An tÚdarás Pinsean
The Pensions Authority

Pensions Authority Fees

Consultation paper issued by the Pensions Authority

21 May 2021

1. Background and overview of consultation paper

The Pensions Authority is proposing a change to the basis on which fees are paid by occupational pension schemes, trust RACs and PRSA providers. There are various reasons for this:

- The IORP II Directive requires the Authority to adopt a forward-looking risk-based approach to supervision. This will involve more direct engagement with trustees involving dialogue and scrutiny about how well they are exercising their responsibilities to their members. An increase in staff numbers is required to implement this approach, in addition to significant IT development.

- In 2021, the Pensions Authority's fee income is expected to be almost €7 million less than total expenditure. This difference will be met by a combination of a €3 million Exchequer subvention and the reserves accumulated by the organisation in recent years. However, the Department of Public Expenditure and Reform has stated that the 2021 subvention is a once-off support and that the future costs of the Authority must be met from fee income. The Exchequer subvention is recoupable from future fee income.

- If fee levels remain unchanged, fee income in 2022 would represent only about 60% of projected expenditure, a difference much greater than the Authority's reserves.

- PRSA fee income has grown much more quickly than fee income from occupational schemes because of the different respective fee structures.

- There are significant differences in the levels of fees paid by different types of schemes.

- There has not been an increase to the fees paid by occupational pension schemes and PRSAs since 2002 and there have been two reductions for the fees paid by occupational pension schemes in 2010 and 2011.

The Authority proposes changing the fee structure to the following:

- 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 Authority is launching this consultation to seek views on the proposed change to the basis of the fee structure. The actual amount of those fees is still to be determined but will be based on projected costs of regulatory activity.

The Authority will consider the responses to this consultation before submitting a proposal to the Minister for Social Protection in the Autumn.

The remainder of this paper is structured as follows:

- Section 2 sets out projected income and expenditure for 2021 and subsequent years.
- Section 3 sets out the issues with the current fee structure.
- Section 4 sets out considerations and constraints to be taken into account in considering any change to the structure of fees.
- Section 5 examines the likely fee levels required under a number of assumptions.
- Section 6 proposes a new structure and the reasons underlying it.

2. Financial situation

The Authority's present financial situation is set out in table 1 below, which summarises projected income and expenditure for 2021, 2022 and 2023 assuming no change to the current fee structure and no further Exchequer subvention after 2021.

Table 1 – Projected income and expenditure
€ millions

	2021	2022	2023
Opening reserves	7.2	3.6	(2.1)
Income	8.1	8.3	8.5
Subvention	3	-	-
Expenditure	(14.7)	(14.0)	(13.1)
Net	(3.6)	(5.7)	(4.6)
Closing reserves	3.6	(2.1)	(6.7)

3. Issues with current fee structure

There are two anomalies within the current fee structure: the first is the allocation of fees between occupational schemes and PRSAs, and the second is the allocation of fees between the different types of occupational schemes.

PRSA versus scheme fees

The proportion of the Authority's income derived from PRSA fees has been increasing since 2002 and in 2020, for the first time, PRSA fees accounted for over half of the organisation's income. This is despite the fact that PRSA assets are only about 8% of occupational scheme assets, and PRSA contributors are only about a third of active scheme members.

The growth in PRSA fee income relative to scheme fees is because occupational pension membership numbers are growing slowly whereas PRSA assets are growing quite quickly, as a result of the relative immaturity of the sector. Unless there is substantial change to the current fee structure, this trend will continue.

Related to this, two reductions were made to occupation pension fees in 2009 and 2010, while PRSA fees were not reduced.

The income from PRSA fees far exceeds the allocation of resources to PRSA supervision. The increase in Authority costs in recent years is directly attributable to the increased costs of supervising occupational schemes. Because the Authority is not responsible for the supervision of solvency or organisational governance of PRSA providers, the Pensions Authority's supervisory responsibilities for PRSAs will always be much less onerous than for occupational schemes: there has been no recent increase in the PRSA supervision workload, nor is any planned. There are no obvious grounds therefore for recouping the increased expenditure from PRSA fees.

Types of occupational schemes

Fees for occupational schemes vary considerably depending on the type of scheme. Table 2 sets out how the fees for different types of scheme relate to each other. The 'standard' fee is based on the number of active members (i.e. those members accruing benefits). At present this charge is €8 per member reducing to €4 per member for schemes with more than 1,000 members.

Table 2 Occupational scheme fees

Scheme type	Fee per active member
Active DB and DC funded schemes	Standard fee
Unfunded DB scheme (all public service)	40% of standard fee
Funded additional voluntary contribution schemes	No fee
Frozen DB and DC funded schemes	No fee
Death benefit only schemes	No fee

The lower fees for unfunded DB schemes reflect the fact that the Authority's function in respect of those schemes is limited to supervision of disclosure compliance and some other matters. Death benefit only schemes have no assets and low contributions, and, as for unfunded schemes, the Authority's responsibilities are limited.

However, the other aspects of the fee structure are less easy to justify:

- As time goes by, a greater proportion of the membership of DB schemes is comprised of retired members, in respect of whom no fees are payable. More and more of those schemes have ceased accrual and therefore have no active members at all. There are a number of such schemes with assets of hundreds of millions of Euro that require ongoing oversight but pay no fees.
- AVC schemes require no less supervision than any other type of scheme but pay no fees.
- There is a significant number of single member schemes where the member decides each year whether or not to make a contribution. It is not possible to say most of the time whether any such scheme has an active member or not.
- It is common in smaller DC schemes that the Pensions Authority fee is paid by the members rather than by the sponsoring employer. This gives rise to anomalies and arguably inequity between the active members, who pay fees, and the remaining members, who pay no fee.

Overall, there is poor correlation between the work that the Authority does and who bears the cost.

4. Fee changes – considerations and constraints

Among the issues that need to be taken into account when considering changes to fees are the following:

- There is considerable uncertainty about the Pensions Authority's costs and needs over the coming five years. On the one hand, capital costs are expected to peak around 2022 and fall away thereafter, but the amounts involved are difficult to be sure about. On the other hand, the Authority's supervisory workload and consequent staffing needs depend on the response of the pensions sector to transposition of IORP II, both in terms of active compliance and the rate of consolidation. It is possible that in the medium term, additional resources might be needed, and therefore additional fee income would be required.

- Any fee increase must take account of the reserve requirements of the organisation. For many years, the Authority has had substantial reserves and the priority has been to reduce them, and therefore there has been no need to consider what the minimum reserve should be. The most relevant considerations in deciding what the reserve should be are the following:

    - There should be a minimum amount to cover revenue or capital cashflow mismatches, and in particular the fact that the first fee income in any year is not received until the end of the first month.
    - A reserve against high regulatory and enforcement litigation costs.
    - If the Authority derives a substantial amount of its income from asset-based fees, it will need a reserve against the resulting income volatility.

  These reserves are not necessarily mutually exclusive, and the matter will be considered further later in 2021.

  One option under consideration is to delay changes to the charging structure for PRSAs by one year. This would allow a reserve to be built up in the region of €2m.

- Single member schemes pay fees in arrears, so that any change to their fees (which total about €600,000 per year under the current structure) will not have any effect until 2023.

- The rates of consolidation of small schemes into larger ones and any shift from occupational schemes to PRSA provision will affect the income of the Authority, especially if scheme fees are based on numbers of active members and/or per scheme charges. Given the five-year derogation in the transposition regulations

for existing single-member schemes, this consolidation process is going to take some time.

5. Indicative fee amounts

There is a wide range of possible models for Authority fees. They could be charged on the basis of member numbers (active, deferred, and/or retired), per scheme/PRSA provider, and/or as a percentage of assets; the fee could also be some combination of these approaches.

It is useful to use the 2021 budget numbers to demonstrate indicative fee amounts for different fee structures. In the numbers below, it is assumed for illustrative purposes that the organisation's expenditure this year is in line with budgets, but that the only income is from fees.

Case 1 – no change to current fee structure

(a) Were there no change to the structure of occupational scheme fees, and the fees were simply increased by the amount necessary to meet costs, the fees would have to increase by 200%: the standard per member fee would increase from €8 to €24.

(b) Case 1(a) takes account of the fact that single-member fees could not be increased immediately. However, were it possible to do so, the necessary increase would be 170%, i.e. the standard fee would increase from €8 to €22.

(c) Were it decided to modify (a) to leave public service DB schemes fees unchanged, the increase required would be 250% - the standard fee would increase from €8 to €28.

Case 2 – asset-based fees

(a) Were all funded occupational schemes charged an asset-based fee, and unfunded schemes continued to pay the current fees, the required fee rate would be about 8.5c per €1,000 of assets per year. This contrasts with a current rate of 50c per €1,000 for PRSAs.

(b) If a common asset-based rate was applied to both schemes and PRSAs, the rate would be 11.1c per year per €1,000 of assets.

(c) Were it decided to leave the current fees for single member schemes unchanged but apply a common rate to other scheme and PRSA assets, the rate would be 11.2c per year per €1,000 of assets.

It is difficult to usefully model per scheme fees. At present, there are approximately 160,000 occupational schemes, of which just under half are frozen and only about 3,500 of the active schemes have more than 10 active members.

Stress testing of this modelling is set out in Appendix 1.

6. Proposed new fee structure

Overview

An overview 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.

Supervisory workload

Because the Authority costs are wholly recovered from fees paid by regulated entities, it makes sense that the fees should be broadly correlated with the supervisory effort involved for different categories. In a post transposition environment, the situation is expected to be as follows:

- As explained above, PRSAs will require less supervision than occupational schemes.
- Funded DB schemes are considerably more complex than DC schemes because of solvency and related risk issues. They will therefore always require proportionately more supervisory resources to achieve a comparable degree of oversight.
- Master trusts will require more supervision than comparable single employer schemes, because of their greater potential scale, but also because of greater administrative complexity, and because of less employer involvement, which removes a degree of informal oversight.
- The fundamental unit of occupational scheme supervision is the scheme. This is the level at which decisions are made and actions taken, and therefore must be the focus of the supervisory activity. Although under a forward-looking risk-based supervision model, the Authority is likely to direct resources proportionately more towards larger and higher risk schemes, there will always be a significant relationship between the number of schemes and the amount of supervisory work.

Single member schemes set up before the transposition date will not be subject to IORP II obligations for five years. It is likely that the great majority of them will either wind-up (and transfer the assets into a master trust or PRSA) or become frozen before the end of that period.

Proposed structure

The suggested fee structure for 2022 and subsequent years is as follows:

- The fees for unfunded DB schemes and for death benefit only schemes would be unchanged.
- The fees for schemes subject to the five-year derogation would be unchanged for the duration of the derogation.
- An annual asset fee would be charged on all remaining schemes and on PRSAs. The rate would be the same for occupational schemes and PRSAs, which would result in a significant reduction for PRSAs.
- A per scheme fee would be charged to all schemes. This would be higher for master trusts than for other schemes. For master trusts, the fee would apply from 2022; for most other schemes, it would apply from calendar year 2024. As stated above, schemes subject to the derogation would not pay this fee.
- The existing PRSA provider and product fees would be unchanged.
- The above asset and scheme fees would apply to AVC schemes on the same basis as other schemes.

The basis for this proposal is as follows:

(a) The greater the pension assets held by or on behalf of a member, the greater they benefit from the supervisory work performed by the Authority. An asset-based fee is therefore a reasonably equitable means of allocating most costs among those regulated.
(b) Smaller schemes require proportionately more work for the Authority than larger schemes, and therefore a significant per scheme fee is a reasonable means of supplementing a pure asset-based charge. It is also intended to be an explicit incentive for consolidation, which will improve the efficiency and therefore the value for money of the Authority's work. However, it will take time for such schemes to decide on consolidation and for the pensions industry to be able to give effect to it, so it would not be reasonable to impose a per scheme charge before they have the chance to respond.
(c) There are no grounds for charging PRSA contributors proportionately more than occupational scheme members.

Some other points about the proposed charges are:

- The result of an asset-based fee is that DB schemes will pay a greater proportion of total fees. At present, DB schemes pay less than half of all scheme fees, whereas DB assets comprise over 70% of all scheme assets. There is a possible justification for levying a higher rate of fees on DB schemes because of the greater supervision required. However, it is not proposed to have higher charges on DB for the following reasons:

    - Unlike DC schemes, there is no practical means for DB schemes to consolidate and therefore minimise the impact of any new fee structure.
    - There are still a number of DB schemes whose solvency is under pressure, and significant charges would worsen this situation.

- Public service pay-as-you-go schemes have no assets and therefore are not amenable to an asset-based charge, and hence the proposal to maintain the current fee structure for these schemes. Furthermore, such schemes are exempted from the additional obligations arising from IORP II. For these schemes the Authority fees are borne by the employers, therefore, the issue of equitable allocation among members is not important. However, the fee rate payable by public service pay-as-you-go schemes is not the focus of this consultation but is subject to separate consideration with the relevant public sector body.
- It would be a condition of any reduction in PRSA fees that the reductions accrue to the members and not to the PRSA providers.
- Any meaningful fee levied on death benefit only schemes would be a significant proportion of the total scheme contributions. As these schemes take up no significant Authority supervisory attention, it is reasonable to continue to exempt them from any fees.
- Unlike multi-member schemes, single-member schemes are currently charged scheme fees in arrears. It would make sense to eliminate this anomaly for new single-member schemes as part of the changeover to a new structure.

A comparison of the Authority's fees with The Pensions Regulator (TPR) in the UK and with the Central Bank of Ireland (CBI) is provided in Appendix 2.

7. How to respond

The Authority would welcome views on the proposed change to the basis of the fee structure set out in this paper.

Please send submissions by Tuesday 22 June 2021 by email to policy@pensionsauthority.ie or by post to:

Fees Consultation
Policy Unit
The Pensions Authority
Verschoyle House
28-30 Lower Mount Street
Dublin 2

It should be noted that responses to this consultation are subject to the provisions of the Freedom of Information Acts. Responses to the consultation may be published on the Pensions Authority website.

Updates on the consultation process will be given on the Authority's website www.pensionsauthority.ie

Appendix 1

Stress testing the fees modelling

The following sets out the effect of a number of different scenarios on fee illustrations contained in section 5 of this consultation paper.

Scenario 1 – consolidation of schemes

Were significant numbers of members to move from smaller to larger schemes, total fee income would fall as the per member fee paid by the largest schemes is half that of the smallest.

At present, single member schemes pay €8 per active member. For multi-member schemes, the amount depends on the active membership: the largest schemes pay €4 per active member: the average for all multi-member schemes is a little over €6 per member.

If we assume that half of all single member schemes moved to the largest schemes, and that the current average for all other schemes was €5 rather than €6, the effect would be to reduce the current fee income by about €0.5 million. The effect on the illustrations would be as follows:

		Baseline	**Scenario 1**
Case 1(a)	Maximum	€24	€28
	Minimum	€12	€14
Case 1(b)	Maximum	€22	€26
	Minimum	€11	€13
Case 1(c)	Maximum	€28	€30
	Minimum	€14	€15

This scenario would have no effect on an asset based fee, as the asset totals would be unaffected by consolidation.

Scenario 2 – switch to PRSAs

A variant on the previous scenario would be to consider the effect of consolidation not into larger schemes but into PRSAs. If we assume that half of single member schemes plus 100,000 other members move, there would be a loss of scheme fees of about €1 million per year (at current rates). On the other hand, the additional income from PRSAs would be well over €6,000,000 based on current PRSA fee levels. Therefore

this scenario would result in a net gain in income were the current fee structure retained. Were the Authority to move to a fee based structure, the effect would be neutral, if PRSAs and occupational schemes paid the same fee, and would result in increased income were PRSAs to continue paying a higher charge.At present, about half of the Pensions Authority's fee income derives from asset based fees (on PRSAs), and the preferred proposal would increase this to almost 100%.

The assets against which fees are or would be charges comprise a mix of financial assets (bonds, cash and similar) and real assets (equities, property, alternative assets, etc.). As more and more pension provision moves from DB to DC, this will increase the relative proportion of real assets; on the other hand in scheme drawdown and whole of life PRSAs would probably act as a brake on this change.

The effect of a 15% asset loss were there no change in our fee structure would be a reduction in income of €600,000. Were the fees completely asset based (other than from unfunded schemes), the effect would be a shortfall in income of just over €2,000,000.

Case 1 – no change to current fee structure

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Case 2 – asset-based fees

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(b) If a common asset-based rate was applied to both schemes and PRSAs, the rate would be 11.1c per year per €1,000 of assets.
(c) Were it decided to leave the current fees for single member schemes unchanged but apply a common rate to other scheme and PRSA assets, the rate would be 11.2c per year per €1,000 of assets.

Appendix 2

The Pensions Regulator (UK) and Central Bank of Ireland charges

The Pensions Regulator (TPR)

TPR has two sources of income. TPR levies each scheme and group pension arrangement (the ‘general levy’) relating to Pensions Act 2004 duties, and a receives separate grant-in-aid from general taxation relating to the Automatic Enrolment programme arising from Pensions Act 2008 duties. The general levy also covers the cost of running the Pensions Ombudsman Service and the Pensions Advisory Service (TPAS).

The rates of the general levy for occupational schemes and for personal/stakeholder/group personal pension schemes for 2021 are set out in the tables below.

Occupational schemes

Band	Number of members	General levy	Minimum payment per scheme
1	2-11	Not applicable	£32
2	12-99	£3.17 per member	Not applicable
3	100-999	£2.29 per member	£310
4	1,000-4,999	£1.78 per member	£2,290
5	5,000-9,999	£1.35 per member	£8,900
6	10,000-499,999	£0.95 per member	£13,500
7	500,000 or more	£0.72 per member	£475,000

DC master trusts

Band	**Number of members**	**General levy**	**Minimum payment per scheme**
1	2-11	Not applicable	£31
2	12-99	£3.02 per member	Not applicable
3	100-999	£2.18 per member	£300
4	1,000-4,999	£1.70 per member	£2,180
5	5,000-9,999	£1.29 per member	£8,500
6	10,000-499,999	£0.90 per member	£12,900
7	500,000 or more	£0.68 per member	£450,000

Personal/stakeholder/group personal pension schemes

Band	**Number of members**	**General levy**	**Minimum payment per scheme**
1	2-11	Not applicable	£13
2	12-99	£1.21 per member	No minimum payment – rate per member
3	100-999	£0.85 per member	£120
4	1,000-4,999	£0.72 per member	£850
5	5,000-9,999	£0.48 per member	£3,600
6	10,000-499,999	£0.37 per member	£4,800

7	500,000 or more	£0.27 per member	£185,000

The levy is due in respect of active, deferred and pensioner members of the scheme, which differs from the approach in Ireland where the scheme fee is paid in respect of active members only.

The work undertaken by TPR in respect of DB schemes is more complex in comparison to the DB regime in Ireland.

In the year 1 April 2017 – 31 March 2018 the TPR received a total of £43.962m from the pension levy and £40.127m from the Department of Work and Pensions (from general taxation) in respect of the work carried out under the Automatic Enrolment programme. This gave a total income of £84.089m (approx. €93.8m) for that year.

Central Bank of Ireland (CBI)

The fee regime of the CBI is not comparable to the Authority's approach to fees. However, it is useful to consider the Bank's approach to provide domestic context.

In relation to levies, the CBI's funding strategy for financial regulation seeks to:

1. increase the proportion of financial regulation costs chargeable to industry, thereby reducing taxpayer subvention, with the ultimate aim of recovering the full cost of financial regulation activity from regulated firms. This is consistent with the feedback statement on CP95 'Funding the Cost of Financial Regulation', in which the CBI and the Department of Finance jointly set out a strategic intention to move towards full industry funding on a phased basis;
2. adopt, where appropriate, principles which support a predictable, transparent and proportionate pricing approach; and
3. reduce complexity and risk associated with the current funding approach.[1]

The CBI imposes the following levies on insurance undertakings[2]:

B1 life insurance undertakings with an Irish head office and life undertakings authorised in another non-EEA state operating in Ireland.
B4 non-life undertakings with an Irish head office.
B7 reinsurance undertakings with an Irish head office.

Such institutions shall be liable to pay the levy contribution corresponding to its impact category as set out in the table below.

[1] Funding Strategy and Guide to the 2018 Industry Funding Regulations, Central Bank of Ireland 2018.
[2] Ibid.

Impact category	Ultra-High	High	Medium High	Medium Low	Low
Levy	€3,562,052	€1,616,281	€369,563	€73,497	€22,822