

**STAKEHOLDER PENSIONS:  
THE TAX REGIME –  
THE GOVERNMENT’S PROPOSALS**



**Consultation Brief 6  
16<sup>th</sup> September 1999**

## Introduction

- 1.1 This document describes the Government's proposals for a new single tax regime for stakeholder and personal pensions.
- 1.2 Comments on the proposals will be welcome and should be sent as soon as possible and no later than **29th October** to

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- 1.3 Comments can also be e-mailed to

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Responses will normally be available to the general public on request, unless you specifically ask for your views to be kept confidential.

- 1.4 Further copies of this paper can be obtained on the Internet at [www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk), by telephoning 0171 438 6420 or from the Inland Revenue Information Centre, South West Wing, Bush House, Strand, London WC2B 4RD.

## Background to consultation

2 In December 1998 the Secretary of State for Social Security published a Green Paper “A new contract for welfare: Partnership In Pensions” setting out a framework for stakeholder pensions. This is being taken forward in the Welfare Reform and Pensions Bill currently before Parliament. This consultation brief is the last of the consultation process suggested in the Green Paper. Others subjects covered in earlier papers issued from DSS are:

- minimum standards (issued 2<sup>nd</sup> June );
- employer access (issued 29<sup>th</sup> June);
- clearing arrangements (issued 12<sup>th</sup> July);
- regulation, advice and information (issued 2<sup>nd</sup> August);
- governance (issued 2<sup>nd</sup> August).

## Green Paper proposals

3.1 The tax regime for stakeholder pensions set out in the Green Paper is broadly based on the existing regime for personal pensions. It is described as a “money purchase” arrangement under which the contributions and associated investment growth would build up a fund. Contributions to and investment growth in the fund would both be tax free. On retirement, this fund would provide a pension, normally by the purchase of an annuity. Stakeholder schemes would be approved by the Inland Revenue to qualify for tax relief. Contributions could be made by an individual or his employer but the total contributions could not exceed set limits - it would be a “defined contribution” (DC) scheme. The pension taken on retirement would be taxed (except for an option to take up to 25% as a tax-free lump sum).

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3.2 However, the Green Paper proposed that stakeholders would differ from personal pensions by having simpler contribution limits. These:

- would be set at the lower of £3,600 or 100% of earnings; and
- could continue for 5 years after earnings had ceased.

3.3 Most respondents commented favourably on the aims behind the Green Paper's tax proposals but urged the Government to go further and:

- introduce even simpler stakeholder contribution arrangements;
- simplify existing personal pension arrangements;
- allow good value, low cost personal pensions to be designated as stakeholder schemes;
- allow existing occupational pension scheme members to take out a stakeholder pension.

### **The Government's proposals**

4.1 The Government's objective is to encourage people, particularly those with modest incomes, to start to save or to save more for their retirement. It is very grateful for the constructive responses to the Green Paper proposals and wishes to adopt the suggestions made where these help to achieve its objective within affordable costs.

4.2 The Government now proposes:

- *a simple integrated tax regime for all defined contribution (DC) pension schemes.* An individual may open any number of DC schemes so long as the overall contribution limit is not exceeded;

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- *contributions into DC schemes can be up to the higher of £3,600 per year or the existing earnings and age related personal pension limits.* This allows more than £3,600 to be put into a stakeholder pension if the age related limits allow. It also removes the link with earnings where contributions are less than £3,600 in a year;
- *contributions in excess of £3,600 may continue for up to 5 years after relevant earnings have ceased.* Thereafter, contributions cannot exceed £3,600;
- *all contributions into DC schemes will be paid net of basic rate tax.* Pension providers will recover tax at the basic rate from the Inland Revenue with contributors recovering, if appropriate, tax at higher rates through their self assessment tax return;
- *the £3,600 contribution limit applies to the total of all contributions from employers, individuals and the tax relief recovered on the individual's contributions from the Inland Revenue.* It excludes any contracted out NIC rebate;
- *the complex personal pension “carry forward/carry back” rules for tax relief and contributions should be removed;*
- *employers' money purchase pension schemes may opt into this new DC regime.*

4.3 The Government is open to proposals on whether, under the proposed new tax regime, people should be able to pay into a stakeholder pension as well as a defined benefit occupational pension. It would be important that this could be administered without excessive costs to providers or the Exchequer. Proposals are invited on how this could be achieved in practice.

4.4 Each of the above features is considered in detail later in this paper. The paper also seeks views on a number of specific issues.

## Effect of Government proposals

5 The Government believes that the above proposals will deliver radical simplification of the tax regime for DC pensions, benefiting contributors and providers alike. They provide a wide range of benefits:

- **an easier and more flexible system for individuals.**

Simplicity makes advice easier to give and understand and, for example, simplifies decision trees by reducing complicated tax related considerations. Flexibility helps someone move job without worrying about their pension. This is achieved by:

- \* the introduction of an integrated tax regime for all DC schemes. This means that someone can make small contributions to a stakeholder pension when their earnings are low and increase their contributions to the same scheme above £3,600 as their earnings rise. It removes the need, as proposed in the Green Paper, to change from a stakeholder to a personal pension as contribution levels increase;

- \* the ability to continue with a single DC scheme when moving between employers or between employment and self-employment or when, for whatever reason, earnings have ceased;

- \* always paying contributions to the provider net of tax irrespective of whether the individual is employed, self employed or not earning (currently, the approach is different for personal pensions with payments made net of tax for the employed but gross for the self employed);

- **opportunity of pension provision for more people.** The abolition of the earnings link for contributions up to £3,600 means that, for the first time, some important groups of people

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can start a pension, or continue contributing to one, in situations where they are currently prevented from doing so. This will benefit carers, mature students, those on career breaks (including a parent taking a career break to look after children), and the unemployed or recently divorced who may have a lump sum to put into a pension. Some will be able to use savings (for example from an ISA) or gifts received (for example from a partner, relative or a person being cared for) to build up their pension even though they have no earnings of their own;

- **lead to simpler advice and lower advice costs.** The proposals will reduce the number of choices facing people considering pensions. This will not only help individuals but will also lower the, sometimes significant, cost of advice which providers would otherwise face. This situation is achieved by:
  - \* removing the “cap” on the contributions into a stakeholder pension and allowing contributions above £3,600 (if permitted by the age and earnings related rules). Someone can stay with a stakeholder pension as their income increases and need not move from one scheme to another. Allowing larger payments into a stakeholder scheme will also increase the commercial attractiveness of these pensions from the provider’s point of view;
  - \* introducing an integrated tax regime for all DC schemes. Having the same rules for both personal and stakeholder pensions will simplify advice – advisers will not have to learn two sets of rules (keeping providers’ costs down) and individuals will not have to try and understand two sets of rules;

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- **lower providers' costs.** The proposals contain features to help providers meet the stakeholder pensions minimum standard for charges. It also creates the opportunity to reduce personal pension charges. These effects are achieved by:
  - \* introducing an integrated tax regime for all DC pension schemes. This allows one administrative system to be used for all types of DC pension schemes (rather than a different system for each type of scheme);
  - \* removing the link between earnings and most contributions. This removes the main administrative burden on providers (and individuals) of having to obtain evidence of earnings (or employment) when opening a pension. Furthermore, no action will be needed when employment circumstances change and no periodic check on earnings levels will be required. Removing this link should reduce the burden, and costs, faced by providers substantially;
  - \* allowing contributions to be paid net of tax by all individuals (whether employed, self employed or not earning). This will simplify systems which currently have to handle both net and gross payments from individuals;
  - \* replacing the complex carry forward / carry back rules in personal pensions with a much simpler alternative.

### **Exchequer costs**

- 6 The Exchequer cost of the current tax treatment of pensions is estimated at about £11bn p.a.. Latest estimates are that the Green Paper proposals would have increased this annual cost by about £500m p.a.. Under the proposals set out in this document, these costs are expected to increase to an estimated £750m (an increase of

£250m on the Green Paper costs). Costs would be offset to an extent in the long term by the tax arising on increased pension income.

## **Regulatory Impact Assessment**

- 7 The tax proposals set out in this document are part of the broader Welfare and Pension Reform initiative. The Regulatory Impact Assessment (RIA) covering these tax proposals will be incorporated into the RIA covering the total initiative, which is to be updated by the DSS once all of the detail of the initiative has been finalised. These proposals should, however, reduce providers' administrative and compliance costs.

## **Next steps**

- 8.1 The Government welcomes comments on the proposals set out in this document. They will be considered very carefully and taken into account when draft regulations and legislation are prepared. These will be issued for comment around the turn of the year in line with the regulations on the other aspects of stakeholder pensions.
- 8.2 The Government is aware of the need to give the pensions industry as long as possible to prepare for the introduction of stakeholder pensions and any changes to existing pension regimes. The timing of the tax regulations is however governed by Finance Bills and not the Welfare Reform and Pensions legislation. Final tax regulations will therefore be published alongside the enabling primary legislation changes in Finance Bill 2000 and the regulations then laid before Parliament following Royal Assent to the Finance Bill 2000.

## Details of Government proposals

- 9 The following paragraphs deal with the issues outlined below.
- 10 Contributions over £3,600
- 11 Contributions under £3,600
- 12 Payment of contributions by individuals
- 13 Extension of stakeholder arrangements to personal pension and occupational money purchase schemes
- 14 Continuation of contributions over £3,600 after earnings cease
- 15 The carry forward / carry back provisions in personal pensions
- 16 Life insurance and other “rider” benefits
- 17 Use of model rules for tax approval
- 18 Concurrent membership of stakeholder and other pension schemes
- 19 Transfers
- 20 Residence test
- 21 Settlements
- 22 Other points

## Contributions over £3,600

- 10.1 The Green Paper suggested £3,600 as the ceiling for stakeholder contributions. People wanting to contribute more than £3,600 in a tax year would have to take out a personal pension rather than contribute to a stakeholder pension.
- 10.2 This ceiling was set high so that it would not, in practice, be of concern to many people considering a stakeholder pension (currently under 5% of personal pension contributions exceed £3,600). However, representations suggested that this ceiling, even at a relatively high level, would complicate the provision of advice to those who felt there was a chance of their income growing so that they might contribute more than £3,600 per year in the future. They claimed that someone whose earnings fluctuated so that they could make large payments in some, but not all, years would be forced into difficult choices. Such a person would either have to open a personal pension and suffer the potentially higher costs involved or open a stakeholder pension and be constrained by the £3,600 limit.
- 10.3 **The proposal is to remove any difficulties in this area by allowing contributions into a stakeholder pension in excess of £3,600.** Contributions will be allowed in excess of £3,600 by reference to the existing personal pension age and earnings related limits (i.e. 17.5% of earnings up to age 35 rising to 40% for age 61 and over). Evidence of earnings would be of a similar standard to the existing personal pension requirements.

## Contributions under £3,600

- 11.1 The Green Paper proposed that the earnings test for stakeholder pensions should be much simpler than that currently in place for personal pensions. It proposed contributions up to £3,600 or 100% of earnings, whichever was the lower.
- 11.2 Respondents have suggested that even the simpler earnings test outlined in the Green Paper would in practice be a burdensome and costly requirement. Getting the evidence of earnings, rather than applying a percentage test, is the cost driver. To address this, relaxation of the earnings link is being suggested. **The proposal is that for all contributions up to £3,600 per tax year there will be no link between contributions and earnings.** The £3,600 will be periodically reviewed.
- 11.3 This will not only ease the difficulties for providers and reduce their costs. It will for the first time mean that the opportunity to contribute to a pension is open to all as stakeholders will be available to those currently precluded from opening an occupational or personal pension in their own right. No longer will these people be forced to rely on partners for pension provision. This will benefit carers, mature students, those on career breaks (including a parent taking a career break to look after children), the recently unemployed or divorced who may have a lump sum they want to put into a pension and people who, for whatever reason, are not working. They will all be able to use money from their savings (for example out of an Individual Savings Account) or from any other source for their pension contributions.

## Payment of contributions by individuals

- 12.1 Currently contributions to personal pensions are paid gross by the self employed and net of basic rate tax by the employed. Where contributions are paid net, the pension provider recovers the tax at the basic rate from the Inland Revenue with higher rate tax relief being given through a person's self assessment. Where contributions are paid gross, all tax relief is given through a person's self-assessment.
- 12.2 Some commentators have suggested that all stakeholder contributions from individuals should be made gross. While this may be the simplest approach for the pension provider in terms of administration and cash flow, it would create the need for all individuals to reclaim the tax at basic and higher rates from the Inland Revenue. This would therefore inconvenience many and may deter some from opening a pension.
- 12.3 **The proposed approach is that all contributions from individuals should be paid to the provider net of basic rate tax.** The pension provider would reclaim basic rate tax from the Inland Revenue. Individuals getting any higher rate tax relief would do so through their self-assessment.
- 12.4 This standardised approach will help reduce providers' charges. It will also give a measure of additional relief to low earners, in particular the self employed who currently get tax relief through the tax assessment at their marginal rate of tax. This marginal rate may be less than the basic rate of tax and allowing contributions to be paid net of basic rate tax gives them a tax benefit. A standardised approach may also help employers to facilitate arrangements (such as bank standing orders) which could simplify the payment of their employees' contributions. This could be of particular benefit to small employers.

## **Extension of stakeholder arrangements to personal pensions and occupational money purchase schemes**

- 13.1 One of the criticisms of the Green Paper proposals was that it increased the number of types of pension available and further complicated an already complex pension scene. There were also suggestions that it would only be fair to extend the benefits of the new stakeholder pension regime to existing personal pensions.
- 13.2 The Government has considered these representations. **It proposes that the tax regime outlined in paragraphs 10, 11 and 12 above should be extended to personal pensions.** It has been decided not to propose extending the regime automatically to occupational money purchase schemes but to give the trustees of those schemes the choice of an irrevocable option to transfer into the new defined contribution regime. If they did this, they would be treated in exactly the same way as other DC schemes. There is concern that overfunding of schemes (which within occupational schemes would not be allowed to create a pension) might create a benefit if the scheme opts to become a DC scheme (which has limits only on contributions and not benefits). Views are invited on how this option can be most conveniently exercised and how any potential overfunding in a scheme might be identified and handled.
- 13.3 This will produce an integrated regime for virtually all defined contribution pension schemes (details of the particular types of DC scheme within this new integrated tax regime are set out in annex A). It presents providers, including employers who want to set up their own schemes within the new regime, with the opportunity to standardise their administrative systems and offer lower costs to existing as well as new personal pension contributors. As a result providers will be able to decide whether to offer, and individuals decide whether to choose, a

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stakeholder or personal pension without that choice being driven by differing tax regimes. In turn this will help reduce the advice needed to choose the most appropriate pension. A stakeholder will be a DC scheme like a personal pension but one which meets the specific conditions for stakeholder pensions (on, for example, charges and governance) set out in the Welfare and Pension Reform Bill currently being considered by Parliament.

### **Continuation of contributions over £3,600 after earnings cease**

- 14.1 The Green Paper suggested that an individual should be allowed to continue to make stakeholder pension contributions for up to 5 years after their earnings have ceased. Breaking the link with earnings removes the need for this rule where contributions are £3,600 or less.
- 14.2 But these arrangements need to be reconsidered with the introduction of earnings linked contributions in excess of £3,600. It would be possible to allow contributions only up to £3,600 once earnings had ceased. This, however, might impact adversely on a few people who currently make significant use of the carry forward / carry back rules which are being suggested for abolition (see next paragraph). **The proposal is therefore that contributions above £3,600 can continue for five years after the year in which the earnings cease.** The upper limit will be based on the highest relief available (by reference to both age and earnings) in either the year of cessation or in the two immediately preceding years. After five years, contributions will be limited to £3,600 each year.

### **The carry forward / carry back provisions in personal pensions**

- 15.1 The carry forward/carry back provisions in the existing personal pension regime have been widely criticised as being complicated to

administer and hard to understand. These provisions allow personal pension relief available but not used in one tax year to be carried forward for future use for up to six years. They also allow contributions paid in one tax year can to be carried back and allowed in the previous tax year. These rules give flexibility to those people whose earnings cease or fluctuate significantly from year to year but have been found to be complicated to apply in practice.

- 15.2 The new rules within an integrated DC tax regime provide flexibility in a much simpler way. Removal of the earnings link allows people making contributions below £3,600 (which is the vast majority) to adjust their contributions in line with fluctuating earnings or use savings to even out their pension contributions. Special rules to allow contributions to continue when earnings have ceased will no longer be of any relevance in most cases. But under the proposal at paragraph 14.2 above, the few contributing above the £3,600 limit can continue to contribute up to a higher limit for 5 years after their earnings cease.
- 15.3 **The Government therefore feels that the new rules will offer sufficient flexibility and the complicated carry forward / carry back rules should be abolished to simplify the system and reduce administration costs.** This would have effect from April 2001.

### **Life insurance and other “rider” benefits**

- 16.1 Existing pension schemes allow certain “rider” benefits to be included. The most common of these is life assurance to provide the equivalent of a “death in service” benefit and waiver of contribution insurance to cover short gaps in contributions. These are currently limited to no more than 5% of earnings for life assurance and 25% of contributions for waiver of contribution benefits. Consideration needs to be given to whether these rules should be changed with the abolition of the

earnings link and the introduction of a single integrated DC tax regime.

- 16.2 Arguably, pension contributions are not a way of getting tax relief on various insurances that would not otherwise qualify for relief. But, if small and part of a broader pensions policy, it may be reasonable to continue their provision within the new scheme for DC pensions if they represent good value for the contributor. Some have, however, argued that the true cost of insurance bundled with a pension product is not transparent and that high cost, poor value insurance is being disguised by the tax relief given on the premiums. Views are therefore specifically invited on whether premiums for these sort of rider benefits should be allowed within the proposed DC tax regime and if so, bearing in mind the absence of an earnings link in many cases, how limits should be set (for example a flat rate of, say, £200 per annum).

### **Use of model rules for tax approval**

- 17 Some in the pensions industry have commented that it would be helpful if the Inland Revenue prescribed model rules for schemes to simplify the tax approval process. The Government is sympathetic to this suggestion. **The proposal is therefore that, from April 2001, tax approval for new DC schemes would be given only if the scheme submits a standard application and adopts model rules prescribed by the Board of Inland Revenue.** The arrangements for occupational schemes would not be changed. Comments on this proposal would be specifically welcome, particularly if it is thought it will limit innovation in any adverse way. If it receives support, the Inland Revenue would enter into discussions with the pensions industry to agree the model rules in time for the introduction of this new scheme.

## **Concurrent membership of stakeholder and other pension schemes**

- 18.1 The current rule with personal pensions is that someone cannot normally have a personal and an occupational pension. The exceptions are set out in Annex B. One of the main responses on the Green Paper proposals was that a different approach should be adopted with stakeholder pensions and members of existing pension schemes should also be able to open a stakeholder pension. Some suggested that this should be restricted to just those in occupational schemes either within the existing limits or on top of those limits.
- 18.2 The Government's proposals for an integrated DC tax regime with no earnings links for contributions below £3,600 go further than those set out in the Green Paper. The above responses therefore need to be considered in the light of the tax regime proposed in this document.
- 18.3 Under the current proposals, members of existing personal pension schemes could take out another DC pension as long as the total contributions to all schemes were within the limits (i.e. £3,600 with no earnings link or above that within the existing personal pension limits). This would allow many, particularly those on moderate incomes, to increase their DC pension provision if they wished to do so.
- 18.4 It has been suggested that someone with a stakeholder pension, who moves jobs and gains the opportunity of a good DB occupational scheme, will find decisions easier if contributions to the stakeholder pension could continue alongside any occupational scheme payments. Such a person could, if they wished, freeze their DC scheme (without the penalties currently a feature of many personal pension schemes with front loaded charges) and join the occupational scheme or transfer the DC fund into the occupational scheme. Deciding what to do depends on which pension is better value. Allowing both sorts of

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pension increases choice and could have the psychological advantage of not disrupting an existing savings habit. But, on the other hand, increased choice does not seem to make the fundamental decision easier, and may actually make it more difficult.

- 18.5 Members of existing pension schemes can improve their pension provision using additional voluntary contributions (AVCs), where the employer often bears the administration costs involved. Very few people contribute at or near the employee limit of 15% of earnings, so the vast majority of employees have plenty of scope to increase their pension contributions without needing access to a stakeholder pension.
- 18.6 In the light of paragraphs 18.3 to 18.5 above, there does not appear to be a significant need to extend the provision of stakeholder pensions to people contributing to an occupational DB scheme. Such a move would, in practice, mostly benefit people towards the top end of the earnings scale who have already achieved substantial pension provision by fully utilising the existing occupational scheme limits. These people currently receive a large share of the tax relief on pensions. Allowing them access to more tax relief would do nothing to meet the Government's objectives for stakeholder pensions. It would however increase the costs to the Exchequer (possibly by several hundreds of £millions) and does not appear to represent good value for money.
- 18.7 In addition to poor value for money, allowing dual membership of DC and DB schemes appears to complicate pension scheme administration. For example, allowing contributions to a DC pension within the existing occupational defined benefit limits would involve at least two providers in checking that contribution levels were not exceeded. But they would also face the more complicated task of making a "headroom" check to ensure that the contributions did not

create total potential benefits from all schemes which exceeded the maximum benefits allowed for occupational defined benefit schemes (generally up to two-thirds of final salary).

18.8 In the light of the additional cost and complexity outlined above, the Government has not yet been convinced that it should move away from the general principle currently used with personal pension schemes (set out in paragraph 18.1 above). **The Government, therefore, specifically invites comments on why allowing people to take out both sorts of pension is thought to be needed and how this could be introduced without significant additional complexity (and consequential costs) to providers or large costs to the Exchequer. However, the current proposal is that, with the exception of the situations described in Annex B, DC scheme membership would not be available to members of DB occupational pension schemes (and vice versa).**

## Transfers

19.1 One of the minimum standards proposed (DSS consultation brief issued on 2 June) is that stakeholder schemes must accept transfers of pension rights from, and allow transfers without additional charges to, other pension schemes. Comments on how the tax regime can help achieve this economically for providers and fairly for scheme members would be appreciated.

19.2 In advance of these comments, **the Government proposes the adoption, wherever possible, of the current arrangements for transfers between the various sorts of pensions schemes** as follows:

- all transfers between DC schemes and from a DC scheme to a DB scheme could be done by cash or, with the managers' agreement, in specie transfers of assets valued by reference to the open market

value at the date of transfer;

- transfers from a DB to a DC scheme can be by cash or open market in specie transfer but the amount of the transfer is to be fixed following actuarial valuation. Where schemes are overfunded, a transfer cannot take place for a controlling director or a high earner (i.e. generally one with earnings above the earnings cap, currently of £90,600).

## Residence

- 20.1 Currently there is no residence test for personal pensions because residency is effectively enforced by the relevant earnings test. With the earnings test now being abolished, a residence test appears necessary. **It is therefore proposed that to open a DC pension, a contributor must be resident and ordinarily resident in the United Kingdom, or perform duties which, by virtue of section 132(4)(a) of the Taxes Act (Crown duties) are treated as being performed in the United Kingdom; or be in receipt of earnings taxable in the UK.**
- 20.2 Once the contributor ceases to be UK resident or to perform crown duties, contributions of up to £3,600 p.a. will be able to continue for five years after the year in which earnings cease. Contributions (including amounts above £3,600 p.a.) can restart if the contributor becomes once again resident and ordinarily resident in the UK or resumes duties as a crown employee.

## Interaction with the settlements legislation

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- 21.1 The removal of the earnings link means that complicated interactions could arise with the existing settlements legislation. For example, income arising within a pension scheme could be treated as the taxable income of a parent or spouse if they provided the funds for the contributions. These problems can mostly be avoided by careful drafting of the pension scheme rules. With Individual Savings Accounts, a minimum age limit of 18 years was set to avoid problems with the settlements legislation.
- 21.2 The Government would appreciate comments on any potential problems and ways in which they could be avoided which do not open up tax avoidance possibilities.

### Other Points

- 22.1 **Can money be drawn before retirement?** As with existing personal and occupational pensions (apart from any AVC element of occupational pensions), benefits cannot be taken before retirement.
- 22.2 **Will annuity purchase be enforced at 75?** The new regime will mirror the existing personal pension regime in this respect. Any changes arising from the on-going review into the existing draw down arrangements will be applied to the defined contribution regime outlined in this paper.
- 22.3 **Are there age limits?** There will be no lower age limit for making contributions but, like personal pensions, contributions can only be made by someone under 75 years of age.
- 22.4 **Do these rules apply to Retirement Annuity Contracts(RACs)?** No. The rules for RACs remain unchanged.

22.5 **How do these DC pensions interact with RACs?** The interaction will be the same as with personal pensions. Payments to an RAC will reduce the amounts payable to a DC pension and payments to a DC pension reduce the unused relief available under the RAC.

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**Annex A**

**Categories of schemes within the proposed integrated DC regime**

1. Personal Pension schemes which are registered as stakeholder schemes.
  
  2. All other Personal Pension schemes (including appropriate and group personal pension schemes).
  
  3. Money purchase occupational pension schemes where the employer opts into the new DC tax regime. Some of these should be capable of being registered as stakeholder schemes.
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## Concurrency Between Personal Pensions and Occupational Pensions

Currently Personal Pensions can be held concurrently with Occupational Pensions when:

- **the occupational scheme provides death in service benefits only:**  
Where the only benefit payable by the occupational scheme is either a pension for a widow, widower or dependants; a death in service lump sum; or a combination of both;
- **the occupational scheme is “contracted in” (to SERPS) but the individual is contracted out:** An individual who is a member of a contracted in occupational scheme can contract out of SERPS and have the rebate paid to a personal pension. No other contributions are allowed to the PP;
- **the contributor has two or more sources of earnings:** One set of earnings is covered by an occupational scheme and the other by a personal pension.

Under the proposals, a person would be allowed a DC scheme as well an occupational scheme pension in the first and third examples. In the second example, as now, the DC pension will only be allowed to receive the contracted out refunds.

## **Proposals and questions raised in this paper**

Comments are invited on the proposals and specific questions set out in this paper.

### **Contributions over £3,600**

Proposal : allow contributions into a stakeholder pension in excess of £3,600 per tax year by reference to the existing personal pension age and earnings related limits.

### **Contributions under £3,600**

Proposal : no link with earnings is needed for stakeholder pension contributions up to £3,600 per tax year.

### **Payment of contributions by individuals**

Proposal : all contributions from individuals into stakeholder schemes should be paid to the provider net of basic rate tax with the pension provider reclaiming the basic rate tax from the Inland Revenue.

### **Extension of stakeholder pension arrangements to personal pensions and occupational money purchase schemes**

Proposal : the tax regime for stakeholder pensions should be extended to personal pensions and, if the trustees wish, occupational money purchase regime. Views are specifically invited on how occupational money purchase

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schemes might most conveniently exercise this option and how any overfunding in the scheme can be identified and handled.

### **Contributions over £3,600 continuing when earnings cease**

Proposal : contributions above £3,600 could continue for five years after the year in which earnings cease. The upper limit would be the highest relief available in the year of cessation of earnings or the two immediately preceding years. After the five years, contributions would be limited to £3,600 each year.

### **Carry forward / carry back personal pension provisions**

Proposal : abolish the carry forward/carry back provisions.

### **Life assurance and other rider benefits**

Views are specifically invited on whether premiums for rider benefits such as life assurance should be allowed within the proposed DC tax regime and if so, bearing in mind the absence of an earnings link in many cases, how limits should be set.

### **Model tax rules for tax approval**

Proposal : to obtain tax approval, schemes would have to submit a standard application and adopt model rules. Views are specifically invited on whether this will in practice limit and damage innovation.

### **Concurrent membership of stakeholder and other pension schemes**

Proposal : follow the approach with personal pensions and, except where currently allowed (as set out in Annex B), prevent concurrent membership of defined contribution schemes and defined benefit occupational schemes.

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Views are specifically invited on why concurrency is needed and how it might be introduced without creating significant additional complexity and /or cost to the Exchequer.

### **Transfers**

Proposal : wherever possible, the current arrangements for transfers between the various sorts of pensions schemes should be adopted. Views are specifically invited on how the tax regime can help achieve economical and fair transfers.

### **Residence**

Proposal : to open a defined contribution pension, a contributor must be resident and ordinarily resident in the United Kingdom or perform duties which, by virtue of section 132(4)(a) of the Taxes Act (Crown duties) are treated as being performed in the United Kingdom; or be in receipt of earnings taxable in the UK.

### **Interaction with settlements legislation**

Views are invited on any potential problems arising from interaction with the settlements legislation and how these might be avoided.

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