

Pensions Bulletin

Fact Sheet 1

Summer 2010 Issue 8

Emergency Budget 2010: impact on pensions

1 Introduction

- 1.1 George Osborne's Emergency Budget, announced on 22 June 2010, contained a number of measures relating to pensions. A summary of the main points contained in the Emergency Budget are provided in this Fact Sheet.

2 Basic State Pension

- 2.1 The level of the basic State Pension will be increased by a 'triple guarantee' i.e. in-line with the highest of the increase in earnings, prices or 2.5% from April 2011. **However, please note that after 2011, the prices measure will change from the Retail Prices Index to the (currently lower) Consumer Prices Index.**

3 State Pension Age

- 3.1 The State Pension Age is expected to rise to age 66 sooner than the current timescale of 2024-2026. The rise will not be sooner than 2016 for men and 2020 for women.
- 3.2 This change is dependent on the outcome of a review this Autumn. The Government will also consider future increases to the State Pension Age.

4 Default Retirement Age

- 4.1 The Government will consult on how it will 'quickly' phase out, from April 2011, the Default Retirement Age of 65.
- 4.2 Employers can currently retire employees from age 65, so the removal of the Default Retirement Age will benefit those people who wish to work beyond this age.

5 Compulsory Annuity Purchase at Age 75

- 5.1 Rules that require people to buy an annuity at age 75 with their pension fund will end from April 2011. The Government will consult on the details of this change.
- 5.2 In addition, the Finance Bill 2010 includes a transitional measure that enables those reaching age 75 on or after 22 June 2010 to defer their decision on what to do with their pension savings until after the new rules are finalised in 2011.

6 Pensions Tax Relief

- 6.1 Pensions tax relief for high earners will be restricted. This will be done via the reduction of an individual's 'Annual Allowance' rather than the complex approach outlined by the previous Government (refer to Fact Sheet 3 of the Spring 2010 Pensions Bulletin for details).

- 6.2 A note released by HM Treasury suggests that an 'Annual Allowance' of £30,000 to £45,000 might deliver the necessary £3.5 billion tax revenue from this measure.
- 6.3 The Government will consult with employers, pension schemes, industry experts and other interested parties to determine the best design to restrict pensions tax relief in this way. The Government is also aware that any administrative burden should be minimised, and that basic-rate taxpayers should not be subject to this restriction.

7 Auto-enrolment

- 7.1 The Government is committed to the requirement for employers to auto-enrol staff into a pension scheme.
- 7.2 However, there will be a short review (ending on 30 September 2010) carried out by three independent experts to determine whether there should be any changes to the framework in its current form.
- 7.3 The review is likely to explore:
- the size of firm to which auto-enrolment should apply;
 - whether staff should be auto-enrolled on their first day of work; and
 - the earnings threshold above which staff will be auto-enrolled.
- 7.4 Among the objectives of the review are; to reduce pensioner poverty, maximise voluntary private pension savings and minimising burdens on employers.

8 Public Sector Pensions

- 8.1 An independent commission headed by John Hutton, the former Secretary of State for Work and Pensions, will undertake a fundamental structural review and long-term affordability of public sector pensions. This will take place in time for the 2011 Budget.

9 Gilt Insurance Policy

- 9.1 The policy on issuing gilts will remain broadly the same, although around £20 billion fewer gilts will be issued in 2010-11 when compared with forecasts that were done after the March 2010 Budget.
- 9.2 For pension schemes, it is important to note that the proportion of gilts to be issued that are long-term and those that are index-linked remains broadly the same.

10 Further Information

- 10.1 Further details on the Emergency Budget can be found on the Treasury website via the following link: http://www.hm-treasury.gov.uk/2010_june_budget.htm

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