The party manifestos: what pension schemes need to know

The publication of Labour's manifesto yesterday means we can now assess the main parties' proposals for pensions if they form a government.

Manifestos typically paint a broad picture of what a party intends to do in power, and governments often carry out changes that weren't in the manifesto. For example, the Conservatives said nothing about scrapping the lifetime allowance (LTA) at the 2019 election.

But the parties' proposals indicate that pension schemes will be kept busy after the election.

Labour's review: more detail required

With Labour 20 points ahead in the polls, it makes sense to look most closely at the party's proposals. Here are the key points:

- Pension funds and other financial institutions will be required to develop "credible transition plans" aligned with the Paris Agreement on climate change.
- A Labour government will require pension funds to increase investment in UK markets and adopt reforms so that workplace pension schemes consolidate
- The triple lock will remain, and Labour will make changes to workplace pensions to improve outcomes for savers and pensioners.
- As previously announced, Labour will carry out a review of the pensions market to improve security in retirement and increase investment in the UK economy.

The goals of Labour's review are vague at this point, but we can assume it will create further work for pension schemes already dealing with multiple demands. If the review encourages and extends pension provision for the many who aren't saving enough for retirement this will be a good thing. We will wait for more details.

There was no mention of Labour's plans for the lifetime allowance or pension tax relief. In the lead-up to the manifesto, the party briefed that it wouldn't reinstate the LTA and that it has "no plans" to change pension tax relief. These are both ideas that Shadow Chancellor Rachel Reeves had advocated, and we welcome the apparent clarification.

But let's see what happens after the election. In the words of the Institute for Fiscal Studies, there is a "conspiracy of silence" among the major parties about the public finances. Faced with reality after 4 July, the next government may find the UK's pension funds too tempting a target.

The triple-lock plus is the Tories' main offer

Turning to the Conservatives, the party has confirmed that a Tory government won't interfere with the tax-free lump sums on retirement or tax relief on contributions. The only new element from the Tories is a so-called triple-lock plus that includes the personal allowance for pensioners. This is to try to prevent more pensioners on low incomes paying tax on their State Pension. The cause of this, of course, was the freezing of personal allowances by the Tory government!

However, the Conservatives' proposals aren't all good news for pensioners. Because pensioners over State Pension age don't pay national insurance (NI) contributions, they won't benefit from the Tories' proposed cuts

to NI rates. Indeed, pensioners are vulnerable to overall tax and NI charges increasing as governments (Tory or otherwise) try to simplify the tax system. Finally, the Liberal Democrats, like Labour, would require pension funds to stick to the Paris Agreement on climate change.

The pensions minister will have a full in-tray

Whichever party wins the election, the new pensions minister will have plenty to do. We are still waiting for the Pension Regulator's Funding Code. The code affects all pension scheme actuarial valuations with an effective date after 22 September 2024. With summer recess and conference commitments, this is a tight timetable and no-one has seen the detail.

There are also many items in the pending tray and some we suspect in the "too difficult" tray. Taken together, these include:

- Feedback and action on the consultation about defined benefit scheme surpluses
- Consolidation of schemes, master trusts, and the Pension Protection Fund as a consolidator
- Consolidation of small pension pots and the Australian-style pot for life
- The new collective defined contribution schemes in the likeness of Royal Mail

Let's hope we get a minister with a passion for pensions and long-term savings provision, not just someone who sees the job as a stepping stone. And let us not forget our friends in the Treasury who will have equally demanding priorities. We need them to put in place the final regulations so that LTA abolition can work and members' benefits can be settled with certainty.

One way or another, we will all be kept occupied whichever party wins the election.

Image
party manifestos



View PDF
Insights
Author
Phil Wadsworth, Chief Actuary, Aptia
Author photography
Image
Phil