

Article

Darling in the dark

7th May 2009



I guess being in Government is not about winning popularity contests, unless you count the general election, of course. The latest in a long line of changes to pension policy, announced in last week's budget, is surely proof of that. In a previous Money Marketing article I used a quote from a wise, older relative of mine. Time for another, retiring after many years as a miner, frustrated at the way his industry had been dismantled, he once told me that "for years Governments had been promising me more than they can deliver, and often delivering more than they can afford". How right.



According to the office of national statistics, tax relief on pension contributions increased from £10.7 billion in 1998/99 to £23.1 billion in 2007/08, and tax on pension payments rose from £6.1 billion to £10.4 billion. During his budget speech Mr Darling said "It is difficult to justify how a quarter of all the money the country spends on pensions tax relief goes, as now, to the top 1.5% of pension savers." Many may well have sympathy with this view. However, the frustration to many more is that the changes do not represent a re-distribution of relief for the benefit of other retirement savers more of a smash and grab. Also, it is not as if the Government has not already put in place measures to limit the tax relief available on pension savings i.e. the annual and lifetime allowances.

It is clear the budget strategy was built around improving revenue streams whilst minimising the impact on the number of potential voters. Will it be successful? A few questions spring to mind that challenge this:

- High earners are often employers; if they lose faith with pensions will this have a knock on effect on their employees? Will it make them less inclined to contribute to their employees' pensions or encourage them to save for retirement by providing decent schemes. Confidence in pensions is already low, pressure on business leaders is high, does this change help?
- Although the changes currently only apply to those earning over £150,000 a year, what impact will these changes have on the saving habits of those who earn less than this. Are these people worried about what the Government is going to do next? Will this make them more likely to contribute to a pension now, whilst higher tax relief is still available, or undermine their faith in retirement savings?
- Will the impact on existing products and services reverberate wider? The complexity of these rules confirms that the supposed "simplicity" of the UK pension system is again being undermined. Three years on from A-Day advisers and providers are once again looking at additional changes to processes, literature and systems that will cost. We all know that the current conditions are challenging. The impact on relief may only affect 1.5% of pension savers but the costs of implementing the changes will be proportionately much higher.
- Over recent times the difficult conditions have increased the focus on fees and charges. For advisers and providers these changes could mean reduced contribution income, revenue streams, increased complexity and cost. Will the collective impact find it's way back to the end consumer?
- The 1997 changes to Advance Corporation Tax (the original £5 billion pension tax raid), Stakeholder Pensions, pensions "complication", failure to deal with public sector pensions, taxation of Alternatively Secured Pensions (ASP) and the changes to higher rate relief. Does this fill you with confidence in the Government's ability to deliver an effective retirement savings environment?

Picking up the ASP argument, we recently took the opportunity to write to Alistair Darling and George Osborne to look for support with a review of the taxation of residual funds on death and permitting limited investment in residential property without being caught by the taxable property rules. We received a response from Mr Osborne and will continue to communicate with Conservative Party representatives to explain the A J Bell proposals and to explore and understand their views. We also wrote to advisers to seek their views and received over 300 responses. The following charts evidence clear support for our proposals.

| Do you support, in principle, A J Bell's proposals on ASP? | | Response % |
|--|--|------------|
| Yes |  | 97.6% |
| No |  | 2.4% |

| Do you support, in principle, A J Bell's proposals on residential property? | | Response % |
|---|--|------------|
| Yes |  | 75.8% |
| No |  | 24.2% |

So taking all of this together where do we all go from here? The industry has shown many times that it is resilient and reacts positively to challenges. Over reaction is often the enemy when frustration sets in. On Thursday 23rd April we were taking calls as early as 9.05am from frustrated clients and advisers, many asking the question why bother with pensions? For the majority nothing has changed, the benefits and advantages remain the same. For those affected it is worth noting that there will be a period of consultation where industry views will be considered. With an election due between now and June 2010 it will be an interesting process.

John F Kennedy once said, "My experience in Government is that when things are non-controversial and beautifully coordinated, there is not much going on", there is a lot going on and not all of it makes sense.

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Please note this document is intended for trade and national press individuals.

Notes for Editors

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A J Bell is the UK's largest privately owned SIPP provider and is continuing to grow rapidly in challenging capital markets. Invesco Perpetual and Midas Capital own 23% and 15% respectively of the share capital, the remainder being owned by Andy Bell and the management team.

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

A J Bell 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.

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*As at 30th September 2008.



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