Tax Representation

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND & WALES

Faculty of Taxation

TAXREP 11/03

Simplifying the taxation of pensions: increasing the choice and flexibility for all

Memorandum submitted in April 2003 by the Tax Faculty of the Institute of Chartered Accountants in England and Wales (ICAEW) to the Inland Revenue in response to the Consultation Document issued in December 2002 jointly by the Inland Revenue and HM Treasury

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Simplifying the taxation of pensions: increasing choice and flexibility for all

INTRODUCTION

1. We welcome the opportunity to comment on the Consultation Document *Simplifying the taxation of pensions: increasing choice and flexibility for all* issued in December 2002 jointly by the Inland Revenue and HM Treasury.

2. At the same time the Department of Works and Pensions (DWP) issued a Green Paper *Simplicity, security and choice: Working and saving for retirement.* The Green Paper was accompanied by a technical paper entitled *Simplicity, security and choice: technical paper* also issued by DWP. The ICAEW has made separate representations on the Green Paper. A copy of the representation is included as Appendix 2.

3. The Consultation Document represents a potential major overhaul of the taxation of pension arrangements in the UK. In principle we welcome and fully support the radical approach to simplifying the taxation of pensions.

4. The Consultation Document is said to define the direction the Government proposes to take in this area (paragraph 1.15). The Government then states its intention to develop more detailed plans for reform in partnership with those who will use the new rules to ensure that the detailed proposals are simple, durable and readily understood (paragraph 1.15). We welcome this collaborative approach.

5. Although we endorse the general objectives of the Consultative Document, we do have a number of major points of concern with the proposals. We draw attention particularly to our concerns about the lifetime limit (paragraphs 4.9 and 4.10). We are also extremely concerned that the proposals will do little to encourage employers to make provision, or individuals to save, for retirement.

WHO WE ARE

6. The Institute of Chartered Accountants in England and Wales is the largest accountancy body in Europe, with more than 123,000 members. Three thousand new members qualify each year. The prestigious qualifications offered by the Institute are recognised around the world and allow members to call themselves Chartered Accountants and to use the designatory letters ACA or FCA.

7. The Institute operates under a Royal Charter, working in the public interest. It is regulated by the Department of Trade and Industry (DTI) through the Accountancy Foundation. Its primary objectives are to educate and train Chartered Accountants, to maintain high standards for professional conduct among members, to provide services to its members and students, and to advance the theory and practice of accountancy (which includes taxation).

8. The Tax Faculty is the focus for tax within the Institute. It is responsible for technical tax submissions on behalf of the Institute as a whole and it also provides

various tax services including the monthly newsletter 'TAXline' to more than 11,000 members who pay an additional subscription.

GENERAL COMMENTS

9. The views expressed in this Representation reflect the views of our members and business in general but not the specific views of pension providers.

Simplicity

10. We welcome the proposal for a major simplification of the tax regime for pensions and strongly support the attempt to replace the existing eight schemes by a single scheme. Simplicity is one of the major tenets of our paper *Towards a better tax system* published in October 1999 as TAXGUIDE4/99.

    "Taxpayers should be able to understand the rules by which they are to be taxed."

    By implication this includes the rules by which they are given tax relief.

Encouraging saving for retirement

11. We do not believe that simplicity will of itself encourage people to set aside funds for their retirement. We also believe there is currently a serious pensions crisis in the UK and we believe that much more needs to be done to address this issue. While Stock Exchanges will in due course recover, we believe that demographic change combined with low long-term annuity rates will result in significant under-funding for retirement provision. We believe that there may need to be greater tax incentives in the future to act as a catalyst to encourage greater pension provision.

Lifetime limit

12. We believe that the availability of tax relief has been a strong incentive for businesses and individuals to set aside funds for their retirement. We are extremely concerned that the impact of the lifetime pension limit could not only produce serious anomalies but could also result in further negative sentiment to pension provision which would be extremely unfortunate given that pensions are facing a crisis of confidence.

Indexing of lifetime limit

13. We understand the proposal in paragraph 4.10 to index the limit to keep pace with inflation 'as the earnings cap is now' to mean that indexation will be by reference to increases in the RPI. Pensions are a form of deferred earnings and we believe the indexing of the lifetime limit should be by reference to increases in average earnings.

14. Earnings have increased much more rapidly than average prices over the post war period, reflecting the increasing prosperity of the country. If the lifetime pension limit was tied to increases in average prices then within a relatively short period of time it would begin to impact on a growing percentage of the population. A

similar thing happened to the benefit in kind limit which was set at £5,000 in 1976 when that represented the income of a 'higher paid' employee. The monetary limit was subsequently increased but there were no further increases after 1979, by which time it had reached £8,500. By the late 1990s someone on average earnings was earning more than the £8,500 limit. The epithet 'higher paid' was no longer appropriate and it was removed. If the annual pension lifetime limit is not linked to increases in earnings, then an equivalent fate will befall it and the limit will become a serious impediment to a growing number of people, given the long term nature of saving for a pension.

15. The effect of indexing by reference to the RPI can also be seen by the following illustration. Suppose that prices rise at the rate of 2% per annum, the recent rate, and earnings rise by 4% per annum. After 20 years earnings will have increased by 120% but prices by only 48%. In real terms the lifetime limit will have reduced from £1.4 million to about £940,000.

Tax free lump sum and higher rate relief for pension contributions

16. We welcome the retention of the 25% tax free lump sum (paragraph 5.6) and we welcome confirmation that pension contributions by individuals will continue to rank for relief at the higher rate of tax (paragraph 1.7). We believe that the retention of these two benefits are of the most fundamental importance if people are going to be encouraged to continue making long-term commitments to providing for their pensions in retirement.

17. We are however concerned about the proposal to abolish the relating back of pensions contributions to the previous tax year (paragraphs B57 and B59). We accept that this affects only higher rate taxpayers. But if some form of 'relating back' is retained it will continue to provide the certainty that is available under the present system. Many self employed people will not know the level of their taxable profit until after the end of the tax year in question and, traditionally, many such individuals base their contributions on the tax relief to which they know they will be entitled.

Flexibility to draw a pension while continuing to work

18. We welcome the flexibility proposed for continuing working while beginning to draw a pension from the company pension scheme (paragraphs 5.8 to 5.14).

Age from which a pension can be drawn (and the age from which a pension must be drawn)

19. People are living to an increasing age and are spending more years in retirement and we accept the logic of increasing the age from which pensions can be drawn from 50 to 55. But it would also be logical to increase the age from which it is compulsory to draw a pension from the current age of 75 to 80.

20. We also believe that the government ought to do further research into the position of those people in particular trades, such as professional sportspeople, who are currently entitled to draw their pension from an age less than 55 (paragraph 5.18). In the following paragraph (5.19) the Consultative Document makes the point that

"The Government is considering the position of members of the pension schemes for the armed forces, police and fire services. It is essential that the entitlement to draw pension benefits before age 55 that people have built up in these schemes are fully protected." It is equally important that if the rules that govern the minimum age at which pensions can be drawn in particular trades are to be changed that the current position should be properly explored and that the reasons for the proposed change should be adequately articulated. If this is not done then there will be a justified feeling that those in public service occupations are being more favourably treated than those in the private sector.

Issues not covered in the Consultation Document

21. There are a number of difficult areas which are not tackled in the Consultation Document such as FURBS (Funded Unapproved Retirement Benefit Schemes) and the treatment of overseas pension schemes. We look forward to commenting on the Government's proposals on these and other areas when proposals are put forward as part of this ongoing Consultation process.

Unfunded Schemes

22. We understand that the proposals relate only to those schemes that are funded. We would welcome clarification as to how these proposals will impact on non funded schemes, given that such schemes represent a large proportion of pension provision in the UK and that many of the state pension schemes fall into this category. It is vital that all pension schemes of whatever type are treated in a similar fashion.

SPECIFIC COMMENTS

23. A number of specific questions are raised in the Consultation Document. We have set out our answers to these questions in Appendix 1 to this document. However certain issues are we believe of such significance that we feel they need to be highlighted and we have dealt with them in this section of the document.

Lifetime limit

24. The Consultative Document proposes that there should be a lifetime limit of £1.4 million (paragraph 4.10). It also proposes that this limit should be "indexed to keep pace with inflation – as the earnings cap is now." If this limit is exceeded there will be a recovery charge which is suggested to be "one third of the excess" (paragraph 4.12) with the residual amount taxed as income.

25. We have a number of major reservations to the proposal as it currently stands.

26. The imposition of the proposed annual limit would have a capricious impact on people who have legitimately made full provision for their pension in accordance with the rules and limits existing at the time they made their contributions.

27. Many such individuals with high earnings will be near the suggested annual limit even with the Stock Exchange at only 50% of the level it reached three years ago.

28. The Government estimates (paragraph 4.30) that only 5,000 people have personal pension schemes worth more than £1.4 million. But there will be many who have more than one personal pension scheme or have other forms of pension provision, such as retirement annuity schemes, which take them above the £1.4 million if all the schemes are aggregated, as they will have to be under the proposed new regime.

29. There will also be many more people who may not currently breach the £1.4 million limit because of the current low level of Stock Exchange values. But if the Stock Exchange recovers rapidly from the last three years' losses such persons could find themselves exceeding the limit, particularly if the limit is only RPI-linked, with inflation around the 2 to 3% per annum mark.

30. Aon Consulting, the pensions adviser, has suggested that the proposed lifetime limit will affect 100,000 savers immediately and 250,000 will be affected over the following ten years.

31. So the annual limit is likely in our view to be problematic for a considerably larger number of people than the Consultation Document seems to be suggesting.

32. In our view the Government should undertake more work to validate the underlying figures of those people who are likely to be affected by the current proposals.

33. In addition we believe there is a need to respect the expectations of those who have not yet reached the £1.4 million limit but who have planned for their retirement on the basis of a schedule of pension contributions which, with anticipated investment growth, will eventually take them over this newly imposed limit.

34. It is also the case that the real value of a person's pension fund depends on the pension that he can get from it. This depends on annuity rates. So arguably it would be fairer to define the lifetime limit by reference to a maximum pension, indexed by reference to average earnings, which would be converted to the corresponding fund value by applying a current annuity rate prescribed from time to time by Statutory Instrument.

Recovery charge

35. Saving for retirement requires certainty. The imposition of a Recovery Charge on existing pension provision undermines that certainty. Many of those affected will have been saving for their pension for a considerable number of years. Those with Retirement Annuity policies will have started these before 1988 after which time all new policies came within the Personal Pensions regime and the Retirement Annuity regime was closed to new entrants. To impose on such individuals a Recovery Charge of the nature suggested in the Consultation Document would be counterproductive in encouraging citizens to provide for their retirement.

36. The **Recovery Charge** is stated in paragraph 4.12 to be one third of the excess over the annual limit. But the residual, two thirds, fund is then to be subject to

income tax which at 40% makes an effective rate of tax on the surplus of 60%. We believe such a charge to be excessive.

37. We believe it is absolutely imperative that careful thought is given to the manner in which any lifetime limit is likely to impact on those eligible to draw a pension especially in the early years of the new regime.

Annual limit

38. It is proposed to set this at £200,000 (paragraph 4.18).

39. This is a very generous annual limit by reference to the current position for the self employed. Annual contributions are capped at about £40,000 in personal pension schemes and a contribution of £200,000 to a Retirement Annuity policy would require relevant earnings of nearly £750,000 even for a person aged over 60 who is entitled to make the highest percentage contributions, i.e. 27.5% of relevant earnings.

40. The annual limit has been set to limit the potential for pension stripping and as the main limitation on pension scheme funding is to be by reference to the lifetime limit, the Consultative Document suggests the need for an annual limit may be overcome in time. We would welcome the opportunity to discuss the most sensible way to introduce measures which satisfy the need to prevent pension stripping and do away with the need for a maximum annual contribution level.

41. The position for defined benefit company schemes is somewhat different. Example 2 in Box B2 indicates that "Christina" in the example has increased pension rights over the year of £220,000 and will have to pay tax on the £20,000 excess over £200,000. We are concerned that the suggested new scheme would result in individuals having to pay tax on an increase in the actuarial value of their pension rights, which does not generate any cash with which to pay the tax nor provide any other form of benefit which can be enjoyed before retirement. Under certain circumstances the increase might even reverse in later years, so that the individual never gets any actual benefit.

Pensions on divorce

42. We believe the provisions in paragraphs B62/B63 could produce unfair results. The spouse who transfers part of their pension as a result of the divorce has his or her lifetime limit reduced accordingly. The spouse to whom the pension is transferred retains their lifetime limit of £1.4 million. Even if they divorce several times and receive a pension transfer on each occasion they will still retain their own lifetime limit of £1.4 million. This appears to us to be anomalous.

Investments by pension funds

43. We believe that pension funds are attracted to investing in assets over which they have control: hence investment by Small Self Administered Schemes (SSASs) in commercial property used by the business of the sponsoring employer and making loans to that employer. We believe that the existing restrictions in the amount of the pension funds that can be used in such ways are about right.

Life assurance

44. It is proposed that any proceeds of life assurance taken out through a pension fund should rank against the £1.4 million lifetime limit (Appendix B78). Term assurance is relatively inexpensive and it is common, particularly in large professional partnerships, to provide high levels of term assurance. We do not believe that the sum assured should be subject to the 1/3rd charge if it, together with the value of the actual pension funds, exceeds the £1.4 million lifetime limit.

IKY
9.4.03

Appendix 1

Response to detailed questions posed in the Consultation Document

Chapter 4 questions raised

Will a lifetime limit on tax relief saving be a satisfactory way of integrating the taxation of pensions?

We believe a lifetime limit could be a satisfactory way of achieving this as long as the limit is set in a way which is both fair and reasonable and there are appropriate arrangements for it to be increased in line with increases in the level of earnings.

How much will this approach encourage additional saving?

While we welcome the simplicity of the current proposals we do not think that the proposals will in themselves encourage additional saving.

How much will compliance costs drop overall?

We have no comments on this question.

Chapter 5 questions raised

Is there a case for any special transitional rules for people in occupational schemes whose normal retirement age is lower than 50?

People who have reasonable expectations of being able to draw their pensions from an earlier age than 50 should not have that right withdrawn without some reasonable transitional period. We note the Statement in paragraph 5.19:

> 'The Government is considering the position of members of the pension schemes for the armed forces, police and fire services. It is essential that the entitlements to draw pension benefits before age 55 that people have already built up in these schemes are fully protected.'

Whether these rights should be fully protected or their withdrawal should be phased is a ultimately a policy decision for the Government to decide. We believe that phasing may be acceptable.

But if the rights of public servants must be protected, then so must those of individuals in the private sector.

What sort of pension patterns might pension schemes and pension providers choose to offer under the proposed general benefit rules?

We believe that this question is for the pension providers to consider.

Should index linked pensions take account of falls in the Retail Prices Index?

We believe there has not been an annual fall in RPI since the 1930s so this would appear to be very much a theoretical question. As any falls are likely to be small and short-lived, we would suggest that any falls in RPI are ignored.

Should the general benefit rules specify any further detail?

The approach outlined in 5.24 to 5.28 indicate a light touch regime which we anticipate should help pension providers to design schemes which meet the government's objectives.

Will the general benefit rules allow the annuity market sufficient scope to develop new products to meet users' needs?

We have no comments on this question.

Would there be value in allowing people with modest pension savings to aggregate all their savings, including protected rights, before buying an annuity?

In view of the costs of administering small amounts, aggregation is a sensible proposal.

When value protected pension benefits are available, is demand for guaranteed pensions likely to change?

We have no comments on this question.

Question 6 questions raised

How would operators and other users of pension schemes choose to design them if the tax rules imposed almost no limitation at all on scheme design? What would be the objectives and advantages of this style of design?

We have no comments on this question.

Does the pension reform envisaged in this document allow schemes to be reshaped to meet these objectives?

We have no comments on this question.

Which changes in scheme design are the most pressing?

We have no comments on this question.

Is it feasible to plan to implement the new tax arrangements by April 2004?

We believe the proposed timetable is challenging. Whether or not it can be implemented by April 2004 will depend *inter alia* on the number of issues raised in representations and the willingness of the government to take on board those which have merit.

Appendix A questions raised

Is the estimate of 5 per cent (£80 million a year) administrative savings for the pensions industry realistic? Might the savings be greater?

We have no comments on this question.

In particular, could pension scheme administrators estimate, ideally both in financial terms and as a percentage, the potential long term savings?

We have no comments on this question.

What are the one-off implementation costs to industry likely to be?

We have no comments on this question.

In particular, could pension scheme administrators estimate the likely transition costs?

We have no comments on this question.

What will be the impact on small businesses of bringing the special investments rules for SSASs and self-invested pensions (SIPPs) in line with the prudential norm for other pensions?

We do not have sufficient information to be able to gauge the impact on small businesses. Nevertheless we believe as we state in paragraph 43 that "pension funds are attracted to investing in assets over which they have control". We do not believe that the volume of pension investment will be retained at its current level if the rules are changed significantly.

Appendix B questions raised

Is a simple, but broadly fair approach to the transition the most appropriate one?

In principle, we support such an approach, which is in line with our *Ten Tenets for a Better Tax System,* published in October 1999 as TAXGUIDE 4/99.

Are there any other important factors the Government should consider in drawing up rules for the transition?

We have no comments on this question.

Is three years an appropriate period to allow for valuation of pre A-day rights? Could this process be achieved more quickly?

We have no comments on this question.

How long do pension schemes need before A-day to tell the Inland Revenue that they propose to opt out of the new rules for tax relief?

We have no comments on this question.

How should pre A-day pension rights in with profit funds be valued?

We have no comments on this question.

How should simplified rules for defined benefit pension rights be set?

We have no comments on this question.

What is the best way for pension schemes to tell their members what percentage of the lifetime limit their vested pension entails – both at vesting and annually afterwards?

We have no comments on this question.

Are the suggestions on valuing defined benefits (DB) benefits feasible?

We have no comments on this question.

Can the pensions industry develop arrangements to deal with cases of simultaneous vesting?

We have no comments on this question.

Are the proposed rules about which contributions can qualify for tax relief appropriate and feasible?

We have mentioned in paragraph 17 of the above Representation our concern about the abolition of the carry back option. We believe that it is important for this to be retained so that contributors can determine the level of their contribution knowing the tax relief to which the contribution will entitle them.

Are the proposed rules about contributions to UK based pension schemes by non-residents appropriate and feasible?

We are not clear (paragraph B50) whether the contributions to the UK pension scheme build up tax free within that fund. We will be seeking confirmation on this.

Are the proposed regular reporting requirements reasonable and feasible?

We have no comments on this question.

Are the rules for splitting pension rights on divorce appropriate?

We have commented on the current proposals in paragraph **42** above.

Are there any features of SSASs and SIPPs which should be considered for all pension schemes?

We believe that some of the existing rules about investment in property and loans to the sponsoring company should be retained under the proposed new regime. See paragraph 43 above.

How could rules about loans from pension schemes be established without prejudicing scheme solvency?

We have no comments on this question.

Appendix 2
Comments by ICAEW on Green Paper

SIMPLICITY, SECURITY AND CHOICE: WORKING AND SAVING FOR RETIREMENT

Green Paper published by the Department for Work and Pensions

GENERAL COMMENTS

1. The Institute of Chartered Accountants in England & Wales (ICAEW) is pleased to have this opportunity to comment on the Green Paper *Simplicity, security and choice: Working and saving for retirement* published by the Department for Work and Pensions (DWP).

2. The paper appears to be seeking views on a number of points, rather than setting out proposals for debate. We are disappointed that more progress has not been made over the period since the last consultation, in September 2000, entitled *'Security for occupational pensions'*. We append a copy of our comments and recommendations made in response to that consultation exercise, as we consider that the many of the views we expressed then are relevant to the current Green Paper. We continue to feel that the security of members' benefits should be the primary concern of Government, hence our response focuses on this area more than the others. The comments below amplify on those already made and cover some specific new areas in the latest consultation document.

3. We understand that the Department's intention is to publish draft legislation in the Autumn. We would strongly recommend the involvement of ICAEW at the earliest opportunity where changes in the current regime relating to accounts and the role of auditors are envisaged. This would assist in ensuring that the legislation is drafted in a way that maximises the contribution of the profession to an efficient, practical and cost-effective regulatory process, building on the experience we had last year with the stakeholder schemes.

NEW KIND OF REGULATOR

4. We support the proposals for a New Kind of Regulator with a risk-based approach based on the risk to members' benefits. This will require a proactive regulator with different skills and training from Opra.

SOLVENT EMPLOYERS

5. We continue to believe that solvent employers should be required to stand by their DB pension promises. Only where this would significantly threaten the future employment prospects of the business should renegotiation need to be considered. To avoid costly court hearings, approval of proposals could be incorporated into the role of the New

Kind of Regulator.

PROTECTION IN CASE OF WIND-UP

6. In our experience, many of the problems relating to winding up stem from poor membership records and contracting out, the latter being identified as an issue in the Pickering report. Although a stakeholder scheme could be used, this is more difficult if the scheme is defined benefit. If the scheme is fully funded or well funded, then addressing the GMP issue should be adequate and DB policies should be purchased. If the scheme is seriously underfunded, then Pickering's suggestion of putting money into a stakeholder is probably the best way forward if the members do not object. However, one of the other problems of winding up is that members do not reply to confirmation requests or cannot be traced, causing the process to drag on. Putting the onus on members to respond within a specific timescale should therefore be included. For the future, implementation of penalties for poor record-keeping should be adopted.

7. We agree that changes to the priority order are necessary as it is blatantly unfair that once a member has elected to take a pension, they suddenly have a significantly higher priority, especially when Government is seeking to encourage people to stay in work longer. We consider that there are grounds for the priority order to be linked to age at date of wind up rather than current scheme membership status, to eliminate any benefit from early retirement. For example, priorities could be based on a member’s age relative to the scheme’s normal pension age.

8. We are concerned that if there is first priority to pay individuals past normal pension age, their full entitlement including pension increases, and this may leave insufficient monies for a fair pension for everyone else. Consideration should therefore be given to excluding pension increases and also to a capping of the amount under which the highest priority is given, for example people with pensions in excess of the NI upper earnings limit. There may be grounds for allowing some discretion to trustees in this area as legislation may be cumbersome to introduce.

9. We commented on preferential creditor status in our previous submission attached. We would not consider it necessary to provide for full settlement of all liabilities as a preferential creditor. A revised “debt on employer” amount seeking to secure an appropriate proportion of benefits e.g. 90% should also apply here. It may also be appropriate to exclude pensions above a predetermined cap, or capital value amount if the proposed tax changes are implemented.

10. The difficulty with the capping process suggested in paragraphs 8 and 9 of section G is that capping pensions drawn within 12 months of wind up could simply encourage people to take transfers out just before retirement. The measures need to be thought through very carefully if unscrupulous practices are to be prevented.

THE PENSIONS REGISTRY

11. We do not consider that the Pensions Registry is an effective tool for regulatory purposes. It was originally designed purely as a tracing service and is also used to raise

the levy on pension schemes. However, the information it holds is sparse and sometimes out-of-date, particularly in respect of schemes that are frozen and in wind up. It is not generally accessible to the public.

12. We therefore recommend that the functions and the data held at the Registry be expanded and improved. It is unique among UK registries in not holding financial information and this should be rectified with the requirement to submit annual reports and accounts as well as an annual return. Trustees should be required to notify the names of the professional advisers and any changes, and there should be an active penalty regime. We are unaware, for example, of any action being taken under the current legislation against those who fail to inform the Registry of changes to trustees. The data should also be held in a way which makes it possible to undertake full searches and integrate information with the casework database.

13. Such action would allow the 'new kind of regulator' to actively monitor schemes, both active and frozen, and those in wind up. It might also assist in liaison between the Inland Revenue and the Department of Work and Pensions. ICAEW would be pleased to explore these issues further with the Department.

CONTRACTING-OUT/STATE PENSION PROVISION

14. The Green paper emphasises the need for confidence in pensions and enhanced communications, both of which can be linked to individuals' understanding better the pensions choices open to them and the value of their benefits. Contracting-out arrangements do not provide the necessary clarity which all parties are seeking, both in terms of benefits and in contributions requirements. They lead to a need for a very large amount of legislation affecting occupational pension schemes, which seems to us to be designed primarily to ensure that occupational pension scheme provision cannot, under any circumstance, result in benefits less than what would have been achieved had the employer not been contracted out.

15. We support the complete elimination of contracting out and hence its interaction with occupational schemes, freeing up those providing occupational schemes to determine the structure and basis of occupational pension provision which they believe to be most appropriate for their work force as an add-on to whatever the State provides. We appreciate that there are fundamental Treasury and other Governmental factors involved here. However, the whole state pension system is very difficult for members to understand and over time will also serve as a disincentive for people on low incomes to put money aside for their retirement.

16. So far as transfers and preservation are concerned (section D), there are an increasing number of schemes that would like to wind up, but are unable to do so because of restrictive legislation which does not permit the transfer of protected rights for one scheme to another where deferred pensioners are involved. Draft legislation was issued early 2002 to eliminate this inefficiency; but it has yet to be enacted. This is of such importance that it should not wait until the full results of the Green Paper Consultation have been evaluated and debated further.

IMMEDIATE VESTING

17. We are supportive of the principle of immediate vesting on the basis that when people start to make pension provision, it is detrimental to their longer term position for amounts to be compulsorily returned to them. This may also assist the new regulator in the development of a proportionate, risk-based and pro-active regime. For example, from a member perspective, earmarked money purchase schemes are similar to workplace group personal pension plans or stakeholder schemes. Immediate vesting, coupled with the move to a single Inland Revenue regime, will allow the regulator to treat these schemes as a particular category, if it so chooses.