

## Article

### Dear Chancellor...

### Whatever happened to simplification, Alistair?

September 2009

An Inland Revenue press release in December 2002 outlined the aims of the Labour Government's pension simplification proposals. It said the aims were "to increase individual choice and flexibility and reduce administrative burdens, thereby making it easier and more efficient to save in pensions. The new single, unified regime will comprise transparent, simple and consistent rules that help people make informed decisions about working and saving for retirement." Three years on from A-day, words like unified, simple and consistent no longer seem fitting.

The events surrounding the global financial crisis have bruised consumer confidence in the financial services industry. Recent changes to pension regulations suggest that the system, set up to encourage savings, is once again a football in the political game that precedes an election. In this game success is not measured over a season, it is all about short-term success measured in votes. It does not take an expert strategist to work out that a short-term focus often leads to long-term failure. Long-term failure is in nobody's interest, so how do we avoid it? As a starting point, strong long-term foundations are needed.

#### **Stability**

Consumers are being asked to consider the incentives and benefits of saving for the future. It is not unreasonable to ask that one is able to do that in the knowledge that those incentives and benefits will remain consistent over a reasonable time-frame. If we are to help breed confidence and reinvigorate interest in pensions, we must have a stable environment.

#### **Simplicity**

Let us not forget the original aim of the pensions simplification work. Making pensions simple was never going to be easy but making it simpler can represent success. Three years on we can learn from what has worked and what has not. We can commit to changes that iron out the often discussed problems and issues that still exist in the pension regulations. This involves getting to the detail and dealing with the problems identified in practice since April 2006. Does it encourage appropriate consumer saving behaviour when you have varied tax rules applying to the residual fund on death pre-and post-retirement? Does the arrangement structure that applies when taking benefits under USP promote informed consumer decisions? The list goes on.

#### **Unified**

Consumers and people across the industry view the recent changes to tax relief for higher earners and the anti-forestalling measures as a calculated Government decision taken with short-term finances and the likely impact on the electoral vote in mind. Not even the most talented master of spin could suggest it could "increase individual choice and flexibility and reduce administrative burdens". We run the risk of a return to a complex multi-layered regime with all the pitfalls of the pre A-Day regime.

#### **Review**

Restructuring the UK pension regime was a huge initiative. Any initiative of this size must be reviewed with the aim of further simplification. In doing this we must avoid further changes for political benefit and focus on building on what we have.

As we come out of the next general election, any Government committed to making pension saving easier and more efficient must commit to:

- A review of the post A-day regime with the aim of further simplification and removal of the problems identified through practical use since April 2006.
- A clear long-term pension strategy that aims to deliver a stable, simpler and unified environment for savers.
- Simplification of the tax treatment of residual pension funds on death.
- Post review, no further changes to the UK pension regime over the period in power of the next Government.

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**END**

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

## Notes for Editors

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