Report of the Interdepartmental Pensions Reform and Taxation Group (IDPRTG)

The **Report of the Interdepartmental Pensions Reform & Taxation Group** (IDPRTG) was published on Friday 13th November 2020.

Zurich welcomes the publication of this detailed Report which focuses on the commitments made in the Roadmap for Pensions Reform 2018-2023. Many of the recommendations would appear to be broadly in line with the various responses to the consultation process in 2018. We also acknowledge the challenges that lay ahead, and the importance of further engagement with all stakeholders to move to the implementation phase, including the need for transitional arrangements in some areas whereby changes will need to be introduced on a phased basis. However, the Report appears to be a major step towards achieving a much simpler pensions landscape.

The Pensions Roadmap required the IDPRTG to consider three general areas:

- Proposals aimed at simplifying and harmonising the supplementary pension landscape;
- An assessment of the cost of State support for pension savings; and
- A review of the Approved Retirement Fund (ARF).

The IDPRTG examined each of these 3 key areas and their Report presents a number of relevant and practical recommendations which should help advance the goal of simplifying the supplementary pension landscape. For reference we have included below extracts from the "Table of Conclusions from the Report" which provides a good summary of the Report's recommendations in the 3 key areas.

This is a comprehensive Report and sets the agenda for the long-term structural reform of supplementary pension provision. It will drive the debate and future policy making, which in turn will have wider, longer term socio-economic and fiscal benefits.

The main focus of the IDPRTG Report is on the area of supplementary or personal pensions - and it should be noted that it is separate from the work of the newly established Commission on Pensions - whose main focus will be on the challenges relating to the sustainability of the state pension system. Here are some of the key recommendations/conclusions from the Report under the 3 Key Headings:

1. Reforming & Simplifying the Existing Supplementary Pension Landscape

- To simplify and harmonise existing products - Approved Retirement Funds (ARF's), Retirement Annuity Contracts (RAC's) and Buy Out Bonds (BOB's) are likely to be replaced on a prospective basis by a revised Personal Retirement Savings Account (PRSA) product which would operate as the sole personal pension product.
- Existing BOBs and RACs should be allowed to run-off over time.
- The proposed changes to the PRSA should facilitate transfers from BOBs to PRSA's.
- To facilitate the cessation of BOBs, the restriction preventing transfers to PRSAs for scheme members with more than 15 years qualifying service should be removed.
- Direct transfers from existing RACs to occupational pension schemes should also be provided for.
- Ring-fencing of lump sum benefits within a PRSA to allow for a salary and service based lump sum for the portion of assets related to a transfer in from an occupational scheme should be provided for.
- The current requirement for a Certificates of Benefit Comparison, is to be reviewed, especially when transferring from a Defined Contribution (DC) Scheme to a PRSA.
- If RAC's are to be eliminated on a prospective basis, the ability to avail of life cover should be provided for - either on a standalone basis or as part of a PRSA.
- PRSA communication requirements should be primarily in electronic form, in-line with IORP II and PEPP.
- The Pensions Authority will review the use of / need for multiple PRSAs by individuals.
- The minimum "early retirement age" will be increased to age 55, with a lead-in period.
- The upper limit on "normal retirement age" should be increased to age 75.
- To the extent possible, the respective definitions of ill health to access benefits at any age before age 60, should be harmonised.

- The mandatory requirement to purchase an annuity having taken a lump sum based on the salary and service methodology should be abolished. The ARF option should also be available to the DC element of pension savings where an individual has Defined Benefits (DB) and Defined Contribution (DC) entitlements from the same employer.
- The current differential treatment of the PRSA for funding purposes should be abolished - and employer contributions to PRSAs should not be subject to a Benefit-In-Kind (BIK).
- As an alternative to compulsory annuitisation, the ARF option should be available for excess funds remaining after the payment of the maximum death-in-service lump sum.

2. State Support for Supplementary Pension Saving

- There are no proposals to change the current system of tax relief. The report highlights the challenge of operating a different system of tax relief for automatic enrolment and this will be considered by the Automatic Enrolment Programme Board

3. Review of the Approved Retirement Fund (ARF)

- ARF providers and PRSA providers will be required to make annual returns to the relevant regulatory authorities, detailing data on ARF numbers, drawdown levels and distribution, asset allocation and fees.
- Annuities continue to serve a purpose and any revised regulatory and advice requirements should include highlighting the merits of annuities in providing guaranteed income for life.
- The 'ARF option' should be replaced by a combination of flexible in-scheme drawdown and a redesigned PRSA product that operates as a whole-of-life product – together with provisions for 'Group ARF's.
- Provided that reforms in relation to regulation and advice are accepted, progressed and executed, the AMRF should be abolished.
- ARF assets should be treated for inheritance tax purposes in the same way as other assets where inherited by anyone other than the individual's spouse. Both Income Tax and Capital Acquisitions Tax should apply.

Please click here for the full report.

Need Further Information?

If you have a query on any of the above points, please feel free to contact our **Technical Services Team** on **01 209 2020** or **techsupport@zurich.com** - or your **Zurich Life Broker Consultant.**

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