Standard Life

Pension Post

Issue 3 April 2026 For financial advisers only

How the pension threshold limit system works

In this Pension Post, we explain how the pension threshold limit system works and outline some measures that can be taken to reduce potential exposure to chargeable excess tax or to pay the tax more efficiently.



Overview

The Standard Fund Threshold (SFT) is the lifetime cap on the total value of tax advantaged pension benefits a person can take from Irish pension arrangements. It was set at €2 million from 2014 and increased to €2.2 million on 1 January 2026 as part of a phased series of annual increases. Some individuals may have a higher personal limit (a Personal Fund Threshold, or PFT) if they held higher pension benefits at certain dates:

Date	Personal Fund Threshold
7 December 2005	€5m
6 December 2010	Between €2.3m and €5.4m
1 January 2014	Between €2m and €2.3m

On 1 January 2026, the SFT increased by €200,000 to €2.2 million and will continue to increase by €200,000 each year until it reaches €2.8 million in 2029:

- 2026: €2.2m
- 2027: €2.4m
- 2028: €2.6m
- 2029: €2.8m
- From 2030 onwards, the SFT will be indexed annually in line with wage growth.

If a client's total pension benefits exceed their SFT (or PFT, where applicable), the excess is subject to chargeable excess tax (CET) at 40%. The phased increases to the SFT are intended to better reflect current economic conditions and to reduce the likelihood of clients facing penal tax on pension savings simply because of long-term growth.

Important: if a client has already crystallised some benefits before 2026, those crystallised amounts must be revalued in line with the percentage increases in the SFT. In practice, this means you need to track the uplift on any pre-2026 crystallised benefits when assessing remaining scope under the SFT in later years.

Example

- A proprietary director matured a PRSA of €2 million in 2022
- Benefits must increase by the same percentage as the SFT increase
- Because the full €2 million has already been crystallised, that amount must increase each year in line with the SFT.
- As a result, there is no remaining threshold available for further funding:

	2025	2026	2027	2028	2029
SFT limit	€ 2,000,000	€ 2,200,000	€ 2,400,000	€ 2,600,000	€ 2,800,000
PRSA retired in 2022 which increases each year as the threshold increases	€ 2,000,000	€ 2,200,000	€ 2,400,000	€ 2,600,000	€ 2,800,000
Remaining threshold available	€ 0	€ 0	€ 0	€ 0	€ 0



The ‘real’ SFT

When calculating the CET payable, you may be able to reduce the liability using a credit for standard-rate tax deducted from taxable pension lump sums taken since 1 January 2011 provided that the credit has not already been used to offset a previous CET liability. The maximum standard rate tax credit is €60,000. This arises where the client paid 20% tax on the taxable portion of retirement lump sums between €200,000 and €500,000.

As CET is charged at 40%, a €60,000 credit can fully offset the CET that would otherwise apply to €150,000 of excess benefits (because €150,000 × 40% = €60,000). In effect, this increases the client’s practical SFT (and PFT, where relevant) by up to €150,000.

The example below shows how the timing of when benefits are accessed can affect how much (if any) CET is payable:

Example

- Client has a buy out bond of €1,400,000 they want to crystallise
- They already crystallised an Executive Pension of €1,000,000 in 2024.
- Benefits accessed prior to 2026 must increase by the same percentage as SFT
- Client will have taken a total lump sum of €500,000, including €300,000 taxed at 20% i.e. €60,000

In this example, postponing benefit access until 2028 removes the CET liability entirely.

Where a CET liability arises, the pension administrator can recover the tax by reducing the client’s retirement benefits. Alternatively, the client can reimburse the administrator by making a gross transfer from an existing ARF or vested PRSA.

For public service retirement benefits, any CET liability may instead be recovered by reducing the member’s gross public service pension over a period of up to 20 years. No interest applies during this recovery period, and any outstanding balance is not collected if the member dies within that timeframe.

	2026	2027	2028	2029
SFT limit	€ 2,200,000	€ 2,400,000	€ 2,600,000	€ 2,800,000
Less value of EPP accessed 2024	-€ 1,100,000	-€ 1,200,000	-€ 1,300,000	-€ 1,400,000
Less value of buy out bond	-€ 1,400,000	-€ 1,400,000	-€ 1,400,000	-€ 1,400,000
Chargeable excess	€ 300,000	€ 200,000	€ 100,000	0
Chargeable excess tax @ 40%	€ 120,000	€ 80,000	€ 40,000	0
Less credit for standard rate tax	-€ 60,000	-€ 60,000	-€ 60,000	0
Chargeable excess due	**€ 60,000**	**€ 20,000**	**Nil**	**Nil**

Defined benefits

Let's take an example of a member who retired in February 2026 at age 63 with a private sector DB pension of €80,000 p.a. of which €15,000 p.a. was accrued prior to 1 January 2014.

- The member has separate AVCs related to the same employment of €100,000.
- They opt to commute €20,000 p.a. of the DB pension for a lump sum of €200,000 leaving a residual DB pension of €60,000.
- They previously matured a PRSA related to a separate employment of €500,000 in June 2024 and took a 25% lump sum of €125,000 with the balance transferred to an ARF.

In working out the value of benefits for SFT purposes and if there is a CET liability, note the following:

- DB pension is valued ignoring the fact that the member commuted some of it for a lump sum. The value for SFT purposes is **€2,055,000** broken down as follows:
  - €15,000 x 20= €300,000 (part accrued prior to 01/01/2014)
  - €65,000 x 27= €1,755,000 (part accrued since 01/01/2014)
- Value of PRSA retired in June 2024 must also increase at the same rate as the SFT therefore the value in 2026 is €550,000 (€500,000 * 10%)
- Client will have taken a total lump sum from all pensions (DB and PRSA) of €325,000 including €125,000 taxed at 20% i.e. €25,000

	2026
SFT limit	€ 2,200,000
Less value of DB benefits & AVCs	-€ 2,155,000
Less value of PRSA	-€ 550,000
Chargeable excess	€ 505,000
Chargeable excess tax @ 40%	€ 202,000
Less credit for standard rate tax	-€ 25,000
Chargeable excess due	€ 177,000

The member's options for paying this €177,000 CET liability include:

- The scheme trustees may deduct the tax from the member's €200,000 lump sum. This is generally not tax-efficient, as the deduction is made from funds that are tax-free or taxed at the standard rate.
- The trustees may allow the member to cover the tax by commuting an additional portion of pension of €177,000. Using a 9:1 commutation factor, this means surrendering €19,666.67 p.a. of pension (in addition to the amount already exchanged for the lump sum). This can be more tax-efficient because the tax is paid from gross pension rather than from tax-free or standard-rate-taxed lump sum funds, but it involves giving up DB pension at an unfavourable conversion rate.
- The member can instruct the QFM of their ARF (originating from the 2024 PRSA maturity) to pay €177,000—provided the ARF has sufficient value—directly to the DB scheme administrator.



Planning tips

For clients with DC benefits, consider stopping contributions early or tailoring future contributions so that the fund is projected to mature just under the available SFT.

For example, consider an individual aged 50. Based on an effective SFT of €2,950,000 (€2,800,000 +€150,000) in 2029, and assuming net investment returns of 3% p.a. after charges, the table below shows how long a current DC fund (at various starting values) would take to grow to €2,950,000 assuming no further contributions are made.

Current DC Fund	Age at which fund will reach €2.95m	Projected DC fund at 60 – 3% pa net	Projected remaining SFT available at age 60
€500,000	110.0	€778,984	€2,171,016
€600,000	103.9	€934,780	€2,015,220
€700,000	98.7	€1,090,577	€1,859,423
€800,000.00	94.1	€1,246,374	€1,703,626
€900,000.00	90.2	€1,402,171	€1,547,829
€1,000,000.00	86.6	€1,557,967	€1,392,033
€1,100,000.00	83.4	€1,713,764	€1,236,236
€1,200,000.00	80.4	€1,869,561	€1,080,439
€1,300,000.00	77.7	€2,025,358	€924,642
€1,400,000.00	75.2	€2,181,154	€768,846
€1,500,000.00	72.9	€2,336,951	€613,049
€1,600,000.00	70.7	€2,492,748	€457,252
€1,700,000.00	68.6	€2,648,545	€301,455
€1,800,000.00	66.7	€2,804,341	€145,659
€1,900,000.00	64.9	€2,960,138	–

- If your client has a current fund of €1.9m or more, they should stop funding now, as on the assumed return of 3% p.a. after charges, the current fund will exceed the effective SFT by age 65.
- If your client has an existing DC fund of €1.5 million currently and wants to take their DC benefits at age 60 at the SFT level, they should only make future contributions to produce a further €613,049 DC fund at age 60. Using the same investment assumption of 3% p.a. after charges, the estimated future contribution required to produce this additional fund of €613,049 is €51,715 p.a.
- Consider drawing benefits on early retirement (where permitted and subject to Revenue rules) to prevent benefit values from exceeding the available SFT.

Remember: ARFs and Vested PRSAs grow tax-free and are not subject to imputed distributions until the year the client turns 61. This means there is no loss of gross roll-up up to age 61.

Planning for individuals with a mix of DB and DC benefits

- **Sequencing public and private benefits**

  Individuals with a combination of private DC benefits and public sector DB benefits (e.g., HSE consultants) who are likely to incur a CET liability may benefit from taking private DC benefits first and public sector DB benefits last.

  This ensures any chargeable excess arises on the public sector benefits, where the tax can be paid in instalments via deductions from gross pension over 20 years, with no recovery of outstanding tax on early death.

  In addition, the full spouse's death in retirement pension remains payable.

- **Use encashment option**

  Individuals who hold both private and public sector benefits may be able to eliminate a potential chargeable excess by encashing some or all their private benefits under S787TA TCA 1997 after age 60 but before taking their public sector benefits.

  The amount encashed does not count towards the available SFT, allowing the individual to reduce remaining benefits to the SFT level.

- **Allowing the chargeable excess to fall on DC benefits**

  Individuals with a mix of private sector DB and DC benefits may be better off allowing the chargeable excess tax liability to arise on their DC benefits, where tax is deducted from gross funds.

  If the excess falls on DB benefits, there is a risk the scheme administrators may seek to recover the tax from the individual's lump sum (net funds) or by encashing DB pension at poor commercial terms.

Note: Laws and tax rules may change in the future. The information here is based on our understanding in April 2026.

Retirement Solutions Team

Sinead McEvoy
087 105 6888
sinead_mcevoy@standardlife.ie

Janice Nevin
087 449 1791
janice_nevin@standardlife.ie

Pat Manley
087 687 5178
pat_manley@standardlife.ie

Alternatively, email the team at
retirementsolutions@standardlife.ie

Calls may be monitored and/or recorded to protect both you and us and help with our training. Call charges will vary.

Standardlife.ie/adviser

Standard Life International dac is regulated by the Central Bank of Ireland.

Standard Life International dac is a designated activity company limited by shares and registered in Dublin, Ireland (408507) at 90 St Stephen's Green, Dublin D02 F653.

PP3 **V04** 0426 © 2026 Standard Life. All rights reserved
SCOZ0426639938-001