

## The price of politics on Financial Services

Whilst we're in the grips of a hung parliament and the shape of the future government is still to be defined, we thought it would be good to look at the policies of the three parties. In particular, how they'll affect the economy and the financial services industry in particular.

Here's a quick overview of the likely changes that the three main parties will attempt to bring in over the next parliament, so long as anyone party has a clear majority.

### Economy

All three parties have said that fiscal tightening will be the mainstay of the next five years and that the UK has to curb it's reliance upon debt, however they all disagree on the amount and none have yet outlined just where the big cuts will come from.

Conservative	Labour	Liberal Democrat
<ul style="list-style-type: none"> <li>▪ Aim to eliminate "the bulk" of the UK's structural deficit within five years beginning in 2010 with £6bn in cuts.</li> <li>▪ Scrap Labours planned 1% national insurance rise for people earning less than £35,000.</li> <li>▪ Scrap Stamp Duty for first-time buyers on homes up to £250,000.</li> <li>▪ Cut civil service costs by a third over five years.</li> <li>▪ Set up an independent Office for Budget Responsibility to oversee the public finances.</li> <li>▪ Create a new Consumer Protection Agency to avoid repeat of financial crisis.</li> <li>▪ Freeze public sector pay for one year in 2011, excluding the one million lowest paid workers.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Targeted" increase in public spending over the next year to "sustain the recovery", before cutting the deficit by more than 50% by 2014 and reducing the structural deficit by at least two-thirds over the next parliament.</li> <li>▪ 1% National Insurance increase in 2011.</li> <li>▪ 1% cap on public sector pay rises for 2011-12 and 2012-13.</li> <li>▪ Protect "frontline investment" in childcare, schools, the NHS and policing.</li> <li>▪ Set up a fund to channel £4bn of public and private investment into firms.</li> <li>▪ Increase the National Minimum Wage at least in line with average earnings over the period to 2015.</li> <li>▪ Ensure that when someone comes off benefits, his or her family will be at least £40 a week better off through tax credits and minimum wage.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Identify and cut £15bn per year of lower priority spending to protect front-line services while reducing structural deficit at least as fast as Labour plans, beginning in 2011.</li> <li>▪ Redirect £3.1bn of public spending for a one-year "Green Stimulus", investing in green technology to create 100,00 jobs.</li> <li>▪ Set a £400 pay rise cap for all public sector workers.</li> <li>▪ Limit the length of time taxpayers are allowed to claim "non-domiciled" status to seven years.</li> <li>▪ "Restrict" tax credits.</li> <li>▪ Force regulators to consider the public interest when assessing takeover bids.</li> </ul>



## Banking

All three parties have said that reform amongst the banking sector is necessary. But there is dispute over supervisory responsibility, introduction of banking levies and the extent of bank break-up needed.

Conservative	Labour	Liberal Democrat
<ul style="list-style-type: none"> <li>▪ Bank of England to supervise banks.</li> <li>▪ Push for an international agreement to stop banks engaging in large-scale trading using their own money and a global levy on banks.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Compel banks to keep more capital and create 'living wills' to ensure any failures do not threaten the financial system.</li> <li>▪ Work internationally to introduce a "global levy" on financial services.</li> <li>▪ Break up banks in which the Government currently has a controlling stake.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Supported Labours fiscal stimulus and bank bail-outs, but would have nationalised failing banks.</li> <li>▪ Introduce a banking levy until such time as banks' retail and investment arms can be separated.</li> </ul>



## Pensions

Whichever party forms the next Government will have to face up to this looming pensions cloud over the economy. Rises in retirement age are going to happen, but how they are introduced will differ. Dependant upon who holds the in power.

One of the thorniest issues will be the future of public sector pensions covering areas like the health service. Whichever way, the outcome of the general election is likely to have some major ramifications for pensions policy.

Conservative	Labour	Liberal Democrat
<ul style="list-style-type: none"> <li>▪ Restore the link between the state pension and earnings.</li> <li>▪ Bring forward the rise in the state pension age to 66, although no sooner than 2016 for men and 2020 for women.</li> <li>▪ Look at how to abolish the default retirement age, to allow older people who wish to carry on working to do so.</li> <li>▪ End compulsory annuities at 75.</li> <li>▪ Simplify the rules to encourage companies to offer pension schemes.</li> <li>▪ Cap public sector pensions above £50,000.</li> <li>▪ Support auto-enrolment for low and middle income earners into employer-run pension schemes..</li> </ul>	<ul style="list-style-type: none"> <li>▪ Restore the link between the state pension and earnings by 2012 and increase pension credit in line with earnings.</li> <li>▪ Increase pension age for women to 65 in 2020 and to 68 for both men and women between 2024 and 2046.</li> <li>▪ Require employers to automatically enrol employees into either an in-house pension scheme or the state-run Personal Accounts scheme</li> <li>▪ Look at ways to abolish the default retirement age.</li> <li>▪ Give older people the right to request flexible working, if they wish to look after grandchildren.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Immediately move to increase the state pension annually by whichever is the higher of growth in earnings, growth in prices or 2.5%.</li> <li>▪ Restrict tax relief on pension contributions to the basic rate.</li> <li>▪ In the long-term, introduce a Citizens Pension that will be paid to all UK citizens, based on residence, not contribution history.</li> <li>▪ Use savings from public sector pension reform to boost the state pension.</li> <li>▪ Scrap the default retirement ages.</li> <li>▪ Allow older people to draw part of their private or occupational pension whilst working part-time.</li> <li>▪ Scrap the rule forcing people to buy an annuity when they reach age 75.</li> </ul>



## Healthcare

There are some big similarities: All support a tax-funded NHS, free at the point of treatment, using private sector companies to provide care when needed and protecting the NHS budget to some degree as public finances are squeezed. Both the Lib Dems and Conservatives say they would cut bureaucracy, at the Department of Health and in quangoes. However, that is still a relatively small proportion of health service spending overall. There are tough financial times ahead for the NHS, and relatively little detail from any party about exactly how they will deal with that.

Conservative	Labour	Liberal Democrat
<ul style="list-style-type: none"> <li>▪ Spending cuts in all areas apart from health and foreign aid.</li> <li>▪ Increase health spending in real terms every year to 2015.</li> <li>▪ Replace 'process' targets, such as maximum time before seeing a cancer specialist, with 'outcome' targets, such as number of people dying from cancer.</li> <li>▪ Allow patients to choose any healthcare provider that meets NHS standards.</li> <li>▪ Implement a 'payment for results' system throughout NHS.</li> <li>▪ Ensure that every patient can access a GP in their area between 8am and 8pm, seven days a week.</li> <li>▪ Cut the cost of NHS administration by a third.</li> <li>▪ Create an independent NHS board.</li> <li>▪ Allow retirees to prevent their homes from being sold to fund residential care costs by paying a one-off premium of £8,000 at retirement.</li> <li>▪ Reject any proposals to fund care by levying charge on elderly people's estates after death.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Protect "frontline" NHS from spending cuts.</li> <li>▪ Guarantee cancer patients will see a specialist within two weeks of diagnosis and get test results within one week.</li> <li>▪ Give patients requiring elective care the legal right to choose from any provider who meets NHS standards of quality at NHS costs.</li> <li>▪ Offer everyone between 40 and 74 free, five-yearly NHS health check.</li> <li>▪ Give all patients access to a GP practice in their area that is open at evenings and weekends.</li> <li>▪ Provide free personal care indefinitely for those in highest need from 2011.</li> <li>▪ Meet elderly people's care costs after they have spent two years in residential care from 2014.</li> <li>▪ Establish a "National Care Service" free at the point of use for all adults with an "eligible care need", with funding arrangements decided by a Commission by 2015.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Create democratically elected local health boards with power to prevent hospital closures.</li> <li>▪ Reduce number of health targets.</li> <li>▪ Introduce "patient contracts" specifying what patients can expect from NHS.</li> <li>▪ Extend access to end-of-life services and hospices.</li> <li>▪ More cost-effective purchasing of drugs, including greater use of generic drugs.</li> <li>▪ Establish an independent commission, with cross-party support, to develop proposals for long-term care of the elderly.</li> <li>▪ Scrap Strategic Health Authorities.</li> </ul>



## Savings / investment

There are some surprising differences in the manifestos when it comes to personal finances. Most people won't be surprised to learn that all the main parties are saying that the brunt of tax rises will fall on the higher paid. But they may be surprised that those on lower and middle incomes could actually be better off under a Conservative or Liberal Democrat Government.

Conservative	Labour	Liberal Democrat
<ul style="list-style-type: none"> <li>▪ End government contributions to Child Trust Funds for all but the poorest third of families and families with disabled children.</li> <li>▪ Will scrap the planned 1p increase in National Insurance next year will put an additional £150 back into the wallet of a single, middle-income worker earning up to £40,000.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Protect the Child Trust Fund</li> <li>▪ Would not increase CGT from its current rate of 18%.</li> <li>▪ Pledged to not raise income tax.</li> </ul>	<ul style="list-style-type: none"> <li>▪ End government payments into Child Trust Funds.</li> <li>▪ Want to increase Capital gains tax to the same level as income tax, which could see CGT rise to as much as 50%.</li> <li>▪ The party has pledged to make the first £10,000 of earnings tax-free, up from the current level of £6475.</li> <li>▪ This will create a tax cut of £700 for most people and give an incentive to work and save.</li> </ul>



## Taxation

Even before the new party (or parties) in power get round to any additional spending cuts, the outcome of election night could be a changing value of the pound, loss of some tax relief on pension contributions and even an unexpected rise in the cost of home loans.

Lib Dem's manifesto outlined substantial tax hikes for the wealthy to fund tax cuts for lower earners. Many IFAs are concerned that policies such as scrapping higher-rate pension tax relief and hiking capital gains tax would be extremely detrimental to their clients

Conservative	Labour	Liberal Democrat
<ul style="list-style-type: none"> <li>▪ Raise Inheritance Tax threshold to 1m.</li> <li>▪ Cut headline rate of corporation tax to 25p and the small companies' rate to 20%.</li> <li>▪ End tax credits for families earning over £50,000.</li> <li>▪ Recognise marriage in the tax system by allowing adults who are married or in a civil partnership to transfer up to £750 of their tax-free personal allowance to their spouse, as long as the higher-income member of the couple is a basic-rate taxpayer.</li> <li>▪ End the "couple penalty" for all couples in the tax credit system.</li> <li>▪ New businesses will pay no National Insurance (NI) in their initial year for the first ten employees, during the opening two years of a Conservative government.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Introduced 50p tax rate on earnings over £150,000 and one-off tax on bankers' bonuses.</li> <li>▪ Pledge not to increase income tax or extend VAT to food, children's clothes, books, newspapers and public transport.</li> <li>▪ Reject Conservative plans to "recognise" marriage in the tax system.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Raise the threshold at which people start paying income tax from current levels to £10,000.</li> <li>▪ Impose "mansion tax" on the value of properties over £2m and increase capital gains tax to bring it into line with income tax.</li> <li>▪ "Restrict" tax credits to "those who need them most".</li> <li>▪ Fix the payments of tax credits for six months at a time so that payments are stable and predictable.</li> </ul>

