An Chomhairle Pinsean
The Pensions Council

Charges for Approved Retirement Funds (ARFs) and Buy Out Bonds (BOBs)

Recommendations for Action

October 2017

C/O Verschoyle House, 28/30 Lower Mount Street, Dublin 2

C/O Teach Verschoyle, 28/30 Sráid an Mhóta Íochtarach, Baile Átha Cliath 2

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Ms Regina Doherty TD,
Minister for Employment Affairs and Social Protection.

Dear Minister,

I hereby submit on behalf of the Pensions Council a Report with a series of recommendations for changes in the current regulatory regime for Approved Retirement Funds (ARFs) and Buy Out Bonds (BOBs).

This Report is a follow-up to, and is based on, the findings of the Council's two previous studies on charges for ARFs and BOBs .

ARFs and BOBs are important means for consumers to invest their pension benefits to provide an income in retirement. We have concluded that the market for these products does not appear to work to the benefit of consumers to the extent that it should and could.

As currently designed, marketed and regulated ARFs and BOBs are not well adapted to consumers' needs. (Indeed, we recommend that BOBs be abolished if our other recommendations take effect.)

We are of course ready, Minister, to provide any further information you may require on this report or on related issues.

Yours sincerely,

Jim Murray,

Chairman

Introduction

This is a follow-up to two previous studies of charges for ARFs and BOBs, carried out by the Council.[1] Those studies were largely factual in nature; the Council now submits the following Recommendations for Action, based on the results of those studies.

ARFs and BOBs

On retirement and sometimes earlier, holders of private pensions need to transfer part or all of the value of their accumulated retirement benefits to a new personal contract, usually either an Approved Retirement Fund (ARF or a Buy Out Bond (BOB). In a number of cases a BOB may be matured in a relatively short period with 75% of the proceeds being transferred to an ARF.

The ARF is the de-cumulation phase, when funds are run down to provide an income in retirement – after the accumulation phase of making pension contributions to build up a fund.

Market Failures

Following our studies of charges for ARFs and BOBs, the Council has concluded that it is extremely difficult for most consumers to make rational choices on which provider or product to use for their ARF or BOB contract. The market does not appear to work to the benefit of consumers to the extent that it should or could.

For ARFs and BOBs in particular, charges are a key problem in terms of their complexity, lack of transparency, lack of comparability, the extent to which they are (not) understood by consumers, and the manner in which they are presented and communicated at point of sale. Furthermore, ARFs and BOBs, as presently designed and regulated are not well adapted to current needs.

[1] http://www.pensionscouncil.ie/en/Reports/

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We recommend the following changes:

1. Improvement of information.

a) Our studies highlighted the wide range of provider charges for ARFs and BOBs, not just between providers but also between different contracts from the same provider, and recommended the regular publication and updating of the these charges, to enable comparisons to be made by intermediaries and interested consumers – in practice this would mean the publication every three months of the updated "snapshot" data in our reports on ARFs and BOBs. This exercise could be undertaken by a relevant regulator (e.g. Central Bank, or the CCPC) or by an established price comparison consumer website. The cooperation of the industry – in effect six insurance companies, should be secured by way of regulation or effective persuasion.

b) At point of promotion or sale of ARF and BOB contracts, we recommend that intermediaries or other advisers should be required to provide a stand-alone "RIY" statement over different specified periods, setting out clearly the reduction in value of an investment as compared to the theoretical return on an investment over a similar period on a zero fee basis – that is to say on the assumption, which in practice cannot be the case, that the fees and charges (intermediary, fund manager, and others) on the investment would be zero.

c) A mandatory standard form for such disclosure should be developed.

d) In addition to the disclosure of more and better information, a closer look should be given to practices that would, in the words of the Consumer Protection Act 2007, "*…cause appreciable impairment of the average consumers ability to make an informed choice in relation to the product concerned…".* In this context, we believe that the use of misleading allocation rates of more than 100%, and early encashment charges, are unfair practices that should be explicitly prohibited, as such a pricing structure is designed solely to hide from the consumer the impact of initial sales/intermediary remuneration and can encourage the churning of consumer funds between providers. (There may of course be other unfair practices.)

e) Consideration should be given to the development of a standard form to be used in all cases when an adviser is seeking an ARF or BOB contract for a consumer, combined with a mandatory cooling–off period following the delivery of the quotation form – even if the offer is taken up immediately. A further and additional option might be to develop a standard form for consumers to use when making enquiries on similar contracts.

f) Investors in ARFs should be given, on a mandatory basis, periodic reviews and benefit statements, in a standardised form, to highlight the degree of long term sustainability of the level of their retirement income compared with the alternative option of using the ARF funds at that time to buy an annuity.

2. Design of Products

a) Currently ARFs are available only on an individual contract basis. To get to an ARF contract, a consumer has to move his or her retirement funds from another arrangement, thereby incurring what can be significant charges. We repeat here our earlier recommendation for the establishment of group ARFs and the option for defined contribution occupational pension schemes to offer an ARF facility within the scheme, i.e. 'in scheme' drawdown.

b) The notion of default or "gold standard" ARFs and BOBs should be explored – i.e. ARFs and BOBs that conform in all respects to a given set of standards.

c) We question the necessity and utility of Buy Out Bonds. They cost money in fees and in many cases are only a short term (in some cases days) staging post on the way to an ARF or other arrangement, at a further cost. An 'in scheme' ARF facility combined with easier transfers to PRSAs would obviate the need for BOBs. We recommend therefore the abolition of BOBs.

3. Advice

a) Trustees should be encouraged to take a more active role in ensuring that retirees have access to appropriate and competent professional advice on transfer and retirement options, particularly when the trustees are directly or indirectly involved in the search or arrangement of such options.

b) The offering of investment information or advice to prospective clients about a choice of transfer and retirement benefit options should be a regulated activity. .
END