

PPI Digest

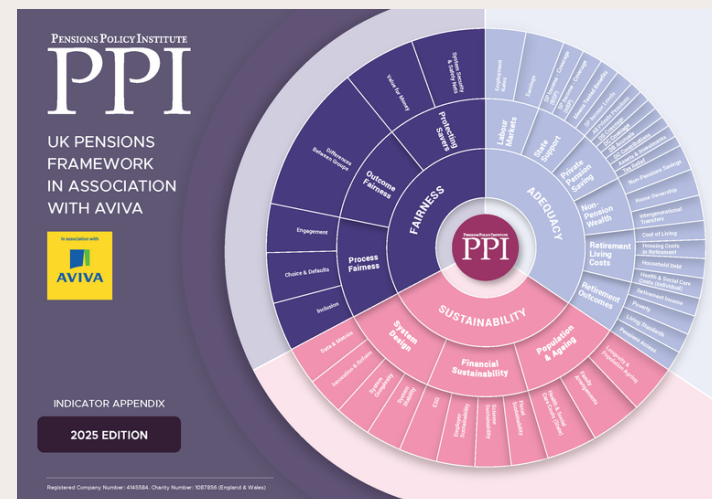
Autumn Budget 2025

Following the Chancellor's 2025 Autumn Budget, PPI researchers and analysts have reviewed the announcements and assessed their potential impact on the UK pensions landscape. In line with the UK Pensions Framework, the PPI evaluates the performance of the pensions system through three core dimensions, which together help to determine whether the system enables adequate, sustainable and fair outcomes for savers and retirees.

Adequacy: A clear system that enables people to plan reliably for a retirement which provides protection against poverty and the ability to maintain their living standards from working into later life.

Sustainability: A stable, secure and affordable system which allows the needs of the present to be met without compromising the ability of others to meet their own needs.

Fairness: An inclusive system which engenders trust, provides fair benefits for all, protects people equally from risk in retirement and upholds the commitments that are made within and between generations.



These definitions are further explained in the PPI's UK Pensions Framework Indicator Appendix.

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CAPPING THE BENEFITS OF SALARY SACRIFICE

What just happened? The Chancellor announced that any salary sacrifices above an annual cap of £2,000 will attract employer and employee Class 1 National Insurance contributions (NICs).

The maximum benefit an employer can take from salary sacrifice will be effectively capped at £300 a year and an employee's benefit would be capped at £160 a year. This will impact all people making salary sacrifice greater than £2,000 for pension contributions including members of DB pension schemes.

PPI Statement: An employee with current median gross annual earnings of £39,039 and sacrificing 5% of their salary in lieu of pension contributions paid by their employer will see no impact to their take home pay. However, by the time the policy comes into effect, earnings are projected to have grown. This could lead to an impact of around £12 a year to the employee and £22 a year to the employer.

The largest impact the measure will have upon employees is for those earning at the Upper Earnings Limit. An employee earning £50,270 sacrificing 5% of salary will be £41.08 a year worse off a year, and when sacrificing 10% of salary a year will be £242.16 a year worse off.

Assessment of impacts upon:

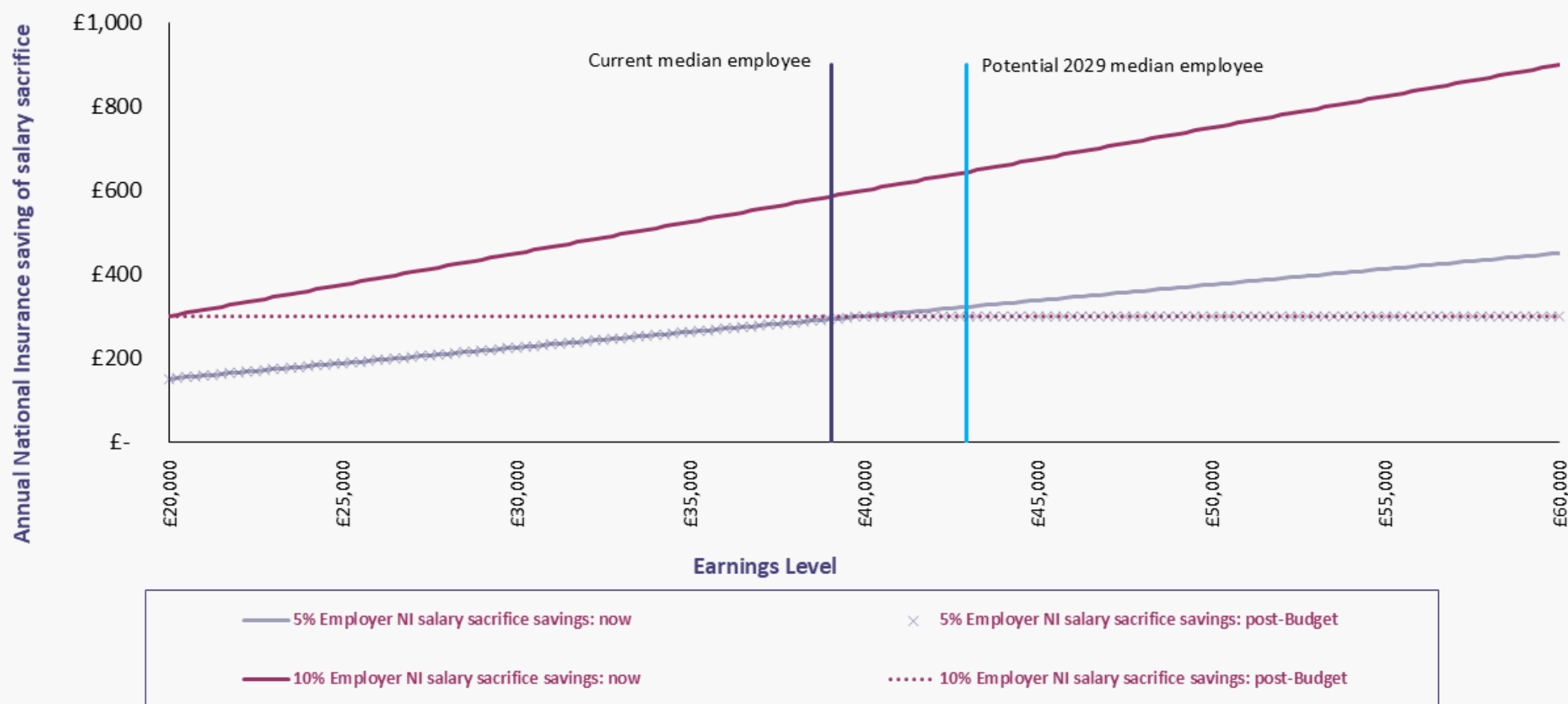
Adequacy: Makes pension saving less appealing and puts pressure on wage growth. It goes against efforts to increase rates of pension saving to improve future adequacy in retirement.

Sustainability: Increasing National Insurance revenue supports the delivery of benefits from the state including the State Pension.

Fairness: Those on low incomes are protected by the £2,000 threshold. Those on higher incomes will not see such an impact upon their take home pay as they are only liable to a marginal rate of NICs of 2%. Those who stand to lose the most are earners paid around £50,000 a year.

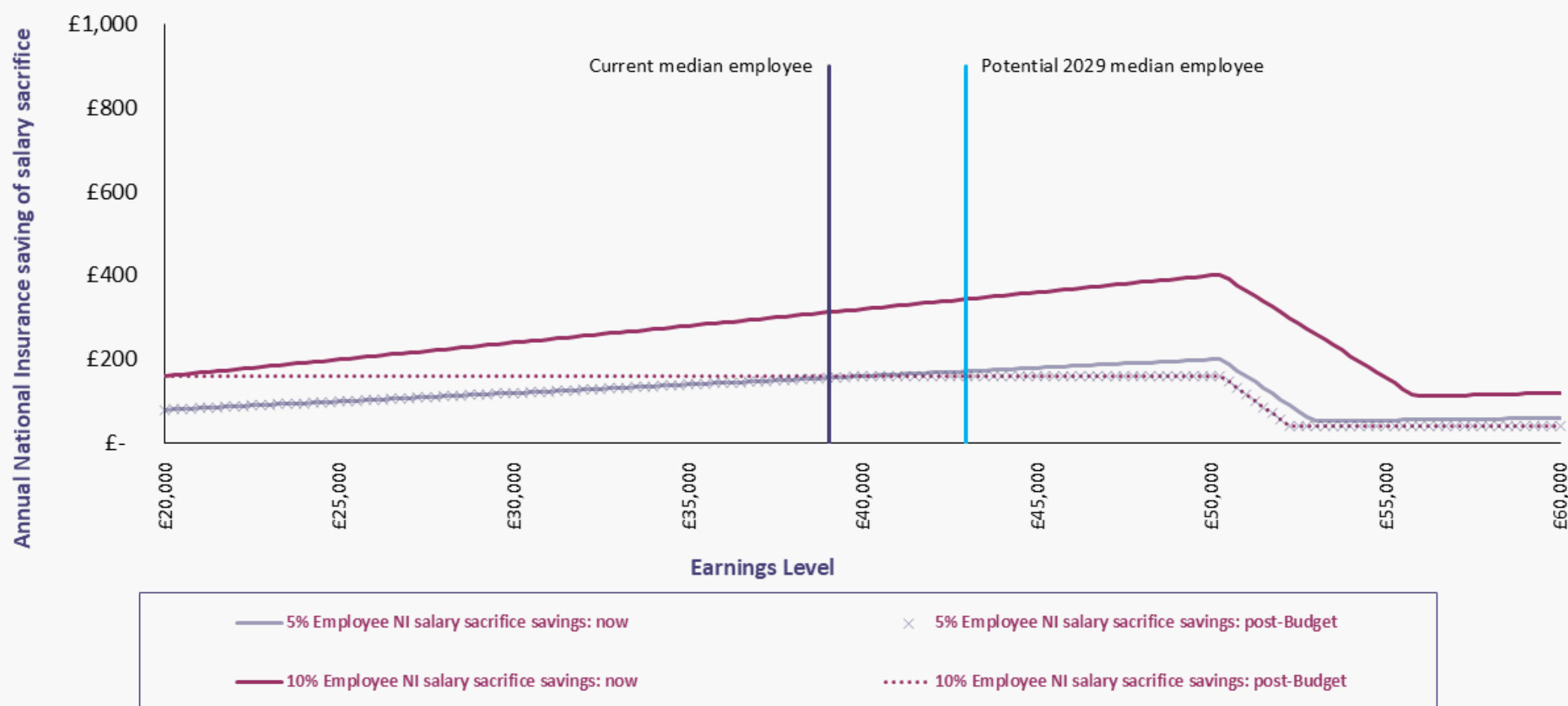
The salary sacrifice cap reduces NI savings to employers for higher earners and higher contributions

Employer NI salary sacrifice savings: now and post-Budget



The salary sacrifice cap reduces NI savings to employees for higher earners and higher contributions

Employee NI salary sacrifice savings: now and post-Budget



MAINTAINING THE TRIPLE LOCK

What just happened? The Chancellor confirmed the government's commitment to increasing the level of the new State Pension and the basic State Pension by the triple lock. From 6 April 2026, the basic State Pension and new State Pension will increase by 4.8% to £184.90 a week and £241.40 a week, respectively. This places the value of the new State Pension just below the Personal Allowance for income tax, and the new State Pension will breach this threshold in 2026-27. Where a pensioner's sole income is the new State Pension without any increments, and they are subject to Simple Assessment for income tax, they will not have to pay income tax on this.

PPI Statement: The State Pension is a fundamental source of income to many pensioners. Overall, 44% of pensioners' gross income comes from benefit income, including the State Pension. In 2023-24, 13% of single pensioners and pensioner couples only received state benefit income^[1], making them entirely dependent upon the State. Up-rating by the triple lock offers inflation protection when much current annuity income is level and has no annual increase (FCA retirement income market data consistently shows that more than 80% of annuities are level.^[2])

Assessment of impacts upon:

Adequacy: The level of the new State Pension remains below that necessary for a single pensioner to achieve Pensions UK minimum Retirement Living Standard. However, it may be sufficient to achieve this level for those living as a couple.

Sustainability: There are many calls that the triple lock is unsustainable in the longer term due to the pressures it places upon public finances, e.g. the OBR stated in their 2025 Fiscal Risks and Sustainability report: "The design of the state pension triple lock means the public finances are asymmetrically exposed to shocks to inflation and earnings growth, both of which have been unusually volatile in recent years. This feature of the triple lock, combined with the overall ageing of the population, means that in our latest long-term fiscal projections, state pension spending was, after health, the second-largest source of upward pressure on non-interest spending".^[3]

Fairness: The triple lock is only applied to the new State Pension and the basic State Pension. For those who reached State Pension age prior to 6 April 2016, a smaller amount of their benefit is subject to the triple lock, as any additional State Pension is only uprated in line with inflation. The triple lock therefore favours more recent and future state pensioners.

FREEZING PERSONAL TAX THRESHOLDS FOR A FURTHER 3 YEARS

What just happened? The Chancellor announced that income tax and National Insurance thresholds would remain frozen for an additional three years to April 2031.

This increases the tax revenue generated by the government through fiscal drag.

PPI Statement: Freezing tax thresholds will result in pensioners paying a greater amount of income tax as incomes increase in nominal terms from indexation of the state pension and private pension income.

Assessment of impacts upon:

Adequacy: Increasing the tax burden in real terms reduces adequacy and makes inflation protection harder to achieve.

Sustainability: The measure increases general taxation receipts affording greater government expenditure.

Fairness: The income tax system is universally applied and as a progressive regime the greatest burden is placed upon those with the highest incomes. As fiscal drag continues the effects are being pushed further down the income distribution.

PLACING A HIGHER TAX BURDEN ON THE WEALTHIEST PENSIONERS

What just happened? The Chancellor made announcements that may impact the wealthiest pensioners:

- A High Value Council Tax Surcharge to be applied on homes worth over £2 million.
- An increase of 2% on taxes applied to property, dividends, and savings income

PPI Statement: The High Value Council Tax Surcharge will only impact the most valuable of houses. Pensioners who own such homes will need to pay an additional £2,500 to £7,500 a year. Given the value of the assets in question, it is assumed that pensioners will have the means to pay the surcharge, rather than being 'asset rich, cash poor'. In time, the surcharge is likely to depress the value of such properties, reflecting the additional liability which reduces the value of the assets held.

The increase of 2% on income tax rates on property, dividends, and savings has been positioned to reflect that passive income, unlike employment income, it does not attract National Insurance Contributions. However, when you reach State Pension age you stop paying National Insurance contributions, and as such, this comparison breaks down for those over State Pension age.

Assessment of impacts upon:

Adequacy: The Council Tax Surcharge will only impact those with high value homes and is unlikely to significantly impact overall adequacy for those impacted. The increased tax rates on dividends and savings may impact a limited number of pensioners who predominantly rely on that income in retirement.

Sustainability: In the longer term, asset prices will adjust to reflect the increased liability and high net worth individuals will continue to minimise their tax liability, with this measure potentially resulting in some behavioural change.

Fairness: The alignment with National Insurance contributions in the positioning of the measure adversely contrasts pensioners against the working age population.

ADDITIONAL PENSION RELATED ANNOUNCEMENTS

What else just happened? The Chancellor announced a number of additional measures that are relevant to pensions.

These include:

- A consultation in early 2026 on the implementation of a new, simpler ISA product to support first time buyers to buy a home. This will in time replace the Lifetime ISA.
- The introduction of CPI-linked increases, capped at 2.5% a year, on pre-1997 pension accruals to members of the Pension Protection Fund (PPF) and Financial Assistance Scheme (FAS) where the original scheme provided this benefit.
- The transfer of the Investment Reserve Fund in the British Coal Staff Superannuation Scheme to the scheme's Trustees. This will be paid out as an additional pension to members of the scheme.
- The reduction of the tax charge on surplus DB funds paid directly to members.
- Maintaining the £35,000 income threshold for the receipt of Winter Fuel Payments.
- Enable unconnected, multiple employer CMP schemes to apply to HMRC to become a registered pension scheme and allow HMRC to refuse to register or to de-register an unauthorised CMP scheme. The government will also take a regulation-making power to allow HMRC to legislate for CMP schemes more efficiently in the future.

CAPPING THE BENEFITS OF SALARY SACRIFICE

	Where we were	What has changed
What is this policy and how does it operate?	Salary sacrifice allows contributions to pension schemes to be made without attracting a National Insurance Contribution (NIC) liability.	National Insurance will be levied on all sacrificed salaries above a £2,000 a year threshold.
Who is impacted?	Any pension scheme member who contributes £2,000 or more via salary sacrifice.	Any sacrificed salary above the threshold will attract NICs. This will be liable at the appropriate primary main or additional contribution rate (8% or 2%) for employees and at the secondary contribution rate (15%) for employers.
When does the change come into effect?	National Insurance was reformed in 1948 with the introduction of the welfare state.	April 2029.
What is the likely behavioural response to the policy?	N/A	This will increase the cost of making pension contributions, making them less attractive. Employers will be faced with higher employment costs, and this may depress future earnings growth and employment.
Where does this redistribute money from and to?	N/A	The largest impact the measure will have upon employees is for those earning at the Upper Earnings Limit. This is currently: • £967 a week; • £4,189 a month; or • £50,270 a year. Using the annual figure, an employee earning £50,270 sacrificing 5% of salary will be £41.08 a year worse off a year, and when sacrificing 10% of salary a year will be £242.16 a year worse off.
How much money does this raise for the exchequer?	The latest estimate from HMRC (2023-24) of the cost of providing National Insurance Contribution relief on salary sacrifice is that saves: • employees £1,200m of National Insurance contributions; • employers £2,900m of National Insurance contributions.	The OBR's costing of the policy suggests it will save the government £4.7bn in 2029-30 when it comes into force.

MAINTAINING THE TRIPLE LOCK

	Where we were	What has changed
What is this policy and how does it operate?	The triple lock is an uprating mechanism applied to the basic State Pension (bSP) and the new State Pension (nSP) whereby the benefit level is uprated by the highest of the increase in prices, the increase in earnings, or 2.5%. The current government has made a commitment to maintain this uprating during the current parliament.	The commitment to triple lock uprating has been maintained, and the pension will be increased by the increase in earnings, which is 4.8%.
Who is impacted?	All currently in receipt of the State Pension will see their bSP or nSP amount uprated in line with the triple lock. Future pensioners will see the amount of pension they may receive when they become eligible increased above current rates of inflation.	This change will take recipients of a full nSP over the personal allowance in 2027-28 even if they have no other income. The government has announced that these pensioners will not be liable for income tax when that occurs.
When does the change come into effect?	The triple lock was first implemented in April 2011.	The new payment rates will be effective from Monday 6 April 2026.
What is the likely behavioural response to the policy?	N/A	N/A
Where does this redistribute money from and to?	Under the Pay As You Go funding mechanism for the State Pension, payments are funded by taxpayers, resulting in an overall redistribution from younger 'working age' people to older people over State Pension age (SPa).	N/A
How much money does this raise for the exchequer?	Since its introduction, the triple lock has increased the value of the nSP by 14% above the level it would have achieved if it had only been uprated in line with earnings.	As the April 2026 increase under the triple lock is aligned with earnings (as the highest of the three measures) there is no premium above the minimum increase laid down in legislation. In future years, from 2027-28 onwards, the triple lock guarantee is projected to raise the benefit by 2.5%, above both price and earnings inflation, generating additional cost to the government.

FREEZING PERSONAL TAX THRESHOLDS FOR A FURTHER THREE YEARS

	Where we were	What has changed
What is this policy and how does it operate?	Personal tax thresholds were due to be frozen until 2028.	The freeze has been extended until 2031.
Who is impacted?	Anyone with an income tax liability.	Anyone with an income tax liability.
When does the change come into effect?	N/A	Personal tax thresholds are now set to be frozen from 2028 to 2031.
What is the likely behavioural response to the policy?	N/A	N/A
Where does this redistribute money from and to?	N/A	N/A
How much money does this raise for the exchequer?	N/A	The continued freeze is projected to raise an additional £8bn in 2029-30. ^[4]

PLACING A HIGHER TAX BURDEN ON THE WEALTHIEST PENSIONERS

	Where we were	What has changed
What is this policy and how does it operate?	- Council tax is payable to the local council or authority. - Income tax rates on property and investment income matched those of employment income. Income tax on dividend income is set at a lower rate (8.75% basic rate, 33.75% higher rate, 39.35% additional rate).	- High value surcharge on property has been introduced. - The income tax rates, both basic and higher, on income from property, savings, and dividends are to be increased by two percentage points.
Who is impacted?	Occupiers are currently responsible for council tax in most circumstances. - Those who have income from property, savings or dividends in excess of their personal allowance.	Homeowners with homes worth over £2 million will be liable for the surcharge. - Those who have income from property, savings or dividends in excess of their personal allowance.
When does the change come into effect?	N/A	- The high value surcharge is to come into effect from April 2028. - The increase to the rates of income tax on property, savings is to come into force from April 2027 and the increase to the rates of income tax on dividends is to come into effect from April 2026.
What is the likely behavioural response to the policy?	N/A	Property prices may be impacted to reflect the additional liability.
Where does this redistribute money from and to?	N/A	These measures are designed to increase the tax burden upon those with high values of assets.
How much money does this raise for the exchequer?	No amount of council tax was paid to central government.	- The high value surcharge is projected to raise £400m after it has been implemented. - After initial behavioural effects have been unwound the increase to the income tax rates is projected to raise over £2bn from 2028 onwards.

References

1	DWP (2025) Pensioners' Incomes: financial years ending 1995 to 2024
2	FCA (2025) Retirement income market data 2024/25
3	OBR (2025) Fiscal risks and sustainability
4	OBR (2025) Economic and fiscal outlook

For further information or comment please contact...

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