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THE 100 GROUP

Pensions Committee

HMRC
100 Parliament St
London SW1A 2BQ

By email to: pensions.policy@hmrc.gov.uk

12 September 2023

Dear Sir/Madam

Response to HMRC's consultation on the proposed policy and draft legislation relating to the abolition of the Lifetime Allowance ("Consultation")

We are writing on behalf of the Pensions Committee of the 100 Group of Finance Directors with regard to the Consultation.

We have set out below our comments and concerns regarding the proposals contained in the consultation on abolishing the pensions Lifetime Allowance published on 18 July 2023 and your newsletter 152 issued on 20 July 2023.

About the 100 Group

The 100 Group represents the finance directors of the FTSE 100, several large UK private companies and some UK operations of multinational groups. Our member companies represent the vast majority of the market capitalisation of the FTSE 100, collectively employing 6% of the UK workforce, and pay (or generate) taxes equivalent to around 12% of total UK government receipts.

Our overall aim is to promote the competitiveness of the UK for UK businesses, particularly in the areas of tax, reporting, pensions, regulation, capital markets and corporate governance.

The 100 Group represents companies sponsoring defined benefit (DB) pension schemes with assets of approximately £590bn and membership of 3.5m (around a third of the overall DB universe).

Summary

Implementing change of this nature and complexity is a major undertaking and, from an operational perspective, our members can't do anything with their (often very large and complex defined benefit) schemes until they understand what the final and detailed requirements are.

Based on our experience implementing similar operational and system changes, our members estimate that, in isolation, they would need 6-8 months to implement the proposed changes from the point at which the legislation and all outstanding policy decisions are finalised. Realistically this estimate will be impacted by other large projects, notably Dashboard and GMP equalisation.

Given that the legislation is unlikely to be finalised until the end of this year, at the earliest, our members will not have time before 6 April 2024 to understand and identify all of the implications of these changes for their pension schemes and their membership, to implement the necessary changes to their operations, processes and member communications and, where necessary, to design and build suitable solutions.
Putting in place manual workarounds while our members implement automated solutions is not an option for schemes the size of our members (typically multi-£billion), given the sheer number of extra administrators they would need to get in and the limited resource pool available to recruit from.

To provide context, our members' schemes commonly have many thousands of retirements quotations to process each month. Manual processing of retirements on this scale introduces a significant risk of errors.

Some detail – what are the practical implications of LTA abolition?

To help you understand the challenge facing our members (and every other UK pension scheme), the proposed changes will require our members to:

- update payroll systems and processes – to enable them to deduct income tax from lump sum payments that exceed the new allowances;

- update administration systems – given the typical size of our members' schemes, by necessity, there is a significant automation built into all aspects of the operation. System changes require our members to carefully consider the changes needed and to draft detailed specifications. The changes must then be coded and extensively tested before release. Subsequent changes then need to be made regarding reporting and automated letters, as well as adding additional warnings controls. Such changes also require staff training and process documentation updates. All of which has to be of auditable quality.

- update the processes for paying benefits – for example, to obtain details of all lump sum payments a member has already received to determine the tax treatment of lump sum payments following 6 April 2024. In addition, in this regard our members become reliant on the provision of this information by other schemes. Our members would need to understand what they are expected to do where this is not provided;

- keep additional records for reporting and disclosure – with the volume of members and benefit payments our members deal with, they would need to build and code new data fields on their administration system and build reports;

- update existing member communications - so that members are in a position to understand what the abolition of the LTA and the introduction of the new tax rules means for them. For example, retirement packs will need updating ahead of 6 April 2024 retirements. These would normally be issued by 6 October 2023 at the latest;

- prepare new member communications - to make members aware of the changes once the detail is confirmed and to comply with any new disclosure requirements, details of which are still awaited. Our members are mindful that this communication would need to be carefully targeted to reach affected members, without causing any concern and confusion to other members. Given the typical size of our members' pension schemes, a standalone communications exercise is a significant undertaking;

- review and update pension scheme Rules - to reflect the abolition of the LTA and the resulting changes to the pensions tax regime. Such a review would require input from our members' advisers, who may themselves have constrained capacity. Material Rule amendments will come at a financial cost to the scheme; and

- consider how to address the position of members in any 'top-up arrangement' (i.e. SURBS/UURBS etc).

To implement these changes, our members will be dependent on their administration teams and other key third party advisers. They are likely to have hundreds of other schemes requiring similar changes to be implemented at the same time and it is unrealistic to expect them to be able to develop, test and implement solutions for of all of these schemes by 6 April 2024.

We note that the pensions industry already has a huge volume of work already to do – core and bespoke developments, McCloud changes for their public sector schemes, preparing for pension dashboards, implementing GMP equalisation etc. Administration teams find themselves in the same position. This problem and the inevitable capacity crunch to which these changes would give rise will be repeated throughout the industry, if sufficient time is not allowed for implementation.

Conclusion

We hope this gives you a sense of the scale of the challenge that our members, and every other pension scheme in the country, will face if the proposed changes are implemented on 6 April 2024, as proposed.

Given the complexity of the changes and the considerable unknowns that still exist, it will be impossible for all schemes to be ready on time. This runs the risk of causing significant and unnecessary member detriment. In light of this, we would urge the Government to provide full and final details of the new regime by the end of this year and to delay implementation of the proposals for at least six months (i.e. until 6 October 2024 at the earliest).

If you would like to discuss any of the points raised in our response, please contact Sankar Mahalingham (pensions@the100group.co.uk).

Yours faithfully,

Phil Aspin
Chair
The 100 Group Pensions Committee