Pensions freedom

Personal tax

01 December 2017

LITRG responds to an enquiry into pensions freedom.

Following the changes to legislation that took effect from 6 April 2015, allowing greater choice over how an individual might access their pension savings, the Work and Pensions Committee of the House of Commons invited comments from interested parties.

Guidance provided to prospective pensioners

LITRG's response notes that apart from guidance provided by individual pension schemes (where available) the main sources of guidance for pensioners on low incomes will be either financial advisers, or other professionals charging fees, or Pension Wise. While the people using Pension Wise seem to rate their guidance highly, it is concerning that Pension Wise does not require its advisers to be qualified in tax. Given that tax might consume a significant part of pension savings, especially since accessing pension funds might also affect the tax rate paid on state pension lump sums, for example, it seems anomalous that taxation issues are not covered in detail. LITRG suggests that warm handovers for tax advice might be made from Pension Wise to its sister charity Tax Help for Older People to help fill this void.

It is also concerning that Pension Wise may not be advising on the potential impacts of a pension withdrawal on the individual's, or their family's, rights to state benefits both in the short and the longer term.

Alternatives to pension

The response points out that it may be difficult for an individual to decide between saving for a pension or, instead, saving in a Lifetime ISA that receives a 25% bonus from the government subject to certain limits. While the individual may obtain tax relief on pension contributions, this is not necessarily the case if they are not a taxpayer and their employer operates a net pay arrangement for collecting pension contributions. Thus if the individual is not a taxpayer now contributing to the Lifetime ISA rather than to a pension might make sense but this may not necessarily remain the case should this individual become a higher rate taxpayer, given that pension contributions would attract 40% tax relief. Such financial decisions are complex and may either cause individuals to fail to choose the most suitable long-term savings vehicle or, worse, deter them from saving altogether.