# Section C – Approved Retirement Funds

Section C relates to one action in the Roadmap: 3.14. This action provides an undertaking for a broad review of the utilisation of the ARF option.

Access to ARFs has been liberalised over time since their initial introduction in 1999. Given current market conditions and a perception that poor value is received when purchasing an annuity, ARFs have become the preferred means of drawing retirement benefits for the vast majority of DC savers. It is therefore important to ensure that the ARF option is fit for purpose and meets the needs of consumers of varying profiles.

> ***Action 3.14 provides for the undertaking of a broad review of the utilisation of the ARF option and to consider whether regulatory oversight of this product is fit for purpose. This will include a review of ARF criteria set out in tax legislation including specified minimum income requirements. It will also include identifying measures to address any provider/consumer protection gap and the potential to facilitate group ARF products or in-scheme drawdown.***

## Background

ARFs are post-retirement investment vehicles in which individuals can invest the proceeds of their pension fund in retirement and draw down amounts as needed. ARFs were introduced in Finance Act 1999 as an alternative to the purchase of an annuity and to provide more flexibility and control regarding drawdown. The ARF option allows the retiree to take up to 25% of the maturing retirement fund as a tax-free lump sum and to transfer the balance to an ARF or take the balance as a taxable cash amount, subject to certain conditions.

An individual who is under the age of 75 at the time of exercising an ARF option and does not meet the requirement of having a minimum guaranteed pension income for life of €12,700 per annum, is required to set aside an amount of €63,500 (or the remainder of the pension fund if less than €63,500 after taking a retirement lump sum). This condition is met by investing the amount in an Approved Minimum Retirement Fund (AMRF) or by purchasing an annuity.

The purpose of the AMRF is to ensure that an individual who does not have the minimum guaranteed pension income for life, has a capital nest egg to provide for the latter years of retirement. An AMRF owner can draw down up to 4% of the value of the fund assets once annually, until he or she meets the guaranteed pension income requirement or attains the age of 75, at which point the AMRF automatically becomes an ARF and any remaining funds can be drawn down at the owner's discretion.

ARFs (and vested PRSAs – that is, a PRSA which has commenced to pay benefits) are subject to an annual imputed distribution requirement which varies between 4% and 6% of the value of the assets in the ARF and/or vested PRSA, depending on the individual's age and the overall size of the fund.

## Charges & Regulation

The challenges facing those considering the purchase of an ARF include decisions about investment risk, longevity and health uncertainty, investment charges and taxation. The potential for longer term cognitive decline may make these challenges even more difficult. Also, many people facing these complex decisions may have relatively little financial or investment experience.

As the *Roadmap for Pensions Reform 2018-2023* notes, the Pensions Authority has expressed the view that the lack of regulation at the point where the consumer must choose a drawdown option for their funds, is not in the best interests of consumers. Separately, research by the Pensions Council[12] has identified a wide variation in the charges associated with ARF products which in some cases reduces or even eliminates the investment return.

## In-Scheme Drawdown / Group ARFs

There is a perception that drawdown outcomes could be improved if scheme trustees were involved or if other mechanisms were in place to aggregate drawdown product purchase. As the *Roadmap for Pensions Reform 2018-2023* notes, the Pensions Council has observed that as ARF packaged products are currently only open to consumers on an individual basis as personal contracts rather than on a group basis, this likely results in a substantial inequality in information and in bargaining power between providers on the one hand and the individual consumer on the other.

[12] The Pensions Council found that a member would save €11,720 for an ARF investment of €150,000, over 10 years by choosing the ARF product with the lowest charges over the period and holding it for the full 10 years. Report relates to charges levied on ARFs provided by life assurance companies. See http://www.pensionscouncil.ie/en/Council-Opinions

# CONSULTATION QUESTIONS

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?

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

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?

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

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?

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?

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?

# The Consultation Process

## Consultation Period

The consultation period will run **to 5pm Friday 19 October 2018**. Any submissions received after this date may not be considered.

**Note: This document has been drafted for consultation purposes only. It is intended to elicit views from stakeholders on a range of issues and is in no way indicative of policy direction. No decisions have been made in relation to any aspect addressed in this Consultation Paper.**

## How to Respond

The preferred means of response is by e-mail to: IDPRTGconsultation@finance.gov.ie

Alternatively, you may respond by post to:

Public Consultation on Pensions Reform
Interdepartmental Pensions Reform and Taxation Group
Department of Finance
Government Buildings
Upper Merrion Street
Dublin 2, D02 R583

Please include contact details if you are responding by post.

When responding, please indicate whether you are contributing to the consultation process as a professional adviser, representative body, corporate body or member of the public. Please also specify which question you are addressing in each response.

## Freedom of Information

Responses to this consultation are subject to the provisions of the Freedom of Information Acts. Parties should also note that responses to the consultation may be published on the Department of Finance website.

## After the Consultation

Responses received during the consultation process will be considered when finalising the policy choices for each of the pension areas outlined in this consultation document.