Corporate Pensions Newsletter – May 2023

For trustees and employers

There's a significant amount of change ahead for the pensions industry. In this newsletter, we'll give you an update on what we're doing to respond to the changes and let you know about other developments.

The cost of living crisis and pensions

The current economic environment introduces new challenges for trustees of Defined Contribution schemes. People across all walks of life have been impacted by soaring energy bills and inflation. Inflation hit its highest level in more than 40 years in October 2022 and although it has since slowed, it remains at historically high levels.

As a result, many individuals are having to make some key financial decisions in order to survive. Some are already feeling that they can no longer afford to pay into their pension, and others may be seeking to access cash from their pension pot earlier than they had anticipated to pay essential bills.

These decisions can have long term consequences including:

- a reduced pension pot
- heightened risk of being subject to a pension scam
- increased tax charges or penalties

A survey by the Pensions Management Institute in December 2022 has shown that 7% of people polled have already stopped making contributions, with many others either reducing or considering reducing their contributions in the coming months. See The Cost of Living Crisis has significantly reduced pension saving (The Pensions Management Institute) for more information.

Stopping or pausing pension contributions can have an impact on an individual's pension pot further down the line. Even if contributions are only paused for a short space of time, they won't benefit from tax relief and may miss out on employer contributions. To get back on track, they're likely to have to pay significantly higher contributions in the future or work for longer.

A survey conducted by the Financial Conduct Authority (FCA) in October 2022 also shows that 1 in 4 people would consider withdrawing pension savings in order to help them with the cost of living. This leaves them vulnerable to pension scams and other risks associated with cashing in a pension pot early.
See FCA research: A quarter of consumers would withdraw pension savings earlier to cover cost of living – making them vulnerable to scammer 'misdirection' (FCA) for more information.

Similar findings have recently been published in a consumer research paper by the Financial Services Compensation Scheme (FSCS) in March 2023. See Impact of rising cost of living on finances and pensions (FSCS) for more information.

Employers and trustees have a role to play in supporting members of their pension schemes through this period of volatility, to ensure they don't make hasty decisions that they'll later regret. The Pensions Regulator (TPR) expect schemes to help members make better decisions, including encouraging them to seek guidance from MoneyHelper or Pension Wise before taking any benefits. For example, signpost them to the MoneyHelper guide 'Your pension your choices'.

To assist scheme trustees, TPR have recently introduced two sets of guidance:

1. Fighting pension scams which was published in August 2022. See TPR unveils scam-fighting plan as cost of living rises leave savers more vulnerable (TPR) for more information.

2. How schemes should communicate and support their members through the cost of living crisis, which was published in January 2023. See Supporting defined contribution savers in the current economic climate (TPR) for more information.

In addition, we've published various articles on our website which you may wish to make your members aware of. These can be found here Cost of Living Crisis (Prudential)

Often when someone cashes in their pension, they take out more money than they actually need, or they don't realise they'll become subject to the Money Purchase Annual Allowance (MPAA), which will limit the amount of future pension contributions they can make each year before they become subject to a tax charge.

Where a member decides they have no alternative other than to withdraw some of their pension savings, schemes should consider encouraging them to only take out as much as they need rather than all of it to limit the amount of tax they have to pay. Schemes are also required to make it clear to members that they will become subject to the MPAA from that point forward.

We provide more details of the budget changes, including MPPA and other pension allowances in the 'Spring budget 2023' section below.

Regulatory activity

There's been a lot of regulatory activity over the past few months, including several new consultations. Here's a summary of some of the recent items of interest:

FCA Consumer Duty	The new Consumer Duty rules outline different requirements for new and existing products and services that are open to sale or renewal, and for closed products or services. We're working to ensure compliance with the different requirements.
Simpler Annual Benefit Statements (ABS)	We launched the new ABS in 2022 ahead of the regulatory due date of 31st October 2022. The new style statement is being used for all Defined Contribution Pension schemes (not just 'workplace schemes'), as we believe this will drive greater pension engagement for all scheme members.
Pensions Dashboard delayed	On 2 March 2023 the DWP issued a written ministerial statement explaining that the Pensions Dashboards Programme (PDP) will be unable to meet the connection deadlines set out in legislation, and the timeline will need to be revised.
Consultations	The Department for Work and Pensions (DWP) recently issued policy updates in several areas including value for money, collective DC (CDC) and small pension pots. The package consists of two new pension consultations, a call for evidence, some new research findings and an update to a previous consultation. The consultations closed on 27 March, and we now await the department's response.
Auto enrolment review	The Pensions Act 2008 requires the Secretary of State to review the automatic enrolment earnings trigger and LEL and UEL within each tax year. The review published on 26 January 2023 confirmed that there will no changes to the existing thresholds for the 2023/24 tax year.

Spring budget 2023

The Chancellor, Jeremy Hunt, made a number of announcements in relation to pensions in his Spring Budget on 15 March 2023.

Lifetime allowance

The key headline was that from 6 April 2023 the lifetime allowance (LTA) charge was removed, and individuals will no longer incur a separate tax charge for exceeding their LTA. From the 2024/25 tax year the LTA will be fully abolished. The task of removing the LTA from legislation will be achieved in a future Finance Bill by April 2024.

Whilst the LTA tax charge has been removed from 6 April 2023, the LTA framework remains in place. LTA checks will therefore need to continue to take place when paying benefits, for example, assessing whether an individual has available LTA. There will still be a requirement to issue benefit crystallisation event statements.

As a result of the changes to the LTA, the maximum amount which an individual can take as a pension commencement lump sum (PCLS) has been frozen at £268,275, which is 25% of the current standard LTA of £1,073,100. Individuals with a protected right to a higher PCLS will continue to be able to access this right.

Individuals who hold a valid enhanced protection or any valid fixed protections, where this protection was applied for before 15 March 2023, and a certificate or reference number subsequently issued, will be able to accrue new pension benefits, join new arrangements or transfer without losing this protection from 6 April 2023. They'll also keep their entitlement to a higher PCLS.

Other lump sums

As well as the removal of the tax charge on funds in excess of the LTA, there's also an impact on other lump sums, such as serious ill-health lump sums, uncrystallised funds pension lump sums (UFPLS), and defined benefit lump sum death benefits. Prior to 6 April 2023, these were taxed at 55% in some circumstances where they exceeded an individual's LTA, but this has been changed to the recipient's marginal tax rate from 6 April 2023.

Annual allowance

From 6 April 2023, the annual allowance for tax relief on pension savings in a registered pension scheme increased from £40,000 to £60,000.

At the same time the MPAA, which applies when someone flexibly accesses their pension savings, increased from £4,000 to £10,000. In addition, the adjusted income threshold for the tapered annual allowance (a reduction in the annual allowance for high earners) increased from £240,000 to £260,000. The minimum tapered annual allowance increased from £4,000 to £10,000.

The government has faced growing pressure around the MPAA amid the cost of living challenges and rising inflation, as industry analysis revealed that in real terms, the allowance was worth £8,480 less than when it first came into force in 2015.

Recent pension withdrawal figures also sparked concern, with industry experts highlighting these statistics as further evidence that individuals are being forced to turn to their pension pots to make ends meet. The increase in the MPAA is an attempt to address some of these issues.

Impact on schemes

There will be a number of practical issues for schemes to consider in relation to the tax changes. For example, employees who have ceased to accrue benefits due to LTA protection are likely to wish to join or re-join a scheme. Areas where LTA protections are currently a consideration, including auto-enrolment, transfers and the treatment of protected members in GMP equalisation and rectification exercises, may need to be reviewed and member communications will need to be updated.

Our plans for 2023

It's important for members to regularly review their pension plan to check they're on track to meet their retirement goals. Our online service gives members access to a whole range of features to help manage and control their plan quickly and easily.

We're focussed on helping members engage with their pensions online at pru.co.uk/online. Here's an update on what we've been working on recently to support members and employers:

Online access	Contribution data processing
We've significantly increased the number of documents that are available online to members with more to be added in 2023. This gives quicker access to information and documents, which helps reduce the amount of paper that is used. Members can also: • View plan value and investment breakdown • View contribution and charges history • Make fund switch and redirection requests • Use live chat and secure message to contact us	Our Client Management Team are working with Local Government AVC employers to make them aware of the secure upload portal for pension contributions. The portal delivers: • Improved contribution processing time through automatic reconciliation • Immediate feedback on file and validation errors • Member online accounts updated more quickly • Claim processing timescales improved as less manual IT intervention is required • More efficient scheme revision processing • Robust audit trail of data flows • Reduction of operational queries

Thank you for reading our newsletter. In the next newsletter we'll cover sustainability, the actions we're taking and the performance of the Prudential With-Profits Fund.

Where our newsletter contains links to other websites and resources provided by third parties, these links are provided for your information only. We have no control over the contents of those sites or resources, we accept no responsibility for them, and you shouldn't take our providing these links as an endorsement or guarantee by us of the websites or the information on them.

GENN10052121105/2023