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Changing rules and the great game of pension whack-a-mole

It's funny the things you get inspiration from. While passing through our living room recently I expressed out loud a modicum of frustration regarding a pension issue that was causing me a problem.

Our youngest heard me and his reaction was to ask, "Dad, why don't the government want people to do pensions?" He knows the government makes the rules and that the rules are, shall e say, less than perfect, so e figured that they obviously on't want it to be easy for eople to contribute to a ension. From the mouths f babes or what?

Pointless rules abound, uch as forcing a person to uy an annuity if they use the salary and service method to calculate their retirement lump sum, or making someone incur the expense of obtaining a certificate of benefit comparison if they want to transfer their occupational pension to a PRSA; paternalism at its best.

The above rules are arbitrary and pointless, but we've had them for so long that we barely notice the inconvenience. What is worse than old rules that serve no purpose, though, is when the rules are changed in a way that makes no sense.

Take, for example, a piece of European legislation called IORP II, which introduced more requirements designed to bolster the financial and risk management of occupational pension schemes.

Very good, I hear you say. Introducing legislation that governs pension schemes is like having rules that stop someone opening the door of a commercial airliner mid-flight; it's for everyone's safety. The problem is that even though there was a derogation that meant member states weren't required to apply IORP II to single-member pension schemes like executive pensions, Ireland did anyway, and it had the effect of closing this product to new entrants. Cue migration to PRSAs.

Applying IORP II to single-member schemes is like introducing rules to stop pilots of single-seater planes from sabotaging their own planes. Why would they want to? All this does is impose needless requirements that disincentivise saving for retirement.

In fact, the aeronautical analogy is imperfect, because although you could argue that the single-seater plane might endanger a commercial airliner, the single-member pension scheme cannot endanger a company pension scheme. If the pilot messes up, it won't affect anyone but himself. A one-size-fits-all approach to issues that are not the same is rarely a good approach.

But it's OK. Shortly after wringing the neck of the executive pension, they changed the rules around PRSAs to make them more like an executive pension running on high-octane fuel. The Finance Act 2022 abolished benefit-in-kind on employer contributions to PRSAs, which effectively removed the limit on employer contributions. This meant that a company director who had forgone funding a pension to maintain his company's cashflow in the early years could bring his pension funding up to date later in life. Cue even more migration to PRSAs.

The industry's response to IORP II was to reconstitute the executive pension under a new legal structure called a master trust. You could then recommence offering executive pensions but, given the existence of the new improved PRSA, did anyone need or want one? The industry walked determinedly on, unsure of its direction as the ground shifted under its feet.

Many people transferred their executive pensions into PRSAs, and many more took out new PRSAs. Some people stuck with executive pensions.

In recent months it has become clear that the government was concerned that the rules make it too easy to contribute to a pension, and word on the street was that they were going to try to make it harder. They recently did just that by deciding to reimpose an upper limit on employer contributions to a PRSA. Our son was incredulous.

Cue a massive move back to executive pensions? For some, yes, but there will be moves in both directions.

The best option will be specific to the individual as it will depend on the contributions allowed under each. The switching process is going to throw another spanner in the works of the life companies, many of which have been struggling to maintain service levels since Covid.

If you're the owner of a company with a lot of cash, now would be a good time to review your retirement planning, as under present proposals the flexibility that was available to extract that cash tax-effectively will reduce imminently. Because of the uncertainty about the effective date of this change, I recommend doing it sooner rather than later.

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