ASSOCIATION OF CONSULTING ACTUARIES

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Rt Hon Rishi Sunak MP
Chancellor of The Exchequer
11 Downing Street
London SW1A 2AB

Dear Chancellor

Reforming the pension taxation regime

I am writing on behalf of the **Association of Consulting Actuaries (ACA)** to express our strong support for you committing to a full-scale, careful review of the pension taxation regime in your upcoming Budget Statement on March 11.

The position today

Due to constant whittling away over recent years, the current regime is now "unfit for purpose" and needs review. The regime's complexities, together with the confusion they cause, lead to unintended behaviours (as we have seen amongst NHS scheme members) and blocks reasonable benefit options in defined benefit schemes. We believe that any review should be fundamental, with cross-party support, and should be well-considered rather than rushed, so avoiding unforeseen, unintended or unreasonable consequences to particular groups of pension savers.

You will be aware of the emerging huge shortfall in retirement savings that many will face in the future and we believe that any review should be framed against this background. Failure to address this will result in increasing demands on the State in the medium and long term. Any new regime should lead to adequate pension savings for the majority - whether employed or self-employed - and to do so, the targeting and timing of reliefs needs to be considered. The oft-quoted amount of the existing tax relief has been described as "eye watering" but it needs to be remembered the quoted figure includes the sizeable contribution targeted to make up deficits in defined benefit schemes for accrued promises (most resulting from past-Government legislative enhancements) – i.e. not relief available to incentivise ongoing savings.

Evidence of employer frustration

The ACA's 2019 survey of employers of all sizes found:

- 75% of employers want the pension tax regime to be simplified with 67% saying more help should be targeted on lower earners even if this means reducing relief for higher income groups.
- 69% want the Tapered Annual Allowance to be abolished, even if this would mean a reduction in the general Annual Allowance.

- Compared with surveys in previous years, more employers say that current restrictions in pension tax relief have caused senior/higher income employees to leave their firms' pension schemes, disconnecting more and more senior decision-makers from personal interest in this key element of the employee package.
- 21% reported that skilled staff are retiring earlier or working fewer hours, supporting the evidence seen from the NHS schemes that the pension tax regime is distorting behaviour.

It is apparent that many employers in both the private and public sectors (not just NHS employers) are now deeply frustrated with the damaging impact of the 'tightening' of pension tax reliefs in recent years through lower Annual and Lifetime Allowances, and the complexity that this has introduced, compounded by the confusion and unintended consequences that the Tapered Allowance has added.

This frustration is also shared by the self-employed who do not necessarily have uniform cash flows and can only save when the opportunity presents. The present pension tax system makes such saving near impossible.

The costs of complexity

There is a clear widespread demand across the spectrum for reforms to simplify the pension tax regime. Present complexities result in many being put off saving for retirement. And complexity deters employers from establishing and maintaining pension schemes for their staff beyond the minimum required by auto-enrolment.

Our survey supported the evidence elsewhere (the well-advertised issues of the NHS Scheme) that the tax regime is increasing the pace of retirement of employees at a time when their skills might be harnessed usefully for the benefit of society

The costs of ensuring compliance with current tax law means ultimately that there is less money available for retirement savings. Costs, entirely the result of the current complexity, include extra advice and implementation costs for schemes and hence sponsoring employers; and employees need to take specialist advice even to fill in their tax returns let alone to make decisions. The recent Office of Tax Simplification report on *Simplifying tax for individuals* draws similar conclusions on the need for reform.

Individuals, working in both the private and public sectors, across all income groups deserve a regime that is simpler to understand, that encourages savings and does not disenfranchise decision makers; one that does not bring unwelcome tax surprises 'out of the blue', as at present.

A way forward

We commend to you the representations we made to the then Chancellor at the time of the last somewhat hurried review of pension taxation in 2015/16 at https://aca.org.uk/aca-responds-to-pension-tax-consultation/ Summarising the case made, we identified some characteristics that we believe would guide a solution to a better pension tax regime, these being:

- The new regime should continue to explicitly incentivise individuals to save for retirement while they are working and importantly should encourage employers to make suitable arrangements for their employees;
- A new regime should replace the current regime – it should not require creation of two separate regimes to run in parallel dealing with past and future savings;
- The new regime should be simpler to understand and operate than the existing regime; where it cannot be simpler it should at least be fairer and intuitive, with anomalies and perverse outcomes eliminated;
- The new regime should be capable of targeting tax relief in line with the Government's intentions.

We urge you to announce the careful and thoughtful review of the pension tax regime with a target of introducing a new simplified and durable regime for (realistically) the tax year 2022/23 onwards. You can be assured of our support in assisting your Treasury team in pursuing such an objective.

Yours sincerely

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