Invesco Newsletter

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Pension Legislation Update 2008/2009

Pension Tax Relief Limits

Tax relief is available on personal contributions made to pension plans. The amount of net relevant earnings/remuneration that tax relief can be claimed on is now subject to a maximum of €150,000 in 2009. This is a reduction from €275,239 in 2008.

Age	Percentage of Net Relevant Earnings / Remuneration
Up to 29 years	15%
30 to 39 years	20%
40 to 49 years	25%
50 to 54 years	30%
55 to 59 years	35%
60 years and over	40%

If you have not used your full personal tax relief allowance for 2008 you can make a personal contribution before 31 October 2009 in respect of the 2008 tax year and claim the tax relief.

Tax relief is available on personal contributions made to pension plans

Deferral of Annuity Purchase

Members of Defined Contribution Occupational Schemes who retire in the period from 4 December 2008 to 31 December 2010 are not obliged to purchase an annuity on retirement. These members can exercise the tax free option and defer the purchase of an annuity up to and including 31 December 2010 at which date this option will cease. This concession does not apply to holders of a Retirement Annuity Contract, a Personal Retirement Savings Account or to proprietary directors who quality for ARF options.

Members of Defined Contribution Occupational Schemes can exercise the tax free option and defer the purchase of an annuity up to and including 31 December 2010

Registered Administrators

With effect from 1 November 2008 the trustees of every scheme, including large trust RAC schemes, must appoint a registered administrator to provide various services to the scheme known as "core administration functions". The "core administration functions" are the preparation of annual reports and annual benefit statements for the trustees and the maintenance of sufficient and accurate records of members and their entitlements to discharge the above functions. Failure by the trustees to appoint a registered administrator will constitute an offence.

Trustee Training Requirements

The Social Welfare and Pensions Act 2008 was signed into law in March 2008. Employers are required to arrange trustee training for new trustees within 6 months of their appointment and at least every 2 years thereafter. There is no requirement on persons who are already trustees to undertake training within 6 months but the ongoing 2 year training does apply. Employers who breach their obligation may be prosecuted and trustees who fail to take training are liable to on-the-spot fines. This requirement was to take effect from 1 November 2008, however the regulations have not yet been published. It is understood that the trustee training requirement will not be implemented until late in 2009.

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Moves to ease pressures on Defined Benefit Pension Schemes

Following the dramatic fall in equity markets over the past year and the direct impact on defined benefit funding issues, Minister Hanafin requested that the Pensions Board implement a number of changes to supervision.

- The Board will allow longer periods for recovery plans (i.e. greater than ten years), in appropriate circumstances and are finalising agreement on the use of mortality tables with the Society of Actuaries;
- The Board will allow the term of a replacement recovery plan to extend beyond the end date of the original plan where the scheme is part-way through a previous recovery plan but is off track due to investment losses;
- The Board will take into account voluntary employer guarantees in approving recovery plans;
- To ensure that these extensions are not seen as a weakening of supervision, the Board will reject recovery plans which fail to demonstrate an appropriate investment approach.

The Board will allow longer periods for recovery plans (i.e. greater than ten years), in appropriate circumstances

The operation of these proposed changes will be reviewed by the Pensions Board no later than 1st January 2011.

Statement of Reasonable Projection

Trustees of all defined contribution schemes and the defined contribution element of defined benefit schemes will be required from 1st July 2009 to provide a statement of projection. These projections should be included on member personal benefit statements and issued annually. The statement must project what contributions paid and proposed contributions to the scheme are likely to be worth in both value and pension terms at normal retirement date.

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Maximum Pension Fund

The maximum allowable tax relieved pension fund which an individual can have at retirement is €5,418,085 ('Standard Fund Threshold'), or if higher the value of their fund on 7 December 2005 ('Personal Fund Threshold'). The limit of €5,418,085 is the limit applying for the tax year 2008. Both the Standard Fund Threshold and Personal Fund Threshold have up until 2009 increased annually in line with an index of earnings but in 2009 no increases were applied. Any excess over the limit at retirement will be taxed at 41% and the income levy applicable depending on individual circumstances (1% on first €100,100 of income, 2% on €100,101 – €250,120 and 3% above €250,120).

An individual will be entitled to take a lump sum from an occupational pension plan of up to 1.5 times final remuneration

Tax-Free Lump Sum Limit

An individual will be entitled to take a lump sum from an occupational pension plan of up to 1.5 times final remuneration (depending on years service) at normal retirement date or in certain cases (if a 5% director), 25% of the accumulated value of their fund. These amounts can still be taken tax free to an overall limit of €1,354,521 applying for the tax year 2008 and 2009.

Approved Retirement Funds (ARFs) Distributions

Whenever an individual takes money out of their ARF and /or AMRF they will have to pay income tax/PRSI and the income levy. Individuals over the age of 70 do not have to pay the health levy. Income Tax at the higher rate will be taken, unless the individual sends a certificate of tax credits and standard rate cut off point for the year to the Qualifying Fund Manager (QFM).

QFMs must deduct a minimum amount of income tax from a policyholder's ARF each year regardless of how much the policyholder actually withdraws in that year.

QFMs must deduct a minimum amount of income tax from a policyholder's ARF each year regardless of how much the policyholder actually withdraws in that year. In 2008 the minimum income tax that QFMs must deduct is the amount an individual would have paid had they withdrawn 2% of their fund value on the 31st December. In 2009 and every year after the minimum is based on the individual withdrawing 3%.

The rules above only apply if the individual is 60 years of age or over for the entire tax year.

An AMRF is not subject to the minimum withdrawal rules so no tax is paid on the AMRF until the individual actually takes a withdrawal. However, should the individual reach age 75 and decide to continue with their investment, their AMRF becomes an ARF and QFMs are obliged to deduct income tax on an assumed income as explained above.

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