FYI® Alert
For Your Information®
UK

Volume 2017 | Issue 37 | 9 June 2017

Welfare and Pensions Following the General Election

With the Conservatives forecast to end up with 318 seats, eight short of the 326 needed to command a majority, they will form the new government. The pro-Brexit Democratic Unionist Party (DUP) have ten seats and Jeremy Corbyn's previous Sinn Fein links rule out any deal between them and Labour. A deal of some sort between the Conservatives and the DUP is thus the outcome.

An election which was supposed to return an increased Conservative majority, and make Brexit talks easier for the UK, has had the opposite effect. The increased political and economic uncertainty that the UK now faces as it begins Brexit negotiations in a few days time is far from ideal.

Under a minority government there are likely to be fewer changes to fiscal and economic policy, especially as the government will have the added burden of Brexit on the horizon.

In this issue: Background | The Manifesto | Items Back on the Agenda | An Item Unlikely to Progress | Comment

Background

This FYI looks at what a minority Conservative government might mean for welfare and pensions. The Conservative Manifesto promised a number of new measures. In the light of the election result, the new Government's willingness and ability to deliver on some of them is in doubt. In addition we are expecting a number of items which were held back by the calling of the snap election to be back on the agenda in the coming months.

The Manifesto

Taxes

By 2020 the personal allowance is to rise to £12,500 and the 40 per cent rate threshold is to rise to £50,000.

State Pensions

The Triple Lock will be maintained until 2020. Thereafter, a new Double Lock may be introduced which would mean pensions rise in line with earnings or in line with inflation, whichever is the higher. State Pension age will go up to reflect any increases in life expectancy, while protecting each generation fairly.

Automatic Enrolment

The government will continue to support automatic enrolment into pensions, continuing to extend it to smaller employers and to make it available to the self-employed.

Long Term Savings

Long term savings and pension products, including the Lifetime ISA are to be encouraged and incentivised so that more people make provision for their long term needs, including a house purchase and retirement.

Protecting Pensions

The Pensions Regulator is to be given more powers to scrutinise, clear with conditions, or in extreme cases, stop, mergers, takeovers, or large financial commitments that threaten the solvency of private pensions. The Regulator will also have new powers to issue punitive fines for those found to have wilfully left a pension scheme under–resourced and, if necessary, powers similar to those already held by the Insolvency Service to disqualify the company directors in question. A new offence for company directors who deliberately or recklessly put at risk the ability of pension schemes to meet their obligations is being considered.

Parental leave

Steps are to be taken to improve the take-up of shared parental leave and help companies provide more flexible work environments that help both parents to share parenting.

Childcare

The government will introduce this year, thirty hours of free childcare for three and four year olds for working parents. There is also a commitment to assess what more is needed. Primary schools will be provided with a capital fund to develop nurseries and all new primary schools will be expected to include a nursery.

Benefits for Pensioners

Winter fuel payments will be means tested and payments only made to the least well off pensioners who are most at risk of fuel poverty. All other pensioner benefits, including free bus passes, eye tests, prescriptions and TV licences are to be retained for the duration of the parliament.

Items Back on the Agenda

The Money Purchase Annual Allowance

Following the introduction of pensions freedoms on 6 April 2015, individuals over age 55 have been able to access their money purchase savings flexibly. The government was concerned that these pension savings might be recycled for a further round of tax relief. Accordingly, it introduced the MPAA of £10,000. The MPAA is triggered when an individual first flexibly accesses money purchase benefits and acts as a tax relief limit for future contributions to money purchase arrangements. The government confirmed in the Spring Budget that it was reducing the MPAA to £4,000 with effect from 6 April 2017. Full details are set out in our FYI (2017/19). This was to affect all individuals who had flexibly accessed their money purchase savings since 6 April 2015 (including those who did so before 6 April 2017).

Following the decision to call a snap General Election the government removed the reduction from the Finance Act and the MPAA currently remains at £10,000. However, it is likely that now the government has been returned to office, albeit without a majority, a future Finance Bill will legislate for this change. What is not clear is whether the reduction will still be backdated to 6 April 2017 or take effect from some later date. Members, who are subject to the MPAA, and chose to rely on it remaining at £10,000, run the risk of incurring a tax charge.

Employer-Arranged Pensions Advice Exemption

Under existing provisions, employees can (in a tax year) receive up to £150 tax free for use solely in connection with pensions advice. In last year's Budget the government announced a new income tax exemption to cover the first £500 worth of pensions advice provided to an employee in a tax year. The new exemption was due to replace existing provisions and was not limited to pensions advice but could cover general and financial issues related to pensions. The suspension of this change (again because of the snap General Election) left the previous £150 provisions in place.

Headlines in the press stated the Pensions Advice Allowance was being shelved and were misleading. The Pensions Advice Allowance, whereby members with defined contribution pension savings can withdraw up to £500 for advice in up to three separate tax years, has already been introduced by regulations from 6 April 2017 and is unaffected. Full details are set out in our recent FYI (2017/23).

Now that the government has been returned to office, albeit not with a majority, a future Finance Bill is likely to legislate for this change.

An Item Unlikely to Progress

Green Paper on the Security and Sustainability of Defined Benefit Schemes

The consultation on the DWP defined benefit Green Paper closed on 14 May. There are very few definite proposals: it is more a collection of views to date, and is intended to start a conversation on how to better manage the risks in providing defined benefit schemes. The government will now begin to trawl through the responses.

The paper examined the current framework for DB provision, evidence that there are sustainability issues and a number of options for change around:

- Funding and investment – with a particular focus on whether trustees have the right skill set to make optimal decisions in this area.
- Employer contributions and affordability – with a particular focus on whether more can be done to support stressed schemes with weak employers.
- Member protection – with a particular focus on whether an increase in the Regulator's powers around scheme funding, information gathering and engagement with corporate transactions can better deliver on member protections.
- Consolidation of schemes - considering the full range of possible consolidation vehicles, supporting the idea that private sector vehicles should be developed and considering whether 'streamlining' of benefits would be helpful in the setup of such vehicles.

With government departments being told to scale back non Brexit work in the run up to 2019, and a hung parliament, it would not be a surprise to see this particular can kicked further up the road.

Comment

Had the election result been different the outlook for welfare and pensions would have looked quite different today. A hung parliament and minority government means the future is far less predictable. That said, the only game in town over the next couple of years is likely to be Brexit, and we can expect welfare and pensions to play second fiddle to what is clearly the Government's main concern.

Authors
Gary Crockford, Technical Services Manager
Nikki Williams, Senior Technical Consultant

Produced by the Knowledge Resource Centre
The Knowledge Resource Centre is responsible for national multi-practice compliance consulting, analysis and publications, government relations, research, surveys, training, and knowledge management. For more information, please contact your consultant or call us on 0800 066 5433.

This publication is for information only and does not constitute legal advice; consult with legal, tax and other advisors before applying this information to your specific situation.