State Pension Increases & Revenue Practice

Impacting holders of Approved Minimum Retirement Funds

The most recent increase in the State Pension (Contributory) that came into effect in March of this year, means that those in receipt of the maximum rate of this payment (€248.30 per week) will have an annual guaranteed income which is in excess of the Revenue's definition of specified guaranteed income (€12,700).

Increase to State Pension

As a result, future retiree's that have reached State Pension Age (currently age 66) and are in receipt of the maximum rate of State Pension (Contributory), will no longer be required to purchase an Approved Minimum Retirement Fund (AMRF). Should those individuals choose the "ARF" option, then all residual funds they have after taking their pension lump sum can be used to buy an Approved Retirement Fund (ARF).

In addition, those who already hold an AMRF, and are now in receipt of the maximum rate of State Pension (Contributory) should contact the Qualifying Fund Manager of that AMRF and provide proof of their guaranteed income. Once this proof is provided, then same AMRF will be converted to an ARF with unrestricted access to the funds thereafter and annual imputed distribution applicable.

Christmas bonus treatment

However it is also possible that those in receipt of a lower rate of State Pension (Contributory) could also satisfy the guaranteed income (€12,700) requirement. This is due to the fact that the Revenue changed their guidelines (See Revenue Pensions Manual – Chapter 23.5) around what could be deemed Guaranteed Income to include the Christmas Bonus that those receiving a Department of Social Protection Pension are paid in year's where the government's budget allows for same.

Therefore those with small gaps in their PRSI record, who do not qualify for the maximum rate of State Pension but qualify for a pension of say €243.30* would have a guaranteed income of €12,695.39** which when combined with last years Christmas Bonus which was 100% of the relevant weekly payment (in this case €243.30) would be in excess of the required €12,700.

* The State Pension currently payable under the Yearly Average Method for those with a yearly average PRSI contribution between 40 and 47 weeks is €243.30.

** The Revenue have approved a multiplier of 52.18 when annualising Weekly State Pension Entitlements to allow for the fact that there are more than 52 Week's (i.e 52 X 7 = 364) in any given year.

The difference for those using the Christmas Bonus to form part of their guaranteed income is that the Revenue have advised that it's use is discretionary. This means that those who are in receipt of the maximum State Pension (Contributory) are required by the Revenue to convert existing AMRFs to ARFs, however those whose State Pension (Contributory) does not satisfy the guaranteed income test alone but when combined with their Christmas Bonus would be equal to or greater than €12,700 can choose whether they want to use the Bonus as part of their guaranteed income and convert their AMRF to an ARF with unrestricted access to the Fund thereafter or ignore the Christmas Bonus and therefore retain the Funds in an AMRF with no requirement to make a withdrawal to cover imputed distribution each year after age 61.

In all cases, in order to convert existing AMRF policies to ARFs, we will require that the policyowner's provide proof of their guaranteed income. Where the guaranteed income is a State Pension this should be in the form a letter from the Department of Social Protection showing the payment type and the weekly rate of pension. For those who wish to use the Christmas Bonus as part of their guaranteed income, we will also require a letter from the Department of Social Protection confirming that payment to the policyowner.

Other payments that continue to satisfy Revenue's definition of Guaranteed Income are payments from pension annuities and defined benefits schemes from Ireland or abroad, other Department of Social Protection payments such as the Widow's Pension, Invalidity Pension, Blind Pension, State Pension (Non-Contributory) and the Living Alone/Island Allowances. It is also therefore possible that individual's may satisfy the Revenue's guaranteed Income Test via private pensions they are being paid or in some cases as a result of the combined income from private and state pensions.

Triviality Rule changes

The Revenue have also updated their Pension Manual to reflect a change to the Triviality Rule.

On future pension maturity claims, where residual funds available following payment of pension lump sums are less than €30,000 then the residual fund may be paid as a once off trivial annuity. This is an increase to the previous limit which was €20,000.

The quantum of retirement benefits from all sources must be taken into account for the purpose of calculating the €30,000 limit. Any payments made under the Triviality Rule in this manner will be subject to marginal rate Income Tax and USC.

Separately it continues to be the case that a trivial payment can also be made, where the value of the total funds being matured would purchase a pension of €330 per annum or less. In a defined contribution context, in order to establish whether or not benefits come within this trivial limit, the calculation should be based on the total value of the fund being matured (prior to pension lump sum being deducted) and a single life annuity with no escalation.

Where the total fund being matured purchases a pension of less than €330 per annum, then the member may still receive their pension lump sum element tax free with the residual fund taxed at a flat 10% rate as opposed to marginal rate Income Tax and USC as would be the case with other trivial payments.

To find out more

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