



What next for automatic enrolment in workplace pensions?

Report for People's Pension

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Foreword

Automatic enrolment has been one of the most successful public policy reforms of the past two decades. It has gained broad political consensus, weathered major economic and social shocks and, most importantly, it has transformed workplace pension saving, bringing millions of people into pension saving.

The challenges facing today's pensions system are different from those that confronted the first Pensions Commission. The question is no longer simply how we encourage people to save. Instead, the consideration must be whether people are saving enough, whether outcomes are fair across different groups, and how we ensure it remains sustainable in the face of societal ageing.

As the Government's second Pensions Commission considers the future direction of retirement saving in the UK, debate must be focused on building a system that works for the long term. That is why People's Partnership commissioned this independent report from London Economics.

The report recognises the success of automatic enrolment while also highlighting a significant challenge: that many middle earners may not be on course to achieve the level of retirement income they expect or need. At the same time, it reminds us that pension policy must balance future retirement outcomes with the realities facing households today, particularly those on lower incomes.

Retirement outcomes are shaped not only by pension saving but also by wider factors, including value for money, the labour market, housing costs, health and caring responsibilities. If the goal is to provide more security in retirement, wider drivers must be considered and we should avoid expecting the pensions system to carry burdens that are better addressed elsewhere.

London Economics shows how critical the generosity of the state pension is to retirement outcomes for many people, especially lower earners. Both the state pension and private pension saving must be considered together. Proposed reform of the triple lock will increase the sustainability of the state pension but will make it harder for savers to achieve many definitions of an adequate income. A state pension that broadly tracks earnings over the long term strengthens the case for higher levels of private saving and reform of automatic enrolment minimums.

The research also highlights the trade-off between simplicity and suitability in setting statutory minimum contributions. Many low earners are on track to hit relative adequacy targets without needing substantially higher contribution rates, mainly because of the level of the state pension. However, they may not hit absolute adequacy measures like the Pensions UK retirement living standards. This is primarily a low pay problem, not a pensions problem, and means that policymakers will need to think carefully about how to mitigate risks for low earners if contributions increase across the board. In contrast, those earning closer to the median need a higher contribution rate to continue their pre-retirement standard of living, especially given proposed changes to state pension uprating.

At People's Partnership, our purpose is to help people build stronger financial foundations for life. Improving retirement outcomes requires long-term thinking, and a relentless focus on the interests of savers. The debate about pension adequacy will not be resolved through a single reform or a single report. It will require sustained collaboration between government, employers, pension providers, advocacy groups and trade unions.

I hope this report helps inform that discussion and supports the development of a pensions system that delivers better, fairer and more sustainable outcomes for millions of people across the UK.

Patrick Heath-Lay CBE

Chief Executive Officer

People's Partnership

List of abbreviations

Term	Description
AE	Automatic Enrolment
AHC	After Housing Costs
ASHE	Annual Survey of Hours and Earnings
BHC	Before Housing Costs
bSP	Basic State Pension
CPI	Consumer Price Index
DB	Defined Benefit
DC	Defined Contribution
DWP	Department for Work and Pensions
EET	Exempt Exempt Taxed
FRS	Family Resources Survey
HMRC	HM Revenue & Customs
IFS	Institute for Fiscal Studies
LEL	Lower Earnings Limit
LFS	Labour Force Survey
LHA	Local Housing Allowance
LPC	Low Pay Commission
NI	National Insurance
NIC	National Insurance Contributions
NLW	National Living Wage
NMW	National Minimum Wage
nSP	New State Pension
OBR	Office for Budget Responsibility
ONS	Office for National Statistics
QE	Qualifying Earnings
RLS	Retirement Living Standards
RoR	Rate of Return
RR	Replacement Rate
SPA	State Pension Age
TRR	Target Replacement Rate
UKHLS	United Kingdom Household Longitudinal Study

Executive Summary

Automatic enrolment has successfully expanded workplace pension participation to nearly four-in-five private-sector employees, while the new flat-rate State Pension provides strong protection against pensioner poverty. Significant challenges remain, not least that a substantial minority of middle earners appear to be undersaving for retirement. The second Pensions Commission should ensure pensions policy is focused on the challenges it is best equipped to tackle. In doing so, it should take a targeted approach, carefully balancing the imperative to boost retirement saving against the need to protect the immediate living standards of those on lower incomes.

This report focuses on the retirement prospects of employees who have access to a Defined Contribution workplace pension. The 2012 Automatic Enrolment (AE) reforms, legislated following the recommendations of the first Pensions Commission, successfully pushed membership of these arrangements up from one-in-three private-sector employees (and falling) to nearly four-in-five employees today. This represents a landmark policy success.

Successive reforms to the State Pension have led to a much simpler system, where the vast majority of those who spend their whole working lives in the UK will receive a flat-rate State Pension from their State Pension Age (SPA). The new State Pension (nSP) serves as a robust safety net. For a single pensioner with no housing costs, a full nSP provides 90% of the income needed to stay above the after-housing-costs poverty line, while a pensioner couple receiving two full nSPs will have an income comfortably above that threshold. In fact, two full nSPs place a pensioner couple within the fourth decile of the national income distribution, meaning over 30% of the UK population live in households with net incomes lower than this baseline.

At the end of September 2026 the new Prime Minister announced that from April 2030 the triple lock will be replaced by an adjusted triple lock, under which the State Pension will rise each year by at least inflation or 2½%, but over the longer term will rise in line with average earnings. This will end the ratchet that has pushed the State Pension up relative to earnings. It should improve the fiscal sustainability of the State Pension and provide greater certainty over its value relative to earnings. But it also means that future retirees will receive less from the State Pension than if the triple lock had continued, and will need to rely more heavily on private saving to achieve a given replacement rate (RR).

Several well-known problems remain:

First, most of those brought into workplace pensions following automatic enrolment are contributing 8% of their total earnings or less. As a result, a significant minority of middle earners – with official estimates ranging between 40% and 50% – appear to be undersaving for retirement. These estimates assume that the triple lock remains in place; under the adjusted triple lock, the share of people undersaving would be higher. The replacement rates achieved by this group will depend on how the State Pension is actually uprated, and are highly sensitive to whether people remain in paid work until the SPA. Our modelling demonstrates that early retirement is a critical risk: retiring at age 63 can completely exhaust a low-to-middle earner's accumulated private pension pot by the time they reach the SPA at 68, leaving them entirely reliant on the State Pension from then on.

Second, widespread concern has been expressed – including by the second Pensions Commission – regarding inequalities in pension outcomes driven by characteristics such as gender, caring responsibilities, ethnicity, and disability. Because the UK relies heavily on Defined Contribution

arrangements, structural labour market inequalities are directly mirrored in the pension wealth accumulated by these groups.

Third, while pensioner poverty remains much lower than the very high peaks of 40% seen in the 1980s (it is currently at 14% after housing costs), housing costs represent the biggest risk to maintaining these improvements. As we show in Figure 3, over the last two decades the share of households headed by someone aged 55 to 64 who are private renters has more than doubled (from 4% to 10%), while among those aged 45 to 54 it has more than tripled (from 5% to 18%). Going forward we can therefore expect a dramatic increase in the numbers of low-income pensioners residing in the private rented sector, where they risk facing high housing costs that are not fully covered by housing benefits.

Divergent challenges across the earnings distribution

Treating the workforce as a single, homogeneous group risks policy error. The challenges facing different segments of the earnings distribution are highly distinct:

- **Low earners:** The interaction between the automatic enrolment trigger, the lower threshold for minimum default contributions, and a historically generous flat-rate State Pension, has created complex trade-offs. Because the automatic enrolment trigger has remained frozen at £10,000 since 2014, the triple-locked State Pension has overtaken it. While the flat-rate component of the State Pension was worth 69% of the automatic enrolment trigger when the latter was introduced in 2012, it is now 26% higher than the trigger. For some low earners, particularly those with higher-earning partners (a cohort disproportionately comprised of women with children), saving more into a pension could be beneficial and would help narrow the gender pension wealth gap. However, we show that in over one-third of private-sector couples containing someone earning below £10,000 a year, their partner is either not working or is also low-paid. While these individuals would benefit from higher retirement incomes, they could be better off having that income to support their immediate living standards today. Separately, under the adjusted triple lock the State Pension will no longer rise relative to earnings after 2030. This narrows the margin by which many low earners would otherwise exceed their target replacement rate, and strengthens the case for some additional private saving towards the top of this group.
- **Middle earners:** This is where the evidence of undersaving is most compelling. Default contributions of 8% of qualifying earnings – particularly when combined with individuals leaving the labour market before the State Pension Age – risk leaving a large proportion of this group falling short of their Target Replacement Rate (TRR) benchmarks. For example, our modelling demonstrates that, with the triple lock being replaced by the adjusted triple lock from 2030, an average earner (£40,000 a year) relying on default contributions might achieve a net replacement rate of around 55% if they retire early at 63, compared with 62% had the triple lock continued. Either way, both fall noticeably short of the 74% net target benchmark considered necessary to smooth living standards into retirement.
- **High earners:** Many high earners also appear to be undersaving, and a default of 8% of qualifying earnings would certainly leave most falling well short of their full TRR. However, policymakers can afford to be less concerned about this group. A shortfall for a high earner may be less costly in welfare terms than for others, as their absolute income in retirement will still be higher than that of most of the population. Moreover, the income tax system provides them with a strong financial incentive to save more than the minimum amounts via up-front tax relief. They are also more likely to receive higher employer contributions (which are particularly tax-favoured, escaping National Insurance (NI) entirely) and to

possess both the financial means and the financial literacy to make active, voluntary savings decisions.

As illustrated in Figure 7, our modelling of replacement rates under the current 8% default system vividly demonstrates these divergent outcomes: low earners can achieve high net replacement rates by relying almost entirely on the new State Pension. This makes them the group most exposed to how the State Pension is uprated: for someone earning £20,000 a year, the move to the adjusted triple lock reduces their projected net replacement rate from around 100% to around 83%, although this remains above their TRR of 77%. In contrast, middle earners are at greater risk of a low retirement replacement rate under either uprating regime.

A strategic framework for the second Pensions Commission

To address these challenges, the Commission's proposal for a 'hybrid' adequacy metric has much to commend it. Relying on a uniform, one-size-fits-all approach to measuring adequacy risks the resulting policy reforms having the wrong focus. A hybrid metric aligns the benchmark for success with the economic reality of the earner. It measures adequacy through: a focus on poverty with an absolute minimum income standard for low earners; targeting relative replacement rates for middle earners; and defining an upper boundary – illustratively around £65,000 as this would represent the highest earning 10% of private-sector employees – where the role of state-prescribed defaults fades and individual responsibility plays a greater role.

Strategic policy priorities

Adopting this hybrid framework provides the necessary foundation for our proposals. We must, however, be clear about the limits of pension policy. The most severe threats to future retirement living standards stem from outside the pension system itself: specifically, the poor productivity growth seen in the UK since 2008 (which naturally feeds into weak wage growth); the growing exposure of low-income retirees to the private rented sector; structural labour market inequalities; and the large share of individuals leaving the labour market before they reach SPA.

Conversely, this means that improvements in these broader areas possess the greatest potential to boost retirement outcomes. Resolving these challenges requires dedicated interventions into housing and labour markets, alongside wider economic reform. The Commission should actively use its platform to highlight this reality, forcefully demonstrating that a successful pensions strategy ultimately depends on labour and housing markets that work better for all. Crucially, it should resist the temptation to stretch the pension system to solve problems best tackled elsewhere. Expecting the private pension framework to resolve these systemic inequalities would be a mistake; it would place too much weight on the pension system, driving unnecessary complexity while ultimately failing to deliver the desired outcomes.

Therefore, within the strict technical remit of the pension system itself, we suggest the Commission focus its attention on targeted, rather than universal, reforms:

- **Support lower earners.** A lower threshold for employee contributions should be retained and indexed to earnings to help protect the immediate living standards of low-wage households from any increase in the default contribution rate. To support part-time and part-year employees better, the operation of qualifying years for the new State Pension should be modernised: specifically, to operate on a pay-period rather than an annual basis, potentially alongside a lowering of the Lower Earnings Limit (LEL). If necessary, this could be funded by increasing the number of years of contributions needed to qualify for a full

new State Pension (currently 35). Furthermore, serious consideration should be given to a proposal from the Institute for Fiscal Studies *Pensions Review* that mandatory minimum *employer* contributions should be calculated from the first pound of earnings for all employees, and no longer be contingent on the employee making a contribution. This would mean that employees who opt out of contributions to protect their current living standards would not simultaneously forfeit their employer's contribution. Together these would provide a bigger proportionate boost to the pensions of lower earners than to middle or higher earners.

- **Target an increase in default contributions at middle earners.** The default contribution rate should be increased in a way that targets middle earners, for whom the risk of undersaving is most acute. As our modelling demonstrates, moving to a contribution rate of 12% of qualifying earnings would concentrate the saving boost directly on this middle cohort, generating a relatively larger increase in net replacement rates for a median earner than for a lower earner, although this alone would not close the gap for those who retire well before the SPA. Combining this increased rate with the retention of a lower threshold for qualifying earnings means that average saving rates increase more sharply when individuals receive a pay rise, automatically directing a larger fraction of additional income into their pension. Individuals should be able to opt down to the current rate, and any increase should be phased in with plenty of notice.
- **Increase the upper threshold.** The upper threshold for qualifying earnings should be increased and subsequently indexed to average earnings. While the precise limit is a political choice, one illustrative option is to restore the threshold to the equivalent of that proposed by the first Pensions Commission and adopted when automatic enrolment was introduced in 2012. This would raise the current limit of £50,270 to approximately £65,000. Only 10% of private-sector employees earn more than this amount, so minimum default contributions would decline as a share of total earnings only for this top 10%, a group already supported by strong financial incentives from the tax system to save voluntarily for retirement.

1 Introduction

In July 2025, two decades after the success of the landmark first Pensions Commission, which led to the introduction of the automatic enrolment (AE) system in 2012, the UK government established a new Pensions Commission to address enduring concerns over the adequacy of private retirement saving. Despite AE raising the share of private-sector employees contributing to a workplace pension scheme from one-in-three to four-in-five, official estimates suggest that a substantial proportion of future retirees, approximately four-in-ten working-age individuals, are not saving sufficiently for retirement.¹ The problem is particularly acute among three groups:

- the self-employed (who sit outside of the AE system);
- employees who only make the minimum default pension contributions; and
- employees who opt out of their workplace pension.²

With the interim report of the second Pensions Commission now out³, and its final report due in 2027, London Economics was commissioned by People's Partnership to provide an independent, evidence-based contribution to the policy debate on addressing the UK's persistent retirement undersaving problem. As the membership of People's Partnership includes many average or below-average earners, our analysis is particularly pertinent. For the same reason, this report focuses on those earning less than the upper threshold for qualifying earnings (£50,270 a year), around three-quarters of private-sector employees.⁴ The report also considers the role of the State Pension, including the implications of the Prime Minister's announcement that the triple lock will be replaced by an adjusted triple lock from April 2030.

The remainder of this report is structured as follows: Section 2 provides a brief overview of the framework of the UK pension system; Section 3 presents estimates of the proportion of working-age individuals unlikely to meet Target Replacement Rates; Section 4 examines the key drivers of low saving rates among private-sector employees, focusing on pension membership and pension contribution rates; Section 5 models pension outcomes under alternative automatic enrolment systems; Section 6 considers lifetime income trajectories and household income dynamics and sets out the case for a targeted, rather than uniform, increase in contribution rates; finally, Section 7 summarises the main findings and makes recommendations to the Pensions Commission about the approach it should take.

¹ DWP (2025). *Analysis of Future Pension Incomes 2025*. Available at: <https://www.gov.uk/government/statistics/analysis-of-future-pension-incomes-2025/analysis-of-future-pension-incomes-2025>. Note these calculations assume that the triple lock remains in place over the longer term.

² Government Press Release (2025). *Government revives landmark Pensions Commission to confront retirement crisis that risks tomorrow's pensioners being poorer than today's*. Available at: <https://www.gov.uk/government/news/government-revives-landmark-pensions-commission-to-confront-retirement-crisis-that-risks-tomorrows-pensioners-being-poorer-than-todays>

³ The second Pensions Commission (2026). *Pensions 2050: Evidence and Future Priorities*. Available at: <https://www.gov.uk/government/publications/pensions-2050-evidence-and-future-priorities-interim-report>

⁴ ASHE data estimates from ONS place the annual gross labour earnings of the 75th percentile of UK private-sector employees at £49,192 in 2025. Source: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/regionbypublicandprivatesectorashtable25>

2 The UK pension system

The UK pension system is based on a combination of public provision and private saving. The foundation is the State Pension, which provides a basic level of income in retirement and is financed on a pay-as-you-go basis. The modern framework was significantly reshaped by the introduction of the new State Pension (nSP) in 2016. The nSP replaced the previous two-tier system – which comprised the basic State Pension (bSP) and an earnings-related additional pension (historically known as SERPS, and later the State Second Pension) – with a single flat-rate payment for those reaching State Pension Age (SPA) from April 2016, contingent on an individual's contribution history. Alongside this, means-tested benefits such as Pension Credit and pensioner Housing Benefit continue to play an important role in supporting lower-income pensioners, especially those who do not qualify for the full amount of the nSP, are disabled, or live in rented accommodation.

Private pension saving complements the State Pension and is a longstanding central pillar of the UK system. Occupational pensions, both defined benefit (DB) and defined contribution (DC) arrangements, have historically been provided by employers, though there has been a substantial long-term shift away from defined benefit pensions towards typically less generous defined contribution arrangements in the private sector. A major policy milestone was the introduction of AE, phased in from 2012, which requires all employers to enrol eligible workers into a workplace pension and make minimum contributions alongside employees. This reform substantially increased pension participation, particularly among younger employees and those on low-to-middle earnings. However, significant gaps remain. Coverage is notably poor among the self-employed and those with interrupted or low earnings histories. Furthermore, because those brought into workplace pensions through AE typically make only the minimum default contributions, concerns persist regarding the overall adequacy of retirement saving even among those who are making some private provision for retirement.

2.1 The State Pension system

The State Pension system in the UK comprises two distinct regimes: the legacy bSP system applies to those who reached SPA before 6 April 2016, while the nSP system applies to those reaching SPA on or after that date. The full rate of the nSP in 2026–27 is £241.30 per week, equivalent to £12,547.60 per year.⁵ The SPA, equalised for men and women, is now gradually increasing to 67 between April 2026 and March 2028, and under current legislation will increase to 68 between 2044 and 2046. Eligibility for the nSP requires a minimum of 10 qualifying years to receive any entitlement, with 35 qualifying years needed to receive the full amount.

Qualifying years can be received in a range of ways, including by:

- paying National Insurance contributions (NICs);
- receiving Child Benefit for a child aged under 12;
- receiving Carer's Allowance or Carer's Credit;
- receiving Universal Credit or New Style Jobseeker's Allowance or New Style Employment and Support Allowance.

A qualifying year is defined as a tax year in which an individual has paid, is treated as having paid, or is credited with NICs on earnings of at least 52 times the weekly Lower Earnings Limit (LEL, which in

⁵ UK Parliament (2026). *Pensions in the UK. Research briefing*. Available at: <https://commonslibrary.parliament.uk/research-briefings/cbp-10139/>

2026–27 is £129 per week or £6,708 per year). Contributions are measured on a pay period basis and assessed separately for each job.

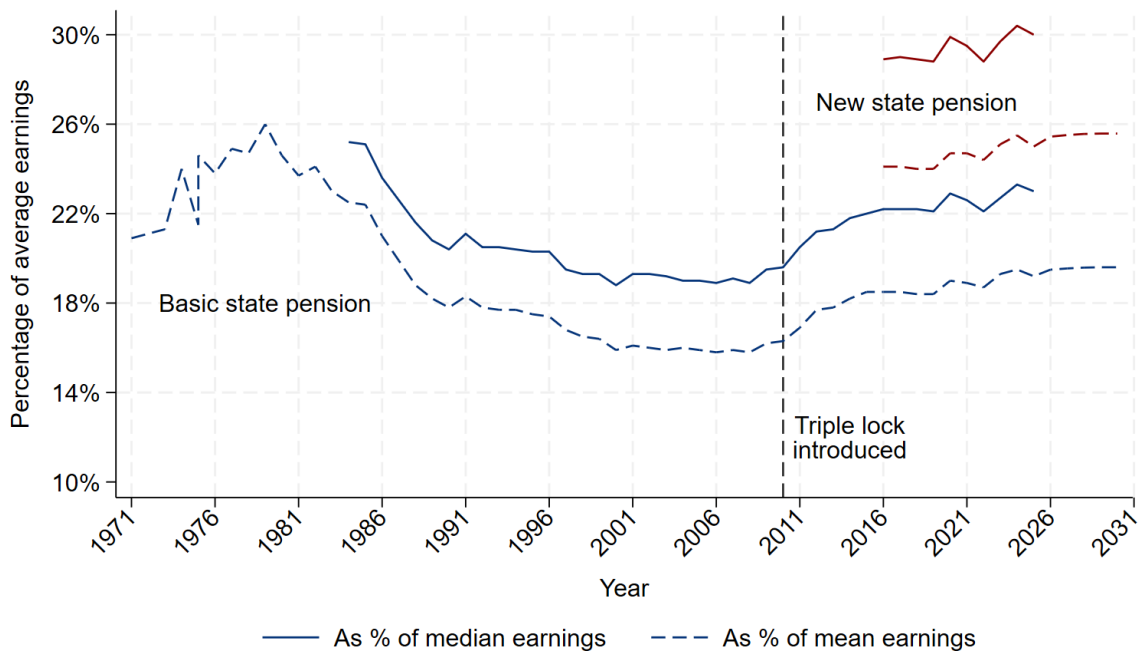
A feature of this system is its binary nature: in a given tax year an individual either achieves a qualifying year or does not; the system does not award fractional credits. As a result, part-time or part-year employees might fail to accrue a qualifying year despite having paid some NICs during the weeks that they worked. Furthermore, because earnings are assessed on a per-job basis, individuals with multiple employers may fail to accrue a qualifying year – even if their combined earnings and total NICs paid exceed those of a single-job employee who successfully qualifies. If there is a gap in their record, individuals can choose to pay voluntary Class 3 NICs to make up a qualifying year. Despite these specific thresholds and conditions, the vast majority of future retirees who spend their whole working lives in the UK will qualify for a full nSP.

Figure 1 illustrates the evolution of the flat-rate component of the State Pension relative to average earnings over time. This climbed in value, relative to average earnings, in the late 1970s reaching 26% of mean earnings in 1979. From 1980 it was formally indexed to prices and, with average real earnings growing over the 1980s, 1990s and 2000s, it declined steadily in relative value reaching 16% of mean earnings and 19.5% of median earnings in 2009.

This trend has reversed since the 2010s, reflecting both policy reforms and broader economic conditions. In particular under the coalition government, the adoption of the triple lock from April 2011 – under which pensions are uprated each April by the highest of 2½%, earnings growth, or inflation (with inflation measured over the year to September of the previous year) – and the introduction of the nSP in April 2016, have effectively unwound the earlier decline in the relative value of the flat-rate component. As a result, and in the context of relatively weak earnings growth and a volatile economic environment, **the flat-rate component of the State Pension has risen significantly relative to earnings, exceeding 30% of median earnings today.** This represents the highest level of the flat-rate component relative to mean earnings since the start of the 1980s, and quite possibly the highest ever level relative to median earnings.

The government has committed to maintaining the triple lock until April 2030. At the end of September 2026, the new Prime Minister announced that from April 2030 the triple lock will be replaced by an adjusted triple lock. Under this, the State Pension will continue to rise each year by at least the higher of inflation and 2½%, and by more if needed to maintain its value relative to average earnings. The key difference from the triple lock is that years in which inflation or the 2½% floor exceeds earnings growth will no longer permanently raise the State Pension relative to earnings. Instead, over time the State Pension will rise in line with average earnings, holding its value relative to earnings at around its 2030 level.⁶ In effect, the adjusted triple lock is earnings indexation with a year-by-year floor of inflation or 2½%. The ‘adjusted triple lock’ scenarios in our modelling (Section 3.1 onwards) assume the triple lock continues to 2030 and that the State Pension is earnings-indexed thereafter in order to incorporate the long-run impact of the new policy.

⁶ See Department for Work and Pensions (2026), *State Pension uprating*, available at: <https://www.gov.uk/government/publications/state-pension-uprating-analysis-2026>.

Figure 1 State pension over time relative to average earnings

Note: Median and mean full-time earnings are from DWP benefit rate statistics; median earnings are based on ASHE data, whereas mean earnings are based on NES data between 1971 and 1992, and ASHE data from 1993 onwards. The values for mean weekly earnings between 2026-2030 are calculated using the growth rate of nominal weekly earnings from the OBR March 2026 forecasts. The values for the weekly rates of bSP/nSP between 2026-2030 are calculated according to the 'triple lock' rule of highest between nominal earnings growth, CPI inflation or 2%, while relying on OBR March 2026 forecasts for the first two elements.

Source: [DWP benefit rate statistics](#) and [March 2026 OBR forecast](#).

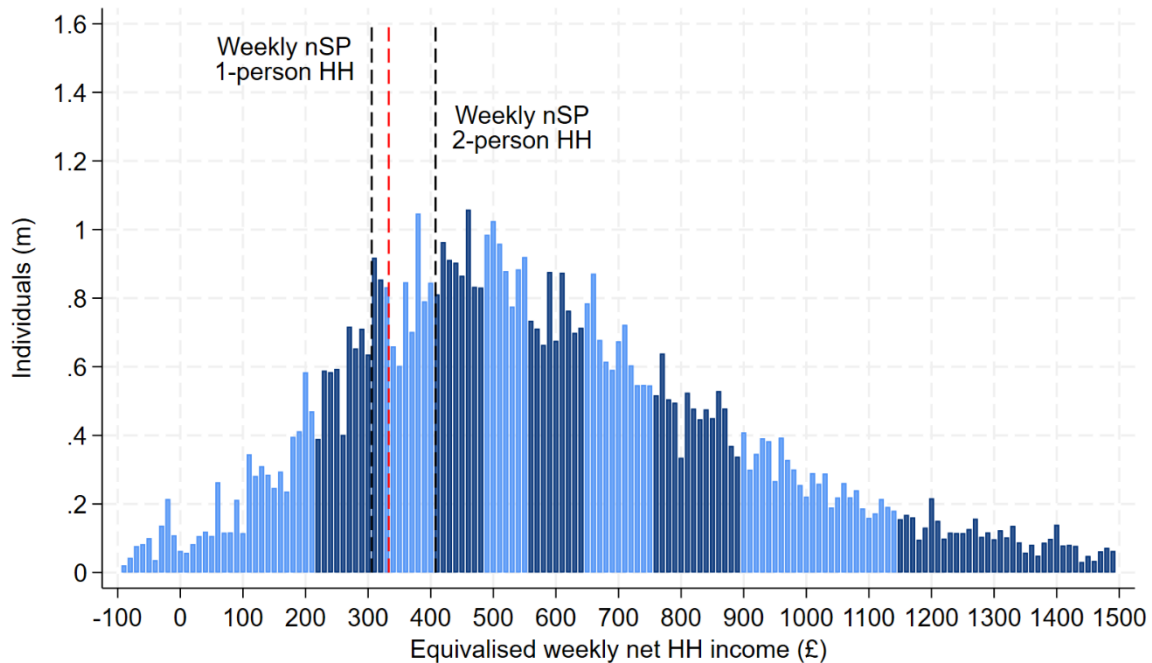
2.1.1 The new State Pension as a poverty buffer

The substantial increases in the flat-rate component of the State Pension system have occurred during an extended period of relatively weak income growth among working-age households. Figure 2 illustrates the distribution of net household income (i.e. gross income after taxes and benefits), measured after housing costs, for 2023–24. Incomes are equivalised to account for differences in household size and composition; as such, the figures correspond to the equivalent income required to be at each part of the income distribution for a couple with no children. The black dashed lines indicate the relative position in the distribution of a single pensioner and a pensioner couple whose sole source of income is the full nSP, assuming no additional dependants and no housing costs (or that such costs are fully covered by housing and council tax benefits). The figure shows that a single pensioner receiving one full nSP and a pensioner couple receiving two full nSPs achieve household incomes worth 54% and 73% of median net household income, respectively.

The red dashed line shows the relative poverty threshold, that is a minimum income benchmark equivalent to 60% of the median household disposable income in that year. On this basis, **a one-person household with a full nSP sits just below the relative poverty line, whereas a two-person household with two full nSPs is comfortably above**. A single pensioner would be situated around the upper end of the second income decile, while a pensioner couple would make it – just – into the fourth decile: that is, just over 30% of the population live in households with net incomes below that provided by two full nSPs. This highlights the extent to which recent increases in the value of the State Pension have improved its relative position within the overall income distribution, particularly when viewed against subdued earnings growth among the working-age population. The nSP

therefore provides an indispensable foundation for pensioner incomes and a shield from poverty in old age. Under the adjusted triple lock, this position should broadly be maintained after 2030.

Figure 2 Household net income relative to nSP (equivalised), by income decile



Note: Data are for financial year ending 2024. Colour groupings alternate income deciles: light blue bars indicate the poorest, 3rd, 5th, 7th, and 9th deciles, while dark blue bars indicate the 2nd, 4th, 6th, 8th, and richest deciles. The dashed red line shows the relative poverty line equal to 60% of median equivalised net household income. The nSP weekly rate for 2023–24 is £203.85. Income bars are by £10 bins. Individuals from households with a equivalised net income below –£100 or above +£1,500 are excluded. Chart uses OECD equivalence scale, which takes an adult couple without children as the reference point, with an equivalence value of one. The equivalised nSP rate for a single-person household is then calculated as £203.85/0.67.

Source: Statistics on ‘Households Below Average Income’ from DWP.

This stands in stark contrast to the peaks of pensioner poverty reached in the 1980s, when 40% of pensioners lived below the relative poverty line.⁷ Subsequent improvements in both state and private pension provision, alongside the expansion of the pensioner benefit safety net, have led to a marked reduction in pensioner poverty. It is now lower than poverty rates among younger age groups: after housing costs, 14% of pensioners in 2024–25 were below the poverty line, compared to 27% of children and 19% of working-age adults.⁸

In order to keep pensioner poverty in check, a crucial factor for the future will be the uprating rule for the nSP. Under the triple lock, the long-run value of the State Pension relative to earnings depends on the volatility of earnings growth and inflation, as each year in which inflation or the 2½% floor exceeded earnings growth permanently ratcheted up the value of the nSP relative to average earnings. The Office for Budget Responsibility (OBR) considers three volatility scenarios for this: a low volatility scenario, based on the low inflation and earnings growth experienced from the early 1990s through to 2009–10; a medium volatility scenario, based on the whole period from 1992–93

⁷ Pensions Policy Institute (2011). The implications of Government policy for future levels of pensioner poverty. Available at: <https://www.pensionspolicyinstitute.org.uk/media/014bwcky/20110711-the-implications-of-government-policy-for-future-levels-of-pensioner-poverty.pdf>

⁸ DWP (2026). Households Below Average Income: An analysis of the UK income distribution. Available at: <https://www.gov.uk/government/statistics/households-below-average-income-for-financial-years-ending-1995-to-2025/households-below-average-income-an-analysis-of-the-uk-income-distribution-fye-1995-to-fye-2025>

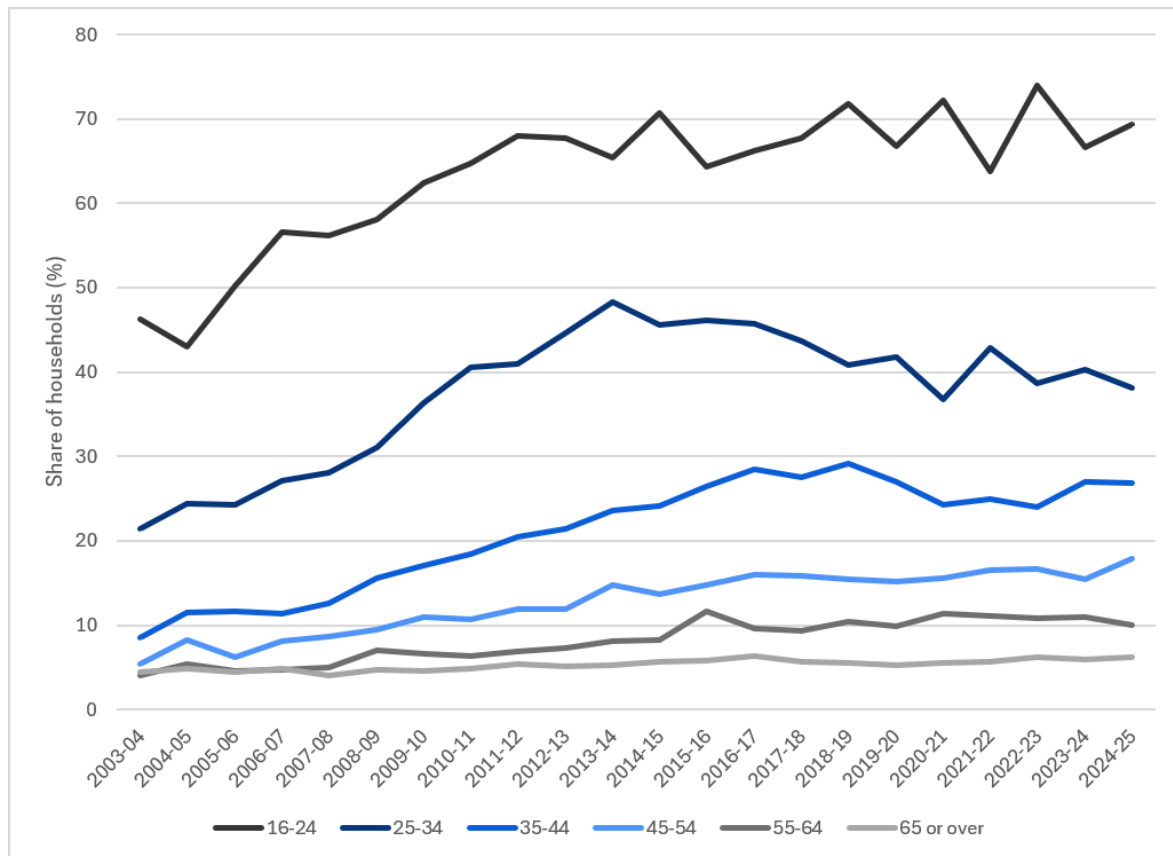
to 2024–25; and a high volatility scenario, based on the low wage growth and high inflation experienced between 2010–11 and 2024–25.⁹ Modelling from the Department for Work and Pensions (DWP) suggests that under the central scenario, the proportion of pensioners living in relative poverty after housing costs is expected to remain largely stable. Conversely, if adjustments to the nSP follow a lower-volatility uprating model, poverty levels among retirees are forecast to rise gradually throughout the 2030s and 2040s.¹⁰ Under the adjusted triple lock this ratchet is removed from 2030, so the State Pension’s value relative to earnings should remain broadly stable irrespective of volatility. This should roughly mean that the State Pension will neither rise nor fall in value relative to the poverty line.

In addition to the uprating of the nSP, rising pensioner poverty in the coming decades is also likely to be driven by declining homeownership rates: the second Pensions Commission estimates that the homeownership rate for those aged 65 and over will fall from under 80% today to below 70% by 2050.¹¹ Figure 3 highlights the corresponding increase in private renting (which is typically more expensive than the social sector) across all age groups over the past two decades in England. For households headed by someone aged 45 to 54, the share of private renters has more than tripled, from 5% to 18%; for those aged 55 to 64, their share has more than doubled, from 4% to 10%. This trend will increase the rates of pensioner poverty after housing costs are factored in. Ultimately, the key determinants of future pensioner poverty are likely to include: the actual nSP uprating regime; incomplete entitlement to the full nSP; the prevalence of single-person retirement households; and exposure to housing costs without adequate access to housing benefits.

⁹ OBR (2025). Fiscal risks and sustainability – July 2025. Available at: <https://obr.uk/frs/fiscal-risks-and-sustainability-july-2025>

¹⁰ The second Pensions Commission (2026). *Pensions 2050: evidence and future priorities – interim report*. Available at: <https://www.gov.uk/government/publications/pensions-2050-evidence-and-future-priorities-interim-report>

¹¹ The second Pensions Commission (2026). *Pensions 2050: evidence and future priorities – interim report*. Available at: <https://www.gov.uk/government/publications/pensions-2050-evidence-and-future-priorities-interim-report>

Figure 3 Share of households in private rented accommodation, by age group

Source: [English House Condition Survey and English Housing Survey](#).

2.2 The private pension system

The introduction of AE represents a radical reform to the UK's private pension system. The policy was phased in between 2012 and 2018, initially applying to the largest employers before being gradually extended to the smaller ones, and ultimately covering all employers from 2018 onwards. Under AE, eligible employees are automatically enrolled by their employer into a workplace pension scheme, while retaining the option to opt out subsequently. To qualify for automatic enrolment, an employee must: (i) be aged between 22 and SPA; (ii) earn above the earnings trigger (currently £10,000 per year); and (iii) be ordinarily working in the UK. Employers may postpone enrolment for up to three months.

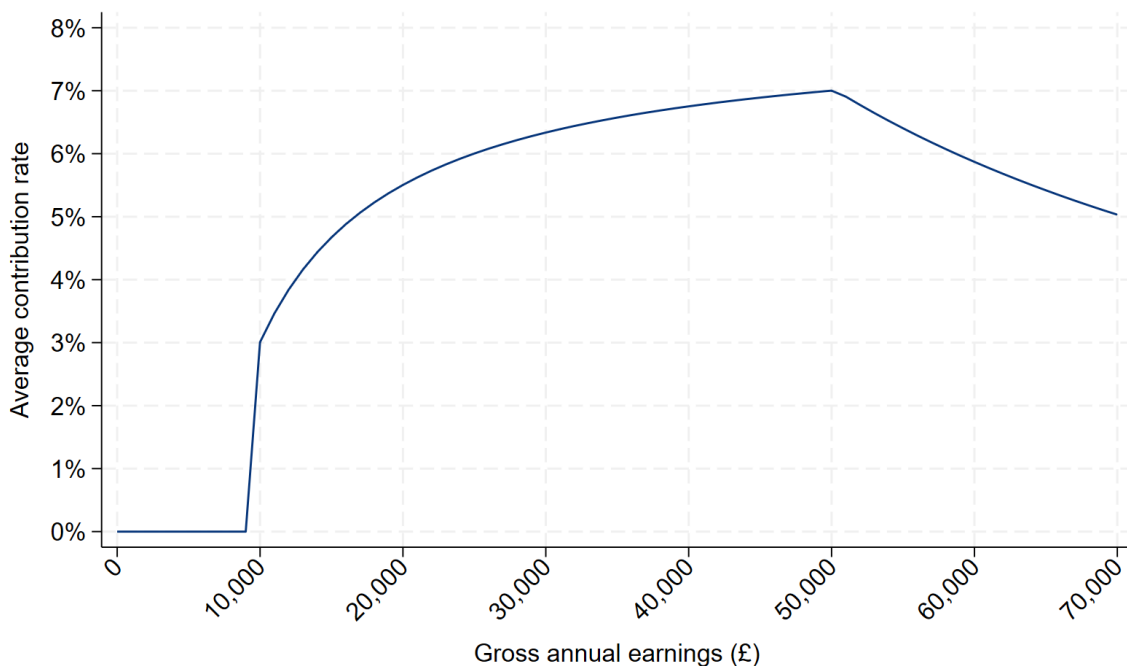
Since April 2019 minimum contribution rates under AE have been set at 8% of qualifying earnings (QE). These are defined as earnings falling between £6,240 and £50,270. Of this 8% total, at least 3% of QE must be contributed by the employer, with any remainder contributed by the employee, inclusive of tax relief. Employees who do not meet the AE criteria may still choose to opt in to a scheme and receive employer contributions, as long as their earnings are above the lower qualifying earnings threshold and they are aged between 16 and 74. Those earning below the qualifying threshold can also ask to join the scheme, but the employer need not contribute.

Figure 4 illustrates the minimum default contribution rates as percentage of total salary under the AE system for different earnings scenarios. It shows that at the £10,000 AE trigger, there is an immediate jump from 0% to a minimum default contribution rate of 3%. Then, as earnings increase

from £10,000 toward the upper qualifying earnings threshold, the average contribution rate steadily rises, peaking at 7%. That is, as income between the lower and upper qualifying thresholds grows, a larger proportion of total earnings falls into this contribution band, causing the effective rate on total pay to increase. Finally, as income rises above the upper qualifying earnings threshold, the average contribution rate begins to decline. This is because any income earned above this limit is not subject to default contributions.

Pension savings benefit from favourable tax treatment. Contributions receive income tax relief at the point of saving. On withdrawal up to 25% of the accumulated fund can be taken free of income tax (up to a cap of £268,275), while income tax is paid on the rest (unless the person dies before the age of 75, in which case income tax is not levied on any further withdrawals). In addition, employer contributions to pensions escape National Insurance entirely: neither employer nor employee National Insurance is levied either when the contributions are made or when the funds are withdrawn (with some restrictions on NICs relief on salary-sacrifice contributions coming in from April 2029).

Figure 4 Minimum default total contribution rate as percentage of total earnings, current AE system

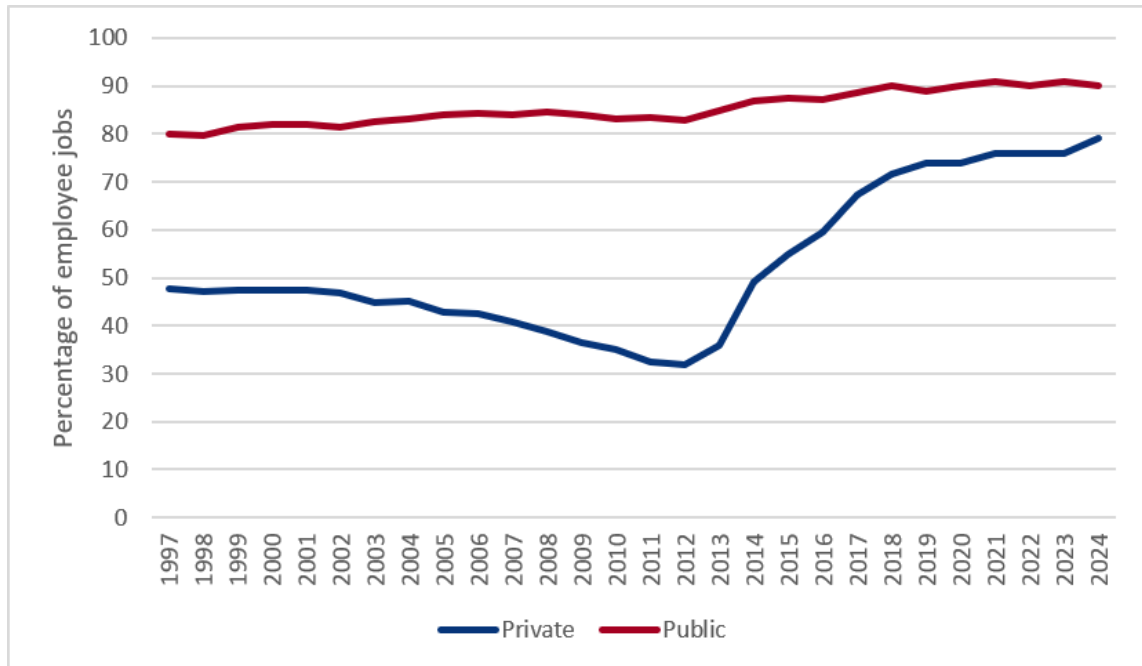


Note: The minimum default total contribution rate includes both employee and employer minimum contributions. The qualifying earnings bands for automatic enrolment in the FY 2026–27 are £6,240 and £50,270, and the earnings trigger is £10,000.

Source: Authors' calculations.

Figure 5 highlights the substantial impact of AE on pension participation. **Prior to the introduction of AE in 2012, workplace pension membership among private-sector employees stood at around one-third, and was on a falling trajectory. By 2024, this figure had increased to nearly four-in-five.** This reflects a broad-based expansion in coverage, particularly among groups that were previously less likely to participate in pension saving, such as low- and middle-earning employees. This marked increase in participation underscores the effectiveness of AE in overcoming behavioural barriers to saving, although questions remain regarding the adequacy of contribution rates and the persistence of coverage gaps among certain segments of the workforce.

Figure 5 Share of employee jobs participating in workplace pensions, by sector



Note: Pension schemes include Defined benefit scheme, Defined contribution scheme, Group personal pension, Group self-invested personal pension, Group stakeholder pension.

Source: Statistics produced from ASHE data in [Cribb and Emmerson \(2020\)](#), extended using data from DWP (2025).

3 The persistent problem of retirement adequacy

Despite the relative generosity – in UK historical terms – of the flat-rate component of the State Pension, and the success of AE in expanding coverage, a significant minority of working-age individuals are estimated not to be on course to reach benchmark levels of retirement income. Benchmark levels can be measured both in absolute and in relative terms, capturing different dimensions of retirement adequacy. Absolute benchmarks aim to identify the level of income required to meet a given standard of living in retirement, irrespective of prior earnings. A prominent example is provided by Pensions UK (formerly known as the Pensions and Lifetime Savings Association, or PLSA), which has developed the Retirement Living Standards (RLS) benchmarks. These specify income thresholds associated with minimum, moderate, and comfortable living standards, based on detailed assessments of household needs and expenditure patterns in retirement.¹² Such benchmarks are particularly useful for assessing whether individuals can meet certain levels of consumption needs and maintain a socially acceptable standard of living.

By contrast, relative benchmarks assess retirement income adequacy in relation to an individual's pre-retirement earnings, thereby capturing the extent to which individuals can smooth their standard of living through retirement. Building on the framework developed by the first Pensions Commission, target replacement rates (defined in gross income terms) typically vary across the income distribution: around 80% for low earners, 67% for median earners, and 50% for high earners.¹³ The declining profile reflects the fact that lower-income individuals rely more heavily on earnings to meet essential consumption than higher earning individuals. More broadly, gross replacement rates below 100% are considered sufficient to maintain living standards because: (i) individuals pay less tax (e.g. no NI contributions) after SPA; (ii) certain expenditures are typically lower in retirement, including work-related costs (such as commuting), mortgages and costs associated with dependent children; and (iii) retirees will not typically be making private pension contributions. Taken together, these absolute and relative benchmarks provide complementary perspectives on retirement adequacy, and highlight the extent to which current saving patterns may fall short of delivering sufficient income in later life.

Table 1 illustrates the gross and net replacement rates for the five gross earnings bands initially considered by the first Pensions Commission. Notably, the benchmarks that were calculated by the Pensions Commission in 2004 applied to the tax system in place in 2003–04. Since then, the direct tax system for the low-to-median earner has become much more favourable (see Table 3 for a breakdown), with a higher share of one's salary being available after tax. At the same time, the tax system for retirees has become relatively harsher, as the more favourable age-related personal allowance was phased out as the standard one was increased. For a given target net replacement rate this implies that the gross TRR benchmarks should actually be higher than the ones the Pensions Commission recommended.¹⁴

¹² Based on the 2026–27 figures, the Retirement Living Standards are set at £13,900 (one-person household) and £22,500 (two-person household) for the minimum standard, £32,700 (one-person) and £45,400 (two-person) for the moderate standard, and £45,400 (one-person) and £62,700 (two-person) for the comfortable standard. See <https://www.pensionsuk.org.uk/Press-Centre/Press-Releases/Article/Retirement-Living-Standards-update-shows-the-nation-is-not-saving-enough->

¹³ DWP (2025). *Analysis of Future Pension Incomes 2025*. Available at: <https://www.gov.uk/government/statistics/analysis-of-future-pension-incomes-2025/analysis-of-future-pension-incomes-2025>.

¹⁴ For a discussion see Resolution Foundation (2024). *Perfectly Adequate?* Available at: <https://www.resolutionfoundation.org/app/uploads/2024/10/Perfectly-Adequate.pdf>

Table 1 Benchmark replacement rates as percentage of pre-retirement gross earnings

Gross pre-retirement (50-SPA) earnings band	Pensions Commission 2004 band	Equivalent gross earnings band in 2026-27	BHC Gross TRR	BHC Net TRR (2026–27 tax system)	AHC Gross TRR
1 (lowest)	Less than £9,500	Less than £18,800	80%	≥85%	≥84%
2	£9,500 to £17,499	£18,800 to £34,300	70%	77%	75%
3	£17,500 to £24,999	£34,301 to £49,700	67%	74%	71%
4	£25,000 to £49,999	£49,701 to £99,000	60%	70%	63%
5 (highest)	Over £50,000	Over £99,000	50%	≤61%	≤53%

Note: Gross earnings band thresholds have been uprated by earnings growth since 2004. Net TRR before housing costs (BHC) are calculated using the 2026–27 NI and income tax system for the midpoint earnings for bands 2, 3 and 4.

Source: Pensions Commission, *Pensions: Challenges and Choices* (2004), DWP, *Analysis of future pension incomes* (2025), and authors' calculations based on [ONS statistics on Average Weekly Earnings growth](#).

Figure 6 illustrates the retirement saving gap using modelling from DWP. These projections assume that the State Pension continues to be uprated by the triple lock. Under the adjusted triple lock, projected State Pension income would be lower, and so the shares falling short of each benchmark would be higher. The effect is likely to be greatest where the State Pension makes up most of retirement income, that is, among lower earners, and on the absolute Pensions UK minimum benchmark. The chart shows the share of working-age individuals projected not to meet their replacement rates by pre-retirement earnings bands developed by the 2004 Pensions Commission (uprated by average earnings growth over the period 2004 to 2023). The figure presents undersaving by TRR according to two measures: before housing costs (BHC) and after housing costs (AHC). The latter measure is useful to reflect the different costs faced by owner-occupiers and renters to achieve the same standard of living in retirement. The Pensions UK RLS exclude housing costs, reflecting the fact that most pensioners currently either own their homes outright, or are social renters whose rent is fully covered by pensioner Housing Benefit. Consequently, when assessing undersaving using the Minimum RLS benchmark, the analysis compares pension income on an AHC basis.

Using the Pensions UK minimum RLS as an absolute benchmark, it is clear that lower earners are more likely to fall short. This is unsurprising: a middle or higher earner will find it easier to save enough for their retirement to be above the same fixed monetary amount. **In contrast, when looking at relative income adequacy measures, middle and higher earners appear more likely to be undersaving for retirement**, with around half of higher earners projected not to meet their target replacement rates. Estimates by others, such as the Resolution Foundation, Pensions Policy Institute and the Institute for Fiscal Studies (IFS), reach broadly similar conclusions.¹⁵ For lower earners, the flat-rate nature of the nSP means that it replaces a larger share of their pre-retirement earnings

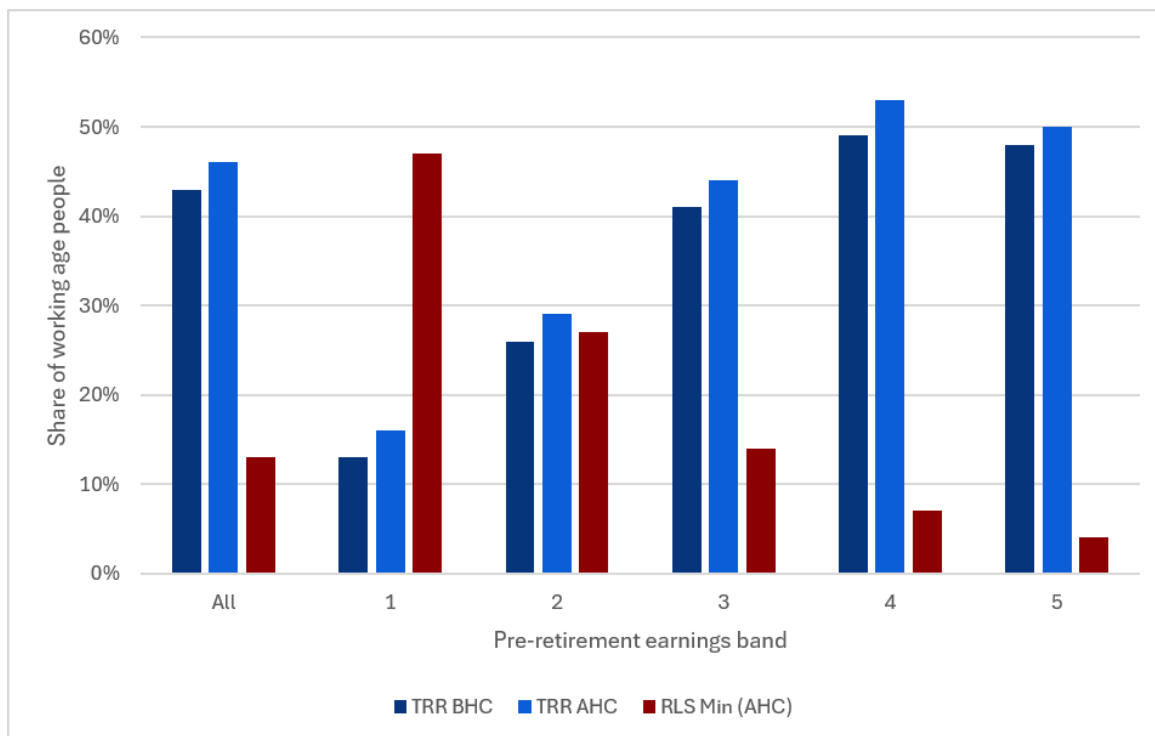
¹⁵ Broome, M., and Mulheirn, I. (2024). *Perfectly adequate? Revisiting pensions adequacy 20 years after the Pensions Commission*. Resolution Foundation. Available at: <https://www.resolutionfoundation.org/publications/perfectly-adequate/>

Hurman, N., Jethwa, C., Pike, T. & Silcock, D. (2021). *What is an adequate retirement income?*. Pensions Policy Institute. Available at: <https://www.pensionspolicyinstitute.org.uk/research-library/research-reports/2021/2021-06-09-what-is-an-adequate-retirement-income/>

Cribb, J., O'Brien, L., & Sturrock, D. (2024). *Adequacy of future retirement incomes: New evidence for private sector employees*. Institute for Fiscal Studies. Available at: <https://ifs.org.uk/publications/adequacy-future-retirement-incomes-new-evidence-private-sector-employees>

than it does for higher earners. Indeed, as Figure 2 shows, a pensioner couple receiving two full nSPs and no private pension would still have an income above the relative poverty line.

Figure 6 DWP estimates of the share of working-age people projected not to meet their TRR and Pensions UK minimum RLS, by earnings band



Note: The population refers to working-age individuals (from 22 to SPA) in Great Britain only. TRR benchmarks are from the 2004 Pensions Commission, with the thresholds adjusted for earnings growth. Pre-retirement earnings bands are in 2023 earnings terms. TRR BHC refer to the target replacement rates Before Housing Costs (BHC) have been accounted for; TRR AHC refer to the TRR After Housing Costs (AHC) have been deducted from both pre-retirement earnings and pension income; Pensions UK RLS are from the February 2024 update and are by assumption AHC (i.e. assuming people are mortgage- and rent-free). Pre-retirement earnings are calculated as the average gross earnings from age 50 until State Pension age. Estimates are based on DWP's long-term model of pensioner incomes (Pensim3) and assume that the State Pension is uprated by the triple lock. Pensim3 is a dynamic microsimulation model forecasting state and private pension contributions and incomes for the British population until the year 2100.

Source: [Analysis of Future Pension Incomes 2025 \(DWP\)](#).

3.1 Replacement rates with 8% of qualifying earnings

This section presents the results from modelling the income that a 22-year-old might expect from SPA under the current automatic enrolment system. The model's results depend on a set of key assumptions:

- A retirement age of 63 and a SPA of 68.¹⁶
- The net income after SPA is expressed as the share of net earnings in the last working year (i.e. at age 62).

¹⁶ The model assumes someone who works from age 22 until retirement at age 63 (i.e. before their SPA). This assumption is informed by UK Household Longitudinal Study data (2009–2025), which show that only half of individuals in paid work at age 55 were still in paid work at age 61, and assumes that average retirement age rises slightly for subsequent birth cohorts as the SPA rises. This pattern of early retirement can also be discerned in Figure 23 and Figure 24, which plot the employment rate of men and women by age group using cross-sectional data from the LFS.

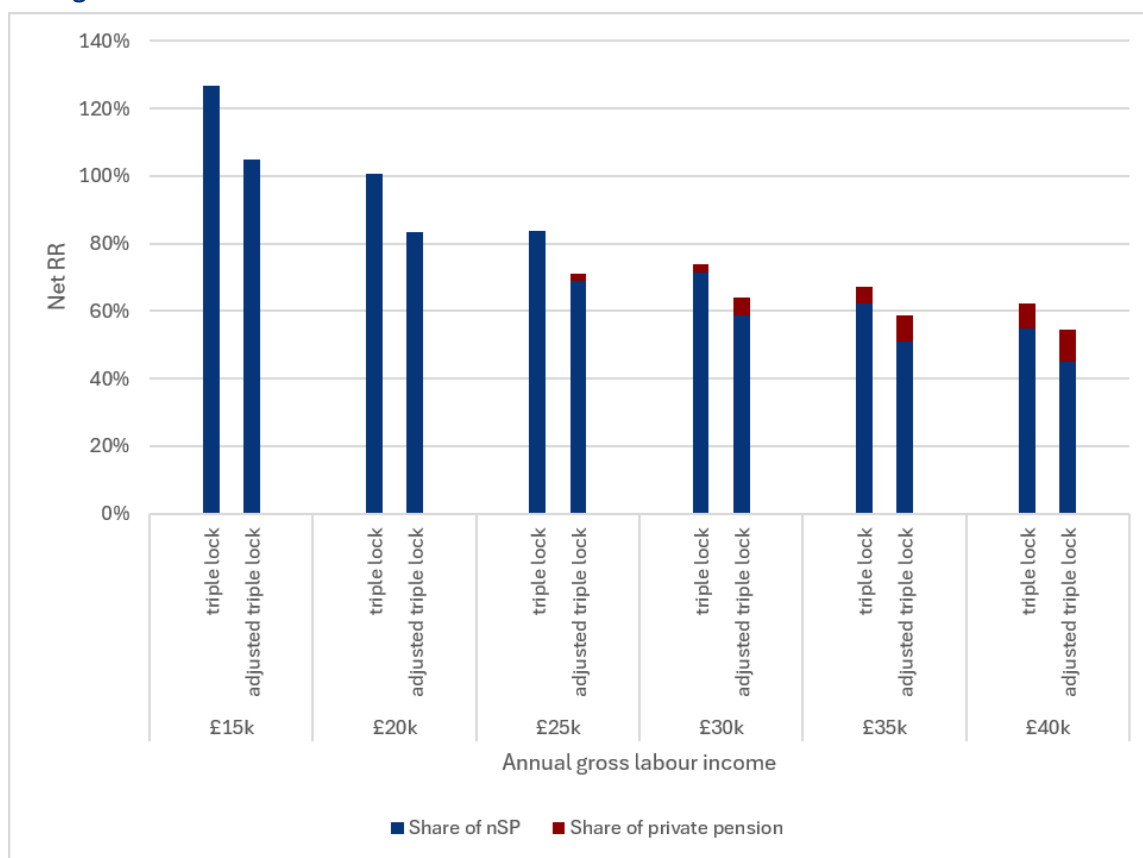
- The individual and their employer make the default minimum contributions to a private pension, and their resulting pension fund achieves a real return of 3% per year; from their SPA they draw their fund down at the rate of 4.75% a year.
- Two scenarios for uprating the State Pension, both assuming the triple lock until 2030 and thereafter either earnings indexation, equivalent in the long run to the adjusted triple lock (real growth of 1.8% a year), or continuation of the triple lock (2.4% a year), with other long-run assumptions based on the latest OBR forecasts.
- As the State Pension is not available during the retirement years below SPA (i.e. ages 63-67), the individual relies solely on their private pension fund during this period.¹⁷

Figure 7 shows the model's results under different starting income scenarios, under both the adjusted triple lock and continuation of the triple lock. Unlike the DWP, the figure presents replacement rates net of income tax and National Insurance (but still not inclusive of state benefits other than the State Pension), because replacement rates calculated on this basis are more economically meaningful for living standards than gross replacement rates. Net RR are typically higher than gross RR because, while workers pay income tax and NI, retirees usually pay income tax at a lower average rate (not least because 25% of withdrawals from a pension can usually be taken free of income tax) and no NI.

A 22-year-old currently earning £20,000 a year (for example, a part-time employee on the National Minimum Wage (NMW)) is projected to achieve a net replacement rate from SPA of around 83% under the adjusted triple lock, compared with around 100% were the triple lock to continue. In both cases all of their income from the SPA comes from the State Pension, because their private pension pot is exhausted between the ages of 63 and 67. For this group, private saving under the current system functions as a bridge to the SPA rather than a top-up to the State Pension. As a result, their replacement rate from SPA is largely insensitive to their own contribution rate, but highly sensitive to the State Pension uprating rule and to when they stop working. In contrast, middle earners are projected to achieve lower net replacement rates, of around 55-65% under the adjusted triple lock, against net benchmarks of around 75% (see Table 1).

¹⁷ In this case, the individual smooths spending by drawing down their pension pot so that: retirement income before SPA = retirement income after SPA. If the pension pot is insufficient to sustain a drawdown at least equal to the annual State Pension, the model instead assumes that the pension pot is fully exhausted by SPA.

Figure 7 Modelled net replacement rate with 8% of qualifying earnings across different earnings levels



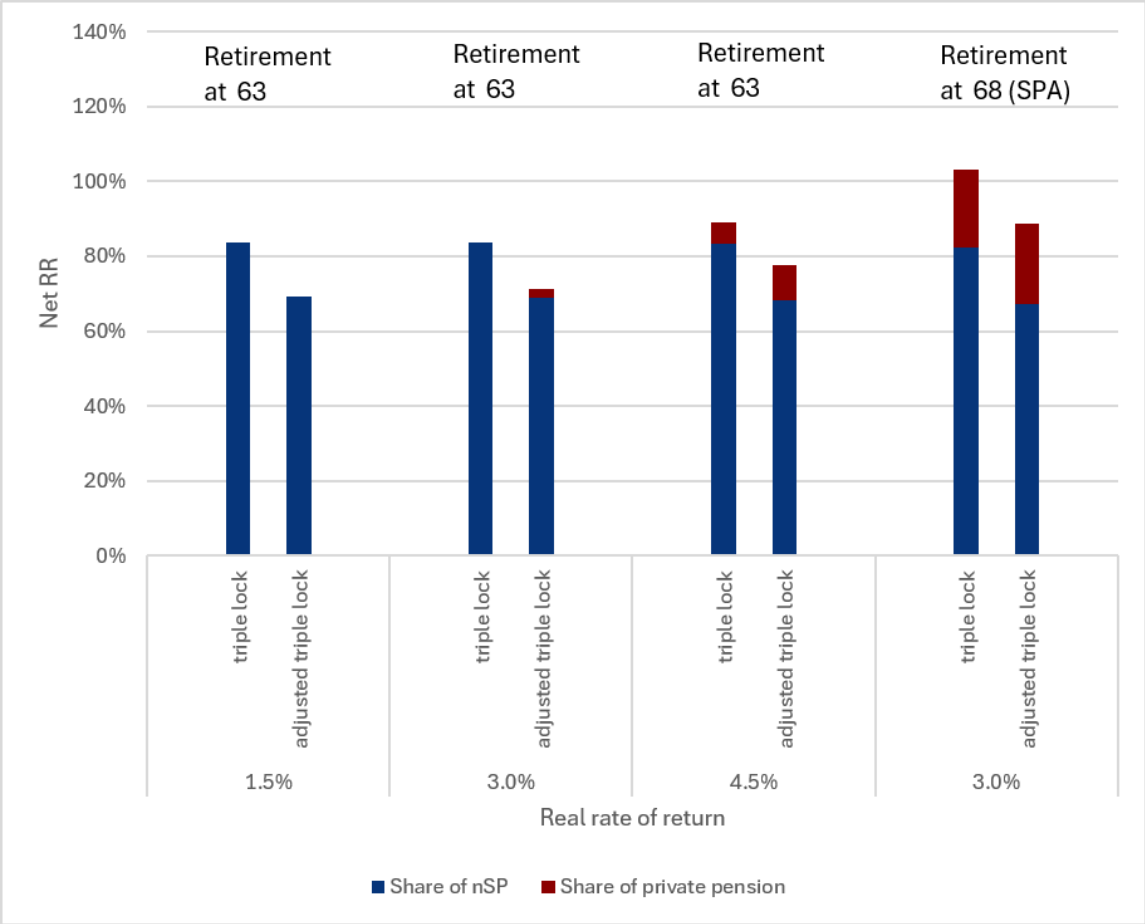
Note: On the x-axis is annual gross earnings at age 22; on the y-axis is the projected net replacement rate at age 68, defined as the ratio of net total pension income at SPA (i.e., nSP + pension fund drawdowns) to annual net labour income at 62 (the last working year). In the two scenarios at retirement, the nSP has been indexed by the triple lock to 2030 and then to either average earnings growth (1.8%) or to the triple lock (2.4%) thereafter. The model assumes the current AE contribution system of 8% of qualifying earnings, retirement at age 63, and SPA at age 68 (which will be the new SPA by 2046 under current legislation). Real earnings grow at 1.8% annually (i.e. there are no age-experience effects on wages beyond economy-wide earnings growth). The private pension fund is assumed to have an annual real return on investments of 3%, and the resulting pension is withdrawn at a rate of 4.75% a year from SPA unless it has already been exhausted during ages 63 to 67.

Source: Authors' calculations based on [OBR forecasts](#).

Figure 8 presents replacement rate projections focusing on a full-time National Living Wage (NLW) employee in the current AE system across three investment return scenarios for their pension fund: 1.5%, 3.0%, and 4.5% (in real terms).¹⁸ This is useful to gauge how much the pension income of a full-time low earner is sensitive to different rates of return (RoR). First, it appears that **for a NLW employee the rate of return** (or the starting income in the previous case) **is less influential in the long term than the State Pension indexation rule**. Assuming early retirement at age 63, the projected replacement rate under triple lock indexation and a 1.5% RoR is still higher than the replacement rate under adjusted triple lock indexation and a 4.5% RoR (that is a RoR three times larger). Second, under the adjusted triple lock a full-time NLW employee who retires at 63 would only just reach their net TRR of 77% with a high real return of 4.5%. By contrast, **working until the SPA would raise their replacement rate from around 71% to around 89%**, even with a 3% return, a larger gain than from any of the contribution reforms considered in Section 5.

¹⁸ A full-time, 21+ year old worker on the 2026-27 minimum wage rate can expect about £24,800 of gross annual earnings when assuming a 37½ hour work week. This is given by £12.71 x 37½ hours x 52 weeks.

Figure 8 Modelled net replacement rate for a full-time employee on the NLW across three RoR scenarios and two retirement ages, saving at 8% of qualifying earnings



Note: On the y-axis is the projected net replacement rate at age 68 for a full-time NLW employee currently aged 22 (i.e. with a starting annual gross labour income of £25,000). The net replacement rate is defined as the ratio of net total pension income at SPA (i.e., nSP + pension fund drawdowns) to annual net labour income at 62 (the last working year). On the x-axis are three different real rates of return on investment applied to the private pension fund. The first six columns consider the baseline scenario of early retirement (i.e. age 63); the last two columns consider the scenario of retirement at SPA (i.e. age 68). In both scenarios the nSP has been indexed by the triple lock to 2030 and then to either average earnings growth (1.8%) or to the triple lock (2.4%) thereafter. The model assumes the current contributory system of 8% of qualifying earnings. Real earnings grow at 1.8% annually (i.e. there are no age-experience effects on wages beyond economy-wide earnings growth). The private pension is withdrawn at a rate of 4.75% a year from SPA unless it has already been exhausted during ages 63 to 67.

Source: Authors' calculations based on [OBR forecasts](#).

4 What explains the shortfall in achieving target replacement rates?

Alongside the State Pension uprating rule and the age at which people stop working, discussed in Sections 2 and 3, there are two potential drivers of insufficient retirement saving among employees within the private pension system. The first is pension membership. While overall enrolment has increased substantially, participation rates have stabilised in recent years (see Figure 5), whether due to opt-outs or ineligibility for automatic enrolment. The second is the minimum default contribution rate under automatic enrolment, currently 8% of qualifying earnings. This section examines each of these drivers in turn.

4.1 Pension membership (extensive margin)

Since 2012, as shown in Figure 5, AE has been instrumental in increasing participation rates among working-age private-sector employees. Figure 9 illustrates the evolution of the AE earnings trigger relative to the value of the flat-rate component of the State Pension. This comparison is central to understanding the interaction between public provision and private saving incentives. The level of the State Pension plays a pivotal role in determining retirement income adequacy for lower-paid individuals and, therefore, the extent to which additional private saving is required. By contrast, the AE trigger defines the earnings threshold at which employees are automatically brought into workplace pension saving.

When automatic enrolment first came into effect in 2012, the trigger was set at £8,105 per year, which is equivalent to almost £12,000 in today's terms. At that time, the bSP was worth 69% of the trigger. As such, the policy primarily targeted employees who would otherwise face a reduction in gross income of at least 31% if they relied solely on the flat-rate State Pension in retirement. By 2026, however, the AE trigger remains at £10,000, having been frozen in nominal terms for over a decade.¹⁹ Over the same period, the value of the nSP has increased substantially and now exceeds the trigger by approximately 26%. Under the adjusted triple lock the State Pension will no longer rise relative to earnings after 2030, but for as long as the trigger remains frozen in cash terms, the gap between the two will continue to widen. As a result, **some employees are automatically enrolled into pension saving despite having current earnings that are below the level of the full nSP**. Evidence from the DWP, based on 2024 Annual Survey of Hours and Earnings (ASHE) data for Great Britain, puts the share of employees earning below nSP who contribute to a workplace scheme at approximately 41.8%, or around 1.1m employees. (That is, of the employees earning below £12,000 in 2024, which is around the level of the 2024–25 full nSP²⁰, 41.8% were contributing to a workplace pension – equivalent to around 1,065,000 employees. Among those earning between £10,000 and £12,000 – that is, between the AE trigger and the level of the nSP – participation rises to 57% (around 360,000 employees).²¹) This implies that a sizeable minority of employees are currently enrolled in a pension scheme despite the fact that they could, in principle, achieve a replacement rate close to, or above, 100% without any private saving for retirement – and this would be true under either the triple lock or the adjusted triple lock. This finding supports retaining

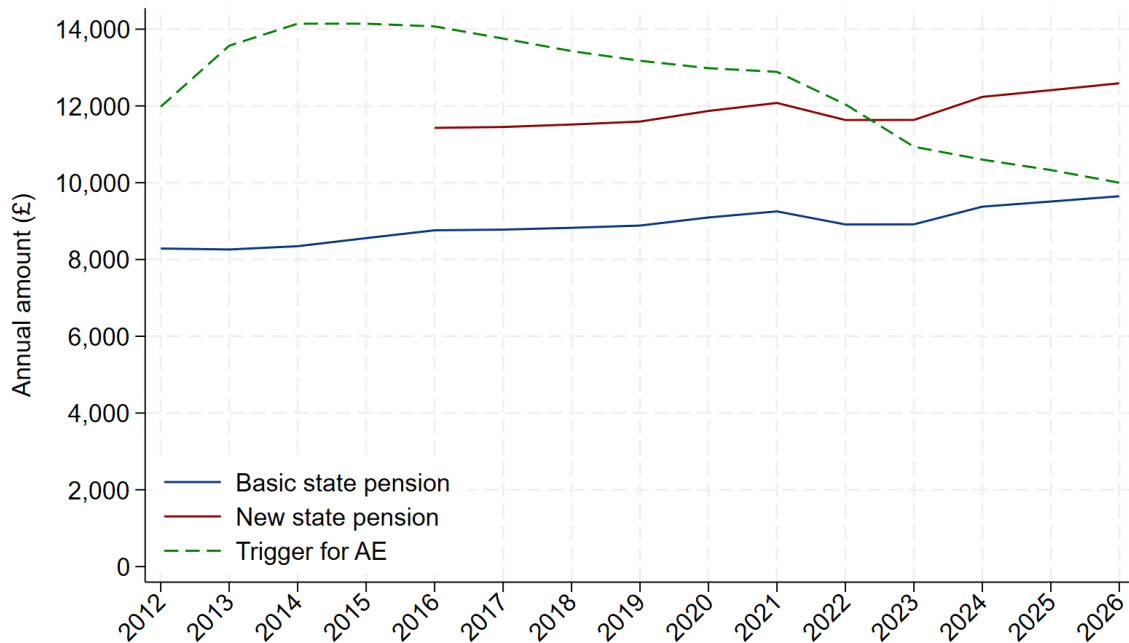
¹⁹ At the same time, lower and upper thresholds for qualifying earnings have been frozen in nominal terms at £6,240 since 2020–21 and £50,270 since 2021–22 respectively.

²⁰ The full nSP amounted to £221.20 per week in FY 2024–25, or £11,502.40 annually.

²¹ Workplace pension schemes include occupational pension schemes, group personal pensions (GPPs) and group stakeholder pensions (GSPs). Source: <https://www.gov.uk/government/statistics/workplace-pension-participation-and-savings-trends-2009-to-2024>

a structure in which, by default, the lowest earners make zero or very low contributions of their own, a conclusion that holds under either State Pension uprating regime.

Figure 9 Level of the trigger and annual value of a full new State Pension and a full basic State Pension in March 2026 prices



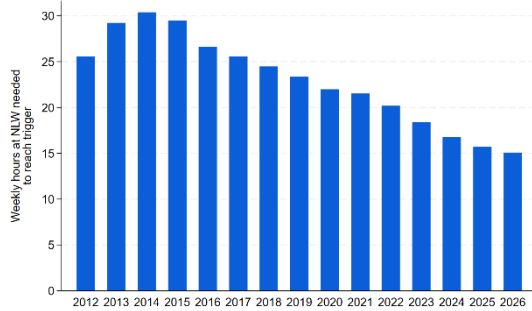
Note: Figures are expressed in real terms using the Consumer Price Index (CPI). The annual State Pension entitlements are calculated as the weekly pension rate times 365.25/7.

Source: Authors' calculations using [ONS CPI index](#) (series D7BT), and [DWP benefit rate statistics](#).

Since 2014, the NMW for employees aged 22 and over has increased substantially in real and nominal terms. Over the same period, as discussed above, the AE earnings trigger has remained frozen in nominal terms. This divergence has significantly altered the relationship between low hourly wages and eligibility for workplace pension saving. In 2014, a NMW employee with a single job needed to work around 30 hours per week to exceed the AE trigger; by 2026, this requirement had fallen to approximately 15 hours per week (Figure 10).

This mechanical effect helps explain the sharp increase in the proportion of NMW employees above the AE threshold. We estimate that their share rose from less than 60% of all NMW employees in 2014–15 to over 80% in 2024–25 (Figure 11). Over the same period, however, the proportion of NMW employees within the overall private-sector workforce has remained relatively stable. This suggests that the expansion in automatic enrolment coverage among low-paid employees has been driven primarily by policy parameters – namely the rising wage floor and frozen earnings trigger – rather than by compositional changes in the labour market.

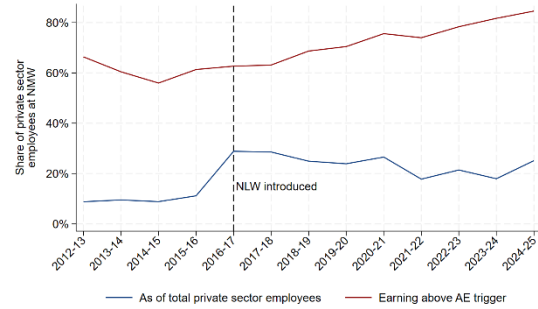
Figure 10 Weekly hours at NLW needed to reach AE trigger



Note: Between 2012 and 2016, the NMW applied to workers aged 21+. The NLW was introduced in April 2016 for workers aged 25+. In 2021, the NLW qualifying age was reduced to 23+, and in 2024 to 21+. NB. The NMW was set in October each year until April 2016; from then on, it has been set in April, when the NLW was introduced.

Source: Authors' calculations using [ONS CPI index \(series D7BT\)](#) and NLW data from [the 2025 LPC report](#).

Figure 11 Minimum wage employees and automatic enrolment in the private sector

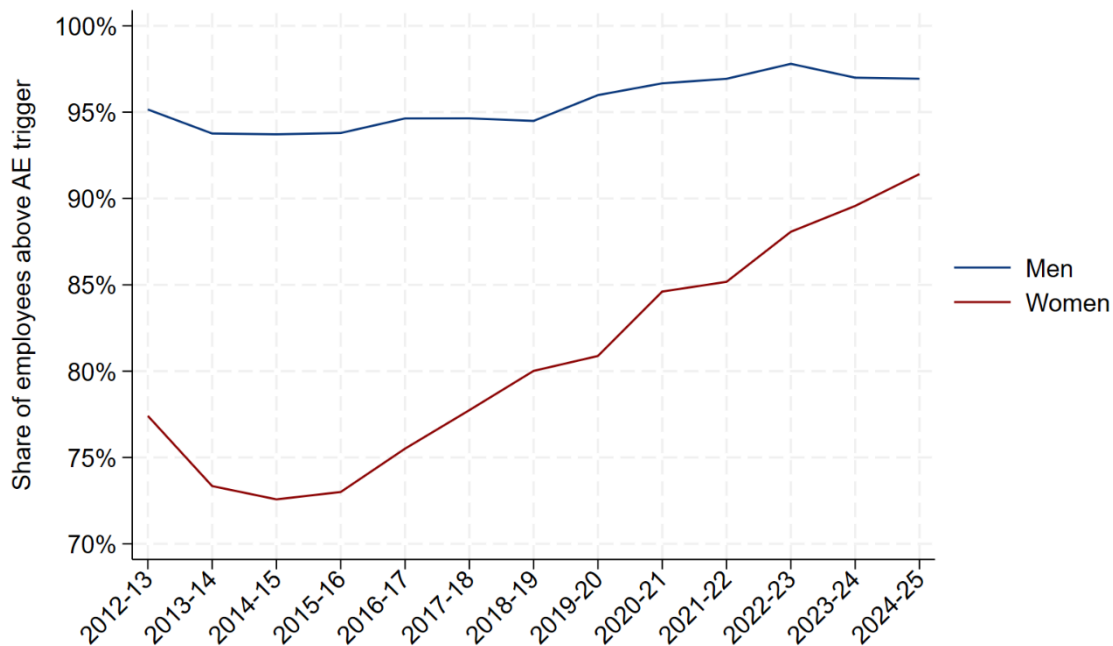


Note: The sample includes employees from the private and non-profit sector aged 22 to 65. Following the Low Pay Commission (LPC) 2025 report, NMW employees are defined as having an hourly pay in their main job up to 5 pence above the relevant year's minimum wage rate. NMW employees earning above the AE trigger are defined as those NMW employees whose normal weekly hours exceed the minimum required to reach the AE threshold for a NMW worker in paid employment every week of the year. Sample size is 34,407 observations.

Source: Authors' calculations using [UKHLS 2012-2025](#).

Part-time employees, many of whom are paid at or close to the NLW, are increasingly being brought into workplace pension saving through AE. This shift has, in turn, altered the composition of employees covered by the system. In particular, groups with a higher propensity for part-time work – most notably mothers with young children – are now more likely to earn above the earnings threshold for AE. As illustrated in Figure 12, the proportion of female employees earning above the AE trigger has increased from 73% in 2014–15 to over 90% in 2024–25, bringing it towards the corresponding rate for men. This convergence reflects the combined effect of rising hourly wages at the lower end of the distribution (driven by increases in the NLW) and a fixed nominal enrolment threshold, which has expanded coverage among employees with shorter hours and lower annual earnings.

Figure 12 Share of private-sector employees earning above the AE trigger, by sex

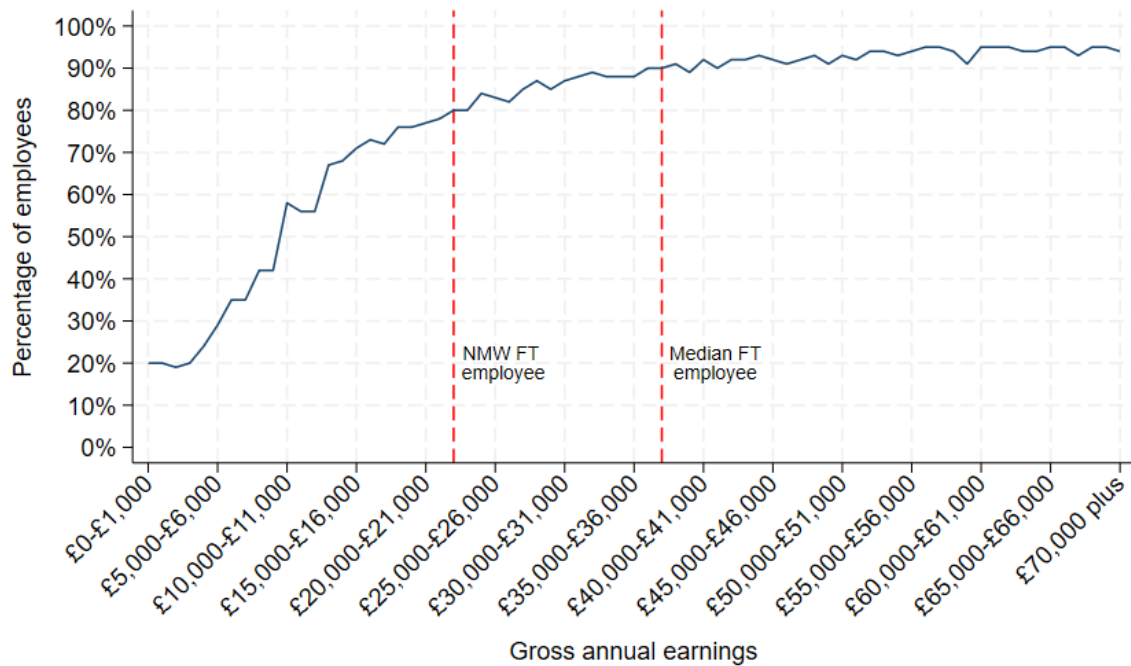


Notes: The sample includes employees from the private and non-profit sector aged 22 to 65.

Source: UKHLS 2012-2025.

Figure 13 shows that workplace pension scheme participation is at 80% for those earning the equivalent of full-time NLW, while it is at 90% for those earning the equivalent of median earnings among full-time private-sector employees. Notably, it also shows that a big share of employees earning below the AE threshold have either been automatically enrolled by their employer, or choose to opt in to a private pension. This may be due to a number of reasons: for example, some employers may enrol all of their employees on to a workplace scheme for simplicity or what they consider to be fair and right; some employees may want to benefit from employer contributions (if they earn above the lower qualifying earnings threshold), and this might be attractive among those who can rely on other sources of income, such as unearned income or the earnings of their partner, to finance some of their current spending.

Figure 13 Share of private-sector employees participating in a pension scheme by earnings bracket



Note: Only private-sector employees considered. Workplace pension schemes include occupational pension schemes, group personal pensions and group stakeholder pensions. Earnings bands are adjusted to be in 2024 earnings terms using Average Weekly Earnings values. Median gross annual earnings for full-time private-sector employees are [£37,128 in April 2024](#); [NLW hourly rate in 2024-25](#) is £11.44, thus £22,308 per year assuming a 37½ hour working week.

Source: [DWP estimates derived from the ONS ASHE, GB, 2024](#).

Overall, therefore, pension membership rates are high, helped by the AE trigger being frozen in nominal terms for over a decade. Among low earners earning above the AE trigger, a sizeable minority (around 30-40% between earnings of £10,000 and £15,000, as shown in Figure 13) are not participating. But among middle and higher earners, participation is around 90% or more. This suggests that membership is not the main cause of the shortfall in achieving target replacement rates, especially for middle and higher earners.

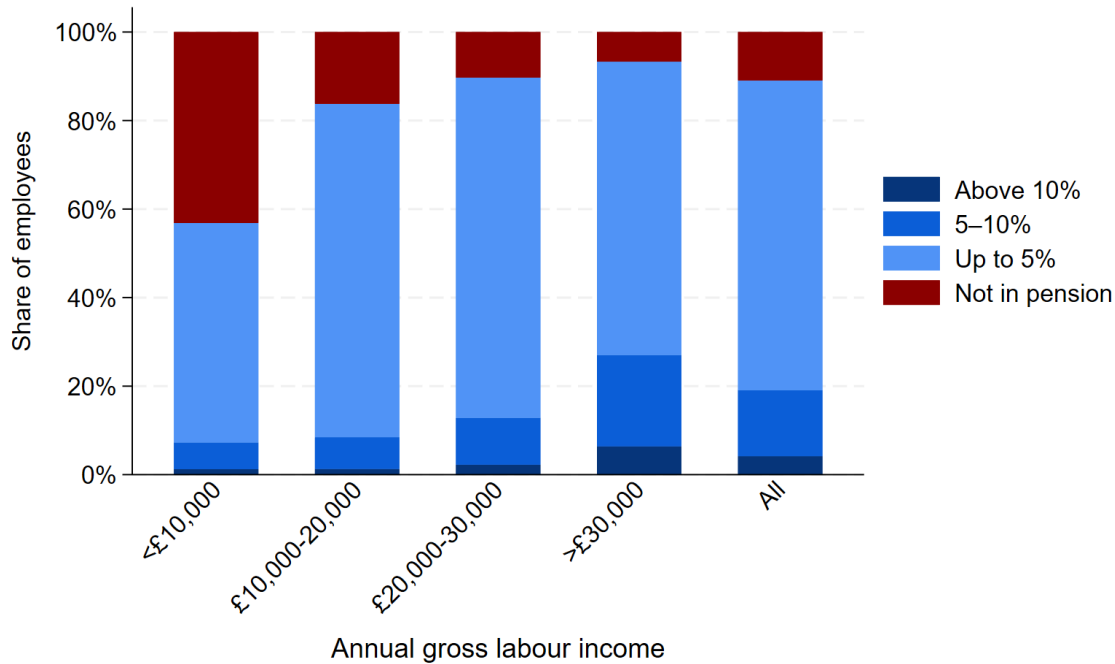
4.2 Pension contribution rates (intensive margin)

Figure 14 presents the distribution of employee contributions across earnings bands by allocating all employees into one of four categories: those not participating in any arrangement, those contributing up to 5% of all earnings (i.e. up to the default AE employee rate on QE if the employer contributes the minimum 3%), those contributing between 5-10%, and those contributing 10% or more, that is well above the default rate. Overall, the data show that there is a positive association **between earnings and pension participation (extensive margin), as well as between earnings and contribution rates (intensive margin)**.²² This pattern is confirmed by the findings of the second Pensions Commission using ASHE data from 2024, where only 29% of those earning between £10,000 and £20,000 per year are contributing more than 8% of total pay (from employee and

²² Figure 13 and Figure 14 show a discrepancy in the share of employees earning under £10,000 and contributing to a workplace pension. Part of this may come from the extrapolation of monthly labour income reported in the UKHLS over 12 months, while ASHE takes only one week in April as reference. It may also be due to the pooling of data from 2018 to 2024. In general, given that ASHE is employer-reported data, while UKHLS is reported by individuals, ASHE is thought to contain more accurate information on employees' pension saving.

employer contributions combined), compared to 78% of those earning above £70,000.²³ Importantly, one factor behind higher pension contributions for higher earners is that two-in-five employers base contributions on employees' full earnings rather than qualifying earnings, frequently applying the same 8% contribution rate.²⁴

Figure 14 Distribution of private-sector employee pension participation and contribution rate by earnings bracket (UKHLS)



Note: Sample includes non-public sector employees aged between 22 and 65. Sample excludes employees who belong to a non-contributory workplace pension scheme. In the UKHLS, the question on pension contributions is asked only on the even numbered waves (i.e., 2 to 14). We restrict the sample period from wave 10, at which point the rollout of automatic enrolment was completed (after starting in October 2012). The contribution rate is assumed to be the default 5% of QE when the employee is known to contribute to a workplace scheme but their rate is unknown. Annual gross labour income is in 2024 prices. Sample size is 23,802 individuals.

Source: UKHLS waves 10, 12, 14 (2018 to 2024) and ONS CPI (D7BT).

Within earnings brackets, however, composition matters. Figure 15 decomposes the above-default contribution rate among employees by sex, age and education level. Women are more likely than men to be in the low-contribution segment. However, this difference is not driven by gender per se, but rather by differences in earnings: women typically earn less than men, and lower earners systematically contribute less. Older individuals are consistently more likely to contribute at higher rates than younger individuals. Importantly, this relationship holds not only in aggregate but also within earnings groups, suggesting that the age gradient in contributions is not simply a reflection of higher earnings among older individuals. Instead, it indicates an independent association between age and contribution behaviour (for example, older individuals are more mindful of the approaching retirement years or perhaps have lower spending needs – for example if they own their home outright or they no longer have dependent children). A similar pattern emerges by education. Graduates are more likely to contribute at higher rates than non-graduates, both overall and within comparable earnings groups. This might suggest that education is associated with contribution

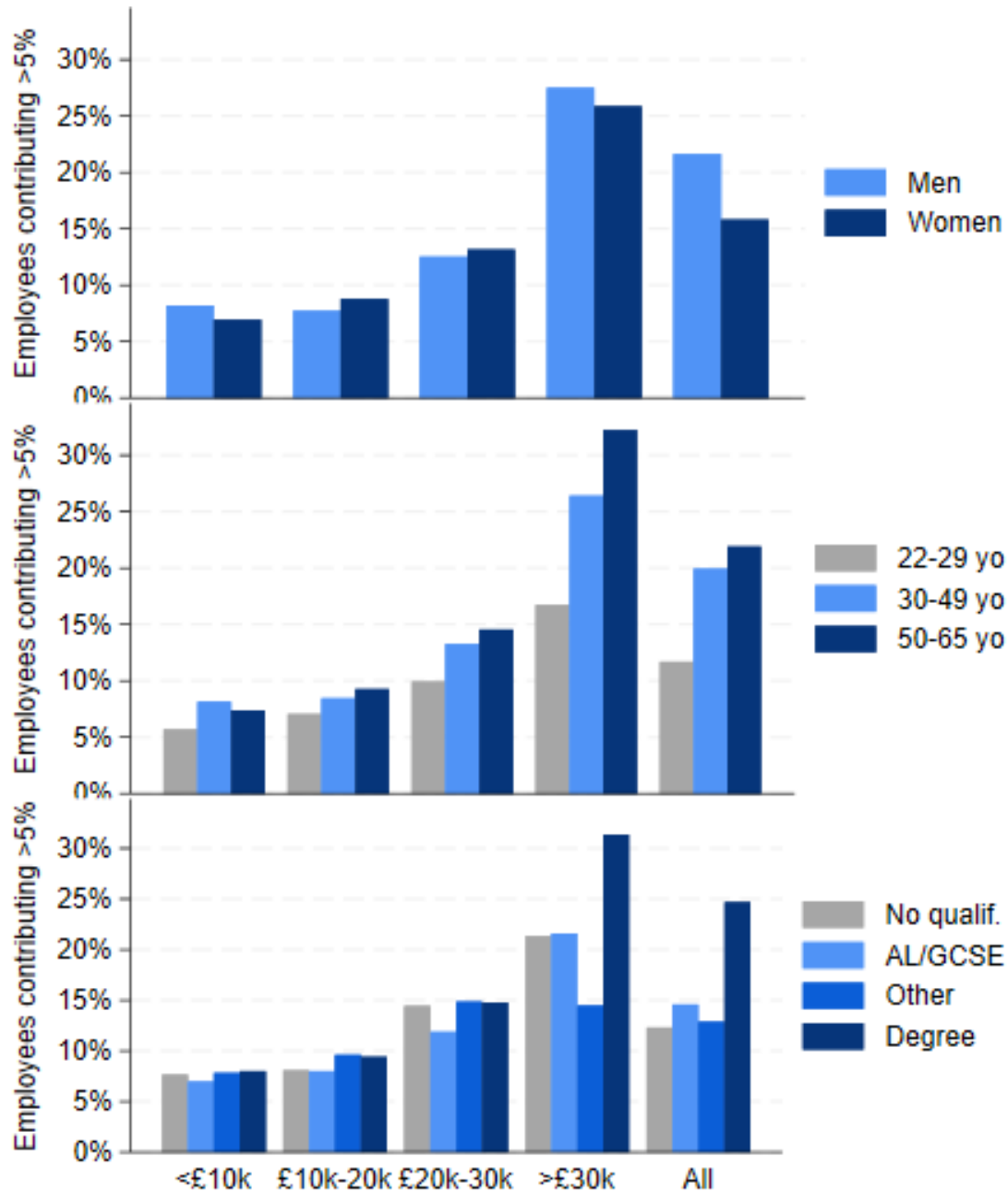
²³ See figure 3.4 in the second Pensions Commission (2026). *Pensions 2050: evidence and future priorities – interim report*. Available at: <https://www.gov.uk/government/publications/pensions-2050-evidence-and-future-priorities-interim-report>

²⁴ The second Pensions Commission (2026). *Pensions 2050: evidence and future priorities – interim report*. Available at: <https://www.gov.uk/government/publications/pensions-2050-evidence-and-future-priorities-interim-report>

behaviour beyond its role in shaping income, potentially reflecting differences in financial literacy and planning horizons.

Taken together, these patterns indicate that low contribution behaviour is concentrated among lower earners and disproportionately among women due to differences in earnings, while higher contributions are also associated with being older and more highly educated. Given that participation rates are already high, and that the nSP will remain relatively generous by historical standards even under the adjusted triple lock, these findings suggest that remaining concerns with undersaving are best approached through the level and structure of default contribution rates, rather than through membership.

Figure 15 Share of employees contributing more than 5% to a pension scheme by income brackets and socio-demographic characteristics



Note: Top panel shows share by sex, middle panel by age, and bottom panel by educational qualification. 'AL' stands for A-Level; 'Degree' refers to a degree or alternative higher education diplomas; 'Other' refers to other qualification such as CSE. Sample includes non-public sector employees between 22 and 65 years of age. Sample excludes employees who belong to a non-contributory workplace pension scheme. In the UKHLS, the question on pension contributions is asked only on the even numbered waves (i.e., 2 to 14). We restrict the sample period from wave 10, at which point the rollout of automatic enrolment was completed (after being introduced in October 2012). The contribution rate is assumed to be the default 5% when the employee is known to contribute to a workplace scheme but their rate is unknown. Annual gross labour income is in 2024 prices.

Source: UKHLS waves 10,12,14 (2018 to 2024) and ONS CPI (D7BT).

5 Possible increases in minimum default contribution rates

Currently AE has a default minimum of 8% of qualifying earnings, that is earnings between the lower and upper thresholds. Legislation passed in 2023 for Great Britain (and in 2025 for Northern Ireland) gives the government powers to reduce or remove the lower threshold, but these powers have not yet been used.²⁵ If the lower threshold were removed, contributions would apply from the first pound earned, increasing pension saving particularly for lower earners and part-time workers.

A number of alternative AE designs have been proposed in recent policy discussions. In particular, DWP's 2017 review of automatic enrolment recommended both removing the lower threshold and lowering the age of eligibility from 22 to 18.²⁶ Alongside these structural reforms, there has also been debate about whether the statutory minimum contribution rate should rise above the current 8% level – for example to 12%.²⁷ This section considers the implications of three alternatives to the current system: 8% from the first pound earned, 12% from the first pound, and 12% of qualifying earnings. It examines the average contribution rates implied by these reforms across different income groups, and the extent to which higher contributions could improve projected retirement outcomes under both the adjusted triple lock and continuation of the triple lock.

5.1 Average contribution rates under different scenarios

Figure 16 outlines the trade-offs to consider when moving to a different default contributions system. For example, removing the lower qualifying earnings threshold would move the minimum default contributions to 8% from the first pound earned (i.e. green line in Figure 16). This would mean the biggest increase in contributions, as a share of earnings, being felt by the low earners already enrolled in a scheme: that is, a 5% of earnings increase for those earning £10,000, compared to only a 1% of earnings increase for those earning at the upper threshold. As noted by Cribb *et al.* (2025), these individuals tend to fall into two groups: either persistent low earners, who should save only a relatively small share of their income to maintain spending over time, or those with temporarily low earnings, who may be better off concentrating their retirement saving during higher-earning periods (e.g. young graduates – see Section 6.1 for a discussion).²⁸ In contrast, it would have no immediate effect on two other groups: those who have already opted out entirely, and those already contributing sufficiently above the default minimum rate. (This makes the relevant margin of adjustment a specific subset of participants, that is those who are in the scheme but not already contributing at or above the new required level of contributions.) By contrast, the increase for middle earners would be relatively modest, at around 1-2% of earnings, so this reform would do little to target the group where undersaving is most concentrated.

Furthermore, because the lower threshold is applied separately to the earnings from each job, those with multiple jobs currently save a lower proportion of their total earnings than someone who earns the same amount but in a single job, removing the lower threshold would bring the savings rate of these two individuals with the same total earnings closer to each other. The share of these individuals is not negligible: in March 2017, there were approximately 975,000 multiple job-holders between the ages of 22 and SPA. However, only 43% of them were already eligible for auto-

²⁵ Pensions (Extension of Automatic Enrolment) Act 2023. Available at: <https://bills.parliament.uk/bills/3422>. The Act also gives the power to expand the age range from 22–SPA to 18–SPA.

²⁶ DWP (2017). *Automatic enrolment review 2017: Maintaining the momentum*. Available at:

<https://www.gov.uk/government/publications/automatic-enrolment-review-2017-maintaining-the-momentum>

²⁷ See for example: <https://www.pensionsuk.org.uk/Press-Centre/Press-Releases/Article/PLSA-calls-for-levelling-up-of-workplace-pensions>

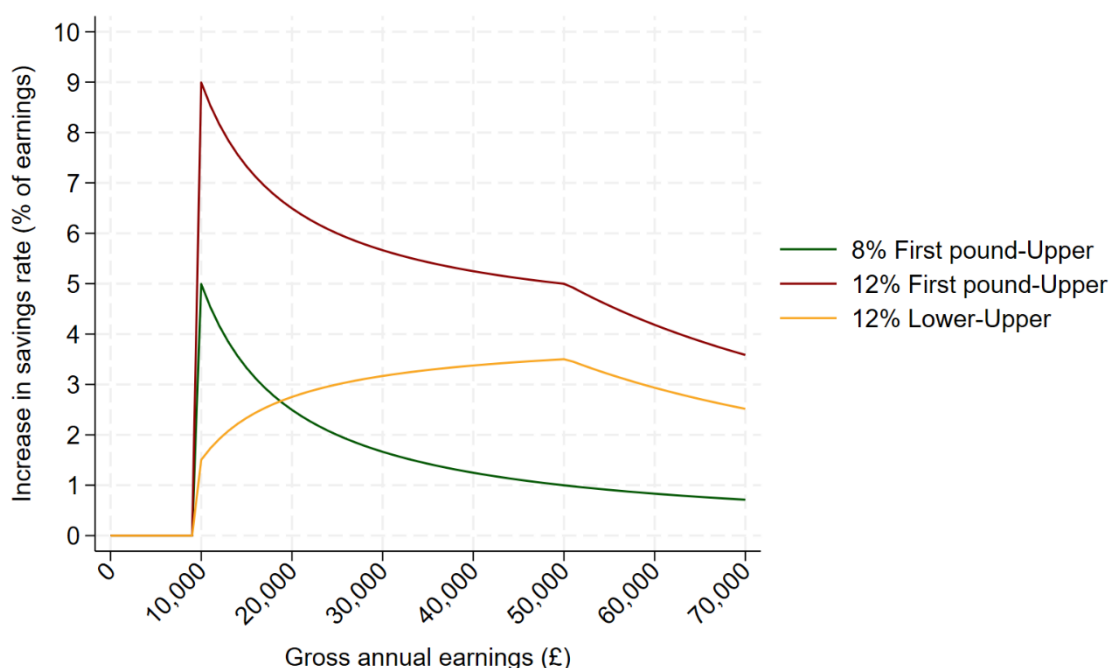
²⁸ Cribb, J., Emmerson, C., Johnson, P., Karjalainen, H., & O'Brien, L. (2025). *The pensions review: Final recommendations*. IFS Report. Available at: <https://ifs.org.uk/publications/pensions-review-final-recommendations>

enrolment in at least one job, so the majority would not save more as a result of removing the lower threshold, because they still would be below the trigger.²⁹

Reducing the lower threshold to zero could enhance transparency and make it easier for employees to understand how much they are saving. A clear risk with 8% of qualifying earnings is that some – potentially many – might wrongly think they are saving 8% of their total earnings.

These considerations would also be true when moving default contribution rates to 12% from the first pound (red line in Figure 16). They suggest that higher minimum default pension contribution rates would be better directed toward individuals with middle or higher earnings, and possibly toward older employees. Such groups are often better positioned to increase their savings, as their living expenses may be lower (e.g. mortgage being paid off, children no longer living at home).

Figure 16 Increase in savings rate by alternative system implementation



Note: 'Lower' and 'Upper' refer to the Automatic Enrolment lower and upper earning thresholds for qualifying earnings, i.e. £6,240 and £50,270 per year respectively. 'First pound' refers to earnings from the first pound earned.

Source: Authors' calculations.

The public finance implications of any changes to the AE contribution rates are also worth noting. Estimates from DWP indicate that, in Great Britain in 2024, **a total of £82.2 billion was contributed to the workplace pensions of employees eligible for automatic enrolment.**³⁰ Any increase in AE contribution rates would therefore be expected to raise aggregate private pension saving. However, given the favourable tax treatment of pension contributions, such increases would also reduce revenues from income tax and NI contributions.

Analysis by the Institute for Fiscal Studies, based on 2021 ASHE data (uprated to 2025 earnings levels), illustrates the potential magnitude of these effects. **Increasing minimum contribution rates**

²⁹ DWP (2017). *Automatic enrolment review 2017: Maintaining the momentum*. Available at: <https://www.gov.uk/government/publications/automatic-enrolment-review-2017-maintaining-the-momentum>

³⁰ DWP (2025). *Workplace pension participation and savings trends: 2009 to 2024*. Available at: <https://www.gov.uk/government/statistics/workplace-pension-participation-and-savings-trends-2009-to-2024>

to 8% from the first pound of earnings would generate an additional **£5.2 billion** in annual contributions, including £1.4 billion from employers and £3.8 billion from employees, with approximately a £2 billion reduction in tax revenue as a result. A more substantial increase to **12% from the first pound would raise total contributions by £18.8 billion**, including £9.9 billion from employers and £8.9 billion from employees, of which around £6 billion would take the form of up-front tax relief.³¹ These estimates highlight both the potential to boost retirement saving significantly and the associated fiscal implications for the public finances.

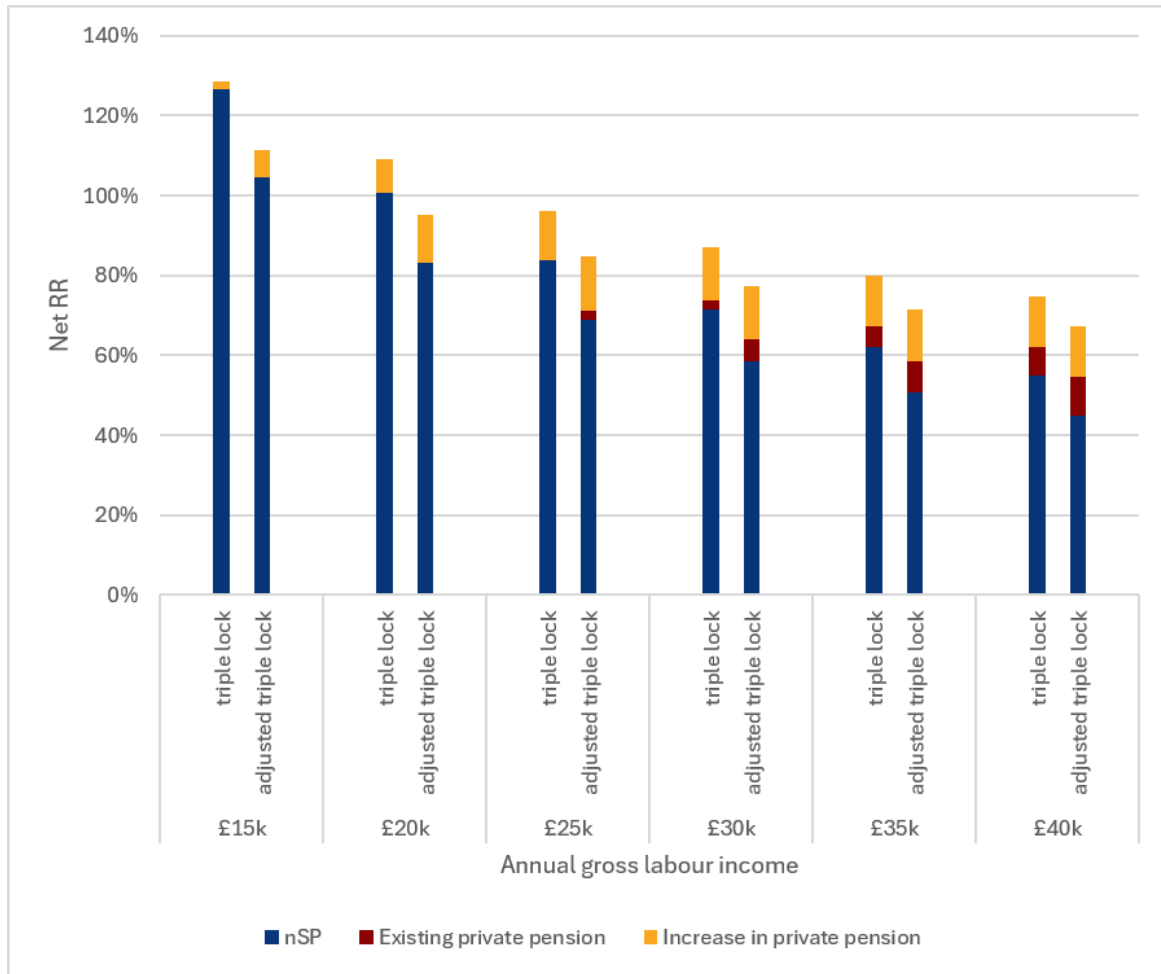
5.2 Replacement rates with an increase to a 12% contribution rate

As seen in the previous section, expanding the contribution base to 12% from the first pound would deliver a bigger boost to saving (as a share of earnings) among lower earners as the qualifying earnings band currently shields a greater share of their pay from contributions. Figure 17 shows the resulting net replacement rates in the case of a 12% contribution rate from the first pound across earnings brackets.

Under the adjusted triple lock, moving to 12% from the first pound would lift a full-time employee on the NLW (£25,000) to a net replacement rate of around 84%, comfortably above their target of 77%. However, a full-time employee on median earnings (£40,000) would reach only around 67%, still well short of their target of 74%, unless they remained in paid work until the SPA or achieved stronger investment returns.

³¹ Table 4.1 in Cribb, J., Emmerson, C., Johnson, P., Karjalainen, H., and O'Brien, L. (2025). *The pensions review: Final recommendations*. IFS Report. Available at: <https://ifs.org.uk/publications/pensions-review-final-recommendations>.

Figure 17 Net replacement rate increase from 8% of qualifying earnings to 12% from the first pound, across different income levels

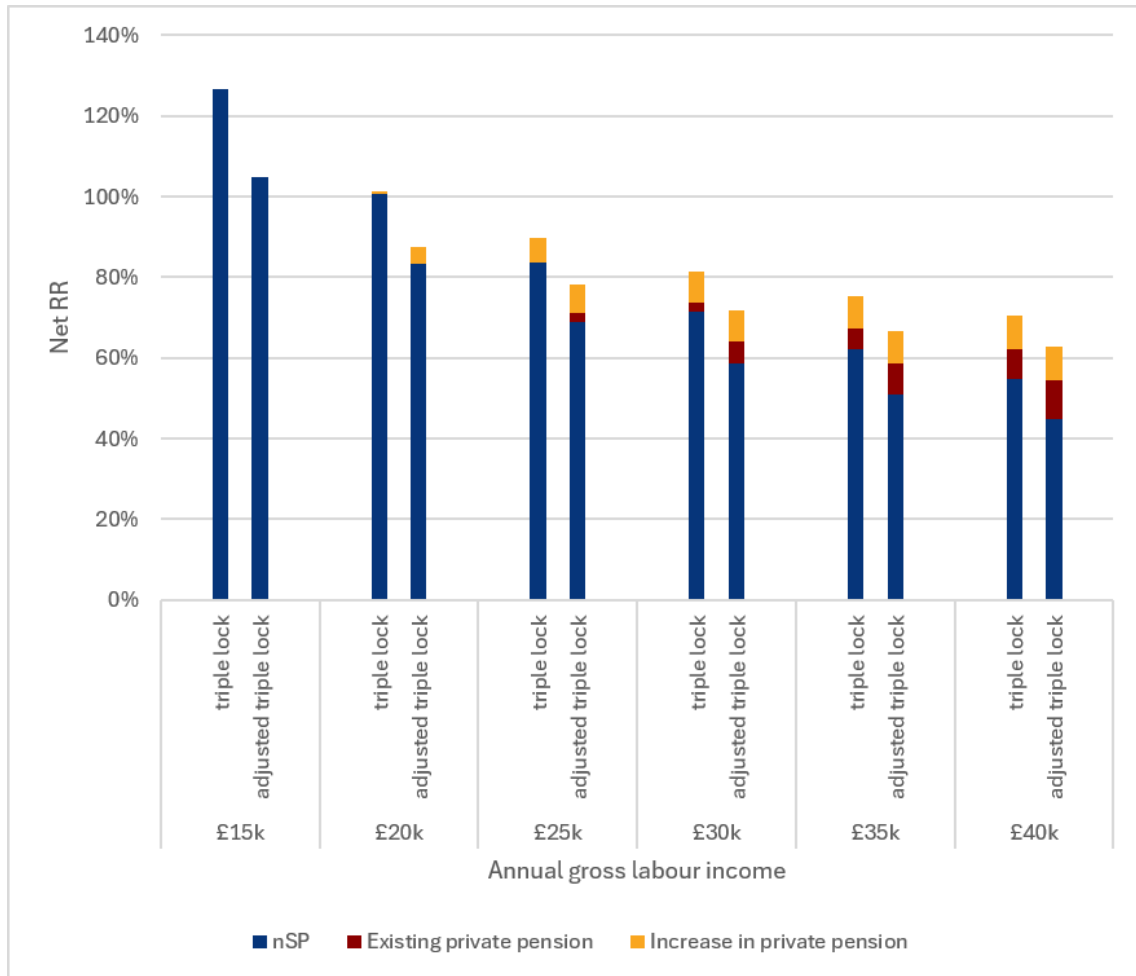


Note: see Figure 7.

Source: Authors' calculations based on [OBR forecasts](#).

An alternative would be to move to 12% of qualifying earnings (Figure 18). This would lead to a smaller boost in contributions, but one that is more concentrated, as a share of earnings, on median earners (the £40,000 bracket) than on lower earners. Correspondingly, it would lead to a relatively larger increase in net replacement rates for median earners than for lower earners: under the adjusted triple lock, around 8 percentage points at £40,000, compared with around 4 percentage points at £20,000. For middle earners, this would broadly offset the effect of moving from the triple lock to the adjusted triple lock: a median earner would reach a net replacement rate of around 63%, similar to what they would have achieved with 8% of qualifying earnings under the triple lock. A full-time NLW employee would just reach their target, at around 78%, but the median earner would remain well short of theirs, unless they stayed in paid work until the SPA or achieved stronger returns.

Figure 18 Net replacement rate increase from 8% of qualifying earnings to 12% of qualifying earnings, across income levels

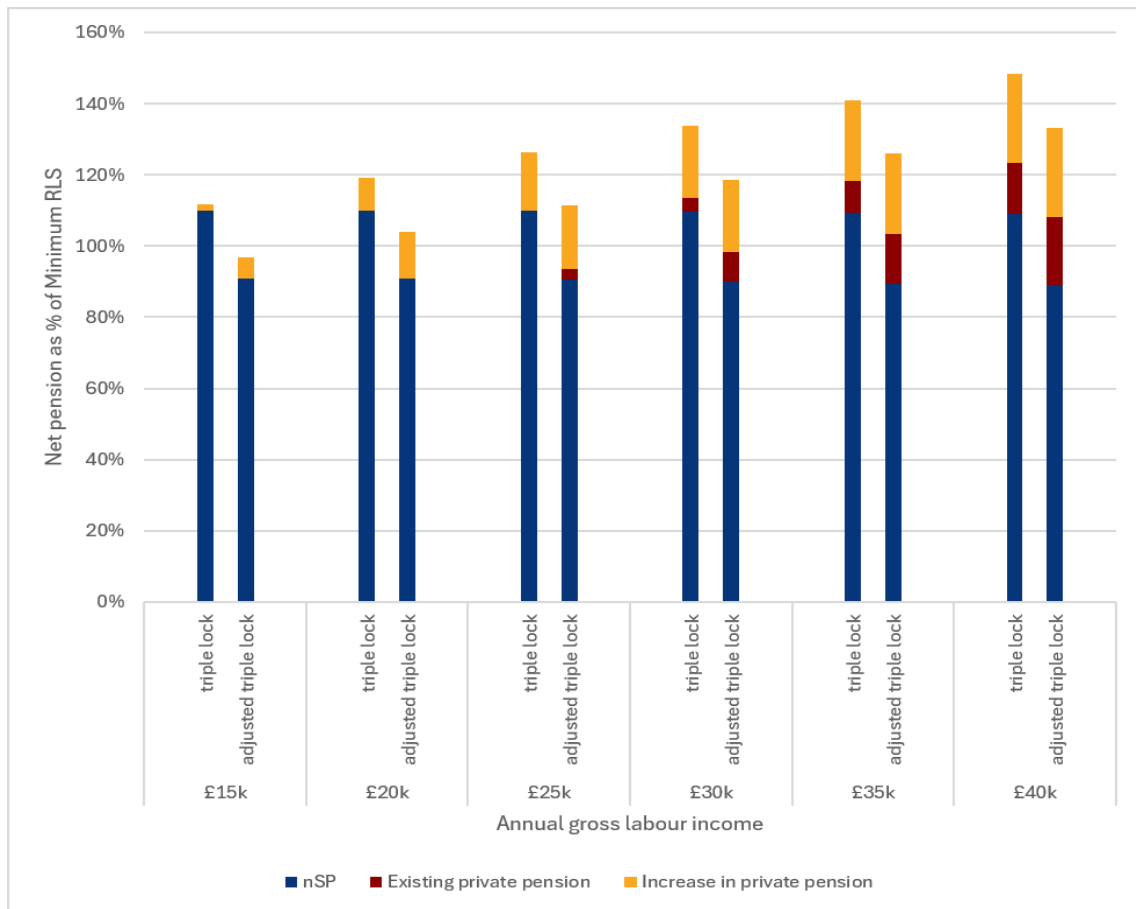


Note: See Figure 7.

Source: Authors' calculations based on [OBR forecasts](#).

In terms of the Pensions UK minimum standard for a single-person household, which our model assumes to be uprated in line with average earnings, all earners would achieve this under the current system of 8% of qualifying earnings if the triple lock were maintained. This is shown in Figure 19. Under the adjusted triple lock, however, the State Pension alone would cover around 91% of the minimum standard. As a result, those earning up to around £30,000 who retire at 63 would fall short under the current system, because their private pension is largely or entirely used up before the SPA. Moving to 12% of all earnings would lift those earning £20,000 or more above the minimum, but not those on £15,000. Remaining in paid work until the SPA, or achieving better returns, would also help close the gap.

Figure 19 Modelled increase in net pension income as share of Pensions UK minimum RLS, from 8% of qualifying earnings to 12% from the first pound



Note: On the x-axis is annual gross earnings at age 22; on the y-axis is the projected net pension income at age 68, expressed as a share of the Pensions UK minimum RLS (which is assumed to increase annually at the pace of real average earnings growth). In both scenarios the nSP has been indexed by the triple lock to 2030 and then to either average earnings growth (1.8%) or to the triple lock (2.4%) thereafter. The model assumes an increase from the current contributory system of 8% of qualifying earnings (expressed by the red bar) to a system of 12% of all earnings (expressed by the orange bar). Retirement is at age 63, and SPA is at age 68 (which will be the new SPA by 2046 under current legislation). Real earnings grow at 1.8% annually (i.e. there are no age-experience effects on wages beyond economy-wide earnings growth). The private pension fund is assumed to have an annual real return on investments of 3%, and the resulting pension is withdrawn at a rate of 4.75% a year in retirement.

Source: Authors' calculations based on [OBR forecasts](#).

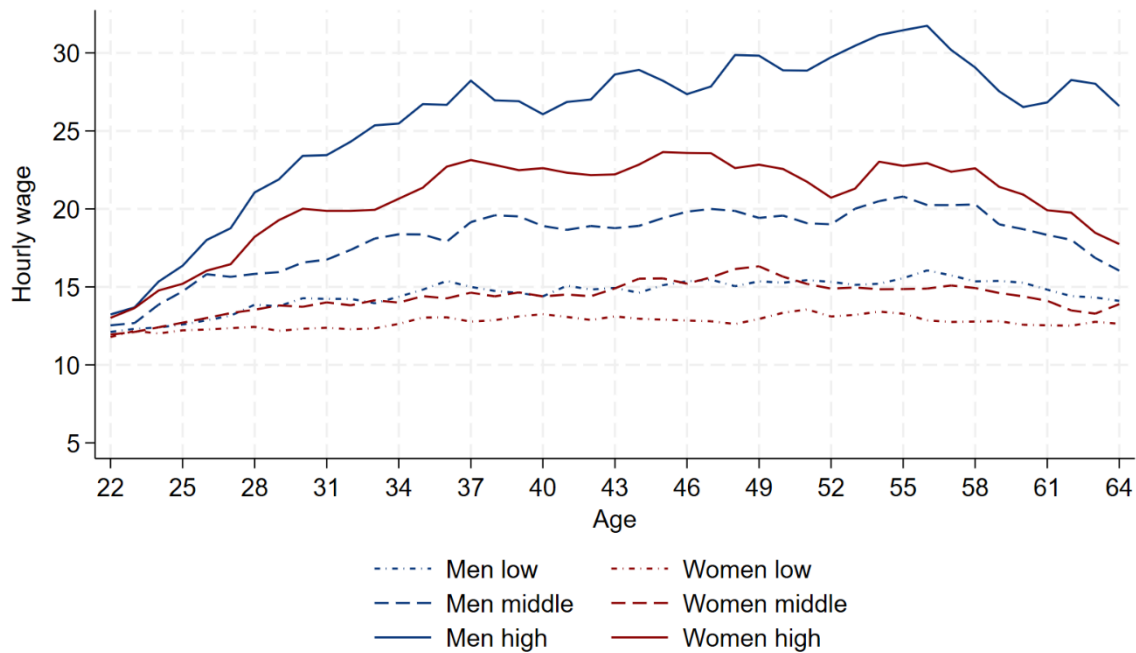
6 The case for a targeted approach

The appropriate benchmark for measuring retirement adequacy is not straightforward. The choice of earnings measure – whether current, final-year or lifetime – can materially affect the assessment, and focusing on individual earnings alone may misrepresent household living standards. A more comprehensive approach would therefore consider not just an individual's current earnings but also their lifetime earnings and their overall household circumstances. While a framework for AE that took all of these factors into account could in principle be much better tailored, in practice it would be unworkable. However, the design of AE should take into account typical patterns of lifetime earnings and household incomes. The move to the adjusted triple lock narrows the gap between the outlook for lower and middle earners, but does not change the considerations set out below, which concern current living standards and earnings trajectories rather than the State Pension.

This section considers the private-sector employees who would be most affected by a change in the rules on pension contributions (while keeping the AE trigger as it is), whether through removing the lower threshold for qualifying earnings, higher total contribution rates, or both. It looks in turn at their likely earnings trajectories over their working lives, their socio-demographic characteristics, and their household circumstances.

6.1 Lifetime income trajectories

Figure 20 shows the median hourly wage profiles of private-sector employees by sex and education level over the course of their working lives. Low hourly wages are disproportionately concentrated among younger employees and those with lower levels of education. More generally, employees with less education appear to experience limited wage progression throughout their careers, whereas graduates, on average, see strong earnings growth at least until their early forties. These patterns have important implications for how replacement rates should be considered. For individuals with lower levels of education, the relatively flat wage profile means that using current earnings or lifetime average earnings yields similar results. By contrast, for graduates, earnings in the later stages of their careers are often substantially higher than their lifetime average. Viewed from another angle, this also suggests that younger graduates may have an incentive to delay pension saving, as their current earnings are likely to be low relative to their future income. It also means that, for graduates, replacement rates calculated relative to late-career earnings will be lower than those constructed relative to lifetime earnings, whereas for non-graduates the two will be similar. This provides another rationale for aiming for lower replacement rates for higher earners than for lower earners.

Figure 20 Median hourly wage of private-sector employees by sex and education

Note: The sample includes 21-to-65-year-old private-sector employees. Hourly wage is expressed in average 2025 prices. Hourly wage for each age is the moving average of the hourly wage at a given age, and that of the two ages above/below. 'Low' education level refers to GCSE level or below; 'middle' refers to A levels, or equivalent, or further education; 'high' refers to a degree.

Source: LFS 2024-2025 and ONS CPI (D7BT).

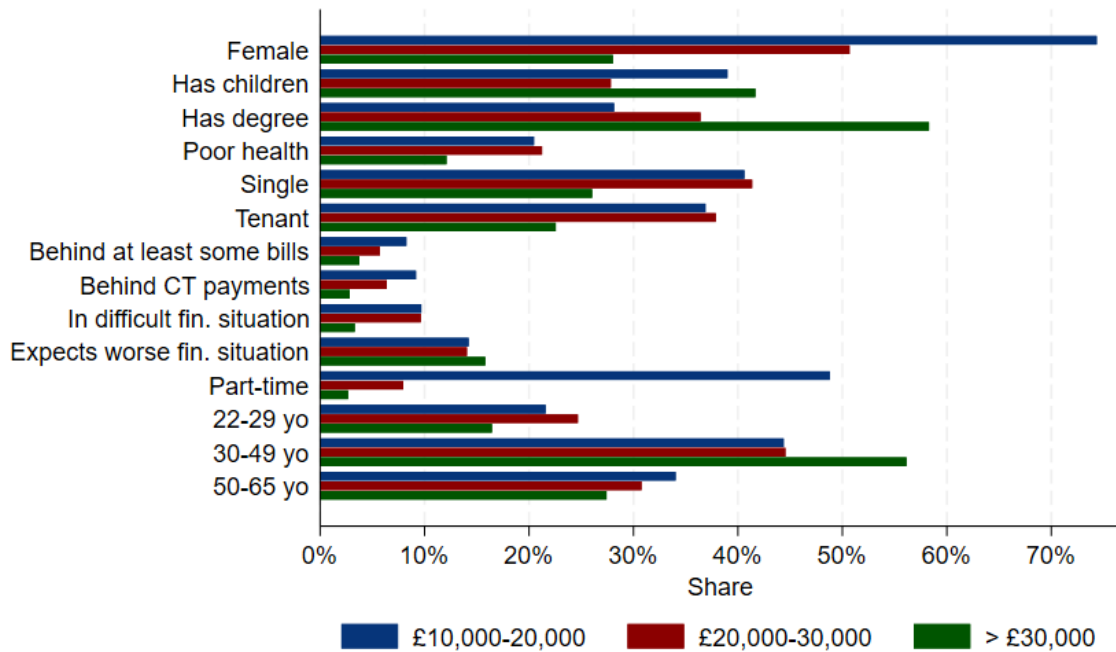
6.2 Socio-demographic characteristics

As previously discussed, low-earning private-sector employees who currently contribute to a workplace pension at the minimum rate of 5% (or less) of earnings are the private-sector employees who would be most directly affected by a removal of the lower qualifying earnings threshold and/or an increase in contribution rates. Figure 21 outlines the socio-demographic characteristics of this group. This population is **disproportionately made up of women and part-time employees**. Among those earning between £10,000 and £20,000 (and contributing 5% or less), approximately three-quarters are female and half work part-time. These proportions are significantly lower in the higher income brackets; for instance, among those earning above £30,000, women make up less than 30% and part-time employees make up only around 3% of the group. Because women are much more prevalent among the group earning just above the AE threshold, an increase in contribution rates will affect them more than it will affect men.

Some of the lowest income group are also in a **financially precarious situation**, with over 10% reporting being behind on bills and/or council tax payments, and over 20% reporting only **fair or poor health**. Moreover, nearly 40% of those earning between £10,000 and £30,000 are renting, thus likely to be facing significant housing costs already. This is consistent with evidence from the Institute for Fiscal Studies based on the Family Resources Survey (FRS) 2022–23. Among private-sector employees saving in a workplace pension and earning between £10,000 and £15,000 per year, 20% report being unable to afford essential goods and services, while 9% are behind on at least one bill. In addition, half of this group hold less than £1,500 in accessible savings, leaving them

exposed to unexpected expenses or income shocks.³² It can also be noted that lowest earning groups have a higher proportion of younger employees (22-29 years old) and a higher proportion of single individuals than the highest earning group. The 30-49 age group represents a large share across all earnings levels, but is most dominant in the over £30,000 category.

Figure 21 Characteristics of private-sector employees contributing 5% or less of earnings, by income bracket



Note: Sample includes non-public sector employees between 22 and 65 years of age. In the UKHLS, the question on pension contributions is asked only on the even numbered waves (i.e., 2 to 14). We restrict the sample period from wave 10, at which point automatic enrolment rollout was completed. The contribution rate is assumed to be the default 5% when the employee is known to contribute to a workplace scheme but their rate is unknown. Income brackets refer to annual gross labour income in 2024 prices. 'Has children' refers to individuals having children younger than 16; 'Poor health' refers to a health status which is self-described as either fair or poor; 'Single' also includes separated, divorced or widowed respondents. 'Tenant' refers to a household dwelling which is Local Authority rented, Housing Association rented, rented from employer, privately rented, or other rented (NB. Individuals living in an owned dwelling, such as young adults with their parents, count as homeowners). 'In difficult financial situation' refers to a subjective financial situation which is either 'quite' or 'very' difficult.

Source: UKHLS waves 10,12,14 (2018 to 2024) and ONS CPI.

6.3 Household income characteristics

Relative partner earnings, and hence household circumstances, are a relevant factor when considering the pension income of low earners. An individual accumulating only a small pension might be able to rely on their partner's bigger pension; and indeed in some cases the income tax system encourages the higher earning individual within a couple to do more of the pension saving.

Table 2 illustrates the earnings patterns of partners in the UKHLS survey data. Among private-sector couples³³ in which both partners are in paid work and one earns less than £10,000, a third (32%)

³² Cribb, J., Karjalainen, H. and O'Brien, L. (June 2024). *Pensions: five key decisions for the next government*. The Pensions Review, IFS Report. Available at: <https://ifs.org.uk/publications/pensions-five-key-decisions-next-government>.

³³ Private-sector households are defined as couples with at least one partner being an employee in the private or non-profit sector.

have a partner earning more than £30,000. At the same time, however, **a substantial share of low earners are partnered with individuals who are also economically vulnerable**: in over one-third of private-sector couples containing someone earning below £10,000 a year, their partner is either not working or is also low-paid.

This pattern raises several considerations. Low earners with higher-earning partners may have a greater capacity to save, and there may be particular value in ensuring that these individuals build up their own pension entitlements, in light of risks associated with separation or divorce, as well as persistent gender gaps in private pension wealth.³⁴ Tax incentives may also operate in the opposite direction, as households may prefer pension contributions to be made by the higher earner, especially if they face a higher marginal tax rate.

Table 2 Distribution of relative partner earnings in private-sector households

Partner 1	Partner 2	Share (%)
No labour income	<£10,000	5.9
No labour income	£10,000-20,000	4.1
No labour income	£20,000-30,000	2.8
No labour income	>£30,000	9.0
<£10,000	<£10,000	6.5
<£10,000	£10,000-20,000	7.2
<£10,000	£20,000-30,000	4.1
<£10,000	>£30,000	8.5
£10,000-20,000	£10,000-20,000	4.0
£10,000-20,000	£20,000-30,000	5.3
£10,000-20,000	>£30,000	12.8
£20,000-30,000	£20,000-30,000	1.9
£20,000-30,000	>£30,000	10.5
>£30,000	>£30,000	17.4

Note: The sample is based on a matched sample of partners in the UKHLS who are both between 16 and 65 years of age. Only observations where both partners are interviewed and responded are kept. Sample only includes private-sector households, that is couples with at least one partner being a private/non-profit sector paid employee. Annual earnings are extrapolated from the monthly gross labour income reported (only labour income is included), and are expressed in 2024 prices.

Source: UKHLS, waves 1 to 15 (2009 to 2025) and ONS CPI (D7BT series).

³⁴ DWP (2025). *Gender Pensions Gap in Private Pensions: 2020 to 2022*. Available at: <https://www.gov.uk/government/statistics/gender-pensions-gap-in-private-pensions-2020-to-2022/gender-pensions-gap-in-private-pensions-2020-to-2022>

7 Conclusions: a strategic framework for the Commission

To assist the second Pensions Commission in its deliberations, this section synthesises the empirical findings detailed throughout this report into a practical, policy-oriented framework. While our preceding analysis has focused on diagnosing the current trajectory of UK retirement outcomes, the objective here is to translate those insights into actionable priorities. We provide a clear lens through which to evaluate the complex trade-offs inherent in pension reform, distinguishing between areas where the current system is broadly succeeding and areas that require targeted recalibration. This leads us to set out clear recommendations for where structural action is needed, but we deliberately avoid prescribing specific levels of contribution rates or earnings thresholds beyond illustrative examples. The precise calibration of these parameters ultimately involves broader political judgements; our focus is on identifying where the economic case for intervention is strongest.

Central to this framework, we caution policymakers against defaulting to a uniform, one-size-fits-all approach to AE. Policy should continue to distinguish between different segments of the earnings distribution, recognising that the financial pressures and retirement risks facing those in low-income households – who could already be on track to hit a high replacement rate through the nSP and existing AE settings, even under the adjusted triple lock, but who may well be struggling with their living standards now – are often fundamentally different from those facing a middle earner who is falling short.

Furthermore, effective policy design requires us to recognise the limits of what a pension system can realistically solve in isolation. Many of the most severe challenges facing future retirees are downstream symptoms of wider labour market dynamics, entrenched earnings inequalities, and housing structures. The pensions system does need to be designed with these in mind. But expecting the private pension framework to resolve these systemic inequalities would be a mistake; it would place too much weight on the pension system, driving unnecessary complexity while ultimately failing to deliver the desired outcomes. Therefore, **the Commission should be explicit in defining what constitutes a problem requiring a pensions policy solution, versus what is fundamentally a labour market or housing policy challenge.**

However, drawing this boundary does not mean the Commission should remain silent on these wider issues. On the contrary, the Commission should be bold in ranging beyond its immediate remit where there is a clear, evidence-based link to retirement age living standards. If the overarching goal of public policy is to achieve a fair and adequate distribution of retirement outcomes, then tackling the root causes of pension inequality – such as the gender pay gap, stalled pay progression, the high cost of childcare and housing, and unmet demand for flexible working – is a prerequisite. The Commission should actively use its platform to highlight structural barriers. By pointing out that equitable pension accumulation is not possible without addressing these upstream factors, the Commission can forcefully demonstrate that success in pensions policy ultimately depends on labour and housing markets that work better for all. Indeed, as we have highlighted, a key threat to the adequacy of private pension saving is individuals leaving the labour market well before the SPA and depleting their pension pots in the intervening years. On our modelling, under the adjusted triple lock, a full-time NLW employee who works until the SPA rather than retiring at 63 would see their replacement rate rise by around 18% of earnings, more than any of the contribution reforms we consider.

Having established this important distinction between systemic economic challenges and genuine pension problems, the critical task for the Commission is to identify where direct pension-system

interventions are required. The following subsections set out this targeted approach, examining where the government should focus on driving up TRRs, the complex trade-offs for lower earners, and the extent to which the pension system can or should address broader structural inequalities, before setting out our strategic policy priorities.

7.1 Defining the boundaries: absolute retirement incomes v replacement rates

A fundamental economic rationale for any pension system, encompassing both state-provided and private elements, is to allow individuals to transfer spending power from their working lives, when they are earning, to retirement, when they are not. The primary objective of this lifetime transfer is to enable people to maintain a relatively stable standard of living, smoothing consumption over their life course and thus avoiding a sharp, disruptive drop in living standards when their labour income ceases.

Alongside this, any pension system that leaves pensioners in income poverty for extended periods would be one that is fundamentally failing. In the UK, immense progress has been made on this front over the past forty years; a period in which the unacceptable but historic reality of around 40% of pensioners living below the poverty line has been transformed. Thanks to significant improvements in state and private pensions, and to the wider pensioner benefit safety net, pensioner poverty rates have been dramatically reduced, and are now below poverty rates at younger ages. However, this progress is not guaranteed to last, and we should not let these hard-won gains slip. As new risks emerge, notably from rising housing costs in retirement, protecting this baseline must remain a priority for future policy.

To assist the Commission in navigating these dual objectives – poverty prevention on one hand, and income smoothing on the other – the starting point is to **define where policy should actively intervene to ensure individuals hit their full TRR, and where policymakers might be less concerned about TRR shortfalls**. We propose dividing the population into three distinct categories based on policy objectives: those for whom the priority is preventing poverty in retirement (Section 7.1.1); those, at the top of the earnings distribution, for whom policymakers can be more relaxed about shortfalls against their TRR (Section 7.1.2); and those in between, for whom achieving their TRR should be the focus of policy (Section 7.2).

7.1.1 Preventing pensioner poverty

Looking forward, maintaining gains in reducing pensioner poverty requires a clear diagnosis of where the real risks lie in the coming decades. Before housing costs are taken into account, the nSP does much to push pensioner incomes above the poverty line. On the official measure for 2024–25, the before-housing-costs poverty threshold (60% of median disposable income) sat at £289 per week for a single adult and £432 per week for a couple.³⁵ On this basis, a full nSP provides over three-quarters of the income a single adult needs to be lifted out of poverty. Other sources of income – most obviously from workplace pensions – will often be sufficient to make up this shortfall. For a pensioner couple receiving two full nSPs, their combined income from the state is just above the BHC poverty line. To ensure that this remains the case, the value of the nSP should, over the long term, at least keep pace with growth in average incomes. The adjusted triple lock, by linking

³⁵ DWP (2026). Households Below Average Income (HBAI) statistics. Available at: <https://www.gov.uk/government/collections/households-below-average-income-hbai--2>

the State Pension to average earnings, should broadly achieve this, provided household incomes grow in line with earnings.

Of course, there are many existing pensioners who do not receive a State Pension as generous as this – including many who reached their SPA before April 2016 and therefore could not qualify for the nSP. But going forward, two factors will shape whether a pensioner ends up in income poverty:

1. **Failure to receive a full nSP:** This will largely be an issue for those who do not spend their whole working life in the UK. A full nSP requires 35 years of contributions, and these can (among other things) be fulfilled by having annual earnings above 52 times the value of the LEL, or by being credited due to receipt of Universal Credit, Carer's Allowance, or Child Benefit for a child aged under 12. In fact, there is a case that only requiring 35 years of contributions for a full State Pension is overly generous, given the length of a typical working life. If fiscal savings are required from within the pension system – for example, to fund enhancements elsewhere – consideration should be given to increasing this minimum contribution requirement. This would also strengthen incentives to remain in work for longer.
2. **Housing costs not fully met by pensioner Housing Benefit:** This is a significant, escalating risk facing future retirees. Among new retirees, we have already passed peak homeownership rates. In the future, a growing share of retirees will be living in the relatively expensive private rented sector (see Figure 3), where it is not uncommon for Housing Benefit to fall short of contractual rent. This is a very difficult issue for private pension policy to solve; rather, it points directly to wider housing supply policy and Housing Benefit (Local Housing Allowance, LHA) reforms. For example, this could involve setting pensioner LHA rates on (at least) the 30th percentile of rents of two-bed rather than one-bed accommodation in the local area, as put forward by the IFS *Pensions Review*.³⁶

7.1.2 Defining an upper boundary for TRR concerns

A core challenge for the Commission is distinguishing between a genuine, systemic undersaving problem that warrants intervention, and areas where policymakers may be less concerned about individuals not reaching their TRRs. There is, of course, room for healthy disagreement on exactly where the boundary between public policy concern and individual responsibility should sit. There is no single right answer to this. In part, it will depend on one's view of the extent to which higher earners are more likely to have the requisite financial literacy or the means to make informed decisions on their retirement saving.

Indeed, the second Pensions Commission's own interim report³⁷ signals an appetite for this kind of segmentation by floating a 'hybrid' adequacy metric:

"A hybrid approach would match the main features of the existing policy framework: a foundational floor provided by the new State Pension; achieving a level of replacement income within a band of earnings through AE; and enabling additional contributions above that level." (Para 2.50)

This hybrid proposal is based on the premise that a uniform benchmark is insufficient, requiring policy to continue to be explicitly targeted. If policymakers are to focus on a specific 'band of

³⁶ Cribb, J., Emmerson, C., Johnson, P., Karjalainen, H., & O'Brien, L. (2025). *The pensions review: Final recommendations*. IFS Report. Available at: <https://ifs.org.uk/publications/pensions-review-final-recommendations>

³⁷ The second Pensions Commission (2026). *Pensions 2050: evidence and future priorities* – interim report. Available at: <https://www.gov.uk/government/publications/pensions-2050-evidence-and-future-priorities-interim-report>

earnings', they must logically define the upper boundary at which these state-prescribed defaults fade and reliance on 'enabled' voluntary contributions increases.

One illustrative boundary could be restoring the original relative value of the upper threshold on default minimum contributions that was chosen when AE was introduced in 2012. Back then, it was £42,475 a year (about 160% of median full-time earnings). Restoring this threshold today would require raising it to approximately £65,000, with a strong case for indexing it to average earnings thereafter. A £65,000 threshold would represent roughly the 90th percentile of the private-sector earnings distribution – meaning approximately 90% of employees earn below this level and only 10% earn above it.

For those earning above this upper boundary, policymakers can afford to be more relaxed about TRR shortfalls. First, from a welfare perspective, the consequences of falling short are different. Because of the diminishing marginal utility of income, a shortfall for a high earner typically only impacts discretionary spending, whereas a similar shortfall for an average earner risks pushing them toward financial hardship; the welfare cost of policy inaction is therefore much lower. Second, under current AE settings, these higher earners will almost all be comfortably clear of the Pensions UK minimum living standard in retirement (see Figure 6). Third, they typically pay income tax at the higher rate (40p) – or higher – and therefore already face particularly strong voluntary financial incentives to save in a pension due to up-front higher-rate income tax relief (under the 'EET' system of income tax), allowing them to benefit from tax-base smoothing. They also tend to have a higher capacity and the financial means to manage their own asset allocations and retirement planning, and are much more likely to be owner-occupiers and to have other forms of wealth.

7.2 What to do for low and middle earners

The core of the policy debate for the second Pensions Commission relates to lower and middle earners. Treating this broad cohort – perhaps spanning 90% of employees – as a single, homogeneous group risks policy error. Policy should distinguish between middle earners – where the case for further policy intervention is compelling – and lower earners, where the trade-offs are far more complex and require a more cautious, nuanced approach. The move to the adjusted triple lock narrows this distinction, but does not remove it: it is those at the boundary between the two groups, such as full-time employees on the NLW, whose prospects deteriorate most relative to their target replacement rates.

7.2.1 Middle earners: clearer evidence of undersaving

Among middle earners – perhaps defined as those earning between the equivalent of a full-time employee on the National Living Wage (just under £25,000 a year for a 37½ hour-week), and the upper threshold of policy concern, perhaps around £65,000 – the empirical evidence strongly suggests that a substantial minority are undersaving for retirement.

To quantify this, official projections by DWP show that between 40 and 50% of individuals in these middle-earning bands are currently not on track to meet their TRRs before housing costs (see Figure 6). These projections assume that the triple lock remains in place; under the adjusted triple lock the share undersaving would be higher. Our own modelling (Sections 3.1 and 5) reinforces this: under the adjusted triple lock, a median earner relying on current minimum default contributions and retiring at 63 would achieve a net replacement rate of around 55%, against a target of 74%, while a full-time employee on the NLW would achieve around 71%, against a target of 77%.

It is worth recalling the logic underpinning the recommendations of the first Pensions Commission. The boost to retirement saving that they thought necessary would come roughly equally from mandatory default contributions (set at 8% of qualifying earnings) and from additional voluntary saving. While default minimums have successfully established a baseline and substantially increased participation in workplace pensions, perhaps to a larger extent than envisaged, the expected expansion of voluntary saving above the minimum default has simply failed to materialise. New pension savers are heavily anchored to the statutory minimum, with the majority of middle earners contributing at or close to the default rate (see Figure 14).

Because a significant proportion of middle earners are saving only at the statutory minimum default rates, and because this group is widely projected to be undersaving for retirement, **there is a powerful case for increasing their default contribution minimums**. This case is strengthened by the move to the adjusted triple lock, which reduces the share of a middle earner's target replacement rate that the State Pension can be expected to provide. However, the exact design of such an increase requires careful thought, particularly when considering whether a higher minimum should be applied universally or targeted to avoid unintended consequences for other groups.

7.2.2 Lower earners: a balance of risks

The policy prescription for lower earners – say, those earning less than the equivalent of a full-time job on the National Living Wage (just under £25,000 a year for a 37½ hour-week) – is more nuanced. Many low earners are secondary earners in households with a higher-earning partner. As shown in our matched partner analysis in Table 2, among private-sector couples in which both partners are in work and one earns less than £10,000 a year, a third have a partner earning more than £30,000. In these households, pushing up minimum default pension contribution rates could be beneficial, as the household may have the aggregate financial capacity to save. Encouraging private pension wealth for low earners in this group, who are disproportionately women with young children, would directly help narrow the gender and caring pension wealth gaps – a key concern highlighted by the second Pensions Commission in its interim report.

However, a substantial share of low earners do live in low-income households. As detailed in Section 6.3 (Table 2), in over one-third of private-sector couples containing someone earning below £10,000 a year, their partner is either not working or is also low-paid. These individuals would benefit from increased private pension income in retirement. But it is far from clear that they would – or should – prefer this at the cost of lower take-home pay and a reduced standard of living today. The risk is that reforms which boost retirement saving among lower earners turn out to be to their detriment. If an individual's income is low today, then saving more runs counter to the core economic principle of consumption smoothing, which dictates that people should prioritise spending during periods of low lifetime income rather than locking money away for a retirement in which basic needs may already be largely met by the flat-rate nSP. Indeed, because **working-age household poverty rates are now higher than pensioner poverty rates**, a policy that leads to more saving from low-income workers effectively **redistributes an individual's lifetime resources away from their own poorest working years today to their retirement years** – where they may still be poor, but likely relatively less poor.

Two considerations cut the other way, and are strengthened by the move to the adjusted triple lock. First, the State Pension alone would provide around nine-tenths of the Pensions UK minimum living standard for a single pensioner, so a low earner who stops work at 63 and exhausts a small pension pot before the SPA may fall just short of it. Second, for many low earners private saving functions mainly as a bridge between leaving work and reaching the SPA, so a larger pot would reduce the cost of retiring early. Neither overturns the trade-off described above, but both narrow it.

Furthermore, many low-paid or part-time workers are in this position only temporarily. Younger workers starting their careers, or parents working part-time while caring for young children, often experience upward earnings trajectories later (see Section 6.1 and Figure 20). Indeed, the second Pensions Commission's own interim report highlights this mobility, noting that 41% of those classified as low earners in 2012 subsequently progressed to earn more and escape that classification over the following decade.³⁸ For these individuals, saving more now represents 'bad timing'. They could be better off concentrating their pension saving during later, higher-earning periods when their disposable income is greater and their household expenses (such as child rearing or housing costs) have eased. While low absolute retirement incomes among low-wage workers remain a pressing policy concern, policymakers should recognise this as a reflection of lifetime low-pay issues rather than a systemic failure of the private pension system.

In addressing these challenges, policymakers face a stark trade-off regarding how to manage the inherent risk of AE. Because it acts as a powerful default, many employees will contribute at the default rate regardless of their immediate financial circumstances. The risk of this default being 'wrong' for certain groups – such as low earners currently in working-age poverty – could theoretically be compressed through finer, more granular targeting. However, this comes at the cost of greater operational complexity for employers and payroll systems, and in any case, such targeting will always be far from perfect.

Mitigations must therefore be built into the system's architecture. There is a risk that those engaged in pensions policy, driven by a well-intentioned desire to maximise retirement outcomes, may be more focused on undersaving than oversaving. But both are costly for households. Therefore, if default contribution rates are increased for the benefit of many middle earners, it is important that the default remains 'soft' for those who cannot afford it. Ensuring that the process of opting out – or perhaps opting *down* to a lower contribution tier – is straightforward to navigate could help prevent some from oversaving. Yet ultimately, because the default will always be powerful and targeting will never be perfect, policymakers must consciously decide who bears the risk of the default being set at the wrong level, and explicitly justify that choice.

7.3 Strategic policy priorities

Based on the strategic framework and analysis set out above, we recommend that the Commission focus its attention on targeted, rather than universal, reforms. We thus support the Commission's proposal for a 'hybrid' adequacy metric. For low earners, the metric replaces a percentage TRR with an absolute minimum income standard, focusing policy on preventing pensioner poverty without exacerbating working-age financial strain. Under the adjusted triple lock, however, the State Pension alone would provide slightly less than the Pensions UK minimum for a single pensioner, so a modest private pension, or remaining in work closer to the SPA, will matter for low earners too. For middle earners, the objective rightly remains focused on income smoothing through relative replacement rates. Meanwhile, for higher earners, policy can be less concerned about individuals falling short of their full TRR. Adopting this hybrid framework provides the necessary foundation for our proposals, as outlined below.

³⁸ The second Pensions Commission (2026). *Pensions 2050: evidence and future priorities – interim report*. Available at: <https://www.gov.uk/government/publications/pensions-2050-evidence-and-future-priorities-interim-report>

7.3.1 Changes for lower earners

The 2017 DWP review of AE recommended the removal of the lower qualifying earnings threshold. While legislation has been passed to enable this, the powers it contains have not yet been used. One argument for getting rid of this threshold, and moving to pension contributions calculated from the first pound of earnings, is that it would be easier to explain to employees, and for them to understand, than the current system based on qualifying earnings. Another pressing reason is that women disproportionately make up the part-time, lower-earning workforce, so eliminating the lower threshold would reduce the gender pension gap.

These considerations need to be carefully weighed against the low current living standards of many households with a low earner. Removing the lower threshold would increase default contribution rates – and reduce earnings after pension contributions – by the largest percentage of earnings just above the £10,000 trigger (as strikingly illustrated in Figure 16). For instance, for a part-time employee earning £12,000 (which equates to just over 18 hours a week on the NLW), removing the lower threshold would more than double their default minimum pension contribution rate from 3.8% to 8.0% of total earnings. For a household already struggling with immediate living standards, this could create considerable additional strain.

If a lower threshold for qualifying earnings is retained, its appropriate level depends in part on the generosity of the State Pension: the less generous the State Pension relative to earnings, the stronger the case for a lower threshold. The move to the adjusted triple lock therefore implies that the threshold should be somewhat lower, relative to earnings, than would have been appropriate had the triple lock continued. Having been frozen in cash terms since 2020–21, it has already fallen considerably relative to earnings. Once set at an appropriate level, it should be indexed to earnings, as we propose for the upper threshold, so that the parameters of the system move together. We favour earnings rather than price indexation: with the State Pension now set to rise in line with earnings, earnings indexation keeps the relationship between these thresholds and the State Pension broadly stable, whereas price indexation would, like the recent freezes, gradually erode them relative to earnings.

Choosing to retain a lower threshold nonetheless means consciously accepting that low earners will accumulate a smaller private pension during these periods. As work by the Pensions Policy Institute suggests, for many employees the periods of lower earnings and the impact of the lower threshold can be offset by higher contribution rates during later periods of higher earnings.³⁹ But this will not be true for everyone, and if policymakers are explicitly assigning this risk to this population, mitigations must be considered.

Beyond the AE default, we propose two structural mitigations to support those earning near or below the lower threshold:

1. Modernise National Insurance credits for the nSP: Currently, to secure a qualifying year for the nSP, an individual must earn (or be credited with earning) at least 52 times the weekly Lower Earnings Limit across the year – even though employees do not actually become liable for NICs at the LEL. To support low earners better, particularly those who only work for part of the year, this threshold could be reduced (for example, to some lower multiple of the LEL). Even better, the system could make use of HMRC's Real Time Information system and move to operating on a pay-period basis rather than an annual one. Under this scheme monthly paid employees would receive

³⁹ Pensions Policy Institute (2025). *From payslip to pension: Life course impacts on retirement saving among low earners*. Available at: <https://www.pensionspolicyinstitute.org.uk/media/ey4brdtv/20251029-ppi-part-two-practicality-of-savings-final.pdf>

1/12th of a credit for each month that they earned above the monthly LEL and the equivalent would apply to those paid fortnightly or weekly and to those receiving credits for receipt of certain benefits. The winners here would be those who make contributions, or receive credits, but fall short of what is needed to qualify for the whole year. If needed, the resulting increase in spending could be met by increasing the number of years required to receive a full nSP beyond 35.

2. Introduce non-contingent employer contributions from the first pound: As recommended by the IFS Pensions Review, the Commission should consider basing default minimum *employer* contributions on the first pound of earnings and for them not to be contingent on the employee continuing to contribute. A key justification here is fairness: if a low-income employee opts out to protect their living standards, why should they also lose their employer's contribution? The economic incidence of this change is unlikely to fall on the lower earners who opt out. While there is a risk that untethering employer contributions from employee contributions reduces the financial incentive to stay in the pension, potentially raising opt-out rates, this effect is likely to be modest; it is the power of the default, rather than the financial incentive, that overwhelmingly drives workplace pension participation.

Proposed direction: A lower threshold for individual contributions should be retained to help protect the immediate living standards of low-wage households, set at a level that reflects the generosity of the State Pension and indexed to earnings thereafter, with the automatic enrolment trigger indexed in the same way. The resulting impacts on pension accumulation should be mitigated through a modernisation of nSP credits and, potentially, the introduction of non-contingent employer contributions from the first pound.

7.3.2 Changes for higher earners

To increase pension saving among higher-paid individuals who are only making default minimum contributions, **the upper threshold for qualifying earnings should be increased, for example, to £65,000 and then indexed in line with growth in average earnings to maintain its relative value.** This would increase minimum default pension contributions among all those whose annual earnings are above the current threshold of £50,270. Minimum default contributions would then decline as a share of earnings for the highest-earning 10% or so of employees, who are best equipped to make active savings decisions, and for whom up-front income tax relief provides a strong incentive to save for retirement in a pension.

Proposed direction: The upper threshold should be increased to around £65,000 and subsequently indexed to average earnings, so that minimum default contributions decline as a share of earnings only for roughly the top 10% of private-sector employees.

7.3.3 Changes for middle earners

It is among middle earners (i.e., earning between £25,000 and £65,000 a year) where the evidence of widespread pension undersaving is most compelling. Viewed through the lens of the Commission's proposed hybrid adequacy metric, this is the precise cohort for whom the policy objective shifts from poverty prevention to income smoothing and achieving relative replacement rates. Many of these individuals have been brought into workplace pensions by AE – but often at low contribution rates. And while a full nSP will provide a significant share of their TRR from the SPA, its flat-rate nature means it falls well short of providing a full TRR for these employees. The move to the adjusted triple lock widens this gap: based on our modelling, a median earner relying on default contributions and retiring at 63 would see their net replacement rate fall from around 62% to around 55%, against a target of 74%.

The additional voluntary saving that the first Pensions Commission envisaged among this group has failed to materialise. **The default contribution rate should be increased above the current 8% level in a way that targets middle earners: by raising the rate applied to qualifying earnings, while retaining a lower threshold, the increase is concentrated, as a share of earnings, on those earning between the lower and upper thresholds.** This is the most direct and necessary lever to narrow the adequacy gap for the group where undersaving is the biggest concern while limiting the regressive consequences for low-income employees of an increase applied from the first pound of earnings. If employer minimum contributions were instead calculated from the first pound (see Section 7.3.1), the lower threshold would apply to employee contributions only, and the targeting would come mainly through the employee contribution rate. Furthermore, while targeted at middle earners, this structural increase would concurrently boost the pension accumulation of higher earners, as they too would pay the increased rate on the relevant portion of their income. Alongside this, those considering opting out of their pension should also be presented with an alternative option of opting *down* to the current, lower contribution rate.

Crucially, combining an increased contribution rate with the retention of the lower earnings threshold creates a highly effective dynamic for pay progression. Because contributions are levied only on earnings above the threshold, the marginal saving rate is pushed up by more than the average saving rate. Consequently, as employees receive pay rises, a larger fraction of that additional income will flow automatically into their pension saving, accelerating their progress toward their TRR.

Proposed direction: The default contribution rate should be increased in a way that targets middle earners to narrow their adequacy gap. Individuals should be able to opt down to current contribution rates, and the increase should be announced with plenty of notice and phased in gradually over a few years to allow individuals and their employers time to adjust.

7.3.4 Other inequalities in pension accumulation

The second Pensions Commission interim report highlights inequalities in pension accumulation, specifically those by gender, caring, disability and ethnicity. It is fair to acknowledge that the primary rate and threshold suggestions set out above would do little, if anything, to address these. Indeed, retaining a lower threshold forgoes one way of narrowing the gender pension gap. As the UK system for private-sector employees relies relatively heavily on DC pensions, it is unsurprising that pension outcomes mirror inequalities seen in earnings during working life. If, on average over their lifetimes, women, carers, disabled individuals, and ethnic minorities earn less per hour and spend fewer hours in paid work, they will tend to accumulate less in private pensions. The move to the adjusted triple lock is also relevant here: because the flat-rate State Pension makes up a larger share of retirement income for these groups, a less generous path for it than under the triple lock will, all else equal, tend to widen gaps in total retirement income.

While the pension framework should be designed with these disparities in mind, expecting it alone to resolve these structural labour market inequalities risks placing too much weight on the private pension system, leading to an overly complex system that ultimately fails to deliver the desired outcomes.

One approach that could be considered would be for the state to make contributions into the pensions of specific groups, such as those with intensive caring responsibilities (as proxied by, say, receiving Child Benefit for a pre-school age child or receiving Carer's Allowance) or those out-of-work due to disability (i.e., receiving health-related Universal Credit potentially only for older working-age individuals). This would be a targeted way of reducing some inequalities in pension

outcomes. But the Commission must weigh whether this would represent the most urgent and pressing priority for highly constrained public finances. Indeed, those benefiting from such payments might prefer that they be made directly to them – via higher rates of benefit – rather than into their pensions.

Instead, the Commission should focus its immediate systemic efforts on the targeted mitigations outlined earlier in this report. Modernising National Insurance credits to support part-time and part-year employees better, and mandating employer contributions from the first pound, represent structural mechanisms to support those earning below the automatic enrolment trigger and those more likely to opt out – a cohort disproportionately comprised of women, ethnic minorities, those with disabilities and those with caring responsibilities.

Proposed direction: The Commission should recognise the limits of what a private pension system can realistically solve in isolation. To address inequalities, it should prioritise structural mitigations within the pensions system, such as non-contingent employer contributions from the first pound. Crucially, the Commission should actively use its platform to highlight wider structural barriers. By pointing out that equitable pension accumulation is not possible without addressing these upstream factors, the Commission can forcefully demonstrate that success in pensions policy ultimately depends on labour and housing markets that work better for all.

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ANNEXES

Annex 1 Supplementary tables and figures

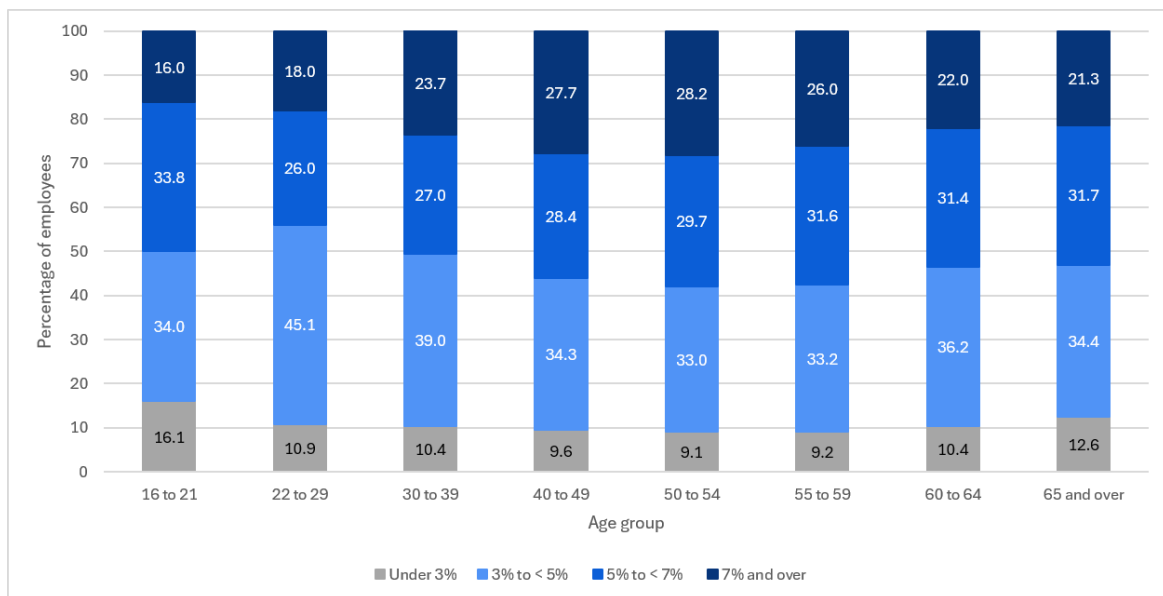
Table 3 Relevant tax rates and allowances for a median earner in 2003-04 vs 2026-27

	2003-04	2026-27
Personal allowance for 65-74 yo	£6,610	£12,570
Personal allowance for under 65 yo	£4,615	£12,570
Income Tax starting rate	10%	0%
Income Tax basic rate	22%	20%
National Insurance rate	11%	8%

Note: In 2024 NI contributions were lowered from 12 to 8%. All of the five changes to the tax system imply higher take-home pay for the median earner and higher taxes for the median retiree.

Source: UK Parliament, *Direct taxes: rates and allowances* [2003-04](#) and [2026-27](#).

Figure 22 Distribution of employee contribution rates by age group (ASHE)



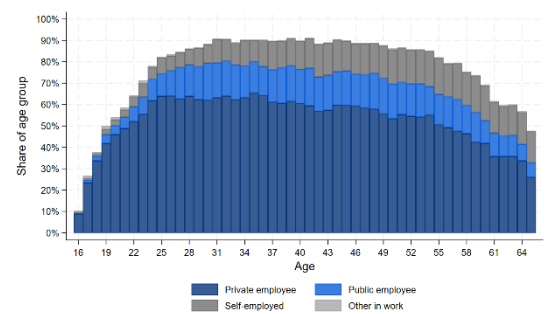
Note: share of total salary for all employee jobs in the UK (i.e. both public and private-sector).

Source: DWP estimates from ASHE data, UK 2024.

Figure 23 and Figure 24 show the employment rate by age and sector for men and women respectively. Here, it appears that the ages at which people are most likely to be in paid work – and therefore have the highest saving potential – are concentrated between roughly 30 and 55 years of age. Both figures also show employment rates falling sharply from the mid-50s, well before the SPA, consistent with the retirement age of 63 assumed in our modelling.

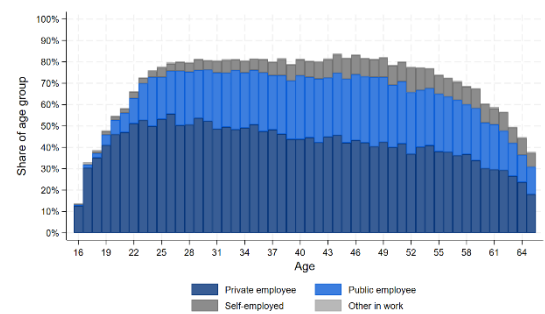
Moreover, a clear contrast in sectoral composition emerges: private-sector employees and the self-employed are predominantly men, whereas public sector employees are more likely to be women. The share of employed women in the public sector rises markedly starting in their mid-30s. This pattern is consistent with women moving into the more family-friendly public sector – characterised by shorter hours, more leave time, and greater flexibility – during motherhood, compared with their childless years in their 20s and early 30s.

Figure 23 Employment rate by age and sector (men)



Note: Working-age male population 16-65.
Source: LFS 2024-2025.

Figure 24 Employment rate by age and sector (women)



Note: Working-age female population 16-65.
Source: LFS 2024-2025.

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