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**Association of Higher Civil & Public Servants**

(Comhlachas na Seirbhíseach Uachtarach Stáit agus Poiblí)

**Submission to the Department of Finance**

With Regard To Consultation

On The Standard Fund Threshold

FEBRUARY 2024

(Submission required by Sunday 11th of February 2024)

**Key Points**

* **The Standard Fund Threshold (SFT) is set at €2m from 1st January 2014**
* **The SFT has neither kept pace with the Consumer Price Index (CPI) nor with average pay awards.**
* **This has brought an individual’s maximum tax-relieved pension fund within the scope of chargeable excess tax.**
* **This can be argued as an unintended consequence given that the Minister for Finance may amend the SFT in line with an earnings adjustment factor as provided for under legislation.**
* **There is a need for automatic indexation going forward and to revise upwards the current SFT threshold of €2m to approximately €2.5/2.6m to allow for indexation from 2014 to 2024.**

**Introduction**

1.0 The Association of Higher Civil & Public Servants (AHCPS) is a registered trade union affiliated to the Irish Congress of Trade Unions. Our membership on 31st December 2023, as reported to the Department of Enterprise Trade & Employment, stood at 3,880 and is currently advancing on 4,000 members. These are senior civil servants and managers at Principal Officer and Assistant Principal grades in the commercial and non-commercial state sector. Our members are key policy influencers and civil and public service providers who have made, and continue to make, a major contribution to Irish life and administrative, economic, and social developments since the foundation of the State.

1.1 Our members mainly fall into three categories for pension purposes. Pre 1995 entrants and Post 1995 entrants both in defined benefit schemes with an increasing number in service since 1st January 2013 in the new single pension scheme. Pre & Post ’95 entrants may retire at age 60 with those in service since 1st January 2013 linked to the State Pension retirement age currently at 66 years. Our members are required to have 40 years-service to be eligible for full pension. Those with shorter service need to make Additional Voluntary Contributions or AVCs to provide for pension shortfalls or as required under the mechanism of the new 2013 Scheme.

1.2 But either way none of our members have previously come within the scope of chargeable excess tax. This position has changed because the SFT has not kept pace with national pay awards in the public sector such as the Building Momentum Agreement and extension and recently finalised pay proposals for 2024 to 2026.

1.3 Clearly, our members were not an intended target of the changes to the SFT implemented in January 2014. But by maintaining the Threshold at a fixed monetary figure, as has been the case since January 2014, this unintended consequence has materialised. And this is happening for Principal Officers in particular who are at a higher level of pay than

Assistant Principals and these are individuals who it could not be said have benefited from excessive pension tax relief.

**Single Fund Threshold Reduction**

**7th December 2005 €5,000,000**

**1st January 2007 €5,165,000**

**1st December 2008 €5,418,045**

**7th December 2010 €2,300,000**

**1st January 2014 €2,000,000**

2.0 Chapter 2C1 of Part 30 of, and Schedule 23B to, the Taxes Consolidation Act 1997 (TCA) deal with the limits on tax-relieved pension funds. These provisions set a limit on the total capital value of pension benefits that an individual can draw in their lifetime from tax relieved pension products where those benefits are taken, or come into payment, for the first time on or after 7 December 2005.

2.1 This limit is called the standard fund threshold (SFT) and is currently €2m.

2.2 The concept of a Standard Fund Threshold creates a way of “valuing” a defined benefit pension and comparing it to a pension fund.

2.3 The current €2,000,000 SFT is believed to be indirectly linked to a notional maximum DB pension of €60,000 at age 60, plus a €200,000 lump sum, i.e. 30 x €60,000 + €200,000 = €2,000,000.

2.4 €200,000 being the maximum gratuity paid tax free therefore a public servant’s lump sum is intrinsically linked to linked to the SFT.

2.5 The Minister for Finance may amend the SFT in line with an earnings adjustment factor (as provided for in the definition of “standard fund threshold” in section 787O of the TCA) but has failed to do so.

2.6 This inaction has brought the pension fund of our members within scope of the SFT Threshold of €2m. Clearly, in 2014 in setting a threshold of €2m these public service pensions were not an intended target and the threshold now requires revision.

2.7 The Commission on Taxation and Social Welfare Report of 2022 recommended “the periodic benchmarking of the Standard Fund Threshold to an appropriate and fair level of estimated retirement income.”

**Recommendations**

**3.0 Review the current threshold of €2m to take account of CPI or average pay awards from 2014 to 2024 to take the threshold to an estimated €2.5 to €2.6m.**

3.1 Failure to do so since 2014 has brought our members into scope meaning the pension entitlements particularly of those in the Pre and Post 1995 Defined Benefit Schemes are now exposed to chargeable excess tax on pensions purely based on their pay level at the time of retirement.

3.2 Where an individual’s pension is calculated on the level of pay at the time of retirement no AVCs at all are involved.

3.3 And for the vast majority of our members with AVCs these are in place to make up a shortfall of years of service where an individual will not have 40 years-service at retirement.

**4.0** **Going forward** l**ink the SFT to earnings by way of annual increases from 2025 onwards whereby the minimum of CPI or average pay awards automatically applies.**

4.1 Unless either indexation is applied or there is recognition of average pay awards on an annual basis from 2025 onwards, we will be faced with the same situation in 5- or 10-years time whereby the SFT has not kept pace with cost-of-living increases.

4.2 The current National Pay Talks have resulted in a recommendation of 10.25% in all for our members; 4.25% in 2024; 4% in 2025 (inclusive of a local bargaining clause) and 2% in 2026.

4.3 Throughout the negotiations there was strong emphasis on recognising cost of living increases and an attempt to future proofing of quality civil and public service and civil and public service employment and earnings.

4.4 The tax treatment of civil and public service pensions is intrinsically linked to civil and public service employment and there is therefore a need to ensure the SFT keeps pace with such developments.