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# A Retirement Income Manifesto for an incoming Government

February 2010

# Overall Philosophy

- Promotion of a wide range of flexible retirement income options to revitalise pension saving above the minimum 'NEST' level

- Financial incentives biased in favour of long term savings over short term

- Regulation reduced to that necessary to provide member protection

# Specific priorities

1. Legislate to allow better 'middle way' designs
   - More certainty of cost than DB but less volatility of outcome than DC
2. Establish a permanent 'Independent Retirement Income Commission'
   - See later slide
3. Allow automatic linkage of 'normal pension age' to longevity improvements
   - Accrued as well as future service, with protection for those close to current NRA
4. Allow early access to tax free lump sum
5. Allow more flexible annuitisation
   - Shape variable over time to fit in with needs
   - Full commutation (subject to tax) over a threshold
6. Allow compulsory buy-out of leavers' benefits

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# Remit for Independent Retirement Income Commission

## Review public policy for improving retirement provision in the UK (both State and private arrangements):

- Make recommendations designed to encourage greater participation by employers and members having regard to UK economic, demographic and other factors
- Promote regulatory simplification
- Review employer auto enrolment/NEST rules periodically
- Review structure of State pensions and retirement age in the light of longevity improvements and costs
- Ensure transparency of costs of Public sector pensions
- First report within 12 months of establishment and triennially thereafter

# Pension policies of the political parties: as we stand

## Basic State Pension

As of today:

- Restore earnings indexation of State pension
  - Labour and Conservatives agree. Lib Dems support, but longer-term hanker after Citizen's Pension based on residency
- From 6 April: full State pension with 30 years NICs
  - Consensus
- Improved pensions for carers
  - Consensus
- Increase SPA to 66 by 2026, 67 by 2036 and 68 by 2046
  - Conservative would accelerate to 66 by 2016 (men)/2020 (women)

# Pension policies of the political parties: as we stand

## State Second Pension

- Improve S2P for lower income groups/gradually reduce for middle and above income groups – flat rate by 2030
  - Lib Dems favour Citizen's Pension.
  - Conservatives no stated alternative to current policy, but recent CPS paper by adviser would abolish (may be policy in the making).

# Pension policies of the political parties: as we stand

## Private Pensions

- Auto enrolment/NEST
  - Gradually being introduced from 2012. Conservatives would allow voluntary auto enrolment before 2012. Would urgently review NEST if win election – charges, means-testing, levelling-down concerns
- Retaining 'quality' workplace pensions
  - Labour supports, but opposed CI/CDC designs. Seems to favour encouraging employers to 'get by' with present legislation.
  - Conservatives would look again at risk sharing/hybrid designs and simplification measures. Lib Dems supported CI amendment in 2008.
- Minimum age for drawing pension increased to age 55
  - Conservatives want early access to pensions for lifetime crises/house deposits as way of encouraging young to save in long-term product. Steve Webb of Lib Dems has similar views.

# Pension policies of the political parties: as we stand

## Private Pensions continued

- Annuities
  - Labour has resisted reform beyond age 75 move
  - Conservatives would remove compulsion. Lib Dems supported removal of compulsion in past
- Pension tax relief
  - Conservatives dislike 2011 reforms, but will not oppose because of economy/fear of defending 'fat cats'. Lib Dems support equalisation of pension tax relief across incomes. This may be Labour thinking too, but not stated publically
  - Conservatives have said they would look to reverse the impact of the removal of ACT relief, but not stated they will restore
- Default retirement age review
  - Consensus over review

# Pension policies of the political parties: as we stand

## Public sector pensions

- Labour says recent reviews of public sector schemes are sufficient and/or on-going and costs are affordable into the future – small GDP cost
- Lib Dems will honour current commitments, but want to examine ways to keep future costs down, particularly of the higher paid
- Conservatives would set up independent Office for Budget Responsibility to conduct a full review of Public Sector Pensions, and would cap the biggest government pensions – civil servants, local council executives and at quangos

What do you think?