

**SIMPLIFYING THE TAXATION OF  
PENSIONS: INCREASING CHOICE AND  
FLEXIBILITY FOR ALL**

**BUCK CONSULTANTS' RESPONSE TO THE  
TREASURY AND INLAND REVENUE  
PROPOSALS**

**April 2003**

# Introduction

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We are pleased to have the opportunity to comment on the proposals of the Treasury and Inland Revenue for the simplification of the taxation system applying to pensions.

This is a most important issue. The decline of pension provision and saving in the UK has been well-documented, and appears to be continuing. There are many factors driving this, but the complication of the regulatory regime is a key one. The current system relies heavily upon voluntary provision, by employers and/or individuals themselves. We support this basic approach.

Clearly, to be effective, those upon whom the responsibility to make provision falls must have confidence in the underlying system, which in turn means that they must *understand* it. The Treasury/Inland Revenue paper correctly notes that the current taxation system is far too complicated, and as a result these prerequisites to successful voluntary pension provision are absent.

The current system is the result of the build-up over time of successive rules and amendments, which have themselves been built around the complicated general tax structure found in the UK. What is required therefore, is a radical new approach, with a complete restructuring, from the ground up.

The proposals in the Treasury/Inland Revenue document are exactly that, and we applaud them. We appreciate the courage involved in making such radical proposals.

However, that is only the first step. There will be a considerable number of strategic issues to sort out, and then detail to be settled. We would strongly urge that throughout the forthcoming consultation process, the need to retain a *simple and understandable* system is not forgotten or sacrificed for political or other vested interests. To be truly simple, it must also not be complicated by holding on to existing structures for current members. The past must be swept away, and any adverse consequences of this, whilst being kept to a minimum, must be accepted for the Greater Good of a simpler and more flexible system going forward.

The other key message to take from this is that whatever system is adopted as the result of this review, should then be left alone. Given the long-term nature of pension funding, and the need to encourage voluntary provision, it is essential that there is certainty and stability in the governing regime. The experience of the past few decades, where substantial reviews are undertaken on a regular basis, must not be repeated. Similarly, the process of “regulation creep”, where regulations are added to over time, building up a complicated system that because of its piecemeal development is fragmented and inconsistent, must be avoided. This is not just an item for the “wish list”: it is a vital component in the development of a successful system.

We have a golden opportunity to produce a system that will encourage successful provision for decades to come – we must not spoil it.



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## General comments

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We answer below the specific questions from the consultation paper, but would like to make some more general points on issues that are not specifically covered by those questions.

### **The Lifetime Limit**

The main comment concerns the lifetime limit. As we have already mentioned, we applaud the simplicity of the concept. However, we would like to address the issues of the *amount* of the limit and the basis upon which it may be increased in future.

### **Starting amount**

Looking first at the amount of the limit, we recognise that this is properly a political decision. However, the proposed amount of £1.4 million does appear to be unduly modest, and if it is set too low, it may further adversely affect public perception of the usefulness of participating in the pensions system.

We are also aware that there is an argument that if the limit is set too low, it will persuade higher earners in particular that there is nothing to be gained by them from participation in the system; since they are often the decision makers in companies, they will not see a pension scheme as being an asset for their business, and so coverage will decline further.

We are not completely convinced by this scenario. Where tax concessions are available, even the highest of earners will benefit from it – and they will continue to be advised to do so. Furthermore, a properly-designed and effectively-targeted pension scheme confers a number of benefits on a business. Decision-makers within businesses will not turn their backs on a tool that confers a benefit on their business – *but* it must satisfy those criteria, otherwise it will not be used.

Crucially, whatever the level at which the lifetime limit is set, it should be sustainable over the long-term future (subject to increases to maintain its relative value). If we are to expect individuals and businesses to participate in the system, we must have stability in the regime. We believe the absence of such stability in recent years is a major contributor to the decline in pension provision. So, once the base limit is set, it should not be changed. This means that it is vitally important that the figure that is adopted now must be the correct one, and so there should be informed debate and careful consideration before the final decision is made.

### **Increase basis**

The other point about the limit itself is the basis upon which it may be increased in the future. The present earnings cap under the post-1989 approval regime may provide a precedent. However, by linking the cap to rises in the Index of Retail Prices, the number of people whose benefits have become restricted by the application of the cap has grown steadily since 1989. Without a change to

the increase basis, this process will continue indefinitely until everyone is affected, and the benefit that can be provided by the tax-friendly pensions system will wither until it is of no practical use.

It is true that it will take a long time to get to this point, but as we have already pointed out, pensions saving must take place over a very long period, and if we are to encourage people to save, we must provide *effective incentives* in a *stable* environment and *consistency and predictability* in that environment. Therefore, we are seeking a system that is appropriate today to encourage voluntary pension savings, and will continue to be so for the working lifetimes of today's workers. That points to a system that is largely self-supporting and which will automatically adjust to take account of predicted future developments. We therefore think that *the lifetime limit should be automatically linked to increases in an earnings index*, in order to maintain its relevance to those in employment.

### **Consequences of exceeding the limit**

The use of a monetary limit on lifetime accrual poses potential problems for those individuals in the fortunate position of having sufficient resources to be able to use the limit to its fullest extent. Although a simple concept, it will be difficult to match funding to enable the limit to be reached, but not exceeded. This has of course been recognised in the consultation document by the proposal to allow funding overruns, but subject to a tax charge to neutralise any tax advantage that would otherwise have accrued.

However, we believe that the proposed taxation basis in the event of a funding overrun is in practice not neutral, but penal. The proposal is for a tax charge of 33% to be applied on the excessive funds at the point of vesting. The remaining funds are then aggregated with the "approved" funds and will be paid out as up to 25% cash, with the balance being paid as an annuity, both taxable in the hands of the member, at their marginal income tax rate.

This means that the overrun will effectively suffer tax at the rate of 60% in the case of a higher-rate taxpayer. This is inequitable. The only justification that we can see for this approach is that it enables all the accrued assets under the scheme to then be treated in the same way – essentially a simplification. However, the result will be distortions in amounts paid into schemes, in the timing of contributions, and in the investment strategy adopted, in order to reduce the extent to which assets may exceed the lifetime limit.

All these consequences can be avoided by the simple expedient of allowing any assets in excess of the lifetime limit at vesting to be taken as cash, subject to a broadly neutralising tax charge. This would effectively put any such assets back on the basis applicable now under a FURBS, where tax has been paid on the contributions and on investment income. It would also not adversely affect the goal of simplification.

## Questions for feedback

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### **Will a lifetime limit on tax relieved saving be a satisfactory way of integrating taxation of pensions?**

*Yes. For most people the accrual of funds to provide retirement benefits is a long-term exercise. The use of a lifetime limit is a simple approach, that also reflects the need for this long-term commitment.*

### **How much will this approach encourage additional saving?**

*At this stage it is not possible to tell. All that we can say for certain is that without considerable simplification and a significant increase in flexibility, there will be no increase in saving.*

### **How much will compliance costs drop overall?**

*Again, it is impossible to say at this stage, when the detail is still to be resolved, and the implications of that assessed on individual schemes and arrangements. However, after the initial costs that will be involved in changing systems, the removal of the need to check individual benefits against complex Revenue limits will produce meaningful cost savings.*

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

*The whole issue of a minimum permitted retirement age is a difficult one to resolve.*

*On the one hand, one could say that there is no need for it at all. As far as the Inland Revenue is concerned, the earlier benefits are paid, the sooner the tax will be paid. Also, it would be in keeping with the new principle of flexibility between work and retirement for individuals to be given complete freedom to start receiving their benefits from whatever age best suits their individual circumstances. For those in physically demanding jobs, advances in health and longevity allow longer working lives, yet professional sports people for example seem to “peak” at ever younger ages.*

*Yet the notion of someone being able to “retire” on benefits built up in a tax-friendly environment in, for example, their late 20s does not seem appropriate. One might also assume that such an individual would reasonably be expected subsequently to obtain alternative employment.*

*Furthermore, the earlier that benefits are taken, the longer they will have to be paid, and the less there will be when genuine old age is reached. This would increase the possibility of the individual becoming a burden on the State, despite perhaps having taken the full benefit of the lifetime limit under the tax-assisted system. So, there are sound public policy justifications for applying a minimum age.*

*We believe that there are relatively few people who can genuinely lay claim to the need for the taxation system to support their retirement before the age of 55. We are therefore content with the proposal to increase the minimum age in this way, and consider that the proposal for the new age to bite from 2010 to be satisfactory. We do not see a need for special transitional rules.*

*Finally, we are surprised by the proposal to make special exceptions for some public service workers. We cannot see any justification for differences in principle between the public and private sectors, and do not consider that such a distinction is in the best interests of a simple and equitable system going forward that will encourage the level of voluntary saving that the Government is seeking.*

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

*Again, it is too early to say. A fundamental redesign of a scheme is not undertaken lightly, and those responsible will want to absorb the details when they become available, before considering new designs.*

*However, what we can say at this stage is that the proposed new regime appears to be drawn sufficiently widely to enable flexibility in future scheme design. This is of course very important, since to encourage investment in long-term arrangements, there must be stability in the governing regime, coupled with sufficient flexibility to enable designs to change within that regime, to respond to changing economic, social and employment conditions.*

*However, one factor remains with the potential to spoil the new system in this respect. Many aspects of current scheme design have been dictated by rules produced by the Department for Work and Pensions. Their simplification proposals, contained in their Green Paper (“Simplicity, Security and Choice: Working and Saving for Retirement”), do not go nearly far enough in removing unnecessary bureaucracy. If they are not significantly amended, new scheme designs will simply not be permitted, however widely the tax rules are drawn. The result of this would be that any moves towards innovation to prompt increases in the level of voluntary long-term saving would be stifled.*

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

*Yes. This is an area where the rules have been predicated on the basis of the experience of recent history. There is no reason why the annual movement in pensions in payment should be only one way. Given our earlier comments that the new regime to be introduced now should be sufficiently robust to stand the test of time without future tinkering, the allowance of downward adjustments should be built into the system.*

*This approach would also be consistent with the proposed new drawdown facility which will allow variations in amounts paid year on year.*

**Should the general benefit rules specify any further detail?**

*At this point we have not identified a need for any further detail to be specified. However, we intend to keep an open mind on this point, as the details of the final regime are clarified. The overall objective of simplification should remain paramount.*

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

*We are not annuity providers, and so we do not feel able to comment on this point, other than to say that the new rules clearly give greater freedom, and so hopefully will create an environment in which new ideas should flourish.*

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

*In principle, yes. By aggregating a number of smaller funds, an individual should in theory be able to obtain an annuity on improved terms. The principle should extend to all their pension savings, including Protected Rights (this latter point will also require the co-operation of the DWP). Of course, the provision of a facility will not necessarily mean that commercial providers will offer products, but that should not stop the facility being made available. In view of this, care should be taken to ensure that there are as few regulatory hurdles as possible that need to be cleared before this option can be exercised.*

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

*We believe that demand will change, but it will not render guaranteed pensions obsolete – merely introduce further choices into the marketplace. The value protected option (together with the effective removal of the need to purchase an annuity at all) is likely to address current complaints from people that they are being forced to give their money away to insurance companies. Other factors likely to be pertinent to any decision are the relative tax position of the two options, and the lifespan each individual believes he has left!*

**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?**

*As we commented in respect of the earlier question in respect of pension patterns that providers may now choose to offer, new design features will take time to evolve, and will only do so after the full details of the new regime have been settled and the full implications absorbed. This is why it is important that the new regime allows as much flexibility as possible, and why flexibility and lack of bureaucracy in the tax rules must be mirrored in the areas for which the DWP is responsible.*

*One example of an area where the proposed new flexibility may well lead to scheme designs being altered to take full advantage is the timing of contributions. The current restrictions on the amount of contributions that can be made to schemes in any one year can be extremely unhelpful. They are predicated on the assumption that everyone leads a predictable life, and that the amount of income available to fund retirement benefits is unaffected by outside factors. That of course is erroneous, and is becoming more so now with modern lifestyles. Allowing individuals to pay more when other financial commitments allow is a welcome step forward. Although it would in theory be possible to allow this in defined benefit schemes, the complexity that this would introduce would probably make its use worthwhile mainly in respect of defined contribution schemes.*

*However, we would not want to see the principle extended, as some have suggested, to generally allowing individuals to withdraw funds from schemes for use other than to provide “retirement” benefits. We continue to believe that the only way for most people to accrue sufficient funds for retirement is for them to pay as much as possible, as early as possible, and to invest it over a long term. Without the benefit of compounded investment returns, many people will simply not be able to accrue sufficient sums over a typical working lifetime to provide a decent income in retirement. If presented with an option to withdraw funds early, we believe that many would exercise the option, and not replace the funds – with predictable results.*

*Another area of the proposed new flexibility that might well be widely reflected in future scheme designs is that of “partial retirement”. Since it seems inevitable that people will generally be forced to defer retirement until later ages, in order to be able to fund their retirement, options to ease gradually from work to retirement will appeal to many. Equally, we believe that many (although not all) employers will also welcome the opportunity to create new working arrangements that the new flexibility will give them. In particular, in a future with fewer younger people coming into the workplace, investment that employers have already made in their existing, more mature, employees, can continue to be of use to them, even where the need is only on a part-time basis. The alternative, of forcing workers against their will to remain in employment longer because they cannot afford to retire, will be counterproductive.*

*These areas of flexibility would be easier to apply in defined contribution schemes than in defined benefit – especially of the “final salary” type. However, the removal of the complex Inland Revenue straitjacket would give schemes complete flexibility to determine an appropriate basis of treatment in such situations - although once again, some of the current DWP rules will need to be revisited if full advantage is to be taken.*

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

*See the answer to the previous question.*

**Which changes in design are the most pressing?**

*In our experience flexibility in retirement ages, and the ability to blend retirement with work, are both extremely pressing issues already. In addition, given the figures that are being widely circulated concerning the “shortfall” in individual pension funding, there may be a large number of people currently not far away (in retirement provision terms) from retirement, who will be keen to pay significant percentages of remuneration into their arrangements, and who may be prevented from doing so by the current limits on annual personal contributions. The desire of those people to make contributions may be sharpened by their receipt of benefit statements on the new basis effective from April 2003.*

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

*This will depend upon whether providers’ and administrators’ systems can be changed quickly enough, once the full details of the new arrangements are settled. Changes of this nature are likely to be expensive, and will therefore not be started until the full extent of the required changes are known.*

*Consultation with the pensions industry must not be rushed, and in view of the need to keep any future changes to a minimum, it is important that all parties to this consultation exercise are satisfied that the final result is robust enough to stand the test of time.*

*In view of the anticipated timescales for finalising the details of the arrangements, it seems unlikely that there will then be sufficient time to ensure that all resulting changes can be made to meet an April 2004 commencement date.*

*Whilst we would like to see the new arrangements in force as soon as possible, it would be a pity to spoil the new system by rushing its introduction and risking avoidable problems. We therefore suggest that April 2005 may be a more realistic implementation date.*

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

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

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

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

*We have grouped these questions together, because the answer to each is effectively the same. Without seeing the final details of the regime, it would be misleading to suggest cost savings figures. What we can say now is that there will be a large immediate cost to amend systems to adapt to the new regime. However, as long as changes can be made cleanly and in one step, they should not be excessive and we anticipate that they will be recovered relatively quickly by savings in ongoing costs*

*from not having to comply with the present complex monitoring system. It is therefore certainly worth proceeding with the overall thrust of the proposals.*

*Clearly, in order for savings to be made, there must be a strong emphasis maintained on simplicity, and a minimum of unnecessary ongoing compliance reporting. Every effort must be made in future to avoid unnecessary changes.*

*Unfortunately the savings made here look likely to be eaten into by the need to make detail changes, on a different timescale and with less obvious payback, to comply with the amendments proposed by the DWP in areas presently covered by them.*

**What will be the impact on small businesses of bringing the special investment rules for SSASs and SIPPs in line with the prudential norm for other pensions?**

*We note the investment statistics compiled from the representative sample of SSASs, set out in Annex B to the paper and agree, based upon our own experience, that the results are probably reasonably representative of the sector as a whole. We also note and broadly agree with the observations concerning the recent experience in the US.*

*However, it has always been recognised that members of SSASs are generally likely to be the owners of the sponsoring employer, and as such will have a detailed understanding of the condition of their business. This should put them in a position to be able to assess the viability of any investments they make in the business, and the risk to their own retirement prospects resulting from any default on those investments. This is a material difference from the position of simple employees of a company (even if they are significant minor shareholders), who would have been the category affected by recent large corporate failures in the US.*

*We consider that this distinction still justifies a different approach for SSASs. Although we recognise that there are cases where these concessions are abused, we believe that the advantages to small businesses generally outweigh the risks. Anecdotal evidence points to an increasing reluctance amongst financiers to invest in small businesses. Without this facility to enable an entrepreneur to use money within his business, whilst simultaneously accruing retirement benefits, the sector will suffer.*

*We do not agree with the assumption behind the comments in Annex A that all such businesses currently suffer in some way, and their owners' pension arrangements are less secure, as a result of such investments. If there is perceived to be a widespread problem with the security of such investments, or it appears that the system is being abused, then the answer lies in the more rigorous application of the rules that are already in place. Given that there is already an extensive reporting regime covering investments by SSASs, the Inland Revenue should already have access to sufficient information to enable them to analyse these transactions.*

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

*Yes. The primary emphasis must be on simplicity. Although we are not advocating allowing significant and inequitable losses to be imposed on individual members by the removal of accrued rights and options, it is important for the greater goal of a simpler, less costly regime in future that the transitional arrangements do not effectively perpetuate past complexities that will only benefit relatively small numbers of members. The ultimate objective of this review is to produce a system that will encourage greater overall retirement provision, and the achievement of that objective will confer overall benefit that will transcend the losses suffered by a relatively small number of individuals.*

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

*The treatment of death before retirement benefits is not currently addressed in the consultation paper, and we understand from our discussions with Inland Revenue staff that it is an area where decisions have yet to be made.*

*In particular, where a member currently has a fund to provide pension benefits within one of the current regimes, and also has the benefit of lump sum death cover of up to 4 times their remuneration, will they be able to register the contingent lump sum benefit in full in addition to their accrued retirement fund? If not, this could cause considerable hardship for a number of scheme members.*

*The other area where we see a need for careful legislative intervention is in respect of ensuring that the necessary changes can be made without exposing employers, trustees or managers to legal claims from members who argue that they have suffered a loss as a result of the changes made to comply with the new taxation system. We can foresee potential problems where promises have been made to employees through employment contracts and/or scheme rules that benefits will be calculated in accordance with a specified formula subject to Inland Revenue limits. If the “cap” on liability provided by the application of overriding Inland Revenue limits is removed by forces outside of the scheme, there must be a process that enables those limits nevertheless to continue to be applied in individual cases.*

*The most effective way to do this may be through an amendment to section 67 of the Pensions Act 1995, to allow schemes to make technical changes to accrued benefits that alter the shape of those benefits, but not their overall value. We would therefore urge close liaison between the Treasury and the DWP over this issue.*

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

*We do not believe that a longer period should be required. The further away from the valuation date one gets, the more difficult it will be to obtain accurate retrospective fund values. Where a scheme has significant numbers of members whose benefits are close enough to the lifetime limit to require checking, the checking process and the subsequent registration of those affected, may take some time.*

*The timescale would presumably also be affected by the staffing resources available to the Inland Revenue.*

*Accordingly, the proposed timescale of 3 years seems reasonable.*

**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?**

*Schemes affected will not be able to start their assessment until the full details of the proposals are published. Given that they will need to assess the effects of a number of different issues, we suggest that a period of one year from A-Day be allowed for schemes to take their decision.*

**How should pre A-Day pension rights in with profits funds be valued?**

*The problem is the same in essence to that facing any equity-based fund at present, given the current “depressed” value of the market. A member with a fund that at A-Day is thought to be undervalued on a market valuation basis will have their ability to register a “true” (i.e. longer-term) value of their accrued funds considerably restricted. This would seem to be inequitable, in the light of the intention that accrued rights should be properly protected.*

*There are two possibilities that occur to us. The first is for a “market value adjuster” to be applied to all such assets, either on an individual basis, or perhaps on a general basis agreed with the actuarial profession nearer A-Day, when a reasonable assessment of the markets’ positions can be made.*

*The alternative is for the an adjustment to be made to the lifetime limit, or to the extent to which the registered value of accrued benefits at A-Day are to be increased post A-Day to reflect investment returns, to be increased.*

**How should simplified rules for DB pension rights be set?**

*Our concern throughout this consultation process is to keep the new requirements as simple as possible. Applying that approach here would naturally point to the adoption of simplified rules. For most scheme members, that would be sufficient as long as the lifetime limit is set at a realistic level that will not “bite” for most people.*

*However, although we support the proposal for simplified valuation bases, we do consider that there is some scope for being a little more sophisticated than the simplest option suggested in Annex B, perhaps for example allowing different bases that distinguish between members with and without dependants.*

*We agree that there should be a facility to agree with the Inland Revenue more exact valuations for individual members (or small groups of members in a particular scheme or category) who may be close to the lifetime limit.*

**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?**

*Given that member understanding of pension matters is generally low, communication is an area where considerable emphasis needs to be made. The effectiveness of communication should be assisted by the considerable simplification of the system, and the annual reminder of the simple percentage figure represented by his vested benefits will enhance his understanding.*

*The mode of communication should be potentially any mode that the scheme considers will be effective.*

**Are the suggestions on valuing DB benefits feasible?**

*Yes, provided the lifetime limit is set high enough (and its value relative to earnings is maintained) to ensure that the benefits for the vast majority of people are well within it. This will allow a simplified check process alone to be used in most cases, with a facility for individual checks involving more accurate figures for those who are close to the limit.*

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

*Yes, we believe so.*

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

*Yes.*

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

*Yes.*

**Are the proposed regular reporting requirements reasonable and feasible?**

*Yes.*

**Are the rules for splitting pension rights on divorce appropriate?**

*The approach for setting the limits for each party to the failed marriage is flawed in its present form. If the parties had both been unmarried (even if they had cohabited), they would each have been entitled to accrue their own maximum benefits. If they had been cohabiting, they would effectively have shared the benefits of each other's retirement income, to some extent.*

*On the dissolution of a marriage, if the matrimonial courts consider it appropriate to divide up the aggregate pension rights as part of a division of matrimonial property, that may well be equitable. However, the result of the dissolution is that the formerly married couple have reverted to being two individuals. Therefore, the party whose accrued pension rights are diminished should be allowed subsequently to build them back up to the full lifetime limit again (if they are fortunate enough to have the necessary resources), and the party receiving transferred rights should be required to offset the rights they have received, against their own lifetime limit.*

*Apart from being a more equitable approach, the resulting change should provide a simpler regime to apply and police, since only the benefits actually available to each individual at vesting will have to be checked, against their lifetime limit – which is a check that would be done as a matter of course anyway.*

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

*Our response to the earlier question concerning SSASs emphasised that SSASs are different in concept from other schemes, and this difference justifies their continued special treatment. The same can be said of SIPPs. We do not think that assets owned by trustees to meet accrued pension liabilities for members who are realistically in no position to influence the direction of the sponsoring company, should be reinvested in that sponsoring company. However, the test for a scheme to qualify for SSAS status should be amended to relate to members who have effective control of the sponsoring company, however many members there are in that scheme.*

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

*We do not believe that it is generally appropriate to allow loans to members from their pension schemes. The focus should be on investing monies in the scheme according to a plan that best suits the need to provide benefits to the member on retirement, and taking into account the fact that investment returns must be built up over a long period.*

*The facility of loans to members would encourage monies to be used for short-term purposes, risk default, and would interrupt the long-term investment strategy. It would therefore appear to be incompatible with the primary purpose of the pension scheme, and further muddles the proper distinction between pension provision and short-term saving.*