

Employer Contributions to Occupational Pension Schemes

By Paul Victory

In June 2002, the Retirement Benefits District announced changes to the rules relating to employer contributions to occupational pension schemes. Paragraph 4.1 of Chapter 4 of the Revenue Pensions Manual was replaced by the following wording:

"It is a condition of approval of a scheme that the employer must contribute to it but, subject to the considerations mentioned in Chapter 5 and any funding requirements imposed by the Pensions Acts (as regulated by the Pensions Board), the timing of the contributions is a matter for the employer.

While Revenue will not insist that there be a stated minimum level of employer contributions, it will continue to be a requirement that such contributions be 'meaningful' in the context of the establishment, operation of and the provision of benefits under a scheme. For instance, in the circumstances where an employer would bear the cost of the establishment of a scheme and the ongoing operating costs of the scheme in addition to meeting the costs of the provision of death in service benefits under the scheme, such overall

contributions would generally be considered to be meaningful. In other circumstances, an employer's contributions which would be not less than 10% of the total ordinary annual contributions to a scheme (exclusive of employee voluntary contributions) would always be considered to be meaningful.

It will always be open for employers and their advisers to approach the Retirement Benefits District to discuss the circumstances of particular schemes."

INTERPRETATION OF NEW RULES

When the change in Revenue practice was announced, a circular was issued to IAPF members setting out the revised Paragraph 4.1 as shown above and containing the following summary of the main changes:

1. The timing of contributions is left up to the employer. Previously the 1/6th:5/6ths rule was applied on a year to year basis under defined contribution schemes.
2. The 1/6th rule has been replaced by a 'meaningful' contribution, which would

include either picking up the administration and death in service costs or paying 1/10th of the total cost.

3. The 1/10th limit is calculated on a scheme wide, rather than an individual basis.

4. AVCs are ignored in assessing whether the 1/10th limit is being met.

Taken in combination, the above changes represent a major relaxation of Revenue requirements. Not only is the contribution required from employers reduced significantly, but employers also have more flexibility regarding the timing of contributions and the way in which employer contributions are spread across the scheme membership.

APPLICATION OF NEW RULES

Those in doubt as to the application of the new limits for a particular scheme were encouraged to approach the Retirement Benefits District as noted in the final sentence of the revised paragraph 4.1.

While the first two points did not appear to cause any difficulties, the position regarding points 3 and 4 has caused

some confusion in cases where the employer is not paying the administration and death in service costs.

In such cases, Revenue practice permits the employer to pay less than 1/10th of the individual cost for some employees provided the overall 1/10th limit is met across the scheme. However, there are two conditions that must be met, as follows:

a) If the employer operates more than one pension scheme, the 1/10th limit must either be met for each scheme (in cases where there are different members in each scheme) or for each member (in cases where an employee is a member of more than one scheme of the employer).

b) There must be some employer contribution paid in respect of each employee.

On point 4, while AVCs can be ignored in calculating the 1/10th limit, AVC only members are not permitted unless the employer is paying the administration and death in service costs for those members. This is perhaps best summarised as a new point 5, namely:

5. AVC only members are permitted provided the employer is paying the administration and death in service costs for these members.

It should be noted that this allows employers an alternative to PRSAs as a means of providing their employees the minimum required access to pensions.

REVENUE LIAISON SUB-COMMITTEE

The purpose of the IAPF Revenue Liaison Sub-Committee is to provide a forum whereby IAPF members can raise general queries relating to Revenue practice for discussion with the

Retirement Benefits District and the Retirement Benefits District can clarify current practice and communicate changes in practice to members of the IAPF.

It is intended to hold regular meetings with the Retirement Benefits District and to re-establish the practice of issuing regular Revenue Practice Updates that ceased in January 1997 following the publication of the Revenue Pensions Manual.

Members who wish to have matters discussed at these meetings should submit their queries to me at paul.victory@eu.watsonwyatt.com or to Nora Finn at nfinn@iapf.ie.



**Paul Victory,
Chairman,
Revenue Liaison
Sub-Committee**



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