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Sent to: MPAAResponses@hmtreasury.gsi.gov.uk

Pension and Savings Team
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

Dear Sirs

Reducing the money purchase annual allowance

https://www.gov.uk/government/consultations/reducing-the-money-purchase-annual-allowance

We appreciate the opportunity to respond to the above consultation on the proposed reduction in the Money Purchase Annual Allowance (MPAA) from £10,000 to £4,000 from 2017/18.

Before responding to the specific questions raised in that consultation, we would make some more general points:

- It is unfortunate that such a large change in the MPAA has been proposed so shortly after the original introduction of this measure. This does not help to build up confidence - of individuals and employers - in the stability of the pensions environment. And the proposal would appear to undermine the government's policy of encouraging flexible working and extending working lives.

- There will be some members (albeit that this will be a small number) who made a decision to take their pension benefits flexibly on the basis that they could continue to contribute up to the £10,000 level to fund a certain level of pension at retirement without incurring an AA charge (or indeed had not planned to contribute immediately but assume that if their financial situation were to change they would be able to recommence contributions without incurring an AA charge).

- The reason for the reduction has been stated as the need to limit the ability of members to recycle their benefits in order to minimise their tax liability. Although additional tax relief may be consequence of a member's decision to take benefits flexibly, we have not seen any evidence that this is the original intention behind the decision by the member to withdraw pension funds early. Although it might be too early to tell, we have also not seen anything that would suggest that members propose to take regular early withdrawals to maximise any potential tax advantages.

In response to the specific questions asked in the consultation.

Question 1: Do you agree that a £4,000 MPAA would minimise re-cycling pension savings and that, coupled with ongoing monitoring, the new MPAA will allow the continued successful roll-out of automatic enrolment?

- Any reduction in the MPAA will **reduce** the scope for re-cycling pension savings (albeit that we do not believe that this is the intention behind the decision to withdraw benefits early in the majority of cases). It will not minimise it – there are other approaches that would minimise such opportunity, but would have other knock-ons.

- For many lower earners the new MPAA will be sufficient to accommodate the minimum required contributions to satisfy AE and so might be said not to interfere with the continued successful roll-out of automatic enrolment.

- However, some employers use existing schemes to fulfil their AE duties; or have introduced a scheme that is more generous than minimum AE levels. The MPAA reduction would mean that some employees joining/continuing in such a scheme will face an AA charge each year. Such employers might need to consider introducing an option for individuals to choose to have contributions capped to less than the normal level that would be paid on behalf of or by the member, if they are to be kept within the MPAA. If not (assuming individuals do not want to opt out of full pension accrual and effectively forgo part of their remuneration) individuals will need to understand the MPAA and meet the reporting and paying requirements for the AA charge. This is not just an issue confined to for "high earners": we could easily envisage some of such employees being within the 20% tax band of income.

  We doubt if the additional administrative complexity and cost has been sufficiently factored in to the Government's cost/benefit analysis of the measure, much of which will be borne by the employer or provider; and we question the practicality of correctly collecting the tax charge where it is incurred.

Question 2: Is there any evidence that setting the MPAA at £4,000 would impact disproportionately on particular groups?

Other than the circumstances already mentioned in the consultation document we are not generally aware that setting the MPAA at £4,000 would impact disproportionately on any particular group. However:

- those members who have already taken benefits flexibly on the basis of a continuing £10,000 allowance and with plans to use this would see the change as a disproportionate change to their circumstances.

- Obviously, the measure impacts only those whose future accrual would be on a MP basis; so has a disproportionate impact in limiting their scope for future accrual (or using flexibility for past MP funds) compared to those whose future accrual is on a defined benefit basis.

- We note that Cash Balance arrangements (with set roll up returns) may have to have higher contribution rates to satisfy AE than "Other Money Purchase" arrangements. The calculation of AA usage (PIA) may also be unintuitive for such schemes. So to the extent that such schemes exist, an MPAA at these lower levels may be problematic and mean more members opt out (or need options/face as per our last bullet point in our answer to Question 1). So effectively individuals in this sort of arrangement are disproportionately affected

I hope you find our comments helpful. If you wish to follow up any matters, please contact Karen Goldschmidt at Karen.goldschmidt@lcp.uk.com

Kind regards

Bob Scott
Chairman and Director
On behalf of the Association of Consulting Actuaries Limited

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