What will happen to pensions under Labour: Will it cut tax relief or raise state pension age?

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Labour is planning a major review of pensions, which is bound to make savers apprehensive as it implies that everything will be on the table.

Rachel Reeves: Will she launch raid on pension tax relief that successive Tory Chancellors shied away from

Chancellor Rachel Reeves has ruled out a Budget before September and said even then there will be no surprise tax changes.

But we don't know what will come after that, especially in terms of the generosity or otherwise of the **mass of tax rules that affect pensions**.

There were few clues in the Labour manifesto, although we do know the new Government is committed to keeping the state pension triple lock.

We also know that Reeves has made supportive comments about the Tory plan for using people's pension savings to help boost economic growth, so that will survive in some form.

The new Work and Pensions Secretary is Liz Kendall, who has shadowed the role since September 2023, but a new Pensions Minister is yet to be announced. We look at what will be on their agenda.

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Big pension review: Will Labour launch a tax raid?

Labour said in its manifesto it would undertake a 'review of the pensions landscape' to consider steps needed to improve pension outcomes and increase investment in UK markets.

As changes to **pension tax relief** were not explicitly ruled out in anything the party has said so far, there is speculation it will consider radical reforms successive Tory Chancellors ultimately shied away from - and would inevitably provoke a backlash.

The current system of rebates into pension pots is based on people's income tax rates of 20 per cent, 40 per cent or 45 per cent, which tilts the system in favour of the better-off because they pay more tax.

Rumours about reform usually revolve around the introduction of a flat rate, where higher and additional rate taxpayers receive a reduced level of relief, and basic rate taxpayers either get the same or a bit more than now.

A Government would be stingier in setting a new single rate, if it was trying to save money, and afterwards could probably move it up and down pretty much at will.

Major issues for this are that it removes the principal of saving into a pension from pre-tax income - which pension tax relief gets people back to - causes problems with final salary and other defined benefit schemes, and clashes with **salary sacrifice contributions**.

Meanwhile, Labour has backed off previous plans to reverse the abolition of the **lifetime allowance**, which was the total limit people could have in their pension pot without facing tax penalties

This is unsurprising as the Government will want to retain the good will of doctors whose support it needs to overhaul the NHS, not to mention judges and top civil servants tackling other policy priorities.

A carve-out for essential public sector workers never sounded workable - the replacement regime for the lifetime allowance is complicated enough already - so the upshot is that all higher earners will benefit.

A passing mention by now Prime Minister Keir Starmer during the campaign about scrapping **the 25 per cent tax-free pension lump sum** was swiftly disavowed by the party, who said he made the comment in error during a radio interview.

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'Any new chancellor will always have the temptation to tinker with pensions taxation, particularly during a challenging fiscal environment,' says Tom Selby, director of public policy at AJ Bell.

'While the current regime of allowances is ripe for simplification, it is crucial any reforms in this area are focused on the long term and encouraging more people to save and invest for their future.

'The decision by Labour to ditch plans to reintroduce the pensions lifetime allowance, a reform that would have added complexity and discouraged investment risk, is hopefully a positive indication that Labour will take a pragmatic approach in power.'

Gary Smith, financial planning partner at Evelyn Partners, says: 'The implementation of the lifetime allowance's abolition has been imperfect and sometimes confusing, and financial planners are still wrestling with LTA hangovers like the lump sum allowance and the question of death benefits – but broadly speaking the LTA was an unwelcome distortion and best consigned to history.

'The question is of course whether a new Government will look to limit the cost of pension tax relief to the Treasury in some other way.'

Steven Cameron, pensions director at Aegon, has called on the Government to set up an independent Pensions and Savings Commission within its first 100 days.

'With pensions being such an important long-term savings vehicle for millions, changes shouldn't be rushed,' he says.

'And however "super" the Labour majority, cross-party support can offer stability and certainty. We need a well-thought-through, logically-sequenced reform agenda.'

The state pension: When will starting age rise to 68, and will Waspi women get compensation

The **state pension triple lock** means increases are set by whichever is the highest of inflation, average earnings growth or 2.5 per cent.

Labour has promised to keep this pledge to pensioners for the whole of this parliament.

To afford the bill, it might have to bring forward increases in the **state pension age**, penalising today's workers who are funding the payment increases.

The state pension age is already scheduled to rise from 66 to 67 between 2026 and 2028.

Several reviews on the next rise to 68 have taken place, but the Tories continually shelved them, so the decision will probably catch up with Labour.

But unless it seriously needs to get the potential saving to the Treasury down in black and white, Labour might maintain a 'wait and see' approach on the age issue.

The Conservatives' stated reason for delay was current uncertainty about the data on life expectancy, labour markets and the public finances.

Labour did not promise to protect the state pension from income tax, as the Tories did with the Triple Lock Plus plan announced during the election campaign.

In reality, it will eventually have to address this too for practical reasons, to avoid the situation where the Department for Work and Pensions pays a growing number of people a state pension, some of which is then clawed back by the Treasury in income tax.

Many pensioners are already in this situation because they receive **a state pension higher than the £12,570**

Liz Kendall: The new Work and Pensions

personal allowance, according to analysis by This is Money columnist and LCP partner Steve Webb.

Secretary has shadowed the role since September 2023

Another ongoing issue is compensation for 'Waspi' women, which the Women Against State Pension Inequality campaign continues to press for after a Parliamentary Ombudsman report in March.

This told the Government to compensate women for failing to adequately inform them their state pension age would be increased.

The Department for Work and Pensions under the Tories had not yet responded by the election. Labour seems to have got away so far with sounding non-committal.

The push for growth: Will pensions be co-opted into a patriotic mission to boost the economy

The mention in the Labour manifesto of a review of pensions was explicitly linked to the goal of encouraging more investment in domestic markets.

This means the new Chancellor is likely to stick with some version of her predecessor Jeremy Hunt's Mansion House plans for using people's pension savings to help boost economic growth.

That might prompt pushback from the pensions industry, which sees its role as getting the best returns for scheme members wherever it finds most investment potential, not supporting a patriotic mission to boost the economy.

It is not as simple as that though, as former Pensions Minister Ros Altmann has pointed out. She called for 25 per cent of new pension contributions to be invested in UK assets.

'Both pensions and Isas come with generous tax breaks, but at the moment taxpayers spend huge sums subsidising people's investments yet not a penny has to be put into the UK,' says Lady Altmann.

'Investors can still put their money overseas if they wish but they should not expect taxpayer subsidies for boosting overseas economies rather than our own.'

STEVE WEBB: PENSION QUESTIONS

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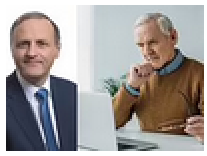

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If I take 25% tax-free cash from my pensions - can I then pay more in?

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Hunt's Mansion House plan placed particular focus on boosting private equity holdings in work pension schemes, notes Tom Selby of AJ Bell.

'According to Labour, at the turn of the century, UK pension funds and insurers held 39 per cent of shares listed on the London Stock Exchange. By 2020, they held just 4 per cent.

'In the US, pension schemes hold 50 per cent of their assets in equities, compared to 27 per cent in the UK.

'Staggeringly, a single investment of £300million by the Canadian Pension Plan into a UK company exceeded the total amount of all UK pension investment in private equity and growth capital in the same year.

'Clearly any shift in asset allocation by these schemes will need to be done in a way that doesn't harm member interests, but given the amount of money sloshing around in defined benefit schemes in particular, even relatively small changes could make a sizeable difference to the UK economy.'

Becky O'Connor, director of public affairs at PensionBee, says she wants detailed insights on how any reforms will align with economic growth strategies while ensuring favourable returns for pension savers.

'Clarification is needed on how exposure to UK growth opportunities will be tailored to the proximity of savers to retirement, particularly as older savers tend to invest in lower-risk assets to safeguard against market volatility and potential downturns.'

Meanwhile, the fate of a consultation on **giving workers a single 'pension pot for life',** which they and all employers can keep saving into throughout their careers, is uncertain.

Pension industry insiders are divided over whether savers would get a better deal.

Auto enrolment: How soon will expansion plan be implemented

The last Government backed a Private Member's Bill **extending auto-enrolment in pension schemes**, but the timing of introducing the two key changes in the legislation remains up in the air.

The reforms mean getting rid of the lower earnings limit for contributions, which is currently £6,240, enabling people to save into pensions from the first pound of earnings.

The enrolment age will also be lowered from 22 to 18, meaning young people who have the **most to gain from compound investment growth** will start saving sooner.

Becky O'Connor of PensionBee hopes the Labour government will advance these plans.

'Early contributions are invaluable due to the benefits of compounding growth, and such measures will significantly strengthen the future financial security of the UK workforce.'

Steven Cameron of Aegon says: 'The Government's first priority should be the planned enhancements to workplace pensions auto-enrolment, which have already received cross-party support and would boost pension pots for millions of employees.'

The pension dashboard: Will 'game changing' tool planned for 2019 finally arrive

Long-promised **pensions dashboards have been postponed many times** but might see the light of day under a Labour Government.

Online tools that allow people to see all their retirement pots at a glance have been under development for years. The Conservatives announced the project in the Budget of 2016, and the launch date was mooted for 2019.

Cameron says of pension dashboards: 'These could be a game-changing way for individuals to track and engage with all of their pensions, and we urge Labour to make sure these go live by the 2026 target date.'