

Update on pension changes in the United Kingdom

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Ian Clapperton
Director of Operations
Scottish Public Pensions Agency

AGENDA

- Independent review of public sector pensions
- Changes to tax relief
- Changes to inflation proofing
- Wage freeze for public service
- Increase in state retirement age
- Removal of age 75 ceiling

INDEPENDENT REVIEW OF PUBLIC SECTOR PENSIONS

- The Chancellor of the Exchequer announced the formation of an Independent Public Service Pension Commission (IPSPC) to undertake “a fundamental structural review of public service pension provision.”
- The commission is working to two tight deadlines to deliver:
 - an interim report to the UK Government by the end of September 2010. This will primarily focus on possible short – term changes that it might be appropriate to incorporate in the UK Government’s Comprehensive Spending Review, due to be published on 20 October 2010;
 - a final report, focussing on longer term affordability, sustainability and fairness, by March 2011 – in time for the 2011 UK Budget.

CHANGES TO TAX RELIEF

- Current tax relief rules permit an annual allowance of £225,000
- UK Government proposes the new allowance should be between £30,000 - £45,000
- To be introduced 01/04/11
- Change could affect 5 – 10 % of members

CHANGES TO INFLATION PROOFING

- Current inflation rules allow public pensions to be increased in line with Retail Price Index each year
- Decision by UK Government to use Consumer Price Index from 01/04/11
- RPI is generally higher
- CPI is lower eg excludes housing costs
- Decision will reduce scheme liabilities and costs but member will get a reduced pension

WAGE FREEZE

- UK Government has announced a freeze on public service pay increases
- Freeze will last for two years
- Low paid staff will however receive £250 increase each year

REVIEW OF STATE PENSION AGE

- UK Government is reviewing the SPA
- The review is looking at changes in life expectancy and costs of pensions
- Proposal is that SPA will increase from 65 to 66 [by 2016]
- The existing plans to increase the SPA to 68 by 2046 are still in place but may change [for the worse] as a result of the review

REVIEW OF AGE 75 LIMIT

- Current rules have an age 75 deadline for purchasing annuities, taking any pension lump sum, etc
- Proposal is to remove the age 75 limit although tax relief would cease

SUMMARY

- Last pension reforms have only just been fully implemented
- Next round of reforms are likely to be introduced during 2011 – 2013
- Major changes are imminent in the UK