

Company Pension Plans

Company pension plans, or occupational pension plans as they are sometimes known, are set up by employers to provide retirement and death benefits for their employees. There is no legal obligation on a company to set up a company pension plan. These plans are normally set up either under trust or on a statutory basis. Statutory plans are set up by legislation and provide benefits for employees in the public sector or semi-state bodies.

Types of company plans

There are two types of company pension plan:

- Defined benefit plans provide a set level of pension at retirement, the amount of which normally depends on your service and your earnings at retirement. A significant number of Defined Benefit plans make an allowance for the State Retirement Pension when providing a pension. Typically this is achieved by using an offset from salary in respect of the State Retirement Pension. Many plans that aim to provide 2/3rds of a member's basic salary after 40 years' pensionable service calculate the pension entitlement on the member's basic salary less 1.5 times the State Pension.
- Defined Contribution plans, where your own contributions and your employer's contributions are both invested and the proceeds used to buy a pension at retirement. The level of your pension will depend on the amount invested, the return on your investments and the cost of your pension at retirement.

Joining a company plan

You should ask your employer if there is a company plan, what sort of plan it is and whether you can join the plan.

Each company pension plan has eligibility rules. These rules set out who can join the plan, when they can join and the benefits available to them. Some companies make it a condition of employment that employees must join the plan when eligible.

Many company plans automatically include employees for a lump sum death in service benefit immediately on joining the company (even if the employee cannot join for pension benefits or can only join for pension benefits at a later date).

In the past many company pension plans only catered for full-time employees. However following part-time worker legislation in 2001 this is generally no longer the case. Employers must now provide prorated benefits for part-time employees who work at least 20% of the time worked by a comparable full-time employee, unless there are special circumstances whereby part-time employees need not be included.

New legislation in 2003 in respect of fixed term employees means that in many cases employers will need to make their company pension plans available to such employees.

If you are a member of an occupational pension plan you cannot take out an RAC or a PRSA, unless it is an AVC PRSA or unless you have a separate source of earnings, i.e. a separate job or income.

Contributions

Members are often asked to contribute toward the cost of a company pension plan. Contributions tend to be set as a percentage of salary. In a defined contribution plan the

employer's contribution is set out in the plan's documents. In a defined benefit plan the employer normally pays contributions at the level needed to fund the benefits promised.

Additional Voluntary Contributions "AVCs"

AVCs are contributions that a member makes to increase retirement benefits. AVCs are only permitted if the rules of the particular plan permit AVCs to be made. If the rules do not permit AVCs to be made then a member has the right from 15 September 2003 to pay AVCs to a Personal Savings Retirement Account (PRSA) (see section 7).

Tax relief

Member contributions

Your contributions to a company pension plan will normally be paid through payroll. As a result you will receive immediate and automatic tax relief together with relief from PRSI and the health levies. You do not have to claim this relief. The maximum contribution rate (as a percentage of total pay) on which you can receive tax relief is:

Highest age at any time during the tax year	Rate
Under 30	15%
30-39	20%
40-49	25%
50-54	30%
55-59	35%
60 and over	40%

For tax relief purposes these contributions are limited to earnings up to a maximum of €150,000 in any tax year.

Employer contributions

You are not taxed on any employer contributions paid to a company pension plan.

Investments

All funds invested in a company pension plan roll-up free from income tax and capital gains tax.

Investment of contributions

If you are a member of a defined contribution plan you may be provided with a range of investment options. You should carefully review the information provided on any option offered before making any decisions. It is important that you periodically review any investment decision taken, especially in the years running up to retirement as you may wish to protect any investment gains made.

When and how can a member receive benefits?

Normal retirement

Company pension plans provide benefits at the plan's normal retirement age. Your pension will typically be based on your years in the company or plan and your earnings at retirement. If you work in the private sector your options would normally consist of:

- a pension, or

- a tax-free lump sum and a reduced pension.

If you work in the public sector your plan would normally provide a fixed level of pension and an additional tax-free lump sum.

Depending on the rules of any particular plan your pension may or may not increase in payment.

Pensions in payment are taxable as income under the PAYE system and are also subject to the health levies.

A plan member with AVCs may, if the rules of the plan permit, use their AVCs to provide:

- All or part of the tax-free lump sum,
- Additional pension,
- A payment to an Approved Retirement Fund "ARF" or an Approved Minimum Retirement Fund "AMRF" (see section on "Retirement Planning"),
- A taxable lump sum (see section on "Retirement Planning").

A company Director who controls more than 5% of the voting rights in their company may use the ARF, AMRF or taxable lump sum options as a vehicle for all retirement benefits arising from that company's plan.

Early retirement

Most company pension plans in the private sector permit members to retire early with the employer's and/or trustees' consent from age 50 onwards. Many plans allow members to retire due to ill-health at any age.

With a defined benefit plan early retirement benefits are normally lower to allow for the additional cost of paying benefits early and for a longer period. With a defined contribution plan the fund available to provide your benefits would be lower on early retirement (as fewer contributions will have been paid and those paid would be invested for a shorter period). In addition, the cost of buying your pension would be more expensive.

Death in service

Company pension plans typically provide benefits should you die in employment. The precise form of these benefits will depend on the rules of any particular plan. These benefits may however include one or all of the following:

- A lump sum, often a multiple of your salary,
- A refund of your contributions, including any AVCs,
- A spouse's or partner's pension, payable for life,
- A child's or orphan's pension, normally ceasing at age 18 (later if in full-time education) and may be limited to a maximum of 2 or 3 children.

Death in retirement

It is usual for a company pension plan that is a defined benefit plan to provide some form of benefit in the event of your death in retirement. The types of benefits provided on death in retirement include:

- A widow/widower's or dependant's pension, usually expressed as a percentage of your pension or salary,
- A guaranteed minimum payment period, typically 5 years. This ensures that your pension will be paid for a minimum period even if you die shortly after your retirement.

The actual benefit payable depends on the rules of each plan.

Ill-health

Your employer's pension plan may provide a benefit in the event that you are unable to work due to a serious illness. Alternatively your employer may provide some form of insurance to cover such an event.

You may wish to consider taking out some form of disability insurance to ensure an income is available in the event of disability, if the above benefits are not provided by your company pension plan or by your employer's insurance.

Leaving the employer

Membership of a company pension plan ceases when you leave that employment. If you have more than two years Qualifying Service, which normally means two years in the plan as a member for pension purposes, you will be able to:

- Leave your benefit in the plan until you retire (known as a deferred or preserved benefit),
- Move or transfer the value of your pension benefits to another pension arrangement.

If you leave a defined benefit plan your deferred benefit is not frozen, it increases each year until your retirement by 4% or the annual increase in Consumer Prices Index (CPI) if less. In a defined contribution plan your deferred benefit continues to be invested and benefit from investment returns.

You may be obliged if you have less than 2 years Qualifying Service when you leave service to take a refund of the value of your own contributions less tax at the basic rate. Some plans may permit you to leave your contributions in the plan even though they are not required to do so by law. AVCs are treated in the same way as main plan benefits.

Portability

If you leave a company pension plan with a preserved benefit you are entitled to move the value of your benefit to:

- Your new employer's pension plan,
- A PRSA if you have less than 15 years service in the company pension plan and subject to its acceptance by the PRSA provider,
- A buy-out bond, which is a life assurance policy designed to receive transfer values from company pension plans,
- An overseas pension plan in certain circumstances.

In a defined contribution plan the value paid will be the encashment value of the investments held in your individual fund less any expenses authorised by the plan rules.

In a defined benefit plan a value is placed on the benefit payable from the company pension plan using a standard basis of calculations. This value can however be reduced if the company

pension plan from which it is being paid does not meet the minimum funding basis set out in the Pensions Acts 1990 - 2002.

Maximum benefit limits

All benefits paid from a company or statutory plan are subject to maximum limits set by the Revenue or by the relevant Statute. In summary, in a company plan these limits are:

- A pension on retirement from service at normal retirement age of 2/3rds your Final Remuneration , if you have completed 10 years service, or
- A tax free lump sum on retirement from service at normal retirement age of 1.5 times your Final Remuneration, if you have completed 20 years service and a reduced pension,
- A dependant's pension up to 100% of your own pension.

Final Remuneration is defined by the Revenue. In most cases it is based on an employee's final basic salary plus a 3 years average of their fluctuating emoluments (e.g. bonus or overtime).