Sackers

Spring Budget 2024 and beyond

Alert | 06 March 2024

Introduction

The Chancellor, Jeremy Hunt, delivered his Spring Budget 2024 today. Following last year's announcements of major pensions tax changes, the pensions news this year centres on long-term growth and the further evolution of the Mansion House reforms. With details still trickling through, we set out the main headlines below.

Key points

- The Chancellor has continued his focus on "boosting growth" in line with the "golden rules" set out in his Mansion House speech in July 2023. Today's Budget also follows swiftly on the heels of the recently published consultation on DB options (see our Alert), which in turn builds on the "package of pension reform" outlined in the Autumn Statement 2023.

- As trailed earlier this week, pension schemes remain a key focus for the Government's plans to bolster investment in UK businesses. In future, DC and Local Government schemes will be required to disclose their UK investment holdings, although precisely which DC schemes are in scope is not yet clear (see below).

- As part of the new value for money ("VFM") framework, the FCA and TPR will be given powers to prevent consistently poorly performing schemes from taking on new business from employers (see below).

- Sitting alongside existing ISA allowances, a consultation on a new "UK ISA" has been published. As the name suggests, the new UK ISA will allow an extra £5,000 to be invested in UK-focused assets.

- The Government has confirmed its intention to explore a lifetime provider model for DC pension schemes in the long term (see our Alert). A call for evidence (which closed on 24 January 2024) sought views on how this might work and what central architecture, including data standards, would be needed.

- State pensions will be uprated by inflation in April 2024, in line with the "commitment" to the triple lock, seeing the weekly pension amount rise from £203.85 in 2023/24 to £221.20 in 2024/25.

- The main rate of Class 1 employee NICs will reduce from 10% to 8%. The Government intends to continue to cut NICs in the future, "when it is responsible" to do so.

- Finally, although not mentioned in the Budget, the DWP confirmed last month that the existing AE earnings trigger threshold of £10,000 will not change for 2024/25. The lower and upper earnings bands will likewise be held at the same levels, ie £6,240 and £50,270 respectively.

The next steps in the Mansion House reforms

New requirements to disclose UK equities holdings

As part of the policy aim to “unlock more pension fund capital”, the Government intends to introduce requirements for DC schemes to publicly disclose the breakdown of their asset allocations, including UK equities. Figures suggest that investment in UK equities across the pensions industry currently stands at around 6%. Improving data on UK equity holdings is intended to enable the Government to assess whether UK equity allocations are increasing and, if not, to “review what further action should be taken”.

The FCA is expected to consult in the spring, and equivalent requirements for the LGPS are expected “as early as April 2024”. It is not yet clear when, or whether, these requirements will also be introduced for trust-based occupational DC schemes.

More details of the VFM framework

With the outcome of the DWP, TPR and the FCA’s joint consultation on a new VFM framework published in July 2023, the Government is working with the FCA and TPR to develop the proposals. The framework aims to “highlight where schemes are focusing on short-term cost savings at the expense of long-term investment outcomes, and where schemes’ current scale may be preventing them from offering value to savers”.

In their consultation response, the parties made clear their plan to “develop a suite of regulatory tools that will ensure schemes comply with the framework”. The Budget has provided a little more detail on this, announcing that these powers will include the ability to close a poorly performing scheme to new employer entrants or, where necessary, to wind it up. The FCA has previously confirmed its plans to consult on the framework in spring 2024.

Removal of the LTA – more still to come

Coming up fast, 6 April 2024 (“LTA-Day”) will mark the end of the LTA. Whilst the Finance Act 2024 has now received Royal Assent, we are still missing some key parts of the post LTA-Day pensions tax framework.

Regulations are expected to iron out some wrinkles in the legislation, and more guidance from HMRC (including an updated Pensions Tax Manual) is on its way. Details of these were notably absent from the Budget, with only one mention of the LTA’s removal featuring in the Chancellor’s speech. So, there are still some changes ahead and a lot to squeeze in before 6 April.

Next steps

Clearly, there are a number of developments still on the horizon, not least the FCA consultations due in the spring. We can expect more details in the coming weeks and months which will hopefully help to tie up some of the loose ends.

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