Society of Actuaries in Ireland

Consultation on Supplementary Pensions Reform: Roadmap for Pensions Reform 2018-2023

Response to Consultation Document issued by the

Interdepartmental Pensions Reform and Taxation Group

October 2018

Preface

The Society of Actuaries in Ireland ("Society") is the professional body representing the actuarial profession in Ireland.

We welcome the opportunity to submit this response to the IDTPRG's consultation on Supplementary Pensions Reform: Roadmap for Pensions Reform 2018-2023.

We would be happy to respond to any questions on this response – please contact Philip Shier, Actuarial Manager, at Philip.Shier@actuaries.ie.

Introductory comments

The Society welcomes the opportunity to respond to this consultation which addresses the items assigned to the Interdepartmental Pensions Reform and Taxation Group in the Government's Pensions Roadmap. The Society's paper "Initial Views on the Government's Roadmap for Pensions Reform 2018-2023" issued in June 2018 comments on the proposals in the Roadmap in more detail.

The consultation paper consists of three Sections, each of which covers a different topic, and the Society's high-level views on these issues are:

Section A – Simplification & Reform

We agree with the view set out in the consultation document that ease of understanding and confidence in the pension system are critical in encouraging people to save adequately for their retirement and that product choice decisions are overly complicating this process. We support proposals to rationalise the number of products available, and to harmonise the regulatory and taxation treatment of the available vehicles, provided this can be done in a way which does not impact adversely on any group of consumers and we recognise that this is not a simple exercise. We propose significant changes to the structure of PRSAs which we believe would lead to more flexible and understandable products, which would provide better value for money for consumers.

Section B – Costs to the Exchequer

In this Section, we reiterate two issues which we consider to be fundamental to the proposed reforms:

- it is essential that there is full clarity on the objectives and what we are trying to achieve with our overall pension system
- it is important to consider how the overall combined system, and not each part of it in isolation, measures up in achieving each of the objectives.

We comment on the proposed approach to provision of a tax incentive under the proposed automatic enrolment system, and we also identify some issues where we recommend that existing anomalies be removed.

Section C – Approved Retirement Funds

Our recommendations in this Section include

- Removal of the AMRF requirement, combined with the introduction of new rules in relation to post-retirement drawdown.
- Regulation of advice provided at the point of retirement and defined checkpoints throughout retirement.
- Introducing group drawdown arrangements which could facilitate lower charges and pooling mechanisms for retirees.
- Gathering of information on ARFs to aid understanding of the products available and the drawdown market generally.

In the remainder of this paper, we have set out our responses to the questions posed in the three Sections. As the topics and questions are inter-related, some issues are raised in the responses to more than one question.

Section A – Simplification & Reform

A1. Do you agree that PRSAs, BoBs and RACs largely fulfil the same function for a consumer and that it would be beneficial to simplify the DC contract landscape by prospectively ceasing BoBs and RACs? If not, why?

We agree with the view as set out in the consultation document that ease of understanding and confidence in the pension system are critical in encouraging people to save adequately for their retirement. The big challenge is to encourage more consumers to contribute to a pension saving arrangement. Product choice decisions as to how to structure these savings are overly complicating this process.

We believe that PRSAs, BOBs and RACs (and also one-member trust-based schemes) largely fulfil the same function and that consumers do not appreciate the technical differences between them. These four disparate products could be rationalised into one product.

The PRSA is the most obvious candidate for the single product moving forward. However, there are significant issues in terms of its regulation and flexibility which need addressing before it can expand its role to satisfy the needs currently met by the other products.

For example, the BOB's role is to closely replicate the rules of the occupational pension scheme of which the consumer was a member. So, in a BOB the retirement lump sum calculation replicates both of the lump sum calculation options allowed in DC occupational schemes (salary & service option and 25% of fund option). Currently PRSAs don't allow use of the salary & service lump sum option and therefore they are generally less attractive for consumers leaving occupational schemes. Furthermore, the charges associated with transferring to a BOB are generally lower than to a PRSA.

Rules such as this will need to be changed before all of the current products can be rationalised into a single new-generation PRSA product. We cover the changes we would like to see to the PRSA product in more depth in answers A2 and A3.

A2. What, if any, positive or negative consequences would you foresee from the prospective cessation of BoBs and RACs? What changes would be required to the legislation governing PRSAs? What transitional measures would be required?

Consequences

The positive consequences are fairly easy to see. The removal of similar products would simplify the landscape. Fewer options means less confusion for consumers – it is much easier for a consumer to get to grips with the features of a single product than to understand multiple different ones. There would also be less legislation and less scope for anomalies. We do not believe the removal of these products would mean less choice for consumers, as there are ample suppliers of PRSAs and investment options under those products.

Potential negative consequences largely depend on the form of the PRSA product going forward. If the PRSA legislation is left materially unchanged, removing RACs and BOBs as an option would likely be a negative development for consumers overall, certainly in the case of BOBs. This is demonstrated

by the continuing popularity of BOBs in the market, with data showing that new business sales of BOBs have been much higher than new business sales of PRSAs by insurers in the last few years. It is, however, worth noting that a significant portion of BOB sales have probably been driven by the high levels of scheme wind-ups that have happened over the last few years, and those levels of wind-up are unlikely to continue in to the future. Another reason for the high take-up of BOBs has been the increased incidence of enhanced transfer value (ETV) exercises undertaken by employers who sponsor DB schemes.

As noted in our response to A1, a PRSA in its current form can often be a poor option for a member leaving a scheme in terms of their future tax-free lump sum. The other key benefits of BOBs are their flexibility and their cost to policyholders. For example, it is often possible for scheme trustees to negotiate BOBs with favourable charges for their members. This is almost impossible with PRSAs as special terms cannot be offered on individual policies under the current legislation.

Legislative changes required

If PRSAs are the future vehicle then member outcomes may not be improved, without significant reform of the PRSA structure:

- PRSAs in their current form are often more expensive than BOBs and RACs, and do not always provide the best value for money in terms of advice, fund choice and service. In our response to A3, we have suggested improvements that would reduce the overhead for providers and should enable PRSAs to be priced more competitively.
- Retirement lump sum rules are different under occupational schemes so members could be materially disadvantaged where transferred to a PRSA on wind-up. It may result in some trustees transferring benefits to occupational arrangements such as master trusts rather than PRSAs so the operation of such arrangements needs to be considered in tandem.
- PRSAs need to be changed to allow flexibility on terms (e.g. pricing/investment options) if they are to be the cornerstone of future provision. There should be scope, for example, to offer flexible terms on bulk transfers (e.g. from DB scheme wind ups) as is currently the case in the event of bulk transfers to BOBs.
- The 15 year rule limiting transfers from schemes to PRSAs should be removed.

If these aspects of PRSAs could be significantly reformed, any negative impact of removing BOBs is largely removed. We have suggested more general improvements that could be made to PRSA legislation in our response to A3.

Transitional measures

No specific transitional measures are needed for prospective cessation of BOBs and RACs, assuming that the proposed changes are well-flagged and there is a lead-in period for advisers, trustees, providers, etc., to prepare for the changeover. Clearly, if there is only prospective cessation, legislation will need to remain in place to cover existing BOBs and RACs (and we have assumed that further contributions to existing RAC contracts will be possible going forward). These will remain as legacy products for another 40+ years.

In an ideal world, people with existing RAC and BOB contracts would also move to a new PRSA arrangement and remove this legacy issue. We do not believe that it would be beneficial to require those with such contracts to transfer into the new arrangement (and we acknowledge that there is not an existing proposal to do this), as this may not be in the best interests of all consumers.

However, a well-designed PRSA contract could encourage consumers with RACs and BOBs to transfer to the new arrangement. This could help eliminate inconsistencies between contracts and allow savers consolidate their pensions into one arrangement. For the purpose of easy management of pensions, the principle of “pot follows saver” would help improve customer outcomes and should lead to efficiencies in their costs.

A3. What changes would you recommend to the design of the PRSA product?

We are interpreting this question to include changes to the PRSA regulatory regime, rather than specifically limited to changes to PRSA products. As a general comment we believe that PRSAs have regulatory disadvantages relative to other products. They are less flexible and have more costly compliance obligations. This may have an adverse impact on the attractiveness of PRSAs to consumers relative to other products. References to ‘the Act’ in our response should be taken to mean The Pensions Act, 1990 (as amended).

Specific changes we would recommend in respect of the PRSA regulatory regime:

- Having a definition of charges in primary legislation results in a prescriptive regime that has limited adaptability over time. This means that the definition of charges may not adapt fully to reflect changes in the universe of available investments, and may also result in PRSAs applying a different definition of charges to other pension vehicles. We recommend moving the definition of charges (currently in section 91 of the Act) to secondary legislation or guidance, or alternatively linking to a broader industry definition of charges (e.g. one consistent with the PRIIPs regime). However, linking to a broader industry definition would require consideration of knock-on impacts on disclosed or maximum charges.
- The ability to vary charges between customers is currently very limited. We recommend amending section 104 of the Act to give providers increased flexibility to allow charges to be reduced for commercial reasons. Products could be approved on the basis of maximum charges, but providers could apply lower charges where necessary (e.g. where distributors sacrifice commission, or for bulk transactions such as on closure of a DC scheme).
- The combination of how charges are defined (section 91 of the Act) and how charges can be varied (section 104 of the Act) can result in unnecessary restrictions in the universe of available investments for PRSAs, or can lead to competitive challenges arising from inconsistencies between PRSAs and other products. For example, section 104 of the Act means that PRSAs cannot invest in pooled funds (such as UCITs) which have performance related fees (except in some limited circumstances). Similarly, it is not possible to invest in assets which involve fixed fees. We do not believe that the definition of charges in the Act should be a source of limiting the universe of investments available to PRSA contributors. In particular, we note that, if PRSAs are to become the sole contract-based pension saving vehicle, they must have the flexibility to cater for a range of contributors including mass market contributors and sophisticated investors. We believe that the capacity for PRSAs to cater for self-directed investment holdings should be maintained.
- We recommend that sections 111 to 114 of the Act (and the related statutory instruments) be amended to ensure that the disclosure regime (initial and ongoing) for PRSAs is fit for purpose and improves customer outcomes. In particular there is considerable inflexibility

built into the current regime and how it is being applied that does not achieve these outcomes:

- The form and content of disclosure is heavily prescribed and does not meet best practice in terms of plain English or clarity of communication.
- The legislative framework provides that the ability to amend the structure of the disclosure tables in the Statements of Reasonable Projection (SRPs) is very limited and requires notification to (and potentially the approval of) the Pensions Authority. By contrast, in the disclosure regime applying in respect of life products, *Actuarial Standard of Practice ASP LA-8 LIFE ASSURANCE PRODUCT INFORMATION* allows the disclosure tables to be amended where the Actuary believes additional information is required to ensure that the provision of product information is fair, clear and not misleading. The PRSA legislation can create situations where unclear or misleading information must be sent out (see comments on Vested PRSAs below).
- The legislation requires annual SRPs and statements of account to be sent "in printed and no other form." (See section 112(1)(a) and 114(1)). This may not reflect customer wishes, or may put PRSAs at a competitive disadvantage to other products.
- Statements of Account must be sent at intervals of "not greater than six months duration" (section 114(1)). This leads to considerable inflexibility and means that a provider issuing statements twice-yearly is unlikely to be fully compliant. In addition, it is not clear that half-yearly statements would add material benefits to consumers. We recommend amending this section to require that Statements of Account be sent to contributors annually (in line with the Statements of Reasonable Projection). We note that this would also be in line with the disclosure requirements for other DC pension arrangements (and most other comparable retail financial services products).

- We believe Certificates of Comparison required under section 113 of the Act (and Personal Retirement Savings Accounts (Disclosure) (Amendment) Regulations, 2003) are not fit for purpose.
  - It is not clear why Certificates of Comparison are required for transfers from DC arrangements to PRSAs but not between other DC arrangements. We recommend that the requirement to provide Certificates of Comparison for transfers from DC schemes to PRSAs should be removed. If Certificates of Comparison are required for transfers from DC schemes to PRSAs, the format should be hugely simplified. Current Certificates of Comparison tend to be too long and we do not believe the prescribed structure is user-friendly. The documents are costly to produce and the cost is ultimately borne by the consumer.
  - We believe that there is a merit in retaining Certificates of Comparison for transfers from DB schemes to PRSAs and indeed extending this to transfers from DB schemes to other DC arrangements. However, we believe the structure of the Certificates could be significantly simplified to ensure that they are fit for purpose. We have provided feedback on this point to the Pensions Authority previously and would be happy to engage with the Authority on helping to design a Certificate of Comparison that better meets consumer needs.
  - Part of the complication that arises in Certificates of Comparison comes from unnecessary complications in the tax regime (such as differences in the lump sum

rules for different pension arrangements, or a lack of clarity around the implications where scheme members who have waived a right to a lump sum then transfer to a PRSA). Therefore, changes to the Certificates of Comparison requirements could be made in conjunction with simplification of the tax rules which will help create more user-friendly documents.
    - It may also be advisable to include more requirements around pension transfers in the Consumer Protection Code to ensure that advisors have a more explicit obligation to consider the main benefits and disadvantages of any pension transfer. This is particularly important in the case of ETV exercises, although we understand that in most cases to date the employer has paid for independent advice for members who have been given the option of an ETV.

- We believe that the PRSA Actuary regime has provided a valuable oversight and governance role in relation to PRSA products, and that it is a role that is valued by the Pensions Authority. We believe the key advantages of the regime relate to the PRSA Actuary's ability to review the application of charges, the calculation of projected values for disclosure purposes and the operation of the default investment strategy. The Act requires a wider determination of compliance with Part X of the Act and it may not be necessary, or in some cases most efficient, for this to require a PRSA Actuary's involvement. Consideration could be given to amending the PRSA Actuary determination requirements set out in section 119 of the Act to focus on the key topics identified above as part of the governance framework. PRSA providers should be required to confirm compliance with the wider requirements of Part X of the Act which would emphasise their responsibility for compliance with these aspects, rather than delegating this to the PRSA Actuary.

- Consideration could also be given to extending a PRSA Actuary style assessment of charges, investments and disclosure projections to other DC pension arrangements where it could equally provide valuable protection to contributors as part of an enhanced governance framework.

- The legislation (section 119 of the Act) requires considerable work to be carried out in January and February. This time period typically sees a high demand for actuarial resource due to other regulatory reporting pressures. Greater flexibility could increase the available actuarial resource and reduce cost.

- Vested PRSAs: PRSAs could be a simple clean contract-based product that meets the needs of consumers both through the accumulation and decumulation phases. Currently Vested PRSAs do not serve this purpose in the decumulation phase. The disclosure regime does not match the needs of post-retirement customers, and the inflexibility of the SRPs mean that disclosure tables for Vested PRSA Contributors are generally not suitable. In addition, the PRSA regime only applies up to age 75. We recommend overhauling the rules for Vested PRSAs to ensure that Vested PRSAs become a valuable decumulation phase DC product that works throughout retirement, with appropriate disclosure requirements.

- There can be situations where individuals enter PRSA contracts with a provider, but where contributions are not yet paid across. Disclosure rules (e.g. section 112(1)(c)) can require PRSA providers to send out SRPs, even where there are no assets. This results in additional cost for providers and confusing paperwork for PRSA holders. Amending the requirements such that the disclosure documents are required after the payment of the first contribution would result in better outcomes for consumers.

- The rules relating to early retirement for PRSA contributors are inconsistent between employed and self-employed people. We propose removing this inconsistency.

- A transfer from an occupational pension scheme to a PRSA is only allowed where the member has less than 15 years' scheme membership. We recommend removing this restriction.

- The Default Investment Strategy (DIS) requirements serve a valuable purpose in protecting the interests of contributors who do not wish to make investment decisions. In particular we believe these requirements are most beneficial for Standard PRSA contributors. We believe that individuals taking non-Standard PRSAs should do so in the context of a wider consideration of investment options, and a DIS requirement here may not be appropriate. Therefore, we recommend amending section 103 (1) (a) of the Act to limit the DIS requirement to Standard PRSAs.

- Tax relief limits for contributions to PRSAs should be brought into line with the reliefs available for other DC pension arrangements. Currently the limits for PRSAs are more restrictive which reduces the attractiveness of PRSAs relative to other DC arrangements.

- The reporting requirements under section 99 of the Act (and in particular regulations 3 and 4 of the underlying Operational Requirements regulations) require the production of a quarterly report and return which is submitted to the Pensions Authority. These are commonly referred to as the Schedule A report and Schedule B return. We note in particular that the Schedule B return contains very detailed information on contributors, including personal information such as names and PPS numbers. It is not clear that the benefit of producing these items and the Schedule B return in particular, outweighs either the cost of production or the data protection risk that arises, and we recommend removing the requirement to produce this return from the legislation.

A4. In terms of pension vehicle rationalisation, what impact could the introduction of the pan-European Personal Pension Product (PEPP) have?

The Proposal for a Regulation to introduce PEPPs produced by the European Commission provided for a product which would have little flexibility; for example, the default fund would be required to carry a capital guarantee. The amendments proposed by the European Parliament and the Council address some of the difficulties in the Proposal, such as the requirement that a PEPP provider would have to offer a product in every Member State.

The Society welcomes the proposal to introduce a pan-European Personal Pension Product which we envisage would be attractive for mobile employees and for consumers in Member States where the pension savings market is not well developed. It seems unlikely that the PEPP structure, when approved by the co-legislators, will offer many, if any, advantages for Irish consumers who intend to remain resident in Ireland when compared with the products already available in the Irish market, and particularly if the amendments which we propose in A3. for the PRSA regime are implemented.

The PEPP Regulation provides for PEPPs to be marketed by a range of financial institutions, so it is possible that some new providers (domestic institutions or institutions regulated in other Member States who will be permitted to offer PEPPs on a freedom of establishment or freedom of services basis) will enter the Irish market.

However, it is our view at this stage that PEPP will have a limited impact on the Irish pensions system although it is difficult to form a definitive opinion before the final shape of the Regulation is known.

A5. In what ways would consumers benefit or be disadvantaged by the standardisation of minimum and maximum drawdown ages across occupational schemes and personal pension products?

At the moment, occupational pension schemes (both DB and DC) typically set a single Normal Retirement Age (NRA) which lies between 60 and 70, both inclusive. NRAs outside this range are possible but require Revenue permission. The employer sets the NRA within the trust deed and rules and would normally have to grant permission for an active employee to retire earlier or later than the NRA specified.

The situation changes when a member leaves service and has benefits retained in the scheme. For a DC scheme, the decision to allow a member to draw benefits from the scheme lies wholly with the trustees who are constrained only by the scheme rules, which would typically embrace the full flexibility permitted by the Revenue. That means benefits may be accessed from age 50 or earlier in the case of permanent incapacity for employment. DB scheme trustees are constrained not only by Revenue rules but also by funding considerations, typically those relating to the Minimum Funding Standard. Employer permission is generally not required but if the employer does not provide any additional funding then the decision becomes more complex for the trustees.

We do not envisage the need to change the present situation for active members of schemes up to their attainment of NRA. For deferred members, the scheme rules normally stipulate that benefits must be taken at NRA at the latest. We would propose that both deferred members and those active members who have attained NRA would have the right to continue membership of the scheme (i.e. not commence drawdown of benefits) until age 75 whether or not they (in the case of active members reaching NRA) continue to accrue retirement benefits. This would of course be subject to the provisions of the contracts of employment which (currently) can require an employee to retire at a fixed age. This would avoid the need for a member to transfer out of the scheme if he/she did not wish to take benefits at NRA. Whilst we do not see such events as wholesale occurrences, it would be consistent with our proposals with regard to personal pensions as set out below.

With regard to PRSAs, RACs and BoBs, the same general philosophy applies. Benefits should be capable of being drawn down from at any time from age 50 to 75. Naturally that would require changes to the regulations surrounding those products as they currently stand.

Ideally, there should only be one type of product available. PRSAs would seem to be the natural choice but require fundamental reform as outlined above. Benefits from the reformed PRSA product would be available at any time between age 50 and age 75.

Existing products can be maintained but would be capable of being switched into the reformed PRSA product if the consumer so desired.

We see the above as representing a coherent and more readily understandable approach to retirement provision with a minimum of disadvantages. Consumers would have more flexibility as to when to take benefits and, in most cases, would not have to cease employment.

A6. Would harmonising the treatment of employer contributions to occupational schemes and PRSAs be beneficial? How would this be best achieved? Would it result in a shift from single member schemes (and possibly SSAPS?) to PRSAs? How would any change impact the funding incentives for employees/employers?

Currently there are differences in tax treatment of employer contributions to an occupational pension scheme and employer contributions to a PRSA.

The key difference between the two in our opinion is the fact that employer PRSA contributions are deemed for tax relief purposes to be made by the employee and added to the employee's actual contribution to determine if the age-related limits are reached.

In other words, combined contributions (both employer and employee) to PRSAs are subject to Revenue limits allowable for tax relief. Only employee contributions are subject to Revenue limits allowable for tax relief in occupational pension schemes.

It would appear to us that to bring the tax treatment of employer contributions to a PRSA into line with the tax treatment of employer contributions to an occupational pension scheme would be a sensible move, and may encourage greater take up of PRSAs and progress toward greater adequacy of pension coverage.

A7. Would harmonising the calculation method for maximum tax-free portion of the retirement lump sum across DC occupational schemes and personal pension products be beneficial? How would this be best achieved? Would it result in a shift away from single member schemes?

Currently members of pension schemes (both DB and DC) can take a lump sum based on service and salary rules. DC scheme members can alternatively take a lump sum of up to 25% of their fund. Whilst moving new DC scheme members to a 25% of fund basis would simplify the system, as it brings them into line with RACs and PRSAs, we believe that if this change were made, existing DC scheme members should continue to have the alternative of taking a lump sum based on service and salary rules until such time as they retire from their occupational pension scheme.

A8. Should the rules around the tax treatment of death-in-service benefits between DC occupational schemes and personal pension products be harmonised? How would this be best achieved?

The current position is:

Occupational Pension Schemes

Benefits emerging from a pension fund on the death of a member are assessable on the recipients for the purposes of Capital Acquisitions Tax (CAT) and/or income tax.

Lump sums are restricted to a maximum of four times final remuneration (plus a refund of member contributions with interest) and are payable subject to CAT. Under current legislation, spouses including divorced spouses pay no CAT. Payments to children and other beneficiaries are subject to the CAT thresholds which apply to them.

Any remaining balance of the fund must be used to purchase an annuity/annuities for spouse/civil partner or dependant(s). These pensions are payable subject to income tax in the course of payment, and the Universal Social Charge, but not PRSI deductions.

ARF/AMRFs

Benefits payable from AMRF/ARFs can be passed to a spouse or civil partner without payment of CAT or income tax. A tax rate of 30% applies subsequently on the death of the spouse or civil partner. There is no restriction on the size of the lump sum death benefit i.e. the entire fund can be paid.

Benefits payable to a child under 21 are subject to CAT but not to income tax.

Otherwise AMRF/ARFs are treated as if they had been drawn down on death and are subject to marginal rate income tax (or 30% if inherited by a child over age 21) and also Capital Acquisitions Tax if inherited by strangers.

Harmonization

We believe that the tax treatment of death-in-service benefits between DC occupational schemes and personal pension products should be harmonized.

The differences give rise to complications for individuals and their dependents in understanding their entitlements, and the benefits taxable and payable to them on death of the relevant individual.

The main change required would be for DC schemes to harmonize with ARFs (and PRSAs and RACs) so that all of the fund could be provided as a lump sum on death rather than having to buy an annuity.

As an alternative, if the “4 times Final Remuneration” limit is left in place for the lump sum, then the spouse should be allowed to transfer the residual fund to an ARF, rather than be forced to purchase an annuity.

Typically, the trustees of a DC scheme would administer that death benefit, so there may need to be some recognition that the trustees could be guided by the beneficiary on the decision between annuity and ARF for the spouse.

A9. Are there constructive changes that could be made to eliminate inconsistencies in the treatment of DC and DB scheme members?

Normal retirement ages, tax treatment of contributions and calculation of tax-free lump sum rules on retirement (at least where a defined contribution member elects for traditional retirement options currently) are comparable across DC and DB scheme members.

One area where differences do arise between members of DB and DC schemes is in the calculation of the Standard Fund Threshold at retirement.

Whereas an individual with a DC pot cannot have a fund with a value of more than €2m before breaching the threshold, the calculation for an individual in a DB scheme is more complex as a capital value has to be placed on the DB pension.

Prior to 2014, the factor of 20 was applied regardless of retirement age; for accrual post 1 January 2014, age related factors are applied but these do not capture differences in valuation which should in theory arise between schemes offering varying ancillary benefits such as contingent spouse's/partner's pension and guaranteed post retirement pension increases.

We recognise that any table of valuation factors to apply to a DB scheme must reflect the trade-off between simplicity and ease of application but simultaneously attempt to sufficiently capture differences between the quality of different schemes in order to ensure equity. We recognise that striking the right balance is challenging, compounded by the fact that the pension increases in many schemes are subject to significant uncertainty and are often discretionary in nature.

We recommend that the capitalisation factors applying to DB schemes are kept under review and updated as appropriate (for future accrual) to reflect changes in interest rates and life expectancy, and that consideration is given to whether different schedules of valuation factors should apply to different types of pension schemes which vary according to (estimated) pension indexation levels and attaching spouses' pensions. This would keep the treatment of DB scheme members broadly in line with DC members who use their fund to purchase an annuity, where such factors are automatically taken into account.

Another inconsistency is the availability of access to an ARF on retirement; DB scheme members do not have the right to transfer to an ARF, unless they first transfer to a BOB, whereas DC scheme members can directly access an ARF at retirement.

Section B – Costs to the Exchequer

<u>Section B – Costs to the Exchequer</u>

This Section of the consultation arises from action 3.1.3 of the Pensions Roadmap which provides for a review of the cost to the Exchequer of incentives to

- Inform decisions relating to financial incentives
- Underpin the development of the automatic enrolment system
- Assess the economic and social benefits delivered
- Evaluate equity in the distribution of tax expenditure on pensions.

The consultation paper gives a brief overview of the current incentives and identifies some anomalies in the current system.

There are no proposals in the document but it poses 6 questions which are directly or indirectly related to the bulleted points above.

The Society issued a paper "Initial Views on the Government's Roadmap for Pensions Reform 2018-2023" in June 2018. This identified two issues which the Society considers are fundamental to the proposed reforms:

- *Firstly, **it is essential that there is full clarity on the objectives and what we are trying to achieve with our overall pension system**. While most of the objectives underlying the Roadmap are clear and straightforward, the one area where we believe greater clarity is needed involves objectives around coverage and adequacy targets for supplementary pension coverage.*

- *Secondly, when assessing the likely effectiveness of our pension system and any proposed changes to it, **it is important to consider how the overall combined system, and not each part of it in isolation, measures up in achieving each of the objectives**. This is a critical point. The three pillars of our pension system are deliberately aiming to achieve different things and it is only by considering all three together, under headings such as cost and equity, that one can form a clear overall picture.*

Section 3 of the paper considered the objective of sustaining personal living standards in retirement. The key issues were identified as

- *Increasing coverage and adequacy of supplementary pension provision are both essential to ensuring personal living standards are sustained in retirement.*
- *To focus initiatives, the Society advocates clear replacement income targets. The long-standing 50% replacement income ratio, with a floor of 34% of national average earnings and the limit effectively imposed by the Standard Fund Threshold, is objective and could be set as a target. More research is required to ascertain if it is an adequate target.*
- *The introduction of an automatic enrolment scheme should help coverage.*
- *In the absence of a mandatory scheme, tax incentives are key to encouraging people to save for their retirement.*
- *Issues with achieving a target percentage replacement ratio are most pronounced with middle income earners. Reducing tax incentives would run directly counter to improving the current situation with this grouping.*
- *The existing tax system is highly progressive, even more so if the redistributive nature of the PRSI/State pension system is taken into account.*

- *There is a need to distinguish between the core Exempt-Exempt-Taxed pension tax relief system and social policy decisions which may indirectly increase the value of tax incentives.*
- *Reductions in tax relief could have very significant knock-on implications if employer contributions were treated as BIK, particularly so in the public sector.*
- *A move to an SSIA-type approach may be easier for people to understand than the current tax relief system. However, a 2% State credit for every 6% contribution would be equivalent to 25% tax relief. This would lead to an increase in costs to the Exchequer in respect of those who do not pay tax or pay at 20%, and, for higher rate tax payers, a reduction in the incentive to save.*
- *Adopting a SSIA-type approach for an automatic enrolment system does not necessarily mean it should apply to other pension savings. There are precedents in other countries for operating dual retirement saving systems. The Society supports a flexible approach if it helps encourage people to save for their retirement.*
- *The Society recommends a rigorous cost/benefit analysis for all features of the proposed new automatic enrolment scheme and adoption of a bias towards simplicity of design and operational requirements.*

We now turn to the specific questions posed in the consultation document.

B1. How should the economic and social benefits of tax relief on pension contributions and investment returns be considered/measured and how do you believe the system of tax relief performs in that context?

It is essential to consider the whole system i.e. PRSI, State pension, pensioner benefits package etc rather than looking at the costs and benefits of pensions tax relief in isolation.

In addition to the social policy objective of ensuring that citizens have a reasonable standard of living in retirement, there are economic benefits for the State finances in that

- Pensioners have greater discretionary spending capacity
- The reliance on Social Welfare benefits is reduced
- Use of the public health system may be reduced

We suggest that the economic and social benefits of tax relief could be estimated by a macroeconomic modelling exercise, which would need to take into account consequential behavioural changes i.e. the removal or reduction in tax relief is likely to lead to a cessation or reduction in saving for retirement.

These benefits take on added importance as a result of increasing longevity and the demographic shift to an older society.

- At the individual level, as longevity increases, it is ever more important to find ways of smoothing a person’s income over his or her lifetime. A system of deferred taxation has the advantage of similarly smoothing the person’s liability for income tax.

- At aggregate level, a system of deferred taxation has the benefit of shifting Exchequer income (i.e. tax on pensions) to a later time, when the old-age dependency ratio is higher. This is relevant to some of the issues raised in the Department of Finance paper “Population Ageing and the Public Finances in Ireland”.

The relatively low take-up in the private sector (quoted as 35% in the consultation document) suggests that the system of tax reliefs has not worked particularly well to date. However, for many potential savers, affordability has been a key factor especially during the years following the financial

crisis, and the availability or structure of tax incentives to save was not a critical factor in their decision.

B2. To the extent that the State's tax expenditure on pensions has not resulted in high coverage rates, what in your view explains this?

It should first be recognised that the level of State Pension is such that the lower paid may not require any supplementary provision in order to maintain their standard of living post retirement, and that they may not be in a position to save in any event, regardless of the incentive provided. Hence it is not necessary or appropriate to aim for 100% coverage, which is recognised in the DEASP strawman proposal on AE, which proposes that those earning less than €20,000 per annum do not have to be automatically enrolled.

There have been a number of surveys which have considered this issue and we note in particular the QNHS Module of Pensions Q4 2015, published by the CSO on 30 May 2016, which contains very useful information on patterns of pension coverage across the economy. Some of the results of that survey are:

- Coverage varies significantly between age groups, with the lowest coverage in the 20-24 group at 14%. Within the other age groups (the total age range is 20-69), coverage ranges between 36% and 55%.
- There is strikingly wide variation of pension coverage across economic sectors. In accommodation and food service activities (category I) coverage is 13% whereas in financial, insurance and real estate activities (category K-L), coverage is 75%.
- There is similarly wide variation of pension coverage across broad occupational groups. In sales and customer service (category 7), coverage is 18% whereas among professionals (category 1) coverage is 75%.
- All respondents who did not have a pension were asked to indicate the main reason they did not have one. The most common reason, reported by 39% of respondents, was that they could not afford a pension. A further 22% said that they never got around to organising a pension.
- Of those employees who did not have an occupational pension (which includes some people who have personal pensions) 68% said that their employer does not offer one.

This suggests that the two most important factors in driving pension coverage are affordability (i.e. level of income) and employer behaviour. Greater labour mobility and the increasing prevalence of temporary contracts or casual employment are also likely to be factors in the relatively low take-up in certain sectors.

Other reasons which have been given in the past include the view that pensions are too complicated and concerns that savings will be locked away until retirement.

B3. What adjustments, if any, could be made to marginal relief to best support the rollout of automatic enrolment?

It is not essential to make any changes to the system of marginal relief to support the roll-out of AE; it would be possible to automatically enrol eligible employees in an AE system and provide marginal relief on their contributions under the net pay arrangement as at present. However, we agree that

moving to a Government contribution as suggested in the AE Strawman proposal, whereby the employee makes a contribution from net pay but receives a Government contribution, is easier to explain to customers and is a clear benefit for non-taxpayers. If this is pitched at a level which is better than standard rate tax relief (as in the strawman proposal of €1 for each €3 contributed which is equivalent to 25% tax relief), it is advantageous for standard rate taxpayers as well. If the Government contribution were €1 for each €4 contributed, this would be equivalent to relief at 20%, and standard rate taxpayers would be in the same position as currently, whilst non-tax payers would still obtain a significant benefit.

This would provide a lower level of tax incentive for those who currently pay tax, and would obtain tax relief on pension contributions, at the higher rate. Whilst many higher rate taxpayers may already be in a pensions plan, this is not the case for all and if such employees are automatically enrolled with a Government contribution on €1 for each €3 or €4 contributed, they will receive a lower tax incentive than their peers who are in existing pension arrangements, unless they are able to claim additional relief in their annual tax returns.

The question focuses on marginal relief on contributions, and makes no reference to the tax treatment of investment returns (currently exempt) and benefits (taxed, with the exception of a tax-free lump sum at retirement), which we presume would continue to apply under AE i.e. the system would remain EET, albeit with the incentive in relation to contributions taking the form of a Government contribution rather than tax relief.

B4. What form of financial incentives for supplementary pensions, alternative to existing ones offered by the State, would better encourage lower and middle income earners to save for their retirement?

The proposed “government contribution” approach as described in B3 above is clearly an incentive to lower income earners, but for middle and higher income earners who pay tax at the higher rate it is less attractive than the current system of marginal relief.

B5. In evaluating equity in the distribution of the economic and social benefits from this tax expenditure, what factors should be considered?

As noted in B1, it is essential when considering equity between different groupings in the population to consider the whole system i.e. PRSI, State pension, pensioner benefits package etc rather than looking at the costs and benefits of pensions tax relief in isolation. When considered as a whole, the tax system is recognised as being very progressive.

We would stress that it is also very important to have regard to intergenerational equity, particularly given the projected changes in population structures and dependency ratios. We would recommend that projections of future costs and benefits are developed so that this aspect can be properly considered.

B6. Should changes be made to the existing tax treatment of pensions in any of the following stages?

- **Tax treatment of employee contributions**
- **Tax treatment of employer contributions**

- **Tax treatment of growth in pension funds**
- **Tax treatment of drawdown of pension**

If so, what kind of changes should be introduced and for what reasons?

The level of taxation is a matter for Government policy. We believe that an EET system as is currently applied is best aligned with the policy objectives as it provides incentives now to both employees and employers to save now for consumption later. Although there is no tax payable on investment growth as it is earned, this does effectively become liable for tax at the individual's marginal rate in retirement as he/she draws retirement income.

There are certain aspects of the current system that we consider are inconsistent and which we recommend should be reviewed:

- Consistent treatment of employee and employer contributions

  The maximum tax-relievable contribution which may be made in respect of an employee who is saving for retirement using a PRSA is lower than that under an occupational scheme, as the employer contribution is treated as a benefit-in-kind in the former situation but not in the latter. We recommend that the maximum relievable contribution to all DC pension arrangements be set by reference to the total of employer and employee contributions so providing a level playing field between PRSAs, DC schemes, RACs for the self-employed etc. The appropriate maximum contribution levels should be set having regard to the levels of pension expected at retirement.

  In the interests of equity, this should also apply to DB schemes (including public sector schemes) although this would require the hypothecation of employer DB contributions to individuals in some equitable fashion.

  We would not support any proposal to remove marginal rate relief on employee contributions as this would have a detrimental effect on adequacy for middle income earners. However, if marginal rate relief were to be removed, it would be essential to provide for consistent treatment of employer and employee contributions in all pension arrangements e.g. if there were two identical individuals employed by different organisations as follows:

  - Employee A receives a salary of €60,000 and no pension contribution from her employer. She decides to contribute €10,000 of her annual salary to a DC pension.
  - Employee B receives a salary of €50,000 and a contribution of 20% of salary (i.e. €10,000) from her employer into a DC pension scheme.

  It is clear that these two employees are in essentially the same position in respect of salary and pension. There is no reason why the tax system should treat them differently. If Employee A does not receive marginal tax relief on her contributions, she will be in a worse position than Employee B despite receiving an overall package that is of equivalent value, and would be penalised by the tax system for saving for her retirement, rather than being incentivised to do so.

It should also be noted that if the current approach of treating employer contributions as BIK for a PRSA holder were to be retained, any removal of marginal rate relief would impact more on PRSA holders than members of DC schemes.

- Consistent calculation of tax-free lump sum at retirement

  At present, a member of an occupational scheme may take a tax-free lump sum (subject to the overall limit of €200,000) calculated by reference to service and final salary, and indeed most public sector schemes provide such a lump sum automatically. However, holders of PRSAs and RACs are limited to a lump sum of 25% of the accumulated fund, which may often be lower.

  We noted in A7 that, if it were decided to introduce a limit of 25% of fund for all DC arrangements, it would be necessary to "grandfather" existing DC scheme members and BOB holders, who can currently use the service and final salary formula. However, we recommend that all retirees should be permitted to take a tax-free lump sum calculated by reference to service and final salary (subject to a monetary limit e.g. €200,000 as at present).

- Consistent access to drawdown options at retirement

  The "service and final salary" calculation basis for the tax-free lump sum is only available to DC scheme members if they elect to purchase an annuity with the balance of their accumulated fund, rather than transferring this to an ARF.

  Members of DB schemes do not currently have access to ARF options, unless they first transfer to a BOB.

  We recommend that all savers are given the same options with regard to the balance of their retirement savings i.e. purchase an annuity (or draw pension from the scheme if a member of a DB arrangement) or transfer to an ARF – see Section C.

- Consistent treatment of public and private sector scheme members

  The Standard Fund Threshold (SFT) of €2m applies to members of both private sector and public sector DB schemes and the same capitalisation factors are applied to determine the value of the pension benefits. Where the value exceeds the SFT, the individual has an excess tax liability. Public sector scheme members are permitted to meet the excess tax liability by deduction from their pension payments over a period of 20 years (and the balance is written off if they die within this period) whereas private sector members who have an excess tax liability must meet this in full e.g. by writing a cheque at, or shortly after, retirement.

  We recommend that all retirees (from private and public sector DB schemes) are subject to the same requirements in relation to the payment of any excess tax liability, and we suggest that the additional flexibility available to public sector workers should be extended to all retirees.

- Consistent treatment of retirees

Following a recent Revenue decision, individuals who have retired overseas from Irish pension arrangements and have invested in an ARF may face double taxation on the amounts drawn down, whereas those who have retired overseas from Irish pension arrangements and have either purchased an annuity or are drawing a pension from a DB scheme are taxed only on the income received.

We recommend that all retirees who retire overseas are subject to the same tax treatment on their retirement income, whether this is an annuity/DB pension or drawdown from an ARF.

A further inconsistency which currently applies to ARFs (and Vested PRSAs) compared to annuities is the levying of PRSI on withdrawals from ARFs (and Vested PRSAs) up to age 66. No PRSI applies to annuity payments (or payments from DB pension schemes).

We recommend that PRSI should not be levied on income drawn from ARFs/PRSAs.

Whilst we recognise that Government must retain the power to adjust the tax treatment of pensions in the future, we recommend that, following the current review, the Government commits to a stable tax framework for pensions to permit individuals, employers, pensions trustees, providers and advisers to plan for the future. There have been many adjustments to the pension tax regime in recent years which have made planning difficult and have helped to erode confidence in the system. We recommend that legislation be introduced to provide that the various monetary limits are increased in future in line with an appropriate index to ensure that future inflation does not reduce the ability of individuals to make adequate savings for retirement.

Section C – Approved Retirement Funds

We have set out our response to the consultation questions in the document with the aims of providing an appropriate governance framework on the decisions made by consumers at retirement and offering them easily understood, cost effective and appropriate retirement products. In summary our main proposals are as follows:

- Removal of the AMRF requirement in order to simplify options at retirement, combined with the introduction of new rules in relation to post-retirement drawdown allowing retirees take anything from 3% to 10% per annum from their retirement fund in the early years of their retirement, removing the upper limit in later years.

- Regulation of advice provided at the point of retirement with better guidelines on how that advice should be provided and defined checkpoints throughout retirement.

- Introducing group drawdown arrangements which could facilitate lower charges and pooling mechanisms for retirees provided these are subject to the same standards and requirements as other post retirement products.

- Gathering of information on ARFs to aid understanding of the products available and the drawdown market generally.

We now turn to the specific questions posed in the consultation document.

C1. What, if any, limitations are appropriate for pension savers when drawing down benefits in retirement? Should the current suite of retirement savings drawdown options be changed in any way? For example, should savers be required to defer a portion of pension drawdown for a defined period?

It is our view that some of the current limitations on the options available to pension savers when drawing down benefits should be removed e.g. the requirement to use the balance of your DC fund to purchase an annuity if you take greater than 25% of the fund as a retirement lump sum. All pension savers at point of drawing down from their pension accumulation vehicle should have the same options, namely:

- Retirement Lump Sum,
- Annuity,
- Drawdown option (for example, an ARF/PRSA),
- Or any combination of these.

The current suite of products - annuities and ARFs/PRSAs - already provide the appropriate framework to meet retirement requirements and we do not feel there is any need to change the fundamental options available (other than making them available to all retirees) once we ensure that pension savers are aware of the advantages and disadvantages of the different options.

We think that deferring drawdown of part of their funds until their later years is a good thing and as a means of facilitating this, we propose that retirees be allowed to drawdown between 3% and 10% per annum from their retirement fund, from age 60 up until age 80 or 85. Retirees should be able to

change their drawdown amount each year within these bands. Some retirees may be inclined to increase their drawdown rate annually to maintain a constant nominal income from a, potentially, decreasing fund – however current experience would suggest that the majority of retirees choose a drawdown rate at outset and do not change over time, often this will be the minimum imputed rate.

Limiting the annual drawdown to no more than 10% of the pot will automatically defer at least 90% of the pot for 1 year, around 81% for 2 years and so on. We recognise that some pension savers may be unhappy at not being able to drawdown more than 10% per annum but we feel this cap will better ensure that pension savings are used to provide income throughout retirement.

The bands could be tailored by age, with the minimum increasing as retirees get older and the Society would be happy to assist in any such decision on those rates.

One element of current retirement options which we believe should be revised in the interest of simplification are the rules in relation to trivial pensions – there are currently two circumstances in which trivial pensions may be taken as a lump sum:

a) total benefit from any one employment, before a tax-free lump-sum, results in an annual income of €330 or less, or

b) total pension pots, after tax-free lump sums, are €20,000 or less.

These rules are complicated and the income levels are very low, given annuity rates and current life expectancy. We propose that they should be simplified under one rule with an increased threshold of €30,000 (after taking any tax-free lump sum) being available to take as a taxable lump sum in order to avoid retirees having to purchase small annuities or invest small amounts in an ARF which are unlikely to be cost effective for the retiree.

Under the revised rules, it should be possible to allow for a one-off unrestricted drawdown for a retiree with limited life expectancy. Consideration might also be given to permitting an ARF balance of less than €30,000 to be drawn down as a taxable lump sum at any time e.g. if an individual invests in an ARF at retirement and draws the maximum 10% each year, with the result that his/her ARF balance is less than €30,000 before he/she reaches the age at which unrestricted drawdown is permitted (80 or 85), the full amount can be withdrawn.

Under current rules, there is no facility to purchase an annuity from an ARF without the purchase price of the annuity being taxed as a drawdown from the fund. This anomaly should be removed from ARF rules.

C2. What, if any, changes need to be made to ARF access, and why?

As outlined in our response to C1, we feel that all pension savers should have the same options at retirement, so this would require the ARF option to be available to everyone.

There are two specific issues which we feel need to be addressed:

- A member of an occupational pension scheme wishes to use the "salary & service" option to maximise their tax-free lump sum. If they do this, they must purchase an annuity with the remainder of their pot, except for AVCs which can access an ARF. We propose that the ARF option should also be available on their entire remaining fund.

- For members of DB pension schemes, in order to avail of an ARF option, they must first transfer from their DB pension to a BOB and from this access an ARF. We feel that the step to the

BOB is unnecessary and there should be direct access to an ARF from a DB scheme, including unfunded DB pension schemes.

In terms of accessing the money within an ARF, our approach outlined in C1 addresses this.

C3. Given the narrowing gap between State pensions and the AMRF income threshold, what is an appropriate minimum level of required income where an AMRF would not be necessary and should this amount be indexed? What is an appropriate set-aside amount and should it vary? If so how? Should the conversion age of 75 be adjusted?

We propose that the AMRF should be removed entirely for future retirees in order to simplify the retirement process.

The provision of AMRFs now seems to be an unnecessary complication in the post-retirement landscape. Removing them would then require most retirees to have just one drawdown plan instead of the current system, where most have two: an AMRF and an ARF which adds needless complexity.

The original purpose of the AMRF to provide a protected capital amount until age 75 has been greatly watered down given how the State Pension has increased with no change in the guaranteed income threshold and given the fact that you can now withdraw 4% annually from an AMRF.

We feel that the objectives of the AMRF can be met within the ARF with a suitable drawdown cap and that our proposal to cap the annual ARF drawdown at 10% of the fund value serves the same purpose in a simpler manner.

Following this proposal, we recommend that all existing AMRFs are converted into ARFs and the drawdown rules applied thereafter.

We also propose that all existing Vested PRSAs be subject to the same drawdown rules as proposed above for ARFs. Any restricted fund elements would no longer apply and the 3%-10% drawdown would apply to entire value of the Vested PRSA.

C4. Are the current imputed distribution requirements appropriate? What changes, if any, would be appropriate?

We recognise the rationale for the current imputed distribution regime i.e. an ARF holder is deemed to have withdrawn income of 4%/5%/6% from his/her ARF and is subject to income tax on this imputed drawdown; in practice ARF holders actually withdraw this amount so that there is an actual rather than an imputed distribution. In our proposal in C1 we propose a minimum distribution rate of 3% in order to reduce the likelihood of income bomb-out in the future where an individual continues to draw and spend that nominal amount throughout their retirement (i.e. 3% of the fund value at commencement). Annual drawdown at a higher amount than this could significantly increase the risk of an ARF pot running out within the retiree's lifetime.

We recognise that our proposed reduction in the minimum rate of distribution could reduce the overall tax take, although this rate would now apply to the total ARF/AMRF combined. To address this, Revenue might consider that a higher minimum distribution percentage should apply to very large ARF pots and, potentially, different minimum distribution percentages could apply at different ages if the aim is to limit the build-up of large funds to be passed through inheritance.

An alternative means of preventing the build-up funds for inheritance could be to tax the proceeds of an ARF as income to the ARF holder prior to their death in all circumstances, except where the ARF is being passed to the spouse.

One other change we propose in relation to the minimum and maximum distribution is that these should be based on the value of the ARF as at 1st January each year. This would mean that from the very start of the year, the retiree would know the minimum/maximum they can withdraw from their ARF rather than the current situation where it is based on 30th November of that year, and the amount isn't known until near the end of the year.

C5. To improve data capture and to facilitate the assessment of retirement outcomes, what additional returns should be required of Qualifying Fund Managers (QFMs)?

Currently there is no consolidated market wide information on ARFs which is concerning for such a large area of the pension market and we believe that there is merit in gathering information to assist understanding of this market. However, it is unclear what the objective of the "assessment of retirement outcomes" would be and who would prepare this assessment.

We note that for PRSAs, detailed individualised information is currently gathered which is onerous and costly to provide, as noted in A3. Before imposing requirements on QFMs to provide information - which will ultimately increase costs for consumers - clear objectives need to be defined as to the reason for gathering the information, the level of detail needed and the relevant authority responsible for undertaking that work. A cost benefit analysis should be undertaken.

If the objective is to monitor ARF fees, then this could be undertaken by a periodic review of the products available at a point in time, similar to the review carried out by the Pensions Council in 2016.

However, a high-level product review would not capture more nuanced information such as the total impact of charges on funds or give information on how the market is functioning – for example which product charging structures are retirees using and what are the total charges being incurred allowing for investment choices. This could be obtained from the information typically provided to an ARF holder each year:

- Fund Value at start of year
- Fund Value at end of the year
- Income withdrawals during the year
- Transfers out/Investments in to the ARF during the year
- Investment growth in the ARF during the year
- Commission paid on the ARF over the year including initial commission
- Asset mix for ARF at the year end
- Charges deducted from ARF by QFM
- Total charges deducted by investment provider (if additional)
- Age of retiree
- Age at retirement
- Income Tax paid during the year

This information would allow an analysis of the total impact of fees on ARF funds and could also be used to understand the investment choices taken by retirees at different stages of retirement and understand the likely sustainability of funds lasting through life expectancy. It could be used to help inform policy regarding post retirement drawdown arrangements in the future.

Much of the information could be provided aggregated across 5-year bands for most of the items (e.g. aggregate the information across all retirees age 70-74) without a material reduction in information which could be obtained from the data. This would also mitigate any data protection concerns.

As regards fees, given that the QFM fees are not always aggregated with the investment costs, it will be difficult to determine the total level of fees without including information on the investment costs. There will need to be a clearly defined standard for the determination of investment charges so that it includes charges which are not initially transparent to an ARF customer with a reasonable degree of accuracy. In order to avoid unnecessary additional complexity, a clear and consistent method should be set out to measure this information. The methodology used for PRIIPS or MiFID II could provide a starting basis for determining how total costs are measured.

If could also be useful for consumers if information on the fees charged by different providers was publicly available on a single register for consumers to compare more easily, similar to the approach used by the Health Insurance Authority.

Equally, if not more important, is that total charges levied on consumers should be transparently disclosed when they invest in an ARF, regardless of the regulatory status of the QFM. For example, the life disclosure regulations could apply to all QFMs and for in-scheme drawdown. The important point is that the information is easily understandable by the retiree.

C6. Are current consumer protection arrangements in relation to ARFs effective? How might consumer protection requirements be improved? Is there a role for maximum and standard charges?

Currently the advice provided at retirement on the option of an ARF, lump sum and an annuity is not regulated, except to the extent that a regulated financial product is recommended. We propose that advice on retirement options should be a mandatory regulated activity subject to associated Central Bank conduct of business rules as it represents a risk to consumers that they are directed towards an option which may not be suitable. An Annuity sales inspection by the Central Bank found that not all retirement options were being explored where an annuity was placed at retirement.

Regulating this part of the process will ensure scheme members understand the importance of managing their pension pot through retirement and that all options must be considered in the decision process, in particular:

- The open market option between a standard annuity, an enhanced annuity, a retirement lump sum and an ARF

- The investment choice for the individual if choosing an ARF

- Sustainable income drawdown in the context of the individual’s needs

Consumer protection arrangements in respect of ARFs need to be strengthened. The consumer protection code (CPC) does provide a framework for ensuring appropriate advice is provided where an insured ARF is recommended as there is a requirement on the adviser to recommend the most suitable product, however this does not extend to all ARF advice. Extending the scope of the CPC to regulate advice on all retirement options would help address this gap including defining explicit warnings for ARFs under the CPC.

Having properly regulated advice at retirement should ensure that all options are presented to retirees rather than just the options available from the relevant provider – for example MIFID

regulated firms and pension schemes offering in-scheme drawdown cannot offer an annuity or enhanced annuities in their product suite.

The Society's paper "ARFs vs Annuities" published in November 2015 discussed the possible introduction of regulation on this area of advice and set out clear guidelines on the comparisons which should be made to ensure that retirees are properly advised on their options.

The definition of Retail Financial Product under the Minimum Competency Requirements should be expanded to include ARFs generally rather than just insured contracts. An additional competency should also be added on the ability to compare product options for an individual rather than generic basis. For example:

- Options available for a lump sum,
- Annuity available from funds,
- Bomb-out point of ARF on annuity drawdown compared with life expectancy,
- Impact of investment return volatility on outcome,
- Benefits of recommended option vs other options.

There is limited guidance on the appropriate approach for advisers when advising on these options so clear rules on what is required in this area would help, for example requiring individual comparisons.

The Society notes the findings of the Pensions Council in relation to charges on ARFs and supports the elimination of excessive charges. However, we would question whether the introduction of maximum or standard charges would necessarily be in the interests of consumers for the following reasons.

- Charge caps would restrict the possible fund options which might be available. For example, funds with guarantees are important to some in this age bracket, and diversification through alternative asset classes and property, which can be more expensive than vanilla bond and equity funds, are important.

- Capping charges would also reduce the scope for innovation amongst providers to develop features such as longevity pooling mechanisms, investment guarantees or deferred annuity purchase mechanisms.

- There is no evidence that the charge restrictions on PRSAs have led to better value for money on this pension vehicle over and above other pension vehicles where charges have been set entirely by the forces of competition in the market.

Ideally, retirees would pay a fee for advice independent from the set-up of any post-retirement product. However, in practice few retirees are willing to pay - and many cannot afford to pay - the cost of advice at retirement so payment from the accumulated fund via additional product charges is usually the chosen approach. The cost of advice needs to be unbundled from the product charges and considered separately from any proposed cap on ARF charges.

Given the differing investment requirements post retirement we believe that the charge cap mentioned in the government's Strawman proposal for automatic enrolment of 0.5% per annum for

post-retirement could stifle product innovation and will cause difficulties where retirees wish to pay for advice via the product charges.

While we do not agree that capping charges will necessarily be in the member's interests, we would stress again the importance of clearly disclosing charges to members at point of sale for all post retirement options. It is important that all charges, including investment and operational costs not reflected in the annual management charge, (e.g. using a definition of charges consistent with the PRIIPs regime) are disclosed clearly and transparently in a way which enables consumers to assess how the costs compare with other providers. One approach which might be considered would be to establish a benchmark, or range, and to require products to carry a kitemark or traffic light to indicate if the cost of the product fell within the range.

There should be a requirement to clearly define the service being provided for the fee charged by each service provider. The competitive market would then set the price for the different services between administration, investment management and advice.

One issue that will arise more frequently with ARFs and post-retirement drawdown is obtaining Power of Attorney in later life and it would be helpful to have this feature covered in an efficient manner to make it straightforward for retirees, providers and advisors.

C7. How can ARF owners be adequately informed and supported to make the decision that best suits their needs through retirement, especially given that ARFs require ongoing management? Is there a role for mandatory advice? How can access to good quality/affordable advice be facilitated/provided for.

Whilst clear communications are important, experience to date is that the vast majority of holders do not make a decision on options without one-to-one support. Communications from all possible channels need to be considered from group retirement planning sessions to robo-advice to individual supports. However, there is a clear role for an adviser in retirement to help the retiree filter the relevant information into an appropriate personalised decision.

Given the importance of decisions on the future of their retirement income, the offer of advice should be made mandatory both at and post retirement. Decisions after retirement are important – for example on the pattern of drawdowns and investment choices, both of which can have a material impact on the sustainability of the income.

All QFMs/post retirement providers should be required to provide information to the retiree at regular intervals such as the lifetime annuity that could be secured at that time and how long the fund is projected to last based on recent drawdown patterns.

Where an advisor is engaged to arrange an ARF, they should also be required to offer a review of that ARF at periodic intervals - e.g. every 4 to 5 years - to assess:

- The sustainability of future income withdrawals at the most recent annual rate
- The income level sustainable over average life expectancy
- The lifetime annuity that could be secured by the fund on the open market
- The appropriateness of the funds currently held based on the individual's personal situation, risk appetite and the adviser's view of the funds

In the absence of advice or QFM providers assisting retirees with their decisions, there is a risk that poor decisions are made, such as moving out of investment markets after a recent fall or taking a large withdrawal without appropriately adjusting future income withdrawal to ensure sustainability of the fund.

As noted in our response to C6, ideally retirees would pay a fee for advice independent from the set-up of any post-retirement product and the cost of advice would be excluded from the ARF product charges. However, the ability to have advice fees paid from the ARF product would be a benefit to many retirees in particular those with smaller funds where the cost of advice can be spread throughout their retirement by the QFM. It is important that the cost for each service is explicitly stated and transparent even where it is paid from the ARF. Low cost or free advice could possibly be made available from an authority like MABS with appropriate training, akin to the approach taken in the UK with Pensionwise.

Even if advice is not mandatory, we expect that many individuals will elect to pay for the support of ongoing advice and provision needs to be made to facilitate payment for this from the retiree's funds.

Due to the specific nature of financial advice, we believe that it will need to be provided in the main through one to one support, but innovative approaches using digital technology should also be strongly considered as potentially more cost-effective alternatives. We believe that provision of that service by the open market with clear transparency of the costs and services being provided will likely lead to the best outcome.

There should be an easy facility for individuals to pay for advice on their ARF by once-off fees where they elect to do so rather than through ongoing commission payments spread across the life of the ARF.

C8. How might in-scheme drawdown and group ARFs be facilitated? What additional requirements should be placed on schemes that want to provide in-scheme drawdown to ensure they have the capacity and capability to do so?

In-scheme drawdown is desirable, if it can be facilitated. It could allow members of group DC arrangements to make a seamless transition from pre- to post-retirement at a reduced cost, create bulk buying power for retiree services and should facilitate an easier means of pooling longevity and/or investment risk across groups of retirees. It would also remove any potential transaction costs of moving assets from one arrangement to another.

There is potentially scope to provide in-scheme drawdown through trust-based group arrangements or through the proposed automatic enrolment structure.

Currently, ARF holders typically pay higher charges than members of large DC schemes. It may be possible for members of large DC schemes to leverage the buying power of the scheme to obtain better post retirement terms either through in scheme drawdown or through a "group ARF". It is unclear what level of charges large Irish schemes could offer for in-scheme drawdown given the limited scale and set-up costs, unless this was to be offered with advice being paid for separately, or funded by the employer, in which case presumably all other post retirement options would be similarly lower cost. We note that ARFs with 100% initial allocation which should have comparable management charges to those in large DC schemes are already available in the existing ARF market.

In addition to the legislative changes needed to implement in-scheme drawdown, the following features would also need to be facilitated:

- As set out above, offering advice at retirement should be mandatory and this advice must cover all options, to prevent members making inappropriate decisions and avoid any preconception members may have that remaining in the scheme is the most appropriate option. It is important to ensure that scheme members do not sleepwalk into the decumulation phase without appropriate consideration of the change in their circumstances so properly structured advice at this point is extremely important. It should not be possible for a member to drawdown direct from a scheme without certification that a QFA has advised them, or that they have been offered advice but have declined it.

- The trustee group will need to have clear responsibility in selecting the appropriate post retirement investment and administration arrangements. In particular, they would have responsibility for payroll and appropriate rules would need to be placed on their management of these aspects or how they delegate this to a QFM.

- The trustees should be required to have an appropriate plan in place (which might include setting out how the potential wind-up cost would be met or holding capital to meet the costs) to facilitate future transition of retirees in the event of the scheme winding-up, without adverse cost on other members' or retirees' funds.

- Regulations for the efficient bulk transfer of ARFs without the need for consent will be needed in the event of a wind-up.

- Trustees must provide similar supports to those required for ARFs, for example to provide similar information to retirees as required from QFMs, similar communications to retirees such as the annuity which could be purchased from the fund and the requirement for advice to be provided periodically throughout retirement.

- Trustees would need power to manage investment decisions and drawdown at later ages when retirees may not be in a position to make decisions themselves. Members may need to have an easy mechanism for grant Power of Attorney or Expressions of Wishes.

- Schemes will need to be able to accept retirement drawdown amounts from other arrangements in order to allow retirees to consolidate drawdown funds

- Total costs for in-scheme drawdown must be disclosed in a manner consistent with other post retirement options in the market place.

Any rules relating to ARFs should be replicated for in-scheme drawdown.

It should be noted that the in-scheme drawdown facility exists in the UK but has not been used by many arrangements. There are some challenges in providing in-scheme drawdown for smaller single-employer schemes, such as:

- Trustees may not be prepared to accept the additional responsibility for looking after retirees' interests as they get older. They will need to decide on what controls are put in place, such as one-to-one advisory support for members through their retirement, their choice of default fund for older retirees, how they ensure retirees understand their bomb-out risk and how they position the option of purchasing an annuity throughout retirement.

- Many employers are unlikely to pay for the additional costs post-retirement so the costs will be passed onto the retirees. When the total cost of providing drawdown services is combined (administration, investment and advice) the cost saving relative to options available in the market could be small and will depend on the ability of the trustees to negotiate terms which are more competitive than provided in the market.

Group ARFs also have a place in achieving similar efficiencies to in-scheme drawdown. It is clear that many consumers will trust an arrangement which is endorsed by their peer group, even in cases where it is not the best option in the market. Again, the rules for a group ARF should replicate those applied to ARFs or in-scheme drawdown.

Given the policy objectives of simplicity and harmonisation, the introduction of additional drawdown options should not make the pension system more complex. It would be best to have the same naming convention and rules for all post-retirement drawdown arrangements as it is confusing for consumers if there are a number of similar, but subtly different drawdown arrangements e.g. ARF, Group ARF, vested PRSA, in-scheme drawdown. Any difference between the different types of arrangements should relate solely to the governance of the QFM or administrator of the post-retirement drawdown.

There is a good infrastructure in place in Ireland at the moment for advising retirees; however this could be improved on with the introduction of the changes outlined in our response. If in-scheme drawdown is introduced, then steps must also be taken to ensure that the very positive aspects of Irish retirement practice are retained, not inadvertently jettisoned. Advice at and throughout retirement is extremely important in the context of in-scheme drawdown in order to prevent retirees sleepwalking towards the post-retirement drawdown option from the scheme which may not always be in the retiree’s best interests.

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