Budget Statement Briefing March 2014

On 19 March 2014, the Chancellor George Osborne presented his last Budget Statement before the general election. Some of the announcements had already been made previously, but there were a number of issues around pensions and savings that were unexpected. However, many issues of concern to pensioners were not covered at all. The main announcements affecting older people were as follows:

- From April 2014, the Basic State Pension (BSP) will rise to £113.10 a week in line with the September CPI figure of 2.7%, giving an increase of £2.95 a week and £1.80 for many women who receive a pension based on their husband's contributions. Had the RPI still been in place, the increase would have been 3.2%. It means over the year the basic state pension will be £28.60 less under CPI than under RPI. Until earnings regain their value, the RPI remains the best indices for uprating pensions.

- From April 2014, the state second pension and millions of public sector pensions will also rise by the CPI figure of 2.7%.

- From April 2014, the means-tested Pension Credit Guarantee for a single pensioner is to rise from £145.40 per week to £148.35 and from £222.05 per week for a couple to £226.80. This would give the Pension Credit the same actual cash increase as the basic state pension, rather than the same percentage increase, and follow the announcement the Chancellor made in March 2012.

- To qualify for the Savings Credit element of Pension Credit, an individual would have to have an income of £115.30 a week and a couple, £183.90. The maximum amount they could claim would then be £18.06 a week for a single pensioner and £22.89 for a couple. This is a reduction from £18.54 and £23.93 respectively.

- From October 2015, all those who reach pension age before the introduction of the single-tier state pension in April 2016 (including existing pensioners), will be eligible to buy extra National Insurance contributions as a way of boosting their state pension. The Budget confirmed that the new Voluntary National Insurance Contributions (VNICs) Class 3a will be open for 18 months from October 2015 and the maximum additional amount available will be £25 per week. The DWP will make further details available in the near future as to the cost of buying back missing years.

- From April 2014, the basic personal allowance for Income Tax for those aged under 65 will rise from £9440 to £10,000, and will then rise to £10,500 in April 2015; equal to the 65-74 allowance that has been frozen. For those aged 75 or over, their allowance remains at £10,660. It is therefore assumed that in 2015/16 the under 65 allowance will catch up with the 65-74 rate and thereafter personal tax allowances will rise accordingly; including for pensioners.

- The Chancellor also reiterated the plan to introduce from April 2015 a transferable tax allowance for married couples and those in civil partnerships. Where one half does not have an income high enough to meet their tax allowance, they may transfer up to £1050 of that unused allowance to their partner. This will represent a tax break of £200 a year for around 4m couples, including pensioners. Thereafter the amount of transferable allowance is likely to be set at 10% of the personal tax allowance.

- From April 2014, the Married Couples Allowance for those aged 75 and over will rise from £7915 to £8165.

- The Inheritance Tax Allowance of £325,000 for individuals will be frozen until 2017-18 (as announced in the 2013 Budget, to help pay for the Social Care Cap currently being proposed in the Care Bill).

- The Winter Fuel Payment will remain at £200 for households with someone at or over the female State Pension Age and at £300 for households with someone aged 80 or over. From 2015, winter fuel payments will be restricted to people living abroad in countries that have an average winter temperature comparable with or lower than that of South West England.

- The Chancellor also confirmed that spending on benefits would be capped at £119bn for 2015/16 and thereafter would rise in line with inflation. Whilst the state pension was excluded from the cap, the winter fuel allowance, cold weather payments and Christmas Bonus were all included.

- From 24 March 2014, anyone with a single pension pot of less than £10,000 or numerous pots adding up to less than £30,000 in pensions will be allowed to take it all as tax-free cash. Currently only pots of £2000 qualify.

- Furthermore, from April 2015, anyone reaching 55 who is paying into a defined contribution/money purchase pension scheme will be able to withdraw their pension pot, paying tax on 75% of the withdrawal – with the majority of people paying the 20% rate. The Chancellor also confirmed that a consultation would be held to see if a similar arrangement should be introduced for those in final salary schemes as well. This change effectively scraps the need for individuals to take out an annuity and is likely to affect around 400,000 individuals who every year convert their pension pot into an annuity to give them a fixed, regular monthly income. The Budget documents also reveal that the government is considering the age at which someone can take their pension, with a view to raising it from 55 to 58 by 2028.

- Those retiring will be also able to get free, impartial, face-to-face advice on what choices to make with their money and £20m is to be given to consumer groups and the financial services industry to develop an advice service.

- A new Pensioner Bond from National Savings and Investments will be made available from January 2015. The maximum investment will be £10,000 and it will give an estimated 2.8% on a one year bond and 4% on a three year bond. This is better than the current 0.5% rate being offered.

NPC Response
The main headlines from this year's Budget have focused on the changes to pensions and savings, and those who are able to put aside money into the new Pensioner Bond will gain. However, the changes have to be taken in context:

- The freezing of the age related personal tax allowances for pensioners is to continue for at least another two years
- 55% of all pensioners receive less than £10 from their savings because they are so small and 29% of older couples have less than £1500 put aside. The idea that older people therefore have huge amounts of money to invest is rather optimistic
- The placing of items such as the winter fuel allowance into the welfare spending cap raises serious concerns about the future of such spending, and the likelihood that the existing allowance of £200 for the under 80s is likely to be frozen indefinitely, whilst fuel prices continue to rise
- There remains an ongoing problem with CPI being used rather than RPI as the measure of inflation, and this will be increasingly reflected in smaller increases in pensions over the coming years
- There was no mention of the need for additional spending on social care to address the very serious problems that exist in the service. Some commentators have even suggested that the move to enable future pensioners to withdraw their pension pots without the need for annuities is largely being done because ministers hope it will allow more people to meet their own care fees
- Another reason for the pension changes may be to address a growing problem of unemployment amongst a generation of those aged 55+ who are unable to find a job, but are some way off of reaching state pension age. It seems likely that many workers with relatively small pension pots will be forced to cash in their savings in order to fund this period of their lives
- The portrayal of the Budget can suggests that older people are gaining at the expense of the young. The Chancellor only mentioned young people once in his 55 minute statement, and it is vital that any attempt at electioneering must not try to set one generation against another

After the announcement, the NPC gave a reaction to the proposals. This is reproduced below for information and featured in The Times and Daily Mail.

Welfare caps, pensioner bonds and changes to pensions prove government is leaving retirement to chance

Britain's biggest pensioner organisation, the National Pensioners Convention (NPC) believes the Chancellor's real intention arising from today's Budget statement is to place further responsibility for retirement onto individuals and the market, rather than seeing it as a role for the government.

Dot Gibson, NPC general secretary said: "Pensioners will be concerned that benefits such as the winter fuel allowance, cold weather payments and the Christmas Bonus have all been placed into the welfare cap, which could lead to cuts in the future, at a time when fuel bills in particular are continuing to rise. The announcements regarding a new Pensioner Bond and changes to ISAs were also rather rose tinted. 55 per cent of all pensioners receive less than £10 from their savings and 29 per cent of older couples have less than £1500 put aside. The idea that older people therefore have huge amounts of money to invest is rather optimistic, but the most serious change was related to defined contribution pensions. These reveal that more has to be done to improve the prospects for future pensioners. The state pension is one of the worst in Europe and the high water mark of decent company pensions has long gone."

"However, allowing people to take all their pension pot doesn't make the pot any bigger and belies the fact that the average worker will have a pension pot of little more than £30,000 to cover all of their retirement. Enabling people to take their pensions from aged 55 also shows the chancellor has realised there is a huge problem coming down the line which has to be funded. His plans to raise the state pension age to 68 will create an army of older workers, who if lose their jobs in their late fifties will be unable to find work. The only way they will have to fund this period of limbo until they reach retirement age will be to use their pensions – which might solve the problem in the short term but will store up bigger problems later on when their money starts to run out. Once again it's a pensions' fiddle and those left to carry the burden will be some of the lowest paid workers. The reality is money purchase defined contribution pension schemes are simply not the answer to funding a decent income in retirement. The private pensions industry might make a killing from the schemes but most workers end up with much less than they thought."