

ARE CHANGES AFOOT IN BUYING EXTRA PENSION ENTITLEMENT ?

Buying extra quarters is a most effective, tax-efficient way of taking control of one's retirement date. Although it is quite simple to do, it does require some expertise in order to make the right strategic choices. Even more so, now that tax deduction at source and a bonus-malus system on second-tier pensions will make things more complicated. Here are some tips from us on making the most of pension buy-backs over the coming years.

Buying-back quarters to shorten the time to retirement.

The Social Security scheme allows you to buy-back contribution quarters, i.e. make a cash payment to reduce the time to retirement on full pension. For example, a manager, born in 1960 earning a comfortable salary wishes to retire at 62, which is the minimum legal age in France at the moment. He or she realises that they are missing four contribution quarters to be able to retire in 2022 on full pension. He or she cannot wait to be spending their days playing tennis or gardening, so they contact Social Security. Based on actuarial tables, the scheme offers an earlier retirement date in consideration for payment of contributions ranging from €4,000 to €6,000 per quarter. The manager can then deduct this amount from taxable income. By buying-back one quarter each year, this manager could considerably reduce his/her income tax and hasten retirement in one fell swoop. Buying-back quarters is thus undoubtedly an efficient way to lever more retirement income in a short space of time.

No buy-backs in 2018?

2018 will not be a year like any other for taxpayers in France. The introduction of tax deduction at source on 1 January 2019 means that 2018 will be "tax neutral" since, from 2019 onwards, withholding tax will be levied on the current year and no longer on the previous year.

In view of this, it would be better to defer for one year any intention to buy-back quarters. Unless, of course, you have extraordinary income to declare in 2018! In order to avoid opportunistic tax optimisation (e.g. capital gains or dividend earnings), the law provides for such extraordinary income in 2018 to be taxed at one's average tax rate. Any buying-back of pension quarters could then offset

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tax on such extraordinary income.

If you have no extraordinary income in 2018 and decide to defer any buy-back of quarters until 2019, you can deduct the full buy-back amount from your 2019 taxable income. No dissuasive measures have been put in place to penalise such timing. [Amendment 467](#) only applies to payments into retirement savings plans.

Change of strategy in 2019

From 2019 onwards everything will be back to normal...or nearly. [The temporary bonus-malus system on the Arrco and Agirc second-tier schemes](#) comes into play on 1 January next. In a previous article, we took a look at the advantages of retiring now before reaching full pension, so as to avoid any "malus" (discount). When it comes to contribution buy-backs, however, the figures need to be done again! The manager we mentioned above may do well to buy-back one quarter less and so take retirement before reaching full pension and then avoid any discount ("malus"). On the one hand he/she avoids a 10% discount over 3 years on second-tier pension income and saves the cost of buying-back one quarter but does have to take a slight reduction in pension throughout retirement. It is time to take out one's calculator and make the best choices or, more prudently, to opt for a personalised retirement simulation!

Gerep offers a scheme for carrying out such simulations, called Sapiendo.

Damien Vieillard-Baron.

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