

Election 2010 – Pensions Proposals

Recent polls are suggesting the outcome of the 2010 General Election on 6 May is anything but clear-cut. In fact, there is a real possibility that the closest election for some time will result in a hung parliament.

The three main parties vying for your vote have now published their manifestos, setting out their proposals and the policies they would implement if elected. From a pensions point of view, what is set out in the documents is rarely supported by detailed information. However, below we summarise what we know about some of the key pensions-related policies and consider who potential winners and losers might be.

	Conservatives	Liberal Democrats	Labour
State pensions	<ul style="list-style-type: none"> • Carry out a review of State Pension Age (SPA) • Bring forward date SPA rises to 66 (but not sooner than 2016 for men and 2020 for women) • Re-establish link between Basic State Pension and earnings 	<ul style="list-style-type: none"> • Once resources allow, introduce Citizens' Pension based on residence, not contributions • Immediately link state pension to greatest of: <ul style="list-style-type: none"> ○ growth in average earnings ○ price inflation ○ 2.5% pa 	<ul style="list-style-type: none"> • No proposals to change current approach, ie: <ul style="list-style-type: none"> ○ Equalise SPAs at 65 for men and women by 2020 ○ Increase SPA to 66 (for men and women) by 2024 ○ Increase SPA to 68 by 2046 • Re-establish link between Basic State Pension and earnings from 2012
<p>Comment: Some common themes appear in relation to State Pensions. Whilst the Liberal Democrats' proposal is more generous (and detailed), all three are committed to re-linking state pensions to earnings. The Conservatives are proposing a swifter rise in State Pension Age than the current Labour approach. Although there isn't much detail to be had, the Liberal Democrats' proposals perhaps demonstrate a little more "thinking outside the box".</p>			
Taxation	<ul style="list-style-type: none"> • When resources allow, start to "reverse the effects of" abolition of dividend tax credit 	<ul style="list-style-type: none"> • Increase income tax threshold to £10,000 for all • Restrict tax relief on pension contributions to basic rate for all 	<ul style="list-style-type: none"> • Continue to offer "favourable tax treatment" • Have already restricted tax relief to basic rate for high earners (earning over £150,000 pa)
<p>Comment: The restriction of tax relief for high earners has been a controversial hot topic in recent weeks. The Liberal Democrats' proposals, used to fund a generous rise in the income tax threshold, could hit middle-income individuals hard if they are making decent pensions savings. The Labour approach, affecting the highest earners, is horrendously complicated and reluctantly supported by the Conservatives. The Tory proposal to undo the abolition of dividend tax credits, if implemented, will be welcomed by pension schemes but could prove costly to the taxpayer. The devil will be in the detail...</p>			

	Conservatives	Liberal Democrats	Labour
Flexibility and encouragement	<ul style="list-style-type: none"> Abolish compulsory annuitisation at 75 “Look at how to” abolish default retirement age “Simplify rules” to encourage companies to offer pension schemes 	<ul style="list-style-type: none"> Abolish compulsory annuitisation at 75 Abolish arbitrary retirement ages and introduce a “flexible decade of retirement” Allow early access to pension funds in times of financial hardship 	<ul style="list-style-type: none"> Consider “Risk sharing” options Review default retirement age
	<p>Comment: There is little to choose between the three parties here – they each pay lip service to encouraging decent pension provision (despite seeming to support the removal of favourable tax treatment for some). Whatever the outcome of the election, it seems that the ability for employers to compel staff to retire at 65 will not remain for long.</p>		
Pensions for all	<ul style="list-style-type: none"> Generally in support of auto-enrolment, but should be brought forward Review NEST Plan B? (Not made public) 	<ul style="list-style-type: none"> No stated policies on auto-enrolment / NEST 	<ul style="list-style-type: none"> Continue to support auto-enrolment – phasing in between 2012 and 2017 NEST to proceed as planned
	<p>Comment: All three main parties seem to favour auto-enrolment and the Conservatives may even bring forward the staging dates. There does not, however, seem to be a consensus on NEST. It has been said that the Conservatives have a Plan B for NEST, but it won't be made public unless necessary. The most noticeable aspect of the parties' manifestos in this regard is the lack of detailed policy.</p>		
Public sector pensions	<ul style="list-style-type: none"> Move away from MPs' final salary pension scheme £50,000 pa cap on public sector pensions Work with businesses / trade unions and others to address “growing disparity” between public and private sector pensions whilst protecting benefits already earned 	<ul style="list-style-type: none"> Independent review of public sector pensions Reform public sector pensions to make them “sustainable and affordable” in the long term 	<ul style="list-style-type: none"> No plans to close public sector defined benefit schemes Some cost cutting measures have been explored
	<p>Comment: It is clear that all three parties recognise a disparity between the public and private sector in terms of retirement benefits. The Conservatives' manifesto goes furthest, spelling out exactly who is in the firing line for certain cuts.</p>		

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