Monday 26 October 2026

PENSIONS POLICY INSTITUTE
PPI

Pensions Policy Institute response to the Work and Pensions Select Committee Inquiry: Pensions adequacy – auto-enrolment contributions for low earners and their employers

Introduction

1.1 The Pensions Policy Institute (PPI) is the UK's leading independent authority on pensions and retirement policy. The Institute conducts rigorous, impartial research and analysis from an evidence-based, long-term perspective. Its work is used by government and across Westminster, industry and consumer groups. It informs major decisions that affect millions of people's lives in retirement.

1.2 This response aims to inform the Committee with independent, evidence-based research for its Pensions adequacy – auto-enrolment contributions for low earners and their employers inquiry. This submission does not contain policy recommendations.

1.3 The PPI is grateful to the Committee for the opportunity to provide written evidence. This response draws principally on published PPI research:

- Pensions adequacy: Housing, Households and Auto-Enrolment (2026)
- From Payslip to Pension: Life course impacts on retirement saving among low earners (2025-2026)
- The Underpensioned Index (2024)
- The Underpensioned: Updating the Gender Pension Gap (2026)
- The UK Pensions Framework: Progress needed for adequacy (2025)
- Every little helps: Should low earners be encouraged to save? (2023)
- 20 years on: Expectations vs realities of the Turner Commission (2025)
- As well as forthcoming PPI research:
- The UK Pensions Framework: How work shapes retirement outcomes (to be published Wednesday 4th November)

1.4 Should the Committee require any further information, please contact:

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Summary

2.1 Automatic Enrolment (AE) has substantially increased workplace pension participation, but current minimum contribution levels are unlikely to deliver adequate retirement outcomes for many workers. The adequacy challenge is not singular. The extent and causes of inadequate pension saving vary according to earnings, employment history, employer provision, household circumstances, and capacity to save. As a result, increasing minimum contributions could improve retirement outcomes, but the scale of improvement and the affordability of additional saving will differ considerably across the workforce.

2.2 The current statutory minimum of 8% of qualifying earnings can represent a significantly lower proportion of total pay, particularly for those earning close to the earnings trigger. Lower earners are also more likely to contribute at minimum levels and have fewer opportunities to compensate for low contributions where low earnings persist throughout working life.

2.3 How additional contributions are financed is central to the effectiveness and sustainability of reform. Higher employee contributions may place pressure on current living standards, particularly for workers with limited disposable income. Higher employer contributions can mitigate this immediate pressure but increase employment costs, which may affect wages, recruitment, or other elements of remuneration.

2.4 Policy design and implementation also influence the balance between current financial resilience and long-term retirement saving. Illustrative modelling of reforms to AE, including higher minimum contribution rates, removing the earnings trigger and Lower Earnings Limit, and pension contribution top-ups for carers, demonstrates that different approaches address different adequacy and fairness challenges.[1] Other policy options include employer-only pension contributions for low earners, which could support pension accumulation without requiring employee contributions, and household pension pots, which could help address pension inequalities arising from employment interruptions and unpaid caring responsibilities. These approaches could mitigate some of the effects of the gender pensions gap, although wider labour market inequalities would remain important determinants of retirement outcomes.[2] Wider evidence also considers approaches such as automatic contribution escalation, opt-down arrangements, and sidecar savings to help balance long-term pension saving with working-life financial resilience, although these involve different trade-offs. The timing of reform also matters because contributions made earlier have longer to accumulate, while later-life catch-up can require contribution rates that are unrealistic for many workers and employers. These challenges are particularly relevant to some older workers without DB provision, who have had less time to benefit from AE and have a shorter period remaining until retirement in which to build adequate pension savings.

2.5 Reforming the Lower Earnings Limit (LEL) and earnings trigger could have a particularly significant effect on pension saving among lower earners. Below earnings of approximately £18,700, removing the LEL has a greater effect on the effective contribution rate than increasing the headline minimum from 8% to 12%, while retaining qualifying earnings. Reducing or removing the earnings trigger could also extend pension participation, particularly among part-time workers, multiple jobholders and women. However, wider coverage and first-pound contributions could increase financial pressure on workers with limited household resources, as well as costs for employers.

[1] PPI (2026) Pensions adequacy: Housing, households and auto enrolment
[2] PPI (2026) The Underpensioned: Updating the Gender Pension Gap

2.6 Overall, the evidence indicates that improving pension adequacy requires consideration of contribution rates, the earnings base, eligibility thresholds, the division of costs between employers and employees, and the timetable for implementation together. The central challenge is not simply determining how much more workers need to save, but understanding where additional saving can realistically come from, which workers can sustain higher contributions, and how the costs and benefits of reform differ across the workforce. Outcomes will depend heavily on which objectives policymakers prioritise:

- Prioritising adequacy may favour higher contribution rates, first-pound saving, and earlier saving expansion
- Prioritising fairness may place greater emphasis on carers' credits, trigger reform, and support for excluded groups
- Prioritising sustainability and affordability may favour more incremental reforms that minimise immediate cost pressures on workers, employers, and public finances.

These objectives are not always fully aligned. Reforms that maximise adequacy may increase affordability pressures. Reforms that improve fairness may raise fiscal costs or administrative burdens. Reforms that prioritise sustainability may leave some structural inequalities less fully addressed.[3]

To what extent do minimum AE contributions need to increase?

3.1 Current minimum AE contributions are unlikely to deliver adequate retirement outcomes for many workers. However, the scale of the shortfall varies considerably according to earnings, age, employment history, housing tenure, household circumstances, existing pension provision, and the adequacy benchmark used.[4]

3.2 The original AE framework was designed to provide a foundation for retirement saving rather than necessarily deliver adequate retirement incomes through minimum contributions alone. It was anticipated that AE would be supplemented through additional voluntary saving. Illustrative projections at the time suggested that the combination of State Pension provision and contributions of 8% of qualifying earnings could provide a median earner retiring in 2053 with a replacement rate of approximately 45-48%, with additional voluntary contributions expected to support higher retirement incomes. Although AE has substantially increased pension participation, additional voluntary saving has not developed to the extent originally anticipated.[5]

3.3 Contributions calculated only on qualifying earnings rather than total pay compound the impact of minimum contribution rates. Employees saving at the minimum have an effective contribution rate that can be significantly lower than the headline 8%. For somebody earning just above the £10,000 AE earnings trigger, the effective contribution is only just over 3% of total earnings.[6] This reduces pension accumulation relative to contributions calculated on total earnings, particularly for workers whose earnings remain low, but also for those with earnings significantly above the upper earnings limit if contributions are calculated on qualifying earnings rather than total pay.

[3] PPI (2026) Pensions adequacy: Housing, households and auto enrolment
[4] PPI (2026) The UK Pensions Framework: How work shapes retirement outcomes
[5] PPI (2025) 20 years on: Expectations vs realities of the Turner Commission
[6] PPI (2026) Pensions adequacy: Housing, households and auto enrolment

3.4 Contribution behaviour also differs considerably across the earnings distribution. Among private sector DC savers, median total contributions increase from 5.5% of total pay for those earning £10,000 to £20,000 to 12.0% for those earning £70,000 or more. Almost half (48%) of employees earning £10,000 to £20,000 contribute at AE minimum levels, compared with 12% of those earning £60,000 to £70,000.[7]

3.5 Lower earners are therefore more likely to remain close to statutory minimum contributions and are more affected by the exclusion of earnings below the LEL. Their pension accumulation is also influenced by how long they remain on low earnings. Workers who subsequently move into higher-paid employment may be able to mitigate the impact of periods of low earnings on retirement adequacy. Workers who experience persistent low earnings have fewer opportunities to compensate for low contributions earlier in their careers.[8]

3.6 The adequacy measure used is also important. For higher earners, absolute adequacy benchmarks, such as the Retirement Living Standards, may mask the adequacy risk that they are unable to maintain working life living standards in retirement, despite having relatively high levels of retirement income. Whereas, for lower earners, they may be able to achieve relatively high replacement rates through entitlement to the State Pension and relatively limited private pension saving. However, this may reflect low working life earnings rather than achieving an adequate retirement income that enables them to meet their needs.[9]

3.7 Modelling of higher minimum contributions, including illustrative rates of 12% and 16%, demonstrates that increasing contributions can improve retirement outcomes. However, the improvement depends on the earnings base and the worker's earnings trajectory. An increase in the headline rate does not produce the same increase in effective contributions as a proportion of total pay for workers at different earnings levels.[10]

3.8 There are different reasons why workers may not achieve adequate retirement outcomes. Some have capacity to save more but do not actively make decisions that translate that capacity into pension savings. This group are likely to benefit most from an increase in the minimum contribution rate. However, others have limited scope to increase pension saving without affecting current living standards. For persistent low earners, the additional contribution effort required to achieve adequate retirement outcomes may exceed what can realistically be financed from their earnings.[11]

3.9 The contribution effort required to achieve the same absolute retirement-income benchmark increases substantially as earnings fall. The total contribution rate required for an average worker to achieve the Moderate Retirement Living Standard is approximately 5.4% for a higher earner, 12.9% for an average earner, and 22.4% for a lower earner, demonstrating the differing scale of the adequacy challenge.[12]

[7] DWP (2025) Analysis of Automatic Enrolment saving levels
[8] PPI (2025) From payslip to Pension: Persistent low earning; PPI (2026) From Payslip to Pension: Projection of retirement outcomes for low earners
[9] PPI (2026) The UK Pensions Framework: How work shapes retirement outcomes
[10] PPI (2026) Pensions adequacy: Housing, households and auto enrolment
[11] PPI (2026) The UK Pensions Framework: How work shapes retirement outcomes; PPI (2025) From payslip to pension: Practicality of saving among low earners
[12] PPI (2026) The UK Pensions Framework: How work shapes retirement outcomes

3.10 The evidence suggests that assessing the adequacy of the current 8% minimum requires consideration of the contribution base, the duration and continuity of saving, and the financial capacity of different workers, rather than identifying a single higher rate that would deliver equivalent outcomes across the workforce.

How should any contribution increase be shared between employers and workers?

4.1 While higher contributions could improve retirement adequacy, the source of additional contributions determines who bears the immediate cost and can influence the sustainability of the policy.

4.2 Higher employee contributions reduce take-home pay. This is particularly consequential for workers for whom income is already primarily allocated to essential needs, with limited disposable income. The affordability implications of higher employee contributions become more significant as earnings decline.[13] Higher earners with relatively low pension saving may have greater capacity to finance additional contributions themselves. Average earners may face a more pronounced trade-off between current living standards and retirement saving. For persistent lower earners, there may be structural limits to what additional employee contributions can achieve without creating substantial pressure on current income. For average and, to a greater extent, lower earners, employer provision is likely to play a greater role in determining the adequacy of retirement outcomes as they may be unable to achieve adequacy through increased employee contributions alone.[14]

4.3 However, capacity to save more is not just dependent on individual earnings, but also broader household income, housing costs, debt, and accessible savings. Two workers with similar individual earnings may face very different financial circumstances. A low earner in a household with another substantial income may have greater capacity to save than somebody on identical earnings who provides most of their household's resources. Some low earners may therefore be able to increase contributions without substantial financial difficulty, while others may already be saving at a level that places pressure on working life living standards.[15]

4.4 Higher employer contributions can increase pension saving without requiring the same immediate reduction in employees' take-home pay. However, they also increase employment costs. Employers may absorb these costs through lower profits or productivity improvements, or they may ultimately be passed through to wages, recruitment, prices, or other elements of remuneration. The scale of these costs is uncertain and is likely to vary between employers and sectors.[16]

4.5 The evidence identifies a distributional challenge rather than a single optimal split. As workers' capacity to save declines, financing additional contributions through employees has greater implications for current living standards. Greater employer support can mitigate those implications, but shifts rather than eliminates the cost.

[13] PPI (2025) From payslip to pension: Practicality of saving among low earners
[14] PPI (2026) The UK Pensions Framework: How work shapes retirement outcomes
[15] PPI (2025) From payslip to pension: Practicality of saving among low earners; PPI (2023) Every little helps: Should low earners be encouraged to save?
[16] PPI (2026) The UK Pensions Framework: How work shapes retirement outcomes

What are the trade-offs for employers and workers between current needs and long-term savings? How might policy design help balance them?

5.1 The principal trade-off is between maintaining financial resilience during working life and accumulating sufficient resources for retirement. However, the nature and severity of this trade-off differ considerably across workers and employers.[17]

5.2 For workers with sufficient disposable income, higher pension contributions may primarily represent a reallocation of resources from current consumption towards future retirement income. Some workers may have the financial capacity to save more for retirement but continue contributing at existing levels because they do not actively review or increase their pension contributions. Higher default contribution rates could increase saving without requiring individuals to make an active decision to contribute more, while automatic escalation could gradually increase contributions over time, for example as earnings rise. These approaches may therefore be particularly relevant to workers whose financial circumstances allow them to save more but who do not currently translate that capacity into higher pension contributions. However, their effectiveness and affordability would depend on individual circumstances, particularly where earnings growth is limited or household expenditure is already constrained.[18]

5.3 For workers with limited financial capacity, additional contributions may compete with essential expenditure, debt repayment, and accessible emergency savings. Some low earners may already experience financial pressure from pension saving, while others with similar individual earnings may be able to save substantially more because of differences in household circumstances.[19]

5.4 Potential policy approaches include automatic contribution escalation, opt-down mechanisms, non-contingent employer contributions, and sidecar savings.[20] Automatic escalation could help workers increase saving gradually, particularly where earnings rise over time. However, its affordability would differ for workers with persistently low or volatile earnings. There is also an evidence gap around the extent to which automatic escalation is currently used, which groups of workers are most likely to benefit from it, and whether workers across different earnings and household circumstances could sustain higher contributions over time. Further evidence would be needed to establish its likely effectiveness and distributional impacts, particularly for lower earners. Opt-down arrangements could allow workers to remain enrolled at a lower contribution rate rather than opting out entirely, although their effectiveness would depend on behavioural design and how easily workers could use them. Non-contingent employer contributions could maintain some pension accumulation when an employee cannot afford to contribute. Sidecar savings could direct some saving towards an accessible emergency fund before additional contributions are directed into a pension, potentially improving short-term resilience while

[17] PPI (2025) From payslip to pension: Practicality of saving among low earners; PPI (2026) The UK Pensions Framework: How work shapes retirement outcomes
[18] PPI (2026) The UK Pensions Framework: How work shapes retirement outcomes
[19] PPI (2025) From payslip to pension: Practicality of saving among low earners; PPI (2023) Every little helps: Should low earners be encouraged to save?
[20] PPI (2026) From payslip to pension: The policy challenge of saving for low earners; PPI (2026) The UK Pensions Framework: How work shapes retirement outcomes

maintaining a saving habit. These approaches would also involve additional costs, administration, and design considerations.[21]

What would be an appropriate timetable for any increases?

6.1 The evidence does not identify a specific preferred timetable for increasing minimum AE contributions, but it highlights considerations relevant to the timing and sequencing of reform. The original AE contribution structure reflected a balance between increasing retirement saving and limiting the immediate costs for employers and employees. The framework also anticipated that contributions would increase over time. Subsequent experience has highlighted the continuing challenge of improving retirement adequacy while managing affordability pressures on households and employers.[22]

6.2 Contributions made earlier in working life have more time to benefit from investment growth. Delaying additional saving reduces the period over which contributions can accumulate and may require larger increases later to achieve the same retirement outcomes. Illustrative modelling of older workers with substantial shortfalls in pension saving demonstrates that very large contribution increases may be needed to reach adequacy benchmarks. For a 55-year-old median earning woman, contribution rates would have to rise to approximately 38.9% in order to reach a replacement rate of 67%. For a 55-year-old median earning male, contribution rates would have to rise to approximately 62.1%.[23] These results suggest that later life catch-up remains technically possible, but the contribution rates required are likely to be unrealistic for most workers and employers. These extreme contribution rates modelled for later life savers should not be interpreted as practical policy prescriptions. Rather, these scenarios are most useful as stress tests that demonstrate: the scale of pension shortfalls facing late savers; the importance of sustained early pension participation; the affordability limits of delayed contribution reform; and the practical challenges of relying on late-stage catch-up alone. The modelling demonstrates that higher contribution rates can improve adequacy, but timing matters: the later reform begins, the higher the required saving rates become.

6.3 The timing of reform also has different implications across generations. Generation X entered AE later in working life than younger generations and has consequently had less time to accumulate pension savings under the system. Financial commitments remain a constraint on increased pension saving. 33% of Generation X identify debts, mortgage payments, household bills, and daily expenses as barriers to saving more for retirement.[24] This creates a distinct challenge for older working-age savers. They have fewer years in which higher contributions can improve retirement outcomes, but may also face substantial current financial commitments. A gradual increase introduced over a longer period could reduce the immediate burden but deliver less benefit to workers approaching retirement. A rapid increase could place greater pressure on household finances.

[21] PPI (2026) From payslip to pension: The policy challenge of saving for low earners
[22] PPI (2025) 20 years on: Expectations vs realities of the Turner Commission
[23] PPI (2026) Pensions adequacy: Housing, households and auto-enrolment
[24] Just Group (2025) Gen voices

6.4 From an employer perspective, the pace of reform affects the ability to plan for additional pension expenditure and its interaction with wages and other employment costs. The impact is unlikely to be uniform across employer sizes and sectors.[25]

6.5 Sequencing contribution rate increases with threshold reform is particularly important. Increasing the statutory minimum while retaining the LEL has a different effect from simultaneously increasing the contribution rate and moving to first-pound contributions. For lower earners, implementing both changes together could produce a materially larger increase in employee and employer contributions than the headline rate increase alone would suggest.[26]

6.6 The evidence identifies several relevant timetable dimensions: when reform begins, the size and frequency of increases, how costs are divided between employers and employees, and how contribution rate changes are sequenced with reform of the LEL. The central trade-off is between allowing workers and employers time to adjust to higher contributions and avoiding further delay in building retirement savings, particularly for those with relatively little time remaining before retirement.

Is there also a case for reducing or removing the lower earnings limit on contributions and/or the earnings trigger for auto-enrolment?

6.1 Reforming the LEL and/or earnings trigger could have significant effects on pension saving, particularly for lower earners.[27]

6.2 The £10,000 earnings trigger particularly affects workers with part-time, seasonal, or variable earnings, as well as people with multiple jobs whose combined earnings exceed the trigger but whose earnings from each employer do not. If income from multiple jobs was assessed on a total rather than per job basis, an additional 8% (80,000) of multiple jobholders would become eligible for automatic enrolment. This change in eligibility criteria could affect more women with multiple jobs than men with multiple jobs, bringing an additional 14% of women with multiple jobs into pension saving. If the earnings trigger was removed, lower earning women could collectively make up to around £112 million in contributions over a one-year period.[28]

6.3 The impact of the LEL is particularly significant for workers earning close to the earnings trigger. Reducing or removing the AE earnings trigger without changing the LEL could produce relatively small contributions for those whose earnings remain close to or below the existing boundary. Combining wider eligibility with first-pound contributions would have a greater effect on pension accumulation, but also a greater effect on employee deductions and employer costs.

6.4 Modelling of the interaction between the LEL and alternative contribution rates finds that, below earnings of approximately £18,700, removing the LEL produces a greater increase in the effective

[25] PPI (2026) The UK Pensions Framework: How work shapes retirement outcomes
[26] PPI (2026) Pensions adequacy: Housing, households and auto enrolment; PPI (2026) From payslip to pension: The policy challenge of saving for low earners
[27] PPI (2026) From payslip to pension: Modelling of policy options for low earners; PPI (2026) Pensions adequacy: Housing, households and auto enrolment
[28] PPI (2024) The underpensioned index

contribution rate than raising the headline minimum from 8% to 12% while retaining qualifying earnings. Above that level, the 12% rate produces the greater effect.[29]

6.5 However, removing the LEL is not an unambiguous gain for all low earners. For workers with highly constrained household finances, first-pound contributions can increase deductions from income needed for current expenditure. No single AE reform avoids trade-offs for every low-earner group.[30]

6.6 There are implications for employers as well as employees. Removing the LEL would increase pensionable earnings for workers already enrolled, while reducing or removing the earnings trigger would bring additional employees into AE and increase associated contribution and administrative costs. These effects may be particularly significant for employers with substantial numbers of low-paid, part-time, or variable hours workers.

To what extent are employers and the public persuaded of the need for contributions to increase?

8.1 The available evidence is stronger on the adequacy of existing contributions and the likely effects of reform than on current employer or public support for a specific statutory contribution increase. Further direct evidence on employer and public attitudes would be required to establish the extent of support for particular policy proposals and to understand the likely behavioural response to any such reforms.

[29] PPI (2026) Pensions adequacy: Housing, households and auto-enrolment

[30] PPI (2026) From payslip to pension: The policy challenge of saving for low earners