ACA sessional meeting 23 September 2010

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The 2011 restrictions to pensions tax relief

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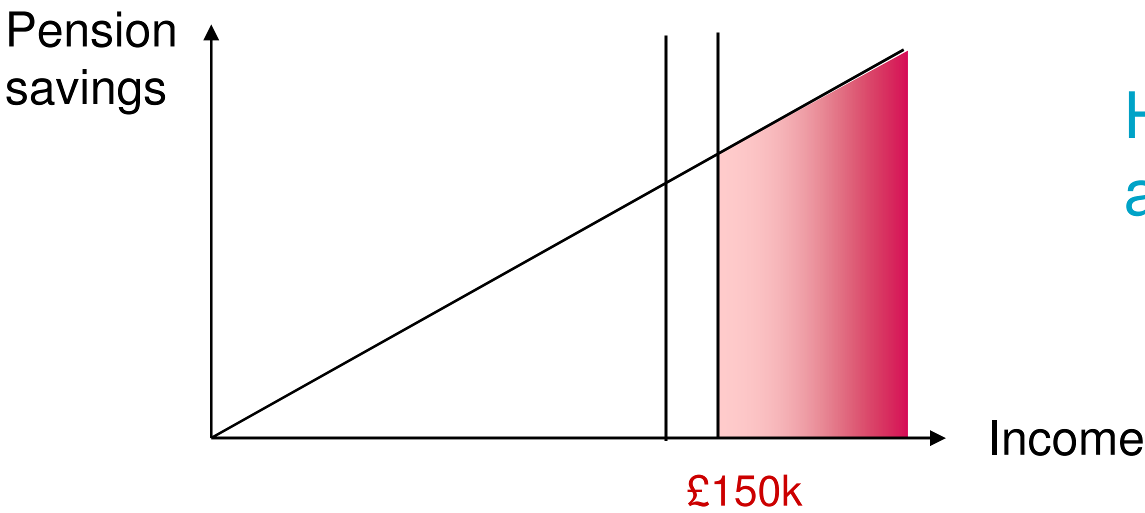
The Emergency Budget/
July Discussion Document

Labour's approach has:
"unwelcome consequences for pension saving, bring significant complexity to the tax system, and damage to UK business and competitiveness".

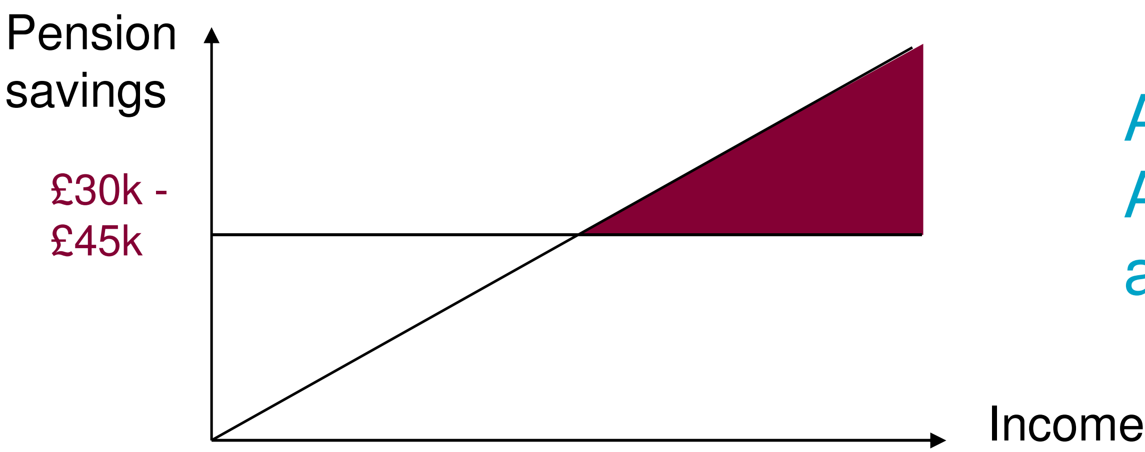
- Any alternative must still yield at least [£4bn] in 2011/12 onward
- An annual allowance £30K - £45K might deliver yield

  … the level influenced by a number of policy design features

High Earner vs Annual Allowance



High Earner approach



Annual Allowance approach

The old priorities
The new priorities

£3-4 bn pa tax gain
from 6.4.2011

Fairness between
DC and DB,
and DBs

"Simplicity"
ability to plan
ability to collect

Impacts HIGH
EARNERS

Does not impact
LOW EARNERS

The new Annual Allowance if used

- Existing Annual Allowance legislation
- Modified to be fit for (new) purpose

AA level	HMT to decide	
DB Valuation in accrual year	One flat factor	£15-£20: £1pa
	Indexation of start year position Negative values Deferred pensioners	
	Spikes	
Year of retirement		

Discussion document: “added value”

- *A DB flat factor creates opportunities “to grant additional pension value without this counting towards the AA test”.*

  … “a CETV calculation, or the use of ARFs, in specific circumstances to capture the value of certain pension enhancements” ?

ACA response:
Start simple?
Keep it simple!

Year of drawing benefit: ACA response

Death Ill health (terminal)	Exempt
Ill-health retirements (non terminal)	Enhanced AA level (£500,000) on a tight qualification definition
Early retirement	Ignore Scheme NPA One factor for accrual, and for drawing 60+ a factor for each age of drawing below 60
.. with additional credit	Carry forward/back

Discussion document: Employer action to "aim off"/transition

Particularly for DB:

- cap accrual
- smooth accrual (especially "spikes")
- offer an alternative (cash, some DC)
- remove "spiky" benefits (eg PHI instead of ill health pension)

… Not deemed avoidance

"The Government welcomes views on legislative action that could facilitate appropriate scheme redesign without undermining other aspects of the regulatory regime."

Transition:
ACA response

- 2011/12 measures:
  - early retirements
  - regulatory cap of benefit accrual to AA which the member can unilaterally uncap

- Allow benefit surrender rather than AA charge

Discussion document:
trade-offs for a higher AA level?

- Lifetime Allowance

ACA response:
wide implications for schemes, employers and individuals ..
changes worthwhile only if for a very significant increase in
the AA level

- Tax relief on pension savings restricted to 40%

Discussion document question
Flat factors: avoidance

"The Government would also look to monitor and review the flat-factor approach for a reduced AA to ensure it did not open up scope for abuse, and would consider the need for specific anti-avoidance rules in this regard."

ACA response:

- Keep anti-avoidance legislation tightly focused, specific and with robust guidance

- EFRBS

AA charge discouraging but it WILL arise

- Employer offers option, member turns it down
- More than one scheme
  - joiners/leavers
  - additional personal pension savings or AVCs
  - closed salary-linked DB and ongoing DC
- Employer does not change pension offering – and offers no alternative

Delivery and compliance

Annual AA statements for all?

Scheme Pays?

Pension Input Period?

Where will the tax come from?

DB public sector

DC

£4bn pa

DB private sector

Devil is in the detail

Closed DB, with RPI/CPI/salary linking

Enhanced transfer values?

Pension increase exchanges?

GMP equalisation?

Scope

- This generic presentation should not be relied upon for detailed advice or taken as an authoritative statement of the law.