Pensions Q&A Oct 2010

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PENSIONS Q&A

Pushing the boundaries of a 'quarterly' here but finally here it is, the Autumn Q&A. One or two issues to cover, I'll try to find some good news but this is pensions, even the good news is bad news. So in this edition – the inaccurately named Spending Review, Hutton part one, LGPS stats and tax & state pension changes. I know, you can't wait, imagine how we feel!

THE COMPREHENSIVE ~~SPENDING~~ CUTS REVIEW

Good news for all of you who were worried you'd get your state pension too soon. The state pension age is going up for everyone from 2020 to 66 – still waiting for the government to claim they've delayed the ageing process…

Good news for those of you in the public sector who want to pay more for your pensions, hidden away in the small print is a 3% increase in employee contributions – a bit of bad news on that, increasing contributions to the Local Government scheme does nothing to repair the public finances because local government pensioners aren't funded by the Treasury, but the Chancellor won't let a little fact like that get in the way.

HUTTON THE FIRST

As we know, the key to being employed by this government is to be called Hutton (suddenly the means of identifying 490,000 public sector workers for redundancy becomes clear – it's anyone not called Hutton). Earlier in October John H. published his interim report into public sector pensions. Now he forgot to mention unions or the distinctiveness of the local government scheme but he did manage to agree with us that basically the schemes are sound and defined benefit provision continues to be the way forward.

Hutton II – The Revenge, is due out in April, watch out for spoilers from the government: when his Commission was launched they cut indexation, in the same month he published his interim report they hike up employee contributions (despite his recommendations), the mind boggles what they'll do when his final report is issued but public sector workers should be wary of leaving their life savings unattended.

LGPS – MORE GOOD NEWS

DCLG (the government department that runs the LGPS) has announced the scheme's latest stats which show, miracle of miracles, that things aren't as bad as the Daily Mail would like us to believe. The value of the funds has increased by 36%, to £132billion and income, as in previous years, has exceeded expenditure by around £4bn – not bad going for a scheme described habitually by the government as unaffordable and unsustainable.

Good news for environmentalists too, the Secretary of State, Eric Pickles is leading the way in recycling by using the exact same press release this year in government as he used last year in opposition. Fans of consistency should also applaud, his comments are just as inaccurate this year as they were last year.

TAX RELIEF CHANGES – GOVERNMENT DEFINES SOME VERY SLIGHTLY BUILT INDIVIDUALS AS THE ECONOMY'S 'BROADEST SHOULDERS'

Any reading of the coalition's definition of fairness would cause you to think that only the very highest earners would have the tax relief on their pension contributions cut. Unfortunately the last government had beaten them to it by introducing cuts to tax relief for those earning over £130,000 – broad shoulders in most people's books. This government thinks it's fairer to spread this cut over many more people, focusing particularly on those made redundant (presumably this reflects their obsession with causing redundancies). So now anyone deemed to have increased the value of their pension by more than £50,000 in any one year – and this is feasible if pension enhancement is part of a redundancy package – could be liable for a tax charge. Just what you need in that situation.

STATE PENSION OF £140 A WEEK

Well now this does sound like good news doesn't it, especially after the 1.5% cut in pension increases many with occupational pensions will endure from April? Accept sadly it's a kite-flying press leak not a government announcement and the more you look at it the less convincing it becomes. Couple of issues that the press seem to be ignoring:

- The £140 a week is not due to be introduced until 2015 by which time even the Office of Budget Irresponsibility estimate the state pension plus Pension Credit will be over £148 per week. In fact by April 2012 the minimum income a pensioner would receive in state pension and Pension Credit goes over the £140 mark.
- The reports say all this will be affordable because of the savings made by cutting the complex means testing bureaucracy (which is, undoubtedly, expensive). Call me an ~~old~~ youngish sceptic but if it was that easy why didn't politicians from all sides leap on GMB's policy to use the savings from scrapping means testing to increase the state pension years ago?
- A universal benefit at this level would actually be achieved by getting rid of lots of other elements of state pension provision: Pension Credit, Saving Credit and Additional State Pension. This will do nothing for the poorest pensioners and could be particularly galling for those who have paid for the additional pension but find they would have been better off putting it on a legless donkey in the 3.30 at Newmarket.
- As each day passes the story gets watered down. Now it transpires that the £140 will only be payable for new pensioners and with the state pension age increasing on an almost weekly basis it is becoming clear how this policy will be afforded. If no one ever hits retirement age because it keeps being increased then government never have to pay the £140. Makes you wonder why they've leaked a pension of only £140, they could have made it higher, you know, like above the poverty line…

So there you have it, another joyous edition of the Pensions Q&A. More fun and frolics in the next edition, until then, our webpage is always happy to see you…