Broadstone

Budget 2024. Unfounded rumours but major changes

October 2024

Introduction

The first Budget by a Labour Chancellor for around 15 years, and the first ever by a woman, was perhaps additionally notable for the feverish level of rumours in advance of the statement around what may be in or out.

In short – a lot of what you may have thought would happen within the pensions arena did not. Tax-free cash survives, as do the current rules on tax relief on employee contributions. This note summarises the key issues that impact pension and benefits.

Quick headline summary

- Employer National Insurance (NI) contributions to rise by 1.2% to 15% - this will be felt by many employers, even though there is an exemption for small employers. In addition, the threshold at which employers start paying NI on each employee's salary will drop from £9,100 to £5,000.
- Inheritance tax (IHT) reform – pension benefits to be brought into scope for IHT from April 2027. This has potentially wider implications for pension scheme members. We have provided some detail below but a technical consultation has also been launched.
- The launch of the National Wealth Fund is noted as catalysing £70bn in private investment, some of which is anticipated to be pension funds.
- Triple lock on state pension – this will remain for the remainder of the Parliament. This means the State Pension will continue to increase annually by the greater of prices, wages or 2.5%.

National Insurance rise

Summary of the measure

From April 2025, the government will increase the rate of employer NI contributions by 1.2% to 15%. The per-employee threshold at which employers start to pay NI will be reduced from £9,100 per year to £5,000 per year. Smaller employers may be exempt via a change to the Employment Allowance from £5,000 to £10,500 and expanding this to all eligible employers. The Chancellor says that this means that 865,000 employers will pay no NI contributions next year.

Broadstone comment - While the increase in employer NI contributions was lower than feared, in combination with the reduced salary threshold, it still represents an additional cost on employment, and employers will be seeking strategies to mitigate additional future business expenses. There may be a temptation for some employers to curtail spending on employee benefits, including healthcare benefits. Employers will need to carefully weigh up the cost of providing healthcare and other employee benefits, against the potential business costs (for example, via absenteeism) of failing to do so.

From a future pensions policy perspective this could delay any increase in auto-enrolment pension contributions, given the strain on employers this will have.

For Group Income Protection (GIP) benefits, employers who currently include cover for employer NI expenses within their GIP scheme can anticipate some increases in unit rate costs, given the increase in employer NI. It is essential therefore to fully review existing schemes where relevant, and to carefully consider future scheme designs.

Employers that have to date resisted the use of Salary Sacrifice/Exchange would be wise to consider its use as a cost mitigation strategy.

If employers seek to reduce employment costs by controlling future pay rises, as predicted by the Office for Budget Responsibility (OBR), then employees may continue to feel the ‘cost of living crisis’. Employers may wish to consider Financial Wellbeing programmes to help employees make the most of their disposable income and plan for the future.

Inheritance tax reform

Summary of the measure

From April 2027 the government will bring unused pension funds and death benefits payable from a pension into a person's estate for inheritance tax purposes. This will restore the principle that pensions should not be a vehicle for the accumulation of capital sums for the purposes of inheritance, as was the case prior to the 2015 pensions reforms.

Broadstone comment – There is a technical consultation that accompanies this announcement and so the final position may become clearer by April 2027. One key aim of this change is to bring schemes that have discretions, and those that do not, to have equal treatment in the eyes of the IHT rules. This does mean the long-held exemption where death benefits are paid under the discretion of trustees will no longer apply. This change is likely to cause some upset to those that transferred benefits to allow for more flexibility.

This would also impact payments of defined contribution pension funds and trivial commutation lump sums on death. Payment of a spouse's pensions would remain exempt.

One significant question arising from this change is whether it applies to death benefits funded by group life insurance policies.

The HMRC consultation document issued in the wake of the budget states "All life policy products purchased with pension funds or alongside them as part of a pension package offered by an employer are not in scope of the changes in this consultation document.", while simultaneously listing the benefits funded by such policies, such as 'Defined benefits lump sum death benefits', as being within scope.

We anticipate a clarion call for clarity from across the Group Risk industry as the treasury works through the consultation process before implementing the reforms.

This change will not only affect pensions administration and others assisting the next of kin in managing their tax affairs but would also further disadvantage unmarried couples who do not benefit from the same IHT exemptions as those married or in a civil partnership. We will engage with HMRC and respond to their consultation and update you in due course.

Further notable changes

Summary of other measures

NHS Spending - The government is providing an additional £22.6 billion of day-to-day spending in 2025-26, compared to 2023-24 outturn, for the Department of Health and Social Care. This will support the NHS in England to deliver an additional 40,000 elective appointments a week and make progress towards the commitment that patients should expect to wait no longer than 18 weeks from referral to consultant-led treatment.

Broadstone comment - While the government announced extra funding for the NHS it will take time, potentially years, for this to have a meaningful impact on the current NHS waiting list of 7.64m. Given the chronic challenges facing the NHS, now and into the foreseeable future, the value of private health benefits is arguably greater than ever, with companies needing to ensure employees have access to care when they need it most. Early diagnosis and treatment are vital for improving outcomes and unfortunately, far too many employees wait too long to start treatment, increasing the risks of more significant health impacts and long-term sickness absence.

Whilst we see the rising costs for employers, health and protection benefits remain vitally important. They are essential people asset risk management tools for employers looking to reduce sickness absence rates and improve productivity levels by ensuring employees remain healthy, productive, and actively at work.

National Wealth Fund - The government has created the National Wealth Fund to catalyse over £70 billion of private investment, set out plans for a modern Industrial Strategy to support investment in growth-driving sectors, and launched a pensions review to unlock greater investment in UK growth assets.

Broadstone comment - This was the only mention in the Budget of the pension review that we know is coming later this year. This is the focal point of the ongoing work in the defined contribution space to allow schemes and trustees to invest more in productive assets and pension schemes will be expected to play their part in meeting the £70bn figure.

However, the government still has a large challenge to convince schemes that a meaningful allocation to this is practically possible, in their members' best interests and also in line with the requirement of the Value for Money (VfM) Framework.

Broadstone conclusion

Employers will be most interested in the increase in NI and the impact on their employment costs. This is highly likely to impact employees in the longer term - if the cost of business is higher there will be less money available for wage rises. The politics of finance where workers should not be impacted has been placed on the employer to manage.

For trustees, they will need to ensure they understand the impact of the increased likelihood of taxation of member's benefits on death. A further wrinkle is that HMRC will require all Scheme Administrators to be tax resident in the UK which may be an issue for any trustees who live abroad.

We should also note the increase in gilt issuance. All else equal, this will put upward pressure on yields. However, at time of writing there does not seem to be any immediate disorder in gilt markets, with a small rise as most of this was already leaked / expected in advance. We will continue to monitor this.

From an individual's perspective there are a few aspects we've not covered, for example the increase in Capital Gains Tax, non-dom status, increase in stamp duty on second homes etc. There is a lot in there for wealthier individuals to manage and understand with their financial advisers.

However, one key takeaway that may not make tomorrow's headlines relates to the frenzy of rumours before the Budget was even announced. The rumours of the abolition of tax-free cash will have real-world impacts on those that decided to quickly trigger their payments when confronted with the possibility of longer-term harm. While acting on speculation is always risky, this highlights the importance of trust in a government and that clarity over its direction of travel is a crucial part of encouraging long-term saving and ensuring the best possible pensions outcomes for all.

Find out more

For more information on how Broadstone can help you, please contact your Broadstone consultant or use the details below.

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