



Consultation on PRSA charges – October 2015

Background

As part of the proposed DC reform process, the Authority is conducting a review of Part X of the Pensions Act, 1990 (“the Act”) and attendant regulations. At this point we are contacting all PRSA providers to seek their views on the operational impact of the charges provisions of Part X.

Responses to this consultation will assist the Authority in formulating recommendations to the Department of Social Protection for any potential legislative amendments.

Charges provisions

Part X of the Act imposes certain restrictions and obligations on PRSA providers and the PRSA Actuary in relation to charges made to PRSA contributions and assets. In particular:

- S103 requires that a pooled fund used as a default investment strategy must have charges which are ‘*readily identifiable*’;
- S104 imposes various restrictions on PRSA charges in relation to:
 - expressing charges in cash terms;
 - allowable variations in charges between PRSA contracts offered by the same PRSA provider;
 - the maximum charges which can be applied to a Standard PRSA contribution and assets;
 - the levying of initial charges on transfer values paid into a PRSA;
 - the levying of charges on the termination of a PRSA contract; and
 - the provision of prior notice on any proposed increase in charges by a PRSA provider.
- S105 voids any provision of a PRSA contract which purports to provide for the imposition of a penalty or charge on a contributor if he suspends payment of a contribution or recommences the payment of a contribution the payment of which he has suspended, or varies the amount of his contribution.

- S111(4) and associated regulations require the disclosure to the PRSA contributor of all potential and actual commissions payable and other charges payable by a contributor for a non-Standard PRSA, through including in the Preliminary Disclosure Certificate (PDC) to be provided to the PRSA contributor in certain circumstances:
 - the projected PRSA contract value, at different durations, if no account is taken of applicable charges to date and if account is taken of applicable charges to date;
 - describe in detail the charges levied under the PRSA contract and include information on how those charges will operate and how they may change over time; and
 - the total effect of charges by disclosing the projected RIY to maturity.
- S112 and associated Regulations require the provision of a Statement of Reasonable Projection (SRP) to the PRSA contributor in certain circumstances. The SRP must include the projected PRSA contract value, at different durations, if no account is taken of applicable charges to date and if account is taken of applicable charges to date.
- S117(3) provides that the Pensions Authority shall, from time to time, conduct reviews of actual charges purported to be made under PRSA contracts and shall, in accordance with regulations, monitor PRSA providers' promotional and other material to determine whether all charges are expressed clearly.
- S119(2) and associated Regulations requires the PRSA Actuary to determine and certify annually (in accordance with Society of Actuaries Guidance ASP PRSA 1), if in his or her opinion such be the case and within the period and in the form specified in regulations, that the deduction of any amount from a PRSA product by way of a charge:
 - is consistent with the amounts indicated by the PRSA provider concerned in documentation made available to members of the public as being the amounts that would be deducted from the product by way of charges, and
 - complies with Part X and Regulations made thereunder.

The definition of 'charges' for this purpose is a non-exhaustive list set out in S91(1) (definitions (a) to (k) inclusive), and the Personal Retirement Savings Accounts (Exempt Unit Trust Charges) Regulations, 2012 (SI 386/2012). S91(1) (i) to (vii) defines items which are *not* charges.

Consultation questions

Q1. Given the objective of Part X in relation to the restriction, disclosure and operation of PRSA charges for the protection of the PRSA contributor, what operational difficulties, if any, do PRSA providers currently have in complying with the requirements?

Q2. What changes could be made to the current Part X requirements in relation to PRSA charges to make compliance by PRSA providers more transparent, consistent and verifiable, while still retaining the protections afforded by Part X to PRSA contributors in relation to charges?

Q3. Is there any merit in Part X distinguishing between the definition of Standard and non-Standard PRSAs in its application to charges? If so, why?

Q4. Are there any other definitions of charges in general use (such as MIFID Regulations, Life Assurance Regulations) that would simplify matters if substituted for the charges definitions used in Part X?

Q5. Should Part X distinguish between unvested and vested PRSAs in its application to PRSA charges? If so, how could this be done?

Q6. Should Part X distinguish between PRSA provider charges and expenses in its application to PRSA charges? If so, how could this be done?

Q7. Is there merit in the definition of PRSA charges being incorporated in guidance issued by the Pensions Authority instead of being defined in legislation? Would guidance give rise to more or less inconsistent interpretation of PRSA charges between different PRSA providers than under the current legislation based definition of charges?

Q8. Should there be consistency in the definition of and disclosure of charges to consumers as between PRSAs, Buy-Out Bonds, RACs, ARFs and AMRFs given that a PRSA contract, in certain circumstances, is a viable alternative to these products for some consumers? For example, a transfer value from an occupational pension scheme may be paid for a member, in certain circumstances, to a PRSA or to a Buy-Out Bond, while a vested PRSA and an ARF can fulfil similar needs for retirees.

How to respond

Please email your submission form by close of business on 17 November 2015 to Mary Broderick at mbroderick@pensionsauthority.ie.