Pensions Policy Institute

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FROM PAYSLIP TO PENSION:

2026

LIFE COURSE IMPACTS ON RETIREMENT SAVING AMONG LOW EARNERS

An independent report by the PPI

Pensions Policy Institute

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PART THREE: PROJECTION OF RETIREMENT OUTCOMES FOR LOW EARNERS

This report is the third part launched in the *From Payslip to Pension: Life Course Impacts on Retirement Saving Among Low Earners* series.

It explores what pension incomes, and retirement needs, different low earner profiles are projected to have under current policy.

The report comes as the Pensions Commission investigates both pensions adequacy among low earners, for whom reforms to automatic enrolment policy may lead to a better balance of pensions adequacy, and broader working life financial security.

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ABOUT THE PPI

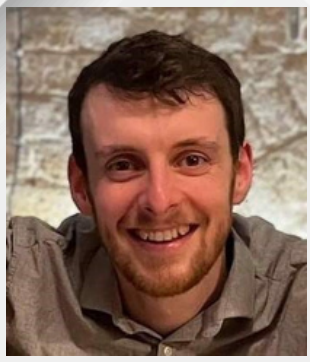
We're the UK's leading independent authority on pensions and retirement policy. We conduct rigorous, impartial, evidence-based research that shapes better retirement outcomes for everyone.

ABOUT THIS SERIES

The ***From Payslip to Pension: Life Course Impacts on Retirement Saving Among Low Earners*** series will deliver a longitudinal analysis into the life-courses of people who experience low earnings at some point. The series, which will run until summer 2026 will consist of five themed individual outputs.

We will investigate not just their paid work, but their wider circumstances including life events and the households in which they live. The research focusses on how low earners interact with workplace pension savings and aims to identify potential interventions and model their impact both before and after retirement.

This report is part three in the From Payslip to Pension series.



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Contents

Section 1 – Background to the research

Introduction

This report is the third in a series that explore pension saving among low earners and is sponsored by the Nuffield Foundation.

In this research, a low earner is somebody who earns less than the full-time equivalent of a living wage, which is £24,570 per year[i]. When considering policy, this research is mostly concerned with the design of automatic enrolment. A policy that requires employers to provide a pension scheme to their employees, but which has several features designed to exclude low earners, or reduce how much they contribute.

The first report[ii] in this series identified the degree to which different low earners are "persistent" – that is, low earning as part of a long-term career pattern. It identified various risk factors associated with low earning and persistent low earning – for women, the risk factors were motherhood and low educational qualifications, and for men, the risk factors were self-employment and low educational qualifications.

The second report[iii] identified individual profiles for low earners, detailing a life course for each profile that involved some low earning, and any other details of their working life, such as periods of high earning or unemployment, and details of their household circumstances. This revealed the extent to which different low earners might be put at risk of working life poverty by contributing to a pension, or where low earners may actually be in a position to contribute more than they currently do.

This report builds on the previous reports by analysing the retirement outcomes of these profiles. Understanding whether or not low earners who fit these profiles are on track for an adequate retirement will help determine whether their current saving behaviour in working life is appropriate for their retirement needs, whether any risks to adequacy exist, and whether any policy interventions may be needed.

Modelling approach

The retirement outcomes of different profiles are obtained using the PPI's individual model. This model makes use of historic and current data on the economy and the pensions system, as well as projections of economic indicators from the OBR[iv].

Data relating to the modelled individuals is taken from Understanding Society[v] and the Annual Survey of Hours and Earnings[vi] (ASHE).

Information on different profiles is obtained from the Understanding Society dataset. Full details on how these profiles are derived are available in the previous reports. However, in each case, profiles are defined by fitting certain criteria at each age. As such, for each profile, it is possible to derive characteristics by analysing populations that meet these criteria at each age – for example, to say that at a certain age, people following a given life course are likely to have a partner. This is particularly relevant as all life courses in this report are likely to retire with a partner but still warrant analysis of what may happen if a comparable individual retires alone.

All figures in this report are presented in current earnings terms. Full details of the data and assumptions used by this model are available in the appendix.

Summary of findings

This report finds that all low earners modelled have adequacy risks that relate to housing or dependence on partners – that is, that some profiles are on track to have adequate retirements, but this is predicated on having low housing costs in retirement, or requires a partner's income to meet adequacy targets.

This report also find that some low earners are almost entirely dependent on the State Pension to shield them from poverty in retirement. For these individuals, a full triple locked State Pension may be enough to ensure adequate standards of living in the future, but these assumptions need careful consideration.

At the same time, this report also finds that other low earners may accumulate significant private pension wealth. These low earners may be in danger of not being able to maintain the standard of living that they have before retirement, even if they have enough to afford a basic standard of living. This risk exists primarily for profiles that had low earnings early in life, before moving on to high earnings later in life. For these profiles who accumulate significant private pension savings, the majority of their contributions are made while they are high earners.

Section 2: What is an adequate standard of living for low earners?

To evaluate retirement adequacy, it is necessary to define what is an acceptable standard of living in retirement. Broadly speaking, this should involve two goals:

- Being able to enjoy life and have basic needs met, with a small amount of money left over after affording things such as food, bills and housing.
- Not having a significantly reduced standard of living in retirement, compared to what you had in working life.

These goals apply to everyone, regardless of earnings level. For higher earners, it is less likely that they will struggle to meet their basic needs, and retirement adequacy becomes more of a question of saving an appropriate amount so that their standard of living is broadly consistent between working life and retirement.

For low earners, there is a higher risk of falling below a minimum standard of living in working life or in retirement. The second report identified that some low earners are at risk of relative poverty in working life. For low earners such as this, retirement adequacy is largely a question of whether they can have a basic standard of living in retirement.

However, other low earners may not be at significant risk of poverty in working life. They may share a household with higher earners. They also might not be lifelong low earners and be able to save significant amounts during periods of high earning. For these low earners, evaluating retirement adequacy is perhaps the most complicated. This is because the standard of living that they need to maintain is less obvious when looking at information such as their earnings at a single point in time.

There are existing methodologies to help evaluate retirement adequacy based on both of these two goals. The absolute figure that is needed to afford a "basket of goods" is given by Pensions UK's Retirement Living Standards[vii] (RLS). The RLS is not intended to be a measure of adequacy in a technical sense – rather to provide a yardstick against which individuals can assess their needs in retirement relative to their expectations.

There are three levels: Minimum, Moderate, and Comfortable. The Minimum RLS for a single retiree outside London is £13,400 a year. If a low earner is unable to meet this in retirement, this is a strong indicator that the value of their pension may be inadequate to meet their expectations in retirement. It is worth noting that there is also a working life equivalent of this absolute sum of money needed to buy a basket of goods, which is the Joseph Rowntree Foundation's Minimum Income Standard. It is also worth noting that the RLS core research does not take in how much may be needed to fund housing costs should individuals be renting in retirement, so those expecting to be renting would need to achieve a higher figure (and/or may be supported by housing benefit).

Pensions adequacy in the more technical sense can be assessed using the replacement rate methodology. expresses someone's retirement needs as a percentage of their working life income. More precisely, it is expressed as a percentage of their income immediately before retirement. This is because the average income tends to be highest among age groups in the middle of working life, rather than close to retirement. If a person's income reduces later in working life, it is assumed that this reduced income level better reflects what their needs will be in after they retire.

This replacement rate methodology is what the Pensions Commission used when determining the parameters of Automatic enrolment. This approach gives an individual a target retirement income,

which is expressed as a percentage of their pre-retirement income. Different income bands have different target percentages, with higher income bands having lower percentages. This reflects that people on lower working life incomes need to maintain a higher proportion of this income in retirement to preserve their standard of living. This is because, for those with lower living standards, a higher proportion of their income will be spent on necessities that will still exist in retirement, such as food and bills. Higher earners, by contrast, will have lower living costs in retirement, because more of their working life income is needed for expenses that are eliminated or reduced in retirement, including higher rates of pension saving and higher working life taxes. The Pensions Commission envisaged that these varying targets would be needed to preserve an individual's working life standard of living, but that there would also be a minimum replacement rate of 45% that minimum contributions should aim to provide. That is, it should not be the state's responsibility to ensure that savers balanced their working life and retirement income, but the state should ensure that all savers achieved at least the minimum 45% replacement rate[viii]. When using this methodology, the results are sensitive to what counts as "pre-retirement income". This could be the income immediately before retirement, or the average of some period before retirement: the Pensions Commission previously used the average income in the period between age 50 and State Pension age.

This report investigates the retirement adequacy of common low earner profiles, using both of these approaches. Both of these methodologies are indicative, and each may highlight inadequacies that the other does not. The question of adequacy is also highly dependent on household factors. For this reason, it is necessary to examine what income figures mean on a household level, and an individual level. This is especially relevant when considering the impact that divorce could have on a low earner whose retirement planning has worked on the assumption that they will retire as part of a couple.

Finally, it is worth noting that the PPI and Pensions UK have collaborated to create an extensive evidence base[ix] around the effects of different policy options on individuals such as low earners, as well as modelling what proportion of the population are on track to meet these different standards for retirement adequacy. This evidence base serves to project retirement adequacy at a population level, and compare how different policy options may boost retirement adequacy. By contrast, this report aims to analyse retirement adequacy for representative profiles of low earners, and explore factors that are specific to individual profiles, but cannot be easily explored at the population level.

Section 3: Projections of retirement outcomes

Representative life courses

The previous report identified four profiles, which were representative of a large proportion of persistent low earners. The four profiles can be described as follows:

- A woman who works as a high earner, before having children and becoming a low earner, with a high household income throughout life;
- A woman who has children earlier in life and who only ever works as a low earner, with periods of unemployment and inability to work for health/disability reasons;
- A woman who obtains a degree and works as a low earner in her twenties, before moving on to be a high earner;
- A man who works in unstable employment in his twenties before moving on to be a high earner.

This section will demonstrate what each is projected to save, and how well they meet adequacy targets. The full descriptions of each profile, which were given in the previous report, are also available in the appendix of this report.

Summary of pension wealth

The individual model reveals that these model individuals would retire with pension pots of different sizes, as well as different entitlements to the State Pension, and in some cases, some DB entitlement. This modelling does not feature a State Pension at the current level, but rather at a projected triple locked level. That is, all four profiles receive a full State Pension which is £15,516 at State Pension age.

It is also worth noting that for all four profiles, over 90% of their total employer and employee contributions are made during high earning periods. The ”Low household income mother” does not have any high earning period, and saves relatively little as a result, but other profiles may also save relatively small amounts during their low earning periods.

	High household income mother	Low household income mother	Highly qualified woman	Precariously employed man
DC pot (or equivalent DC value of any DB)	£132,500	<£10,000	£107,800	£107,600
Annual retirement income at SPa	£19,300	£15,900	£17,500	£17,500

These figures reveal that different low earners may retire with a range of pension sizes, as well as a range of different sources of pension incomes. It is worth noting that the variance of retirement incomes is a result of various factors such as different lengths of time as a low earner, different employer/employee contribution rates, or different pay scales.

Basket of Goods analysis

To evaluate these figures using the basket of goods approach, we may consider these figures at an individual or household level. This is done by using Pensions UK's Retirement Living Standards (RLS), which exist as individual or couple variants, to reflect that living costs are cheaper when shared between two people.

It is worth considering these figures at an individual level, because even if these profiles assume that the individual remains with their partner at retirement, these profiles may still be broadly representative of individuals who are always single, or divorce before retirement, but otherwise share features of one of these profiles. It is also worth considering these retirement incomes at an individual level, because individuals who retire with a partner may become widowed in retirement.

However, to properly assess the standard of living of these individuals, it is also necessary to consider all household factors, as even low earners with inadequate individual savings may still be living with a partner who owns an outsized proportion of the household pension wealth.

Individual Analysis

When analysing the four profiles against Pensions UK's Minimum RLS of £13,400 for an individual, we see that all meet this standard. All profiles fail to meet the Moderate RLS, which is £31,700.

	High household income mother	Low household income mother	Highly qualified woman	Precariously employed man
Income in retirement	£19,300	£15,900	£17,500	£17,500
% of Minimum RLS (individual)	144%	119%	131%	131%
% of Moderate RLS (individual)	61%	50%	55%	55%

Household Analysis

However, these RLS figures are what is needed to buy a basket of goods for a single retiree. For a retired couple, there are separate RLS values, which are less than twice that of the single values, reflecting that living expenses are lower for a couple. When analysing what these low earners contribute to a joint income, we are able to see what proportion that these low earners might be able to contribute as part of a couple, and what remaining shortfall their partner would have to contribute to meet this standard.

	High household income mother	Low household income mother	Highly qualified woman	Precariously employed man
Income in retirement	£19,300	£15,900	£17,500	£17,500
% of Minimum RLS (couple)	89%	74%	81%	81%
% of Moderate RLS (couple)	44%	36%	40%	40%

We see that, in the case of the mother with a low household income, she is able to contribute three quarters (74%) of the minimum RLS for a couple. This suggests that this standard could realistically be met by her and a partner who has full State Pension entitlement, and less of a gap in contributions around the age at which the couple had children. We also see that, in the case of the mother with a high household income, she equally contributes nearly half (44%) of the Moderate RLS to the household pension income, which could again be made up by a partner with more pension wealth.

Failing to meet the Moderate RLS should be taken in context: other PPI modelling[x] identifies that a majority of working age households (74%) are not on track to meet this standard under current policy. However, just like the profile of "low household income mother", 27% of households are not on track to meet the Minimum RLS, such as the second profile modelled, which indicates that many people are at significant risk of poverty in retirement.

State vs Private Pension Income

It is important to note, in the case of the "low household income mother", that retirement income is almost entirely dependent on the State Pension. This modelling assumes that the triple lock continues indefinitely, which leads to a single full State Pension meeting the Minimum RLS. However, it should be noted that currently, a single full State Pension does not meet the Minimum RLS for an individual, but two full State Pensions meet the minimum RLS for a couple. For this profile, if the State Pension is not enough to provide a minimum standard of living when they retire, then it is likely they are "individually inadequate" and at risk of poverty in retirement if they do not live with a partner. Other profiles do meet the Minimum RLS at the current value of the State Pension, and so should remain on track to hit this RLS provided that the State Pension does not lose value in real terms.

Housing Costs

Another important factor to note is that Pensions UK's RLS do not building in housing costs for those who may be renting in retirement – the only housing costs that are factored in are expenses such as home repairs. The findings in this section apply only on the assumption that each individual lives in an owned home by the time they retire, or is otherwise supported with their housing costs. This assumption does not hold for a significant, and growing, section of the population: PPI modelling estimates that without intervention, the proportion of households who own their own home in retirement is on track to shrink from 78% to 63%, and the proportion of households living in the private rental sector could rise from 6% to 17%, by 2041[xi].

Assessing housing costs in retirement is challenging for a number of reasons. Firstly, if a retiree is still paying off their mortgage in retirement, then their costs may change significantly once it is paid off. Secondly, whether renting or paying off a mortgage, any housing costs may vary significantly by geography. Finally, housing tenure may depend on factors besides income bracket, such as inherited wealth or the income bracket of a partner. For this reason, it is not possible to attach a single, absolute, meaningful figure for housing costs to each profile which could be subtracted to adjust the RLS levels for housing costs.

It is also not possible to analyse housing tenure rates among different profiles. This is because the respondents analysed in this modelling would be nearly retired in the 2010s, when many savers, including those with low household incomes, benefitted from schemes such as right-to-buy and favourable economic conditions. The rates of home ownership are likely to drop for coming generations, as the previously mentioned PPI modelling demonstrates. As such, any figures that could be derived could be misleading. This represents a data gap, as it may be especially important to identify how different adequacy risks could combine: if, for example, the profile of the low household income mother were especially vulnerable to renting in retirement, this could compound with the risks associated with a low retirement income.

Regardless of the difficulty of adjusting the basket of goods analysis for housing costs, it is clear that the "headroom" for each profile above the Minimum RLS is not enough to sustain private renting. The cheapest average 1-bedroom rent by local authority in November 2025 was £4,824 per year[xii], which three out of four low earner profiles would not be able to afford. The remaining profile would only be able to afford the average one-bedroom rent in 28 out of 342 areas while still achieving the minimum RLS, and can afford less than half of the UK-wide average of £13,284.

In practice, this would cause some low earners to need to claim housing and other benefits to meet their living costs. This report does not consider the interaction between saving and housing benefits in retirement, but it is worth noting that it is a crucial interaction that will require further exploration in future – including consideration of savings withdrawal rates.

	High household income mother	Low household income mother	Highly qualified woman	Precariously employed man
Income in retirement	£19,300	£15,900	£17,500	£17,500
"headroom" above Minimum RLS	£5,900	£2,500	£4,100	£4,100

Replacement Rate Analysis

This section explores retirement adequacy using replacement rates. The target replacement rates are calculated by using, for each profile, their "gross equivalised household income, before housing costs". Equivalisation means applying a formula that accounts for the savings of living together, so that a single person's household income and a couple's household income become comparable. It is worth noting that, although "after housing costs" replacement rates exist, these also assume that the retiree does not have rent or mortgage costs. When calculating replacement rate targets, the same methodology is used as the Pensions Commission, including defining pre-retirement income as the average income between the ages of 50 and State Pension age.

	High household income mother	Low household income mother	Highly qualified woman	Precariously employed man
Individual's Income in retirement	£19,300	£15,900	£17,500	£17,500
TRR Target	£22,800	£12,900	£25,400	£32,400
% of income target provided by low earner	85%	124%	69%	54%

In all but one case, we see that an individual's income is "individually inadequate" – that is, for individuals who fit these profiles but who do not retire as part of a couple, their retirement income may be insufficient to maintain the standard of living that they had in working life. However, as each of these profiles is most likely to retire as part of a couple, these results suggest that their income may be adequate.

For the "high household income mother" profile, we see that this low earner already provides 85% of the income needed to meet the target. This means that, along with a partner with more pension wealth than her, she is very likely to be able to continue her working life standard of living. In this case, it is worth noting that she would have accumulated much of her pension wealth earlier in her career, before moving to lower earnings, and lower living costs, before retirement. For this reason, her pension is larger relative to her needs in retirement.

For the "low household income mother" profile, we again see that this low earner exceeds her target at 124%. This reflects two factors: firstly, that this profile has an especially low household income, and secondly, that the bulk of her retirement income comes from the state. According to this methodology, people whose working life income is sufficiently low will have their retirement income target met just from the State Pension or Pension Credit, and for this profile, their household income before retirement is at this level. This highlights that replacement rate methodologies could mask the low standard of living experienced by people who match this profile: they may exceed their replacement rate target, but this could simply mean that they are continuing a poor standard of living into retirement.

For the "highly qualified woman" profile, we see that she still makes a majority of her target by herself (69%), but not to the same extent as the previous two profiles. This is partly because her pension is smaller, but also because her target is higher. This is because she was a low earner earlier in life, before moving on to higher earnings later. As with other profiles, it is likely that this target could be met with a partner's pension, but she is at risk if she does not retire with a partner. However, this profile is at a greater risk in this case, because her standard of living immediately before retirement is comparable to that of a lifelong higher earner, while her pension contribution history contains a period of low earning.

For the "precariously employed man" profile, we see that this individual is furthest from their target, at 54%. He has a nearly identical retirement income as the previous profile, as well as a similar career trajectory of low earnings in his thirties followed by higher earnings. However, his pre-retirement income, and therefore his target, are especially high. This is concerning, as it suggests that even with a partner's pension, his household may not meet its target. There is a significant chance that his partner has been a low earner, perhaps similar to the first profile, who took a career break to provide childcare. If he were to retire alone, he may even be close to the minimum replacement rate of 45% envisioned by the pensions commission.

Section 4: Analysis of the results

Adequacy risks

Both approaches to analysing outcomes reveal different adequacy risks, and some common themes emerge in both analyses. Using Retirement Living Standards highlights that some low earners may fail to meet even a basic standard of living, if the State Pension by itself cannot guarantee this minimum level. Adequacy risks for these people may be masked by replacement rate methodologies, as these people may have a low or even unacceptable standard of living in working life, which is maintained in retirement.

The replacement rate methodology highlights that people who were low earners earlier in life, before becoming higher earners later on, are vulnerable to a different type of adequacy risk. They may have living standards comparable to those of a high earner, but may not have built up the pension savings of a lifelong high earner. These people may not fall into poverty in retirement, but may discover that their pension savings are insufficient to maintain their existing standard of living.

Finally, in both analyses, it becomes clear that even for low earners whose pension savings appear adequate, their retirement adequacy may depend on having low housing costs, or retiring with their partner.

In the case of housing, we see that profiles may only be able to meet RLS targets on the assumption of low housing costs. We also see that some profiles would not be able to meet their replacement rate targets by themselves, even with no housing costs at all. This is a serious risk to retirement adequacy, as home ownership rates fall, and private renting rates rise, among retirees.

In terms of household composition, both methodologies explicitly acknowledge that life is cheaper with a partner. RLS targets exist in single and couple variants, and the equivalised household incomes used to set replacement rate targets are also calculated on this basis. However, in the case of low earners, this may be especially relevant: all profiles appear to have sufficient savings if combined with that of their partner, but only one of the profiles modelled reach their replacement rate target by themselves. This illustrates that many low earners may be on track for more adequate retirements than their individual savings would suggest, but are also dependent on their partners to be able to maintain their working life standard of living.

This creates the possibility of overreliance on a partner's pension. Overreliance is a risk in the case of divorce, where divorcees may not have time before retirement to adjust their retirement planning to accommodate increased retirement costs. However, even if a couple retires together, overreliance on a partner is also a risk in the case of bereavement, where a partner's state or private pension income may be lost suddenly.

Interactions with the State Pension and Benefits

For people who match the "low household income mother" profile, their private pension income is likely to generate a negligible yearly income in comparison to a full State Pension. They are also likely to be on benefits in working life, and likely to take a phased or premature transition into retirement for reasons of disability or ill health. There is also uncertainty around how many qualifying years that someone who matches this profile will gain from their work history, because their annual income may be close to the threshold for gaining a qualifying year on the basis of national insurance contributions.

For someone who leaves the workforce early, it is particularly important to question the assumptions about their retirement spending patterns, and their entitlement to State Pension and other benefits.

Someone who retires with a small pot is more likely to withdraw it all immediately, and for this individual, any private pension they have may be needed to bridge the gap between leaving the workforce and reaching State Pension Age. For individuals in this position, analysing adequacy after State Pension age may be a question of simply examining the adequacy of a State Pension with no private pension income. Analysing their standard of living in the years immediately before State Pension age may be a question of precisely when they stop working, what their benefit entitlement is, and whether they utilise a private pension as a tool to bridge this gap, rather than to supplement their State Pension.

This modelling has assumed that, when this person is unable to work, they claim universal credit, and as a result, gain qualifying years for the State Pension. However, there is a significant risk for people in this position who may not realise the significance of qualifying years. If someone in this position fails to claim, or is found ineligible for, Universal Credit, their eligibility for a qualifying year on the grounds of an inability to work will not be recognised, and is not able to be "backfilled" in the way that it can with voluntary national insurance contributions. That is, an individual in this position would not be able to prove that they were historically unable to work and claim State Pension eligibility. This outcome becomes more likely if the individual has a partner who is not a low earner. Their household income may be high enough that they do not feel the need to apply for Universal Credit. If their partner's income is sufficiently high, they may even be a "nil award" claimant, in which case, being a Universal Credit claimant and being recognized as unable to work does not automatically earn a qualifying year. In this case, the individual must apply for credits-only Employment and Support Allowance (ESA).

People in this position face a set of circumstances where, unlike most workers, State Pension eligibility is now no longer fully automatic, nor fully dependent on the individual, nor able to be "backfilled" so that qualifying years can be earned retroactively.

Similar circumstances exist for parents, and especially mothers, who might not claim child benefit because their partner's income is high enough that they will not receive any benefit after taxes. People in this position should similarly apply for national insurance credits to receive a qualifying year. However, these circumstances differ: the government has announced[xiii] that:

…the government will legislate to introduce a route for people to apply for National Insurance Credits for parents and carers for tax years where they have not claimed Child Benefit, to ensure that people do not miss out on their State Pension entitlement. The credit will add qualifying years of National Insurance where eligible which will support future State Pension eligibility.

Individuals will be able to claim this credit from April 2026. However, no such route exists for people who were historically unable to work.

Automatic enrolment parameters

It is worth noting that the "low household income mother" profile is also especially sensitive to automatic enrolment parameters, especially the precise level of the trigger income that is currently set to £10,000, and the Lower Earnings Limit, which is £6,240. These have been frozen in nominal terms in recent years, and will be up until 2026/2027. It is unclear whether they will be subject to fiscal drag until they are removed altogether, or no longer make a significant difference to pension contributions. However, as this modelling is intended to assess current policy, it is assumed that they will rise in line with inflation in the future so that they remain equivalent to their current values in real terms. This particularly affects the "low household income mother" profile, whose earnings are around the trigger income, and whose pension contributions are negligible as a result. If the trigger

income and lower earnings limit are removed in the future, either explicitly or through a gradual fiscal drag, then this profile may save more.

All other profiles would also be affected by the removal of the Lower Earnings Limit to some degree, as currently the Lower Earnings Limit disproportionately reduces the pension contributions of lower earners, and contributes to the currently observed effect where profiles with periods of high earnings make almost all of their pension contributions during these periods.

Section 5: Conclusions

Overview

This report identifies that several adequacy challenges exist for low earners. It identifies that high housing costs, or not being able to share retirement incomes and costs with a partner, pose risks to all low earners modelled in this work. It also identifies that some low earners may appear to have adequate pensions by some measures but not others: some may be at risk of continuing a low or even unacceptable standard of living from working life into retirement, while others may be at risk of failing to maintain their pre-retirement lifestyle because their relatively high living standard at the point of retirement does not reflect their mixed saving history.

These findings illustrate the challenges for policymakers as they seek to reform automatic enrolment to better serve low earners. Household factors such as housing costs and living with a partner may be key in determining retirement adequacy, as well as the affordability of pension contributions in working life. These household factors are not available to an employer when they assess an employee's eligibility or determine contribution rates, which makes it difficult to assess whether pension contributions are insufficient, or unaffordable, for low earners.

There are identified policy interventions which would target those who are currently low earners, such as modifying the Trigger Income and Lower Earnings Limit parameters of automatic enrolment, or introducing employer contributions that are non-contingent on employee contributions. These would have a proportionally greater impact on the amounts that low earners save, compared to high earners.

However, this research identifies that although an individual may be a low earner at a single point in time, they may also have periods of higher earning at different stages of their career. In these cases, individuals may make the majority of their pension contributions outside of low earning periods. In the case of individuals who earn more later in life, they may theoretically have enough information to identify that their current standard of living is not sustainable in retirement with their existing pension.

This creates two potential types of policy intervention. The first may encourage workers to contribute more while they are low earners, so that they are less dependent on contributions made during their high earning periods. The other may encourage past or future low earners to build up pension savings that compensate for reduced pension contributions during any low earning periods.

The next report will explore the impacts of these policy interventions. This will involve exploring the affordability of contributions at each career stage, the potential increase in savings from different policies, and the increase in contributions that higher earners may need to make to compensate for gaps in contribution history.

Technical Appendix

Modelling approach

Most information about profiles, such as working life earnings, is obtained from Understanding Society.

Information about contribution rates among populations that fit low earner profiles is not available in Understanding Society. These data were instead obtained from the Annual Survey of Hours and Earnings, using a secure access dataset to obtain precise information based on age and sector. This work was undertaken in the Office for National Statistics Secure Research Service using data from ONS and other owners and does not imply the endorsement of the ONS or other data owners.

Historic data, such as tax thresholds and automatic enrolment parameters, are updated to the most recent historical values at the time of modelling, and uprated according to economic determinants from the OBR.

Target Replacement Rates, and associated retirement income targets, use the following bands, uprated to 2025 earnings terms:

Gross Pre-retirement (50-SPa) Earnings	Pension Commission (2004)	2023 Earnings Terms	BHC Target RR	AHC earnings	AHC Target RR
Band 1	Less than £9,500	<£15,900	0.8	<£13,500	0.84
Band 2	£9,500-£17,500	£15,900-£29,000	0.7	£13,501-£26,000	0.75
Band 3	£17,500-£25,000	£29,001-£42,000	0.67	£26,001-£38,000	0.71
Band 4	£25,000-£40,000	£42,001-£67,000	0.6	£38,001-£62,000	0.63
Band 5	Over £40,000	>£67,000	0.5	>£62,000	0.53

This table is taken from DWP official statistics[xiv].

In general, the profiles in this modelling, and the assumptions around pensions policy, assume that that all modelled individuals are 18 in 2025, and that policy stays "frozen" as it currently is throughout their lives. These profiles are not intended to model individuals born at a particular time in the past, but rather individuals as they would be if they spent their whole life under current policy, demographic, and economic conditions.

Full descriptions of life courses

The profiles modelled in this report were introduced in the previous report, and their working lives were explored in more detail. Full descriptions of each profile are repeated here. These life courses are representative of 5%, 5%, 9% and 1% of the UK population respectively. These profiles were chosen to be represent the most persistent low earners. For example, the "mother" profiles have 28

years of low earning, which represents the top decile of persistence for mothers. This means that they may not represent "weaker" versions of these profiles, such as a mother who has a short spell of low earning but returns to high earnings. However, as these profiles are the most persistent, they may represent a larger share of "low earner years" among the population, and also mean that any conclusions that apply to these profiles are also likely to apply to "weaker" versions of the same profile. For example, this report finds that among profiles with periods of high earning, at least 90% of contributions are made during these periods. This suggests that for a "weaker" versions of these profiles, this figure would be even higher.

Profile 1

This group is defined by being a woman and having high earnings early in life, and then becoming a low earner in motherhood, but having an above average household income throughout. This pattern is broadly representative of about 5% of all women. A representative woman from this group has high earnings early in her career followed by low earnings up to retirement, but lives in a household where equivalised household income is above the median throughout her working life. She has a high probability of working in the public sector, for instance in education. She becomes a mother in her thirties, after which she begins part-time working, becoming a low earner. Upon transitioning to low earning, there may be an immediate drop in disposable household income, but this quickly recovers. She is a member of her employer's pension scheme throughout her life and never returns to high earnings.

Profile 2

This group is defined by being a mother and having low earnings across their entire career, and by having a below average household income throughout their life that borders on relative poverty, even after factoring in any benefit income. This life course is broadly representative of 5% of women. A representative individual from this group has no earnings for the first few years of working age, and has two children in her early twenties. In her late twenties she enters the workforce and works part time. She may change sectors, but continues to be a low earner, until she leaves the workforce in her fifties as a result of poor health. Her household income and individual income are both low throughout her life. Her equivalised disposable household income is below the threshold for relative poverty, which is 60% of the median, at the beginning of working life, and, although it rises above the threshold later, is still below the median and close to 60%. She joins her employer's pension scheme in her thirties.

Profile 3

This group is defined by having high qualifications, and being a low earner in their early career, before moving into higher-paid work later, and is broadly representative of 9% of women. A representative individual from this group obtains a degree, but does not immediately enter her vocational field. During her twenties, her living arrangements are a mixture of living with parents, and living away from home with housemates or a partner. In her thirties, her pay increases significantly as she moves into a sector related to her degree. She also marries a high-earning partner, and together, their equivalised household income is especially high. This is in part because they do not have children, which lowers their household costs compared to other profiles. She consistently saves into her employer's pension during her high-earning years. During her low earning period, she is a mix of ineligible, enrolled, or not a member of her employer's pension scheme, while having the option to join. She is also likely to be paid hourly rather than salaried.

Profile 4

This life course represents a man who is paid hourly during his low-earning period and is broadly representative of 1% of men. In his late teens and early twenties, he experiences a mix of low-paid

work and unemployment. In his mid-twenties to early thirties, he works in an hourly paid job, before moving into higher paid work in a different sector. He moves in with a partner and has a child in his thirties. During his high-earning period, his household earnings are above the median and gradually climb with age. However, he is the primary earner of the household. When he first becomes a high earner, his equivalised household income may not be as high as the other representative individuals identified in this report, and may only be above the median by a relatively small margin. Similarly to the previous life course, he saves consistently as a high earner, but during his low-earning period, rarely saves as he is ineligible or not a member of his employer's pension scheme.

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