

2020 ACA PENSION TRENDS SURVEY

Report No.1 – Employers demand pension tax reform



PRESS RELEASE

ACA says survey finds huge support for pension tax reform with current regime adversely impacting 8 out of 10 employers... 6 out of 10 call for action to support GMP conversion

23 November 2020: In the first of a series of reports outlining the findings of the ACA's 2020 Pension trends survey¹, the Association of Consulting Actuaries (ACA) has found mounting evidence of the adverse impact of the current complexity in the pension tax regime on UK employers, with many employers supportive of reforms targeting those on lower incomes. A majority of employers are for maintaining spending on pensions tax relief – although some 4 out of 10 employers also seem prepared for reduced reliefs on future pension savings to help Government reduce spending post COVID-19.

On GMPs, the survey found over 9 out of 10 expected to fully equalise within 3 years, but only just over a quarter had completed a material part of the project. The D2 (conversion) method is the most popular method employers expect to use and would be more popular still if HMT/HMRC/DWP were to address tax and legislative challenges – which they have not, to date, shown a willingness to do.

Key findings in the report on pensions taxation are:

- **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.
- Whilst respondents remain split over how to reform the regime, **more than three-quarters** say the 2020 Budget changes have not mitigated the problems they are facing and **78%** support more help for those on lower incomes even if this means less relief elsewhere.
- At a time when Government is supposed to be supporting businesses, the negative impact of the current regime on UK businesses includes skilled staff retiring prematurely (**27%**) and pressure to change pay and benefits packages (**36%**).
- Whilst a majority oppose pension tax relief being reduced to help cut public spending post-COVID-19, **40%** are prepared to see this happen on future savings (but not past savings).

Commenting on the pension tax findings, Karen Goldschmidt, Chair of the ACA Pension Taxation Committee said:

"The survey findings underscore the degree to which the present pension tax regime has been distorted by short-term tinkering over the years. It is having an impact on the economy by reducing productivity and workplace cohesion.

"The message is that there is a now urgent need for HMT and industry practitioners to find a consensus around the best way forward. The mounting dislike of the current complexity and adverse impact on business means that this task cannot be put off."

Key findings in the report on progress with GMP equalisation are:

- The vast majority of schemes expect to complete GMP equalisation in the next 3 years, but **34%** are still at the initial planning stage and **6%** have taken no actions at all so far.
- Compared to a year ago, poor data has moved up the ranking table as one of the biggest challenges in dealing with GMP equalisation – but still behind the administrative complexity and costs involved.
- **43%** of respondents are likely to simplify their schemes by converting GMP at the same time.
- This 43% could rise to **60%** if tax and legislation issues were resolved by HMT, HMRC and DWP, with a further **20%** currently undecided that could also look to use GMP conversion.

Commenting on the GMP equalisation findings, Karen Goldschmidt, Chair of the ACA Pension Taxation Committee added:

“Pension provision is often criticised for being overly complex. The dual record approaches to equalisation add yet more complexity, largely unfathomable to members. Using GMP conversion to equalise for GMPs both avoids that additional complexity and provides an opportunity for simplification. This has benefits for members (particularly lower earners), for employers, for the pensions industry and for government departments.

“As our survey found this year, many employers and pension scheme trustees are keen to use GMP conversion, if the barriers can be removed/lowered. Just one more example of the complexity highlighted above in our survey, employers (and Trustees) are seeing the current pensions tax legislation as a material, illogical and disproportionate block.

“The potential of tax pitfalls has already held back decisions on approach for many months, because of the uncertainty on what the pitfalls might be and the extent to which they can be managed.

“Schemes that have to carry out conversion urgently are taking legal advice, to find ways to manage what appear be pitfalls in the legislation. In the short term, we need HMRC to give clear practical guidance.

“But really what we need is law change as soon as possible so that schemes can use conversion confidently to benefit members, by making it more likely that members will receive benefits in full - because buy out would be cheaper; reducing the complex GMP restrictions; enabling income in retirement to be smoother; and making it easier for members to understand their benefits. And DWP would see the change enabling a solution to equalisation that DWP has been promoting for 5 years”.

Further reports on the 2020 Pension trends survey’s findings are due to be published over the next two months and a final report at the turn of the year.

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¹ The *ACA 2020 Pension trends survey* was conducted in the summer of this year and attracted 281 responses from employers of all sizes, running over 500 different schemes