

Article

ASP bites back

20th November 2008

A general election must take place some time between now and June 2010. We are now seeing the major political parties look to put a stake in the ground in what is sure to be an area where the current Government will be attacked - pensions.

On 9th October 2008 Chris Grayling (The Shadow Secretary of State for Work and Pensions) demanded the immediate suspension of the rule that forces people to buy an annuity on their retirement date or their 75th birthday. Labour has pointed out that the existence of Alternatively Secured Pension (ASP) makes the Conservative request pointless. So here we are, thirty one months on it looks like the ASP debate could be back on.

It is worth pointing out that this subject was one of the most controversial in the run up to A-Day. The good news is that this means that many of the arguments are well formed. If you are like me, passing time now acts as a challenge for the memory. AJ Bell was heavily involved in the debate, the following acts as a short summary of our points made at the time.

The debate on not forcing those with religious objections to annuitise compulsorily is not the key issue. The Government needs to accept that it would be impossible in practice to distinguish between those with religious objections and those who choose not to buy an annuity for different reasons. Despite this, Ed Balls confirmed in a letter to Andy Bell in January 2007 that "introducing ASP was intended for those who have a principled religious objection to the pooling of mortality risk". A recent debate in the House of Lords suggests that this is no longer the case. Clarification on this point is needed.

The real issue is the Government's objection to bequests by pension savers to their heirs being subsidised by taxpayers. If this is right then the challenge should have been finding a level of tax that could be deducted from residual ASP funds that would render the Government's fears on this front non-existent.

The AJ Bell proposal suggested that you allow residual ASP funds to be paid to heirs as a lump sum after a one-off standing tax charge. This would be in lieu of Inheritance Tax, and any other tax charges that may otherwise be applied. We suggested a rate of tax at 55%, acting as a neutralising tax charge to recoup the tax reliefs previously granted.

This is not inconsistent with the 0%/35% tax position on death before age 75. Also, it is not as penal a tax charge as would apply if the individual had abused the authorised payment rules. It is also consistent with the treatment of pension savings in excess of the lifetime allowance i.e. a 55% tax rate.

The current market conditions add weight to one of the points of debate on the Government policy on the annuity market. It should not surprise us that Mr Brown and Mr Darling should have a strong wish to minimise the cost of Government borrowing. One of the most suitable types of asset to match a portfolio of annuity liabilities with is a portfolio of gilts. Recent press coverage has even suggested that consumer concerns around security of assets would see a decline in demand for corporate bonds in favour of gilts. You could suggest that the greater the demand for gilts then the lower the potential yield on these gilts and hence the lower the cost of Government borrowing. The Government has publicly stated that this is not a driver for their current policy on annuities but it does make you think.

If we are to return to this debate, let us hope that politics does not get in the way of a common sense solution for all. I think we would all agree that it did before.

Billy Mackay - Marketing Director
A J Bell

END

Notes for Editors

Pictures available here or by contacting kirsty.zollinger@ajbell.co.uk

Billy Mackay - Marketing Director
07525 236 580
billy.mackay@ajbell.co.uk

Andy Bell - Chief Executive
07973 137 272
andy.bell.@ajbell.co.uk

Kirsty Zollinger - Sales & Marketing Manager
0161 876 8706
kirsty.zollinger@ajbell.co.uk

Our customer proposition - Market leading, low cost, transparent, service, value, choice, leading functionality, integrity, award winning.

Our business - Market leaders, growing, innovative, own intellectual property, profitable, stable, we don't provide advice or investment management.

Established in 1995, A J Bell Group specialises in providing administration, trustee and actuarial services for SIPP and SSAS.

The A J Bell Group is now one of the largest SIPP trustee and administrators in the UK with in excess of 32,000 individual SIPPs and assets under administration exceeding £8bn. It provides third party SIPP administration services for Barclays Stockbrokers, Halifax Share Dealing, Skandia and E*Trade.

Recent research by CoreData Research places SIPPcentre alongside Standard Life as advisers' two most preferred SIPPs.

A J Bell Group have won an array of prestigious industry awards recognising our reputation for leading products and services. A J Bell Group products include SIPPcentre, Sipdeal, Sipdealxtra and A J Bell.

