

Consultation Paper on Pensions Simplification

Introduction

The Pensions Board wishes to consult with interested stakeholders on the topic of pension simplification. The Board is anxious to get the views of those in the industry, trustees, advisors, pension scheme members and consumers generally on ways that the pension system could be simplified.

This consultation paper:

- outlines the context for the Board's review of pension simplification;
- identifies some areas or issues that respondents may wish to comment on; and
- outlines the arrangements for responses to the consultation.

Better regulation principles and simplification

Simplification of regulation and of associated administrative procedures should be kept under on-going review by a regulator. It is important from time to time to review the procedures in place for regulated entities to meet the requirements of the Pensions Act. In this regard it is helpful to consider a number of principles. For example, the White Paper on Better Regulation identifies a number of principles of better regulation that the Government wishes to promote as follows:

- **Necessity** - is the regulation necessary? Can we reduce red tape in this area? Are the rules and the structures that govern this area still valid?
- **Effectiveness** - is the regulation properly targeted? Is it going to be properly complied with and enforced?
- **Proportionality** - are we satisfied that the advantages outweigh the disadvantages of the regulation? Is there a smarter way of achieving the same goal?
- **Transparency** - have we consulted with stakeholders prior to regulating? Is the regulation in this area clear and accessible to all? Is there good back-up explanatory material?
- **Accountability** - is it clear under the regulation precisely who is responsible to whom and for what? Is there an effective appeals process?
- **Consistency** - will the regulation give rise to anomalies and inconsistencies, given the other regulations that are already in place in this area? Are we applying best practice developed in one area when regulating other areas

There are times where some regulation will be unavoidably complex. However, there may be areas that can be identified where simpler procedures or clearer guidance will be of benefit to the Board and to regulated entities in ensuring compliance. In addition, it may be possible to make pensions more understandable to scheme

members and policyholders as well as individuals considering whether to take out a pension.

Context

There are a number of reasons why pensions are inherently complex, some of which are outlined below.

Prior to the Pensions Act in 1990, the Revenue was the sole body regulating pensions. However, since 1990 both the Board and the Revenue are involved. It is important to note the difference in the goal of regulation of both organisations – the Revenue are concerned with preventing abuse of the tax treatment of pensions, while the Board has a broader regulatory purpose in mind.

There are also a number of vehicles through which supplementary pensions are provided that exist for historical reasons. In this context, it should be noted that the National Pensions Framework contains a commitment to review the range of personal pension vehicles (PRSAs, RACs and buy-out bonds) “with a view towards rationalising provision in this area”. This review exercise has not yet commenced.

The Pensions Act has been the subject of many additions and amendments since 1990. For instance there has been a tendency to assume that more disclosure requirements lead to better disclosure and therefore provisions get added but not removed. There may be a need at some point to consider consolidation of the Act.

Possible areas for simplification

Overview

At a level of principle, the following are examples of initiatives or actions that would be consistent with a simplification agenda:

- Elimination of unnecessary or redundant reporting or other requirements;
- Eliminating duplicate reporting obligations (e.g., reports to the Board and another State agency);
- Reducing excessive administrative burdens on regulated entities;
- Addressing anomalies and inconsistencies in rules as between similar arrangements (e.g., tax treatment of different pensions arrangements); and
- Making pensions more accessible and understandable to pension scheme members and policyholders and to consumers generally through, for example, clearer and more concise communication and the use of “plain language”.

Issues for consideration

A number of Government decisions that will involve legislative and other changes in the area of defined benefit provision were recently announced by the Department of Social Protection. In light of these announcements we have decided to concentrate

on simplification of defined contribution provision for the purposes of this consultation. It will be possible to revisit the area of DB provision to consider the potential for simplification at a later date when the various changes have been implemented and bedded down.

With this in mind, we set out below a number of areas where we would welcome inputs as part of this consultation. This list is not intended to be exhaustive and we would welcome feedback on these or any other issues of relevance from a simplification perspective:

- Rationalisation of personal pension vehicles (PRSAs, RACs and buy-out bonds). As noted above, this is an area to be reviewed under the National Pensions Framework.
- Pension adjustment orders and the related provisions of family law.
- The potential to simplify the language used in member communications and in disclosure of information
- Limits for trivial pensions, e.g., requirement to annuitise in case of small DC pension pots.
- Simplification of PRSA disclosure to align with current DC disclosure.
- Simplification of disclosure for smaller insured schemes.
- Streamlining of joint approval of occupational schemes by Revenue and the Pensions Board. This could also consider the need to disclose certain events to both bodies, i.e., the resignation of trustees.
- Procedures for buying out deferred members without consent.
- PRSA quarterly and annual filing requirements.

How to respond

Responses are now being sought in relation to the simplification of defined contribution provision. While all comments are welcome, we would particularly welcome inputs and views on the issues highlighted above.

The Pensions Board is now inviting submissions on these and other related issues. Please send your submission to Andrew Nugent by **Wednesday, 29th February, 2012** by email (anugent@pensionsboard.ie) or by post to:

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