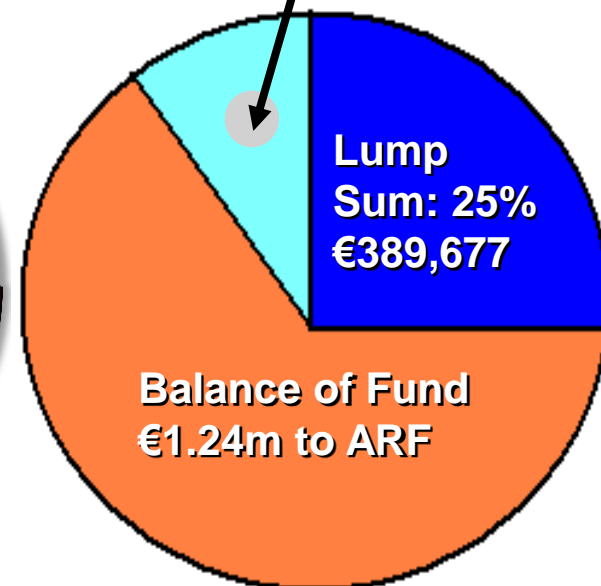
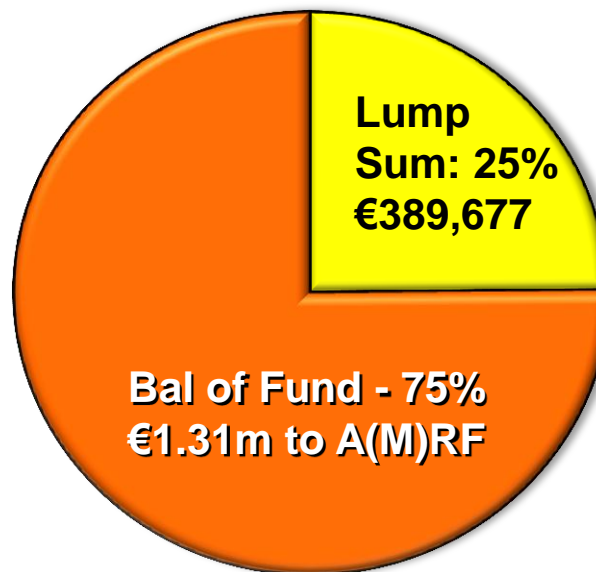
Option 1

Lump Sum
€108,336 (1.5 x FS)



Option 2

€63,500 to AMRF
or Annuity



Assume: Final Salary €72,244

Assumptions: 5.4% Growth, Consensus 0.75FMC.
Annuity Rate: 2.747%. Lump sum figures shown after
tax where applicable

Taxation of Lump Sums



- Lump Sums that exceed €200,000 are subject to tax as follows

Lump Sum Amount	Income Tax
First €200,000	Exempt
Next €300,000	Standard Rate Tax only
Balance	Marginal rate income tax plus PRSI & USC

- These limits include all retirement lump sums taken since 7th December 2005



Death in Service Benefits

- Lump Sum $4 \times \text{Salary}$ at date of death less preserved death benefits from previous employments
plus
- A Refund of Employee's own personal contributions with/without interest
OR
- Lump Sum $2 \times \text{Salary}$ at date of death
plus
- A Refund of Employee's own contributions with/without interest

- Spouse's / Dependant's Pension on Death in Service / Death in Retirement
100% x **Member's expected pension**
 - ❖ i.e. **2/3rds** x Final Remuneration
 - ❖ Esc CPI or 3% pa

- Company Pensions are set up under trust
- Employer must pay min 1/10th of total AP (ignoring AVCs)
- Max total contribution (ER & EE) based on maximum approvable pension benefits provided
 - ❖ Pension 2/3rds of salary (if 10 years service)
 - ❖ Spouses pension 100% of member's pension
- Employer gets tax relief on AP in year contribution paid
- Employer SP – relief may be spread over max 5 years
- Employee receives income tax relief on contributions

The information and tax rates contained in this presentation are based on Irish Life's understanding of legislation and Revenue practice as at April 2014 and may change in the future. While great care has been taken to ensure the accuracy of the information contained in these slides, Irish Life cannot accept responsibility for its interpretation nor does it provide legal or tax advice.

Irish Life Assurance plc is regulated by the Central Bank of Ireland