

# Sixty second summary

## Budget 2018: pensions aspects

The Chancellor of the Exchequer delivered his 2018 Budget to Parliament on 29 October 2018 (at 3.30pm, much to the consternation of journalists working to deadlines).<sup>1</sup> His speech contained more jokes than pensions-related announcements.

### Enabling DC investment in ‘patient capital’

Her Majesty’s Treasury (HMT) is taking steps to remove barriers to investment in UK innovative firms and infrastructure projects by defined contribution (DC) pension schemes.<sup>2</sup> The Pensions Regulator has revised its guidance to mention the potential benefits of an allocation to such ‘patient capital’ investments as part of a diversified portfolio, and summarizing the considerations that trustees ought to bear in mind when assessing their suitability.<sup>3</sup>

The Financial Conduct Authority (FCA) will produce a consultation document on possible changes to the list of approved assets that can be referenced by unit-linked investment funds, and a discussion paper on patient capital investment by authorized funds.

The Department for Work and Pensions (DWP) will conduct a consultation exercise in 2019 on possible changes to the charge cap that applies to the default investment arrangements in DC schemes, to ensure that it does not unduly restrict the use of performance fees.

### HMRC to have preferential ranking in employer insolvencies

Her Majesty’s Revenue and Customs (HMRC) is to be given priority in insolvency situations, in relation to various taxes that employers are obliged to collect and pay over on behalf of other taxpayers (e.g. VAT, PAYE, employee NICs). This will take effect from April 2020.

### Lifetime allowance

It was confirmed that the lifetime allowance for 2019/20 will be £1,055,000.

### Cold-calling ban

The DWP has reported on the outcome of a consultation exercise on the implementation of the long-promised ban on pensions cold-calling.<sup>4</sup> A revised draft of the amending legislation, which it intends to lay before Parliament shortly, is included as an annex.

The Government still intends to limit the statutory right to transfer to reduce the likelihood that pension rights will be transferred to fraudulent schemes. However, no date is given for the next steps in implementing such a change.

<sup>1</sup> The text of his speech is at <[www.gov.uk/government/speeches/budget-2018-philip-hammonds-speech](http://www.gov.uk/government/speeches/budget-2018-philip-hammonds-speech)>, and the full *Budget Report* is at <[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/752202/Budget\\_2018\\_red\\_web.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/752202/Budget_2018_red_web.pdf)>.

<sup>2</sup> <[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/752193/Financing\\_growth\\_in\\_innovative\\_firms\\_one\\_year\\_on\\_PDF.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/752193/Financing_growth_in_innovative_firms_one_year_on_PDF.pdf)>.

<sup>3</sup> *A Guide to Investment Governance* <[www.thepensionsregulator.gov.uk/docs/dc-investment-guide.pdf](http://www.thepensionsregulator.gov.uk/docs/dc-investment-guide.pdf)>.

<sup>4</sup> <[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/752005/regulations\\_to\\_ban\\_pensions\\_cold\\_calling\\_consultation\\_response\\_web.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/752005/regulations_to_ban_pensions_cold_calling_consultation_response_web.pdf)>.

## Dashboard design

The DWP will consult '*later this year*' on the detailed design for Pensions Dashboards.

## Public sector

The Chancellor confirmed that the provisional results of valuations of the unfunded public-service pension schemes suggest that benefit improvements will have to be made with effect from 2019/20, and that the SCAPE<sup>5</sup> discount rate used to calculate employer contributions has been reduced. The Budget Report outlines the support that is being provided to the government departments to ensure that the resulting additional costs do not put public services in jeopardy.

## Self-employed

The DWP will also '*this winter*' publish a paper on the Government's plans to get the self-employed saving for retirement.

## Termination payments

Plans to reform the treatment of termination payments, by making any excess over £30,000 (including non-contractual payments in lieu of notice) subject to employer National Insurance Contributions (NICs), will not now take effect until April 2020.

## Price inflation

The Government says that it will, eventually, use as its main measure of inflation the variant of the Consumer Prices Index that includes owner-occupiers' housing costs (CPIH). No new uses of the Retail Prices Index (RPI) will be introduced, and it will move away from its existing uses of the RPI '*when and where practicable*'; it says that the complexity involved will mean that changes are likely to occur over an extended period of time.

Investments in infrastructure and private equity offer the potential for additional returns (vital in the early stages of DC investment) and help to diversify portfolios—a key component of managing risk. However, the ambition to mobilize DC savings for investment in growing businesses should be viewed cautiously where it involves start-ups, given that over 80 per cent of them fail. In DC members carry all the risk, and the last thing we need is for a high-profile failure to damage confidence in the industry. A review of the charge cap makes sense if the Chancellor want to increase the allocation to illiquid assets, which are expensive to transact and manage.

The plan to make HMRC a preferred creditor in business insolvencies will mean that it leapfrogs over occupational pension schemes in the priority rankings, worsening their positions in some cases.

The CPIH already inhabits the top spot in the Office for National Statistics' consumer price inflation bulletins. The annual rate of inflation based on the CPIH measure has tended to be around 20 to 30 basis points below the equivalent CPI rate over the last year.

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<sup>5</sup> Superannuation Costs Adjusted for Past Experience.