

60-second summary

Budget 2026 - pensions matters



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John Healey, Chancellor of the Exchequer, delivered his first [Budget speech](#) on 28 October 2026. His [motto](#) going in, echoed in the speech, was ‘*breathing space today and fresh hope for the future*’, with a focus on easing cost-of-living pressures and enabling business growth. That being the case, expectations were that this Budget would be a relatively low-key affair and, on that basis, the Chancellor didn’t disappoint. For pensions, the highlight was the announcement of a new pension tax allowance for low-income pensioners. The main Budget document (the [Red Book](#)) included several other pensions measures.

From 6 April 2027 until (at least) 5 April 2030 there will be a new ‘*pension tax allowance*’ for low-income pensioners. Those with incomes up to the level of the full New State Pension, regardless of source, won’t pay income tax. The allowance will be withdrawn for those with incomes above the full New State Pension, at a rate of £1 for every £3 over. The allowance will be applied automatically without the need to make a claim, and will be increased annually in line with the New State Pension for the remainder of the current Parliament.

As [previously announced](#), stamp duty land tax relief will apply when Local Government Pension Scheme (England and Wales) assets are transferred by administering authorities to their asset pools. The relief will apply to transactions occurring from 28 October 2026 to 31 March 2032 where the property is situated in England or Northern Ireland. The relief measure will be incorporated into the Finance Bill 2026/27.

Changes introduced through the Finance Bill 2027/28 will facilitate transfers between drawdown arrangements and ‘retirement-only collective defined contribution’ (R-CDC) schemes.

In another case of an update to a [previous announcement](#), the Finance Bill 2026/27 is to include changes to the pensions-tax rules affecting people with terminal illnesses. The changes are expected to allow more people to receive serious ill-health lump sums and permit schemes to take account of evidence from medical experts based overseas.

The 'two-year rule' affecting the tax treatment of lump-sum death benefits is to be removed by the Finance Bill 2026/27 for payments made on or after Budget day. This should mean that lump sums in respect of members who die under age 75 remain tax free even if payment is made more than two years after the scheme administrator learns about the death. The Red Book says that the same Bill will include changes to the taxation of lump sums in excess of a member's lump sum and death benefits allowance, '*to provide greater certainty to individual beneficiaries.*'

The Red Book also confirms that the Pensions Commission's final report on pensions adequacy will be published in February 2027.

The absence of further pensions upheaval will come as a relief (no tax-punning intended) to many. This is perhaps unsurprising given that the Pensions Commission's recommendations on pensions adequacy, and the resulting policy decisions, are expected within the next few months.

The new pensions tax allowance will be welcomed by those on lower incomes. We're also pleased that the Government has seemingly relented on its plan to restrict the effect to those whose only source of income is the basic or New State pension. Making that distinction would have been complicated and potentially unfair to those with small amounts of additional State Pension or private retirement savings.

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