

The Hidden Cost of Taxing Pension Contributions: A Ticking Fiscal Time Bomb

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The Chancellor's proposal to tax employer pension contributions could severely reduce future retirement savings, amplifying the impact through the loss of compounding growth. In 10 to 20 years, this may result in poorer pensioners and a greater burden on the state for social care and support—trading short-term fiscal gains for long-term social costs.

The Chancellor's proposal to tax employer National Insurance contributions on pension savings may seem like a minor adjustment in today's fiscal landscape. However, its future impact could be catastrophic, particularly for employees' long-term retirement savings. This policy would reduce the amount employers contribute to pensions, lowering the compounded growth that forms the foundation of most pension pots. While it may bring short-term revenue gains, the long-term consequences could be severe.

The Power of Compounding in Pensions

Pensions grow over time through compound interest—where returns are reinvested and generate further gains. A small reduction in annual contributions today can drastically reduce future pension savings due to the way compounding works. Let's illustrate this with an example:

- If an employer contributes £5,000 per year to an employee's pension, with 5% average annual growth, the pot would grow to approximately **£348,850** over 30 years.
- If that contribution is reduced by 10%, the future value drops to **£313,965**—a loss of **£34,885**.

This example shows how even a small reduction in contributions today can lead to a much larger reduction in future pension pots. Compounding amplifies the loss

over time, leaving future retirees with significantly less.

A Delayed Fiscal Burden

While the immediate benefit to the government is clear—a boost to National Insurance revenues—this policy risks creating a future where pensioners face financial hardship. Poorer pensions will leave retirees more dependent on the state for social care, housing, and other benefits, shifting the financial burden from private savings back to the public sector. **In effect, the government would be trading future security for short-term gain, jeopardizing both individual financial well-being and the sustainability of public services.**

Long-Term Implications

The compounding nature of this reduction, combined with rising life expectancies, means that retirees will have fewer savings to rely on, forcing them to draw more heavily on the state for support. The policy could have a disproportionately larger negative effect in 20 or 30 years, negating any immediate financial benefit to taxpayers.

In conclusion, taxing employer pension contributions may provide a temporary fiscal boost, but the long-term social and economic costs far outweigh the short-term gains. Reducing pension savings today risks creating **a future fiscal crisis** as retirees turn to the state for support, placing a heavier burden on an already stretched social care system. It's a case of sacrificing tomorrow's pensions to pay for today's policies—an approach that's as unsustainable as it is irresponsible.