

Introduction

8th June 2017 will see the UK electorate take to the polls for a General Election. This is a mere 25 months since the previous general election returned a Conservative Party majority, and 11 months since Theresa May took over as Prime Minister in the wake of David Cameron's resignation.

This Briefing Note details the pension policy positions of the main parties. It considers how this position has changed since the previous General Election. This is a reflection of new leaders, and new policy directions, building on the top of a changing political and economic landscape.

This note covers the following areas of pension policy:

- Additional Pensioner Benefits
- Pensions tax relief
- State Pension age (SPa) rises
- State Pension uprating

Many of these policy statements do not include great detail and may be uncoded.

This note does not assess the practicability, affordability or implications of these policies. The PPI does not endorse any of the policies detailed in this Briefing Note.

Additional Pensioner Benefits

In 2015 the parties differed on potential restrictions to winter fuel payments, a tax free annual payment designed to help older people pay their winter heating bills.¹ The Conservative

Figure 1. Overview of Additional Pensioner Benefits from main political parties

	Winter fuel payment	Bus Passes and other benefits
Conservative	Reassess winter fuel payment	Maintain bus passes, eye tests, prescriptions and TV licences, for the duration of this parliament
Labour	Maintain	Maintain bus passes
SNP	No pledge outlined	
Liberal Democrats	Remove winter fuel payment for those in the 40% tax bracket	Maintain bus passes
UKIP	Maintain all benefits	

Source: Party Manifestos

Government maintained these (and other additional benefits) from 2015-17.²

Similarly in this election period there are differences in pledges regarding these additional benefits. The Conservative party³ has pledged to reassess which pensioners receive the winter fuel payment and the Liberal Democrats want to remove the payment for pensioners in the 40% tax bracket.⁴ The Conservatives have also pledged to maintain bus passes, eye tests, prescriptions and TV licenses for the duration of the next Parliament.

Restricting eligibility for winter fuel payments could save Government funds but could also create administrative complexity and could in some cases lead to deprivation.

In winter 2015-16, approximately 12.3 million people received a

winter fuel payment costing the Government around £2billion. If winter fuel payments were withdrawn from higher rate income tax earners (around 600,000 recipients) it is estimated that the tax payer would save a projected £105 million a year.⁵

The Labour party⁶ has pledged to maintain the winter fuel payment and free bus passes. The Liberal Democrats have also pledged to maintain free bus passes, UKIP⁷ to maintain all pensioner benefits and the SNP⁸ and Plaid Cymru⁹ have made no specific pledges regarding Additional Pensioner Benefits (Figure 1).

Pensions tax relief

In 2015 the majority of parties pledged to restrict tax relief available to the highest earners.¹⁰

The Conservative Government retained the current system of pension tax relief, and introduced the Lifetime ISA (available from April 2017)¹¹ as an alternative means of saving under a TEE regime.¹²

Policies which restrict relief to higher earners would have the effect of saving money for the Government but could also increase complexity for savers and providers and could reduce incentives for higher earners to save. Increasing relief for lower earners could also increase incentives for lower earners to save.

The Liberal Democrats have stated that they would consider introducing a single rate of tax relief for pensioners set higher than the current 20% basic rate relief. If the single rate of tax relief was set at a comparatively low 20%, this would save the Government £13bn a year. A tax rate of 30% would be cost neutral and a higher 40% tax rate would cost the Government £15bn a year but may disincentivise pensions saving (Figure 2).

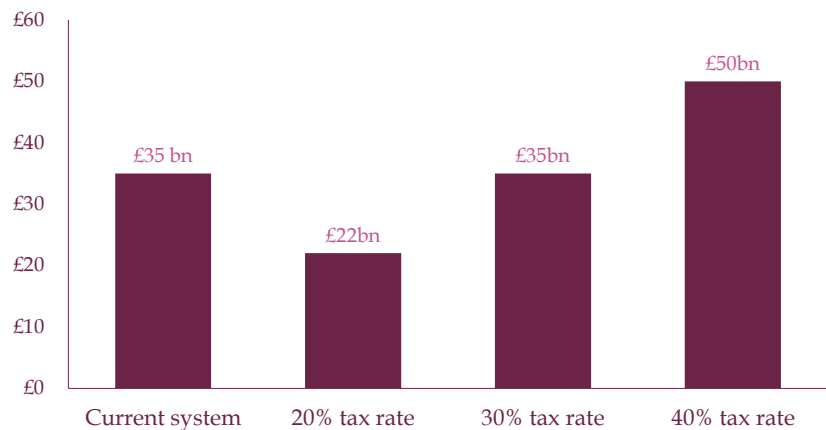
Other major parties having made no specific pledges regarding tax relief.

State Pension age rises

In 2010, State Pension age began rising after remaining at age 60 for women and age 65 for men for 70 years. SPa is currently scheduled to reach age 68 for both men and women by 2046. In March 2016, the Conservative Government launched an independent review

Figure 2. A single rate of tax relief would have a high impact on the cost of tax relief contributions

The gross cost of tax relief on contributions at the marginal rate and at a single rate of 20%, 30% and 40% (£bn)



Source: PPI (2013) *Tax Relief for Pension saving in the UK*

into options for bringing forward the rise to age 68.¹³

Maintaining the current or a low SPa would increase pensioner incomes, but could also increase Government costs and decrease incentives to work longer which could have a widespread impact on the economy. However, increasing SPa for everyone could result in unequal outcomes for those with lower life expectancies and has the potential to increase levels of poverty among older people.¹⁴

The Conservative party has said it will continue to increase SPa in line with policies already in place and with increasing life expectancy.

Labour has pledged to keep SPa at 66 from 2020 and commission a new review into SPa. The review would look into ways of developing flexible retirement policy to reflect contributions made by people, and the wide

variations in both life expectancy and the nature of working lives. Although Labour would most likely increase SPa after completion of the independent review, if SPa were to remain at age 66 rather than the proposed current increase to 67 between 2026-2028 it would increase the cost of State Pension by 0.3% of GDP in current earning terms (equivalent to £6bn).¹⁵ Data from the IFS suggests that keeping SPa at 66 would, if not changed, cost up to £50bn a year in 50 years' time when compared to raising SPa in line with longevity and increasing State Pension in line with earnings.¹⁶

Labour have also pledged to allow early access to pension credit for women adversely affected by the

risers to women's SPa as well as further transitional arrangements. The SNP have also pledged to support WASPI (Women Against State Pension Inequality) aims as well as to introduce an Independent Savings and Pensions Commission.

UKIP have pledged to introduce a flexible pension window so everyone has the choice to opt to retire earlier than SPa for a slightly lower State Pension, in addition to the current policy of being able to work past SPa for slightly higher State Pension. SNP and Plaid Cymru have pledged to continue to oppose increases to SPa.

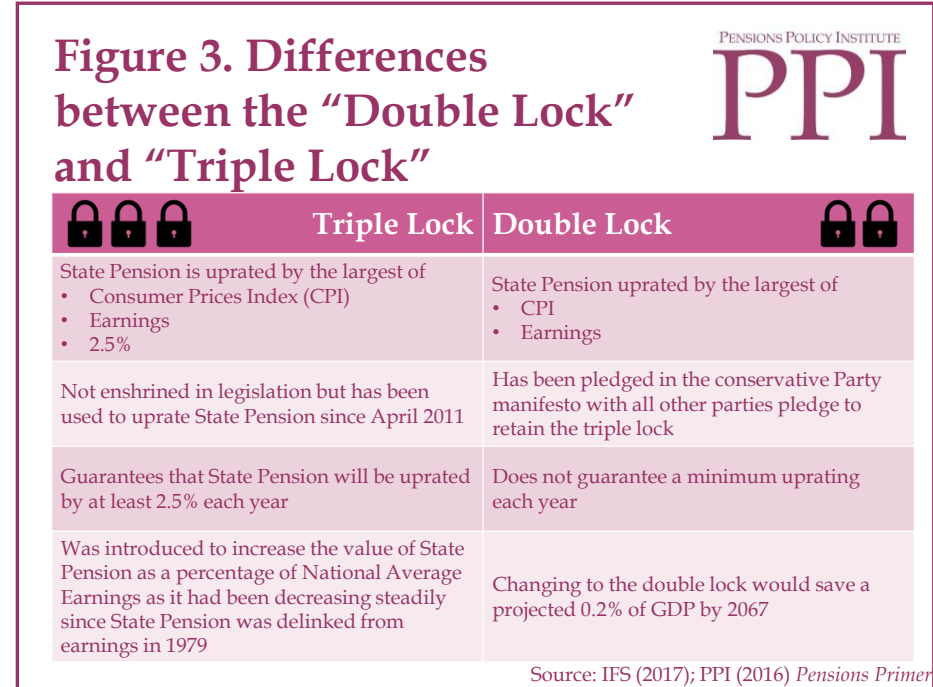
The Liberal Democrats have made no specific pledges regarding SPa rises.

State Pension uprating

In 2015 all the main parties pledged to maintain the triple lock. The Conservative Government maintained the triple lock from 2015-17.

In this election the Conservative party have pledged to maintain the triple lock until 2020 and then remove the 2.5% to move to a "double lock" system (Figure 3). State Pension would then rise in line with the higher of earnings or inflation, in order to improve affordability of the State Pension.

Data from the IFS suggests that State Pension spending in 50 years' time will be reduced by 0.2% of national income due to the "double lock" as supposed to the "triple lock". In this time, spending on the State Pension is still expected to



rise by 1.6% of national income, with 40% of this rise due to the double lock.¹⁷

The Labour party and Liberal Democrats have pledged to maintain the triple lock throughout the next parliament with SNP, UKIP and Plaid Cymru stating they will maintain the triple lock but with no indication on how long it will be maintained for.

Other related policies

Conservative

- Keep the Lifetime ISA
- Pensions for the self-employed
- Greater regulator power to stop mergers and act against underfunding

Labour

- Protect the British Overseas Pensions
- End high fees and charges and enable development of large funds
- Immediate review of the mineworkers' pension scheme

surplus, sharing arrangements between Government and scheme beneficiaries

SNP

- Extend automatic enrolment
- End the Lifetime ISA
- Give same-sex couples equal pensions rights
- Exempt war disablement pension from means-testing

Liberal Democrats

- Give same-sex couples equal pensions rights

Conclusion

With age now becoming a key predictor of voting intention in British politics¹⁸ and the well documented power of older voters, with 78% of people over age 65 voting compared to only 43% of 18-24 year olds,¹⁹ policies related to retirement and pensions are likely to remain key throughout this election.

¹ Gov.uk (2017) *Winter fuel payment*

² The Conservative Party Manifesto 2015; Winter Fuel Payments Update 2016 Briefing Paper 06019

³ The Conservative and Unionist Party Manifesto 2017, *Forward Together*

⁴ Liberal Democrat Manifesto 2017, *Change Britain's Future*

⁵ HC 24 March 2016 *Winter Fuel Payments Update*; HC Deb 21 May 2013 c675w

⁶ The Labour Party Manifesto 2017, *For the Many Not the Few*

⁷ UKIP Manifesto 2017 *Britain together*

⁸ SNP Manifesto 2017 *Stronger for Scotland*

⁹ Plaid Cymru Action Plan 2017, *Defending Wales*

¹⁰ PPI Briefing Note 74

¹¹ UK Government *Lifetime ISA*






¹² PPI (2016) Briefing Note 81 *Lifetime ISAs: pension complement or rival?*

¹³ DWP (2017) Independent review of the State Pension age: Smoothing the transition

Figure 4. Overview of Election Pledges of major parties

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	Additional Pensioner Benefits	Pensions Tax Relief and Annual Allowance	State Pension age rises	State Pension uprating
	Reassess who receives winter fuel payment and maintain all other benefits including free bus passes	No pledge outlined	Continue with current SPa rises to reflect increases in life expectancy.	Maintain the triple lock until 2020 and then transfer to a double lock system
	Winter fuel payment and free bus passes guaranteed as universal benefits		Keep SPa at 66 from 2020 and commission a new review into flexible retirement policy	Maintain the triple lock during next parliament
			Oppose plans to increase SPa beyond 66	Maintain the triple lock
	Remove winter fuel payment for pensioners who pay higher rate tax (40%). Retain free bus passes for all pensioners	Consider introducing a single rate of tax relief for pensions	No pledge outlined	Maintain the triple lock during next parliament
	Maintain all benefits	No pledge outlined	Introduce a flexible State Pension window	Maintain the triple lock

Source: Party Manifestos

¹⁴ PPI Briefing Note 97

¹⁵ PPI Aggregate Model

¹⁶ IFS (2017) *Neither Conservatives nor Labour are properly spelling out consequences of their policy proposals*

¹⁷ IFS (2017) Moving from a Triple to a Double Lock does little to long-run state pension affordability

¹⁸ YouGov (2017) *The Demographics Dividing Britain*

¹⁹ Ipsos Mori (2015) *How Britain Voted in 2015*

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If you would be interested in becoming more involved please contact:

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The Pensions Policy Institute (PPI) is an educational charity set up to promote, on a non-political basis, the study of pensions and other retirement provision. The PPI has established a strong reputation within the pension industry, Government circles and the media for its independent, evidence-based analysis and comment in the field of pensions and retirement policy. Its research findings are used extensively by Government decision-makers and advisors, other political parties, pension and savings providers, employers and trade unions, academics, commentators and the wider public.

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