

PRSA's – Why They Don't Do What They Say On the Tin!

Extract from an actual dream sequence where I was being interviewed by Primetime's Miriam O'Callaghan.

Q. Why were PRSA's introduced?

A. To increase pensions coverage.

Q. Will they?

A. Probably not.

Q. Why?

A. Look at it this way, do you have a pension?

Q. No, do I need one?

A. Sorry, I can't answer that because I'm not fully familiar with your circumstances. But it is generally accepted that pension planning is good for the soul.

Q. Ahh...OK, I'm sold, I'll have one of the basic PRSA's and I'll stick in €100 per month.

A. Ask someone else to set it up for you then.

Q Why?

A. Because you won't pay my fee.

Q. What fee? Sure, won't you get paid a commission?

A. Generally no commission is paid on sales below a certain level and your €100 doesn't make the cut.

Q. How much is the fee then?

A. About a grand.

Q. A GRAND – On yer bike you thief! Where are you getting a grand from?

A. That's because a PRSA is classified as an Investment Instrument under the Investment Intermediaries Act and that means that, although you're only putting

away €100 per month, I still have to go through the same amount of bureaucracy as someone who's just won the Lotto. And that means me maintaining a file on you thick enough to warrant planting a small forest.

Q. That's ridiculous – no one is going to pay that sort of money.

A. Exactly.

Q. So are you saying that brokers won't sell PRSA's below a certain level?

A. Probably not.

Q. So low earners are going to suffer?

A. Probably. They won't pay enough to warrant commission and they're not the calibre of client who'd be used to paying fees.

The satire could go on and on – take transfers for example.

It is clear that the intention of the new legislation on transfers was to protect pension scheme members from potential losses from transfers by introducing two measures. Firstly, that a provider can't charge a PRSA holder for any funds transferred in – (noble gesture!). Yet it is also a requirement that the PRSA holder be provided with actuarial certification that the transfer is appropriate i.e. that it's not financial suicide. The problem is that such a certificate isn't exactly cheap to provide and given that you can't charge for transfers, why should the providers accept the transfer? Ergo, they don't.

I've about a dozen clients who'd love to transfer to a PRSA but they can't. This is just another feature that the PRSA is

supposed to provide, but in reality, does not.

But why? Here's my theory.

First came the NPPI consultation document. Dozens upon dozens of companies, pension schemes, lobbying groups, associations, employers and individuals all gave their tuppence worth of opinion as to what should be done to increase pensions coverage. All these opinions were mixed together resulting in the PRSA. Already we've got a product that is a compromise of multiple opinions. But to make matters worse, this compromised concept is captured by legislation drawn up by the Department of Social and Family Affairs, regulated by the Pensions Board, taxed by the Revenue and distributed in a manner that is governed by the Central Bank. Not a common agenda in sight.

Correct me if I'm wrong but I'm pretty sure that somewhere in this mishmash there's the perfect solution to the pensions coverage issue. What needs to be done is for one vision to be brought from the drawing board to the shelf by one department or at least by a group of departments sharing the same vision. This ain't the case at the moment e.g. regulating the distribution of the PRSA so prohibitively is thwarting the spirit of what the legislation aims to achieve.



Jim Connolly is
Actuarial Services
Manager at
PricewaterhouseCoopers