The National Pensions Framework proposes reforms in relation to current occupational and voluntary pension provision aimed at introducing greater equity into existing pension arrangements, to simplify current provision and provide greater protection for pension scheme members. The key recommendations are set out below. It should be noted at the outset that the main provisions are scheduled for introduction within 5 years and no changes are proposed to existing occupational / employer contribution legislation i.e. the current rules whereby there is greater scope for company pension scheme pensions in favour of directors / key employees remain.

MANDATORY APPROACH TO PENSION SCHEME MEMBERSHIP

- Impact on those over 22 years of age and not already pension scheme members
- Impact on low to middle income earners (€18k to €51k approx)
- 4% employee contribution. Employee has option to opt out after period of time (3 months). Automatic re-enrolment every 2 years
- 2% employer contribution. No opt out provisions. Must continue to pay regardless of employee decision
- 2% State contribution

From the SME perspective, the main concerns will be as follows:

- Ease of operation/implementation
- Additional payroll cost for employers
- Impact on pay packages

HARMONISATION OF TAX RELIEF – 33% (PERSONAL PENSION PLANS AND PRSA'S ONLY)

- Good for low income earners and those with low marginal tax rate
- Bad for high earners and marginal rate tax payers

- Concern that tax relief available at 33% but that withdrawals in retirement could potentially be taxed at the prevailing marginal rate (could be higher marginal rate)

The following should be considered:

  - High earners should continue to maximise contributions in pre-implementation era
  - Consider spouses pension for *bona fide* employments
  - 41% taxpayers should maximise employer contributions in lieu of employee contributions and vice versa for 20% taxpayers – regard of course must be had to salary sacrifice rules.
  - On implementation, consider incorporation if appropriate as the existing rules on employer contributions continue to apply.

Approved Retirement Funds (ARFs) Extended to Defined Contribution Schemes

- Scheduled from 2011
- Not applicable to Defined Benefit schemes
- Crucial in low interest rate environment when annuities represent poor value
- Allows greater flexibility for use of pension funds on retirement
- Preservation of wealth. Any unused ARF funds on death pass to estate

€200,000 Tax-Free Lump Sum Cap

- No timeframe for implementation
- Quantum of tax-free lump sum cap now established
- No indication of tax rate to be applied to sums in excess of €200,000 – expected to be at the standard rate of tax

The following should be considered:

  - Retire (normal or early) in pre-cap environment. Crucial decision for those with funds well in excess of €800,000
  - Consider spouse’s pension to maximse two tax free lump sums of €200,000

STATE PENSION AGE INCREASES

- Currently 66 years (self employed)
- 67 years by 2021
- 68 years by 2028