

# Technical Briefing

No. 44



## June 2010 Emergency Budget

### Introduction

On 22 June 2010 the Chancellor of the Exchequer, George Osborne, delivered his first budget to the House of Commons.

In this emergency budget much was announced which, either directly or indirectly, related to the world of pensions and is discussed further in this Technical Briefing. In particular, the government's changes in the treatment of high earners, the abolishment of the requirement to secure an annuity by age 75, further details of NEST and the proposed fundamental structural review of public-sector pensions were announced.

### Treatment of High Earners

The previous administration had proposed the implementation of plans from 6 April 2011 which would see a complicated taper system of tax relief apply for those individuals with relevant pre-tax income of over £150,000. Relief on pension contributions would be restricted to the basic rate of tax (currently 20%) for those individuals who had a relevant income of over £180,000, with a sliding scale applying for lower earners. These proposals were previously outlined in **cprm's** Technical Briefing No. 31.

The coalition government have listened to the substantive lobbying made by the pensions industry who have campaigned for the much simpler and cheaper approach of using a reduced annual allowance which would broadly provide the government with the same additional revenue (estimated at over £3 billion for 2011/2012) in a much less complicated system.

The annual allowance is currently set at £255,000 (2010/2011) whilst the proposed reduced annual allowance for high earners has been put in the region of £30,000 to £45,000 in order to achieve the same goal as the previous government's plans using restricted tax relief.

More details of this change in government policy are available in **cprm's** Technical Briefing No. 45.

### The Requirement to Secure an Annuity by Age 75

The existing annuitisation rules compel members of a registered pension scheme to buy an annuity with a life office by the age of 75. The government has now indicated its intention to abolish this from 2011/2012.

As an interim measure, the requirement to buy an annuity from age 75 will be deferred for members attaining age 75 on or after 22 June 2010 until they reach age 77. It is intended that the Finance Bill will contain suitable provisions which will amend the existing tax rules contained in the Finance Act 2004.

### NEST

The Budget also confirmed the treatment of NEST (National Employment Savings Trust), which will be introduced from 2012, as a registered occupational pension scheme. This in turn will allow the contributions to and the benefits received from such schemes to receive the same generous tax reliefs as those applying to any other tax-registered pension schemes. This should make NEST more attractive to employers and employees when it is gradually introduced.





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### **Public-Sector Pension Schemes**

The government has also confirmed that there will be a fundamental structural review of public sector pensions through an independent commission. The commission is expected to deliver its report in advance of the 2011 Budget.

Meantime, the government intends to calculate the April 2011 annual increase in public-sector pensions in line with the Consumer Price Index (CPI) rather than the usual Retail Prices Index (RPI). Since the CPI is usually a lower measure of price inflation than RPI (except in 2009) then this will result in lower pension increases being awarded in the future. Employers may be frustrated that this could mean that private sector pensions may be required by law to fund more generous pension increases than those afforded by the state.

### **Abolition of the Default Retirement Age**

The new coalition government intends to consult on phasing out the current default retirement ages to allow those who want to, or indeed are financially constrained to, work beyond age 65.

### **State Pension Changes**

The government have stated that they intend to review the date from when the planned increase in the State Pension Age to 66 will take effect. Under the previous government this change was due to be introduced between April 2024 and April 2025, however it is now likely to be introduced much earlier with the proposal that this comes into force in 2016 for men and 2020 for women. This in turn will require employers to consider the interaction between the provision of retirement benefits from the scheme and the state.

From 2011/2012 the government intends to increase the Basic State Pension by the higher of 2.5% per annum, the increase in average earnings or the increase in CPI prices – the government's so-called "triple guarantee". However, for 2010/11 the increase will continue to be in line with the increase in the RPI.

Please contact your usual **cprm** consultant if you have any questions on the contents of this Technical Briefing or would like some additional information.

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