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XPS Express for Employers

Bringing you the latest pensions news for employers

Opportunities for employers signalled in Autumn Statement

At a glance

The Autumn Statement set out pension policies that the Government will consult on this winter

It will look at how to make it easier for employers to benefit from surplus in defined benefit (DB) schemes. This will include accessing surplus ahead of insuring and winding-up a scheme, subject to safeguards for members

The long-awaited new DB funding and investment strategy rules are expected to be finalised in 2024 and will be aligned with the policy on surplus

The statement also included information on policies for defined contribution (DC) workplace pensions

In the shorter term, DC actions will ensure that all pension arrangements offer a full range of decumulation options and provide better retirement support services

Longer term, a 'pot for life' model will be explored, which may mean employers need to pay into multiple pension pots for their employees rather than having a single workplace DC arrangement

How employers are using surplus

Use	Overview
Fund other DB schemes	• Employers with multiple schemes redirect surplus to reduce contributions to schemes in deficit.
Pay DC	• Surplus used to pay DC contributions in the same trust.
Support credit strength	• Evidence economic benefit to rating agencies to reduce borrowing costs.
Discretionary benefits	• Mainly used to fund pension increases. • Government expected to look at making it easier to improve other benefits.
Refund	• Refund on wind-up (post buyout). • Most pausing until April 2024 when tax charge drops from 35% to 25%.

Deciding on running on for surplus

A number of factors should be considered:

Benefit assessment	Risk assessment
• Surplus potential. • Run-on costs. • Refund timing. • Tax impact. • Investment strategy. • Impact on attracting/ retaining high quality employees.	• Deficit funding risk. • Covenant – relative size. • Covenant – business flexibility. • Ability to structure trusts. • Governance impact. • Workforce relationship impact.

Actions employers can take

1. **Analyse when your DB scheme may be in surplus.**
2. **Test economic benefit and risk of running your DB scheme on.**
3. **Using this, review the right endgame DB strategy e.g. insure or run on.**
4. **Look out for the consultations and consider responding in line with your objectives.**
5. **Understand implications of DC developments on your workplace pension scheme.**

Overview of Autumn Statement items

The statement itself did not provide final conclusions on Government policy nor on the approach on headline DB and DC strategy. Rather, it signalled a direction of travel that would be further consulted upon.

	DB	DC	DB and DC
Confirmed ✔	• Surplus refund tax reduced to 25% from April 2024.	• British Business Bank backed growth funds.	• Updated and expanded TPR investment guidance.
Short to medium term	• Legislate to support running schemes on for surplus.	• Decumulation options. • Small pots consolidator.	• TPR register of trustees. • TPR employer guide.
Longer term	• Establish a public sector consolidator for ‘unattractive’ schemes.	• CDC decumulation. • Pot for life.	• Continue to review mandatory trustee accreditation.

Consultations following the Autumn Statement:

- **DC call for evidence:** a lifetime provider model (deadline 24 January 2024).
- **DB consultations:** running on for surplus and public sector consolidator (expected winter 2023/24).

DB surplus consultation

The Department for Work and Pensions will consult on the detail of changes to surplus rules over the winter.

This is expected to cover a wide range of areas including:

- **Levels** at which surplus is extracted;
- **How** to reflect covenant;
- **Whether** to provide a statutory override for sponsors;
- **Facilitating** increases to members benefits from surplus; and
- **Extending** PPF cover to 100% of benefits on an opt-in basis.

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