Lifetime PRSA

08 February 2024

Introduction

The recent Finance Bill has proposed that Section 787K of Principal Taxes Consolidation Act (Revenue approval of PRSA products) would be amended, with the effect of introducing the concept of a lifetime PRSA.

The Bill will need to become an Act before it comes into law. This document explores some of the potential considerations for PRSA providers. Note that the views expressed in this document are not legal advice and are provided in the absence of any clear direction from the Pensions Authority ("PA") or Revenue. They are subject to change once clear direction is provided.

The primary impact of the change is that the upper age limit of 75 for PRSAs has been removed, thereby opening up what the market is calling "Lifetime PRSAs" or "Whole of Life PRSAs".

PRSAs will be able to continue beyond age 75 with the usual options continuing, such as the ability to make withdrawals, transfer etc. Members must still "vest" their PRSA prior to age 75 or PRSAs will be deemed to have vested at age 75. This is unchanged from the current position.

This note is directed at PRSA Providers to help them understand the impact of the recent change on the operation of PRSAs.

What change was made to the Act?

Section 787K of the Principal Act is amended, in subsection (1)(c)(ii), by the deletion of "or after he or she attains the age of 75 years"

When will the Bill become law?

Based on previous Finance Bills, we would expect this to become law some time in December 2023.

Were there any changes to the Pensions Act, Part X?

Part X of the Pensions Act, which deals with the operation of PRSAs, is unchanged.

Can a contributor transfer to a new PRSA after the age of 75?

Yes, there is nothing in legislation which would prevent someone transferring a PRSA policy from one provider to another provider.

Can a contributor set up a new PRSA after the age of 75?

Yes, there is nothing in legislation which would prevent someone setting up a new PRSA after the age of 75. This policy would automatically vest.

Can a contributor make contributions to a PRSA after the age of 75?

Yes, there is nothing in legislation which would prevent someone paying contributions to a PRSA after the age of 75.

Can a contributor transfer their vested PRSA to an ARF after the age of 75?

Yes, there is nothing in legislation which would prevent this.

Can an employer make contributions to a PRSA after the age of 75?

Yes, there is nothing in legislation which would prevent an employer making contributions, in respect of an employee, after the age of 75. Such contributions would be treated as an expense, in the same way as contributions made prior to age 75.

Should a SORP be issued to a contributor who is over the age of 75?

Under legislation a SORP must be issued to all contributors, irrespective of age. However, the SORP is a "pre-retirement document" and the PA have previously indicated they would not take action against PRSA providers who do not issue SORPs to contributors who have vested their PRSA. We recommend providers assess what they wish to do for contributors over the age of 75, and relay this to the PA.

Should a Statement of Account be issued to a contributor who is over the age of 75?

Yes, this should continue to be provided.

Should a PDC and initial SORP be issued to a new PRSA contributor over the age of 75?

Yes. However, providers may need to consider the content. The legislation is very prescriptive in this regard, and so providers may have little scope to make amendments. Consideration would need to be given to choosing a "retirement age", of say 85 or some other appropriate age, in any illustration.

Eventually we would expect the PA to provide guidance and we have asked them for a timeline for such guidance (or indeed a change in legislation). We await confirmation (see later question).

Any SORP / PDC changes should be submitted to the PA also.

Do PRSA providers need to write to contributors approaching age 75?

At the moment providers are expected to write to contributors approaching age 75. We would think there is no longer a need to write to members who have already vested. However, contributors who have not vested must vest prior to age 75 or the PRSA provider will treat them as vested on reaching age 75. PRSA providers should therefore continue to write to these members.

Do the Terms and Conditions need to change?

A review should be undertaken. If changes are required, these should be sent to Revenue and the PA. Revenue have become more active in relation to commenting on T&C and providers should probably expect some comments from Revenue on any proposed changes.

What about PRSA AVCs?

PRSA AVCs must be "retired" at the same time as the main benefits. The AVC PRSA can convert to a vested PRSA at this stage (or transfer to an ARF or be taken as a lump sum etc). Note, on vesting, the AVC PRSA converts to a PRSA. This position is unchanged as a result of the legislation change.

The vested PRSA can continue beyond age 75 as a result of this change.

Are there any changes to Schedule A/B?

This change does not appear to have a direct impact on Schedule A/B.

What else needs to change?

Providers need to consider all documentation (SORP, PDC, Application form, marketing material, website, retirement option letters etc) and processes (retirement process, etc).

Providers might also consider if their DIS or other de-risking strategies or explanations need to be amended.

Over time, we would expect product designs may need to be considered to reflect the extended lifetime of the PRSAs and the requirement for advice at vesting. As long as ARFs are available on the market, brokers may be incentivised to transfer funds to an ARF on vesting and PRSA providers may need to compete in that market.

Should providers write to members regarding the change?

It may be necessary, especially if the T&Cs change. Providers may also treat this as a positive marketing opportunity. Providers could include some information along with the member Statements of Account.

Will there be any guidance issued as a result of the change?

When asked, the Pensions Authority responded as follows

"We are aware that amendments may be needed to specifically cater for whole of life PRSAs and are considering these with the Department of Social Protection."

What if a contributor reaches age 75 without having taken benefits?

Under current legislation these PRSAs automatically vest on reaching age 75 and a benefit crystallisation event occurs.

On reaching 75 a Contributor may instruct the PRSA provider to vest the policy and take their tax free lump sum entitlement.

If they do not engage with the PRSA provider then the PRSA provider will need to vest the PRSA. On vesting, tax is payable as vesting is treated as a benefit crystallisation event (either because the contributor does not engage or has already exceeded the SFT). As a result of tax being due and subsequently paid from the assets, the benefits under the PRSA have been accessed and there is no tax free lump sum entitlement thereafter, as a tax free lump sum can only be paid if funds have not been accessed.

If tax is not due on reaching age 75 (when the contributor engages and confirms they have not exceeded the SFT/PFT), then assets will not be paid from the fund on vesting. In such a scenario a lump sum may be paid any time until the first distribution is made (whether this is an actual requested distribution or an imputed distribution). This is likely to be at the latest 30 November following reaching age 75.

Can a contributor take a tax-free lump sum in respect of a new PRSA set up after reaching age 75?

It appears there is nothing in legislation to prevent a new policy being set up after the age of 75. This policy automatically vests. However, unless there is an immediate tax payment made from the policy (as the Contributor has exceeded SFT/PFT previously), the Contributor has an opportunity to take 25% of the fund as a lump sum, and this may be tax free or tax efficient if they have not used their lifetime limit of 200k tax free and 500k tax efficient. As before the latest they may take this lump sum is 30 November following establishment of the PRSA (as imputed distribution will apply from this point)

If a contributor sets up a new PRSA after the age of 75, should they be provided with a PDC and Initial SORP?

Legislation requires a PDC and SORP to be provided to a Contributor. However, as these may be misleading PRSA providers may consider it appropriate to discuss with the Pensions Authority and their PRSA Actuary what should be provided.

About Lane Clark & Peacock Ireland Ltd

Lane Clark & Peacock Ireland Limited is registered in Ireland with registered number 337796 at Office 2, Grand Canal Wharf, South Dock Road, Dublin 4.

Directors: Martin Haugh, Conor Daly, Shaun Southern (UK), Paul Marsland (UK).