Housing briefing, Budget 2021
Pensions highlights

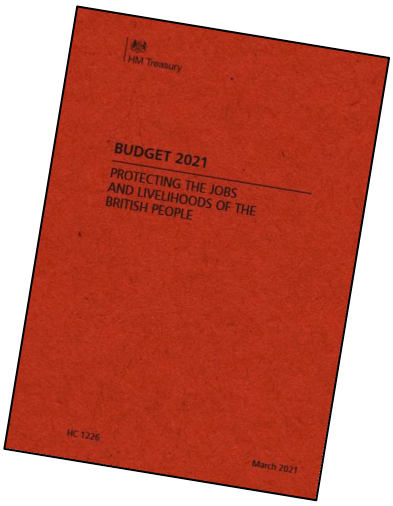
It's been said before but we'll say it anyway – the last 12 months have been unprecedented and continue to affect every area of our lives.

Government is providing significant support to businesses and individuals. But will this new debt need to be repaid? And will we need to balance the books at some point?

We make no attempt to answer these political questions. Instead, this briefing concentrates on the pensions highlights from Budget 2021.

Budget 2021

Gov.uk provides a 107-page document, Budget 2021 and The Office for Budget Responsibility offers the 213-page Economic and fiscal outlook – March 2021. But, to save you time, we've distilled the pensions highlights into this two-page briefing.



(1) Gilt sales and impact on pension schemes

Gilt issuance remains high and this has a knock-on effect on gilt prices and yields.

Why is this important in the pensions world? Well, many pension schemes have funding strategies driven by the yield on gilts.

Higher gilt yields

➔ Higher valuation discount rates

➔ Lower liability values

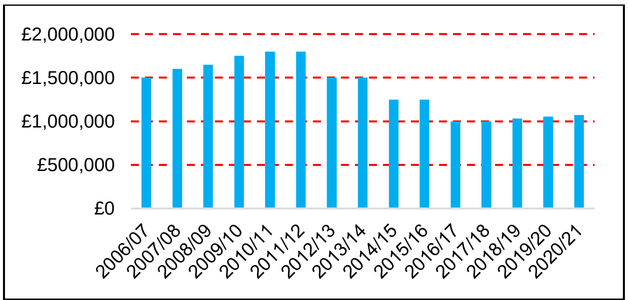
= Good news for funding positions

However, this all depends on the extent to which a scheme has hedged against interest rates. With Government intending to reduce the proportion of borrowing funded by index-linked gilts, the premium to hedge against future inflation may become more expensive.

The latest triennial valuation of the Social Housing Pension Scheme is well underway. Could recent market shifts put the Scheme in a better funding position than it was on the valuation date of 30 September 2020? Time will soon tell. Initial scheme level valuation results are due next month.

(2) Lifetime Allowance frozen

The Lifetime Allowance (LTA) is the maximum amount of pension savings that an individual can build up over their lifetime and benefit from tax relief.



The chart shows how the LTA originally increased in its early days, before plummeting three times in 2012, 2014 and 2016 respectively, down to £1 million.

Following these decreases, Government committed to increase the LTA with CPI inflation from April 2018. However, Budget 2021 stopped that in its tracks. The LTA will now remain at a horribly unrounded £1,073,100 until April 2026.

Pensions tax policy has been tinkered with again and again in recent years, so another tweak is unlikely to be popular – at least with those affected. Admittedly, relatively few people are affected by the LTA, but those who are, or will be, may need to review their retirement plans.

(3) Income tax thresholds frozen

In more frozen news (Let It Go?), both the personal allowance and higher tax rate threshold will increase with CPI inflation in April 2021 but will then remain unchanged until April 2026.

Tax rate	2021-22 to 2025-26
0%	Up to £12,570
20%	£12,571 to £50,270
40%	£50,271 to £150,000
45%	Over £150,000

The Upper Earnings Limit for National Insurance contributions will remain aligned to the £50,270 higher tax rate threshold.

Fiscal drag is a powerful tool in the Government's armoury. An estimated 1m workers will have moved into the higher rate tax bracket by 2025-26. Workers affected may well decide to increase their pension contribution rates to benefit from 40% tax relief.

(4) Corporation tax rises

One of the highest-profile announcements in Budget 2021 was the increase in corporation tax from 19% to 25% from April 2023.

Although many housing associations will be exempt from paying corporation tax, this may be of interest to non-charitable subsidiaries.

(5) Extension of furlough

The Coronavirus Job Retention Scheme, or 'furlough', has been extended until the end of September 2021.

Affected employees will continue to receive 80% of salary for hours not worked (subject to a monthly cap), with employers only required to pay National Insurance and pension contributions in respect of these hours in April, May and June.

From July 2021, an employer contribution will be required to allow for the cost of unworked hours. This will result in the government contribution falling to 70% in July and 60% in August and September for hours not worked.

With the vaccination programme taking effect and a roadmap to exit in place, we've got our fingers crossed that Covid-19 restrictions will be relaxed in the coming weeks and months. In the meantime, furlough continues, and employers need to handle the impact on payroll and pensions with care, and should be making plans for its likely end.

How First Actuarial can help you

First Actuarial provides independent advice to more housing associations than any other firm.

If you would like to discuss this briefing or anything to do with pensions, please contact your usual First Actuarial consultant or any of our nationwide housing specialists.

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