ASSOCIATION OF CONSULTING ACTUARIES

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Pension Policy Team
HM Revenue & Customs
100 Parliament Street
London
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By email to pensions.policy@hmrc.gov.uk for the attention of Karen Bishop

14 September 2022

Dear Karen

Amending legislation re the taxation of collective money purchase schemes

I am writing on behalf of the Association of Consulting Actuaries concerning the draft proposed legislation released on 20 July in:
https://www.gov.uk/government/publications/pension-schemes-amendment-to-taxation-of-collective-money-purchase-schemes
I set our comments out in the Appendix to this letter.

We would be happy to discuss this matter further if you wish. **Please contact Kirsty Cotton, who led on this paper for our Pensions Taxation Committee, at** Kirsty.Cotton@wtwco.com

Yours sincerely

Karen Goldschmidt
Chair, Pensions Taxation Committee
On behalf of the Association of Consulting Actuaries Limited

Appendix

Background

Our understanding is that on winding up a CMP scheme, one option is to 'decollectivise' the benefits as at the date of winding up.

At that point, each active, deferred and pensioner member, and also any dependant with a pension in payment, will be entitled to a share of the assets.

The actual determination of that percentage share will take some time.

In the meantime, members or dependants with a pension in payment, or a member/dependant who would have been entitled to a pension during the winding up period e.g. on the death of a member, is paid a 'periodic income" under PSA2021 S36(7)(b).

Should a member/dependant die, then as they each now have their own 'pot' it would follow that something needs to be done with that pot. PSA2021 S36(7)(b) includes the payment of a "periodic pension" to a dependant who would have otherwise received an income under the rules if winding up hadn't commenced (in the regulations (SI 2022/255), paragraphs 5 and 7 of Schedule 6 cover, respectively, the quantification of beneficiaries' accrued rights and the payment of periodic income). However, a member, and certainly a dependant, may not have any such dependants.

On completing the calculations, the policy intention is that any remaining pot (having deducted any periodic income received) can be transferred to a drawdown policy.

Comments on the draft legislation

There are two situations where the draft amendment regulations fall short. There may be others.

1 Transfer of dependant's scheme pensions to drawdown

1.1 Under pension death benefit rule 2 (as amended by FA2021 Sch 5 para 4(2)) a pension death benefit payable from a CMP scheme is a dependants' scheme pension.

1.2 Under SI2006/499 Reg 8 a dependant's scheme pension can only be transferred to provide a new dependant's scheme pension.

1.3 The draft regulations do not provide an exemption for a transfer [to a flexi-access drawdown fund] where a dependant has received periodic income from a CMP scheme. (They do for a member's scheme pension.)

2 Treatment of survivor's benefits

2.1 As noted above, on death with no dependant as defined under the scheme rules, the intention is to permit the pot to be passed to someone who would not be entitled to a periodic income under the scheme rules.

2.2 It is unclear what options there are to pay such a sum as an authorised benefit. In particular, it is not clear that the sum could be transferred to another pension scheme in order to provide a drawdown pension.

About the Association of Consulting Actuaries

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. Members of the Association are all qualified actuaries and all actuarial advice given is subject to the Actuaries' Code. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of private sector defined benefit pension schemes. Members also advise thousands of smaller pension arrangements and individuals (many in self-employment) as well as advising life and general insurers.