Autumn Budget 2025

November 2025

Introduction

A Budget that was beset by constant speculation and leaks finally arrived, with the final embarrassment saved until last with the Office for Budget Responsibility publishing their report online before the Chancellor rose to give her speech. It did give us all some early insights into what would be covered and indeed the sense of relief that aspects like the maximum tax-free cash entitlement on retirement remained unchanged.

This note will summarise the key changes, with most focus on the changes proposed to the operation of salary sacrifice and other pension-related areas.

Key Budget measures

National Insurance on salary-sacrificed pension contributions – From April 2029, pension contributions above £2,000 will be subject to employer and employee National Insurance Contributions.

Dividend, Property & Savings Income Tax Rates – Increased by 2 percentage points from 2026/27, raising £2.1bn by 2029–30. Likely to affect high earners and incorporated businesses.

ISA reform –

- Overall annual subscription limits remain until 5 April 2031:
    - £20,000 for ISAs, £4,000 for Lifetime ISAs and £9,000 for Junior ISAs and Child Trust Funds.
- Cash ISA changes from 6 April 2027:
    - Annual cash ISA limit set at £12,000 (within overall ISA limit) for under 65s.
    - Savers aged 65+ can continue saving up to £20,000 in a cash ISA each year.

- **Lifetime ISA to end** – The government will publish a consultation in early 2026 on the implementation of a new, simpler ISA product to support first time buyers to buy a home. Once available, this new product will be offered in place of the Lifetime ISA.

Personal Tax thresholds frozen – The extension to 2030/31 is expected to raise £8.3bn by 2029/30 and bring 780,000 people into the basic rate band and 920,000 into the higher-rate band.

Triple lock – In April 2026, the State Pension will be uprated by 4.8%, so pensioners will receive up to an additional £575 a year.

Pension Protection Fund and Financial Assistance Scheme Changes – The government will help protect pensioners whose benefits are now provided by the Pension Protection Fund (PPF) and Financial Assistance Scheme (FAS) from the impact of inflation by introducing CPI-linked increases, capped at 2.5% a year, on pre-1997 pension accruals. This will apply, where their original schemes provided this benefit, from January 2027.

National Insurance efficient salary sacrifice threshold

Salary sacrifice allows employees to exchange part of their salary for employer pension contributions, saving both parties National Insurance (NI). Currently, employer contributions via salary sacrifice are NI-free, while salaries attract NI at 15% for employers and 8% for employees (2% above £50,270). For example, sacrificing £3,000 saves an employee £240 and an employer £450 in NI.

The government will be introducing a £2,000 annual threshold on NI relief for salary-sacrificed pension contributions from 2029. Under this proposal, the first £2,000 sacrificed would remain NI-free, but any amount above would attract NI for both employer and employee. This is seen as a moderate option compared to more punitive alternatives previously floated, such as abolishing salary sacrifice entirely or taxing sacrificed contributions as income.

Employees who choose to sacrifice salary to receive Tax Free Childcare or Child Benefit can keep doing so. However, any pension contributions above £2,000 will be subject to employer and employee NI.

Impact on Employers and Employees

- Employers: The financial hit falls mainly on employers, as their NI rate is nearly double the employee rate. For a £100,000 salary with a 5% sacrifice, the extra employer NI under the cap could equal a 0.5% rise in NI rates. Employers who share NI savings with staff will see reduced pension contributions or need to absorb higher costs.

- Employees: High earners sacrificing large sums will face extra NI, reducing the appeal of salary sacrifice. Graduates repaying student loans may prefer employer contributions over salary sacrifice, as loan repayments are based on NI-able income.

Strategic Considerations

Employers may respond by:

- Adjusting reward packages e.g., structuring contracts with higher employer contributions upfront or even by introducing non-contributory pension schemes.

- Holding down pay growth or revising benefits to offset costs.

- Monitoring compliance and payroll systems for threshold implementation.

- Deciding that if pension contributions via salary sacrifice become too complicated instead introduce other unaffected salary sacrifice arrangements. This could increase savings to offset potential pension related salary sacrifice costs for both the employers and employees.

What next?

This measure aims to raise significant revenue, primarily from employer NI, while preserving some incentive for pension saving. However, it risks reducing pension contributions and complicating remuneration strategies.

It must be acknowledged that the success in raising revenue for the government will depend on the level of mitigating action taken by employers over the next 3 years. It is also unclear the extent to which salary sacrifice is used in the marketplace as, while HMRC collect the information, they don't report on it.

There will now be a lengthy consultation, and we would expect there to be a period where the true position is assessed. April 2029 is clearly some way off, and an election year, so with the change being subject to consultation, there may be further changes between now and implementation. However, for now, salary sacrifice remains a very effective way for employees to pay pension contributions.

Further National Insurance change affecting overseas employees

From April 2029, Britons living abroad will no longer be able to pay Class 2 voluntary National Insurance contributions to qualify for the UK State Pension. This change removes the low-cost option (previously around £3.50 per week) that allowed expatriates to maintain entitlement cheaply. Instead, they will need to rely on Class 3 contributions, which are significantly more expensive, or build entitlement through UK employment history. The government's aim is to prevent individuals with only brief UK residence from buying into the pension system at minimal cost, closing a popular route for topping up State Pension entitlement while overseas.

Alongside this, the minimum UK residence or work period required to access certain benefits, including the State Pension, will rise from three years to ten years. While accelerated routes remain for high earners and key workers, these changes are designed to reduce State Pension costs, ensure long-term contributors benefit most, and align welfare policy with fiscal sustainability. Employers with globally mobile staff should review pension communications and consider alternative savings options, while individuals need to plan early for gaps in their NIC record as short UK stints will no longer guarantee pension rights.

Other Pension related areas

Pension Protection Fund pre-97 pension increases

It has been debated for some time whether the compensation cap for benefits from the Pension Protection Fund (PPF), which provides 0% annual increases for benefits earned before April 1997, should be increased.

The benefit design for the lifeboat fund was decided originally for administrative simplicity (many schemes will have zero increases anyway) and to limit the cost. However, the PPF has a growing surplus of around £17bn and so the cost argument has fallen away. The non-indexation does erode the real value of pensions and disproportionality affects older pensioners whose original pension schemes included more generous terms. Previous estimates put the cost to the PPF for implementing this change at around £1.7bn.

The first opportunity to begin applying any changes to pre-97 indexation would be January 2027 and it will be a busy time across 2026 for the PPF to determine who is eligible for these increases and be able to apply them by then, not to mention that the change is yet to be legislated for. The PPF believe this won't impact their plans to set a zero PPF levy next year.

Proposed Change to DB Surplus Extraction

The upcoming Pensions Scheme Bill includes provisions to make it easier for companies to extract surplus from their defined benefit (DB) pension schemes. The OBR notes this policy in its fiscal tables, with expected receipts rising to £125 million by 2028–29, reflecting tax implications of surplus payments.

However, a new proposal suggests there will be a further change that will help in making one-off payments to members over normal pension age where scheme rules and trustees permit. This new flexibility could help make surplus release more attractive to trustees, addressing existing issues with tax rules and cost control when agreeing to a release of surplus and sharing 'upside' with scheme members.

Detailed rules on eligibility, calculation, and tax treatment have not yet been published, and the changes are not expected to apply until April 2027 at the earliest, but we will watch this development with interest.

Triple Lock

The continuation of the triple lock is increasingly unsustainable. According to the OBR, the 2.5% floor will drive uprating in four of the next five years, even when earnings and inflation are lower. This creates a structural ratchet effect, locking in real-terms gains regardless of economic conditions.

The fiscal cost is significant: state pension spending is forecast to rise sharply, contributing to welfare expenditure climbing from £314.7bn in 2024–25 to over £406bn by 2030–31.

Inheritance tax

From April 2027, pension assets will form part of a deceased person's estate and may be subject to Inheritance Tax (IHT). A key detail in the Budget introduces a safeguard for personal representatives (PRs). They will be able to instruct pension scheme administrators to withhold up to 50% of any taxable death benefits for up to 15 months. This measure ensures PRs have funds available to settle IHT, as they are liable for the tax on the entire estate—even if benefits are paid to individuals outside the main estate.

Additionally, if pension benefits are discovered after HMRC clearance has been granted, PRs will be discharged from any IHT liability on those late-discovered benefits.

What trustees should do:

- Review processes and decision-making to comply with these new rules.
- Consider proactive communication with members so they can factor this into their estate planning.

OBR facts and figures predict growing receipts, from £9bn in 2025/26 to £14.5bn by 2030/31 with rising house prices noted. Changes to the position of pension schemes will also contribute to this when pension scheme assets become part of the estate from April 2027.

NHS Funding

The budget contained an additional £300m in capital funding for NHS Digital, aimed at improving the NHS's digital infrastructure to improve internal communication and administrative efficiency.

It's a welcome investment, particularly if ring-fenced for digital improvements rather than absorbed into day-to-day spending. However, it largely represents the NHS catching up on basic tools most modern organisations already use—reducing admin barriers so staff can communicate and work efficiently—rather than adding new clinical resources. At just 1.5% of the health and social care budget and seemingly a one-off, its impact on waiting times will be limited.

That said, NHS productivity has largely gone backwards since the pandemic, so if this investment can help reverse that decline, it will be good news for patients, and for taxpayers.

The budget also contained a promise of 250 Neighbourhood Health Centres, providing clusters of primary care services to improve care delivery at a local level and so reduce the strain on hospital services.

If delivered these would be a positive step towards improving ill-health prevention and reducing the impact of chronic illness on the NHS, though only 120 are promised by 2030, and there is no detail yet on how these will be funded beyond reference to a new Private Public Partnership model.

It's likely the ability to deliver these centres will depend heavily on how bold the government is willing to be in inviting private investment.

Broadstone comment

A budget notable for the bluster in the lead up was, in the main, a tame affair as far as the impact on employee benefits and pensions goes.

The headline change in the treatment of pension contributions paid via salary sacrifice was well trailed and well understood by the time of the speech. While on the surface a headache for employers it is highly likely that in many cases a viable and proportionate solution can be found to help mitigate the impact. In addition, it may act as a point for some employers to rethink their remuneration strategies to make the most of the system.

In the DB space we have some tweaks to the Pension Protection Fund compensation which while presenting a challenge to the team at the PPF will be welcomed by many thousands of recipients with the weight of the moral argument that this has become affordable too hard to resist. It will be interesting if there are any noises from employers looking to also benefit from the surplus. In an oddly similar vein, we are to get rules to allow members to benefit from a one-off lump sum when a surplus is paid to the employer. This too would be welcome upside sharing, although a shame only members from Normal Minimum Pension Age can benefit.

We look forward to the further consultations in due course and working with our clients to understand and react to these changes.

Broadstone

Find out more

For more information on how Broadstone can help you, please contact your Broadstone consultant or use the details below.

David Brooks
Head of Policy
+44 (0) 7976 198 044
david.brooks@broadstone.co.uk

Kelly Parsons
Head of DC Propositions
+44 (0)7345 740 797
kelly.parsons@broadstone.co.uk

Contact

020 3869 6900

corporate@broadstone.co.uk

broadstone.co.uk

X **@Broadstone_Ltd**

in **company/thebroadstonegroup**

Birmingham / Bristol / Coventry / Darlington / Edinburgh / Glasgow
London / Manchester / Redditch / Sheffield / St Albans / York