



The ACA is calling on the government to ‘think again’ about the £1.4 million lifetime tax relief limit on pensions or face – yet again – ‘the law of unintended consequences’...

ACA SAYS GOVERNMENT MUST ACCEPT NEED FOR CHANGES TO ITS LIFETIME TAX RELIEF LIMIT ON PENSIONS

27 November 2003 – The Association of Consulting Actuaries (ACA), whose members advise most of the country’s larger pension schemes, has called on the government to make a number of final key changes to its published proposals on the lifetime tax relief limit on pensions, further details of which are expected alongside, or shortly after, the Chancellor's Financial Statement on 10 December 2003.

“Despite representations from a wide range of organisations, recent statements by Ministers seem to indicate the government will hold to the £1.4 million lifetime tax relief limit on pensions, indexed to prices. Whilst the limit may only immediately affect a few thousand people, we estimate that some 600,000 people could be affected within 15 years if the limit is indexed to prices,” commented Gordon Pollock, ACA Chairman.

“Because of this, within a short period of time an increasing number of executives are going to have to take action to cease contributions into occupational schemes, and as an alternative will be looking to higher salaries and non pension savings as recompense for the loss of pension rights. Whether we like it or not the ‘law of unintended consequences’, which has dogged pension legislation over the last 25 years, will then again come into operation. Executives,

increasingly detached from their employees' pension arrangements, will inevitably grow less interested in supporting these arrangements, as they will have a decreasing personal interest. It will be no good wishing this was not the case, this will be the reality. It is vital that pensions policy recognises these wider realities rather than it focus on justifying one narrow tax proposal," added Pollock.

"The government still has the opportunity to deliver a pension taxation package that all judge to be reasonable and which need not further discourage occupational provision.

"First, simplification can be enhanced at little cost by raising the limit to £2 million. This will reduce the immediate and ongoing impact to fewer people.

"Second, so the numbers caught by the limit remain small – a key part of the simplification process – the limit for defined contribution plans should be indexed in line with investment returns, whilst for defined benefit members the limit should reflect increases in national average earnings. Additionally, the government should commit to a five yearly review by the Government Actuary's Department to assess whether further adjustments are needed in the limit to reflect market changes in annuity values etc.

"Third, particularly in the early years, many people may 'accidentally' exceed the lifetime limit, merely due to a recovery in equity values. As a minimum, there should be a lower recovery tax of 20% on a first tranche of excess pension savings over the limit so there is less of a cliff edge."

The ACA says that these changes, which will cost little and maintain the dynamics of simplification into the future, are vital if the total tax simplification package is not to be undermined.

For further details:

Brian Wilson 01372 733700
Andrew Vaughan 020 7977 8427
David Robertson 020 7248 3163

Note to Editor:

Members of the **Association of Consulting Actuaries (ACA)** are advisers to UK pension schemes with assets in excess of £650 billion, including the vast majority of larger schemes and thousands of smaller arrangements. The ACA forms the largest national grouping of consulting actuaries in Europe.

Earlier this year, the ACA has produced a **response to the pension tax simplification paper** making a wide-ranging number of recommendations – see www.aca.org.uk (go to 'policy statements' page – see January 2003).