



NEWS RELEASE

Yesterday, the Chancellor announced a major surprise in pension provision...

ACA SLAMS FREEZE ON THE LIFETIME ALLOWANCE

26 November 2008: The Association of Consulting Actuaries (ACA) is very concerned at the Chancellor's announcement that from 2011 the Lifetime Allowance (LTA) will be frozen for five years.

This may look like a change hitting just top earners – but its implication for the longer term is huge. And it is yet another move to put executives off the idea of pensions and inevitably pension provision for their employees.

Pre-Budget Report introduces stealth tax and brings back complexity to pensions

ACA Pensions Taxation Committee Chair, **Karen Goldschmidt** commented further:

"Alistair Darling yesterday announced in the Pre-Budget Report the freezing of the *Lifetime Allowance* for pensions for five years from April 2011.

"The Lifetime Allowance (LTA) is the level of pension savings beyond which pension income is taxed at 55% rather than 40%.

"The announced freeze is a huge surprise for the pension savings industry," said Karen Goldschmidt, "and sets a worrying precedent for the future. It will be an immediate disincentive to making pension savings.

"It may look as though it only impacts on the highest earners, but it is something that middle-income earners will have to take into account now in planning their future pension provision: if you are considering saving for the long-term future, you surely have to assume the worst, that the LTA will not be raised again, and this will put you off making pensions savings now.

"For those who have already made significant pensions savings the freeze potentially acts as a retrospective tax.

"The Government's own figures support that they expect people to be put off pension savings. They expect to make around £¾ billion extra tax revenue, as a result of the freeze, just in the four years 2008/9 to 2011/12. This must either be extra tax on pensions already built up or lost tax relief from less pension savings being made. And clearly the tax impact will grow for years.

"We would be more sympathetic if there was a clear commitment to use the tax savings to help revitalise pension provision for other, less highly paid employees, but this not the case. Pension savings are in decline and many expect this to get worse unless action is taken. What we need are more not fewer incentives to save without the fear of retrospective changes."

Senior executives drawing their benefits before April 2011 can leave their plans unchanged. But all others will need to reconsider their pension savings plans immediately – particularly urgently for those who had built up savings before 2006 and have been having to make decisions about "protections" that have to be registered by April 2009. We can see executives retiring early on account of the freeze. The very complex "Enhanced Protection" may be attractive to a much wider group than before. Countless others will need to reassess their long-term plans.

The LTA was introduced in 2006 as part of the supposed "simplified" new tax regime for pensions. The arrangement was that government would announce the yearly level of the LTA for five years at a time. At the time there was lengthy debate with government as to whether price inflation increases were enough or whether something higher was fairer. For the first five years, the increases have been anything between 3% and 7% and it is clear from government's budget figures that they had expected to continue increases, before this raid.

"2006 was intended to bring simplicity to the world of pension savings. This announcement will mean complex tax planning and loss of faith in the pensions system.

"And once again, by further putting off executives from pension saving, the government will inevitably further undermine employers' interest in making pension provision for their employees," concluded Karen Goldschmidt.

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Note to Editors:

About the Association of Consulting Actuaries (ACA)

The **Association of Consulting Actuaries (ACA)** is the representative body for consulting actuaries, whilst the Faculty and Institute of Actuaries are the professional bodies. The ACA has over 1650 members working in around 80 firms. ACA Members are all qualified actuaries and are subject to the code of professional conduct of the Faculty and the Institute of Actuaries. Advice given to clients is independent and impartial. The ACA forms the largest national grouping of consulting actuaries in the World.