Society of Actuaries in Ireland

Consultation on Pensions Authority Fees

Response to Pensions Authority

June 2021

Preface

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

This paper sets out the views of the Society on the proposed changes in the way in which Pensions Authority fees are determined.

We would be happy to respond to any questions on this response. Please contact Philip Shier, Head of Actuarial Practice, at philip.shier@actuaries.ie.

Introduction

The Society notes that the Authority will be required in future years to meet its costs without any Government subvention. The Authority consultation paper indicates that it wishes to retain its reserves at the current level, so that it will be necessary to cover its costs from fee income received from the entities which it supervises. The Authority also makes the point that as a consequence of the implementation of IORP II, significant additional resources will be required, although no indication is given of the expected increase in its costs. Indeed, we note that Table 1 in the document shows a fall in expenditure from €14.7m in 2021 to €13.1m in 2023.

The Authority proposes that

The suggested fee structure for 2022 and subsequent years is as follows:

- *The fees for unfunded DB schemes and for death benefit only schemes would be unchanged.*

- *The fees for schemes subject to the five-year derogation would be unchanged for the duration of the derogation.*

- *An annual asset fee would be charged on all remaining schemes and on PRSAs. The rate would be the same for occupational schemes and PRSAs, which would result in a significant reduction for PRSAs.*

- *A per scheme fee would be charged to all schemes. This would be higher for master trusts than for other schemes. For master trusts, the fee would apply from 2022; for most other schemes, it would apply from calendar year 2024. As stated above, schemes subject to the derogation would not pay this fee.*

- *The existing PRSA provider and product fees would be unchanged.*

- *The above asset and scheme fees would apply to AVC schemes on the same basis as other schemes.*

General principles

The Society supports the principle that the Authority costs should be met proportionately by those who "benefit" from the oversight as noted in the paper:

"it makes sense that the fees should be broadly correlated with the supervisory effort involved for different categories".

This means that PRSA charges will be reduced, which we welcome, but we have practical concerns about the proposal that the saving be passed to PRSA policyholders. We discuss this further below.

To be consistent with the above principle, we suggest that

- **Any asset-based charges should be across all schemes (including AVC only) and PRSAs**.
  We would point out that a fully asset-based charge means that all of the costs in a DC scheme are paid by the member. This also means that a well-funded DB scheme will pay more than a poorly funded one with the same liabilities. Perhaps the charge should be based on a formula which incorporates the scheme's (MFS) liabilities?
  We note also that a market crash (which will probably lead to more supervisory effort from the Authority) will lead to a fall in the Authority's income if it is fully asset based.

- **Any per member charges for schemes (these do not apply to PRSAs) should apply to active, deferred members and pensioners.**
  For some DC schemes, the current per member charges are paid by the employer. We would support the continuation of per member charges (for all categories of member except death benefit only) to facilitate payment of these administrative charges by the employer. It may be appropriate to have different charges for active, deferred and pensioner members.

- **Public sector schemes should bear their share of the charges reflecting the supervisory effort involved.**
  We note that this is the subject of a separate review.

- **Scheme charges should reflect the additional "base cost" of supervision per scheme and should not be pitched at a higher level to encourage consolidation as is suggested.**
  We note this extract from consultation document *"Smaller schemes require proportionately more work for the Authority than larger schemes, and therefore a significant per scheme fee is a reasonable means of supplementing a pure asset-based charge. It is also intended to be an explicit incentive for consolidation, which will improve the efficiency and therefore the value for money of the Authority's work.*
  We do not see any justification for pitching the scheme fee above what is appropriate to enable supervision of the scheme (when taken in conjunction with any asset-based or member charges). In any event, the additional costs which schemes and their sponsors will incur in meeting IORP II requirements will in themselves act as an incentive to encourage consolidation.

- **The charges for DB schemes should be higher than for DC schemes with the same level of assets.**
  The assets of a typical DB scheme are (currently) greater than a typical DC scheme, which means that DB will pay more if the charge is asset based. The paper states

  "There is a possible justification for levying a higher rate of fees on DB schemes because of the greater supervision required. However, it is not proposed to have higher charges on DB for the following reasons:

  > *o Unlike DC schemes, there is no practical means for DB schemes to consolidate and therefore minimise the impact of any new fee structure.*
  >
  > *o There are still a number of DB schemes whose solvency is under pressure, and significant charges would worsen this situation."*

  We do not think that these are sufficient reasons to depart from the principle that the costs of supervision should be spread proportionately to the supervisory effort required.

- **The fees for one member schemes subject to the five-year derogation should reflect the supervisory effort required for these schemes.**
  Given the five-year derogation for the purposes of IORP II implementation, the supervisory effort for such schemes may be lower than schemes who have to implement IORP II requirements "immediately" and hence a lower charge may be appropriate.

- **The fees for master trusts should reflect the cost of their supervision.**

  The Authority states that

  Master trusts will require more supervision than comparable single employer schemes, because of their greater potential scale, but also because of greater administrative complexity, and because of less employer involvement, which removes a degree of informal oversight.

  We agree that the fees charged for master trusts should reflect the cost of any additional supervision required, compared with a similar size single-employer scheme, although if the fee structure incorporates an asset-based charge and/or member charges, "greater potential scale" should be addressed automatically. It would be helpful to see some more detail on the proposal in relation to master trusts as it would be counter-productive if the fee scale appeared to be excessive, given the need to encourage the development of such schemes.

Comment on the Authority's proposal

Our views on the Authority's proposal are set out below. These reflect the general principles discussed above.

• The fees for unfunded DB schemes and for death benefit only schemes would be unchanged.

This is reasonable.

• The fees for schemes subject to the five-year derogation would be unchanged for the duration of the derogation.

In principle, the fees paid for such schemes should reflect the cost of supervision during the five-year period, and hence may need to be revised. However, we accept that the Authority may consider that from a practical perspective, they should remain unchanged.

• An annual asset fee would be charged on all remaining schemes and on PRSAs. The rate would be the same for occupational schemes and PRSAs, which would result in a significant reduction for PRSAs.

We support the use of an asset-based fee as part of the overall fee charged. Note that the percentage would need to be reviewed on a regular basis as scheme assets change to ensure that the amount received by the Authority makes an appropriate contribution to its costs.

• A per scheme fee would be charged to all schemes. This would be higher for master trusts than for other schemes. For master trusts, the fee would apply from 2022; for most other schemes, it would apply from calendar year 2024. As stated above, schemes subject to the derogation would not pay this fee.

We support the use of an appropriate scheme charge as part of the overall fee charged from 2022 onwards. Given the Authority's need to "balance the books", the deferral of the scheme charge must mean that the reserves are further depleted over the period to 2024, which we understood was not considered desirable.

• The existing PRSA provider and product fees would be unchanged.

Noted but see our comments on PRSAs below.

• *The above asset and scheme fees would apply to AVC schemes on the same basis as other schemes.*

Agreed. For the avoidance of doubt, we understand this to mean that all AVC schemes, regardless of whether the AVCs are associated with a DB or DC scheme, should be subject to the same asset-based charge as for DC schemes.

<u>Society's preferred approach</u>

Our preferred approach would be a combination of

- per member charges for schemes (across all members except death benefit only members),
- an asset-based levy (possibly with some adjustment for DB schemes to reflect the greater supervisory effort required) and
- a scheme charge (which may differ for one-member schemes and master trusts) which should come into effect from 2022.

The level of fees should be reviewed in 2024 as proposed.

<u>Issues in relation to PRSAs</u>

As noted above, we support the move to rebalance the burden of supervisory costs so that PRSA policyholders are not charged proportionately more than scheme members. We note that the proposed approach would see a reduction in the PRSA fund-based charge from 0.05% to 0.011% i.e. a reduction of almost 4 bps. Whilst this is welcome, the actual amount of the reduction for an individual policyholder will be small, and any requirement that this be passed on to policyholders may lead to disproportionate effort and cost. This could include revising policy documents and related literature, amending projection illustration systems, communicating the changes to policyholders, amending the annual management charge in each fund and obtaining any necessary legal or actuarial advice.

We would note also that increases in regulatory charges incurred by PRSA providers regulated by the Central Bank of Ireland were not passed on to policyholders, and we would presume that if in future the Authority were required to increase its charges, it would not be a requirement that the increase be passed on to the policyholders. We are of the view that it should be left to the providers to decide how to implement the reduction in Pensions Authority costs within the general framework of the Consumer Protection Code.

A reduction in the charges borne by a Standard PRSA policyholder could be achieved by reducing the cap to, say, 0.97% but the Authority does not suggest this and we would not be supportive of this.

We strongly reject the suggestion that the reduction in the PRSA charges be deferred to enable the Authority to build up its reserves. Indeed, it can be argued that the reduction in PRSA charges should be greater than is proposed, to grant a measure of retrospective rebalancing for the "overcharging" of PRSAs in the past.

We note that no changes are proposed to the current PRSA provider and product fees. We would request that the Authority consider amending the requirement on providers to obtain approval for new PRSA policies, at a cost of €5,000 each time, where the only changes compared with existing approved PRSAs are minor and will not impact adversely on the policyholder.

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