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19th October 2018

Re: Consultation on Supplementary Pensions Reform: Roadmap for Pensions Reform 2018-2023

Dear Sir,

I attach, for your consideration, IAIM's response to this consultation process.

The Irish Association of Investment Managers (IAIM) represents the major investment managers operating in Ireland. The services our members provide, primarily portfolio construction and asset management, are critical to individual and institutional savers and investors alike, allowing them to achieve their financial goals and meet their responsibilities.

Our response and recommendations are geared to be of assistance in formulating policy in relation to pension reform in Ireland.

Yours sincerely

Regina Breheny
CEO

1. Introduction

IAIM welcomes this opportunity to participate in this reform discussion. However, as investment managers, in essence, provide investment solutions, our comments are general in nature as a more detailed response would be limited in scope to investment issues arising from the questions.
We understand that several of IAIMs members who are also involved in providing pension products will respond individually in greater detail.

We strongly agree that the existing supplementary pension system should be simplified, and, in the process, inconsistencies eliminated, and product rules harmonised. Contribution and benefit options should be product neutral across all pension structures. This will improve understanding and confidence in the system and should help to achieve the objective of expanding supplementary pension coverage. We believe that this is in the best interest of consumers, pension providers and the State.

However, coverage is only one aspect of pension provision sustainability. An effective system in the long term will be largely be measured in terms of pension adequacy. Pension adequacy is primarily determined by contribution rates which in turn are influenced by tax incentives provided by the State.

2. Reduction of Pension Savings Vehicles

A1-3 – Each of these products have different characteristics and were designed to satisfy different needs. However, it should be possible to create one product for all e.g. a PRSA. If BoBs and RACs are withdrawn as an offering (i) PRSAs would need to be reviewed and revamped to achieve greater customer flexibility and to maintain benefits (ii) existing customers should not be forced to move and (iii) there should be transitional arrangements in place to allow providers to effect system changes.

A4 – The introduction of the PEPP will add another layer to an already complicated set of offerings. Eliminating arbitrage opportunities may be difficult to achieve.

3. Harmonisation of Rules

A5- To achieve flexibility and simplicity, minimum and maximum drawdown ages should be standardised for the benefit of all consumers.

A6-8 – All consumers should be treated equally. To achieve this, we believe that employer contributions, taxation treatment of lump sums and death-in-service benefits should be harmonised.

A9 – In theory, an employer's choice of a DB or a DC scheme should not affect a consumer's retirement options. However, as DB schemes are less likely to be offered in the future, any inconsistencies will be eliminated over time.

4. Costs to the Exchequer

B1 – It is important to note at the outset that tax relief on pension contributions is merely a form of tax deferral until retirement. The larger the pension pot the more tax a pensioner will pay.
Tax relief on contributions and investment returns should ultimately be measured by the standard of living enjoyed by pensioners. The introduction of Auto Enrolment (AE) will increase coverage but, in effect, adequacy is determined by contribution rates and investment returns. We believe that tax relief is an influencer in the levels of both contribution rates and investment returns. Any changes to this tax regime will have a direct impact on existing schemes. This impact should be carefully measured both in terms of tax savings on contributions and in terms of tax reductions from lower pension pots.

B2 – The main reason why coverage is low is inertia and that is why AE has become an imperative. Add to this economic austerity and the rising age of marriage and having children, pension decisions are being deferred.

B3 – Confidence in pension savings, on a long-term basis, has been damaged, but is now slowly recovering. Any reduction in the marginal rate will damage confidence further and could eliminate further growth in a viable Pillar II and Pillar III which would destabilise the existing pension system and would undermine long term pension coverage and adequacy and leave many pensioners with a greater reliance on the state.
We do not believe that a reduction in marginal relief will encourage or support the roll out of AE. In fact, any reduction is more likely to reduce contributions by middle income earners to existing schemes.
It is quite clear that the restrictions brought in since 2009 combined with the introduction of a levy on pension funds in 2011 have changed behaviours in that pension contributions have declined (see Table 1 below). It could be construed therefore that pension contributions attracting tax relief at the higher rate is seen as a tax efficient form of saving. Cut the relief and the savings will fall.

Table 1: Tax Foregone

Revenue Estimate Cost Tax Relief	2010	2013	2014	2015
Employee Contributions	598.5	552.0	548.8	580.6
Individuals Voluntary Contributions	253.1	211.0	210.0	215.0
	851.6	**763.0**	**758.8**	**795.6**

Source: Tax Supports on Pension Contributions Outcomes, Costs & Examining Reform IGESS Conference Dublin Castle, 8th June 2017. Table 1 includes approximately 605k contributors i.e. 34% of all earners. 29% get tax relief at 20% and 71% get tax relief at 40%.

A reduction in or elimination of the marginal rate tax relief is in effect an additional tax on the earnings of existing pension contributors. Approximately 605k tax payers would be affected to varying degrees e.g. a middle-income employee in the private sector and a single public servant (The Guard, the Teacher, the Nurse…), earning €60k and making a 10% combined pension contribution, would lose €900 a year if the marginal rate is cut from 40% to 25%.

B4 – All pension savers should be treated equally whether they are operating through the AE system or not. In theory applying a subsidy that may be easier to understand. However that subsidy should be calculated to reflect an individual's marginal rate of income tax. The cost of this could be partially met by reducing the annual cap on contributions for all (currently at €115k).

B5 – Factors for consideration should include:

- The current system of tax relief does not in any way interfere in the progressive nature of the tax system overall;
- Income tax on drawdowns need to be included;
- In relation to BIK on employer contributions, all pension savers should be treated equally.

B6 – In general we believe that the tax treatment of all pension products should be harmonised.

5. Approved Retirement Funds

C1-4 – In general, we believe that pensioners should be free to make their own choices on retirement. In particular; (i) the current suite of products (annuities, drawdown products, lump sums) probably provides enough choice, (ii) the ARF should be available to all pension savers, (iii) we ask the question "is the AMRF still necessary" and (iv) simplify the distribution requirement (one flat rate).

C6 – The best consumer protection is transparency and simplicity of disclosures. Charges by product and by manager should be freely available to facilitate comparability. This will contribute greatly to competitiveness in the market. Maximum or standard charges will only reduce competition.

C7 – Mandatory advice is essential. There should be a panel of independent advisors accessible to trustees who interact with pension savers entering retirement. Some retirement schemes may fund the cost of this but where a pension saver has accumulated several products over a lifetime, because of the complications, the cost may have to be borne by the retiree.