



ACA advocates 'ring-fencing' of pension benefits at 'A-Day' and reduced recovery tax for those just exceeding limits...

ACA PROPOSES SIMPLE 'RING-FENCING' APPROACH WHEN NEW PENSION TAX RULES ARE INTRODUCED

11 April 2003: In its response to the Treasury / Inland Revenue consultation paper, the Association of Consulting Actuaries (ACA) has proposed a simple 'ring-fencing' of benefits at 'A-Day' (when the Government's new pension tax regime is to be introduced – likely to be 6 April 2004 or 2005) to ensure accrued benefits are fully protected.

The ACA says one of the significant effects of the new regime will be that retirement is likely to be phased in over a period of years, with employees continuing to work on whilst phasing in their pension.

The main points in the ACA submission are:

- The proposed lifetime limit should be indexed in line with National Average Earnings (or some index that will increase at a similar rate). The ACA says that if the limit is increased in line with the RPI then over time a large number of people will be subject to life time limit. The ACA says that the limit on introduction should be at least £1.7 million (rather than £1.4 million and assuming A-Day is 6 April 2004) to reflect the hardening in the annuity market in recent months.

- A strong preference for simple ring-fencing of benefits at A-Day, rather than a registration of “valuation amounts” by individuals with benefits over the lifetime limit, to ensure accrued benefits are fully protected. The ACA submission (enclosed) details how this would work (see page 10 onwards).
- If, however, A-Day amounts are to be registered without ring-fencing, the ACA submission says that a 25% uplift should be applied to defined contribution fund valuations at A-Day and a defined benefit valuation factor 25% higher than the lifetime factor used.
- The use of simplified factors for limit testing. In particular, the ACA recommends:
 - 20:1 for A-Day registrations with ring-fencing or 25:1 for A-Day registrations without ring-fencing,
 - 20:1 for lifetime limit testing, and
 - 10:1 for contribution limit testing.
- A recovery tax of 20% on a first tranche of excess benefits (rather than 33%) up to an amount equal to the lifetime limit to reduce the cliff edge when an individual reaches the lifetime limit, and for the tax rate to better reflect the tax reliefs given.
- Small Self Administered Schemes (SSAS) are unique pension arrangements designed for the proprietors of smaller, family-type businesses and should be allowed to retain their special investment rules. These help to support these businesses in a cost effective way and the tight regulatory approach, largely policed by independent pensioner trustees, ensures a ‘prudent’ approach to investment in the sector.

Commenting on the proposals, ACA Chairman, Gordon Pollock said:

“We believe the main thrust of the proposals offers a good way to move forward, although some of the details do need to be reviewed, with adequate time for consultations on the implementation proposals later this year, so we end up with a genuinely simplified regime that employers, individuals and government find a clear step forward”.

Copies of the *ACA response to the Tax Simplification Paper* are available at www.aca.org.uk

For further details:

Comment on the Tax Simplification Paper response:

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Note to Editors:

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.

ACA 2003 Pension Trends Survey

Published in March 2003, the survey report ***Pensions Reform: too little, too late?*** Includes the results of a survey conducted by the ACA early in 2003. The survey also includes employer comments on the Pensions Green Paper and Tax Simplification Paper.

For further details go to www.aca.org.uk