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10 February 2017

Dear Sir/Madam,

Reducing the money purchase annual allowance: consultation

AJ Bell is an investment platform provider for retail customers. It is one of the largest SIPP and SSAS operators in the UK offering services in each of the main markets, bespoke, adviser-led mid-market and direct to customer (D2C) execution-only. AJ Bell provides services to over 140,000 customers with assets under administration of over £31 billion.

Before moving on to our responses to the specific questions raised within the consultation, we wish to make a single observation. This underpins all of our comments in relation to the rules surrounding the Money Purchase Annual Allowance and the government's proposal to reduce its level.

Our observation is that, regardless of the level at which it is set, the rules surrounding the Money Purchase Annual Allowance (MPAA) are an unworkable, complex mess.

The nuances which govern whether or not the MPAA applies to an individual and the requirements relating to communication mean that a typical saver:

- Is unlikely to have heard of the MPAA until they take an action which causes them to be affected by it;
- If they have heard of it, will struggle to understand what actions will lead to it affecting them;
- If they haven't heard of it, are very likely to take a potentially irreversible action that has a significant impact on their future ability to save;
- Will potentially fail to understand the relevance or importance of the communication received from their provider notifying them that they are affected by the MPAA;
- Will undoubtedly fail to remember to notify other providers that they are affected by the MPAA should they start to save with them – making the requirement for the new provider to issue statements where the MPAA is breached unworkable.

We would urge the government to take a step back in relation to the MPAA. Rather than tinker with the level of the MPAA, the government should take a more radical approach and, with a longer implementation period than is proposed for the reduction in the MPAA:

- Scrap capped drawdown, moving all capped drawdown savers into flexi-access drawdown;
- Remove the ridiculous anomaly that an individual solely taking a (tax-free) pension commencement lump sum (PCLS) can continue to save £40,000 per tax year and use carry forward, but that anyone who receives a (taxable) drawdown or uncrystallised funds pension lump sum (UFPLS) income sees their annual allowance drop by, as proposed, 90%. It does not make any sense that someone who chooses an option where they pay tax over an option where they do not is punished hugely in comparison to the individual who chose the tax free option.

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- Apply a fair and reasonable level of MPAA to all of those in receipt of any type of pension benefit – so all those in receipt of an annuity or scheme pension.

Should the government take the opportunity to change the rules as we propose we feel it would greatly improve understanding of when the MPAA applies, and simplify the overly complex requirements which govern the MPAA.

We also believe it will allow the government to set the MPAA at a level which is fair for all. It could be set at a level allowing all those who have accessed benefits the opportunity to rebuild their savings where this proves necessary, but removing the opportunity for others who have accessed benefits to continue to pay in six figure contributions.

A framework which includes a cliff-edge meaning an individual who takes a pound of taxable income is limited to contributions of £4,000, but another saver who did not take the pound of taxable income can contribute £160,000 is ridiculous and clearly unsustainable.

From the perspective of tax revenues, we believe our proposal to implement a fair MPAA that applies to all who have accessed benefits would be far more beneficial to the government than the proposal currently under consideration.

Moving on to the questions on which the government is seeking views:

Do you agree that a £4,000 MPAA would minimise re-cycling pension savings and that, coupled with ongoing monitoring, the new MPAA will allow the continued successful roll-out of auto-enrolment?

We would open our response to this question by asking what evidence the government holds that the re-cycling of pension savings is a significant issue?

We would expect SIPP members to be more likely to consider re-cycling pension savings than members of typical insured personal pensions. However we have seen no evidence that our own SIPP customer base has shown any interest in re-cycling.

There are echoes here of the creation of the main re-cycling rules at A-Day. Re-cycling of pension savings had been an option available to savers for many years prior to A-Day but had never particularly been used to any great extent. In spite of the fact that the re-cycling of pension savings had remained a largely unused option for savers for many years, newspaper coverage appeared shortly before A-Day suggesting that this was a new opportunity and that the tax loss could run into many millions of pounds. Despite historic evidence suggesting that the existing option was not used, complex rules were introduced to prevent usage of this 'new' opportunity.

As at A-Day we've seen several examples of the opportunity to re-cycle pension savings being promoted on the pages of consumer financial websites and in the national press. In spite of this we've seen no evidence to suggest that anything more than a handful of savers are actually using the option.

If, as we suspect, the government's real fear is not the re-cycling of pension savings, but the manipulation of earnings by those on higher incomes to push up to £10,000 into pensions as employer contributions (thereby benefitting from savings in income tax and NI), again, we have seen no evidence of this behaviour. As with re-cycling, we would expect SIPPs to be the part of the market where this was more widely used, but we have no evidence that this is the case.

The consultation into the reduction in the MPAA indicates that only 3% of over 55s are paying in more than £4,000. Given that the majority of over 55s will not be subject to the MPAA, we would estimate that only a tiny percentage of that 3% of savers are both affected by the MPAA and are re-cycling pension savings or sacrificing up to £10,000 of salary for employer contributions.

On the basis of the tiny percentage of people to whom this is relevant we would question the worth of a system which, from the perspective of pension scheme members, is so complex as to be unworkable.

Turning to the risk to success of auto-enrolment, if the government feels there is a need to ask whether a risk exists, it must call into question the merits of a reduction in the MPAA.

Keeping the MPAA at £4,000 is clearly designed to ensure those aged between 55 and state pension age who have accessed the pension freedoms can be auto-enrolled without the problems created by breaching the allowance. However we believe a far greater proportion of auto-enrolled individuals aged over 55 will inadvertently end up paying in more than £4,000 than the government is accounting for. Those savers will face the double-whammy of being caught by an MPAA they don't understand and being caught by an annual allowance charge which they don't understand.

We also suspect that, whilst an MPAA of £4,000 will enable the minimum level of auto enrolment to be made without a breach of the allowance, many employers will face a huge amount of work dealing with the contracts of employees who have an entitlement to higher than minimum contributions. We foresee huge problems in this area given that access to pension freedoms, and so the triggering of the MPAA, is beyond the control of an employer. We believe there will be many cases where employers are not told that the MPAA has been triggered until an employee has breached the limit, or is close to doing so, leaving the employer to scramble around to amend contribution levels in an attempt to ensure their employee does not face an annual allowance charge.

Is there any evidence that setting the MPAA at £4,000 would impact disproportionately on particular groups?

We have covered this point in a number of the 'wider concerns' highlighted immediately below.

Putting those concerns in the context of a response to this question, we believe the reduction in the MPAA will have a disproportionate impact on those individuals who are not fortunate enough to understand the rules, together with those who are in a pension scheme that only offers access to the pensions freedoms through the UFPLS. We believe this group constitutes the majority of those aged over 55.

Wider concerns

We have a number of additional concerns regarding this proposal which are not covered either in our introduction or which do not fit perfectly into our response to the two consultation questions:

- We believe the fact that the government will have reduced the MPAA once and the communication to pension scheme members that we assume will follow has the potential to encourage far greater numbers of people to use the option of paying in £4,000 than would have considered paying in up to £10,000. So, if the government's estimate of saving £70m a year is based on similar numbers paying in £4,000 as currently do, we believe this to be flawed. We believe this change may even cost the government money.
- Going back to some of the issues raised in our introduction, the tax position will be exaggerated because the drop in MPAA will encourage a greater proportion of savers to only take a pension commencement lump sum so they continue to retain the full £40,000 annual allowance. This will:
 - Reduce the government's tax saving in terms of contributions because, for those who do simply take a PCLS, rather than their allowance being cut to £4,000 with no carry forward, it will remain at £40,000 with full carry forward.

- Reduce the tax take from the pension freedoms because those individuals who would have taken a taxable drawdown income will choose not to take any taxable income and just take a PCLS instead.
- The rule change will also hardwire inequity into the system. Those savers with providers who offer drawdown will be able to take advantage of the option of only taking the PCLS. Those savers with providers who only offer UFPLS will not have this option.
- Having touched on communication above we assume that the drop in MPAA will require every pension provider that has issued an MPAA statement to provide customers with another MPAA statement explaining that they can now only pay in £4,000 rather than £10,000. Given that many hundreds of thousands of savers have accessed the pension freedoms in the last couple of years and that comfortably less than 3% of over 55s pay in more than £4,000 each tax year this will result in an awful lot of unnecessary paper flying around!
- The communications will also involve, we would assume, tens of thousands of cases where providers are required to write to customers with whom they ceased to have a business relationship up to two years prior to this new correspondence. Providers of customers who have completely encashed their pensions will presumably be required to contact those customers again meaning we will have:
 - Customers receiving letters from providers they thought they ceased to have a relationship with up to two years previously, significantly reducing the chance those customers will read those letters, or appreciate the importance of them.
 - Letters with information of a personal nature being sent to wrong addresses because customers have moved without notifying former providers. We'll also see letters being sent to the addresses of individuals who have since died (there is no reason why the former provider would have been notified of the death). Without doubt this will cause upset for the family of the deceased. We would imagine there are lots of other circumstances where it is now inappropriate for providers to write to the addresses of former customers.
 - Providers paying for the cost of additional communication who have structured their charges for access to pension freedoms on the basis of a particular level of administration.
- Taking communication issues wide of the problems faced by providers, it is worth highlighting the biggest weakness in the MPAA disclosure system. The rules require savers affected by the MPAA to communicate with other pension providers if they start saving elsewhere. Based on our own experience, this communication just does not happen. We have only seen a handful of customers telling us they are caught by the MPAA as a result of accessing the pensions freedoms with other providers. If customers were complying with this requirement we would expect to have received hundreds, if not thousands, of notifications. This is one of the reasons we have previously described the current system as unworkable. Lack of customer engagement with communications regarding pensions is already acknowledged as a significant issue. Designing an MPAA system that not only requires individuals to engage with a communication sent to them, but which is also reliant on them remembering to take a particular action – potentially many years down the line – is a recipe for disaster.
- The interaction between an MPAA of £4,000 and a tapered limit of £10,000 feels as though it will be horribly complex for savers to understand. Whilst it is still complex when the limits both have a 'headline' figure of £10,000, greater confusion will occur if the MPAA is set at £4,000 and the taper has a limit floor of £10,000.

We will close by asking why someone should only be able to save £4,000 per annum for the rest of their life just because they've made a one-off pensions freedom withdrawal to meet a specific and important need, for example paying for a private medical procedure?

The government has introduced a system where the transition to retirement is not as cut and dried as it used to be. At the same time it appears to be intent on disproportionately punishing individuals simply for making use of the options the government has provided for them. As touched on above, those individuals may have the option of just taking a PCLS (and so not triggering the MPAA) in a scheme offering drawdown. However the vast majority who do not understand the rules and/or are in schemes only offering UFPLS will not have this luxury.

If you require further information in relation to any of the points raised above, we will of course be happy to discuss them further.

Yours sincerely



Gareth James
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