



## NEWS RELEASE

*The Government's pension tax changes in the Budget will have a far wider destructive impact on pension provision than just for top earners...*

### **MANY MORE PRIVATE SECTOR EMPLOYEES WILL LOSE OUT FROM PENSION TAX HIKE THAN GOVERNMENT ADMITS**

**24 April 2009: The Chancellor's Budget announcement that pension tax relief will be restricted for top earners would seem at first sight to be a measured response to the need to increase Government revenues in difficult economic times. But as has happened before, the Government has taken a decision that will contribute to many more private sector employees losing their quality pension schemes, says the Association of Consulting Actuaries (ACA).**

**Keith Barton, ACA Chairman** commented today:

"The Government seems to have a deft touch in finding policies that have the unintended consequence of damaging quality private sector pension provision.

"At a very cursory first blush, or with a scan of the political "sound bites", the proposed approach may look 'fair' – the highest paid bearing the greatest tax burden – but the new structure clearly does not survive any considered scrutiny. Can it be 'fair' that thousands of employees on lower incomes are now likely to pay the price because the Government has not properly considered the overall impact of their rushed decision?"

"The stark reality is that quality workplace pension schemes are expensive to maintain, particularly in current economic circumstances. And locking income away into long term savings needs a tax incentive. A taxation policy that by 2011 will generally result in the high earning leaders of business having a tax penalty by saving in the company's pension scheme (only 20% relief on pension savings and probably 40% tax when the pension is paid) is mad. It will inevitably end the valiant resistance of many of these senior executives to closing off quality pension arrangements, thereby affecting employees at all levels.

"The Government is well aware from our surveys and those of the NAPF that quality private sector schemes are closing and, even before this latest destructive announcement, there was an acceleration in closures forecast over the period ahead. That forecast will now become a reality, reinforced with a vengeance. So a policy aimed to add to the massive revenue raising from what is characterised as a "favoured" minority will, in reality, mean hundreds of thousands of private sector employees are set to at best get 'levelled-down' pensions. Many will get the basic minimum from 2012 in the shape of personal accounts – one way of ensuring success with that policy!"

How can a sensible tax system incorporate an in-built deterrent to those who aspire to do well and make prudent saving for their own retirement? The ACA is also concerned that the announcement is riddled with the usual complexity associated with Government pension reforms, usefully allied with many as yet 'unknown' details, but inevitably undermining much of the 'simplified' tax regime introduced only a few years ago in 2006. Examples are that individuals will be taxed upfront – a benefit in kind tax – on the part of pension the employer pays for, even though the individual will not see the benefit till they retire. And exactly who is caught by the £150,000 cut-off will be a technical nightmare: the £150,000 looks to include investment income – and will it, from 2011, include the value of pension?

The transitional arrangements, proposed to be introduced with immediate effect, as currently framed certainly demonstrate complexity. They also discriminate against many small business entrepreneurs and professionals who have not regularly saved for pensions on at least a quarterly basis - Government acknowledges this and we await more sensible proposals.

Whilst we hope that meaningful consultation will take place to avoid the worst of the problems past pensions consultations have been little more than window-dressing, so the ACA does not have any cause for optimism on these grounds.

"If the Government wanted to find ways of reducing tax reliefs available from pension schemes, there are far simpler and less damaging ways this could have been done," said Keith Barton.

**For further details:**

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***Note to Editors:***

**About the Association of Consulting Actuaries (ACA)**

The **Association of Consulting Actuaries (ACA)** is the representative body for consulting actuaries, whilst the Faculty and Institute of Actuaries are the professional bodies. The ACA has over 1650 members working in around 80 firms. ACA Members are all qualified actuaries and are subject to the code of professional conduct of the Faculty and the Institute of Actuaries. Advice given to clients is independent and impartial. The ACA forms the largest national grouping of consulting actuaries in the World.