



ASSOCIATION OF CONSULTING ACTUARIES

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ACA backs value of pension tax relief whilst highlighting principles for potential reform

20 September 2022: In [evidence](#) to the Treasury Select Committee Inquiry examining whether the current suite of tax reliefs represent good value for money, the Association of Consulting Actuaries has detailed the good value that pension tax relief provides, whilst at the same time pointing out where tweaks in legislation have weakened the regime. The ACA evidence calls for key reforms to be made followed by a period of stability to ensure the public has confidence in the pensions tax measures.

Steven Taylor, Chair of the ACA, said

“Pensions tax relief continues to be a bedrock of incentives to save and we believe will remain vital for the next generation of pensions savers. However, we believe significant improvements can be made, both to reflect previously identified technical flaws and also to help refine a more flexible pensions and savings environment in these challenging times”.

Karen Goldschmidt, Chair of the ACA Pensions Tax Committee, said:

“Pension tax relief is one of the largest reliefs and HMRC estimated¹ (noting that there are strong caveats about the accuracy of the numbers) that in 2020-21 it cost £42.7 billion, made up of £22.9 billion for income tax relief and £19.8 billion for NIC relief.

“The pension tax relief figure is inevitably significant because of its broad coverage of the population, and due to the amount an individual needs to save for an adequate whole-of-retired life income. We believe this relief is good value for money for the Treasury as by encouraging significant private pension provision it helps to offset the need for materially higher state pensions and other state aid.”

Detailing its **good value for money**, the ACA evidence notes that ‘the alternative of not supporting workplace pension provision would be that the Government would likely have to provide additional state pension or additional benefits to make up the shortfall in pensioners’ incomes. The government spent **£101 billion financing the state pension** in 2020-21 to deliver median state pension incomes of £192 per week. This was **more than twice the amount deployed as pension tax relief**, but that tax relief helped pensioners to receive a greater median amount of £198 per week of occupational pension’.

¹ Tax relief statistics (December 2021) – Section 6.1

<https://www.gov.uk/government/statistics/main-tax-expenditures-and-structural-reliefs/estimated-cost-of-tax-reliefs-statistics>

The statistics are current at the time of publishing this document. We understand that updated figures for 2020/21, and figures for 2021/22, will be published on 28 September 2022.

What are current issues with pension tax reliefs and potential reforms?

The ACA says a key concern about pension tax relief is the complexity of the restrictions which surround it. Important policy decisions appear to often be considered hastily and with limited resource or parliamentary time set aside to maintain or amend existing legislation if problems are identified. In future it is vital that these mechanisms operate effectively.

We believe future reform of pensions relief should also focus on refining incentives for the next generation of savers. For younger generations in particular that already face competing savings needs in areas such as housing, student loans and resilience requirements, there is a risk recent negative economic shocks crowd out pension saving.

The ACA evidence says ‘one option would be to allow some limited flexibility for people to dip into retirement savings before retirement to meet urgent resilience needs, such as have been highlighted by the pandemic. This might also be consistent with approaches taken in some other countries², which allow limited early access to retirement savings, but would arguably reflect a significant change in the societal view of the “purpose” of long-term savings’.

‘To a degree we believe these behaviours are already consistent with current practices under “freedom and choice” which, for example, have arguably allowed those aged over 55 to flex their working patterns and resilience needs since the pandemic, whilst also protecting tax receipts. Further, the ACA’s 2021 survey³, also found that 73% of respondents believed that aggregate savings would overall increase if there was greater flexibility.’

The alternative view, notes the ACA, is that current resilience challenges should be tackled through other (non-pensions) policy mechanisms. This is also a powerful argument, and we believe that getting the best value for the public purse from the tax reliefs provided for pension schemes requires a parallel exercise to help people to have both sufficient income to cover basic resilience needs and build up pension savings.

For example, the ACA says ‘Initial findings from a recent and still running trial on auto-save, i.e. an opt-out payroll saving approach that sets employees up with a simple instant-access savings account and a modest monthly saving contribution directly from their pay, suggest that this might meaningfully boost employee financial resilience.⁴

Karen Goldschmidt added: *“For pension tax relief to be effective, people need confidence that the regime will be stable and that they can make the long-term commitment over decades to build up a secure retirement income. Especially given their now wider population coverage, we believe tax relief limits, but particularly the lifetime allowance, should be restored to a more appropriate level with automatic annual indexing built in and respected.”*

² Examples include Australia and New Zealand.

<https://www.ato.gov.au/individuals/super/withdrawing-and-using-your-super/early-access-to-your-super/>
<https://www.ird.govt.nz/kiwisaver/kiwisaver-individuals/getting-my-kiwisaver-funds-early/getting-my-kiwisaver-funds-for-significant-financial-hardship>

³ <https://aca.org.uk/pensions-key-reforms-still-needed-to-avoid-crisis/>

⁴ <https://www.nestinsight.org.uk/autosave-trial-early-findings/>

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About the Association of Consulting Actuaries (ACA)

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. The ACA is the representative body for UK consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body.

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