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Threshold funding ... when to stop funding?

For some proprietary directors, Revenue maximum approvable benefits are not the real barrier to further funding, but the Threshold limit. Tony Gilhawley, Technical Guidance Ltd asks when should they stop funding?

The effective Threshold limit for most funding DC benefits is €2,150,000 assuming the client takes €500,000 of lump sums giving rise to a tax credit for €60,000 to be offset against chargeable excess tax.

With current very low annuity rates, an open market annuity rate at 60 (for a joint life CPI linked annuity) might be around 2%, or a multiple of 50:1. Therefore Revenue maximum approvable benefits are likely to be in excess of the Threshold limit for remuneration above €65,000.

For these directors with remuneration above, say, €65,000 pa, Revenue maximum funding limits will dictate the scope for funding in the short term but in the longer term funding will have to stop at a certain point if the fund is not to go over the Threshold limit at retirement.

This table shows the projected period of years a current fund will take, **with no further contributions**, to reach €2,150,000, based on the investment returns (after charges) shown:

Current fund value	Fund will reach €2,150,000 after this period of years, assuming no further contributions and a future investment return of:		
	1% pa	3% pa	5% pa
€1,000,000	76.9	25.9	15.7
€1,100,000	67.4	22.7	13.7
€1,200,000	58.6	19.7	12.0
€1,300,000	50.6	17.0	10.3
€1,400,000	43.1	14.5	8.8
€1,500,000	36.2	12.2	7.4
€1,600,000	29.7	10.0	6.1
€1,700,000	23.6	7.9	4.8
€1,800,000	17.9	6.0	3.6
€1,900,000	12.4	4.2	2.5
€2,000,000	7.3	2.4	1.5

For example, if a client's existing fund is €1,200,000, then assuming a 3% pa return after charges on this fund and **no further contributions**, the fund will hit €2,150,000 after 19.7 years.

If this client took a higher investment risk approach, a 5% pa return after charges would mean his €1,200,000 fund is projected to hit €2,150,000 after 12 years, again assuming no further contributions.

If this client decided to inject another €300,000 into his fund now (assumed to be within Revenue limits for back service funding), making his fund €1,500,000, based on the 3% pa return assumption and no further contributions his fund will hit €2,150,000 after 12.2 years, i.e. the €300,000 injection has (on the 3% pa assumption) shortened the period when the €2,150,000 limit will be reached from 19.7 years to 12.2 years, a reduction of 7.5 years.

While Revenue maximum funding dictates the scope for current contribution levels attention must also be paid to the likely impact of further contributions (particularly single premiums for past service) on when the client's fund may reach the Threshold limit, taking account of all retirement benefits he has and when he or she may wish to take retirement benefits.

If a client stops funding it will generally be better to then freeze the scheme by terminating his or her relevant employment (but not actual employment) and make the fund a preserved benefit, payable in full on death.

