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Three quarters of Irish adults surveyed want ARF pension options

Proposed pension policy will preclude most people availing of ARFs

In a recent Standard Life survey of more than 1,000 adults, over three quarters or 77% of Irish adults would like the pension options that wealthier people enjoy, referred to as approved retirement funds or ARFs in the industry.*

ARFs permit certain individuals to invest in different asset classes rather than being obliged to purchase an annuity – otherwise known as approved retirement funds or ARFs in the industry. In addition, when an investor dies, their fund becomes part of their estate.

Contrary to the government's claim to be introducing ARFs for all individuals who own defined contribution pensions**, most savers will not have a sufficiently large pension pot to access ARFs:

"The government has decided to streamline the current system and provide that all DC (defined contribution**) arrangements will have access to similar options (i.e. ARFs) in retirement" : National Pensions Framework document.

"If the above proposal goes ahead, there will be far fewer people eligible for ARFs than under the current regime. It really will be a privileged elite who will be able to access them in the future," said Jim Connolly, head of pensions, Standard Life.

The proposed requirement for an €18,000 per annum income or a fund of at least €353,000# will preclude most pension savers from availing of ARFs ***. The move from €63,500 as a basic fund size to the €350,000 odd now required to qualify for an ARF is an enormous leap," he said.

Connolly said the current €63,500 threshold (amount needed to avail of an ARF under current rules) is too low and believes about double the threshold (€127,000) or ten times the annual state pension amount (approx €12,000) i.e. between about €120,000 and €127,000 would be a more prudent amount.

"We understand the government's concern that certain retirees risk running out of money and that worry needs to be addressed." Connolly suggests that a thorough due diligence process to check whether the investor has sufficient funds and whether they are suited to

own an ARF from a risk appetite perspective rather than an annuity be an obligatory check carried out by an independent adviser

“It’s long been considered unfair that wealthier people had superior options using ARFs compared with the ordinary savers’ retirement option of an annuity and nothing else,” said Jim Connolly, head of pensions, Standard Life. “Policy papers commissioned by the government have been supportive of ARFS being made available to everyone, as supported by the Tax Commissions recommendations on pensions policy last year and indeed the government’s own more recent NPF document,” We view this unexpected development as regressive and effectively discriminates against ordinary savers. “I’m sure that’s not what the government had in mind,” he said.

Majority think financial advice very important over the life of their pension savings

Standard Life’s research reveals that over six out of ten (61%) of Irish adults ranked the importance of financial advice over the life of their pensions savings at 8 out of a possible score of ten, (where 1 is unimportant and 10 extremely important).

- Almost a quarter (24%) felt advice over the life of pension savings was “Extremely Important.”
- The average rating was 7.7 indicating an overall strong feeling of importance

Surprisingly, the governments’ National Pensions Framework document does not mention the importance of independent financial advice when considering signing up for the proposed mandatory pension. “This in itself seems somewhat extraordinary given that a pension will probably be many people’s second biggest asset after their home. It’s basic common sense to seek advice on how much is needed to live on in retirement,” said Connolly.

Notes for Editors

- ***Q. Wealthier individuals typically have more retirement options i.e. they can invest in different asset classes. Would you like to have these options available to you rather than being obliged to purchase an annuity i.e. a fixed income for life?**

Yes	77%
No.....	8%
Don't know.....	16%

- These results are based on an independent online survey conducted by Research Plus Ltd on behalf of Standard Life Ireland; 1,011 adults aged 18+, in The Republic of Ireland, were surveyed between 30 March to 6 April 2010.

- ****A defined contribution plan is where your own contributions and your employer's contributions are both invested and the proceeds used to buy a pension at retirement. The level of your pension will depend on the amount invested, the return on your investments and the cost of your pension at retirement.**

***The current guaranteed or “specified income” limit (€12,700) has not been changed since the introduction of the ARF legislation in 1999. An increase in this limit to 1.5 times the State Pension (Contributory) (which would amount to approximately €18,000 per year) will be examined in the course of implementing this framework¹⁶.” National Pensions Framework document, page 40, section 5.3.2.

Male Single life, retiring at 60, no inflation indexation, no lump sum, no spouse, 5 year guarantee - Fund required: €353,128 – source www.pensionplanetinteractive.ie

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