THE SOCIETY OF PENSION PROFESSIONALS
making pensions work

Saving Retirement: Who is at Risk and Why?

What the Pensions Commission should consider and why

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Foreword

DWP research shows that 46% of working age people (equivalent to 15 million people) are not saving enough for retirement[1]. Many are not saving at all – with over 1.7m expecting the State Pension to be their only source of retirement income[2].

Most of the discussion around addressing this has naturally focused on increasing minimum Automatic Enrolment (AE) contributions, the current rates of which the previous Government acknowledged *"...are unlikely to give all individuals the retirement to which they aspire"*[3]. There are challenges – political, social and economic – in delivering any such increases but these are not insurmountable. The SPP believes that we need a long-term plan for increasing AE contribution rates, including a clear framework and timetable, which provides certainty for savers and employers alike, to reach an adequate level of contributions.

Equally, it is worth considering other solutions beyond increasing AE contribution rates, not least because AE covers less than two thirds of the UK's working population.

Policymakers, the pensions industry and savers have a shared goal – an adequate retirement income for all. The Society of Pension Professionals (SPP) is pleased that the Government has revived the landmark Pensions Commission to look at the issue of pensions adequacy. The pensions industry is certainly ready to play its part, in partnership with the Government, to see what more it can do to make things work better for savers.

This SPP paper helps to shine a light on what is needed and why. It should help to further stimulate debate on what is an increasingly important issue as well as providing some food for thought for the new Commission.

Sophia Singleton
SPP President

Executive Summary

This paper sets out a number of calls to action. Some are directed at policymakers, others at industry and several at both but it is clear that the only way the issue of adequacy will be fundamentally addressed is by industry and Government working together in partnership.

The paper is structured in three sections:

1. What SPP members believe the Pensions Commission should consider
2. What benefits the Commission's recommendations could help deliver - to all stakeholders, from Government to employers and savers
3. Building a plan - setting out examples of the tangible actions the Commission could recommend

The SPP's recommendations are summarised below:

What the Pensions Commission should consider

> **Define *"adequate"***
Whilst various approaches exist for measuring adequacy (for example, the Pensions UK Retirement Living Standards, Target Replacement Rates etc.) we need the Commission to establish a common understanding among key stakeholders – including policymakers, industry and employers – regarding what is a reasonable definition of adequate and the methods that should be used to assess progress toward retirement adequacy.

> **Identify the under pensioned**
The Commission should identify both current under-pensioned groups and those who are likely to be under-pensioned in the future and investigate the factors that are driving their lower participation rates.

> **Understand the trade-off between adequate living and adequate saving**
As the first generation of DC savers (i.e. those savers who have no DB pension underpinning their savings) are now beginning to retire, now is the time for the Commission to consider the impact of integrating short-term and long-term savings solutions and to explore the legal and regulatory frameworks that might be needed to facilitate this.

> **Understand how to improve public trust in and awareness of state provision**
The Commission should assess current levels of awareness of state provision and identify (and action) ways to build trust in the system.

> **Review the interaction between private and public pensions and state benefits**:
the Commission should carefully consider the interaction between state benefits and the State Pension, the interaction between the State Pension and private pensions, the behavioural impacts of each and the financial consequences of those behavioural impacts before identifying measures to reduce friction.

> **Understand the barriers to saving**
The Commission should assess the barriers to saving including the lack of engagement and access to appropriate advice and guidance.

Building a plan - examples of the tangible actions the Commission could propose

> **Drive greater pension savings**
The Commission should set out a long-term plan for increasing auto-enrolment contribution rates, including a clear framework and timetable, which provides certainty for savers and employers alike to reach an adequate level of contributions.

> **Beyond pensions**
The Commission provides a unique opportunity to improve wider lifetime saving through the integration of short term and long-term savings schemes. To achieve this there needs to be:

- a feasibility investigation to understand the demand for such functionality and the extent to which such a system can be accommodated by technology solutions; and
- an economic impact assessment for allowing different groups access to various elements of pension savings for certain prescribed purposes (payment of debt, mortgage deposits for first time buyers etc.).

> **Alternative architecture**
The Commission should consider increasing the availability of pooling arrangements through expanding the list of authorised benefits provided by pension schemes (such as long-term care and medical support for critical illness) and promoting the delivery of CDC schemes.

- **Support disenfranchised groups**
  In order to ensure that the lowering of the AE threshold does not result in a loss or reduction in means-tested benefits, or encourage those on low incomes to opt-out, the Commission should consider recommending that the Government:
  - modifies the rules for means-tested benefits to ensure that pension contributions do not disproportionately reduce benefit entitlements;
  - increases pension awareness by providing financial education and tools to help people understand the long-terms benefits of pension savings; and
  - introduces transitional support i.e. temporary financial assistance to low earners who may experience a short-term reduction in their disposable income.

  To address the steep decline in saving amongst the self-employed, the Commission should also consider recommending the extension of AE (or something similar) to the self-employed

  To help the 2.3m working as carers who currently receive no income, the Commission should explore the practicalities of introducing a carer's credit and increasing the existing £2,880 limit on which pension tax relief is payable for non-taxpayers.

- **Reduce Pension Gaps**
  Solutions for closing systemic pension gaps (ethnicity, gender, LGBTQ+ and disability) must be identified and a timetable for action established.

  The pensions industry should
  - ensure that quantifying and communicating how much those returning from career breaks could contribute to offset any gaps in service becomes more widespread
  - help savers to better understand whether employer contributions over the period of parental leave are based on salary up until maternity leave or salary during maternity leave and communicate this effectively to members

  The Government should consider:
  - examining the potential for pension sharing on separation
  - amending the high-income child benefit charge (noting proposed changes for April 2026 will improve but not solve the issue)

  The Government and industry should jointly explore:
  - improving pension related communications to help dispel mistrust and improve understanding of the protections and benefits among those from ethnic minority backgrounds

- **Enhance the employer's role**
  Whilst acknowledging the helpful role that many employers play, more needs to be done to incentivise all employers to provide support and guidance to their workforce to encourage greater workplace saving. In addition, the Government needs to ensure a stable and supportive environment that is conducive to employer led saving.

- **Improve knowledge and engagement**
  Improve understanding of, and engagement with, pensions by ensuring they become a key part of financial education in schools, requiring all large employers (250+ employees) to offer some form of financial education (including pensions) to their workforce on an ongoing basis. The responsible adoption of digital tools and resources, such as generative AI, to enhance financial understanding (including pensions) should also be embraced.

> *"...more needs to be done to incentivise all employers to provide support and guidance to their workforce to encourage greater workplace saving."*

Chapter 1: What the Commission should consider

Pensions adequacy is about having enough pension savings in retirement to meet the costs of a period when employment income has either reduced or ceased. So, what is enough, and what is not? Opinion differs.

What is actually enough will depend on personal and economic factors: level of debt at retirement, other sources of income and capital, expectations based on previous patterns of income and expenditure, health and mortality experience, actual investment return on retained assets, home ownership, price inflation, number of people in the household either contributing income or draining resources, and residential care costs.

Worryingly, the 2024 Scottish Widows Retirement Report[5] suggests that half of people in their 50s and early 60s have still done little to no research on how much they might need to save for retirement. Of the overall population surveyed, 44% had concerns about their retirement prospects but either have not or do not know whether they have done anything to address those concerns.

Define *"adequate"*

The Commission must explore its definition and how it can be measured, with the goal of building consensus on what constitutes an adequate level of income in retirement.

There are numerous widely recognised approaches that should be considered for this purpose including but not limited to:

> **Fixed income targets** - as defined by the Pensions UK Retirement Living Standards[6], which set benchmarks for different levels of retirement lifestyles e.g. minimum, moderate, comfortable. These Retirement Living Standards" suggest a single person could get by on £13,400 a year out of London, and a two-person household could live comfortably on £60,600 a year in London[7]. However, those estimates do not include mortgage or rent costs or reliance on residential care in later life, both of which are likely to have a significant impact.

> **Proportional income targets** – such as Target Replacement Rates (TRRs), which determine the percentage of pre-retirement income needed to maintain a desired lifestyle in retirement. In that model, the lower the original income, the higher the proportion that the individual will need for retirement. For example, an individual earning less than £27,000 a year before deducting housing costs would need an income in retirement of 70% of that income (i.e. £18,900) and someone earning over £61,500 would need 50%, i.e. £30,750 a year in retirement.

Furthermore, a 2023 DWP report[8] shows 43% of working age people, 14.1 million individuals, are under-saving against TRRs before housing costs, if they take a 25% lump sum. 89% are projected not to achieve the *"comfortable"* Retirement Living Standard in that situation.

> **Total contribution saving targets** – such as the Living Pension measure[9], which assesses overall minimum savings contribution required to achieve an acceptable standard of living in retirement (currently 12% of the full time Living Wage salary).

> **Rule-of-thumb approaches** – like the *"half your age"* savings principle, which suggests individuals should save a percentage equivalent to half their age when starting a pension, and broadly maintain this level throughout their working life e.g. 10% if starting at age 20, 20% if starting at age 40 etc.

> **Existing Government measures** – the Government has recently announced any pensioner with a taxable income below £35,000 is entitled to a Winter Fuel Payment because anything below this figure is deemed to be a low income. This figure was arrived at using the Department for Work and Pensions' Policy Simulation Model (PSM) to model the impact of policies on individuals and poverty levels in the UK, including analysis for four measures of poverty, both relative and absolute low income, both before and after housing costs[10]. It would therefore appear that there is already a potential measure as to what Government deems to be an adequate income for pensioners.

Recommendation:
Whilst these approaches are intended to serve as valuable guidelines to savers, we need a common understanding among key stakeholders – including policymakers, industry and employers – regarding target benchmarks and methods to assess progress toward retirement adequacy. That does not stop different approaches being deemed suitable to use for different segments of the population that display different characteristics.

Identify the under pensioned

In a 2024 report the Pensions Policy Institute concluded that *"...our pension system does not operate in isolation, and it will be external factors as much as pensions policy that determine its success. It reminds us that today's trends in health, wealth, housing, and employment are the foundations upon which tomorrow's retirement challenges will be formed"*.[11]

Pension reforms such as AE and the introduction of the new State Pension have played a significant role in closing historic savings gaps and improving retirement incomes, particularly amongst poorer households. Although it is worth noting that of the 22.3m employees saving into a private pension in 2023[12], this represents just 65% of the UK's total working population that year.[13]

Its widely accepted that a the minimum auto-enrolment contribution rate of 8% is not sufficient to achieve an adequate private retirement income for most savers. And it is even more unlikely to deliver an adequate retirement income for those who may take employment breaks - for caring responsibilities, health issues, redundancy, financial pressures etc.

Likewise, there are similar issues with obtaining a full State Pension upon retirement given this requires 35 years of uninterrupted contributions that many (around half[14]) do not manage for the same reasons as set out above. Furthermore, those with less than 10 years of National Insurance Contributions get nothing at all – estimated by Age UK to be around 70,000 people[15] and around 150,000 are receiving less than £100 a week[16].

In addition to this, widening disparities in health, wealth, housing and employment are growing issues. They shape not only how much people can save, but also how long they can work, when they retire and what kind of retirement they can realistically expect. For example:

> **Health inequalities:** Someone in poor health may not be able to work longer to compensate for lower retirement savings.

> **Housing insecurity:** Renters will face ongoing housing costs and may need more retirement income than homeowners but often have less capacity to save. Currently around 19% of households in the UK are privately rented, up from 14% in 2008[17], and the proportion of homeownership has dropped significantly amongst younger people[18]. That suggests that the incidence of individuals being able to retire rent- and mortgage-free is likely to be lower in the future.

> **Insecure/atypical work:** the rise of gig work, zero hours contacts and self-employment can lead to irregular income and patchy pension contributions

Future reforms must go beyond savings mechanisms if they are to be truly effective and capture broader inequalities to address adequacy. That includes integrating retirement policy not only with health, housing and employment strategies but also remodelling it to better serve under-pensioned groups.

Gender:
The gender pensions gap is 35%, rising to 60% when considering DC pensions alone[19]. By her late 50's a woman's private pension wealth is on average only 62% of a man's in the same age bracket[20].

Ethnicity:
Those of an ethnicity other than *"White British"* had an average pension pot of £52,333, just 46% the size of their white British counterparts' £114,941[21].

LGBTQ+:
LGBTQ+ people are less likely to be on track for both a minimum lifestyle (55%, compared with 63% on average) and comfortable lifestyle (34%, compared with 38%). 18% of LGBTQ+ savers have had to reduce contributions due to the cost of living[22] compared with 12% of the wider population.

The reasons for these gaps are important when looking at policy solutions. For instance, the main causes of the gender pensions gap are the different working patterns women have in their careers and the gender pay gap. Therefore, further government actions in wider workforce equality should naturally improve the gender pensions gap.

Likewise, large elements of the ethnicity pensions gap are driven by self-employment, with the self-employed being a particularly large under pensioned group.

The under-pensioned are also more likely to be ineligible for AE because they earn below the earnings trigger of £10,000. Even if a low earner does become a scheme member (by AE or by opting in), their scheme may limit contributions based on earnings below £6,240.

The importance of intersectionality cannot be underestimated when both identifying the under pensioned and seeking solutions.

Finally, it is worth noting that whilst some policymakers rightly highlight that many people with very low pension incomes may live in a household where another adult is likely to have more pension wealth, the number of one-person households in England is projected to increase by 26% between 2016 and 2041 according to the ONS[23] and that this will largely be driven by increases in the number of people aged 65 years and over living on their own. Starkly, the number of people aged 90 years and over living on their own is projected to more than double, from 241,000 in 2016 to 588,000 in 2041[24].

Recommendation:
Identify both current under-pensioned groups and those who are likely to be under-pensioned in the future and investigate the factors that are driving their lower participation rates, before setting out a range of tangible steps that can be taken to address these.

Understand the trade-off between adequate living and adequate saving

Present bias is a well-known concept i.e. people tend to place greater importance on today's costs and benefits than ones in the future. For many, especially those facing tight budgets, saving for retirement may feel like a luxury that they cannot afford. As a result, assessing adequacy is often delayed until later working life – at which point, the power of compound growth is diminished, and contributions have less time to work effectively. This can lead to disengagement at ages where we expect engagement to improve. That is, people stop trying to improve their future financial outcomes because they believe it is too late or too difficult to make a meaningful difference.

Assessing retirement adequacy may require a more nuanced approach than simply requiring everyone to save more. In particular, there is a balance to be struck between ensuring an adequate standard of living during working years and achieving sufficient savings for retirement. It is not just a choice between having enough now or having enough later, but how to realistically achieve both by balancing present needs and financial pressures, with future security.

One way of addressing this issue may be to consider differential rates of contributions based on income levels. It has been argued that for those on lower incomes, an 8% contribution rate may be sufficient and so could be maintained to maximise their income today rather than their income in the future. However, as noted above already, even for lower earners entering the workforce, the current AE contribution rate – combined with the State Pension – may not provide an adequate retirement income in terms of replacement ratio.

Differential rates would introduce complexity from a resourcing, payroll and administrative perspective and also in relation to consumer awareness and understanding. Although these are all hurdles that can be overcome.

Removing the lower earnings limit threshold for lower earners, especially where they have multiple low paid jobs, may be more help than simply increasing the 8% minimum contribution.

Later on in this paper we explore the possibility of access to various elements of pension savings for certain prescribed purposes (payment of debt, mortgage deposits for first time buyers etc.) which may be a better means of addressing the trade-off between adequate living today and adequate saving for tomorrow. That said, if people could access their pension saving for a variety of different reasons beyond retirement living, it is reasonable to ask how much would be left for retirement.

Recommendation:
As the first generation of DC savers (i.e. those savers who have no DB pension underpinning their savings) are now beginning to retire, now is the time for the Commission to consider the impact of integrating short-term and long-term savings solutions and to explore the legal and regulatory frameworks that might be needed to facilitate this.

Improve public trust in and awareness of state provision

As noted above, pension reforms such as AE and the introduction of the new State Pension have played a significant role in closing historic savings gaps and improving retirement incomes, particularly amongst poorer households. The State Pension will therefore be a crucial part of many people's retirement income and knowing when it will start, and how much it pays, is an important part of planning for retirement. Research conducted among 6,000 adults by Standard Life[25] found that 50% did not know how much they will receive in their State Pension, with almost a third (32%) unaware of the age at which they will start to get it. Work needs to be done to bridge this knowledge gap.

Awareness needs to improve because for the majority who are reliant on DC savings, knowing how much to save will often depend on knowing what State Pension they are going to get. Adequacy is intrinsically linked to a degree of certainty around State Pension benefits.

There is also a significant issue around trust. According to research from the Institute for Fiscal Studies, around a third of people do not believe that the State Pension will exist in 30 years' time.[26] This is not helped by uncertainty around future increases in State Pension age and wider reviews of the State Pension, and continuing speculation around the sustainability of the triple lock (despite the Government reassuring voters it remains committed to the mechanism for the duration of the current Parliament[27]).

A lack of trust is not unique to the State Pension; there is a similar lack of trust in the private pension system. Some of this distrust could be combatted by better awareness and understanding. Likewise, much more could be done to address the typically British belief that property investment is a better alternative to a pension. Recent research by Aberdeen Investments indicates that nearly half (48%) of Brits believe this to be the case[28] despite the fact a property purchase fails to attract tax relief or employer contributions, or, crucially, that savers still need somewhere to live when retired!

Pension Dashboards could help with some of this. However, government policy could assist further by revising the disclosure requirements to include personalised State Pension details in annual statements, retirement forecasts etc. through the sharing of HMRC data or non-personalised information that highlights crucial information such as the current maximum available State Pension entitlement, that 35 years of contributions are required to obtain this, that between 10 and 34 years of contributions will result in some State Pension and that less than 10 years of contributions will result in no State Pension at all. This may not tell the full story for individuals who have other pensions and/or other retirement savings vehicles, but regular notification of this information (throughout the journey to retirement) should help people start to understand the bigger picture in terms of their retirement planning.

Recommendation:
The Commission should address the current level of awareness of state provision and identify (and action) ways to build trust in the system. For instance, revising disclosure requirements to include personalised State Pension details in annual statements, retirement forecasts etc. through the sharing of HMRC data or non-personalised information simply highlighting the maximum available State Pension entitlement.

Review the interaction between private and public pensions and state benefits

The State Pension forms the largest part of most retired people's retirement incomes, indeed, 1.7m people are reliant on the State Pension alone for retirement income[29], and this is set to remain the case for future generations of retirees.

The Commission should consider the purpose of the State Pension, how it interacts with private savings and how to ensure its sustainability over the long-term.

But other state benefits are also going to be increasingly important to retirees. Given most UK households (52.6%) receive more in state benefits than they pay in taxes[30], the importance of state benefits in any financial decision-making process cannot be underestimated.

For example, one-off or irregular sums taken from a pension would be treated as capital for the purposes of means-tested state benefits, and regular amounts taken from a pension should be treated as income. However, whilst taxable income from pensions is also income in relation to tax credit eligibility, the tax-free element of any pension income or lump sum is not included as income for tax credits. These facts need to be clearly communicated to savers.

The changes to housing tenure in the form of decreased ownership and increased private renting, also make state support, via direct provision of social housing or housing benefits (increasingly as part of Universal Credit), all the more important. The implications of this for government finances and the interactions with the pension system are largely unexplored. For example, since the State Pension is not means-tested, there is no challenge for low earners as to whether they should save for retirement for fear of reducing their future State Pension. But for savers looking at retirement in the private rented sector, there could be a new dilemma about the value of saving, for fear of losing housing benefits.

Recommendation:
The Commission should carefully consider the interaction between state benefits and the State Pension, the interaction between the State Pension and private pensions, the behavioural impacts of each and the financial consequences of those behavioural impacts before identifying measures to reduce friction.

Understand the barriers to saving

There are various obstacles to individuals making higher contributions, but the two greatest barriers are likely to be a lack of understanding and lack of money. Both may be partially or wholly addressed via improved financial education for which the state, individuals and employers can all play a role in achieving.

The SPP welcomes the FCA's recent proposals for *"targeted support"* as a positive development in helping to encourage individuals to save more. However, even this will inevitably have limits which need to be recognised such as:

> its reliance on people actively engaging with 'targeted support' so it will only reach those who are willing to seek guidance. Targeted interventions may not be enough to encourage participation particularly amongst those with low financial literacy.

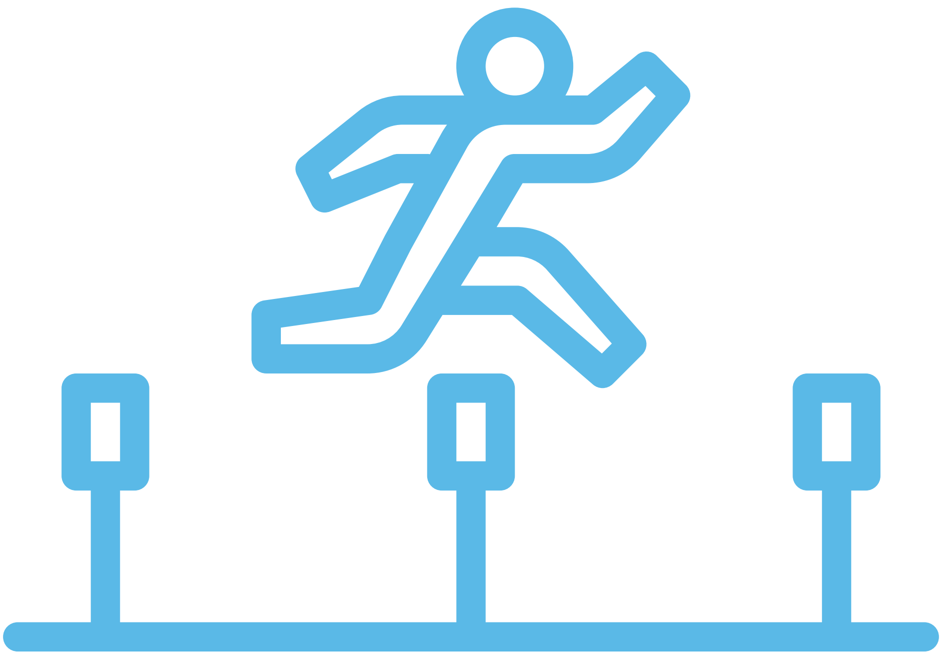
> regulatory boundaries still requiring care not to stray into regulated advice

> digital tools may be key in providing support and encouraging engagement, but older generations may struggle to access or understand online financial guidance.

Similarly, pension dashboards have the potential to play a powerful role in encouraging additional saving, if individuals are appropriately presented with their cumulative savings (including any state provision). If that were in a format which compared aggregate savings with thresholds for a reasonable retirement income and prompted action to improve savings, then that would be a powerful tool. However, it may also have a depressive effect where savers conclude they have no hope of reaching the target.

Recommendation:
The Commission should assess the barriers to saving and specific actions that could improve engagement. In particular, for 'targeted support' to be truly effective, it needs to be integrated into the support provided to people in workplace pension arrangements to help guide people through financial planning at key stages, expanding on government-backed initiatives that offer free financial education.

"The SPP welcomes the FCA's recent proposals for "targeted support" as a positive development in helping to encourage individuals to save more."



Chapter 2: Who will benefit?

In this section we set out the benefits that the recommendations of the Commission could deliver to various stakeholders - Government, employers and savers.

Benefits to the state

1. Managing Government expenditure

As well as improving outcomes at an individual level, improving retirement adequacy is likely to save the Government considerable sums of money in the long-term. Indeed, one of the long-standing principles of the *"social contract"* regarding private pension provision in this country has been that private pensions receive favourable tax treatment because it is recognised that in the long-term this saves the Government and the tax-payer money. Consequently, it follows that improving pensions adequacy across the whole socio-economic spectrum will increase the amount of money that the Government saves.

Inadequate retirement saving is already costing the taxpayer an estimated £6bn per annum through Pension Credit being paid to 1.35m pensioners[31]. It is also worth noting that the failure to deliver Pension Credit to 40% of eligible pensioners has been estimated to cost the taxpayer a further £4 billion a year in increased NHS and social care spending[32].

The effects of both inadequate pension saving and the anticipated increase in the number of pensioners from 12.95m today[33] to more than 20m by 2050[34]), could further increase the cost to the state of providing Pension Credit. That said, we recognise that with a rising new State Pension, protected by the Triple Lock and set at a level that means most new pensioners will not have to rely on means-tested Pension Credit, in the long term, the costs of Pension Credit should fall. Of course, such an outcome is dependent on future State Pension increases (see further below).

The impact of inadequate pension saving goes beyond central government. The 2021-2023 national lifetables show that at age 90 there are expected to still be over 32,000 women alive out of a starting group of 100,000, and nearly 21,000 men on the same basis. These individuals are far more likely to need residential care including nursing care. Average nursing home care costs are £79,508 a year, with London nursing homes requiring closer to £93,700[35] in average and above £120,000 a year for higher CQC rated homes, far in excess of any *"comfortable"* standard of retirement income. That in turn increases the burden on local authorities who must generally help with care costs if the individual has less than £23,250 in savings. Around half of older people needing residential care are state-funded and are paid for by the local authority.[36]

The more an individual saves for retirement and can self-fund their later life care, the lower the overall burden on local authorities. Improving retirement outcomes may also enable pensioners to stay independent for longer with domiciliary care, thus reducing the demand for nursing homes and the costs of these for local councils. The King's Fund highlight that local authorities spent £7.7bn on older people in 2023/4 - £0.8bn on short term support, £2.4bn on nursing homes and £4.5bn on residential homes.[37]

2. Supporting economic growth

The Government has also made it clear its focus is on enabling productive investment by pension assets. In March 2025, the Pensions Minister said, *"Every percentage point counts, or part of a percentage point matter when this investment can deliver not only returns for savers... ...but also contribute to economic growth. And if you want a simple summary of the government's economic strategy this is it: It's time for Britain to start investing in its future again."*[38] We believe that taking action now to improve retirement adequacy is complementary to, and will assist with achieving, these objectives.

3. Managing the cost of the State Pension

A potential benefit to the Government of improving retirement adequacy will be that it could alleviate the current pressure to retain the Triple Lock on the State Pension. It is widely recognised that the Triple Lock is expensive for the State to provide – costing between £3.6bn and £10bn more than other alternatives[39] since its introduction, but that the Government has committed to the Triple Lock for the lifetime of this Parliament.[40] However, if the adequacy of private pensions were to be improved then this should give *"headroom"* for the Government to review the Triple Lock and potentially save billions of pounds in doing so.

Benefits to employers

Some may see improving adequacy as a cost to employers when the economy remains fragile, but HMRC treats company pension contributions to a registered pension scheme as an allowable business expense, reducing the employer's corporation tax bill.

Furthermore, employers' contributions can be viewed as an investment for employers in productive human capital that may also serve as an effective recruitment, retention and workforce management tool. Also, better support for under-pensioned groups e.g. women and disabled people might bring more skills into the workplace. That said, employers and policymakers also need to recognise that an increasingly mobile workforce means that the traditional employer process of taking a responsible approach to *"looking after our people"* may need to change to a more collective responsibility towards everyone needing to contribute towards adequate retirement saving.

There should be a number of levers to encourage employers to contribute more. For example, there could be a greater acknowledgement of employers who are able to make 12% or higher contribution rates. For example, via a nationally recognised, uniform kite mark/accreditation programme or an additional tax rebate similar to the erstwhile contracting-out framework.

The Pensions Act 2011 brought forward the increase in State Pension age from 65 to 66 for both men and women to October 2020. Section 26 of the Pensions Act 2014 brought forward the increase in the State Pension age for men and women to 67 to between 2026 and 2028. However, despite these rises, SPP members report in relation to employer pension schemes, that private pension savers are either keeping their retirement age at 65 or reducing it. That trend is in keeping with evidence that savers are accessing their pension plans earlier – a 20% increase in 2023/24 compared to 2022/23.[41] Increasing access to the employment market for older workers (including support in reskilling where appropriate) may therefore play a role in improving adequacy whilst also providing employers with a more diverse and experienced pool of talent, and associated productivity benefits.

Benefits to employees

Greater contributions will likely result in a greater pension and any increased contribution from employees is an investment that they will get back at retirement.

It is important to note that, for many, any attraction for saving more into a private pension is that they can be accessed earlier than a State Pension (57 from April 2028 onwards compared to a State Pension age of 67 from April 2028).

Compounding effects should be considered too. Any increased savings are likely to be further enhanced by tax relief in most circumstances, by increased employer contributions in some circumstances too, and not to mention, increased investment growth.

Saving more now is likely to help ensure a better standard of living in retirement, reduce the likelihood of living in poverty and/or having to rely on state benefits.

There is also some evidence that an increase in pension income in England for low-income pensioners contributes towards a reduction of inequalities in mental wellbeing for men[42]. More broadly, most evidence suggests a positive relationship between savings and wellbeing – *"...those who save, are generally less anxious about money, and have greater life satisfaction overall.[43]"*

Furthermore, improved adequacy could make a tangible difference to supporting diversity in the workplace, closing gender, ethnicity, disability and LGBTQ+ pension gaps will make a positive difference to the lives of millions of people. It is also an opportunity to support short-term as well as long-term financial resilience, good for the employees concerned but also for the wider economy.

> *...most evidence suggests a positive relationship between savings and wellbeing*

Chapter 3: Building a plan

The above leads us to two questions – what and when. As was noted by the Work and Pensions Committee in 2022[44], even if the time is not right to introduce change, a plan should be made as to what should happen and what circumstances would allow for it to be initiated. The longer the timeframe for change proposed by the Commission, the worse the impact will be on savers.

> *The Government accepts the warning that the current level of minimum auto enrolment contributions will likely lead to many missing out on a comfortable retirement. It now must get on with building a consensus on the need for change and draw up a plan for introducing higher minimum contributions to workplace pensions in the future.*[45]

Driving greater pension savings

The most important element of future reform will always be the level of contributions to DC schemes. Even a well-governed and consolidated market, investing in a wide range of asset classes, including productive finance, will not turn inadequate contributions into adequate retirement incomes.

Our experience indicates that a focus on engagement, while important, will not see contributions rise sufficiently from active decisions made by savers. Along with the complexity of retirement planning and poor levels of financial literacy among parts of the population, there are also proven behavioural obstacles that make it difficult for people to sacrifice money to benefit their future selves.

What does work, as proven by the success of AE, is leveraging inertia and defaults. If we want the UK workforce to save adequately, we need to make adequate savings the default path. This means increasing the minimum AE contributions for workers and extending AE, or something similar, to the self-employed.

We recognise the barriers to increasing saving may include pressure on businesses and household finances; taking spending money out of the economy; and increasing the total costs of tax relief. Despite the barriers, we believe it is possible. We see this across the globe - comparator countries with similar reliance on DC systems include Switzerland (12.5% contributions), Australia (12%), Denmark (12%) and Iceland (15.5%).

Australia

According to The Association of Superannuation Funds of Australia (ASFA), "*...super balances have been growing for most individuals, but substantial gender and other disparities remain*"[46]. Despite increases in the Superannuation Guarantee, which reached 12% in July 2025, superannuation is blighted by very modest median balances. For men, this median balance is just $66,159 (£31,974) and $52,075 (£25,152) for women[47]. To help tackle this, the $450 minimum threshold was removed to support lower income workers. This had a direct and positive impact on adequacy and, of course, there are direct parallels to the AE eligibility rules.

Netherlands

The Dutch system enjoys a relatively high contribution rate of 18.6% for occupational schemes[48], with employers typically picking up two-thirds of the contribution[49]. This has led to many in the Netherlands viewing their employment income as being four days income for the present and one day's income for the future. The system is not mandatory as many believe but quasi-mandatory. Essentially, collective agreements are transposed into law making it a mandatory pension offering for specific sectors. This might work in specific industry sectors in the UK, where it would likely have the effect of increasing pension savings leading to greater living standards in retirement. In addition, there would be the positive spillover effect of making a specific sector a more attractive place to gain and maintain employment and grow a pension pot.

As previously mentioned, we recognise that the answer may not be a simple increase in the flat rate of contributions and may need to take account of different needs in retirement.

The Commission should have the ambition to set out where the Government ultimately needs to get to, a plan for reaching whatever this destination may be, and perhaps the conditions required for progressing with the plan.

This Government has made it clear that increasing productivity is at the heart of its economic agenda. If that raises real incomes, those increases could be split between higher living standards today and higher living standards in retirement. That does not necessarily mean a long wait for increased contributions. Some who are not saving adequately may have the capacity to save more now but for a variety of reasons are not doing so, and therefore the Commission should consider targeted interventions rather than broadbrush changes that have to wait for the economy to improve.

There are a range of options for increasing contributions. A baseline assumption is that the Government catches up with previous commitments to remove the lower earnings limit and have contributions calculated from the first pound earned. Then there is increasing the headline rate of AE, which although the Government has stated will not occur during the current Parliament[50], could and should begin increasing during the next. This increase could apply to all earnings, or only to earnings over a certain threshold, to reduce the risk of low earners over-saving and to allow contributions to increase sooner for higher earners.

The Commission will also have to consider the split between employer and employee contributions, allowing businesses to plan for long-term changes. Part of this could consider the conditionality of employer and employee contributions. Removing the link – allowing employees to opt-down (or even out) while keeping the employer contribution – is another potential means of mitigating the risks of both over-saving and under-saving.

Recommendation:
The Commission should set out a long-term plan for increasing auto-enrolment contribution rates, including a clear framework and timetable, which provides certainty for savers and employers alike to reach an adequate level of contributions.

Beyond pensions – a unique opportunity to improve wider lifetime saving

The pensions industry is often (in many instances unfairly) seen as adverse to change, indeed even the term *"pension"* is tied to a historic shape of how people will need and receive income in later life. We now live in a world where retirement is often a transitionary process, with the boundaries for lifetime stages of financial wealth accumulation and decumulation blurring.

People will start drawing pensions while still working (and continuing pension contributions), and the assumption that all people will own their home by the time they get to drawing benefits is long-outdated. Legislative and historic benefit structures are the main barrier here as opposed to a lack of ambition to evolve. The Commission should give impetus to address these issues and a generational opportunity to drive positive changes to outcomes in later life. We consider this in terms of both financial and wider matters.

Saving for later life is a critical concept, but one that can be widened significantly.

> Paying for a house is a highly valuable element of lifetime saving – the average cost of private rent in the UK is over £16,000 a year,[51] so owning a house could remove the need for £300,000 of pension fund. Some of this cost may be borne by the state as opposed to the individual, but this demonstrates the benefit to the Government of getting this right. The same goes for long-term care, and the groups most affected by this will be those in lower income brackets.

> Debt is another key consideration – we have a system that supports pension savings through soft compulsion, but many will have debt that attracts interest significantly above returns that might be generated by pension funds. The average unsecured debt in the UK is £4,269[52], with a pension pot for men of £82,760 and £51,780 for women[53].

If financial wealth were considered in a holistic manner, access to various elements of pension savings for certain prescribed purposes (payment of debt, mortgage deposits for first time buyers etc.) could arguably be a sensible reform. For instance, with average credit card interest rates at 24.3%, people could save an additional £1,000 a year if they were instead able to access their pension savings. For less affluent groups this could make a huge difference. Alternatively, the issue of debt could be solved by providing access to low-cost debt rather than using pension savings.

If policymakers do opt for greater flexibility, clearly there would need to be controls, with the core aim to build financial wealth as opposed to just spending funds earmarked for later life (pensions shouldn't be a credit card), but with modern infrastructure (i.e. open finance) it should be possible to allow a percentage of funds subject to a cap to be used within appropriate vehicles (i.e. FCA-regulated arrangements). The recent Treasury Select Committee report into the performance of the Lifetime ISA (LISA) serves as a useful warning as to what can go wrong when well-intentioned saving products are poorly thought through. Here there were almost double the amount of people making an unauthorised withdrawal (99,650) compared to the number of people who used their LISA to buy a home (56,900) in the 2023-24 financial year.[54]

Of course, it is far easier to talk about what is possible than actually constructing a plan that would make it a reality.

Recommendation:
There needs to be:

> a feasibility investigation to understand the demand for such functionality and the extent to which such a system can be accommodated by technology solutions (can providers track how much is being used for what?): and

> an economic impact assessment for allowing different groups access to various elements of pension savings for certain prescribed purposes (payment of debt, mortgage deposits for first time buyers etc.).

Alternative architecture

An income in retirement has always been just part of the pension equation. Historically benefits have included dependents' pensions and life assurance. Although the form of benefits may have changed, many pension arrangements are still aligned with ancillary benefits that support people in illness and death. There has however been a gradual separation of these arrangements (i.e. under a separate trust/ product) and pensions themselves have become much more individual-focused as DC arrangements increase in prevalence.

The concept of a trust overseen by trustees that look after members interests can have an enormous impact on living standards in retirement and we see that already in areas where trustees can exercise discretion such as on ill health.

With more people living longer in old age, the events that drive a need for financial support are growing. These include long term care and medical support for critical illnesses - benefits that are most efficiently provided on a pooled risk basis.

Occupational pension trusts could have their list of authorised benefits expanded to include the ability to provide such mutual benefits. This would both improve living standards by ensuring members do not have to divert DC savings that they need for income and also act to alleviate pressure on the NHS by providing members with funds to access private services sooner.

The benefits of risk pooling are also apparent in the form of Collective DC (CDC), which aims to provide a target income for life at retirement rather than a DC savings pot. The focus on providing an income for life (plus no need to make complex choices on investment strategy and decumulation) can help support overall retirement engagement and planning, while the risk pooling could improve income levels for the same contributions by as much as 50%[55]. CDC may be provided on a whole-life basis for members to build up benefits over their working life) or on a decumulation-only basis which helps to efficiently convert a DC pot at retirement into an income for life. With the right support, not least legislation that supports all parties – members, employers and schemes – there is scope for some very useful innovation in this area.

Recommendation:

> The Commission should consider increasing the availability of pooling arrangements through expanding the list of authorised benefits provided by pension schemes to include benefits such as long-term care and medical support for critical illness.

> Industry and government need to closely work together to promote awareness and understanding of the advantages, disadvantages and availability of CDC schemes – facilitative legislation is very welcome but will not in itself lead to significant numbers of employers offering such innovations.

Support disenfranchised groups

As noted earlier, it is important to identify the reasons for the pension gaps before looking at policy solutions.

Although the number of people joining workplace pension schemes has increased significantly, under the current regime it is only those people earning over £10,000 a year that are eligible – this excludes a large number of people (particularly women) from saving in a workplace arrangement.

The proposals to start AE contributions from the first pound would potentially help improve some of these gaps and better support the under-pensioned. The removal of the £10,000 threshold would get a further significant number of people saving in a workplace pension – research from the Pensions Policy Institute suggests that retirement outcomes could be improved by 7–13% for nearly 3 million people if the trigger were removed.

Furthermore, action is needed to help the self-employed and those who are working but not receiving payment i.e. carers. In the late 1990's, nearly half (1998) 48% of self-employed people saved into a pension but today this has fallen to less than 20%[56]. Carers UK suggest that there are 2.7 million carers in the UK who are not in paid employment[57].

The UK has a retirement savings system that is fundamentally built around paid, employed work which could certainly be considered a weakness. Possible solutions to this challenge include introducing a carers' credit, increasing the existing £2,880 limit on which pension tax relief is payable for non-taxpayers and extending AE (or something similar) to the self-employed.

Recommendation:
In order to ensure that the lowering of the AE threshold does not result in a loss or reduction in means-tested benefits, or encourage those on low incomes to opt-out, the Commission should consider recommending that the Government:

> modifies the rules for means-tested benefits to ensure that pension contributions do not disproportionately reduce benefit entitlements;

> increases pension awareness by providing financial education and tools to help people understand the long-terms benefits of pension savings; and

> introduces transitional support i.e. temporary financial assistance to low earners who may experience a short-term reduction in their disposable income.

> To address the steep decline in saving amongst the self-employed, the Commission should also consider recommending the extension of AE (or something similar) to the self-employed

> To help the 2.3m working as carers who currently receive no income, the Commission should explore the practicalities of introducing a carer's credit and increasing the existing £2,880 limit on which pension tax relief is payable for non-taxpayers.

Pension gaps

Any plan for supporting disenfranchised groups must also set out a range of potential solutions for closing the numerous pension gaps, particularly gender, ethnicity, disability and LGBTQ+.

As noted earlier, the under-pensioned are more likely to be ineligible for AE because they earn below the earnings trigger of £10,000 in a single employment. Even if a low earner does become a scheme member (by AE or by opting in), their scheme may limit contributions based on earnings below £6,240.

As a result, starting AE contributions from the first pound would help the lowest earners in society, and narrow both the gender and ethnicity pension gaps (both groups are disproportionately lower income earners). It should also neatly address the issue of workers with multiple employments who may never exceed the current threshold with a single employment but do so cumulatively. We accept that this would represent an increased cost for employers – administration as well as contributions – so may not be viable immediately. At face value it also looks like increasing costs for lower paid workers although we would argue that this money (together with investment growth and tax relief) would be returned at retirement, so it is an investment rather than a cost. Of course, the option to opt-out should remain for all.

The pensions industry could quantify how much those returning from career breaks could contribute to offset any gaps in service to help reduce gender pension gaps.

Many employers have already reviewed the scheme design to understand whether employer contributions over the period of parental leave are based on salary up until maternity leave or salary during maternity leave, this is important because the former will play a small role in reducing the gap but more needs to be done to communicate this.

There are numerous other potential policy solutions that could play a role in reducing pension gaps such as pension sharing on separation (and for couples who are not married or in a civil partnership). Amending the high-income child benefit charge so that it no longer negatively affects non-working or lower-income parents (usually mothers) who would otherwise use a child benefit claim to automatically receive NI credits for years they are not working or earning below the NI threshold (changes planned for April 2026 will help but many women will be unaware of the change, if a woman does not know or does not act, she will still miss out).

Many measures designed to reduce or eliminate the gender pensions gap could do the same for LGBTQ+ gaps e.g. support during parental leave or caring responsibilities.

For ethnicity pension gaps, improved communication from both the state and industry, tailored to factor in likely misconceptions and cultural caution, are likely to dispel some of the more damaging myths associated with pension saving. This should also help those (disproportionally from ethnic minority backgrounds) who are mistrustful or expectant that their retirement will be supported by other means, to better understand the framework within which workplace pensions operate and the many protections and benefits that are in place.

> *"...measures designed to reduce or eliminate the gender pensions gap could do the same for LGBTQ+ gaps"*

Recommendation:
Solutions for closing systemic pension gaps (ethnicity, gender, LGBTQ+ and disability) must be identified and a timetable for action established.

The pensions industry should:

> consider quantifying how much those returning from career breaks could contribute to offset any gaps in service

> help savers to better understand whether employer contributions over the period of parental leave are based on salary up until maternity leave or salary during maternity leave

The Government should consider:

> examining the potential for pension sharing on separation

> amending the high-income child benefit charge – going beyond changes due in April 2026 which are not automatic and will still result in many women missing out

The Government and industry should jointly explore:

> improving pension related communications to help dispel mistrust and improve understanding of the protections and benefits among those from ethnic minority backgrounds

Enhancing the employer's role

Mandating employers to contribute to pension arrangements has been a huge success story. However, the amounts being saved are widely acknowledged, including by the previous administration[58], to be insufficient.

Research from the Reward and Employee Benefit Association[59] shows that the majority of employers who took part in its survey (296 organisations representing an estimated 1.4 million employees) are looking to make significant changes to their workplace pensions. 89% of responding employers were looking to adopt new HR strategies to achieve retirement adequacies by 2026. Many employers are keen to provide employees with better education around their pensions, engaging with them earlier and encouraging them to consider increasing their own contributions.

These results are encouraging but further work needs to be done to incentivise all employers to provide support and guidance to their workforces. The default pension benefit solutions proposed by the Pension Schemes Bill should help with this, as will the pattern of increased and earlier information which the Bill anticipates will be required by regulations. Support needs to be provided at the start of, and throughout, the accumulation journey to ensure people have the right support and knowledge to be able to make informed decisions about their retirement planning.

While pension under-saving persists, more people will need to work later in life to ensure they maintain their income and/or have adequate income for retirement. The Government's guidance to help older workers[60] provides some support to employers. However, we consider there to be several other key strategies which should improve financial security in retirement:

> Encouraging higher contributions – employers could seek to encourage employees to save more by providing incentives and support

> Providing flexible retirement options – allowing employees to have a phased retirement or part-time work will allow older employees to continue earning while accessing pension benefits - a statutory override to scheme rules to facilitate partial retirement may be worth considering as rules that state an individual cannot access the pension unless they leave employment or that they have to take the whole pension remain common.

> Financial education and advice – offering mid-life financial *"MOTs"* and targeted pension guidance to help employees make informed decisions about their retirement savings

> Reviewing workplace benefits – employers could enhance healthcare, insurance and financial planning support to encourage better financial planning, help free up disposable income to enhance pension contributions and facilitate greater employee stability and certainty

It is also important that care is taken to ensure that wider public policy creates a stable and supportive environment for employer led saving. There are numerous potential changes that could discourage employers from committing to these initiatives. For example, as the SPP has recently highlighted elsewhere[61], changes to salary sacrifice would reduce scope to make pension contributions both from an employer and employee perspective (particularly basic-rate tax payers).Similarly, whilst it may superficially appear tempting to increase pensions tax relief for basic rate taxpayers by reducing tax relief for higher rate taxpayers i.e. having a single rate of pensions tax relief of say 30%, this would inevitably impact pension saving, and it is not just low earners who are under-saving for retirement[62]. Furthermore, as the SPP has previously highlighted in detail[63], changing the tax relief system in this way would create a minefield of unintended consequences and leave many, not just high earners, worse off.

Recommendation:
Whilst acknowledging the helpful role that many employers play, more needs to be done to incentivise all employers to provide support and guidance to their workforce to encourage greater workplace saving. In addition, the Government needs to ensure a stable and supportive environment that is conducive to employer led saving.

Improve knowledge and engagement

Awareness and engagement remain key challenges.

Recent research from Aviva[64] highlights a worrying gap between perceived and actual knowledge of pensions, reinforcing the need for greater financial literacy and support. Whilst 53% of the 2,000 people asked claimed to be knowledgeable about pensions, only a third could correctly identify the type of arrangement they had (i.e. DB or DC) and 20% had no idea which type of pension they had.

Pension Dashboards should help by empowering people with better pension knowledge and the tools they need. The hope must be that this will help them make informed decisions about their financial futures to help them get ready for retirement. Other improvements to financial literacy could come via:

> Government initiatives: programs like the Money and Pensions Service (MaPS) aim to provide accessible financial education.

> Workplace education: Employers are increasingly offering pension guidance to help employees understand their savings options.

> Digital tools and resources: online platforms and apps are being developed and rolled out to provide interactive pension calculators and educational content.

Technology offers scalable and cost-effective solutions to addressing some of these key challenges. According to the SPP 2025 AI Survey, the use of Artificial Intelligence (AI) is already widespread within the pensions industry with 87% of pension firms utilising AI today.[65] This usage is likely to deepen in the months and years ahead to enhance member engagement and communication strategies, and AI will doubtless play a role in delivering retirement planning (including advice and guidance). AI-powered tools can create personalised communications tailored to pension scheme members, while AI chatbots offer accessible financial guidance to savers at a lower cost.

However, pension schemes must carefully manage inherent risks to protect savers from harm. Cybersecurity threats, data breaches, financial risks and regulatory non-compliance are all issues that must be addressed. That said, only 3% of respondents to the SPP 2025 AI Survey cited regulatory restrictions as being a barrier to adoption[66].

Recommendation:
Improve understanding of, and engagement with, pensions by ensuring they become a key part of financial education in schools, requiring all large employers (250+ employees) to offer some form of financial education (including pensions) to their workforce on an ongoing basis. The responsible adoption of digital tools and resources, such as generative AI, to enhance financial understanding (including pensions) should also be embraced.

> *AI is already widespread in the pensions industry...*

Conclusion

It is clear that pensions adequacy is a complex issue, but it is also clear that it must be tackled if we are to achieve the shared goal, the shared prize, of an adequate retirement income for all.

Although much of this challenge requires industry and policymakers to work together, there are some areas where industry can get to work now, rather awaiting the Commission's report or requiring legislative change e.g. better identifying the under pensioned, improving awareness and understanding of pension saving – including by embracing the responsible adoption of technology such as generative AI - and reviewing pension scheme design to help reduce pension gaps.

Meanwhile there is a great deal that requires Government intervention: implementing long awaited changes to Automatic Enrolment; expanding the list of authorised benefits provided by pension schemes (such as long term care and medical support for critical illness); modifying the rules for means-tested benefits to ensure pension contributions do not disproportionately reduce benefit entitlements; exploring the benefits of introducing a carers' credit; increasing the existing £2,880 limit on which pension tax relief is payable for non-taxpayers; establishing if pension sharing on separation could be legally required and amending the high-income child benefit charge (noting changes due to come into force in April 2026), amongst many other potential changes.

Government can do more, industry can do more, savers can do more. We all need to if we are to achieve this shared goal of an adequate retirement income for all.

The SPP hopes that the above proves useful in stimulating debate, thought and most importantly, action, on what is arguably the biggest pensions challenge faced to date.

Appendix/Footnotes

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Further information

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