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ACA CHAIRMAN SAYS PENSION TAX OVERHAUL NOW ESSENTIAL

26 November 2014: Speaking to a pensions industry audience, David Fairs, Chairman of the Association of Consulting Actuaries (ACA) said the present pension tax system is entirely incompatible with some of the scheme designs that could be created under the Pensions Schemes Bill, which was passed its Commons stages yesterday.

David Fairs added:

“A radical overhaul of pension taxation is necessary but it does need to be a genuine overhaul and a genuine simplification. Our Pensions Tax Committee is currently working through what a possible radical overhaul might look like – removing at a stroke the necessity for Annual Allowance and Lifetime Allowance calculations. I believe all the various pension bodies are ready to engage with Government on a genuine simplification of pensions taxation.”

David Fairs noted that the ACA had worked very closely with the Pensions Minister on developing risk sharing schemes. His predecessor, Andrew Vaughan was Chairman of the Industry working group on Defined Ambition and he himself had chaired the flexible defined benefits industry working group. The work carried out by the DWP and the industry working groups has culminated in the Pensions Schemes Bill currently passing through Parliament. And in November, last year at a meeting of the All Party Parliamentary Group on Pensions, Fairs noted he had called for the current requirements around annuitisation at retirement to be liberalised, but with advice available to members, little realising that George Osborne had been listening in!

David Fairs continued:

“There is no doubt that the volume and speed of change has put a huge amount of pressure on the pensions industry. As if dealing with the auto-enrolment of micro employers at the rate of 40-50,000 per month was not enough. From April, the industry has to deal with new choices and guidance being made available to the 400,000 or so individuals reaching retirement each year and with a pent up demand of perhaps 200,000.

“It’s tempting to ask that the industry should be given a sabbatical from further pensions change whilst it digests all the change put in train by this and the previous Government. But you have to say is it realistic with a potential new Government from May of next year that the pensions industry will be free from change for a period of time?

“My suspicion is that the £38bn or so given in tax relief to pensions will provide too attractive a target for politicians whatever their colour. And there is an increasing challenge that the relief is poorly focused.

“What else would the ACA like to see?

“Auto-enrolment has been particularly successful, so far, in getting those who are not saving, to save. What we need now is to improve the pensions of the low paid, of women and to increase the overall pension saving of those now auto enrolled.

“We believe that this could be achieved by removing the lower limit on band earnings for Auto-enrolment, thereby increasing by 50% contributions for those earning as little as £15,000pa. But removing the lower limit would also mean that the threshold to auto-enrol employees could be reduced without reducing contributions to trivial amounts. This would bring significantly more into auto-enrolment, particularly those low paid women who are excluded.

“Furthermore, the auto-escalation of employee contributions to pensions has proved particularly successful in the US. Each year, employees could be automatically moved to a higher employee contribution percentage but with the option to opt for a lower contribution if that was unaffordable. In effect, using the same behavioural approach as auto-enrolment to increase contributions by employees to a more meaningful level.

“To my mind, that addresses the most fundamental issue, that people are not saving enough for retirement. A far more important issue than how people take their benefits at retirement.

“It may seem perverse, to push for further change when I said earlier that what the industry needs is a period of stability. But, the Budget changes have made pensions topical in the press, over dinner and in the pub. Now is the opportunity to seize on that popularity to improve pension provision.”

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About the Association of Consulting Actuaries (ACA)

The **Association of Consulting Actuaries (ACA)** is the representative body for consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body. The ACA has 1,750 members working in around 75 firms. ACA Members are all qualified actuaries and all actuarial advice given by members is subject to the Actuaries’ Code. The ACA forms the largest national grouping of consulting actuaries in the world and is a member of the International Actuarial Association.