Climbing up or sliding down?

Between 2010 and 2015 changes to the pensions system were high on the political agenda, but since 2016, with the status of Pensions Minister downgraded and more radical reform seemingly delayed indefinitely, it seems to have slipped down the agenda. David Adams asks how and why that might change in future

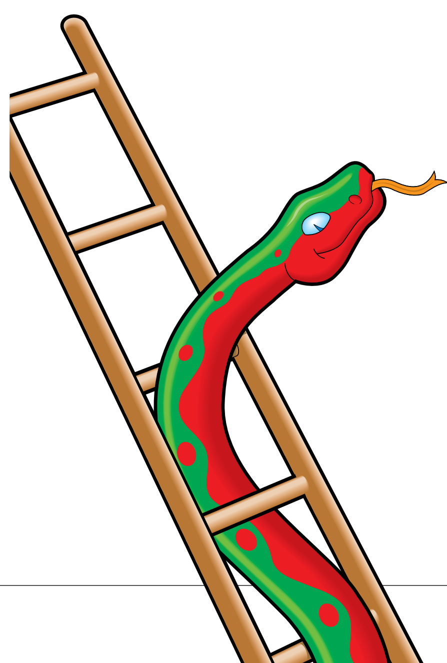
Writing a politics-related article that will be published several weeks into the future feels rather foolhardy at the moment. But while we have no idea what the next few weeks and months hold in relation to Brexit, we do know much of the government's plan for pensions policy; and we can make educated guesses about what other pensions-related policies might be implemented during 2019.

Pensions has been a high-profile policy issue in recent years, with major reforms to the state pension, the introduction of auto-enrolment, and George Osborne's freedom and choice reforms. But since 2015, despite some high-profile problems related to large-scale schemes, the subject seems to have slipped down the political agenda. In 2016 the role of Pensions Minister was effectively downgraded; the Pensions Minister is now only a parliamentary under-secretary. The Treasury maintains a keen interest, mindful of the potential value to society of the investment capital held in pension savings, of the potential savings that could be realised if the pensions tax relief rules were changed, and of the costs of funding the state pension and social care. But when and how might pensions become a more important political topic again?

It seems almost certain that there will be a pensions bill during 2019. Based on announcements made by the Department for Work and Pensions (DWP), we can be fairly sure the bill would include further changes to auto-enrolment based on recommendations in the 2017 review of the policy, measures to assist establishment of the pensions dashboard and the Single Financial Guidance Body (SFGB) to support implementation of collective DC (CDC) pensions; to boost the powers of The Pensions Regulator, and to encourage scheme consolidation.

Political causes

There are other changes that many in the industry would like to see; former Pensions Minister Baroness Ros Altmann picks out the need to solve the net pay problem that affects low earners enrolled in pension schemes that use a net pay arrangement (thought to include a majority of occupational schemes), meaning low earners miss out on tax relief. Research from Now Pensions has suggested that more than 1.2 million workers may be collectively missing out on £78 million – "a major social injustice", says Altmann.



The government may also be forced into further action as a consequence of the ongoing campaign – known as Waspi (Women Against State Pension Inequality) – to compensate women born in the 1950s for changes to the state pension. In late November 2018 the BackTo60 campaign was granted a judicial review into the way the government managed raising the state pension age in 2010. The group's aim is for all women born in the 1950s to be given the same amount of state pension they would have received had their pensions been payable from the time they turned 60. The government claims this would cost more than £70 billion, so there is certainly potential for a huge political row if the campaigners win the legal argument.

Policies related to auto-enrolment may make pensions a more prominent political issue, because they will affect so many workers and employers. The December 2017 review of auto-enrolment recommended lowering the age at which employees can be auto-enrolled from 22 to 18 and calculating pension contributions based on an employee's full income, rather than from a lower earnings limit. The government has said it plans to implement both recommendations, but not until the mid-2020s.

B&CE director of policy and external affairs (and former shadow Pensions Minister) Gregg McClymont describes government policy on auto-enrolment in 2019 and beyond as "the big unknown", because it is currently so uncertain which changes it will implement and when. In December 2018 the government announced it would also publish proposals for "targeted interventions and partnerships" to boost pension saving among the self employed during 2019.

A need for guidance

Another issue likely to be seen as increasingly urgent in future is the need to improve access to and uptake of financial guidance and advice for people exercising their right under freedom and choice to access their pension savings. Pensions Policy Institute head of policy research Daniela Silcock notes that the concerns the Financial Conduct Authority (FCA) has expressed about people switching to drawdown products without taking financial advice. "Many have been putting that money into all cash-invested drawdown pots – you might as well put it in a bank account and pay less," she says. There also continue to be concerns about the threat posed by fraudsters to people accessing their pension pots.

One important change that is already underway but may get more attention in 2019 is the creation of the SFGB, which merges the capabilities of the Money Advice Service, The Pensions Advisory Service and Pension Wise. Evaluations of the efficacy of Pension Wise have been very positive about that service: 92 per cent of users were satisfied in 2017/2018, including 69 per cent who were very satisfied, while only 3 per cent were dissatisfied. But, as Barnett Waddingham senior consultant Malcolm McLean notes, only small numbers of people are using the service. "More people have got to use it if it's going to succeed," he says.

There are some other major policy issues related to pensions that we are unlikely to see addressed by the government in 2019, but which have the potential to push pensions back up the political agenda. Tax relief for pensions costs about £38 billion currently, about 40 per cent of which is given to the top 10 per cent highest earners in the country. Moving to a flat rate system could save the Treasury around £10 billion per year. Both the current Chancellor and his predecessor have considered reforming tax relief, but neither has found enough political strength to do so.

Summary

- After a series of major reforms in recent years, pensions has fallen down the policy priority list in government.
- There will probably be a pensions bill in 2019, including measures related to a range of subjects, but further radical reform is very unlikely unless a government has a strong parliamentary majority.
- A range of policy areas, including further development of auto-enrolment, access to and efficacy of financial advice or guidance and challenges to state pension changes all have the potential to push pensions back into the public eye.
- In the long term, pensions will surely be an important policy area, as government seeks to fund the state pension and cope with social needs created by an ageing society.

Another policy area that may receive more attention in future is the triple lock that guarantees increases to the state pension and means that over time it will probably increase more quickly than earnings. But most observers believe neither of these areas will be addressed directly, or in any kind of radical way, during the next year.

"You need a government with a big majority to carry out radical policy changes, because you create too many losers," former Pensions Minister and Royal London director of policy and external communications, Steve Webb, says. There seems little prospect of any political party winning a strong parliamentary majority at present.

Webb believes that the downgrading of the Pensions Minister shows that, at present, "pensions aren't even a policy priority within the DWP, let alone the government".

Doublespeak

McLean believes there is another fundamental problem that hampers the development and successful implementation of policies relating to the pensions system. "The government speaks with two voices on pensions," he says. "The DWP is there to encourage people to save more privately, but you sometimes get the impression that the Treasury is trying to stop people doing that, when it's clawing back on the annual allowance and so on. We don't have joined-up government."

But things could get also worse. Hargreaves Lansdown head of retirement policy Tom McPhail highlights a suggestion made by Home Secretary Sajid Javid in autumn 2018 that in the event of a no-deal Brexit it might prove necessary to scrap auto-enrolment to protect the economy. "We might see pensions pushed further down the political agenda," McPhail warns.

On the other hand, he continues, the election of a Labour government might alter the tone of pensions policy.

"I think if we saw a Labour government come in, we'd see a shift away from individual responsibility back to paternalism, with more emphasis put on the trustee boards and governance bodies to take responsibility for looking after scheme members."

Whoever is in government, the consensus view seems to be that pensions will remain low on the political agenda for the foreseeable future. But it will be a big issue again at some stage, McClymont insists. "Whatever happens in the next couple of years, the long-term reality of an ageing population structure is going to force pensions into the forefront of policymakers' minds," he explains. "And one of the great things about auto-enrolment is that you're giving lots more people a stake in the pensions system. As the assets in that system grow there will be more and more attention paid to it.

"In the long term, pensions will be an important political issue."

Written by David Adams, a freelance journalist