

PRSA'S TO DOMINATE 2003 PENSIONS BOARD AGENDA

by Jill Kerby

For Anne Maher, the Chief Executive of the Pensions Board, 2003 will be the year that finally bears the fruit of six years of hard effort on her part and that of her Board: the long awaited PRSA – Personal Retirement Savings Account – is finally a reality and will be available for sale this spring.

Whether it will capture the imagination of the buying public – the low paid, contract workers, self-employed, and especially women workers whose pension coverage is below the national average – is another matter.

The reception so far has been mixed. Applications by the pension industry were relatively muted initially with nine providers seeking initial approval, though there has been interest from 17 of the 19 providers. Not all are expected to be approved right away. And even if they were, there is an expectation (as in the UK with the Stakeholder scheme) that a few will drop out by the time the three year review commences in 2006.

All of the larger Irish life companies will be participating in the market initially, says Ms Maher. "I've heard the criticism that they are not going to make much of an effort to promote and advertise the PRSA because they are unhappy with the charges restrictions, but they will hardly spend all this money and time to join the PRSA scheme and to make themselves compliant with the legislation and then do nothing to actually promote the products. I think that is highly unlikely. Everyone agrees that pensions are sold and not bought."

She is also aware of the criticism being levied at the Board for allowing the sale of non-standard PRSAs (which have no restrictions on charges and fees) to be sold without a requirement for a comparison with the Standard PRSA. Is she not concerned that there could be misselling by intermediaries who will concentrate on the non-Standard version because of the opportunity to earn a higher commission?

"I am pleased with the quality of the applications so far and the fact that there is a good mix of standard and non-standard PRSAs being presented. What we can't know is whether the companies will push one over another. We will have to wait for sales statistics to come in before that can be determined," she insists.

"People who are not covered at the moment by any kind of a pension, and who are the people who have always been the primary target for PRSAs – employees in a company with no pension scheme, the lower paid, contract workers - would be better suited by the Standard PRSA product.

"But there will be a review done in three years. We have put in place with the CSO that they will undertake the survey in first quarter of 2004 and 2005 and then a full survey in the first quarter of 2006 and that this will be the basis of the

progress report to Government.

"We hope that the good public information campaign that will be done over the period will help to prevent the consumer from taking up the wrong product. If the statistics show there is a problem [with more non-Standard than Standard PRSAs being sold] and coverage has not increased, then there is the option to make pension coverage mandatory.

But clearly that would have to be considered against the background of employment in Ireland, employers attitudes and the state of the economy at the time."



Asked whether she thought making public the results of any surveys into the volume of Standard versus non-Standard PRSA sales should be considered Ms Maher said, "I suppose this would be useful information."

"I think it will become fairly obvious, fairly quickly, if there is a problem in the sale of the PRSAs. Requiring Standard and non Standard quotes to be presented together at point of sale may have been one way to try and prevent misselling. But if a sales person genuinely wants to mis-sell, even if they are required to present two quotes, they are still alone with the customer and may be able to convince them to buy the more expensive one. And while it might be a good idea to make them present both cases, I can't see that in itself it would prevent misselling."

The summer of 2003 will certainly be dominated by all things PRSA-related, for this is when the Pensions Board's half a million euro advertising and promotion campaign will get under-way, but there are a number of other pressing issues for the Board.

Simplifying the increasingly complicated pension scene is an on-going issue in which the Board is working closely with the Revenue and other industry practitioners, including the IAPF.

Proposals to standardise pension contributions to the various pension schemes are with the Revenue and she hopes that they will be addressed as amendments to the Finance Act.

"It was originally envisaged by the original NPPI proposal that there would eventually only be two pension systems in place – the occupational system and PRSAs. The difficulty is that when something is already in place, it is hard to take it away, especially when there are always individuals who want the existing system to remain.

"We did touch on the bigger issue of whether we should move in Ireland towards principle-based regulation rather than prescriptive-based regulation, but it can't be done overnight. On the one hand we are all conscious of the need to subscribe to a more simplified pension regime, yet in practice we are also issuing all sorts of new regulations and legislation because of the introduction of PRSAs. I accept that it all adds to complexity."

The simplification of pensions is "easy", she concedes, "only when you start with a green field."



Anne Maher, Chief Executive Officer and Grainne Clohessy, Chairperson, The Pensions Board.

NOT EXCESSIVE

She vehemently denies that the cost of all the new regulation and supervision of PRSAs, which is raised on a once-off and then per-product basis from the providers is excessive. The system adopted here is fairer than the UK one, she says, and "judging by the strong level of applications for approval so far has clearly not put off providers." Either way, she says the charges that are being levied are still not sufficient to meet all the Pension Board's additional costs or the cost of promoting the new product or the on-going education and information campaign the Board hopes to undertake.

There is no one more aware than Anne Maher about how difficult and how time consuming it will be to convince ordinary workers - and more employers - to make greater provision for their retirement. They will start the campaign by focussing on individuals – "telling them about pensions and why they should have one and how to go about it" – as well as with employers, "who are the best conduit for delivering PRSAs and how they can comply with their requirement to provide access to a PRSA for their employees."

After providing employer information packs, they will spread their budget further into the community in the form of seminars and other information sessions and eventually to try and get the message across to youngsters in school about the merits of early pension saving.

"This campaign has to be ongoing – we envisage at least a three year period – Also as part of the campaign we want to

take the message to younger people in schools. There is some evidence that young workers who were earning high salaries were making contribution for the tax relief."

The fact that the SSIA scheme was left untouched in the last Budget didn't do the PRSA cause much good, concedes Ms Maher, but SSIA's have encouraged a savings culture again. "PRSAs are not so easy to explain as SSIA's," she says, "they are more complicated, what with the tax relief and the different funding contributions. But PRSAs may ultimately benefit from the SSIA's if people can be encouraged to redirect their funds into one when their SSIA matures.

"But this campaign isn't just about getting people to take out a PRSA. There is a wider issue of funding adequacy. We have to also get the message across that putting 5% into a pension and your employer putting another 5% is just not enough to provide for a satisfactory pension income."

FUNDING STANDARDS

Which leads to the other key issue that the Board are already monitoring closely - funding standards within existing DB schemes. Three years of falling stock market returns have tipped some companies over the point where their funds may not meet all their obligations if they were to be wound up. With the economy faltering and more companies closing it is a growing worry.

"We are committed to idea that scheme members be fully aware of the state of

their schemes," she says, "which is why we will be recommending to the Minister that part of the Pensions Act which requires that an intervaluation statement by actuaries every year be introduced as a priority. There is no point in people sitting in DB schemes thinking everything is fine when it clearly isn't.

"We also need to ensure that members become more aware that nothing is absolutely guaranteed and that their pensions are dependent on the state of the funds and that sometimes things can go wrong. But that is also why the funding standard is being reviewed.

"If we continue to enforce the windup funding standard as it is, it could give employers an excuse for getting out of pensions altogether. Many could say, why put a lot of money into the fund to shore it up for the short term, when the advice we are getting is that in the long run it isn't necessary," she says.

"The system has served us well up to now. In the short term, hopefully we can work towards giving people a bit more time to get their funding up to standard."

Unlike the UK however, where not only are DB schemes being closed to new members, being converted into DC schemes, or closed altogether, there is much less evidence of such action in Ireland. The impact of FRS17 in the UK on the closure of DB schemes cannot be exaggerated, she says, but is not having any similar effect here, where pension schemes, were, for the most part, better funded.

VIABILITY

However, she concedes that many Irish employers, reading about the UK situation are asking a lot of questions about the continuing viability of the company pension, both from a cost and resources perspective. If there is any shift here, she says, it could very well be in favour of the simpler, less complicated PRSA system. The Pensions Board will be keeping a close eye on movement from conventional pension schemes into PRSA ones, she says, where there is no obligation on the employer's part to make any contribution to the accounts.

"We are concerned that employers may try to sell the idea of a PRSA scheme [instead of the existing DB or DC one] on

the grounds that PRSA are "better" because, for one thing, you aren't tied into annuities at retirement.

"Mind you," she adds, "if you look at some people who took out Approved Retirement Funds instead of pension annuities two years ago, you might come across some very sad stories about how their funds have performed. Annuities are perhaps not looking like such a bad option in that light." The supervision of ARF's is something that she expects to discuss with IFSRA this year, along with the level of the minimum income requirement.

Finally, she says that 2003 will also be a year when compliance levels are fine-tuned. Expressing satisfaction that levels of compliance by companies "were generally better than at any previous time" with three successful prosecutions, there is still more work to be done in this critical area, she says.

"I think a lot of credit however, has to go to practitioners and administrators who have been working very hard in recent years to make sure that they and their clients are taking this responsibility very seriously."