Pensions Notice – Changes to the Standard Fund Threshold

Budget 2014 introduced changes to the taxation of pensions. This has been affected by making changes to the Standard Fund Threshold (SFT). ***Generally speaking the changes introduced with effect from 1st January 2014 will only <u>potentially</u> have implications for higher earners who will retire with pensions that deliver an income of €60,000 per annum or more.***

Set out below are (i) the purpose of the SFT, (ii) the changes introduced under Budget 2014 illustrated by examples and (iii) the steps which may need to be taken by individuals whose pension benefits exceed the reduced threshold of €2m on 1st January 2014.

Standard Fund Threshold:
The SFT is an overall limit or ceiling on the total capital value of pension benefits that an individual can draw in their lifetime from tax-relieved pension arrangements. This applies to all benefits which have come into payment for the first time since 7th December 2005. The limit has been reduced in Budget 2014 to €2m. The SFT is calculated by placing a capital value on defined benefit pension benefits such as your UCD pension and then adding on the value of any additional pension benefits held by an individual. Additional pension benefits may be in the form of:

- another occupational pension – either defined benefit or defined contribution
- an Additional Voluntary Contribution Plan
- a Personal Retirement Savings Account
- an Approved Retirement Fund
- Other approved pension arrangement

When the capital value of pension benefits in payment exceeds the SFT the excess (called a “chargeable excess”) is subject to a tax charge at 40% (*marginal rate of income tax with effect at 01/01/2015*) when the benefit comes into payment.

Budget 2014 made two main changes to the Standard Fund Threshold (SFT). Firstly the threshold has been reduced to €2m with effect from 1st January 2014. Secondly, a range of age-related capitalisation factors have been introduced to establish the capital value of defined benefit arrangements such as your UCD pension benefits. In this case in order to calculate the capital value of the UCD pension, we must split the annual pension into the proportion accrued before and after 1st January 2014. The capitalisation factor of 20 will apply to the proportion accrued before 1st January 2014 whereas the age-related capitalisation factors will apply to the proportion accrued after 1st January 2014.

Examples:
The following calculations are based on a UCD Professor who pays D Rate PRSI, is entitled to a non integrated pension and receives an annual salary of €136,276.

<u>Scenario A:</u>
A UCD Professor has 30 years of service on 1st January 2014; s/he would have accrued benefits comprised of an annual pension of €51,103.50 and a lump sum of €153,310.50. The capital value of UCD pension benefits is calculated as follows:

Annual Pension (€51,103.50*20):	€1,022,070.00
+Lump Sum:	<u>€153,310.50</u>
Capital Value of UCD Pension Benefits:	€1,175,380.50

The value of the UCD pension alone does not exceed the SFT. The individual would have to have additional pension benefits external to UCD in excess of €824,619.50 before s/he will exceed the SFT.

<u>Scenario B:</u>
If the Professor subsequently retires in 10 years’ time, s/he will have 40 years’ service. Assuming there have been no changes to the SFT, salary etc the total pension will be €68,138 (i.e. €51,103.50 accrued up to 1st January 2014 and €17,034.50 accrued after) and the total lump sum will be €204,414.

The member is retiring at age 65; therefore a capitalisation factor of 26 will be used for the proportion of the pension accrued after 1st January 2014. The capital value of the UCD pension is:

Annual Pension (€51,103.50*20) + (€17,034.50*26):	€1,464,967
+Lump Sum:	€204,414
Capital Value of UCD Pension Benefits:	€1,669,381

Again the value of the UCD pension alone does not exceed the SFT. The individual would have to have additional pension benefits external to UCD in excess of €330,619 before s/he will exceed the SFT.

Scenario C:

If the Professor had retired at age 60 (instead of age 65 as in B above) a capitalisation factor of 30 would have been used in the calculations and the capital value of the UCD pension would have increased to:

Annual Pension (€51,103.50*20) + (€17,034.50*30):	€1,533.105
+Lump Sum:	€204,414
Capital Value of UCD Pension Benefits:	€1,737,519

Again the value of the UCD pension alone does not exceed the SFT. The individual would have to have additional pension benefits external to UCD in excess of €262,481 before s/he will exceed the SFT. However, this shows the impact of using the age-related factors. The full range of capitalisation factors is set out in the below.

Table of Relevant age-related valuation factors

Age	Factor	Age	Factor
50 (and below)	37	61	29
51	36	62	28
52	36	63	27
53	35	64	27
54	34	65	26
55	33	66	25
56	33	67	24
57	32	68	24
58	31	69	23
59	30	70+	22
60	30		

Individuals who exceed the Standard Fund Threshold

If you have accrued significant pension benefits external to UCD and in addition to the benefits accrued under UCD's pension scheme on 1st January 2014, it is possible to apply to Revenue for a Personal Fund Threshold (PFT) certificate. The purpose of the PFT is to allow individuals to avail of a higher limit than the SFT. There are several points to note in this regard:

1. To establish the capital value of your various pension arrangements you should contact the relevant pension administrators. Queries on UCD benefits can be directed to pensions@ucd.ie.
2. If you have any concerns regarding your SFT or PFT arrangements, you should consider taking independent financial advice. You may have already engaged the services of a Financial Advisor, in which case they will be able to address any queries you may have with regard to the effect the changes outlined in this document may have on the totality of your pension benefits (i.e. UCD benefits plus any other relevant pension arrangements).
3. A PFT application can only be made in respect of the capital value of all accrued benefits on 1st January 2014. If your accrued pension benefits do not exceed €2m on 1st January 2014 you do not need to apply for a PFT.
4. Affected members may already have applied for and received a PFT in 2011 (when the limit was reduced to €2.3m) and if so they will not need to do so again. For avoidance of doubt, you should double check that your existing PFT remains valid with Revenue or your Financial Advisor, as

appropriate. If you have not previously applied for a PFT the maximum PFT which can be applied for now is €2.3m.

5. Applications should be made to Revenue. An online application system is in the process of being developed. The deadline for applications has yet to be confirmed, however, it is likely to be one year from the date on which the online system is available i.e. with a closing date of mid 2015. The latest indication is that this system will be available before the end of July, however this has not been confirmed, as such Revenue will publicise the date on which the system becomes available. Revenue's website should be consulted for updates on an ongoing basis. Regardless of this 12 month notification period, where an individual becomes entitled to a pension benefit on or after 1st January 2014 (e.g. through retirement) and before the electronic notification facility is in place, in circumstances where s/he would be claiming a PFT, the PFT notification must be submitted to Revenue prior to the benefit arising, In such circumstances, a paper Personal Fund Threshold Notification Form (PDF, 237KB) should be used to claim a PFT.
******Update: The electronic notification system was launched by Revenue on 1st July 2014 and the closing date for application has been confirmed as 31st July 2015******

Further Information
If you believe that you are affected by the above you should refer to the Revenue website and Department of Public Expenditure & Reform Circular Letter (available on the UCD website) for more detailed information and examples.

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