Prudential reports higher rate taxpayers reject £438 million in tax relief

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One in four higher rate taxpayers do not contribute to pension schemes despite the attraction of tax relief to help boost their retirement savings, according to independent research from Prudential*. Nationally, this equates to around 216,000 employees missing out on up to £438 million a year in pension tax relief.

The nationwide study of those earning between £42,275 and £149,999 found 21 per cent claiming they cannot afford to contribute to a pension scheme. One in eight (13 per cent) say they do not see the point of saving for retirement, despite the tax benefits of pensions (http://www.pru.co.uk/pensions_annuities/prudential_pensions/), while 17 per cent don’t know why they fail to save into a pension scheme.

An average higher rate taxpayer contributing £425 a month into a pension fund receives basic rate tax relief of £85 a month or £1,020 a year, directly into their pension fund. Up to an additional £1,020 a year in higher rate tax relief can be claimed, which could also be used for pension saving.

Figures from HMRC show that around 58 per cent of the estimated 900,000 higher rate taxpayers in the UK contribute to defined contribution pension schemes, while another 15 per cent are members of either non-contributory or defined benefit schemes.

But despite earning average salaries of £58,541, the rest do not save into pension schemes at all. Around 43 per cent of those who don’t save into a pension scheme claim to have made alternative retirement arrangements, 4 per cent have existing Self-Invested Personal Pension (http://www.pru.co.uk/pensions_annuities/prudential_pensions/personal_pension/) schemes and another 2 per cent claim they will not retire.

Matthew Stephens, Prudential's tax expert, said: "Pension saving offers valuable tax reliefs to all workers and particularly to higher rate taxpayers. Basic rate 20 per cent tax relief is available at source plus up to an extra 20 per cent from HMRC for higher rate taxpayers. Turning down what is effectively free money simply does not make sense.

"It is worrying that so many higher rate taxpayers say they cannot afford to save into a pension despite earning healthy salaries. The good news is that it is never too late to take action on saving for retirement and we urge all workers to seek advice on long-term retirement planning (http://www.pru.co.uk/pensions_annuities/prudential_pensions/flexible_retirement_plan/)."

The Prudential research shows that recent changes limiting annual tax-free pension contributions to £50,000 a year have not significantly dented pension saving among higher earners. Just 8 per cent said the change had put them off pension saving while 25 per cent were unaware of the change.

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Notes to editors:

*Higher rate taxpayers. The higher rate tax band consists of those who earn between £42,475 and £149,999 per annum.

On 11 and 12 June, 2012, Vision Critical conducted an online survey among 2,033 randomly selected British adults who are Springboard UK panellists. The margin of error - which measures sampling variability - is +/- 2.2%. The results have been statistically weighted according to the most current education, age, gender and regional data, to ensure samples are representative of the entire adult population of United Kingdom. Discrepancies in or between totals are due to rounding.

About Prudential:

'Prudential' is a trading name of The Prudential Assurance Company Limited, which is registered in England and Wales. This name is also used by other companies within the Prudential Group, which between them provide a range of financial services including retirement planning, life assurance, and advice on pensions.

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