Section A – Simplification & Reform

Section A relates to three actions in the Roadmap: 3.11; 3.12; 6.6. These actions concern the identification of inconsistencies within the supplementary pension system, the harmonisation of rules, and reducing the number of pension vehicles.

Ease of understanding and confidence in the pension system are critical in encouraging people to save adequately for their retirement. The complexity of the pension landscape in Ireland may make it difficult for individuals to understand, compare and choose a pension product that suits their needs.

> *Action 3.11 The Interdepartmental Pensions Reform and Taxation Group will identify and progress measures to improve the harmonisation of rules to eliminate anomalies in the treatment of different retirement arrangements including taxation treatment.*
>
> *Action 3.12 Identify the options and develop recommendations to coherently rationalise the number of individual pension vehicles which exist at present.*
>
> *Action 6.6 The Interdepartmental Pensions Reform and Taxation Group (see Action 3.11) will review the legislation governing the various ages at which pensions can be drawn down together with any apparent anomalies arising in the treatment of different retirement arrangements with a view to a standardised upper age limit.*

In order to progress this work, the IDPRTG has identified the following core areas for consideration of any potential reform:

Product Types

The personal pension landscape broadly provides for three separate contract pension savings vehicles specifically designed to provide retirement benefits. These are Personal Retirement Savings Accounts (PRSAs), Buy-out-Bonds[2] (BoBs) and Retirement Annuity Contracts (RACs).

When PRSAs were introduced in 2002, it was envisaged that the product would replace both BoBs and RACs over time. However, in practice this has not taken place.

Following a public consultation in 2016 on Reform and Simplification of Supplementary Funded Private Pensions, the Pensions Authority recommended that the number of different types of pension vehicles be reduced to simplify the personal pensions landscape.

Prospectively ceasing BoBs and RACs would provide for a simplified Defined Contribution (DC) contract landscape resulting in PRSAs being the single[3] option for new contract based arrangements.

To ensure a smooth transition to a simplified DC landscape, careful consideration must be given to addressing transferability issues among the existing contract options and also with DC occupational schemes.

[2] Buy-out-Bonds are also known as 'Personal Retirement Bonds'.

[3] European Commission proposal COM (2017) 343, for a Regulation on a pan-European Personal Pension Product (PEPP), may result in an additional contract option with an EU wide portability feature to the DC contract landscape.

Finally, the European Commission has published a proposal for a pan-European Personal Pension product, 'PEPP', which has the potential to add a further personal pension product to the domestic landscape.

Standardised Age Treatments

There is no mandatory retirement age in Ireland. However, the normal retirement age (NRA) set down by employers for occupational scheme members is typically between 60 and 70 years.

With regard to personal pensions, PRSA and RAC holders can access benefits at any age between 60 and 75 without any requirement to cease economic activity. Rules around access to benefits from BOBs reflect the rules of occupational schemes. While DC occupational pension funds are generally available from age 50 for those in early retirement, not all personal pensions can be accessed from that age.

For example, a PRSA held by an employed person can be accessed once s/he retires after the age of 50. However, a self-employed unincorporated individual can only access benefits in a PRSA or RAC from age 60.

Tax Treatment of Contributions

The most significant difference in the tax treatment of trust and contract pension vehicles is seen when comparing the tax treatment of employer contributions to occupational pension schemes and employer contributions to private contracts such as PRSAs.

In summary, employer contributions to their employees' occupational scheme are not subject to the age-related percentage limits or to the overall percentage of earnings cap. Employees are not liable for Benefit in Kind (BIK) on employer contributions to an occupational pension scheme. However, where an employer contributes to an employee's PRSA, those contributions are chargeable to BIK although it is only where the combined employer and employee contributions exceed the relevant age and earnings related limits that a BIK charge will arise.

Drawdown Conditionality including Death Benefits [4]

1. Retirement Lump Sums[5]: Another notable difference between the tax treatment of trust and contract pension schemes relates to the calculation of the tax-free portion of the retirement lump sum.

Members of DC occupational schemes can take a retirement lump sum, calculated by reference to length of service and final remuneration[6] with compulsory annuity purchase, or

[4] ARF considerations to be addressed in ARF review - Section C in this document.

[5] The cumulative amount of retirement lump sum that can be taken tax free for all pension vehicles is subject to a lifetime limit of €200,000, beyond which tax is payable in two stages. The portion between €200,001 and €500,000 is taxed at the standard rate of income tax. Any portion in excess of €500,000 is taxable at the marginal rate of income tax. The tax-free amount of €200,000 is a lifetime limit and encompasses all retirement lump sums paid to an individual from 7 Dec 2005.

[6] To a maximum of 1.5 times final remuneration.

they can take 25% of the fund value as a retirement lump sum and reinvest the balance in an ARF.

PRSAs and RACs allow for a maximum lump sum of 25% of the fund value with the options, for example, of reinvesting the balance in an ARF, using it to purchase an annuity, or in the case of a PRSA, retaining it in the PRSA. Thus, in the context of individual arrangements, one-member DC occupational pension schemes are more flexible than PRSAs and RACs because they facilitate accessing the higher lump sum under either the ARF option or the traditional annuity option.

2. Death Benefits: Different pension schemes can apply different rules to the payment of 'death-in-service' benefits. In DC schemes the lump sum death-in-service benefit is limited to four times the deceased member's final remuneration plus a refund of the member's own contributions. With PRSAs and RACs the total funds may be paid as a lump sum on death. If the fund of a deceased member of a DC scheme exceeds four times final remuneration, the balance must be used to purchase taxable annuities for the dependents; however in the case of PRSAs and RACs the entire fund can be paid out as a lump sum and inherited tax free by a surviving spouse/civil partner.

CONSULTATION QUESTIONS

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?

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?

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

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

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?

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?

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?

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?

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