

The staggering cost of pension tax relief for the wealt...

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I was working on a wide range of data on the cost of pension tax reliefs yesterday as part of the project I am working on that is considering potential tax reforms that might empower politicians to answer the question, “How are you going to pay for it?” when they persist in maintaining the household analogy. Some of the figures that fell out from that were quite surprising, and even shocking, but they are for another day.

What I noticed this morning was an article in the FT on this issue that looked at it from a quite different perspective. [As they noted:](#)

This week, a freedom of information (FOI) request revealed some eye-opening facts about the UK's biggest pension savers — including one who has amassed a retirement fund worth £11mn.

The identity of this person and how they built up such a colossal pension is unknown. However, they are not alone in having a supersized fund. Estimates of private pension wealth compiled by the Office for National Statistics suggest that some 929,000 savers are sitting on a pot worth between £1mn-£2mn. A further 128,000 people have pension savings worth £2mn-£3mn and an estimated 46,000 investors have more than £3mn.

I have done a little analysis of this data. I made some simplifying assumptions, the biggest of which, by far, is that all funds have a value at the bottom of the stated range. I have understated every figure that follows as a result.

I also assumed:

- * A consistent 40% tax rate for those making contributions. Some may, however, have been at higher rates. I am aware that relief might technically only have been at corporation tax rates as salary was never paid, but given that the pension is an alternative to salary (a salary sacrifice), I think this is fair.
- * I have allowed for national insurance contribution relief assuming just the employer's rate and 2% contribution rate that applied to higher earnings until recently.
- *

A forty-year contribution history to accumulate these sums.

The resulting data is as follows:

Cost of pension tax reliefs							
Pension fund value	Number of people	Pension tax relief rate	National insurance		Total tax relief rate	Pension fund value	Aggregate Cost
			£	£			
11,000,000	1	40.0%	15.8%	55.8%	11,000,000	6,138,000	
3,000,000	46,000	40.0%	15.8%	55.8%	138,000,000,000	77,004,000,000	
2,000,000	128,000	40.0%	15.8%	55.8%	256,000,000,000	142,848,000,000	
1,000,000	929,000	40.0%	15.8%	55.8%	929,000,000,000	518,382,000,000	
Total	1,103,001				1,323,011,000,000	738,240,138,000	
Average per head					1,199,465	669,301	
Subsidy per year assuming 40 years of contributions							16,733
Total UK pension wealth							6,445,051,000,000
Total proportion of UK pension wealth attributable to these people							20.5%

These 1.1 million people own 20.5% of UK pension assets, the total figure coming from the ONS 2020 wealth data. Of course, most people own very little of this wealth: 48% is owned by the top decile of wealth owners based on ONS data.

These funds have a total value of £1,323 billion, or £1.323 trillion.

Assuming that tax relief has been provided, as I note, the majority of this value is funded by tax reliefs. Those tax reliefs will have contributed £738 billion to these funds at an average cost of subsidy of £669,301 per person. Assuming that it took forty years to accumulate these pots, that is a subsidy of £16,733 per person a year.

The current state old aged pension is £10,600 power annum.

If anyone can find any justice in that, please explain it.