Shifting sands

The regulatory landscape for higher earners' pension savings has altered considerably — and regularly — over the last decade. Peter Carvill asks what effect this has had on saving, particularly in light of the government's recent budget

Summary

- In 2006, the then-government introduced a lifetime allowance for pension saving of £1.5 million. Since then it has risen to £1.8 million, but then constricted to £1.25 million. The plans for the 2016 to 2017 tax year are that it will fall again, this time to £1 million. From April 2018 it will be indexed year on year in line with CPI.
- An argument can be made that if pensions become less attractive to higher earners then this attitude may permeate through the structure of a company. One possible consequence of this may be that a company director no longer values a pension as being a benefit for the rest of the workforce.
- The 2016 Budget revealed no changes to pensions tax relief, but there is still uncertainty whether this may change in the near future.

The rules and regulations regarding the pensions environment for higher earners in the UK have shifted dramatically in the last 10 years. In 2006, the then-government introduced a lifetime allowance for pension saving of £1.5 million. But since then, successive governments have adjusted the figure, seemingly on whims: it rose to £1.8 million but by the tax year of 2015 to 2016, it had been constricted to £1.25 million. The plans for the 2016 to 2017 tax year are that it will fall again, this time to £1 million. This will then begin a period of adjustment in April 2018, when it will be indexed year on year in line with the Consumer Price Index.

The annual allowance has also seen a great deal of tinkering. In the July edition of its *techtalk* publication, Scottish Widows wrote: "From 6 April 2016, those with income above £150,000 will see their annual allowance reduced by £1 for every £2 of excess income. The maximum reduction is £30,000— reached by clients with income of at least £210,000—resulting in an annual allowance of £10,000. The measure used to determine whether an individual's income exceeds £150,000 is 'adjusted income'. This includes net income for the year such as earnings and the value of any pension contributions/pension input during the tax year.

"This means that employer pension contributions are included along with personal contributions that reduce taxable income."

Confusion

The effect of these changes has led to many customers being confused. In February, Portus Consulting commercial director Steve Watson told *Pensions Age* that the cuts in the annual allowance and the effect of tapering were overly complex, so much so that many did not understand it.

The effects of this confusion were illustrated the same month by the results of a survey conducted by the Association of Consulting Actuaries. That research found that a third of employers were seeing people leave their pension schemes due to the reductions in tax relief and the complexity of the system.

Concrete evidence is hard to pin down but the complexity of UK pension regulation and taxation is no friend to an industry that wants to encourage investment. Watson says that any reaction to the tinkering with the annual allowance, which shifted again at the beginning of April, will come from employers rather than employees.

"There's a lot of restructuring going on," he says, "where employers are saying that higher earners are not concerned with putting less into their pension but in getting an inadvertent tax charge."

Watson adds: "The tax charge is based on employment, plus any other income I might have. So I'm a customer and merrily going along through the tax year, putting in a regular contribution, only to find out in December that my annual allowance is *x*. And it's only when looking back then that I realise that I've exceeded my tax allowance.

So there's a tax charge. So what employers are saying is that with higher earners, they will put in 5 per cent along with their 5 per cent up to a limit of £10,000. That's everyone's entitlement. The balance is then put in the salary, and you can do with that what you want."

Hargreaves Lansdown head of pensions research Tom McPhail says that in the few weeks leading up to the unveiling of the 2016 Budget, the helpdesks at his workplace were swamped with queries. "There was," he says, "a sense that the door was closing on the most generous of pension tax breaks."

The expectation, McPhail says, was that the government would introduce reform around salary sacrifice, which has allowed higher earners to channel their pension savings. "All these things were up for grabs," he says, "and as a consequence, there was this move by higher earners to scoop up tax relief while they could."

Grant Thornton associate director for employee benefits, Chris Faulkner concurs that higher payments have occurred, and for the same reason—taking advantage of the current arrangements before the goalposts are once again shifted.

This is why, he says, figures on tax relief given to higher earners may not tell the entire story. "If you even had accurate figures of how much tax relief was given," he asks, "how much of that were people trying to get as much in while they still could?"

Lack of interest?

An argument can be made that if pensions become less attractive to higher earners then this attitude may permeate through the structure of a company. One possible consequence of this may be that a company director no longer values a pension as being a benefit for the rest of the workforce.

Faulkner says he has not yet seen evidence of that, positing the viewpoint that most employers will want to look after their senior people.

"They want to look after everybody else in the organisation," he says. "It's easy to think that if those at the top of an organisation won't contribute to pension going forwards, that they won't take it so seriously. I haven't seen that yet but it remains to be seen what happens in the future."

Awaiting government reform

This conversation was punctuated by George Osborne's unveiling of the Conservative government's 2016 Budget. Although Osborne had been predicted widely to unveil far-ranging reform of the UK's pension regulation, the actual result showed no sway in current arrangements for the nation's high earners.

Following this, Faulkner says: "We still await details of the government's longer-term thinking. Rather than producing a consultation response on pensions tax relief, we just received a summary of responses. Any element of opinion seems to be absent.

"We therefore await more information in due course. In the meantime, we have uncertainty. Therefore, those that have been maximising their pension savings may well continue to do so."

According to Watson, we are in a period of pension simplification. "It was more complicated in the past but it's still not simple enough. People want to put their money in, watch it grow, and then take it out," he explains.

If anything, simplification seems to be the logical way forward. "We assume that higher earners understand all this more than lower earners," says Watson, "but that's a fallacy. We are least likely to engage with things that we don't understand. That goes across our entire lives."

Written by David Adams, a freelance journalist