Occupational pension schemes

Many employers choose to provide their employees with retirement benefits under an occupational pension scheme.

Benefits at retirement

Revenue maximum benefits on retirement are:

- pension - 2/3rds of final remuneration, provided a minimum of 10 years' service has been completed to normal retirement age
- tax free lump sum - 1.5 times final remuneration provided a minimum of 20 years' service has been completed to normal retirement age. Where a lump sum is taken, this will reduce the maximum amount of pension available.

These limits are inclusive of pension benefits from previous employments, including self-employment. Where an individual retires early or where service is less than the above minimum service requirements, the maximum benefits outlined above may be reduced.

Proprietary directors may elect for the options available under Approved Retirement Funds (ARFs) and will not be obliged to buy a pension. This provision also applies to all Additional Voluntary Contribution (AVC) funds.

At retirement proprietary directors may opt to take up to 25% of their fund as a tax free lump sum. From the balance they must invest the first €63,500 in an Approved Minimum Retirement Fund (AMRF) if they do not already have pension income in excess of €12,700 per annum. The remainder may be taken as a taxable lump sum or used to purchase an ARF.

The maximum tax allowable pension fund (from all pension arrangements) at retirement is €5.165 million or the indexed value of the personal fund threshold (as agreed with Revenue) if higher. Where a fund exceeds the relevant limit, the excess in the pension fund will be liable to a once-off income tax charge which results in a double-taxing of the excess. The maximum limits will be indexed to the change in average industrial earnings.

The maximum tax free lump sum entitlement (from all pension arrangements) is €1,291,250. Any lump sum payment in excess of this will be taxed at the individual's marginal tax rate. The maximum tax free lump sum will be indexed as above.

An annual income tax charge will apply on the value of assets invested in an ARF (1% for 2007, 2% for 2008 and 3% thereafter). Any actual withdrawals from the ARF will be offset against this charge.

The tax charge will apply to all ARFs created on or after 6 April 2000. AMRF funds will not be affected by this tax charge.

Contributions to occupational pension schemes

An employer must make a "meaningful" contribution to an occupational pension scheme; however, the benefits at retirement must not exceed Revenue limits. Ordinary annual employer contributions are tax deductible in the accounting period in which they are paid. Special contributions in excess of set limits may need to be spread forward over a period of up to five years.

Employees may claim tax relief on contributions from their remuneration subject to a pensionable earnings cap of €262,382 for 2007. The pensionable earnings cap is the overall earnings limit on which an individual may make personal contributions. The earnings cap will be indexed each year as above. It may be possible to have personal contributions relieved through payroll and relief from levies and PRSI may also be available.

The allowable contributions are expressed as a percentage of remuneration, subject to the earnings cap, and are age related as follows:

Age attained during tax year	Maximum relief
Less than 30	15%
30 but less than 40	20%
40 but less than 50	25%
50 but less than 55	30%
55 but less than 60	35%
60 and over	40%

Contributions paid from 1 January 2007 to the return filing date may, if an election is made, be treated as paid in 2006.

Normal retirement age

Normal retirement age can be at any time from age 60 to 70 with some limited exceptions. With consent, individuals may retire early from age 50, or at any age in the case of ill health.

Retirement Annuity Contracts (RACs)

These are also known as personal pension plans and are established by individuals (the self employed or those in non pensionable employment) in their own name.

Benefits at retirement

Individuals may opt to take up to 25% of their fund as a tax free lump sum and with the balance an individual can elect for a taxable lump sum, purchase a pension or elect for the Approved (Minimum) Retirement Fund rules (see "Occupational pension schemes" on previous page).

Contributions

Contributions are based on net relevant earnings and the same earnings cap and age related contribution limits apply as they do for members of occupational pension schemes (see above).

PRSAs

Employers who do not provide their staff with access to an occupational pension scheme must provide access to a Personal Retirement Savings Account (PRSA). Employers are not obliged to contribute to a PRSA but must provide the facility to have pension contributions deducted directly from the employee's salary and transmitted to the PRSA provider.

Similar to RACs above, PRSAs can be established by the self employed or those with non pensionable earnings. In addition, employees may elect to pay PRSA contributions in lieu of AVCs. Whilst PRSAs can be effected by those without a source of non pensionable earnings, income tax relief will only be granted against future relevant earnings.

Benefits at retirement

The benefits are the same as those outlined above for RACs.

Contributions

The overall contribution limits are those outlined in the table above. The overall limits include contributions made by the employer (where applicable).

Retirement age for RACs and PRSAs

It is not necessary for an individual to retire in order to access benefits. Benefits are generally accessed from age 60 and must be accessed before age 75; however employees with PRSAs may retire early from age 50.