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Labour's 2025 Budget: preparing employers for possible pension changes

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The government is preparing to balance the books in the upcoming Autumn Budget on 26 November 2025. There are widespread reports of a £30 - 50bn shortfall in the nation's finances, leading to increasing speculation over how the Treasury intends to bridge this gap.

The government has made a commitment not to increase National Insurance (NI), income tax rates (across basic, higher, and additional bands), VAT, or the main rate of corporation tax. Collectively, these four sources contribute almost three-quarters of all tax revenue. The Chancellor has limited room to act. It's no surprise that many are asking if pensions will feature in the upcoming Budget given the combined tax and NI relief on pensions is worth around £45bn.

At the same time the government has acknowledged the growing pension adequacy crisis, by relaunching the Pension Commission in July 2025 and bringing forward the State Pension age review. While the outcomes of the Pension Commission review aren't expected for a couple of years, some of the speculated changes from the Budget could compound concerns around the adequacy of pensions further.

In this publication, we share our views on possible changes and what they could mean. We look at the financial impact on companies that offer DC pension arrangements and on their savers; we share views on the impact on retirement adequacy; and we also outline the actions employers may need to consider if any of the rumoured changes go ahead.

See next pages for tables.

POSSIBLE CHANGE	WHAT DOES THIS MEAN?	WHAT SHOULD EMPLOYERS CONSIDER?
Changes of NI saving on pensions contributions / income	Currently, employers pay at a rate of 15% on all earnings above £96 per week. However, where employers provide remuneration in the form of pension contributions, these contributions are not treated as earnings for NI purposes. The government may tighten or restrict the use of salary sacrifice for pension contributions, potentially reducing or removing the associated NI savings for employers and employees. Or the government may look to include payments into pensions within an employee's earnings for NI purposes, thus increasing the amount of NI employers will need to pay (ie affecting the employer pension costs for all staff, and not just in relation to those paying via salary sacrifice). Employees above State Pension age may be required to pay NI on their earnings, or savers on their pension income.	**Financial:** • Costs for **employers** will go up if NIC savings on pensions are reduced or removed. • Costs for **employees** could also go up if savings on employee NICS is also lowered. **Adequacy:** • Reduction or removal of NIC savings could discourage employers from offering generous workplace pensions and discourage employees from taking them up; ultimately negatively impacting overall levels of pension savings. **Governance/operational:** Any changes are unlikely to be introduced quickly, and we would expect the government to allow sufficient lead time for any necessary admin or payroll adjustments. That said, employers should prepare for the possibility of increased payroll costs and administrative changes. • Can you continue to offer the current contribution structure to employees if pension costs go up? • Do you currently share any of the NI savings you achieve on pension contributions with your staff? Can you continue to share this saving? Communication with employees about potential impacts will also be vital.

LOW IMPACT / MINIMAL CHANGE

MODERATE IMPACT / SOME CHANGE

HIGH IMPACT / SIGNIFICANT CHANGE

POSSIBLE CHANGE	WHAT DOES THIS MEAN?	WHAT SHOULD EMPLOYERS CONSIDER?
Reducing the cap on the Tax-Free Lump Sum	Currently, when a DC saver reaches the normal minimum pension age (currently 55), they can withdraw up to 25% of their pension pot tax-free, capped at £268,275, unless they have Lifetime Allowance (LTA) protection. The government may look to reduce the level of tax-free cash that savers can take through a reduction in the overall cap (broadly affecting those with highest savings). This would mean retirees would pay tax on a larger portion of their pension withdrawals.	**Financial:** • Costs are unlikely to increase for employers. • However, a reduction in cap on the tax-free cash allowance will affect employees with pots over £1.073m (typically the highest earners), or those close to that level who would exceed in the future due to further growth in their savings prior to access. Lower earners or those with lower savings will be less impacted by a reduction in the level of the cap. **Adequacy:** • Even though taking a large tax-free lump sum at retirement doesn't do much for long-term income, it can help people pay off things like their mortgage. If there's less tax-free cash available, it might make it harder for savers to manage their money in retirement with outstanding debt. **Governance/operational:** • Where investment strategies target 25% of assets at retirement in cash, such strategies may no longer be appropriate and should be reviewed, particularly for the those with larger pots. • The government may introduce protections for individuals who already have savings of £1.073m and are planning to take the current maximum tax-free cash. You should consider how you support staff in applying for such protections.

LOW IMPACT / MINIMAL CHANGE | MODERATE IMPACT / SOME CHANGE | HIGH IMPACT / SIGNIFICANT CHANGE

POSSIBLE CHANGE	WHAT DOES THIS MEAN?	WHAT SHOULD EMPLOYERS CONSIDER?
Removal of Higher Rate Tax Relief on Contributions	At present, within certain annual limits, pension contributions receive full tax relief at the saver's marginal rate, meaning higher and additional rate taxpayers receive more generous relief. The government may move to restrict tax relief possibly to the basic rate (20%) for all savers, reducing the incentive for higher earners to save into pensions. Or the government may look to review the Annual Allowance (AA) levels and reduce this and the Tapered Annual Allowance.	**Financial:** • Costs are unlikely to increase for **employers** (assuming DC member saving behaviours do not change). [Low impact / minimal change] • However higher earning **employees** may receive less tax relief on the contributions they make. [Moderate impact / some change] **Adequacy:** • Employees may risk under saving if they do not see pensions as an efficient way of saving for retirement. Whilst the state pension plays a significant role in replacing pre-retirement earnings for lower earners, those on middle and higher incomes will need to rely on workplace savings more to supplement the State Pension if they wish to maintain a similar lifestyle in retirement and so have more to lose from any reduction or removal of high rate tax relief on contributions. [Moderate impact / some change] **Governance/operational:** • Higher earners may no longer see pension savings as tax efficient as before and seek to put their savings into alternative vehicles, eg an ISA. • Could you review your pension strategies and consider whether to offer alternative or supplementary benefits. Eg if you offer a matching contribution structure, could you pay 'matched' contributions into an alternative vehicle (eg ISA)? Or should you amend your high earner policy for people affected by the AA.

LOW IMPACT / MINIMAL CHANGE | MODERATE IMPACT / SOME CHANGE | HIGH IMPACT / SIGNIFICANT CHANGE

POSSIBLE CHANGE	WHAT DOES THIS MEAN?	WHAT SHOULD EMPLOYERS CONSIDER?
Levy pension funds	Whilst less speculated, the government may impose a levy on pension fund values. This could apply to all funds or just large ones.	**Financial:** • Costs are unlikely to increase for **employers** (assuming DC member saving behaviours do not change). • A levy on pension funds would reduce the value of savings for employees. Impact would be dependent on if a threshold is set for the size of fund impacted, and the size of the levy. **Adequacy:** • A levy would reduce the fund value, reducing employee outcomes. The levy may discourage individuals form saving into pensions if they do not see it as efficient. **Governance/operational:** • Savers may no longer see pension savings as efficient as before and seek to put their savings into alternative vehicles eg ISA. • Employees already pay fund charges. Clear communications would be needed to explain any introduction of new charges on their savings.

LOW IMPACT / MINIMAL CHANGE — MODERATE IMPACT / SOME CHANGE — HIGH IMPACT / SIGNIFICANT CHANGE

CONSIDERATIONS

Pensions can be complex, and changes announced in the Budget could affect how efficiently people save for retirement. Depending on the changes and how they're reported, some members may make rushed decisions or become more vulnerable to scams. It's worth thinking now about how you help staff understand their pensions and whether they'd benefit from more support, guidance or advice.

NEXT STEPS

We recommend holding off on any changes until the Budget is announced. In the meantime:

1. Review how you currently communicate pensions and retirement planning.
2. Identify where staff may need extra support or clearer guidance.
3. Keep an eye on our updates following the Budget.
4. Get in touch if you'd like to discuss potential impacts in more detail.

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