HYMANS # ROBERTSON

Sixty second summary

Kwasi-Budget makes waves

The new Chancellor of the Exchequer, Kwasi Kwarteng, presented a '*Growth Plan*' (described by many as a 'mini-Budget') to Parliament on 23 September 2022. In addition to tax cuts, it announced that the Government remains committed to exempting some performance fees from the defined contribution (DC) charge cap. The resultant, significant market disruption has particularly affected defined benefit (DB) schemes.

Productive finance—performance fee reform

The Government reconfirmed its intention to bring forward draft regulations to remove '*well-designed*' performance fees from the scope of the charge cap that applies to the default investment arrangements of DC occupational pensions schemes that are used for automatic enrolment. The hope is that this will give trustees '*the clarity and flexibility to invest in the UK's most innovative businesses and productive assets creating opportunities to deliver higher returns for savers*.'

The Government is also setting up a competition, the Long-Term Investment for Technology & Science (LIFTS), intended to provide up to £500 million to support new funds that encourage investment in UK science and technology businesses.

Tax cuts

The basic rate of tax will be reduced to 19 per cent from 6 April 2023, for income tax payers in England, Wales and Northern Ireland (the Scottish Parliament has devolved powers over income tax rates).[1] A one-year transitional period for 'relief at source' (RAS) schemes (mainly personal pensions) will allow them to continue to claim tax relief at the existing basic rate of 20 per cent.

The Government has abandoned plans to increase the rate of corporation tax from 19 per cent to 25 per cent in April 2023.

The 1.25 percentage points increase in the rates of National Insurance contributions (NICs) that took effect from April 2022, as a temporary source of funding for health and social care, will be reversed with effect from 6 November 2022. The new Health and Social Care Levy that was to have superseded the NICs rise in April 2023 will not now come into force.

OTS: on the scrapheap

The Government will eliminate the Office for Tax Simplification (OTS) and in its stead '*embed tax simplification into the institutions of government… and set a mandate to the Treasury and HMRC to focus on simplifying the tax code.*'

[1] The 45 per cent additional tax rate was also to have been abolished, but the Chancellor appears to have rowed back on that policy.

Aftermath

In an update issued subsequent to the '*Growth Plan*', the Treasury announced some of the next steps that the Chancellor will take:

- in October, he will '*outline regulatory reforms to ensure the UK's financial services sector remains globally competitive*';
- on 23 November, he will set out his Medium-Term Fiscal Plan, alongside a full forecast from the Office for Budget Responsibility (OBR);
- there will be a Budget in the spring of 2023, together with a further OBR forecast.

Loss of confidence in Sterling prompted the sale of UK assets, pushing up gilt yields even further. Pension funds were forced to try to sell assets to meet additional, immediate margin calls on the derivative contracts that they were using for inflation-risk hedging. However, without investors willing to buy, the Bank of England has had to step in, announcing a temporary gilts-purchasing scheme, '*to restore orderly market conditions*'.

The Government's continued commitment to removing barriers to investment in illiquids is welcome. We believe that some illiquid assets can improve member outcomes at retirement and that, as schemes become larger, the more-traditional problems such as daily liquidity are less likely to be challenging. As with any investment, it will be critical to explore where these asset types can add most value for members over the course of their pensions journey and not to regard them as a panacea.

We are concerned, however, that, at a time of economic anxiety for many, the intricacies of the charge cap are a distraction from larger issues. Pensions savings may be the first thing to be cut for many, leading to an ever-increasing number of members headed toward pensioner poverty.

To maximise the tax-effectiveness of their pension contributions, some members may be in a position to make contributions before the available rates of relief are reduced. The increase in NICs that took place in April 2022 made salary sacrifice schemes more attractive, as the potential savings for employees were even greater; the Government's reversal will not go so far as to make such arrangements *un*attractive.

The announcements have resulted in increased market volatility and underperformance of UK assets. Whilst DB schemes in general will see improved funding levels, due to the effect of higher bond yields on discount rates, those with liability-driven investment solutions may need to re-examine their current liquidity arrangements.