

Autumn Budget 2025 Implications for pensions savers



What you need to know

- The 2025 budget, delivered by Chancellor Rachel Reeves on Wednesday 26 November 2025, contained several key pensions updates, with the most significant pensions announcement relating to salary sacrifice arrangements. Savers and employers will pay National Insurance on any salary sacrifice pension contributions above a threshold of £2,000 per year, from 6 April 2029.
- In light of the Pension Protection Fund (PPF)'s £14bn surplus, the Chancellor also announced that from January 2027 the Government will restore some inflation protection to benefits earned before 6 April 1997 for pensioners in the PPF and Financial Assistance Scheme (FAS), where these increases were offered by the original schemes.
- Aligned with the aims of the Pension Schemes Bill, the Government will enable defined benefit (DB) schemes with surplus assets to pay funds directly to scheme members who are over normal minimum pension age, if scheme rules and trustees permit it, from April 2027.
- While not raising income tax rates, the Government announced extensions to the locks on threshold increases for inheritance tax, income tax and National Insurance Contributions (NICs), and reaffirmed its commitment to the triple lock for the State Pension.



Actions you can take

- **Identify** where employees are likely to be caught by the salary sacrifice cap and support them in understanding possible actions. Employers should consider the effect of the changes on their pay and pension policies.
- **Keep up to date** with the progress of the Pension Schemes Bill and review endgame strategies in light of changing surplus rules.

Salary sacrifice impact on savings

Annual NI impact based on 5% salary sacrifice (i.e. an effective employee pension contribution of 5%).

Salary	Employee NI saving without cap	Employer NI saving without cap	Employee NI saving with £2,000 cap	Employer NI saving with £2,000 cap	Increase in Employee NI	Increase in Employer NI
£45,000	£180	£338	£160	£300	£20	£38
£75,000	£75	£563	£40	£300	£35	£263
£100,000	£100	£750	£40	£300	£60	£450

Based on current NI rates for employees of 8% falling to 2% for earnings above c£50,000 and for employers of 15%.

The finer detail

Salary sacrifice

The £2,000 cap means that salary sacrifice pension contributions above this limit will incur national insurance contributions for both employees and employers. The Chancellor noted that the change aims to bridge the gap between pension arrangements where employers do not offer the option of salary sacrifice. Around a third of private sector and 10% of public sector employees use salary sacrifice for their pension savings and it remains to be seen whether employers will now look to restructure their arrangements.

PPF

The Chancellor announced a reform to PPF benefits which restores inflation protection to benefits accrued before 6 April 1997, linked to the Consumer Prices Index (CPI) and capped at a maximum increase of 2.5% per year where these would have been guaranteed under the original scheme. This impacts members of schemes that entered the PPF via employer insolvency, who will have seen a reduction in the purchasing power of their pension over time without inflationary increases. The increases are expected to apply from January 2027.

Surplus

The Government announced that it will change the tax treatment of one-off payments to members out of pension scheme surplus, so that these will no longer be treated as unauthorised payments. This will apply to scheme members above minimum pension age (currently 55 but increasing to 57 in April 2028). The pensions industry has been pushing for this as a practical way to distribute surplus of well-funded schemes to members without creating additional pension liabilities.

Inheritance tax

In last year's budget the Chancellor announced that unused pension pots will be brought into the scope of inheritance tax (IHT) from 6 April 2027. This year, as well as extending the lock on the IHT threshold to 2031, it was announced that personal representatives will be able to direct pension scheme administrators to withhold 50% of taxable benefits for up to 15 months and pay IHT due in certain circumstances.

Tax threshold freezes

The thresholds on National Insurance and income tax will also be frozen until April 2031, an extension of the previous freeze which was due to end in April 2028. This could have an impact on schemes where benefits reference these thresholds.

Cash ISAs

The UK ISA system currently allows savers to save a maximum of £20,000 per year into a cash ISA without paying tax on the interest. From 6 April 2027, the cash ISA limit will be reduced to £12,000 per year for all savers under 65. Investing in a stocks and shares ISA will still be subject to a limit of £20,000 per year, and the overall cap of £20,000 per year across all ISAs remains in place.

No change to tax on lump sums

In a welcome move, the Chancellor has announced that there will be no change to the amount of pension that can be drawn as a tax-free lump sum.

Commitment to triple lock

The Government's commitment to maintaining the triple lock was reaffirmed, with the Chancellor announcing an increase to the State Pension of 4.8%, in line with average wage growth.

Find out more

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