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RECENT AND UPCOMING CHANGES TO PENSION LEGISLATION

The Finance Act 2013 includes a number of changes to Pension Legislation. Please see outlined below information regarding these changes.

Approved Retirement Fund (ARF) & Approved Minimum Retirement Fund (AMRF)

The limits for the ARF option have been temporarily reversed to the pre-2011 levels. For the next three years from April 2013, the minimum guaranteed pension for life required by a member is €12,700 per annum prior to the purchase of an ARF. Where a member does not satisfy this minimum income requirement, they will be required to purchase an AMRF in the amount of €63,500. There is no access to the capital invested in an AMRF until a member attains age 75. The levels had been increased in 2011 to ensure a member had a guaranteed income of 1.5 times the State Pension (currently €18,000 p.a.) or else was required to invest 10 times state pension, (currently €119,800) in an AMRF. This temporary reversal also means that for those invested in an AMRF since 2011; there will be an automatic reduction from €119,800 down to €63,500, with the balance being transferred to an ARF. Imputed distributions (tax on draw down of ARF assets deemed at 5% annually or 6% where the total assets are in excess of €2million) are not payable on the AMRF.

This temporary reduction to the AMRF requirement, backdated to those established from 2011 and applicable for the next three years will widen the net on which the tax is collected on ARFs.

Once off Early Draw down of (Additional Voluntary Contributions) AVCs

Another temporary measure introduced in the bill, allows members once off access of up to 30% of their AVC funds at one point over the next three years from April 2013. This option is only available on AVC's and does not apply to employer or regular employee contributions. Any draw down of benefits will automatically be taxed at the ***higher income tax rate*** (currently 41%). It will be up to a member to provide the administrator with the relevant revenue documentation to confirm deduction of the lower tax rate. The withdrawal is exempt from USC and PRSI.

Reduction in Pension Fund Lifetime Limit

Another change due to come into effect in 2014 is the government's intention to further reduce the maximum pension fund limit. It has been proposed that tax relief will only be available to fund for a pension of €60,000 per annum or less.

Details of exactly how this will be implemented remains unclear to date. What is clear however is that if implemented, this €60,000 limit will also have a significant impact on members and a knock on effect for employers. Alternative approaches will now have to be considered for members close to the limits imposed and there are alternative options which can be provided for such members.

Increase in State Pension Age

The 2012 Social Welfare and Pensions Act provided that with effect from 1st January 2014,the State Pension (Transition) is abolished and State Pension will be payable from age 66. (This will increase to age 67 with effect from 01/01/2021, finally increasing to age 68 with effect from 01/01/28). There are consequences for both employers and members of occupational pension schemes and insured benefit arrangements and with the first of these changes only eight months away, it is a topic that requires immediate consideration.

To discuss any of the above points in greater detail please contact the Administration or your Pension Consultant directly.

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