



IFoA Briefing: Budget 2025

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Background

As the Chancellor of the Exchequer, Rachel Reeves, delivered her long-anticipated Budget Statement today, the political and economic stakes could hardly have been higher. On the economic front, sluggish growth remains a concern, with returns on investment remaining weak, interest rates held at 4% for now amid deteriorating business and consumer confidence, and mounting pressure on public finances.

Politically, Reeves faces a tightrope in how this set of measures lands. She must balance her commitment to fiscal responsibility with the political cost of tax rises and spending cuts. Recent borrowing data, which exceeded expectations, has inevitably led to how these measures before us today have been positioned and paid for. Meanwhile, the Chancellor will need to be seen to refrain from slashing spending on welfare or ultimately face a further backlash from Labour's backbenchers, on a par or possibly even more fervent than the rebellion in the summer.

As the dust settles on this Budget, its success will largely be determined on the Chancellor's ability to simultaneously commit credibly to fiscal discipline, reassure the bond markets and avoid eroding any further political support – all against a backdrop of economic challenge.

Headline Measures

- National Insurance (NI) and income tax thresholds have been frozen for an extra three years beyond 2028, dragging more people into higher bands over time.
- An increase in the national living wage of 4.1 per cent to £12.71 an hour has been confirmed. The national minimum wage rate for those aged 18 to 20 will increase by 8.5 per cent to £10.85 an hour.
- The two-child benefit cap has been scrapped from 2026. The measure is expected to cost £2.3 billion in 2026–27 and £3 billion by 2029–30.
- An annual surcharge will be applied to homes valued at more than £2 million from April 2028. The measure is expected to raise £400 million in 2029–30.

Fiscal Position and Tax Measures

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- The Office for Budget Responsibility (OBR) predicts the UK economy will grow by 1.5% this year, upgraded from a 1% forecast in March.
- The OBR has revised down its forecast for medium-term productivity growth, measured as output per hour, by 0.3 percentage points to 1.0% at the end of the OBR's five-year forecast period. This revision has brought the OBR's productivity forecast in line with the Bank of England's forecast and those of other external forecasters.
- Inflation is predicted to average 3.5% this year, before falling to 2.5% next year, and returning to the government's 2% target in 2027.
- From April 2027, the amount under-65s can put into cash ISAs (Individual Savings Accounts) will be capped at £12,000 a year, with the rest of the £20,000 annual allowance reserved for investments. Over 65s will retain the full cash allowance of £20,000.
- Basic and higher income tax rates on property, savings and dividend income to increase by 2 percentage points.

Pensions

- Effective from 2029, the Government will limit the amount of salary that can be exchanged for extra pension contributions without incurring National Insurance Contributions (NICs) to £2,000.
- In April 2026, the State Pension will be uprated by 4.8%, so pensioners will receive up to an additional £575 a year, in line with the Government's previous commitment to the triple lock until the end of this Parliament.
- The government is closing loopholes in current Voluntary National Insurance contributions (VNICs) rules that allow those with a limited connection to the UK to build UK State Pension entitlement at a cheaper rate whilst overseas. The government is removing access to the cheapest Class 2 VNICs for individuals abroad and increasing the initial residency or contributions requirement for VNICs to 10 years.
- The government will help protect members of the Pension Protection Fund and Financial Assistance Scheme from the impact of inflation by introducing CPI-linked increases, capped at 2.5% a year, on pre-1997 pension accruals where their original schemes provided this benefit, from January 2027. This will help ensure members' pensions keep pace with the cost of living.
- The government is building on reforms to unlock some of the £160 billion of defined benefit pension scheme surplus by reducing the tax charge on surplus funds paid directly to members. This will make it easier for members to benefit and for trustees and employers to agree surplus extraction.

Infrastructure and housing

- The Chancellor has reiterated the government's commitment to £120bn of additional departmental capital spending over the course of this Parliament.
- The government will provide £48 million over the next three years to boost capacity and capability in the planning system.
- From 2027, the British Industrial Competitiveness Scheme will reduce electricity costs by c.£35-40/MWh and support thousands of businesses. In line with the government's Industrial Strategy, the scheme is designed to benefit manufacturing, electricity intensive frontier industries, such as automotive and aerospace, and foundational manufacturing industries in their supply chains, such as chemicals.

- A High Value Council Tax Surcharge will be introduced from 1 April 2028 on owners of residential properties valued over £2 million in England.

Health

- The “Sugar tax” has been extended to more soft drinks and milkshakes, to support obesity prevention and reducing risks like cancer and dental issues.
- The Government has announced the opening 250 neighbourhood health centres, with 100 of these opening by 2030, under the ‘neighbourhood rebuild programme’.
- £300m of investment in technology has been confirmed to improve patient services
- The price of a single prescription item will remain at £9.90, while three-month and annual pre-payment certificates will also be frozen for 2026/27
- Scrapping NHS England will reduce 18,000 back-office staff and raise £1bn annually.

Sustainability and climate

- Introduction of a new excise duty from April 2028 on electric cars, payable alongside vehicle excise duty, at 3p a mile for electric cars and 1.5p for plug-in hybrids.
- £1.3bn of additional funding for the electric car grant, extending it to 2030 (taking total funding to £2bn)
- £200m to accelerate the rollout of EV charging, as well as 100% business rates relief for EV charge points for the next decade
- An extension of the temporary 5p fuel duty cut for an extra 5 months, a further fuel duty freeze until September 2026, and a new UK wide Fuel Finder scheme.
- Scrapping the Energy Company Obligation (ECO) scheme, which will cut £150 from a household bill from next year.
- Investment in transport, including the Lower Thames Crossing, Midlands Rail Hub, Northern Trans Pennine Project and Northern Powerhouse Rail (High Speed 3)
- Extending the bus fare cap, freezing rail fares
- Investment in nuclear at Sizewell C and Culham, and in the UK’s first small modular nuclear reactor at Wylfa in Anglesey with Rolls Royce. In the next 3 months the government will set out its plan for delivering the recommendations of John Fingleton’s Nuclear Regulatory Review.
- £14m for low-carbon technologies in Grangemouth
- The Warm Homes Plan funded to £13.2bn. Full details of the plan will be announced before the end of the year. This will include the expansion of the Boiler Upgrade Scheme to include a £2,500 discount off the cost of installing an air-to-air heat pump.
- Temporary part-funding of the renewables obligation until 2029-30.

Artificial Intelligence

- The government is investing up to £2 billion to build a modern public compute ecosystem, ensuring that this country’s start-up and research and development communities have the access they need to cutting edge public compute. This includes over £1 billion to expand the AI Research Resource (AIRR) programme 20 times by 2030.
- The government is removing regulatory barriers to growth and challenging risk aversion in the regulatory system; it is consulting on establishing an AI Growth Lab - a pioneering cross economy sandbox, enabling carefully supervised deployment of responsible AI applications that current regulation limits.

Budget documents

The Budget document can be found here: [Budget 2025 document - GOV.UK](#)

The supporting documents for the Budget can be found here: [Supporting documents for Budget 2025 - GOV.UK](#)

Should you wish to discuss any of the information provided in this briefing, please contact: public.affairs@actuaries.org.uk