



NEWS RELEASE

The ACA has published its review and commentary on the retirement income manifestos of the main political parties...

ACA FINDS PARTIES' RETIREMENT INCOME MANIFESTOS 'THREADBARE AT BEST' AND 'DAMAGING AT WORST'...

22 April 2010 – The Association of Consulting Actuaries (ACA) has published its traditional review of the retirement income manifestos of the main political parties seeking to form the Government after 6 May. Whilst the parties' pledges to improve the Basic State Pension are similar, the ACA says the parties' policies for pensions and elderly care are 'threadbare at best', often 'piecemeal' and positively 'damaging at worst'.

Commenting on the parties' manifestos, **ACA Chairman, Keith Barton** said:

"Threadbare: the most depressing aspect of the parties' manifestos is their weak commitments in respect of reinvigorating private pension arrangements. Yes, there are some supportive words on occupational provision from Labour and the Conservatives. And there is an aspiration to start to restore the effects of the abolition of the dividend tax credit 'when resources allow' from the Conservatives, calls for greater annuity flexibility from the Conservatives and Liberal Democrats and an 'early-access' commitment from the Liberal Democrats.

"Private pensions have done the most to improve pensioner incomes significantly over the last two generations and yet it is this sector that is now in a parlous state, with over-regulation and out-dated legislation restricting employers' ability to re-shape their provision so costs can be controlled, whilst offering arrangements where the pension outcomes are stable.

"Piecemeal: This is just the time when imaginative proposals in the manifestos could set the scene for the period ahead. Instead, the statements in support of private pensions are bland and largely unspecific, allowing 'wriggle room' for these to be low priority in the next Parliament. Even NEST, the Government's flagship scheme for extending basic level pensions to many more people, supported in the main by the opposition parties, warrants not one direct mention in any of the three main party manifestos.

“And there is no near term imaginative strategy to address elderly care costs as part of an overall retirement income policy - after years of dancing around this fast growing demographically driven crisis. We have argued for some time that a ‘joined up’ approach to mapping out the future of State Pensions, public sector pensions, private retirement income and elderly care needs to fall under the remit of one Independent Retirement Income Commission. We have called for this to be established in the new Parliament to avoid a piecemeal approach where issues are not addressed in the round.”

“Positively damaging: first a Conservative Chancellor, then in 1997 the incoming Chancellor saw a £4 to £5 billion annual tax grab by abolishing dividend tax relief as too inviting to resist. Over 13 years that strategy has significantly reduced the income flowing into funds and so damaged the pensions of millions of those in now, largely closed, defined benefit schemes and the increasing number of people in defined contribution schemes and individual plans. It has also lead to higher taxpayer costs for funded public sector schemes.

“Now we see the Liberal Democrats pledging in their manifesto to grab another £5 billion per annum by way of the abolition of higher rate tax relief on pension contributions (a policy that might easily be attractive to a Lib Dem-Labour pact). Aside from the fact that such a policy would impact on millions of middle-earners, again damaging their pensions, it could also lead to immediate tax charges for many of those in defined benefit schemes – hundreds of thousands of private and public sector employees could be affected.

“Worse still, such a measure could easily be the final straw in the closure of what is left of our ‘quality’ schemes, with senior staff and directors no longer seeing any future in remaining with their company scheme. As ever, those who will suffer most will be those on modest incomes, unable to replace the value of a lost ‘quality’ scheme. And off course, the hoped for extra revenue may just melt away in these circumstances as the higher paid move their savings elsewhere, including offshore.

In April 2006 the Government swept away seven pension tax regimes in a radical policy described as “simplification”. No other saving field needs stability more than pensions so it is profoundly depressing that since that step, which the ACA broadly welcomed, politicians have done nothing but tinker and add damaging complexity, with no end in sight.

“Taking risks with your money: on the Basic State Pension (BSP), all of the parties in pursuit of the ‘grey vote’ have strengthened their commitments to restore the link of the BSP to earnings, either from 2011 (the Liberal Democrats) or 2012 (Labour and the

Conservatives). The Liberal Democrats are also pledging an annual 2.5% increase, come what may, even if earnings and/or price inflation fall below that level.

“Whilst the ACA has long supported such a linkage in benign times, we do wonder whether this is a hasty commitment given the current UK deficit and the urgent need to **reduce** public spending by £ billions over the next few years. If a risky indexation approach is to be followed in such circumstances, then the State Pension Age needs to be move more quickly than under current legislation and private sector employers need to be able to have a similar right to make changes in a timely way.”

In its own *Retirement Income Manifesto*, published last month (see www.aca.org.uk), the ACA says that the overall philosophy of the UK should be that future retirement income policy should focus on the promotion of a wide range of flexible retirement income arrangements as part of a holistic approach to encouraging lifetime savings. Financial incentives should be greater for longer-term savings over short-term savings, with legislative and regulatory prescription minimised, whilst maintaining the protection of members' benefits in all types of schemes from the impact of employer or provider insolvency or default.

The ACA has published its 'General Election Placard' discussion paper analysing what the parties' savings, pensions and elderly care manifesto policies are, including commentary – see www.aca.org.uk (home page - recent publications).

For further details: Keith Barton	01727 888642 (M: 07961 021205)
Steve Leake	01483 540300 (M: 07796 308117)
David Robertson	020 3207 9380 (M: 0791 9911380)

Note for Editors:

About the Association of Consulting Actuaries (ACA)

The **Association of Consulting Actuaries (ACA)** is the representative body for consulting actuaries, whilst the Faculty and Institute of Actuaries are the professional bodies. The ACA has over 1750 members working in around 75 firms. ACA Members are all qualified actuaries and are all actuarial advice given is subject to the Actuaries' Code. Advice given to clients is independent and impartial. The ACA forms the largest national grouping of consulting actuaries in the World.