PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

FIVE STEPS TO BETTER PENSIONS:

FINAL REPORT

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FOREWORD

OUR RESEARCH FINDS THAT WITHOUT CHANGES TO THE PENSIONS REGIME, MORE THAN 50% OF SAVERS WILL FAIL TO MEET THE RETIREMENT INCOME TARGETS SET BY THE 2005 PENSIONS COMMISSION AND AS MANY AS 20% WILL FAIL TO ACHIEVE THE PLSA'S MINIMUM RETIREMENT LIVING STANDARD.

While great strides have been made over the last decade towards improved pensions adequacy, much more needs to be done. The PLSA has sought to both deepen understanding of pensions inadequacy and come up with practical solutions. The PLSA has twice looked at this problem, firstly with the *Hitting the Target* report in 2018, and then again last year with the *Five Steps to Better Pensions* consultation. These have served to advance the conversation and evidence available.

This report restates our proposals for reform in light of stakeholder comments on our consultation, policy developments over the last year, and our own further policy work.

To achieve our proposed solutions, we emphasise the need for collaboration amongst government, industry, employers, employees and other key stakeholders to drive meaningful change. By fostering dialogue, the PLSA hopes to help everyone achieve a better income in retirement.

EMMA DOUGLAS, PLSA CHAIR

EXECUTIVE SUMMARY

A YEAR AGO, WE SET OUT FIVE STEPS FOR BETTER PENSIONS IN THE UK AND INVITED STAKEHOLDERS TO COMMENT ON THEM. THIS REPORT REFLECTS THEIR COMMENTS, CHANGES IN THE POLICY CONTEXT AND OUR OWN FURTHER POLICY WORK. THE RESULT IS AN UPDATED SET OF PROPOSED REFORMS.

While automatic enrolment is rightly considered a successful policy in getting millions more saving for retirement, too many are excluded from it, and many of those who are in automatic enrolment are not saving enough. Without policy intervention, most people in the UK will retire with inadequate pension income. According to our modelling, only half are likely to achieve the Pension Commission's income replacement rate targets and around a fifth will not achieve the Minimum level of the Retirement Living Standards.

Over the last year, the Government has begun to take action to address this shortfall, in particular, by introducing some reforms to the automatic enrolment regime so that people will save from the first pound of pension saving and from age 18 rather than age 22. This is very much welcome but more action is needed.

We propose Five Steps for Better Pensions:

- Set new goals for the UK pensions framework: adequate, affordable and fair.
- The State Pension should protect everyone from poverty and its value should be maintained by keeping the Triple Lock.
- More people should be saving into a workplace pension and at higher contribution levels. Over the next decade contributions should rise gradually from 8% to 12%. While employees should only be required to put in 1% extra, we believe employers should put in 3% extra, with the result that by the early 2030s each will be paying 6%, totalling 12%.
- Additional help should be given to under pensioned groups such as women, the self-employed, gig economy workers and others. Some of these will require changes to automatic enrolment or other interventions.
- The pensions industry and employers should take action to help people engage with pensions, receive higher contributions, or get better pension outcomes. This includes maintaining initiatives such as the Retirement Living Standards and the Pay Your Pension Some Attention campaign.

If all our proposals are implemented, and the State Pension Triple Lock is maintained, people on all income levels will have an improved income in retirement. If someone was to work for a full working life without career breaks, the projected retirement income for a median earner would increase from £17,672 to £20,609 for men and from £17,177 to £19,825 for women.

There is a growing consensus among key stakeholders and experts that a higher level of pension saving is needed. We will work with them to make the case for change.

FIVE STEPS TO BETTER PENSIONS

1. SET NEW GOALS FOR THE UK PENSIONS FRAMEWORK, WHICH SHOULD BE ADEQUATE, AFFORDABLE AND FAIR
2. MAINTAIN THE VALUE OF THE STATE PENSION SO AS TO PROTECT AGAINST PENSIONER POVERTY AND COVER ALL BASIC NEEDS
3. GET MORE PEOPLE SAVING INTO WORKPLACE PENSIONS AND AT HIGHER CONTRIBUTION LEVELS
4. HELP CERTAIN LOW-INCOME AND OTHERWISE UNDER PENSIONED GROUPS WITH ADDITIONAL MEASURES
5. MAKE THE MOST OF CURRENT AND VOLUNTARY PENSION SAVING WITH ADDITIONAL INITIATIVES BY PENSION SCHEMES, PROVIDERS AND EMPLOYERS

INTRODUCTION

THIS REPORT BUILDS UPON THE PLSA'S CONSULTATION DOCUMENT, *FIVE STEPS TO BETTER PENSIONS: TIME FOR A NEW CONSENSUS* PUBLISHED LAST YEAR.

It focuses primarily on the responses received to our consultation, policy developments over the past year, and sets out the final version of our five steps for reform. These are largely the same as our initial proposals, but some changes have been made to reflect stakeholder views, the changing policy context and new research.

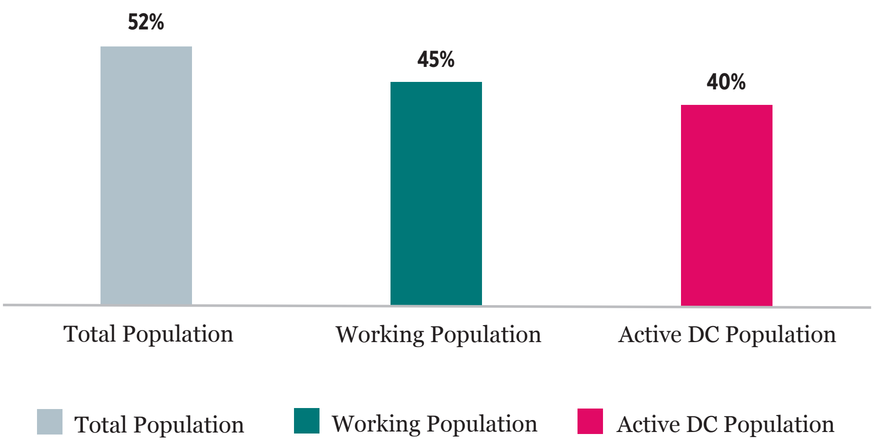
The report also provides some background information on pensions adequacy.

BACKGROUND

PEOPLE ARE NOT SAVING ENOUGH FOR RETIREMENT

As we set out in the PLSA's consultation document, *Five Steps to Better Pensions: Time for a New Consensus,* only around 50% of the population are projected to meet the retirement income targets set by the 2005 Pensions Commission, and under pensioned groups face poverty in retirement in large numbers according to our modelling and projections. Even taking account of other potential sources of income we found an unacceptably large proportion of the population unlikely to achieve the Minimum Retirement Living Standard.

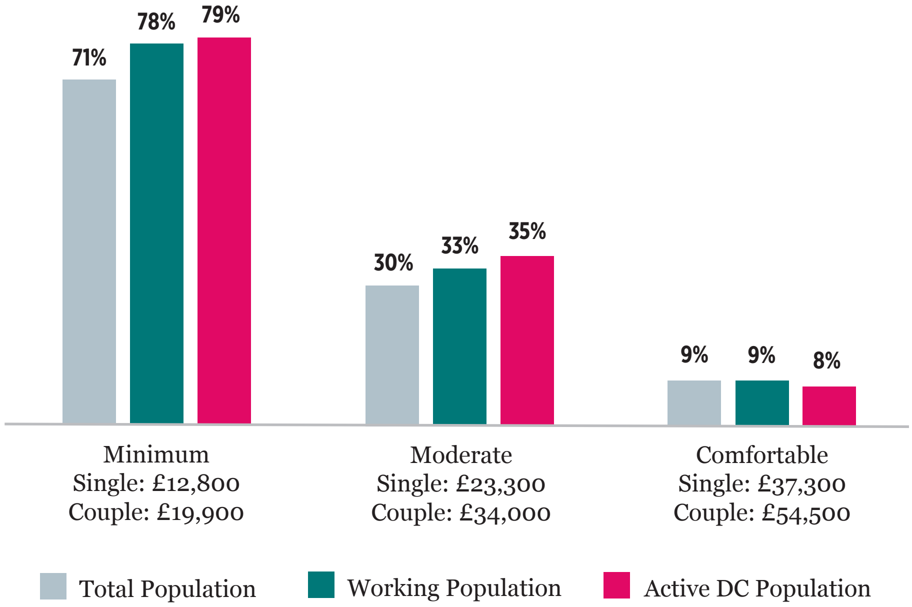
Figure one: **Current situation against Pensions Commission Target Replacement Rates**



When looking at the retirement outcomes for different populations using the 2023 Retirement Living Standards as a reference point, among the *whole population* only 71% of households (12 million households out of a total of 17 million households) are on track to hit the Minimum Retirement Living Standard (£19,900 for a couple), while among the working population, slightly more households are likely to hit the Minimum Retirement Living Standard (78% households), with similar numbers among those who *are currently saving into a Defined Contribution (DC) pension* also likely to hit the Minimum Retirement Living Standard (79% households).

When looking at the Moderate Retirement Living Standard (£34,000 for a couple), only 30% of households of the *whole population* are currently on track to achieve it.

Figure two: **Current percentage of households achieving the RLS**



Taking account of housing wealth and DB saving

- If we include housing wealth in our modelling, more are on track to meet their Pensions Commission Replacement Rate. Housing wealth means that 42% of the working population are projected to reach the Moderate Retirement Living Standard (up from 33% without housing wealth). Housing wealth has less impact on the proportion of the population reaching the other living standards; contrary to received wisdom, even taking housing wealth into account, only just over one in ten households are projected to be on track to reach the Comfortable Retirement Living Standard.
- Of those DC savers with no DB entitlement, only 35% would reach their Pensions Commission Replacement Rate; having DB saving makes it much more likely that savers reach their Pensions Commission Replacement Rate.

For further information and detail, please refer to the technical report on the revised modelling, which is published alongside this report.

OUR ASSESSMENT OF THE DRIVERS OF UNDER SAVING

DRIVERS AND SOLUTIONS

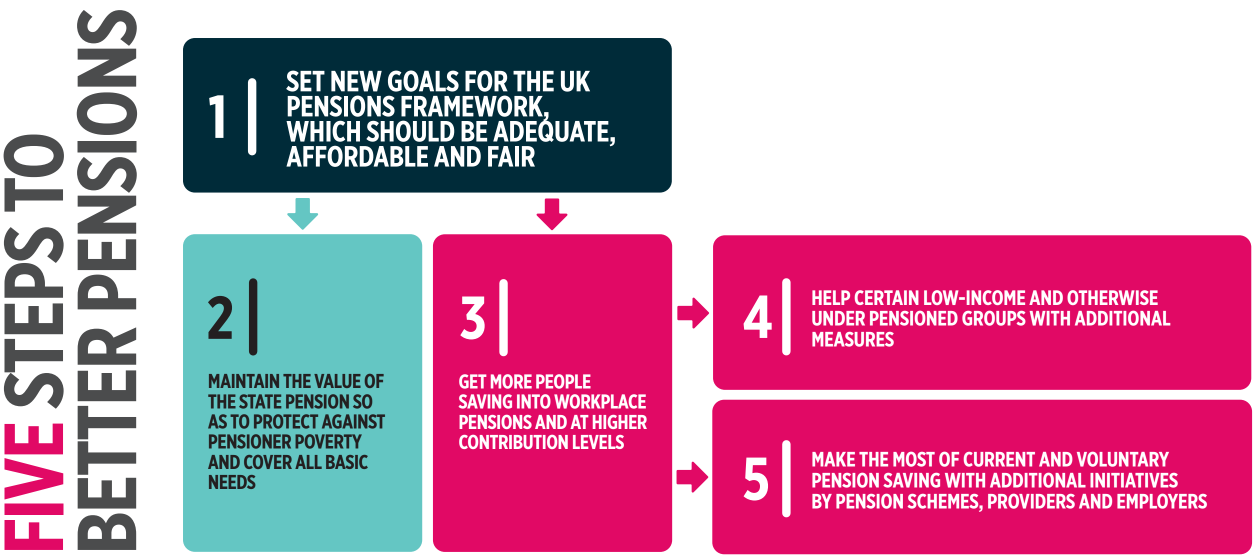
DRIVERS	CONSEQUENCES	SOLUTIONS - OUR FIVE STEPS TO BETTER PENSIONS
Lack of objectives and goals and monitoring	Working patterns have evolved/additional voluntary saving has not taken place	1) Adequate, affordable and fair objectives
State Pension does not help all avoid poverty	Private pension saving will not provide enough of a supplement for many under pensioned groups	2) Reform the State Pension to prevent pensioner poverty and cover all basic needs
Exclusions to automatic enrolment	Including lower earners, women, people with different working patterns and ethnic minorities	3) Include more savers in automatic enrolment
	Insufficient adjustments and modifications to compensate	4) Additional policy interventions
Contributions at the incorrect level for many	Savers are unlikely to be able to address this issue by themselves	3) Increase contributions
		5) Industry initiatives; engage with pensions, increase contributions and get better outcomes

In our view the available information provides evidence to establish the drivers of under saving across the population, including under pensioned groups. We believe these are:

- A lack of national policy objectives and goals for pension saving, that are monitored across time, and to which the framework is calibrated to achieve as working patterns evolve.
- The State Pension does not provide sufficient protection from pensioner poverty, especially for those that will struggle to save enough to deliver a significant private pension in retirement.
- In addition, compounding the effect for those struggling to save, the scope of AE is excluding too many, particularly lower earners, who are disproportionately also women, people with different working patterns (such as part time workers and multiple job holders) and ethnic minorities.
- There are insufficient private pension saving modifications and ‘compensation’ to adjust for periods of missed or reduced saving (for example, when people take time out of work for caring responsibilities).
- The level of AE is not sufficient to ensure that all, particularly median and higher earners, are contributing enough to translate into a reasonable standard of living in retirement according to Pensions Commission Target Replacement Rate methodology.
- Without other changes to AE, engagement with their pension is required for savers to address this issue by themselves, while all evidence suggests that most will not realise they are under saving until it is too late.

PLSA’S PROPOSED REFORMS: FIVE STEPS TO BETTER PENSIONS

In October 2022, we proposed five recommendations for reform:



The launch of the *Five Steps to Better Pensions* report started a consultation process that brought together politicians, trade bodies, pension industry representatives, chartered institutes, leading charities and trade unions.

Over the course of the year, the PLSA, with the support of the Pensions Policy Institute, updated its original adequacy modelling to take account of the 2023 increase in the State Pension and the updated Retirement Living Standards. The PLSA and PPI also undertook a new piece of work to better understand the people who are excluded from automatic enrolment earnings due to the £10k earnings threshold together with an assessment of whether, on balance, they are likely to benefit from extra pension saving. The research did not look specifically at whether they can afford to be included in automatic enrolment but the findings suggest that almost 90% of this group would be no worse off in terms of working income or are part of a household with a higher income. The findings of both the updated adequacy modelling and the AE low earners research are included in an annex to this report.

FIVE STEPS TO BETTER PENSIONS: STAKEHOLDER VIEWS & POLICY DEVELOPMENTS

THIS SECTION SETS OUT THE RESPONSE FROM STAKEHOLDERS ON EACH OF OUR FIVE PROPOSALS, AN OUTLINE OF RELEVANT POLICY DEVELOPMENTS SINCE THE CONSULTATION, TOGETHER WITH AN EXPLANATION OF WHETHER, AND HOW, WE HAVE AMENDED EACH RECOMMENDATION AND WHAT SHOULD HAPPEN NEXT.

RECOMMENDATION ONE: NEW ADEQUATE, AFFORDABLE AND FAIR OBJECTIVES FOR THE PENSION SYSTEM.

Stakeholder views:

- There was general agreement from all stakeholders that objectives should be set, and they should be monitored.
- There was a high degree of consensus that it made sense to have objectives that the pension system should provide adequate pensions and that they should be fair. No one disagreed with our proposal that the system should be affordable, although we note that when the PPI worked on their “pensions framework” last year, they used the term “sustainable” to capture the same concept.

Changes in policy context

In early 2023, the Minister for Pensions proposed that pensions should be “adequate, fair and predictable”. In November 2022, the Pensions Policy Institute published “The UK Pensions Framework” which sets three objectives to support and inform long-term policy making on the UK pension system. It proposed three key objectives: adequacy, sustainability and fairness. We welcome these initiatives to define and measure high-level objectives for UK pension saving.

How our policy has developed

Given the support among stakeholders that the UK should have clear objectives for pension saving, we believe it is important to establish a consensus on the key objectives as soon as possible. For now, though, we believe there is good reason for us to maintain our current three objectives: adequate, affordable and fair.

OBJECTIVES

ADEQUATE	AFFORDABLE (SUSTAINABLE)	FAIR
It is important that the State Pension and any in-retirement state support act in combination to provide a foundational income that ensures that no one is at risk of poverty in retirement.	The need to underpin the pension system with an affordability objective is vital to its long-term sustainability.	The objective of fairness addresses the need for equitable access to pension provision and outcomes.

INDEPENDENT PERIODIC FORMAL MONITORING

Now that the principle that the UK pension system needs clear objectives has been widely acknowledged by stakeholders, it is important that the UK agrees the following:

- A final set of objectives
- How each is to be defined, including metrics of measurement
- Tasking an independent body, such as the PPI, every 5 years to review whether the UK is on track to achieve the objectives.

Regular formal monitoring is a crucial component of effective governance and accountability for these objectives. Beyond assisting policymakers, it enables industry stakeholders to assess progress and support government with the identification of areas that may require intervention of some sort.

HOW THE FIVE STEPS ALIGN WITH OUR OBJECTIVES

ADEQUATE	AFFORDABLE (SUSTAINABLE)	FAIR
More achieve their Pensions Commission Target Replacement Rate.	Increase contributions gradually so that from the mid-2020s to the early 2030s they rise from 8% to 12%.	50/50 equal share of increased contributions by employers and employees.
Include more people, including multiple job holders and the self employed.	Reducing the AE age increases saving years.	Include more people, including multiple job holders and the self-employed.
State Pension increases ensure more people will avoid poverty in retirement.	Secretary of State uses powers to gradually remove the Lower Earnings Limit.	By ensuring the State Pension protects against poverty, even those who do not do paid work will have a reasonable retirement income.
	Further consider proposals to remove the £10k earnings trigger alongside protective measures for very low earners.	National objectives and monitoring make it transparent to the public that the UK pension system is fair, and the relevant responsible parties are held accountable.

RECOMMENDATION TWO: STATE PENSION: MAINTAIN THE VALUE OF THE STATE PENSION SO AS TO PROTECT AGAINST PENSIONER POVERTY AND COVER ALL BASIC NEEDS. IT PLAYS AN ESSENTIAL ROLE IN THE PENSION PROVISION OF MOST WORKERS SO ITS CURRENT VALUE SHOULD BE MAINTAINED AND, WHEN AFFORDABLE, INCREASED.

Stakeholder views

- All stakeholders agreed that the State Pension plays a vital role in pension provision and that its value should be maintained. Not all agreed that the State Pension value should rise immediately to the Retirement Living Standard Minimum level. Though, as it plays an essential role in pension provision of most workers, its current value should be maintained and, when affordable, increased through the Triple Lock mechanism.
- The State Pension age should only be increased when there is sufficient evidence that there has been an increase in the years of healthy life. There are considerable differences in longevity across the UK, with people on lower incomes living for not as long as people with more affluent circumstances.

Changes in policy context

The State Pension is now claimed by 12.5 million people in the UK. It makes up the majority of pension income for most people in the UK. The rate at which SP is set, and at what age one can access it, is the subject of regular review and continues to be subject to a great deal of political attention and media scrutiny.

The UK currently spends 5.5% of GDP on the State Pension and, prior to the Covid-19 pandemic, it was predicted that, due to the ageing of the UK population, this would rise to 7.1% of GDP by 2066. However, given increased mortality during and after the pandemic, it is no longer clear if this increased cost estimate is still accurate, with the OBR predicting that State Pension spending will drop to 5.1% in the late 2020s.

How our policy has developed

Since we made our proposals last October, the Government uprated the State Pension in line with the Triple Lock. The Minimum level of the Retirement Living Standards was also independently updated. Having remodelled pensions inadequacy given these changes we've found that provided the Government maintains its commitment to the Triple Lock, the combination of the State Pension and automatic enrolment contributions of 12% (as we propose) should be sufficient for most people on median earnings to have an adequate pension income. In light of this, we have amended our original proposal that the State Pension should immediately be set at a level to avoid poverty and that this could equal the RLS Minimum standard. Instead, we continue to argue that the State Pension should be set at a level to avoid poverty, but this can be achieved through maintaining the mechanism of the Triple Lock. If and when the Triple Lock mechanism results in the State Pension reaching the level of the RLS Minimum value this could become the "permanent" or "target" level for the State Pension. Above this level, extra increases might not be needed.

RECOMMENDATION THREE: ENHANCE AE TO GET MORE PEOPLE SAVING AND AT HIGHER CONTRIBUTIONS SO THAT MORE OF THE POPULATION ARE LIKELY TO ACHIEVE AN ADEQUATE INCOME IN RETIREMENT.

Stakeholder views

- Most stakeholders agreed that the level of AE contributions should rise to 12% and that they should be split evenly between employers and employees. Some said contributions should be higher without specifying a preferred percentage. Employer groups were the least supportive of increases.
- Most agreed that it is desirable to extend the benefits of AE to those currently excluded, such as multiple job holders and low earners.
- For very low earners, emergency side-car saving, temporary opt down and pause mechanisms might need to remain on the table where clear evidence of detriment is identified.

Change in policy context

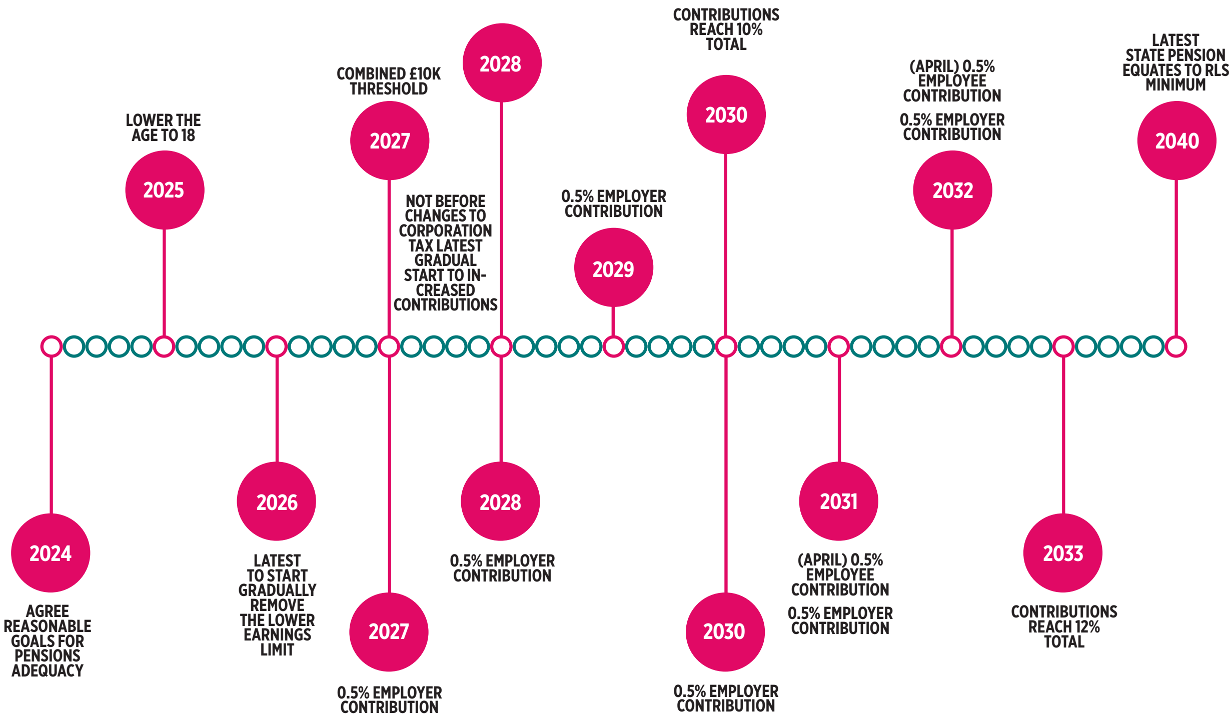
Early in 2023, the Minister for Pensions ensured the Government's support for a Private Members Bill that implemented several aspects of the 2017 Review reforms, giving the Secretary of State powers to extend automatic enrolment to workers under age 22 and removing the Lower Earnings Limit (LEL) so that people save from the first pound of earnings. These reforms received Royal Assent in September 2023. This will provide the legislative footing to extend automatic enrolment so that a greater number of savers can have an adequate income in retirement.

More generally, 2023 has seen substantial inflation and many people have faced a cost of living crisis. This has led to some questions as to whether people can afford higher pension saving.

How our policy has developed

The two measures in the AE Extension Bill are already in our proposed reforms of automatic enrolment. We shall keep these in our set of proposals until they come into effect. We continue to maintain the other aspects of our proposals that involve increasing contributions gradually, and in a manner that is sensitive to current and future affordability concerns for both individuals and businesses, to reach 12% by the early 2030s. This formula addresses affordability concerns by proposing that contributions only be raised very slowly, and not before the mid-2020s, and that most of the increase falls on the employer (3% now, rising by 3% up to 6%) and only a little on the employee (5% now, rising by 1% up to 6%) so that, by the end of a decade of transition, each is paying in on an equal 50/50 basis.

BETTER PENSIONS: A TIMELINE TOWARDS RESILIENCE

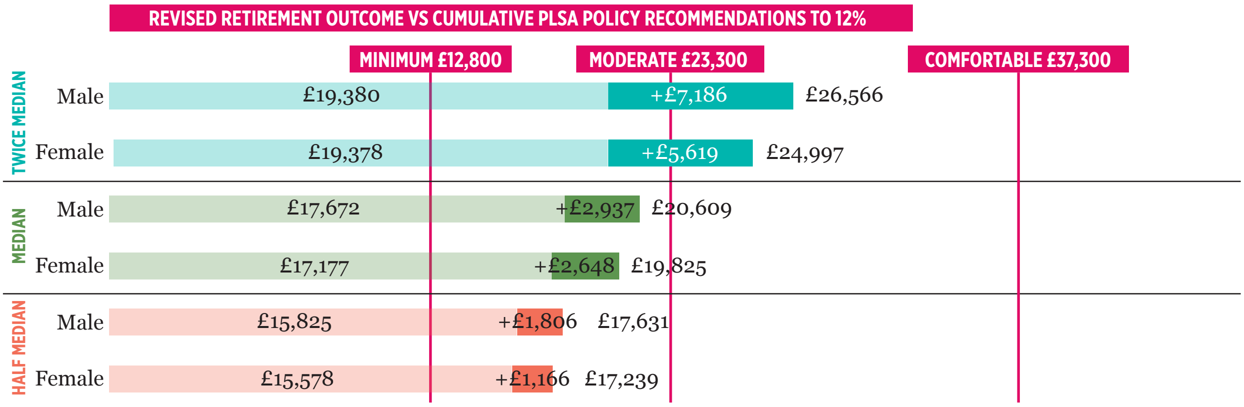


Our proposals have been designed with median incomes as the focus.

Our new research on the effects of removing the £10,000 earnings trigger suggests that a strong case could be made for removing or lowering it. The majority of those earning less than £10,000 per year are very low earners for a short period or may be part of a higher earning household. However, we have not yet fully considered the affordability of saving for each individual. Therefore, protections should be considered for those at risk of contributing at too high a rate in the short term and where this is not in their interest, other measures such as emergency side car saving, temporary opt down and pause mechanisms should therefore remain on the table.

It should be noted that our updated adequacy modelling and new low earners research have identified some risks of ‘over saving’ among people on low earnings when assessed against the Pension Commission’s Target Replacement Rates but we would recommend that any policy interventions on the ‘over saving’ issue focus on persistent lower earners rather than all low earners.

Figure three: **Revised modelling exercise showing improved outcomes following the PLSA's interventions**



RECOMMENDATION FOUR: UNDER PENSIONED GROUPS: ADDITIONAL POLICY INTERVENTIONS TO HELP UNDER PENSIONED GROUPS (INCLUDING WOMEN, GIG ECONOMY WORKERS, SELF-EMPLOYED PEOPLE AND OTHERS).

Stakeholder views

- Stakeholders emphasised how some of our recommendations have a key role to play in enhancing the outcomes for under pensioned groups. That said they felt that other actions, such as more research, are needed on under pensioned groups, notably focusing on women and ethnic minorities. This includes further work to automatically account for qualifying earnings across multiple jobs, and further research to better understand the needs of under pensioned groups, including the intersectionality of these groups.

Change in policy context

Over the year, the Government introduced changes to support on childcare costs which should make it less difficult for women, if they choose, to undertake employment and so benefit from pension saving.

The DWP also took steps to address the under pension saving of women by proposing a clear Government definition of the Gender Pension Gap as *"the percentage difference in uncrystallised non-zero median private pension wealth between men and women around the normal minimum pension age."*

How our policy has developed

The PLSA has found that for some of the current under pensioned groups the retirement income outlook is poor unless the UK pensions framework is adjusted to take account of the changing labour market.

However, adjustments to the pensions framework cannot fully correct for issues that occur as a result of employment or social factors, such as the greater likelihood that women work part-time and have lower incomes due to time spent caring for children or elderly relatives. Therefore, we continue to recommend implementing additional interventions and conducting further research to better understand how to address the issues faced by groups underserved by current pension provision. Some additional actions have been identified since the last report.

MEASURES FOR UNDER PENSIONED GROUPS, ADDITIONAL TO INCREASES TO THE STATE PENSION, REMOVAL OF THE LEL AND INCREASE OF AE TO 12%

GROUP	2022 RECOMMENDATIONS	ADDITIONAL RECOMMENDATIONS	GENERAL RESEARCH & CROSS CUTTING RECOMMENDATIONS
WOMEN: GENDER PENSIONS GAP	Produce scheme guidance for pension sharing on divorce. Support family carers top-ups for periods when women are on maternity leave	The PLSA will promote its updated guidance to schemes helping members regarding pension sharing on divorce.	Research to better understand the needs of under pensioned groups, including intersectionality Explore employer guidance on helping under pensioned groups make better decisions relating to their workplace pension.
SELF EMPLOYED	Supporting HMRC nudges and Money Helper Mid Life MOT. Reducing barriers to Master Trusts to offer self-employed pensions.	Support Government and industry collaborations to explore and test interventions that may support the self-employed.	
LOWER EARNERS	Review opt down and other affordability protection mechanisms Exploratory work on the £10k trigger, and the impact on future eligibility for state support.	We have commissioned and published PPI research into lower earners – see annex.	
MULTIPLE JOB HOLDERS	Support work by HMRC to automatically account for qualifying earnings across multiple jobs.	Support further work by payroll software providers being conducted to automatically account for qualifying earnings across multiple jobs.	
INTERRUPTED AND INSECURE WORKING PATTERNS	Gig economy workers inclusion in AE.	Support a clarified status for gig economy workers in relation to their automatic enrolment eligibility in any forthcoming Employment Bill.	

RECOMMENDATION FIVE: INDUSTRY INITIATIVES TO ACHIEVE BETTER PENSIONS: ACTIONS TO HELP PEOPLE ENGAGE WITH PENSIONS, RECEIVE HIGHER CONTRIBUTIONS, OR GET BETTER PENSION OUTCOMES.

Stakeholder views

- All stakeholders who engaged with our ideas on industry initiatives felt that they could help improve pension outcomes, but without AE enhancement these would not be sufficient.
- In the last year stakeholders have told us that we could be more positive about the progress made by industry initiatives in the period since automatic enrolment was introduced.

Change in policy context

The last year has seen a substantial increase in inflation but all the latest data shows that this has not resulted in a significant rise in opt-out rates. The period has also witnessed a range of industry initiatives to encourage higher pension saving and better outcomes from that saving. The following table sets out recent developments in three areas: engagement initiatives, enhanced contributions, and efficient products and solutions.

ENGAGEMENT INITIATIVES	ENHANCED CONTRIBUTIONS	EFFICIENT PRODUCTS AND SOLUTIONS
Pensions dashboards will be helpful in progressing other industry efforts to give savers a holistic view of their pension pots and help people to plan, by giving them a better idea of the adequacy of their saving. Engagement initiatives, such as green nudge trials, Simpler Annual Benefits Statements, and efforts to engage women in pensions, are addressing a lack of awareness and understanding of pensions. In partnership, the ABI and the PLSA launched the Pay Your Pension Some Attention campaign to boost the nation's awareness of their pensions. It is estimated a potential 3 million savers were inspired to go and pay their pension some attention as a direct result of the campaign. The PLSA continues to provide independently researched updates for the Retirement Living Standards. Over the last year, costs for pensioners arose by around 20%. This increase in costs fell hardest on people on low incomes as a greater share of their expenditure is on the things have risen most: food and energy.	The industry has long worked to enhance contribution levels, including voluntary contributions. For example, the PLSA's Pension Quality Mark has championed excellence in employer provision, one component of the standard to achieve the quality mark being higher total contributions. Another example of the industry working to achieve higher contribution levels is seen through the Living Pension Employer Standard. The industry has also long shared experience and best practice on the best AE structures, such as employer matching and auto-escalation. The industry has participated in trials, such as with the self-employed, to try and address the issue of chronic under saving amongst certain groups.	The industry is also keen to continue to explore more efficient products and solutions, such as CDC and Guided Retirement Income Choices to help savers to avoid suboptimal decision making, deliver greater risk sharing and collective purchasing power and other efforts to increase value for money. PLSA are supportive of more exploration of CDC as it has the potential to improve outcomes. However, to establish its viability, more modelling and detailed business plans are needed, especially in relation to the decumulation-only model, and that is why we are participating in PPI research on that this year. For the whole-life model, we support the extension of the regime to multi-employer schemes and believe its success will largely depend on employer demand and awareness, and how these evolve over the coming years, in order to build the scale on which CDC relies. The Government should also continue to support industry product innovation (for example, sidecar saving and ISA-to-pension strategies).

With regard to Government policy, there has been a re-set of the pensions dashboards initiative, a consultation and Government response on CDC and new proposals on how schemes should support people with their at retirement decisions.

How our policy has developed

We have not introduced any changes to our policy position although we have coordinated, alongside the ABI, the Pay Your Pension Some Attention initiative. We have updated and continue to promote the Retirement Living Standards. The PLSA also offers the Pension Quality Mark. Separately, we have encouraged innovation by the pensions industry with how they support people with their at retirement decisions.

NEXT STEPS ON BUILDING CONSENSUS

LAST YEAR WE FOUND THAT THERE WERE SIGNIFICANT PENSIONS ADEQUACY ISSUES IN THE FUTURE GIVEN THE CURRENT FRAMEWORK. WE CONSULTED STAKEHOLDERS ON SUGGESTIONS FOR IMPROVEMENT AND THERE IS A CONSENSUS ON THOSE RECOMMENDATIONS THAT REMAIN IN THIS SECOND REPORT. BY WAY OF SUMMARY:

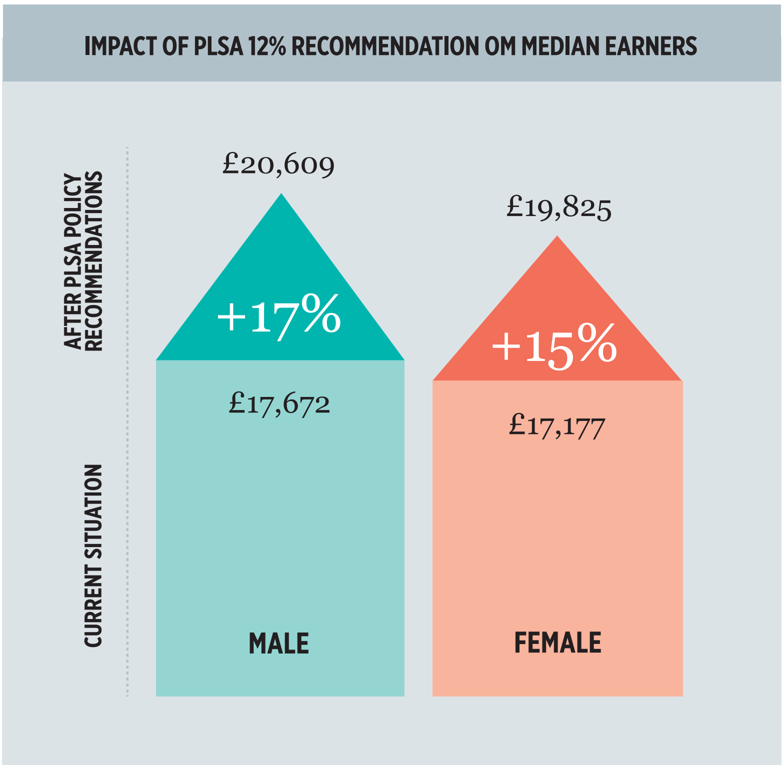
- The UK needs a set of fair, adequate and affordable objectives for its pension framework.
- The State Pension – and the maintenance of the Triple Lock – has a significant impact on retirement outcomes, and so its value must be maintained.
- We need a clear timetable from Government to make enhancements to automatic enrolment.
- There are some additional initiatives or protections that might need to be considered for lower earners, particularly persistently very low earners.
- Some pension industry innovations are worth exploring further and pursuing, but these will not be sufficient without changes to automatic enrolment pension savings rates.

The PLSA is not the only body that is actively engaging stakeholders in this space. So far, there has been a wide range of individuals and organisations, including PLSA members, that have expressed their support for interventions to achieve better pensions adequacy. It is our intention to work with them, identify the common ground, and then demonstrate to policy makers that there is a consensus for further pension reform.

CONCLUSION

A KEY FINDING OUTLINED WITHIN THIS REPORT IS THAT WHILE SIGNIFICANT STEPS TOWARDS PENSIONS ADEQUACY HAVE BEEN ACHIEVED IN THE RECENT YEARS, THERE REMAINS A LARGE NUMBER OF PEOPLE THAT WILL NOT BE ABLE TO RETIRE WITH ADEQUATE SAVINGS.

However, if our *Five Steps to Better Pensions* proposals are adopted, the retirement outcomes for people on all income levels will be much better. For those on average earnings, they can expect to see their total pension income (state and private pensions) increase by almost £3,000 for every year of their retirement.



Our research has highlighted that the overwhelming majority of people would benefit from the proposed reforms included in this report. But there is still work to be done, and the PLSA will continue to encourage and support industry and governmental efforts on adequacy.

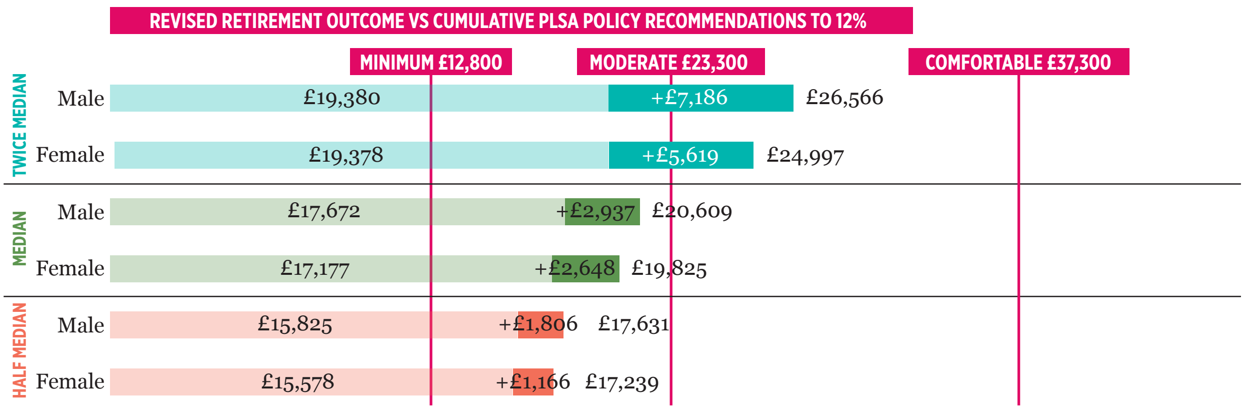
ANNEX: PLSA RESEARCH

ADEQUACY MODELLING

In light of the Triple Lock leading to a high uplift to the State Pension in 2023 and taking into account the inflationary rises to the Retirement Living Standards, the PLSA has produced updated modelling on pensions adequacy before and after our reforms.

However, if our *Five Steps to Better Pensions* proposals are adopted, the retirement outcomes for people on all income levels will be much better. For those on average earnings, they can expect to see their total pension income (state and private pensions) increase by almost £3,000 for every year of their retirement.

Figure four: **Revised modelling exercise showing improved outcomes following the PLSA's interventions**



The revised modelling shows that:

- In this case all income levels will achieve an income in retirement at least half way between the Minimum and Moderate RLS (an outcome consistent with the original modelling), with only twice median earners now above the Moderate RLS.
- This is the case even if we no longer suggest that the State Pension is set at the minimum RLS.
- The Triple Lock, when combined with the other PLSA recommendations, means that all income levels will be projected to achieve or be close to achieving their Pensions Commission Replacement Rate (PCRR).
- Half median earners will still be significantly above their PCRR, while median earners will meet their PCRRs and twice median earners will meet/be close to their PCRR if they contribute an additional 4% contribution.

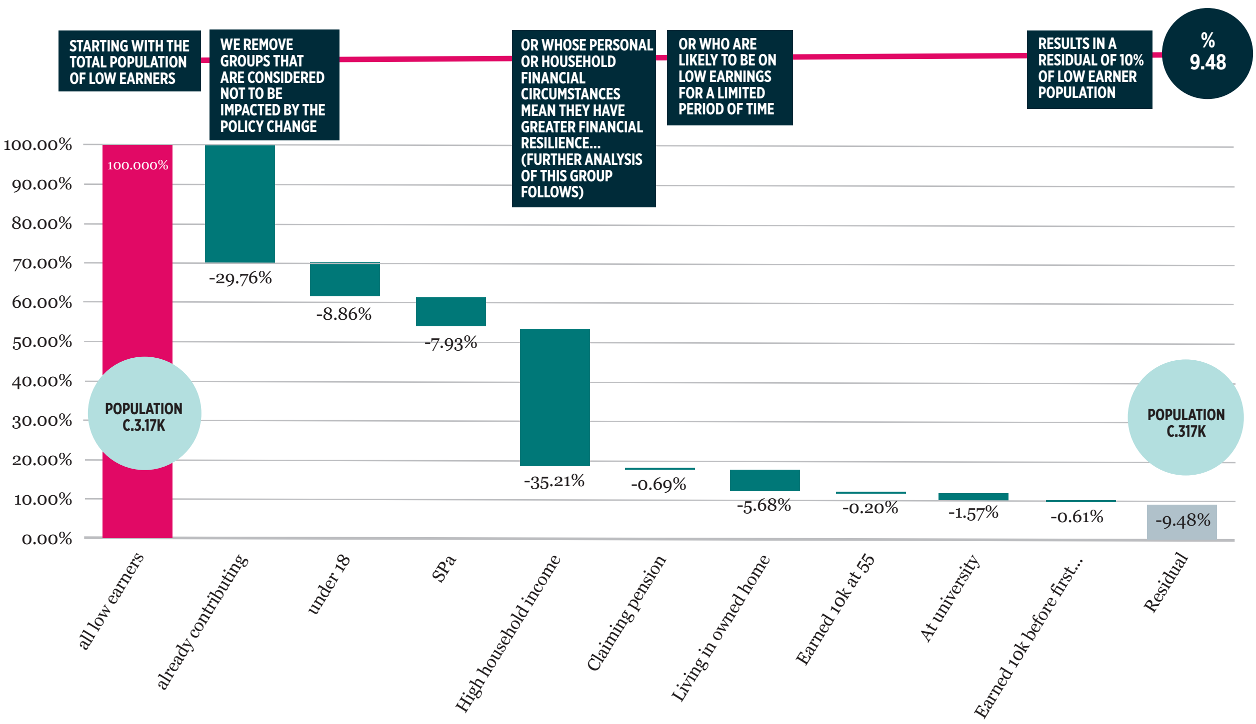
LOW EARNERS RESEARCH

A key issue in the design of automatic enrolment is whether removal of the £10,000 earnings trigger would be beneficial to those who earn less than this level. Working with the PPI we sought to better understand what sort of people are typically low earners and whether, on balance, they might benefit from automatic enrolment savings.

The key findings of this research are as follows:

- Our modelling illustrated how income deferral would significantly improve low earners retirement outcomes at both an individual and household level. This suggests that for most groups the PLSA policy proposals appear to have no significant detrimental impact but, instead, deliver a beneficial impact on retirement outcomes.
- We found that, after mitigating factors were applied to the overall low earner population of 3.17 million workers, there were about 10% or 300,000 of low earners that were at risk of being detrimentally impacted by our proposals combined with a new test intervention of removing the £10k trigger.

Figure five: **Analysis of individuals earning under £10,000**



*Individual incomes do not sum exactly to household income because of some small household benefits that do not go to either individual.
**individual incomes for the semi-retirees are given for when each one reaches SPa, but the total household income is given for when the woman, who is four years younger, reaches SPa. By this point the man's retirement income is slightly lower as he has drawn down some of his funds.
Source: PLSA/PPI 2023

IMPACT OF PLSA REFORMS ON UNDER PENSIONED GROUPS: FEMALE, PART-TIME, ON LOW TO MEDIAN INCOME

The table below shows how the PLSA proposals would benefit women, who often work part-time or have career breaks in order to bring up children. Our reforms would ensure that many women who work part time or have caring responsibilities would, on average, benefit by around 10% of extra pension income compared to the current situation.

ILLUSTRATION A: FEMALE PART TIME WORKER WITH A 5-YEAR BREAK

A female median earner who starts part time work at 18 for 45 years with a 5-year break. On retirement at age 68, their projected income under the PLSA policy proposals would increase from £15,458 to £16,900 – an increase of £1,442 or 9%.

In contrast, a female with the same working pattern but on a half median income would be below the qualifying earnings for automatic enrolment and therefore would not be contributing to a pension. However, their retirement net income would be higher than their income at 67 due to the receipt of pension credit and the State Pension.

	INCOME AT 67	NET INCOME AT RETIREMENT UNDER CURRENT POLICY SITUATION (£)	NET INCOME AT RETIREMENT IF ALL PLSA POLICY RECOMMENDATIONS APPLIED UP TO 12%	% IMPROVEMENT
Half median	£6,956	£9,030	£9,030	0%
Median	£13,666	£15,458	£16,900	9%

ILLUSTRATION B: FEMALE MIXED INCOME AND HOURS

A female half median earner who starts work full time at 18 for 5 years, then works full time for 35 years on a median income before going part-time for 8 years on a half median income, would see their projected income increase from £16,893 to £19,133 under the PLSA policy proposals. This would be an increase of £2,240 or 13% compared to their current projected outcome.

	INCOME AT 67	NET INCOME AT RETIREMENT UNDER CURRENT POLICY SITUATION (£)	NET INCOME AT RETIREMENT IF ALL PLSA POLICY RECOMMENDATIONS APPLIED UP TO 12%	% IMPROVEMENT
Mixed Income	£7,091	£16,853	£19,260	14%

NOTES:

FIVE STEPS TO BETTER PENSIONS:

FINAL REPORT

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