

General Election 2005: as the main political parties joust over pensions policy, has it become too important an issue to enable a long-term consensus to be built across the political divide?

Pension policies set to increase tax burden for the future

With the main parties saying little in their manifestos about pensions, save for a bidding war on who can promise the best State pension without over-burdening the country's finances, the impression is left that the real ideas for addressing the country's pensions problems rely heavily on the Pensions Commission report, due in the autumn of 2005. There are few policy initiatives mentioned that will boost the voluntary pensions sector and occupational schemes, where there are disturbing trends. In truth, the greater State spending on offer is likely to stretch the finances of whoever forms the next Government, particularly if the economy under-performs. If this is the case, then the problems in extending voluntary provision could escalate.

With the 'grey' vote forming an increasingly important part of the voting electorate, it is unsurprising that the main parties have placed their main emphasis on proposals to raise, in one way or another, the Basic State Pension or minimum incomes of the retired. Promises here can be more easily delivered, with the taxpayer (both today's and tomorrow's) left to pick up the bill. We analyse the different proposals on offer on pages 3-4. The ACA has long-supported the idea of a consolidated higher State pension over which voluntary pensions are built. But ducking the issue of raising the State Retirement Age – as all the parties do – makes the cost of all their proposals difficult to sustain over the longer-term. So what will happen if the benign economic conditions enjoyed since the mid-1990s end? In a more light-hearted piece, we indulge in a little 'futurology' on page 12.

Policies weak beyond State pension

The more difficult policy area, stimulating top-up occupational and personal pensions is, as we have seen over the last 20 years, more of a quagmire. Well-meaning Government action has been destructive of provision here and, put simply, occupational scheme sponsors and members or personal savers don't necessarily do what the Government would like, often for very good and logical reasons. So, whilst all the parties have a few words to say



on how they would promote occupational pensions and savings, the proposals range from interesting to weak and woolly. We take a look at their proposals on pages 5-8.

As this analysis goes to press, the Conservatives have built on their manifesto promises with a new incentive for basic and starting rate taxpayers to save for a pension.

This must be a welcome initiative. Otherwise, we only hope that the Pensions Commission under Adair Turner, reporting in the autumn of 2005, will energise the parties to address the means by which they can genuinely encourage voluntary provision over and above compulsory minimum provision. Hopefully, the pension policies before us in 2009 or 2010 might be a little more long-term in their nature.

What the Pensions Commission found

The first report of the independent Pensions Commission Report was published in October 2004. ***Pensions: Challenges and Choices*** was brutal in its assessment of what was needed.

Adair Turner, Chairman of the Commission, noted:

'Society and individuals face a huge challenge, but one that can be overcome. Longer lives and low birth rates will change dramatically the ratio of older to younger people. Major adjustments to average retirement ages and to pension provision are required. Over 9 million working people will face pensions they may consider inadequate, unless they save more or retire much later than their parents.

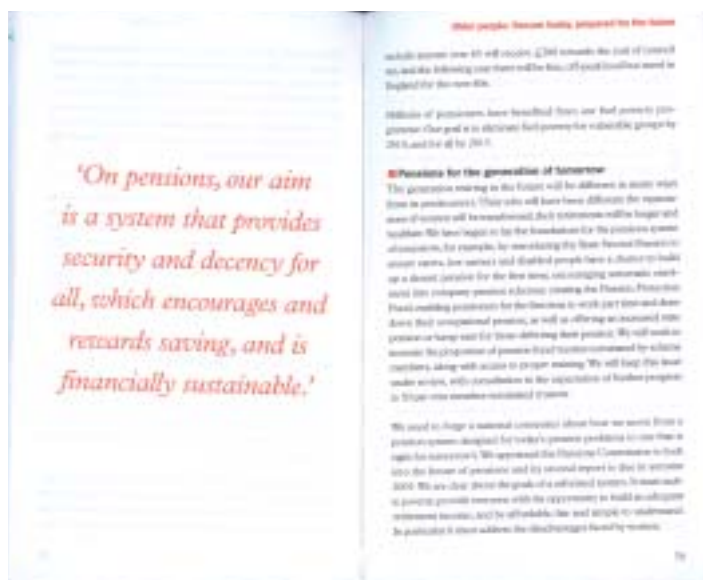
We must now make adjustments which we should have begun 20 to 30 years ago. And to get policy right we need to look comprehensively at all aspects of the problem.

Too often in the past, under successive governments, pension policy has addressed specific problems without a clear overall context. This has had unintended and adverse consequences.'

The report says that faced with the increased proportion of those aged 65 and over, society and individuals must choose some mix of:

- Pensioners becoming relatively poorer (least attractive option)
- Taxes / NICs devoted to pensions rising
- Savings rising
- Average retirement ages rising

Following consultations, the Pensions Commission is due to report its recommended solutions to the problems outlined in its report in autumn 2005.



"And because, more than anything, people need certainty to plan for the future we will seek a national consensus - cross-party, cross-generation - for long-term reform"

(Labour manifesto, 2005)

Big increases in State pensions are welcomed, but are the parties addressing the long-term cost implications with the same vigour?

All parties aim to increase State Pension (just don't tell the children who pays...)

Memories are apparently short in politics. How long ago is it that we abandoned an earnings-indexed Basic State Pension and then reduced the then State Earnings Related Pension Scheme (SERPS) accrual rate? And why? Wasn't longer-term cost the issue? And aren't our pensioner numbers since then growing at a record rate? In 2005, it would appear from our parties' manifestos that our economic position allows for a much bolder approach to State pensions.

By their nature, politicians live in the near-term. To them, with a few exceptions, the problem of financing pensions in 2020 or 2050 is for the birds. The 2005 manifestos are therefore good news for pensioners, but probably bad news for taxpayers as the years go by, particularly if some of the less attractive and braver political decisions are put off or simply evaded.

Enter, stage left, the **Labour** manifesto. They will continue to index the Pension Credit (now £109.45 per week, £167.05 per week for a couple), at least to 2007/08 in line with earnings. Whilst this will do nothing to encourage private savings at lower income levels – indeed it will extend the damage – it will guarantee upwards of 3 million pensioners (and rising) a good retirement pension, helping relieve poverty where it is often at its worst.

As far as we can tell, as it's not mentioned in the manifesto, the Basic State Pension (at £82.05 per week, £131.20 per week for a couple, trailing between £27 to £36 per week behind the Pension Credit) will increase in line with inflation plus, perhaps, a little more. The gap between it and the Pension Credit will grow.

Whatever else, the Pension Credit has offered many pensioners a very significant increase in income over preceding policies. The downsides are its growing cost, the damage it has done to encouraging savings at lower incomes and the dependency culture it fosters, particularly when set alongside other benefits.

No mention of State Retirement Age change

As with the other parties, Labour makes no mention of greater longevity justifying a prudent increase in the State Retirement Age. Labour's solution to this one so far has

been through the *2004 Pensions Act* measures to encourage pensioners to defer their retirement by increasing the deferred State pension and adding a deferred (taxed) lump sum facility. This means there is a flexible retirement age of sorts from 60 to 70, with different State pensions payable across the period, but it is doubtful this will shift the average retirement age to a significantly later one, which is what is needed.

The Labour manifesto sees the State Second Pension it established to replace SERPS as part of the foundation for the future, providing better pensions for carers, low earners and the disabled. There's no mention of a Citizen's Pension – rumoured to be supported by Messrs Blair and Johnson – but perhaps not Mr Brown's cup of tea as the mastermind behind the much more focused Pension Credit. Maybe, if the 'gap' narrows towards the end of the campaign, this rabbit will emerge from the hat.

Now, stage right, 'road to Damascus' style, enter the **Conservative** State pension package. They have been converted back to the (short-lived last time) idea of an earnings linked Basic State Pension that will keep pace with earnings growth elsewhere in the economy. They estimate that the Basic State Pension would rise by around £7 per week (£11 for a couple) plus inflation over the next 4 years using this formula. In financial terms, this has been costed for this Parliament, but – without more money being found in future budgets – upkeep of the commitment might become more difficult. Yes, it would raise all pensioners' incomes more certainly (around 1.5 million pensioners entitled to Pension Credit either deliberately or accidentally fail to claim it) and – over time – it would mean fewer pensioners would be subjected to means-testing (long the desired policy option, prior to Mr Brown, who – it appears – prefers a rising number benefiting from means-tested targeted State welfare).

Reducing means-testing would be good for self-respect and good for removing reasons not to save, particularly if you are on a low income. However, in the shorter-term, until the Basic State Pension rises to a much higher level, the Conservatives are committed to retaining the Pension Credit so pensioners do not lose out from the shift in policy.

The Conservatives are also committed to improving the NI contribution structure so it is easier for women, carers and those with career breaks to improve their State pension, but they are fighting shy of a Citizen's Pension, preferring to retain the contributory principle that underpins (however vaguely) rights to certain UK benefits.

In the longer-term, the Conservatives seem to be looking to close the State Second Pension (with accruals to that date protected) and ending contracting-out rebates, with the latter going towards funding improvements in the Basic State Pension and new incentives to boost voluntary savings.

Enter, stage middle, the **Liberal Democrats**. They are open converts to the concept of an earnings linked Citizen's Pension set at the same level as the Pension Credit (presently £109.45 and £167.05 for a couple), but initially for those aged 75 and above. A full Citizen's pension would be based on a residency test rather than a contributory basis, perhaps based on 20 years spent in the UK since age 25 or 10 years since age 25, 5 of which from age 50 (the New Zealand model). This would improve the pension situation of many women and carers, and also those with shorter residency and contribution records. In time, they would extend the Citizen's Pension to all over age 65, probably by ending contracting-out rebates (presently worth in excess of £11 billion per annum).

ACA comment on State pension offerings:

So, if you're a pensioner, you 'takes your choice'. For those with private savings, Conservative policies may be more attractive, but not in the shorter-term if your savings are small and you receive a large supplement under the Pension Credit, in which case the Labour strategy may appeal. If you're 75 or over, the Liberal Democrats' policy may be more attractive, particularly if your NI record is incomplete or you've been a UK resident for only a short number of years (but enough).

Are the policies sustainable?

Now, if you're a taxpayer, you should probably ask a lot of questions about how any of the policies can be financed long into the future as our pensioner numbers rise and those of working age reduce, at least in relative terms (see, *'What the Pensions Commission found'*, on page 2).

Are any or all of the parties' policies realistic without, say, a progressive increase in the State Retirement Age? And,

if that's the 'hidden agenda', won't delaying the inevitable both threaten the State guarantees being promised and make planning for those nearing retirement that much harder?

And what economic-risk is attached to raising State promises to a fast growing group in society? If economic growth rates fall just a little, how sustainable are these promises alongside calls from other services such as health and education?

Our desire to do the best for our retired population is laudable, but will our children, and their children, thank us for the economic straight-jacket that we are placing upon them. After all, it is our children and grandchildren that will pay what we are promising to ourselves so long as we retain pay-as-you-go funding of State pensions. In 50 years time, far fewer 'workers' will be supporting each pensioner's benefits. In an uncertain world where competition from lower-cost economies is of mounting significance should we be stacking up such large unfunded liabilities?



"We will abolish the rules that stop firms promoting pension schemes to their staff, encouraging employers to make pension schemes 'opt-out' rather than 'opt-in'"

(Conservative manifesto, 2005)

The poor relation of the parties' manifestos are realistic policies to encourage occupational pensions and private savings...

Few signs that parties grasp how to revitalise private pensions

We really do have to hope the Pensions Commission has got some compelling ideas to boost voluntary private pension provision. The parties' manifestos are at their weakest (in pension policy terms) in what they aim to do in the coming Parliament to address this highly important side of the 'pensions crisis'. Manifesto policies to reverse the tide of pension scheme closures in the face of rising costs range from, at best, interesting to weak and wooly. Then, think again, maybe it's for the best. Politicians have done more damage than good in recent times when legislating on occupational pensions, so a poverty of ideas might at least bring some inaction and stability!

Employer pension plans were once the bed-rock of UK private provision. Typically, these schemes offered defined benefit (usually final salary based), although most smaller firms were defined contribution based. The post-war growth of occupational schemes is one of the main reasons why so many of today's pensioners (although you might not think so from these Manifestos) are so much better-off than their predecessors. The incoming Labour government's ambition was that private pensions would provide 60 per cent of pensions (as opposed to 40 per cent, at the time), with State provision providing just 40 per cent. How matters have changed in under a decade (or not at all!).

Future generations of pensioners – who also face the higher taxes to meet rising State pension promises – will not be so fortunate as their predecessors, if recent trends continue; trends that will be immensely difficult to reverse.

Occupational pensions under threat

Among the UK's defined benefit schemes upwards of 67 per cent are closed to new entrants and an increasing number to future accruals. Whilst employers are often funding these closed schemes at record levels to reduce deficits due to weak investment returns in recent years and fast improving longevity, an increasing number of employees are reliant on lower-cost defined contribution schemes (where emerging benefits will be lower

than those from the 'old' defined benefit schemes). More worrying still, an increasing number of employees are not members of occupational schemes at all. How has this happened? The collapse of investment markets in 2000 was a key factor, as has been improved longevity and low interest rates. But other, politically driven, changes have not helped. Chief amongst these have been the extra cost burdens placed on schemes by successive governments enforcing benefit improvements that were not part of the original schemes' packages. On top of that has come a raft of legislation and regulation that has added to costs and administration. Often it seems to have been forgotten that occupational schemes are voluntary arrangements offered by firms whose prime purpose is to produce some other goods or services. Pensions are a benefit that once it becomes too costly to provide will be trimmed to suit.

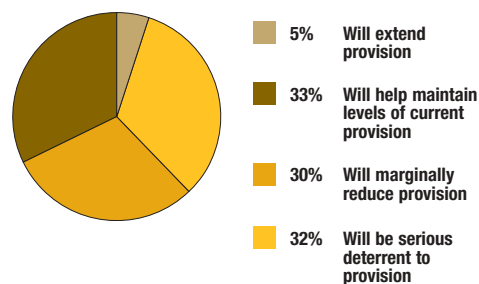
The removal of the ACT relief, which has raised upwards of £40 billion in tax from pension funds since 1997, certainly made matters worse. Many schemes would be in a much better condition today had this tax not been levied and, as the report of Oxford academics Tim Jenkinson and Leonie Bell commented, removing the relief did not boost company investment as Chancellor Brown said it would.

Pensions Act disappoints

More recently, the *2004 Pensions Act* was a grave disappointment. In its Bill stage there were hopes that it would harness the 'Pickering' simplification agenda. In the end, it turned out, by force of circumstance, to be a measure primarily devoted to protecting existing defined benefit scheme members' pensions by way of the Pension Protection Fund (PPF). Incentives to retain and build new occupational schemes were all but forgotten. The result has been grave disappointment with the Act and what it is likely to achieve. Not least, there are growing worries about the cost of the PPF – levies will at least double in 2006. For weaker sponsors, increases could be much higher. An excellent way to promote provision!

Pension schemes were recently asked:

Do you feel the 2004 Pensions Act will be helpful in extending occupational pension provision?



(source: ACA 2005 Pension Trends Survey)

The success of the Pension Credit has also undermined pension saving. The credit is withdrawn at a rate of 40 per cent for every extra pound of savings income, thus imposing in effect the top rate of income tax. The disincentive to save is affecting a worryingly large number of people. According to the Institute for Fiscal Studies, almost two-thirds of pensioners will be eligible for the Pension Credit in 20 years' time (if it lasts that long).

Backcloth to manifestos

So, in summary, the position facing our political parties in preparing their manifestos for private pensions was:

- occupational scheme provision at its weakest in terms of coverage since the 1950s
- many 'good' defined benefit schemes (probably now over 70 per cent) closed to new entrants
- an increasing number of employees in membership of lower-cost, with lower emerging benefits, pension schemes than their predecessors
- an increasing number of employees in no occupational scheme at all
- private saving adversely affected by high levels of means-tested benefits

The **Labour** manifesto (like the others') says very little about occupational pensions. It points to their record in laying the foundations for the pensions system of tomorrow through encouraging automatic enrolment into company pension schemes; creating the Pension Protection Fund; enabling pensioners for the first time to work part time and draw down their occupational pension. Stakeholder pensions are not mentioned at all.

The manifesto adds that Labour will work to increase the proportion of pension fund trustees nominated by scheme

members, along with access to proper training. This will be kept under review, with consultation in the expectation of further progress to 50 per cent member-nominated trustees.

Labour adds that there is a need to put the force of law on the side of older people who wish to continue working. Companies will no longer be able to force people to retire before the age of 65 except where specifically justified. All employees over the age of 65 will have the right to request of their employer that they be allowed to carry on working.

The manifesto leaves a lot to the Pensions Commission. Labour is clear about the goals of any reformed system it might propose - 'it must tackle poverty, provide everyone with the opportunity to build an adequate retirement income, and be affordable, fair and simple to understand. In particular it must address the disadvantages faced by women'. It adds 'and because, more than anything, people need certainty to plan for the future we will seek a national consensus - cross-party, cross-generation - for long-term reform'. There is no mention of incentives to open or run occupational schemes in the manifesto.

The manifesto also makes no mention of further compulsion, although during the campaign to date, there have been hints (initially) of major pension changes being considered at an early stage in the next Parliament, before spokesmen - including the Prime Minister - said that any major changes (compulsion included, if proposed) would have to await the verdict of a further General Election and could be many years away.

The **Conservative** manifesto is also thin on words, although supporting papers extend the depth of their proposals. There does seem to be a greater appreciation that actions are necessary to incentivise employers to offer good pension schemes before there is any chance that auto enrolment will be actively entertained by many employers.

The Conservatives would remove the cap on how much money senior executives can hold in their pension fund on the condition that every employee of the firm can join the scheme on similar terms. This is a concept that seems to derive from the US 401K plans, where a combination of anti-discrimination rules for executives and automatic enrolment for the workforce seem to align the interests of employers with employees. This is an interesting idea, but is unlikely to lead to a wholesale re-opening of closed arrangements. It may be more promising when new schemes are opened. A late development from the Conservatives (not featured in their manifesto) is their plan to boost tax relief from April 2006 to basic and starting rate

taxpayers (but not public servants in unfunded schemes). This move will cost, they say, around £1.7 billion a year and will boost every £100 saved by £10. It is understood this money could not be accessed until retirement. It is not clear how this new proposal will interface with the Conservative's Lifetime account proposals.

The Conservatives say they will ease the burden of regulation so that employers can promote 'good schemes' to employees.

On compensation for those falling under the *Financial Assistance Scheme*, the Conservatives would use unclaimed assets from financial institutions to increase the funds available to compensate those not covered by the present package (ie. not within 3 years of normal retirement age). With the Chancellor also keen to use such funds for charitable purposes, it seems that unclaimed assets are going to be under assault from the legislators. It remains to be seen whether the 'free lunch' of £15 billion so often referred to is a real number that it would be safe or legal to extract from financial institutions.

The **Liberal Democrats** are advocating a kitemark as part of their strategy to improve confidence in employer-run pension schemes. Such a move, they say, would reassure employees (and job applicants) that their company scheme met certain quality standards. Their earlier policy paper *Dignity and Security in Retirement* said this would involve the Pension Regulator creating categories for

pensions, so that a five-star pension would offer the best package of benefits, and a one-star the least attractive. A similar proposal from Labour a few years ago was eventually abandoned as unworkable.

The Lib Dems also support employees being automatically enrolled into employer schemes, whilst retaining the right to opt-out. This seems to step back a little from their earlier policy paper *Dignity and Security in Retirement* which called for companies to be allowed to make membership of a scheme compulsory. The change may stem from employers showing little interest in having such a freedom.

To help restore confidence in private pensions, the Lib Dems are also looking to improve the terms of the *Financial Assistance Scheme* so those caught out ahead of the establishment of the *Pension Protection Fund* receive the same level of benefits as offered by the PPF.

Dignity and Security in Retirement says the Lib Dems oppose further compulsion as this will be unnecessary once the Citizen's Pension applies to all those over age 65.

The Lib Dems are the only party that mentions public sector pensions. They say they will give proper time for consultation before making changes to existing public sector pension schemes and will honour the entitlements already built up.



"We will bolster the Government's compensation scheme to make sure that these workers are compensated at the same level available under the Pension Protection Fund"

(Liberal Democrats' manifesto, 2005)

ACA comment on occupational pensions and pension savings:

The ACA sees the future of occupational provision as built on top of a consolidated State pension payable from a gradually later age (moving to age 70 and maybe beyond), where the Second State Pension is closed and contracting-out ended. With the Basic State Pension indexed to earnings and sufficient to meet essential needs, means-tested benefits (where still needed) would form a much smaller proportion of income in retirement.

The above would provide a clear and simple basic structure for the public to understand. Savings made above this compulsory base by way of membership of an occupational pension scheme or private plans would be received in retirement on top of the basic. Inevitably, the structure will take time to build and there will be a transition period when matters are less clear.

But more will be needed than just State reforms. Private provision above this higher basic package ought to be voluntary, as people should be free to determine their income in retirement above the minimum and opt, if they prefer, for higher consumption. A free society must offer this option. That said, whilst the consolidated Basic State Pension will meet essential needs, as many of the public as possible should be encouraged to save so they are as independent as possible.

We must look to our political masters to get the package right that will allow for a turnaround in pension saving, both in personal plans and in occupational schemes. In the main, the 2005 party manifestos fail to inspire in that regard.

Commenting on a few of the proposals made (and not made):

- New financial incentives are needed to encourage firms to offer good pension schemes. We doubt removing the cap on how much senior executives can hold in their scheme provided such a scheme is opened up to all members on similar terms will really work in re-opening defined benefit schemes, but it may inject some new vigour when new schemes are opened. A more direct incentive to employers to open and continue to run schemes of a certain standard is needed.
- We doubt automatic enrolment will be taken up by more than a minority of employers. The cost of such a decision will weigh against it, save for the largest firms.
- Kite-marking is a nice idea, but recent experience suggests that this would be difficult to apply. There could be rough justice in applying such a mark, and

expecting the Regulator to act as the kite-marker could involve a whole range of conflicts. The Government, employers and pension bodies should, however, come together and promote 'good' pension schemes, to include schemes that share risks such as low-cost defined benefit schemes, with lower targeted benefits.

- Greater member-nominated trustee representation may sound attractive in some quarters, but it belies the difficulties many schemes have in recruiting such trustees and it is arguably more important that more qualified and experienced independent trustees are needed on boards to advise lay trustees.
- The cost of the Pension Protection Fund is already a concern, albeit that such a fund is needed to protect defined benefit scheme members. Using a proportion of unclaimed assets, provided this is safe and legally possible, to boost the Financial Assistance Scheme and to provide the PPF with reserves, would seem preferable to directing these funds elsewhere or leaving them with financial institutions.
- Allowing employers to promote their scheme without hindrance or possible penalty from Regulators is to be welcomed, provided such schemes are of a certain standard.
- The over-regulation of pensions, despite widespread consultations on simplification, remains a major problem. In part this is as a result of the rushed way in which legislation and regulation is dealt with by Whitehall and Parliament (*the recent 2004 Pensions Act is a classic example*). Procedures and timescales need to be more disciplined and, importantly, Regulatory Impact Assessments need to be conducted or checked by independent organizations of Government ahead of measures being fixed upon.
- Rather than have firms close pension schemes, the next Government must enact genuine pension simplification, including the right for employers to change scheme rules retrospectively (subject to regulatory approval) to avoid increases in cost due to longer life expectancy, for example by raising normal retirement age. Schemes in deficit should also be able to suspend Limited Price Indexation until they remove their deficit.
- Encouragement of longer-term or Lifetime accounts should be such that longer-term investments attract higher tax relief than shorter-term savings products. The Conservatives late announcement of extra tax relief for those on the basic and starting rate of tax is a welcome initiative, as it is understood that defined benefit schemes (where there is a member contribution) will receive the appropriate extra relief in their general fund, as well as members of defined contribution schemes and plans.



Labour's Pensions Policy

Inevitably, Labour's pensions policies are those that it has developed over the last 8 years in Government, plus new pledges in their manifesto for this General Election. 'Our priorities now are to build a national consensus for tomorrow's pensioners, combining public and private pension schemes to build security in retirement, and to extend the quality of life of older people'. 'And because, more than anything, people need certainty to plan for the future we will seek a national consensus – cross-party, cross-generation – for long-term reform'.

The manifesto notes that the second Pensions Commission report is due in autumn 2005. 'We are clear about the goals of a reformed system. It must tackle poverty, provide everyone with the opportunity to build an adequate retirement income, and be affordable, fair and simple to understand. In particular it must address the disadvantages faced by women'.

The manifesto makes no mention of compulsion. Nor, despite comments over the last few months from Alan Johnson, the Secretary of State for Social Security, is any mention made of any possible move towards a Citizen's pension.

State pensions

Labour's manifesto notes that the Pension Credit, introduced by this Government, means no pensioner now need live on less than £109.45 per week (couple £167.05 pw). Pension Credit also rewards pensioners aged 65 or over who have saved for their retirement, ending the unfair, absolute penalty on savings that removed all incentives to save says Labour. Pension Credit is now claimed by over 3 million pensioners, with, says Labour, women particularly benefiting. The manifesto commits Labour to increasing the Pension Credit in line with earnings up to and including 2007-08. No commitment is given about the level of Basic State Pension increases.

The Second State Pension, introduced to replace SERPS, has been introduced by the present Government and structured to ensure low earners, carers and the disabled are able to build a higher pension. Through the 2004 Pensions Act, Labour notes that the Government has enabled people to retire later on an increased State pension or lump sum if they defer their State pension.

Occupational pensions

The manifesto notes the Government has 'begun to lay the foundations for the pensions system of tomorrow' through encouraging automatic enrolment into company pension schemes; creating the Pension Protection Fund; enabling pensioners for the first time to work part time and draw down their occupational pension, plus the State reforms mentioned above.

The manifesto adds that, Labour will work to increase the proportion of pension fund trustees nominated by scheme members, along with access to proper training. This will be kept under review, with consultation in the expectation of further progress to 50 per cent member-nominated trustees.

Labour adds that there is a need to put the force of law on the side of older people who wish to continue working. Companies

will no longer be able to force people to retire before the age of 65 except where specifically justified. All employees over the age of 65 will have the right to request of their employer that they be allowed to carry on working. After five years, Labour will review whether there should be any fixed retirement ages.

Other pensions policies

Labour is committed to giving older people greater choice over their care. Those in receipt of care are to be offered transparent individual budgets which bring funding for a range of services, including social care, care homes, and housing support together in one place. This will be piloted by the end of this year.

Summary of Labour's policies

- **Increase the Pension Credit in line with earnings up to and including 2007-08**
- **Following the measures introduced in the 2004 Pensions Act, further reforms will follow from the Pensions Commission Report due later in 2005. These reforms must tackle poverty, provide everyone with the opportunity to build an adequate retirement income, and be affordable, fair and simple to understand. These reforms are likely to be implemented no sooner than after the next General Election (ie. not after this 2005 Election)**
- **Companies will no longer be able to force people to retire before the age of 65 except where specifically justified**
- **All employees over the age of 65 will have the right to request of their employer that they be allowed to carry on working.**





Conservatives' Pensions Policy

Summarising his party's approach to pensions in an interview by the *Financial Times*, pensions spokesman, David Willetts said, "this isn't just about encouraging people to save through pensions. It's about changing attitudes, so that people get into the lifetime savings habit – and stay there. To achieve that we need to give a clear message that it pays to save, that it is safe to save and that there is a real incentive to save."

State pensions

The Conservative manifesto says they will increase the Basic State Pension in line with earnings rather than prices, reversing the spread of means-testing. Over 4 years, this will increase the value of the BSP by around £7 per week for a single pensioner and £11 a week for couples – on top of increases in line with inflation. In their fuller policy document *Action for Older People*, they confirm that 'no one will lose out' in that Pension Credit will be retained, but gradually fewer pensioners would need to claim means-tested benefits. The 1.6 million entitled, but not claiming, means-tested benefits would gain from the higher Basic State Pension.

Action for Older People looks beyond the shorter-term and adds 'for the future, we believe there is a case for simplifying the state pension system further by consolidating the State Second Pension into a higher Basic State Pension. Like the current Government, we will consider whether and when new accruals to the State Second Pension should go flat rate rather than varying with earnings. All accrued rights to the second-tier pensions will be honoured in full'. Their earlier paper *A Fair Deal for everyone on Pensions* added, '...at the same time, we will consult on whether the money spent on contracting out rebates would be better spent on new incentives for pension saving'.

Action for Older People also adds that the Conservatives will modernize the current contributory system. They say they will reform the way the system works to help women, those with low earnings, or those who take career breaks for children or sick relatives. They will abolish the rule that stops women who have paid NICs for less than 10 years from getting any Basic State Pension. They add, 'we will also modernize the way State pension rights are earned so it becomes easier for women to build them up'. A flexible weekly credit will replace the rule whereby credits are not granted at present for those raising children or caring for sick relatives if the absence is less than a whole tax year.

Occupational pensions

The Conservatives say they recognize that many employers have lost their appetite for providing pensions to employees. Their proposals therefore look to incentivise bosses by giving them an interest in providing schemes. They would remove the cap on how much money senior executives can hold in their pension fund on the condition that every employee of the firm can join the scheme on similar terms.

Once this alignment of interest had been achieved, employers would be given the right to automatically enroll employees into the scheme.

The Conservatives say they will ease the burden of regulation so that employers can promote 'good schemes' to employees.

A late-breaking development has been the Conservatives plan to increase tax relief on pension contributions for those on basic or starting rate tax (but not those in the higher rate tax band) from April 2006. This would not be paid to those in membership of unfunded pension schemes, but otherwise would be paid direct into both occupational schemes and personal plans. It is understood the money saved could only be accessed after retirement.

On compensation for those falling under the *Financial Assistance Scheme*, the Conservatives would use unclaimed assets from financial institutions to increase the funds available to compensate those not covered by the present package (ie. not within 3 years of normal retirement age).

On annuities, the fuller document *Action for Older People* says the Conservatives will abolish the requirement to buy an annuity at age 75 'provided people do not become dependent on means-tested benefits'.

Other pensions policies

Their Lifetime Savings Account proposal is designed so savings start early, with easy access to the money, 'to create a precautionary, prudent approach to lifetime savings that works throughout the lifecycle'. To attract interest, contributions would be topped up by Government on (as Willetts puts it) a 'buy one, get one free' basis. It is not clear how this will interface with the Conservative's announcement (mentioned above) to increase tax relief on pension savings for those below the higher rate tax band.

Relevant to pensioners, the Conservatives have pledged in *Action for Older People* that if someone pays for their first 3 years of long-term care out of their own resources, then a Conservative government will pay for the remainder of care, without means-testing.

Summary of Conservative's policies

- **Boost Basic State Pension by restoring earnings link, increasing the level by around £7 per week (£11 pw for a couple) plus inflation over 4 years**
- **Modernise NI contributions system so rules are enhanced to improve State pensions for women, carers and those with career breaks**
- **Use unclaimed assets from financial institutions to pay better compensation through the *Financial Assistance Scheme* for those who have lost pensions prior to establishment of PPF**
- **Remove cap on how much money senior executives can hold in their pension fund on condition every employee can join the same scheme on similar terms**
- **Once (above bullet) implemented, use automatic enrolment to bring greater participation in company schemes**
- **Allow employers to promote schemes without fear of regulatory penalty**
- **Increase tax relief by £10 for each £100 put into a pension for those on basic and starting rate tax. Introduce Lifetime Savings Accounts where contributions are topped up by Government**
- **Launch Government Longevity Bonds to help pension funds match their longevity risks.**

More Police
cleaner hospitals
Lower Taxes
School Discipline
controlled immigration
Accountability

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IT'S TIME FOR ACTION
CONSERVATIVE ELECTION MANIFESTO 2005

Liberal Democrats' Pensions Policy

Interviewed recently by the *Financial Times*, Steve Webb, the Liberal Democrats' pensions spokesman noted, "unless you sort out the Basic State Pension you can't sort out the incentives to save and you cannot tackle pensioner poverty."

State pensions

The centre-piece of Liberal Democrats policy is therefore to increase the State pension and restore the link with earnings so that far fewer pensioners (around 1 million) will need to rely on means-tested benefits. It is accepted that there is a big cost in raising the Basic State Pension to the suggested level of £109.45 per week (couple £167.05), and therefore the Liberal Democrats' initial ambition is to start this process by implementing for those over age 75. Whilst SERPS and S2P benefits accrued to date would be honoured, the Liberal Democrats, it appears, would abolish these once the Citizen's Pension (see below) was paid to those eligible over retirement age. Private savings would then mean (to quote Webb) "for every £1 you save you are £1 better off."

The Lib Dems also favour converting the State pension into a Citizen's Pension for those aged 75 unrelated to national insurance contributions. This is intended to improve the position of women and carers, but would also assist those with shorter UK residency or a checkered national insurance record. Their earlier policy paper *Dignity and Security in Retirement* (published in August 2004) suggested residency might be based on 20 years spent in the UK since age 25 or 10 years since age 50, 5 of which from age 50 (the New Zealand model). This same paper acknowledges that the cost of extending the Citizen's Pension could be financed by the removal of NI rebates as the need for an additional State pension 'will no longer exist. Therefore it would be illogical to keep the rebates which exist for those who have contracted-out'. The same paper notes that further compulsion on employers and savers would not be needed once the Citizen's Pension was fully established.

The Lib Dems manifesto is silent on raising retirement age. Its policy paper *Dignity and Security in Retirement* says that it will be 'sensible to review the age at which the State pension is payable. We would ask the Independent Pensions Authority (a new body to advise government) to consider this, looking at the changing demographics and other relevant trends.'

Occupational pensions

The Lib Dems are advocating a kitemark as part of their strategy to improve confidence in employer-run pension schemes. Such a move, they say, would reassure employees (and job applicants) that their company scheme met certain quality standards. Their earlier policy paper *Dignity and Security in Retirement* said this would involve the Pension Regulator creating categories for pensions, so that a five-star pension would offer the best package of benefits, and a one-star the least attractive.

They also support employees being automatically enrolled into employer schemes, whilst retaining the right to opt-out. This seems to step back a little from their earlier policy paper *Dignity and Security in Retirement* which called for companies to be allowed to make membership of a scheme compulsory.

The earlier paper also called for a 'flexible decade of retirement' where workers combine part-pension and part-work; early age discrimination legislation that is vigorously enforced; the scrapping of arbitrary retirement

ages and making student loans available to those aged over-55 so older people can return to education and training.

To help restore confidence in private pensions, the Lib Dems are also looking to improve the terms of the *Financial Assistance Scheme* so those caught out ahead of the establishment of the *Pension Protection Fund* receive the same level of benefits as the PPF.

The Lib Dems say they will give proper time for consultation before making changes to existing public sector pension schemes and will honour the entitlements already built up.

Other pension policies

The Lib Dems support greater private pension savings and feel that complexity as well as confidence are undermining the sector. They argue that National Savings & Investments, the government fundraising agency, should play a bigger role in pension savings by offering low-cost pension vehicles – the argument being that this would help restore confidence by being a trusted provider. In their earlier policy paper *Dignity and Security in Retirement*, NSI would offer a 10 or 20 year FTSE Tracker, as well as conventional gilt-edged, index-linked gilts and money market/cash deposits.

Summary of Liberal Democrats' policies

- **Restore earnings link for pensions and increase Basic State Pension to £109 per week, starting with those over age 75**
- **Basic State Pension to become Citizen's Pension subject to simple residency test, improving pensions for women, carers and those with shorter NI records or residency**
- **Introduce a 'kite mark' for employer-run schemes**
- **Employees to be automatically enrolled into their employer's pension scheme, but retaining the right to opt out**
- **Improve level of compensation for those who have lost all or part of their pensions ahead of the establishment of the Pension Protection Fund**
- **National Savings & Investments to play bigger role in offering low-cost pension products.**



It's 6 May 2050 and the political scene in the UK has changed beyond recognition...

“It’s a Grey world, time is on our side,” says leader as party wins first absolute majority at the polls

No one quite believed it, but on reflection it was probably inevitable. The Grey Party, formed just 20 years ago, has won its first majority in Parliament. New Prime Minister, Charles Bloward, entered No.10 minutes before the 11pm curfew hour, with a mandate to increase State pensions by 10 per cent, to increase the general tax rate by 5 per cent and to introduce higher baby grants designed to enliven the birth rate.

When the ‘old’ parties – during the financial crisis of 2030 – froze the so-called Citizen’s Pension for 3 years to halt an intervention by the IMF, the consequences had not been foreseen. Whilst the move had helped check the soaring government deficit and enabled the then government to hold the basic tax rate at 45 per cent, it had been too much for a group of older MPs drawn from Labour, the Conservatives and Liberal Democrats. They had been angered by the recent ‘late’ decision to raise the State Retirement Age to 72 from 2040. As the MPs, alongside senior civil servants, had the only open final salary scheme (left protected by Royal Charter) it was thought self-interest would prevail, but events aided a fast increase in the Grey party’s representation.

First, in local government, where it was soon realised the only people who had any time to be councillors were the ‘Greys’, they swept to power in 2035. Spending on care services and the police grew quickly, accelerated by cuts made under the empty schools closure programme and increased Council taxes on the under 60s.

Then, came the crisis in France and Italy that led to the collapse of the Euro. Both countries had failed to address their demographic crises anything like early enough and measures to cut pensions and other benefits led to civil disorder and over-throw of their respective governments. Worried by the precedent and the disorder that followed, the growing predominance of older voters in seats throughout the country, led to the Grey party becoming the Official Opposition after the 2040 General Election.

The 2045 election had been a near break-through. There were ugly conflicts during the campaign indicated growing signs of an inter-generation battle. Signs daubed by youths on posters across the country, saying ‘Mug a granny...it’s the only tax rebate you’ll ever get’ had been deplored by the

‘old’ parties, but the fear prompted a record vote for the Greys. Some sensed the aged (but still young-looking: he was an early user of human rejuvenation in 2030) and wily Lord Sedgefield, a recent recruit to the Greys, was behind the poster campaign.

Five years on, the Greys gained their absolute majority, although economic conditions seemed unfavourable to their manifesto aims. With a key five-point plan to raise pensions; to raise healthcare spending on the over 60s; to increase general taxation on the under 60s; to close more empty schools and new grants to encourage more babies (ie, new taxpayers), it was thought the message was too cynical. The opposition parties had argued that a Grey government would mean ‘enslaving the under 60s to a life of high taxes and dawn to dusk work no better than Dickensian England’. In the end, demographics won. The ‘old’ parties simply lacked the unified voting muscle of the Greys.

Speaking from No.10, the 85 year old new Prime Minister, Charles Bloward commented:

“I owe it all to those politicians who failed to grasp what Lord Turner said in his 2005 report. If they had acted then, I think the problems that led to our Party’s establishment and growth simply wouldn’t have occurred. Now it’s a ‘Grey world’ and old people can expect to be running most aspects of our country’s life for years ahead. Time is on our side.”

