first actuarial

First Actuarial briefing for trade unions Q1 2023

In this issue we review the pensions tax reforms introduced in the Chancellor's Spring Budget, along with the proposed widening of the auto-enrolment criteria.

We also examine new research on whether we are saving enough for retirement and provide an update on the Pensions Dashboards Programme.

Spring Budget brings pensions tax reform

The Chancellor, Jeremy Hunt, delivered the Spring Budget on 15 March 2023. Following much speculation, he announced two major changes to pensions tax.

The Lifetime Allowance (LTA) is a limit on the pension savings that can be built up by an individual in registered pension schemes while still benefitting from tax relief. For members of Defined Benefit (DB) schemes, the LTA is assessed using their annual pension multiplied by a factor of 20. The limit has been frozen at £1,073,100 since 2021, with a commitment to keep it frozen until April 2026. Instead, the LTA will now be abolished, first with the removal of the LTA charge from April 2023, followed by the withdrawal of the LTA in April 2024.

The Annual Allowance (AA) is the maximum amount of pension savings an individual can make each tax year to registered pension schemes with the benefit of tax relief. The Chancellor announced that the AA will rise to £60,000 from the 2023/24 tax year. The AA had been frozen at £40,000 for the previous seven tax years. In DB schemes, pension growth for the purposes of testing against the AA limit equates to the real pension growth (in excess of inflation) multiplied by a factor of 16.

The aim of these changes is to support the ability of higher earners – particularly senior clinicians in the NHS – to continue to work rather than reduce their hours or retire earlier purely to manage their pensions tax position.

However, critics say that the reforms will only benefit the well-off, as most individuals are unlikely to come close to these limits. There are also concerns that increasing the AA will allow those who are able to save for retirement to do so at a faster rate (without incurring additional tax), potentially leading to earlier exits from the workforce.

Also revealed in the Budget:

- For savers with income and pension growth above certain thresholds, the AA starts to decrease. This is known as the tapered Annual Allowance (AA). The Chancellor announced that the minimum tapered AA will increase from £4,000 to £10,000, and that the adjusted income threshold (used to determine if an individual's annual allowance is subject to tapering) will rise from £240,000 to £260,000.
- The Money Purchase Annual Allowance (MPAA) was increased from £4,000 to £10,000, allowing those who have flexibly accessed their pension savings to re-build pension savings again if they wish.
- Closed and open public service pension schemes are now linked together so members of multiple schemes with the same employer can offset negative growth in one scheme against positive growth in another to reduce AA charges.
- The maximum tax-free cash that can be taken on retirement will be frozen at its current level of £268,275 (except where protections apply).

Government backs auto-enrolment reform

The Department for Work and Pensions (DWP) has recently confirmed that it will support MP Jonathan Gullis's Private Members' Bill to expand auto-enrolment, which requires employers to provide a workplace pension scheme, and pay contributions on behalf of all staff who meet certain criteria.

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The proposed bill would remove the lower earnings limit (LEL), currently set at £6,396, on contributions. This means that those enrolled into a scheme will build up pension from the first £1 they earn rather than only on earnings above the LEL. The move is intended to support low earners and those with multiple jobs who are eligible for auto-enrolment. However, those earning less than £10,000 per year will still not be covered by the auto-enrolment regulations.

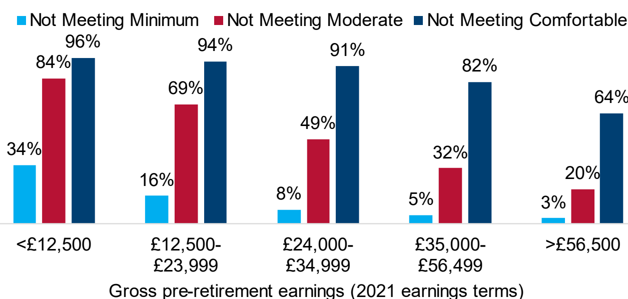
The Bill also reduces the minimum age from which employees must be auto-enrolled from 22 to 18 (providing they meet the other criteria), encouraging young adults to save from the start of their working lives.

Retirement income – are we on track?

The age-old question of 'how much is enough?' to fund our retirement has been the subject of many responses over the years.

The Pension and Lifetime Savings Association (PLSA) has published its retirement living standards, which outline "minimum", "moderate" and "comfortable" target levels of income for individuals and couples to aim for in retirement. First published in 2018, these standards are updated each year to allow for inflation, allowing for the current cost-of-living crisis. More information about the standards can be found by visiting the **retirement living standards** website.

This month, the DWP published an analysis of future pension incomes to determine whether individuals are saving enough to hit targets. The study published interesting (but perhaps not unexpected) results, highlighting that only around one in ten people of working age are projected to reach the PLSA's "comfortable" standard of living. More alarmingly, just over one in ten have projected incomes below the "minimum" standard, with this figure increasing to one in three for those earning less than £12,500 per year, as shown in the figure below.



Source: https://www.gov.uk/government/statistics/analysis-of-future-pension-incomes/analysis-of-future-pension-incomes

Are your members on track to save enough for their retirement? Improved financial wellbeing can lead to improvements in general wellbeing, as well as assisting employers with recruitment, retention and retirement.

Find out more about our financial wellbeing services.

The gender pensions gap

The Institute and Faculty of Actuaries (IFoA) has established a Pensions Gap Working Party to consider the factors that drive the difference in pensions savings between men and women.

On average, women who have paid into Defined Contribution (DC) schemes will retire with half the pension pot that men have.

While women in DB schemes are likely to have higher pensions than those in DC schemes, gender discrepancies still exist between men and women.

First Actuarial has representatives on the IFoA's Pensions Gap Working Party who are happy to discuss this issue further with you.

DWP stalls over dashboards launch date

The DWP has announced delays to its long-awaited Pensions Dashboard Programme, a digital portal in which individuals will be able to access details about all their pensions, including the State Pension, in one place. The main intentions driving the programme are to help people make informed plans for retirement and to reunite them with any pension pots they may have 'lost'.

First scheduled to be released in 2019, the Pensions Dashboard Programme had most recently timetabled the biggest schemes to connect to the dashboards from 31 August 2023. DWP has yet to set a revised launch date for the programme.

Do pension freedoms mean free money for the Treasury?

Since the introduction of pension freedoms in 2015, individuals have been able to flexibly access their DC pension savings.

Many who do this initially find themselves on an emergency tax code, and consequently have too much tax deducted. They then have to fill in a form to receive a refund. Between October to December 2022 alone, £45m in overpaid tax was reclaimed, with HMRC repaying nearly £1bn since the freedoms were introduced.

There are calls for HMRC to find a solution to prevent this, especially as the cost-of-living pressures continue. Particularly problematic is that the onus is on the taxpayer to realise that they have been overtaxed.

Pensions fun fact!

In our last briefing, we asked…

Question for Q4 2022:

Which country has the largest pool of retirement savings in the world?

China | USA | Japan | Norway | South Korea

Answer to Q4 2022: Japan

Question for Q1 2023:

The Chancellor has increased the full Annual Allowance from £40,000 to £60,000. But what was the Annual Allowance when it was introduced in 2006?

£40,000 | £60,000 | £215,000 | £255,000

How First Actuarial can help

First Actuarial is a nationwide firm of pensions actuaries and consultants, helping trade unions with all their pensions issues.

We can help trade unions negotiate with employers, lobby government, resolve problems within specific schemes, and explain any changes or choices members have to make. We also provide administration, actuarial and investment services to a large number of trade unions' own schemes.

If you or any of your colleagues would like to receive future briefings but are not on our circulation list, please visit **our preference centre** to sign up, selecting *Pensions for Trade Unions* under the topics of particular interest header.

We welcome feedback on any of the areas covered and suggestions for issues that should be covered in future.

If you'd like more information on any of the issues contained in the briefing, please contact:

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