PROPOSED CHANGES TO PENSION LIMIT SYSTEM ANNOUNCED

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We are pleased to provide you with an important Update following the publication on 18th September 2024 of a Review of the Standard Fund Threshold (SFT) by an independent expert appointed by the Minister for Finance, and the Minister's response to the Review.

If the key proposals are implemented, they could have a significant beneficial impact on the pension benefits for those saving for retirement.

We welcome these proposed changes and believe they are long overdue. The lack of adjustment to the SFT since 2014 has meant that, allowing for the impact of wage inflation, the value of the maximum tax-efficient pension fell by over 39% in real terms during this time according to data from the CSO.

What is the Standard Fund Threshold limit?

The Standard Fund Threshold limit of €2 million, usually called the SFT, is a limit on the capital value of public and private pension benefits you can take, before a super tax of 40% kicks in at retirement on benefits taken in excess of the SFT limit. This super tax is called '*chargeable excess tax'* or *CET* for short and it is paid as follows:

- **On Private Pension benefits taken in excess of the SFT**: CET at 40% is deducted from the excess funds taken at retirement and paid over to Revenue Commissioners. The balance provides a lump sum and ARF or Annuity for you.
- **On public service superannuation benefits taken in excess of the SFT**: the CET is repaid by you in 240 equal monthly instalments taken from your gross monthly public service pension in retirement. If you die within the 20-year repayment period, the balance of CET repayments is written off.

The main impact of the SFT on Public Sector employees who crystallise benefits in excess of the SFT is to *reduce* their public service pension in retirement.

Chargeable Excess Tax Rate

The SFT has long been a major factor in decision making when clients are planning for their retirement. A chargeable excess tax (CET) of 40% applies immediately to the value of pension assets over the SFT. This excess may be taxed again as income when the pension is drawn, **leading to a combined tax rate of up to 71%.** The Review recommended a reduction in the CET rate to 10%. However the Minister has said that the rate will be maintained at 40% for the time being, subject to a review of the rate "by 2030. "

What are the main recommendations in the Report?

The Report's main recommendations were that:

- The SFT limit be increased to €2.8m by 2029 and increased annually thereafter in line with growth in average industrial earnings. The increase from €2m to €2.8m will be in phases starting in 2026:

Date	Increase	Proposed SFT
2025	-	€2,000,000
2026	€200,000	€2,200,000
2027	€200,000	€2,400,000
2028	€200,000	€2,600,000
2029	**€200,000**	**€2,800,000**

- Subject to an 'independent valuation', for future retirees the factors used to value Defined Benefits pensions accrued after 1st January 2014 for the purposes of the SFT to be reduced substantially from its current level. For example, the current factor of 30 applying at retirement at age 60 would be reduced to 21, a significant reduction. *However, it is unclear whether the new lower factors will apply to retirements in 2025 or only from 2026 onwards.*

Age at retirement	Current Factor	Proposed New Factor	Reduction in factor
50	37	**25**	32.4%
55	33	**23**	30.3%
60	30	**21**	30.0%
65	26	**19**	26.9%
70	22	**16**	27.3%

Will Retirement Lump Sum limits increase in line with the Pension Limit?

Under current rules, a lifetime maximum tax-efficient lump sum of up to €500,000 can be accessed from all private pension arrangements. **The first €200,000 of such lump sums is tax free,** and the next €300,000 is taxed at the standard rate of income tax, currently 20%. Minister Chamber's confirmed that both elements of the tax-efficient pension lump sums will remain at the current levels and *not increase as future increases to the SFT are applied.*

Other recommendations

In addition to the changes announced above, the report sets out a number of further significant recommendations, including;

- A removal of the annual age and earnings related limits that apply to personal pension contributions on a phased basis.
- An allowance for CET liabilities for all pensions (public and private) to be spread and paid over a 20-year period.

What do these changes mean for you?

The changes announced regarding the Standard Fund Threshold (SFT) are currently at a high level, with finer details expected to emerge after Budget 2025, when the relevant legislation will be published in mid October.

Clients are advised to avoid making any irrevocable decisions about the maturity of private benefits until the Bill is published. We will then have a clearer understanding of the timetable for the planned changes to the SFT system.

This position is further strengthened by the proposed changes in the Review and wider recommendations. Unfortunately, the increases in the SFT aren't expected to become effective until 2026. For clients who were waiting to retire pension benefits in 2025 under a new limit, this does not help their position.

It is important to note that the specific implications and appropriate strategy will differ depending on each client's individual circumstances. We see the recommended SFT changes as a great opportunity for clients managing the accumulation and drawdown of their pensions to take action. It is also an Ideal time for clients to either revisit their existing financial plan, or to put one in place if they haven't yet.

In the short term, the only concrete changes to the SFT system appear to be the phased increase in the SFT to €2.8m, starting from 2026, and a reduction in the factors used to value defined benefit pensions accrued since January 2014.

I have a Personal Fund Threshold of €2.3m. Will it be increased?

A point to note is for those clients who have a previous Personal Fund Threshold in place. Your PFT will be increased in line with increases in the Standard Fund Threshold. Take for example a PFT of €2.3m held today:

	Standard Fund Threshold	Personal Fund Threshold
2025	€2,000,000	€2,300,000
2026	€2,200,000	€2,530,000
2027	€2,400,000	€2,760,000
2028	€2,600,000	€2,990,000
2029	**€2,800,000**	**€3,220,000**

On the basis of the above figures an individual with a €2.3m Personal Fund Threshold Certificate who doesn't retire before 2029 will have a pension limit of over €3.2m at that point.

If I have matured part of my pension benefits previously how does this impact?

There is one sting in the tail for those who have matured pension benefits previously. The legislation states that if the SFT increases, the value of all prior crystallised benefits is increased at the same rate. Only then can you work out the remaining Threshold available. For example, if the SFT increase by 10%, then all prior maturities increase by 10%.

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Version 2024.09 V1