

STATE OF THE (PENSIONS) NATION

Sheffield CII - October 2023

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be distributed to or relied upon by another person

SCOTTISH WIDOWS





LEARNING OUTCOMES

(APPROXIMATE PRESENTATION DURATION – 30 Minutes)

This session covers a range of current pensions hot topics, from the latest 2023 budget pension changes, views on potential pension tax relief reform and any possible drivers for change, and finally the latest draft legislation signposting the proposed LTA changes from April 2024.

By the end of this session, you'll be able to explain:

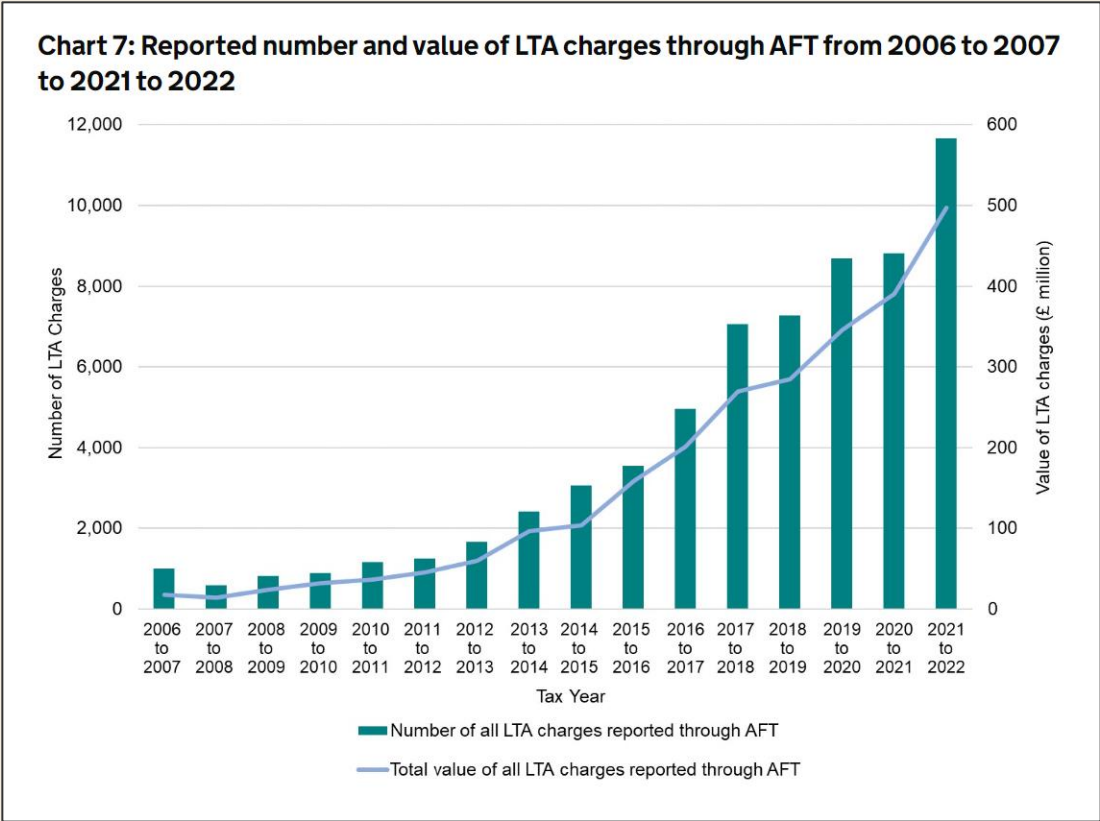
- 1 Pension changes announced in the March 2023 budget**
- 2 Proposals around draft LTA removal from April 2024**
- 3 Current saving behaviours and pension tax relief and freedom and choice statistics**

CHANGE, CHANGE, CHANGE

LIFETIME ALLOWANCE

- in 2021 to 2022, 11,660 LTA charges were reported by schemes through AFT returns. This is an increase from 8,820 LTA charges reported in 2020 to 2021
- the total value of LTA charges reported by schemes in 2021 to 2022 was £497 million. This is an increase from £391 million in 2020 to 2021
- the increase in the total value of LTA charges may be due to the removal of the annual link of the LTA to the Consumer Price Index increase in 2021 to 2022 which maintained the standard LTA at £1,073,100. The impact of COVID-19 on retirements may have also affected the charges

TAX CHARGES – LIFETIME ALLOWANCE



Source: <https://www.gov.uk/government/statistics/personal-and-stakeholder-pensions-statistics/private-pension-statistics-commentary-september-2022>

2024 - MORE QUESTIONS THAN ANSWERS?

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More questions than answers as lifetime allowance removal edges closer



Caitlin Southall

21 September 2023



Few of us saw the radical changes to the lifetime allowance (LTA) announced in March coming.

Chancellor Jeremy Hunt's Spring Budget gave us all hope of further pension simplification when it announced the LTA would be abolished from the start of the 2024/2025 tax year.

Couple this with the immediate scrapping of the LTA charge for 2023/2024 and beyond, and the pension landscape looked promising.



The current proposal is that the LTA will be replaced with two new allowances. The lump sum allowance and the lump sum death benefit allowance will both come into force in April next year.

In principle, the new changes offer people the opportunity to save more for their retirement, of course making sure to stay within the annual allowance (and including money purchase annual allowance and tapered annual allowance).

LUMP SUM ALLOWANCE (LSA) PROPOSALS

- It will still be possible to take 25% of the pension fund tax free as a pension commencement lump sum (PCLS). However, the member must have sufficient lump sum allowance for it to be tax free. The lump sum allowance has been set at £268,275 for those without protection.
- In addition to PCLS, the tax free elements of the following lump sums will also count towards the allowance:
 - Uncrystallised pension lump sums (UFPLS)
 - Trivial commutation lump sums
 - Winding-up lump sums

LUMP SUM AND DEATH BENEFIT ALLOWANCE (LS & DBA) PROPOSALS

- A second allowance will be used to limit how much can be paid as a tax free lump sum, both during lifetime and on death. This allowance will match the current LTA at £1,073,100.
- This is a combined allowance for both lifetime tax free lump sums and tax free death benefits. Consequently, the amount available for lump sum death benefits will be reduced by any tax free cash amounts the member had taken during their lifetime.

OPTIONS FOR DEATH BENEFIT REFORM

FINANCIAL TIMES

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Government plans to scrap income tax benefits for inherited pensions

Proposals follow April's axing of lifetime allowance



The Treasury plans to scrap tax-free pension inheritance from next April © Hollie Adams/Bloomberg

The ability to inherit a pension pot free of income tax could be scrapped, under government proposals.

In a consultation, the Treasury said beneficiaries could, from April next year, be charged income tax on withdrawals made from pension pots they had inherited.

PENSIONS TAX RELIEF

TAX RELIEF – VIEWS FROM THE FLOOR

Tax relief is poorly understood and poorly targeted ... If you wanted to encourage lots of taxpayer spending to incentivise saving, the people you would normally most want to incentivise are those who have least ability to save.

The way tax relief works, of course, *gives most incentive to those who are at the top end*. I have done research in the past on this and most people do not have a clue how much money they get from tax relief, what it is worth to them and what it even means. Indeed, in some cases, those people who have no financial education at all, when they hear “tax relief”, think it is some kind of tax and not a good thing but a bad thing. The 20% tax relief is equivalent to a 25% bonus from the Government—free money

Baroness Altmann



Source:

<https://publications.parliament.uk/pa/cm201719/cmsellect/cmtreasy/565/56508.htm>

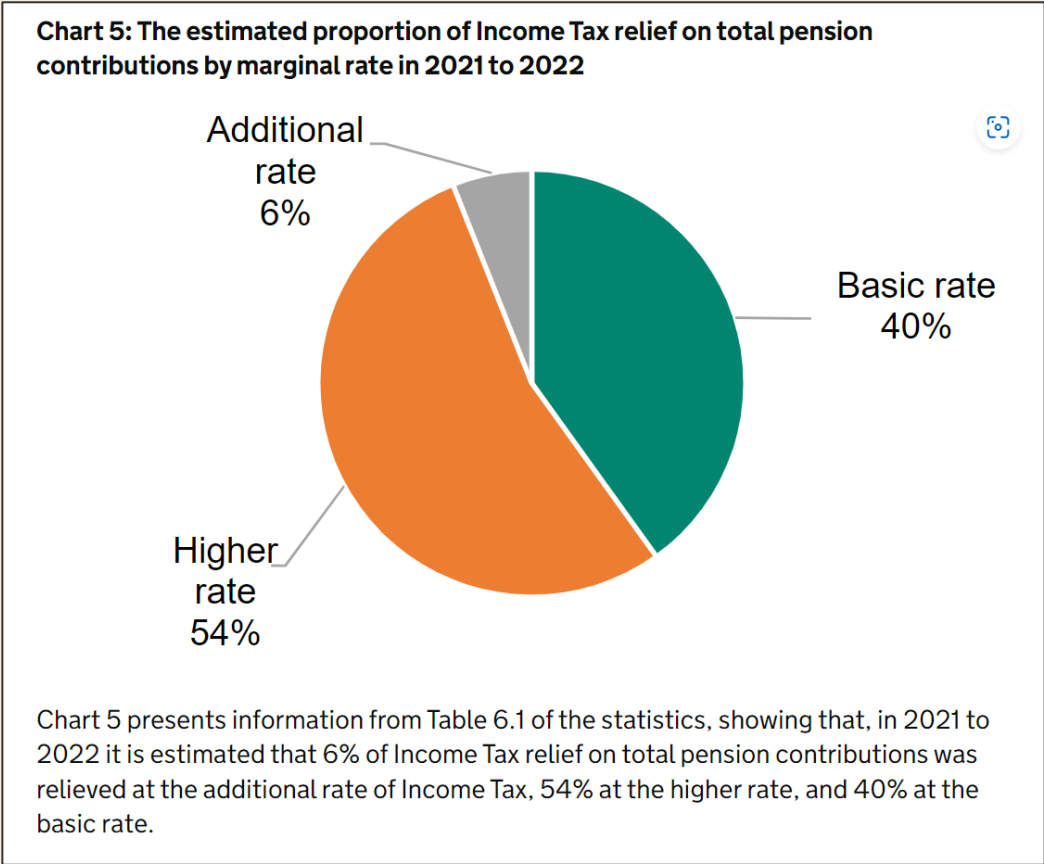
WHO RECEIVES PENSION TAX RELIEF?

4.2 Pension Income Tax relief split by sector, scheme type and rate of relief

Table 6.1 includes the estimated Income Tax relief on individual and employer contributions split by relief mechanism, sector, scheme type and marginal tax rate.

- in 2021 to 2022 69% of Income Tax relief on total pension contributions is estimated to be relieved on contributions to personal or private sector occupational schemes and 49% is estimated to be relieved on contributions to defined contribution schemes
- in 2021 to 2022 40% of Income Tax relief on total contributions is estimated to be relieved at the basic rate, 54% at the higher rate and 6% at the additional rate

TAX RELIEF BY INCOME DISTRIBUTION



PENSIONS TAX RELIEF STATISTICS AND FREEDOME AND CHOICE

HMRC PENSIONS STATISTICS – TAX RELIEF

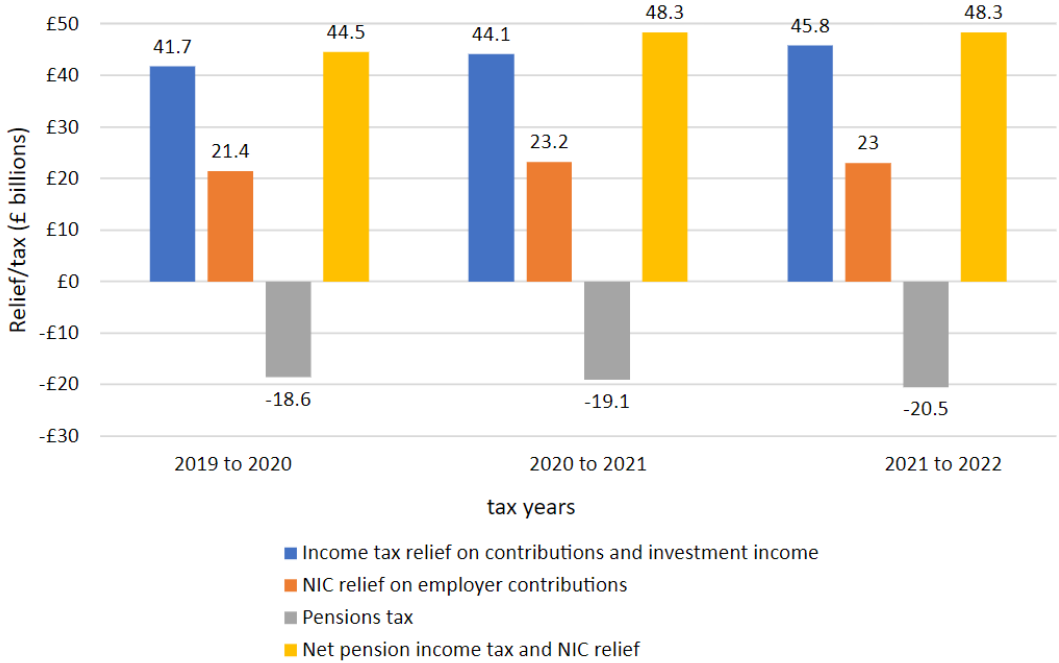
4.1 Estimated cost of pension Income Tax and National Insurance contribution (NIC) relief

Table 6 includes an estimate of gross and net pension Income Tax and NICs relief and the elements used to calculate this for tax years 2019 to 2020 to 2021 to 2022. Gross pension Income Tax and NICs relief includes estimates of Income Tax relief on total contributions to registered private pension schemes, Income Tax relief on investment income of pension funds, and Class 1 primary and secondary NICs on employer contributions. Net relief is estimated by calculating gross relief less Income Tax on pensions in payment, annual allowance charges, and lifetime allowance charges.

- gross pension Income Tax and NICs relief in 2021 to 2022 is estimated to be £68.8 billion, up from £67.3 billion in 2020 to 2021
- Class 1 Primary and Class 1 Secondary National Insurance contributions (NICs) relief on employer contributions (including those made via salary sacrifice) is estimated to be £23 billion in 2021 to 2022, remaining broadly stable from £23.2 billion in 2020 to 2021
- Income Tax paid on payments from registered private pensions is reported to be £19.5 billion in 2021 to 2022, up from £18.3 billion in 2020 to 2021
- the estimated net cost of pension Income Tax and NICs relief is estimated to have remained stable at £48.3 billion in 2021 to 2022, unchanged from 2020 to 2021

HMRC PENSIONS STATISTICS – COST OF RELIEF

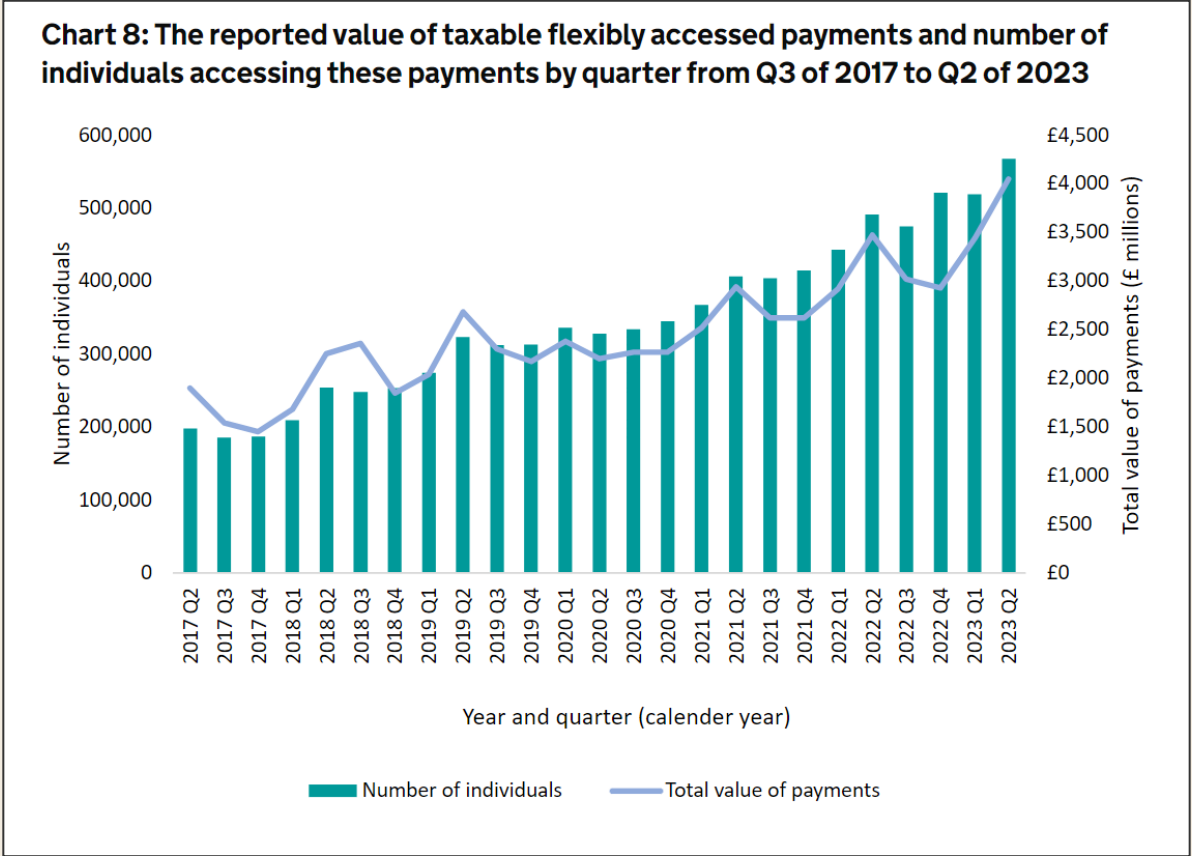
Chart 3: Estimated gross and net pension Income Tax and NIC relief, 2019 to 2020 to 2021 to 2022, £ billions.



PENSION FREEDOMS – WHAT COULD POSSIBLY GO WRONG?

- the total value of taxable payments withdrawn flexibly from pensions since flexibility changes were introduced in 2015 has exceeded £72.2 billion
- in 2022 to 2023, £12.9 billion in taxable payments was withdrawn from pensions flexibly. This has increased from £11.2 billion in 2021 to 2022 and £9.3 billion in 2020 to 2021
- between 1 January 2023 and 31 March 2023, £3.4 billion of taxable payments was withdrawn from pensions flexibly by 519,000 individuals across 1.2 million payments. The average taxable withdrawal per person was £6,600 in this period. There was a 18% increase in the value of payments withdrawn in this quarter compared to the same quarter in 2022, and a 17% increase in the number of individuals withdrawing
- between 1 April and 30 June 2023, £4 billion of taxable payments was withdrawn from pensions flexibly by 567,000 individuals across 1.3 million payments. The average taxable withdrawal per person was £7,100 in this period. There was a 17% increase in the value of payments withdrawn in this quarter compared to the same quarter in 2022, and a 15% increase in the number of individuals withdrawing

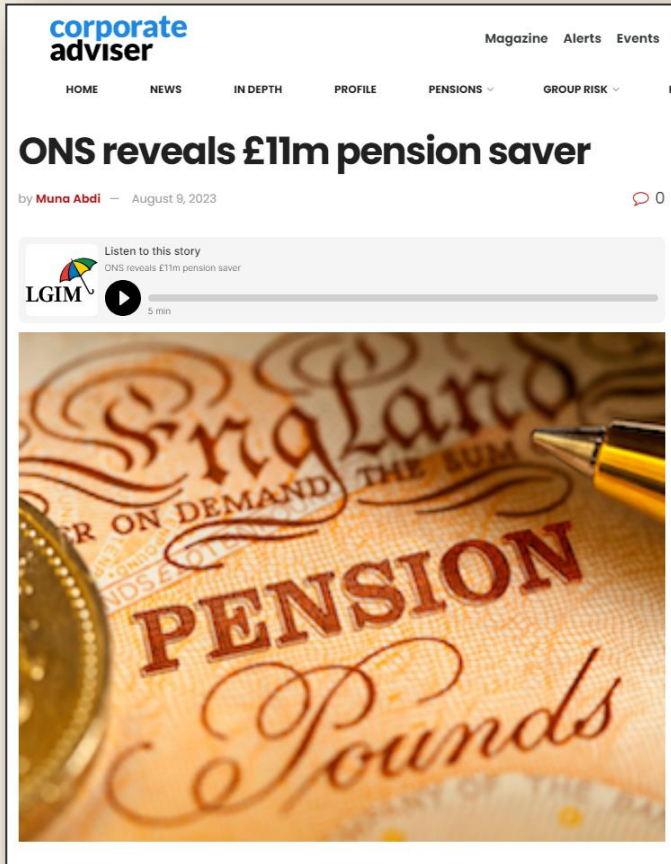
PENSION FREEDOMS – WHAT COULD POSSIBLY GO WRONG?



Source: <https://www.gov.uk/government/statistics/personal-and-stakeholder-pensions-statistics/private-pension-statistics-commentary-september-2022>

HOW BIG IS BIG ENOUGH?

HOW MUCH IS ENOUGH?

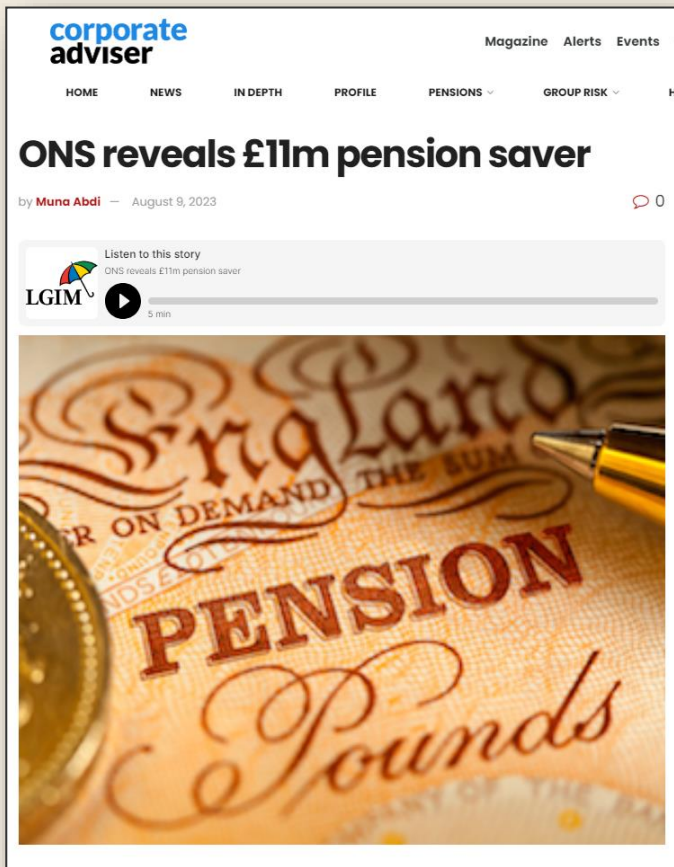


The screenshot shows the top of a webpage from Corporate Adviser. The header includes the logo 'corporate adviser' and navigation links for Magazine, Alerts, and Events. Below the header is a menu with categories: HOME, NEWS, IN DEPTH, PROFILE, PENSIONS, and GROUP RISK. The main headline is 'ONS reveals £11m pension saver' by Muna Abdi, dated August 9, 2023. There is a 'Listen to this story' section with an audio player icon and a 5-minute duration. The bottom part of the screenshot shows a close-up image of a British banknote with the word 'PENSION' and 'Pounds' visible.

The Office for National Statistics (ONS) has revealed that the largest pension in the UK, as per ONS data, amounts to around £11m.

However, a source close to Corporate Adviser has revealed a **£45m pension**, resulting from a massive increase in the value of tech shares held within his self-invested personal pension (Sipp).

HOW MUCH IS ENOUGH?



Analysts estimate that 929,000 investors have accumulated pension funds between £1m and £2m based on data gathered in 2022. Additionally, 46,000 investors have investments of £3m or more, while 128,000 people have pensions worth between £2m and £3m.

According to RBC Brewin Dolphin, a comfortable retirement demands at least £37,300 per year in income. The retiree would require a pension fund of £630,000 to reach that goal.



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IMPORTANT NOTES

Every care has been taken to ensure that this information is correct and in accordance with our understanding of the law and HM Revenue & Customs practice, which may change. However, independent confirmation should be obtained before acting or refraining from acting in reliance upon the information given.

FCA ref: 37695

October 2023

