

Pensions Authority drive the Consolidation of Occupational Pension Schemes - “The Final Countdown for Compliance”



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Progress so far

Since the full implementation of the IORP II Directive in April 2021, the 127,000 one member occupational pension arrangements (OMA) that existed beforehand, have started to wind up. The majority of OMAs, which commenced after April 2021 have wound up. In the next 24 months it is estimated that over 10 billion euros worth of pension assets will change contracts ahead of the 21 April 2026 deadline. This poses many challenges, and opportunities for both providers and financial advisors.

The compliance deadline of the 31 December 2023, set by the Pensions Authority (PA) for group pension schemes to have wound up or be fully compliant with the IORP II legislation has now past. The PA have shown some flexibility on this compliance deadline due to serious capacity issues with the life companies and benefit consultants. The providers have been unable to cope with the volume of schemes winding up, with less than 50% of active multi member pension schemes fully wound up to date. Transfers to Master Trusts and/or Personal Retirement Savings Accounts (PRSAs), are ongoing. Once these schemes are in the wind up process the PA have agreed full compliance with IORP II is not required for the moment.

In recent discussions with the PA, they have indicated that progress to the end of 2023 was satisfactory but have indicated there is a substantial number of OMAs still to transfer to either PRSAs, Personal Retirement Bonds (PRB), Approved Retirement Funds (ARF) or Executive Master Trusts. They have also advised that there is a certain lag in registration of wind ups so the actual figure for wind

ups may be higher than reported. Of the pre-April 2021 OMAs, an estimated 17,500 have been wound up out of a potential 127,000, so still a long way to go.

These legislative changes have created the need for advice and guidance for all members of OMAs, as to what contract and pension provider best suits their future needs.

Are PRSAs the Best Option for OMAs?

In deciding what is the most suitable pension contract for a client, who is not retiring, the options are limited. If a client wants to continue funding, a PRSA is really the only option. If you have ceased funding, then transferring to a PRB is another option. In relation to OMAs, clients want choice and flexibility over the lifetime of their pension and being tied into an Executive Master Trust may not be the most appealing option. Many high-net-worth clients want a self-directed option where they can manage their own portfolio of investments with the guidance of their advisor.

Legislative changes enhancing PRSAs

Since the Finance Act 2021 there has been very substantial enhancements to PRSA contracts making them the vehicle of choice for many clients wishing to fund their pensions up to the Standard Fund Threshold (SFT). In summary the following are the changes introduced:

- **End of the 15-year rule**
The Finance Act 2021 brought an end to the “15-year rule” for transfers from occupational pension schemes (OPS) to PRSAs, making the transfer of benefits easier from an OPS to a PRSA. However,



the OPS must still wind up and/or the individual must be leaving employment in order to transfer to the PRSA.

- **Benefit in Kind on Employer Contributions**
The Finance Act 2022 removed the Benefit in Kind (BIK) charge on employer contributions to a PRSA. This led to unlimited employer contributions to PRSA contracts as no funding restrictions were applied by the Revenue Commissioners. In addition, employers can claim full tax relief in the year of contribution, with no requirement to “spread forward” corporation tax relief as required in certain circumstances with an executive pension.
- **Whole of Life PRSA**
The Finance Act 2023 created the whole of life PRSA, with no requirement to transfer out before age 75 years, although one must draw benefits before they reach this age or forego their tax efficient lump sum payment.

The last three Finance Acts have made access to PRSA contracts more attractive, with very few remaining impediments. Therefore, we expect focus to change to other areas of the “Roadmap for Pensions”, with recent discussions with the Pensions Authority, indicating “in scheme drawdown” is high on their priority list.

As mentioned earlier the Pensions Authority noted progress has been satisfactory to date as regards the pension scheme consolidation agenda but significant progress is needed over the next 2 years to achieve the aims set out. For the pension schemes that remain as standalone schemes then they will have to ensure full compliance with the IORP II requirements and the Pensions Authority’s Code of Practice.