

Placard

THE DISCUSSION PAPER OF THE ASSOCIATION OF CONSULTING ACTUARIES LIMITED

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ELECTION 2017: PARTIES' FOCUS ON STATE ROLE WITH FEW MENTIONS OF NEED TO BOOST PRIVATE SAVING

At the beginning of the campaign, the polls suggested the snap general election on 8 June 2017 would be a shoo-in for the Conservative Party. However, in an era where the political landscape is accented by a new wave of pseudo-populism, the outcome may not be the foregone conclusion widely predicted, with the latest polls (at the time of writing) showing the gap is closing between the main parties.

Nevertheless, it would be naïve to suggest that pension savings will be at the forefront of most voters' thoughts as they enter the polling booths. The UK's exit from the European Union, taxation, education and employment are more likely to influence candidate selection than the continuation of the 'triple-lock' or future increases in the State Pension Age. However, for some demographic groups – particularly those most immediately affected by them – these issues could drive their decision-making process, with the future of social care policy a concern for many 'grey' voters.

As commented by the ACA Chairman, **Bob Scott**, earlier this month, further clarity is needed from the parties on how the developing social care crisis will be addressed. A comprehensive longer-term solution is needed and the issues cannot be dealt with simply by pushing more funds into the existing system.

Pension tax: few clues on further changes

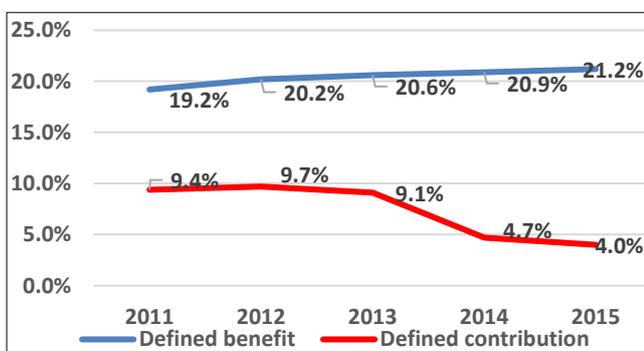


Figure 1: Total average contributions into private sector defined contribution occupational schemes have slumped in recent years due to low minimum auto-enrolment contributions

The ACA has maintained that whichever party is in power when we wake up (or trudge wearily to bed!) on 9 June, there should be more focus on building on the success of auto-enrolment, and less focus on tweaking the dials on a tax-system that we believe is no longer fit for its intended purpose.

(Source: Office for National Statistics)

A desire to raise tax in a way that doesn't immediately hit take home pay means pension savings is an easy target for policymakers – in spite of repeated warnings that reductions to, and tinkering with, the Lifetime and Annual Allowances would serve only to disengage decision-makers and key members of the workforce from the crucial issue of adequate retirement provision for all. The ACA are pleased to see that, this time, neither of the major parties' manifestos propose further reductions in the allowance amounts, albeit the Liberal Democrats remain keen to reduce the relief for those on higher incomes via a single standard rate across all income levels.

A clear taxation policy is needed with regard to retirement savings, and a promise of time to let such a system bed-in so that we are not left on tenterhooks as we have been since the Treasury's July 2015 consultation on pensions tax relief (['Strengthening the incentive to save'](#)) was kicked down the road by successive Chancellors of the Exchequer. Our own manifesto originally published on 4 May (below) calls for a commitment to long-term stability to allow planning for the long-term. After all, pensions are a long-term savings product, not a short-term cash cow to bankroll public spending.

Think again on State Pension Age?

Meanwhile, it appears the pace of mortality improvements could be slowing down and, whilst consulting actuaries may be faced in the short-term with the unusual situation of revising future life expectancy estimates downwards, it is still clear that people are living for longer. The suggestion of curtailing an increase in State Pension Age is therefore a particularly expensive policy – the strain on the National Insurance system would surely be unsustainable without equally precipitous rises in National Insurance Contributions. Nevertheless, the promise of not having to work until you drop could be a vote-winner.

There is little detail, perhaps understandably, in parties' manifestos about how their strategy regarding whether the National Insurance Fund (NIF) will be restructured is to be put into practice. With the uncertainty surrounding Brexit, perhaps now (or indeed any time before Britain leaves the EU) is not the time to be fundamentally reforming a system that has survived relatively unscathed for more than seventy years (even if the benefits it provides haven't).

And so the primary focus of the political parties is naturally steered away from long-term savings issues. The ACA notes that all of the main parties will maintain the triple lock until at least 2020. We also note that the independent review by John Cridland recommended in March this year that the triple lock be withdrawn 'in the next Parliament'. Headlines may naturally focus on whether historic commitments to maintain the purchasing power of pensions have been reneged on, but in the longer term we ought to go back to first principles and set a reasonable level of pension, payable from a sensible State Pension Age and whose level increases in a way such that it does not lose its real value.

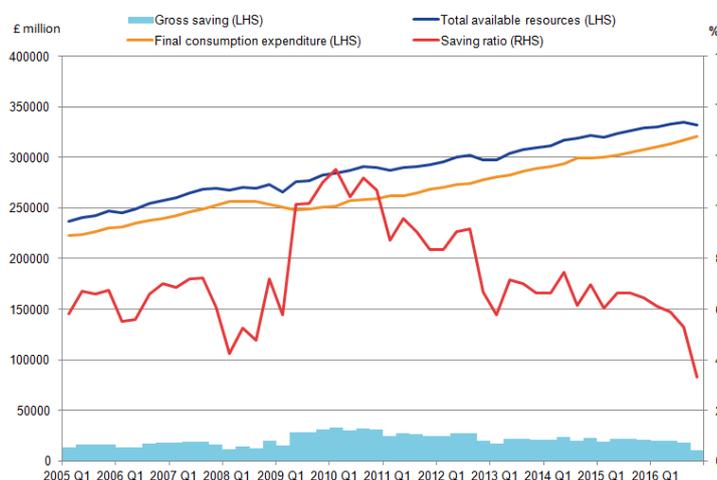
Moreover, the next government should look at how we can balance this against the desire to reward those in the working population, who must meet an increasing proportion of the State pension and social care costs, either through direct taxation or through reduced inheritance.

And what about policies to encourage higher private savings?

Similarly, whilst the ACA is pleased to see most manifestos supporting an extension of auto-enrolment (AE) coverage (though without detail of how they will do this), it is disappointing that there are still no firm commitments to increasing minimum contributions post April 2019 when it is clear to all political parties

that the current level will simply not deliver the sort of pension income levels needed. There is a big risk that this may not be understood by many AE savers and it does nothing to aid intergenerational fairness.

Figure 2: UK final consumption expenditure, total available resources, gross saving and saving ratio, seasonally adjusted UK, Quarter 1 (Jan to Mar) 2005 to Quarter 4 (Oct to Dec) 2016



The figure alongside graphically illustrates the decline in the savings ratio to its lowest level ever in the final quarter of 2016 and Figure 1 on the cover of this issue of *Placard* underscores the point by noting how low average pension contributions have fallen in the ‘growth sector’ of defined contribution schemes. However, whilst some parties have hinted at the need to promote long term savings and pension products there is little in any of the manifestos that set out an actual agenda for doing so.

(Source: Office for National Statistics)

The ACA hopes that whoever wins the Election will consult industry before running ahead with any new ideas on products as to how and when these can be delivered - as happened with the introduction of Lifetime ISAs, with only two firms offering this product in April 2017!

Whatever the outcome of the election, a response to the Green Paper on ‘Security and Sustainability in Defined Benefit Pension Schemes’ will be awaited and will no doubt set a roadmap for DB pension reform over the next parliament, more so than any of the parties’ election manifestos could be hoped to. Perhaps the direction of DB scheme oversight will incorporate the ACA’s [own recommendations](#) for a ‘more flexible’ and ‘less costly’ apportionment route allowing schemes to compromise pension promises to a degree where in the members’ best interests (and no further than so as to reduce benefits below PPF compensation levels). Or perhaps for changes allowing schemes to link pension increases to some other inflation index than the Retail Prices Index, or even facilitating the simplification of complex accrued benefits, including as a pre-requisite to voluntary consolidation occurring.

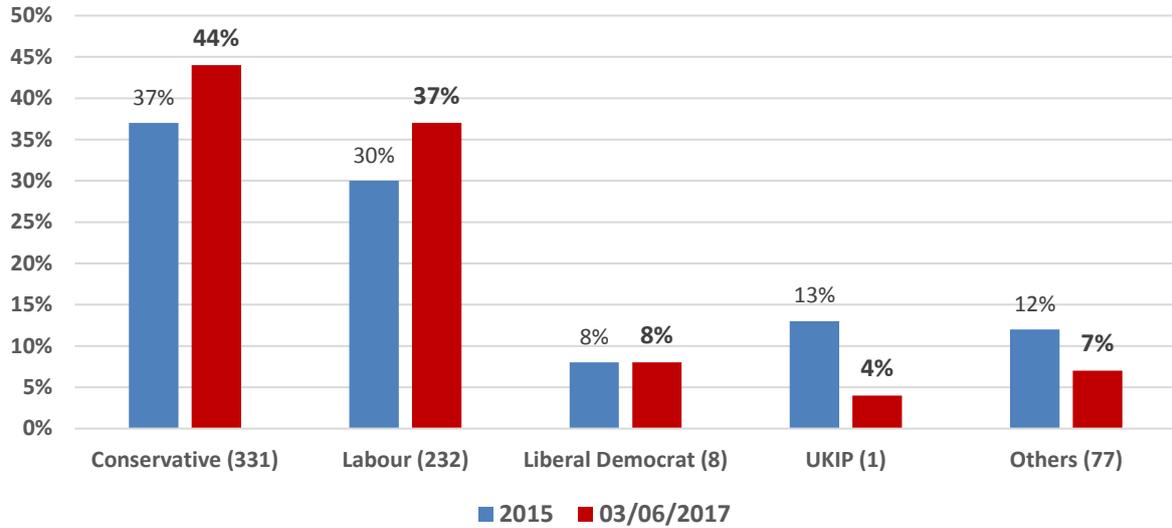


Bob Scott, ACA Chairman, comments

“New flexibilities are needed to help employers offer sustainable and secure DB arrangements into the future, including the pre-requisite reforms to allow schemes the opportunity to voluntarily consolidate with other arrangements in a cost-effective way”

The result of the 2017 General Election may not transpire to be the most politically surprising (with most commentators still saying that it is for the Conservatives to lose rather than for others to win), and the themes may seem overly-familiar (after all, it has only been two years since the last election). However, whichever party wins, the likely pace and direction of reform in the pensions and savings industry, once the political dust has settled, provides that sense of anticipation that might otherwise be lacking from the current process.

2017 Election: polls at 3 June 2017 compared to May 2015 (May 2015 number of seats won in brackets)



(Source: Analysis of latest polls)

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 and taxation aspects of each party's published manifesto – first looking at the three main UK-wide parties (in alphabetical order) and then nationalist, regional and minor parties, where manifestos are available at the time of publishing.



Editorial Introduction
by Tracey McManus
Editor

ACA Retirement Income and Savings Manifesto

Overall pensions and savings approach

The overall philosophy of the UK Government should be to continue to boost saving for later life focusing on the promotion of a wide range of flexible retirement arrangements as part of a broader approach to encourage lifetime savings. Financial incentives should be greatest for savings locked away for the long term, with legislative and regulatory prescription minimised and simplified. Further legislation/regulation should only be considered to maintain the protection of members' benefits, and provided it does not trigger wider reductions in existing provision.

The ACA's 9-point manifesto advocates to the political parties seeking to form a Government that:

Auto-enrolment (AE) pensions

- 1. The party manifestos should set out their plans to build on minimum AE contribution rates after October 2019.** With the next Parliament likely to sit until June 2022, the parties should spell out in their manifestos what plans they have to boost minimum contribution rates into AE pensions after October 2019, when minimum contributions reach 8% of qualifying earnings. It is widely recognised across all the political parties that the 8% minimum rate is inadequate over the longer-term to build and provide for a comfortable income in later life. At present, the 2017 review of AE, due later this year, does not fully encompass a review of contribution rates.
- 2. Too many employees, encompassing most of those earning less than £10,000pa (including many women), the self-employed and those engaged in the 'gig economy', are presently excluded from joining an AE scheme.** Millions more workers need to be saving for income in later life and contributing at AE minimum levels or above. Even if those savings are modest, they will provide employees with choices which are particularly important as healthy life expectancy is becoming more varied across different segments of the population and as State Retirement Age increases. The party manifestos should outline the path ahead.

Defined benefit pensions

- 3. To help with the sustainability and following on from the DWP *DB Security and Sustainability consultation* we urge the parties and incoming Government to commit to:**
 - a. Legislation to allow a new flexibility to enable employers who are no longer in a position to provide the promised benefits to be able to compromise to a level between PPF compensation and full benefits – subject to key safeguards and where this is demonstrably in the members' interests.** This facility needs to be more flexible than the Regulatory Apportionment Arrangement route and cheaper to implement so that it is available to smaller employers as well.
 - b. Provide a statutory override – shared by the trustees and scheme sponsor – to allow defined benefit schemes whose rules 'embed' RPI to be able to switch to an alternative index.** A shared power would provide safeguards and from a member perspective, offer the opportunity for trustees to seek an increase in member security when such a switch is sought.
 - c. Subject to certification, defined benefit schemes should be able to simplify legacy benefit structures** so they can reduce scheme administration costs and facilitate hedging and buy-out options. This simplification would also facilitate the introduction of the pension dashboards and help members to better understand the total value of their benefits. It is also felt that this is an essential first-step if voluntary consolidation of schemes on any scale is to be successful.

Taxation of pensions

- 4. The party manifestos should specify what further pension tax reforms, if any, are to be pursued in the next Parliament, given the resulting personal financial implications. We strongly urge that any measures are 'one-off' for the Parliament and prioritise the need to simplify the tax regime, which is now not fit for purpose.** For example, in our view, the Lifetime Allowance and tapered Annual Allowance should be abolished as they discourage pension saving and are resulting in the early retirement of key elements of the workforce, many of whom are not on high incomes, to avoid penal tax charges. Once simplified, there needs to be a commitment to long term stability of tax and savings policy so that people can plan for the long term.

Inter-generational fairness and ISA savings

- 5. 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** to help fund house deposits and/or to meet a short and specific list of other eventualities. This initiative would supplement the modest build-up of funds for house purchase possible via the Lifetime ISA.
- 6.** The party manifesto should commit to **simplify the ISA product range** so there is just one product for adults (as opposed to four products at present) which they can save into for any purpose. Competing products are unhelpful and are confusing for those who are unsure where to place modest savings.

State Pensions

- 7. We believe the 'triple-lock' should be retained until 2020 reflecting the commitment made by the current Government given ahead of the 2015 General Election.** From 2020, we recommend 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). Increases to the State Pension should balance affordability with adequately rewarding those who have contributed, whilst also preventing wide-scale pensioner poverty.
- 8.** The party manifestos and incoming Government should confirm that the **State Pension Age increase to age 68 over the period 2037-2039** as recommended by the *Independent Review of State Pension Age* final report.

Social care

- 9.** The parties have 'fudged' decisions to meet the cost of supporting social care and as a result this is seriously impacting on NHS resources/performance and is also stretching local authority budgets. **We believe that a longer-term solution requires a range of solutions to suit different age groups and we welcome the parties outlining a comprehensive approach that encompasses ideas such as tax-free social care vouchers for those supporting older relatives in care and consideration of a social insurance scheme that might be suitable for younger people.** Such an approach needs to be part of the integrated savings policy for later life.

The ACA manifesto was published ahead of the parties' manifestos on 4 May 2017

The Main Parties' Manifestos

These party manifestos are summaries of the published policies and pronouncements in respect of pensions, savings and tax 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.



Manifesto commitments:

- ✓ Maintain the triple lock guarantee until 2020, then replace it with a double lock so pensions increase in line with the higher of earnings or inflation
- ✓ Ensure State Retirement Age reflects increases in life expectancy, whilst protecting each generation fairly
- ✓ Means-test winter fuel payment whilst retaining all other pensioner benefits (free buses, eye test, prescriptions and TV licences) for Parliament
- ✓ Increase personal tax allowance to £12,500 and higher rate threshold to £50,000 by 2020
- ✓ Support extension of pension auto-enrolment, extending coverage to small firms and making it available to the self-employed
- ✓ Promote long-term savings and pension products, including Lifetime ISAs to encourage and incentivise house-purchase and retirement provision
- ✓ Tax system too complex – will simplify
- ✓ Act to ensure those in 'gig' economy are properly protected (noting few have pension entitlements)
- ✓ Protect private pensions by tightening rules against abuse by 'unscrupulous business owners' and increase punishment for those caught mismanaging pension schemes
- ✓ Build on existing powers to give schemes and TPR the right to scrutinise, clear with conditions or in extreme cases to stop mergers, takeovers or large financial commitments that threaten scheme solvency
- ✓ Give TPR new powers to issue punitive fines for those who wilfully leave a scheme under-resourced and, if necessary, powers similar to the Insolvency Service to disqualify the directors in question
- ✓ Consider new criminal offence for directors who deliberately or recklessly put at risk the ability of a scheme to meet its obligations
- ✓ Introduce single capital floor, set at £100,000, to ensure no matter how large care costs turn out, people will always retain at least £100,000 of their savings and assets, including value in the family home (post-manifesto change on 22 May: will also be 'cap' on total care bills)
- ✓ Extend the current freedom to defer payments for residential care to those receiving care at home, so no-one will have to sell their home in their lifetime to pay for care
- ✓ Value of family home will be taken into account with other assets and income, whether care is provided at home or in a residential or nursing care home.

Manifesto commitments:

- ✓ Guarantee the “triple lock” – raise State pensions by the highest of inflation, wages or 2.5%pa
- ✓ Scrap state pension age increases beyond age 66 and set up new review tasked with developing a flexible retirement age to reflect contributions made, wide variations in life expectancy and the arduous conditions of some work
- ✓ Protect pensioner benefits such as free bus passes and winter fuel payments
- ✓ Protect pensions of UK citizens who live abroad where no reciprocal agreement
- ✓ Extend pension credit to women born in 1950s (i.e. support for WASPIs)
- ✓ Legislate so accrued rights to the Basic State Pension cannot be changed, but future benefits can
- ✓ Lower threshold for 45% additional tax to £80,000 and reintroduce 50% rate for those earning over £123,000pa
- ✓ Legislate to reduce pay inequality by introducing an Excessive Pay Levy on companies with staff on very high pay (i.e. over £330,000pa total compensation)
- ✓ Roll out maximum pay ratios of 20:1 in the public sector and in companies bidding for public contracts
- ✓ Reverse ‘tax giveaways’ on Capital Gains Tax, Inheritance Tax and scrapping the married persons’ tax allowance
- ✓ No increase in income tax or ‘personal’ NI for those earning under £80,000pa
- ✓ No increase in standard rate of VAT, but put VAT on private school fees to fund free school meals for all children
- ✓ Extra £8 billion on social care over the Parliament with £1 billion in the first year
- ✓ Seek cross-party consensus on long-term funding of social care with options including wealth taxes, an employer care contribution or a new social care levy
- ✓ Increase insurance premium tax on private health plans to 20% (from 8%) to meet cost of free hospital car parking
- ✓ Amend takeover code so takeover proposals for every business (or ‘systematically important’ businesses) have a clear plan to protect workers and pensioners
- ✓ Efficiency review of corporate tax reliefs
- ✓ End ‘rip off’ hidden fees and charges and enable the development of large efficient pension funds, ‘which will mean more cash for scheme members and lower costs for employers’
- ✓ Immediate review of the Mineworkers’ pension Scheme surplus, sharing arrangements between Government and scheme beneficiaries
- ✓ Give members of the Local Government Pension Scheme full trustee status to ‘help control investments, and reduce fees and charges’

Other pronouncements (not in manifesto – Alex Cunningham, Shadow Pensions Minister, *Pensions Expert*, 5 May 2017):

- Increase auto-enrolment (AE) coverage to self-employed, those on multiple low-paid jobs and those on low incomes
- Develop way carers can benefit from personal pensions
- Minimum AE contribution rates need to be kept under review – first there is a need to address cost transparency to ensure DC members get full benefit from an increase in contribution rates
- DB indexation changes only with consent of scheme members
- DB benefit changes only after full investigation of scheme costs and investment allocation
- Pension taxation reform ‘just isn’t our focus’ – major reforms should be on a political consensus basis
- Allow trustee-run collective schemes to be set up in UK along lines of the Dutch and Danish pension systems

Manifesto commitments:

- ✓ Keep the “triple lock”
- ✓ Scrap the winter fuel allowance for pensioners who pay higher rate tax
- ✓ Keep free bus pass for all pensioners with discount card for 16-21 age group
- ✓ Establish a review to consider the case for, and practical implications of, introducing a single rate of tax relief for pensions, which would be designed to be simpler and fairer and would be set more generously than the current 20% basic rate relief
- ✓ Also, full scale review into burden of taxation and spending between generations to ‘promote fairness’
- ✓ Ensure those with highest incomes and wealth are making a fair contribution – including reforms to CGT and dividend tax relief and reversing the raising of the IHT and abolishing the Marriage Allowance
- ✓ Abolish remaining marriage inequalities in areas such as pensions
- ✓ 1p increase in income tax to fund NHS and social care and public health needs
- ✓ In the longer term, and as a replacement for the 1p income tax rise, commission the development of a dedicated health and care tax on the basis of wide consultation, possibly based on a reform of NI contributions
- ✓ In longer term, raise the employee NI threshold to the same level as the income tax threshold, while protecting low earners’ pension and benefit entitlements
- ✓ Increase the Carer’s Allowance from £110pw to £150pw
- ✓ Additional investment in social and primary care, mental and public health
- ✓ Expand FCA remit to include a statutory duty to promote financial inclusion as one of its key objectives

Other pronouncements (not in manifesto – Lord Stoneham, Liberal Democrat chief whip in the Lords, *Pensions Expert*, 22 May 2017):

- Auto-enrolment: self-employed need to be dealt with and gradual increases in savings rates
- Need to address consolidation of pots
- Lifetime allowance: ‘We do not like the lifetime cap’
- Powers of the Pensions Regulator: should have closer role on stopping people who ‘shuffle off’ difficult pension schemes by disposing of them
- Sympathetic to the Pensions Regulator intervening and approving changes to schemes where they are under stress and the consequences are far worse unless a change is made
- As part of review, consider whether trustees should have to demonstrate they are running a sufficiently large scheme, with the Pensions Regulator having role to encourage this.



Manifesto commitments:

- ✓ **Maintain all pensioner benefits and the pensions triple lock**
- ✓ **Introduce a flexible State pension window, so everyone can opt to retire earlier for a slightly lower State pension, or work longer for a slightly higher State pension**
- ✓ **Allow women to retire on above basis at 60, if they so wish**
- ✓ **Increase Carer's Allowance from £62.70pw to £73.10 plus extra 5 days' paid holiday**
- ✓ **Raise the threshold for paying income tax to £13,500 and raise the 40% income tax threshold to £55,000**
- ✓ **When economic conditions allow, will restore personal allowance for those earning over £100,000**
- ✓ **Raise the IHT to £500,000 per individual, transferable for a married couple or those in civil partnerships – aim eventually to eliminate inheritance tax altogether**
- ✓ **abolish the TV licence**
- ✓ **Cut VAT on household bills**
- ✓ **Create a sustainably funded social care system assimilated into the NHS**



Manifesto commitments:

- ✓ **Steps towards introducing universal basic income, including a government sponsored pilot scheme**
- ✓ **Redress pension injustice, with a pensions system for everyone and action to enable older people to continue to be active members of society**
- ✓ **Reform tax to include a wealth tax on the top 1% of earners**
- ✓ **A Robin Hood tax on high value transactions in the finance sector, and inheritance taxed according to the wealth of the recipient**
- ✓ **A phased abolition of the cap on employees' NI so the wealthiest pay more**
- ✓ **Major investment in social care for the elderly and all those who need it**

Provincial and Nationalist Party Manifestos



Manifesto commitments:

- ✓ Ensure a Living Pension for all – will fight to guarantee the Triple Lock
- ✓ Continue to oppose increases in the State Pension Age
- ✓ Independent review into Mineworkers' Pension Scheme surplus so future sums are split 'more fairly' between scheme members and the UK Government
- ✓ Social care rescue plan to help people live independently, increasing the role of community hospitals
- ✓ Seamless health and social care with a carers' contract to support those who care for others



Manifesto commitments:

- ✓ Will vote to protect triple lock for State pensions and protect Winter Fuel payment
- ✓ Oppose plans to increase the State Pension Age beyond 66
- ✓ Support establishment of independent savings and pensions commission 'to ensure policies are fit for purpose', including consideration of the specific demographic needs of different parts of the UK in relation to SPA
- ✓ Support for Women Against State Pension Inequality (WASPI) campaign
- ✓ Call on UK government to extend auto-enrolment so that more low paid, and self-employed, workers benefit from regular savings
- ✓ Seek to ensure regular, simple and affordable schemes are offered to provide secure income in retirement, whilst scrapping Lifetime ISA
- ✓ Increase Carer's Allowance to level of Jobseekers Allowance
- ✓ Support increase in Additional rate of income tax from 45p to 50p across the UK from 2018/19
- ✓ Support reversal of the married couple's allowance
- ✓ Freeze on national insurance contributions, but double Employment Allowance to £6,000 per business over the Parliament
- ✓ Support annual uprating of all welfare benefits by at least CPI and oppose the cap that restricts Child Tax credits to the first two children

Other pronouncements (SNP Pensions Spokesman, Ian Blackford, in *Pensions Expert*, 10 May 2017):

- ✓ Increase powers of the Pensions Regulator to safeguard pensions
- ✓ Increase AE contributions over a period of time
- ✓ Preserve EET pension tax system



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