Pensions Q&A June 2010

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PENSIONS Q&A – THE NEW WORLD DISORDER

Well the sun is shining so what more do you want? Dignity in retirement? Any retirement at all? A decent England football performance? Sorry, none of this looks likely in the new world order. In this month's laughter filled edition we have the cuts the government told us about, the cuts the government didn't tell us about and the cuts the government haven't even realised they've made.

THE CUTS THE AXEMEN TOLD US ABOUT

After agonising over the decision not to tax the rich through a dramatic increase in Capital Gains Tax, the unholy alliance took a quick swipe at public sector pensions just in case anyone thought the independent commission they'd set up a couple of days before was actually going to be allowed to do the job it was set up to do. Changing the indexation of public sector pensions from an RPI link to a CPI link is likely to save the government close to £1bn over the next few years (by save the government I really mean cost pensioners).

But don't worry folks, if you can afford to delay taking your pension you won't be forced to turn your retirement savings into a pension until your 77 (up from 75) a policy that'll help the very rich avoid some inheritance tax which is after all the cornerstone of a progressive budget.

Finally, in case it slipped your notice, the Liberals have forgotten about all their opposition to a rapidly rising retirement age and are now proclaiming the wonder of a higher state pension age from the roof tops. So a state pension age of 66 in 2016 is on the cards as is ultimately a state pension age of 70. It's just as well there are so many jobs around for everyone to do for those extra years…hang on, we're looking at around a million job cuts and no-one making or buying anything for the next five years. Presumably everyone will become pundits, there never seems to be a shortage of those.

THE CUTS THEY DON'T THINK ANYONE WILL NOTICE

The earnings link for the basic state pension is back – let joy be unconstrained! Except of course that it isn't. In April 2011 the basic state pension will go up by RPI as usual and there's no mention of a guarantee that if earnings or 2.5% is more than RPI pensioners will get the higher amount. But don't listen to me, I just read the Budget, I'm sure if Mr Osbourne says they've restored the earnings link then that's what they've done (makes you wonder why he didn't tell the number crunchers though…). When it does arrive in April 2012, the 'triple guarantee' will only guarantee a state pension increase which is the highest of 2.5%, average earnings and *CPI*. So while RPI is projected to increase to significantly more than CPI over the next few years, pensioners will once more be pinning their hopes on dramatic increases in average earnings (some hope) to get a decent increase.

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Again the taxation of the highest earners is being agonised over, this time in the field of tax relief on pension contributions. The last government set about limiting the tax relief enjoyed by those at the top of the income scale (the top 1% of earners take 25% of the pension tax relief in the UK), obviously this doesn't fit in with the current government's definition of fairness so they're going to 'look at it again'.

THE CUTS THEY HAVEN'T NOTICED (OR FOR THE CYNICS AMONGST YOU, THE CUTS THEY SIMPLY DON'T BELIEVE ARE WORTH ACKNOWLEDGING)

Possessed with all the vision of a Uruguayan linesman it's perhaps not surprising that the demolition government don't acknowledge the long term cost (financial and social) that they are storing up for the British taxpayer.

Increased welfare spending – as increasing the state pension age in the absence of sufficient jobs and aggravated health inequalities mean more people on unemployment and other benefits and greater pressures on the NHS.

More pensioner poverty – the government claim that CPI is a more appropriate means of increasing benefits as it better reflects individuals' spending, nothing to do with the fact that CPI is generally notably lower than RPI. I'm all for an appropriate index being used for pensions increases, the Daily Torygraph found out a couple of years ago that pensioners' inflation was running at three times the standard RPI or CPI measure, perhaps the Chancellor would like to consider using that index instead (and yes I know I haven't even mentioned the impact of the VAT increase).

Less pension saving – as a result of the Budget and other government announcements people will have less money to be able to save for their futures (is now a good time to mention the VAT increase?). Less saving means less money in the future to fund social care etc. again forcing reliance on local authority provided services. On top of this, the move towards worsening pension provision in the public sector will continue to undermine people's confidence in saving. The coalition government has consistently promised public sector workers that their accrued rights would be protected, yet it is profoundly unclear from their announcement of the change in public sector schemes' indexation that they've honoured that promise. This should sound alarm bells for workers in the private sector…

So that's the bad news, now for the good news…oops, sorry, I've run out of space, well the sun's still shining, will that do?

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