

# Finance Bill 2012 & Retirement Planning

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# Retirement Anthem

*When I get older losing my hair  
Many years from now  
Will you still be sending me a Valentine  
Birthday Greetings, bottle of wine  
If I'd been out till quarter to three  
Would you lock the door  
Will you still need me  
Will you still feed me  
When I'm 64*



# Pensions Background

- Longevity, only going in one direction
- Social Welfare Pensions, under pressure
- Occupational Pensions, under threat
- Personal Pensions, really under threat
- Taxation policy



# Tax Policy

“The art of taxation consists in so plucking the goose as to get the most feathers with the least hissing” Jean Baptist Colbert, Finance Minister to King Louis XIV

350 years later, nothing has changed



# Recent Budgets

- Introduction of €5m Fund cap
- Personal Fund Threshold
- Reduction in Salary cap to €150,000
- Further reduction in Fund cap to €2.3m
- Further reduction in Salary cap to €115,000
- Tax free lump sum cap of €200,000
- Increase in AMRF to €119,800
- Increase in compulsory drawdown on ARFs
- Pension Levy of 0.6% for 4 years?

# Speculated Changes Coming our Way

- Further reduction in Fund cap
- Plan for Govt mentions €60,000 pension cap
- Possible new Fund cap of €1.2m??
- Further reduction in tax-free lump sum
- Reduction in tax relief on contributions



**Result**

**Confusion**



# Advising Clients?



*"How frustrating. The crystal ball is down again."*

# What was in December's Budget speech

- Abolition of Employer PRSI relief
- Vested PRSAs included for ARF drawdown
- Certain non-Vested PRSAs included for ARF drawdown
- Minimum drawdown increased to 6% if total ARF/Vested PRSA exceeds €2m
- Tax rate on ARF transfer to children over age 21 increased from 20% to 30%

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# What's New in Finance Bill

Tax paid on retirement lump sums in excess of €200,000 can be used as a credit against tax on excess over SFT

Example:

- Fund €3m
- Excess Tax 41% of €700,000 = €287,000
- Retirement Lump Sum €575,000
- Tax on Ret Lump Sum €75,000
- Excess Tax reduced to €212,000

# What's New in Finance Bill

Special Provision “....certain individuals on retirement from public sector pension schemes....” where the value of their public sector pension benefits exceeds the Fund cap.



# Example

- Salary €300,000
- Pension €150,000 p.a.
- Retirement Lump Sum €450,000

Notional value: €150,000 x 20 + €450,000  
=€3,450,000 (annuity value circa €5m+)

Excess Tax = 41% x €3,450,000 - €2,300,000  
= €471,500

# PFT/SFT Excess Tax

Proposal for payment of Excess Tax:

- 50% of Retirement Lump Sum used initially
- Any remaining tax can be discharged (by agreement with Scheme Administrator) from:
  - a reduction in gross pension (max 10 years)
  - a gross distribution from personal ARF
  - from own resources

Payment from gross pension or ARF is the most tax efficient



# PFT/SFT Excess Tax

This facility will also be available to Private Sector pension arrangements



# PFT/SFT Excess Tax

Further Proposal:

Public Servants who have private pensions can encash these at age 60 (Marginal rate tax + USC) so as to minimise the extent to which their combined Public Service and Private Sector benefits might exceed the €2.3m SFT.

Significant concession



# Private Sector

“Individuals in the private sector can ensure that they do not exceed the SFT by limiting the extent of their investment .... or ceasing accrual of pension entitlements”

Really??????



# Example

- Client aged 54
- Defined Contribution Plan
- PFT June 2011 €2.5m
- Ceases all future contributions
- Places Funds on deposit
- Cannot avoid being subject to “penal taxation” on growth up to age 60

# QFM Lottery

(not one you want to win!)

Where an individual has a number of ARFs and Vested PRSAs and the aggregate value exceeds €2m (and the 6% drawdown applies)

A single nominee manager must be appointed to account for the overall tax



# What did not happen .....yet?

- No change in Fund cap
- No change in Salary cap
- No change in tax-free lump sum
- No change in contribution tax relief

**But.....**



# Other Changes

Social Welfare & Pensions Act 2011 extended State Pension age

Year of Birth	New Pension Age
Up to 1954	66
1955 - 1960	67(+1)
1960 +	68(+2)

# And Now

Change in entitlement for post Sept 2012 retirees

Average PRSI Contributions	Current	Sept 2012
48 weeks +	€230 30	€230.30
40 – 47 weeks	€225.80	€225.80
30 – 39 weeks	€225.80	€207.00
20 – 29 weeks	€225.80	€196.00

# One More Change

- Change to State Widows/Widowers Contributory Pension
- Currently qualifies if either deceased or survivor paid at least 3 years PRSI contributions
- From July 2013, the minimum number of years PRSI contributions increases to 10



# The €2.3m Big Drop

What is €2.3m really worth?

- A lot if you win the Lotto next Sat
- Circa €70,000 p.a. gross, if you buy an annuity out of a DC scheme from age 65
- Circa €115,000 p.a. if you have a Public Sector (or DB) pension



# Capital Value of State Pension

- Personal + Dependant : €436.60 p.w. (€22,703 p.a.)
- Widows : €193.50 p.w.
- Assuming indexation of 2% p.a.

Annuity Capital Value circa €600,000

So a further reduced fund cap of say €1.2m  
= 2 x State Social Welfare Pension



# ARF Taxation

- Is 5% / 6% Drawdown unfair?
- Turns ARF drawdown into a reducing income!
- Compares with 3% / 4% Annuity rates
- Retrospective nature of compulsory drawdown increase
- Increased risk of “bomb-out”
- Tax policy based on a few high profile cases

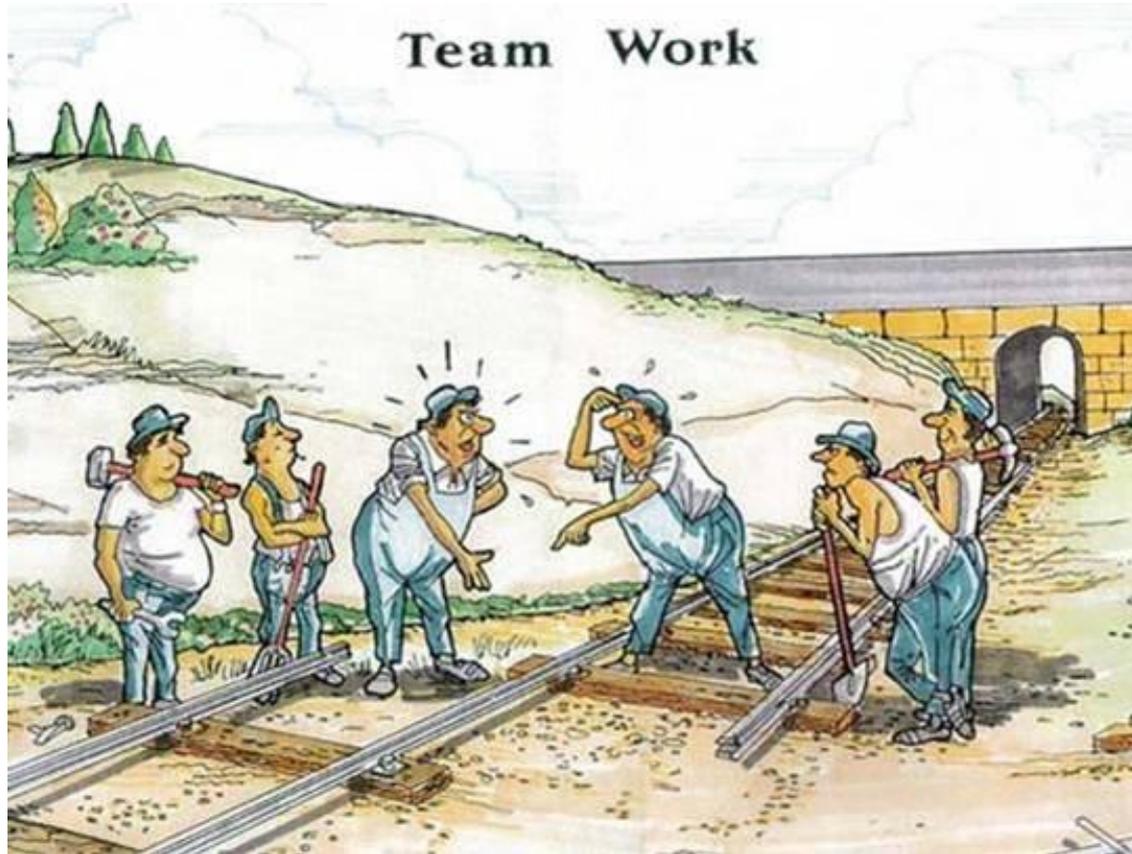
Contrasts with current early retirement incentive from Public Service



# Future

- Now the Excess Tax issue has been addressed for certain members of the Public Service, is the way open to reduce the SFT to €1.2m?
- If so, will the 20:1 valuation factor for DB schemes be adjusted to be more equitable?
- Or is this part of a strategy to make Sovereign Annuities more attractive?

# Client, Pensions Consultant & Revenue



# Advice

- For clients with ARF/Vested PRSA in excess of €2m, some planning may be possible to fall within 5% drawdown rule
- PRSAs now at a disadvantage to occupational pensions
- Should PRSA schemes switch to Occupational DC?
- Should Vested PRSAs switch to ARF structure?

# Question

Whatever happened to “Pensions made simple”?



# New Learning

Definition of “bread” for VAT

Includes: loaves, rolls, batch bread, bagels, baps, blaas, burger buns, finger rolls, wraps, naan breads & pitta breads

Excludes: croissants, brioche & danishes



# New Learning

Definition of “bread” for VAT

Includes: loaves, rolls, batch bread, bagels, baps, blaas, burger buns, finger rolls, wraps, naan breads & pitta breads

Excludes: croissants, brioche & danishes

So at least we have “bread made simple”!!!





# Moral

It may be nice to get out of the rat race, but you will have to learn to get along with less cheese!

