THE SOCIETY OF PENSION PROFESSIONALS

making pensions work

The Society of Pension Professionals (SPP) response to the Work & Pensions Select Committee Inquiry into Pensions Adequacy – auto-enrolment contributions for low earners and their employers

1. Consultation response

Question 1: To what extent do minimum AE contributions need to increase?

1.1. The DWP's own figures indicate that 15m are not saving enough for their retirement[1]. Furthermore, the 15m calculation was based on the triple lock remaining in place for the next 50 years. In September 2026, the Prime Minister confirmed that whilst the current State Pension Triple Lock will be maintained until April 2030, from then, it will be adjusted so the State Pension rises by at least inflation or 2.5% each year with a new link built in to keep pace with earnings over time[2]. This makes it likely that 15m is an significant underestimate. If a future government were constrained to limit pension increases to a simple CPI basis, those facing an inadequate income in retirement would increase to over 26million[3]. This uncertainty alone makes for a compelling reason to increase minimum AE contributions.

1.2. AE contributions also need to increase to reduce future reliance on the state. A larger pension pot gives people more capacity to maintain their standard of living rather than relying heavily on the State Pension or means-tested support. There are 1.7m people reliant on the State Pension alone for retirement income today[4] and almost 1.4m in receipt of Pension Credit[5] but the cost to the state extends well beyond this to Housing Benefit, Council Tax reductions and so on.

1.3. The 8% minimum has achieved its job (getting millions to save) but it is now the wrong policy anchor for the next stage of pension reform, which is to ensure millions are not just saving but saving enough.

1.4. As the Pensions Commission explicitly highlighted in its interim report[6], the statutory minimum contribution rate of 8% was never intended to be a complete solution; rather, the original design envisaged that individuals would need to make additional savings in order to achieve the income smoothing they desire between working life and retirement.

1.5. In practice, this deliberate top-up behaviour has largely failed to materialise. A major driver of this inertia is a widespread perception among savers that setting a statutory minimum implies government endorsement, leading many to reasonably, yet incorrectly, assume that contributing at the default minimum is sufficient to secure an adequate retirement. Because this behavioural policy anchor has created a false sense of security, the statutory minimum contribution rate must itself be increased to a level that can realistically deliver genuine income adequacy.

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[1] **DWP Official Statistics, Analysis of future pension incomes, published July 2025:** https://www.gov.uk/government/statistics/analysis-of-future-pension incomes-2025

[2] **Press release Prime Minister Andy Burnham sets out plans for a new National Care Service, 29 September 2026:** https://www.gov.uk/government/news/prime-minister-andy-burnham-sets-out-plans-for-a-new-national-care-service

[3] **Moneyweek, December 2025:** https://moneyweek.com/personal-finance/state-pensions/state-pension-triple-lock-retirement-shortfall

[4] **Saving Retirement, 2025:** https://the-spp.co.uk/wp-content/uploads/SPP-Saving-Retirement-21.8.25.pdf

[5] **Annual DWP Benefits Statistics Compendium: 2026, 15 September 2026:** https://www.gov.uk/government/statistics/annual-dwp-benefits-statistics-compendium-2026/annual-dwp-benefits-statistics-compendium-2026

[6] **Pensions 2050: Evidence and Future Priorities, May 2026:** https://assets.publishing.service.gov.uk/media/6a073f6cf7c2e79c33db903d/Second_Pensions_Commission_Report_standard.pdf

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1.6. Furthermore, the current statutory minimum of 8% only applies to "qualifying earnings" between £6,240 and £50,270, meaning many workers actually save far less in practice.

1.7. International evidence is also worth considering. The OECD's latest international comparison indicates that mandatory/auto-enrolment contribution rates are above 10% of salary in Australia, Colombia, Denmark, Iceland, Israel and Switzerland[7].

1.8. Closer to home, the historical evidence provides an important point of comparison. Before the shift from defined benefit (DB) to defined contribution (DC) pensions reached its current scale, employer contributions to DB schemes were substantially higher than the minimum required under today's DC system. Twenty years ago, in 2006, the average employer contribution to private-sector DB schemes was 15% of salary[8], compared with today's statutory minimum employer contribution of just 3% under AE.

1.9. Policymakers, the pensions industry and savers have a shared goal – an adequate retirement income for all – and increasing AE contributions is a crucial part in achieving this.

Question 2: How should any contribution increase be shared between employers and workers?

1.10. The SPP has long recommended that minimum AE contributions should increase from the current statutory floor of 8% of qualifying earnings to a baseline of 12% of total earnings to prevent widespread retirement inadequacy.

1.11. Targeting a 12% total contribution with a minimum employer contribution of 6% will mean that, as a minimum, an equal split between employers (6%) and employees (6%). This will provide a balanced framework for closing the adequacy gap. A minimum shared approach recognises that adequate retirement income is a joint responsibility and avoids placing the full cost of reform on either employers or workers.

1.12. Recognising that many employers contribute more than 6% already, this approach should be actively encouraged, not least because employee contributions would not then have to rise to the same extent.

1.13. There is also a strong case for asking employers to bear a meaningful share of any increase. Employer contributions form part of the overall remuneration package and are an established feature of workplace pensions. Requiring employers to contribute more would improve pension outcomes without requiring the entire increase to come directly from employees' take-home pay.

1.14. A 1:1 matching structure could also strengthen the incentive for workers to remain enrolled. Where workers see an increase in their own contribution accompanied by an equivalent increase from their employer, the additional saving is more clearly visible as a shared investment in their retirement rather than simply an additional deduction from pay.

1.15. Any increase should, however, be phased in over time (see response to question 4 below). A staged approach would give employers and workers time to adjust to higher contributions, reduce the risk of a significant short-term impact on take-home pay, and allow policymakers to monitor opt-out rates and the effects on lower-paid workers.

1.16. The distribution of the increase should also be considered alongside wider reforms to the AE framework. In particular, if contributions are extended to the first pound of earnings by removing the Lower Earnings Limit, there would already be a material resulting increase in pension saving for low-paid and part-time workers that will be coming out of their take home pay. Further short-term increases should not be achieved primarily by increasing their employee contribution burden as this would likely lead to significant opt-outs in the group that

[7] **Pensions at a Glance 2025:** **https://www.oecd.org/en/publications/2025/11/pensions-at-a-glance-2025_76510fe4/full-report/contributions-paid-into-pension-plans_00ab41bc.html?utm_source=chatgpt.com**

[8] **Office for National Statistics, Pension contributions, 2014 edition:** **https://www.ons.gov.uk/economy/investmentspensionsandtrusts/compendium/pensiontrends/2014-11-28/chapter8pensioncontributions2014edition?utm_source=chatgpt.com**

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the policy changes are most intended to help. This further strengthens the case for employers to meet a substantial proportion of the additional cost.

1.17. Finally, it may be worth considering requiring employers to automatically enrol and pay a level of employer contributions for all workers regardless of whether member opts out of paying contributions themselves, as the SPP suggested in our response to the Pensions Commission interim report earlier this year[9].

Question 3: What are the trade-offs for employers and workers between current needs and long-term savings? How might policy design help balance them?

1.18. It is important to recognise that there is an inherent trade-off between meeting financial needs today and building financial security for tomorrow. The policy challenge is therefore not to eliminate that trade-off, but to design a pensions system that makes long-term saving more affordable, more attractive and more effective, while recognising the pressures facing households and employers in the present.

1.19. For workers, the central trade-off is between meeting immediate cost-of-living pressures and building adequate retirement income. Increasing pension contributions can strengthen long-term financial resilience, but for households already facing high housing, energy, childcare and other essential costs, we must recognise that additional saving means a reduction in disposable income today.

1.20. For employers, the trade-off is between the cost of providing a more generous pension and the benefits that investment can bring through recruitment, retention, employee engagement and workforce resilience. Higher pension contributions represent an immediate employment cost, but they can also form part of a wider remuneration package that helps employers compete for talent and reduce the longer-term costs associated with staff turnover.

1.21. The objective should therefore be to shift the balance in favour of long-term saving without making the short-term pressures facing workers and employers harder to manage.

1.22. Policy design can help achieve this balance. This requires a combination of measures that improve incentives to save, increase engagement and, crucially, make the eventual use of pension savings simpler and more effective.

<u>Starting Early</u>

1.23. The most powerful way of reducing the pressure to make large pension contributions later in life is to enable people to start saving earlier.

1.24. In addition to lowering the AE age threshold from 22 to 18, the government should make it easier for parents and grandparents to contribute directly to pensions for younger family members (under 18s). The non-earner pension contribution limit (£2,880 net) has remained unchanged for over a quarter of a century. Uprating this allowance would encourage family-assisted long-term saving, ease future retirement reliance on the state, and help address lifetime gender and career-gap deficits from an early age. At present just over 40,000 under 18's have a pension[10] compared to 1.37m Junior Isas subscribed to in a single year (2023-2024),[11] which helps demonstrate just how unaware most Brits are of this opportunity and the need to address this.

<u>Employer Accreditation</u>

1.25. Introducing an official employer recognition scheme would allow businesses contributing above minimum levels to demonstrate their commitment to employees' long-term financial wellbeing.

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[9] The SPP response to the Second Pension Commission's Interim Report, July 2026:
https://the-spp.co.uk/wp-content/uploads/Pensions-Commission-08.07.26.pdf
[10] Which?, October 2025:
https://www.which.co.uk/news/article/more-families-are-opening-child-pensions-is-it-the-best-way-to-save-anKp04w6bCdZ
[11] HMRC Commentary for annual savings statistics, September 2025:
https://www.gov.uk/government/statistics/annual-savings-statistics-2025/commentary-for-annual-savings-statistics-september-2025

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1.26. This could help change the perception of pension contributions from simply being an additional payroll cost into a visible component of an employer's overall reward proposition. In a competitive labour market, employers that make a greater contribution to their employees' financial security could use this recognition as a recruitment and retention tool.

1.27. The policy would therefore not require every employer to increase contributions immediately. Instead, it would create a mechanism through which employers choosing to go further could differentiate themselves and capture some of the workforce benefits associated with doing so (see below).

Sidecar Savings

1.28. Measures such as sidecar savings arrangements, improved payroll savings mechanisms and other approaches that strengthen financial resilience may ultimately support higher levels of long-term pension saving by reducing the likelihood that individuals opt out of pension saving when faced with financial pressures. The Centre for Inclusive Money (formerly Nest Insight) recently published a report, 'Balancing today and tomorrow'[12], which provides clear evidence for this. Their real-world testing of sidecar savings shows that when people have a dedicated space to build short term emergency cash alongside their pension, it creates a vital safety net. Instead of competing with pension saving, having this liquid cash cushion actually protects it. It means when an unexpected bill hits, savers do not have to choose between immediate financial survival and their retirement future, which dramatically reduces the risk of them opting out of the pension scheme entirely.

Opting Down

1.29. To prevent an uptick in opt-outs as rates rise, the system must offer flexibility beyond what is often today's binary choice of saving in full or stopping entirely. Introducing a formal 'opt-down' mechanism would allow workers facing temporary financial strain to lower their contribution rate for a limited period rather than leaving the scheme altogether. Crucially, keeping a lower contribution active at least preserves valuable employer matching as a baseline, maintains the workplace saving habit, and makes it far easier to nudge employees back up to target levels once household pressures ease.

Guided Retirement

1.30. The final part of the equation is what happens when people reach retirement. It is not enough to encourage individuals to build pension pots if they are then expected to make complex decisions about how to turn those savings into a sustainable income.

1.31. Guided Retirement can help address this by creating clearer pathways for individuals as they move from accumulation into retirement. Rather than leaving people to navigate complex decisions about investment, longevity and income entirely on their own, a guided approach can provide greater structure while preserving individual choice.

1.32. Retirement Collective Pensions (RCP)) could form an important part of this architecture. RCPs would allow individuals to pool investment and longevity risks and receive an income designed to last throughout retirement, rather than requiring each individual to manage these risks independently. This could provide a more straightforward way of converting accumulated pension savings into retirement income, while allowing outcomes to reflect investment performance and the sustainability of the collective fund.

1.33. This is particularly important to the current-versus-future trade-off. If people have greater confidence that the pension savings they make during their working lives can translate into a sustainable income in retirement, the value of saving becomes more tangible. It also reduces the risk that individuals save successfully throughout their working lives but then struggle to make effective use of those savings once they retire.

[12] **Nest Insight (now Centre for Inclusive Money), Balancing today and tomorrow, June 2026: https://www.nestinsight.org.uk/wp-content/uploads/2026/06/Balancing-today-and-tomorrow.pdf**

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1.34. More broadly, the potential benefits of Collective Pensions need not be confined to retirement, with whole-of-life Collective Pensions offering the potential to apply collective investment and risk-pooling across the accumulation and decumulation phases of the savings journey.

1.35. Taken together, earlier saving, opting down, employer accreditation, sidecar savings and Guided Retirement can help address different parts of the same problem, making it easier for employers to support saving, easier for families to build assets over the long term, and easier for individuals to turn those assets into income in retirement. Good policy design should reduce the barriers to long-term saving and ensure that the sacrifices made during working life translate into greater financial security in retirement.

Question 4: What would be an appropriate timetable for any increases?

1.36. There are changes that could and should be made immediately i.e. implementing the 2023 Extension Act powers to remove the Lower Earnings Limit (LEL) and lower the entry age from 22 to 18 (see response to question 5 below). These measures would strengthen pension saving without requiring an immediate increase in contribution rates.

1.37. Increasing contribution rates is also necessary to improve long-term pension adequacy, but as the SPP has repeatedly cautioned, this must be achieved through a clear, pre-announced and phased timetable. This would provide businesses with certainty and time to plan for and absorb higher employment costs, rather than imposing the full increase at once.

1.38. A six-year phased transition to a 12% core contribution rate would provide a reasonable balance between improving pension outcomes and protecting business affordability. It would allow employers to incorporate increases into their financial and workforce planning, reducing the risk of abrupt adjustments to wages, prices, employment or other benefits, while ensuring that progress towards better pension adequacy begins now.

1.39. In the first year, the total contribution would increase from 8% to 9%. This would be achieved by increasing the minimum employer contribution from 3% to at least 3.5%. Where necessary the employee contribution could increase from 5% to 5.5% (of course those employers who already make this level of contribution would not need to increase their contributions at all).

1.40. In the second year, the total contribution would rise to 10%, with the minimum employer contribution increasing to 4%. Where necessary, the employee contribution would rise to its full amount of 6%.

1.41. From the third year onwards, the employee contribution would not need to increase, while the employer minimum contribution would increase progressively. The employer minimum would rise to 4.5% in year three, 5% in year four, and 5.5% in year five with the total amount moving upwards by the same amount.

1.42. By the sixth year, the employer minimum contribution would reach the target of 6%, bringing the total minimum contribution to 12%, which would be split equally between employer and employee.

1.43. This approach means any adjustment for employees to reach their 6% contribution would happen relatively early, limiting any period over which their take-home pay is affected by any further increases. The remaining increases are then borne by employers, allowing businesses more time to adjust to the higher employment costs.

1.44. If necessary, an independent review at the midway point i.e. at 3 years, could assess opt-outs, employer costs and impacts on lower-paid workers before proceeding with the later increases. However, we would caution that expectations should be managed with the objective of increased adequacy forefront in policymakers minds so that the legislation should be pre-programmed to complete the process, with positive action needed to delay (rather than the other way around).

1.45. Similarly, if necessary, phasing could be legally linked to economic indicators to ensure steps do not coincide with severe macroeconomic downturns.

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Question 5: Is there also a case for reducing or removing the lower earnings limit on contributions and/or the earnings trigger for auto-enrolment?

1.46. Yes. There is a strong case for both removing the Lower Earnings Limit (LEL) for pension contributions and (at least) reducing the earnings trigger for AE, alongside lowering the minimum age for enrolment.

1.47. As the Committee will be aware, the need to increase pension saving was recognised in the 2017 Review of AE. It recommended removing the LEL so that contributions are calculated from the first pound of earnings and lowering the AE age to 18. These recommendations were accepted by successive governments but almost a decade on have not been implemented.

1.48. These are distinct but complementary reforms. Removing the LEL would ensure that, once a worker is auto-enrolled, pension contributions are calculated from the first pound of qualifying earnings rather than only from earnings above the LEL. In addition, reducing (or removing) the earnings trigger would extend AE to millions more workers who are currently excluded altogether.

1.49. Removing the LEL would particularly benefit low earners, part-time workers and workers with multiple jobs. The current framework can result in workers receiving pension contributions on only part of their earnings, while someone whose earnings fall below the trigger in each individual job may receive no employer pension contribution at all. This is particularly relevant to women, who are disproportionately represented among part-time workers.

1.50. There is therefore a strong adequacy case for reform. PPI analysis indicates that removing the earnings trigger could improve retirement outcomes for millions of people, although the precise impact depends on the assumptions and policy design used in the modelling. For example, removing the £10,000 earnings trigger would make 1.2m women and 328,000 men eligible for auto-enrolment, and therefore employer contributions, which is clearly an improvement on where these workers are now, especially women[13].

1.51. This evidence should be considered alongside the potential impact on take-home pay, employer costs and employment for the lowest-paid workers.

1.52. Lowering the AE age threshold from 22 to 18 would also establish workplace saving earlier in working life. This would give contributions more time to benefit from investment returns and compound growth, while establishing pension saving as a normal part of employment from the beginning of a worker's career.

1.53. There is also a case for considering the upper limit of the qualifying earnings band. The £50,270 upper limit has been held in cash terms for several years, meaning that its real value has fallen as earnings and prices have increased. As well as considering reforms to the lower end of the system, the Committee may wish to urge the government to uprate the upper limit over time, for example in line with inflation, to prevent a gradual erosion of the level of earnings on which minimum pension contributions are required. On a CPI basis, £50,270 would be worth over £60,000 in today's prices.

Question 6: To what extent are employers and the public persuaded of the need for contributions to increase?

<u>Employers</u>

1.54. Back in 2019, the Confederation of British Industry (CBI) surveyed business leaders and found that more than seven in ten businesses (71%) "believe that for their employees to have sufficient levels of retirement income, employers will need to make higher contributions to automatic enrolment schemes at some point in the future."[14]

[13] **Pensions Policy Institute (PPI) The Underpensioned: Defining the Gender Pension Gap, February 2024: https://www.pensionspolicyinstitute.org.uk/media/ysgmnwtl/20240207-underpensioned-defining-the-gender-pension-gap-final.pdf**

[14] **Businesses support extension of auto-enrolment, CBI, 2019: https://www.cbi.org.uk/media-centre/articles/businesses-support-extension-of-auto-enrolment/**

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1.55. It is also worth noting that when the statutory minimum contribution rates were previously increased, DWP research[15] found that employers generally reported being confident they could pay the higher rates and were relatively relaxed about the cost. The SPP recognises this is not evidence that employers would welcome more increases, but it does clearly demonstrate that staged increases in the statutory minimum have previously been implemented without widespread employer rejection of the system.

Employees

1.56. DWP's qualitative research around the 2018/19 contribution increases found that, *"Very few workers, in either 2018 or 2019, had been aware of future increases to their automatic enrolment contributions before taking part in an interview. However, their reaction to this news tended to be either neutral or positive. Some were pleased to have the decision to save more for their retirement made on their behalf. A small number interviewed in 2018 expressed some degree of concern about affording the future increase. In 2019, by contrast, the higher contributions played little or no role in workers' decision to remain in or opt out, or in influencing their perception of its affordability."*[16]

1.57. The Drewberry Workplace Pension Survey 2025[17] found that almost half (48%) of employees would pay more into their pension if their employer matched it.

1.58. DWP research[18] also highlights that among people aged 40–75 who were currently saving into a DC pension there is already strong evidence of upward movement in employee contribution levels which bodes well for any future increase in statutory minimum contributions. More than a quarter (28%) had increased their pension contributions during the previous 12 months compared to only 3% who had decreased them.

Alternative steps

1.59. In advance of any increases to the minimum AE contribution rates which may be several years away, government should promote behavioural approaches that encourage saving, including contribution escalation, matching incentives and targeted defaults and financial education and advice - offering mid-life financial "MOTs" and targeted pension guidance to help employees make informed decisions about their retirement savings, alongside recognition for employers that contribute more than the statutory minimum.

1.60. This could include a nationally recognised accreditation programme with Bronze, Silver and Gold ratings based on employer contributions as the SPP recommended in its response to the Pensions Commission's interim report[19], or perhaps a 1-5 style rating system as successfully used for energy performance certificates and food standard ratings in the UK and recommended by the SPP for the new VfM framework[20].

[15] Employers' Pension Provision Survey 2019, June 2022:
https://www.gov.uk/government/publications/employers-pension-provision-survey-2019/employers-pension-provision-survey-2019
[16] Final report: Automatic enrolment: qualitative research with newborn employers, June 2020:
https://www.gov.uk/government/publications/automatic-enrolment-qualitative-research-with-new-employers/final-report-automatic-enrolment-qualitative-research-with-newborn-employers
[17] Drewberry Workplace Pension Survey 2025:
https://www.drewberryinsurance.co.uk/knowledge/research/workplace-pension-survey-uk-2025
[18] Planning and Preparing for Later Life 2024, August 2025:
https://www.gov.uk/government/publications/planning-and-preparing-for-later-life-2024/planning-and-preparing-for-later-life-2024
[19] SPP response to the Second Pension Commission's Interim Report, July 2026:
https://the-spp.co.uk/wp-content/uploads/Pensions-Commission-08.07.26.pdf
[20] SPP Paper – Helping Pension Savers Choose: Value for Money (VfM) in action
https://the-spp.co.uk/document/spp-paper-helping-pension-savers-choose-value-for-money-in-action/

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1.61. Miscellaneous

1.62. The government decision to restrict salary sacrifice for pensions to £2,000 per annum from April 2029 is neither pro-employee nor pro-employer. According to government data, 3.3 million workers who are using salary sacrifice for pensions will be impacted by the £2,000 per annum restriction[21]. Of those impacted, more than a quarter (26%) will be basic rate taxpayers i.e. 858,000 people[22]. The decision is likely to undermine long term saving, weakens confidence among both employees and employers, and runs counter to the government's stated objective of ensuring workers have sufficient income in retirement.

1.63. Similarly, the government's decision to bring unused pension funds into the scope of Inheritance Tax from April 2027 represents another regulatory shift that erodes trust and stability whilst discouraging pension saving. While primarily intended to target estate planning, imposing IHT by eroding the overall tax efficiency of workplace pensions, this measure weakens incentives for individuals to save in a pension, further deepening the adequacy gap and undermining broader efforts to increase retirement savings.

2. About The Society of Pension Professionals

2.1. The SPP is the representative body for a wide range of providers of advice and services to pension schemes, trustees and employers. Our work harnesses the expertise of our membership, striving for a positive impact on pension scheme members, the pensions industry and its stakeholders.

2.2. The breadth of our members is a unique strength for the SPP. Our membership of 90 corporate organisations employs over 20,000 pension professionals including actuaries, lawyers, professional trustees, DC consultants, investment managers, providers, administrators, covenant assessors, and other pension specialists.

3. Further information

3.1. For more information about this consultation response please contact SPP Director of Policy & PR at: phil.hall@the-spp.co.uk or telephone the SPP on 0207 353 1688.

3.2. To find out more about the SPP please visit the SPP web site: https://the-spp.co.uk/

3.3. Connect with us on LinkedIn at: https://www.linkedin.com/company/the-society-of-pension-professionals/

3.4. Follow us on X (Twitter) at: https://twitter.com/thespp1

19 October 2026







[21] **Salary sacrifice reform for pension contributions, December 2025: https://www.gov.uk/government/publications/salary-sacrifice-reform-for-pension-contributions-effective-from-6-april-2029/salary-sacrifice-reform-for-pension-contributions**

[22] **Budget 2025, November 2025: https://assets.publishing.service.gov.uk/media/6929b367b3b9afff34e9621c/Final_print_HMT_Budget_2025_TEXT_PRINT_NEW.pdf**

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