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Irish Life

Pensions and impacts of Covid-19

Pension Advisory Services - Irish Life Retail

Currently where employers and individuals are facing significant interruptions to normal business, people will have questions about their options on pensions and pension term assurance. We have set out information below that we hope will help you when assisting your Executive Pension, Additional Voluntary Contribution (AVC), Personal Retirement Savings Account (PRSA) and Personal Pension clients.

Contents

COVID-19 TEMPORARY WAGE SUBSIDY SCHEME AND EMPLOYMENT WAGE SUBSIDY SCHEME

These Wage Subsidy Schemes provides the payment of income supports to employers in respect of eligible employees where the employer's business activities have experienced significant negative disruption due to the Covid-19 (Coronavirus) pandemic. The Covid-19 Temporary Wage Subsidy Scheme was announced on 24 March 2020 running to 31 August 2020. The temporary scheme is replaced by the Covid-19 Employment Wage Subsidy Scheme from 1 September 2020 to 31 March 2021.

Covid-19 Temporary Wage Subsidy Scheme (TWSS) to 31 August 2020

The temporary wage subsidy payment is paid to employees by their employer and is considered part of their relevant earnings for that year of employment.

The TWSS payment is taxable income, but tax **is not** deducted under Pay As You Earn (PAYE) at the time the employee receives the payment. Instead Revenue have advised that there will be a review at the end of the year and employees' liability to tax on the wage subsidy payment will be assessed then. Exact details of how this review and collection of tax will operate have not yet been finalised.

Covid-19 Employment Wage Subsidy Scheme (EWSS) from 1 September 2020

The employment wage subsidy payment is taxable income, and tax **is** deducted under PAYE at the time the employee receives the payment.

The Employment Wage Subsidy can be claimed in respect of eligible employees in receipt of gross wages of between €151.50 and €1,462 per week. The maximum weekly rate of EWSS is €203.Certain restrictions will apply to Proprietary Directors and connected parties, and Revenue have said they will provide additional guidance on this in due course.

PENSION CONTRIBUTION OPTIONS WHERE EMPLOYERS PARTICIPATE IN THE COVID-19 WAGE SUBSIDY SCHEME

Can pension contributions continue where employers are participating in the Covid-19 Wage Subsidy Scheme?

Employers will of course have many business considerations and competing demands from suppliers, rents and other business expenses. Their options under pension legislation are as below:

Employer Contributions to Executive Pensions and Executive Pension Term Assurance or PRSAs

Yes, employers can continue paying Executive Pension contributions and Executive Pension Term Assurance premiums or employer PRSA contributions.

The guidance from the Revenue Commissioners is that the Covid-19 Employment Wage Subsidy Scheme does not affect any legal obligations that the employer may have to their employees as regards any terms, conditions or entitlements of their employment, including pay.

The Pensions Authority and Revenue have said that the question of reducing or suspending contributions is primarily governed by the contracts of employment and pension scheme rules. Employers would have to examine the contracts of employment they have with their employees to see what commitment is given on pension scheme contributions and/or the provision of risk benefits.

Employee Contributions to Executive Pensions and Executive Pension Term Assurance or PRSAs

In all cases clients will need to consider what tax relief is available if they continue pension contributions. The normal age related tax relief limits continue to apply of 15% to 40% of relevant earnings (subject to €115,000 earnings cap). Contribution amounts may need to be reviewed where earnings have reduced. It is not compulsory for such contributions to be within the age related tax relief limit. Any contributions in excess of the annual tax relief limit may be carried forward and set against self-employed or non-pensionable earnings in future years for tax relief. However, normally contributions would be kept within the tax relief limits.

Covid-19 Employment Wage Subsidy Scheme (From 1 September 2020)

Pension contributions can continue where employers are participating in the Covid-19 Employment Wage Subsidy Scheme. The Revenue guidance on the Employment Wages Subsidy Scheme does not have any restriction on deducting employee company pension contributions, AVCs or employee PRSA contributions via payroll.

Covid-19 Temporary Wage Subsidy (up to 31 August 2020)

Where employees receive **only** the Covid-19 Temporary Wage Subsidy, pension contributions cannot continue by salary deduction. Revenue in their FAQ guidance to employers have stated that pension contributions cannot be deducted from the wages subsidy.

Even though these employees cannot make pension contributions by payroll deduction, they can make a single premium pension contribution from their own bank account. Revenue have said that employees will have until the 31 October 2021 filing date to make a contribution and file a self-assessment tax return for the 2020 tax year. When doing so the Covid-19 Temporary Wages Subsidy is part of the employee's relevant earnings for pension purposes.

Where employees receive the Covid-19 Temporary Wage Subsidy and additional top-up wages from the employer then employee contributions, AVC/PRSA AVC or PRSA contributions can continue to be deducted from the additional top-up wages element that is paid by the employer.

OTHER PENSION QUESTIONS RELATED TO TEMPORARY JOB ABSENCE (FURLOUGH) AND COVID-19 WAGE SUBSIDY SCHEME

How are Executive Pension and Executive Pension Term Assurance benefits paid out on death of employees who are participating in the wage subsidy scheme or who are on furlough leave?

Normal Revenue maximum death-in-service rules continue to apply to executive pensions and executive pension term assurance where the member is on a temporary job absence (furlough) or where their employer is participating in either Covid-19 Wage Subsidy Scheme.

For example, a lump sum could be paid from the executive pension fund value and/or executive pension term assurance of 4 x salary, less the value of any retained benefits from past employment. The value of any employee contributions or AVCs can be paid in addition to this as a lump sum. Note that pension scheme lump sums paid on death are subject to inheritance tax with the normal thresholds applying, including the normal zero inheritance tax between spouses.

Under Irish Life executive pension and executive pension term assurance scheme rules, final salary does not have to be based on salary at the date of death. Final salary can also be determined as either salary paid in one year within the last five years, or the average of three or more consecutive years ending within the last 10 years.

Will service be considered continuous for occupational pension retirement benefit calculations?

Covid-19 Wage Subsidy Scheme

Where employers participate in either wage subsidy scheme the member continues to be paid by the employer, and continues to accrue pension service.

Temporary job absence / Furlough leave

If clients are not receiving any remuneration from the employer then in normal circumstances they are not considered to be in service for maximum retirement benefit calculations. We are engaging with the regulators to see if there is any change to this given the current circumstances.

When can a client take retirement benefits?

The option to take retirement benefits continues to be subject to normal rules.

Executive Pensions and PRBs

- Benefits can be taken at Norman Retirement Age
- Benefits can be taken from age 50 onwards with the agreement of the employer and trustee where the member has permanently left the relevant employer, with no expectation of return to that employer. 20% directors must sever all links with the business, including the disposal of shares

PRSAs

- Benefits can be taken from age 60 onward
- Benefits can be taken from age 50 onwards where the individual's prior status was an employee, and their current status is that they are not employed or self-employed. 20% directors must have severed all links with the business, including the disposal of shares

Personal Pensions

- Benefits can be taken from age 60 onward

In addition there are provisions for early retirement due to permanent ill-health and for certain occupations.

Will clients continue to accrue PRSI credits towards state pension benefits?

Covid-19 Wage Subsidy Scheme

Yes, payments to employees under either wage subsidy scheme are subject to Pay Related Social Insurance (PRSI) and Revenue guidance states that the employees continue to accrue PRSI towards the state pension or other social insurance payment.

Temporary job absence / Furlough leave

If clients are not receiving any remuneration from the employer they are not paying PRSI.

However, Social Welfare have said that If people are getting the COVID-19 Pandemic Unemployment Payment, then when they apply for social insurance payments (for example, Maternity Benefit, Adoptive Benefit and the State Pension (Contributory), they will be treated as if they have been paying insurance contributions based on their normal social insurance class

How are payments under the Wage Subsidy Scheme taxed, and how are they considered in assessing salary for pension purposes?

Covid-19 Employment Wage Subsidy Scheme

Where participating in the Employment Wage Subsidy Scheme the employee's income is subject to income tax, PRSI and Universal Social Charge (USC) and these are deducted by PAYE in the normal way. It is paid to the employee by the employer and as such it is considered part of the individual's relevant earnings for that year from that employment.

Where the client's total income for the year has been reduced this will also reduce their total tax liability for the year. This may also mean that some clients do not reach the cut-off point for the 40% income tax band, and as such marginal rate income tax relief for pension contributions may be at the 20% rate rather than the 40% rate. It is also possible that some clients may move from the 20% rate to having no income tax liability.

A reduced rate of employer PRSI of 0.5% is charged on wages paid which are eligible for the Employment Wage Subsidy payment.

Covid-19 Temporary Wage Subsidy Scheme

Under the Temporary Wage Subsidy there is a difference between what the final tax position of the client will be as per tax legislation, and the immediate PAYE payroll treatment.

Income Tax legislation

The wage subsidy is subject to income tax under Schedule E. It is paid to the employee by the employer and as such it is considered part of the individual's relevant earnings for that year from that employment.

Employees are not being taxed on the wage subsidy now. The Revenue guidance states that instead the employee will be liable for tax by way of review at the end of the year. There has been some suggestion that the tax due may be collected over 2020 and 2021, but this has not been confirmed. Exact details of the end of year tax collection process, such as whether employees will have to complete a self-assessment tax return, have yet to be published.

Where the client's total income for the year has been reduced this will also reduce their total tax liability for the year. This may also mean that some clients do not reach the cut-off point for the 40% income tax band, and as such marginal rate income tax relief for pension contributions may be at the 20% rate rather than the 40% rate. It is also possible that some clients may move from the 20% rate to having no income tax liability.

PAYE treatment

Even though the wage subsidy is subject to income tax under Schedule E, it is exempt from PAYE. Revenue guidance to employers refers to the wage subsidy as 'non-taxable earnings' and any additional top-up payment from the employer as gross earnings. But it is important to remember that this guidance to employers is to help them to enter the wage subsidy correctly on a payroll system. It is not that the

wage subsidy is actually non-taxable, or that the additional top-up from the employer is the employee's total gross earnings when it comes to finalising income tax at the end of the year.

Further information on the Temporary Wage Subsidy Scheme and Employment Wage Subsidy is available from Revenue's National Employer Helpline, and at:

- https://www.revenue.ie/en/corporate/communications/covid19/employment-wage-subsidy-scheme.aspx
- https://www.revenue.ie/en/corporate/communications/covid19/temporary-covid-19-wage-subsidy-scheme.aspx

PENSION CONTRIBUTION OPTIONS DURING TEMPORARY JOB ABSENCE (FURLOUGHED EMPLOYEES)

Can pension scheme contributions continue if an employee is placed on furlough (i.e. employees are no longer paid by the employer as a temporary measure)?

Employers will of course have many business considerations and competing demands from suppliers, rents and other business expenses. Their options under pension legislation are as below:

Executive Pensions

Yes, an employer can maintain pension contributions during a temporary job absence even though no remuneration is being paid.

There should be a definite expectation of return to service and the employee should not become a member of another occupational pension scheme during this period. We are engaging with the regulators about the practical application of these technical requirements in the current situation. These technical requirements do not apply where the contributions are to maintain risk benefits.

Whether employee contributions or AVCs can continue will depend on whether or not the employer keeps the employee on their PAYE payroll and on Revenue Online Service (ROS). If the employee is removed from the employer's payroll and a date of leaving is entered on Revenue's ROS system then the normal condition is that employee contributions and AVCs cannot be paid after that date.

Employer contributions to PRSAs

The scope for an employer to continue PRSA contributions for furloughed employees will be limited. This is due to the technical treatment of employer PRSA contributions as Benefit-In-Kind (BIK.) In normal circumstances an employer PRSA contribution does not give rise to any income tax, PRSI or USC for the employee so long as the PRSA contributions remain within the age related tax relief limit of 15% to 40% of the employee's earnings. However, where the employee is not being paid, the employer contributions to a PRSA could soon exceed 15% to 40% of what the employee has earned to date this year. This would give rise to a BIK tax liability for the employee.

Once the employee returns to work, the position over a full year would likely return to normal, that is the total of employer contributions for the year being within the age related tax relief limit of 15% to 40% of the employee's earnings.

Personal Pensions and PRSAs for the self-employed and employees in non-pensionable employment

The eligibility test on Personal Pensions or Personal Pension Term Assurance applies when Personal Pension or Personal Pension Term Assurance contributions are first made. There is no ongoing eligibility test.

There is no eligibility test for PRSAs either when contributions are first made or on an ongoing basis.

A self-employed person can continue Personal Pension, Personal Pension Term Assurance or PRSA contributions even if they do not currently have any self-employed income and/or if they take up an employment at this time.

A person in non-pensionable employment can continue personal contributions to a PRSA even if they are not receiving an income, such as while on a temporary job absence/furlough.

In all cases clients will need to consider what tax relief is available if they continue Personal Pension, Personal Pension Term Assurance and/or PRSA contributions. The normal age related tax relief limits continue to apply of 15% to 40% of self-employed or non-pensionable earnings (subject to €115,000 earnings cap). Contribution amounts may need to be reviewed where earnings have reduced, ceased, or a client changes to pensionable employment. It is not compulsory for such contributions to be within the age related tax relief limit. Any contributions in excess of the annual tax relief limit may be carried forward and set against self-employed or non-pensionable earnings in future years for tax relief. However, normally contributions would be kept within the tax relief limits.

CONTRIBUTION REDUCTION AND CONTRIBUTION SUSPENSION

Executive Pensions

Can employers reduce Executive Pension contributions?

Yes, the standard scheme rules for Irish Life Executive Pensions gives the employer the power to reduce contributions. The instruction should clearly set out the date from which contributions are to reduce and the new contribution amounts for the employer, employee and AVCs. This should come from a director, company secretary or someone authorised to act for and on behalf of the employer.

The employer should also consider any contract of employment conditions for pension contributions.

Can employers cease contributions or temporarily suspend contributions on Executive Pensions?

Yes, the standard scheme rules for Irish Life Executive Pensions gives the employer the power to cease contributions. The instruction should clearly set out the date from which contributions are to cease, and for a temporary suspension of contributions should confirm the date from which contributions are to restart. This should come from a director, company secretary or someone authorised to act for an on behalf of the employer.

The employer should also consider any contract of employment requirement for pension contributions.

It is possible that an employer could temporarily cease contributions to an Executive Pension while employee contributions or AVCs continue. It is a requirement that an employer must make a meaningful contribution when setting up and in the ongoing operation of a pension scheme. The timing of the employer contributions and employee contributions/AVCs need not always match, and in the short term the employer could stop contributions even though employee contributions/AVCs continue. The employer contribution should be at least 10% of the total ordinary (employer plus employee) contributions on an annual basis. In addition for employers participating in the Covid-19 Wages Subsidy Scheme the Revenue have confirmed that tax approval will not be withdrawn even if an employer is not making contributions for the duration of the Wages Subsidy Scheme. We are required to notify the Revenue Commissioners where group scheme contributions are temporarily suspended.

If AVCs or employee contributions have been deducted from salary it is important that the employer remits these to the pension scheme. The Pensions Authority have reminded employers that the statutory time limit still applies and employers must remit pension contributions deducted from salary by the 21st of the following month. Employers should therefore take care on the timing of ceasing or changing payroll deductions and the payment of contributions to the pension scheme.

PRSAs and Personal Pensions

Can PRSA and Personal Pension contributions be reduced?

Yes, the instruction should clearly set out the date from which contributions are to reduce and the new contribution amounts.

Where contributions are collected from the client's own bank account the written instruction should come from the client.

Where PRSA contributions are collected by salary deduction the individual must tell their employer of any changes to contributions. A Payroll Deduction Authority form should be completed by the employer's payroll administrator. The Payroll Deduction Authority should include the revised employer and employee deductions and the date from which the changes to payroll deduction are to take effect. In the month following the month of payroll deduction:

1. The requested changes to Irish Life PRSA plans will be processed.
2. The corresponding direct debit adjustment on the Employer's bank will take effect.

The employer should also consider any contract of employment requirement for pension contributions.

Can PRSA and Personal Pension contributions cease or be temporarily suspended?

Yes, the instruction should clearly set out the date from which contributions are to cease, and for a temporary suspension of contributions should confirm the date from which contributions are to restart.

Where contributions are collected from the client's own bank account the written instruction should come from the client.

Where PRSA contributions are collected by salary deduction the individual must tell their employer of any changes to contributions. A Payroll Deduction Authority form should be completed by the employer's payroll administrator. The Payroll Deduction Authority should include the date from which the ceasing of pension contributions is to take effect in the payroll, and the date from which contributions are to restart. In the month following the month of payroll deduction:

1. The requested changes to Irish Life PRSA plans will be processed
2. The corresponding direct debit adjustment on the Employer's bank will take effect

The employer should also consider any contract of employment requirement for pension contributions.

If PRSA contributions have been deducted from salary it is important that the employer remits these to the PRSA provider. The Pensions Authority have reminded employers that the statutory time limit still applies and employers must remit pension contributions deducted from salary by the 21st of the following month. Employers should therefore take care on the timing of ceasing or changing payroll deductions and the payment of contributions to PRSAs.

Can PRSA contribution collection be changed from salary deduction to client's own bank account?

Yes. The client should select in section 5 of the Alterations and Top-up to your PRSA form that they are changing how they pay to deductions from their own bank account, and complete the declaration in section 11 and the direct debit mandate in section 12.

The client should also inform their employer.

Pension Term Assurance

Can clients reduce Executive or Personal Pension Term Assurance cover?

This will depend on the particular plan. Most of our Pension Term Assurance plans have the option to reduce the amount of cover, though this may be a one-off option.

In addition in response to the current Covid-19 crisis we have introduced new affordability options on non unit-linked protection, including Executive and Personal Pension Term Assurance. Clients experiencing financial difficulties will be offered the option of a three month break from premium payments while maintaining their cover in full. We are conscious that clients who take up the offer may not be able to immediately repay the premiums owed at the end of the three-month period. To help ease the burden for those clients, they can choose one of two options to pay back the premiums owed:

- repay over the following twelve months, meaning the monthly payment will increase by 25% for 12 months; OR
- repay over a 60 month period, meaning the monthly payment will increase by 5.5% for 60 months*

** At the end of the 60-month period, the premium will return to its normal level. Clients will agree to pay back the premiums owed plus 10%. This small charge is required to help manage the cost of the offer. It isn't an interest rate charge, but is equivalent to an interest rate of 3.75%*

Can Executive or Personal Pension Term Assurance be reinstated?

Our Executive or Personal Pension Term Assurance have a 10 day grace period if contributions are paid monthly (30 days for other frequencies). Employees are on cover during grace period.

Cover can be reinstated **without** evidence of health within 90 days from the date of first missed payment was due. All premiums due must be paid.

Cover can be reinstated **with** evidence of health within 180 days from the date of first missed payment was due. We may refuse to reinstate cover, may reinstate with increased contributions or with new conditions, or may reinstate without any change. All premiums due must be paid.