

CYNGOR SIR POWYS COUNTY COUNCIL.

**Pensions and Investment Committee
27th September 2010**

REPORT BY: Strategic Director, Finance & Infrastructure

SUBJECT: The Coalition Government and the Emergency Budget

REPORT FOR: Information

- 1 The Conservative and Liberal Democrat coalition government published a document on 11 May 2010 which set out the terms of their agreements.

The key item in the agreement as far as public sector pensions are concerned is the commitment to establish an independent commission to review the long-term affordability of public sector pensions, while protecting accrued rights. The independent commission's review will depend to a large extent on its members and what terms of reference it is given.

With respect to pensions in general, the coalition government intends:

- from April 2011, to restore the earnings link for the basic state pension. The rise in the basic state pension will be the highest of the increase in earnings, price inflation or 2.5%;
- to review the date at which the state pension age starts to rise to 66 (although the rise will not be before 2016 for men and 2020 for women);
- to remove the default retirement age of 65;
- to provide that retirees will no longer have to buy an annuity by age 75;
- to implement the Parliamentary and Health Ombudsman's recommendations to make payments to Equitable Life policyholders through an independent payment scheme. This is more generous than the previous administration's commitment.

- 2 In terms of the broader economy, the coalition government also plans to make arrangements to protect those employees on low incomes who otherwise will be affected by the constraints on public sector pay and other public spending.

- 3 On 22nd June, the Chancellor of the Exchequer presented the Emergency Budget. The headlines from the Emergency Budget in respect of pensions are:

(a) Public service pensions to increase in line with the Consumer Price Index instead of the Retail Price Index. This will affect all current and future pensioners from April 2011. Historically, CPI is lower than RPI and therefore future increases to pensions are likely to be lower than they would otherwise have been. In addition, transfer value calculations (both those payable and receivable) are also affected by this change with immediate effect. CLG have issued guidance which advises that changes to transfer factors will be made by the Government Actuary's Department as soon as possible, in the meantime we will be stockpiling transfer cases pending receipt of revised factors.

(b) Public sector pay will be frozen for 2 years unless the worker earns less than £21,000 per annum – this has implications for LGPS funds' future liabilities. But note that CLG have confirmed that this is not a reason to use an earlier year's pay in determining final pensionable pay.

(c) The link to increases in average earnings will be restored to increases in the Basic State Pension from April 2011. The increase in Basic State Pension will be the highest of the increase in average earnings, the increase in RPI and 2.5%. In April 2011, the increase in the standard minimum income guarantee in the Pension Credit will equal the cash rise in the full Basic State Pension.

(d) The Government is going to consult on the details of the removal of the requirement for individuals to buy annuities by age 75. The Finance Bill after this Budget will contain transitional arrangements for those individuals who have yet to secure income and who will attain age 75 in the mean future. From 22nd June 2010, individuals will have until age 77 to purchase an annuity. Until April 2011, there will be a 35% tax charge on lump sum death benefits paid out by a scheme for individuals who die on or after 22nd June 2010 and who are over age 75.

(e) The restrictions on tax relief on pensions contributions by high earners introduced in Finance Act 2010 will be repealed. The Government is going to consult with pension schemes, industry experts etc on an alternative way of recouping the £3 billion cost to HM Treasury.

Recommendation:	Reason for Recommendation:
To note contents of the report	

Person(s) To Action Decision:	
Date By When Decision To Be Actioned:	

Relevant Policy (ies):	N/A
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Within Policy:	N/A	Within Budget:	N/A
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