PENSIONS AND LIFETIME SAVINGS ASSOCIATION

07 February 2020

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HM Treasury
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By e-mail to: Budget.representations@hmtreasury.gsi.gov.uk

Dear Sirs,

PLSA Budget Representation

The Pensions and Lifetime Savings Association (PLSA) welcomes the opportunity to submit its views in advance of the forthcoming 2020 Budget.

The PLSA represents more than 1,300 workplace pension schemes serving 20 million savers and pensioners. Our members include defined benefit and defined contribution schemes, master trusts and local government pension funds, together managing £1 trillion of investments in the UK and global economy. Our mission is to ensure that everyone has a better income in retirement.

We believe that the measures set out below will help ensure the UK Government goes on supporting UK pensions, millions of savers and the wider UK economy.

If you would like to discuss anything contained in this letter in greater detail, please do not hesitate to contact me.

Yours sincerely,

Nigel Peaple

Nigel Peaple
Director of Policy and Research

PLSA BUDGET REPRESENTATION – FEBRUARY 2020

1 Pensions Tax relief

There are three areas where the PLSA believes changes can be made to simplify the pensions tax relief system: ensuring low earners get full tax relief in net pay schemes; removal of the high earners taper to the annual allowance; and a review of the Money Purchase Annual Allowance.

The Government incentivises pension saving through tax relief in order to help people maximise their savings. However, more than a million low earners are missing out on tax relief on their pension contributions through no fault of their own. It is of paramount importance that savers on modest incomes in net pay arrangements do not continue to miss out on tax relief. Under RAS it is established government policy to give non-taxpayers basic rate tax relief on relievable pension contributions, but this is not available to non-taxpayers in net pay arrangements.

The individual has no control over which form of tax relief is used. This makes pension saving up to 25% more expensive for those in net pay arrangements compared to a worker contributing to a RAS arrangement. Our calculations show this technical anomaly is leaving 1.75 million of the lowest paid pension savers worse off. On the minimum auto-enrolment contributions, they are losing up to a total of £63 a year each, but in many schemes it can be at least double this figure. Of the affected population, over 75% are female.

The PLSA has done a considerable amount of work on this issue with a view to finding a solution. We are part of the Net Pay Action Group, a pan-industry stakeholder group, which is proposing that the problem be addressed via a modification of HMRC's "P800 process". This would enable HMRC to collect real time information on savers' earnings and pension contributions automatically, allowing them to calculate and apply the appropriate pensions tax relief to all savers, no matter what type of scheme they save into or their income bracket. To achieve this, a legislative change is urgently needed to deliver a full resolution and we are working to achieve this outcome.

The PLSA welcomes the Conservative manifesto commitment to review the taper problem for senior clinicians in the NHS. However, we ask HM Treasury to consider removing the taper for all schemes to address the issue in the private and public sector. The gradual reduction in the annual allowance since 2006, and in particular, the potential withdrawal of three quarters of that annual allowance for people on higher earnings – even if their overall lifetime pension saving is very low – has meant that many people do not understand how much pension saving they can undertake. In addition, and importantly, the operation of the high earners taper creates a very substantial administrative burden on UK businesses and organisations. All schemes find the taper complex to administer, as it often requires information about an employee's entire personal financial position not just remuneration, and the calculation is different depending on whether they are in a DB or DC scheme. This affects both public and private sector schemes. It is estimated that 300,000 people per year could be affected by the high earners taper[1]. We would ask that any recommendations are publicly consulted on and would welcome the opportunity to speak to HM Treasury about the issue before this is published to feed in the views of our members.

[1] HMRC Policy Paper: Pensions tapered annual allowance https://www.gov.uk/government/publications/pensions-tapered-annual-allowance/pensions-tapered-annual-allowance

Finally, the PLSA agrees with the Office of Tax Simplification recommendation that the Money Purchase Annual Allowance be reviewed, and better evidence gathered, as it may affect people looking to genuinely save into their pension, particularly those who have accessed their pension between spells of employment or returning to work for affordability reasons. Many people in their late 50s and early 60s who access their pensions and continue to work do not realise that doing so will reduce the amount of tax-relieved saving they can do.

2 Continued support for the success of automatic-enrolment

Automatic enrolment is one of the policy success stories of the last decade and enjoys widespread support across all political parties and the pensions industry. Because of automatic enrolment, circa 10 million new savers have been enrolled into a workplace pension for the first time. It is imperative for the future retirement security of savers that automatic enrolment continues to succeed and enjoy high levels of support.

It is well established that the younger the age at which people start saving, the more chance they have of retiring well. It is also important that every pound counts. We are disappointed that the government has not yet implemented its commitment to remove the Lower Earnings Limit (LEL) by the mid-2020s as committed to in the 2017 automatic enrolment review. We would urge Government to remove the LEL and lower the minimum age for automatic enrolment from 22 to 18.

According to PLSA research, less than 50% of all savers are on track to achieve an adequate income in retirement, and for those who only have DC pensions, only 3% of savers are likely to achieve this outcome. At the current contribution rate of 8% of automatic enrolment band earnings the majority of savers are unlikely to have a good standard of living in retirement. To improve adequacy levels, we propose increasing automatic enrolment contributions to 12% of salary by 2030, split 50-50 between employer and employee. This policy would help to ensure individuals can have a better income in retirement as well as providing valued investment into the UK economy.

3 Long-Term Care

Finding a sustainable funding solution for long-term care that will endure for a generation is an important issue and we know this Government would like to address as a priority. Health and social care services face a fundamental demographic challenge: an ageing population, with rising life expectancy, which is not matched by an improvement in healthy life expectancy. Current evidence suggests that approximately 1 in 4 men and 1 in 3 women aged 65 will have care needs at some point in their lives.

The PLSA believes that the Government should set out a sustainable funding solution. In order to be both practicable and desirable, the PLSA believes that any solution for long-term care must meet the following four tests:

- i. **Retirement Income Adequacy**: Proposals should aim to maintain the level of adequacy of individuals' pension savings, which they will need to support everyday living costs in retirement.

- ii. **Universality**: Proposals should offer a solution that is likely to result in a high degree of coverage for all those in need of long-term social care.

- iii. **Fairness:** Proposals should be grounded on the notion that those who are able to pay the costs of their long-term social care should do so. Those who cannot afford to do so should be supported via public expenditure.

- iv. **Affordability:** Proposals should be affordable for the Government and not create an unsustainable system.

4 Ensuring the future of Defined Benefit Schemes through enabling superfunds.

Today, eleven million people in 5,600 private sector schemes rely on DB scheme benefits for a secure pension in retirement. However, the majority of schemes remain in deficit, and have been so for nearly a decade despite over £120 billion of special contributions and close to £400 billion in overall contributions. Research carried out by the PLSA found that around three million scheme members were at risk of not receiving their full benefits and that for all but the strongest schemes and employers, insured buy out would be unachievable now, or in the near future due to both cost and market capacity.

We encourage the Government to bring forward legislation that will enable the creation of pension superfunds. We believe these funds can provide new options for employers, often in struggling regions or sectors of the economy to manage legacy pensions obligations and provide secure outcomes for savers. Our research indicates the result of these changes would result in employers having greater freedom to focus on investing in company growth, research and equipment. At scale, such pension funds, free from restrictive European regulation, would also provide vital and sustainable long-term investment into the real economy.

5 Investable Assets

The uncertain economic and financial climate, combined with a low interest rate environment, has meant that schemes have been struggling to get the investment returns they need to deliver the best possible long-term value for pension savers. It is, therefore, essential that both DB and DC pension funds can access – where desirable – a wide range of appropriately structured assets and securities to help them diversify in a way that enhances their investment portfolio and adds value to savers' capital.

6 Proposed changes to RPI index

In advance of the proposed consultation on changes to the RPI index, we feel it is important to stress the consequences this may have on pension schemes as investors and individual savers. Pension schemes hold the vast majority of index linked gilts and it is estimated that wholesale changes could result in schemes suffering a £100bn fall in the value of their assets. Increases in millions of savers pensions are also promised (in trust or contract) against RPI increases, which are hard-wired into both legislation and scheme rules and cannot be changed easily (as many High Court cases have proven). For individual savers the result could lead to a reduction of up to 15% of their retirement income. We therefore urge HM Treasury to engage with the industry and give consideration to a timeframe and approach that mitigates the impact on pension savers.