Ireland – Voluntary Deferral of State Contributory Pension, Impact on PRSI Age Limit

While the Irish State Contributory Pension age remains 66 years, since 1 January 2024, it has been possible for individuals who will first reach 66 after this date to defer receipt until a maximum of 70 years of age[1]. The rules apply for both employed and self-employed individuals. The changes do not apply to any individual who already reached 66 or was already receiving the State Pension (Contributory) prior to 1 January 2024.

The new rules have an impact for employers. Where an employee does not defer the State Pension but keeps working after aged 66, the employer PRSI contribution rate is capped at 0.50% (Class J0) while there are no employee PRSI deductions. From 2024, where an employee defers receipt and continues to work, the PRSI contribution rate remains at Class A (currently 4% for employees and 11.05% for employers, increasing from 1 October 2024[2]). Class A rate applies while the employee is working until the earlier of the date of the award of the State Pension (Contributory) or the employee has turned 70.

Feedback from employers on the first six months of the regime is that the number of employees choosing to defer their State Pension has not been large to date, however some gaps in processes have led to payroll corrections being required.

WHY THIS MATTERS

The changes are intended to enable individuals to continue to work and improve their social security contribution records to enhance the level of State Contibutory Pension they will enjoy when they begin receiving their pay-outs.

Employers are obliged to deduct the correct amount of PRSI contributions in ‘real time’ through payroll and are liable for any underpayments found to arise, plus interest and penalties, in the first instance. If employers incorrectly applied the lower PRSI rate, they may face consequences for underpayments.

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KPMG INSIGHTS

As no formal communications issue directly from the Department of Social Protection to confirm the State Contributory Pension payments have commenced, we have observed some employers incorrectly applied the lower PRSI rate for a period of time.

It is recommended to put in place processes to capture information in relation to the deferral or receipt of the State Pension in real time from their employee population to help ensure the correct PRSI Class applies.

The following information should be considered:

- Which employees are born before 1 January 1958 (and out of scope of the new rules);
- Which employees are born on or after 1 January 1958 (and in scope of the new rules);
- For 2024 and later years, which employees will be in the relevant “66 to 70 years of age” bracket;
- The current PRSI classification status within the payroll system;
- How confirmation will be obtained from the relevant employee relating to the date of award of the State Contributory Pension in order to update the PRSI classification status as needed.

It is also recommended employers provide information to employees of the new changes as well as noting the importance of advising the employer of relevant changes so that the correct contribution rate is paid.

For self-employed individuals, PRSI contributions due are payable through their personal tax return. They will need to consider the cost of ongoing PRSI contributions relative to the benefit obtained from enhanced social benefits and deferred receipt of Contributory State Pension income.

FOOTNOTES:

1 Department of Social Protection, Citizens Information Board, ”Deferring your State Pension (Contributory).”

2 See *GMS Flash Alert* 2024-153, 18 July 2024.

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RELATED RESOURCE:

Additional information including some worked examples is included on the Department of Social Protection website, which can be accessed via the Department of Social Protection website, "Changes to Pay Related Social Insurance (PRSI)" (Last updated on 18 July 2024).

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