Total Benefits on Retirement at Normal Retirement Age

Chapter 6

Document last updated June 2022

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6.1. General

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

6.2. Other schemes of same employer

In determining whether the benefits to be provided under a scheme for an 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.

6.3. Benefits on retirement – other conditions

A pension shall not be assignable or capable of being surrendered, except (as outlined in Chapter 11.3) to provide pensions for spouses, civil partners or dependants. These conditions apply to all pensions payable under approved schemes. Chapter 11.2 covers pensions for persons other than employees – that is, pensions paid to surviving spouses, civil partners and dependents in their own right.

6.4. Maximum total benefits on retirement

The aggregate benefits payable on retirement 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 ten years) and taking into account any benefits paid as lump sums, should not exceed two-thirds of final remuneration on retirement (section 772(3)(a) Taxes Consolidation Act 1997 (TCA). A basic maximum accrual rate of one-sixtieth 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**.**

An employer may wish to establish an occupational pension 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; that is, the accrual rate of the lump sum benefit will normally be divided by 9 to arrive at its pension equivalent. For example, a lump sum of 3/80ths of final pay for each year of service will represent a pension annual accrual rate of 1/240 [3/80 divided by 9 = 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 [1/60 minus 1/240 = 1/80].

6.5. Other benefit formulae

Schemes such as defined contribution schemes may calculate benefits by reference to other formulae, provided that such benefits are within maximum limits.

6.6. Late entrants

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 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 ten years to normal retirement age. An improvement on an accrual rate of 60ths is usually also permissible for employees with less than ten 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.

This scale can be incorporated in the rules of a scheme if provision is made for any necessary restriction – for example, 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 1, Part 30, Taxes Consolidation Act 1997" (or similar wording). A higher rate may be permitted in suitable cases where it is necessary to adopt an unusually early age for normal retirement.

6.7. Normal retirement age (NRA)

The rules of a scheme should specify the age, between 60 and 70 years, at which members will normally retire (section 772(3)(a) TCA). The “normal retirement age” (NRA) may differ for categories of member and may also be agreed on an individual basis. Section 772(4)(b)(ii) allows benefits to be payable on retirement within ten years of the specified age or on earlier incapacity.

Revenue may be prepared to accept a normal retirement age outside the above range for exceptional occupations. Submissions should be made on an individual basis, but 20% directors must be within the 60-70 years age range. All schemes/arrangements in respect of the same employment that provide benefits for an individual must have the same NRA.

6.8. Increases of pensions in payment

Section 772(3)(g) TCA provides that no benefits other than those mentioned in that subsection are payable under the scheme. However, subsection (4) of section 772 provides that Revenue may approve a scheme notwithstanding that it does not meet one or more of the conditions for approval in subsections (2) and (3) of that section. Revenue will use its discretion to approve a scheme, notwithstanding that a pension may over time increase above the level specified in section 772(3)(a) TCA (that is, two-thirds of final salary). Increases in benefit after retirement must be in the form of non-commutable pension. Please refer to Chapter 25.4 for cases where increases in excess of the ”permitted margin” trigger a charge to chargeable excess tax.

6.9. Life assurance cover after retirement

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.