Corporate Pensions Newsletter – March 2024

For trustees and employers

Pru
part of M&G plc

In our latest newsletter, we give an update on the abolition of the Lifetime Allowance, let you know about a number of other regulatory and industry developments that have occurred over the past few months and provide details of our With-Profits Fund bonus declaration.

The abolition of the Lifetime Allowance

As expected, the Chancellor of the Exchequer confirmed in his Autumn Statement on 22 November 2023 that the Lifetime Allowance (LTA) will be abolished from 6 April 2024. This has been legislated in the Finance Act 2024, which received Royal Assent on 22 February 2024.

The Government believe that abolishing the LTA will support their efforts to encourage inactive individuals to return to work, in particular those aged 50 and above, as it removes incentives to reduce hours or leave the labour market due to pension tax limits.

Whilst the LTA tax charge was removed from 6 April 2023, the LTA framework remained in place. LTA checks needed to continue to take place when paying benefits and there was still a requirement to issue benefit crystallisation event statements. The abolishment of the LTA removes these requirements and the introduction of the measures contained in the Finance Act 2024 are intended to ensure pension tax continues to function effectively, in the absence of the LTA charge and limit.

What are the key changes?

1. From 6 April 2024, two new allowances will replace the existing LTA. These are the Lump Sum Allowance (LSA) and the Lump Sum and Death Benefit Allowance (LSDBA).
2. The LSA is a limit to the total amount of tax-free cash and the tax-free element of any Uncrystallised Funds Pension Lump Sum (UFPLS) that can be paid to an individual. It's set at £268,275.
3. The LSDBA is a limit on the amount of lump sum death benefits and serious ill health lump sums that can be paid without paying tax. It's set at £1,073,100. The payment of any lump sum death benefit (other than a charity lump sum death benefit or a trivial lump sum death benefit), any serious ill health lump sum along with any tax-free cash and the tax-free element of an UFPLS count towards an individual's LSDBA.
4. Any payments in excess of the LSA and LSDBA will be taxable at the recipients marginal rate.
5. Higher allowances will apply if an individual previously had any form of LTA protection.
6. The Overseas Transfer Allowance (OTA) is another new allowance that applies if an individual wants to transfer their pension to an overseas scheme. This allowance is the same as the LSDBA (£1,073,100), and any amount in excess of this is subject to a 25% tax charge.
7. Individuals eligible for a higher LTA, but had yet to apply i.e. if they're eligible for Fixed Protection 2016, Individual Protection 2016 or Enhancements (Pension Credit and International), now have a deadline of 5 April 2025 for applications to be made.
8. The LSA and LSDBA is reduced where an individual previously used up some or all of their LTA. The standard default calculation for the LSA is equal to 25% of the LTA previously used. For example, if 50% of the LTA has been used up, the LSA will be reduced as follows; 50% x £1,073,100/4 = £134,137 (value is rounded down to the nearest pound).

   The same applies for the LSDBA, but in addition, the payment of any serious ill health lump sums must also be included. Individuals can apply for a transitional tax-free certificate, if they took a lower amount of tax-free lump sums than that provided for by the standard transitional calculation. Those who do apply for a transitional tax-free certificate can only apply once, and must do this before their first relevant benefit crystallisation event (BCE) occurring after 6 April 2024.
9. Event reports 2, 6, 7, 8 and 8A are being removed from 6 April 2024 and a new event report 24 is being added. Event report 24 applies where the member has had a relevant benefit crystallisation event (RBCE) that exceeds their available allowances, or where the member has had an RBCE, where it would have exceeded their available allowance, but the member is relying upon a protection or enhancement factor.

We're currently updating processes, marketing literature and customer outputs in order to be ready for the changes that come into effect from 6 April 2024.

The Pensions Regulator General Code of Practice

In a survey on defined contribution trust-based pension schemes by The Pensions Regulator (TPR), they found that vast majority of large and medium schemes were aware of TPR's current code of practice, guidance and the trustee toolkit. However, a significant proportion of small schemes had never heard of these or never used them.

TPR is planning to replace most of its existing Codes of Practice with a new General Code, in order to provide a common set of expectations for those involved in the running of all types of scheme. The new code sets to combine and update ten existing codes of practice into one set of clear, consistent expectations on scheme governance and administration. It also introduces a number of new requirements, which includes the need to establish an effective system of governance (ESOG). For those schemes with 100 or more members, they must undertake an own risk assessment (ORA) at least every three years, an examination of how well the ESOG is working and how any potential risks are being mitigated.

The new General Code of Practice was laid before Parliament on 10 January 2024. The laying period of the code lasts for 40 days and is expected to come into force on 27 March 2024.

For more information about the General Code of Practice or the findings of the TPR survey, see below:

- **Defined Contribution trust-based pension schemes research (OMB Research prepared for TPR, June 2023)**
- **General code of practice (TPR, January 2024)**
- **Explanatory memorandum to The Pensions Regulator General Code of Practice 2024 (GOV.UK, January 2024)**

Other regulatory activity

Here's a summary of some other recent items of interest:

Scottish income tax 2024 to 2025	From 6 April 2024, the Scottish Government has created a new income tax band (45%) for those with a taxable income between £75,001 and £125,140 in Scotland, and has increased the top rate of tax by 1% from 47% to 48%. The starter (19%) and basic rate (20%) bands will rise in line with inflation.
Lifetime pension pots call for evidence	The call for evidence was published on 22 November 2023, with the purpose to seek evidence and views on a long-term vision for workplace pension saving in the UK. The Government wanted to explore whether a lifetime provider model would improve outcomes for savers, how they could grow the Collective Defined Contribution (CDC) market, and whether there were synergies between the two. The Government wanted to build on the reforms already announced, including the multiple default consolidator solution for small pots, the Value for Money Framework, the development of CDC schemes, and Pensions Dashboards to deliver security and wider benefits for members in later life. The call for evidence closed on 24 January 2024 and we now await the response to this. For more information, see below: **Looking to the future: greater member security and rebalancing risk (GOV.UK, November 2023)**

Our With-Profits Fund Bonus Declaration for 2023

Our globally diversified With-Profits Fund produced a positive return in changeable, fast moving economic conditions of 2023.

Annual Bonus rates have either been increased or maintained at the same level as we declared last year, which will continue to add to the guaranteed benefits of customers' plans. Most customers will benefit from increases in Final Bonus rates, so will see an increase in the value of their plans compared to last year. We're also delighted to have shared additional money with some of our With-Profits customers. The amount being shared is £1 billion.

The additional money shared is, where applicable, reflected in our final bonuses from this year. Customers shouldn't expect to get additional money in the future. There's also a chance we might have to take back the additional money distributed this year (or in previous years) in future, if we needed it to protect the interests of all our customers and the financial strength of our With-Profits Fund. Unless something very unusual happened, we wouldn't expect to have to do this. You can find out more details about the additional money on our website at **pru.co.uk/aboutadditionalmoney**

For more information about our With-Profits Bonus Declaration, visit our website below:

With-Profits Bonus Declaration (Prudential)

Midlife MOT

In our last newsletter (October 2023), we provided details of the Midlife MOT website (**gov.uk/midlife-mot**) launched by the Department for Work and Pensions (DWP). The DWP had requested support from pension schemes by signposting the Midlife MOT website to its members. The DWP have been in touch with us and have mentioned not seeing the number of visits to the website that they'd like. We're therefore reminding schemes to fully integrate the Midlife MOT website through communications channels you think are most appropriate with your members, particularly targeting those aged between 45 and 65.

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