

From Payslip to Pension: How can low earners afford a commensurate retirement income?

Roundtable Writeup

Ahead of the next publication in the Payslip to Pension series in May 2026, the Pensions Policy Institute (PPI) held a virtual Roundtable on Wednesday 25 March 2026.

The objective of the roundtable was to inform the project's ongoing analysis of policy interventions aimed at improving outcomes for low earners. Building on previous findings in the series around persistence of low earnings, affordability of saving, and retirement outcomes under current policy, this Roundtable explored how options such as changes to earnings thresholds, contribution structures, and incentives could affect both working life finances and retirement incomes.

This project has been funded by a grant from the Nuffield Foundation. The project will run until summer 2026 and consists of five individual outputs, three of which have already been published.

Dr Suzy Morrissey, PPI Deputy Director, chaired the Roundtable.

Key findings

As a starting point for the discussion, **John Upton, PPI Policy Analyst**, presented an overview of the project's findings so far.

The research utilises a 'career roadmap' model that tracks how individuals move in and out of low-paid work across their lives. This fills an important gap in existing data, which typically only captures earnings at a single point in time. By taking a longitudinal view, the model research distinguished between people experiencing temporary low earnings and those facing lifelong low pay, a distinction that has implications for the policy levers that are likely to be most effective in addressing adequacy challenges among low earners.

Using this roadmap, the research identified four typical profiles of persistent low earners:

- A mother in a high-income household, more likely to be able to save adequately for retirement
- A mother in a low-income household, at greater risk of poverty, and likely to be heavily reliant on the state pension
- A highly qualified woman with low earnings early in her career but higher earnings later
- A precariously employed man with unstable early earnings followed by higher income later in working life

These profiles were analysed using the PPI's Individual Model to assess two key issues:

- Affordability during working life – whether individuals can realistically afford to contribute to pensions
- Retirement adequacy – whether their eventual pension savings meet their needs

The research found that over 90% of pension contributions for low earners with fluctuating incomes over working life come during higher-earning periods. This is largely due to systemic features like

earnings threshold, which have a greater impact in limiting contributions when income is low. This could be interpreted in two ways:

- The system may be working as intended, allowing people to contribute more when they can afford it
- Or it may be inadequate, as it relies too heavily on intermittent high-earning periods rather than consistent saving

The research highlights that affordability is highly complex. While some low earners could save more, others, particularly those without financial safety nets, would face hardship if required to increase contributions. Around 10% of low earners appear especially vulnerable, because they lack any buffer, such as family support or savings.

In terms of retirement outcomes:

- The low-income mother meets her income replacement target largely because her baseline income in working life is so low, raising questions about whether increased state support, rather than increased saving, may be needed for such individuals
- Individuals with uneven career paths (low earnings early, higher earnings later) often fail to build adequate pension savings despite higher later incomes, because their contributions are inconsistent

John then highlighted some potential policy options that could have the potential to improve retirement outcomes for low earners, including:

- Lowering or removing earnings thresholds
- Increasing contribution rates
- Introducing new mechanisms like employer contributions not tied to earnings
- Adjusting state benefits and safety nets

Each option involves trade-offs across adequacy, affordability, cost, fairness, simplicity, and employer impact, especially in sectors with many low-paid workers. The research suggests that a one-size-fits-all approach to pensions policy is unlikely to be effective. Policies aimed at improving low earners' retirement outcomes must account for the diversity of their working life trajectories, balancing the need for adequate retirement savings with the reality of financial constraints during working life.

Discussion

The Chair then opened the floor to questions and discussion from the participants.

Coverage gaps: Self-employment, interruptions, and opt-out behaviour

The role of self-employment was raised as an area for exploration. Previous analysis undertaken as part of this project found that while self-employed individuals are more likely to become low earners, low earners as a broader group do not spend longer than average in self-employment over the course of their working lives. The self-employed group is challenging to integrate into the current modelling approach, as it utilises data relating to automatic enrolment, for which the self-employed are ineligible. However, the self-employed remain an important consideration representing a structural gap in the current pensions system.

More broadly, participants emphasised the importance of capturing interruptions to earnings, particularly among mothers. While the modelling includes consideration of periods out of the labour market, there was agreement that opt-out behaviour should also be explicitly considered, especially when looking at low-income groups facing cost-of-living pressures. If opt-out behaviour is not accounted for, there is a risk that the modelling could overestimate participation and contribution levels among low earners.

Policy levers and the importance of trade-offs

A central theme throughout the discussion was the need to present policy options in a way that clearly articulates trade-offs across multiple dimensions, including:

- Adequacy
- Affordability
- Cost (to individuals, employers, and government)
- Simplicity
- Fairness
- Behavioural response

It was suggested that these dimensions could be tabulated to enable policymakers to assess which interventions best align with specific objectives.

It was noted that existing evidence suggests that no single intervention is likely to address all low earners' needs, particularly for those with fragmented work histories. For some, especially those with persistently low incomes, enhances safety nets and state benefits may be the only effective lever, but must be considered alongside the trade-off these options present for broader fiscal considerations.

Measuring adequacy

The discussion highlighted limitations in relying solely on target replacement rates (TRRs) as a measure of adequacy. There was a question as to whether current TRR benchmarks remain appropriate given changes in earnings and living costs since these were established. Participants suggested incorporating alternative measures such as Pensions UK's Retirement Living Standards.

It was also suggested that the modelling could explore variations in retirement timing, as low earners in particular, may be less likely to retire at State Pension age (SPa). Low earners, particularly those who have worked in physically strenuous roles, are more likely to need to retire earlier due to poor health. Other low earners, who are physically able to do so, may continue to work beyond SPa as they are reliant on the continued income from work. Retiring either earlier or later than SPa could have significant adequacy implications for low earners' retirement outcomes.

A key insight was that adequacy cannot be assessed without considering expenditure needs, which vary significantly by:

- Housing tenure (e.g. renters vs homeowners)
- Household composition (e.g. single vs couple)
- Health status

For example, low earners who rent into retirement may require higher levels of income than homeowners, suggesting a more nuanced approach to adequacy benchmarks may be required, particularly as the number of people renting in retirement increases.

Commented [GU1]: Was the implication they would retire before (my assumption) or after? I think we should make this a little clearer if we can.

More broadly, participants stressed that pensions cannot be considered in isolation from working-life income adequacy. If individuals cannot afford to save due to low earnings or high costs-of-living, changes to AE design, contribution models, and so on cannot resolve adequacy challenges. The question was raised as to whether pensions policy should aim to increase saving among low earners or focus on meeting their needs through state support and broader labour market interventions.

Simplicity and system design challenges

It was highlighted that any policy changes would also need to consider the importance of simplicity across two dimensions: 1) member understanding, and 2) employer (particularly SME) administration. There is evidence that some small employers already struggle with AE compliance. Given that around 90% of employers are SMEs, additional complexity, such as opt-up/down mechanisms, risks increasing errors and non-compliance. There are particular risks around failure to enrol eligible workers, misclassification of self-employed workers, and informal opt-out encouragement among SMEs, which can materially impact retirement outcomes for low earners.

International comparisons were discussed, illustrating different approaches:

- Systems with no lower earnings threshold (simpler but may increase opt-out rates)
- Systems with higher thresholds linked to state benefits (offering simplicity alongside a stronger safety net)

There was also discussion around the UK's current £10,000 lower earnings threshold, with suggestions that it is arbitrary, as it is no longer linked to any underlying benchmarks such as tax thresholds or state pension income levels. It was suggested that linking the lower earnings threshold to a meaningful, regularly updated benchmark would present a more simple and coherent approach.

Employer contributions, wages, and distributional effects

The potential impact of non-contingent employer contributions raised questions about who ultimately bears the cost. Key considerations included:

- Limited wage pass-through for those on the National Minimum Wage
- Potential downward pressure on wage growth for those slightly above it
- Concentration of impacts among SMEs

Similarly, increasing minimum contribution rates specifically for higher earners was suggested to have a likely limited aggregate impact, as many already contribute above minimum levels, especially those with larger employers.

There was also interest in exploring:

- Age-related contribution structures, reflecting lifecycle affordability
- Contribution models based on cash benchmarks, such as the Resolution Foundation's Living Pension Standard, rather than percentages

Behavioural dynamics and engagement

Behavioural factors were raised as being critical but complex. Key discussion points included:

- Framing effects significantly influence engagement with pensions – small projected monthly retirement incomes can discourage saving

- Increased engagement may lead to higher opt-out rates, particularly among low earners who face significant financial constraints and cost-of-living pressures

This highlighted a question as to whether pensions policy should prioritise engagement or instead rely on well-designed defaults and safety nets.

Fairness and structural inequalities

The importance of analysing fairness within the pensions system was emphasised, particularly:

- The loss of employer contributions and tax relief for those below the AE threshold
- Inequities between workers with slightly different earnings levels or different configurations of employment
- Differences driven by employer type and sector

There was also a call to better understand the composition of low earners, noting that many are not just low earners, but low-hours workers, and that increasing hours (where possible) may be as important as increasing contribution rates.

Household structure was also highlighted:

- Single individuals face both lower affordability and higher relative retirement costs
- Household income pooling can significantly alter outcomes