

Press Release

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Immediate Release

STOP, LOOK, LISTEN – GOVERNMENT MUST RETHINK PENSIONS TAX PLANS

The Government must stop its plans to change pensions taxation for high earners, look carefully at the threat they pose to wider pension provision, and listen to the pensions sector's alternative approach. This is the message given in the NAPF's response¹ to a Government consultation² today.

The NAPF believes that the Government's proposals will affect people far below the target group of those earning over £130,000 and that this will also result in very high implementation costs for pension schemes and employers. The proposals also depart from the UK's long-established approach to pensions taxation.

The NAPF has proposed a simpler alternative approach to pensions taxation which would involve radically reducing the annual allowance for tax-favoured pension contributions from the current limit of £245,000 to a range between £45,000 and £60,000. This proposal was first outlined in the NAPF's Budget for Pensions submission³ sent to the Chancellor, last week.

NAPF Director of Policy, Nigel Peaple, said:

"We are asking the Government to stop, look and listen.

"The Government should stop its plans to introduce an entirely new approach to pensions taxation for high earners, look carefully at our evidence of the threat posed to other pension savers, and listen to our proposals for an alternative approach.

“The NAPF aims to encourage good workplace pensions for all. Our alternative to the Government’s proposals will help achieve this goal.”

Background

The NAPF's response:

- Sets out an alternative approach, based on reducing the Annual Allowance. Under the NAPF's alternative, the Annual Allowance would be reduced from the current £245,000 to a range between £45,000 and £60,000. This would work with the grain of existing pensions tax policy, yet allow the government to raise much-needed additional tax revenue.
- Demonstrates that under the wrong circumstances many people earning salaries between £40,000 and £80,000 a year, and not just the 1% of earners targeted, could be caught by the Government's proposed new regime. This could happen if someone received a promotion, relocation expenses or a redundancy payment (see case studies in annex A)
- Shows how, based on research amongst NAPF members, the Government's proposals are likely to disengage senior company pensions decision makers from pensions. At a time when workplace pensions are in a fragile state, this could further undermine pension provision across the income scale if, ultimately, schemes close.
- Shows how the NAPF's approach will help companies avoid high and disproportionate implementation costs. Pension experts believe that these are likely to be 10 times higher than the Treasury estimates (see indicative cost estimates in annex B).
- NAPF analysis suggest that the savings in tax relief to the Treasury under its proposals will be similar to those likely under the Government's approach. It also finds that the yield from the latter will be between £900 million and £1.5 billion – far lower than the £3 billion estimated.

ENDS

Notes to Editors

1. The NAPF's response to HM Treasury consultation "Implementing the restriction on pensions tax relief" can be found at: <http://www.napf.co.uk/policy/recentreports.cfm>
2. The HM Treasury's consultation "Implementing the restriction on pensions tax relief" can be found at: http://www.hm-treasury.gov.uk/consult_pensionsrelief.htm
3. The NAPF's Budget submission "A Budget for Pensions" was published on Thursday 25th February at: <http://www.napf.co.uk/policy/recentreports.cfm>

About the National Association of Pension Funds

The NAPF is the leading voice of workplace pensions in the UK. We speak for 1,200 pension schemes with some 15 million members and assets of around £800 billion. NAPF members also include over 400 businesses providing essential services to the pensions sector.

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Annex 1

Case studies - How those earning far less than £130,000 a year can be affected

A) Janet – the mid-career high achiever on £70,000 a year

Janet is a Chief Accountant aged 45 on a basic salary of £70,000 and is eligible for a performance bonus of £35,000 a year. She receives a car allowance of £8,000 per year and other benefits worth £2,000 a year. Janet has been with the company and in the DB pension scheme (1/60th accrual) for 20 years.

Janet is promoted to Financial Controller receiving a salary increase of £10,000 per year. It has been a very successful year for her employer and Janet has met her objectives so she also receives her maximum bonus of 50% of base salary. Her total income is now £130,000.

Janet's income is now higher than the income 'floor' (£130,000) and so the deemed value of her employer contributions must be calculated and then added to her current income, to establish her gross income. As Janet is in a good DB scheme the deemed contributions are calculated as being £54,000, bringing her gross income for the purpose of the new pensions tax regime to £184,000. Janet will now become subject to a tax recovery charge of £14,200 – a figure greater than her £10,000 per year salary increase.

B) Dave – the successful manager on £40,000 a year who has to relocate with his job

Dave is a Sales Manager aged 50. He is on a salary of £40,000 a year and is eligible for a performance bonus of £12,000. He also receives a car allowance of £5,000. He has been with the company for 25 years and has been in the (1/50th) DB pension scheme for 25 years.

Dave receives a promotion to Area Sales Manager with a salary increase of £10,000 per year and a larger potential bonus of £15,000 a year. However, to get this new role, he has to move to another part of the country. The company provides him with a relocation package of £40,000 which, when grossed up for tax purposes, amounts to £67,000. As a result, his total income is now £137,000.

Dave's income is now higher than the income 'floor' (£130,000) and so the deemed value of his employer pension contributions must be calculated and then added to his current income. Although originally only on a basic salary of £50,000 a year, due to the relocation package his gross income is now calculated as £137,000.

As the employer's deemed DB contributions are calculated as being the equivalent of £120,000, for the purposes of the new tax regime, Dave's gross income will be calculated as £257,000 and he will be required to pay a tax recovery charge of £34,700, which is more than three times greater than his salary increase.

c) John – the middle ranking executive who gets made redundant due to the recession

John is an HR Manager aged 59. He is on a salary of £80,000 a year. He also receives a car allowance of £5,000. He has been with the company and a member of the (1/60th) DB pension scheme for 20 years

John is made redundant and receives a redundancy payment of 1 x salary (£80,000) of which the initial £30,000 is tax exempt. John's income is now higher than the income 'floor' (£130,000) and so the deemed value of his employer contributions must be calculated and then added to his calculated income of £135,000 to establish his gross income. As John is in a good DB scheme the deemed contributions are calculated on a prescribed formula, which in John's case includes allowance for payment of an unreduced pension from age 60, as £137,400. This brings his gross income for the purpose of the new pensions tax regime to £272,400. John will now become subject to a tax recovery charge of £39,720 plus £20,000 tax on the net redundancy payment - a total tax charge of £59,720.

Annex 2 : Indicative Costs provided by NAPF members

Scheme Pays

HMT estimates that the total cost to schemes of operating the scheme pays regime would amount to around £110 million per year. However, we estimate the cost would be at least £420 million but could be as high as £840 million. (We estimate the cost per member to the scheme to be around £2,800. The NAPF calculation assumes that between 50 and 100 per cent of the HMT target group elect to use this option.)

Administration

HMT estimates that the cost of manual calculations required in the new regime would result in a cost of £275 per scheme but NAPF believes the costs will be between £1,000 and £2,000 per individual case. Therefore, while Treasury believes one off costs will amount to £15 million, we estimate they will be £300-600 million.

Guidance and Advice

HMT estimates that the total cost to schemes and employers of providing financial advice and guidance to effected employees would amount to £60 million. However, the NAPF estimates the cost could be as high as £210 million if all the target group are affected and much higher if, as we expect, people outside of the target group are also provided with advice. If the latter takes place, the costs could reach £500 million.

Other

In addition some schemes who have to upgrade their IT systems to take account of the proposed changes have estimated costs of £20-£30,000 to undertake minor changes. Finally most scheme managers will need to consult lawyers and actuaries regarding the specific impact of the changes on their own pension scheme. Average fees of £400-500 per hour for professional advice will increase the implementation costs of the Government's proposals.