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Retiring in 2024 – Implications of a Potential Increase in the Pension Limit

In December 2023, the Minister for Finance Michael McGrath announced a review of the Standard Fund Threshold (SFT), currently €2m , writes **Ronan McGrath**

The Minister has appointed an independent expert to conduct a targeted and focused examination of the SFT regime, and has invited submissions from interested parties. Since then, submissions from various representative bodies in both the private and public service sectors have been made to the Department of Finance. If the review eventually recommends an increase in the SFT, it could have significant implications on individuals thinking of retiring in 2024 and others planning for retirement in 2025 and beyond.

The impact of the Standard Fund Threshold

The SFT was introduced in December 2005 to place a lifetime limit on the total capital value of pension benefits which an individual can draw from tax relieved pension products. While initially in 2005 the limit was €5m, and once reached a €5.4m figure in 2008, it has been reduced twice since then. The latest reduction on the 1st January 2014, to its current €2m level.

Super Tax Impact

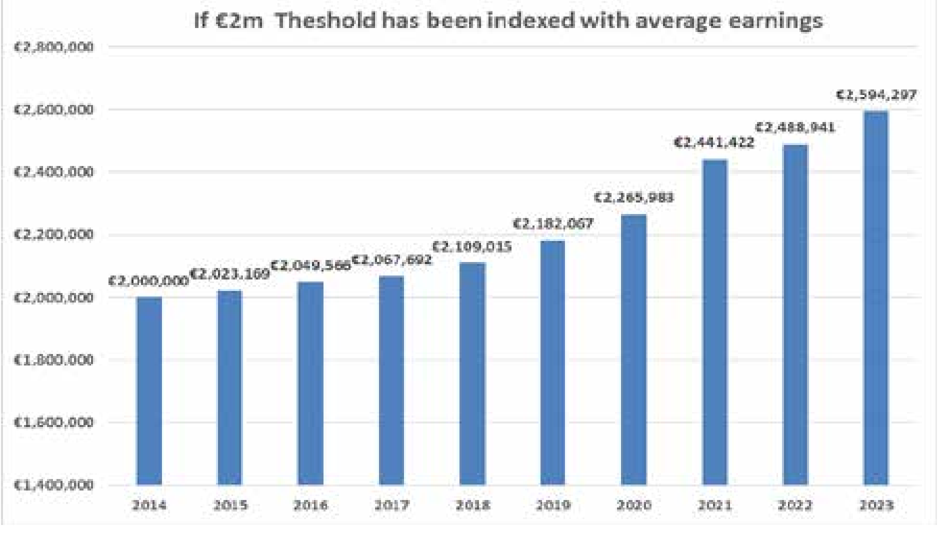
Where an individual takes benefits in excess of the SFT limit at retirement, the excess benefits are subject to penal taxation; first a super tax, called chargeable excess tax, is levied on the excess benefits, while the residual benefits are then taxed again as taxable income in retirement at marginal rates under PAYE. The combination of the chargeable excess tax and PAYE means an effective tax rate on excess benefits over the SFT limit of circa 70%.

Current Limit Unchanged for 10 Years

The current €2m SFT limit has remained unchanged since 1st January 2014. Inflation and earnings growth has greatly eroded the real value of the SFT. **Over this period between 2014 and 2023 average earnings increased by about 34%**. This alone merits an increase in the SFT to €2.6 million currently, just to keep pace with earnings growth since 2014.

The Minister for Finance has the power to increase the SFT annually in line with growth in earnings but has not done so since 2014.

Penson Limit Review



If the SFT is increased

The effect of such an increase in the SFT would be:

- For those with benefits already over the current SFT level and who have not yet retired, their prospective chargeable excess tax charge at retirement would be reduced or eliminated altogether, depending on the level of their benefits and the increase in the SFT level. This means their retirement benefits, after chargeable excess tax, would be higher than they currently expect to get.
- For those with current and prospective benefits hovering around or under the current €2m SFT level and who have not yet retired, **they will have more scope to make additional pension contributions** and accrue additional retirement benefits, in a tax efficient manner.

Of course, **there is no guarantee that the review will recommend an increase in the SFT**, or to what level. The recommendations from the Review are expected at some point in Summer 2024.

Those planning retirement in 2024

The key issue of concern for those planning to retire in 2024 with benefits already in excess of the current €2m SFT level, is whether they will benefit from an increase in the SFT, if the Review recommends such an increase later this year.

If the SFT review recommends an increase in the SFT in Summer 2024, and the recommendation is accepted by the Minister, it would probably be 1st January 2025 before it could legally take effect. It's unlikely that an increased SFT would be backdated to cover the whole of 2024.

Going through the Threshold limit

Date of Retirement is Key

You are deemed, for the purposes of the SFT limit, to crystallize your public sector retirement benefits **on your agreed retirement date**, even if the benefits are not actually paid to you until later in 2024 or even into 2025. The financial impact of an increase in the SFT could make a material difference to your retirement benefits and pension in retirement.

A simplified example

For example, in the public sector a chargeable excess tax bill on superannuation benefits can be paid by reduction in gross pension over 20 years. Increasing the SFT to €2.6m would mean a reduction in chargeable excess tax at retirement of up to €240,000 for those with benefits already valued at €2.6m or more, which in turn would increase their pension by up to €12,000 pa over what they might currently get under an SFT of €2m. The stakes are high for those considering retirement in 2024.

Scope For Additional Payments

Any increase in the limit may also offer an opportunity in 2025 for further funding for those currently above €2.15m at present to bring them up to a new revised limit if it does come to pass.

Prudent Option – Delay Choosing Retirement Date

If you are considering retirement in 2024 it therefore makes sense to:

- First, request an up to date assessment of the current capital value of your prospective retirement benefits and whether this is above the current SFT of €2m, before committing to retirement from public service on a specific retirement date or drawing on private pension benefits in 2024. Remember prospective public service superannuation benefits will also now be increased by the 2.25% anticipated public service pay increase on 1st January 2024 and if you retire after 1st June 2024, by another 1% pay increase due on that date and possibly, depending on your retirement date, by another 1% pay rise due on 1st October 2014.
- Secondly, if the value of your prospective **retirement benefits is in excess of €2m** and your expected public service retirement date is in 2024, you may be well advised to try and push out that retirement date at least until the report on the SFT limit is published by the Department of Finance in Summer 2024. Delaying until the summer, or even into 2025, will allow you to benefits from any recommended increase in the SFT.

A final point to note: while the consensus leans towards an increase in the limit, the review group may ultimately decide on no change or even a reduction. With an election most likely in the autumn, the government will be keenly aware of any potential fallout, as an increase could be perceived as benefiting higher-paid public servants. The Minister for Finance may opt for an easier solution, such as reducing the revenue factors applied and/or introducing annual indexation of the limit in line with public sector salaries. Bring on the summer when all will be revealed! IMT

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Information

Oakwood Financial Advisors are specialist financial advisors to the medical profession, with a unique understanding of both the GMS Pension Scheme and also the Health Service Executive pension benefits.

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