

POLICY
THUMBNAIL

A Nation Of Capitalists

A Better, More Sustainable State Pension



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THE PROBLEM

The State Pension costs about 5% of our GDP, making it one of our most expensive Government programmes, with costs rising rapidly because of the Triple Lock and the 'demographic timebomb' of an ageing population. So we will face unsustainable State Pension costs as a smaller-and-smaller working age population has to pay for a larger-and-larger cohort of pensioners.

THE SOLUTION

We will switch everyone who is 22 or under out of the State Pension, and into an upgraded version of the existing Government workplace pension scheme (the National Employment Savings Trust – 'NEST'). This will mean:

- The upgraded scheme will be mandatory rather than opt-out, and will gradually include the entire population as each cohort of school & college leavers begins work and enters the new scheme.
- Members' will pay 3% lower employee National Insurance Contributions (5% rather than the current 8%) and divert the saving into their NEST account instead. This will raise their personal NEST contributions from 5% to 8% and, with the existing 3% employer NEST contributions, will mean they are saving at least 11% of their earnings overall (many will save more, but anything above 11% will be voluntary), which experts say is enough for a comfortable income for someone who starts saving aged 22 or less by the time they retire.
- The revised scheme will be financed by cutting the maximum amount of tax relief which all pension savers of any age get to £20k of pensions savings each year (the same as for ISAs) and only paying the relief on basic-rate tax rather than higher.
- The effects of broken employment on pension saving caused by caring responsibilities (either for children or for adult relatives) or because someone is sick or disabled, will be minimised by allowing relatives to top up missing pension contributions for as many family members as they wish, including for children under 18 up to the same £9k limit as a Junior ISA. The top ups will attract the same tax reliefs up to the annual maximum amount for each saver, and will also be exempt from inheritance tax if the donor dies later.

All other retirement-age benefits will continue unchanged, including Pension Credit, so people who haven't been able to save enough because of broken employment due to illness or caring responsibilities (even after the effects of top-ups from other relatives) will still get enough money when they retire, to prevent pensioner poverty from rising in future.

In addition to these changes to NEST, the existing National Insurance Fund will become a legally-separate and fully-independent Trust, responsible (as now) for paying the State Pension as well as retirement age benefits from the proceeds of employer and employee National Insurance Contributions (NICs). The Trust will issue long term gilts if the amount of NICs becomes too small as the proportion of the population enrolled in the upgraded NEST scheme grows in future, and will then repay the borrowings once the amount of State Pension payments reduces as today's 22-year-olds reach retirement age.

Once the National Insurance Trust's borrowings are repaid, the Trustees will pay surplus NICs into the new Sovereign Wealth Fund (this is explained in more detail in the 'UK Sovereign Wealth Fund' policy outlined elsewhere) until it becomes large enough to fund all retirement age benefits. Once this is achieved, they will write a public letter to the Chancellor of the Exchequer informing him or her that NICs are no longer required, and asking for them to be cut to zero.



THE BENEFITS

- It will progressively create a nation of capitalists over time, because each new working-age generation will have their own personal pension savings fund from the first day they start work.
 - It will give most people a more comfortable, secure and proudly independent retirement than the existing state pension.
 - It will reduce pensioner poverty, mainly by making sure most pensioners have a bigger and better pension pot by the time they retire, but also by maintaining all other retirement-age benefits unchanged as a safety net for the few who don't as well.
 - It will incentivise people to give their relatives a financially secure and independent future by minimising inheritance tax, and in the process protect parents, carers, and people who are sick or abled from pensioner poverty too.
- It will increase the UK overall savings rate (currently one of the lowest in the developed world) so we invest more, making UK firms more productive & allowing our economy to grow faster. It will also make us less dependent on foreign investors, and therefore more resilient if they decide to put their money elsewhere in future.
 - It will prevent the welfare state from going bust. The demographic timebomb means our current pensions and benefits system will become increasingly unaffordable, but this will allow it to continue safely and sustainably instead.
 - It will be fairer, because pensions tax relief will be paid at the same rate for everyone, rather than the current system which gives more to people who are better-off and less to people who don't earn as much.
 - It will create a significant initial surplus for the Treasury (because the cost of pension tax relief will be lower) and will be self-financing over the longer term as well.

THE SOUNDBITES

"Everyone with our new and improved NEST pension has a better chance of a secure, comfortable and proudly-independent retirement, because they won't have to worry if future generations of taxpayers will earn enough to pay for their pensions, or whether politicians will keep the Triple Lock or not"

"In future all pensioners will have their own personal pension pot of investments where the money will be legally theirs, in an account which grows throughout their working life, and which no-one other than them can touch."

"The UK currently saves and invests less than most other developed countries, which makes it harder for our economy to grow quickly. This change will fix the problem and, while foreign investors will always be welcome in the UK, it will make us less dependent on them in future too."

"We are making a proudly-independent, financially-comfortable and worry-free retirement more likely for everyone in future."

"From now on, pensions saving will be fairer. Everyone will get the same percentage support from Government, rather than people who are better-off getting higher rates at the moment"

THE REBUTTALS

1. How dare you abolish the State Pension! Aren't you condemning today's young people to poverty when they retire?

Quite the opposite. This new state pension will give everyone a far more comfortable, affordable, proudly-independent retirement, without having to worry if future politicians will provide a decent income or not.

2. Doesn't this create a black hole in the Government's accounts? If you're paying 3% extra into the upgraded NEST pension, won't there be less to pay for today's State Pensions as a result?

You'd be right if that was the only thing we're doing, but it isn't. We're also making pension savings fairer by giving everyone the same percentage support from Government, rather than people who are better-off getting higher rates at the moment. And it turns out that being fairer is also better for taxpayers because it helps pay for these changes too.

3. Won't cutting pensions tax relief for high earners reduce the overall amount the country saves, rather than increasing it? Aren't you cutting savings and investment so our economy grows slower rather than faster?

Not at all. Pensions saving will still be the best, most tax-efficient way for everyone to save, just like it always has been. But it will be for everyone in future, rather than mainly focused on the better-off like it is today.

4. Isn't this a recipe for rising pensioner poverty? What about women who can't save because they've taken time off while they're raising children, or people who get ill, or people who care for them?

Not at all. This new approach will protect parents, carers, and people who are sick or disabled from pensioner poverty, by offering tax incentives to encourage people (mainly relatives) to top up their pensions while they aren't able to work.

5. Why does this only deal with pension-age benefits? Isn't this just the Conservative Party ignoring working-age people because pensioners are more likely to vote Tory?

Hardly. The main beneficiaries will be young people just starting work, because more of them will have a comfortable, affordable, proudly-independent retirement in future. And when we eventually reach the stage where National Insurance Contributions are abolished, working-age taxpayers will finally catch up with retired folk who don't have to pay NICs already.

6. These ideas will take 50 years to pay off. Isn't this all 'jam tomorrow' when people need answers today?

The UK's state pension & welfare system have taken more than 70 years to get into this financial state, so we shouldn't be surprised if it takes a while to put right. But everyone knows that pension saving takes years and that the secret is to start early in your career, so we've got to think and act long term.

