



## Autumn Budget 2025 Special Edition – the impact for Pensions and Savings

### Second Budget for Labour Government

The Chancellor of the Exchequer presented her [second Budget](#) on 26 November 2025. Below we summarise the key announcements made in relation to pensions and long-term savings in the Budget.

#### What's not changed:

- There are no changes to pension tax relief levels.
- The Annual Allowance, the Tapered Annual Allowance and the Money Purchase Annual Allowance all remain unchanged.
- There are no changes to tax-free lump sums (with earlier speculation proving unfounded).
- The 'Triple Lock' for the State Pension remains.

#### What is changing:

- The Chancellor announced that National Insurance Contributions (NICs) would be charged where the amount of salary sacrificed for a pension contribution for benefits exceeds £2,000 in a tax year from April 2029 – we look at this in more detail below.
- From April 2027 the Government will enable well-funded defined benefit schemes to pay surplus funds directly to scheme members over the normal minimum pension age, so long as the scheme rules permit it, by ensuring a one-off payment is not unauthorised.
- From April 2027, to better manage the Inheritance Tax treatment of unused pension funds and death benefits, legal personal representatives will be able to direct pension scheme administrators to withhold 50% of taxable benefits for up to 15 months and pay the Inheritance Tax due in certain circumstances. They will be discharged from a liability for payment of Inheritance Tax on pensions discovered after they have received clearance from HMRC.
- Income Tax thresholds will remain frozen for another additional 3 years, until April 2031.
- The ISA cash limit has been reduced to £12,000 from April 2027. The £20,000 ISA overall limit remains in place, but only £12,000 of this can be deposited into a cash ISA (over 65's will keep the £20,000 cash ISA limit).
- The limit for Lifetime ISAs remains at £4,000 in 2026/27. A consultation is due to be published early next year 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.
- The Pension Protection Fund (PPF) and Financial Assistance Scheme (FAS) will provide Consumer Prices Index-linked indexation (capped at 2.5% a year) for pre-1997 service.

- Members of the British Coal Staff Superannuation Scheme will benefit from the investment reserve fund being released for their benefit.
- The Government has committed to maintaining the State Pension ‘triple lock’ for the duration of this Parliament. The basic and new State Pension will increase by 4.8% from April 2026, in line with earnings growth. This means the new full State Pension rises from £230.25 a week to £241.30 a week. This means over 12 million pensioners will gain up to £575 each in the next tax year. The Pension Credit Standard Minimum Guarantee will also increase by 4.8% from April 2026.
- The Government will ease the administrative burden for pensioners whose sole income is either the Basic or new State Pension so that they do not have to pay small amounts of tax via Simple Assessment from the 2027/28 tax year if the new or basic State Pension exceeds the Personal Allowance from that point. The Government is exploring the best way to achieve this and plans to set out more detail next year.

## Change to Pension Salary Sacrifice rules

The biggest change is in relation to salary sacrifice (also referred to as salary exchange) rules for pension contributions. As a reminder, salary sacrifice involves an employee taking a reduction in salary in return for a corresponding contribution from an employer into a pension scheme. The benefit of this is that the employer does not pay National Insurance contributions on the pension contribution and nor does the employee, so it results in an increase in take-home pay. Some employers also choose to pay some or all of their National Insurance saving into the pension scheme as an additional contribution, boosting the savings to the pension scheme.

As announced, from 6 April 2029 National Insurance Contributions (NICs) will be charged where the amount of salary sacrificed for a pension contribution exceeds £2,000 in a tax year.

Any excess over £2,000 would be liable to NICs for both the employer (at 15%) and the member (at 8% basic-rate taxpayers and 2% for higher rate taxpayers). This change is predicted to raise over £4.7bn a year for the Government (Table 4.1 item 52 in the Budget 2025 document). This charge will not apply to ‘normal’ employer contributions.

To illustrate what the changes mean, the table below shows the impact of the changes on NICs at different salary levels assuming a 5% employee contribution, paid via salary sacrifice:

Salary	£40,000	£50,000	£75,000	£100,000
Employee pension contribution: 5% of salary	£ 2,000	£ 2,500	£ 3,750	£ 5,000
NICs saving under current rules for employee (8% or 2%)	£ 160	£ 200	£ 75	£ 100
NICs saving under current rules for employers (15%)	£ 300	£ 375	£ 562.5	£ 750
<b>Impact of introduction of a maximum £2,000 allowance</b>				
Allowance	£ 2,000	£ 2,000	£ 2,000	£ 2,000
Contribution in excess of the allowance	0	£ 500	£ 1,750	£ 3,000
<b>Additional employee NICs payable</b>	0	£ 40	£ 35	£ 60
<b>Additional of employer NICs payable</b>	0	£ 75	£ 262.50	£ 450

**Key points:**

- It is important to remember that this is only a NICs charge for exceeding an allowance and the benefit is not being abolished entirely. There is still a benefit with salary sacrifice in that the first £2,000 of sacrifice for each employee still saves the employer up to £300 (15%) each tax year, while employees benefit by up to £160 (8%) for basic rate taxpayers or up to £40 (2%) for higher-rate taxpayers.
- If an employee in a salary sacrifice arrangement pays in contributions above £2,000 from April 2029 then they will no longer be saving NICs and nor will the employer on the excess. However, both the employer and employee will still get tax relief on those sacrificed contributions so in that way it's not costing any more than other methods of paying pension contributions.

**Impact for employers:**

- The changes may lead to employers to review the benefits and remuneration packages offered to employees. For example, employers may decide to undertake a review of their pension scheme design and the costs of providing benefits. It's important to remember that any benefit design change may require a minimum 60-day consultation period for those employers with at least 50 employees.
- Employers will still need to comply with their employer duties involving automatic enrolment.
- Contracts of employment and other employment documentation may need reviewing and amending.
- The changes are likely to lead to extra queries from employees, so a communication plan should be implemented.
- We await details of any transitional arrangements - for example: who will be responsible for compliance with the limit and reporting to HMRC and will payroll be able to operate two methods of tax relief concurrently. For employees who leave, how will information provided to any new employer so they can deduct the correct amount? We anticipate a new framework may be necessary.

**Impact for trustees/administrators:**

- Guides, Booklets, websites and modellers that reference salary sacrifice will need to be updated.
- Trustees will need to work with the employer and administrator to ensure all communications align and are consistent to avoid any confusion.
- If scheme design or contribution rates are changed, trustees should ensure they understand what is stated in the Trust Deed and Rules and their powers/responsibilities.
- Administration systems should already be capable of accepting contributions via salary sacrifice and net pay/relief at source methods, so the main change will be in how contributions are recorded.

**Impact for employees:**

- Employees may use this opportunity to review the benefits they are receiving and the personal impact on them. This may lead to requests for employers to make changes to the benefits offered.
- Employees will look to employers and trustees to provide information on the changes and how it will impact them.
- Employees may decide to just opt out of the salary sacrifice arrangement entirely.

## Action

As can be seen from the above, there are many factors to consider and we would recommend that any changes and their impact are carefully considered, once all of the detail is available and professional advice is taken before any changes are made.

**Whist this is a significant change it is important not to make any decisions without considering the full impact – as such we believe that it would be unwise to react in a ‘knee jerk’ manner.**

## Our view

Anish Rav, Director of Global Pensions Policy said “*The changes to the salary sacrifice rules for pension schemes will have implications for all stakeholders. It is important to carefully consider the impact.*”

*“Our teams are ready to work with clients to help them navigate the change, especially for employers who want to consider their options and any potential changes. It’s also very important to remember that saving for retirement is vital and pensions remain a very attractive and tax efficient arrangement to achieve this.”*

Please speak to your usual Capita contact if you would like more information or wish to find out how we can help you navigate the changes.

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