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Key points from the Spring Budget 2024

The Chancellor has delivered what is expected to be the last Budget before the forthcoming General Election.

It was a generally quiet affair for employee benefits, with the majority of measures having been announced, or heavily speculated on, ahead of the Chancellor's speech, with pre-Election giveaways short in supply.

Volume 2024

Issue 06

7 March 2024

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Investment disclosure in defined contribution pension schemes

The Chancellor's Mansion House speech last summer focused on the need for pension schemes to invest more in UK business, and since then the government has been working on various initiatives to support this (known as the Mansion House reforms) covering both defined benefit and defined contribution (DC) schemes.

The Budget builds upon this work, with moves to require DC schemes to disclose the extent to which schemes invest in UK equities. Research suggests that UK equity investment currently stands at around 6% of the total asset allocation. To improve data on current holdings, the government intends to bring forward requirements for DC schemes to publicly disclose the breakdown of their asset allocations, including UK equities (with similar requirements for Local Government Pension Scheme funds in England and Wales from April 2024). The government will work closely with the Financial Conduct Authority (FCA) which will consult on this shortly, as part of the Value for Money (VFM) framework.

The government will review what further action should be taken if this data does not demonstrate that UK equity allocations are increasing.

The FCA's VFM consultation will include proposals to require the publication of historic net investment returns from the default funds of contract-based DC schemes and a breakdown of their UK investments. Proposals will require schemes to compare their performance, costs and other metrics against those of at least two schemes managing over £10 billion in assets. This is a change to the current VFM assessment process and the comparator requirement of £10 billion

in assets is expected to increase significantly over time – indicating the government's expectation of consolidation in the UK market leading to a smaller number of larger schemes. This continues to strengthen the political and regulatory pressure for consolidation in the UK DC pension market.

In coordination with the FCA, the government will legislate at the earliest opportunity to apply the VFM framework across the market and provide The Pensions Regulator with new powers, using secondary legislation if necessary, to ensure key disclosures are in place by 2027.

Where schemes are persistently offering poor outcomes for savers, the FCA and The Pensions Regulator will have the full range of regulatory powers available, including the closure of schemes to new employer entrants and, where necessary, winding up a scheme. The Budget makes it clear that the government expects the regulators to use these powers.

A further cut in National Insurance contribution rates

The main rate of Class 1 employee National Insurance contributions (NICs) will reduce, from 10% to 8%, from 6 April 2024. The Chancellor suggests this means the average worker would save about £450 a year. This follows a similar 2% cut at the start of the year that was announced at the Autumn Statement last November, and the November 2022 reversal of the 1.25% NIC increase intended as a levy towards the increasing cost of Health and Social Care.

Although this can be viewed as a pre-election tax saving, the continued freeze in the income tax thresholds means the average tax bill for many employees is still higher than many, including the government, would like. While this change reduces the NIC savings that salary sacrifice schemes can deliver, this is unlikely to reduce the attractiveness of such schemes.

A commitment to the lifetime pension provider model

Perhaps in recognition of the less than wholesale support for the lifetime provider idea (or 'pot for life') following the call for evidence launched at the Autumn Statement, the Chancellor has reaffirmed the government's commitment "to exploring" a lifetime provider model for DC pension schemes over the long-term.

Continued analysis and engagement will be undertaken to ensure that this would improve outcomes for pension savers, and build on the foundations of existing reforms, such as the VFM framework being developed by the FCA and The Pensions Regulator.

The lifetime provider model does have advantages for savers, but it is clear that many in the industry have concerns about this initiative, not least in terms of the levels of current saver engagement with pensions and the call for pensions dashboards to be properly introduced before consideration is given to lifetime providers.

Workplace saving

One of the aims of the Mansion House reforms is to support and encourage a savings culture in the UK. To support this, the Chancellor has announced the launch of a new UK ISA to provide saving opportunities whilst supporting investment in the UK.

The UK ISA will be a tax-free £5,000 allowance for people to invest in UK-focused assets, in addition to the existing ISA limits. A launch date for the UK ISA has not been confirmed, and the government will consult on the details in due course.

Workplace ISAs are an increasingly popular workplace benefit and these proposals may provide increased choice and flexibility for employees.

ESG ratings regulation

Following a consultation, the government has announced it will regulate providers of Environmental, Social and Governance (ESG) ratings to users within the UK. The providers of these ratings will become subject to the FCA's oversight, although a timeline for this, along with the consultation response, has still to be confirmed.

Childcare support

The Chancellor announced significant changes to the High Income Child Benefit Charge (HICBC). Child Benefit is an allowance paid to people responsible for bringing up children who are under 16 or under 20 if they stay in education or training.

A HICBC is payable if the claimant or their partner has income over £50,000 per annum. If income is over £50,000 a charge is payable which effectively reduces the child benefit by 1% for each £100 earned above £50,000, meaning that the child benefit is completely withdrawn once earnings exceed £60,000 per annum.

The current system has been criticised as being unfair as it is based on individual income rather than household income. To remedy this, the government has committed to move to a system based on household income by April 2026, and in the meantime raise the HICB threshold to £60,000 and reduce the taper so that full benefit is not lost until income exceeds £80,000.

These changes are expected to result in 485,000 families gaining an average of £1,350 per annum in child benefit.

In many workplaces, employees can utilise salary sacrifice for pension contributions and employee benefits, which reduces taxable income for the purposes of the HICBC. The changes will mean that some employees will see an increase in child benefit, and others may be able to consider salary sacrifice benefits to alter their exposure to the HICBC.

These changes come at the same time as the introduction of increased free childcare announced in Spring Budget 2023, bringing some positive changes to many working parents.

Comment

This was a Budget in which, at least from an employee benefits perspective, the Chancellor avoided too much short-term tinkering. The Mansion House reforms have some way to go to be fully implemented, but this Budget signals a continued commitment to the development and expansion of the core principles of the reforms, to increase UK investment.

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