

60-second summary

Budget 2025

The Chancellor of the Exchequer, Rachel Reeves, delivered a much anticipated/dreaded Budget speech on 26 November 2025. From a pensions-focused perspective, the big news was the partial negation of the National Insurance advantages of making employee pensions contributions by salary sacrifice, but there were also notable announcements on PPF indexation, inheritance tax on pension death benefits, and DB-surplus distributions.

Spoiler alert

The Chancellor's thunder was stolen (or at least somewhat muffled) when the Office for Budget Responsibility (OBR) prematurely released its updated [Economic and Fiscal Outlook](#) (EFO). The EFO gives the OBR's forecast for the economy and public finances, based on the Budget measures. It was hastily withdrawn from the OBR's website, but not before it had been saved and re-posted elsewhere online by some of those who had spotted the gaffe, and many of the headline changes bandied far and wide.

Pensions-related announcements

The main (thoroughly leaked) news on the pensions front is that 'employee' pension contributions made under **salary-sacrifice** arrangements will not, above an annual £2,000 level, be exempt from NICs in future. The change will apply from 6 April 2029. It's estimated that it will raise £4.8 billion in 2029/30, although that includes a temporary tax-timing effect as some employees switch to making ordinary contributions under relief-at-source schemes; the extra receipts are anticipated to fall to £2.6 billion in 2030/31. Standard employer contributions will continue to be exempt from NICs. Attempts by employers to circumvent the effects of the salary-sacrifice change by simply revising pay downward and employer contributions upward are to be hampered by legislation requiring that such arrangements are agreed by all staff. There's some basic [HM Treasury guidance](#), with more due before the change takes effect in 2029.

Pension Protection Fund (and Financial Assistance Scheme) payments attributable to pre-6 April 1997 service will be indexed in payment, by up to 2.5%, if the members' original pension schemes provided for indexation. The change will apply from 1 January 2027. The PPF has [responded](#), welcoming the announcement and confirming that it shouldn't affect plans to set a zero PPF levy next year.

The ['Red Book' Budget Report](#) alludes to additional changes to the Government's plans to subject unused pension funds and certain death benefits to **inheritance tax** (IHT). A [policy paper](#) fills in some of the blanks. Deceased members' personal representatives (PRs) will, [in some cases](#), be able to instruct scheme administrators to withhold half of the taxable death benefits for up to 15 months, to ensure that enough money is retained to meet any associated IHT. The PRs will be discharged from IHT liability for any benefits uncovered, despite due diligence, after they have received a clearance certificate from His Majesty's Revenue and Customs (HMRC); thereafter, liability will lie solely with beneficiaries. The changes are to be included in the *Finance Bill 2025/26* and take effect from 6 April 2027.

From April 2027, the Government will allow private-sector, defined-benefit (DB) pension schemes to make direct payments out of **surplus** to members who are over '*normal minimum pension age*' (currently 55, rising to 57 from 6 April 2028), subject to scheme rules and trustee agreement. Currently, such payments are unauthorised and as such subject to penal tax charges; HMRC has [confirmed](#) that they will in future be authorised and taxed as income at the recipient's marginal rate.

Members of the British Coal Staff Superannuation Scheme are set to benefit from the share of the Scheme's surplus that currently falls to the Government. A similar policy change was announced in relation to the Mineworker's Pension Scheme in the Chancellor's 2024 Budget.

Pensioners who become liable to small tax charges solely because their new or basic **State pensions** exceed the income-tax personal allowance from 2027/28 won't have to go through the 'Simple Assessment' process to pay the tax. The details are yet to be worked out.

Other news

From 6 April 2027, the annual limit for savings into cash **ISAs** will be limited to £12,000, with the remainder (£8,000) of the £20,000 annual ISA allowance reserved for stocks and shares. Over-65s will still be able to save the whole £20,000 into cash ISAs. The Lifetime ISA is to be withdrawn, following consultation in early 2026 on '*a new, simpler ISA product to support first-time buyers*'.

We are concerned about the partial withdrawal of NICs relief, which provides employees with an important incentive to save, and employers with a welcome cost-control mechanism. The OBR assumes that 76% of the additional costs will be passed on to employees in the form of lower employer contributions and pay. Implementation is also bound to be complex: it's no shock that it won't happen until April 2029.

The PPF indexation change is great news for pensioners, though some will be disappointed to learn that its scope is narrower than the Chancellor's speech suggested. Those considering DB run-on or transferring to a superfund will want to think through the knock-on implications. The PPF's coverage will be nearer to 100% than it has ever been.

Flexibility to make payments to members out of DB surpluses without tax penalties or liability increases would be a positive step. It will make decision-making around surpluses easier and allow trustees and employers to provide welcome support to (older) members.

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