

## Step-by-Step Guide – all you need to know

### **Background**

The Taxes Consolidation Act imposes a limit on the total capital value of pension benefits that an individual can draw in their lifetime where those benefits come into payment for the first time on or after 7 December 2005. This limit is called the 'Standard Fund Threshold' (SFT) and was originally set at €5 million when introduced with effect from 7 December 2005. The SFT was subsequently reduced on 7 December 2010 to €2.3m and then further reduced to €2million with effect from 1 January 2014.

However, individuals with accrued pension rights in excess of the new lower SFT on 1 January 2014 will be able to protect the capital value of those rights by claiming what is termed a Personal Fund Threshold (PFT) subject to a maximum of €2.3 million (i.e. the level of the previous SFT). The claim for the higher PFT must be made before 2<sup>nd</sup> July 2015.

If you already hold 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), i.e. €2.3m there is nothing further you need to do.

### **Step 1 – will this change affect me?**

The changes to the SFT will require no immediate action for most of our members. There may be implications, however, for:

(a) higher earning individuals

(b) any individuals with pension entitlements separate from/in addition to their pension entitlements arising from their current public service employment in circumstances where the capital value of an individual's pension entitlements from all sources is greater than €2 million on 1 January 2014.

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 enquiring with your pension fund 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 €2 million then the following steps should be taken immediately.

### **Step 2 – Gathering certified statement(s) of all your pension entitlements at 1 January 2014**

(a) In respect of your **DB scheme**, contact your HR Manager in order to obtain contact details of your pension administrator. Request in writing a statement certifying the capital value of your pension entitlements at 1 January 2014 calculated in accordance with the legislation. The statement must also set out the annual amount of pensions that would be payable to you under the arrangement at that date.

(b) In respect of **pension rights** you became entitled to since 7 December 2005, contact your relevant pension administrator(s) and request certifying statements in relation to the capital value of those pension benefits at the date you became entitled to them.

If these pension rights are in the form of an insured annuity/ARF/AMRF where IMO FS is appointed as your intermediary, please contact us prior to 15 May 2015 and we will liaise with the relevant insurance company(ies) and obtain these certified statements on your behalf.

(c) In respect of any additional **private pensions**, e.g. AVCs, where IMO FS is your intermediary, please contact us prior to 15 May 2015 and we will request these on your behalf.

(d) In respect of any other additional **private pensions not held under IMO FS' agency**, please contact your intermediary or the life assurance company directly to obtain certified statements.

(e) **AVCs made to maximise death-in-service benefits** should be ignored.

## (f) Pension Adjustment Orders

If you have lost benefits in the past through a pension adjustment order, the pension administrator should include the notional value of the benefits you have had at 1 January 2014 as if the pension adjustment order never happened.

### **Step 3 – Calculate your capital value of all your pensions on 1 January 2014**

#### (a) Defined Benefit

You need to establish from your pension fund administrator what gross annual pension you would have been entitled to under the rules of the defined benefit arrangement if you were to have retired on 1 January 2014 at your pensionable remuneration and reckonable service on that date and on the assumption that you had attained a 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 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 you to the HR Manager in which case the pre-cut rate of pay may be used.

Professional Added Years that may be awarded at the time of your retirement are **not included** at this point. 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. This means that an individual can, on look-back, apply to Revenue for either an enhanced PFT or for a first PFT.

Where notional service has been purchased in full by lump sum prior to 1 January 2014 that service should be included fully in the PFT calculation.

The gross annual pension is then multiplied by a valuation factor of 20 to arrive at the capital value of your defined benefit pension on 1 January 2014.

Your pension scheme administrator should be aware of all of the above-mentioned.

The value of the separately accrued lump sum entitlement 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.

#### (b) 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 as at 1 January 2014.

#### (c) Crystallised pensions (i.e. pensions where you have become entitled to draw a benefit)

If you have accessed any benefits from a pension scheme for the first time between 7 December 2005 and 31 December 2013 you will also require the capital value of the benefits at the time they were drawn down.

### **Step 4 – Apply to the Revenue for a PFT Certificate**

If your total capital value, as at 1 January 2014, of all pension rights exceeds €2 million, you should apply for a PFT certificate.

A PFT notification must be made electronically **before 2 July 2015**.

The Revenue designed a web based electronic system to facilitate notification of a PFT for pension purposes. The electronic PFT notification system can be accessed in two ways:

(a) through the Revenue On-Line Service (ROS)

or

(b) PAYE anytime

Both links can be accessed through [www.revenue.ie](http://www.revenue.ie).

If not already registered, you will need to register as a user in advance of accessing the new system. Alternatively, your accountant or tax adviser might be able to submit the notification on your behalf.

Please note that it will not be possible to submit an electronic PFT notification more than once. It is essential, therefore, that care is taken to ensure that the correct information and details are inserted before submitting the notification. If, having used the system to obtain a PFT certificate, it transpires that there was an error in the information entered, please contact Financial Services (Pensions) District of Revenue by email at [lcdretirebens@revenue.ie](mailto:lcdretirebens@revenue.ie)

Therefore, it is important that you have all relevant information to hand before accessing the electronic PFT application facility. You will need the following:

1. Certified statement from the administrator of your defined benefit scheme showing:

- the capital value of your pension rights at 1 January 2014, based on your accrued annual pension and retirement lump sum at that date.

- the amounts of the annual pension and retirement lump sum on which the above calculation is based

2. Certified statement from the administrator of any AVC (AVC PRSA) scheme that you have showing the value of the fund at 1 January 2014

3. The normal retirement age under the scheme

4. Your total reckonable service under the scheme at 1 January 2014

5. Date reckonable service under the scheme commenced

6. Name of scheme

7. Name and address of the administrator

8. Type of the scheme, e.g. defined benefit or defined contribution

9. Description of scheme, e.g. Public Sector Scheme

10. If the AVC scheme is an AVC PRSA – the PRSA policy number

If you have pension schemes/arrangements from previous employments/self-employment etc. you will require certified statements, as above, for each scheme.

If you have accessed any benefits from a pension scheme for the first time between 7 December 2005 and 31 December 2013 you will also require certified statements setting out the capital value of the benefits at the time they were drawn down.

### **Step 5 – Beware of the deadline**

A claim for a PFT must be sought within a specified time frame. All notifications need to be submitted electronically **before 2 July 2015**.

Please note that this document is for general guidance only and does not purport to be a legal interpretation of the changes referred to.