



Phasing out the Default Retirement Age
Response to Department for Business, Innovation and Skills consultative
document

1. Executive summary

- 1.1. Our response to this consultation focuses attention on the broader issues which arise from people working longer and the need for joined-up working across government and in conjunction with external stakeholders.
- 1.2. The aim must be that individuals have access to the guidance and support they need to make properly informed decisions about staying on at work beyond the ‘traditional’ retirement age, ensuring they have considered all the knock-on effects in terms of their finances and pension options. This must include interaction with taxes and state benefits.
- 1.3. In summary, we recommend that a working group is set up to look at the issues and ensure that adequate guidance is in place. This work will need to begin immediately in view of the challenging implementation timescale suggested in the consultation.

2. Introduction

2.1. *About us*

- 2.1.1. 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.
- 2.1.2. 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.

2.2. ***Our interest in this consultation***

- 2.2.1. Given the above context, our response to this consultation looks at the issues for people continuing to work longer, taking into account the interactions with other areas of government. This includes the tax and national insurance (NI) systems as well as the welfare state, including tax credits administered by HM Revenue and Customs (HMRC), and benefits administered by both the Department for Work and Pensions (DWP) and local authorities (LAs).

3. **General comments on the consultation**

3.1. ***People's ability to work longer***

- 3.1.1. The foreword of the consultation begins: 'People today are living longer and enjoying healthier, more active lifestyles'. Whilst this may indeed be true for some, there is a wealth of research which suggests there are geographical variations in people's health across the UK. Equally, there are those – particularly in manual, lower income jobs – who are not as healthy or able to continue doing their job in later years.
- 3.1.2. Whilst we agree there should be no reason to force people to retire at a certain age if they do not wish to, for others it might be impossible to continue working in later life, or at least to continue doing the same job as in their main working life.
- 3.1.3. For those for whom poor health does not prohibit continued working altogether but means adapting to a different type of work, training and support needs to be available to develop the required skills. One way of so doing might be to introduce some form of incentive – such as a tax relief – for employers to offer training to older employees to allow them to move into new positions for which they are better suited in later life.

3.2. ***People wanting to work longer***

- 3.2.1. Furthermore, whilst we do not dispute that some may wish to work longer, or phase their way into retirement by gradually reducing their hours, others would not wish to extend their working life. It is therefore vital that the message is clear to employees as to their choices. This is particularly important if some employers (if they can prove an objective case, as stated in the consultation) will be able to continue to set a compulsory retirement date; thus potentially adding to employees' confusion in the absence of across-the-board treatment.

3.3. ***Other areas to consider***

- 3.3.1. Removing the default retirement age raises much broader issues than merely considering the employer/employee relationship. Whilst the employee must of course discuss their position with their employer as they reach traditional retirement age, their considerations are much more extensive and there is a need for government to provide guidance at such a critical time. We outline some of the issues in section 4 below and stress the need for BIS to

work with HMRC, DWP and LAs to ensure that joined up help is available for individuals considering continuing working into their ‘retirement’ years.

4. Interactions with other areas of government

4.1. *What does an individual need to consider when working beyond normal retirement age?*

4.1.1. Reaching retirement age is a key ‘life event’ and requires a great deal of thought. Individuals face an often bemusing array of decisions and a host of paperwork the likes of which many may never have encountered before, particularly if they have been Pay As You Earn (PAYE) taxpayers throughout their working lives. The tax problems that can occur at this time have been explored in our previous pensioner reports, the latest of which we published in 2007¹.

4.1.2. In phasing out the Default Retirement Age and thus anticipating an increase in the number of employees who might choose to continue working beyond age 65, extra attention needs to be drawn to these issues to ensure that individuals are aware of how continuing to work impacts on them.

4.1.3. For example, older workers continuing in employment will face decisions such as (inter alia):

- whether to draw or defer taking their state pension;
- continuing availability of ‘working age benefits’ such as tax credits;
- the financial impacts of moving from full-time work to part-time work (the reduction in working hours requirement for working tax credit from April 2011 for older claimants being relevant here);
- whether to draw occupational or private pensions whilst continuing to work (and if so, how the benefits can be taken including whether the ‘trivial commutation’ rules might apply), or to defer them;
- whether to continue contributing to occupational or personal pensions and the resulting impacts, for example on their tax position (particularly if age allowances are relevant, as pension contributions are deductible from income before arriving at the threshold – see 4.4 below);
- the overall position of their household, particularly in the context of benefits which are assessed on couples as against the tax position of individuals in that household (albeit with the idea of transferable tax allowances having recently been mooted).

¹ The full reports can be found on our website – www.litrg.org.uk

4.2. ***Timing of decisions and the need for guidance***

- 4.2.1. Timing of these decisions is often critical, for example in terms of an individual's tax position and the guidance and help available is often either non-existent or poor.
- 4.2.2. Moreover, the administration of the tax and benefits systems increases complexity. For example we know that PAYE has hitherto coped poorly in terms of taxing pensioners correctly in-year, the regulations sometimes working in such a way as to under-tax them and create a debt by allocating two sets of tax allowances to an individual who works and claims a pension at the same time. Furthermore, people find themselves having to report the same change in circumstances multiple times to government – either to different Departments or to various silos within the same Department. Whilst the changes that are afoot in terms of a more fluid welfare system for the 21st Century and PAYE reform could reduce the burden of reporting, those benefits will not be immediate; therefore there will be a need for additional help and guidance until such time as the system is sufficiently automated to cope.
- 4.2.3. We have previously commented¹ on the inadequacy of the current 'P161' process for getting pensioners' PAYE codings right, to which further complexity is added when an individual remains in employment whilst drawing pensions (potentially a mixture of the state pension – untaxed at source – and private pensions). HMRC must therefore be encouraged to look at ways of improving this.

4.3. ***Working and retirement age benefits***

- 4.3.1. As the traditional demarcations between working and retirement age dwindle, the line between working age benefits and retirement age benefits in turn becomes increasingly blurred. In our response to the DWP's recent consultation on 21st century welfare, we reinforced this point as we felt it was largely overlooked. It is essential that BIS, HMRC and DWP work closely together, along with external stakeholders, to consider all the issues and ensure a seamless transition from working life into retirement, taking into account the increased likelihood of individuals working longer and perhaps making a more gradual move from into retirement via part time work. As noted below, the relevance of volunteer work also needs to be brought into account.

4.4. ***Possible future policy decisions***

- 4.4.1. The present consultation also warrants some discussion of potential policy which might need to be reviewed.
- 4.4.2. For example, tax age allowances currently increase from age 65, subject to an income threshold after which the increase is gradually withdrawn down to the basic amount. With the national average wage of around £25,000 a year exceeding the current threshold of £22,900, more people are likely to fall into the withdrawal range. This in turn often requires

¹ See <http://www.litrg.org.uk/news/latest.cfm?id=752>

those individuals to complete annual Self-Assessment tax returns and creates complexity in the PAYE coding process as a forecast of annual income is required.

4.5. **Guidance**

4.5.1. Question C in the consultation document asks:

Question:

C. Thinking about retirement discussions between an employer and an employee, do you think it would be useful to have:

- 1. Formal guidance on how to discuss retirement in a mutually beneficial way*
- 2. A statutory code of practice, including guidance, which covers retirement discussions*
- 3. None of the above*
- 4. Something else*

If you believe that additional guidance or a code of practice would be helpful, what topics do you think should be addressed? For example flexible retirement options, changes to duties and working hours, etc.

4.5.2. As noted above, we feel that adequate guidance and support channels for individuals are essential. Whilst discussions between employer and employee are desirable in terms of employment conditions and so forth, much wider consideration needs to be given as to the wider impacts, some of which we have mentioned above. We therefore recommend that a working group across government and interested stakeholders is created to discuss how this might be delivered. Work will need to begin on guidance immediately given the somewhat optimistic timetable to implement the changes from April 2011 with a six-month transitional period.

5. **Other options for ‘working’ beyond retirement age**

5.1. **Volunteering**

- 5.1.1. On retirement, many people choose to continue their ‘working’ life not in paid employment, but in taking up voluntary activities for charities or other organisations. In so doing, volunteers are not paid for their time, but might be reimbursed out-of-pocket expenses.
- 5.1.2. There tend, however, to be obstacles in the way as outlined in our 2009 report ‘Bureaucracy, expenses and the low-income volunteer’¹. This is therefore another area where we have previously suggested, and reiterate here, that collaborative work between government departments is needed to eliminate the conflicting rules between national minimum wage,

¹ The full report can be found on our website, www.litrg.org.uk – Reports section

benefits and tax and to provide better and more joined up guidance for those willing to give their time in this way.

LITRG

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