

## Feature / Oakwood

# Potential Changes to Pension Caps – Where Are We At?

The eagerly awaited expert report commissioned by the Department of Finance regarding potential increases to the Threshold Limit, known as the Standard Fund Threshold (SFT), has led some individuals in both the public and private sectors to delay retirement and pension benefit drawdowns. The current Threshold limit is €2m, and has been since January 1, 2014, writes **Ronan McGrath**

### Report Submitted to Finance Minister

It was initially indicated in January 2024 by the previous Minister for Finance Michael McGrath, that the expert review of the Threshold limit system conducted by Dr Donal De Buitelir would be published mid-Summer. However, we are now into September and still no sign. We do know the report was submitted to the new Minister for Finance Jack Chambers, for consideration. The Minister has now to decide whether or not to implement any of its recommendations.

### Possible Changes to the Threshold

However, according to a recent report in the Irish Times, senior Garda have been told by Department of Finance officials that the Threshold may be increased “immediately after the next election”. The Threshold is a crucial factor for those considering applying for senior roles, such as the position of Assistant Commissioner. The election is expected to be announced for mid-November 2024 (at a guess Friday, November 15).

This timing aligns with the Minister for Finance’s existing power to issue an order each year in December to increase the threshold for the following calendar year.

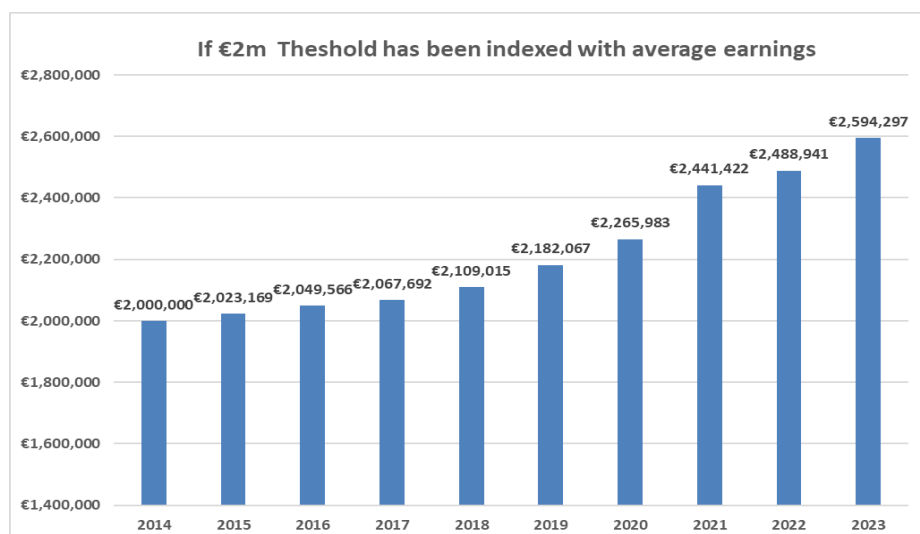
### Threshold Limit Increase – Dependant on Election Outcome

However, it is important to note that this reported potential increase in the Threshold is conditional on the current government parties retaining their power. The main opposition party, Sinn Féin, has a contrasting policy stance, proposing to decrease the Threshold to €1.5 million. This difference underscores the importance of the upcoming election results to the Threshold limit, which could lead to very different financial landscapes depending on which combination of parties forms the next government.

### Current Threshold limit Unchanged for 10 Years

The current €2m Threshold limit has remained unchanged since 1st January 2014. Over this time period inflation and earnings growth has greatly eroded the real value of the limit. Over this period between 2014 and 2023 average earnings increased by about 34%. This alone merits an increase in the Threshold to €2.6 million currently, just to keep pace with earnings growth since 2014. The Minister for Finance has the power to increase the Threshold annually in line with growth in earnings but has not done so since 2014. In the chart below we have outlined what the Threshold would have been in each year if indexation in line with earnings was applied since 2014.

## Pension Limit Review



### Impact of an increase in the Threshold Limit

For those with benefits already over the current Threshold level and who have not yet retired, their prospective Chargeable Excess Tax (CET) charge at retirement will be reduced or eliminated altogether depending on the level of their benefits and the level of the new Threshold, if the Threshold is to be increased. This means their retirement benefits, after chargeable excess tax, could be higher than they currently expect to get.

For those with current and prospective benefits hovering around or under the current €2m Threshold 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.

### Impact of an Increased Threshold Limit

Take a simplified example of a HSE Consultant looking at retirement in 2024 at the current Threshold limit of €2 million, delaying until 2025 on the basis of an increase in the Threshold limit to an assumed €2.6 million. They have a prospective public service pension of €110,000 p.a. (€45,000 assumed to be accrued after January 1, 2014), a related gratuity of €400,000, Private Pension benefits of €500,000 and a current Threshold limit of €2,000,000. An increase in the pension limit from €2m to €2.6m would equate to a pension increase of approximately €12,000 p.a.

POCC 23 Consultant at Top of Salary Scale + Allowance - €277,736	2024	2025
<b>Threshold Limit Assumed</b>	<b>€2,000,000</b>	<b>€2,600,000</b>
HSE Pension p.a. at Retirement before CET	€110,000	€110,000
Capital Value of HSE Pension accrued before 1 Jan 2014	€45,000 x 20 = €900,000	€900,000
Capital Value of Pension accrued after 1 Jan 2014	€65,000 x 26 = €1,690,000	€1,690,000
+ Public Service (gratuity) lump sum	€400,000	€400,000
+ Private Pension / AVC benefits	€500,000	€500,000
<b>Total Capital Value of Benefits taken</b>	<b>€3,490,000</b>	<b>€3,490,000</b>
<b>Threshold Limit</b>	<b>€2,000,000</b>	<b>€2,600,000</b>
<b>Chargeable Excess (CE) - Amount over the limit</b>	<b>€1,490,000</b>	<b>€890,000</b>
<b>Chargeable Excess Tax (CET)</b>	CE x 40% = €596,000	€356,000
Less Credit for Standard Rate Tax deducted from gratuity	€60,000	€65,000*
<b>Total CET Due</b>	<b>€536,000</b>	<b>€291,000</b>
Annual Reduction in Pension (assuming CET offset over 20 years)	€26,800	€14,550
<b>HSE Pension p.a. after CET</b>	<b>€83,200</b>	<b>€95,450</b>

- The above example is based on a Hospital Consultant at age 65 at the top of the POCC 23 Salary scale plus allowances as of 1st Jan 2025.
- The above is based on an individual under Class A PRSI with State Pension integration.
- The offset credit figure of €65,000\* assumes the maximum lump sum based on 25% of €2.6m
- Please note these are approximate figures for the purposes of the example in the table.

### Another Option – Revenue Factors Reduction

Another option which might be considered by the Review would be a reduction in the Revenue Factors applying at retirement to convert pension into notional capital for the purposes of the Threshold limit.

To calculate the notional capital value of a defined benefit (DB) or public sector pension for determining chargeable excess tax, the following factors are currently applied:

- For the part of the DB pension accrued before January 1, 2014, the notional capital value is calculated as 20 times the annual pension.
- For the part of the DB pension accrued after January 1, 2014, an age-related factor varying between 22 and 37 is used to calculate the notional capital value (at age 65 the factor is 26), based on your attained age at the date of taking your pension.

Options include going back to 20:1 for all pension, regardless of when accrued, or reducing the factors for pension accrued since January 1, 2014 only.

If the post January 2014 accrued pension factors were to be reduced and the Threshold limit increased, **a potential Double Benefit would accrue in terms of higher earners retiring from the public sector in 2025.**

### Unlikely To Be Backdated

Assuming the recommendation for a Threshold limit increase is accepted by the Minister, it will most likely be the January 1, 2025 before it could legally take effect. It is also unlikely that an increased Threshold limit would be backdated.

### How Might These Changes Impact Your Retirement Plans

As a financial advisor, we help our clients plan for retirement. Part of this is to navigate these potential changes and understand how they might affect their financial plans. If the €2 million Threshold limit is increased, it could present new opportunities for optimising retirement savings strategies, especially for those at, or approaching the current cap. For those above the cap it is about minimising the impact of any tax on their retirement benefits. Make sure you get the right advice to avoid any unnecessary payments to the tax man.

Conversely, a reduction in the Threshold, as proposed by Sinn Féin, could lead to a different set of financial considerations. **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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