



20 November 2025

The Rt Hon Rachel Reeves MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Dear Chancellor,

We are writing on behalf of Pensions UK and the Federation of Small Businesses (FSB) and to urge the Government not to bring forward measures that would remove exemptions of NI for employers or cap exemptions of NI for employees on pension contributions.

Increasing NI contributions through changes to Salary Sacrifice arrangements will harm the economy, businesses and pensions saving. In a recent survey of Pensions UK members, over 75% of respondents report that changes to tax relief are likely or very likely to result in savers changing their retirement contributions. These schemes represent millions of UK workers and pensioners.

We believe these measures would: damage the UK economy by making employers less competitive; damage the UK pensions industry's ability to deliver investment by removing money from the system; and damage the pensions of working people by reducing the incentive to save.

While we understand the tough economic position the Government is facing, reversing salary sacrifice provision through NI is estimated to deliver only maximum £2 billion in HM Treasury saving. We believe this is insufficient to merit the levels of disruption to saving, investment and growth.

Damaging employers and the economy

Introducing employer NICs on pension contributions above the £2k cap would increase the cost of employing people, making it harder for businesses to remain competitive or forcing costs onto employees and customers. This would build on

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previous increases to NI and other cost pressures introduced at the last budget which have disproportionately hit SMEs. There has already been a 16.7% increase in company insolvencies.

Even with a £2000 threshold, the reforms risk undermining business investor confidence and slowing down the economy. Any initial threshold would create expectations of further reductions, as we have seen with the Dividend Allowance. This uncertainty would be damaging at a time when economic stability is critical.

Salary Sacrifice variations would add significant administrative complexity for employers delivering payroll, slowing down business functions and adding cost at a time when SMEs need to focus resource on growth.

Damaging investment opportunities

At a time when the Government is encouraging the pensions industry to invest more in UK assets, it is imperative the tax system supports this outcome. While the industry has committed to UK investment, encouraged by the Government, through the Mansion House Accord, the Government should in return support stability in the system, and should not be removing money from the industry that could be used for this investment.

Damaging pensions saving

Limiting salary sacrifice will hit working people trying to save for a better pension in retirement - including those on lower-than-average earnings for whom every penny counts both in working life and at retirement.

It is unclear whether the Government has considered that a sizeable proportion of lower earners will be caught by the proposed cap.

Those saving through a DB scheme with salary sacrifice have significantly higher contribution rates than the automatic enrolment minimum of 5%. This will mean that, in some scenarios, workers on salaries of £33,000 could see their tax bill go up.

In the context of auto-enrolment, many employers use salary sacrifice to boost the contributions of those lower-earning workers that they enrol into defined contribution schemes. For instance, in the government-backed Nest scheme, nearly half of large employers contribute above the statutory minimum rate of 3%, with over 14% covering the full minimum contribution of 8%. If salary sacrifice was removed, it's inevitable that lower-earning workers currently benefitting from

these arrangements would experience less employer generosity and higher deductions from their pay.

Employer NIC exemption on pensions is a key incentive for employers to support pension saving. Removing or weakening it would send the wrong signal causing a reduction in contributions undermining long-term retirement security and ultimately increasing reliance on the state in retirement. Reducing reliance on the state in retirement is a key government priority, as evidenced by comments from the Pensions Minister at the Pensions UK Annual Conference.

Conclusion

In a recent survey of Pensions UK membership over 90% of respondents believe the current speculation and leaks regarding pensions damages confidence in pension savings and indicates a lack of long-term policy stability for pensions. Over 72% of respondents report it is challenging to respond to customer queries over the budget speculation. The Government must consider the adverse impact of this speculation. We urge the Government to rule out any change to salary sacrifice arrangements for pension contributions, and instead focus on policies that strengthen retirement outcomes, support financially vulnerable workers, and in so doing create greater potential for the pensions industry to invest in the UK economy. I have copied this letter to your colleague the Minister for Pensions.

Yours sincerely,

Zoe Alexander

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Craig Beaumont OBE

FSB Executive Director

CC – Minister for Pensions