

Course on workplace pensions Oct 4 2022

An unfair pensions system for the lower paid

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By **Aamina Zafar**

Former pensions minister Baroness Ros Altmann has lambasted the government's feeble attempt to address problems with net pay arrangements.

She says: "The moves that have been suggested by the Treasury, although of course welcome, will do nothing to help the low earners who are losing out for at least another three years or so. That is far too late to stop them struggling more than they should do with rising inflation.

"It is also going to mean more are at risk of losing pension savings altogether in the meantime, because the extra costs imposed on them by their pension scheme – a 25 per cent surcharge on their contributions – may be just that bit too much for them to bear and tip them over the edge into opting out."



The current NPA means contributions are taken from a worker's pay before wages are taxed. This means low earners end up with a lower take home salary.

To help low earners, the government published the finance bill 2022-23 this summer to confirm that low earners who save through NPA will get the same level of government top-up as those who use relief at source schemes, where pension contributions are deducted after tax.

A massive 1.2mn people are eligible for this pay boost – with 200,000 set to see a £100 increase in their take-home pay. The average beneficiary will receive an extra £53 a year.

However, the relief will only be applied to contributions made from 2024-25, which means low earners will have to sacrifice millions in pensions tax relief due to the government's delay.

Altmann says this is particularly frustrating as there was a stark difference to the help currently offered to higher earners in relief at source schemes.

She adds: “These low earners are often the people who most need help with building up pensions for later life and surely should not be the ones who are most penalised in this way. Higher earners in relief at source schemes can reclaim any higher rate tax relief which they do not receive, but low earners can never claim tax relief until the Treasury's new measures are put in place in 2025.”

An outcry from the industry

A similar sentiment was echoed by Jon Greer, head of retirement policy at Quilter, who criticises the plans that will result in 1.2mn workers needing to wait until the 2025-26 tax year to see change.

He adds that this is particularly frustrating as the Conservative party manifesto recognised the problem and pledged to solve the issue back in November 2019.

He says: “After many years of outcry from the industry, the government finally committed to addressing the inherent inequality for low earners in pension net pay schemes versus relief at source schemes.

“While it is laudable that the government is actually tackling the problem, its solution remains imperfect, but at least better than the current situation, as it commits to paying a top-up contribution directly to the person’s bank account.