LONDON & COLONIAL
INNOVATION IN PENSIONS

Press Release

"Would Differing State Pension Rates, Which Take Into Account Life Expectancies Based On Regions, Occupations And Other Factors, Be A Fairer Way To Tackle The Government's Increasing Pension Bill?"

Whether you have a company, state, or private personal pension, the longer you live the more retirement income you'll receive – but then that's life!

The suggestion recently put forward by the Trades Union Congress (TUC) that in the interests of fairness 'poorer' people should receive increases to their State Pension, as they tend to live for shorter periods in retirement compared to the better off, and in doing so receive less in pension income than their 'wealthier' counterparts who tend to live longer, raises arguments on both sides.

The suggestion of means tested pension benefits extending to include life expectancy would seem to mirror the private sector in terms of individually underwritten annuities based on either, health, post code, or smokers.

However, the recent EU ruling that annuities can no longer differentiate based on gender seems to go against the general principle of individual underwriting.

Therefore, perhaps the private sector and the TUC can agree that the principle of individual underwriting (except for gender) is acceptable, at least in terms of determining a rate anyway. Where the similarities end in the comparison between the private sector and the proposal by the TUC is that the private sector has another level of differentiation when it comes to calculating the actual amount of income payable, i.e. specific differentiation based on initial premium is already built in, as the larger the initial premium the larger the income.

To take this analogy to the TUC proposal would presumably mean somehow calculating the amount of NI credits built up for an individual over their lifetime then applying this to an individually underwritten rate to determine the amount of income payable. However, we suspect that the TUC would want to argue that the amount of "NI credit" accumulated should be ignored and that there should simply be a flat rate pension (as is the case now) which is then applied to some-kind of standard enhancement uplifts, the result of which is more income for those that qualify.

Whether the TUCs proposal will result in a fairer result for individuals is a more complex question than it first appears and will divide opinion. However, depending on how their proposal is intended to be implemented then the question could simply be – "Do you agree with the TUC's proposal to create a fairer state pension system, and is the additional cost to the exchequer justified."

-ends-

Notes to Editors

About London & Colonial

London & Colonial specialises in self-invested products for both UK residents and persons resident overseas.

The London & Colonial Group includes

(1) London & Colonial Holdings Limited – UK parent company
(2) London & Colonial Services Limited which is regulated by the UK Financial Services Authority and operates SIPPs and SSASs
(3) London & Colonial Assurance PLC which is regulated by the Gibraltar Financial Services Commission (matching UK standards) and which offers Open Annuities, QROP Annuities and Open Offshore Bonds
(4) L&C (Administration Services 2) Limited and London & Colonial (Trustee Services) Limited which are both based in Gibraltar and offer the EU SIPP.

www.londoncolonial.com