Broadstone

Budget 2026

More evolution than revolution

October 2026

Introduction

The Chancellor's Budget focused on targeted measures to support growth, labour market participation and household finances, whilst avoiding the more significant tax and pensions reforms that had been widely speculated upon. Nevertheless, the announcements contain a number of developments relevant to pension schemes, employers and employee benefits, ranging from changes to State Pension policy and pensions taxation through to investment reform, healthcare and workforce participation. This briefing has been issued by Broadstone Corporate Benefits Ltd and summarises the measures most likely to affect employers, trustees and members.

This briefing is intended for professional trustees, pension scheme sponsors, employers and professional advisers. It is not intended for retail clients or individual members and should not be relied upon as personal financial, tax or legal advice.

Death Benefits and Member Protections

Inheritance Tax and Pension Death Benefits

The Government has confirmed further changes to the inheritance tax treatment of pension death benefits, continuing the recent trend of bringing pension wealth more clearly within mainstream estate planning considerations. Trustees, employers and members may wish to review existing beneficiary nomination and estate planning arrangements in light of the changing landscape.

Removal of the Two-Year Rule

The Budget includes a welcome easement to the long-standing two-year rule applying to certain pension death benefits. Previously, favourable tax treatment could be lost where benefits were not paid within two years of a member's death, even where delays arose for reasons outside the control of beneficiaries or scheme administrators. The change should help deliver fairer outcomes for beneficiaries and reduce the importance of administrative timescales in determining tax treatment.

Administrative Simplification for Death Benefits

The Government has also announced changes to the administration of tax charges relating to certain lump sum death benefits. While largely technical in nature, the reforms are intended to provide greater certainty over the calculation and collection of tax liabilities, reducing complexity for schemes, administrators and beneficiaries.

Terminal Illness Benefits

Changes have also been announced to the rules governing terminal illness benefits. The reforms are intended to improve access to pension benefits for terminally ill members and simplify the evidence requirements needed to support applications. Trustees and administrators should review the detail once available, as updates to scheme procedures and member communications may be required.

State Pension tax allowance & triple lock reform

Pension Tax Allowance

The Government has introduced a new Pension Tax Allowance intended to prevent lower-income pensioners being drawn into income tax solely as a result of State Pension increases. Broadly, the measure is designed to ensure that individuals whose income does not exceed the full new State Pension remain outside the income tax system, preserving the value of future upratings.

While the policy objective is relatively straightforward, the mechanism itself is more complex. The allowance sits alongside, rather than replacing, the existing income tax framework and creates a further interaction between State Pension policy and the tax system. Notably, the measure is currently intended to operate during this Parliament, providing a political solution to the immediate issue of pensioners being brought into tax as a result of State Pension increases. Whether it ultimately evolves into a permanent feature of the tax system remains to be seen. The temporary nature of the measure means future governments may need to revisit the issue.

Triple Lock Reform

Alongside the new allowance, the Government has confirmed reforms to the future operation of the Triple Lock. While the current framework will remain in place until 2029, it will subsequently be replaced by an adjusted mechanism designed to maintain the value of the State Pension relative to earnings whilst improving the long-term sustainability of the system. The Government estimates that the reform will significantly reduce the long-term cost of the State Pension, underlining that the measure is intended not simply as a technical adjustment but as a long-term sustainability reform.

Implications for Retirement Policy

Taken together, these changes highlight the increasingly close relationship between State Pension policy and the tax system. They also raise broader questions around retirement adequacy, particularly for individuals expected to rely heavily on the State Pension in retirement. The interaction between State support, taxation and private pension saving is likely to become an increasingly important area of pensions policy in the years ahead.

Investment and LGPS Developments

Mansion House Reform Agenda

The Government has reaffirmed its commitment to the Mansion House reforms and the wider objective of encouraging greater investment by pension schemes into productive finance and UK growth assets. While no single announcement fundamentally changes the current direction of travel, the Budget provides a further indication that policymakers continue to view pension capital as an important source of long-term investment for the UK economy.

Pension Investment and Economic Growth

Alongside the Mansion House agenda, the Budget contains a number of measures aimed at supporting economic growth and increasing investment across the UK. Although many of these initiatives sit outside the pensions sector directly, they reinforce the Government's broader focus on mobilising institutional capital, supporting infrastructure development and encouraging investment into private markets. Trustees should expect continued political and regulatory attention on how pension assets can contribute to long-term economic growth whilst remaining focused on delivering good member outcomes.

LGPS Pooling and Investment Reform

The Government has announced further measures to support ongoing Local Government Pension Scheme (LGPS) pooling reforms, including changes intended to reduce barriers to asset transfers within the pooling framework. While largely technical, these developments are consistent with the continuing policy direction towards greater scale, investment efficiency and access to a wider range of investment opportunities. LGPS administering authorities and participating employers should continue to monitor developments as pooling reforms and investment expectations evolve.

Other Developments

Carer's Allowance Reform

The Government has announced reforms to Carer's Allowance that will replace the current earnings cliff edge with a taper. Under the new approach, carers will no longer lose their entire entitlement if their earnings exceed the weekly limit by a small amount, potentially making it easier to balance caring responsibilities with paid employment.

While not a pensions measure directly, the change may help some carers remain in the workforce and continue building pension entitlements. Given the longstanding link between caring responsibilities, interrupted careers and lower retirement savings, the reform may have positive implications for longer-term retirement outcomes.

Retirement Solutions and CDC

The Budget also provides further detail on the Government's plans for retirement income solutions, including continued development of retirement-only Collective Defined Contribution (CDC) arrangements and wider decumulation reforms.

Although these proposals remain at an early stage, they reflect growing policy attention on the period after pension savings have been accumulated. The focus is increasingly shifting from simply encouraging pension saving towards helping members convert those savings into sustainable retirement income.

National Living Wage and National Minimum Wage

The Government has confirmed a 3.9% increase to both the National Living Wage and National Minimum Wage from April 2027. While more modest than some of the increases seen in recent years, the change will nevertheless increase payroll costs for employers, particularly those with large lower-paid workforces.

For employers offering workplace benefits, the increase also serves as a reminder of the interaction between statutory pay requirements and benefit design. In particular, minimum wage legislation can affect the operation of salary sacrifice arrangements and other employee-funded benefits for lower-paid workers. More broadly, the announcement reflects the Government's attempt to balance wage growth with employment opportunities and business competitiveness, while continuing to support household incomes during a period of ongoing economic uncertainty.

First Time Buyer ISA

The Government is replacing the Lifetime ISA for new savers with a new First Time Buyer ISA from April 2029. The new product retains the 25% government bonus on contributions of up to £4,000 each year but removes one of the most controversial aspects of the Lifetime ISA by applying the bonus at withdrawal rather than imposing a withdrawal charge. The product will remain focused on supporting home ownership, with the bonus available on qualifying property purchases up to £450,000 and a maximum government bonus of £20,000. Existing Lifetime ISA holders will be able to continue under current rules.

Lifetime ISA Flexibility

In the meantime, the Government has announced an immediate reduction in the withdrawal charge for Lifetime ISA holders purchasing properties above the £450,000 cap. From 29 October 2026, the charge falls from 25% to 20%, ensuring savers retain the value of their own contributions rather than suffering an effective penalty where house prices have outgrown the existing threshold. This addresses a longstanding criticism of the Lifetime ISA and may be welcomed by younger savers, particularly in higher-cost housing markets.

The change is significant because it removes much of the downside risk previously associated with using a LISA to save for a first home. Under the previous rules, savers who exceeded the property value limit could receive less than they had originally contributed after the withdrawal charge was applied. The revised approach means that while individuals may no longer qualify for the government bonus, they should broadly retain the value of their own savings and any associated investment growth. In practice, this recognises the reality that house price inflation has left some prospective first-time buyers unable to purchase a qualifying property despite having followed the rules of the scheme. The reform should therefore provide greater confidence for those using a LISA as part of their house purchase planning and may help preserve trust in long-term savings products more generally.

Employee Benefits

Although the Budget was light on specific employee benefits measures, there were some noteworthy developments. The deferral of mandatory payrolling for medical benefits gives employers additional implementation time, while updated HMRC guidance expressly confirming the tax-exempt status of mental health support and non-medical menopause counselling provides welcome clarity. Taken together, these measures reinforce the Government's broader focus on workforce participation, prevention and employee wellbeing, even in the absence of major changes to the benefits tax framework.

Broadstone comment

While this was not a seismic Budget for pensions and employee benefits, it contains a number of important developments for schemes, employers and members. The most immediate practical changes are likely to be the welcome easements to the administration and taxation of death benefits, alongside measures intended to prevent lower-income pensioners being drawn into income tax as a result of State Pension increases.

More broadly, the Budget should be viewed in the context of a much larger policy debate that is still to come. The Government's response to the Pensions Commission and the next review of State Pension Age are likely to have a far greater influence on future retirement outcomes than anything announced here. Indeed, some commentators have already noted that the long-term State Pension spending projections published alongside the Budget appear to assume a reduction in expenditure growth during the late 2030s, prompting questions as to whether future increases in State Pension Age may ultimately arrive sooner than currently anticipated.

In the meantime, the Government continues to pursue a number of established policy objectives, including encouraging greater pension investment in productive UK assets, improving retirement decision-making and supporting workforce participation. The direction of travel is therefore clearer than the individual measures themselves: a growing focus on the interaction between State and private provision, long-term fiscal sustainability and the role of pension assets in supporting wider economic growth.

Find out more

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