Spotlight

Hewitt

A retirement and investment update from Hewitt Ireland

October 2008 ***Issue 13***

Budget 2009 and other recent developments

In this issue of Spotlight, we outline

- The provisions included in the Budget which impact on pension provision
- Extension in the timescales for the submission of funding proposals for defined benefit pension schemes
- Registration of Administrators

Budget 2009

The Minister for Finance, Brian Lenihan, delivered his first Budget on 14 October. The Budget was brought forward from its traditional December date because of the worsening state of the public finances due primarily to the collapse of tax revenues. The Minister elected to target a deficit of over €12 billion for 2009, or about 6.5% of GDP, which was greater than many commentators had expected, and accordingly the revenue raising measures were less wide-ranging than had been predicted, although some of these e.g. the increases of 0.5% in the 21% VAT rate, and 2% in the rate of capital gains tax, were unexpected. The most significant change in personal taxation is the introduction of an income levy of 1% on earnings up to €100,100 and 2% on earnings in excess of this. There is also an increase of 3% in the rate of Deposit Interest Retention Tax (DIRT).

The Minister stated that

"The Government is concerned that some of the more expensive tax reliefs, especially for the better off, should be scaled back and the resources used, as appropriate, to protect those taxpayers who are most vulnerable in these times."

However, the Budget provisions which he announced affected middle to high income earners less severely than had been anticipated, with only a modest increase in the employee PRSI ceiling to €52,000, and the continuation of marginal rate deductibility for pension contributions. The Minister did announce a significant reduction in the maximum earnings on which tax deductible pension contributions could be made for 2009 (from €275,239 to €150,000). No indexation will be applied to the Standard Fund Threshold (currently €5,418,085) and Personal Fund Thresholds for 2009.

The contributory State pension will Increase by €7 per week (half of last year's Increase) to €230.30 per week. This Increase of about 3% is slightly higher than the anticipated level of price Inflation next year, and will do little to reduce the liabilities of defined benefit defined pension schemes which are integrated with the State pension.

The Minister also referred in his speech to possible changes in the National Pensions Reserve Fund:

"I am conducting a review of the National Pensions Reserve Fund in the context of recent economic and financial developments. It is my intention to complete this review before the end of the year. Any changes requiring legislation will be brought forward in due course."

This appears to supports the view of some commentators that the Fund will be called upon if the Government is forced to recapitalise the banks.

With the framework for pensions following the Green Paper consultation exercise expected before the end of the year, and with the Commission on Taxation yet to report, there may be more significant changes to pensions and tax legislation in the medium term.

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Extension of deadlines for submission of funding proposals

At the IAPF Annual Conference on 2 October, the Minister for Social and Family Affairs Mary Hanafin announced that, as a temporary measure, the Pensions Board would be asked to allow trustees additional time to submit funding proposals. The Pensions Board has now confirmed that trustees who are required to submit funding proposals in respect of Actuarial Funding Certificates with an effective date falling between 31 December 2007 and 31 December 2008 inclusive will be allowed 18 months to do so. The additional time only relates to the submission of the funding proposal and the Actuarial Funding Certificates should be submitted as normal i.e. within 9 or 12 months of their effective dates.

This is a temporary measure and normal deadlines will be enforced for funding proposals arising from Actuarial Funding Certificates with an effective date on or after 1 January 2009.

This will allow trustees and scheme sponsors "breathing space" to review the position of their scheme in continuing volatile market conditions. It is, however, important to realise that this announcement merely extends the compliance deadline for filing of the proposal and does not increase the maximum period of the funding proposal itself, which is 3 years from the effective date of the Actuarial Funding Certificate, or such longer period as the Pensions Board may permit.

The Department and the Pensions Board are continuing to monitor the position in the light of current turbulent market conditions, and have been in discussion with representative bodies on the issue.

Registration of Administrators

The deadline for Trustees to appoint Registered Administrators (see Spotlight 12) to prepare annual reports and member benefit statements is 1 November 2008, and all administrators must register with the Pensions Board and provide them with a list of schemes for which they have been appointed by that date. Hewitt Associates is in the process of doing this in respect of all schemes for which administration services are provided, but if you need any further information on this, please contact your Hewitt consultant.

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