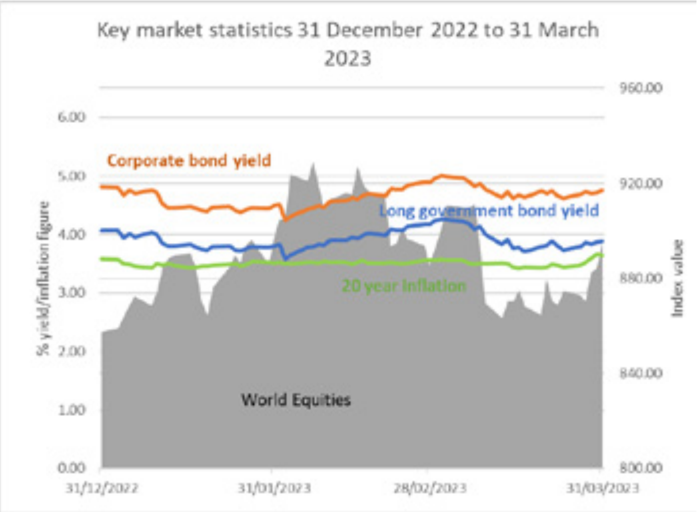
Broadstone

Employer Briefing

April 2023

Update on financial markets affecting DB pension schemes



	31 Dec 2022	31 Mar 2023
Government bonds (20yr)	**4.06%**	**3.89%**
Corporate bonds (15yr AA)	**4.81%**	**4.76%**
RPI inflation (20yr)	**3.58%**	**3.63%**
FTSE All World (ex UK) Total Return Index	**857.6**	**895.15**

Q1 of 2023 saw a slight reversal of the increases in yields that we experienced in the second half of 2022, although they remain significantly higher than in recent years. Near the end of the quarter, we also saw some additional volatility in equity markets arising from nervousness in the global banking sector as Silicon Valley Bank and Credit Suisse ran into difficulties.

With government and corporate bonds yields still at relatively high levels versus recent years, the funding position of many Defined Benefit (DB) schemes are much improved compared with previous actuarial valuations and company accounting disclosures. The slight reversals experienced in the last quarter provide a useful reminder to sponsors and trustees that they should review their investment strategy and consider locking in recent gains where it supports their longer-term plans.

Budget plans to remove the Lifetime Allowance (LTA) and increase the Annual Allowance (AA)

The recent Budget announced some of the most significant changes in the taxation of pensions that we've seen for many years; in the name of encouraging longer service from senior NHS staff.

For the full detail, please see our briefing note on the planned changes here but the highlights are:

- LTA tax charge (above marginal income tax rates) to be nil in the 2023/24 tax year and removed altogether from April 2024. However, tax free cash limits will remain fixed at 25% of the current LTA limit.
- AA increased from £40k to £60k pa.
- Other AA limits, such as the reduced amount for high earners and for DC members that have started drawing income, increase from £4k to £10k pa.

There is a lot of detail that will affect people in different ways so financial advice will be critical, but there are a few key themes that employers should think about.

The main point is that the planned changes may allow key higher earning employees to increase their pension saving or indeed re-start their pension saving.

In previous years we have seen many executives opt-out of pensions and receive cash payments instead – these agreements should be reviewed as there may be more efficient approaches available under the new regime. Individuals may also be able to access higher AA limits by carrying forward the previous 3 tax years of allowance.

Many of these individuals took out LTA 'protection' before March 2023 to receive higher tax free cash sums. From 6 April 2023, these people will be able to build up further pension savings without losing this protection.

Broadstone can help employers with pragmatic, expert advice on addressing these changes; please consult your usual Broadstone contact or Stuart Bradbury at stuart.bradbury@broadstone.co.uk

The removal of the Lifetime Allowance isn't just a pension issue

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The LTA doesn't just apply to pension savings. As registered group life schemes in trust are also set up under pension legislation, it also applies to most employer group life cover (or 'death in service' cover as it's commonly known).

This meant that pension savings combined with any payments made on death from group life policies have been tested against the LTA.

Well not anymore – or do they?

Pension planning is complex enough, but most of us have some control over when we access our pension. This isn't necessarily the same with life cover.

The fact that life cover was also subject to the LTA meant many employers set up 'excepted' group life trusts – not a perfect answer, but one solution to the issue and many employers have these in place.

So, what should be done now?

If you unwind your existing excepted life trust you may need to reinstate it at a later date; e.g. if there is a change of government at the next election. On top of this, the LTA is actually still in place for tax year 2023/24, albeit the Government say the tax charge (above marginal tax rates) would be nil.

The implications for this change are still being worked through, including those for life cover and trusts. So the short answer is to take advice and watch this space!

Please let us know if you would appreciate a conversation on how your organisation can assess and manage any of these challenges. Please consult your usual Broadstone contact or David Pye at david.pye@broadstone.co.uk

Find out more

For more information on how Broadstone can help you, please contact your Broadstone consultant or use the details below.

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