LCP Radar – 20 September 2024

Government response to the independent review of the Standard Fund Threshold

The Standard Fund Threshold (SFT) is an overall limit on the value of benefits at retirement of (currently) €2 million, beyond which retirees face penal tax rates of the order of 70%. Dr. Donal de Buitléir, in conjunction with the Department of Finance, carried out a review of the SFT and the recommendations were published this week.

The Minister for Finance has now outlined the key decisions taken by Government on foot of the de Buitléir report:

- Government has accepted that the SFT should increase from €2.0 million to €2.8 million. The SFT will increase by €200,000 per year beginning in 2026 until 2029 and will then increase in line with the applicable level of wage growth thereafter.
- The threshold for the higher rate of taxation for lump sums will stay at €500,000, rather than a proportion of the SFT. This will be reflected in Budget 2025.
- There will be no change to the Chargeable Excess Tax rate that applies to benefits over the SFT (40%), however Government has committed to review this by 2030.
- The age-related valuation factors (for valuing DB benefits) proposed in the de Buitléir report will be reviewed independently.
- An inter-agency group will be formed to oversee the implementation of the remaining recommendations.

What steps should employers and trustees be taking?

LCP welcomes decision to increase the SFT, albeit it will take several years. This change provides certainty for pension savers and will go a long way in helping and encouraging people to save for an adequate retirement. In preparation for change, employers and trustees should consider carrying out a review of members who might be potentially impacted by the existing SFT, engaging in a communications exercise and preparing for wider change if Government decides to adopt other recommendations in the de Buitléir report.

How can LCP help?

If you would like to find out more about how LCP can help trustees and sponsors of pension arrangements, or if you have any questions on this update, please contact Roma Burke at roma.burke@lcp.com or the LCP partner who normally advises you.

About Lane Clark & Peacock Ireland Ltd

Lane Clark & Peacock Ireland Limited is registered in Ireland with registered number 337796 at Office 2, Grand Canal Wharf, South Dock Road, Dublin 4.

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Appendix: Report recommendations

The Key Recommendations arising from the de Buitléir review are:

1	Increase the SFT in line with the increase in incomes since 2014. This is likely to result in an increase in the SFT from €2.0 million to approximately €2.8 million.
2	Provide for an annual adjustment in SFT in line with increases in earnings, thereafter.
3	Reduce the rate of Chargeable Excess Tax from 40% to 10%
4	Revise the age-related multipliers used to value defined benefit pensions. For example, the age-65 multiplier would fall from 26 to 19. This reduces the value of a defined benefit pension and the retiree is less likely to hit the SFT limit.
5	The first €200k is tax-free. Any lump sum beyond this is taxed. This €200k to remain a fixed monetary amount and should not automatically increase in line with increases in the SFT.
6	Retirees should no longer be allowed to credit tax paid on the lump sum (if any) against the Chargeable Excess Tax liability.
7	Extend the ability to spread the cost of the tax over 20 years from public sector workers to all workers
8	Remove the age and salary related contribution limits on personal contributions.