ROYAL LONDON IRELAND

Press Release

I'm returning to work at 63 for financial reasons, from the point of view of my pension, what are the main tax implications that I need to know?

I retired a few years ago at the age of 60. I had a company pension worth €750,000. From this, I took €187,500 as a tax-free lump sum and invested the rest in an Approved Retirement Fund (ARF). I've had to draw down about €22,500 from that ARF a year since I retired, and I've paid tax on those drawdowns. I'm 63 now and for financial reasons, I've decided to return to work. From the point of view of my pension, what are the main tax implications that I need to be aware of if I return to work? I hope to start a new pension when I return to work – will I still be able to take a tax-free lump sum from this when I retire permanently?

Answer: Mark Reilly, Pensions Proposition Lead, Royal London Ireland

As you have decided to return to work, it is important that you look at everything in the round so that pension funding limits are not breached, pension tax-free lump sums remain as 'tax-free' and you understand what your ultimate tax position will be.

When you invest a sum of money in an ARF on retirement, you have to withdraw at least 4pc from it each year once you are aged 60 or over for a full tax year. In your case, as you have indicated, this could work out at around €22,500 a year, assuming you invested €562,500 of your pension fund into an ARF.

Withdrawals from an ARF are treated as income and taxed under the Pay As You Earn (PAYE) system. The amount of tax you pay on the annual ARF drawdowns will depend on a number of things, including what other sources of income you have and whether or not you are jointly assessed for income tax purposes with your spouse, if applicable.

As you have decided to return to work, you will also likely have some new pension funding opportunities available to you. The receipt of any income from your new employment will be added to the 4pc you are withdrawing from your ARF and does have the potential to alter your tax position.

In nearly all circumstances, when you come to draw down any additional benefits through any new pension funding you have done after the age of 60, you will need to consider what you did previously.

Under current Irish Revenue rules, a maximum of €200,000 can be taken as a tax-free pension lump sum over your lifetime. So given you have already taken €187,500, any future tax-free lump sum that you draw down would need to be €12,500 or lower to keep you within the tax-free lump sum lifetime limit of €200,000. You will have to pay tax on any amount drawn down over that €200,000 limit. There is a flat rate charge of 20pc on any amount that falls between €200,000 and €500,000.

Be aware too that under current Irish Revenue rules, you can have no more than €2million in your pension fund from all tax-relieved pension arrangements entered into over your lifetime. This is known as the Standard Fund Threshold (SFT). State Pensions are not included in this €2 million limit. Note though that as a result of the changes coming in under Finance Bill 2024, the SFT will increase by €200,000 a year between 2026 and 2029. This means that an SFT of €2.2million will apply in 2026, increasing to €2.4m in 2027, €2.6m in 2028 and €2.8 million in 2029.

Individuals who have previously fully utilised their SFT will not be able to avail of the increases in the thresholds - however, for individuals who have partially utilised their SFT, a portion of the increases will be available.

You have already used up €750,000 of the current €2 million SFT limit through the previous benefit you drew down at the age of 60. In light of this, it is unlikely you will breach this limit through any additional or future pension funding, but it is something to be always aware of. When you come to invest any future amount into an ARF, or use the funds to buy an annual pension income – also known as an annuity, this will generate a charge to income tax, USC (Universal Social Charge) and possibly PRSI through withdrawals from the ARF and/or receipt of the annuity. You will need to look at this in the context of the income you are drawing down from your original ARF and any possible State Pension you are in receipt of. These will all factor into your overall tax position and may possibly move you into a higher income tax bracket and higher bands of USC.

It can be a very complex area and we recommend that you talk to a Financial Broker for independent financial advice before making any decision around your pension fund.

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Note for editor
The example contained in the above in no way constitutes legal or tax advice and is based on Royal London Ireland's understanding of current Revenue law and practice as at May 2025.

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Notes to the Editor:

About Royal London Ireland:

Royal London Ireland has a history of protecting its policyholders and their families, and it is committed to continue to do so for a long time to come. Our heritage in Ireland is 190 years starting when the Caledonian Insurance Company's first office opened on York Street, Dublin 2 in 1834. Today, Royal London Ireland is owned by The Royal London Mutual Insurance Society Limited – the UK's largest mutual life insurance, pensions and investment company, and in the top 30 mutuals globally, with assets under management of €210 billion, 8.7 million policies in force, and over 4,500 employees. Figures quoted are as at 31 December 2024. Royal London Ireland's office is based at 47-49 St Stephen's Green, Dublin 2.

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