FERGUSON & ASSOCIATES

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Established 1998

Submission on Pensions Green Paper
28/5/2008

After over nineteen years of speaking with customers and the pensions industry on the subject of pension provision, it has become clear to me that two aspects of the current private sector pensions regime require urgent attention if national pension coverage is to be improved in future years: complexity and value for money. These two aspects form the basis of my submission on the Pensions Green Paper.

1. Charges on all Defined Contribution Pension Arrangements should be expressed in a "PRSA-style" format

The current system governing expression of charges on PRSAs makes it easy for a consumer to determine what the relevant charges are and to compare competing offerings. Charges on all Defined Contribution arrangements should be governed by the same rules. Charges on each contribution should be expressed as a percentage of the contribution only and ongoing charges on the fund as a whole should also be expressed as a percentage of the fund only. No other expression of charges should be permitted. This should not preclude pension advisors from charging a separate fee for their services, but such fees should be charged to the customer and not the pension fund.

This approach will effectively abolish the concept of mortality charging for risk benefits, where the cost of such risk benefits is deducted from the pension fund. It is my view that mortality charging is not sufficiently transparent for the consumer to easily separate the cost of the risk benefits from the pension fund, so it is quite correct that it should be abolished. Going forward, risk benefits such as life assurance cover and/or income protection should only be available as separate policies, although the tax relief currently available should remain.

2. Abolish Personal Pensions

Since the launch of Personal Retirement Savings Accounts (PRSAs), the self-employed and those in non-pensionable employment have had the choice to contribute to either Personal Pensions (Retirement Annuity Contracts) or PRSAs. Given that PRSAs offer such individuals all the potential benefits of Personal Pensions and more, I see no reason why both should continue to be offered as options. PRSAs can fill this requirement adequately. Associated Term Life Assurance should continue as a separate product.

3. Abolish Approved Minimum Retirement Funds (AMRFs)

The current requirement that individuals invest the first €63,486.90 of their pension fund into an Approved Minimum Retirement Fund (AMRF) which for the most part cannot be accessed before age 75 serves little practical purpose other than to complicate retirement options. It is over-protective to assume that an individual who has been prudent enough to accumulate a pension

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fund over the course of their working life will suddenly lose their financial prudence once they retire.

4. **Mandatory Enrolment in Pension Schemes for Employees**

All employees should be automatically enrolled in a Standard PRSA arrangement immediately they commence working for an employer. They should have the option to opt out of the PRSA at any time. Any employees who are automatically enrolled in this way should be provided with a Standard PRSA investing a Cash Fund or other fund with a guarantee that its absolute value cannot fall. Minimum contribution rate should be 5% of salary. They should be provided with information on other fund choices and contribution rates immediately.

Employees who currently are not a member any form of pension arrangement should be given notice that they will be automatically enrolled in a Standard PRSA on a predetermined future date, unless they choose to opt out in writing.

5. **Mandatory Employer Contributions**

Under current arrangements, if an employee chooses to make a contribution to a PRSA arrangement through payroll deduction, the "net pay" system generates an automatic Employer PRSI saving for the employer, typically 10.75% of the employee's PRSA contribution. Some employers choose to pass on this saving to the employees by way of a top-up of 10.75% on their PRSA contribution. This should be mandatory. It will cost employers nothing as they already have an obligation to provide such payroll deduction facilities for their employees on request.

6. **Limited Access to Pension Funds prior to Retirement Age**

One perceived disadvantage of pension funds over other forms of saving is the lack of access to pension funds prior to retirement age. My proposed solution would be to permit access to up to 20% of an individual's pension fund at any age to pay for necessary medical expenses, fees paid to a recognised educational establishment for themselves or their families or towards the purchase of a Principal Private Residence for themselves in the State.

7. **Allow Access to Approved Retirement Funds to Members of all Defined Contribution Arrangements**

The current system whereby non-shareholding employees cannot access Approved Retirement Fund options at retirement in respect of ordinary Employer and Employee pension contributions is inequitable. These options should be available to all Defined Contribution pension funds, regardless of the status of the employee. This approach may prove unpopular with members of Defined Benefit arrangements, however the employer-sponsored guarantees contained within Defined Benefit Schemes are benefits which members of Defined Contribution arrangements do not enjoy.

8. **Rename "Non-Standard PRSAs"**

The use of the term Personal Retirement Savings Account or PRSA should be restricted to products that currently are referred to as Standard PRSAs. No other products should be permitted to be referred to as PRSAs. At present, consumers may mistakenly believe that Non-Standard

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PRSAs contain the same statutory caps on charges as Standard PRSAs. A renaming would eliminate any such possible confusions.

9. Allow Public Servants to make AVCs with any Provider of their choice

The present situation for Public Servants (teachers, nurses, etc.) and Civil Servants is that they have two options as to where they can make AVCs to supplement their superannuation scheme benefits. The first is through their approved AVC scheme provider, an arrangement often negotiated by their Trade Union. The second is to establish a PRSA AVC with a provider of their own choice. However, the latter method contains the disadvantage that contributions cannot be deducted from salary and so the employee must manually claim their own tax and PRSI relief. In addition, the former method obliges the employee to accept whatever charges the incumbent AVC provider may impose. In practice, we have seen that these charges are not always competitive when compared with other offerings available in the wider market.

Civil and public servants should be permitted to make AVCs through Standard PRSAs through payroll deduction with any provider or intermediary of their choice. All existing PRSA providers would simply be required to request authorisation from the relevant Government department to establish an AVC PRSA arrangement for that department's staff. Charges for administering payroll deductions (which currently apply in certain areas) should be banned. Any intermediary providing advice on a PRSA AVC for a civil or public servant should be required (in addition to the current requirements) to document that s/he had explained the differences between the Notional Purchase Fund and AVC at or before the point of sale and the client would sign to verify that s/he had received such advice.

10. Government Should Announce Occasional Once-Off Incentives

The success of the Special Savings Incentive Account (SSIA) scheme can be attributed in part to its closing date and once-off nature. More than half of all SSIA applications were received in the final month of the scheme. The Government should occasionally launch other once-off incentives to encourage people to contribute towards their pension. Such incentives should be aimed specifically at areas of the working population where pension coverage is low and should have a limited period in during which individuals can avail of them.

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