PENSION CHANGES Q&A

Standard Fund Threshold (SFT)

On 18 September 2024 the Department of Finance published the outcome of an independent examination of the Standard Fund Threshold. This includes a number of recommendations for the Standard Fund Threshold and other pension thresholds.

There is no immediate change to the Standard Fund Threshold and legislation will need to be enacted, most likely by including changes in the Finance Act in this year or future years.

The Minister has outlined the decisions taken by Government in relation to this report and we have covered these below. The report also includes a number of other recommendations which the Minister has not commented on as part of the publication of the report and which may or may not proceed.

Proposed changes to Standard Fund Threshold

Q1. What increases to the SFT were announced by Government?

The SFT will be increased over a number of years as follows. We expect changes will apply from 1st January each year.

Year	Increase	Revised SFT
2025	No change	€2,000,000
2026	€200,000	€2,200,000
2027	€200,000	€2,400,000
2028	€200,000	€2,600,000
2029	€200,000	€2,800,000
2030 onwards	To increase in line with average weekly industrial earnings as per CSO data	

Q2. What other decisions were included in the statement by Government?

The lifetime threshold for the 20% rate of tax to apply to retirement lump sums will be fixed at €500,000. It will no longer be set as 25% of the SFT as has been the case up to now.

The Government has said that there will be an independent evaluation of the capitalisation factors used to value DB scheme benefits. The report recommends that the factors be streamlined into 5-year age bands (e.g. one factor for ages 50 to 55 etc). The report also recommends the use of different factors for pensions with/without indexation and for pensions with/without a spouses/dependants pension element. The Government has not said when the review of capitalisation factors will be finalised but presumably the intention is that these will be published in advance of the first SFT increase on 1 January 2026. The report recommended that these new factors apply to DB benefits accrued since 1 January 2014 and that a factor of 20 continues to be used for DB benefits accrued prior to 1 January 2014.

Currently pension funds valued at over €2m on drawdown are subject to a Chargeable Excess Tax (CET) at 40%. The Government has said this will remain unchanged for now but that a review is to take place by 2030. The report recommended that this CET rate is reduced, potentially to 10%. Note that CET tax applies in addition to the marginal rate income tax due on annuities, taxable lump sums or ARF / vested-PRSA income.

The Government has said that an inter-agency group will be formed to look at the other recommendations in the report. No date has been set for that.

Q3. What are the other recommendations that were included in the report?

Annual Contribution Limits

It is recommended that the €115,000 relevant earnings limit for pension contributions is removed and that the age related limits (15% to 40% of earnings) are also removed.

The report said that this would simplify the rules applying to tax relief for pension contributions and would be of particular benefit to individuals whose income is not spread evenly over their lifetime, e.g. the self-employed. The report said that it was difficult to see the need for annual limits on pension contributions where an overall SFT limit is in place, but noted that changes may need to be done on a phased basis.

Pension Adjustment Orders (PAO)

It was recommended that the current rules for sharing of CET liability and the interaction of the SFT rules and PAOs should be adjusted. It was noted that given the elements of family law and property rights involved that further legal advice from the Office of the Attorney General is likely to be required in order to develop specific proposals.

Options for payment or reduction of CET

The report includes a number of recommendations relating to the payment or reduction of CET.

The report proposes that taxpayers could be given the option to settle CET tax directly with Revenue spread over 20 years. This would be instead of the pension scheme administrator remitting the tax to Revenue. The report did not go into detail as to how this would operate in practice.

If the rate of CET is reduced as recommended in the report, then the report goes on to say that if the CET rate is reduced to 20% or less, then it is no longer appropriate to allow for tax paid on lump sums at 20% to be credited against CET due.

Furthermore the report said that reducing the rate of CET impacts on the rationale for the dual private/public sector encashment option and that this option should be removed. The report did also say the if it is decided not to be removed the encashment option then it should be extended to individuals who are not members of a public sector pension scheme.

Example retirement claims and the SFT

When someone takes retirement benefits from their pension they in effect use up a percentage of their Standard Fund Threshold or Personal Fund Threshold (PFT) if applicable.

For example, if someone takes retirement benefits of €1 million in 2024 they have used up 50% of the SFT. As the SFT is currently €2 million that leaves €1 million of the SFT remaining. However, when the SFT increases to €2.2 million in 2026 they will still have used up 50% of the SFT leaving €1.1 million of the SFT remaining.

The following examples show how this works in practice.

Individual who has not previously taken any pension benefits

When the individual first takes a retirement benefit this will be assessed against the SFT at that date.

Year	SFT Lifetime Threshold	Amount of retirement claim in relevant year	% of SFT used in total by this individual in relevant year	% of SFT available to this individual in total	Remaining SFT available to this individual
2025	€2,000,000	None	0%	0%	€2,000,000
2026	€2,200,000	None	0%	0%	€2,200,000
2027	€2,400,000	€600,000	25%	75%	€1,800,000
2028	€2,600,000	None	0%	75%	€1,950,000
2029	€2,800,000	None	0%	75%	€2,100,000

Individual who has taken some retirement benefits in the past

All retirement benefits taken since 7 December 2005 are included against the SFT

Year	SFT Lifetime Threshold	Amount of retirement claim in relevant year	% of SFT used in total by this individual in relevant year	% of SFT available to this individual in total	Remaining SFT available to this individual
2023	€2,000,000	€800,000	40%	60%	€1,200,000
2024	€2,000,000	None	0%	60%	€1,200,000
2025	€2,000,000	None	0%	60%	€1,200,000
2026	€2,200,000	€330,000	15%	45%	€990,000
2027	€2,400,000	None	0%	45%	€1,080,000
2028	€2,600,000	None	0%	45%	€1,170,000

Individual who has taken retirement benefits of €2,000,000 in the past

Where an individual has already taken pension benefits of €2,000,000 they have used up 100% of the SFT. When the SFT increases they will still have used up 100% of the new SFT limit and will not have any scope for increased pension funding

Year	SFT Lifetime Threshold	Amount of retirement claim in relevant year	% of SFT used in total by this individual in relevant year	% of SFT available to this individual in total	Remaining SFT available to this individual
2023	€2,000,000	€2,000,000	100%	0%	€0
2024	€2,000,000	None	0%	0%	€0
2025	€2,000,000	None	0%	0%	€0
2026	€2,200,000	None	0%	0%	€0
2027	€2,400,000	None	0%	0%	€0

Individual who takes benefits each year using phased retirement

Each retirement benefits will use a percentage of the SFT

Year	SFT Lifetime Threshold	Amount of retirement claim in relevant year	% of SFT used in total by this individual in relevant year	% of SFT available to this individual in total	Remaining SFT available to this individual
2023	€2,000,000	€200,000	10%	90%	€1,800,000
2024	€2,000,000	€200,000	10%	80%	€1,600,000
2025	€2,000,000	€200,000	10%	70%	€1,400,000
2026	€2,200,000	€200,000	9.1%	60.9%	€1,339,800
2027	€2,400,000	€200,000	8.3%	52.6%	€1,262,400
2028	€2,600,000	€200,000	7.7%	44.9%	€1,167,400
2029	€2,800,000	€200,000	7.1%	37.8%	€1,058,400