

Pensions Authority issues consultation paper on fees.

The Pensions Authority have issued a consultation paper proposing changes to the basis on which fees are paid by occupational pension schemes. This comes hot on the heels of the transposition of the IORP II Directive into Irish Law which requires the Pensions Authority to adopt a forward-looking risk based-based approach to supervision.

The Pensions Authority propose the following changes to the fee structure:-

- The primary fee would be an asset-based levy charged on an equal basis to occupational schemes and PRSAs.
- The introduction of a substantial per scheme fee after an interval to allow and encourage scheme consolidation.
- The fee structure and rates would remain unchanged for single member schemes subject to the temporary IORP II derogation.

A further review of fees would be carried out in 2024.

The Pension Authority's preferred option is to move to an asset-based levy rather than the current fixed per member fee basis. The proposed charge is at a rate of 11.1c per €1,000 fund value. The move to this basis means that members will now have to meet the cost of supervision rather than the employer paying the fees.

It is not only a move from collecting fees based on a fixed fee structure to an asset-based levy that is important to note but also that under this proposal deferred members will now also have to pay fees to the Pensions Authority, whereas up until now only active members have been subject to a fee.

The Pensions Authority have advised that if the fixed fee structure were to remain in place the annual fee would have to increase from the current rate of €8 per member to between €22 to €28 per annum.

Public service defined benefit scheme members are currently charged at 40% of the €8 standard rate, i.e. €3.20 per member. The Pensions Authority have advised the reason for this is due to the lower supervisory requirements of unfunded public sector schemes. The main requirement is to supervise compliance with the Disclosure regulations of the Pensions Act. One could ask how compliant are public sector schemes with the Disclosure Regulations?

Interestingly the Pensions Authority are proposing no change to the fees for unfunded Schemes even though from a membership perspective active members of public sector schemes represent 45% of all individuals in occupational pension schemes in Ireland.

One person schemes have a 5 year derogation on compliance with the requirements of IORP II and consequently are not being considered for any change to the current arrangements even though in many cases individuals with Small Self Administered Schemes have substantially higher asset values and more complex arrangements in place than the typical DC scheme member.

Similarly, schemes that are "paid-up" are not subject to the new proposals. The rationale for this is somewhat flawed. Just because a scheme is not receiving new contributions does not mean it should not be subject to supervision.

The Pensions Authority are also proposing to introduce a significant scheme charge that would come into effect from 2024. This is designed to encourage employers with smaller DC Schemes to move to an alternative structure. It is not clear who pays this charge, clearly in many insured scheme arrangements with insurance companies where the member meets the costs, this will represent an additional member charge and where the employer meets the cost then this will be a new direct cost to the scheme sponsor, if introduced.

A summary of the proposed new fee structure and approach is as follows:-

- An asset-based charge for all funded schemes.
- No change to the fees for unfunded schemes, or for schemes subject to the IORP II derogation.
- A significant per scheme charge that would come into effect for most schemes, but only from 2024 or later.
- The broad target would be to maintain the existing levels of reserves.
- The fee levels would be reviewed during 2024

Under the proposed changes outlined by the Pensions Authority one option that does not appear to have been considered is extending the fixed fee basis to both active and deferred members of all schemes. This could be considered as pensioner members represent an increasing percent of defined benefit scheme membership. Similarly the Pensions Authority are responsible for the supervision of both active and deferred members so a charge would be appropriate. Deferred members will be subject to fees under the proposed asset-based charge.

What happens next?

The Pensions Authority have invited submissions on the proposed basis of the fee structure by the 22nd June 2021.

The following is a link to the Pensions Authority consultation paper and details of how to respond with your opinion on the proposed changes.

https://www.pensionsauthority.ie/en/news_press/news_press_archive/pensions_authority_fees_consultation_paper.pdf

If you have any questions on this update, please contact either.

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