IIPM & SAI October Webinar

24 October 2024

'Ireland's Economic Outlook, post-Budget'

'Update on State Pension Deferral option and the Standard Fund Threshold'

Irish Institute of Pensions Management

Society of Actuaries in Ireland

Co-Chair

Davin Spollen
President
IIPM

Davin is Chief Executive Officer of Glennon Employee Benefits. Davin has many years’ experience working in senior positions including; Director, Head of Function, Senior Consultant and Operations within regulated financial, medical and professional consultancy services firms. He has also served as Board Advisor to a Global Employee Benefits Network.

Davin is an Associate of the IIPM, Qualified Pension Trustee and Certified Financial Planner.

Co-Chair

Tom Matthews
Chair of Pensions Committee
Society of Actuaries in Ireland

Tom is chair of the Pension Committee for the Society of Actuaries in Ireland which aims to provide insights and expertise to stakeholders across all aspects of DB, DC and public pensions.

He also has a day job with Saol Assurance, which trades under the AIB life brand, where he is responsible for commercial strategy, advice and distribution.

SAVE THE DATE

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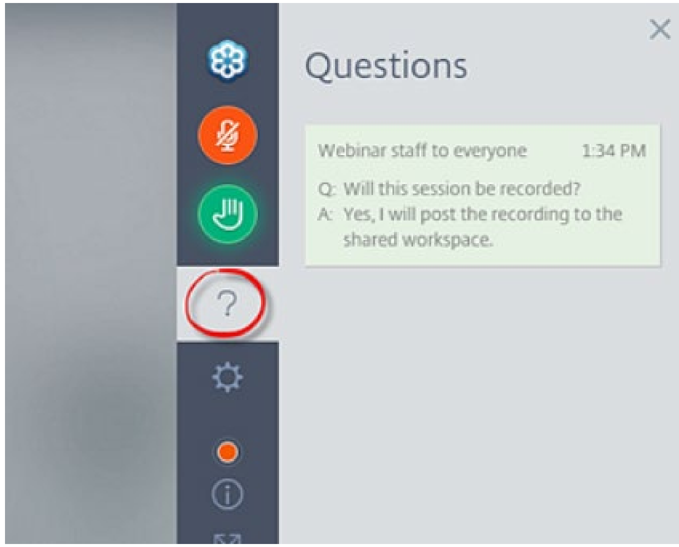
Next IIPM Webinar | Pooling & Captives

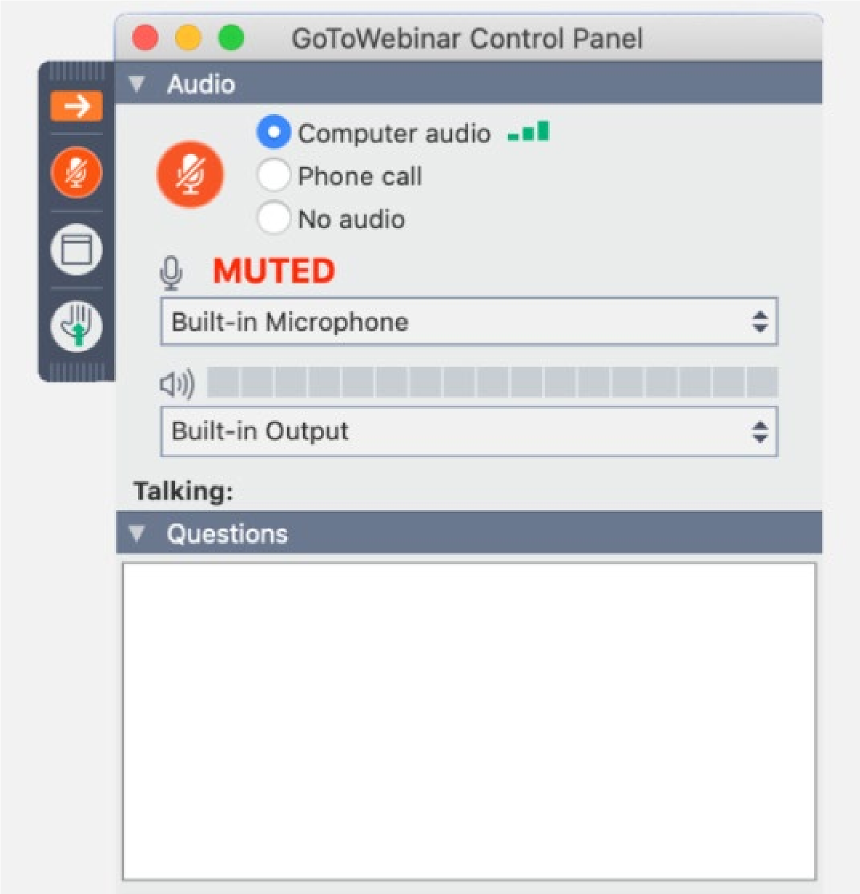
November TBC

ONLINE

Booking Open via IIPM.ie/Events

QUESTIONS FOR THE PANEL





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Webinar Housekeeping

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Speaker

Tony Gilhawley
Pensions Consultant
Fellow of the Society of Actuaries in Ireland

Tony is an actuary and an independent pensions consultant to intermediaries and financial services providers

Society of Actuaries in Ireland

State Pension Contributory Deferral Option & The Standard Fund Threshold

Tony Gilhawley FSAI

24th October 2024

Society of Actuaries in Ireland

State Pension Contributory Deferral Option

Tony Gilhawley FSAI

24th October 2024

Deferring taking the State Pension (Contributory)

66	67	68	69	70
€277.30	€290.30	€304.80	€320.30	€337.20
	+ 4.7%	+ 5.0%	+ 5.1%	+ 5.3%
	+ €13.00	+ €14.50	+ €15.50	+ €16.90

"This new flexibility allows people to defer claiming the State Pension (Contributory) at age 66 to receive an actuarially adjusted higher payment rate up to age 70.

*The change also allows people to improve their social insurance record and **potentially** increase their rate of State Pension payment when they retire*
or
allow those who started working later in life to make additional contributions to qualify for a State Pension (Contributory),"

Minister for Social Protection Heather Humphreys

29th December 2023

Three categories who might defer SPC to a later age

Qualifies for max SPC at 66

Fails to qualify for an SPC at 66 ... less than 520 reckonable weeks at 66

Qualifies for reduced SPC at 66, because of low contribution record

Qualifies for max SPC at 66

66	67	Increase
€14,470	€15,148	+ €678
Payback period	Flat	21 yrs
	Flat – Taxable @ 40% to Tax Free	13 yrs
	SPC increases @ 2% pa	18 yrs

Why bet against the State on your longevity?

PRSI continues during deferral

Does not qualify for any SPC at 66

A person must have started contributing to their social insurance record with full or modified rate contributions 10 years prior to drawdown date if born on/after a January 1958.

- a person reaching drawdown date on or after 6 April 2012 must have paid 520 full-rate employment contributions,

Example ... getting to 520 reckonable contributions

Reckonable contributions by 66	375
Work on for 3 years to **69**	156
Total reckonable contributions	**531**

Will get at least 25.5% of SPC pension @ 69

ARF withdrawals of at least €5,000 pa attract 52 Class S reckonable contributions

Qualifies for reduced SPC at 66 due to low contribution record

They can ***potentially*** increase their *rate* of SPC through additional reckonable contributions after 66, and

have this increased % rate applied to a higher deferred monetary pension.

Two different ways of determining your SPC

- Yearly Average Test
- Aggregated Contributions Method (ACM)
  - N/2080 x max rate of SPC

Yearly average contributions	Personal rate €
48 or over	277.30
40-47	271.90
30-39	249.30
20-29	236.10
15-19	180.70
10-14	110.80

2024 is the last year of getting the 'better of'

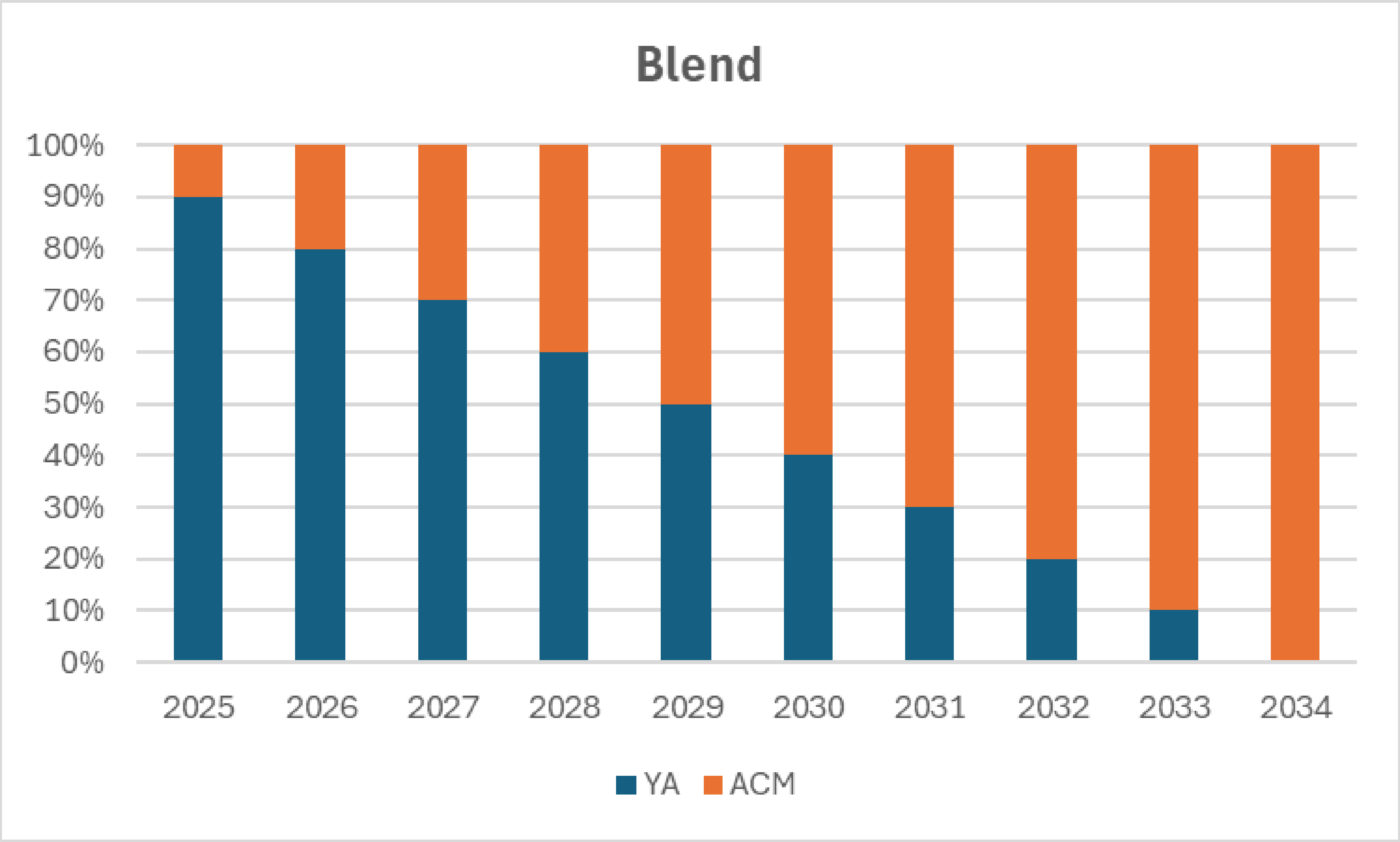
Yearly Average can give higher rate of SPC

Yearly Average reckonable contributions*	SPC rate – Yearly Average	SPC rate – ACM
48	100%	100%
44	98%	100%
35	90%	67%
25	85%	48%
17	65%	33%
13	40%	25%

* Assumed over 40 years

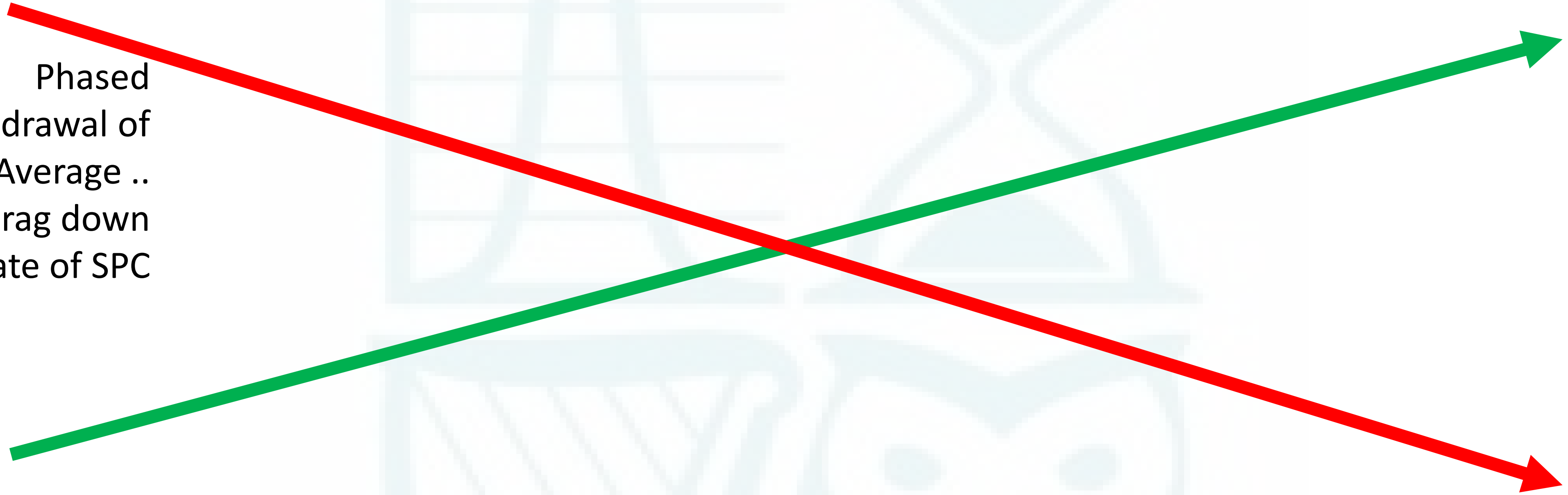
But the Yearly Average basis is being phased out from 1st January 2025

SPC from January 2025 – higher of ACM and blend of ACM + YA



Two opposing forces at play for those not qualifying for max SPC who opt to defer SPC

Phased withdrawal of Yearly Average .. may drag down the % rate of SPC



Increase in monetary SPC for deferral

Example – **640** reckonable contributions by 66 over **35** years

	Reckonable	SPC Max	Rate of SPC	SPC Payable
66	640	€277.30	65.2%	€180.7
67	692	€290.30	62.0%	€179.9
68	744	€304.80	**75.3%**	**€229.4**
69	796	€320.30	71.1%	€227.7
70	848	€337.20	67.4%	€227.2

- It's an individual calculation
- You may or may not gain by deferral and working on
- There may be a 'sweet spot' for deferral

Example – **659** reckonable contributions by 66 over **43** years

	Reckonable	SPC Max	Rate of SPC	SPC payable
66	659	€277.3	65.2%	€180.8
67	711	€290.3	62.1%	€180.3
68	763	€304.8	59.5%	€181.3
69	815	€320.3	57.4%	€183.8
70	867	€337.2	55.8%	€188.1

Three categories who might defer SPC to a later age

- Qualifies for max SPC at 66
- Fails to qualify for an SPC at 66 ... less than 520 reckonable weeks at 66
- Qualifies for reduced SPC at 66, because of low contribution record

Society of Actuaries in Ireland

The Standard Fund Threshold

Tony Gilhawley FSAI

24th October 2024

Budget 2006 … Introduction of Threshold limit

Case Study 1

- SSAS set up.
- The value of the fund at retirement was c. €100 million.*
- 25%* of fund taken as tax-free lump sum.
- The remaining 75%* was invested in an ARF.

Case Study 2

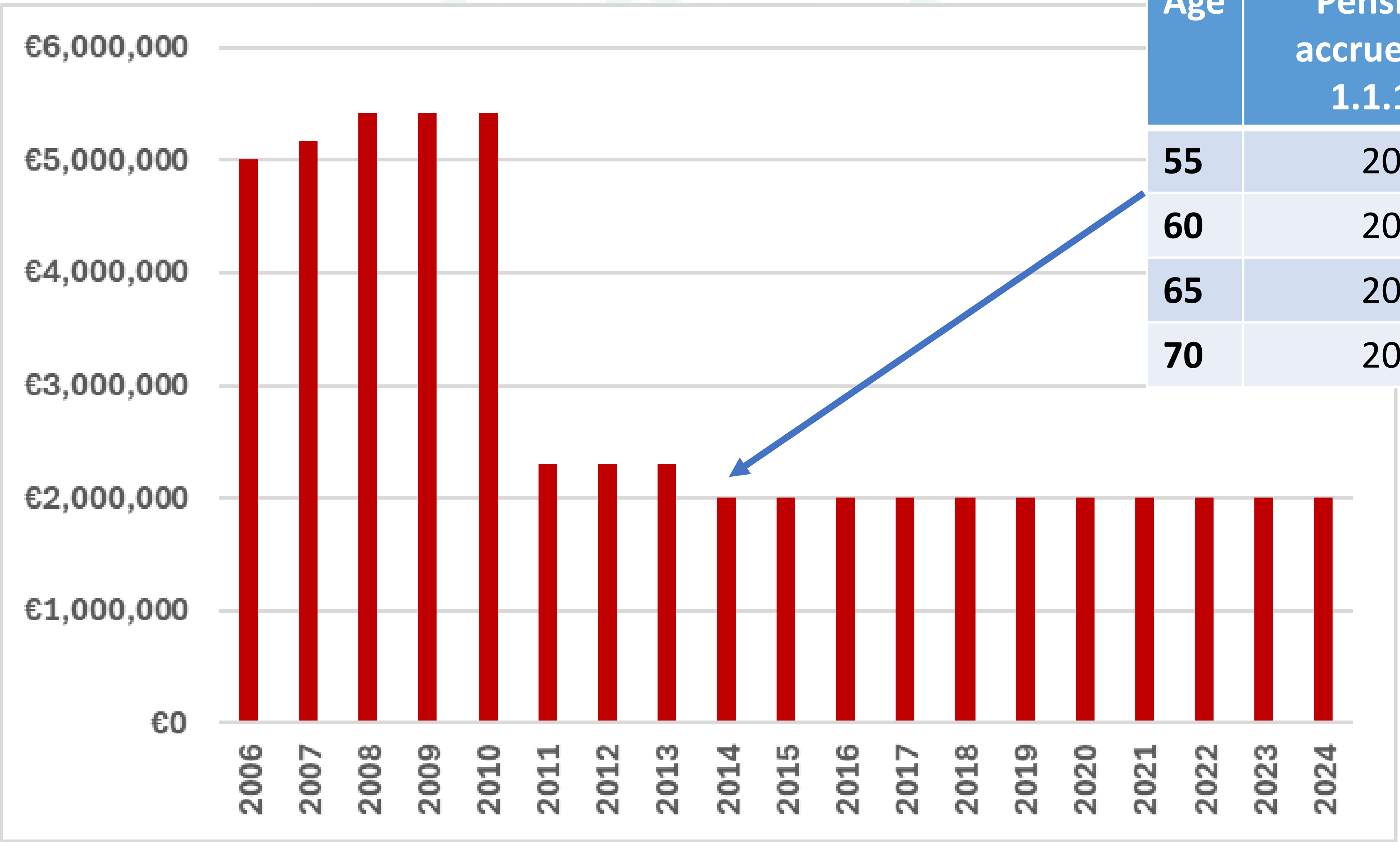
- SSAS set up.
- The value of the fund at retirement was c. €100 million.*
- 25%* of fund taken as tax-free lump sum.
- The remaining 75%* was invested in an ARF.

Information available to date indicates that -

- in both cases all of the contributions to the SSAS appear to have been made by the employer company concerned;
- at the time the SSASs were set up, annual remuneration in respect of each individual was a seven figure sum*;
- at the time benefits were drawn down the average remuneration of each individual over the preceding 36 month period had increased by a multiple of five*;
- the actual benefits payable under both pension schemes were actuarially well within the statutory maximum limits of two-thirds final salary;

Department of Finance – Review of Tax Schemes -Volume III

The Standard Fund Threshold



Age	Pension accrued at 1.1.14	Pension accrued after 1.1.14
55	20	33
60	20	30
65	20	26
70	20	22

The Personal Fund Threshold

Date	Standard Fund Threshold applying at that date	Max PFT which could be applied for at that date
7th December 2005	€5m	> €5m
7th December 2010	€2.3m	€5.4m
1st January 2014 onwards	€2.0m	€2.3m

Benefit Crystallisation Event (BCE)

Become entitled to a lump sum

Become entitled to a pension

Transfer of funds to an ARF/AMRF

Retaining funds in a vested PRSA/RAC

Transferring funds to an overseas arrangement

Chargeable excess tax (CET)

Income Tax charge @ 40% on excess

7th December 2005

Threshold

Chargeable excess

Tax payable within 3 months

Administrator and member jointly liable for tax

Payment of chargeable excess tax (CET)

Private Sector – DB

- Commutation of pension

Public Sector – DB

- Paid in instalments over 20 years

DC

- Recovered from fund

Private sector DB example

Accrued 1.1.14 (APA)	€40,000
Accrued post 1.1.14	€60,000
Total pension at retirement	**€100,000**
Lump sum (gross)	€225,000
Residual pension	**€81,250**
Benefits crystalised	
Pension	€100,000
BCE value of APA @ 20	€800,000
BCE value of balance @ 26	€1,560,000
Total BCE value	€2,360,000
Less Threshold	-€2,000,000
Excess	€360,000
Tax @ 40%	€144,000
Less credit	-€5,000
CET due	€139,000
Pension commuted to pay CET	€11,583
Residual benefits (after CET)	
Lump sum (net)	€220,000
Pension	**€69,667**

Commutation rate of 12:1 assumed

" ...the individual's rights under the relevant pension arrangement are reduced so as to fully reflect the amount of tax so paid."

Public sector DB example

Benefits	
Pension accrued 1.1.14 (APA)	€40,000
Pension accrued post 1.1.14	€60,000
Pension	**€100,000**
Lump sum (gross)	**€300,000**
Benefits crystalised	
Pension	€100,000
BCE value of APA @ 20	€800,000
BCE value of balance @ 26	€1,560,000
BCE value of Lump sum	€300,000
	€2,660,000
Less Threshold	-€2,000,000
Excess	€660,000
Tax @ 40%	€264,000
Less credit	-€20,000
CET due	€244,000
Reduction in gross pension first 20 years	€12,200
Benefits after CET	
Lump sum (net)	€280,000
Pension (first 20 years)	€87,800

Option to repay the CET in instalments over 20 years, interest free, and outstanding instalments written off on death within he 20 year period.

DC example

DC fund crystallised	**€2,500,000**
Less Threshold	-€2,000,000
Chargeable Excess	**€500,000**
Tax @ 40%	€200,000
Less credit	-€60,000
CET due	**€140,000**
DC fund used as follows	
Lump sum (gross)	€500,000
CET deducted	€140,000
Transfer to ARF	€1,860,000
	€2,500,000

" … the individual's rights under the relevant pension arrangement are reduced so as to fully reflect the amount of tax so paid ."

Review of Threshold system

Minister McGrath announces the commencement of the targeted examination of the Standard Fund Threshold regime

From Department of Finance
Published on 14 December 2023
Last updated on 7 February 2024

The Minister for Finance Michael McGrath has today (14 December) announced the commencement of a targeted review of the Standard Fund Threshold (SFT) regime. The examination is being led by an independent expert, Dr. Donal de Buitléir, with support from the Department of Finance.

Review published 18th September 2024

Examination of the Standard Fund Threshold

Dr. Donal de Buitléir

Main recommendations

Increase the SFT to €2.8m and then increase it annually (from 2026?) in line with growth in average industrial earnings.

Reduce the factors used to value DB pension accrued after 1st January 2014. For example, the current factor at 65 of 26 would be reduced to 19.

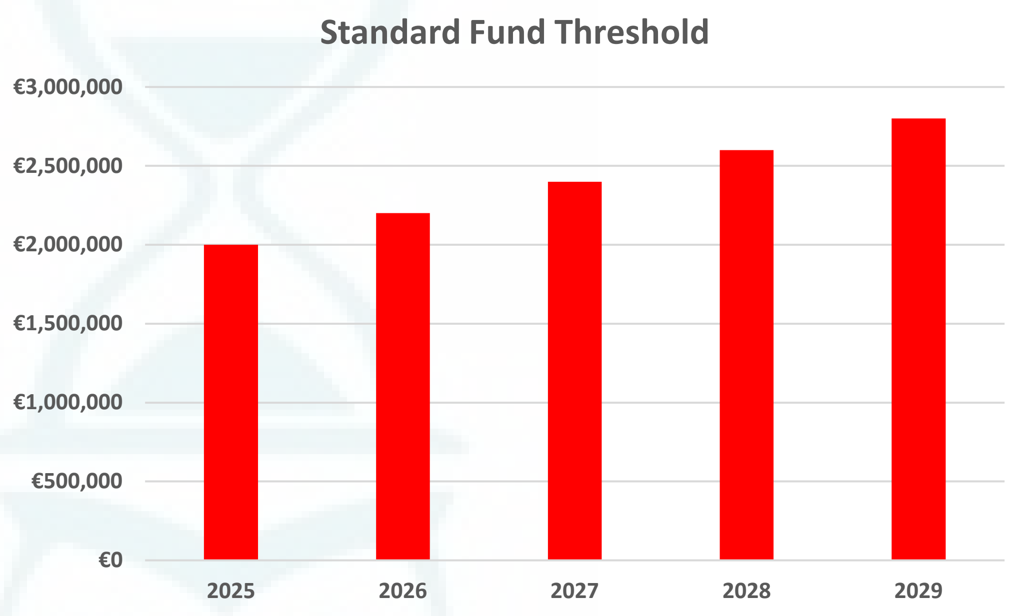
Minister Chambers has today outlined the decision taken by Government in relation to the De Butléir report. Minister Chambers has set out a multi-year plan to implement the recommendations of the report. This includes phased increases in the SFT of €200,000 per year beginning in 2026 until 2029 and then converging the level of SFT with the applicable level of wage growth.

The rate of CET is to remain unchanged with a specific review of the rate to take place by 2030.

The report also recommends revised valuation factors, taking into account the different types of pensions that the factors apply to and in particular, the different types of benefits that are provided. An independent evaluation of the age-related valuation factors proposed in the report will be undertaken.

Staged increase in the Threshold to 2029

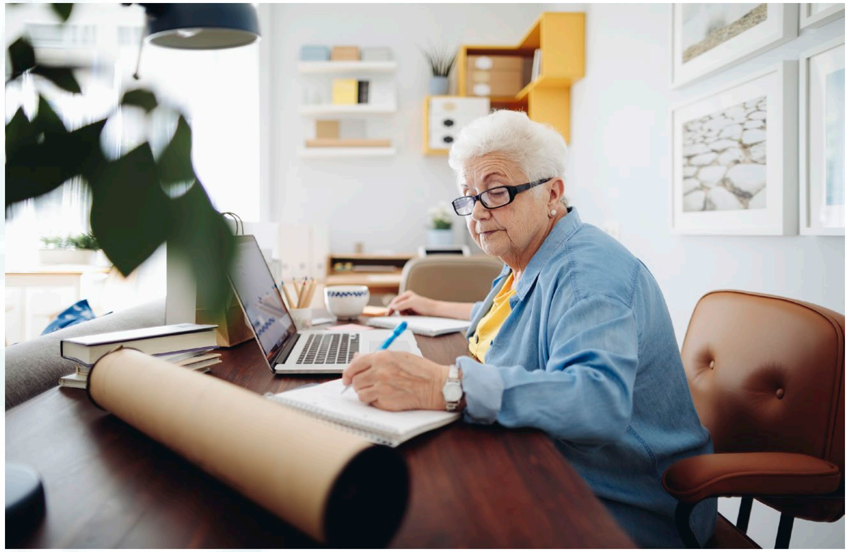
	SFT	PFT*
2025	€2,000,000	€2,300,000
2026	€2,200,000	€2,530,000
2027	€2,400,000	€2,760,000
2028	€2,600,000	€2,990,000
2029	€2,800,000	€3,220,000



Some will not benefit from full/any Threshold increases

Sophie matured €800,000 of benefits in 2024.

Year	Threshold	Value of Prior maturity	Available Threshold
2025	€2,000,000	€800,000	€1,200,000
2026	€2,200,000	€880,000	€1,320,000
2027	€2,400,000	€960,000	€1,440,000
2028	€2,600,000	€1,040,000	€1,560,000
2029	€2,800,000	€1,120,000	€1,680,000



The SFT and value of prior benefits taken increase at the same rate.

€2.8m matured in equal instalments between 2025 and 2029

	SFT	Matured	Value of prior maturities	SFT available after maturities	Excess
2025	€2,000,000	€560,000	€560,000	€1,440,000	0
2026	€2,200,000	€560,000	€1,176,000	€1,024,000	0
2027	€2,400,000	€560,000	€1,842,909	€557,091	0
2028	€2,600,000	€560,000	€2,556,485	€43,515	0
2029	**€2,800,000**	€560,000	€3,313,138	€0	€513,138
		€2,800,000			

Has implications for phased maturity of PRSA benefits

€2.0m already matured in 2023

	SFT	Value of prior maturity	SFT available after maturities
2025	€2,000,000	€2,000,000	Nil
2026	€2,200,000	€2,200,000	Nil
2027	€2,400,000	€2,400,000	Nil
2028	€2,600,000	€2,600,000	Nil
2029	**€2,800,000**	**€2,800,000**	Nil

Factors to value DB accrued post 1st Jan 2014

Age	Current	Proposed	
55	33	23	- 30%
60	30	21	- 30%
65	26	19	- 27%
70	22	16	-27%

Only relevant to public sector and those in private sector with DB benefits.

Example : HSE Medical Consultant POCC23 contract

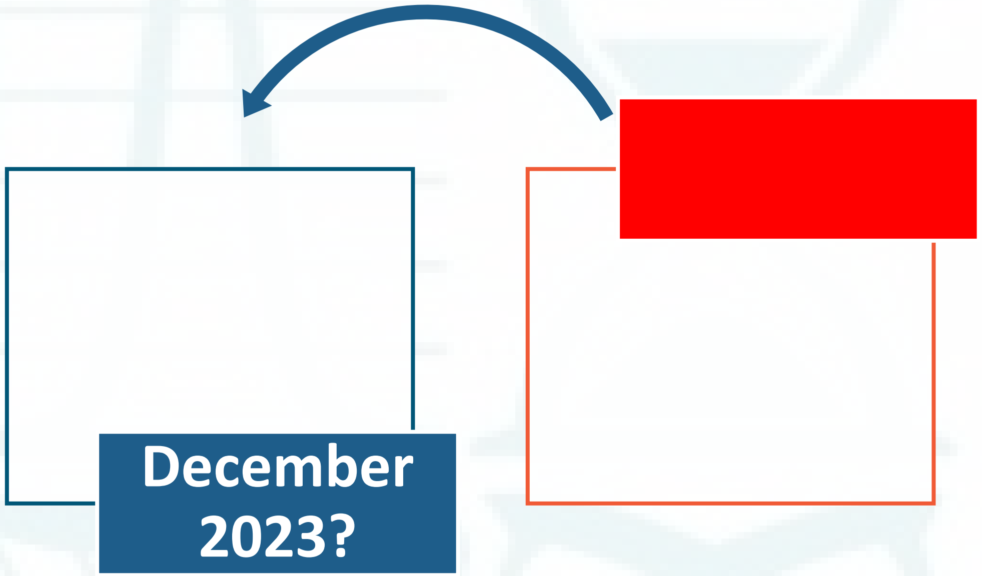
	Retiring in 2024	Retiring in 2029
Pensionable remuneration	€297,500	€297,500
Pension	€134,280	€134,280
Lump sum (before tax)	€446,250	€446,250
Capital value of benefits	€3,637,543	€3,047,579
Chargeable Excess Tax	€605,767	€49,782
After Chargeable Excess tax		
Pension (gross first 20 years)	€103,992	€131,791
Lump sum (after tax)	€397,000	€397,000

From lower factors : €11,800 pa

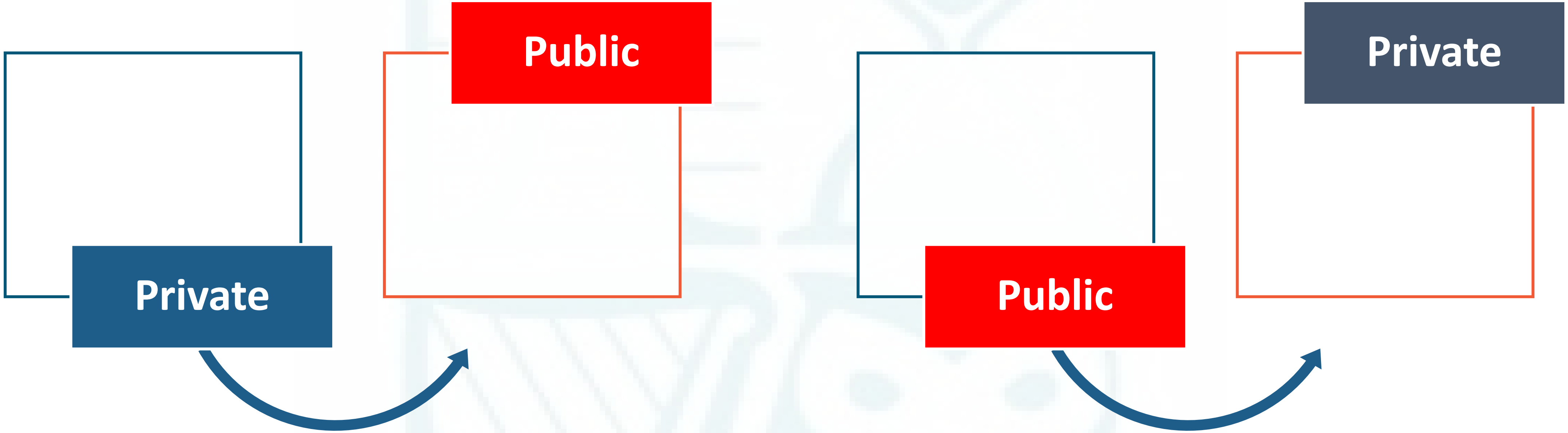
From Increase in SFT: €16,000 pa

Retiring at 65

Backdating of lower factors to recent retirees?



Sequencing benefits … determines where the CET will fall and how it will be paid



Public service employees with private benefits

S787TA Encashment Option

NOT an event for Threshold

Encash private benefits less 42% tax

Public

Full Threshold available for public benefits

After immediate Threshold changes

Public Sector – DB

- S787TA encashment option
- Lower factors to value post 1.1.14 pension accruals
- Higher Threshold
- Can pay CET over 20 years, interest free

Private Sector – DB

- Lower factors to value post 1.1.14 pension accruals
- Higher Threshold

DC

- Higher Threshold

Other De Buitlier recommendations not acted on immediately

Reduce the chargeable excess tax rate to circa 10%

Abolish credit for standard rate tax paid on lump sums	Abolish S787TA Encashment Option

Provide private sector with an option to pay CET over 20 years.

Provide encashment option to private sector

Other De Buitlier recommendations not acted on immediately

PAOs – individualise the SFT?

Abolish €115,000 NRE limit on tax relief

Abolish the age related % limits on tax relief

Society of Actuaries in Ireland

State Pension Contributory Deferral Option & The Standard Fund Threshold

Tony Gilhawley FSAI

26th October 2024

Speaker

Jim Power

Economist

Jim Power has worked as an economist in the private sector for over 35 years. He is owner-manager of Jim Power Economics, an economic and financial consultancy, which he set up in 2009.

He is a graduate of University College Dublin (UCD) with a BA in Economics & Politics, and a Master of Economic Science Degree.

He was previously Treasury Economist at AIB (1987-1991), Chief Economist at Bank of Ireland Group (1992-2000) and Chief Economist Friends First Group (2000 to 2018). He is a board director of Love Irish Food, BMW Financial Services and Arboretum Garden Centre. He is a member of the Institute of Directors in Ireland.

He successfully completed the Institute of Directors Diploma examinations in Company Direction in 2022.

He teaches on the Executive MBA and the Full-Time MBA at Smurfit Business School, UCD.

In February 2021, Jim and Chris Johns launched their own Podcast 'The Other Hand', which is available on Apple Podcasts, Spotify and other podcasts hosts.

He lives in Dublin and is a native of Waterford. He comes from a farming background.

‘Irish Economic Prospects Post-Budget 2025’

IIPM/SAI Webinar

October 24th 2024

Jim Power economics

Global Context

- Global economic mood cautious
- US OK, China & Euro Zone struggling
- Battle against inflation won
- Interest rate cycle has turned
- Labour markets tight globally
- War & Politics the key uncertainties

The Geo-Political Backdrop – Concerning

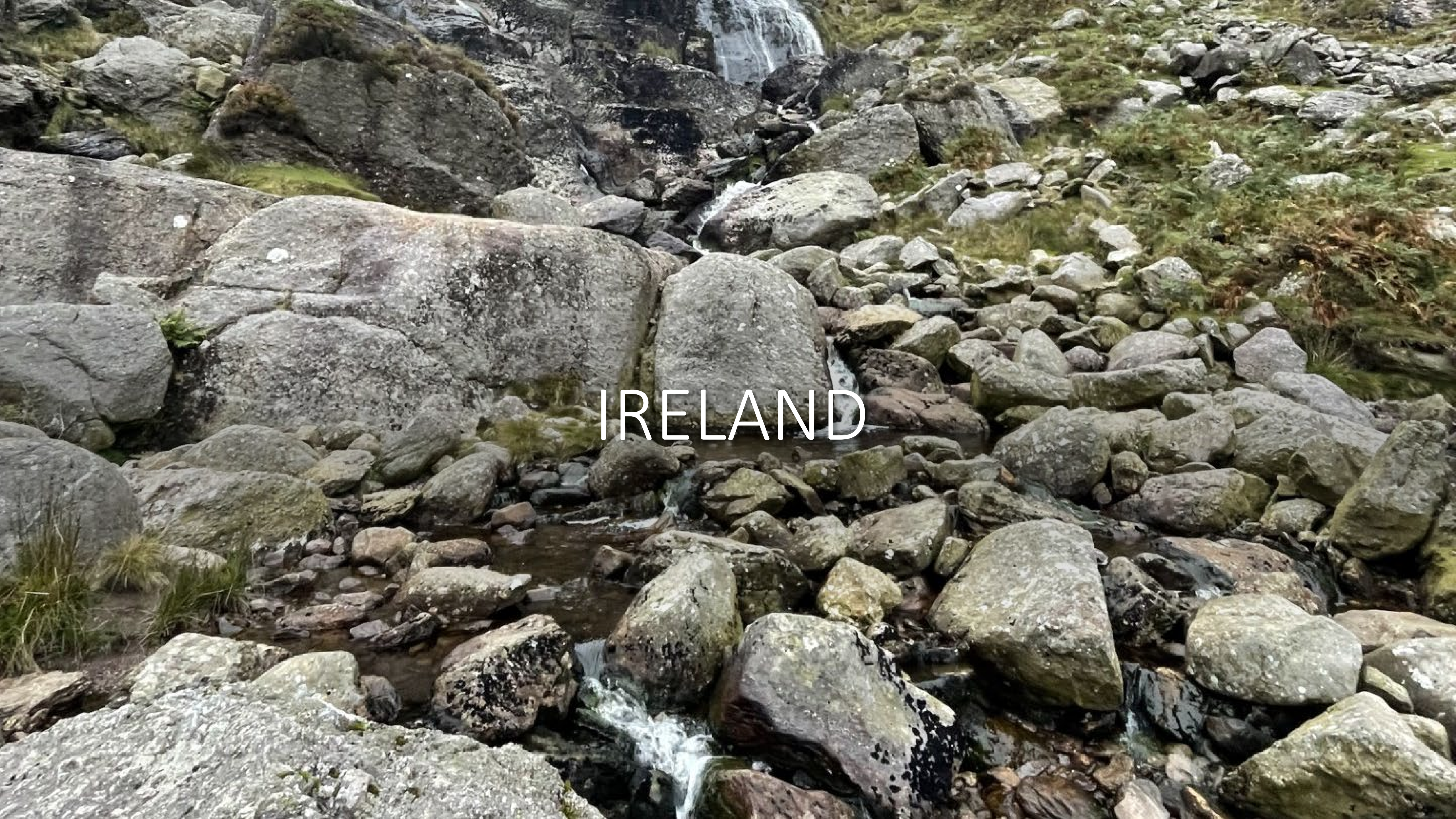
- War is the dominant theme
- Many important elections in 2024
- UK honeymoon turbulent – Budget October 30th
- Austria, Germany, France etc > far-right
- November 5th the big one
- Economic implications of Trump v Harris
- Irish election by March 22nd
- Economic nationalism the threat

Global Inflation & Unemployment

REGION/COUNTRY	INFLATION RATE	UNEMPLOYMENT RATE
Euro Zone	1.7%	6.4%
Germany	1.6%	6.0%
France	1.1%	7.3%
Italy	0.7%	6.2%
Spain	1.5%	11.3%
United Kingdom	1.7%	4.0%
United States	2.4%	4.1%
Ireland	0.7%	4.3%

‘Global Outlook – Stable but Underwhelming’(IMF Oct.2024)

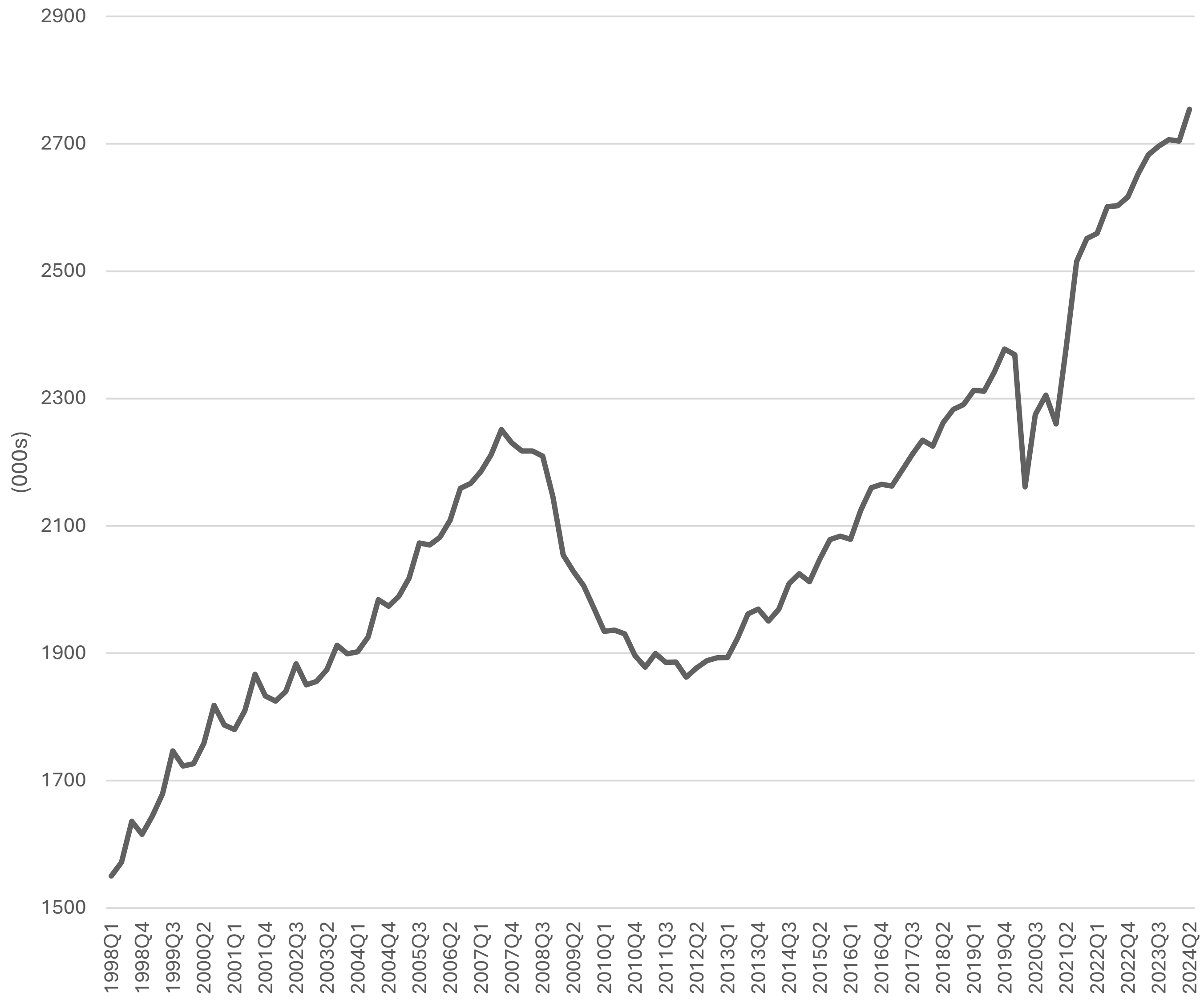
	2023	2024f	2025f
Global Economy	3.3%	3.2%	3.2%
Advanced Economies	1.7%	1.8%	1.8%
Emerging & Developing	4.4%	4.2%	4.2%
United States	2.9%	2.8%	2.2%
United Kingdom	0.3%	1.1%	1.5%
Euro Zone	0.4%	0.8%	1.2%
Germany	-0.3%	0.0%	0.8%
France	1.1%	1.1%	1.1%
India	8.2%	7.0%	6.5%
China	5.2%	4.8%	4.5%


IRELAND

Domestic Background

- Aggregate statistics good
- Tax revenues strong
- Record employment 2.754 million
- Unemployment Rate 4.3% Sep
- Inflation coming down 0.7%
- Consumer spending slower
- Household balance sheet positive
- Housing still the biggest challenge

Employment



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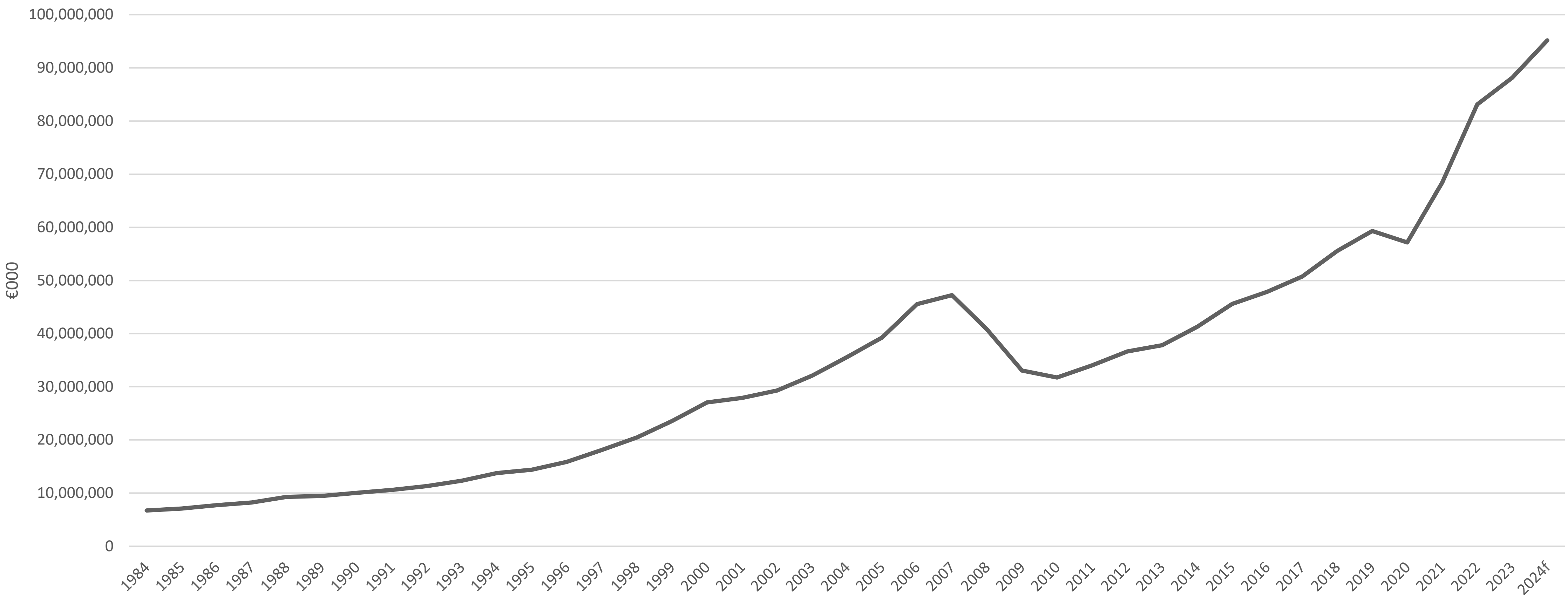
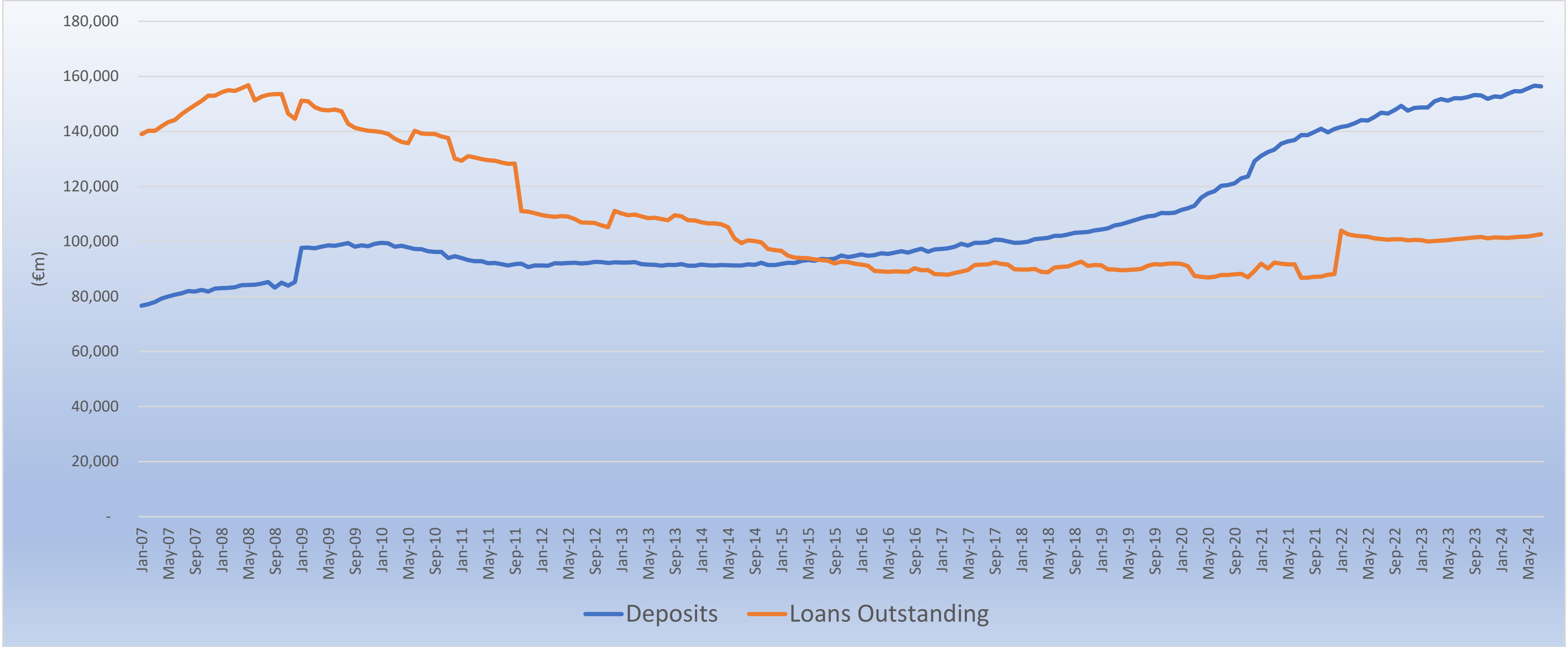
Tax Revenues



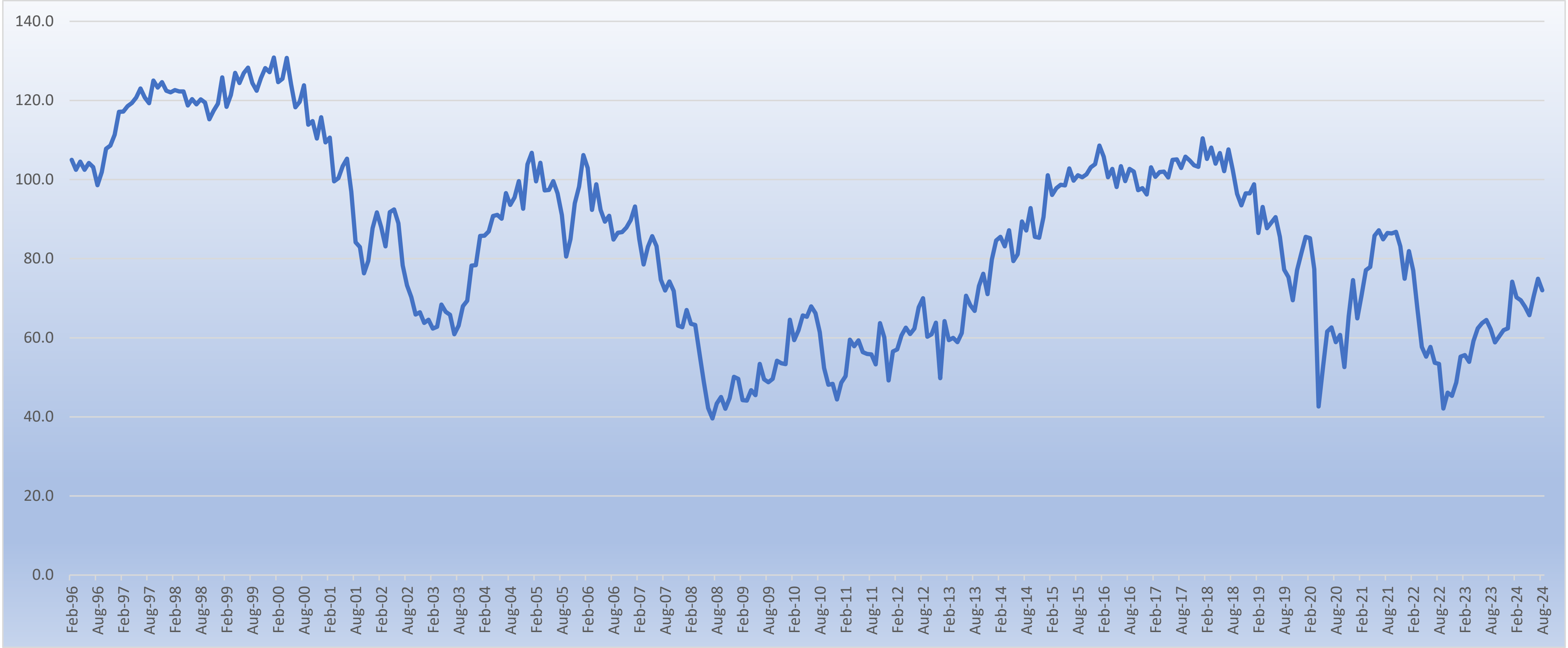
Tax Revenues (Jan-Sep 2024)

	€m	YEAR-ON-YEAR CHANGE (%)	YEAR-ON-YEAR CHANGE (€m)
Income Tax	24,772	7.1%	1,641
VAT	17,941	7.0%	1,172
Corporation Tax	17,804	23.3%	3,360
Excise	4,606	13.0%	530
Stamps	1,078	4.4%	45
Capital Gains Tax	423	-6.4%	- 29
Capital Acquisitions Tax	256	13.5%	30
Customs	422	2.3%	9
Motor Tax	733	2.0%	14
Unallocated Tax Deposits	137	-	3
Other Property Taxes	1	-	1
Total	68,173	+11.0%	6,779

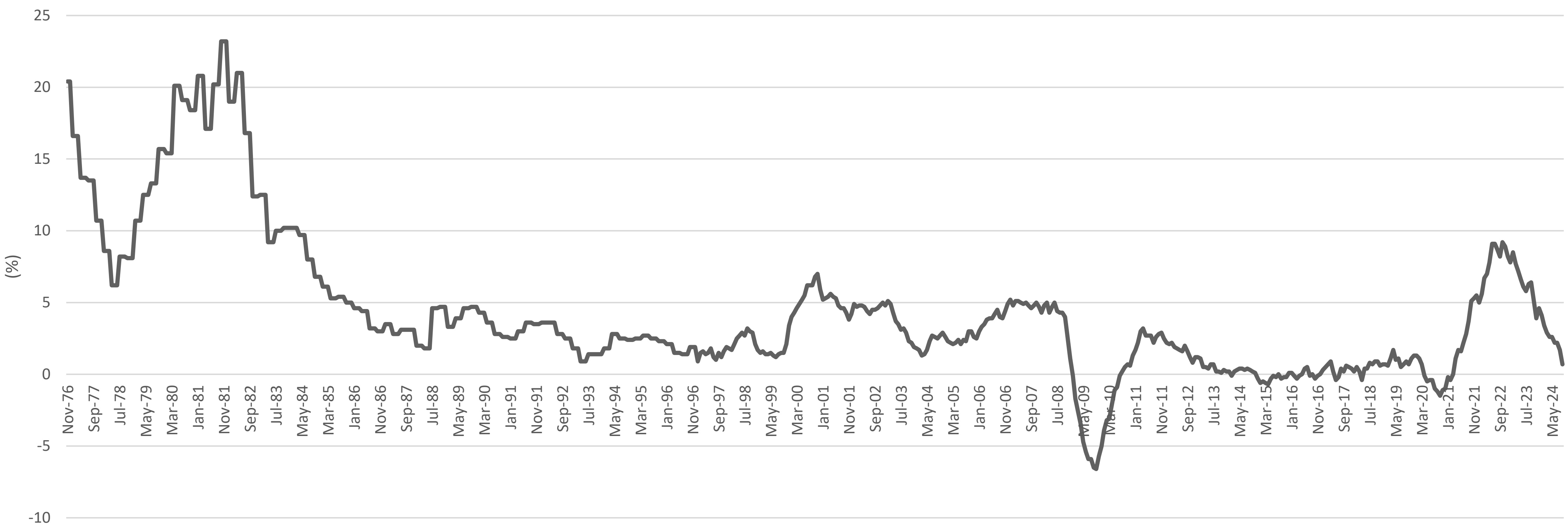
Household Balance Sheet - Healthy



Consumer Confidence



Consumer Price Inflation (YoY)



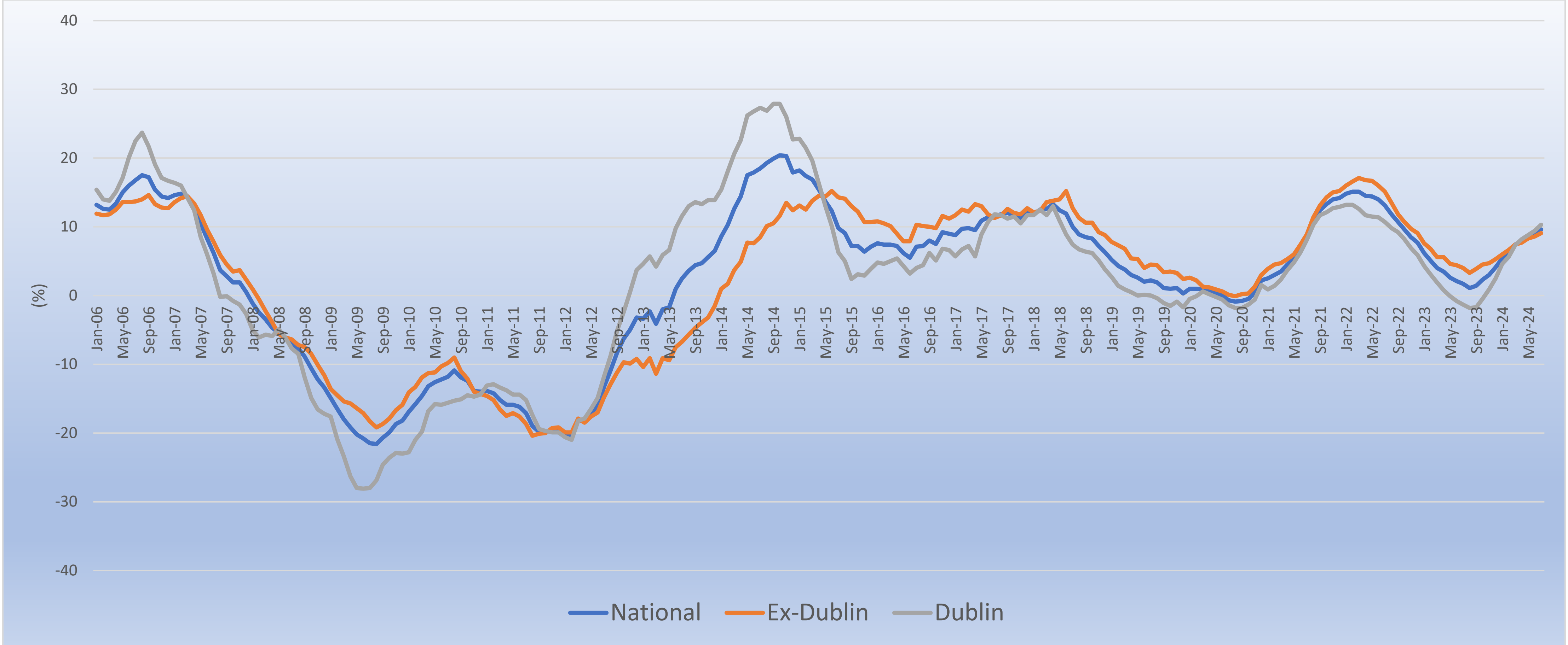
Inflation Rate may be coming down, but cost-of-living elevated

ITEM	% CHANGE SEP 20-SEP 24
All items	20.3
Food and non-alcoholic beverages	21.2
Clothing and footwear	-3.7
Private rents	32.1
Mortgage interest	83.0
Electricity	63.1
Gas	92.9
Health	7.1
Motor cars	26.5
Petrol	26.9
Diesel	32.4
Restaurants, cafes and the like	21.8
Accommodation services	42.9
Hairdressing	20.7
Restaurants, Cafes, Fast-Food/Takeaway	24.7

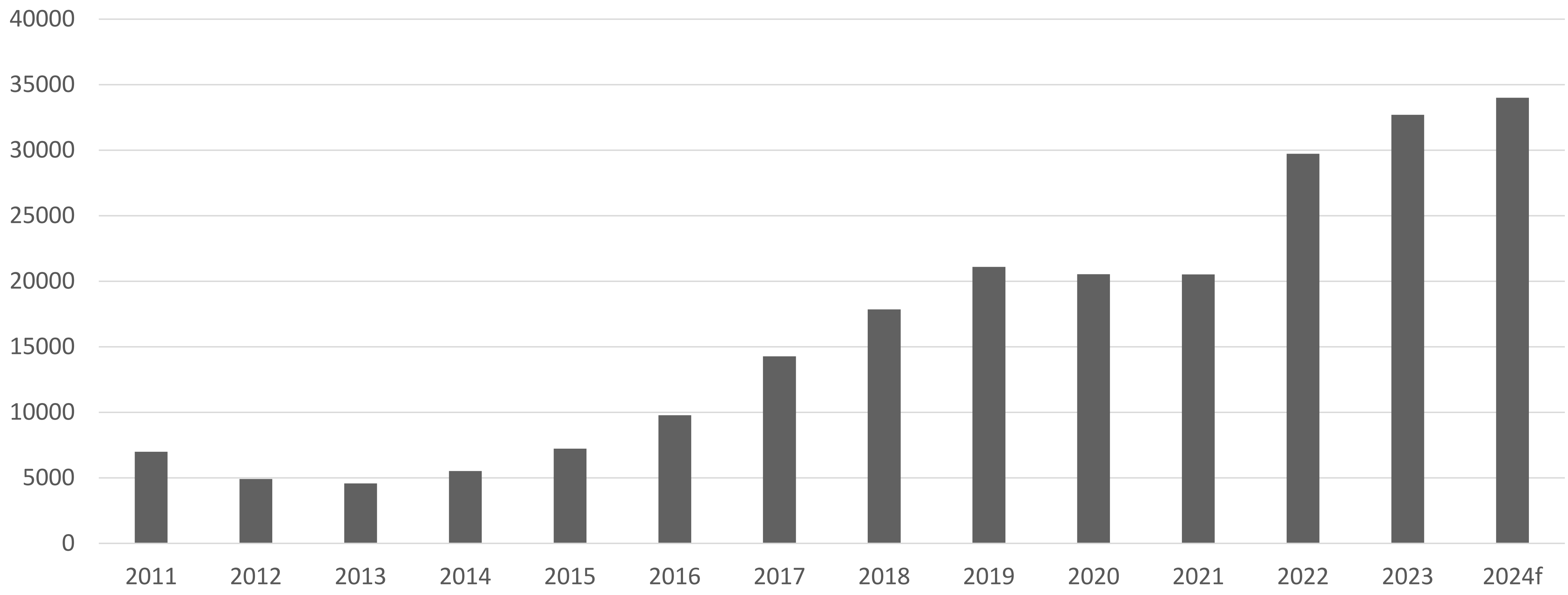
Labour Cost Pressures

- Minimum wage increased by 12.4% on 1st January 2024 & 6.3% to €13.50 Jan 2025.
- The progression towards a living wage.
- Statutory sick pay.
- Parent’s Leave and Parent’s Benefit.
- The addition of an extra public holiday.
- The auto enrolment savings system.
- PRSI increases.

House Price Annual Growth



New Home Completions

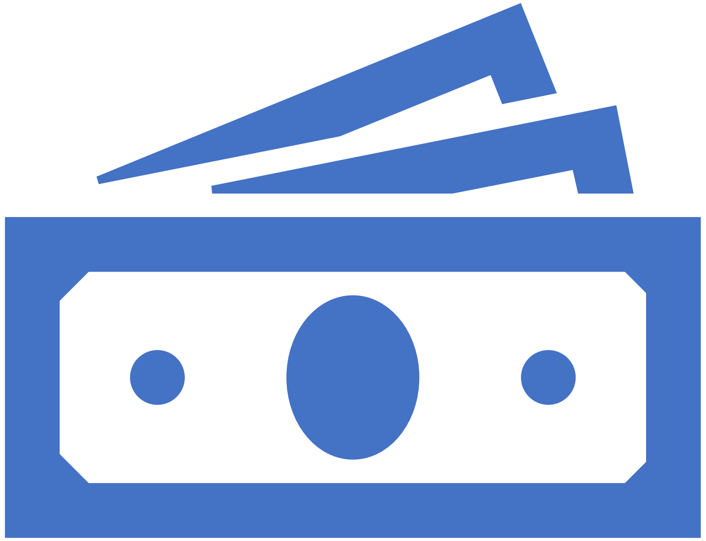


FDI & Broader Challenges

- Pillar 1 & 2 tax changes
- Harris v Trump > profound implications for Ireland
- Skills shortages & Education
- Non-Tax competitiveness ~ Labour Force, Public Services, Energy, Water, Planning (Data Centres), Housing
- Protectionism
- Attitudes to Immigration/Extreme Politics
- Functioning Banking System?

Irish Issues

- Uncertain global economic & political outlook
- Interest rates coming down
- Housing – key component of national competitiveness
- Climate change & Energy Agenda
- Elevated cost of living & cost of doing business
- Infrastructure
- Personal finances healthy, but some pressures
- Politics
- Outlook OK



Budget 2025

- Pre-election budget
- Very expansionary package
- Core Spending increases €6.9 bln; Tax Cuts €1.4 bln & €2.2 bln Cost-of-Living package
- Will add >€1,200 to most households
- Does not risk overheating economy
- Lacks long-term priority vision
- Will boost consumer spending

Key Priorities in Budget 2025

- Impact of elevated inflation and higher interest rates on the cost of living.
- The need to relieve pressure on squeezed middle income earners.
- The increased cost of doing business for small businesses.
- The ongoing pressures on the rental market for both private landlords and renters.
- A general election that must be held before 22nd March 2025.
- Long-term infrastructure imperatives; housing, water, energy, education & transport

Economic Assumptions Underlying Budget 2025

	2023	2024f	2025f	2026f
GDP	-5.5%	-0.2%	3.9%	3.7%
Modified Domestic Demand	2.6%	2.5%	2.9%	3.0%
Modified Gross National Income (GNI*)	5.0%	4.9%	2.7%	2.7%
Inflation (HICP)	5.2%	1.7%	1.9%	2.0%
Personal Consumption	4.8%	3.2%	3.3%	2.9%
Government Consumption	4.3%	1.4%	0.1%	1.0%
Modified Investment	-4.4%	0.2%	1.9%	4.8%
Exports Goods & Services	-5.8%	8.5%	1.9%	3.8%
Employment (000s)	2,685	2,748	2,797	2,839
Unemployment Rate	4.3%	4.4%	4.5%	4.5%
Compensation of Employees	10.9%	7.7%	6.4%	6.0%

Key Thoughts for 2025

- UK has political stability, but fiscal policy tightening
- US election of great importance
- Irish economy doing well
- Interest rates coming down
- Inflation battle won
- Consumer caution
- Concentration risk

PODCAST

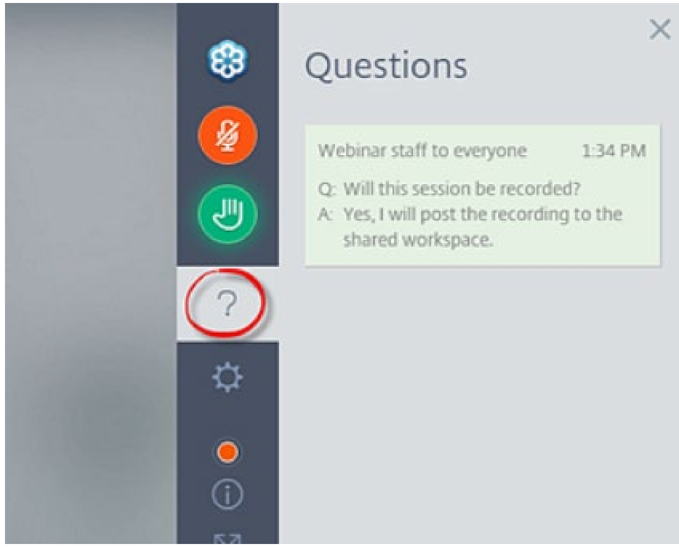
Podcast Launched February 2021 Chris Johns & Jim Power

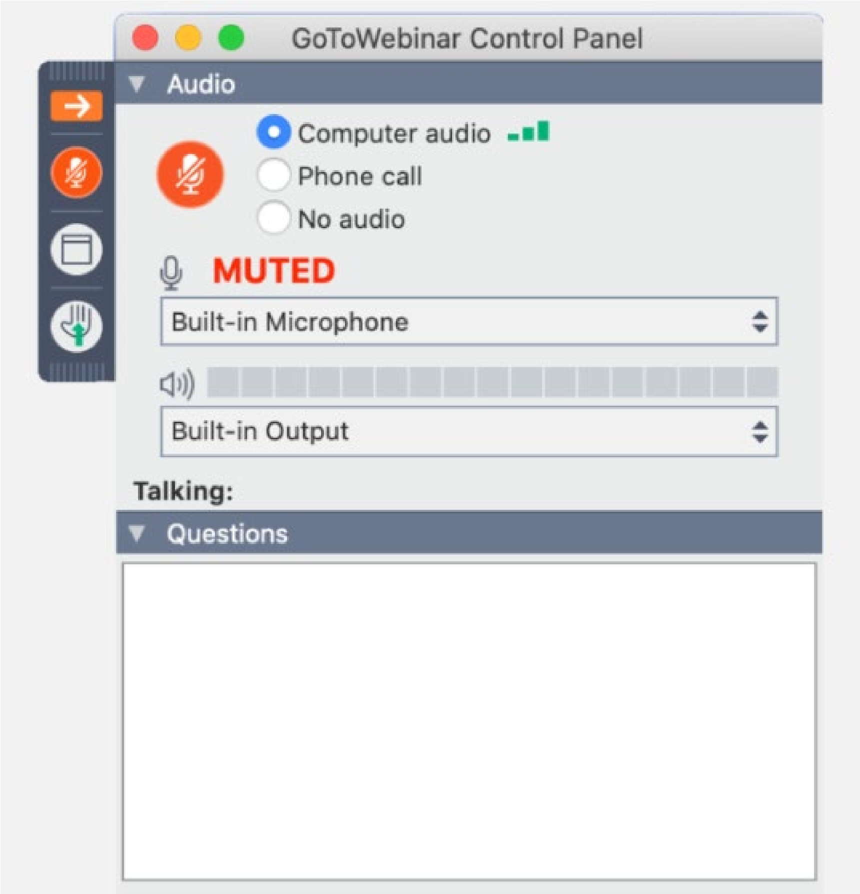
'The Other Hand'

Please check it out & subscribe on Apple Podcasts or Spotify if you like it.

https://cjpeconomics.substack.com/ for ongoing written economic commentary

QUESTIONS FOR THE PANEL





Use the Questions function on the Control Panel to submit a question

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