DC Briefing, November 2023
Autumn Statement – What it means for DC arrangements

The Chancellor of the Exchequer, Jeremy Hunt, delivered his Autumn Statement on 22 November 2023. This briefing contains several key announcements covering:

- ‘Pot for life’ and small pot solutions
- Lifetime Allowance changes
- Improved choices for members at retirement
- National Insurance (NI) reduced by 2%
- State Pension triple lock maintained
- National minimum / living wage changes.

We discuss these changes in detail and consider their impact on DC pension provision.

‘Pot for life’ and small pot solutions

The main pension-related announcement was the proposal to introduce a ‘pot for life’, giving employees the right to compel their employer to pay into a pension of their choice, rather than the workplace pension that the employer offers.

This would give employees more freedom with their pension saving and potentially reduce the number of small pots as workers change jobs.

However, in practice, there are a number of significant hurdles to overcome. For example, making monthly payments to multiple pension providers is not practicable for employers. Creating a ‘clearing house’ would help manage the distribution of payments to providers.

The spectre of another mis-selling scandal also arises, with employees potentially being advised to maintain or take out uncompetitive alternative arrangements or being seduced by slick marketing campaigns.

The Government intends to consult on how this could work in practice, so we don’t expect any immediate changes. Especially given the track record of the pensions dashboards project, first announced in 2019 and now delayed until late 2026.

Connected with this, the Government has announced its intention to introduce a ‘multiple small pot consolidator model’, which would essentially see a small number of schemes authorised to combine pension pots valued at less than £1,000.

Lifetime Allowance changes

In the Autumn Statement we received confirmation that the legislation supporting abolition of the Lifetime Allowance from 6 April 2024 will be in the Autumn Finance Bill. This legislation will provide detailed clarity on how the new taxation rules will work and how any protections will be applied.

As with many aspects of UK pensions, the abolition of the Lifetime Allowance seems relatively simple, but the devil will be in the detail. It’s further complicated by Labour’s stated intention to re-introduce it if they win the upcoming general election.

Improved choices for members at retirement

Pension freedoms have been in place since 2015. The workplace pension market has largely embraced these by offering a full range of member options, but this is not the case for occupational schemes.

The Government has been consulting on doing more to give all members of workplace pension schemes equivalent options, and the response to this consultation has now been issued.

Previously, trustees of occupational pension schemes have been encouraged to offer decumulation solutions voluntarily. They will now be required to offer suitable quality, reasonably priced products at retirement. Trustees will also need to devise a default decumulation solution for members without requiring them to make an active choice.

This is potentially an important development for members. There has been little support and few options for members who have had to transfer their funds elsewhere to access pension freedoms.

NI reduced by 2%

The Chancellor also confirmed several changes to NI. For employees, there is a reduction of 2% to the main rate of Class 1 NI, from 12% to 10%, effective from 6 January 2024.

The self-employed will also benefit from NI reductions in the new tax year, with the removal of Class 2 NI payments and a reduction in the level of Class 4 NI payments.

There was considerable speculation around the potential for pre-election cuts to income and inheritance tax. A cut to NI has been the mechanism used to deliver these, in the spirit of 'rewarding workers'.

There is only a short lead time for making the changes to employee NI contribution rates. This presents challenges for January 2024's payroll run.

Employers offering salary exchange should also review their employee communication materials, to ensure they remain relevant and up to date. Employers may wish to communicate changes to all employees, to minimise payroll queries in January.

State Pension triple lock maintained

Since 2010, the rate at which the State Pension increases each year has been subject to the 'triple lock', guaranteeing an increase every April in line with the highest of a. the UK consumer prices index inflation at the previous September, b. average wage increases, and c. 2.5%.

The Chancellor has confirmed that it will apply the triple lock once again in 2024, increasing the State Pension by 8.5% to £221.20 a week.

National minimum / living wage increases

Also seeing an increase from April 2024 are the national minimum wage (NMW) and the national living wage (NLW). While they vary according to employee age, it has been confirmed that the main NLW rate will increase by 9.8% to £11.44 from April 2024. And while it currently applies to employees aged 23 and over, from April 2024, it will also apply to 21- and 22-year-olds.

While much of the impact of these changes will be in payroll terms, from a workplace pension perspective, younger employees may now be covered by the auto-enrolment regulations and find themselves enrolled in a pension scheme.

We advise employers offering salary exchange to review their arrangements to ensure they remain compliant and in line with minimum wage regulations.

Looking forward

With a general election due in the next year, and the Government's consistently low approval ratings, questions must be asked as to whether the more contentious changes will come about.

Changes to NI, state benefits, the NMW and the NLW are likely to be introduced as announced.

However, while the Lifetime Allowance is in the process of being removed, Labour have indicated that they would reinstate it, so there is likely to be considerable movement on this in future.

Turning to the single 'pot for life' proposals, although the headline has its appeal, further consideration reveals a number of significant concerns and hurdles to overcome. And given the problems that pensions dashboards are experiencing, there is a strong argument to finish that project before embarking on further change.

For the moment, the actions for employers and scheme sponsors are to ensure that their schemes remain compliant with auto-enrolment regulations and salary exchange rules, while keeping one eye on the longer-term regulatory landscape.

Trustees should start to consider the decumulation options and support they provide to members, and how they can be improved.

Further information

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