New PRSA changes offer your clients a comparable alternative to an Executive Pension Plan

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THE increasing popularity of the PRSA for pension provision is reflected in statistics. The Pensions Authority data shows that in 2010 there were 181,711 PRSA contracts in place with an asset value of €2.4 billion. The PRSA has grown significantly in popularity since then, and by the third quarter of 2022 there were 343,242 PRSA contracts with an overall asset value of €8.6 billion.

The PRSA is a long-term investment option that offers a flexible, tax-efficient way to save for retirement. This savings vehicle was introduced in 2002 as a modern option for retirement savers to have a portable, transparent, and wholly client-owned pension product with the principal purpose of addressing pension coverage. The PRSA, upon its launch to the market, offered a unique benefit due to the ease with which it can be moved by the owner from one employer to another – a flexible solution for the modern workforce where a 'job for life' is no longer the holy grail.

There were however limitations to the early success of the PRSA due to gaps between how it and other pension savings plans were treated. The differential treatment of employer contributions to a PRSA over an occupational scheme was the main drawback for employers and the reason for the establishment of so many single member pension schemes.

The pension roadmap, published in 2018, outlined the government's intention to transform the pension landscape over a period of time. A key part of this plan was to rationalise the number of pensions saving vehicles and reduce the large number of pension schemes in operation, specifically single member schemes.

The vision was that future pension provision by smaller employers will increasingly be by means of pension contracts (PRSA) or Master Trust solutions. Stemming from this, the PRSA was to be re designed with an intention to simplify the market for single member pensions.

Finance Act 2022 has made a start to this by levelling the playing field in relation to employer contributions to a PRSA. It was enacted on 15 December 2022 and came into effect from 1 January 2023. Specifically, this change removes the BIK charge on employer contributions to PRSAs.

Of particular relevance, given the IORP II requirements for occupational schemes, is how this change now positions the PRSA as a logical, and comparable alternative to an Executive Pension Plan.

This amendment means that transitioning all executive pensions into a retail Master Trust isn't the only solution. For small employer schemes of under 10 members, a Group PRSA arrangement could also play a part in addition to a Master Trust.

By assessing some of key differences between a traditional occupational pension scheme and a PRSA product, we can see why in many cases, the new PRSA solution may offer your clients a more suitable and customer-orientated means to retirement saving.

- Occupational schemes are owned by scheme trustees and not the employee, whereas with a PRSA, the client is the policy owner
- Employer funding under occupational schemes is restricted to salary and service formula in revenue manual, whereas the PRSA allows unlimited* employer contributions for employees and all contributions receive tax relief in the year they are paid, no spreading required (*subject to Standard Fund Threshold and affordability)
- New occupational schemes require prior revenue approval, however the PRSA product is pre-approved by Revenue and the Pensions Authority and requires no further approvals
- In the case where an employee dies in service, the full PRSA fund is paid to their estate whereas occupational schemes cap the lump sum at 4 x final remuneration; balance can be transferred to an ARF or annuity for spouse/dependants
- For retirement income tax planning, PRSA holders can drawdown their retirement benefits in stages up to age 75 using multiple PRSAs, in contrast to an occupational scheme which offers less flexibility with members restricted to taking benefits at NRA and all at once, no phased approach is possible.

There are, of course, many considerations to make when advising clients on the most suitable product for them and the above are just some of the things that may inform your recommendation. What this list does highlight is that the PRSA continues to offer retirement savers a flexible and client-centric product, with the added benefit now of meeting the needs of the traditional target market of the executive pension – company directors and small employers.

What further pension reform might we see?

Finance Act 2022 has brought further simplification and harmonisation to the pensions landscape, much welcomed following a period of upheaval resulting from the implementation of IORP II. There will be further improvements to come arising from the Interdepartmental Pensions Reform and Taxation Group Report, which are anticipated to include:

- Removal of Certificate of Benefit Comparison for DC schemes – this is expected in 2023;
- Extend PRSA to whole of life – this is likely to be introduced within the next few years;
- Harmonise all pension products' lower age limit to age 55 years – again this change could also be seen within the next couple of years;
- Simplifying the landscape further by allowing transfers from personal pensions and buy out bonds into a PRSA – another anticipated change to bring in more simplification and harmonisation.

There was a lot of anticipation around pension reform in 2022, but we now have a clearer path to follow. There are further changes to come and as usual, Standard Life will be with you to interpret and implement these changes to best serve you and your clients.

Wishing you all a happy and prosperous New Year!