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Spotlight on the Labour Government's first Budget

October 2024

The Labour Government will announce their first Budget on 30 October 2024. It has been widely rumoured that the Budget will include a mix of spending cuts and tax rises, within which pensions is expected to be included.

In this article, we outline our thoughts on the possible changes that could be introduced. We also discuss the impact these may have on employers offering DC pension arrangements and their savers, and the actions employers should be considering should any of the rumoured changes be introduced.

Possible change	What does this mean?	What should employers consider?
Removal / reduction of National Insurance (NI) savings on employer contributions	National Insurance Contributions (NICs) are paid by employees under State Pension Age and employers on earned income. Currently, employers pay at a rate of 13.8% on all earnings above £175 per week. However, where employers provide remuneration in the form of pension contributions, these contributions are not treated as earnings for NI purposes. The government may look to include payments into pensions within an employee's earnings for NI purposes, thus increasing the amount of NI employers will need to pay.	*Financial:* Costs for employers will go up if NIC savings on pensions are reduced or removed. This could be introduced relatively quickly. *Governance/operational:* Can you continue to offer the current contribution structure to staff if pension costs go up? Do you currently share any of the NI savings you make on salary sacrificed for pension contributions with your staff? Can you afford to continue to share this saving?

Flat rate tax on pensions	Currently, within certain annual limits, pension contributions receive full tax relief. The government may look to limit tax relief on pension contributions to a single rate, for example the basic income tax rate of 20%.	*Financial:* Costs are unlikely to increase for employers (assuming DC member saving behaviours do not change). However, higher earning staff may receive less tax relief on the contributions they make. *Governance/operational:* Higher earners may no longer see pension savings as tax efficient as before and seek to put their savings into alternative vehicles eg ISA. If you offer a matching contribution structure, could you pay 'matched' contributions into an alternative vehicle (eg ISA)?
Reduction in the tax-free cash allowance on pensions	Currently, when a DC saver reaches the normal minimum pension age (currently 55), they can withdraw up to 25% of their pension pot tax-free, capped at £268,275, unless they have Lifetime Allowance (LTA) protection. The government may look to reduce the level of tax-free cash that savers can take either through a reduction in the overall cap (broadly affecting the highest earners only) or through a reduction in the overall % of a DC pot that a saver can take tax free.	*Financial:* Costs are unlikely to increase for employers. However, a reduction in the cap on the tax-free cash allowance will affect savers with the largest pots (likely those with savings closer to or over £1.073m). A reduction in the overall % of a DC pot that a saver can take tax free would affect all savers. *Governance/operational:* Does your current default investment strategy target 25% of assets at retirement in cash? Such strategies may no longer be appropriate and should be reviewed. The government may introduce protections for individuals who already have savings of £1.073m and are planning to take the current maximum tax-free cash. You may consider if/how you can support staff in applying for such protections.
Inclusion of pensions in the Inheritance Tax (IHT) regime	Currently, pension savings are not generally included as part of an estate for Inheritance Tax (IHT) purposes. The government may look to include money from DC pensions as part of the estate for IHT purposes.	*Financial:* Costs are unlikely to increase for employers. *Governance/operational:* Would savers start spending more of their pension pots now which may add to increased work for administrators? Would administrators have to pay IHT bills in respect of pensions? Would processes need to be put in place to arrange this?

Pension tax credits on UK investments	The government wants to increase the level of savings in UK investments. One such incentive would be through offering a more favourable tax status on UK investments. If UK investments receive more favourable tax treatments the net returns could increase, improving investment performance for savers.	*Financial:* Costs are unlikely to increase for employers. *Governance/operational:* Does the current default DC pension strategy for your members invest in UK funds? Should the level of UK investment in the default strategy be reviewed?

Recommended actions

Every organisation is unique and will have DC savers who could be impacted differently by any changes. However, in the event of any change, 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 need to be updated to account for any changes.

Member support: pensions can be complex and difficult for individuals to understand. Some of the changes may have a direct impact on the efficiency of pension savings for savers. Depending on the changes made, and also how these are reported, savers could make illogical decisions and be more susceptible to pension scams. 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

Whilst we recommend that you do not make any changes until the Budget is announced, this article is for information purposes only. However we strongly recommend you start considering now what the possible Budget changes may mean for you and your staff, so that you can act quickly if needed. We'll provide further updates once the Budget has been announced. If you'd like to discuss this further, please get in touch with one of our experts.

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