

29 MAY 2019



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

Jo Swinson MP
House of Commons
London
SW1A 0AA

22nd May 2019

Your ref: JS7278

Dear Jo,

Thank you for your email of 29 April to the Chancellor of the Exchequer enclosing an example of correspondence from one of your constituents about the effect of tapered annual allowance on NHS staff and also raising concerns about these matters on your own behalf. I am replying as the minister responsible for this policy area.

You and your constituent first raise concerns about the annual allowance on tax-relieved pension savings, which has since 6 April 2016 been subject to a taper for those with total income (broadly, income plus pension accrual) of over £150,000. It may be helpful if I set out the context for this restriction.

The Government wishes to encourage pension saving to help ensure that people have an income, or funds on which they can draw, throughout retirement. This is why, for the majority of savers, pension contributions are tax-free. This makes pensions tax relief one of the most expensive reliefs in the personal tax system. In 2016/17 income tax and employer National Insurance Contributions relief cost over £50 billion, with around two-thirds going to higher and additional rate taxpayers.

The tapered annual allowance is therefore focused on the wealthiest pension savers, to ensure that the benefit they receive is not disproportionate to that of other pension savers. Savers can continue to make significant amounts of pension savings tax-free, while incentives to save are targeted across society. The annual allowance does not taper down below £10,000, while across the population, median annual defined contribution pension contributions are between £2,000 and £3,000. Less than one per cent of pension savers will have to reduce their saving or face an annual allowance charge as a result of this policy.

To help ensure that those in defined benefit schemes, such as the NHS Pension Scheme, are not unduly affected by a one-off annual allowance charge when they receive a promotion or pay award, the Government allows up to three years of unused annual allowance to be carried forward.

The Government also allows public sector pension schemes to pay charges on behalf of their members through 'Scheme Pays', provided that the annual allowance charge is at least £2,000 and they have exceeded the annual allowance of £40,000.

I would note that where those with very high incomes face annual allowance charges, these are designed to recoup the cost of tax relief on pension accrual. Annual allowance charges are not punitive, and are levied at an individual's marginal rate to reflect the significant pension accrual that an individual is benefitting from and to provide a proportionate limit to the amount of pensions tax relief that is available to the highest earners.

Your letter asks what consultation the Treasury conducted with the Department for Health and Social Care when developing the tapered annual allowance. The Government believes that the pensions tax system is appropriately designed to ensure that the highest earners across society have access to a fair amount of pensions tax relief. However, I am aware of the concerns being raised by GPs and NHS consultants in the NHS pension schemes. The Treasury is currently in discussion with the Department of Health and Social Care to consider if there is a case for introducing any additional flexibility in the NHS pension scheme.

More widely, I can assure you that the Government is committed to public service pensions which are fair to workers and fair to other taxpayers, and the NHS pension scheme (as with other public service schemes) remains amongst the most generous available.

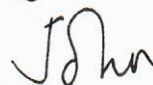
Regarding the level of the lifetime allowance, this is kept under review. In April 2016, the lifetime allowance was reduced from £1.25 million to £1 million. However, as confirmed at Autumn Budget 2017, from April 2018 the lifetime allowance increased in line with CPI, so that the value of this benefit can now keep pace with inflation. This means for 2018/19 the lifetime allowance increased to £1,030,000, and to £1,055,000 from April 2019. The annual allowance remains at £40,000. This allows savers to continue to make significant amounts of pension savings tax-free, while ensuring incentives to save are targeted across society.

The reforms to the lifetime allowance and annual allowance made in the previous two Parliaments are expected to save over £6 billion per year, and are necessary to deliver a fair system, and to protect the public finances. Overall, 95 per cent of individuals currently approaching retirement have a pension pot worth less than the lifetime allowance, while the median pension pot for individuals approaching retirement is around £170,000.

The NHS is the Government's number one spending priority and that is why we have committed to a historic settlement that provides a cash increase of £33.9 billion a year by 2023/24. The NHS's long-term plan, backed by the funding we have provided, marks an important moment not just for the health service but for the lives of millions of patients and hardworking NHS staff across the country. The workforce is fundamental to this; NHS staff are its greatest asset and the Government values highly the contribution made by hard-working doctors across the country. It is therefore in the Government's interest to support such individuals.

Please pass on my thanks to your constituents for taking the trouble to make me aware of these concerns.

with very best regards



JOHN GLEN