Institute and Faculty of Actuaries

Pensions Policy
HM Revenue & Customs

5 September 2014

Dear Sirs

Taxation of Pensions Bill 2014

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to this consultation. The response has been prepared by some of our members who advise sponsors and trustees of pension schemes.

2. The IFoA has mainly focused its comments on the interaction of the draft Bill and the policy intention announced by the Chancellor of the Exchequer in the March Budget. The comments consider the impact of the Bill on what retiring members may expect from the Guidance Guarantee. If the implementation of the new retirement income flexibilities is to be successful, the Guidance provided should highlight the potential tax implications for certain types of decision otherwise retiring pension scheme members may face unexpected tax payments.

3. The Chancellor's announcement should lead to more flexibility around retirement income for many scheme members. As the flexibility will be applied to smaller pension pots than was previously the case, members need to clearly understand what their options are to benefit from better outcomes. Therefore, an approach that emphasises simplicity will be important.

4. The IFoA also recognises the duty for HMRC to prevent abuse of the new flexibility. The proposal to introduce a reduced Annual Allowance after the commencement of drawdown seems to be a balanced approach

5. However, there may be circumstances where recipients of retirement income may continue to work in part-time employment. There may be good reason for individuals to take drawdown while simultaneously wishing to make additional pension contributions from employment. There is a balance between the prevention of tax avoidance and legitimate use of income to build pension savings for later years.

6. The second Lifetime Allowance test at annuitisation, or 75, may be difficult to conceptualise at the point at which individuals commence drawdown. This automatically makes the retirement decision making process more difficult. The provision of Guidance must ensure that this is taken into account; otherwise, individuals may regret particular courses of action.

7. In the response[1] to the original Treasury consultation, the IFoA suggested that a default decumulation strategy is required at retirement. Such a strategy could nudge scheme members towards a good outcome, recognising that good does not mean the best outcome, but also reducing the risk of poor outcomes. Given the extent of recently announced changes in pensions, the IFoA would encourage HMRC, HM Treasury and DWP to ensure that the

[1] http://www.actuaries.org.uk/research-and-resources/documents/ifoa-response-hmt-freedom-and-choice-pensions

resulting pensions regime is sufficiently clear and consistent that enables individuals to benefit from the flexibility afforded.

8. In terms of the detailed text, the IFoA notes that the definitions of “money purchase” and “defined contribution” are not consistent across existing tax legislation; the Pensions Schemes Bill and the new Taxation of Pensions Bill and wonder if it is possible for this to be addressed.

9. If you wish to discuss any of the points raised please contact Philip Doggart, Policy Manager (philip.doggart@actuaries.org.uk/ 01312401319) in the first instance.

Yours faithfully

Nick Salter
President, Institute and Faculty of Actuaries