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Key points from the Autumn Statement 2023

The Chancellor of the Exchequer has delivered his Autumn Statement, including the next steps in the raft of measures consulted on in the wake of his Mansion House speech in July, along with confirmation of the LTA abolition next April.

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The LTA will be abolished next year

Announcing the abolition of the lifetime allowance for registered pension schemes, as the Chancellor did at this year's Budget, is simple. Working through all the complexities and unintended consequences of such a move is far more complex, and ahead of this Autumn Statement, there had been calls to defer the abolition beyond April 2024 so that trustees, providers and administrators, could be better prepared.

However, the Chancellor has confirmed that the forthcoming Autumn Finance Bill 2023 will include provision to remove the LTA from next April as planned. The Bill will also clarify the taxation of lump sums and lump sum death benefits, and the application of protections, as well as the tax treatment for overseas pensions, transitional arrangements, and reporting requirements. The Bill is now awaited.

A policy paper published by HMRC confirms that the previous move to apply income tax to unused DC pension savings on death before age 75 has been changed. These benefits will now broadly continue to be paid income tax-free from next April.

A 'pot for life'?

The Chancellor has announced a call for evidence to explore the idea of people having one pension pot for life, whereby all their DC pension savings would be secured with a lifetime provider, rather than joining the workplace pension scheme of each employer they work for.

How this would work with the automatic enrolment legislation remains to be seen. The 'pot for life' idea has been mooted before, but as this is a call for evidence, rather than a consultation, it suggests that the plan is still in the very early stages.

The same call for evidence also confirms the government's plans to tackle the proliferation of small DC pots. Following on from a consultation in the summer, it will press ahead with the introduction of a multiple default consolidation model to enable eligible deferred pots of up to £1,000 to be consolidated.

Value for money framework

Following the joint consultation response from the DWP, The Pensions Regulator (TPR) and the FCA in the summer, the FCA has announced that it will consult on detailed rules for a new value for money (VFM) framework for DC workplace pensions in the spring of 2024. It is working alongside the DWP and TPR to ensure the new framework is consistent across all DC schemes.

All three organisations will continue to work closely with industry and have been conducting a series of industry working groups to ensure the DWP's detailed proposals are informed by the very best industry practice. The Regulator has welcomed the FCA's announcement (along with the publication of the DWP's review of Master Trusts (see below)).

The VFM framework is key to the government's DC consolidation plans with the Autumn Statement setting its expectation that the majority of DC savers will belong to schemes of £30 billion or larger by the end of this decade.

Helping DC savers understand their decumulation options

The government response to the earlier consultation has been published that provides an update on plans to place duties on trustees of DC schemes/sections to offer decumulation services and products at an appropriate quality and price when members access their pension savings. It also sets out the intention to further explore the development and wider use of Collective DC schemes as part of the government's long-term vision for pension saving in the UK.

Master Trusts review

The government has published a review of the Master Trusts authorisation and supervisory regime and the wider market, five years on from when the legislation introducing the vehicle came into force. The review considers developments in the Master Trusts market over the past five years, market trends, and the future of regulation and supervision.

A new regime for surplus repayments

For many years, surplus in DB schemes had often been wishful thinking, but as a result of funding improvements it is now commonplace, and the government recognises the existing rules on surplus repayment need looking at. Following a call for evidence over the summer, the DWP has confirmed it will shortly consult on the appropriate regime under which surpluses can be repaid and enabling 100% Pension Protection Fund coverage for DB schemes that opt to pay a higher levy.

Separately, the Chancellor has confirmed that the authorised surplus payments charge – payable when surplus is paid to sponsoring employers - will be reduced from 35% to 25% from 6 April 2024.

DB consolidation: a public consolidator

Following a call for evidence in the summer on options for DB schemes, the DWP will launch a consultation this winter to establish a new statutory vehicle run by the Pension Protection Fund, so that smaller DB schemes looking to consolidate, but not sitting in the target market of commercial consolidators, have the option of transferring into a 'superfund'. The government has a target of 2026 for implementing this.

Trustee skills, capability and culture

The government response to the call for evidence in the summer confirms support for The Pensions Regulator to develop and take forward a register of trustees, which will enable targeting of those trustees and schemes who require additional support to fulfil their obligations. Professional trustees are to be strongly encouraged to seek accreditation and the government will consider whether legislation is required to ensure this becomes a reality.

Separately, The Pensions Regulator is updating its trustee toolkit to include further information on productive finance.

Reforming Solvency II

Having announced reforms to Solvency II, the prudential regulatory regime for insurers, at last year's Autumn Statement, the government has confirmed it will be introducing regulations to deliver a more tailored, clearer, and simpler regulatory regime for the insurance sector, and incentivising private investment in long-term productive assets.

Long-term Investment for Technology and Science (LIFTS)

Subject to final agreement, the government will commit £250 million to two successful bidders under the LIFTS initiative, to create new investment vehicles tailored to the needs of pension schemes, seeking to generate over a billion pounds of investment to support the UK's most promising science and technology businesses.

The government will also establish a Growth Fund within the British Business Bank, which aims to enable investment by pension schemes in the Bank's pipeline of opportunities.

Prioritising long-term pension investment performance over low fees

Building on the guidance and commitments made by the Productive Finance Working Group, the government will engage with industry on proposals to ensure that all aspects of the pensions market are playing their part to support best outcomes for savers.

Key to this work will be consideration on how to shift employer incentives away from low fees towards long-term pension investment performance. The Pensions Regulator will provide further information for employers on what factors should be assessed when they are selecting a pension scheme.

Other news

State Pensions

The triple lock is to be maintained, with next year's basic State Pension and new State Pension increasing in line with average earnings growth of 8.5%.

Working age benefits

All working age benefits (including family leave payments, such as Statutory Maternity and Paternity Pay) will be uprated by the September 2023 annual increase in the Consumer Prices Index of 6.7%.

Class 1 National Insurance contributions

The government has announced a 2% reduction in the main rate of Class 1 employee NICs to 10% from 6 January 2024. This will provide a tax cut for 27 million working people with the average worker on £35,400 receiving a tax cut in 2024/25 of over £450. Although this change reduces the NIC savings that salary exchange schemes can deliver, this is unlikely to reduce the attractiveness of such schemes.

Digitising relief at source

Tax relief is applied to pension contributions using either net pay arrangements (occupational pension schemes) or relief at source (generally personal pension schemes). Measures will be included in the Finance Bill to support the digitisation of the relief at source system, which currently largely operates on a legacy paper-based system.

Occupational Health provision

Following a recent consultation, the government is to meet the demand from employers for clearer guidance and support by establishing an expert group to develop a new voluntary Occupational Health framework in Great Britain. The government will also work with employers and business representatives to develop and promote best employment practices for employees with health and disability issues.

Comment

This was a very busy Autumn Statement for employee benefits, although with a General Election expected in the next 12 months, it will be interesting to see exactly what measures gain traction before the country goes to the polls, particularly in relation to the Mansion House reforms.

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