Liberty

Budget 2013

Implication for Pensions

The Minister for Finance, Michael Noonan, introduced a number of changes to the current system of tax relief for pensions in his Budget speech yesterday afternoon. Many of the measures have been well flagged in the media in recent weeks, but there were some surprises. The Minister made a strong and positive statement as to the importance of encouraging those on lower and middle incomes to save for their retirement. He announced the following key measures:

- The introduction of a €60,000 limit on the amount of annual pension in retirement which will be tax incentivised.
- This new lower limit on tax approved pension benefits will be introduced from 1 January 2014, not from 2013.
- Beneath this overall limit, tax relief will continue to be granted on pension contributions at the individual's marginal rate of income tax. This is a very welcome confirmation by the Minister.
- The annual levy on pension scheme assets will not be renewed after its current legislative expiry date of 2014. This is an extremely welcome confirmation by the Minister, and means that the controversial pension levy will expire after four years, as originally announced.
- An option will be granted to holders of additional voluntary contribution funds within pension schemes to withdraw up to 30% of the aggregate value of those funds for a period of three years from 2013. This measure will be introduced in the 2013 Finance Act. It is an unexpected measure, and will enable those with cash flow needs to access some of their retirement savings on a once-off basis. The exact circumstances in which the withdrawal may be made were not specified by the Minister.

On the new €60,000 limit, the Government clearly feels that there are issues that need to be teased out before it can be introduced. A key issue is what capital value is put on the maximum pension "fund" that can be accumulated prior to retirement. This is a function of what assumption is made regarding the amount of capital that is needed to buy a euro of pension income.

For instance, if a ratio of 30:1 is used, the size of the pension fund which can be accumulated is €1.8 million, ignoring any tax free lump sum element. If however the current ratio of 20:1 in the computation rules for the current Standard Fund Threshold of €2.3 million is used, the size of the pension pot which can be accumulated reduces to €1.2 million. The higher ratio favours defined contribution savers, while the lower ratio favours defined benefit members in both the public and private sector, as it reduces their potential tax liability on any excess pension rights above the €60,000 annual limit.

In addition to these very important measures affecting occupational pension schemes, the Minister also announced a more general measure affecting pensioners. Those aged 70 and over on an annual income of over €60,000 will no longer benefit from the reduced rate of Universal Social Charge which currently applies to them. These individuals will now pay the full 7% rate of Universal Social Charge.

For further information please contact:

Brian Codyre
Brian.codyre@lam.ie
01-6362762

Chris Carlile
chris@lam.ie
01-6362708

Phil Keane
phil.keane@lam.ie
01-6362724

Rob Heap
robert.heap@lam.ie
01-6362732

Liberty Asset Management Ltd. Cherrywood Business Park, Loughlinstown, Dublin 18, Ireland.

Call. 01 636 2700 | Fax. 01 636 2780 | Email. info@lam.ie