

**Helping savers understand their pension choices
Department for Work & Pensions – call for evidence
Response from the Low Incomes Tax Reform Group (LITRG)**

1 Executive Summary

- 1.1 This response makes a brief but important point: all pension schemes¹ must provide members with information on the wider financial impacts of pension choices so that individuals understand their net income position. Failure to understand tax and benefits consequences can leave people worse off in retirement than they otherwise might have been.
- 1.2 Members should also be signposted to how they can get further guidance or individual advice, including non-digital channels for those who struggle to engage online.

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.

¹ Irrespective of type, i.e. whether occupational or contract-based, defined benefit, defined contribution or – in future – collective defined contribution.

3 Introduction

- 3.1 We welcome the opportunity to respond to this call for evidence on helping savers understand their pension choices. In our experience, lack of understanding of the tax and welfare benefits consequences of pension choices can be detrimental to savers. Our response therefore emphasises the need for awareness in these areas to be raised.
- 3.2 We have only answered those questions below which fall within our remit (described in section 2 above).

4 **Question 2: As an occupational pension saver, do you expect your pension scheme to offer you guidance and support on the options available to you when accessing your pension, and if you do, what do you think that should look like?**

- 4.1 We are responding to this question based upon our experience of contact received from members of the public on pensions matters.
- 4.2 Lack of knowledge of the consequences of pensions decisions can lead to costly mistakes such as triggering unexpected tax liabilities or losing benefits.¹ Most recently, we have been concerned that cost of living pressures might result in people making hasty and ill-considered decisions in respect of their pension savings.²
- 4.3 There is no specific mention of other financial impacts of pensions decisions such as tax and welfare benefits in the call for evidence document, yet these factors are part and parcel of working out the net amount that members will get from their pension. It is imperative that guidance on the tax and benefits consequences of decisions is provided by schemes whenever members are accessing, or thinking about accessing, their savings.
- 4.4 Such guidance could perhaps be provided by pension schemes via a simple standard factsheet sent alongside other 'wake up' communications. This might signal where further information on tax and welfare benefits consequences of pensions decisions can be found online. Members should also be signposted to how they can get individual advice. For the digitally excluded, alternatives must also be provided, such as a telephone number for Pension Wise.

¹ We do not go into these in detail here, but summarise some of the pitfalls we have seen people fall foul of in our website article, 'Pension pitfalls': <https://www.litrg.org.uk/latest-news/news/210611-pension-pitfalls>

² See LITRG press release 22 June 2022: <https://www.litrg.org.uk/latest-news/news/220622-press-release-cost-living-crisis-%E2%80%93-beware-hasty-pensions-decisions-warn-tax>

5 How could Collective Defined Contribution schemes (CDCs) work in practice in the DC decumulation market?

- 5.1 As we understand them, the intention of CDCs is principally to provide a pension income in retirement.¹ The member may, however, be able to transfer to another registered pension scheme² if they wished to take advantage of pension flexibility (taking lump sums or otherwise drawing down sums of the member's choosing).
- 5.2 The default retirement position of a regular income being paid out of the CDC scheme might therefore be advantageous in terms of preventing people making the kinds of costly mistakes we have seen in some instances under pension flexibility since 6 April 2015. Information for such scheme members should nevertheless include guidance on tax and welfare benefits consequences of pension decisions.

LITRG
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¹ Pension Schemes Act 2021, s 3(5): <https://www.legislation.gov.uk/ukpga/2021/1/section/3/enacted>
"The qualifying benefits provided under the scheme must consist of or include the payment of a pension."

² Member's right to transfer is found in Pension Schemes Act 2021, s 25:
<https://www.legislation.gov.uk/ukpga/2021/1/section/25/enacted>