Response from the Pensions Policy Institute
14/07/26

Pensions Policy Institute
PPI

The Second Pensions Commission call for evidence

Executive summary

- **The pensions policy landscape has evolved significantly since the Turner Commission.** Automatic Enrolment (AE) has substantially increased workplace pension participation, but retirement adequacy has become a more prominent challenge as labour markets, housing tenure, and household structures have changed.
- **Adequacy, fairness, and sustainability provide a relevant framework for assessing the pensions system.** These system objectives reflect the interconnected nature of retirement outcomes and the trade-offs inherent in pensions policy.
- **Retirement adequacy is increasingly shaped by factors beyond pension saving alone.** Housing costs, housing tenure, household composition, and wider financial circumstances are becoming increasingly important determinants of living standards in retirement.
- **Retirement outcomes reflect cumulative life course experiences.** Persistent inequalities remain for many underpensioned groups, while diverse employment pathways mean individuals with similar earnings can experience very different retirement outcomes.
- **AE has increased participation but has not addressed contribution or adequacy gaps.** The current design is less effective for groups with interrupted or non-standard working lives, and different policy approaches to the adequacy challenge have a differential impact across population groups.
- **No single reform addresses all of the limitations of AE.** Different policy measures improve different aspects of system performance, highlighting the trade-offs between adequacy, fairness and sustainability.

Introduction

The Pensions Policy Institute (PPI) is 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.

This submission draws together findings from the PPI's recent programme of research, including:

- The UK Pensions Framework;
- 20 Years On: Expectations vs Realities of the Turner Commission;
- The Underpensioned Index;
- From Payslip to Pension;
- Pensions Adequacy in the UK: Housing, Households, and Automatic Enrolment.

This response highlights evidence relating to the principal themes identified by the Commission.

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1. The evolving context for retirement adequacy

1.1 The PPI's research examining the impact of the Turner Commission over the past two decades indicates that many of its core objectives have been realised. AE has increased participation in workplace pension saving and has contributed to broad coverage among eligible employees. The framework established following the Turner Commission has also provided a relatively stable basis for pension policy development.

1.2 At the same time, the environment within which retirement saving takes place has changed substantially. Labour market participation has become more diverse, self-employment has grown, defined benefit provision has continued to decline, housing costs have increased, and household structures have become more varied.

1.3 These developments suggest that the policy challenges facing the pensions system today differ in important respects from those considered by the Turner Commission. While participation has increased considerably, questions relating to retirement adequacy have become more prominent.

1.4 The evidence therefore highlights the distinction between increasing participation in pension saving and achieving adequate retirement outcomes.

2. Adequacy, fairness, and sustainability

2.1 The PPI welcomes the Commission's adoption of adequacy, fairness, and sustainability as the overarching objectives against which the UK pensions system should be assessed. These objectives are consistent with the PPI's UK Pensions Framework which identified adequacy, fairness and sustainability as three complementary objectives that together provide a framework for assessing the performance of the UK pensions system. The Framework recognises that pensions policy operates within a wider economic and social context and that reforms are likely to have implications across multiple dimensions of the system.

2.2 These three objectives are closely interconnected. Changes intended to improve one aspect of system performance may influence the others. For example, measures that increase retirement incomes may also increase contribution requirements during working life, affect employer costs or influence public expenditure. Equally, policies that improve outcomes for particular groups may have different implications for other groups depending on labour market participation, earnings trajectories or household circumstances.

2.3 The interaction between these objectives is reflected throughout the PPI's recent research programme. The From Payslip to Pension series illustrates how differences in employment patterns, earnings progression, and caring responsibilities influence both the affordability of pension saving during working life and the adequacy of retirement outcomes. The

Underpensioned Index demonstrates that disadvantage is not distributed evenly across the population, while research on housing and retirement adequacy highlights the growing importance of housing costs in determining the level of retirement resources required to maintain living standards. Collectively, this evidence illustrates that changes in one area of policy may have consequences across multiple dimensions of retirement income.

2.4 Considering adequacy, fairness, and sustainability together provides a means of assessing both the intended effects of policy changes and the interactions between different elements of the pensions system. This is particularly relevant where policy options involve trade-offs between improving retirement outcomes, maintaining affordability during working life and ensuring that reforms remain sustainable over the longer term.

2.5 The Pensions Framework also reflects the increasing interaction between pensions policy and wider areas of public policy, including employment, taxation, housing and the welfare system. Evidence from recent PPI research suggests that retirement outcomes are increasingly influenced by factors extending beyond pension saving alone. As a result, assessments of future pensions policy may benefit from considering these wider interactions alongside more traditional measures of pension adequacy.

3. Adequacy is increasingly shaped by a broader range of factors

3.1 Retirement adequacy is increasingly influenced by a broader range of factors than pension saving alone. While pension wealth remains a key determinant of retirement income, changing patterns of housing tenure, household composition, and labour market participation mean that individuals with similar levels of pension wealth may experience markedly different standards of living in retirement.

3.2 Historically, assessments of retirement adequacy have often assumed that most people enter retirement as outright homeowners with relatively limited housing costs. However, this assumption is becoming progressively less representative of future pensioner populations. PPI modelling projects that the proportion of pensioner households who own their home outright will fall from 79% today to around 64% by 2044, while the proportion renting privately is projected to increase from 6% to around 18% over the same period. This represents an increase of more than 1.3 million private renting pensioner households.

3.3 These changes have important implications for retirement adequacy. Housing costs continue throughout retirement for many renters and significantly increase the level of retirement income required to maintain a given standard of living. Rental costs for a two-bedroom property may cost between £200,000 and £400,000 over the course of retirement, depending on location and duration of retirement.

3.4 Housing wealth also contributes to retirement adequacy in different ways across the population. Some households may have opportunities to supplement retirement income through downsizing or equity release, while others, particularly those renting throughout later life, do not have access to these assets. As a result, housing wealth has become an increasingly significant source of inequality in retirement outcomes.

3.5 Interactions between pensions and the wider welfare system are likely to become increasingly important. As housing costs in retirement increase, eligibility for means-tested support such as Housing Benefit may play a greater role in determining retirement living standards for some households. As a result, retirement adequacy will be increasingly shaped not only by pension accumulation, but also by the interaction between pensions, housing and the welfare support system.

3.6 Household composition is also increasingly a significant determinant of retirement adequacy. Mixed-income couples, mixed-age couples, multi-adult households and single-person households each face distinct adequacy risks that are not always visible through individual-level assessments. As household arrangements become more diverse, understanding how resources are shared, and who ultimately has access to them, becomes increasingly important. Household-level measures of adequacy provide valuable insight into the benefits of resource pooling and economies of scale, but they can also mask substantial inequalities within households. This raises questions about how adequacy should be assessed, and whether greater emphasis should be placed on balancing household-level and individual-level circumstances.

3.7 These findings suggest that assessments of retirement adequacy may benefit from considering a broader range of factors than pension income alone. Evaluating retirement outcomes in the context of housing costs, household composition and wider financial circumstances provides a more comprehensive understanding of the resources available to individuals in later life and the variation in retirement outcomes across different groups.

4. Adequacy outcomes reflect cumulative life course experiences

4.1 Evidence from the PPI's Underpensioned Index and From Payslip to Pension research series indicates that retirement adequacy reflects cumulative experiences throughout working life rather than decisions made at a single point in time. Pension accumulation is influenced by labour market participation, earnings, caring responsibilities, health, household circumstances and housing over several decades.

4.2 The Underpensioned Index identifies persistent inequalities in private pension wealth across a number of population groups. Women have average private pension incomes equivalent to 67% of the population average, while people with a disability have private pension incomes equivalent to 43% of the population average. People from ethnic minority backgrounds also have substantially lower average private pension incomes than the population average (62%). These differences are closely associated with patterns of labour market participation, earnings, and caring responsibilities across the life course.

4.3 The From Payslip to Pension research series complements these findings by examining the persistence of low earning over the life course. A key finding is that individuals with lower earnings are not a homogeneous group. They experience low earnings for different reasons, at different stages of life and for different durations, resulting in markedly different opportunities to accumulate pension wealth.

4.4 The research identifies motherhood, lower educational qualifications, and some forms of self-employment as important factors associated with persistent low earning. It also demonstrates that the relationship between these characteristics and low earning varies across population groups. For example, while self-employed men are more likely to experience low earning than employed men, self-employment is not associated with greater persistence of low earning among those who are already low earners.

4.5 Low earning early in working life is not necessarily indicative of persistent disadvantage. At age 22, 37% of women and 28% of men are classified as low earners, but low earning at younger ages is generally less predictive of long-term low earning than low earning experienced in later life.

4.6 Individuals with similar earnings may have very different capacities to save depending on household composition, housing costs, caring responsibilities and wider financial commitments. Earning alone provide only a partial indication of an individual's ability to save for retirement.

4.7 Low retirement adequacy reflects a diverse range of life course experiences rather than a single pattern of low earning. Considering representative life course pathways, rather than average earnings alone, provides a broader understanding of how pension inequalities emerge and how changes to pension policy may affect different groups.

5. AE has substantially increased participation, but adequacy outcomes remain uneven

5.1 AE has fundamentally reshaped workplace pension saving in the UK. Since its introduction, participation in workplace pensions has increased substantially, particularly among employees working in stable employment, and the policy has successfully established pension saving as the default for the majority of eligible workers. Low opt-out rates demonstrate the effectiveness of automatic enrolment as a behavioural policy intervention.

5.2 However, increased participation alone does not necessarily translate into adequate retirement outcomes. While AE has been highly effective in expanding coverage, important differences in projected retirement outcomes remain between groups with different employment patterns and life course experiences.

5.3 The current design of AE reflects a traditional model of continuous full-time employment. As a result, some groups remain less likely to benefit, including lower earners, part-time workers, carers, multiple jobholders, younger workers, and the self-employed. These groups experience lower pension accumulation because of interruptions to employment, lower lifetime earnings, or reduced access to employer pension contributions.

5.4 The structure of contributions is as important as participation itself. Although the statutory minimum contribution is 8%, because contributions are calculated on qualifying earnings rather than total earnings many lower earners contribute a substantially smaller proportion of their total pay than the headline contribution rate suggests. PPI modelling indicates that reforms introducing pension contributions from the first pound of earnings can have a proportionally greater impact on retirement outcomes for many lower earners than increases in the overall minimum contribution rate.

5.5 No single reform addresses all of the structural limitations within the current AE framework. Different policy measures improve different aspects of system performance. Higher contribution rates and contributions from the first pound of earnings generally produce the largest improvements in retirement adequacy, while alternative reforms such as carer credits and changes to AE thresholds would have a greater effect on improving outcomes for groups currently less well served by the existing framework. Phased implementation of higher contribution rates may support sustainability by balancing improvements in retirement adequacy with affordability for individuals and employers. These findings illustrate that different policy approaches involve different trade-offs between adequacy, fairness, and sustainability, and that improving outcomes for those facing the greatest adequacy challenges is likely to require a combination of complementary measures rather than a single intervention.

6. Conclusions

6.1 The UK pensions system has evolved considerably since the Turner Commission. AE has transformed workplace pension participation and established pension saving as the default for the majority of eligible employees. However, the factors influencing retirement adequacy have become increasingly complex as labour market participation, household structures, and housing tenure have changed.

6.2 The evidence consistently shows that retirement outcomes are increasingly shaped by a broader range of factors than pension saving alone. Employment histories, caring responsibilities, earnings trajectories, housing tenure, and household composition all influence the resources available to individuals in later life. As a result, individuals with similar levels of pension saving may experience markedly different standards of living in retirement.

6.3 The evidence also demonstrates that average outcomes can mask substantial variation between population groups. Persistent differences in pension wealth remain for many underpensioned groups. Individuals with lower earnings follow diverse life course pathways that result in different opportunities to save and different retirement outcomes. A life course perspective therefore provides additional insight into how pension inequalities emerge and accumulate over time.

6.4 While AE has resulted in substantially increased participation rates, the interaction between contribution design, earnings thresholds and increasingly diverse patterns of employment means that retirement outcomes continue to vary across the population. Only a combined package of reforms will address all of AE's current weaknesses and this will require trade-offs between the three core objectives of adequacy, sustainability and fairness.

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About the Pensions Policy Institute

We have been at the forefront of shaping evidence-based pensions policy for over 20 years.

The PPI, established in 2001, is a not-for-profit educational research Institute. We are devoted to improving retirement outcomes. We do this by being part of the policy debate and driving industry conversations through facts and evidence.

The retirement, pensions and later life landscapes are undergoing fast-paced changes brought about by legislation, technology, and the economy. Robust, independent analysis has never been more important to shape future policy decisions. Each research report combines experience with INDEPENDENCE to deliver a robust and informative output, ultimately improving the retirement outcome for millions of savers.

Our **INDEPENDENCE** sets us apart – we do not lobby for any particular policy, cause or political party. We focus on the facts and evidence. Our work facilitates informed decision making by showing the likely outcomes of current policy and illuminating the trade-offs implicit in any new policy initiative.

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