Retirement before "normal retirement age"

Chapter 9

This Chapter should be read in consultation with section 772 Taxes Consolidation Act 1997.

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Revenue
Cáin agus Custaim na hÉireann
Irish Tax and Customs

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9.1. Early retirement benefits

Early retirement benefits may be provided on or after the employee reaches 50 years of age. The legislative basis for this is as follows. Section 772 (3)(a) Taxes Consolidation Act 1997 (TCA) provides that a "benefit for an employee is a pension on retirement at a specified age not earlier than 60 years". This is qualified by section 772 (4)(b)(ii) TCA, which allows Revenue to approve a scheme which "allows benefits to be payable on retirement within 10 years of the specified age", and 50 years is within ten years of 60 years.

9.2. Ill-health

If retirement is caused by ill-health, benefits may be paid immediately, regardless of the employee's age. The benefit may be the same fraction of final remuneration the employee could have received had they remained in service until "normal retirement age" (NRA). For the purposes of this paragraph, benefits include pensions and/or lump sum.

9.3. Pension benefits

In cases other than paragraph 9.2 above, the maximum immediate pension is the greater of:

a) 1/60th of final remuneration for each year of service, regardless of retained benefits

   or

b) $\frac{N \times P}{NS}$

Where:

N = number of actual years of service
P = maximum pension approvable had the employee served to NRA
NS = number of years of total potential service to normal retirement age had service continued until then.

Any restriction for retained benefits should be made in arriving at P and before applying the N/NS fraction.

The formula is subject to the qualification that if the employee's actual service is less than ten years, the pension should not exceed the lesser of:

(i) the maximum approvable at normal retirement age for the same service in accordance with the table in Chapter 6.6,

(ii) two thirds of final remuneration less any retained benefits.

Example:

Alex retires after nine years' service, one year before their normal retirement age. Their salary at retirement is €21,000 and their retained benefit is €3,000.

N = 9 (years of service)
NS = 10 (years of potential service to Normal Retirement Age)
FR = €21,000 (Final Remuneration)
RB = €3,000 (Retained Benefit)

If the pension was computed on the basis of (a) above, it would be:

Final salary (€21,000) multiplied by years of service (9), divided by 60 = €3,150

If the pension was computed on the basis of (b) above:

$$\frac{N \times P}{NS} = \frac{9 \times [(2/3 \times 21{,}000) - 3{,}000]}{10} = €9{,}900$$

The pension calculated using (b) is higher than using (a). Since Alex had less than ten years' service, their pension cannot exceed the lesser of:

(i) 36/60 x 21,000 = €12,600 (Maximum uplifted scale for actual service as per Chapter 6.6) or

(ii) (2/3 x 21,000) – 3,000 = €11,000 (2/3rds final remuneration less retained benefits).

The figure at (ii) is lower than (i); and the pension as calculated under (b) does not exceed (ii), so the maximum early retirement pension Alex can obtain is €9,900 per annum.

9.4. Lump sum benefits

In cases other than paragraph 9.2 above, the maximum immediate benefit is the greater of

(a) 3/80ths of final remuneration for each year of actual service

or

(b) $\frac{N \times LS}{NS}$

Where:

N = number of actual years of service (as in paragraph 9.3 above)
LS = the maximum lump sum receivable had the employee served until NRA less retained benefits and may take into account the increased benefits detailed in Chapter 7.2
NS = number of years of total potential service to NRA had service continued until then (also as in paragraph 9.3).

If the employee's service is less than 20 years, the benefit should not exceed the lesser of:

(i) the maximum approvable at NRA for the same service in accordance with the table in Chapter 7.2,

or

(ii) one and a half times final remuneration less retained lump sum benefits.

9.5. Deferred benefits

If an employee retires early and defers benefits until NRA the relevant limits are set out in Chapter 12.15.

9.6. 20% directors

Generally, where a director with at least 20% interest in a company takes early retirement benefits, the director must sever all links with the business, including the disposal of all shares in the company.

9.7. Encashment option

Section 787TA TCA provides for "the encashment option", which allows a one–off opportunity for individuals with dual private and public sector pension arrangements, who meet certain conditions, to encash their private pension rights, in whole or in part, from age 60 (or earlier, where retirement is due to ill health) with a view to eliminating or reducing the chargeable excess that would otherwise arise when their public service pension crystallises.