An Chomhairle Pinsean
The Pensions Council

SUBMISSION TO IDPRTG

This is the response of the Pensions Council to the consultation on supplementary pension reform by the Interdepartmental Pensions Reform and Taxation Group.

October 2018

Reduction of Pension Savings Vehicles

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?
YES. We think that PRSAs, with of course the new AE scheme, would be sufficient. (We have earlier recommended the abolition of BoBs.)

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?
On the positive side there would be a greater simplification of pension products, which should help to enhance consumer understanding.
Possible negative effects could be mitigated if a transfer to AE is kept open, and if individuals are given the option to retain existing BoBs/RACs in their current form.

A3. What changes would you recommend to the design of the PRSA product?
Permit transfer values , especially in (private) DB schemes, to be rolled into a PRSA.
Harmonise the lump sum entitlement to the level currently applicable to B0Bs.
Establish group ARFs and allow DC schemes to offer an ARF facility within the scheme (i.e. "in-scheme" drawdown.), particularly in the case of multi-employer schemes.

A4. In terms of pension vehicle rationalisation, what impact could the introduction of the pan-European Personal Pension Product (PEPP) have? ***PEPPs will be particularly helpful and will bring portability where it is needed in specific cases. They may also promote more competition but we do not think they will bring much change to the overall pension landscape. Questions on tax treatment have still to be resolved for these products, and regulatory arbitrage must be avoided as far as possible.***

Harmonisation of Rules

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? ***Some drawdown and retirement ages, espcially those in the 50's, are far too low. It is overall public policy, which we support, to raise pension and drawdown age and this approach should be applied across the board, harmonising as far as possible pension and drawdown age across pension products. ().***
There are lower pension and drawdown ages in respect of particular occupations. These should be reviewed, and adapted as necessary to increased longevity and the general policy of raising pension age across the board.

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?
We favour the harmonisation of tax treatment of employer contributions across all relevant pension product.
In a particular case, we propose that employer and employee contributions should not be aggregated for the purpose of calculating maximum contributions for tax relief.
(As for possible moves from SSAPs to PRSAs, SSAPS have some advantages that PRSAs do not, such as a greater flexibility of investment, but their retention run counter to the process of simplifying pension products.)

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?
The tax-free portion of retirement lump sum should be harmonised as far as possible across AE/private pension products, and should not be related to annuity/ARF selection.

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?
Again we favour the harmonisation of tax treatment of death in service benefits across pension products.

A9. Are there constructive changes that could be made to eliminate inconsistencies in the treatment of DC and DB scheme members? ***As already mentioned we favour the***

harmonisation of tax treatment of lump sum and drawdown for (private) DB and DC schemes.

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? ***The main objectives of pension schemes are to improve replacement income and avoid poverty. These are the main criteria by which state support should be measured. Pensions also help to reduce dependence on public funds in retirement.***

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? ***Tax relief is not easily seen as an important benefit, especially but not exclusively when it is described in percentages. Also, studies by the ESRI, OECD show that the level of numeracy and financial literacy is very much lower than is generally assumed. Disclosures are not sufficiently aligned with actual, as distinct from assumed, levels of numeracy and financial literacy.***

B3. What adjustments, if any, could be relief to best support the rollout of automatic enrolmen ***Tax relief should be abolished, to be replaced by a more equitable top up system, the benefits of which can be described and clearly seen in cash terms***. ***As far as possible, low to average earners should not suffer loss from this change.***

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? ***Measures to reduce gender discrimination woud be helpful here.*** Therefore it would be helpful to ***increase labour participation in the work force and fertility rates by such means as better and more accessible child care, and other measures to reduce gender inequality in the workforce and pensions generally.***

B5. In evaluating equity in the distribution of the economic and social benefits from this tax expenditure, what factors should be considered? ***A top up rate capped at a certain figure would be more equitable than the current system of marginal tax relief. There are also substantial gender inequalities that need to be addressed here.***

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?

As mentioned tax relief on employee contributions should be abolished, to be replaced by a top-up system.
Tax treatment of drawdown should be harmonised as far as possible across pension schemes.

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
As a general rule, we favour limitations on tax-free lump sum drawdowns on retirement (above a certain limit), harmonised as far as possible across AE and private pension products, except in the case of relatively small sums, taking into account logevity trends and investment returns.

C2What, if any, changes need to be made to ARF access, and why? ***Better and more understandable pre-contractual information, including comparative information and similar improvements in reporting and feedback. Information requirements should be based as far as possible on actual rather than assumed levels of numeracy and financial literacy.***

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 setaside amount and should it vary? If so how? Should the conversion age of 75 be adjusted?

C4.	Are the current imputed distribution requirements appropriate? What changes, if any, would be appropriate? ***The current imputed requirements, e.g. of 4%, should ceretainly not be reduced. There may be a case for increasing this figure, depending on movement in longevity and interest rates/iinvestment rreturn.***
C5.	To improve data capture and to facilitate the assessment of retirement outcomes, what additional returns should be required of Qualifying Fund Managers (QFMs)?
C6.	Are current consumer protection arrangements in relation to ARFs effective? How might consumer protection requirements be improved? Is there a role for maximum or standard charges? ***Generally, consumers are not nearly adequately protected in terms of information and choice. As we noted in our studies on ARF charges the market works more to the benefit of intermediaries than consumers.*** ***Furthermore, current consumer protection regimes assume a level of numeracy and financial literacy that is far higher than the reality – as seen in studies by the ESRI, OECD and many others.*** ***(In an ESRI study only 18.6% of men and 8.1% of women could correctly answer a simple question on compound interest.)***
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? ***See previous answer.***
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 a potentially useful tool. However, it may be beyond the competence of small schemes and more suited to larger schemes, including especially multi-employer schemes. Moreover, detailed rules will be needed to prevent conflicts of interest on the part of trustees/providers.***