

**Department for Work & Pensions**  
**Simpler annual benefit statements [pensions]**  
**Response from the Low Incomes Tax Reform Group (LITRG)**

**1 Executive Summary**

- 1.1 We support the aim of this consultation in trying to achieve greater consistency in, and simplification of, individuals' pension benefits statements.
- 1.2 Our concerns relate to one specific part of the pensions story – but one that is vital to the individual's understanding of his or her true financial position – tax. The key to all of our recommendations is that pensions planning cannot be undertaken without understanding the tax implications – both during accumulation of savings and at decumulation (drawing a pension).
- 1.3 We therefore recommend that any project to simplify annual benefit statements takes tax into account, and specifically:
- If there is to be a pension 'statement season', tying this in with the tax year end could help people to cross check pension contributions in the past year for tax compliance purposes;
  - Paper statements should be preserved for those who want them, safeguarding the digitally excluded or those struggling with digital engagement;
  - Clear links to pensions dashboards should be made from annual statements. However, we reiterate that such messaging would be simpler if there were to be just a single, government-sponsored dashboard rather than a multiplicity of them;
  - Statements need to flag that pension income on retirement will be taxable (except for pension commencement lump sums) and prompt people to consider their state pension (which is also taxable) in the round with private pension savings;

- Statements should clearly show the net-of-tax-relief cost of pension contributions, making them seem more attractive and therefore prompting people to save more.

## **2 About Us**

- 2.1 The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998, LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes. Everything we do is aimed at improving the tax and benefits experience of low-income workers, pensioners, migrants, students, disabled people and carers.
- 2.2 LITRG works extensively with HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.
- 2.3 The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

## **3 Introduction**

- 3.1 LITRG's interest in this consultation on simpler annual benefit statements for pensions is limited. Our key aim is to ensure that people understand the tax implications of pensions decisions – both during accumulation of savings and on drawing benefits (decumulation). At decumulation stage, for example, we see from enquiries received to our website that people frequently get things wrong.<sup>1</sup>
- 3.2 We have framed all of our comments in answer to questions 1 and 2 of the consultation, but also point out where our answers relate to other consultation questions.

## **4 Our response**

- 4.1 The ambition outlined in the consultation is that:

---

<sup>1</sup> People fall foul of the common pitfalls outlined in our article 'Pension pitfalls', 11 July 2019, see: <https://www.litrg.org.uk/latest-news/news/190711-pension-pitfalls>

‘statements should be structured to enable a member to quickly see the answer to three questions...:

- How much money do you have in your pension pot?
- How much money could you have when you retire?
- What can you do to give yourself more money in retirement?’<sup>1</sup>

4.2 The paper then asks:

‘We would welcome your views on this twin ambition:

1. Is it one that you recognise as offering benefits in terms of an individual’s understand of – and better engagement with – their workplace pension saving? Yes/No?
2. In what ways could consistent workplace pension annual benefit statements offer an opportunity to improve engagement with and understanding of pension provision?’

4.3 First, we would say in answer to question 1 that, **yes**, we think the aim of improving understanding and better engagement is the right ambition. We have no evidence to confirm the best way of achieving consistency of presentation of annual pension statements across the industry. We therefore do not comment on whether the best approach is to prescribe a certain statement format or instead to lay out design principles or descriptors. However, we can say with some confidence, given the queries and feedback we receive from visitors to our websites,<sup>2</sup> that many people are likely to welcome both consistency of presentation and simplicity when it comes to financial documents.

4.4 We note that the focus is currently on money purchase schemes which have been used to meet employers’ automatic enrolment duties. Defined benefit and public sector schemes are not in scope. We are pleased to note, however, that ‘the opportunity to learn lessons about the potential applicability to them in future’ is noted. We think it would be helpful to try to ensure consistency, where possible, across all schemes – for example in terms of language used, and in adopting a ‘statement season’ (so that those with defined benefits can review their full pension provision altogether).<sup>3</sup>

4.5 In relation to question 2, we have various comments to make, as set out below.

---

<sup>1</sup> See paras 6 & 7 of the consultation document, pp 10 & 11:

<https://www.gov.uk/government/consultations/simpler-annual-benefit-statements-for-workplace-pensions>

<sup>2</sup> In 2018, we reached almost 5 million web users across our four websites.

<sup>3</sup> See para 14 of the consultation document: <https://www.gov.uk/government/consultations/simpler-annual-benefit-statements-for-workplace-pensions>

#### 4.6 ***Seeing how much money you have in your pension pot***

- 4.6.1 We agree that it is important for people to be able to see at a glance how much is in their pension pot, so this should be a key factor in designing statements.

*‘Statement season’ – note that this answer should also be considered with responses to question 23.*

- 4.6.2 As referred to later in the consultation document, a common ‘statement season’ is likely to be helpful for those with multiple pots as it would help them to piece them together, rather than having to dig out earlier statements as each new one comes in. We think it would be helpful for this season to be tied in with the end of the tax year. For example, if the statements also show how much has been contributed in the last tax year, this could help people meet tax compliance obligations such as completion of Self Assessment tax returns.

*Online v offline access / digital inclusion and exclusion*

- 4.6.3 Paper statements will always be helpful for those who are digitally excluded (or perhaps digitally challenged) and an online equivalent should only be issued to those who choose to be communicated with in this way – i.e. opt in to online statements.
- 4.6.4 For those who are digitally capable, the statements should provide clear links to how people can access complete pension information via pensions dashboards. The statement will be a useful prompt to get people to engage with dashboards and therefore get an overall picture of their pensions more easily than trying to match up individual statements.

*A clear message for linking to pensions dashboards*

- 4.6.5 We have previously suggested that a single, government-overseen dashboard would be preferable to multiple dashboards to avoid confusion.<sup>1</sup> While we appreciate the dashboard is a separate project to simpler statements, we reiterate here that it would be a much clearer, straightforward message for annual statements to point people to a single dashboard than to give information about multiple dashboards.

#### 4.7 ***Being able to see how much money you will have when you retire***

*Understanding that pension income is taxable – please also note the comments below when considering responses to question 10 in terms of what is omitted from the example statement at Annex A to the consultation.*

- 4.7.1 We agree that the annual statement should allow people to easily see how much money they might have when they retire. However, it needs to be clear that the projected figures will not necessarily result in that amount of cash in their pocket.

---

<sup>1</sup> See for example our response to the ‘Pensions Dashboards – Working together for the consumer’ consultation: <https://www.litrg.org.uk/latest-news/submissions/190122-pensions-dashboards-%E2%80%93-working-together-consumer>

- 4.7.2 In this respect, the annual statement must not only show realistic income projections,<sup>1</sup> but also tell people that (with the exception of pension commencement lump sums) their pension will be **taxable**, and that they must therefore take tax into account when deciding what net income they want in retirement.
- 4.7.3 So that people can understand their total pension provision, mention should be made of individuals' state pension entitlement and a prompt should be given as to how people can check how much they are on course to receive. Again, this should note that the state pension is taxable (and should therefore be aggregated with the private pensions to see what post-tax income could be available) as a lot of people do not appreciate this.<sup>2</sup> If people do not understand that they will have to pay tax on all their pensions, including the state pension, it gives a misleading impression of what their income is going to be at retirement. As a consequence of not factoring in this 'tax cost', people might not save enough.
- 4.8 ***Nudging people to boost their retirement savings***
- 4.8.1 The final aim of simplifying statements is to enable people to consider how they might make more provision for themselves in retirement.
- 4.8.2 It is important here to emphasise that tax relief may be available on contributions, to demonstrate that the cost of pension saving might be lower than the individual thinks.
- 4.8.3 For example, many people will get basic rate tax relief on their individual contributions,<sup>3</sup> so annual statements could illustrate how a basic rate taxpayer could boost their pension by £50 by paying only £40. This makes pension saving more attractive, as the net amount looks and sounds a lot less than the gross.

LITRG  
11 December 2019

---

<sup>1</sup> As an aside, we query whether the income projection on the example Annex A 'Allied Widgets' pension statement is realistic as an income of £752 a month based on a pot of £180,000 would equate to a 5% annuity rate. That would seem unachievable for a healthy person (i.e. not impaired life) in today's market, even as a single life, level annuity.

<sup>2</sup> HMRC told us that some 96% of participants in recent pensions research they conducted did not know the state pension is taxable.

<sup>3</sup> Except those earning around or below the personal allowance, who are contributing to a pension scheme operating on a net pay arrangement basis. See <https://www.litrg.org.uk/latest-news/submissions/180927-budget-2018-representation-net-pay-arrangements-lower-paid-workers> for our representations on this issue.