2021 BUDGET STATEMENT

Comment from the Association of Consulting Actuaries (ACA)

ASSOCIATION OF CONSULTING ACTUARIES

PRESS RELEASE: IMMEDIATE

ACA says need for well-considered review of pension tax regime remains

3 March 2021: In a statement following today's Budget Statement, the Association of Consulting Actuaries commented as follows.

ACA Chair, Patrick Bloomfield said:

"Freezing the LTA for a number of years will inevitably mean this will impact on more and more private and public sector employees, restricting their ability to save in a tax effective way and extending the complexity of the pensions tax regime. But, given all the rumours, it is a relief that Mr Sunak has resisted the temptation to rush major changes to the pension tax regime. The current pensions tax regime is horrendously complex and needs reviewing, but such a review needs to be carefully considered. The ACA has repeatedly called for this in recent years."

"We welcome reforms that allow pension funds to invest in high growth, innovative companies provided proper checks are kept in place to protect members' funds."

"It is disappointing that social care reform seems to be remaining on the 'back-burner' – we hope some greater progress is made in this important area in the months ahead."

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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.

Appendix

In February 2021 the Association published a report – *Pensions: Build back better* – with the following public policy recommendations:

The 'Six key areas' where the ACA report says further policy reforms are needed are:

1. **A refresh of auto-enrolment (AE), including widening coverage and increasing minimum AE contribution rates during the Parliament.**
   Key survey finding:

   - **88% of employers support over 18s being eligible for AE and 84% support AE applying from first £1 of earnings.**

   Steven Taylor, who Chairs the ACA's Pensions and Savings Adequacy Group, commented: *"The present 8% of qualifying earnings (which equates to closer to 4% of total earnings for those on lower incomes) is inadequate to provide for a sufficient income in later life. Our survey found that overall median contributions to DC Schemes are around 10%, but this is still significantly lower than the c.30% median contribution to DB schemes, which is likely indicative of the "real cost" of providing for a comfortable retirement.*

   "To begin to bridge these gaps, we suggest minimum AE contributions should increase to 12% of total earnings by the end of the Parliament with costs shared between employers and employees. We suggest an annual opt down option to half this level to reflect the economic hardships brought about by the pandemic. The earnings threshold (which currently stops millions being signed up for AE) should be reduced or removed and AE should be adapted to include the growing number of self-employed and those engaged in the 'gig economy'. It is encouraging the Pensions Minister seems keen to head in this direction if room can be found for another Pensions Bill this side of 2024." (For more, see Report pages 7 and 13-16)

2. **There is an urgent need now for increased flexibility in the way people save for retirement, for example by extending pension freedoms to younger savers (subject to appropriate safeguards and incentives) to promote both resilience and intergenerational fairness.**
   Key survey finding:

   - **62% of employers think more flexibility would increase employee saving.**

   Steven Taylor, who Chairs the ACA's Pensions and Savings Adequacy Group, commented: "*To provide greater incentives for higher levels of pension savings by younger employees, and support the wider AE measures we have suggested, the Government should relax current rules and implement an extension of pension freedoms allowing early access of up to a maximum of £30,000 (or 50%, if lower) of individuals' pension funds that are currently available only from age 55. This amount is consistent with the "trivial commutation" limit often applied to the return of "small" pension funds to older savers. These funds could be used to meet a short and specific list of eventualities, such as following job loss in future pandemic scenarios, or potentially to help fund house deposits."* (For more, see Report pages 7 and 26).

3. **Action is needed on the overdue intergenerational commitment to a better social care regime.**
   Key survey finding:

   - **60% support tax changes to encourage social care costs to be met from private pensions.**

   Steven Taylor, who Chairs the ACA's Pensions and Savings Adequacy Group, commented: "*The Government needs to 'be brave' and make proposals this year on what it feels the appropriate burden of cost for providing social care, split between the taxpayer and the individual, should be. It needs to propose what constitutes a "baseline level" of social care and how this will be reviewed as the years go by. If the taxpayer is to contribute more (which seems inevitable), then it needs to spell out the impact on rates of tax and how this extra burden might be spread as fairly as possible across the generations.*

"We believe that a fair longer-term approach will require a range of practical and financial solutions to suit different age groups. This could include ideas such as consideration of tax reforms whereby pension income used to pay for care is tax-free, purchase of care insurance products is incentivised and/or a social insurance scheme is put in place that might help younger people better to plan ahead than the present older generations have been able." (For more, see Report pages 8 and 17-18)

4. There is an urgent need now for significant simplification of the pension tax regime, with clear policy goals and extensive consultations to minimise unintended consequences.

Key survey finding:

- **79% of employers say the complex pensions tax regime is negatively impacting their business and 89% say it needs simplifying even if that means some people are worse off.**

Karen Goldschmidt, Chair of the ACA Pensions Taxation Committee, commented: *"The Government needs to think carefully on how any further pension tax reforms should be progressed, given the considerable sums involved and the resulting personal financial implications for public and private sector employees (in both DB and DC schemes) of making any changes.*

"We strongly urge that any measures are for the long term, properly thought through, involving widespread consultations, so that best endeavours are made to smooth out the problems which have resulted from numerous tweaks made in the regime in recent years. We accept that there are challenges especially if the policy is that changes are overall to be fiscally neutral (or revenue raising), noting that only part of the published "cost of relief" relates to future accrual." (For more, see Report pages 8 and 24)

5. Balancing costs between current workers' and previous workers' pensions.
Key survey finding:

- **81% of employers say DB costs create intergenerational unfairness between current and former employees and 74% between different cohorts of employees.**

Peter Williams, Chair of the ACA Pension Schemes Committee, commented: *"We encourage TPR to deliver a new DB funding code that has room to evolve as circumstances require. Actuaries acknowledge that DB scheme funding should gradually improve as schemes mature. Meeting this cost too quickly will lead to systemic risks today. Meeting this cost too slowly will lead to systemic risks tomorrow. Maintaining balance has to be our collective goal."* (For more, see Report pages 9 and 19-20)

6. Tackling climate risk, through the way savings are invested.
Key survey finding:

- **52% of schemes report greater interest from members in investments in socially responsible, environmental and climate areas.**

Stewart Hastie, who Chairs the ACA Climate Risk Group, commented: *"Climate risk is an existential threat to us all. Our survey found members are waking up to this, but schemes are hesitant in reacting to climate change investment risks and opportunities. With the Government keen to see its TCFD Regulations in place ahead of COP21 in November, ACA and consulting actuaries are committed to guiding schemes to take positive actions in this important area."* (For more, see Report pages 9 and 21)

Four earlier releases on the *2020 ACA Pension trends survey's* findings can be found here. The final report *Pensions: Build back better* can be found here