PLACARD

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ELECTION 2024: PARTIES DUCK AND DIVE ON KEY PENSION ISSUES

Just when we thought the new Funding Code was safe, on 22 May the Prime Minister added another hurdle for it to navigate by calling a general election on 4 July. The Funding Code itself is unlikely to be a key political battleground – and we would still expect this to be pushed through regardless of the election outcome – but even pensions more generally are struggling to compete with social media commentary around Rishi Sunak's shortened appearance at the D-Day event, Keir Starmer repeatedly ensuring we know what his dad did for a living or Ed Davey latest photo-call on a waterslide. (What a whirlwind it has been…)

With spooky timing, the ACA's Pensions, Savings and Social Care Manifesto (summarised on pages 4-6) was released on 10 May and covers what we believe to be the key issues facing a new government in this area.

As usual, there are bigger ticket items taking the attention in the Parties' manifestos, from national service to the NHS to climate change. The Conservative manifesto sets out a lot of things that they are not going to do along with some reasonably hefty tax cuts, whilst Labour focus less on detail and more on where reviews are needed to determine how best to move forward (although there is a perhaps unusually specific mention for the Mineworkers' Pension Scheme given the lack of detail elsewhere). The Liberal Democrats and the Greens focus on climate change and on taxing the richer end of society (with the Greens in particular wanting to spend and tax big), whilst Reform want to slash income tax and IHT and have a Royal Commission to look into social care for the future – a view echoed by the Lib Dems.

The polls strongly indicate (see page 3) that there will be an end to 14 years of Conservative government, although no votes have yet been cast and things can change quickly when the large number of undecideds herd one way or the other.

Tying up loose ends

The tongue-in-cheek references to the Funding Code above belie the fact that there is a lot of unfinished business in the industry on, amongst other things, dashboards, CDC and the extension of Auto-Enrolment. Other reforms have barely got started and there are several consultations started in the wake of the Chancellor's Mansion House speech last year where a response is awaited. Whilst Labour is supportive of the current Government's Mansion House agenda and consolidation, other than some high-level comments, none of these other areas really get a look in from the Parties. We believe the majority of these have cross-party support and will hopefully continue to be pushed forward regardless of what happens on 4 July, but the uncertainty is not ideal.

There being no mention of AE expansion is particularly concerning. As highlighted in our manifesto, DWP research shows that roughly 40% of working age people are under-saving for retirement and this is going to put huge pressure on the State Pension and welfare system in years to come if nothing is done to start to remedy this. It is not an easy message to sell to either employers or employees in the current environment, and that perhaps explains the omission, but the new regime will need to act. A plan to phase in increases in minimum contributions over time is long overdue.

Triple locked

Our view that it would be sensible to carry out a review of the State Pension to establish an appropriate base line and a more balanced annual adjustment was echoed by the Institute of Fiscal Studies (IFS) in their June 2024 paper, which noted that the triple lock is projected to cost £1.5bn per year by 2029-30 relative to earnings indexation.

It will have come as a surprise to precisely no one that almost all Parties have committed to retaining the triple lock. The Conservatives have gone further by committing that the standard rate of the new state pension will always be below a new, age-related tax-free threshold that also increases in line with the triple lock, whilst other tax allowances remain fixed until 2028.

The triple lock is clearly seen as a vote winner, and with the State Pension making up 43% of pensioner incomes on average (also from the IFS paper) it's hard to argue that larger increases in the State Pension are a bad thing. Particularly as this percentage is likely to rise over time as the proportion of people retiring with private DB pensions falls. But this needs to be sustainable rather than political.

A taxing topic

There was much talk last year when the Chancellor announced that the Lifetime Allowance would be abolished on 6 April 2024. Our manifesto encourages no knee-jerk reactions to pensions tax. The Conservatives Pensions Tax Guarantee says there will be no new taxes on pensions and whilst Labour do not mention this in their manifesto, it was reported prior to its release that they have backed down on their previous comments on reintroducing the Lifetime Allowance. But, there again, what does 'no plans' to act really mean?

In this edition of *Placard* we set out 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 Parties, where manifestos are available at the time of publishing.

Editorial Introduction
by Tom Hargreaves
Editor

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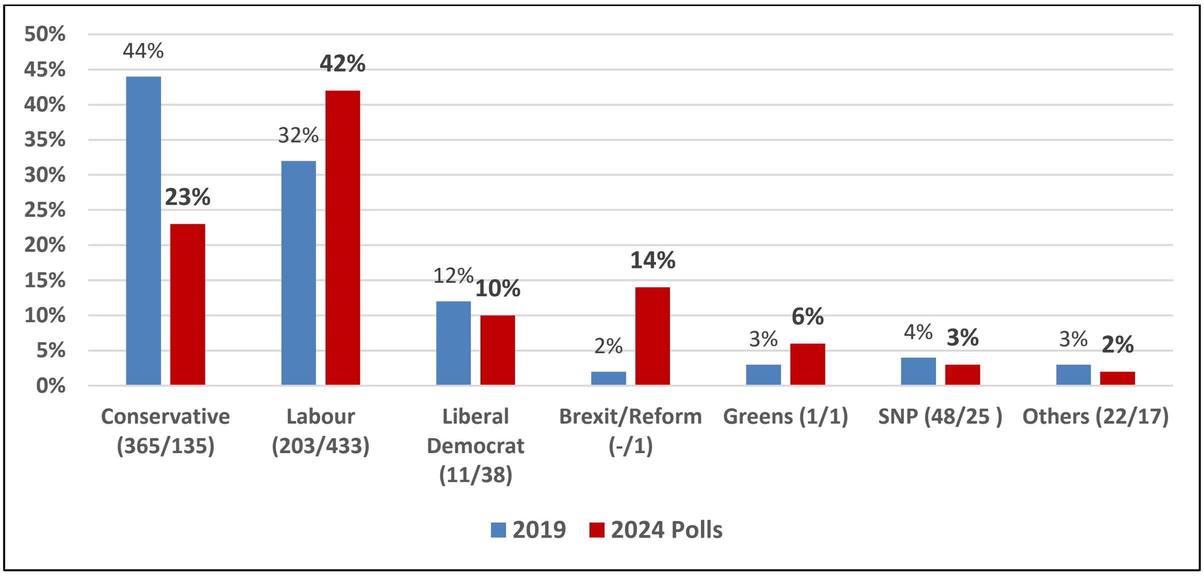
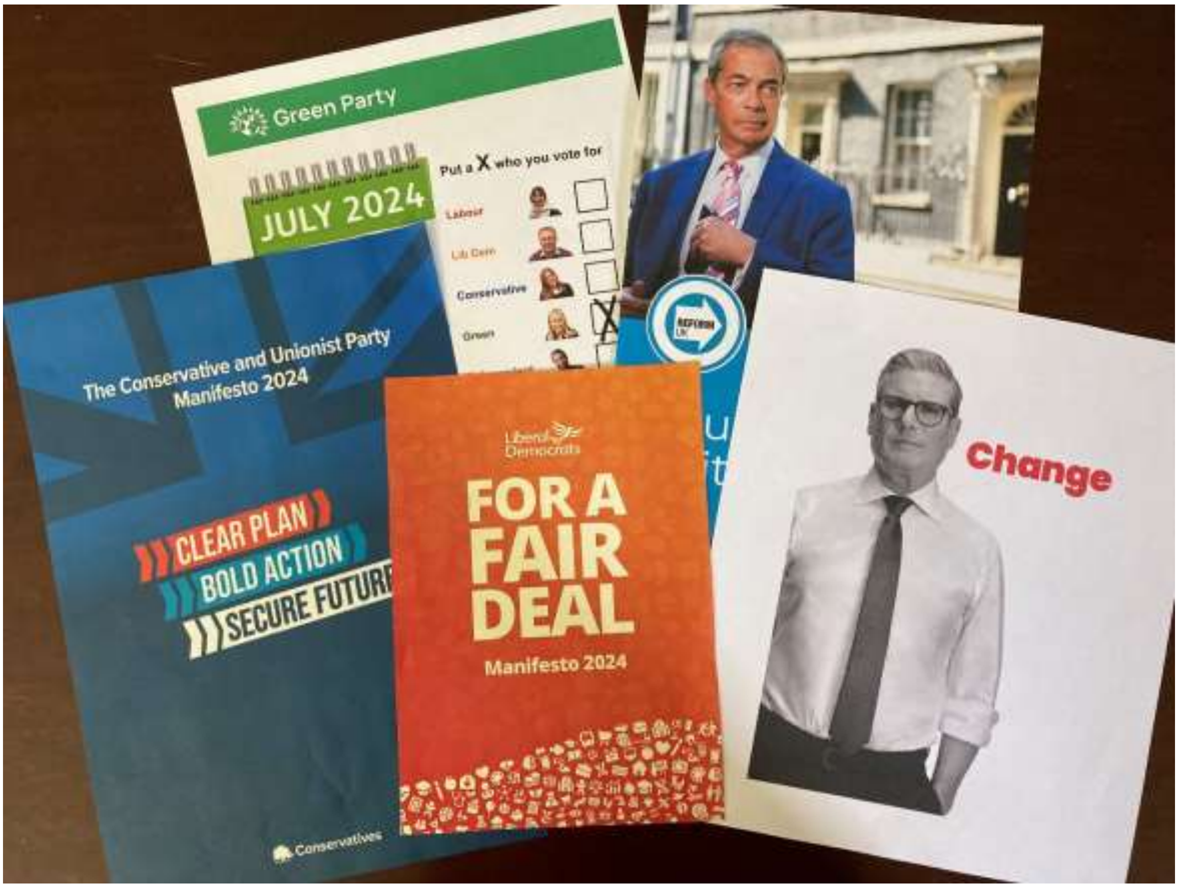
2024 Election: polls at 22 June compared to December 2019 result

(December 2019 number of seats won/Projected 2024 seats in brackets)



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

You Takes Your Choice…



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 May 2024 that we wanted to see in the political Parties' manifestos. We believe that helping today's working generations build adequate levels of pension saving is a defining challenge of our time. The DWP's own research published last year suggests roughly 2 out of every 5 working age people are under saving for retirement (equivalent to over 12.5 million individuals).

The ACA's 8-point Manifesto calls for:

1. Parties to commit to completing current reforms where there has been a broad cross-party consensus

Recent years have seen many Government proposals for necessary and potentially transformative pension reforms that could help to improve retirement outcomes.

These include:

- ✓ Launching Pension Dashboards to savers and completing Value for Money initiatives that are practical to implement.
- ✓ Extending AE coverage as agreed by Parliament.
- ✓ Finalising the new DB funding regime, including the Regulator's final Code and guidance that positively supports open DB schemes and run-on; and
- ✓ Expanding coverage of CDC schemes, through the introduction of legislation for whole-life multi-employer schemes.

2. Parties should agree to progress DB pension reforms that support growth and wider policy initiatives, but with appropriate safeguards in place to protect member outcomes.

We support recently announced steps to encourage greater long term investment flexibility for DB schemes and their ability to share surpluses with sponsors and members where appropriate.

With the right safeguards, utilising current and future surplus assets in the £1.4 trillion of UK DB pensions schemes can make a meaningful difference to employers and the resources they have to invest in their businesses and improve long-term savings for their current workers. At the same time, new flexibility for DB schemes could help bring additional benefits to their members. Safeguards including legislative and regulatory measures can be accommodated within the existing frameworks.

"Industry estimates suggest from £100 billion to £250 billion of surplus assets could be released from DB schemes over the next 10 years to support employers, members and current employees."

Furthermore, we believe that fast forwarding the development of CDC and other risk pooling schemes have the potential to unlock a significant flow of future contributions towards growth and productive assets that could meaningfully contribute to the role the pensions industry has to play in supporting long-term investment and economic growth.

For very small DB schemes and a limited group of very poorly funded schemes that are already well-known to TPR, the introduction of the PPF as a public sector consolidator could be useful. Given the well-functioning commercial markets for end-game solutions that already exist, we believe the scope of any public sector consolidator should be strictly limited to those schemes that would be unable to access a commercially available solution in the future.

3. A fresh boost to auto-enrolment (AE), including increasing minimum AE contribution rates and further widening coverage

The present 8% of qualifying earnings (which equates to closer to 4% of earnings for those on lower incomes) is in our view inadequate to build and provide for a sufficient income in later life. The ACA has long called for minimum AE contributions to increase in a planned phased approach to at least 12% over the next 10 years, with costs shared between employers and employees. AE also needs to be adapted to include the self-employed and those engaged in the 'gig economy'.

4. Ahead of AE step-ups, introduce flexible "sidecar" savings to encourage a much-needed increase in voluntary savings above AE limits

When AE was first introduced, the hope was that voluntary pensions saving would take place over and above AE limits. Along with the State Pension, this would then facilitate adequate retirement outcomes. However, for most savers, in particular younger generations who have many competing savings needs, significant voluntary saving does not currently take place.

Ahead of AE step ups, Government should introduce tax efficient Sidecar savings for levels above AE minimums that benefit from tax relief and are designed to be used for multiple savings needs. To mitigate cost of living constraints, savers should be given greater flexibility to access their own sidecar contributions for resilience needs; previous sidecar trials suggest this would significantly increase overall levels of savings for younger generations.

"Research by NEST during 2021 indicated that sidecar savings can be very effective for groups that have previously not had money put aside. We also agree with their anecdotal findings of a further positive link between voluntary savings and financial wellbeing and resilience."

5. Introduce a default CDC provider for individual decumulation

Learning from the key principles underlying AE, we support the introduction of default decumulation pathways for DC savers. We also believe CDC pension arrangements have the potential to significantly improve retirement outcomes by harnessing the benefits of collectivisation for a new generation of savers. Compared to "drawdown", CDC can materially manage an individual's exposure to longevity risks – something that becomes ever more onerous over time as savings (and potentially the ability to manage finances) decline.

We believe in the establishment of a default CDC provider similar to how NEST currently operates for DC savers. This will in turn help encourage a diversity of commercial models which can then be utilised by current savers alongside other decumulation options.

"Industry estimates suggest that the ability to invest in growth assets for longer than in individual DC arrangements means CDC pensions could outperform traditional annuities for DC savers by perhaps up to 50%."

6. Avoid knee-jerk changes to the pensions tax regime

We hope all political parties avoid knee-jerk changes to the present pension tax regime. Pension decisions are long-term and so stability is essential. Whilst the ACA recognises the reality that future Chancellors will want to make adjustments from time to time, the next government should seek to identify an overall framework which can flex to accommodate the needs of the day and on which the political parties might agree a consensus.

"Any revised or updated tax regime should cater for all savers (DB, DC and CDC) and changes should not lead to any groups being discouraged from continuing in employment due to arcane rules".

7. State Pension sustainability with replacement of the 'triple lock'

The annual debate over the triple lock distracts from the more important debate about the desired level of state pension. The post pandemic period has also highlighted shortcomings in the triple lock uprating mechanism with periods of earnings growth and inflation out of alignment and so artificially uplifting the value of the State Pension.

Whilst this has not necessarily been a bad outcome for society, a more sustainable approach would be to establish an appropriate base line for the State Pension and then apply a more balanced annual adjustment.

To address this, we suggest the 'triple-lock' should be retained only until 2026 while a full review of the appropriate level is carried out and, if necessary, revised upwards. From 2026, we recommend the State Pension is increased in line with earnings. We also suggest a 5-yearly review of the level of the State Pension which could reflect other factors such as general inflation over the period. This approach means future increases would be via steps that the country can expect to afford in the long term, and which also do not lull the employed into thinking additional private pension or savings is not necessary.

"The annual debate over the triple lock distracts from the more important debate about the desired level of state pension. Government should review a new, potentially higher, base line for the State Pension and then apply a more balanced annual adjustment mechanism".

8. A better social care regime

Successive Governments have avoided taking difficult decisions to address the cost of supporting social care for the elderly, and as a result this is seriously impacting on NHS resources 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 suggest a further review of the Dilnott findings so as to outline a comprehensive social care package that encompasses ideas including (i) some extra taxpayer funded spending; (ii) initiatives such as tax-free social care vouchers for those supporting older relatives in care; and (iii) consideration of a social insurance scheme that might help younger people to better plan ahead than the present older generations.

"Government needs to demonstrate an integrated approach to savings, pensions and elderly care. Above all it needs to offer affordable ways that the State and individuals can address the costs of care with implementation, if necessary, in a phased plan over several years."

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 2019, then Nationalist Parties.

Conservatives

Major themes

- ✓ Bold action to deliver a secure future,
- ✓ Reduce borrowing and debt,
- ✓ Reform welfare system so better targeted,
- ✓ Cut employee NI by a further 2p by April 2027,
- ✓ Increase NHS spending above inflation every year, funding 92,000 more nurses and 28,000 more doctors,
- ✓ Cut the cost of net zero for consumers by taking more pragmatic approach,
- ✓ Legal cap on migration to guarantee numbers fall every year.

Private Pensions

- ✓ Pensions Tax Guarantee - No new taxes on pensions,
- ✓ Maintain 25% tax-free lump sum and tax relief on pension contributions at marginal rates,
- ✓ Will not extend NI to employer pension contributions.
- ✓ Unlock long-term capital in pension funds to invest in productive finance by measures announced in and after the Chancellor's Mansion House speech.

Private Savings and Taxes

- ✓ Guarantee of no increase in income tax (but with allowances frozen until 2028) or VAT for Parliament,
- ✓ Abolish main rate of self-employed NI by end of Parliament,
- ✓ Abolish Stamp Duty for homes up to £425,000 for first time buyers,
- ✓ No increase in corporation tax,
- ✓ 30-hours free childcare a week for working parent by September 2025,
- ✓ No loss of Child Benefit until combined income reaches £120,000.

State Pensions and Social Care

- ✓ Retain 'triple lock' adding a 'plus' so level of new State pension is always below the tax-free threshold,
- ✓ Maintain all current pensioner benefits, including free bus passes, winter Fuel payments, free prescriptions and TV licences,
- ✓ Carefully considering Ombudsman's report into WASPI women and work with Parliament to provide an appropriate and swift response,
- ✓ Support for high-quality sustainable social care system building on additional investment of up to £8.6 billion over last two years.

Major themes

- ✓ ‘Change with wealth creation first priority’,
- ✓ New partnership with business to generate growth,
- ✓ Planning reform cutting red tape,
- ✓ Establish National Wealth Fund to support growth and clean energy missions,
- ✓ Increased investment in green and clean energy,
- ✓ 6,500 more teachers and 40,000 more NHS appointments each week, 3,000 more nurseries,
- ✓ Reform of NHS to meet modern needs plus investment in NHS dentistry,
- ✓ New deal for workers removing zero-hours and adding new protections from day one,
- ✓ Constitutional reform to House of Lords and voting from age-16.

Private Pensions

- ✓ Act to increase investment from pension funds in UK markets,
- ✓ Adopt reforms to ensure workplace schemes take advantage of consolidation and scale to deliver for savers and greater productive finance for UK,
- ✓ Review of pensions landscape to consider what steps needed to improve pension outcomes and UK investment,.
- ✓ Pension funds, asset managers, insurers and banks to be required to develop and implement ‘credible transition plans’ aligned to 1.5 degree C goal of Paris Agreement.

Private Savings and Taxes

- ✓ One fiscal event each year,
- ✓ No increase in income tax rates (but freeze on allowances), NI rates, corporation tax or VAT rates for Parliament,
- ✓ Not in manifesto, but Labour leadership said no reversal of LTA abolition ‘is now planned’,
- ✓ Not in manifesto, but Labour leadership said no increase in CGT ‘is planned’,
- ✓ VAT on private school fees, higher non-dom taxes and higher taxes on private equity,
- ✓ Roadmap for business taxes at beginning of Parliament,
- ✓ Reform of Business rates so level playing field between High Street and online giants.

State Pensions and Social Care

- ✓ Maintain the ‘triple lock’,
- ✓ Miners to benefit from reform of surplus in scheme and transfer back of investment reserve.

Liberal Democrats

Major themes

- ✓ 'For a Fair Deal' theme,
- ✓ £8 billion boost to NHS and Social Care budget in real terms by 2029,
- ✓ Long-term help with cost-of-living by careful financial management,
- ✓ Expand British Business Bank to perform more central role in economy,
- ✓ Repair broken link with Europe that damaged investment, jobs and tax revenues,
- ✓ Extra resources for HMRC to boost tax revenues and reduce evasion and avoidance,
- ✓ Reverse tax cuts on banks and impose one-off tax on super-profits of oil and gas producers and traders.

Private Pensions

- ✓ Require pension funds and managers to show their investment portfolios are consistent with the Paris Agreement,
- ✓ Develop measures to end the gender pay gap in private pensions and ensure working age carers can save properly for retirement,
- ✓ Review pension rules so those in gig economy don't lose out,
- ✓ Reform fiduciary duty to reflect wider social and environmental concerns.

Private Savings and Taxes

- ✓ Increase personal tax allowance when public finances allow, but otherwise continue with freeze on increases in personal allowances,
- ✓ 'Fairly' reform CGT so super-rich pay more, whilst increasing allowance for those making smaller gains.
- ✓ Encourage employers with 250 employees or more so employees have right to request shares to be held in trust for the benefit of employees.

State Pensions and Social Care

- ✓ 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 'fairly treated and properly compensated',
- ✓ Free personal care so provision based on need not ability to pay,
- ✓ Establish cross-party commission to forge a long-term agreement on sustainable funding for social care,
- ✓ Increase care workers minimum pay and improve deal for unpaid carers.

Green Party

Major themes

- ✓ **Real Hope. Real Change,**
- ✓ **£40 bn boost to green economy paid for by carbon tax,**
- ✓ **£50 bn extra investment in NHS and Social care,**
- ✓ **Nationalise trains, energy and water,**
- ✓ **More social housing to rent, stop selling social housing, invest in solar/heat pumps,**
- ✓ **Most energy from wind by 2030, stop nuclear power, stop new fossil fuel projects,**
- ✓ **Bosses pay capped at 10 times pay of lowest paid workers in firm,**
- ✓ **More money on schools and teachers' pay. End tuition fees and reinstate grants,**
- ✓ **4-day working week.**

Private Pensions

- ✓ **Tax relief to equate to basic rate (removing higher rate relief),**
- ✓ **Require pension schemes by 2030 to remove fossil fuel investments from their portfolios.**

Private Savings and Taxes

- ✓ **£70bn raised by extra taxation,**
- ✓ **New NI rate of 8% on all earnings over £50,270 (UEL),**
- ✓ **Wealth tax of 1% on those with assets exceeding £10m and 2% on 175 UK billionaires,**
- ✓ **Reform CGT to align rates with other taxes on income,**
- ✓ **Tax on frequent flyers.**

State Pensions and Social Care

- ✓ **Increase funding on social care by £20+ bn including free personal care,**
- ✓ **Remove 2 child cap on benefits and increase universal credit by £40,**
- ✓ **Uprate State pensions in line with prices or wages. Eventually move to universal basic income for all.**

Major themes

- ✓ New contract with people
- ✓ Freeze non-essential immigration and leave European Convention on Human Rights,
- ✓ Cut Government red tape and spending by £5 in evert £100, saving £50 billion,
- ✓ Abolish all existing carbon emissions targets, saving taxpayers £30 billion a year,
- ✓ Reorganise BoE quantitative easing debt into 75-year bond and stop interest payments to commercial banks on QE reserves,
- ✓ Adopt French-style healthcare system,
- ✓ Reform House of Lords, new Bill of Rights.

Private Pensions, Private Savings and Taxes

- ✓ Critical national infrastructure to be 50% owned by UK pension funds,
- ✓ Reform savings and pensions system in long term so much cheaper and better, citing Australia as model,
- ✓ Amend Mineworkers Pension Scheme so surplus accrues to miners,
- ✓ Increase income tax threshold to £20,000,
- ✓ Front-line NHS and Care staff to pay no income tax for 3-years,
- ✓ Scrap stamp duty on properties under £750,000,
- ✓ Abolish IHT on estates below £2 million,
- ✓ Abolish IR 35 rules,
- ✓ Tax relief on private healthcare and insurance,
- ✓ Lift corporation tax threshold and reduce rate to 20%,
- ✓ Raise VAT threshold to £150,000,
- ✓ 20% Immigration Tax payable by employers on non-essential workers.

State Pensions and Social Care

- ✓ Royal Commission to tackle social care,
- ✓ Review position of women short-changed by recent rises in the State Pension Age,
- ✓ Scrap DEI rules.

Nationalist Party Manifestos

SNP

Major themes

- ✓ Future made in Scotland,
- ✓ Independence and reversal of Brexit,
- ✓ Devolution of tax powers, energy regulation and pricing.
- ✓ Legislation to keep NHS in public's hands.

Private Pensions, Savings and Taxes

- ✓ Full devolution of tax powers including income tax, NI and corporation taxes,
- ✓ Expand free childcare and free school meals,
- ✓ Freeze Council tax.

State Pensions and Social Care

- ✓ Retain triple lock before moving to 'wellbeing pension',
- ✓ No increase in State Pension Age,
- ✓ Reverse cuts to pension credit,
- ✓ Support for WASPI women's compensation and full restitution for victims of Equitable Life 'scandal'.

Plaid Cymru | Party of Wales

Major themes

- ✓ Fair funding for Wales to improve public services,
- ✓ Secure £4bn 'owed' from cancellation of HS2 to improve public transport,
- ✓ 500 more GPs for Wales.

Private Pensions, Savings and Taxes

- ✓ Right to set income tax rates and allowances,
- ✓ Increase in higher earners' NI and CGT reform to raise revenues,
- ✓ Windfall taxes on energy companies and near-monopolies.

State Pensions and Social Care

- ✓ £20 per week increase in child benefits,
- ✓ Free social care at the point of need irrespective of income.

ASSOCIATION OF CONSULTING ACTUARIES

***Placard* is the periodic discussion paper of the Association of Consulting Actuaries.**
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