Requests for reform

With the spring Budget this month, *Pensions Age* summarises recent pleas to the government to reform auto-enrolment, advice/guidance, tax relief and pension age, and the debates these requests generated

Through all aspects of the pension-saving process, from initial saving to post-retirement, calls have been made on the government to make reforms – cries that became louder in the run up to this month's Budget.

Auto-enrolment (AE)

Early in February, the government once again faced calls to introduce auto-enrolment reforms, after research from the Social Market Foundation (SMF) found that just 25 per cent of people from ethnic minorities have a workplace pension, compared to a national rate of 38 per cent.

According to the analysis, 16 per cent of ethnic minority consumers whose household earned under £30,000 a year contribute to a pension, compared to 26 per cent of the general population.

In light of this, the SMF urged the government to deliver a reduction in the age of eligibility for auto-enrolled pensions from 22 to 18, as well as looking at the earnings threshold for eligibility, suggesting that this should be reviewed and lowered, possibly to zero.

Good news came the following month, as the Department for Work and Pensions (DWP) backed MP Jonathan Gullis' Private Member's Bill on plans to expand AE by abolishing the lower earnings limit for contributions and reducing the age for being automatically enrolled to 18.

The provisions in the bill are not intended to result in any immediate change, and will instead give the Secretary of State powers to amend the age limit and lower qualifying earnings limit for AE.

Commenting at the time, Pensions Minister, Laura Trott, stated: "We know that these widely supported measures will make a meaningful difference to people's pension saving over the years ahead.

"Doing this will see the government deliver on our commitment to help grow the economy and support the hard-working people of this country, particularly groups such as women, young people and lower earners who have historically found it harder to save for retirement."

Advice/guidance

At the start of the month, the Investment Association called for the government to review financial advice and guidance regulation by broadening access to simplified advice for those with less complex needs and widening financial guidance to help those who are already investing.

Responding to advice/guidance concerns at the Association of British Insurers' Annual Conference in February, Economic Secretary to the Treasury, Andrew Griffith, stressed that while the advice/guidance boundary is a "thorny" issue, he is keen to be able to have a broader range of products that people can access with guidance, instead of requiring "fully-baked" advice.

He stated: "I agree that, through well-intentioned regulation, we've lifted that level of what constitutes advice out of the

reach of millions of people who would benefit from that and that cannot be a good outcome of a regulatory system."

Tax relief

Early February saw the Institute for Fiscal Studies (IFS) publish a report calling on the government to reform the ability for pension savers to take 25 per cent of their pension savings as tax-free cash, to provide a 'more equal' subsidy to all private pensions.

Although the IFS acknowledged the popularity of the current arrangement, it argued that this is of "no value at all" to those with the lowest incomes in retirement, non-taxpayers, and instead provides a large tax subsidy to those with high incomes and big pensions.

It therefore suggested that the tax-free component should be capped so that it only applies to 25 per cent of, for example, the first £400,000 of accumulated pension wealth, estimating that this would still leave about four-in-five of those approaching retirement unaffected.

However, Pensions and Lifetime Savings Association (PLSA) director of policy and advocacy, Nigel Peaple, raised concerns that changes to the 25 per cent tax-free lump sum would "reduce a very popular and widely understood element of the pensions tax regime".

Adding to this, AJ Bell head of retirement policy, Tom Selby, warned that capping pensions tax-free cash could be "deeply controversial and risk a backlash of biblical proportions from voters", which could be a key factor given a general election is drawing near.

Normal minimum pension age (NMPA)

The earliest age that people can withdraw a pension without significant tax penalties has also been debated lately, as a recent report from the Resolution Foundation argued that the current plans for the NMPA to rise to 57 from 2028, therefore remaining 10 years below the state pension age, will support early retirement only for wealthier individuals.

In light of this, it suggested that policy makers should consider further raising this age, or at least slowing the rate at which money can be withdrawn before state pension age.

However, LCP partner, Steve Webb, argued that "the existing plan to raise the age to 57 is already adding to the complexity of the system and further increases would add more complexity with no obvious benefit. Any changes to pension rules need to be justifiable for their own sake and not a knee-jerk reaction to the rise in economic inactivity".

State pension age

At present, the state pension age is 66 and set to rise to 67 by 2028, then to 68 over a two-year period between 2044 and 2046.

Yet Money Minder chartered financial planner, Ray Black, notes there has been much speculation that the state pension age could rise to 68 sooner than expected, as the government has already said they plan to review it later this year.

"If the chancellor announces the increase in the state pension age is being brought forward by 10 years, it could affect everyone born after 6 April 1967. This action has the potential to save the government billions, however, it's not a short-term gain that will put money into either their purse or the voting public's pocket now," he says.

"As such, I would normally expect this kind of announcement (which is unlikely to be well received by those affected) to be made in the early years of a new government. This gives plenty of time before the next general election for people to have forgotten about it, rather than being at a time when politicians are mainly focused on gaining votes, instead of losing them."

Money Purchase Annual Allowance (MPAA)

The government faced further calls in February to increase the Money Purchase Annual Allowance (MPAA) of £4,000, after the Treasury revealed that around 25 per cent of pension savers aged 55 and over contributed above the MPAA in 2020/21.

However, Griffith argued that the MPAA is a "simpler and more appropriate method than any alternative", stating: "These rules therefore minimise the extent to which there is a continuing opportunity for individuals to reduce their tax bill in a way that is not consistent with the spirit of the pensions tax system."

In response, Selby suggested that the government should consider increasing the MPAA, or removing it altogether, as "in the first three months of the 2022/23 tax year, for example, over half a million people withdrew £3.6 billion from their retirement pots, a 23 per cent increase versus the same period in 2021/22".

"The government is desperately trying to get older people back into the workforce, yet by setting such a low MPAA it is creating a disincentive by limiting their ability to build or rebuild their pension," he said.

"As a minimum, the Chancellor should increase the MPAA to £10,000, the level it was originally established at. However, over the medium term the Treasury should consider whether the MPAA is necessary at all."

At the start of the month, a joint industry letter sent to ministers at the Treasury and DWP, signed by 17 financial services organisations, urged the government to increase the MPAA from £4,000 to £10,000 in the March Budget. It also called for a longer-term review of the impact of the MPAA.

Recent analysis from Just Group revealed that, in real terms, the MPAA allowance is £8,480 less than when it first came into force in 2015, as the original allowance of £10,000 would now be worth £12,480 if adjusted for rising prices.

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