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60-second summary

Pensions measures in the Autumn Statement 2023

The Chancellor of the Exchequer, Jeremy Hunt, presented an Autumn Statement to the House of Commons on 22 November 2023. The pensions-related elements were dominated by updates on the 'Mansion House' initiatives, first mentioned in July 2023. The industry is bracing itself for another series of consultation exercises over the coming months.

The Chancellor announced a package of pension reforms, all with roots in his speech at Mansion House earlier in the year. They are intended to improve outcomes for pensioners and other investors, and unlock capital for UK businesses. Driving market consolidation is a key theme.

Key defined contribution (DC) reforms

The Department for Work and Pensions (DWP) called for evidence on a proposed **'multiple consolidator' model for small defined contribution (DC) pension pots** that would enable a few authorised schemes to act as automatic consolidators for inactive DC pension pots under £1,000, using a central clearing house. The call for evidence goes on to explore the prospects for **a 'lifetime provider model' that would help to minimise the creation of new stranded DC pots**, by letting members specify the scheme to which auto-enrolment contributions are paid when they move to a new employer. It also seeks views on the possible role for collective defined contribution (CDC) schemes. The call for evidence closes on 24 January 2024.

The DWP proposes to legislate, '*at the earliest opportunity*', to **oblige trustees of DC occupational pension schemes to offer a suitable suite of decumulation products and services** to members at retirement. They will be required to have a default solution for any member not making an active choice. Trustees can achieve this either directly or in partnership with another provider.

The DWP has reviewed (and expects to tweak) the authorisation and supervisory regime for **DC master trusts**, which are expected to play a major role in market consolidation, decumulation services and the expansion of CDC. The Pensions Regulator (TPR) will aim for **better outcomes in the master trust marke**t, through investment governance, challenging trustee boards' decision-making and expertise, and prompting underperforming boards to reconsider their strategies.

Key defined benefit (DB) reforms

During the winter, the DWP plans to consult on measures that would **make surplus extraction from defined benefit (DB) schemes easier**, and establish, by 2026, a **public-sector consolidator for DB schemes** that are '*unattractive to commercial providers*'. The aim is to incentivise investment in higher-returning assets by '*well-funded schemes*'. The Pension Protection Fund (PPF) is '*well placed*' to run the public consolidator. The consultation proposals will discuss the safeguards around easier surplus extraction and possible **100% PPF coverage for schemes that opt to pay higher levies**. Meanwhile, **the authorised surplus payments charge will be reduced from 35% to 25%**, with effect from 6 April 2024. Amongst the detail, the revised DB funding regulations get a brief mention noting these will '*make explicit that there is headroom for more productive investment*' within prudent funding plans.

What else?

The Government also published its response to a call for evidence on **trusteeship issues**. TPR will develop proposals for a **trustee register** and expects to publish guidance on investment decision-making and alternative assets by the end of 2023. The DWP will reassess whether professional trustees should be accredited. It will work with TPR to guide employers on what to consider when selecting a pension provider, to emphasise long-term outcomes rather than just low fees.

A Treasury press release, the day before the Autumn Statement, announced '**New investment vehicles** *tailored to the needs of pension schemes to support investment into the UK's most promising high-growth companies.*' There is to be a new Growth Fund established by the British Business Bank, and a commitment of £250m to two successful bidders under the LIFTS (long-term investment for technology and science) initiative.

LGPS investment reforms

The Chancellor announced measures specific to **investment by the Local Government Pension Scheme** (LGPS) funds in England and Wales. The statutory guidance on investment strategy statements (ISS) will change to say that funds should **transfer all assets into their respective investment pools by 31 March 2025**, with 'comply or explain' provisions backing this expectation. The revised guidance will also require that funds formulate **plans to invest up to 5% of their assets in levelling-up projects** (actual investments may be more or less than 5%, depending on what is appropriate for the fund) whilst other guidance will expect them to report on progress against the plan. The ISS guidance will reflect the Government's '*ambition*' for funds to **invest 10% in private equity**; they will be encouraged to explore suitable opportunities with the British Business Bank.

Revised pooling guidance will set out expectations about the characteristics and outcomes of funds' pooling arrangements, including delegation of strategy implementation and manager selection, and will encourage inter-pool collaboration. Annual reporting and governance guidance will expect funds to publish, and report against, **training policies for pensions committee members**. The amended reporting guidance will also look for more data and commentary on the progress of pooling and asset allocation. The LGPS investment legislation and guidance will be amended to require that funds **set objectives for their investment consultants**.

Lifetime allowance abolition

A policy paper from His Majesty's Revenue and Customs confirms that the **repeal of the lifetime allowance** legislation will take effect from 6 April 2024. It clarifies the future treatment of lump sums and lump sum death benefits (including the introduction of taxable 'pension commencement excess lump sums'), the carrying forward of existing transitional protections, the replacement of the current system of benefit crystallization events with a new list of *relevant* events (concerned with lump sum payments), transfers to qualifying recognised overseas pension schemes, post-abolition reporting requirements, and the valuation of pre-6 April 2024 benefits.

Other announcements

Despite speculation that the Chancellor would use alternative inflation measures, the basic and new State pensions will be uplifted using July's 8.5% earnings-inflation figure, and other state benefits will rise in line with September 2023's 6.7% price-inflation rate. The main employee National Insurance Contribution rate will be cut from 12% to 10% from 6 January 2024.

The Autumn Statement has brought a blizzard of pensions measures to contend with, though no great surprises (because the flurry was forecast months ago). Nevertheless, these could have a significant impact on the future pensions landscape. For more commentary on each part of the package and the potential implications, visit our website.