A political tug of war

Sophie Smith reflects on recent political debates surrounding pensions policy, and whether political considerations could be holding the industry back

Whilst often divided on the specifics, those in the pensions industry are generally unanimous in the view that pensions should have one key goal: To ensure that savers have enough to allow them to live the life they hoped for during retirement.

But pensions are also an inevitably political topic, and when the tides begin to turn, they are quickly thrown into the spotlight as political parties look to win favour.

These efforts, unsurprisingly, focus on the groups most likely to show their support in votes at the ballot box, meaning that the state pension, and in particular the triple lock mechanism and state pension age, are a frequent cause for debate.

"It's inevitable that aspects such as the future of the triple lock can become key election battle grounds," explains Aegon pensions director, Steven Cameron, pointing out that, so far, no party has been prepared to either commit to the triple lock with its high costs or to suggest they might not commit to it, prompting a form of political stalemate.

These decisions can also offer a telling insight into political party motivations, as LCP partner, Steve Webb, explains that a party's position on the state pension, for instance, may reflect its views on the importance of redistribution between rich and poor, on the balance between different generations and on the effectiveness (or otherwise) of provision through the private pension market.

However, there are key differences between a political and pensions industry perspective.

For instance, whilst the political landscape is set on a five-year cycle, pensions, whether state or private, are very long term.

And it is not only a mismatch in timescales, as Cameron notes that pensions are also "complex, technical, and very much tied into the income tax system. So constant meddling by whoever is in power can be highly damaging."

Indeed, even where policy changes are intended to improve outcomes, the complexity of pensions can make unintended consequences a real risk.

The recent plans to abolish the lifetime allowance (LTA), for instance, were labelled by the Conservative government as a move to help support NHS doctors and improve NHS waiting times.

Yet Labour argued that the move was the "wrong priority, at the wrong time, for the wrong people", confirming that it would look to reinstate the LTA, should it be elected.

Industry hopes for pension tax simplification seem out the window then, as savers are left in limbo, unsure what they should be doing, or even if they are affected by this issue.

If left uncertain until the election, industry experts have warned that we could face an avalanche of large-scale pension withdrawals as savers look to avoid being hit with a tax penalty.

And it is not only savers that are left between a rock and a hard place, as

Cameron notes that, from an industry perspective, the legislation to remove the LTA has not yet been finalised and is proving fiendishly complex, in turn placing a "massive burden" on pension schemes and providers.

"Similarly, were a future Labour government to attempt to reintroduce it, there would again be significant complexity and cost for the industry, and we would hope it would reconsider if indeed a reintroduction were needed," he continues.

If policy intended to mitigate the pressure on the NHS can be a point for disagreement, broader industry reforms could face the same concern, as Cameron notes that while a further wave of announcements is expected in the Autumn Statement, it is not clear if a Labour government would proceed with all of these.

But stability is needed, as Now Pensions director of public affairs and policy, Lizzy Holliday, argues that the industry needs a long-term strategy, to help enable employers and savers to plan for their futures, and to allow industry innovation.

"In particular, we need a new roadmap to establish key objectives and deliverables for the further evolution of auto-enrolment (AE) and to support the right outcomes for the next decade of AE saving," she continues. "This needs to include both those who are currently saving, and those who are currently excluded from the benefits of AE, and it needs to address the critical adequacy challenge to ensure AE remains relevant."

Holliday suggests that a pensions commission could be one way of doing that, with a clear evidence base and consensus key to allow long-term strategy to survive changes of government.

However, Webb argues that even if there was a standing pensions commission trying to forge consensus on more technical areas, it would be unable to come up with a 'right answer' on pensions policy decisions, which depend more on values and priorities.

"It's unlikely even a committee of the 'great and the good' could come up with a single correct answer that would work for governments of all political hues," he continues.

"We should certainly seek to build consensus on pensions where we can, but it is not realistic to think that we can take the politics of out an area of public spending involving hundreds of billions of pounds and affecting virtually the whole working and retired population."

And while cross-party support is good to drive change through, politics will always emerge once the dust has settled.

A two-way street

Consideration between pensions and the political sphere is not just a one-way street, and there is no question that politics can have unintended consequences on the world of pensions. This was seen amid the 2022 gilts crisis after then-Prime Minister Liz Truss' mini-Budget threw the economy into turmoil seemingly overnight, with DB pension schemes taking the brunt of the national headlines and public concern.

And broader government policy can impact the pensions landscape, as AJ Bell recently warned that Labour's plans to give co-habiting couples who are not married similar property rights as those who are, if they are successful at the next election, could have a knock-on effect for pension sharing, offsetting, and earmarking.

Investments are not immune to this, as whilst many in the pensions industry have been on the track to net zero, with specific climate disclosures introduced for the sector in recent years, Rishi Sunak's recent U-turn on several key climate policies prompted concern that the government's rhetoric could risk stopping the finance sector from making the investments needed to reach net zero and grow the economy.

At a recent industry event following the Mansion House reforms, for instance, Pensions Minister, Laura Trott, drew a comparison between the generations who joined the workforce before the last Labour government, and the ones that joined towards the end of the last Labour government, when DB pensions had fallen "off a cliff" and productive finance investment had fallen.

This, according to Trott, was Labour's legacy, whilst recent wins such as auto-enrolment and pension freedoms were highlighted as the results of a decade of the Conservative government. "These are phenomenal things, which emphasise not only the enormous achievement of auto-enrolment, but also expose just how bad things were under the last Labour government," she said.

And whilst I don't disagree with Trott's broader message that there is a proud story to tell in pensions, it is important to recognise the importance of collaboration in driving long-term improvements, particularly if there is going to be greater cross-party support on issues such as auto-enrolment in future.

But with a general election on the near horizon, political debates around pensions are set to persist, even where this could prevent the right decisions being made for fear of political repercussions.

Decisions around the state pension in particular will continue to stalemate, as while the Liberal Democrats have committed to the State Pension Triple Lock in their party manifesto, Labour and the Conservatives have been slow to follow suit.

Unsurprising given the political weight of this decision. But prioritising political pull over the right decision for the pension ecosystem is a dangerous game. And one that will leave both the industry and savers without answers, for even longer.

Written Sophie Smith