Pensions UK

October 2025

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

Dear Ms Reeves,

RE: Pensions UK 2025 Autumn Budget/Spending Review Representation

Pensions UK welcomes the opportunity to submit views in advance of the forthcoming Budget.

Pensions UK is the voice of pensions in the UK, trusted and heard by the Government and the pensions industry. For more than 100 years we've delivered influential thought leadership, practical guidance and research for our members; pro-actively solving the sector's biggest issues and setting the future direction.

As a not-for-profit organisation, we exist for the benefit of our members, and to deliver the best possible outcome for savers in the UK, so they can retire in confidence and with dignity.

We're the voice of pension schemes that together provide a retirement income to more than 30 million savers in the UK and invest £2 trillion in the UK and abroad. Our members also include asset managers, consultants, law firms, fintechs, and others who play an influential role in people's financial futures.

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The UK government's main economic mission is to deliver long-term, sustainable growth. This mission is deeply tied to its pension reform agenda, which is expected to play a key strategic role in supporting economic transformation and investment in the UK.

Our Budget submission covers four key areas, including pensions and growth, pensions tax relief, consolidation and auto-enrolment/state pension. Crucially, all

proposed measures are intended to ensure investments benefit savers, so most people can expect an adequate standard of living in retirement.

Pensions & Growth

Pension funds already invest over £1 trillion in the UK economy, underpin the UK gilt market, and are open to investing even more in UK growth, provided the assets have the right risk / return characteristics and they offer appropriate diversification of investment risk.

In the defined contribution (DC) space, the Mansion House Accord represents a clear commitment from workplace providers to commit more investment to private markets both abroad and in the UK.

Of course, the agreement is dependent on a series of critical enablers, including the creation of a pipeline of UK investment opportunities - ensuring there is a stream of high-quality investment assets suitable for pension fund needs - which the Government has agreed to facilitate.

Pensions UK would urge Government to use the coming Budget to provide clarity around how it will support the development of this pipeline of assets in a co-ordinated way across agencies, in a manner that is decision useful for pension schemes.

As outlined in our 2024 report Pensions & Growth: Creating a Pipeline of Investible UK Opportunities, there are some specific sectors where action is urgently needed, such as:

- Planning Reform: We welcome the progress of the Planning and Infrastructure Bill and the Government's commitment to reforming the planning system to support housing and infrastructure development. These changes are a step in the right direction and align with our long-standing calls for a more streamlined and responsive planning framework. However, we continue to urge the Government to go further - particularly in ensuring that planning reforms translate into real-world delivery at pace and scale. Unlocking investment in housing, transport, and clean energy infrastructure is critical to meeting national growth and sustainability goals, and pension schemes stand ready to play a greater role in financing these developments if the enabling environment is right.
- Affordable housing: A sector with significant potential for pension fund investment, requiring substantial government support, including £14.6 billion in annual capital grants. This funding would help to de-risk investments and enable a broader programme valued at approximately £46.2 billion per year.
- Infrastructure: The report UK Infrastructure: A 10-Year Policy sets out a £725 billion investment plan over 10 years for both economic and social infrastructure. Pensions UK notes limited new commitments to infrastructure investment, with many previously announced initiatives being reiterated. New support mechanisms like the NISTA/dynamic Infrastructure Pipeline, GB

Energy, and the Strategic Investment Opportunities Unit have been introduced, but further details regarding their specific functions remain unclear. Additionally, while some incentives look promising, there is currently insufficient information to assess their potential impact.

Pension UK believes public finance institutions play a crucial role in supporting economic growth and development by providing funding and investment opportunities. The British Business Bank, National Wealth Fund and GB Energy are examples of such institutions that can offer significant benefits to pension funds. Our engagement with these newly formed institutions has been very positive. It is important however that they quickly move toward providing more clarity on the specific offerings and opportunities they will provide to schemes, in order that committed capital can be deployed.

In relation to fiscal incentives, our report Pensions & Growth: Using Investment and Fiscal Incentives to Encourage the Flow of Pension Investment into UK Assets, published in 2024, highlights how this stimulus can make investing in UK assets more attractive than investing in similar assets of other countries. Some of the proposed incentives include expanding the already successful Long-term Investment for Technology and Science (LIFTS) initiative or how Government commitments on large-scale infrastructure projects could include guarantees. Pensions UK continues to advocate for the removal of stamp duty on UK shares, as we believe this measure would encourage more listings in the UK – currently, when pension funds buy UK shares, they have to pay stamp duty, whereas if they buy shares from other countries, they are often not subject to taxation.

For defined benefit (DB) schemes, Pensions UK strongly encourages the government to expedite the introduction of changes relating to surplus. We welcome the Pension Schemes Bill's recognition of the need for greater flexibility in accessing and utilising surplus but urge ministers to implement the regulations in the next 12 months to realise the benefits of the change. It is vital that trustees are empowered to make decisions on surplus in the best interests of members, with robust safeguards in place to protect benefits. We reiterate our call for the removal of unnecessary restrictions and tax penalties on surplus transfers - particularly where surplus is used to enhance member outcomes or support the establishment of Collective Defined Contribution (CDC) schemes.

Pensions tax relief

The Government is focused on increasing revenue to fund public services and stabilise the economy, primarily through freezing thresholds and reforming certain reliefs, while protecting headline tax rates. We understand that reforming pensions tax relief could be seen as a source of additional revenue. However, many people are not saving enough for their retirement and tax relief acts as an important incentive to help people save. Pensions UK would also like to highlight that unchecked speculation in the UK pensions sector may result in consumer harm, reinforcing the need for greater certainty to protect savers and maintain overall trust in the pensions system.

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If the Government does choose to introduce a reform, we urge you to consider our 'Five Principles for Pensions Taxation' report and to consult extensively to avoid unintended consequences. The five principles are:

- Promotes adequacy: provides financial support and incentivises saving for retirement.
- Encourages the right behaviours: helps savers make the right decisions about retirement saving.
- Fair: helps everyone – the employed and the self-employed - save for retirement.
- Simple to adopt and administer: avoids unreasonable transition and on-going costs for employers and schemes.
- Enduring and sustainable: designed to avoid repeated change and so builds confidence in long-term saving.

In our report Pensions Tax Relief: Implications for Savers, we applied these tests to a range of potential tax relief reforms and concluded that while none met all the objectives, the worst option would be a move from EET (Exempt, Exempt, Tax) to TEE (Tax, Exempt, Exempt), since it fails four of the five principles. This change would shift to taxing contributions but income in retirement would be tax-free.

Our analysis finds that the removal of the higher rate of pensions tax relief (a 20% single rate) would be of no benefit to the majority of taxpayers who pay basic rate income tax, since they would see no change to their pension contributions or tax bill. However, such a reform could see a person who pays higher rate income tax for almost all of their working life face a reduction in their private pension income before tax of over 20%, irrespective of the type of scheme they belong to.

Even the introduction of a new, more generous, single rate of 25% would only result in a modest uplift in pension income for those savers who will benefit from it. Our overall assessment continues to suggest that no single reform of the current system is perfect. Most reform options leave many people with lower pension savings and create very substantial cost and complexity for employers and occupational pension schemes.

Tax-free lump sum

The tax-free lump sum (TFLS) is a long-standing and highly valued feature of the UK pension system, representing a significant part of the overall tax relief promise, especially for lower-rate taxpayers. Many savers have budgeted for this benefit over decades, and any move to remove or reduce it would undermine trust and could be perceived as breaking a promise to those who have planned their retirement finances around it.

Pensions UK is particularly concerned that any changes should not be made without a clear vision for the overall tax framework. The Pensions Commission provides an opportunity to reconsider the place of pensions within the social and economic fabric of the UK, and how the load of saving should be shared between

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savers, employers and Government. It provides a crucial opportunity for the creation of a long-term plan to make changes to ensure the system remains appropriately incentivised, targeted and affordable.

Conversely, making tactical changes to address short term fiscal concerns threaten to erode trust in the system and will inevitably lead people to make premature and potentially detrimental decisions about their pension pots.

Recent experience shows that even speculation about changes to the TFLS has triggered a dramatic surge in pension withdrawals. Data from the Financial Conduct Authority showed that in the 2024/25 financial year, UK pension savers withdrew a record £18.08 billion in tax-free lump sums - a 61% increase on the previous year. In just the six months up to March 2025, withdrawals soared to £10.4 billion, up 72% compared to the same period a year earlier.

Some of our members have reported a substantial increase in quote requests as savers seek to withdraw their 25% ahead of the budget date, highlighting the fragility of saver confidence and the systemic risks of poorly signalled reform. Any actual policy shift is likely to significantly accelerate this trend.

A rush to pension withdrawals would reduce assets under management and the capacity of pension funds to invest in growth assets, with negative consequences for both individual savers and the wider economy. Implementation would be highly complex and politically risky.

It is important to note as well that the abolition of the Lifetime Allowance in April 2024 introduced a fixed cap on the TFLS (£268,275), with no provision for future increases, meaning the real value of the TFLS will in any event erode over time due to fiscal drag.

In addition to the concerns already raised, it is also important to consider the industry's capacity to absorb further change. The pensions sector is already managing a significant degree of regulatory and operational transformation over the coming years. Introducing additional reforms - such as removing or further capping the 25% tax-free lump sum - would place further strain on schemes and administrators. Even if such changes seem minor from a legislative perspective, their practical implementation would be complex and could overwhelm schemes already dealing with multiple government-driven initiatives.

There are of course behavioural downsides to the TFLS, as some savers may take the lump sum reflexively at retirement, even when it may not be in their best long-term interest. The industry should do more to communicate that pensions are primarily for providing retirement income, and that taking the full 25% up front is not always the optimal choice. However, this is fundamentally a communications and guidance challenge, not a policy flaw. We would also expect the advent of more default retirement journeys to lead to a reduction in the use of the TFLS over time.

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Clearly, should Government decide to press ahead with reform in spite of these arguments, we would expect a consultation process, providing reassurance that changes are not imminent, and to consider targeted reforms, a proposal to reduce the upper limit of the TFLS over time with some transitional protections, or improved guidance, rather than the abrupt change.

Consolidation

Consolidation is a central pillar of the Government's broader pension reform agenda. The aim is to improve outcomes for savers, reduce inefficiencies and unlock investment potential for the UK economy. Pensions UK supports consolidation where it demonstrably improves saver outcomes, such as through better returns or reduced costs.

In relation to the Local Government Pension Scheme (LGPS), the Government has identified lessons to be learned from the Canadian pensions system – the Maple 8 – and there is clear Government support for the more consolidated Canadian approach, a model which the Government sees as attractive and would like the LGPS to learn from.

In our recent report Evaluating Pensions Models: The Maple 8 and the LGPS in Focus, we explain that while the Canadian model offers a compelling vision, it must be considered with caution and care in a UK context. Pensions UK supports a structured, measured approach to reform, one that takes ideas from Canada while recognising the unique features of the UK system, and ensures that scheme member interests are kept at the forefront of thinking.

Evaluating international best practices, especially elements of the Canadian model like scale, strong in-house management and diverse investment strategies, is valuable. However, differences in the sizes of the LGPS and Maple 8, as well as the time required for structural changes, must be considered.

Pensions UK would support Budget measures that include the following principles:

- Support governance capacity-building in LGPS pools;
- Avoid mandating investment decisions or overly rigid timelines; and
- Recognise the diversity of LGPS funds and their readiness levels.

In relation to DC schemes, we would like to point to the scale target, introduced in the Pension Schemes Bill, which proposes that DC schemes will need to reach £25 billion in assets under management in at least one main scale default arrangement by 2030. The Bill sets out a "transition relief pathway" which will allow smaller schemes additional time to reach this goal. At present, the criteria schemes will need to meet to enter the pathway is unclear, other than to have reached £10bn in scale by 2030.

Regulatory clarity is needed on whether schemes below the threshold can accept new business going forward. Advisers are already steering employers toward larger schemes, causing market disruption and limiting competition and growth in the

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mid-size part of the market. This could lead to premature closure of schemes that currently provide strong value, including those that provide the greatest investment returns to savers, and offer the most innovation in the sector. We believe this risks damaging saver outcomes and market performance. More guidance from the Government is needed in this area.

The consolidation of DB pension schemes is also a key focus of the Pension Schemes Bill. The aim is to ensure that legislation for superfunds makes them a viable alternative to the traditional buy-in/buy-out market. However, for superfunds to be a viable option, the Government needs to support a range of endgame options, guaranteeing that DB schemes have the flexibility to choose the best strategy for their specific circumstances.

Auto-enrolment/State Pension

Automatic enrolment (AE) is widely supported in the UK by all major parties and the pensions industry. AE has enabled millions to begin saving for retirement, and its continued success is crucial for future financial security.

The State Pension is crucial for the majority of retirees. For many, especially those on lower incomes, it represents the majority - or even the entirety - of their retirement provision, helping to prevent pensioner poverty.

Auto-enrolment

Pensions UK advocates for a gradual increase in pensions contributions, for the majority of savers, over the next decade, from the current 8% of only a portion of earnings to 12% of all salary, with employers paying more so that, by about 10 years from now, both employers and employees would pay the same.

Our modelling shows that if our recommendations were adopted, by the end of a full working life, the annual retirement income generated from the workplace pensions of a median earning man would increase from £6,200 to around £9,100 and from £5,700 to £8,300 for women, i.e. an increase of more than 45%.

We understand the challenges of asking employees and their employers to pay more money into pensions during a period where cost-of-living concerns have predominated. But we believe there is a way to design the increases, gradually and via an agreed timeline, so that employers have sufficient notice and time to plan and so that the impact on savers' day-to-day budgets is minimal.

We are also looking into whether AE can be made more flexible for lower earners, who may be at risk of over oversaving. This research, expected to be published next year, will assess a set of flexible AE contribution options and their impact on different savers. Options being considered are:

- Differential contribution rates (e.g. by income);
- Retention of the lower earnings limit but with higher contribution rates above a threshold;

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- Saver flexibility – allowing temporary contribution reductions rather than the current binary opt-out; and
- Non-contingent employer contributions, ensuring employer payments continue even if employee contributions are paused.

State Pension

The State Pension currently provides the majority of most people's retirement provision. For the least well off in society, it is often all of their retirement income. The new State Pension, at £11,973 per year, is currently approximately 11% short of our minimum Retirement Living Standard for a single person.

Pensions UK believes the Triple Lock should be kept as a stable glide path for the State Pension to reach an adequate level to prevent pensioner poverty. Once it has reached this level, consideration should be given to a new indexation, that prevents pensioner poverty as much as possible.

We would support the Government in conducting a deeper investigation into what an adequate floor is to prevent pensioners from poverty. It should also determine how best to uplift the Triple Lock moving forward, determining whether other forms of indexation are more sustainable for future generations.

Pensions UK welcomes the Third State Pension age review and we will be responding in due course. Pensions UK believes that an increase in the State Pension age (SPA) should not take place unless there is an equivalent increase in years of healthy life – or healthy life expectancy – across the population. If there is an increase to the SPA, individuals should have sufficient time to prepare for the change. Other policy mechanisms should be considered, in addition to the SPA, such as appropriate indexation, to ensure the sustainability and adequacy of the State Pension at large.

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We hope this submission is a helpful input to your considerations.

If you, or your officials, would like to discuss any of the issues raised, please do not hesitate to contact Katy Little (Head of Parliamentary and Stakeholder Affairs) katy.little@pensionsuk.org.uk in the first instance.

Yours sincerely,

Zoe Alexander
Executive Director of Policy & Advocacy

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