

# PRSA'S – The Real Picture Emerges, and it isn't a Pretty Sight

By Tony Gilhawley

## PRSA

The Pensions Board might look on the nine PRSA providers offering a total of 19 Standard PRSAs and 30 Non Standard PRSAs as success; most others who have some idea of how retail investment markets work would beg to differ.

The PRSA was originally conceived as being a low charge simple transparent pension plan that most people could take out without the need for advice. The outcome, as measured against this objective, has been a failure.

By allowing PRSA providers to sell both Standard and Non Standard PRSAs, as well as allowing providers to sell a confusing range of 'cloned' PRSAs with similar names but different charges, the Pensions Board has ensured that the PRSA market will be a jungle for the ordinary saver.

### STANDARD PRSAS ..THEY'RE SAFE, AREN'T THEY?

Standard PRSAs are meant to be safe. They have capped charges at 5% of each contribution + 1% pa of the fund. But how safe are they?

- 8 providers are offering a total of 19 different Standard PRSAs; EBS and

Ark Life offer just one Standard PRSA each, with the other 7 offering 18 different products.

- the impact of the maximum Standard PRSA charges allowed reduces investment returns by 2.0% pa over a 10 year period, or 1.5% pa over a 20 year period. This is not cheap, contrary to popular belief. The majority of products are charging the maximum allowed, particularly for €100pm or below contributions and for shorter terms.
- The lowest charge Standard PRSA products on the market is the Eagle Star – RFAJ product, which charges just 0.75% pa, with no contribution charge.

- 6 providers are offering multiple or cloned Standard PRSAs, with almost identical sounding names, but whose charges differ. Cloning is designed to allow the provider to pay a range of intermediary remuneration terms for the same product, including nil commission, but the outcome can be total confusion for the consumer, as table 1 below illustrates.

So depending on which version of a particular provider's Standard PRSA the client is sold, the charges could be double the level of the cheapest version of the same product.

- Neither Ark Life or EBS have opted for cloning; each offer just one Standard PRSA product.

Table 1:

PROVIDER	NO OF STANDARD PRSA CLONES OFFERED	LOWEST CHARGE* VERSION OVER 10 YEARS	HIGHEST CHARGE* VERSION OVER 10 YEARS
Canada Life	3	1.0% pa	2.0% pa
Eagle Star	3	0.75% pa	2.0% pa
Friends First	2	2.0% pa	2.0% pa
Irish Life – retail	2	2.0% pa	2.0% pa
Irish Life – corporate	4	1.0% pa	2.0% pa
New Ireland	2	1.0% pa	2.0% pa

\* for a €100 pm contribution.

**NON STANDARD PRSAS ...  
THE SKY'S THE LIMIT**

Non Standard PRSAs differ from Standard PRSAs in that Non Standard PRSAs can charge what they like, and some are taking full advantage of this freedom.

- 7 providers are offering a total of 30 non Standard PRSAs. Nether EBS or Ark Life are offering non Standard PRSAs.

**Table 2:**

NON STANDARD PRSAs	CHARGES OVER 10 YEARS	CHARGES OVER 20 YEARS
Lowest charge	1.0% pa	0.7% pa
Median charge	2.3% pa	1.85% pa
Highest charge	4.2% pa	2.6% pa

- Providers offer a wider range of funds under their Non Standard PRSAs than they do under their Standard PRSA products; in particular unitised with-profit and smoothed/guaranteed funds are offered by many providers under their Non Standard PRSA products, but are not offered under Standard PRSAs.
- Charges on Non Standard PRSAs are generally much higher than for Standard PRSAs, and vary a lot more from product to product.

A summary of the Non Standard PRSA charges for a €100pm saver is as follows - see table 2.

- However, of the 29 non Standard PRSA products on the market, 10 have charges, at certain contribution levels and terms, cheaper than the maximum charge allowed under Standard PRSAs, over the same period! Some providers are charging less on non Standard PRSAs than they are for the same contribution under their Standard PRSA! How confusing is this, for the average consumer?
- Cloning of products reaches epidemic proportions for non Standard PRSAs.

The record is held by Eagle Star who have an incredible 11 different Non Standard PRSAs, all called *Eagle Star Advice PRSA*.

Again you can notice the surprising difference in charges for the same product. Depending on which version of the same product is sold to the client, the charges could be as much as three times the cheapest version - see table 3.

**UNGUARANTEED INVESTMENT FUNDS ARE GOOD FOR YOU?**

The default investment funds offered by all PRSAs are, by and large, substantially invested in equities and are unguaranteed. Apart from cash/short dated bond funds:

**Table 3:**

PROVIDER	NO OF NON STANDARD PRSA CLONES OFFERED	LOWEST CHARGE* VERSION OVER 10 YEARS	HIGHEST CHARGE* VERSION OVER 10 YEARS
Canada Life	4	1.3% pa	3.1% pa
Eagle Star	11	1.0% pa	3.1% pa
Friends First	4	1.4% pa	4.2% pa
Hibernian Life	3	2.0% pa	3.8% pa
Irish Life – retail	4	2.8% pa	2.9% pa
New Ireland	3	2.3% pa	2.6% pa
Custom House Capt.	1	n/a	n/a

\* for a €100 pm contribution.

- Standard PRSAs do not offer any guaranteed investment funds
- Non Standard PRSAs do not offer guaranteed investment funds as their default investment option; rather such funds are offered as an 'opt out', i.e.

client has to opt out of the default fund to get to the guaranteed fund.

This might initially seem surprising but arises from the PRSA legislation which effectively prohibits smoothed/guaranteed investment funds from being used as the default investment strategy or for Standard PRSAs at all. This, in turn, might arise from the Pensions Board Securing Retirement Income Report of 1998, which outlined the proposed PRSA investment structure:

*"The introduction of standardised investment mandates should give the additional confidence to individuals to take appropriate levels of risk with their savings. This is likely to lead to higher investment returns (than if the individuals made entirely their own investment choices) and should make a significant impact on the size of ultimate pension emerging."*<sup>1</sup>

**GROUP SCHEMES**

One of the great Pensions Board hopes for PRSAs would be that because of their

simplicity and reduced costs, they would lead to *"the development of industry wide or umbrella schemes"*<sup>2</sup>. However there is no evidence of substantially better value for money for group PRSA schemes; indeed the opposite is the case as at least one provider charges more for PRSAs that are

<sup>1</sup> Pensions Board Securing Retirement Income Report, May 1998, page 128

<sup>2</sup> Pensions Board Securing Retirement Income Report, May 1998, page 128

part of a group than for a single stand alone PRSA. Indeed some PRSA providers, e.g. Friends First, Hibernian Life, are not selling some of their products through employer group deduction scheme, i.e. are only willing to take contributions by direct debit.

## THE STANDARD V NON STANDARD MUDDLE

Only the powers that be know why it was decided to have two types of PRSAs, one with capped charges and one without. Needless to say, PRSA providers couldn't believe their luck that they would be allowed to make PRSAs that wouldn't be subject to capped charges, and yet carry the coveted 'PRSA' brand.

Remuneration terms on non Standard PRSAs are generally much higher than provided under Standard PRSAs; intermediaries, if they are selling PRSAs at all, may have an incentive to sell a Non Standard rather than a Standard PRSA. Because of higher intermediary remuneration terms, Non Standard PRSAs generally carry higher charges than the equivalent Standard PRSA version of the same product.

The picture is further muddled by allowing providers to clone both Standard and Non Standard PRSA products, so that there is bewildering choice of products carrying coded names which may mean nothing to

the consumer but have widely differing charges.

There is a substantial risk that the charge levels of some Non Standard PRSAs may ultimately damage the PRSA brand; is a charge level of over 4% pa over 10 years compatible with the PRSA brand?

## GETTING ADVICE

The supreme irony of the whole PRSA saga, is that the average consumer is going to need good independent advice before committing himself or herself to a PRSA, given the confusing Standard v Non Standard choice and cloned product issues.

With such variations in charges between different PRSAs, even between different PRSAs offered by the same provider, a consumer would be extremely foolhardy to go off on their own bat to buy a PRSA.

You might be lucky and get one that charges you just 0.75% pa, or you could be unlucky and end up with a product that charges you 4.2% pa. Some of the apparently low charge products are 'non commission' products offered by providers only through fee based brokers; if a consumer goes direct to a PRSA provider, they will probably be sold a higher charge product, and not necessarily the lowest charge product the provider has. Providers

who deal with intermediaries very seldom sell the 'wholesale' version of their products to the public, in order to protect and hide the intermediaries margin.

But the whole idea behind PRSAs at the start was that advice would not be needed, as the products would have low charges and be simple and transparent.

Consider this excerpt from the Pensions Board Securing Report of May 1998, which recommended the setting up of PRSAs, as a way to increase pension coverage:

- *"It (i.e. PRSA) would have a degree of simplicity and cost-effectiveness which has not been available in the past from existing arrangements"*
- *"..establishment of a norm for what would be regarded as a good quality product"<sup>3</sup>*
- *"Costs (of pension plans) can be reduced by ....controlling abuse of market power"<sup>4</sup>*

It would be fair to say that the actual outcome for the PRSA market that has emerged is a long way short of these initial objectives.

**Tony Gilhawley F.I.A. Technical Guidance Ltd**

<sup>3</sup> Pensions Board Securing Retirement Income Report, May 1998, page 137

<sup>4</sup> Pensions Board Securing Retirement Income Report, May 1998, page 128

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