

## **THE FUTURE FOR PENSIONS**

After the publication of the highly anticipated Report of the Commission on Taxation what dose the future hold for pensions?



“The Commissions recommendations, if adopted in the short or medium term, have the potential to considerably change pension legislation as we know it. This overhaul was long overdue. Most commentators will agree that the Commissions focus on measures and means to increase the numbers of people regularly setting income aside to supplement State support in retirement can only be a good thing” said Yann Harrison, Chartered Accountant and Pensions specialist with Russell Brennan Keane.

Undoubtedly there is a clear and urgent need to encourage people to save for their retirement. With the population share of those aged 65 and over expected to more than double in the next 40 years, and those of working age gradually declining in the same period, the burden of providing the State pension in the longer term will increase. “Despite the fact that the majority of individuals would acknowledge that the State pension alone is unlikely to provide them with more than a basic standard of living in retirement, to date, there has been little evidence of low-to-middle income earners making adequate supplementary provision for their retirement” said Yann. This is due mainly to affordability concerns, the perceived complexity of the pension regime and the inequity associated with relief for pension contributions given at differing rates, affording least support to those with the lowest levels of income.

### **Encouraging Retirement Savings**

To improve equity and incentivise low-to-middle income earners to start providing for their retirement, the Commission recommends:

- The standardisation of tax relief for pension contributions at 38%, and

- A retirement savings scheme, working along the same lines as the SSIA scheme and offering an Exchequer contribution of €1 for each €2 contributed. It is suggested that, in certain instances, there should be grounds for some form of exceptional pre-retirement access to funds saved.

“Whether or not amendments to pension legislation in this regard will encourage low-to-middle income earners to start saving for their retirement or indeed just discourage higher earners already saving and used to availing of higher rate tax relief’s remains to be seen” commented Yann.

In an attempt to ensure that pension coverage among employees will increase, the Commission recommends:

- That a soft-mandatory approach be considered, effectively compelling employers to automatically enrol employees in a pension scheme, thereby positively enforcing the savings habit. It is envisaged that employees would have the option of opting out of the scheme at a future date.

“The Commissions recommendation that all defined-contribution scheme retirees should have the flexibility of choosing between Approved Retirement Fund (ARF) investments and annuity contracts at retirement is welcome” said Yann. “Any move to impose automatic enrolment in pension schemes should only be considered in conjunction with the adoption of this recommendation”.

### **The Tax Free Lump Sum**

“The Commissions recommendations in respect of proposed changes to legislation on tax free lump sum entitlements at retirement will come as little surprise given wide spread reporting that this area was to be reviewed” said Yann. A cap of €200,000 is proposed with sums in excess of this limit being subject to tax at the standard rate, currently 20%.

“It would be advisable for those with pension funds in excess of €800,000 to explore their retirement options now, and indeed, the last number of months has seen a steady rise in the number of individuals taking retirement and early retirement in anticipation of the imposition of this lump sum cap”. said Yann.

High earning proprietary company directors are likely to be impacted given the recommendation that tax relief rules should be reviewed to ensure that contributions and remuneration levels cannot be manipulated close to retirement to allow certain individuals take advantage of unintended benefits.

“For some, there remains a limited opportunity to effect arrangements under the current rules with a view to maximising both the amount of pension that can be paid and the tax-free lump sum” concluded Yann.

If you have any queries or would like to discuss your affairs in confidence, please contact Yann Harrison (email [yharrison@rbk.ie](mailto:yharrison@rbk.ie)) or Tel 01 6440100 or 090 6480600.

**ENDS**

**About RBK**

Russell Brennan Keane is one of Irelands leading business advisory and accountancy firms. With 50 years experience providing professional advisory services to a range of clients in the mid to large corporate market in Ireland, from offices in Dublin, Athlone and Roscommon.

**Press Contact:**

Mary Cloonan

Tel: + 353 (0)90 6480600 or 086 8227228

Email: [mcloonan@rbk.ie](mailto:mcloonan@rbk.ie)