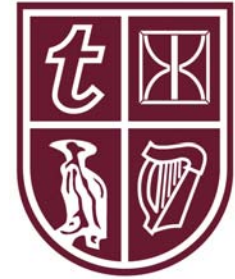


PRSA Forum

26th April 2010

Society of Actuaries in Ireland



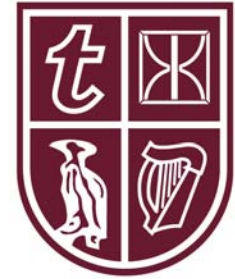
Transfers from Occupational Pension Schemes to PRSAs

Certificates of Comparison and Written Statements

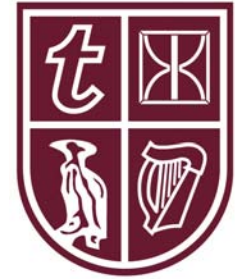
Jim Murphy
PRSA Forum
Alexander Hotel, 26 April 2010

Agenda

- **Background**
- Legislative & Professional Framework
- Issues for PRSA Actuary
- Other Issues



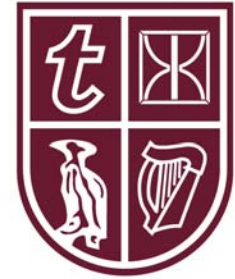
Background



- PRSAs launched in 2002
- Little transfer activity from Occupational Pension Schemes (OPS) since then, other than on wind up, partly due to
 - Costs of preparing Certificates of Comparison and Written Statements
 - Professional indemnity insurance requirements
- More recently, there has been increased interest in transfers
 - Mainly at medium to higher end of the market
 - Access to ARF option a common reason

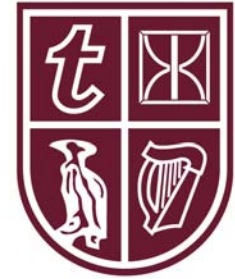
Agenda

- Background
- **Legislative & Professional Framework**
- Issues for PRSA Actuary
- Other Issues

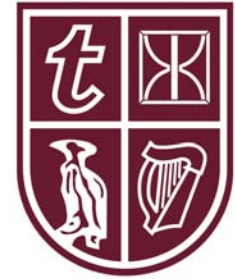


Key References

- Section 113 of Pensions Act 1990 (as amended)
- PRSA (Disclosure) Regulations, 2002 (as amended)
- ASP PRSA-5

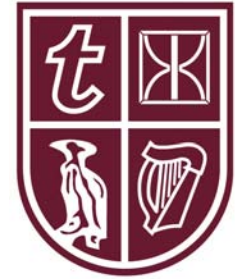


Section 113



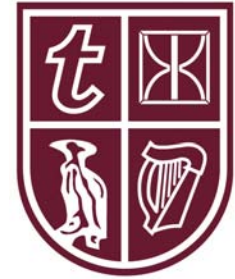
- *“A PRSA Provider shall not accept the transfer of funds from a scheme to a PRSA unless it has previously ensured that there has been furnished by it, or an intermediary on its behalf, to the [member of the scheme] –
 - A [certificate of comparison]
 - A written statement of the reasons why such a transfer is or is not in the interests of the [member]”*
- Trustees of the scheme must furnish a statement of benefits that may accrue from the scheme on request by the member or PRSA Provider

Section 113 continued



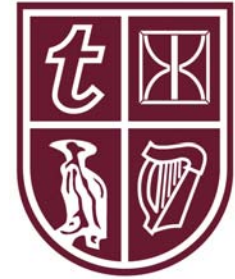
- Excludes from scope:
 - Where a scheme is wound up and proceeds t/f to a PRSA
 - Transfers of < €10,000
 - Where transfer represents a return of contributions , or the value of accrued benefits, to a member who has less than two years service and no preserved benefit

Disclosure Regulations



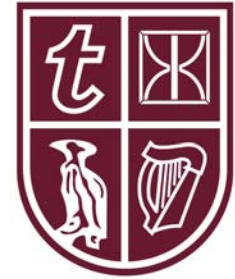
- Prescribes the form and content of
 - Certificate of comparison (CoC) and
 - Written statement (WS)
- Stipulates that both should be prepared in accordance with
 - The advice of the PRSA Actuary
 - Any guidance issued by the Society of Actuaries for that purpose

Disclosure Regulations continued



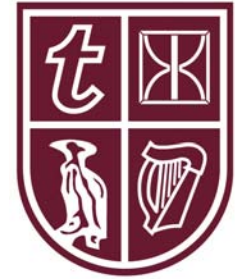
- Statement of scheme benefits from Trustees should be prepared in accordance with
 - The advice of the scheme Actuary in the case of a DB scheme
 - Any guidance issued by the Society of Actuaries for that purpose
- PI of €1m per claim required by person preparing CoC or WS

ASP PRSA-5



- Applies to
 - Any actuary called upon to prepare or advise on the preparation of a CoC or WS
 - Any actuary advising the trustees of a DB scheme on providing a statement of benefits
- Overarching *fair, clear and not misleading* objective prevails
- Basis for calculations
 - Assumptions for scheme and PRSA must be consistent
 - Similar principles to ASP PRSA-2, which is also referenced

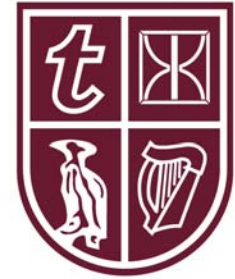
ASP PRSA-5 continued



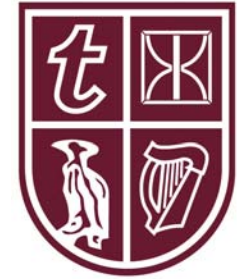
- Sets out specific requirements for
 - Benefits statement
 - CoC
 - WS
- In relation to WS
 - It is not a requirement to recommend a particular course of action
 - WS must give due weight to the factors, which in the opinion of the actuary, must be considered
 - Must be clear, unambiguous and free of inappropriate jargon

Agenda

- Background
- Legislative & Professional Framework
- **Issues for PRSA Actuary**
- Other Issues

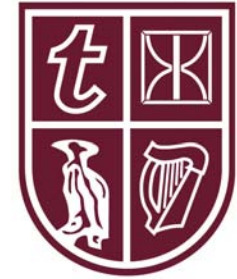


Issues for PRSA Actuary



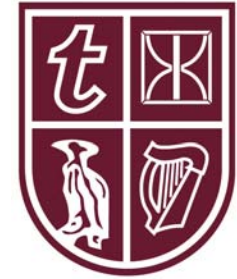
- He/she may not be the person preparing the CoC or WS
- Extent to which
 - overarching general advice is required in respect of all CoCs/WSs
 - Specific advice is required in respect of an individual CoC/WS
- Professional judgement will be required
 - PRSA Actuary may want to review all DB CoCs/WSs
 - Individual involvement required for DC likely to be less
 - But may still consider segmentation of DC for advice purposes
 - e.g. DC no risk benefits, DC with risk benefits, DC with guaranteed investment options

PRSA Actuary Advice



- Pro forma CoC/WS likely to be developed for production environment, for DC at least
- General advice may cover
 - Factors that should be considered in WS
 - Weight given to different factors
 - Layout/odering of factors to ensure no issues overemphasised, minimised or excluded
 - Form of the “financial analysis which explains the decision to transfer” that must be included in the WS

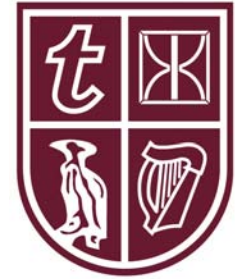
PRSA Actuary Advice continued



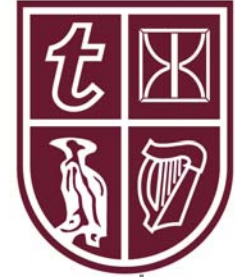
- General advice may cover
 - Language used to ensure clear, unambiguous and free of inappropriate jargon
 - Any additional information that PRSA Actuary believes is required to ensure fair, clear and not misleading objective is met
 - Materiality e.g. in deciding which of the factors set out in the regulations relating to WSs should be referenced

Agenda

- Background
- Legislative & Professional Framework
- Issues for PRSA Actuary
- **Other Issues**

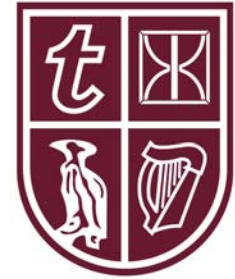


Other Issues



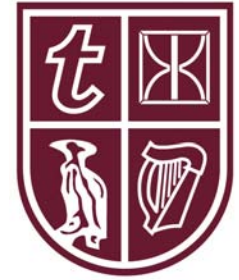
- Role of PRSA Provider versus intermediary
 - Who is responsible for content of CoC/WS?
 - Section 113 of Act refers to intermediary **furnishing** the documents to the scheme member on the PRSA Provider's behalf
- Where production of CoC/WS is outsourced
 - Again, who is responsible for the content of CoC/WS?
 - PRSA Actuary needs to have access to outsourced provider either directly or indirectly in order to provide advice
 - Practical considerations around process arise

Other Issues continued



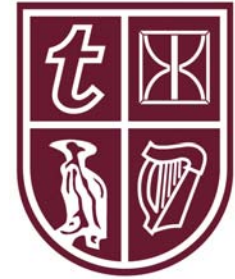
- Requirements do not distinguish between DB and DC schemes
 - Industry has lobbied in the past for some relaxation of requirements in respect of DC
 - Argument for rebalancing of requirements on proportionality grounds
- Conversely, no similar regime exists for transfers from DB to DC schemes
 - Argument for introducing some measures to protect against ill advised transfers from DB to DC
- Finally, note that some minor tidy up changes to ASP PRSA-5 are planned

Questions



?

PRSA Charges



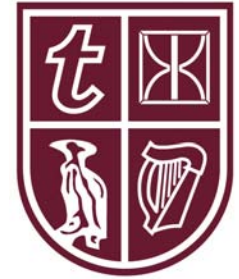
Robert Wolfe

**Society of Actuaries in Ireland
PRSA Forum**

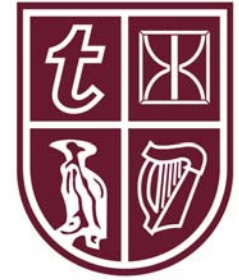
26 April 2010

PRSA Charges

1. Legislation and ASPs
2. Restrictions
3. Projections
4. The PRSA Actuary
5. Issues



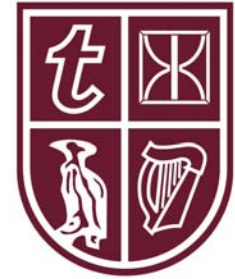
1. Legislation and ASPs



Legislation

Pensions (Amendment) Act 2002

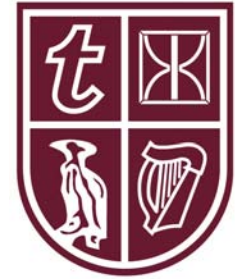
- S91 – Charges defined
- S103 – Investment funds
- S104 – Restrictions on charges
- S111 – Preliminary Disclosure Certificate
- S112 – Statement of Reasonable Projection
- S119 – Annual certification



SAI Standards

- ASP PRSA-1 (Annual Certification)
- ASP PRSA-2 (PRSA Product Information)
- ASP PRSA-4 (Investment)
- ASP PRSA-5 (Certificates of Comparison)

- ASP LA-8 (Life Product Information)



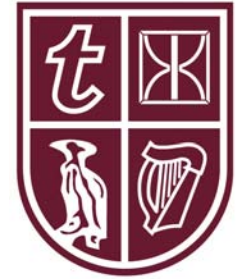
Charges (1)

Fees imposed by PRSA Provider

Fees on pooled funds

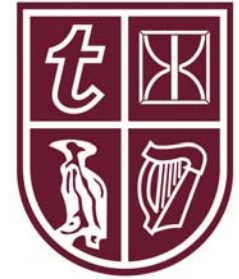
Fees on funds held by pooled funds

Costs of auditors and custodians



Charges (2)

Transaction costs > “competitive arm’s length”

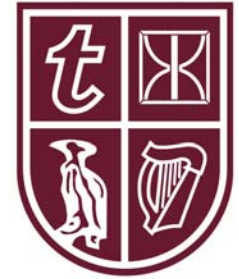


Investment return < “competitive arm’s length”

Stock lending profits not passed on

Proceeds of rounding not passed on

Charges (3)



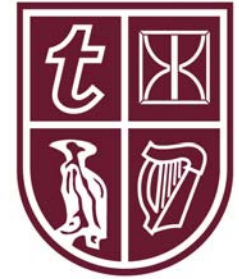
VAT on charges

Deductions from assets

Disclosable insurance charges

Other amounts as prescribed

Not Charges (1)



Stamp duty or similar taxes or levies on investment transactions

Irrecoverable withholding taxes

Statutory fees or levies deducted from PRSA assets

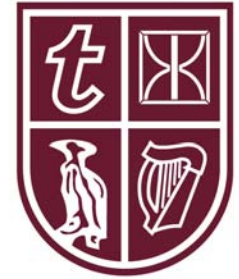
Not Charges (2)

Competitive arm's-length transaction costs

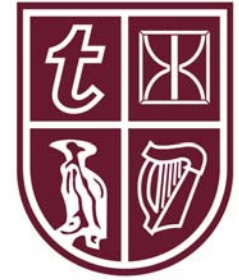
Routine arm's-length property costs

Smoothing deductions on insurance policies

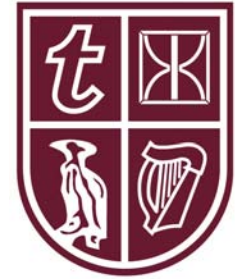
Other amounts as prescribed



2. Restrictions on Charges



Restrictions on Charges



Must be % of contributions and/or assets

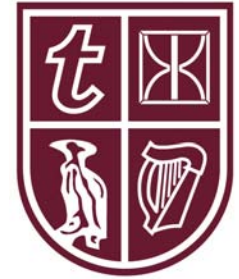
- Discounts not permitted
- Charges cannot be expressed in cash terms
- No initial charges on transfers

Maximum for Standard PRSAs

- 5% on contributions
- 1% p.a. on assets

Increases require 2 months notice & SORP

Investment Funds



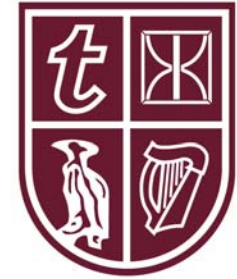
Charges must be “readily identifiable” for

- All funds available to Standard PRSAs
- Default Investment Strategy for non-standard PRSAs

ASP PRSA-4

- Can determine a maximum rate of charge
- Can ignore impartial rounding within 0.1%

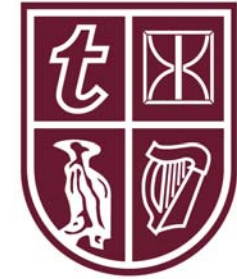
Product Charges



Product charges may vary only by

- Method of distribution
- Payment method
- Investment fund
- Duration in force
- Amount of contribution (contribution based charge)
- Amount of assets (asset based charge)

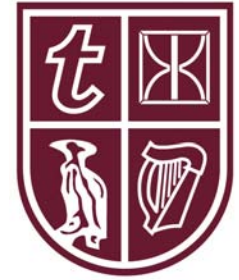
PRSA Products



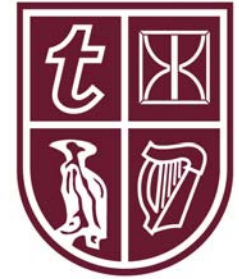
Provider	Standard	Non-Standard	Total
Irish Life	13	11	24
Zurich Life	6	11	17
New Ireland	7	5	12
Hibernian Aviva / Ark Life	6	5	11
Canada Life	4	4	8
Friends First	2	4	6
Custom House Capital	0	3	3
Standard Life	0	3	3
APT	0	1	1
Danica Life	1	0	1
Davy	0	1	1
Total	39	48	87

Source: Pensions Board website

3. Projections



PRSA Projections



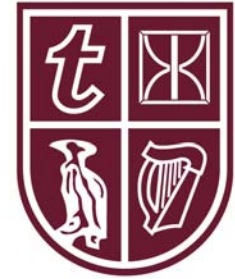
Charges must be shown clearly in brochures

Disclosure Table

Reduction In Yield

PRSA Projections

Governed by ASP PRSA-2



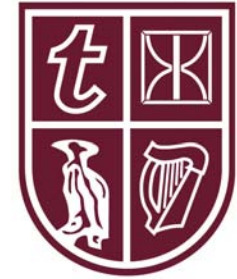
Assumed return must allow for

- Investment management fees
- Custodial fees

... but can ignore

- Actual arms-length transaction costs
- Actual arms-length property costs

PRSA Projections



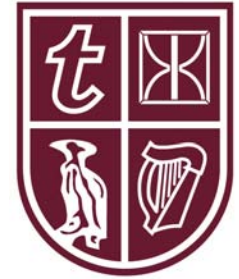
Other charges include

- Initial / annual charges
- Reduced / nil allocation
- Penalties
- Dividends withheld
- Rounding
- Charges in underlying assets

... but exclude

- Effects of dual pricing

Certificates of Comparison

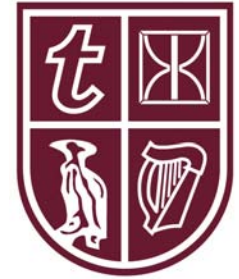


Governed by ASP PRSA-5

- Minor differences to ASP PRSA-2 relating to charges

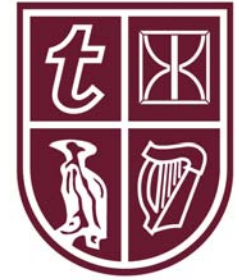
New draft under discussion

Life Policy Projections



Charges exclude “Custodial and other fees which are the necessary costs of maintaining an investment fund, to the extent that these are the arm’s length costs actually disbursed”.

4. The PRSA Actuary



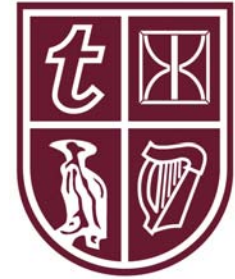
The PRSA Actuary

Certification of new products

S119 Certification

- Certificate in PRSA Operational Regulations
- Consistency with brochures etc
- Compliance with the Act

Advice on Certificates of Comparison



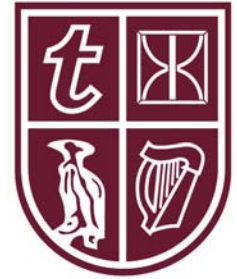
Evidence

Information from service providers

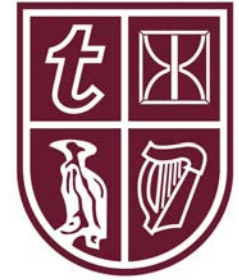
Evidence of “competitive arms length”

Document reasoning for assumptions

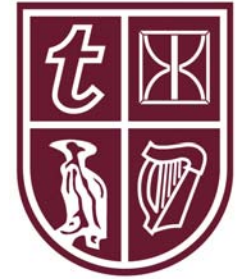
Look for notification from provider of changes
in charges



5. Issues



Issues (1)



What is a Custodian?

(a) Custodian as defined in the Act

- Not required by life company PRSA providers

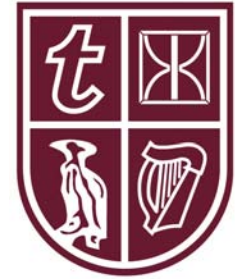
(b) Investment Custodian

- Usual meaning
- Arms-length costs are not charges for life projections

Issues (2)

Pooled fund charges

- Life company funds
- UCITS / SICAVs
- Unit Trusts
- ETFs
- Private Equity
- Property Companies
- Limited Partnerships



Issues (3)

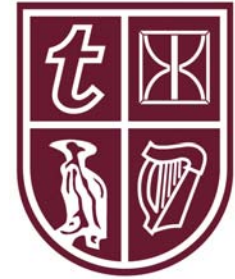
Non-proportional charges

- Performance-related fees
- Flat charges
- Other fees and expenses

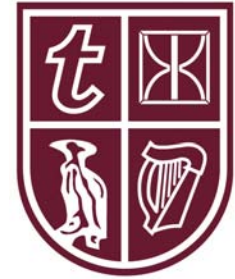
Unit price rounding

1% levy (no longer relevant)

With-profit PRSAs



PRSA Charges



Robert Wolfe

**Society of Actuaries in Ireland
PRSA Forum**

26 April 2010