What are the main parties policies' on pensions?

Table 1: Party proposals for state pensions

	Current Gov. policy & Labour Party proposals	Conservative Party proposals	Liberal Democrat Party proposals
State Pension	Restore link between BSP and earnings in 2012 Abolish contracting out of S2P for DC schemes in 2012 * Eligibility for full BSP based on 30 years NI contributions	Restore link between BSP and earnings from within the next parliament * Eligibility for full BSP based on 30 years NI contributions	Immediately re-link BSP increases to earnings Eventually introduce a citizen's pension based on citizenship rather than based on National Insurance Contributions
State Pension Age (SPA)	Increase SPA incrementally between 2024 and 2046 to 68 for both men and women	Will hold an independent review, but currently plan to bring forward the date at which (SPA) starts to rise to 66, starting no earlier than 2016 for men and 2020 for women	Supportive of current Government policy

Introduction

The UK will hold a general election on May 6th 2010 and the outcome of that election will have an impact on pensions policy. This briefing note outlines the pensions policy positions of each of the main three parties and discusses how pensions may be affected by each party if they win the election.

State Pensions (Table 1)

The current Government's state pension reforms are likely to result in an increase in the level of income which most pensioners receive from state pensions because they will make it easier for people to gain eligibility for a full Basic State Pension (BSP) and for some State Second Pension (S2P) and because the Government has pledged to restore the link between BSP increases and rises in earnings. Labour has committed restoring the link in 2012.[1] The Conservatives have committed to restoring the link at some point within the next parliament, but intend to bring a rise of the State Pension Age forward in order to make this affordable. However the Liberal Democrats have stated that they would re-link BSP rises to earnings as soon as possible (most likely April 2011) if they win the election, so that pensioners would not miss out on any earnings-linked rises.[2]

The Liberal Democrats would aim to eventually introduce a citizens pension, for which eligibility would be determined by citizenship (rather than National Insurance contributions).[3]

In order to keep state pension funding sustainable the Government currently plans to raise the State Pension Age (SPA), starting in 2024. However the Conservatives feel that the SPA increases should be brought forward in the light of increasing life expectancies and would hold a review of the SPA, aiming to start raising the SPA at some point at or after 2016 for men and 2020 for women.[4]

Pension Credit is currently indexed to rises in earnings. Though no parties have said publicly that they will break the link in future, none have fully committed to maintaining the link in perpetuity, and so the future of the link between Pension Credit and earnings is uncertain.

Private Pensions (Table 2)

The Government intends to roll out the requirement for employers to auto-enrol eligible employees into work-place pension saving (and pay minimum employer contributions) from 2012, with the aim of full implementation by 2017.

The Conservatives feel that the current timeline for auto-enrolment will result in too many people missing out on accumulating pension savings and receiving full employer contributions before 2017. The Conservatives would explore allowing companies to voluntarily begin auto-enrolment before 2012 and would hold a review of current auto-enrolment timelines as part of a review of other reforms.[5]

Alongside auto-enrolment, the Government plans to launch in 2012 a low cost, defined contribution, pension scheme that employers can enrol their employees into (or individuals can opt-in to) called NEST (National Employment Savings Trust). The Conservatives and the Liberal Democrats have both highlighted concerns about the potential for NEST to prompt employers to level down contributions into private pension provision and the Conservatives would conduct a review of NEST if they win the election.[6]

Access to private pension savings (Table 2)
Current Government policy is that people are not allowed to access their private pension savings before the age of 55. After age 55 people are allowed to take 25% of their pension savings as a tax-free lump sum and must use the remainder to buy an annuity by the age of 75.

The Conservatives and the Liberal Democrats would both lift the requirement to purchase an annuity by age 75 provided people have enough income to remain above means-testing thresholds.[7,8]

The Conservatives have expressed an interest in looking at options for early access to pension savings and the Liberal Democrats would allow people early access to their 25% lump sums.[9]

Tax incentives to save (Table 3)
People are given incentives to save in pensions through tax relief on pension contributions. The Government currently plans to taper away tax relief on pension contributions for people with gross incomes higher than £150,000 (income includes employer pension contributions). People with gross incomes of £180,000 and above will receive basic rate tax relief on their pension contributions.

The Conservatives are opposed to changes to tax relief on pension contributions (though they would not reverse the Government's current plans to restrict tax relief). The Conservatives and some industry groups worry that higher earners may cease to support pension saving as a result of changes to tax relief, and that this could negatively impact the whole private pension system.

The Liberal Democrats, on the other hand, are supportive of restrictions on tax relief and would restrict all tax relief on pension contributions to the basic rate of tax relief.[10]

Deregulation and defined benefit Pensions (Table 3)
There has been widespread concern amongst the policy community regarding the trend for private sector defined benefit (DB) schemes to close and for employers to offer new employees (and sometimes existing employees) membership in defined contribution (DC) schemes instead. The closure of DB schemes are a concern because they often provide higher levels of guaranteed income to pensioners, indexed to prices.

DC pensions, on the other hand, often provide less income than DB pensions (mainly because both employers and employees tend to contribute less to DC pensions than to DB on average) and the income DC pensions do provide depends on fund performance and annuity rates at

Table 2: Party proposals for private pensions

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	Current Gov. policy & Labour Party proposals	Conservative Party proposals	Liberal Democrat Party proposals
Auto-enrolment	Auto-enrolment will start to be rolled out in 2012 and will be fully implemented for all employers (with full minimum contribution requirements) by 2017	Explore allowing voluntary auto-enrolment before 2012 and review auto enrolment timeline with a view to bringing full auto-enrolment forward	No stated alternative policies but concerned about levelling down and rate of implementation
NEST (National Employment Savings Trust)	NEST will go live in 2012	Review NEST and if it is determined that NEST is not viable then implement 'Plan B'	No stated alternative policy but concerned about levelling down of pension provision
Early Access	No stated intention to change current system	Explore international options for early access	Allow early access to lump sums
Accessing private pension income in retirement	No stated intention to change current system	Would lift requirement to annuitise at age 75 as long as people have enough income to avoid means-testing	Would lift requirement to annuitise at age 75 if people have income above a certain threshold (e.g., Guarantee Credit)

the time of purchase. People often purchase annuities which do not rise in line with prices, which means that DC pension income will often decrease over time relative to price inflation.

However, many employers feel that the regulatory burdens and liabilities are too heavy to make offering DB pension schemes worthwhile, especially in the light of increasing longevity leading to large increases in the liabilities of DB pension payouts.

The current Government recognises the problems associated with losing DB pension provision in the private sector and is currently looking at ways of encouraging employers to retain elements of DB schemes in their pension provision by offering schemes that are hybrids between DB and DC or by offering schemes that share more risks between employers and employees than typical DC schemes.

The Conservatives have stated that they are interested in looking at ways of encouraging risk-sharing in the private sector, and would lift some of the regulatory burdens placed on DB scheme providers in an attempt to make it easier for employers to offer DB schemes. The Liberal Democrats would review DB scheme regulation and investigate risk-sharing further.

The current Government periodically reviews regulations on private pension schemes, but does not feel that lifting the regulations on DB scheme providers would necessarily stop or slow down DB scheme closures.

Table 3: Party proposals for private pensions, continued...

	Current Gov. policy & Labour Party proposals	Conservative Party proposals	Liberal Democrat Party proposals
Tax Relief on Pension Contributions	Taper tax relief on contributions for higher incomes. People with incomes of £180,000 and above will receive basic rate tax relief.	No stated intention to change current system	Restrict tax relief on all pension contributions to the basic rate (would lift income tax-free threshold to £10,000)
Attitude to DB, hybrid and risk-sharing schemes	The Government is looking at options for risk-sharing schemes, but has ruled out collective DC schemes	Would lift administrative burdens on DB scheme providers & encourage more risk-sharing in DC schemes	Would review DB scheme regulation and investigate risk-sharing options
Public Sector Pensions	Recently introduced reforms to public sector pensions: increasing normal pension age for new joiners, changes to employee contribution and accrual rates, cost-capping and cost-sharing	A cap on pensions above £50,000 Conduct an audit of public sector pensions Close MPs final salary scheme and move to a DC scheme for MPs	Set up a commission on public sector pensions Raise public sector retirement age Look at capping top pension pay outs

Public sector pensions

Current public sector pension provision is a controversial topic. Many people argue that public sector schemes (many of which are unfunded) represent an unfair cost to UK taxpayers. On the other hand, public sector workers represent a large proportion of the UK workforce and it is seen as positive by some stakeholders that these people have good pension provision. Arguments for reform of public sector pensions have ranged from calls to entirely replace public sector DB schemes with DC schemes, to calls to make the current schemes more transparent and sustainable.

The Government has recently introduced reforms to public sector pensions which include raising the normal pension age from 60 to 65 for new scheme joiners (and existing members of Local Authority schemes) reducing employer contributions and accrual rates, and building cost-capping and cost-sharing into schemes. However some groups have argued that further reform needs to be undertaken. The PPI is currently undertaking research for the Nuffield foundation looking at the implications of further reform to public sector pensions.[11]

The Conservatives would reform public sector pensions further by capping pension pay outs above £50,000, closing the MP's DB scheme and offering a DC scheme in its place, and asking an independent office of budgetary responsibility to conduct an audit of public sector pensions.[12]

The Liberal Democrats would set up a commission to review

Table 4: Other policy proposals

	Current Government policy and Labour Party proposals	Conservative Party proposals	Liberal Democrat Party proposals
Default Retirement Age (DRA)	Would end default retirement at age 65 alongside a review	Support the removal of the DRA in principle, would investigate practical issues further	Would abolish the DRA
Long-term care	Will establish commission to look at best way of organising funding for National Care Service	Optional insurance to cover the costs of staying in a residential care home	Would establish a commission to develop proposals for long-term care for older people
Other policy proposals		Set up a free national advice service called the consumer protection agency funded by the financial services sector Reverse the effects on pension savers of the 1997 abolition of the dividend tax credit for pension funds	

further reform options for public sector pensions and would look at further cost capping and raises to the public sector pension age.[13]

Default Retirement Age (DRA) (Table 4)

Enabling longer working lives will be a key element of any Government's policy agenda in the future as all parties recognise the need to tackle the problems posed by life expectancy increases. The DRA allows employers to terminate employment contracts when employees reach age 65 and could therefore prevent people who wish to from working longer. Labour have pledged to end default retirement at age 65 alongside a review,[14] the Conservatives support removal of the DRA in principle but would investigate practical issues further.[15] The Liberal Democrats have pledged to abolish the DRA.[16]

Long Term Care (Table 4)

The costs of providing care and support for older people with health needs are projected to increase dramatically as the population ages. The Government will set up a National Care Service, part-funded by pensioner contributions. They plan to set up a commission to best determine how contributions should be paid.[17] The Conservatives have proposed making optional insurance available to pensioners which would cover the costs of care, support and accommodation in residential homes.[18] The Liberal Democrats would establish a commission to develop proposals for funding long-term care.[19]

Conclusions

There is cross-party support for many of the state and private pension reforms. However the introduction of NEST in its current format may depend on the outcome of the general election. If the Conservatives win the election then there could also be a strong move towards deregulation of private pensions.

Both the Conservatives and the Liberal Democrats would seek to introduce early access to pension savings and would look at lifting the requirement to annuitise at age 75. Each party has different proposals regarding tax relief on pension savings, with Labour restricting high rate tax relief, the Conservatives looking to maintain it and the Liberal Democrats promising to restrict all tax relief to the basic rate.

The outcome of the election is likely to have some major ramifications for pensions policy, especially where the implementation of NEST is concerned, but also regarding the implementation of auto-enrolment, rises in SPA, access to pension savings, tax–relief on pension contributions and the shape of the BSP.

1 Labour Party Manifesto 2010, www.labour.org.uk
2, 3 Liberal Democrat policy proposals, www.libdems.org.uk
4 Conservative Party (2010) *A New Economic Model: Eight Benchmarks for Britain* www.conservatives.com
5, 6 Speech, (2009) *Theresa May: Encouraging a new culture of saving* www.conservatives.com
7 Conservative Party (2010) *A New Economic Model,*
8 *Election 2010: Lib Dem's Steve Webb on pensions,* IFA Online
9 Webb, Holland (2009) *Setting Pensions Free* CentreForum
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11 PPI (2010) *Public sector pensions schemes: policy objectives and options for the future* www.pensionspolicyinstitute.org.uk
12 *Election 2010: Interview with Nigel Waterson,* IFA Online
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