Standard Life

Pension Post

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For Financial Advisers only

Government Private Pension Reform proposals

The Government published a Report of the Interdepartmental Pensions Reform & Taxation Group (ITPRTG) on 13 November 2020. The members of ITPRTG are the Department of Public Expenditure and Reform, the Department of Social Protection, the Pensions Authority and the Revenue Commissioners.

The objective of the Report was to '*identify measures aimed at simplifying and harmonising the supplementary pension system*'.

The main recommendations

Buy Out Bond (BOB)

- From an unspecified date in the future no new BOBs should be allowed.
- From that future date, existing BOBs can continue under existing terms and conditions or transfer to a PRSA.

Approved Retirement Fund (ARF)

- The ARF should be replaced by a 'whole of life' PRSA where withdrawals can continue after 75.
- AMRFs should be abolished.
- Group ARF structures might be developed.
- Defined Contribution schemes should be able to offer ARF style regular withdrawals in the scheme, i.e. take 25% lump sum leaving the fund balance in the scheme and take regular withdrawals from the fund in retirement without having to transfer to an ARF.
- The taxation of ARF/vested PRSA inheritances by children should be changed to PAYE, with the net after PAYE benefit being a taxable inheritance. When introduced this could potentially also apply to existing ARFs.

Retirement Annuity Contract (RAC)

- From an unspecified date in the future no new RACs should be allowed.
- From that future date, existing RACs can continue under existing terms and conditions.
- RACs should be allowed to transfer to occupational pension schemes as well as PRSAs.

Defined Contribution (DC) schemes

- The ARF option should be allowed for the balance of the fund where the lump sum is taken on the salary/service basis, i.e. current compulsion to purchase annuity under salary/service option would be removed.
- DC schemes should be able to offer 'in scheme drawdown', i.e. retiring member takes 25% lump sum and leaves the balance in the scheme taking regular 'ARF' type withdrawals throughout life without having to transfer to an ARF.
- The current 15 year active service limit on transfers from occupational pension schemes to PRSAs should be abolished.
- Those with mixed Defined Benefit/DC benefits related to the same employment should have the ARF option for the DC benefits.
- ARF option should be provided for balance of DC scheme lump sum death in service benefit over 4x final remuneration.

Personal Retirement Savings Account (PRSA)

- The PRSA should, from an unspecified date in the future, be the only individual pension product in the market replacing PRBs and RACs.
- The PRSA should be 'whole of life' allowing withdrawals to continue throughout life without having to transfer to an ARF at 75.
- The current 15 year active service limit on transfers from occupational pension schemes to PRSAs should be abolished.
- The PRSA should (for transfer values received from an occupational pension scheme) allow the salary/service lump sum if greater than 25% of the fund related to the transfer value.
- Employer PRSA contributions should not be a BIK and hence not subject to age related tax relief limits and the €115k net relevant earnings limit.

Ill health retirement

- A common definition of ill health for early access to retirement benefits should be adopted across all products and arrangements.

Section 785 – RAC life cover arrangement

- S785 cover should continue on a standalone basis.
- S785 should also be allowed to be bundled with a PRSA.

Access to retirement benefits

- Standard access to retirement benefits should be between ages 55 to 75, regardless of product or arrangement.
- However to not disadvantage those expecting to access their benefits in the future at 50, the increase in the minimum access age to 55 may have a lead in period before implementation.

Pension tax relief

The Report considered the difficulties in having two different tax relief systems post launch of the Auto Enrolment scheme, i.e. fixed 25% tax credit relief on AE personal contributions but marginal rate relief on scheme and individual product personal contributions. However it reached no firm conclusion on the issue and suggested further research was needed.

One member schemes

The issue of whether new one member DC schemes should continue to be available was not dealt with directly in the Report but will be part of the implementation of IORPS II which is now expected in early 2021.

However some of the recommendations of the Report, e.g. employer contributions to a PRSA should be exempt from BIK charge, and other comments ("*The Group has considered the need for a future pension saving destination for the cohort who would typically have chosen to save for their retirement in a single member scheme*") point to a likely removal of new one member DC schemes at some point in the future and their replacement by Master Trusts and PRSAs.

When?

The Report did not mention a specific deadline for the introduction of any of the recommendations listed above. The Report states '*IDPRTG will draft and agree an implementation plan to progress specific reform initiatives and conclusions in a structured, coherent manner*' which implies some of the recommended product changes, e.g. PRSA replacing the ARF, 'in scheme drawdown', etc. will take a number of years.

However some other taxation proposals could be introduced sooner, requiring changes only in the Taxes Consolidation Act 1997, possibly in Finance Bill 2021 to come into effect in 2022. Changing the taxation treatment of post death distributions from ARFs to children for example, or allowing the ARF option for excess of DC scheme lump sum death in service over 4x final remuneration could be done quickly with amendments to the Taxes Consolidation Act 1997.

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