

PARLIAMENTARY PENSIONS BRIEF

PRODUCED FOR MEMBERS OF PARLIAMENT BY THE ASSOCIATION OF CONSULTING ACTUARIES

The *Pensions and Savings Bill* announced in The Queen's Speech must encompass urgent reforms to promote the survival and wider adoption of quality private pension schemes. State reforms and changes around the 'fringes' of existing private sector schemes are simply not enough...

Pensions and Savings Bill must include reforms to boost a new generation of quality workplace private pensions

The *Pensions and Savings Bill* announced in The Queen's Speech is intended to pave the way for the restoration of the link between earnings and the Basic State Pension, with the affordability of this pledge being subject to a review of the current timetable for increasing the State Pension Age and action thereon. Beyond this, the summary of the Bill's contents issued alongside The Queen's Speech is silent on the timetable for other pension reforms, albeit there is a reference to the 'related documents', namely the Pensions and Older People chapter 23 in the Coalition Programme. The purpose of this *ACA Pensions Brief*, ahead of the debate on 8 June in the Commons, is to underscore the need for the Bill to make a number of early legislative changes to reinvigorate private sector pensions as promised in chapter 23 of the Coalition Programme, otherwise the damaging decline in quality private sector pensions will continue with its adverse impact on millions of our citizens.

The Pensions and Older People programme is welcomed

The Coalition Programme for Pensions and Older People includes the following key points, which we comment on in greater detail over the next few pages:

- **Restore the earnings link for the Basic State Pension (BSP) from April 2011**
- **Review State Pension Age**
- **End to default retirement age and compulsory annuitisation**
- **Independent commission to review public sector pensions**
- **Early access to pension funds**
- **Simplify and reinvigorate occupational pensions**

The *Pensions and Savings Bill* in its summary form only details a few of the Coalition Programme's measures, namely those dealing with the indexation of the Basic State Pension and the review of the State Pension Age. This Bill also needs to set the framework for a new generation of workplace pension arrangements and it is important these matters are addressed in the debate on 8 June in the Commons.

The Pensions and Savings Bill needs to include:

- **Legislative changes to allow employers to adapt existing schemes and to be given more choice so they can offer quality 'middle way' schemes to their employees**
- **The ability for pension schemes to automatically link retirement age to independently assessed longevity improvements**

The Coalition Programme – Pensions and Older People

Before we examine the key themes of the Coalition Programme and the content of the *Pensions and Savings Bill* it may be useful for Members less familiar with pension issues to have a quick read of the appendix to this briefing paper titled ‘The UK pensions scene as it stands – State, private and public’ – see pages 6-9.

Here are our comments on the key post-general election Coalition Programme commitments on pensions and savings:

- **Restoring the earnings link for the Basic State Pension (BSP) from April 2011:** the Coalition Programme says there will be a ‘triple guarantee’ that the BSP is raised by the higher of earnings, prices or 2.5% per annum.

ACA Comment:

This policy is an unsurprising one as the election manifestos of all the three main parties were broadly similar. However, whilst the ACA has long campaigned for the BSP to be linked to earnings inflation (and for the BSP to be consolidated over a number of years with the additional State pensions to establish a higher level to build private savings on top of), it is a little surprising that this indexation commitment is being enacted so early in the Parliament, given the scale of the deficit and the potential extra spend involved until the State Retirement Age is increased (at least 5 years away). Across Europe, where deficits are generally lower as a proportion of GDP, State pensions are being frozen – often for several years – alongside increases in the State Pension Age.

However, the level of the State pensions in the United Kingdom is significantly below that generally applying in many other developed countries and the net extra cost of potentially higher State pensions may prove to be modest if means-tested claims reduce. Indeed, at present there seems a greater chance that the higher indexation level will come from RPI, rather than earnings growth.

- **Reviewing State Pension Age:** the Coalition Programme says there is to be a review to set the date at which the State Pension Age (SPA) starts to rise to age 66, although this increase will not be sooner than 2016 for men and 2020 for women (current legislation specifies the move to age 66 will take place between 2024 and 2026).

ACA Comment:

Presumably this review will also look again at the case for (and timetable for) bringing forward further increases in the State Pension Age (current legislation increases the SPA to age 67 between 2034 and 2036 and to age 68 between 2044 and 2046).

The ACA has recommended for many years that the State Pension Age and Normal Retirement Ages within public and private sector schemes should be adjusted automatically in line with independently assessed increases in longevity so as to stabilise the cost of pensions, provided due notice of such changes are given. The pace of improvements in longevity certainly points to a need to review the increases set out in the *Pensions Act 1995* and the *Pensions Act 2007*. **If the State Pension Age had increased with life-expectancy changes from 1990 alone, it would already be 62 for women and 68 for men.**

The ACA believes a standing independent commission would best make recommendations on such changes, with that same commission being responsible for making recommendations about the need to reform public sector pensions, private pension legislation and financing issues in respect of elderly care, which might usefully be addressed alongside pension reforms.

The ACA also believes that it is perverse that the State is able to address changes in longevity, effectively reducing ‘accrued’ benefits with due notice, whereas public and private sector schemes have very restricted means to do so. This seriously undermines sponsors’ willingness and ability to continue to run existing schemes in a cost-effective and sensible manner.

- **Ending the default retirement age and compulsory annuitisation:** a commitment is given in the Coalition Programme to phase out the default retirement age (currently 65) and to end the rules requiring compulsory annuitisation at age 75.

ACA Comment:

Ending the **default retirement age** will be welcomed by many people, although it will present problems for employers and may restrict work and promotion opportunities for younger employees. It may also present challenges where the outcomes of workplace pension plans are volatile or are judged inadequate in providing replacement income at ‘normal’ retirement age. In such circumstances, it is likely employers will experience difficulties in persuading older employees to retire and this may impact adversely on business planning. Given the widespread levelling-down of private sector pensions in recent years, this change may in time prompt more employers to think twice about the pension package being offered. This would be good news. Offering better workplace pension schemes then may mean retirements can progress in a more organised way.

The removal of the remaining requirements for **compulsory annuitisation** will be welcomed by some, but the devil will be in the detail of this policy. **Unless the Government is prepared to see many more people spend their accumulated pensions ‘pot’, only then to claim State benefits, a minimum ‘pot’ below which an annuity (or equivalent) still has to be purchased seems a likely ongoing requirement when the legislation is finalised.** This could easily mean all those with a pension ‘pot’ of, say, below £100,000 might see no real change in their circumstances once the detail of the policy is announced (as the average pension ‘pot’ at retirement is only currently around £25,000). Compulsory annuitisation at age 75 can already be avoided by opting for an ‘alternatively secured pension’ (ASP), but this is only a real option for those with large ‘pots’ and, with a punitive tax charge of up to 82% on the fund on death, this option has found few takers.

It is just as important that there are changes in legislation allowing greater flexibility over how annuities might be structured so pensioners can, for example, secure a higher income immediately on retirement, when they are likely to be most active, reducing to a lower level mid-retirement, with the ability to vary income so this can meet much higher costs for a period late in retirement to meet elderly care needs. We would also welcome greater flexibility, allowing pension savings to be used for long-term care – an annuity is not the answer for everyone.

- **Independent commission to review public sector pensions:** the Coalition Programme says an independent commission will review the affordability of public sector pensions, while protecting accrued rights (elsewhere in the Coalition Programme a commitment is made to consult with the Independent Parliamentary Standards Authority on how to move away from the ‘generous final-salary pension system for MPs’).

ACA Comment:

The ACA supports an independent commission to review the affordability of public sector pensions, albeit, as we indicate above, **we believe one standing commission would best give recommendations to Government on all types of pensions – public and private – as well as the financing of elderly care.** This would provide for an holistic approach to retirement income policies as opposed to the dangers of a ‘piece-meal’ approach, where decisions are taken in isolation, without repercussions on other policies being properly considered.

Already, in local government there are growing calls to move from final salary to career average accrual, with later retirement ages and, also, indexation of benefits to be conditional on economic circumstances, so as to hold down the costs falling on council ratepayers. These are approaches the ACA has campaigned for in recent years to be applied in the private sector, where legislative restrictions have proved a major blockage to reform. **It now seems that there is an emerging basis for a common approach to reforms that might usefully and fairly be applied across both private and public sector schemes in unison.**

In 2009, the ACA gave evidence to the Senior Salaries Review Body's (SSRB) review of Parliamentary Pensions, where we argued a move to a career average revalued earnings scheme, with regular reviews of the retirement age, represented a robust alternative to the current final salary scheme as against the uncertainties of moving all the way over to a pure defined contribution scheme. The outcome of the SSRB review has not seen the light of day, although it was supposed to be published late in 2009. This SSRB review might usefully be considered by the Independent Parliamentary Standards Authority.

- **Early access to pension funds:** the Coalition Programme says the Government will 'explore the potential' to give people greater flexibility in accessing part of their personal pension fund early.

ACA Comment:

Early access becomes all the more important to savers as the retirement age moves towards the late 60s and then, as seems likely, eventually into the 70s. Younger savers will be all the more reluctant to 'lock away' long-term savings in such circumstances, particularly if the tax advantages/incentives between short and long-term savings remain, at best, indistinct or, at worst, minimal (the current situation).

The ACA's own *Retirement Income Manifesto* (see www.aca.org.uk), published ahead of the general election, called for early access to be offered to members of all schemes – personal and occupational schemes – up to the tax-free lump sum, currently available only on retirement. Early access should be confined to only a limited number of purposes (such as assisting with a home deposit) as otherwise there is a very real danger that incomes in retirement will remain inadequate.

- **Simplify and reinvigorate occupational pensions:** the Coalition Programme says the Government will 'simplify the rules and regulations relating to pensions to help reinvigorate occupational pensions, encouraging companies to offer high-quality pensions to all employees', working with business and the industry to support auto-enrolment.

ACA Comment:

Whilst the number of private pension savers and contributions are in decline, it remains the case that private pension savings currently contribute around 48% of present pensioners' incomes. However, the major decline in quality workplace provision in recent years means that this picture will change in the decades ahead as these developments mature in the shape of generally lower relative levels of private pensions. Non-pension savings too might simultaneously go into reverse if ill thought out taxation policies send the message that the fruits of prudence are always a fair target when Government find itself in budgetary difficulties.

However, the commitment given to 'simplify and reinvigorate occupational pensions', encouraging companies to offer high-quality pensions is most welcome particularly if, as has rarely been the case in the past, simplification is achieved in its literal sense. All too often well-intended promises to simplify have eventually emerged as yet more complexity with inevitable collateral damage.

The ACA has long campaigned for legislative changes that would continue to protect members' pensions from company or provider insolvency, but which would also allow employers to cap more easily their pension costs into the long-term. These changes would at the same time provide more stable pension outcomes for employees than is possible through defined contribution arrangements, where volatility in emerging benefits can vary hugely from year to year.

Simple legislative changes are needed in the UK to allow employers to offer new options such as collective defined contribution or conditional indexation schemes and to encourage the wider use of cash balance plans.

These ‘middle way’ schemes, where investment and/or longevity and inflation risks are shared in different mixes between employers and employees, all prosper in other countries and should be made more widely available to UK businesses and their employees. Contrary to DWP research, such models remain a rarity in the UK because of legislative inflexibilities. The ACA continues to believe a simple fix is both possible and desirable and takes no pride in the accuracy of our past predictions about what would happen in the real world of voluntary occupational pension provision (i.e. accelerating decline) whilst inaction continues.

In much the same way as the State reforms, **legislative changes also need to encompass a simpler means for private and public sector schemes to stabilise costs by making adjustments to retirement ages. To safeguard members’ interests, any increase in normal retirement age should include independent validation of changes in longevity and a minimum notice period of, say, 10 years.**

Existing final salary schemes are simply too costly and inflexible for all but the largest, well-financed employer to afford (now including the public sector). Some have argued that by allowing greater freedom of pension designs, this will accelerate the closure of the few final salary schemes still open to new entrants. **The reality is that existing final salary schemes will survive not one day longer by restricting employers in the options available to them for the future. Freeing up pension designs so employers can offer a wider range of quality ‘middle way’ pensions suited to their circumstances and those of their employees, offers huge advantages to both private and public sector employers and their employees.** Otherwise the restricted choice presently available will mean that when schemes are reviewed, in the vast majority of cases, there will be a switch to pure defined contribution. This transfers the entirety of the risks to the individual and only the wealthy minority are remotely equipped to deal with these.

Calls for ‘middle way’ reforms that were once confined to the private sector are now being mirrored across the public sector as the scale of deficits in funded arrangements and the true costs of unfunded public sector schemes becomes clearer. It is encouraging that TUC General Secretary, Brendan Barber recently wrote: ‘Employers may not want all the risk of DB, but are there ways of organising pensions that do not put all the risk on to individuals? Conversations about this are breaking out across the pensions world and there could well be progress that deepens consensus’ (*Pensions Insight*, May 2010).

A more vigorous policy to support quality pension in no way undermines NEST (the National Employment Savings Trust) scheme. Its purpose is to provide a basic fall-back scheme where employers do not have an equivalent or better scheme to auto-enrol their employees into. The need for modest fall-back arrangements remains, but the priority ahead of 2012 (when NEST is due to be launched) should be to free up pension design legislation to encourage more employers to offer ‘quality’ arrangements.

Appendix

The UK Pensions Scene as it stands: State, Private and Public

Demographic changes impacting on pensions (of all kinds)

- Life expectancies have changed hugely over the last century – with some very dramatic increases in recent years. Whereas in 1901 life expectancy at birth was 45 for men and 49 for women, by 1945 this had advanced to between 60 and 65 years and by 2008 to 88.6 years for men and 92.2 years for women (it is noteworthy that projections made in 1996 were that by 2021, life expectancy at birth would only be 78 years for males and 83 years for females). Simply put, the number of years both men and women can expect to be retired (and so needing a pension) has increased from virtually ‘nil’ pre-the 1940s to well over 20 years (and rising) and at a quite rapidly increasing rate. Current projected life expectancy at age 65 is as follows:

UK Population	Life expectancy on reaching age 65 in the year shown					
	2009	2015	2020	2030	2040	2050
Men	21.0	21.7	22.2	23.1	24.0	25.0
Women	23.4	24.1	24.6	25.4	26.3	27.2

(Source: ONS expectations of life)

- At present there are 4.1 British workers per pensioner, but there are forecast to be fewer than 3.5 by 2020 and just 2.8 by 2030. This ratio is important as the increasing cost of State benefits has to be supported largely from the taxation or by increasing private provision. Hopes that economic growth can ‘simply’ meet these costs may be over-optimistic, given recent experiences.

State Pensions

- The spend on State Pensions is presently around £70 billion. This is expected to rise to £164 billion by 2035/36.** These DWP figures, published in 2007, suggest the increase equates to a rise of just 1% in forecast GDP above today’s level – **but, crucially, have projections of GDP growth been too optimistic?**
- Both the **Basic State Pension (BSP)** and the **State Second Pension** are **unfunded ‘pay-as-you-go’ contributory schemes** where no fund is built up to pay future pensions. Contributions collected today pay current State pensions. From April 2010, the **BSP is £97.65 per week (£58.50 per week for married women** relying on her husband’s NI record). For those retiring after 6 April this year, a full BSP is paid after 30 years of contributions (rather than 39 years for women or 44 years for men, as applied hitherto). Presently, the indexation of BSP is in line with the RPI (between 1974 and 1979, BSP was increased in line with the greater of NAE or the RPI, but in better economic times this forward commitment was judged to be too expensive to sustain).
- The BSP is supplemented by the **State Second Pension** (presently **S2P**) for those not contracted-out of the scheme into a private pension. Contracted-out private pensions look to broadly match or better the income that would otherwise be earned by contributions into the State Second Pension (and as a result both employers and employees pay lower NI rates). S2P is the latest in a series of schemes (previously SERPS and, before that, Graduated Retirement Benefit) aimed at boosting the State pension by providing an earnings related State supplement to BSP. S2P is tilted towards boosting the pensions of those with lower lifetime earnings. Few either comprehend the emerging level of benefit from this latest complex scheme, which is based on three earnings bands and three accrual rates, or appreciate that benefits under S2P are likely to be flat-rate from around 2030, irrespective of NI contributions paid in the intervening period.

- The **State Pension Age (SPA)** is 65 for men and 60 for women (increasing gradually to 65 between 2010 and 2020). At present, SPA is due to increase to age 66 for all between April 2024 and April 2026; to age 67 between April 2034 and April 2036 and to age 68 between April 2044 and April 2046.
- The means tested **Guarantee Credit** can top up pensioners' weekly income to a **minimum of £132.60 per week for a single person (£202.40 per week for a married couple)**. Additionally, **Savings Credit** ensures that anyone who has made some private savings will be better off than those who have not saved, albeit not fully.

Private Pensions

- Between 1997 and 2009, the proportion of employees in workplace schemes declined from 55% to 50%. **The decline of schemes in the private sector has been particularly marked. Only 3.6 million employees were in them in 2008 (with just around 1 million in schemes open to new entrants), down from 6.5 million in 1991 and 8.1 million in 1967.** The proportion of full-time self employed people paying into personal pensions has also fallen from 64% to 45% over the period. This decline in provision and low private pension coverage was one of the reasons why Lord Turner in his **Pensions Commission Reports** of 2004 and 2005 advocated both improvements to the State scheme and the establishment of a fall-back private scheme, into which all employees would be auto-enrolled in the absence of an equivalent or better workplace scheme. The last Government took up this recommendation and the **National Employment Savings Trust** (formerly 'Personal Accounts') is due to be launched in 2012 (see below).
- Until relatively recently, the dominant form of private pension was a **final salary defined benefit scheme**. These schemes are run on a pooled fund basis with all contributions paid into common funds, reducing administrative and investment costs relative to those invested on an individual basis. This type of scheme pays a pension related to salary/wages at or close to retirement with, often, 1/60th or 1/80th accrual per year of service. Hence, after 30 years in a 1/60th scheme, a retiree would receive 30/60ths – a pension of half of final salary increasing in payment in line with RPI, subject to a cap of 2.5% per annum (**uniquely to the UK, indexation of both pre and post retirement benefits has been required by Government from 1997**). Over time, the employer is required to fund the scheme to meet the balance of cost in providing pension benefits (over and above any employee contribution). If, ultimately, an employer is declared insolvent (and any assets remaining cannot meet the cost of benefits already accrued), then the scheme will eventually move into the **Pension Protection Fund**, which provides minimum benefits equating to 100% of current pensions in payment and 90% of those accrued in the employer's scheme, subject to a cap of around £30,000pa.

Due to mounting regulation and inflexibilities in the legislation to allow employers to address increases in longevity and changing economic circumstances, some 90% of defined benefit schemes are now closed to new entrants and an increasing number (around 20%) to existing members. Many defined benefit schemes are at present often requiring employer contributions of 25% of earnings or more to meet future and legacy costs of providing final salary based benefits. Deficits in open and closed schemes presently amount to over £150 billion, despite one-off contributions by employers into many schemes – these deficits have been exacerbated by low interest rates, reduced investment returns and rapid improvements in longevity. Some employers have amended their defined benefit scheme so accrual is based on a **career average revalued earnings** basis, which generally reduces the cost whilst still linking benefits to earnings throughout an employee's career.

- An increasing number of private sector employees (and the self employed) are members of **defined contribution (often called 'money purchase' schemes)**. Contributions into such schemes – invested in assets ranging from equities to fixed interest – accumulate generally in individual 'pots'. Whilst some employers run schemes where they make generous contributions, typical combined employer and employee contributions into workplace **trust based schemes** (with employer/employee trustees) or **group personal pensions/group stakeholder plans** (increasingly more prevalent and administered generally by insurers) equate to only around 7% to 8% of earnings. This level of contributions, particularly when there are job breaks, is likely to be insufficient to deliver adequate pensions, even when combined with the State pensions.

On retirement, most people take a quarter of their 'pot' as a tax free lump sum (also available to defined benefit scheme retirees), but otherwise they will convert their 'pot' into an **annuity** (where an insurer guarantees to pay a pension until death – a higher initial pension if a flat rate income is required, or a lower income if indexation is selected). Whilst defined contribution schemes are relatively easy to comprehend, their downside is the huge volatility in pension outcomes due to swings in investment returns and gilt yields. **Add into the recipe the impact of increasing life expectancy and note that the typical income from the same value 'pot' as a decade ago, for a retiree today, is delivering some 70% less pension income per annum.**

Generally, most defined contribution retirees have to convert their 'pot' no later than age 75, when annuity rates may be unfavourable, and hence the clamour to end this requirement.

From April 2012 defined contribution schemes will not be able to contract-out from the State Second Pension, recognising their difficulty in reliably delivering benefits at least equivalent to those available from S2P and its predecessors.

- Because of the low coverage of private pensions (and their relative decline) and the need for the retired to have additional income over and above State pensions to have a decent retirement, the last Government, after a long consultation exercise, decided that all employees (beginning with larger businesses in October 2012) should be auto-enrolled into either a firm's equivalent or better workplace scheme or, if not, into the **National Employment Savings Trust (NEST)** scheme. Employees will have the right to 'opt out' of pension scheme membership, but auto-enrolment will eventually apply to employees aged 22 or over (up to State Pension Age) and earning more than £5,035 per annum, right down to single employee firms. Auto-enrolment will therefore touch, and have to monitor up to 9 million employees employed at over 1.2 million employers, adding a major new wave of regulation.

Phased in over a few years, employees in membership of NEST will eventually have to contribute 4% of earnings in a salary band from £5,035 to £33,540 (2006/07 levels to be updated for 2012), with 3% from employers and 1% from tax relief. There is to be a maximum annual contribution of £3,600 (2005 level to be adjusted to reflect earnings growth in 2012). NEST will be a defined contribution scheme offering a number of low-cost funds, with the majority of members likely to join a default fund. The annual management charge will be 0.3% of fund value. However, until the set-up costs of NEST are recouped, there will also be a contribution charge of around 2%. As a result, some commentators have already concluded that NEST may not be as cost-effective as first planned.

NEST has to date secured cross-party backing, but the new Government has indicated that it will review the scheme in its early weeks. There are a number of reasons to justify this. First, there remains a concern that the scheme may be unsuitable for older employees and some low income earners, particularly in the early years. The likely income from the small 'pots' built up could simply reduce entitlements to State benefits. In such cases, this would amount to a 'mis-sold' pension. Second, the timing of the scheme's introduction and the costs involved may be unwelcome all round, with the economy in an early (and, as yet, uncertain) recovery stage. Its introduction from 2012 would add to business, employees and government costs (in the shape of tax relief) and might give further impetus to a levelling-down of pension provision. In such circumstances 'opt out' rates might also be very high. Third, and more fundamentally, the overall cost of introducing a sizeable new bureaucracy potentially working, NEST says, with over 750,000 employers (who presently operate no workplace pensions) might be judged to be a high-risk approach given the ability of existing private pension providers to deliver schemes and plans at similar cost levels.

Public Sector Pensions

- In contrast to the trend in the private sector, there are 5.4 million public sector employees who are members of public sector schemes, up from 4.2 million in 1991. The vast majority of public sector schemes are still **defined benefit final salary schemes**, although there has been a move in recent years towards **career average revalued earnings schemes**, with a small minority of employees opting for a **defined contribution scheme**, where these are offered.

Some schemes are fully or part-funded – with investments being built up to meet pension costs – such as the Local Government schemes. Many other public sector schemes – such as those for civil servants and NHS employees – are unfunded, with the taxpayers of today and tomorrow meeting the pension liabilities being accrued, net of employee contributions made.

- In years gone by, superior public sector pension schemes were often justified on the basis that pay levels were lower in the public sector. **Many would argue that this pay differential has largely disappeared (and in some areas reversed) and hence transfer payments from private sector employers and employees (with inferior pensions) in support of superior public sector pensions can no longer be supported** – hence, the Coalition Programme review.
- **Whether this view is subscribed to or not, pension liabilities which are promised by a public body should be valued (and charged for) at sovereign market discount rates. Some studies suggest on this basis that public sector pension liabilities falling on taxpayers long into the future may exceed £1 trillion (over 60% of GDP) in contrast to lower figures reported by Government on a different basis. The use of any other discount rate is likely to understate the true cost of pensions and will distort reporting between unfunded and funded pension schemes. The ACA considers that there are strong arguments for greater transparency and debate on the true costs (or potential range of costs) of public sector pension promises.**

Pension taxation: another step too far...

Under a pension tax simplification review implemented just 4 years ago, the Government set lifetime and annual allowances. Up to these levels, individuals receive tax relief on pension savings at their marginal rate of tax, as part of the overall “exempt in, exempt investment, but taxed out” incentives - this principle of deferring tax until pensions are actually drawn has underpinned pensions savings for decades.

Wrecking this settlement, the 2009 Budget announced that, for pensions savings made from April 2011, tax relief would be restricted, at worst to basic rate relief only, for those with incomes exceeding £150,000 in a year (the later 2009 Pre-Budget Report altered this threshold to take account of the value of employer-sponsored pensions savings, for individuals on income of £130,000 or more).

These new proposals – effectively a new recovery tax **as well** as the tax that will be paid when pension is drawn - are proving a huge disincentive for employers to continue to include pension savings in the remuneration package of senior staff, and for those staff to make any form of pension savings. Those remaining in **defined benefit schemes** in particular face the huge unexpected tax charges upfront that can apply, particularly in the event of a promotion or salary increase. And the complexity of the proposals is an addition to that disincentive.

A move entirely to remove higher rate tax (HRT) relief on pension contributions (reducing this to the basic rate) was suggested in the manifesto of one of the two parties in the current Coalition government, and nothing has been said so far by the government to reassure us of its plans on pension taxation. If such a measure were to be adopted – impacting those on incomes of perhaps £45,000 – it would have a disastrous impact on employer-sponsored pension savings (employee savings are already down 16% on a year ago) falling on hundreds of thousands of middle income earners, innocently in membership of quality pensions schemes. It would make pension savings tax-penal overall for many – basic rate relief on savings, but full rate tax on drawing the pension – and it could lead to huge up-front tax charges with no upfront income from which to pay. For example, we estimate that an individual earning £57,000 who received a £3,000 salary rise might get charged an upfront recovery tax on the resulting pension increase of £4,000.

Today, there are 4 million hard-working, higher rate taxpayers. The majority are not ‘high fliers’ with big bonuses. Restricting pension tax relief to the basic rate may appear to be an easy and attractive revenue-raising opportunity (in the same way as the last Government removed ACT relief from funds, thereby significantly reducing fund growth in both workplace and individual pension funds since 1997). However, the price would be lower pension savings, more damage to ‘quality’ schemes and a great deal of unfairness across middle England.

Brief produced by:

Association of Consulting Actuaries

St Clement's House, 27-28 Clement's Lane, London EC4N 7AE

Tel: 020 3207 9380 Fax: 020 3207 9134 Email: david.robertson@aca.org.uk Web: www.aca.org.uk

The Association is the representative body for UK consulting actuaries and is the largest national grouping of consulting actuaries in the World with over 1,750 members working in over 75 firms.

The Association draws its membership from individual actuaries working in the consulting sector. Members are all qualified actuaries – mainly fellows of the Faculty or Institute of Actuaries.

All actuarial advice given by our members is subject to the Actuaries' Code.

The Association also acts as the secretariat to the All-Party Parliamentary Group on Occupational Pensions.

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