OXFORD ECONOMICS

MARCH 2026

HIGHER AUTO-ENROLMENT CONTRIBUTIONS, PENSION ADEQUACY AND ECONOMIC OUTCOMES

A REPORT FOR ROYAL LONDON

MARCH 2026

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FOREWORD

At a time when both businesses and households face significant cost challenges, it seems perverse to advocate for increasing pension contributions, and there is widespread acceptance that now may not be the right time to do so.

However, if we are facing an increasing number of under-saved people in retirement who are unable to work, whose tax contribution is minimal, and who rely more heavily on state benefits, this will inevitably place a greater tax burden on the working population. In essence, the cost of business and cost of living challenges today may be further compounded in the future.

The setting up of a second Pensions Commission provides us with a once-in-a-generation opportunity to take a step back from the immediate retirement system challenges and take a longer-term approach, setting out a strategic blueprint to course-correct this trajectory for future generations.

Automatic enrolment has undoubtedly been a huge policy success, expanding coverage of pension saving to the majority of employees. The original Pensions Commission managed to set out a roadmap which was widely supported across all political parties and indeed it was delivered across successive parliaments.

However, it is widely accepted that the minimum contribution levels under the current system are inadequate, meaning we have to face up to the longer-term challenge of an increasingly large and worryingly under-saved population of people in retirement. We need a plan to tackle that.

Quite apart from the obvious impact on people's lifestyle in retirement, and the challenges this brings for them and their families, there is a wider macroeconomic problem which will only become more difficult to resolve the longer we put it off.

It is in this spirit that Royal London commissioned Oxford Economics to revisit the analysis they carried out in 2024, modelling the impact of increasing minimum contributions to different levels.

The report sets out the positive difference this can make for households in reaching Target Replacement Rates and indeed the more static income amounts needed under the Retirement Living Standards, produced by Pensions UK.

Importantly, the modelling also includes the projected impact on the UK's economic outlook, specifically how increasing pension contributions affects growth. It takes account of commitments made by pension providers under the Mansion House Accord, which includes a specified allocation to UK assets associated with driving economic growth.

And of course, the two things are entirely connected. Standards of living in retirement are likely to be more favourable in a growing economy.

Long term, increasing retirement saving should be a win-win for businesses and households alike.

Jamie Jenkins
Director of Policy
Royal London

THE REPORT AT A GLANCE

Despite the success of automatic enrolment, many UK households are likely to have insufficient retirement incomes. Higher minimum default contributions can improve long-term adequacy, but the design is crucial. This report – commissioned by Royal London - assesses the case for changes to the auto-enrolment regime currently in place in the UK. It uses scenario analysis to assess the impact of five different reform scenarios on pension adequacy and the wider economy.

- **Scenario 1** – auto-enrolment age falls from 22 to 18 and the lower earnings band is removed
- **Scenario 2** – employer contributions rise to 5% resulting in a total contribution of 10%
- **Scenario 3** – employer and employee contributions both rise to 6% (12% in total)
- **Scenario 4** – employer and employee contributions both rise to 7% (14% in total)
- **Scenario 5** – contribution rates are raised to ensure Target Replacement Rates are achieved

In this analysis pension adequacy is primarily assessed using Target Replacement Rates. Increasing the minimum default contribution helps narrow the gap to these replacement rates, with larger increases in contributions delivering larger adequacy gains. In scenario 4 – which sees the largest increase in contributions - a universal contribution rate of 14% raises the share of households achieving adequacy by around 5 percentage points in 2040. The adequacy gains in 2040 are smaller in scenario 5, but they will increase over time as more households will benefit from contribution rates designed to achieve adequacy for those who work for 40 years.

The affordability pressures of increasing contributions will have the greatest impact on lower-income and younger households. In scenario 4, households in the lowest quintile would need to use 13% of their easy-to-access savings to cover the resulting fall in disposable income. Income linked reforms, such as scenario 5, offer a more balanced approach by improving adequacy while limiting the burden on households with the least financial flexibility. However, they come with added implementation and threshold challenges.

Higher contributions will initially reduce household disposable income as employees save more, and employers pass on the cost via smaller pay increases. However, higher contributions increase the flow of savings into pension schemes, boosting UK investment from the pension sector. In the long-run these reforms - boosted by Mansion House Accord commitment to increase the proportion of pension assets directed towards UK productive finance – lead to an additional annual investment of £0.44 billion and £3.8 billion. This investment supports economic growth, offsetting the initial falls in disposable income from higher contributions by the 2030s. By 2060, the GDP gains from these reforms range from around £0.7 billion to £6.2 billion, depending on the scenario, which illustrates that the benefits of these policies stretch beyond improving pension adequacy.

EXECUTIVE SUMMARY

This report assesses the case for increasing auto-enrolment contributions, building on our 2024 report by factoring in the latest developments across the pensions landscape

Although Parliament passed the 2023 Pensions Extension of Automatic Enrolment Act, the changes have not yet been implemented, and minimum default contribution rates remain unchanged. Initiatives such as the Mansion House Accord[1] have significantly strengthened the sector's ambitions in UK private markets. At the same time, new methodologies for tracking how the pension sector invests in the UK, along with the latest Wealth and Assets Survey (WAS), allow for a more accurate and up-to-date assessment of the impact of auto-enrolment reforms. The reform scenarios set out in this report are modelled in this context.

Five reform scenarios are modelled to demonstrate the impacts of a wide range of potential contribution paths

The scenarios include reductions in age and changes to qualifying earnings and four additional different increases to the minimum default saving rates. The contribution changes across the scenarios range from modest adjustments to larger increases. The increases are assumed to be phased in gradually, reflecting international evidence that incremental increases give employers and employees time to adapt while allowing higher contributions to build up over time. The scenarios are used to assess the impact of different contribution rates on pension adequacy and economic outcomes.

Figure 1: Reform scenarios for minimum default pension contributions[2]

1	Young auto-enrolled and removal of lower band QE	The age of those auto enrolled into a pension scheme falls from 22 to 18. In addition, the lower band of qualifying earnings (£6,250) is removed.
2	Total contributions at 10% + age / earnings adjustment	Employers raise contributions to 5%, resulting in the total minimum default contribution level increasing to 10% (employees' contributions remain unchanged at 5%).
3	Total contributions at 12%+ age / earnings adjustment	Employers and employees increase their contributions to 6%, resulting in total minimum default contributions of 12%.
4	Total contributions at 14% + age / earnings adjustment	Employers and employees raise their contributions to 7%, increasing total minimum default contributions to 14%.
5	Total contributions based on reaching adequacy + age / earnings adjustment	Contribution rates for the employers and employees are raised to ensure households save enough for retirement based on the Target Replacement Rate (TRR).

Most households fall short on both adequacy benchmarks, but in different ways

Household adequacy is assessed using two benchmarks. The Retirement Living Standards (RLS) from Pensions UK which measures the income required to achieve a moderate lifestyle in retirement, while the Target Replacement Rate (TRR), originally developed by the Pensions Commission, assesses whether households are likely to maintain their pre-retirement standard of living. Both benchmarks indicate that a substantial share of households are likely to have insufficient retirement incomes under the current auto-enrolment system. By 2040, around 36% of defined-contribution households are projected to meet their TRR-based threshold, compared with only 26% reaching the moderate RLS benchmark.

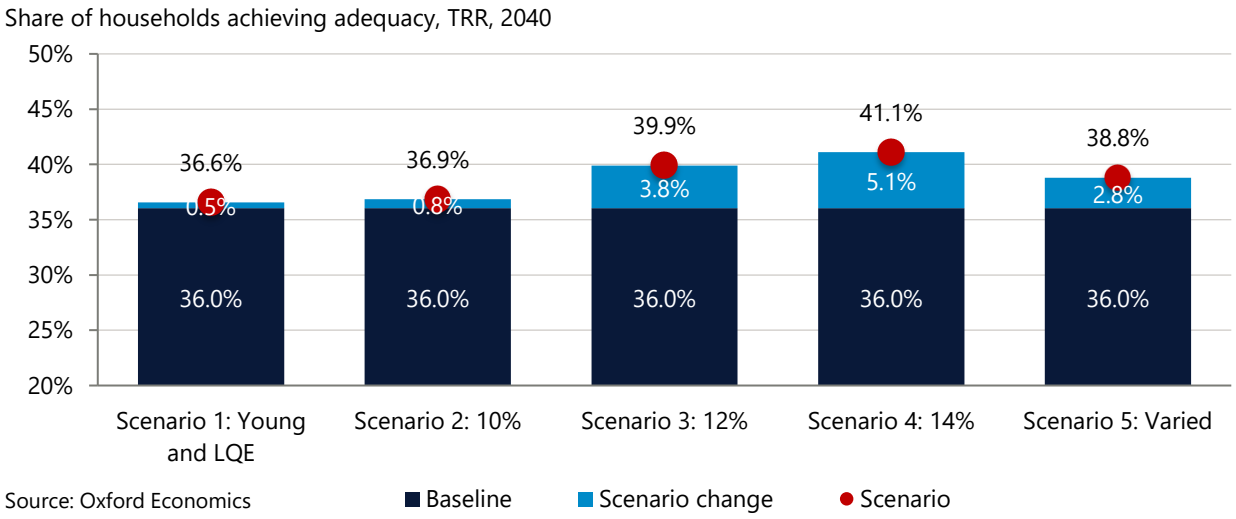
[1] HM Treasury, "Mansion House Accord", 2025

[2] Not everyone reaches pension adequacy in Scenario 5 because it assumes high contribution rates sustained over a full 40-year working life. Individuals with shorter periods of higher contributions, therefore, fall short of the adequacy benchmark.

Higher minimum default contributions strengthen adequacy, but the scale of improvement varies by scenario

Increasing the minimum default contribution helps narrow the adequacy gap, with larger rises delivering larger gains in the share of households reaching adequacy and in the position of the median household. A universal contribution rate of 14% produces the most substantial impact, raising the share of households achieving adequacy by around 5 percentage points. The results reported for 2040 capture only the initial effects of these reforms, and their full influence will build gradually over several decades, lifting adequacy as contributions accumulate. The figures in 2040 will reflect an older group of workers who experience higher contribution rates for only part of their careers.

Figure 2: Change in the share of households meeting adequacy under each scenario[3]



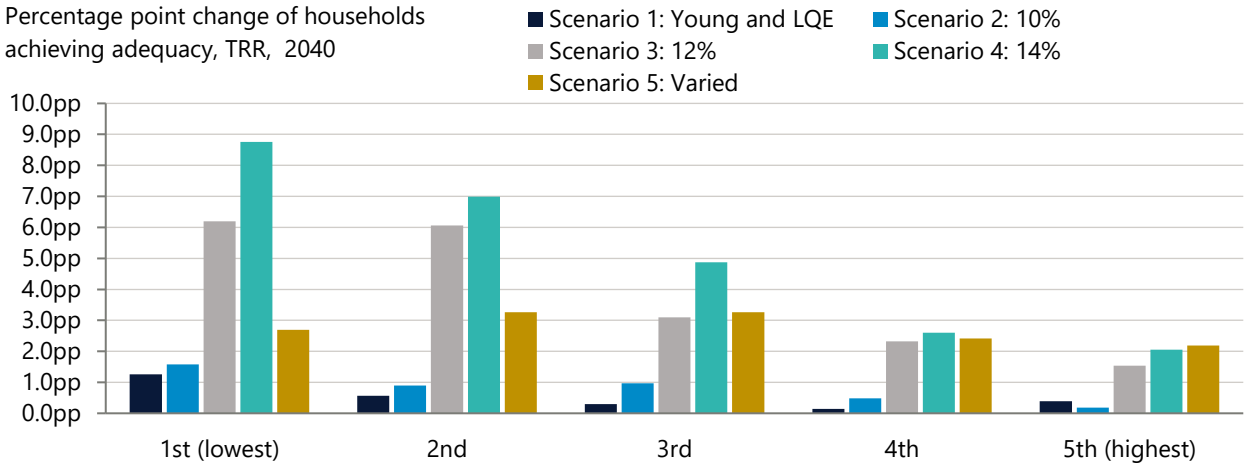
Source: Oxford Economics

Income-linked reforms provide a more even pattern of improvement across income groups

The income-linked reform seen in scenario 5 helps create a more balanced pattern of improvement across the distribution. By increasing contribution rates as income grows, this approach strengthens adequacy without placing disproportionate pressure on the lowest-income households, who generally have the least flexibility in their budgets. This pattern will continue to strengthen beyond 2040 as higher contributions accumulate over a full working life.

[3] Figures are rounded to the nearest 1 decimal place, so individual components may not sum to totals.

Figure 3: Change in the share of households achieving adequacy under each scenario

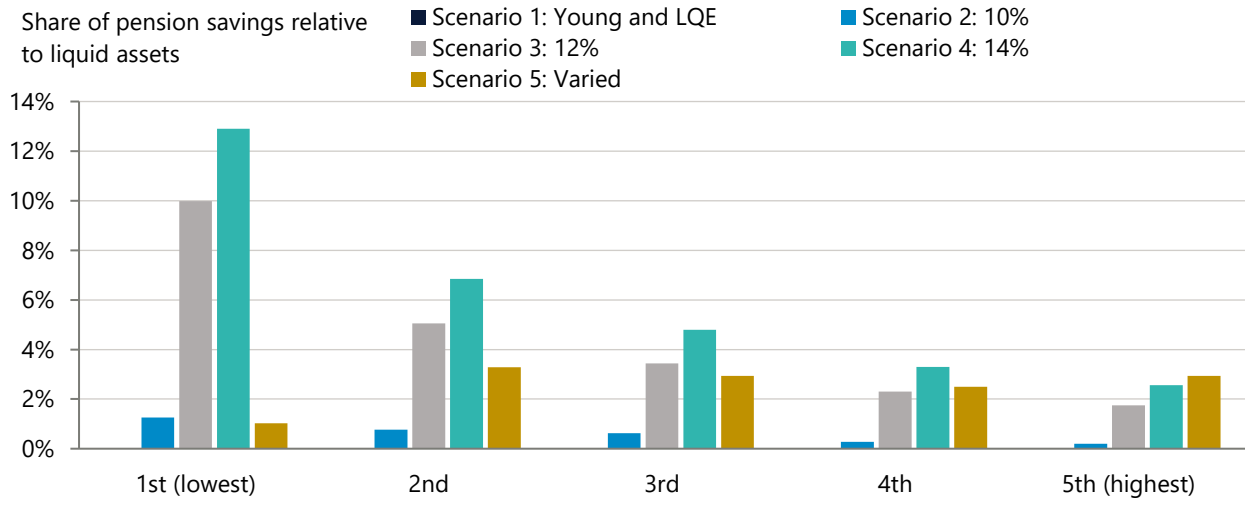


Source: Oxford Economics

Affordability pressures remain a concern, particularly for lower-income and younger households

Higher pension contributions provide long-term benefits but reduce households' liquidity in the short term. These pressures are not shared evenly. Uniform increases take up a far larger share of the liquid savings of lower-income households, with the strain most visible when contribution rises are sizeable. The effect is greatest in scenario 4, where households in the lowest quintile would need to use an annual average of 12.9% of their easy-to-access savings, compared with 2.6% for those in the top quintile. Younger households also face sharper adjustments because their liquid savings are limited and earnings are still developing. Income-linked increases help ease these pressures by aligning higher contributions with earnings, reducing the burden on those least able to absorb it and creating a more even affordability profile.

Figure 4: Higher contribution rates take up a larger share of liquid assets for lower-income households[4]



Source: Oxford Economics

[4] The median share in scenario 1 is zero, since fewer than 50% of households are affected. Of those households impacted the overall share is 3.7% with the quintile distribution as follows: Q1=12%, Q2=6%, Q3=3.5%, Q4=2.0%, Q5=1.1%

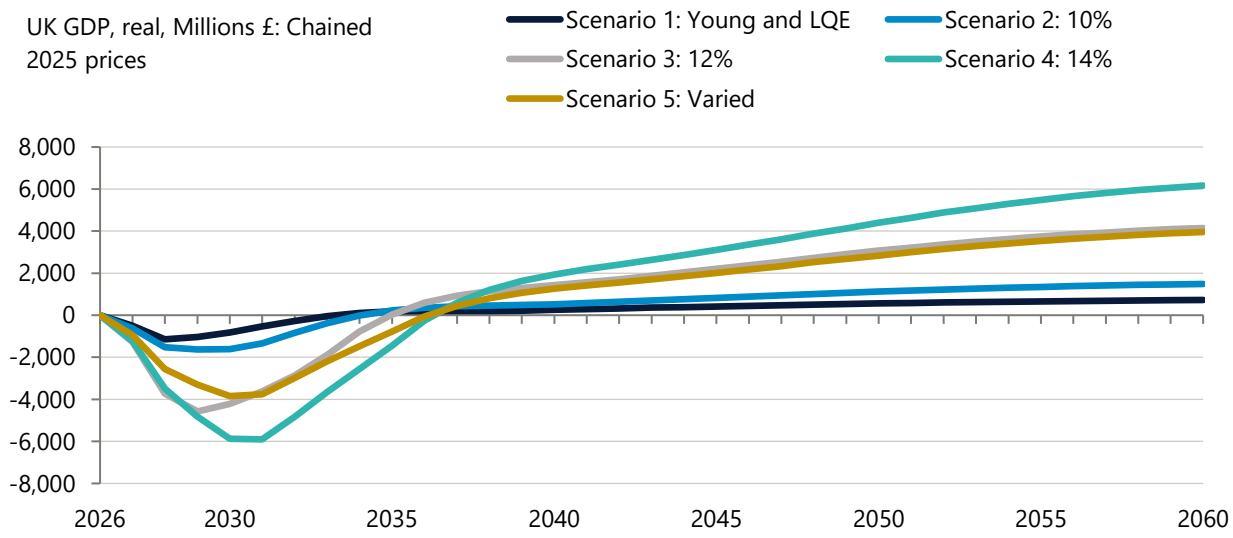
Higher contributions expand pension assets and support stronger long-term GDP

Higher contributions in each scenario initially reduce household disposable income as employees save more and firms largely pass on the cost of increased contributions through reduced wage growth. Although disposable income remains below the baseline throughout the forecast period, the gap gradually narrows between 2027 and 2060. Beyond the forecast horizon, rising pensioner incomes are expected to offset earlier wage effects, supporting a long-term net gain for households.

Higher contributions increase the flow of savings into pension schemes, thereby boosting UK investment from the pension sector. This investment boost is strengthened by commitments under the Mansion House Accord, which increase the proportion of pension assets directed towards UK productive finance. In 2060, the annual investment is between £0.44 billion and £3.8 billion above the baseline, supporting stronger long-run economic activity and contributing to eventual improvements in GDP.

From the early 2030s onwards, stronger investment pushes GDP above the baseline in every scenario, with the largest gains occurring in the scenarios where contribution rates rise the most. By 2060, the uplift ranges from around £0.7 billion to £6.2 billion, depending on the scenario. Government revenues decline initially due to lower revenues raised through the taxation of wages and profits, but these losses steadily diminish as GDP recovers. In later years, larger pension pots raise retirement incomes, which further support tax receipts and may ease longer-term pension-related pressure on the public finances.

Figure 5: GDP initially falls but strengthens over the long term as investment rises



Source: Oxford Economics

An income-linked rise in pension contributions can raise adequacy while balancing affordability concerns, and deliver a meaningful boost to the UK economy

Higher minimum default contributions can improve long-term adequacy, but the design is crucial. Larger universal increases deliver the strongest gains, particularly for lower-income households, but create the greatest short-term pressure on disposable income and liquid savings. Income-linked reforms offer a more balanced approach by improving adequacy while limiting the burden on households with the least financial flexibility. However, they come with added implementation and threshold challenges and may generate unintended behavioural effects, including reduced perceived gains from pay rises.

Higher contributions also bring wider economic benefits. As pension assets grow, more capital flows into UK productive finance, strengthening business investment and lifting GDP over time. Initiatives such as the Mansion House Accord are reinforcing this effect and have been captured in the modelling. While it is beyond the scope of this analysis, it is important to note that higher rates of investment into UK productive assets

beyond the rate targeted by the Accord would further magnify the economic benefits of higher pension contribution rates.

Overall, the findings highlight a clear trade-off. Higher contributions support retirement security and long-term growth but introduce short-term affordability challenges. Income-linked increases, if effectively implemented, can provide a more balanced path to stronger retirement outcomes and sustained economic performance.

SECTION 1. INTRODUCTION

1.1. BACKGROUND

This study builds on a previous assessment of pension adequacy in the UK and the potential effects of reforms to automatic enrolment produced for Royal London in 2024.[5] Since that report, improvements in the classification and measurement of productive assets within the pension sector now allow a more precise assessment of how pension funds contribute to UK investment under alternative policy settings. In addition, the latest wave of the Wealth and Assets Survey has recently been released, and these updated trends have been incorporated to ensure the analysis reflects the most up to date evidence, alongside improvements we have made to strengthen the dataset and enhance its robustness.

Since the previous report, the policy landscape has not developed as originally anticipated. Parliament passed the Pensions Extension of Automatic Enrolment Act in September 2023, granting ministers the authority to lower the enrolment age to 18 and to remove the lower qualifying earnings band so that contributions begin from the first pound earned. However, these powers require secondary legislation before they can take effect, and no commencement regulations have yet been introduced. As a result, participation and contribution patterns among younger workers and those affected by the lower qualifying earnings band remain based on the existing thresholds. Minimum default contribution rates also remain at the longstanding level set under automatic enrolment, although a new Pensions Commission has been established to review these issues and consider wider reforms.

On the investment side, the landscape has shifted. Recent initiatives, most notably the Mansion House Accord, have expanded the ambition set out in the earlier Mansion House Compact by encouraging pension providers to increase their voluntary commitments to UK-focused private-market assets. At present, only around 1.4% of pension assets covered by the Mansion House Accord qualify as UK productive finance. As part of the initiative, defined contribution providers have pledged to allocate at least 5% of their funds to UK private markets by 2030, with £252 billion of DC assets currently covered by this pledge.[6] This reflects a renewed policy push to channel a greater share of pension assets into UK private markets and underlines the growing role of pensions in supporting productive finance and long-term economic growth.

[5] Royal London, "Exploring the implications of higher pension contributions", 2024
[6] HM Treasury, "Pension schemes back British growth", 2025

SECTION 2. MODELLING WHO IS IMPACTED

Raising minimum default pension contributions would affect many employees enrolled in defined contribution (DC) schemes. Individuals are affected whenever the policy leads to higher employee or employer contributions, and this section outlines the reform scenarios and estimates the share of DC employees affected under each.

2.1. SCENARIOS ASSESSED

The current regulations for individuals enrolled in defined contribution schemes require that total pension contributions reach at least 8% of salary. Employers are required to contribute a minimum of 3%, with employees providing the remainder to meet the overall threshold. To explore how changes to this requirement could affect savers and employers, we assess five potential reform scenarios that increase the minimum default contribution in different ways. These scenarios are presented in Figure 6.

The Pensions Act 2023 forms the basis for scenario 1 by lowering the automatic enrolment age from 22 to 18 and removing the lower qualifying earnings threshold. In our 2024 report, these changes were included in the baseline, but anticipated progress on implementation has not materialised, so they are now treated as a standalone scenario. Scenarios 2 to 5 include these reforms and build on them by increasing total minimum default contributions. It is important o carefully consider the impact of these reforms on different cohorts. For instance, this change could have an adverse impact on the 13.4% of all people aged 16-24 estimated as not in education, employment or training.

Scenarios 2, 3, and 4 raise the total minimum default contribution to 10%, 12%, and 14%, respectively, achieved by increasing employer and employee payments so that each contributes half of the total contribution rate. Scenario 5 introduces a bespoke contribution rate designed to achieve pension adequacy, defined using the Target Replacement Rate (TRR). More details on the exact contribution rates applied are provided in the following section.

The removal of the lower qualifying-earnings threshold and the extension of automatic enrolment to 18 to 21-year-olds is assumed to be implemented in full by 2027, while the contribution increases in each scenario are phased in gradually at 0.5 percentage points per year.[7] This phased approach reflects the incremental increases used in countries such as Australia and Canada. Introducing the changes over time helps to reduce potential affordability pressures and gives both employees and employers sufficient time to adjust their financial plans.

[7] Scenario 5 applies different contribution increases across earnings bands. Since many of these increases fall at the upper end of the contribution increases, the phasing profile of scenario 4 is applied, and the rise in contribution rate is spread over eight years.

Figure 6: Reform scenarios for minimum default pension contributions[8]

1	Young auto-enrolled and removal of lower band QE	The age of those auto enrolled into a pension scheme falls from 22 to 18. In addition, the lower band of qualifying earnings (£6,250) is removed.
2	Total contributions at 10% + age / earnings adjustment	Employers raise contributions to 5%, resulting in the total minimum default contribution level increasing to 10% (employees' contributions remain unchanged at 5%).
3	Total contributions at 12%+ age / earnings adjustment	Employers and employees increase their contributions to 6%, resulting in total minimum default contributions of 12%.
4	Total contributions at 14% + age / earnings adjustment	Employers and employees raise their contributions to 7%, increasing total minimum default contributions to 14%.
5	Total contributions based on reaching adequacy + age / earnings adjustment	Contribution rates for the employers and employees are raised to ensure households save enough for retirement based on the Target Replacement Rate (TRR).

2.2. SCENARIO 5: CONTRIBUTION NEEDED TO ACHIEVE PENSION ADEQUACY

Scenario 5 assesses the contribution rate needed to achieve pension adequacy by calculating the level of saving required for individuals to reach their TRR. We estimate the required minimum default contribution by adjusting contribution rates until the estimated pension pot at retirement is sufficient to deliver the target post-retirement income, taking the State Pension and triple lock into account. While other forms of wealth may contribute to retirement income, most households expect pensions to play a central role in funding retirement, making it essential that savings levels are adequate.[9]

We base this scenario on the TRR framework because it provides an established benchmark for assessing whether individuals can maintain a similar standard of living in retirement as they experienced during working life. The Pensions Commission originally developed the TRR as a ratio of post-retirement income to pre-retirement earnings. The measure has since been updated to reflect changes in the tax and benefit system, which have increased the income-replacement needs of lower-earning households.[10]

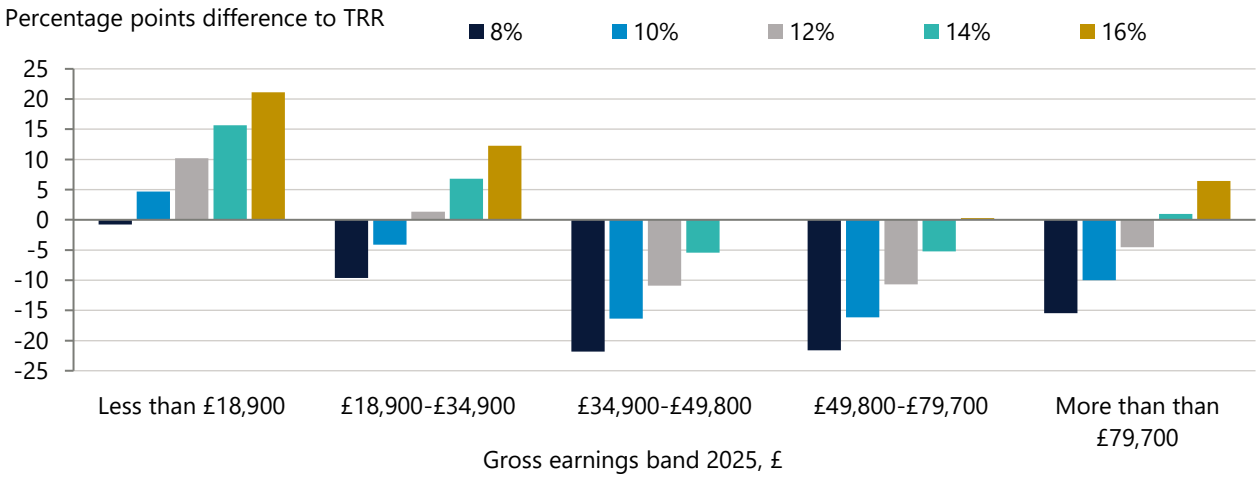
Our analysis applies the updated TRR values to each individual based on their estimated pre-retirement earnings. We use these to calculate the contribution rates needed to meet the TRR over a 40-year working life. To ensure consistency with the broader scenario design, the total contribution rate is split equally between employers and employees, with each share increasing as needed to reach the overall target rate. While these contribution rates could be introduced as simple, uniform minimums, they could also be implemented through a tiered structure in which higher rates apply only to the portion of earnings within each band. Under this approach, an individual's effective contribution rate would rise with income, provided that the average rate across all bands aligns with the rate required to meet the individual's overall target. In this analysis, we have used a uniform rate, and further methodological details are provided in the appendix.

To understand how far pension savings fall short of pension adequacy under different levels of pension contribution, we calculate the implied replacement rate for each earnings band. These implied replacement rates reflect the retirement income individuals - paying into their pension at each contribution rate across their entire working lives - would expect to receive by combining their projected private pension pot with the State Pension. We then compare this proportion with the updated TRR benchmarks to calculate the percentage point difference with Figure 7 illustrating this.

[8] Not everyone reaches pension adequacy in Scenario 5 because it assumes high contribution rates sustained over a full 40-year working life. Individuals with shorter periods of higher contributions, therefore, fall short of the adequacy benchmark.
[9] Among those with a defined contribution pension, 51.5% anticipate it will supply the largest share of their retirement income, while 21% expect the State Pension to be their main source. The remaining households expect to rely primarily on other savings, housing equity, or by continuing to work. Question sourced from the Wealth and Asset Survey Wave 7, "Which do you think will make up the largest part of your income during your retirement?"
[10] Resolution Foundation, "Perfectly adequate?", 2024

For example, an individual earning between £34,900 and £49,800 who contributes 8 percent of their income, which is the current default minimum, would achieve a replacement rate of 54 percent, 22 percentage points below their target rate. This gap could be closed by increasing contributions to 16 percent (as proposed in scenario 5), which would allow them to reach the required target replacement rate of 76 percent. Using the midpoint of this income range, this implies that retirement income would rise from £22,900 to £32,200, an increase of £9,300. In addition, the proportion of income sourced from the state pension would fall from 52 percent to 37 percent.

Figure 7: Percentage point difference to the TRR based on varying contribution rates



Source: Oxford Economics

Scenario 5 sets the contribution rate to ensure the TRR is met. As shown in Figure 7, for those in the lowest earnings group, no adjustment is required as current auto-enrolment contribution levels, combined with the State Pension, are already sufficient to meet their TRR. Relative to scenarios 2 to 4, which raise minimum default contributions to between 10% and 14%, scenario 5 generally requires higher rates to ensure individuals reach pension adequacy. The TRR-based approach, therefore, results in contribution levels that exceed those in the fixed rate scenarios for several earnings groups, as shown in Figure 8.

It should also be noted that Scenario 5 would introduce greater administrative and payroll complexity for employers and pension providers, increasing implementation costs. Higher contribution rates may also create unintended consequences, such as reducing take-home pay for those receiving pay rises and potentially weakening work incentives for some groups. There could also be challenges about the inequality of having higher employer contribution rates for those on higher salaries.

As with any reform, the benefits therefore need to be balanced against the added operational and behavioural impacts.

Figure 8: Required contribution rates to achieve target replacement rates

Gross earnings band 2025, £	Total contribution	Employer contribution	Employee contribution
Less than 18,900	8.0%	3.0%	5.0%
18,900-34,900	12.0%	6.0%	6.0%
34,900-49,800	16.0%	8.0%	8.0%
49,800-79,700	16.0%	8.0%	8.0%
More than 79,700	14.0%	7.0%	7.0%

Source: Oxford Economics

2.3. INCREASE IN PENSION CONTRIBUTIONS AND PROPORTION OF INDIVIDUALS IMPACTED

Currently, just under 13 million individuals have a defined contribution pension. Scenario 1 adds a further 538,000 people to automatic enrolment by extending eligibility to those aged 18 to 21.[11,12] Scenario 1 also removes the lower qualifying earnings threshold, which means contributions begin from the first pound earned. As a result, around 24% of those in defined contribution schemes, including the newly eligible 18 to 21-year-old age group, experience an increase in pension contributions.

In Scenarios 2 to 5, a much larger share of individuals face higher contributions because the minimum default rates rise. Scenarios 2 and 5 affect 65% of those in defined contribution schemes, though they impact slightly different groups. Scenarios 3 and 4 affect the largest groups, with uniform increases to 12% and 14%, respectively, affecting 93% of those in defined contribution schemes.

Illustrative estimates of the additional pension contributions associated with each scenario, separated into employer contributions, employee contributions, and the value of income tax relief, can be found in the appendix.

[11] Based on the total number of employees in a DC scheme in ASHE 2021 (12.9 million).
[12] Department for Work and Pensions, Pensions (Extension of Automatic Enrolment), 2023

SECTION 3. IMPACT AT THE HOUSEHOLD LEVEL

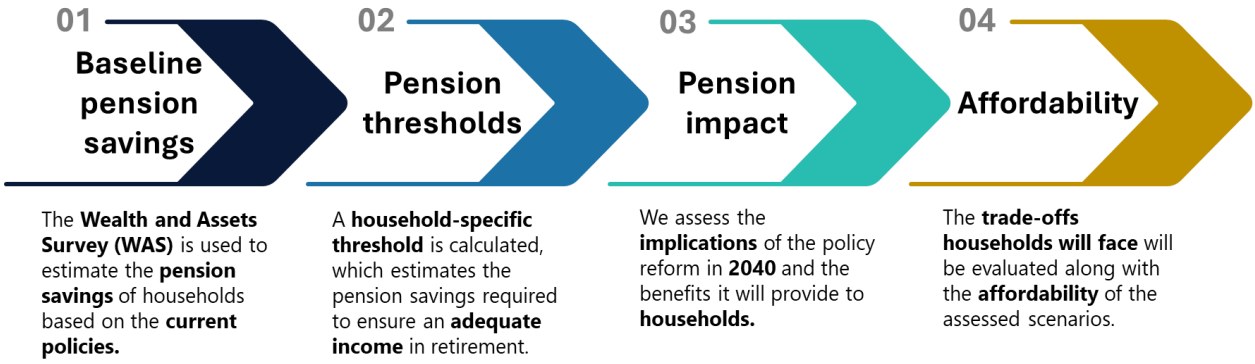
Raising minimum default pension contributions strengthens long-term retirement adequacy but also increases the saving burden during working life. This section assesses how prepared households are for retirement and evaluates how each reform scenario affects both adequacy and short-term affordability. It highlights the scale of under-saving across income groups and the extent to which reforms can narrow these gaps, while recognising that higher contributions may create liquidity pressures for some households.

3.1. METHODOLOGICAL APPROACH

The analysis is based on the Wealth and Assets Survey (WAS). While the reforms affect individuals directly, pension adequacy is assessed at the household level because people typically share financial resources.[13]

The reforms are assumed to take effect from 2027, with outcomes assessed in 2040. As shown in Figure 9, the approach follows four stages: establishing baseline pension wealth; projecting savings to 2040; applying adequacy thresholds; and assessing the affordability of the increased contributions. Additional technical details are provided in the appendix.

Figure 9: Overview of the four-stage methodology for assessing pension adequacy and affordability



3.1.1. BASELINE PENSION SAVINGS

Baseline savings are drawn from households in WAS and forecast to 2040 using macroeconomic assumptions from Oxford Economics' Global Economic Model. These projections reflect expected asset returns, earnings growth, and State Pension entitlements. Additional technical details are provided in the appendix.

3.1.2. PENSION ADEQUACY AND AFFORDABILITY BENCHMARKS

To assess households' readiness for retirement, we use two benchmarks that provide different perspectives on what constitutes an adequate income in later life:

- **The Retirement Living Standards (RLS)** from Pensions UK sets out the income needed for different lifestyles in retirement. For this analysis, we draw on the moderate RLS benchmark, which reflects the spending required to maintain a comfortable but not luxurious standard of living. The benchmark varies by relationship status and is updated annually to account for changes in prices and living costs.

[13] Individual impacts are therefore aggregated to the household level and provide a more realistic view of retirement adequacy.

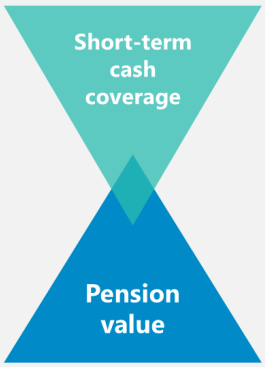
- **The Target Replacement Ratio (TRR)** assesses adequacy relative to pre-retirement earnings. The TRR is designed to ensure that living standards are broadly smoothed as people transition from work into retirement. Because the required replacement rate differs across the income distribution, it produces a relative household-specific adequacy threshold.

Both measures serve different purposes. The RLS offers an intuitive benchmark based on real-world consumption patterns for a moderate standard of living. The TRR, meanwhile, focuses on maintaining continuity in living standards and is therefore more sensitive to the current living standard of the household.

For each household in the dataset, we construct age-specific adequacy thresholds aligned to both benchmarks and project these forward to 2040. These projections incorporate assumptions on lifetime earnings paths, pension asset returns, drawdown patterns, State Pension entitlements, and expected changes in the tax and benefit system. The combined evidence is then used to demonstrate baseline adequacy levels and to illustrate how higher minimum default contributions shift households closer to, or beyond, the relevant benchmark.

To capture short-term pressures, we also assess the sufficiency of easy-to-access savings, recognising that higher employee contributions reduce disposable income during working life and that employers may offset part of their additional costs through slower wage growth.[14] This helps us understand the impact on short-term financial resilience. See the appendix for more details.

Figure 10: Framework for assessing affordability and pension adequacy[15]



Higher pension contributions may **constrain households' capacity to save**. This poses a risk if it leaves them without sufficient liquid assets to manage unforeseen financial pressures or short-term shocks.

To assess affordability, we compare the annual reduction in disposable income from higher pension contributions and lower wage growth against households' liquid assets.

The Target Replacement rate (TRR) and the moderate Retirement Living Standards (RLS) are used to create an **age-specific threshold** to gauge each households' current standing and the impact of policy changes.

To assess the pension adequacy of households we use two measures:

1. Share of household who have reached pension adequacy
2. Median household's pension savings compared to the threshold

3.2. KEY RESULTS

Despite differences between the two measures, each show that the majority of households are not on track to achieve pension adequacy

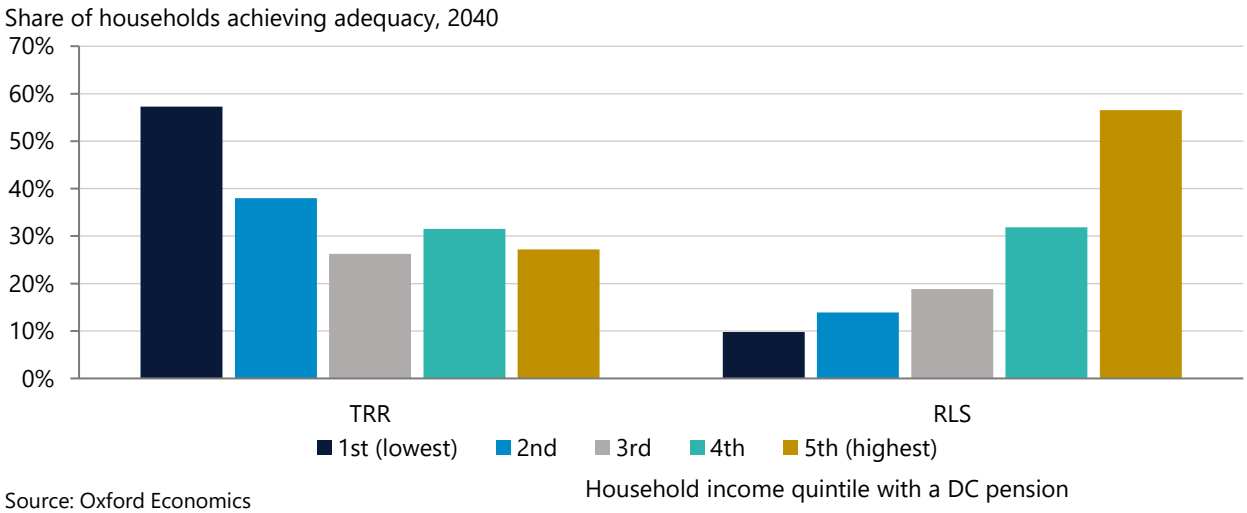
By 2040, around 36% of defined-contribution households are projected to meet their TRR-based threshold, compared with only 26% reaching the moderate RLS benchmark. As a result, both benchmarks show that the majority of households are not on track for an adequate retirement.

Adequacy patterns vary across the income distribution. Lower-income households are more likely to meet the TRR threshold due to their lower pre-retirement living costs, which are better covered by the state pension. In contrast, higher-income households are more likely to meet the RLS benchmark, as this is based on a fixed consumption standard that sits below their current standard of living.

[14] Based on evidence from Australia, higher employer costs are expected to be passed on to employees through lower wage growth. The lower wage growth is added to the employee contribution before comparing it with each household's liquid assets. See the appendix for more details.

[15] Liquid assets include current accounts, easy-access savings accounts, cash ISA, and national savings account.

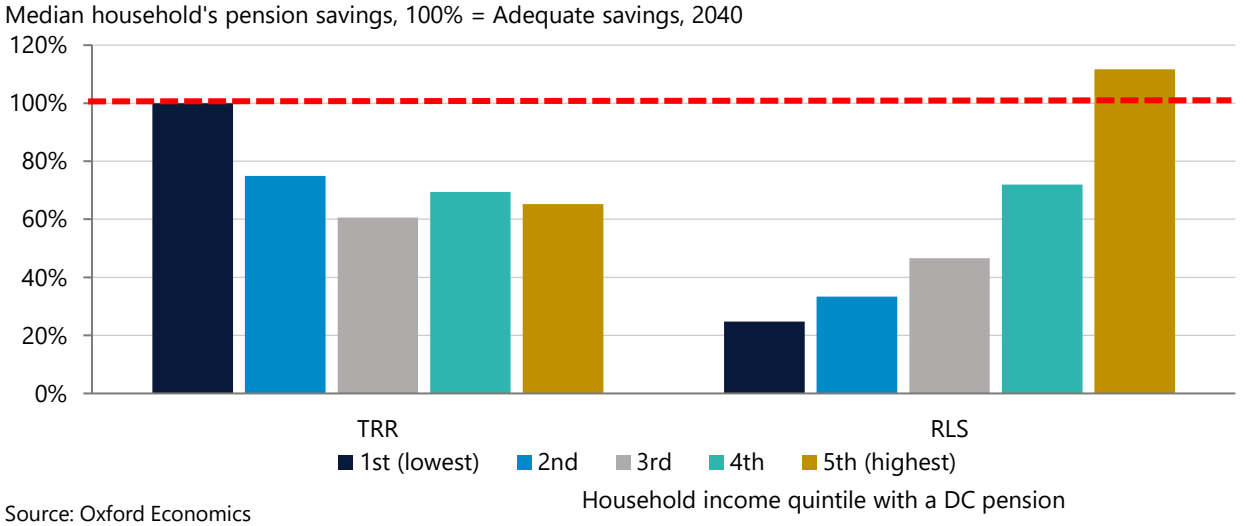
Figure 11: Pension adequacy rates differ when measured using TRR and RLS benchmarks



Source: Oxford Economics

To complement the binary measure, we assess how close the median household is to its adequacy threshold by comparing projected pension wealth with the relevant benchmark. Based on the TRR, the median household reaches around 73% of the required pension wealth, indicating a substantial shortfall. Under the RLS, the median household achieves only around 52% of the benchmark, revealing an even larger gap.

Figure 12: Median pension wealth as a share of adequacy threshold under TRR and RLS



Source: Oxford Economics

Higher contributions can help close the gap

Higher default pension contributions help narrow the adequacy gap by enabling more households to reach the required savings threshold by 2040. The following section focuses on the improvements shown under the TRR measure, as it is designed to assess whether living standards are broadly maintained when people transition from work into retirement and is therefore more suitable for assessing adequacy at a national level. The RLS remains a useful complementary benchmark, and the scenario results for this measure are presented in the appendix.

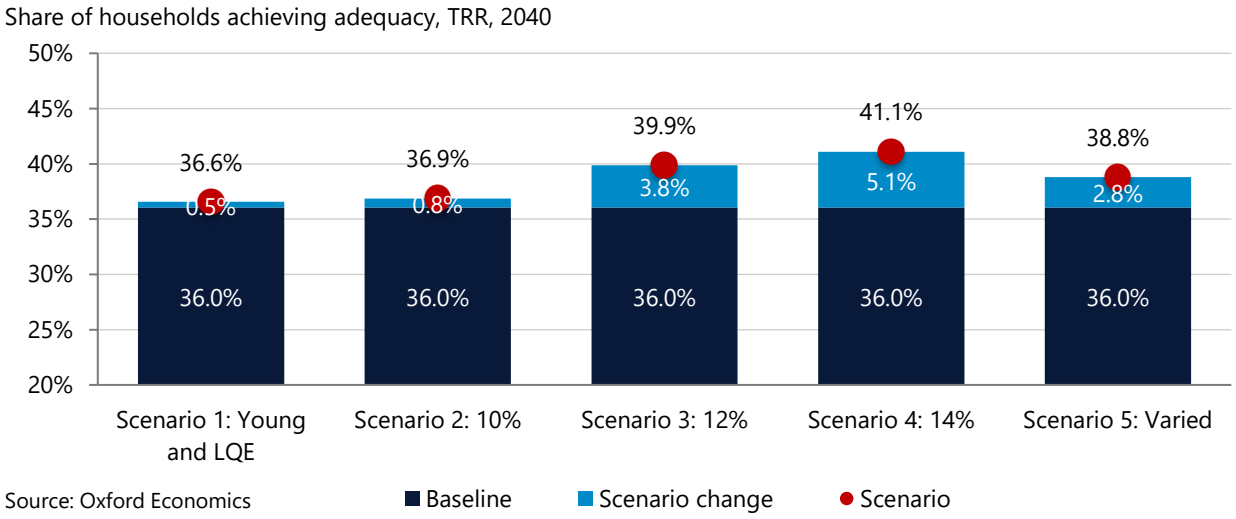
Figure 13 shows that increases in contribution rates lead directly to higher adequacy rates, with the scale of the improvement reflecting the size of the reform. Scenarios 1 and 2 generate the smallest gains, with adequacy

rising by 1.3 and 4.5 percentage points, respectively, demonstrating that modest increases in contributions or simple expansions in eligibility do little to shift overall pension adequacy.

Scenarios 3 and 5 deliver more substantial improvements. In scenario 3, raising contributions to 12% increases the share of households achieving adequacy by 3.8 percentage points, from 36.0% to 39.9%. The largest improvement occurs in scenario 4, where a universal 14% contribution rate leads to a 5.1 percentage point increase in adequacy.

It is important to note that the gains reported for 2040 capture only the initial effects of these reforms. Their full impact will accumulate over many decades, boosting adequacy as contributions compound. Indeed, scenario 5 is designed so that all individuals contributing for around 40 years would ultimately reach their adequacy target. The current figures instead reflect an older working cohort who benefit from higher contributions for only part of their working life.

Figure 13: Change in the share of households meeting adequacy under each scenario[16]



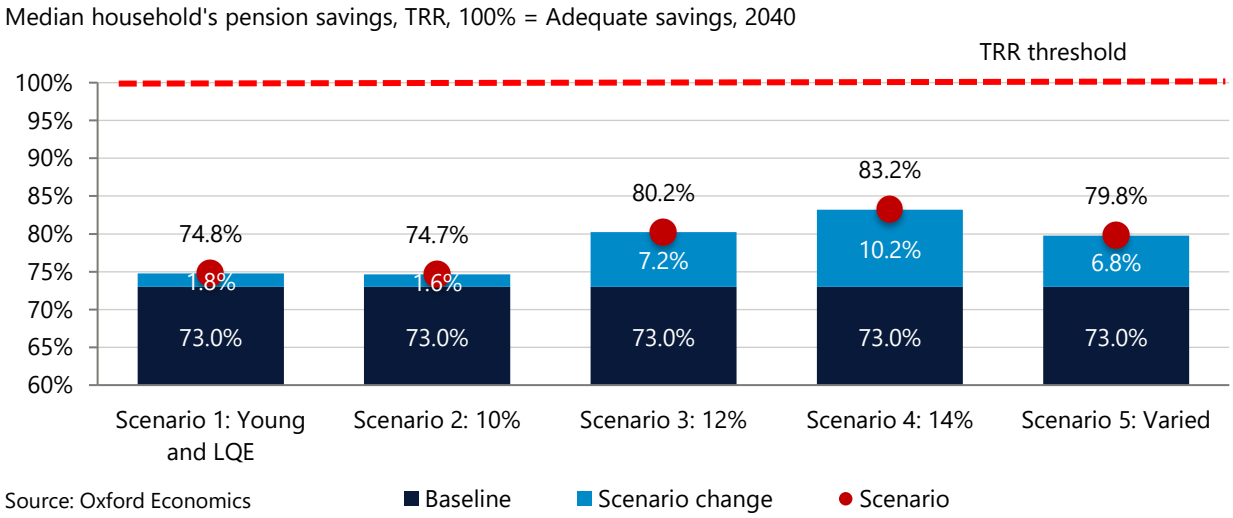
Source: Oxford Economics

Looking at the median household provides further evidence of how higher contributions strengthen retirement readiness. Scenario 4 delivers the largest improvement, increasing the median household's pension savings from a baseline of 73.0% of the TRR threshold to 83.2%, a rise of 10.2 percentage points. Scenario 3 also produces a substantial gain of 7.2 percentage points, lifting the median position to 80.2% of the threshold.

By contrast, scenarios 1 and 2 bring much more modest increases of 1.8 and 1.6 percentage points, respectively. Scenario 5 sits between these outcomes, raising the median household's savings by 6.8 percentage points. Overall, the results show that higher contribution rates lead to much more meaningful progress towards adequacy.

[16] Figures are rounded to the nearest 1 decimal place, so individual components may not sum to totals.

Figure 14: Impact of contribution scenarios on median pension savings relative to TRR[17]



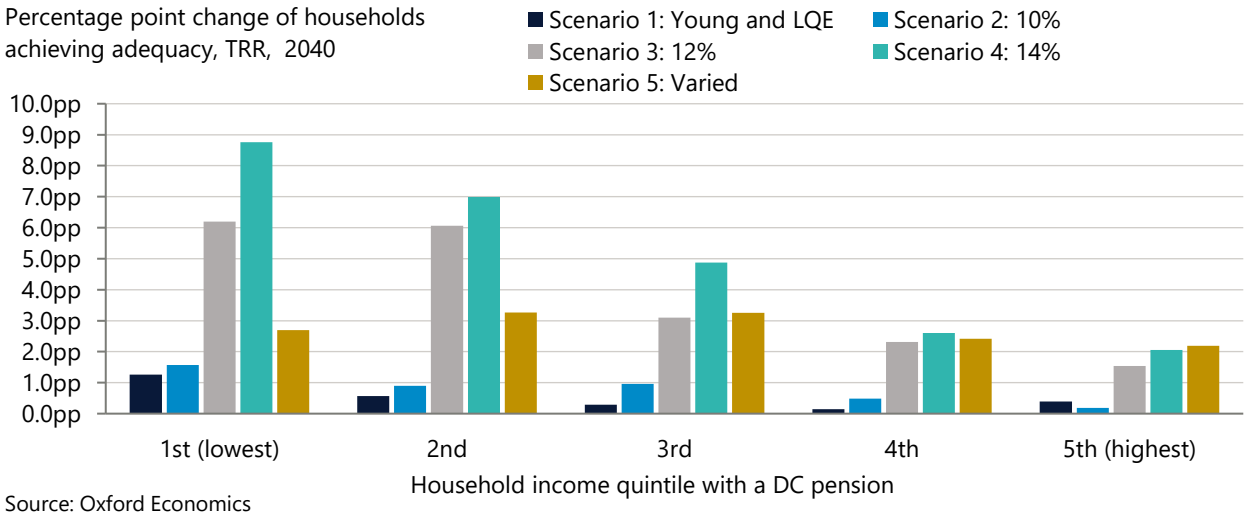
Source: Oxford Economics

Both measures show that gains from higher contributions vary significantly across the income distribution

Lower-income households begin with higher baseline adequacy under the TRR measure. However, these households also gain the most from uniform increases in contribution rates. Indeed, scenario 4 produces by far the strongest uplift at the bottom of the income distribution, raising adequacy in the lowest quintile by around 9 percentage points and by 7 percentage points in the second quintile. This occurs because the State Pension meets a larger share of their target income, so lower-income households start closer to the adequacy benchmark and only need a small rise in savings to reach it. On the other hand, the income-linked approach in scenario 5 delivers a more even spread of improvement across the distribution, increasing adequacy by around 3 percentage points in most quintiles.

A similar pattern emerges when examining changes in median pension savings relative to the adequacy threshold. Universal increases again deliver the largest improvements for lower-income households, while income-linked reforms produce a more even but less pronounced effect across the distribution.

Figure 15: Gains in pension adequacy across income quintiles under each scenario



Source: Oxford Economics

[17] Figures are rounded to the nearest 1 decimal place, so individual components may not sum to totals.

Higher pension contributions represent a larger share of liquid assets for lower-income households in the scenarios with a uniform increase in contribution rates

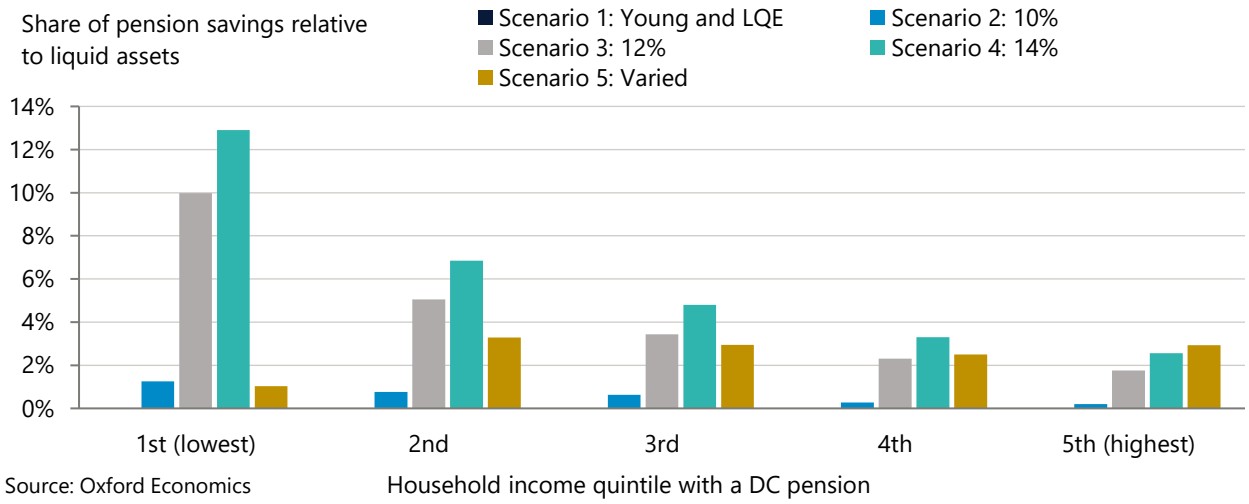
Higher pension contributions provide long-term benefits, but they also require households to absorb higher contributions as well as lower wage growth. These liquidity pressures are not felt equally across the income distribution. Figure 16 shows a uniform rise in contribution rates, representing a large share of liquid assets for lower-income households, with the impact most pronounced in scenario 4. In this scenario, households in the lowest quintile would need to allocate an annual average of 12.9% of their easy-to-access savings to cover the higher contributions, compared with only 2.6% of liquid assets for households in the top quintile.

By contrast, income-linked approaches, such as scenario 5, distribute the burden far more evenly and result in noticeably lower pressure on lower-income households, with the cost amounting to 1% of their liquid assets for those in the lowest income quintile.

The median share in scenario 1 is zero, since fewer than half of households are affected.[18] However, among those impacted, affordability pressures are concentrated in the lowest-income households. In scenario 2, households are additionally affected by slower wage growth, driven by higher employer contributions.

This pattern highlights that although uniform increases raise adequacy most effectively, they also impose the greatest affordability pressures on those least able to absorb them. In contrast, income-based increases strike a more balanced compromise between affordability and progress toward adequacy.

Figure 16: Higher contribution rates represent a larger share of liquid assets for lower-income households[19]



Source: Oxford Economics

Pension shortfalls are most common among younger households, which also stand to benefit the most in terms of adequacy from reforms

Households of all types are under-saving for retirement when assessed against the TRR benchmark, but the shortfall is most pronounced among younger age groups. Figure 17 shows that only 26.4% of households with a DC pension scheme aged under 30 are on track to meet the adequacy threshold by 2040, with the proportion rising among those aged 30–39 and 40–49, at 29.8% and 35.6%, respectively.

Higher pension contributions increase the share of households reaching adequacy across all age groups, with the largest gains among younger households. This is because earlier increases in contributions allow

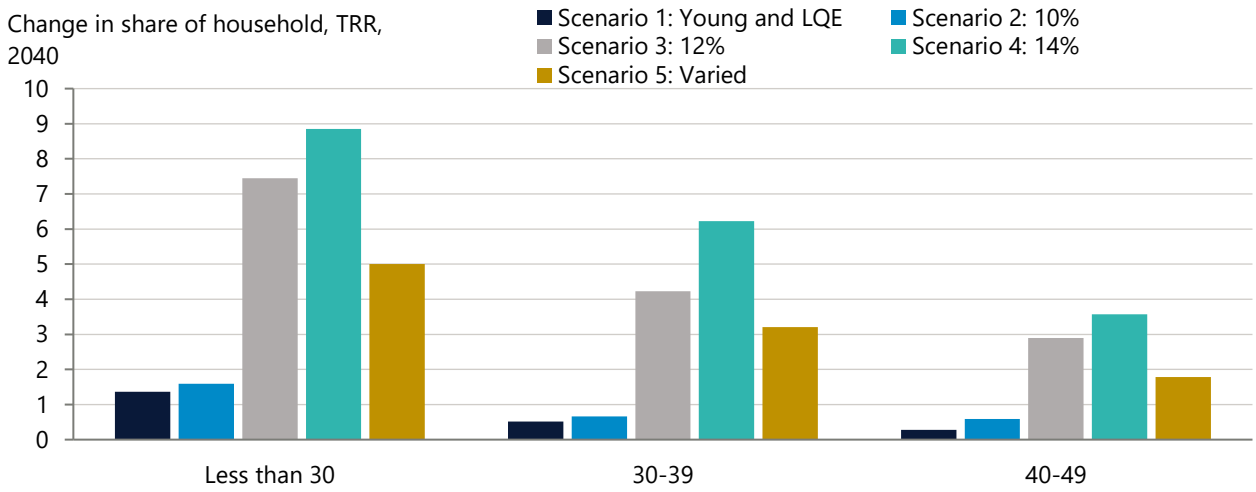
[18] Of those households, the overall share is 3.7% with the quintile distribution as follows: Q1=12%, Q2=6%, Q3=3.5%, Q4=2.0%, Q5=1.1%.

[19] Results are based on the median share within each income quintile.

compounding effects to accumulate over a longer period, which means reforms can be particularly effective in improving adequacy for those in the early stages of working life.

Uniform increases in contribution rates, as in scenarios 3 and 4, deliver the largest improvements for younger households because higher contributions early in life generate stronger compounding effects. Income-linked reforms, such as scenario 5, provide a more even pattern of improvement across the age profile but still offer smaller gains for the youngest group.

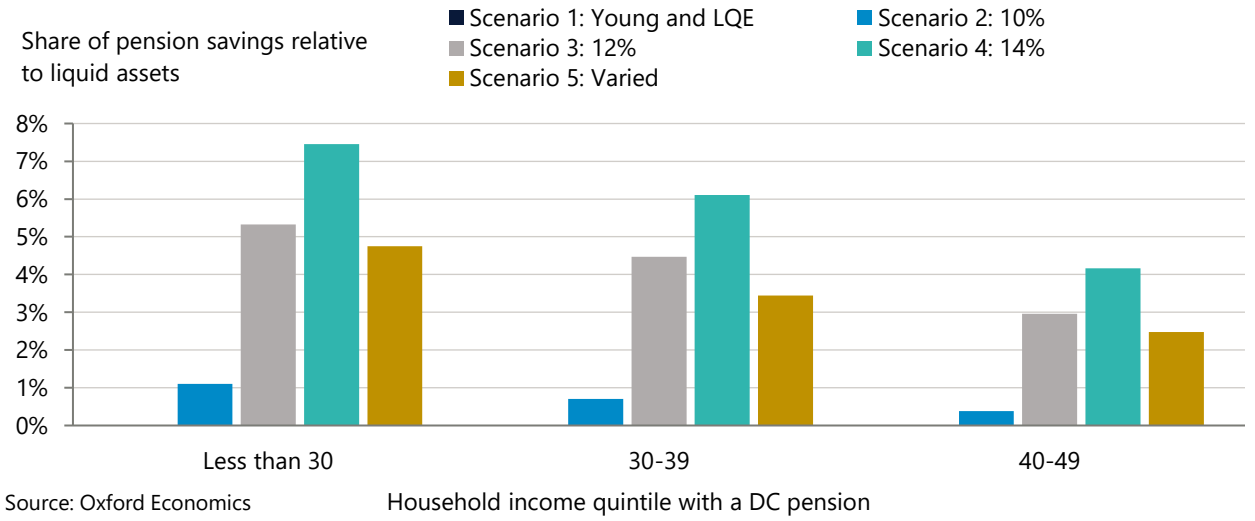
Figure 17: Younger households face the largest pension adequacy shortfalls, but see the largest improvement in the scenarios



Source: Oxford Economics

The immediate financial pressure of higher contributions varies by age, with younger households facing greater affordability challenges. In scenario 4, households aged under 30 would, on average, need to allocate over 7% of their liquid assets to meet the higher contribution levels, compared with just over 4% for those in their 40s. Under scenario 5, the burden for households under the age of 30 is lower than in scenarios 3 and 4. This again highlights that income-linked reforms can offer a more balanced and manageable approach.

Figure 18: Affordability pressures are more similar from an income-linked increase in pension contribution[20]



Source: Oxford Economics

[20] The median share in scenario 1 is zero, since fewer than 50% of households are affected.

SECTION 4. MACRO IMPACT

Increasing minimum default pension contributions affects the wider economy through near-term income and cost adjustments and increased pension-sector investment in the UK. This section sets out the channels through which impacts arise and the resulting effects on wages and salaries, household disposable income, business investment, GDP, and public finances across the different policy scenarios. Our analysis accounts for the direct impacts of each reform as well as the indirect, or second-round effects (e.g., increased investment from the pension sector, which induces further investment from the wider economy).

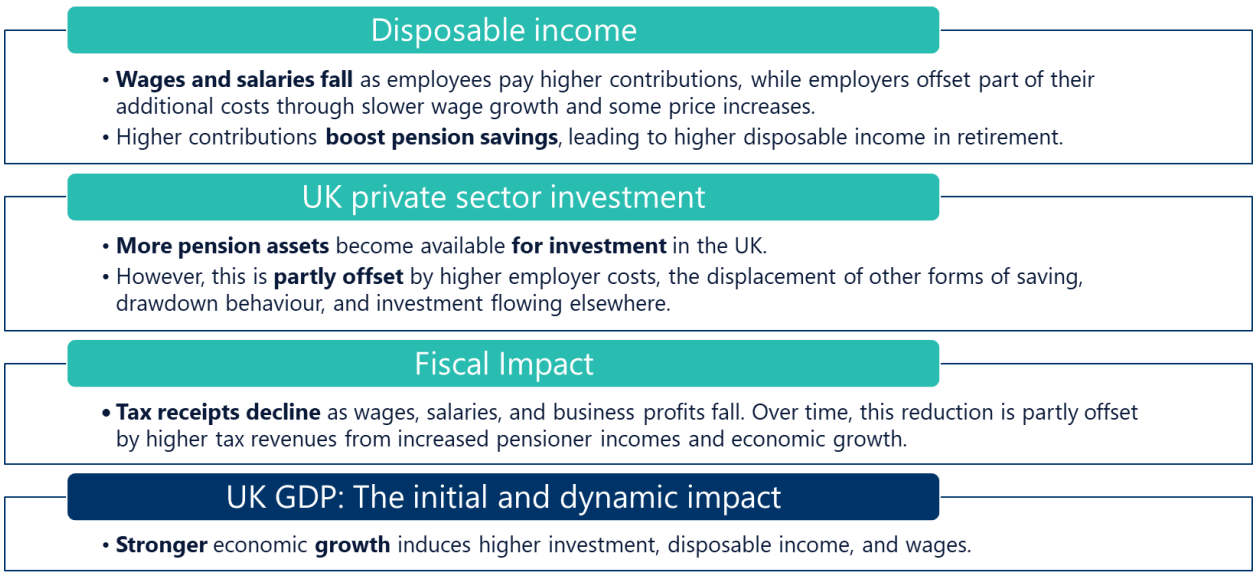
4.1. METHODOLOGICAL APPROACH

We estimate the aggregate effects of each scenario by first applying the immediate impact of enrolling those aged 18 to 21 and lowering the qualifying earnings threshold. For scenarios 2-5, we then implement a phased annual increase in contribution rates until the new contribution rate is achieved.

Figure 19The immediate financial pressure of higher contributions varies by age, with younger households facing greater affordability challenges. In scenario 4, households aged under 30 would, on average, need to allocate over 7% of their liquid assets to meet the higher contribution levels, compared with just over 4% for those in their 40s. Under scenario 5, the burden for households under the age of 30 is lower than in scenarios 3 and 4. This again highlights that income-linked reforms can offer a more balanced and manageable approach.

Figure 18 summarises the mechanisms through which higher pension contributions influence the economy. Further details on the underlying assumptions are provided in the appendix.

Figure 19: Raising contributions will have broader implications for the wider economy



4.1.1. THE MANSION HOUSE ACCORD

The investment impact draws on recent work by the Pension Policy Institute to define which assets qualify as 'productive,' alongside those identified through the Mansion House Accord. As part of this initiative, defined contribution providers have pledged to allocate at least 5% of their main default funds to UK private markets

by 2030. Signatories report that £252 billion of assets are currently covered by the pledge, and government estimates suggest this figure will rise to £735 billion by 2030.[21]

With total DC assets estimated at £664 billion, the assets covered by the Mansion House Accord represent around 40% of the market.[22] Currently, 1.4% of the assets covered by the Accord qualify as UK productive finance, and in our modelling, this share is increased to 5% by 2030. DC assets not covered by the Accord, which represent the remaining 60% of DC assets, are held constant at 3.3%.[23] On this basis, the average allocation to UK productive assets is projected to rise from 2.6% in 2025 to 3.9% by 2030.

While it is beyond the scope of this analysis, it is important to note that higher rates of investment into UK productive assets, beyond those targeted in the Accord, would further magnify the economic benefits of higher auto-enrolment rates. For example, if the average UK allocation across all pension assets were to reach 10%, rather than the 3.9%, the direct UK productive investment in scenario 3 (12% contributions) would increase to £3.3 billion per year in 2025 prices between 2027 and 2060, instead of the currently modelled £1.3 billion in 2025 prices. This would represent a notable economic boost and would induce further long-term growth and investment.

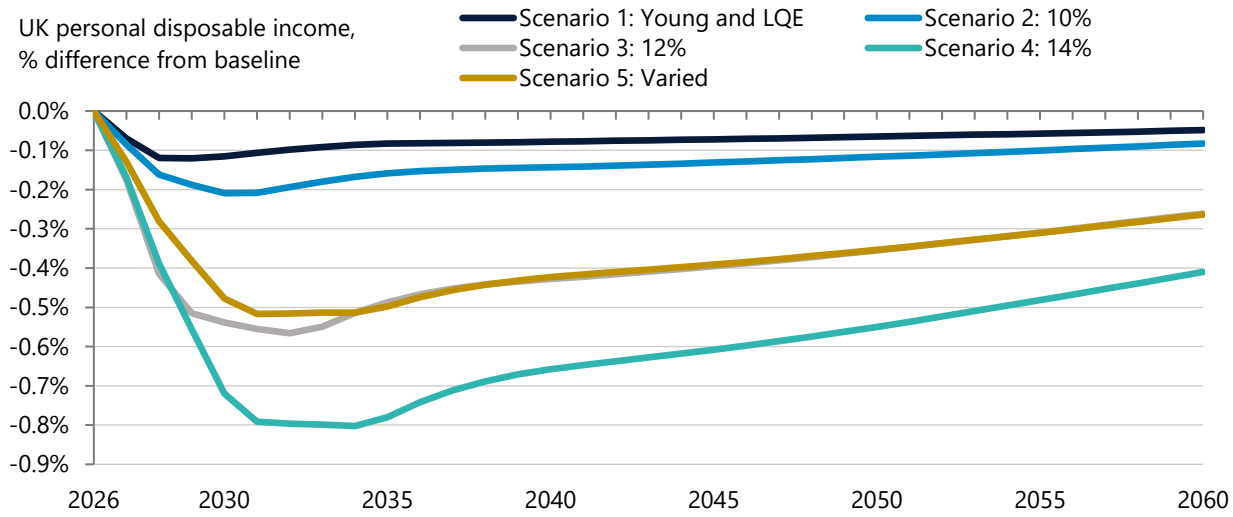
4.2. KEY FINDINGS

Wages and salaries fall in the short to medium term, but over the long term, as higher investment strengthens growth and pension incomes rise, household disposable income largely recovers

In the short run, household disposable income falls below the baseline in all scenarios, driven by higher employee contributions, and employers adjust to higher contribution costs by reducing wage growth. The size of the initial fall varies across scenarios. Scenario 4 sees the largest decline, dropping to around 0.8% below baseline by 2030. Scenarios 3 and 5 fall by around 0.5%, while scenarios 1 and 2 see modest declines. Following this early trough, all scenarios begin to recover as the economy adjusts, and the benefits of higher long-term investment strengthen activity and pensioner incomes. Beyond the forecast horizon, improvements in retirement incomes are expected to offset earlier wage effects, leading to a long-term net gain for households.

[21] HM Treasury, "Pension schemes back British growth", 2025
[22] Pensions Policy Institute, "Pension scheme assets", 2025
[23] Based on the PPI pension assets report, around 2.6% of DC assets are invested in UK property, private equity and other alternatives, consistent with the asset groups recognised by the Mansion House Accord. Of the assets covered by the Accord, 1.4% are invested in UK productive finance and the Accord accounts for 40% of total DC assets. This implies that the remaining DC assets invest around 3.3% in UK productive finance.

Figure 20: Short-term decline and gradual recovery in household disposable income



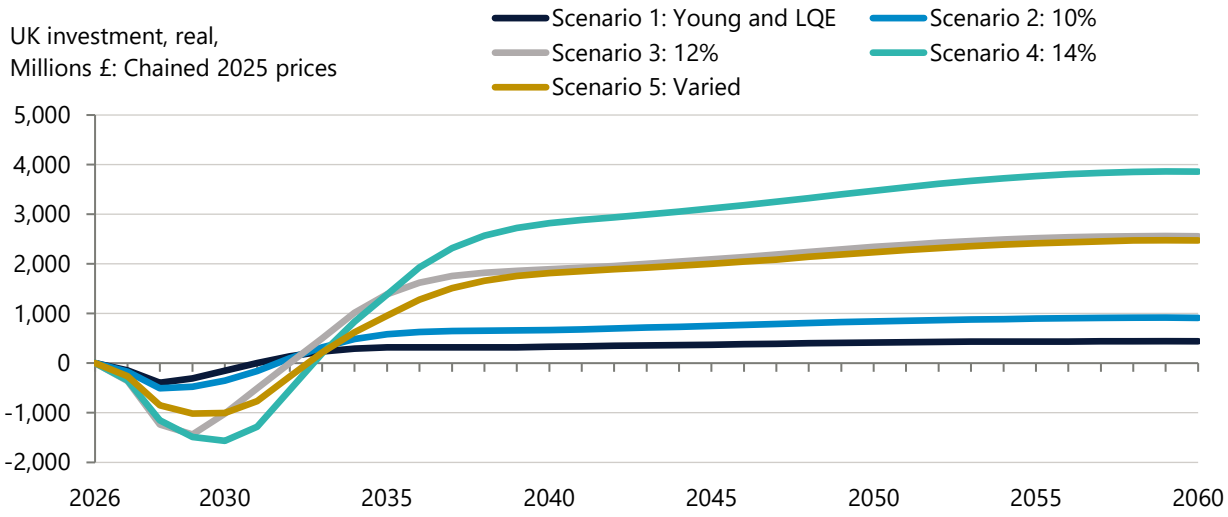
Source: Oxford Economics

Investment is boosted by higher pension contributions

In the early years, investment falls below the baseline in all scenarios because higher business costs and weaker household demand reduce spending and slow activity. This effect is strongest in scenario 4, where the larger rise in contributions creates short-term headwinds that outweigh the benefits of increased saving. From around 2030 onwards, faster asset accumulation lifts overall investment, with Scenario 4 delivering the largest gains, scenarios 3 and 5 showing similar improvements. Scenarios 1 and 2 generate only limited increases reflecting the limited increases in contributions that result in these scenarios.

Between 2027 and 2060, average annual UK investment increases by between £0.3 billion and £2.3 billion in 2025 prices, depending on the scenario. In 2060, annual investment is between £0.44 billion and £3.8 billion above the baseline, supporting stronger long-run economic activity and contributing to the eventual improvement in GDP.

Figure 21: Higher pension contributions increase long-term investment in UK productive finance



Source: Oxford Economics

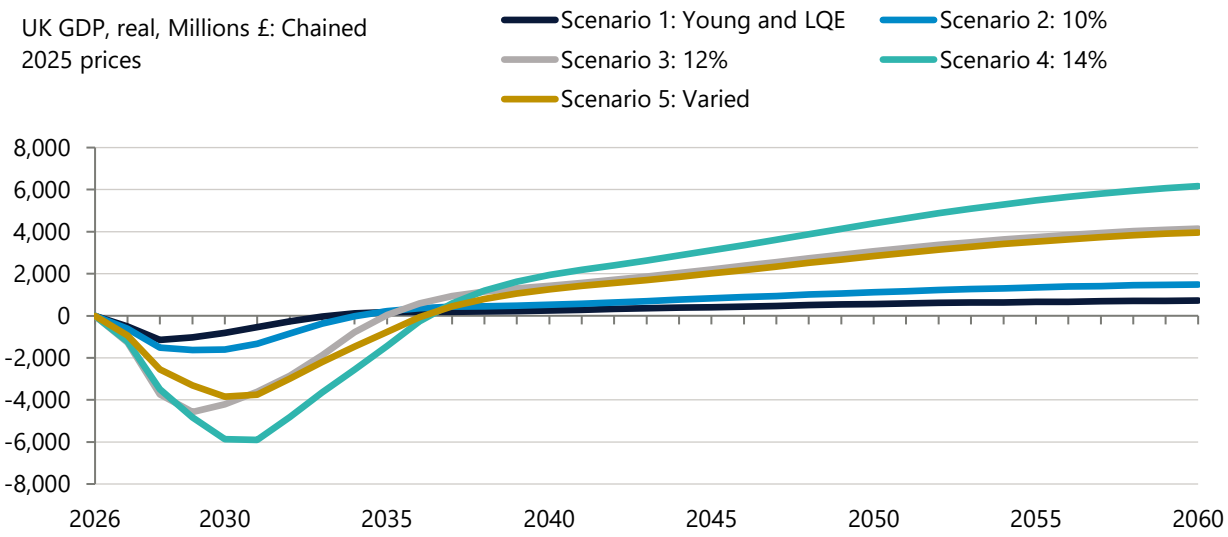
GDP strengthens over the long term as higher contribution rates drive increased business investment

In the early years, higher contributions reduce disposable income and profits, pushing GDP below the baseline. This initial reduction reflects the near-term adjustment as households shift a greater share of income into pension savings.

From the early 2030s onwards, higher savings support stronger business investment, which lifts GDP back above the baseline. Scenario 4 delivers the largest long-term GDP gains, with scenarios 3 and 5 showing broadly similar gains and scenarios 1 and 2 generating only limited uplift.

Overall, the GDP gains in the long-term offset the near-term fall. This means that annual GDP is higher on average over the 2027-2060 period by between £0.25 billion and £1.7 billion (in 2025 prices) across the suite of scenarios. By 2060, the uplift ranges from around £0.7 billion to £6.2 billion, depending on the scenario. This pattern shows that although higher contributions initially weigh on output, they ultimately support stronger long-term economic performance.

Figure 22: GDP initially falls but strengthens over the long term as investment rises



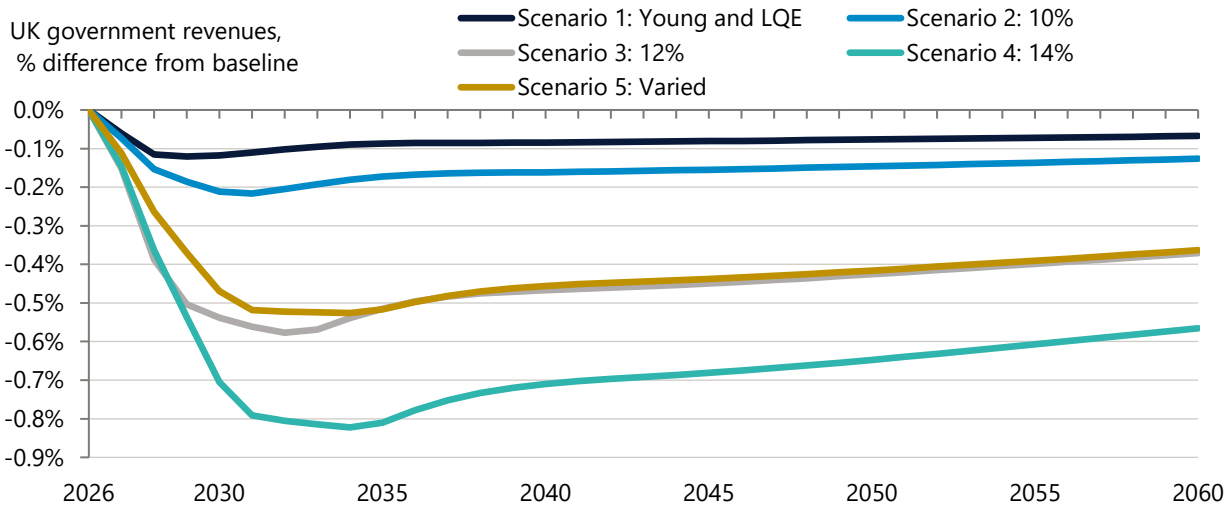
Source: Oxford Economics

Government revenue falls in the near term, but the gap gradually closes as the economy strengthens

Lower wages and profits reduce government revenue in the near term, but as GDP strengthens and pensioner incomes rise, these receipts gradually recover. By 2060, the annual reduction in government revenue is estimated to range from 0.07% to 0.57%, equivalent to £1.4 billion to £12 billion in 2025 prices.

These figures should not be viewed in isolation. Higher levels of pension adequacy across the population could reduce future demands on government support (including pension credit) and boost taxation through larger inheritance tax receipts, neither of which are included in the modelling. In addition, the fiscal impact of the reforms is expected to improve beyond the forecast window.

Figure 23: Near-term fiscal impacts from lower wages and profits



Source: Oxford Economics

SECTION 5. CONCLUDING COMMENTS

This report shows that, despite the success of automatic enrolment, a substantial share of UK households are not on course to have sufficient retirement incomes. By 2040, only around 36% of defined contribution households are projected to meet their Target Replacement Rate, and just 26% are expected to reach the moderate Retirement Living Standards benchmark. Lower-income households tend to perform better on the TRR than on the RLS, while higher-income households are more likely to meet the RLS standard. Younger households face the largest shortfalls overall.

Our analysis shows that higher minimum default pension contributions can meaningfully improve long-term adequacy, but the reform's design is critical. Larger, universal increases deliver the greatest improvements, particularly for lower-income households. However, based on the TRR benchmark, these households are already more likely to meet the adequacy thresholds, and as shown in scenario 5, will be on track to meet their adequacy thresholds within the current system if they work for 40 years. Furthermore, higher contributions place the most pressure on their current living standards.

In contrast, adequacy shortfalls are most acute among middle and higher-income households, who typically require higher saving rates to remain on track. Income-linked reforms can provide a more balanced approach that can improve adequacy while managing affordability. They limit the burden on households least able to absorb higher contributions while still delivering sustained strengthening of long-term retirement outcomes.

Nonetheless, income-linked approaches are not without drawbacks. They introduce additional administrative and payroll complexity for employers and pension providers, increase implementation costs, and may create unintended consequences if rising earnings trigger higher pension deductions, reducing the immediate benefit of pay rises. These operational and behavioural considerations need to be weighed alongside the longer-term adequacy benefits.

Looking beyond the household level, higher pension contributions can generate wider economic benefits. As additional assets accumulate in pension schemes, a share is channelled into UK productive finance, supporting stronger business investment and boosting GDP over the long run.

Policy initiatives such as the Mansion House Accord amplify these effects by directing a greater share of pension assets towards UK private markets and growth sectors. Crucially, further increasing the proportion of pension assets invested in the UK would strengthen these investment gains without introducing additional short-term income pressures, since the uplift is driven by asset allocation rather than by raising contribution rates further.

SECTION 6. APPENDIX

The appendix covers the following:

- Dataset used.
- Development of the underlying dataset.
- Estimation of the pension savings threshold.
- Assumptions used within the wider economic modelling.

6.1. DATASET USED

The Wealth and Assets Survey (WAS) has a wide range of financial data on individuals and households in the UK, including savings and pensions. The dataset includes pension contributions from both the employer and the employee, by scheme type. However, it exhibits three shortcomings which require adjustment for our modelling along with developing the scenarios:

- **Representativeness of the data**: the distribution of pension contributions does not match that of the more reliable, employer-provided, Annual Survey of Hours and Earnings (ASHE). We therefore update the WAS pension contributions for individuals to align with ASHE.
- **Including Wave 8 of the WAS**: the modelling assesses pension adequacy from 2019 using households in Wave 7 of the Wealth and Assets Survey. Trends from Wave 8 have been incorporated to ensure the analysis reflects the most recent evidence, and the data are then projected forward using forecasting models to produce a baseline extended to 2040, against which the policy scenarios are compared.
- **Removal of lower bound on qualifying earnings**: employees in a DC scheme can be in one of three schemes. Each has a different pensionable pay and minimum default contribution requirements, one of which—pensionable pay—is based on qualifying earnings.[24] The WAS does not identify the type of scheme an individual is in, so this has been estimated.

Household structures evolve over time as individuals retire, form new households or dissolve existing ones. Because the model does not capture these dynamics, we restrict the household projections to 2040, while highlighting the likely longer-term effects where this can be done with reasonable confidence.

6.1.1. REPRESENTATIVENESS OF THE DATA AND IDENTIFICATION OF PENSIONABLE EARNINGS

Before aligning the contributions data to ASHE, the missing employee and employer contributions in the WAS are estimated based on the contributions of those who have provided answers. The approach takes into account the sector in which individuals work, the size of the company they work for, the age of the individual, and their earnings.

After this, the employer and employee contributions are separately aligned to the ASHE. Employee contributions are first adjusted, with the proportions aligned with the latest employee pension contributions in ASHE.[25] After this, we align employee contributions with the ASHE distribution for each employer contribution band. During both adjustments, we rank individuals by their reported employee contributions, then adjust

[24] Employees' pensionable earnings can be based on total earnings, basic earnings, or qualifying earnings and will depend on the type of workplace pension scheme they are enrolled on. Basic earnings exclude earnings such as bonus and holiday while qualifying earnings are capped between £6,240 and £50,270 of total pay.
[25] Banded data are published from ASHE 2021 and used in the analysis. The individual contributions are adjusted to ensure the proportion of households in each band are consistent with ASHE.

them at the margins within each employee contribution band. The goal is to achieve conformity with the ASHE distribution while minimising deviations from their initially reported contributions.

Their employee and employer contribution then identifies the type of pension scheme a household is in. Employees who contribute exactly 4% are assumed to be enrolled in a total earnings scheme. Employees are then identified who are in basic earnings schemes will have employer contributions of 4%, while in qualifying earnings schemes the contribution requirement is 3%. We can only identify those with the minimum qualifying earnings.

6.1.2. INCORPORATING WAVE 8 OF THE WAS

Data from Round 8 of the WAS have been incorporated into the project variables forward to 2022 Q1. The first step was to identify households that appear in both Round 7 and Round 8, which account for around half of the dataset sample. For these overlapping cases, we use the more recent Round 8 values wherever possible.[26] For households not observed in Round 8, we impute missing values using key characteristics such as income group, employment status, and family size.[27] We also apply macroeconomic indicators to generate quarterly profiles and ensure the data align with the overall shift between the two survey rounds.

The dataset also includes improvements to the valuation of defined benefit (DB) pensions. Although the analysis focuses on defined contribution (DC) schemes, households' total pension wealth reflects all pension types they hold. A key methodological update is the adoption of the Superannuation Contributions Adjusted for Past Experience (SCAPE) discount rate to calculate the present value of future pension promises, both before and after retirement. This replaces earlier market-based discount rates and provides more stable, policy-relevant valuations. As shown in the analysis below, this change reduces both the median and the mean pre-retirement DB pension wealth, which, in turn, affects the pension adequacy results.

Figure 24: Revisions to defined benefits in Great Britain, April 2018 to March 2020 (Round 7)[28]

Methodology	Median pre-retirement DB pension wealth (£)	Mean pre-retirement DB pension wealth (£)
Published methodology	71,700	194,600
Updated methodology	65,100	126,600
Percentage (%) difference between two methodologies	-9	-35

Source: Oxford Economics

6.1.3. EXPANSION OF AUTOMATIC ENROLMENT TO THOSE AGED 18–21

The publicly available WAS dataset does not include the individual ages of those surveyed. Instead, they provide age groups, with the two focus groups being 16–19 and 20–24. In the 20–24 age group, individuals who are not enrolled and have not opted out of a pension scheme are expected to be either 20 or 21. We then use the Annual Population Survey (APS) to estimate the number of people aged 18 and 19 in the 16–19 age group. This is based on a logistical regression and includes gross income, whether they work full-time or part-time, and whether their head of household owns their home or rents.

Wages are then used to identify those who are earning at least £10,000 and would become eligible under the new policy. To ensure consistency with the DWP assessment on the expansion of automatic enrolment,[29] we

[26] Of the overlapping households, those that have retired or changed tenure use estimated values rather than actuals as the underlying household characteristics do not change in the Barometer dataset. Furthermore, actuals and predicted values are averaged to reduce the volatility seen in the actuals.
[27] Quantile regressions are used to estimate values for Round 7 and Round 8 using all the full sample. The change in the predicted values is applied to the actuals from Round 7 to generate predicted values covering the Round 8 period.
[28] ONS, "Estimating defined benefit pension wealth in Great Britain: December 2024", 2024
[29] DWP, "Pensions (Extension of Automatic Enrolment) 2023 impact assessment", 2023

match the number of individuals identified in their analysis. This means 530,000 eligible 18- to 21-year-olds are automatically enrolled in the baseline, and individuals are chosen based on a score. This score depends on whether they are in the public or private sector, company size, and their wage, and takes into account the average proportion of individuals enrolled in each of these cohorts. We have assumed they have the minimum qualifying contributions.

6.1.4. SCENARIO 5 AND ILLUSTRATIVE ESTIMATES OF THE ADDITIONAL PENSION CONTRIBUTIONS

Scenario 5 is based on the TRR framework because it provides an established benchmark for assessing whether individuals can maintain a similar standard of living in retirement as they experienced during working life. The analysis uses updated TRR rates to reflect changes in the tax and benefit system, which have increased the income-replacement needs of lower-earning households.[30]

Our analysis applies these updated TRR values to each individual in the dataset using their estimated pre-retirement earnings. Pre-retirement earnings are projected based on an individual's current income, their age, and the typical earnings trajectory for workers over 50. Using these estimates, we calculate the pension pot required to reach the TRR for each earnings group. This calculation incorporates assumptions on the State Pension (set at £11,973), expected drawdown rates, life expectancy in retirement, and asset and wage growth. We then estimate the pension pot an individual would accumulate over a 40-year working life, given different contribution rates. The required contribution rate is the point at which the projected pot equals the pot required to meet the TRR.

Figure 25 presents illustrative estimates of the additional pension contributions associated with each scenario, separated into employer contributions, employee contributions, and the value of income tax relief. These figures underpin the assessment of the reforms' initial effects. In scenario 1, employees bear most of the adjustment burden because they currently contribute more than employers. Employer contributions rise in Scenario 2 to align with employees, and both employers and employees see further increases in Scenarios 3 to 5 as minimum default contribution rates continue to rise.

Overall, Scenarios 2 to 5 show that while employee contributions rise, tax relief helps cushion the increase, and employers absorb a sizeable portion of the total rise in pension contributions. This contrasts with Scenario 1, where fewer individuals are affected, and employees shoulder a larger proportion of the adjustment.

Figure 25: Breakdown of additional pension saving by source across scenarios[31]

Source of additional pension savings	Scenario 1: Young & LQE	Scenario 2: 10% contribution	Scenario 3: 12% contribution	Scenario 4: 14% contribution	Scenario 5: Varied
Employer contribution	£350	£562	£689	£975	£836
Employee contribution	£484	£113	£466	£735	£643
Income Tax Relief	£100	£23	£137	£222	£225
% of individuals impacted	24%	65%	93%	93%	65%

Source: Oxford Economics

6.2. PENSION SAVINGS THRESHOLDS

To assess households' readiness for retirement, we use two benchmarks that provide different perspectives on what constitutes an adequate income in later life. The following benchmarks are used, with more detail provided on the household-specific threshold calculations.

[30] Resolution Foundation, "Perfectly adequate?", 2024
[31] Base figures derived using the WAS for the period Q2 2018-Q1 2020 and inflated using the change in wages between 2019 and 2025 (OE forecast for 2025)

6.2.1. TARGET REPLACEMENT RATE

The Target Replacement Rate (TRR) assesses whether households are on track to maintain their standard of living in retirement by comparing expected retirement income with pre-retirement earnings. The TRR was originally developed by the Pensions Commission in 2004, which set out ratios both before and after housing costs. For this analysis, we use the before-housing-costs measure. These ratios have since been updated by the Resolution Foundation to reflect changes in the tax system, ensuring the benchmark remains consistent with the net income basis used in the original framework.[32]

To construct a household-level adequacy benchmark, we apply the relevant TRR to each individual's estimated pre-retirement earnings. This requires adjusting current earnings to reflect the income a person is expected to receive between age 50 and their State Pension age.[33] Once these pre-retirement earnings profiles are calculated, the TRR is applied. After accounting for the New State Pension and the Personal Allowance, the resulting individual benchmarks are aggregated to produce the required household income.[34] This benchmark is then projected forward to 2040 using wage growth assumptions derived from Oxford Economics' Global Economic Model (GEM).

To calculate an age-specific threshold to evaluate the size of the pension pot, the following key assumptions are taken into account:

- **Pension drawdown**: individuals, on average, live for 21 years after retirement and are anticipated to draw 4.75% of their pension pot each year.
- **Return on pension savings**: consistent with the wider economy analysis, assets are expected to increase by 5% (in nominal terms).
- **Individuals' lifetime earnings**: to assess households' pension savings status, retirement expenses have been distributed based on the working lifespan of an individual. This has been estimated taking into account the average earnings and employment rate at each age.[35] On average, individuals experience their highest earnings and employment rates around their mid-40s, which tend to decrease afterwards. Accordingly, pension savings for individuals are expected to mirror this trend.

The combination of these factors, along with the ageing of households, is incorporated into the 2040 threshold.

6.2.2. RETIREMENT LIVING STANDARDS (RLS)

The Retirement Living Standards (RLS) set out the income needed for different lifestyle levels in retirement. For this analysis, we draw on the moderate RLS benchmark, which reflects the spending required to maintain a comfortable but not luxurious standard of living. A threshold for the pension savings required for a moderate income in retirement is estimated for each household[36] within the WAS.

The RLS measure is published by relationship status; however, as the relationship status of a household at retirement is not known, an average cost for an individual has been calculated based on a weighted average of the single and couple costs.[37] This weight takes into account the higher proportion of households that are living in a couple compared to being alone in retirement. It also includes the higher probability of being part of a couple household in retirement if the household is currently in one.

[32] Resolution Foundation, "Perfectly adequate?", 2024
[33] For example, a 35-year-old is anticipated to see their earned income fall by 11% compared to the average income of those aged between 50–68. We, therefore, estimate their pre-retirement earnings as £35,720 (£40,000*89%). Average earnings by age based on the LFS.
[34] Forecasts of New State Pension are underpinned by Oxford Economics GEM and increase in line with the "triple lock" policy.
[35] Data based on the Labour Force Survey.
[36] A household has been defined as individuals who are living together and related or dependent on each other.
[37] Based on the proportion of individuals who are single or in a couple for the age cohort 65-69 in 2019 using ONS data published in the marital status and living arrangements.

According to the latest estimates from the RLS release, individuals will require an income of £31,700 for a single household and £43,900 for a couple to maintain a moderate standard of living in retirement.[38] This threshold has risen over time to account for inflation, and we expect it to continue to rise. In addition, we assume a general improvement in living standards, and the threshold therefore increases by CPI plus half the difference between wage and CPI growth. Finally, the benchmark accounts for the State Pension and the Personal Allowance, as this will also impact the required savings.

All these factors, along with household ageing, are combined to calculate the 2040 threshold.

6.2.3. RETIREMENT LIVING STANDARDS (RLS) KEY FINDINGS

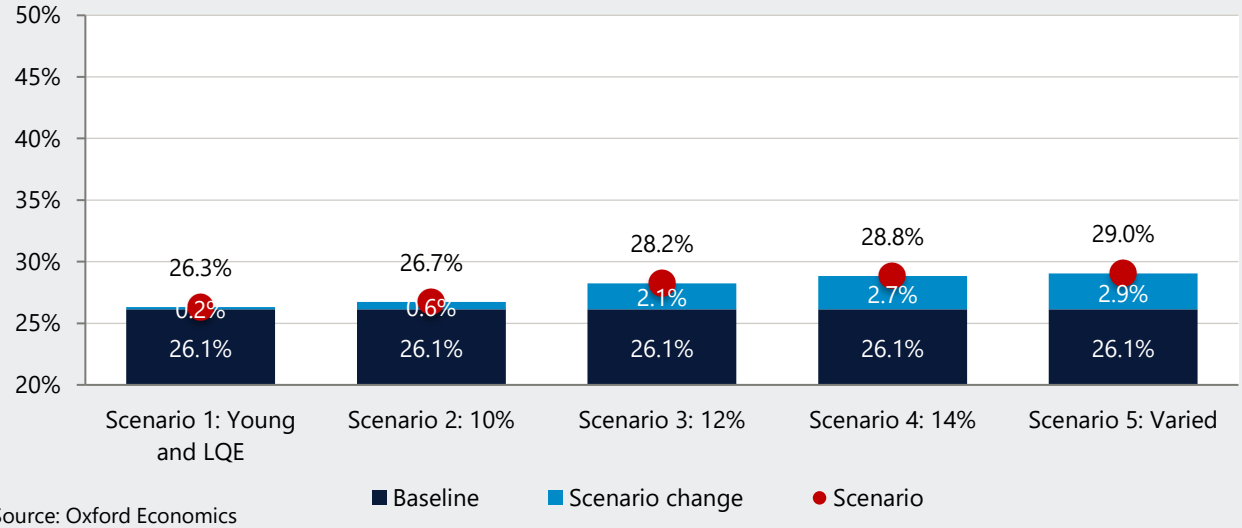
The main report focuses on changes in pension adequacy using the TRR benchmark, and the following section presents the corresponding results for the RLS.

Using the RLS measure, the pattern is similar to that from the TRR benchmark. Scenario 4, which applies a universal 14% contribution rate, delivers the biggest improvement, increasing the share of households meeting the adequacy threshold by 2.7 percentage points. Scenarios 3 & 5 provide comparable increases, while Scenarios 1 & 2 only provide limited improvement at the overall level.

At the distributional level, the gains from higher contributions vary. Under the RLS benchmark, lower-income households start with the weakest baseline adequacy, and uniform contribution increases deliver the largest improvements for this group. However, from the TRR perspective, this uplift may reflect these households saving more to achieve a higher standard of living than they currently experience. As a result, the additional contributions could place further financial pressure on groups that are already least able to afford it.

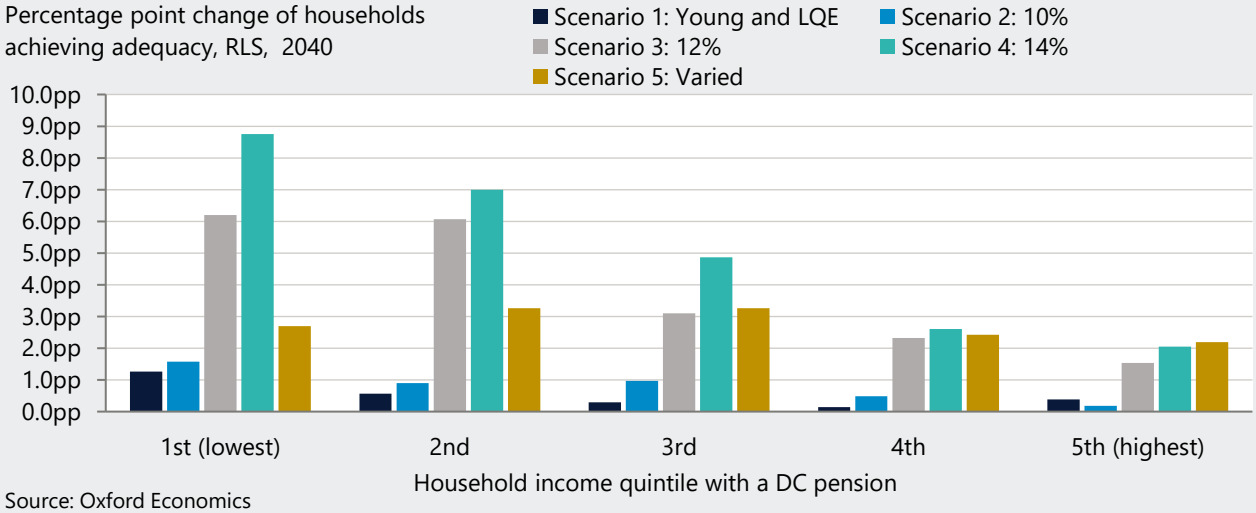
Figure 26: Change in the household adequacy under each scenario based on the RLS benchmark

Share of households achieving adequacy, RLS, 2040



Source: Oxford Economics

[38] RLS, Moderate standard of living, 2025



Source: Oxford Economics

6.3. ASSUMPTIONS UNDERPINNING THE WIDER ECONOMY MODELLING

Increasing mandatory pension contributions is expected to impact UK households and the broader economy in the short and long term. For this analysis, we have had to make a series of assumptions about the policy's direct impact on business costs, disposable income, and business investment. The second-round effects are then estimated using Oxford Economics' Global Economic Model (GEM). The GEM is a fully interlinked global macroeconomic policy model, used for forecasting and scenario analysis. The scenario is based on the January 2026 Oxford Economics forecast. The following section provides more information on the assumptions underpinning the modelling.

Higher business costs

Higher pension contributions will be financed by employers, employees, and the government. Businesses will face higher costs in the scenarios, and the cost is expected to be distributed as follows:

- **Lower wage growth:** based on evidence from Australia, we assume that 71% of employer costs are passed on through lower wage growth.[39]
- **Absorb the higher costs and increase prices:** the remaining cost is split between businesses absorbing the higher cost and increasing prices. Based on survey analysis, businesses were four times more likely to reduce profit rather than increase prices, and this ratio is used to split the remaining cost.[40] Therefore, 23% of the cost reduces profit, and 6% of the cost leads to higher prices. A reduction in business profits and higher inflation are included as a direct impact in the GEM.

Disposable income

The direct impact on disposable income will take into account both the reduced income from wages and salaries and the higher disposable income of pensioners.

- **Wages and salaries impact:** workers will see a fall in their wages and salaries since saving more for retirement reduces take-home pay today. Higher employer contributions are expected to lower wage and salary increases in the future, as employers respond to the cost of these contributions in various ways. Both factors reduce employees' wages and salaries in the model.
- **Pensioner income impact:** increased pension savings from greater contributions will result in higher disposable income during retirement. We account for both growth in pension assets over time (4.75% per

[39] Robert Breunig and Kristen Sobeck, "The Economic Incidence of Superannuation", Australian Treasury, 2020
[40] DWP "Employers' Pension Provision Survey 2019", 2022

year, on average)[41] and individuals drawing down on their pension pot equally over their life expectancy after retirement (21 years on average).[42]

Private sector investment

Total additional pension assets are calculated based on the size of each employee's total contribution and the number of employees. After this, private sector business investment is estimated, and it incorporates the following two key factors**:**

- **Savings displacement:** we first estimate the additional savings that are estimated to be in the UK economy. We account for the extent to which increased compulsory pension saving displaces other savings available for investment using evidence from Australia. Based on the full sample, an additional dollar in mandatory pension accounts boosts net financial wealth by 91 cents, indicating an offset of 9 cents attributable to reductions in other assets.[43] We therefore assume a displacement rate of 9%.
- **UK-based investment:** as expected, not all additional pension assets will be directed into UK private sector business investment. The proportion of pension savings invested in the UK is underpinned by the Mansion House Accord. Overall, around 40% of pension assets are covered by the Mansion House Accord. Within this subset, approximately 1.4% of assets currently qualify as UK productive finance. The modelling raises this share to 5%, while holding non-qualifying assets constant at 3.3%. On this basis, the average allocation to UK productive assets is projected to increase from 2.6% in 2025 to 4.0% in 2030.

[41] Asset growth consistent with Pensions (Extension of Automatic Enrolment) 2023 impact assessment where they assume a 3% real asset growth. We have assumed CPI is at the target rate and nominal assets should grow by 5%.
[42] Base on ONS estimates of life expectancy and the average retirement age.
[43] Ellis Connolly, "The Effect of the Australian Superannuation Guarantee on Household Saving Behaviour", Reserve Bank of Australia, 2007

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