# Autumn Budget – November 2025

Here's a short summary of the most significant pension-related measures announced on 26 November 2025 as part of the government's Autumn Budget.

## Salary Sacrifice cap introduced

Salary Sacrifice is an agreement between an employee and an employer. The employee agrees to waive part of their gross salary by a set amount in exchange for the employer paying a pension contribution of an equivalent amount into their pension arrangement. This usually replaces the regular member contributions, which the employee would otherwise pay.

The advantage of Salary Sacrifice is that, because the waived or sacrificed amount is taken before tax and National Insurance (NI):

- the employer saves NI by paying a reduced salary to the employee, and receives tax relief on the contribution paid.
- the employee saves NI and tax by receiving a reduced salary, and because the sacrificed amount is treated as an employer pension contribution, it's not considered as employee pay, and so is not taxable.

However, from 6 April 2029 the NI exemption on salary-sacrificed pension contributions will now be capped at £2,000 per year.

Contributions above this £2,000 per year threshold will then incur employee and employer NI, reducing the advantage of employees sacrificing higher amounts to improve their pension savings.

Higher earners sacrificing a higher level of their salary to their pension arrangements are likely to be impacted the most by this change.

Employers are likely to face increased costs and may wish to review future employee reward strategies. They will also be required to report salary sacrificed amounts via payroll systems.

## Further news on Inheritance Tax on pensions

In the Autumn Budget 2024 the government announced that from 6 April 2027, most unused pension funds and death benefit lump sums would be included within the value of an individual's estate for Inheritance Tax purposes. It was proposed that Scheme Administrators would become liable for reporting and paying any tax due (40%) on the part of an individual's estate that is above the £325,000 threshold. They would also be required to liaise with the deceased individual's Personal Representative(s) in relation to the value of the estate and the calculation and payment of any Inheritance Tax due.

However, following a formal consultation, the government has confirmed in the Autumn Budget 2025 that its proposals are amended as follows:

- **Death in service** benefits payable from a registered pension scheme (both Defined Benefit and Defined Contribution) will not be in scope of Inheritance Tax.
- Personal Representatives, rather than Scheme Administrators, will be liable for reporting and paying any Inheritance Tax due on unused pension funds and pension death benefits from 6 April 2027. Legislation will be put in place to allow Scheme Administrators and Personal Representatives to exchange all necessary information.
- The government will introduce a mechanism for Personal Representatives to direct pension Scheme Administrators to withhold up to 50% of the taxable benefits for a maximum of 15 months from the date of death and to pay any Inheritance Tax due to HMRC before releasing the remaining benefits to beneficiaries.
- Personal Representatives will also be discharged from Inheritance Tax liability for pensions discovered after they have received clearance for settling the Inheritance Tax due on the estate. This is if HMRC are satisfied that they have made every effort to locate the deceased's pensions.

Defined Benefit dependant pensions (spouse, civil partners or children's benefits) are excluded from Inheritance Tax. Defined Contribution schemes, joint life annuities and regular annuity payments to a dependant are also exempt.

## Defined Benefit (DB) Surplus Payments Reform

To date, DB pension schemes in surplus have been able to return funds to employers, but paying surplus directly to members has been heavily restricted and subject to punitive tax charges. Often the only way of being able to use a scheme surplus to benefit members was for members to receive additional amounts of pension or higher pension increases.

Legislation will now be included in the Finance Bill 2026/2027 and effective from 6 April 2027, in order that:

- Well-funded DB schemes will be allowed to make direct payments of surplus assets to members or other beneficiaries, as a one-off lump sum payment, provided:
    - the scheme rules permit it
    - Trustees agree and they exercise discretion
    - Trustees act in line with their fiduciary duty to protect all scheme beneficiaries
    - the member is over the Normal Minimum Pension Age (currently 55, rising to 57 in 2028).
- These payments will:
    - be treated as authorised payments by HMRC
    - be taxed as pension income at the individual's marginal rate.

- Schemes must:
  - demonstrate they are well-funded on a specific statutory basis, that is, in surplus on a buy-out basis or similar measure that ensures all member benefits can be secured with an insurer (not just the lower ongoing funding basis such as the technical provisions)
  - payments will only be allowed if a scheme's funding remains robust after the surplus extraction, and all promised benefits remain fully covered.

## Pension Protection Fund (PPF) and Financial Assistance Scheme (FAS)

The government has announced plans to legislate for inflation increases (indexation) on pre-1997 pensions for members of the PPF and FAS.

Currently the PPF and FAS do not provide inflation increases on pre-1997 benefits, which has meant the real value of members' benefits has been eroded over time, and this has been a long-standing concern for many in the pensions industry.

This will mean that from January 2027, members of the PPF and FAS will receive annual Consumer Prices Index (CPI) linked increases. This increases will be capped at 2.5% on pre-1997 compensation or assistance payments, provided their original pension schemes included this level of indexation. It is not yet clear what will happen if the original pension scheme did provide increases on pre-1997 pensions, but at a different rate.

## Market reaction

The markets' reaction to the budget was very subdued, but marginally positive, with Sterling rising slightly and government bond yields falling slightly on the day. Notably, the stocks of sectors that feared tax hikes but were spared, e.g. gambling related stocks, performed well on the news. The market reaction largely persisted in the days following the budget.

As such, despite the scale of tax rises announced, markets apparently accepted the fiscal package without major alarm – for now. Should inflation resurge, or global conditions deteriorate, the 'fiscal headroom' may evaporate, testing investor patience further.

**If you would like to discuss any of these matters further, please get in touch with your usual contact at Cartwright.**

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