EAGLE STAR

A member of the Zurich Group

# Submission to the Green Paper discussion from Eagle Star

## Background

Eagle Star is a leading provider of pensions in Ireland with over a 10% share of new pensions effected through life companies. It has gained a significant share of the new PRSA market with 22% of new PRSAs by value being Eagle Star PRSAs. Eagle Star PRSAs are distributed mostly through independent advisors. The products therefore have to meet the high standards that competition demands.  Our record illustrates that Eagle Star is uniquely placed to comment on how the pensions market might helpfully be protected and changed in a positive way by new legislation.

Eagle Star has fully participated in the IIF industry submission and will therefore confine comment to those areas in which there is a particular strength of conviction on the relevant issue.

## Taxation

It is crucial that the current tax relief system is maintained. Pensions are perceived favourably as a tax efficient vehicle and are a primary reason that many people are prepared to put money aside for long periods of time. The cost to the exchequer of tax reliefs given with regard to the contributions to a pension scheme are substantially reduced as pension payments are subject to tax.

Reallocation of tax reliefs from the higher paid to the lower paid may be superficially attractive as a method of getting more lower paid people into pensions but we think this is a mistaken view in that the lower paid are less driven by  tax implications and are more affected by  the drop in spending power consequent on increased saving. The higher paid are tax conscious and the removal of the tax advantageous status of pensions will have a detrimental effect on the amount of contributions that are being set aside for the future in aggregate.

In practice it would be difficult to implement a lowering of the tax incentives unless the reduction where to be concentrated on the self employed which would be politically unacceptable. Employers' contributions would have to be treated as a benefit in kind with an increased tax burden for members of all occupational schemes including members of public sector schemes. This will be seen simply as an increase in the taxation burden on workers. Limiting tax relief solely on employee's contributions would be ineffective as plans would be changed to be non-contributory with a compensating adjustment in salary.

## Access to ARFs

Approved retirement funds or ARFs have proved to be very attractive to people who have the choice of effecting one. There is a strong case for members of occupational plans to have access to an ARF in a defined contribution arrangement. The price at which an annuity can be purchased can vary substantially and the current requirement to purchase an annuity may lock an individual into an annuity for life at unattractive terms. ARFs give members much more flexibility in arranging their financial arrangements post retirement.

If the ARF option is allowed to members of Defined contribution plans it should also be made available to members of funded defined benefit schemes as otherwise there will be pressure to change the structure of the plan from employees who are attracted to the greater control that ARFs provide. Employers who want to limit costs will be happy to oblige. This freedom does not necessarily carry through to public sector schemes which are unfunded. At present such schemes do not normally provide transfer values, which is an analogous situation.

## Auto-enrolment

Auto-enrolment is where employees are entered into an employer's pension or PRSA plan automatically on joining the company or at periodic intervals. The employee will have the option of leaving the plan. This is a valuable technique which overcomes the inertia that many employees have in taking out a pension plan. Experience gained in practice in the United States and from our own experience in business shows that this is a very effective way of obtaining increased coverage.

Eagle Star supports Auto-enrolment as a very effective measure which can be easily implemented as all employers have to provide access to a PRSA through salary deduction.

## Supporting existing provision

Setting up a pension involves an act of faith that the rules surrounding options at retirement and tax treatments will not be changed adversely over a very long period of time. Providers who invest significant resources in providing pensions product make a similar act of faith. Both people and providers need to have confidence in the legislative and tax system and any changes should avoid shaking that confidence. Changes made to the regulatory environment should as far as possible be supportive of existing arrangements rather than destructive. Thus mandatory pensions or restrictions on the ability of providers to compete fairly in the market should be avoided. For example a government run plan that relied on compulsion or subsidy would be high risk for the government and population and disruptive of the existing market.

### Avoid the unnecessary complication of tax credits

Many commentators believe that using tax credits rather than tax relief will repeat the success of SSIAs which although they worked for short term savings will not carry through to pensions given:

- The long term nature of pensions and the lack of clarity on what will emerge from a pension as compared to the simple SSIA structure.

- The significantly different investment decision, approximately 80% of investments in SSIA where in simple deposit accounts.

- The lack of a deadline. The bulk of SSIAs where effected in the two months before the deadline.

- Although there was an approximate 40% take up there was a 60% non take up and the people who did not take up the offer are the people who will not be easily persuaded to take up a pension.

The operation of pensions is complicated enough without the need for a whole new set of rules on how the tax credits will operate and interact with existing provision and taxation rules.

**Brendan Johnston**
Pensions Director

Eagle Star Life Assurance Company of Ireland
Eagle Star House
Frascati Road
Blackrock, Co. Dublin
Ireland