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Spotlight on the arrival of Labour Government's first Budget

October 2024

The Government announced its first Budget on 30 October 2024. In the lead up to this, there were many speculations as to how the Government might look to fill the black hole they faced including how pensions might be looked at to support spending cuts and tax rises.

In this publication, we outline the key changes that were announced in the budget that affect companies offering DC pension arrangements and their savers, and the actions employers could be considering as a result.

Budget Announcement	Increase in Employer National Insurance (NI) rate and a reduction to the NI threshold

What has been announced and what does it mean?

The Government will increase employers' National Insurance contributions from 13.8% to 15% from April 2025.

In addition, the threshold at which employers will start paying National Insurance on a workers' earnings will be lowered from £9,100 to £5,000.

This means that costs will go up for employers.

Fortunately, where employers provide remuneration in the form of pension contributions, these contributions are not treated as earnings for NI purposes. This means employers offering salary sacrifice arrangements will continue to make NIC savings on pay employees sacrifice for pension contributions.

What should employers consider?

Cost implications for corporates will be dramatic. For example, for an employee earning £32k and sacrificing 5% into their pension, the employer cost will increase by £871. If salary sacrifice is not used the increase in cost would be £890. This may not be bearable for many.

Employers not operating salary sacrifice should consider implementing it to reduce costs. In the scenario above introducing salary sacrifice would reduce the cost increase from £890 to £657 - a saving of £233.

Employers that operate salary sacrifice should consider action to drive up participation to maximise savings. Also reviewing whether bonus can be sacrificed into pension or paid before April would reduce the amount of NICs paid.

Where employers offer cash in lieu of employer contributions e.g. to staff impacted by restrictions on pension tax relief, they should review their policies (e.g Annual Allowance) and consider adjusting any cash paid to allow for employer NICs.

Increasing employee contributions made via salary sacrifice would also result in NI savings for employers.This should be considered where such increases would not result in increased employer contribution rates too (i.e where you do not have a matching structure).

If you offer a matching contribution structure, it may be that reviewing the overall offering (whether reducing the match available or moving to an alternative structure) could help manage costs. Such changes should be carefully considered as consultation would be required.

Finally, reviewing your broader employee benefits package could support managing cost increases. Wage increases and high inflation on broader benefits e.g medical costs have added to cost pressures. A full review of your total reward package could identify additional areas where cost efficiencies or reductions could be achieved.

Budget Announcement	Inclusion of pensions in the Inheritance Tax (IHT) regime

What has been announced and what does it mean?

From April 2027, most pensions and death benefits will be included within the value of an estate for Inheritance Tax (IHT) purposes.

The nil-rate band will remain frozen for another 2yrs at £325,000 until 2030.

Currently, pension savings are not generally included as part of an estate for Inheritance Tax (IHT) which means that individuals can pass on their funds without incurring IHT.

What should employers consider?

Details on how the change will be implemented are subject to consultation. We would suggest that employers wait until full clarity is provided before taking significant action. However, employers should be aware that:

This change is likely to mean more employees will be impacted by IHT and will be seeking greater support with retirement planning. You may want to consider the financial guidance and support you provide your staff.

Going forwards, some savers may not see saving into pensions as tax efficient as before if they had planned to leave behind savings upon death. They may therefore seek to save into alternative vehicles e.g. ISAs. You should consider if offering a workplace ISA or alternative saving vehicle to pensions would be attractive to your staff.

As this change has been brought about to encourage pensioners to use their pension pots in retirement and enjoy a greater standard of living (rather than storing wealth in pensions to pass on to loved ones), this could result in savers accessing more from their pension now and increased work for administrators. You should consider if your in-house or third-party admin team have sufficient resource to meet increased demand.

Finally, the processes for administrators will need to be reviewed to ensure any IHT liabilities are settled accordingly. This will require time and resource to update for inhouse admin teams.

Budget Announcement	UK pension schemes investment in UK growth assets

What has been announced and what does it mean?

The government announced major new measures to boost direct and indirect investment in the UK economy to increase economic growth via the National Wealth Fund and their industrial strategy. The budget fell short of announcing any new incentives for UK pension schemes to invest more in UK companies and infrastructure. It did reiterate the plan to launch a pensions review to look at ways to unlock greater investment in UK growth assets.

What should employers consider?

- No immediate action for employers nor pension scheme trustees.
- Look out for the upcoming pensions review for further direction and potentially incentives for schemes to direct a greater proportion of investments to UK assets.

Recommended actions

Every organisation is unique and will have DC savers who could be impacted differently by any changes. However, in addition to the considerations raised above, all employers should consider:

Communications: what do your current communications say? Review and update them if necessary, to reflect any changes introduced by the Budget.

Modellers and tooling: do you or your pension provider offer any modelling tools to help savers understand their pension savings? If so, consider whether these to be updated to account for any changes, particularly the NI changes and what this means for the cost of contributions for employees in salary sacrifice arrangements where NI savings are shared.

Member support: pensions can be complex and difficult for individuals to understand. In particular the changes to IHT may leave many members considering if they should now behave differently to before. Providing adequate guidance and/or advice support will better help savers make more informed decisions about their finances. Our own research also found that over 1 third of midlifers say that their retirement worries are affecting their mental health, and this in turn can affect productivity. You should assess how you support your staff in understanding pensions and retirement planning, and whether they need additional support, guidance or advice.

Next steps

We would be more than happy to discuss through the implications of the Budget for you and what actions you may be able to take to respond. If you'd like to discuss any of the items discussed in this publication further, please get in touch with one of our experts.

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