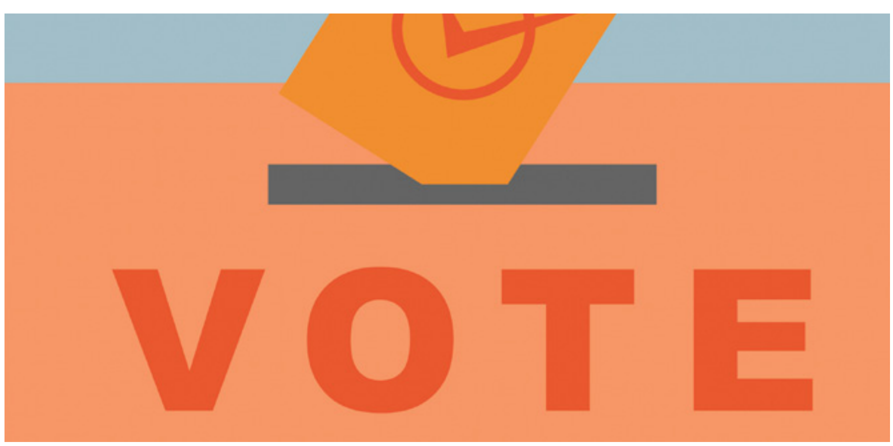
Party lines

The last general election delivered an unexpected result for the pensions industry – and the past five years have seen huge changes to state and private pensions. David Adams explores the pensions policies being campaigned by the political parties before what may be the most unpredictable general election for a generation

Summary
The pension proposals from the major political parties in the run up to the general election:

- **Conservatives** – pledge to scrap the death tax, so that if the person was 75 or over, beneficiaries will only pay their marginal tax-rate when they draw down their income, as they would with any pension. If the person who dies was under 75 there will be no tax to pay at all.
- **Labour** – pension policy likely to include progressive taxation measures, such as capping the tax-free lump sum to £36,000, and reducing tax relief for those earning over £150,000.
- **Liberal Democrats** – Pensions Minister Steve Webb attracted to auto-escalation for workplace pension contributions and a flatter tax relief system for contributions.
- **The Green Party** – replace state pension with Citizens' Pension, payable from state pension age without affecting right to work. An Additional Voluntary Public Pension Provision would be made via publicly administered schemes rather than private pensions based on financial markets.
- **UKIP** – suggested replacing state pension with £2,000 government grant from birth to be invested by fund managers. Individuals and employers would be compelled to make pension contributions for 35 years.
- **SNP** – continuing to campaign for Scottish control of Scottish pensions.



It's a dangerous business, making predictions about politics – or pensions. Who would have guessed, before the 2010 election, that Liberal Democrat Steve Webb would have been Pensions Minister for five years when the next general election came around; that he would have overseen so many changes in the pensions system (although not all of them were necessarily Liberal Democrat policies) – and that he could still be in post after this election too, in a coalition administration with either Labour or the Conservatives? With just seven months to go before the election, policy differences between the main parties are beginning to come into focus. Here's what we might see them try to do in office.

Conservatives – more bombshells still to come?

2014 was the year when George Osborne made his mark on the UK pensions system, with his announcement of greater freedom for DC pension savers made in the Budget, followed by his pledge to scrap the 'death tax', at the Conservatives' conference in Birmingham. Prior to the latter change, the beneficiaries of anyone with an untouched DC pot who had died at the age of 75 or over; or of individuals who died before touching their pension pots, would have to pay 55 per cent tax on the pot. From April 2015 they will pay only the marginal tax rate, or no tax at all if the deceased was under 75.

DeVere Group founder and CEO Nigel Green says this latest attempt to woo the 'grey vote' by the Conservatives is "more style over substance"; because rising life expectancy means it will not apply to many people, and also because it is likely to push more pensioners into a higher income tax bracket.

Buck Consultants Xerox head of pensions policy Kevin LeGrand can also see both good and bad consequences, with a fairer taxation system, but perhaps more people convinced not to buy annuities, which can be an effective retirement tool. Average pension pots are also too small for the death tax to ever have been an issue, he points out. "People's main concern should be selecting the right option to ensure that they have sufficient income for the rest of their lives," he advises.

Pensions adviser Ros Altmann is more generous with praise. "I think the attraction of pension savings has been dramatically increased," she says. "People are encouraged to leave the money in their pension rather than spending it too early – which can help provide funding for social care needs later and they will feel more positive about putting money into the pension."

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But the change may have other long-term ramifications, says Hargreaves Lansdown head of pensions research Tom McPhail. "Will we see more people putting money into pensions? Yes, quite possibly. Will we see fewer annuities being sold? Yes. Will we see more people transferring from DB to DC schemes? Maybe. [The change] will drive annuity purchasing out to 75, because of the differential in tax treatment. But what's it going to do to annuity pricing?"

McPhail also suspects that these changes now make it inevitable that any future government must turn their attention to changing the tax relief rules that currently apply to pension contributions, even though the Conservative financial secretary to the Treasury, David Gauke, has already said that a Conservative government would not do this.

Labour – progressive taxation and more support for the working poor

Labour has also yet to outline its pensions policy in detail, but what does seem likely is that a Labour win in 2015 would be followed by new progressive taxation measures. Barnett Waddingham senior consultant Malcolm McLean notes the enthusiasm within some Labour circles for a suggestion by the Institute for Public Policy Research (IPPR) that tax relief on pensions contribution should be cut by £2 billion per year, with the tax-free lump sum to be capped at £36,000.

Institute for Fiscal Studies deputy director Carl Emmerson notes that both Labour and the Liberal Democrats seem likely to want to make changes to tax relief on pensions. He notes that Labour's proposal to reduce tax relief for those earning over £150,000 per year would have the virtue of creating less administrative complexity in government and for employers than the flat rate proposed by the Liberal Democrats – but individuals affected by the possible Labour policy would be much more likely to be higher rate taxpayers in retirement anyway. He feels that if the underlying intention is higher taxes for those with higher incomes it would be better to raise the higher rate of income tax instead.

He also believes a Labour government would want to do more to improve the reach of auto-enrolment. "I know Labour has been thinking about who's excluded from auto-enrolment, such as low earners who earn enough in two or three jobs to reach the point where they would be auto-enrolled if they were paid the same for one job," he says.

"I'm confident that Labour will want to restrict tax relief for higher earners," says McPhail. "I think they will do something on tax relief, they will look at these Budget freedoms and they will review pensions taxation. I think they will leave the door open to unwind some of this stuff in the next parliament."

LeGrand also wonders whether a Labour/Liberal Democrat coalition might try to place some restrictions on the freedoms enabled by the 2014 Budget announcements. "Initially they said they would support those changes but the Fabian Society, which is very influential in Labour circles, is suggesting that an incoming Labour government should put more restrictions around those freedoms," he notes. "They are concerned that a lot of people won't make sensible decisions about how they spend their money. The Liberal Democrats are also aware of these issues, Webb certainly is, so I wonder whether we will end up with more restrictions around those freedoms if we get a LibDem/Labour coalition or a Labour government."

Liberal Democrats – carrying on regardless?

Our interview with Pensions Minister Steve Webb on page 53 reveals his belief that flat rate tax relief would have cross-party support and his intention to put more effort into improving the guidance offered to DC pension scheme members at retirement.

Webb's speech to his party conference in October 2014 celebrated the reforms to the state pension implemented since 2010, the success of auto-enrolment to date, the 2014 Budget freedoms (which he called "a genuinely liberal reform"); and emphasised the need for a legal right to impartial advice for people deciding what to do with their pension pots.

Webb also said he was attracted by the idea of auto-escalation for workplace pension contributions, with a greater share of cash from pay rises being diverted into pensions unless an individual opts out. And he spoke in favour of a flatter tax relief system for contributions. "We spend something like £37 billion a year on tax relief for pensions and yet overwhelmingly the money goes to those who are already well off," he said. "We could probably spend less on pension tax relief overall but also rebalance the money so that everyone, rich or poor, got help at the same rate."

McLean is pleased by the proposal to implement auto-escalation. He is not quite so convinced by the tax relief plans. "To achieve any worthwhile saving it would be necessary to have a single rate rather less than the alleged break-even figure of 30 per cent previously suggested [by Webb]," he says. "The Treasury would also need some hard evidence that this would stimulate saving from standard rate taxpayers and result in an increase to pension saving overall."

Emmerson outlines some of the practical obstacles to be surmounted if a flatter tax relief system was introduced. "It would mean a lot of complexity for people in DB schemes, because it is not immediately obvious what a contribution is worth, because you don't know how long someone will live, or how long their partner or spouse will live, or their final salary," he points out.

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Ideas from the radical fringes

Both UKIP and the Green Party have put forward very radical, utterly different ideas in relation to the state pension. The Green Party proposes replacing the state pension and top-up benefit with a Citizens' Pension, raised in line with whichever is the highest between the price of basic goods and services or average earnings. The Citizens' Pension would be payable from the state pension age, without affecting the right to work, with earnings from work still taxed as for other workers. Additional supplements would be paid to pensioners living alone, or suffering from disabilities or special needs, including payments to cover the costs of residential care. An Additional Voluntary Public Pension Provision would be made available via publicly administered pension schemes, rather than private pensions based on investment in the financial markets. Tax relief on additional pension schemes would be abolished.

UKIP failed to respond to a request from *Pensions Age* to clarify their pensions policy, but in March 2014 their economic spokesperson Steven Woolfe floated the idea of replacing the state pension with a private system. All children would receive a £2,000 government grant at birth, to be invested by fund managers. Individuals and employers would be compelled to make pensions contributions for at least 35 years. A National Pension Company, taking a sovereign wealth fund approach, would pay for minimum pension provision. The government would contribute £1 billion per year. If individuals died or emigrated before the age of 25 their pension pot would be put into this fund. Savers would be able to draw down money for specific purposes such as buying a house or coping with health problems. Annuities would remain optional and the pension pot could be inherited by children. The pensions industry was largely unimpressed at the time, with McPhail describing it as "nothing like a coherent pensions policy".

In Scotland, the SNP will continue to campaign for Scottish control of Scottish pensions, pointing for example to the proposed £142 single tier pension being lower than the £160 it proposed during the referendum campaign. LeGrand speculates that one consequence of the promises made by the Westminster party leaders to Scottish voters just before the referendum could be that more control over the state pensions and other benefits is granted to the Scottish government at some stage.

The trouble with politicians

Only once the parties actually produce a manifesto will we know which policies they might implement if in office after the election – although what appears in the manifesto may not actually be implemented.

Within the pensions industry, while there is acknowledgement that further reforms are probably required, there is also a desire for less tinkering by politicians. "It is frustrating that the tax relief issue has never been looked at holistically," says LeGrand. "It's always been short-term, knee-jerk reactions, driven by party political doctrine if a party thinks it might be a vote-winner. That does nothing to build up the long-term confidence we need to get people to save for their retirement."

"You have to say, given what has happened to pension policies this year so far, that just about anything is possible," says McLean. "It could even be that if the 2014 Budget measures prove to be a disaster you could see the re-emergence of annuities, probably of a different kind and under a new name, with government backing. I think it's in the area of tax relief where most activity is going to come in the short term, with auto-enrolment and the triple lock to feature at some point – but who knows? Crystall ball gazing at the moment is a hazardous business."

Written by David Adams, a freelance journalist