

Financial wellbeing briefing, April 2023

Spring Budget 2023

On Wednesday 15 March 2023, the Chancellor of the Exchequer, Jeremy Hunt delivered the Spring Budget 2023. As ever, there was a lot in the statement that will have a direct impact on the finances of working people.

In this briefing, we summarise key details that you may want to cascade to your workforce as part of your goal to help and support their financial wellbeing.

The cost of living crisis continues, but there was a welcome announcement on the extension of the Energy Price Guarantee. And there was good news on childcare provision for parents of young children.

From a pensions point of view, the Budget included some surprise announcements on the Lifetime Allowance and the Annual Allowance. These changes will mainly benefit the pension savings of higher earners. However, they do remove a significant barrier to pension savings for senior, and often long-serving, employees.

This briefing only covers a selection of headline changes. Interested readers of this briefing should read the budget statement in full.

Extension of the Energy Price Guarantee

One of the biggest drivers of the current cost of living crisis is the increase in energy prices. The Energy Price Guarantee came into effect on 1 October 2022, following the rapid increases in wholesale energy prices over the previous 12 months.

Wholesale energy prices are usually agreed around six months before being supplied to the energy firms. These wholesale prices charged to energy firms by their suppliers started to increase rapidly in late 2021. The expectation before the introduction of the Energy Price Guarantee – according to independent research from Cornwall Insight – was that the [average annual household energy bill would increase to over £6,600 by April 2023.](#)

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The Energy Price Guarantee is a limit on the unit price that energy suppliers can charge to consumers. When it was first introduced, the expectation was that the *average* annual household energy bill would be capped at £2,500 a year. But this was the average, and higher energy users would still have had a higher energy bill.

The Energy Price Guarantee was expected to increase to £3,000 from 1 April 2023. However, the Chancellor announced in the Budget that the original Energy Price Guarantee of £2,500 would be extended to 30 June 2023. This is likely to be welcome news for consumers who are still very much affected by the cost of living crisis. That said, the quoted annual figure of £2,500 is the cap for the average household – some householders will pay more than this.

The expectation is that wholesale energy prices are expected to come down by the end of June 2023, in which case the unit price of energy will also fall. [As the average annual household energy bill is expected to fall below £2,500](#) by Q3 in 2023, the Energy Price Guarantee may no longer be required by then.

There is also welcome news for consumers who pay for their energy using a meter. From 1 July 2023, there will be a guarantee that households paying by meter will pay no more for their energy than households paying by direct debit.

Help with childcare costs

The Government is extending free childcare provision to provide extra support to parents of young children who might otherwise be struggling to return to work.

From April 2024, eligible parents in England with a two-year old child will be entitled to 15 hours of free childcare each week. This extra childcare provision will be available to parents of children in England, providing the parents work at least 16 hours per week and earn less than £100,000.

From September 2025, this will be extended further. Parents of children aged from nine months upwards will be entitled to 30 hours of free childcare each week for each child, as long as the child has not yet reached school age.

This extra childcare provision will be available to eligible parents of children in England.

There will also be extra help with childcare costs for parents claiming universal credit in England, Wales and Scotland

Lifetime Allowance and Annual Allowance

Lifetime Allowance

One of the biggest surprises of the Budget was the announcement that the Lifetime Allowance (LTA) will be abolished from April 2024.

The LTA is a limit on the amount of tax-relieved pension savings that an individual can save over their working lifetime.

The rules are complicated, but the current LTA is £1,073,100. This may seem like a large amount, but the LTA has fallen in real terms since it was introduced, and now affects many more people.

In particular, the LTA has frequently been cited as a reason for NHS consultants turning down extra hours and taking early retirement from the NHS. This has led to an increase in NHS waiting lists and a shortage of experienced NHS consultants and senior staff.

It's clear that one of the reasons for the removal of the LTA is to reduce the number of senior staff leaving the NHS, but it will also apply to all pension savers.

Over recent years, it has become evident that the LTA affects even middle earners, as well as long-serving employees who have built up a good pension through loyalty to their employer. Again, the removal of the LTA may encourage senior staff and long-serving employees to remain in the workforce for longer. This is good news for employers who wish to retain their loyal and experienced employees.

It should also be noted that, under the current LTA of £1,073,100, a Defined Benefit (DB) pension scheme member can in theory receive an annual pension of £53,655 without exceeding the LTA.

However, if a Defined Contribution (DC) pension scheme member wanted to receive an annual pension of £53,655 for life, they would require a pension savings pot significantly higher than £1,073,100.

The removal of the LTA therefore goes some way to removing this disparity in the ability of members to achieve the highest levels of guaranteed income from DB and DC pensions within the limits of tax-efficient saving, although this is unlikely to affect many working people in the UK.

Maximum tax-free cash

In the fine print of the Budget, it was noted that the maximum tax-free lump sum at retirement would be restricted to 25% of the current LTA. This means that the maximum tax-free lump sum will be restricted to £268,275 from 6 April 2023, regardless of the size of an individual's pension savings, even though the LTA itself will be abolished from 6 April 2024.

For employees who previously had a protected tax-free cash lump sum higher than £268,275, the higher figure will continue to apply.

Annual Allowance

There was also news on the Annual Allowance (AA). The AA is a limit on the amount of tax-relieved pension savings that an individual can save over a single tax year. The current AA is £40,000.

While there was no announcement to abolish the AA, the Chancellor did announce that it would increase by 50% to £60,000. This is still much lower than the AA back in 2010 (£255,000), but, again, will be welcome news to pension savers.

The AA calculations are complicated, and middle-earners, and employees with long pensionable service in a scheme, have frequently fallen foul of it. It's not just the high paid who are affected by the AA.

Again, the AA has been frequently cited as another reason for the exit of NHS consultants and NHS senior staff from the workforce. However, these changes will apply to all members of the UK workforce, not just NHS employees.

Tapered AA

The Chancellor also announced an increase to the tapered AA. The AA is tapered (or reduced) for very high earners.

The tapered AA means that the AA is reduced by £1 for each £2 earned above the threshold income.

Currently, the AA starts to decrease for anyone with a threshold income above £240,000 in each tax year. This tapering will now start at £260,000 from 6 April 2023. Again, this is welcome news for higher earners, but less relevant to the majority of the workforce.

Currently, the AA can taper down to as low as £4,000 for the highest of earners. This applies to anyone with combined earnings in a tax year of £312,000 or more. The Chancellor also announced that the AA will not taper down any lower than £10,000 from 6 April 2023. This means that the lowest tapered AA figure will apply to the very highest earners who have combined earnings of £360,000 or more in a single tax year.

[Money Purchase Annual Allowance](#)

Finally, the Chancellor also announced changes to the Money Purchase Annual Allowance (MPAA). This is a limit on the annual amount of pension savings that an individual can make after they have started to draw their benefits flexibly from a DC pension scheme.

The current MPAA is just £4,000 per tax year. This has had an impact on the ability to save into a pension for people returning to work. It may also have affected those who retired during the pandemic and then needed to return to work because of the cost of living crisis.

Those returning to work may have had to opt out of pension savings in order to avoid the MPAA.

From 6 April 2023, the MPAA will increase to £10,000 per tax year. This will give many returners the opportunity to keep on saving into a pension and build up their future retirement income.

[Personal Allowance](#)

Unfortunately, there was no movement on the Personal Allowance. The standard Personal Allowance remains at £12,570 per tax year.

This means that as wages have increased as a response to the cost of living crisis, a higher proportion of an employee's wages has become taxable. Overall, with increases in pay, individuals will pay more in income tax and national insurance.

So although the LTA, AA and MPAA increases will be welcome news for high earners and returners to work, many people in the workforce will still face a higher tax bill over the coming year.

[Cost of living crisis](#)

The cost of living crisis shows no sign of slowing down, and is affecting everyone in the UK. We have produced [a suite of free resources on the cost of living crisis](#) that you can share with your workforce.

[Further information](#)

First Actuarial's financial wellbeing team can offer one-to-one sessions for employees who are affected by the LTA or AA. We also deliver engaging webinars and presentations on pensions and other financial wellbeing topics.

For further information on how our financial wellbeing team can help your workforce to get a better understanding of pensions and other financial matters, please contact [Catherine Lockyer](#) or [Zoe Sadler](#).