PMI House
4-10 Artillery Lane
London
E1 7LS

+44 (0)20 7392 7401

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Pensions Consultation 2015
Pensions and Savings Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

30 September 2015

Dear Sir / Madam

Strengthening the incentive to save: a consultation on pensions tax relief

The Association of Professional Pension Trustees is an organisation of over 120 individuals who act as professional independent trustees to UK occupational schemes, some as sole practitioners and some working in firms of such practitioners. Our members represent a large number of mainly larger pension funds with combined assets of several hundred billion pounds.

Our aims are to:

- encourage and promote the highest professional standards in those who practise as professional pension trustees
- promote the role of professional trustees

Our response to this consultation is based on a survey of APPT's members, the results of which are set out below.

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Do you believe it is necessary for the tax relief system to be changed at all?

Yes	46%
No	54%

Comments included the following:

To rectify some of the excessive reductions in tax relief that have been introduced recently

The system is distorted and overly complicated

Too much of the current tax relief is claimed by those who have adequate retirement savings already and ignored/ineffective for many who need to save the most. Employers operating net-pay taxation for low-paid employees seem to do so without challenge by employee representatives such as trades unions. Had tax relief at source been used instead, many poorly paid employees could have received 20% enhancements to their pension contributions. I contrast this with my own SIPP where the provider reclaims 20% tax on every contribution I make and adds it to my "pensions pot".

Restricted maybe but not changed in principle

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Consultation question 1

To what extent does the complexity of the current system undermine the incentive for individuals to save into a pension?

Survey question 1

To what extent does the complexity of the current system undermine the incentive for individuals to save into a pension?

A great extent	23%
A partial extent	46%
A limited extent	23%
No extent at all	8%

Comments included the following:

The annual allowance and lifetime allowance deter higher earners and those with long service in DB schemes

I say this because of the income inequality point made at the outset. The lower paid receive little or no incentive, while the highest paid (and well off) are incentivised unnecessarily.

Its an issue for high earners

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Consultation question 2

Do respondents believe that a simpler system is likely to result in greater engagement with pension saving? If so, how could the system be simplified to strengthen the incentive for individuals to save into a pension?

Survey question 2

To what extent do you believe that a simpler system would encourage greater engagement with pension saving?

A great extent	25%
A partial extent	25%
A limited extent	25%
No extent at all	25%

Comments included the following:

Abolish the annual allowance and lifetime allowance

I believe that a flat rate relief of 25% combined with an AA of £40K (retaining the £10 DC accessed rate) abolish Lifetime allowance, limit accrual in DB to 1/60th with a maximum pensionable salary of £150,000 and restrict tax free cash to a maximum of £400,000 would be simpler fairer sustainable. Also be more transparent and encourage saving in the correct socio economic group

Could be a greater extent if the reinstatement of previous reliefs applied

Those who are going to save voluntarily will, those that don't won't.

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Survey question 3

Which of the following simplifications do you believe would encourage greater engagement in pensions saving?

Moving to a TEE system with tax relief in the form of matching government contributions (as with the Help to Buy ISA)	8%
Using just an Annual Allowance to control tax relief and disapplying the Lifetime Allowance altogether	42%
Retaining the EET structure and moving to a flat-rate system of tax relief	33%
No changes to the current system are required at all	33%
Other (describe below)	17%

Comments included the following:

Abolish annual allowance and lifetime allowance plus restrict tax relief for higher earners to a flat rate below 40%

1. Remove the right to tax free cash 2. Restrict tax relief to the basic rate

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Consultation Question 3

Would an alternative system allow individuals to take greater personal responsibility for saving an adequate amount for retirement, particularly in the context of the shift to defined contribution pensions?

Survey question 4

Do you believe that a simpler system of granting tax relief to pension contributions would encourage individuals to save more for their retirement?

Yes	50%
No	50%

Comments included the following:

Provided the relief was significant and not just a minimal amount

This begs the question that "saving for a pension" is going to remain the major supplement to state pension provision

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Survey question 5

In the specific context of DC pensions, which of the following would help individuals save more for retirement?

A TEE tax regime with matching contributions for Government (as with Help to Buy ISAs)	33%
Continued use of automatic enrolment	83%
Auto-escalation to increase rates of contribution	83%
An effective system of aggregating small pots (e.g. 'pot follows member' or the aggregator scheme)	58%
Easements to allow early access to savings in specific circumstances	50%
Other	0%

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Consultation question 4

Would an alternative system allow individuals to plan better for how they use their savings in retirement?

Survey question 6

Would an alternative system allow individuals to plan better for how they use their savings in retirement?

Yes	42%
No	58%

Comments included the following:

Yes but over complicated for many

Future retirement savings planning should combine pensions and ISAs

TEE or whatever system is adopted in future is only part of the solution. Interest on cash deposits has virtually disappeared since the so-called "crisis" of 2007/08. Pension Wise service needs to be developed much further.

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Survey question 7

In the specific context of DC arrangements, which of the following would allow individuals to plan how they use their savings

A TEE tax regime which would ensure that benefits would be in the form of a tax-free lump sum or sums	25%
The current Freedom in Pensions regime is perfectly adequate	67%
The introduction of Collective Defined Contribution (CDC) schemes	33%
Effective use of default decumulation strategies (such as that recently proposed by NEST)	50%
The re-introduction of a Minimum Income Requirement to ensure that members cannot exhaust retirement savings during their lifetime	33%
Other	8%

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Consultation Question 5

Should the government consider differential treatment for defined benefit and defined contribution pensions? If so, how should each be treated?

Survey Question 8

Should the government consider differential treatment for defined benefit and defined contribution pensions?

Yes	25%
No	75%

Comments included the following:

if lifetime allowance is retained have different levels for DB and DC to ensure fair treatment, eg higher level for DC so they can have the same level of pension within tax relieved environment

But broadly neutral by limiting DB accrual to 1/60 max and a max pensionable salary of £150,000. Compared to an AA of £40,000 in DC (£10,000 DC AA)

It would tilt an already uneven playing field even more.

But the government (or, rather its agent, HMRC) is right to challenge tax relief for employer DB deficit contributions. More of the DB deficit funding should come from investment return on funds held, not from shareholders (of employers).

The government already treats DC and DB members differently. The LAA is not fair. DC members are allowed to save far less than DB members.

It is very important there is a fairly level playing field which there is not at the moment and the Government is scandalously unwilling to address

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Survey question 9

How should each be treated?

Equitably but pragmatically

DB - Limit the accrual to 1/60th of a max pensionable salary of £150,000 DC AA of £40,000

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Survey question 10

*Were a separate tax regime for **defined benefit** schemes to be introduced, which would be your preferred model? (Please allocate a score to each, with 1 for 'most preferred')*

	1	2	3	4
A model similar to the pre A Day regime based on absolute limits for emerging benefits with **no** constraints placed on the rate of benefit accrual	55%	27%	9%	9%
A model similar to the pre A Day regime based on absolute limits for emerging benefits with **some** constraints placed on the rate of benefit accrual	27%	55%	9%	9%
The existing system of allowances, retaining the current use of conversion factors for capitalising both overall accrued benefits and benefits accrued over the past year	18%	9%	64%	9%
A TEE system in which accruing DB benefits are taxed as a benefit in kind but are entirely tax exempt in payment	0%	9%	18%	73%

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Survey question 11

*If a separate tax regime for **defined benefit** pensions were to be introduced, which would be your preferred model for the tax treatment of contributions? (Please allocate a score to each, with 1 for 'most preferred')*

	1	2	3	4
Full exemption for both member and employer contributions, on the principle that there is no direct correlation between the monetary value of contributions and the value of the accruing benefit	60%	10%	20%	10%
Full exemption for employer contributions and the existing system of tapered rates of relief for higher earners	0%	60%	30%	10%
Full exemption for employer contributions and basic rate relief for all members	30%	20%	50%	0%
A TEE system in which the employer contribution is taxed as a benefit in kind and member contributions are made from net earnings	10%	10%	0%	80%

Comments included the following:

DB benefits are not guaranteed and taxing members on benefits that are later cut back to PPF assuming it still exists will not be trusted Nobody in their right mind can be confident of delivery on the second E in TEE

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Survey question 12

*Were a separate tax regime for **defined contribution** schemes to be introduced, which would be your preferred model? (Please allocate a score to each, with 1 for 'most preferred')*

	1	2	3	4
The existing system of allowances, retaining both the Annual and Lifetime Allowances. 25% of emerging benefits are tax free; the remainder taxed at the member's marginal rate.	45%	22%	33%	0%
A modified version of the current system which retains just the Lifetime Allowance. 25% of emerging benefits are tax free; the remainder taxed at the member's marginal rate.	22%	45%	33%	0%
A modified version of the current system which retains just the Annual Allowance. 25% of emerging benefits are tax free; the remainder taxed at the member's marginal rate.	22%	33%	34%	11%
A TEE system in which all emerging benefits are tax free	11%	0%	0%	89%

Comments included the following:

who would rely on future governments not reneging on promises!

I don't like any of the suggestions with the increased ISA limits I do not see the rationale for tax free cash.

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Survey question 13

*If a separate tax regime for **defined contribution** pensions were to be introduced, which would be your preferred model for the tax treatment of contributions? (Please allocate a score to each, with 1 for 'most preferred')*

	1	2	3	4	5
Full exemption for both member and employer contributions	45%	11%	0%	22%	22%
Full exemption for employer contributions and a flat rate of relief for member contributions	22%	45%	33%	0%	0%
Full exemption for employer contributions and a tapered rate of relief for member contributions	0%	33%	44%	22%	0%
Full exemption for employer contributions and basic rate relief for members	22%	11%	22%	45%	.0%
A TEE system in which the employer contribution is taxed as a benefit in kind and member contributions are made from net earnings	11%	0%	0%	11%	78%

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Survey question 14

*If a separate tax regime for **defined contribution** pensions were to be introduced, which would be your preferred model for the collection of contributions? (Please allocate a score to each, with 1 for 'most preferred')*

	1	2	3	4
Use just the Net Pay system (as with occupational schemes)	22%	45%	22%	11%
Use just the Relief at Source system (as with contract-based schemes)	22%	33%	45%	0%
Retain the current system of both Net Pay and Relief art Source	56%	11%	33%	0%
A TEE system in which the employer contribution is taxed as a benefit in kind and member contributions are made from net earnings. Matching contributions are made by Government in respect of member contributions	0%	11%	0%	89%

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Consultation question 6

What administrative barriers exist to reforming the system of pensions tax, particularly in the context of automatic enrolment? How could these best be overcome?

Survey question 15

What administrative barriers exist to reforming the system of pensions tax, particularly in the context of automatic enrolment?

Time constraints within the joining window for AE	38%
Difficulties in estimating earnings for high earners	63%
Member resistance to having employer contributions / accruing benefits taxed as a benefit in kind	75%
Harmonising tax treatment for any new regime with benefits accrued / contributions made under the existing system	75%
Other	13%

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Survey question 16

In the context of combining a new tax regime with existing arrangements, can these obstacles be adequately overcome?

Yes	37%
No	63%

Comments included the following:

Simplifying the regime to flat rate for all future contributions and limiting the accrual for tax relief could be implemented by drawing a line under the past and applying the new simple regime to all future contributions.

can be - but "will be" is a different matter

They can be overcome but probably at a considerable expense. The pension tax regime is becoming ever more complex with little benefit

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Survey question 17

Could a new TEE regime for pensions only work if applied to arrangements commencing at a set future date, with existing conditions continuing to apply to existing schemes?

Yes	37%
No	63%

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Consultation question 7

How should employer pension contributions be treated under any reform of pensions tax relief?

Survey question 18

How should employer pension contributions be treated under any reform of pensions tax relief? (Please allocate a score to each, with 1 for 'most preferred')

	1	2	3	4
The existing EET system should be retained	88%	0%	12%	0%
TEE but with full tax exemption for employer contributions	0%	50%	13%	38%
TEE with employer contributions taxed as a benefit in kind	0%	12%	50%	38%
TEE with employer contributions made as a matching contribution to member contributions	12%	38%	25%	24%

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Consultation question 8

How can the government make sure that any reform of pensions tax relief is sustainable for the future?

Survey question 19

How can the government make sure that any reform of pensions tax relief is sustainable for the future?

Ensure that there is effective consensus between the political parties and pensions industry in order to ensure stability	50%
Work with the pensions industry to ensure that there are appropriate financial products to provide simple retirement solutions	50%
Promote increasing levels of savings	63%
Other	38%

Comments included the following:

The pensions (and financial services) industry is notorious at putting itself first rather than the pension Members. Pension Trustees and Independent Pension Trustees should be working with Ros Altman. We do not need clever new products from ABI members designed to feather their own nests!

There are no guarantees in this business and the government cannot be trusted.

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Additional comments concerning the consultation as a whole included the following:

I believe that a flat rate relief of 25% for both employer and employee contributions would be fairer and target the correct socio economic group. With limits on AA for DC of £40,000 (retaining £10,000 DC accessed AA) Abolish LA and for DB Limit relief to schemes that have a maximum accrual of 1/60th with a max pensionable salary of £150,000 and limit tax free cash to a maximum of £400,000

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Yours faithfully,

Nita Tinn
Association of Professional Pension Trustees