

The Society of Actuaries in Ireland

Concerns reiterated about lack of minimum income threshold

Consumer Protection Measures Advocated

The Society of Actuaries welcomes the flexibility which the Approved Retirement Fund mechanism provides to retirees. The Society is, however, concerned that the new regime does not incorporate measures necessary to afford protection to the consumer. This is of particular concern in view of the fact that the Finance Bill 2000 extends the new retirement fund options to employees' additional voluntary contribution funds and in this connection the Society notes that the options in the Finance Bill may well be extended further in the future.

Minimum Income

The Approved Retirement Fund option is so different from an annuity that direct comparisons of the two can be dangerously misleading. An annuity provides insurance against the possibility that the retiree will live longer than he or she expects; an Approved Retirement Fund does not afford any such protection. Projections carried out by the Society of Actuaries Retirement Fund Options Working Party show that if a retiree opts for an Approved Retirement Fund and makes regular income withdrawals from the Fund equal to the amount of income which could have been obtained with an annuity, there is a 50% to 60% chance that the fund will be exhausted before the retiree dies.

Moreover, the Society of Actuaries Working Party has recommended that the £50,000 minimum investment in an Approved Minimum Retirement Fund or annuity should be abolished in favour of the minimum £10,000 guaranteed income test i.e. a retiree would only be able to invest his pension savings in an Approved Retirement Fund or take them in cash if he or she already had a guaranteed income of at least £10,000 per annum.

Even if the threshold of a guaranteed income of at least £10,000 per annum is not required under legislation, the Society of Actuaries recommends that where pension savings are going to be the only or main source of income in retirement, retirees should secure for themselves a minimum level of lifetime income by using some of their pension savings to purchase an annuity payable for life.

Consumer Protection Controls

There are no specific statutory controls on the sales and marketing of Approved Retirement Funds. Approved Retirement Funds may be offered by a wide range of financial institutions that are subject to various different regulatory regimes. Some

specific controls would be appropriate in relation to Approved Retirement Funds, most particularly to deal with situations where such Funds are being used by retirees to provide a regular income in retirement. In such circumstances, the Society recommends that:

- It should be mandatory that the retiree receives projections of the long term effect of such withdrawals on the capital invested.
- The rates of investment return used for illustration purposes should be set on a more conservative basis than for other long term investment products and should be revised more actively to reflect changing investment conditions.
- The retiree should be advised that if his or her pension savings will be the only or main source of income in retirement, he or she should consider investing some or all of it in an annuity to secure an income for life.

In addition, an information disclosure regime similar to that currently proposed for life assurance products should be mandatory for Approved Retirement Funds. This would include disclosure of commissions and expense levels at the point of sale.

Informed Decision Making

The Finance Bill 2000 does not require that retirees are provided with sufficient information to fully evaluate the choices available to them. The Society of Actuaries recommends that pension fund trustees and personal pension providers should be required to provide retirees with information about each of the options available to them, including the option to buy an annuity, before any decision is made. Moreover, there should be a statutory “cooling off period” during which a retiree could decide on a different course without further penalty.

Tax Regime

The Society welcomes the fact that its recommendations in relation to the tax regime for Approved Retirement Funds have been implemented in the Finance Bill i.e. provision has been made for investment income within the Approved Retirement Fund to be rolled up without incurring a tax liability with withdrawals from the Fund being taxed as income under the PAYE system. This revised taxation treatment will make the operation of Approved Retirement Funds simpler and more transparent to the consumer.

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