

**The Second
Pensions
Commission**

Pensions 2050: Evidence and Future Priorities

Interim Report

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Foreword

The journey to a new pensions settlement in 2050 began with the first Pensions Commission, appointed in 2002. This year, 2026, marks the exact midpoint in that journey and an important moment for us, the Second Pensions Commission, to chart the course ahead. We stand now at a crossroads.

Over the last two decades, the UK has built sturdier foundations for retirement than known by previous generations. Automatic enrolment has normalised pension saving, the State Pension has been simplified and strengthened, and pensioner poverty has been dramatically reduced. These achievements show that determined action, guided by evidence and anchored in consensus, can transform the national landscape for the better.

But the forces reshaping our society – longer retirements, slower growth, and falling home ownership – demand a renewed national settlement on pensions. We face questions as demanding as those of 20 years ago: how to build future financial resilience when working lives are more precarious; how to ensure fairness between generations when

the population structure is shifting; and how to protect individuals when the balance of risk has moved decisively from institutions to citizens.

This Interim Report sets out the scale of the challenge. Too many working-age people are projected to reach later life without sufficient private pension savings. Women, carers, the self-employed, and many ethnic minority groups continue to face structural barriers that the system has not yet overcome. Future pensioners may face a less straightforward relationship with the labour market than current pensioners. Many more will live without the stability that home ownership once offered; and will face higher housing costs than any generation of pensioners before. And retirees now face the uncertainty and complexity of navigating defined contribution pensions, investment risk and decisions about when and how to draw on their savings, with profound implications for their living standards later in life.

These challenges are a summons to renewal. Our commitment is to ensure that future generations are more hopeful about financial security in retirement.

This new settlement must also be sustainable, requiring a reconfigured understanding of the joint responsibility of the state, employers and individuals in achieving this. Retaining the talent of older workers will mean they continue contributing to their pensions

pots but is also the foundation of fairness between generations. Automatic enrolment must evolve if it is to meet the aspirations people have for retirement. And the State Pension, the backbone of retirement for almost every pensioner, must remain as universal as possible and sustainable.

Our ambition is to shape a pensions system that reflects today's realities and tomorrow's responsibilities: adequate for all, fair across and within generations, sustainable for decades to come. Achieving this will require clarity of purpose, political courage and a willingness to confront difficult tradeoffs. But it also offers a moment of opportunity; to renew a social contract that commands confidence across the country.

We want to thank everyone who has already contributed to our work – employers, trade unions, civil society, academic and industry experts and many others. Now, we invite further contributions as we move onto our next phase: formulating recommendations to Government. Working together, we can build a pensions settlement that is worthy of the generations who will depend upon it.

Baroness Jeannie Drake

Professor Nick Pearce

Sir Ian Cheshire

Members of the Second Pensions Commission



Left to right: Sir Ian Cheshire, Baroness Jeannie Drake and Professor Nick Pearce

Baroness Jeannie Drake

Life peer. Member of the first Pensions Commission.

Sir Ian Cheshire

Chair of Land Securities Group and Chair of Spire Healthcare.

Professor Nick Pearce

Professor of Public Policy and Director of the Institute for Policy Research, University of Bath.

Executive Summary

An ageing population requires a renewed and sustainable settlement for retirement adequacy

1. It can be all too easy for individuals to focus on today and under-prepare for a far-off retirement, but governments need to plan for a nation's future so that today's pension savers can be assured of financial security in retirement. A range of trends – many of them set in train decades ago, such as declines in defined benefit pension schemes and home ownership – are yet to play out among retirees but are clearly visible on the horizon. Ignoring these changes would be short-sighted. Government therefore tasked the Pensions Commission to look to the future and consider the framework needed to ensure adequate pension incomes for the long term.
2. Fairly and sustainably addressing this challenge is a pressing matter because the UK is ageing. The share of our population over the age of 65 is projected to reach 28% by 2075, up from 19%

today.¹ The number of people aged 75 or over is projected to double between 2025 and 2075: a rise of 6 million.² State Pension age increases and slowing life expectancy increases have kept down the old-age dependency ratio during the past 20 years, but over the next decade it is expected to reach 3 pensioners for every 10 working-age adults and 4 for every 10 by the 2070s.³ Forecasts for fertility rates, life expectancy and net migration are also uncertain, so even faster ageing is possible.⁴

3. These demographic changes carry major implications for the economy, public expenditure and intergenerational fairness. What is more, since the first Pensions Commission, there has been weak productivity and wage growth, which has direct implications for the value of pensions savings and people's ability to save, amid other challenges to achieving strong economic growth. The UK's pensions system has an important role

¹ ONS, 2025, '[National population projections: 2022-based](#)' (migration category variant)

² ONS, 2025, '[National population projections: 2022-based](#)' (migration category variant)

³ ONS, 2025, '[National population projections: 2022-based](#)' (migration category variant)

⁴ For example, on migration forecasts see: OBR, 2026, '[Economic and fiscal outlook – March 2026](#)'

to play in successfully navigating those challenges for the benefit of all generations, as well as contributing to UK growth through long-term investment.

4. Delivering a sustainable framework for adequate pensions is therefore essential. Spending on pensioner benefits (including the State Pension) is projected to grow from around 6% of GDP in 2024-25 to around 9% by the early 2070s⁵, while spending on health and social care could rise by around 8% of GDP over a similar period.⁶ The cost to government of pension tax reliefs has also increased. And for individuals, as the first Pensions Commission set out in the 2000s, ensuring financial security over longer lives must be accompanied by some combination of lower relative pensioner incomes (which it deemed unacceptable), higher tax-funded support, higher savings and higher retirement ages.
5. Sustainable and fair solutions inevitably include some degree of working longer, and notable progress has been made since the 2000s to increase the employment rates of older workers. The State Pension age is now 66 for both men

⁵ OBR, 2025, '[Fiscal risks and sustainability – July 2025](#)'

⁶ OBR, 2024, '[Fiscal risks and sustainability – September 2024](#)'

and women and will rise to 67 over the next 2 years. But although the UK's State Pension age is not low by international standards, we have a low average labour market exit age, with women typically leaving work 4 years earlier than in the US, New Zealand or Japan, and men exiting 2 years earlier than in Ireland.⁷ The UK has longer expected retirements than Japan, despite our lower life expectancy and higher State Pension age.⁸

6. Working longer – and in particular reducing labour market inactivity among people in their fifties – is a necessary part of achieving adequate incomes in retirement. But longer working lives can only be part of the answer and are easier for some people than others. The State Pension and private savings are the other primary levers available. Here there has been significant progress since the first Pensions Commission's recommendations and related policy changes by successive governments. Against a backdrop of defined benefit pension schemes closing, automatic enrolment into workplace pensions has turned declining pension participation into a rise of around 11 million extra savers since

⁷ OECD, 2025, '[Pensions at a Glance 2025](#)'

⁸ OECD, 2025, '[Pensions at a Glance 2025](#)'

2012.⁹ The new State Pension provides a simpler, more generous foundation for retirement and has greatly reduced the need for means-testing in retirement while closing the gender gap in entitlements. Uprating by the Triple Lock has brought the full new State Pension to around 30% of median full-time pay, as envisioned by the first Pensions Commission. Pension Credit has also played a significant role in reducing pensioner poverty. As a result, the income gap between the median pensioner and non-pensioner has been eliminated, while pensioner poverty halved between 1997-98 and 2010-11 and since then has stabilised at rates below those of other age groups.¹⁰

7. But with fewer retirees set to receive defined benefit pensions and significant gaps in existing policy, this report shows that there remains much work to be done to ensure income adequacy in later life, through a renewed, fair and sustainable settlement.

⁹ DWP, 2025, '[Workplace pension participation and savings trends of eligible employees: 2009 to 2024](#)'

¹⁰ DWP, 2025, '[Households below average income \(HBAI\) statistics](#)' The most recent data and published statistics were used at the time of finalising drafting in March 2026.

Pension policy should enable everyone to achieve a decent standard of living in retirement with the non-means-tested State Pension as a foundation

8. There are many ways of looking at retirement income 'adequacy'. There is more to do to anchor pensions policy in a widely accepted set of objectives and metrics that distinguish between what can be expected of the state, employers and individuals. But existing measures all raise concerns about the extent of undersaving for retirement, despite past policy progress.
9. Income replacement rates compare retirement incomes to people's earnings in working life. The first Pensions Commission reported on aspirational target replacement rates. These varied by earnings level and were flexible, but an aspirational value for a median full-time employee was around two-thirds of pre-retirement earnings.¹¹ Using these metrics, around 4 in 10 (43%) of the

¹¹ The Pensions Commission, 2005, '[A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission](#)'

working-age population (15 million people)¹² are undersaving. ‘Generation X’ (born 1965-1980) are projected to have the worst outcomes, with 46% falling below these targets, compared to slightly lower shares among earlier and later cohorts.

10. These projections of undersaving are sensitive to economic assumptions about the path of the State Pension relative to average earnings, which is difficult to predict. Using the Office for Budget Responsibility’s lower volatility scenario for Triple Lock dynamics, meaning a slower pace of increases in State Pension generosity, the adequacy outlook is less favourable. In that case, the proportion undersaving as measured by target replacement rates rises to 45% for those retiring in the 2020s and to over half (54%) in the 2050s.¹³
11. But there are reasons to think that relying on these target replacement rates is too ambitious and identifies the wrong groups for public policy to focus on. The first Pensions Commission set out three pensions ‘pillars’: the State Pension, automatic enrolment and voluntary saving. It was clear that the first two pillars alone should not necessarily reach those aspirational target replacement rates – leaving space for flexibility.

¹² DWP, 2025, ‘[Analysis of Future Pension Incomes 2025](#)’

¹³ DWP analysis using Pensim3

Even so, various trends point to a need for policy changes. The ‘third pillar’ of voluntary savings has not materialised for many, public policy currently leaves significant gaps, and greater material risks are developing such as lower home ownership and more pensioners living alone.

12. Higher earners may be less likely to reach full replacement rates because their pre-retirement incomes are higher. But higher-income pensioner households nonetheless have double the disposable incomes of middle-income pensioners.¹⁴ They generally have more generous employer contributions and high tax incentives to voluntarily save more, while accounting for their broader wealth, in the form of housing, inheritances and other savings, improves their prospects still further.
13. At the other end of the income spectrum, although lower earners are more likely to meet their replacement rates, that measure should not imply that poverty or very low incomes in retirement are acceptable. Metrics related to minimum standards provide another viewpoint. 13% of working-age people – and 15% of Generation X – are not projected to be able to afford the Pensions UK ‘Minimum Retirement Living Standard’,

¹⁴ DWP, 2025, ‘[Households below average income \(HBAI\) statistics](#)’

which is based on public opinion on what goods and services form a basic minimum.¹⁵ On this measure, low and middle earners are the ones most at risk of inadequate retirement incomes.

14. The relative poverty threshold (60% of the contemporary median disposable income) also provides another minimum income benchmark. In our central scenario, the proportion of pensioners living in relative poverty after housing costs is projected to remain broadly flat. However, in the lower volatility scenario for State Pension uprating, poverty rates are projected to creep up over the 2030s and 2040s.¹⁶
15. For couples, the full-rate new State Pension is now above the relative poverty line, while single retirees with no other income may fall just below. The State Pension therefore provides an indispensable foundation for pensioner incomes. It helps protect against poverty, but it is also crucial for all but the very richest pensioners: Even in the top half of the income distribution, it constitutes around a third of pensioner incomes.¹⁷

¹⁵ DWP, 2025, '[Analysis of Future Pension Incomes 2025](#)'

¹⁶ DWP analysis using Pensim3

¹⁷ DWP analysis of '[Pensioners' Incomes: financial years ending 1995 to 2024](#)'

16. However, two key groups with a higher risk of poverty are those without private pension income and renters (particularly in the private sector). The poverty rate after housing costs for those with any private pension income is 9%, but this rises to 33% for pensioners without.¹⁸ In addition, the number of non-homeowning pensioners is expected to grow: by 2050, half of pensioners in poverty are projected to be renters. The combination of rising numbers of non-homeowning pensioners and the increased coverage and value of the State Pension has implications for means-tested pensioner benefits. The first Commission's objective to bear down on means-testing has been achieved as Pension Credit caseloads are projected to continue to decline. But pensioner Housing Benefit caseloads will overtake those for Pension Credit,¹⁹ raising questions about how means-testing – and related passporting and incentives to save – can best work in future.
17. A 'hybrid' metric that builds on replacement rates for middle earners while focusing on a basic adequacy standard for lower earners would help guide policy in future. The flat-rate State Pension

¹⁸ DWP, 2025, '[Households Below Average Income 2023-24](#)'. This analysis does not include revisions released in March 2026.

¹⁹ DWP analysis using Pensim3

is playing the role set out by the first Pensions Commission, as a firm foundation for adequacy. But more is needed from earnings-linked private pension saving to help people to achieve a decent standard of living in retirement.

Automatic enrolment has increased workplace pension saving but not enough for low and middle earners

18. Automatic enrolment has been a major policy success, with 9 in 10 eligible employees now saving into a workplace pension,²⁰ but – as the adequacy outlook suggests – there remain challenges in the depth and growth of people’s private savings.
19. Among employees who save, pension contribution rates vary significantly. The adoption of automatic enrolment by employers has been very positive in delivering the basic minimum, and many employers do go beyond this. But there is good reason to be concerned about the level of the legal floor for automatic enrolment contributions, which has become more of a norm than a

²⁰ DWP, 2025, [‘Workplace pension participation and savings trends of eligible employees: 2009 to 2024’](#)

minimum. One third of eligible private sector employees have contributions that only follow automatic enrolment minima – currently 8% of earnings between a lower threshold of £6,240 and a ceiling of £50,270 – and this rises to half of the lowest-paid eligible employees.²¹ The relative value of the lower and upper thresholds has also drifted significantly over time. A falling lower threshold in real terms has produced a welcome increase in the share of earnings covered, but a falling upper threshold has worked in the opposite direction by capping contributions at a lower level for growing numbers of higher earners.

20. The median earner is contributing 1.7% of pay above automatic enrolment minima, and where there is additional saving, the evidence suggests that this is led by employer behaviour rather than individual initiative and is more likely to benefit higher earners. One driver of extra contributions is that 4-in-10 employers calculate pension contributions using total pay rather than qualifying earnings, while often using the same 8% marginal rate. But 71% of low earners in defined contribution schemes are nonetheless paid 8% of

²¹ DWP analysis of ONS, ‘Annual Survey of Hours and Earnings, 2024’

total pay or under.²² For many employees, there has not been significant additional saving on top of automatic enrolment minima. To improve adequacy, particularly for low to moderate earners, this Commission will consider how the eligibility criteria, income thresholds, and minimum contribution rates for automatic enrolment will need to be adjusted in the future. Any changes in rates would not be for the current parliament, and implementation of future reforms would require notice and phasing to allow employers to plan for any changes. The value of notice and staging is evident from the experience of the first Pensions Commission and successful implementation of automatic enrolment by employers.

21. Contributions are not the only driver of retirement pot sizes, however. Given decades-long investments that benefit from tax relief, returns can make up the majority – even up to two-thirds – of pension pots. However, the variance in investment returns is wider in the UK than in comparable countries and can greatly affect outcomes. Just a 1% increase in annual rates of returns could deliver around a 30% increase in the size of a defined contribution pension pot at retirement. And deductions are also critically

²² DWP analysis of ONS, ‘Annual Survey of Hours and Earnings, 2024’

important, as the cumulative cost of charges within pension schemes can be almost as large as the value of employer pension contributions. The Pension Schemes Bill currently before Parliament is seeking to improve returns and value for money. A coherent regulatory framework and robust governance will also be needed to ensure that reforms in progress and the recommendations of the Commission can be carried forward in the decades to come with outcomes for savers paramount.

Many people are not saving at all, and the length of working lives is also a driver of adequacy

22. As well as contribution levels and investment returns, adequacy also depends on whether – and for how many years – people save. Almost half of working-age people are not saving into a pension in a typical month, and almost half of those not saving are in paid work.
23. For employees who are eligible, opt-out rates are low, at 8-10% demonstrating the benefits of an inertia-based system. But 14% of employees – 4 million – are not eligible due to automatic enrolment's age limits and £10,000 earnings

trigger.²³ However, for many of these low earners, it would pay to save more into pensions: 55% of employees below the trigger are in above-median-income households; some will have multiple jobs; and households on Universal Credit can expect a higher award to offset increased pensions savings, while benefiting in retirement from the contributions made by their employer and the state.

24. Given there is no automatic enrolment for the approximately 4 million self-employed workers in the UK,²⁴ the inertia-based pension saving system does not provide for many who need it most. Only 17% of the self-employed currently save into a pension, which falls to just 4% for those who earn only from self-employment.²⁵ Some self-employed workers will have built wealth for retirement through property and their businesses. But many, including younger workers and those in the so-called ‘gig economy’, are unlikely to be on track for an adequate pension income.

²³ DWP, 2025, [‘Workplace pension participation and savings trends of eligible employees: 2009 to 2024’](#)

²⁴ ONS, 2026, Labour Force Survey, 1992-2026

²⁵ DWP analysis of [‘Family Resources Survey: financial year 2023 to 2024’](#); and DWP analysis of HMRC administrative data, 2022-23

25. Other lifetime periods of not saving into a pension also drive inequalities and unfairness in outcomes. Following success in entirely closing the gap between men and women in State Pension entitlements, efforts must now turn to the private pension savings gap that women face relative to men. Although the share of women with private pension wealth has grown significantly, median uncrystallised private pension wealth in people's late 50s was £156,000 for men in 2020 to 2022 and £81,000 for women (48% less).²⁶ Pension participation gaps are also a particular worry for carers, people with disabilities and some ethnic minorities.
26. How and when pension pots are accessed is also a crucial determinant of adequacy. Each extra year of working before accessing a pension means additional pension contributions (and potentially qualifying State Pension years), further growth from investment returns, and a reduced number of years over which savings must be spread. Retiring at 57 (soon to be the earliest age at which private pensions can be accessed) compared to retiring at 65 could reduce the average saver's annual workplace pension from nearly £9,000 a year to just over £4,000 a year.

²⁶ DWP, 2025, '[Gender Pension Gap in Private Pensions 2020-2022](#)'

Put differently, a median earner born in 2002 and hoping to retire at 57 rather than 65 would need an annual contribution rate of 22% of qualifying earnings rather than 11% to receive a private income of £10,000 per year.²⁷ Attention must therefore be paid to increasing employment rates among the over 50s and enabling people to work for longer, with a particular focus on reducing early, permanent exit from the labour market well before the State Pension age. This would be beneficial both to people's pension incomes and to the broader UK economy.

Decumulation choices decisively impact people's retirements and stronger guardrails are needed

27. Another key development since the 2000s is in how pensions are accessed. This has become significantly more complicated since the first Pensions Commission, when the assumption was that defined contribution pots would generally be used to buy annuities to deliver a regular pension income for life. But decumulation policy development, primarily the 2014 pension access reforms leading to the introduction of Pension Freedoms in 2015, changed the settlement of

²⁷ DWP analysis using iPEN model

what a pension pot is for. This gave UK retirees far greater pension flexibility than their peers in most countries, but also far greater responsibility for managing pension wealth and the range of risks this involves. Managing pension pot access so it lasts over thirty years from age 57 to 87, for example, is no easy feat. Since these changes, we have seen high levels of full cash withdrawals, widespread early access of 'tax-free lump sums', and high withdrawal rates that risk running down savers' pension wealth too quickly.

28. As defined contribution pension wealth becomes increasingly important, so too do the challenge and impacts of making decumulation decisions, while retaining the advantages of flexibility. As with the principles underlying automatic enrolment, the pensions system needs to work in the interests of savers as they enter retirement and protect those who do not, or cannot, engage. Decumulation cannot always require detailed financial knowledge or expensive advice and must be robust to potential cognitive decline in later retirement.
29. The decumulation policy landscape is, again, changing. Alongside the FCA's introduction of 'Targeted Support' and the expansion of collective defined contribution, the Government is introducing 'Guided Retirement' through the Pension Schemes Bill. This offers opportunities to

help address decumulation challenges if framed and delivered effectively and may improve the situation for some savers. However, given the challenges this report outlines, this new solution must be a true default as far as is possible. Decumulation solutions that rely on engagement and decision-making for the vast majority of savers are not likely to be sufficiently effective. A more protective default mechanism is required to ensure the pension saving journey is smooth, the vast majority of savers are protected from risk, and the system remains fair and accessible up to and beyond retirement.

The existing settlement provides firm foundations but needs strengthening for the long term

30. Any reforms must be deliverable and durable. Responsibility for long-term retirement adequacy must be balanced between the state, employers and individuals – the same three actors the first Commission considered 20 years ago. A sustainable future pensions system must balance the opportunity cost to Government of spending on pensions, including the question of intergenerational fairness to taxpayers, with affordability to and deliverability for employers

and the costs to individuals of saving during their working lives. It must also get the right balance between the three pillars of pension saving: the State Pension, automatic enrolment and voluntary saving to achieve pension adequacy.

31. The key role for our next report is to get this balance right and to consider the details of potential policy changes. But there are clearly ways in which the existing settlement can and must be built upon:

- For pensioners in 2050 and beyond to have adequate incomes in retirement will require higher rates of private pension saving and higher coverage too. Automatic enrolment eligibility, earnings thresholds and the statutory minimum contributions all impact who is brought into pension saving and whether they are saving enough. Low and middle earners are not saving sufficiently and the system does not work for the self-employed.
- The existing contributory non-means-tested State Pension is the firm foundation for retirement saving for the vast majority of the population. It is critical to the retirement incomes of almost all pensioners and is the central means of ensuring that pensioners do not live in poverty. A means-tested safety net

will remain necessary but may need updating in light of rising numbers of pensioners renting privately.

- Ensuring adequacy and sustainability also requires people to lead longer working lives. Higher employment rates for older age groups, particularly those in their 50s and early 60s who leave the labour market before the State Pension age, are required to ensure sustainability and provide an important contribution to income adequacy in retirement.
- Adequate incomes in retirement are also affected by the decumulation of pensions savings. There must be stronger guardrails for decumulation, and a lower burden of risk passed to individuals, while maintaining choice and flexibility.

32. The Commission will publish and submit its final recommendations to the government in 2027. We welcome views on our findings so far. These will inform our further deliberations as we seek to ensure the UK pensions system is adequate, fair and sustainable for decades to come.

33. An accompanying evidence pack provides a range of detailed analysis underpinning this report, including the relevant methodological approaches.

Throughout, we have used the most recent data and published statistics available at the time of finalising drafting in March 2026.²⁸

²⁸ DWP, 2026, ['Evidence Pack for the Second Pensions Commission's Interim Report'](#)

Chapter 1 Strong foundations facing long-term pressures

Summary

- **The UK's pensions system is in a stronger position than it was 20 years ago.** The first Pensions Commission led to major progress: participation in pension saving has increased significantly through automatic enrolment, and the new State Pension is simpler, more generous, and has reduced gender disparities.
- **But today's savers face a different set of risks.** Generous defined benefit provision has declined for those in work; defined contribution savings rates and pension pots remain too small for many to achieve adequate retirement incomes, particularly low and middle earners; and decumulation policy changes have placed complex decisions and decumulation risks on individuals.
- **Long-term pressures on adequacy, fairness and sustainability have continued to build.** An ageing population driven by rising longevity

and falling fertility rates; weak productivity and wage growth; low saving levels; and declining home ownership all mean that by 2050 the pressures on pension adequacy and fiscal sustainability are likely to be greater than today. A larger pensioner population supported by proportionally fewer workers creates a structural challenge to the system.

- **People are working for longer, but employment for people in their 50s has stalled and lags behind international comparators.** Longer and healthier working lives are now essential for maintaining both adequacy and fiscal sustainability. Improving employment outcomes for people in their 50s, and supporting those unable to work longer, contribute to fiscal sustainability, economic growth, and fairness across and within generations.

Introduction

- 1.1 Reforms following the first Pensions Commission fundamentally improved the pensions system. The new State Pension now provides a clearer, more predictable, firm foundation for retirement incomes for the vast majority, replacing the complexity of the past. Automatic enrolment (AE) has transformed participation, with opt-out rates remaining low and millions more now saving for later life. These changes created a simpler, more inclusive and more durable pensions framework than that which existed two decades ago.
- 1.2 Participation in private pensions saving has improved, averting the crisis in pensions coverage faced in the early 2000s, but it has not improved enough to deliver the retirement many people expect. Although direct comparisons between pension systems are difficult, as countries vary in, for example, levels of taxation and other savings or sources of income, Box 1 shows how the UK system performs compared with international peers. It shows that the UK is still below the OECD average, with an estimated net pension replacement rate – the proportion of a worker’s take-home pay that is maintained after retirement through the pension

system – of 54.2% for an average earner, compared with the OECD average of 63.2%.²⁹

1.3 The causes of this are multifaceted, but people are not saving enough. Almost half of the working-age population report not saving into a pension in a typical month.³⁰ Although defined benefit (DB) schemes are still providing pension income to some, the number of private sector DB schemes have continued to decline and now represent an ever-smaller percentage of pension provision.³¹ As the impact of these schemes declines in headline adequacy metrics, the scale of low and no saving represents a systemic risk for future retirees, which must be addressed. As we show in Chapter 2, current estimates predict that around 4-in-10 working-age people, equivalent to 15 million individuals, are not currently saving at a level that will enable them to reach the ‘adequate’ retirement income levels to which people aspire (target replacement rates).³²

²⁹ OECD, 2025, ‘[Pensions at a Glance 2025](#)’

³⁰ DWP, 2025, ‘[Family Resources Survey: financial year 2023 to 2024](#)’

³¹ PPF, 2025, ‘[PPF Purple Book 2025](#)’

³² DWP, 2025, ‘[Analysis of Future Pension Incomes 2025](#)’

- 1.4 It is in this context that the government established this Pensions Commission in July 2025. Although the task for this Commission is not to consider the question of whether progress has been made, it is important to reflect on recent changes to the pensions system to assess whether the system as currently designed can deliver adequate, fair and sustainable retirement incomes in the decades ahead.
- 1.5 In the period since the first Commission, long-term pressures have grown sharper. The population is ageing rapidly, with the number of older people projected to rise faster than the working-age population. 16% of the population were over 65 in 2000. This rose to 19% in 2025, and will rise to 24% by 2050 and 28% by 2075.³³
- 1.6 Longer lives and a greater proportion of the population being in receipt of the State Pension are intensifying challenges to adequacy, fairness and sustainability. A larger retired population supported by proportionally fewer workers means that employment, saving and the design of the pensions system matter more

³³ ONS, 2025, '[National population projections: 2022-based](#)' (migration category variant)

than ever for a greater share of households and the wider economy as the proportion of workers in the population shrinks. While increases to the State Pension age have helped moderate some of these pressures for fiscal sustainability as life expectancy and the number of pensioners has risen, state expenditure on pensioners and continued demographic change remain major drivers of pressure on future public finances.

- 1.7 The macroeconomic challenge faced by this Commission is not new. In the early 2000s, it was estimated that public spending on pensioner benefits (including the State Pension and pensioner Housing Benefit) as a percentage of GDP would be 1.5 percentage points higher in 2050 compared to 2003-04.^{34,35} These spending projections were underpinned by several key assumptions: that the relatively ungenerous, prices-based uprating policy of the time would continue and that expenditure on Pension Credit would rise; that increases in life expectancy would slow; that fertility

³⁴ The Pensions Commission, 2004, '[Pensions: Challenges and Choices – The First Report of the Pensions Commission](#)'

³⁵ The Pensions Commission, 2005, '[A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission](#)'

would remain broadly stable (albeit below the replacement rate); and that population ageing, including a rise in the old-age dependency ratio (OADR), would be broadly in line with the mid-2000s demographic projections.

- 1.8 Although there are always challenges with future projections, many of these assumptions have not materialised as expected. Improvements in life expectancy were faster than expected through the late 2000s and early 2010s, resulting in more people living to older ages, before slowing significantly from the mid-2010s onwards (see section A of the evidence pack for more detail).³⁶ Although spending on Pension Credit has not risen as forecasted, State Pension uprating has been far more generous, but also more unpredictable. Fertility rates have continued to fall and show no sign of recovery. And although the OADR actually fell as a result of changes to the State Pension age for women, it is expected to increase significantly over coming decades.
- 1.9 The latest OBR long-term forecasts reflect these combined effects. Spending on pensioner benefits (including the State Pension) is now projected to be around 2 percentage points

³⁶ DWP, 2023, '[State Pension age Review 2023](#)'

higher in 2050, when compared to 2003-04, a faster rate of growth than forecast at the time of the first Commission.^{37,38,39} Although these forecasts are not dissimilar to those at the time of the first Commission, they are no longer in the distant future and the challenge is further compounded by the higher demands on public services associated with an ageing population. Longer lives often mean more years spent with health conditions that require NHS treatment, and demand for social care is also set to increase significantly.⁴⁰

- 1.10 An ageing population brings unavoidable pressures that raise difficult questions about intergenerational fairness, including how the system's costs and benefits are shared, and what future generations can reasonably expect. It also highlights the need to consider how

³⁷ OBR, 2025, '[Fiscal risks and sustainability – July 2025](#)'

³⁸ DWP, 2025, '[Benefit expenditure and caseload tables 2025](#)'

³⁹ The Pensions Commission, 2004, '[Pensions: Challenges and Choices – The First Report of the Pensions Commission](#)'

⁴⁰ Parliamentary Office of Science and Technology, 2024, '[Healthy ageing and care for older populations](#)'

longer working lives, private pension saving,⁴¹ and the role of the State Pension fit together, so that the system remains fair and sustainable without placing excessive strain on public finances or limiting government investment in essential services.

- 1.11 Ensuring fairness to the working-age population is also essential. As the proportion of older people rises, a growing share of public resources is directed toward pensioners, funded by today's workers. A sustainable pensions system must balance the needs of retirees with the ability of the working-age population to contribute without facing undue financial pressure. This is particularly pressing at a time when working-age cohorts have experienced periods of modest wage growth and challenging

⁴¹ Private pensions refers to all pensions saving outside of the State Pension, including contributions from automatic enrolment, voluntary contributions and occupational pensions.

labour market conditions alongside a period of elevated living costs.^{42,43,44}

⁴² House of Commons Library, 2025, '[Average earnings by age and region](#)'

⁴³ House of Commons Library, 2026, '[High cost of living: Impact on households](#)'

⁴⁴ ONS, 2026, '[Young people not in education, employment or training](#)'

Box 1: Headline international comparisons⁴⁵

As a percentage of GDP, spending on State Pensions, pensioner benefits and mandatory private saving (excluding voluntary savings) is 7.6%, which represents a lower proportion than most other advanced economies and is below the OECD average (9.4%, although this excludes passported benefits) (see Figure 1.1).⁴⁶ The UK spends the equivalent of a lower proportion of GDP on State Pensions and pensioner benefits, and a lower percentage on mandatory private pensions. However, the UK is not alone in trying to constrain public spending, as peer countries such as Ireland have also increased State Pension ages in recent years or have recently introduced systems akin to AE.⁴⁷

⁴⁵ To note: direct comparisons between pension systems are difficult, as countries vary in, for example, levels of taxation and other savings or sources of income.

⁴⁶ OECD, 2025, '[Pensions at a Glance 2025](#)'

⁴⁷ Government of Ireland, 2024, '[Auto-enrolment retirement savings system for employees](#)'

The UK pensions system delivers a net replacement rate of 54.2% for a median earner from mandatory pensions (State Pension and AE minima), which is below the OECD average of 63.2%.⁴⁸ For lower earners, the UK Pensions system delivers a net replacement rate slightly above the OECD average (76.2% compared to 75.4%), whereas for higher earners it is significantly below the average (39.5% compared to 52.9%).

UK pensioner incomes have historically relied heavily on private pensions, meaning adequacy varies widely by earnings history. Despite this, the UK has one of the lowest levels of savings overall as a percentage of GDP – see Figure 1.1.⁴⁹

The UK has the second highest gender pensions gap in the OECD, despite above-average basic pension entitlements, with a difference of over 35% between the average pension income of men and women.⁵⁰

⁴⁸ OECD, 2025, '[Pensions at a Glance 2025](#)'

⁴⁹ OECD, 2025, '[Pensions at a Glance 2025](#)'

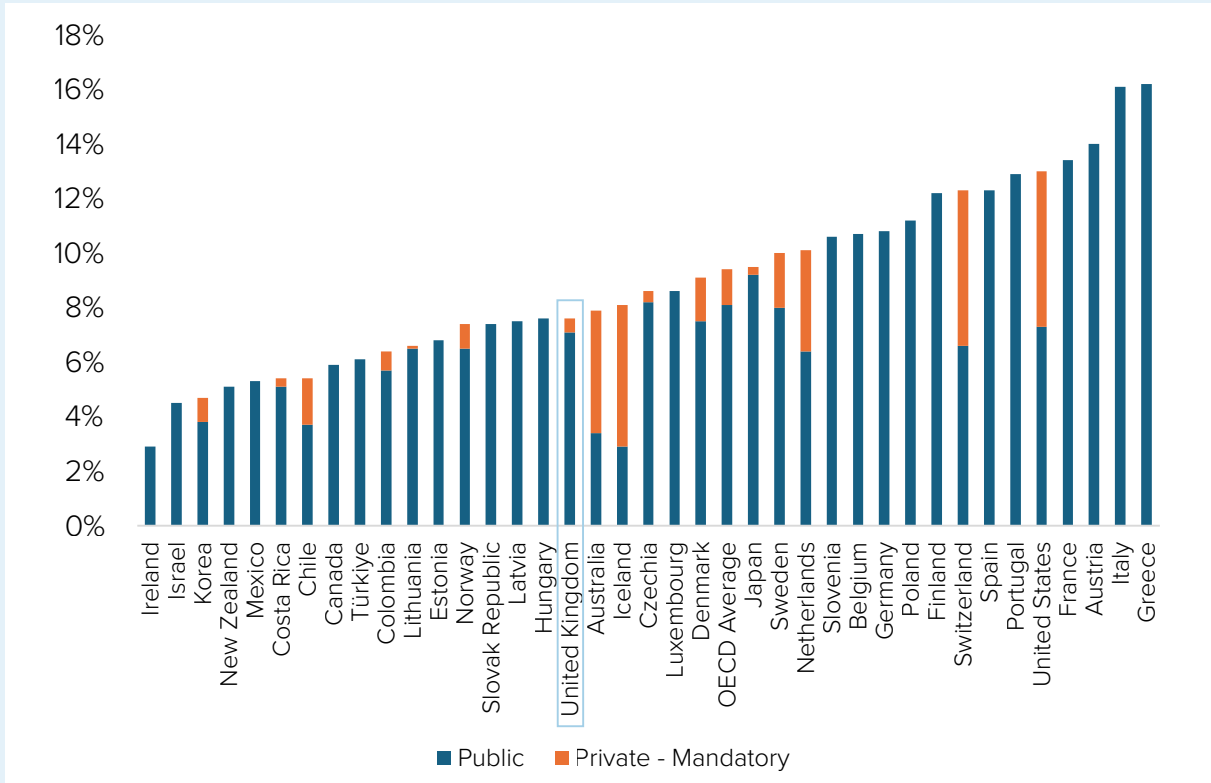
⁵⁰ OECD, 2025, '[Pensions at a Glance 2025](#)'

OECD indicators show the UK has a notably higher share of older individuals at risk of relative income poverty (before housing costs) compared with leading European comparators.

The Mercer CFA Institute Global Pension Index is designed to compare and assess various countries' retirement income systems under a lens of adequacy, sustainability and integrity. Under this system, Mercer rates the UK as a B-grade system, ranking it mid-table globally.⁵¹ The UK scores strongly on integrity (79.0) and adequacy (75.9), but its sustainability score (63.2) lags behind several leading systems – highlighting structural pressures from demographics, modest contribution levels and relatively low mandatory savings.

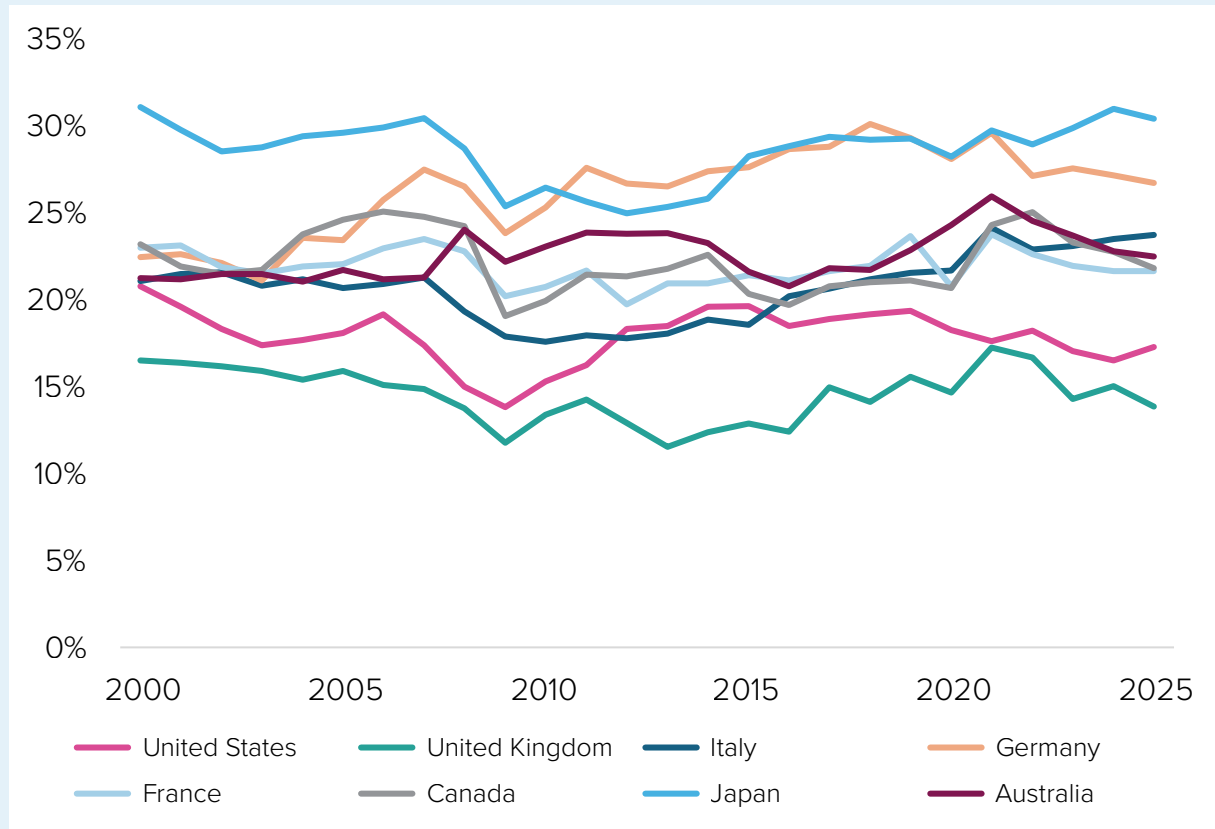
⁵¹ Mercer CFA Institute, 2025, '[Mercer CFA Institute Global Pension Index 2025](#)'

Figure 1.1: Percentage of spending on pensions as a proportion of GDP (public and private schemes)⁵²



⁵² OECD, 2025, '[Pensions at a Glance 2025](#)'

Figure 1.2: UK has one of the lowest gross national savings levels (as % of GDP) across comparator countries⁵³



Achievements of the first Pensions Commission

1.12 Demographic challenges and declining DB provision were shared by the first Pensions Commission, which ran from 2002 to 2006. The foresight of the first Commission and

⁵³ IMF, 2026, 'World Economic Outlook: [Gross National Saving](#)'

implementation of its recommendations lessened the severity of these trends, but challenges still remain. These present risks to the adequacy, fairness and sustainability of the future pensions system.

The first Pensions Commission set out a range of recommendations to tackle the issues of its time

- 1.13 In the early 2000s, the UK's pensions system was characterised by a complex State Pension system with a relatively meagre basic State Pension, a state earnings-related system that was falling in value, and over-reliance on employer-led DB schemes.⁵⁴ Although generous for some, this system meant that many, especially disproportionate numbers of low and middle-income workers, women, those without complete work histories, and those employed by small and medium-sized companies were not on course to reach retirement with adequate pension provision.
- 1.14 OECD international comparisons at the time highlight the scale of the challenge. The UK devoted a smaller percentage of its GDP to

⁵⁴ DWP, 2013, '[The single-tier pension: a simple foundation for saving - Impact Assessment](#)'

State Pensions and pensioner benefits than most other advanced economies, reflecting a public pension pillar that was relatively less generous and a greater reliance on private and occupational provision. This structural feature placed the UK at the lower end of international pension spending, with private pensions forming a far larger share of retirement income than in countries where public expenditure on pensions was significantly higher.⁵⁵

- 1.15 At the time of the first Commission the issue of pension adequacy was set to worsen significantly as the proportion of the population over 65 grew, the private pensions system was in potentially irreversible decline, and the value of the basic State Pension was falling relative to earnings. In combination, these issues meant that a growing share of future pensioners was projected to rely on means-tested support, creating an unsustainable and inadequate pension system.^{56,57}

⁵⁵ OECD, 2005, '[OECD Pensions at a Glance 2005](#)'

⁵⁶ The Pensions Commission, 2004, '[Pensions: Challenges and Choices – The First Report of the Pensions Commission](#)'

⁵⁷ DSS, 1998, '[A new contract for welfare: partnership in pensions](#)'

- 1.16 Faced with these challenges, the first Commission set out that some combination of the following was inevitable:
- Pensioners becoming poorer relative to the rest of society, which the first Commission rejected
 - Higher taxes / National Insurance contributions devoted to pensions rising
 - Higher savings
 - Average retirement ages rising
- 1.17 Rejecting higher pensioner poverty as an acceptable outcome, the first Pensions Commission set out a combined approach to retirement adequacy: a firm state foundation on which people could rely for their entire retirements, quasi-mandatory workplace saving, and tax-incentivised additional voluntary contributions to achieve target replacement rates in retirement (percentages of pre-retirement earnings).
- 1.18 In its second report, the Commission recommended that employees should be enrolled into private pensions through automatic enrolment (AE), supported by contingent employer compulsion, to deliver a minimum replacement rate of around 46% of gross pre-retirement income when combined with the

State Pension for the median earner. It also proposed that the system should enable median earners to reach a target retirement income of 60-66% of pre-retirement earnings through employer and employee contributions, reflecting research at the time on individuals' aspirations for retirement income. Replacement-rate targets were calibrated by earnings level: lower earners were expected to need higher rates (around 80%) to secure adequate incomes in absolute terms, while higher earners could maintain adequacy at lower replacement rates.^{58,59}

- 1.19 To deliver these outcomes, the Commission envisaged a multi-pillar system (Figure 1.3). The State Pension – the first pillar – would ensure a firm 'foundation' for retirement, rising over time to 31% of pre-retirement earnings for a median earner through restoration of the earnings link to State Pension uprating. Automatic enrolment (AE) – the second pillar – would strongly encourage additional saving, contributing a further 15-18% of earnings, while

⁵⁸ The Pensions Commission, 2004, '[Pensions: Challenges and Choices – The First Report of the Pensions Commission](#)'

⁵⁹ The Pensions Commission, 2005, '[A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission](#)'

voluntary workplace saving – the third pillar – would be enabled to provide the remaining 15-18% so that median earners could reach their target income in retirement.⁶⁰ Using this framework, the first Commission made a series of landmark recommendations that in large part now form the basis of today's pensions system, detailed in Table 1.1.

⁶⁰ The Pensions Commission, 2005, '[A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission](#)'

Table 1.1: Summary of recommendations from the first Pensions Commission and assessment of what has happened since

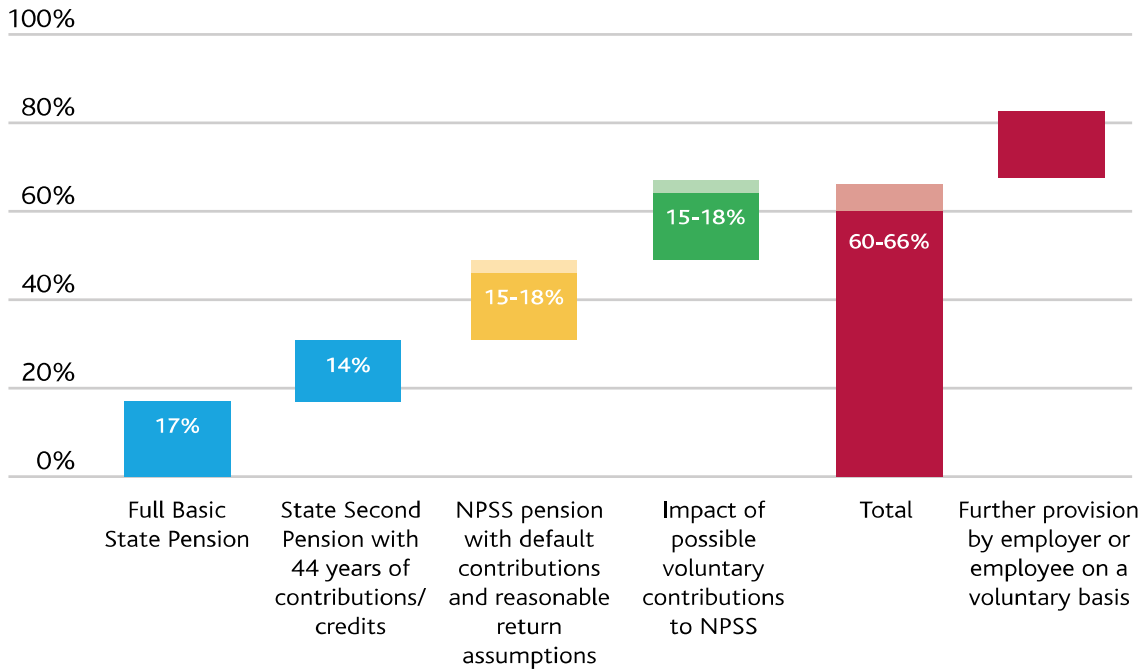
Pensions Commission recommendation (2005-6)	What has happened (as of 2025-26)
<p>1. Simplified, flat-rate Second State Pension and uplift the basic state pension in line with average earnings, reducing means-testing.</p>	<p>In 2010, significant changes were made to the basic and Second State Pension systems. The number of years needed for a full basic State Pension was reduced from 44 for men and 39 for women to 30 for all. The basic State Pension would be uprated in line with average earnings. Building on these reforms, a single-tier State Pension was introduced for those reaching State Pension age from 2016, replacing the basic and Second State Pension, with the full rate set at a level above the Pension Credit standard minimum guarantee. Although legislation stipulates that the basic State Pension and new State Pension must increase in line at least with average earnings growth each year, governments have uprated using the Triple Lock since 2011-12, (with the exception of 2022-23) – the highest of average earnings growth, CPI inflation, or 2.5%.</p>

Pensions Commission recommendation (2005-6)	What has happened (as of 2025-26)
<p>2. Facilitate working later in life and raise State Pension age in line with life expectancy, gradually increasing to 66 by 2030, 67 by 2040, and 68 by 2050.</p>	<p>Default retirement age has been abolished, providing most workers with the right to continue in employment after State Pension age, which is scheduled to rise to 67 between April 2026 and 2028 and to 68 between 2044 and 2046.</p>
<p>3. Automatic enrolment into workplace pensions, with 8% minimum contributions: with 3% minimum employer contributions on a specified band of earnings (Primary threshold £4,888 up to the Upper Earnings Limit (£32,760), increasing over time in line with average earnings.</p>	<p>Following the Pensions Act 2008, AE launched in 2012, and was phased in until 2018-19. From April 2019, minimum contributions are 8% total (of which at least 3% must come from the employer, with the remaining amount from the employee, including tax relief) on banded earnings. A separate earnings trigger point was introduced for AE, alongside a lower and upper earnings limit for contributions.</p>
<p>4. Create National Pensions Savings Scheme (NPSS) a low-cost scheme with a cap on charges for smaller employers and those on low incomes who were not serviced by the defined contribution pensions provider market at the time.</p>	<p>Nest launched via the Pensions Act 2008. It is free for employers to use, operates as a not-for-profit trust with capped annual charges and has 13.8 million members with 3.9 million active savers in 2024-25 and over £50 billion in assets under management.⁶¹</p>

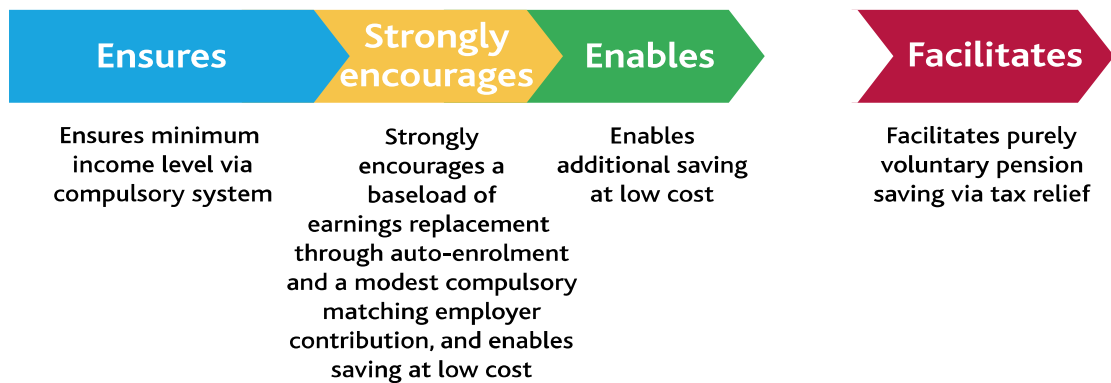
⁶¹ Nest, 2025, '[Nest annual reports show growth and evolution of the UK's largest pension scheme](#)'

Pensions Commission recommendation (2005-6)	What has happened (as of 2025-26)
<p>5. Improve inclusion, link State Pension entitlement to residency, rather than contributions and recognise periods out of work for caring in pension entitlement.</p>	<p>The contributory principle of the State Pension remains, and entitlement is linked to contributing years, rather than residency. However, NI credits are now available for childcare and for those caring for other reasons for at least 20 hours per week and for other periods spent out of work, contributing towards State Pension entitlement.</p>
<p>6. Establish an independent oversight body with cross-party support and regular reviews.</p>	<p>No independent commission; a statutory review of State Pension age is now required at least once every 6 years, and AE thresholds are reviewed annually. The current government revived the Pensions Commission in 2025.</p>

Figure 1.3: The first Pensions Commission’s target for pension income as a percentage of earnings for the median earner: at the point of retirement in 2053⁶²



The role of the state



Source: Pensions Commission analysis

Note: The range of 15-18% shown for the impact of default contributions reflects a range of assumptions about number of years of contribution between 25 and SPA.

⁶² The Pensions Commission, 2005, [‘A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission’](#). The range of 15-18% shown for the impact of default contributions reflects a range of assumptions about number of years of contribution between 25 and State Pension age.

The new State Pension has made the system flatter, simpler and more generous for most

1.20 As the main lever of state support, the first Commission recommended a simpler, fairer, and more sustainable State Pension. In 2016, the new State Pension was introduced: a flat-rate, non-means-tested, contributory scheme designed to provide a solid foundation for private saving. At introduction, the full rate of the new State Pension was the equivalent of 29% of median earnings.⁶³ The introduction of the new State Pension for those reaching State Pension age after 2016 is widely regarded as a public policy success, with an increasing share in receipt. By August 2025, over 13 million people were in receipt of the State Pension (in any form) – around 18% of the population, with around 4.7 million in receipt of the new State Pension.^{64,65}

⁶³ DWP, 2025, '[Abstract of DWP benefit rate statistics 2025](#)'

⁶⁴ DWP, 2026, '[DWP benefits statistics: February 2025](#)'

⁶⁵ ONS, 2025, '[Population estimates for the UK, England, Wales, Scotland and Northern Ireland: mid-2024](#)'

- 1.21 Reforms to National Insurance credits improved fairness for carers and low earners, reducing gender inequalities and benefitting the self-employed. Women reaching State Pension age in 2024 received 99% of the amount that men received, compared to 86% under the old system (see section A of the evidence pack for more detail).⁶⁶
- 1.22 To protect pensioners' incomes, legislation has been introduced that ensures that the basic State Pension and new State Pension are increased at least in line with earnings growth, although the legacy Additional State Pension is uprated in line with the Consumer Prices Index (CPI). Since 2011-12, governments have chosen to go beyond this and uprate the basic State Pension and new State Pension by the 'Triple Lock'. The adoption of this policy means that pensioners receive annual increases by the highest of earnings growth, CPI inflation, or 2.5%. The Triple Lock was also applied to the new State Pension when it was introduced in 2016.

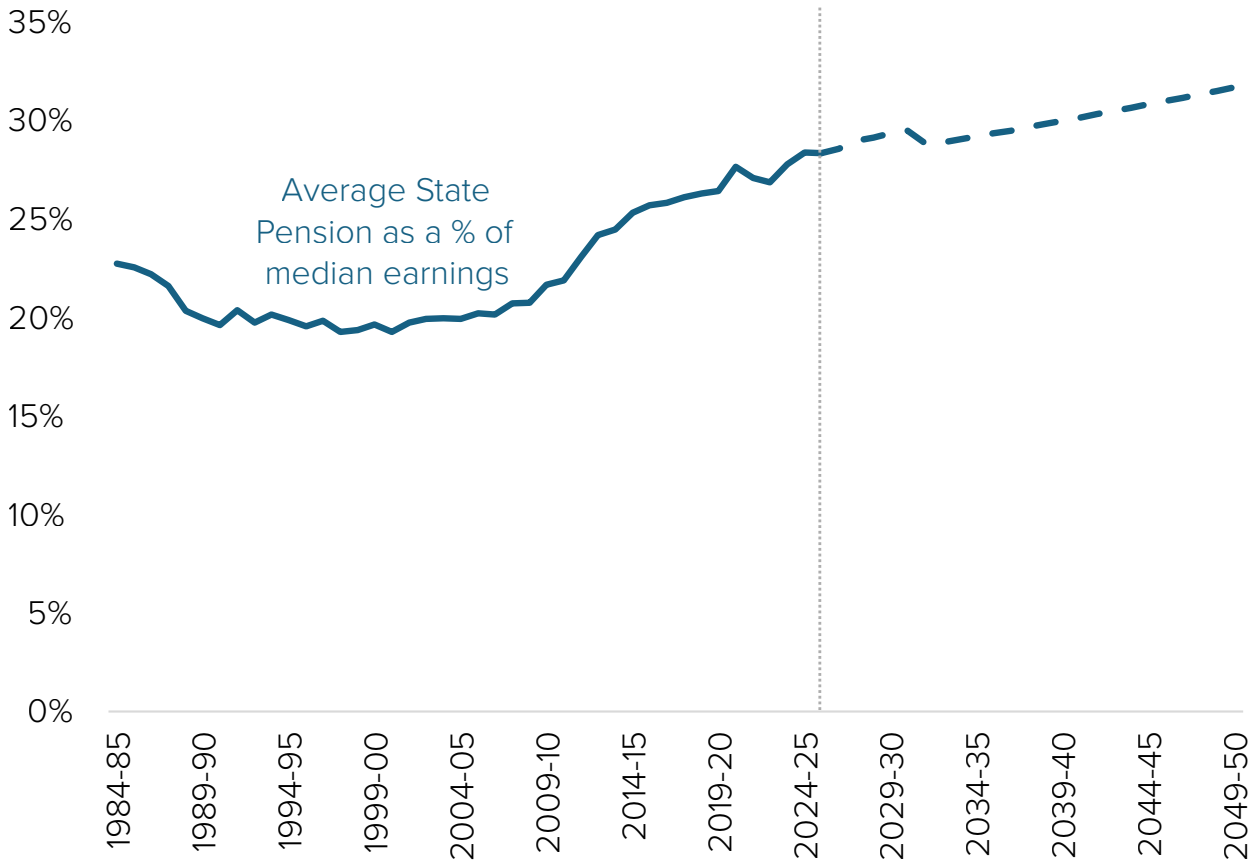
⁶⁶ DWP analysis of DWP, Work and Pensions Longitudinal Survey. See Methodology 4 in evidence pack.

- 1.23 As a result of these reforms, the full rate of the new State Pension represented 30% of median earnings in 2025, up from 29% in 2016, almost achieving the 31% of median earnings envisaged by the first Commission. This has meant that the new State Pension is now providing the firm foundation for retirement incomes as envisaged by the first Pensions Commission.⁶⁷
- 1.24 These reforms have also meant that the average value of the State Pension (the average amount pensioners actually receive) as a percentage of average earnings has increased substantially over time. In the last 10 years this has largely been the result of the application of the Triple Lock, which has ensured that both the basic and new State Pension have grown by earnings or more in all years. Together, these effects have raised the average level of State Pension income. As can be seen in Figure 1.4, by the 2040s, people eligible for the State Pension are on average expected to receive a pension equivalent to 31% of median earnings.⁶⁸

⁶⁷ DWP, 2026, '[Abstract of DWP benefit rate statistics 2025](#)'

⁶⁸ DWP, 2026, '[Abstract of DWP benefit rate statistics 2025](#)'

Figure 1.4: Average State Pension as a percentage of full time average (median) earnings, 1975-76 to 2049-50 (this excludes ‘contracting out’ of the Additional State Pension pre-2016)⁶⁹



1.25 The State Pension now provides a significant source of retirement income for the vast majority of pensioners. In 2023-24, benefit income, which includes the State Pension, was the largest component of total gross income for

⁶⁹ DWP analysis using DWP, 2026, '[Abstract of DWP benefit rate statistics 2025](#)' and OBR, 2025, '[Fiscal risks and sustainability July 2025](#)' – see methodology in evidence pack

both pensioner couples and single pensioners. This was 56% for single pensioners, while for pensioner couples it was 37%. For the lowest income groups the State Pension represents around 66% of income and is still 30-40% for some of the highest income groups. A non-means-tested, contributory State Pension provides people with a firm foundation for retirement without damaging incentives to save privately.⁷⁰

- 1.26 These reforms have also reduced reliance on Pension Credit, another ambition of the first Pensions Commission, with caseloads falling from 2.7 million in 2009-10 to 1.4 million in 2025-26.⁷¹
- 1.27 However, despite falling reliance on Pension Credit, spending pressures remain elsewhere in the system. As more people reach retirement while renting and the number of pensioners grows (including the number of single pensioner households), the pensioner Housing Benefit caseload is expected to rise.

⁷⁰ DWP analysis of '[Pensioners' Incomes: financial years ending 1995 to 2024](#)'

⁷¹ DWP, 2026, '[Benefit expenditure and caseload tables 2025](#)'

- 1.28 The number of people needing housing support is linked to homeownership rates. Projections show that homeownership among those aged 65 and over will fall from just under 80% to below 70% by 2050.⁷² In combination with the demographic trends mentioned elsewhere in the report, this is expected to lead to a rise in the Housing Benefit pension age caseload from 1.1 million in 2030-31 to 1.7 million in 2050-51 (explored further in Chapter 2). This combination of demographic change and falling homeownership among future retirees is likely to increase welfare spending and intensify challenges to the long-term sustainability of the system.⁷³
- 1.29 Increasing longevity and a growing proportion of older people relative to the working-age population will place upward pressure on State Pension expenditure, while slower labour-force growth may constrain future tax revenues. Although increases in the State Pension age have been the main tool for managing costs to date, demographic trends mean fiscal

⁷² DWP internal analysis of long-term benefit projections

⁷³ DWP internal analysis of long-term benefit projections

pressures are expected to intensify in the years ahead, as highlighted by the OBR.⁷⁴

1.30 However, persistent inequalities in life expectancy across the UK mean that changes to the State Pension age have implications for the fairness of the system. In recent analysis, life expectancy rose between 2019–21 and 2022–24 in all UK nations and English regions. Although increases are slowing, clear regional differences remain. The South of England continues to have the highest life expectancy at birth, while the North of England and Scotland remain lowest. Wales and Northern Ireland saw modest increases, broadly in line with the Midlands and northern English regions, but still below the UK average.⁷⁵ These regional health inequalities mean that increases to the State Pension age have a disproportionate impact on areas with lower life expectancy, reducing the proportion of adult life that people in these regions can expect to spend in retirement and raising concerns about the overall fairness of the system.

⁷⁴ OBR, 2025, '[Fiscal risks and sustainability – July 2025](#)'

⁷⁵ ONS, 2025, '[Life expectancy for local areas of the UK](#)'

Pensioner poverty is now lower than for other age groups

- 1.31 The introduction of Pension Credit and State Pension reforms have contributed to reduced rates of pensioner poverty.
- 1.32 In 1999-00, the median pensioner was 16% poorer than the whole population median. But this gap continued shrinking over the 2000s and was 0% in 2023-24.⁷⁶ Real income growth over this 24-year period was 51% for pensioners, and around 25% for non-pensioners (working-age and children).⁷⁷ In 1999-00, around 60% of pensioners were in the bottom half of the household income distribution, but that figure is now 50%.⁷⁸

⁷⁶ DWP, 2025, '[Households Below Average Income: an analysis of the UK income distribution: FYE 1995 to FYE 2024](#).' This analysis does not include revisions released in March 2026.

⁷⁷ DWP, 2025, '[Households Below Average Income: an analysis of the UK income distribution: FYE 1995 to FYE 2024](#).' This analysis does not include revisions released in March 2026.

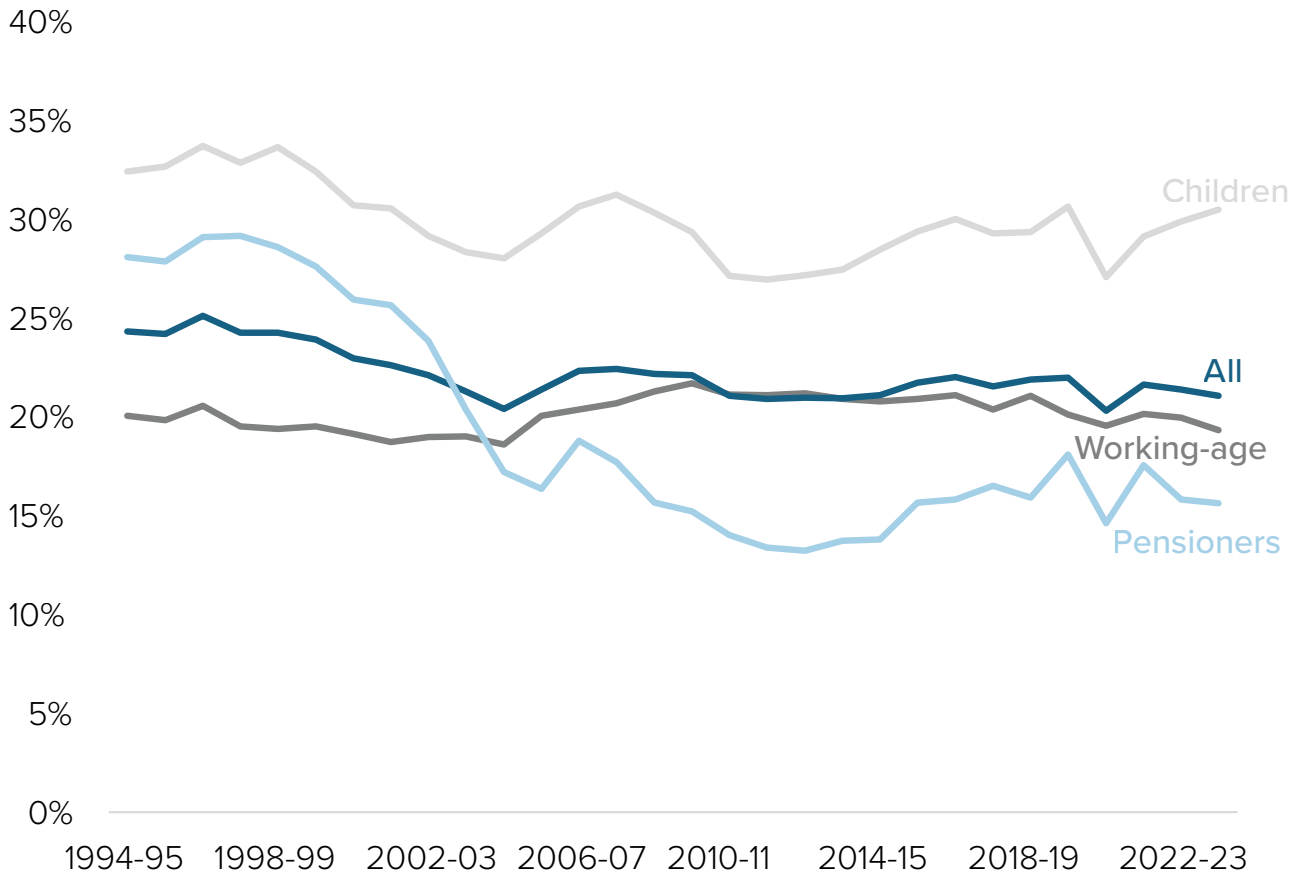
⁷⁸ DWP, 2025, '[Pensioners' Incomes: financial years ending 1995 to 2024](#)'. This analysis does not include revisions released in March 2026.

- 1.33 At the bottom of the income distribution, pensioner poverty (relative income poverty after housing costs) has fallen significantly over the long term. In 1999-00 it was 28% (and even higher at times before then), but by 2007 it was 18% and, during the financial crisis, it reached a low of 13% by 2012-13 (Figure 1.5). This trend was particularly aided by the introduction of Pension Credit in 2003.⁷⁹
- 1.34 Since then, pensioner poverty has risen to 16% in 2023-24 – or 1.9 million out of 12.1 million pensioners – and 1 million pensioners remain in material deprivation. However, these rates remain clearly below those of other age groups (with 31% of children, 28% of working-age adults with children, and 17% of working-age adults without children in relative poverty in 2023-24), as shown in Figure 1.5.⁸⁰

⁷⁹ DWP, 2025, '[Households Below Average Income: an analysis of the UK income distribution: FYE 1995 to FYE 2024](#).' This analysis does not include revisions released in March 2026.

⁸⁰ DWP, 2025, '[Households below average income: for financial years ending 1995 to 2024](#)'

Figure 1.5: Percentage of population in relative poverty after housing costs, by age group, in the UK 1994-95 to 2023-24⁸¹



⁸¹ DWP, 2025, [‘Households below average income: for financial years ending 1995 to 2024’](#)

Automatic enrolment has transformed workplace savings

- 1.35 The first Pensions Commission concluded that voluntary saving alone would not be sufficient to ensure adequate pension income for all groups, as it had failed to materialise due to employer and employee inaction. Its solution was bold: to introduce the concept of automatic enrolment into a workplace pensions scheme, with the National Employment Savings Trust (Nest) established to ensure that all people could access DC pension saving.
- 1.36 Since implementation and roll-out of AE, workplace pension participation has been transformed, with around 9-in-10 eligible employees saving into a workplace pension, up from 55% in 2012. That has meant an increase of around 11 million more pension savers since 2012.⁸² Opt-out rates have stayed below 11%, far lower than the 28% initially assumed by DWP – vindicating the first Commission’s use of behavioural science and the power of inertia to

⁸² DWP, 2025, [‘Workplace pension participation and savings trends of eligible employees: 2009 to 2024’](#)

help people to make better decisions by sticking with default options.^{83,84}

1.37 The biggest effects were for lower-earning private sector workers and those working for small firms. For example, in the private sector, participation among eligible employees in firms with 1-4 employees rose from 12% in 2012 to 59% in 2024. Similarly, participation in private sector firms with 5-49 employees increased from 24% in 2012 to 86% in 2024.⁸⁵ Among lower-earning eligible employees in the private sector (those earning £10,000-£20,000), who historically had the lowest engagement in pension saving, participation rose from 17% in 2012 to 77% in 2024.⁸⁶

⁸³ DWP, 2024, '[Workplace pension participation and savings trends of eligible employees: 2009 to 2023](#)'

⁸⁴ DWP, 2016, '[DWP Evidence to the Work and Pensions Select Committee \(PAE0024\)](#)'

⁸⁵ DWP, 2025, '[Workplace pension participation and savings trends of eligible employees: 2009 to 2024](#)'

⁸⁶ DWP, 2025, '[Workplace pension participation and savings trends of eligible employees: 2009 to 2024](#)'

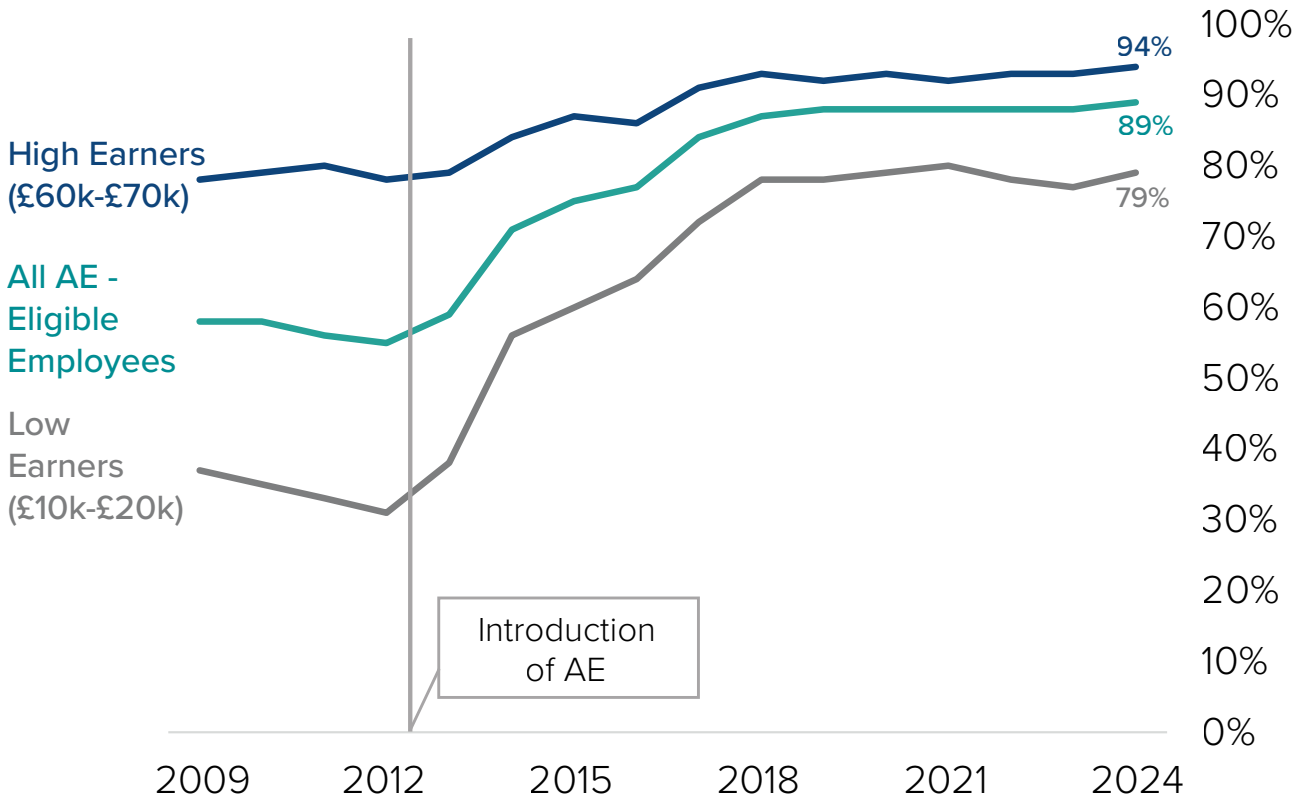
Mandatory private saving refers to social support stipulated by legislation but operated through the private sector.

1.38 However, despite these successes, challenges remain, as subsequent chapters will explore in greater depth. Around 45% of working-age adults are not saving into a pension in a typical month, and almost half (47%) of those not saving are in paid work.⁸⁷ Many are also not saving enough. Reflecting a strong default effect, around a third of private sector DC savers save at AE minimum levels.⁸⁸

⁸⁷ DWP, 2025, '[Family Resources Survey: financial year 2023 to 2024](#)'

⁸⁸ DWP analysis of ONS, 'Annual Survey of Hours and Earnings, 2024'

Figure 1.6: Workplace pension participation by earnings level (eligible employees)⁸⁹

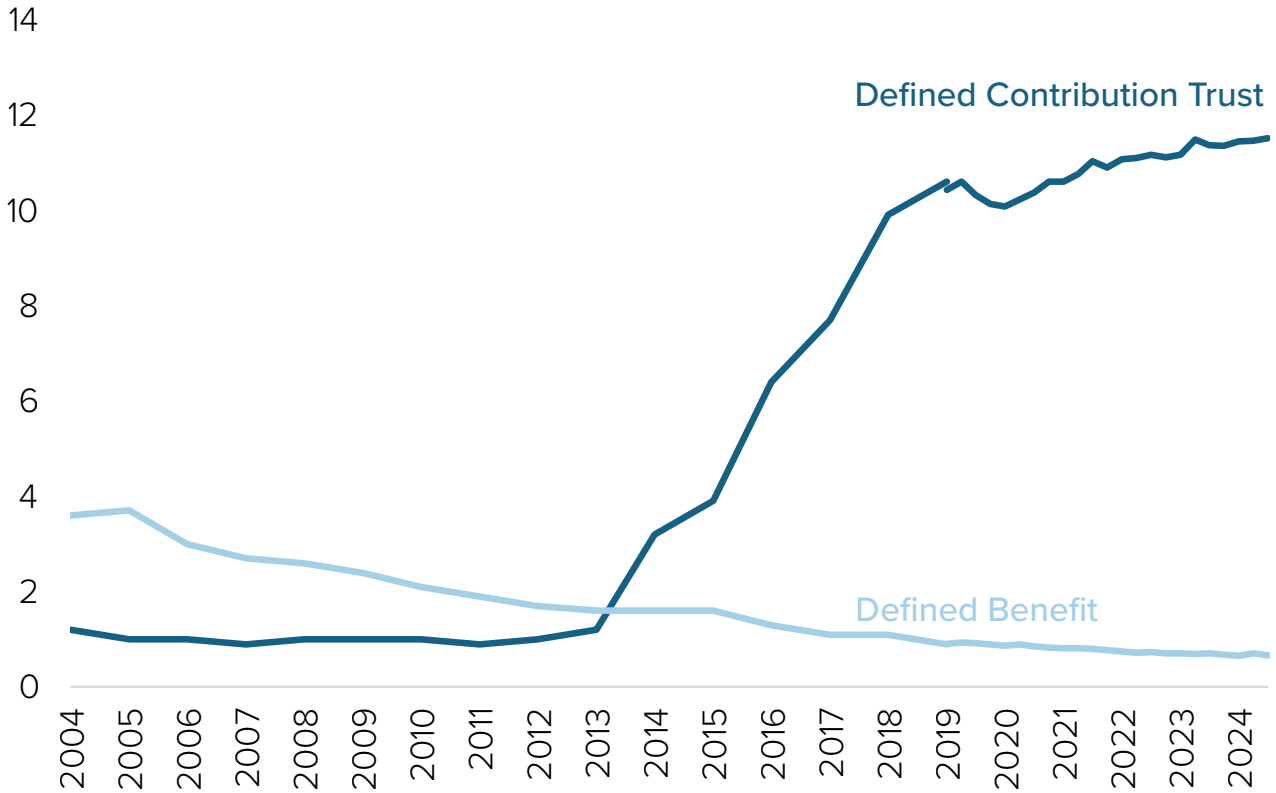


Automatic enrolment has transformed the pensions market

1.39 AE, as well as the continued decline of private sector DB provision, have drastically changed the size and shape of the UK's pension market (see Figure 1.7, as well as section A of the evidence pack).

⁸⁹ DWP analysis of ONS, 'Annual Survey of Hours and Earnings 2024' data

Figure 1.7: Active pension savers (millions) by scheme type (private sector only)⁹⁰



1.40 The market that has been created to deliver AE is different from that proposed by the first Pensions Commission. In taking forward the Commission’s proposals, the Coalition government decided to remove the National Employment Savings Trust (Nest) as a default scheme, resulting in a wider range of providers participating in the market.

⁹⁰ DWP calculations from ONS, ‘Financial Survey of Pension Schemes’; and ONS, ‘Occupational Pension Scheme Survey’

- 1.41 This has created a second pillar to the pension savings system, delivered in large part by a private market, shaped by competition for employer choice. In recent years, the market has evolved further with the growth in pension consolidators. Further complexity is added by the existence of two different regulatory frameworks for contract- and trust-based provision, and employer trust-based occupational schemes are in decline.
- 1.42 The systemic importance of this market is increasing. The increases in pension participation brought about by AE mean that assets held in DC pension funds have grown significantly. As a result, workplace DC assets are expected to overtake those held by DB schemes by around 2030, with memberships of DC already higher.⁹¹
- 1.43 The market is regulated by two different bodies, with The Pensions Regulator responsible for regulation of trust-based schemes, and the Financial Conduct Authority responsible for regulating contract-based schemes. A range of reforms have been put in place over the last decade to create stronger protections and

⁹¹ DWP modelling of DB and DC assets

improved governance in the AE market with the intent of protecting saver outcomes.

- 1.44 Reforms in the late 2010s introduced caps on Annual Management Charges for pension funds, to prevent member overcharging and improve value for money, banned providers charging members who have stopped contributing more than active members, and banned consultancy charges which passed employer advice costs onto scheme members with no choice over the service provider.
- 1.45 Both pension regulators also initiated further reforms to DC scheme governance. The Master Trust authorisation and monitoring regime was introduced by The Pensions Regulator, requiring Master Trusts to meet standards of governance, trustee fitness, and financial sustainability, and undergo ongoing monitoring by the regulator.⁹² This addressed moral hazards that emerged with the development of multi-employer commercial pension schemes and drove up standards. The Financial Conduct Authority introduced Independent Governance Committees to oversee contract-based schemes, attempting to align these schemes

⁹² TPR, 2018, 'Authorisation and supervision of master trusts'

with the principle of fiduciary duty governing trust-based arrangements.

Automatic enrolment has formed a durable consensus

- 1.46 Pensions policy is unusual in its long delivery timescales for desired outcomes. Policy levers pulled today impact retirement adequacy over a timescale of decades. The first Commission's reforms have survived changes in governments and shifts in socioeconomic conditions.
- 1.47 The consensus built by the first Commission enabled successive governments of different political persuasions to implement its recommendations gradually over time. The Commission's reforms gained traction because they created a package that different stakeholders could support, even if not all groups agreed with every element. The Commission's approach ensured that the interests of key groups were considered in the eventual settlement – an important factor in securing broad and durable support.
- 1.48 Crucial to consensus building was working with – rather than overturning – the core building blocks of the existing pensions system. Transformative though they were, the Commission's proposals did not seek

to reinvent the fundamental structure of UK retirement provision. They preserved the long-standing model of a modest contributory State Pension, supplemented by private saving, and maintained the employer-employee relationship at the heart of workplace pension provision. By building on rather than replacing the existing system, the reforms were more readily understood, more compatible with the broader UK social policy context, and more straightforward to implement. Research by Nest Insight suggests that a more radical alternative – such as a fully compulsory saving system – was unlikely to have been politically or socially acceptable within the UK’s established political economy.⁹³

The demographic and socio-economic context is now more challenging

1.49 The demographic, economic and wider societal landscape facing this Commission is markedly different from that which faced the first Commission in the 2000s. Older people now form a greater proportion of the overall

⁹³ NEST Insight, 2020, [‘Pension Reforms in the UK: 1997 to 2015’](#)

population, and this is set to increase further. Structural changes in the economy, shifts in the labour market and heightened social pressures now form a more complex and constrained backdrop for reform.

- 1.50 Pensions play a critical and interdependent role within this context. They not only provide income in later life, but pension funds also function as a major source of long-term investment and a significant buyer of government debt.⁹⁴ The policy of a semi-compulsory private pensions system means that a substantial amount of domestic capital is directed into pension schemes. This makes it understandable that the government is concerned about how this investment supports the UK economy. At the same time, pension outcomes are tightly bound to wider economic, labour-market and societal conditions such as home ownership: the cash value of savings is shaped by wage growth, employment levels and the performance of financial markets and businesses across the economy.

⁹⁴ DWP, 2024, '[Pension fund investment and the UK economy](#)'

Demographic change is intensifying pressures on sustainability

- 1.51 Since the first Pensions Commission, demographic change has meant that the size of the sustainability challenge for the UK pensions system has become ever clearer. Increases to the State Pension age have controlled the fiscal costs of the State Pension to a degree, however the population is ageing, fertility rates have fallen, and the balance between people of working-age and those in retirement has deteriorated. These challenges are not unique to the UK context, and to some extent have been mitigated by increases in migration, but nonetheless these trends pose a challenge to the pensions system.
- 1.52 Although there are local and regional differences (see regional breakdown in evidence pack section A), life expectancy at older ages has increased substantially over recent decades. While improvements have slowed since the 2010s, people are still spending longer in retirement than at the time of the first Commission. Cohort life expectancy in the UK at age 65 rose from 18.2 years in 2004 to 19.9 years in 2024 for men, and from 20.9 years in 2004 to 22.6 years in 2024 for

women.⁹⁵ At the same time, the large cohorts born in the post-war period are now reaching or have reached State Pension age, accelerating the growth of the pensioner population.⁹⁶

- 1.53 These trends are being reinforced by persistently low fertility rates. The UK's total fertility rate is now lower than it was in the 2000s and is well below the replacement rate of around 2.1 children per woman. The UK total fertility rate has been declining year-on-year since 2012, when it was at 1.88 children per woman, down to 1.42 in 2024.⁹⁷ ONS data show that fertility rates have declined across most age groups and regions, reducing the size of the future workforce and the number of contributors to the pension system.
- 1.54 Together, rising longevity and falling fertility rates are driving a sustained increase in the OADR – the number of people above State Pension age relative to those of working-age (Figure 1.8, also covered in section A of the

⁹⁵ ONS, 2025, '[Expectation of life, principal projection, UK](#)'

⁹⁶ ONS, 2025, '[Life expectancy for local areas of the UK](#)'

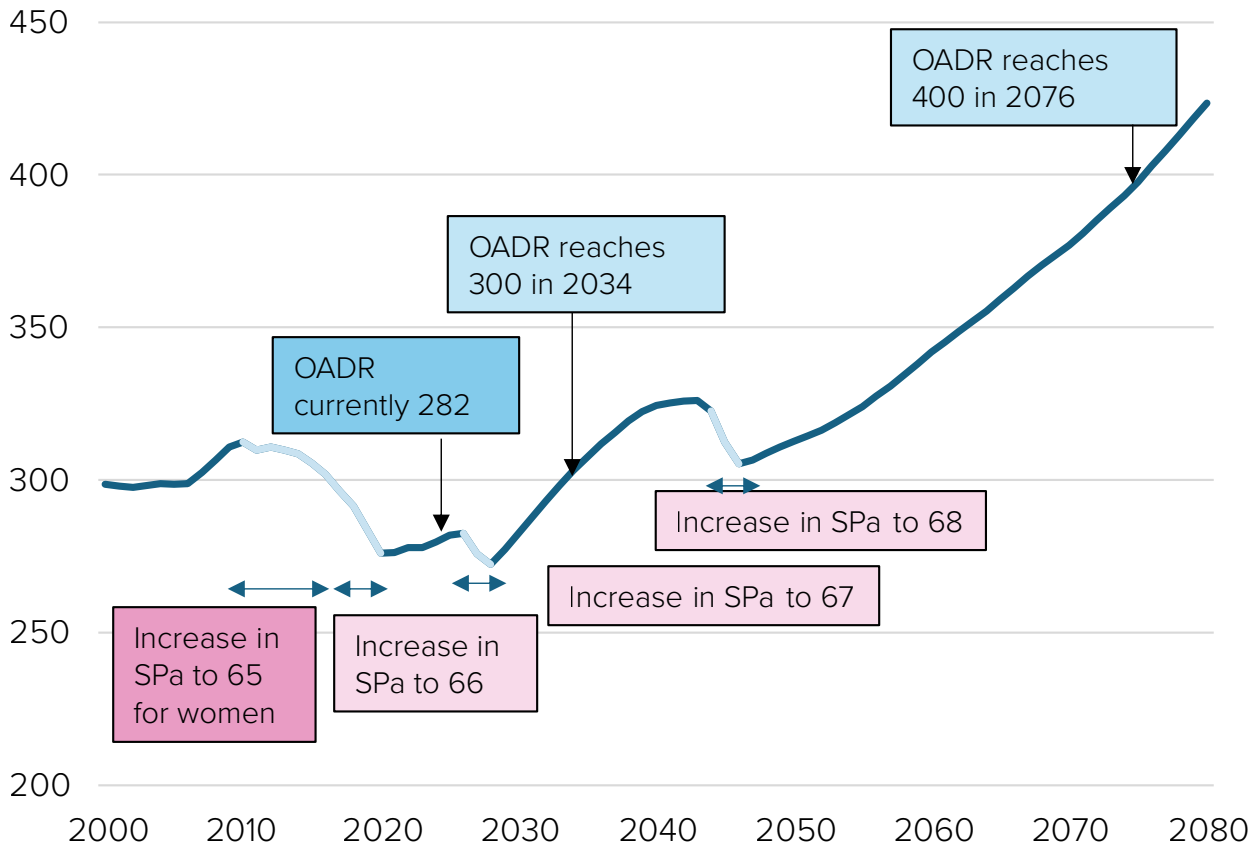
⁹⁷ DWP calculations based on ONS, 2025, '[Births in England and Wales](#)'

evidence pack). Although the State Pension age has tempered increases to the OADR to date, government projections show that the OADR is expected to rise over the coming decades, from 278 people over State Pension age per 1,000 of working-age in mid-2022 to 293 in mid-2032, before reaching 313 by mid-2050.^{98,99} This means that there will be fewer workers supporting each pensioner through taxation and National Insurance contributions. This presents challenges to intergenerational fairness and the sustainability of the pay-as-you-go State Pension system, as servicing public spending on pensioners requires a greater share of tax revenue.

⁹⁸ ONS, 2025, '[National population projections: 2022-based](#)'

⁹⁹ ONS, 2025, '[Migration category variant, UK summary](#)'

Figure 1.8: Old Age Dependency Ratio (OADR), UK 2000-2080¹⁰⁰



1.55 Demographic change also has important implications for private pensions. Longer retirements mean that individuals must either save more, work for longer, or accept lower incomes in retirement. The State Pension provides a reliable income through retirement and so protects against longevity risk. However, for DC savers in particular, longevity risk is borne by individuals, and amplifies the

¹⁰⁰ DWP calculations using ONS, 2025, '[UK population estimates 1838 to 2024](#)' dataset Table 3

consequences of inadequate saving, early labour-market exit, or decumulation decisions that risk the sustainability of their pension saving. These pressures are compounded for groups with lower lifetime earnings, interrupted careers, or both.

- 1.56 An ageing population makes higher employment rates across the population and at older ages increasingly important for maintaining pension adequacy for individuals and fiscal sustainability. Ensuring the long-term sustainability of the pensions system will therefore require policy to respond not only to shortcomings in saving behaviour and labour-market outcomes, but also to the demographic realities that shape both.

Working at older ages is crucial to the economy

- 1.57 The length of working lives is decisive for the economy and the sustainability of the pensions system. Sustaining higher employment at older ages is also increasingly vital for economic prospects in an ageing population. As an increasing proportion of the population is over 50, the employment of this group is increasingly linked to the overall economy and fiscal position. Even small increases in employment

rates among those in their 50s and 60s could generate substantial gains for the wider economy.

1.58 International evidence reinforces the importance of later life employment for growth in ageing populations, as recently highlighted by the Institute for Fiscal Studies (IFS).¹⁰¹ The OECD has shown that raising older-worker participation to match the performance of the best-performing countries could generate meaningful economic gains. Specifically, if countries reduced the rate at which older workers exit the labour market to the levels seen in the top 10% of OECD performers, around half of OECD countries could see their annual GDP per capita growth rise by at least 0.2 percentage points.¹⁰² This highlights the scale of opportunity: measures that support longer working lives, such as better health provision to remain in work, flexible work, and lower barriers to employment entry are beneficial for individuals and can offset a significant share of the economic challenges from population ageing.

¹⁰¹ IFS, 2025, '[Health, wealth and employment in the run-up to state pension age](#)'

¹⁰² OECD, 2025, '[OECD Employment Outlook 2025](#)'

1.59 The sustainability of the State Pension system is also reliant on ensuring there are more older workers contributing National Insurance. In 2025, those aged 50 and over made up 32% of the working-age population.¹⁰³ By 2035, this age group is expected to grow by 3%, whereas the group over State Pension age is expected to grow by 14%.¹⁰⁴ In 2050, over half of the adult population (51%) are expected to be aged 50 and over.¹⁰⁵

Economic growth has underperformed expectations

1.60 The period since the global financial crisis has been characterised by economic turbulence and sluggish GDP and wage growth. Labour productivity growth, for example, averaged 1.9% between 1993 and 2008 but only 0.5% between 2008 and 2023, and this fed through to weak real wage growth.¹⁰⁶

¹⁰³ ONS, 2025, '[Zipped population projections data files, UK](#)'

¹⁰⁴ ONS, 2025, '[Zipped population projections data files, UK](#)'

¹⁰⁵ ONS, 2025, '[Zipped population projections data files, UK](#)'

¹⁰⁶ ONS, 2025, '[Output per hour worked, UK](#)'

- 1.61 The collapse in productivity growth has had widespread consequences across the economy, particularly for working people's earnings. Real wages in Great Britain grew by 41% over 1991-2007, reflecting strong growth during that period. However, since then, real wage growth has largely stagnated, marking a prolonged and damaging period of limited improvements in workers' living standards, with real wage growth reaching just 1% between 2008-2024.^{107, 108} Lower real wage growth can lead to lower retirement incomes in absolute terms, as people have less money to save into a pension. Lower wage growth also impacts fiscal sustainability due to lower tax receipts.
- 1.62 Alongside weaker growth and wages, the investment environment facing pension schemes has also shifted significantly since the first Pensions Commission. In the early 2000s, UK interest rates typically ranged between 4% and 6%, and long-term real pension returns were often assumed to be around 3.5%, albeit with considerable variation in practice. Since then, interest rates collapsed to around 0.5% for most of the 2010s, before the recent spike

¹⁰⁷ ONS, 2025, '[EARN02: Average weekly earnings by sector](#)'

¹⁰⁸ ONS, 2025, '[CPI INDEX 00: ALL ITEMS 2015=100](#)'

in 2022-23 and subsequent steady declines.¹⁰⁹ Low interest rates depress annuity prices because providers rely on gilt and bond yields when pricing guaranteed retirement income. When rates fell to historic lows, gilt, bond and annuity payouts dropped accordingly, reducing the income retirees could secure from a given pot.¹¹⁰

1.63 Pension saving can also support growth by supplying long-term capital for investment in the UK economy. However, the way pension assets are invested has changed markedly since the first Pensions Commission, weakening this link. First, DB schemes have progressively shifted out of equities and into bonds and liability-matching assets as they have matured and de-risked.¹¹¹ This has significantly reduced the share of DB assets invested in growth-oriented investments. Second, the rise of DC provision has not been matched by a corresponding increase in long-term or private-market investment. As a result, many

¹⁰⁹ Bank of England, 2025, '[Interest rates and Bank Rate: our latest decision](#)'

¹¹⁰ Hargreaves Lansdown, 2025, '[The impact of interest rates on pension annuity rates](#)'

¹¹¹ DWP, 2024, '[Pension fund investment and the UK economy](#)'

DC schemes remain heavily invested in listed global equities rather than private assets that typically require longer investment horizons and higher upfront costs.

- 1.64 These two distinct shifts – DB schemes de-risking into bonds and DC schemes remaining concentrated in publicly listed markets – have together contributed to a reduced flow of pension capital into assets that can support domestic growth, such as UK private equity, infrastructure, and innovative start-ups. While member outcomes rightly remain the priority, these patterns have broader implications for the depth of UK capital markets and the availability of patient, long-term investment for UK industries.

Economic volatility, taxes and pension costs are tightening fiscal choices

- 1.65 Crises since the 2000s have also had significant implications for the state of public finances. Weaker than expected economic growth over much of the past two decades has meant that GDP has not risen as quickly

as previously forecast.¹¹² This, alongside other structural factors, means that pensions-related spending now accounts for a larger share of the economy than anticipated, narrowing the fiscal room for future pension and other spending decisions.

1.66 Demographic change and more generous State Pension uprating have increased pensioner benefit spending. This spending has risen from around 2% of GDP in 1950 to around 3% by 1970; around 4% by 1980; and around 5% since 2010.¹¹³ The latest OBR forecasts show this trend continuing: spending on pensioner benefits (including the State Pension) is projected to grow from around 6% of GDP in 2024-25 to over 7% by the mid-2050s and around 9% by the early 2070s.¹¹⁴ Section A of the evidence pack illustrates how the share of GDP spent on the State Pension has changed and is forecast to change into the future.

¹¹² The Pensions Commission, 2005, '[A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission](#)'

¹¹³ DWP, 2025, '[Benefit expenditure and caseload tables 2024](#)'

¹¹⁴ OBR, 2025, '[Fiscal risks and sustainability – July 2025](#)'

- 1.67 The state is also ‘spending’ more on pension tax reliefs.¹¹⁵ The UK’s pensions system operates broadly on an Exempt–Exempt–Taxed (EET) basis: contributions to registered pension schemes are exempt from Income Tax; investment returns within the pension are largely tax-exempt; and withdrawals in retirement are taxed, apart from the ‘lump sum’ (usually 25% of an individual’s pension pot) that can be taken tax-free.¹¹⁶ Additional features, including National Insurance exemptions on employer contributions, the use of salary sacrifice, and the tax-free treatment of investment growth all increase the value of tax support for savers.
- 1.68 Although the tax regime was regressive at the time of the first Commission and has remained so, in 2023-24, 32% of Income Tax relief on total pension contributions was relieved at the basic rate, compared to 55% at the higher rate of Income Tax, and 13% at the additional

¹¹⁵ HMRC, 2025, ‘[Private pension statistics commentary: July 2025](#)’

¹¹⁶ Tax-free lump sums are usually capped at £268,275 (except in the cases of death benefits and protected allowances).

rate.¹¹⁷ The total gross cost of pensions tax relief has risen significantly: in 2023-24 it reached £78.2 billion (with £54.2 billion from Income Tax relief and £24.0 billion from NICs relief, excluding tax relief on investments), a sum greater than the total defence budget. The estimated net cost of pension Income Tax and NICs relief was £53 billion in 2023-24, up from £31 billion (estimated in 2004-05 values) at the time of the first Commission. As a percentage of GDP, the cost of pensions tax relief has gone from 0.9% of GDP in 2004-05 to 1.9% of GDP in 2023-24, again representing a significant shift in the size of the pensions system when compared with the size of the economy.¹¹⁸

Home ownership rates have fallen markedly since the first Pensions Commission

1.69 While historic increases in home ownership helped underpin the adequacy of pensioner incomes, this contribution is expected to weaken. This challenges an implicit assumption of the first Pensions Commission that pensioners would own their own homes. Overall

¹¹⁷ HMRC, 2025, '[Private pension statistics commentary: July 2025](#)'

¹¹⁸ HMRC, 2025, '[Private pension statistics](#)'

home ownership in England has declined since the early 2000s, falling from around 70% at what was then a historic peak to around 65% today.¹¹⁹ Those peak levels have not been regained, and there is ongoing debate about what a long-term ‘steady state’ for home ownership is likely to be.

- 1.70 These aggregate figures mask important differences across age groups. Home ownership among younger cohorts has fallen sharply: under-30s in 2021 were less than half as likely to own a home compared to thirty years ago.¹²⁰ Among those approaching retirement, ownership has also fallen notably. For 45 to 54 year olds, the English home ownership rate has declined from 81% in 2003-04 to 66% in 2024-25.¹²¹ Over the same period, the share of this group living in the private rented sector has more than tripled from 5% to 18%. Likewise for 55 to 64 year olds, the

¹¹⁹ MHCLG, 2025, ‘[English Housing Survey 2024 to 2025: headline findings on demographics and household resilience](#)’

¹²⁰ Resolution Foundation, 2023, ‘[An intergenerational audit for the UK](#)’

¹²¹ MHCLG, 2025, ‘[English Housing Survey 2024 to 2025: headline findings on demographics and household resilience](#)’

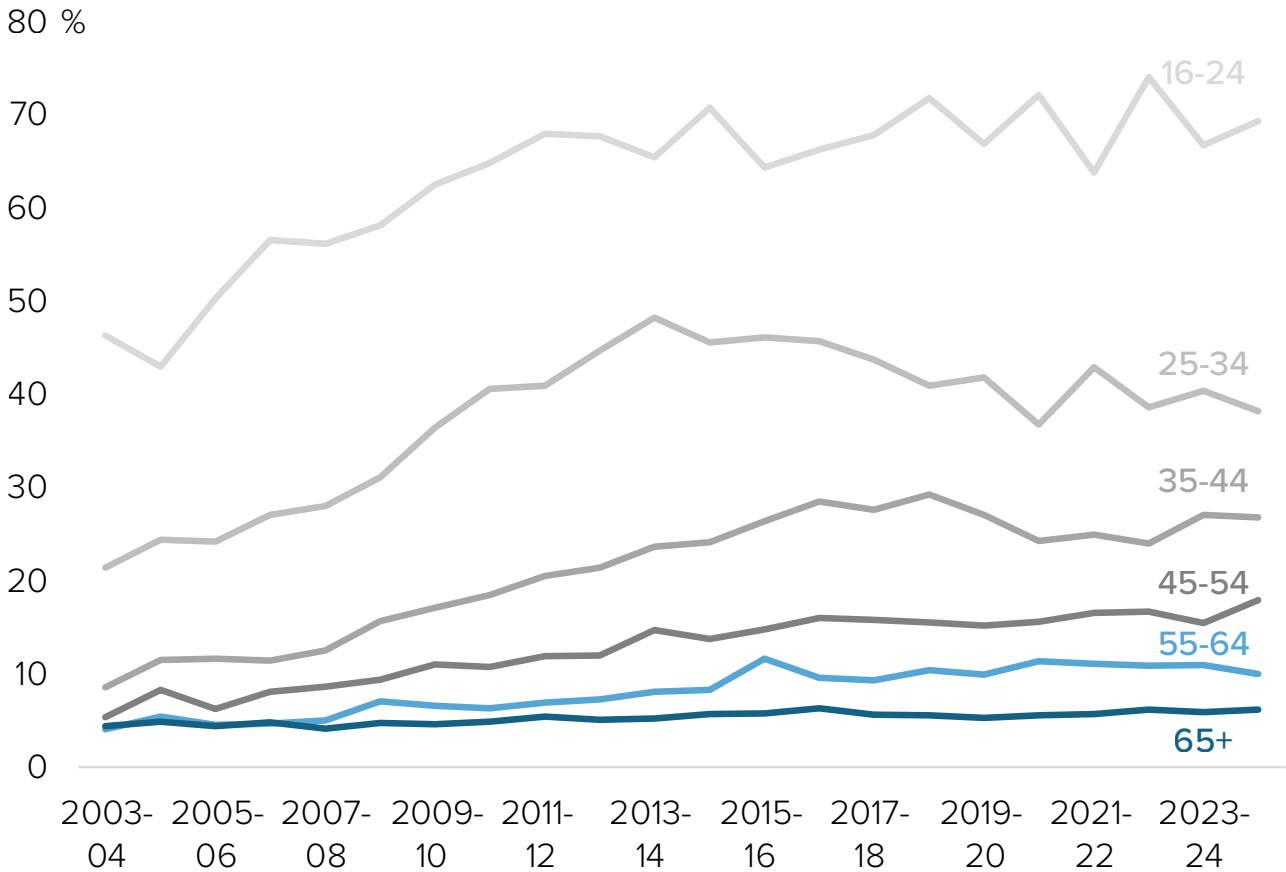
English home ownership rate has declined from 82% in 2003-04 to 71% in 2024-25.¹²² Over the same period, the share of this group living in the private rented sector has more than doubled, from 4% to 10% (Figure 1.9).

1.71 In contrast, home ownership among those already 65 has risen, increasing from 71% in 2003-04 to 79% in 2024-25.¹²³

¹²² MHCLG, 2025, '[English Housing Survey 2024 to 2025: headline findings on demographics and household resilience](#)'

¹²³ MHCLG, 2025, '[Annex tables for English Housing Survey 2024 to 2025 headline findings on demographics and household resilience](#)'

Figure 1.9: Share of households in the private rented sector by age group¹²⁴



1.72 The role of inheritances has grown since the 2000s and is likely to continue rising. For many people, this may mean receiving housing-related wealth later in life – often as a share of equity rather than a first step into home ownership.

¹²⁴ MHCLG, 2025, '[Annex tables for English Housing Survey 2024 to 2025 headline findings on demographics and household resilience](#)'

Conclusion

- 1.73 Over the past quarter century, successive governments have introduced reforms that have significantly strengthened the UK pensions system, building on the recommendations of the first Pensions Commission. AE has transformed participation in private pensions, while the new State Pension has provided a clearer, more predictable foundation for retirement. However, as this chapter has shown, the system now operates in a very different economic and demographic context.
- 1.74 Over the past decade, government has introduced various review mechanisms to adapt policy to this changing context. Government has legislated for regular reviews of the State Pension age, informed by an independent report and a report from the Government Actuary's Department; the third review is ongoing. Government also reviews AE thresholds annually, as well as the uprating of the State Pension. In practice, AE thresholds have been frozen for several years, and the government has almost always chosen to uprate the State Pension in line with the Triple Lock in the years since its introduction. AE

policy more broadly was reviewed in 2017,¹²⁵ but the recommendations have not been fully implemented.

- 1.75 As has been set out, there are a number of areas where current policy is not on track to deliver a pensions system that is adequate, fair and sustainable. The respective roles of the private and State Pensions systems in delivering adequacy have not been considered holistically since the first Pensions Commission. It is time to take a new look.
- 1.76 The objectives of improving adequacy, fairness, and sustainability need to be considered together. Improving retirement incomes, maintaining fairness between different groups and generations, and ensuring that the system remains affordable and deliverable all involve difficult choices. The central challenge for the next phase of pension reform is therefore to manage these trade-offs in a way that remains credible, durable and acceptable to the public.
- 1.77 Despite the progress made in the years since the first Pensions Commission, many of the same pressures remain, and new challenges have emerged. Pensioners now have more

¹²⁵ DWP, 2017, '[Automatic enrolment review 2017: Maintaining the momentum](#)'

flexibility in how they manage their pensions, and new risks to adequacy have emerged due to the shift from DB to DC pensions and the introduction of the 2014 pension access reforms. The challenge for the new Commission is how to address these pressures in a way that is fair, sustainable and capable of delivering adequate retirement incomes for the generations to come.

Chapter 2 Measuring retirement outcomes

Summary

- **Too many are undersaving for retirement.** 4-in-10 (15 million) people are not saving enough compared to the aspirational target replacement rates set out by the first Pensions Commission – which could be met through the three pillars of the State Pension, workplace or personal pensions and voluntary saving, if desired.
- **The balance of default and voluntary saving needs revisiting.** The State Pension and automatic enrolment by themselves were not intended to reach the first Pensions Commission's full target replacement rates, but the third pillar of voluntary savings has not materialised as needed and greater material risks are developing, such as lower home ownership.

- **Replacement rate outcomes at retirement are set to worsen over the 2030s and 2040s.** The outlook is also uncertain: in other scenarios for future volatility the proportion of people undersaving could be as high as 5-in-10.
- **Although higher earners are more likely to miss their target replacement rates, the current pensions system is working well for many higher earners in practice** and their absolute incomes in retirement remain high. Alongside relatively strong employer contributions and tax incentives, higher earners are also more likely to have access to a wider range of wealth. One simplified adjustment for housing wealth cuts the proportion of high earners undersaving from 48% to 33%.
- **Over 1-in-10 (5 million people) are set to miss the Pensions UK minimum standard** – an alternative approach based on the cost of essentials. This rises to 3-in-4 (25 million) against their ‘moderate’ standard, though this is higher than the typical working-age income. In contrast to target replacement rates, which are most ambitious for high earners, these measures imply a focus on lower earners.

- **15% of Generation X (born 1965-1980) are projected to miss the Pensions UK minimum standard**, compared to 10% of Generation Z (1997-2012).
- **Relative pensioner poverty out to 2050 is projected to remain steady**, however in some economic scenarios there will be upwards pressure over the 2030s and 2040s. The State Pension is playing the role set out by the first Pensions Commission, as a firm foundation for adequacy. But those without private pensions are far more likely to be in poverty. And with changes in housing tenure, renters may make up around half of poor pensioners by 2050.
- **A hybrid adequacy measure would better reflect the needs of different earners** and help anchor future public policy: combining the use of replacement rates in some form for middle earners with a basic adequacy standard for lower earners.

Introduction

2.1 A key goal of this Commission, as with the first Pensions Commission, is to ensure the adequacy of future pension incomes. This chapter therefore looks at various ways of specifying thresholds of adequacy – each with pros and cons – and models future outcomes based on current pensions policies.¹²⁶ In turn, we look at three groups of measures and projections:

- Replacement rates
- Income standards based on particular baskets of goods and services
- Relative poverty, and means-tested benefit receipt

2.2 None of these measures on their own are able to provide an overall framework to anchor pensions policy – and international use of metrics varies, as Box 2 explores.¹²⁷ But these measures highlight causes for concern about savings levels in general and for some groups in particular. As we discuss in more detail in subsequent chapters, any goals for pensions

¹²⁶ For further related analysis and methodological details, see evidence pack section B

¹²⁷ OECD, 2024, ‘Pensions Outlook 2024’

adequacy must also take into account the full range of reasons why targets are not met, and the implications of meeting them for those who bear the cost: individuals, employers, and the state.

Box 2: International approaches to adequacy

There is no universal retirement income benchmark. In a previous report on the use of adequacy measures and benchmarks, the OECD highlighted that mandatory pension systems may pursue different objectives, such as alleviating old-age poverty, providing a certain standard of living in retirement or smoothing consumption. Depending on the objective, the benchmark would be different.

Several countries have developed retirement income benchmarks for comparison with current standards. For example:

- Mexico's pension regulator calculates the required expenditure to achieve a minimum, moderate, and comfortable lifestyle in retirement. This is based on a survey of household income and expenditure.

- Australia’s Pension Industry (The Association of Superannuation Funds of Australia) has developed similar expenditure-based retirement standards for Australians. This considers a “comfortable” lifestyle and “modest” lifestyle, with splits for singles and couples, along with whether they are homeowners or renters.
- Netherlands: An independent organisation (NIBUD) produces reference budgets for singles and couples over the age of 65 to help people in retirement.
- New Zealand: The Fin-Ed Centre at Massey University calculates two levels of expenditure based on the actual expenditure levels of retired New Zealanders that vary by household size and whether the retiree lives in a metropolitan or provincial area. The first level is a ‘no frills’ lifestyle covering basic needs and based on the average spending of the second income quintile. The ‘choices’ lifestyle allows for more comfort and is based on the expenditure of the fourth income quintile

- USA: The Elder Index developed by the Gerontology Institute at the University of Massachusetts provides an interactive tool showing the breakdown of necessary monthly expenses by spending category. Calculations vary depending on the county, household size, housing status, and health status.

Adequacy through a replacement rate lens

The first Pensions Commission set out aspirations for three pillars of saving

2.3 The first Pensions Commission made significant use of target replacement rates, or TRRs.¹²⁸ It used individuals' views of adequate income levels in retirement and actual replacement rates at the time to propose targets for different earnings groups. These compared income in retirement with final earnings – while assuming that most people were homeowners in retirement. It is assumed that individuals can

¹²⁸ In this report, we use the TRRs used by the Department for Work and Pensions, which have been adapted from those developed by the first Pensions Commission

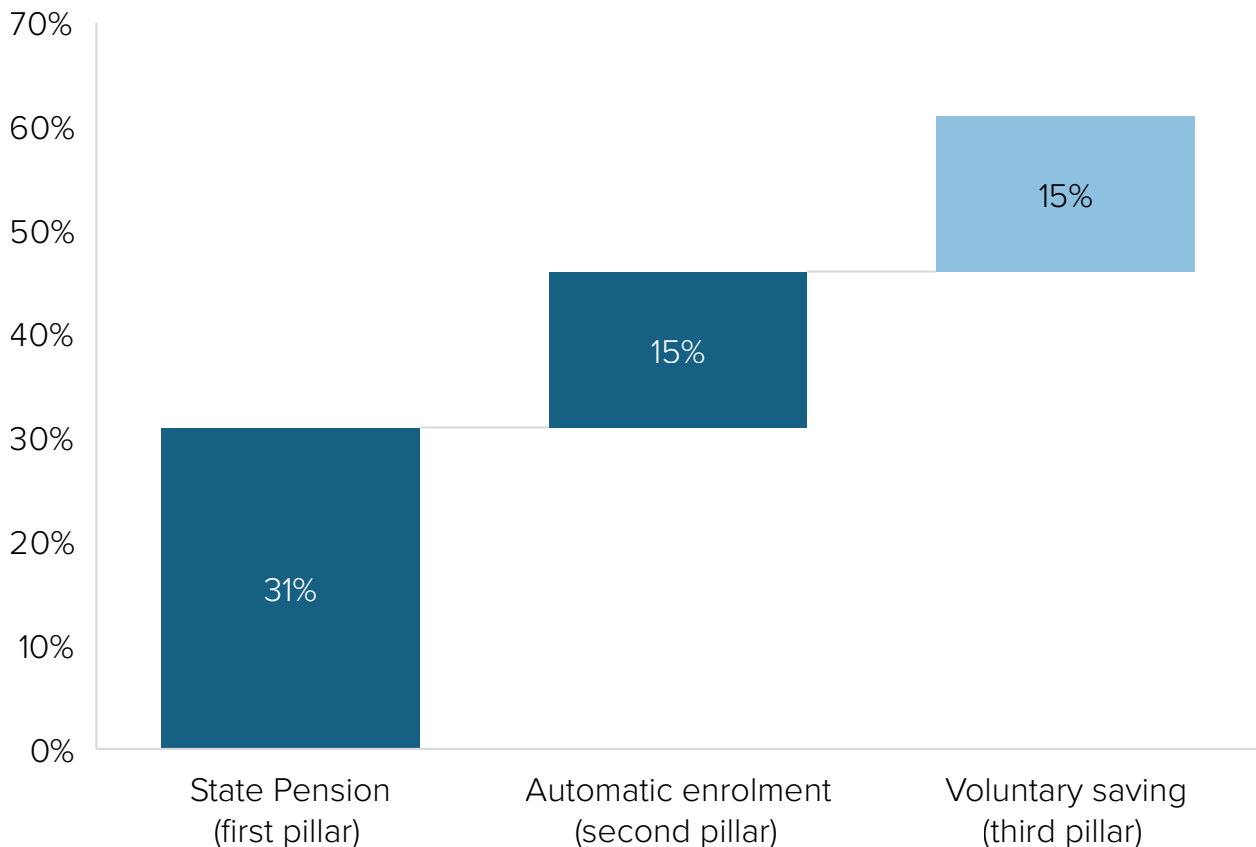
make do with lower gross income in retirement as they no longer need to save (not least into pensions and housing), face lower tax rates, and may no longer need to cover the costs of children, commuting and more. These target replacement rates are therefore below 100%.

2.4 As noted in Chapter 1, the first Commission envisaged that these replacement rates could be delivered through three ‘pillars’, as demonstrated in Figure 2.1 for the median full-time employee:

- The State Pension: to ensure a minimum income level by contributing 31%¹²⁹ of pre-retirement income at the median
- AE: to deliver a baseload of earnings replacement by contributing 15-18% through AE minima on an opt-out basis
- Additional voluntary saving: to enable further pension saving by individuals and employers, over and above the AE minima, to add a possible 15-18% more

¹²⁹ Figure Ex.7 in The Pensions Commission, 2005, [‘A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission’](#)

Figure 2.1: Replacement rate levels by component proposed by the first Pensions Commission for the median full-time employee¹³⁰



2.5 Only the first two of these pillars (the State Pension and AE) were to be directly delivered through public policy. This means that for the median earner, the first Pensions Commission proposed that “at least 45%” of pre-retirement income should be delivered through public policy, with workers ‘enabled’ to top this up

¹³⁰ Figure Ex.7 in The Pensions Commission, 2005, [‘A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission’](#)

to 60-67% through employee or employer additional saving if they aspired to.

2.6 The first Pensions Commission set out TRRs for 5 bands of earnings, as set out in Table 2.1, and we also show a new approximation of what the State Pension and AE pillars alone – or ‘Policy element replacement rates’ – were intended to reach. These two sets of figures reflect the balance between wanting to support people’s aspirations and not wanting to impose an overly inflexible system or misdirect state and employer support.

Table 2.1: The first Pensions Commission’s imputed public policy goals by earnings band, compared to aspirational target replacement rates

	Original earnings bands	Latest earnings bands (2023 terms)	Target replacement rates	Policy element replacement rates (rounded)
Band 1	Less than £9,500	Less than £15,900	80%	80%
Band 2	£9,500 to £17,500	£15,900 to £29,000	70%	60%
Band 3	£17,500 to £25,000	£29,001 to £42,000	67%	50%
Band 4	£25,000 to £40,000	£42,001 to £67,000	60%	40%
Band 5	£40,000+	£67,000+	50%	30%

Target replacement rates have historically not been met, and policy needs to be more ambitious

- 2.7 The State Pension is doing its job; and AE has been rolled out broadly as the first Pensions Commission hoped. However, as we set out below and in Chapter 3, the third pillar – of additional saving – is not taking people to the full TRRs to which they may aspire. It is heavily concentrated among higher earners, while for low and median earners it is relatively unimportant compared to the AE minima of the second pillar. As shown in Chapter 1, the UK's replacement rates through the State Pension and AE alone are also internationally low.
- 2.8 When we compare the actual replacement rates that individuals achieve in retirement with the first Commission's recommendations, it is clear that the TRRs the first Commission set out are not being met. Analysis using DWP's administrative dataset, the Registration and Population Interaction Database (RAPID)¹³¹ shows that 50% of pensioners who retired in the 2010s fell below their TRR. The lowest

¹³¹ Further information on RAPID is available at ONS, 2021, '[Methods for measuring international migration using RAPID administrative data](#)'

earners may typically exceed their TRRs, due to the impact of the State Pension. But large proportions of middle and high earners are not meeting their TRRs, as Figure 2.2 shows (although outcomes for some would look stronger if all forms of retirement income – and continued earnings – were included).¹³² On this measure, someone with a pre-retirement income of £100,000 would need an income in retirement of £50,000 per year, while earnings of £5,000 per year would suggest a retirement income of £4,000 per year, and we will return below to whether these are appropriate goals for high and low earners respectively.

2.9 Median retirement incomes for each level of pre-retirement income are generally meeting the ‘policy element replacement rates’, but the ‘25th percentile’ line (which a quarter of people fall below at each income level) shows that large numbers are not even reaching those less ambitious rates. Outcomes may change in future as the growth of AE’s impacts and the continued decline of DB income continue, which we set out later.

¹³² See evidence pack section B. Incomes are adjusted over time in line with average earnings growth.

Figure 2.2: Retirement and pre-retirement income comparison, alongside implied incomes based on target or policy element replacement rates¹³³



2.10 Alongside this evidence from administrative data, earlier analysis using survey data further suggests that the TRRs were also typically missed in the 10 years prior to the first Pensions Commission, and have continued to be missed.¹³⁴

¹³³ DWP analysis of RAPID, 2008 to 2023

¹³⁴ Resolution Foundation, 2024, [‘Perfectly adequate? Revisiting pensions adequacy 20 years after the Pensions Commission’](#)

2.11 This past experience might imply that the full TRRs are ambitious, and indeed the first Pensions Commission was explicit that it would not be appropriate for public policy to insist on those for everyone. But the first Pensions Commission was also clear that periodic review would be wise, because policy adjustments would be inevitable.¹³⁵ There are a number of reasons to think that we need to be more ambitious than the current replacement rates delivered by the State Pension and the first Pensions Commission's AE minima.

- People still indicate that they would ideally like replacement rates similar to the TRRs,¹³⁶ and it is sensible to avoid large income falls when moving into retirement. As shown in Figure 2.2, many workers are not even hitting the minimum policy-implied replacement rates, while – as we will explore below – the outlook for future pension incomes is concerning.

¹³⁵ The Pensions Commission, 2006, '[Implementing an integrated package of pension reforms: The Final Report of the Pensions Commission](#)'

¹³⁶ DWP, 2025, '[Planning and Preparing for Later Life 2024](#)'

- As the first Pensions Commission noted, it is hard to choose a single default level of pension saving that suits both homeowners and renters, with the latter needing more income in retirement, but there has been a shift towards renting, as set out in Chapter 1. For a single pensioner, covering the cost of private renting throughout retirement can easily require over £200,000 of extra pension saving.¹³⁷
- The share of pensioners living alone rather than in a couple is also projected to rise, negatively impacting on living standards given economies of scale in terms of housing, energy and other costs.¹³⁸
- Policy must also work for people with differing career lengths.¹³⁹ We will explore this crucial issue further in Chapter 4. But for now we can note that a full-time median earner working from age 22 to 68 may get

¹³⁷ PPI, 2023, '[Renting in Retirement - The Fault Line Below the UK Pension System](#)'

¹³⁸ DWP analysis using Pensim3

¹³⁹ Whilst the first Commission made some allowances for gaps in people's working lives by assuming pension saving did not begin until age 30, this may not fully capture the reality of employment activity for many people.

close to their full TRR (in our main State Pension uprating scenario – see below); while someone with career breaks and periods of part-time work to care for a child may only get to a 52% replacement rate; and someone retiring at 57 would only get to 45%.¹⁴⁰ A non-trivial minority also still do not reach the 35 qualifying years needed to receive the full new State Pension.¹⁴¹ Policy cannot assume that everyone will have an uninterrupted career of pension contributions.

2.12 For now, we will therefore explore the prospects for undersaving against the first Pensions Commission’s full TRRs, before looking at potential special considerations for high earners or low earners and pointing to a possible way forward for future metrics. In all cases, however, too many people are not on track for adequate retirement incomes.

¹⁴⁰ For further detail, see: DWP, 2025, ‘[Analysis of Future Pension Incomes 2025](#)’

¹⁴¹ DWP analysis using Pensim3

15 million people are set to miss their Target Replacement Rate in future, and potentially more in some scenarios

- 2.13 In addition to looking at data from people who have already retired (above), modelling can also project what share of currently working-age people might miss their TRRs in the future.¹⁴²
- 2.14 The headline finding from these projections is that around 4-in-10 (43%), or nearly 15 million people, are set to miss their TRR before housing costs.¹⁴³ As set out in previous work, these results are slightly worse if measured after housing costs, and again worse if we assume that the maximum 25% of private pension wealth is withdrawn as a tax-free lump sum and not used towards ongoing annual adequacy.¹⁴⁴
- 2.15 Figure 2.3 demonstrates one impactful source of uncertainty in these long-term projections (among other crucial uncertainties such as life

¹⁴² See the evidence pack for further methodological details

¹⁴³ DWP, 2025, '[Analysis of Future Pension Incomes 2025](#)'

¹⁴⁴ DWP, 2025, '[Analysis of Future Pension Incomes 2025](#)'

expectancy and investment returns). As set out by the Office for Budget Responsibility (OBR), the operation of State Pension uprating – through the ‘Triple Lock’ – cannot be assumed to move in line with average earnings over the long term and its long-term trajectory is uncertain. It has been uprated in line with earnings in 2024, 2025 and 2026, but any year in which nominal pay growth falls below the rate of inflation or below 2.5% will lead to a permanent upwards ratchet in the State Pension’s value relative to earnings. We cannot know how many such years there will be, and the OBR looked at three volatility scenarios for illustration:¹⁴⁵

- A low volatility scenario, based on the experience of inflation and earnings from the early 1990s through to 2009-10, when the Triple Lock would have had little impact relative to earnings-linked uprating, averaging 0.11 percentage points above earnings growth each year
- A medium volatility scenario, based on the whole period from 1992-93 to 2024-25, in which Triple Lock uprating averages 0.53

¹⁴⁵ OBR, 2025, [‘Fiscal risks and sustainability – July 2025’](#)

percentage points above earnings growth each year

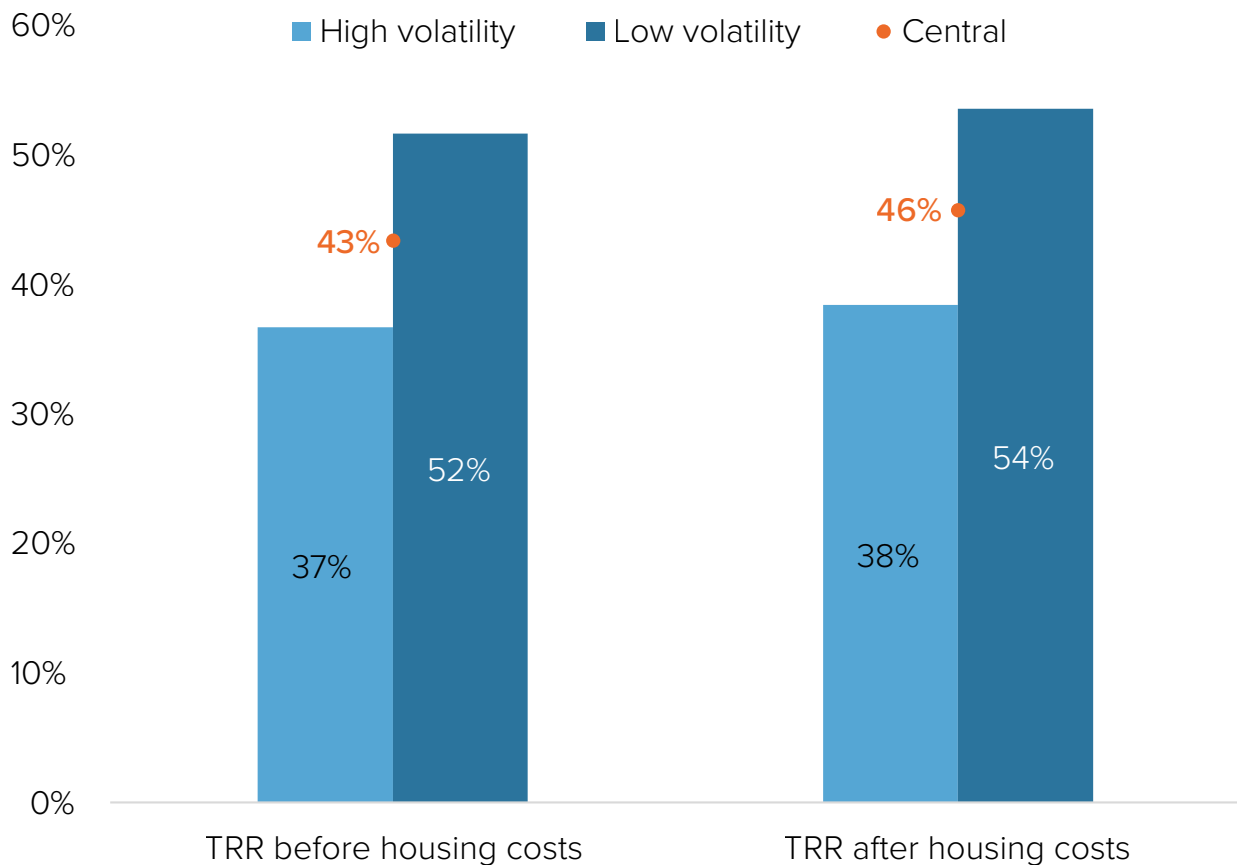
- A high volatility scenario, based on only 2010-11 to 2024-25, including the low wage growth of the 2010s and the double-digit inflation of 2022, which leads to Triple Lock uprating of 0.93 percentage points above earnings growth each year

2.16 These assumptions compound into large differences over time. In all three scenarios, the value of the State Pension continues to increase relative to earnings over time. But the low volatility scenario gives worse results for future adequacy given its impact on the relative value of the State Pension. Modelling only this direct impact on the State Pension, in the low volatility scenario the proportion of working-age people undersaving is 52% (19 million), compared to the central scenario of 43% (15 million), whereas in the high volatility scenario the share falls to 37% (13 million), as set out in Figure 2.3.

2.17 However, any volatility, for example periods of inflation exceeding earnings growth such as during the cost of living crisis, is not necessarily a good thing for the UK. It may have a range of negative impacts on many pensioners that we do not model – beyond the direct impact

on State Pension uprating that we do include. Similarly, periods of high inflation might have negative impacts on the working-age population and their ability to save, with opt outs having risen around Covid-19 and the following periods of high inflation, and again these effects are not reflected in our scenarios.

Figure 2.3: Proportion of working-age people undersaving under high, central and low volatility assumptions before and after housing costs¹⁴⁶

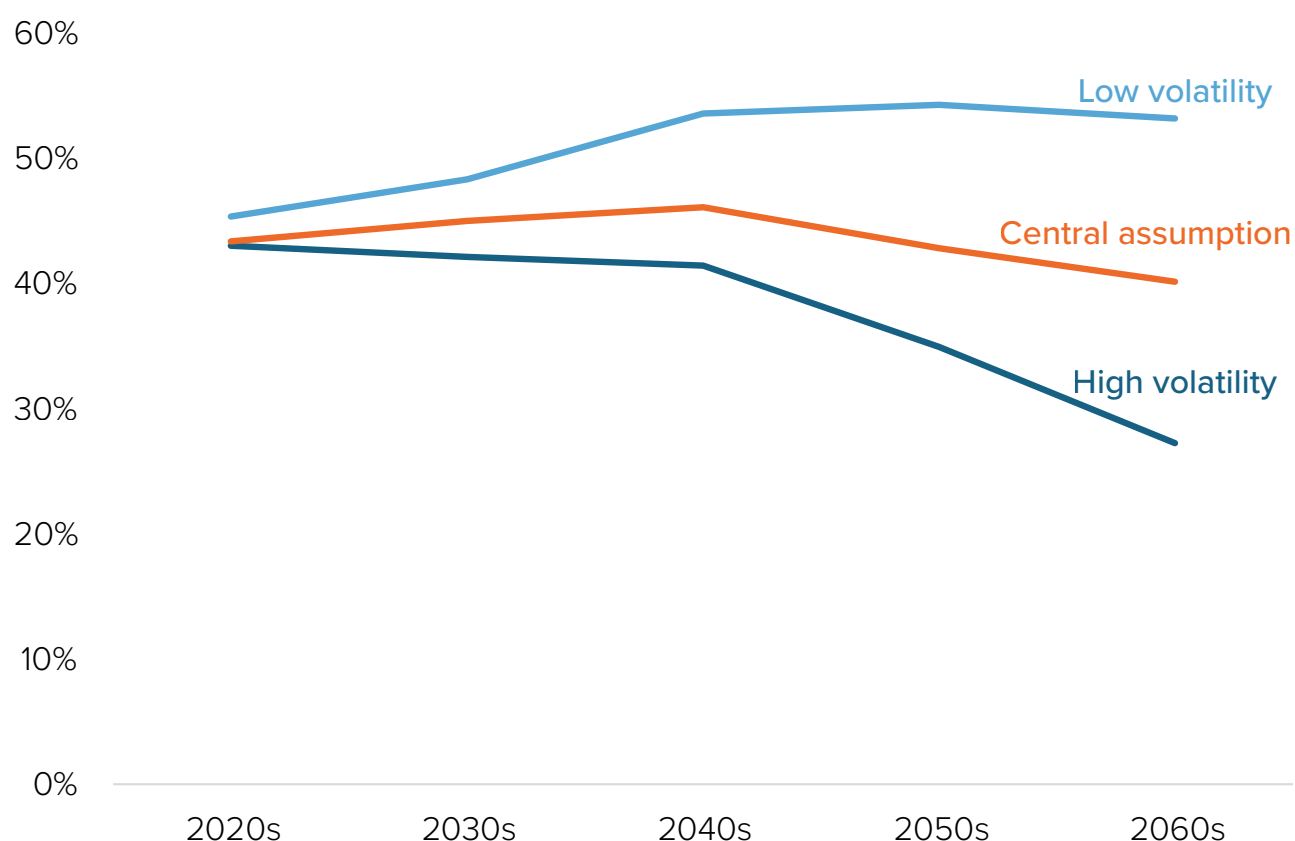


¹⁴⁶ DWP, 2025, [‘Analysis of Future Pension Incomes 2025’](#)

Inadequacy may rise over time and vary by generation

2.18 We can break down these adequacy projections by decade of retirement. In the central scenario it is those retiring in the 2040s who have the highest rates of inadequate pension incomes (Figure 2.4). With more conservative Triple Lock assumptions, the low volatility scenario results in an even larger increase in inadequacy between the 2020s and 2040s, and no improvements beyond that. We cannot know what level of volatility will come to pass, but it is clear that adequacy could well perform worse than our central scenario suggests. Pensions policy may need to be robust to that.

Figure 2.4: Proportion of working-age people undersaving versus target replacement rates, by decade of reaching State Pension age and different OBR volatility scenarios¹⁴⁷



2.19 When viewed in generational terms – see Table 2.2 – Generation X (born 1965-1980) is set to have the highest rates of undersaving, in our central (and high) volatility scenario. 46% of Generation X are projected to miss their TRRs, compared to 39% for Generation Z (born 1997 to 2012). However, this difference disappears in our low volatility scenario, given the significant impact in the very long term of

¹⁴⁷ DWP analysis using Pensim3

even small changes in State Pension uprating assumptions. In the low volatility scenario, all future generations of pensioners are less likely to hit their TRRs than the Baby Boomer generation, but Generation X does not stand out as exceptional.

Table 2.2: Share of each generation projected to miss their target replacement rates¹⁴⁸

Generation	Proportion undersaving against TRRs		
	Low volatility scenario	Central scenario	High volatility scenario
Generation Z (1997-2012)	54%	39%	26%
Millennials (1981-1996)	53%	42%	33%
Generation X (1965-1980)	52%	46%	43%
Baby Boomers yet to retire	46%	44%	42%
All	52%	43%	37%

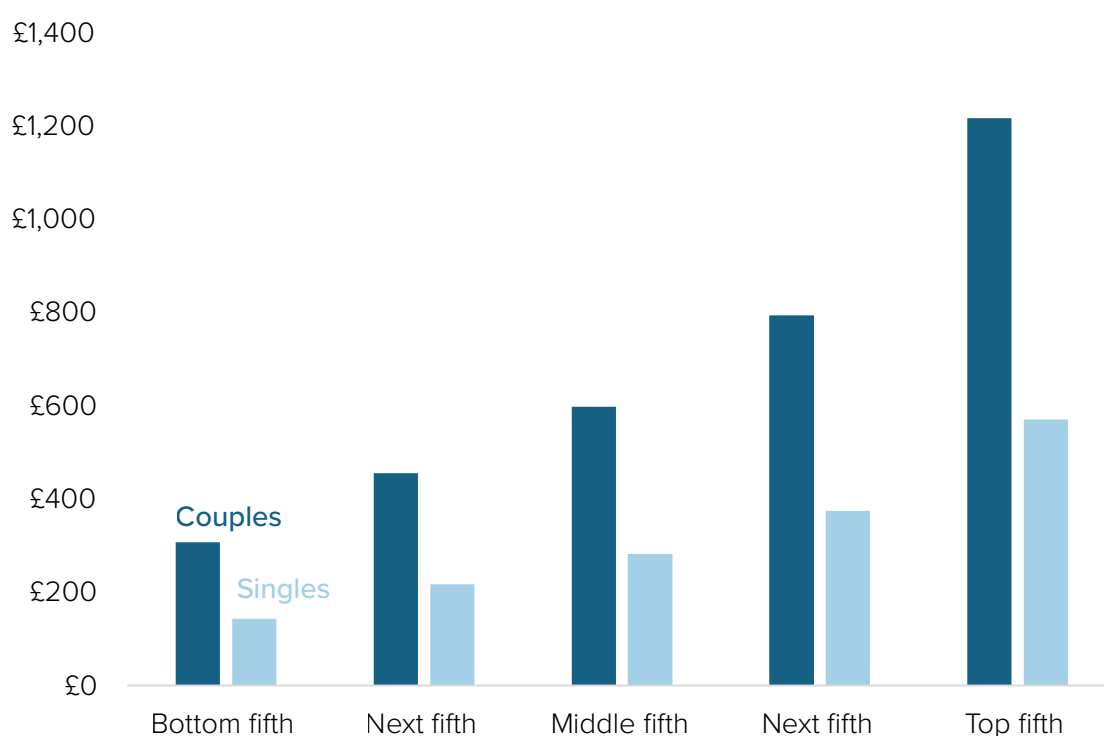
A replacement rate approach risks overstating the adequacy challenge for high earners, particularly given property and inherited wealth

2.20 While TRRs are a good starting point for assessing retirement adequacy, they have their limits for high and (as we will see) low earners. While many high earners appear to have had

¹⁴⁸ DWP analysis using Pensim3

low replacement rates, these are relative to their high incomes during working life: masking that absolute incomes during retirement for high earners often remain high. Couples in the highest quintile of pensioners, for example, have disposable incomes that are double those of the middle fifth, and 4 times those of the bottom fifth (Figure 2.5).

Figure 2.5: Net weekly income after housing costs of pensioners by quintile and family type, 2021-22 to 2023-24¹⁴⁹



¹⁴⁹ DWP analysis of Pensioners' Incomes statistics. This analysis does not include revisions released in March 2026

- 2.21 As we will explore further in Chapter 3, higher and additional rate Income Tax payers already have stronger tax incentives to save more – two-thirds of up-front Income Tax relief goes to them¹⁵⁰ – and additional contributions beyond AE minima are far more common among higher earners. 53% of those earning £70,000 or more have pension contributions of 12% or more of total pay.¹⁵¹
- 2.22 What's more, our main TRR analysis is based on people's projected pension and financial wealth. But high-income households in particular are more likely to have additional resources to draw on during retirement.¹⁵² Indeed, the top tenth of households by income have median wealth of over £1 million.¹⁵³ Hargreaves Lansdown have shown that accounting for non-pension assets increases

¹⁵⁰ DWP analysis of HMRC, 2025, '[Private Pension Statistics](#)'

¹⁵¹ DWP analysis of ONS, 'Annual Survey of Hours and Earnings, 2024'. Private sector savers in DC schemes only

¹⁵² ONS, 'Wealth and Assets Survey, 2020-2022'

¹⁵³ ONS, 'Wealth and Assets Survey, 2020-2022'

the number of households achieving pension adequacy.¹⁵⁴

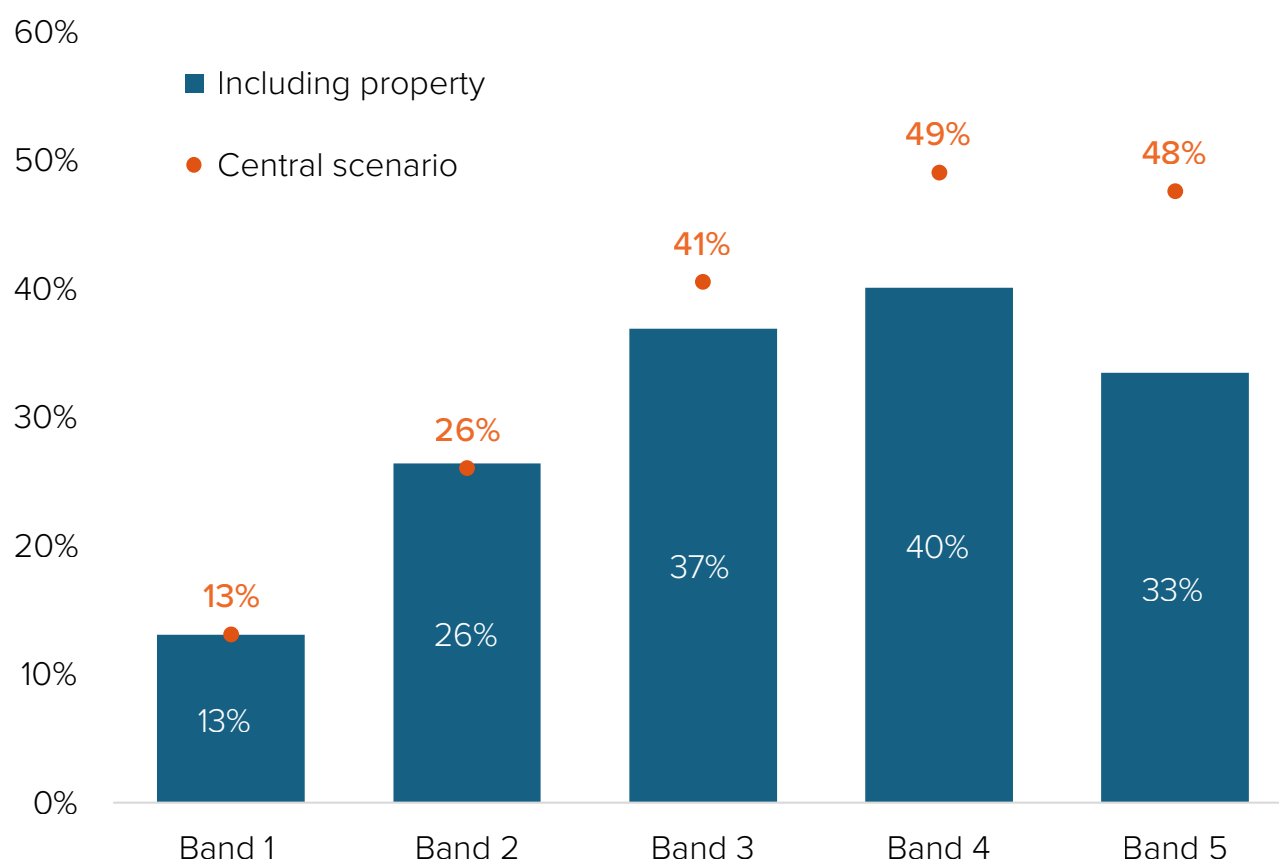
- 2.23 One important resource which people may use to support living standards in retirement is housing wealth. Illustrative analysis shows that including housing wealth as an income stream in retirement has a small impact on undersaving overall, reducing the proportion of people expected to miss their TRR before housing costs by 8 percentage points (around 3 million people) to 35%.¹⁵⁵ But, as set out in Figure 2.6, it has more significant impacts for higher earners, reducing undersaving by 15 percentage points for the highest earning band. For the lowest earners, including housing wealth does not have a substantial impact, due to outstanding debts and relatively low levels of property wealth.
- 2.24 This analysis is illustrative and assumes that all individuals who can access their housing wealth do so (accessing around 40% of this wealth), which is unlikely to reflect real-world behaviour. It also does not account for regional variations in housing wealth, which would create

¹⁵⁴ Hargreaves Lansdown, 2025, '[HL Savings & Resilience Barometer – September 2025](#)'

¹⁵⁵ DWP analysis using Pensim3

inequalities in outcomes given the variation in national house prices. But the findings support the idea that although many higher earners may struggle to reach their TRR, they may disproportionately have access to other forms of wealth or assets that could supplement their retirement living standards.

Figure 2.6: Projected undersaving against target replacement rates by income band (bands in Table 2.1), with and without illustrative use of main property wealth^{156,157}



¹⁵⁶ DWP analysis using Pensim3. The analysis assumes housing wealth can be accessed as an income stream, e.g. via equity release or property sale and turned into an annual income. The modelling assumes around 40% of an individual's main property wealth can be accessed and turned into an income stream reflecting transaction costs, and is in line with equity release requirements.

¹⁵⁷ Bands 1 to 5 represent the target replacement rate earnings bands in 2023 terms in table 2.1

- 2.25 Inheritances are also likely to become a greater source of wealth for some individuals in later life. Current over-60s hold around £3 trillion of wealth in housing alone.¹⁵⁸ The volume of future bequests is projected to double by one measure,¹⁵⁹ while smaller family sizes also contribute to rising receipts per person for each generation (rising from a median 8% of lifetime earnings for the 1960s generation to 14% for those born in the 1980s).¹⁶⁰ However, as parental wealth is unequally distributed, inheritances will be too.¹⁶¹ Receipt of substantial inheritances is disproportionately concentrated among more financially advantaged households.¹⁶²
- 2.26 A significant minority of people expect to use some of a future inheritance as a source of

¹⁵⁸ Savills, 2025, '[Housing wealth held by over 60s hits record high](#)'

¹⁵⁹ [Resolution Foundation](#), 2022, '[Intergenerational rapport fair? Intergenerational wealth transfers and the effect on UK families](#)'

¹⁶⁰ IFS, 2020, '[Inheritances and inequality within generations](#)'

¹⁶¹ IFS, 2021, '[Inheritances and inequality over the life cycle: what will they mean for younger generations?](#)'

¹⁶² IFS, 2020, '[Inheritances and inequality within generations](#)'

retirement funding. Around a third of people in their 50s expect to use an inheritance to support their retirement.¹⁶³ In another study, 23% of people felt very certain they will receive an inheritance but more than half (58%) felt it was very unlikely they will receive an inheritance and, again, those who were more confident of receipt were generally more socio-economically and financially advantaged.¹⁶⁴

2.27 Some inherited wealth will already be incorporated into this chapter's adequacy analysis, to the extent that it is received before retirement and is then part of households' financial wealth.¹⁶⁵ However, there may still be some underestimation of inheritances for those who receive it later or if it is not retained as cash, especially if this continues to grow in the future. The average age of receiving inheritances has been increasing: the average age of people when their last-surviving parent

¹⁶³ DWP, 2025, '[Planning and Preparing for Later Life, 2024](#)'

¹⁶⁴ DWP, 2026, '[Pensions and economic status among the 1958 birth cohort prior to reaching State Pension age](#)'

¹⁶⁵ For the purposes of adequacy projections, estimated financial wealth at ages 64-66, based on survey data, is assumed to be annuitised.

dies is expected to rise from 58 for those born in the 1960s to 62 for those born in the 1970s and 64 for those born in the 1980s.¹⁶⁶ On the other hand, there are also risks that inheritances are overestimated as an income source in retirement, if they are used to support people to achieve home ownership in later life, are needed for social care costs, or skip generations.

- 2.28 For higher earners, then, replacement rates may fail to capture all of the resources available. But there is a separate worry for low earners. TRRs measure adequacy in the sense of avoiding drops in relative living standards. But for those on lower incomes in working life, it is possible to meet their TRR but still have a low absolute level of income in retirement. A rounded view must therefore also consider other measures of adequacy.

Adequacy through an income standard lens

- 2.29 A very different approach to TRRs is to identify fixed ‘adequacy’ benchmarks that do not depend on pre-retirement income. The leading

¹⁶⁶ IFS, 2020, ‘[Inheritances and inequality within generations](#)’

example of this is the set of Retirement Living Standards developed by Pensions UK.¹⁶⁷ These identify baskets of goods and services that members of the public consider necessary for a particular level of living standards, including a minimum acceptable basket. These help individuals picture what kind of lifestyle they could have in retirement and the costs involved.

2.30 Pensions UK set out three different benchmarks, and these values (for pensioners outside of London in 2023-24) are set out in Table 2.3. As these are levels of spending, we also show the levels of income before Income Tax that would be needed to achieve this.¹⁶⁸ All of these assume that households have no mortgage or rental costs in retirement (the related ‘Living Pension’ is an alternative benchmark that varies by housing tenure but is not explored further here).¹⁶⁹

¹⁶⁷ Pensions UK, ‘[Retirement Living Standards](#)’

¹⁶⁸ DWP modelling is based on Pensions UK’s pre-tax figures for single pensioners (outside of London), but with equivalisation of income for couples.

¹⁶⁹ Hargreaves Lansdown, 2025, ‘[Pension Adequacy – June 2025](#)’

Table 2.3: Pensions UK retirement living standards levels, 2023-24

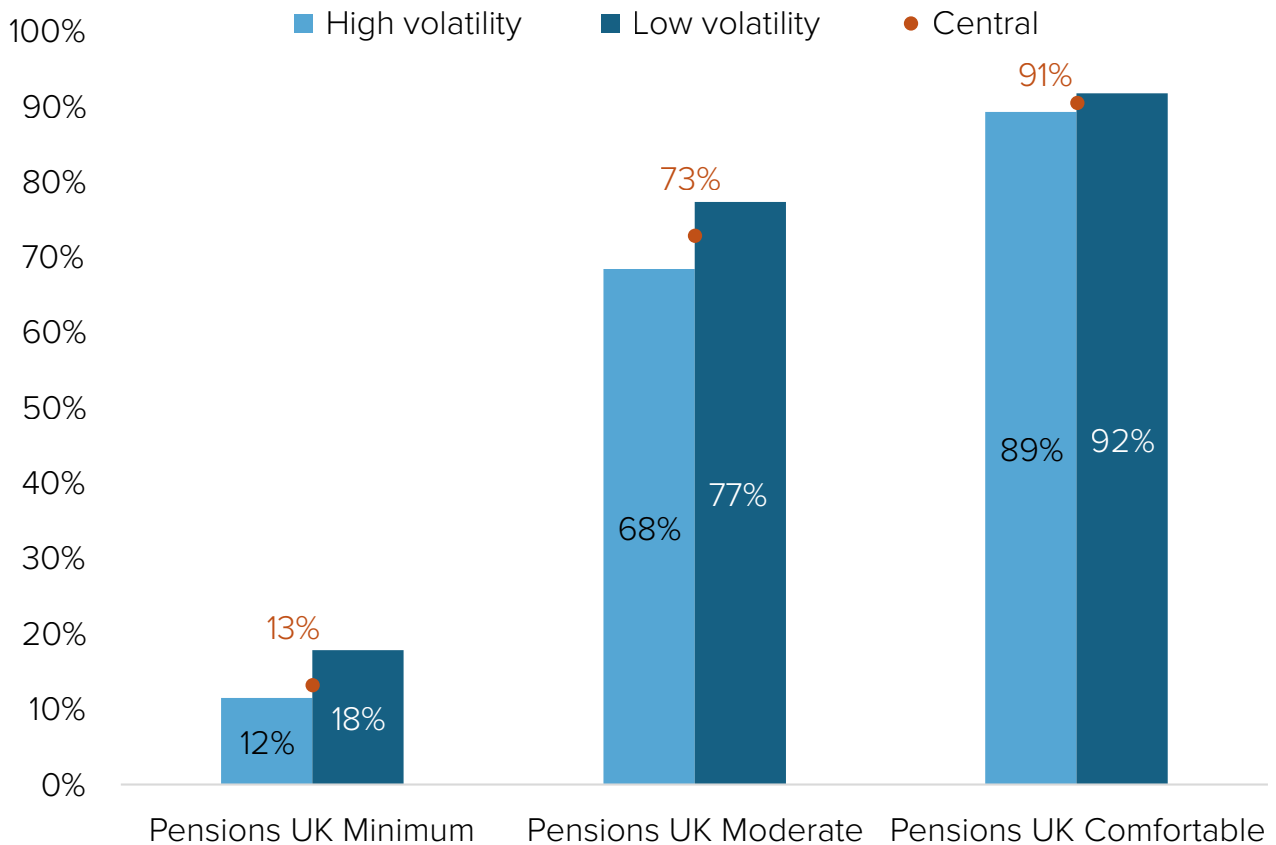
	Minimum	Moderate	Comfortable
Single (expenditure)	£14,400	£31,300	£43,100
Single (total income pre-tax)	£14,587	£35,982	£50,887
Couple (expenditure)	£22,400	£43,100	£59,000
Couple (total income pre-tax)	£23,000	£47,590	£67,464

2.31 As with performance against TRRs, we can project whether the current working-age population are on track to meet these benchmarks in retirement or not.¹⁷⁰ 13% (nearly 5 million people) are set to miss the Pensions UK minimum standard in the central volatility scenario, and 18% in the low volatility outlook. The large majority of people are not set to meet the ‘moderate’ or ‘comfortable’ benchmarks, although this should perhaps not be surprising

¹⁷⁰ We assume that the composition of this basket may change over time, with its projected value increasing in line with average earnings, i.e. that minimum standards will rise in real terms if society becomes richer. By today’s standards, future pensioners would perform better. However, we also measure adequacy at the point of retirement: results would be worse later in retirement if standards were to rise thereafter.

as these standards are above the median non-pensioner disposable income.¹⁷¹

Figure 2.7: The proportion of the working-age population set to miss income standard benchmarks¹⁷²



¹⁷¹ For approximate comparison with the expenditure figures in Table 2.3, the median non-pensioner has a disposable household income after housing costs equivalent to a couple with around £30,000 or a single person on around £17,000 (DWP, 2025, '[Households Below Average Income 2023-24](#)').

¹⁷² DWP analysis using Pensim3 – see Methodology 1 in evidence pack

2.32 Table 2.4 shows these projected outcomes broken down by generation, focusing on the minimum standard. In the central and high volatility scenarios, continued large increases in the State Pension relative to earnings help improve adequacy over the scale of decades. But in all three scenarios, Generation X faces worse outcomes compared to later cohorts who will additionally benefit from the full long-term impact of AE. In the low volatility scenario, Generation X is also slightly more likely to fall below the minimum standard than upcoming Baby Boomers, though this is despite higher pension participation amongst Generation X compared to Baby Boomers following the introduction of AE.¹⁷³

Table 2.4: Proportion of working-age people not projected to meet Pensions UK minimum standard under different volatility assumptions¹⁷⁴

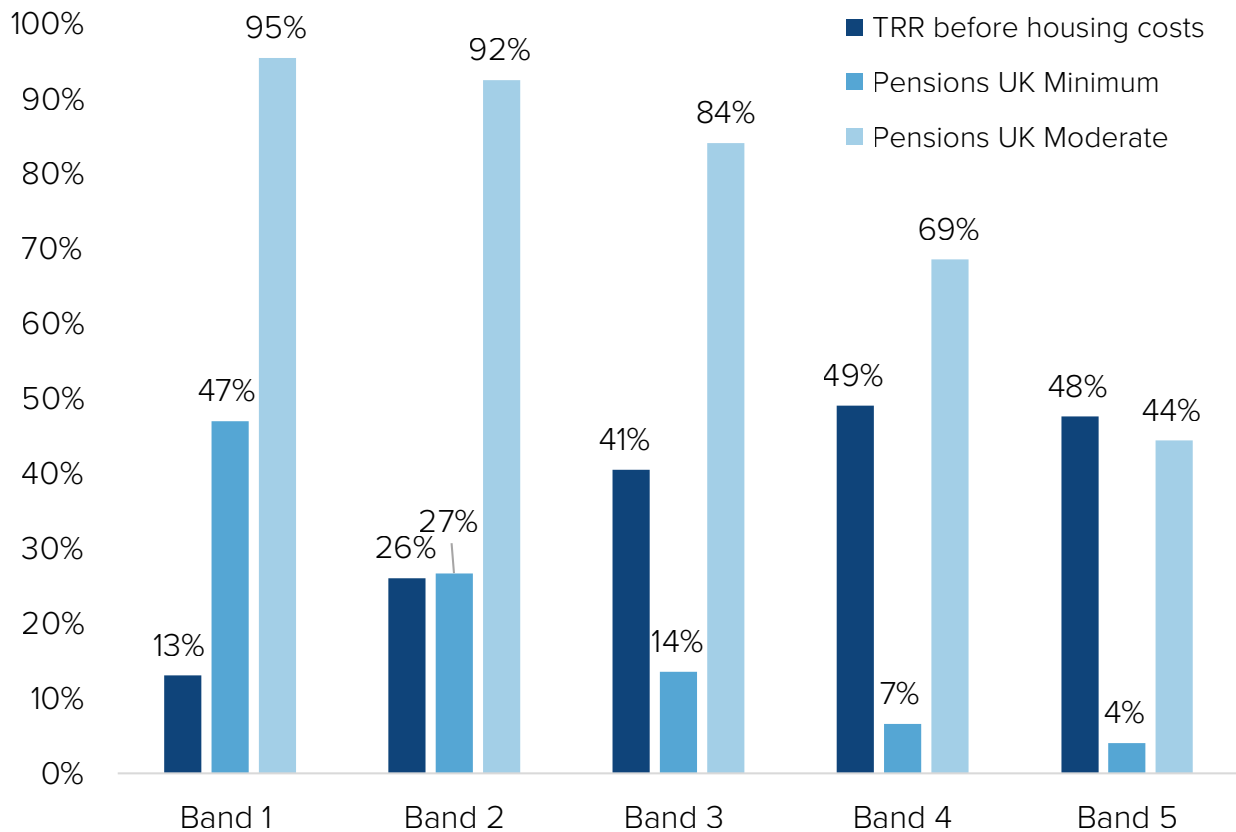
	Low volatility	Central volatility	High volatility
Generation Z (1997-2012)	15%	10%	6%
Millennials (1981-1996)	17%	11%	9%
Generation X (1965-1980)	20%	15%	15%
Baby Boomers yet to retire	18%	16%	15%

¹⁷³ DWP analysis using Pensim3

¹⁷⁴ DWP analysis using Pensim3

2.33 Figure 2.8 compares different adequacy measures, using undersaving against TRRs and against the Pensions UK minimum and (much higher) moderate standards. Whereas replacement rates suggest middle and high earners (as set out in Table 2.1) are more likely to be undersaving, the Pensions UK metrics suggest low earners are more likely to be undersaving. This reflects low absolute saving levels for these groups. Although the lowest earners may be achieving high replacement rates, for many this is not in fact adequate to provide a basic standard of living in retirement.

Figure 2.8: The proportion of working-age people projected to not meet their target replacement rate or the Pensions UK minimum, by earnings band^{175,176}



2.34 While these standards are based on detailed group deliberation, it is also possible to directly ask people what level of income they expect to need in retirement. One survey found a median estimate of £24,000, among people age 40 to 75 who had some idea of the income they

¹⁷⁵ DWP analysis using Pensim3 – see Methodology 1 in evidence pack

¹⁷⁶ Bands 1 to 5 represent the target replacement rate earnings bands in 2023 terms in table 2.1

would need in retirement.¹⁷⁷ This is broadly in line with what a median earner would require to meet their TRR – and in-between the minimum and moderate Pensions UK standards. Though it should be noted that many people do not know how much they will need at all. The same survey found that 41% of people aged 40-75 said they had ‘no idea’ how much income they would need in retirement. This was particularly high for younger individuals and the less financially secure (low income and renting).

2.35 Further findings about public views are included in Box 3.

Box 3: Qualitative research on perceived adequacy¹⁷⁸

DWP commissioned new qualitative research to explore lived experiences of adequacy for those aged around 60 to 75. Preliminary findings suggest that:

¹⁷⁷ DWP, 2025, '[Planning and Preparing for Later Life 2024](#)'

¹⁷⁸ DWP, Forthcoming, Lived Experienced of Adequacy

- Early decisions in careers and relationships shape future outcomes. Some people face lifelong financial pressures, while others build confidence and security. Planned retirement tends to feel stable, but unplanned retirement – through ill health or redundancy – can cause early disruption and long-term challenges.
- ‘Adequacy’ is dynamic, not fixed: perceptions of ‘adequacy’ shift with health, caring responsibilities and cost of living changes. Many anticipated financial tightening throughout retirement.
- ‘Enough’ is personal and holistic: it reflects individual feelings of safety, stability and predictability. For some it means abundance; for others, simply security. Big life events can shift what people consider ‘enough’.

Relative poverty and the benefits system

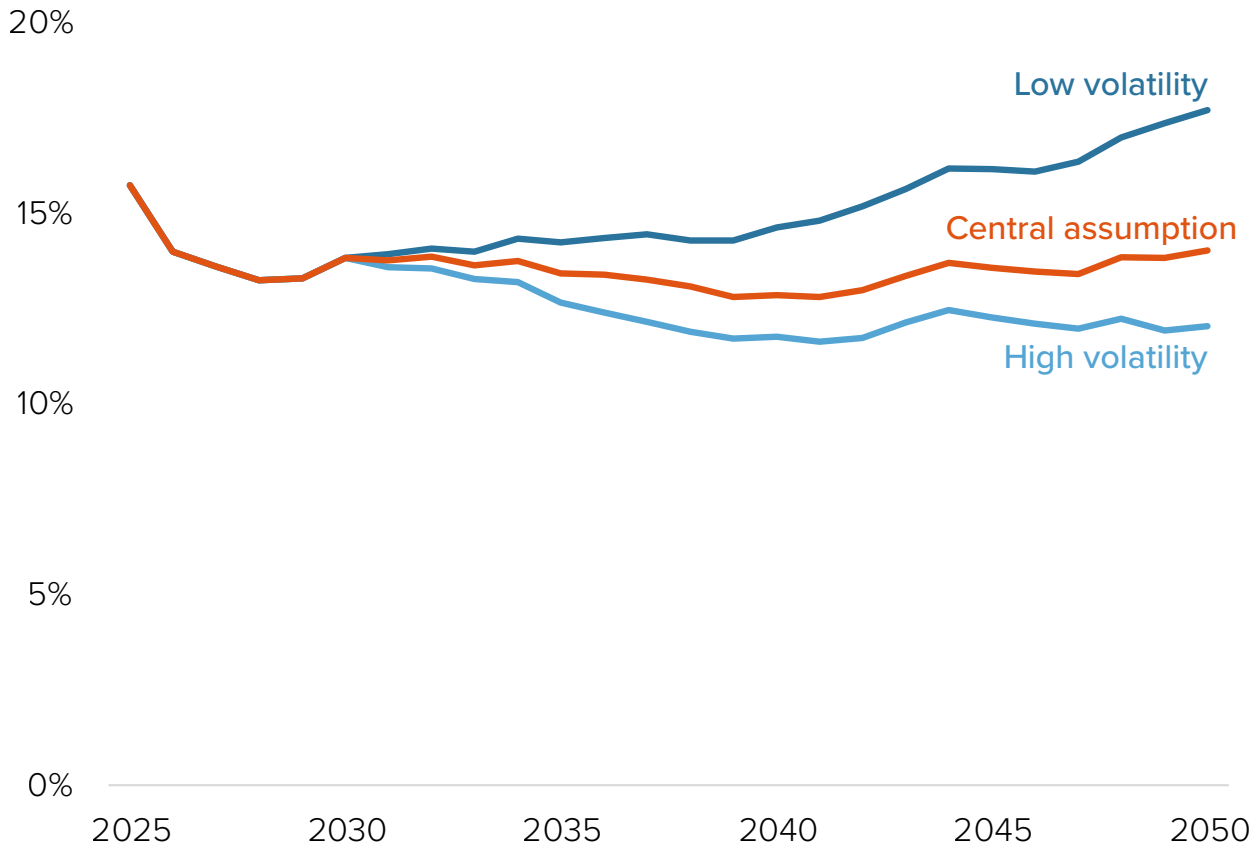
Relative poverty is projected to stay low, but with some upwards pressures

2.36 Another measure of very basic adequacy is the relative poverty threshold, i.e. whether households have disposable incomes of

at least 60% of the contemporary median (accounting for family size). As noted in Chapter 1, pensioner poverty has fallen over past decades and, while it has risen slightly in the last decade, it is now lower than for other age groups.

2.37 Figure 2.9 shows projections for how pensioner poverty may change in the future. This is the first time that such long-term projections have been published. As with performance against TRRs, these are inevitably sensitive to assumptions about the volatility of earnings and inflation. In our central scenario, pensioner poverty is expected to be lower in future than today – though primarily flat. In the OBR’s high volatility scenario, poverty falls as the State Pension is assumed to rise particularly fast compared to average earnings – though we make no assumptions about any other implications arising from high economic volatility (noting again that this scenario is based on volatility such as the cost of living crisis). And in the OBR’s low volatility scenario, pensioner poverty rises over the 2030s and 2040s. This is despite the full State Pension nonetheless rising slightly faster than earnings and the poverty threshold, and reflects a number of underlying negative trends, including housing (which we return to below).

Figure 2.9: Projected changes in pensioner relative poverty after housing costs compared to 2024-25¹⁷⁹



The State Pension is tackling poverty and providing a firm foundation for all

2.38 One way to view the three pillars set out earlier is that the State Pension provides a firm foundation that does not necessarily deliver ‘adequacy’ by itself but does try to avoid poverty.

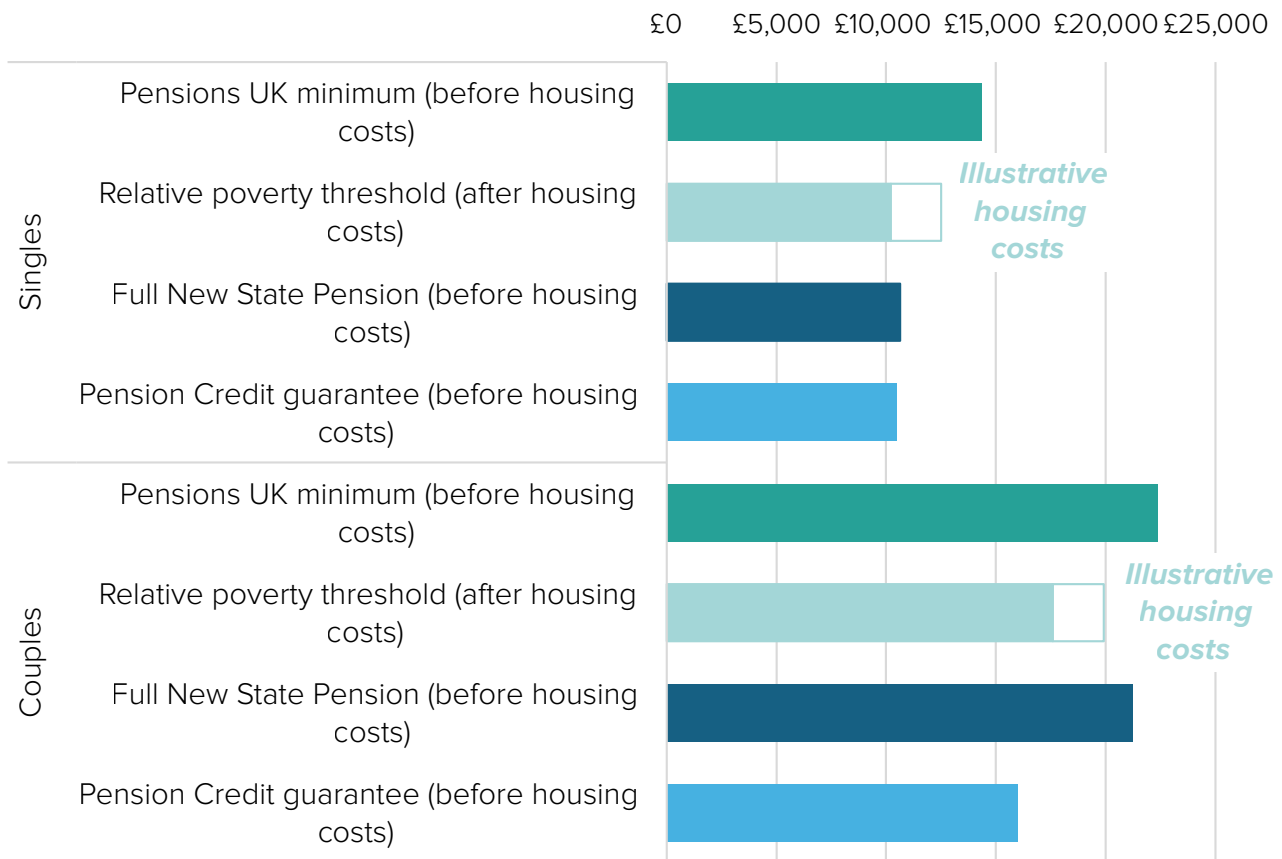
¹⁷⁹ Poverty baseline aligned to DWP, 2025, [‘Households Below Average Income 2023-24’](#). This analysis does not include revisions released in March 2026.

- 2.39 Figure 2.10 sets out how the new State Pension compares to the relative poverty threshold in 2023-24.¹⁸⁰ Some account needs to be taken of unavoidable costs (including Council Tax and water) that need to be paid for out of the State Pension before it is compared to the disposable income measure used for the relative poverty threshold, and those costs will vary. But the broad picture is that a homeownership couple both in receipt of the full new State Pension would generally be above the relative poverty threshold, while single pensioners with no other income would be just below.
- 2.40 We also see that the minimum Pensions UK standard is broadly similar to or slightly above the relative poverty threshold – again accounting for some housing and Council Tax costs. In 2023-24, a couple’s double new State Pension entitlement was just slightly below the minimum Pensions UK standard, while a single new State Pension was further below the line (though the precise relationship of these figures will vary by year). This contributes to the fact that couples are less than half as likely as

¹⁸⁰ Poverty thresholds based on DWP, 2025, [‘Households Below Average Income 2023-24’](#). This analysis does not include revisions released in March 2026.

singles to fall short of the minimum standard in projections.¹⁸¹

Figure 2.10: Comparison of benefit levels and basic adequacy thresholds in 2023-24¹⁸²



2.41 But the State Pension is central to pensioners' incomes right up the income distribution (as Figure 2.11 and Figure 2.12 show).¹⁸³ This

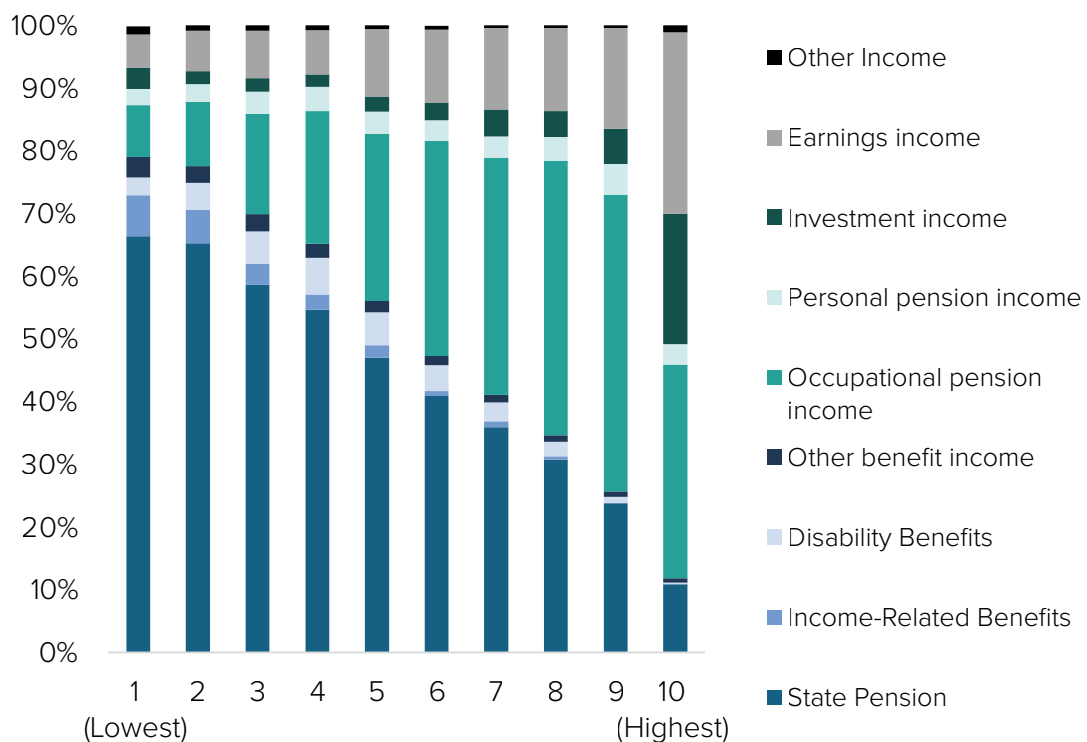
¹⁸¹ DWP, 2025, '[Analysis of Future Pension Incomes 2025](#)'

¹⁸² DWP analysis of '[Households Below Average Income 2023-24](#)' and Pensions UK

¹⁸³ DWP analysis of '[Pensioners' Incomes: financial years ending 1995 to 2024](#)'

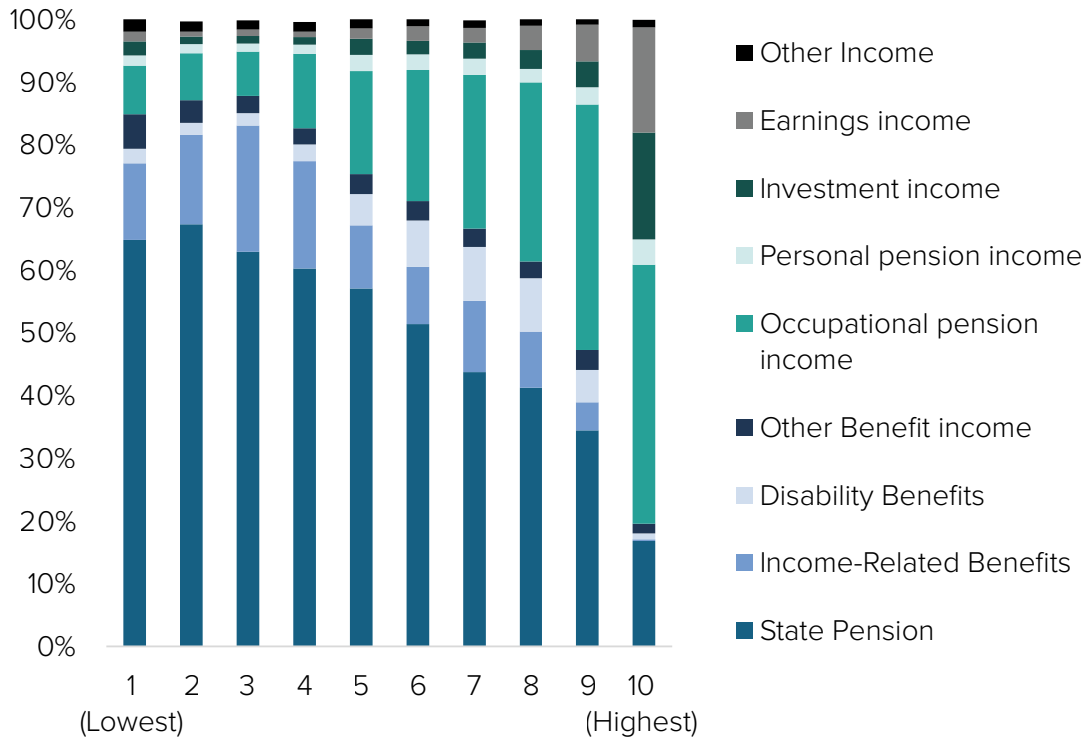
means that adequacy projections for many are sensitive to the value of the State Pension in the future. Even in the top half of the income distribution it constitutes around a third of pensioner incomes overall. (See Figure 2.5 for comparable levels of net income: for example, pensioner couples in the top fifth of the distribution have an average net income of £1,200 per week).

Figure 2.11: Composition of gross income by decile for pensioner couples, 2021-22 to 2023-24¹⁸⁴



¹⁸⁴ DWP analysis of [‘Pensioners’ Incomes: financial years ending 1995 to 2024’](#)

Figure 2.12: Composition of gross income by decile for single pensioners¹⁸⁵



But some groups, particularly private renters, are at greater risk of poverty

2.42 At an individual level, a combination of outright home ownership, a full record of 35 qualifying years for the State Pension and some private savings is a very strong basis for avoiding poverty. But not all households are in that position, and many poverty risk factors remain.

2.43 Poverty rates in 2023-24 remain higher for single pensioners (21%) than the average

¹⁸⁵ DWP analysis of '[Pensioners' Incomes: financial years ending 1995 to 2024](#)'

(16%),¹⁸⁶ and singles are projected to make up an even higher share of pensioner in poverty in future.

- 2.44 Social and private renters are far more likely to be in poverty in retirement than outright homeowners, with 37% of privately-renting pensioners in poverty.¹⁸⁷ And there are significant concerns about future pensioner housing tenure: for 55 to 64 year olds, as set out in Chapter 1: the English home ownership rate has declined from 82% in 2003-04 to 71% in 2024-25.¹⁸⁸ By 2050, renters are likely to make up around half of all pensioners in poverty, when they will only constitute around a quarter of the total pensioner population.¹⁸⁹
- 2.45 The combination of rising numbers of non-homeowning pensioners and widening

¹⁸⁶ DWP, 2025, '[Households Below Average Income 2023-24](#)'. This analysis does not include revisions released in March 2026.

¹⁸⁷ DWP, 2025, '[Households Below Average Income 2023-24](#)'. This analysis does not include revisions released in March 2026.

¹⁸⁸ MHCLG, 2025, '[English Housing Survey 2024 to 2025: headline findings on demographics and household resilience](#)'

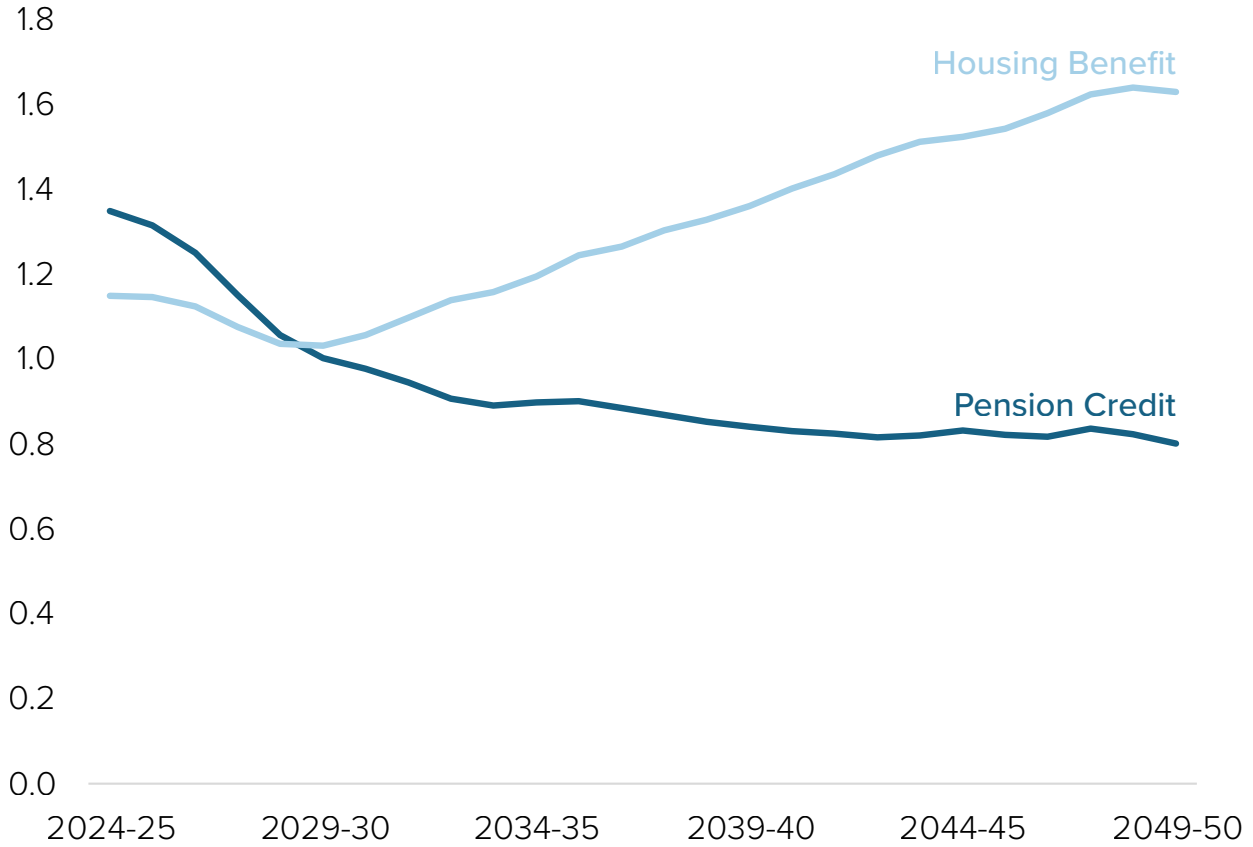
¹⁸⁹ DWP analysis using Pensim3

eligibility of the new State Pension (as set out in Chapter 1) also has implications for the future of means-tested pensioner benefits. As more people become eligible for the new State Pension, Pension Credit caseloads are projected to continue to decline.¹⁹⁰ This shift away from general means-testing is a welcome and deliberate outcome of the first Pensions Commission. But this shift implies a move to a system more focused on covering specific costs, such as housing and disability costs, with Housing Benefit caseloads set to overtake those of Pension Credit (Figure 2.13).¹⁹¹

¹⁹⁰ DWP analysis using Pensim3

¹⁹¹ DWP internal analysis of long-term benefit projections

Figure 2.13: Forecast Pension Credit and pensioner Housing Benefit caseloads (millions)¹⁹²



2.46 Currently, many organisations (across the wider public sector and within the private sector) use Pension Credit as a way of determining eligibility for other benefits and discounts. These “passported benefits” include a wide range of additional support, including the Warm Home Discount, free NHS dentistry and the free over-75 TV licence. As the number of people on Pension Credit continues to decline, so too will

¹⁹² DWP internal analysis of long-term benefit projections

eligibility for associated passported benefits and this could require further consideration.

2.47 Finally, there is a stark difference in poverty rates for people who have a private pension and those who do not. 33% of pensioners without a private pension were in relative poverty after housing costs in 2023-24 compared to 9% of those with a private pension (which in part may reflect correlated factors such as State Pension entitlement).¹⁹³ Similarly, of pensioners in poverty, over half did not have a private pension; while among pensioners not in poverty, 80% did have a private pension. What is more, private pension income is crucial for aiming higher than simply getting above the relative poverty threshold.

Conclusion

Hybrid adequacy metrics would better help guide public policy

2.48 The pensions landscape has changed since the first Pensions Commission with changes to sources and distributions of wealth; the

¹⁹³ DWP analysis of '[Households Below Average Income 2023-24](#)'. This analysis does not include revisions released in March 2026.

housing market; and investment returns.

Current adequacy measures, as we have seen, fail to fully capture these dynamics, and each perspective in isolation has its limits.

- 2.49 The use of replacement rates in some form is a valuable guide for middle earners at least, while measures of absolute, minimum income adequacy may be more appropriate for people on low incomes. The ideal approach would be to combine these two perspectives into a ‘hybrid’ metric of pensions adequacy.¹⁹⁴ Such a measure would help anchor what public policy should achieve in terms of state provision and AE minima, and provide an indicator as to whether individuals are on track for an ‘adequate’ income in retirement.
- 2.50 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.

¹⁹⁴ One earlier demonstration of this is given in Hargreaves Lansdown, ‘2025, [Pension Adequacy – June 2025](#)’

More private pension income will be needed

- 2.51 Although the Commission will return to the question of how to anchor public policy in renewed adequacy metrics, the number of people not on track to reach the first Pensions Commission's ambitions remains concerning, as does the smaller group set to fall below the minimum standard or the poverty threshold.
- 2.52 The State Pension is playing the role envisioned by the first Pensions Commission – and will potentially grow further in importance depending on future volatility levels – providing a universal bedrock for private saving. But in the next phase of work we will explore whether means-tested benefits need to be renewed to remain appropriate in 2050.
- 2.53 Most importantly, however, a lack of adequate private pension savings is leaving many – particularly low and moderate earners – short of an adequate income in retirement. In Chapters 3 and 4, we will discuss in detail the drivers of this undersaving, which is influenced by contribution levels, investment returns on pension savings and gaps in pension participation.

Chapter 3 Accumulation and adequacy: the depth and growth of private pension savings

Summary

- **Automatic enrolment has been a major policy success**, with 9-in-10 eligible employees now saving into a workplace pension.
- **Employers played a key role in the successful implementation of automatic enrolment.** This was assisted by significant notice as well as the staged and phased rollout which gave employers time to adjust and reduced the immediate burden.
- **For many, automatic enrolment minimum contributions alone will not be sufficient to provide adequate retirement incomes.** Voluntary saving over and above automatic enrolment minima is low. Other forms of wealth used to fund retirement income are concentrated among higher income individuals.

- **Lower and middle earners automatically enrolled into workplace pensions savings are less likely to be saving more than the minimum levels.** Employers often contribute above these levels and ignore qualifying earnings, but this is concentrated amongst higher earners.
- **Compound investment returns contribute considerably to the value of a defined contribution pension pot over the course of a working life** – they are therefore an important element to achieving retirement adequacy.
- **Regulation of the pensions market and good governance of schemes ensure the sustainability of the system and maintain strong outcomes for savers.** As the pensions market changes, governance must put members' interests at its heart.

Introduction

- 3.1 The UK is at a pivotal moment in its transformation from a ‘guaranteed income in retirement for the few’ to a ‘pension saving system for all’. The reforms of the last decade have moved us in the right direction, but they have also presented new challenges which put at risk the policy successes that followed the recommendations of the first Commission. This chapter examines the reality behind the headline success of AE and the new State Pension – looking at who is saving enough, who is not, and why.
- 3.2 People build retirement incomes through a combination of the State Pension, workplace pensions and other voluntary savings. The UK pension system depends strongly on its ‘second pillar’ of workplace savings to deliver incomes in retirement.
- 3.3 While AE has been an unparalleled policy success in getting most eligible workers started on the journey to saving adequately for their retirement, questions remain about whether people are saving enough and whether the pensions market is currently set up to deliver the best outcomes. This chapter introduces two core challenges towards building retirement

adequacy: the depth and growth of private pension savings.

- 3.4 Although most eligible people are now saving into workplace pensions, current minimum contribution rates may not be sufficiently deep to ensure adequate retirement outcomes for many savers. People are not currently saving enough.
- 3.5 The growth challenge highlights the importance of compound investment returns to the overall size of pension pots and assesses the performance of the UK pensions system and its regulatory framework in enabling investment returns to deliver this contribution towards pensions adequacy.
- 3.6 Any proposals the Commission puts forward in its final report to address these challenges will need to be both sustainable and durable. They will need to command broad consensus on the respective contributions of employers, individuals and the state, and be implementable in terms of appropriate timelines and administrative simplicity.

The State Pension is providing a firm foundation for retirement incomes

- 3.7 The State Pension is providing a firm foundation for pension saving for all people with sufficient qualifying years on their National Insurance (NI) record in the United Kingdom. It is now broadly delivering the foundational role envisaged by the first Pensions Commission and offers a clear, predictable baseline income in retirement.
- 3.8 As a consequence of reforms made to the State Pension since the first Pensions Commission, the full rate of the new State Pension has increased to 30% of median earnings as of 2025,¹⁹⁵ marking a significant improvement for many, and it is meeting the foundational role set for it by the first Pensions Commission.
- 3.9 Qualifying years are built through employment, self-employment, voluntary contributions, or receipt of NI credits for caring or periods on certain benefits.
- 3.10 For those who are not able to accumulate sufficient National Insurance qualifying years

¹⁹⁵ DWP, 2026, '[Abstract of DWP benefit rate statistics 2025](#)'

or save enough privately, Pension Credit provides the primary means-tested safety net for pensioners. However, as shown in Chapter 2, the caseload is projected to reduce over time due to the maturing effects of AE, a much higher proportion of people receiving the full rate of the State Pension, and gradual increases in State Pension entitlement through transitional protections – marking a success of reforms that have been introduced by successive governments.

- 3.11 In the context of longer lives and extended retirement periods, the certainty of the new State Pension plays an increasingly important role in helping individuals of all incomes to plan for later life and assess the level of private saving required to achieve an adequate retirement income.

Automatic enrolment has been transformative, getting millions more people saving towards their retirement

- 3.12 Automatic enrolment into workplace pension saving has been one of the great public policy successes of the 21st century. By requiring

employers to enrol eligible employees into a workplace pension scheme, it has resulted in 9-in-10 eligible employees saving into a workplace pension.¹⁹⁶

3.13 The first Pensions Commission identified a structural decline in private pension saving driven by decreased employer pension offers and behavioural barriers that prevented individuals voluntarily saving for retirement, with workplace pension participation falling from 55% in 1997 to 47% in 2012.¹⁹⁷ Voluntary employer provision of defined contribution pensions in the private sector also meant that, where this provision did exist, much higher proportions of higher earners were saving than lower earners (in 2012, 70% of those earning between £60,000 and £70,000 versus 23% of those earning £20,000-£30,000¹⁹⁸). Its central diagnosis was that voluntary incentives alone would not reverse that decline and deliver sufficient coverage or adequacy, particularly for low and middle earners.

¹⁹⁶ DWP, 2025, '[Workplace pension participation and savings trends of eligible employees: 2009 to 2024](#)'

¹⁹⁷ DWP analysis of ONS, 'Annual Survey of Hours and Earnings, 1997 to 2024'

¹⁹⁸ DWP, 2025, '[Workplace pension participation and savings trends of eligible employees: 2009 to 2024](#)'

- 3.14 To address this, the Commission recommended a system of automatic enrolment of workers into workplace pensions, combined with mandatory employer contributions and a low-cost national pension scheme to ensure access to that section of the market which would be unattractive to commercial providers. The objective was to build employer engagement and harness behavioural inertia to raise worker participation in pension saving while preserving the ability of individuals to opt out.
- 3.15 Implementation of these recommendations from 2012 onwards led to a step-change in pension participation, particularly amongst groups previously under-represented in pension saving, including younger workers, lower earners and those in the private sector.¹⁹⁹ Section C of the evidence pack contains further background on the introduction of AE.
- 3.16 Key to the success of AE is its simplicity – making it easy to understand for both employers and employees. It is a default process. Whilst the option to opt out is a core part of the framework of AE, most people do not do so. It is also a one-size-fits-all system.

¹⁹⁹ DWP, 2025, '[Workplace pension participation and savings trends of eligible employees: 2009 to 2024](#)'

All employers, regardless of size and sector, have a duty to assess their workers and enrol any who are eligible into a qualifying pension scheme of the employer's choosing. All eligible workers (between 22 and State Pension age) are defaulted into saving towards a workplace pension provided they earn at least £10,000 per year in any one job, this is known as the 'earnings trigger'. Minimum contribution rates are set in law and are the same for all employees who earn over the earnings trigger. Minimum contributions must total at least 8% of qualifying earnings and at least 3% of this must come from the employer. Qualifying earnings are the band of earnings (currently between £6,240 and £50,270) upon which the employer and employee contribute at least 8% towards an individual's workplace pension. Some employers (around 4-in-10),²⁰⁰ however, choose to ignore the qualifying lower earnings bands and enrol their employees to contribute based on their total pay.

Careful implementation underpinned transformative change

3.17 As well as a robust policy design, careful implementation underpinned AE's success.

²⁰⁰ DWP, 2023, '[DWP Employer Survey 2022](#)'

- 3.18 Addressing inadequacies in the wider pensions market was essential for implementing AE. Low commercial provision for low earners or small employers threatened the delivery of mass market pension saving. Commercial providers had (and still have) limited incentive to target low earners, small employers, or sectors with high staff turnover, because the resulting smaller pension pots generate lower fee revenue, making these groups commercially unattractive. In 2012, prior to the implementation of AE, pension participation for eligible employees in small firms was low, at only 12% for employees in firms with 1-4 employees and 24% in employees of firms with 5-49 employees.²⁰¹
- 3.19 Nest was set up to address this market failure through providing pension services to any employers wanting to use its services, free of charge. It remains the only pension scheme with a public service obligation to accept any employer that wants to use it (as well as the self-employed). An independent review of its function found that Nest had been successful in delivering for its target market – most users continue to be low-medium earners and SMEs,

²⁰¹ DWP, 2025, [‘Workplace pension participation and savings trends of eligible employees: 2009 to 2024’](#)

as originally envisaged. The same review found most pension providers, employers, and member representatives thought that Nest's public service obligation should remain in place.²⁰² Nest is growing rapidly, with around £50 billion in assets, expected to reach £100 billion by 2030.²⁰³ Around 1 in 3 working-age people have a Nest pension.²⁰⁴

3.20 The government followed a notice, phase and stage approach to introducing the AE reform which worked well.

3.21 Significant notice was provided to businesses by announcing policy direction in 2006 and then legislating 4 years before duties came into force, via the Pensions Act 2008. Other countries also understood the importance of notice when implementing pension reforms with Australia announcing their increases to minimum contributions 12 years before their implementation.

²⁰² DWP, 2022, '[An independent review of the National Employment Savings Trust](#)', 2022, David Bennett for the Department of Work and Pensions

²⁰³ Nest, 2025, '[Nest Corporation Annual report and Accounts 2024-25](#)'

²⁰⁴ Nest, 2025, '[Nest Annual Report and Accounts, 2024-25](#)'

- 3.22 A slow phasing in of new requirements between 2012 and 2019 aided smooth implementation by allowing time for setting up the operational and administrative infrastructure.
- 3.23 AE obligations were also rolled out in stages, with the largest employers brought in first, followed by medium, small, and micro employers. This eased pressure on The Pensions Regulator and on the nascent Nest, allowing systems and processes to gradually build scale. It also recognised that smaller businesses, without the administrative resources of their larger counterparts, were likely to find compliance more difficult, giving them more time to plan.
- 3.24 The administrative costs associated with running AE schemes have been lower than many businesses originally feared, although set-up costs varied widely by employer size.²⁰⁵ Excluding those employers for whom the cost was not known, a 2019 survey found that just under half of employers stated that they had incurred zero costs (through administrative costs or costs paid for advice) in implementing AE in the previous financial year. Among micro-

²⁰⁵ DWP, 2018, '[Employers' Pension Provision Survey, 2017](#)'

employers (those with 1-4 employees) 58% stated that they had incurred no such costs, compared with 29% of large employers. Among these micro-employers, the mean cost reported was £236.²⁰⁶

3.25 The phasing of contribution rates eased adaptation for employers and helped to keep down opt-out rates. AE was rolled out in phases between 2012 and 2019, with total contributions starting at 2%, then increasing to 5%, then 8%, and employer contributions starting at 1%, then 2%, and finally reaching 3% of qualifying earnings. This meant that employers had time to adjust to what would have otherwise been a significant overnight increase in costs. The phasing of employee contributions was also important in ensuring opt-out rates remained low, by limiting the immediate impact on take-home pay.²⁰⁷ Phasing was also particularly important given the lack of engagement with pensions and long-term saving at the time of the first Commission and remains true today. Other countries, such as Australia, have

²⁰⁶ DWP, 2020, '[Employers' Pension Provision Survey, 2019](#)'. This excludes cases for those employers who did not know.

²⁰⁷ DWP, 2025, '[Workplace pension participation and savings trends of eligible employees: 2009 to 2024](#)'

chosen a similarly gradual approach to the implementation of pension reforms.

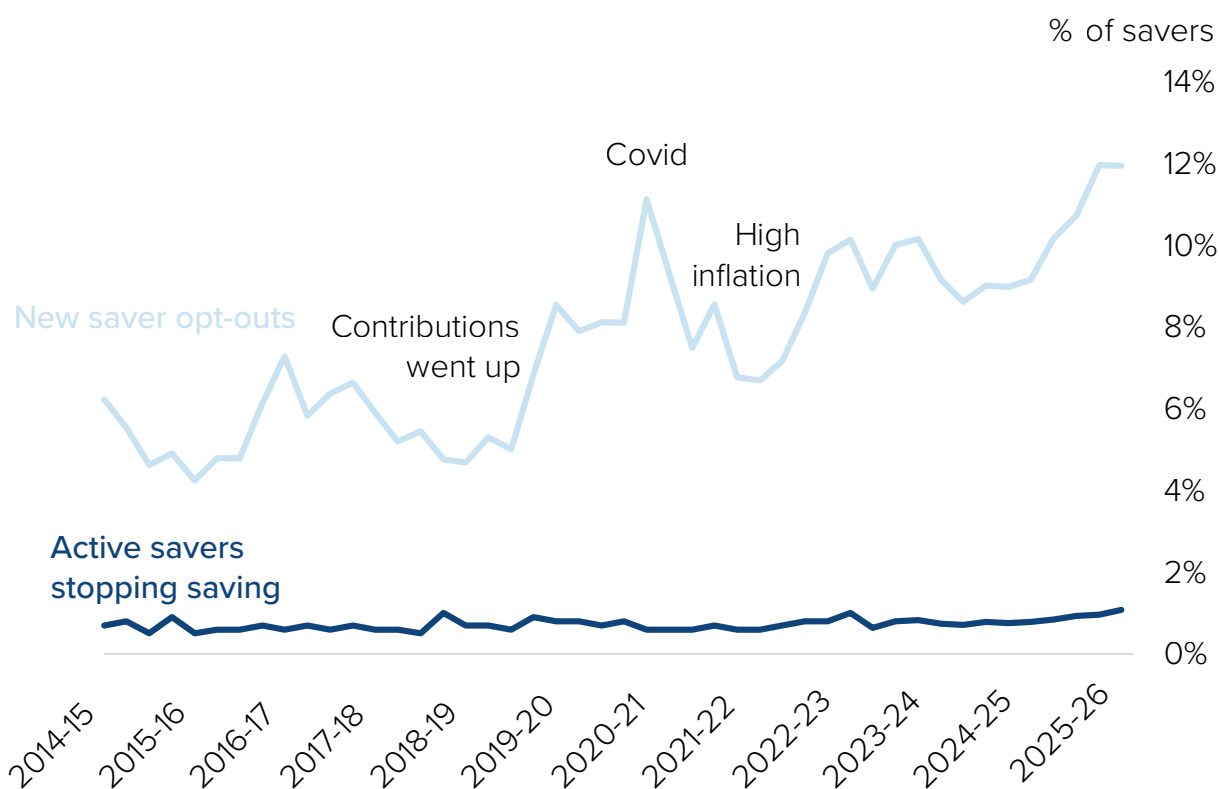
- 3.26 Yet this lack of engagement with pensions is precisely why AE has been so successful. Harnessing the power of inertia – that people tend not to take action to change their situation, particularly when the effects are far off – is a fundamental principle of the first Commission and AE’s subsequent design. It has resulted in millions of people saving towards their retirement for the first time.
- 3.27 Workplace pension saving was previously a ‘luxury’, dependent entirely on the paternalism of your employer or the strength of your trade union. It has now become normalised. Most people (over 80% of employees) agree that saving into a workplace pension is a normal thing to do.²⁰⁸
- 3.28 As such, opt-out rates from AE have remained much lower than the 28% initially assumed by DWP,²⁰⁹ at around 8-10%. Opt-outs remained low even while contributions increased. Cessations (active savers who choose to stop

²⁰⁸ DWP analysis of British Social Attitudes Survey, 2018

²⁰⁹ [DWP evidence to Work and Pensions Select Committee](#), 2016

saving) remain below 1% in spite of challenging economic conditions in recent years.²¹⁰

Figure 3.1: Opt-outs and cessation (stopping saving) levels²¹¹



3.29 As Figure 3.1 shows, there does appear to have been a small uptick in opt-out rates in the most recent data, which is of concern. The drivers of this uptick are however unclear.

²¹⁰ DWP, 2025, [‘Workplace pension participation and savings trends of eligible employees: 2009 to 2024’](#)

²¹¹ DWP analysis of HMRC RTI, [‘Workplace pension participation and savings trends of eligible employees: 2009 to 2024’](#)

- 3.30 The first Pensions Commission's recommendations have been transformative for private pensions saving, driving high participation rates among those who are eligible. Combined with the firm foundation of the new State Pension, much progress has been made in ensuring people have adequate incomes in retirement. In the new State Pension, Nest, and AE, the fundamental mechanisms and infrastructure exist to underpin financial security in retirement for the majority.
- 3.31 However, although many more people are saving, they are not necessarily saving enough to ensure an adequate retirement – this represents the depth challenge in private pensions saving.

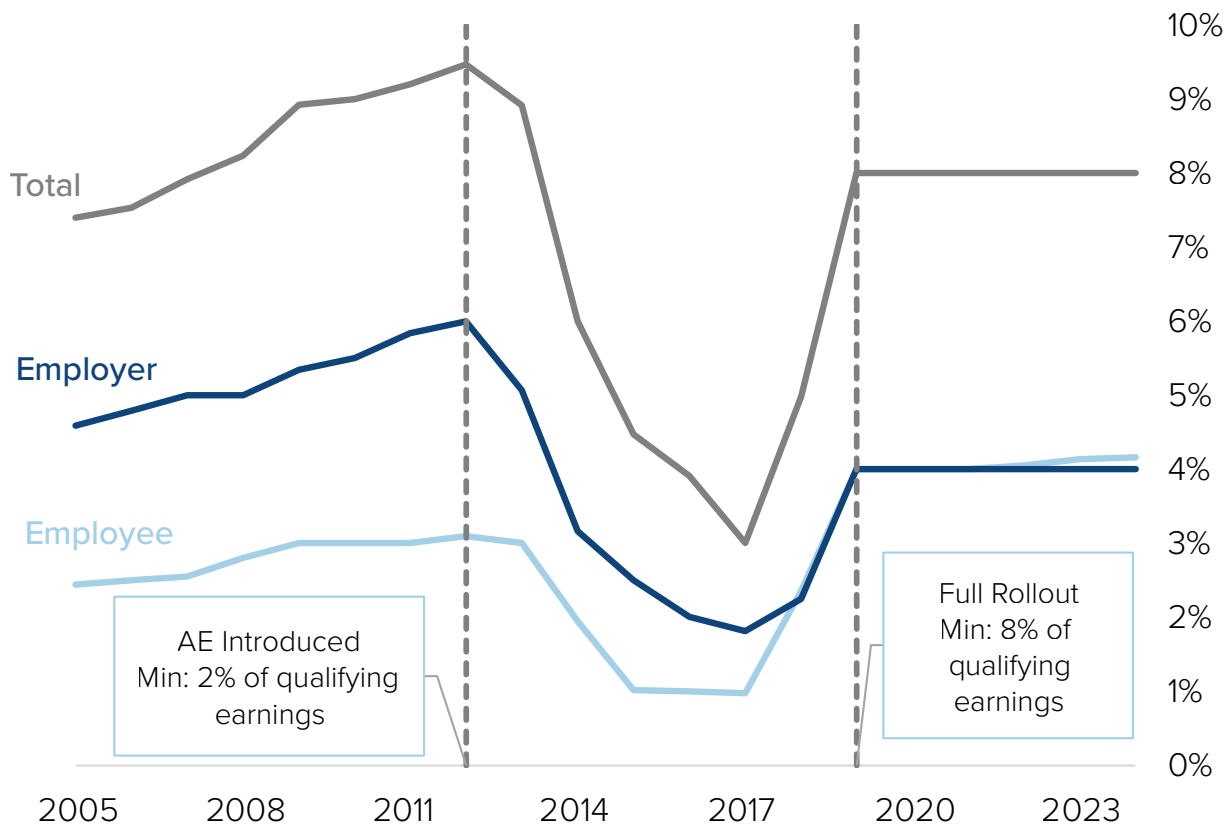
The depth challenge: automatic enrolment has got people saving but not enough

Average saving into workplace defined contribution pensions has fallen and most pot sizes remain small

- 3.32 The introduction of AE has significantly increased the number of savers into workplace pensions. This is one likely reason why

average contribution rates have fallen since its introduction (Figure 3.2). Before 2012, far fewer people were saving into a workplace pension, but those who were saving were more likely to be higher earners with more generous employer contributions. The rollout of workplace pensions to a much larger share of employees reduced average contributions but it is stark just by how much rates have stabilised around the legal minima, as Figure 3.2 shows.

Figure 3.2: Median contributions into a private sector DC workplace pension (as a percentage of total pay)²¹²



3.33 Since AE was introduced, spending by private sector employers on pension contributions has increased from £37.6 billion in 2012 to £47.7 billion in 2024 (in 2024 earnings terms). However, since the number of savers has nearly tripled over that period (from 6.3 million in 2012 to 16.8 million in 2024), the increased sum spent by employers on pension contributions is being distributed more thinly

²¹² DWP analysis of ONS, 'Annual Survey of Hours and Earnings, 2005 to 2024'

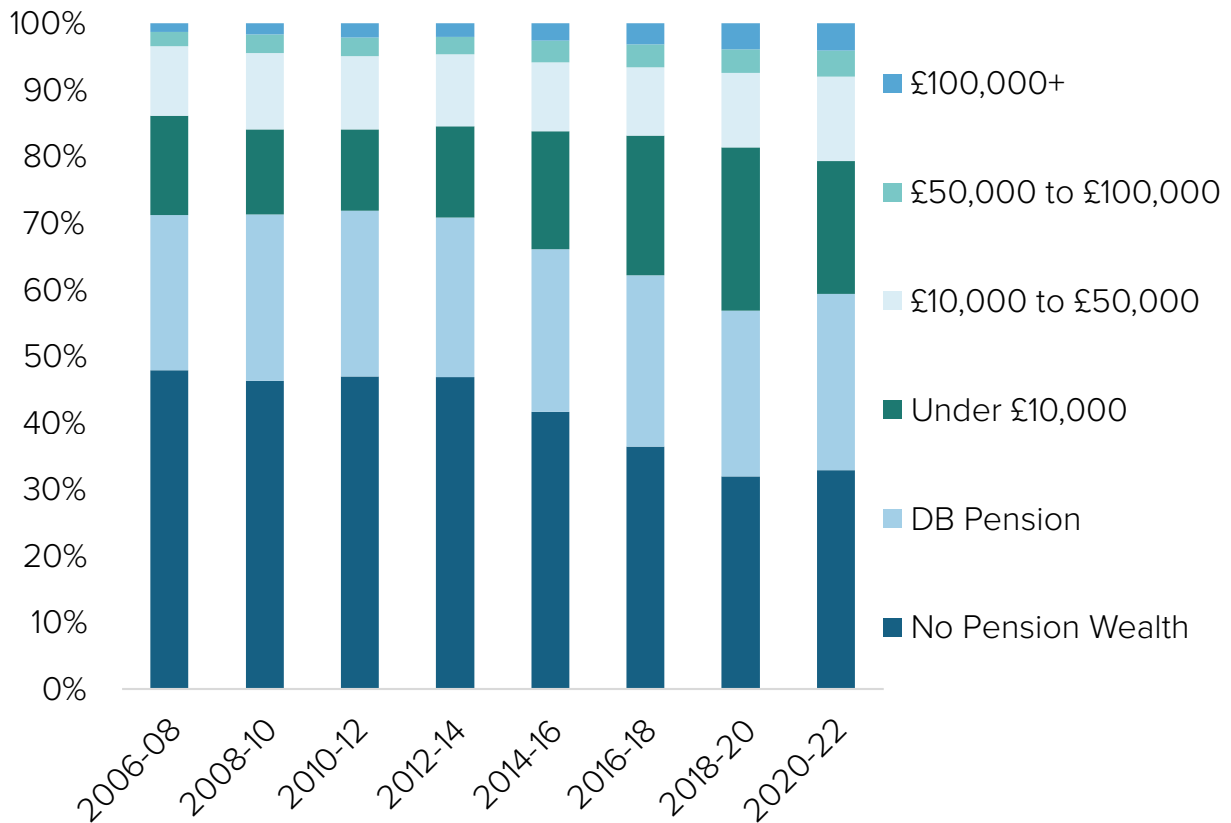
amongst a much larger number of employees, falling from around £6,000 per employee in 2012 to around £2,800 per employee in 2024 (in 2024 earnings terms).²¹³

3.34 As well as average contributions being low, the amount held by individuals in DC pension pots also remains low, especially when looking at those below the age of 55. As shown by Figure 3.3, around 20% of those under the age of 55 currently have less than £10,000 saved in their DC savings pots.²¹⁴

²¹³ DWP, 2025, 'Workplace pension participation and savings trends of eligible employees: 2009 to 2024'

²¹⁴ DWP analysis of ONS, 'Wealth and Assets Survey, 2020-2022'

Figure 3.3: DC pension wealth for those aged 16-55²¹⁵



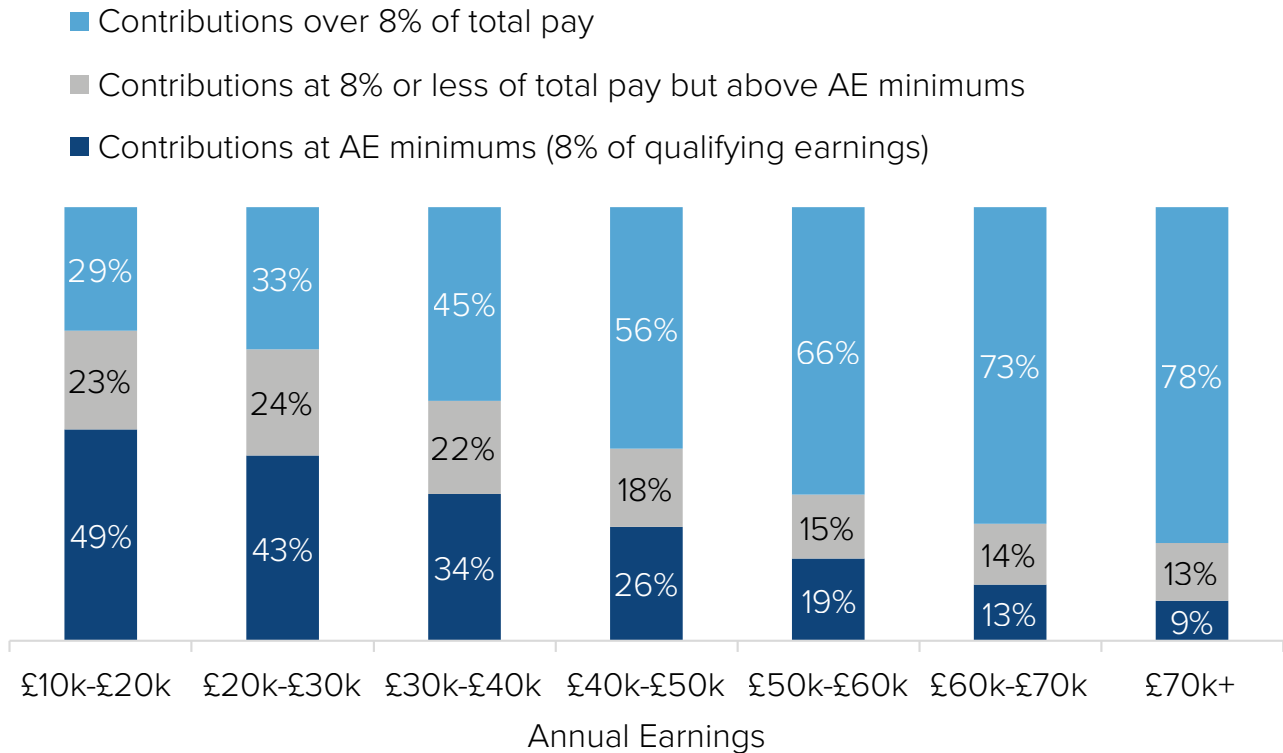
3.35 Whilst you would expect to see low DC wealth only 14 years after AE's rollout, these small pot sizes are also a direct result of contribution levels being low.

²¹⁵ DWP analysis of ONS, 'Wealth and Assets Survey, 2020-2022'. Note that those with DC pension wealth (around 41%) may have further DB pension wealth

Low and middle earners are more likely to be automatically enrolled at minimum levels and only on qualifying earnings

3.36 For low and middle earners, it is particularly the case that savings levels are falling short. They are more likely than higher earners to be automatically enrolled into contributing at the minimum of 8% and only upon qualifying earnings. As Figure 3.4 shows, around half of all lower earners contribute at minimum contribution rates (8% of qualifying earnings) and 71% of those earning between £10,000 and £20,000 per year are contributing 8% or less of total pay.

Figure 3.4: Total contribution levels for private sector employees into DC schemes by earnings²¹⁶



Employees of smaller businesses and in certain industries are more likely to be contributing at minimum levels

3.37 There are also strong correlations between employer size and industry and whether individuals are saving at minimum AE contribution levels. As shown in Figure 3.5, over half of those working for micro-employers with 1-4 employees are saving 8% of qualifying

²¹⁶ DWP analysis of ONS, 'Annual Survey of Hours and Earnings, 2024'

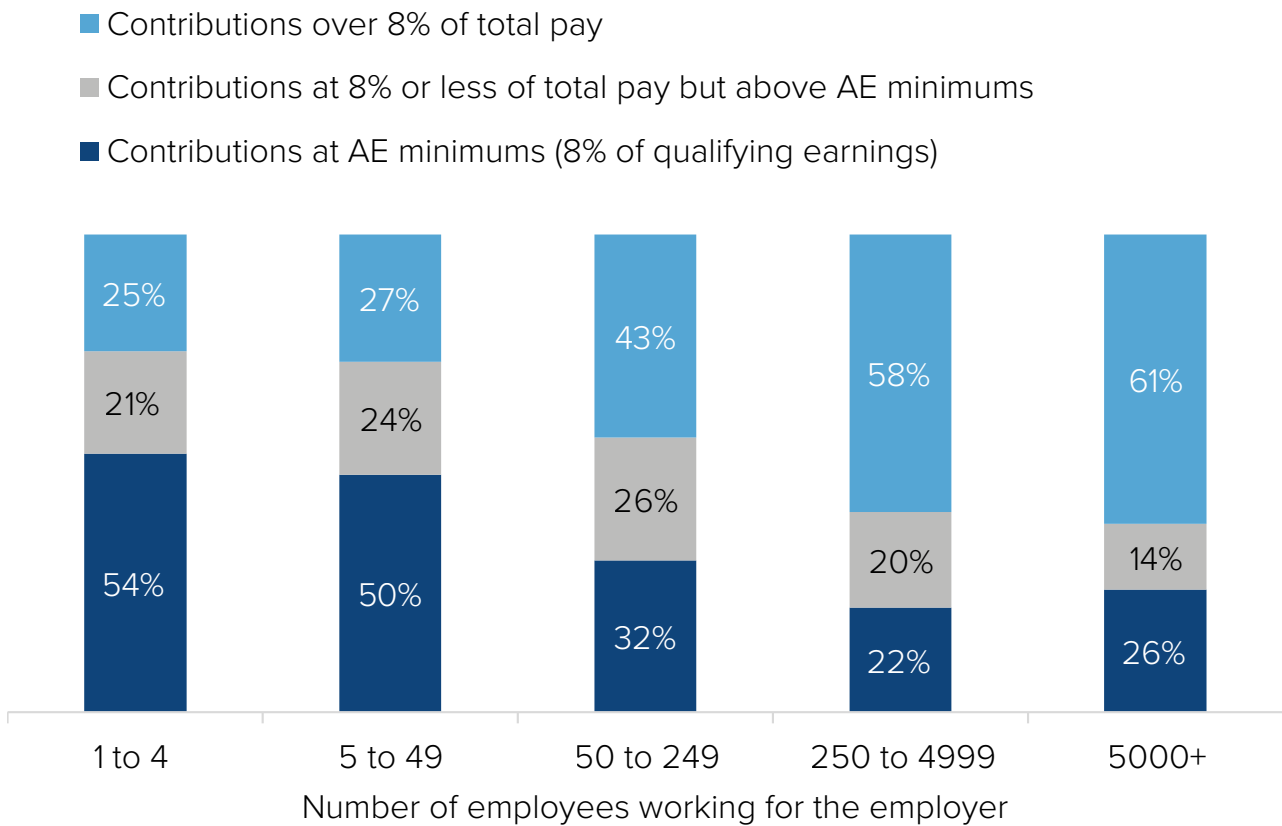
earnings only; whereas in employers with over 5,000 employees, only a quarter are saving at the same level.²¹⁷ There is also wide variation by industry. For example, people working in hospitality are significantly more likely to save at the minimum contribution levels and only on qualifying earnings compared to finance and insurance (57% compared to 5%).²¹⁸ Section D of the accompanying evidence pack has more detail on contributions by industry. Even when controlling for other factors, there was still a strong relationship between lower contributions and:

- Working for a smaller employer
- Being a lower earner
- Working in specific industries such as hospitality

²¹⁷ DWP analysis of ONS, ‘Annual Survey of Hours and Earnings, 2024’

²¹⁸ DWP analysis of ONS, ‘Annual Survey of Hours and Earnings, 2024’

Figure 3.5: Total contribution levels for private sector employees into DC schemes by employer size²¹⁹



Additional savings have not materialised sufficiently to enable income smoothing

3.38 The first Pensions Commission set out that, in addition to the State Pension and minimum contributions of 8% into workplace pension savings, individuals would need to make additional savings in order to achieve the

²¹⁹ DWP analysis of ONS, 'Annual Survey of Hours and Earnings, 2024'

income smoothing they desire between working life and retirement. Whilst the first Pensions Commission did not have a firm expectation that most people would make these additional contributions to workplace pension saving, it hoped that good employers would go above the minima.

3.39 These additional savings are not materialising sufficiently for people to achieve their target replacement rates of income in retirement. However, where additional savings are being made, they are concentrated among higher earners and are often led by employer initiatives.

3.40 As Figure 3.6 shows, median employer contributions for higher earners are as high as 6% of full pay, whereas those for lower earners are 3% and below.²²⁰ Given minimum employer contributions for eligible employees are 3% of qualifying earnings, a median of 3% of full pay suggests that many employers are not offering lower earners much beyond the legal minimum amounts.

²²⁰ DWP analysis of ONS, 'Annual Survey of Hours and Earnings, 2024'

Figure 3.6: Median contributions as a percentage of full pay for private sector employees in DC schemes by £1,000 earnings bands²²¹



3.41 Most of the additional savings being made are concentrated among higher earners. In fact, the median contribution for the median earner is less than 2% of pay beyond the minimum AE contribution levels. This additional amount of saving, for an average earner saving over a career, is worth a maximum of around 8% of their pre-retirement earnings.²²² This is well

²²¹ DWP analysis of ONS, 'Annual Survey of Hours and Earnings, 2024'.

²²² DWP analysis using iPEN model

below the expected replacement rate the first Commission calculated would be needed for savers to achieve smoothed incomes between working life and retirement.²²³

3.42 It is helpful to break down the less than 2% figure of additional savings that median earners are contributing above the AE minimum levels. The median additional employer contribution is 1.5% of pay above the 3% minimum; whereas the median employee contributes nothing above the 5% minimum. Particularly for middle and lower earners, while employees may still only be saving at the AE minimum of 8% of qualifying earnings, some employers are choosing to bear a larger share than the 3% minimum, but for most middle and lower earners this additional employer contribution is relatively small.²²⁴

²²³ DWP analysis of ONS, 'Annual Survey of Hours and Earnings'

²²⁴ DWP analysis of ONS, 'Annual Survey of Hours and Earnings, 2024'

Figure 3.7: The percentage of full pay additionally saved for private sector employees in DC schemes, by £1,000 earnings bands using median employee, employer and total contributions²²⁵



3.43 As displayed in Figure 3.7, for employees earning between £10,000 and £42,000 per year, there is no additional employee saving beyond the AE minimum levels: the average (median) contribution is 5% of qualifying earnings. Overall, when also accounting for the employer contribution, the median total contribution for the median earner equates to additional saving

²²⁵ DWP analysis of ONS, 'Annual Survey of Hours and Earnings, 2024'.

of only 1.7% of the employee's pay. Even the majority of higher earners are not making additional savings at the levels necessary to smooth their incomes.²²⁶

3.44 Where additional savings are taking place, evidence suggests that this is led by employer behaviour to rebalance their contributions with individuals rather than the initiative of individual savers to save more. This is supported by the prevalence and take-up of 'matching' incentives (where the employer contributes more if the employee chooses to contribute more, with one example highlighted in Box 4). Nest Insight found that 1-in-3 employers offer such matching incentives to all employees and at least half of employers offer matching to at least some of their employees.²²⁷ When presented with a potential employer matching incentive, 4-in-5 people (82%) said they would increase their pension contributions. Without such incentives, employees rarely increase their levels of savings.²²⁸

²²⁶ DWP analysis of ONS, 'Annual Survey of Hours and Earnings, 2024'.

²²⁷ Nest Insight, 2022, '[Employer Pension Contributions in the UK](#)'

²²⁸ DWP analysis of NatCen, 'British Social Attitudes survey, 2022'

Box 4: Pension offers at two large businesses

- One large UK business surveyed by the Commission offer 8% contributions into a DC Master Trust based on full pay for all eligible employees. These contributions are split equally between the employer (4%) and employee (4%) by default. This represents a 1% additional employer contribution, compensating for 1% less in employee contributions and these rates are based on full pay rather than qualifying earnings.
- For senior employees, they offer higher default contributions with options for further matching.
- They also offer matching incentives for additional employee contributions beyond the default offers. For every additional 1% contributed by the employee, the employer contributes an additional 1% up to a certain level. For senior employees this level is double that offered to more junior employees.
- They reported that around 1-in-4 of their employees who are saving into their workplace pension scheme took up the incentives for matching.

- Another large industrial employer took a very different approach. To give what they describe as ‘the best opportunity for all’ they provide a single pension offer for all their employees at rates substantially above AE minimum levels (10% employer, 5% employee).

Why are additional savings not materialising?

3.45 Some of the lack of additional saving could be driven by an assumption that the AE minima have been established by the Government because they are the ‘correct’ amount for people to save in order to achieve a financially secure retirement. For instance, research by Standard Life Centre for the Future of Retirement found that 61% of Generation Z (those born between 1997 and 2012) savers and 51% of Millennials (those born between 1981 and 1996) believe they are saving enough for their retirement simply by being automatically enrolled to a workplace pension.²²⁹ For most savers, this will not result in an adequate pension income as defined by target replacement rates.

²²⁹ Standard Life Centre for the Future of Retirement, 2025, [‘Retirement Voice 2025’](#)

- 3.46 In the same research, half of respondents suggested they would respond to a pay rise by increasing their pension contributions, even if their employer did not match the contribution increase.²³⁰ Given the levels of disengagement with pension saving more broadly, and the low levels of saving above the minima, these findings may be subject to a ‘say-do’ gap where stated intentions are not followed up with action.
- 3.47 More generally, engagement with pensions is low. Only 5% of employees who are eligible for AE had contributed to a personal pension in the last 12 months.²³¹ Furthermore, contributing to a personal pension was significantly more common among higher earners. Only a quarter of DC savers (25%) changed their contribution rates over the last 3 years and 4-in-5 (79%) have never reviewed where their pension is invested.²³²

²³⁰ Standard Life Centre for the Future of Retirement, 2025, ‘[Retirement Voice 2025](#)’

²³¹ DWP, 2025, ‘[Family Resources Survey: financial year 2023 to 2024](#)’

²³² FCA, 2025, ‘[Financial Lives 2024 Survey](#)’

The freezing of the Upper Earnings Limit could result in more middle earners missing out on pension contributions

- 3.48 Once an employee (aged 22 to State Pension age) earns over £10,000 in any one job, they are required to be automatically enrolled by their employer into saving towards a workplace pension. However, there is only a legislative requirement to make pension contributions on what is known as ‘qualifying earnings’, which is the income between £6,240 and £50,270, where the latter is AE’s ‘Upper Earnings Limit’. It is designed to ensure that employer contributions are targeted at low and middle earners whilst simultaneously recognising that many higher earners will have additional private retirement provisions.
- 3.49 The Upper Earnings Limit is currently £50,270 and has been frozen since 2021-22. The original Upper Earnings Limit when AE was introduced was £42,475, the same level as the higher rate Income Tax threshold – the point above which an individual’s income is taxed at a rate of 40%. The upper earnings limits for AE and the higher rate Income Tax threshold have remained at the same level but there

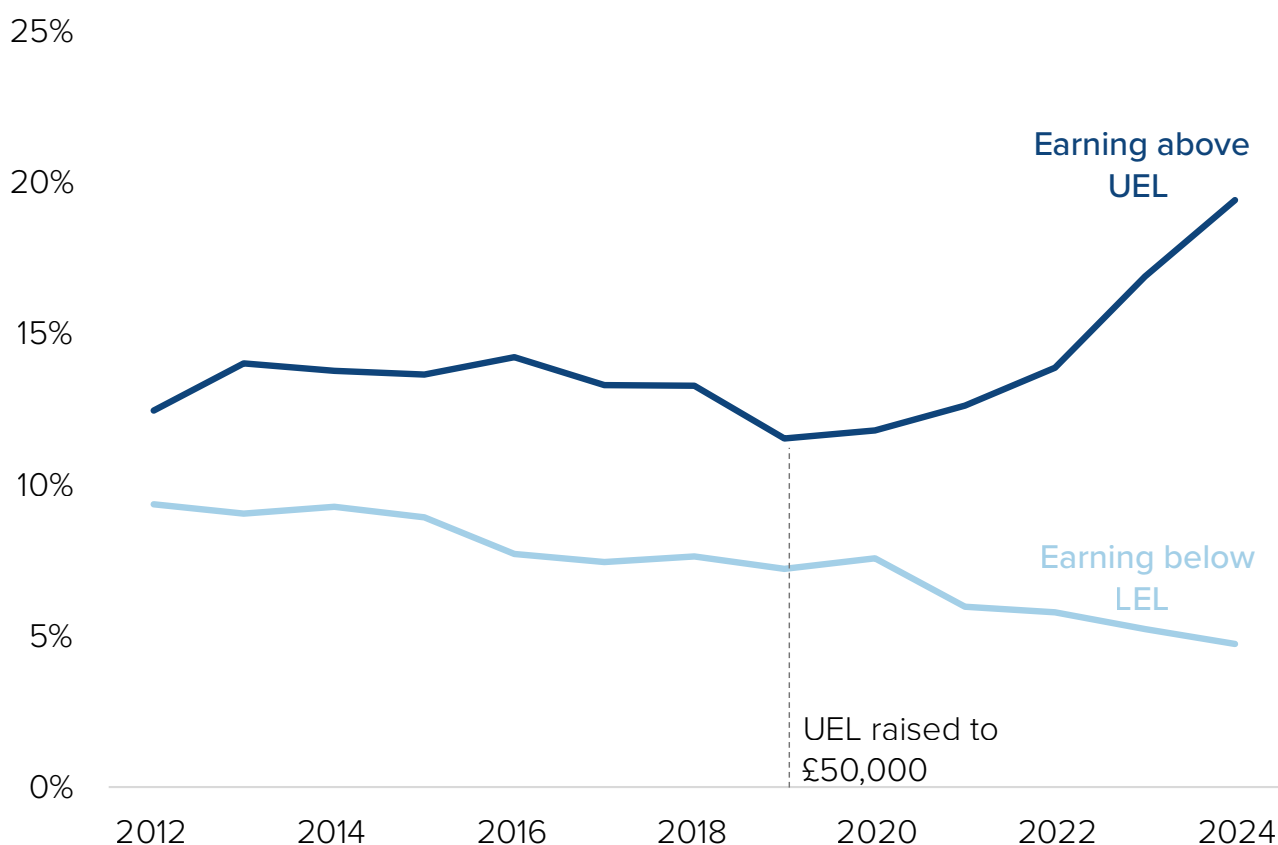
is a question whether it is fair for the Upper Earnings Limit for AE to remain tied to frozen Income Tax thresholds. If the Upper Earnings Limit had been uprated since 2020-21 in line with average earnings growth it would have reached £65,700 in 2026-27.²³³

3.50 When AE was introduced in 2012 only around 12% of employees were earning above the Upper Earnings Limit. As Figure 3.8 shows, because of the frozen threshold, this proportion has increased to around 20% and is expected to continue to rise.²³⁴ Although only a minority of those earning over the Upper Earnings Limit are contributing at less than 8% of full pay, this trend still suggests that an increasing number of savers are facing a cap on their qualifying earnings and therefore their pension contributions.

²³³ DWP calculations based on ONS average earnings growth

²³⁴ DWP analysis of ONS, 'Annual Survey of Hours and Earnings, 2012 to 2024'

Figure 3.8: Percentage of employees with earnings above and below the AE band of earnings thresholds²³⁵



3.51 Any adjustments to the Upper Earnings Limit are estimated to affect around 600,000-800,000 people (depending on the size of the Upper Earnings Limit adjustment), who earn over £50,270 and contribute under 8% of their full pay.²³⁶ Around 22% of private sector employees

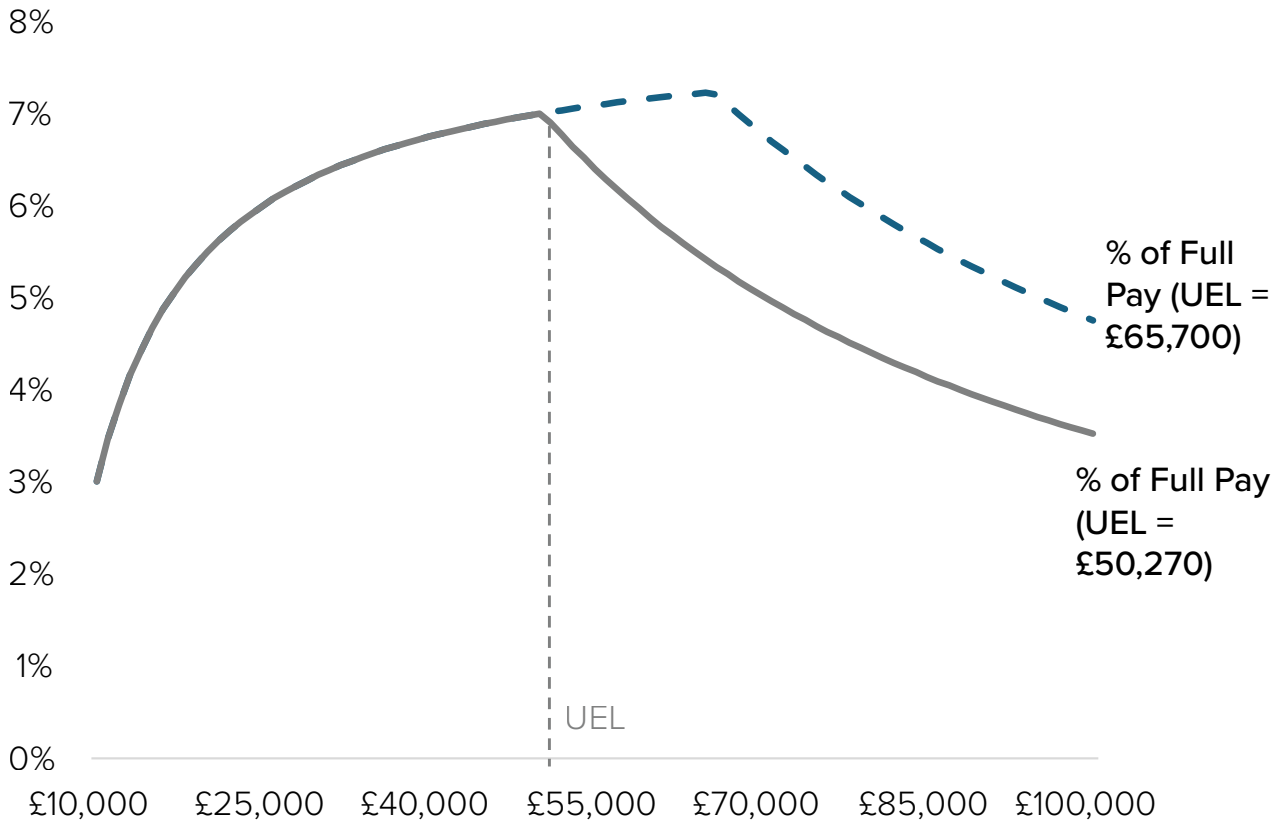
²³⁵ DWP analysis of ONS, 'Annual Survey of Hours and Earnings, 2012 to 2024'

²³⁶ DWP analysis of ONS, 'Annual Survey of Hours and Earnings'

in DC schemes (3.2 million people) earn above the Upper Earnings Limit, and of those 20% (600,000 people) contribute less than 8% of full pay. 80% of those earning above £50,270 have contributions that are 8% of full pay or higher and so would not be directly affected.

3.52 The frozen Upper Earnings Limit has contributed to some employees experiencing real terms falls in their contributions. For an employee earning £50,270 in 2021-22 (when the Upper Earnings Limit was frozen), AE minimum contributions (£3,520) equated to 7.0% of their pay. If they experienced average earnings growth and continued to contribute at the AE minimum level, their contributions would have fallen to 5.4% of their pay in 2026-27. The impact of the frozen Upper Earnings Limit on contribution rates as a proportion of full pay is shown by Figure 3.9.

Figure 3.9: AE minimum contributions as a proportion of full pay given different levels of the Upper Earnings Limit²³⁷



²³⁷ If the Upper Earnings Limit had been uprated since 2020-21 in line with average earnings growth it would have reached £65,700 in 2026-27. DWP calculations based on ONS average earnings growth.

Some who can afford to save are potentially missing out on additional contributions because of the Lower Earnings Limit

3.53 Another important aspect of the AE eligibility criteria affecting the contributions of those saving a percentage of qualifying earnings is the Lower Earnings Limit. Once somebody earns over £10,000 in any one job, they are automatically enrolled by their employer into saving towards a workplace pension. The Lower Earnings Limit means that people will only be automatically enrolled into pension saving on income they earn over £6,240, which acts as a limit to the amount that people contribute as a proportion of their total pay. The impact of the Lower Earnings Limit is larger for lower earners, given that the £6,240 makes up a larger amount of their earnings. For instance, a person who earns precisely £10,000 per year in one job will be automatically enrolled to contribute at least 5% and their employer will contribute at least 3% on earnings over £6,240. This means they will only be saving 8% of £3,760 (£300.80), which represents only 3% of their total earnings. And of these savings, the employer contribution would represent just 1% of their total earnings, or £110.

- 3.54 Employers can choose to ignore the Lower Earnings Limit and automatically enrol all of their employees who earn over the earnings trigger from the first pound of their earnings, and many do choose to do this. Estimates suggest that around 4-in-10 employers enrol their eligible employees from the first pound of earnings.²³⁸ It is estimated that removal of the Lower Earnings Limit would result in around 6 million people (35% of private sector participants) making increased contributions.
- 3.55 If the Lower Earnings Limit were removed, as was recommended by the 2017 AE Review, the 5 million people who are currently saving at AE minima would contribute an extra £499 per year, composed of £250 from their contributions, £187 from their employer, and £62 from tax relief. The remaining 1 million people who currently save above minimum levels but would fall below this if the Lower Earnings Limit were removed would only have to contribute varying but smaller additional amounts.²³⁹

²³⁸ Nest Insight, 2022, '[Employer Pension Contributions in the UK](#)'; DWP, 2023, '[Employer Survey 2022](#)'

²³⁹ DWP analysis of ONS, 'Annual Survey of Hours and Earnings'

Generation X may face additional ‘depth’ challenges

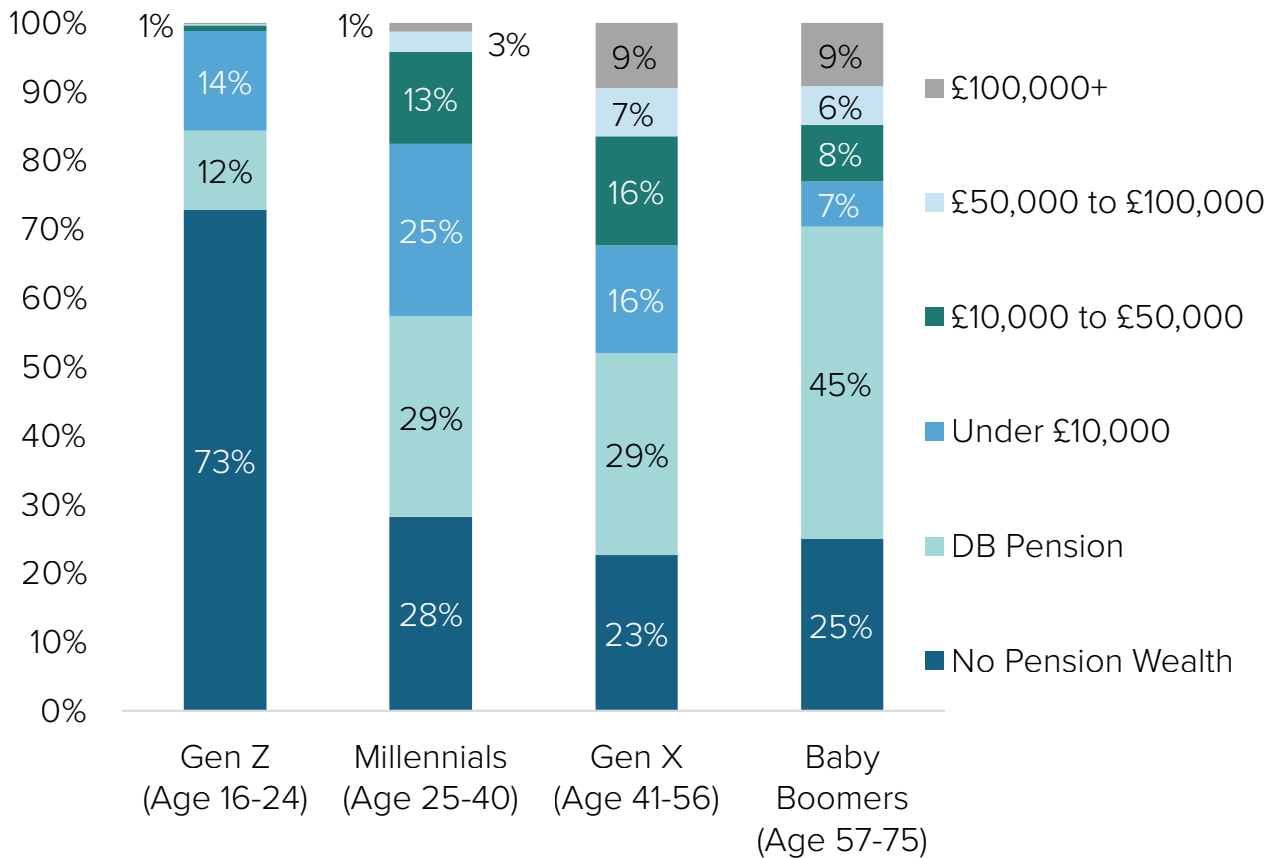
- 3.56 There is potentially an additional challenge for the depth of DC workplace savings amongst ‘Generation X’, those born from 1965 to 1980. Many people of this generation will have spent a substantial portion of their careers employed during the private sector shift from DB to DC pensions, a time when fewer and fewer employers were offering workplace pensions. As a result, many will have lost significant opportunities to build up pensions savings during the middle part of their working life. As we have already seen, Generation X are projected to be more likely to miss their target replacement rates and minimum income standards compared to Millennials and Generation Z – those born from 1981 to 1996 and from 1997 to 2012.²⁴⁰
- 3.57 While they might have been automatically enrolled into workplace pension savings since 2012, many in Generation X face the risk of not having had enough opportunity since the introduction of AE to accumulate a DC savings pot of sufficient value to help them to build

²⁴⁰ DWP, 2025, [‘Analysis of Future Pension Incomes 2025’](#)

towards an adequate retirement income. This is particularly true because AE was only fully rolled out to its current coverage and minimum contribution levels in 2019. Furthermore, given Generation X are currently in their 40s and 50s, efforts to address levels of inadequate DC savings in the coming years will have less impact on them than subsequent generations. The missed opportunities for early career pension saving among Generation X become even clearer when one considers the ability of compound investment returns to deliver around two-thirds of the value of DC pension pots over the course of a working life.

- 3.58 When comparing the distribution of pension wealth across generations, as shown in Figure 3.10, 32% of Generation X who have any DC pension wealth at all have combined pots totalling less than £50,000. This is not significantly higher than Millennials (38%), who still have a decade or more longer to save for their retirement and to benefit from compound investment returns.

Figure 3.10: DC pension wealth by ‘generation’, 2020-2022²⁴¹

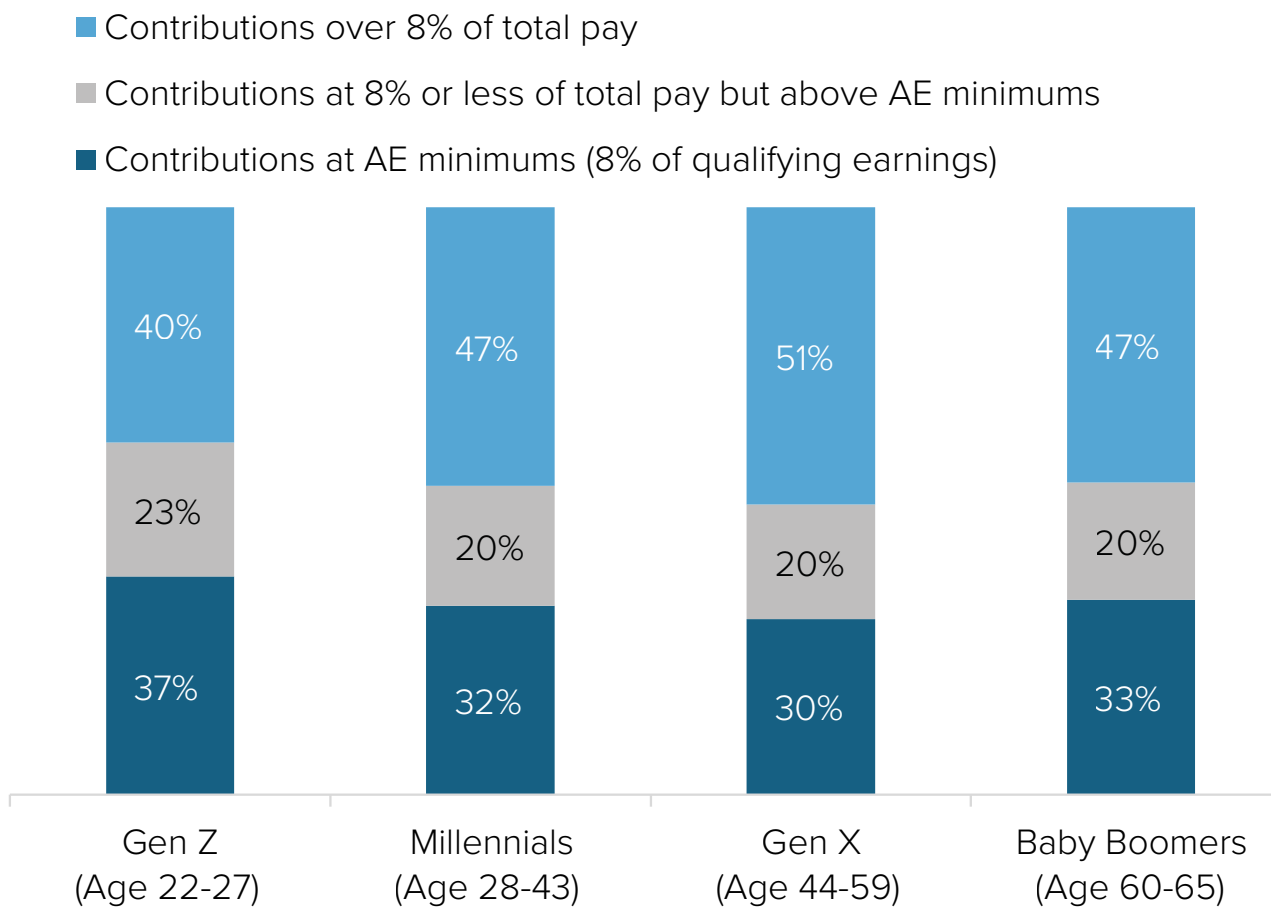


3.59 Figure 3.10 also shows a clear decline of people with solely DB wealth, with Baby Boomers far more likely to only have DB pension wealth when compared to younger generations. However, a certain level of DB provision will remain an important element of the UK pensions landscape in the coming decades. Those with DC pension wealth in

²⁴¹ DWP analysis of ONS, ‘Wealth and Assets Survey, 2020-2022’

Figure 3.10 may also have some additional DB wealth that is not captured in this chart.

Figure 3.11: Private sector employees in DC schemes’ total contribution levels by ‘generation’, 2024²⁴²



3.60 Of those in Generation X who are saving, it is not clear that their current savings levels will make up for lower participation prior to 2012. Figure 3.11 shows that whilst Generation X have the lowest percentage of people saving

²⁴² DWP analysis of ONS, ‘Annual Survey of Hours and Earnings, 2024’

at AE minimum levels, this is not significantly lower than Millennials, despite the fact that they are more likely to be earning more and less likely to be on track to meet their target replacement income in retirement.²⁴³

- 3.61 Separate research suggests Generation X feel a sense of uncertainty and anxiety about their retirement income, with 43% reporting that they had ‘no idea’ how much income they would require in retirement.²⁴⁴ While 85% wanted to retire before age 66, only 46% expected to be able to do so.²⁴⁵

Minimum AE contribution rates and income thresholds may need to be adjusted in the future

- 3.62 In outlining the depth challenge in private pension saving, this chapter has highlighted the

²⁴³ House of Commons Library, 2025, ‘[Average earnings by age and region](#)’

²⁴⁴ DWP, 2025, ‘[Planning and Preparing for Later Life 2024](#)’. Generation X are the cohort born from 1965 to 1980, meaning they were aged roughly 44 to 59 at the time of the survey in 2024.

²⁴⁵ DWP, 2025, ‘[Planning and Preparing for Later Life 2024](#)’

following factors impacting people's ability to accumulate adequate pensions.

- 3.63 Contributions, particularly for lower and middle earners, are clustered around the AE minimum levels.
- 3.64 Additional savings are not manifesting sufficiently for people to achieve income smoothing between working life and retirement.
- 3.65 Increasing numbers earning above the Upper Earnings Limit are seeing the value of their AE contributions fall in real terms.
- 3.66 Whether an employee benefits from the additional employer contributions that are recognised as necessary to achieve income smoothing is strongly dependent on how much they earn, what industry they are working in, and whether they work for a large or small employer.
- 3.67 Engagement with pensions remains low, with most people not making adjustments to their contribution rates over time, even where employers offer matching schemes. We cannot rely on individual engagement.
- 3.68 At current AE minimum contribution rates, even people with full employment records (between 22 and State Pension age) will struggle

to achieve a target replacement income in retirement. However, many people will experience time out of automatically enrolled pension savings during their working lives, through periods of self-employment, caring, ill-health, unemployment, or low income, and this clearly places them at a disadvantage for securing adequate savings levels.

- 3.69 To address the depth challenge in private pension savings, adjustments may need to be made to ensure that AE eligibility criteria, earnings bands, and minimum contribution rates are set at the right level.

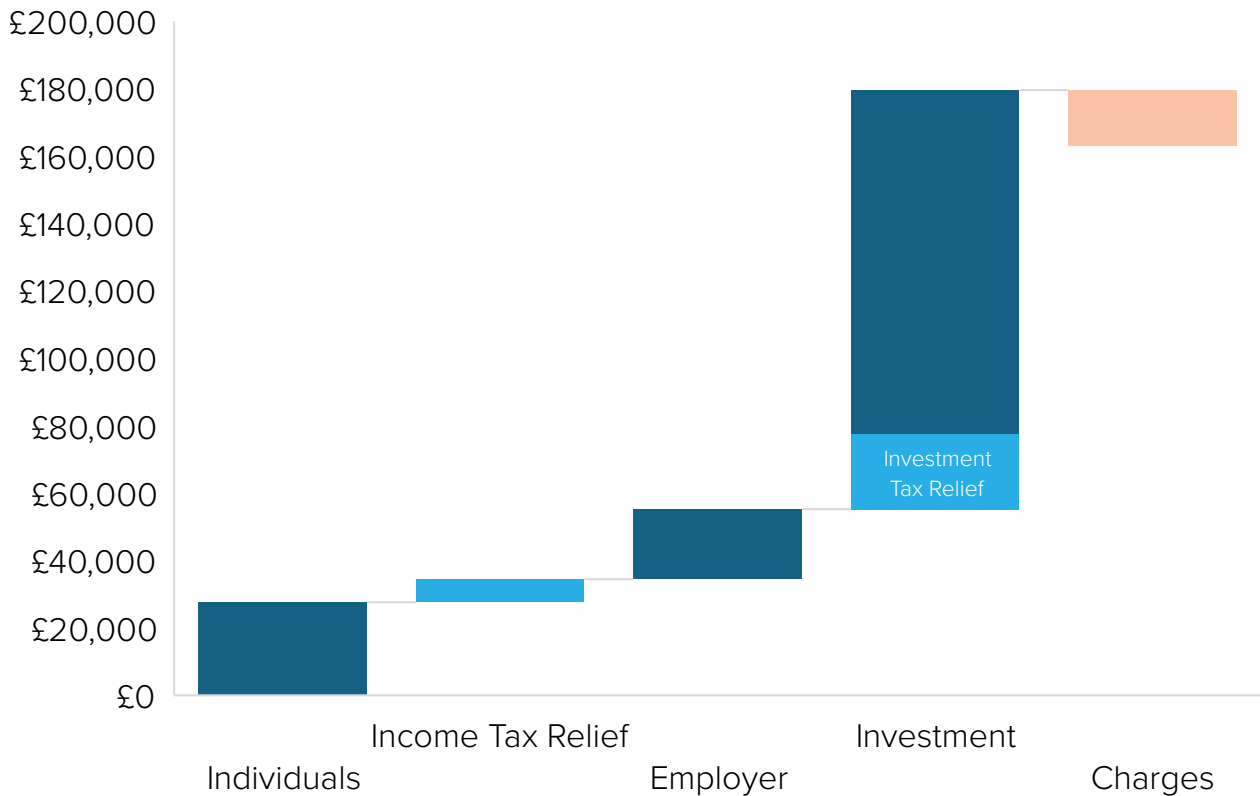
The growth challenge: investment growth contributes to retirement adequacy

- 3.70 Contribution rates through AE may at present be too low to deliver the pension pots needed to secure an adequate retirement, but they are by no means the only or even the primary method of improving pot size.
- 3.71 It is difficult to overstate the importance of compound investment returns over time to the overall value of a pension pot. Modelling (methodology set out in the accompanying

evidence pack) suggests that in the case of a median male earner who contributes around £28,000 to his DC pension pot over the course of his career, saving at AE minimum levels, the amount gained by investment returns would be around £124,000 in today's earnings terms.²⁴⁶ Strong, compounding investment returns can therefore be responsible for around two-thirds of the value of a DC pot. While investment returns are by far the largest contributor to the size of a pot at retirement, pension contributions are the prerequisite for getting any benefit from investment returns.

²⁴⁶ DWP's iPEN case study model assumes real investment returns of just under 4% per annum

Figure 3.12: Components of a DC pension pot for an average earner with full work history from 22 to State Pension age²⁴⁷



3.72 Figure 3.12 highlights the various sources that contribute to the overall value of a pension pot at retirement. We have already considered the contributions of individuals and employers through workplace or personal pension savings. The Government also contributes a significant amount by incentivising these pension contributions through Income Tax

²⁴⁷ DWP analysis using iPEN model – see Methodology 2 in evidence pack for iPen assumptions; DWP, 2025, '[Employer Survey 2024](#)'

relief. Importantly, there is further state support offered to pension savers through the Exempt, Exempt, Taxed (EET) model. Not only are contributions exempt from Income Tax, but investment returns within pension schemes also receive significant relief. There is no current accurate estimate of this,²⁴⁸ but using illustrative

²⁴⁸ IFS, 2023, '[A blueprint for a better tax treatment of pensions](#)': "£3 billion is an underestimate of the tax forgone on investment returns within pension funds. It is calculated assuming Income Tax relief at the basic rate of tax, while in reality many of the returns will accrue to higher-rate taxpayers. It also does not include capital gains tax relief on capital gains made within pension funds; that is a big part of the relief on investment returns, but the government produces no estimate of it."

assumptions,²⁴⁹ it could contribute a significant amount to overall pot size. Within Figure 3.12 (methodology set out in the evidence pack), for a pot of around £165,000 built up by an average earner saving over a career in today's earnings terms, around £20,000-£25,000 (around 10-15%) of the total pot may have been contributed through tax relief from the State (including investment returns on this relief). Over time, charges or administrative fees also

²⁴⁹ The tax which may have been liable if investment returns were subject to taxation within pensions would be dependent on how the returns materialised. For example, if the returns were driven through dividends, this would be subject to one form of tax. Similarly, if through capital growth, this would be subject to Capital Gains Tax. This is highly uncertain and dependent on asset allocations and future performance of investments; both of which cannot be known. To illustrate the potential benefit of investment tax relief, this has been modelled in two ways giving similar estimates. Firstly, by assuming investment growth is driven by dividends and each year is taxed at 8.75%. Secondly, when the person reaches retirement, assuming the investment growth (minus tax allowance) is taxed at a Capital Gains Tax rate of 18%. Both produce estimates of around £15,000 to £20,000.

play a key role as a deductible in determining final pension pot sizes as will be discussed later in this chapter.

- 3.73 This value could be significantly greater for higher earners. On average, a £70,000 earner currently contributes around 10% of their full pay in pension contributions (broadly equally split between the individual and the employer). If they saved over their career at this level, they may have a pension pot of around £455,000, with £30,000 coming from Income Tax relief alone. This highlights that the strength of the incentive to save can be influenced by tax relief and employer contributions.
- 3.74 Tax relief also plays a significant role in helping to build value in DC pension pots. Not only does it support and incentivise both employers and employees to make workplace pension contributions, but the growth in pension pots from investment returns is also tax-exempt. Overall, the State provides significant support to pension saving, with nearly £80 billion of gross tax relief in 2023-24.²⁵⁰ Around half (£41 billion) was through Income Tax relief on pension contributions, although there was

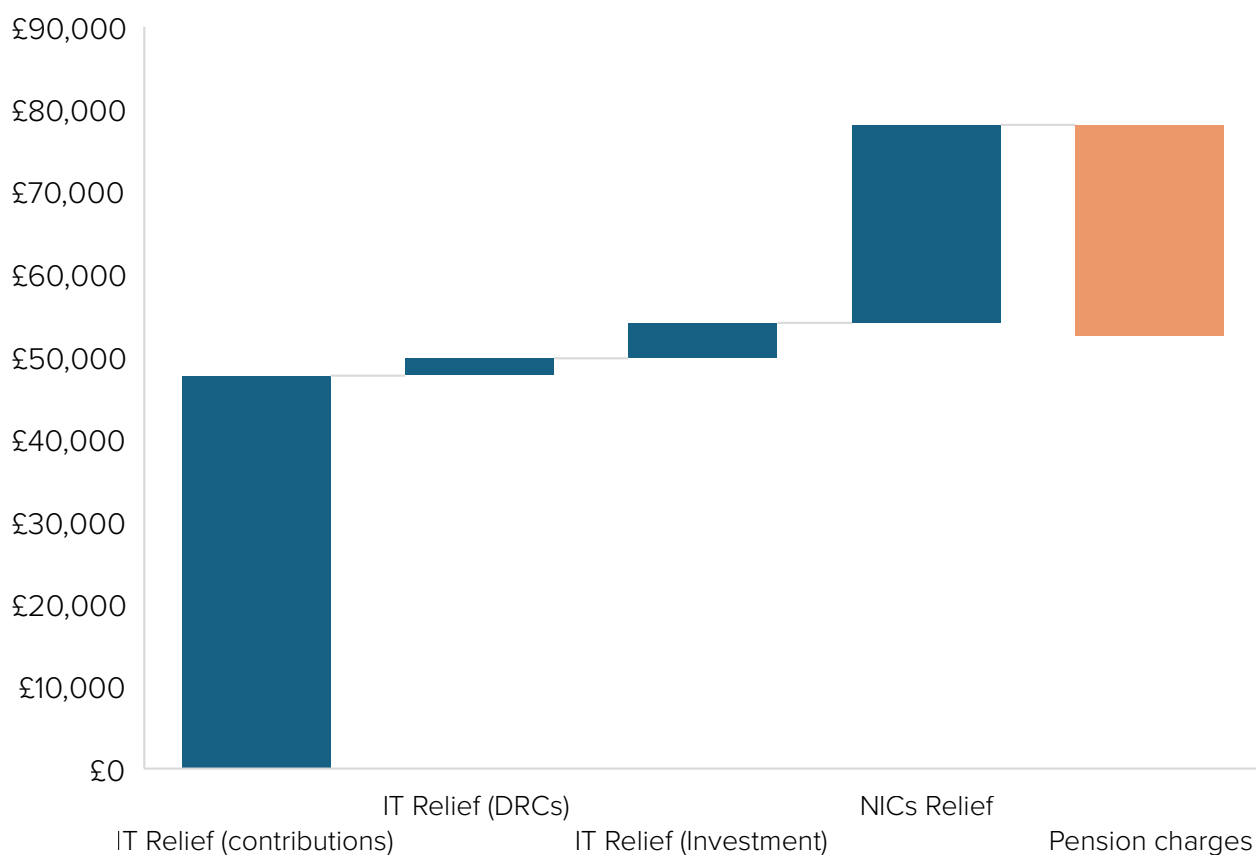
²⁵⁰ DWP analysis of HMRC, 2025, '[Private Pension Statistics](#)'

additional support through other methods including Income Tax relief on investment income (£4 billion, though the IFS note this is an underestimate),²⁵¹ and relief on National Insurance contributions (£24 billion). This was partially offset by Income Tax paid on pension payments (£26 billion), with net tax relief of around £53 billion. However, the government announced changes to salary sacrifice for pensions in the 2025 Budget, which from April 2029 will cap the amount that can be sacrificed without paying National Insurance contributions at £2,000 per employee. This decision is expected to control the cost of the relief.²⁵²

²⁵¹ IFS, 2023, '[A blueprint for a better tax treatment of pensions](#)'

²⁵² OBR, 2026, '[Supplementary forecast information release: Costing of charging NICs on salary-sacrificed pension contributions](#)'

Figure 3.13: Estimated cost of tax relief on pension saving in 2023-24²⁵³



3.75 However, as Figure 3.14 shows, this tax relief is also unevenly distributed among savers. Higher earners receive the majority of relief despite being a minority of contributors (just around 20% of workplace pension savers are higher or additional-rate taxpayers).²⁵⁴ Basic-rate taxpayers, who make up the majority of

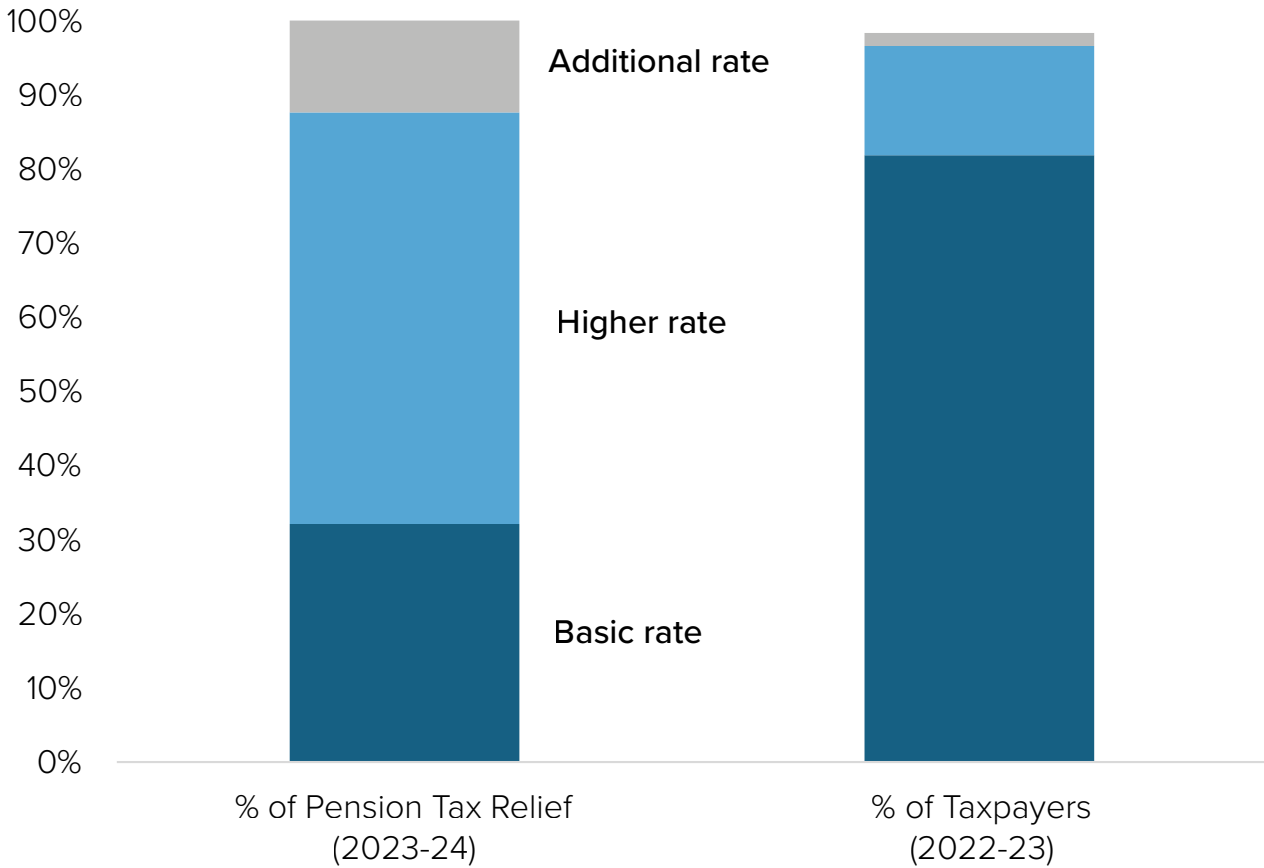
²⁵³ DWP analysis of HMRC, 2025, '[Private Pension Statistics](#)'

²⁵⁴ DWP analysis of ONS, Annual Survey of Hours and Earnings, 2024

taxpayers (82%) receive only around 32% of Income Tax relief on pension contributions, whereas higher-rate taxpayers (15% of taxpayers) receive around 55% of this tax relief. Additional-rate taxpayers, who make up only 2% of the total number of taxpayers, still receive 12% of Income Tax relief on pension contributions.²⁵⁵

²⁵⁵ DWP analysis of HMRC, 2025, '[Private Pension Statistics](#)'; and HMRC, 2025, '[Personal Incomes Statistics](#)'

Figure 3.14: Estimated proportion of Income Tax relief on total pension contributions and estimated number of taxpayers²⁵⁶



Investment returns are dependent on a variety of factors

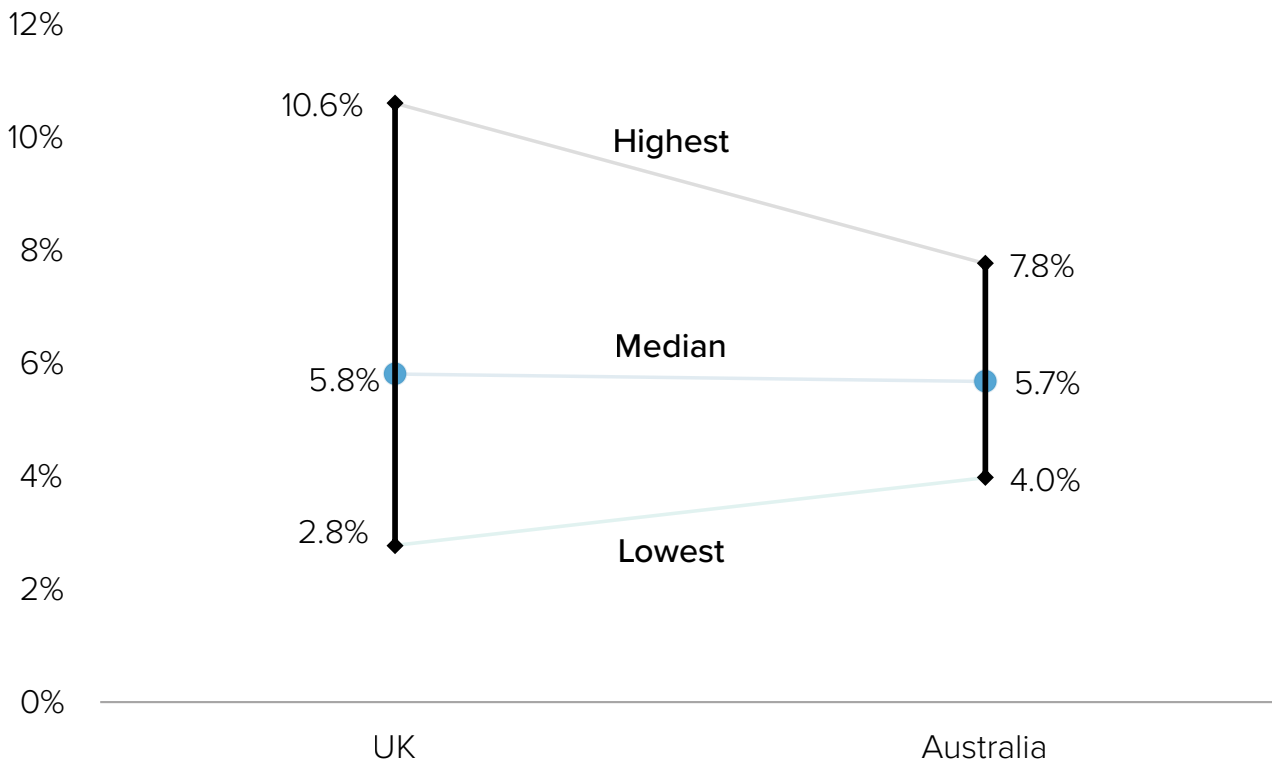
3.76 Investment returns in the UK are more variable than in many other countries. As shown in Figure 3.15, a comparison of UK Master Trusts and Group Personal Pensions against

²⁵⁶ DWP analysis of HMRC, 2025, '[Private Pension Statistics](#)'; and HMRC, 2025, '[Personal Incomes Statistics](#)'

Australian MySuper funds shows that UK savers face a much broader range of outcomes.

Figure 3.15: UK Master Trusts and Group Personal Pensions versus Australian MySuper funds; highest, median and lowest net investment returns last 5 years to 2023²⁵⁷

5-YEAR ANNUAL
NET RETURN



3.77 Small differences in investment returns can lead to significant increases in pension pot size at the point of retirement. A 1% increase in annual rates of return over the course of a career (roughly the difference between the lowest UK

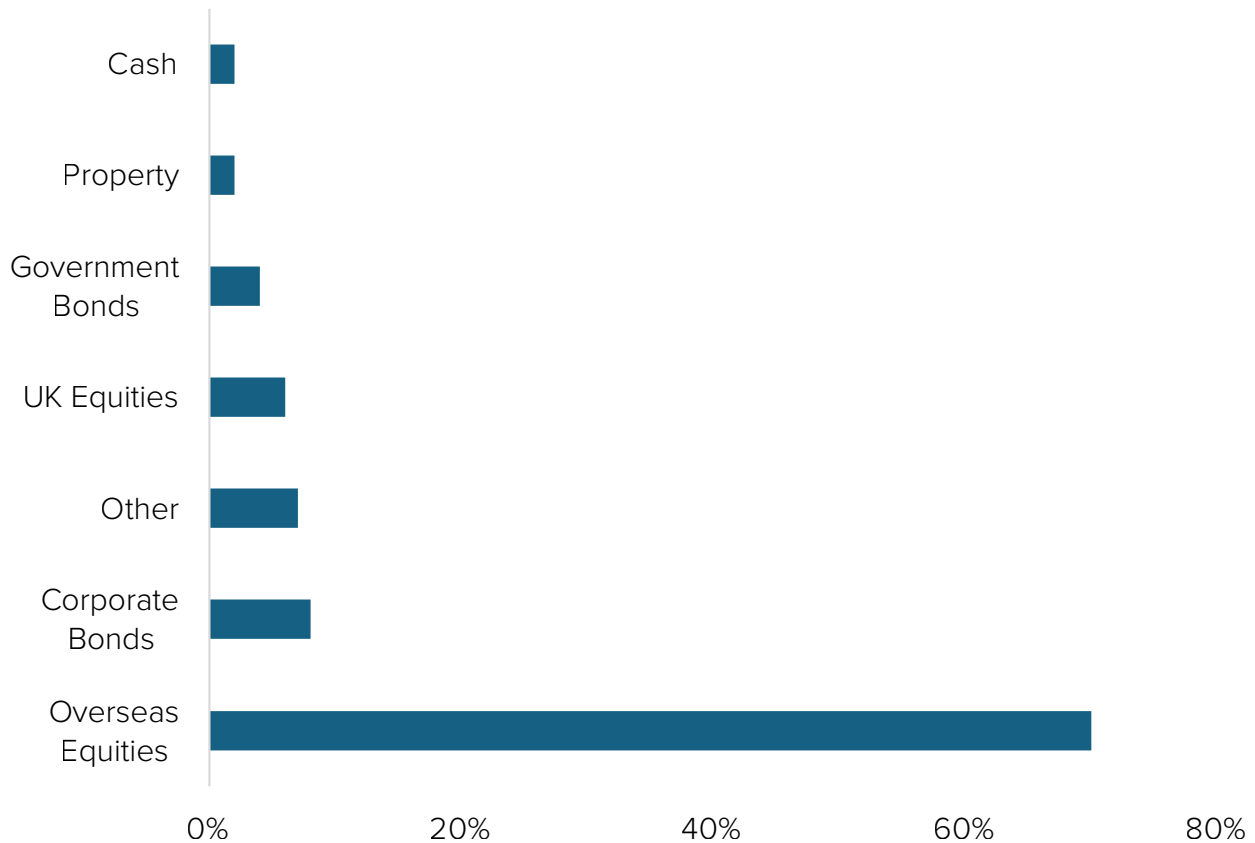
²⁵⁷ DWP, 2025, '[Pension Schemes Bill Impact Assessment](#)'

and Australian savers) could deliver around a 30% increase in the size of a DC pension pot at retirement. Similarly, a 1% fall in returns over a career could result in an over 20% decrease in final pot size.²⁵⁸ Strong investment performance has the potential to enhance adequacy for all savers (section E of the evidence pack has a sensitivity analysis of the impact of changes in investment returns on undersaving). The extent to which savers benefit from investment returns also depends on when they access their pot – an issue explored in detail in Chapter 5.

3.78 Pension funds invest in various kinds of assets in order to produce this growth in pot sizes on behalf of members. While all investments involve some degree of risk, some assets are riskier than others and, in general, higher risk assets often result in higher returns but also involve more volatility, which can negatively impact saver behaviour. Figure 3.16 shows how the average DC scheme assets are allocated for a young saver (30 years from State Pension age).

²⁵⁸ DWP analysis using iPEN model for an average male earner saving over a career.

Figure 3.16: Average defined contribution pension scheme asset allocation for a young saver (30 years from State Pension age)²⁵⁹

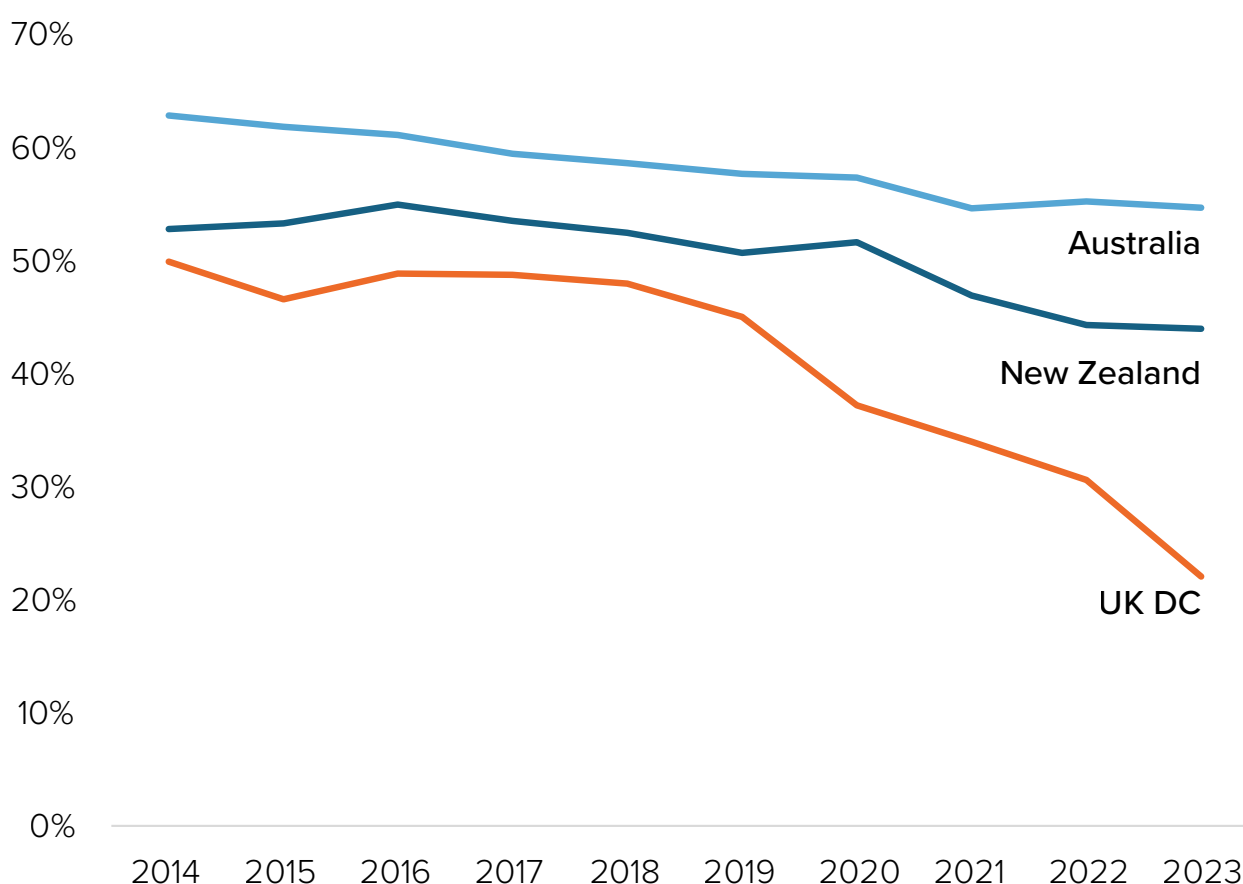


3.79 The vast majority of the UK's DC assets are invested in overseas equities – this is driven by low costs and global diversification. This has resulted in strong rates of risk-adjusted return, particularly due to the strong market valuations of tech companies in the USA. As a result, the UK has seen declines in the amount of domestic investment from pension schemes over the last decade. Although comparable

²⁵⁹ DWP analysis based on Corporate Adviser, 2024, '[Master Trust & GPP Defaults report 2024](#)' data.

countries have seen similar declines, Figure 3.17 shows that UK pension funds are an outlier in terms of both the scale and pace of decline.

Figure 3.17: Domestic share of allocation in Australia, New Zealand and UK DC pension schemes²⁶⁰



3.80 Pension schemes also manage investment risk and stability through a technique known as ‘lifestyling’. Lifestyling, or a ‘glidepath’, is a way of describing the process of pension schemes gradually moving assets into less risky funds that will increase stability and protect against

²⁶⁰ DWP, 2024, [‘Pension Fund Investment and the UK economy’](#)

abrupt market shocks targeting a narrower set of outcomes for the size of the pot at retirement. This typically takes place 10 to 15 years before retirement age.

3.81 DWP's 2024 Pension Provider Survey found that investment returns for the largest default funds dropped from 8.6% 30 years out from retirement to just 3.6% 5 years prior to retirement.²⁶¹ Many savers could thereby miss out on higher rates of investment growth when their earnings may be at or close to career highs (as earnings tend to peak when people are in their 40s and 50s²⁶²) meaning they potentially have the ability to contribute more into their pensions. There needs to be a balance between safeguarding savings that have been accumulated from financial shocks close to the point of retirement and ensuring that they continue to benefit from strong investment growth at times of peak career earnings. Reducing the amount of time that individual savers' pots are on a 'glidepath' in lower growth assets could result in increased

²⁶¹ DWP, 2025, '[The Pension Provider Survey 2024/25](#)'

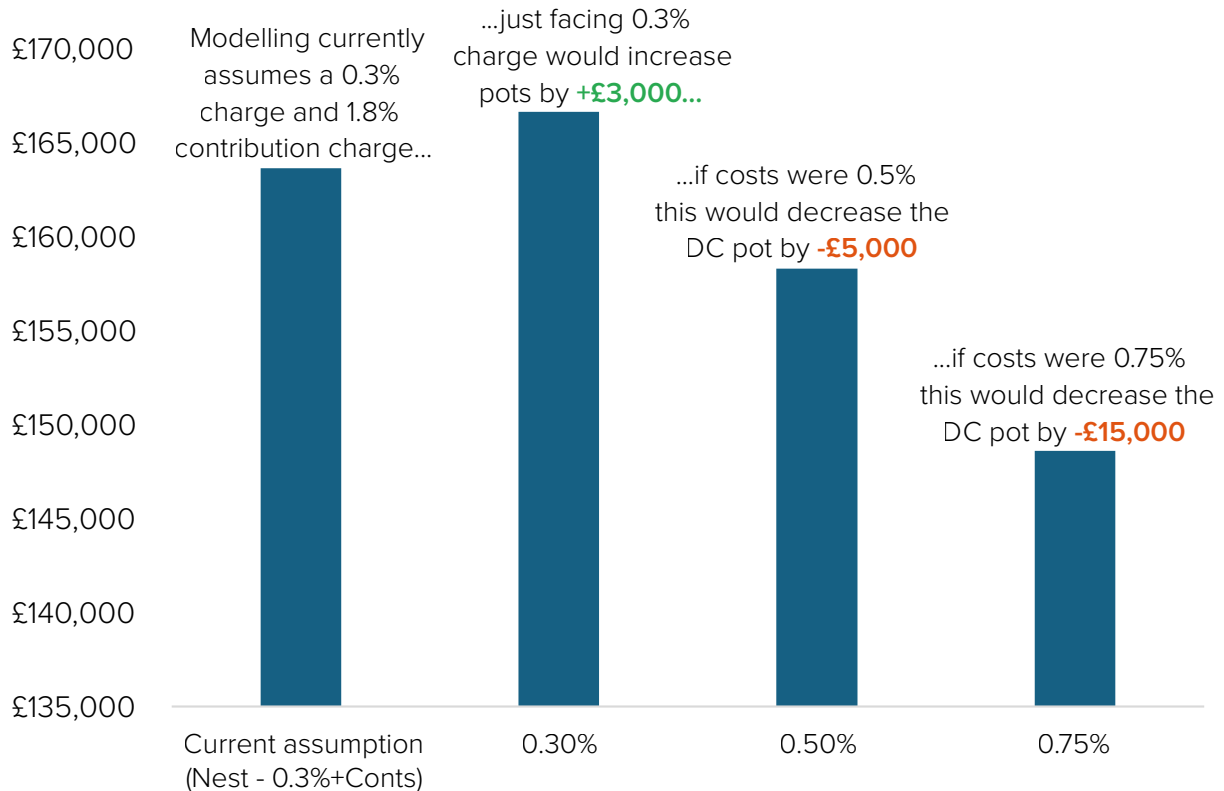
²⁶² DWP analysis of ONS, Annual Survey of Hours and Earnings, 2025

pension pot sizes, though this does not come without risk.

Investment and management charges have historically been a significant deductible from pension pot sizes

- 3.82 Whilst the size of a pension pot is primarily driven by contributions, tax relief, and compound investment returns, it is also driven by the size of any deductibles. It is not just gross returns, but net returns (i.e. with charges deducted) that matter.
- 3.83 Most DC pension schemes charge fees for the investment and management of individuals' savings. An Annual Management Charge is often calculated as a percentage of a pension pot size.

Figure 3.18: DC pension charges and their effect on final pot size²⁶³



3.84 Were annual management charges set at the level of the current limit on charges, 0.75%, Figure 3.18 shows this would cost over £15,000 over the course of someone's working life (assuming no consequential increase in returns). This significantly erodes the value of the pot by not far off the value of the employer contributions (£22,000). Even a slight increase to a 0.5% flat Annual Management Charge would erode the pot by £5,000 – eating most of

²⁶³ DWP analysis using iPEN model for an average male earner saving over a career.

the value tax relief adds (£7,000). The effect of the deduction of charges cannot be ignored.

- 3.85 Charges are also a source of complexity in the pensions system that many people report being unaware of. For instance, over half of respondents to the Financial Lives Survey in 2024 said they do not know that fees are charged on their pension.²⁶⁴
- 3.86 The first Pensions Commission proposed a target of reducing Annual Management Charges on DC pension savings to 0.3% or less. This was also the target for the National Pensions Savings Scheme, which would have been a default provider for low and median earners in SMEs where employers may not have been well served by the provider market. This did not materialise and in fact the average charge for a member of Nest is around 0.5%, above the first Commission's target.²⁶⁵ Competition for employers providing higher contribution flows into schemes has meant Annual Management Charges have settled, on average, at around the target set by the first Pensions Commission.

²⁶⁴ FCA, 2025, '[Financial Lives 2024 Survey](#)'

²⁶⁵ See, for example, DWP, 2025, '[The Pension Provider Survey 2024/25](#)'

There is significant variance around that average because of scheme specific pricing.

3.87 At the time of the first Pensions Commission, Annual Management Charges were also much more variable than today. Pensions sold to small or medium businesses or people with lower earnings often carried Annual Management Charges of 1% or higher, with some reaching the Stakeholder Pension price cap, which was then 1.5%. In 2015, following the beginning of the rollout of AE, the default fund charge cap of 0.75% was introduced. By 2024, average Annual Management Charges hovered between 0.32% for Multi-Employer Providers and 0.24% for Single Employer Trusts.²⁶⁶ This is a significant policy success and one that continues to deliver value for savers today.

3.88 However, there is widespread differential pricing, with over two-thirds of multi-employer schemes charging different prices to different employers and therefore identical savers who

²⁶⁶ DWP, 2025, '[The Pension Provider Survey 2024/25](#)'. Note: it is not possible to understand whether lower charges in single employer trusts are a result of employers paying a proportion of the costs without charging members for those costs.

just happen to work for different companies. These charges vary from around 0.1% for some employers to over 0.5% for other employers.²⁶⁷ This behaviour was foreseen by the first Pensions Commission and it is difficult to see a justification for such a spread of outcomes.

3.89 While today's charges on average deliver value for savers, this will need to be reviewed more deeply as scale and investment changes take hold. Internationally, some very large default fund managers, like AP7 in Sweden, are able to operate with much lower charges than the UK – AP7 has charges closer to 0.1%.²⁶⁸ Forthcoming policy reforms are expected to drive further consolidation in the UK DC market. As this process produces economies of scale, it is important these benefits are passed onto consumers.

Adequacy relies on governance and regulation to protect savers' interests

3.90 The importance of charges and investment returns for adequacy means it is essential that pension schemes – the stewards of our savings

²⁶⁷ DWP, 2025, '[The Pension Provider Survey 2024/25](#)'

²⁶⁸ AP7, 2024, '[Annual and Sustainability Report 2024](#)'

– deliver good value for their members. In the UK, the second, semi-compulsory pillar of the pension system is delivered in large part by the private sector. This must be carefully managed if AE is to deliver strong retirement outcomes. A market that can be entrusted by 20 million people to deliver adequate retirements for them must therefore be underpinned by careful governance and regulation.

- 3.91 The behavioural basis of AE necessitates strong regulatory guardrails. Workplace pensions are unusual in that the employer selects the scheme for their employees. There is good reason for this, as our system is dependent for its success on harnessing the inertia of savers and compelling employers. This general lack of engagement from employers and employees means strong governance is needed to ensure savers are getting the best outcomes.
- 3.92 Even in pension systems with a fully compulsory second pillar where employees can choose their pension providers (for example, Australia), low engagement with pensions and a significant information asymmetry between provider and members prevent the system from operating as a genuinely efficient competitive

market, necessitating a strong regulatory regime.²⁶⁹

3.93 The market created to deliver the second pillar of the UK's pension system is different from that anticipated by the first Pensions Commission. The Government did not introduce the National Pensions Saving Scheme (NPSS) as a default scheme but decided to leave the market more open. This market is regulated by two different regulators – The Pensions Regulator (TPR) and the Financial Conduct Authority (FCA) – working from two different sets of principles, creating some inefficiency as well as discrepancies between the two regimes.

As the system shaped by automatic enrolment grows and changes, regulation will need to keep pace

3.94 The pensions market in 2030 and beyond will look very different from the market of today. Policy reforms driving consolidation in the DC sector – both at scheme and pot level – along with the growing size of the DC market, and rising competition for pension transfers will

²⁶⁹ See, for example, Super Review, 2026, ['Disengagement with super quietly eroding Australians' retirement wealth'](#)

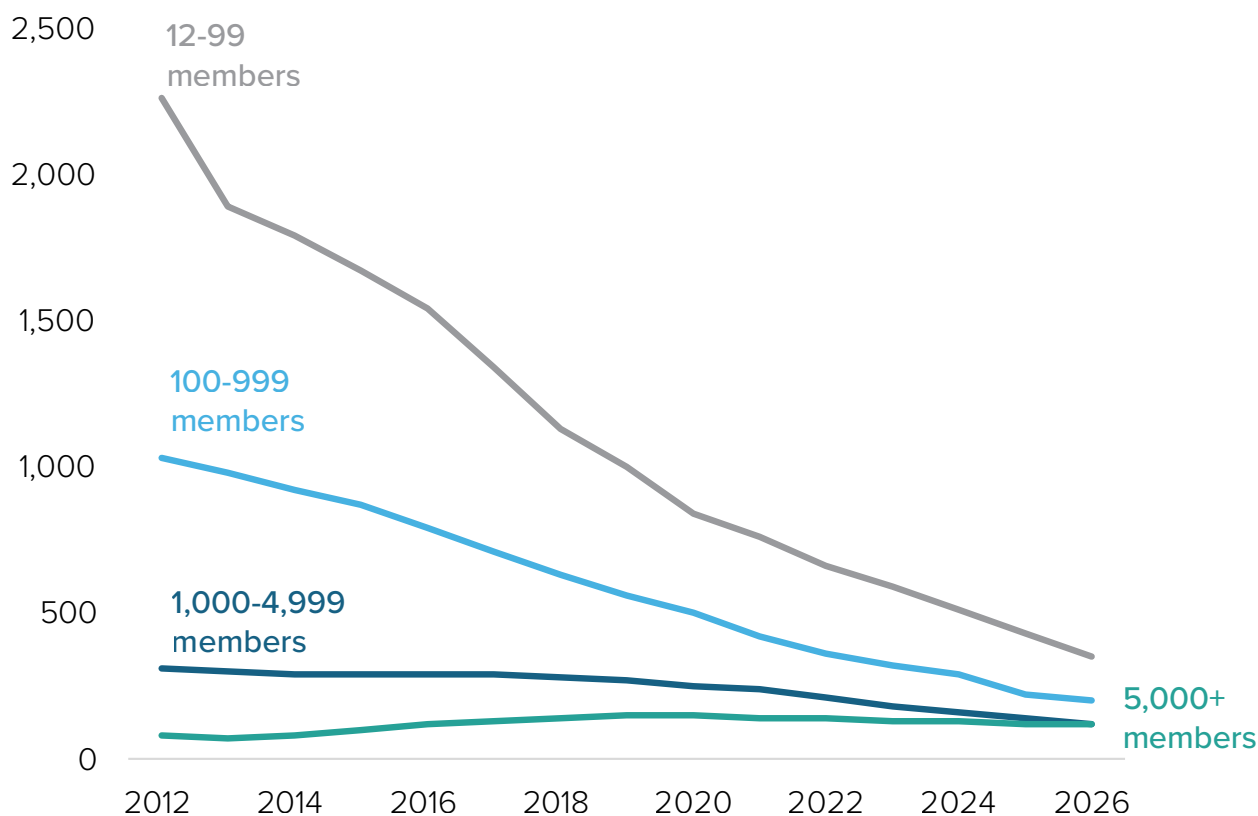
significantly reshape the system. These shifts, combined with emerging systemic risks such as climate change, will define the market's evolution in the coming years. A growing and changing pensions market creates opportunities to strengthen governance, for example through increasing scale, but also poses new regulatory challenges.

- 3.95 Existing trends of consolidation in the DC market will likely be accelerated by forthcoming legislative requirements on scheme size. Figure 3.19 shows trends in the number of pension providers in the DC market, which has already reduced from around 3,700 in 2012 to around 800 schemes today.²⁷⁰ Under the Pension Schemes Bill, the government will introduce a £25 billion threshold for assets under management by 2030 (with exemptions for schemes expected to hit £25 billion by 2035). The market is therefore expected to consolidate further, with the number of multi-employer pension schemes predicted to reduce from around 60 to 15-20 in the next 5-10 years.²⁷¹

²⁷⁰ TPR, 2026, '[Occupational defined contribution landscape in the UK 2025](#)'

²⁷¹ DWP, 2025, '[Pension Schemes Bill Impact Assessment](#)'

Figure 3.19: Number of DC trust-based workplace schemes by membership size²⁷²



3.96 This trend towards consolidation will result in a very different pensions landscape in the future, which has implications for both adequacy and governance. Increased scale has the potential to boost adequacy by improving outcomes for savers through lower charges driven by economies of scale, stronger governance and oversight, and larger schemes' access to a wider range of asset classes. For example, research by The Pensions Regulator found

²⁷² TPR, 2026, '[Occupational defined contribution landscape in the UK 2025](#)'

that the trustee boards of larger trust-based schemes were better able to assess the extent to which members were getting value for money, including scrutiny of investment performance, charges, and service quality.²⁷³

As schemes consolidate, a DC pensions sector concentrated in a few schemes will raise new issues of strategy, governance, and risk, and will increase the systemic importance of each individual pension fund, underpinning the need to get regulation right. As consolidation progresses, there is a risk that the voice of pension scheme members may become more distant from decision-making which will require monitoring.²⁷⁴

- 3.97 Recognising that, in many cases, charges and investment – significant parts of a pot’s growth – are not things over which an individual can exercise much control or choice, the Government is taking steps to increase transparency and protect members’ interests. The new Value for Money framework that is being established will require DC pension schemes to disclose data against specific

²⁷³ TPR, 2025, ‘[DC trust-based pension schemes report](#)’

²⁷⁴ Trade Union Congress, 2026, ‘[Member Voice in Pension Scheme Governance](#)’

performance metrics, which will allow for a comparative assessment of their value across investment performance, costs and charges, and the quality of services they provide.

The intent is to drive more transparency, comparability, competition and ultimately better outcomes for savers by improving the market or forcing the exit of poor performers. Greater transparency and broader value metrics should enable businesses to better understand the workplace pension schemes that will provide the best value for their employees. However, realising these aspirations will require strong governance and clear regulation.

- 3.98 Dynamics at the pot, as well as scheme, level are also changing the market. Consolidation of pensions is increasing as more people accumulate multiple pension pots – there are an estimated 13 million small deferred pension pots worth less than £1,000.²⁷⁵ Measures in the Pension Schemes Bill provide for the automatic consolidation of the smallest pension pots, with pots under £1,000 automatically moved into consolidators. This measure has the potential to positively impact returns as lower costs for schemes could be passed onto savers.

²⁷⁵ DWP, 2025, '[Pension Schemes Bill Impact Assessment](#)'

- 3.99 Pension dashboards may change pot dynamics further by increasing the information that people have about their pensions. Giving people more information about their pensions is to be applauded, and may help lessen the information asymmetry between savers and pension providers, with the potential to drive more competition between providers over investment returns and charges. However, it remains to be seen how these dynamics will play out in practice. Engagement with pensions is typically low and transferring pots between providers is challenging at present. As dashboards enable people to locate previously lost small pension pots, the market for pension consolidator products which allow people to merge multiple pensions may expand further.
- 3.100 While the majority of people consolidating pensions do so into other workplace saving products, an increasing trend is for savings accumulated in government-regulated pension products to be transferred into non-workplace products like Self-Invested Personal Pensions (SIPPs).²⁷⁶ These lack many of the consumer protections in place in the workplace savings market, with a lack of charge caps a particular concern. Less than a third of surveyed savers

²⁷⁶ FCA, 2025, '[Financial Lives 2024 Survey](#)'

with DC pots who had consolidated their pensions considered fees and charges when deciding to do, so demonstrating the case for stronger member protection.²⁷⁷

3.101 Systemic risks, too large to be diversified against by any one fund, are not a new challenge, but many are intensifying. Climate change and biodiversity loss pose significant risks to investment portfolios, both in terms of physical risks and policy risks related to the green transition. One study found that under a high warming scenario, UK pension funds could experience a decline in investment returns between 20% and 30% per year by 2040, with potentially stark impacts for retirement adequacy.²⁷⁸

3.102 The UK pensions landscape is rapidly changing. Regulation and governance may need to adapt to ensure the UK private pensions system remains fit for purpose, and that savers remain protected as they take their money out. Any future model must put at its heart the primacy of members' interests.

²⁷⁷ FCA, 2025, '[Financial Lives 2024 Survey](#)'

²⁷⁸ Ortec, 2024, '[Climate Risks Facing the Pensions Industry](#)'

Conclusion

- 3.103 This chapter has set out what the Commission has identified as the major challenges facing savers as they work towards building a financially secure retirement for themselves and their families.
- 3.104 Starting with the building blocks of pensions accumulation – the State Pension earned through National Insurance contributions and credits, workplace pensions, and other forms of wealth used to fund retirement – this chapter has identified how much people are currently saving and highlighted the factors responsible for building and detracting from pension pot sizes over the course of working life.
- 3.105 The new State Pension and AE have ensured that the foundations of retirement income are stronger and more predictable than ever for a large number of people in the UK, yet the depth of those savings at present means that many are still at risk of not achieving a financially secure retirement – especially lower and middle earners. Differentials in workplace pension contributions, aspects of the AE framework, and variations in charges and investment performance mean that many savers are still

on track to fall short of the retirement outcomes they expect.

- 3.106 To meet these challenges in the future, adjustments will need to be made to ensure that AE eligibility criteria, earnings bands, and minimum contribution rates are set at the right level. It is essential that any solutions command broad consensus, are affordable for businesses, individuals and the state, and can be easily implemented in an appropriately staged and phased manner.
- 3.107 Taken together, the depth and growth challenges outlined in this chapter show that despite the successes of AE, too many people are not saving enough to enjoy a financially secure retirement. It is also important to ensure that savers are able to benefit fully from the investment and governance structures intended to support them. While the foundations of the system are strong, the distribution of saving remains uneven. Higher pension contributions are heavily concentrated among higher earners and those working within certain sectors.
- 3.108 In addition to the depth and growth challenges, the significant gaps in pension participation point to a third major challenge for private pensions accumulation – its breadth. Many groups face structural barriers that prevent

them from building adequate pension wealth over their working lives. The next chapter therefore turns from the question of whether people are saving enough to whether they are saving at all, examining the groups at highest risk of undersaving for their retirement and how these risks reflect persistent labour market inequalities, including patterns of low or volatile earnings and periods spent outside of paid work.

Chapter 4 The participation gap: who misses out on pension saving and why it matters for adequacy

Summary

- **Automatic enrolment has improved participation in pension savings but differences in working lives drive large and persistent pension wealth gaps.** Despite more lower-paid people being brought into pension saving, lower income, part-time or insecure work, time out of work for sickness and caring, and limited progression mean that women, disabled people and some ethnic minorities accumulate far less private pension wealth. These groups face barriers that limit both their ability to save and the pension wealth they can ultimately build. The risk of undersaving for retirement is compounded for people with several of these characteristics.

- **Self-employed people remain the group least likely to participate in pensions saving.** They sit entirely outside automatic enrolment and have extremely low participation rates. Many rely heavily on property or future inheritances, though these assets are concentrated among higher earners, with younger self-employed cohorts particularly unlikely to be building adequate pension wealth. As a result, the self-employed represent one of the most significant groups of concern for pension adequacy.
- **Caring responsibilities and periods out of work due to ill health or disabilities reduce long-term pension saving.** Unpaid care, long-term sickness and disability all limit employment and contribution histories, with credits in the State Pension helping but not compensating for the loss of private pension saving over time.
- **Early labour-market exit is a major adequacy risk.** Large numbers leave work in their 50s due to personal choice, poor health and caring. This shortens working lives when longevity is increasing, making it harder to accumulate sufficient pension wealth and potentially increasing reliance on State Pension and means-tested support for those

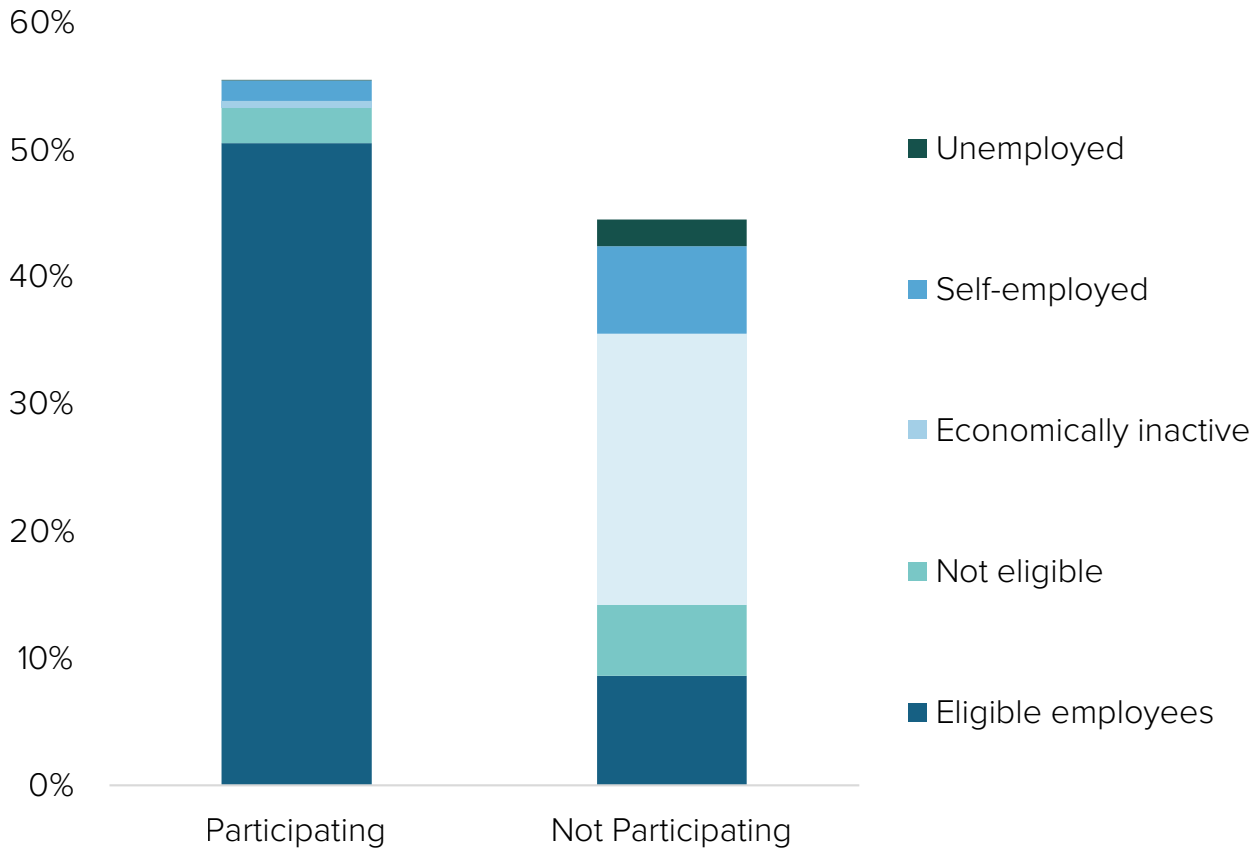
without sufficient pension savings. A cohesive, joined-up strategy is needed to help people stay in work for longer and to ensure that both the labour market and the pension system contribute to secure and adequate retirement incomes.

Introduction

4.1 Pensions adequacy depends not only on how much people save, but also on whether they can save at all and how regularly they do so. Automatic enrolment (AE) has significantly expanded coverage for eligible employees, yet almost half of working-age adults still do not contribute to any pension.²⁷⁹ In 2023-24, around 45% of working-age people reported not saving into a pension in the previous 12 months. Breaking this down: around 23% were economically inactive or unemployed; 9% were eligible employees who had opted out of AE; 7% were self-employed and therefore outside the AE framework; and around 6% were employees who did not meet AE eligibility criteria, either because their earnings in any single job fell below the £10,000 trigger or they were below age 22 (see Figure 4.1). Significantly, almost half (47%) of those not saving are in paid work (i.e. either employed or self-employed).

²⁷⁹ DWP analysis of [‘Family Resources Survey: financial year 2023 to 2024’](#)

Figure 4.1: Working-age population by pensions participation and employment status, 2023-24²⁸⁰



4.2 Patterns of work across a person’s life may have an impact on their pension outcomes. Analysis by the IFS shows that sustained participation in full-time employment is strongly linked to higher income in retirement, with a much lower likelihood of ending up in the lowest quintile of retirement income (see evidence pack section F). In contrast, people who have spent most of their working lives outside

²⁸⁰ DWP analysis of [‘Family Resources Survey: financial year 2023 to 2024’](#)

full-time employment face a higher risk of being in the bottom fifth of the income distribution in retirement.²⁸¹

- 4.3 There has been substantial progress in pension participation over time, with cohorts born later having greater access to private pensions. Analysis by the IFS shows that earlier cohorts were more likely to have no private pension wealth, with the proportion of people with no individual private pension wealth lower for those born in 1947-59 compared to those born in 1937-46, across labour market participation life courses (Table 4.1 below).²⁸² At the time AE was introduced in 2012, those born in 1937-46 had all reached State Pension age. Those born in 1947-59 were aged 53-65, leaving many still in the labour market to benefit from AE.

²⁸¹ DWP, 2026, [Life courses and pension saving patterns](#)

²⁸² DWP, 2026, [Life courses and pension saving patterns](#)

Table 4.1: Cohort analysis comparing those with no private pension wealth and labour market history²⁸³

Life course	Cohort	% with no private pension wealth
Over 75% spent in full-time work	1937-46	25%
	1947-59	12%
Mostly part-time	1937-46	54%
	1947-59	25%
Mostly not in paid work	1937-46	73%
	1947-59	46%

- 4.4 Although those on the lowest incomes may struggle to afford pensions saving, more low earners have been brought into pension saving in recent years. However, lower earners and the self-employed are still among the largest groups missing out on pension saving and consequently at higher risk of pension inadequacy. This is in part due to AE's age and earnings thresholds and the absence of an equivalent savings vehicle for the self-employed.
- 4.5 Although there are not wide regional disparities in pension participation (see evidence pack section H) there are other groups with disproportionately low rates of pensions saving which include women, disabled

²⁸³ DWP, 2026, [Life courses and pension saving patterns](#)

people, carers and several ethnic minority groups.²⁸⁴ For these groups low-paid, insecure or part-time work, as well as time out of the labour market, reduce both their ability to save and the consistency of their pension contributions. Younger people who are not in education, employment or training (NEET), or who experience prolonged periods out of work in their early adulthood, also face significant long-term consequences for pension adequacy. Extended time spent NEET means missing the early years of pension saving allowing less time to benefit from compounding interest, thereby widening future adequacy gaps and increasing the risk of insufficient retirement income.

- 4.6 A further important factor shaping pension adequacy is the point at which people leave the labour market. While longer working lives provide more years of contributions and fewer years over which retirement resources must stretch, recent trends show that many people in their 50s are exiting work earlier than in other peer countries.²⁸⁵ These early exits shorten contribution histories, increase the likelihood that people draw on their pension savings before State Pension age, and greatly heighten

²⁸⁴ DWP, 2025, '[Finishing the Job](#)'

²⁸⁵ OECD, 2025, '[OECD Employment Outlook 2025](#)'

the risk of inadequate retirement incomes. Understanding and addressing the barriers facing older workers, including health, job quality, flexibility, and skills is therefore essential to improving pension outcomes and ensuring people can save, and save for long enough, across their working lives.

Pension adequacy and low earners

- 4.7 AE has brought more people into workplace pension saving in recent years, however many still miss out on consistent or sufficient saving.
- 4.8 AE eligibility rules (such as the earnings trigger and Lower Earnings Limit) provide protection for the lowest earners by ensuring that they are not defaulted into workplace pension saving when it may be unaffordable. This is an important feature of the system, because for some of the lowest earners workplace pension saving may be unachievable, especially when managing a low household income. However, the earnings thresholds, age criteria and the treatment of multi-job holders within AE rules add barriers that prevent saving for this group and as a result, lower earners are more likely to move in and out of saving across their working

lives. Despite wider AE coverage overall and the benefits of saving, even for many lower earners, being clear – a substantial share of low earners remain at heightened risk of inadequate retirement income.

Lower earners' pension participation is heavily influenced by the automatic enrolment eligibility criteria

- 4.9 One of the main factors influencing the participation of lower earners in pension saving is the AE eligibility criteria. The current AE eligibility rules mean that only those earning above the £10,000 earnings trigger in any one job are automatically enrolled into saving towards a workplace pension by their employer.²⁸⁶
- 4.10 Although this rule is in place to protect the lowest earners from being automatically brought into pension saving that they may not be able to afford, it means that lower earners tend to have lower pension participation rates. For instance, only 37% of employees earning less than £10,000 are saving into a workplace pension, compared with 71% of those earning between

²⁸⁶ GOV.UK, '[Workplace pensions: Joining a workplace pension](#)'

£10,000 and £20,000.²⁸⁷ This difference is not necessarily driven by a difference in behaviour, but is largely because of AE's £10,000 earnings trigger. The 37% who are earning less than £10,000 and are saving into a pension will either have specifically requested to be opted in to workplace pension saving or be working for employers who automatically enrol all their employees into workplace pensions, for example via 'contractual enrolment'.

- 4.11 The AE earnings trigger has been frozen at £10,000 since 2015, in part because of concerns raised that continuing increases in the trigger were excluding many thousands of women from AE. Freezing the trigger has brought more people into AE eligibility and pensions saving, partly due to concurrent increases in the National Living Wage, which will rise to 66% of median pay for those aged 21 and over from April 2026 – an increase from around 55% 10 years ago.²⁸⁸ Despite this, gaps remain. At the time it was introduced, the earnings trigger was consistent with the standard Personal Allowance – the amount

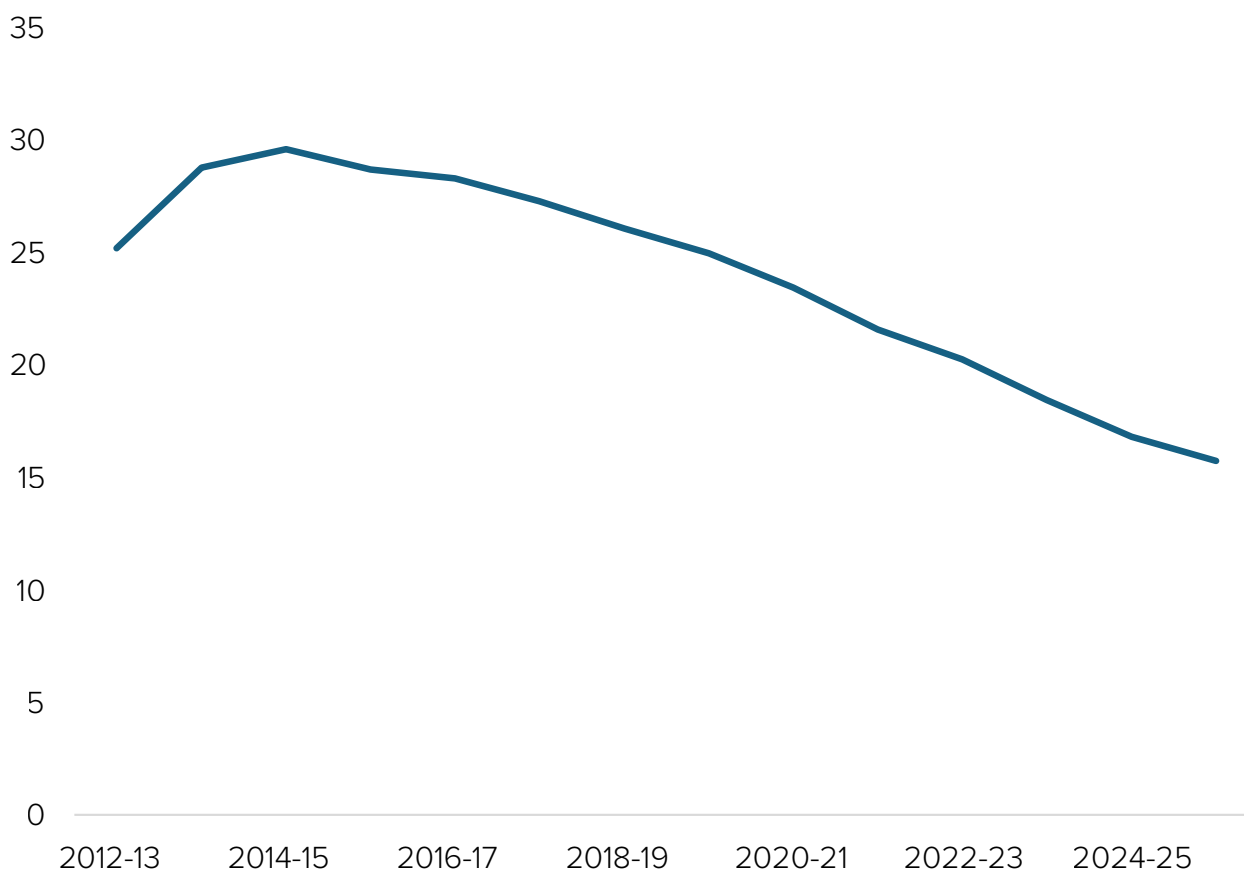
²⁸⁷ DWP, 2025, '[Workplace pension participation and savings trends of eligible employees: 2009 to 2024](#)'

²⁸⁸ Low Pay Commission, 2026, '[National Minimum Wage: Low Pay Commission Report 2025](#)'

of income you can earn before paying tax. Figure 4.2 shows that, in 2014, this was equal to someone working 30 hours per week at the National Minimum Wage. The freezing of the earnings trigger alongside a decade of increases to the minimum wage has meant that people now only have to work 16 hours per week at the National Living Wage (which replaced the National Minimum Wage for adult workers over 25 in 2016) to meet the threshold for AE. The frozen trigger has meant that 86% of employees are now covered by AE, up from 79% when the measure was implemented in 2012.²⁸⁹

²⁸⁹ DWP calculations using National Living Wage levels

Figure 4.2: Number of hours per week required at National Minimum/Living Wage required to be automatically enrolled²⁹⁰



4.12 When the first Pensions Commission proposed an earnings trigger for AE, it was recommended that it should be linked to the National Insurance Primary Threshold, which is the earnings level where employees start paying Class 1 National Insurance contributions. The first Commission argued that it was important to allow most workers the option of participating in

²⁹⁰ DWP calculations (wage floor for those aged 23+ in the given year)

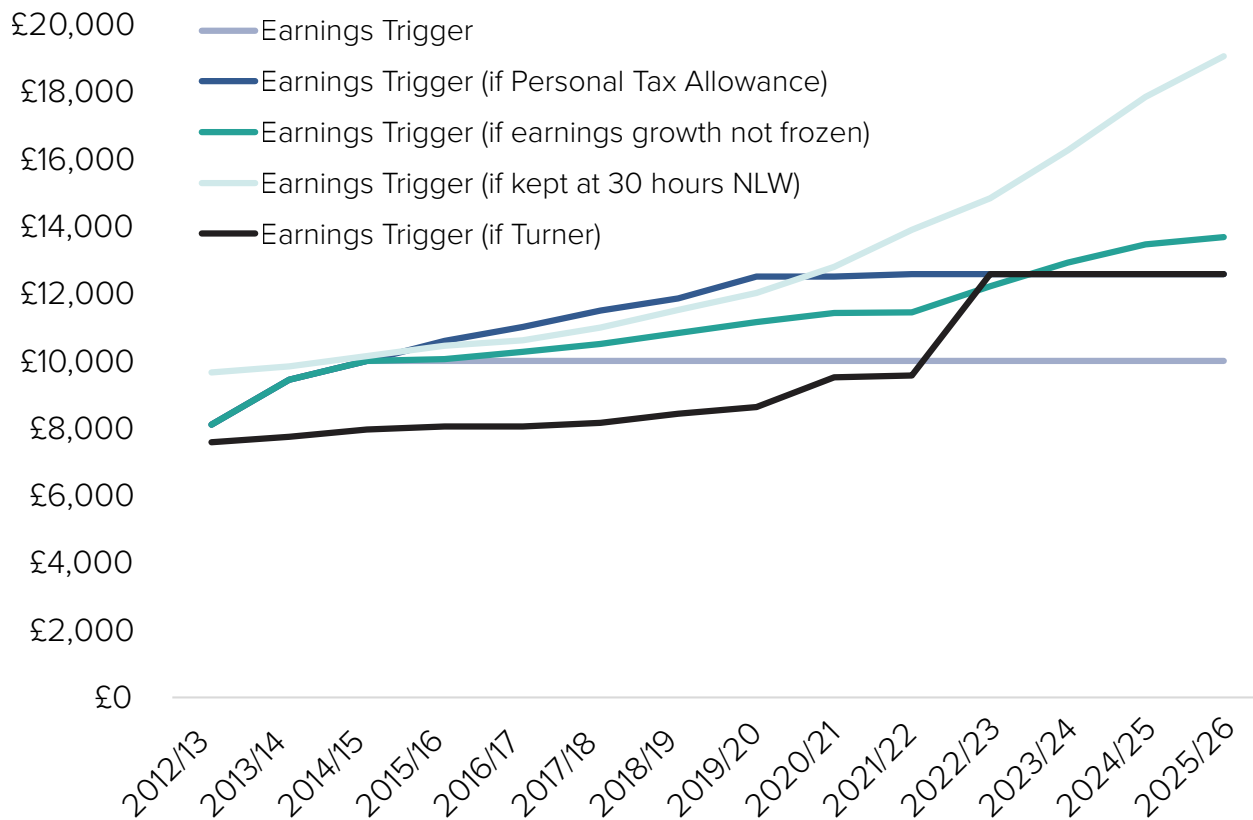
workplace pensions and receiving the benefit of the employer contribution. They justified this by pointing out that many low earners would have higher earnings at other points in their working lives and it was assumed these savers would want to make pension provision beyond the State Pension.²⁹¹ At that time (2002-2006), the Primary Threshold was just under £5,000 per year.

- 4.13 The 2010 Automatic Enrolment Review concluded that the earnings trigger should be matched instead to the Personal Income Tax Allowance, resulting in the first earnings trigger in 2012-13 being £8,105, reflecting concerns that too many smaller contributions would be unviable for providers.²⁹² It remained tied to the Personal Allowance for two years, since when the earnings trigger has been frozen at £10,000 while the Personal Allowance has risen to £12,570. It is also worth noting that since that time the National Insurance Primary Threshold has been aligned with the Personal Allowance for Income Tax, so both now sit at £12,570.

²⁹¹ The Pensions Commission, 2005, '[A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission](#)'

²⁹² DWP, 2010, '[Making automatic enrolment work – a review for the Department for Work and Pensions](#)'

Figure 4.3: Automatic enrolment triggers under different uprating scenarios²⁹³



4.14 As can be seen in Figure 4.3, the result of these changes is that the AE earnings trigger has settled at a level that is closer to the recommendations of the first Commission than would have been the case if the 2010 recommendation continued to be increased in line with 30 hours of earnings at the National Minimum Wage or was uprated by average earnings growth.

²⁹³ DWP calculations

4.15 Additionally, because women are more likely to be lower earners than men, any reductions to the AE earnings trigger or Lower Earnings Limit will have a greater effect on women than men. For instance, if the earnings trigger was reduced to the level of the National Insurance Contributions Lower Earnings Limit (£6,500 per year) approximately 69% of the new savers who would be automatically enrolled into pension savings would be women.²⁹⁴

Concerns around affordability may impact low earners' ability to save

4.16 Eligibility rules alone do not explain the full picture for low earners. Even where individuals meet the criteria for AE, the financial pressures associated with low or unstable earnings can constrain their ability to contribute regularly. Low earners are faced with the daily pressures of managing a low income, particularly following recent inflationary pressures and high housing costs. Affordability therefore represents a separate barrier to sustained pension saving.²⁹⁵

²⁹⁴ DWP analysis of ONS, 'Annual Survey of Hours and Earnings'

²⁹⁵ DWP, 2024, '[Low earners and workplace pension saving – a qualitative study](#)'

- 4.17 Many individuals have concerns around whether saving for a pension is affordable. Research from 2024 found that 46% of working-age people agree that they cannot afford to put money away for retirement ‘at the moment’. For low earners, the figure was as high as 71%, reflecting pressure on individuals’ finances.²⁹⁶ Research by the IFS reinforces this point, highlighting that increasing pension saving for low-income households risks creating hardship during working-age, as many already struggle with day-to-day costs, particularly if they are private sector renters.²⁹⁷ The IFS also notes that even increasing employer contributions may not avoid this tradeoff, because of the risk that employers would pass on the cost through lower wage growth.²⁹⁸
- 4.18 At the same time, there is evidence that people place a high value on pension contributions when making important financial decisions. For instance, only 5% of respondents said they would decrease their pension contributions in

²⁹⁶ DWP analysis of NatCen, British Social Attitudes survey, 2024

²⁹⁷ IFS, 2025, [‘The Pensions Review: final recommendations’](#)

²⁹⁸ IFS, 2025, [‘The Pensions Review: final recommendations’](#)

response to an unexpected increase of £50 in their monthly bills.²⁹⁹

- 4.19 However, despite general affordability concerns around pension saving, changes to levels of saving do not appear to be a common response to changes in economic circumstances. This can be seen when looking at opt-out rates, for which the proportion of active savers stopping saving has remained consistently low throughout economic shocks in recent years such as the Covid-19 pandemic and cost of living crisis, demonstrating the power of inertia once employees are automatically enrolled.³⁰⁰
- 4.20 While for many low earners pension saving does offer clear long-term benefits, short-term financial pressures remain a significant barrier, particularly for those on the lowest incomes. Although pension saving is primarily intended to provide security in later life, innovative models such as sidecar savings may offer a way to balance long-term adequacy with the need for accessible emergency funds. Such vehicles, such as those trialled by Nest Insight,

²⁹⁹ DWP analysis of NatCen, British Social Attitudes survey, 2023

³⁰⁰ DWP, 2025, [‘Workplace pension participation and savings trends of eligible employees: 2009 to 2024’](#)

allow emergency savings to flow into pensions savings once a certain threshold has been reached.³⁰¹

Many lower earners have characteristics that would enable them to save towards their retirement

- 4.21 Although for many people concerns about the affordability of pensions saving are very real, evidence from the Pensions Policy Institute suggests that as many as 90% of people earning less than the £10,000 AE earnings trigger possess some characteristics that could shield them from affordability concerns, such as belonging to a higher income household.³⁰²
- 4.22 Similar analysis by DWP, seen in Figure 4.4, found that around 55% of people earning below £10,000 per year live in an above-median income household and nearly 1-in-4 (23%) live in a household with income of £60,000 or more. Furthermore, around 47% own their own home. Under this updated analysis, 85% of people earning less than £10,000 per year

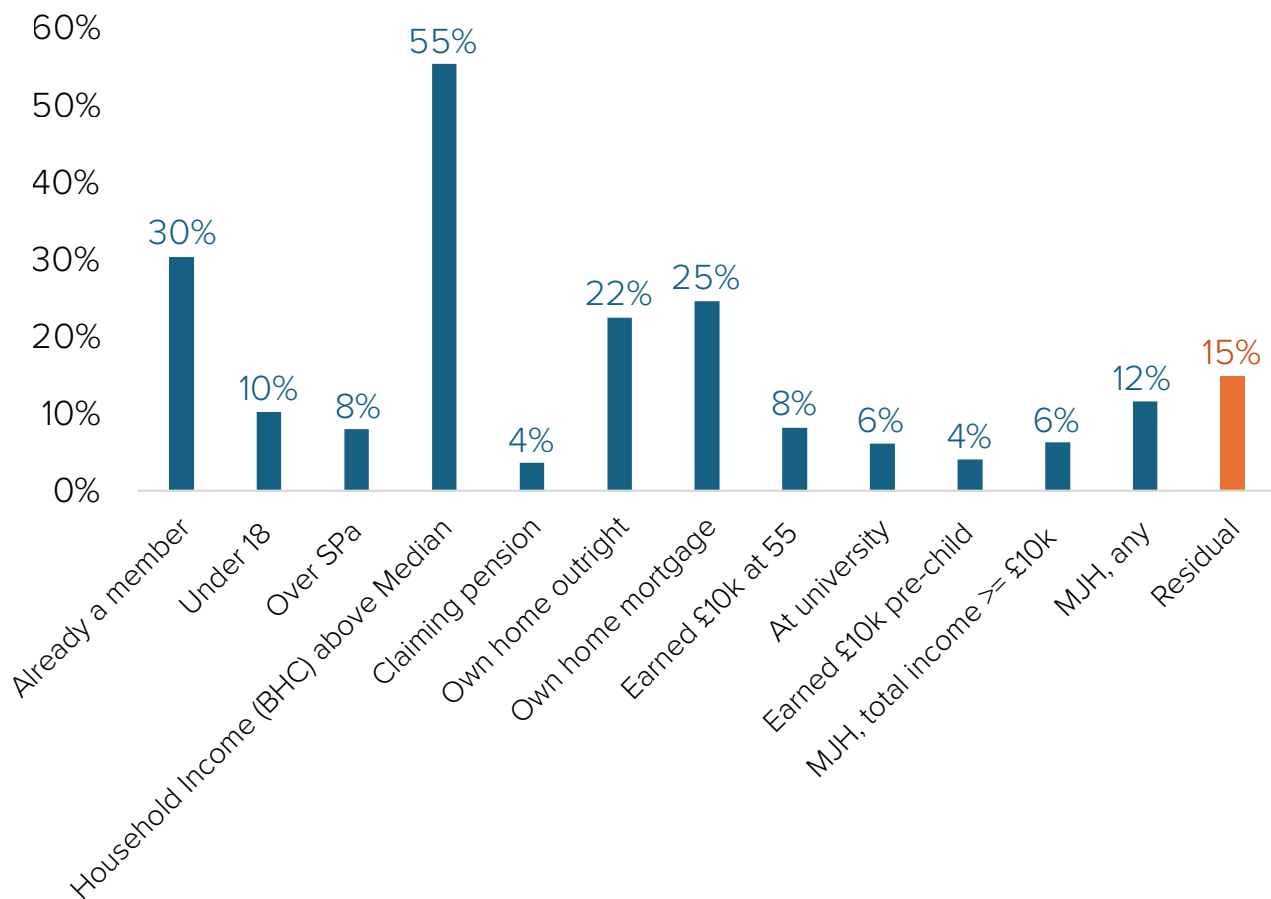
³⁰¹ For example, see Nest Insight, 2025, '[Liquidity and workplace pensions](#)'

³⁰² PPI, 2023, '[Every little helps: Should low earners be encouraged to save?](#)'

have characteristics that suggest that they may be able to afford to save toward their own retirement.³⁰³

³⁰³ DWP analysis of Understanding Society, 2022–2023 (Survey Wave 14). SPa = State Pension age; BHC = Before Housing Costs; MJH = Multiple Job Holding

Figure 4.4: Characteristics of employees earning below £10,000³⁰⁴



Many low earners experience fluctuations between higher and lower earnings over time

4.23 Whether it is affordable for low earners to save also depends on how long they are in

³⁰⁴ DWP analysis of Understanding Society, 2022–2023 (Survey Wave 14) SPa = State Pension age; BHC = Before Housing Costs; MJH = Multiple Job Holding

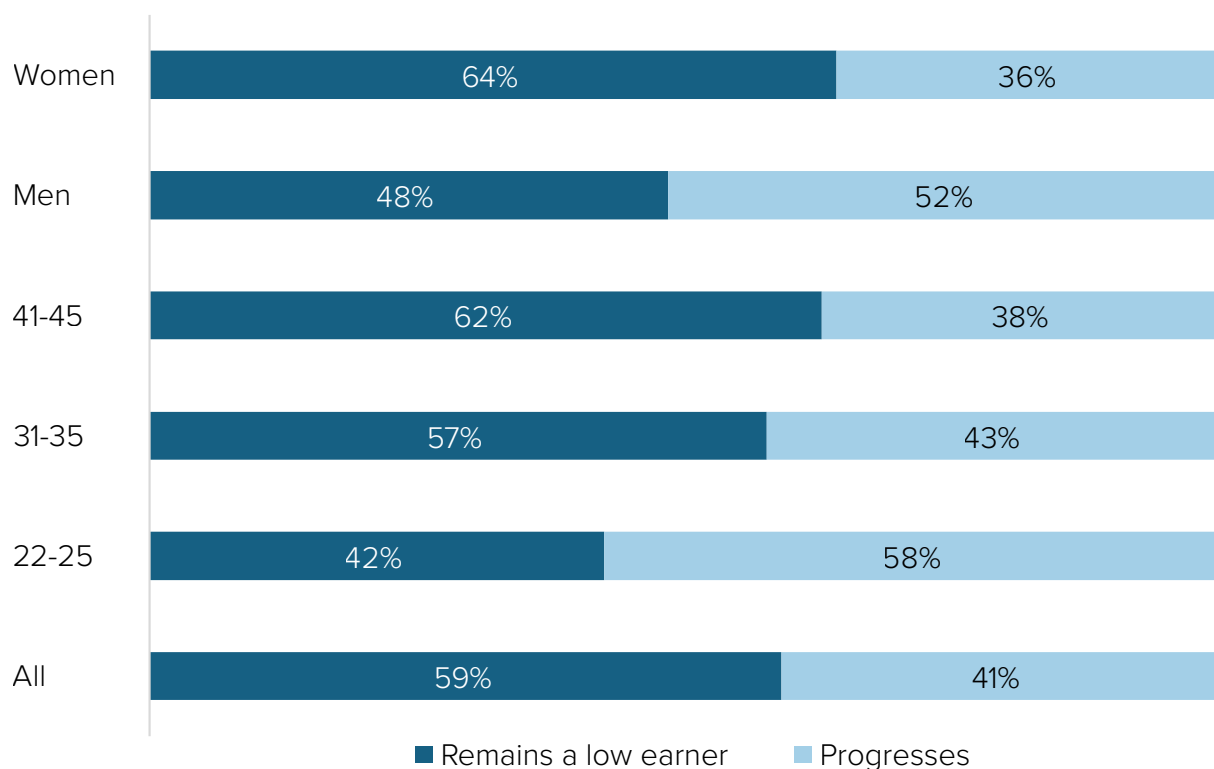
low earnings for. As can be seen in Figure 4.5, comparing employees' earnings in 2012 to their 2012-2024 average earnings, 41% of 2012 low earners progressed to earn more and no longer be classified as 'low earners', whereas 59% remained in low earnings during this period.³⁰⁵

4.24 Comparing across the same timeframe, young people (22-25 in 2012) were less likely to stay persistently in low earnings (42%). Women, on the other hand, were more likely (64%) than men (48%) to remain low earners. This is perhaps due to an increased likelihood of years in zero earnings, or part-time work for instance when taking up caring responsibilities, which can drive down average earnings and hinder career progression.³⁰⁶

³⁰⁵ DWP analysis of RAPID – see evidence pack for methodology

³⁰⁶ DWP analysis of RAPID

Figure 4.5: Persistence of low earning across 2012-2024 for various groups³⁰⁷



4.25 Only a quarter of those who were low earners in 2012 remained in low earnings in every single year of the analysis. Around half experienced at least one year of higher earnings, and 14% experienced 5 or more years of higher earnings. Around half also experienced at least one year in zero earnings, and nearly a quarter experienced 5 or more years with zero earnings (see evidence pack section F for further analysis on the number of years spent in each earnings band). The outlook is mixed but many

³⁰⁷ DWP analysis of RAPID, 2012-2024

low earners do not remain so throughout their working lives.³⁰⁸

4.26 Taken together, this suggests that while a proportion of low earners remain in low earnings for extended periods, many move in and out of low pay or experience years of higher or zero earnings, meaning affordability of pension saving will vary considerably across individuals and over time.

Pension saving has a strong payback potential over the course of a working life

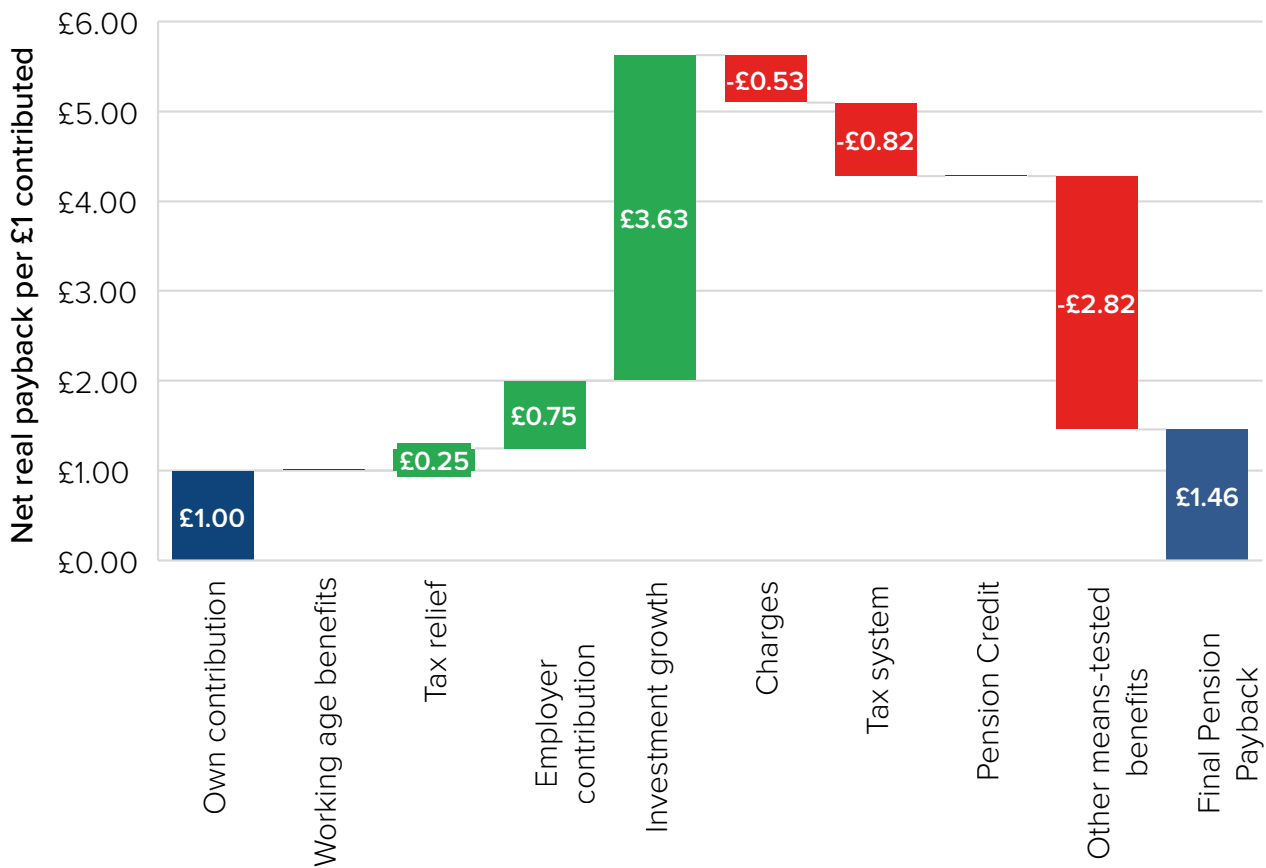
4.27 Given the critical role of compound investment returns, it is important to look at the ‘payback’ for every £1 contributed into a workplace pension. For instance, Figure 4.6 sets out modelling for a person earning £13,000 per year that demonstrates that they would still end up with £4.28 of payback for every £1 they invest in their pension after deducting charges and tax.³⁰⁹ If they retire in the private rental sector they may lose out on Housing Benefit as a result of their pension wealth. But even in the

³⁰⁸ DWP analysis of RAPID

³⁰⁹ For underlying assumptions, see iPen assumptions in Methodology 2 in evidence pack

small number of cases where someone would lose all of their Housing Benefit, a low-income renter would still be better off for having saved towards their retirement, receiving £1.46 in payback for every £1 saved into their workplace pension.

Figure 4.6: Scenario of net payback for every £1 of pensions saving for an individual earning £13,000³¹⁰



³¹⁰ DWP analysis using iPEN model

Universal Credit provides an incentive for some low earners to contribute towards a pension

4.28 While affordability concerns remain a significant barrier for many lower earners, the picture is more nuanced. As the previous section highlighted, a substantial share of low earners either live in higher-income households or move in and out of low pay over time, and for those who also receive Universal Credit, the system can provide an additional and often-under-recognised financial incentive to save. The Universal Credit system generally incentivises pension saving for claimants as the amount of Universal Credit to which individuals are entitled increases as take-home pay net of pension contributions decreases. This is because Universal Credit entitlement is calculated on net, rather than gross earnings, which means employment income is assessed after Income Tax, National Insurance contributions, and pension contributions.

4.29 As of August 2025, there were currently 2.65 million Universal Credit claimants in work in the UK.³¹¹ It is estimated that around 71% of in-work

³¹¹ DWP, 2025, Universal Credit Statistics available at Stat-Xplore

Universal Credit claimants (1.9 million) may be saving into a workplace pension, compared to around 80% for all employees.³¹² This is driven by the fact that a higher proportion of those who are on Universal Credit are lower earners and are not eligible for AE because they are earning below the £10,000 earnings trigger. Of those Universal Credit claimants who are working and saving in the private sector, 45% are saving at AE minimum levels, on qualifying earnings only, compared to 31% of private sector savers overall.³¹³

- 4.30 For Universal Credit claimants who earn less than their work allowance there is no incentive from Universal Credit to save into a pension as the amount of Universal Credit received will not be affected by reduced take-home pay. However, there is an incentive for those either not eligible for a work allowance or who earn above the amount of their work allowance to save into a pension. In their case, every £1 of pension contributions reduces their earnings for the purpose of calculating Universal Credit by £1. The Universal Credit taper of 55% is then

³¹² DWP estimates derived from matching ONS ASHE data and DWP benefit data

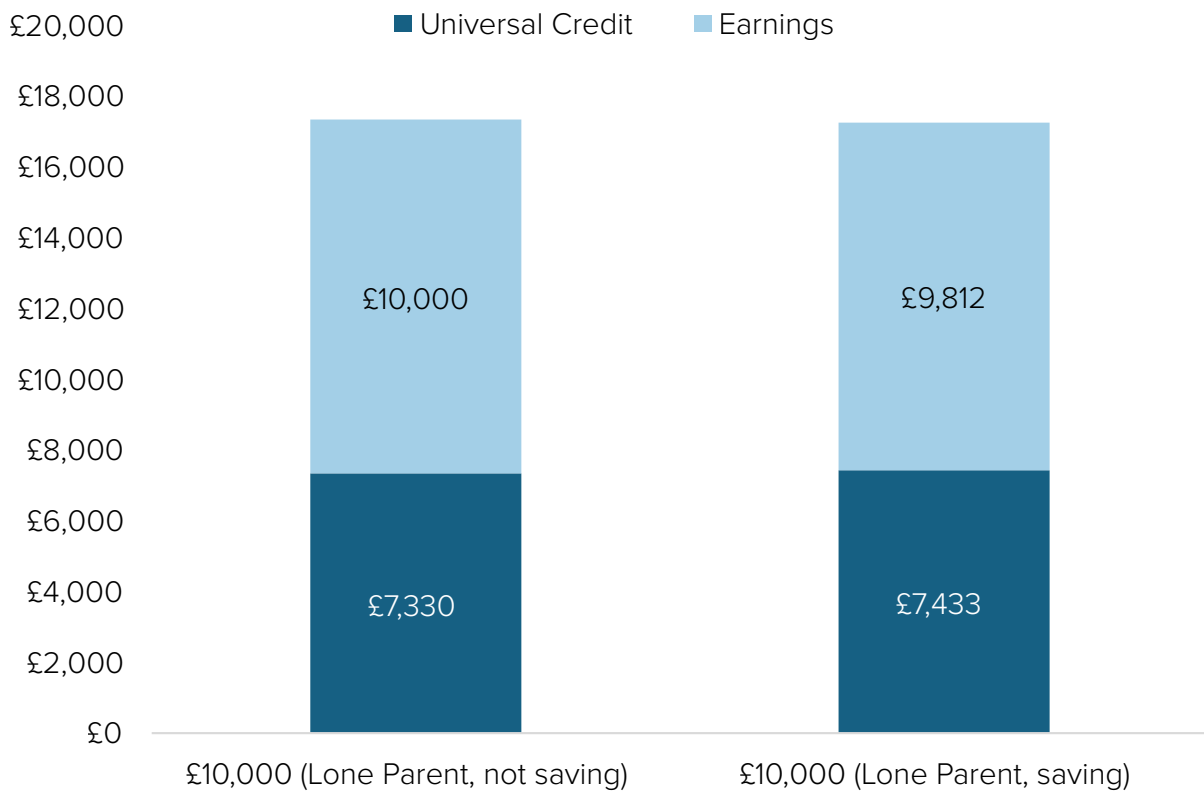
³¹³ DWP estimates derived from matching ONS ASHE data and DWP benefit data

applied to the amount of earnings that were contributed to a pension. For some individuals, contributing £100 into a pension will therefore result in a Universal Credit award that is £55 higher.

- 4.31 For a lone parent with one child earning £10,000 (and receiving no Universal Credit housing support), starting to save into a workplace pension at the AE minimum levels could lead to a 1.9% fall in take-home pay. However, because of the incentives built into Universal Credit, this person would receive a 1.4% increase in their Universal Credit award. So, while their income would fall by 0.5% (£85), they would be saving over £300 into a pension. This is demonstrated in Figure 4.7.
- 4.32 However, despite these incentives, research by DWP has shown that, because of the complexity of the interactions between pension saving and Universal Credit, many claimants have misconceptions about how the system works. In particular, there is a misconstrued belief that pension savings contribute to the £6,000 savings limit and may affect their UC award, when this is not the case for

uncrystallised pension savings for people below the State Pension age.³¹⁴

Figure 4.7: Earnings and UC award when saving and when not saving, for illustrative lone parents³¹⁵



³¹⁴ DWP, 2024, '[Low earners and workplace pension saving – a qualitative study](#)'

³¹⁵ DWP calculations

Age eligibility criteria mean that people below the age of 22 or above State Pension age are not automatically enrolled into workplace pension savings

4.33 Only workers earning over £10,000 from a single employer and between 22 and State Pension age are required to be automatically enrolled into a workplace pension. Individual employers can, however, choose to ignore the age criteria and enrol their employees into occupational pension saving.

4.34 The 2017 review into AE recommended reducing the eligibility age from 22 to 18, which updated analysis shows would bring nearly 500,000 people between the ages of 18 and 22 earning over £10,000 into workplace pension saving.³¹⁶ However, the labour market has changed significantly since this recommendation was made, including a rise in young people not in employment, education, or training (NEETs) and larger increases in

³¹⁶ DWP, 2017, '[Automatic enrolment review 2017: Maintaining the momentum](#)'; and DWP, 2023, '[Pensions \(Extension of Automatic Enrolment\) 2023 Impact Assessment](#)'

minimum wages for younger workers.³¹⁷ Any changes to the eligibility age in the future must be sensitive to labour market conditions at the time.

Working in multiple jobs is an increasing trend that may prevent consistent pensions saving

4.35 A related issue is that many low earners do not have a single, stable job but instead combine multiple part-time roles. Even when their total income exceeds the earnings trigger for AE, the rules apply separately to each employer. As a result, multi-job holders can fall below the threshold in every individual job, creating a structural barrier to pension participation.

4.36 In March 2024, there were over 1.3 million people with multiple jobs. Although the majority are saving, hundreds of thousands may be missing out through having combined earnings above £10,000 but not in any one job.³¹⁸ This is because AE is a duty on individual employers, so only an employer paying an employee over £10,000 is required to automatically enrol them

³¹⁷ See ONS, 2026, '[Young people not in education, employment or training \(NEET\), UK: February 2026](#)'

³¹⁸ DWP analysis of HMRC, RTI, 2024

into workplace pension saving irrespective of what their total earnings are from all jobs.

Self-employed people are a diverse group but overall pension participation is very low

- 4.37 Self-employed participation in pensions saving represents one of the most urgent challenges for the UK pensions system. This is largely because they sit entirely outside the AE framework and are required to take active steps to begin pension saving. Of those who rely solely on self-employment income, around 2.4 million individuals, only 4% are currently saving into a pension.³¹⁹ The result is a large and growing group of the UK's workforce facing a retirement with little or no private pension provision at all.
- 4.38 Self-employed people are a diverse and large part of the UK workforce. Currently there are around 4.4 million self-employed people in the UK, making up around 13% of all workers.³²⁰

³¹⁹ DWP analysis of HMRC 2022-23 and 2023-24 data

³²⁰ ONS, 2026, '[Labour market overview, UK: March 2026](#)'

Although this is roughly the same proportion of the overall workforce as in the 2000s, the composition of self-employed workers is changing (see evidence pack section G for time series).³²¹ The absolute number of self-employed people has increased, driven by the growth in private sector businesses without employees, the so-called ‘solo’ self-employed. The solo self-employed now represent approximately 86% of total self-employment, up from 73% in 2001.³²² The self-employed population has seen a decreasing income in real terms over time and generally have lower annual earnings and greater variation in earnings than employees (see evidence pack section G).^{323,324}

4.39 Self-employment is also not evenly spread across the population and there is variation by ethnic group and gender. Pakistani and

³²¹ ONS, 2016, [‘Trends in self-employment in the UK: 2001 to 2015’](#)

³²² DWP analysis of ONS, Labour Force Survey, 2001-2025 – see evidence pack for methodology

³²³ DWP analysis of Understanding Society, 2009-2023 – see evidence pack for methodology

³²⁴ DWP analysis of [‘Family Resources Survey: financial year 2023 to 2024’](#) – see evidence pack for methodology

Bangladeshi workers have the highest rates of self-employment, at 16%, down from around 22% in 2011.³²⁵ Women also make up one third of the self-employed, a share that has grown alongside the rise of flexible and uncertain forms of employment.³²⁶

- 4.40 Not only has the composition of the self-employed changed since the first Pensions Commission, but so, too, have their levels of pension participation. The percentage of the self-employed reporting saving into a pension in a typical month has fallen significantly from around 50% in the late 1990s to less than 20% at present.³²⁷
- 4.41 Whilst this decline in self-employed pension participation is well known, new DWP analysis of HMRC Income Tax self-assessment data in Figure 4.8 shows for the first time just how low pension participation is for some groups. This analysis shows that in 2023-24 pension participation was only 4% for individuals who

³²⁵ GOV.UK Ethnicity facts and figures, 2022, '[Self-employment](#)'

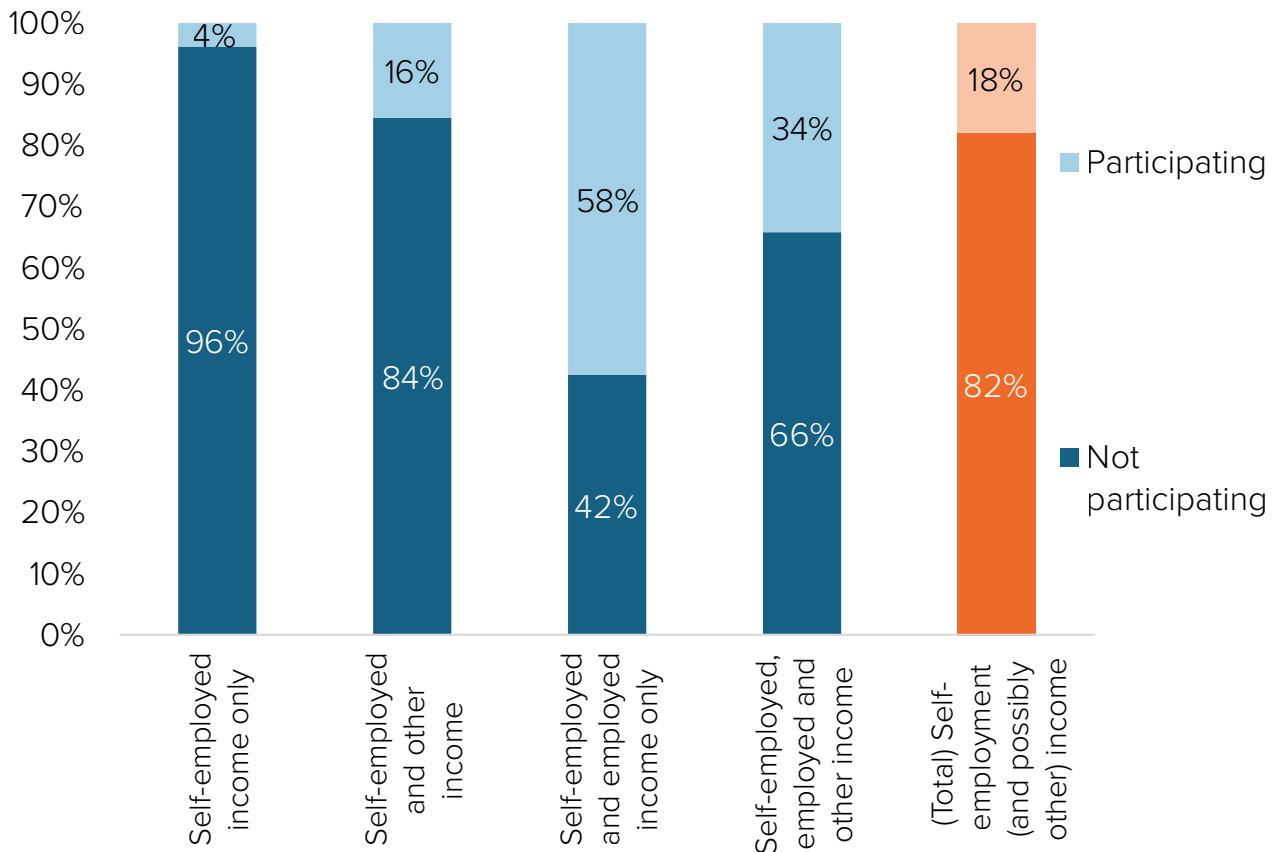
³²⁶ DWP analysis of '[Family Resources Survey: financial year 2023 to 2024](#)'

³²⁷ DWP analysis of '[Family Resources Survey: financial year 2023 to 2024](#)'

received income from self-employment only (i.e. with no income from employment, property, or savings/investments), meaning that of approximately 2.4 million individuals (around half of those receiving at least some income from self-employment), fewer than 100,000 are saving into a pension. Considering younger self-employed only (below the age of 45), this reduces to below 3% or around 1-in-40 saving. Pension participation was higher for those who received self-employment income and employment income, at 58%, showing variation among the self-employed.³²⁸

³²⁸ DWP analysis of HMRC 2022-23 and 2023-24 data

Figure 4.8: Proportion of self-employed people contributing to a pension, by combination of earnings³²⁹



4.42 The most recent data from the Wealth and Assets Survey shows that only half of self-employed people have any pension savings.³³⁰ Only 1-in-5 younger self-employed (between the ages of 25 and 34) are projected to reach

³²⁹ DWP analysis of HMRC self-assessment tax return data 2022-23 and 2023-34 – see evidence pack for methodology

³³⁰ DWP analysis of ONS, Wealth and Assets Survey, 2020-2022 – see evidence pack for methodology

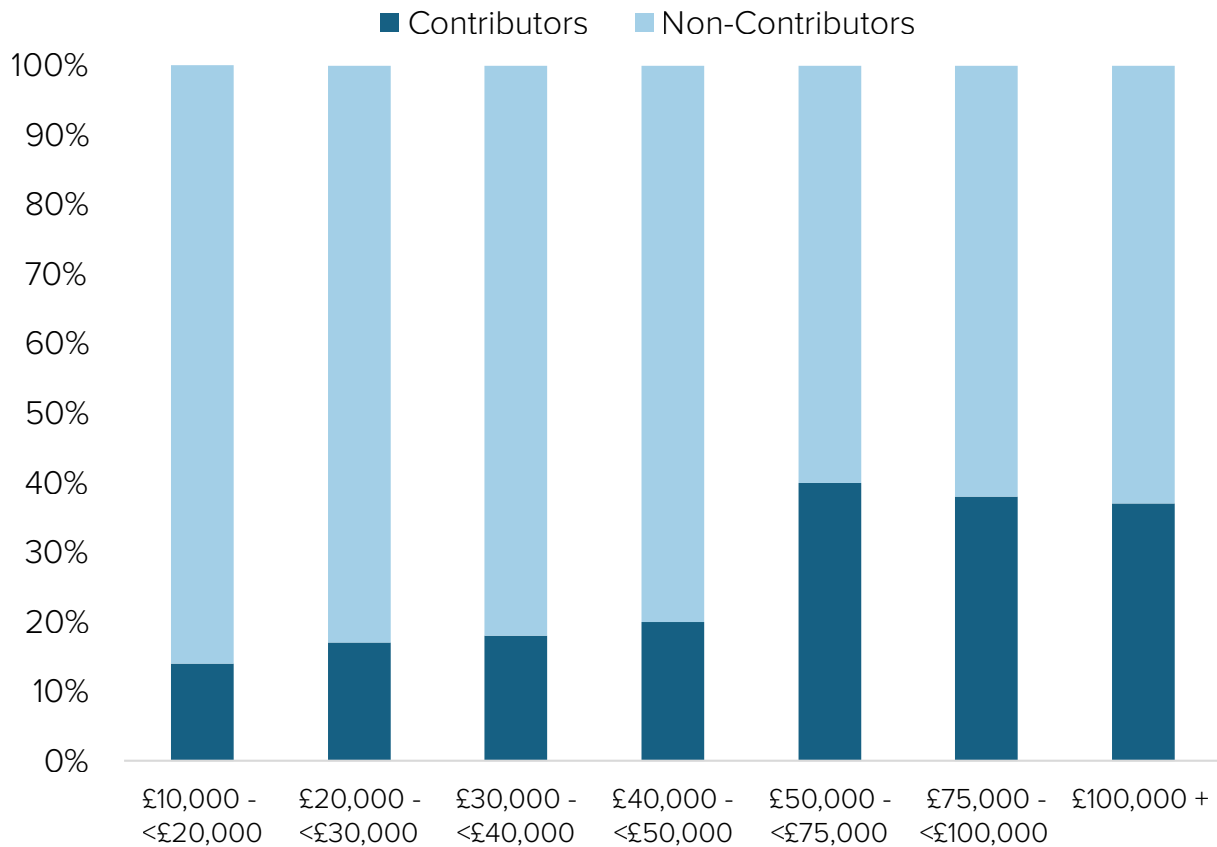
their target replacement rate to have smoothed incomes in retirement (see additional self-employed pension participation rates in evidence pack section G).³³¹ And the IFS project that around 55% of the self-employed will not have any pension savings to supplement their State Pension unless they begin to save in the future.³³²

- 4.43 It is important to note, however, that self-employed pension participation appears to increase significantly at the point where a self-employed person would become a higher-rate taxpayer (£50,270), as shown in Figure 4.9. This suggests that tax relief paid at the marginal rate may be incentivising the higher earning self-employed to save.

³³¹ IFS, 2024, '[Private pensions for the self-employed: challenges and options for reform](#)'

³³² IFS, 2024, '[Private pensions for the self-employed: challenges and options for reform](#)'

Figure 4.9: Self-employed pension participation increases at the higher-rate tax threshold³³³



4.44 Compared to 20 years ago, there are 3 times as many people working past State Pension age and the self-employed are driving a large part of this trend. Specifically, 29% of self-employed people above State Pension age described themselves as still working, compared to 15% of employees, with the self-employed accounting for a third of those

³³³ DWP analysis of [‘Family Resources Survey: financial year 2023 to 2024’](#)

working past State Pension age.³³⁴ It is the lower-earning self-employed who are far more likely to continue working than lower-earning employees, suggesting that their continued participation in the labour market might be because they feel they do not have sufficient resources to enjoy an adequate retirement.

4.45 Of those who receive income from self-employment, there are no particular sectors that have pension participation of more than 30%. However, there are still large differences between pension participation for the self-employed in different sectors. For instance, self-employed people working in construction have half the pension participation rate as those in banking and finance. Only 13% of those in construction are saving towards a pension, while the figure is 22% for those in banking and finance.³³⁵

³³⁴ DWP analysis of ONS, Labour Force Survey, 2001-2025

³³⁵ DWP analysis of '[Family Resources Survey: financial year 2023 to 2024](#)'. Note: Banking and Finance includes the sub-categories "Professional and technical activities" and "Admin and support services", which is where most self-employed are in this category

- 4.46 The 1958 National Child Development Study, which follows the lives of an initial 17,415 people born in England, Scotland and Wales in a single week of 1958, shows some important trends for the self-employed.³³⁶ This data suggests that many self-employed in this cohort and on the cusp of State Pension age had spells as employees during their working lives, which allowed many to build up both DB and DC pension wealth during parts of their careers; 13% of those who spent the majority of their careers as self-employed in this cohort have a DB pension and 20% have a workplace DC pension pot (although this varies, see breakdown in evidence pack section G). This 1958 majority self-employed cohort will very likely have been working as self-employed during the 1990s when, as noted above, around half of self-employed people contributed to a pension.
- 4.47 However, there are indications that these trends may not hold for younger cohorts, and this speaks to the changing nature of who we continue to class as self-employed. Those from Generation X (born between 1965 and 1980)

³³⁶ DWP, 2026, '[Pensions and economic status among the 1958 birth cohort prior to reaching State Pension age](#)'

and many Millennials (born between 1981 and 1996), may well have spent part of their working lives as employees but not contributing to any workplace pension following the decline of DB pension schemes but prior to the introduction of AE in 2012.

The new State Pension has improved outcomes for self-employed people, but they currently lack an equivalent of automatic enrolment

4.48 The new State Pension improves outcomes for self-employed people. Under the pre-2016 system, self-employed people were restricted to entitlement to the basic State Pension, with no access to the state earnings-related second pension (S2P). Under the new State Pension, which replaced the basic and second State Pensions, self-employed people now benefit in the same way as employees from the additional value of each qualifying year. Under the pre-2016 system each qualifying year of the basic State Pension was worth £5.88 per week, and under the new State Pension each post-2016 qualifying year is worth £6.58 per week (both in 2025-26 terms). So, self-employed people can build to a maximum of £230.25 per week under

the new State Pension, rather than the previous £176.45 per week (2025-26 terms).

- 4.49 Self-employed people also benefit from the transitional rules for the new State Pension. People who were self-employed for a long time, who were only previously able to build qualifying years that counted towards the basic State Pension (full rate £176.45 per week in 2025-26), have their Starting Amount for the new State Pension valued as though these years were built under the new State Pension system.³³⁷ This qualifies those with 35 pre-2016 qualifying years in 2016 for the full rate of the new State Pension (£230.25 per week in 2025-26).³³⁸ This is because the Starting Amount calculation awards whichever is higher between (i) the pre-2016 rules or (ii) the new State Pension rules when applied to a person's National Insurance record as of 6 April 2016.
- 4.50 While the new State Pension is improving the foundation for retirement income for self-employed people, reduced or absent private pension saving means they face a growing pension savings gap relative to employees,

³³⁷ DWP, '[The basic State Pension: How much you get](#)'

³³⁸ DWP, '[The new State Pension: What you'll get](#)'

which will leave many at risk of inadequate retirement incomes.

4.51 In addition, although AE has been a great success in requiring employers to enrol eligible employees into workplace pension saving, its benefits have not extended to the self-employed. Since AE places a legal duty on the employer, self-employed people are not included. Should they wish to set up a workplace pension, the current system requires them to set it up for themselves. Recent DWP analysis shows that if the same eligibility criteria for AE were applied to the self-employed, almost two-thirds (64%) of self-employed people would be eligible.³³⁹

Self-employed wealth is varied but is concentrated in property and among higher earners

4.52 As we set out in Chapter 2, for some, other forms of wealth, including inheritances, may improve retirement outcomes. However, there is significant variation within the self-employed population and the majority of the self-employed

³³⁹ DWP analysis of [‘Family Resources Survey: financial year 2023 to 2024’](#)

have very limited resources to draw on in retirement beyond the State Pension.

- 4.53 Although the self-employed appear to have higher median total wealth than employees, this can be misleading as the difference is driven almost entirely by property wealth, rather than by pension savings or other forms of financial wealth (such as ISAs or shareholdings), which would more directly support retirement incomes.³⁴⁰
- 4.54 Many self-employed people report that they expect to rely on non-pension assets in later life, including savings, property or inheritance.³⁴¹ However, Figure 4.10 shows these forms of wealth are far from evenly distributed. Additional assets, particularly additional property are concentrated among higher-income and older members of the self-employed workforce. Even then, ownership of additional property remains relatively uncommon: as Figure 4.11 shows only a minority of self-employed people aged 40 or over hold a second property (8%), although

³⁴⁰ DWP analysis of ONS, Wealth and Assets Survey, 2020-2022

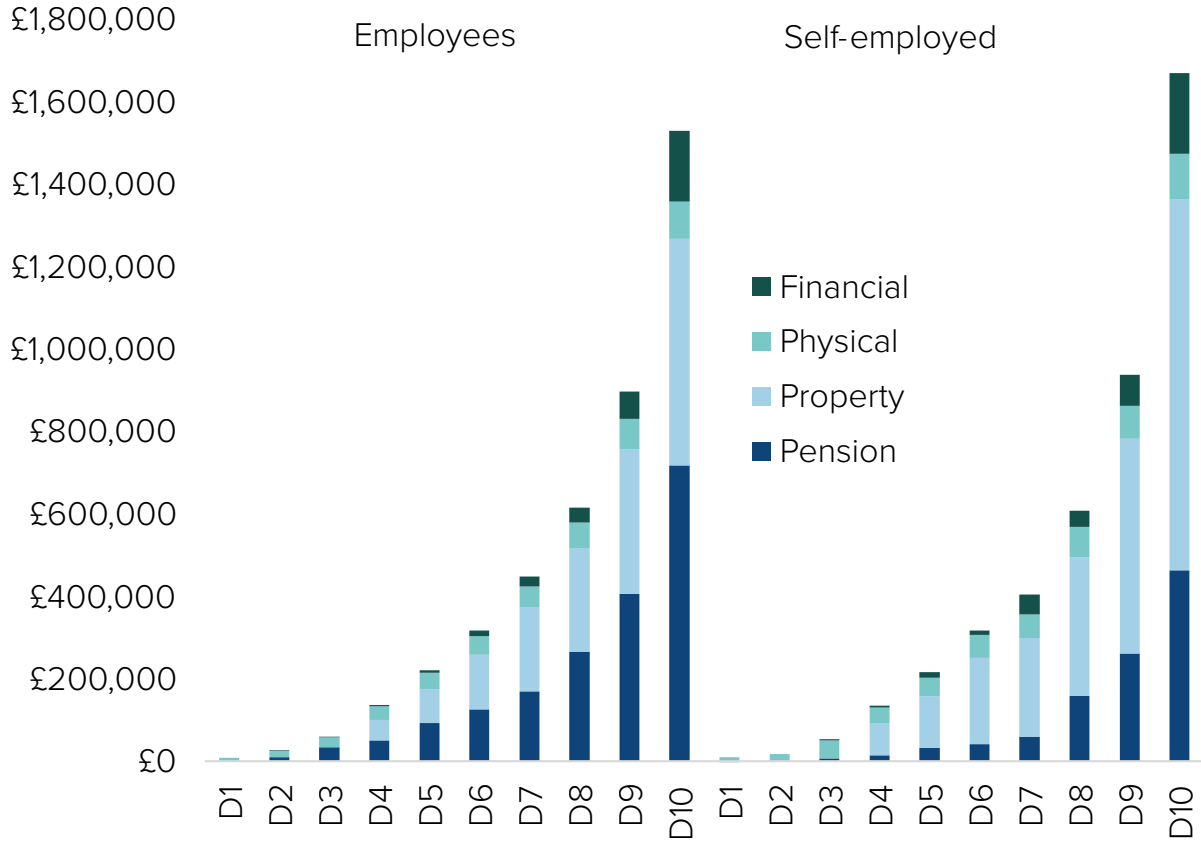
³⁴¹ See, for example, DWP, 2025, '[Planning and Preparing for Later Life 2024](#)'

this is still a higher proportion than among employees (5%).³⁴²

4.55 Taken together, these patterns highlight that although a subset of higher earning, often older self-employed individuals hold significant property wealth, the majority do not (see evidence pack section G for additional analysis). Although housing wealth can support pensioners' living standards, for most self-employed workers, low pension participation, limited financial assets and the practical challenges of converting property wealth into retirement income mean that they face a heightened risk of financial insecurity in later life. As such, the headline figures on median wealth masks substantial inequality within the self-employed population and underline the importance of improving pension coverage and savings opportunities for this group.

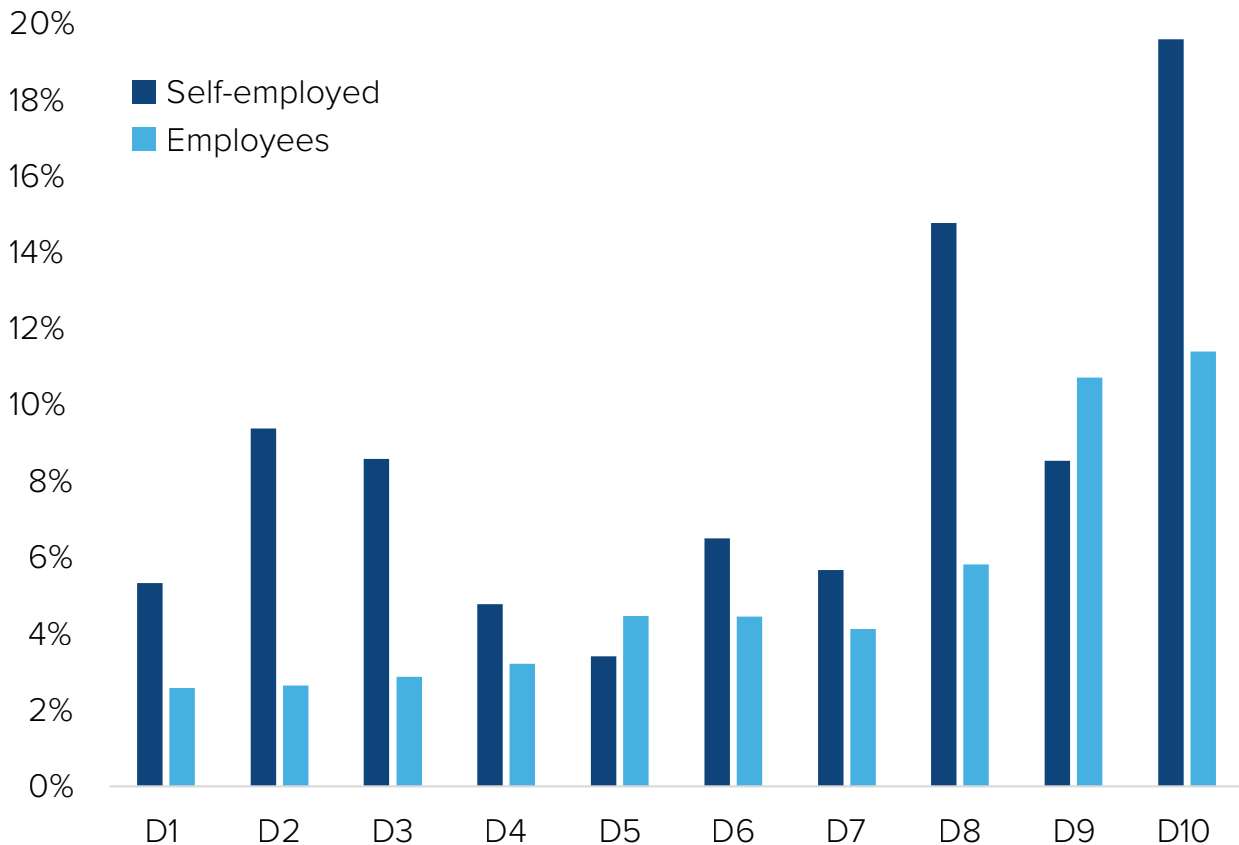
³⁴² DWP analysis of ONS, Wealth and Assets Survey, 2020-2022

Figure 4.10: Median self-employed wealth by income decile versus employee wealth by income decile³⁴³



³⁴³ DWP analysis of ONS, Wealth and Assets Survey, 2020-2022

Figure 4.11: Self-employed second property ownership by income decile versus that of employees³⁴⁴



4.56 Addressing pension undersaving among the self-employed would also have wider benefits across groups that are poorly served by the pensions system, as explored in the following sections. For example, self-employment is more common among some ethnic minority groups and among workers in more insecure or non-standard forms of work. Bringing the

³⁴⁴ DWP analysis of ONS, Wealth and Assets Survey, 2020-2022

self-employed into pension saving would therefore not only close a major structural gap in the system, but also help improve outcomes for a wider range of people who are currently far less likely to build adequate retirement incomes.

The Gender Pensions Gap

4.57 The UK gender pay gap among full-time employees in April 2025 was 6.9%, and 12.8% for all employees – reflecting the higher number of women in part-time work.³⁴⁵ This trend is reflected later in life in the Gender Pensions Gap, although this gap is more severe, reflecting not only the cumulative impact of a gap in hourly earnings over a working life, but also different patterns of working hours and time spent in (and out of) the labour market for men and women. When women participate in pension saving, their contribution rates do not vary significantly from men (see evidence pack section H). However, women are more likely to work part-time, step out of paid employment for periods of caring, earn less on average, and

³⁴⁵ ONS, 2025, '[Gender pay gap in the UK](#)'

are more likely to work in roles or sectors with weaker access to DC pension saving.³⁴⁶

4.58 Over time, these differences compound, with fewer years of contributions, lower contributions when in work, and less growth in pension pots, leaving many women entering later life with substantially less private pension wealth than men and a Gender Pensions Gap for those aged 55-59 of 48% (as seen in Figure 4.12). In cash terms, among those aged 55 to 59 between 2020 and 2022, median uncrystallised pension wealth was £81,000 for women compared with £156,000 for men.³⁴⁷ International comparisons from the OECD also show that the current Gender Pensions Gap in private pension wealth in the UK is the second

³⁴⁶ DWP, 2025, '[Gender Pensions Gap in Private Pensions: 2020 to 2022](#)'

³⁴⁷ DWP, 2025, '[Gender Pensions Gap in Private Pensions: 2020 to 2022](#)'

highest in the OECD (although this uses a different methodology to DWP estimates).^{348,349}

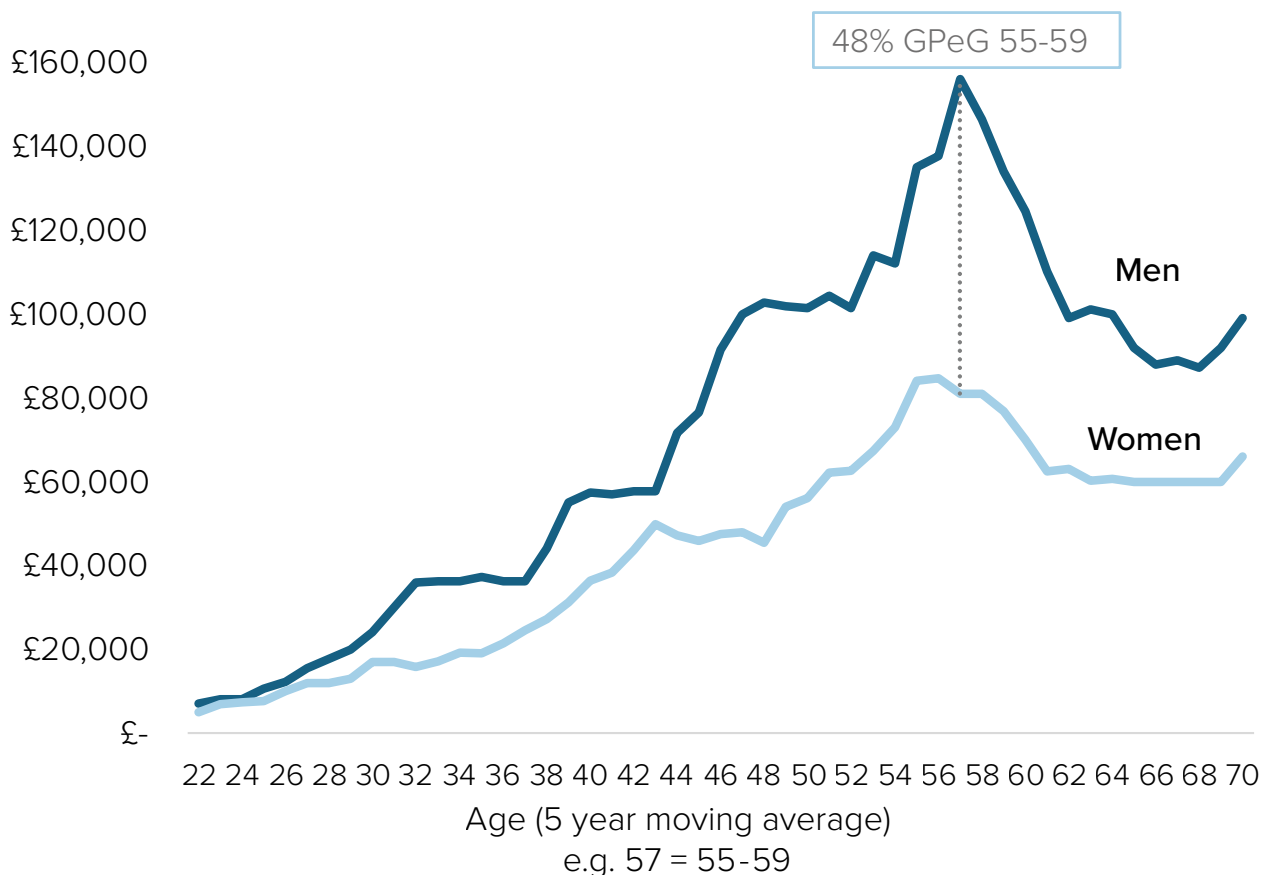
4.59 Against that backdrop, recent reforms have improved the foundation of retirement income through the State Pension, but the structure of private pension still reflects unequal work and care patterns across the life course as has been reported by groups such as the Women's Budget Group.³⁵⁰

³⁴⁸ OECD, 2025, '[Pensions at a Glance 2025](#)'

³⁴⁹ The OECD gender pension gap is calculated as the difference between the mean pension income of men and women (aged 65+) over the mean pension income of men (aged 65+), among pension beneficiaries. People who do not receive any pension income are excluded from the calculation because some of them delay receipt beyond age 65 for different reasons.

³⁵⁰ Women's Budget Group, 2026, '[Women and Pensions in the UK](#)'

Figure 4.12: Uncrystallised private pension wealth by age, by gender [5-year rolling average]³⁵¹



4.60 Improved crediting arrangements following the recommendations of the first Pensions Commission, as well as the new State Pension, are addressing the issue of historically poorer outcomes for women, including those who had previously missed out on the ability to build entitlement to the additional forms of State Pension (S2P and SERPS). As mentioned earlier in the report, women reaching State

³⁵¹ DWP, 2025, [‘Gender Pensions Gap in Private Pensions: 2020 to 2022’](#)

Pension age in 2024 on average received 99% of the amount received by men and full parity is expected to be achieved in the coming years. Under the pre-2016 system, women received an average of 86% of the amount received by men.³⁵²

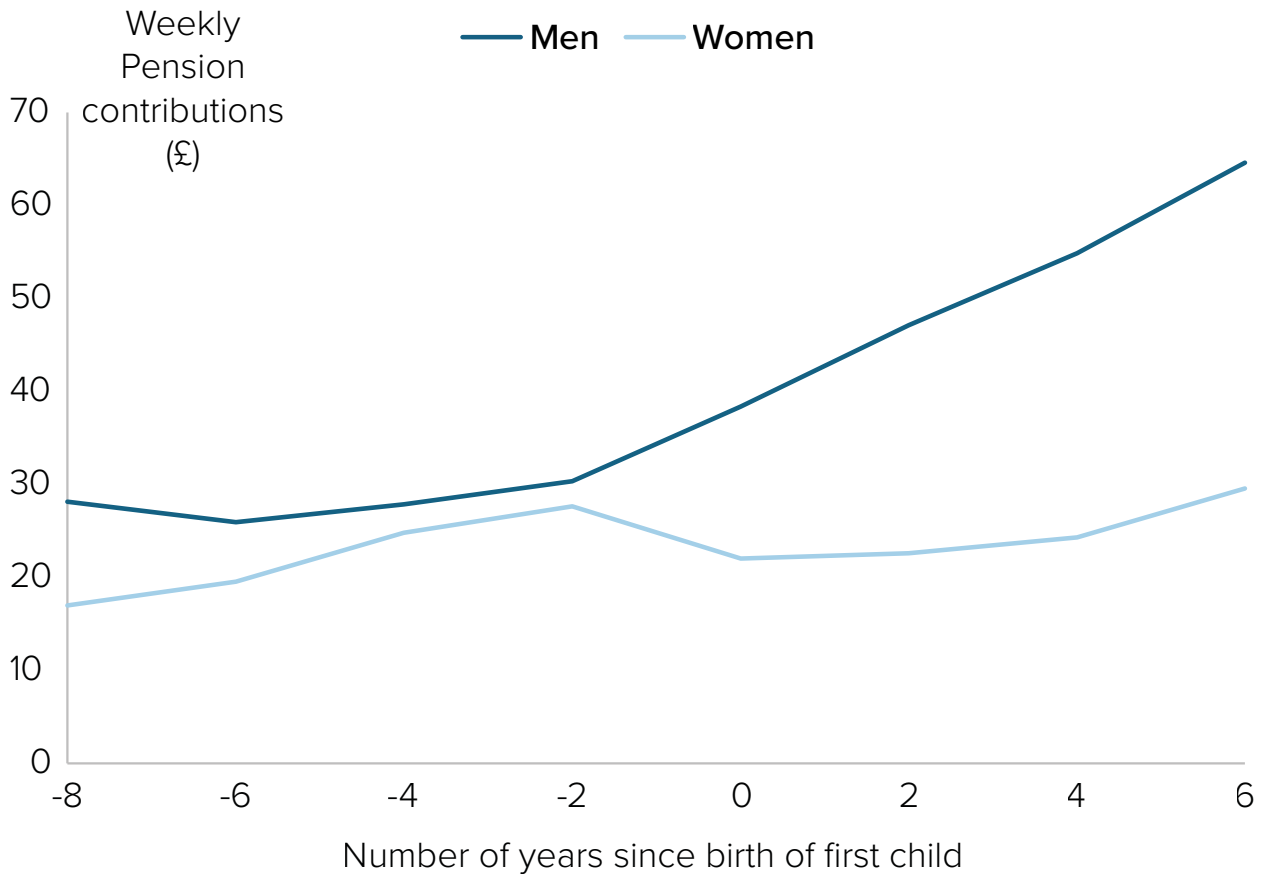
- 4.61 Yet while the State Pension increasingly provides an equal baseline, women tend to rely on it more heavily than men because their private pension wealth remains markedly lower.³⁵³
- 4.62 IFS cohort analysis shows that the gender gap in pension contributions widens significantly with the arrival of the first child, which is when differences in employment rates, hours and wages also start to emerge (as shown in Figure 4.13).³⁵⁴

³⁵² DWP analysis of DWP, Work and Pensions Longitudinal Survey

³⁵³ DWP, 2025, [‘Planning and Preparing for Later Life 2024’](#)

³⁵⁴ DWP, 2026, [Life courses and pension saving patterns](#)

Figure 4.13: Own pension contributions among all men and women, by years before and after the birth of first child, by sex³⁵⁵



4.63 When looking at DC pension wealth alone, the Gender Pensions Gap is even starker, with women’s DC pots around 75% lower than men’s. This is largely because women are disproportionately employed in the public sector, where DB provision remains widespread. As a result, the stronger public-sector DB coverage for women partially

³⁵⁵ DWP, 2026, [Life courses and pension saving patterns](#)

offsets the much larger gap seen in the private sector.³⁵⁶

- 4.64 The Pensions Policy Institute's recent technical report on pensions wealth data has found a similarly large gap between median pension wealth for women and men, with £13,817 for women compared to £30,410 for men.³⁵⁷ They also identified a significant gap in median pensions wealth between divorced women and men, with divorced women having median pension wealth of £34,332, whereas divorced men have median pension wealth of £79,945.
- 4.65 Because the median for a whole group includes people with no pension savings, it gives a fuller picture of overall adequacy. On this measure, single mothers have extremely low pension wealth, with a median of £3,108. Even among those who do have pension savings (excluding those with no pension wealth), the median is only £27,036.³⁵⁸

³⁵⁶ DWP, 2025, '[Gender Pensions Gap in Private Pensions: 2020 to 2022](#)'

³⁵⁷ PPI, 2026, '[Technical Report: Underpensioned - Analysis of Pensions Wealth data](#)'

³⁵⁸ PPI, 2026, '[Technical Report: Underpensioned - Analysis of Pensions Wealth data](#)'

4.66 Differences in hours, pay, and participation accumulate into large differences in private pension wealth. Although the number of people with no private pension wealth has reduced over time, IFS analysis shows that women are still more likely than men to have none at ages 55-65, though the gap has narrowed for younger cohorts (see Table 4.2).³⁵⁹

Table 4.2: Cohort analysis of men and women with no private pension wealth³⁶⁰

Sex	Cohort	% with no private pension
Men	1937-46	27.9%
	1947-59	13.1%
Women	1937-46	47.3%
	1947-59	28.8%

Disabled people

4.67 Disabled people face significantly higher risks of undersaving, due to lower employment rates, higher rates of interrupted or part-time work, and labour market barriers that limit both access to and progression within paid

³⁵⁹ DWP, 2026, [Life courses and pension saving patterns](#)

³⁶⁰ DWP, 2026, [Life courses and pension saving patterns](#)

work. These factors result in fewer years of contributions, reduced access to employer pension saving, and ultimately far lower pension wealth across the life course (see additional analysis in evidence pack section H).³⁶¹

4.68 The Pensions Policy Institute have found that disabled people have lower levels of pension wealth than the general working-age population, primarily as a result of labour market exclusion. Over half of disabled people at age 46 have no pension wealth at all. Even among those with pension wealth, it is lower than the population overall (£47,706 compared with £61,392).³⁶²

4.69 In the latest statistics, 5.5 million disabled people were in employment in the UK. This is equivalent to 52.8% of the disabled population (aged 16-64), compared to 82.5% for non-disabled people, meaning that there is a disability employment gap of 29.7 percentage points.³⁶³ Given that disability has been found to be the fastest-growing source of disadvantage

³⁶¹ DWP, 2026, [Life courses and pension saving patterns](#)

³⁶² PPI, 2026, '[Underpensioned: Analysis of Pension Wealth](#)'

³⁶³ DWP, 2025, '[The employment of disabled people 2025](#)'

in the labour market, and particularly among younger workers, this is likely to become an increasing risk in the decades to come.³⁶⁴

4.70 If the State Pension and other benefits are removed from the comparison, the Pensions Policy Institute have found that disabled people were the group at highest risk of undersaving for their pension, accumulating only 43% of the average private pension income of the rest of the population.³⁶⁵ This is all the more important given that disability benefits are often designed to assist with the additional costs associated with living with a disability and should therefore not be considered when calculating the income necessary to achieve a minimum income standard.

Some ethnic minority groups have lower rates of pension participation

4.71 Ethnic minority groups in the UK have varying labour market outcomes in terms of pay, as

³⁶⁴ PPI, 2024, '[Red Sky in the Morning? – Inequality, savings gaps and adequacy in the UK pension system](#)'

³⁶⁵ PPI, 2024, '[The Underpensioned Index 2024](#)'

is reflected in recent analysis on the ethnicity pay gap.³⁶⁶ In addition, organisations such as the IFS have found that there are additional differences between ethnic groups in pension participation and opt-out rates.³⁶⁷ These differences shape pension participation across the life course.

- 4.72 Some ethnic minority groups are much less likely to save into a pension, leading to worse pension outcomes (Figure 4.14). These disparities accumulate across the life course, resulting in significantly lower private pension wealth for several groups compared to the White population. This is reflected in the type of income received in retirement by ethnic group (see evidence pack section H).
- 4.73 Around 1-in-4 working-age adults of Pakistani and Bangladeshi ethnicity are saving into a pension, compared to more than 1-in-2 White working-age adults.³⁶⁸ Some evidence suggests that this is driven by lower employment levels, lower earnings, and for those who are Muslim,

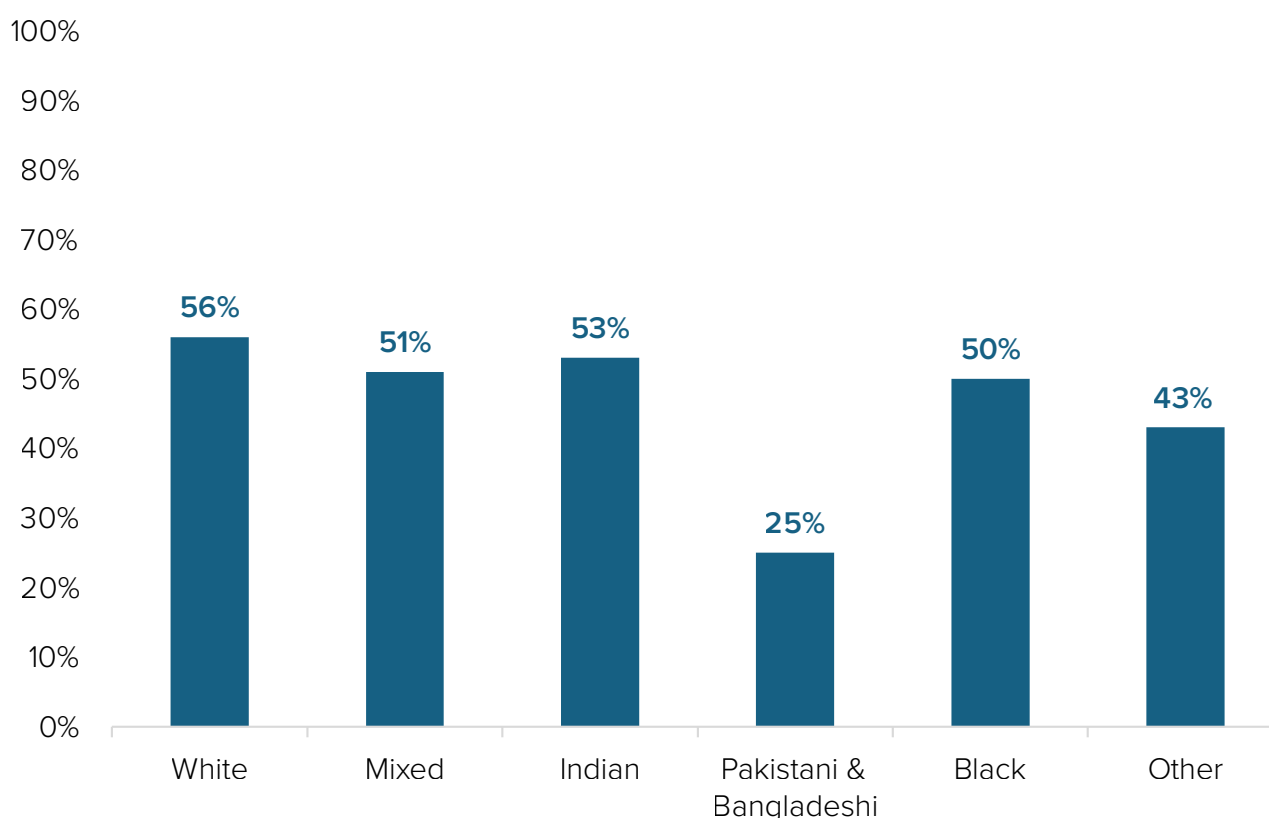
³⁶⁶ ONS, 2023, '[Ethnicity pay gaps, UK](#)'

³⁶⁷ IFS, 2025, '[Ethnic differences in private pension participation after automatic enrolment](#)'

³⁶⁸ DWP, 2025, '[Family Resources Survey: financial year 2023 to 2024](#)'

concerns about, or lack of understanding over, the availability of Halal investments or Sharia funds.³⁶⁹

Figure 4.14: Pension participation of all working-age adults by ethnic background, 2021-22 to 2023-24³⁷⁰



4.74 Figure 4.15 shows that Black / African / Caribbean / Black British pensioners have around 30% lower gross income than White ethnic groups. Similarly for occupational

³⁶⁹ IFS, 2025, '[Ethnic differences in private pension participation after automatic enrolment](#)'

³⁷⁰ DWP analysis of '[Family Resources Survey: financial year 2023 to 2024](#)'

pension differences, Asian and Black ethnic groups have around half the level of income as White ethnic groups.³⁷¹

Figure 4.15: Average (mean) gross income per week for pensioners by ethnic background, 2023-24³⁷²



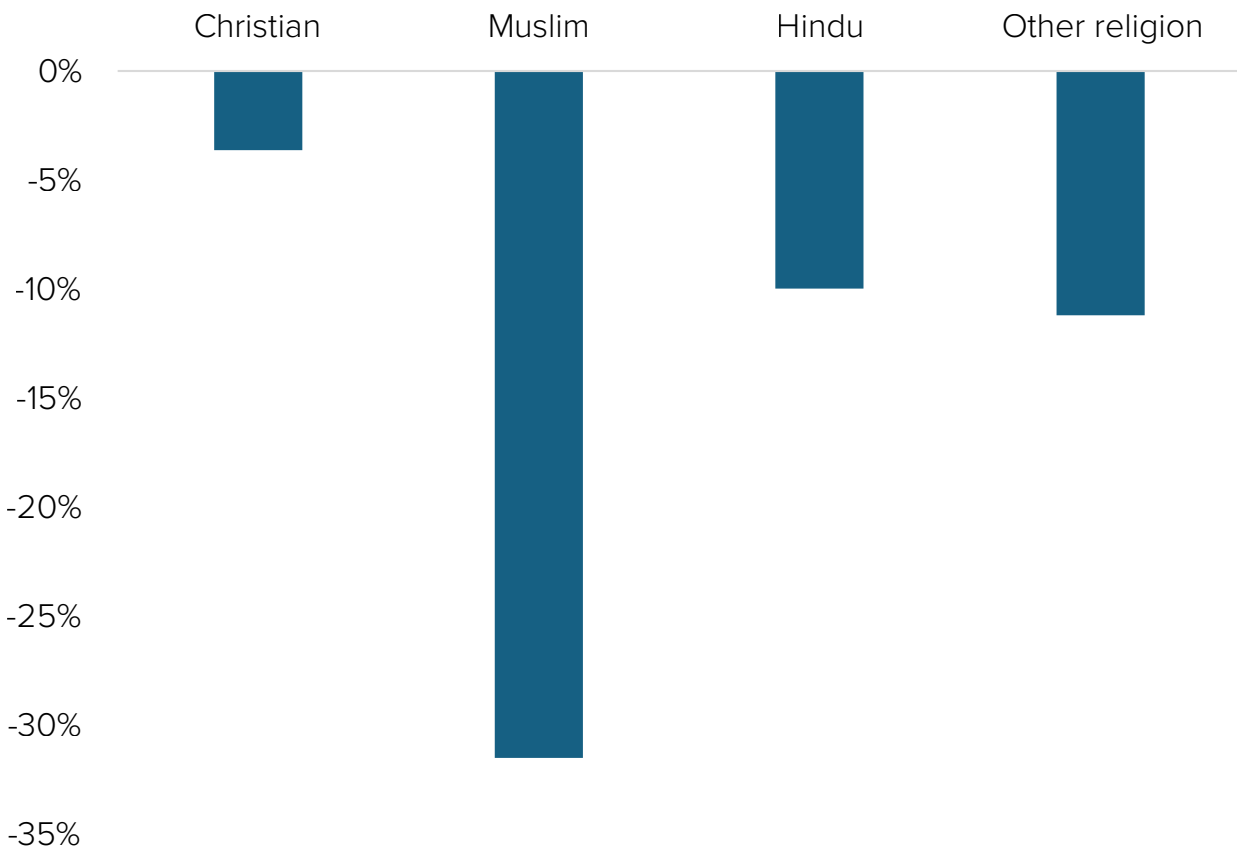
4.75 Linked to differences in pension participation by ethnic group, there are clear differences in pension participation by religion. Figure 4.16 demonstrates how Muslims in particular

³⁷¹ DWP, 2025, '[Pensioners' Incomes: financial years ending 1995 to 2024](#)'

³⁷² DWP, 2025, '[Pensioners' Incomes: financial years ending 1995 to 2024](#)'

have a far lower rate of pensions participation than people from other religious backgrounds, something that has been noted in a variety of sources, including surveys within the Islamic community, such as Islamic Finance Guru.³⁷³

Figure 4.16: Percentage point difference in pension participation by religion (compared to those with “no religion”), for eligible employees, 2023-24³⁷⁴



³⁷³ Islamic Finance Guru, 2025, [‘1/3 of Muslims Will Lose £13 Billion Over Next Generation In Pensions’](#)

³⁷⁴ DWP analysis of [‘Family Resources Survey: financial year 2023 to 2024’](#)

Carers

- 4.76 Carers face heightened risks of undersaving for retirement. Providing unpaid care often reduces or interrupts paid employment, limits opportunities for progression, and restricts access to workplace pensions. Over time, these prolonged periods of low or zero earnings accumulate into significantly lower private pension wealth. Although State Pension credits help to protect basic entitlement, they do not fully offset the long-term impact of reduced labour market participation.
- 4.77 Reforms to National Insurance credits following the recommendations of the first Pensions Commission and the new State Pension are helping to strengthen the foundations of retirement income for carers. There are different forms of National Insurance credits available to those who provide care. Those in receipt of Carer's Allowance are eligible for automatically awarded Class 1 National Insurance credits, which entitles them to other contributory benefits and contributes to their State Pension eligibility. Carer's Credit (Class 3) is a National Insurance credit also available to people who provide care for 20 hours or more per week and helps protect their National Insurance record for State Pension and bereavement benefits if they

do not qualify for Carer's Allowance. National Insurance credits for caring for children under 12 are generally awarded automatically to parents who claim Child Benefit, with additional provisions for foster carers, kinship carers, or eligible family members who provide childcare, ensuring that time spent raising children does not create gaps in their contribution record. However, take-up of Carer's Credit remains low, with less than 10,000 claiming in 2023-24.³⁷⁵ This limits its potential to address gaps in contributions for a group already at higher risk of undersaving.

4.78 Older working-age adults (between 55 and 64 years old) are the group most likely to become informal carers (15%).³⁷⁶ Unsurprisingly, providing care limits labour force participation, and can lead to early pension access.³⁷⁷

³⁷⁵ Quilter, 2024, '[55% increase in carers credit claims which boosts state pension by £328 per year](#)'

³⁷⁶ DWP, 2025, '[Family Resources Survey: financial year 2023 to 2024](#)'

³⁷⁷ 6% of adults aged 55+ who had accessed a private pension before fully retiring from paid work said they did so to 'care for family and friends' – DWP, 2025, '[Planning and Preparing for Later Life 2024](#)'

- 4.79 Care is a gendered issue, and caregivers are more often women (an intersectional lens is considered in Box 5).³⁷⁸ This affects economic activity. In both their mid-50s and in their early 60s, women are much more likely than men to be economically inactive because of caring responsibilities.³⁷⁹ Of course, men can also play caring roles, particularly in certain instances such as caring for a partner in midlife,³⁸⁰ but transitions into caring roles, even in later life, undoubtedly affect pensions adequacy and women's pension outcomes in particular.
- 4.80 Moving beyond the level of the individual, this has major impacts on the wider economy. Although female labour market participation has greatly increased in recent years, the OECD demonstrated that continuing to improve older women's labour market participation could greatly benefit economies in terms of GDP per capita increases. This is particularly true in the

³⁷⁸ DWP, 2025, '[Family Resources Survey: financial year 2023 to 2024](#)'

³⁷⁹ UCL, 2024, '[Economic inactivity before reaching State Pension Age](#)'

³⁸⁰ Evandrou M and others, 2024, '[Delivering '50 PLUS Choices' in the UK: how compatible are 'fuller working lives' with an increasing reliance on informal carers to deliver social care?](#)'

case of the UK.³⁸¹ Better supporting women and carers would enable the UK to benefit more fully from longer working lives, while also mitigating the adequacy challenges associated with interrupted or shorter working careers.

Box 5: Intersectionality: an example

Multiple overlapping characteristics such as gender, ethnicity, and disability shape people's labour market experiences and pension outcomes.

IFS cohort analysis shows that ethnic minorities are less likely to be in sustained full-time work, and the differences are even starker when splitting by both ethnicity and gender – resulting in worse pension outcomes.³⁸² For example, of the cohort born 1974-1988, 34% of ethnic minority women spent most of the last 15 years not in paid work, compared with 15% of white women.

Although data limitations and small sample sizes can make this analysis challenging, an intersectional lens reveals how these combined factors can compound disadvantage and significantly increase the risk of undersaving.

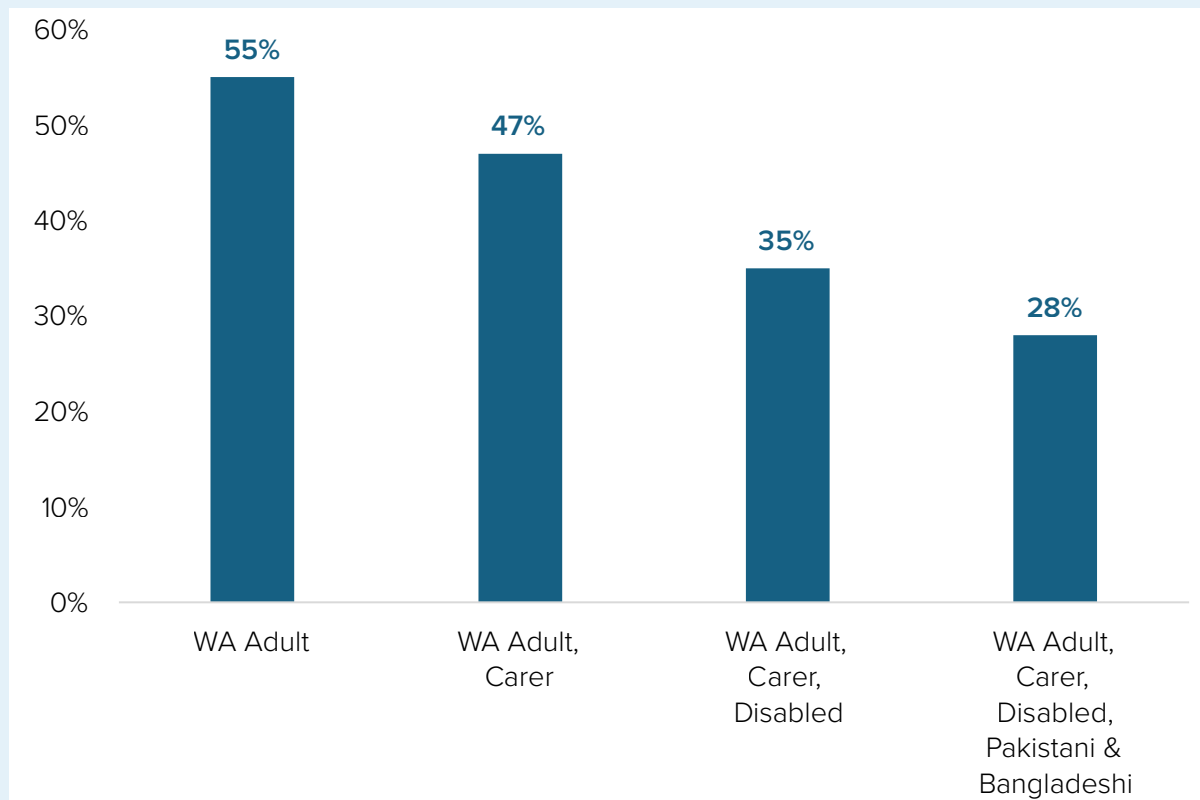
³⁸¹ OECD, 2025, '[OECD Employment Outlook 2025](#)'

³⁸² DWP, Forthcoming, Life courses and pension saving patterns

As can be seen in Figure 4.17, and has been set out in the preceding sections, pension participation status is highly linked to personal characteristics and individual circumstances. For instance, in the analysis set out below, working-age adults who are from a Pakistani or Bangladeshi background, with a disability and providing care are roughly half as likely to participate in pensions saving compared to the average working-age adult.³⁸³

³⁸³ DWP analysis of [‘Family Resources Survey: financial year 2023 to 2024’](#)

Figure 4.17: Pension participation by different groups³⁸⁴



Age of labour market exit is also crucial for pensions adequacy

4.81 Alongside patterns of employment during working life, the age at which people leave the labour market is a critical but often under-recognised determinant of pension adequacy.

³⁸⁴ DWP analysis of [‘Family Resources Survey: financial year 2023 to 2024’](#)

- 4.82 Longer working lives provide more years of contributions, greater opportunities to build and grow pension wealth, and fewer years over which retirement resources must stretch. Conversely, early or unplanned exits, whether driven by ill-health, caring responsibilities, redundancy, lack of suitable work, or individual choice, significantly shorten contribution histories and increase the likelihood that individuals will need to draw on pension savings before State Pension age. These patterns are not evenly distributed across society: disparities in health, job quality, and access to flexible or sustainable work mean that some groups face much greater risks of early exit, and therefore of inadequate retirement incomes. Understanding why people leave work when they do, and the ways in which these decisions interact with pension saving, is therefore central to assessing retirement adequacy.
- 4.83 Younger people who spend extended periods not in education, employment or training (NEET) also face long-term disadvantages in pension saving. Early detachment from the labour market means these individuals miss the formative years in which pension saving typically begins, delaying accumulation, shortening contribution histories, and increasing

the risk of inadequate retirement income later in life.

- 4.84 Labour market exit ages have increased on average since the first Pensions Commission. Figure 4.18 shows that men are exiting the labour market on average 2 years later than 20 years ago, and women almost 3 years later. Average labour market exit ages are now at record highs: 65.8 for men and 64.7 for women.³⁸⁵
- 4.85 This is in part driven by increases in the State Pension age. Increasing the female State Pension age from 60 to 65 saw the employment rate of women aged 60 to 64 increase by 11 percentage points, driven by those who were in paid work at age 58.³⁸⁶ The increase of the State Pension age to 66 increased the employment rate of 65 year olds by 8.0 percentage points for women and 6.8 for men, largely driven by those remaining in full-time work. Older women are still significantly more likely than older men to be working part-

³⁸⁵ DWP, 2025, '[Economic labour market status of individuals aged 50 and over, trends over time: September 2025](#)'

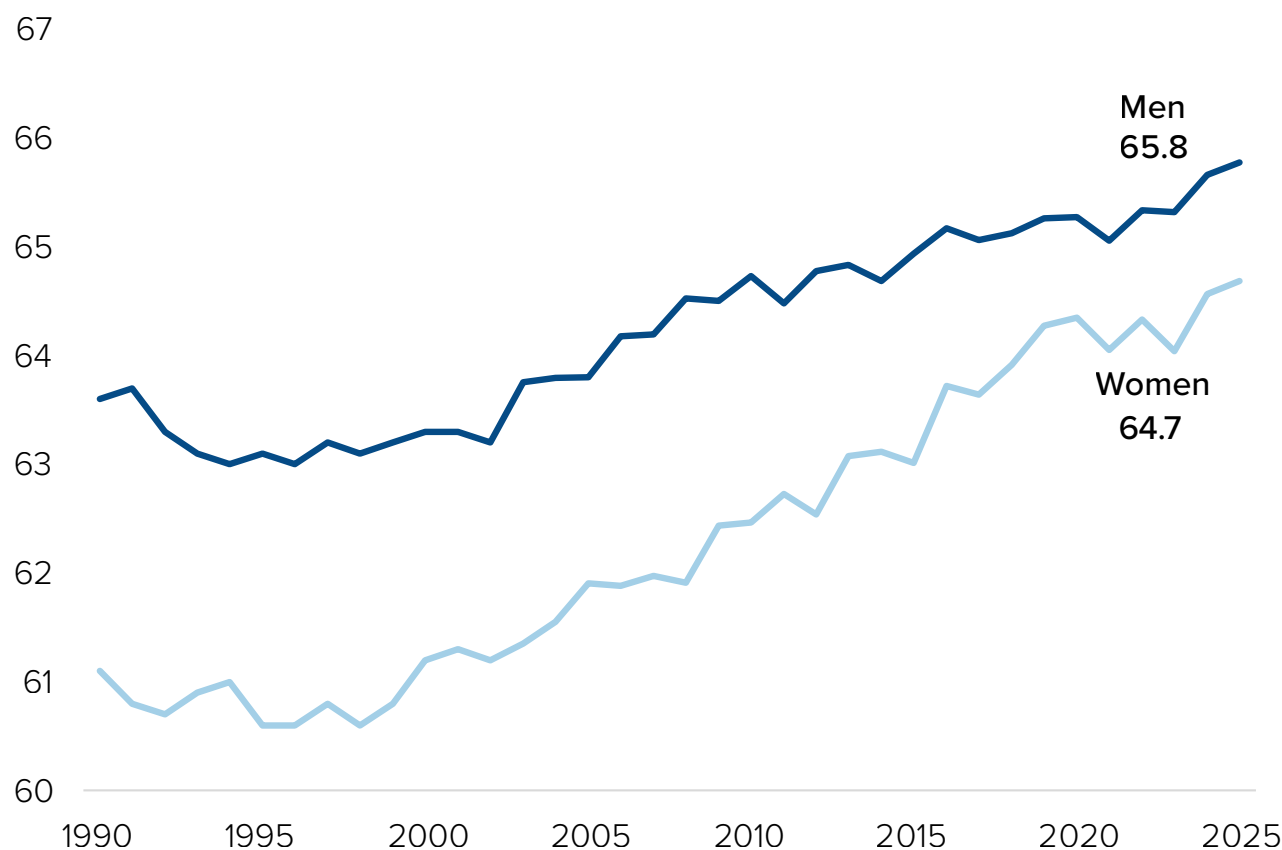
³⁸⁶ IFS, 2025, '[How do people already out of employment fare when the state pension age rises?](#)'

time.³⁸⁷ Yet despite recent increases, in 2024 the UK's average exit age remained below the OECD average, and people in the UK spend a comparatively long period in retirement – longer than in some higher-life-expectancy countries such as Japan.³⁸⁸

³⁸⁷ DWP, 2025, '[Economic labour market status of individuals aged 50 and over, trends over time: September 2025](#)'

³⁸⁸ OECD, 2025, '[Effective age of labour market exit: Pensions at a Glance 2025](#)'

Figure 4.18: Average age of labour market exit for men and women³⁸⁹



4.86 However, although working lives have lengthened on average, employment among those in their 50s has not recovered to its pre-pandemic peak.³⁹⁰ Employment rates for those aged 55 to 64 are also lower in the

³⁸⁹ DWP, 2025, '[Economic labour market status of individuals aged 50 and over, trends over time: September 2025](#)'

³⁹⁰ DWP, 2025, '[Economic labour market status of individuals aged 50 and over, trends over time: September 2025](#)'

UK than in many peer countries.³⁹¹ While employment begins to decline after age 55 in many countries across the OECD, the UK experiences a steeper drop-off in labour market participation among people in their late 50s, despite broadly matching OECD average performance for the proportion of people in work earlier in working life.³⁹²

Employment before State Pension age has improved, but challenges remain for the over 50s

4.87 Employment among people aged 65 to 69 has risen from 21.1% in 2015 to 28.4% in 2025, while inactivity has fallen from 78.4% to 70.7%. However, there have been less significant

³⁹¹ IFS, 2025, '[Health, wealth and employment in the run-up to state pension age](#)'

³⁹² OECD, 2025, '[Navigating the golden years: Making the labour market work for older workers, OECD Employment Outlook 2025](#)'

improvements to the number of people working in their 50s.³⁹³

4.88 As of Q4 2025, the employment rate for people aged 50 to 64 was 71.8%, below the 2019 peak of 72.7%.³⁹⁴ This reflects both higher unemployment (3.2% in 2025, up from 2.2% in 2023) and elevated economic inactivity in this age group: 25.8% of people aged 50 to 64 were economically inactive in 2025, compared to 25.3% in 2019.³⁹⁵

4.89 Age-specific data highlights a pronounced gradient in economic inactivity across later working life as people approach State Pension age. From age 50 onwards, inactivity increases sharply as people age. In 2025, 14.2% of those aged 50 were economically inactive, rising to 40.1% for those 60 to 64, 55.9% at age 65

³⁹³ DWP, 2025, '[Economic labour market status of individuals aged 50 and over, trends over time: September 2025](#)'

³⁹⁴ ONS, 2026, '[A05 NSA: Employment, unemployment and economic inactivity by age group \(not seasonally adjusted\)](#)'

³⁹⁵ ONS, 2026, '[A05 NSA: Employment, unemployment and economic inactivity by age group \(not seasonally adjusted\)](#)'

and 69.8% at age 66, with these increases statistically significant.³⁹⁶

- 4.90 Health-related inactivity is now the dominant reason for inactivity for people in their 50s, but retirement becomes increasingly important as people approach State Pension age. In 2025, long-term sickness or disability accounted for 58.6% of inactivity among 50 to 54s and 49.6% among 55 to 59s, and 36.6% for 60 to 64s. Retirement as a reason for inactivity then becomes more common for the older age group (60 to 64 years old) at 44.2% (compared to 3.6% at 50 to 54 and 20.3% at 55 to 59).³⁹⁷
- 4.91 Many countries do not have an equivalent of the UK's Normal Minimum Pension Age, as many do not set separate minimum access ages for public and private pensions, or tend to have a smaller gap between them.³⁹⁸ Nonetheless, international evidence shows that longer working lives can materially improve both individual retirement outcomes and national

³⁹⁶ DWP, 2025, '[Economic labour market status of individuals aged 50 and over, trends over time: September 2025](#)'

³⁹⁷ DWP analysis of ONS, Labour Force Survey – see evidence pack for methodology

³⁹⁸ OECD, 2025, '[Pensions at a Glance](#)'

economic performance. Yet the UK's recent experience, marked by high long-term sickness, and persistent gender and regional disparities demonstrates the challenge in achieving this. Without renewed progress in employment among people approaching State Pension age, gains in pension adequacy and long-term fiscal sustainability will become harder to secure.

4.92 However, these headline trends mask the diverse and often deep-rooted reasons why people leave the labour market before State Pension age. The barriers to remaining in work are not evenly distributed: patterns of early exit differ sharply across socioeconomic groups, reflecting disparities in health, job quality, caring responsibilities and financial resilience. Understanding these is essential for both explaining patterns of inactivity and developing policy to retain labour market attachment for older workers.

Inactivity varies by socioeconomic status

4.93 Economic activity in later life is affected by socioeconomic status. Just as at the time of the

first Commission,³⁹⁹ inactivity for older adults pre State Pension age is concentrated at the top and bottom of the income distribution.⁴⁰⁰ Using data from the Wealth and Assets Survey, DWP analysis in Figure 4.19 shows that economic inactivity in later working life (55-64) varies by wealth.⁴⁰¹ In the highest wealth quintiles, there is a greater proportion of retired or semi-retired people compared with in the lowest, where there is a far greater proportion of inactive people. This split, according to analysis by the IFS, was far less the case at the time of the first Pensions Commission, when retirement was relatively flat across wealth quintiles.⁴⁰²

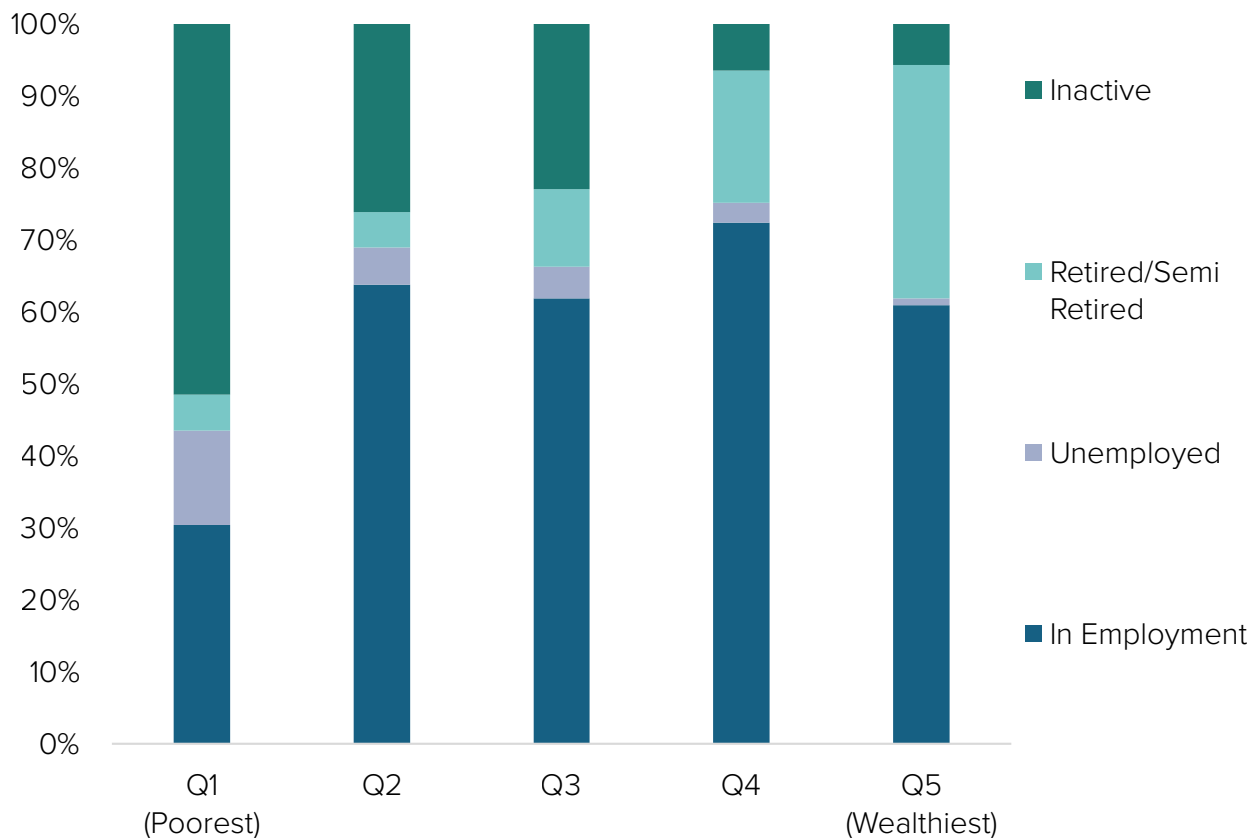
³⁹⁹ The Pensions Commission, 2004, '[Pensions: Challenges and Choices – The First Report of the Pensions Commission](#)'

⁴⁰⁰ DWP analysis of ONS, Wealth and Assets Survey, 2020-2022

⁴⁰¹ DWP analysis of ONS, Wealth and Assets Survey, 2020-2022

⁴⁰² IFS, 2023, '[Understanding Retirement in the UK](#)'

Figure 4.19: Economic activity of people aged 55-64 by wealth quintile, 2020-22⁴⁰³



4.94 Similarly, analysis of the National Childhood Development Study – a longitudinal survey of a 1958 birth cohort capturing information about study members at age 62 to 65 – found that 1-in-4 (24%) of study members had fully retired by their early 60s.⁴⁰⁴ They were more likely to be financially advantaged than their peers

⁴⁰³ DWP analysis of ONS, Wealth and Assets Survey, 2020-2022

⁴⁰⁴ DWP, 2026, [‘Pensions and economic status among the 1958 birth cohort prior to reaching State Pension age’](#)

still in paid work. They were twice as likely to have a DB pension (54% to 26% for men, 56% to 22% for women) and were twice as likely to have household savings totalling over £100,000 (41% to 22%). A retired household (study members living with retired partners) were more likely to own their home outright (92% to 56%), be better educated (50% with a degree or higher compared to 33%), have had no experience of low income (67% to 48%), and had one consistent partner throughout their life course (75% to 58%).⁴⁰⁵

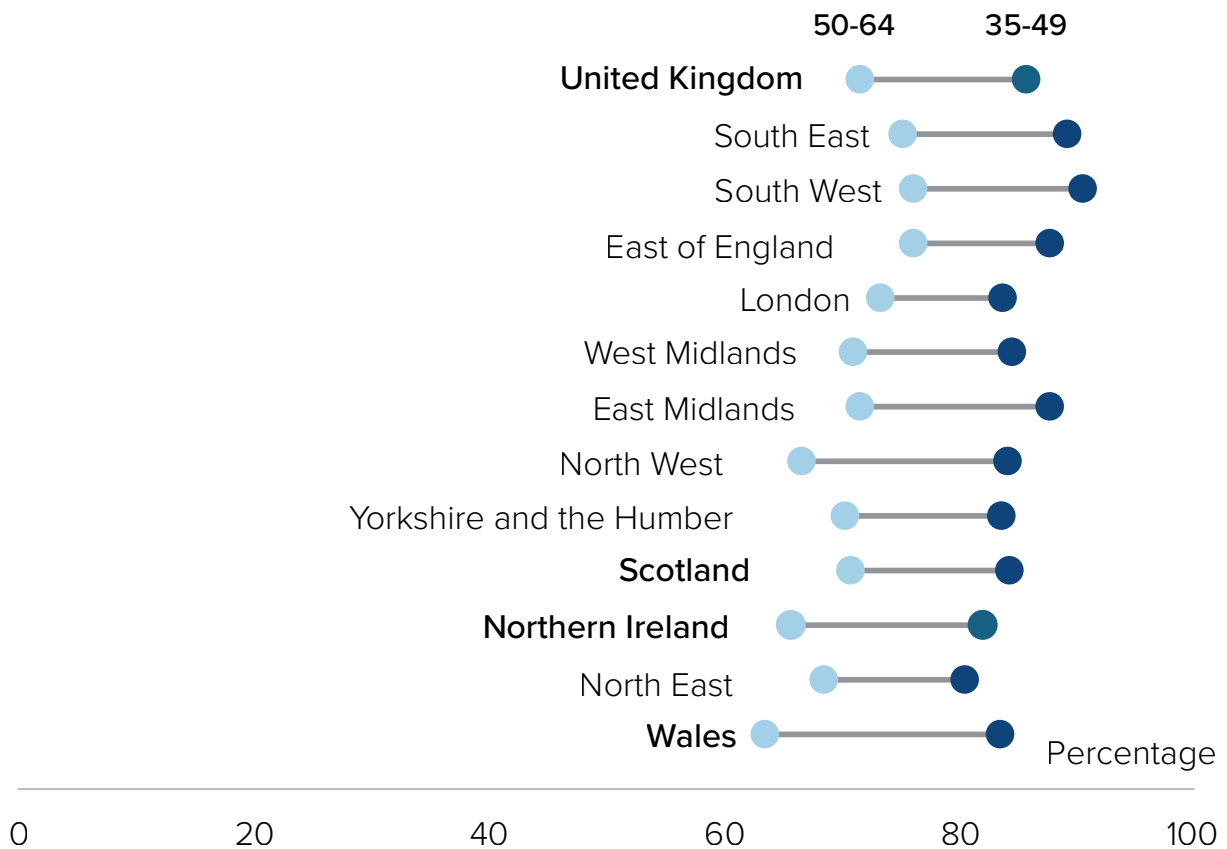
4.95 Of particular concern are individuals who are not working, and who lack the necessary wealth to support themselves pre State Pension age. People who leave work in their 50s or early 60s frequently rely on working-age benefits, which are significantly less generous than the State Pension. As a result, poverty is more of an issue among people aged 55 to 64, with 19% in relative poverty after housing costs, than it is for pensioners (16%).⁴⁰⁶

⁴⁰⁵ DWP analysis of National Childhood Development Study

⁴⁰⁶ DWP, 2025, '[Households Below Average Income: an analysis of the UK income distribution: FYE 1995 to FYE 2024](#)'. This analysis does not include revisions released in March 2026.

National and regional differences in inactivity

Figure 4.20: Employment rates of people aged 35 to 49 and people aged 50 to 64 by region and nation of the UK, 2025⁴⁰⁷



4.96 In the UK, there are clear spatial disparities in economic activity. The lowest employment rate (and highest inactivity rate) among 50-64s is in Wales, at 63.5%, followed by the North West of England at 66.6%. The employment rate gap

⁴⁰⁷ DWP, 2025, [‘Economic labour market status of individuals aged 50 and over, trends over time: September 2025’](#)

between later-career and mid-career workers also varies by location, again with Wales having the largest gap (of 20 percentage points), as shown in Figure 4.20.⁴⁰⁸

- 4.97 Although regional inequalities are well known, the ‘Keep Britain Working’ review shows that differences in economic inactivity across the UK are strongly linked to health related factors. It found that at a regional and local level, places with more of the health-related risk factors highlighted in their review tended to have higher economic inactivity.⁴⁰⁹
- 4.98 The age at which people move into inactivity varies significantly across nations and regions. In 2025, inactivity among Welsh men aged 55-59 stood at 33.4%, substantially higher than in Northern Ireland (21%), Scotland (17.5%) and England (17.6%). Among women aged 55-59, inactivity was 38.5% in Northern Ireland, 35% in Scotland, 28.3% in Wales, and 25.9% in England.⁴¹⁰ These patterns

⁴⁰⁸ DWP, 2025, [‘Economic labour market status of individuals aged 50 and over, trends over time: September 2025’](#)

⁴⁰⁹ DWP, 2025, [‘Keep Britain Working Review: Discovery’](#)

⁴¹⁰ DWP analysis of ONS, Labour Force Survey

underline the importance of understanding local labour-market conditions and specific geographical drivers in efforts to sustain older workers' participation.

Harnessing the benefits of maintaining an older workforce is vital for pensions adequacy

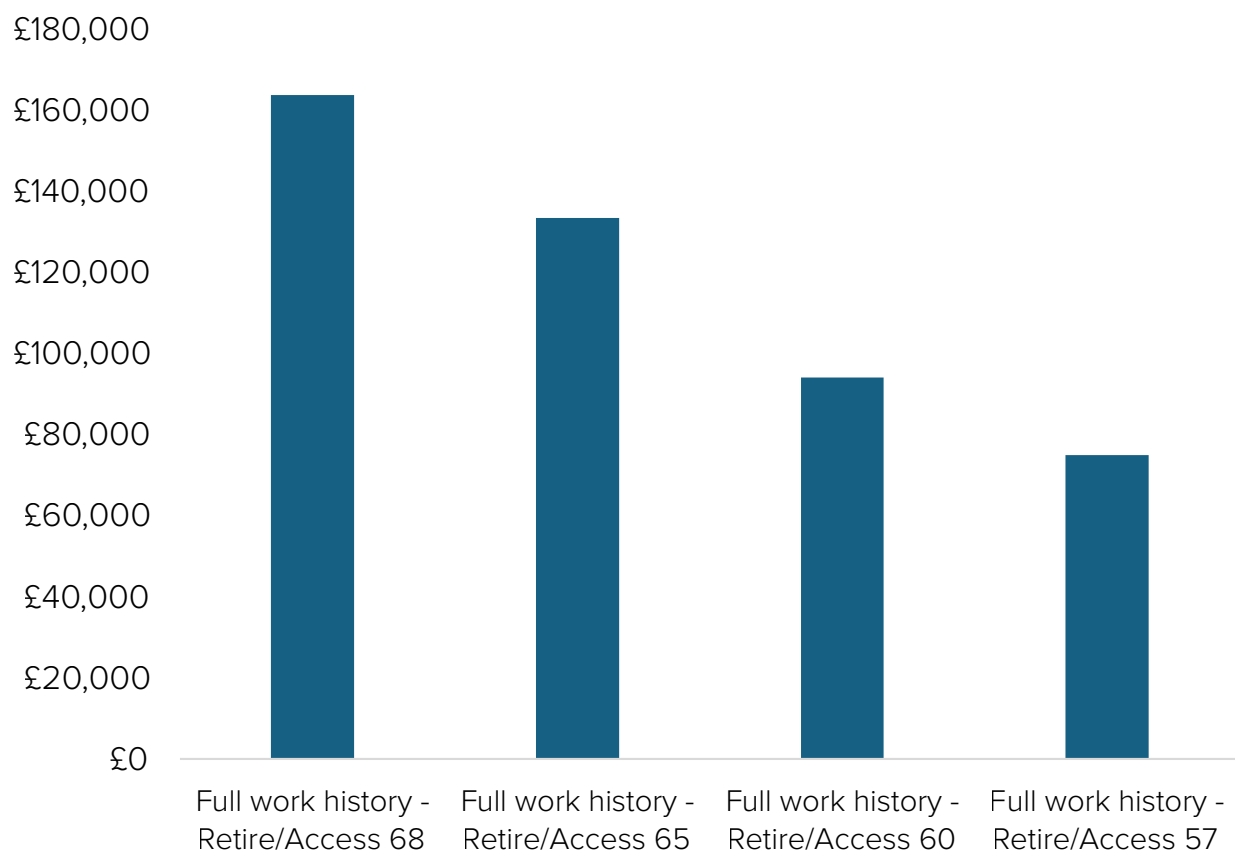
4.99 These dynamics mean that supporting older workers to remain in or return to the labour market is important for several reasons. People's employment patterns in their 50s are likely to greatly influence employment patterns in their 60s⁴¹¹ as very few who leave the labour market fully return.⁴¹² Preventing early labour market exits where possible is crucial to maintaining labour market participation in older age cohorts and keeping up pension contributions. Working longer bolsters financial security and boosts the size of people's private pension pots. Working in your 50s provides both an income – potentially preventing pre-

⁴¹¹ OECD, 2025, '[OECD Employment Outlook 2025](#)'

⁴¹² For instance, very few who become long-term sick move back into work (DWP, 2025, '[The employment of disabled people 2025](#)'), and very few (5%) of those who retire return to work in DWP, 2025, '[Planning and Preparing for Later Life 2024](#)'

retirement poverty – and increased pension savings – reducing risk of at-retirement poverty. As Figure 4.21 shows, retiring at 57 compared with the expected State Pension age of 68, cuts a projected pension pot at retirement by 55%.⁴¹³

Figure 4.21: Impact of labour market exit timing on pot size⁴¹⁴



⁴¹³ DWP analysis using iPEN model for an average male earner saving over a career. See Methodology 2 in evidence pack for detailed methodology.

⁴¹⁴ DWP analysis using iPEN model for an average earner saving over a career.

4.100 In addition, the earlier a retirement, the longer the period a pension pot has to be spread across. As an illustration, the annual annuity a £100,000 pension pot could purchase at age 55 is £6,476, compared with £7,718 at 65, or £9,671 at 75.⁴¹⁵ Put differently, as shown in Table 4.3,⁴¹⁶ a median earner born in 2002 hoping to retire at the future Normal Minimum Pension Age (NMPA) of 57 rather than age 65 would have to contribute to their private pension at a rate of 22% of their qualifying earnings rather than 11% to receive an income of £10,000, meeting their TRRs (in our central volatility scenario).

Table 4.3: Required contribution rates to achieve £10,000 annual income from private pension saving (therefore 67% replacement rate), dependent on years saving, for a male median earner born in 2002 using iPEN 2024 model

	22 to 57	22 to 60	22 to 65
Using qualifying earnings	22%	17%	11%
Using full earnings	18%	14%	9%

⁴¹⁵ DWP calculations using 4th December 2025 rates – Hargreaves Lansdowne, 2025, [‘Annuity Rates: View Best Annuity Rates from the UK Market’](#)

⁴¹⁶ DWP analysis using iPEN model

4.101 Retiring before State Pension age requires individuals to begin drawing down private pension wealth earlier and to do so over a longer period. There is a risk that assets are depleted before or shortly after reaching State Pension age. Where this occurs, individuals may face a sharp fall in living standards and increased reliance on means-tested support later in retirement, undermining long-term adequacy even for those who initially appeared financially secure.

Keeping older people in work requires a holistic approach

4.102 Older workers can face multiple barriers to remaining in employment, including:

- **Discrimination:** Age discrimination is often said to affect recruitment, progression opportunities, and employer attitudes.⁴¹⁷ Whilst evidence suggests perceptions of age discrimination once at work are limited,⁴¹⁸

⁴¹⁷ Centre for Ageing Better, 2021, '[Too much experience](#)'

⁴¹⁸ To note, only 3% of 40 to 75 year olds in work said they have been unfairly treated at work in the last 12 months on the basis of their age – DWP, 2025, '[Planning and Preparing for Later Life 2024](#)'

embracing age-friendly approaches and inclusivity is seen as vital to preventing early exits.⁴¹⁹

- **Health:** Poor health limits workforce participation and retention. The ‘Keep Britain Working’ review recommended building evidence on the specific challenges faced by older workers. This will be important in maintaining a healthier older workforce in the future.
- **Skills:** A skilled workforce is a strong workforce. Compared with other countries in the OECD, the United Kingdom has relatively high training participation among older workers,⁴²⁰ providing good opportunities to ensure skills remain relevant and that the workforce remains productive. However, take-up of and interest in training decrease with age.⁴²¹ Both practical and

⁴¹⁹ Centre for Ageing Better, 2023, ‘[Ageism: What’s the harm?](#)’

⁴²⁰ OECD, 2025, ‘[Navigating the golden years: Making the labour market work for older workers: OECD Employment Outlook 2025](#)’

⁴²¹ Both proportions of adults having completed or wanting more work-related training decrease with age: DWP, 2025, ‘[Planning and Preparing for Later Life 2024](#)’

attitudinal barriers to lifelong learning need to be overcome.

- **Intensity:** Jobs must be reflective of capability, which can change with age. For instance, a quarter of 40 to 75 year olds in paid work wanted to reduce the amount of physical activity in their job as they approached retirement, by either adapting their current job (16%) or changing job (9%).⁴²² Over half (56%) of people whose job was self-assessed as ‘very physically active’ wanted a reduction in physical activity as they approached retirement. Beyond physical demands, the UK also is said to have one of the highest rates (15%) of ‘strained workers’ aged 55-64 across 25 OECD countries.⁴²³ This metric measures where demands are greater than resources, impacting people’s ability to cope. Ensuring older workers are supported to remain in or transition to the right kind of job is needed.
- **Inflexibility:** Some degree of flexibility is undoubtedly required to maintain an older

⁴²² DWP, 2025, ‘[Planning and Preparing for Later Life 2024](#)’

⁴²³ OECD, 2025, ‘[Navigating the golden years: Making the labour market work for older workers: OECD Employment Outlook 2025](#)’

workforce. Evidence suggests that older workers tend to value flexibility over hours or location.⁴²⁴ When asked what might encourage them to work longer, 40 to 75 year olds not yet retired most frequently mentioned the possibility of being able to work fewer hours or take more holidays (46%), closely followed by more flexible working (39%).⁴²⁵ Now, with the statutory right of requesting flexible working from day one,⁴²⁶ this should be increasingly accessible, but inflexible employers could prompt early exits.

4.103 Creating such an age-friendly environment is undoubtedly challenging. Maintaining an older workforce requires a concerted effort across Government and industry, building on the work of the ‘Keep Britain Working’ review⁴²⁷ as well as existing employment programmes. It requires collaboration across work, health,

⁴²⁴ House of Lords Economic Affairs Committee, 2025, ‘[Preparing for an ageing society](#)’

⁴²⁵ DWP, 2025, ‘[Planning and Preparing for Later Life 2024](#)’

⁴²⁶ DBT, 2024, ‘[Government unveils significant reforms to employment rights](#)’

⁴²⁷ DWP and DBT, 2025, ‘[Keep Britain Working: Final report](#)’

and skills, in a way that reflects socioeconomic and geographic differences. Despite requiring investment, maintaining older workforce participation is key to pensions adequacy at an individual level, and sustainability at the system level.

Conclusion

- 4.104 Despite the successes of the new State Pension and AE, gaps in pensions participation and unfairnesses in pensions outcomes remain. Structural barriers in the design of AE and barriers to labour market participation mean that some groups of people face additional challenges in saving consistently, enough, or at all.
- 4.105 Intermittent labour market engagement and early labour market exit is shortening pension contribution histories. Without action to support labour market participation, progression and longer working lives, the adequacy gap will remain.
- 4.106 In this and the preceding chapter, we have explored the challenges individuals encounter in accumulating an adequate pension pot. In the next chapter, we turn to the issues of how

people access their pension wealth and the risks they face in doing so.

Chapter 5 Decumulation as a driver of adequacy

Summary

- **Decumulation choices now decisively determine retirement outcomes.** The move from a largely annuity-based system to more flexibility following the enactment of the 2014 pension access reforms means income in retirement depends not only on what is saved but on how and when pension wealth is accessed.
- **Behavioural changes following the 2014 reforms indicate growing adequacy concerns.** Pension savings no longer necessarily deliver pension incomes. High levels of full cash withdrawals, particularly from smaller pots, widespread early access of tax-free cash, and high rates of wealth withdrawn from pension pots suggest that many savers risk running down their defined contribution wealth too quickly.

- **Risks have shifted to individuals.** Longevity, investment and timing risks fall largely on savers, many of whom lack the capability or information required to manage them effectively.
- **The decumulation system expects an unreasonable degree of engagement,** vastly different from the inertia-based accumulation system. Low pensions literacy, uneven access to advice and guidance, and differing financial capabilities risk entrenching inequalities in outcomes. A protective default solution is required.
- **Many now access pensions wealth while still working, either as an income or as tax-free cash.** For some, this could be facilitating longer working lives, but for others, early access could be limiting future adequacy.
- **Later life shocks may rapidly erode financial security.** Divorce, bereavement, cognitive decline and care needs can sharply reduce income or increase costs, reinforcing the case for a more protective decumulation framework.

Introduction

- 5.1 As this report has explained so far, having an adequate income in retirement depends directly on private pension saving in working life, aided greatly by AE, as well as building up State Pension entitlement. This chapter follows chronologically to focus on decumulation and decisions on how and when pension wealth is accessed by savers. Decumulation choices are just as important in influencing whether someone has an adequate income throughout their retirement as pension accumulation. Financial security in later life depends as much on the management of assets as on their availability.
- 5.2 The first Pensions Commission did not consider decumulation decisions in detail. They firmly believed that the purpose of pension savings was to deliver a retirement income. At the time, annuities were the default. Now, some 20 years on, decisions on both how and when to retire have become drastically more complex. Contributions amount to savings pots, and too few of these become pensions to last the duration of retirement, risking financial insecurity in later life.

5.3 Reflecting on how the decumulation system has changed since the first Commission, this chapter analyses three ‘stages’ of the decumulation process:

- **Decumulation choices** – Decumulation policy changes, primarily the 2014 reforms, reset the course of pension saving, shifting away from a system built on the principle of income replacement towards a system of savings pots. This change has offered enhanced choice, but this is coupled with a level of complexity for which many are underprepared and will impact adequacy and income sustainability,
- **Accessing pensions while in employment** – More people appear to be retiring gradually, using pensions to ‘top up’ incomes, but some are accessing and spending tax-free cash early, potentially limiting their future financial stability,
- **Later retirement challenges** – Retirees may face new challenges from divorce, bereavement, or cognitive decline, which potentially impact decision-making, risk management, and financial wellbeing in later life.

5.4 Making decumulation decisions is undoubtedly challenging. Unlike at the time of the first

Pensions Commission when annuitisation was the norm, there is no set path to follow or default approach. Unlike in AE, there is no 'one size fits all' policy. Individuals face complex choices, and policymakers and industry have an undeniably challenging supportive role.

- 5.5 Many retiring between 2015 and now or in the immediate years to come will be accessing DC pots with significant DB pension wealth to buffer their decisions. Over time, as DB pensions continue to decline, and DC wealth continues to grow, and as pots are consolidated, poor decumulation decision-making will have a more significant impact. The introduction of Guided Retirement and Targeted Support are intended to support individuals through the decumulation decision-making process. But the scale of the challenge and risks of poor decision-making are great, with around £500 billion expected to be withdrawn from DC workplace pensions over the next 10 years.⁴²⁸ This is not only an individual-level adequacy issue, but one that could have major impacts on wider government fiscal sustainability and intergenerational fairness.

⁴²⁸ DWP modelling of future DB and DC assets and memberships

5.6 Having saved throughout their working lives, people deserve and rightly expect access to fair, stable retirement incomes. Yet relying on individuals to actively engage with the complexity of decumulation decision-making does not always appear to be effective. While government is taking steps to support decision-making at retirement, this support must operate as a genuine default wherever possible. Strong, well-designed defaults are essential to ensure that the vast majority of savers – regardless of level of engagement, pension wealth, or demographics – is protected from the real possibility of declining standards of living the longer they live.

The decisions individuals make on how to access their pensions are crucial in influencing adequacy

Since the implementation of the 2014 pension access reforms, individuals need to make active decumulation decisions

5.7 The DC pension system currently delivers people a savings pot at retirement. Savers then do the work of transforming this into an income. The parameters and rules under which these decisions are made vary, but they generally reflect a choice of when to retire and how to take pension wealth. Following the implementation of the 2014 reforms, savers have far greater flexibility. People must weigh up the costs and benefits of choices against a range of factors: How long will they live? How might markets fare? What is tax efficient? Who else are their pensions supporting? Effectively, people are expected to understand tax policy and investment projections, and estimate how long they will live and what their life will look

like. They are expected to make a choice while predicting the unpredictable.

- 5.8 The first Pensions Commission’s settlement depended on an agreement between the individual, the state, and the employer. This agreement extended beyond just contribution levels through to decumulation to ensure income smoothing across the life course and pensions adequacy throughout retirement. For the first Commission, tax relief in accumulation was granted not just to incentivise pension saving but in return for securing a stable retirement income.⁴²⁹
- 5.9 The first Commission assumed the securing of a retirement income meant the purchase of annuity, given this was partially mandated. They acknowledged this relied on a functioning

⁴²⁹ The first Commission wrote that, “Since the whole objective of either compelling or encouraging people to save, and of providing tax relief as an incentive, is to ensure that people make adequate provision, it is reasonable to require that pension savings is turned into regular pension income at some time” – The Pensions Commission, 2005, [‘A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission’](#)

annuity market that was able to deliver for savers.⁴³⁰

- 5.10 This system of widespread annuitisation faced major challenges following the financial crisis of 2007-09. Interest rates fell to record lows (0.5% from around 5-6% previously). Since interest rates, gilt yields, and annuity rates are all linked, the annuity market was consequently delivering poor value for savers. For example, a £100,000 DC pension pot would have bought a single-life level annuity income of around £7,900 in 2008 for a 65 year old, but by the end of 2013, this was closer to £6,200, a reduction of 22%.⁴³¹
- 5.11 This, combined with increasing numbers of small DC pension pots, led to significant policy changes in how pension wealth became a retirement income during the coalition government of 2010-2015. First, in 2011, flexible drawdown was introduced. This meant that the cap on how much wealth could be drawn down was removed, subject to securing a Minimum Income Requirement (MIR) of

⁴³⁰ The Pensions Commission, 2005, '[A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission](#)'

⁴³¹ DWP calculation using Heritage, 2025, '[What income can a £100k pension provide?](#)'

£20,000 per year (roughly £30,000 in today's terms⁴³²). Pensions could be accessed flexibly on top of this amount and incomes for life were still a necessary feature of the system.

5.12 The major challenge to the first Pensions Commission settlement was announced in the Chancellor's 2014 Budget. The MIR was cut to £12,000, and, without prior consultation, the government set out a new, radical decumulation approach premised on personal choice and individual freedom. This also provided industry with the license to create new products to support savers throughout retirement. Coming into effect in 2015, this policy change allowed individuals choice over how to take their DC pensions, a flexibility many had called for. Although individuals could still purchase an annuity, securing a regular income of any size was no longer compulsory. Individuals still had access to tax-free cash but now had greater choice over how much money to take from their pension pots and how to distribute their tax liabilities over time. They could also fully encash their savings, taking their entire pension wealth at once, paying tax at the marginal rate.

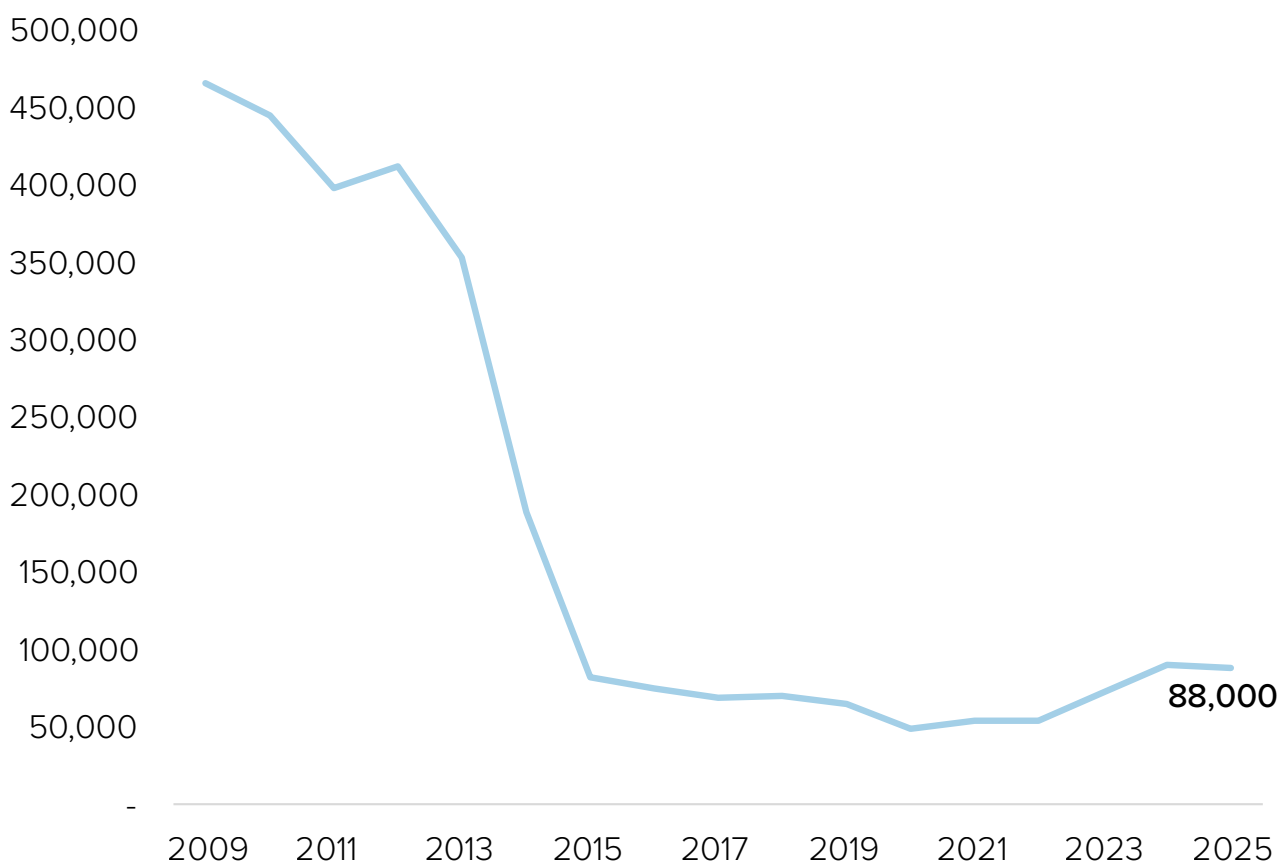
⁴³² DWP calculation using Bank of England, 2025, [‘Inflation calculator’](#)

- 5.13 The behavioural assumption at the time was that individuals would either know, be advised, or receive sufficient guidance (such as via the new Pension Wise service) on the best decumulation option for their needs. For many, this flexibility was undoubtedly beneficial. Those who needed to access larger amounts earlier in retirement were able to do so. Those who wanted to invest the money outside of their pension could do so without severe penalty.
- 5.14 However, for many, the 2014 reforms have created challenges around making informed decumulation decisions and ensuring a pension lasts throughout retirement. Its introduction challenged the settlement that was established following the first Pensions Commission. In particular, it affected how and whether pension pots become pensioner incomes. No longer was there a mass market decumulation pathway. The reforms' implementation also greatly increased the tensions between the inertia-based accumulation system and the now more engagement-based decumulation system. The pensions saving journey became disjointed and confused.

Annuity sales dropped in favour of total encashment

5.15 Following the introduction of the 2014 reforms, decumulation decisions quickly changed. Annuity sales collapsed as people chose more flexible options. Figure 5.1 shows the sharp decline in annuity sales since the policy was announced.

Figure 5.1: Number of annuity sales over time⁴³³

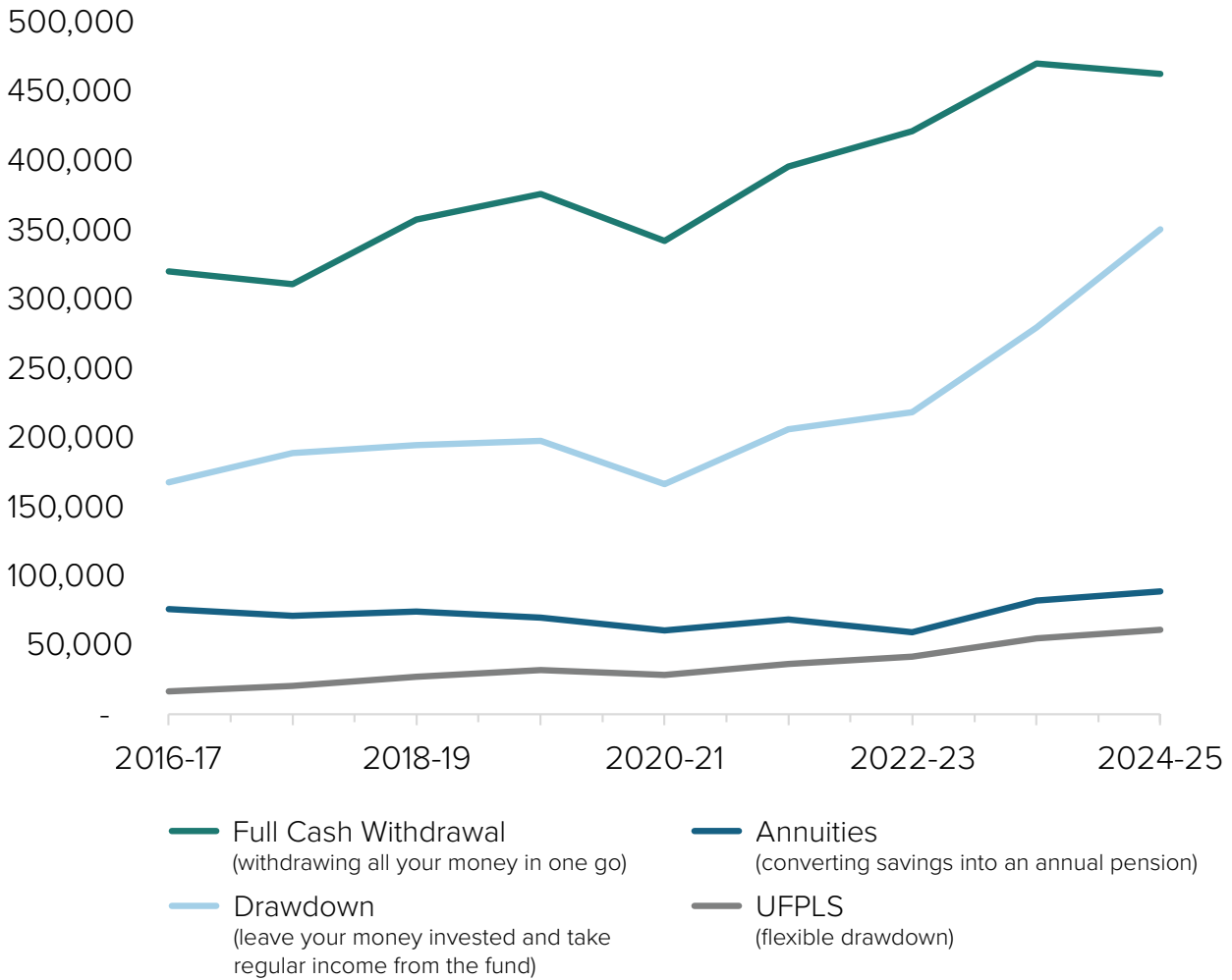


⁴³³ DWP analysis of ABI, 2026, '[Pensions & Retirement Income Data](#)'

- 5.16 The most common way of accessing a DC pension quickly became full cash withdrawal. In 2024-25, 48% of all pots first accessed were accessed this way, nearly two-thirds of which (65%) were pots worth less than £10,000. Just over a third of pots were moved into drawdown (where money is taken and the remainder is left invested) (36%), and fewer took the new Uncrystallised Funds Pension Lump Sum (UFPLS – a flexible drawdown approach) (6%) or purchased an annuity as was previously the expectation (8%).⁴³⁴
- 5.17 As shown in Figure 5.2, the number of DC pots being accessed has grown over time, with a two-thirds increase in numbers accessed between 2015-16 and 2024-25. This trend is expected to continue increasing over time as greater numbers enter retirement with retirement wealth, and this being concentrated in the DC market. As is shown, the number of DC pots accessed through full cash withdrawal or via drawdown has increased, whereas the number of pots annuitised has remained relatively stable.

⁴³⁴ FCA, 2025, '[Retirement income market data 2024/25](#)'

Figure 5.2: Number of DC pots accessed through different means over time⁴³⁵



Decumulation varies by demographics, pot size, and pension wealth

5.18 How people access their pension pots – their decumulation decisions – varies by demographic groups and characteristics.

⁴³⁵ FCA, 2025, [‘Retirement income market data 2024/25’](#)

Annuities are more popular amongst older adults (e.g. 65 to 74 year olds accessing pensions), people with larger pension pots, higher income levels, and those who have taken financial advice. They are less popular with women, and people with characteristics of vulnerability (poor health, low financial capability, those who have experienced a negative life event, and low resilience). Contrastingly, women are more likely to fully encash their pensions and tend to report lower satisfaction with their decisions.⁴³⁶ This could be an effect of pot size – with women and more vulnerable savers more likely to have smaller pots than men and less vulnerable savers – rather than necessarily because of distinctly different attitudes to risk. Regardless, though, the differences in access decisions may mean that some groups are at greater risk of financial insecurity than others.

- 5.19 The high proportion of full cash withdrawals is a trend worth exploring. It is unlikely that full encashment will provide savers with stability and regularity or deliver the retirement incomes the saving system was designed to. However, this does not mean it is the wrong decision

⁴³⁶ DWP analysis of FCA, 2025, '[Financial Lives 2024 Survey](#)'

for anyone to fully withdraw their pot. An understanding of decisions by pot size and total pensions wealth is therefore required.

- 5.20 Pot size is likely to be a major driver of decumulation choices, with 83% of pension pots worth less than £10,000 fully encashed compared to just 3% of pots worth over £100,000.⁴³⁷ It is unlikely that a single small pot will deliver an adequate retirement income in and of itself. It may not have a material impact on retirement outcomes for an individual to take this money in full as cash.
- 5.21 Individuals also need to consider potential tax implications. There is no limit to how many defined contributions pension pots can be fully encashed or how large any one of them can be. The effect of encashing a pot over £10,000, however, is to reduce the annual amount of pension saving that can attract tax relief. This reduces someone's opportunity to build back their savings.
- 5.22 Multiple small pots could, however, together deliver an income. At present, a majority (70%) are only accessing one pension at a time,⁴³⁸

⁴³⁷ FCA, 2025, '[Retirement income market data 2024/25](#)'

⁴³⁸ FCA, 2025, '[Financial Lives 2024 survey](#)'

but millions are expected to retire with multiple pension pots in the future.⁴³⁹ The number of pension pots in the system is increasing, with around 13 million deferred pots worth less than £1,000.^{440,441} Women and low earners are particularly likely to accumulate these small pots.⁴⁴² People may view each pot as small individually and so cash it out, despite the fact that collectively these pots could deliver a greater level of income. Hence, the tendency to fully encash should still cause some alarm.

5.23 Without fully understanding the total pension wealth or financial resources available to those fully encashing, it is near impossible to judge the rationality of these decisions. Although they are not delivering a regular, managed income in the way an annuity would, total encashment could be an economically effective approach. Granular data on total pension wealth at the

⁴³⁹ Pensions Dashboard Programme, 2023, '[Wealth and Assets Survey](#)'

⁴⁴⁰ DWP, 2025, '[Pension Schemes Bill Impact Assessment](#)'

⁴⁴¹ The Pension Schemes Bill includes measures to facilitate the consolidation of small pension pots worth under £1,000.

⁴⁴² IFS, 2025, '[The Pensions Review: final recommendations](#)'

point of decumulation is not available. We can approximate, though, what wealth is likely available. Many small pension pot holders, for example, have significant pension wealth in other DC or DB pots. DWP found that around one third or 2-in-5 holders of small DC pensions approaching retirement (under £10,000 and between £10,000 and £20,000 respectively) had overall pension wealth totalling over £100,000.⁴⁴³

5.24 Total encashment for these savers might not overly impact pensions adequacy, though evidence on whether different pensions are accessed for different purposes is mixed.⁴⁴⁴ Many, however, lack alternative pension wealth to draw upon in retirement. Analysing total pension wealth for those near retirement showed that for around a third (35% and 30% respectively) of those with small pensions (under £10,000 or between £10,000 and £20,000), this was likely the total of their

⁴⁴³ DWP analysis of ONS, Wealth and Assets Survey 2020-2022

⁴⁴⁴ For example. very few respondents to the National Childhood Development Study who had fully encashed their pension used others to purchase an annuity (4%) or adjustable income (drawdown, 5%) – DWP analysis.

pension wealth.⁴⁴⁵ It is therefore likely that some savers accessing pensions fully as cash will be doing so without substantial buffers to protect them against financial inadequacy in retirement.

- 5.25 Improvements in data collection are required for both savers and policymakers to fully understand the impact of decumulation choices. Data on total pension wealth at the point of access, and continued attention as pot sizes grow, is required.
- 5.26 However, this data may not emerge until it is too late to act. The first Commission could have waited to see if, for example, the falling participation in pensions, which would not be felt for decades to come, bounced back or turned out to be a rational choice for the individual with limited impacts on public policy. Instead, it pre-empted and recommended action. In the same way, continued pre-emptive action will be important to ensure the pensions system addresses issues such as the encashment trend before they become material.
- 5.27 In addition to considering the impact of pot size and pension wealth on the rising trend of encashment, the Commission has explored

⁴⁴⁵ DWP analysis of ONS, Wealth and Assets Survey 2020-2022

evidence on attitudes and behaviours. Following the 2014 reforms, people use pension pots for various purposes beyond securing a retirement income. Around a quarter (23%) of those fully encashing a pension in the 4 years to May 2024 used that money to pay off debts, for example. Nearly half (46%) used their pension for a ‘large expense’ such as a holiday or car, effectively a ‘one-off’ purchase. Over a quarter (27%) put all of their money into a current or cash savings account.⁴⁴⁶

Tax-free cash has become the default

5.28 Maximising tax-free cash lump sums has become the default decision, now perceived as a ‘normal course of action’ or a ‘no brainer’.⁴⁴⁷ Nearly everyone (83%) accessing a DC pension since 2015 took a lump sum from at

⁴⁴⁶ FCA, 2025, [‘Financial Lives 2024 survey’](#)

⁴⁴⁷ For example, research conducted by Ignition House for the FCA suggested that people were all keen to access the maximum tax-free cash, viewed as ‘fun money’ they could use to spend on holidays or cars, with little consideration of the impact of this on adequacy long-term – in FCA, 2014, [‘Exploring Consumer Decision Making and Behaviour in the At-Retirement Landscape’](#)

least one pension.⁴⁴⁸ In savers' minds, tax-free cash has been effectively 'decoupled' from the bigger decisions on how to use a pension pot to fund a retirement.^{449,450} However, spending the lump sum impacts retirement adequacy. Against TRRs, around 43% of the population are undersaving. This increases 5 percentage points – almost 2 million more people – if we assume individuals spend their 25% lump sum.⁴⁵¹

5.29 Qualitative research found that people generally viewed the tax-free cash they took as 'modest' and not enough to significantly impact retirement incomes. However, many admitted they had not considered the decision in depth. When queried, they did not regret taking their tax-free cash, but felt anxious about the future and admitted that they failed to consider what

⁴⁴⁸ DWP, 2025, '[Planning and Preparing for Later Life 2024](#)'

⁴⁴⁹ People's Partnership, 2025, '[New Choices, Big Decisions](#)'

⁴⁵⁰ Standard Life Centre for the Future of Retirement, 2025, '[Decisions in the dark: How the DC pioneer generation are navigating retirement income decisions](#)'

⁴⁵¹ DWP, 2025, '[Analysis of Future Pension Incomes 2025](#)'

the cash accessed could have been worth had they kept it invested.⁴⁵² That this behaviour has become a de facto default should alarm individuals, government, and the pensions industry.

5.30 The IFS argue that the widespread access of 25% tax-free cash in one lump sum is largely an effect of framing by the government.⁴⁵³ They believe that changing the ‘lump sum’ descriptor attached to the 25% tax-free element could prevent individuals seeing that part of their pension as something that should be taken in one go.

System changes have affected adequacy

The annuity market has shrunk

5.31 The first Pensions Commission assumed that the annuity market would continue to act as the gateway to securing a retirement income. They made several recommendations to ensure the annuity market functioned effectively for savers.

⁴⁵² People’s Partnership, 2025, ‘[New Choices, Big Decisions](#)’

⁴⁵³ IFS, 2025, ‘[The Pensions Review: final recommendations](#)’

For example, they recommended government reviewed the earliest and latest possible ages at which to annuitise, whether there should be a limit to the amount people are expected to annuitise at any age, and whether government should consider issuing longevity bonds to absorb tail-end longevity risk for the oldest in the population.⁴⁵⁴ These recommendations were not taken forward.

5.32 The annuity market also faced real-world challenges. The Bank of England's base rate fell to 0.5% in 2009, a historic low at the time.⁴⁵⁵ In turn, annuity rates collapsed to a point much lower than the first Commission would have expected,⁴⁵⁶ limiting purchasing power, impacting adequacy, and causing dissatisfaction with how the system was working.

5.33 Now, in the decade since that historic low, demand for annuities has fallen even further.

⁴⁵⁴ The Pensions Commission, 2005, '[A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission](#)'

⁴⁵⁵ Bank of England, 2025, '[Interest rates and Bank Rate: our latest decision](#)'

⁴⁵⁶ PPI, 2025, '[20 years on: Expectations vs Realities of the first Pensions Commission](#)'

Despite now delivering relatively attractive rates, low annuity take-up means it may no longer be as attractive an industry for providers, limiting competition in the market and putting the onus on individuals to seek the best product. Yet only 59% of annuity purchasers in the 4 years to 2024 shopped around for their product.⁴⁵⁷ Failing to do so could hugely limit financial security, with a difference of nearly £1,200 annually between quotes for a single life annuity for a 70 year old as of January 2026.⁴⁵⁸

5.34 Annuity sales seem unlikely to return to their pre-2014 peak: voluntary annuitisation remains relatively rare in both the UK and globally,⁴⁵⁹ a so-called ‘annuity puzzle’.⁴⁶⁰ From the saver’s perspective, annuities are still seen to offer poor value for money and are inflexible to changing

⁴⁵⁷ FCA, 2025, [‘Financial Lives 2024 survey’](#)

⁴⁵⁸ Which, 2026, [‘Best annuity rates UK January 2026: compare pension annuities’](#)

⁴⁵⁹ Cannon E, Tonks I and Yuille R, 2016, [‘The Effect of the Reforms to Compulsion on Annuity Demand’](#)

⁴⁶⁰ Brown JR, 2001, [‘Private pensions, mortality risk, and the decision to annuitize’](#)

needs,⁴⁶¹ but many are also unaware of how they work, particularly in terms of access to enhanced rates.⁴⁶²

5.35 For these reasons, it would likely be complex and unpopular to return to the decumulation system at the point of the first Commission.⁴⁶³ Annuity sales could revive to a degree in response to Guided Retirement policy, but since the first Pensions Commission, the annuity market has undoubtedly shrunk and its role as the gateway to retirement income has diminished.

Incomes have become more volatile

5.36 Decumulation decisions made in the years post-2015 show that, unlike in the annuity system, pensions are not necessarily being used to deliver a consistent or regular income for life. This is despite the tax treatment of pension saving being granted on the assumption that

⁴⁶¹ For example, see Overton L and Smith C, 2022, '[Pension Decision-Making in the New Retirement Landscape: Understanding and improving outcomes for consumers](#)'

⁴⁶² People's Partnership, 2025, '[New Choices, Big Decisions](#)'

⁴⁶³ People's Partnership, 2025, '[New Choices, Big Decisions](#)'

pension pots will provide a reliable income through retirement. Instead, we are seeing pension savings used like a pot of money, akin to a savings account.

- 5.37 This means that there is a risk of experiencing big drop-offs in income over time as pots are being diminished and people live longer than they expect. Since the 2014 reforms are only a decade old, it is hard to understand its impact fully. Analysis, though, is suggestive of income instability. When comparing pre- and post-2014 incomes, on average annual payments from DC pots are greater now than before. However, in later retirement, incomes appear to be lower. This suggests higher incomes in early retirement (such as through high withdrawals) but lower incomes as retirees age.⁴⁶⁴
- 5.38 This volatility potentially creates a financial planning and adequacy challenge for individuals. Given unstable withdrawal rates and the uncertainty of market conditions, in many cases a retiree at the point of decumulation will be unable to confidently state what their income – and, therefore, standard of living – will look like in 10, 15, or 20 years' time.

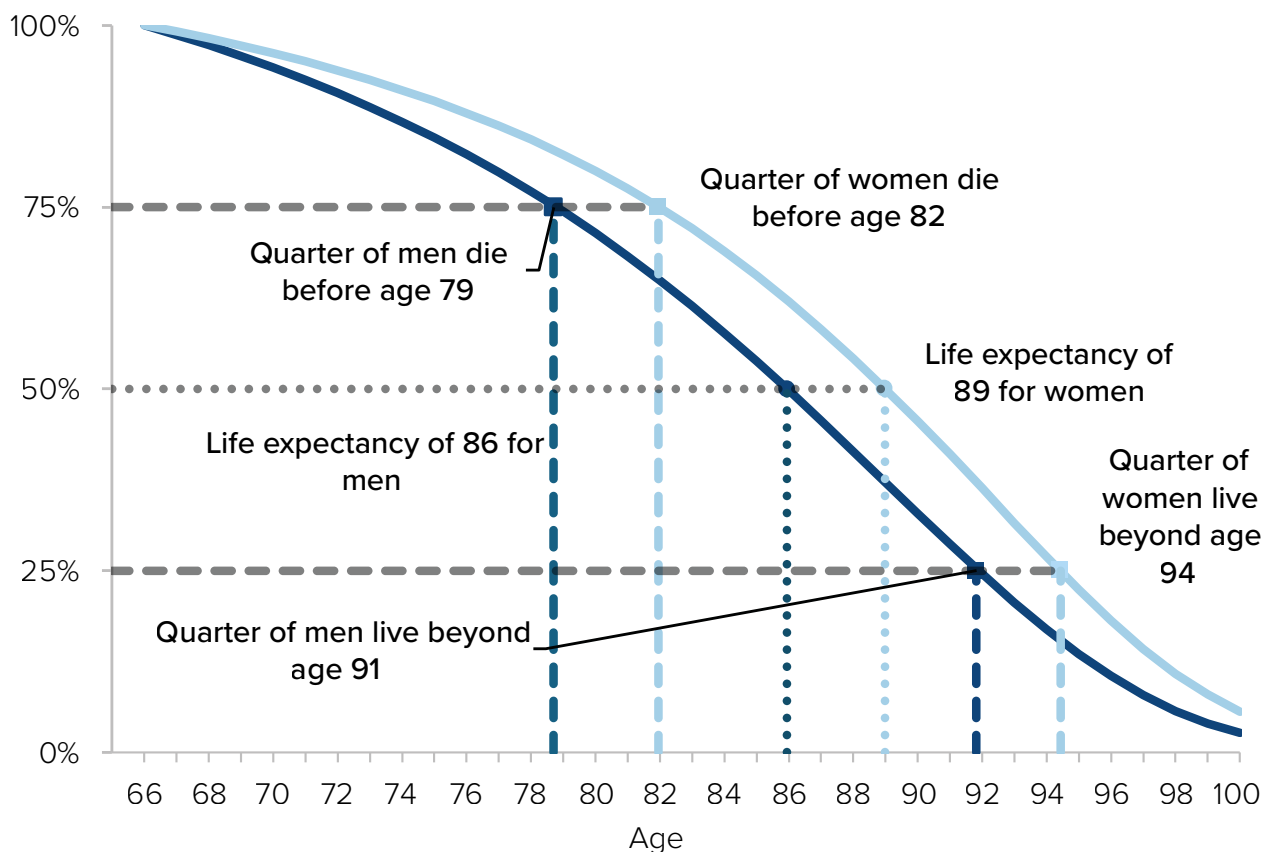
⁴⁶⁴ DWP analysis of retirement outcomes from RAPID following methodology of empirical replacement rates

Compared with the regularity of an annuity or DB pension in payment, financial management of DC pensions has become more complex and, for some, unsustainable.

Longevity risk has been transferred to the individual

5.39 ‘Longevity risk’ refers to the inherent uncertainty about life expectancy. It is undoubtedly complex for individuals to stretch a pension pot over an unknown number of years. Figure 5.3 shows that a woman at State Pension age in 2025 had an average (median) life expectancy of around 89, but a 1-in-10 chance of reaching 98. Similarly, a quarter of men at State Pension age can be expected to live beyond 91, whereas a quarter are expected to die before age 79.

Figure 5.3: Survival curve for those aged 66 in 2025, UK⁴⁶⁵



5.40 The first Pensions Commission considered three distinct types of longevity risk:⁴⁶⁶

- Pre-retirement average cohort longevity risk – uncertainty about future life expectancy

⁴⁶⁵ DWP using ONS, '[Life tables, 2022-based principal projection, UK](#)'

⁴⁶⁶ The Pensions Commission, 2005, '[A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission](#)'

- Post-retirement average cohort longevity risk – uncertainty about average life expectancy during retirement
- Post-retirement individual longevity risk – uncertainty over how long any individual will live

5.41 The first Commission demonstrated the sheer scale of longevity risk being absorbed by the state, by private DB schemes, and by the insurance industry, around half of which related to pre-retirement longevity risk and the requirement to pay pensions at specified ages. They believed that much of this pre-retirement longevity risk could be managed through interventions like rising State Pension age and appropriate adjustments to DB schemes. A significant proportion of post-retirement longevity risk would still remain. In their view, this was not something the individual could bear or manage alone. Instead, this was to be shifted to the annuity market, alongside a series of recommendations to manage capacity. They wrote that there was a ‘social benefit’ to giving people assurance of a maintained income until death.⁴⁶⁷

⁴⁶⁷ The Pensions Commission, 2005, [‘A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission’](#)

- 5.42 However, in a decumulation system where fewer than 1-in-10 DC pots are annuitised,⁴⁶⁸ this critical assumption of how risk is shared no longer holds. Whilst drawdown provides the flexibility to change income based on changing needs (unlike annuities), it requires an almost constant management of private pension wealth throughout retirement.
- 5.43 In a predominantly DC pension system, misunderstanding life expectancy is a fundamental risk to income stability and pensions adequacy. Pension wealth could easily be overspent, risking inadequacy in later retirement. Evidence suggests that people struggle to engage with longevity risk and some focus their planning and decision-making around the initial, earlier years of active retirement.⁴⁶⁹ Pension wealth could also, however, be being underspent as appears to

⁴⁶⁸ FCA, 2025, '[Retirement income market data 2024/25](#)'

⁴⁶⁹ For example – DWP, 2020, '[Pension Freedoms a qualitative research study of individuals' decumulation journeys](#)'

be the case in international counterparts,⁴⁷⁰ with caution potentially limiting quality of life in earlier retirement.

- 5.44 Longevity risk has been described as the ‘key retirement blind spot’, with people tending to consider what they assumed to be average life expectancy, what they read in wakeup packs, or the experiences of their parents and grandparents. They were shocked to learn of how long they may live and considered the thought of living solely on the State Pension for 10 years or more to be frightening.^{471,472} As shown in Figure 5.3 above, women can generally expect to live longer than men,

⁴⁷⁰ The US, Australia, and New Zealand in the absence of systems that require their savers to turn DC wealth into retirement incomes each have evidence to suggest retirees are reluctant to draw down their private pension wealth – in PPI, 2023, [‘What can the UK learn about other countries’ approaches to accessing DC savings?’](#)

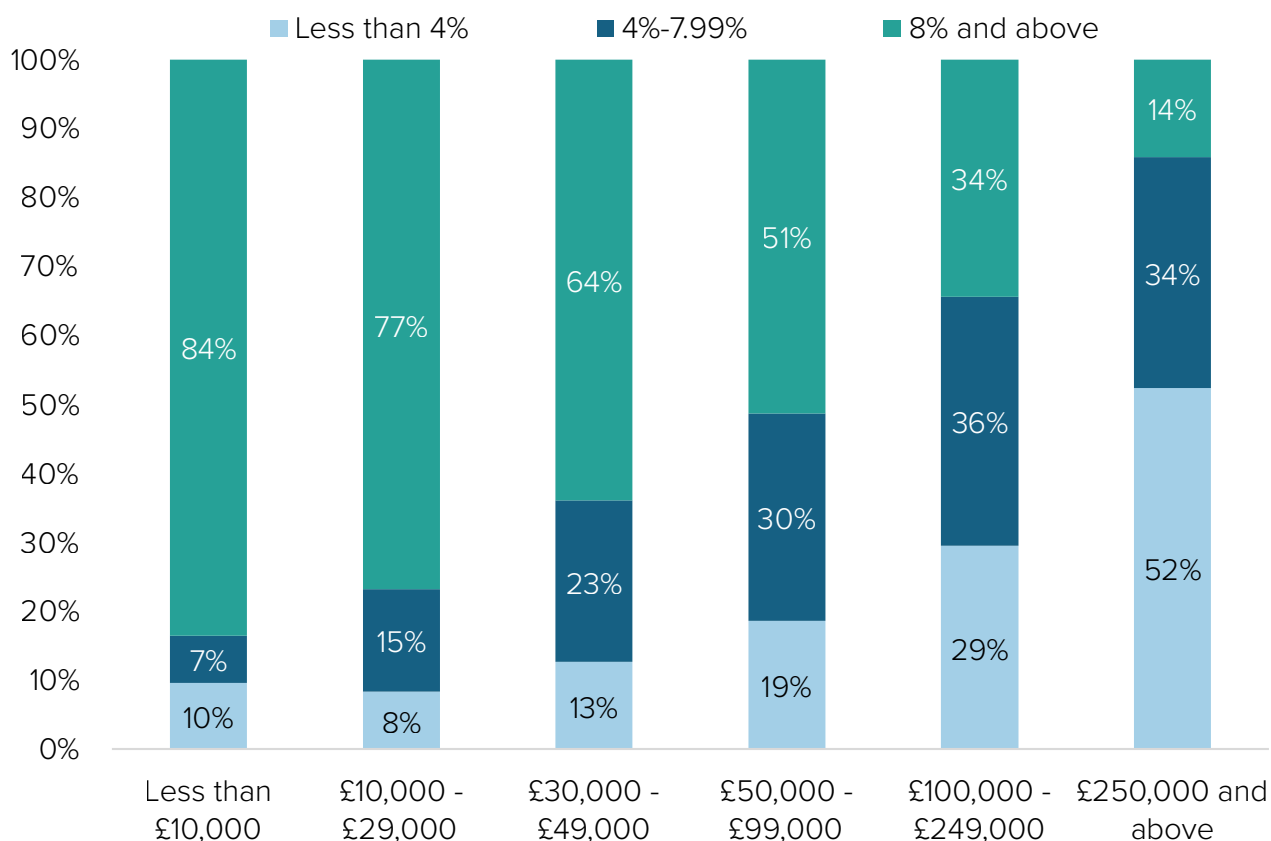
⁴⁷¹ People’s Partnership, 2025, [‘New Choices, Big Decisions’](#)

⁴⁷² To note, this shock/surprise provides some evidence as to why annuities or fixed income products are unpopular. They may not deliver the value or income expected due to being modelled on much longer periods than people expect to live.

meaning that the risks of mismanaging longevity risks could impact women more than men on average.

5.45 Misunderstanding life expectancy and longevity risk is particularly concerning given high withdrawal rates. Across pension pot sizes, a significant proportion of pension pots are withdrawn at potentially unsustainable rates.

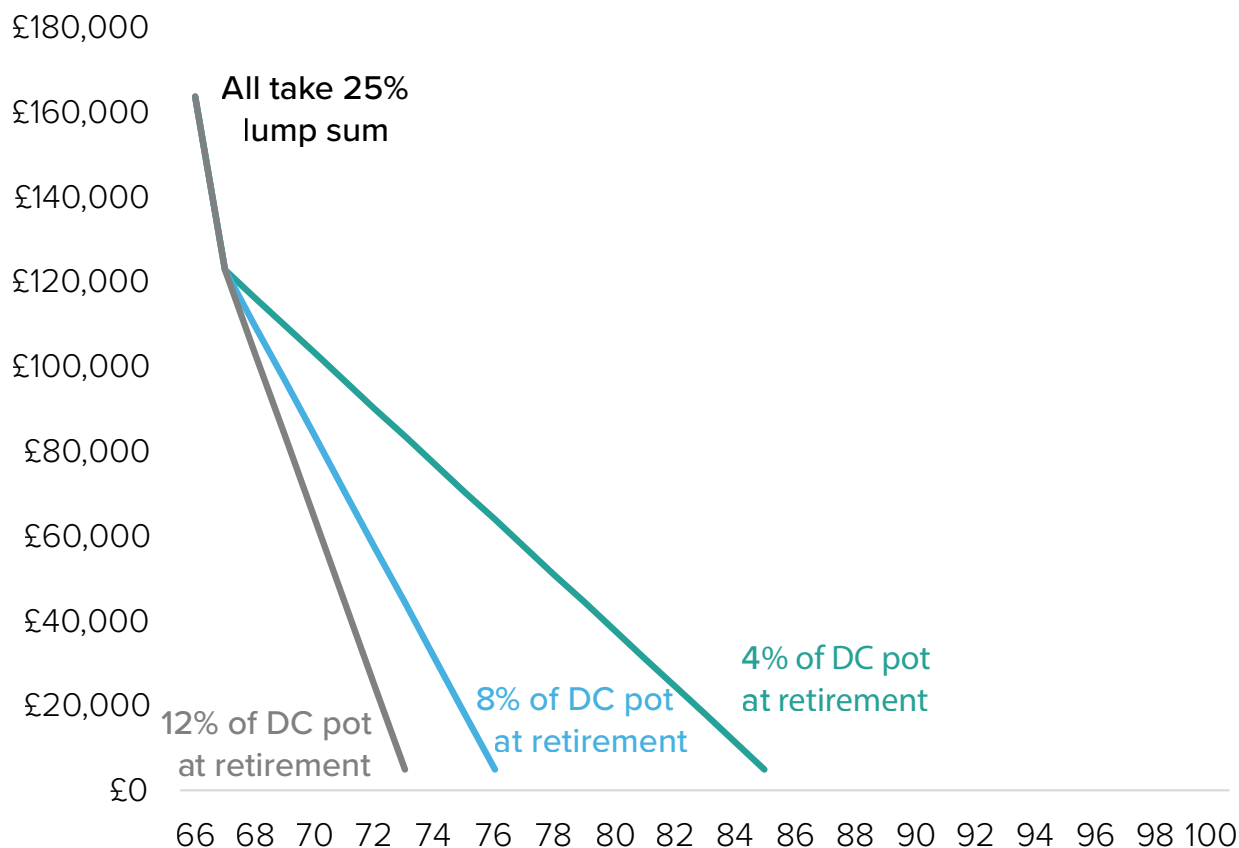
Figure 5.4: Annual withdrawal rates during 2024-25 for those making partial withdrawal, by pot size⁴⁷³



⁴⁷³ FCA, 2025, [‘Retirement income market data 2024/25’](#)

5.46 Figure 5.4 shows that the vast majority of small pension pots (84% of those under £10,000 and 77% of £10,000-£29,000 pots) are withdrawn at a rate of at least 8%. Individually, these pots are too small to generate a significant income over retirement. However, around a third (34%) of pension pots worth between £100,000 and £249,000 are withdrawn at a rate of at least 8%. Figure 5.5 provides an illustrative example. It shows that a DC pot of £165,000 minus a 25% lump sum and accessed at age 68 would be depleted within just 10 years if drawn down at a rate of 8%. A woman drawing down a pot in this way has over a 50% chance of living at least another 10 years.

Figure 5.5: A pension pot of around £165,000 depleted at various withdrawal rates⁴⁷⁴



5.47 An optimal withdrawal rate would ideally be informed primarily by the length of time for which a pot should be in payment, as well as an understanding of investment returns. Whilst 8% would last around 10 years, researching sustainable withdrawal, Fidelity found that the highest starting safe withdrawal rate with a 90%

⁴⁷⁴ DWP analysis using iPEN model, adapting for different drawdown options

probability of lasting for 30 years was much lower at 3.7%.^{475,476}

- 5.48 Analysing withdrawal rates over time shows that both smaller (under £10,000) and larger (between £100,000 and £250,000) pension pots are now more frequently being withdrawn at high rates. Between 2017-18 and 2024-25, there was a 16 percentage point increase in smaller and a 10 percentage point increase in larger pots being withdrawn at rates of over 8% to 84% and 34% respectively.⁴⁷⁷
- 5.49 This trend of greater, earlier drawdown could be rational utility maximisation behaviour on the part of individuals. They might prefer to spend more in their earlier years of retirement on the expectation that their spending will fall

⁴⁷⁵ Fidelity, 2025, '[Sustainable withdrawal rates for drawdown clients](#)'

⁴⁷⁶ To note, this idea of sustainable withdrawal has been explored in other systems. For example, New Zealand's Retirement Income Interest group developed a series of 'rules of thumb' of sustainable withdrawal rates based on wants and needs, generally ranging between 4% and 6% – in RIIG, 2023, '[Drawdown Rules of Thumb: Update 2023](#)'

⁴⁷⁷ DWP analysis of FCA Retirement Income Market data

in later years. Indeed, it is often assumed that older pensioners spend less than younger pensioners. However, the IFS demonstrated that pensioners' spending in real terms remains relatively flat.⁴⁷⁸ Expenditure patterns also appear to vary by tenure type, with homeowners spending less over time compared with social tenants, whose expenditure remains stable. Since the number of renters in retirement is expected to grow over time and given fixed costs such as housing or bills form a larger proportion of renters' income,⁴⁷⁹ expenditure seems unlikely to reduce significantly over time for all pensioners.

5.50 Alongside findings that drawdown rates are sometimes determined by 'just guessing really',⁴⁸⁰ government should also be concerned that individual decisions are driven by short-term rather than long-term concerns. Of those

⁴⁷⁸ IFS, 2022, '[How does spending change through retirement?](#)'

⁴⁷⁹ DWP analysis of the Living Costs and Food survey has found that renters now spend over a quarter (26%) of their income on essentials (housing, water, and electricity), compared to 14% in 2003-2004, and compared with homeowners spending 9%.

⁴⁸⁰ People's Partnership, 2025, '[New Choices, Big Decisions](#)'

recently accessing their DC pension, 2-in-5 (38%) preferred to do so flexibly and were willing to risk running out of money in the long term.⁴⁸¹ Large proportions of savers are accessing pensions without considering factors of fundamental importance. For example, only 32% consider other sources of income they have, relatively few consider how long they are going to live (43%), how much money they will need to last throughout retirement (40%), or the effect of inflation (26%).⁴⁸² Of those who partially encashed their pension in the 4 years to 2024, just over half (53%) agreed that they have been ‘cautious about spending [their] pension in case it runs out’ and around two-thirds (67%) have reviewed how much they are withdrawing, taking into account pension investment performance, inflation, and their health.⁴⁸³ Given this, it seems plausible that both wealthier and poorer pensioners could face a cliff-edge in income later in retirement. Overall, this evidence does not support the rational utility maximisation argument.

5.51 Further, exhausting a pension pot, even if deliberate, could mean additional cost for

⁴⁸¹ FCA, 2025, [‘Financial Lives 2024 survey’](#)

⁴⁸² FCA, 2025, [‘Financial Lives 2024 survey’](#)

⁴⁸³ FCA, 2025, [‘Financial Lives 2024 survey’](#)

taxpayers, transforming the individual-level choices into questions of fairness and fiscal sustainability. Some with limited private pension wealth in retirement will become entitled to means-tested benefits, including those without a full new State Pension who will become eligible for Pension Credit. This is a direct fiscal cost. The wider, indirect, fiscal impacts of over-exhaustion of pensions wealth in early retirement could create a major challenge to public finances. The Office for Budget Responsibility noted the potentially significant pressure from indirect fiscal costs of inadequate later life incomes. This could include impacts like becoming reliant on the state for support with housing costs or becoming fully reliant on support for social care. With the average cost of a local authority funded care home place in England at nearly £50,000 per year, the true cost of pensions inadequacy stretches well beyond just direct benefit entitlement.⁴⁸⁴ Inadequacy can also create wider pressure for the government to support retirement incomes should they fall too low: Pension Credit and Winter Fuel Payments were introduced in the late 1990s and early 2000s in the context of

⁴⁸⁴ OBR, 2025, '[Fiscal risks and sustainability – July 2025](#)'

national outrage at the position of pensioners relative to younger people.

The decumulation system now relies on engagement

- 5.52 A foundational concept of the first Pensions Commission settlement and the subsequent introduction of AE was that pensions planning and engagement was passive. This inertia could be harnessed to create good retirement outcomes for individuals. Decumulation was informed by inertia to an extent – individuals had to decide when to retire and what annuity to purchase, but annuitisation was effectively assumed to be a mass market default solution.
- 5.53 The introduction and implementation of the 2014 pension access reforms confused this system. People were given more choices about how to decumulate their savings which some valued given falling interest rates had meant locking their savings into an annuity was at that time unattractive. The UK private pensions system runs two systems based on two sets of behavioural principles – an embedded inertia-driven settlement on accumulating savings with an active engagement settlement on how those savings are accessed.

- 5.54 Whilst many savers are actively engaged and confident in their decision-making, others are not. Following the 2014 reforms, there have been a series of guardrail policies and regulatory measures intended to build back support, return the system to one aimed at delivering an income and protect people when making complex financial decisions, with further measures in the Pension Schemes Bill.
- 5.55 Pension Wise has been introduced to support those not confident in making decisions without guidance and those not able to afford expensive advice. However, the 2014 reforms made little allowance for the large group of the retiring population who would not use advice or guidance at the right time or at all. People do not act as expected in policy models. The government of 2015 admitted that ‘it is not possible to reverse years of disengagement overnight’,⁴⁸⁵ but neither has it proven possible to do so over the past decade. The findings presented are a snapshot of a wide evidence base on the challenges of pensions engagement and why decumulation can leave

⁴⁸⁵ HMT, 2014, ‘[David Gauke’s speech to the Westminster and City annuities and drawdown conference](#)’

many savers uncertain as to the decisions they should take.⁴⁸⁶

- **Saving versus planning:** Although people most frequently say they start saving for retirement in their 20s and 30s, they generally do not start planning for retirement until much later. People who were semi- or fully retired tended to start planning for retirement in their 50s, close to when a decumulation decision could be made.⁴⁸⁷ This means many approach retirement without a plan for the future. The absence of retirement planning is further evidenced by the fact that 77% of DC pension holders aged 40-75 yet to access a pension did not have a clear plan for how to do so, with 21% of these people not even aware they had to make a choice.⁴⁸⁸

⁴⁸⁶ For example, see Overton L and Smith C, 2022, '[Pension Decision-Making in the New Retirement Landscape: Understanding and improving outcomes for consumers](#)'

⁴⁸⁷ DWP, 2025, '[Planning and Preparing for Later Life 2024](#)'

⁴⁸⁸ DWP, 2025, '[Planning and Preparing for Later Life 2024](#)'

- **Financial capability:** People may not have sufficient knowledge to confidently make the right decision for them. For example, over half of all adults (52%) are not confident making decisions about financial products and services. This is higher (86%) among those with lower financial wellbeing.⁴⁸⁹ Other research projects found that confidence in decumulation decisions is linked with financial capability.⁴⁹⁰
- **Pensions knowledge:** Pensions are complex, and many people may not understand how they work. For example, 31% of DC pension holders were not aware that their pension is invested, and 57% were not aware that fees are charged. In terms of decumulation product choice, 22% of DC pension holders expecting to access their pension in the next 2 years had never heard of a single life annuity, 27% had never heard of income drawdown, and 70% had never heard of the Uncrystallised Funds Pension Lump Sum approach. Only 56% could match

⁴⁸⁹ Money and Pensions Service, 2025, '[Money View](#)'

⁴⁹⁰ DWP, 2020, '[Pension Freedoms a qualitative research study of individuals' decumulation journeys](#)'

the name and description of an annuity.⁴⁹¹ Pensions knowledge and confidence are concerns at population level, but also vary by gender, with 62% of women thinking they do not understand enough about pensions to make retirement decisions, compared with 44% of men.⁴⁹²

- **Competing needs:** Choosing a decumulation approach for a DC pension pot may require some trade-off between having flexibility and income stability. DWP research found that just over 1-in-2 (53%) of DC pension holders aged 40-75 wanted their pension to provide a guaranteed income for life, but a significant proportion wanted their pension to meet one-off costs (34%), or deliver a flexible income for life (31%).⁴⁹³ Similarly, in qualitative research, interviewees said they wanted and needed both security and flexibility, fearing being

⁴⁹¹ FCA, 2025, '[Financial Lives 2024 survey - Pensions: Selected findings](#)'

⁴⁹² Money and Pensions Service, 2025, '[Money View](#)'

⁴⁹³ DWP, 2025, '[Planning and Preparing for Later Life 2024](#)'

locked into an unsuitable decision, but wanting some degree of predictability.⁴⁹⁴

- 5.56 In a decumulation system requiring choice, it is important that savers have the support necessary to navigate decisions that require considerable knowledge and understanding. This is even more important given that decumulation decisions can potentially coincide with other periods of stress and uncertainty, such as leaving work, taking on new caring responsibilities, or experiencing a decline in health.
- 5.57 DWP has commissioned new research on the factors that influence decumulation decision-making.⁴⁹⁵ Box 6 describes some early themes emerging from the initial interviews.

⁴⁹⁴ Overton L and Smith C, 2022, '[Pension Decision-Making in the New Retirement Landscape: Understanding and improving outcomes for consumers](#)'

⁴⁹⁵ DWP, Forthcoming, Decumulation and Decision Making Qualitative Research

Box 6: Decumulation and decision-making research interim findings

Confidence in managing risks and making decumulation decisions for DC pensions is often limited.

“Is it best to claim some of it now and know you’ve got the money, or is it best to sit? Because it’s all a gamble, really.” – **Female, Not accessed pension**

Whilst feeling in control of decisions was common, some worried about long-term income adequacy.

“(If I said) right, I’m retiring today, or I’m going to start drawing my pension down to top everything up today, my pension would last about three years.” – **Male, Accessed pension**

The process of engaging with decumulation decisions is challenging. Some struggled to understand the rules and terminology around decumulation, such as on tax, charges and fees.

“I don’t know if it’s fees, but I understand that I would lose quite a lot of money by taking my pension early. That’s the only understanding I have.” – **Male, Not yet accessed pension**

Experiences of receiving advice, guidance, or information on decumulation were mixed and information should be explained in simple language.

“I’d like it explained to me in English, simple, easy terms... Lots of us don’t understand the percentages of interest or, you know, tax stuff” –
Male, Not yet accessed pension

Advice and guidance take-up is unequal

5.58 Individuals can access independent financial advice, with some pension providers allowing for up to three £500 withdrawals from a pension fund to pay for this, though note that this may not cover the full cost. Use of financial advice is generally low (just 13% of 50 to 75 year olds used a professional financial adviser in the last 12 months),⁴⁹⁶ but higher closer to decumulation. Less than a third (31% of pensions) accessed for the first time in 2024-25

⁴⁹⁶ DWP, 2025, [‘Planning and Preparing for Later Life 2024’](#)

were accessed by people who took regulated advice, down from 33% in 2022-23.⁴⁹⁷

- 5.59 Several commentators point to a ‘gender advice gap’,⁴⁹⁸ but in the FCA’s Financial Lives Survey, there was no statistically significant difference in take-up of advice close to pension decumulation between men and women. The majority (72%) of those who did not take financial advice said that they had no need to. Around 1-in-10 (11%) had an issue with the fee, and 14% lacked confidence or trust in financial advisers.⁴⁹⁹
- 5.60 Free support is also available via Pension Wise – a guidance service for over 50s introduced alongside the 2014 reforms to ensure savers were making informed access decisions. Around 40% of adults accessing a pension in the 4 years to 2024 used Pension Wise up from 34% in 2020, but around a third (33%) had not used it despite knowing about it, and around a quarter (26%) had not used it and also had

⁴⁹⁷ FCA, 2025, ‘[Retirement income market data 2024/25](#)’

⁴⁹⁸ For example, see Shipp E, 2026, ‘[It’s Not About Confidence](#)’

⁴⁹⁹ FCA, 2025, ‘[Financial Lives 2024 survey - Pensions: Selected findings](#)’

not heard of it.⁵⁰⁰ Use appears to be increasing still with a 25% year-on-year increase to Q2 2025/26 where 36,000 individuals attended Pension Wise appointments, 28% of which were through the new Pension Wise Digital service.⁵⁰¹ The use of advice and guidance is associated with higher levels of confidence in making pension decisions.⁵⁰²

5.61 The use of advice and guidance varies by pot size, with around 70% of pots worth less than £30,000 accessed without advice or guidance, compared to 27% of pots worth £250,000 or more.⁵⁰³ It also varies by financial capability: amongst 40 to 75 year olds, use was more prevalent in high financial literacy than low financial literacy groups and high income than low income groups.⁵⁰⁴

⁵⁰⁰ FCA, 2025, '[Financial Lives 2024 survey - Pensions: Selected findings](#)'

⁵⁰¹ Money and Pensions Service, 2025, '[MoneyHelper pension take up dashboard](#)'

⁵⁰² DWP, 2025, '[Planning and Preparing for Later Life 2024](#)'

⁵⁰³ FCA, 2025, '[Retirement income market data 2024/25](#)'

⁵⁰⁴ DWP, 2025, '[Planning and Preparing for Later Life 2024](#)'

5.62 The Money and Pensions Service have identified the groups most likely to experience issues with financial wellbeing and is developing guidance with these groups in mind. The FCA are developing ‘Targeted Support’ to bridge the advice and guidance gap.⁵⁰⁵ Under new regulations, this will allow FCA-regulated schemes to provide suggestions – a form of advice – for groups of consumers with common characteristics to help make decisions about pensions and investment. Although not individualised, Targeted Support is expected to ensure more consumers have access to support. Policy developments to improve decumulation outcomes are welcome. It will be important to closely monitor the effectiveness of Targeted Support in improving saver outcomes.

Lifestyling and investment risk have a major impact

5.63 In a predominantly DC pensions system, individuals now bear investment risk in a number of ways that can significantly affect retirement adequacy.

⁵⁰⁵ FCA, 2025, [‘PS25/22: Supporting consumers’ pensions and investment decisions: rules for targeted support’](#)

- 5.64 People often need greater certainty over the value of their pension savings as they approach retirement and have to decide how and when to access their pension. The first Commission understood this. They observed that the risk shift, as a consequence of the DB to DC shift, exposes individuals to ‘major uncertainty about the value of their future pension’ and that incomes in retirement will be increasingly influenced by investment decisions.⁵⁰⁶ Recognising the importance of lower volatility for many savers as they approach retirement, the first Pensions Commission recommended that a provider’s default fund should automatically shift members onto a glidepath of de-risking assets.⁵⁰⁷ This ‘lifestyling’ approach was to deliver more stable outcomes, partially mitigating investment risk for individuals and increasing the likelihood of pot size expectations being met at retirement.
- 5.65 Debates have emerged as to the desirable length for a ‘glidepath’ and the balance between

⁵⁰⁶ The Pensions Commission, 2004, ‘[Pensions: Challenges and Choices – The First Report of the Pensions Commission](#)’

⁵⁰⁷ The Pensions Commission, 2005, ‘[A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission](#)’

achieving lower volatility and higher returns from remaining invested in growth assets. This has become more complicated following the 2014 reforms and decumulation system developments. Providers are having to target stability for potential total encashments in savers' mid-50s which, in turn, could be limiting the growth of pots that will be accessed much later or through a different means such as drawdown.

- 5.66 Evidence reveals that schemes' approaches to lifestyling varies, particularly the length of their derisking period. DWP's Provider Survey found that the longest glidepath was 24 years and the shortest 5, with some providers responding that they de-risked 0 years prior to retirement.⁵⁰⁸ Similarly, research from Corporate Adviser found that de-risking started on average 13.9 years before State Pension age, with the longest being a 35-year glidepath and the shortest a 6-year glidepath.⁵⁰⁹
- 5.67 Providers' de-risking decisions will directly affect pot sizes at retirement, and further

⁵⁰⁸ DWP, 2025, '[The Pension Provider Survey 2024/25](#)'

⁵⁰⁹ Corporate Adviser, 2024, '[CA Master Trust & GPP Defaults report - key findings](#)'

developments such as the introduction of Guided Retirement and investment in productive and longer-term assets, will impact this further. The lifestyling approach may be significantly less appropriate to those who access their pensions later in retirement or are going to move their pot into drawdown, as this will extend their investment horizon and risk the individual losing out on potential returns to support them in later life. There is an argument for retaining investment in higher risk and higher growth assets later on into the lifecycle for these people given the increased time over which any shocks can be recovered.⁵¹⁰ This longer growth exposure is true of the majority of Australian superannuation schemes.⁵¹¹

5.68 Lifestyling approaches need to more effectively balance managing investment volatility with retirement adequacy. In addition, investment risk management after the point of access has become much more important, given the large numbers moving their pensions into flexible drawdown. This could become even more important following the implementation of

⁵¹⁰ Hymans Robertson, 2025, '[Building resilience in de-risking strategies for UK DC members](#)'

⁵¹¹ Policy Exchange, 2024, '[Growing Pension Capital: Lessons From Australia](#)'

Guided Retirement solutions. For instance, if a saver was highly likely to take a ‘flex-then-fix’ option, combining the flexibility of drawdown in earlier retirement with the stability of an annuity in later, the need to de-risk in the run-up to retirement is lessened.

Timing affects adequacy

- 5.69 DC pots are influenced by market forces, so timing can play a key role in retirement adequacy. The first Pensions Commission pointed to this in the context of proposing lifestyling approaches. They showed that a pension invested heavily in equities would be worth around one third less in 2002 as a result of the market crash of 2000.⁵¹²
- 5.70 Lifestyling was seen as the main way to mitigate this risk and has generally been effective in delivering inflation-protected returns at low risk since. But market instability in recent years has brought to light the adequacy challenge of timing risk even with heavy derisking of assets. Savers approaching retirement in 2022 saw large declines in the value of their pension pots over the course of the year. The traditional

⁵¹² The Pensions Commission, 2005, ‘[A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission](#)’

practice of moving people's pensions into fixed income assets including UK gilts came unstuck as the perceived 'safest' retirement asset lost its value. Those who were 5 years from retirement saw their pots decrease in value by an average of almost 10% over the year. Those just one day from retirement saw their pots decrease in value by over 8% over the year.⁵¹³ A saver – individually bearing that risk – retiring at that point in time would have had significantly worse financial outcomes than expected.

5.71 Evidence also suggests that many do not understand how to effectively manage this risk and instability. For example, market instability has caused some close to retirement to fully encash their pensions, having seen markets fall, and worrying about further declines. These individuals moved their assets into a more stable savings account, effectively locking in their loss in value forever.⁵¹⁴ Yet, the value of their pot, if left untouched, would have increased again as markets stabilised.

⁵¹³ Corporate Adviser, 2023, '[Master Trust and GPP Defaults Report 2023](#)'

⁵¹⁴ People's Partnership, 2024, '[New Choices, Big Decisions Crunch time! Unravelling the impact of the cost of living crisis](#)'

Pensions are not always inflation protected

- 5.72 Savers making decumulation decisions are also expected to understand the risk of inflation. They can manage this by purchasing an inflation-linked product, or can draw income down conservatively in a way that maintains purchasing power over time.
- 5.73 Evidence on high withdrawal rates and limited annuity purchase shows that this happens infrequently. Since the implementation of the 2014 reforms, annuity sales have decreased to only around 1-in-10 pots.⁵¹⁵ The vast majority (80%)⁵¹⁶ of these annuities are ‘level only’ meaning that they do not increase with inflation and that the real-terms value of a pension will decline over time. As an illustrative example, a retiree purchasing an annuity of £8,000 per year in 2015 would have had an income worth around £5,800 in real terms in 2025, a decline of 27.4% over just 10 years⁵¹⁷. This decline

⁵¹⁵ FCA, 2025, ‘[Retirement income market data 2024/25](#)’

⁵¹⁶ FCA, 2025, ‘[Retirement income market data 2024/25](#)’

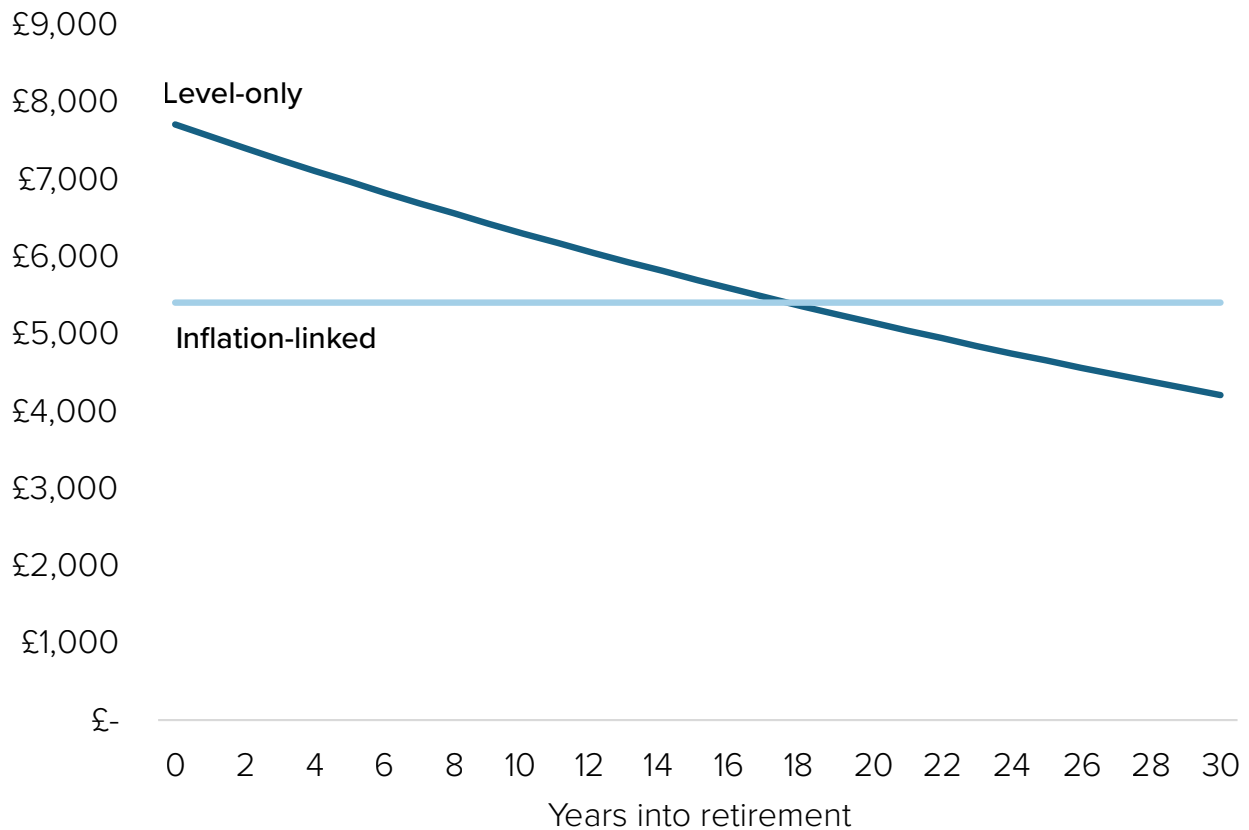
⁵¹⁷ DWP calculation using Bank of England, 2025, ‘[Inflation calculator](#)’

potentially limits pensioners' access to income security and a reasonable standard of living.

5.74 However, index-linked annuities may look expensive. Figure 5.6 shows that currently a single-life annuity for £100,000 would deliver an annual income of £7,700 for a 65 year old, compared to £5,400 for an annuity linked to inflation.⁵¹⁸ Despite its lower starting value, the inflation-linked annuity would become worth more in real terms than the level-only annuity after 19 years of retirement, assuming 2% inflation, since the level-only annuity loses real value each year.

⁵¹⁸ DWP analysis using Hargreaves Lansdown annuity rates

Figure 5.6: Effective value of annuity types assuming 2% inflation⁵¹⁹



5.75 Pensioners may only become aware of the impact of inflation risk once already retired. Qualitative research found that annuity purchasers tended to look only at headline figures and so decided not to inflation-proof their product. In hindsight, they expressed regret and a wish that providers were more upfront about the consequences of their

⁵¹⁹ DWP analysis using Hargreaves Lansdown annuity rates

actions.⁵²⁰ This is despite research that showed that 1-in-5 (19%) ‘mid-retirees’ (ages 65-75) saw the impact of inflation on savings and investments as one of their biggest financial challenges.⁵²¹

5.76 Some may argue that inflation protection is not necessary due to expectations of declining expenditure needs and State Pension indexation. This is especially likely to be true for those for whom the State Pension forms the majority of their income. For example, in their ‘Blueprint’ solution, Nest, a scheme made up principally of small pots, suggest that their proposal for a later life annuity does not need to be inflation linked.⁵²² However, this is not a given. Expenditure may not fall consistently, and some pensioners may require or benefit from inflation protection.

⁵²⁰ People’s Partnership, 2024, ‘[New Choices, Big Decisions Crunch time! Unravelling the impact of cost of living crisis](#)’

⁵²¹ Aviva/Age UK, 2025, ‘[Retirement reality: Managing Money in mid-retirement](#)’

⁵²² Nest, 2015, ‘[Future of retirement blueprint](#)’

The decumulation system lacks charge caps

- 5.77 The first Pensions Commission saw low annual management charges in accumulation as crucial for a functioning, inclusive, cost-efficient pensions system. In their report, they argued for a charge cap of 0.3% per annum. A charge cap was established in AE legislation, limiting charges to a maximum of 0.75% per year. The first Pensions Commission did not, however, consider the requirement for charge caps in decumulation, given the mass annuity purchase regime.
- 5.78 Now that this system has changed, it is important that charges do not bear down excessively on value in retirement. Relying on the open market to drive down competitive charges places too much responsibility on individual savers when evidence shows many people do not shop around.⁵²³ This is likely to be further complicated once Guided Retirement solutions are put in place since many – again given low engagement – are expected to take the default solution provided by their provider. At present, current charging levels in the FCA's investment pathways are within the 0.75%

⁵²³ FCA, 2025, '[Financial Lives 2024 Survey](#)'

cap as per accumulation, but there are some instances where charges exceed this.⁵²⁴

New decumulation approaches are under development

5.79 Industry's response to the challenges posed by this new decumulation system and the risks individuals face has been relatively slow, although it is ramping up in response to new Guided Retirement provisions within the Pension Schemes Bill 2025. This new requirement for a default is intended to support savers who choose to use that solution to turn their pensions into a sustainable income, not just a savings pot. New proposals and developments from industry each draw attention to the importance of managing and in some cases pooling risks. Beyond more traditional annuities or drawdown options, there are various retirement products under development at present, each pitched as likely to deliver more adequate and sustainable retirement incomes.

⁵²⁴ PPI, 2025, '[Assessing the UK Retirement Income Market: Defaults, Active Choices, Innovation, and the existing gaps and challenges for Delivering Value for Money \(VfM\)](#)'

- **‘Flex-then-fix’**: First proposed by LCP as ‘flex first, fix later’⁵²⁵ these solutions combine the flexibility of drawdown in earlier years with the security of annuity purchase in later life. This approach is already supported relatively widely including by the IFS in their Pensions Review.⁵²⁶ The option is expected to become available to thousands more savers, with 6 further providers expecting to launch a flex-then-fix offer in the next 12 months.⁵²⁷ The detail (e.g. annuitisation age, drawdown investment portfolio) of these solutions varies and there is yet to be empirical evidence of their effectiveness in practice.
- **Longevity protection**: Nest are currently co-designing a decumulation approach with Rothesay, an insurer. Their proposal is made up of different ‘building blocks’ or funds, again combining access to cash and flexible drawdown with longevity risk protection. The main difference between their approach versus other ‘flex-then-fix’ options is that

⁵²⁵ LCP, 2022, [“The flex first, fix later” pension – is this the future of retirement?](#)

⁵²⁶ IFS, 2025, [‘The Pensions Review’](#)

⁵²⁷ Corporate Adviser, 2026, [‘Six providers to launch ‘flex then fix’ retirement products in 2026’](#)

Nest will purchase an insurance product as an asset of the scheme, rather than relying on members purchasing individual annuities. This will enable Nest to pool longevity risk between their members.⁵²⁸ They believe this will provide higher incomes than traditional approaches.⁵²⁹

- **Whole life Collective Defined Contribution (CDC):** Collective Defined Contribution schemes pool investment and longevity risk to deliver a target retirement income. Members of CDC schemes save into a collective fund. This does not need to be de-risked in the years before retirement, as the pooling of assets, risk sharing, and long investment horizons through both accumulation and decumulation, mean the fund can better absorb and smooth out market volatility for their members. There is also much less exposure to timing risk for the same reason. CDC schemes are also required to target inflation at their outset, which, without expensive guarantees, will on average help members' incomes keep

⁵²⁸ Nest, 2015, '[NEST launches its retirement blueprint in response to pension freedoms](#)'

⁵²⁹ Nest, 2026, '[Nest partners with Rothesay to deliver solution to the DC retirement puzzle](#)'

pace with the cost of living. CDC schemes do not require the active management of retirement income by the individual; this is trustee managed and benefits are adjusted annually, paid for the rest of the member's life (individual schemes may, in their rules, offer spousal or death benefits). There is currently one single-employer CDC scheme in operation: the Royal Mail Collective Plan. However, the government recently legislated to enable the creation of unconnected multiple employer CDC schemes (UMES). This legislation will come into force 31 July 2026. After this time, prospective UMES will be able to apply for authorisation, enabling many more people to access the benefits of CDC pensions. Industry research has shown that CDC schemes could deliver more adequate outcomes than traditional DC with drawdown or annuity purchase, due to risk pooling.⁵³⁰

- **Retirement-Collective Defined Contribution:** Retirement Collective Defined

⁵³⁰ For example, see PPI, 2025, '[Collective pensions with investment choice](#)'; Hymans Robertson, 2025, '[CDC the complete picture](#)'; LCP, 2025, '[The future of pensions: A comparison of DC and CDC solutions for future savers](#)'

Contribution schemes (R-CDC) would see members saving into traditional DC schemes, then transferring all or part of their pot to a CDC scheme at retirement, to access a lifelong, trustee-managed income. R-CDC schemes could deliver the benefits of risk-sharing from the point of decumulation, with members benefitting from pooling investment and longevity risk in retirement, as well as a degree of inflation protection, as described above. Unlike their whole life counterparts, the impact of timing and investment de-risking on individuals' pension pots up until the point of retirement and transfer to R-CDC remain. This proposed solution might involve less flexibility for a member. Depending on scheme rules, it may not be possible to transfer out of an R-CDC or a whole of life CDC scheme post-crystallisation, or, if it is possible, restrictions may apply, as in DC. Government consulted on R-CDC schemes policy in 2025, as R-CDC could be a solution used in conjunction with Guided Retirement. Indeed, a number of providers have said

it is probable that they would consider developing an R-CDC scheme.⁵³¹

Learning from international approaches

5.80 The UK's pensions system places more emphasis on private pensions to provide retirement income and devotes a smaller proportion of GDP to state pensions than in many comparative economies.⁵³² Decumulation decision making on private savings will have a greater impact on pensions adequacy than is the case in other countries. There is, however, potential to learn from other countries' approaches to decumulation, in particular given their similar demographic challenges. International comparisons are challenging given different cultures, labour markets, and pension structures. Box 7 presents different countries' approaches to decumulation.

⁵³¹ Corporate Adviser, 2026, [‘Six providers to launch ‘flex then fix’ retirement products in 2026’](#)

⁵³² OECD, 2025, [‘Pensions at a Glance 2025’](#)

Box 7: International approaches to decumulation⁵³³

Australia – *Trustee-led decumulation strategies* – Australia places similar focus on private pensions saving to the UK. They have slightly less flexibility via minimum drawdown rates that apply as soon as benefits are taken (starting at 4% up to age 64, rising to 14% for those aged 95 or over) to prevent unused savings and to ensure a degree of retirement income. As of 2022, the Retirement Income Covenant was introduced to require superannuation funds to develop a strategy to help members optimise their retirement income. Funds have the discretion to determine the type of support they give to members across information, education, assistance, guidance, advice and implementation. The impact of this is mixed, with some schemes driving innovation to meaningfully impact outcomes, and others falling behind, failing to invest, and merely complying with the covenant rather than creating better outcomes for members.⁵³⁴

⁵³³ Information from PPI, 2023, '[International Decumulation](#)' unless specified.

⁵³⁴ APRA, 2025, '[2024 APRA-ASIC Retirement Pulse Check](#)'

Chile – *Minimum income threshold* – In Chile, savers can choose different pension products, but only when sufficient funds have been accumulated to purchase an annuity that would generate an income equal or above a defined threshold. If this threshold is not passed, the income will be placed into a default programmed withdrawal. A minority (under 40%) typically pass this threshold.

Denmark – *Compulsory occupational CDC* – In Denmark, employees participate in the ‘Arbejdsmarkedets Tillægspension’ or ‘ATP’, a CDC-style pension straddling the first and second pillars with contributions from employers and employees reflecting hours worked. This delivers a guaranteed pension income stream with potential bonuses. This, alongside the State pension – increasing to the highest rate in Europe – and private pensions, deliver consistently high replacement rates and sustainability throughout retirement.⁵³⁵

⁵³⁵ OECD, 2025, ‘[Pensions at a Glance 2025](#)’

New Zealand – Flexibility from 65 with State support – In New Zealand, the substantial replacement rate provided by the State superannuation scheme means people have great choice and flexibility when accessing their KiwiSaver (private pension) funds in retirement. In practice, they show reluctance to access and spend their private pension wealth, preferring to keep them invested and grow their assets into retirement. This has led to the development of several ‘rules of thumb’ to help them draw down their pension wealth.⁵³⁶

Pensions are frequently accessed by those in employment

5.81 Alongside decisions about how to access pensions wealth, decisions around when to do so can have major impacts on pensions adequacy. As discussed in Chapter 4, each year of additional work and pension saving has a threefold impact on adequacy. Each year of work missed before State Pension age not only means the flow of contributions is cut off early,

⁵³⁶ RIIG, 2023, ‘[Drawdown Rules of Thumb: Update 2023](#)’

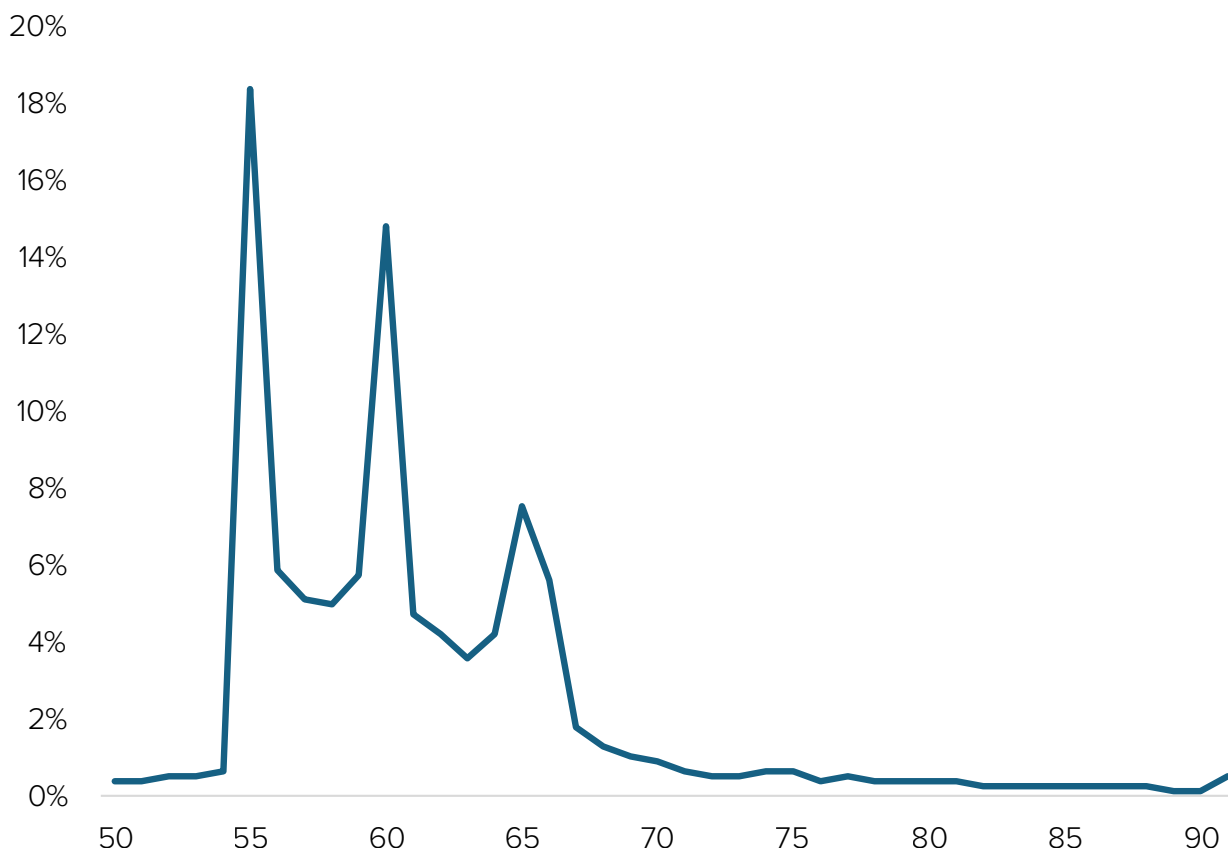
but that growth is lost, and the number of years a pension needs to be spread across increases.

- 5.82 Growing numbers of people are drawing down their pensions while continuing to work. In some instances, this could be facilitating longer working lives, but in other cases it could mean inadequate pension incomes at State Pension age.

People are retiring – and accessing pension wealth – gradually

- 5.83 The growth of DC pensions and the decline of DB pensions as well as the introduction of the 2014 pension access reforms have made it easier to access pension savings while still working. In our system of multiple pots and tax rules, which allow for pre-retirement access under certain conditions, more people are accessing one or multiple pensions before fully retiring.

Figure 5.7: Age of access for those receiving a private pension payment for the first time, 2024-25⁵³⁷



5.84 In contrast to the average labour market exit age of around 65, Figure 5.7 shows that pensions access spikes when people reach age 55, or the current NMPA, then again at age 60, the point at which many DB pensions can be accessed without penalty.

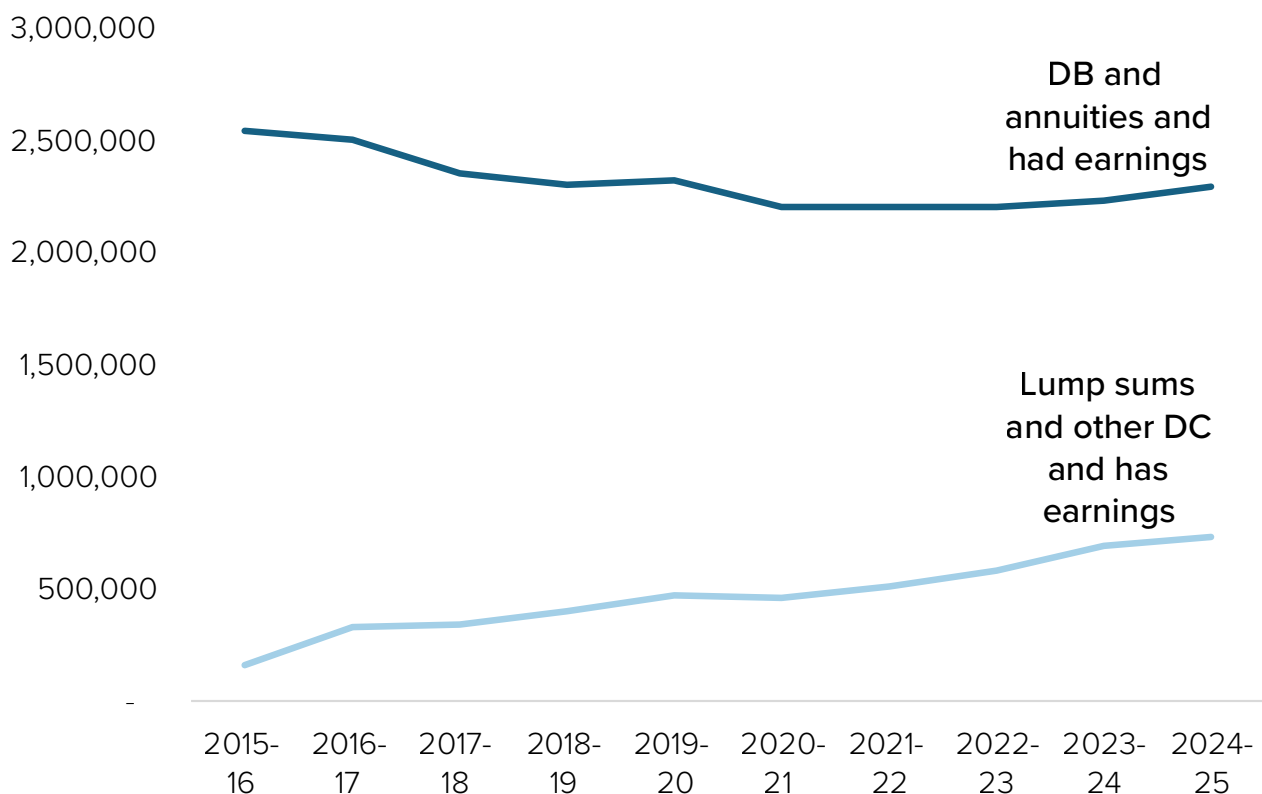
5.85 Around 3-in-5 people (61%) aged 55-75 who had accessed a pension said they had done

⁵³⁷ DWP, 2025, '[Workplace pension participation and savings trends of eligible employees: 2009 to 2024](#)'

so before they fully retired from paid work.⁵³⁸

As shown in Figure 5.8, in 2024-25, around 2.7 million individuals were receiving a private pension while still in employment.

Figure 5.8: Numbers receiving private pension and employment income over time⁵³⁹



5.86 The most frequent reason people gave for accessing their pension before fully retiring was because it allowed them to reduce or change

⁵³⁸ DWP, 2025, '[Planning and Preparing for Later Life 2024](#)'

⁵³⁹ DWP, 2025, '[Workplace pension participation and savings trends of eligible employees: 2009 to 2024](#)'

their working hours (28%). Some (10%) also stated that it allowed them a change in work.⁵⁴⁰

- 5.87 DWP analysis demonstrated that private pensions are being used as earnings replacement well before retirement. Over 50% of people reduce their hours following pensions access by, on average, around 10 hours per week.⁵⁴¹ Comparing earned income (from employment) in the year prior to pension access and in the following year shows a pre-/post-pensions access fall of around 20%. Comparing total incomes, though, including private pensions, shows that these look broadly the same before and after pensions access.⁵⁴² This tends to continue for 5 or more years, a substantial period, and appears to be happening fairly evenly across income bands.⁵⁴³
- 5.88 As discussed in Chapter 4, retaining attachment to the labour market in later life has economic

⁵⁴⁰ DWP, 2025, '[Planning and Preparing for Later Life 2024](#)'

⁵⁴¹ DWP analysis of ONS, Annual Survey of Hours and Earnings

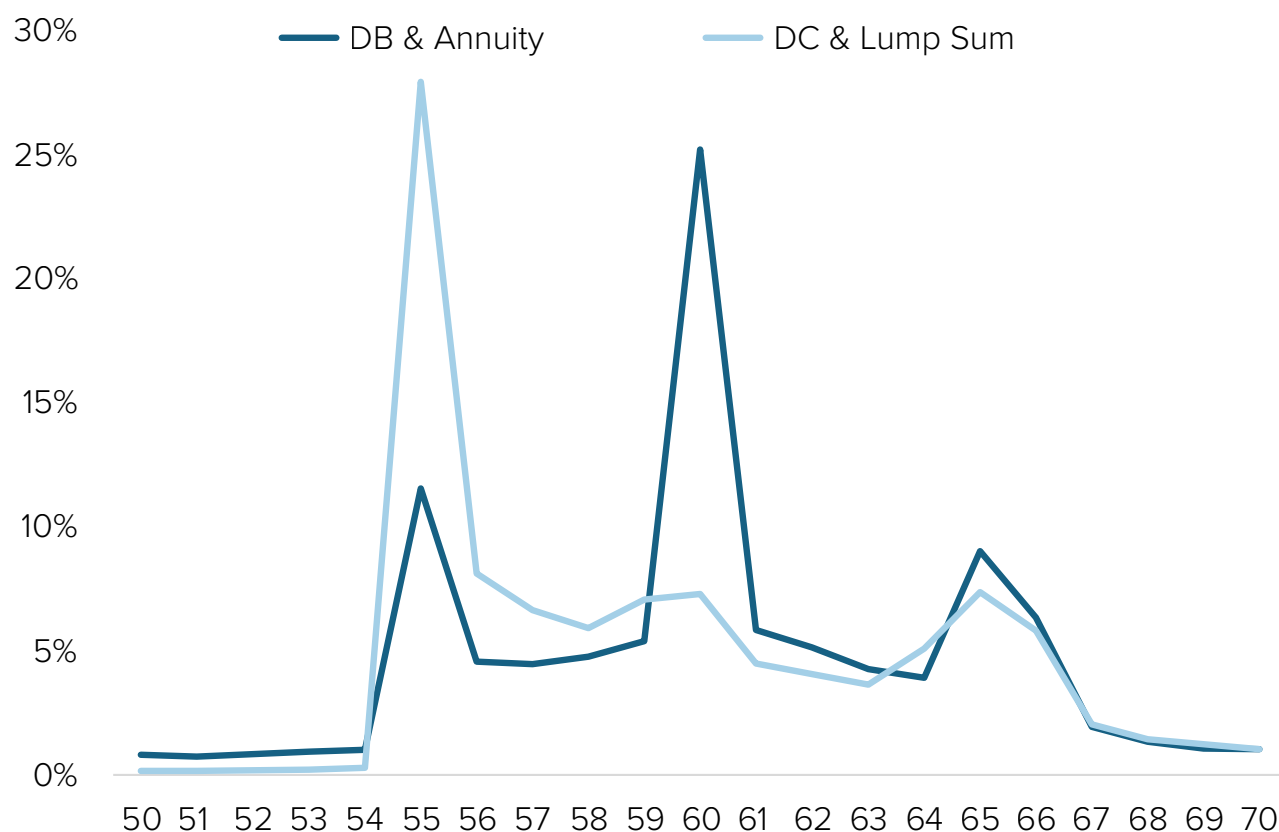
⁵⁴² DWP analysis of RAPID and ONS, Annual Survey of Hours and Earnings

⁵⁴³ DWP analysis of RAPID and ONS, Annual Survey of Hours and Earnings

and social advantages for individuals, and wider economic advantages given the impact on productivity and tax receipts.

Workers are accessing tax-free cash

- 5.89 As well as allowing for gradual retirement, evidence does, however, hint that many are accessing their pension at the earliest possible opportunity without facing a significant tax penalty. Earlier access to pensions is a concern if it puts long-term adequacy at risk, particularly given widespread access of tax-free cash, and propensity to draw down large proportions of pension wealth.
- 5.90 Returning to Figure 5.7, a significant proportion of the spike at age 55 (when tax rules allow) is driven by accessing DC pensions or taking tax-free lump sums. Analysing age of first pensions access shows that DC and lump sum access differs from when DB schemes are generally accessed (which is likely linked with scheme rules) or when annuities are purchased, which is closer to average actual retirement ages as shown in Figure 5.9.

Figure 5.9: Age of first access by product type⁵⁴⁴

5.91 A significant proportion of pension pots are accessed by people still in work. Nearly half (42%) of people taking out tax-free cash are employed or self-employed, with a further 9% not working but not yet fully retired.⁵⁴⁵

5.92 Employees accessing tax-free cash tend to put this money into savings or pay for home

⁵⁴⁴ DWP analysis of HMRC RTI pensions data

⁵⁴⁵ Additional analysis using DWP, 2025, '[Planning and Preparing for Later Life 2024](#)'

improvements or one-off purchases.⁵⁴⁶ Whilst the Commission cannot judge how a tax-free lump sum is spent, or what might have been optimal for an individual, these decisions are clear in one respect: they are not going to generate pension income.

5.93 Some people taking money out of their pension while in work believed they could make the money back by the time they retired fully.⁵⁴⁷ ‘Making up’ the losses is possible – but that obscures the benefits of keeping it invested. Accessing even relatively small lump sums early can have major impact on adequacy given investment growth. As an illustration, if a 25% lump sum was taken out of a £30,000 pot and moved into a bank account, this and the

⁵⁴⁶ Of those who had taken a tax-free lump sum in the 4 years to 2024 while in employment, 17% moved this into savings accounts for everyday expenses, and 23% did so as rainy day savings. Significant proportions also used the money for home improvements (26%), a holiday (18%), or used that money to purchase a car (7%) – To note – these statistics are based on smaller sample sizes. FCA, 2025, ‘[Financial Lives 2024 survey. Pension decumulation](#) table 62’

⁵⁴⁷ People’s Partnership, 2021, ‘[New Choices, Big Decisions – 5 Years On](#)’

remaining pension pot would be worth £1,600 less than if it were kept invested in the pension scheme for an additional 5 years.⁵⁴⁸ If that 25% were spent rather than saved, this difference would be nearly £10,000, or around a third of the initial pot size.

Later life challenges complicate decumulation decisions

5.94 Given the continued decline of DB pensions and now limited annuity take-up, a decumulation decision is no longer singular. Many savers will be expected to manage their money throughout retirement, either in lump sums, or by using wealth from pensions already encashed. This can be difficult and may be exacerbated by additional challenges older adults are increasingly likely to face. These were not issues explored by the first Pensions

⁵⁴⁸ Calculations assume 6.4% annual investment returns with 0.5% then deducted as a proxy for charges – Corporate Adviser, 2025, [‘Corporate Adviser Master Trust and GPP Defaults Report 2025’](#). Annual contributions are sourced from DWP, 2025, [‘Workplace pension participation 2025 Table 2.2’](#). The average instant access savings account interest rate is assumed to be 2.2%.

Commission, perhaps due to the assumption of retirement income regularity and different decumulation protections.

Marriage and divorce impact financial resources in retirement

5.95 Changes in relationship status can greatly affect financial situations. Although the proportion of adults who are married overall has fallen steadily since 1991, particularly for the 25-29 and 30-35 age groups, the proportion of older adults who are married or in a civil partnership has continued to increase since 1991.⁵⁴⁹ This is because of:

- initial higher levels of marriage among these generations
- the reduction in the proportion of people who are widowed
- more adults remarrying at older ages

5.96 In terms of pensions adequacy, marriage tends to mean shared resources, cohabitation, and shared incomes and assets, to some degree.

⁵⁴⁹ ONS, 2023, '[Marriage and civil partnership status in England and Wales](#)'

Living in a couple rather than as a single pensioner can have economic advantages.⁵⁵⁰

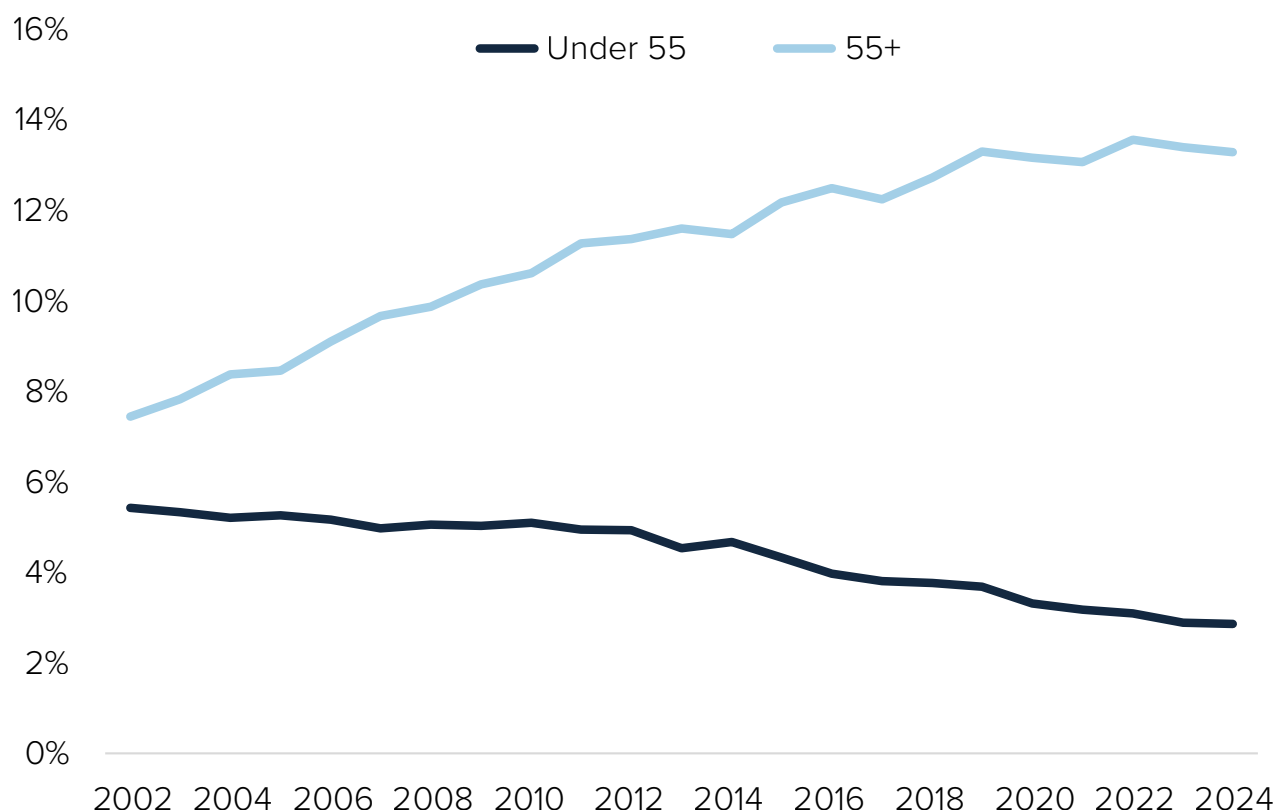
5.97 Marriage rates are broadly in line with the expectation at the time of the first Commission, which predicted that “despite the continued rapid fall in widowhood before retirement, by 2021 38% of women aged 55-64 will not be part of an ongoing marriage, largely because they never married or because of divorce”.⁵⁵¹ However, the proportion of older adults who are divorcees has increased over the last couple of decades, compared with a decreasing proportion of younger adults who are divorcees over the same time period, as shown in Figure 5.10.⁵⁵²

⁵⁵⁰ For example, see one-person and two-person household differences in Pensions UK, 2025, [‘Retirement Living Standards’](#)

⁵⁵¹ The Pensions Commission, 2004, [‘Pensions: Challenges and Choices – The First Report of the Pensions Commission’](#)

⁵⁵² ONS, 2025, [‘Population estimates by marital status and living arrangements, England and Wales’](#)

Figure 5.10: Proportion of women who are divorced over time, under 55 and 55+⁵⁵³



5.98 Alongside this, greater proportions are divorcing in later life, the so-called ‘silver splitters’.⁵⁵⁴

Divorce means that costs formerly shared in a household, such as mortgages or cars, are now borne separately. Pension funds may be used to buffer against increased personal costs.⁵⁵⁵

⁵⁵³ ONS, 2025, ‘[Population estimates by marital status and living arrangements, England and Wales](#)’

⁵⁵⁴ Aviva, 2021, ‘[Aviva Adviser: The rise of the Silver Splitters](#)’

⁵⁵⁵ DWP, 2020, ‘[Pension Freedoms: a qualitative research study of individuals’ decumulation journeys](#)’

5.99 Access to actual pension wealth or incomes may also be split. In the UK, unlike in some countries such as Germany and Sweden, pensions are not divided automatically or transferred to the financially weaker party to maintain financial security.⁵⁵⁶ This means they are not frequently accounted for during divorces: only 6% of 40 to 75 year olds who had ever been divorced said pensions were included in their divorce settlement.⁵⁵⁷ This is particularly important for women, who are more likely to rely on partners' pension wealth – women rated their level of reliance on a partner generally higher than men (5.3 compared with 3.0 on a 10-point scale⁵⁵⁸) and self-reported lower levels of financial confidence and capability.⁵⁵⁹ The implications of this may not be felt until retirement or may be felt acutely

⁵⁵⁶ Heenan A, 2025, '[Pension sharing on divorce: why do we do it, and how might we do things differently?](#)'

⁵⁵⁷ DWP, 2025, '[Planning and Preparing for Later Life 2024](#)'

⁵⁵⁸ DWP, 2025, '[Planning and Preparing for Later Life 2024](#)'

⁵⁵⁹ For example, see Money and Pensions Service, 2021, '[UK Adult Financial Wellbeing Survey 2021 Gender Report](#)'

for those already retired, who may lose a retirement income suddenly.

Bereavement can be detrimental to adequacy, and is difficult to plan for

5.100 Many retirees will suffer a bereavement in later life. For instance, in 2024, nearly half (47%) of all people aged 80 years or over in England and Wales were widowed.⁵⁶⁰ Due to life expectancy differences, those widowed were most often women rather than men. The likelihood of being widowed rises steeply with age, from 2% of the 55-59 population, to 25% of the 75-79 population, to 59% of the 85+ population.⁵⁶¹ Similar to divorce, bereavement for some may cause a significant financial shock, particularly if one partner's income was being relied on. This could potentially put many people, more likely women, at risk of financial insecurity in later life.

5.101 Governments required DB pensions to provide spouses' pensions. Now, annuities are not passed on at all unless joint at purchase. The death of a partner could lead to a 50% or

⁵⁶⁰ ONS, 2025, '[Population estimates by marital status and living arrangements, England and Wales](#)'

⁵⁶¹ ONS, 2025, '[Population estimates by marital status and living arrangements, England and Wales](#)'

greater fall in income. But costs will not fall in the same way: bills previously shared (e.g., heating, water, electricity) will become the sole responsibility of the bereaved. Council Tax bills could fall, but only by 25%. This is reflected in Pensions UK's Retirement Living Standards, with the 'Housing' costs effectively the same for couples versus single female pensioners.⁵⁶²

5.102 Planning for this eventuality is typically fairly limited, both those who rely on annuities for pension income and those who do not. Many lack a will.⁵⁶³ Of annuities purchased in 2024-25, over two-thirds of these are 'single-life' rather than 'joint-life'⁵⁶⁴ meaning that an annuity income will end when the policy holder dies, leaving a widow/er without that income stream. Respondents to qualitative interviews on decumulation decisions who did not add spousal protection to their annuity expressed regret in hindsight, remembering being overwhelmed by the choices on offer and the complexity of the information given, likely

⁵⁶² Pensions UK, 2025, '[Retirement Living Standards](#)'

⁵⁶³ 37% of non-advised 65-75 had a will – in Aviva/ Age UK, 2025, '[Retirement reality: Managing Money in mid-retirement](#)'

⁵⁶⁴ FCA, 2025, '[Retirement income market data 2024/25](#)'

focusing on the annual income rather than the features of a product.⁵⁶⁵

5.103 Pension schemes require individual engagement to set up a death beneficiary – the person who would take ownership of a pension should the saver pass away. A significant minority (35%) of 65 to 75 year olds who had not received financial advice had not nominated a death beneficiary themselves, and the vast majority (84%) of non-advised 65 to 75 year olds in couples did not know whether their partner had nominated them as a beneficiary.⁵⁶⁶ Many are unaware of what happens to pensions upon death, with 1 in 5 incorrectly assuming pension wealth automatically transfers to their next of kin.⁵⁶⁷ This highlights requirements for better protection for those who may suffer a bereavement as something that should be brought to savers' attention.

⁵⁶⁵ People's Partnership, 2025, '[New Choices, Big Decisions](#)'

⁵⁶⁶ Aviva/Age UK, 2025, '[Retirement reality: Managing Money in mid-retirement](#)'

⁵⁶⁷ Money and Pensions Service, 2023, '[More than half of people don't know what happens to their pension when they die](#)'

Cognitive decline complicates decision-making

5.104 Cognitive decline is an effect of ageing. It may cause a reduction in decision-making capability, as well as changes in openness and risk-taking, and cause anxiety.⁵⁶⁸ Indeed, research suggests that cognitive decline can impact financial security, making complex decumulation decisions even more challenging.⁵⁶⁹

5.105 There is little clarity in how financial decision-making capacity should be measured or how best to support older adults to manage money.⁵⁷⁰ In a predominantly DC system, where annuity purchase is now limited, the importance of supporting older adults to make financial decisions to sustain them throughout retirement without needing active management is even greater. This is particularly true given the continued decline of DB pension wealth.

⁵⁶⁸ People's Partnership, 2024, '[New Choices, Big Decisions: Crunch time](#)'

⁵⁶⁹ IFS, 2025, '[Cognitive decline and financial wealth at older ages](#)'

⁵⁷⁰ Hall A and others, 2023, '[Managing money in later life: mental capacity assessment](#)'

Unpredictable social care needs can lead to substantial costs in retirement

5.106 As discussed in Chapter 4, care can greatly affect pensions adequacy in cases where people become carers and can no longer contribute to their pensions. There is also the potential risk of requiring social care, which may significantly impact financial security. There is no guarantee of who will face these costs, and a very limited insurance market to help people manage them. Social care rules are different in the devolved governments, but in England, where social care is not free at the point of use, around 1-in-7 people at the age of 65 are expected to incur lifetime care costs of over £100,000 on average.⁵⁷¹ This figure is significantly greater than the pensions wealth or savings many will expect to have at this age.

5.107 The long-term care insurance market in the UK and internationally is small, with only 1% of all UK adults holding long-term care insurance.⁵⁷² Some (11%) expect or want their pension to provide them with an income to support social

⁵⁷¹ IFS, 2024, '[Adult social care in England: What's next?](#)'

⁵⁷² FCA, 2025, '[Financial Lives 2024 survey - Pensions: Selected findings](#)'

care needs⁵⁷³, and a small proportion of people accessing their pension have used or plan to use this money to fund long-term care (4% of those who fully encashed in the 4 years to 2024).⁵⁷⁴

5.108 Social care can affect pensions adequacy, and pension wealth and income can affect access to social care support. The need for support could, therefore, greatly deplete pension wealth. Looking forward, particularly due to the decline of DB savings and the changes in decumulation decisions being made following the implementation of the 2014 reforms, access to affordable social care or protection against high care costs is likely to be of fundamental importance to many pensioners. The Commission will welcome the Casey Commission's reporting on this topic.

5.109 Older adults may face new challenges for which many are underprepared, and which can impact pensions adequacy substantially. Some impacts can be managed through financial preparedness and pensions engagement, such

⁵⁷³ DWP, 2025, '[Planning and Preparing for Later Life 2024](#)'

⁵⁷⁴ FCA, 2025, '[Financial Lives 2024 survey - Pensions: Selected findings](#)'

as setting up a death beneficiary for a pension, but others require policy development across government and industry to ensure older adults are sufficiently protected.

Conclusion

- 5.110 As this chapter has set out, decisions on how to access pensions and how to remain financially secure throughout later life are complex, more so in the new predominantly DC and post-2014 reforms world. Individuals face challenging decisions and various risks to manage.
- 5.111 The decumulation policy landscape is again set to change, with the increase of the Normal Minimum Pension Age, introduction of Targeted Support, the expansion of collective defined contribution, and the introduction of Guided Retirement. These changes will have important implications for how individuals manage decumulation decisions and risks. However, a strong approach to turning pension savings into incomes to last throughout retirement should be in place by default. An adequate, fair, and sustainable decumulation system cannot depend on engagement alone. The confusion caused by the 2014 reforms needs to be resolved.

Chapter 6 Conclusion

6.1 The world has changed significantly since the first Pensions Commission. Much has been achieved. The new State Pension has led to more generous, equal coverage between men and women through the state system.⁵⁷⁵ AE has expanded workplace pension coverage dramatically.⁵⁷⁶ Through the Pension Schemes Bill, the Government is seeking to tackle some of the remaining inefficiencies in the DC market to deliver better value for savers in the long term. The Government has asked us to consider how to finish the job the first Pensions Commission began, to deliver an adequate, fair and sustainable pensions system for the future. In the first phase of our work, we have reviewed the current system to assess where there are challenges to adequacy, fairness, and sustainability. In this final chapter, we set out the conclusions that will inform the next phase of our work.

⁵⁷⁵ DWP analysis of DWP, Work and Pensions Longitudinal Survey

⁵⁷⁶ DWP, 2025, [‘Workplace pension participation and savings trends of eligible employees: 2009 to 2024’](#)

- 6.2 The macroeconomic challenges facing the pensions system are tougher than they were 20 years ago.** The population is ageing; productivity and wage growth have been weak.⁵⁷⁷ The framework for today's pensions system was designed 20 years ago. Whilst huge improvements in pensioner outcomes have been achieved in that time, it is time to look anew at whether the system we have now will meet the needs of the pensioners of tomorrow. In addressing adequacy for tomorrow's pensioners, the same choices that the first Pensions Commission considered face the UK today: some combination of higher taxation to support an ageing population; individuals and employers saving more; and further rises in the average retirement age.
- 6.3 Responsibility for overcoming these challenges rests with the same three actors as it did 20 years ago:** the state, employers, and individuals. A sustainable future pensions system must balance the opportunity cost to Government of spending on pensions, including the question of intergenerational fairness to taxpayers, with affordability to and deliverability

⁵⁷⁷ ONS, 2025, '[Output per hour worked, UK](#)'; ONS, 2025, '[EARN02: Average weekly earnings by sector](#)'; ONS, 2025, '[CPI INDEX 00: ALL ITEMS 2015=100](#)'

for employers and the costs to individuals of saving during their working lives. It must strike the right balance of delivery across the State Pension, AE, and additional voluntary saving. Underpinning this, governance must protect the primacy of savers' interests.

- 6.4 Current pensions policy is not grounded in clear objectives for adequacy or reviewed holistically.** To ensure future pensions policy delivers adequate retirement incomes, it must define what 'adequate' means and how it is measured, and this must accurately represent pensioners' financial resources across the income distribution. And since the social, economic and demographic contexts will inevitably continue to change, Government needs to be able to review the system as a whole to ensure it remains fit for purpose.
- 6.5 The State Pension is delivering what the first Commission recommended, but private pensions are not doing enough.** Compared to the aspirations identified by the first Commission, 4-in-10 people are undersaving, and this is set to worsen.⁵⁷⁸ This is despite the State Pension broadly delivering the

⁵⁷⁸ DWP, 2025, '[Analysis of Future Pension Incomes 2025](#)'

proportion of earnings that the first Commission recommended. Private pensions need to do more.

6.6 The wider pensioner benefits system was not designed for today's challenges. The success of the new State Pension in reducing reliance on means-testing, alongside the rise in the proportion of people expected to face housing costs in retirement, mean that we expect Pension Credit caseloads to dwindle,⁵⁷⁹ but eligibility for Housing Benefit to rise.⁵⁸⁰ This raises questions over how eligibility for benefits currently 'passport' from Pension Credit should work in the future, and how we protect incentives to save.

6.7 Automatic enrolment has increased saving, but not enough for lower and middle earners. Whereas higher earners are more likely to be saving above AE minima, lower and middle earners are more likely to be enrolled at minimum levels.⁵⁸¹ AE has been a huge policy success, but for future pensioners' incomes to

⁵⁷⁹ DWP analysis using Pensim3

⁵⁸⁰ DWP internal analysis of long-term benefit projections

⁵⁸¹ DWP analysis of ONS, 'Annual Survey of Hours and Earnings, 2024'

be adequate for lower and middle earners, AE eligibility, earnings thresholds, and minimum contribution rates must be sufficient to support this.

- 6.8 Some people are not saving at all, most notably many of the self-employed.** Almost half of working-age people are not saving into a pension in a typical month, and almost half of those not saving are in paid work.⁵⁸² There is no equivalent of AE for self-employed people, and only 4% of people whose only income is from self-employment are saving into a pension.⁵⁸³ An adequate future pensions system must include a solution for those self-employed who are not saving elsewhere. This must be one that works for younger, lower-earning self-employed people, who are especially likely not to have private pension savings.⁵⁸⁴
- 6.9 Women, carers, disabled people and some ethnic minority groups are especially**

⁵⁸² DWP, 2025, '[Family Resources Survey: financial year 2023 to 2024](#)'

⁵⁸³ DWP analysis of HMRC 2022-23 and 2023-24 data

⁵⁸⁴ DWP analysis of ONS, Wealth and Assets Survey, 2020-2022

likely to be undersaving.^{585,586,587,588} The private pensions system does not adjust for the fact that there are groups who, often because of lower earnings and gaps during working life, have worse pensions outcomes. Whilst these disparities cannot necessarily be resolved through the pensions system, wider public policy must consider how they can be addressed.

- 6.10 Many people are not working for long enough to accumulate adequate pensions.** Longer working lives allow people to build up more savings and accrue greater investment returns and mean their savings need to fund fewer years of retirement. But, despite substantial progress since the first Commission, especially for women, employment rates for people in their 50s have now stalled, with inactivity increasingly driven by long-term

⁵⁸⁵ DWP, 2025, '[Gender Pensions Gap in Private Pensions: 2020 to 2022](#)'

⁵⁸⁶ DWP, 2025, '[Planning and Preparing for Later Life 2024](#)'

⁵⁸⁷ PPI, 2026, '[Underpensioned: Analysis of Pension Wealth](#)'

⁵⁸⁸ DWP, 2025, '[Family Resources Survey: financial year 2023 to 2024](#)'

sickness, as well as caring responsibilities.⁵⁸⁹ For the UK's economic growth as well as for pensions outcomes, it is essential that older workers are supported to work and to stay in work.

- 6.11 When and how people access their pensions is as important as accumulation for adequacy.** The first Commission did not foresee the introduction of the 2014 pension access reforms, which have posed complex challenges for savers in deciding how to access their pensions. Maximising the benefits of pension savings requires individuals to manage longevity, investment, and timing risks. A future pensions system must include stronger protections and a default decumulation approach to turn pension pots into incomes that sustain people throughout retirement.
- 6.12 Our final report is planned for Spring 2027. In it, we will set out our recommendations to Government for a durable future pensions system that is adequate, fair, and sustainable.
- 6.13 In our deliberations over the next year, we would like to hear the views of all stakeholder

⁵⁸⁹ DWP, 2025, '[Economic labour market status of individuals aged 50 and over, trends over time: September 2025](#)'

groups, including but not limited to citizens, employers, charities and third-sector organisations, trade unions, pensions providers, think tanks and academics.

- 6.14 If you would like to share your views on our findings so far, you can do so here: <https://www.gov.uk/government/publications/pensions-2050-evidence-and-future-priorities-interim-report>

Abbreviations and glossary

Abbreviations

AE – Automatic enrolment

CDC – Collective Defined Contribution

DB – Defined benefit

DC – Defined contribution

DWP – Department for Work and Pensions

FCA – Financial Conduct Authority

HMT – His Majesty's Treasury

IFS – Institute for Fiscal Studies

NEET – Not in education or training

OADR – Old-age dependency ratio

OBR – Office for Budget Responsibility

OECD – Organisation for Economic Co-operation and Development

ONS – Office for National Statistics

TPR – The Pensions Regulator

TRR – Target replacement rate

Glossary

Additional State Pension	The earnings-related part of the State Pension that was introduced in 1978. This was known as the State Earnings Related Pension Scheme (SERPS) between 1978 and 2002, and the State Second Pension (S2P) from 2002.
Annual Management Charge (AMC)	The fee deducted by pension scheme providers for investment and administration. Within automatic enrolment these fees are capped at 0.75% per year.
Annuity	Purchased with an individual pension pot, which has been built up in a Defined Contribution Pension Scheme, to provide a pension that is usually payable for life. A single-life annuity pays benefits to an individual. A joint-life/survivors annuity pays benefits to the spouse/dependent partner after death of the first. A level annuity pays constant payments whereas an index-linked annuity pays benefits relating to an index (for example the Retail Prices Index).
Annual Survey of Hours and Earnings (ASHE)	A survey of employers about a large sample of employees
Automatic enrolment (AE)	A legal duty requiring employers to automatically place eligible staff into a workplace pension scheme. Employees can opt out if they choose.
Automatic enrolment minima	Contributions equal to 8% of qualifying earnings, with a minimum contribution of 3% from the employer. Currently qualifying earnings are those between £6,240 and £50,270 (2025-26).

Collective Defined Contribution (CDC) pension	A pension scheme where contributions are pooled collectively, sharing investment and longevity risks to deliver a target retirement income. Does not require individual derisking.
Decumulation	The process of accessing, spending down or drawing income from an accumulated pension pot during retirement
Defined benefit (DB) pension	A pension which provides a retirement income based on salary and how many years the individual has been in the scheme
Defined contribution (DC) pension	A pension pot based on how much is paid in. Investment growth (less of Annual Management Charge) and tax relief also add to the value of the pot.
De-risking	A strategic investment process of reducing risk exposure as savers near retirement where asset allocation gradually and automatically moves into more secure investments the closer to retirement members are.
Drawdown	A decumulation product that keeps pension savings invested while allowing individuals to make flexible withdrawals
Earnings trigger	A level of gross pay at and above which employers must include a worker in a pension scheme, under AE. Currently £10,000 in annual terms.
Encashment	Withdrawing some or all of a pension as a cash lump sum rather than a regular income
Family Resources Survey (FRS)	A survey of household incomes and circumstances
Financial Lives Survey (FLS)	An FCA survey of consumer attitudes and financial circumstances

Glidepath	The length of time over which de-risking occurs. A '10 year' glidepath would begin a shift to more defensive assets aged 55 for a saver planning to retire at age 65, for example.
Guided Retirement	Emerging legislation that requires schemes to offer structured retirement pathways that help savers navigate decumulation decisions, following the 2025 Pensions Bill.
Households Below Average Income (HBAI)	A dataset of household incomes, built primarily on the Family Resources Survey
Labour Force Survey (LFS)	An ONS household survey focused on labour market status
Lifestyling / glidepath	An investment strategy that shifts pension saving into lower-risk assets as your retirement date approaches
Lower Earnings Limit	In AE, earnings under this point do not need to count as qualifying earnings when calculating pension contributions. In 2025-26 the value of the lower limit of the qualifying earnings band is £6,240. Not identical to the National Insurance Lower Earnings Limit
Master Trusts	Pension schemes in which many employers share one trustee board and governance structure to deliver workplace pensions at scale
Normal Minimum Pension Age (NMPA)	The earliest age at which private pensions can be accessed without penalty: currently 55 years old, rising to 57 in 2028
Old-age dependency ratio (OADR)	The UK's ratio of pensioners (above State Pension age) to the number of working-age adults
Pensim3	DWP's long-term model of pensioner incomes

Planning and Preparing for Later Life (PPLL) survey	A survey of 40 to 75 year olds covering attitudes and experiences of pensions and retirement planning
Qualifying earnings	Any earnings between the Lower Earnings Limit (£6,240) and Upper Earnings Limit (£50,270)
Qualifying years	Tax years in which an individual has contributed, either through work or other credited circumstances, towards their State Pension record. 35 years are needed for full new State Pension entitlement.
Registration and Population Interaction Database (RAPID)	A DWP dataset based on administrative benefit and tax data
Replacement rate	Gross retirement income as a share of pre-retirement gross earnings. In our modelling, specifically: mean CPI-adjusted income over retirement as a share of earnings-adjusted average, non-zero earnings from 50 to State Pension age. Couples are assumed to share income.
Target replacement rate (TRR)	Specific targets set out in the first Pensions Commission as aspirations to help smooth living standards into retirement
Targeted Support	Targeted support enables FCA-authorized firms to provide support with investments and pensions, making recommendations that are designed for groups of consumers with similar characteristics and circumstances. It was introduced on 6 April 2026.
Tax-free lump sum / tax-free element / tax-free cash	The portion (up to 25%) of a pension pot that can be withdrawn free of Income Tax

The first Pensions Commission / first Commission	A commission which ran from 2002 to 2006, comprised of Adair Turner, Jeannie Drake and John Hills
Triple Lock	A guarantee that the (basic and new) State Pension will rise each year by the highest of average earnings growth, CPI inflation or 2.5%
Uncrystallised Funds Pension Lump Sum (UFPLS)	A way to take lump sums directly from an uncrystallised pension pot, with 25% tax-free and 75% taxed at the marginal rate. Not an annuity or drawdown product.
Upper Earnings Limit	In AE, earnings above this point do not need to count as qualifying earnings when calculating pension contributions. In 2025-26 the upper limit of the qualifying earnings band is £50,270, matching the separate National Insurance Upper Earnings Limit
Wealth and Assets Survey (WAS)	An ONS household survey focused on wealth
2014 pension access reforms / 2014 reforms / Pension Freedoms	Legislative changes announced in 2014, enacted in 2015, which gave individuals full flexibility over how to access defined contribution (DC) pensions from age 55, including full withdrawal, drawdown, and flexible lump sums, with no requirement to buy an annuity.

Acknowledgments

Thank you to the range of stakeholders who have contributed to our discussions so far. To coordinate this input, the Commission has 4 liaison groups:

Civil society

- Which?
- Islamic Finance Guru
- Centre for Ageing Better
- Age UK
- Carers UK
- Independent Age
- Women's Budget Group
- Black Equity Organisation
- Citizens Advice
- Joseph Rowntree Foundation

Employers

- The Confederation of British Industry (CBI)
- The Federation of Small Businesses (FSB)
- British Airways
- Scottish and Southern Energy

- RBS
- Deloitte
- Nationwide
- PwC
- Tesco
- BT
- UCEA
- National Grid
- DHL
- Sainsbury's
- Uber
- McDonald's
- Barclay's
- Kier Group

Trade unions

- Trades Union Congress (TUC)
- Unite
- Unison
- GMB
- Union of Shop, Distribution and Allied Workers
- Communication Workers Union
- Prospect
- RMT

- Accord
- National Union of Journalists
- Bakers, Food and Allied Workers Union
- Community

The pensions industry

- Pensions UK
- Association of British Insurers
- Nest
- People's Partnership
- Smart Pension
- Lifesight (Willis Towers Watson)
- TPT
- Universities Superannuation Scheme
- Natwest Cushon
- Fidelity
- Phoenix Group
- Royal London
- Scottish Widows
- Aviva
- Legal and General
- M&G

In addition, we are grateful for the time and advice offered by the **Pension Expert Group**, representing think-tanks, academic groups and subject experts. This has supported DWP's Pensions and Later Life Analysis (PALLA) to build a strong evidence base to support the Commission.

- AgeUK
- Centre on Household Assets and Savings Management (CHASM), University of Birmingham
- Centre for Research on Ageing, University of Southampton
- ESRC Centre for Population Change, University of Southampton
- Institute for Fiscal Studies
- International Longevity Centre
- Living Pension
- LSE
- Manchester University
- Nest Insight
- Oxford Economics
- Oxford Institute of Population Ageing
- Pensions Policy Institute (PPI)
- Pensions UK
- Resolution Foundation
- Standard Life Centre for the Future of Retirement

- University of Bristol's Personal Finance Research Centre
- University of Kent
- University of Loughborough
- WPI Economics

We would like to thank everyone who met with the Commission during its first phase to share their views and expertise. We would also like to thank Professor Bernhard Ebbinghaus, Professor Helen McCarthy and Professor Hugh Pemberton for sharing historical perspectives on pensions.

These groups will continue to meet as the Commission develops its final report for publication in 2027. As set out in our Conclusion, any evidence that could help inform the Commission's final recommendations would be very welcome.

