# TISA response to the Work & Pensions Committee Call for Evidence:

## Pensions adequacy – auto-enrolment contributions for low earners and their employers

### To what extent do minimum AE contributions need to increase?

1. To answer this question accurately, we first need to agree on a single measure of pension adequacy. Currently, two principal measures are used across industry and government: the Pensions UK Retirement Living Standards and Target Replacement Rates (TRRs). Both have merits, but adequacy is inherently personal and subjective. On balance, we support the revised TRR approach proposed by the Pensions Commission in its 2026 interim report. Establishing a single measure for both policymaking and consumer communications would reduce confusion and provide greater consistency when assessing retirement outcomes.

2. We also need agreement on the purpose of the auto-enrolment minimum contribution rate. Is it intended primarily to promote inclusion and encourage pension saving, or should it do more of the heavy lifting in delivering retirement adequacy for most savers? Given the wide variation in earnings, wealth and retirement aspirations among auto-enrolled members, a single minimum contribution rate cannot achieve adequate outcomes for everyone.

3. When considering adequacy, it is important not to view auto-enrolment in isolation. Retirement income is built on three pillars: state, workplace and private savings. Policymakers should therefore consider these collectively, ensuring that decisions on State Pension provision are aligned with overall retirement income objectives and with expectations of what workplace and private savings are required to deliver (and vice versa).

4. The Pensions Commission's interim report indicates that around 60% of future retirees in the 2050s are on course to fall short of their target replacement rate. Voluntary private saving has not developed as originally envisaged by the Pensions Commission, suggesting that greater reliance on inertia, including higher minimum contribution rates, are required for many to close the gap.

5. However, the choice is not necessarily a binary one. For many lower-income earners, the current 8% minimum contribution rate, when combined with a full State Pension, is sufficient to meet or exceed their target replacement rate. As earnings rise, however, required contribution rates increase and projected shortfalls become more significant. This raises the question of whether a more flexible auto-enrolment contribution framework should be considered, recognising the significant differences in income and wealth across the population rather than relying on a single minimum rate for all savers.

6. Nevertheless, the overall evidence is clear. For all but the lowest earners, current minimum contribution levels are unlikely to deliver adequate retirement outcomes. While greater engagement, improved guidance and initiatives such as Targeted Support may encourage some individuals to save more, experience suggests that voluntary saving alone is unlikely to close the gap at scale.

7. The Committee should also recognise that addressing pension adequacy is not simply a question of improving retirement outcomes for individuals. Increasing pension contributions would also create wider economic benefits by expanding the stock of long-term investment capital available to support UK growth. Research by Oxford Economics for Royal London estimates that higher pension saving could increase annual GDP by up to £6.2 billion by 2060 through greater investment in the productive economy. Over time, higher levels of private retirement saving could also strengthen the sustainability of the public finances by reducing the likelihood of future pensioner hardship and associated demands on state support. Improving adequacy should therefore be regarded as both a social and an economic policy objective.

**How should any contribution increase be shared between employers and workers?**

8. Many international AE or quasi-mandatory workplace pension systems rely on employers contributing at least as much as employees. Indeed, several countries with strong retirement savings outcomes, including Australia, the Netherlands and Denmark, feature employer contribution rates that significantly exceed those seen within the UK's AE framework.

9. As a starting point, we recommend implementing the reforms proposed by the 2017 Automatic Enrolment Review, which were originally intended for delivery in the mid-2020s. The Pensions (Extension of Automatic Enrolment) Act 2023 provides the legislative framework for these changes through powers that enable:

- Lowering the minimum age for automatic enrolment from 22 to 18.
- Removing the Lower Earnings Limit (LEL), so that contributions are calculated from the first pound of earnings rather than only on earnings above the current threshold.

10. These reforms should be implemented within the current Parliament and form the foundation of a longer-term roadmap for improving pension adequacy.

11. We would then support a phased increase in minimum contribution rates, providing certainty for employers and savers while allowing sufficient time to adjust. This could involve increasing employer contributions by 0.5 percentage points per year over four years, resulting in employers and employees each contributing 5% and a total minimum contribution of 10%. A further two years of 0.5 percentage point increases for both employers and employees would then take total minimum contributions to 12%, split equally between employers and employees at 6% each.

12. Alongside this, policymakers should consider whether a more flexible contribution structure could better reflect the significant diversity in earnings, wealth and retirement needs across the auto-enrolled population, supported by robust evidence and research.

13. Statutory reviews should be built into this roadmap to assess progress against clearly defined adequacy objectives and ensure that the auto-enrolment framework continues to meet the needs of savers in a changing economic and demographic environment. The central focus for these reviews should be retirement outcomes rather than the contribution rates themselves.

14. Further research should also be undertaken into the impact of reducing the current £10,000 earnings trigger. This could improve participation among groups that are currently less likely to benefit from automatic enrolment, including lower-paid workers, part-time workers and some carers, while ensuring that any changes are proportionate and well targeted.

15. At the same time, we must recognise that smaller employers are less able to absorb increases in pension contribution costs. Employer pension contributions form part of an employee's overall remuneration package and, in practice, represent a form of deferred pay. There is therefore a risk that poorly phased increases could have unintended consequences, including reduced wage growth or pressures on employment.

16. To mitigate these risks, any contribution increases should be introduced gradually and with substantial notice periods, allowing employers and employees sufficient time to plan and adapt. A clear, long-term implementation schedule would provide certainty, support affordability and maximise the likelihood of achieving higher retirement saving without adverse economic consequences.

17. Whilst the contribution increases would not commence until the 2030s, the Government should act now to legislate for a clear timetable. Providing certainty well in advance would give employers and savers time to prepare, while demonstrating a long-term commitment to improving retirement outcomes.

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

18. The success of these reforms will depend heavily on providing employees and employers with sufficient time to prepare. A phased approach, based on small annual increases in contribution rates, recognises the affordability challenges that some households and businesses may face and allows adjustment to take place gradually over time.

19. This approach should help minimise the risk of unintended consequences, such as financial hardship for lower-income workers, reduced wage growth, or pressures on employment, while still providing a clear and credible pathway towards improved retirement outcomes. By setting out the timetable well in advance, employers, employees and pension providers will have the certainty needed to plan effectively and adapt to the changes in an orderly manner.

**What would be an appropriate timetable for any increases?**

20. Whilst the contribution increases would not commence until the 2030s, the Government should act now to legislate for a clear timetable. Providing certainty well in advance would give employers and savers time to prepare, while demonstrating a long-term commitment to improving retirement outcomes.

21. It is worth noting that, if the schedule were to commence in 2031, implementation would not be completed until 2037, some 25 years after the rollout of automatic enrolment. Further delays would simply extend the period during which millions of savers continue to build retirement savings at levels that may be insufficient to meet their future needs. The time has come to move from commitment to delivery.

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

22. Yes. These reforms were originally recommended by the 2017 Automatic Enrolment Review and accepted by Government for implementation in the mid-2020s. The legislative foundations have already been established through the Pensions (Extension of Automatic Enrolment) Act 2023, which provides the powers necessary to deliver these changes.

23. As such, we recommend that the Government implements these reforms within the current parliamentary term. Doing so would honour previous commitments, extend the benefits of pension saving to younger workers and provide a strong foundation for the next phase of automatic enrolment reform focused on improving retirement adequacy.

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

24. Research suggests that many consumers have a broad awareness that they may not be saving enough for retirement, and the forthcoming launch of the Pensions Dashboard is likely to increase the number of savers who recognise they may face a retirement savings shortfall. However, awareness of the scale of that shortfall, the contribution levels required to address it, and the specific actions individuals should take remains much lower.

25. Initiatives such as Targeted Support have an important role to play in turning awareness into action through timely and relevant communications. It is therefore crucial that users of the Pensions Dashboard can seamlessly access support once they have been provided with information about their pension entitlements. Providing information alone is unlikely to be sufficient; consumers must also be able to access a framework that helps them understand what the information means and what actions they may wish to consider.

26. The current lack of action is evidenced by the large number of savers who remain at minimum auto-enrolment contribution rates, despite evidence suggesting that many are unlikely to achieve their target retirement income without additional saving. This highlights a fundamental behavioural challenge: awareness alone does not necessarily lead to action.

27. While initiatives such as Targeted Support should improve decision-making, relying solely on engagement and voluntary saving is unlikely to be sufficient. This strengthens the case for making greater use of inertia within the pensions system, alongside improved communications, support mechanisms and retirement planning tools.

28. Employers also have an important role to play, although their understanding of the retirement challenges facing employees will vary considerably. This is likely to be influenced by factors such as employer size, available resources and sector. Larger employers may be better placed to provide education and encourage higher contribution rates, whereas smaller employers are more likely to face constraints in terms of cost, expertise and administrative capacity, and may therefore focus primarily on meeting minimum auto-enrolment requirements.

29. This variation reinforces the need for a policy framework that does not rely solely on individual engagement or employer-led interventions. Instead, the system should combine effective support and communications with well-designed defaults and gradual policy interventions that help savers achieve better retirement outcomes regardless of where they work.

30. The pensions system must also foster the confidence required for individuals to commit additional voluntary savings over what may be several decades. Long-term saving decisions are influenced not only by an individual's financial circumstances, but also by their belief that the rules governing pensions will remain broadly stable over time. Frequent policy changes, ongoing speculation about future reforms, or uncertainty surrounding the taxation of pensions can undermine confidence and act as a deterrent to additional saving. While reforms will inevitably be needed from time to time, policymakers should seek to provide a clear and predictable long-term framework that gives consumers confidence that the incentives available today will not be materially weakened before they come to access their retirement savings. Stable policy settings are therefore an important enabler of higher levels of voluntary pension saving and improved retirement adequacy.