



IFoA response to Work and Pensions Committee inquiry: Pensions adequacy – auto-enrolment contributions for low earners and their employers

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 32,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers. Actuaries are big-picture thinkers who use mathematical and risk analysis, behavioural insight and business acumen to draw insight from complexity. Our rigorous approach and expertise help the organisations, communities and governments we work with to make better-informed decisions. In an increasingly uncertain world, it allows them to act in a way that makes sense of the present and plans for the future.

Executive Summary

1. The Institute and Faculty of Actuaries (IFoA) is pleased to contribute to the Committee's inquiry¹ into pension adequacy and automatic enrolment (AE). Automatic enrolment has been one of the most successful public policy interventions of recent decades, substantially increasing workplace pension participation. However, participation alone does not guarantee adequate retirement outcomes.
2. The IFoA believes the UK has had significant success in addressing the participation challenge for *employees* (the *self-employed* remain a notable exception). However, the IFoA continues to support implementation of the principal outstanding recommendations of the 2017 Automatic Enrolment Review, namely:
 - automatic enrolment from age 18; and
 - pension contributions from the first pound of earnings².
3. Participation is only part of the story; the UK has yet to solve the adequacy challenge. Current minimum automatic enrolment contribution levels are unlikely to provide adequate retirement incomes for many savers.
4. Adequacy can be defined in different ways, and it is important for the Committee to have a clear understanding of the measure(s) of adequacy it is focusing on. However, as a working definition, we take it as the aim that individuals' living standards should not drop materially when they move from their working lives into their retirement.³ The Committee's current inquiry focusses on pension auto-enrolment, but we note that whether any level of contributions is adequate depends on the broader context (the level and qualifying terms for state pension, housing costs etc.) and the way in which those contributions are used and converted to retirement income⁴.

¹ <https://committees.parliament.uk/work/10005/>

² Department for Work and Pensions, [Automatic Enrolment Review 2017: Maintaining the Momentum](#).

³ We discuss measures of adequacy in more depth in Chapter 2 of our [Response to the Second Pensions Commission: Interim Report](#)

⁴ In addition to our [Response to the Second Pensions Commission: Interim Report](#) we also note our [Response to the Third State Pension Age review: Independent report call for evidence](#) and [An actuarial roadmap for better retirement outcomes](#)

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5. The IFoA does not advocate a specific future minimum contribution rate, nor a particular division of contributions between employers and employees. However, the current minimum rates are too low for most middle and higher earners to achieve adequate retirement incomes.
6. Any increase must be implemented with care. Lower earners face genuine affordability constraints, and policy should avoid worsening current financial hardship in pursuit of improved retirement outcomes tomorrow.
7. The most important implementation issue is not the precise date on which future reforms occur. Rather, Government should establish a clear, credible and durable implementation timetable that allows employers, pension schemes and savers to plan with confidence.
8. Finally, we would like to highlight the IFoA's joint work with the Behavioural Insights Team (BIT) on pension decision-making. Although focused on decumulation, the research reinforces a broader lesson from automatic enrolment itself: reforms are most successful when designed around actual behaviours.⁵

About the IFoA

9. The IFoA is the chartered professional body for actuaries in the United Kingdom. Our members advise governments, regulators, pension schemes, insurers and employers on long-term financial risks and retirement provision.
10. Actuaries have played a significant role in the development of workplace pension provision and continue to contribute expertise across both public and private pension policy.

Response to the Committee's Questions

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

11. The Committee's focus on minimum contributions is implicitly a focus on "money purchase" pension savings. Individuals accruing "defined benefits" (now almost exclusively in the public sector, with the dwindling exception of some long-serving private sector members) are likely to be on target for much higher benefit levels than employees with minimally qualifying auto-enrolment contributions.
12. Actuaries have the skills to model outcomes and contribution structures. However, determining the appropriate level of income adequacy in retirement is ultimately a matter for Government and Parliament, and this decision will drive the necessary rates of statutory minimum auto-enrolment contributions. Hence, the IFoA does not advocate for a particular level of contribution.
13. However, our view is that, for most people, the current statutory minimum contribution level is unlikely to be sufficient to provide an adequate retirement income. The question should therefore not be whether higher contributions are required, but how they should be implemented and targeted.
14. The IFoA's work on pension adequacy has consistently highlighted the importance of developing realistic measures of retirement outcomes which distinguish between:
 - preventing poverty in retirement; and
 - maintaining pre-retirement living standards.

⁵ Behavioural Insights Team for the IFoA, [Defined contribution guided retirement: a behavioural perspective](#)

15. These are distinct policy objectives which may justify different policy interventions. The IFoA therefore expects the Committee will wish to distinguish between these policy objectives when determining its aims for retirement adequacy.
16. For many lower earners, the former objective will continue to depend primarily on the State Pension and wider state support, with automatic enrolment playing a complementary role.
17. Beyond this group, increasing pension contributions remains the single most powerful lever available to improve retirement outcomes. Due to the effects of compound investment returns over long periods, increasing the amount saved, and doing so earlier in working life, has a greater impact on retirement income than almost all other policy interventions.
18. However, the IFoA would also stress that pension adequacy depends not only on the level of contributions accumulated during working life, but also on *how* those savings are converted into retirement income. Retirement outcomes are affected by factors such as longevity and the sustainability of income throughout retirement, so it is important to consider adequacy across both the accumulation and decumulation phases.
19. The Committee should also recognise that retirement adequacy cannot be measured solely by reference to pension wealth. Housing costs, home ownership patterns, caring responsibilities and later-life support needs can all have a material impact on retirement living standards.

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

20. Again, this is a political decision and the IFoA does not advocate for a particular balance.
21. In determining a balance, the Committee should consider how different contribution structures affect retirement adequacy, affordability, labour market participation and employer competitiveness.
22. The Committee should be aware that the current structure can produce adverse outcomes for some lower earners. Employees who cannot afford to contribute may lose both their own contribution opportunity and the associated employer contribution.
23. It is therefore important to consider whether alternative contribution structures and the way they are applied could better support lower earners while preserving incentives for pension saving.
24. We would encourage policymakers to focus on the broad principles of adequacy, affordability and fairness, and of course outcomes, rather than a particular employer-employee split.

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

25. This question goes to the heart of the adequacy challenge, particularly since current needs and the ultimate value of retirement savings are both highest for lower-paid younger workers.
26. For many lower earners, increasing pension contributions may improve retirement outcomes while simultaneously reducing disposable income today.
27. The IFoA has previously cautioned against assuming that higher minimum pension contributions automatically improve overall welfare. For individuals already struggling with day-to-day living costs, higher pension saving may come at the expense of present financial security, or alternatively they may be incentivised to opt out of saving and, in doing so, also lose their employer's contribution.
28. Policymakers should therefore recognise that retirement adequacy is not solely an accumulation problem – it is intertwined with current needs and cannot be solved in isolation.

29. The State Pension already provides a substantial proportion of retirement income for many lower earners. However, the principal determinants of retirement hardship for some groups may be housing costs, insecure housing tenure or increasing care needs, which the State Pension cannot fully mitigate.
30. We therefore believe there is a strong case for avoiding a uniform approach to minimum contribution increases across all earnings levels.
31. Potential alternative approaches include:
- phased contribution increases;
 - concentrating increases on higher earnings bands;
 - allowing contribution “opt-down” arrangements in addition to the current binary opt-out model, without necessarily sacrificing the employer’s contribution; and
 - complementary policies that improve short-term financial resilience alongside pension saving.
32. The Committee may also wish to consider behavioural factors when assessing policy options. The IFoA’s research with the Behavioural Insights Team highlights the extent to which pension outcomes depend on default design, simplicity and behavioural incentives, rather than on high levels of member engagement. Although the research addresses retirement decisions, many of the underlying behavioural insights are equally relevant during accumulation.

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

33. The IFoA believes that the Government should establish a clear, credible and durable implementation timetable that allows employers, pension schemes and savers to plan with confidence. This is more important than advocating for a specific implementation date for future contribution increases.
34. We also consider it vital that the Government sets out a clear implementation timetable well in advance of any changes.
35. Following the 2017 Automatic Enrolment Review, the Government expressed an intention to implement reforms during the “mid-2020s”. However, this did not happen⁶. While the policy direction was established, implementation dates were not secured, and those reforms have yet to be introduced. More recently, Government has indicated that contribution rates will not be increased during the current Parliament.⁷
36. This illustrates an important distinction between policy aspiration and implementation certainty.
37. Employers, pension schemes, payroll providers and pension administrators require confidence not only about the direction of travel, but also about when changes will occur and how they will be implemented. Similarly, savers will engage more effectively with saving if they understand when changes will happen and why they are needed.
38. In other words, the key requirement is not necessarily early implementation, but predictable implementation.

⁶ The relevant Minister in the House of Lords said, “our commitment stands to implement in the mid-2020s,” as late as [27 February 2024](#). The then Pensions Minister later reiterated on [2 May 2024](#) an “ongoing commitment to consult in the mid-2020s on that issue”.

⁷ The Pensions Minister was [reported](#) to say, “We are ruling out any increase in pension contributions in this parliament.”

39. Government should therefore establish:

- a clear long-term timetable;
- sufficient lead times for implementation;
- legislative certainty where appropriate; and
- a framework capable of commanding long-term cross-party support.

40. Delays can be managed. Uncertainty is often more damaging.

41. A predictable and credible implementation timetable would allow employers to plan appropriately and reduce the risk of disruptive policy changes or implementation surprises.

42. While implementation should also be gradual or phased, the Committee should recognise that delay has consequences. Pension saving benefits from compound investment returns, meaning that postponed increases today can have material effects on retirement outcomes decades later.⁸

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

43. Yes.

44. The IFoA supports implementation of the outstanding recommendations of the 2017 Automatic Enrolment Review.

45. Specifically, we support:

- extending automatic enrolment to employees from age 18; and
- removing the lower earnings limit so that pension contributions are calculated from the first pound of earnings.

46. We note that Parliament has already provided powers enabling these reforms.

47. These changes would improve outcomes for younger workers, part-time workers and individuals with multiple employments, who otherwise lose out on contributions on earnings below the lower earnings limit.

48. They would also increase consistency and simplify the structure of automatic enrolment.

49. However, the Committee should consider implementation alongside wider reforms to contribution rates. Affordability impacts, particularly for younger workers and lower earners, should remain an important consideration.

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

50. We believe the more important question is whether employers and the public are persuaded that an adequacy challenge exists.

51. There remains a significant gap between participation in pension saving and understanding whether current saving levels are sufficient to deliver desired retirement outcomes.

⁸ As highlighted with examples in our [How much could you lose? Opening the conversation on closing the pensions gap](#)

52. In our experience, many individuals are not aware of their projected benefit levels, despite the annual statutory benefit illustrations sent to them; there is often an over-focus on pot sizes rather than the incomes they will sustain; and statutory benefit illustrations (as will be used by the pensions dashboards) set out non-increasing incomes in retirement, thereby presenting higher initial incomes than would be possible if those incomes were to maintain their purchasing power throughout retirement⁹.
53. In our view, public support for higher pension contributions is likely to depend upon:
- confidence that additional saving will improve outcomes;
 - clear communication of the adequacy challenge;
 - policy stability; and
 - trust in the Government and the pensions system.
54. The IFoA has long argued that frequent policy changes, or speculation about future policy changes, damages confidence in long-term pension saving.
55. Behavioural evidence also suggests that information alone is often insufficient to change behaviour. The IFoA's work with the Behavioural Insights Team highlights the importance of designing pension systems around observed behaviour, including inertia, complexity and present bias.
56. The success of automatic enrolment itself demonstrates the value of this approach. Participation increased dramatically not because millions of individuals became pension experts or made an active choice to start or increase their pension savings, but because pension saving became the default option.
57. The Committee may therefore wish to consider how future automatic enrolment reforms can build on the same insights that underpinned the original success of automatic enrolment.

Conclusion

58. The IFoA believes the UK now faces a retirement adequacy challenge far more than a participation challenge.
59. Adequacy is not uniquely defined, and it does not entirely depend on contributions. Reforms to minimum contributions must recognise affordability constraints, especially for lower earners. However, for most people, the direction of travel for pension saving is likely to need to be upwards.
60. The Committee should therefore focus not only on whether contribution levels should increase, but also on how increases are targeted, communicated and implemented.
61. Finally, successful pension policy requires both long-term thinking and long-term certainty. A clear implementation path, supported by stable policy and effective communication, is likely to be as important as the contribution levels ultimately selected.
62. We would be pleased to discuss any of the issues raised in this submission with the Committee and would welcome the opportunity to provide further evidence if that would be helpful.

If you have any questions or wish to discuss any of the points raised in this response, please contact Olivia Fox: olivia.fox@actuaries.org.uk in the first instance.

⁹ The IFoA's October 2026 Think article: [Time to get real: building guided retirement in a world with inflation](#) explores the consequences of ignoring inflation effects and the importance of thinking and communicating in today's money terms.