Information on Personal Retirement Savings Account (PRSA)

Disclosure Requirement - Appendix B of Consumer Protection Code 2012

What is a PRSA?

A PRSA is a new way of helping people provide for their retirement by saving now. It is a long-term investment product sold by financial institutions and intermediaries or brokers. It allows you to create a pension fund for yourself when you retire; you can vary the amount you pay into it over time and, if you change employment, you can continue to use the same PRSA. You can switch from one PRSA to another at any time free of charge.

Types of PRSA:

There are two types of PRSA:

1. Standard PRSA – where the charges you have to pay are capped i.e. there is a maximum level of charges allowed and where there are certain investment restrictions on how your money is invested.
2. Non-Standard PRSA – where there is no maximum level of charges and there are fewer investment restrictions.

Do you need a PRSA?

To see if you need a PRSA you should ask yourself some questions:

Can you join an existing pension scheme in your job?

You should find out if there is a good scheme available to you through your job. If not, you will need to consider making provision for your retirement and should consider a PRSA. If you already have good pension arrangements you may not need to make any additional provisions or you may be able to top-up your benefits through making Additional Voluntary Contributions (AVCs).

What if you are in a Defined Benefit Scheme?

If you have a defined benefit pension scheme – a pension related to your salary, for example, two thirds of final salary on retirement - you may not need to make any further pension provisions or you may already have a facility to make additional voluntary contributions (AVCs). Transferring from a defined benefit scheme into a PRSA involves a risk and should only be done after very careful assessment of your financial position and the advantages/disadvantages for you - you will be foregoing a defined salary related pension in retirement for an uncertain income.

What if you are in a Defined Contribution Scheme?

If you are in a defined contribution scheme you are already carrying the investment risk – your pension will depend on the contributions you make together with the investment performance of your fund less the charges involved. But your employer may be making a contribution to the Scheme – would this contribution continue if you transferred into a PRSA?

Should you start a PRSA if you already have a Personal Pension Plan?

You will need to take professional advice based on your personal circumstances.

What type of PRSA is best for you?

A Standard PRSA is likely to meet the requirements of most people. You cannot be charged more than the maximum allowed (5% of contributions paid and 1% per year of the PRSA assets).

The level of charges is very important. Charges reduce the fund you can build up. The size of your fund on retirement will depend on your contributions and the investment performance less the charges deducted. Investment performance cannot be predicted, but higher charges are just like a weight handicap in a horse race - creating a need to produce a better investment performance just to remain level with products carrying lower charges.

Charges on Non-Standard PRSAs are not capped and, in most cases, are higher than on Standard PRSAs.

A second difference between Standard and Non-Standard PRSAs is in the way in which your money is invested. A Standard PRSA invests only in pooled funds, where the risk is spread across a large number and type of investments. A Non-Standard PRSA can offer you a wider investment choice. If a Non-Standard PRSA is offered to you on the basis of the investment choice it gives you, you need to be sure that you understand the investment choices, and that you understand why you need them. This is your pension, your income in your retirement years. If you do not understand how your pension will be invested then perhaps you should consider again if this particular product is the one for you.

You should keep the level of your contributions and the investment performance of your PRSA under regular review, so you can see if your PRSA will provide you with the pension you need.

Buyer beware - what to look out for?

1. Where a Non-Standard PRSA is being offered or recommended to you, make sure you understand the differences between this product and a Standard PRSA, in particular the charges and investment choices of each product.
2. Beware of suggestions of better returns on Non-Standard PRSAs. Predicting investment performance is notoriously difficult.
3. Beware if it is suggested to you, or you are advised to abandon an existing pension plan in favour of a new PRSA. Make sure that you understand the reasons why this would be the best course of action for you.

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