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Pensions redux [1]

Written by **Jan Boucek** [2] | Tuesday 28 February 2012

Remember pension tax simplification in 2006? At the time, it seemed like a reasonably good idea - reduce the patchwork of legislation built-up by successive governments to encourage retirement provision by simplifying the previous eight tax regimes into one single regime. But as with all national schemes, politicians can?t leave well enough alone and the tinkering with simplification began from day 1. And it just won?t stop ? we can expect the Chancellor to fiddle some more come the March budget statement.

Throw in a history of scandals like Robert Maxwell, pension mis-selling and exorbitant fees and it?s little wonder normal folk are confused and suspicious, not to mention hugely reluctant to save.

But, lo on the horizon, rides Merryn Somerset Webb, editor-in-chief of Money Week and columnist for the Financial Times money supplement, with a battle cry [3] to do away with the whole bloody mess.

In short, here?s her plan: ?Abolish the pension system. Increase the annual ISA limit to somewhere around £30,000, with some kind of lifetime contribution limit included too. Make a big deal about how the money comes out entirely tax-free. Not having to pay tax on my income when I am old is an attractive option to me and I bet I am not alone.?

Ms Somerset Webb already anticipates some objections. Some will worry about liberated pensioners blowing it all in Las Vegas but she suggests a requirement to keep an age dependent minimum in the ISA. Others will cluck-cluck about the impact on public finances but Ms Somerset Webb suggests the Treasury ?could amuse itself? with a one-off levy on all pension holdings to convert them into ISAs and believes the savings on pensions tax relief should compensate for the lack of income tax from ISA investments.

The proposal?s beautiful simplicity, of course, makes this a tough sell ? there?s just too many vested interests keen on making things complicated: politicians who need fiddly toys, treasury officials aghast at losing buttons to push, financial advisors needing someone to advise, bankers flogging incomprehensible products.

And then there?s the problem with all proposals to simplify any tax regime ? overwhelming inertia to undertake such efforts and an irresistible urge to keep changing the rules. How could savers be confident Mr Somerset Webb?s new regime would outlast their days on this planet? It was just a blink of the eye before tax simplification became a standing joke.

Still, Ms Somerset Webb has floated a brilliant idea and could be taken a step further - if we?re going to think big - by ending company sponsored and managed pension schemes. Employers would simply make

contributions directly into an individual?s ISA account at some basic minimum rate, say 8%, or more if they want to attract and retain good staff. Companies would be freed from a tiresome cost and employees would benefit from a seamless and portable savings plan independent of their employer.

Could the nation cope with so much simplicity?

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