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Changes to the **Standard Fund Threshold**

Client Services Update September 2024

On the 18th of September, Minister for Finance Jack Chambers announced plans for positive changes to the €2,000,000 Standard Fund Threshold (SFT) starting in 2026. Plans include increasing the SFT from €2.0 million to €2.8 million, on a phased basis from 2026 to 2029. From 2030 onwards, the limit will increase to reflect wage growth based on CSO earnings data.

These changes are great news for any civil and public servants who are high earners and/or have large pension pots. They are being introduced following significant recommendations identified within the published Examination of the Standard Fund Threshold (SFT) led by Dr. Donal de Buitléir. De Buitléir highlights that since SFT was introduced in 2005, there has been a serious impact on the recruitment and retention of individuals to senior posts within the public sector, which will increase significantly if nothing is done.

Who will these changes benefit?

- ☑ Those who currently have or have the potential to grow their retirement fund beyond €2,000,000
- ☑ Those considering a promotion in the years before retirement which could push them over this threshold
- ☑ Those planning for retirement in the coming years who may financially benefit from timing their retirement date to align with an increase in the SFT.

What is the Standard Fund Threshold (SFT)?

The SFT is a limit put on that amount of pension people can receive across all of their pension arrangements. Simply put, anything over this threshold will be taxed highly. Despite inflation, there has been no adjustment to the limit in the last 10 years. Between 2014 – 2023 Irish wages inflated by 34%*, which on its own merits an increase of the SFT to €2.68m.

Positive changes coming in 2026

SFT will increase on a phased basis from €2.0 million to €2.8 million over the years 2026 to 2029. From 2030 onwards, the intention is to increase the limit each year in line with an applicable level of wage growth.

Year	Standard Fund Threshold limit
2024	€2 million
2025	€2 million
2026	€2.2 million
2027	€2.4 million
2028	€2.6 million
2029	€2.8 million
2030+	the limit will be increased by a growth rate based on CSO earnings data

A Chargeable Excess Tax (CET) of 40% applies immediately to the value of pension assets over the SFT. This excess may be taxed again as income when the pension is drawn, leading to a combined tax rate of up to 71%.

This rate of CET is to remain unchanged for now, however a specific review of the rate is to take place by 2030 which could result in a rate as low as 10%. This lower rate was suggested in the recommendations report as the current 40% rate is viewed as overly penal.

Will Retirement Lump Sums change also?

No. The current rules will apply and a lifetime maximum tax-efficient lump sum of up to €500,000 can be accessed. The first €200,000 of this lump sum is tax free, and the next €300,000 is taxed at the standard rate of income tax which stands at 20% today.

Both elements of the tax-efficient lump sum will remain at the current levels and will not increase as future increases to the SFT are applied.

In addition to the changes and reviews announced above, there will be reviews of a number of further significant recommendations, including;

- A removal of the annual age and earnings related limits that apply to personal pension contributions on a phased basis.
- An allowance for CET liabilities for all pensions to be spread and paid over a 20-year period.
- A change to capitalisation factors that are used to value defined benefit pensions, leading to a reduction in the value of these pensions for SFT purposes.
- The removal of the dual encashment option applicable to public sector workers (should the rate of CET be decreased to 10%) or, if the encashment option is not abolished, that it is extended to private sector workers.

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*Source: KPMG, Feb 2024, https://kpmg.com/ie/en/home/insights/2024/02/pension-tax-reform-needed.html.