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Pensions - the ghost of things to come?

The Government's Green Paper "Simplicity, Security and Choice: Working and Saving for Retirement" outlining proposals for the future of pensions provision in the UK has been published just in time for Christmas. Reaction has been predictably mixed, but the feelings of many are probably best summed-up by *The Sun*: "Britons would work until they drop under plans announced yesterday to scrap the compulsory age of retirement," it tells its readers. "The future sounds like something Dickens might have written about ... weary workers struggling to earn their keep into their old age."

But like Dickens' third ghost of Marley, The Sun's vision of the future is just one of all possible outcomes. The headline-grabbing proposal to change retirement ages is merely part of a whole raft of proposals aimed at transforming pensions provision.

Retirement ages

Despite reports implying otherwise, the State Pension Age will actually remain at 65. However to encourage people to work for longer, the Green Paper suggests that those who defer claiming their State Pension to at least age 70 could see a 50% increase in their weekly payment. It also considers whether pensioners retiring at 70 could take a lump sum of perhaps £20,000 instead of the enhanced pension.

In occupational pension schemes, the Government proposes measures to ban compulsory retirement at any given age except in special case occupations. It also proposes allowing people to continue working for their employer whilst drawing some, or all, of their occupational pension. With regard to early retirement, the Government intends that schemes should

not permit retirement before age 55. It is proposed to introduce this restriction in 2010, meaning that it will effectively apply to anyone who is now aged 42 or under.

For public sector employees it is proposed to increase the pension age from 60 to 65 for new staff, affecting teachers, nurses and civil servants amongst others.

A simpler tax framework for pensions

There are currently eight separate pension tax regimes applying to different forms of pensions provision. The Government's proposals include introducing a single tax regime with existing limits replaced by a simple restriction of any individual's 'fund' to around £1.4 million and an annual contribution limit of £200,000. The proposals retain the right to take part of the retirement benefit as a tax-free lump sum, but with a new single limit of 25% of the individual's total retirement fund value.

The Government estimates that collectively these proposals will save employers between £150-£200 million a year in costs and make it easier to set up and run good pensions schemes. We welcome a simpler tax regime, but the savings are insignificant compared with the £5 billion a year that the Government took away from occupational schemes through changes to the tax treatment of pension fund dividend income. It is a pity that it has not reinstated pension funds' former tax reliefs.

Other proposals for occupational pensions

The Green Paper considers allowing occupational schemes to make pension membership a condition of employment. Any change in the law here will depend

on representations made during the consultation period.

The Government plans to streamline the Regulatory system and promises to cut the amount of red tape for firms offering occupational schemes. The Green Paper proposes a new proactive Regulator to focus on protecting scheme members particularly where there is a high risk of fraud, bad governance or maladministration. We are unconvinced, however, that creating yet another level of pensions regulation is likely to be helpful in the quest for simplification.

Measures are proposed to strengthen members' rights when schemes change or wind-up. These include fairer sharing of assets when schemes close, with more priority for workers within 10 years of retirement or those with more years of contributions. The Green Paper also sets out options on how to extend the advantages of TUPE protection to private company transfers.

The Paper says that employees should be consulted before pension schemes are changed. And an employer-led task force - including trade union membership - will be set up to identify and promote good practice.

There are proposals to replace the Minimum Funding Requirement with scheme-specific regulations allowing schemes greater flexibility. These will also make the funding position more transparent for scheme members.

The Paper also proposes simplifying the structure of contracted-out benefits by changing the Reference Test requirements and simplifying Guaranteed Minimum Pension liabilities held by schemes. This should greatly simplify administration for schemes and could reduce funding pressures. It may also give schemes greater flexibility over the benefits they offer.

There is a proposal to change the requirements concerning member-nominated trustees (MNTs). The Paper suggests removing the existing

arrangement whereby schemes can opt out of the requirement for at least a third of the trustees to be MNTs, but also removing the current prescription that sets out in detail how the selection system must operate.

Building trust and understanding in financial services

The Government says it intends to do all it can to encourage retirement savings and the take-up of membership of occupational and private schemes. It will work with the FSA and financial services industry to intensify education about savings, including workplace packs and promoting total benefit statements in the workplace to raise awareness of both employers' and employees' contributions. It will also encourage pensions information being added to pay slips and recruitment material.

Other proposals include increasing access to saving by developing more "stakeholder" products coupled with low cost advice, which will ensure that more money goes straight into the pension pot. The Paper also looks at reform of the annuities market by introducing value protected and limited period annuities.

Consultation

The Green Paper's proposals are consultative, and the Government has invited comments from the public, employers, trade unions and the financial services industry by 28 March 2003.

In this publication we can only give a very brief summary of the main proposals of the Green Paper - it runs to 176 pages, plus a further 101-page accompanying Technical Paper. We will comment in greater detail on various important aspects over the coming months.

If you would like to discuss any of the topics raised please get in touch with your usual contact at Sterling Pension Management Ltd.