

General Election 2001: Pensions policies reviewed...

Parties converge, but important differences remain in policies weak on details

There's a big fight going on between the parties to win the 'hearts and minds' of grey voters – those 10 million voters aged over 60 – who could swing important seats this way or that. So, there's a tussle over promises to boost the basic state pension as much as is possible, without – of course - damaging the economy. What's disappointing is just how little is being said about how pension provision can be boosted beyond the basics. Stakeholder pensions are hardly getting a mention and occupational pensions, which have been the cornerstone of growing pensioner incomes for many over the last 30 years, do little better. Perhaps all of the political parties are finding it difficult to square up to just how much damage they've done to occupational provision over the last 20 years by meddling with benefit promises, over-regulation and tax raids?

What is clear is that whichever party wins on June 7, pensioners can look forward to sizeable increases in the basic state pension over certainly the next 2 years (the promises period). No doubt the next three years will be spent trying to find ways to finance the commitments being made without increasing income tax rates, where the two main parties have again made firm commitments of 'no increases'.

As this issue of *Placard* reveals, important differences remain over how the shape of the state's commitment will develop after that. There is a considerable division over the Minimum Income Guarantee for pensioners, which Labour is promising to increase in line with earnings throughout the Parliament. The Conservatives worry about its longer-term impact on savings amongst lower income groups. They want to see at least some younger people opting out of the basic state pension in favour of – they hope – higher funded pensions. For their part, the Liberal Democrats seem to be edging towards some type of compulsory private pension plan to boost the pensions of those not in membership of occupational schemes.

What we're looking at...

This *Placard* looks at the following three main policy areas which, in our view, are the most important "problem areas" to be addressed in UK pension provision at the moment:



- Pensions for those on lower incomes now and into the future
- Policies to promote and build adequately funded pensions (and savings) above the basic state pension
- Security of pensions and annuity reform

Within these three main policy areas we will explore issues like means-testing, the impact of guarantees on voluntary savings, the arguments surrounding opting-out of the basic state pension, and how ‘well meaning’ but ill-advised regulation can stand in the way of funded provision and the security of pensions.

Election Issue in 1997 predicted ‘stealth tax’ on pensions

Our General Election Issue of *Placard* published in April 1997 looked at growing consensus over funded pensions, but expressed concern at what was not said by the parties, particularly concerning pensions taxation. The concern was well founded as within months of the Election, the incoming Labour Government removed the tax credits on dividends, raising up to an extra £5 billion in tax, reducing forward pension benefits or adding to employers’ costs.

Placard commented, “actions along these lines fly in the face of commitments to encourage private pension provision and only make the longer-term situation more difficult to address. Fiscal policies that effectively reduce contributions, reduce returns or add to pension costs make it difficult for employers and the public to believe that governments are genuinely committed to encouraging pension provision and not merely ‘mouthing the words’.”



“You pays your money and takes your choice...”

This analysis is of key areas only and is based on the three main political parties’ manifestos and available commentary and interviews given in the recent past by spokespersons of the parties. As we explained on the front page of this issue of *Placard* we will examine the policies, as best we can, in three major policy areas which we judge are important not only to today’s pensioners, but also for those who are at various stages of their working lives and who need to know how they should plan their savings and pension for the future.

The three main policy areas we are looking at each in turn are:

- Pensions for those on lower incomes now and into the future
- Policies to promote and build adequately funded pensions (and savings) above the basic state pension
- Security of pensions and annuity reform

For those who want more detail. We summarise each of the declared pensions policies of the parties in three sections at the end of the issue.

Pensions for those on lower incomes – now and into the future

The auction of promises for those on the basic state pension is complex, save that all the political parties are promising ‘jam tomorrow’ in terms of increases above expected rates of inflation.

Labour, after the furore over their 75p increase, has raised pensions markedly in 2001/02 to £72.50 for a single pensioner and £115.90 for married pensioner couples. Their manifesto now pledges to raise the pension in 2003 to £77 and £123, respectively, whilst retaining the £200 Winter Fuel Payment and free TV licences for over-75s. On

“We guarantee that the Minimum Income Guarantee will be uprated each year in line with earnings, throughout the next parliament”

(Labour manifesto, 2001)

top of all this, they are pledged to raise the Minimum Income Guarantee (MIG) for pensioners to £100 per week (£154 for couples) by 2003. Their manifesto goes further by saying ‘we guarantee that the MIG will be uprated each year in line with earnings, throughout the next Parliament’.

For the lowest paid and carers, full-time parents and people with disabilities, the new state second pension, which will replace the State Earnings Related Pension Scheme (SERPS) ‘will top up their pension contributions to give a decent pension in retirement to 18 million people’.

Additionally, Labour has pledged to extend tax allowances so that by 2003 no pensioner pays tax until their income reaches £127 per week.

The **Conservatives** have taken a different route, whilst also promising increases in the basic state pension. They are pledged to match Labour’s pension rates for 2002, namely £75.50 for a single pensioner (£120.70 for couples), with the Conservatives adding £1 and £2 per week, respectively, for over-75s. They are also offering to consolidate the Winter Fuel Payment, free TV licence and Christmas bonus tax-free into the basic state pension, increasing this by £3.10 for single pensioners (£5.25 for those over-75), and by £3.30 for couples (£5.50 for over-75s). Pensioners who wish to keep the separate payments can do so.

The Conservatives are silent on the future of the MIG in their manifesto, but are critical of the increase in means-testing and disincentive to save that it has introduced.

The Conservatives are also proposing to raise the pensioner tax allowance to over £8,000 per year ‘taking a million pensioners out of tax altogether’ and are pledged to ‘abolish taxes on savings for most savers – which will be of particular benefit to pensioners’.

The **Liberal Democrats** are out-bidding both the main political parties with their basic state pension increase. They want to increase the basic state pension by £5 per week for single pensioners, £10 for the over-75s and £15 for the over-80s. Couples are set for increases of £8, £18 and £28 respectively. The bigger increases for older pensioners reflects the fact that they tend to be poorer and the neediest, say the Liberal Democrats.

These big increases in the basic state pension will be paid for by establishing a 50 per cent income tax rate for those earning over £100,000.

For the future, the Liberal Democrats will establish an Independent Pensions Authority, which will report annually to Government on an appropriate uprating for the state pension. It will take into account levels of pensioner poverty, the growth in earnings, national income and affordability. Separately, the Liberal Democrats are saying they will commission research to establish a ‘minimum income standard’.

The Liberal Democrats would also remove tax on earnings up to £6,500 and extend the basic state pension to all citizens, so a history of contributions would no longer be necessary. This would ‘eventually help around 3.4 million people, mainly women, carers and long-term disabled people’.

“We will be helping poorer pensioners without more means-testing”

(Conservative manifesto, 2001)

“We will fund our big increases in pensions by setting a new top rate of 50p on income tax over

£100,000 a year”

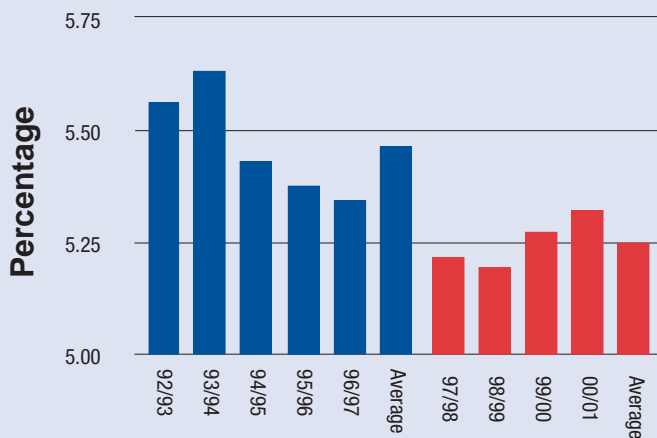
(Liberal Democrats manifesto, 2001)

ACA Comment:

Labour is keen to show it is the party for pensioners. Their 2001 manifesto notes “at this election, we repeat our commitment to pensioners – we honour your lifetime of work by ensuring that you share fairly in the nation’s rising prosperity, and are committed to tackling pensioner poverty”. Gordon Brown detailed what he sees as Labour’s achievements in Parliament on 10 May, 2001: “as a result of our personal tax and benefit changes in Budgets since 1997, pensioner households will be on average £600 a year better off.”

The Conservatives and the Liberal Democrats are unconvinced by Labour’s arguments. They note that, in fact, expenditure on pensioner benefits since 1997 to date has fallen as a proportion of national income – despite the claim made in the Labour Party manifesto that “all pensioners will share fairly in the increasing prosperity of the nation”.

PERCENTAGE OF GDP SPENT ON PENSIONERS' BENEFITS



Source: Hansard, 13 November 2000, c.524W and 17 November 2000, c.807W

Because of the stinging criticism of Labour’s 75p increase, we now have Labour and its rivals all committing to basic rate pension increases well ahead of inflation. With growing pensioner power as the electorate ages, it may be difficult for the parties to restrain their offerings to pensioners in the future. The problem then may arise that the National Insurance Fund – flush at present – will come under strain, requiring higher taxes on the working population. Indeed, a report published on 9 November 2000, after the Chancellor’s forward commitment on pensions, found the Government Actuary warning that big state pension increases in 2001 will mean a need for higher NI contributions before the end of the decade. Steep increases in MIG could accelerate this problem.

Whilst Labour talked about reducing means-testing prior to its election, the introduction of the new Minimum Income Guarantee for pensioners, alongside other policies, is increasing means-testing at a significant rate (see table below). Whilst the prize of removing pensioner poverty is a worthy one, the poor take up of MIG cannot be ignored. 2.4 million forms issued in 2000 led to only 82,000 successful claims. Labour has now committed itself to raising MIG in line with earnings for the whole of this Parliament. That may be fine whilst a lid is kept on earnings growth, but cumulatively – especially at a time when savings returns have declined – it will make it very difficult for those on lower and maybe even middle incomes to justify private savings (pensions or otherwise) as the guarantee over the basic state pension climbs to well over £30 or £40 per week. The new Pension Credit will help to offset disillusionment among some savers (if they understand it), but – of course – means testing will be involved.

THE GROWTH IN MEANS-TESTING:

PERCENTAGE OF HOUSEHOLDS IN RECEIPT OF MEANS-TESTED BENEFITS

	1998/9	2003
Pensioner households	37%	57%
Non-pensioner families	21%	29%
All	24%	38%

(Source: House of Commons Library)

The Conservatives have opted for a much higher pensioners’ tax allowance than the other parties. This will take more pensioners outside of tax, but does not help poorer pensioners who fall below current threshold, who should (if they claim) find the MIG more attractive.

The parties enticements on increases to the basic state pension have been costed within their programmes, with the Liberal Democrats introducing a 50 per cent tax rate to meet the higher costs of their programme. However, their longer-term commitment towards a basic state pension paid on a citizenship basis (rather than a contributory basis) appears not to have been costed, and remains a longer-term goal.

Also, we would ask have the parties done calculations to demonstrate that these basic pension increases are sustainable in the future allowing for the demographics eg improving mortality.

Policies to promote and build adequately funded pensions (and savings) above the basic state pension

Labour says occupational and personal pensions ‘properly regulated’ will continue to offer security for middle and higher earners. ‘For low- to middle- income earners, stakeholder pensions cap costs, guarantee value for money, offer flexibility, and drive down fees across the board’.

“We will act on its (Myers) recommendations, including the abolition of the minimum funding requirement and reforms to pension fund management”

(Labour manifesto, 2001)

Labour will act on the Myers Report recommendations, ‘including the abolition of the minimum funding requirement and reforms to pension fund management, and review progress in two years’. We consider Labour’s policy on the future of annuities in the next section of this review.

Beyond the manifesto, Economic Secretary, Melanie Johnson, has committed a Labour Government to a cost-neutral project to cut occupational pensions red tape, with a report to go to Ministers in February 2003.

“Reducing the burden of red tape for industry is an important government priority. The Inland

Revenue, in partnership with experts from the pensions industry, will look for ways to improve the existing rules and the way it communicates and shares information with pension schemes. The result should be a package of practical options for administrative simplification of occupational pension schemes which will benefit all involved.”

Under the spotlight will be retained benefits, pensions in payment, death benefits and the definition of final salary. The review will take into account anticipated tax flows and wider economic effects. It will include the regulatory impact, any interaction with the defined contribution tax regime, and the effect on present and future pensioners. The NAPF, ACA, ABI, SPC and APL are participating in a steering group to oversee the project, as well as providing secondees to work on the project.

On the savings front, Labour is promising pensioner couples with an income of up to £200 per week and single pensioners with income up to £135 per week are to be rewarded for saving, through the new Pension Credit, with the government adding 60p for each £1 of savings income up to a maximum of £23. Labour says that ‘in the process, we will abolish the weekly means test for pensioners, along with removing the unfair test of savings, which penalises pensioners who have modest savings and whose thrift should be recognised’.

Additionally, Labour is pledged to maintain the £7,000 ISA contribution limit ‘for the next Parliament’ and says it will ‘create a new Savings Gateway for people on lower incomes where their savings will be matched by the Government’.

The **Conservatives** say the ‘best way to make sure that people have decent incomes in their retirement is for them to invest during their lives in assets that will grow’. They add, ‘but Labour have hit private and occupational pensions with higher taxes. And many of the current generation of working people have expectations of the pension they are likely to receive which are unfortunately way ahead of the likely reality’. As a result, the Conservatives want to offer young people the opportunity to build a funded alternative to the basic state pension. They stress that ‘the basic state pension would continue to be paid as now, not merely to current pensioners but to people of working age and new entrants who want it in the future’. Consultations are promised on how best to offer this ‘new option of funded pensions for young people’.

Conservative Pensions spokesperson, Jacqui Lait, writing in *Money Marketing* on 16 April 2001 added, ‘The Government would guarantee that if the fund did not produce an income equal to the state benefit at the time, it would top up the difference’. This is, however, not mentioned in the manifesto. Explaining the alternative to the basic state pension proposals in *Pensions Management* in November 2000, she added: “There is no new expenditure cost because we are offering a sum of money in return for the cancellation of a future liability. If 25% of the 7 million workers aged between 18 and 30 choose to opt out, the state would need to pay £900m into their private sector pension funds, whether defined benefit or

“We wish to enable young people to build up a funded alternative to the basic pension for the future. We will consult on how best to offer this new option of funded pensions for young people”

(Conservative manifesto, 2001)

contribution. The money could come either from the surplus on the NI fund (currently £16bn) which is growing at about £1bn a year or by issuing gilts. The government has a future liability to pay pensions and this would simply convert that debt into a different form.”

On stakeholder pensions, Jacqui Lait has said the Conservatives “certainly won’t get rid of Stakeholders. It has had a beneficial effect in terms of charges”.

This was confirmed in a recent policy paper from the Conservatives which noted ‘we will support the Stakeholder Pension regime now being established but recognise that use of it will be limited largely to corporate employments’.

For the self employed, small businesses below the Stakeholder threshold, transient workers and non working spouses the Conservatives have said they will: “simplify the

arrangements for the IPA introduced in July 2000, removing the requirement to invest in it through a pension scheme. The IPA will operate on a parallel basis to an ISA or PEP, but subject to the tax rules applying to pensions and within similar investment rules as apply to ISAs, but without the need for the administrative costs and restrictions of membership of a pension scheme. The eligibility and contribution rules for IPAs will be the same as for Stakeholder pension saving”.

On savings, the Conservatives are pledged to abolish taxes on savings for most savers, which they say will be of particular benefit to pensioners. We consider their policy on annuities in the next section of this review.

The **Liberal Democrats** say they wish to ‘strengthen the position of people with private pensions by ensuring that members of company pension schemes, including retired members, have a greater say over the use of their pension fund’. They also want to ‘establish a more stable environment for pension planning by seeking to secure all-party consensus before making future pension reforms’.

The Liberal Democrats also say they will fight age discrimination by ‘banning compulsory retirement ages’. Instead, they ‘will provide for individuals aged 60 and over who wish to work to have an assessment of their ability to continue their job as part of an annual appraisal process’.

On savings, they will ‘reward pensioners who have saved throughout their lives by scrapping the rules which deny help to people with savings above £12,000’.

In the longer term, the Liberal Democrats say their goal is to introduce a new Owned Second Pension Account. They want *all people* to have a second pension of their own to top up the state pension. ‘Over time we would ensure that a growing proportion of the workforce were members either of a company pension scheme or had an Owned Second Pension Account, with the government making contributions for those who, because of ill health, unemployment or caring responsibilities are too poor to do so’. Their policy on annuities is reviewed in the next section.

“Over time we would ensure that a growing proportion of the workforce were members either of a company pension scheme or had an Owned Second Pension Account”

(Liberal Democrats manifesto, 2001)

ACA Comment:

It is encouraging that the three main parties are committed to encouraging funded pensions over and above the basic state pension. What is less clear is whether they know what they are doing.

For example,

- the minimum income guarantee will not encourage lower paid employees to save for retirement.
- No party seems to want to really address the issue underlying the decline of defined benefit occupational benefit schemes. The lower real returns, improving longevity and the loss of tax credits have meant that the provision of defined benefit schemes is now far more costly now than previously. Some companies are ceasing to provide benefits for new entrants and in some cases also for future service. Also the cost of such benefits has increased whereas when they are replaced by defined contribution schemes the contribution rates often are considerably lower. This means that the pension benefits of many defined contribution schemes can be expected to be lower and in some cases inadequate, certainly when set against members’ expectations.

- The continuing trend to early retirement between ages 50 and 60 is not sustainable. Measures need to be considered to encourage the population to work at later ages. Moves to increase the normal retirement date and state pension age need to be considered sooner rather than later.

Labour's tax raid on pension funds after the 1997 General Election (following a smaller Conservative raid in the previous Parliament) has cost funds' and their members up to £5 billion per year. This has reduced fund growth at the very time investment returns were declining and has undoubtedly contributed to the move away from final salary schemes by employers. What is more it seems to have been based on false logic. The 2001 Labour manifesto says the move meant 'companies no longer face a perverse incentive to pay out dividends rather than invest for the future'. However, a report by Oxford academics Tim Jenkinson and Leonie Bell says removing pension funds' right to claim tax relief on dividend payments has not boosted company investment as Chancellor Brown said it would. Instead, pension funds have demanded higher returns for taking equity stakes, increasing companies' financing costs, and leading to reduced investment.

Stakeholder pensions too seem to have changed in their make up and ambition. Now it seems as likely they will be taken up as AVCs or by executives' families as a tax perk, rather than as a means to extend pension savings amongst workers not covered by occupational provision. Labour may live to regret their statement that stakeholders 'guarantee value for money' if, for some, small funds merely go towards reducing the gap between the basic state pension and MIG. The new Labour commitment to launch a savings scheme for those on low incomes, with matched government (ie. taxpayers') money could well undermine longer-term savings still further.

More encouraging, the 'red tape review' launched by Melanie Johnson promises to simplify occupational pensions post-2003, but a lot remains to be done to ensure that changes are meaningful and significant enough to turn the tide of decline in occupational provision (see table below). The commitment to abolish the minimum funding requirement could be helpful in encouraging occupational provision, but there are dangers in how long this will take and what shape the replacement will eventually take. A big majority for Labour could mean arguments for strengthening scheme members' security are resurrected.

The Conservatives toned down Basic Pension Plus policy, which many felt turned away older voters in 1997, also seems strangely vague on how it will be financed after four

**THE DECLINE IN OCCUPATIONAL PENSIONS:
Percentage of employees working for firms with
no occupational pension scheme**

Pension Scheme Coverage								
Year	1989	1991	1992	1993	1994	1995	1996	1998
Men full-time No employer scheme	19%	21%	21%	22%	24%	25%	25%	28%
Women full-time No employer scheme	21%	20%	21%	22%	27%	24%	26%	26%
Women Part-time No employer scheme	40%	39%	39%	38%	45%	42%	44%	45%

(Source: 1998 General Household Survey)

years in opposition. Whilst Conservative Social Security spokesman, David Willets, has said: "If someone under 30 were allocated £500 a year to put into a fund and it performed as well as markets have done since the War, it would build up to a pension for a single person not of £67 but £130", Michael Portillo was far from clear just how this was to be financed when confronted by Chancellor Brown's recent assault in Parliament:

'..the Conservatives have put in their manifesto a proposal that millions of people could potentially opt out of the basic state pension. That would mean that the national insurance fund would not have the money that was necessary. The Conservative Centre for Policy Studies has calculated that to be £6 billion. The (presumably Government) Actuary has calculated it at £6 billion within three years. The question that the Conservatives must now answer is how they will fund the national insurance fund contributions that are necessary for the basic state pension without cutting the basic state pension or running up massive borrowing.' (Hansard, 10 May 2001)

The Liberal Democrats are opting for a pension account that may turn out to be compulsory if employees are not in membership of an occupational scheme. It is unclear why or how this will be any more successful than stakeholders if people simply don't have the ability or confidence to contribute significant sums into a longer-term savings product when – as promised by all the parties – an array of shorter-term tax free savings products are to be made available.

None of the parties are promising the kind of 'bonfire of regulations' that are now probably necessary to re-invigorate occupational and personal pension provision. The Liberal Democrats policy of giving members a greater say over the use of their fund is only likely to encourage further employer disillusionment with occupational arrangements.

Security of pensions and annuity reform

“For those in retirement, security depends on partnership between state and funded provision. We promise that, within two years, no pensioner need live on less than £100 per week, increased annually in line with earnings growth. On top of that, we will reward pensioners who save.”

(Labour manifesto, 2001)

All the parties see a greater financial security for pensioners coming through the increases in the basic state pension at rates above inflation, but without any on-going commitment to increases in line with earnings. Little is said in the manifestos on the security of personal and occupational pensions, but all have given commitments on annuity reform in the face of campaigns in the press calling for ‘justice’ and significant public anxiety over current low returns.

Labour look to ‘properly regulated’ occupational and personal pensions as offering safeguards to members, supported by the new stakeholder pensions regime which, they say, will ‘guarantee value for money’. By endorsing the Myners Report and specifically pledging to abolish the minimum funding requirement, Labour has opened up for debate how the security of occupational schemes can best be achieved without undermining on-going voluntary provision.

On annuities, Labour has held back from the commitments made by the two other main parties. Their

pledge is to ‘continue discussions on annuity reform to ensure tax rules do not unnecessarily restrict the development of annuity products and markets’.

The **Conservatives** attack Labour’s annual £5 billion raid on pension funds through the removal of ACT credits, saying this has been harmful to both personal and occupational schemes. They also express concern that the public’s pension expectations from private and occupational schemes may be ‘way ahead’ of the likely reality.

On financial regulation, the Conservatives will review both the Financial Services and Markets Act (FSMA) and the operation of the FSA. They want to:

- revise the Act so it becomes much clearer that competition offers benefits and safeguards to investors and that the FSA must run a regulatory framework that supports international and domestic competitiveness
- institute an independent review of both Acts in 2004 to assess their success in achieving objectives, including support of competition, and their cost effectiveness
- all new and existing FSA rules to be subject to cost-benefit analysis

“We will abolish the rule which currently forces pensioners to buy an annuity when they reach 75”

(Conservative manifesto, 2001)

They are also looking to implement recommendations of the Burgess Report including ‘greater venture capital investment by pension funds and the insurance industry’.

On annuities, the Conservatives are pledged to ‘abolish the rule which currently forces pensioners to buy an annuity when they reach 75. People with personal pensions will only need to ensure that they have sufficient income to keep free of means-tested benefits. The remaining capital in the pension fund will be theirs to keep and – if they wish – to pass on to their children’. Shadow Chancellor, Michael Portillo, has said more (but this is not in the manifesto): ‘Obviously, some rules will be needed as to how people invest their capital. We shall consult on those rules’.

In their recent policy paper on financial regulation, the Conservatives added that ‘we will put into place a simple retirement account mechanism within which the pension beneficiary can choose their own investment policy within prescribed guidelines. Drawings from the retirement account will be subject to income tax. Any remaining capital on the death of the beneficiary and their spouse will pass to the individual’s estate, subject to a 35 per cent tax charge.’

The **Liberal Democrats** see greater security coming in the longer term through the introduction of Owned Second Pension Accounts (see previous section) topping up state pensions, with the government chipping in for disadvantaged groups and carers. They also feel the position of people with private pensions will be strengthened by a commitment to ensure members of company pension schemes, including retired members,

“We will strengthen the position of people with private pensions by ensuring that members of company pension schemes, including retired members, have a greater say over the use of their pension fund”

(Liberal Democrats manifesto, 2001)

should have a greater say over the use of their pension fund.

The Liberal Democrats are also committed to a review of the regulation of the life insurance sector ‘in the light of events at Equitable Life and elsewhere, to protect the savings and pensions of millions of people’.

On annuities, the Liberal Democrats manifesto says ‘we will relax current rules which require people with personal pensions to buy an annuity on or before their 75th birthday’.

provision), rather than its presumed intention, to improve members’ control over their funds.

On annuities, the parties’ policies range from relatively clear (Conservatives), through a little more opaque (Liberal Democrat), to pretty murky (Labour). As we will be detailing in a separate post-election issue of *Placard*, devoted to annuities, the pros and cons of reform are less clear than some would have us believe. True, annuity returns are low at present, but so is inflation. Many annuitants have also seen unexpectedly high fund value increases in recent years, that have counter-balanced the lower rates of return. The important point that annuities represent a guaranteed pension no matter how long you live cannot also be forgotten, particularly as the number of years ‘in retirement’ is, on average, growing quite rapidly.

The Conservatives are offering an option to annuities, provided individuals set aside a sum of money that will produce enough income to keep them off state benefits. The rest of any pension fund could be invested (but subject to some rules) and would be heritable less a tax charge. The Liberal Democrats seem to be moving along the same lines, but no commitment is given in the manifesto that funds should be heritable.

The Labour commitment on annuities seems strangely conservative and suggests the Revenue remain firmly opposed to radical reform, but are willing to make some tax relaxations (as with the recent new products) whilst retaining most of the current rules. There is sense in this in that the current rules prevent funds being frittered away, and the amounts needed to make sure pensioners do not draw on the state could grow unpredictably if the earnings linked minimum income guarantee persists for many years into the future. More worrying for those approaching retirement is what Labour’s manifesto words mean. Could they be used to remove the tax-free lump sum in return for greater investment freedom? Much less specific words in the 1997 manifesto (‘we will review the corporate and capital tax regimes to see how the tax system can promote greater long-term investment’) really meant we will remove tax relief worth up to £5 billion per year from pension funds!

ACA Comments:

Pension security in this General Election is more about advancing the basic state pension promise than improving members’ security in personal and occupational schemes. This reflects the generally quiet period over the last four years during which there have been no new Maxwell-type scandals.

Although grudgingly accepted, there is probably a ‘private’ realisation – certainly in Labour and Conservative camps – that present levels of regulation of occupational schemes has damaged provision. The parties are less clear on how they can address this without turning their back on measures introduced in the *1995 Pensions Act* to, in theory, safeguard members. However, the first steps have been made with the government’s announcement (supported by the Conservatives) that the minimum funding requirement will be abolished. But will the speed of reform, or the final make up of that reform, be what is needed to underpin scheme provision? The jury is still out.

The Liberal Democrats proposal to give scheme members a greater say over how their fund is used is likely to undermine security (by discouraging employer



Labour's Pensions Policy

Labour says it will help pensioners:

- By boosting the basic state pension for a single pensioner to £77 each week in 2003, £123 for couples
- By retaining the Winter Fuel Payment, and free TV licences for over-75s
- By rewarding those who save with the Pension Credit
- By raising the Minimum Income Guarantee to £100 each week (£154 couples) in 2003
- By tackling discrimination against over-50s in health care and in the workplace
- By boosting police numbers and cutting overall crime, and crimes like burglary that affect senior citizens the most

Labour's pledge to pensioners

'In 1997 Labour made a clear commitment to ensure pensioners share fairly in the rising prosperity of the nation. At this election, we repeat our commitment to pensioners – we honour your lifetime of work by ensuring that you share fairly in the nation's rising prosperity, and are committed to tackling pensioner poverty. We will build a secure system on the foundation of the basic state pension.'

'As a result of Labour's policies, in this Parliament spending on pensioners will be £4.5 billion a year more in real terms than in 1997. Of this, £2 billion is going to the poorest third of pensioners.'

Helping poorest pensioners

'Our first priority was to help those on lowest incomes: we have lifted the incomes of the 1.7 million poorest pensioners by at least £800 a year, and for some couples by up to £1,400. Pensioner households are on average £11 per week better off than they were in 1997; and over three million pensioner households benefit from free TV licences for those over-75s.'

'The pensioners tax allowance means six out of ten pensioners pay no tax. We have halved the rate of tax they pay on savings income. We have pledged to extend tax allowances further so that by 2003 no pensioner pays tax until their income reaches £127 per week.'

'We now need to go further. With Labour, the basic state pension will rise by 2003 to £77 a week for a single pensioner and £123 a week for a pensioner couple. We guarantee that the Minimum Income Guarantee will be uprated each year in line with earnings, throughout the next Parliament. In 2003, this will mean no single pensioner will have an income below £100 per week and no pensioner couple an income below £154 per week. Labour introduced the Winter Fuel Payment. Its level is set each year. Last Winter it was raised to £200. For next winter it will also be £200.'

Helping pensioners that save

'We will also do more to reward pensioners who have saved. Pensioners who work and save will find, for the first time ever, the government rewarding their saving. Pensioner couples with an income up to £200 per week and single pensioners with

income up to £135 per week will be rewarded for saving – the government adding up to 60p for each £1 of savings income up to a maximum of £23. In the process, we will abolish the weekly means test for pensioners, along with removing the unfair test of savings, which penalises pensioners who have modest savings and whose thrift should be recognised.'

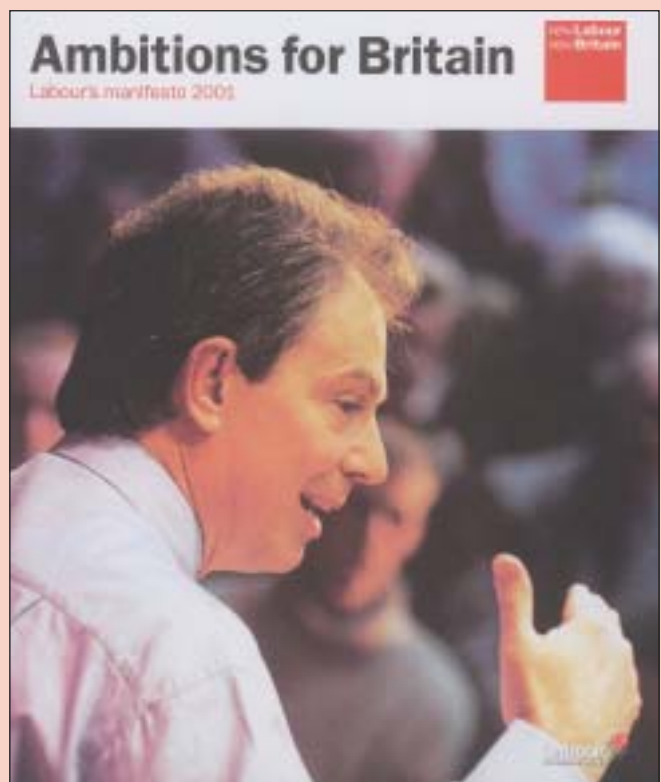
Continuing pensions reform

'It is also vital to have in place long-term pension reform. We support a fair balance of public and private provision. Occupational and personal pensions, properly regulated, will continue to offer security for middle and higher earners. We will continue discussions on annuity reform to ensure tax rules do not unnecessarily restrict the development of annuity products and markets. For low- to middle-income earners, stakeholder pensions cap costs, guarantee value for money, offer flexibility, and drive down fees across the board. And for the lowest paid and carers, full-time parents and people with disabilities, the state second pension will top up their pension contributions to give a decent pension in retirement to 18 million people.'

Savings and Investment

'To encourage more saving, we will maintain the £7,000 ISA contribution limit for the next Parliament... To boost the savings habit, we will create a new Savings Gateway for people on lower incomes where their savings will be matched by the Government.'

'The Myners report has identified weaknesses in our venture capital market, undermining long-term investment and economic dynamism. We will act on its recommendations, including the abolition of the minimum funding requirement and reforms to pension fund management, and review progress in two years.'





Conservatives' Pensions Policy

The key commitments in the Conservative manifesto are:

- Cut taxes for pensioners
- Increase the basic state pension
- Abolish compulsory annuities at age 75
- Allow younger workers to opt for properly funded private pensions
- Protect the savings and homes of those needing long term care

Growth of means-test

'To be able to have the standard of living to which they are entitled, Britain's pensioners now have to apply to the State for special favours. When Labour came into office, 37 per cent of pensioners had to take the means test in order to get their benefit entitlement. On Labour's current plans, within two years most pensioners – 57 per cent – will have to apply to the State for help...'

'Conservatives will give greater independence from the State, by cutting taxes, removing a million pensioners from income tax altogether, and by increasing the basic state pension – with no strings attached.'

Freeing pensioners from tax

'It is wrong that pensioners with modest incomes find themselves paying income tax. It is particularly unfair that pensioners who have saved for their retirement – from their salaries on which they have already paid tax – are then taxed again on the interest savings earn. We will abolish taxes on savings for most savers – which will be of particular benefit to pensioners.'

'A Conservative Government will also raise the special age tax allowance for pensioners by £2,000, from around £6,000 to over £8,000 per year. This will take one million pensioners out of income tax altogether and many other pensioners will pay £8.50 less tax per year.'

A higher basic state pension

'Conservatives want to provide support to pensioners when they need it most. This should not entail more and more pensioners facing the indignity and bureaucracy of means tests. So we will offer pensioners a substantial increase in the basic state pension.'

'At our first opportunity to uprate pensions, in April 2002, we will match the Government's plans for an increase of £3 a week for a single pensioner under 75 and £4.80 for a married couple under 75. But we will go further in helping older pensioners, who tend to be poorer. Over-75s will have a bigger uprating of £4 for a single pensioner and £6.80 for a married couple. We will be helping poorer pensioners without more means-testing.'

'Pensioners can carry on receiving the free TV licence, the Winter Fuel Payment, and the Christmas bonus exactly as at present. But, if they

prefer it, we will give every pensioner the choice to opt for a higher basic pension, which consolidates these individual payments, tax-free.'

'This option will be available to all pensioners who get their pension uprated, including groups that Labour forgot – the 200,000 in nursing homes and residential accommodation who do not receive the winter fuel payment and 360,000 pensioners living abroad.'

BASIC STATE PENSION: THE CONSERVATIVE PACKAGE

	Basic state pension 2001/02	Basic state pension 2002/03: Conservative plans	Value of pension with optional consolidated special payment
Single pensioner	£72.50	£75.50	£78.60
Married pensioner couple	£115.90	£120.70	£124.00
Single pensioner over-75	£72.50	£76.50	£81.75
Married couple over-75	£115.90	£122.70	£128.20

(Source: Conservative manifesto 2001)

Funded pensions alternative for young instead of basic state pension

'The best way to make sure that people have decent incomes in their retirement is for them to invest during their lives in assets that will grow. But the state takes people's NI contributions and then fails to invest them, leaving pensioners with miserly pensions. We need to make it easier for people to provide for a prosperous retirement.'

'But Labour have hit private and occupational pensions with higher taxes. And many of the current generation of working people have expectations of the pension they are likely to receive which are unfortunately way ahead of the likely reality.'

'The best way to achieve higher pensions in the future is by more genuine funding of pensions. We wish to enable young people to build up a funded alternative to the basic pension for the future. No-one would be forced to change. The basic state pension would continue to be paid as now, not merely to current pensioners but to people of working age and new entrants who want it in the future. We will consult on how best to offer this new option of funded pensions for young people.'

Abolish compulsory purchase of annuities

'We will also abolish the rule which currently forces pensioners to buy an annuity when they reach 75. People with personal pensions will only need to ensure that they have sufficient income to keep free of means-tested benefits. The remaining capital in the pension fund will be theirs to keep and – if they wish – to pass on to their children.'

Long term care

'We also want to tackle another problem which preys on the minds of many people as they become older – meeting the costs of long-term care. Our proposed funding of the NHS matches Labour's plans and includes a commitment that all nursing care will be free at the point of use. But we need to go further to get at the source of the problem.'

'We will consider how people who have made prudent provision in advance for the cost of long term care can be protected from having their assets taken by the state if their actual care costs are more than could reasonably be foreseen.'



Liberal Democrats' Pensions Policy

The Manifesto gives commitments to:

- Boost the basic state pension, particularly for the over-75s
- Establish an Independent Pension Authority
- Strengthen the position of people with private pensions
- In the longer term, introduce a new Owned Second Pension Account
- And, extend the entitlement to the basic state pension to all citizens
- Remove taxation for the lowest paid
- Ban compulsory retirement ages

'Elderly people require both an immediate substantial boost to their incomes and a guarantee that their interests will always be considered not just in the run-up to General Elections. Under Labour, there has been a big increase in means-testing for pensioners. Many elderly people are too proud to claim money which is due to them. It is quite possible to target the poorest people in society without resorting to means tests.'

The Manifesto says, Liberal Democrats will:

'Increase the basic state pension by £5 a week for each single pensioner, £10 for the over-75s and £15 for the over-80s. Couples will receive £8, £18 and £28 respectively. We will give the most to older pensioners because they are amongst the poorest and neediest in the country. For the past 30 years, they have received a derisory 25p a week at 80 over and above the basic pension. We will also reward pensioners who have saved throughout their lives by scrapping the rules which deny help to people with savings above £12,000.

Fund big increases in pensions by setting a new top tax rate of 50p on income tax over £100,000 a year. To put this measure into perspective, for most of the Thatcher years, the top rate was 60p starting on substantially lower incomes.

Establish an Independent Pensions Authority. To guarantee that pensioners do not fall behind the rest of the population, the Authority will report annually to the Government on an appropriate uprating for the state pension. It will take into account levels of pensioner poverty, the growth in earnings and national income and affordability. We will also establish a more stable environment for pension planning by seeking to secure all-party consensus before making future pension reforms.

Strengthen the position of people with private pensions by ensuring that members of company pension schemes, including retired members, have a greater say over the use of their pension fund. We will also relax current rules which require people with personal pensions to buy an annuity on or before their 75th birthday.

In the longer term, the Liberal Democrats' goal is to:

Introduce a new Owned Second Pension Account. We believe that the best way to prevent poverty among future generations is to ensure that all people have a second pension of their own to

top up the state pension. Over time we would ensure that a growing proportion of the workforce were members either of a company pension scheme or had an Owned Second Pension Account, with the government making contributions for those who, because of ill health, unemployment or caring responsibilities are too poor to do so.

Extend the entitlement to the basic state pension to all citizens. People would no longer have to show a history of contributions in order to claim their basic pension. This would eventually help around 3.4 million people, mainly women, carers and long-term disabled people.'

Other Liberal Democrat policies that they say would help pensioners are:

'Remove taxation for the lowest paid. We believe that people start paying tax at too low a level and will work to reduce the burden of taxation on the low paid. Over time, we will cut the 10p tax rate to zero so nobody pays any tax on their earnings up to £6,500. At present, this would take 1.4 million people on low incomes (1.1 million of whom are women) out of tax altogether. Anyone earning less than £25,000 would pay less tax, even allowing for our 1p for education.

Establish a minimum income standard after carrying out research to establish the appropriate amount.

Fight age discrimination by banning compulsory retirement ages. Instead, we will provide for individuals aged 60 and over who wish to work to have an assessment of their ability to continue their job as part of an annual appraisal process.

Review regulation of the life insurance sector in the light of recent events at Equitable Life and elsewhere, to protect the savings and pensions of millions of people.'

