Broadstone

An Overview

Autumn Statement

November 2022

Introduction

This short Briefing Note looks at the Autumn Statement announcements and Office for Budget Responsibilities (OBR) forecasts and what that may mean for pension schemes.

For a more detailed summary of the changes to tax allowances and thresholds please refer to our accompanying note.

The future is not clear but it could be tough

The key message from this statement is that there remain challenging and tough times ahead. Even with the continuation of the energy price guarantee scheme energy prices, a key driver of inflation, will remain high for some time. This means inflation, while predicted to fall (more on that later) will still be at historically high levels for most of 2023.

Bank rate rises are also predicted to continue this year and next with unemployment set to peak around 5% in 2024, as predicted by the OBR and real wages failing to keep pace with inflation.

The Chancellor also confirmed that the UK is in a recession with further shrinking of the economy expected next year.

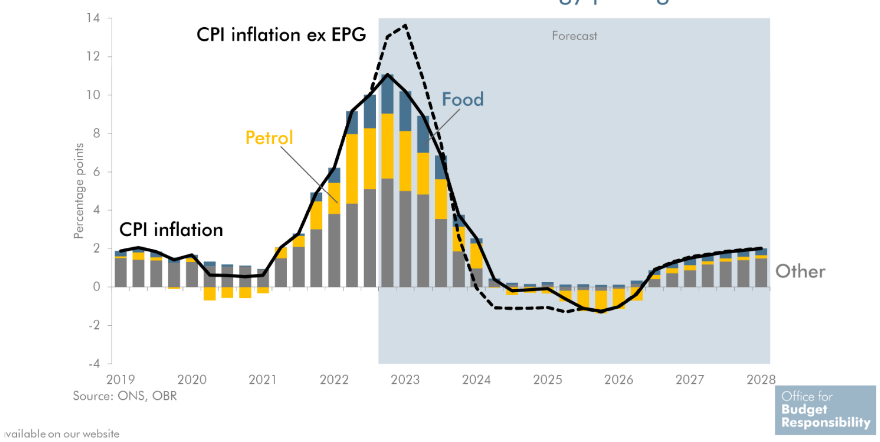
Interest Rates and Inflation

Following the Truss/Kwarteng “mini-budget” there was a war between the Bank of England and the Treasury. Jeremy Hunt has tried to calm this rhetoric with a reconfirmation of the Bank’s independence and remit. Perhaps peace in our time as the UK’s economic credibility is rebuilt.

CPI Inflation is expected to fall sharply through next year, with even a period of deflation predicted in 2025 and 2026. It is predicted that this quarter we will see the peak, we already have seen 11.1% inflation for October 2022.

This will be good news for pension scheme members as the cost-of-living crisis eases.

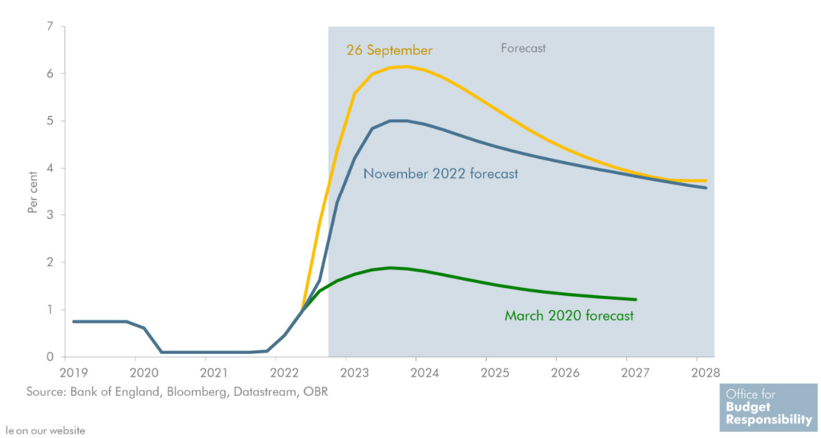
CPI inflation peaks at a 40-year high – but lower than it would have been without the Government’s energy price guarantee



Interest rates have risen this year with some of the biggest rises for many years. As you can see from the chart below, the expectation for future rises remains but at much reduced rates. This prediction by the OBR would seem at variance with the market’s expectations with gilt yields not reflecting this move. If interest rates like this are seen then we may yet see further rises in gilt yields.

As we move from one fiscal event to a monetary one all eyes will be back on the Bank’s Monetary Policy Committee when they next meet on 15th December once they’ve had time to reflect on the Autumn Statement announcements.

Markets expect Bank Rate to peak significantly higher next year



Solvency II

Will insurers invest in the UK

Investment in the UK is at the heart of the Chancellor's gambit for relaxing Solvency II as part of a Brexit dividend. Solvency II are the EU rules which stipulate how insurers should invest their money to ensure they have sufficient capital to weather the bad times. This is at the heart of the buy-out and buy-in markets and, to some degree, means why buy-out insurance is more expensive than the cost of running the scheme – you buy the guarantee.

However, any relaxation may allow insurers to take riskier bets which in turn would promise greater return which in turn may reduce the price.

However, as we all know the world is a very different place than when the Government's consultation was initially released.

The ABI have reacted warmly and believe "This will lead to less volatile annuity prices and ultimately provide a more stable income for UK pensioners" and "allow industry to invest in a wider array of assets". As always, we will monitor this as it develops over the coming years.

Find out more

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