AMPS ASSOCIATION OF MEMBER-DIRECTED PENSION SCHEMES

Response to HM Treasury document "Reducing the money purchase annual allowance: consultation" published 23 November 2016

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Correspondence Address :

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About AMPS:

History:

- Founded in 2005 to provide a collective voice and lobbying forum for representatives of the self-invested pensions industry (Self-Invested Personal Pensions, SIPPs, and Small Self-Administered Schemes, SSAS)
- Formed by merging the Association of Pensioneer Trustees and SIPP Provider Group in anticipation of the simplified pensions regime introduced on 6 April 2006 ("A Day")

Structure:

- Managed by a Committee of elected members
- Monthly Committee meetings with a formal agenda
- Sub-Committees dealing with various key areas: Compliance, HMRC Technical, Legal and Platforms

Membership*:

- Approximately 150 SIPP Operators including James Hay, Suffolk Life and AJ Bell
- Membership operates/administers the vast majority of both SIPPs and SSAS
- Number of SIPPs under administration: 1m+
- SIPP assets under administration: £125bn+
- Number of SSAS under administration: 16,000
- SSAS assets under administration: £26.5bn+
- Law firms which specialise in pensions and compliance issues
- Information technology firms which provide ancillary services to SIPP/SSAS operators
- Independent compliance firms

Objectives:

- To provide an industry forum for the exchange of views and knowledge for our members
- To interact with government departments and regulators on industry issues
- To liaise with other Industry bodies in areas of mutual interest
- To provide a source of informed comment to the media

Activities:

- Engagement with HM Revenue & Customs, Department for Work and Pensions, The Pensions Regulator, HM Treasury and Financial Conduct Authority
- Providing training to our membership through regular targeted conferences and workshops
- Issuing newsletters to our membership
- Reporting items of interest on the membership website and facilitating open discussion and forums
- Responding to government-led and regulator-led consultations
- Maintaining close links with other industry bodies including the Association of British Insurers (ABI), Tax Incentivised Savings Association (TISA), Investment and Life Assurance Group (ILAG) and Wealth Management Association (WMA)

* Membership data based on latest estimates

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Question 1:

Do you agree that a £4,000 MPAA would minimise re-cycling pension savings and that, coupled with ongoing monitoring, the new MPAA will allow the continued successful roll-out of automatic enrolment?

Though we do not have access to relevant data, we suspect that there is not a large, coordinated or determined group of pension savers who have set out to exploit the tax relief system by combining income drawdown via pensions with re-funding, through the same money, of pension schemes. The main purpose of pension schemes is to provide income in retirement. Whilst ability to draw benefits without leaving employment of course gives rise to the prospect of continued funding after benefits have come into payment, we would expect it to be more likely that pension scheme members who carry on working beyond the minimum pension age of 55 would prefer to delay drawing benefits and to continue to fund for pensions via regular contributions, through earnings, such that potential tax-free lump sums can be maximised; rather than to crystallise benefits prematurely in order to divert pension income back into pensions.

Of course, there might be some who are already engaged in this process of what the consultation describes as “re-cycling pension savings”. It seems obvious that a reduced MPAA will reduce this; whether a £4,000 MPAA reduces it to an extent which HM Treasury would see as “minimised” is perhaps a matter of semantics. The lowest figure possible would ‘minimise’ re-cycling; £4,000 seems no less arbitrary to us than the current £10,000 figure. Whilst the introduction of the MPAA was perhaps understandable given that the annual allowance was conceived and introduced at a time when the types of flexible benefit provided for in Taxation of Pensions Act 2014 were unavailable, funding pension contributions using pension income was already possible in theory, before 6 April 2015 when the MPAA was introduced. We suspect that many in the pensions industry and, more importantly, many savers, see the MPAA as a further unnecessary complication for pensions and disincentive to pensions saving. Each new complication, for pensions, seems also to highlight the simplicity of Individual Savings Accounts and risks giving the impression that pensions are being left behind as the government furthers what might be a preference for the taxed-exempt-exempt structure to which ISAs are subject. Rising ISA allowances would seem to emphasise this.

We would prefer that this question in the consultation had been broadened to whether it is right that pension saving should be further discouraged and complicated by yet another squeeze on tax allowances. Question 2 would seem to offer greater prospect for examining this concern.

The proposed level of the MPAA need not, on current and forthcoming levels of minimum contributions, be viewed as a barrier to successful implementation of auto-enrolment; at least, that is, where total contributions are not significantly higher than the minimum. At the total minimum contribution level of 8% of qualifying earnings as due from April 2019, and at the upper earnings level of £827 per week, the annual contribution would be £3,440 per annum, and therefore within the proposed level of the MPAA. Though our concern regarding a reduced MPAA is less its potential interaction with auto-enrolment than its further complication of pension tax reliefs in a manner tending to disincentivise saving for pensions, we would observe that contribution rates linked to “pensionable pay” rather than to “qualifying earnings” could still bring many more people, of not immodest remuneration, within the MPAA via their auto-enrolment arrangements. This would seem a regrettable clash, particularly where the MPAA has been invoked in circumstances such as those considered in our response to the second question in this consultation

Question 2:

Is there any evidence that setting the MPAA at £4,000 would impact disproportionately on particular groups?

There might be many legitimate reasons for continuation of pension contributions after benefits have come into payment, without thought as to re-cycling. These might include contributions from the following 'groups':

- Those who gave effect to receipt of benefits at the earliest permitted age, for reasons of necessity rather than desire. This might be due to financial emergencies such as, for example, the need to bridge a shortfall on a maturing endowment mortgage; to pay towards care costs for a relative; or to assist in the cost of further education for children still largely dependent on parental aid. Whilst benefits might have come into payment at age 55, such a person's working life might continue for many years more. It would seem unjust to restrict tax relief to an amount only £400 greater than a tax-relievable contribution of £3,600 which can be paid irrespective of earnings, for a person to whom the concept of re-cycling might not even have occurred.

- Those who are subject to reduced working hours and need to supplement their income from pension savings, but who wish to continue funding for pensions from their current earnings. Reduced working hours might be in operation for many reasons: the employee's health might not be conducive to full-time hours; the employer might not be in a position to offer the employee a full working week; or the employee might simply be in a process of phased retirement.

- Those whose pension funds have been reduced as a result of pension scam activity. Pension scams have been particularly effective in those who were aged below 55 at the time of the scam, and who were easily persuaded as to the illusion of being able to draw benefits tax-efficiently before age 55. Where the financial condition of such persons necessitates the drawing of benefits from their remaining funds from age 55, those persons might wish to rebuild their pension savings from continuing employment income, and should not be discouraged, through the tax system, from doing so.

- Those whose pension savings have been unavoidably restricted at some time in life, perhaps due to periods spent in full-time parenthood rather than in work; or due to years of self-employment in which ability to make pension contributions, without the presence of an employer willing to part-fund such payments, has been compromised by the priority of maintaining the business during lean periods of trading.

- Those for whom there is a generous employer pension contribution. It should be remembered that the MPAA includes contributions from the employer. A measure ostensibly designed to reduce or discourage re-cycling of pension payments might provide for tax charges on employees who are not paying pension contributions, but whose employer does so on their behalf. There is unlikely to be any 're-cycling' in these circumstances, yet these employees seem likely to be penalised, under this proposal, as though there were.

We would hope that the above concerns would be shared by government, and that it would be recognised that the penalising of the groups concerned could be more harmful, in overall cumulative effect, that the potential benefit to the Treasury of the potential savings associated with the curbing of alleged re-cycling of pension receipts.

We would hope that the government would accept the wider point that another complication to the system of pensions tax relief, is unhelpful; particularly given that this consultation is running concurrently with one concerned with pension scams as referred to in this response. Scam victims need time to rebuild their pensions. Since “pensions simplification” was introduced in 2006, and from the peak of the annual allowance in 2010/11, there have been six adjustments to the rate or application of the annual allowance, all in favour of the Treasury, yet still Treasury thinking seems dominated, as demonstrated in the consultation document to which we now respond, by the perceived ‘cost’ of pensions tax relief; as though it were some wasteful area of government spending, benefiting only the recipient. The fact that the Treasury should feel the need to lament the amount of tax relief given is a tribute to the resilience of UK taxpayers, who have kept faith with pensions despite the wide perception that the amount of government ‘tinkering’ to which they are subject leaves them open to festering uncertainty. In the interests of those groups identified in question 2 of this response, and of pensions generally, we urge the Treasury to resist this proposed measure. It will affect those with the least time to build or rebuild their pension funds. It will further undermine confidence in long-term pension planning. Perhaps most perniciously, it risks signalling, to certain groups of savers, that the government is not on their side. This would be profoundly damaging and disappointing.

The MPAA affects those who have accessed their pension benefits ‘flexibly’, as provided for under Taxation of Pensions Act 2014. Many others might have chosen to continue receiving pensions under the alternative system of capped drawdown, in order to avoid the restrictions provided for by the MPAA. From July 2017, capped drawdown recalculations are likely to introduce reduced income limits, due to the planned introduction of annuity rate tables which provide for gilt index yields as low as 0%, rather than the current minimum of 2%. Capped drawdown members will likely face a choice of a cut in pension income, or reluctant acceptance of the MPAA. This proposed cut in the MPAA would be the wrong change at the wrong time. Again, we urge the Treasury to reconsider.