Briefing note – Spring Statement 2022

Introduction

The Spring Statement is not the usual time for big announcements and so it transpired for the 2022 edition, though amidst unprecedented uncertainty the Chancellor was under some pressure to provide relief.

This note will summarise the main announcements focusing on those that relate to pension or employment benefits.

The key announcements:

- The annual National Insurance Primary Threshold and Lower Profits Limit will increase from £9,880 to £12,570, from July 2022. This aligns the Primary Threshold and Lower Profits Limit with the income tax personal allowance. The government estimates this will provide the average employee with a tax cut of £330 per annum.
- The government will reduce the basic rate of income tax to 19% from April 2024. This will also apply to the basic savings rate and the default basic rate. They have also pledged a review of the large number of allowances in the tax system to coincide with 2024.
- The Employment Allowance will increase from April 2022, meaning eligible employers will be able to reduce their employer NICs bills by up to £5,000 per year. The government notes that this is a tax cut worth up to £1,000 per employer.
- The government has reiterated its desire to reform rules around Solvency II and also reduce the DC charge cap with a view to enabling more funds held in insurance company and member's funds to invest in infrastructure and innovative projects.
- The Office of Budget Responsibility (OBR) is predicting that inflation will be around 7.4% in 2022, peaking at 8.7% in Q4 2022.
- The OBR is also predicting that members will use more of their pension funds to help meet the cost of living crisis.

National Insurance rise

The NI threshold rise will reduce the impact of the NICs rise due from April 2022. This rise will also reduce the NI bill of employers. While these are short term gains we should note that it reduces the NI fund which is the reason for the calls to deal with state pensions, i.e. reduce the level or push out the retirement date. This step of bringing the personal allowance and Primary Threshold together could be a move towards NI and income tax harmonisation, a review long called for but often left in the box marked "too difficult." We should also expect the Primary Threshold and Lower Profits Limit to be frozen along with the personal allowance.

However, the increase in the allowance does not offset the rise in NI from April and even with the reduction in the basic rate of income tax (see below) a lot of people will still be paying more.

It is also worth noting that even those that will benefit from the threshold rise, mitigating the NI uplift, this mitigation will not be immediate, as the NI threshold change is not coming in until July, with NI being uplifted in April. Therefore, all will see a drop in incomes, even if for those earning under £35k per annum this will be a temporary situation (at least from a tax perspective).

Basic rate of income tax reduction

This is a notable step for earners and will be welcomed I am sure, though is only taking effect from 2024. From a pensions perspective this will increase the disparity with tax relief afforded to those who pay a higher rate of income tax and will surely increase the level of discussions around the appropriateness of pensions tax relief being provided at the individuals' marginal income tax rate. Those making use of a LISA will see the value of the hard-coded 25% bonus rise. Clearly less important but notable from communications point of view it makes explaining the benefit to members of "you pay £80 while the government pays £20" a little harder to describe (though it's already more complicated than that position in Scotland).

The cut to income tax rates will also benefit savers who earn interest on their savings. Currently, assuming that your other income is over £17,570 (personal allowance + starting rate for savings), you will pay income tax at your marginal rate on interest earned, over and above your Personal Savings Allowance. The Personal Savings Allowance is £1,000 for Basic Rate Taxpayers, £500 for Higher Rate Taxpayers, and nil for Additional Rate payers – this is the amount of interest you can earn and not have to pay tax on it. All other interest earned will be at your marginal rate, so for basic rate payers this will be 19% from 2024, rather than 20% currently.

There are also strong hints at a review of the allowances in time for 2024 this will mean a further period of activity at HM Treasury as they co-ordinate consultations across a number of areas and pensions surely has to expect some attention. In the pensions sphere we have the Annual Allowance, Tapered Annual Allowance, Money Purchase Annual Allowance and the Lifetime Allowance – all of which are ripe for review.

Employment allowance

This increase will benefit businesses and charities with employers' Class 1 NI liabilities of less than £100,000 in the previous tax year, as well as some employing care and support workers. The maximum Employment Allowance that can be claimed is increasing from £4,000 to £5,000 from April.

This will be welcomed by smaller employers who are facing significant headwinds, being impacted in the same way as households by soaring energy costs (though without the benefit of a price cap), high inflation and wage costs, and potentially customer bases with less disposable income in their pockets.

Patient capital investments

We have become used to comments upon the funds that are seen as sitting idle in pension pots and with insurers. We know the government already see that Solvency II is an area for review following Brexit and so we should expect more on that in due course. It has the potential to change the way insurers invest and have knock-on impacts on buy-out pricing. More comments have been made around future encouragement for infrastructure and patient capital investment and how to get pensions scheme members and insurers investing more widely. Confirmation that the DC charge cap is being relaxed, which is perceived as one of the key obstacles to this at present.

Higher inflation

The expectation that inflation would be transitory has been proved wrong and high inflation looks set to endure for the year. This will impact short-term benefit payments for members with inflationary increases lower than the current level of inflation during 2022, but higher expected increases for next year. This will mean for many schemes and many older pensioners that their benefits suffer a real terms cut. It is quite common for benefits earned before 1997 to not increase. The last time we had a period of high inflation schemes had surpluses and were able to give discretionary increases. With the level of surpluses in schemes a lot lower the ability and appetite to do this may be curtailed. Trustees may want to consider, together with the scheme sponsor, whether any action can be taken.

Higher short term inflation also impacts scheme factors, and therefore current factors and retirement options should be reviewed.

Trustees and sponsors of DC schemes might also wish to consider providing further guidance to members selecting their own investments outside of the default fund arrangement, as the perils of investing in perceived 'safe' cash or deposit funds are at their starkest whilst inflation is high. Members who are not armed with sufficient information can inadvertently make selections which can significantly disadvantage them.

Pension Freedoms

Trustees and sponsors with DC schemes may also want to increase the level of general guidance provided to members to ensure they are making good decisions for their pension pots. The OBR is predicting that more members will be using their pension funds at this time to meet the cost of living crisis.

With flexibility comes considerable complexity for members to navigate, and the risks can be significant – especially amidst turbulent investment markets, high inflation and low interest rates (despite recent increases). Members who are tempted to access pensions to help with short term expenses are often not sufficiently aware of the long term implications of doing so.

Even aside from duty of care considerations, employers are increasingly cognisant of the succession challenges posed by members that access their pensions early and then cannot afford to retire.

Final Broadstone comment

As we noted in the introduction a largely quiet Spring Statement but one which does bring to focus a number of issues currently impacting the economy. Primarily those caused by the actions taken to address the pandemic and now war in Europe. It is a tough time for sponsors, members and Trustees, and care and consideration should be taken on how schemes react to these times to support members appropriately.

Whether Trustees and sponsors determine no action is the right way there are a number of issues that will impact staff and members over the next 18 months.

Glossary

Primary threshold - An amount set each year by the government that triggers liability for an employee to pay National insurance contributions (NICs)

Lower Pofits Limit – The LPL is the lower band for class 4 national insurance contributions on self-employed profits.

Solvency II - Solvency II is a Directive in European Union law that codifies and harmonises the EU insurance regulation. Primarily this concerns the amount of capital that EU insurance companies must hold to reduce the risk of insolvency.

DC Charge Cap - The charge cap is 0.75% of funds under management within the default arrangement, or an equivalent combination charge.

LISA – the Lifetime ISA is a ISA for under 40s to save towards their first home or to be used in retirement.

Contact

www.broadstone.co.uk
corporate@broadstone.co.uk

100 Wood Street
London EC2V 7AN
UK