NUI Maynooth (NUIM)
Pension Scheme Update

This update is intended to inform members of NUIM's pension schemes of various changes which have arisen as a result of recent pension announcements. Members should seek independent financial advice before taking any decision on any of the issues highlighted in this update.

Once off option to withdraw up to 30% of the Value of Additional Voluntary Contributions (AVCs)

Individuals who have AVCs will be entitled to access up to 30% of their value on a once off basis at any time within 3 years of the date of the passing of the Finance Act 2013. Effectively this means that the option will be available until 26th March 2016. The option applies to AVCs only (including PRSA AVCs).

The amount drawn down will be taxed at the member's marginal rate of income tax. No Universal Social Charge (USC) or PRSI deduction will be made in respect of the AVC drawdown. The administrator will automatically deduct income tax at 41% **unless** they have received, from the Revenue Commissioners, a certificate of tax credits and standard rate cut off point or a tax deduction card for that year in respect of the member.

The Finance Act 2013 also confirms that where a Pension Adjustment Order (PAO) is in place over AVCs, then each individual has a separate right to draw 30% of their share of that AVC account.

Considerations for Members

- Members who are wondering if they should take advantage of early access to 30% of the value of their AVCs should think carefully before doing so and should consider taking independent financial advice. Members will need to compare the rate of taxation on the early AVC draw down with the rate of taxation likely to apply at retirement if the AVCs are left in the pension arrangement, as well as the loss of the virtually tax free investment build up which would be available if the AVCs are left invested to retirement.

- The Finance Act 2013 confirms that the AVC drawdown will not count as a 'benefit crystallisation event' for the purposes of the Standard Fund Threshold. This means that members who are likely to have Standard Fund Threshold issues (see item directly below) may decide to encash AVCs in order to reduce the impact of such issues.

New Standard Fund Threshold

In making his budget speech in December 2012, the Minister for Finance, Michael Noonan, announced a number of changes in government pension policy. One key change flagged was that tax relief on pension contributions will only serve to subsidise pension schemes that deliver a pension income of up to €60,000 per annum, with the necessary arrangements to give effect to the €60,000 cap to be put in place in 2014.

The Minister's Budget 2014 speech on 15th October set out that this change would be implemented by reducing the Standard Fund Threshold (SFT) from its current level of €2.3 million to €2.0 million from 1st January 2014. The changes announced do **not** impose an immediate limit of €60,000 per annum ont ax efficient pension savings. Further detail surrounding this change is now available and a summary is provided below:

- For individuals whose fund is already in excess of the new SFT limit of €2.0 million on 1st January 2014, there will be the facility to apply to Revenue for a Personal Fund Threshold (PFT) subject to a limit of €2.3m. PFTs approved under the previous regime will not be impacted by the new lower SFT limit.
- For defined benefit schemes, there will be new age-related capitalisation factors introduced for SFT purposes. These **new age-related factors** are being introduced for **pension rights accrued after 1st January 2014**. They will range from a factor of 37 for those aged 50 reducing down to 22 for those aged 70 and over. The **standard capitalisation factor of 20** will continue to apply to calculate the capital value of accrued **pension rights up to the 1st January 2014**.
- The new age-related factors are designed to improve the equity of the SFT regime between defined benefit and defined contribution arrangements. Also, they take account of different benefit values for those who retire at an early age and those who retire at an older age.
- The changes do not really impose a limit on pension of €60,000 p.a. The initial limit is €100,000 per annum (i.e. €2,000,000/20). The post 1 January 2014 factor at age 65 is 26, which will lead in due course to a limit at age 65 of €76,923 per annum (i.e. €2,000,000/26).
- There is a facility to index link the €2.0 million cap in the future at the Minister's discretion (i.e. enabling price inflation protection of the €2.0 million limit). It remains to be seen if index linking will be forthcoming. If it is not, then the cap will have a more significant impact.

Any amount accumulated in your pension fund in excess of the SFT (or your PFT if applicable) will be subject to income tax, currently at 41%, which results in a very penal tax treatment on the excess (i.e. effectively double taxation at 41%). If you think there is a reasonable possibility that your pension benefits might be impacted by the new SFT limits, then you should consider taking independent financial advice in regard to this matter. For example, if your current salary exceeds €100,000 and you expect to have 40 years service at your normal retirement date, your pension entitlement will be greater than €60,000 and you may therefore need independent financial advice. You will appreciate that this is a highly complex matter and it is not within the competence of university staff to deal with individual cases. As the changes arise from legislation beyond the control of the university, it is not the intention of the university to meet the individual costs of financial advice to members. However, we have decided to arrange a once-off information meeting for staff on an evening to be arranged, once members have had the opportunity to consider this communication.

Abatement

The Public Service Pensions (Single Scheme and Other Provisions) Act 2012 provides that where a pension is being paid to a public servant and the pensioner is appointed to a position in respect of which they are paid by a public service body, then their pension may be abated. This **provision applies** even where the new employment is in a different area of the public service **if the post is taken up after 1st November 2012** (previous to this, it only applied if the member returned to a position connected to the public service body paying the member's pension).

A person who took up appointment in the public service before 1st November 2012 will not be affected by this change while he or she continues to hold that appointment.

Members in receipt of a public service pension, who then are paid by a public service body have a duty to complete an appropriate declaration providing the relevant details.

The abatement rule broadly works on the basis that total earnings from pension and any new public service employment cannot exceed the total pay if the member had remained in the service of the public service body from which they are receiving pension. The pension in payment, is then, if necessary, abated while the public service employment continues.

40 years Maximum

The Public Service Pensions (Single Scheme and Other Provisions) Act 2012 lays down that if a person has pensionable service from one or more public sector pension schemes, then no more than the equivalent of 40 years' service in total may be taken into account in calculating any pensions under that scheme or those schemes.

The **40 years total service provision applies now**, regardless of when you may have joined a second (or subsequent) public service pension scheme.

Both the abatement section and the maximum of 40 years total service provision could impact on members who are in receipt of public service pensions when they join NUIM. The impact could be particularly significant for particular categories of members such as members in receipt of a pension from the Army or in certain circumstances where full pensions (i.e. equivalent to pensions calculated based on 40 years' service) may be granted on early retirement on or close to age 50.

Retirement on pre-Haddington Road pay level

The Financial Emergency Measures in the Public Interest Act, 2013 allows staff who retire before 31st August 2014, to have their pension calculated on the pay rate in force prior to the 1st July 2013.

Abatement of pension, for the period of early retirement ahead of a member's expected normal retirement date will apply. It is generally accepted that this might prove more attractive to members within a short few years of retirement; however, the option is open to any member over 50 years of age on their actual retirement date.

Further Information

If you require further information on any of the detail in this update please contact Ms Mary Kelly, Pension Liaison Officer at 01 7086610 or mary.kelly@mu.ie.

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Bursar & Secretary
11th March 2014