

Ireland's Rising Pension Cap

Why business owners in their 50s should revisit their pension strategy

For years, many business owners have treated Ireland's Standard Fund Threshold as a reason to hold back on pension funding. For those with a decade or more to retirement, the new rules suggest that excessive caution may eventually become the greater risk.

The pension ceiling is moving

The Standard Fund Threshold, or SFT, is often misunderstood. It is not an annual contribution limit. It is the maximum aggregate capital value of tax-relieved pension benefits that an individual can crystallise before a chargeable excess may arise. In 2026, the SFT is €2.2 million, and pension benefits above the relevant threshold can be subject to chargeable excess tax at 40%.

The Government has now put a clear upward path in place. The threshold rises to €2.4 million in 2027, €2.6 million in 2028 and €2.8 million in 2029. The more significant change comes in 2030, when the €2.8 million figure will be adjusted to reflect the cumulative movement in CSO average weekly earnings between the first quarter of 2025 and the third quarter of 2029.

From 2031 onwards, the SFT will be reviewed annually by reference to the change in average weekly earnings between the relevant third-quarter periods. The formula also includes a floor: if earnings fall, the threshold does not reduce below the previous year's amount.

What could that mean by 2040?

Assume, purely for illustration, that average weekly earnings grow by 3.25% a year. On that basis, the 2030 catch-up formula would produce an estimated SFT of approximately €3.23 million. Continued indexation at the same rate would bring the threshold to about €3.67 million in 2034 and €4.45 million in 2040.

Year	Illustrative SFT
2026	€2.20 million (legislated)
2029	€2.80 million (legislated)
2030	€3.23 million
2034	€3.67 million
2040	€4.45 million

Illustration assumes constant 3.25% annual growth in average weekly earnings.

This is a scenario, not a forecast. The actual SFT will depend on future CSO earnings data and the legislation remaining in place. It nevertheless shows why a long-term strategy should not assume that €2 million, or even €2.8 million, will remain the effective ceiling at retirement.

Consider a business owner aged 52 today

Consider a 52-year-old business owner who hopes to retire at 66 in 2040 and has already accumulated €1 million across their pension arrangements. They may feel close enough to the historic €2 million threshold to become cautious about further funding.

But time and compound growth change the picture. If the existing €1 million grew by an average of 5% a year after charges, with no further contributions, it would be worth approximately €1.98 million at age 66. If the business were also able to contribute €100,000 at the end of each year, and the same 5% growth assumption applied, the projected fund would be approximately €3.94 million.

That projected fund would remain below the illustrative €4.45 million SFT for 2040. Returns will vary, contribution capacity may change and all pension benefits must be included, but the example highlights the danger of using today's threshold to plan for a retirement fourteen years away.

Why this matters particularly to owner-directors

Business owners may have greater control over the timing and level of company-funded pension contributions. That can be valuable in profitable years, when surplus cash is available to move wealth from the company into a long-term retirement structure. Any strategy must still fit the pension vehicle, remuneration, company circumstances and Revenue rules.

Under current rules, employer contributions to an employee's PRSA can be made without a benefit-in-kind charge up to an employer limit of 100% of the employee's salary. Personal contributions operate under separate age-related tax-relief limits. For someone aged 52, the current personal limit is 30% of relevant earnings, subject to the €115,000 earnings cap. It rises to 35% from age 55 and 40% from age 60.

These rules create opportunities, but do not mean every owner should maximise contributions. The business may need working capital, acquisition funds or a succession reserve, while the owner may need accessible assets before retirement. Pension funding must be balanced with liquidity and wider family goals.

A higher SFT does not make everything tax-free

The SFT should not be confused with the tax-free retirement lump-sum limit. Under current rules, the lifetime tax-free amount is €200,000. The portion between €200,001 and €500,000 is taxed at 20%, while amounts above €500,000 are taxed through PAYE at the higher rate. Later pension income and withdrawals may also be taxable.

The attraction is not that every euro emerges tax-free. It is the opportunity to obtain tax relief where available, invest over a long period and build a dedicated source of retirement income. The right strategy depends on the owner's tax position, retirement route and overall balance sheet.

The question business owners should now ask

The changes should prompt business owners in their 50s to revisit assumptions formed when the SFT appeared frozen at €2 million. A strategy that looked prudent under the old rules could now leave substantial future pension capacity unused.

The answer is not reckless or indiscriminate funding. It is a more ambitious, evidence-based plan that models the likely retirement year, existing benefits, realistic contributions, investment growth and the future indexed threshold.

For some business owners, the greater risk may no longer be exceeding the pension limit. It may be reaching retirement and discovering that they were too cautious during the years when the business had the capacity to fund their future.

For a 52-year-old owner today, the most useful question may no longer be, 'Am I getting too close to €2 million?' It may be, 'Given the threshold that could apply when I actually retire, am I doing enough while I still have the opportunity?'

Important note

This article is for general information only and does not constitute tax, legal or investment advice. Pension rules and tax treatment can change. Individual advice should take account of all pension benefits, remuneration, company circumstances, liquidity needs and retirement objectives.

Sources

1. [Finance Act 2024, section 13 - Standard Fund Threshold formula](#)
2. [Revenue - Chargeable excess tax](#)
3. [Revenue - Tax relief limits on pension contributions](#)
4. [Revenue - Pension contributions and PRSA employer limit](#)
5. [Revenue - Taxation of retirement lump sums](#)