

a decade of change for pensions

The past decade has seen a number of significant changes in the pensions industry, as Gerard Keane explains.

■ **Since the Finance Act 1999 there has been a decade of unprecedented change in the laws governing pensions in Ireland. This article takes a brief look at the following changes:**

- the development of Self Administered Approved Retirement Funds since their introduction in 1999
- the commencement of the mandatory imputed distribution for Approved Retirement Funds (ARFs), which came into effect on 31 December 2007
- the Social Welfare and Pensions Act 2008.

self-administered approved retirement funds (ARFs)

The Finance Act 1999 introduced choice at retirement by allowing retirees to invest in a wide variety of investments through an ARF. Prior to 1999, retirees were restricted to purchasing a fixed pension for life (an annuity). After the introduction of ARFs, life insurance companies were the sole providers of such funds and investment choice was restricted.

Over recent years – with the unprecedented growth in Small Self Administered Pension Schemes (SSAPs) and Self Invested Personal Pensions (SIPPs) – the requirement for alternative ARF providers has grown. Any individual who is entitled to the ARF option on retirement can invest in a self-administered ARF. This option operates outside the life insurance companies and can be a much more cost effective method of managing your funds in retirement.

Eligibility is open to all existing Personal

Retirement Savings Account (PRSA), personal pension, SIPP and Additional Voluntary Contribution (AVC) policy holders and members of occupational pension schemes where the member is a director holding more than 5% of the voting rights in the sponsoring employer's company. An individual who already has their benefits in traditional insured ARF contracts can also avail of this option.

The Finance Act 2006 – income distribution from ARFs

The Finance Act 2006 introduced a new taxation requirement on ARFs designed to encourage ARF holders to take a regular income from their ARFs. Many ARF holders did not draw down any income from ARF investments and we must assume that the Revenue decided that they were foregoing income tax on pension funds, which were not being used for the purpose for which they were intended, when tax relief was granted on the monies invested. As a result income tax is now payable on the ARF investment whether or not the income has been taken.

- The mandatory drawdown will be phased in over three years, with 1% of the ARF fund value on 31 December 2007, rising to 2% in 2008 and 3% in 2009 and onwards.

the Social Welfare and Pensions Act 2008

The Social Welfare and Pensions Act was signed into law by the President on 7 March 2008. The Act contains amendments to

the Pensions Act 1990 which arise mainly from the recommendations of a report by the Pensions Board to the Minister for Social and Family Affairs. The report suggests enhancing both the governance of pension schemes and the protection of pension rights of scheme members.

Section 27 of the Act brings registered third party administrators of pension schemes under the remit of the Act. Now, all pension administrators will be required to register with the Pensions Board and will be subject to ongoing supervision by the Board.

Section 28 of the Act introduces a new requirement in the area of trustee training. Each employer operating a pension scheme now has an obligation to arrange for the scheme's trustees to receive appropriate training. The Pensions Board has indicated that there will be an e-learning course available online through the Pensions Board website. Where the employer company is appointed as corporate trustee of the scheme, all directors of the company will be obliged to undergo trustee training.

conclusion

The changes outlined above give some idea of the continuing evolution of the pensions industry. Pension investors now have more choice and control than ever before; however, with this come increased responsibility and supervision. As in all areas of investment the need for professional advice is now greater than ever. If you require any more detailed information on the above please contact me on 01 828 0070. ■

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