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60-second summary

Autumn Budget 2024 - pensions news

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Chancellor of the Exchequer, Rachel Reeves, has delivered her first Budget. Despite a rumour mill that was even more frenzied than usual[1], and the threat of £40bn in tax rises and spending cuts, there were few directly pensions-related announcements. Most notably, major changes to the inheritance-tax treatment of pensions are coming. This will bring significant new burdens for scheme administrators, although not until April 2027.

Inheritance tax (IHT)

The 'red book' Budget report says that unused pensions funds and pension death benefits will be included in the value of estates for IHT purposes, with effect from 6 April 2027. It says that this will remove the opportunity to use pensions as a vehicle for inheritance tax planning and will affect around 8% of estates each year.

A consultation document published alongside the report says that this change will apply to unused defined contribution (DC) funds and to lump sum death benefits in defined benefit (DB) schemes. Pension scheme administrators will be primarily responsible for reporting and paying the IHT that is due.

Mineworkers' Pension Scheme

The Government plans to transfer the existing Investment Reserve Fund in the Mineworkers' Pension Scheme to its trustees, facilitating the award of additional benefits to members. It's also planning to review the future operation of the surplus-sharing arrangements.

Investment

The red book reminds readers that the Government plans on '*using the Pensions Investment Review… to unlock more pension fund investment into UK growth assets.*' In rather newer news, it also says that the Government is going to develop a social-impact investment vehicle, on which there will be industry consultation, and that details will be confirmed at Phase 2 of the Spending Review (set to conclude mid-2025).

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[1] The Government was chastised by the Deputy Speaker before the Chancellor's speech, over the volume of leaked Budget measures, which she suggested were breaches of the ministerial code.

Overseas transfers—and administrators

The Government is removing the exemption from the '*overseas transfer charge*' that applies when members of UK registered pension schemes transfer to 'qualifying recognised overseas pension schemes' (QROPS) in the European Economic Area (EEA) or Gibraltar. This change is effective immediately (from 30 October 2024).

The differences between the EEA and the rest of the world in the conditions that apply for overseas schemes to be considered QROPS will also be harmonised, from 6 April 2025. The scheme administrators of registered pension schemes will have to be UK-resident from 6 April 2026.

His Majesty's Revenue and Customs has published a policy paper and draft legislation for these measures.

State pension increase

The basic State pension (for those reaching pensionable age before 6 April 2016) and new State pension (for those attaining state pension age thereafter) will increase in April 2025 by 4.1%, being the increase in the relevant measure of average earnings, and the minimum required by law.

Other announcements

Pensions, of course, are not everything. There were other notable remuneration-relevant changes in the Budget, including the following:

- The employer National Insurance Contribution (NIC) rate will be increased from 13.8% to 15%, and the relevant threshold cut from £9,100 to £5,000 from 6 April 2025 – please read below statement. This will be softened for some smaller businesses by an increase in the Employment Allowance.
- The income tax and National Insurance thresholds will be unfrozen from 2028/29, when they will begin to be uprated in line with increases in the Consumer Prices Index.

Of all the pensions tax reforms that were bandied about before the Budget (restricting contributions relief, levying NICs on employer contributions), the application of IHT to death benefits is perhaps the least disruptive. Nevertheless, the change is set to impose significant new responsibilities on scheme administrators, and there will be many details to be worked out which will likely be reflected in the 6 April 2027 start date. The Chancellor said that she was closing '*the loophole created by the previous government*': presumably a reference to the 2015/16 'pensions freedoms'. In fact, the change goes much further, taking in defined benefit lump sum death benefits, even those paid under discretion. (The Chancellor also said that the loophole had been '*made even bigger when the Lifetime Allowance was abolished*').

The red book reminds readers that the Government pledged not to increase taxes on working people. Although the increase in employer NICs can be said to abide by the letter of that promise, it is a dramatic increase in the cost of business, which will surely influence employers' remuneration policies. It will make salary sacrifice for pension contributions look even more attractive, but could leave employers less keen to share NI savings with their workforces.

If you'd like to discuss anything covered in this publication further, please get in touch with your usual Hymans Robertson consultant.

Webinar: Unpacking the Autumn Budget – what does it mean for pensions?
6 November 11.30-12.15

We're hosting a webinar on 6 November, where we'll unpack the Autumn Budget in more detail. Our experts will:

- share their initial thoughts on the budget announcements;
- explore what the changes could mean for pension schemes, employers and savers; and
- discuss the actions you should be considering in response.

Join us for the discussion

If you're unable to join us live, sign up anyway and you can watch the webinar on-demand at a time convenient to you.

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