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Changes in the State Pension

FOR some the State Pension, at about €14,500 pa, will be an important source of income in retirement. Significant changes in when the State Pension can be claimed apply from 1st January 2024, and from 1st January 2025 the way in which a new State Pension entitlement is calculated will be changed.

A new option to defer the State Pension

The standard State Pension age is 66. However, for those reaching 66 in 2024 or later (i.e. those born after 1st January 1958) a new option applies from 1st January 2024; you can take your State Pension at 66, as before, or you can opt to defer taking it up to a later age, to maximum of 70.

If you defer taking the State Pension to a later age, a higher Pension will be paid:

Maximum State Pension – 2024 rates

Pension claimed at age	Current weekly maximum Pension
66	€277.30
67	€290.30
68	€304.80
69	€320.30
70	€337.20

Broadly the Pension payable increases by about 5% for each year you defer taking it.

However, there is potentially a long 'payback' period, of around 17 to 20 years if you opt to defer claiming the Pension at 66.

Example

A client is entitled to the maximum rate State Pension at 66, i.e. €277.30 pw, but opts to defer claiming it until age 68, at which time they will get (on current rates) a Pension of €304.80 pw, or some €27.50 pw more than if they claimed it at 66.

However, this client loses out on some €28,939 in gross Pension payments over the 2 years between 66 and 68 (€277.30 pw for 2 years), but would get an extra €27.50 pw or €1,435 pa gross from age 68; it would therefore take this client some 20 years to recover the €28,939 lost Pension payments between 66 and 68 back in a higher Pension payable from 68.

Deferral is unlikely to make much sense for someone entitled to the maximum State Pension at 66.

However, it may make sense for those who:

- Are not entitled to claim a State Pension at 66, because they do not have 520 reckonable contributions, but who by working on and paying PRSI for a few more years, will reach the 520 threshold and become entitled to a State Pension;
- Are not entitled to the maximum State Pension at 66 but can improve their PRSI record by working on for a few more years; or
- Anticipates their income falling and becoming a standard rate taxpayer at a later age, e.g. if they took the Pension at 66 they would pay higher rate tax on it but if they took it at 68, say, they may only pay standard rate tax on the Pension. However the payback period is still long.

PRSI continuing after 66

PRSI normally ceases at age 66. However, from 1st January 2024, a client's PRSI ceasing age will, for those reaching 66 in 2024 or later, be tied to the age at which they claim the State Pension, to a maximum of age 70.

So, in the example above of a client who opted to defer taking their State Pension at 66 to age 68, they would continue to be liable to pay PRSI on their income, including ARF and vested PRSA withdrawals and rental income, until the time they claim the Pension at 68.

This could be useful in some cases as it may allow a client, who is short of PRSI contributions to qualify for the maximum State Pension at 66, to improve their PRSI record and so get a higher rate of Pension when they claim it later.

This only impacts on clients born on or after 1st January 1958, and so clients born before then continue to be exempt from PRSI from 66.

Calculation of the State Pension rate payable in 2024

In 2024 a client reaching 66 who claims the State Pension, will be awarded a Pension of the higher of the that calculated on the Total Contributions Approach (TCA) and on the Yearly Average basis.

Under the Total Contributions Approach (TCA) you get the maximum Pension if you have at least 2,080 reckonable contributions (paid + credited), i.e. 40 years, by the time you claim the Pension. If you have less than 2,080 reckonable contributions at that time, you get a proportion of the Pension.

The main reckonable PRSI contributions are Class A and S.

> ***Example***
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> If you claim the State Pension when you have 1,840 reckonable contributions, your Pension under the TCA basis will be 1,840/2,080 or 88.5% of the maximum rate of Pension.

The Yearly Average basis of calculating the State Pension, on the other hand, is based on your annual average of weekly reckonable contributions from the year you first started paying PRSI to the end of the year before you claim the State Pension, i.e. your average over your working life.

A full working year provides 52 weeks reckonable PRSI contributions. To get 100% of the State Pension your client needs a yearly average of at least 48 reckonable contributions over their working lifetime. The Pension is reduced for lower average records:

% of max State Pension payable

Annual average weekly reckonable PRSI contributions over working lifetime	
48 or over	100.0%
40 – 47	98.0%
30 – 39	89.9%
20 – 29	85.1%
15 – 19	65.2%
10 – 14	40.0%

> ***Example***
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> A client has total reckonable contributions of 1,840 over a working life of 43 years. Her annual average is 1,840/43 = 42.8. She therefore falls into the second band above and so under the Yearly Average basis would get a pension of 98% of the maximum Pension.
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> As this is higher than the 88.5% payable under the Total Contributions Approach, this client reaching age 66 in 2024 would be awarded the high rate of pension, i.e. 98%.

Change from 1st January 2025

As outlined above, a client reaching 66 in 2024 claiming the State Pension, will get a Pension the higher of that calculated on the Total Contributions Approach (TCA) and on the Yearly Average basis.

However, this changes from 1st January 2025, when the Yearly Average alternative will be phased out over 10 years, so that by 2035 the State Pension will be determined entirely on the TCA basis. This will favour some but lead to others getting a lower Pension than they might have got if the full Yearly Average basis continued to be available.

In 2025 a client claiming the State Pension will be awarded a Pension of the higher of:

- The pension calculated on the TCA; and
- A pension based on 10% of the TCA pension + 90% of the Yearly Average Pension.

In 2026 this will change to 20% of the TCA pension + 80% of the Yearly Average Pension, and so on that by 2035 only the TCA will be used to determine a client's State Pension Age.

Getting max reckonable contributions

It is important for clients who anticipate getting the State Pension in the future to try and maximise their PRSI reckonable contributions record before then, to try and get to at least 2,080 weeks of reckonable contributions.

If some clients look like they will fall short of the 2,080 figure by 66, there are a number of ways they might be able to boost their PRSI record before they get to their State Pension Age, and hence get a higher Pension:

- If the client is receiving certain Social Welfare benefits like Jobseekers and Illness Benefit they automatically get PRSI credits for these periods;
- Where a client was receiving Social Welfare benefits like Jobseekers and Illness Benefit but their entitlement ran out, they may be able to continue their PRSI credits at no cost to them by 'signing on for credits'. This means they sign on as available for and seeking work but get credited PRSI contributions even though they do not get a Social Welfare benefit at that time.
- Continue or start working, even part time. E.g.:
    - o self employed with income of at least €5,000 in a year, pay PRSI and get 52 weeks credits;
    - o employees earning at least €38 pw
- Take a withdrawal from an AMRF of ARF of at least €5,000.
- Pay voluntary PRSI contributions; in certain cases where someone retired early they may be able to continue their PRSI records by opting to pay a voluntary PRSI contribution.
- Defer taking the State Pension for a few years, max 70, and continue working.

PRSI record

Clients can request a copy of their PRSI record by registering at https://services.mywelfare.ie/ . Clients over 60 in particular should check their PRSI record to see if they are on track to get the maximum State Pension or not, and if not, consider their options to boost their PRSI record as much as they can before they claim the State Pension.

> **CLARIFICATION**
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> In last months **Techbites article, From 2021 into 2024**, there was a reference to the Finance Act 2023 and Personal Pensions. To clarify the position, it should be noted that new Personal Pensions/ RAC's will not be approved by Revenue but existing PPPs/ RACs can continue to be sold.