Sackers

April 2024 - what's changing?

Alert | 03 April 2024

Introduction

Several changes are coming into effect on and around 6 April 2024 and beyond. Where necessary, trustees and employers should seek advice on what those changes mean for their schemes and on any preparatory steps they should be taking.

Key changes from 6 April 2024

- The removal of the LTA and the introduction of new allowances, the “lump sum allowance” (“LSA”) and the “lump sum and death benefit allowance” (“LSDBA”).
- The reduction of tax on authorised surplus payments from 35% to 25%.
- Regulations implementing the new funding and investment regime come into force but only apply to scheme valuations with effective dates on and from **22 September 2024**.
- With more developments on the horizon, see “What’s still to come” below for more detail, including as to expected timing.

Removal of the LTA

Alongside the removal of the LTA from 6 April 2024, other key changes to pensions tax include:

- the removal of the LTA regime, including LTA excess lump sums and most benefit crystallisation events (“BCEs”) that currently trigger LTA testing
- the debut of two new tax-free lump sum allowances in the LTA's place, the LSA and the LSDBA, and a new testing and reporting regime. The new allowances apply per person across all registered pension schemes, not per scheme, with lump sums exceeding either taxed at an individual’s marginal rate
- the introduction of a new authorised lump sum: the “pension commencement excess lump sum” (“PCELS”). The PCELS will be payable where a member has exhausted their LSA, or has exhausted their LSDBA (because they have become entitled to a serious ill-health lump sum),

provided certain other conditions are met and scheme rules permit the payment. The aim is to ensure that individuals who have crystallised benefits above £1,073,100 will be able to continue to take benefits as a lump sum when the LTA excess lump sum is no longer available.

See our Alert for more details on the new regime.

What's next?

More guidance from HMRC (including an updated Pensions Tax Manual) is on its way, and further regulations are expected to be laid before Parliament on 18 April 2024. So, there is still a lot to come. For more details and steps schemes can be taking now to get LTA-Day ready, see our recent Alert.

DB funding regime

The PSA21 sets out the framework for a new requirement for DB schemes to have a funding and investment strategy ("F&I Strategy"), in which trustees will set out how they plan to reach low dependency funding by the time the scheme is significantly mature.

Following a consultation in 2022, the DWP published revised funding and investment regulations in January 2024, setting out the matters the trustees must take into account, and the principles they must follow, in determining or revising their scheme's F&I Strategy. The regulations also detail the supplementary matters that schemes will need to cover within the "statement of strategy".

The regulations are just one piece of the funding puzzle:

- TPR is currently consulting on the **statement of strategy**, which will set out the F&I Strategy and certain "supplementary matters", including the trustees' assessment of the F&I Strategy, key implementation risks and mitigations, and information relating to investment, funding and covenant
- the **revised DB funding code** was consulted on in December 2022 and is expected to be laid in the summer, to be in force in September 2024. The code is designed to partner with the regulations, providing practical guidance on how trustees can comply with the requirements
- TPR's consultation on revised **covenant guidance** is expected in the summer
- TPR's **Bespoke and Fast Track** regulatory approach was consulted on in December 2022 and we are awaiting TPR's response.

Although the regulations come into force on 6 April, trustees won't be required to produce their first F&I Strategy until 15 months after the effective date of the first actuarial valuation **on or after 22 September 2024**.

Other changes

Tax on return of surplus to employers

An Order reducing the tax due on a return of surplus to an employer, known as an authorised surplus payment, from 35% to 25% takes effect on 6 April 2024. This measure was announced in the Autumn Statement 2023.

General levy

Regulations come into force on 1 April 2024, which give effect to new rates that will be used to calculate the general levy. Following consultation, the rates will increase by 6.5% per year, "which aligns with the majority of consultation responses received".

Automatic enrolment ("AE")

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 (£6,240 and £50,270 respectively).

Net pay arrangements

Changes to net pay arrangements for members whose taxable income is below the personal allowance for the relevant tax year begin to apply in respect of contributions made from the start of the 2024/25 tax year.

What's still to come?

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 recent Budget confirmed 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.

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. The FCA is expected to consult in the spring but it is not yet clear when, or whether, these requirements will also be introduced for trust-based occupational DC schemes.

Pensions dashboards

Following the recent publication of the connection timetable guidance, we are expecting the revised data standards shortly, followed by other draft standards later in the year.

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