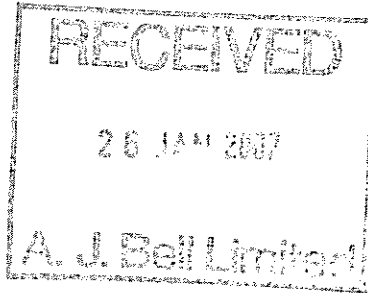




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January 2007

Your Ref: aibg/misc/aig04/jb

Dec Andy

Pension Announcements in Pre-Budget Report on 6th December 2006

Thank you for your letter of 8 January in response to the Pre-Budget Report (PBR) proposals to impose a tax charge where Alternatively Secured Pension (ASP) funds remaining on the death of a member are transferred to other members of the ASP scheme.

As a major player in the SIPP investment market who has made a valuable and active contribution to pensions simplification, it is very helpful to receive your views on Government policy on the requirement to secure an income and the development of the ASP market. It is also helpful to receive your views on the rate of tax that should be applied where ASP funds are passed on other than as a charity lump sum or as an acceptable form of dependants pension.

We will of course take the views set out in your letter into consideration. However I would like to reiterate some of the points set out in the PBR 2006 Document "The Annuities Market":

- As you acknowledge, successive Governments have offered tax relief on contributions to and investment growth in approved pension schemes in order that the savings produce a secure income in retirement. By saving in a tax privileged pension, individuals are committing themselves to use the funds to secure an income in retirement. This long term commitment is recognised by the more generous tax treatment that pensions enjoy in comparison to other savings.



- As you also acknowledge, for the vast majority of people in a defined contribution pension scheme an annuity is the most efficient and economical way to secure such a retirement income. Therefore, when introducing the ASP in Finance Act 2004, the Government made it clear that this was intended for those who have a principled religious objection to the pooling of mortality risk in annuities. For those who do not have such an objection the annuity option is available
- The Government does not regard it as a proper use of tax privileged pension savings to be passed on as bequests other than as acceptable forms of dependants' benefits.

The wider interest in ASP— particularly to and by those with an interest in estate planning - influenced the design of the IHT changes in Finance Act 2006, and the PBR 2006 proposals further ensure that pension savings remaining on death cannot be paid out as an authorised payment.

I have noted your concern that the PBR proposals for ASP funds distributed on death may undermine confidence and discourage pension provision. Whilst I understand the point you are making I think that, for the vast majority of pension scheme members, this will simply not be an issue given the greater freedoms of how and when to choose to save for a pension provided by the new pensions tax regime.

Finally, you have asked whether Government policy on annuities is in any way driven by the fact that a constant demand for gilts keeps down the cost of Government borrowing. I am happy to confirm that there is no such connection. The Government's gilt issuance decisions are made each year to fulfil the debt management policy objective of long-term cost minimisation taking into account risk, while ensuring that debt management policy is consistent with the aims of monetary policy. As set out in "The Annuities Market" published on 6th December there are a number of reasons for favouring annuities. But principally, annuities ensure that tax favoured pension savings are used to provide a secure retirement income for life.

Thank you for taking the trouble to set out in such detail your concerns about the PBR proposals for ASP. At PBR we announced that HMRC will be consulting with interested parties about the proposed changes to ASP and I am sure that you will play a valuable part in that debate.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ed Balls'.

ED BALLS MP