Feidhmeannacht na Seirbhíse Sláinte
Health Service Executive

Oifig an Stiúrthóra Náisiúnta, Acmhainní Daonna
Feidhmeannacht na Seirbhísí Sláinte
Ospidéal Dr. Steevens'
Baile Átha Cliath 8

Office of the National Director of Human Resources
Health Service Executive
Dr. Steevens' Hospital
Dublin 8

**HSE HR Circular 008/2014** **10th July 2014**

**To:** **Each Member of Leadership Team, HSE;**
**Each Regional Director of Performance & Integration, HSE;**
**Each Assistant National Director of Human Resources, HSE;**
**Each Pensions Manager, HSE;**
**Each CEO/HR Manager, directly funded Voluntary Hospital / Agency.**

**Re:** **Budget 2014 and Finance (No 2) Act 2013**
**Reduction in the Maximum Allowable Pension Fund on Retirement for Tax Purposes (Standard Fund Threshold – SFT)**

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Dear Colleagues,

I refer to the attached Department of Public Expenditure and Reform Document Ref P18/065/06 dated 27th June 2014, which outlines the implications arising from changes introduced to the Standard Fund Threshold (SFT) by the Minister for Finance in the Finance (No 2) Act 2013, for Public Servants with high value pension entitlements, and for Pensions Managers/Administrators. The main changes referred to above include;

- a further reduction in the value of the SFT from €2.3 million to €2 million from 1st January 2014.
- a change in the valuation factor for establishing the capital value of Defined Benefit (DB) pension benefits accruing after 1st January 2014, from a factor of 20 to a range of age-related valuation factors.
- extension and amendment of reimbursement options for public servants affected by chargeable excess tax.

The contents of the attached should be brought to the attention of all relevant employees in the HSE and in Section 38 Funded Agencies. All employee queries should be directed to the local Pensions Section/Unit. Queries relation to policy clarification may be forwarded to Mr. Sean Keane, Pensions Manager, Standards & Quality. (Email sean.keane@hse.ie)

Yours sincerely,

**Frank O'Leary**
**(Acting) National Director of Human Resources**

Enc: P18/065/06

Tús Áite do Shábháilteacht Othar
Patient Safety First

An Roinn Caiteachais Phoiblí agus Athchóirithe
Department of Public Expenditure and Reform

Ref: P18/065/06

To: All Personnel Officers

Cc: Secretaries General/All Heads of Departments/Offices

27 June 2014

**Budget 2014 and Finance (No. 2) Act 2013:**

**Reduction in the maximum allowable pension fund on retirement for tax purposes (the Standard Fund Threshold (SFT))**

**Implications for (a) Civil / Public Servants and**

**(b) Departments/Offices/Agencies in their role as Pension Administrators**

## Introduction

1. The purpose of this Letter is to highlight the potential implications for (a) civil/public servants with high value pension entitlements[1] and (b) Departments/Offices/Agencies in their role as pension administrators arising from changes introduced to the Standard Fund Threshold (SFT) by the Minister for Finance in the Finance (No 2) Act 2013.

2. Chapter 2C of Part 30 of, and Schedule 23B to, the Taxes Consolidation Act 1997 (TCA) provide for a maximum allowable pension fund for tax purposes. This Department's previous letter of 18 February 2011 on this issue refers. The SFT represents the maximum allowable capital value of all tax relieved or tax subsidised pension benefits. The legislation was most recently amended by Section 18 of the Finance (No 2) Act 2013 (to implement changes announced on Budget Day 2014) whereby, inter alia, the SFT was reduced from €2.3 million to €2 million with effect from 1st January 2014.

3. The changes to the SFT will have little or no impact on the vast majority of civil/public servants[2]. There may be implications, however, for:-

   (i) higher earning individuals; and/or

   (ii) any individual with pension entitlements separate from/in addition to their pension entitlements arising from their current civil/public service employment

[1] This includes **any** pension, annuity, retirement lump sum or any other pension related benefit to which a person becomes entitled under a relevant pension arrangement but does not include (i) social welfare benefits, such as State Pension or (ii) pension benefits to which the person became entitled and which came into payment before 7 December 2005.
[2] e.g. see Appendix 3; Appendix 6: Q11

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in circumstances where the capital value of an individual's pension entitlements from all sources (i) is greater than €2 million on 1 January 2014[3] or (ii) exceeds €2 million at some point in the future (i.e. post 1 January 2014) when benefits are paid or taken.

**General Position**

4. In presenting Budget 2014 the Minister for Finance announced:

   (i) a further reduction in the value of the SFT from €2.3 million to €2 million from 1 January 2014;

   (ii) the replacement (subject to transitional arrangements) of the valuation factor to be used to establish the capital value of an individual's Defined Benefit (DB) pension benefit(s) accruing after 1 January 2014, from the existing single standard valuation factor of 20 to a higher age-related range of valuation factors which will vary with the individual's age at the point the benefits are taken;

   (iii) an extension and amendment of the re-imbursements options introduced in the Finance Act 2012[4], for civil/public servants affected by chargeable excess tax (see paragraph 29 below).

**Personal Fund Threshold (PFT)**

5. While the revised SFT limit of €2 million represents the "default" maximum allowable pension fund for tax purposes, there are circumstances where an individual can claim a higher Personal Fund Threshold (PFT) limit. This arises where the capital value of an individual's pension entitlements on 1 January 2014 exceed the revised SFT limit.

6. A PFT is the sum of the capital values of all of an individual's "uncrystallised"[5] pension entitlements on 1 January 2014 - i.e. pension entitlements that the individual is building up on that date but to which he/she has not, as yet, become entitled. This includes entitlements under DB and/or Defined Contribution (DC) occupational pension schemes, Additional Voluntary Contributions (AVCs[6]), Retirement Annuity Contracts (RACs) and Personal Retirement Savings Accounts (PRSAs). <u>In addition,</u> if the individual has already become entitled to pension benefits from any such pension arrangements since 7 December 2005 (called "crystallised rights") the capital value of those rights, at the date they became entitled to them, must also be included in the PFT calculation. Where the aggregate capital value of these crystallised and uncrystallised pension entitlements exceeds €2 million, that higher value is the individual's PFT <u>subject to an upper limit of €2.3m.</u>

[3] For Purchase of Service see Appendix 2A; For Professional Added Years see Appendix 2B

[4] Subsection 787Q(7), TCA 1997 was amended by section 18(2)(c) Finance (No 2) Act 2013 which also inserted new subsections 787Q(8) and 787Q(9) in order to provide for amended reimbursement arrangements.

[5] Section 787O (1) of the Taxes Consolidation Act, 1997, as amended.

[6] AVCs made for the purposes of enhancing death-in-service benefits should not be included.

7. An individual who already holds a PFT issued in accordance with the legislation as it applied before the Finance (No 2) Act 2013 was enacted - i.e. arising from either (a) the introduction of the SFT provisions from Budget Day 2006 (7 December 2005) or (b) from the date of the previous reduction to the SFT (Budget Day 2011 (7 December 2010)) - retains that PFT and is not required to take any further action as a result of the recent Finance Act changes.

**Claiming a PFT - Timeframes**

8. A PFT has to be claimed by an individual by way of notification to, and certification by, the Revenue Commissioners.

9. In order to make a PFT notification to Revenue, an individual will be required to request and obtain from the pension administrator of each relevant pension arrangement of which he/she is a member, a statement certifying, among other things, the amount of the individual's pension entitlements on 1 January 2014 relating to that arrangement, including in the case of civil/public[1] service DB pension arrangements the annual amount of pension and lump sum accrued up to that date, calculated in accordance with the provisions of the legislation. In this context, and where arising, the accrued pension should also take into account Section 52 (6) of the Public Service Pensions (Single Scheme and Other Provisions) Act.[7] Such statements are important in the context of the capital value that will be attributed to those pension entitlements at the point pension benefits are drawn down or taken. Where an individual has already become entitled to other pension benefits since 7 December 2005 (i.e. the date from which the SFT regime first applied) similar certifying statements from the relevant pension administrator(s) are required in relation to the capital value of those pension benefits at the date the individual became entitled to them.

10. Guidance as to how to calculate a PFT (including how to account for purchase of notional service) is set out in Appendix 2 and Appendix 2A. As indicated at paragraph 6 above, regardless of the overall capital value of an individual's pension entitlements, for PFT purposes at 1 January 2014, an upper limit of €2.3m applies – i.e. the amount of the SFT that applied prior to 1 January 2014. **In no case will an individual be granted a PFT in excess of €2.3 million[8].**

11. Once a PFT is granted, if the capital value of the individual's pension entitlements subsequently increases – e.g. within a DB pension scheme on foot of increased pensionable income and/or increased service reckonable for pension purposes - then a chargeable excess will arise on crystallisation of those entitlements equal to the amount

[7] Section 52 (6) of the Public Service Pensions (Single Scheme and Other Provisions) Act 2012 imposed a limit of "the equivalent of 40 years' service" on the total service which can be counted towards pension where a person has been a member of more than one pre-existing public service pension scheme (schemes other than the Single Public Service Pension Scheme); such a limit had already applied to service in any one scheme. This 40-year limit came into effect on 28 July 2012 (any eligible excess over 40 years held by an individual up to that point is retained).

[8] For the treatment of Professional Added Years (PAY) see Appendix 2B

by which the value of those entitlements exceeds the PFT. Any such excess will be subject to a one-off up-front tax charge of 41% (see paragraph 15).

12. A claim for a PFT must be sought within a specified time frame - i.e. it is not open ended. **Failure to seek a PFT within the necessary time frame and to obtain a PFT certificate from the Revenue Commissioners will mean that the SFT limit of €2 million will apply to the individual when a "benefit crystallisation event" (BCE) arises post 1 January 2014. ("Benefit crystallisation event" is the term used in the legislation to refer to any occasion on which an individual becomes entitled to receive a benefit (e.g. a pension, retirement lump sum etc.) under a pension arrangement).**

13. In general, a PFT notification will have to be made electronically to the Revenue Commissioners on a system currently being developed by them. The time period for making a notification is the period of 12 months after the date on which the electronic system is made available. Revenue will publicise the date on which the system becomes available which is expected to be in early July 2014.

14. Where an individual who requires a PFT intends to retire and claim pension entitlements after 1 January 2014 but before the electronic notification system is in place, **the PFT notification will have to be made to Revenue before such entitlements are taken.** In such cases, a paper-based PFT notification procedure should be used – see Appendix 5.

**Implications for certain civil/public servants**

15. On each occasion that a BCE arises, an individual uses up part of their SFT or PFT. When the capital value of a BCE (either on its own or when added to BCEs that have been taken earlier) exceeds an individual's SFT or PFT, as appropriate, a "chargeable excess" arises equal to the amount by which the fund threshold is exceeded. The whole of the amount of the chargeable excess is subject to an upfront income tax charge of 41%. This charge is without prejudice to separate income tax charges that might arise when the fund is subsequently drawn down – e.g. by way of fortnightly/monthly pension payment (or, by way of a distribution from an Approved Revenue Fund (ARF) or vested PRSA).

16. In order to determine whether a "chargeable excess" occurs and, if it does, the associated liability to tax, a capital value has to be established whenever a BCE occurs. For civil/public servants this will generally be at retirement. The legislation sets out how the capital value of pension rights is to be valued as outlined below.

**Valuing pension rights after 1 January 2014**

17. The legislation provides that DB pension entitlements arising after 1 January 2014 are to be valued at the point of crystallisation of such entitlements (e.g. retirement) for SFT or PFT purposes by the use of age-related valuation factors that vary with the age of the beneficiary. Prior to this, a standard valuation factor of 20 was used. The age-related valuation factors are set out in a table to Schedule 23B of the TCA 1997. The table is set out at Appendix 1 to this Letter for ease of reference.

18. Accordingly, where DB pension entitlements arise after 1 January 2014, the capital value will be determined by multiplying the annual amount of pension payable to the individual under the arrangement by the relevant age-related valuation factor. This will be the default calculation of the capital value of Defined Benefit BCEs taken in the form of pensions for the purpose of measurement against the SFT or a PFT.

19. However, where part of the pension has already been accrued at 1 January 2014 and part after that date, transitional arrangements allow the capital value of the pension to be calculated by way of a "split" calculation, so that the part accrued up to 1 January 2014 (referred to in the legislation as the "accrued pension amount") will be valued at a valuation factor of 20 and the part accrued after that date valued at the appropriate higher age-related factor. The legislation sets out how the accrued pension amount is to be established.[9] In this regard also, paragraph 3(aa) of Schedule 23B TCA provides a formula for determining the value of a BCE where a split calculation arises. The formula is:

$$(APA \times B) + ((P-APA) \times A)$$

where:

APA - is the Accrued Pension Amount (see footnote 9),

B - is the relevant valuation factor on 1 January 2014 (i.e. 20),

P - is the amount of pension that would be payable to the individual in the period of 12 months beginning on the day he/she becomes entitled to it, and

A - is the relevant age-related valuation factor based on the age of the individual when he/she draws down the pension.

20. A situation can arise – e.g. under the terms of the Cost Neutral Early Retirement (CNER) scheme - where the amount of the pension payable at retirement on a date after 1 January 2014 (P in the formula above) is less than the value of the accrued pension at 1 January 2014 (APA in the formula). The formula should, nonetheless, continue to be used in such cases to determine the capital value of the pension (see Example 4 in the Hypothetical Examples at Appendix 3).

21. A condition of applying the "split" calculation is that the pension administrator concerned is satisfied, from information and records available to him/her, that an accrued pension amount arises in relation to the DB pension in question. **It is therefore important that Departments and Offices, and public service employers generally, ensure that all relevant records are maintained.** The information and records will

[9] The accrued pension amount in relation to an individual who obtains a PFT from Revenue will be the annual amount of pension certified by the pension scheme administrator as having accrued at 1 January 2014 and reflected in the statement referred to in paragraph 9. In any other case, it will be the annual amount of pension that would, based on the pension scheme administrator's records, have accrued at 1 January 2014 if such a calculation had been made for PFT purposes at that date.

have to be retained for 6 years so as to demonstrate to Revenue, if required, that an accrued pension existed at 1 January 2014.

22. In the case of pension entitlements arising under DC arrangements, the capital value is the value of the assets in the arrangement that represent the member's accumulated entitlements on the date the benefits come into payment - i.e. the cash or market value of the investment(s)/fund(s) on that date.

23. Hypothetical examples of the impacts of the changes to the SFT regime are set out at Appendix 3 to this Letter.

**Claiming Pension Benefits**

24. In order to assess if any potential liability to chargeable excess tax arises, **every** civil/public servant, or former civil/public servant with a preserved pension entitlement, claiming pension from the Civil/Public Service must complete an official Pension Declaration Form (Appendix 4) **irrespective of whether or not the SFT or a PFT is of relevance to their individual circumstances.**

25. **No pension payments can be approved unless a properly completed and up to date Pension Declaration Form is on file accompanied, where relevant, by a copy of the individual's PFT certificate.** Note: If a PFT certificate is not provided to the pension administrator, the pension administrator is obliged under legislation to apply the tax charge of 41% on any "chargeable excess" over the standard SFT of €2 million. When including the value of a DC pension it is the actual value of the fund at crystallisation that must be used and not any earlier estimates.

**Tax Computation**

26. Once the properly completed Pension Declaration Form has been received by the pension administrator, it will be necessary to establish a capital value for pension entitlements the individual is entitled to from the Civil/Public Service scheme, as outlined earlier, and to add this to the capital value of any other pension entitlements (i.e. earlier BCEs) the individual has declared in the Pension Declaration Form in order to establish if a chargeable excess arises.

27. The tax due, if any, is 41% of the amount by which the total capital value of all pension entitlements exceeds the SFT of €2 million or, if the individual has a PFT, exceeds the value on the PFT Certificate issued by the Revenue Commissioners. If the aggregate of the earlier BCEs declared in the Pension Declaration Form already exceeds the SFT or the individual's PFT then, of course, the full capital value of the Civil/Public Service benefits being claimed will be a chargeable excess and subject to the 41% charge.

**The Tax – Liability/Payment**

28. Once it is established that a liability to chargeable excess tax arises, the pension administrator should inform the individual in writing/e-mail and, being severally and jointly liable with the individual for the tax, must pay the full amount (less credit for any standard rate tax paid on the individual's retirement lump sum in excess of

€200,000) to the Collector General of the Revenue Commissioners (see paragraph 32 hereunder).

29. The relevant legislation provides that the tax paid by the pension administrator is a debt owing to the administrator from the individual. The following options are available to individual civil/public servants for reimbursing the administrator for the chargeable excess tax paid and clearing the debt:

I. Where the amount of tax paid by the Administrator is <u>20% or less</u> of the individual's retirement lump sum (net of any lump sum tax paid at the standard rate under section 790AA TCA):

(i) by agreeing for the pension administrator to appropriate the relevant percentage from the net lump sum,
(ii) by direct payment of the full amount by the individual to the pension administrator,
(iii) by a combination of (i) and (ii) above, or
(iv) by the individual exercising the option to have the tax deducted evenly from his/her gross annual pension for a period of up to 20 years.

II. Where the amount of tax paid by the Administrator is greater than <u>20%</u> of the individual's retirement lump sum (net of any lump sum tax paid at the standard rate under section 790AA TCA):

(i) by agreeing for the pension administrator to appropriate not less than 20% of the net lump sum or a higher percentage as may be agreed,
(ii) by direct payment by the individual to the pension administrator of at least 20% of the net lump sum or a higher percentage as may be agreed,
(iii) by a combination of (i) and (ii) above such that the aggregate is not less than 20% of the net lump sum,
(iv) by allowing any balance of the tax to be recovered from the gross annual pension of the individual over a period to be agreed with the administrator of up to 20 years,[10]
(v) by the payment of any balance by the individual from his/her own resources, or
(vi) by the individual exercising the option to have the tax deducted evenly from his/her gross annual pension for a period of up to 20 years.

Should the individual die before the debt owing to the administrator is fully discharged (i.e. before the chargeable excess tax is fully recovered) the outstanding debt is released.

It should be noted that where an individual opts to reimburse the administrator, in whole or in part, by way of a direct payment from the individual's own resources (i.e. options (I) (ii) & (iii) and (II) (ii) & (iii) above) that payment must be received before the administrator pays the individual his/her retirement lump sum.

[10] 787Q (7) TCA (inserted in 2012 and amended in 2013).

**Implications for Departments/Offices/Agencies**

30. As already set out above, where the relevant SFT or PFT threshold is exceeded when a BCE takes place, an up-front immediate income tax charge of 41% on the "chargeable excess" arises in respect of which the pension administrator and the individual are severally and jointly liable.

31. Given the joint liability, it is essential that all Government Departments/Offices, all public service employers and all civil/public service pension administrators are aware of, and take full account of, the relevant legislative provisions in dealing with all persons claiming civil/public service pension entitlements. In addition all employees (current/future) should be made aware of the legislation/arrangements – see paragraph 38 regarding circulation of this Letter hereunder.

32. In the first instance, the pension administrator is required to account to the Collector General of Revenue for any tax due. Such tax is due at the time by which the return is due to be made to the Collector General - i.e. within three months of the end of the month in which the BCE giving rise to the chargeable excess occurs. The legislation provides for the recovery of the tax paid by the pension administrator from the individual through various options (see paragraph 29 above).

33. Attention is also drawn to the fact that the Finance (No 2) Act 2013 includes a penalty provision where any person (administrator or individual) fails to comply with any of the obligations imposed by Chapter 2C of Part 30 of the TCA 1997, any regulations made under it (there are no such regulations to date) and with any obligations imposed by Schedule 23B. The penalty (€3,000) will apply to each separate failure.

**Accounting Arrangements**

***Civil Service/Prison Officer Pensions – Vote 12***

34. Where a pension administrator discharges a chargeable excess tax liability on behalf of an individual, the amount should be accounted for on a gross basis - i.e. the total upfront tax amount should be paid from Vote 12 Superannuation and Retired Allowances.

35. Any off-set or recovery of monies directly from the individual or from his/her lump-sum or pension, should be treated as an Appropriation-in-Aid to Vote 12 Superannuation and Retired Allowances.

36. Separate records should be maintained for each individual case so as to provide a clear audit trail.

***Public Service***

37. Similar arrangements to those at the preceding paragraph should be put in place for areas of the Public Service where pension payments are not covered by the Superannuation and Retired Allowances Vote.

**Circulation:**

38. Please bring the contents of this Letter to the attention of:-

    a. all individuals serving within your Department/Office; and
    b. all public service bodies under the aegis of your Department/Office for dissemination to all their serving staff.

    **The contents of the Letter should also be incorporated into Information Packs etc. for newly appointed staff, Officeholders etc.**

**Queries**

39. Queries by individual civil/public servants/Officeholders relating to this Letter should be addressed in the first instance to their current HR Section/Unit.

40. Queries from Public Service Bodies should be addressed, in the first instance, to their parent Government Department/Office.

41. Queries by members of the Judiciary relating to this Letter should be addressed in the first instance to:

    David McGrath
    Courts Policy Division
    Department of Justice and Equality
    51 St. Stephen's Green
    Dublin 2
    Email: dxmcgrath@justice.ie
    Telephone: +353 1 6028569.

42. Queries by Members of the Houses of the Oireachtas relating to this Letter should be addressed in the first instance to:

    Derek Walker
    Members' Pensions Section
    Houses of the Oireachtas Service
    Leinster House
    Dublin 2
    Email: memberspensions@oireachtas.ie
    Telephone +353 1 6184672.

43. Queries from Departments/Offices relating to the implementation of this Letter should be addressed in writing/e-mail to:

Department of Public Expenditure and Reform
Remuneration, Industrial Relations and Pensions Division
Room 1.4
7-9 Merrion Row
Dublin 2
Email: SFT@per.gov.ie

44. Queries about tax aspects of the Letter (e.g. what qualifies to be included for PFT purposes) should be addressed to:

Office of the Revenue Commissioners
Financial Services (Pensions)
Large Cases Division
Ballaugh House
73-79 Lower Mount Street
Dublin 2
Email: lcdretirebens@revenue.ie
Telephone: +353 1 6131800.

**Frequently Asked Questions**

45. Sample questions have been devised to provide elaboration and further clarification on the Finance (No 2) Act 2013 changes. These are set out at Appendix 6 to this Letter and will be updated as necessary.

**Disclaimer**

46. This Letter is for general guidance only and does not purport to be a legal interpretation of the changes referred to, which are fully set out in the relevant legislation.

47. The content of this Letter may not be relied on by an individual to conclude that they will not exceed the relevant SFT limit on the total capital value of relevant pension for tax purposes.

48. The onus is on individual civil/public servants to ascertain whether the SFT has/has not any application to their personal pension circumstances and, if it does, whether or not they need to apply for a PFT (if they do not already hold a PFT). Where an individual is in any doubt they should contact their pension administrator(s) and, where necessary, contact the Revenue Commissioners.

Yours sincerely

*Mary Austin*
Principal
Remuneration, Industrial Relations and Pensions Division

## Appendix 1

**List of age-related capitalisation factors to value Defined Benefit (DB) Pension Entitlements**

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

# Appendix 2

## Calculating a PFT

**Defined Benefit Pension Rights**
Tax legislation (paragraph 1 (2) of Schedule 23B to the TCA) provides a formula for calculating the capital value of uncrystallised pension rights under a DB pension scheme as on 1 January 2014 for the purposes of establishing entitlement to a PFT.

Basically, the formula provides for a capital value to be determined by establishing the annual pension entitlement that would arise for an individual on 1 January 2014 under the rules of the scheme on the assumption that s/he retired on that date having reached minimum pension age and on the basis of their reckonable service and salary levels on that date.

The annual pension entitlement so established is multiplied by a valuation factor of 20 to arrive at the capital value. In the case of civil/public service DB schemes, the value of the retirement lump sum entitlement on 1 January 2014 (calculated on the same assumptions) would be added to the capital value of the pension entitlements to arrive at the overall capital value of the uncrystallised pension rights under the pension scheme at that date.

**IMPORTANT NOTE:**

**Rates of pay in effect as and from 1 July 2013** should be used as the basis for pensionable remuneration[11] in calculating PFTs at 1 January 2014, **EXCEPT** where a decision to retire on/before **30 June 2015**[12] has (i) already been taken by the individual at the time of application for a PFT and (ii) that decision has been formally conveyed by the individual concerned to the Personnel Officer in his/her Department/ Office/Agency.

The calculation and submission of a PFT application on any other basis will not be accepted by the Revenue Commissioners.

If, however, an individual seeks and receives a PFT certificate calculated on the basis that they are not retiring on/before 30 June 2015 but subsequently do in fact retire on/before that date, **a revised PFT should** be sought from Revenue at least 1 month before their date of retirement or before 31 May 2015, whichever is the earlier.

If an individual seeks and obtains a PFT based on the pre-cut rate of pay on the basis that he/she intends to retire before 1 July 2015 and subsequently decides not to do so, **the PFT obtained will have no validity after that date.**

**Defined Contribution Pension Rights (including Additional Voluntary Contributions (AVCs))**
The capital value on 1 January 2014 of the uncrystallised pension rights in respect of DC arrangements, including Additional Voluntary Contributions (AVCs) for the purpose of supplementing pension entitlements should be added to the capital value of uncrystallised DB pension rights. In the case of DC arrangements the legislation provides that the capital value of the pension rights is established for PFT purposes by simply taking the value of the fund on

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[11] The pensionable remuneration of Deputy and Assistant Secretary Grades (and certain other posts across the civil/public service) is less than actual salary.
[12] The cessation of the current "grace period" during which persons retiring have their pension benefits calculated based on the rates of pay in force on 30 June 2013.

1 January 2014.[13] AVCs are generally DC type arrangements. AVCs made for the purposes of enhancing death-in-service benefits should not be included.

**Pension Benefits arising since 7 December 2005**

If an individual has become eligible for pension entitlements since 7 December 2005 (the date from which the SFT regime first applied), the capital value of those entitlements (i.e. crystallised rights) also has to be determined and added to the value of the uncrystallised rights in the context of establishing the overall capital value of a PFT at 1 January 2014 and applying for a PFT certificate to Revenue.

Such crystallised rights may have arisen by way of, for example, a pension or annuity coming into payment, the receipt of a pension lump sum or the proceeds of a pension fund being placed in an Approved Retirement Fund (ARF) or Approved Minimum Retirement Fund (AMRF).

In the case of pension entitlements that arose from a DC arrangement, the individual would need to contact the **relevant pension fund administrator** to establish the value of the cash/assets that were used to, say, purchase his/her annuity or that were transferred to an ARF. In the case of a pension lump sum payable under a DC arrangement the value will simply be the amount of the lump sum paid at the time.

In the case of a pension paid since 7 December 2005 under a DB arrangement, the crystallised capital value of the pension is:

(i) where the arrangement provides for a lump sum commutation option, the amount of pension that would have been payable to the individual (before any commutation for a lump sum) in the first 12 months (ignoring any adjustments over that period) from the date the individual became entitled to it, multiplied by a factor of 20.

**Note**: It is not the annual amount of pension actually **paid** to the individual in the first 12 months (which could reflect the fact that part of the pension was commuted for lump sum), nor the current annual rate of the pension being paid (which may reflect adjustments in the pension rate since it was first awarded). It is the amount of pension that would have been payable in the first 12 months from the date the individual became entitled to it on the assumption that there had been no commutation of part of the pension for a lump sum or no adjustments made in relevant pension payable. Any lump sum actually paid is, therefore, ignored in computing the capital value of the crystallised pension entitlements in such cases as it is already reflected in the pension capital value.

(ii) where the arrangement provides for a separately accrued lump sum entitlement (i.e. most Civil/Public Service schemes) the actual annual amount of pension paid in the first 12 months (ignoring any adjustments over that period) from the date the individual became entitled to it, multiplied by a valuation factor of 20 plus the actual cash value of the separately accrued lump sum paid.

[13] The assets in a DC fund may be cash or non-cash, and if the latter, the market value of the assets on the relevant date must be established. The AVC fund administrator will provide this information.

# Appendix 2A

## Purchase of Notional Service:

Where notional service is being purchased (whether by lump sum prior to 1 January 2014 or under a periodic purchase agreement), this should be included for the purposes of claiming a PFT effective from 1st January 2014.

***Notional Service Being Purchased under a Periodic Purchase Agreement***
The formula to be used for the purpose of including notional service which is being purchased under a periodic purchase agreement is set out immediately below. It is based on the formula contained in the purchase of notional service scheme.

The formula is A x B / C, where –

- A is the number of years of service which the individual opted to purchase;
- B is the period from the date of commencement of the purchase agreement up to 1 January 2014; and
- C is the period during which periodic contributions would have been paid if the individual had continued to pay such contributions up to the relevant retirement age.

***Notional Service Purchased by Lump Sum***
Where notional service has been purchased in full by lump sum prior to 1 January 2014 that service should be included in full in the PFT calculation.

Notional service purchased by lump sum after 1 January 2014 should not be included.

# Appendix 2B

## Professional Added Years (PAY):

Arrangements known as "look back" arrangements, were agreed with the Revenue Commissioners in 2011 under which an individual awarded professional added years (PAY) at the point of retirement may have his/her reckonable service for PFT purposes adjusted to reflect the awarding of such notional service. Such "look back" might give rise to either a higher PFT or qualification for a PFT, as appropriate. These arrangements remain in place and will continue to apply at the point of an individual's retirement as follows:

I. An individual who is already in receipt of a PFT on 7 December 2010 (the date of the previous reduction in the SFT from c. €5.4m to €2.3m) and who is awarded PAY at retirement can apply to the Revenue Commissioners on look-back for an increased PFT to reflect the addition of those added years at 7 December 2010. Where an individual did not qualify for a PFT on 7 December 2010 but the addition of the PAY awarded at retirement increases the capital value of his/her crystallised and uncrystallised pension entitlements at that date beyond €2.3m, he/she can apply to the Revenue Commissioners on look-back for a PFT at that value. It is to be noted however that the value of a PFT at 7 December 2010 in any of the above circumstances cannot exceed the value of the SFT prior to 7 December 2010 (c. €5.4m).

II. Where, taking account of the award of PAY at retirement, the capital value of an individual's pension entitlements at 7 December 2010 (including the professional added years) is below €2.3 million, the reduced SFT from 1 January 2014 applies with a look-back option. As above, if an individual qualifies for a PFT at 1 January 2014 on the grounds that the capital value of his/her pension entitlements exceeds €2m at that date, that PFT may be enhanced on look-back where PAY are awarded at retirement to reflect those added years. Where an individual does not qualify for a PFT on 1 January 2014 but the addition of PAY awarded at retirement increases the capital value of his/her crystallised and uncrystallised pension entitlements at that date beyond €2m, he/she can apply to the Revenue Commissioners on look-back for a PFT at that value. The value of a PFT in the any of the above circumstances cannot exceed €2.3 million.

There may be instances where an individual qualifies for a 2014 PFT, based on pensionable salary and actual reckonable service at 1 January 2014 and who, on retirement, when PAY are awarded, would also qualify on look back for a 2010 PFT as per paragraph (i) below. In such cases, notwithstanding that the individual has a 2014 PFT, he/she or she can apply for the more beneficial 2010 PFT.

In summary, on the award of PAY on retirement after 1 January 2014, an individual can, on look-back, apply to Revenue for either an enhanced PFT or for a first PFT, as appropriate:

(i) At 7 December 2010, if the inclusion of PAY with reckonable service at that date (and at the individual's pensionable salary at that date) results in an increase in the capital value of the individual's pension entitlements above the individual's existing PFT at that date or €2.3 million, as appropriate, subject to an upper limit of c. €5.4 million, or

(ii) At 1 January 2014, if the inclusion of PAY with reckonable service at that date (and at the individual's pensionable salary at that date) results in an increase in the capital value of the individual's pension entitlements above the individual's existing PFT at that date or €2.0 million, as appropriate, subject to an upper limit of €2.3 million.

**Appendix 3**

## Reduction in Standard Fund Threshold (SFT)

## Budget 2014/ Finance (No 2) Act 2013

## Hypothetical Cases

**NOTE: Examples of impact (Examples 1-4 based on individuals who are Established Civil Servants on Non Personal Pension Contribution (Non-PPC) Rates of Pay. Example 5 is based on a member of the Judiciary)**

**Example 1** Secretary General Level I[14] has 35 years' service on 1 January 2014. S/he has decided to retire on 30 June 2015 at age 60 and has formally notified her/his intention to do so. S/he has had no crystallised pension benefits arising since 7 December 2005, has no other pension funds/benefits outside of their current employment and makes no AVCs. The capital value of her/his uncrystallised pension entitlements as on 1 January 2014 and the position at retirement on 30 June 2015 are calculated as follows:

**(a) Position at 1 January 2014**

| | |
|---|---|
| Pensionable remuneration: | €215,590[15] |
| Years' service: | 35 |
| Accrued pension at 1/1/14: | €94,321 (€215,590 * 35/80) |
| Capital value of accrued pension: | €1,825,700 (€94,321 less €3,036[16] * cap factor of 20) |
| + Retirement lump sum: | €282,963 (€94,321*3) |
| Total capital value of retire bens: | €2,108,663 (€1,825,700 + €282,963) |
| Personal Fund Threshold (PFT): | €2,108,663[17] |

**(b) Position at retirement on 30 June 2015**

| | |
|---|---|
| Pensionable remuneration: | €215,590 |
| Years' service: | 36.5 |
| Pension at retirement: | €98,363 (€215,590 * 36.5/80) |

[14] A Secretary-General appointed before 25 October 2011 may, at the discretion of Government, be awarded added years on the completion of his/her term of appointment. Such discretionary added years have not been included in this example.

[15] Pension based on pre-FEMPI 2013 rate of pay as retiring by 30 June 2015. Pre-FEMPI 2013 rates of pay can be used as the basis for pensionable remuneration in calculating PFTs at 1 January 2014 provided an individual has made a decision to retire before 30 June 2015 and has formally notified that decision to the Personnel Officer of his/her Department.

[16] Amount of Public Service Pension Reduction (PSPR) which would be applied to gross pension if individual retired on 1 January 2014. First €12k pension exempt, next €12k at 2%, next €36k at 3% and balance over €60k at 5%.

[17] PFT will have to be applied for to Revenue before 31 May 2015.

| | |
|---|---|
| Capital value of pension: | €1,940,900 [(€94,321 less €3,036 * 20) + (€98,363 less €3,238[18] less €91,285 *30)[19]] |
| + Retirement lump sum: | €295,089 (€98,363*3) |
| Total capital value of retire bens: | €2,235,989 (€1,940,900 + €295,089) |
| Personal Fund Threshold (PFT): | €2,108,663 |
| Chargeable Excess: | €127,326 (€2,235,989 – €2,108,663) |
| Gross chargeable excess tax: | €52,204 (€127,326*41%) |
| Net chargeable excess tax: | €33,186[20] (€52,204 less credit of €19,018 - 20% tax on lump sum > €200k) |

[18] Amount of Public Service Pension Reduction (PSPR) applied to gross pension at retirement on 31 May 2015. First €12k pension exempt, next €12k at 2%, next €36k at 3%, next €40k at 5% and balance over €100k at 8%.

[19] Represents the difference between the pension entitlement at retirement and the pension entitlement accrued to 1 January 2014 multiplied (taking account of impact of PSPR) by the relevant age-related factor.

[20] Net chargeable excess tax is payable upfront to Revenue by the pension administrator and is recouped from the individual through various options, including the option to have the amount deducted evenly from the gross pension due over a period of up to 20 years.

**Example 2** Secretary General Level II, has 38 years' service on 1 January 2014 at age 58.5. S/he may retire before 30 June 2015 (end of "grace period") and before the end of his/her contract term which ends on 1 January 2016 when he/she reaches age 60. S/he has had no crystallised pension benefits arising since 7 December 2005 and makes no AVCs. The capital value of her/his crystallised pension entitlements as on 1 January 2014 assuming (i) retirement at 30 June 2015 and (ii) retirement at 1 January 2016 together with the implications of retirement at those dates for SFT/PFT purposes are calculated as follows:

**Scenario 1 (Retirement at 30 June 2015)**

**(a) Position at 1 January 2014**

| | |
|---|---|
| Pensionable remuneration: | €190,000[21] |
| Years' service: | 38 |
| Accrued pension at 1/1/14: | €90,250 (€190,000 * 38/80) |
| Capital value of accrued pension: | €1,748,340(€90,250 less €2,833[22] * cap factor of 20) |
| + Retirement lump sum: | €270,750 (€90,250*3) |
| Total capital value of retire bens: | €2,019,090 (€1,748,340 + €270,750) |
| Personal Fund Threshold (PFT): | €2,019,090[23] |

**(b) Position at retirement on 30 June 2015**

| | |
|---|---|
| Pensionable remuneration: | €190,000 |
| Years' service: | 39.5 |
| Pension at retirement: | €93,813 (€190,000 * 39.5/80) |
| Capital value of pension: | €1,849,890 [(€90,250 less €2,833 * 20) + (€93,813 less €3,011 [24] less €87,417 *30)[25]] |
| + Retirement lump sum: | €281,439 (93,813*3) |
| Total capital value of retire bens: | €2,131,329 (€1,849,890 + €281,439) |
| Personal Fund Threshold (PFT): | €2,019,090 |
| Chargeable Excess: | €112,239 (€2,131,329 – €2,019,090) |
| Gross chargeable excess tax: | €46,018 (€112,239*41%) |
| Net chargeable excess tax: | €29,730[26] (€46,018 less credit of €16,288 - 20% tax on lump sum >€200k (€81,439)) |

[21] Pension based on pre-FEMPI 2013 rate of pay as retiring by 30 June 2015 assuming pre-July 2013 salary in this case is €190,000. Pre-FEMPI 2013 rates of pay can be used as the basis for pensionable remuneration in calculating PFTs at 1 January 2014 provided an individual has made a decision to retire before 30 June 2015 and has formally notified that decision to the Personnel Officer of his/her Department.

[22] Amount of Public Service Pension Reduction (PSPR) which would be applied to gross pension if individual retired on 1 January 2014. First €12k pension exempt, next €12k at 2%, next €36k at 3%, balance over €60k at 5%.

[23] PFT must be applied for to Revenue before 30 June 2015

[24] Amount of Public Service Pension Reduction (PSPR) applied to gross pension at retirement on 30 June 2015. First €12k pension exempt, next €12k at 2%, next €36k at 3% and balance over €60k at 5%.

[25] Represents the difference between the pension entitlement at retirement and the pension entitlement accrued to 1 January 2014 multiplied (taking account of impact of PSPR) by the relevant age-related factor.

[26] Net chargeable excess tax is payable upfront to Revenue by the pension administrator and is recouped from the individual through various options, including the option to have the amount deducted evenly from the gross pension due over a period of up to 20 years.

**Scenario 2 (Retirement at 1 January 2016)**

**(a) Position at 1 January 2014**

| | |
|---|---|
| Pensionable remuneration: | €176,350[27] |
| Years' service: | 38 |
| Accrued pension at 1/1/14: | €83,766 (€176,350 * 38/80) |
| Capital value of accrued pension: | €1,675,320 (€83,766* cap factor of 20) |
| + Retirement lump sum: | €251,298 (€83,766*3) |
| Total capital value of retire bens: | €1,926,618 (€1,675,320 + €251,298) |
| Standard Fund Threshold (SFT): | €2,000,000[28] |

**(b) Position at retirement on 1 January 2016**

| | |
|---|---|
| Pensionable remuneration: | €176,350 |
| Years' service: | 40 |
| Pension at retirement: | €88,175 (€176,350 * 40/80) |
| Capital value of pension: | €1,807,590 [(€83,766* 20) + (€88,175-€83,766*30)[29]] |
| + Retirement lump sum: | €264,525 (€88,175*3) |
| Total capital value of retire bens: | €2,072,115 (€1,807,590 + €264,525) |
| Standard Fund Threshold (SFT): | €2,000,000 |
| Chargeable Excess: | €72,115 |
| Gross chargeable excess tax: | €29,567 (€72,115*41%) |
| Net chargeable excess tax: | €16,662[30] (€29,567 – €12,905 representing tax at 20% on the retirement lump sum over €200k) |

[27] Pension based on post-FEMPI rates of pay as retiring after 30 June 2015.

[28] Since the capital value of the pension benefits is less than €2.0 m on 1 January 2014, no PFT arises and the SFT of €2m is the limit in this case.

[29] Represents the difference between the pension entitlement at retirement and the pension accrued to 1 January 2014 multiplied by the relevant age-related factor.

[30] Net chargeable excess tax is payable upfront to Revenue by the pension administrator and is recouped from the individual through various options, including the option to have the amount deducted evenly from the gross pension due over a period of up to 20 years.

**Example 3.** Assistant Secretary is 40 years old and has 20 years' service on 1 January 2014. Calculations are set out hereunder for two different scenarios: (i) S/he retires at age 60 with no further promotion and (ii) s/he is promoted to Secretary General Level I at age 53 and retires at the end of the contract at age 60 on full pension. The calculations assume (for illustrative purposes only) no increase in pensionable pay at retirement compared to current Haddington Road Agreement pay rates and no future change to the current SFT regime. No other pension savings also assumed. All other things remain equal.

**Scenario 1 (Retirement on 1 January 2034 at age 60 with no further promotion)**

**(a) Position at 1 January 2014**

| | |
|---|---|
| Pensionable remuneration: | €129,563 (non PPC scale)[31] |
| Years' service: | 20 |
| Accrued pension at 1/1/14: | €32,391 (€129,563 * 20/80) |
| Capital value of accrued pension: | €647,820 (€32,391* 20) |
| + Retirement lump sum: | €97,173 (€32,391*3) |
| Total capital value of retire bens: | €744,993 (€647,820 + €97,173) |

No Personal Fund Threshold (PFT) arises so SFT is appropriate threshold

| | |
|---|---|
| Standard Fund Threshold (SFT): | €2,000,000 |

**(b) Position at retirement on 1 January 2034**

| | |
|---|---|
| Pensionable remuneration: | €129,563 |
| Years' service: | 40 |
| Pension at retirement: | €64,782 (€129,563 * 40/80) |
| Capital value of pension: | €1,619,550 [(€32,391* 20) + (€64,782 – €32,391 *30[32])] |
| + Retirement lump sum: | €194,346 (€64,782*3) |
| Total capital value of retire bens: | €1,813,896 (€1,619,550 + €194,346) |
| Standard Fund Threshold (SFT): | €2,000,000 |
| Chargeable Excess: | €0[33] |
| Gross chargeable excess tax: | €0 |
| Net chargeable excess tax: | €0 |

[31] Current pensionable salary for those retiring on/after 1 July 2015. Note. Pensionable salary for the Assistant Secretary Grade is lower than actual salary.

[32] Value of pension accrued at 1 January 2014 using a factor of 20 plus pension accrued after 1 January 2014 using factor relevant to the age at which the pension is drawn down.

[33] Capital value of retirement benefits drawn down is less than the SFT of €2.0 million so no chargeable excess arises.

**Scenario 2 (Retirement at 1 January 2034 at age 60 following promotion to Sec Gen I)**

| | |
|---|---|
| Pensionable remuneration: | €185,350[34] |
| Years' service: | 40 |
| Pension at retirement: | €92,675 (€185,350 * 40/80) |
| Capital value of pension: | € 2,456,340 [(€32,391* 20) + (€92,675-€32,391*30)] |
| + Retirement lump sum: | €278,025(€92,675*3) |
| Total capital value of retire bens: | €2,734,365 (€2,456,340 + €278,025) |
| Standard Fund Threshold (SFT): | €2,000,000 |
| Chargeable Excess: | €734,365 (€2,734,365 – €2,000,000) |
| Gross chargeable excess tax: | €301,090 (€734,365*41%) |
| Net chargeable excess tax: | €285,485[35] (€301,090 – €15,605 representing tax at 20% on the retirement lump sum over €200k (€78,025)) |

[34] Pensionable remuneration for Secretary General Level I under Haddington Road Agreement.
[35] Net chargeable excess tax is payable upfront to Revenue by the pension administrator and is recouped from the individual through various options, including the option to have the amount deducted evenly from the gross pension due over a period of up to 20 years.

**Example 4.** Deputy-Secretary General decides to retire on his/her 58th birthday on 30 June 2014 under the Cost Neutral Early Retirement scheme at which point he/she has 38 years' service. He/she has no other pension savings or entitlements apart from the Civil Service pension.

**(a) Position at 1 January 2014 for PFT purposes**

| | |
|---|---|
| Pensionable remuneration: | €156,241[36] |
| Years' Service: | 37.5 years |
| Accrued pension at 1/1/14: | €73,238 (€156,241/80*37.5) |
| Capital value of accrued pension: | €1,425,120 (€73,238 less €1,982 [37]* 20) |
| Retirement lump sum: | €219,714 (€73,238 *3) |
| Total capital value of retirement bens: | €1,644,834 (€1,425,120 +€ 219,714). |

No Personal Fund Threshold (PFT) arises so SFT is appropriate threshold

| | |
|---|---|
| Standard Fund Threshold (SFT): | €2,000,000 |

**(b) Position at retirement on 30 June 2014**

| | |
|---|---|
| Pensionable remuneration: | €156,241 |
| Years' Service: | 38 years |
| Pension at retirement: | €66,867 (€156,241/80*38)*(CNER pension reduction factor of 90.1%[38]) |
| Capital value of pension at retirement: | €1,237,508[39] [(€73,238 less €1,982*20) + ((€66,867 – €1,663[40] - €71,256)* 31[41])] |

[36] Pre-Fempi Act 2013 rates of pensionable pay as retiring before 30 June 2015. Note: Pensionable salary for the Deputy Secretary Grade is lower than actual salary.

[37] Amount of Public Service Pension Reduction (PSPR) applied to gross pension. First €12k pension exempt, next €12k at 2%, next €36k at 3% and balance at 5%.

[38] Age-related factor to be applied to pension benefit per CNER circular 10/2005.

[39] Represents the calculation of the capital value of the pension entitlement at retirement incorporating the "accrued pension amount" at 1 January 2014 in the "split calculation" of a benefit crystallisation event (BCE) incorporating such an accrual together with pension entitlements accrued after 1 January 2014, as per the legislation. The actual pension entitlement in retirement cases after 1 January 2014 may in some circumstances be a lower figure than the accrual at 1 January 2014, as in this case, due to an actuarial reduction in the pension at that point on foot of early retirement. The "split calculation" formula in paragraph 3(aa) of Schedule 23B TCA and reflected above for calculating the value of BCEs incorporating accrued pension amounts up to 1 January 2014 and after that date should still be used in these cases (see also paragraphs 18 and 19 of the Letter).

[40] Amount of Public Service Pension Reduction (PSPR) applied to gross pension. First €12k pension exempt, next €12k at 2%, next €36k at 3%, balance at 5%.

[41] Age-related factor applicable to pension drawn down at age 58.

| | |
|---|---|
| Retirement lump sum: | €213,959 (pre-CNER pension value €74,214*3*CNER LS reduction factor of 96.1%[42]) |
| Total capital value of retirement bens: | €1,451,467 (€1,237,508 + €213,959) |
| Standard Fund Threshold (SFT): | €2,000,000 |
| Chargeable Excess: | €0 |
| Gross chargeable excess tax: | €0 |
| Net chargeable excess tax: | €0 |
| Lump sum tax: | €2,792 (€13,959*20%) |

[42] Age-related factor to be applied to lump sum benefit per CNER circular 10/2005

**Example 5.** Judge of the Supreme Court has 13.5 years' service on 1 January 2014. S/he has decided to retire on 30 June 2015 at age 66 and has formally notified her/his intention to do so. S/he has had no crystallised pension benefits arising since 7 December 2005, has no other pension funds/benefits outside of their current employment and makes no AVCs. The capital value of her/his uncrystallised pension entitlements as on 1 January 2014 and the position at retirement on 30 June 2015 are calculated as follows:

**(Retirement at 30 June 2015)**

**(c) Position at 1 January 2014**

| | |
|---|---|
| Pensionable remuneration: | €219,191[43] |
| Years' service: | 13.5 |
| Accrued pension at 1/1/14: | €97,266 [(€219,191*5/40) + (€219,191*8.5*3/80)] |
| Capital value of accrued pension: | €97,266 less €3,183[44] * cap factor of 20) |
| + Retirement lump sum: | €291,798 (€97,266*3) |
| Total capital value of retire bens: | €2,173,458 (€1,881,660+ €291,798) |
| Personal Fund Threshold (PFT): | €2,173,458[45] |

**(d) Position at retirement on 30 June 2015**

| | |
|---|---|
| Pensionable remuneration: | €219,191 |
| Years' service: | 15 |
| Pension at retirement: | €109,596 [(€219,191*5/40) + (€219,191*10*3/80)] |
| Capital value of pension: | €2,167,285 [(€97,266 less €3,183 *20) + (€109,596 less €4,088[46] less €94,083 *25)[47]] |
| + Retirement lump sum: | €328,788 (€109,596*3) |
| Total capital value of retire bens: | €2,496,073 (€2,167,285 + €328,788) |
| Personal Fund Threshold (PFT): | €2,173,458 |
| Chargeable Excess: | €322,615 (€2,496,073 – €2,173,458) |
| Gross chargeable excess tax: | €132,272 (€322,615*41%) |
| Net chargeable excess tax: | €106,514[48] (€132,272 less credit of €25,758 - 20% tax on lump sum >€200k (€128,788)) |

[43] Pension based on pre-FEMPI 2013 rate of pay as retiring by 30 June 2015 assuming pre-July 2013 salary in this case is €190,000. Pre-FEMPI 2013 rates of pay can be used as the basis for pensionable remuneration in calculating PFTs at 1 January 2014 provided an individual has made a decision to retire before 30 June 2015 and has formally notified that decision to the Personnel Officer of his/her Department.

[44] Amount of Public Service Pension Reduction (PSPR) which would be applied to gross pension if individual retired on 1 January 2014. First €12k pension exempt, next €12k at 2%, next €36k at 3%, balance over €60k at 5%.

[45] PFT must be applied for to Revenue before 30 June 2015

[46] Amount of Public Service Pension Reduction (PSPR) applied to gross pension at retirement on 30 June 2015. First €12k pension exempt, next €12k at 2%, next €36k at 3%, next €40k at 5% and balance over €100k at 8%.

[47] Represents the difference between the pension entitlement at retirement and the pension entitlement accrued to 1 January 2014 multiplied (taking account of impact of PSPR) by the relevant age-related factor.

[48] Net chargeable excess tax is payable upfront to Revenue by the pension administrator and is recouped from the individual through various options, including the option to have the amount deducted evenly from the gross pension due over a period of up to 20 years.

## Appendix 4

# PENSIONS DECLARATION

*AS PROVIDED FOR UNDER SECTION 787R (4) OF THE TAXES CONSOLIDATION ACT 1997 - FOR THE PURPOSES OF DISCLOSING PENSION BENEFIT CRYSTALLISATION EVENTS OCCURRING PRIOR TO THE CIVIL SERVICE OR PUBLIC SERVICE PENSION ENTITLEMENT CURRENTLY BEING CLAIMED -.*

## PART A

1. On or after 7 December 2005 and up to and including the date you make this declaration:

   (a) Did you become entitled to any pension benefits[49] (ignoring the pension entitlements from the civil service (or public service) currently being claimed)?

   YES ☐ NO ☐

   (b) Did you direct that a payment or transfer be made to an overseas pension arrangement?

   YES ☐ NO ☐

2. From the date you make this declaration up to the date of your retirement /claiming preserved pension benefits from the civil service (or public service):

   (a) Do you expect to become entitled to any other pension benefits[50] in addition to the pension entitlements from the civil service (or public service) currently being claimed?

   YES ☐ NO ☐

   (b) Do you intend to direct that a payment or transfer be made to an overseas pension arrangement?

   YES ☐ NO ☐

---

[49] This includes **any** pension, annuity, retirement lump sum or any other pension related benefit (e.g. transfer to an Approved Retirement Fund) which you became entitled to under a pension arrangement but does not include i) social welfare benefits, such as the State Pension or ii) pension benefits which came into payment before 7 December 2005. Please note the key point is an entitlement to a pension on or after 7 December 2005 in respect of which benefits actually came into payment e.g. if you retired or otherwise became entitled to an immediate payment of a pension benefit from a pension arrangement on or after 7 December 2005).

[50] This includes any pension, annuity, retirement lump sum or any other pension related benefit (e.g. transfer to an Approved Retirement Fund) which you expect to become entitled to for the first time under a pension arrangement belonging to you after the date of this declaration, but does not include social welfare benefits such as the State Pension.

3. (a) On or after 8 February 2012 and up to and including the date you make this declaration, did you exercise an encashment option in accordance with section 787TA of the Taxes Consolidation Act 1997[51]?

YES ☐ NO ☐

(b) From the date you make this declaration up to the date of your retirement / claiming preserved pension benefits from the civil service (or public service), do you intend to exercise an encashment option in accordance with section 787TA of the Taxes Consolidation Act 1997?

YES ☐ NO ☐

**IF YOU HAVE ANSWERED <u>NO</u> TO <u>ALL</u> OF THE ABOVE QUESTIONS THEN:-**

***(i) COMPLETE PART C***
***(ii) SIGN THE DECLARATION.***

**IF YOU HAVE ANSWERED <u>YES</u> TO <u>ANY</u> OF THE ABOVE QUESTIONS THEN:-**

***(i) PROVIDE THE INFORMATION REQUESTED IN PART B, AS APPROPRIATE;***
***(ii) COMPLETE PART C***
***(iii) SIGN THE DECLARATION.***

[51] Under section 787TA of the Taxes Consolidation Act 1997, individuals in the Civil/Public Service with significant private sector and public service pension rights/savings may, subject to conditions, encash some or all of their private sector pensions rights in advance of drawing down their public service pension rights with a view to mitigating the chargeable excess that would otherwise arise on the crystallisation of those public service pension rights. The amount encashed is subject to income tax at a "ring-fenced" rate of 41% plus 4% USC. Encashed amounts do not constitute BCEs for the purposes of the SFT regime.

## PART B

3. If you have an entitlement to any pension benefits under a pension arrangement on or after 7 December 2005 and up to the date of your retirement / claiming preserved pension benefits (other than the civil service/public service pension entitlement now being claimed) please provide the following details, as appropriate, **in a separate document for each such pension arrangement[52]:**

   a) The type of pension arrangement (e.g. defined benefit/defined contribution occupational pension scheme, retirement annuity contract, PRSA, Buy-Out-Bond, Additional Voluntary Contributions (AVC) for the purpose of supplementing retirement benefits etc.).

   b) The date you became (or expect to become) entitled to the benefit(s) under the arrangement.

   c) The name of the scheme/arrangement.

   d) The contact details for the scheme administrator.

   e) Your reference number under the scheme/arrangement.

   f) In the case of a transfer made (or to be made) to an overseas pension arrangement, provide the name of the scheme to which the transfer was (or is to be) made,

   g) Where the pension arrangement is a **defined benefit scheme** (whether a private sector or a Civil/Public Service scheme) please provide the following details, **as appropriate.** (You should obtain this information from the pension fund administrator):

      (i) where the scheme provided (or provides) you with the option to commute part of the pension for a lump sum (i.e. most private sector schemes), the capital value of the pension benefits based on the annual amount of pension that would have been payable (or is expected to be payable) to you when the pension commenced (or commences), **before any commutation for a lump sum (see footnote for fuller explanation[53])**

      (ii) where the arrangement provides for a separately accrued lump sum benefit (i.e. most Civil/Public Service schemes):

         (a) the capital value of the pension benefit based on the actual annual amount of pension paid (or to be paid ) to you in the first 12 months from the date you became (or become) entitled to it, and

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[52] When including the value of a DC pension it is the actual value of the fund at crystallisation that must be used and not any earlier estimates.

[53] Note the capital value to be included here is not to be based on the actual annual rate of pension paid to the individual at the time he/she became entitled to it, which could reflect the fact that the individual commuted part of the pension entitlement for a lump sum. Neither is it to be based on the current annual rate of pension being paid if this reflects adjustments in the pension rate since it was first awarded. Rather, it is to reflect the annual rate of pension that would have been (or would be) payable to the individual on the assumption that there was (or will be) no commutation of part of the pension for a lump sum or no adjustments made in relevant pension payable. The corollary of this is that the capital value of any actual lump sum taken (or to be taken) is ignored as it is already "captured" as part of the pension capital value.

(b) the actual cash value of the separately accrued lump sum paid (or expected to be paid) to you.

h) Where the pension arrangement is a **defined contribution arrangement** (e.g. a defined contribution occupational pension scheme, a retirement annuity contract, a PRSA, a Buyout Bond, an AVC etc.) please indicate in the following table the nature of, and capital value (or the expected capital value) of, the benefits taken (or to be taken) - i.e. the Benefit Crystallisation Events - on the date you became (or expect to become) entitled to them.[54]

| **Nature of Benefit (BCE)** | **Capital Value of Benefit (€)** |
|---|---|
| Lump Sum[55] | |
| Annuity[56] | |
| Transfer to an ARF[57] | |
| Transfer to an AMRF[58] | |
| Transfer to Self[59] | |
| Amount retained in a vested PRSA[60] | |
| Transfer to an Overseas Arrangement[61] | |
| Other | |

i) The legislation provides that where more than one pension benefit (BCE) arises on the same day (e.g. upon reaching 65th birthday) in relation to an individual, the individual must decide which is deemed to arise first and inform the relevant pension administrators accordingly.

[54] You should obtain this information from the pension fund administrator.
[55] The capital value is the cash value of the lump sum paid to you.
[56] The capital value is the amount or market value of the cash or other assets of the pension fund used to purchase your annuity.
[57] Where you have exercised (or intend to exercise) an "ARF Option" in accordance with section 772(3A), 784(2A) or 787H (1) of the Taxes Consolidation Act 1997, the capital value is the amount or market value of the cash or other assets as were (or are expected to be) transferred to an ARF following the exercise of the option.
[58] Where you have exercised (or intend to exercise) an "ARF Option" (see footnote 5), the capital value is the amount or market value of the cash or other assets as were (or are expected to be) transferred to an AMRF following the exercise of the option.
[59] Where you have exercised (or intend to exercise) an "ARF Option (see footnote 5), the capital value is the amount or market value of the cash or other assets as were (or are expected to be) transferred to you as a taxable lump sum following the exercise of the option.
[60] Where you have not exercised an ARF Option (or do not intend to do so) (see footnote 5) and instead have retained (or intend to retain) the assets of the PRSA in that or any other PRSA (as a vested PRSA), the capital value is the amount or market value of the cash or other assets as were (or are to be) retained in the vested PRSA(s).
[61] Where you have (or intend to) make a transfer to an overseas pension arrangement, the capital value is the amount or value (or expected amount or value) of the payment or transfer to the overseas arrangement.

4. If you have exercised, or intend to exercise, an encashment option in accordance with section 787TA of the Taxes Consolidation Act 1997 (the Act) in circumstances where all or any part of the encashment tax remains (or is likely to remain) unpaid[62] and, as such, is required under section 18 of the Act to treated as "chargeable excess tax" by the public sector pension administrator, please specify the amount (or likely amount) of the unpaid encashment tax.

[62] There can be circumstances where tax due on the exercise of an encashment option cannot be discharged in whole or in part at the time the option is exercised. Section 787TA(18) of the Taxes Consolidation Act 1997, provides that, in such circumstances, the tax, or the outstanding unpaid balance of the tax, passes on to the public sector pension scheme administrator to be discharged as "tax on a chargeable excess" at the time the first BCE in respect of the individual under the public service pension scheme arises. Tax paid by the public sector pension scheme administrator in this way is recovered from the individual in the manner provided for in section 787Q (7) of the Taxes Consolidation Act 1997. Note that unpaid encashment tax treated as a chargeable excess tax in this way may not be reduced by crediting tax that might arise on the individual's public sector lump sum against it.

## PART C

5. Do you have a certificate from the Revenue Commissioners stating the amount of your *Personal Fund Threshold* in accordance with section 787P of the Taxes Consolidation Act 1997?

YES ☐ NO ☐

6. **If the answer to question 5 is YES – please enclose a copy of the certificate issued by the Revenue Commissioners.**

7. May we contact the scheme administrator(s) directly on your behalf for the purposes of clarifying if necessary, any aspect of the information provided by you under this declaration?

YES ☐ NO ☐

**I DECLARE THAT THE INFORMATION PROVIDED BY ME IN THIS FORM IS COMPLETE AND CORRECT**

**FULL NAME**________________________

**ADDRESS**__________________________

__________________________

__________________________

__________________________

**PPS NUMBER** ______________________

**SIGNATURE:** ______________________

**DATE:** ____________________________

***Pension Declaration Forms may be audited by the Revenue Commissioners.***

## Appendix 5

The Personal Fund Threshold notification form which includes guidance notes on the completion of the form is available through the following link to the Revenue Commissioners' website:

http://www.revenue.ie/en/tax/it/forms/pft-notification.pdf

# Appendix 6

## QUESTIONS AND ANSWERS

### ACTION REQUIRED

***Q1. If I think I could be affected by the latest Budget and Finance Act changes, what should I do?***

You will only have to take action at this time if the capital value of your pension entitlements (both crystallised and uncrystallised) from all tax-relieved/tax-subsidised sources at 1 January 2014 exceeds €2 million and you don't already hold a PFT certificate. You may be able to establish this informally, for example, from the most recent annual benefit statement(s) provided to you by your pension fund(s) or by way of preliminary enquiries by telephone call or email to your pension fund(s) administrator(s). If these preliminary enquiries suggest that the capital value of your pension entitlements at 1 January 2014 do exceed the SFT limit of €2m then the following formal steps should be taken;

**Step 1**: Ask your pension administrator(s) for a statement certifying the capital value of your pension entitlements at 1 January 2014 calculated in accordance with the legislation. In the case of Defined Benefit arrangements, the statement must also set out the annual amount of pension that would be payable to you under the arrangement at that date.

If you have already become entitled to other pension benefits since 7 December 2005 (i.e. the date from which the SFT regime first applied) similar certifying statements from the relevant pension administrator(s) are required in relation to the capital value of those pension benefits at the date you became entitled to them.

- For ***civil servants***, in respect of your occupational pension scheme entitlements, your pension administrator is either your own Department or the Department of Public Expenditure and Reform.
- For members of the ***Judiciary***, queries can be referred to Courts Policy Division.
- For ***Ministers and other Office Holders***, queries can be referred in the first instance to the relevant Human Resources Manager.
- For ***TDs and Senators***, queries can be referred to the Members' Pensions Section, Houses of the Oireachtas.
- For ***public servants***, in respect of your occupational pension scheme entitlements, queries can be referred in the first instance to your Human Resources Manager in order to determine your pension administrator.

For any additional private pension savings you may have (e.g. relevant AVCs), you should contact the life assurance or other company from whom you took out the product for the relevant statement.

**Step 2:** Apply to the Revenue for a PFT certificate via the electronic application procedure currently being developed by Revenue. This must be done within the period of 12 months from the date the electronic system is made available. Revenue will publicise the date on which the system becomes available which is expected to be early July 2014.

If you intend to retire before the electronic notification system becomes available, you should use the paper-based PFT notification form available on the link at Appendix 5.

**Step 3**: Send the PFT certificate received from Revenue to your pension administrator at the time you apply for your pension entitlements along with the completed Pension Declaration Form (Appendix 4).

### *Q2. How do I establish the capital value of (a) my Civil/Public Service Defined Benefit pension(s) and (b) my Defined Contribution pension(s) on 1 January 2014?*

***Defined Benefit***:
First of all you should establish from your pension fund administrator(s) what gross annual pension(s) you would have been entitled to under the rules of the defined benefit arrangement(s) if you were to have retired on 1 January 2014 at your pensionable remuneration[63] and reckonable service on that date and on the assumption that you had attained minimum pension age on that date. Post 30 June 2013 rates of pay should be used as the basis for pensionable remuneration in calculating PFTs except in the circumstances outlined in Appendix 2 and Q5. If you have purchased, or are in the process of purchasing, notional service - see Appendix 2A. Professional Added Years that may be awarded at the time of your retirement are not included at this point - see Appendix 2B. The gross annual pension is then multiplied by a valuation factor of 20 to arrive at the capital value of your defined benefit pension(s) on 1 January 2014.

The value of the separately accrued lump sum entitlement (calculated on the same assumptions as above) is added to the capital value of the defined benefit pension to arrive at the overall capital value. Again, the pension scheme administrator will be able to advise you of the value of the lump sum that would have been payable under the scheme rules on 1 January 2014.

***Defined Contribution***:
In the case of entitlements arising under DC arrangements, the capital value for PFT purposes remains, as before, the value of the assets in the arrangement that represent the member's accumulated entitlements on that date i.e. the value of the fund on that date (i.e. 1 January 2014).

### *Q3. Am I required to obtain written confirmation of any Defined Benefit entitlements I have accrued to 1 January 2014 even if I don't qualify for a PFT?*

No. If you are certain that the value of all your pension entitlements, from whatever source, is less than €2 million, there is no need to seek certifying statements or any written confirmations of the capital value of your accrued defined benefit pension(s) at 1 January 2014.

Your pension administrator(s) is, however, required to maintain a record of those entitlements for the purpose of applying the appropriate capital valuation to those entitlements when a BCE occurs (e.g. at retirement).

[63] Note: For certain grades/posts across the civil/public service (e.g. Assistant Secretary; Deputy Secretary; some CEOs Non Commercial State Agencies etc.) pensionable salary is lower than actual salary.

**PERSONAL FUND THRESHOLD (PFT)**

***Q4. If I already have a PFT do I need to apply to the Revenue Commissioners for a new one?***

No - an individual who already has a PFT certificate arising from either (a) the introduction of the SFT regime from Budget Day 2006 (7 December 2005) or (b) the lower SFT provision set in Budget 2011 (7 December 2010) retains that PFT.

For the treatment of PAY see Q13 below and Appendix 2B.

***Q5. If, as a Secretary-General Level II, I intend to retire by end-June 2015, at what level of pensionable remuneration should the capital value of my uncrystallised pension entitlements be calculated on 1 January 2014 for the purpose of my PFT?***

Post 30 June 2013 rates of pay should be used as the basis for pensionable remuneration in calculating PFTs on 1 January 2014, **except** where a decision to retire before 1 July 2015 has been taken at the time of application for a PFT and has been formally conveyed by the individual concerned to the Human Resources Manager in his/her Department or Office, in which case the pre-cut rate of pay (i.e. the rate applicable on 30 June 2013) may be used.

The calculation and submission of a PFT application on any other basis will not be accepted by the Revenue Commissioners.

If an individual seeks and obtains a PFT based on the pre-cut rate of pay on the basis that he/she intends to retire before 1 July 2015 and subsequently decides not to do so, the PFT obtained will have no validity after that date.

***Q6. I intend to retire by end June 2015, and I expect that my public service pension will be subject to the "public service pension reduction (PSPR)", is that reduction taken into account in any way in the calculation of the PFT?***

Yes. Since the gross annual pension you would be entitled to if you were to retire on 1 January 2014 would be based on the pre-Financial Emergency Measures in the Public Interest Act 2013 (FEMPI 2013) rates of pay and the new public service pension reduction (PSPR) rates apply to pensions above €32,500 awarded between 1 March 2012 and 30 June 2015, the calculation of the capital value of the pension you would be entitled to on 1 January 2014 should take account of the PSPR.

***Q7. How do I take account of a pension benefit that came into payment since 7 December 2005 in my current PFT Notification?***

You need to include in the calculation of the PFT the capital value of pension entitlements taken by you on or after 7 December 2005, if any. These are known as "benefit crystallisation events" (BCEs) and could arise by way of, for example, a pension or annuity coming into payment, the receipt of a pension lump sum or the proceeds of a pension fund being placed in an Approved Retirement Fund (ARF) or Approved Minimum Retirement Fund (AMRF).

In the case of pension entitlements that arose from DC arrangements, you need to contact the pension fund administrator to establish the value of the cash/assets that were used to, say, purchase your annuity or that were transferred to an ARF for you. In the case of a pension lump sum taken in respect of a DC arrangement the value will simply be the amount of the lump sum paid to you.

In the case of a pension first paid to you since 7 December 2005 under a DB arrangement, the crystallised capital value of the pension is:

(i) where the arrangement provides for a lump sum commutation option, the amount of pension that would have been payable to you (before any commutation for a lump sum) in the first 12 months (ignoring any increases over that period) from the date you became entitled to it, multiplied by a valuation factor of 20.

 Note: It is not the annual amount of pension actually **paid** to you in the first 12 months (which could reflect the fact that part of the pension was commuted for lump sum), nor the current annual rate of the pension being paid (which may reflect adjustments in the pension rate since it was first awarded). It is the amount of pension that would have been payable in the first 12 months from the date you became entitled to it on the assumption that there had been no commutation of part of the pension for a lump sum or no adjustments made in relevant pension payable. Any lump sum actually paid to you is, therefore, ignored in computing the capital value of the crystallised pension rights in such cases as it is already reflected in the pension capital value.

(ii) where the arrangement provides for a separately accrued lump sum benefit (i.e. most Civil/Public Service schemes) the actual annual amount of pension paid to you in the first 12 months (ignoring any increases over that period) from the date you became entitled to it, multiplied by a valuation factor of 20 plus the actual cash value of the separately accrued lump sum paid.

***Q8. If I have service from previous employment, should I include a value for it in my PFT?***

If you have preserved a pension entitlement arising from previous employment (public and/or private) the capital value of that benefit as at 1 January 2014 must be included in the PFT calculation.

If you have transferred service (under the terms of the Public Service Transfer Network) from a previous public sector employer to your current civil/public service employment, the PFT will be calculated on the basis of the accrued entitlement in respect of your service in your current employment which will include the transferred service from the relevant previous employment.

## VALUATION/CAPITALISATION FACTORS

***Q9. What changes are being made to the capitalisation factor used to place a value on Defined Benefit pension entitlements?***

The legislation provides that defined benefit pension entitlements crystallising after 1 January 2014 will be valued for SFT or PFT purposes by the use of capitalisation factors varying with the age of the beneficiary at the date of crystallisation. The capitalisation factors vary from 37 where the beneficiary is aged 50 or under at the time the pension benefit is drawn down to a valuation factor of 22 where the beneficiary is aged 70 or over - see Appendix 1 to main Letter.

The default position is that the relevant age-related valuation factor will be applied to the full annual value of the pension coming into payment unless the pension administrator is satisfied, based on records available to him/her that part of the pension entitlement had been accrued at 1 January 2014. In that event, the part of the pension accrued up to 1 January 2014 will be valued at retirement for SFT or PFT purposes using a capitalisation factor of 20 and the part of the pension accrued after that date will be capitalised using the relevant age-related valuation factor.

***Q10. Will the higher valuation factors introduced in Budget 2014 apply to that part of my pension benefits accrued before 1 January 2014?***

No. Where part of a Defined Benefit pension has been accrued at 1 January 2014 and part after that date, **transitional arrangements** apply to allow, at retirement, for the part accrued up to 1 January 2014 to be valued at a factor of 20 and for the remaining part of the pension accrued after that date to be valued at the appropriate higher age-related factor – see Appendix 1 to main Letter.

***Q11. What impact does the introduction of higher valuation factors have?***

Under the previous SFT regime a Defined Benefit pension of €100,000 gross per annum with a separate lump sum equal to three times the pension could (assuming no entitlement to other pension benefits) have been accrued before the previous SFT limit of €2.3 million would have been exceeded.

Under the revised SFT regime, a Defined Benefit pension of over €60,000 gross per annum all accrued in the future (i.e. after 1 January 2014) and taken at age 60 with a separate retirement lump sum, will be impacted by the revised SFT limit of €2 million (e.g. €61,000* valuation factor of 30 + lump sum of €183,000 is in excess of €2.0 million (i.e. €2,013,000)).

While the level to which Defined Benefit pension entitlements can be accrued under the revised SFT before being impacted by the SFT limit will vary with the age at which the benefits are taken, generally (after the transition phase – see Q10), the revised SFT regime will not impact on individuals whose gross Defined Benefit pension would be in the order of €50,000 per annum or less (assuming the individual has no other pension entitlements) with a separate retirement lump sum of up to €150,000. Such a level of pension and lump sum if taken at age 50 or under (which implies the highest age related factor of 37) will not exceed the SFT of €2m i.e. €50,000 * 37 + €150,000 = €2 million). For future-accrued pension rights, civil/public servants recruited (i) post 1 April 2004 or (ii) who are members of the Single Public Service Pension Scheme will, in general, not be allowed retire before age 55 (even on a Cost Neutral Early Retirement (CNER) basis).

**SEVERANCE**

***Q12. Do severance payments count as pension benefits for the purpose of the SFT or in calculating a PFT?***

No. Severance payments would not be regarded as pension benefits from a tax perspective.

**ADDED YEARS (Professional Added Years, Discretionary Added Years, Ill-Health)**

***Q13. I may be entitled to professional added years on retirement can these be included in the calculation of my PFT as at 1 January 2014?***

Look back provisions are in place where an award of professional added years is made at retirement and an entitlement to a PFT or a revised PFT can be assessed at that time. For details on the treatment of added years for PFT purposes refer to Appendix 2B of main Letter.

***Q14. I am in the middle of my contract as a Secretary-General having been appointed prior to 25 October, 2011 If discretionary "added years" service is credited to me by Government at the end of my contract, are those "added years" included in the calculation of my PFT as at 1 January 2014?***

No. Unlike pension and retirement lump sum entitlements that accrue to individuals over time at specified rates, "added years" in this context are a discretionary benefit enhancement available only if certain conditions are met <u>and</u> the Government exercises such discretion. In these circumstances, this form of "added years" cannot form part of the accrued pension entitlements that have been built up at 1 January 2014 for the purpose of calculating a PFT.

***Q15. If I become entitled to added notional years due to Ill-health Retirement, would this affect my existing PFT?***

No. Notional years in such circumstances can, by definition, only be realised on ill-health retirement. They are therefore discretionary, depending on your satisfying certain criteria in the first instance, and then subject to the approval of the Minister for Public Expenditure and Reform.

**STATE PENSION CONTRIBUTORY**

***Q16. Does the SFT/PFT regime apply to the State Pension (Contributory)?***

No. The SFT or PFT, as appropriate, are thresholds that apply to pension benefits derived from tax-relieved/tax-subsidised pension arrangements. The State Pension (Contributory) does not fall into this category and the SFT or PFT are not relevant insofar as the State Pension is concerned.

## PURCHASE OF NOTIONAL SERVICE

***Q17. Where notional service is being purchased (whether by lump sum prior to 1 January 2014 or under a periodic purchase agreement) should this be included for the purposes of claiming a PFT.***

Yes. For the treatment of purchased notional service please refer to Appendix 2A to main Letter.

## ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

***Q18. I am making AVCs to maximise death-in-service benefits. Should the current value of these AVCs be included in the calculation of my pension entitlements for PFT purposes and at the point of retirement?***

No. AVCs being made purely and exclusively to provide for enhanced death-in-service benefits should not be included in the calculation of uncrystallised pension entitlements used to establish the value of a PFT and, by definition, cannot form part of the capital value of your pension entitlements.

***Q19. I am making AVCs to supplement my retirement benefits. Will the value of these AVCs be included in the calculation of my pension entitlements for PFT purposes and at the point of retirement?***

Yes. AVCs made to supplement retirement benefits should be included. These are generally DC-type arrangements whose capital value for PFT purposes is essentially the value of the AVC fund on 1 January 2014 and for BCE purposes the value of the AVC fund at the date of crystallisation.

## PENSION ADJUSTMENT ORDERS (PAOs)

***Q20. What happens in the case of an individual whose pension is subject to a PAO (Pension Adjustment Order)? Does the portion of the pension being allocated to the other party form part of the individual's or the other party's SFT/PFT?***

Under the requirements of the legislation, where an individual is a member of a relevant pension arrangement which is, or becomes, subject to a pension adjustment order (PAO), then in calculating the capital value of the PFT or any subsequent Benefit Crystallisation Event (BCE) the benefits designated to the other party under the PAO are to be included in the calculation of the individual's PFT and BCE(s) as if the PAO had not been made. This is the case whether the benefits under the PAO are to be paid, in due course, by way of a designated benefit from the individual's pension scheme or whether a transfer amount has been applied to provide the other party with an independent benefit in accordance with the Family Law Acts. The corollary is that the PAO benefits are not included in any PFT/BCE calculations in respect of the other party.

## CHARGEABLE EXCESS – ACCOUNTING FOR TAX/PAYMENT METHODS

***Q21. If pension benefits (BCEs) from more than one pension scheme come into payment on the same date, which BCE is measured against the SFT/PFT first and which pension administrator will have to account for tax if a chargeable excess arises?***

The legislation provides that where more than one pension benefit (BCE) arises on the same day (e.g. upon reaching 65th birthday) in relation to an individual, the individual must decide which is deemed to arise first and inform the relevant pension administrators accordingly.

Each pension fund administrator is then required to operate independently to establish if the capital value of the pension benefit (BCE) that s/he is responsible for, either on its own or when added to prior BCEs in respect of the individual, gives rise to a chargeable excess and to deduct tax accordingly. So the pension fund administrator dealing with the BCE that is deemed to arise second in the sequence will have to take account of the prior BCE to establish if a chargeable excess arises in respect of the second BCE.

Depending on the circumstances each pension administrator might have to account for tax on a chargeable excess e.g. if the capital value of a BCE either on its own or when added to any prior BCEs exceeds the SFT or PFT a chargeable excess will arise on the amount by which the SFT/PFT is exceeded and the administrator will have to apply tax at 41% on the excess.

By definition, if the first BCE has given rise to a chargeable excess then all of any second (and any subsequent) BCE will constitute a chargeable excess and be fully exposed to the 41% charge. The administrator of the second BCE will have to account for the chargeable excess tax on that BCE (and so forth).

***Q22. I have plans for my retirement lump sum. What if the tax due on the excess of my retirement lump sum over €200,000 and the tax charge on any chargeable excess arising over my PFT take up a considerable amount of the lump sum or are in excess of my lump sum? Is there any possible alternative to paying the chargeable excess tax due from my lump sum – can it be paid over a period?***

First of all the standard rate income tax paid on any retirement lump sum amount in excess of the tax-free limit of €200,000 is allowed as a credit against chargeable excess tax.

There are a number of options available through which the public service pension administrator may be recouped for any chargeable excess tax paid upfront by the administrator. These options are set out in paragraph 29 of the covering letter and include the option to have the tax deducted evenly from the gross annual pension over a period of up to 20 years.

ENDS