NAPF
Securing the future of pensions

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Dear Ed

NAPF response to draft guidance on clauses for the Taxation of Pensions Bill

The NAPF welcomes the opportunity to comment on the draft clauses to the Taxation of Pensions Bill. The main concern of pension schemes following the publication of the Government's Freedom and Choice agenda is the lack of time to implement the reforms before April 2015. We therefore welcome the permissive nature of the reforms which recognise that not all schemes will be able or willing to implement the flexibilities within a few months. In many cases offering flexi-access drawdown within the scheme will never be cost-effective, and so it is right that schemes will not be forced to do so.

We also welcome the pragmatic approach towards the risks of tax avoidance, which should enable the costs and burdens on schemes to be limited. To achieve this, the implementation of the reduced £10,000 'money purchase annual allowance' and £30,000 'alternative annual allowance' must be kept as simple as possible. It is therefore essential that HMRC continue to:

a. Keep reporting requirements simple, with schemes able to assume that the £40,000 annual allowance is in place unless they are told otherwise; and
b. Only allow tax charges to be paid via the scheme ("scheme pays") when related to the £40,000 annual allowance, and not when related to the reduced allowances.

However, the application of the new annual allowance rules on hybrid pension schemes is very complicated for those running the schemes, and could unfairly catch some scheme members making legitimate contributions. The NAPF is sceptical that hybrid pensions will be abused for tax avoidance and believe it would be fairer and simpler for a charge to only be triggered on the higher DB or DC benefit input amount. We would urge you to only adopt the more stringent rules set out in your draft documents if monitoring after April 2015 reveals that new hybrid schemes are actually being set up for the purposes of tax avoidance.

Looking at the wider impact, to make these reforms a success it is essential that schemes can explain the choices open to their members simply and clearly. Concepts like 'crystallisation' will not be easy to convey – but have important ramifications for the individual saver. Schemes are experienced at communicating with their members and we would encourage Treasury and the guidance guarantee providers to work with us to develop simple ways of communicating the complex options for members.

Even with the help of guidance, many scheme members will find the options available baffling and will struggle to select an appropriate mechanism for turning their pot into an income. Pension schemes can potentially help their members by using their expertise to highlight options that are good value. Schemes sifting the market and nudging members towards sensible decumulation strategies will help unengaged pension savers take advantage of the freedoms and choices being offered by the Government. This is a development that should be encouraged by Government within schemes that have robust governance arrangements that ensure they are acting in their members' interests.

Yours sincerely

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