Steve Webb, Director of Policy at Royal London said:

"Steve Webb began by agreeing that pension tax relief needed reform. He pointed out that the current revenue foregone because of up-front tax relief was overwhelmingly going to higher earners because they pay tax at higher rates and because they contribute far more. He said that there was a strong case for looking at whether relief could be better targeted at those who most need to save more. He also stressed that the impact of any reform on employers was crucial. Whilst pension tax relief was not well understood by employees, the role of matching employer contributions had a proven incentive effect and there was a need to consider the impact of any reform on employers.

He next challenged the idea of a Pensions 'ISA' where contributions were made out of post-tax income but pensions in retirement would be untaxed. He raised a number of objections to this proposal:

- whilst it would bring tax revenues forward from future generations, which would appeal to current governments, it would deprive future governments of a tax base; with future unfunded costs of health, social care and state pensions only set to rise, it was hard to see that making future pensioners into non-taxpayers was the right strategy;

- savers might not trust future politicians not to tax their pensions again;

- the administrative complexity of 'dual running' of two pension accounts for every individual would be considerable; legacy pensions would have to be maintained on a 'yet-to-be-taxed' basis, whilst new pensions would have to be run on an 'already-taxed' basis;

- such an upheaval would create great risk and uncertainty, especially with regard to employer attitudes to pension contributions; at a time when we were finally seeing a big growth in the number of people saving, it was reckless to take this chance;

Instead, he favoured a reform to the current system where relief was available at the same rate to all. For DC pensions all could be run on the 'Relief at Source' model where individuals contribute out of their take-home pay and HMRC top-up pensions directly. For DB, contributions from employers and employees could continue as at present, but with the value of higher rate relief clawed back through PAYE tax codes and/or annual tax returns.
In discussion, Steve agreed that the system was too complex and that any reform should ideally include the abolition of the lifetime allowance on pension pots".