Business Services Association
130 Fleet Street,
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BSA – The Business Services Association

Response to: "Strengthening the incentive to save: a consultation on pensions tax relief"

September 2015

The BSA is pleased to have the opportunity to respond to this consultation from HM Treasury on the pensions tax relief system and potential changes that could be made to strengthen the incentive to save.

The BSA – the Business Services Association – is a policy and research organisation. It brings together all those who are interested in delivering efficient, flexible and cost-effective service and infrastructure projects across the private and public sectors. The business services sector accounts for over 9.3 per cent of economy-wide gross value added to the economy with an annual turnover of around £263 billion, and employs 3.3 million people, or 10 per cent of the UK workforce.[1]

BSA members are closely engaged on pensions policy issues and have contributed to government consultations on Freedom and Choice in pensions and Fair Deal. As large employers, BSA members are concerned about both the impact of unstable pensions policy on employees across the country and on the unintended consequences to business and UK economic growth, of the proposed reforms.

1. **To what extent does the complexity of the current system undermine the incentive for individuals to save in to a pension?**

   The complexities of the UK pension system extend beyond the issues around tax relief, the simplification process introduced by the Pensions Act 2004 layered a further pension structure on top of existing ones and simply led to further complexity and confusion around the applications of the lifetime allowance (the "LTA") and the annual allowance (the "AA).

   The changes in the pension world – largely moving from a defined benefit environment to a defined contribution - has left many people with at least two, if not more, benefit structures for the provision of their retirement income.

   Finally, the introduction of "freedom and choice" in pensions in April 2015, whilst welcome, has left many people uncertain about how best to apply their accumulated pension fund and has led to an increase in fraudulent vehicles to trap the unwary and a nervousness around using up pension funds too quickly and having nothing to fall back on in older age retirement.

[1] Oxford Economics - The UK market for business services, The national, regional and constituency picture in 2013 – January 2015

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The one consistent approach throughout has been the application of tax relief to encourage people to save for their retirement and to encourage employers to make contributions in to pension schemes for employees.
This is not to say that consideration should not be given to how tax relief is applied and the proposed TEE system referred to in paragraph 3.12 would be one approach.

However, we are of the view that it is not the tax relief given on contributions which is the issue which may undermine the incentive to save – in fact, we believe that this approach has been an incentive for people to save. Our view is that it is the complexities around pensions more generally which need to be addressed, particularly anomalies created by the annual allowance for more moderately paid employees with long service in defined benefit schemes or former public servants who transfer to the private sector under the Fair Deal policy.

"Freedom and choice" was a good start to simplifying pension deculmulation but, in our view, further work needs to be undertaken on the complex pensions accumulation environment before tax relief on contributions becomes a disincentive issue.

2. **Do respondents believe that a simpler system is likely to result in greater engagement with pension savings? If so, how could the system be simplified to strengthen the incentive for individuals to save in to a pension?**

Any initiative which gives rise to greater engagement with pension savings is to be welcomed. The introduction of automatic enrolment has been, by all measures, a success to date and is broadly supported amongst our members.

We do not believe that the abolition of tax relief on contributions would serve to encourage greater engagement. In fact, we believe that many individuals would simply take the matter at face value, not look at the future benefits (it is difficult to "sell" the "jam tomorrow" argument) and simply disengage with pension saving entirely.

However, a fairer system of tax relief on contributions would, we believe lead to more engagement from individuals. For example, proposals have been put forward for a single rate of tax relief not linked to a saver's marginal tax rate resulting in higher relative levels of relief for lower earners and consequential lower relief for higher earners.

In short, our view is that the retention of tax relief on contributions - using a more fair method of allocating relief than simply at marginal tax rates - would provide a greater incentive for individuals to save in to pension arrangements.

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3. **Would an alternative system allow individuals to take greater personal responsibility for saving an adequate amount for retirement, particularly in the context of the shift to defined contribution pensions?**

Individuals already take a significant amount of responsibility under defined contribution pension schemes bearing the investment and decumulation risks themselves. Unfortunately, many individuals do not engage with this risk resulting in many defined contribution pension accounts remaining invested in poor performing "default" funds which in turn leads to greater disillusionment with pensions.

Changing tax reliefs on pensions will not, in our view, lead to individuals taking more responsibility for retirement savings; a greater focus on financial education and wider opportunities for individuals to obtain appropriate guidance and help to understand how their decisions affect their future income would be more beneficial to individuals.

4. **Would an alternative system allow individuals to plan better for how they use their savings in retirement?**

Planning for retirement income is a complex issue requiring an understanding of investments, interest rates, inflation and how long an individual may live. Most pension schemes employ professionals to advise on these issues and it is difficult to see how changes to the taxation of pensions can give individuals the skills needed to make these complex planning decisions.

As set out in the response to 3. Above, our view is that greater sources of guidance and help would be more beneficial to individuals seeking to plan for their retirement.

5. **Should the government consider differential treatment for defined benefit and defined contribution pensions? If so, how should each be treated?**

Defined benefit and defined contribution pension schemes are very different in their structure and in the way they are used for the provision of pensions. Consequently, the government needs to look at differential treatment for these types of schemes.

In many cases, our members do not have a choice; government policy requires them to provide defined benefit pension schemes for their employees and, whilst much has been achieved over recent years to assist our members in managing the risks associated with those schemes, there remains the position that they do not have a choice.

This leaves our members with issues around annual allowances during input periods, lifetime allowance issues and the complexities of providing retirement benefits for former public servants

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who have long service in a defined benefit scheme and who may be benefitting from greater pay increases than if they had remained in public service.

Consequently, therefore, we believe that the treatment of defined contribution and defined benefit schemes has to be looked at differently.

6. What administrative barriers exist to reforming the system of pensions tax, particularly In the context of automatic enrolment? How could these be best overcome?

Automatic enrolment has been a success and the abolition of contracting out will also, in the longer term, go some way to simplifying the pensions landscape. However, the implementation of the registered pension regime in place of the "exempt approved" tax regime from April 2006 was the imposition of a new layer of pensions tax on top of existing law and regulation which has led to the complexities many employers and individuals are fighting with today.

Consequently, any new system need to be implemented in a manner that protects individuals' accrued rights but in a manner which does not simply add a further level of complexity on top.

As we set out in our response to question 2 above, individuals may see the removal of pension tax relief simply at its face value and decide that, even if they may be better off in the future, they will withdraw from saving for retirement. Pension saving is a very long term project often lasting 40 or 50 years, it is unlikely that individuals will engage with any process if the only tax benefits they may see are so far in the future as to be worthless to them today.

7. How should employer pension contributions be treated under any reform of pension tax relief?

Employers are required to contribute for their workforce through the automatic enrolment regime and, without any incentive, this will simply become an additional "pensions tax" on businesses.

Consequently, employers should be incentivised to help their workers save for an adequate retirement income and the most obvious method of such incentivisation would be to retain the tax deductions which are available for pension contributions.

8. How can the government make sure that any reform of pensions tax relief is sustainable for the future?

This is possibly the most complex of all the questions as the sustainability of pension tax relief is not simply linked to the revenue generated in connection with pension provisions. It also has

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to be linked to the welfare budget and the possible additional strain on that budget which would be consequential on any reforms disincentivising individuals and companies to provide for those individual's retirement income.

In our view, therefore, any review of pension tax relief must incentivise people to save and must avoid any disincentives if it is to be sustainable across the board.

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Appendix – List of BSA Members

Full Members:

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