Total Benefits on Retirement at Normal Retirement Age

Chapter 6

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General

6.1

This chapter sets out the maximum total benefits that may be provided under approved schemes for members who remain in a particular employment until retirement. Please refer to Chapter 25**: Limits on Tax Relieved Pension Funds** as additional tax charges occur when individual benefits exceed specified monetary amounts.

Other Schemes of Same Employer

6.2

In determining whether the benefits to be provided under a scheme for a particular employee or class of employees are within approvable limits, they should be aggregated with benefits for those employees from all schemes relating to the same employment.

Benefits on Retirement – Other Conditions

6.3

No pension shall be assignable and no pension shall be capable of being surrendered, except to the limited extent explained in Chapter 11**.5** in order to provide pensions for spouses, civil partners or *dependants*. These conditions apply to all pensions payable under approved schemes. See Chapter 11**.2** as regards pensions for persons other than employees.

Maximum Total Benefits

6.4

The aggregate benefits payable to an employee who retires at *normal retirement age* after 40 or more years' *service* with the same employer, when expressed as an annual amount payable for life (or for life subject to a guaranteed minimum period not exceeding 10 years) and taking into account any benefits paid as lump sums, should not exceed 2/3rds of his *final remuneration*. A basic maximum accrual rate of 1/60th of *final remuneration* for each year's *service* is approvable for any period of *service* of 40 years or less (a pension on this basis is commonly described as a pension of N/60ths).

Please see Chapter 5**.7** for the standard methodology for funding and benefit calculations**.**

It may be desired to set up a scheme that does not express the benefits on retirement as a pension of which part may be commuted, but which gives all members a lump sum of a specified amount plus a separate non-commutable pension. Such schemes are common in the public sector and, in practice for the purpose of determining whether the total benefits under a scheme of this kind are within the approvable maximum, the ratio between pension and lump sum commonly found in public sector schemes will be used, i.e. the accrual rate of the lump sum benefit will normally be divided by the figure 9 to arrive at its pension equivalent. Thus a lump sum of 3/80ths of final pay for each year of *service* will represent a pension annual accrual rate of 1/240, and the approvable maximum rate at which the non-commutable pension may accrue for an employee with 40 years' *service* will be 1/80th of final pay for each year, i.e. 1/60th less 1/240 = 1/80th.

Other Benefit Formulae
6.5

Schemes may calculate benefits by reference to other formulae provided that such benefits are within maximum limits (e.g. defined contribution schemes).

Late Entrants
6.6

Benefits in excess of those which would be produced by a basic rate of 1/60th of *final remuneration* for each year of *service* can normally be approved under Pensions Business Unit discretion for employees who cannot, by reason of the date of their entry to employment, complete 40 years' *service* before *normal retirement age*. A pension of two-thirds of *final remuneration* cannot be approved for very short periods of *service* but, subject to any deduction required for *retained benefits* from previous employment, approved schemes may provide a pension of two-thirds of *final remuneration* for *service* of not less than 10 years to *normal retirement age*. An improvement on an accrual rate of 60ths is usually also permissible for employees with less than 10 years *service* to *normal retirement age* as in the following scale known as "uplifted 60ths":

Maximum Pension

Years of *service* to normal retirement age	**Expressed as a fraction of maximum approvable pension for a full career**	**Expressed as a fraction of final remuneration**
1	1/10th	4/60ths
2	2/10ths	8/60ths
3	3/10ths	12/6oths
4	4/10ths	16/60ths
5	5/10ths	20/60ths
6	6/10ths	24/60ths
7	7/10ths	28/60ths
8	8/10ths	32/60ths

9	9/10ths	36/60ths
10 or more		40/60ths

Maximum pension means pension before any commutation and including -

(i) The annuity value of any separate lump sum entitlement, and

(ii) Any pension derived from voluntary contributions paid by the member.

There is no objection to incorporation of this scale in the rules of a scheme if provision is made for any necessary restriction e.g. for *retained benefits* or *service* which does not qualify for benefits. Alternatively, the rules may provide for pensions to accrue at a rate of 1/60th of *final remuneration* for each year of *service* (N/60ths) "or such higher fraction as will not prejudice approval by the Revenue Commissioners for the purposes of Chapter I, Part 30, Taxes Consolidation Act 1997" (or some similar wording). A higher rate may be permitted in suitable cases where it is necessary to adopt an unusually early age for normal retirement.

Normal Retirement Age (NRA)
6.7

(a) It is a condition of approval that the rules of a scheme should specify the age at which members will normally retire.

(b) Any age within the range of 60 - 70 is acceptable. The *NRA* may differ for categories of member and may also be agreed on an individual basis.

(c) Revenue may be prepared to accept an *NRA* outside the above range for exceptional occupations. Submissions should be made on an individual basis but *20% directors* must be within the 60-70 range.

(d) All schemes/arrangements in respect of the same employment that provide benefits for an individual must have the same *NRA*.

Increases of Pensions in Payment
6.8

(a) A pension in course of payment may be increased up to the level of the maximum approvable at retirement (after deducting the annuity value of any pension exchanged for lump sum benefit or allocated to a spouse, civil partner or *dependant*).

(b) Increases in benefit after retirement must be in the form of non-commutable pension.

(c) Scheme rules may provide for increases in pensions to counteract the effects of inflation.

(d) Discretionary increases may be made to maximum pensions up to the level of increases in CPI or other similar agreed index.

(e) Guaranteed increases may be made by using either of the following formulae -

(i) Fixed increases of not more than 3% p.a. compound (regardless of CPI levels), **or**

(ii) Increases linked to CPI or other similar agreed index.

A combination of (i) and (ii) is not acceptable.

(f) Augmentation of existing pensions to put the recipients on a par with current holders of the same employment will normally be approved.

(g) Please refer to **Chapter 25.4** as increases in excess of the" permitted margin" may trigger a tax charge.

Life Cover After Retirement
6.9

Life Assurance cover that continues after retirement or leaving *service* may be provided as a retirement benefit. Where such cover is provided, the annuity equivalent of the single premium cost required to secure the cover (other than cover extending up to normal retirement date only, where early retirement takes place on grounds of incapacity) must be taken into account for the purposes of determining aggregate maximum benefits.