DC update

Welcome to LCP's latest quarterly DC update, in which you will find our views on key developments in the DC arena over the last three months, together with any actions and issues heading your way.

November 2024

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The Autumn Budget 2024

Headlines from the Budget for DC pensions and beyond

There were several announcements in the Chancellor's Budget Statement on 30 October 2024 that will impact schemes both directly and indirectly:

- **Inheritance Tax on unused pension funds and death benefits**
- **Trustee residency changes**
- **Increase in Employer National Insurance**
- **Freeze in allowances**

Pages 2 & 3 contains more details and comments from our LCP experts.

The Autumn Budget

National Insurance increase on employers is "a major setback" to hopes of progress on Britain's under-saving crisis

One of the big revenue raisers in the Budget was the increase in the main rate of employer Class 1 National Insurance contribution rates, which will increase from 13.8% to 15.0% from 6 April 2025 (employee Class 1 NICs remain unchanged at 8.0%).

This increase in NICs for employers will increase the savings that can be achieved by using 'salary sacrifice' as the payment mechanism for employee contributions arrangements (see below).

Current auto enrolment rules require employees to make a 5% contribution and employers 3% , making 8% in total. It had widely been expected that employers would, in due course, be asked to contribute more, perhaps levelling up to match employee contributions at 5%. But the rise in employer payroll costs makes it highly unlikely that the Government will bring forward any such measure soon.

Sir Steve Webb, ex Pensions Minister and Partner at LCP, believes this is a 'major setback' to hopes of tackling Britain's pensions under-saving crisis, saying "Even the Government accepts that millions of people are not saving enough for a decent retirement, and there is no doubt that part of the answer is workers and their employers contributing more. This is a worrying day for anyone who cares about the adequacy of pension saving in the UK."

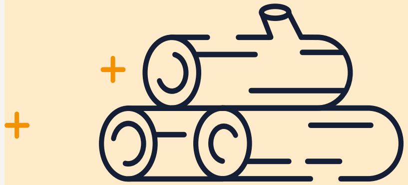
You can read more from Steve here.

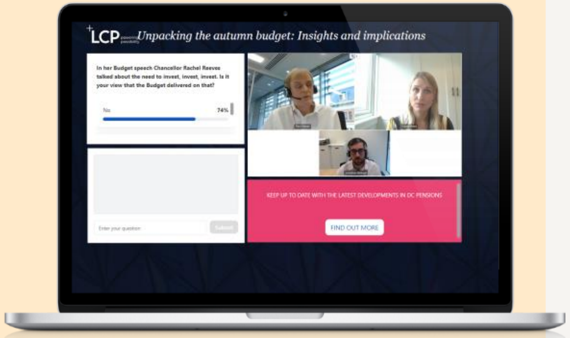
The Budget has made pensions more tax efficient for employers

LCP's Tim Camfield believes that the Budget will make pension provision more tax efficient for employers. He commented: "After months of speculation of a "tax raid" on pensions, the overall impact of today's Budget is to make pension provision more tax efficient for employers relative to salary or other benefits. Those that don't yet make use of salary sacrifice for employee pension contributions should consider doing so, and those that do should consider further opportunities, like bonus sacrifice."

Watch LCP's webinar on the insights and implications of the Autumn Budget

In this webinar on 5 November, LCP experts Laura Myers, Paul Gibney and Jonathan Balkwill examine the Autumn Budget and the key areas on which DC schemes should focus.





The Autumn Budget (cont'd)

Inheritance Tax move on pension death benefits marks major change

The Government is to bring most unused pension funds and death benefits within someone's estate for inheritance tax purposes from 6 April 2027. This is intended to remove the opportunity for individuals to use pensions as a vehicle for inheritance tax planning.

A consultation has been launched on the processes required to implement these changes, which will apply mainly to UK-registered schemes. Views are being sought on how administrators will report and pay any Inheritance Tax due to HMRC.

You can find our initial reaction to these proposals here.

New state pension 'guaranteed' to exceed tax threshold in 2027 under triple lock policy

The Budget confirmed that the new state pension will be £230.25 per week from April 2025. Coupled with frozen tax thresholds until April 2028, this means that it is guaranteed to exceed the income tax personal allowance in April 2027.

Steve Webb commented: "A combination of an increasing state pension and frozen tax thresholds means we will soon be in the non-sensical situation where the new state pension will be just a few pounds above the income tax threshold."

You can read more from Steve about the triple lock here (see also p9).

Decision not to further extend income tax freeze is welcome but similar freezes in pensions should not be ignored

The freeze to the income tax allowances and thresholds that will not be extended beyond 2028 is welcome, but similar measures apply to pensions which don't enjoy a similar timeframe.

LCP Principal Shayala McRae comments: "The current tax-free lump sum allowance of has been in force since the Lifetime Allowance was frozen in April 2020. Since then, the value of this allowance in real terms has reduced by around 23%.This silent and steady erosion of pensions allowances should not be ignored. At this rate, by the time of the next general election, the tax-free allowance will have reduced a third in real terms since 2020."

Change for non-resident scheme administrators

HMRC has stated that "scheme administrators", i.e. those responsible for the tax administration of UK registered pension schemes must be UK resident from 6 April 2026. This has been introduced as a potential counter-measure to pension scams, many of which have involved overseas schemes.

Government policy and guidance developments

LCP's response to the Government's call for evidence - "improve the quality of the carrot before bringing in the stick".

In September, the Government asked the industry for its views on how a more consolidated DC market would offer the potential for greater investment in UK asset classes. You can find our response here.

We are calling on the Government to focus on driving behavioural change across the industry, for example by requiring trustees to assess UK opportunities as opposed to alternatives, before taking investment decisions, and to deliver initiatives that incentivise investment into specific UK sectors.

You can read more about this in the press release from DC Investment expert Stephen Budge here.

Regulator finalises pensions dashboards compliance and enforcement policy: first schemes are expected to connect from April 2025.

The Regulator has finalised its pensions dashboards compliance and enforcement policy, via a blog on 5 September 2024.

The guidance shows that the Regulator's approach is to be driven by eight "Policy Principles", one of which is a recognition that delivering pensions dashboards is going to be a huge challenge for the industry.

You can read more about this here.

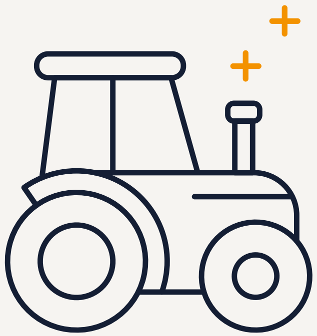
Regulator encourages DC trustees to engage with the FCA's Value for Money (VFM) consultation

On 8 August, the FCA, in conjunction with the DWP and the Regulator, launched a consultation on implementing a VFM framework for DC schemes.

This consultation, which focuses on contract-based schemes, indicates that comparable standards for trust-based schemes are expected in the forthcoming Pension Schemes Bill. This initiative is, therefore highly relevant to those managing both contract-based and trust-based DC workplace pensions.

We think that these detailed proposals should be welcomed in the pursuit of better outcomes for savers but are likely to cause considerable disruption and work to IGCs, providers and their advisers.

You can read more about the key areas addressed here.



Government policy and guidance developments (cont'd)

Chancellor launches pensions review

The Chancellor has launched a "landmark" review of the UK pension system. Its initial focus is on investment, which appears to have two aims. Firstly, for DC schemes to commit more of their funds to UK productive assets. Secondly, to further pool the funds that make up the Local Government pension scheme to "cut down on fragmentation and waste".

You can read our view here.

Above inflation increase to State pension likely next April

The publication of July 2024 wage inflation data on 10 September 2024 shows that it is very likely to drive the triple lock calculation of next year's increase to state pensions.

Assuming a 4.0% increase, the Single Tier State Pension will increase by £460.20 to £11,962.60 pa, whilst the Basic State Pension will increase by £352.56 to £9,166.56 pa.

However, the sting in the tail is that most recently retired pensioners will pay at least 20% tax on this increase, meaning that they will receive an after-tax increase of £368, rather than £460. In addition, just over £250 of that net increase is needed to allow for CPI inflation at the current rate.

Pension Wise goes digital

Pension Wise is the service for anyone over 50 with DC savings who wishes to receive guidance as to how they should access them. The Money and Pensions Service has now launched an alternative digital appointment service that is designed to complement the existing Pension Wise telephone and face-to-face appointments.

Collective Defined Contribution (CDC) schemes

A CDC scheme combines elements of DB and DC in its design. Unlike DB schemes which promise a specific retirement income, CDC schemes do not guarantee individual payouts. Instead, they aim to deliver a 'target benefit' from a shared pool of assets which is managed collectively.

They are gaining in popularity, as they can potentially offer a more predictable retirement income stream than a DC scheme, whilst being less costly and complex to run than DB scheme.

You can find more details here: LCP Press Release – CDC Regulation

LCP has already been working with several multi-employer schemes, such as the Church of England Pensions Board, to explore how CDC might transform retirement outcomes for its members.

Royal Mail CDC scheme launches

For now, the only CDC scheme in the UK is the Royal Mail Collective Pension Plan, which launched on 7 October 2024.

Multi-employer CDC consultation published

One of the barriers to the development of the market has been the absence of a framework that would permit multi-employer CDC schemes (including commercial providers such as Master Trusts).

In response, the Government has released its much-anticipated consultation that will enable a much wider group of members to access CDC, which is a vital next step in the evolution of the CDC market in the UK

You can read more about what we think here.

New CDC regulations could create new pension options for many people

On 8 October the DWP published its consultation on unconnected multi-employer CDC schemes, including master trusts. We hope that this announcement will bring helpful clarity about how such schemes could work and prompt many of the UK's largest groups to think seriously about opening up fresh pensions options for more employees.

Read more about this here.

Responsible investment and climate change – what's new?

Regulator warns against minimum compliance with ESG duties - a welcome reminder that trustees should not approach ESG as a tick-box compliance exercise.

The Regulator has published its review of how pension trustees are complying with their wider ESG duties, based on analysis of schemes' statements of investment principles and implementation statements.

The key conclusion was that while most trustee boards are meeting their ESG-related disclosure requirements, many (particularly smaller), schemes are only delivering minimum compliance.

You can read more about this here.

FCA introduces temporary actions to address a rise in 'greenwashing'

With global assets under management in ESG-oriented assets expected to increase to $34trn by 2026, the FCA has released a package of measures aiming to:

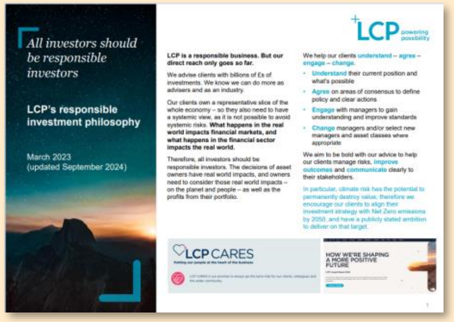
- Protect investors by helping them to make more informed decisions when investing; and
- Help maintain the UK's position as a world-leading, competitive centre for asset management and sustainable investment.

The 'naming and marketing' rules ensure that funds which are marketed with sustainability-related terms must meet certain sustainability characteristics. Thus far, only a few funds have been granted labels by the FCA.

LCP's responsible investment philosophy – "all investors should be responsible investors".

Our responsible investment philosophy focuses attention on concrete action that can be taken to address the systemic risks posed by issues such as climate change and inequality. Our clients own a representative slice of the whole economy, so they need to have a systemic view.

You can read more here.



LCP's Responsible Investment Survey 2024

In our seventh RI survey of investment managers, we analysed responses from 119 managers on four key areas: ESG Foundations, Climate Change, Stewardship and Systemic Stewardship.

There is clear evidence that, on average, managers have expended more effort on their RI practices over the last two years since our previous survey. But they should not just be resting on their laurels and there is considerably more that they should be doing..

You can read the full report here.

LCP Insight

Bridging the pensions knowledge gap

Many in the pensions industry recognise the gap between our knowledge of pensions and the public's understanding.

Read more from LCP's communications expert Hayley Williams here.

Communications and confidence

In this thought-provoking blog, LCP Principal David Millar highlights that the people who really understand how members think, what they understand about their scheme, their preferred media, and the information they need, are the members themselves.

David highlights the challenges posed by different communication channel preferences and financial risk aversion, referencing evidence from our financial wellbeing survey released at the end of July which explores the public's overall financial confidence. Read the survey report here.

What should all good post-retirement solutions include in their design?

The King's Speech re-enforced the importance of our industry building and supplying adequate post-retirement solutions for DC savers.

LCP's DC expert Sam Cobley believes this focus is welcome and overdue. You can read more about this here.

At the point when someone must make one of the biggest financial decisions of their life, to date the industry has largely left such matters to private wealth houses targeting the wealthy, leaving a significant gap for others.

While creating a 'fully default' solution that meets everyone's unique needs (health, other wealth, attitude to risk, spouse's income etc) will inevitably be challenging, the King's Speech emphasised the industry's duty to offer more comprehensive guidance to more people post-retirement.

We hope that CDC schemes (see p5) will help improve options for people post-retirement.

'Sir Steve' says!

"Give your pension some attention!"

LCP partner and industry expert Sir Steve Webb thinks that the latest Pension Attention campaign launch, fronted by Gemma Collins, will help people understand how much they need to save for retirement, particularly as it highlights how many people are currently under-saving for their retirement.

There are three practical steps that people can take:

1. Ahead of the launch of the Pensions Dashboard, find out where your pension pots are, by using the Pension Tracing Service.
2. Log in to your pension accounts to find out what they are worth and what they might provide; and
3. Start planning: one immediate practical step you can take is to ask for a state pension forecast.

Is it time to check your state second pension payment?

Another good reason to get a state pension forecast is that in recent years the money pages of the national press have been full of stories, many led by Steve, about errors in people's state pension entitlements. More than 200,000 people have been found to have been underpaid and are collectively owed around £2 billion in arrears payments.

Steve's latest research suggests that the State Second Pension (S2P) is an area that may require further investigation and checks. S2P was designed to provide a more generous pension for low and modest earners, but errors may have gone unnoticed, particularly for people who were in contracted-out workplace pension schemes, who may have accrued S2P top-ups without realizing it.

Anyone who earned within the specified earnings limits from 2002-03 to 2015-16, reached state pension age before 6th April 2016, and has a state pension breakdown showing NIL for the post-2002 additional pension, should check their entitlements. Errors could mean they are missing S2P top-ups.

"Urgent need for better at-retirement support"

The Financial Conduct Authority (FCA) has published new data for 2023/24 on the retirement income market, showing how consumer behaviour at retirement is changing. Key results show that annuity sales have risen sharply by 39% and drawdowns have risen by 28%.

Steve comments that "these figures show that we still have a very long way to go on the DC savings journey".

Major milestone reached in battle for pension justice for married women

A long-running battle for justice for tens of thousands of married women pensioners has reached a major milestone, following a decision by the Ombudsman to launch a full investigation. If successful, the campaign could cost the Government millions in state pension arrears.

The issue relates to the position of a large group of married women who reached pension age under the old state pension system who missed out on thousands of pounds because of what Steve calls an 'archaic and sexist system'.

You can read more about this here.

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For further details, visit our preference centre.

Any questions?

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