Spring Budget 2024

"Please can you shout more quietly" more often?

March 2024

Introduction

As far as budgets go, this was a quiet one for pensions. Although, and as our quote above from the Deputy Speaker attests, it was a testing one in the House. With the Chancellor's focus on issues which may yet keep them in government we have perhaps the quietest pensions budget for a while.

Defined Contribution (DC) schemes' investment focus

The government's desire to introduce a greater allocation of assets to UK equity and other asset classes has led them to make two changes to the way schemes will have to invest.

A value for members framework has been a long running project and something which most DC schemes will be familiar with. However, in the debate of where value should be measured, the government is moving towards 'overall returns' with investments, rather than cost. the Pensions Regulator (TPR) and the Financial Conduct Authority (FCA) will be given powers to prevent schemes from allowing new members, or even forcing wind-up, where investment performance is low. There will be a requirement for schemes to compare themselves to larger schemes' performance and, where poorer, action would need to be taken. A peer comparison measure like this does raise concerns in that someone has to be bottom and the range of experiences has to be considered more fully.

The government will also require schemes to disclose their split of investment allocations to UK and overseas equities. There was a thinly veiled threat, that if the Chancellor did not see a positive trajectory, further action will be forthcoming. Scale in pension schemes remains the key goal where it continues to appear the government and TPR believe being a small scheme presents a barrier to good outcomes.

The FCA have been given the job of consulting and implementing this proposal. TPR will get the job of policing trust-based DC schemes. The expectation is that rules around this will be in force from April 2027.

Lifetime Provider Model

The proposal to flip the focus on the pension system from employer led, to employee led, via the Lifetime Provider Model got a reference in the Budget papers. This is in the face of an overwhelmingly negative reaction from the industry to the proposal. The government are committed to considering it further, although at first look it seems the language may have been watered down. As you'd expect, we will keep you updated when further information comes to light.

Lifetime Allowance

The abolition of the Lifetime Allowance was given a nod in the speech. By way of update, the legislation making the change to introduce the Lump Sum Allowance and Lump Sum Death Benefit Allowance has been laid. However, there are numerous issues with the way rules are being implemented and we await further guidance and legislation to ensure the system works as intended.

State pension

The triple lock increase for state pensioner incomes was confirmed.

Mansion House Compact

The Mansion House compact was the pledge to increase private equity investment to 5%, by 2030, across 10 UK pension providers. The Chancellor announced that the ABI will be working on a framework to measure progress.

British ISA

A rather odd announcement to encourage allocation to UK assets The government will create an additional Individual Savings Account (ISA) with a £5,000 allowance each year. This would be in addition to the £20,000 that can currently be subscribed into an ISA. There will be a government consultation and financial planners will already be working on how to take advantage of this. With a consultation and the understanding that Labour would look to reform the increasingly complex ISA system, this idea may never come to fruition.

Find out more

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