What could the 2019 general election mean for pensions policy?

PENSIONS POLICY INSTITUTE

PPI

PPI Briefing Note Number 115

Introduction

The UK is holding a general election on 12 December 2019. This Briefing Note sets out the main parties' intentions, as stated in their manifestos, for pensions and retirement policy, should they win the election. Parties which had not yet published manifestos at the time of writing, or whose manifestos did not mention pensions, were not included. Table 1 provides a summary of main policy statements. It includes any policy area commented on by more than one party. Other policy areas commented on by the respective parties include: consideration of the effects on savers of net pay vs. relief at source, changes to Pensions Credit, entitlement for same sex couples, and changes to the consideration of War Disablement Pension as income in means-tests.

Table 1: Summary of main policy statements in 2019 general election manifestos

	Conservatives	Labour	Liberal Democrats	Scottish National	Green
Triple lock & TV Licences	Retain triple lock and free TV licences for all over age 75, funded by BBC	Retain triple lock and guarantee free TV licences for all over age 75	Retain triple lock	Retain triple lock and Government funded TV licences for all over age 75	Universal Basic Benefit for pensioners of £178 per week
Higher Earners Taper	Hold a review to address taper drawbacks		"Listen and act"		
2019-2020 Pensions Bill	Reinstate Bill	Reinstate Collective Defined Contribution legislation			
Long-term care	Build a cross-party consensus; ensure no one has to sell their home	Provide free personal care; cap lifetime care costs	Introduce a cap on individual care costs		Free social care in own home for those over age 65
Pension investment	Harness pensions capital to invest in and commercialise scientific discoveries		Regulate financial services to encourage green investment	Support schemes to make climate friendly investments	Require public sector schemes to divest away from fossil-fuel based assets and encourage private sector schemes to do the same.
Women born in the 1950s		Design a system of recompense; legislate to prevent accrued rights being changed in future	Ensure women are properly compensated	Continue to support women in their fight for fairness	
Pensions commission		Establish a commission to recommend saving target levels		Establish a commission to ensure pensions and savings policies are fit for purpose	
The self-employed		Provide better access to pension saving	Review rules concerning pensions so those in the gig economy do not lose out	Ensure self-employed workers can benefit from regular pension saving	Ensure gig economy workers always receive pension provision

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The Conservatives

The triple lock and Pensioner Benefits

The triple lock is the name of the inflationary mechanism used to increase the new and basic State Pensions every year. Under the triple lock the relevant pensions are increased by the greater of earnings, prices (CPI) or 2.5%. The effect of the triple lock is that the value of the basic and new State Pensions increase by more than earnings over the long-term.

The Conservatives have pledged to retain the triple lock, though it is not specified whether this retention would continue beyond the next Parliament. They have also pledged to retain winter fuel payments, the older person's bus pass and "other pensioner benefits."

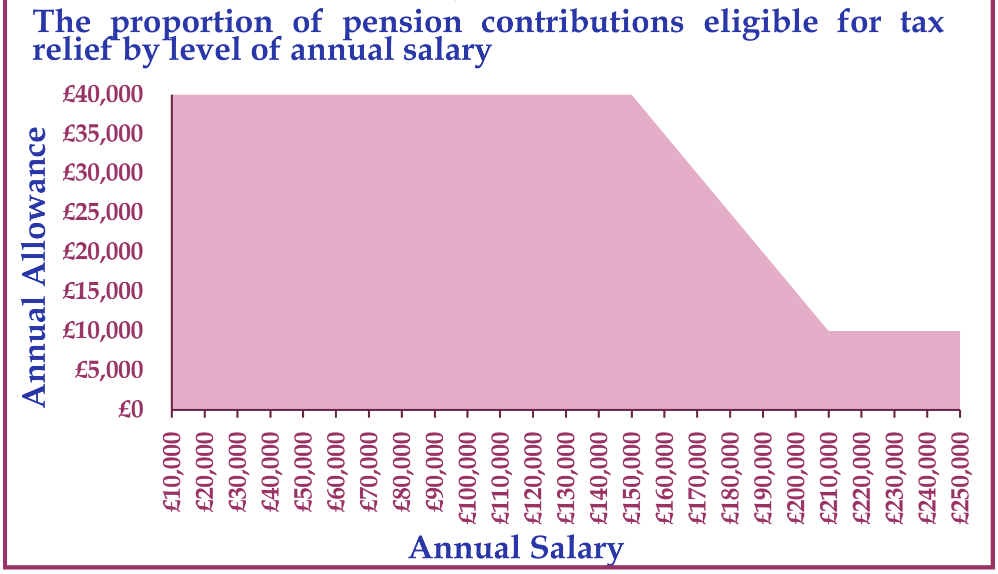
They believe that those over 75 should be provided with free TV licences, but that these should be funded by the BBC.

Taxation: higher earner taper

The Conservatives have promised to address the issue facing some higher earners, in particular NHS doctors doing overtime, of the pensions tax relief taper for people with annual incomes of £150,000 or more (Chart 1). The taper results in those with incomes between £150,000 and £210,000 losing eligibility for a proportion of tax relief for each extra £2 earned, thereby increasing their tax bill on existing contributions.

The Conservatives intend, within the first 30 days of winning the election, to hold an urgent review with the British Medical Council and Academy of Medical Royal Colleges, to solve the problem.

Chart 1: The proportion of pension contributions eligible for tax relief (Annual Allowance) reduces as income rises above £150,000



Taxation: net pay vs. relief at source

DC schemes operate two methods of applying tax relief to pension contributions: net pay vs. relief at source (Figure 1). Those who have been automatically enrolled with incomes below the income tax threshold of £12,500 are eligible for Government "tax relief" in the form of extra credits at the basic rate of income tax, to their contributions.

As no extra tax relief is contributed to the pensions of those with net pay arrangements, those with incomes below £12,500 miss out on extra Government contributions to their pensions while those in relief at source arrangements receive the extra credits from Government.

The Conservatives have committed to "conduct a comprehensive review to look at how to fix this issue."

The 2019-2020 Pension Schemes Bill

Prior to the announcement of the election, a Pension Schemes Bill was making its way through Parliament. The Bill covered:

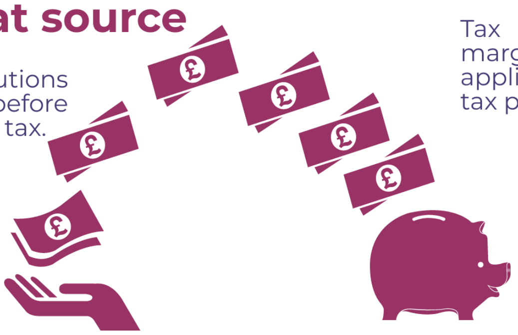
- A regulatory framework for the operation of Collective Defined Contribution schemes.
- A structure for provision of information to qualifying pensions dashboards.
- New enforcement powers for The Pensions Regulator.
- Requirements for Defined Benefit schemes to publish funding and investment strategies.
- New conditions that must be met before Trustees can approve an individual transferring Defined Benefit entitlement out of a scheme, in order to protect against scams.

The Conservatives have pledged to reintroduce this Bill in the new parliament.

Figure 1: Net pay vs. relief at source

Net pay arrangements deduct pension contributions from pay before applying income tax. In net pay arrangements full tax relief at the highest marginal rate is automatically applied to the pension contributions of tax payers.

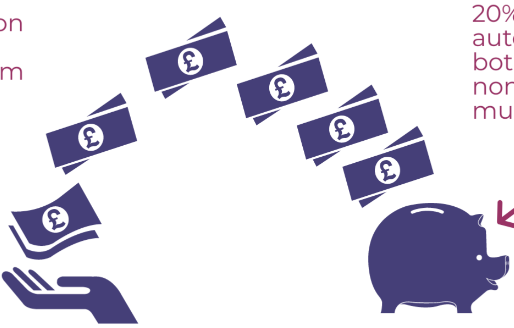
Pension contributions taken from pay before applying income tax.



Tax relief at the highest marginal rate automatically applied to contributions of tax payers.

Relief at source arrangements deduct 80% of an individual's pension contribution from their salary after deducting income tax and then reclaim 20% tax relief on all contributions from HMRC on a monthly basis. Those who pay higher rate tax, must apply separately to HMRC for any tax relief owed above the 20% rate.

80% of pension contribution deducted from salary.



20% tax relief automatically provided to both tax-payers and non tax- payers; any excess must be applied for.

Pension scheme investment

The aggregate value of assets under management in pension schemes is high and growing. The value of assets in DC schemes in 2019 is around £430bn. This is projected to grow to around £805bn by 2039 (2019 earnings terms).[1] DB schemes currently hold around £1.8tr in assets (private sector schemes and the Local Government Pension Scheme).[2]

The Conservatives intend to harness this capital by creating infrastructure for pension schemes to "invest in and commercialise our scientific discoveries, creating a vibrant science-based economy post-Brexit."

Long-term care

Most NHS services are free at the point of use. However, those requiring social care are subject to a means-test to determine eligibility for local authority funding. Care home residents with capital below £23,250 are eligible for support, but must contribute towards their care costs from their income (and any capital over £14,250). Housing wealth is included in the calculation of capital for the means-test unless it is the primary residence of another person.

Since 2015 the Government has been considering how best to fund social care in the future, and where the balance of financial responsibility for care should lie between the individual and the State.

The conservatives have committed to building "a cross-party consensus to bring forward an answer that solves the problem, commands the widest possible support, and stands the test of time. That consensus will consider a range of options but one condition we do make is that nobody needing care should be forced to sell their home to pay for it."

Labour

The triple lock and Pensioner Benefits

Labour have pledged to maintain the triple lock. They have also guaranteed continual provision of the Winter Fuel Payment, free TV licenses and free bus passes as universal benefits.

The 2019-2020 Pension Schemes Bill

Labour have committed to pushing through the legislation required to enable Collective Defined Contribution schemes to operate in the UK.

Labour has committed to amending the Companies Act, to require companies to "prioritise long-term growth while strengthening protections for stakeholders, including smaller suppliers and pension funds."

Labour have also pledged to reverse the surplus-sharing arrangement for the £12bn Mineworkers Pension Scheme. Since 1994, when the scheme was closed, the Government has been entitled to a 50% share of any surpluses, in return for providing a funding guarantee to the scheme. The Government has reportedly taken £4.4bn from the scheme surpluses since 1994.[3]

Labour intends to "introduce new sharing arrangements so that 10% goes to government and 90% stays with scheme members. This new sharing arrangement will also apply to the British Coal Staff Superannuation Scheme."

Long-term care

Labour has pledged to provide free personal care to older people "with the ambition to extend this provision to all working-age adults." and have promised to "ensure no one ever again needs to face catastrophic care costs of more than £100,000 for the care they need in old age, which we will underscore with a lifetime cap on personal contributions to care costs."

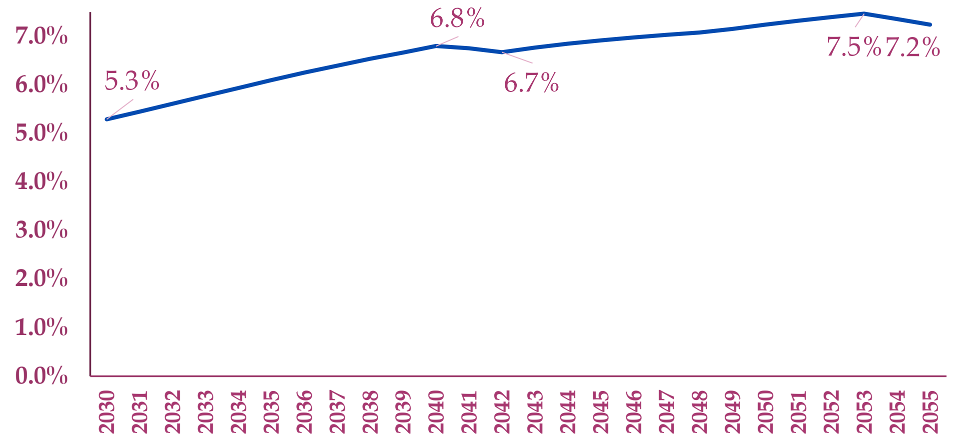
State Pension age rises and women born in the 1950s

The Government expects the cost of State Pensions to increase from 5.5% of GDP in 2014/2015 to around 7.3% of GDP in 2065/2066, as a result of increases in the proportion of the population over State Pension age (SPa). One way of combatting the rise in State Pension costs is through increasing SPa. For every year of SPa rises, yearly costs are reduced by 0.1% to 0.3% of GDP (Chart 2).[4]

Chart 2: SPa rises decrease the costs of State Pension, but the overall costs are projected to continue rising

PENSIONS POLICY INSTITUTE PPI

Cost of State Pension as a percentage of GDP under SPa rises based on 2014-based projections of life expectancy



Source: PPI modelling

SPa in the UK is currently rising. First men and women's SPa equalised, women's SPa rose from age 60 to age 65 between 2010 and 2018, and both will rise to age 66 by October 2020. Further rises are legislated to take place between 2026 and 2028, during which time SPa is scheduled to rise from age 66 to age 67. The rise to age 68 is scheduled to take place between 2044 and 2046 but is likely to be reviewed before being implemented (Chart 3).

SPa rises can be difficult for those with shorter healthy life expectancies, those in manual jobs and carers, who may struggle to work up until older ages and have difficulty supporting themselves through income, savings or benefits.

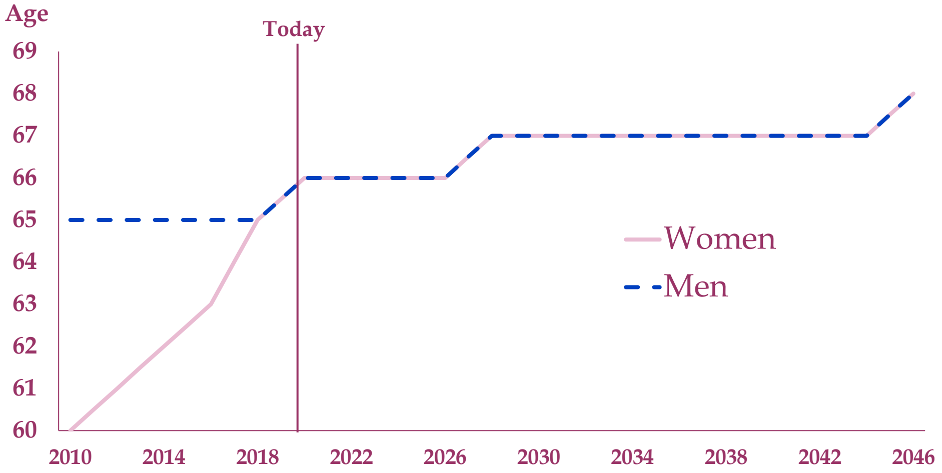
The initial rises, from age 60 to age 65 for women, and from age 65 to age 66 for both, adversely affected some women born in the 1950s. Many of these women expected an SPa of age 60 and found they had to wait for up to an additional 6 years for their State Pension. While the Government notified women of the changes to their SPas when the change was made in 1995, many claim to not have seen or received notifications.

The rise of women's SPa to age 65 was originally scheduled to take place between April 2010 and April 2020, but, in 2011, this rise was brought forward to take place by November 2018 due to unexpected acceleration in the pace of life expectancy increases.

Some women born in the 1950s initially faced waiting an additional two years for their State Pension as a result of these changes, with only five years notice, but the Government compromised by extending the rise to age 66 by an additional 6 months (from April 2018 to November 2018), so no woman would be

Chart 3: State Pension age is rising to age 68 by the 2040s

State Pension age under current legislation



required to wait more than an additional year and a half.

Labour pledges to stop all future SPa rises above age 66, which would cost the Government around an additional 0.3% of GDP (c.£6.5bn) per year from the mid- 2020s, in current terms,[5] and to review retirement ages for those in physically arduous and stressful occupations, including shift workers, in the public and private sectors.

Labour has also promised to work with women born in the 1950s to design "a system of recompense for the losses and insecurity they have suffered. [...and...] to prevent accrued rights to the state pension from being changed."

Independent pensions commission

Labour has committed to establishing "an independent Pensions' Commission, modelled on the Low Pay Commission, to recommend target levels for workplace pensions."

The self-employed

Self-employed people are not eligible for automatic enrolment into workplace pensions and have low levels of saving into a private pension. In 2014/16, 37% of self-employed people aged 40 to 59 were saving into a private pension, compared to 79% of employees of the same age.[6]

Labour have pledged to provide better access to pension schemes for the self-employed.

The Pensions Dashboard

The 2016 Budget, announced the introduction of Pensions Dashboards that would allow individuals to view their own pension portfolios. The Government is currently working on providing a publicly run dashboard alongside several industry hosted dashboards. Multiple dashboards could increase consumer choice but may be more expensive for industry to run and could lead to variations in quality between platforms.

Labour has pledged to "create a single, comprehensive and publicly run pensions dashboard that is fully transparent, including information about costs and charges."

Overseas pensioners

Those with entitlement to a UK State Pension are entitled to pension payments if they move overseas. However, if the individual is not in an EEA country or one with which the UK has a reciprocal arrangement, then the UK does not uprate payments in line with inflation. This means that UK State Pensioners in some foreign countries, including Australia, Canada, New Zealand and South Africa receive their State Pension at the rate at which they first became entitled or the rate they were receiving before they left the UK. This arrangement can make it difficult for overseas UK pensioners to maintain standards of living.

The Government has justified their policy by citing the irrelevance of UK inflationary measures to inflation in other countries and by the additional cost of providing these increases, over £0.5bn per year.[7]

Labour has pledged to ensure that the pensions of UK citizens living overseas rise in line with pensions in Britain.

The Liberal Democrats

The triple lock and Pensioner Benefits

The Liberal Democrats have committed to retaining the triple lock.

Taxation: higher earner taper

The Liberal Democrats have committed to "listen and act on the pensions crisis that is driving away our most experienced clinicians and worsening waiting times and the workforce crisis."

Pension scheme investment

The Liberal Democrats have pledged to "regulate financial services to encourage green investments, including requiring pension funds and managers to show that their portfolio investments are consistent with the Paris Agreement, and creating new powers for regulators to act if banks and other investors are not managing climate risks properly."

Long term care

The Liberal Democrats intend to "establish a cross-party health and social care convention […] to reach agreement on the long-term sustainable funding of a joined-up system of health and social care […] introducing a cap on the cost of care." They have also pledged to introduce a "statutory independent budget monitoring body for health and care [...which...] would report every three years on how much money the system needs to deliver safe and sustainable treatment and care, and how much is needed to meet the costs of projected increases in demand and any new initiatives – to ensure any changes in services are properly costed and affordable."

State pension age rises and women born in the 1950s

The Liberal Democrats have promised to "ensure that the women born in the 1950s are properly compensated for the failure of Government to properly notify them of changes to the state pension age, in line with the recommendations of the parliamentary ombudsman."

The self-employed

The Liberal Democrats have pledged to "review rules concerning pensions so that those in the gig economy don't lose out, and portability between roles is protected."

Same sex couples

In some circumstances related to Private Pensions, State Pensions and means-tested benefits, benefits for widows and widowers in in same sex couples are not treated in the same way as those in opposite sex couples. These anomalies generally apply to historical entitlement (for example, Defined Benefit entitlement prior to 2005, State Pension entitlement based on a partner's record) and legislation has mostly equalised treatment for same sex couples in relation to pensions going forward. The Liberal Democrats have pledged "address continuing inequalities in pensions law for those in same-sex relationships."

The Scottish National Party

The triple lock and Pensioner Benefits

The Scottish National Party have pledged to "always protect the triple lock, fight to reverse the cut to Pension Credit and demand that the government re-instates the free TV licence for all over-75s."

The Party has promised to set licence fees independently of the UK Government in Future.

Pension Credit

In 2016/17 only 64% of those elegible for Pension Credit made claims, meaning that the remaining 36% are living on incomes lower than necessary.[8]

The Scottish National Party will "demand a UK wide benefit take-up campaign so people are encouraged to get the help they are entitled to, particularly pension credit."

Pension Credit changes

On 15 May 2019, the rules governing how some people qualify for Pension Credit changed. Before this date, mixed age couples, where one person is above SPa and the other below, would both qualify for Pension Credit when the older person reached SPa. Now, neither will be entitled until the younger person reaches SPa. The Government believes that 60,000 couples will be affected by this change within 5 years, generating annual savings of £385m.

The expectation from the Department for Work and Pensions is that mixed-age couples will claim Universal Credit instead of Pension Credit. Mixed age couples receiving Universal Credit are likely to be worse off than those claiming Pension Credit. Under Pension Credit, a couple would receive a Minimum Guarantee of £255.20 per week, compared to £115.13 under Universal Credit.[9]

The Scottish National Party have promised to "fight to reverse the cut to Pension Credit that means older couples in Scotland could be £7,000 worse off per year."

Pension scheme investment

The Scottish National Party have committed to support moves to introduce an easy to understand system of climate-friendly external auditing of firms, so that small investors can better understand the climate related risks of investments, including employee pension schemes.

State Pension age rises and women born in the 1950s

The Scottish National Party have promised to "continue to support the Women Against State Pension Inequality (WASPI) campaign in their efforts to secure fairness for the women affected."

Independent pensions commission

The Scottish National Party "support the establishment of an Independent Savings and Pensions Commission, to ensure pensions and savings policies are fit for purpose and reflect the demographic needs of different parts of the UK."

The self-employed

The Scottish National Party (SNP) have promised to "call on the UK government to take steps to extend automatic enrolment, so that more low paid and self-employed workers can benefit from regular pension savings."

War Disablement Pension

Those injured or disabled as a result of serving in the armed forces are eligible for a War Disablement Pension worth up to £9,900 per year (for officers in 2019).[10] While the Pension itself is not means-tested, and depends on the severity of the injury or disablement, those receiving the Pension will have it counted as income in means-tests for other benefits.

The Scottish Government has "changed the rules to ensure the War Disablement Pension is exempt from the assessment of income, meaning our veterans get the help they need and keep the full value of this pension. SNP MPs will press the UK government to adopt this approach across all social security benefits."

Green Party

Universal Basic Benefit

The Green Party have pledged to provide a Universal Basic Income (UBI), to everyone at a level above their subsistence needs. Under the UBI pensioners would receive a weekly payment of £178, with single pensioners receiving an uplift.

Long-term care

The Green party have promised to "provide an additional £4.5 billion a year to fund Councils to provide free social care to people over 65 who need support in their own homes […and to…] explore how free social care at home could be extended to everyone who needs it, regardless of age.

Pension scheme investment

The Green Party intend to "require councils (and other public bodies) to divest their pension funds away from fossil-fuel-related investments [...and to…] encourage all private pension funds to do the same

The self-employed

The Green party have pledged to ensure that gig economy workers always receive pension provision.

Conclusions

There is consensus among the main parties in some of the major pensions policy areas. All parties have pledged to retain the triple lock; many believe that care costs should be capped; and most have stated their intention to help the self-employed access pension saving in the future.

There is general consensus that TV licences should be free for those over age 75, though the Conservatives believe that these should be funded by the BBC, while Labour and the Scottish National Party believe that the Government should be funding this benefit.

Almost all parties agree that pension schemes should be supported to make sustainable investments.

There is divergence regarding how the grievances of women born in the 1950s who feel unfairly treated by State Pension age rises should be addressed. Labour, the Liberal Democrats and the Scottish National Party support compensation for these women, while other parties have not mentioned the issue in their manifestos. Labour also believes that the State Pension age should not rise above age 66.

Many of the policy aims, for example, retaining the triple lock, or maintaining the SPa at age 66, involve significant expenditure on pensioners. The winning party may wish to review their policy portfolio to determine whether they are being appropriately generous to all generations.

None of the parties mentioned automatic enrolment contribution increases, though adequacy of contributions is likely to be a significant area of policy interest over the next few years.

The election is unlikely to result in dramatic changes in pensions policy. However, if a party other than the Conservatives wins, the problems arising for women born in the 1950s are likely to be revisited and some other policy debates, for example, the uprating of UK overseas State Pensions, are likely to be reopened.

[1] PPI Modelling

[2] Pension Protection Fund (2018) The Purple Book; https://lgpsboard.org/index.php/schemedata/scheme-annual-report

[3] Intelligence on European Pensions and Institutional Investment (IPE) (17, June 2019) *UK government urged to revisit miners' pension scheme surplus rules*

[4] OBR Fiscal Sustainability Report 2017, Supplementary tables 1.1 and 1.5

[5] Silcock, Pike, Adams, (PPI) How would removal of the State Pension triple lock affect adequacy? Pensions Policy Institute

[6] DWP (2018) Enabling retirement savings for the self employed: pensions and long term savings trials, figure 3.2

[7] Hansard, 6 March, 2018, State Retirement Pensions: British Nationals Abroad: Written question - 131353

[8] DWP (2018) Income-Related Benefits: Estimates of Take-up

[9] Baker, M. (PPI) (2019) BN 113, The impact of Pension Credit reform for mixed age couples, Pensions Policy Institute

[10] Ministry of Defence, Veterans UK (2019) War disablement pension rates 2019

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