Trustee Accelerator Programme, Unit 2
6 September 2024

Trainer: Tim Middleton, Director of Policy and External Affairs (TM)

Topics

- Pensions Tax regime
- The role of the Pensions Regulator
- IDRP
- Member Nominated Trustees (MNTs)
- Bank Account
- Internal Controls
- Trustee Knowledge and Understanding (TKU)
- State Pensions
- History of contracting out
- Auto-enrolment

Summary

The meeting focused on the intricacies of the pension tax regime, particularly the EET (Exempt-Exempt-Taxed) model, which has been in place since the 1920s. The speaker highlighted the favourable tax exemptions on contributions and capital growth within pension schemes, emphasizing their importance as incentives for saving. Speculation regarding potential changes in tax relief was noted, but the discussion remained cantered on current regulations. The registration process for pension schemes with HMRC was explained, along with the necessary compliance to avoid scams. Various tax concessions for registered pension schemes were outlined, including employer contributions and tax-free lump sums. The differences between net pay and relief at source systems were clarified, showcasing how they affect employee contributions.

Salary sacrifice arrangements were also discussed, highlighting their benefits for both employers and employees. The speaker addressed the complexities introduced by changes in the lifetime allowance and annual allowance, particularly for high earners. The role of the pensions regulator was emphasized, detailing its objectives in protecting member benefits and ensuring compliance. The discussion also touched on automatic enrolment and its implications for workplace pensions, including the criteria for eligible job holders. Overall, the meeting provided a comprehensive overview of the current pension landscape, addressing both opportunities and challenges for financial investing in this sector.

Key Points

Understanding the Pensions Tax Regime

TM introduced the EET (Exempt-Exempt-Taxed) tax regime for pensions, which has been in place since the 1920s. This regime allows for tax exemptions on contributions and capital growth within pension schemes, with benefits taxed as earned income upon withdrawal. He emphasised the importance of this regime as a favourable incentive for pension saving, especially in light of potential changes being speculated in upcoming budgets.

Tax Relief Mechanisms

TM explained the two systems of tax relief for pension contributions: the net pay arrangement and relief at source. The net pay system deducts contributions before tax, while relief at source allows contributions to be made from net income, with HMRC topping up the contribution. This distinction is crucial for understanding how different pension schemes operate and how individuals can maximize their tax benefits.

Salary Sacrifice Benefits

TM discussed salary sacrifice as a method where employees agree to reduce their salary in exchange for employer contributions to their pension. This arrangement benefits both parties by reducing national insurance contributions. He noted that this system is primarily applicable to employer contributions and requires formal agreements.

The Role of the Pensions Regulator

TM outlined the statutory objectives of the Pensions Regulator, including protecting member benefits and promoting good administration. He emphasized the regulator's power to investigate schemes and enforce compliance, particularly in cases of underfunding or employer insolvency. The regulator's role is crucial in ensuring that pension schemes operate fairly and sustainably.

Dispute Resolution Procedures

TM explained the internal dispute resolution procedure (IDRP) that all pension schemes must implement to handle member disputes. This process aims to resolve issues without resorting to legal action and involves trustees investigating complaints. If unresolved, members can escalate their complaints to the pensions ombudsman.

Automatic Enrolment and Its Implications

TM discussed automatic enrolment introduced by the Pensions Act of 2008, which mandates employers to enrol eligible employees into pension schemes automatically. This shift aims to increase participation in workplace pensions and requires employers to meet specific contribution thresholds. The process includes provisions for opting out and re-enrolment every three years.

State Pension Overview

TM provided an overview of state pensions, detailing their evolution from means-tested benefits to contributory systems. He explained the differences between pre-2016 and post-2016 state pensions, emphasizing eligibility criteria and current rates. The discussion highlighted the importance of understanding state pensions as part of overall retirement planning.

Questions

Question	Description	Answered?	Answer Summary
How does HMRC top up contributions in relief at source?	The question seeks clarification on the process by which HMRC tops up pension contributions under the relief at source system, specifically whether this is done through self-assessment or another method.	yes	Basic rate contributions are topped up straight away by HMRC, while higher rate taxpayers receive tax relief through an adjustment to their tax code following self-assessment.
What is the role of trustees in regulatory issues and whistleblowing?	This question asks about the expectations and responsibilities of trustees when they encounter regulatory issues or potential wrongdoing within a pension scheme, including their role in whistleblowing.	yes	Trustees are expected to report serious wrongdoing by the scheme sponsor and cooperate fully with the pensions regulator to protect scheme members.
Does pension regulation cover market condition impacts?	The question seeks to understand if pension regulations protect against losses due to market conditions, such as a significant decrease in pension value before a draw-out or lump sum withdrawal.	yes	Market conditions are considered commercial phenomena and are not covered by TPR's remit; DC schemes are designed to mitigate such risks.
How do trustees handle internal dispute resolutions?	This question asks about the involvement of trustees in the internal dispute resolution process within pension schemes.	yes	Trustees are notified of complaints and typically one trustee handles the complaint, though it may be reviewed by the entire board.

What is GMP in pensions?	The question seeks clarification on what GMP stands for and its significance within pension schemes.	yes	GMP stands for Guaranteed Minimum Pension, which corresponds to the SERPs benefit a member would have accrued if not contracted out.
What is the difference between qualifying earnings and annual earnings?	The question seeks clarification on how qualifying earnings differ from annual earnings in the context of pension contributions.	yes	Qualifying earnings include basic salary plus bonuses and other earnings components, whereas annual earnings refer to total gross earnings.