The Second Pensions Commission

Evidence Pack

Introduction

The Pensions Commission was launched in July 2025 to consider the long-term future of pensions and to make recommendations to government about a pensions framework that is adequate, fair, and sustainable. The Pensions Commission is being undertaken by Baroness Jeannie Drake, Sir Ian Cheshire and Professor Nick Pearce.

This Evidence Pack presents much of the underlying analysis supporting the conclusions from the Pensions Commission Interim Report. It provides a summary of the key evidence and analysis which has informed the outcomes, considerations and conclusions of the Commission's Interim Report. The aim of the pack is to present the problem statement the Pensions Commission is seeking to address; examining key trends, drivers over time and particular groups or areas which may be facing challenging outcomes.

The Evidence Pack is structured as follows:

- **Section A:** Strong foundations – with a focus on **policy achievements** and **future pressures**
- **Section B:** Retirement Outcomes – with a focus on **retirement adequacy**, **under-saving** and **poverty**.
- **Section C, D & E:** Accumulation – split into details on **the depth and growth of private pension saving**
- **Section F, G & H:** Participation gaps – with a focus on **gaps in automatic enrolment coverage** and **groups of concern;** including the self-employed.
- **Section I:** Decumulation – with a focus on the growing **challenge of decumulation as a driver of pension adequacy**.

This Evidence Pack has been produced by Pensions and Later Life Analysis (PALLA) in DWP for the purposes of supporting the Pension Commission's evidence base. All analysis presented in this pack is DWP analysis presented at Great Britian (GB) level unless otherwise stated.

Contents

Executive Summary (1/2)

The changing economic and demographic landscape

- The UK has one of the largest pension systems in the world, but it **lags internationally** on several key metrics including the lowest levels of saving (as % of GDP) in the G7 and below average OECD replacement rates.
- State Pension spending is projected to rise from around 5% of GDP in 2024 to 7.7% by 2073.

The scale of the undersaving problem

- **Around 15m** working-age individuals are set to miss their Target Replacement Rates (TRRs). This would rise to **around 19m** (over half of working-age individuals) under an Office for Budget Responsibility (OBR) projected low volatility scenario.
- **The proportion undersaving for retirement is set to worsen.** When analysing only State and Private Pension incomes, around 50% of people retiring in the 2010s were estimated to be undersaving which is set to rise to 60% over the next decade.
- **Pensioner poverty (after housing costs) is set to stabilise at around 14%** by 2050 on a relative after housing costs basis, but certain groups remain at higher risk of poverty.

State Pension is a strong foundation for all

- The State Pension plays a critical role as a firm foundation for **all income groups** accounting for **over three-quarters of income for those in the lowest income deciles** and around **a quarter** of income for the highest income deciles.

Automatic enrolment has been a big success…

- **Automatic enrolment (AE) coverage has been increasing** with 86% of employees now in scope; up from 79% in 2012.
- **Nearly 9-in-10** AE-eligible employees are saving into a workplace pension

…but gaps in coverage remain

- Only 55% of working-age individuals are saving into a pension at a given point in time, **however around 70% of working-age individuals have saved at some point.**
- **Just 4% of self-employed** who only have self-employed income save into a pension. If AE eligibility (age 22 to State Pension age (SPa) and earning over £10,000) were applied to the self-employed, **around two-thirds would be eligible.**

Executive Summary (2/2)

Employees are not saving enough

- Around 3-in-10 private sector defined contribution (DC) employees are saving at AE minimums. But **additional saving is low.** The **median earner, on average, is contributing only 1.7% of pay** greater than the AE minimum.
- **Over 3-in-4 private sector employees** are saving less than 12% of total pay.
- **There are 100,000s of mid to high earners seeing real term declines** in their pension contributions due to the frozen Upper Earnings Limit threshold.

Decumulation decisions are becoming increasingly important

- **The age at which people start, and stop, saving affects retirement outcomes**. For an average earner:
  - Someone saving from age 40 needs to contribute at 13% of pay to hit their TRR but this falls to 7% for those starting from age 22.
- **Early access leads to smaller pots and lower incomes.** A pot accessed at age 57 could deliver an income over 60% lower than if someone continued to contribute and accessed at SPa.
- On current average withdrawal rates, individuals risk exhausting their private pension **within 10 years.**

Retirement is no longer a binary decision

- Common milestones for accessing a pension are **55, 60, and 65** and **around 30% of DC pots** are accessed for the first time at the earliest possible opportunity (age 55).
- **More people are working and accessing their pensions,** often using this to top-up their income by working fewer hours (those reducing their hours are doing around 10 hours fewer than before accessing their pension).

Investment returns matter

- Net investment returns could account **for around two-thirds** of a final pension pot.
- On average, schemes begin derisking 15 years before retirement, but there is large variation across providers.

Glossary (1)

Absolute low income/poverty (before/after housing costs): Below 60% of average (median) income in 2010/11 adjusted for inflation. This analysis does not include revisions released in March 2026.

Additional saving: Any saving above the AE minimum level (currently set at 8% of earnings between £6,240 and £50,270).

Administrative data: Data collected when people interact with public services and organisations, such as HMRC. It is collated by the government.

AE-eligible: Employees meeting the criteria to be automatically enrolled, specifically:

- Having earnings above the **Earnings Trigger** (this is currently £10,000 in 2025/26).
- Being aged at least 22 but under State Pension age (SPa).

AE minimum contributions: Contributions equal to 8% of qualifying earnings, with a minimum contribution of 3% from the employer. Currently qualifying earnings are between £6,240 and £50,270 (2025/26).

Annuity: A financial product purchased with pension savings that pays a guaranteed income for life. Variants include:

Single-life: Provides an income for the individual only and stops when the policyholder dies.

Joint-life: Provides an income for the individual but continues to pay an income for a spouse/partner when the policyholder dies.

Level: Provides an income which is fixed and does not increase with inflation. This means it falls in real-terms over time.

Index-linked: Provides an income which increases with inflation.

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.

Below Average Resources: Expansive view of available resources, considers savings/liquid assets, inescapable costs and debt.

Glossary (2)

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Collective Defined Contribution (CDC): 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): A pension which provides a retirement income based on salary and how many years the individual has been in the scheme.

Defined Contribution (DC): A pension pot based on how much is paid in.

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.

Food security: Whether people are cutting back on volume/types of food and foodbank use in last 30 days/ last year.

Full Cash Withdrawal: Taking out the entire pension pot at once, taxed at the marginal rate.

Full pay: Where pension contributions are made on all earnings (i.e. from the first pound earned).

Gender Pensions Gap (GPeG): Defined as the percentage difference between female and male uncrystallised median private pension wealth around normal minimum pension age (defined for this publication as those aged 55 to 59) for those individuals with private pension wealth (i.e. excluding those with no private pension wealth).

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.

Longevity Risk: The risk of outliving one’s pension savings due to uncertain life expectancy.

Glossary (3)

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Material deprivation: A measure that provides an indication of people's ability to access or afford a range of everyday goods or services.

Normal Minimum Pension Age (NMPA): The earliest age (currently 55 years old, rising to 57 in 2028) at which private pensions can be accessed without penalty.

Opt-out Rate: The proportion of new enrolments in workplace pensions who choose to stop saving within a month of being enrolled, with the employees receiving a full refund for any contributions made.

Pensions UK Retirement Living Standards: An adequacy measure to help savers plan for their desired retirement by setting out levels of expenditure for three standards of living in retirement described as 'minimum', 'moderate', and 'comfortable'. These are calculated for both individuals (single person households) and couples (two-person households), with variants to reflect higher living costs in London.

Persistent Poverty: Whether people have been in relative poverty for at least 3 of the past 4 years.

Qualifying Earnings: Any earnings between the Lower Earnings Limit (£6,240) and Upper Earnings Limit (£50,270).

Relative low income/poverty (before/after housing costs): Below 60% of average (median) income within the relevant year. This analysis does not include revisions released in March 2026.

Self-Employed (LFS, FRS, USOC, NCDS): In these surveys' employment status is self-reported and respondents classify themselves as either an employee or self-employed or not in work.

Self-Employed (HMRC): This analysis uses tax self-assessment data, with someone being defined as self-employed if they reported receiving any income from self-employment during the year. This is then broken down by those who reported only receiving income from self-employment, those who also reported receiving income from employment, and those who also reported receiving income from other sources (income from property, or from savings/investments).

SPa: State Pension Age, the earliest age you can start receiving your State Pension.

Glossary (4)

Stopping Saving Rate: The proportion of pension scheme members who were previously actively contributing to their pensions that stop saving, with this being the result of them either leaving their employer or making the active decision to cease their contributions (known as a “cessation”).

Target Replacement Rate: The first report of the Pensions Commission published in 2004 discussed the concept of an ‘adequate’ pension income and what role the state should take to ensure pensioners reach an adequate income. The report assumed that a pensioner would want to maintain the same standard of living in retirement that they had during their working life, therefore they would need to maintain a level of pension income related to their pre-retirement earnings. TRRs refers to the percentage of their pre-retirement income an individual would need to replace to meet an ‘adequate’ income. For a median earner, this is 67% of their pre-retirement earnings. The Pension Commission suggested those with lower earnings need to achieve a higher replacement rate to maintain their living standards (80% for those in the lowest earnings band) than higher earners (50% for those in the highest earnings band).

Targeted Support (FCA): Targeted support enables FCA-authorised 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: The portion (up to 25%) of a pension pot that can be withdrawn free of income tax.

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.

Withdrawal Rate: The annual percentage of a pension pot that is withdrawn under drawdown.

2014 Reforms: 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.

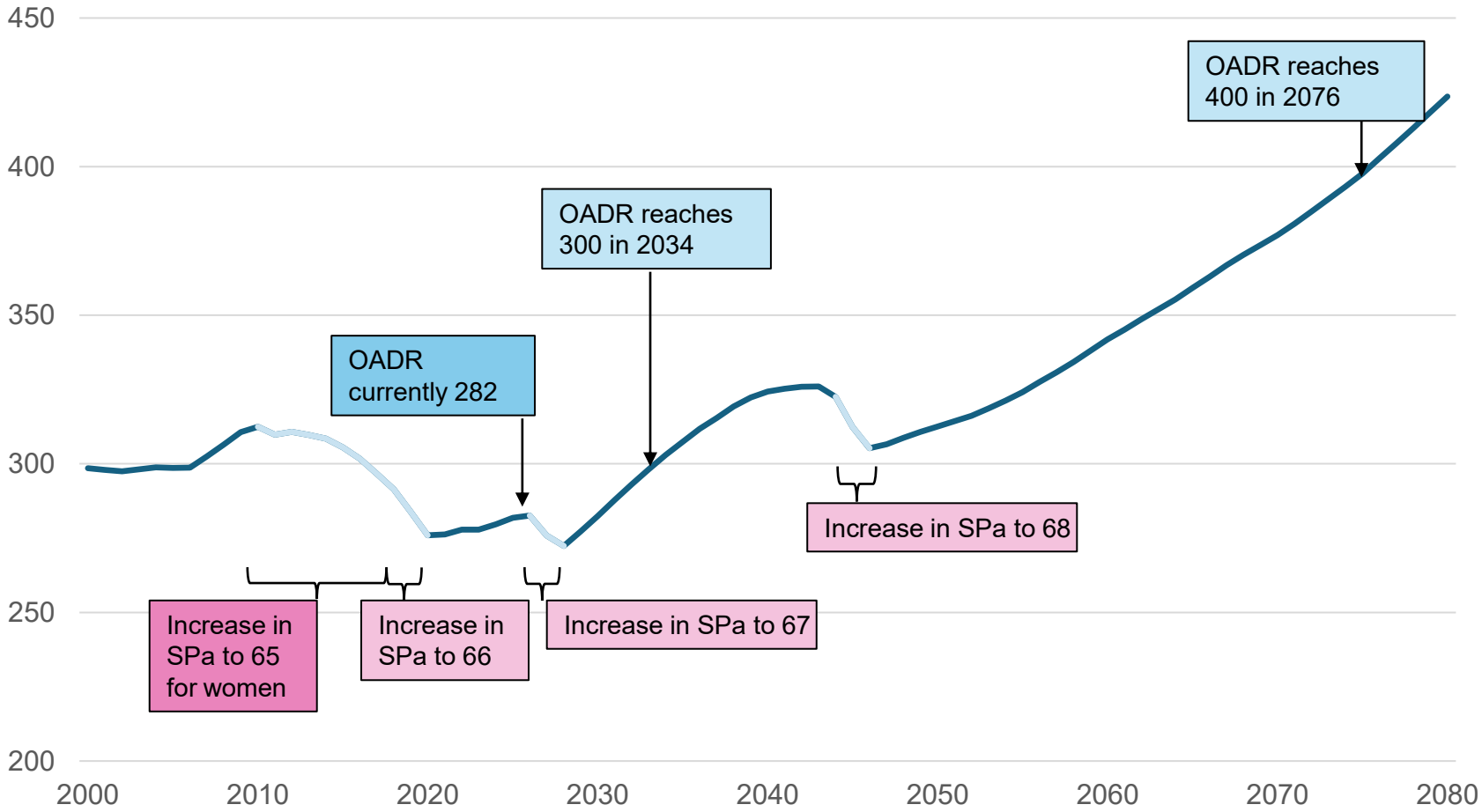
Section A: Strong foundations facing long-term pressures

There are new challenges that face the pensions system, now and in the future, compared to the 2000s

The Old Age Dependency Ratio (OADR) measures the ratio of pensioners to the working age population and is projected to increase from 282 currently, to over 300 by 2050 and to 400 by 2076.

A larger pensioner population supported by proportionally fewer workers provides a greater structural challenge to the system.

Old Age Dependency Ratio (OADR), UK, 2000-2080



Source: DWP calculations using ONS (2025). 'Estimates of the population for the UK, England, Wales, Scotland and Northern Ireland', dataset table 3.

Life expectancy in the UK is still increasing, but there are differences depending on where people live

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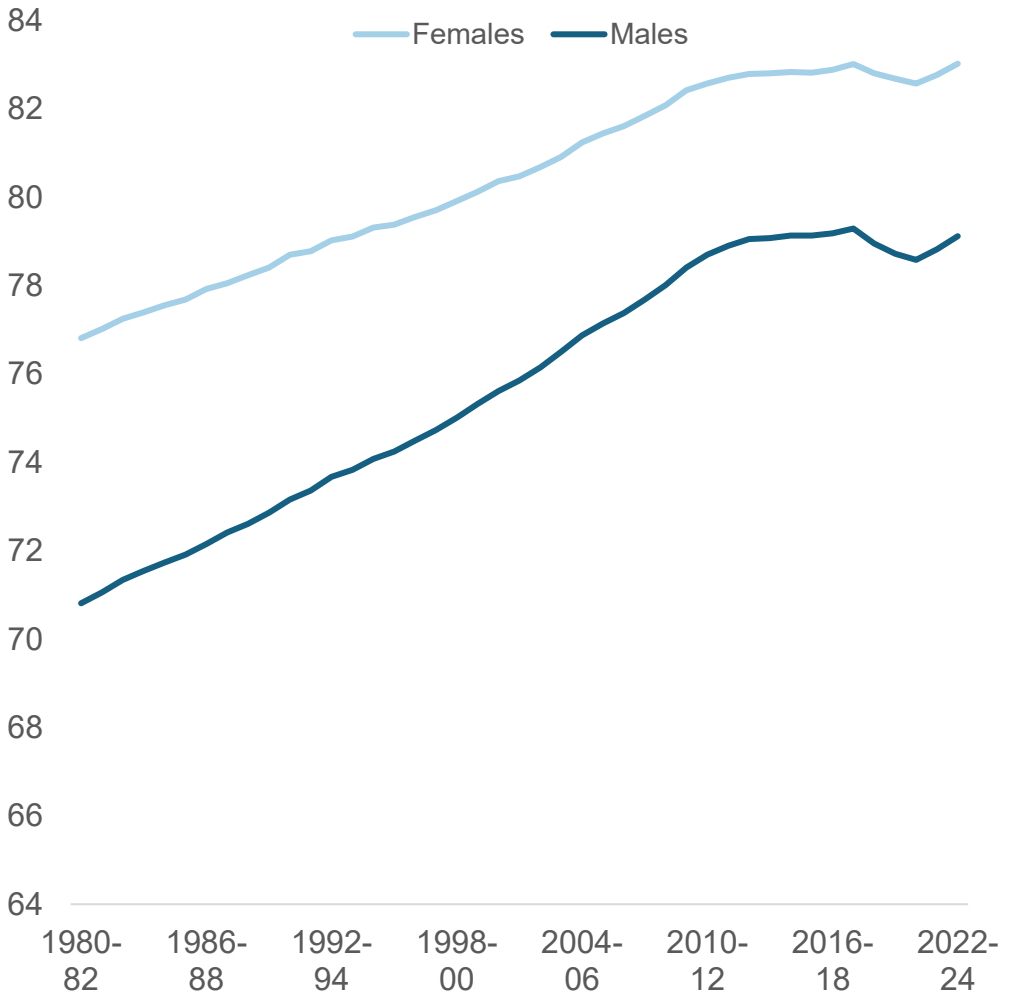
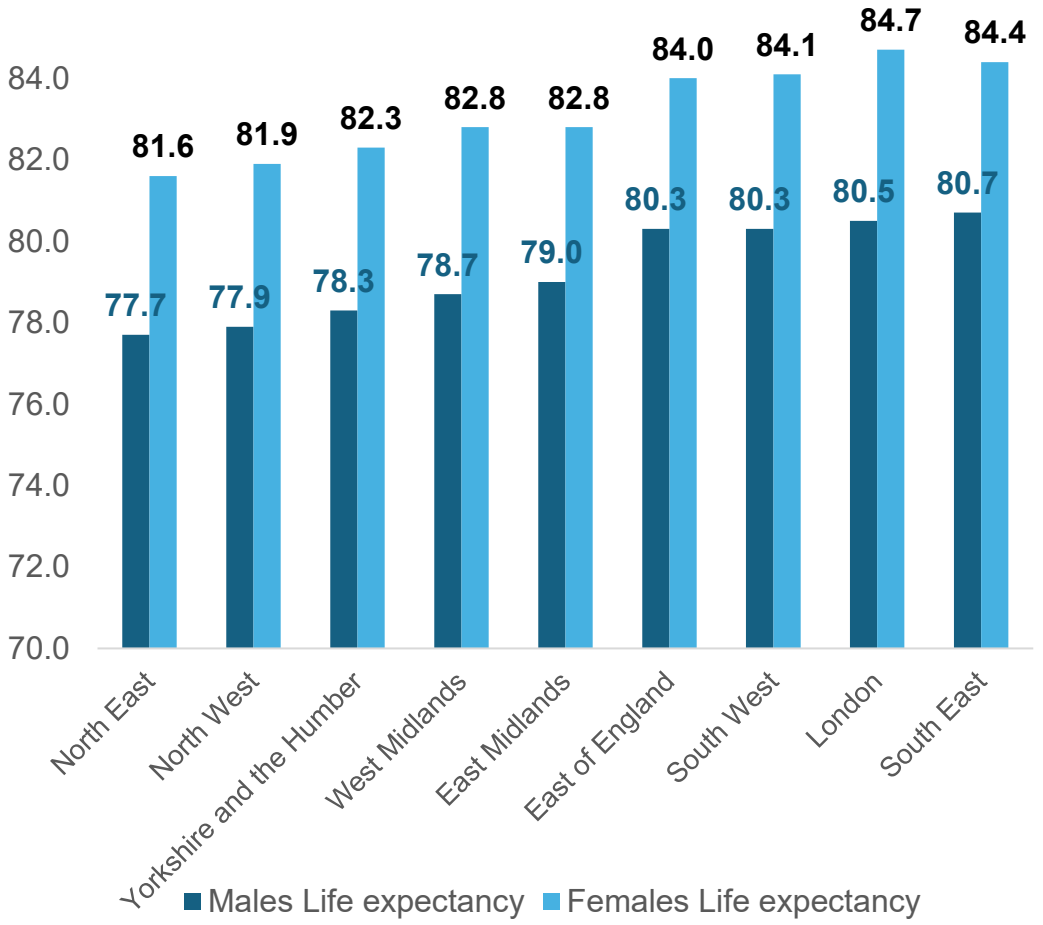
Life expectancy in the UK is increasing, at a slowing rate



Source: ONS (2025). 'National Life Tables - life expectancy in the UK: 2022 to 2024'

Life expectancy varies by region in England, with men in the South East expecting to live 3 years longer than men in the North East

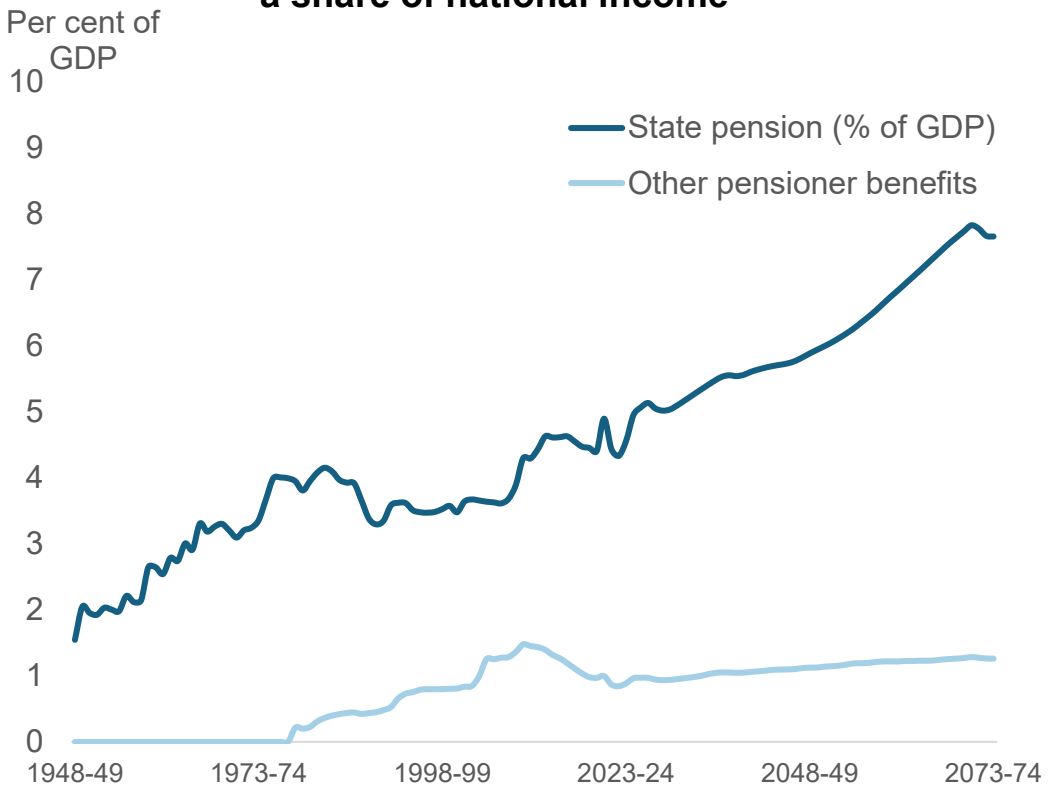


Source: ONS (2025). 'Life expectancy for local areas of the UK'

Increasing life expectancies and inequalities are set to increase state spending on pensioners – but the impact is uncertain and dependent on the volatility of earnings and inflation

Spending on pensioner benefits has risen from around 2% of GDP in 1950 to around 4% by 1980; 5% by 2010 and around 6% in 2025. OBR forecast that spending on pensioner benefits will continue to rise to around 9% by 2070.

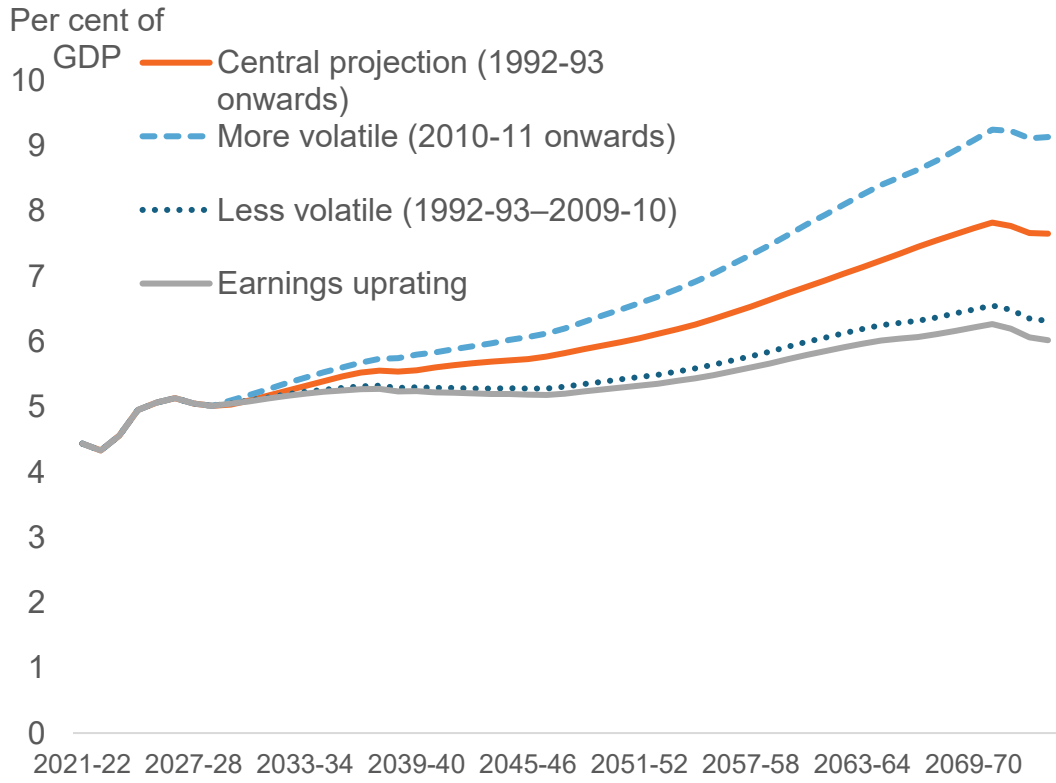
Spending on state pensions and pensioner benefits as a share of national income



Source: OBR (2025). 'Fiscal risks and sustainability report – July 2025'

The OBR has set out a (non-exhaustive) range of uprating scenarios to estimate State Pension expenditure. These vary the volatility of earnings and inflation. State Pension expenditure estimates vary between around 6% of GDP to 9% by 2070 depending on the uprating levels over time.

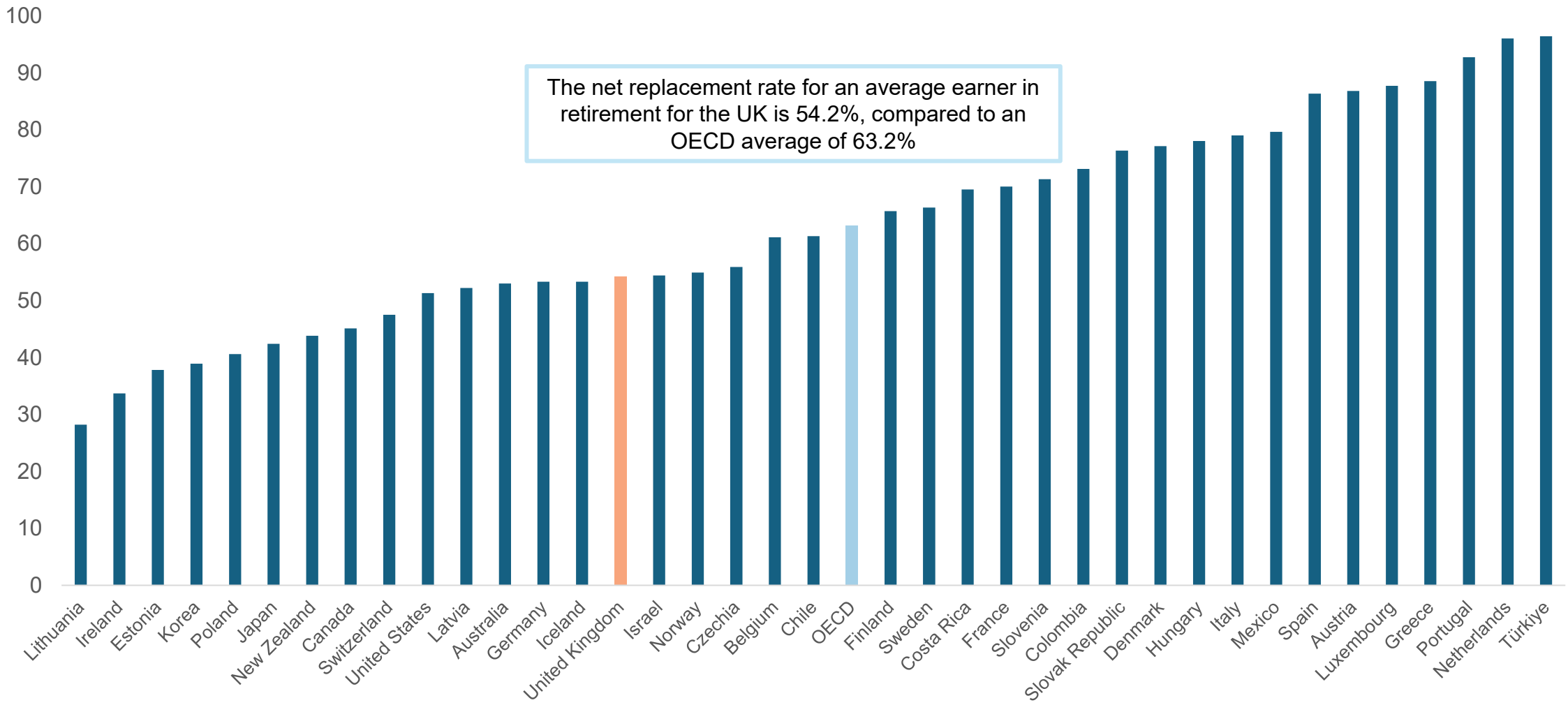
State Pension expenditure under different triple lock scenarios



Source: OBR (2025). 'Fiscal risks and sustainability report – July 2025'

Internationally the UK has net replacement rates lower than the OECD average

The UK has a below OECD average net replacement rate at retirement for average earners



Source: OECD (2025). 'Pensions at a Glance' – based on mandatory public and private schemes.

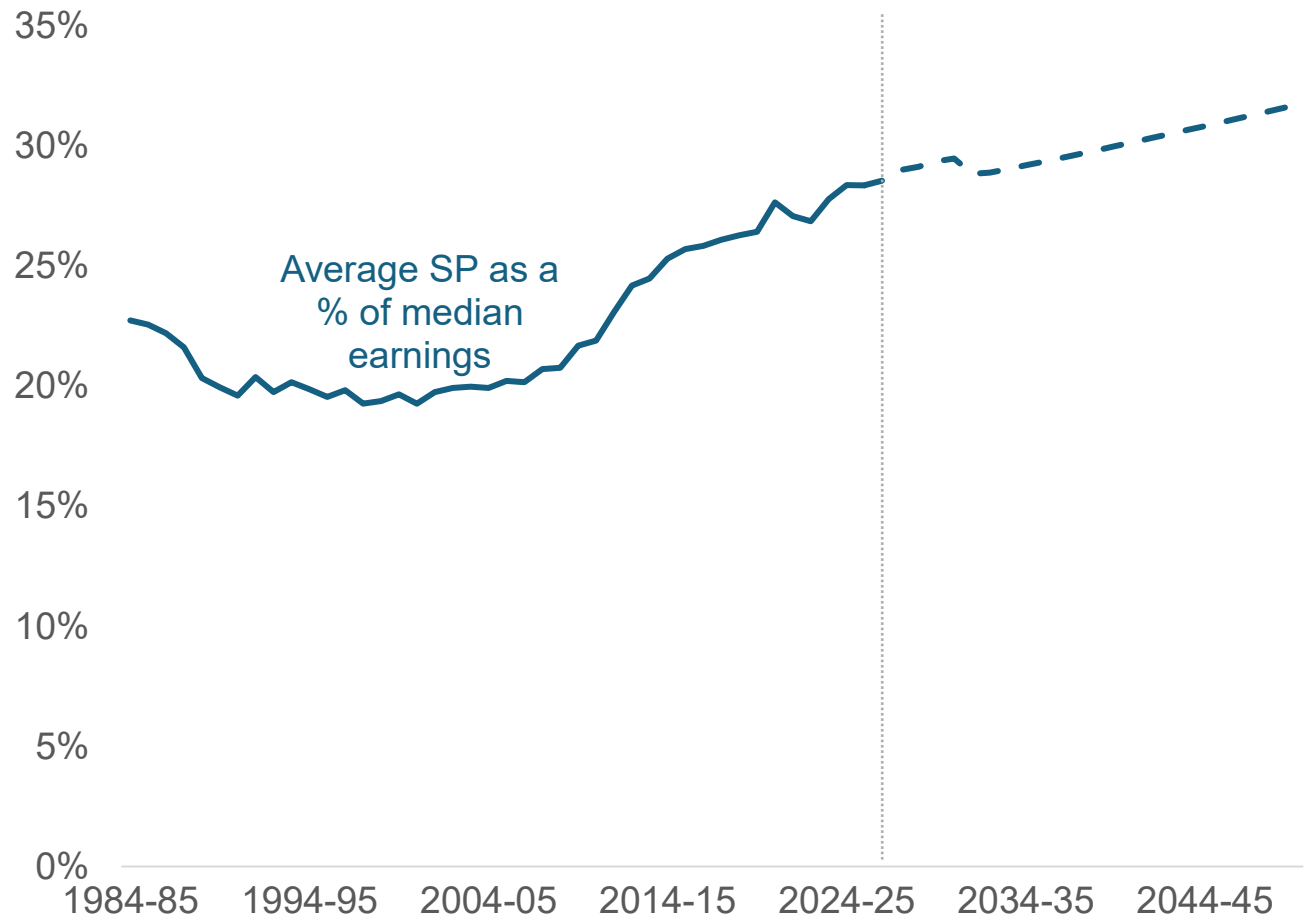
The State Pension has risen relative to earnings since the 2010s

Between 1981 and 2010, the basic State Pension was uprated by prices only, not earnings, causing its value to fall relative to average wages. The first Pensions Commission acknowledged that this increased reliance on means-tested benefits created uncertainty and disincentives to save.

The Triple Lock was introduced in 2010 and guarantees annual increases to the State Pension by the highest of earnings growth, inflation, or 2.5%. This ensures the State Pension at least keeps pace with earnings growth. As a result, the average State Pension now represents around 28% of median earnings in 2024-25 and the full rate of the new State Pension represents around 30%.

This is projected to continue increasing out to 2050, where it would reach over 31%.

Average State Pension as a percentage of full time average (median) earnings



Source: DWP analysis using 'Benefit expenditure and caseload tables 2025'

Source: DWP analysis using 'Abstract of DWP benefit rate statistics 2025'

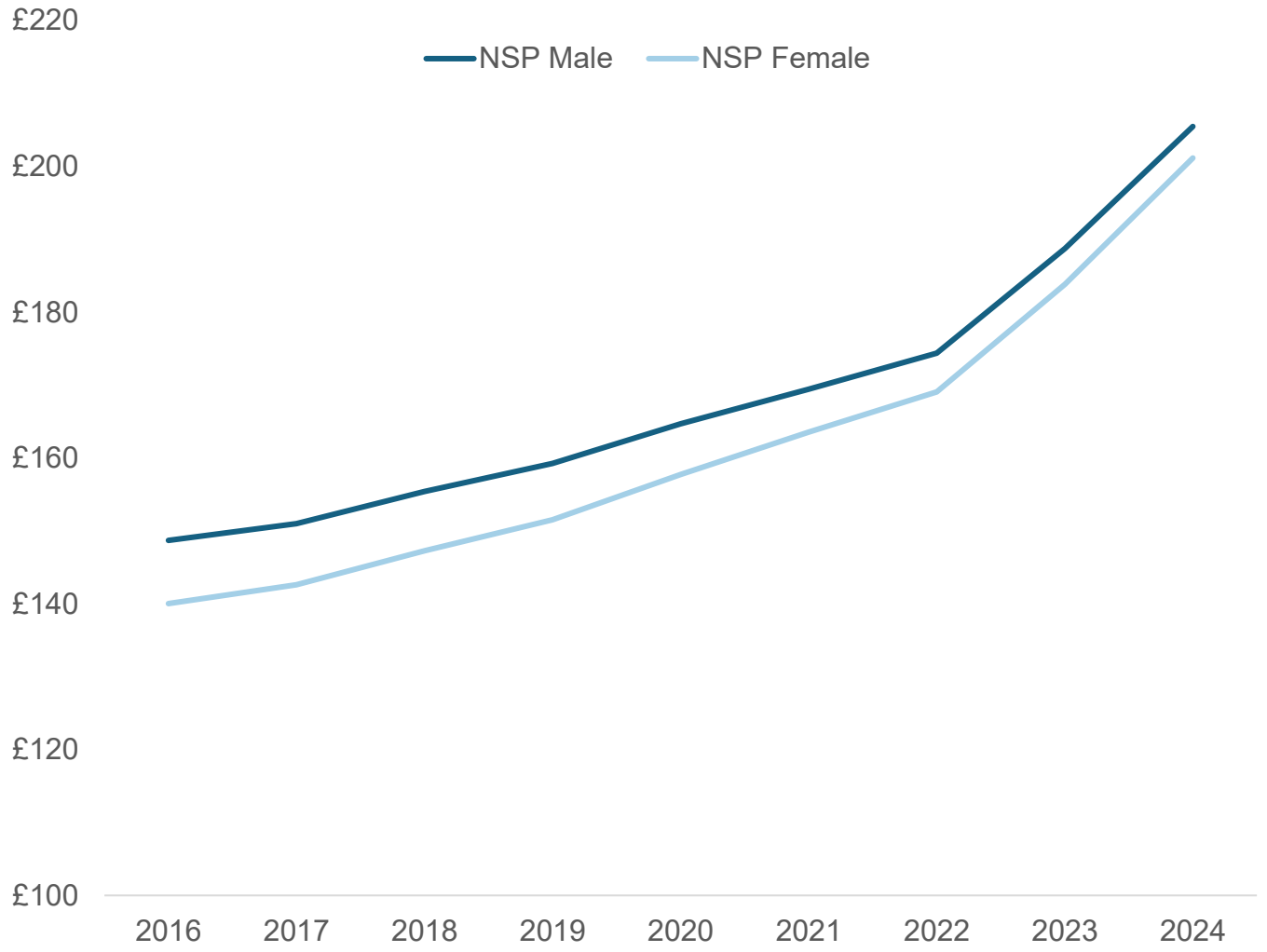
The gap in State Pension amounts for those reaching State Pension age between men and women is closing under the new State Pension

Reforms to National Insurance credits improved farness for carers and low earners, reducing gender inequalities given women are more likely to receive credits than men.

The new State Pension provides a ceiling to which State Pension amounts can grow to whereas the pre-2016 system did not, benefitting men with additional State Pension more.

Women reaching State Pension age in 2024 received on average 99% of the amount of State Pension that men received. This was 86% under the pre-2016 system.

Average new State Pension weekly amounts over time



Source: DWP analysis of 'Work and Pensions Longitudinal Survey 2024'. See Methodology 4.

Pensioner poverty is lower than in the early 2000s, and lower than for other age groups, but progress has stalled recently

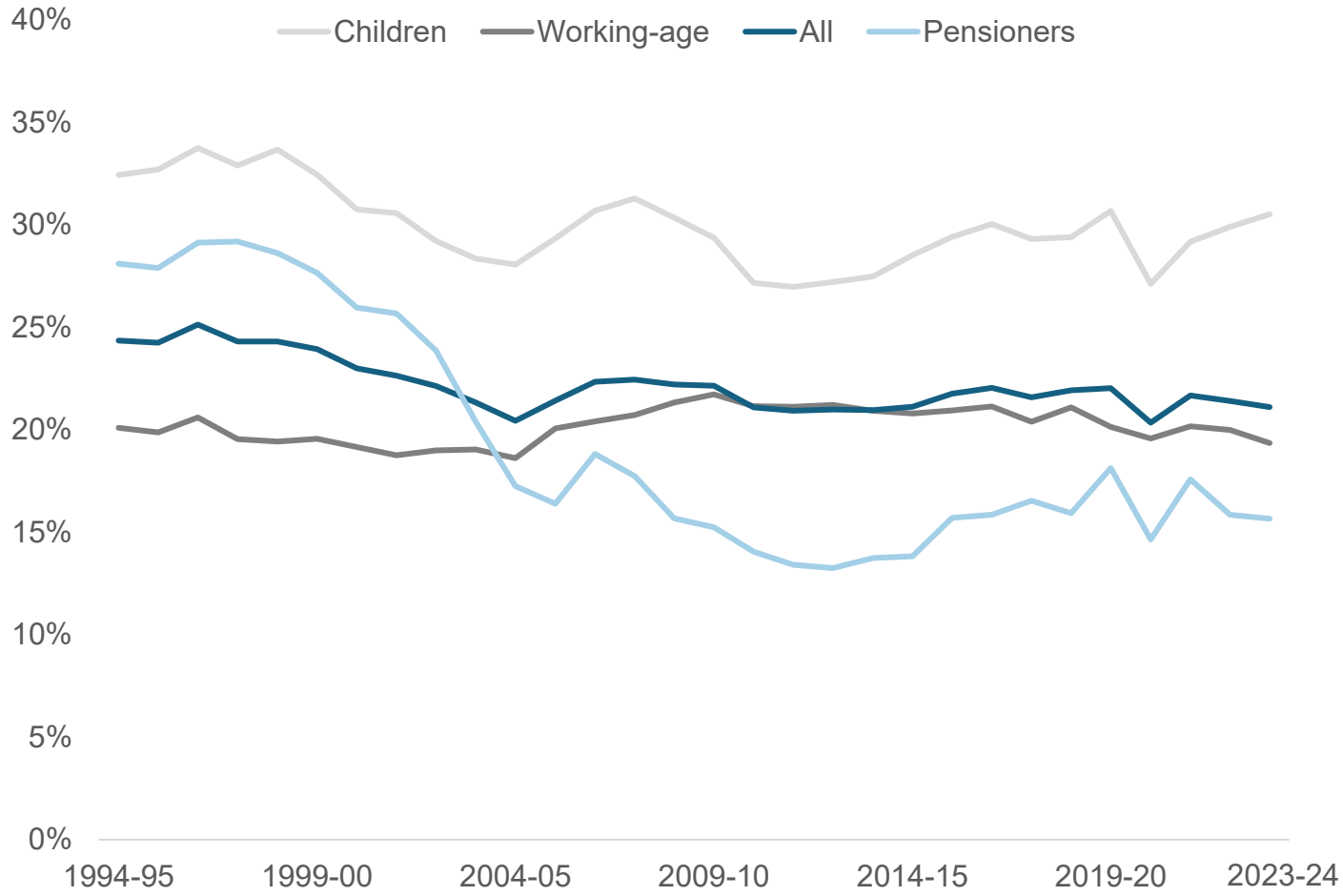
In 1999-00 the proportion of pensioners in relative poverty after housing costs was 28%. By 2007-08, before the financial crisis, it was 18% and it reached a low of 13% by 2012-13. However, since then pensioner poverty has risen to **16% in 2023-24 or 1.9 million out of 12.1 million pensioners**.

Other age groups now have higher poverty rates than pensioners: 31% of children, 17% of working-age adults without children in the household and 25% of working-age parents were living in poverty in 2023-24.

Pensioner poverty has been alleviated by Pension Credit, which supports those with less than a full State Pension, and by the Triple Lock.

Similarly, pensioners are now less likely than non-pensioners to be in the bottom fifth of the income distribution.

Percentage of population in relative poverty AHC, by age group, in the UK



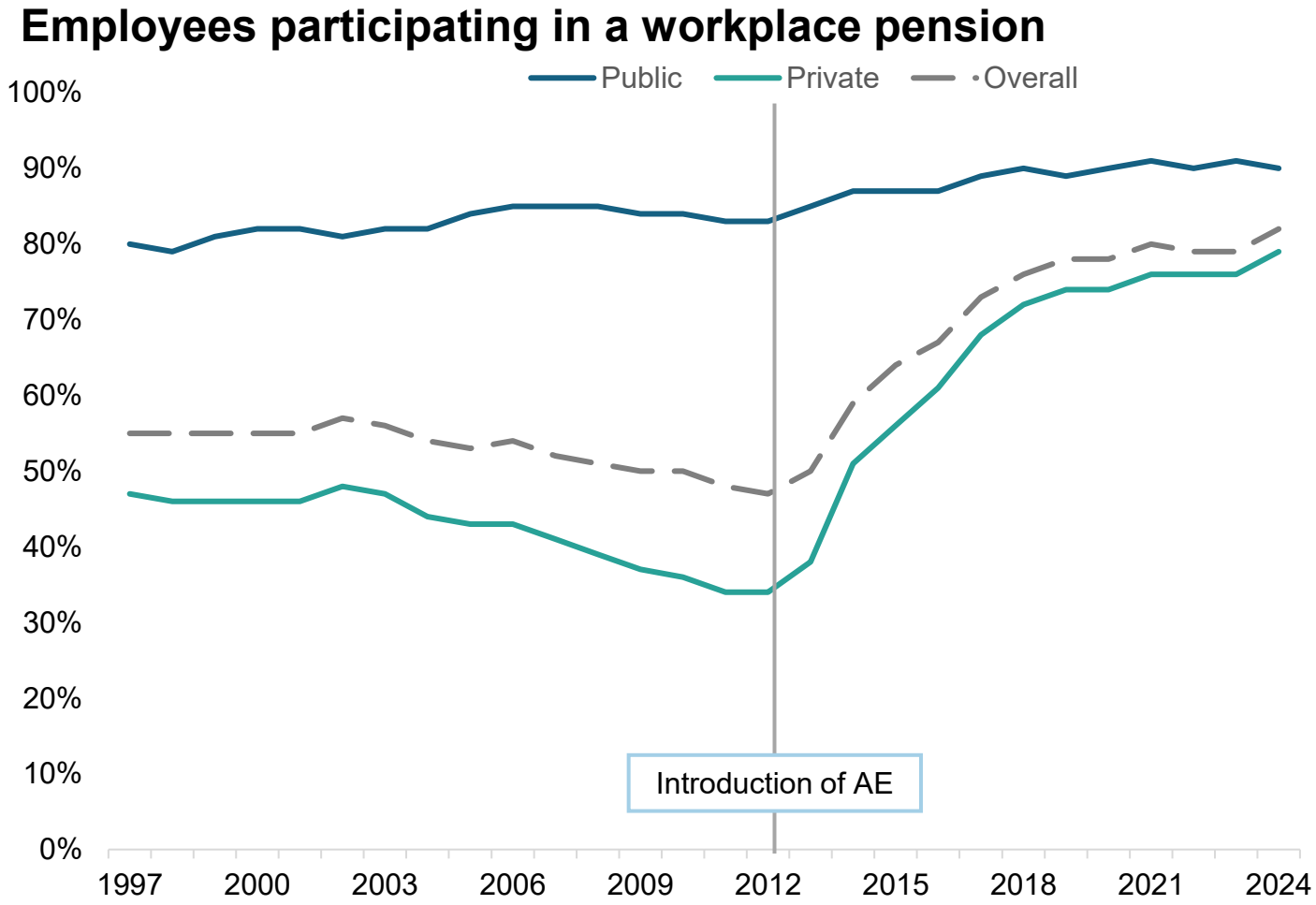
Source: DWP (2025). 'Households Below Average Income 2023-24'

The introduction of automatic enrolment reversed the decline in workplace pension participation seen in previous decades

Prior to the introduction of automatic enrolment (AE) the share of employees with a workplace pension fell from 55% in 1997 to 47% in 2012.

However, **workplace pension participation** among employees **rose from 47% in 2012 to 82% in 2024.** This has been driven by the **private sector**, with participation increasing **from 34% in 2012 to 79% in 2024**.

Participation rates are even greater for those eligible for AE, with around **9-in-10** (89%) saving into a workplace pension.

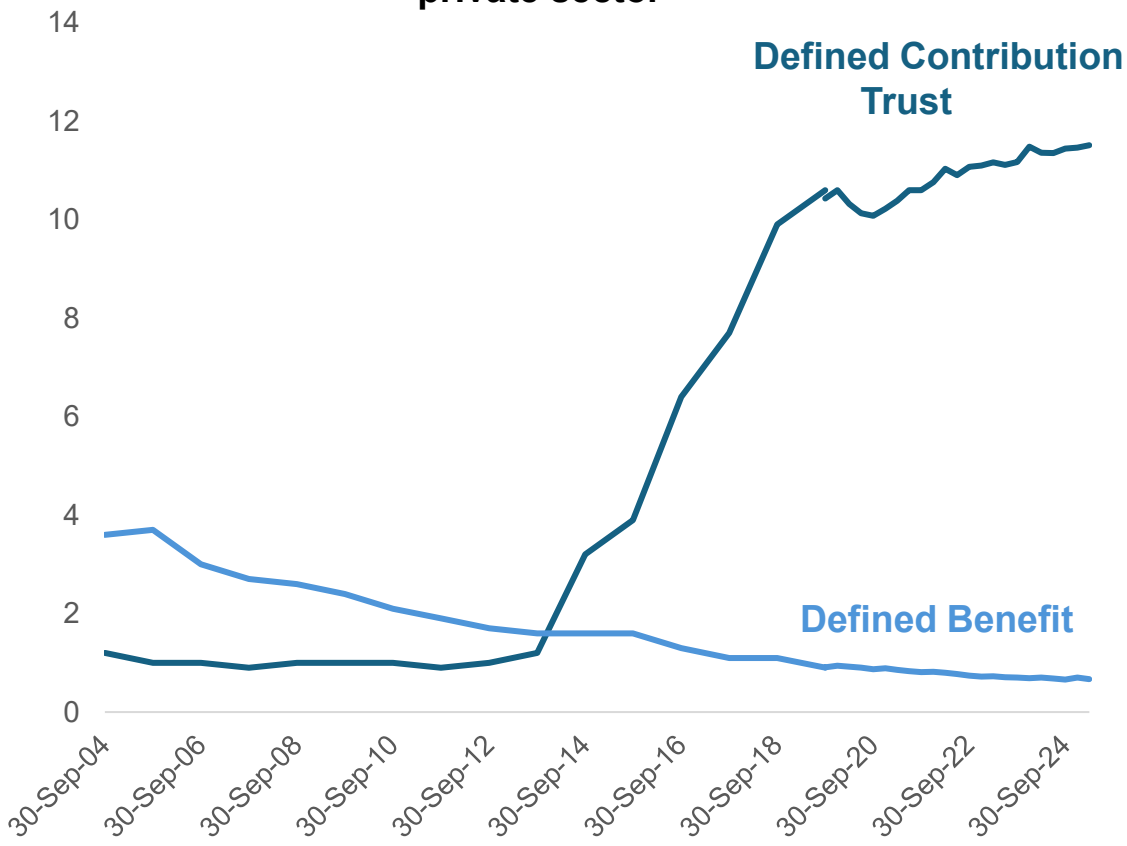


Source: DWP (2025). 'Workplace pension participation and savings trends of eligible employees: 2009 – 2024'

Automatic enrolment has led to a significant change in the pension market, moving from defined benefit to defined contribution provision

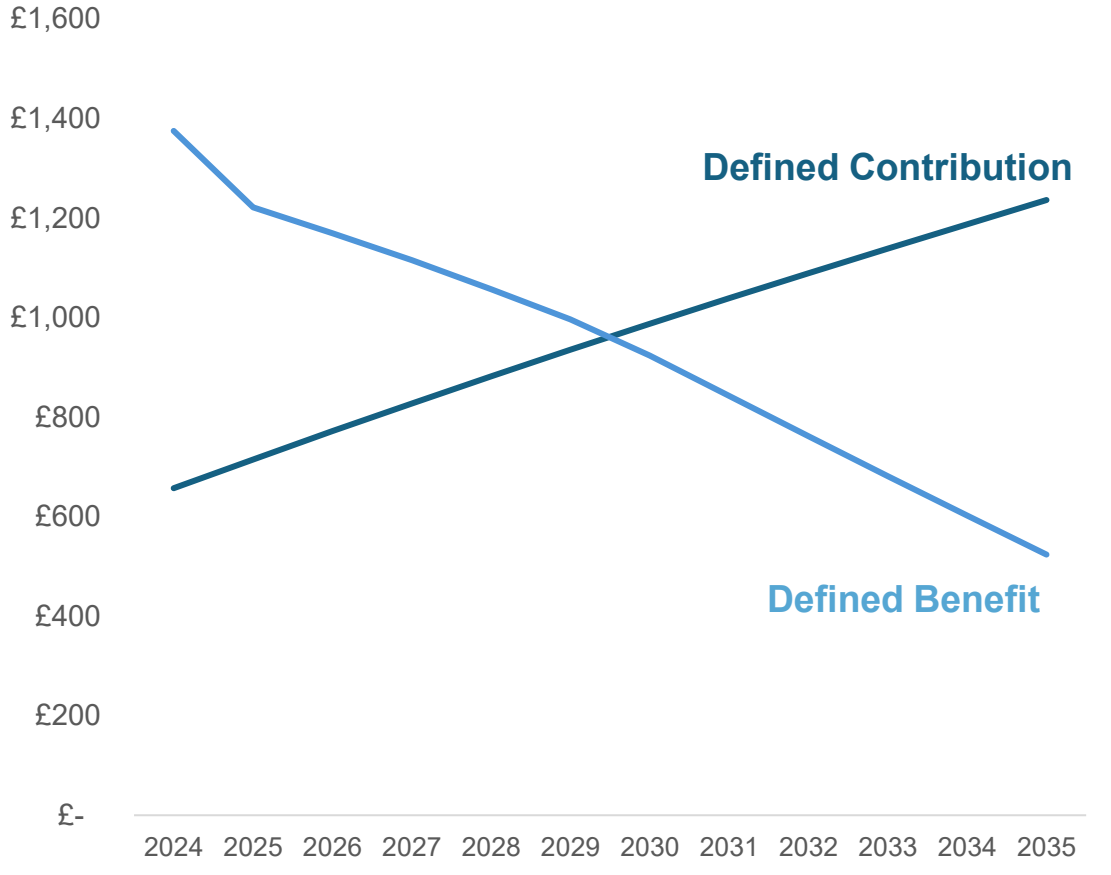
Workplace DC assets are set to overtake DB assets by around 2030, with memberships already higher. The pensions market is regulated by The Pensions Regulator (overseeing trust-based schemes) and the Financial Conduct Authority (contract-based schemes).

Active pension savers (millions) by scheme type in the private sector



Source: ONS (2026). Funded Occupational Pension Schemes in the UK.

Projected assets (billions) by scheme type in the private sector



DWP (2026). DWP internal modelling. See Methodology 13.

The first Commission envisaged most people would enter retirement as homeowners. While home ownership among pensioners remains high, emerging trends suggest this may not hold for future cohorts.

The data shows a slow but steady shift away from home ownership towards the private rented sector.

For 55–64-year-olds in England the **home ownership rate has fallen from 82% in 2003-04 to 71% in 2024-25.**

Conversely, **the share of 55–64-year-olds in the private rented sector has more than doubled from 4% to 10% in the last 20 years.**

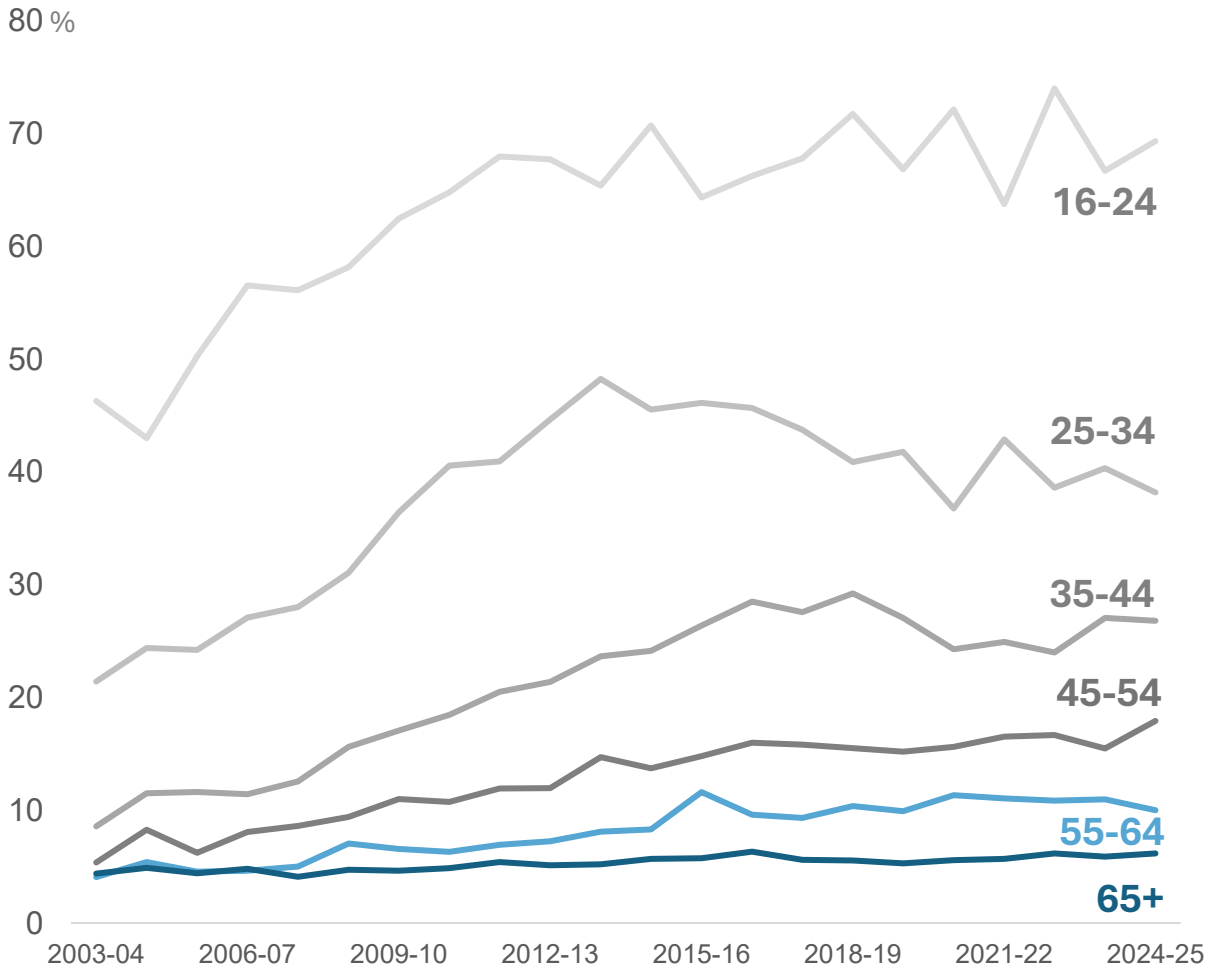
Despite longer mortgage terms and later house-buying, there is no evidence yet of more 55–64-year-olds with mortgages.

Among homeowners in this age group, the share who own outright has risen from 58% in 2003-04 to 65% in 2024-25.

Taken together, these trends suggest a future pensioner population that is more exposed to private rents, with a smaller share benefitting from mortgage-free housing, challenging one of the foundational assumptions of the first Commission.

All age cohorts have seen an increase in rates of private renting

Proportion of age cohort who privately rent



Source: English Housing Survey (2025). 'Headline findings on demographics and household resilience 2024 to 2025'

Section B: Measuring retirement outcomes

The first Commission outlined the proportion of earnings that were expected to be replaced by the State Pension, AE and voluntary saving - this has formed the basis of adequacy estimates ever since

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The first Commission outlined the system for a median full-time earner could roughly provide:

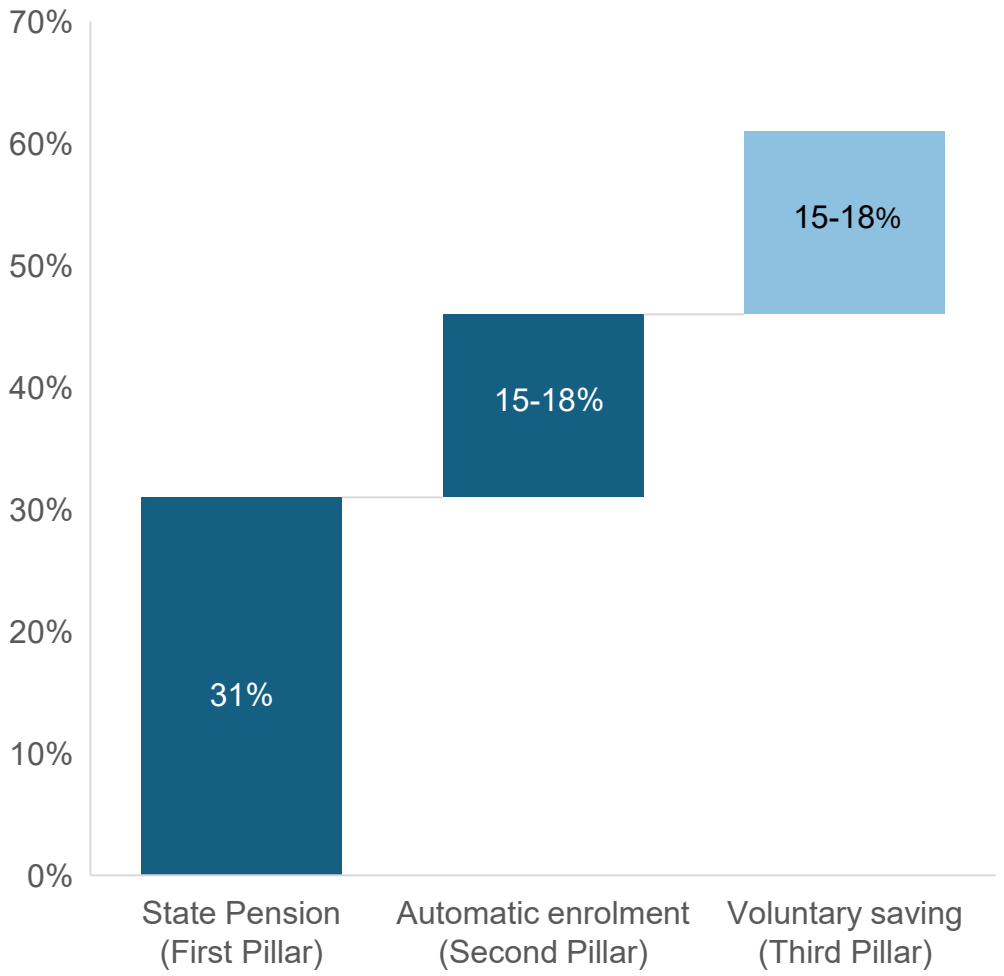
- 31% of pre-retirement earnings from State Pension
- 15%-18% of pre-retirement earnings from AE
- 15%-18% of pre-retirement earnings from additional voluntary saving

This meant an average full-time earner would have a Target Replacement Rate (TRR) of around **61-67%** of pre-retirement earnings in retirement. However, the expectation was around **46-50%** of their pre-retirement earnings come from public policy of the State Pension and AE.

Different replacement rates were designed for different earnings bands:

Original band	Latest Earning Bands	TRR
Less than £9,500	Less than £15,900	80%
£9,500 to £17,500	£15,900 to £29,000	70%
£17,500 to £25,000	£29,001 to £42,000	67%
£25,000 to £40,000	£42,001 to £67,000	60%
£40,000+	£67,000+	50%

Target Replacement Rate levels by component proposed by the first Commission for an average (median) earner



Source: Pensions Commission (2005). 'A New Pension Settlement for the Twenty-First Century'

However, not all of the TRR was expected to be delivered from public policy. Replacement rates in relation to public policy have been created which align to each TRR earnings band.

The first Commission outlined 5 earnings bands and replacement rates but only set out the breakdowns by each pillar for the middle earnings band. The Commission proposed "at least 45%" of pre-retirement income should be delivered through public policy, with workers 'enabled' to top this up to 60-67% through employee or employer additional saving if they aspired to.

To create policy element TRRs for each group, these have been **calculated** based on:

- The State Pension level expected from the Pensions Commission by earnings band
- Assuming pension saving of the remaining TRR is split equally between voluntary saving and AE (as is the case for the median earner).

For all but the lowest earnings band, the policy element replacement rates are lower than the **target replacement rates.** Therefore, these rates should not be considered an adequacy metric, but a tool to consider the role of policy in delivering adequate incomes.

Original band	Latest Earnings Bands (2023)	TRR	Policy Element Replacement Rate (rounded)
Less than £9,500	Less than £15,900	80%	80%
£9,500 to £17,500	£15,900 to £29,000	70%	60%
£17,500 to £25,000	£29,001 to £42,000	67%	50%
£25,000 to £40,000	£42,001 to £67,000	60%	40%
£40,000+	£67,000+	50%	30%

Source: Pensions Commission (2004). 'The First Report of the Pensions Commission and DWP calculations'

A large proportion of recent pensioners fall below their Target Replacement Rate when comparing pension income to earnings

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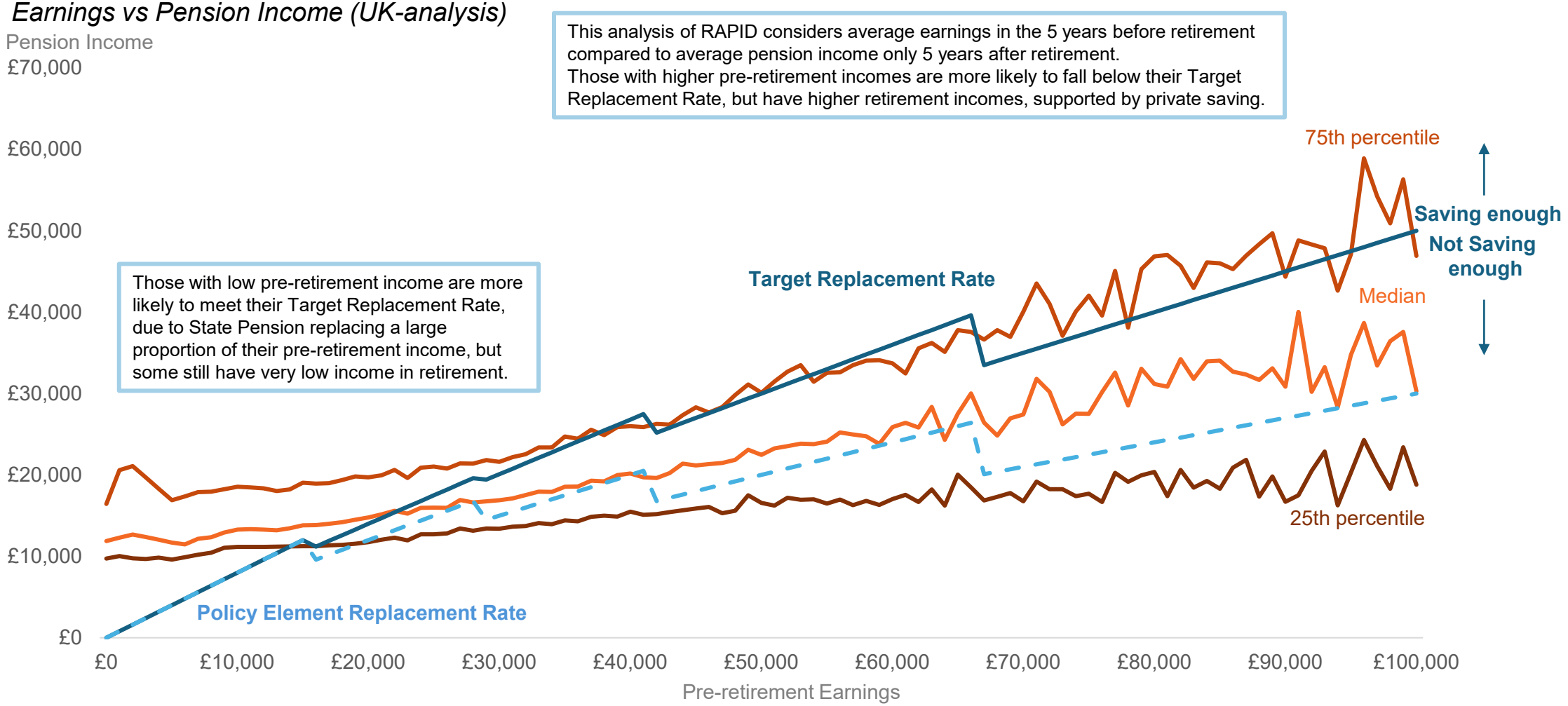
Retirement income profiles vs the Target Replacement Rate line

Earnings vs Pension Income (UK-analysis)



Source: DWP analysis of 'RAPID 2008-2024', for those retiring 2013-2019. See Methodology 5.

An estimated 5-in-10 recent pensioners missing their TRR. This is projected to get worse in the future.

This analysis of RAPID considers average earnings in the 5 years before retirement compared to average pension income only 5 years after retirement.

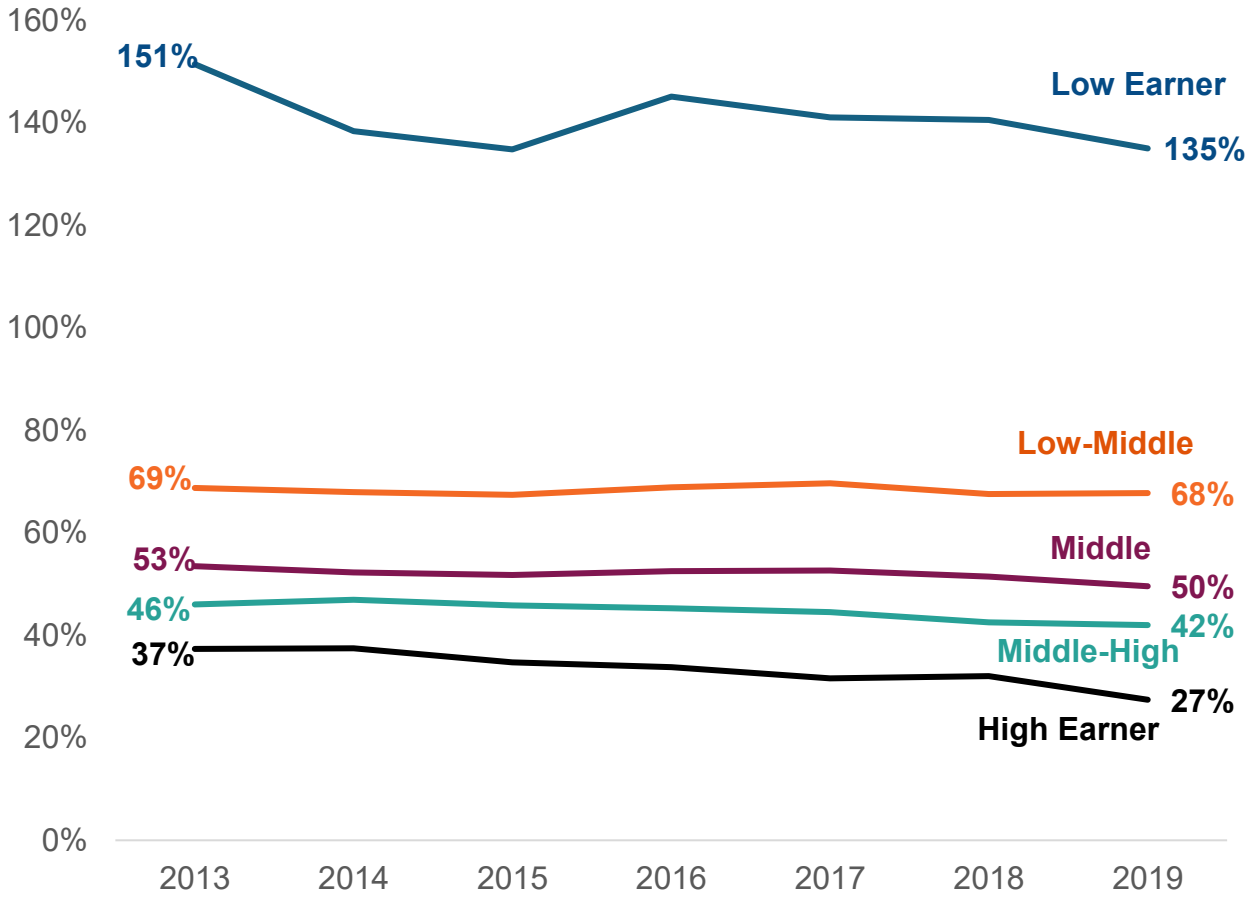
For the lowest earnings band, on average individuals have pension income higher than their target replacement rate, but for the other bands the median replacement rate is below their target.

For those retiring between 2013-2019, ***around 50% have missed their TRR using this definition.***

Modelling of *future pensioners* shows when only pension income is considered, the rates of undersaving are **projected to reach around 60% in the 2020s** – greater than the current levels of around 50% shown for those retiring in the 2010s.

Median replacement rate achieved by TRR band, by year reaching SPa

Using average of earnings 5 years before and average of pension income 5 years after retirement (UK-analysis)



Source: DWP analysis of 'RAPID 2008-2024', for those retiring 2013-2019, see Methodology 5. Earning Bands consistent with latest published TRR estimates.

When calculating replacement rates for recent retirees with *all income*, average replacement rates improve for all groups except lowest earners reflecting other sources of income

Comparing all income reported in RAPID in working-age and retirement includes income from pensions, benefits such as disability benefits and earnings income. This improves the replacement rates achieved for all but the lowest TRR band.

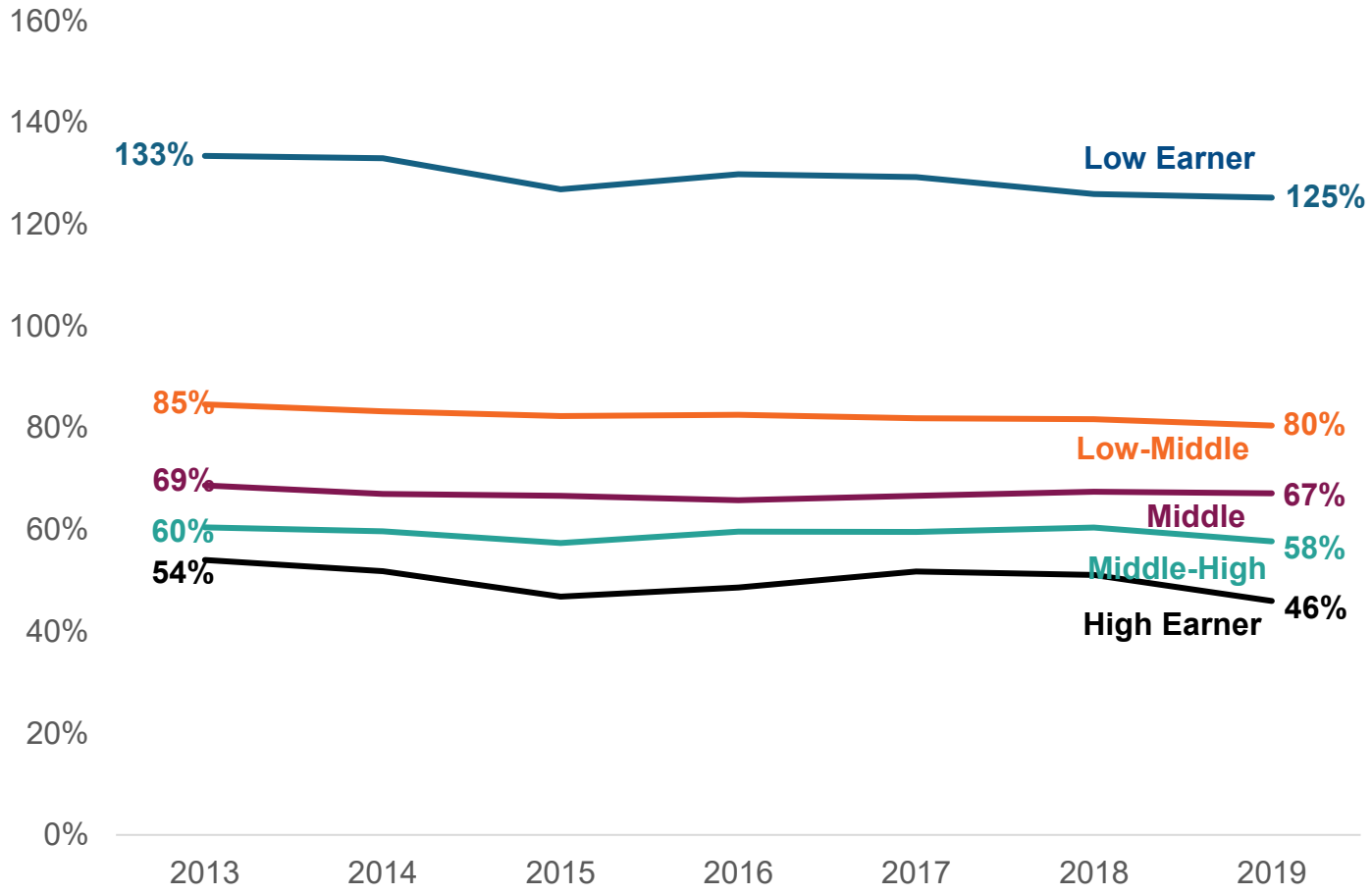
Including earnings income in retirement is a large driver behind the replacement rates achieved for the higher earning groups.

Using *all income comparisons* rather than earnings to pension income comparisons results in average replacement rate increases from:

- 27% to 46% for the highest band;
- 42% to 58% for the 4th highest band;
- 50 to 67% for the 3rd;
- 68% to 80% for the second highest band

Average replacement rate by year reached State Pension age and earnings group prior to retirement, comparing all income received

All Income vs All Income (UK-analysis).
All income is income from *any activity (employment and benefits)* in RAPID.



Source: DWP analysis of 'RAPID 2008-2024', for those retiring 2013-2019, see Methodology 5. Earning Bands consistent with latest published TRR estimates.

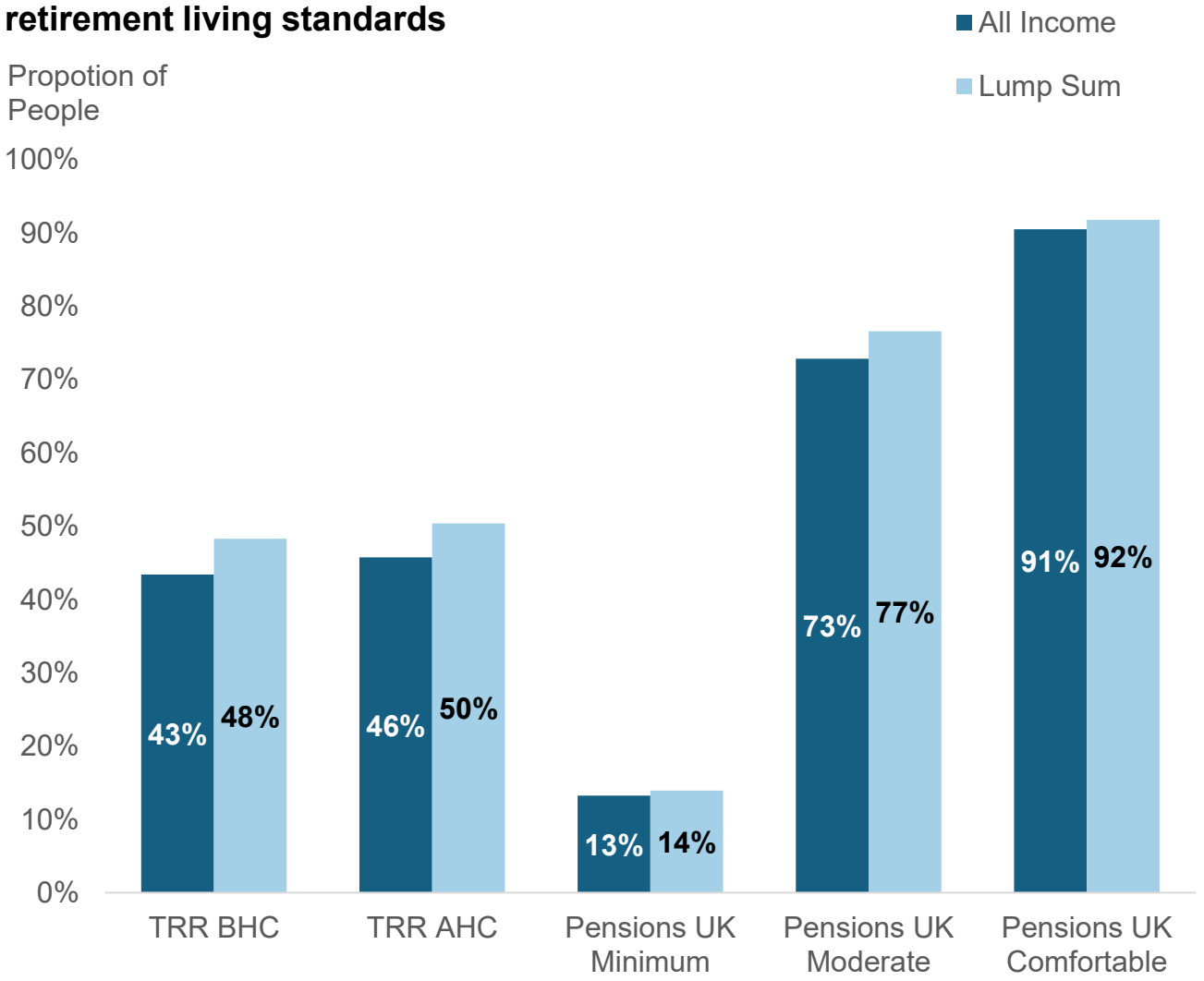
Looking ahead, previous DWP estimates have highlighted 4-in-10 working-age individuals are set to miss their TRR and 3-in-4 will miss the Pensions UK moderate Retirement Living Standard

The All-Income scenario illustrates an individual purchasing an annuity with their whole pot. The Lump Sum scenario illustrates an individual taking a 25% lump sum from their pot and then purchasing an annuity with the remaining 75%. Unless otherwise stated, analysis in this pack considers an "All-Income" scenario.

The analysis estimates adequacy through comparing:

- Pre-retirement earnings (positive earnings from 50-State Pension age)
- Retirement income
  - State Pension and Private Pension
  - Financial wealth (imputed from the Wealth and Assets Survey Round 7 and annuitised)
- Target Replacement Rates as set by the first Commission – uprating earnings in line with earnings growth
- Pensions UK Retirement Living Standards (published in 2024)

4-in-10 are undersaving by TRR BHC and 3-in-4 by Pensions UK moderate retirement living standards



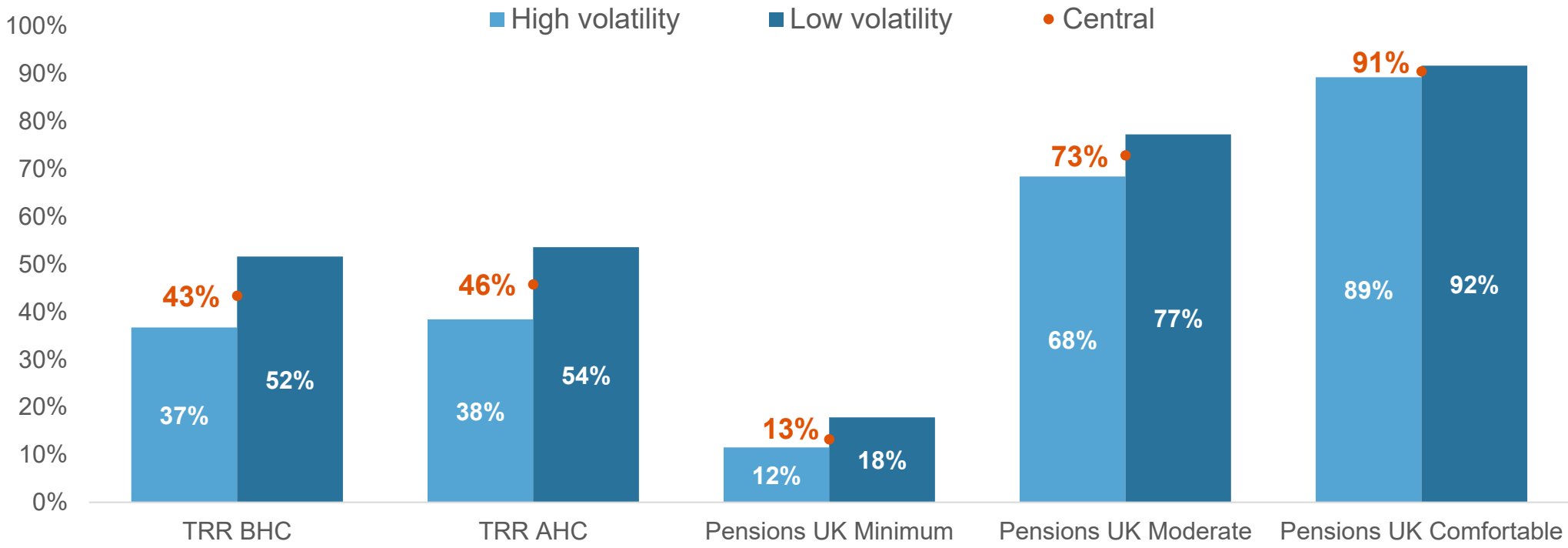
Source: DWP (2025). Analysis of Future Pension Incomes 2025. See Methodology 1.

The OBR forecast high volatility, low volatility and central Triple Lock scenarios – undersaving may look significantly different depending on future uprating

The Office for Budget Responsibility currently estimate that the Triple Lock in the long-run this is largely around 0.5ppts above average earnings reflecting past trends on volatility of economic variables, this is the central scenario. Under a higher volatility scenario, this may lead to greater SP uprating, a higher SP, and lower undersaving (assuming all else equal). Compared to 43% (15m) undersaving under the central assumption:

- **Lower volatility scenario** could increase undersaving to 52% (19m)
- **Higher volatility scenario** could reduce undersaving to 37% (13m).

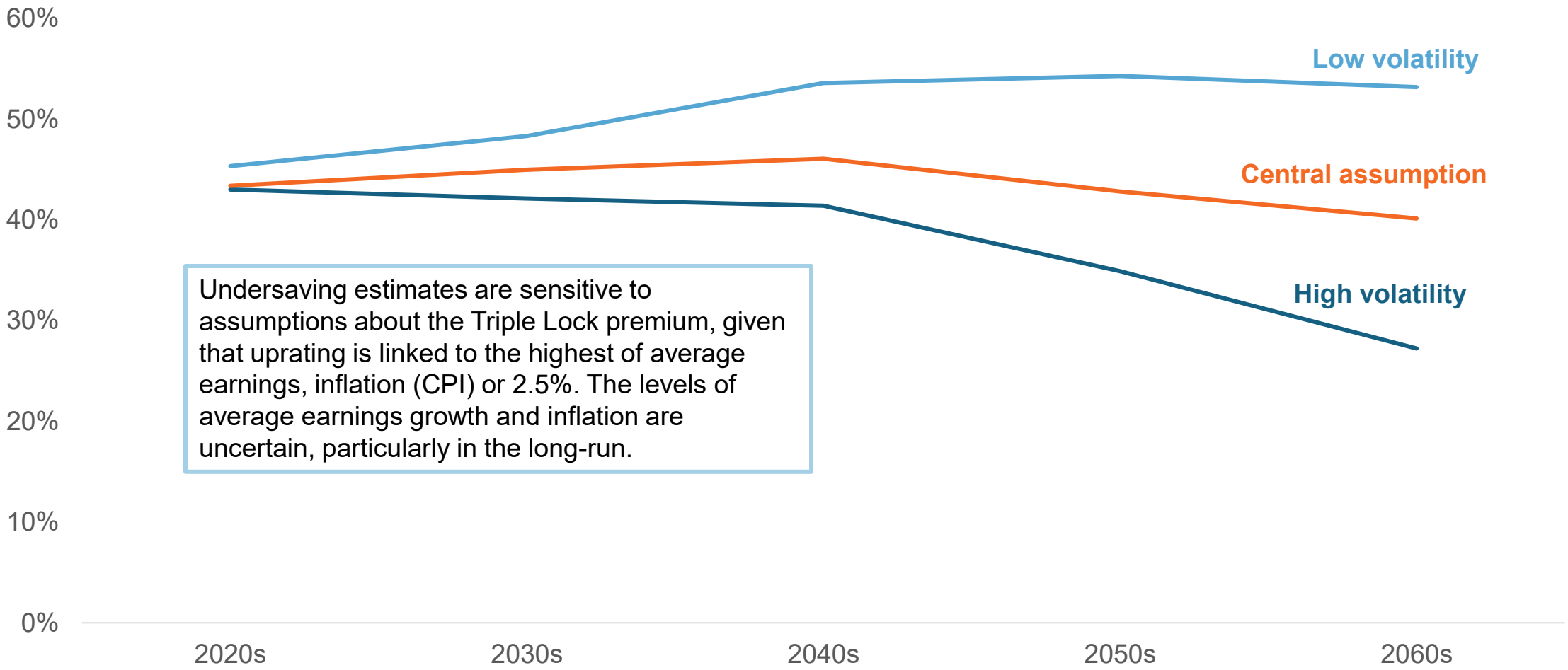
Proportion of working-age undersaving under central, high and low volatility Triple Lock assumptions



Source: DWP Pensim3 Modelling – see Methodology 1.

Different volatility scenarios will impact different cohorts differently. Under the low volatility scenario, undersaving only begins to slightly improve in the 2060s.

Proportions undersaving against TRR BHC by decade retiring under different Triple Lock assumptions



Source: DWP Pensim3 Modelling – see Methodology 1.

Despite low replacement rates for many high earners, household incomes for the richest pensioners are significant

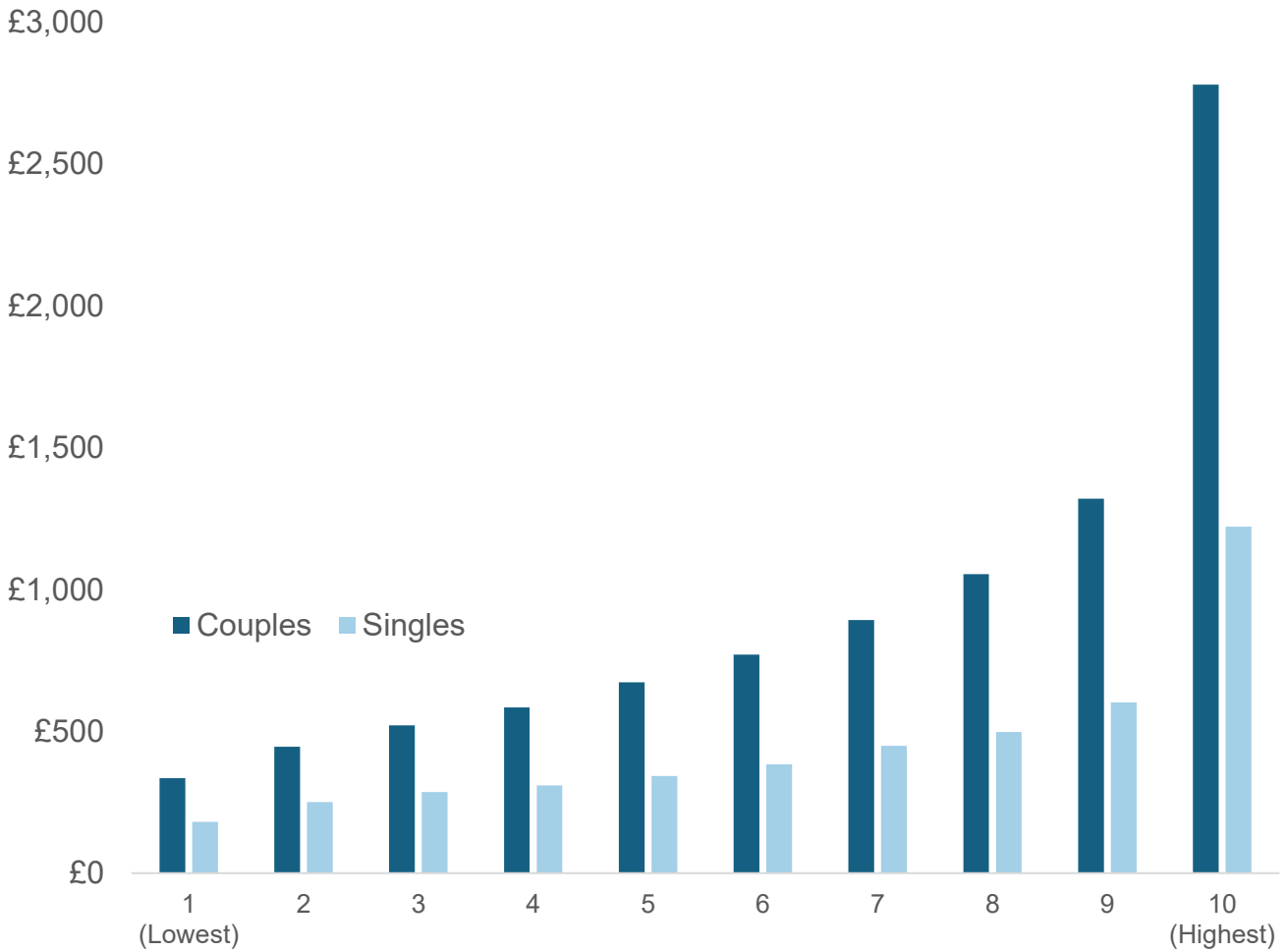
Adequacy analysis highlights **high earners falling short of their TRRS.**

However, analysis of current pensioner incomes highlights that despite many high earners having low replacement rates***, they have high absolute levels of income.***

Couples in the top decile of the income distribution have, on average, £2,780 per week from various income sources. Singles in the top decile of the income distribution have, on average, around £1,220 per week.

This compares with around £670 per week for 5th decile couples and £330 per week for the lowest income couples.

Mean weekly gross income of pensioners by decile (2021/22-2023/24)

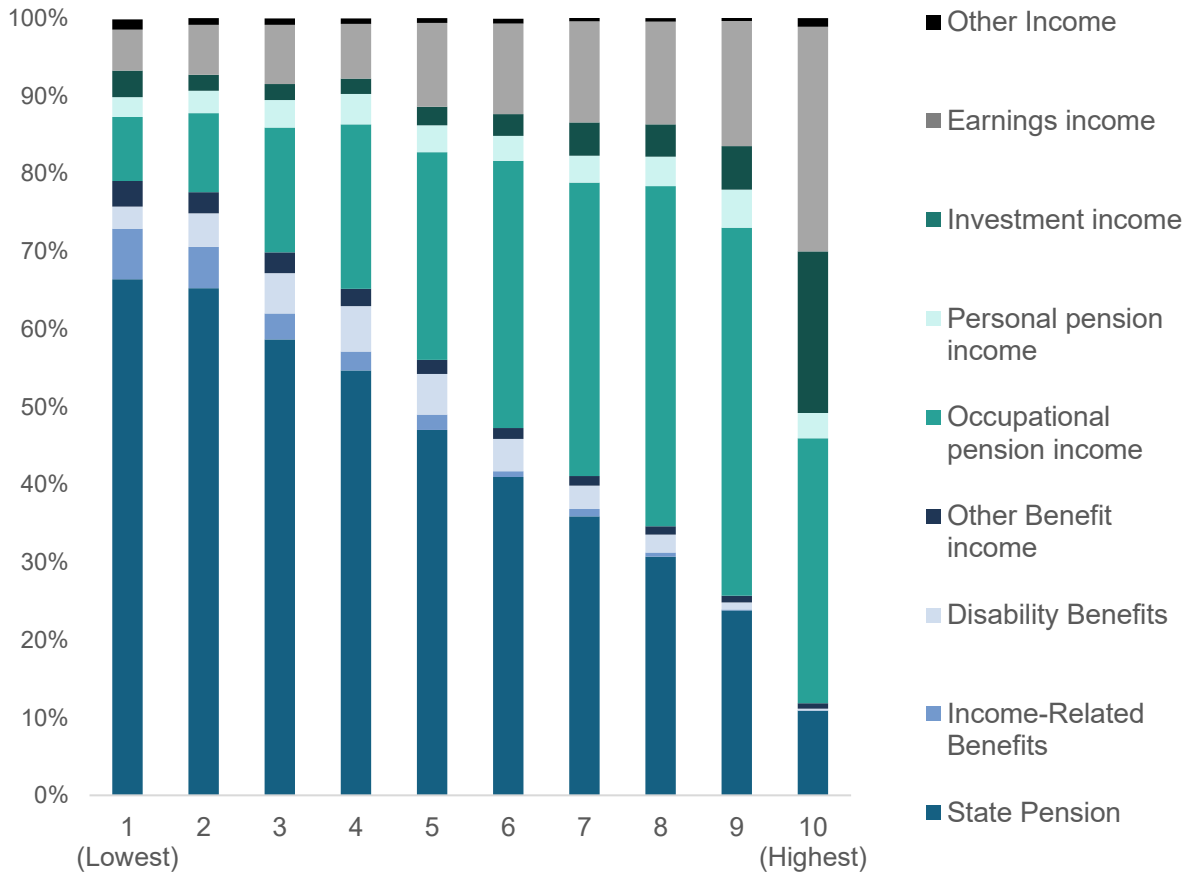


Source: DWP analysis of 'Pensioners' Income Series 1995-2024'

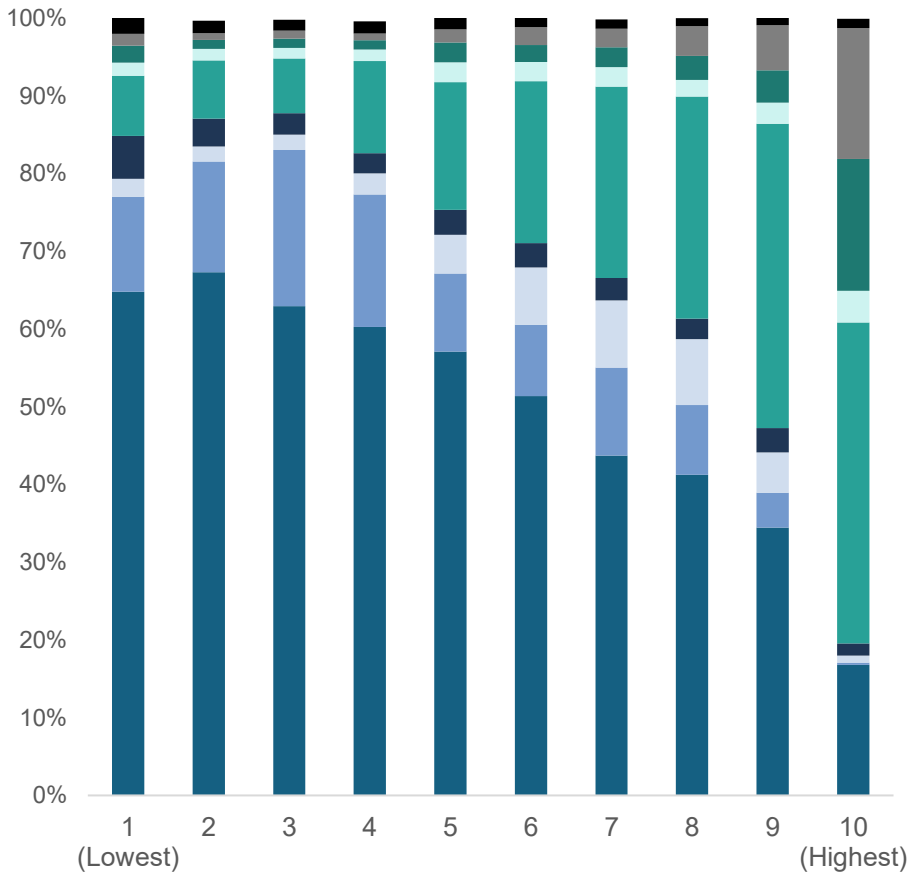
Yet the State Pension makes up an important proportion of income for all households, especially low- and middle-income groups forming a crucial foundation for many

The Second Pensions Commission

For couples across the income distribution, benefits excluding State Pension make up a small proportion of income in retirement.



For singles, the State Pension makes up a larger proportion of income for higher income than couples, but higher income individuals still draw on larger sources of other income.



This is secondary analysis based on Pensioners' Incomes statistics. Definitions of each income type can be found in the Accredited Official Statistics. Other benefit income is the difference between total benefit income and sum of State Pension, income-related benefits, and disability benefits. Other benefit income includes Winter Fuel Payments, Carer's Allowance, and in 2023/24 the Pensioner Cost of Living Payment."

Source: DWP analysis of 'Pensioners' Income Series 1995-2024'

Individuals may also have access to many forms of wealth to support their retirement, particularly in the wealthiest households

Published DWP modelling includes pension and financial wealth in estimating that **4-in-10 working aged people will miss their TRR.** This reflects that some individuals, particularly wealthier households, have a wider range of financial wealth to support them in retirement, such as property or other investments.

Financial wealth is estimated and included in the undersaving analysis through:

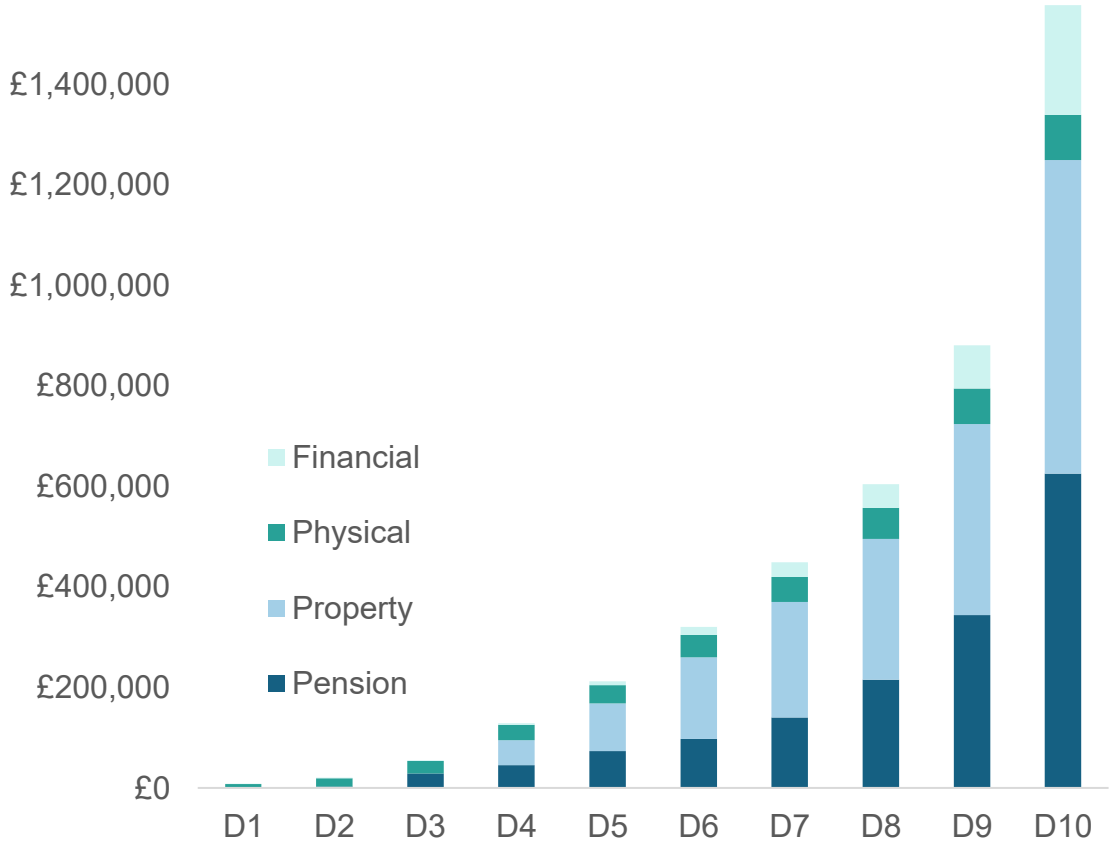
- Creating distribution of financial wealth from measure of net financial wealth (Wealth and Assets Survey Round 7).
- Wealth is estimated for individuals aged 64 to 66 within the modelling.
- Wealth is annuitised to form an income stream over retirement.

This makes a substantial difference to understanding. The analysis shows **6-in-10 are undersaving when considering pensions wealth only;** this drops to 4-in-10 when considering the wider wealth available.

The **level of inheritance people receive could grow in the future**, therefore there is a risk of underestimating the wealth available to later cohorts; although how this is used remains to be seen.

Household wealth is skewed towards those in higher income deciles

Those in the higher income deciles have more wealth in absolute terms and have a bigger range of financial resources available to them than those in the lowest income deciles.



Source: DWP analysis of 'Wealth and Assets Survey Round 8 2020-22'

A simplistic, illustrative approach to modelling housing wealth shows including housing wealth reduces the number of people undersaving

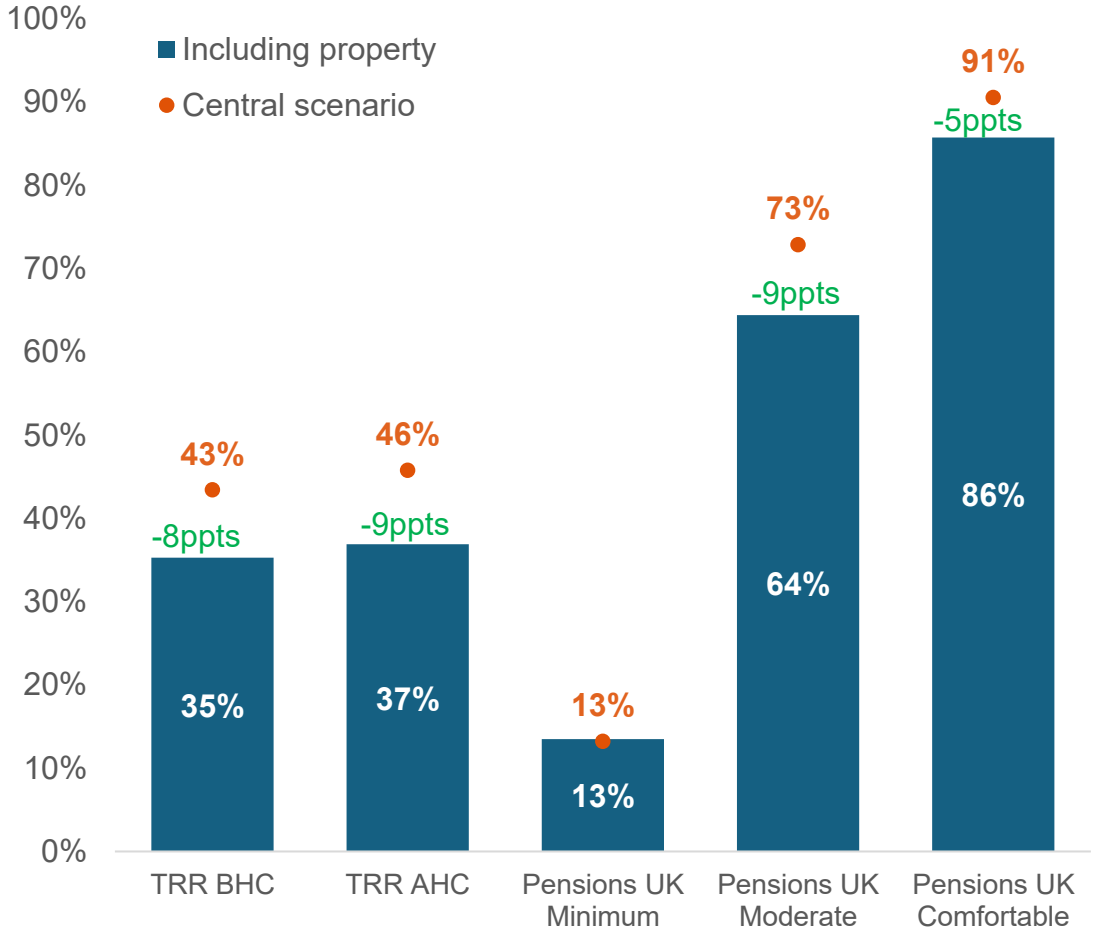
DWP's Planning and Preparing for Later Life survey found **26% of non-retirees, aged 40-75, expected to release equity from their property** to support them in retirement. However, of those fully retired, **only 6% had used equity release**.

Financial Lives Survey 2024 found 19% of non-retirees expect to use equity release from property towards funding their retirement compared to 12% of those who are retired.

Methodology for taking a simplistic approach to model housing wealth:

- Establish **main** property wealth from Wealth & Assets Survey on an individual basis
- Assume **40%** of housing wealth can be accessed. This is an assumption based on:
  - Recognition of transaction costs in selling a house
  - Average value of equity release between 20-60% of house value.
- Housing value then combined with financial wealth and annuitised to provide an annual income.

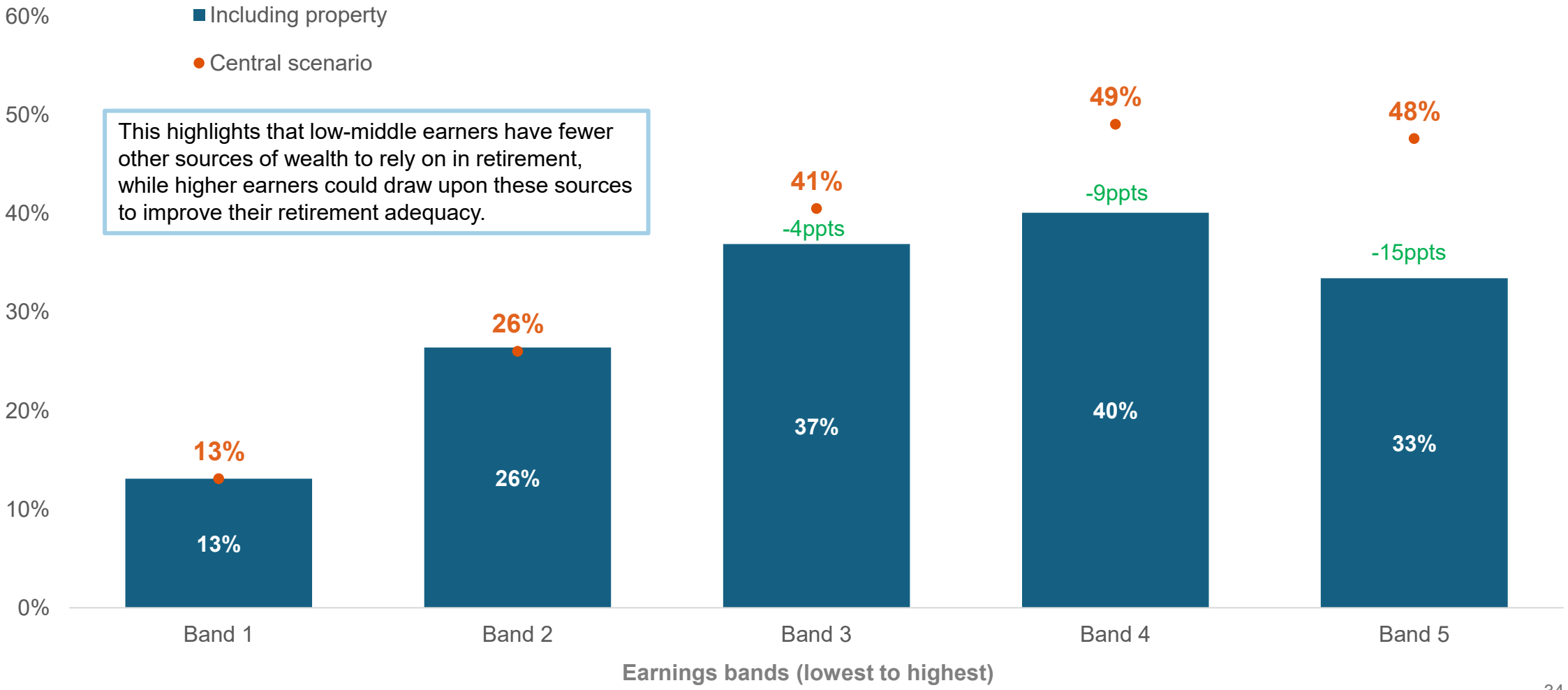
The proportion of working-age undersaving reduces across most measures when property wealth is included as retirement income.



Source: DWP Pensim3 Modelling – see methodology 1. DWP (2025) 'Planning and Preparing for Later Life 2024'; FCA (2025) 'Financial Lives Survey 2024'

The improvements in undersaving when housing wealth is annuitised are driven by the highest earners, who have the highest wealth

Undersaving (TRR BHC) in the working-age population improves for higher incomes in particular when considering housing wealth

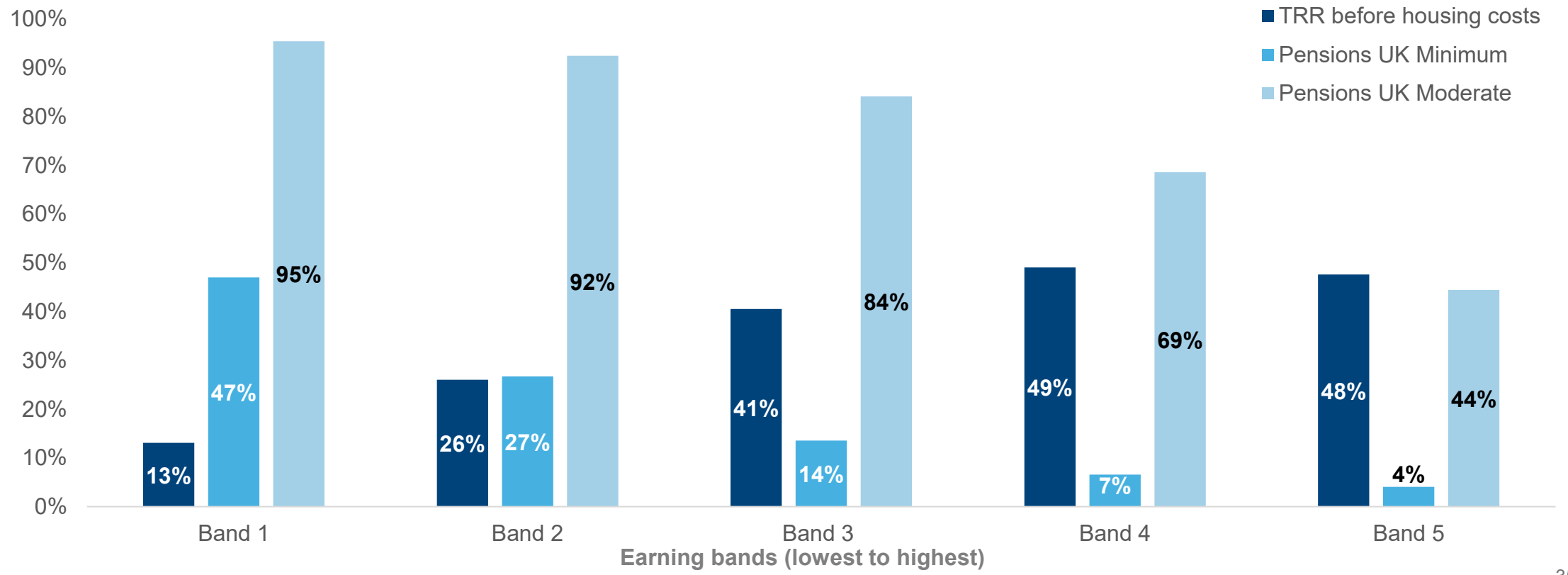


Source: DWP Pensim3 Modelling – see Methodology 1.

Different adequacy measures suggest different groups may be undersaving

When considering **Target Replacement Rates, low earners are projected to have more 'adequate' retirement income**, but when using **Pensions UK RLS, high earners are projected to have more 'adequate' retirement income.** This is because for low earners, State Pension replaces a large portion of their pre-retirement income compared to higher earners. High earners are more likely to have an absolute value of retirement income that is higher than that of lower earners.

The proportion of working age people projected to not meet their TRR BHC and the Pensions UK minimum and moderate standard in each pre-retirement earnings band (in the central scenario)

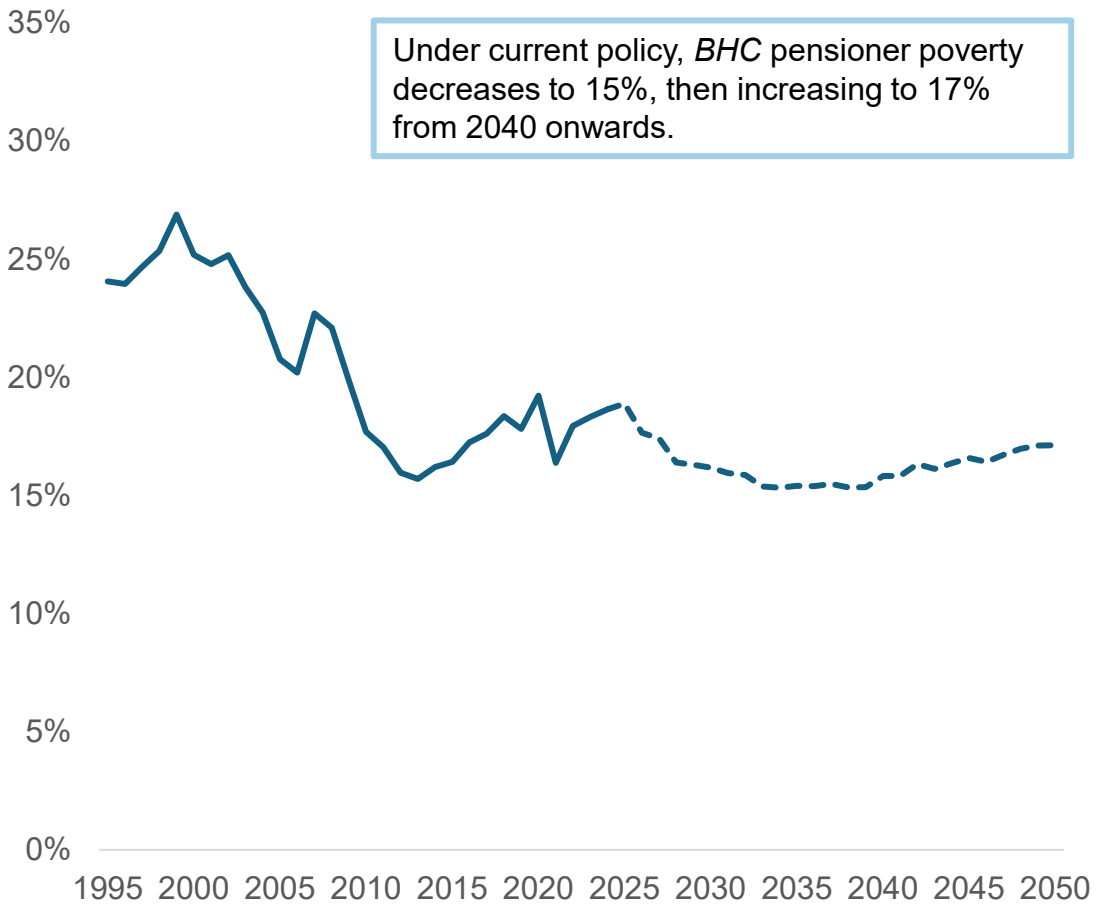


Source: DWP Pensim3 Modelling – see Methodology 1.

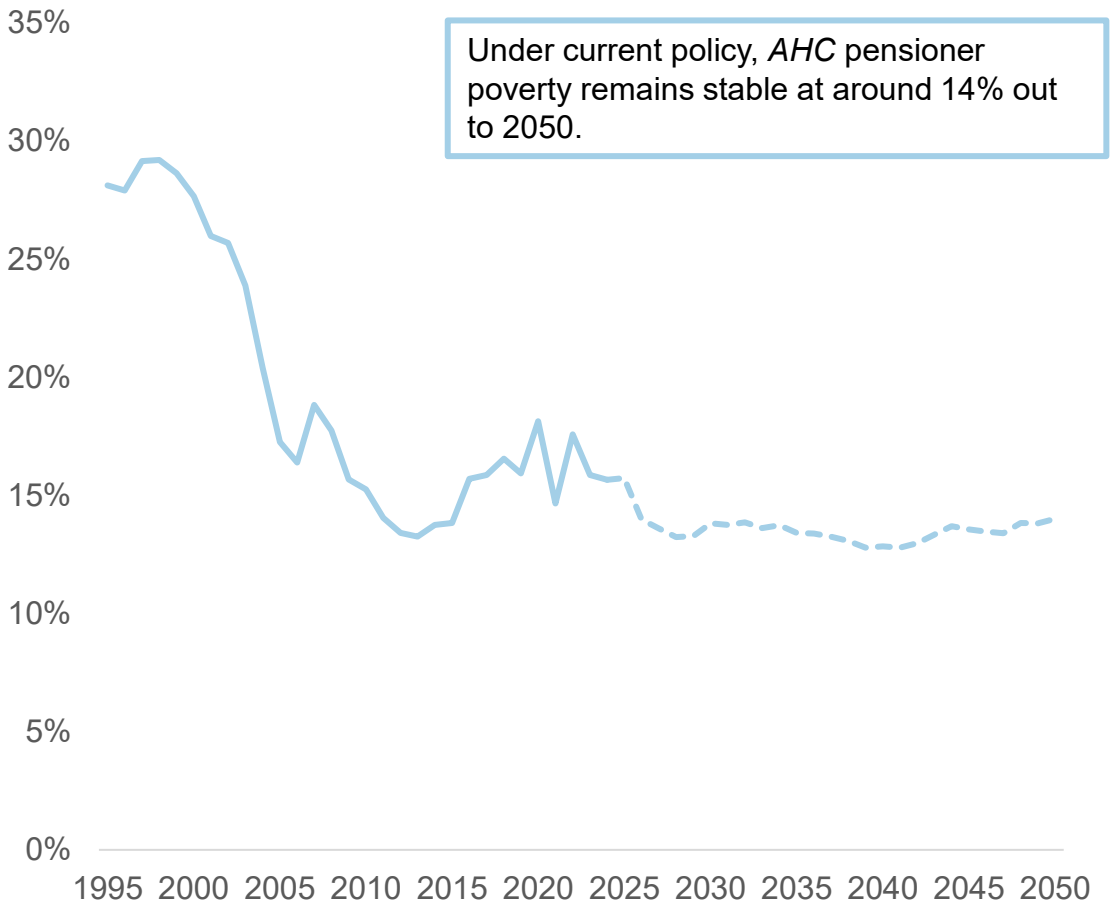
Pensioner poverty, before housing costs (BHC) and after housing costs (AHC) is projected to stabilise out to 2050 under the current policy assumptions

The Second Pensions Commission

Outturn and projections of pensioner poverty rate, relative BHC



Outturn and projections of pensioner poverty rate, relative AHC

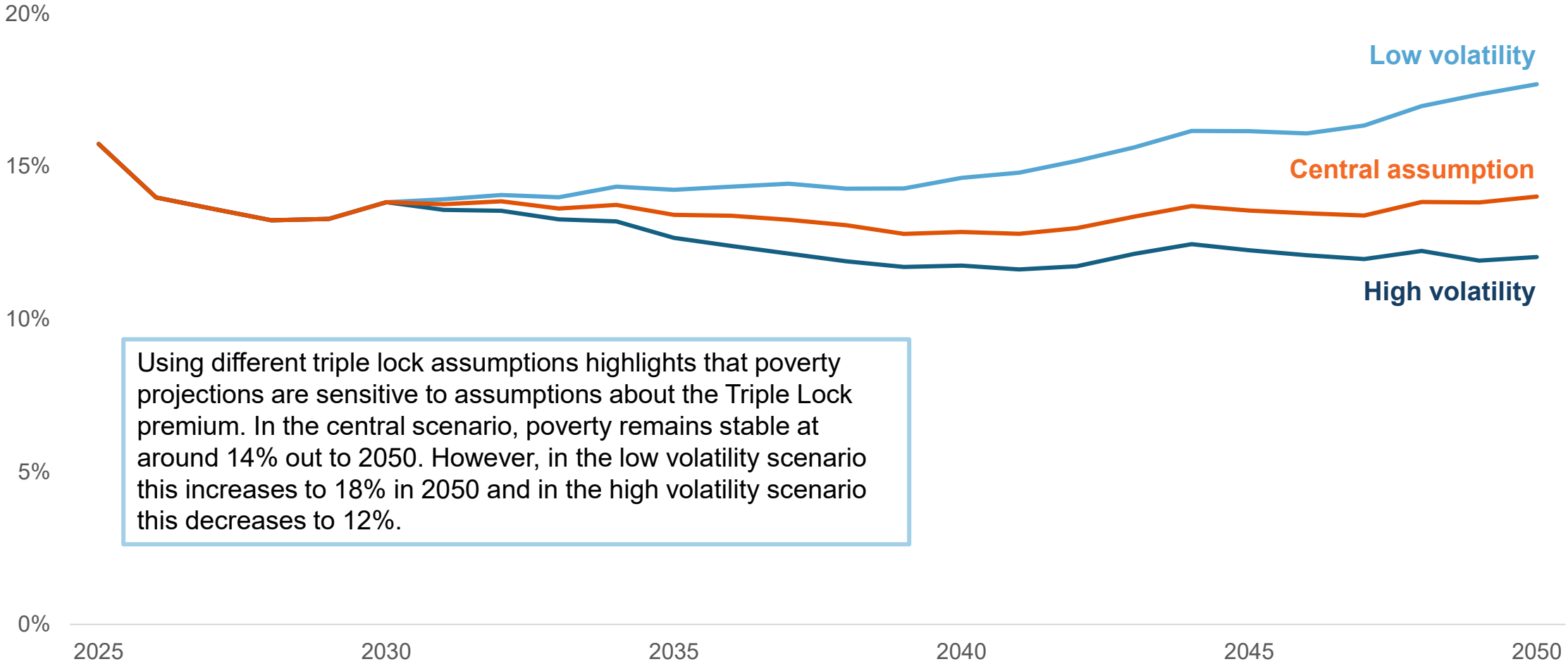


Source: DWP Pensim3 Modelling aligned to 'Households Below Average Income 2023-24'. See Methodology 3.

However different State Pension uprating scenarios have different impacts on projections of pensioner poverty

Outturn and projections of pensioner poverty rate, relative AHC, by uprating scenario

Source: DWP analysis, aligned to Households Below Average Income (March 2025)



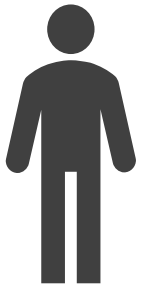
Using different triple lock assumptions highlights that poverty projections are sensitive to assumptions about the Triple Lock premium. In the central scenario, poverty remains stable at around 14% out to 2050. However, in the low volatility scenario this increases to 18% in 2050 and in the high volatility scenario this decreases to 12%.

Source: DWP Pensim3 Modelling aligned to 'Households Below Average Income 2023-24'. See Methodology 3.

Plus there are certain pensioner groups which are more likely to be in relative poverty after housing costs (AHC) than others

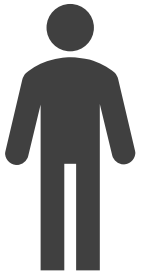
Singles are more likely to be in poverty than couples, with 1-in-5 single pensioners in poverty.
Having **no private pension or being a private renter is a determinant for poverty**, with 1-in-3 of those with no private pension and over 1-in-3 private renters in poverty. AHC poverty is highest in London, where housing costs are highest.

Note: This analysis does not include revisions released in March 2026.

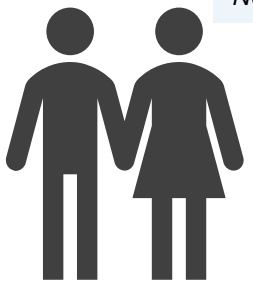


Male
15%

Female
16%



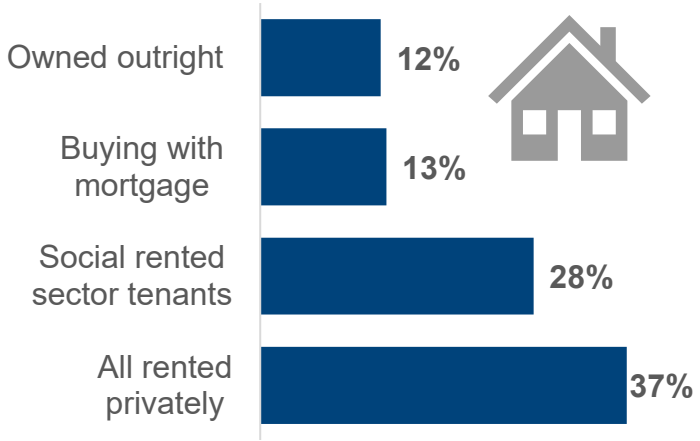
Single
21%

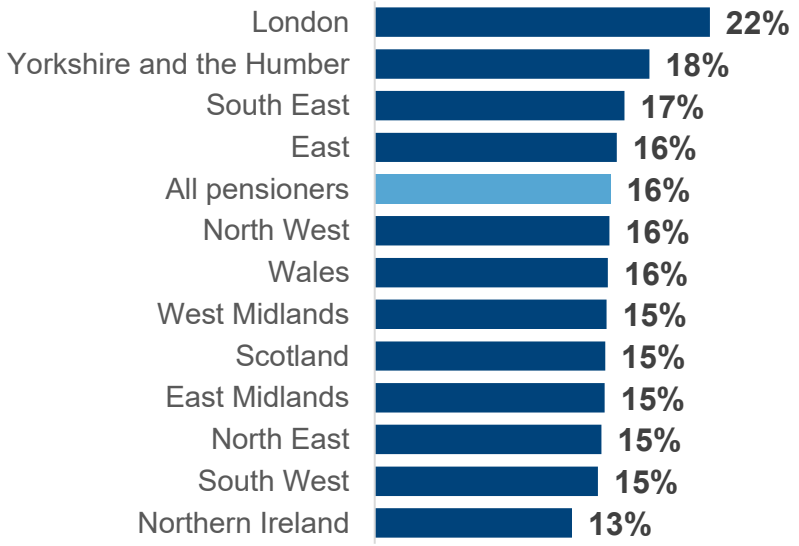


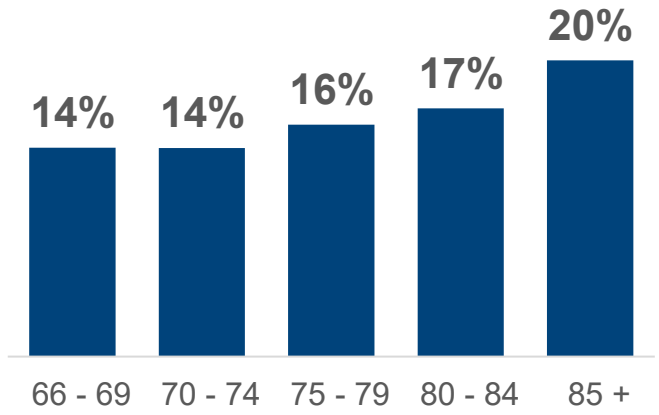
Couple
12%

Private pension
9%

No private pension
33%





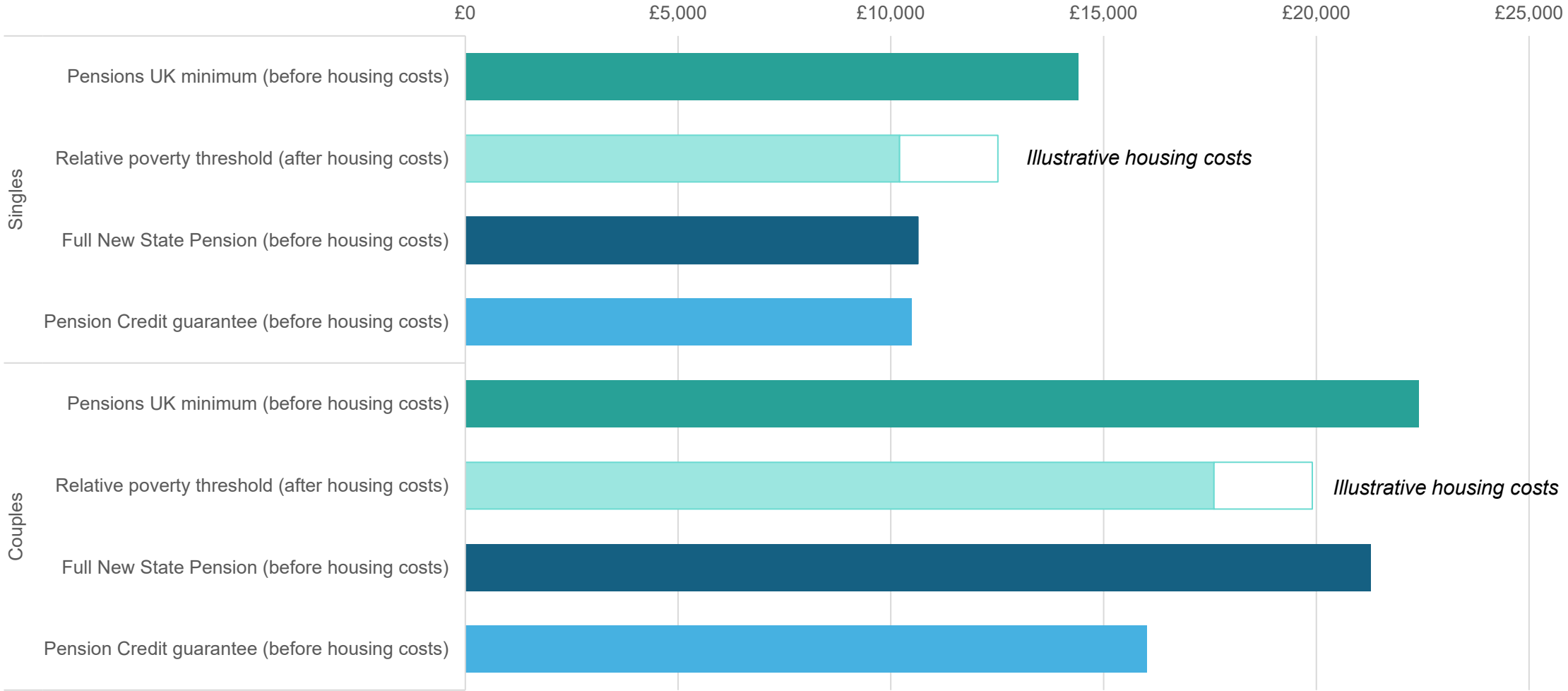


Source: DWP (2025). 'Households Below Average Income 2023-24'

The full new State Pension is comparable to the Pensions UK minimum standard for couples, but lower for singles

The Second Pensions Commission

Comparing adequacy and poverty standards to State Pension and Pension

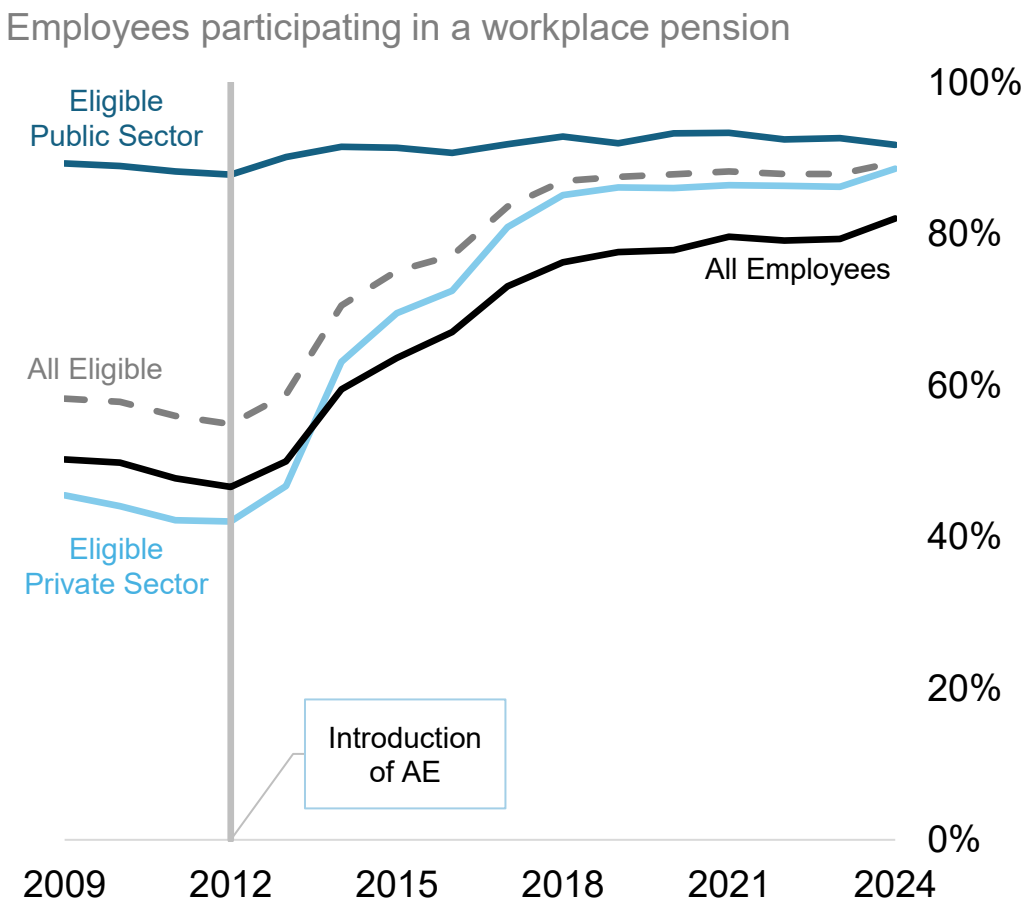


Source: DWP (2025). Households Below Average Income 2023-24, DWP (2023) 'Benefit and pension rates 2023 to 2024'

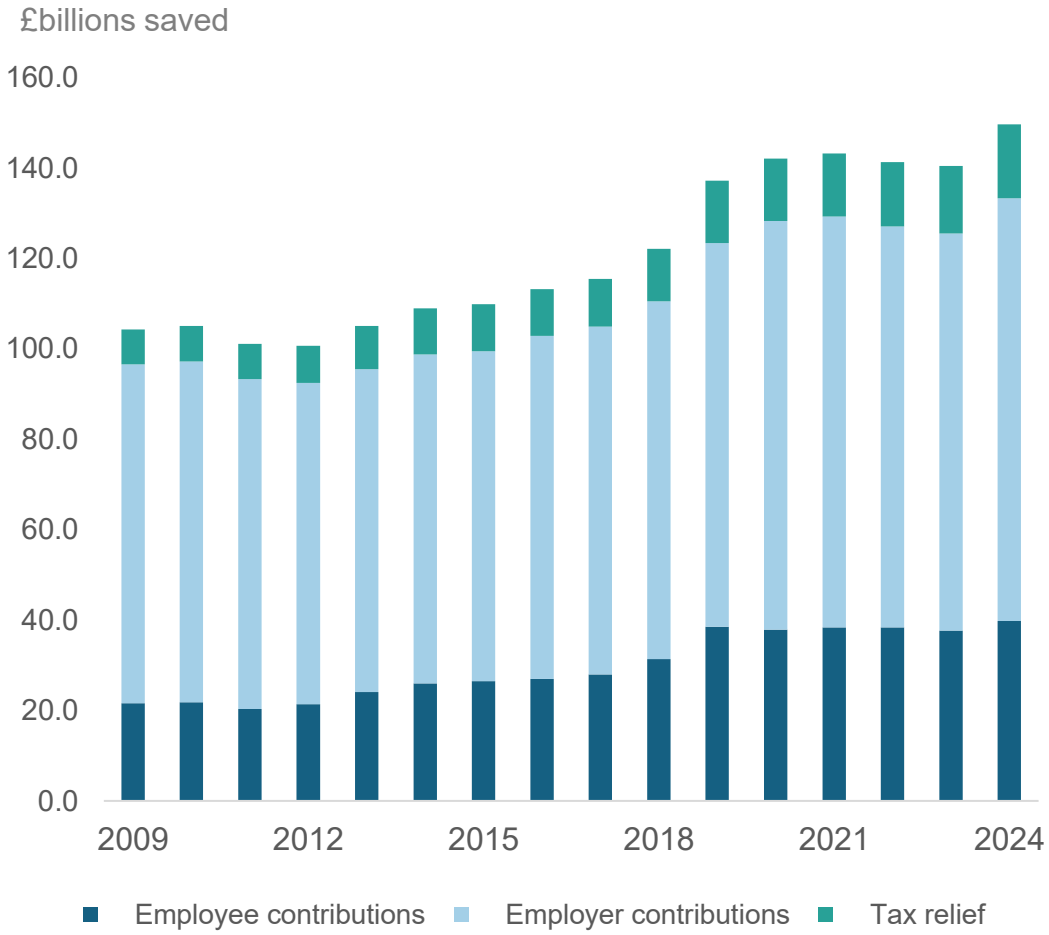
Section C: Accumulation and adequacy: depth, growth and breadth of private pension savings

Automatic enrolment (AE) has hugely increased pension saving, through the power of defaults

89% of eligible employees are now saving into a workplace pension (up from 55% in 2012)…



…and £150bn was saved into workplace pensions by eligible employees in 2024, nearly £50bn higher than 2012 (in real terms).

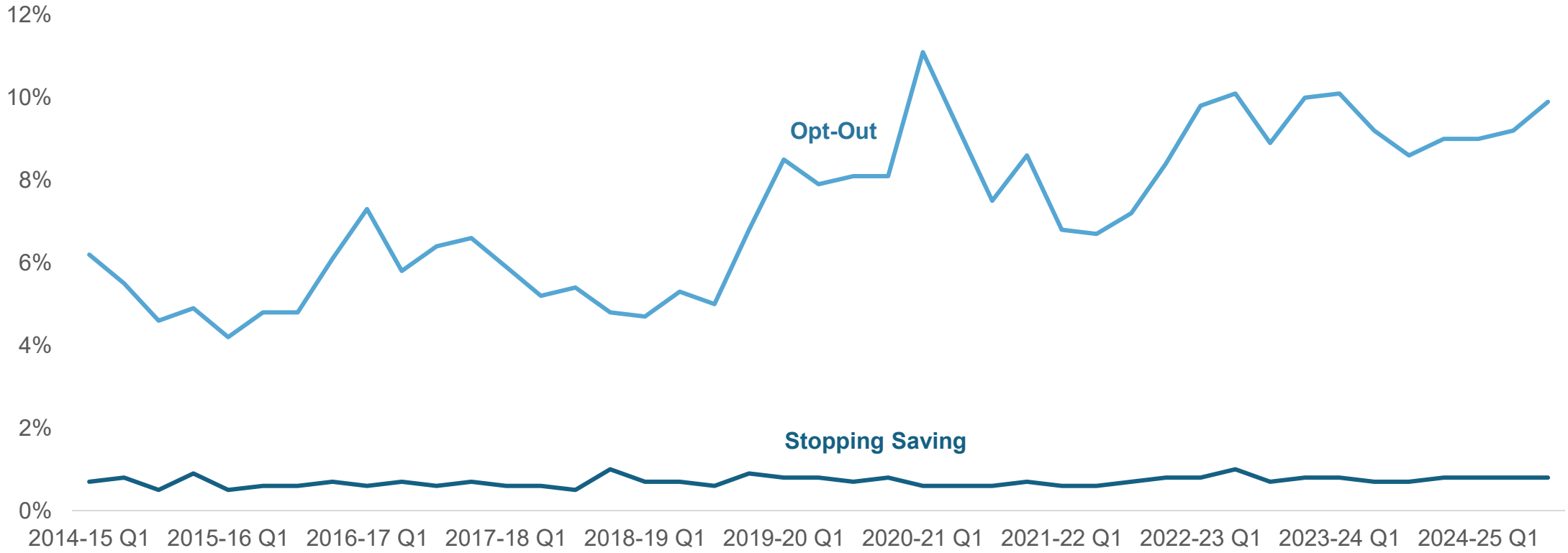


Source: DWP (2025) 'Workplace Pension Participation Statistics'

The proportion of members opting out of or stopping saving has generally remained low despite economic challenges

Around 10% of new savers opt-out of saving, compared to less than 2% of active savers who ‘stop saving’. These metrics have generally held at relatively low levels even around periods of economic stress such as COVID-19 and higher periods of inflation recently. This reinforces the success of strong AE defaults.

The proportion of members opting out of, or stopping, pension saving

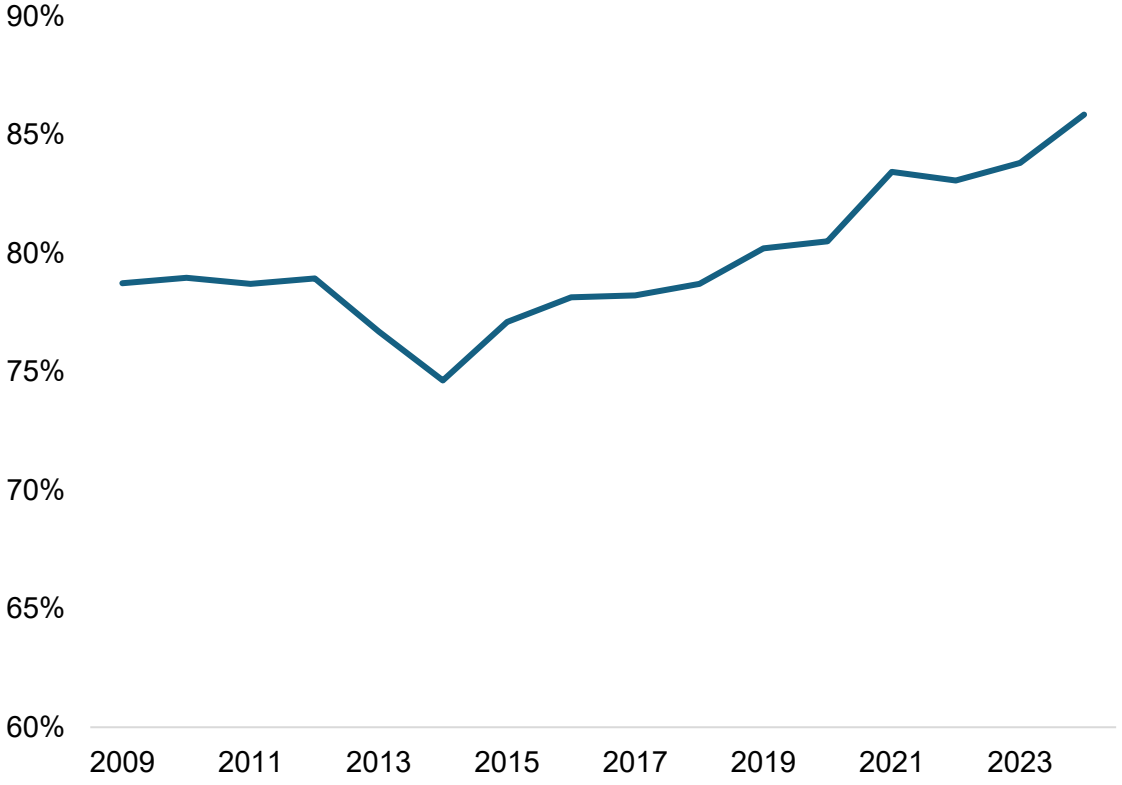


Source: DWP (2025) ‘Workplace Pension Participation Statistics’

The frozen automatic enrolment (AE) earnings trigger has expanded the breadth of saving, with 86% of employees now covered by AE – up from 79% in 2012

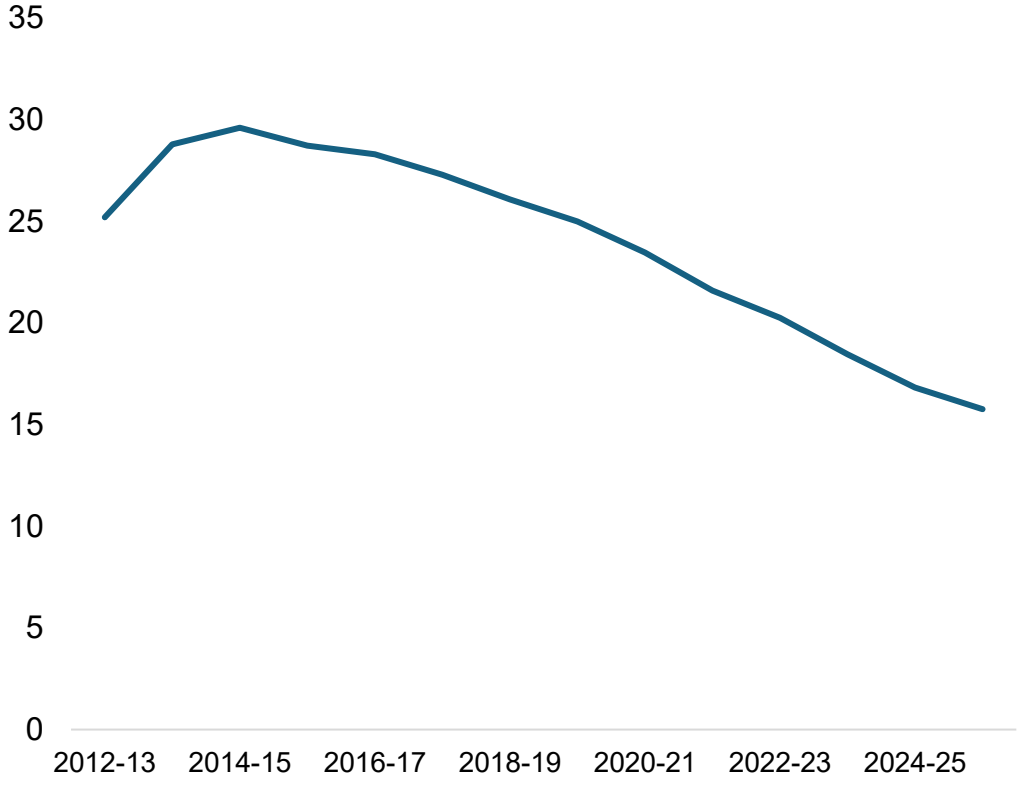
The freezing of the AE earnings trigger at £10,000 and earnings growth means around **86% of employees** are now in scope for AE. Where previously you needed to work 30 hours at minimum wage to be automatically enrolled, this is on track to fall below 16 hours. The % of employees in scope for AE is likely to continue rising if the trigger remains frozen and National Minimum/Living Wage continues to rise.

The proportion of all employees in scope for automatic enrolment (and who would have been in scope pre-2012)



Source: DWP (2025) 'Workplace Pension Participation Statistics'

Number of hours per week required at National Minimum/Living Wage* to be automatically enrolled



*whichever was highest for those aged 23+ in the given year

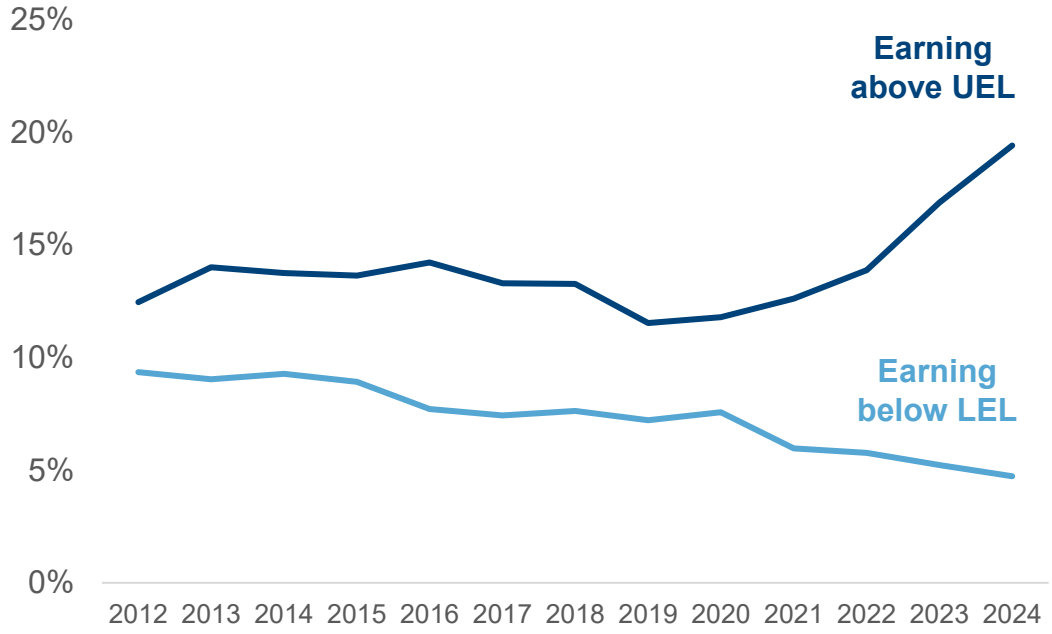
Source: DWP analysis of ONS (2025) 'Annual Survey of Hours and Earnings'

A frozen Upper Earnings Limit (UEL) means more employees now earn above it

The UEL was raised to £50,000 in 2019 and raised again to £50,270 in 2021 where it has since been frozen. If the UEL had instead been uprated using earnings growth, the **2026/27 UEL would be £65,700.**

The % of employees earning over the UEL has increased from 12% in 2019 to 19% in 2024.

% of employees with earnings above and below the AE Thresholds



For an employee earning £50,270 in 2021/22 who has experienced average earnings growth and contributed at the AE minimum level since then:

- They would have had fixed **annual contributions of £3,520**.
- In **2021/22**, this equated to **7.0% of their pay**.
- As of **2026/27**, this will be **5.4% of their pay**.

In 2024, such real terms declines **may have impacted around 450,000 private sector employees in DC schemes** (who were contributing at the AE minimum level and earning over the UEL).

While the UEL remains fixed, further earnings growth could mean a larger proportion of employees have their contributions constrained in this manner.

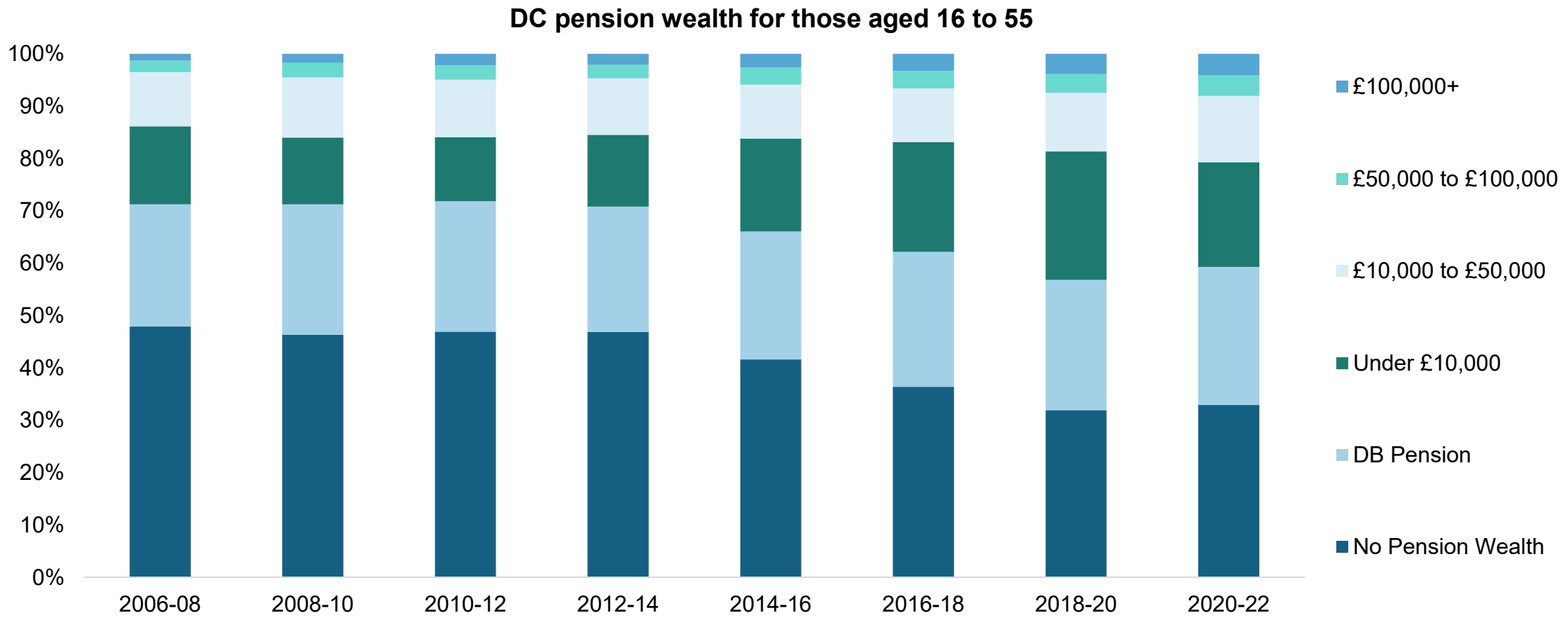
Source: DWP analysis of ONS (2025) 'Annual Survey of Hours and Earnings', GB, 2012 to 2024.

Section D: The Depth Challenge: automatic enrolment has meant many are now saving, but not saving enough

While workplace pension participation has increased, defined contribution (DC) pension wealth remains low

The Second Pensions Commission

Despite wider coverage of pension saving, the **amount held by individuals in DC remains low** when looking at those below age 55. Around 20% of under 55-year-olds currently have less than £10,000 saved in a DC pension.



Source: DWP analysis of ONS (2025) ' Wealth and Assets Survey', Round 1 (2006-08) - Round 8 (2020-22).

Around 1-in-3 private sector Defined Contribution savers contribute at the automatic enrolment (AE) minimum level

Around 1-in-3 private sector DC savers contribute 8% of qualifying earnings – this is the AE minimum. **Over half** contribute 8% or less of total pay. **1-in-4** contribute 12% or more of total pay. However, this varies across the earnings distribution, with higher earners more likely to be contributing at above AE minimum levels (15% of those earning £10k-£20k contribute 12% or more of total pay, compared to 53% of those earning £70k+).

Total contributions as a percentage of qualifying earnings for private sector employees in DC schemes by £1k earnings band

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

Total contributions as a percentage of full pay for private sector employees in DC schemes by £1k earnings band

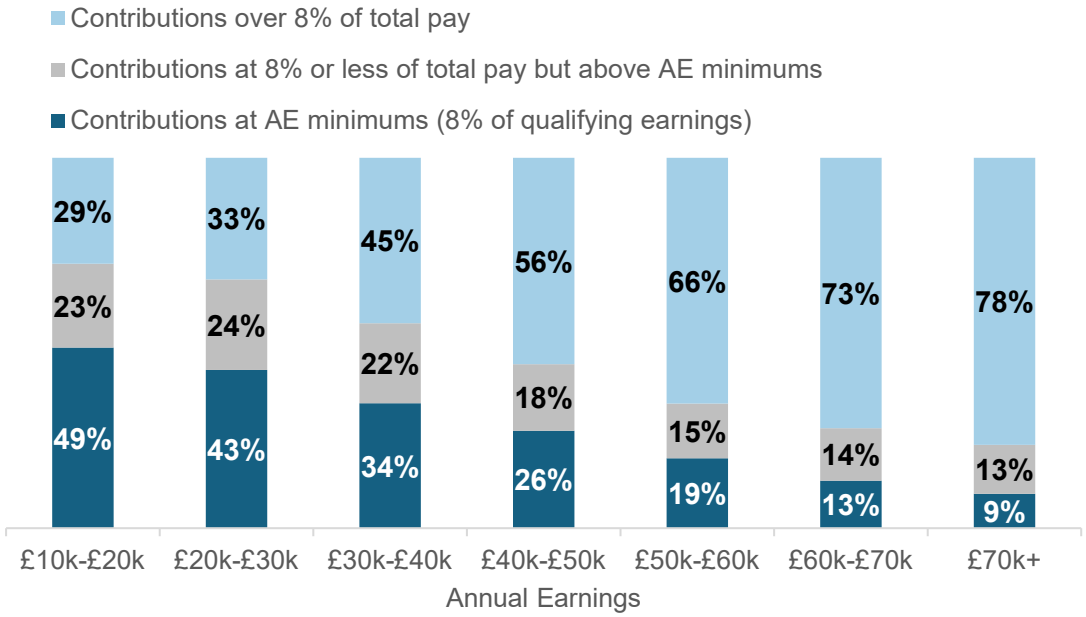
Source: DWP analysis of ONS, 'Annual Survey of Hours and Earnings 2024'

Higher earners tend to have higher contribution rates, as do those working for large employers

Around half **(49%) of £10k-£20k earners are saving at AE minimums**, compared to just **9% of £70k+ earners**.

Overall, 71% of those earning between £10k-£20k are contributing 8% or less of total pay.

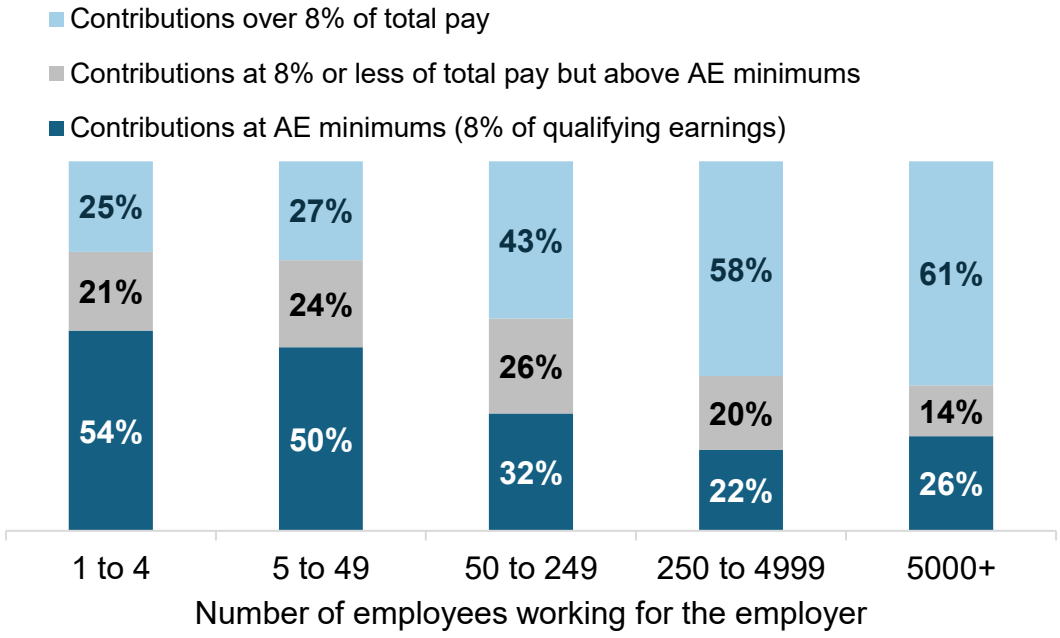
Employees in DC schemes total contribution levels by earnings



Over **half (54%) of those working for an employer with 1-4 employees are saving at AE minimums.**

This compares to **22%** working for employers with 250-4,999 employees.

Employees in DC schemes total contribution levels by employer size



Source: DWP analysis of ONS, '[Annual Survey of Hours and Earnings, 2024]'

Pension contributions also vary by industry, with those in accommodation and food service activities more likely to be saving at automatic enrolment (AE) minimums

Employees working in Hospitality (57%) are more likely to save at the AE minimums than sectors such as Finance and Insurance (5%)

Proportion of **private sector DC savers** by industry and contribution level	At AE Minimum	At or below 8% of total pay	At or below 10% of total pay	At or below 12% of total pay
Accommodation and food service activities (Hospitality)	57%	78%	86%	90%
Agriculture, Forestry and Fishing	53%	76%	86%	91%
Administrative and support service activities	50%	70%	82%	88%
Human health and social work activities	50%	73%	84%	88%
Construction	41%	63%	78%	85%
Wholesale and retail trade; repair of motor vehicles and motorcycles	38%	60%	75%	83%
Arts, entertainment and recreation	37%	63%	79%	86%
Other Service Activities	30%	55%	69%	77%
Transportation and storage	30%	49%	72%	78%
Real estate activities	24%	51%	71%	77%
Manufacturing	24%	45%	63%	72%
Water Supply, sewerage, waste management and remediation activities	22%	39%	53%	65%
Professional, scientific and technical activities	22%	44%	65%	73%
Education	19%	38%	54%	60%
Mining and Quarrying	18%	27%	55%	65%
Information and communication	15%	32%	54%	65%
Financial and insurance activities	5%	15%	37%	49%
Electricity,gas, steam and air conditioning supply	3%	10%	23%	40%

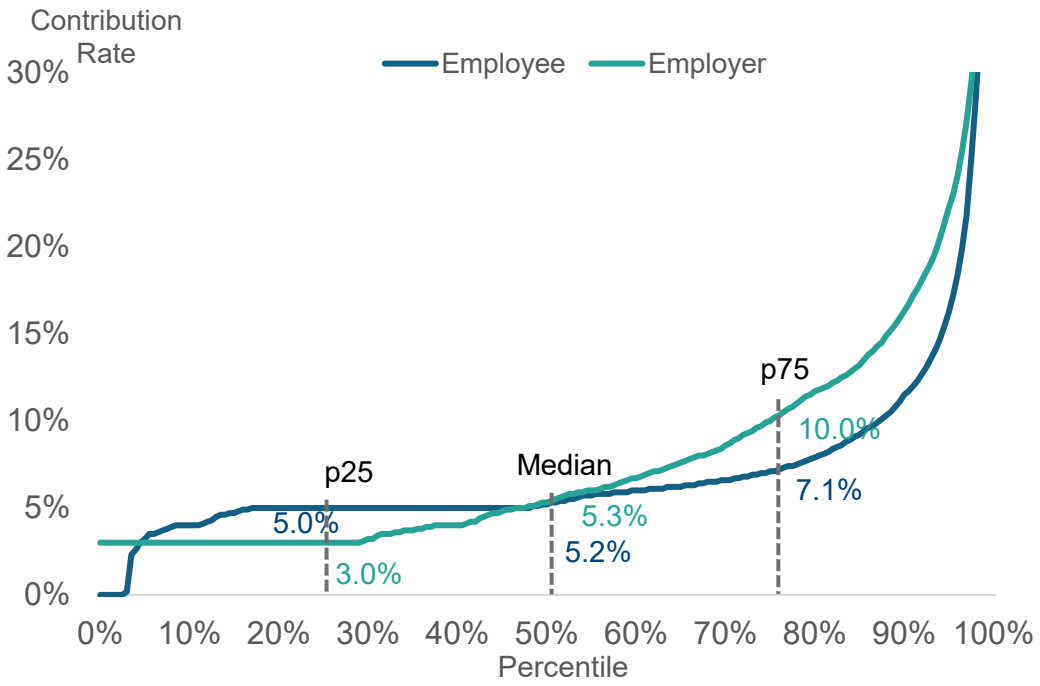
Source: DWP analysis of ONS, 'Annual Survey of Hours and Earnings, 2024'

Variation in employee contribution rates is lower than variation in employer contribution rates

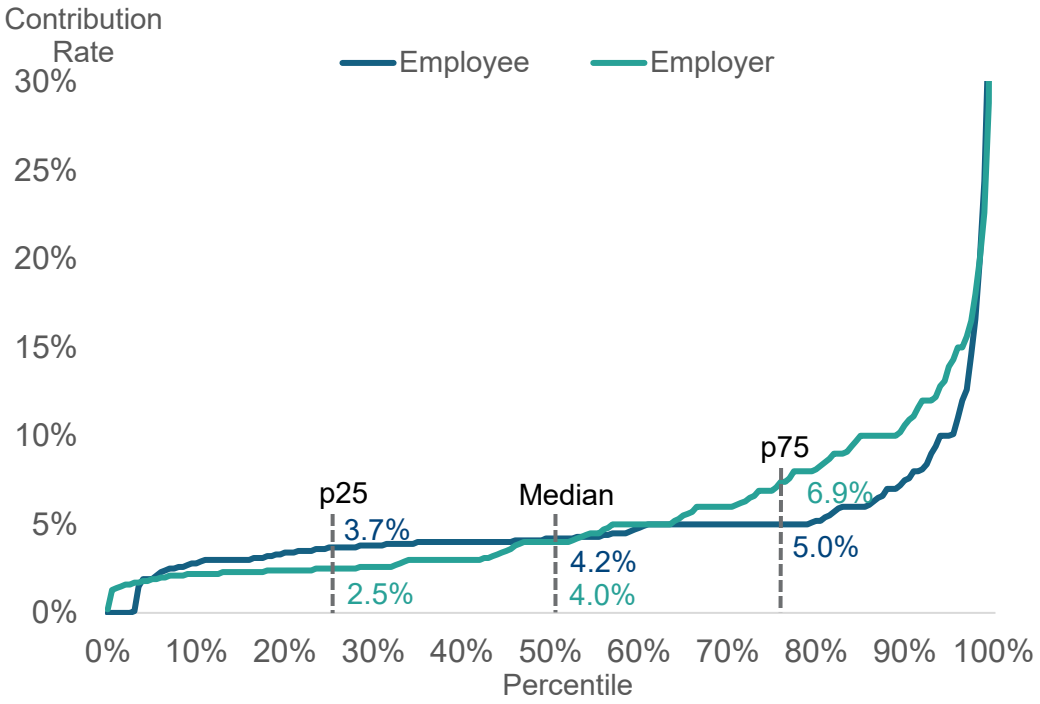
Employee contribution rates are similar across savers: 1-in-4 have a contribution rate below 3.7% of full pay, while 1-in-4 have a contribution rate above 5.0% of full pay.

Differences in employer contribution rates are far larger: 1-in-4 have a contribution rate below 2.5% of full pay, while 1-in-4 have a contribution rate above 6.9% of full pay.

AE-Eligible Private Sector DC: Contribution Rates as a % of Qualifying Earnings



AE-Eligible Private Sector DC: Contribution Rates as a % of Full Pay



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

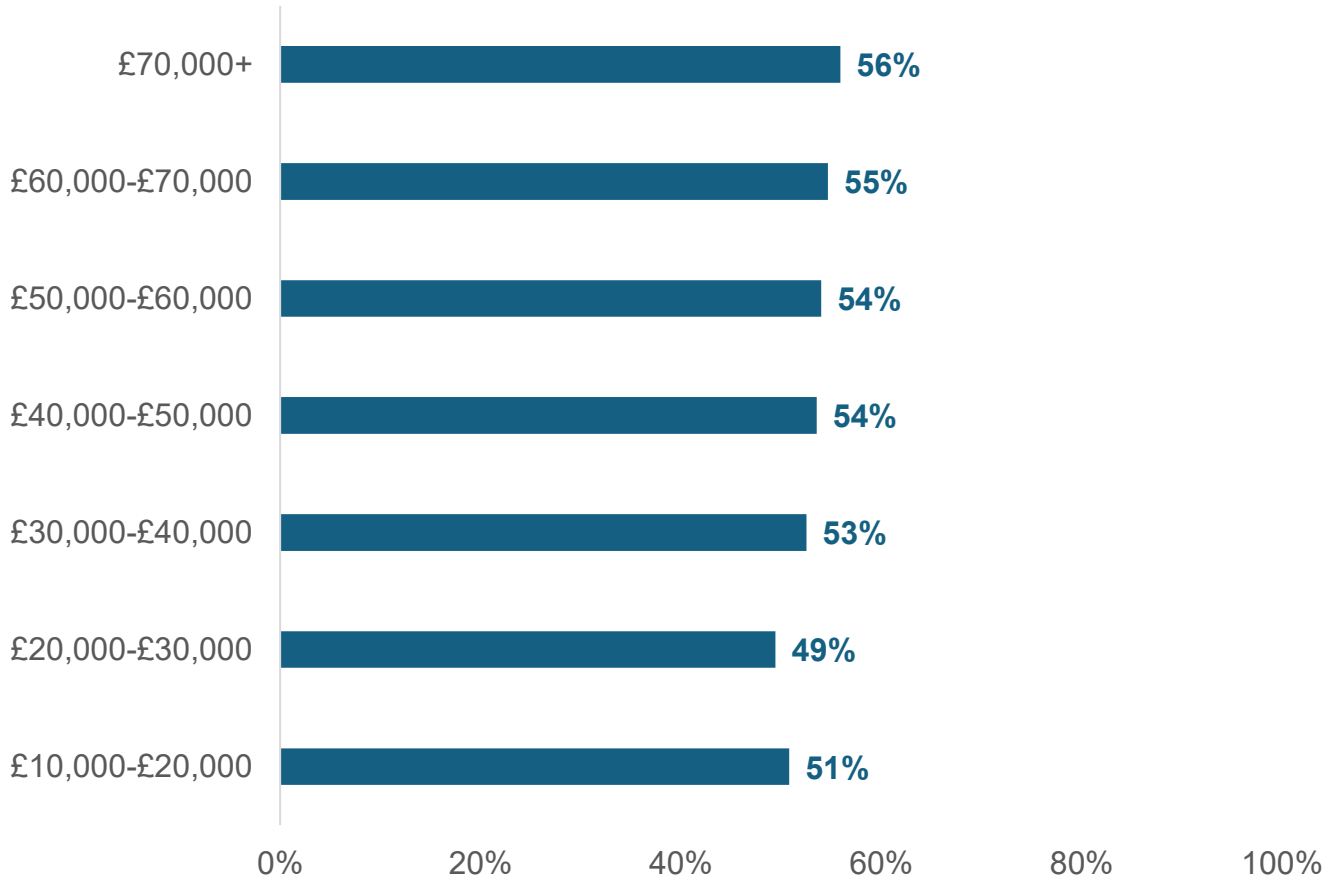
It is employers rather than employees doing most of the additional saving beyond the automatic enrolment (AE) minimum level

If all contributions were at the AE minimum level, employers would contribute 38% of total contribution value (i.e. 3% of the 8% total for each employee).

However, **employers contribute 54% of total contribution value**. They pay a slightly higher proportion of contributions for higher earners.

Consequently, **of the £34.5bn additionally saved, 68% (£23.5bn) is by employers** – that is, employers collectively contribute £23.5bn more than they would if all contributions were at the AE minimum level.

Proportion of Total Contribution Value made by Employers, by Employee Earnings Band



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

Higher earners are driving most of the additional DC saving, with 45% coming from those earning £70,000 or more

If **all AE-eligible private sector DC workers contributed at AE minimum levels**, there would be around **£31.1bn of saving each year.**

However, in total, **contributions from AE-eligible private sector DC savers total £65.6bn**. This equates to **additional saving worth over £34.5bn**; around £2,500 per worker on average.

This is **driven by higher earners,** where 45% of total 'additional saving' comes from those earning £70,000 or more.

Earnings	Number of Savers	If all contributed at AE Minimums	Actual Contributions observed	'Additional Saving' (Actual minus AE minimums)	'Additional Saving' per Employee
£10,000-£20,000	1.7m	£1.2bn	£2.1bn	£0.9bn	£530
£20,000-£30,000	3.8m	£5.9bn	£8.7bn	£2.9bn	£760
£30,000-£40,000	3.1m	£7.1bn	£11.1bn	£4.0bn	£1,290
£40,000-£50,000	1.9m	£5.7bn	£9.6bn	£3.9bn	£2,090
£50,000-£60,000	1.1m	£3.8bn	£7.6bn	£3.8bn	£3,520
£60,000-£70,000	0.7m	£2.5bn	£6.1bn	£3.6bn	£5,170
£70,000+	1.4m	£5.0bn	£20.4bn	£15.4bn	£10,980
Total	**13.6m**	**£31.1bn**	**£65.6bn**	**£34.5bn**	**£2,530**

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

Whereas for median earners (£37,000), the median additional saving is just 1.7% of total pay

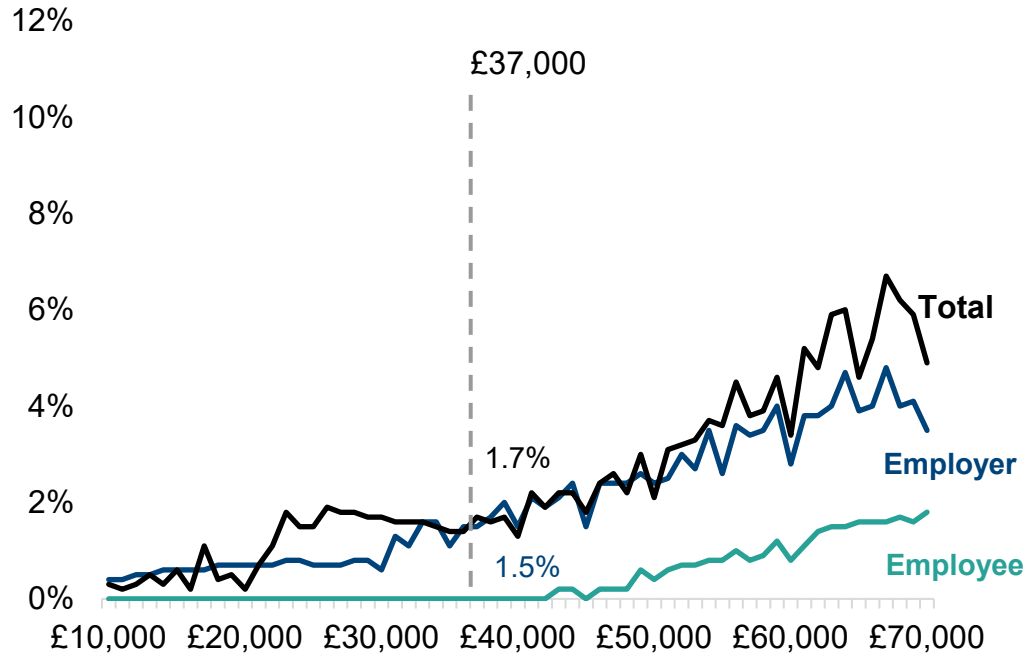
Median total contribution = Additional saving of **1.7% of pay** (£630) above the AE minimum level of £2,460 (6.7% of full pay), equivalent to a contribution level of £3,090 (8.4% of their full pay). For those earning £70,000, median additional saving is 4.9%.

Median employer contribution = Additional saving of **1.5% of pay** (£560) above the AE minimum level of £920 (2.5% of full pay), equivalent to a contribution level of £1,480 (4.0% of their full pay).

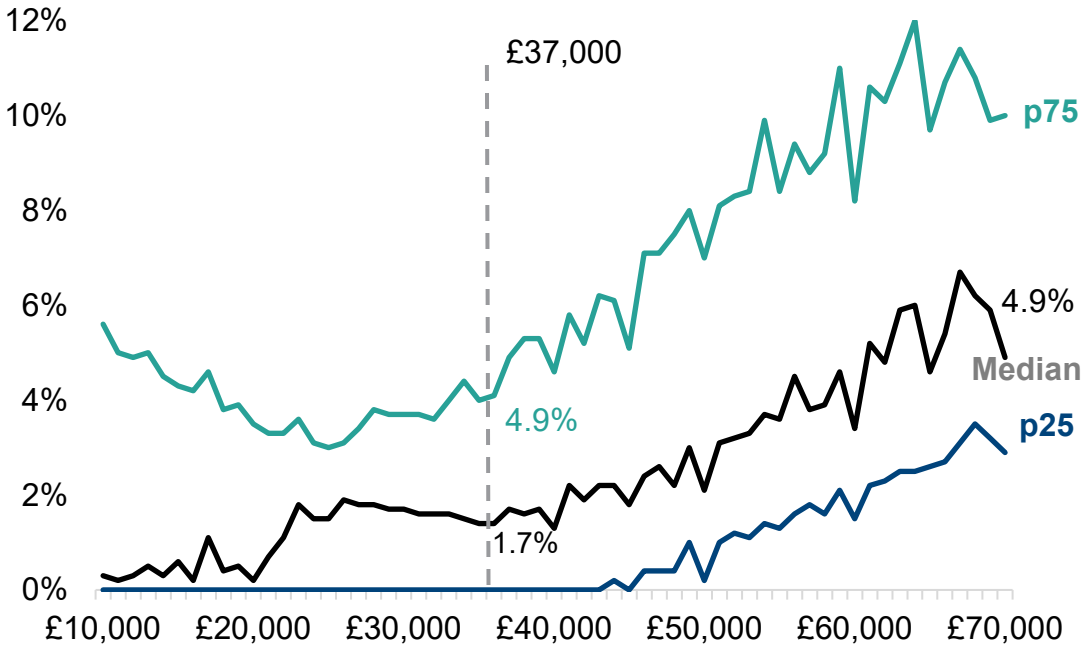
Median employee contribution = Additional saving of **0% of pay** (i.e. AE minimum contributions).

Note: each median (employer, employee, total) is calculated separately, so may be taken from different people.

The percentage of full pay additionally saved for private sector employees in DC schemes by £1k earnings band using median employee, employer and total contributions



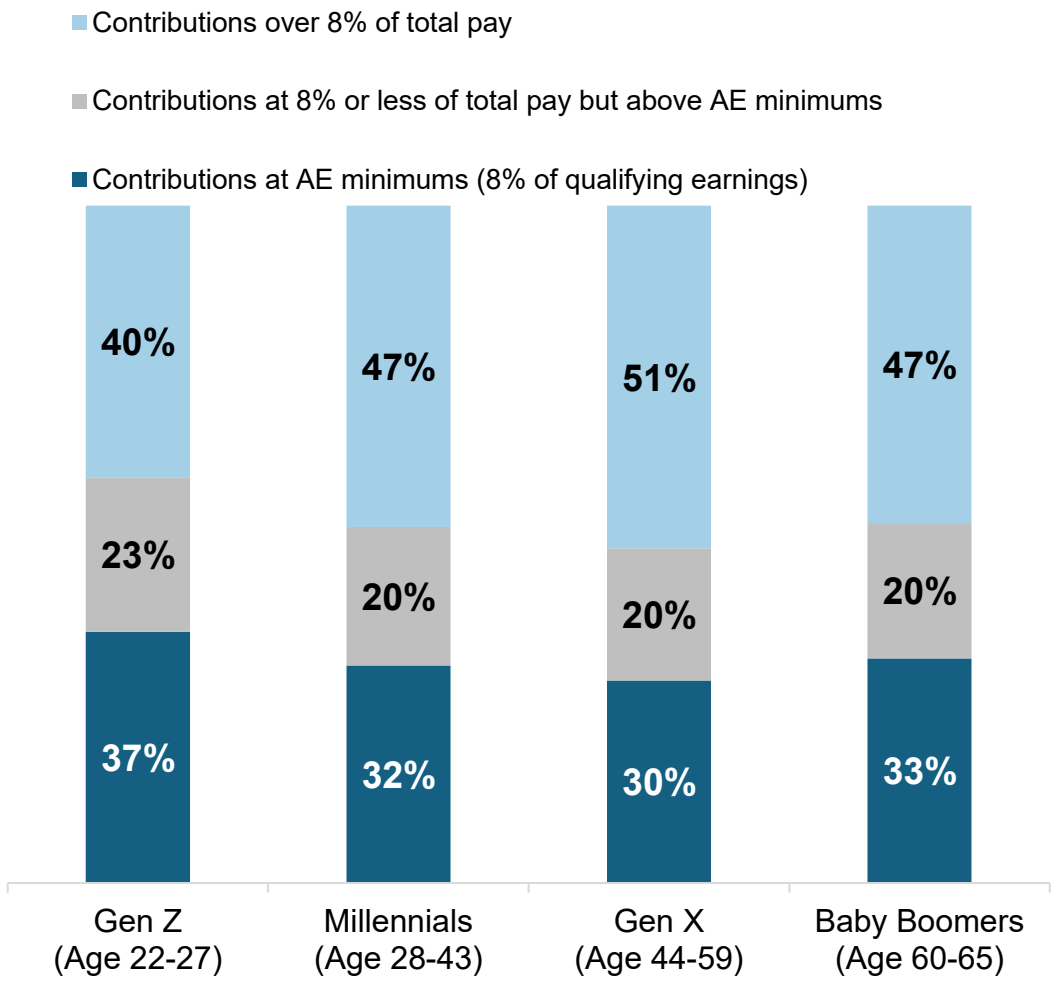
The percentage of full pay additionally saved for private sector employees in DC schemes by £1k earnings band, total contributions (split by median, 25th & 75th percentile)



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

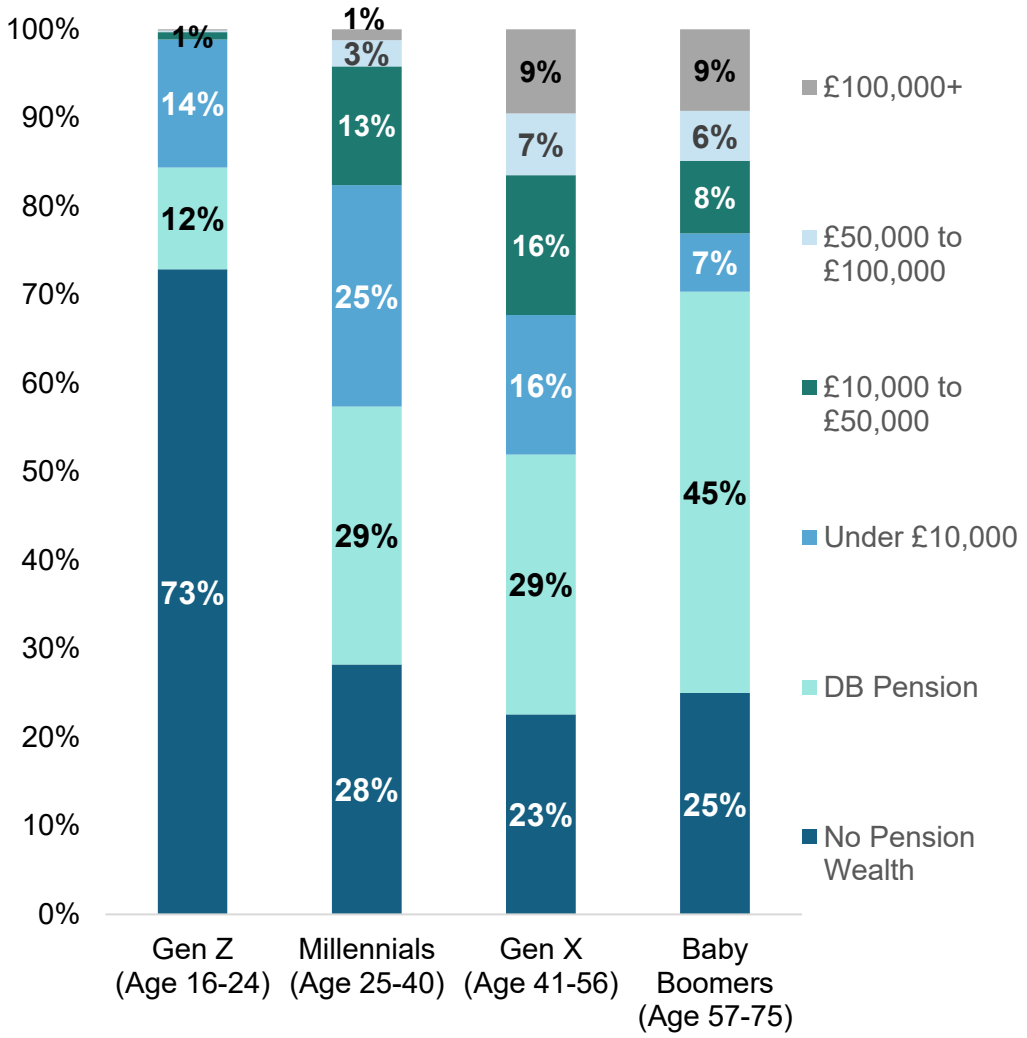
Many of those in Generation X face additional 'depth' challenges, as they are less likely to have DB wealth than Baby Boomers and AE was introduced later into their careers than Millennials

Employees in DC schemes total contribution levels by generation



Source: DWP analysis of ONS, '[Annual Survey of Hours and Earnings, 2024]'

DC Pension Wealth by Generation (in 2021)



Source: DWP analysis of ONS '[Wealth and Assets Survey Round 8, 2020-22]'

Section E: The Growth Challenge: Investment growth is a crucial contributor to retirement adequacy

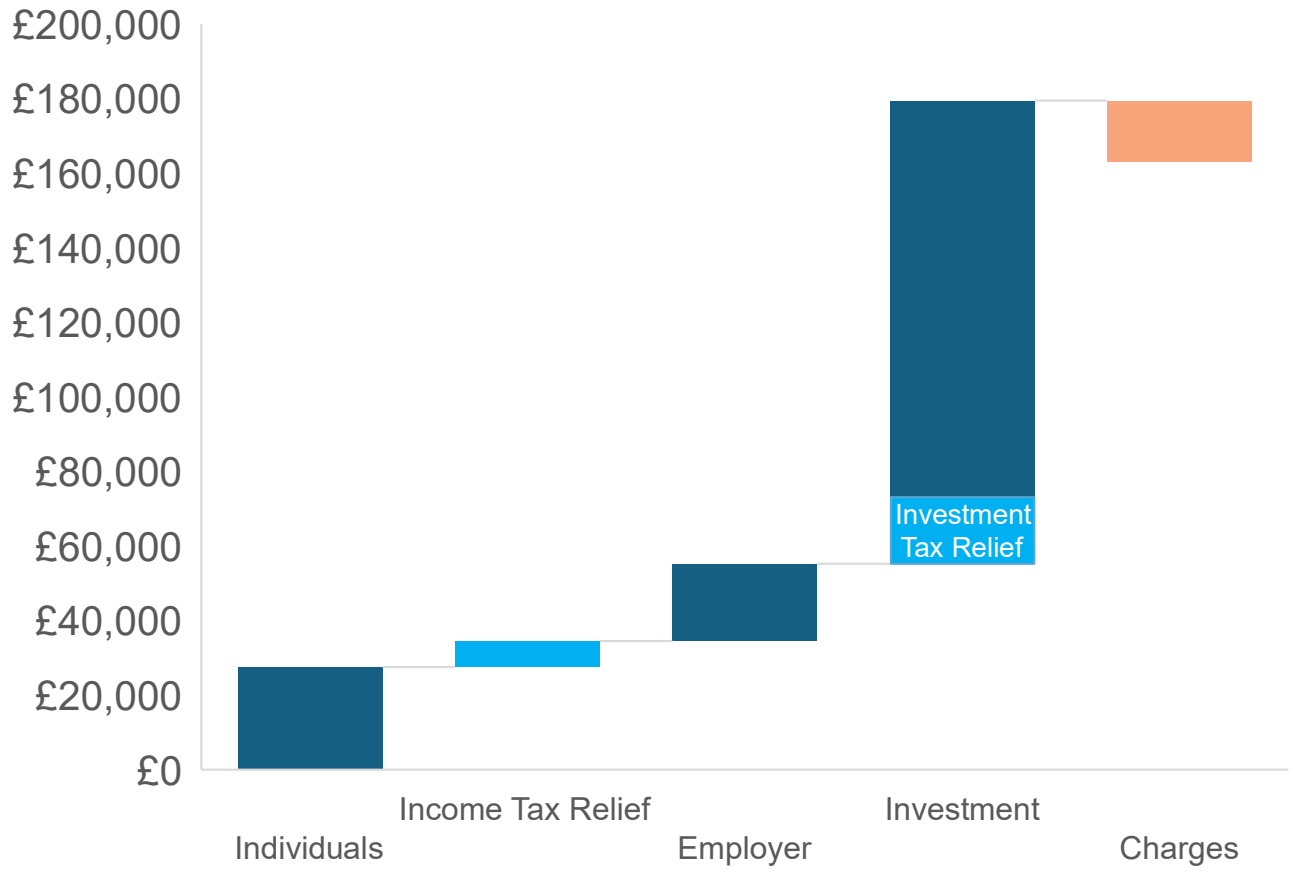
Investment Outcomes: returns account for around two-thirds of the average DC pension pot

Investment risk and return are significant drivers of the size of the final pension pot in DC**.**

Investment returns for a saver **account for the largest proportion** of an **individual's DC pension pot** at retirement.

However, **employers choose the pension scheme on their workers' behalf.** This means they might not choose schemes with the highest returns. DWP employer surveys show a large percentage of employers **prioritise ease and convenience for themselves (64%) or low costs (49%)** to them in their choice of scheme.

Illustrative case study of a median male earner's pension pot at retirement made-up of different components assuming saving at AE minimum levels over a full career history



Source: DWP Modelling using iPEN – see Methodology 2 for iPen assumptions; DWP (2025) DWP Employer Survey 2024

Strong investment performance could enhance adequacy across the population

Linking to analysis of retirement outcomes, estimates of 'undersaving' are sensitive to investment performance:

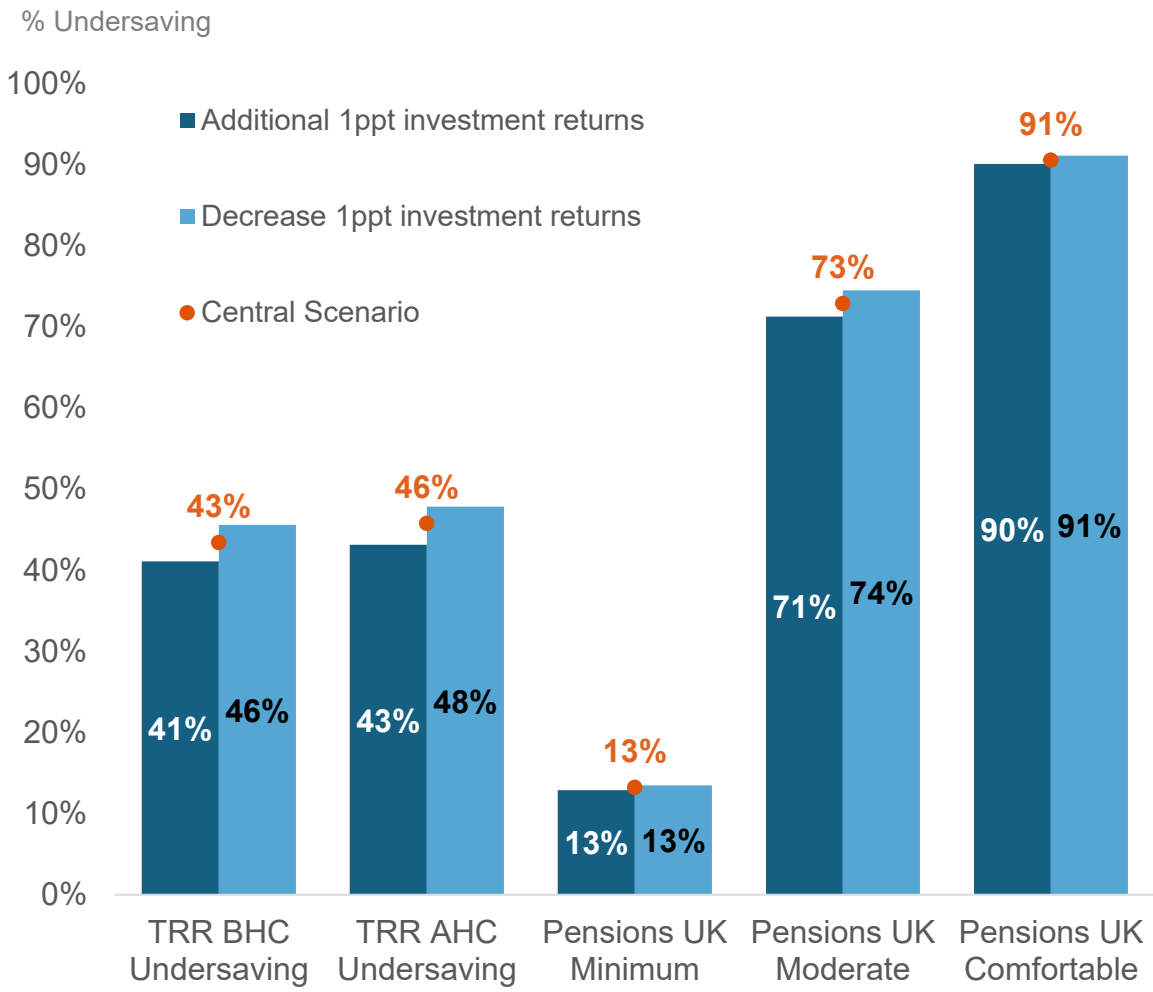
A +1ppt improvement in investment returns leads to a **decrease in undersaving of 2ppts** by TRR BHC.
A -1ppt worsening in investment returns leads to an **increase in undersaving of 2ppts** by TRR BHC.

Higher net investment returns greatly increase pot size through the power of compounding

An average male earner saving over a career at AE minimum levels will have around £165,000 in a DC pot at retirement:

- **1ppt higher** returns would lead to a **30% increase** in pension pot size at retirement
- **1ppt lower** returns would lead to a **20% decrease** in pension pot size at retirement.

Sensitivity Analysis of Investment Returns



Source: DWP Pensim3 Modelling aligned to 'Households Below Average Income 2023-24'. See Methodology 1.

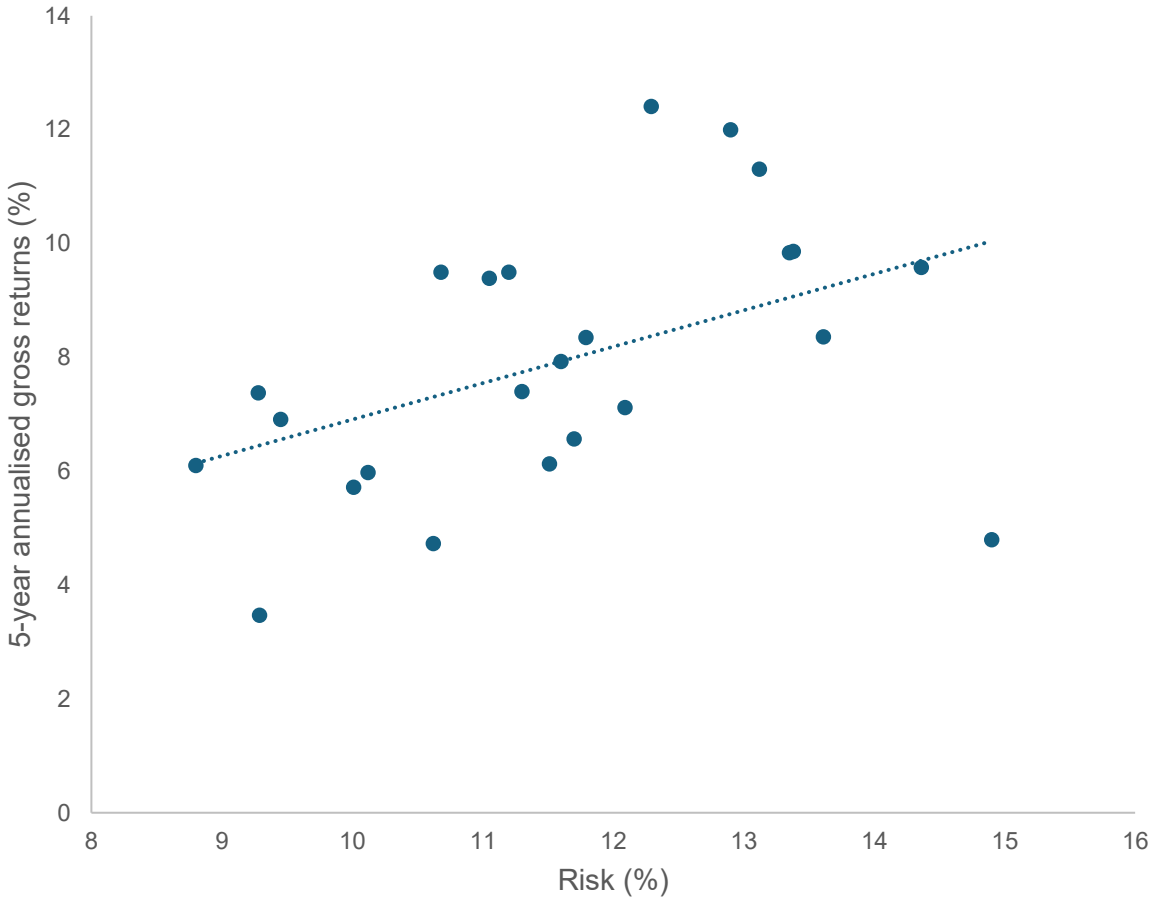
Investment Risk: with risk comes both higher reward and greater volatility

Investment risk describes the **risk of an investment losing value or not performing as expected**. All investments require some degree of risk-taking.

There is not a perfectly linear relationship between risk (how volatile returns have been) and reward (the average investment return). However, **a positive relationship between providers' risk and return metrics can be observed** when looking at the last 5 years of providers' growth phase portfolios.

The significance or impact of volatility depends on how long an individual saver has for any damage caused by market shocks to recover – a 30-year-old could recover from a 20% fall in investment value by the time they retire. A 60-year-old might not be able to.

Risk & Return for younger savers (30 years from SPa) across the largest multi-employer DC schemes



Source: DWP analysis from 'CAPA data' Q42024. The risk metric a measure the volatility of returns; the higher the number, the more volatile.

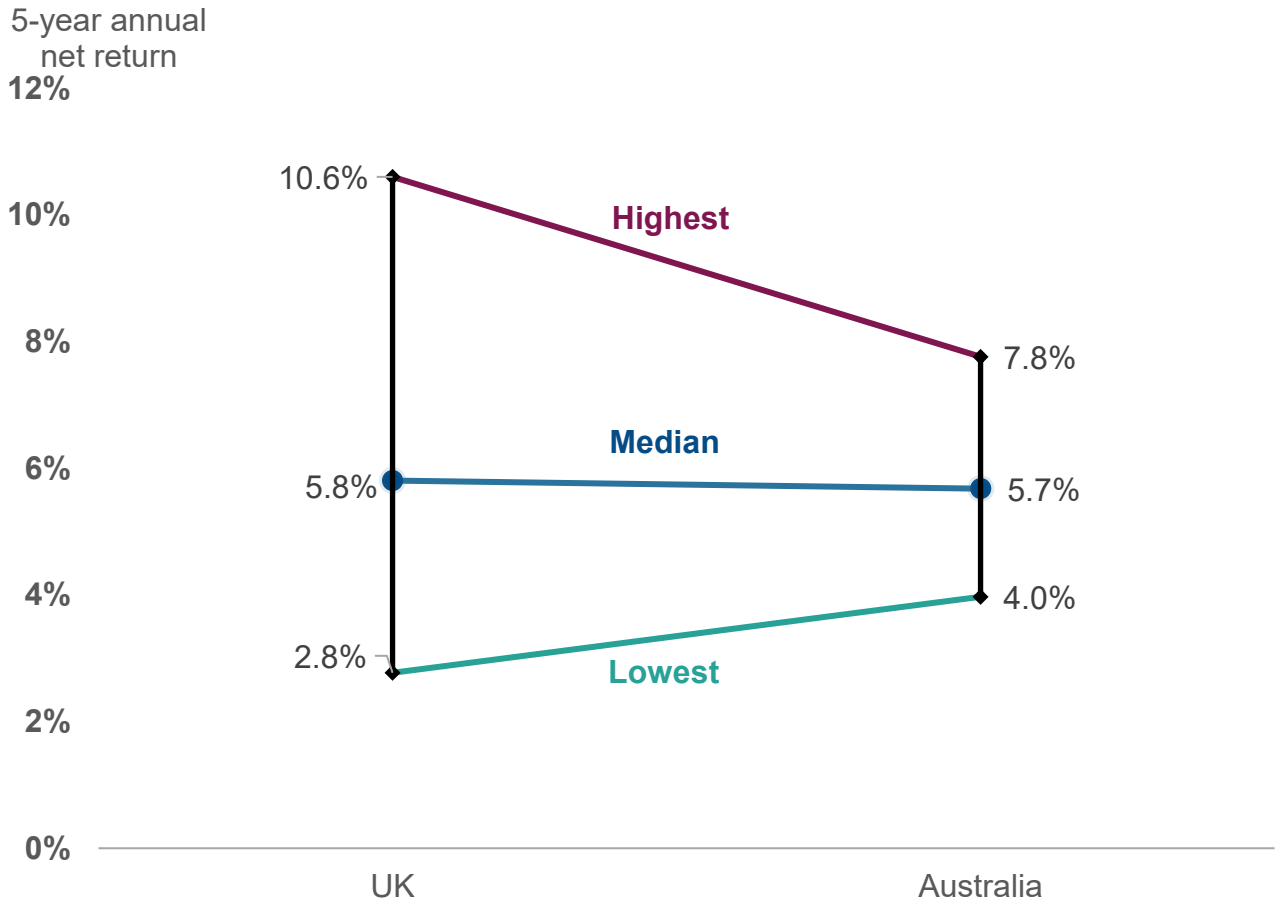
UK DC schemes' investment returns are similar to, but more variable than, returns for younger savers in the Australian market

On average, looking at UK DC multi-employer schemes for growth phase savers, nominal returns have been broadly comparable to the average experience of younger savers in the Australian market over the last 5 years to 2023.

However, there is **much greater variation** across UK pension providers compared to Australian providers. Top-performing UK DC schemes appear to do better than top-performing Australian schemes, however low-performing UK DC schemes appear to do much worse than lower performing Australian schemes.

This level of variation is important given how important investment outcomes are for building up a DC pot into retirement and given how exposed DC savers are to investment risk.

Returns for growth phase savers in the UK and Australia appear similar on average but there is wider variation in returns for UK savers



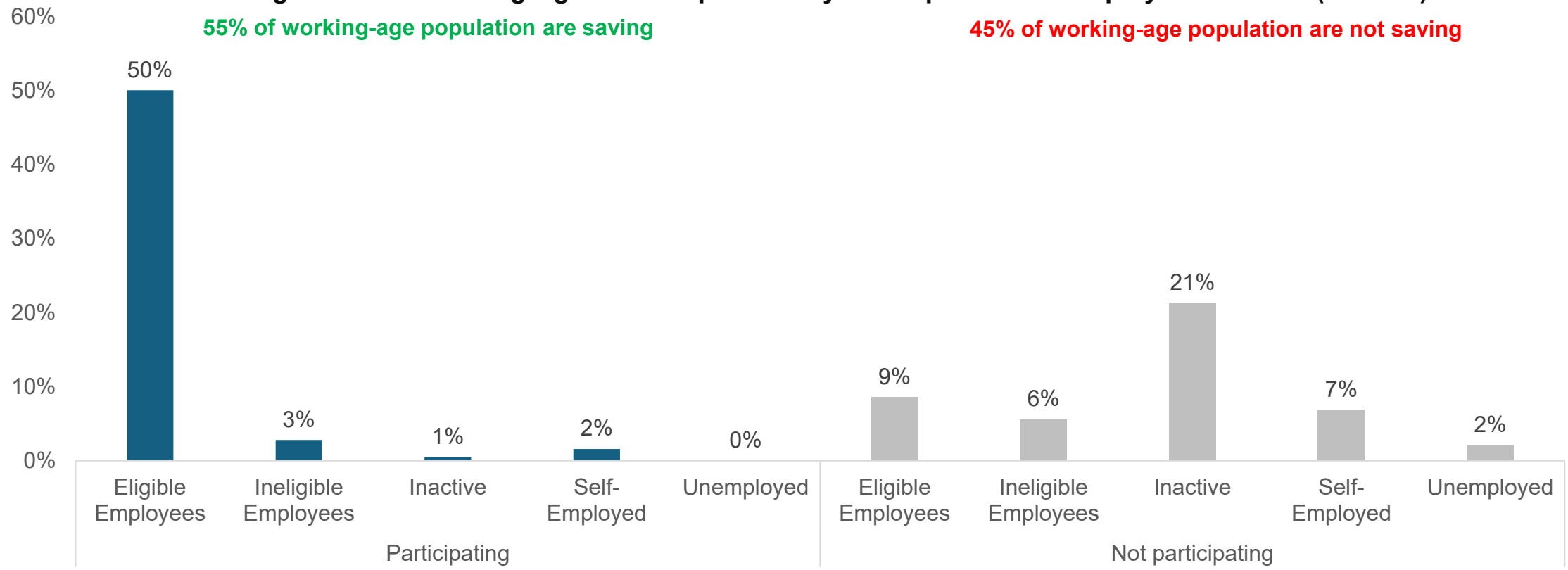
Source: 'Corporate Adviser' (Q1 2023) and 'APRA' (Feb 2023) – growth phase savers are those saving at an age prior to any lifestyling of their investments

Section F: Pension adequacy and low earners

55% of working-age adults are participating in pension saving. For those not participating this is largely driven by economic status.

In 2023/24, just 55% of working-age adults reported participating in pension saving in the previous 12 months. Of the 45% not participating, 21% are economically inactive, 9% are eligible for AE but have opted out or stopped saving, 7% are self-employed and are not covered by the AE framework. A further 6% do not meet the AE eligibility criteria either due to the earnings trigger or age. The remaining 2% are unemployed, looking for work.

Breaking-Down the Working-Age Adult Population by Participation and Employment Status (2023/24)



Source: DWP analysis of Family Resources Survey 2023/2024

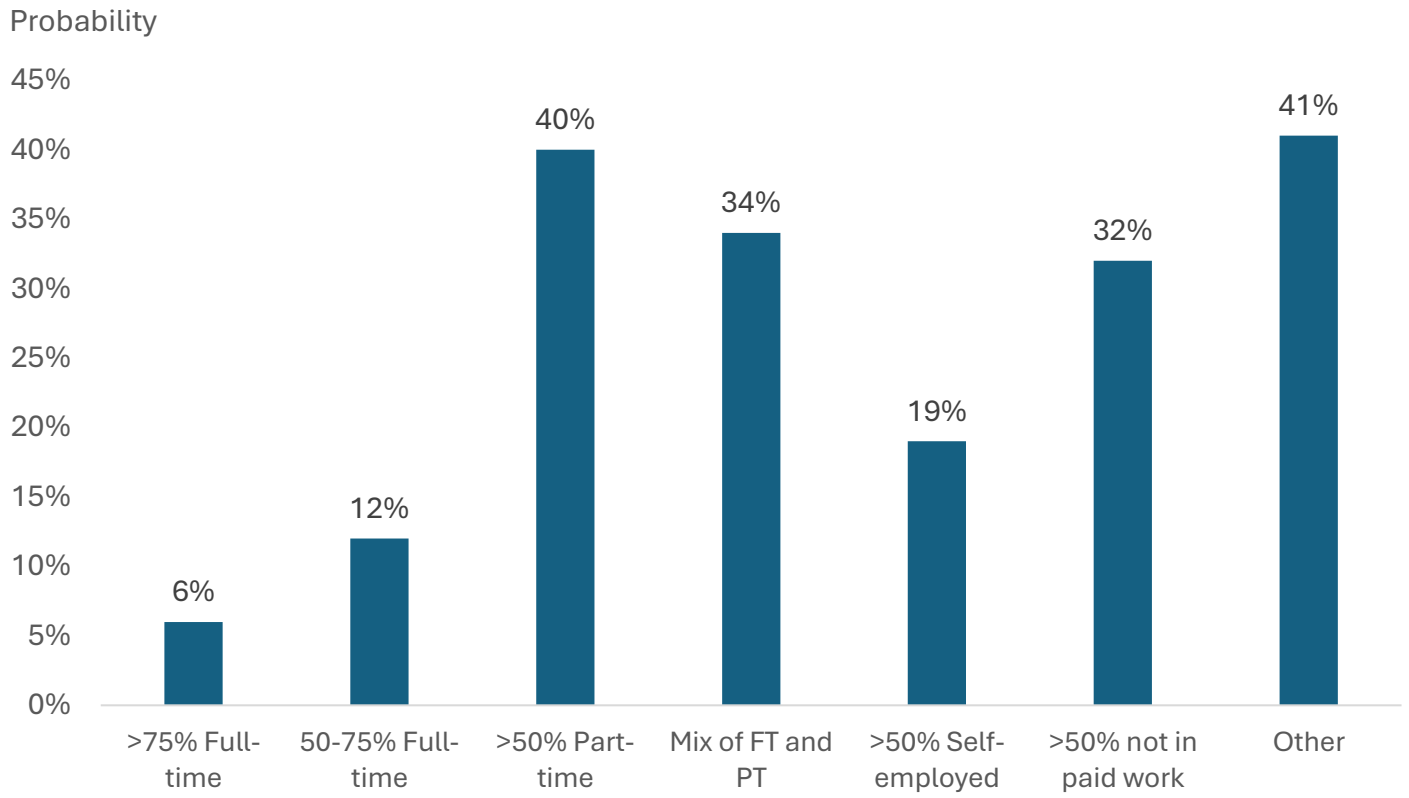
Patterns of work may have an impact on different outcomes in retirement

For those born between 1937-46, patterns of work in working life are associated with how likely an individual is to be in the bottom 20% (quintile) of the income distribution.*

An individual is more likely to be in the bottom income quintile if they have been mostly part-time or have mixed labour market histories.

Those who have been in sustained full-time employment are less likely to be in the bottom quintile of retirement income compared to other labour market histories.

Probability of being in bottom quintile of income distribution in retirement by labour market history



*Incomes are defined as net incomes and include earnings from employment and self-employment, benefits (including State Pension), private pension income, and other income (such as investment income).
Based on the **English** Longitudinal Study of Ageing

Source: DWP (2026), 'Life courses and pension saving patterns'

The proportion of people without any private pension wealth at ages 55-65 has decreased for younger cohorts who have benefitted from the introduction of automatic enrolment

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.

The proportion of people with no individual private pension wealth is lower for those born in 1947-59 compared to those born in 1937-46, across all labour market participation life courses*

Life course	>75% spent in full-time work		50-75% in full-time work		>50% spent in part-time		Mix of part-time and full-time		>50% self-employed		>50% not in paid work		Other	
Cohort	1937-46	1947-59	1937-46	1947-59	1937-46	1947-59	1937-46	1947-59	1937-46	1947-59	1937-46	1947-59	1937-46	1947-59
% with no private pension wealth	24.9%	11.5%	23.1%	13.4%	54.1%	24.7%	39.2%	21.9%	45.8%	22.7%	72.5%	45.6%	57.8%	28.7%

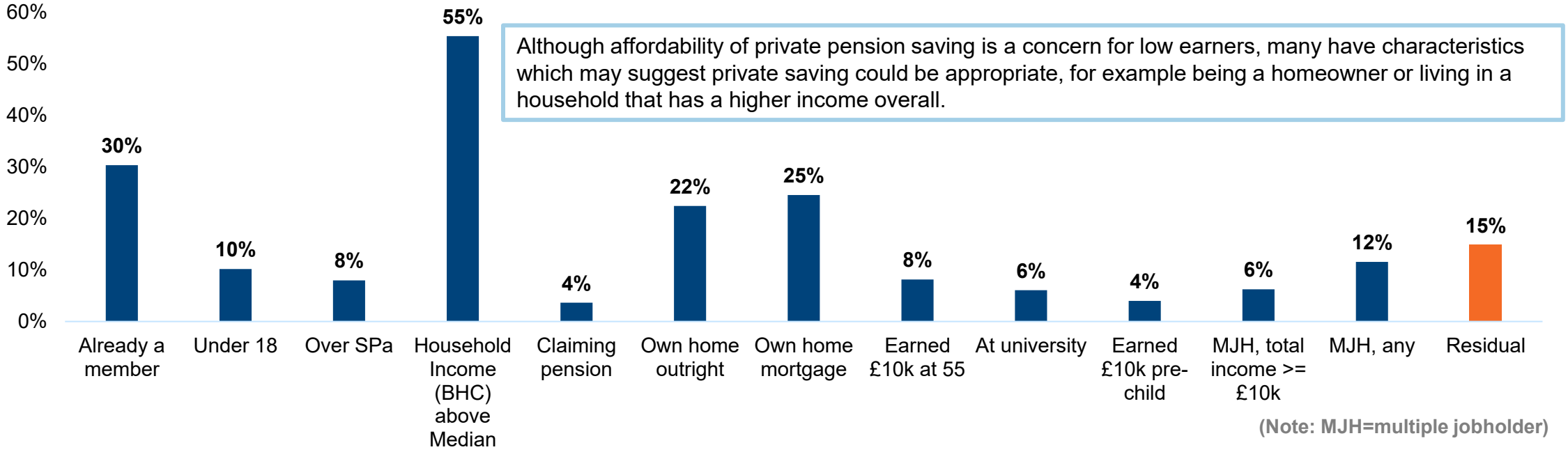
Includes people who are already accessing pension income

* Based on the English Longitudinal Study of Ageing

Source: DWP (2026), 'Life courses and pension saving patterns'

While low earners are more likely to have inadequate incomes in retirement, some low earners may have characteristics that ease affordability and adequacy concerns

Characteristics of employees earning below £10,000



Although affordability of private pension saving is a concern for low earners, many have characteristics which may suggest private saving could be appropriate, for example being a homeowner or living in a household that has a higher income overall.

(Note: MJH=multiple jobholder)

Looking at those with at <u>least one partner</u> being a low earner…

Couple earnings	Low Earnings + Zero Earning partner	Low Earnings + Low Earning Partner	Low Earnings + Medium Earning Partner	Low Earnings + High Earning Partner
% of households	27%	13%	34%	26%

Low Earnings = Less than £15,000 ; **Middle Earnings =** £15,000 to £40,000 ; **High Earnings =** £40,000+

Low earners might plan for retirement as a benefit unit, for example with their partner.

For many low earners (60%), they are in a couple with someone who is a middle or higher earner.

Source: DWP analysis using 'Understanding Society', 2022–2023 (Survey Wave 14), see Methodology 7 and FRS (2023/24)

Persistency of low earnings varies across the population, with women more likely and younger people less likely to remain low earners

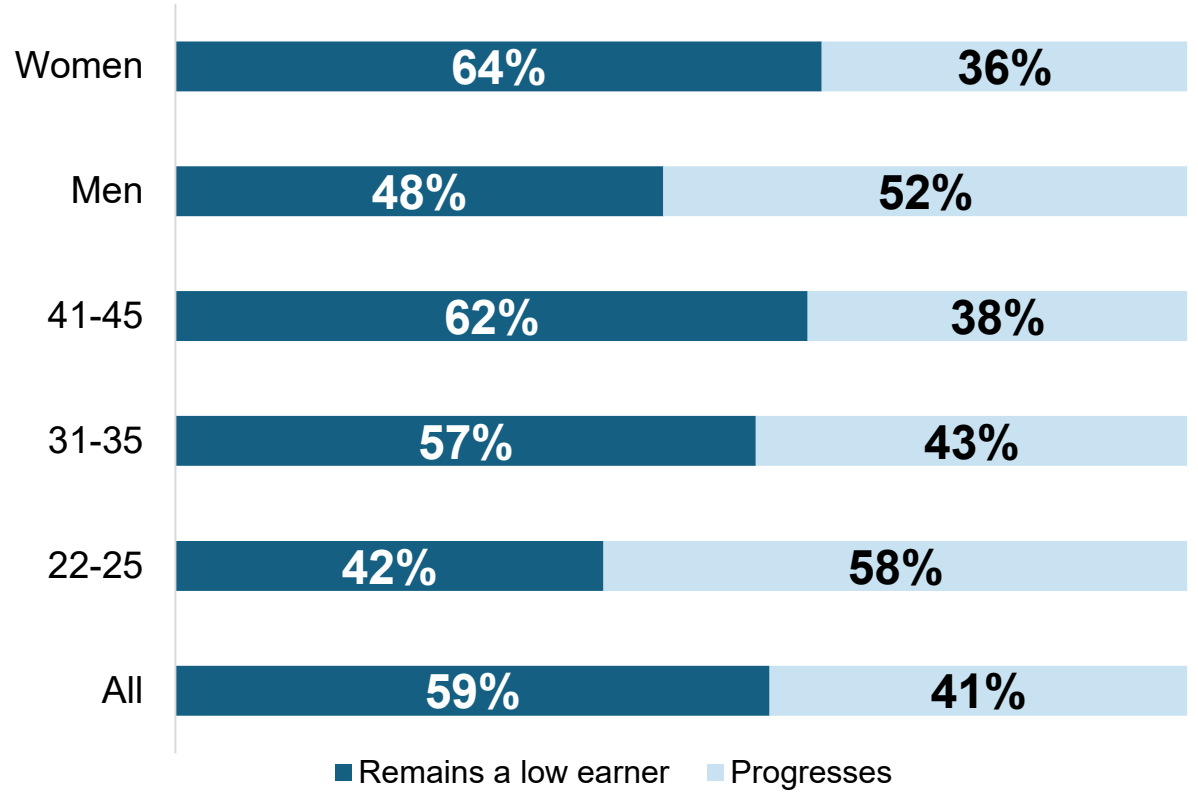
A key mitigating factor when considering the affordability of pension saving for low earners is their persistency to remain in low earnings.

For employees with low earnings in 2012, 59% were still low earners when assessing their average earnings across 2012-2024.

Persistency of low earnings differs by demographic, for example:

- **Younger people** (22-25 in 2012) were less likely to remain in low earnings on average (42%)
- **Women** were more likely (64%) to remain in low earnings

Of those in low earnings in 2012, proportion who remained 'low earners' when looking at average earnings across 2012-2024



Note: 'Low earnings' are earnings below the Band 1 threshold as defined in the Turner Commission, uprated by average earnings growth each year. For 2024 this equates to earnings below £16,636.

Source: DWP analysis of 'RAPID', 2012-2024. See Methodology 14.

Even persistent low earners at times move to higher earning jobs

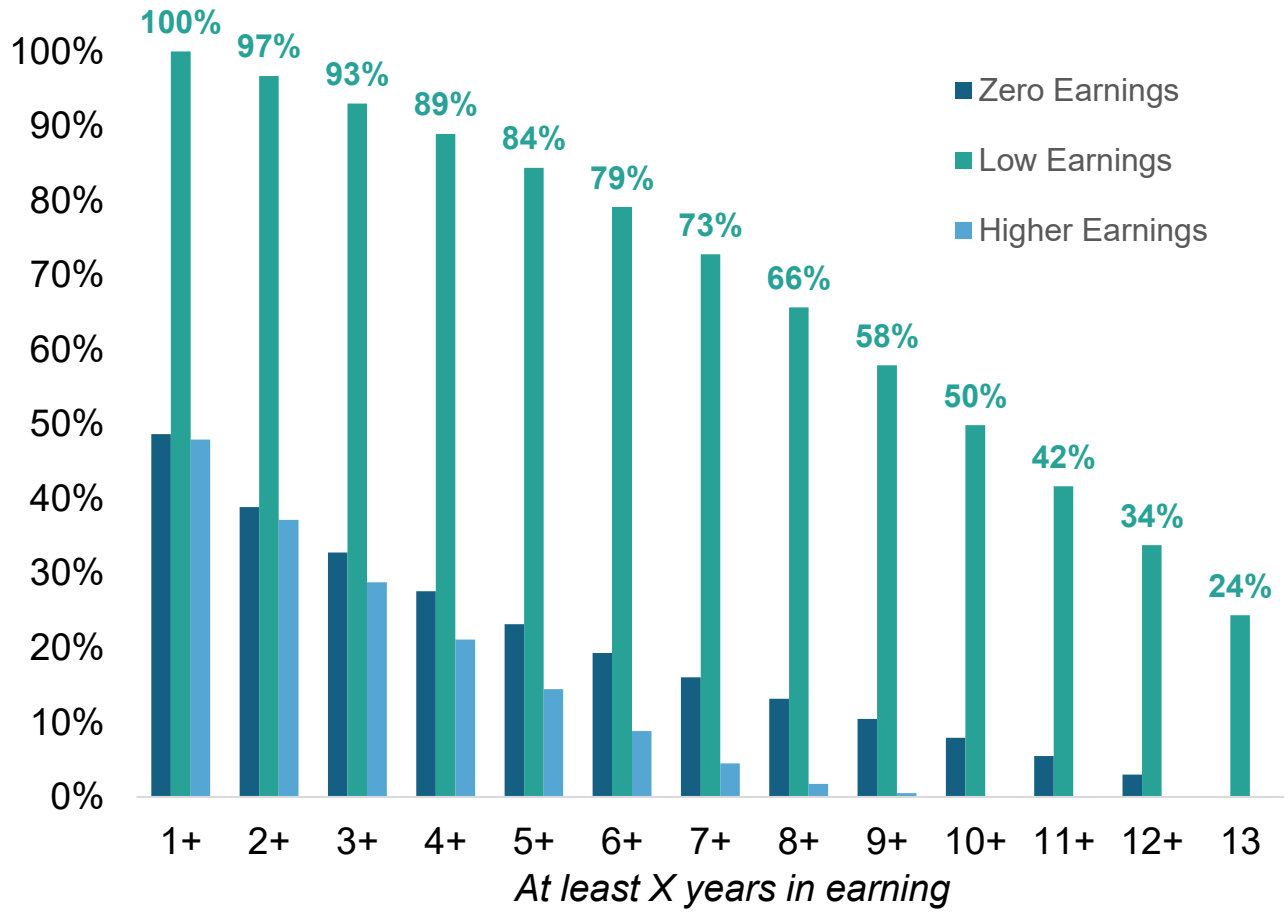
Affordability and whether it pays to save for low earners is a concern, particularly for lifetime low earners.

However, analysis shows only a quarter of persistent low earners (those that are low earners in 2012 and on average across 2012 to 2024) remained in low earnings every single year.

Around half experienced at least one year in zero earnings and 23% experienced 5 or more years in zero earnings.

Similarly, **around half experienced at least a year of higher earnings**, and 14% experienced 5 or more years in higher earnings.

For those who are low earners in 2012 and on average across 2012-2024, how many years do they spend in each earning band

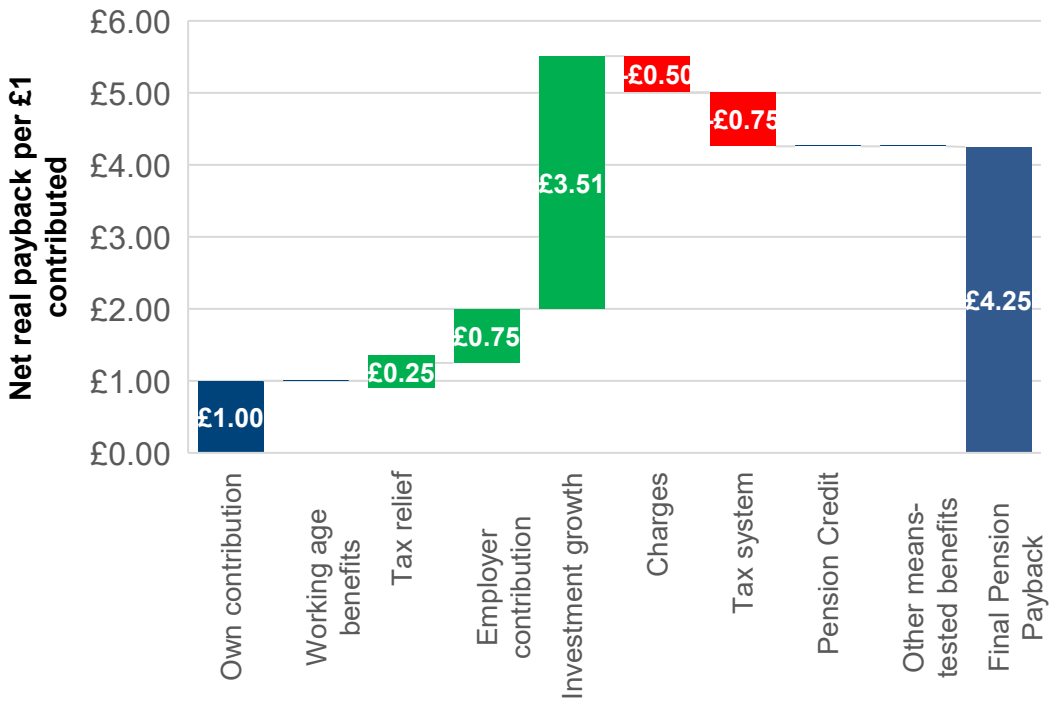


Source: DWP analysis of 'RAPID', 2012-2024. See Methodology 14.

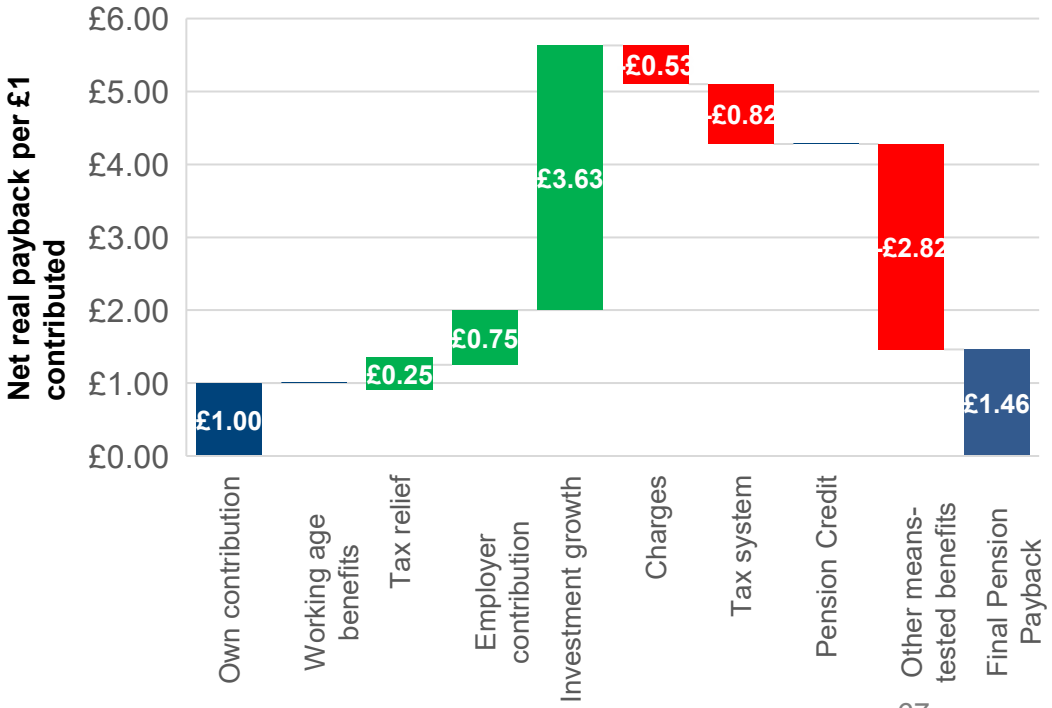
Payback from pension saving is stronger for average earners than low earners, due to interactions with means-tested benefits

DWP model the 'payback' by comparing what £1 saved would deliver, considering taxation, investment returns and the impacts on benefit entitlement. For a **hypothetical male median earner** (around £37,000 per year), it shows that for each **£1 of AE saving, they will receive a payback worth £4.25**, an annual income of £24,000 and a replacement rate of 64% (below their Target Replacement Rate) over the course of their retirement. For a **hypothetical low earner**, earning £13,000 per year for their whole working life, **£1 of saving leads to a payback of £1.46**, an annual income of £16,000 and a replacement rate of 130% (above their Target Replacement Rate), highlighting that low earners can also see 'payback' from pension saving.

A median earner's individual net payback per £1 contributed, current-year prices terms



A low earner individual's net payback per £1 contributed, current-year prices terms



Source: DWP modelling using IPEN. See Methodology 2.

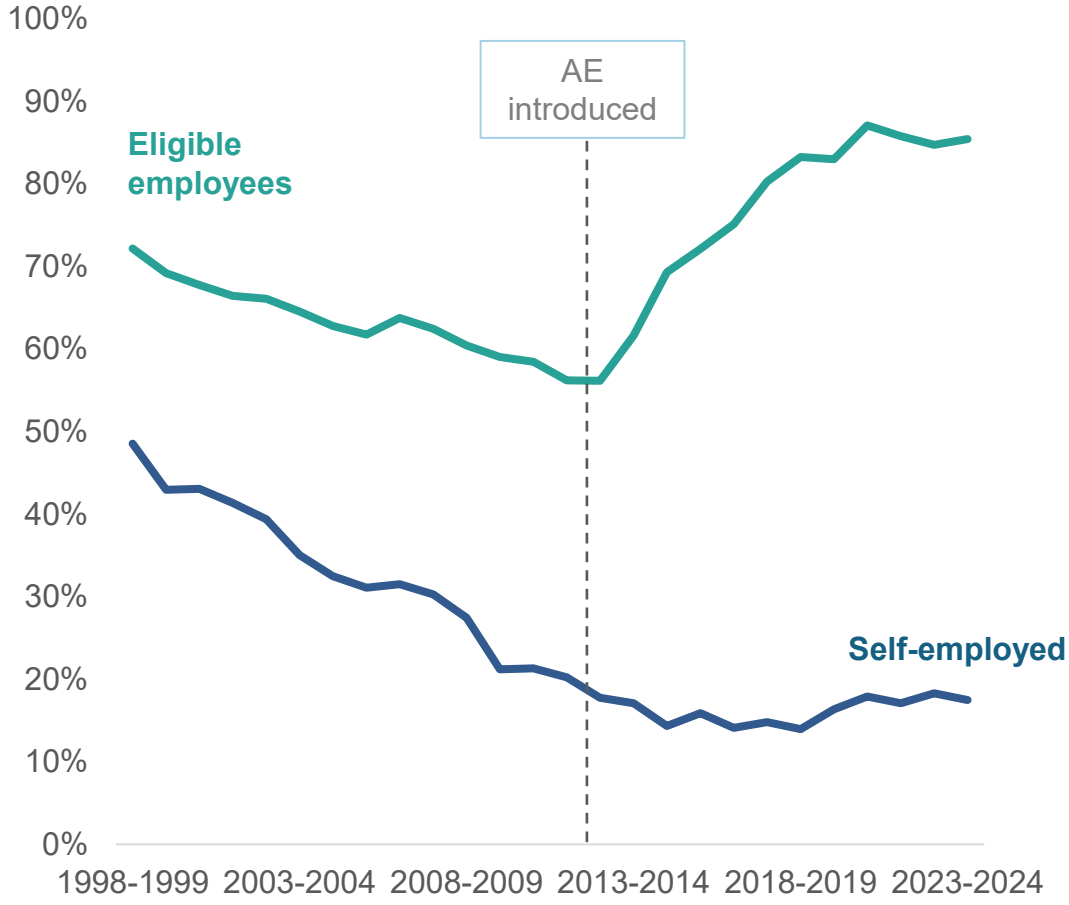
Section G: Self-employed people are a diverse and changing group but overall pension participation is very low

There are over 4 million self-employed individuals in the UK, self-employed pension participation has fallen and is stagnating, and is low compared to eligible employees

The number of self-employed individuals without employees has increased over time (self-reported employment status)

Source: DWP analysis of 'Labour Force Survey' 2001-2025. See Methodology 8.

The proportion of self-employed participating into a workplace pension has fallen and is much lower than the proportion of employees (self-reported employment status)

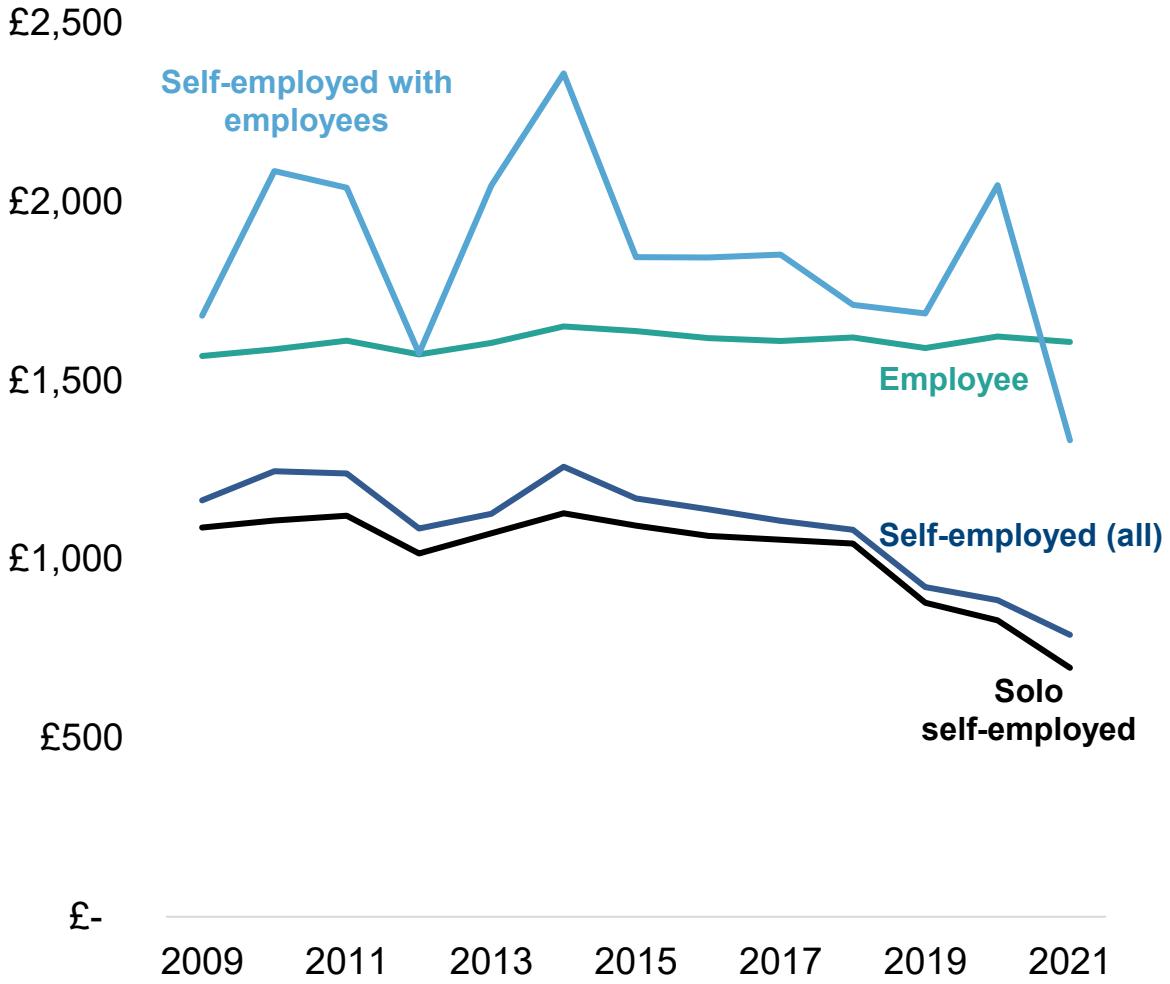


Source: DWP analysis of 'Family Resources Survey' 1998-2024. See Methodology 10.

The self-employed population has seen a decrease in real terms income over time. The self-employed generally have lower annual earnings and a larger distribution of earnings than employees.

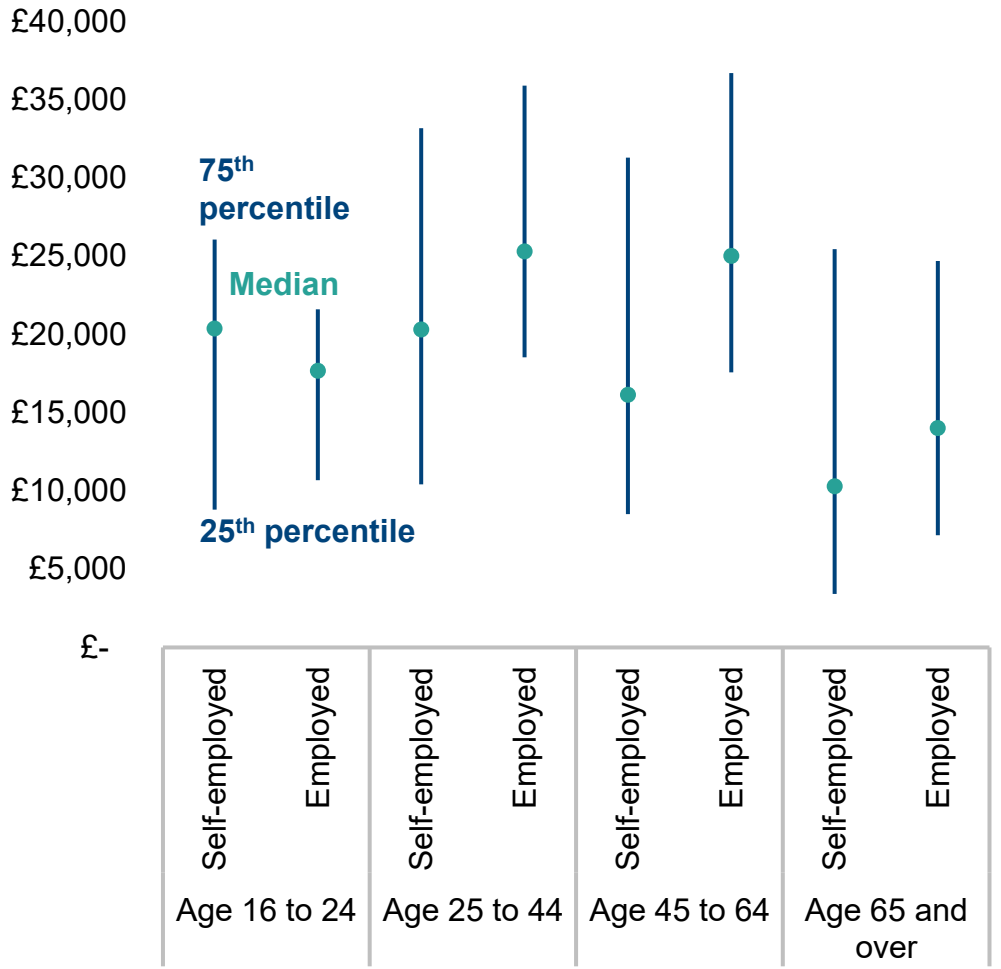
The Second Pensions Commission

Self-employed median monthly total earnings have decreased over time in real terms



Source: DWP analysis of '<u>Understanding Society</u>' 2009-2023. See Methodology 9.

Self-employed generally have lower annual earnings and a larger distribution of earnings than employees

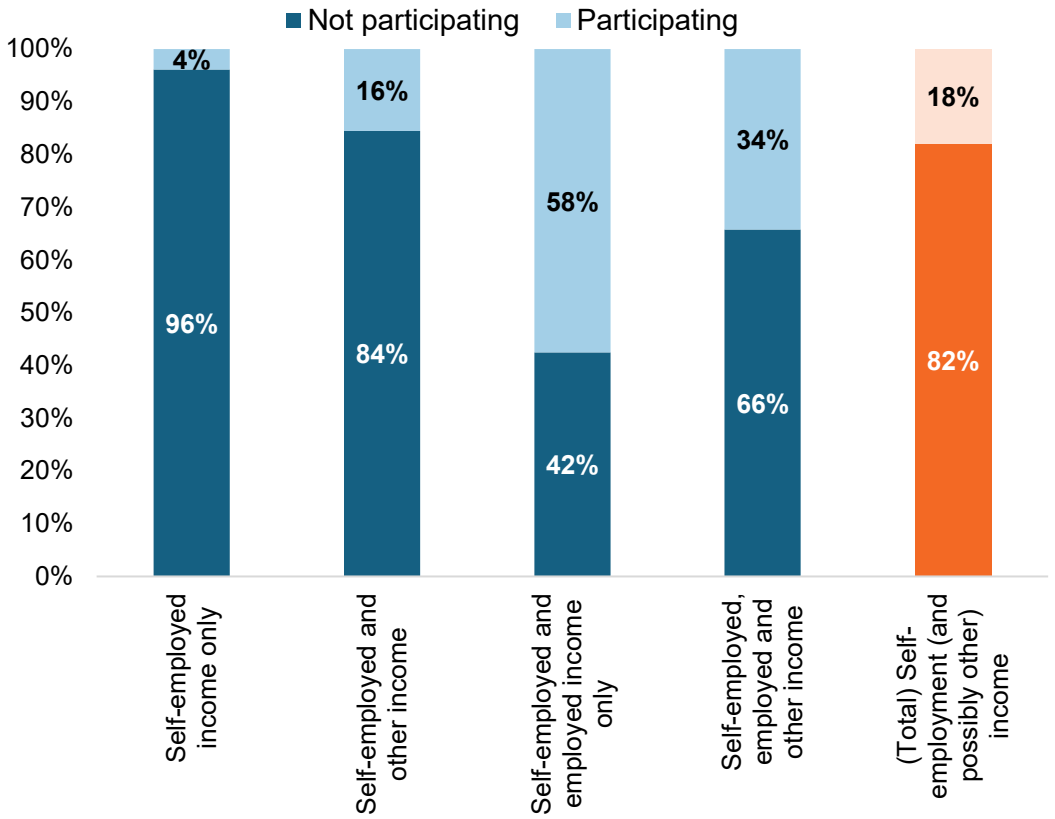


Source: DWP analysis of '<u>Family Resources Survey</u>' 2023/2024. See Methodology 10.

Pension participation is low amongst the self-employed, particularly those with self-employed income only, but pension participation is greater for those who are high earners and older

The Second Pensions Commission

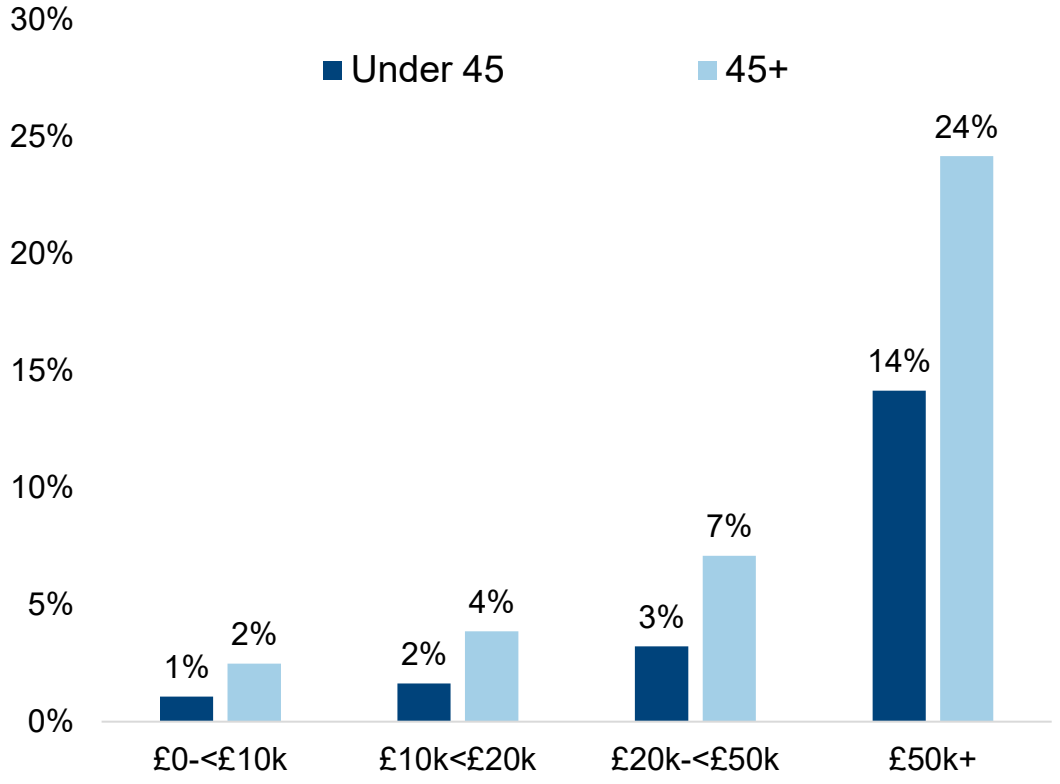
Only 4% (around 100,000 individuals) with income from self-employment only contributed to a pension (administrative data)



In 2022/23, there were 4.6m individuals with at least some self-employment income, and of these 2.4m only had income from self-employment, with these levels remaining broadly unchanged in 2023/24.

Sources: DWP analysis of '[HMRC self-assessment tax return data](#)' 2022/23 and 2023/34. See Methodology 12.

Of those with self-employed income only, pension participation is higher for those who earned £50,000+ and those aged over 45 (5%) compared to under 45s (3%) (administrative data)



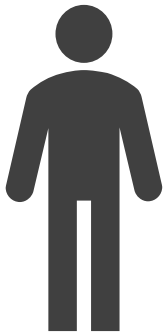
There is a noticeable jump in pension participation rates around the Higher Rate Threshold (£50,270), suggesting tax relief may be an incentive for saving – consistent with IFS analysis of self-assessment returns.

Source: DWP analysis of 'HMRC self-assessment tax return data' 2023/24. Base Sample: Self-employed income only contributing to pension. See Methodology 12.

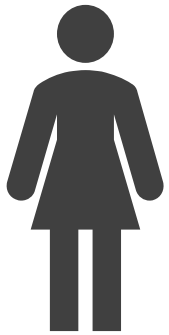
Self-employed pension participation varies by characteristic, with a greater propensity to be older, male, and working in professional occupations

The Second Pensions Commission

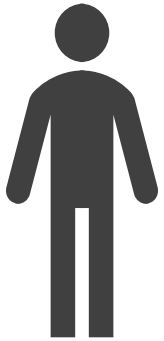
Pension participation rates amongst self-employed (Self-reported employment status)



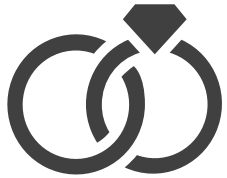
Male
18% of self-employed males are saving into a pension



Female
16% of self-employed females are saving into a pension

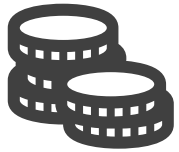


Single
13%

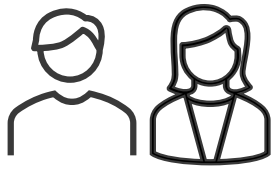


Married or in Civil Partnership
21%

Higher Income with net annual earnings of £50k+
38%



Lower Income net annual earnings under £20k
14%



Older
45-54
25%

Younger
16-24
5%

If AE eligibility (age 22-SPa and earning over £10,000) was applied to the self-employed, **around two-thirds (64%) would be eligible.**

Working in professional occupations
29%

Working in elementary occupations
7%

Source: DWP analysis of '[Family Resources Survey](#)' 2023/2024. See Methodology 10.

Many of the currently retired former self-employed (from a specific cohort) have accrued pension wealth

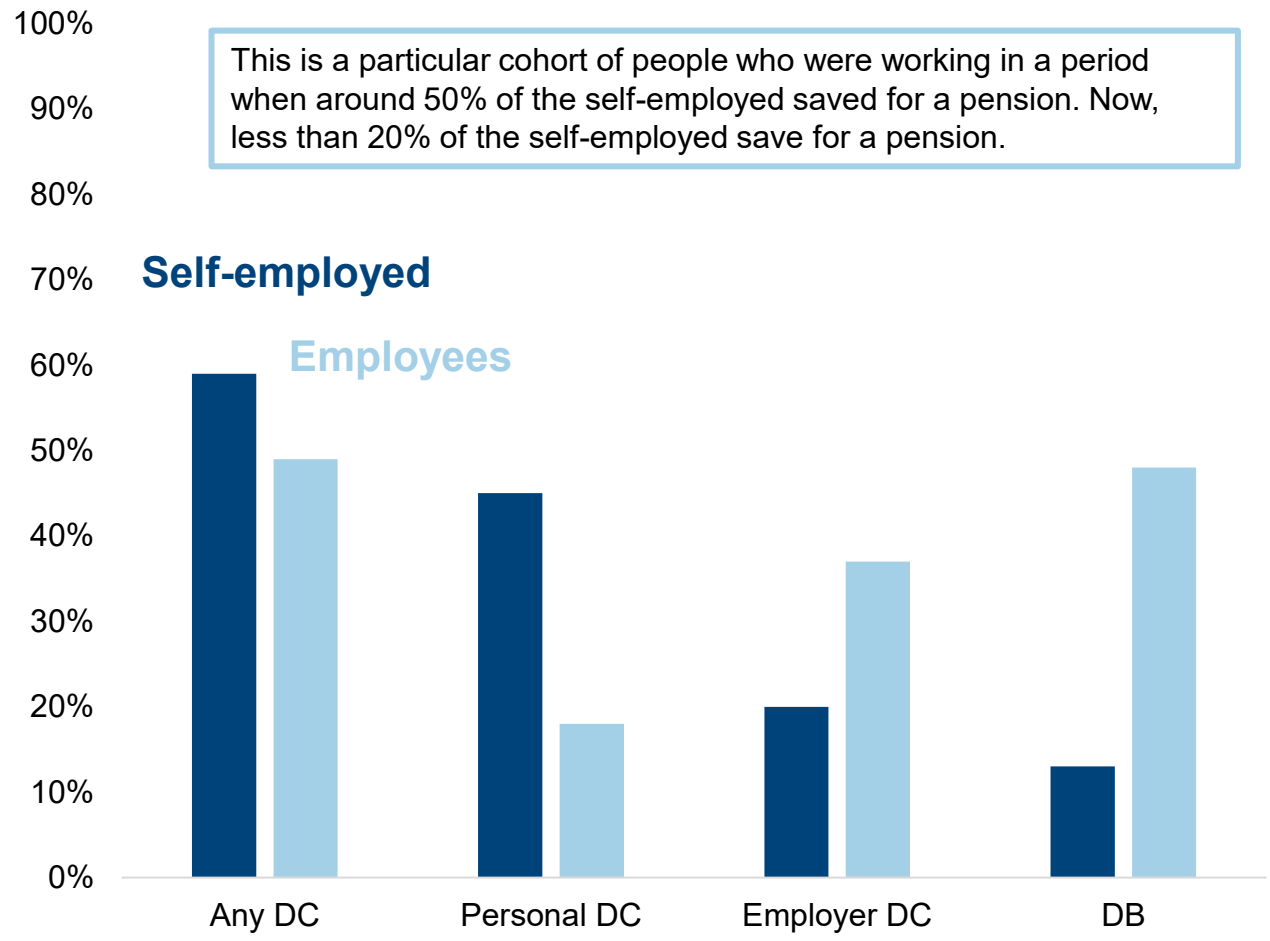
Analysis of the National Child Development Study (NCDS) tracking individuals **born in 1958** provides information on pension saving over a career.

Someone is majority self-employed if they spend most of their career in self-employment rather than as an employee.

The **majority self-employed were more likely to have a DC pension compared to the majority employed**, with this being much more likely to be a **personal DC pension** than an employer one.

Only 13% of the majority self-employed have a DB pension compared with 48% of the majority employed.

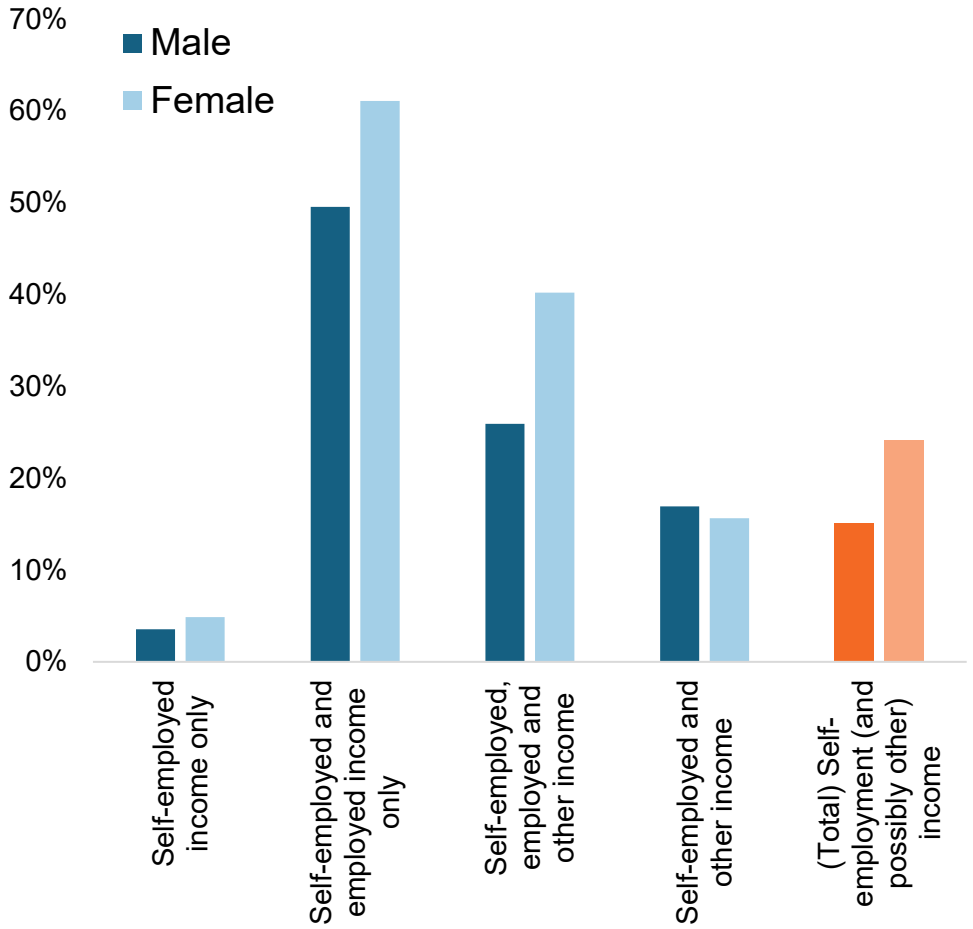
The majority self-employed were more likely to have a personal DC pension compared to the majority employed (NCDS)



Source: DWP analysis of '[National Child Development Study 2025]'.

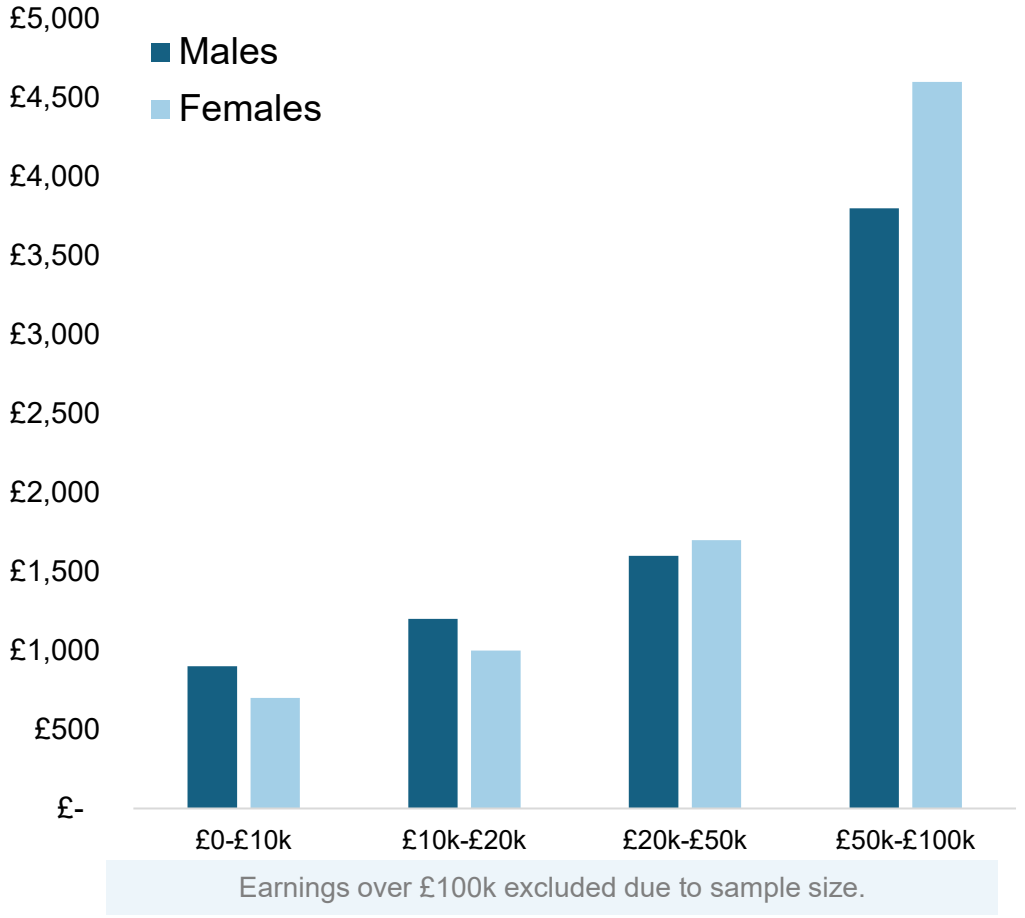
Whilst self-employed women are generally more likely to participate in pensions, annual contributions are on average £300 less compared to men

Women are more likely to participate in pension saving than men, except for those who receive income from self-employment and other income sources.



Source: DWP analysis of 'HMRC self-assessment tax return data' 2023/24.
See Methodology 12.

However, for those with self-employment income only, women contribute a lower median amount in lower income brackets, but higher than men once earning over £20,000.



Source: DWP analysis of 'HMRC self-assessment tax return data' 2023/24.
Base Sample: Self-employed income only contributing to pension
See Methodology 12.

The self-employed are more likely to work longer past State Pension age and work longer hours; a trend consistent across the income distribution

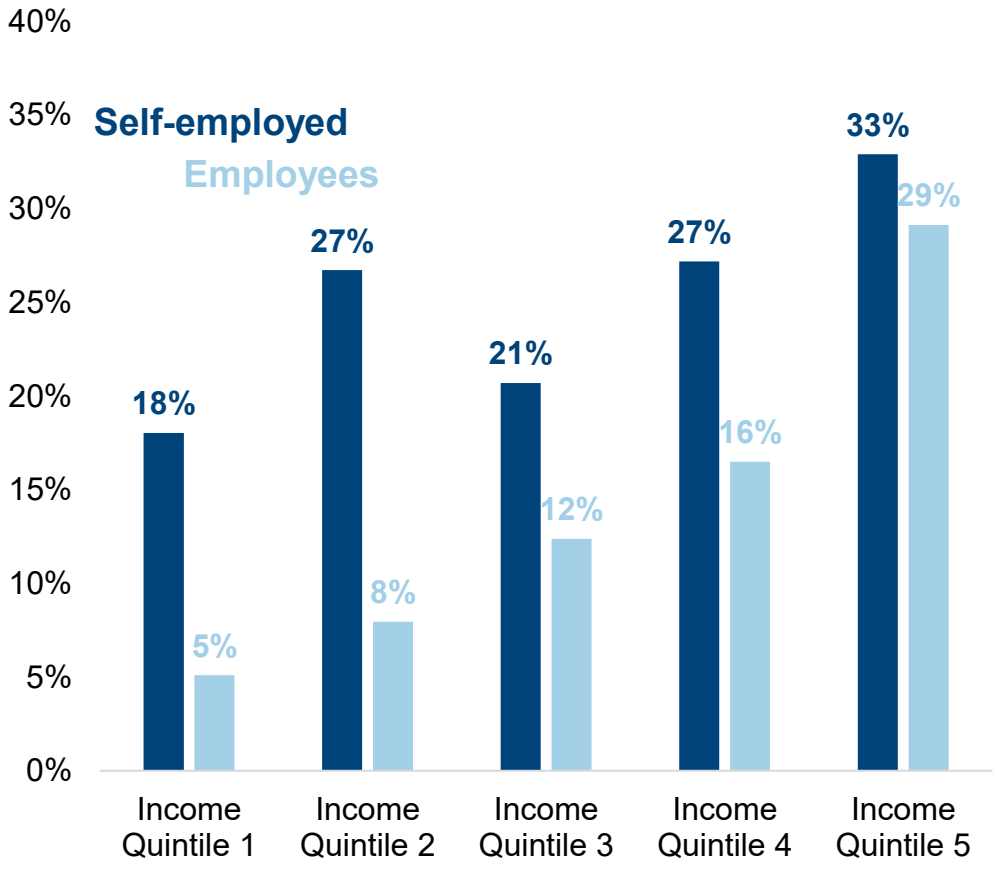
There are **three times as many people working past State Pension** age **now compared to 20 years ago**, and the **self-employed are a large part of this trend.**

While the **self-employed make up around one-in-ten of working-age workers** they account **for a third of those working past State Pension age (SPa).** This may partly be due to less involvement in the pensions system but also through choice given the wealthiest self-employed are most likely to work past SPa.

Self-employed workers also report working longer hours:

- 25% of full-time self-employed report working 50 hours or more a week, compared with 7% of full-time employees
- For those over State Pension age, 11% of full-time self-employed work 50+ hours, compared with 3% of full-time employees

Self-employed are more likely to continue working post-SPa than employees in all quintiles (cross-sectional analysis of those post SPa, self-reported self employment stats 2023)



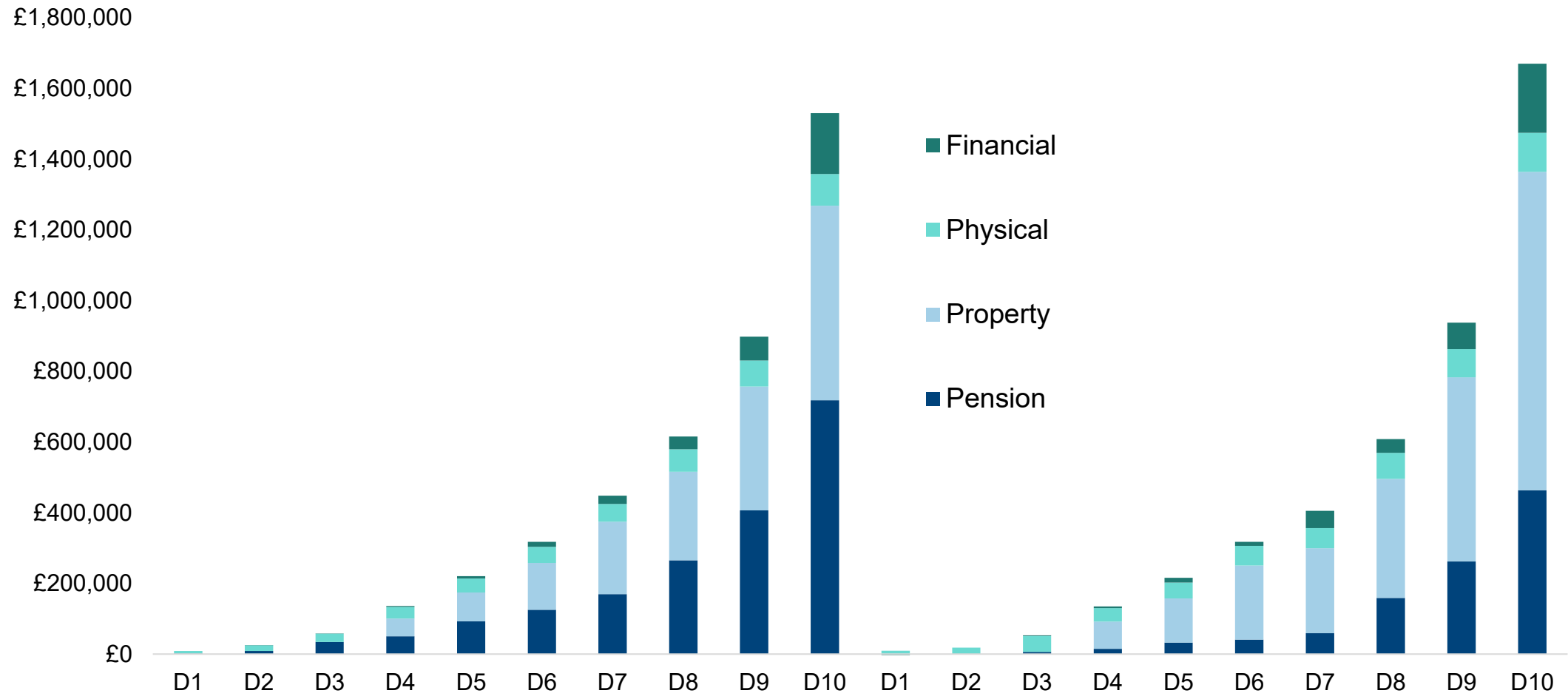
Source: DWP analysis of 'Labour Force Survey' 2025. See Methodology 8.

Source: DWP analysis of Understanding Society' 2009-2023. See Methodology 9.

Wealth is concentrated in the higher income deciles for both employees and the self-employed, but the composition of wealth is different

Employees have greater pension wealth…

…but the self-employed have greater wealth in property



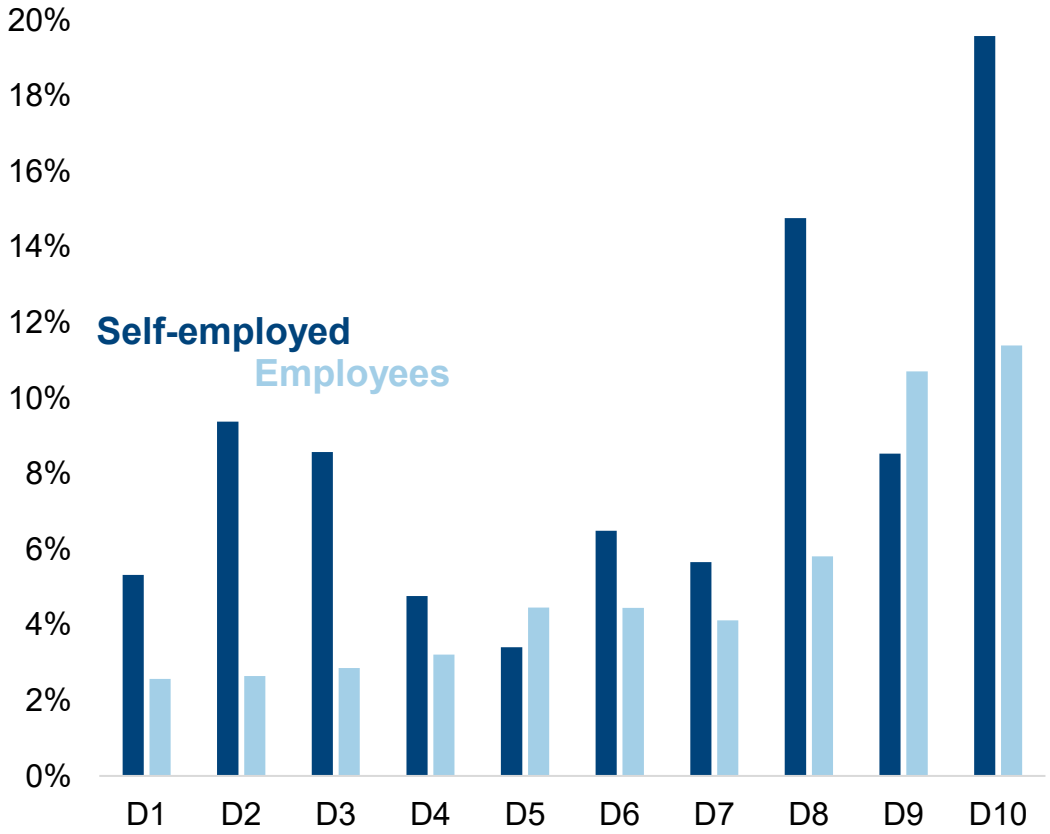
(Note: Median pension wealth is used)

Source: DWP analysis of "Wealth and Assets Survey Round 8" 2020/22. See Methodology 11.

8% of self-employed people aged 40+ own a second property, compared to 5% of employees

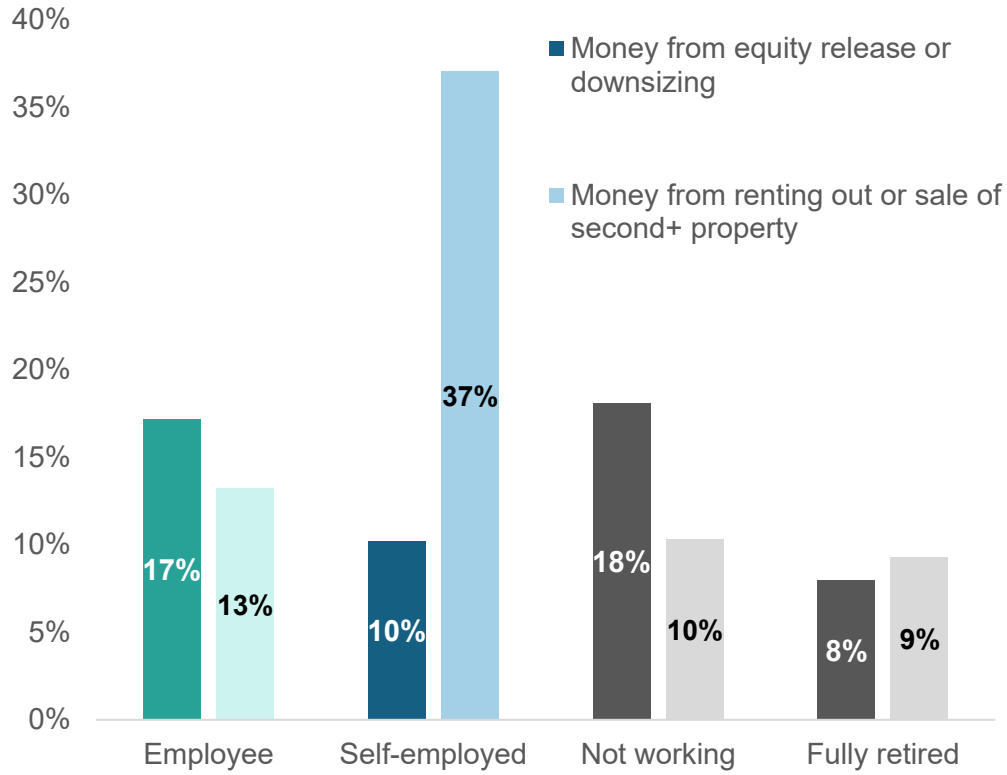
37% of self-employed people are currently renting out a property or sold a second property to support retirement; however, looking ahead, only 21% expect to do this in the future.
10% of the self-employed (aged 40-75) gained money from releasing equity from their home or downsizing, compared to 17% of employees.

Self-employed aged 40+ are more likely to own a second property than employees in almost all income deciles.



Source: DWP analysis of "Wealth and Assets Survey Round 8" 2020/22. See Methodology 11.

Retired or semi-retired self-employed are less likely to be downsizing or accessing equity release, but are more likely to sell or receive rent from a second property to support their retirement.



Source: DWP analysis of 'Planning and Preparing for Later Life' 2024

Section H: Some groups are less likely to be on course for an adequate pension

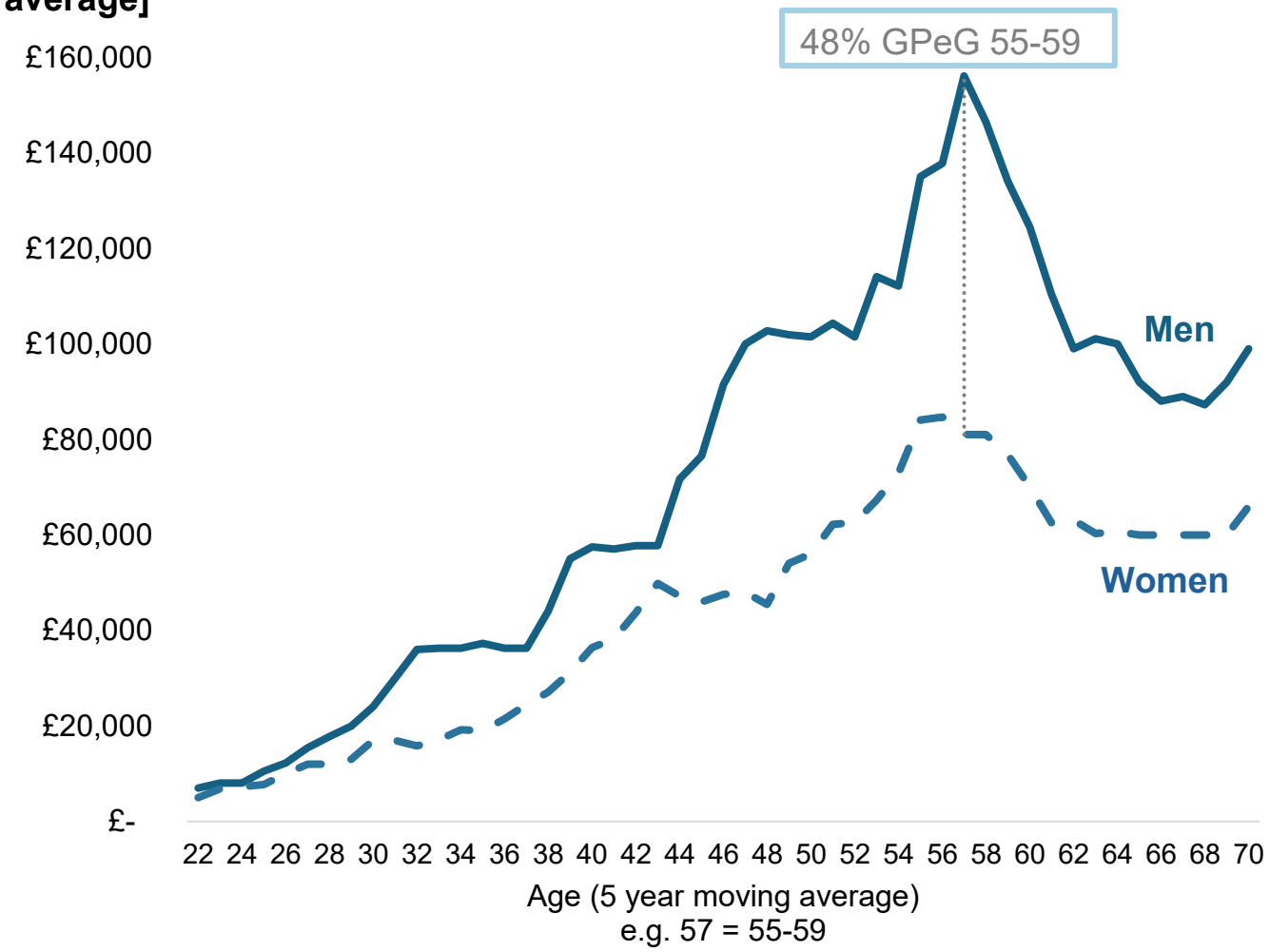
Women reaching retirement are likely to have smaller private pension pots than men, largely a result of differences in labour market experiences

AE has equalised workplace pension participation rates between eligible men and women in the private sector and has significantly expanded the number of women saving into a workplace pension, however the gap in private pension wealth for those reaching retirement persists.

DWP estimates that the **Gender Pensions Gap (GPeG) for those aged 55-59 is 48%** (the difference in median uncrystallised pension wealth, for those with some pension wealth).

Differences in the labour market, with women less likely to be in employment and, when in work, this is more likely to be part-time, becomes most apparent once women reach their 30's, a trend driven by childcare responsibilities.

Median total uncrystallised private pension wealth by age [5-year rolling average]



Source: DWP estimates derived from the ONS Wealth and Assets Survey, GB, 2020-22

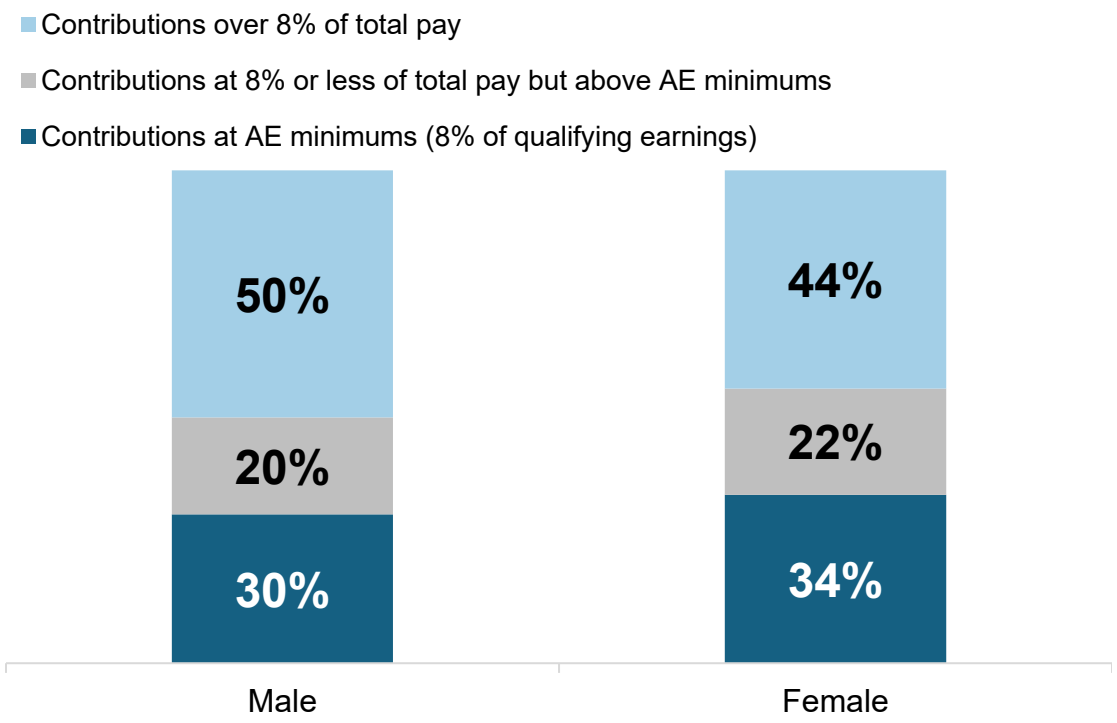
Source: DWP (2025) Gender Pensions Gap in Private Pensions 2020-2022.

However, when women are participating, their contribution rates do not vary significantly from those of men, and this does not vary much by age

The Second Pensions Commission

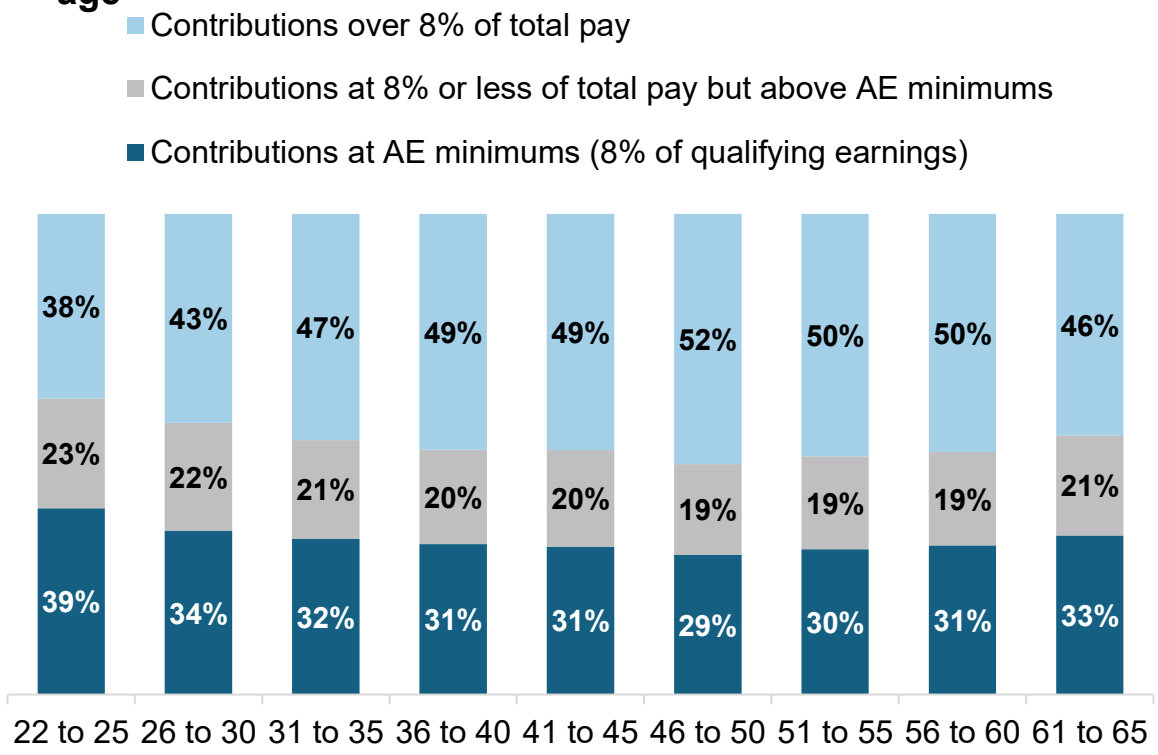
Women saving into a private-sector DC scheme are slightly more likely to be at AE minimums than men, with more than 1-in-3 at this level…

Employees in DC schemes total contribution levels by gender



…and younger workers are more likely to be at AE minimums with 39% of those aged 22-25 contributing at AE minimums compared to around 30% for those aged 36-60.

Employees in DC schemes total contribution levels by age

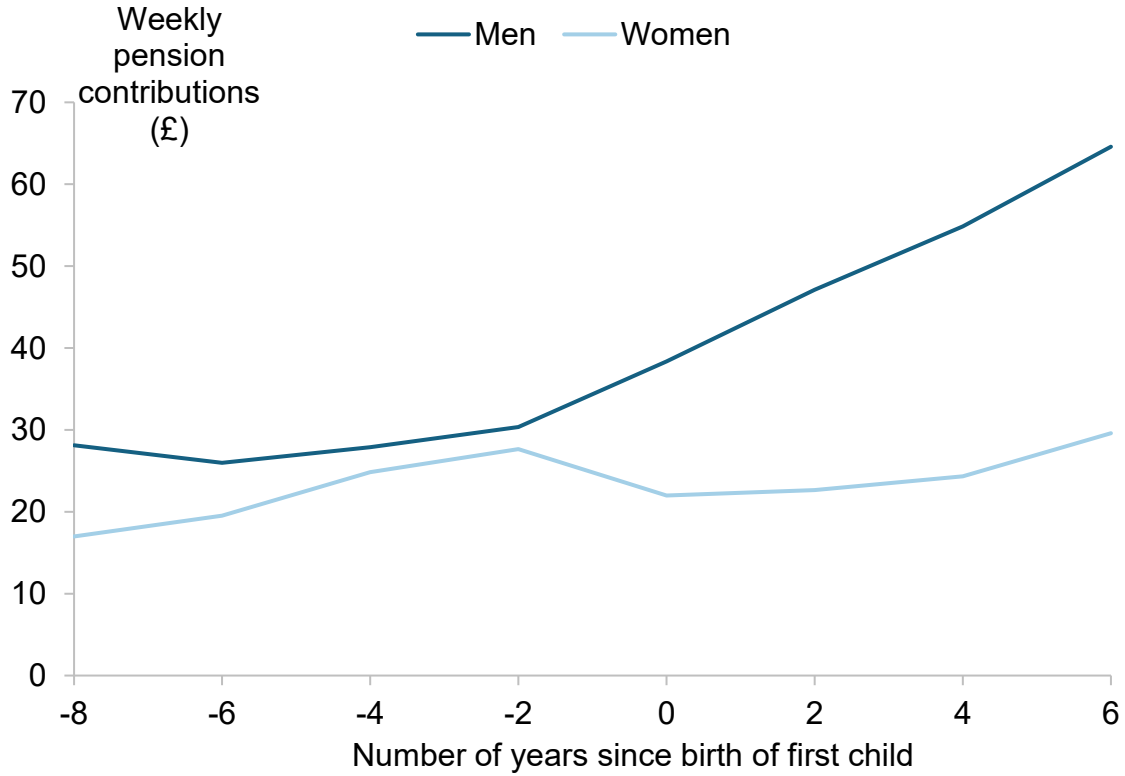


Source: DWP analysis of ONS, 'Annual Survey of Hours and Earnings, 2024', Savers only.

There are differences in pension contributions between men and women after having a first child. Women are also more likely to have no private pension wealth compared with men.

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.

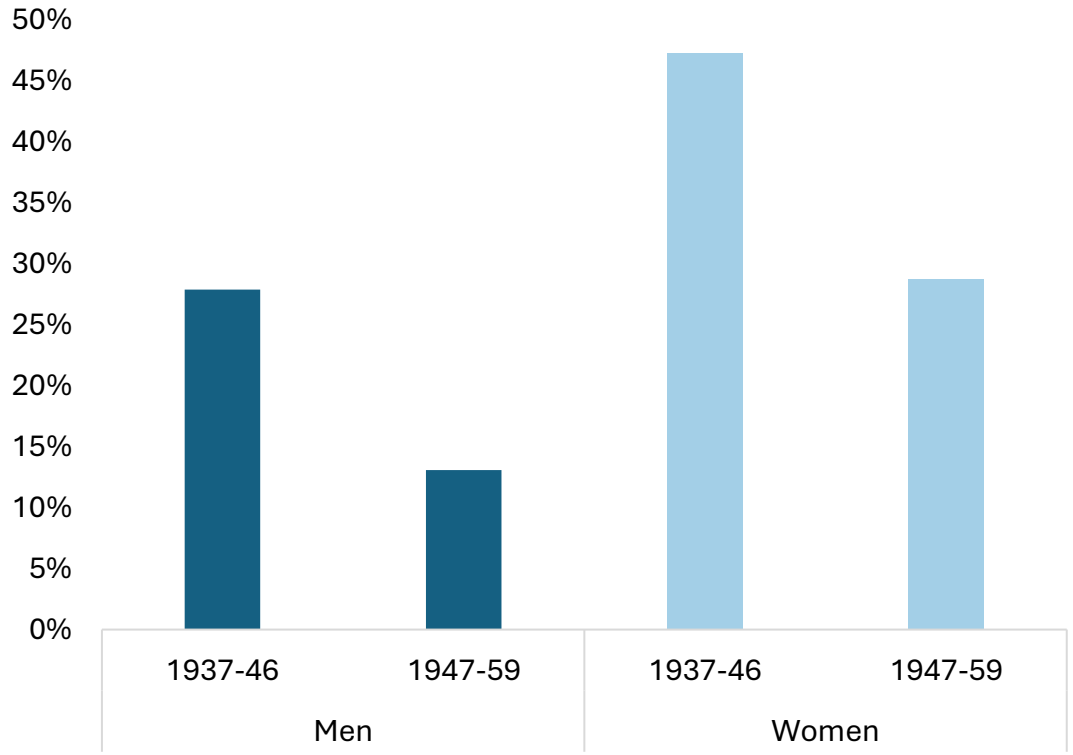
Own pension contributions among all men and women, by years before and after the birth of first child, by sex



Based on the UK Household Longitudinal Survey, not restricted to private pensions

The proportion of people with no private pension wealth has decreased for younger cohorts. However, there are still differences with women more likely to have no private pension wealth than men.

Proportion of men and women, by age cohort, who have no private pension wealth



Based on the English Longitudinal Study of Ageing

Source: DWP (2026), 'Life courses and pension saving patterns'

Disabled people are less likely to be in sustained full-time work, which could have knock-on effects for pension saving

Those who self-report having a disability at ages 55-65 are less likely to have been in full-time work for more than 75% of their working lives (aged 20-65) compared with those who do not self-report having a disability **(28% vs. 39%)**

Those with a self-reported disability at ages 55-65 are also more likely to have spent **more than 50% of their working lives not in paid work** compared with those who do not report a disability at ages 55-65 **(21% vs. 12%)**

People who self-report a disability at ages 55-65 are more likely to have no private pension wealth than those who do not self-report a disability (25% vs 14% for those born between 1947-59).

Proportion with different labour market participation types, by disability aged 55-65, for a cohort born 1947-59

Group	>75% Full-time	50-75% Full-time	>50% Part-time	Full-time / Part-time mix	>50% Self-employed	>50% not in paid work	Other
No disability	38.7%	19.8%	11.6%	8.7%	5.5%	11.8%	3.9%
Had disability	27.8%	19.1%	9.3%	11.1%	7.4%	21.5%	3.8%

Those who have a disability at age 55-65 are more likely to have no private pension wealth regardless of whether they were born in 1937-46 or 1947-59

Disability at age 55-65	Cohort	% no private pension
Had disability	1937-46	28.6%
	1947-59	25.3%
No disability	1937-46	17.5%
	1947-59	13.9%

Includes people who are already accessing pension income

Based on the English Longitudinal Study of Ageing

Source: DWP (2026), 'Life courses and pension saving patterns'

Some ethnic minority groups in the UK are less likely to save into a pension, leading to worse outcomes in retirement

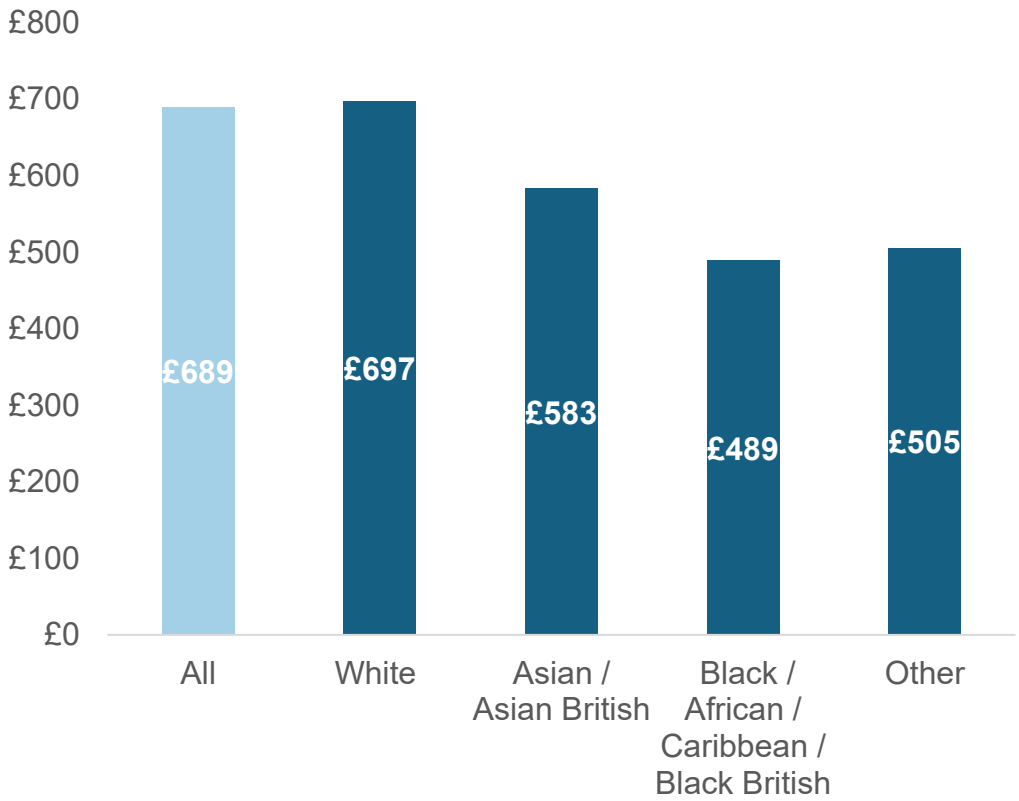
68% of Pakistani and Bangladeshi AE-eligible employees are saving into a workplace pension. This is compared to 87% of white AE-eligible employees.

Workplace pension participation of AE-eligible employees by ethnicity

Source: DWP analysis of '[Family Resources Survey](), UK, 2022/23 to 2023/24

White pensioners have the highest gross mean income in retirement, with Black/African/Caribbean/Black British groups having around 30% less

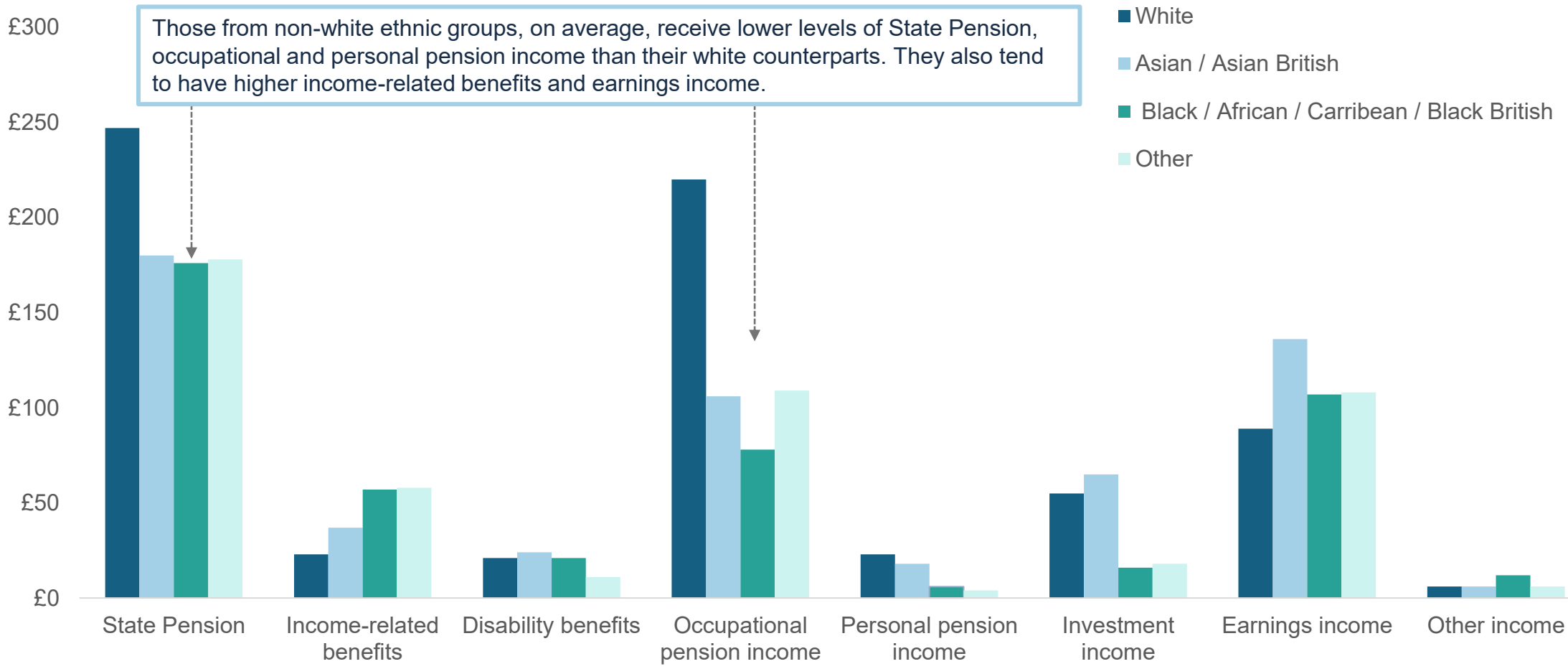
Gross mean income for pensioners by ethnicity



Source: DWP (2025). '[Pensioners' Income Statistics]() to 2024. 3-year average given small sample sizes, limiting further sub-group analysis

With clear differences in the type of income received by ethnicity; this disparity is particularly clear in occupational pension income

Average amounts of weekly income received by ethnicity



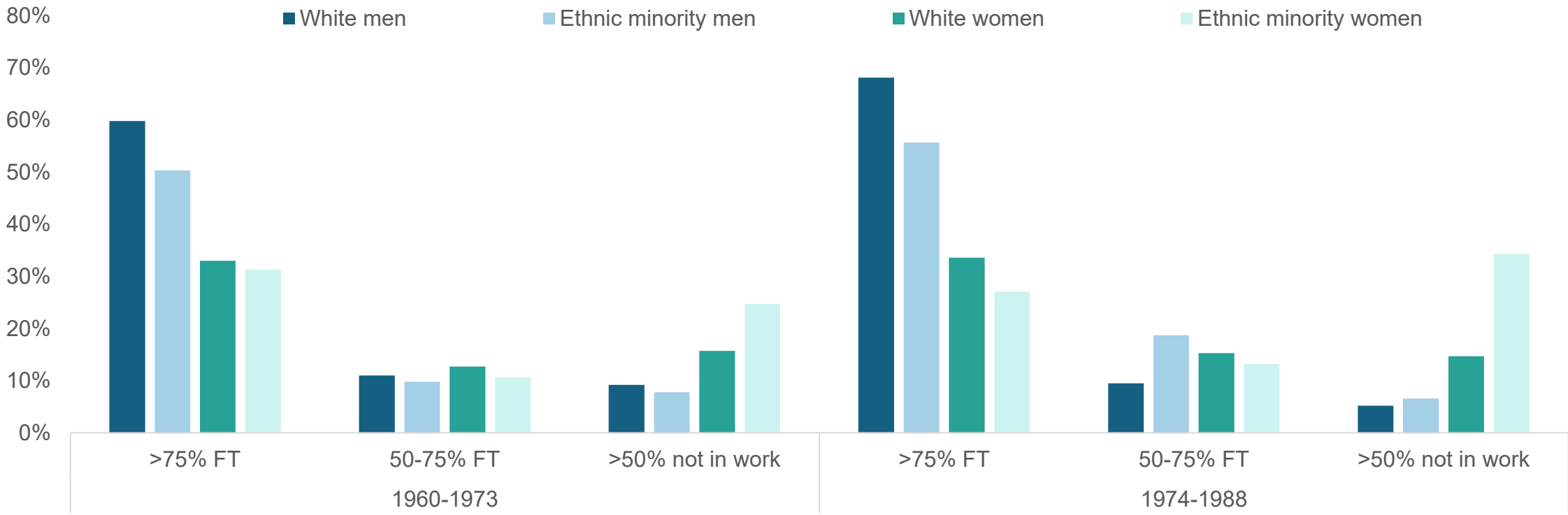
Source: DWP (2025). Pensioners' Income Statistics to 2024.

There are differences in labour market participation over the life course by ethnicity, which is likely to affect pension saving

Ethnic minorities are less likely to be in sustained full-time work, and the differences are even larger when splitting by both ethnicity and sex.

For the cohort born 1974-1988 (in the UK Household Longitudinal Survey) **34%** of ethnic minority women spent most of the last 15 years not in paid work, compared with **15%** of white women.

Prevalence of life course groupings by ethnicity and sex



Note that further breakdown by ethnic group was not appropriate due to sample size limitations

Based on the UK Household Longitudinal Survey

Source: DWP (2026), 'Life courses and pension saving patterns'

Carers are less likely to be in sustained full-time work, which could have knock-on effects for pension saving

Those who self-report **ever caring** (between the ages of 55-65) for a disabled relative or friend are **less likely to have been in full-time work for more than 75% of their working lives** (aged 20-65) compared with those who have never cared for someone **(32% vs. 40%).** They are more likely to be part-time or have been employed in a mixture of full-time/part-time work.

Proportion with different labour market participation types, caring responsibility, for a cohort born 1947-59

Group	Cohort	>75% Full-time	50-75% Full-time	>50% Part-time	Full-time / Part-time mix	>50% Self-employed	>50% not in paid work	Other
Never cared for someone	1937-46	40.1%	19.4%	7.4%	8.4%	8.7%	14.6%	1.4%
	1947-59	38.5%	17.9%	9.0%	7.6%	6.8%	17.5%	2.8%
Ever cared for someone	1937-46	32.0%	21.1%	11.4%	11.2%	5.8%	15.1%	3.3%
	1947-59	29.3%	20.2%	12.9%	11.3%	5.6%	15.9%	4.8%

Based on the English Longitudinal Study of Ageing

Source: DWP (2026), 'Life courses and pension saving patterns'

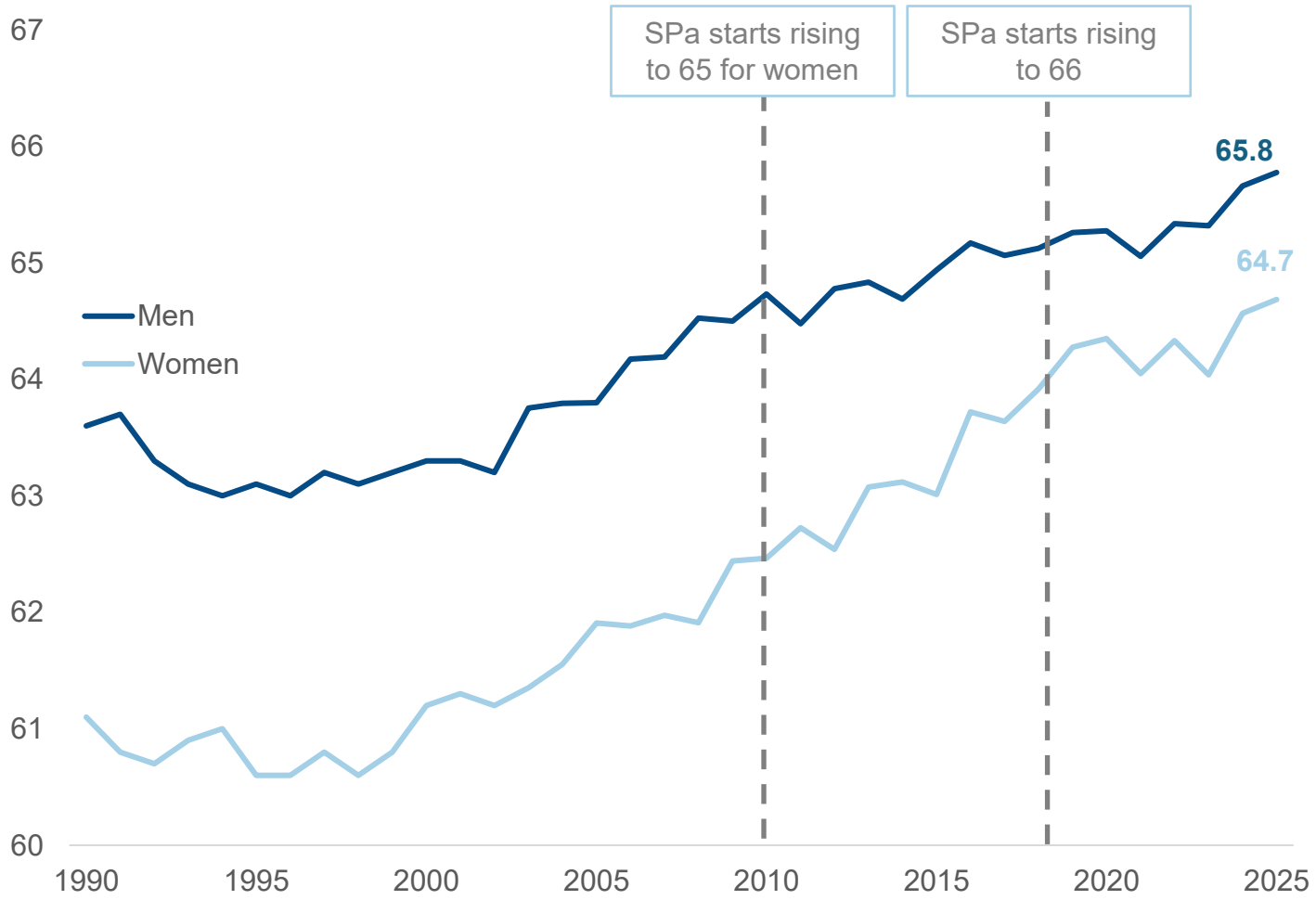
Retirement outcomes are also impacted by the timing of labour market exit, which is strongly linked with the State Pension age

Men are exiting the labour market on average 2 years later than 20 years ago, and women almost 3 years later.

Employment rates for older age groups are around record highs and older women in employment have shifted towards full-time work.

A large driver of longer working lives has been the raising of the State Pension age.

Average age of exiting the labour market



Source: DWP analysis of 'Economic labour market status of individuals aged 50 and over, trends over time: September 2025.'

Inactivity is higher for the older age groups, but inactivity rates have been declining

In 2025, 14.2% of 50 year-olds were economically inactive, rising to 40.1% for those 60 to 64, 55.9% at age 65 and 69.8% at age 66.

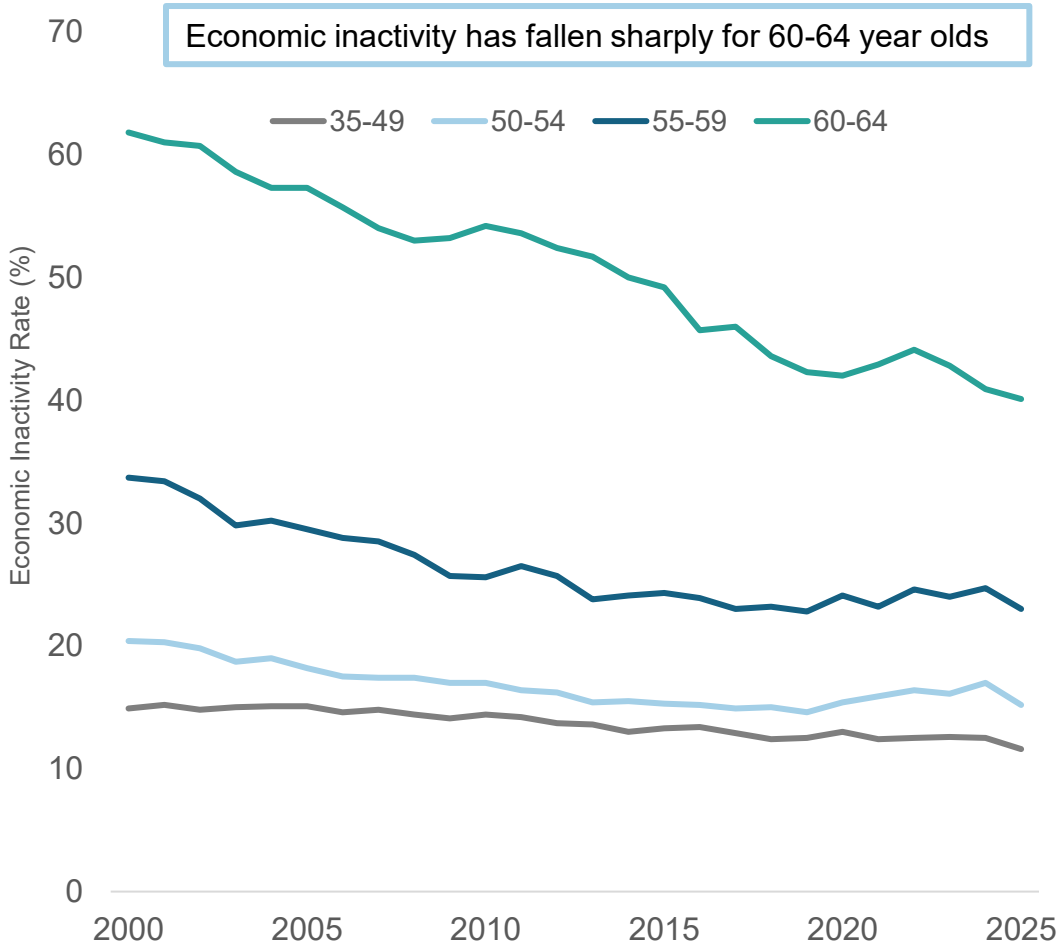
Economic inactivity increases with age.

The main reason for economic inactivity changes: for those in their 50s this is most likely to be sickness and disability; by 60-64 it is retirement.

Long-term sickness or disability accounts for large proportions of economic inactivity amongst the 50+

	50-54	55-59	60-64
Long-term sickness or Disability	58.6%	49.6%	36.6%
Retired	3.6%	20.3%	44.2%
Looking after home or family	24.3%	15.4%	8.8%
Inactive (other)	13.5%	14.7%	10.3%

Economic inactivity rates are higher for older age groups



Source: DWP (2025). 'Economic Labour market status of individuals aged 50 and over, trends over time' and internal DWP analysis of LFS data, see Methodology 15.

Inactivity for aged 50+ individuals varies by nation

A larger proportion of people are economically inactive as age increases.

The age at which people move into inactivity varies broadly by nation.

Inactivity by sex and nation, broken down by age band

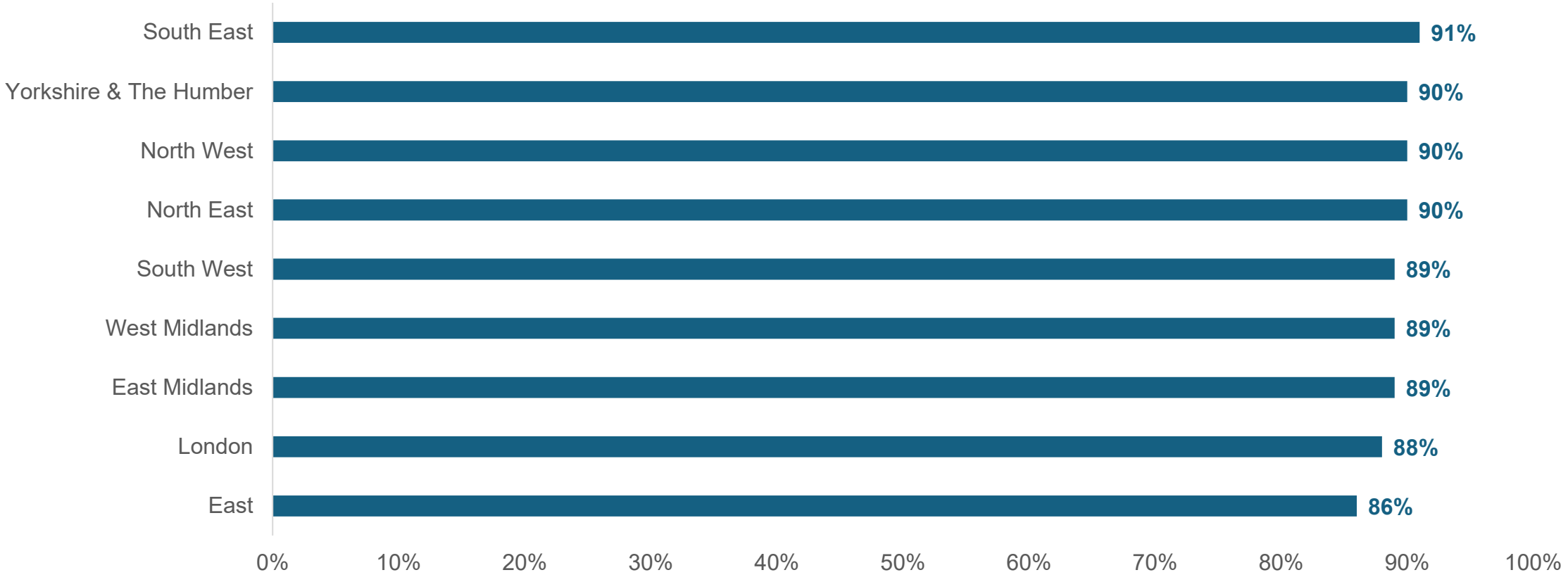
	Age	England	Wales	Scotland	Northern Ireland
Male	**50-54**	10.6%	15.7%	13.8%	18.4%
	55-59	17.6%	33.4%	17.5%	21.0%
	60-64	35.7%	47.3%	34.7%	41.7%
	65-69	65.9%	69.8%	69.6%	64.1%
	70-74	85.4%	84.5%	87.6%	87.6%
	75+	93.6%	93.3%	97.5%	96.6%
Female	**50-54**	18.0%	21.4%	23.3%	29.7%
	55-59	25.9%	28.3%	35.0%	38.5%
	60-64	42.5%	56.2%	44.6%	51.5%
	65-69	73.5%	80.8%	80.2%	79.9%
	70-74	90.7%	95.9%	91.0%	87.4%
	75+	96.7%	94.7%	96.4%	100.0%

Source: DWP analysis of LFS data, see Methodology 15.

Where you live and work can make a difference to outcomes, with different workplace pension participation rates by region

Pension participation is generally high across all regions, but this will be influenced by employment levels across the areas and by average wages (as contributions are based on % of wage).

Workplace pension participation of AE eligible employees varies by region in England



Source: DWP (2025) Workplace Pension Participation

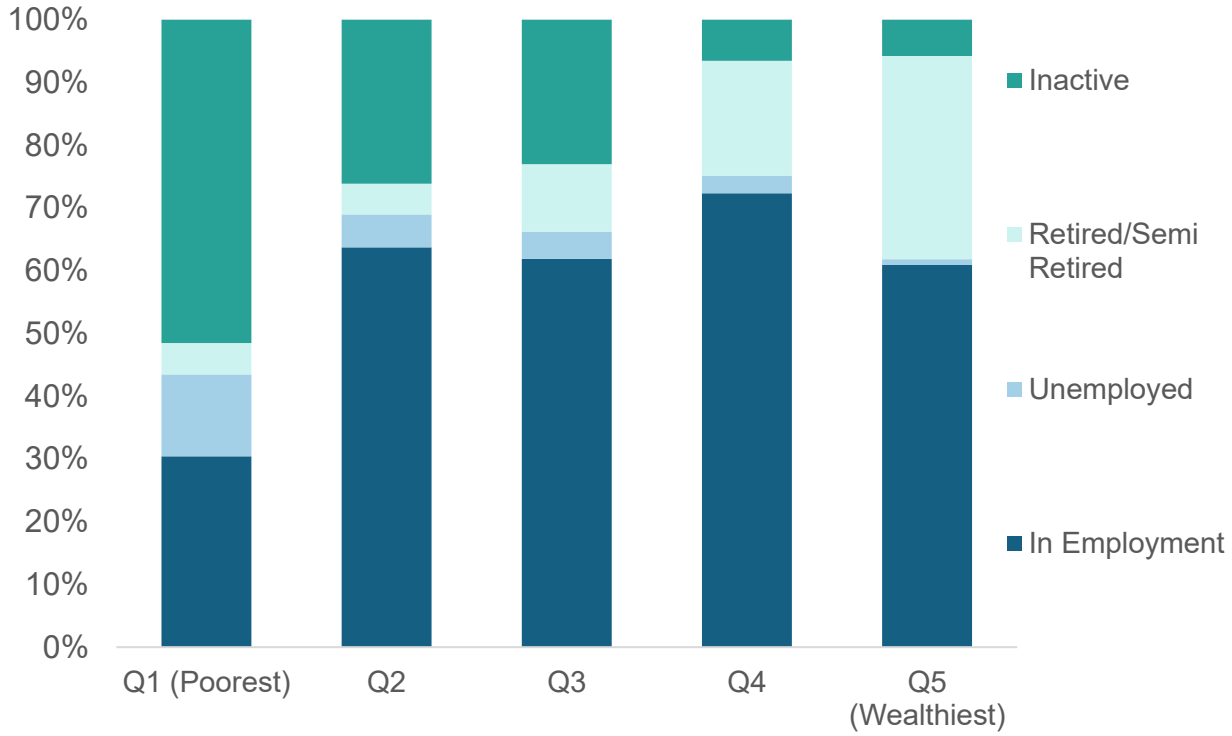
Earlier retirement is associated with various socioeconomic advantages

Retired **NCDS** study members (aged between 62 and 65 at time of interview) living with a retired partner were the most advantaged across all economic activity groups. Compared with study members and partners who remained economically active, they were more likely to:

- **Own their home** outright (92% vs. 56%)
- **Have greater savings (over £100,000)** (51% vs. 23%)
- Have a **DB pension** (61% vs. 34%)
- Be **better educated** (50% vs. 33% had a degree or higher)
- Have had **no experience of low income over the life course** (67% vs. 48%)
- Had **one partner over the life course** (75% vs. 58%)
- Have spent more months **in paid work** (31y+3m vs. 29y+11m)
- Have spent fewer months **out of work due to poor health** (7m vs. 19m)

Analysis using the Wealth and Assets Survey shows that economic activity aged 55-64 varies by wealth, with those in the wealthiest households more likely to have retired early.

In 2020-2022, early retirement was concentrated in the top wealth quintile whereas economic inactivity was concentrated in the lowest

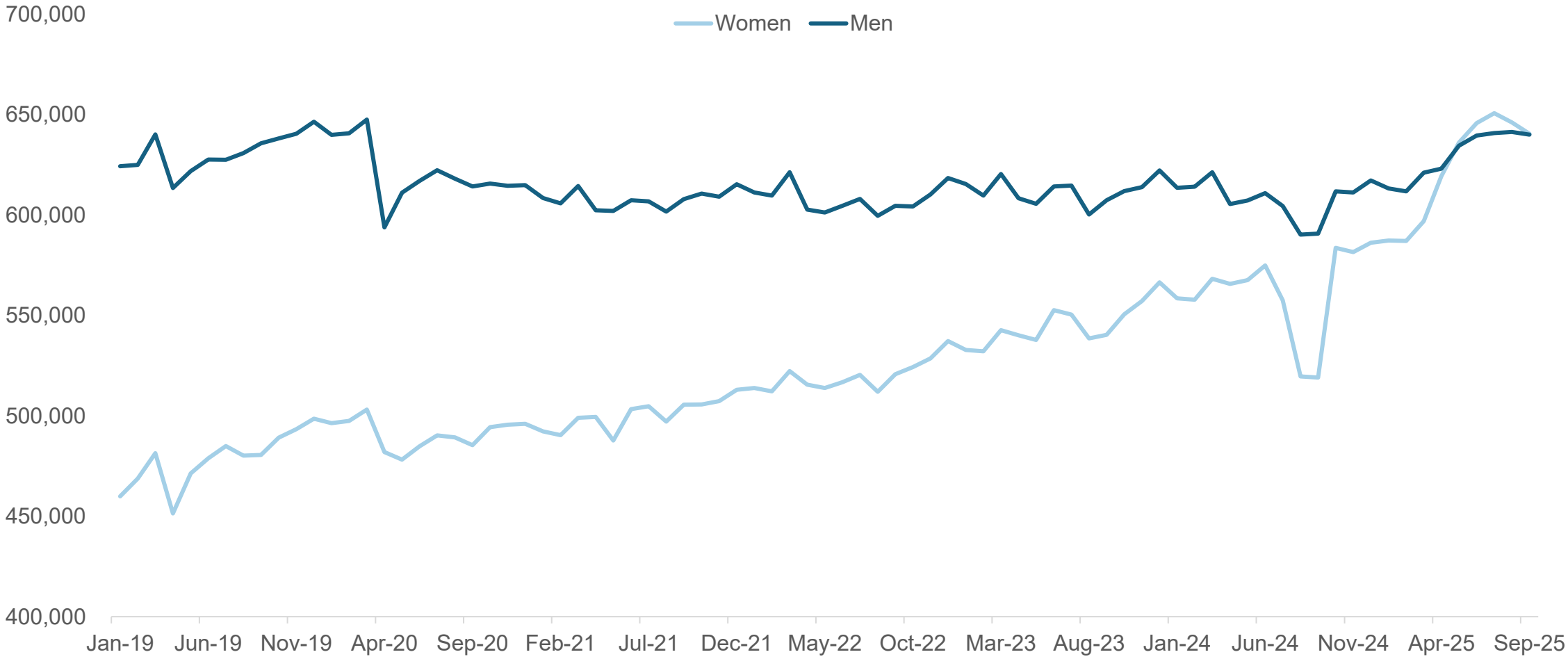


Source: DWP (2026) Pensions and economic status among the 1958 birth cohort prior to reaching State Pension age and DWP analysis of 'ONS Wealth and Assets Survey' Round 8 2020-22

More people are accessing pension income while receiving employment income. These increases in phased retirement have been driven by women.

The Second Pensions Commission

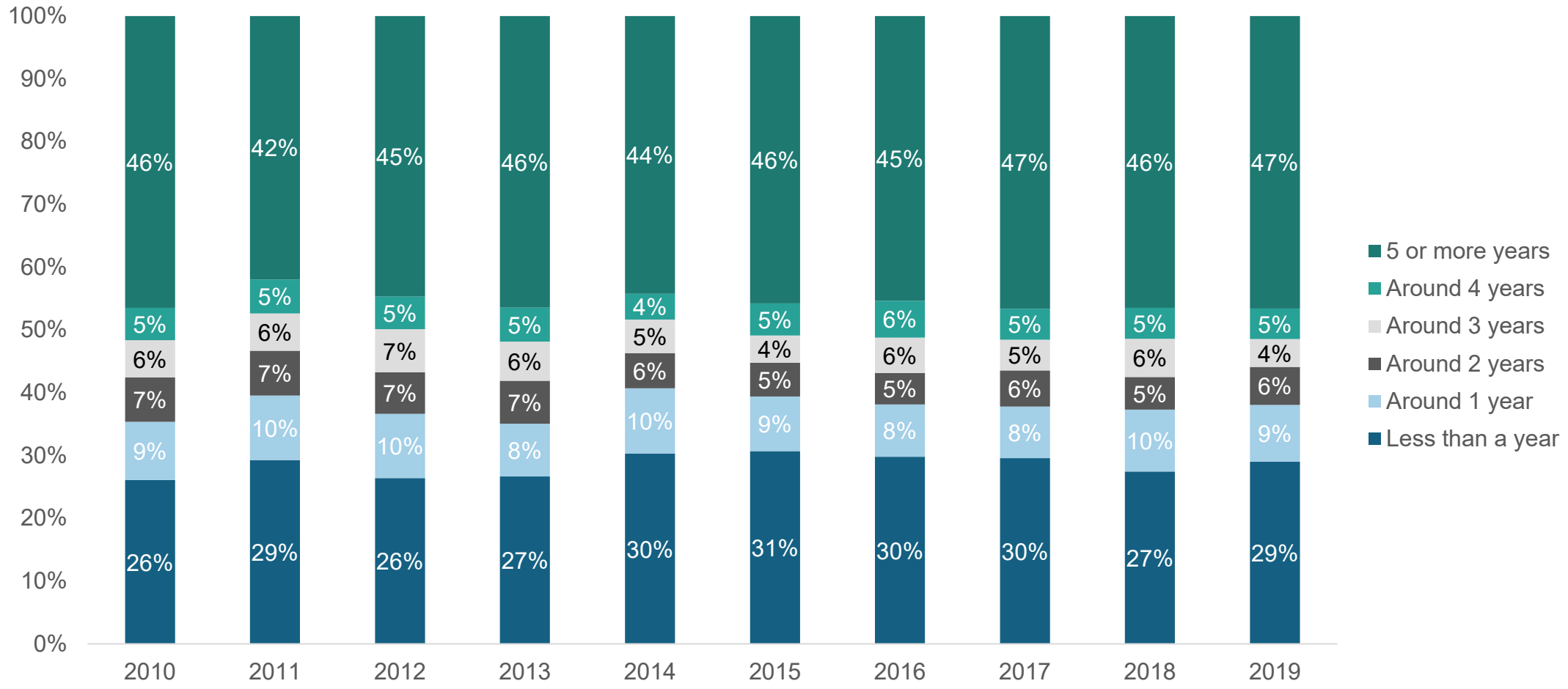
Each month around 1.3m individuals receive a private pension and were in employment with increases driven by women



Source: DWP analysis of 'HMRC Real Time Information' 2015-16 to 2024-25.

Where people work and receive a private pension in the same year, this seems to continue for 5 or more years

Analysing for **how long people receive a private pension whilst in employment**, this tends to most commonly be either within the same financial year (suggesting mid-year retirement) or for 5 or more years. Analysis suggests this is happening across all earning bands.



Source: DWP analysis of 'RAPID' 2010-2019

Choices around the age that people access their pension impacts the rate of saving needed

Using DWP's iPEN model, it is possible to estimate the required contribution level needed to achieve a Target Replacement Rate in retirement. This shows the impact of accessing a pension early as the individual faces **reduced contribution levels, investment returns over a shorter period of time, and having to sustain an income over a longer period of time.**

An average male earner would currently need to save at around **9% of qualifying earnings** over their entire career from age 22 to State Pension age to reach their TRR. However, if they accessed their pension at age 57, this would increase to 22% of qualifying earnings.

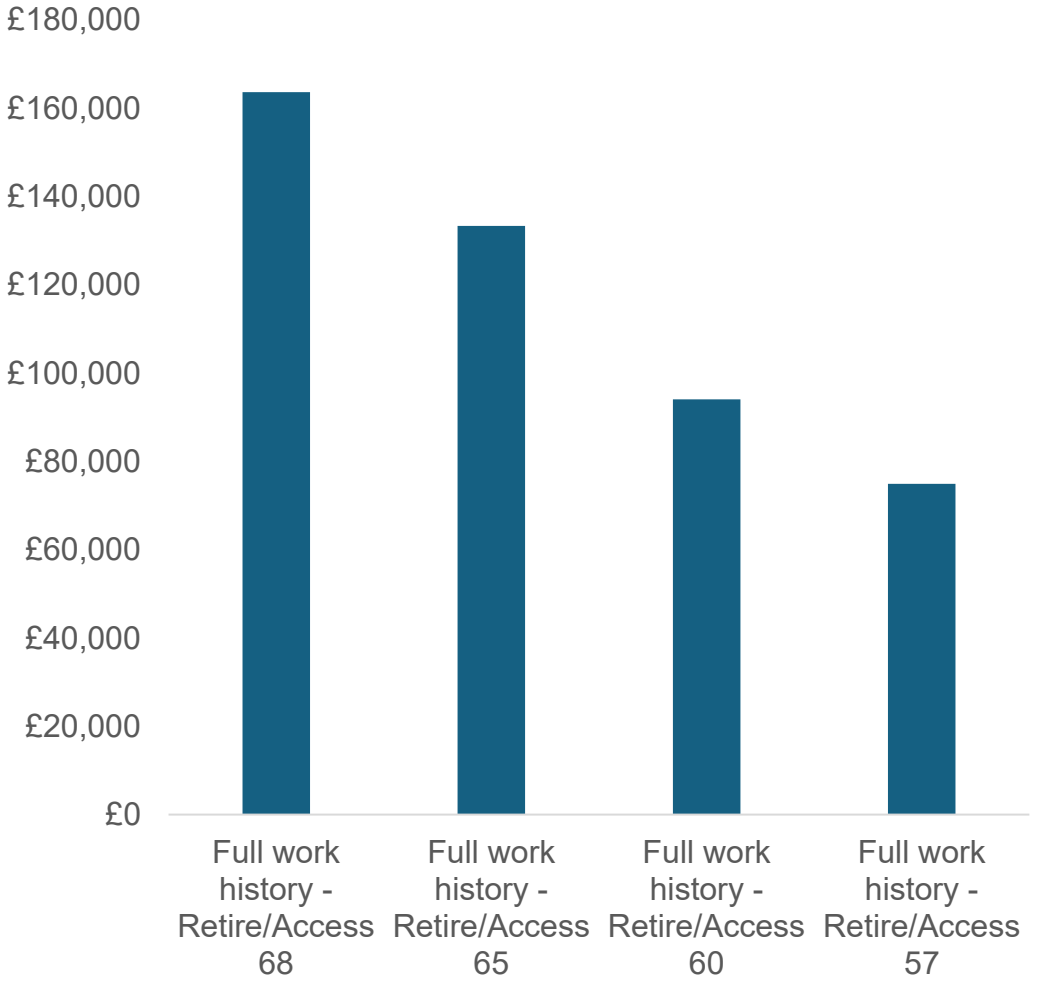
Required contribution rates to achieve annual income from private pension saving, dependent on age of access, for a male median earner born in 2002 using iPEN 2024 model

	Qualifying earnings			Full earnings		
Annual Income from Private Saving	Retire at… Age 57	Age 60	Age 65	Retire at… 57	60	65
£7,500	17%	13%	8%	14%	11%	7%
£10,000 – meets TRR	22%	17%	11%	18%	14%	9%
£12,500	28%	21%	14%	23%	17%	12%

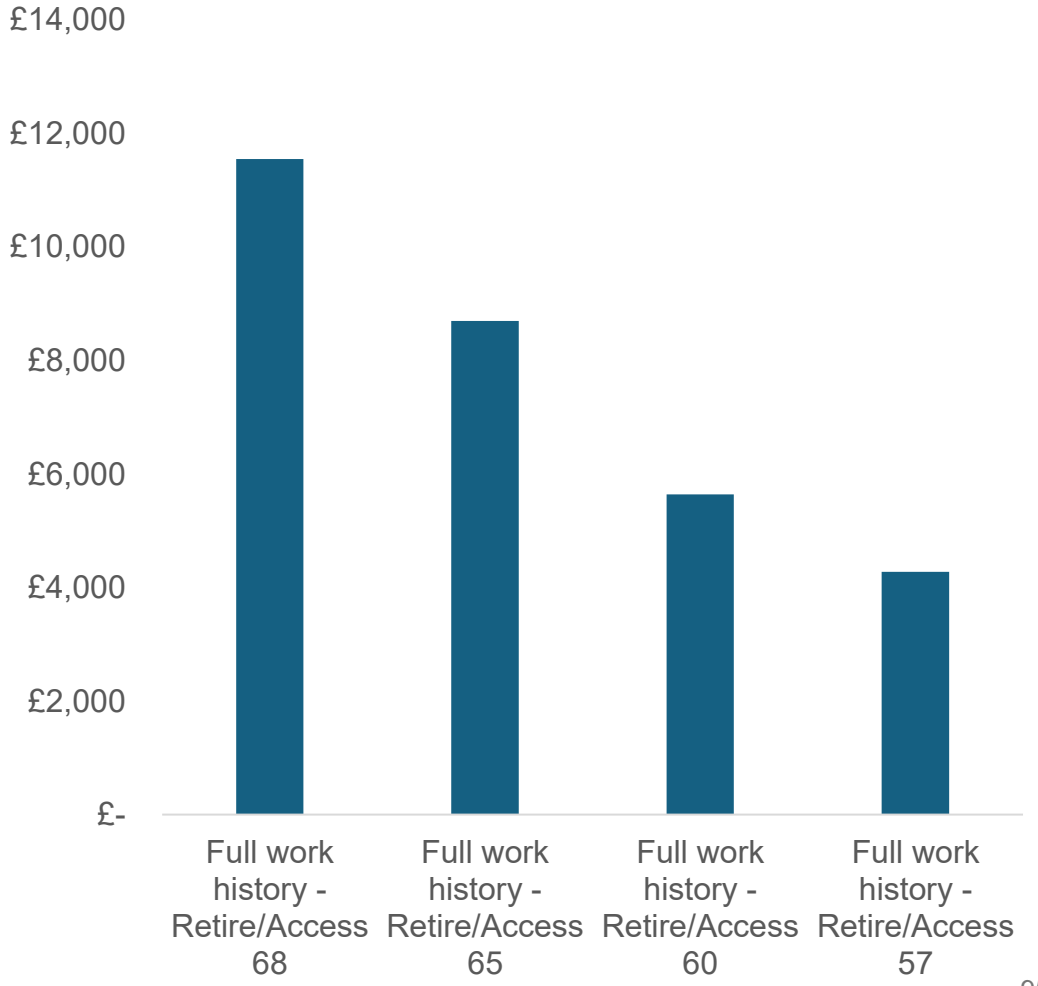
Source: DWP Modelling using IPEN – see Methodology 2.

Longer working lives benefit the economy through enhanced productivity and higher tax intakes, but also hugely impact individual adequacy

Retiring at 57 compared with 68 reduces a pension pot by nearly 55% for an average male earner...



…which leads to lower annual incomes as the value of an annual annuity is significantly lower

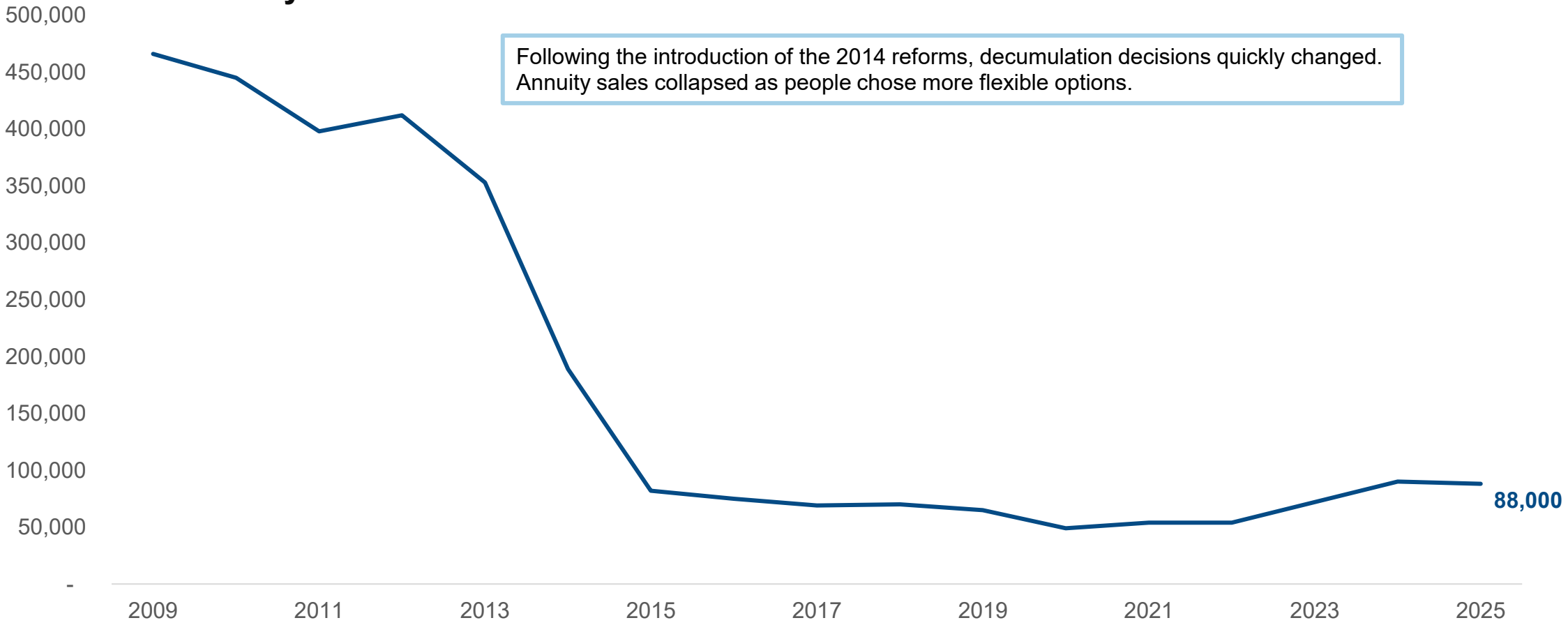


Source: DWP Modelling using IPEN for an average male earner - see Methodology 2.

Section I: Decumulation as a driver of adequacy

There has been a sharp decline in annuity sales since the 2014 reforms were introduced

Number of annuity sales over time

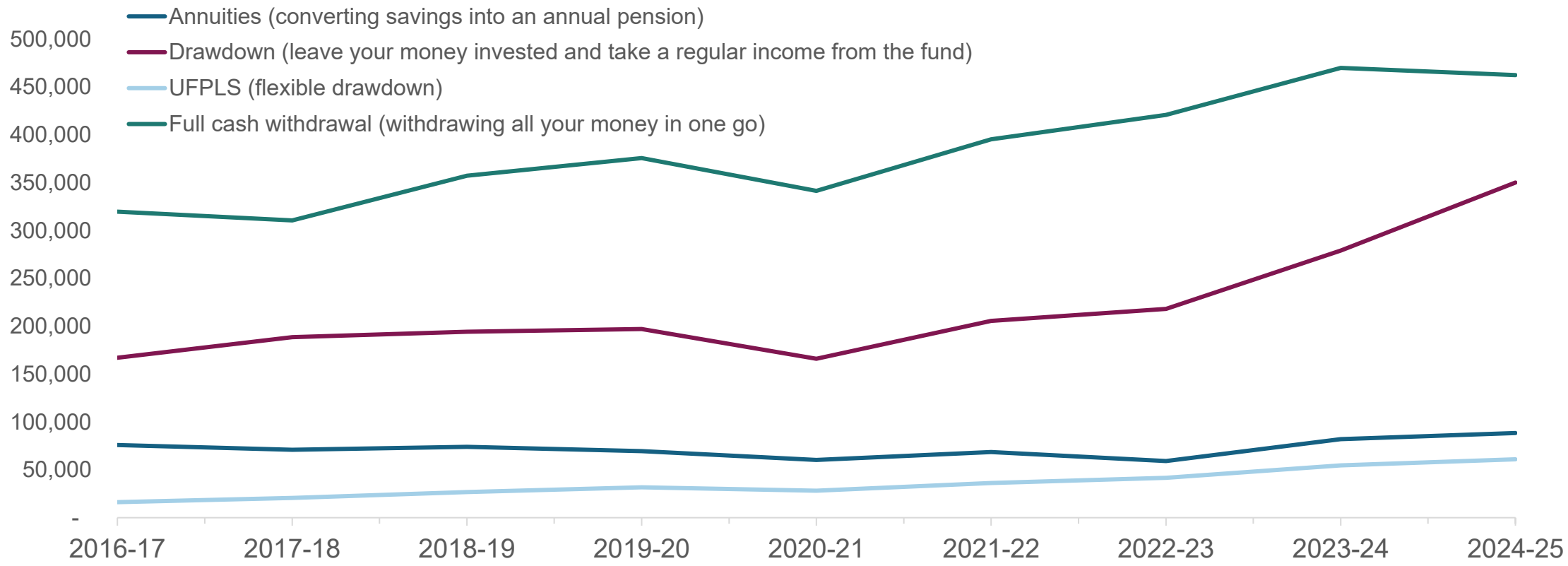


Source: DWP analysis of ABI 'Quarterly Pension Annuities by Age and Size of Fund' 2026. Data captures nearly the whole market.

Around half of pension pots are accessed for the first time through full cash withdrawals

Type of access is strongly correlated with pot size with over 80% of pots worth less than £10,000 being fully encashed compared to just 3% of pots worth over £100,000.

Around half of pension pots accessed for the first time are through full cash withdrawals…



Source: FCA (2025). 'Retirement income market data 2024-25'

Following the decline of DB and shift away from annuitisation, longevity risk has been transferred to the individual and represents new challenges

Longevity risk is the risk that someone outlives the length of time expected or budgeted for or dying earlier than expected.

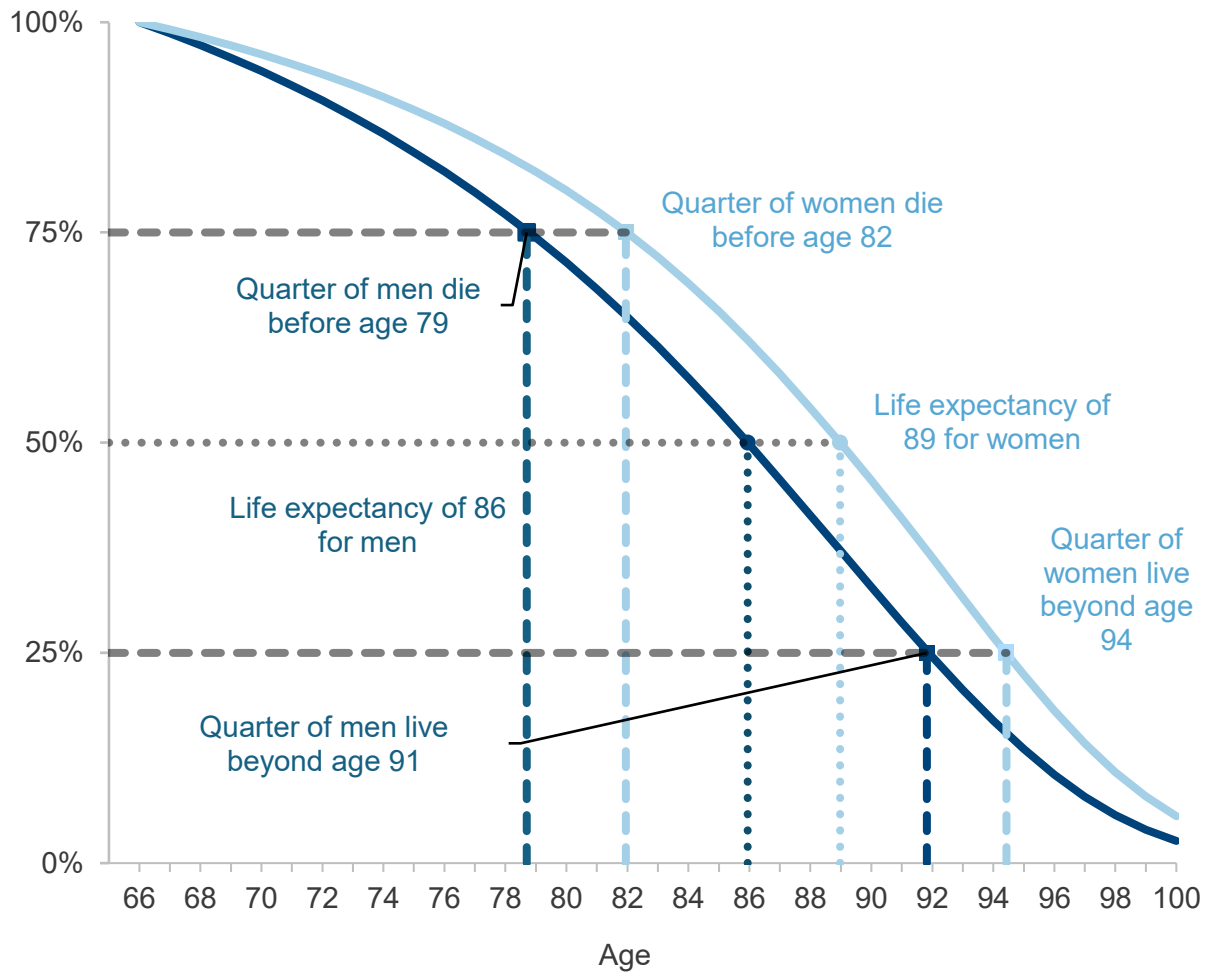
In a DB system, this was managed for individuals by employers and previously in DC via the insurance industry when annuity purchase was more widespread.

But post the 2014 reforms, misjudging life expectancy poses a fundamental challenge to adequacy and sustainability.

Predicting life expectancy is challenging, and many fail to do so effectively, either tying their expectations to their families (parents) or linking it to milestone round ages - 70, 75, 80.

The variation of life expectancy further limits the individual's ability to make informed decisions. A woman retiring at State Pension age in 2025 has an average (median) life expectancy of around 89, but a 1-in-10 chance of reaching age 98.

Survival curve for those aged 66 in 2025, UK



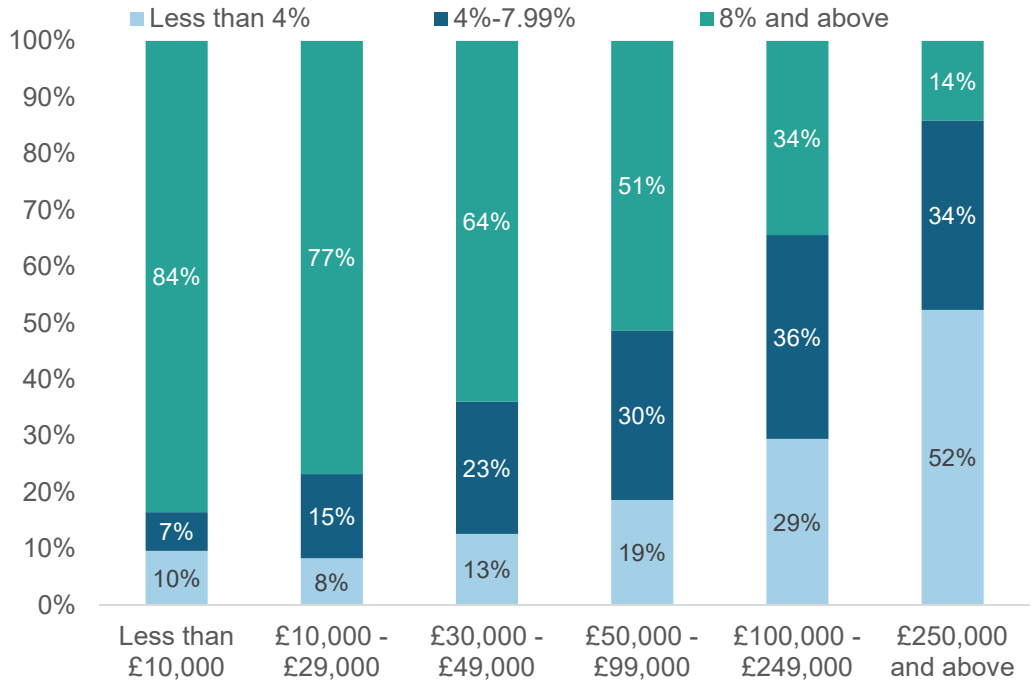
Source: DWP analysis of 'ONS, Life tables, 2022-based principal projection, UK'

Longevity risk involves individuals managing the DC pot over the course of retirement

Many smaller DC pots are accessed at unsustainable rates – this may be expected given their value.

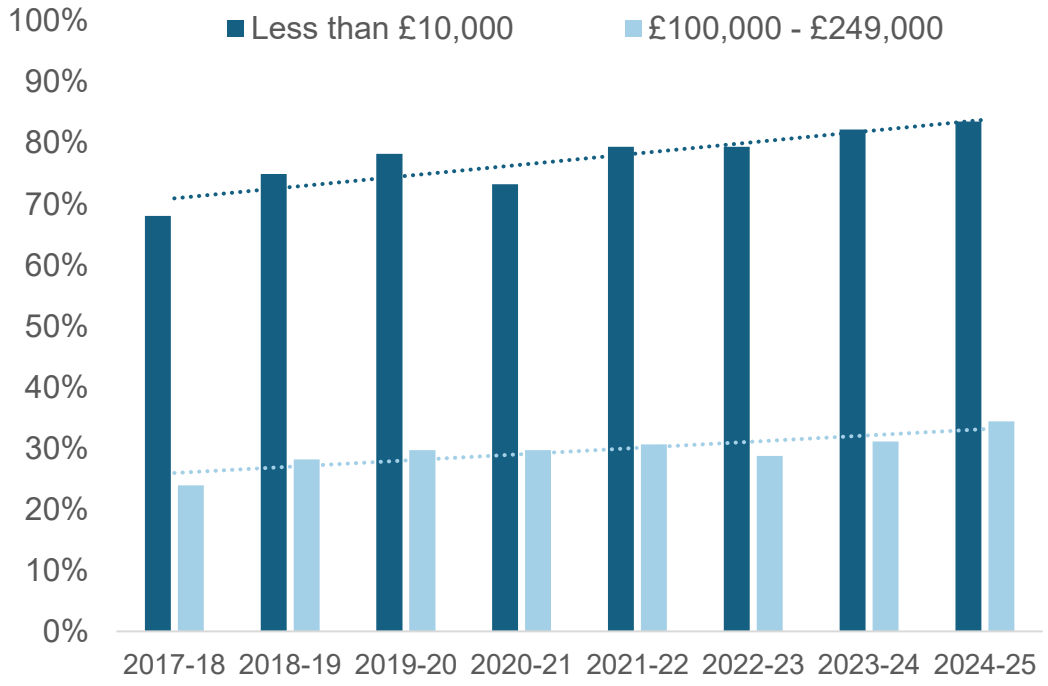
Around a third (34%) of pots between £100,000 and £249,999 are being accessed at a rate of 8% or higher – this could be generating an income but is beyond many established estimates of 'sustainable withdrawal rates'.

Annual withdrawal rates during 2024/25 for those making partial withdrawals (by pot size)



The proportions with smaller pots (less than £10k) and withdrawing at 8% or higher per year, has increased from **68%** in 2017/18 to **84%** in 2024/25. The proportions with larger pots (between £100k and £249k) and withdrawing at 8% or higher has increased from **24%** in 2017/18 to **34%** in 2024/25.

DC Withdrawals at 8% or above by pot size



Source: DWP analysis of FCA 'Retirement income market data' 2024-25.

Individuals now risk depleting their private pension ahead of their life expectancy

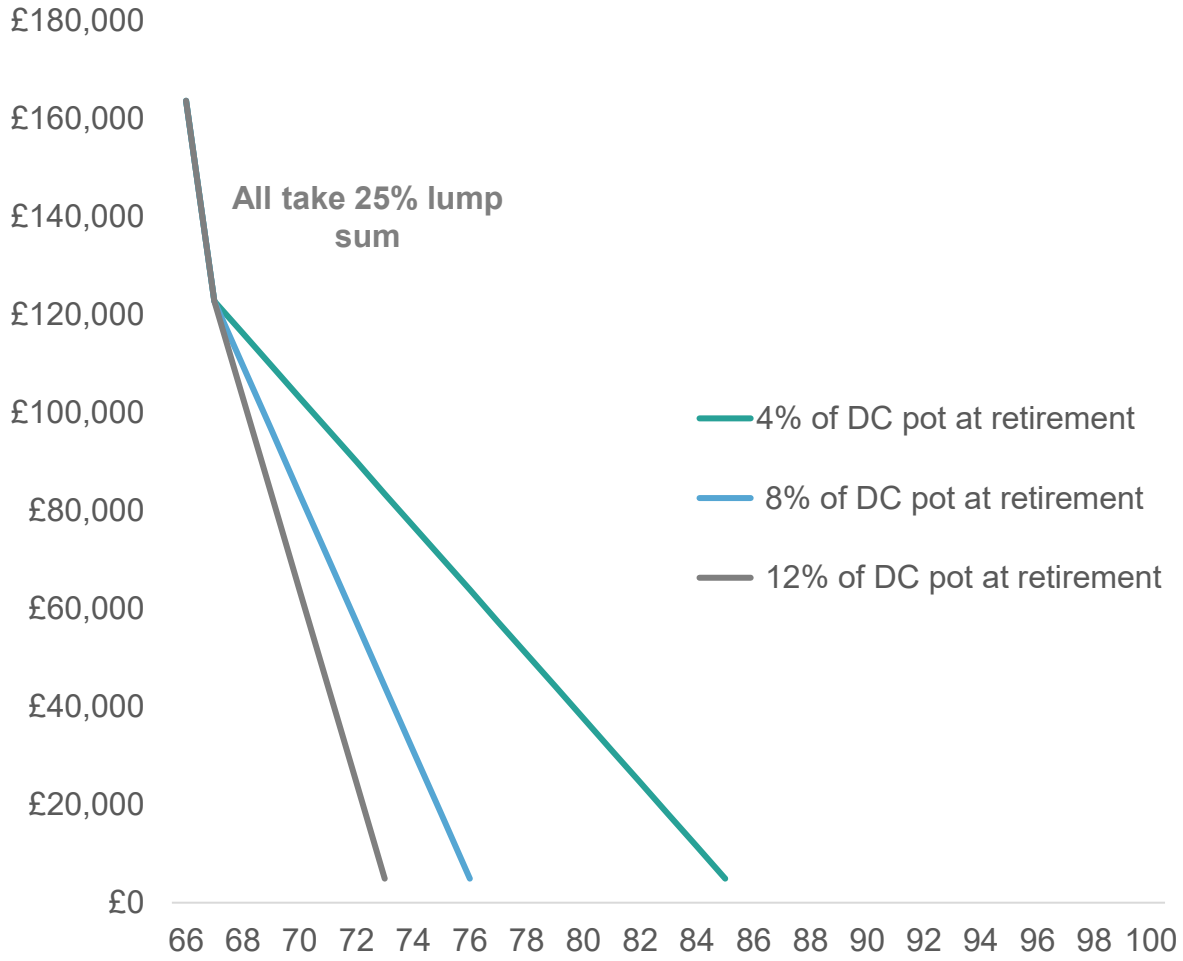
The rate at which to draw down a pension is a complicated financial decision for a saver to assess.

As an illustrative example, a £165,000 DC pot minus a 25% lump sum accessed at age 68 **could be depleted at around age 86 if withdrawn at a rate of 4%.** This is close to average life expectancy. However, withdrawing at 12% could mean the pot being depleted before age 74 .

This is significant given a woman retiring at age 66 in 2025 has a 1-in-10 chance of living until age 98. This could mean over a decade without a private pension income.

The use of the 25% tax-free lump sum can play an important role in supporting people over retirement. However, this is dependent on when it is accessed and how it is used.

A pension pot of £165,000 could be exhausted within a few years at 12% withdrawals or within 20 years at 4%

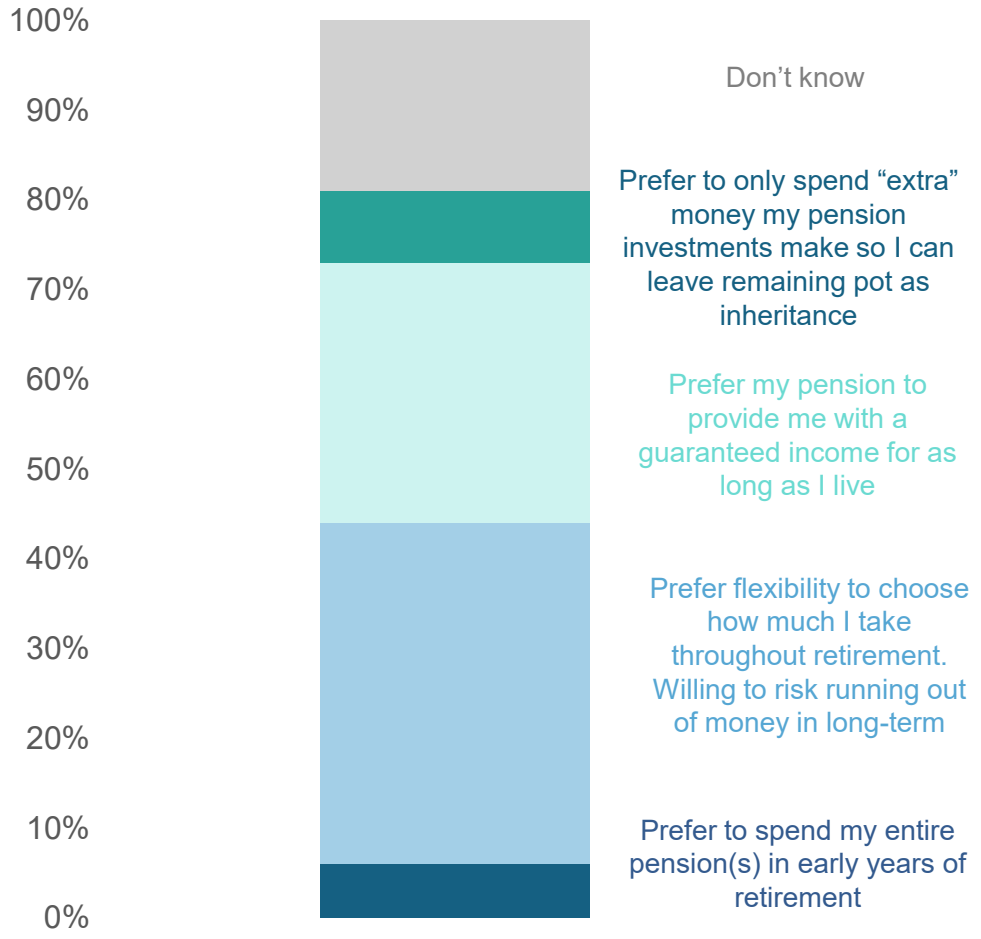


Source: DWP Modelling using IPEN – adapting for different drawdown options and assumes no real investment returns. See Methodology 2.

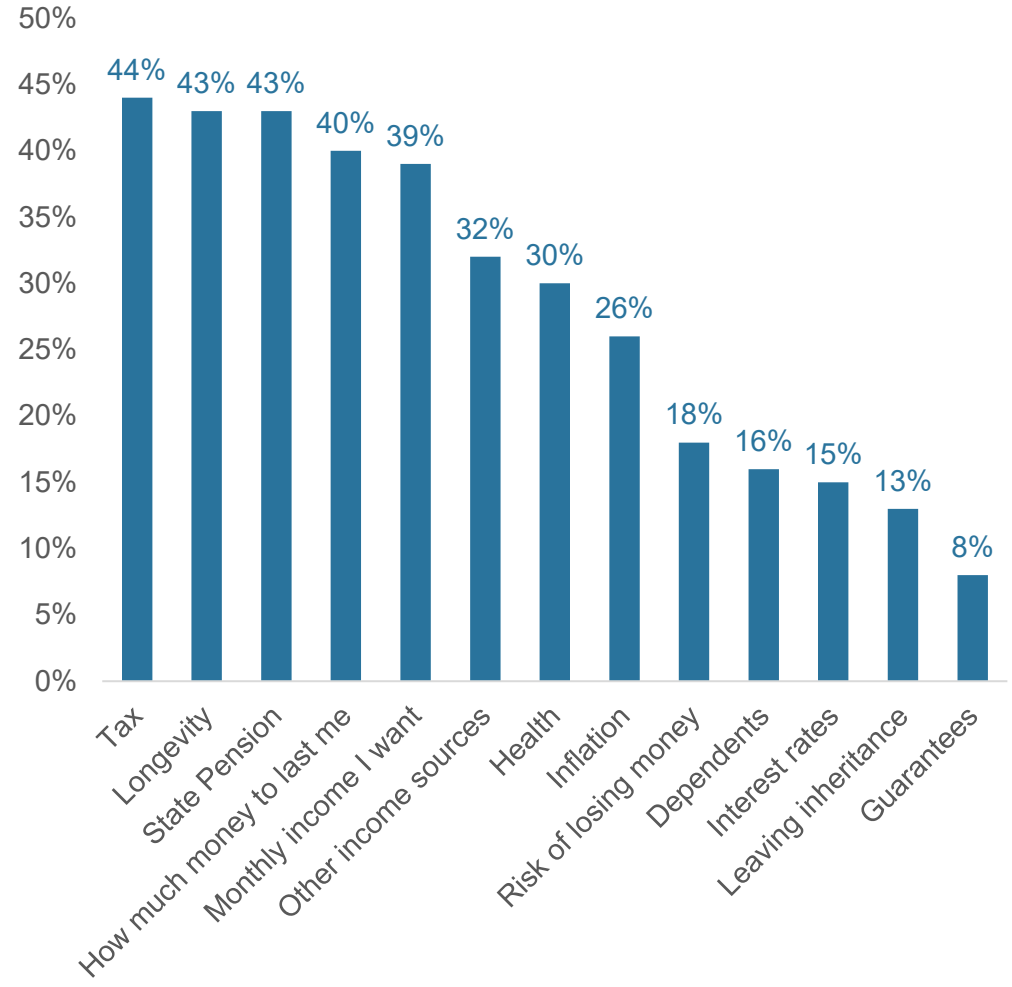
Some savers appear to understand some of the risks of spending all their pension pot too quickly, but this is not widespread

The Second Pensions Commission

For those who recently accessed a DC pot, there's similar proportions wanting flexibility and guarantees in their income, but around 1-in-5 don't know...



…with a range of factors being considered when people were choosing to take their pension



Source: DWP analysis of FCA 'Financial Lives Survey' 2024

Investment outcomes are now also a concern in decumulation

Since the 2014 reforms regarding pensions access, **investment risk management is now a necessary feature** of decumulation, given the decline in annuity sales which provide a guaranteed income for life. Individuals remain 'responsible' for this given they bear the investment risk.

Most pots remain invested in default funds. For those with no plans to access their pension wealth in the immediate future, default funds could be limiting growth potential.

However there remains wide variation in outcomes, both in growth and risk exposure, for savers whose pots remain invested into retirement.

Investment returns in-retirement have been volatile in recent years with large differences across providers

Source: DWP analysis of 'Corporate Adviser Workplace Pensions into Retirement' 2025

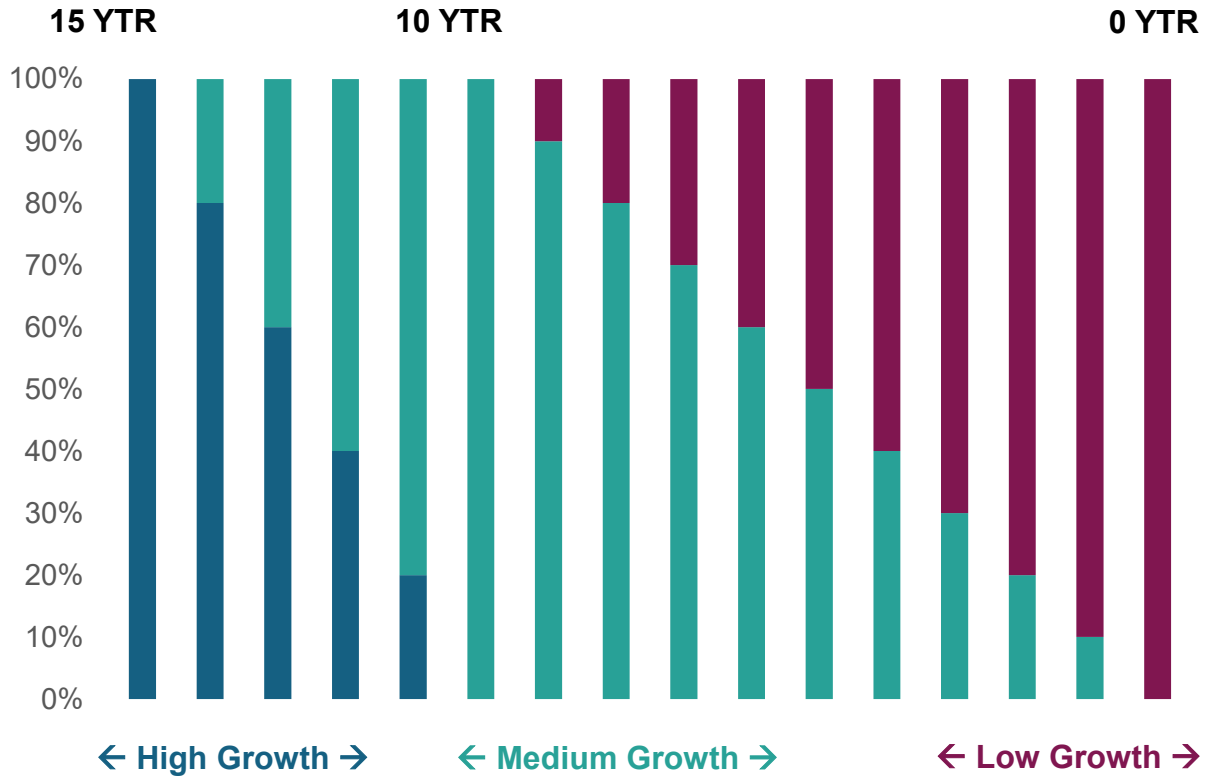
Schemes manage investment risk and stability by ‘lifestyling’ their members’ assets, this could help reduce risk but limit investment returns

Lifestyling or the use of a ‘glidepath’ are terms to reflect a gradual de-risking of assets, so movement in portfolios that aims to ensure stability against market shocks as the saver nears retirement and plans to access their pension pot.

De-risking begins on average around **15 years before retirement age** – influenced by target retirement dates, as well as the Normal Minimum Pension Age where savers *could* begin to access their pensions before their designated ‘target retirement data’.

Glidepath lengths vary widely across providers. DWP’s Pension Provider Survey found a maximum glidepath length of 24 years and a shortest of 5 years.

Lifestyling involves moving investments towards lower risk & lower growth assets…



Source: DWP Modelling using IPEN and ‘Pension Provider Survey’ 2024/25. See Methodology 2.

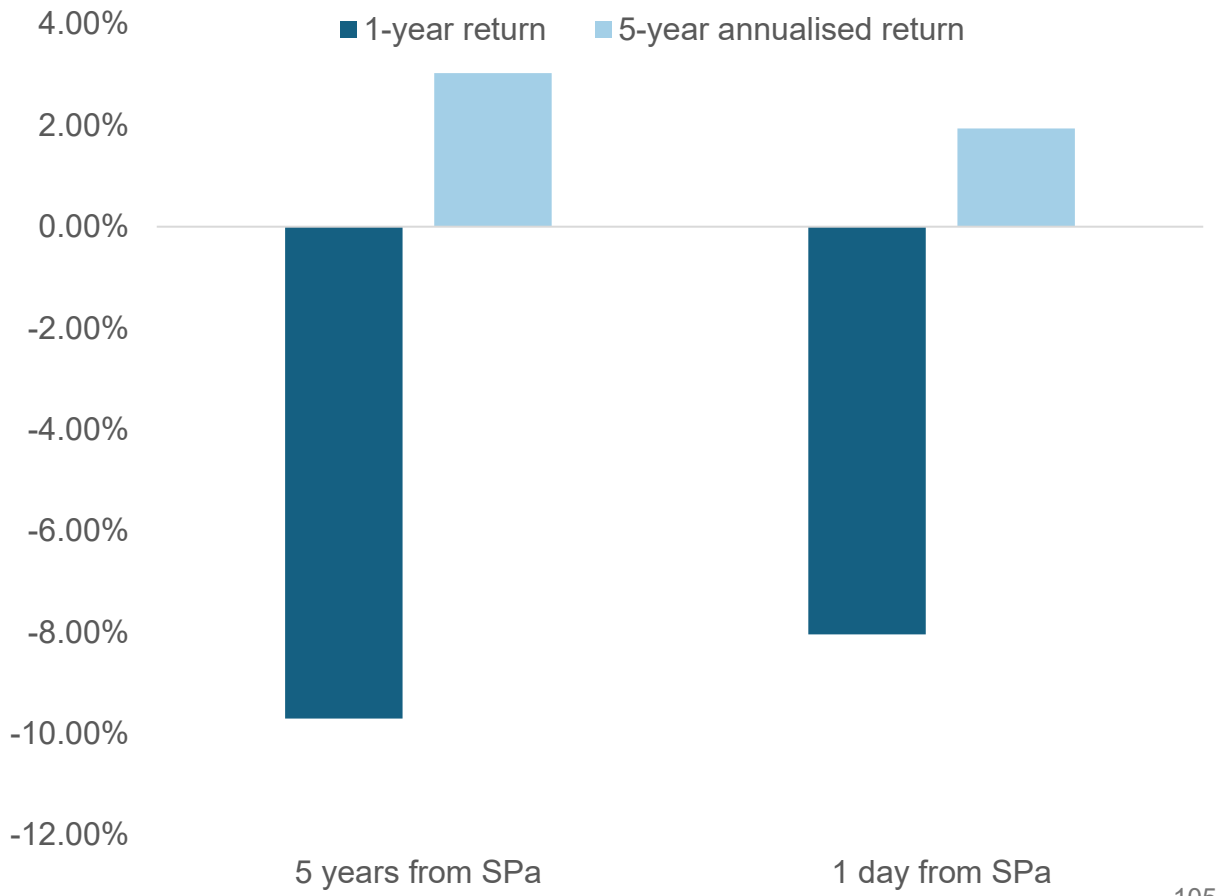
Timing can have huge impacts dependent on when exiting a pension/retiring – economic challenges in 2022 highlight the impact timing can have on adequacy

Savers approaching retirement in 2022 saw large declines in the value of their DC pension pots over the course of the year. This was due to market instability.

Savers 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% across the year.

This is despite each 'cohort' of savers seeing their de-risking strategies return positive numbers over the last 5 years on average (light blue bars) – period averages (that no *one* saver experiences) can mask singular periods where savers are hit by timing risk.

On average, DC de-risking strategies have 'done their job' (preserved capital roughly in line with inflation), however *5-year averages can mask singular periods* where de-risking strategies would have left affected savers worse off.

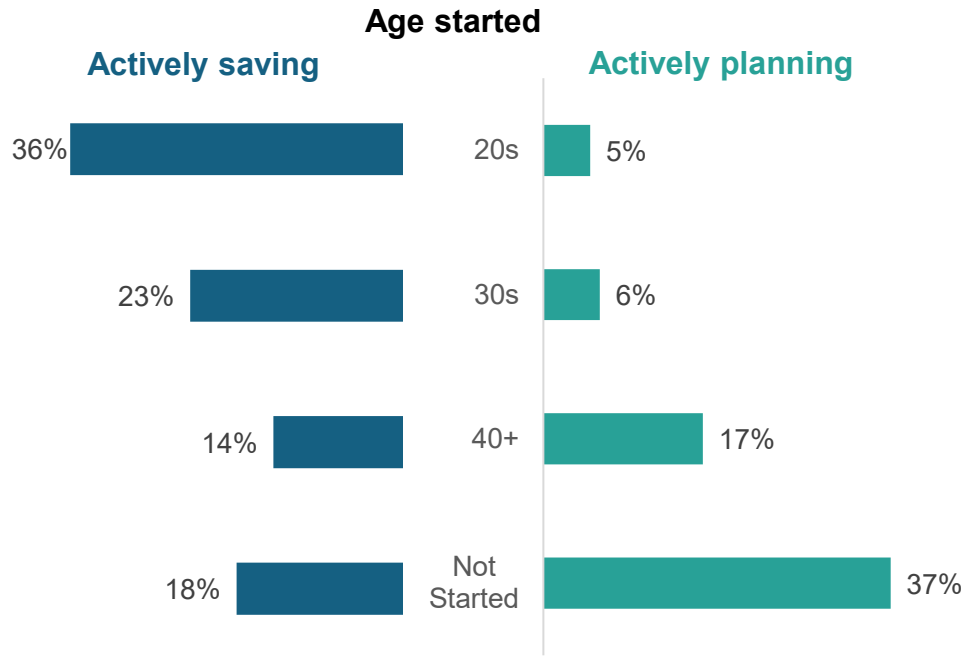


Source: DWP analysis of 'CAPA data' and DWP internal modelling.

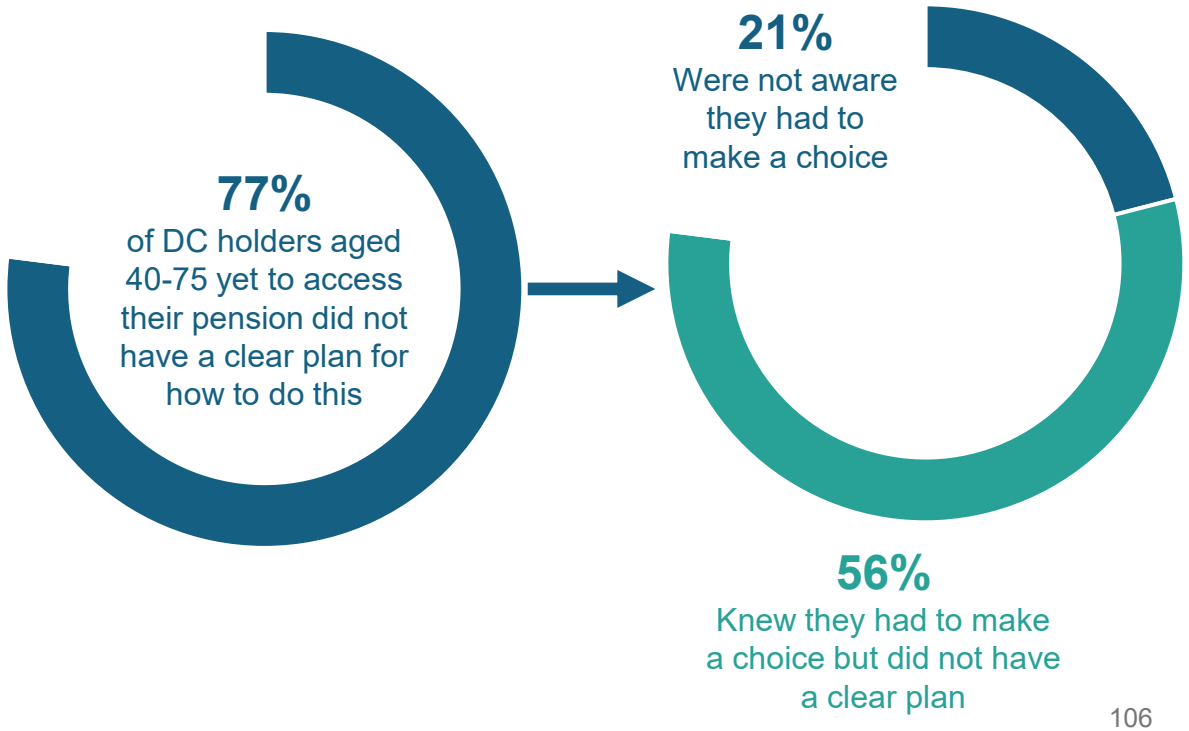
People do not engage with their pensions. Around 3-in-4 people have no clear plan on how to access their pension.

This **clear disconnect between inertia and engagement at different stages of the pensions journey** means many are unprepared for retirement decision-making. Research found 77% of DC pension holders aged 40-75, yet to access their pension, did not have a clear plan on how to do this (and 21% were not even aware they had to make a choice).

Although people start saving in their 20s and 30s, people generally don't start planning until much later, if at all…



… meaning few DC pension holders have a plan for how to access their DC savings



Source: DWP (2025) 'Planning and Preparing for Later Life 2024'.

Inflation risk is another challenge, particularly for individuals in decumulation and few people protect themselves against this

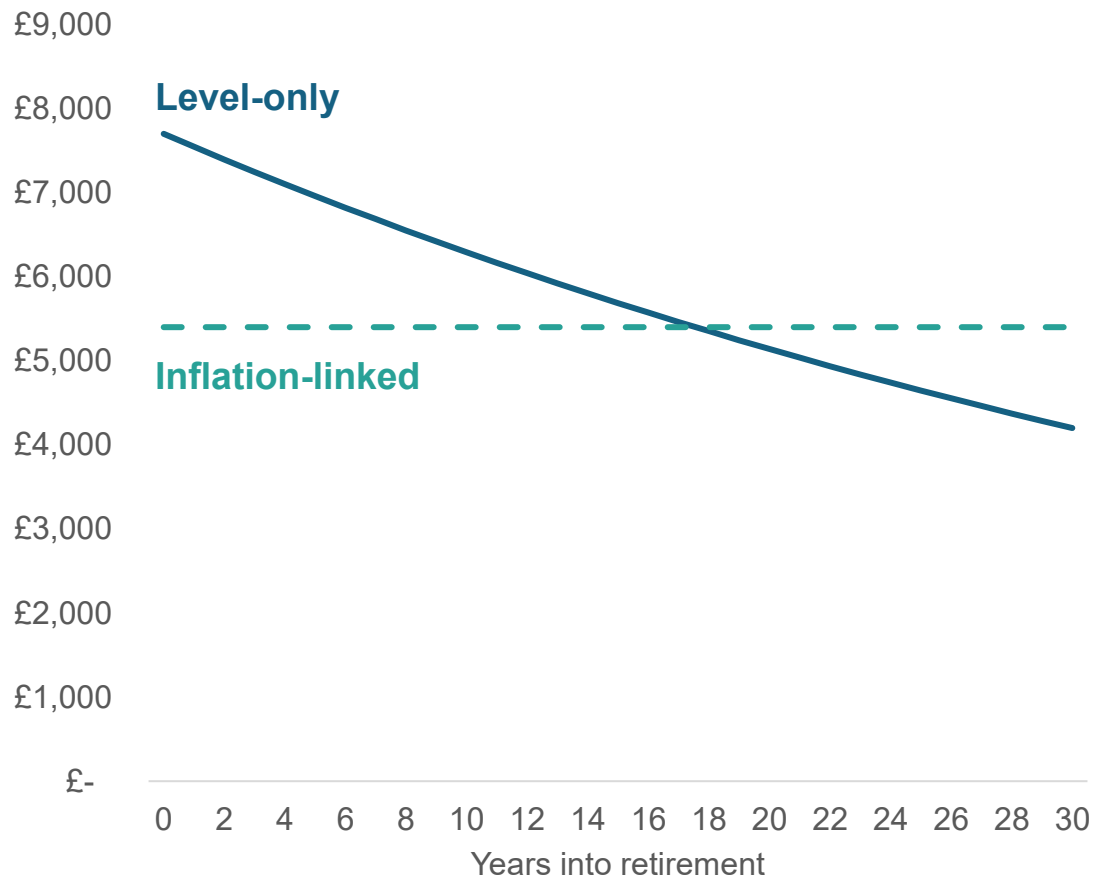
Inflation risk is the risk the pension value will decline in real terms as the income does not rise in line with the cost of living. In accumulation, this requires good investment performance. In decumulation it becomes more dependent on individual decision-making on how their pot is accessed.

Since the 2014 reforms, annuity sales have fallen to around 10% of pots accessed in 2024. Of this 10%, **80% were 'level only' meaning they do not rise with inflation.**

However, index-linked annuities may look expensive. 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.

Assuming 2% inflation, the inflation-linked annuity would 'pay off' and be worth more than the level-only annuity after 18 years of retirement, despite the lower starting value as the level annuity loses real value each year.

Assuming 2% inflation, a level-only annuity at retirement would be worth less than an inflation-linked annuity after 18 years

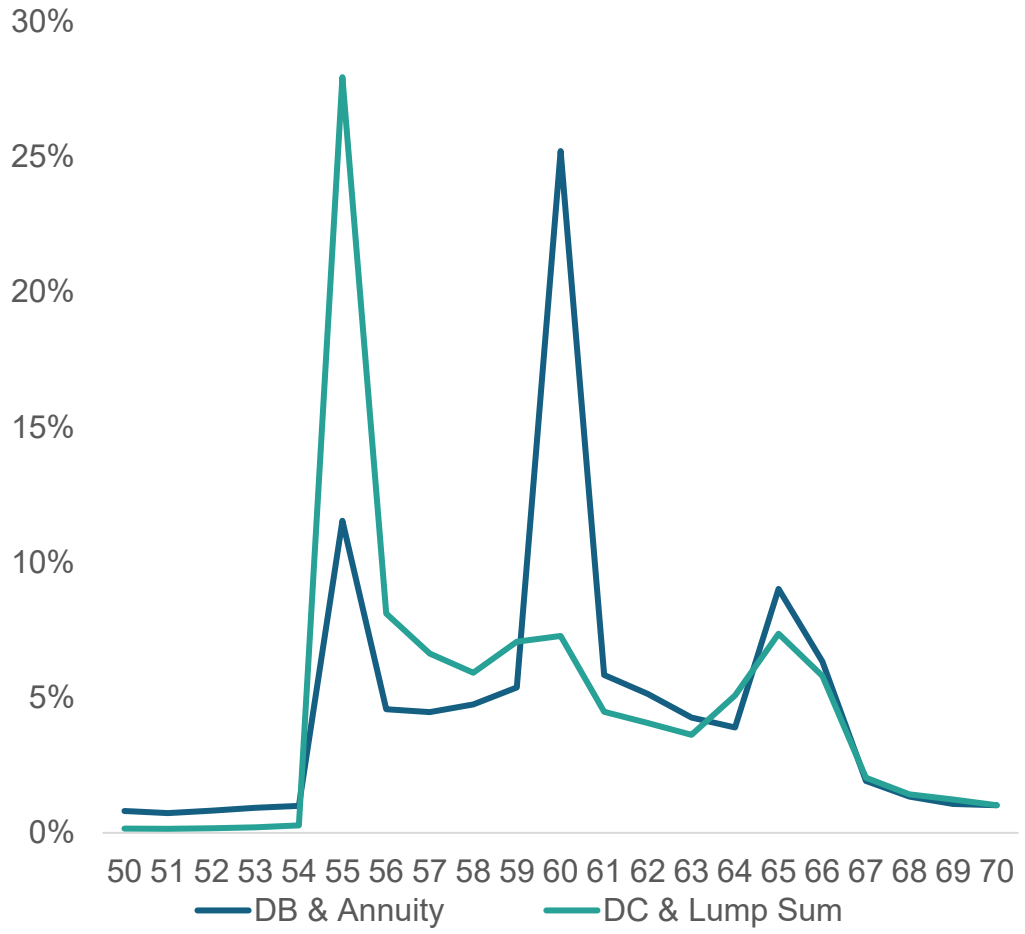


Source: FCA RIM / Hargreaves Lansdown annuity rates / New Choices, Big Decisions 2024

Figure is DWP calculations assuming 2% inflation with £7,700 (level) and £5,400 (linked) starting annuity values

People access their pension commonly around NMPA and SPa, and this differs by private pension type. These slightly differ from 'ideal' and 'expected' retirement ages.

Age of access (2024/25) for those receiving a private pension payment for the first time is different between DB and DC pensions



Source: DWP analysis of analysis of 'HMRC RTI Pensions Data', 2009-2024.

DWP survey analysis finds that, for 40-75 year olds, the median **expected retirement age was 66** whereas the median **ideal retirement age was 60.** This was consistent across income groups. More often people expected to retire later than their ideal age, but many of those already retired left the labour market earlier than they wanted to.

Ideal and expected ages of retirement and, of those accessing a pension, the average age accessed (40-75 year olds)

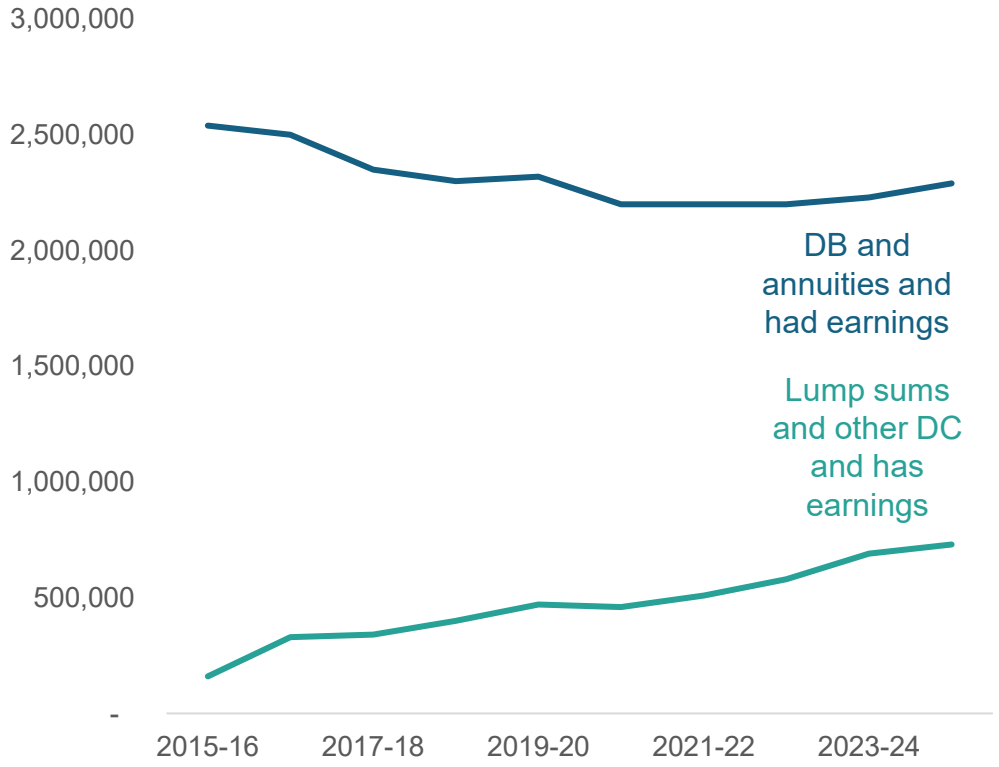
Source: [DWP (2025) Planning and Preparing for Later Life 2024.]

Evidence suggests people may be maintaining a similar standard of living using their private pension to "top up" their income

Looking at earnings in the year before accessing a pension and in the following year, this shows they fall by around 20% after accessing – suggesting people may be working less.

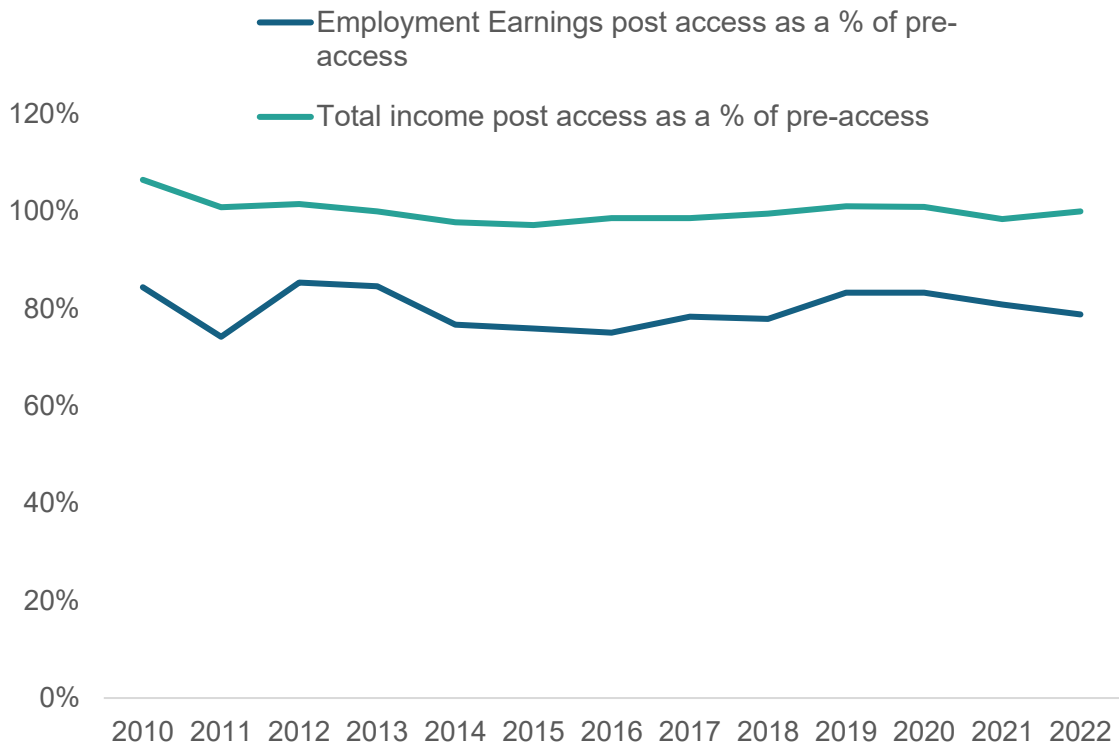
However, comparing total incomes (which includes private pension income and other benefits) then people's incomes pre and post access look broadly the same. Perhaps suggesting people are topping up lower hours via a private pension.

Numbers receiving private pension income and employment over time



Source: DWP analysis of 'Workplace pension participation statistics' 2019-24

Comparisons of earnings/income pre and post access by year of access



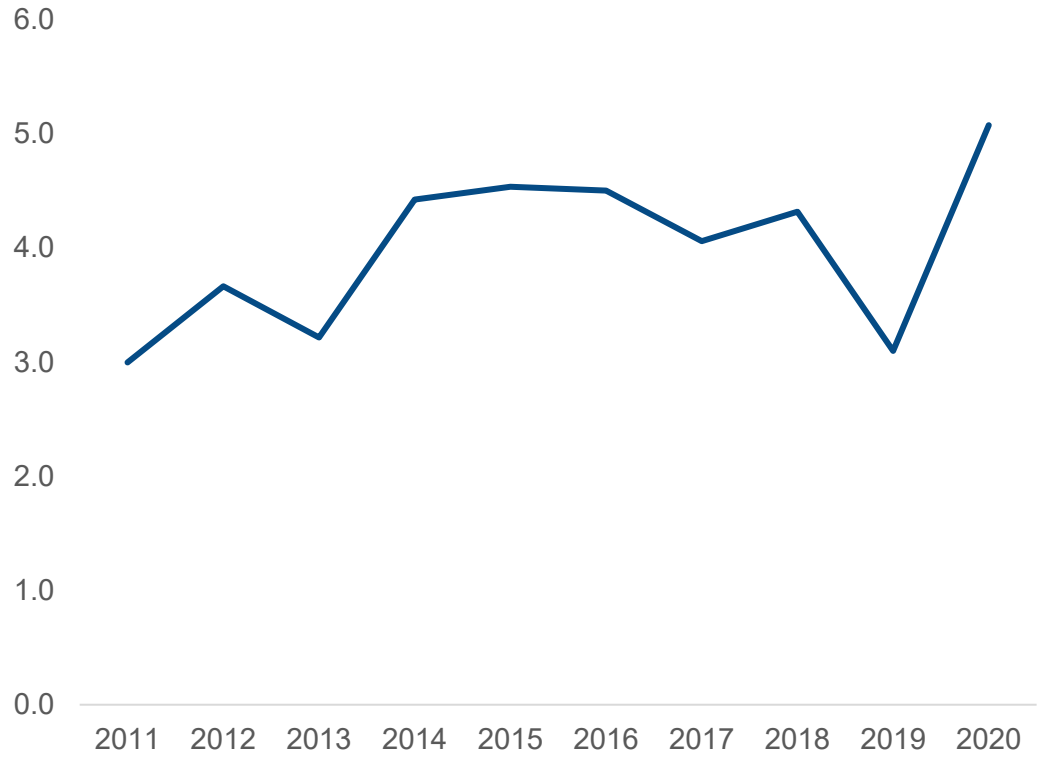
Source: DWP analysis of 'RAPID & ONS (2025) 'Annual Survey of Hours and Earnings'. See Methodology 6.

Once people access their pensions when working, on average, there is a decline in hours worked

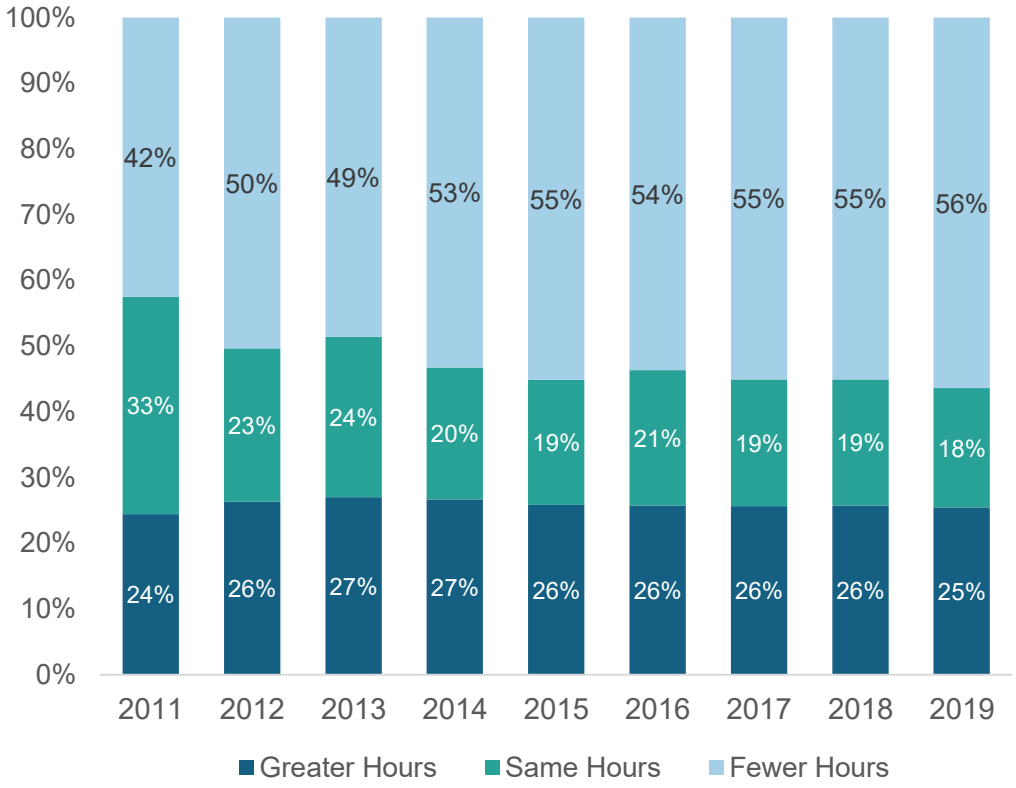
The Second Pensions Commission

ASHE data is used to look at the number of hours worked pre and post access. This suggests the average reduction of hours worked is around 4 hours and over 50% reduce their hours. However, there are smaller %s who keep the same hours or increase their hours. If assessing only those who lowered their hours – the average reduction is around **10 hours a week.**

The average mean reduction in hours post private pension access for those still working is around 4 hours…



…with around half of people working fewer hours



Source: DWP analysis of 'RAPID & ONS, 'Annual Survey of Hours and Earnings, 2024'. See Methodology 6

Methodologies

This section contains high level summaries of how analysis has been carried out.

1. Methodology – Modelling adequacy using Pensim3

Year

This is a dynamic microsimulation model which uses a survey and administrative data starting point to project forward from 2018 to 2100. Analysis spans from the 2020s-2060s, with a particular focus on the outcomes in the 2050s.

Geography / coverage

Pensim3 covers Great Britain and cannot produce regional or country splits.

Methods

To explore possible futures under sets of controllable assumptions and scenarios, the DWP uses a dynamic micro-simulation model, Pensim3. Different variations of the definitions of wealth that are included in retirement income have been tested.

Pre-retirement income is an average of positive earnings received aged 50-Spa.

Retirement income is an equivalised average of annuitised pension and some benefit income an individual receives throughout their retirement.

All results are in 2023 earnings terms.

Three State Pension uprating scenarios are presented with alternative trajectories for the Triple Lock, based on earnings and inflation outcomes over different periods within the past three decades, in line with OBR's 'Fiscal risks and sustainability report'

Caveats

There are a large number of assumptions used to support the model. These are outlined in detail here: Analysis of Future Pension Incomes 2025 - GOV.UK

2. Methodology – Modelling adequacy using iPen

Year

iPen allows individual case studies to be created so the year depends on the case study, for example an individual born in 2002 retiring at age 68.

Geography / coverage

Relevant to United Kingdom, but the case studies do not have a specified country or region.

Methods

a. Each individual saves into a defined contribution scheme with an annual management charge of 0.3% and a contribution charge of 1.8%.

b. Each individual contributes 5% and their employer contributes 3%.

c. Each individual's fund is invested in 88% equities and 12% bonds with real fund growth of 4.07% and 2.39% respectively.

d. Each individual retires at State Pension age of 68.

e. The automatic enrolment earnings trigger, lower earnings limit and upper earnings limit are frozen until 2028 and then increase in line with earnings over the long-term.

f. Each individual does not opt-out of pension saving.

g. For National Minimum/Living Wage (NLW) earners the individual continues to make pension contributions whilst working part time, even though their earnings drop below the £10,000 earnings trigger. This is in line with the AE framework, assuming they continue to work for the same employer.

h. Full time employees work 37 hours per week whilst part-time employees work 18.5 hours per week.

i. Each individual's earnings increase in line with average earnings growth. The final pension pot size is reported in 2024/25 earnings using the Average Weekly Earnings growth deflator.

j. Where earnings have been reported, these are the current values. For the NLW/NMW earner aged 40 years, earnings in previous years were decreased in-line with average earnings. This means that income in previous years may not match the NLW/NMW figure for that year.

k. Earnings in the first-year employment are increased in line with average earnings growth.

l. The median annual salary for a female working full-time is £31,672 (Source: ASHE 2023).

m. The median annual salary for a male working full-time is £37,382 (Source: ASHE 2023).

n. Salaries for individuals on NMW/NLW are calculated by hourly rate multiplied by weekly hours worked multiplied by 52.

o. Results are presented in today's earnings terms.

Caveats

There are a large number of assumptions used to support the model. These are outlined in detail here: Analysis of Future Pension Incomes 2025 - GOV.UK

3. Methodology – Modelling poverty using Pensim3

Year

This is a dynamic microsimulation model which uses a survey and administrative data starting point to project forward from 2018 to 2100. Analysis spans from the 2020s-2060s, with a particular focus on the outcomes in the 2050s.

Geography / coverage

Pensim3 covers Great Britain and cannot produce regional or country splits.

Methods

Analysis of Pensim3 outputs compared incomes after State Pension age (SPa) to a forecasted poverty line, based on HBAI to 2023/24 and increased by earnings growth.

Pensioner incomes and poverty estimates were assessed at before housing costs (BHC) level, and after housing costs (AHC), underpinned by an estimate of housing costs based on tenure type, age and income quintile.

The proportion of pensioners in low income households has been aligned to HBAI, and analysed by population demographics.

Three State Pension uprating scenarios are presented with alternative trajectories for the Triple Lock, based on earnings and inflation outcomes over different periods within the past three decades, in line with OBR's 'Fiscal risks and sustainability report' published in July 2025: the Central projection, More volatile and Less volatile.

4. Methodology for State Pension amounts analysis using Work and Pensions Longitudinal Survey

Year

Latest data – 2024

Longitudinal analysis - 2016 to 2024

Geography / coverage

UK wide

Method

100% sample of DWP administrative data, dataset underpins published State Pension data.

Caveats

As an administrative source, coverage depends on system contact and reporting rules, and earnings data may be incomplete for very low-paid employment. Geographic variables reflect recorded administrative addresses and are not designed for fine-grained spatial analysis.

5. Methodology – RAPID analysis of adequacy, assessing empirical replacement rates

Year

RAPID – DWP's administrative dataset has been used to analyse individual pre and post retirement incomes, for those resident in the UK, looking across 2008 to 2024. The analysis uses the 5% RAPID sample.

Geography / coverage

UK.

Methods

The analysis covers those reaching State Pension age in a given year (from 2013 to 2019 due to data availability).

Post retirement incomes are defined as the average of 5-years worth of State Pension and Private Pension income post State Pension age. Only those with positive values in all 5 years were included. Pre-retirement incomes are defined as the average of 5-years worth of employment and self-employment earnings prior to State Pension age. Earnings are adjusted to today's earnings terms.

Caveats

A number of extreme outliers were removed. The analysis only considers pension income; it does not include further financial wealth or investment income. Only those with positive values were included, this means that those who retire early are excluded. The analysis is limited to looking at retirees in 2013-2019, given the data covers 2008-2024.

6. Methodology – RAPID and ASHE analysis on employment and pension income

Year

RAPID – DWP's administrative dataset has been used to analyse individual pre and post retirement incomes, for those resident in the UK, looking across 2008 to 2024. The analysis uses the 5% RAPID sample with ASHE (1%) sample.

Geography / coverage

GB

Methods

The analysis defined accessing a private pension as having 2 continuous years of positive income from a private pension whereas previously this was 0.

Being in employment was defined as having at least 1 working week in the financial year.

The analysis looked at the year before and year after accessing a pension to compare the total income levels and basic hours worked (with the exception that, where the employment length was over a year, comparison post access was to year 2).

Caveats

Data is more limited when assessing ASHE variables as this is a 1% sample. (a) As the data works on a financial year basis, the crossover between employment and access may be quite limited. (b) Private Pension access could be just a lump sum rather than necessarily an income. (c) The data is more limited when assessing ASHE variables given it becomes a 1% sample. (d) Measurement of increasing/decreasing hours are also binary – therefore movements or changes in data rounding could lead to being captured as changing hours.

7. Methodology for analysis of the characteristics of low earning employees using Understanding Society

Year

Latest data – 2023/24 (wave 15).

Cross-sectional analysis of Household Longitudinal Study:

- 2022/23 data is used (wave 14, as this is the latest wave where pension participation questions were asked).
- Analysis also draws on prior waves to test whether employees either (a) earned over £10k when aged 55 or (b) are female and earned over £10k before having children.

Geography / coverage

UK wide.

Method

Data is weighted using cross-sectional weighting variables.

Caveats

Given the population analysed is very small (employees earning below £10k) sample sizes are relatively low. However, findings are similar when compared with prior waves.

8. Methodology for Self-Employed analysis using Labour Force Survey

Year

Latest data – Q3 2025

Cross-sectional analysis - 2000/2001 to 2024/25

Geography / coverage

UK wide

Method

~5,000 respondents in latest quarter.

Caveats

Some concerns regarding declining response rate in recent years, however sample sufficient to use latest data throughout presentation. Similarly, there should be some caution interpreting changes over time in the Labour Force Survey-based statistics due to changing sample sizes/composition in different periods.

9. Methodology for Self-Employed analysis using Understanding Society

Year

Latest data – 2020/21

Cross-sectional analysis – 2020/21 (drawing on previous waves for previous employment status)

Geography / coverage

UK wide

Method

The question routing of the data means response rates vary between 600 and 1700 self-employed individuals. Data is weighted using cross-sectional weighting variables.

Cross-sectional data looks at the latest data and draws upon the previous employment status from past waves (taking the earliest employment status available going back to 2009). Data is cross-sectionally weighted. Sample of self-employed ~800.

Caveats

Sample sizes are low in some instances, weighting for longitudinal applied uses cross-sectional weighting variable (similar results were achieved in unweighted and with longitudinal weighting applied).

Data with sample sizes of less than 100 have been omitted.

10. Methodology for Self-Employed analysis using Family Resources Survey

Year

Latest data – 2023/24

Cross-sectional analysis – 1998/99-2023/24

Geography / coverage

UK wide

Method

~2,000 respondents reported being part or full time self-employed.

Caveats

The primary caveat with the result lies with the net earnings data. Only one variable was used for these values – net earnings from self-employment. This is different to published FRS statistics which considers a wider definition of income, such as that earned from employment.

11. Methodology for Self-Employed analysis using Wealth and Assets Survey

Year

- Latest data – 2020/2022
- Cross-sectional analysis – 2006/08 to 2020/22
- Longitudinal analysis – 2014/16 to 2020/22

Geography / coverage

- GB wide.

Method

- ~1800 respondents reported being self-employed in latest round (2020/22).
- Longitudinal sample is made up of those aged 40+ to capture those nearing retirement age whilst accounting for sample size.

Caveats

- Sample sizes are relatively small and WAS is self-reported, therefore data should be used cautiously.
- Longitudinal data has been weighted according to the last year that an individual appears in the dataset. Impact to unweighted was less than 2pp.

12. Methodology for Self-Employed analysis using HMRC administrative data

Year

- Latest data – 2023/24

Geography / coverage

- UK wide administrative data of individuals' self-assessment tax returns.

Method

- Total population is ~6,900,000
- To be included an individual must have had >£0 income in any of the following categories:
  - Sole Trader income
  - Partnerships income
  - Income from land/property
- Income is aggregated in 'other' categories
- Where a valid NINO was given, these records were linked to PAYE and data about income/pension contributions through employment was also extracted
- For pension participation and contribution, any individual with a pension contribution > 100% of income is excluded from analysis.

Caveats

- Some data has been suppressed due to sample size

13. Methodology for Defined Contribution / Defined Benefit 10 Year Projection Modelling

Defined Benefit

Year

- Latest data – 2023/24
- Projection period: 2024–2035

Geography / coverage

- UK wide

Method

- Assets = prior assets + contributions + returns − benefits − buy-outs − surplus extraction
- Projections run 2024–2035, deflated to 2024 earnings

Key Assumptions:

- Investment returns: 2% real (5% nominal), TPR 2025 allocations + BlackRock CMA
- Buy-outs: £40bn p.a. (2025–29), £50bn p.a. (2030–35), reflecting maturing landscape
- Contributions: Decline as DB accrual falls (30% employer, 27% employee)
- Benefits: +2% p.a. as schemes mature
- Surplus extraction: From 2027 (£11bn over 10 years, Roadmap-based)

Caveats

- There is a degree of uncertainty regarding the future trends and assumptions used in this model, which may have an impact on its forecast.

Defined Contribution

Year

- Latest data: 2024
- Projection period: 2024–2035

Geography / coverage

- UK wide

Method

- Assets = prior assets + contributions + investment returns − withdrawals − costs/charges
- Projections run 2024–2035, deflated to 2024 earnings

Key Assumptions:

- Annual investment returns: 3.96% real (8.53% nominal)
- Costs and charges: Average costs for SETS is 0.24%, for MTs 0.3% and GPPs 0.42%, DWP Pension Provider Survey
- Starting stock of assets: ~£600bn calculated using TPR and FCA data

Caveats

- There is a degree of uncertainty regarding the future trends and assumptions used in this model, which may have an impact on its forecast.

14. Methodology for Persistent Low Earners Modelling using RAPID

Year

RAPID – DWP's administrative dataset has been used to analyse earnings from employment, for those resident in the UK, looking across 2012 to 2024. The analysis uses the "Taxyear" RAPID sample, which is a 100% dataset with one row for each person in the UK with a NINO.

Geography / coverage

UK-wide administrative data.

Method

Total population is ~20 million

To be included in the analysis an individual must be aged between 22 and 65, a resident of the UK and present every year throughout the 2012-2024 period, with employed (PAYE) earnings exceeding any income from self-employment every year.

Income is aggregated into the following bands: zero, low (below £30,342 in 2024 terms), middle (£30,342–£43,943), and high (£43,943 and above.

Individuals who were "low" earners in 2012 were then followed to see which earnings category they fell into for each year to 2024.

Caveats

The data only includes individuals who earned more from their employed earnings than any self-employment.

15. Methodology for Inactivity Analysis using Labour Force Survey

Year

Latest LFS data – Q4 2025

Geography / coverage

UK wide

Method

Non-Seasonally Adjusted LFS data is used to break down inactivity rates by several variables including reason for inactivity, geography, sex and age (sometimes banded)

Caveats

LFS data is survey data and as such is weighted, in some instances creating breakdowns across several variables reduces the available sample size, in these instances analysis should be used with caution and in instances of very low sample size values can be omitted entirely.

The LFS is produced by the Office for National Statistics (ONS) and follow the same definitions and UK coverage used in the ONS Labour Market Statistics bulletin.

As part of continuing work to improve Labour Force Survey estimates (which have been affected by changes to survey operation caused by the coronavirus (COVID-19) pandemic), typical weighting methodology was reinstated from 13 February 2024. The new reweighted LFS estimates incorporate latest estimates of the size and composition of the UK population, improving representativeness. Find more information on reweighting.