Government Actuary's Department

Technical Bulletin

18 March 2016

Budget 2016

On 16 March, the Chancellor of the Exchequer, George Osborne, presented his Budget 2016 setting out the government's plans for the economy and public finances. This bulletin focuses on certain measures announced relating to savings, pensions and National Insurance.

Pensions taxation and savings measures

HM Treasury (HMT) has published its response to the consultation on pensions tax relief, 'Strengthening the incentive to save' (see GAD's Summer Budget 2015 Technical Bulletin). The Chancellor did not make significant changes to the pensions taxation system in Budget 2016, saying there was no consensus on changes. An HM Revenue & Customs policy paper sets out minor technical amendments intended to ensure pension flexibilities are working as intended, including changes to the tax treatment of serious ill health lump sums and allowing trivial commutation for small money purchase pensions already in payment.

Respondents to the pensions tax relief consultation highlighted the importance of communication and education, coupled with appropriate incentives to save within a stable pensions taxation system. A number of Budget 2016 announcements aim to encourage saving. Designed to help flexible, long-term saving, Lifetime ISAs will be introduced from April 2017.

- Available to adults aged under 40, savers can contribute up to £4,000 a year from post-tax income until the age of 50, with a 25% government bonus paid at the end of each tax year.
- Contributions will sit within an increased overall ISA contribution limit of £20,000 a year.
- Savings can be withdrawn tax-free to purchase a first home (costing less than £450,000), after age 60 or on terminal ill health. Withdrawals at other times will forfeit the bonus and incur a 5% charge, although the government will explore other circumstances in which full or partial withdrawals might be permitted.

A technical note outlining the proposed scheme design will form the basis of industry discussions, with legislation expected in the autumn to set out the final parameters.

A new Help to Save scheme will come into force no later than April 2018 and will support certain low income working households saving up to £50 a month, with a 50% government bonus after two years. Account holders can then choose to continue saving for a further two years.

Financial advice

Budget 2016 committed the government to implementing those recommendations of the Financial Advice and Market Review (FAMR) for which it is responsible[1]. This review made a number of recommendations to support the provision of affordable and accessible advice for all, including those who do not have significant wealth or income. Government plans include:

- consulting on a single, clear definition of financial advice
- consulting on a Pensions Advice Allowance, such that individuals can withdraw up to £500 tax-free from their Defined Contribution pension, before age 55, to pay for financial advice
- increasing the tax and National Insurance Contributions relief for employer-arranged pension advice from April 2017, so that the first £500 is eligible for relief

[1] *There are also a number of recommendations for other parties such as the FCA, tPR and a new Financial Advice Working Group.*

The government will ensure the financial services industry designs, funds and launches a pensions dashboard by 2019, so individuals can view information on all their retirement savings in one place.

A consultation on the public provision of financial guidance ran in parallel to the FAMR. HMT has now published a proposal to restructure the delivery of guidance, to take effect no earlier than April 2018. Funded by levies on the financial services and pensions sectors, the proposed model consists of a new pensions guidance body[2] and a slimmed down money guidance body, linked by a partnership agreement. The proposed delivery model is intended to complement existing market provision and target support where it is most needed. Consultation on the proposals closes on 8 June and the government will publish a final response in autumn.

Public service pensions: update to discount rate

Budget 2016 announced a reduction in the discount rate used to set employer contributions to the unfunded public service pension schemes, with the annual rate reducing from 3% above the Consumer Prices Index (CPI) to 2.8% above CPI. This discount rate, known as the SCAPE[3] rate, is based on the Office for Budget Responsibility's (OBR) long term projections of GDP growth. The discount rate was last set in March 2011 after a consultation, when the government committed to reviewing the rate every five years and the methodology every ten years.

A lower discount rate increases the assessed value of pension scheme liabilities. Employer contributions to the schemes in aggregate are estimated to increase by £2 billion a year from 2019-20[4] to reflect the lower discount rate. In his speech the Chancellor said that the additional employer contributions "will be affordable within spending plans that are benefitting from the fiscal windfall of lower inflation".

The SCAPE rate is used by public service pension schemes for other purposes, such as to calculate Cash Equivalent Transfer Values (CETVs). CETVs are used to value pension benefits, for example in divorce proceedings or in circumstances where the member can transfer an amount to another pension arrangement in lieu of deferred benefits. An HMT technical note confirms the continued adoption of the SCAPE rate for calculating CETVs, stating that schemes should adopt the updated discount rate with immediate effect.

National Insurance Contributions

Various announcements were made on National Insurance Contributions (NICs):

- Budget 2016 confirmed that Class 2 NICs will be abolished from April 2018. The government's response to its December 2015 consultation on reforming NICs for the self-employed will set out how the self-employed will access contributory benefits after Class 2 is abolished.
- Also from April 2018, the scope of NIC exemptions for certain termination payments will be tightened. Employer NICs will be payable alongside income tax on payments over £30,000.
- The government is considering limiting the range of benefits that attract income tax and NICs advantages when provided as part of salary sacrifice schemes. The government's intention is that pension saving, childcare and health-related benefits should continue to benefit from relief.
- The government welcomed the Office for Tax Simplification's (OTS) report setting out steps to achieve a closer alignment of income tax and national insurance and will respond in due course. OTS will now be commissioned to review the impacts of moving employee NICs to an annual, cumulative and aggregated basis and moving employer NICs to a payroll basis.

If you would like to discuss any of these issues in more detail or have any questions, please get in touch with your usual GAD contact.

---

[2] *accountable to the Department for Work and Pensions, performing the functions of The Pensions Advisory Service and Pension Wise and some pensions guidance provided by Money Advice Service*

[3] *Superannuation Contributions Adjusted for Past Experience*

[4] *see page 70 of the Budget 2016: policy costings document for further information*