Leading on Investments and Savings

TISA Response to

Reducing the money purchase annual allowance:

consultation

February 2017

About TISA

TISA is a not-for-profit membership association operating within the financial services industry. The focus of our recommendations and actions is improved outcomes for consumers and UK plc with this approach leading to a stronger UK financial services industry.

TISA's growing membership comprises over 150 firms involved in the supply and distribution of savings and investment products and services. These members represent many different sectors of the financial services industry, including asset managers, insurance companies, fund managers, distributors, building societies, investment managers, third party administrators, consultants and advisers, software providers, financial advisers, pension providers, banks and stockbrokers.

TISA has a successful track record in working cooperatively with government, regulators, HMT, DWP and HMRC to improve the performance of the industry and the outcomes for the public. Effective policy and regulation and the creation of efficient industry infrastructure continues to be the major focus for our members. TISA is unique in that it represents the entire financial services industry, incorporating cross-sector policy, industry and technical expertise. Whilst we maintain a solid partnership with government, the regulators and wider industry, we remain independent and develop neutral views and opinions. This impartiality is reflected in our ability to drive development projects which improve industry performance and consumer outcomes, putting us in the unique position of being able to constantly challenge the status quo to bring about material improvement.

Summary

TISA welcomes the opportunity to provide a response to assist the Treasury in considering the reduced money purchase annual allowance proposal.
We are all aware that the UK has an ageing population and people are working longer. This is supported with ONS employment statistics. If we take the retirement age groups, we see the following increase in employment numbers:

	Sept – Nov 2011	Sept – Nov 2016	Increase
50-64	7,477,000	8,634,000	15.5%
65 and over	890,000	1,223,000	37.4%

There is a rising trend of people working part-time generally throughout the UK labour force. ONS figures show that from 70 onwards, these figures have almost doubled since 2006.

We can therefore accept that it is now part of everyday behaviour for people of pensionable age to retain some form of employment and adopt a phased approach to retirement.

The change in attitude towards retirement has been helped by the introduction of the Fuller Working Lives framework, so what we are experiencing is meeting Government objectives.

However, it should be acknowledged that because of this shift, a consequence is that individuals who have flexibly accessed want to top up their pensions when still in a position of employment.

Whilst the freedoms were a welcome introduction, the only current options to partially access Defined Contribution plans result in the trigger of the MPAA. Reducing the MPAA will further restrict this growing groups ability to top up their pensions and may even mean some cannot remain or receive full benefits from their workplace pension scheme.

Conversely, individuals can access Defined Benefit pots and subsequently maintain or commence contributions to a Defined Contribution plan without triggering the MPAA. Inequalities therefore exist across consumer groups.

We are aware that the reason for this consultation is to control the level of Tax Free Cash recycling. There are various options that could be introduced to meet the recycling objective, whilst giving phased retirees the ability to make further pension savings without the restriction of the MPAA. No one proposal stands at the forefront, however we believe they all merit further consideration. Some may be quicker and more cost efficient to implement than others, so if one of these proposals is taken forward, a formal consultation should take place so full implementation costs and timescales are understood.

Consultation questions and response

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?

A £4,000 MPAA would reduce the recycling opportunities for those who intentionally use this opportunity with personal contributions. However, it is not possible to recycle tax free cash in a workplace pension where contributions are deducted directly from salary and submitted by the employer.

It would further restrict the ability for individuals making genuine contributions to a scheme where they are topping up their pension having flexibly accessed.

Whilst minimum Automatic Enrolment contributions are currently low, there is a requirement for these to be increased beyond 2019 proposed levels in order for individuals to create pension pots capable of providing an appropriate and sustainable level of income.

Individuals and employers which can make contributions above the minimum level should be encouraged to do so now. As such, many employers use PQM and PQM Plus schemes for Auto Enrolment, which have minimum contribution levels of 10% and 15% respectively. Phased retirees may find themselves in a position where they cannot benefit from the full pension benefits available. This will not only affect the high earner bracket. We are looking at middle management professionals, technicians and experienced employees covering a number of sectors such as construction, sales and IT.

If employers increasingly find that their staff do not fit in with their pension schemes, it will gradually undermine their support for these high quality schemes and we will see the increased take up of lower quality schemes as an alternative. Although meeting Automatic Enrolment minimum requirements, it merely defers the problem and does not fit comfortably with the Government retirement policy of 'personal responsibility'.

Question 2: Is there any evidence that setting the MPAA at £4,000 would impact disproportionately on particular groups?

Yes, as outlined above, the proposal discriminates against those who are adopting a phased retirement approach and drawing down a Defined Contribution pension in conjunction with receiving a salary. This set of individuals should be entitled to receive full scheme benefits in the same way that pre-retirement individuals do and those phased retirees receiving a pension solely from Defined Benefit plans. We may also see claims against the employer if part time employees are receiving a reduced pension contribution due to this reason.

PROPOSAL 1

We agree that lump sum recycling goes against the spirit of the tax system and understand that a reduced MPAA does mitigate this to some extent. Putting tax free cash to one side, contributions themselves receive no additional tax benefit as the tax relief on the way in is offset by the tax deduction on the way out through PAYE.

We therefore propose that the MPAA is abolished and a new rule is introduced, whereby anyone who has accessed their pension flexibly loses the tax free cash entitlement to all subsequent contributions. The funds would be held in a separate pension arrangement, in the same way that disqualifying pensions credits are held today. This would allow both employed and self-employed individuals the opportunity to top up their pension funds without the restriction of an MPAA.

We believe that this solution will at a stroke remove the ability to recycle tax free cash whilst providing a very simple consumer proposition – once you have started to draw on your pension, future contributions won't qualify for any more tax free cash.

PROPOSAL 2

As stated above, it is not possible to recycle tax free cash in a workplace pension scheme where contributions are deducted from salary and submitted to the provider by the employer. It is therefore inappropriate to apply the MPAA to members of these schemes and as such, propose such schemes are exempt.

PROPOSAL 3

Reinstate Capped Drawdown in addition to existing retirement options. This will enable individuals to drawdown a level of income to support a phased retirement approach, without triggering the MPAA.

PROPOSAL 4

Introduce a contribution limit based on percentage of earnings, instead of the MPAA. This would work similarly to pre A-Day limits but without the age bandings. We would suggest a percentage of 15% which aligns it to the minimum contribution level for Auto Enrolment schemes carrying the PQM Plus accreditation.