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To: Paul Cottis, HMRC

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6 February 2012

Ref: ACA_toHMRC_DPrevalsize_vn1

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Dear Paul

We are currently in discussion with HMRC on a range of issues arising from the changes made by Finance Act 2011, many connected with measuring deferred pensioner revaluation for purposes in the Act, and in particular for Pension Input Amount.

We are writing this letter solely to provide, as a handy standalone reference, a measure of how significant these matters might be (we have presented this before in meetings with HMRC but there have been HMRC team changes since then). It considers a deferred member who does not qualify for the "deferred member carve out" with a "specified rate". So there will either be a test under the carve-out provisions against CPI, using one of any 12 month end figures ; or if that is still exceeded, the specific CPI increase to the previous September and also incorporating GMP impacts.

How much PIA emerges will vary. In many cases it may be small and have no actual impact on an individual's having AA charge tax; but the administration consequences could be material. In some cases it might be material enough that, when taken together with savings the member is making in their on-going arrangements, it causes AA charge. The following may be a useful indicator.

if loss of carve out results in a excess-over-CPI or mismatch in annual revaluation for a tax year of	*The PIA that might arise if the deferred pension is*		
Deferred pension:	£10,000	£30,000	£60,000
+2%	£3K	£10K	£19K
+5%	£8K	£24K	£48K

Certain events (if not carved out) would cause much greater PIA than "excess-over-CPI" mismatch. Where carve out is lost, it will be relatively rarely that the amount of PIA arising will exceed £50,000 – so relatively rare that monitoring identifies the need for a pensions savings statement to be issued proactively. Statements will have to be provided on request; and individuals may not be aware that PIA may arise from their deferred pension benefits accrued some time past in circumstances where they would not expect it to.

Yours sincerely

Karen Goldschmidt FIA (Chair)
Pensions Taxation Committee