SQUIRE PATTON BOGGS

Pensions Weekly Update – 5 November 2024

05 November 2024

Here is our weekly summary of key legal and regulatory developments relevant to occupational pension schemes that you might have missed, with links for further information.

- There had been much speculation that the chancellor's first budget would include a pensions overhaul. While most of the anticipated pension reforms escaped a mention, it is likely that further pensions measures will be included in the chancellor's Mansion House speech on 14 November.
- The most significant pensions announcement in last week's budget was billed as bringing "unspent pension pots" back into scope for inheritance tax (IHT) purposes. However, it is clear from the consultation document, which was published later in the day, that the proposals are wider reaching than simply reverting to the pre-2015 position for defined contribution (DC) pensions. Under the proposals, all death benefits from both DC and defined benefit (DB) registered pension schemes (whether discretionary or non-discretionary) would be included within the value of a person's estate for IHT purposes, save in relation to funds that can only be used to provide a dependant's scheme pension and lump sums paid to a qualifying charity. In addition, pension scheme administrators would become liable for reporting and paying any IHT due, and in a relatively short (and challenging) timescale (within six months after the end of the month in which the death occurs), before penalties would be levied. Confirmation of the recipient(s) of the death benefits would need to be provided within two months of death, then the member's personal representatives (PRs) would submit information to an online calculator to identify the proportion of IHT attributable to the pension fund, to enable the administrator to calculate the IHT payable. The logic behind this is that the alternative would be to require the PRs of the deceased member to pay the IHT attributable to the pension benefit – in circumstances where the PRs would not have access to the pension funds. The consultation document includes a statement that "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". On the face of it, this suggests that any lump sum death benefits from registered pension schemes that are insured, rather than payable out of scheme funds, would be exempt from the IHT calculation. Also, on the face of it, excepted group life assurance schemes (EGLAS), which are unregistered pension schemes, would not be caught by these proposals (although note that in some circumstances IHT is already payable on death benefits paid out by an EGLAS under existing laws because of their classification as relevant property trusts for tax purposes). Further clarification is required on both points. The proposals are due to take effect from 6 April 2027. Consultation closes on 22 January 2025.
- Other pension measures in the budget are summarised below.

    - **State pension triple lock** – The government will maintain the state pension triple lock for the duration of this parliament. The basic and new state pension will increase by 4.1% from April 2025, in line with earnings growth.
    - **National Wealth Fund** – The government will work in partnership with the private sector to further increase investment. The government has created the National Wealth Fund "to catalyse over £70 billion of private investment" and set out plans for a modern industrial strategy to support investment in growth-driving sectors.
    - **Mineworkers Pension Scheme (MPS)** – The government will transfer the investment reserve fund in the MPS to the MPS trustees. This will be paid out as an additional pension to members. The trustees of the MPS have said that this will equate to a bonus pension of 32% of a member's guaranteed pension. The government will also take forward a review of the existing surplus sharing arrangements.
    - **Reducing tax-free overseas transfers of tax relieved UK pensions** – The government will remove the exclusion from the overseas transfer charge for transfers to qualifying recognised overseas pension schemes in the European Economic Area (EEA) and Gibraltar from 30 October 2024, to address the risk of individuals receiving double tax-free allowances. More information is provided in this policy paper.
    - The government will also require scheme administrators of registered pension schemes to be UK resident from 6 April 2026.
    - **Employer's national insurance contribution (NIC) rates** – The government will increase the rate of employer's NICs by 1.2% to 15%. The per-employee threshold at which employers start to pay NICs will be reduced from £9,100 per year to £5,000 per year. These changes will apply from 6 April 2025. Might this make salary sacrifice a more attractive option for employers?
- Our Environmental, Safety and Health team has published its latest newsletter covering a variety of Environmental, Social and Governance (ESG)-related topics including new guidance on "green" claims for the fashion industry, and new legislation to regulate ESG ratings providers. If you are in the North of England on 22 November, why not join our colleagues at a seminar discussing current market practice and procedural requirements in relation to the potential opportunities that can arise from biodiversity net gain.
- We are pleased to announce that we have recently opened a new office in The Republic of Kazakhstan's capital city of Astana. The Astana office will provide clients with a range of services including international arbitration, cross border disputes and investigations, corporate and commercial law issues.
- Finally, if you have two minutes to take our survey on the use of artificial intelligence in your workplace, your assistance would be appreciated.

If you would like specific advice on any of these issues or anything else, please contact a member of our Pensions team.