HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Rt Hon Sir Stephen Timms MP
Work and Pensions Committee
House of Commons
London
SW1A 0AA

29 June 2022

Dear Sir Stephen,

Saving for Later Life

Thank you for your letter of 22 June inviting me again to give evidence to the Work and Pensions Committee's Saving for Later Life inquiry. I understand the Committee will be disappointed that I am unable to attend in person to give oral evidence on this occasion. I would, however, like to take the time to respond in writing to the issues you highlight in your letter.

First, you highlight concerns that the existing system of pensions tax relief is ineffective in incentivising saving. As you will be aware, at Summer Budget 2015 the government conducted a consultation on whether there was a case for reforming pensions tax relief to strengthen incentives to save, and offer savers greater simplicity and transparency, or whether it would be best to keep with the current system. The government approached the consultation with an open mind, rather than putting forward specific proposals for reform. The government was clear from the start that the conclusion of the consultation could be that maintaining the current system remained the best way of ensuring that individuals are supported to save. Responses to the consultation indicated that there was no clear consensus for reform at that time, and so at Budget 2016 the government announced that it would not be making fundamental reform to the pensions tax system at that stage.

You state that an increase in Automatic Enrolment (AE) contribution rates may increase the cost of pension tax relief for the Exchequer. It should first be said that the DWP is responsible for contribution rate policy and, therefore, the Minister for Pensions and Financial Inclusion would be best able lay out the government's position on AE contribution rates. However, when looking at pension tax relief, you will be aware that the government wishes to encourage pension saving, to help ensure that people have an income, or funds on which they can draw, throughout retirement. That is why, for the majority of savers, pension contributions made from income during working life are tax-free. This makes pensions tax relief one of the most expensive reliefs in the personal tax system. In 2019/20 income tax relief on total contributions and National Insurance relief on employer contributions for pension savings cost the Exchequer £61 billion, with around 60 per cent of income tax relieved at the higher and additional rates.

However, since 2010 the government has made changes to the limits on pensions tax relief in order to help control the cost and ensure the sustainability of the public finances. This includes reductions to the annual allowance and lifetime allowance, as well as freezing the lifetime allowance for 5 years from April 2021, and the introduction of the tapered annual allowance for high-earning pension savers. The reforms to the lifetime allowance and standard annual allowance made since 2010 are expected to save £6 billion per year and are necessary to deliver a fair system, and to protect the public finances. These measures only affect the wealthiest pension savers: 91% of those approaching retirement over the next few years are unaffected by the lifetime allowance, and 99% of those saving in a pension are unaffected by the annual allowance.

Your letter references the disparity between non-taxpayers in Relief at Source (RAS) who receive a 20% top-up on their pension and non-taxpayers in schemes using a Net Pay Arrangement (NPA) who only receive tax relief at their marginal tax rate, i.e., 0%. As I outlined in my written evidence to this inquiry, to rectify this anomaly and equalise outcomes for pension savers, the government is introducing a new system to make top-up payments directly to low-earning individuals saving in pension schemes using a NPA for contributions for the tax year 2024-25 onwards. HMRC will contact eligible customers after the end of the 2024-25 tax year and invite them to provide the necessary details for the top-up to be paid direct to their bank account. As a result of this change, low earning pension savers should receive similar outcomes regardless of how their pension scheme is being administered for tax purposes.

Regarding the implementation of something akin to AE for the self-employed, you suggest that the tax system may offer a solution to increasing pension saving in this group. As I outlined in my previous letter, DWP and HMRC are working together to explore the opportunities presented through Making Tax Digital and software suppliers and find effective durable retirement solutions for the self-employed.

Finally, you mention that witnesses have suggested that HMRC automatically enrol people who have total earnings from multiple employments above the £10,000 trigger into a Nest pension. Unfortunately, this suggestion would still encounter the same taxpayer confidentiality issues as I raised in my previous reply. This is because at least one employer would be required to supply an employer contribution to comply with AE legislation. Therefore, HMRC would be obliged to inform employers of the individual's total employment income. While the government keeps all areas under review, there are currently no plans to require HMRC to auto enrol any individuals, including those with earnings from multiple employments above the £10,000 trigger.

I would like to again thank you for your continued engagement on how we can support people to save for later life.

with very best regards

John

JOHN GLEN

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John Glen MP
Economic Secretary to the Treasury
HM Treasury

22 June 2022

Dear John

Saving for Later Life

Thank you for your letter of 17 June. The Committee was grateful for the evidence you gave to our Accessing Pension Savings inquiry, as you say, to discuss the vital role of the Treasury in this policy area. The Committee is therefore very disappointed that you are not planning to give oral evidence as part of our saving for later life inquiry, in which the Treasury has an equally critical role to play. They asked me to write to you again to ask you to reconsider and give evidence, alongside the Minister for Pensions on Wednesday 6 July 2022 at 9.15am.

We have heard evidence from a range of witnesses about a pending crisis in retirement income for some groups. They have proposed solutions, some of which are the responsibility of the Treasury and HMRC. For example:

- In 2019/20, an estimated £41.3 billion in tax relief was provided on pension contributions, yet there is evidence that people do not understand how it works, raising questions its effectiveness as an incentive to save.
- The increase in auto-enrolment contributions that many think is needed, will increase the cost of pension tax relief.
- HMRC is responsible for delivering the solution to the problem that non-taxpayers in 'net pay' arrangements do not get tax relief.
- Only around 16% of self-employed are saving in a pension, compared to 88% of employees. We have heard that 'nudge' approaches are not enough to reverse this trend and that something akin to auto-enrolment through the tax system is needed.
- You say that if HMRC were to collate the earnings of multiple jobholders and pass this to employers, this would breach tax-payer confidentiality. However, witnesses have suggested that HMRC could auto-enrol multiple job-holders directly into NEST.
- The Treasury has responsibility for aspects of pensions guidance and advice, which are important to helping people make decisions while saving for retirement.

The Committee would like the opportunity to explore these issues with you and we repeat our request for you to give oral evidence on Wednesday 6 July. We would be grateful for a response by the end of this week.

Yours sincerely,

Rt Hon Sir Stephen Timms MP
Chair, Work and Pensions Committee