

## BUDGET 2010

As expected, all Social Welfare benefits are being cut by at least 4%, with the exception of the State Pension (Contributory) and State Pension (Transition). The Government was possibly fearful of the response from pensioners if they attempted to cut these pensions: witness the outcry in 2008 when the Government was forced into a u-turn on withdrawing medical cards from older people.

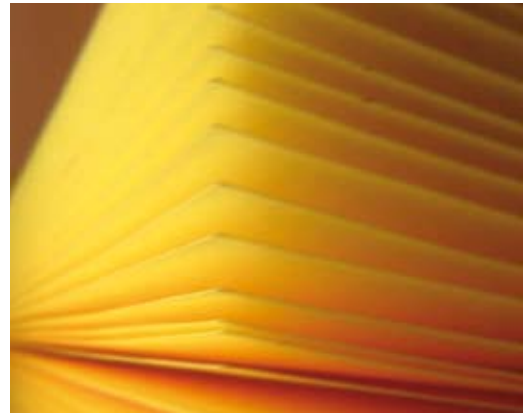
More pertinently for occupational pension schemes, any cut in State pension would increase the liabilities of defined benefit schemes which are integrated with the State pension. As nearly all defined benefit schemes are currently in deficit, the retention of the current level of State Pension can be viewed as a small piece of good news for those schemes.

Although there was no change to the tax treatment of occupational pension schemes in the Budget, the Minister for Finance flagged that he may consider limiting the tax free lump sum on retirement to €200,000. This issue and the future tax relief on pension contributions (expected to be a consolidated rate of 33%) will be considered in the National Pensions Framework which will be published by the Minister for Social and Family Affairs in the near future. The National Pensions Framework will set out the Government's long-term policy on pension provision in Ireland.

Specific changes to Public Sector Pensions have been included in the 2010 Budget and pension benefits for all new public servants will be based on career average earnings rather than a final salary. The minimum retirement age will increase to age 66 and will be linked to any future increase in the State retirement age. Minister Lenihan is also considering revising the method by which Public Sector Pension increases are calculated for both existing and new entrants. At present increases are linked to general Public Sector pay increases, 'pay-parity', but post-retirement increases may in future be linked to the increase in the Consumer Price Index.

### BULK TRANSFER REGULATIONS

New consultation procedures to protect members of pension schemes that are winding-up or being split, e.g. in a business sale, were introduced in December 2007 (see Focus Update, February 2008). The consultation process for a bulk transfer is now obligatory with effect from August 1, 2009 (the effective date of the relevant Regulations).



Before a bulk transfer can take place (i.e. the assets relating to the benefits for a number of members are transferred out of the scheme), the trustees must notify the members in advance. If members' consent to the transfer is not being sought, the members must now be given the opportunity to make observations. The trustees/employer must give members' observations due consideration (section 59E of the Pensions Act) but are not obliged to follow them.

The Bulk Transfer Regulations set out the specific information that must be provided to members and trade unions, if applicable. They apply to all bulk transfers taking place on or after August 1, 2009 (including a winding up situation), unless members' consent to the transfer is sought.

The information to be provided includes the circumstances giving rise to the bulk transfer, the benefit structure of the transferring scheme and the receiving scheme, the rules in both the transferring and receiving schemes regarding the treatment of surplus funds and the benefits to be granted under the receiving scheme in respect of the transferring members. A note of the procedure for considering observations must also be provided.

The information must be given to the transferring members and any authorised trade union representing the members not less than two months before the day on which the bulk transfer is to be made.

If any of the information changes materially before the date of the transfer the trustees must notify the members and the two month timetable will start again.

The transferring members or authorised trade union have one month to make observations and the trustees and/or the employer have one month to give any such comments due consideration.

'Due consideration' does not mean that the employer or trustees have to go along with the members' suggestions; however it will be important that, especially in such a potentially contentious area, the employer or trustees are seen to give genuine thought to the members' concerns.

## COULD YOU LIVE ON €196 PER WEEK?

### (CURRENT STATE ILLNESS BENEFIT)

A person's standard of living depends on one absolutely vital factor – their income. Ability to earn is therefore of crucial importance. It affects how we live and how we pay for everything from the basic necessities, food, mortgage repayments, to children's education and holidays.

#### WHAT IS INCOME PROTECTION?

Income Protection (sometimes called Permanent Health Insurance or P.H.I.) provides replacement income to support a person and his/her family when ill or disabled and unable to work for a prolonged period of time. With Income Protection you will receive an income after a deferred period, decided at the outset, until you return to work or up to age 60 or 65 depending on the ceasing day chosen at the outset. It usually coincides with normal retirement date. Income would normally last as long as you are prevented from doing your usual job provided you are not doing another job and you suffered loss of earnings. It is normally possible to provide for inflation and increasing claims benefit.

It is generally acknowledged that State disability benefit (€196 per week from 2010) is insufficient to meet expenses, which may well have increased as a result of the illness. Indeed such benefits are mainly a safety net to prevent poverty. Remember the mortgage, electricity, telephone and other bills still have to be paid.

#### WHY P.H.I.?

Most prudent people acknowledge the need for life assurance and make provision for retirement through a pension plan, yet often neglect permanent health insurance. Statistics show that one is more likely to suffer long-term disability than die before retirement age. Many people do not appear to be aware of the benefits provided under a P.H.I. plan. They seem to feel that illness is a short-term phenomenon. Unfortunately many learn too late this is not the case.

#### WHO IS ELIGIBLE?

To be eligible one must be in full-time employment immediately before one becomes disabled.

#### HOW MUCH BENEFIT?

This is a matter for the individual. The maximum benefit would usually be 75% of normal earnings less social welfare benefits. The benefit can commence after a deferred period of 8, 13, 26 or 52 weeks. The shorter the deferred period, the more expensive the cover. **(Deferred period means benefit would be payable after the expiry of that period.)**

#### SERIOUS ILLNESS COVER

It is worth bearing in mind that P.H.I. benefit is based on normal earnings, accordingly where part of your remuneration comprises bonuses, overtime, other allowances, it would be prudent to take out a Serious Illness Policy, which could help fund the shortfall.

If one has P.H.I. related to basic salary it may be possible to arrange additional cover to protect regular/guaranteed income in addition to basic income.

#### HOW MUCH DOES IT COST?

The cost of P.H.I. will depend on the size of benefits, type of policy, age and sex, but the cost is normally modest. A number of occupations also call for an additional premium because of the extra risks they entail. Contributions normally qualify for TAX RELIEF at your marginal TAX RATE\*.

When considering P.H.I. cover it is not really a question of whether you can afford the cover but rather COULD YOU SURVIVE WITHOUT IT.

\*Note there is no relief from the income levy.

#### For advice or personal consultation contact:

##### Vincent Brett

Director  
Willis  
Grand Mill Quay  
Barrow Street, Dublin 4  
Tel: (01)4074903  
Fax: (01)661436  
Mobile: 0868114095  
Email: vincent.brett@willis.ie