



An Bord Pinsean
The Pensions Board



Ms Eimear Lavelle
Committee Secretariat
Committee of Public Accounts
Leinster House
Dublin 2

7 December 2011

Dear Eimear,

Further to your letter of 23 November 2011 I write to furnish you with details of expenses claimed by members of The Pensions Board in 2011 and outline details of the Board's communication plans in relation to the 0.6% pensions levy.

The estimated travel and subsistence expenses for members of the board in respect of 2011 are as follows:

- Roz Briggs €400
- John McHale €1,900

In relation to the 0.6% pensions levy the attached Guidance Note has been posted to the Board's website and an e-mail alert notice has been issued to all 3,000 plus subscribers to the Board's "News by E-mail" alert service. The vast majority of the subscribers to the Board's news service are pension professionals including, actuaries, lawyers, accountants, administrators and pension brokers who all work with and advise pension schemes and individuals on their pension options. There are also over fifty members of the media subscribed to this news service.

The Board will also include any further relevant guidance on the levy with the information it proposes to publish by the end of the year and through the early part of next year surrounding the re-introduction of the Funding Standard compliance requirements for defined benefit pension schemes.

Information on the levy will be included in any relevant public seminars, workshops or events where the Board is in attendance. The pensions levy is already included in the Board's online pensions calculators.

I trust you find this information helpful and if you have any further questions please do not hesitate to contact me.

Yours sincerely,


Brendan Kennedy
Chief Executive

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Pensions Board Guidance Note on the 0.6% Pensions Levy

1. Introduction

The pensions levy is a targeted tax being introduced by Government to fund various measures set out in the Jobs Initiative.

The levy is a 4 year stamp duty of 0.6% per annum which will apply to the market value of assets under management in pension funds established in the State and will apply for the four years 2011 to 2014.

- o The asset valuation date prescribed in the Act is the 30 June each year for 4 years (2011 – 2014 inclusive).
- o The levy is due to be paid to Revenue by 25 September each year for 4 years (2011 – 2014 inclusive).

2. Summary of main provisions of the pensions levy as contained in the Finance (No. 2) Bill 2011 which was passed by the Dáil on 9 June 2011.

i. How will the levy be implemented?

The levy will be payable as a stamp duty of 0.6% annually on the aggregate market value of all assets held by a scheme, other than excluded assets.

ii. What constitutes a scheme for the purposes of the levy?

The Finance Bill defines a scheme more broadly than the Pensions Act. It includes:

- (a) occupational pension schemes, trust RACs, small self administered pension schemes and single member schemes;
- (b) buy out bonds;
- (c) individual RACs including RACs for dependants;
- (d) PRSA contracts.

The following are excluded:

- (a) a scheme where the trustees have passed a resolution to wind up the scheme, and the employer is insolvent for the purposes of the Protection of Employees (Employers' Insolvency) Act 1984;
- (b) Approved Retirement Funds (ARFs);

- (c) individual RACs including RACs for dependants, where the lump sum has been paid (e.g. individual has reached NRA and received his lump sum) to the individual entitled to the annuity under the RAC;
- (d) a trust RAC or part of a trust RAC in respect of which a lump sum has been paid to the individual entitled to an annuity under the trust RAC or part of a trust RAC;
- (e) PRSA contracts, where the lump sum has been paid or made available to the PRSA contributor;
- (f) annuity policies held by pensioners directly.

iii. When will the first levy payment be due?

The due date for payment of the first annual levy is 25 September 2011. Thereafter levies will be due to the Revenue on 25 September in each of 2012, 2013 and 2014. The payment must be accompanied by a statement showing the aggregate market value of the scheme's assets on which the levy is payable for the year in question.

iv. What constitutes an asset for the purposes of the levy?

Assets means all property, including investments, deposits and contracts of assurance held for the purposes of the scheme with the exception of "excluded assets".

The definition of "assets" includes annuity policies held by an occupational pension scheme for the purposes of providing pension benefits. This means that where the trustees of a scheme hold annuity policies to pay the pensions of pensioners instead of purchasing an annuity in the individual pensioner's name to discharge the scheme's liability to that pensioner, the asset represented by that annuity policy is liable to the 0.6% annual levy.

"Excluded assets" in relation to a scheme are those assets which are held by the scheme to pay benefits in respect of a member of the scheme whose employment in relation to that scheme is and always was exercised outside the State, or in respect of a pensioner whose employment was always exercised outside the State. These assets will not attract a levy.

v. Are there any exceptions to the "market value" requirement in calculating asset values for the purposes of the levy?

The only exception is that in calculating the market value of land any outstanding borrowings used to acquire the land can be deducted in arriving at the market value.

vi. What is the valuation date for assessing the aggregate market value of a scheme's assets?

The valuation date for the purposes of calculating the aggregate market value of a scheme's assets is 30 June in each levy year. Defined benefit

schemes and one member schemes are entitled in certain circumstances to choose as an alternative valuation date the last day of the accounting period of the scheme ended in the 12 months immediately preceding the 30 June in each levy year.

vii. Who is liable for payment of the levy?

The legislation states that the "chargeable person" will be liable for the payment of the levy.

For all scheme assets which are not contracts of assurance, the chargeable person means the trustees or other persons having management of the assets (for example, in the case of a PRSA, the PRSA provider will be the chargeable person; in the case of an occupational pension scheme the trustees will be the chargeable person).

Where the assets of the scheme comprise contracts of assurance the insurer is the chargeable person in relation to such a contract. However, if the scheme is an occupational pension scheme or trust RAC, the legislation provides that the trustees and the insurer are each liable for the payment of the levy and their liability is joint and several.

viii. Failure by a chargeable person to deliver a statement, or to pay the duty by the due date

A chargeable person must calculate the aggregate market value of the assets of the scheme as of 30 June in each levy year, or on such alternative date as may be permitted in the case of a defined benefit scheme or one member occupational pension scheme and must deliver a statement of the aggregate market value to the Revenue accompanied by the levy payment not later than 25 September in each levy year.

If the chargeable person fails to do so he/she will be liable to pay interest on the levy from that day until payment is made and also a penalty of €380 per day for each day the duty remains unpaid.

ix. Adjustment of Benefits by chargeable persons

Where a chargeable person pays the levy or a portion thereof to the Revenue, he/she can adjust any current or prospective benefits payable to a member of the scheme accordingly.

A chargeable person has the power to sell scheme assets in order to pay the levy and no action shall lie against him for doing so.

The legislation also contains a provision aimed at ensuring that benefits are adjusted in such a way that no member would be liable to pay a levy in excess of 0.6% of the market value of the assets accounting for the scheme's liabilities to that member.

3. The key points to note in relation to the pension levy are:

- a levy of 0.6% of the value of pension scheme assets (excluding contingent assets) will have to be paid on or before 25 September 2011 and annually thereafter for a further three years.
- insurance companies are responsible for the payment where the assets are held in an insurance contract and have the power to reduce benefits as if the levy were an expense.
- trustees/investment managers are jointly responsible for the levy in respect of assets which are not held in an insurance contract
- it is up to the trustees to decide whether and how the levy should be passed on and who should be impacted and to what extent, given the particular circumstances of the pension schemes for which they are responsible.
- trustees will seek reimbursement from the employer in most cases and the outcome will depend on the circumstances of the scheme and the employer. Where the employer will not (or can not) fund directly, then the trustees as an alternative may decide to sell assets and reduce benefits.
- no member would be liable to pay a levy in excess of 0.6% of the market value of the assets accounting for the scheme's liabilities to that member.

4. Options for actual payment of the pensions 0.6% levy

(a) Defined contribution (DC) schemes and personal pensions (RACs and PRSAs):

The pension fund levy will be 0.6% of the market value of these funds as at 30 June each year for the next four years. The total amount that will have to be paid will depend on the market value of the fund on 30 June every year from 2011 to 2014 inclusive.

As an example: Where the value of your fund is calculated at €85,000 at 30 June 2011 then the 0.6% levy is equal to €510. The €510 will be automatically deducted by your pension provider and or your scheme trustees and paid directly to Revenue. This exercise will be repeated for each of the four years while the levy is in place.

(b) Defined benefit pension schemes

The issue of whether and how to reflect the levy by a reduction in benefits is more complex for DB trustees, as the scheme assets and scheme benefits are not one and the same, as is the case for DC schemes.

If the sponsoring employer decides to fund the levy via extra contributions, no benefit adjustment is required.

However, where this is not the case, the trustees need to consider if benefits are to be adjusted downward to match the reduction in assets.

If the trustees feel that the long term viability of the scheme is not under any significant threat, they may choose not to adjust benefits. In effect this will add the levy, over the long term, to the contributions required for the scheme.

If the trustees decide that the levy needs to be reflected in adjustments to scheme benefits (e.g., to avoid the funding level of the scheme being decreased by the levy) then a method of doing this must be devised. There are various ways of approaching this.

The trustees could adjust downward accrued benefits for all members by 0.6% for each year of the levy. For members still in service and accruing benefit, the alternative exists of adjusting the accrual rate for each year of the levy. For pensioners, the trustees could choose to reduce pensions paid during the operation of the levy only, or to make a lower permanent adjustment of equivalent value.

The trustees will also have to consider whether the overall funding position of the scheme and the degree of funding of the various classes of member if the scheme were to windup.

As an example for pensioners of a DB scheme: for every €10,000 paid out to a member, DB schemes would typically have assets of about €150,000. A levy of 0.6% on this €150,000 equates to €900, so, the pension payment of €10,000 will be reduced to €9,100 – this is equal to a 9% reduction in pension benefit being paid to the retired member in respect of that year. Assuming the same approach was adopted for the other years of the levy, the member's pension would return to the full amount of benefit after 4 years.

Alternatively, the pension could be permanently reduced by 0.6% p.a. for each year of the levy, a total reduction of approximately 2.4%

Trustees will need to take appropriate professional advice on this issue.

5. Further information and questions about the pensions levy:

Individuals with personal pensions (RACs or PRSAs) should contact their pension provider, intermediary or broker and have the impacts of the pensions levy and how it is being applied to their pension explained to them.

Members of defined benefit and defined contribution pension schemes should contact the trustees of their pension scheme to understand how the trustees plan to implement the levy and what impacts that will have on their individual pension expectations.

The Pensions Board online sample calculators make an allowance for the recently introduced Pensions Levy (i.e. 0.6% of your Fund Value) until 2014 or your intended retirement year if earlier.

Information on the levy is also available on the following websites:

Revenue – www.revenue.ie

Department of Finance - www.finance.gov.ie