

## Technical Bulletin

### Autumn Statement 2013

9 December 2013

The Chancellor of the Exchequer, George Osborne, delivered his Autumn Statement on Thursday 5 December. This Bulletin provides an overview of some of the measures announced.

#### State Pension age

[Section 26](#) of the [Pensions Bill](#), currently before Parliament, contains legislative proposals for regular reviews of State Pension age (SPa). These set out a review process in which GAD will have a statutory role to determine whether, on average, people reaching SPa at a given time will spend a specified proportion of adult life in receipt of a state pension and, if not, report on possible ways of achieving that result. This review mechanism was first announced in the Department for Work and Pensions' (DWP's) January 2013 [white paper](#) 'Single-tier pension: A simple foundation for saving' (see GAD's January 2013 [Technical Bulletin](#)).

The Autumn Statement provided further detail on the review process. It set out a core principle that, on average, people should expect to spend one third of adult life in receipt of the State Pension. DWP has now published a [background note](#) setting out further details on how this principle might work in practice.

- Adult life will be deemed to start at age 20.
- The note sets out the measure of life expectancy that will be used and that this will be determined taking an average across males and females.
- Any changes to SPa will be phased-in over a two year period, giving affected individuals at least ten years' notice.

It notes that applying this principle means that the increase in SPa to age 68 is likely to come forward from the current date of 2046 to the mid-2030s, and that a further increase to age 69 might be expected in the late 2040s. The exact timing will be determined by the outcome of future statutory reviews (the first of which must be completed by May 2017). These reviews will also take into account wider factors. The government anticipates that these factors will include issues such as healthy life expectancy and differences in life expectancy between socio-economic groups, although the final detail will be determined in the run up to the review.

#### Basic State Pension

Basic state pension (BSP) will increase in line with the triple lock (the higher of average earnings growth, inflation or 2.5%) in April 2014, which translates as a cash increase on the full BSP of £2.95 per week. The standard minimum income guarantee in pension credit will rise by the same cash amount and the savings credit threshold will rise by 4.4%.

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## **National Insurance (NI) contributions**

Autumn Statement announced three changes to National Insurance contributions:

### ***Pensioners and those close to State Pension age***

The government plans to introduce a new class of voluntary National Insurance (NI) contributions, class 3A. These will be introduced in October 2015 and will offer an opportunity for current pensioners and those reaching SPa before the introduction of the single-tier pension in April 2016 to top up their additional state pension records at a 'broadly actuarially fair rate'. The government will now work on the detailed design of the scheme, with a further announcement due at a later date.

### ***Younger workers***

Autumn Statement announced changes to employer NI contributions for workers under the age of 21. From April 2015, employer NI contributions for this group will be abolished on earnings up to the Upper Earnings Limit. Contributions will be liable as normal beyond this limit. Legislation to introduce this will be included in the [National Insurance Contributions Bill](#), currently before Parliament.

### ***Self-employed workers***

Following a [consultation](#) launched at Budget 2013, 'Simplifying the National Insurance processes for the self-employed', the government has announced that it will continue to develop a simpler NI contribution process for the self-employed. A summary of responses to the consultation and details on next steps will be published in due course.

## **Welfare spending**

Autumn Statement made various announcements relating to welfare spending including:

### ***Cap***

Autumn Statement confirmed how the previously announced cap on welfare spending will operate. The cap will apply to all social security and personal tax credits expenditure, with the exception of the basic and additional state pension and the most cyclical elements of welfare spending, such as jobseekers' allowance.

- The cap will be first set at Budget 2014, rolled forward each year and reviewed at the beginning of each Parliament.
- The cap will not apply for the first year of the forecast, in order to allow the government time to implement policy changes to bring down spending if necessary.
- The Office for Budget Responsibility (OBR) will independently certify the level of the cap and assess the government's performance against the cap each year alongside the Autumn Statement.
- If the cap is breached, or if the government wants to change the level of the cap during a Parliament, this will trigger a debate and a vote in the House of Commons.

### ***Fraud and error***

In addition, the Chancellor announced various measures dealing with fraud and benefit errors in the welfare system. These included an increase in the government's activity on life certificates, which are used to ensure that state pension payments to pensioners living abroad are being made correctly and to shorten the period in which payment may continue in error after such pensioners have died.

## **Income drawdown**

[Budget 2013](#) announced that GAD had been commissioned to review the income drawdown tables (referred to in the Budget as pensions drawdown) to make sure they continued to reflect the annuity market (see GAD's March 2013 [Technical Bulletin](#)). In light of GAD's findings that the rates are a reasonable match to annuity rates, the government announced at Autumn Statement that it will not change the basis on which these tables are formulated.

## **Pensions taxation: Individual Protection 2014**

Following [consultation](#) earlier this year, Autumn Statement confirmed that Individual Protection 2014 (IP14) will be introduced, offering individuals protection from the 6 April 2014 reduction in the Lifetime Allowance from £1.5 million to £1.25 million. Individuals with IP14 will have a lifetime allowance of the value of their pension savings on 5 April 2014, subject to an overall maximum of £1.5 million. Legislation to implement this will be included in the Finance Bill 2014.

## **Public Sector pay**

The government will pilot 'pay bill control' in a small number of government organisations from 2014. This will involve setting a financial control to keep their pay bill within a pre-determined budget agreed with Treasury, in place of the current 1% cap. Treasury will also consider how continuing reform of public sector pay policy can best contribute to consolidation beyond 2015-16, including how to get the best value for money from the pay bill.

## **UK Insurance Growth Action Plan**

Ahead of the Autumn Statement the government published a [UK Insurance Growth Action Plan](#) on 4 December. This set out measures to help growth across the insurance industry and strengthen the sector's contribution to the UK economy with focus on:

- the UK industry in overseas markets, with particular focus on Brazil, China, India, Indonesia and Turkey
- the UK as a location for insurers, with the aim of streamlining authorisation processes and proactively targeting insurers to move their domicile to the UK as well as developing the market in commercial Islamic insurance
- insurers as long-term investors in the UK, including the announcement that six insurers will work alongside partners with the aim of delivering at least £25 billion of investment in UK infrastructure in the next five years
- serving UK insurance customers through the use of new technology and by creating appropriate products
- skills and diversity in insurance including a gateway project for apprenticeships and graduate training, a doubling of the number of technical apprentices and encouraging more women to take senior positions in insurance firms

## **Solvency II**

The government will bring forward provisions in Finance Act 2014 to allow regulations to be made to clarify the, currently uncertain, tax treatment of Solvency II compliant capital instruments in advance of agreement to Solvency II.

### **Payments to Equitable Life policyholders**

Following the announcement in Budget 2013 of ex-gratia payments to certain Equitable Life policyholders, Autumn Statement 2013 confirmed that the bulk of such payments will be made direct to bank accounts in December 2013.

### **Autumn Statement documents and OBR reports**

The [Autumn Statement 2013](#) section of the gov.uk website contains the Chancellor's [speech](#), and the full [report](#) alongside other relevant official [documents](#) and [publications](#).

To coincide with the Autumn Statement, OBR has published its report on the '[Economic and fiscal outlook](#)'. Further supporting documents may be found on the OBR's [website](#).

If you would like to discuss any of these issues in more detail or have any other questions please get in touch with your usual GAD contact.