



REMOVING THE REQUIREMENT TO ANNUITISE BY AGE 75

IoD Response to HM Treasury Consultation Paper

About the IoD

The IoD was founded in 1903 and obtained a Royal Charter in 1906. It is an independent, non-party political organisation of approximately 45,000 individual members. Its aim is to serve, support, represent and set standards for directors to enable them to fulfil their leadership responsibilities in creating wealth for the benefit of business and society as a whole. The membership is drawn from right across the business spectrum. 80% of FTSE 100 companies and 60% of FTSE 350 companies have IoD members on their boards, but the majority of members, some 72%, comprise directors of small and medium-sized enterprises (SMEs), ranging from long-established businesses to start-up companies.

Introduction

We welcome the opportunity to respond to this consultation, proposing as it does considerable liberalisation of the way in which people can draw funds from their accumulated pension assets. We have long believed that the current inflexible rules around retirement income provision have been a major disincentive to save for the long term in a pension, and would particularly welcome further development of the idea of inter-generational transfer of pension assets.

However, we also think that the current proposals carry flaws and risks. In particular, we believe that the provisions seeking to avoid pensioners becoming reliant on the “state” point up that reform and simplification of the current state retirement benefit architecture must be the starting point for worthwhile reform of all other aspects of the system. We have called for the abolition of means tested state retirement benefits and provision of a decent, universal, basic state pension as a right. If this were put in place, much greater liberalisation of the retirement income regime from private saving would be possible. We believe that people, where they have a choice and the knowledge to do so, are already using other vehicles, such as ISAs, for retirement planning and are not necessarily convinced that the current proposals will go far enough to make pension saving attractive again.

Response

We would not propose to answer the questions posed in detail, but would make the following observations:

- We welcome the “direction of travel” this Paper sets out. We think that, as far as possible, we should not prescribe how people access their retirement funds and believe the evidence from other jurisdictions suggests that the vast majority of people are not profligate with their retirement funds, even where annuitisation is not absolutely required. The Australian experience is relevant here, as is the experience of 401K pensions in the United States. We know from published research that the requirement to buy an annuity, when the workings of that annuity are understood by consumers, is a deeply unpopular aspect of the current pension regime. This is irrespective of what we might think of in terms of a “guaranteed” income for life being available. The “death” of the pension fund on the death of the pensioner is especially disliked and annuities make little worthwhile impact on issues such as long term care costs.
- We also welcome the Principles for a new tax framework for retirement set out on page 8. of the Paper and would particularly welcome further exploration of Principle 5. which appears to propose the future capacity for inter-generational transfers of pension assets, subject to tax. We would think that where such a transfer is from one pension fund to another, there should be no need for a tax charge at all.
- The proposal for Flexible Drawdown is welcome, though the trigger to show a Minimum Income Requirement at that stage we believe needs further work. We suspect that the current proposals could be complex in implementation and difficult to police in terms of keeping people from being reliant on “state” benefits. It might well be easier to require a “capital” value to be kept in the remaining fund – perhaps £150,000 – rather than attempting to specify an income level. This requirement will also tend to mean that these proposals are of use,

in practice, only for the largest fund holders. The received regulatory wisdom from the Financial Services Authority is, in any case, that Unsecured Pension as we currently know it is unlikely to be “suitable” for anyone with a fund of less than £100,000. We also think that the proposals as cast presently might well be subject to abuse and think further work will need to be done to prevent this. However, as indicated earlier, we fully support the direction of travel.

- The need for the Minimum Income Requirement (MIR) is triggered by the perceived need to keep those who are better funded in retirement off state means-tested retirement benefits. We believe that the current system of Pension Credits and Savings Credit can act as a disincentive to save and triggers precisely the sort of complexity potential in the MIR. We think that provision of a decent, universal, basic state pension at or above the current Pension Credit level would provide the clearest possible incentive for further saving whilst radically clarifying and simplifying the surrounding pension architecture. Such a system would remove the requirement for MIR altogether.
- We note that the age of 75 will remain the point at which various events kick in, such as the inability to claim tax relief on further pension contributions. Given the increases in longevity, we think this age should be raised to 80 at least and kept under review. In particular, given the proposed restriction of tax relief for higher earners via the Annual Allowance route, we are a bit mystified as to why the Lifetime Allowance remains in existence, never mind a test for it at 75.

We hope these observations are helpful and look forward to further engagement to help make a success of this policy initiative.

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