

Withdrawal from Service

Chapter 12

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General

12.1

In this chapter withdrawal from *service* is regarded as covering all circumstances of leaving *service*, otherwise than by death, or by retirement in accordance with the rules of the scheme. The benefits that may be provided in these circumstances are:

- (a) A refund of the member's own contributions (with or without interest thereon);
- (b) The provision of a deferred, or frozen, pension and/or a deferred lump sum in the scheme;
- (c) The purchase of a deferred annuity and/or deferred lump sum or a *buy-out bond*;
- (d) The payment of a transfer value to the scheme of a subsequent employer. (Transfer payments are dealt with separately in [Chapter 13](#)).

Refunds of Contributions

12.2

The rules of a contributory scheme may normally permit a withdrawing member with less than two years' qualifying *service* for Pensions Act purposes to take a refund of member contributions. In this event no further benefits can be received.

Mixed Benefits

12.3

Taking a refund of contributions and retaining rights in a scheme is allowed in the following circumstances:

- (a) If an employee with two or more years' qualifying *service* takes a refund of her/his pre-January 1991 contributions s/he is still entitled to a preserved benefit in accordance with Part III of the Pensions Act 1990. In this case the maximum deferred benefits must be calculated by reference **only** to actual years of *service* in respect of which no refund of members' contributions is payable.
- (b) Where a transfer payment has been made from one approved scheme to another on change of employment, any election to take a refund of contributions (if no preserved benefit) usually covers contributions included in the transfer payment, as well as those made to the new scheme, but exceptionally, even though the employee elects to take a refund of contributions to the second scheme, s/he may also take a deferred pension based on the transfer payment:

- (i) If the first scheme was non-contributory, or
 - (ii) If the conditions of the transfer prohibited a refund of the employee's transferred contributions during his lifetime, or
 - (iii) If a refund of the member's own contribution element would leave a substantial balance to accrue to the benefit of the second scheme.
- (c) Where a contributory scheme becomes non-contributory, an employee subsequently withdrawing may take a refund of contributions and a deferred pension in respect of the employer's contributions during the non-contributory period only.

Mixed benefits are not similarly allowed where a non-contributory scheme becomes contributory.

12.4

A refund of contributions made to an employee leaving *service* may include interest at a reasonable rate or it may be the surrender value of a policy appropriate to the contributions. Such interest is regarded as an element in the calculation of a benefit from the scheme and is not treated as true interest for tax purposes.

12.5

If an employee who withdraws from *service* takes a refund of his contributions from one scheme but becomes entitled to an immediate or deferred pension from another scheme of the same employer, the refund (the net amount if tax has been deducted) is a lump sum benefit counting towards the maximum lump sum approvable under all schemes relating to that employment.

Tax on Refunds of Contributions

12.6

When a member's contributions to an *exempt approved scheme* are refunded in his lifetime or where his withdrawal benefit is a policy surrender value appropriate to his contributions, the *administrator* becomes liable to tax on the gross refund under Case IV of Schedule D at the standard rate of tax in force at the time of payment. The tax is chargeable on the amount paid (inclusive of any interest element) or, if the rules permit the *administrator* to deduct this tax before payment, on the amount before such deduction.

The refund may be transferred to a PRSA without a tax charge.

All payments of tax due in respect of refunds should be sent directly to:

Office of the Collector General
Revenue
Sarsfield House
Limerick

12.7

The tax charge applies to any refund made during the employee's lifetime. It does not, however, apply where the employee's employment was carried on outside the State; this condition will be regarded as satisfied if the employee worked abroad throughout at least 75% of the period during which he/she was a member of the scheme.

12.8

If an employee who has received a refund of contributions rejoins the scheme in the same year of assessment and pays back all the contributions refunded, no tax will be payable by the *administrator*. If an employee who has received a refund of contributions rejoins and pays back the contributions in a later year, the gross amount repayable will be set against other refunds of contributions for any year and the *administrator's* liability reduced accordingly.

12.9

The tax is the liability of the *administrator* and the amount charged is not income of the employee for any purpose of the Income Tax Acts. Being charged at a compound rate, the tax is not related to the amount of tax relief given to the particular member on his contributions. It is, of course, open to the scheme to give the *administrator* discretion whether or not to pass on the burden of the tax to the employee.

Deferred Pensions

12.10

If a withdrawing employee's benefits are to be maintained by providing him with a deferred pension, the maximum amount is normally computed on the same basis as for early retirement otherwise than on grounds of incapacity, i.e. one-sixtieth of *final remuneration* for each year of actual *service*, or by using the formula $N/NS \times P$ (see [Chapter 9.3](#)). The restrictions for employees with less than 10 years' service set out in [Chapter 9.3](#) apply only if the deferred benefit is taken before normal retirement age (*NRA*).

12.11

The maximum figure calculated as above may be increased, when the payment begins, by a percentage corresponding to the percentage increase in the Consumer Price Index from the date when the employee withdrew from *service*. In other words, the purchasing power of the pension may be maintained throughout the period of deferment.

12.12

If, while the employee was a member of the scheme, the pension was being secured by means of a policy funded on a level annual premium basis, the amount of deferred pension actually secured by premiums paid up to the date of withdrawal may normally be given even if somewhat in excess of the amount calculated under $N/NS \times P$ formula.

12.13

Except in the case of certain employments for which an unusually early *NRA* has been accepted, a deferred pension may in practice begin at any of the following times:

- (i) At the *NRA* under the scheme in which the benefits were secured;
- (ii) An earlier date in case of *ill-health*;
- (iii) At the earliest date from which an immediate pension on early retirement could be paid under the rules of the scheme (see paragraph 9.1);
- (iv) At *NRA* under the last employer's scheme;
- (v) At a later date still if the employee is still in employment but not later than attainment of age 70.

12.14

Where the deferred pension becomes payable after *NRA* in the scheme providing it, an actuarial increase may be given subject to the restrictions explained in [Chapter 8.3](#).

Deferred Benefits - Lump Sums

12.15

A deferred pension which becomes payable under one of the options in **paragraph 12.13** may be commuted at that date to provide a lump sum benefit of $\frac{3}{80}$ ths of *final remuneration* for each year of *service* or, if this is more favourable, an amount calculated by the formula

$$\frac{N \times LS}{NS}$$

these terms having precisely the same meaning as in **Chapter 9.4**. If the scheme rules provide for an independent lump sum, this lump sum may be provided on the same formula with the corresponding reduction in the permissible pension. The restrictions for employees with less than 20 years *service* set out in **Chapter 9.4** only apply if the deferred benefit is taken before *NRA*.

12.16

CPI increases may be applied to the maximum deferred lump sum (as calculated at withdrawal) during the period of deferment. These increases must not cause the maximum lump sum expressed as a proportion of the actuarial value of the member's total deferred benefits to exceed the corresponding proportion as determined at date of withdrawal.

If the deferred lump sum becomes payable after *NRA* in the scheme providing it, an actuarial increase may be given in accordance with the practice explained in **Chapter 8.6** in lieu of CPI increases in respect of the period after *NRA*.

Deferred Benefits - Death before Payable Date

12.17

A withdrawing employee who is granted deferred benefits under the scheme may also be given a right to benefits if he/she dies before the deferred benefits become payable. In these circumstances, any lump sum benefit will be governed by the practice in relation to death-in-service benefits explained in [Chapter 10.1](#) and will be based on the employee's *final remuneration* at the date of withdrawal. Pensions for a spouse, civil partner and/or *dependants* may also be provided on the basis explained in **Chapter 10.2** except that they are to be calculated by reference to the employee's deferred pension.

Deferred Benefits under Annuity (Buy-Out) Bonds

12.18

As an alternative to providing deferred benefits from the scheme itself for an employee who has left *service*, a scheme may prescribe that the benefits be provided by an assignment to the employee of a paid-up insurance or annuity policy already held for the purposes of the scheme, or by purchase of an annuity bond in the employee's own name.