Public Sector Employees & AVCs

General Guide for Public Sector Employees seeking information on AVCs

Irish Pensions & Finance

Please note that this booklet is a general guide for Public Sector Employees seeking information on AVCs. You should seek appropriate professional advice in relation to your personal circumstances.

1. What is an AVC?

An additional voluntary contribution (AVC) is a tax efficient voluntary contribution paid by an employee to increase the level of benefits provided by his/her pension scheme. Any AVC paid is in addition to the mandatory contributions scheme members pay. AVC contributions qualify for tax relief (subject to limits) and investment growth in your AVC is tax free.

2. Are there any limits on the level of benefits a scheme can provide?

In order that a scheme can maintain its tax relieved status, there are limits on the amount of benefits a scheme can provide, referred to as "maximum Revenue benefits".

3. What are "maximum Revenue benefits"?

The maximum benefit that a Revenue approved scheme can provide is a pension of two thirds of final salary. This maximum pension is inclusive of any lump sum benefit (gratuity). The maximum benefits payable to a public servant are a pension of 40/80ths of final salary plus a tax-free lump sum (gratuity) of 120/80ths of final salary.

A simple example:

John has 40 years service & his final salary is €90,000. His employer's scheme will provide a pension of €45,000 (40/80 x 90,000) plus a lump sum of €135,000 (120/80 x 90,000).

Revenue rules allow payment of a pension of €60,000 (2/3 x 90,000) and John's scheme will pay him a pension of €45,000. The difference between the scheme benefits and the Revenue maximum is a pension of €15,000. As Revenue maximum benefits include any lump sum benefit, it is necessary to calculate what amount of pension the lump sum of €135,000 would provide if used to purchase an annuity. Using a current rate of 3%, 135,000 would provide a pension of 4,050.When looking a John's total retirement benefits, the benefits are the same as a pension of €49,050, leaving him 10,950 short of the 60,000 maximum allowed by Revenue.

Public Sector pension schemes provide a fixed level of benefit per year of service. An individual needs to have 40 years' service to receive full scheme benefits. Revenue rules allow an accelerated accrual of benefits to facilitate late entrants and others with shorter periods of

service. Revenue rules allow a full pension to be paid after 10 years' service and maximum lump sum benefits after 20 years' service. For lesser periods of service, both pension and lump sum benefits may be increased on a pro rata basis as detailed in the Revenue tables (uplifted scales), copies of which are in the Appendix.

4. What is the purpose of an AVC?

An AVC is used to fund for the difference between the benefits your scheme provides and the maximum benefits allowed under Revenue rules. Individuals may also use an AVC to provide benefits linked to earnings and allowances that are not included as "pensionable salary" in their scheme rules. "Pensionable salary", in most cases means basic salary plus any pensionable allowances. Your AVC fund can be used to provide retirement benefits for any earnings that are not taken into account under your employer's scheme rules, for example: overtime.

5. How is my AVC connected to my employer's scheme?

The benefits payable by your employer's scheme are aggregated with your AVC benefits to ensure compliance with Revenue rules. The benefits from both schemes are payable at the same time.

6. How much can I contribute?

This will depend on the amount of any shortfall in maximum benefits and the level of extra benefits you wish to secure. Your Independent Financial Advisor will give you a personal quotation and explain the choices available to you.

7. What extra benefits can my AVC provide?

Your AVC Fund will be used to provide any extra benefits arising from the difference between what your employer's scheme will provide and maximum Revenue benefits. Your Independent Financial Advisor will provide a personal quotation for you. Examples of the extra benefits may include:

Lump sum: If you will have 35 years' service when you retire, you can fund for 5 extra years lump sum benefit.

Pension: If you will have 30 years' service when you retire, you can fund for an extra 10 years pension.

Spouse/Dependant/Partner pension: the amount required to increase the pension payable by your employer's scheme to two/thirds of your salary.

Death benefit: the amount required to increase the lump sum payable by your employer's scheme up to 4 times your salary. Your employer's scheme will usually pay a lump sum benefit of 1.5 times salary.

8. What is the difference between making an AVC & buying notional service?

The purchase of notional service (added years) allows certain employees who have a shortfall in service to buy additional years benefits. Two years purchased will provide additional pension and lump sum on the same basis as if the employee had been a scheme member for the extra two years; a defined level of benefit is provided.

The AVC fund can be used to provide a variety of benefit options, see Questions 18 to 26 below. It may also be used to buy notional service. The level of benefit provided by an AVC will depend on the investment return.

9. What is the difference between an AVC and an AVC PRSA?

There is no difference in either tax relief for contributions or the benefits provided. An AVC PRSA is an option for employees who do not wish to use the AVC facility offered by their employer. AVC contributions are made by deduction from salary and tax relief is given at source. Contributions to an AVC PRSA are paid by direct debit from your bank account and you claim tax relief by requesting an amended tax credits certificate from your local Revenue office.

10. Can a "job sharer" have an AVC?

Yes, on a similar basis to a colleague who is working fulltime, an AVC can be used to provide for any shortfall in Revenue maximum benefits. If your employment includes both fulltime and part-time employment or job sharing, the usual method of calculating maximum benefits is to convert part-time or job sharing service into the fulltime equivalent.

11. What happens if I stop working or change job?

Your AVC fund will be treated on the same basis as your benefits from your former employer's scheme. If you have less than 2 years service when you leave, your contributions will be refunded. If you have more than two years' service, benefits will be paid on retirement. Your AVC fund will continue to benefit from any investment returns.

12. What happens if I die

In the event of death, your AVC fund is paid to your estate. This is in addition to any lump sum benefit paid by your employer's scheme and any additional lump sum benefit secured by contributions. Revenue rules allow payment of a lump sum of four times salary plus the value of AVC contributions.

13. When can I access my AVC fund?

You take benefits from your AVC fund at the same time you first receive benefits from your employer's scheme. This is usually at your selected normal retirement date or if you retire before this date.

14. What happens if I take a career break?

Contributions cease for the duration of your career break but may resume following your return to work. Your fund will continue to benefit from any investment returns.

15. What happens if I retire early due to ill-health?

Your AVC fund will be used to secure benefits subject to Revenue limits. Revenue rules allow payment of benefits on the same basis as if you retired at normal retirement age.

16. What is a Pension Adjustment Order (PAO)?

A PAO is a Court order that reallocates pension rights following separation or divorce. An AVC fund can be subject to a PAO on the same basis as any other pension benefit.

17. What are the limits on tax relief for contributions?

Tax relief on employee contributions is restricted to an age based percentage limit of your salary. The maximum salary figure allowed for relief purposes is €115,000 p.a. The age based limits are:

Age in tax year	% of earnings
Under 30	15%
30-39	20%
40-49	25%
50-54	30%
55-59	35%
60 and over	40%

The above limits are reduced by the employee contributions you are required to make as a member of your employer's scheme. Example:

A 28 year old employee making a mandatory pension contribution of 5% of salary would have relief for AVCs restricted to 10% of salary (15% minus 5%).

Additional pension contributions under the "Pensions Levy" introduced in May 2009 qualify for tax relief but do not have any impact on the relief limits for AVCs.

18. When can I take benefits from my AVC fund?

You must take the benefits from your AVC fund at the same time as you take your benefits from your employer's scheme. Subject to Revenue rules, you decide what benefits the AVC will provide. Depending on your personal circumstances, you may be able to take some of your AVC fund as a tax-free lump sum (see. Q.19). You have 4 options in relation to that part of your AVC fund that cannot be taken as a tax-free lump sum:

Purchase added years under the notional purchase scheme.

Secure additional pension (Q.20).

Take taxable cash (Q.22).

Transfer the fund into an Approved Retirement Fund (Q.23).

19. How much of my AVC fund can be taken as a tax free lump sum?

This will depend on the amount of lump sum payable from your employer's scheme. If there is a difference between the lump sum paid by the scheme and the maximum amount allowed by Revenue, this amount can be paid as a tax free lump sum.

Example:
Mary has 30 years service at retirement and her final salary is €60,000. Her employer's scheme will pay her a lump sum of 3/80 x 30 x 60,000 = 67,500. The Revenue maximum is 1.5 x 60,000 = 90,000. Mary can use her AVC fund to provide an additional lump sum of 22,500 (90,000 – 67,500).

20. I use my fund to buy extra pension?

Yes, subject to Revenue limits. An individual with a minimum of 10 years' service at normal retirement age can have a pension of 2/3rds of final salary (inclusive of the pension equivalent of any lump sum benefit).

21. What types of pension (annuities) are available?

(a) A pension of a fixed amount for your lifetime.
(b) A pension that increases annually for your lifetime.
(c) A pension for your lifetime that will provide a residual pension for your dependants in the event of your death

22. Can I take taxable cash?

Yes, subject to the AMRF rule (see Q.24 below), you can decide to have the AVC fund paid to you. All amounts paid to you will be subject to tax at your marginal rate.

23. What is an Approved Retirement Fund (ARF)?

An ARF is a fund managed by a Qualifying Fund Manager (QFM) into which you may invest the proceeds of your AVC when you retire. You select the QFM and decide how the funds will be invested. The investment returns of an ARF are exempt from tax. Any amounts withdrawn from an ARF are called "distributions". A distribution is taxable in the same manner as your pension. ARF funds may be withdrawn at any time and you choose the amount and timing of any withdrawals. You may also use your ARF to purchase an annuity.

24. What is an Approved Minimum Retirement Fund (AMRF)?

An Approved Minimum Retirement Fund, or AMRF, essentially operates in the same way as an ARF, except that there are restrictions on the amount of withdrawals you may take from the fund before age 75. Until then, you cannot withdraw any of the original capital but you can withdraw any investment growth achieved. Any withdrawals will be subject to taxation.

If an individual does not have the guaranteed income for life of €12,700 per annum before taking out the ARF, you must use €63,500 of your AVC fund to invest in an AMRF.

25. What are the "specified income" rules?

If you are in receipt of annual pension income of €12,700 p.a. you are not required to set up an AMRF. If you reach the specified income at a later date, the AMRF becomes an ARF. Specified income is a pension which is payable for life and includes a Social Welfare pension. Pensions paid directly to a spouse or partner or amounts received on behalf of a spouse or partner cannot be taken into account.

26. What are "deemed distributions"?

An ARF owner is required to make a minimum annual withdrawal of 5% of the value of the ARF assets.

Appendix: Revenue "Uplifted Scales":

The Uplifted Scale allows an alternative higher pension to be provided at NRA for less than 40 years service with an employer. The maximum pension is inclusive of any lump sum benefit. You only need 10 years service to qualify for the Revenue Maximum Pension of 2/3rds x Final Remuneration at retirement.

Years of service to normal retirement age	Expressed as a fraction of maximum approvable.	Expressed as a fraction of final remuneration.
1	1/10th	4/60ths
2	2/10ths	8/60ths
3	3/10ths	12/60ths
4	4/10ths	16/60ths
5	5/10ths	20/60ths
6	6/10ths	24/60ths
7	7/10ths	28/60ths
8	8/10ths	32/60ths
9	9/10ths	36/60ths
10		40/60ths

The Uplifted Scale for Lump Sum Benefits also allows a faster accrual of benefits and it is possible to provide maximum lump sum benefits for an employee with 20 years service:

Years of Service	80ths of Final Remuneration
1-8	3 per year of service
9	30
10	36
11	42
12	48
13	54
14	63
15	72
16	81
17	90
18	99
19	108
20 or more	120

Should you have any queries in relation to your Main Superannuation Scheme please contact your Employer.

This booklet was prepared by Clive Slattery FIIPM for Irish Pensions & Finance. Prior to establishing his Pensions Tax Consultancy in 2009, Clive was the Principal Officer in charge of the Revenue Commissioner's Pensions Business Unit.

For information on further pension options, including AVC's and PRSA AVC's please contact the Official AVC Providers:

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