The Chancellor's Autumn Statement - What Should Trustees Know?

The Chancellor delivered the Autumn Statement on Wednesday. Here is a summary of what's most relevant for Defined Benefit (DB) pension schemes. The most eye-catching change may well be the reduction in the tax payable on refunds of surplus (where permitted) to sponsoring employers.

Public Consolidator for DB Pension Schemes

The Department for Work and Pensions (DWP) plans to launch a consultation on allowing those DB schemes which are currently unserved by the insurance market to consolidate into a new statutory vehicle. The Pension Protection Fund (PFF) would operate this.

Cartwright view: Despite a decidedly lukewarm reception from the pensions industry to their initial consultation, the government are keen to pursue the possibility of tasking the PPF with a new mandate as a consolidator of small DB schemes. The government has also been encouraging businesses to get consolidation solutions off the ground. And, there is a real risk that a public (PPF) solution crowds out private investors from what is clearly a hard market to break into. After all, the two big private consolidation names that have been trying for years, have precious little to show for it. The Pensions Superfund has been mothballed and Clara has only just recently announced its first deal. Furthermore, well prepared small schemes are able to transact and new insurers on the horizon will enhance this – the DWP seems to be searching for a problem to which the PPF is the solution.

Surplus Extraction Arrangements

The DWP will also consult on the appropriate regime for repaying surpluses and enabling 100% PPF coverage for DB schemes that choose to pay a higher levy. The authorised surplus payments charge will be reduced from 35% to 25% starting 6 April 2024.

Cartwright view: This is good news for schemes. Allowing the employer to benefit from any surplus seems fairer. It should make it easier for companies, previously worried about potential future surplus tax charges, to contribute to the scheme today; improving member security. Whilst the goal is to make it more attractive for schemes to run-on, this is only likely to be a realistic option for larger schemes with sufficient economies of scale. We expect buy-out to continue to be the logical target for the vast majority of small/medium sized DB schemes.

Investment Opportunities and Value for Money Framework

The government aims to increase opportunities for DB schemes to invest in productive finance, ensuring full protection of member benefits. Additionally, the Financial Conduct Authority (FCA) will consult on a new Value for Money Framework. This will require schemes to compare themselves against others in the market to ensure they are delivering value for their members.

Cartwright view: Opening up new investment opportunities that would otherwise not have been accessible by smaller schemes is a good idea and, depending on the detail, could be beneficial to members. However, politically motivated investments rarely make good long-term investments so extreme care should be taken by trustees.

Triple-lock Stays

The triple lock for the state pension will be linked to the usual inflation reference point, rather than a more recent, lower, figure that was suggested in the rumours leading up to the announcement.

Cartwright view: The Government clearly sees the triple lock as a vote winner and they will stick to it come what may. The cost is huge – after all, the state pension has been out-pacing the pay of working people and the population is ageing.

Pension Investment Expertise and Skills

The government supports the Pensions Regulator's plans to implement a register of trustees which is intended to enhance engagement with trustees, and to update the trustee toolkit to include more information on productive finance.

Cartwright view: The government, together with the Pensions Regulator, is keen to consolidate what they see as ineffective small schemes. One of the avenues to achieve this is to impose more requirements on lay-trustees especially.

Prioritising Long-Term Pension Investment Performance

This announcement primarily applies to DC schemes. The government is focusing on improving long-term pension investment performance over merely low fees. This involves engaging with the industry on proposals to ensure that all aspects of the pensions market contribute to the best outcomes for savers. There will be a shift in employer incentives from low fees towards long-term pension investment performance. The Pensions Regulator will provide additional information for employers on what factors should be considered when selecting a pension scheme.

Cartwright view: When auto-enrolment started there was a focus on driving down fees paid to investment managers. Fee caps were put in place to achieve that. At the time, some investment managers were charging some exorbitant fees for some products, and so cutting these down made good sense (with members getting better value).

However, as with most crackdowns of this sort, there is a tendency to swing too far the other way. Trustees, who would have otherwise been keen to pursue good value investment opportunities (such as infrastructure and private equity) for members, have been prevented from doing so by the fee cap. Some investments, quite justifiably, involve more work and are therefore more costly to manage and it is good to see the government heading towards a pragmatic solution.

Local Government Pension Scheme (LGPS) Reforms

The government confirms that guidance for the LGPS in England and Wales will be revised to achieve a 10% allocation ambition for investments in private equity, estimated to unlock around £30 billion. Additionally, a March 2025 deadline is set for the accelerated consolidation of LGPS assets into larger pools, with a direction towards fewer pools exceeding £50 billion in assets under management. This initiative aims to support pension scheme investment in the UK's most innovative companies, with the government committing £250 million to two successful bidders in the Long-term Investment for Technology and Science (LIFTS) initiative, subject to final agreement.

Cartwright view: Whilst this only relates to local government schemes, where they have the required power, there is a risk that they try to extend this to other schemes. The dictation of asset allocations by government is, in our view, unwise. Investment decisions are best left to those who understand each unique scheme.

Zooming out

What's most striking about this Autumn Statement is that for all the talk of tax costs, the 'fiscal drag' from recent inflation trumps the so called 'cuts' by a long distance. The government debt burden is now so big that the government has very little wiggle room. Philosophically, the government wants to cut taxes but, as they found out with Liz Truss' short attempt at that, a UK sovereign debt crisis is a very real risk and no politician wants to be attached to that. Given the size of the debt burden our long-term view is that trustees should be including some protection in their portfolio against the risks of a sovereign debt spiral and the impact of more money printing.

If you would like to discuss any of these matters further, please get in touch with your usual contact at Cartwright.

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