

**WIRRAL COUNCIL**  
**PENSION COMMITTEE**

**14 SEPTEMBER 2015**

<b>SUBJECT:</b>	<b>GOVERNMENT CONSULTATION ON PENSION TAXATION</b>
<b>WARD/S AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>STRATEGIC DIRECTOR OF TRANSFORMATION AND RESOURCES</b>
<b>RESPONSIBLE PORTFOLIO HOLDER:</b>	
<b>KEY DECISION?</b>	<b>NO</b>

**1.0 EXECUTIVE SUMMARY**

- 1.1 The purpose of this report is to inform Members of the government's consultation on reforming pension tax relief and to request approval to submit the draft response prepared on behalf of Wirral Borough Council to HM Treasury.

**2.0 BACKGROUND AND KEY ISSUES**

**Strengthening the Incentive to Save: A Consultation on Pensions Tax Relief**

Information and Analysis

- 2.1 The Chancellor has launched a Green Paper consultation on 7 July 2015 seeking views on the possibility of a radical change from the current tax regime. The stated objective is to encourage more people to save and to take responsibility for making sufficient contributions to their pension enabling them to meet their aspirations in retirement.

The document can be accessed from the following link:

<https://www.gov.uk/government/consultations/strengthening-the-to-save-a-consultation-on-pensions-tax-relief>

- 2.2 The consultation sets out the context for potential reform and asks for responses to the following set of wide ranging questions:-

- To what extent does the complexity of the current system undermine the incentive for individuals to save into a pension?
- Do respondents believe that a simpler system is likely to result in greater engagement with pension saving? If so, how could the system be simplified to strengthen the incentive for individuals to save into a pension?
- Would an alternative system allow individuals to take greater personal responsibility for saving an adequate amount for retirement, particularly in the context of the shift to defined contribution pensions?
- Would an alternative system allow individuals to plan better for how they use their savings in retirement?
- Should the government consider differential treatment for defined benefit and defined contribution pensions? If so, how should each be treated?
- What administrative barriers exist to reforming the system of pensions tax, particularly in the context of automatic enrolment? How could these best be overcome?
- How should employer pension contributions be treated under any reform of pensions tax relief?
- How can the government make sure that any reform of pensions tax relief is sustainable for the future?

2.3 In his Budget speech the Chancellor, when referring to the Green Paper, said:

*“Pensions could be taxed like ISAs. You pay in from taxed income – and it’s tax free when you take it out. And in-between it receives a top-up from the government. This idea, and others like it, needs careful and public consideration before we take any steps.”*

2.4 In view of the Chancellor’s comment, a potential outcome from this consultation might be that tax relief would no longer be given at the point employee pension contributions are deducted. In return, there is the suggestion that when pension benefits become payable they would attract less or no tax.

2.5 In essence the current system could be reversed to one where:

- Payments in are from taxed income
- Investment income is exempt from tax and
- Payments out are exempt from tax

2.6 The Appendices to this report include a draft response which must be submitted by 30 September 2015 and quotes from around the industry used to inform the response.

### **3.0 RELEVANT RISKS**

- 3.1 The potential removal of tax relieved contributions will lead to further reductions to a member's net pay in addition to the reductions resulting from the ending of contracting out increasing financial strain and present a significant risk of mass opt outs. This will place further cash flow pressures on the scheme and affect the investment strategy leading to a move from return seeking into defensive assets, culminating in increased employer contributions with a direct adverse impact on local taxpayers.

### **4.0 OTHER OPTIONS CONSIDERED**

- 4.1 Not relevant for this report

### **5.0 CONSULTATION**

- 5.1 Not relevant for this report

### **6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS**

- 6.1 None associated with the subject matter.

### **7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

- 7.1 There are none arising from this report

### **8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS**

- 8.1 There are none arising from this report

### **9.0 LEGAL IMPLICATIONS**

- 9.1 There are none arising from this report

### **10.0 EQUALITIES IMPLICATIONS**

- 10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

No, because Department of Communities and Local Government undertake equality impact assessments with regard to the statutory reform of the LGPS.

### **11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS**

- 11.1 There are none arising from this report

### **12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

- 12.1 There are none arising from this report

### **13.0 RECOMMENDATION**

13.1 That members make any required amendments to the content of the report before approving the draft response for submission to HM Treasury.

### **14.0 REASON/S FOR RECOMMENDATION/S**

14.1 There is a requirement for Members of the Pension Committee to be kept up to date with legislative developments to present an informed submission to the statutory consultation with the outcome of the government policies having a direct impact on the LGPS

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### **APPENDICES**

**Appendix 1 - Consultation Response On Tax Relief**

**Appendix2 - Thoughts From Around The Industry**

**BACKGROUND PAPERS/REFERENCE MATERIAL**

### **BRIEFING NOTES HISTORY**

<b>Briefing Note</b>	<b>Date</b>
<b>The LGPS update is a standing item on the Pensions Committee agenda.</b>	