Placard

THE DISCUSSION PAPER OF THE ASSOCIATION OF CONSULTING ACTUARIES LIMITED DECEMBER 2019 / ISSUE 40

ELECTION 2019: PRIVATE PENSIONS AND SAVINGS LARGELY FORGOTTEN IN PARTIES' SPENDING FRENZY

With Brexit dominating the political agenda during 2019 (and arguably 2017 and 2018!), the long-awaited Pension Schemes Bill announced in October's Queen's Speech was due to finally provide some much-needed progress on a variety of issues. However, it was not to be, as the shortest sitting of Parliament for 70 years closed on 6 November before the Bill was passed.

We believe that the Bill had cross-party support, which is a good thing as the eventual result of the General Election on 12 December may be very close.

Regardless of the outcome, it is not unreasonable to expect the Pension Schemes Bill to be resurrected following the election (both the Conservative and Labour manifestos point to this), and the delay may even be an opportunity to revisit the Bill to include some of the things that were omitted in the initial draft and to put right some apparent drafting errors.

Spending out-votes saving

In October, the ACA announced a manifesto of policy proposals that we wanted to see in the political parties' manifestos – this is summarised on pages 4 - 5. However, as the parties focus (perhaps understandably!) on how to resolve Brexit and how to engage the electorate (predominantly, it seems, by promising significant increases in public spending), private pensions and incentives to save have taken a decidedly background role. It is unclear what impact these spending commitments will have on the pensions and wider savings market.

As such, the majority of our calls go unanswered – notably, there is:

- **No commitment to increasing AE minimum contributions;**
- **No mention of extending pension freedoms to younger people to help with house deposits (with appropriate safeguards); and**
- **No proposal for simplification of the defined benefits pensions regime.**

We are, however, pleased to see the commitment by a number of parties to ensure that workers in the 'gig economy' will receive rights to a pension. As the world of online services continues to develop, it is essential that these workers are protected; the results of our *2019 Pension Trends Survey* showed that gig economy workers made up 5% or more of total workforce for over 20% of employers.

On pension taxation, the Conservatives give no commitment to sort out the problems presented by the taper beyond addressing the problem in the NHS – which is disappointing. The DUP recognises the need for change due to the significant disincentives at present. However, the Green Party 'alternative' of much reduced reliefs would be less attractive to most affected by the taper at the moment! The other parties seem unfriendly to any solutions here that reduce the tax take.

Big commitments for the elderly

Whilst a number of parties commit to compensating those who are judged to have had insufficient notice of changes to State Pension Age (with Labour announcing a huge £58bn post-manifesto compensation package 'offer' to WASPIs), we note with interest that the Labour Party also propose to scrap planned future increases and maintain the current age of 66. This is obviously good news for workers, but we are concerned about how long any commitment to a particular age can last before the cost becomes unsustainable and the pension age must once again be linked to improvements in longevity. The increases to date have in no way kept pace with general longevity improvements since 1945.

The triple-lock is also secure with the main parties all supporting its continuance, and we are disappointed to see a continued commitment to this policy which increases the intergenerational income growth differences by dint of the pensions system. However, given the political sensitivity of this policy and the weight of voter numbers approaching and in retirement, the commitment to it is perhaps unsurprising.

Outside of pensions, with the exception of a significant, and overdue, increase in NHS funding, the parties are generally non-committal on the specifics of social care proposals, other than making big promises to act (but when!). We do, however, agree with the views expressed that cross-party discussions would be useful in trying to find a package of policies to address this growing long-term problem.

In this edition of *Placard* we set out a summary prepared by David Robertson on behalf of the ACA that sets out the highlights of the pensions, savings, tax and social care aspects of each party's published manifesto – first looking at the three main UK-wide parties (in alphabetical order) and then smaller UK-wide parties, followed by nationalist and regional parties, where manifestos are available at the time of publishing.

Editorial Introduction
by Tom Hargreaves
Editor

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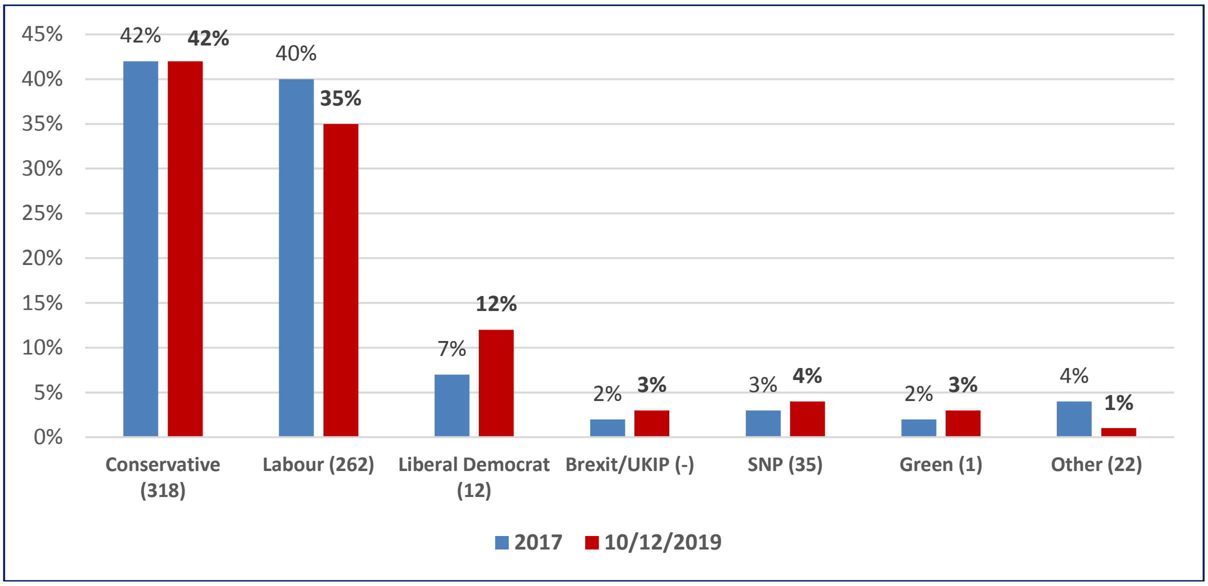
2019 Election: polls at 10 December compared to June 2017

(June 2017 number of seats won in brackets)



(**Source**: Analysis of latest polls)

ACA Pensions, Savings and Social Care Manifesto

Overall pensions and savings approach

The Association of Consulting Actuaries (ACA) issued a manifesto of policy proposals in October 2019 that we wanted to see in the political Parties' manifestos. The ACA believes that the public should be pre-advised of the Parties' broad approaches on how they propose to boost pensions and savings outcomes and what major tax changes might be considered over the next 5 years that might influence individuals' life-plans. The ACA also calls for Parties to commit to much-needed social care reform, reaching out to identify both a cross-party consensus and long-term approach.

The ACA's 7-point Manifesto calls for:

1. **ACA calls for a fresh boost to auto-enrolment (AE), including increasing minimum AE contribution rates and widening coverage during the next Parliament**: The Party manifestos should set out their plans to build on minimum AE contribution rates over the next Parliament. The present 8% of qualifying earnings (which equates to closer to 4% of earnings for those on lower incomes) is inadequate to build and provide for a sufficient income in later life. The ACA wants to see minimum AE contributions increase to 12% of total earnings over the period (and then to 16% by around 2030), with costs shared between employers and employees. The earnings threshold (which currently stops millions being signed up for AE) must also be removed and the scheme needs to be adapted to include the self-employed and those engaged in the 'gig economy'.

2. **ACA calls for an extension of pension freedoms to younger savers (subject to appropriate safeguards and incentives) to promote intergenerational fairness**: To provide greater incentives for higher levels of pension savings by younger employees, the Party manifestos should include an extension in pension freedoms allowing early access after 10 years of savings to a proportion of individuals' pension funds currently available only from age 55, for example to help fund house deposits and/or to meet a short and specific list of other eventualities.

3. **ACA calls for significant simplification of the pension tax regime, with clear policy goals and extensive consultations to minimise unintended consequences**: The Party manifestos should be clear on the key direction of any further pension tax reforms they propose, given the considerable personal financial implications for public and private sector employees (in DB and DC provision). We strongly urge that any measures are for the long term, properly thought through, and involve widespread consultations, so that best endeavours are made to smooth out the problems from tweaks made in the regime in recent years. We accept that there are challenges especially if the policy is that changes are overall to be fiscally neutral (noting that only part of the published "cost of relief" relates to future accrual).

4. **ACA calls for legislation to facilitate the wider simplification of DB schemes, with GMP equalisation/conversion providing the perfect catalyst**: Subject to certification**, defined benefit schemes should be able to simplify their benefit structures** so they can reduce ongoing scheme administration costs, facilitate more efficient hedging, and attract potentially more attractive buy-out options. This simplification would make it easier for defined benefit schemes to include data in pension dashboards and help members to better understand the total value of their benefits. It should complement the largely cross-party agreed reforms that it is to be hoped will be included in a re-introduced *Pension Schemes Bill* in the new Parliament, encompassing a workable new DB Funding Code and appropriate and proportionate TPR powers – as well as guidance and legislation to deal with GMP equalisation and the conversion option.

5. ACA calls for a long overdue intergenerational commitment to a better social care regime: Successive Governments have avoided taking decisions to address the cost of supporting social care for the elderly, and as a result this is seriously impacting on NHS resources/performance and stretching many elderly individuals' and local authority budgets. We believe that a longer-term approach requires a range of solutions to suit different age groups and we look to the Parties to outline a comprehensive social care package that encompasses ideas such as some extra taxpayer funded spending; initiatives such as tax-free social care vouchers for those supporting older relatives in care; and consideration of a social insurance scheme that might help younger people better to plan ahead than the present older generations. Such an approach needs to be part of the integrated savings, pensions and elderly care policy for life.

6. ACA calls for State Pension sustainability with replacement of the 'triple lock': We believe the 'triple-lock' should be retained only until 2021 as this widens intergenerational differences in the indexation of benefits. From 2021, we recommended that the State Pension should be increased either in line with earnings or be set annually as part of the welfare state components of the Budget, taking into consideration a number of factors (including changes in earnings and prices, and pensioners' income and consumption needs in general).

7. ACA calls for clarity over the State Pension Age, to help people plan for their retirement/later life': The Party manifestos and incoming Government should confirm that the **State Pension Age will increase to age 68** over the period **2037-2039** as recommended by the *Independent Review of State Pension Age*. This policy reflects both the extension in working lives in recent years and lengthening lifespans that have not been reflected adequately in SPA increases to date.

The Main Parties' Manifestos

These party manifestos are summaries of the published policies and pronouncements in respect of private pensions, savings, tax and social care policies made by leading party figures in the run up to and during the campaign. If there are any errors in interpretation, we apologise for these in advance.

In alphabetical order, we feature the largest UK-wide Parties first, smaller UK-wide Parties next based on seats held in 2017, then Nationalist and Regional Parties.

Conservatives

Major themes

- ✓ Get Brexit Done – Unleash Britain's Potential
- ✓ Extra funding for NHS – including more nurses and GP surgery appointments
- ✓ 20,000 more police and tougher sentencing
- ✓ Investment in green infrastructure/clean energy so Net Zero carbon emissions by 2050
- ✓ No increase in rates of income tax, VAT or National Insurance

Private Pensions

- ✓ Unlock long-term capital in pension funds to invest in and commercialise our scientific discoveries
- ✓ Address 'taper problem' in doctors' pensions – urgent review within 30 days
- ✓ Conduct comprehensive review of 'loophole affecting people with net pay pension schemes'
- ✓ Reintroduce legislation that 'protects pension pots from being plundered by reckless bosses, helps savers be better informed with pension dashboards, and creates a new style of pension scheme which is more sustainable for workers and employers'

Private Savings and Taxes

- ✓ Guarantee of no increase in income tax or NI for Parliament
- ✓ Raise NI threshold to £9,500 in April with ambition to increase to £12,500
- ✓ Redesign tax system so that it boosts growth, wages and investment and limits arbitrary tax advantages for the wealthiest in society
- ✓ Improve incentives to attack problem of excessive executive pay and rewards for failure
- ✓ £1 bn fund to create more affordable childcare
- ✓ Increase Employment Allowance for small businesses

State Pensions

- ✓ Retain 'triple lock', winter fuel, older person's bus pass and other pensioner benefits

Social Care

- ✓ £1 billion extra funding every year
- ✓ Urgently seek cross-party consensus to bring forward long-term reform
- ✓ Guarantee no one needing care has to sell their home to pay for it

Labour

Major themes

- ✓ It's time for real change – Labour will rewrite the rules of the economy
- ✓ Renegotiate Brexit deal within 3 months – referendum on deal/staying in EU within 6 months
- ✓ Time to take on vested interests holding people back
- ✓ Largest-scale investment programme in modern times - £400 billion
- ✓ Spending increase of £83 billion financed by tax increases *(+£58bn post-manifesto by borrowing*)
- ✓ 32-hour week within a decade
- ✓ Kick-start Green Industrial Revolution to tackle the climate emergency

Private Pensions

- ✓ Amend Companies Act strengthening protections for pension funds
- ✓ Stop people being automatically enrolled into rip-off schemes and seek to widen and expand access for more low-income and self-employed workers
- ✓ Establish an Independent Pensions Commission to recommend target levels for workplace pensions
- ✓ review the tax and pension changes implemented by the Tory government to ensure that the workforce is fairly rewarded and that services are not adversely affected
- ✓ Create a single, comprehensive and publicly run pensions dashboard, including information on costs and charges
- ✓ Legislate for CDC scheme to proceed for CWU-Royal Mail and allow similar schemes
- ✓ Reduce taxpayers share of Mineworkers' Pension Scheme surplus

Private Savings and Taxes

- ✓ End unfairness of income from wealth taxed at lower rates than from work – affecting dividends, CGT on shares and second homes. VAT on private school fees.
- ✓ Reversing cuts to inheritance tax under the Conservatives
- ✓ Ask those earning more than £80K to pay 'a little more' income tax, freezing NI and income tax for everyone else
- ✓ Give workers a stake in companies they work for – and a share of profits. Up to 10 per cent of a company will be owned collectively by employees, with dividends distributed equally and capped at £500 a year per employee

State Pensions

- ✓ Maintain the 'triple lock', Winter Fuel Payment, free TV licenses for over-75s and free bus passes as universal benefits
- ✓ Ensure pensions of UK citizens living overseas rise in line with pensions in Britain
- ✓ Recompense 1950s WASPI women for losses and insecurity they have suffered (*£58bn package over 5 years compensation announced after manifesto published – extra borrowings to finance*)
- ✓ Abandon planned increases in SPA and leave at age 66
- ✓ Review retirement ages for physically arduous and stressful occupations

Social Care

- ✓ £10.8bn investment including free personal care for elderly, extending to all adults of working-age
- ✓ No one to pay care costs of more than £100,000 for what they need in old age
- ✓ Double number of publicly funded care packages
- ✓ Lifetime cap on personal contributions to care
- ✓ Increase unpaid carers allowance

Liberal Democrats

Major themes

- ✓ Stop Brexit – Build a Better Future
- ✓ Use Remain bonus (£50 billion claim) to invest in public services
- ✓ Invest £130 billion in infrastructure
- ✓ Increase day to day spending and tax by £63 billion by 2024-25, but ensure overall national debt continues to decline as share of national income

Private Pensions

- ✓ Review rules concerning pensions so that those in gig economy don't lose out, and portability between roles is protected
- ✓ Regulate financial services to encourage green investments, including requiring pension funds and managers to show their portfolio investments are consistent with the Paris Agreement

Private Savings and Taxes

- ✓ Increase all income tax rates by 1p
- ✓ Encourage employers to promote employee ownership by giving staff in listed companies a right to request shares to be held in trust for the benefit of employees
- ✓ Tax income from capital more fairly compared to income from work by abolishing the separate CGT tax-free allowance and instead taxing both through a single allowance
- ✓ Review tax and NI status of employees, dependent contractors and freelancers to ensure fair and comparable treatment
- ✓ Address continuing inequalities in pensions law for those in same-sex relationships

State Pensions

- ✓ Retain the Triple Lock on the Basic State Pension so that rises in line with the highest of wages, prices or 2.5 per cent
- ✓ Ensure women born in 1950s are 'properly compensated' for the failure of governments to properly notify them of changes to the State Pension Age

Social Care

- ✓ Raise £7 billion a year in additional revenue by putting 1p on Income Tax, with money to be ringfenced for spending on the NHS and social care (not to be levied or spent in Scotland)
- ✓ Commission development of dedicated, progressive Health and Care Tax after widespread consultation
- ✓ Establish cross-party health and social care convention to reach agreement on long-term sustainable system of health and social care
- ✓ Introduce cap on cost of care

Green Party

Major themes

- ✓ If ever there was a time to vote Green, it's now
- ✓ Declare climate emergency
- ✓ New green homes, new green transport and new green jobs will get us on track to reduce UK's carbon emissions to net zero by 2030
- ✓ Extra operational expenditure of £141 billion a year, paid for by a mix of tax reforms and savings measures, plus £94 billion of capital expenditure via borrowings

Private Pensions

- ✓ Reduce tax relief on pension contributions to 20 per cent (claimed to raise £6 billion in extra tax)
- ✓ Reduce tax-free drawdown on pensions to £40K (claimed to raise £2 billion)
- ✓ End the double taxation of pension funds, which are currently subject to Corporation Tax and then Income Tax when paid out to individual pensioners
- ✓ Change law so gig economy workers gain pension and other employment rights
- ✓ Increase Employment Allowance to £10,000 (currently £3,000) to help small businesses to hire more people or increase wages (*ACA comment: or pay higher pension contributions?)*

Private Savings and Taxes

- ✓ Tax income from investments/assets at the same level as the taxation of income from work
- ✓ Merge Employees NI, CGT, Inheritance Tax, Dividend Tax and Income Tax into a Consolidated Income Tax (bringing in estimated extra £20 billion in tax).
- ✓ Replace Income Tax threshold with an unconditional Universal Basic Income (UBI) of £89 per week (phased in by 2025) to be paid to all UK residents regardless of employment status – someone earning the minimum wage would see their income increase by 10-15%
- ✓ Maximum wage in organisation to not exceed ten times that paid (pro rata) to the lowest paid in the organisation
- ✓ Pensioners who are homeowners will be enabled to 'roll over' a new Land Value Tax until their property is sold
- ✓ Abolish rule that allows non-domiciled residents not to pay tax on foreign income

State Pensions

- ✓ Pensioners will receive a weekly payment totalling £178 to be increased in line with inflation
- ✓ First tranche of people to receive UBI to be WASPI women born in the 1950s
- ✓ Carers, who presently struggle with access to BSP, to receive full State pension rate

Social Care

- ✓ Carers allowance to be paid on top of adult UBI

Major themes

- ✓ **Clean break from European Union with £13 bn a year 'Brexit dividend'**
- ✓ **Cap on permanent immigration of 50,000 a year**
- ✓ **Abolition of House of Lords and make MPs who switch parties subject to recall**
- ✓ **Right to call referendums if 5 million registered voters sign – time limit on repeat votes**
- ✓ **Large-scale tree planting programme across UK**

Private Pensions, Private Savings and Taxes

- ✓ **Overhaul financial services regulation, cut red tape and increase competition**
- ✓ **Abolish inheritance tax**
- ✓ **Zero rate Corporation Tax for first £10,000 of pre-tax profits**

State Pensions and Social Care

- ✓ **Review position of women short-changed by recent rises in the State Pension Age**
- ✓ **Invest in publicly owned NHS and Social Care – more medical staff and less waste**
- ✓ **National debate on NHS, involving the public alongside MPs, doctors and experts**
- ✓ **Discuss ring-fencing NHS budget and tax revenues to pay for it**

Provincial and Nationalist Party Manifestos

SNP

Major themes

- ✓ Stronger for Scotland – back 'progressive alliance to lock the Tories out of office'
- ✓ Scotland's future in Scotland's hands – want independence referendum in 2020
- ✓ Keep Scotland and UK in EU, protect NHS, reverse cuts to Scottish budget
- ✓ Protect environment, scrap Trident and help with cost of living

Private Pensions, Savings and Taxes

- ✓ Back reduction in employers NICs and freeze on employees' NICs
- ✓ Back moves to ensure executive pension contributions are the same as for all workers in the company
- ✓ Support steps to extend AE to more low paid and self-employed
- ✓ Support establishment of Independent Savings and Pension Commission to reflect demographic needs of different parts of UK

State Pensions and Social Care

- ✓ Always protect Triple Lock and support public funding of over 75s TV licenses
- ✓ Oppose any increase to the State Pension Age to 68 by 2038
- ✓ Continue to support WASPI campaign and reverse cut to Pension Credit

DUP

www.mydup.com

Let's Get NI Moving AGAIN

Major themes

- ✓ Leaving the EU as One United Kingdom
- ✓ No borders in the Irish Sea and protection of UK single market after Brexit
- ✓ Working with others to get things done for Northern Ireland
- ✓ Keep Corbyn out of Downing Street

Private Pensions, Savings and Taxes

- ✓ Increase Personal Tax allowance in line with inflation each year
- ✓ NI allowances raised so they match level of personal tax allowances by end of Parliament
- ✓ Scrap tapered annual allowance and review annual allowance for DB schemes
- ✓ Within 2 years establish user-friendly pensions dashboards…compel schemes to share data

State Pensions and Social Care

- ✓ Retain Triple Lock
- ✓ Action on unfair treatment of women pensioners with compensation scheme
- ✓ Royal Commission, drawn across parties, to produce sustainable system within 18 months

Alliance

Major themes

- ✓ Demand Better - no such thing as a good or sensible Brexit – want People's Vote
- ✓ Whole of UK to remain in Single Market and Customs Union with Special deal for Northern Ireland
- ✓ Vision for building a united community: a shared society free from intimidation, discrimination and fear

Private Pensions, Savings and Taxes

- ✓ Continue to support AE with people given time to adjust to any necessary changes in provision
- ✓ Support taxation that progressive and fair so the wealthiest people pay a bigger proportional share

State Pensions and Social Care

- ✓ Retain triple lock and transitional support for WASPI women
- ✓ Take independent advice on the issue of the national pension liability, age of eligibility and long-term funding arrangements
- ✓ Social care should be free at the point of access, funded by collective investment through the welfare state
- ✓ Better deal for carers including increase in Carer's Allowance

Plaid Cymru | Party of Wales

Major themes

- ✓ Wales, It's us
- ✓ Second referendum with the intent to stay in the European Union
- ✓ Wales to get share of extra 1% of GDP devoted to green investment over next decade
- ✓ Overall, £20 bn for 'green jobs revolution'
- ✓ Electrify Wales' main rail lines by 2030

Private Pensions, Savings and Taxes

- ✓ £35 a week for every child in a low-income family
- ✓ £25 a week for tenants in private sector who spend more than 30% of income on rent

State Pensions and Social Care

- ✓ Employee rate of NI should rise for high earners
- ✓ Free social care at the point of need irrespective of income
- ✓ Extra investment in early intervention and preventative health care

ASSOCIATION OF CONSULTING ACTUARIES

***Placard* is the periodic discussion paper of the Association of Consulting Actuaries.**
Please note that the views expressed in this publication are, on this occasion, the views of the Association and do not necessarily reflect those of individual authors.

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