Placard — Association of Consulting Actuaries

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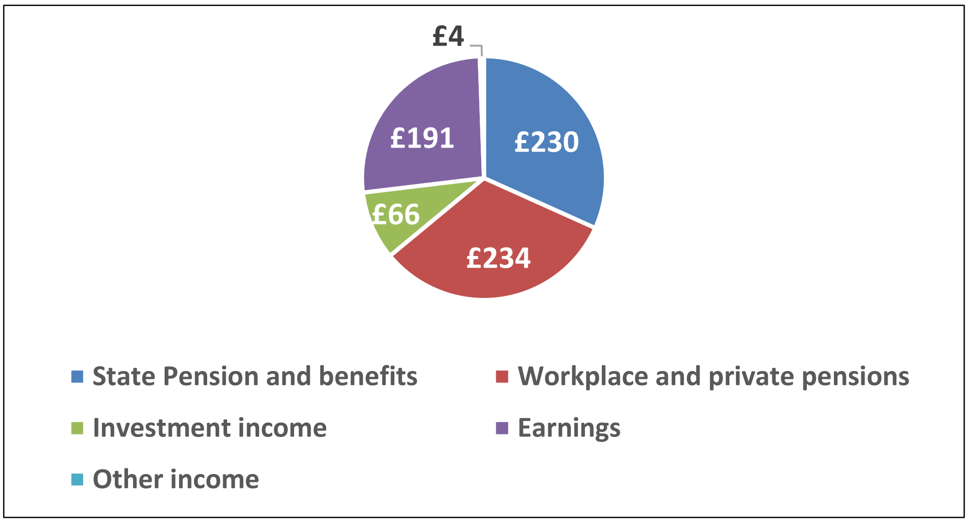
General Election 2015: don't trade long-term pension planning for short-term enticements and 'pet projects'

Private pensions work: on average, they contribute a third of all income received by pensioners – roughly equal to the income provided by all other state benefits, including the state pension. Typically, a pensioner couple receives around £230 per week from their private pensions, rising to £300 per week for recently retired pensioner couples. But this success story is under threat.

Sources and average amounts of weekly income of recently retired pensioner couples (2012/13)



(Source: DWP Pensioners' Income Series, published July 2014)

The decline of defined benefit (DB) pension schemes means that, despite mass auto-enrolment in the UK, the Government forecasts median income from private sector pensions to be less in 2050 than in 2020[1]. And this unfortunate picture pre-dates recent assaults on tax incentives for pensions; the main parties' manifestos seem all too happy to continue these assaults, but the ACA argues that these are short-sighted measures.

Taxation threats

Through the last two Parliaments, both Labour and the Conservative-Liberal Democrats coalition

[1] Figures from DWP *Automatic Enrolment evaluation report 2013*

have boosted the State pension and encouraged more employees into basic private provision. But persistent over-regulation of DB schemes means they are unnecessarily expensive and provide employers with volatile costs, leading to fewer open schemes and reducing the levels of private pension earned by members.

More damaging still has been the raid on private pension savings by governments looking to generate income: the "simplification" introduced in 2006 has been consistently eroded and made more complex by multiple reductions in relief, bringing the complexity of approaching or exceeding the Lifetime Allowance and Annual Allowance to significantly more people. Individuals on moderate to high earnings are increasingly having to face up to the fact that they will need to stop sensible retirement saving through a pension arrangement because of the adverse tax consequences. The limits are much more painful for those in Defined Contribution arrangements than those in Defined Benefit arrangements, who can amass almost twice as much pension before hitting the Lifetime Allowance.

This is why the ACA recently called for the parties to pause and review pension tax relief, to avoid committing to further ill-judged reforms.

Most of the manifestos still see pension tax relief as a political cash-cow, funding pet initiatives to target key voter groups. Already, the changes made in the 2015 budget begin to make ISAs a more attractive alternative to saving through a pension scheme. Locking savings away for the long term in growth assets significantly benefits industry and individuals whilst saving in ISAs may generate lower returns and be more short term in nature.

The current Pensions Minister, Steve Webb, however has a strong understanding of the issues outlined above and has taken the Liberal Democrats' policy in a direction that mirrors the ACA's call. Their policy also hints at introducing auto-escalation in pension contributions in the future, where both the Conservatives and Labour have been more timid.

ACA Chairman, David Fairs, comments:

"*We are disappointed that the political parties are using cuts in pension tax relief as a 'cash-cow' for other projects instead of a proper review of the tax structure. We need a stable, long term strategy for retirement savings"*

So which manifesto?

A popular comment is that the 2015 General Election does not give us much to separate the parties – even the *Economist* took a swipe at UKIP and the Green Party, with 10 ways it is hard to tell them apart! (http://www.economist.com/news/britain/21648572-ukip-or-green-can-you-spot-difference). In fact, our view is that some policy continuity and stability would be good for the industry, so the ACA welcomes the fact that the main parties all support the single-tier pension and the 'triple lock', auto-enrolment and (even) the new pension flexibilities, although extra regulatory tweaks can be expected if Labour leads the way.

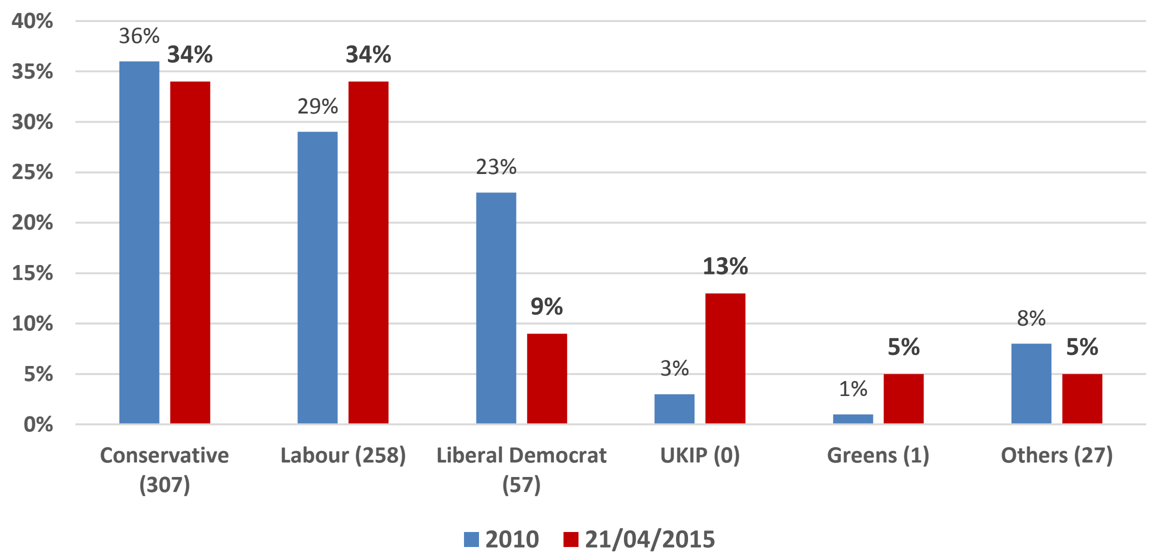
However, despite the welcome proposal to undertake a review ahead of further pension tax changes from the Liberal Democrats, all the main parties' manifestos fall significantly short of the best manifesto – set out on pages 5 and 6!

This *Placard* edition sets out summaries of all the main and smaller parties' manifesto points in relation to pensions and taxation, which were available at the time of writing. These summaries, as well as the additional commentary, were drafted by **David Robertson** on behalf of the ACA.

For the avoidance of doubt, the current main parties' manifestos have been summarised and presented in alphabetical order and then the smaller and country/nationalist party manifestos.

Editorial Introduction by Catherine Love Soper
Editor

BBC Poll of Polls: voting intentions as at 21 April 2015 compared to May 2010
(May 2010 number of seats won in brackets)



(Source: BBC)

What if??

At the time of writing, the outcome of the 2015 General Election is, as they say, "too close to call". Indeed, whereas in 2010 there was a three-way split of votes across much of the country, this time a four or five way split in some seats could throw up some unexpected results both locally and nationally. So if the Conservatives or Labour fail to win the 322[2] seats needed to govern alone and to implement their manifesto commitments, just what might happen behind closed doors in respect of pensions and savings policy? The largest party (in seat terms) is likely to try first to form a Government.

If the **Conservatives** seek to form a government, needing perhaps just **DUP** and/or **UKIP** support, then we might expect to see current policies continue and the Conservatives'2015 pledges largely followed through. But if the **Conservatives** need and can obtain **Lib Dem** support, we might expect to see current policies continue, but with top rate tax concessions dropped and a reduction in measures to cut welfare benefits. To balance the books, it might be that further pension tax reforms are enacted – a flat-rate relief (but below 33%) and a lower annual allowance for those earning over £150,000 pa. The Conservatives have few other minority partners they can turn to – the nationalist parties and Greens lie generally to the left of Labour and are much more likely to prop up a minority Labour administration.

Labour might look to form an alliance either with the **Lib Dems** or **SNP**, either formally or on a day by day basis. Whilst auto-enrolment and 'freedom and choice' will remain public policy (but with guidance and DC governance toughened up), we would expect to lose higher rate tax relief and possibly see the annual allowance reduced. If the **Greens** are involved, those on average or below average incomes might receive more tax relief on pensions, offset by tougher drawdown rules, but expect to see the pressure for interest rates to rise as controls on public spending are eased.

[2] Assuming around 5 Sinn Fein MPs continue not to take their seats in Parliament and the non-voting Speakers' office

ACA Pensions Manifesto

Before we consider the 'other' manifestos, the Association of Consulting Actuaries launched our own seven-point *Retirement Income Manifesto* in early March, with a view to encouraging the political parties ahead of the General Election to consider measures that will boost private sector retirement savings. The reforms enacted in the current Parliament need to be built upon by way of a coherent strategy adopted by the incoming Government.

The overall philosophy for the UK should be to continue to boost saving for retirement focusing on the promotion of a wide range of flexible retirement arrangements as part of a broader approach to encourage lifetime savings. Financial incentives should be greater for savings locked away for the long term over short-term savings, with legislative and regulatory prescription minimised and simplified, whilst maintaining the protection of members' benefits. The Government should seek to continue to take measures that reduce the cost of long-term savings products, but not to the point where this may damage ongoing provision or the infrastructure that supports the generation of returns.

The ACA's seven-point manifesto advocates that in the new Parliament, the Government should legislate to:

1. Establish a standing Independent Retirement Income Commission charged with promoting the active extension and betterment of private retirement income provision and making recommendations on the future of State and public sector retirement provision (suggested remit - *see below*).

2. Government to announce a fundamental review of pension taxation in recognition of the complexities and anomalies that tinkering with the framework time after time has caused. The ACA seeks a proper review of the pension taxation framework (for further details, see the ACA paper, *Creating a sustainable Pensions Tax Framework*, published 4 March 2015[3]). The ACA paper says that if at all possible the Government should seek cross-party support for a new framework that can be readily understood and can properly incentivise retirement savings.

3. Government to review progress of auto-enrolment during its first 100 days to review what policy adjustments may be needed to consolidate its success. Whilst auto-enrolment has been a success in enrolling upwards of 5 million new employees into workplace pensions, the majority are saving well under 2% of earnings combined from employers and members. In 2017 and 2018 contributions climb appreciably but the ACA has also previously suggested that the lower band on earnings eligible for AE should be abolished to increase overall contributions and which would also permit the lowering of the AE earnings threshold to extend provision to more women and low earners. However, there are some concerns particularly amongst small and micro-employers, the majority of which do not hit their staging dates until 2016/17, that increasing contributions might have an impact on 'opt-outs'. The Government may need to consider providing some support to employers from 2017 onwards – factoring this into spending plans – by way of reducing employees' NI rates and perhaps increasing the Employment Allowance to reduce employers' costs.

4. Employers to be given tax breaks to incentivise the provision of savings and retirement advice. Building on the new *Pension Wise* guidance, we believe there is also a role for formal regulated financial advice to be provided via the workplace. We would urge the Government, funded through tax concessions granted to the employer, to consider encouraging formal regulated advice to be made available from age 50, and that a sum of about £500 should be made available.

[3] www.aca.org.uk (see 'recent publications')

A second session, valued at around £800, should be provided at the point of retirement, with this funding coming through adjustments to the employer's tax liability. **The present allowance of £150 is completely inadequate.**

5. Provide greater incentives for retirement income savings by allowing early access after 10 years of pension saving to a proportion of their fund currently available only from age 55 to help fund house deposits and/or to meet life's crises. This to be implemented at such time that the *Pension Wise* service can be extended to provide guidance on such withdrawals.

6. Provide a statutory override – shared by the trustees and scheme sponsor – to allow defined benefit schemes whose rules 'embed' RPI to be able to switch to CPI. It seems to be generally accepted that RPI is a flawed measure. A shared power would provide safeguards and from a member perspective, offer the opportunity for trustees to seek an increase in member security when such a switch is sought.

7. Allow defined benefit schemes to be able to offer similar freedoms to those in DC arrangements, but with a requirement for financial advice for individuals reaching retirement with those options (rather than individuals having to transfer to a DC scheme and then being able to exercise the options).

Proposed remit of the Independent Retirement Income Commission

The Commission would review public policy in respect of its success in achieving improvements in levels of retirement incomes from State and/or private retirement income plans (and the sustainability thereof), whilst also making policy recommendations to Government after 12 months from establishment and every three years thereafter. A suggested remit would be as follows:

- reviewing the structure of State pensions and the Government's timetable for raising the State Retirement Age to reflect both improvements in life-spans and overall financial costs to the taxpayer (given the current commitment to the 'triple lock' indexation of the BSP)

- advising every three years on the need or not for a general increase in retirement age to reflect increases in longevity so as to keep pension funding costs broadly stable over the long-term where scheme specific information is unavailable

- recommending policies designed to encourage more employers and employees to invest in retirement income plans, including auto-escalation and other measures to maximise design flexibilities and choices, advising on financial and tax incentives to encourage wider coverage, whilst taking account of the UK economic, demographic and financial backcloth and life-style changes

- review and make recommendations on tax incentives for long-term care products

- promoting legislative and regulatory simplification to encourage quality provision, accepting that legislation must continue to protect members' retirement incomes from the impact of employer or provider insolvency or default

- at the request of Government, reviewing on a periodic basis the structure and rules of the NEST scheme to ensure employees are offered an appropriate fall-back retirement income plan where no better scheme is offered by a sponsoring employer

- ensuring that over the long-term, the cost of public sector pensions, and those that are largely funded by the taxpayer, are transparent in cost to the taxpayer, are sustainable and are fair set against the scale of private provision available to the majority of taxpayers

- reporting (within 6 months) on matters referred by Government to the Commission on an ad hoc basis and also on European directives that could have an impact on any of the above.

The Main Parties' Manifestos

These party manifestos are summaries of the published policies and pronouncements in respect of pensions, savings and tax policies made by leading party figures in the run up to and during the campaign. If there are any errors in interpretation, we apologise for these in advance.

Conservatives

Manifesto commitments:

- ✓ Maintain the "triple lock" – raise pensions by the highest of inflation, wages or 2.5%pa
- ✓ Protect universal pensioner benefits such as winter fuel allowance, free bus passes and free TV licences for over-75s
- ✓ Continued support for single-tier State pension from April 2016
- ✓ Give freedom to invest and spend pensions as people like – with ability to pass funds on to loved ones tax-free
- ✓ Continued support for ISA savings being passed on to a spouse tax-free, so from this April they are no longer subject to Income Tax and Capital Gains Tax
- ✓ Cap charges for social care from April 2016 and allow deferred payment agreements, so no one has to sell their home
- ✓ During next Parliament, raise personal allowance from £10,600 to £12,500
- ✓ Pass law so nobody working 30 hours on Minimum wage will pay income tax
- ✓ During next Parliament, raise starting point for 40% higher rate tax from £42,400 to £50,000
- ✓ Take the family home out of Inheritance Tax for all but the richest by raising the effective threshold for married couples and civil partners to £1 million, paid for by those earning over £150,000pa having their annual allowance cut from £40,000pa on a sliding scale to £10,000pa to pay for cut in inheritance tax

Other pronouncements (not in manifesto):

- ➢ Continued staging and phasing via auto-enrolment into workplace pensions
- ➢ Ability to sell annuities from April 2016
- ➢ No further reduction in Lifetime Allowance from £1m (commitment to increase by inflation from 2018)
- ➢ Affordability issue needs to be considered before increasing auto-enrolment minimum contributions
- ➢ Ros Altmann to be Minister in charge of financial education and Government policy to reward and encourage saving if Conservatives in Government

Labour

Manifesto commitments:

- ✓ Keep the "triple lock" – raise State pensions by the highest of inflation, wages or 2.5%pa
- ✓ Increasing State retirement age necessary to keep pensions system affordable, ensuring people have time to plan for changes
- ✓ Cut pension tax relief for those earning over £150,000 from 45% to 20%
- ✓ Cut annual allowance from £40,000pa to £30,000pa
- ✓ Re-introduce the 50% top rate of income tax for people earning over £150,000pa and re-introduce the lower 10% starting rate of tax
- ✓ No increase in the basic and higher rates of income tax or NI.
- ✓ Introduce a so-called "Mansion tax" on houses worth over £2m
- ✓ Stop paying winter fuel to richest 5% of pensioners
- ✓ Require investment and pension fund managers to disclose how they vote on top pay
- ✓ Reform pensions market so providers put savers first. Support greater flexibility for those drawing down pension pots, but must be proper guidance to avoid mis-selling

Other pronouncements (not in manifesto):

- ➢ Cap pension charges and force full transparency
- ➢ Introduce a requirement for all savers to be referred to an independent adviser to ensure they get the best deal
- ➢ At this stage wouldn't want to commit to increasing auto-enrolment minimum contributions
- ➢ Scrap pot follows member and implement aggregator model where small pots are transferred to a central third-party scheme and then distributed
- ➢ Cut charge cap on auto-enrolment schemes from 0.75% to 0.5% for schemes that wish to be eligible for transferring stranded pots
- ➢ Lower auto-enrolment threshold, but continued support for auto-enrolment programme
- ➢ Lift NEST £4,500 annual contribution and ban on transfers
- ➢ Welcomed Pensions Policy Institute suggestion that tax-free lump sum be capped at £36,000

Manifesto commitments:

- ✓ Legislate for the "triple lock" – raise pensions by the highest of inflation, wages or 2.5%pa
- ✓ Continued support for single-tier State pension from April 2016
- ✓ Improve workplace pensions and continue to auto-enrol workers, completing the rollout in full and on time. Crack down on charges and encourage people to save more into their pension pot through the scheme
- ✓ Press ahead with plans to allow people more freedom in the use of their pension pots and to allow existing pensioners to sell their annuity
- ✓ Establish a review to consider the case for, and practical implications of, introducing a single rate of tax relief for pensions, which would be designed to be simpler and fairer and which would be set more generously than the current 20% basic rate relief
- ✓ Scrap Winter Fuel Payment and free TV Licences for pensioners on the 40% income tax rate
- ✓ Keep free bus passes for all pensioners
- ✓ Increase tax-free allowance from £10,600 to £12,500 by 2020 (increasing to £11,000 in April 2016). Ensure pensioners are eligible to gain from this
- ✓ Consider as next step raising the employee NI threshold to the Income Tax threshold, while protecting low earners' ability to accrue pensions and benefits
- ✓ Raise up to £1.5bn from a tax on homes worth over £2 million – banded structure from £2,000pa rising to £9,000pa for house worth £4m - £5m
- ✓ Raise £1.2bn from 2017-18 by aligning dividend tax with income tax rates for additional and higher rate taxpayers and a further £1bn by ending shares for rights schemes and restricting relief on capital gains tax
- ✓ Bring in £14bn from tax rises on corporations and the wealthy
- ✓ Increase charges to 'non doms' raising £130 million
- ✓ A carer's bonus of £250pa by 2020

Smaller, Country and Nationalist Party Manifestos

Alliance

Manifesto commitments:

- ✓ Reform the pension system to ensure it is based on residence, recognising that women are more likely to take breaks from contributions or make lower levels of contributions
- ✓ Support for 'triple lock' indexation of State pension
- ✓ Take independent, objective analysis on the issue of the national pension liability, age of eligibility and how this affects long-term funding arrangements
- ✓ Continued support for auto-enrolment
- ✓ Seek to balance the need for sustainable public finances with the need to ensure people have a dignified retirement and time to adjust to any necessary changes in their pension provision
- ✓ An evidence-based approach as to what the highest rate of tax should be
- ✓ A 'mansion tax' on the most high value homes, provided there is a mechanism to defer payment for the asset-rich but cash-poor
- ✓ Maintenance of the current UK inheritance tax threshold
- ✓ Increase tax-free allowance for income tax so lower-earners keep more of what they earn

DUP
www.dup.org.uk

Manifesto commitments:

- ✓ Support for triple lock on the State pension and opposes plans to means test present universal benefits for pensioners
- ✓ Support proposals to raise personal allowance to £12,500 by 2020
- ✓ Prioritise needs of older people through anti-discrimination legislation

Green Party

Manifesto commitments:

- ✓ **Introduce a non-means tested "Citizen's Pension" from 2016 of £180pw (£310 pw for a couple). Pay to all pensioners regardless of contributions. Indexed to higher of price increases on basic goods or average earnings (cost +£25 billion pa from 2016)**
- ✓ **Re-introduce a new SERPS investing in railways, renewable energy, social and affordable housing via a Green Investment Bank. Such public assets would replace pension fund assets and employers would be obliged to offer and contribute to this pension scheme (the default would be for employees to be contracted in to the scheme with a person's contributions unaffected by a change of employer)**
- ✓ **Reduce tax and NI incentives for private pensions by one-half (raising over £20 billion)**
- ✓ **Keep the pensioners' bus pass and winter fuel allowance**
- ✓ **Provide free prescriptions for all and abolish TV licence (so current concession not needed)**
- ✓ **Pensioners living abroad to receive same as those living in UK**
- ✓ **Provide older carers with more generous and consistent support through a Citizen's Pension**
- ✓ **Introduce gradually a wealth tax of 2% on people worth £3m or more, including pension pots (raising £25 billion)**
- ✓ **Salaries above £150,000 a year to incur 60% income tax rate (raise over £2 billion)**
- ✓ **Abolish NI upper threshold (but reduce employers' NI by £25 billion from proceeds of wealth tax)**
- ✓ **Abolish the capital gains tax personal allowance (raise over £3 billion)**
- ✓ **Reform inheritance tax into an accessions tax**
- ✓ **Consult on a wider "Citizen's Income" policy for working age people would encompass abolishing the income tax personal allowance and primary threshold on NI contributions, as well as halving money spent providing tax and NI incentives for pension contributions**
- ✓ **Introduce a financial transactions tax of 0.1% in respect of bond and equities transactions and 0.01% on derivatives**
- ✓ **Legislate to remedy inequality in pension inheritance for same-sex marriage partners and same-sex civil partners**
- ✓ **Introduce a maximum pay ratio of 10:1 between the best and worst paid in every organisation**
- ✓ **Work for the abolition of the City of London Corporation**

Manifesto commitments:

- ✓ New single-tier pension to be at least at the rate of Pension Credit (c£148 for single person/£226 for couple per week)
- ✓ Early access to pensions
- ✓ Oppose increases in state pension age
- ✓ Investigate flexible pension rights for self-employed
- ✓ Protect free bus pass service for elderly
- ✓ Re-introduce additional tax rate of 50p in £ for those earning over £150,000
- ✓ Raise NI employee threshold to same as income tax over term of Parliament
- ✓ Increase Upper Earnings Limit on NI to £100,000pa
- ✓ End the 40% plus pensions relief for higher rate tax payers

Manifesto commitments:

- ✓ Continue to campaign for the immediate restoration of the earnings link for the State pension
- ✓ Fight for the winter fuel payment to be increased to £500
- ✓ Show respect to older generation by putting an end to upper age limits in work and insurance
- ✓ Call for specific support for older and disabled jobseekers

Manifesto commitments:

- ✓ **Keep the "triple lock" – raise pensions by the highest of inflation, wages or 2.5%pa**
- ✓ **A single-tier non means-tested State pension of at least £160pw**
- ✓ **Protect the Winter Fuel Allowance**
- ✓ **Oppose the abolition of Savings Credit and will seek a review of plans to increase State Pension Age beyond age 66**
- ✓ **Support the roll out of auto enrolment for workplace pensions and proposals to give greater pension flexibility. However, must ensure adequate levels of advice and support – will work with pensioner groups to identify and target unfair hidden pension charges**
- ✓ **Support for a specific tax on properties valued at over £2 million, increases to the bank levy, a banker's bonus tax and a review of the pension tax relief available to the wealthiest. 'We would call on the UK government to move forward cautiously with plans to increase the higher rate threshold to £50,000, ensuring first that tax revenues are sufficiently buoyant'**
- ✓ **Wants control of the personal tax allowance to lift more low earners out of tax including an increase in the Work Allowance – the amount people are allowed to earn before their benefits are cut – of 20%**
- ✓ **50% top rate of income tax for those earning +£150,000pa**
- ✓ **Increase Carer's Allowance to match Jobseekers' Allowance (worth £600 per year)**
- ✓ **Increase Employment Allowance from £2,000 per business to £6,000 per business per year (*comment: this would meet most smaller firms AE costs by reducing employers NICs*) by 2019/20**

Manifesto commitments:

- ✓ Introduce a flexible State pension window so even when the SPA increases to 69, pensioners will still be able to take a slightly lower weekly State pension from age 65
- ✓ Fund a higher standard of independent advice for pensioners, increasing the guidance budget, developing a pension advice and seminar programme to protect pensioners' best interests and savings.
- ✓ Make it a criminal offence to cold call someone in respect of their pension arrangements (exempting regulated advisors or schemes where there is an existing relationship)
- ✓ Increase personal allowance to £13,000 taking those on minimum wage out of tax by 2019/20
- ✓ Scrap inheritance tax by 2020
- ✓ Raise the threshold for paying 40% income tax to £55,000 and introduce a new intermediate tax rate of 30% on incomes between £43,500 and £55,000 by 2019/20
- ✓ In longer term aim to restore the personal allowance to those earning over £100,000 and make 40% the top rate tax for all
- ✓ Increase the transferable tax allowance for married couples and civil partners to £1,500 by 2019/20
- ✓ Raise carer's allowance to £572pa

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