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PPI Digest: Autumn Budget 2024

Inheritance Tax on pensions

What just happened? The Chancellor announced that inherited Defined Contribution (DC) pension pots will be considered part of an estate for the assessment of inheritance tax.

The PPI has looked at the impacts this announcement will have on Adequacy, Fairness and Sustainability and says:

Adequacy: Decreases adequacy for those heirs who would lose some of the value of the pension pot transferred to them.

Fairness: Inheritance tax is only paid on estates over £325,000 that are not left to a spouse or charity.

Sustainability: The tax assessment of pension inheritance may delay the transfer of funds leaving some financially insecure people in a vulnerable situation.

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PPI Digest: Autumn Budget 2024

Increase in Employer NI Contributions

What just happened? The Chancellor announced that the rate of employer NI contributions will increase from 13.8% to 15%.

The PPI has looked at the impacts this announcement will have on Adequacy, Fairness and Sustainability and says:

Adequacy: This will not have a direct impact on adequacy, however, it increases the cost of employment to employers. In the longer term this could depress wage increases, damaging adequacy both before and after retirement.

Fairness: This supports system security.

Sustainability: Increases the money available to the State Pension, which supports its long term security.

PPI Digest: Autumn Budget 2024

Fiscal drag and AE Thresholds

What just happened? The Chancellor announced that the National Living Wage is set to increase from £11.44 an hour to £12.21 an hour (automatic enrolment qualification remains unchanged).

The PPI has looked at the impacts this announcement will have on Adequacy, Fairness and Sustainability and says:

Adequacy: Brings people working just 16 hours a week into the pension system for the first time. They will still see a boost in take home pay of £9.31 a week, but for the first time will have a weekly pension contribution of £6.03 to help provide for adequacy in retirement, leaving a net increase of £3.28.

Fairness: Increases inclusivity, brings more workers into pension saving for the first time, provides greater personal financial resilience in retirement. This comes at a cost of reducing take home pay for those on the lowest wages.

Sustainability: Increases employer payroll costs through newly required employer pension contributions for lower earners. Increase retirement income for lower earners.

The Extra Facts

Inheritance Tax on pensions

	Where we were	What has changed
What is this policy and how does it operate?	A pension typically sits outside of a person's estate for inheritance tax.	A defined contribution pension pot will now be subject to Inheritance Tax. Death benefits from DB schemes will also attract Inheritance Tax.[1]
Who is impacted?	Nearly 1m people over State Pension age (and 17½m people in total)[2] have some DC pension wealth that could be inherited on death but only large estates are subject to Inheritance Tax.	People with a big enough estate to attract Inheritance Tax and who won't just transfer it to a surviving partner. The government estimates 10,500 more estates will need to pay Inheritance Tax as a result of this measure in 2027-28 while a further 38,500 will need to pay more inheritance tax than they would have done.
When does the change come into effect?	The UK has had probate duties since 1694 and Inheritance Tax, in its current form, since 1984.	April 2027
What is the likely behavioural response to the policy?	People may choose to spend down assets that are subject to Inheritance Tax and retain pension wealth to pass on.	The inclusion of an additional asset (DC pension pot) in the calculation of Inheritance Tax increases the existing incentive to transfer wealth before death to avoid or reduce Inheritance Tax. The HM Treasury costings assume that some level of estate restructuring will continue.
Where does this redistribute money from and to?	In 2021-22 27,800 estates were taxed (4.39% of UK deaths). These are the wealthiest estates, paying an average effective tax rate of 13%.[3]	Increases the tax paid by the wealthiest estates who have unspent DC pension pots at death.
How much money does this raise for the exchequer?	In 2023-24 Inheritance Tax receipts were £7,499 million.[4]	The change is estimated to bring £640 million to HMRC in 2027-28 (the first year of operation) rising to £1.34 billion in 2028-29.[5]

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The Extra Facts

Employer rate of NI contributions

	Where we were	What has changed
What is this policy and how does it operate?	The National Insurance fund is a Pay-As-You-Go system where people's NI contributions pay for current benefits including the State Pension. Contributions are paid on earnings by both employers and employees.	The increase of the rate to 15% from 13.8%. The threshold at which National Insurance becomes payable has also been reduced from £9,100 to £5,000.
Who is impacted?	Employers pay National Insurance for most employees at a rate of 13.8% on earnings above £175.01 a week (or £9,100 a year).	Employers with a National Insurance liability. A charity where the average salary for a vacancy was £36,100 in 2023[6] would result in higher employment costs of £939 a year for that employee.
When does the change come into effect?	National Insurance was reformed in 1948 with the introduction of the welfare state.	April 2025
What is the likely behavioural response to the policy?	N/A	Employee remuneration costs rise for the employer and could lead to an increase in other forms of employment.
Where does this redistribute money from and to?	N/A	Employers may ultimately pass the increase costs on to employees through reduced pay rises, lower starting wages, or lower employer pension contribution.
How much money does this raise for the exchequer?	Employer PAYE NI contributions raised £108.5bn 2023-24.[7]	The combined impact of the changes to the threshold and increase to the rate is projected to raise an additional £23.7 billion in 2025-26.[8]

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The Extra Facts

Fiscal drag and automatic enrolment thresholds

	Where we were	What has changed
What is this policy and how does it operate?	Automatic enrolment threshold have experienced fiscal drag since their introduction. This includes the qualifying income level (£10,000 p.a.) which has been left unchanged since automatic enrolment was introduced. Throughout this period wages have increased.	The National Living Wage has increased from £11.44 to £12.21 an hour.
Who is impacted?	There are over three million workers being paid the National Living Wage.	People earning the National Living Wage who work 16 hours a week now qualify for automatic enrolment. (The threshold for automatic enrolment qualification has moved from 16 hours 47 minutes a week to 15 hours 43 minutes a week).
When does the change come into effect?	Automatic enrolment was introduced in 2012.	April 2025
What is the likely behavioural response to the policy?	Those excluded from automatic enrolment represent a subset of the demographic when automatic enrolment was first launched.	More people qualify for automatic enrolment (low earners) and will make pension contributions unless they opt out.
Where does this redistribute money from and to?	This redistributes some low earner’s money from their take home pay during their working ages to their retirement.	For someone working 16 hours a week: • Take-home pay up £9.30 • Total remuneration up £15.33 • Pension contribution for the first time: £6.03
How much money does this raise for the exchequer?	N/A	N/A

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References

1	Technical consultation – Inheritance tax on pensions
2	PPI analysis of Wealth and Assets Survey dataset
3	HMRC Inheritance Tax liabilities statistics
4	HMRC tax receipts and National Insurance contributions for the UK
5	HMT Autumn Budget 2024 Policy costings
6	CharityJob Salary Report 2024
7	HMRC tax receipts and National Insurance contributions for the UK
8	HMT Autumn Budget 2024 Policy costings

Further Reading

PPI 2024: The UK Pensions Primer – a guide to the UK Pensions System (tax treatment of pensions on death can be found on page 35)

PPI 2024: Pensions Primer Historical Annex

PPI 2024: Pension Scheme assets – how they are invested and how and why they change over time

PPI 2023: The UK Pensions Framework: Renting in Retirement – The fault line below the UK pension system

PPI 2021: The UK Pensions Framework – Paper 2 Main Report

Published by the Pensions Policy Institute (October 2024)

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About the Pensions Policy Institute: We have been at the forefront of shaping evidence-based policy for over 20 years.

The Pensions Policy Institute (PPI), established in 2001, is a not-for-profit educational research organisation. We are devoted to improving retirement outcomes. We do this by being part of the policy debate and driving industry conversations through facts and evidence.

Our **INDEPENDENCE** sets us apart – we do not lobby for any particular policy, cause or political party. **We focus on the facts and evidence.**
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Published by the Pensions Policy Institute (October 2024)