Simple is still best for clients; the PRSA's clarity, flexibility, and control helps drive client confidence

AT Standard Life, we always advocate for the 'bigger picture' approach to financial planning. Through our research, we've identified three elements that indicate a person's likelihood to experience a better transition to, and life in, retirement; how financially prepared, socially connected and purposefully engaged they are.

In a highly technical and complex industry such as ours, having the frame of mind to allow time for this bigger picture planning and visualisation can feel ambitious. To give Second Life planning the space it needs, pension products must continue on their recent trend towards simple, flexible solutions.

The recent Finance Act, specifically the introduction of a yearly employer funding limit on the PRSA, has been perceived as a bump in the road on the journey towards pensions simplification. Employer contributions are now capped at 100% of the employee's emoluments in the year of assessment from that employer, which in effect has solidified the need, in the case of some clients, for a secondary solution of funding going forward, specifically where clients are looking to fund for past service. In practice, advisers and their clients will need to consider the right retirement saving solution between a PRSA and an occupational scheme.

While the result of this is a more complex landscape, the impact is not widespread. The majority of retirement planners are unaffected by the maximum funding limitations and so, for this majority, the PRSA remains the single best solution for retirement savings, offering a winning combination of simplicity, flexibility, and control.

Why, in most cases, PRSAs offer the clearest benefits

- **Single relationship solution:** There's no third-party involvement so decision making, reviews and retirement options are all conducted one-to-one between adviser and client.
- **Simpler funding calculations:** Once the maximum yearly employer and employee contribution limits are followed, there are no complicated funding calculations like those under occupational schemes.
- **Multiple PRSA contracts for a modern retiree:** Retirement is changing, it's no longer a fixed date in time, when employment ceases and all pension benefits are retired. Clients are now easing their way in to their second life by gradually reducing working days, for example, and may need to supplement their income. By splitting pension benefits across multiple PRSAs, clients can mature these contracts in stages up to age 75, thereby allowing them to control how and when they retire.
- **Tax-efficient death in service benefits:** Death benefits from a PRSA are paid tax-free to the contract owner's estate. In contrast, benefits from an occupational scheme are up to four times the salary in lump sum format, with the residual fund used to purchase dependents an ARF or annuity.
- **Product harmony for whole of life:** As one of the biggest milestones on the journey to and through retirement, retiring benefits takes consideration. A simple transition into a vested PRSA now allows for a more seamless switch into post-retirement, without an abrupt change in investment strategy, product choice etc. It's still a pivotal moment for advice and in recognition of this, Standard Life introduced vesting commission payments in 2024.

Sinead McEvoy, Head of Retirement Solutions, Standard Life

PRSA and occupational schemes working side by side

Given the introduction of the employer funding cap on PRSAs, there is now clarity as to when a PRSA may not be right for your clients. There are a few important factors to consider and discuss with your clients.

- An occupational scheme may be the appropriate choice in circumstances where your client's employer is funding beyond 100% of salary or for past unfunded service.
- Clients can hold both a PRSA and occupational scheme relating to the same employer as part of their retirement savings plan, thus benefiting from the control and access advantages of a PRSA and the more flexible funding limits of an occupational scheme.
- For one member arrangements transitioning before IORP II April 2026 deadline, the PRSA is an ideal transfer vehicle for various reasons but primarily as death in service benefits are paid in a more tax efficient manner than from an occupational scheme.
- The client's stage of the journey must be considered at all times, whether it's at the point of funding or the point of retirement from either arrangement. However, the ability to retire using multiple PRSAs and phase the drawdown makes the PRSA an invaluable tax planning tool.

Navigating the ups and downs of uncertainty

Our industry knows better than most how to navigate and allow for uncertainty, even how to coach others through it. When that lack of clarity affects us more directly, it's a time to lean into our expertise, what we do know and to look ahead for what we can expect. We know the PRSA to be a client-friendly solution, that works with you, the adviser, to prioritise the human side of retirement savings together with the financial aspect.

There has never been a greater need for advice. The topic of and necessity for pension provision is at an all-time high, due to concerns around the future of the State pension and the introduction of Auto-enrolment. The experience and expertise you have in interpreting and applying regulation, while giving the best advice to clients is at its most valuable in times like now.

However, doing so in a vacuum is difficult. The industry needs to come together to reinforce the need for simple solutions. In the meantime, my team, Retirement Solutions in Standard Life are engaging with the latest thinking, providing funding advice and working with advisers to interpret and guide clients towards their best second lives. If you have any questions you'd like our advice, you can reach us at **retirementsolutions@standardlife.ie**