

Article placed in ifaonline.co.uk

Is early access the best option?

March 2011

Billy Mackay examines the issues surrounding early access to pensions and asks whether it is really a good idea

The HM Treasury call for evidence on “Early access to pensions savings” was published in December. Its aim was to identify a possible resulting boost to pension saving, the risks and complexities it may involve, and whether any specific models of providing early access have particular merits.

When I first read the paper I have to admit to being a little perplexed. On the one hand I could understand why the Government might think that it could encourage more people to save, or provide greater flexibility for individuals facing financial hardship. Some investors will feel uncomfortable with the prospect of having to wait until at least age 55 to get their hands on their hard earned cash.

Allowing for all of this I had a nagging doubt that demand for it would be, at best, mixed. There was no real call from the industry for change. Also, I struggled to see how any of the options given could grab the attention of the public in such a way that you could achieve a boost to savings.

In mulling over all of this it struck me that two of the choices would introduce the possibility of a tax charge on death. An e-mail to HM Treasury confirmed that the early access to the 25% tax free lump sum, and the option to withdraw funds in the case of financial hardship – would both be a benefit crystallisation event (BCE) under the current proposals. The BCE would of course move the remaining fund from a position where no tax was paid on lump sum death benefits to one where a 55% tax charge would be imposed.

I am no fan of the 55% tax charge at the best of times. However, in the circumstances and with the aims listed above in mind this seemed inappropriate.

Getting an alternative view

The easiest way to test all of this was to seek the views of advisers and clients. We did this by issuing a survey that included the options offered up in the HM Treasury paper and added our own option of leaving the rules as they are. We received almost 600 responses, the results of which are illustrated in the chart below, left.

You will note that no single option stands out. Interestingly, one of the most popular responses was to leave the rules as they are. It is no surprise that early access to tax free cash is popular with some people. It is worth mentioning that when we carried out the survey we did not make it clear that this choice could lead to a significant tax charge being imposed on any lump sum death benefit. It is likely that this option would be significantly less popular if this information had been provided.

Is there an appetite for change?

We must question whether there is genuine appetite from consumers for these options as they stand. With limited support for any single option it is unlikely that any of them would lead to a boost to savings.

One point needs to be clear. If there is any future for early access, the rules need to be crafted so lump sum death benefits paid from the remaining fund are not subject to the 55% tax charge. At least until the pension scheme member has reached their normal minimum pension age.

Taking all of this together my early nagging doubts remain just as strong. There are also obvious risks to letting investors get their hands on their fund early. I can't help feel that we have bigger pension policy issues to focus on at the moment.

Whilst this may have support in some areas we need to be careful that we don't end up flogging a dead horse at a time when the effort could be better utilised elsewhere.

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

Notes for Editors

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