COMMENT FROM ASSOCIATION OF CONSULTING ACTUARIES FOLLOWING THE CHANCELLOR'S AUTUMN STATEMENT

5 December 2012: Following the Chancellor's Autumn Statement, the Association of Consulting Actuaries (ACA) made the following comments.

Andrew Vaughan, **Chairman of the Association of Consulting Actuaries**, commented:

"The DWP consultation on the long-term affordability of deficit recovery plans and 2013 valuations announced (in Statement documents) by the Chancellor today will offer a genuine opportunity to debate an area of policy where there are different views. Certainly, it is important that sponsors of defined benefit schemes are not disadvantaged by short-term economic policy decisions designed to boost the economy, but – equally – we do not want to move to a position where either sponsors or trustees lose clarity on the funding needed to meet pension obligations as they fall due."

"The decisions to reduce the annual and lifetime allowance are unwelcome in that this undermines private pension savings yet again. If the change involved boosting relief to encourage those on lower incomes to save more into pensions then there would be some intellectual defence, but the treatment of pension tax reliefs as a 'cash cow' for successive governments to plunder can only have one end result – further disillusionment with pensions. Times may be tough, but there are real dangers that driving down incentives to save may simply lead to driving up the 'live for today' spending mentality across all income groups, with taxpayers again picking up the tab in years to come via rocketing welfare costs for the elderly."

"We welcome the drawdown changes and the Government's confirmation that its State pension reforms are going ahead. We believe, however, that the package needs to be seen to be fair for those who are retiring ahead of the changes – it will be a political banana-skin if those retiring after a certain date are seen to get a much better deal than existing pensioners. This may mean the Chancellor will need to find some extra-cash in the years ahead to progress the reforms."

Karen Goldschmidt, Chair of the ACA Pensions Taxation Committee, added

"The new Annual Allowance (AA) may still seem large and hence only affecting the wealthy; but there will be important impacts on the few remaining DB schemes – including on individuals at surprising low income levels (as low as £30,000) – for example where there have been promotions in a year. And there will be unforeseen consequences. We have already seen options that were valued by the lower paid cut off because they don't fit the AA tax regime. For example, most schemes have ceased offering the option at retirement to reshape pensions to have a temporary higher level until the State pension starts. At a time when employees are being auto-enrolled, it seems a very mixed message when an increasing number of scheme members will be told that membership of a pension scheme comes with an additional tax bill.

“Yet another drop in the Lifetime Allowance (albeit with some “transition protection” by way of a “Fixed Protection Mark 2”) – but with no guarantee that this will not happen again in future – will make long term planning for middle income savers very complex.

“Of course the main DB schemes left are the public sector ones – but a few continue to survive in the private sector; it seems unlikely that they will continue much longer with tax measures that, impacting on yet more individuals, will cause yet more complication In the public sector, the reduction to both Allowances will means that public sector employees will opt for lower benefits by paying the tax from their scheme. In effect, the Government will be cutting public sector pensions by the back door.

“The changes announced two years ago to AA and LTA are still bedding in. We are awaiting retrospective legislation to make “Fixed Protection Mark I” work as expected. The ‘current’ AA measure has not yet been in place for a full operative cycle (the 2011/12 tax is only just now being collected), so not only has HMRC’s tax collection process not been tested but neither have many other features brought in by Finance Act 2011 - the information obligation burden on schemes and “scheme pays”, for example. ACA has put a lot of resources into trying to work out how the tax law on the 2011 measures interact with common pension scheme features, and the answers have often turned out to be unexpected: we hope that HMRC will be given the resources to sort out the many rough areas already spotted, and still emerging.”

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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.