

**PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION**

**A RESEARCH REPORT
SUPPLEMENT TO FIVE
STEPS TO BETTER
PENSIONS:
TIME FOR A NEW
CONSENSUS**



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EXECUTIVE SUMMARY

This report updates the available evidence base with new research which shows that if we begin to plan now, and set out a roadmap for reforms, over the next 10 to 15 years a new framework could be implemented to substantially improve pensions adequacy for the majority of the population.

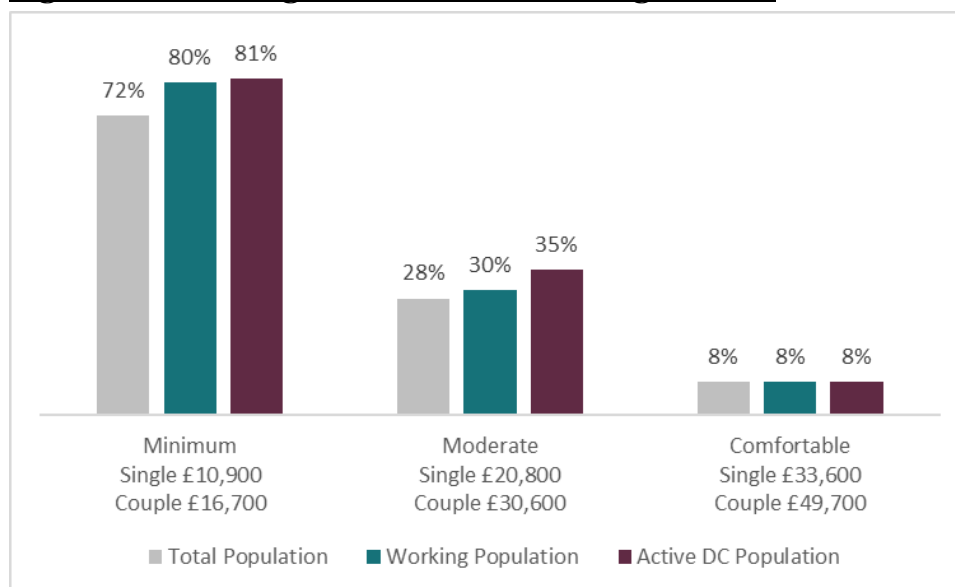
When measured on a household basis, few are currently on track to hit the target replacement rates used by the Pensions Commission¹ to benchmark savings adequacy. Amongst the whole population (i.e. approximately 17 million households) 51% will not achieve their TRR.

Table 1: Pension Commission Target Replacement Rates

(Gross) Income band in 2021 earnings terms	Target replacement rate
Up to £15,000	80%
£15,000 to £27,500	70%
£27,500 to £39,300	67%
£39,300 to £62,800	60%
£62,800 or more	50%

In terms of measuring against the Retirement Living Standards most (72% - approximately 12 million households) are on track to meet the Minimum (with some notable exceptions in under pensioned groups). However only 28% of households (4.8 million households) are on track to hit the Moderate Retirement Living Standard, while only 8% of households (1.4 million households) are on track to hit the Comfortable Retirement Living Standard.

Figure 1: Percentage of Households hitting the RLS



¹ A New Pension Settlement for the Twenty-first Century, second report of the Pensions Commission, London, TSO.

When looking at the working population² who are currently saving into a Defined Contribution (DC) pension³ (i.e., approximately 5.5 million households) 62% of DC Saving households will not achieve their target Pensions Commission Replacement Rate (3.4 million households).

Measuring against Retirement Living Standards most (81%) - 4.5 million households are on track to meet the Minimum (£16,700 for a couple). However only 35% of households who are currently saving into a DC pension (1.9 million households) are on track to hit the Moderate Retirement Living Standard (£30,600 for a couple), while only 8% of households (0.4 million households) are on track to hit the Comfortable Retirement Living Standard (£49,700 for a couple).

For a median earner who starts saving at the age of 22 in the current system, their projected (net) retirement income of £15,347 for men and £14,927 for women is around midway between the Minimum (£10,900) and Moderate Retirement Living Standard (£20,800)

Even when we take account of other potential sources of incomes in retirement – such as property wealth, working longer, inheritance and other financial wealth – we find that a significant proportion of the population are likely to face an inadequate pension income. The risks are particularly high for median earners as even where they have other assets, these are likely to be lower value and illiquid.

We believe that the UK pensions system should be set an objective to be adequate, affordable and fair. The pensions adequacy goal for the UK should be designed to provide a ‘floor’ below which people do not fall into poverty, and a saving structure (automatic, voluntary and additional sources of wealth) that enables people to have a good chance of maintaining an appropriate proportion of their pre-retirement living costs at the same time as protecting those on lower incomes from inadvertently over saving.

For this reason, we have modelled the impact of:

- The Government’s planned implementation of the increases to the scope and eligibility for automatic enrolment through the removal of the LEL and the reduction in qualifying age from 22 to 18.
- A reform of the state pension so everyone achieves the RLS Minimum
- An increase of contributions to 12%
- Enhanced voluntary savings – an additional 4% voluntary contributions

² Definition of working household – a household where at least one member is in employment or self-employment

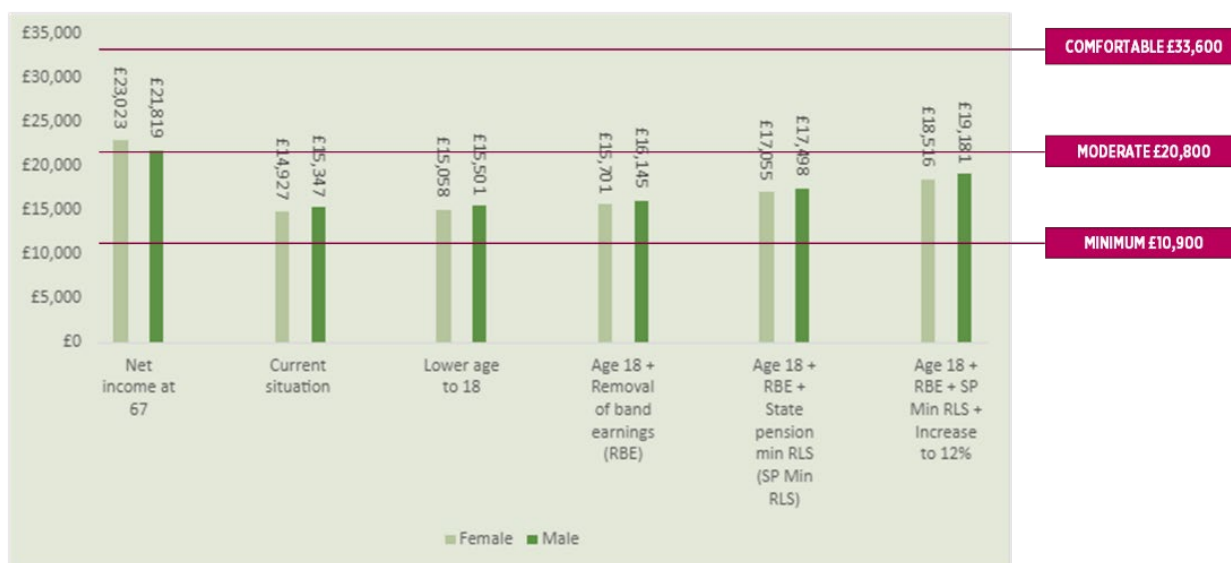
³ Definition of DC saving household – a household where at least one member is saving into a DC pension

Overall, we find this package of measures build on one another and evolve automatic enrolment to take account of changes to the workforce we see today and for the future.

The analysis demonstrates that the proposed package of measures as set out above (even without additional voluntary saving of 4%) delivers a significant improvement in retirement outcomes at all earnings levels:

- For a median earner their projected retirement income would increase from £15,347 to £19,181 for men and from £14,927 to £18,516 for women. This amounts to men increasing their retirement income by 25% (£3,834) and women by 24% (£3,589).** They would move from midway between the Minimum and Moderate RLS much closer towards hitting a Moderate Retirement Living Standard. Men would hit their target PCRR, achieving 74% against a target of 70%, and women would fall just short of their target, scoring 66% against a target of 67%.

Figure 2: Impact of lowering the age of 18, removal of band earnings, setting the State Pension at the Minimum Retirement Living Standards and increasing contributions to 12% - Median Earners



For half median earners, the combination of these measures would mean their projected retirement income will rise from £13,779 to £16,657 for men and from £13,569 to £16,324 for women. Half median men would see their retirement income increase by 21% (£2,878) and women by 20% (£2,755). They would move from under midway between the Minimum and Moderate RLS to well over the midpoint between the Minimum and Moderate RLS. Both would achieve well over their PCRR target. In the case of a man, he would achieve 125% against a target of 80%. In the case of woman, she would achieve 115% against a target of 80%. This is largely due to the higher State Pension which makes up a large

proportion of their retirement income. However, this might also suggest that they will be over saving but, it is unlikely that someone will remain a half median earner throughout their working life or that they will continuously work without any gaps.

Figure 3: Impact of lowering the age of 18, removal of band earnings, setting the State Pension at the Minimum Retirement Living Standards and increasing contributions to 12% - Half Median Earners

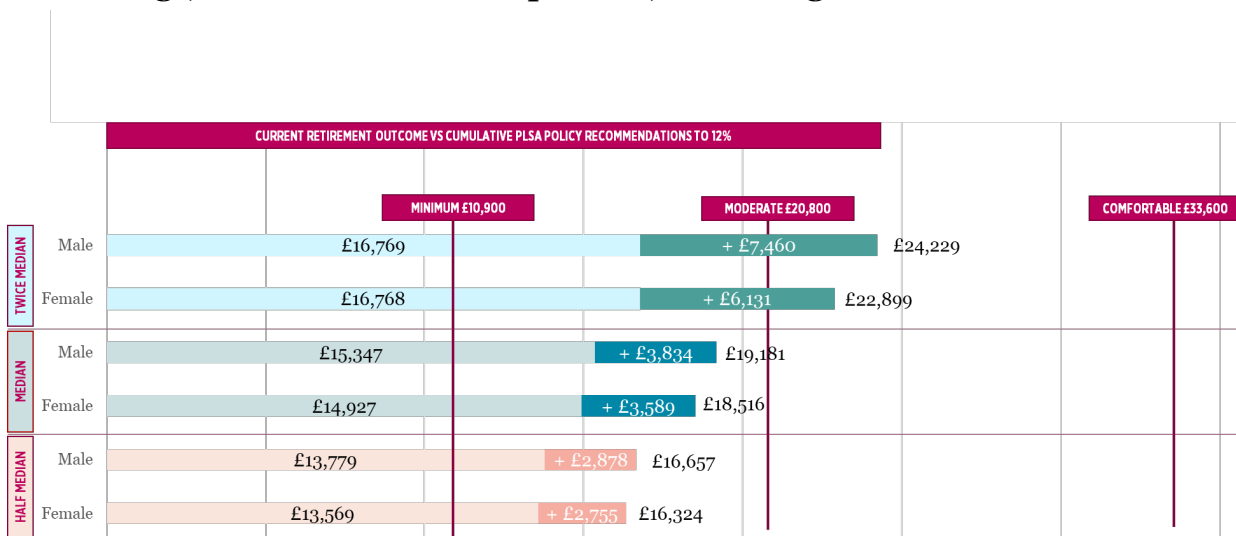


- Among twice median earners, the combination of these measures would mean their projected income would rise from £16,769 to £24,229 for men and from £16,768 to £22,899 for women. Twice median men would see their retirement income increase by 44% (£7,460) and women by 37% (£6,131).** Both men and women would move from over midway between the Minimum and Moderate RLS to surpassing the Moderate RLS. They would both fall short of their target PCRR but would have made significant progress towards it. Men would get 48% against a target of 60% and women would get 42% against a target of 60%.

Figure 4: Impact of lowering the age of 18, removal of band earnings, setting the State Pension at the Minimum Retirement Living Standards and increasing contributions to 12% - Twice Median Earners



Figure 5: Summary of projected retirement income after the PLSA’s proposed framework changes against the current situation (including the removal of band earnings, increases to the state pension, increasing contributions to 12%)



If we add to these measures the option to add a voluntary 4% contribution we see further improvements in retirement outcomes:

- **For a median earner their projected retirement income from 15,347 to £20,863 for men and from £14,927 to £19,977 for women, men increasing their retirement income by 36% (£5,517) and women by 40% (£5,937). They will get closer or hit the Moderate Retirement Living Standard, men hitting the Moderate and women coming just short of the standard. Those on median earnings would be able to hit or**

exceed their target PCRR, achieving 81% against a target of 70%, and women achieving 73% against a target of 67%.

- **Among twice median earners, the combination of these measures would mean they have a projected income from 16,769 to £27,594 for men and from £16,768 to £25,821 for women. Twice median men would see their retirement income increase by 65% (£10,826) and women by 65% (£10,826).** Both men and women would move from over midway between the Minimum and Moderate RLS to surpassing the Moderate RLS. It would mean that they would be far closer to hitting their target PCRR, with men achieving 56% against a target of 60%, and women achieving 48% against a target of 60%.

Table 2: Cumulative impact of proposed PLSA policy options on Pensions Commission Replacement Rates

	Current Situation	Cumulative impact on Pensions Commission Replacement Rate		Target Replacement Rate
		Lower age to 18, removal of band earnings, State Pension minimum RLS, 12% contributions	Lower age to 18, removal of band earnings, State Pension minimum RLS, 12% contributions plus additional 4% voluntary contributions	
Twice median female	30%	42%	48%	60%
Twice median male	32%	48%	56%	60%
Median female	52%	66%		67%
Median male	57%	74%		70%
Half median female	92%	115%		80%
Half median male	100%	125%		80%

Key: Red denotes savers are not projected to achieve their PCRR, Green denotes savers are projected to achieve their PCRR after our proposals, Purple denotes savers are expected to exceed their PCRR, Amber denotes savers are within proximity of their target PCRR but are not expected to hit it. Crossed hatched denotes those that still risk becoming over pensioned under our proposals if they remain lower earners throughout their lives, and for whom mechanisms to protect from over saving will be crucial.

INTRODUCTION

This report provides a detailed summary of modelling undertaken by the PPI on behalf of the PLSA in order to reveal the impact of a package of component measures to help address pensions inadequacy across the UK.

The first section of this report provides details of the modelling approach. The report next highlights the evidence on pensions inadequacy across the UK. It then provides a summary of the impact of a range of measures on a future saver's pension income in terms of their likelihood of meeting the Pensions Commission 'replacement rates', as well as a comparison against the different levels of the PLSA's Retirement Living Standards. We also consider the impact of the proposals for those on different earning levels, differences by gender, variations in length of working lives, breaks in work during working lives and the impact on those who may have a mix of full time and part-time employment in their work history.

BACKGROUND TO THE MODELLING

The PLSA commissioned the Pensions Policy Institute (PPI) to carry out modelling of the GB population which builds on work they carried out on behalf of B&CE (published in *Pensions Adequacy in Great Britain, findings from round 7 of the Wealth and Assets Survey*, August 2022).⁴ In the report, “Five Steps to better pensions: Time for a new consensus”, we explore in detail how each of the PLSA’s recommended policy reforms will affect future workers. The modelling featured in this report uses as its base round 7 of the Office for National Statistics Wealth and Assets Survey (WAS) to provide a snapshot of the state of saving and asset holding in Great Britain and project it forward to state pension age for both individuals and households. A Technical Report on the modelling has been published by the PPI.⁵ The analysis and presentation of the of the modelled data in this report has been carried out by the PLSA.

Populations and individuals modelled

The modelling was designed to reveal the impact of the PLSA’s policy recommendations including:

- Lowering the age from 22 to 18
- Removing both the lower earnings and upper earnings limit
- Making the State Pension the same level as the Minimum Retirement Living Standard
- Increasing overall contributions to 12%, including increasing both employee and employer contributions to 6%.
- Employees making an additional 4% in voluntary contributions

The policy recommendations were modelled across a range of different populations which included:

- The total UK population
- The total UK working population
- The total population currently saving into a Defined Contribution (DC)

The policy recommendations were modelled on individuals chosen specifically to include a range of different earnings levels and working patterns including:

Variations in earnings

- A median earner (Male: net £21,819; Female £23,023) who works full time for 50 years
- A half median earner (Male: net £12,955; Female £13,557) who works full time for 50 years
- A twice median earner (Male: net £39,263; Female £41,309 who works full time for 50 years

Differing working patterns

- A female, family carer working full time for 8 years then part time for 38 years, with a 4-year short break on half median earnings (£7,091)
- A female who starts working at 22, retires at 68, works full time for 8 years and part time for 35 years, with a 3-year break on median earnings (£13,557)

⁴ [XX-TTP-1710.0722-Pension-adequacy-report_v6.pdf \(thepeoplespension.co.uk\)](https://www.thepeoplespension.co.uk/XX-TTP-1710.0722-Pension-adequacy-report_v6.pdf)

⁵ Published on the PPI [website](https://www.pensionspolicyinstitute.org.uk/sponsor-research/research-reports/) <https://www.pensionspolicyinstitute.org.uk/sponsor-research/research-reports/>

- A female who starts working at 22, retires at 68, works full time for 8 years and part time for 35 years, with a 3-year break on twice median earnings (£23,023)
- A female works from 18-68 part time with a 5-year break on median earnings (13,557)
- A male on median earnings (net £24,757) who does not start work until 22, works for 38 years full time and finishes at 60
- A male on half median earnings (net £14,424) who does not start work until 22, works for 38 years full time and finishes at 60
- A male on twice median earnings (net £44,258) who does not start work until 22, works for 38 years full time and finishes at 60

CURRENT SITUATION

The current UK’s pension system, made up of the state pension and workplace pension saving, is not likely to produce adequate incomes in retirement for large proportions of the population.⁶

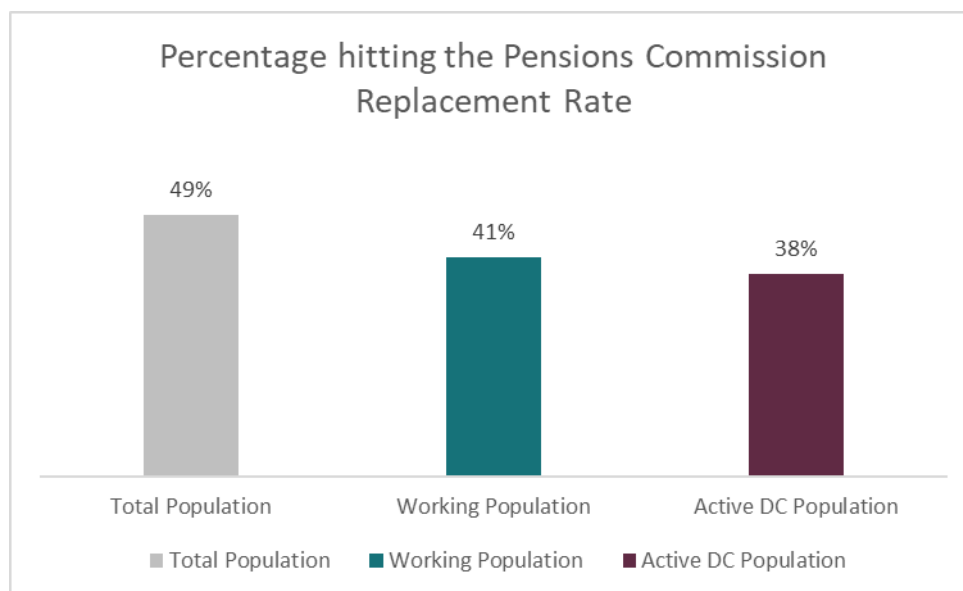
Pensions Commission Replacement Rate - Households

Amongst the *whole population* (approximately 17 million households) just under half of households (49%) are on track to meet the Pensions Commission Replacement rate.⁷

However, when looking at the working population⁸ (i.e., approximately 14.5 million) and those who are currently saving into a Defined Contribution (DC) pension⁹ (i.e., approximately 5.5 million households) these figures fall:

- only 41% of working households (c5.9 million) will achieve the Pensions Commission Replacement rate.
- only 38% of DC Saving households (c2 million) will achieve the Pensions Commission Replacement Rate.

Figure 7: Percentage hitting the Pensions Commission Replacement Rate



⁶ *The People’s Pension “Pensions Adequacy in Great Britain report”, 2022*⁶

⁷ Assumes tax free cash is not taken and pension savings are used to derive income in retirement

⁸ Definition of working household – a household where at least one member is in employment or self-employment

⁹ Definition of DC saving household – a household where at least one member is saving into a DC pension

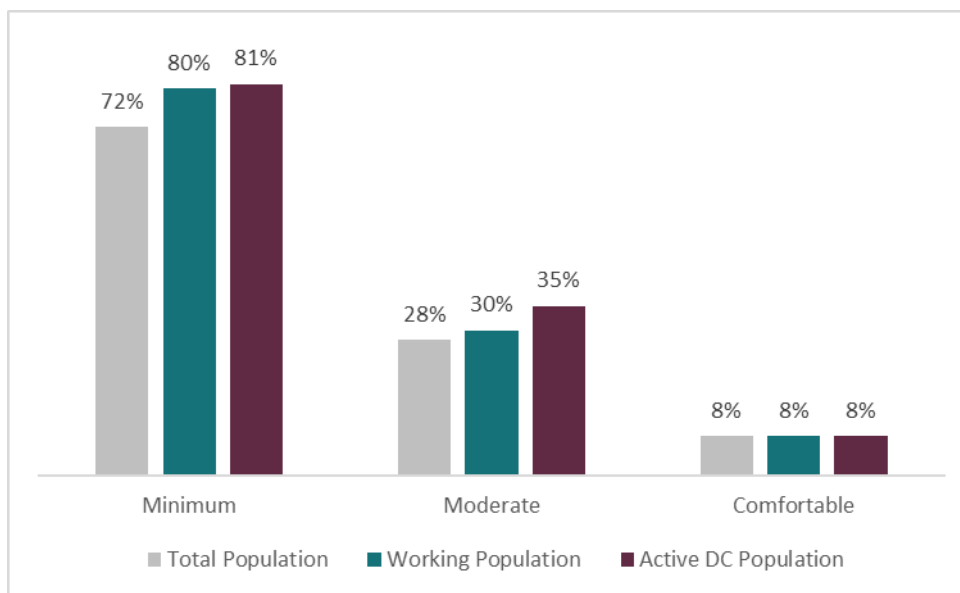
Retirement Living Standards - Households

When looking at the retirement outcomes for different populations using the Retirement Living Standards as a reference point, amongst the *whole population* 72% of households (12.2 million households out of a total of 17 million households) are on track to hit the **Minimum Retirement Living Standard (£16,700 for a couple)**, whilst among the *working population*, slightly more households are likely to hit the Minimum Retirement Living Standard (80% 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 (81% households)

When looking at the Moderate Retirement Living Standard, only 28% of households of the *whole population* are currently on track to hit the **Moderate Retirement Living Standard (£30,600 for a couple)**. This compares to 30% of households of the *working population* and 35% households of those *currently saving into a Defined Contribution (DC) pension*.

In terms of the **Comfortable Retirement Living Standard (£49,700 for a couple)**, less than one in ten households of any population are on track to hit this level of retirement standard.

Figure 8: Percentage of Households hitting the RLS



Using Housing Wealth

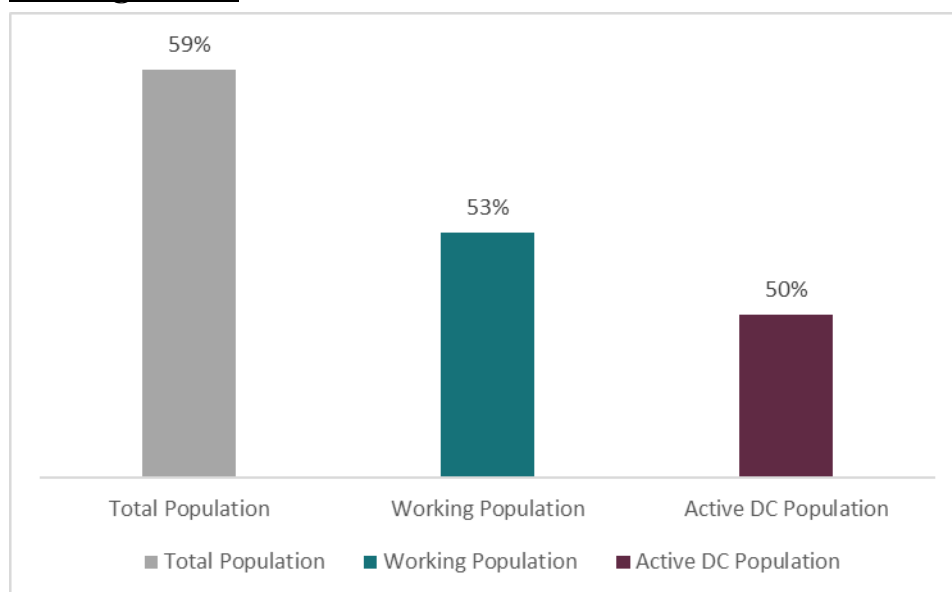
When including housing wealth more are on track to meet Pensions Commission Replacement rate.

Amongst the *whole population* over half of households (59%) are on track to meet the Pensions Commission Replacement rate, when using housing wealth.

However, when looking at the working population and those who are currently saving into a Defined Contribution (DC) pension these figures fall:

- only 53% of working households will achieve the Pensions Commission Replacement rate.
- only 50% of DC Saving households will achieve the Pensions Commission Replacement Rate.

Figure 9: Percentage hitting the Pensions Commission Replacement Rate using housing wealth



When looking at the retirement outcomes for different populations if housing wealth is also included, in terms of the retirement living standards more are on track to meet these standards. For example, amongst the *whole population* 77% of households are on track to hit the Minimum Retirement Living Standard, this compares to 72% if housing wealth is not included.

Amongst the *working population*, slightly more households are likely to hit the Minimum Retirement Living Standard (84% households up from 80% when not using housing wealth), with similar numbers among those who are *currently saving into a Defined Contribution (DC) pension*

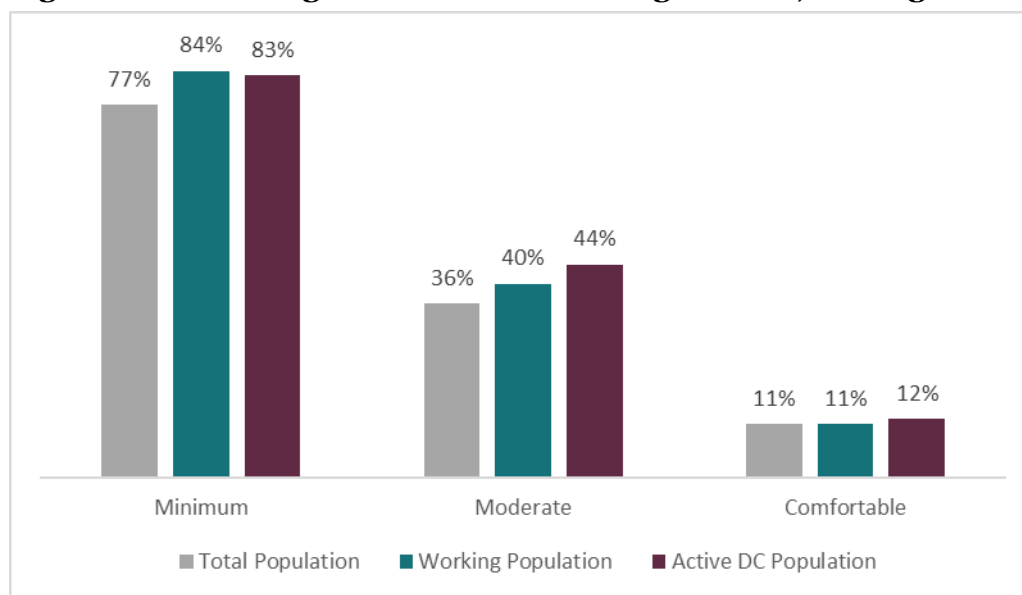
also likely to hit the Minimum Retirement Living Standard (83% households up from 81% when not using housing wealth).

Housing wealth has greater impact on reaching the Moderate Retirement Living Standard for all types of population.

- 36% of the overall population will hit the Moderate Retirement Living Standard (up from 28%)
- 40% of the working population will hit the Moderate Retirement Living Standard (up from 30%)
- 44% of those saving into a Defined Contribution (DC) pension will hit the Moderate Retirement Living Standard (up from 35%)

In terms of the Comfortable Retirement Living Standard, just over one in ten households of any population are on track to hit this level of retirement standard if adding in housing wealth.

Figure 10: Percentage of Households hitting the RLS, if using housing wealth



DC Savers

Meeting the Pensions Commission Replacement Rate – Analysis by Earnings

When looking at an individual who is currently 22, who is automatically enrolled into a pension, there is a mixed story in terms of individuals meeting their Pensions Commission Replacement Rate depending on their level of income. The target replacement rates vary according to income as it was assumed that those with the lowest incomes would need to maintain their income into retirement whilst those on a higher income would not need to maintain their income due to decreased housing, travel and discretionary expenditure requirements in retirement.

The projected retirement net income for median earners in the current system is £15,347 for men and £14,927 for women.

The Pensions Commission Replacement Rate would be 57% for men and 52% for women, which is below their target of 70% for males and 67% for females.

Half median earners in the current system have a projected retirement net income of £13,779 for men and £13,569 for women. The Pensions Commission Replacement Rate would be 100% for men and 92% for women which comfortably clears their target of 80%. This might suggest that they will be over saving. However, it is unlikely that someone will remain a half median earner throughout their working life or that they will continuously work without any gaps

Twice median earners are currently projected to achieve net incomes of £16,769 for men and £16,768 for women. The Pensions Commission Replacement Rate would be 32% for men and 30% for women, below their target of 60%.

► **Table 3: Current Situation Pensions Commission Target Replacement Rates by Earnings**

	Current Situation	Target Replacement Rate
Twice median female	30%	60%
Twice median male	32%	60%
Median female	52%	67%
Median male	57%	70%
Half median female	92%	80%
Half median male	100%	80%

Key: Red denotes savers are not projected to achieve their PCRR, Green denotes savers are projected to achieve their PCRR after our proposals, Purple denotes savers are expected to exceed their PCRR, Amber denotes savers are within proximity of their target PCRR but are not expected to hit it.

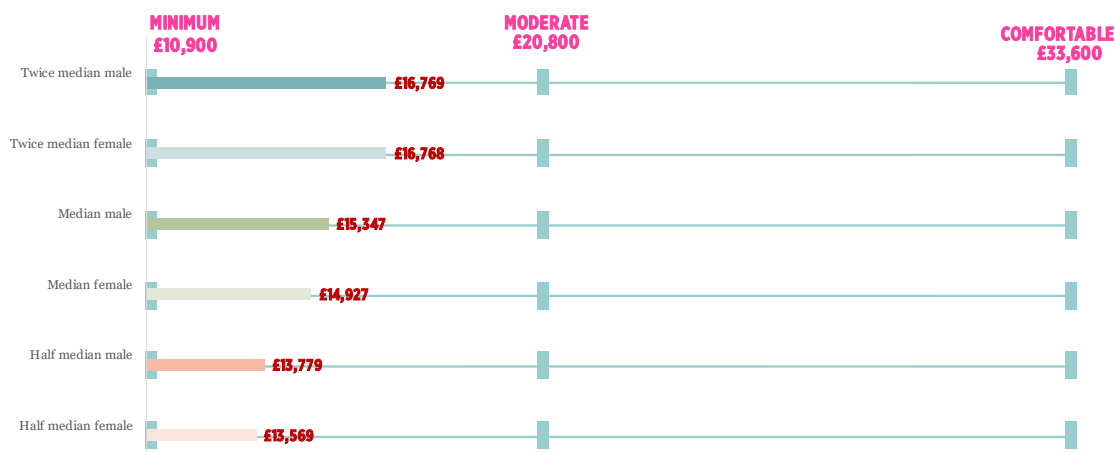
Meeting the Retirement Living Standards – Analysis by Earnings

When looking at retirement outcomes against the retirement livings standards, 22 year olds across a wide range of earning levels are on track to meet the Minimum Retirement Living Standard, with those on median and twice median earnings a good way towards meeting the Moderate Retirement Living Standard.

For median earners in the current system, the projected retirement income of £15,347 for men and £14,927 for women is around midway between the Minimum and Moderate RLS, while people on half median earnings are both securely above the Minimum RLS.

Twice median earners are placed over midway between the Minimum and the Moderate RLS.

Figure 11: Current projected retirement income assessed against PLSA Retirement Living Standards



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Meeting the Pensions Commission Replacement Rate – Analysis by Generation

Generation X are the least likely to meet the Pensions Commission Replacement Rate compared to Millennials and Baby Boomers. This is partly explained by the greater likelihood of the Baby Boomer households having better access to accrued DB pension provision than other generations, many Millennials benefiting from more years of AE pension saving, and some Generation X households having only started pension saving since the introduction of AE. Where some Generation X or Millennial households are achieving higher target replacement rates this is frequently because they have access to accrued DB entitlement or DB still in accrual, which the modelling assumes will continue.

Table 4: Current Situation - Pensions Commission Target Replacement Rates by Generation

Percentage hitting the PC Target Replacement Rate		
Millennials	Generation X	Baby Boomers
38%	33%	48%

Base: All DC Savers – assuming all pension used to derive pension income

Meeting the Retirement Living Standards – Analysis by Generation

The analysis shows that most households are on track to hit at least the Minimum Retirement Living Standard, with 20% of Baby Boomers, 21% of Generation X and 16% of Millennials set to miss the standard.

Table 5: Current Situation - Retirement Living Standards by Generation

	Percentage hitting the Retirement Living Standard		
	Millennials	Generation X	Baby Boomers
RLS Minimum	84%	79%	80%
RLS Moderate	29%	36%	42%
RLS Comfortable	3%	9%	14%

Base: all DC savers – assuming all pension used to derive pension income

However, Millennials are far less likely than the other generations to hit either the Moderate or Comfortable Retirement Living Standards.

Meeting the target Pensions Commission Replacement Rate – the impact of having DB savings

Those with DB entitlement are currently much more likely to hit their target Pensions Commission Replacement Rate than those who have no DB savings.

Table 6: Current Situation - Retirement Living Standards by DB entitlement

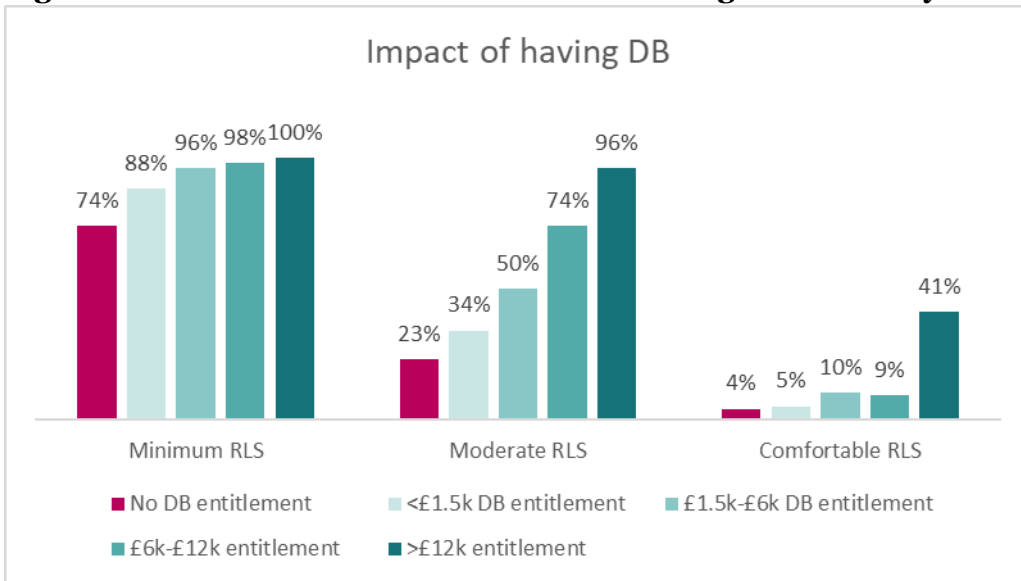
Percentage hitting the PC Target Replacement Rate				
No DB entitlement	Less than £1.5k DB entitlement	£1.5k up to £6k DB entitlement	£6k up to £12k DB entitlement	More than £12k DB entitlement
34%	32%	36%	49%	74%

Base: All DC Savers – assuming all pension used to derive pension income

Meeting the Retirement Living Standards – – the impact of having DB savings

The analysis shows that those with significant DB, especially those with more than £12,000 per annum DB entitlements are far more likely to be on track to hit all of the retirement living standards than those who have no DB savings.

Figure 12: Current situation – Retirement Living Standards by DB entitlement



Base: all DC savers – assuming all pension used to derive pension income

IMPACT OF DIFFERENT POLICY MEASURES

The analysis set out to demonstrate the impact on retirement outcomes for those entering the pensions system and benefiting from the changes throughout their working life. The most likely form of pensions saving for a new entrant to the pensions system is through DC pensions and our analysis has focused on this population of DC savers in order to explore the full impact of the PLSA recommendations.

The population outside of this group includes people who are currently not working, people who only have DB pension savings (and would therefore not be impacted by the recommendations) and those who may have built up only limited or no pension savings for a large proportion of their working life prior to the introduction of AE (and who may need to take alternative steps to ensure the adequacy of their income in retirement).

We have therefore focused the modelling on an individual just entering the workforce for whom the PLSA recommendations are likely to have the most impact. The modelling shows the impact of introducing each policy recommendation on a cumulative basis ie the impact of 12% contributions assumes that the previous policy steps are in place: lowering age to 18; removal of band earnings; state pension at Minimum RLS.

Lowering the age of automatic enrolment to 18

Lowering the age of automatic enrolment to 18 as recommended by the 2017 Automatic Enrolment Review¹⁰ has only a limited impact on someone working full time for 50 years for both men and women, especially those on half median earnings.¹¹

For median earners, lowering the age of automatic enrolment to 18 would increase their projected retirement net income from £15,347 to £15,501 for men and from £14,927 to £15,058 for women, an increase of £154 and £131 compared with the current situation respectively.

Among half median earners, lowering the age to 18 would mean their projected retirement net income would increase from £13,779 to £13,791 for men and from £13,569 to £13,581 for women, an increase of £12 compared with the current situation respectively.

The lowering of the age of automatic enrolment to 18, would increase twice median earners projected net income from £16,769 to £17,153 for men and from £16,768 to £17,106 for women, an increase of £384 and £337 compared with the current situation respectively.

The single change of lowering of the age of automatic enrolment to 18 would have a very minor impact on whether someone is likely to hit their Pensions Commission Replacement Rate or not, the small number of additional years of contributions being based for many on their lowest earning years compared to their later working life (although contributing early maximises the time horizon for investment returns on those years of smaller contributions).

¹⁰ [Automatic enrolment review 2017: Maintaining the momentum - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/614242/automatic-enrolment-review-2017-maintaining-the-momentum.pdf)

¹¹ Modelling is based on assumption that all PLSA recommended changes are made as of today

Table 7: Impact of lowering age to 18 on Pensions Commission Replacement Rates by earnings

	Current Situation	Impact on Pensions Commission Replacement Rate		Target Replacement Rate
		Current Situation	Lowering age to 18	
Twice median female	30%	32%	60%	
Twice median male	32%	30%	60%	
Median female	52%	58%	67%	
Median male	57%	52%	70%	
Half median female	92%	100%	80%	
Half median male	100%	92%	80%	

Key: Red denotes savers are not projected to achieve their PCRR, Green denotes savers are projected to achieve their PCRR after our proposals, Purple denotes savers are expected to exceed their PCRR, Amber denotes savers are within proximity of their target PCRR but are not expected to hit it.

The impact in terms of the Retirement Living Standards changes is also fairly modest at all earnings levels: median earners would see an increase in retirement income of £154 for men and £131 for women; twice median earners would see an increase of £384 for men and £338 for women and half median earners (both men and women) would see an increase of just £12.

Figure 13: Impact of lowering age to 18 – median earnings



Figure 14: Impact of lowering age to 18 – half median earnings

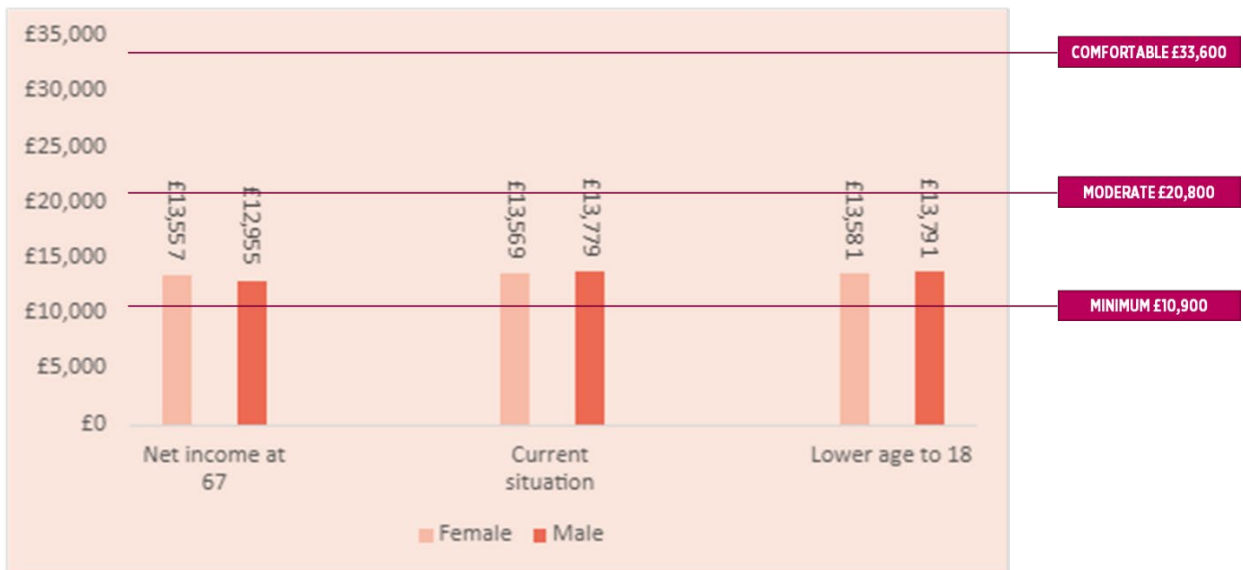


Figure 15: Impact of lowering age to 18 – twice median earnings



Removal of band earnings

The pension savings modelling suggests that lowering the age of automatic enrolment combined with the removal of band earnings (including both the lower earnings limit and the upper earnings limit) will increase for a median earner their projected retirement net income from £15,347 to £16,145 for men and from £14,927 to £15,701 for women, an increase of £798 and £775 compared with the current situation respectively.

Among half median earners, lowering the age to 18 and the removal of band earnings would mean their projected retirement net income would increase from £13,779 to £14,462 for men and from £13,569 to £14,240 for women, an increase of £683 and £672 compared with the current situation respectively.

The lowering of the age of automatic enrolment to 18 and the removal of band earnings would increase twice median earners projected net income from £16,769 to £19,510 for men and from £16,768 to £18,624 for women, an increase of £2,741 and £1,856 compared with the current situation respectively.

The pension savings modelling suggests that lowering the age of automatic enrolment and the removal of band earnings will improve retirement outcomes measured against the Pensions Commission Replacement Rates for all genders and all income levels. It will have the greatest impact on half median men and twice median men where the removal of band earnings and lowering the age to 18 will improve the Pensions Commission Replacement Rates by 6%. Women earning half median earnings will also benefit by 5%.

The removal of band earnings, alongside the lowering the age of automatic enrolment for median earners will have the least impact (3% for men and 3% for women).

Table 8: Impact of lowering age to 18 plus removal of band earnings on Pensions Commission Replacement Rates by earnings

	Current Situation	Cumulative impact on Pensions Commission Replacement Rate		Target Replacement Rate
		Lowering age to 18	Plus removal of band earnings	
Twice median female	30%	30%	33%	60%
Twice median male	32%	32%	38%	60%
Median female	52%	52%	55%	67%
Median male	57%	58%	60%	70%
Half median female	92%	92%	97%	80%
Half median male	100%	100%	106%	80%

Key: Red denotes savers are not projected to achieve their PCRR, Green denotes savers are projected to achieve their PCRR after our proposals, Purple denotes savers are expected to exceed their PCRR, Amber denotes savers are within proximity of their target PCRR but are not expected to hit it.

In terms of the Retirement Living Standards, the removal of band earnings in combination with the lowered age of AE would improve the annual pension income for both a man and woman who start

contributing at 18 and work for 50 years, at all income levels, bringing them closer to reaching the Moderate Retirement Living Standard of £20,800.

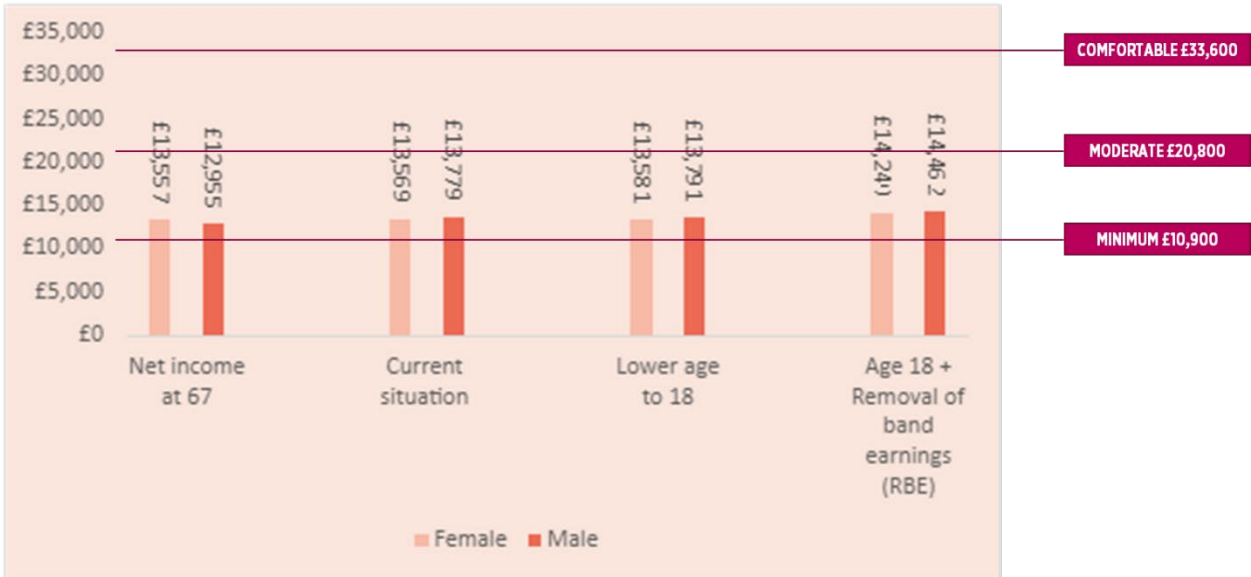
Adding this additional measure on to the lowered age will result in a male median earner see their retirement income increase from their current situation by £798 (from £15,347 to £16,145), whilst a female median earner would see a similar rise of £774, an additional increase in their income from £14,927 to £15,701.

Figure 16: Impact of lowering age to 18 and removal of band earnings – median earnings



Half median earners would also see a similar increase in their retirement income from these measures. A male half median earner would see their retirement income increase from their current situation of £13,779 to £14,462, an increase of £683 whilst a female median earner would see a similar rise of £671, an increase in their income from £13,779 to £14,240.

Figure 17: Impact of lowering age to 18 and removal of band earnings – half median earnings



Those earning twice median earnings will be closest to hitting the Moderate Retirement Living Standard. The additional measures would increase the retirement income of a male from £16,769 to £19,510, an increase of £2,741 whilst a female twice median earner would see a rise of £1,856, with an increase in their income due the additional measures from £16,768 to £18,624.

Figure 18: Impact of lowering age to 18 and removal of band earnings – twice median earnings



The removal of band earnings has a greater impact on the pension income of men than women due to the gender difference in earnings across a working lifetime with men earning more than women, especially among those with twice median earnings.

Setting the State Pension at the level of the Minimum RLS

PLSA recommends that the State Pension is set at the Minimum Retirement Living Standard. The impact of this change alongside the reduction in age to 18 and the removal of band earnings would increase net incomes for people on all types of earnings by up to 7% or more, with those on half median earnings experiencing an increase of at least 9%. The modelling suggests that setting the State Pension at the Minimum RLS will have the greatest impact on half median earning people as the state pension represents a large proportion of their total retirement income.

The combination of these measures (lower age, removal of band earnings and SP at RLS Minimum) will increase the retirement net income for a median earner from £15,347 to £17,498 for men and from £14,927 to £17,055 for women, an increase of £2,151 (men) and £2,128 (women) compared with the current situation.

Among half median earners, the combination of these measures would mean their projected retirement net income would increase from £13,779 to £15,815 for men and from £13,569 to £15,594 for women, an increase of £2,036 (men) and £2,025 (women) compared with the current situation.

Among twice median earners, the combination of these measures would mean they have a projected net income of £20,863 for men and £19,977 for women, an increase of £4,095 (men) and £3,209 (women) compared with the current situation.

The modelling suggests that setting the State Pension at the Minimum RLS will have an improved outcome in term of the Pensions Commission Replacement Rates for all genders and all income levels. The package of measures including setting the State Pension at the level of the Minimum Retirement Living Standard alongside the removal of band earnings and lowering the age to 18 would increase the PCRR of median earners by 9% for men and 6% for women, moving them closer to their target.

Among half median earners setting the State Pension at the level of the Minimum Retirement Living Standard alongside the removal of band earnings and lowering the age to 18 will improve the Pensions Commission Replacement Rates by 18% and 17% respectively. This is largely due to the higher State Pension which makes up a large proportion of their retirement income.

Setting of the State Pension at the Minimum Retirement Living Standard will have the least impact on those earning twice median incomes, moving men up by 9% and women by 6%.

Table 9: Impact of lowering age to 18, removal of band earnings plus setting State Pension at Minimum RLS on Pensions Commission Replacement Rates by earnings

	Current Situation	Cumulative impact on Pensions Commission Replacement Rate			Target Replacement Rate
		Lowering age to 18	Plus removal of band earnings	Plus setting State Pension at Minimum RLS	
Twice median female	30%	30%	33%	36%	60%
Twice median male	32%	32%	38%	41%	60%
Median female	52%	52%	55%	60%	67%
Median male	57%	58%	60%	66%	70%
Half median female	92%	92%	97%	109%	80%
Half median male	100%	100%	106%	118%	80%

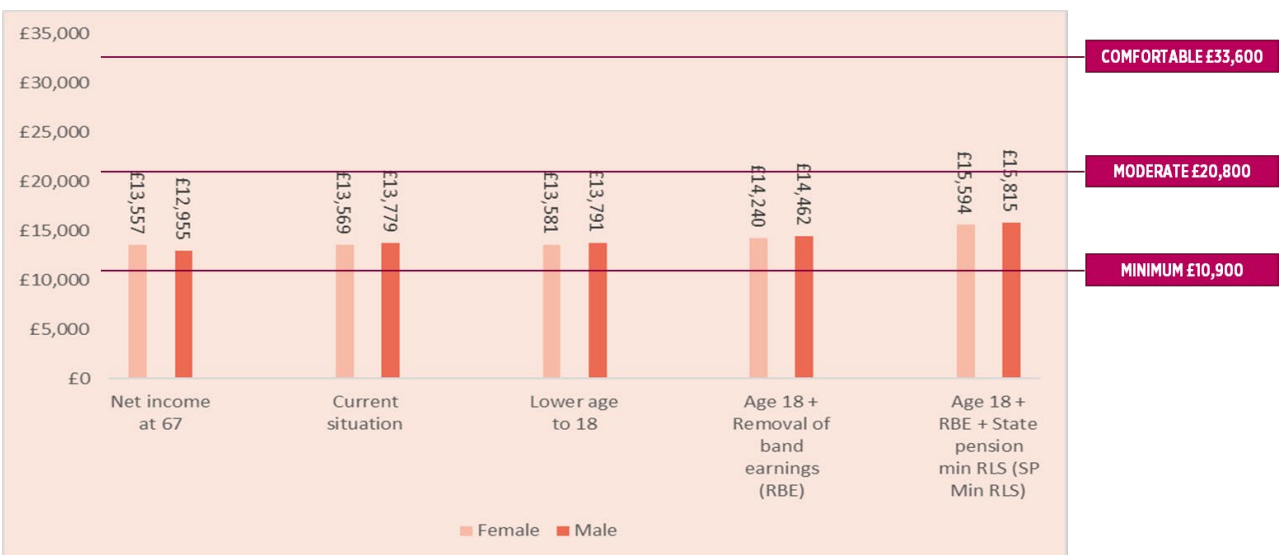
Key: Red denotes savers are not projected to achieve their PCRR, Green denotes savers are projected to achieve their PCRR after our proposals, Purple denotes savers are expected to exceed their PCRR, Amber denotes savers are within proximity of their target PCRR but are not expected to hit it.

Setting the State Pension to the level of the Minimum RLS alongside the other measures will bring both men and women on median earnings who start contributing at 18 and work full time much closer to achieving a Moderate Retirement Living Standard in retirement (i.e., £20,800).

Figure 19: Impact of lowering age to 18, removal of band earnings and setting the State Pension at the Minimum RLS – median earnings



Figure 20: Impact of lowering age to 18, removal of band earnings and setting the State Pension at the Minimum RLS – half median earnings



If all these measures are put in place, men on twice median earnings will achieve a Moderate Retirement Living Standard in retirement, with women on twice median earnings not far behind. Half median earners would be around midway between the Minimum and Moderate.

Figure 21: Impact of lowering age to 18, removal of band earnings and setting the State Pension at the Minimum RLS – twice median earnings



Increasing contributions to 12%

If alongside the automatic enrolment age being dropped to 18, band earnings being removed and the State Pension being set at the Minimum RLS, contributions are increased to 12% (with employers increasing their contributions from 3% to 6%, and employees increasing their contributions from 5% to 6%) annual pension income will increase further.

The combination of these measures will increase for a median earner their projected retirement net income from £15,347 to £19,181 for men and from £14,927 to £18,516 for women, men increasing their retirement income by 25% (£3,834) and women by 24% (£3,589).

Among half median earners, the combination of these measures would mean their projected retirement net income would increase from £1,779 to £16,657 for men and from £13,569 to £16,324 for women. Half median men would see their retirement net income increase by 21% (£2,878) and women by 20% (£2,755).

Among twice median earners, the combination of these measures would mean their projected net income would increase from £16,769 to £24,229 for men and from £16,768 to £22,899 for women. Twice median men would see their retirement net income increase by 44% (£7,460) and women by 37% (£6,131).

Increasing contributions to 12% alongside the other changes will bring many more people closer to reaching their target replacement rates.

It would improve the retirement income outcome of male median earners from a PCRR of 57% to 74%, an increase of 17 percentage points enabling them to comfortably achieve their target of 70%. Female median earners would see an increase of 14 percentage points to 66%, just falling short of the 67% target.

It will have the greatest impact on half median men and women where increasing contributions to 12%, alongside the other measures will improve the Pensions Commission Replacement Rates by 25% and 23% respectively.

Increasing contributions to 12% alongside the other measures will have the least impact on those earning twice median incomes but will bring them much closer to hitting their target replacement rates.

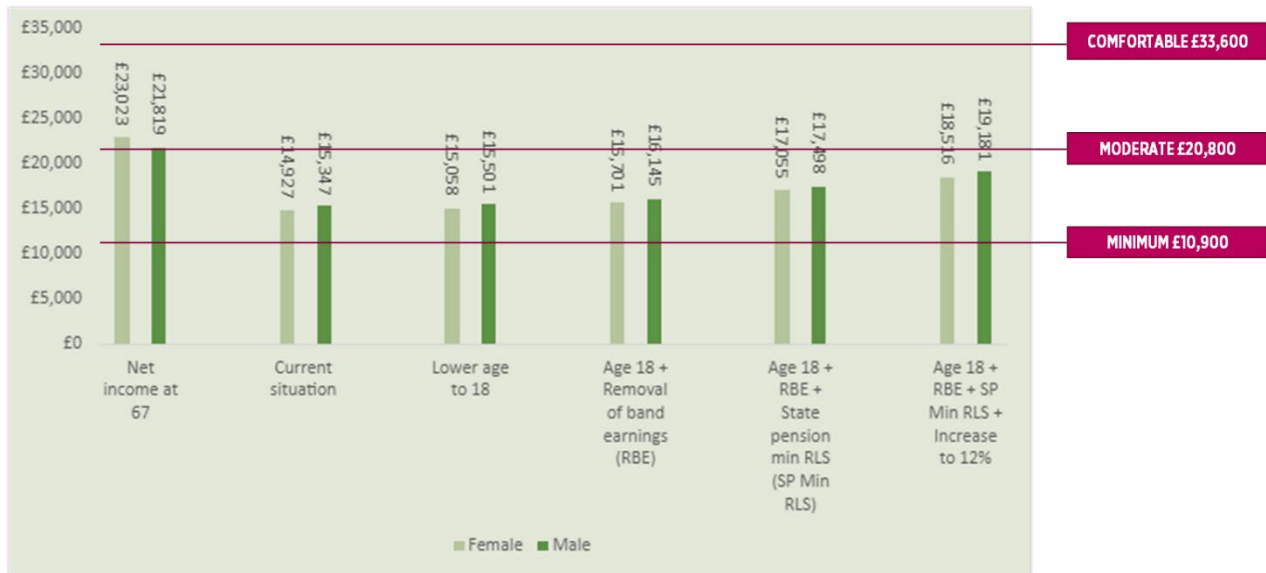
Table 10: Impact of lowering age to 18, removal of band earnings, setting State Pension at Minimum RLS and increasing contributions to 12% on Pensions Commission Replacement Rates by earnings

	Current Situation	Cumulative impact on Pensions Commission Replacement Rate				Target Replacement Rate
		Lowering age to 18	Plus removal of band earnings	Plus setting State Pension at Minimum RLS	Plus increasing contributions to 12%	
Twice median female	30%	30%	33%	36%	42%	60%
Twice median male	32%	32%	38%	41%	48%	60%
Median female	52%	52%	55%	60%	66%	67%
Median male	57%	58%	60%	66%	74%	70%
Half median female	92%	92%	97%	109%	115%	80%
Half median male	100%	100%	106%	118%	125%	80%

Key: Red denotes savers are not projected to achieve their PCRR, Green denotes savers are projected to achieve their PCRR after our proposals, Purple denotes savers are expected to exceed their PCRR, Amber denotes savers are within proximity of their target PCRR but are not expected to hit it.

Those on median earnings will move from midway between the Minimum and Moderate RLS to much closer towards hitting a Moderate Retirement Living Standard.

Figure 22: Impact of lowering age to 18, removal of band earnings, setting the State Pension at the Minimum RLS, and increasing contributions to 12% – median earnings



Half median earners will move from under midway between Minimum and Moderate RLS to well over the midpoint between Minimum and Moderate RLS.

Figure 23: Impact of lowering age to 18, removal of band earnings, setting the State Pension at the Minimum RLS, and increasing contributions to 12% – half median earnings



For twice median earners, both men and women will move from over midway between Minimum and Moderate RLS to surpassing the Moderate RLS.

Figure 24: Impact of lowering age to 18, removal of band earnings, setting the State Pension at the Minimum RLS, and increasing contributions to 12% – twice median earnings



Increasing contributions to 12% and 4% voluntary contributions

If alongside automatic enrolment age being dropped to 18, band earnings being removed and the State Pension being set at the Minimum RLS, contributions are increased to 12% with an additional 4% in voluntary contributions pension net incomes will improve significantly.

For a median earner their projected retirement net income would increase from £15,347 to £20,863 for men and from £14,927 to £19,977 for women, men increasing their retirement net income by 36% (£5,517) and women by 40% (£5,937).

Among half median earners, the combination of these measures would mean their projected retirement net income would increase from £13,779 to £17,498 for men and from £13,569 to £17,055 for women. Half median men would see their retirement net income increase by 27% (£3,719) and women by 26% (£3,486).

Among twice median earners, the combination of these measures would mean their projected net income would increase from £16,769 to £27,594 for men and from £16,768 to £25,821 for women. Twice median men would see their retirement net income increase by 65% (£10,826) and women by 65% (£10,826).

Increasing contributions to 12% with an additional 4% in voluntary contributions alongside the other changes would enable significantly more people to reaching their target replacement rates.

Those on median earnings would be able to hit or exceed their target replacement rate. It would improve the retirement income outcome of male median earners from a PCRR of 57% to 81%, an increase of 24 percentage points enabling them to comfortably achieve their target of 70%. Female median earners would see an increase of 21 percentage points to 73%, exceeding their 67% target.

The increase in contributions among those earning twice median incomes will mean that they are now far closer to hitting their target replacement rate of 60%.

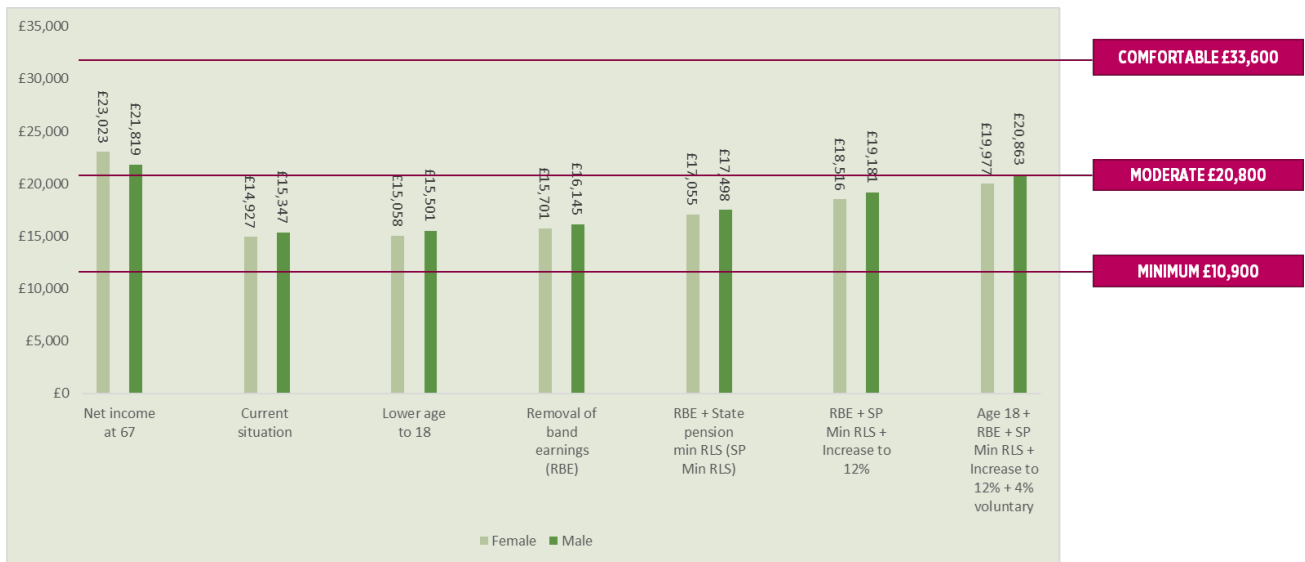
Table 11: Impact of lowering age to 18, removal of band earnings, setting State Pension at Minimum RLS and increasing contributions to 12% plus an additional 4% voluntary contributions on Pensions Commission Replacement Rates by earnings

	Current Situation	Cumulative impact on Pensions Commission Replacement Rate					Target Replacement Rate
		Lowering age to 18	Plus removal of band earnings	Plus setting State Pension at Minimum RLS	Plus increasing contributions to 12%	Increasing contributions to 12%, plus an additional 4% voluntary	
Twice median female	30%	30%	33%	36%	42%	48%	60%
Twice median male	32%	32%	38%	41%	48%	56%	60%
Median female	52%	52%	55%	60%	66%	73%	67%
Median male	57%	58%	60%	66%	74%	81%	70%
Half median female	92%	92%	97%	109%	115%	121%	80%
Half median male	100%	100%	106%	118%	125%	133%	80%

Key: Red denotes savers are not projected to achieve their PCRR, Green denotes savers are projected to achieve their PCRR after our proposals, Purple denotes savers are expected to exceed their PCRR, Amber denotes savers are within proximity of their target PCRR but are not expected to hit it.

The increase of both mandatory and voluntary contributions will mean those on median earnings will get closer or hit the Moderate level of income, men hitting the Moderate and women coming just short of the standard.

Figure 25: Impact of lowering age to 18, removal of band earnings, setting the State Pension at the Minimum RLS, and increasing contributions to 12% plus 4% voluntary contributions – median earnings



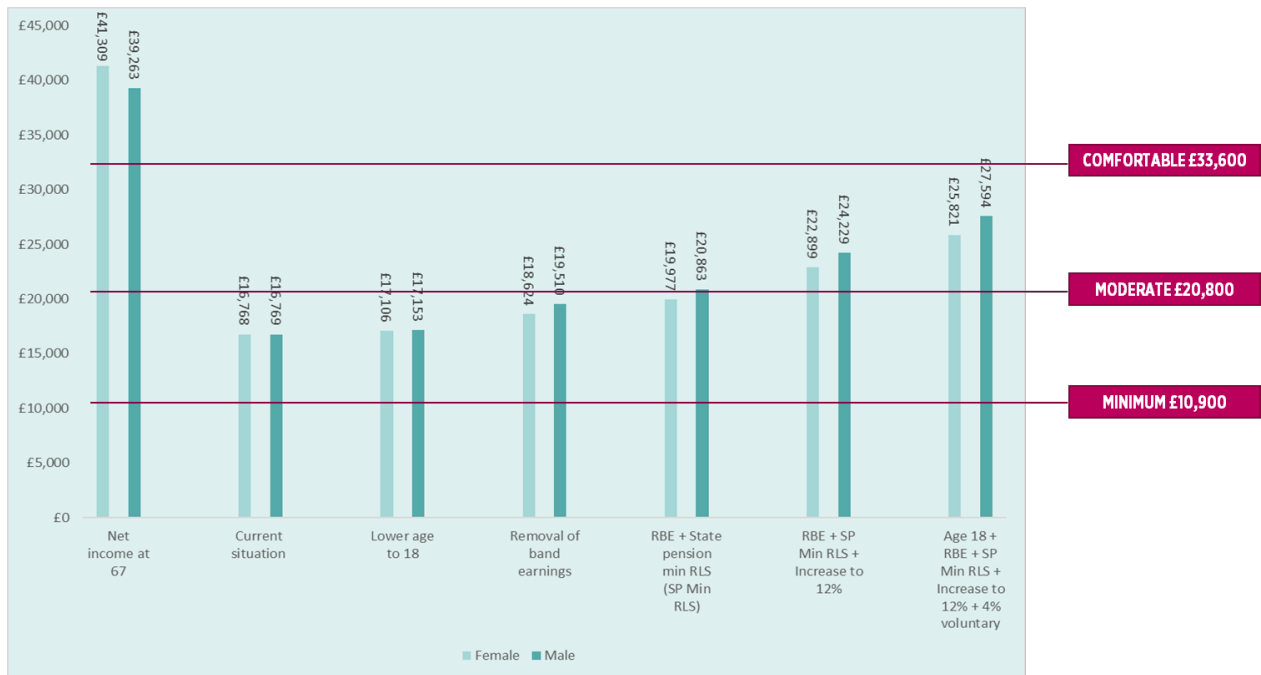
Half median earners will move from under midway between Minimum and Moderate RLS to well over the midpoint between Minimum and Moderate RLS.

Figure 26: Impact of lowering age to 18, removal of band earnings, setting the State Pension at the Minimum RLS, and increasing contributions to 12% plus 4% voluntary contributions – half median earnings



For twice median earners, both men and women will move from over midway between Minimum and Moderate RLS to surpassing the Moderate RLS.

Figure 27: Impact of lowering age to 18, removal of band earnings, setting the State Pension at the Minimum RLS, and increasing contributions to 12% plus 4% voluntary contributions – twice median earnings



ANALYSIS OF IMPACT ON HOUSEHOLDS WITH TWO PEOPLE AND WITH VARIOUS WORKING PATTERNS

Impact on Households with Two People

Illustration: Household with a median male who works full time and median female who works part-time, with a 5 year gap.

In terms of the Retirement Living Standards the modelling indicates that in a household where there is a man on median earnings working full time and woman working part time on median earnings who also has a 5-year gap, they will exceed the Moderate RLS (i.e., £30,600) and move them closer to hitting the Comfortable retirement living standard (£49,700) than they would in the current situation.

Indeed, the impact of the reforms is likely to increase their joint annual net from £28,813 to £35,217 – an increase of 22% (£6,404) at 12% contributions.

Figure 28: Cumulative impact of the reforms on a household with a median male earner and a median part-time female earner, who takes a 5-year gap.



Illustration: Household with a median male who works full time and a median female who works full time.

Looking at a household which includes both a median male and female full-time worker, the modelling indicates that in a household where there is a man on median earnings working full time and woman working full time on median earnings, the impact of the PLSA measures mean they will exceed the Moderate RLS (i.e., £30,600) and move them closer to hitting the Comfortable retirement living standard (£49,700) than they would in the current situation.

Indeed, the impact of the reforms is likely to increase their joint annual net income from £30,274 to £37,696 – an increase of 22% (£6,404) at 12% contributions.

Figure 29: Cumulative impact of the reforms on a house with a median male and female earner



Impact on different working patterns

The modelling also demonstrated that the policy proposals have a positive impact on people who have working patterns other than full-time employment or reduced years of employment.

Illustration A: Female full working life but starting at 22, mixed working pattern with a short break with median/twice median income

Looking at a female who starts work at 22 and does not retire until 68 but has a mixed working pattern working 8 years full time and 35 years part time with a 3-year break on a median income and twice median income, the impact of the PLSA reforms will mean that in terms of the Pensions Commission Replacement Rate a median income earner will already meet their target replacement rate in the current situation, while a twice median income earner will meet their recommended Target Replacement Rate of 67% if they increase their contributions to 12%

Table 12: Cumulative impact of proposed PLSA policy options on a female with mixed working patterns on Pensions Commission Replacement Rates

	Current Situation	Cumulative impact on Pensions Commission Replacement Rate				Target Replacement Rate
		Removal of band earnings	Plus Setting State Pension at Minimum RLS	Plus increasing contributions to 12%	Plus increasing contributions to 12%, plus an additional 4% voluntary	
Twice median female	53%	55%	61%	67%	74%	67%
Median female	94%	98%	109%	115%	122%	80%

Key: Red denotes savers are not projected to achieve their PCRR, Green denotes savers are projected to achieve their PCRR after our proposals, Purple denotes savers are expected to exceed their PCRR, Amber denotes savers are within proximity of their target PCRR but are not expected to hit it.

In terms of the Retirement Living Standards the modelling indicates that they will be closer to reaching the Moderate RLS (i.e., £20,800) than they would be in the current situation. Indeed, the impact of the reforms is likely to increase their annual net income for someone earning a median income from £13,788 to £17,176 – an increase of £2,637 at 12% contributions.

Figure 30: Annual net pension income for female, mix of FT and PT, with short break



Similarly, for someone on twice median earnings the impact of the reforms with increase in contributions to 12%, is likely to increase their annual retirement net income from £15,234 to £20,220, a £3,464 increase bringing them £2,102 short of reaching the Moderate RLS.

If an individual then contributed an additional 4% in voluntary contributions those on twice median earnings will be close to hitting the Moderate RLS, while the position of median earners will also improve.

Illustration B: Female part time worker with a 5-year break

Looking at a female who starts work at 18 who works part time for 45 years and has a 5-year break and retires at 68 on a median income, the impact of the PLSA reforms will mean that in terms of the Pensions Commission Replacement Rate they will already meet their target replacement rate in the current situation.

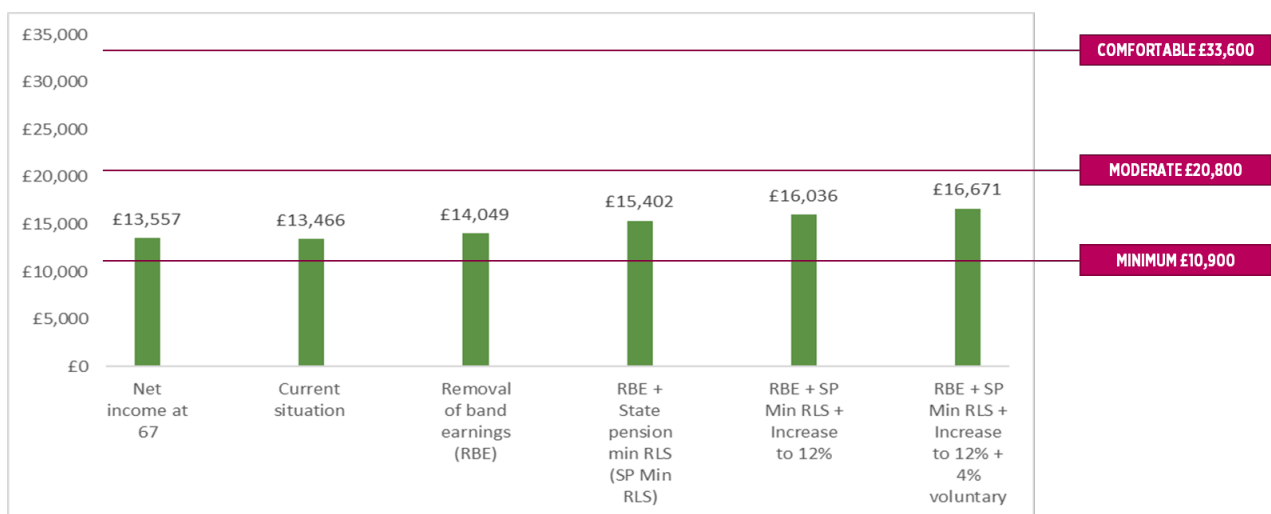
Table 13: Cumulative impact of proposed PLSA policy options on a part time female worker with a 5 year break on Pensions Commission Replacement Rates

		Cumulative impact on Pensions Commission Replacement Rate				Target Replacement Rate
	Current Situation	Removal of band earnings	Plus setting State Pension at Minimum RLS	Plus increasing contributions to 12%	Plus increasing contributions to 12%, plus an additional 4% voluntary	
Median female	91%	96%	107%	112%	118%	80%

Key: Red denotes savers are not projected to achieve their PCRR, Green denotes savers are projected to achieve their PCRR after our proposals, Purple denotes savers are expected to exceed their PCRR, Amber denotes savers are within proximity of their target PCRR but are not expected to hit it.

Looking at this same individual, the impact of the PLSA reforms will mean that they are closer to reaching the Moderate RLS (i.e., £20,800) than they would be in the current situation. Indeed, the impact of the reforms including a 12% increase in contributions is likely to increase their annual retirement net income for someone earning a median income from £13,466 to £16,036, an increase of £2,500. This will bring them £4,764 short of reaching the Moderate RLS. Further improvements will be made if they also make an additional 4% voluntary contribution.

Figure 31: Cumulative impact on a female who works from 18-68 part time with 5-year break on median earnings



GENERATIONAL DIFFERENCES

Compared to those starting pension saving in the new regime, the impact of the combined proposals for the current workforce is less substantial as they only benefit from the improvements in contributions for a fraction of their working life.¹²

Illustration: male who saves into a pension for 38 years (e.g. someone from Generation X)

The modelling for a male who only saves for 38 years (as in the example below) compared to the 50 years in the above modelling should give us an indication of the pension income of someone within Generation X.

For a median earner their projected retirement net income would increase from £14,252 to £17,718, an increase of 24% (£3,446).

Among half median earners, the combination of these measures would mean their projected retirement net income would increase from £13,335 to £15,925 which would see their retirement income increase by 19% (£2,570).

Among twice median earners, the combination of these measures would mean their projected retirement net income would increase from £15,026 to £21,303, which amounts to a net income increasing of 42% (£6,278).

This modelling suggests in terms of the Pensions Commission Replacement Rate, those on median earnings will fall short of hitting their target replacement rate in the current situation, but a median earner will be close to hitting their target PCR_R assuming that all of the PLSA measures are implemented (including the 4% voluntary contributions).

In contrast, those on a twice median income even with the implementation of the PLSA measures will still fall short of hitting their Target Replacement Rate but will be significantly closer than in the current situation.

Those on half median earnings will almost hit their Target Replacement Rate in the current situation and would exceed it upon implementation of the reforms.

¹² See also [PPI analysis](#) for [B&CE](#) for additional projections of current generational segments

Table 14: Cumulative impact of proposed PLSA policy options on a male who saves into a pension for 38 years (e.g. Generation Xer) on Pensions Commission

Replacement Rates

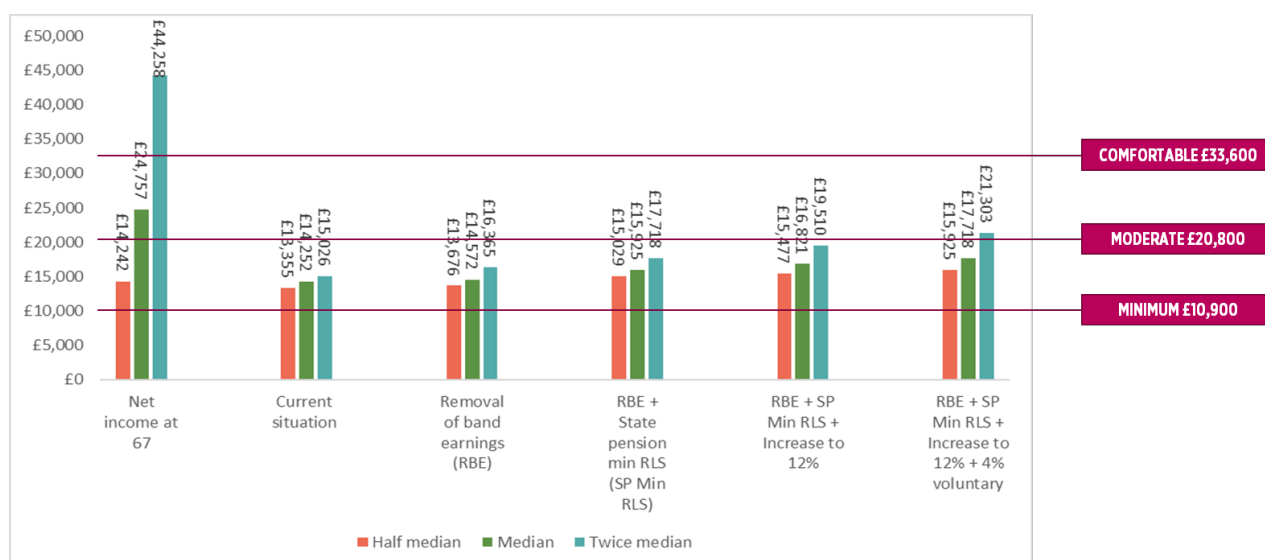
	Current Situation	Cumulative impact on Pensions Commission Replacement Rate				Target Replacement Rate
		Removal of band earnings	Plus setting State Pension at Minimum RLS	Plus increasing contributions to 12%	Plus increasing contributions to 12%, plus an additional 4% voluntary	
Twice median male	21%	24%	26%	30%	34%	60%
Median male	37%	39%	43%	47%	51%	67%
Half median male	67%	70%	78%	82%	86%	70%

Key: Red denotes savers are not projected to achieve their PCRR, Green denotes savers are projected to achieve their PCRR after our proposals, Purple denotes savers are expected to exceed their PCRR, Amber denotes savers are within proximity of their target PCRR but are not expected to hit it.

In terms of the Retirement Living Standards where a man only saves for 38 years, incomes will increase but not as much as if they had contributed for 50 years, with incomes not as close to the Moderate level of income if they had worked longer.

However, if they pay an additional 4% in voluntary contributions those on median and half median will get closer to meeting this level, while those on twice median incomes will exceed the Moderate RLS.

Figure 32: Cumulative impact on a Generation X man who saves full time for 38 years



CONCLUSIONS ON THE IMPACT OF PLSA PROPOSALS

➤ Improvements in retirement outcomes at all earnings levels

The analysis demonstrates that if all of the PLSA measures were implemented, all earnings levels analysed would have improved retirement outcomes from the policy changes. Specifically, median earners and half median earners would see significant improvements.

A median earner would see a significant increase in their projected retirement income, with men increasing their projected retirement net income from £ 15,347 to £19,181, an increase of £3,834 which represents a 25% increase compared to their current projected outcome, while women would increase their projected net income from £14,927 to £18,516 an increase of £3,589 – a 24% increase compared to their current outcome.

If an additional voluntary contribution of 4% was also made a median earner would see their projected retirement income increase from £15,347 to £20,863 for a man – an increase of 36% and from £14,927 to £19,977 for a woman – an increase of 34%.

Twice median earners would have a projected income of £27,594 for men and £25,821 for women. Twice median men would see their retirement income increase by 65% (£10,826) and women by 54% (£9,053).

Among half median earners, the cumulative impact of these measures would mean they have a projected retirement income of £17,498 for men and £17,055 for women. Half median men would see their retirement income increase by 27% (£3,719) and women by 26% (£3,486).

Figure 33: Cumulative increase on net pension income among men after PLSA reforms

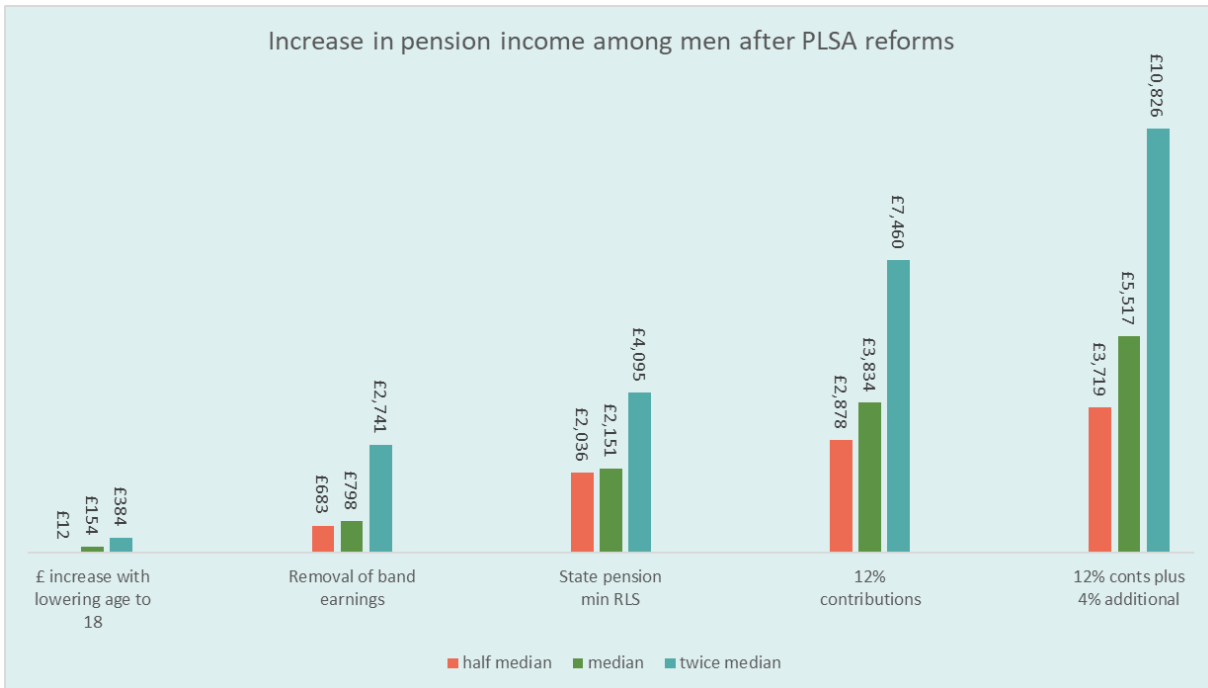


Figure 34: Cumulative increase on net pension income among women after PLSA reforms



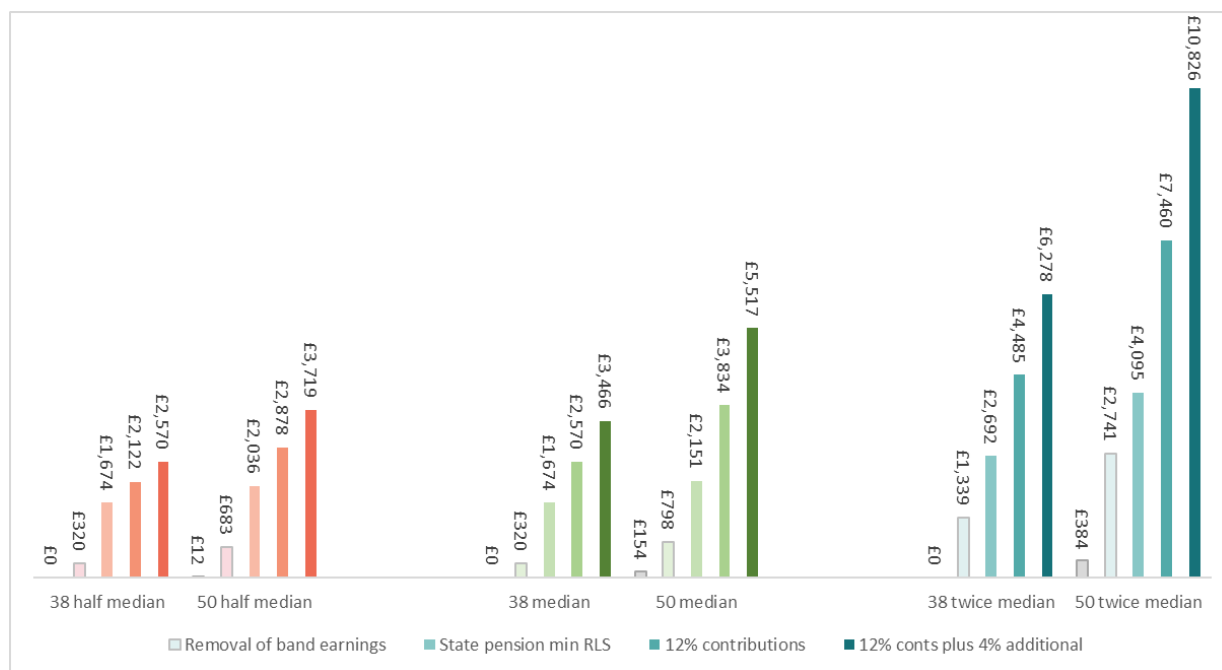
➤ **Improvements in retirement outcomes for those with shorter working lives**

Comparing those who have a shorter working life i.e., someone who only works 38 years (starting at 22 and stopping at 60) to someone who works 50 years, those with a shorter working life will still significantly benefit from the PLSA proposed reforms, but not as much as if they had worked for 50 years due to the reduced years of contributions.

A shorter working life will impact a twice median income earner more in terms of increased pension income than a median or half median earner. Specifically, someone on twice median earnings who works only 38 years will have a projected income increase of £6,278 compared to £10,826 for someone who works 50 years – a difference of £4,548.

The difference in projected increase in pension income among a median and half median earner contributing for fewer years will be £2,050 less for a median earner only working 38 years and £1,149 less for a half median earner only working 38 years.

Figure 35: Cumulative impact of PLSA reforms on different working patterns



➤ **Improvements to retirement outcomes measured against the PCRR**

The PLSA policy proposals including the plan to raise automatic enrolment contributions to 12% significantly move median earners to either hit or come closer to their PCRR target, with men just passing their target (74%) and women moving to just 1 percentage point under (at 66%).

Twice median earners would still fall short of their target but would have improved their position by 16 percentage points for men and 12 percentage points for women

Half median earners would achieve in excess of their target of 80% (at 125% for men and 115% for women), this is largely due to the higher State Pension which makes up a large proportion of their retirement income.

The additional 4% voluntary contributions would enable both male and female twice median earners to get closer to their target replacement rate with men just 4 percentage points short and women 12 percentage points under.

Table 15: Cumulative impact of proposed PLSA policy options on Pensions Commission Replacement Rates

	Current Situation	Cumulative impact on Pensions Commission Replacement Rate		Target Replacement Rate
		Lower age to 18, removal of band earnings, State Pension minimum RLS, 12% contributions	Lower age to 18, removal of band earnings, State Pension minimum RLS, 12% contributions plus additional 4% voluntary contributions	
Twice median female	30%	42%	48%	60%
Twice median male	32%	48%	56%	60%
Median female	52%	66%		67%
Median male	57%	74%		70%
Half median female	92%	115%		80%
Half median male	100%	125%		80%

Key: Red denotes savers are not projected to achieve their PCRR, Green denotes savers are projected to achieve their PCRR after our proposals, Purple denotes savers are expected to exceed their PCRR, Amber denotes savers are within proximity of their target PCRR but are not expected to hit it. Crossed hatched denotes those that still risk becoming over pensioned under our proposals if they remain lower earners throughout their lives, and for whom mechanisms to protect from over saving will be crucial.

➤ **Improvements in retirement outcomes measured against the Retirement Living Standards**

The PLSA package of measures including the plan to raise automatic enrolment contributions to 12% would move those on median earnings from midway between the Minimum and Moderate RLS to much closer towards hitting a Moderate Retirement Living Standard. Twice median earners (both men and women) will move from over midway between Minimum and Moderate RLS well past the Moderate. Half median earners will move from under midway between Minimum and Moderate RLS to well over the midpoint between Minimum and Moderate RLS.

The additional 4% voluntary contributions would push those on median earnings to the Moderate level, women just falling short of the standard but men meeting it. Twice median earners would move significantly from over midway between Minimum and Moderate RLS to comfortably surpassing the Moderate RLS, thereby achieving many aspects of the Comfortable standard. Half

median earners will move from under midway between Minimum and Moderate RLS to well over the midpoint between Minimum and Moderate RLS.

Figure 36: Summary of the cumulative impact of PLSA policy recommendations to 12%

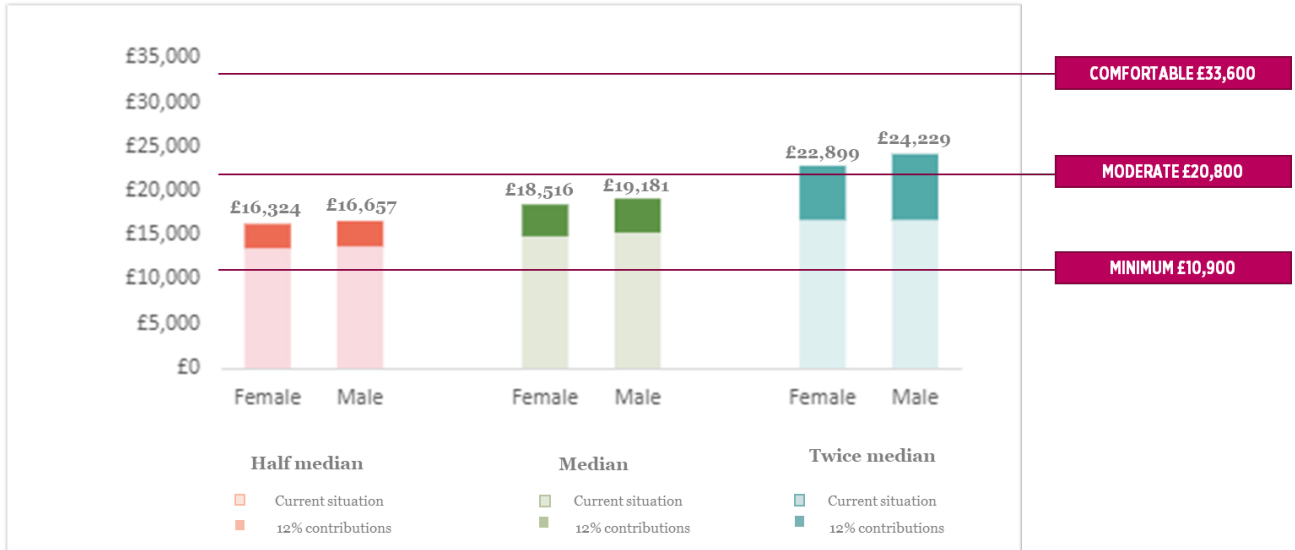
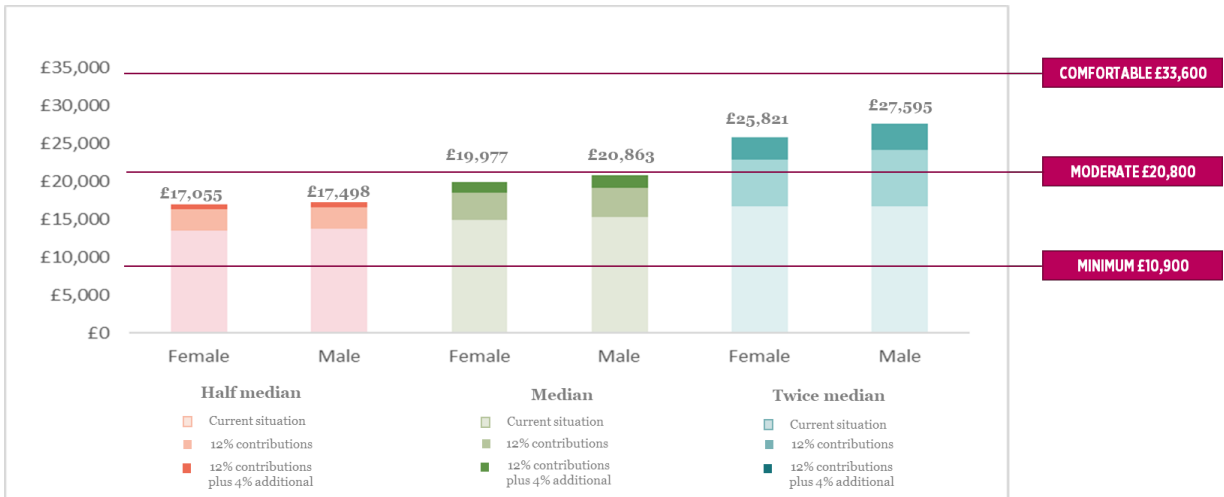


Figure 37: Summary of the cumulative impact of PLSA policy recommendations to 12% + 4% additional contributions



APPENDIX

Key assumptions adopted in the modelling

The analysis carried out by the Pensions Policy Institute on behalf of the PLSA uses a model to project to retirement the microdata pertaining to working age individuals collected in the Wealth and Assets Survey (WAS) data. The number of households sampled in round seven was approximately 16,000. This includes data for over 19,000 individuals aged 25 to 64 years old. The data is weighted to be representative of the population of Great Britain.

For each relevant individual the PPI projected their retirement income accrual to State Pension age considering their individual circumstances. Specifically, the PPI have taken into account:

- Savings to date;
- Current saving situation;
- Housing tenure
- Projected employment trajectory, including earnings levels;
- Future savings accrual.

The working age trajectory includes:

- Earnings at a consistent level within age-dependent earnings distribution. Individuals are assumed to earn income at a consistent level relative to the distribution of income by ages as a proportion of median earnings. This allows for promotional increases in salary and any propensity to reduce working hours.
- Future working allows for periods out of work based upon a future number of expected years in the labour force by age derived from analysis of the Labour Force Survey.
- Saving behaviour and pension accrual
- Pension saving

Defined Contribution pension schemes

Employees who are currently making contributions to a Defined Contribution (DC) workplace pension scheme are assumed to continue making contributions while in employment with a contribution rate of at least the legal minimum under automatic enrolment. This follows the working age trajectory of income and future working as described above. For workers who are not members of workplace pension schemes, that is primarily the self-employed and those who have opted out, are not assumed to make contributions to a workplace pension.

DC assets are projected to achieve investment returns of 1½% above increases in Average Weekly Earnings.

Defined Benefit pension schemes

Employees who are members of Defined Benefit (DB) pension schemes are assumed to continue to accrue benefit to retirement in a scheme equivalent to their current membership subject to their working age trajectory.

Housing assets and housing benefit

Homeowners currently paying mortgages: Mortgages are assumed to be paid off by retirement, future generations are assumed to have attained the same extent of home ownership as current generations by retirement (allowing for later transitions for transitioning from renting to ownership).

Where households rent in retirement: Households may be eligible for Housing Benefit. This means tested benefit effectively reduces the need to support housing costs from other income sources.

Formal financial assets

Formal financial assets are expected to achieve investment returns consistent with DC pension savings.

Retirement behaviour

People are projected to retire at State Pension age (SPa), access pension savings and claim the new State Pension and other applicable benefits.

- Prior to SPa pension savings are untouched as households are assumed to be able to finance until SPa without needing to access pension savings.
- After retirement there is assumed to be no earned income.

Income derived from capital sources, such as DC pension savings, formal financial assets or housing equity (in any illustrations where housing equity is stated as included within total retirement income), is taken at an initial amount of 3.5% of the starting capital. This allows for the amount to be increased with inflation throughout retirement to protect against the impact of price inflation. The chance of the capital having been exhausted prior to death using this approach is approximately 5% and as such can be regarded a sustainable rate of income drawdown of capital.

The income immediately after retirement is used to assess retirement income against measures of adequacy.

Assessment of income level

Retirement income is calculated at the following level for each household

- Includes all income generated from pension lump sums and financial assets and assumes an individual does not use their 25% tax free sum for retirement income.
- Any illustrations that state housing capital is used include income generated through releasing equity from housing wealth.

Assessment of retirement outcomes

Each projected individual will be measured against income levels. This will include both fixed income approaches and proportional income targets.

TARGET REPLACEMENT RATES

In its 2004 report¹³, the Pensions Commission proposed target replacement rates for different levels of earnings – indicating an individual’s retirement income as a proportion of their income immediately before retirement. We have compared these targets to the income generated by the PPI modelling, uprated by earnings growth since 2004¹⁴

Table 15: Pensions Commission Target Replacement Rates

Overall 2004 income band	Income band in 2021 earnings terms	Target replacement rate
Up to £9,500	Up to £15,000	80%
£9,500 to £17,500	£15,000 to £27,500	70%
£17,500 to £25,000	£27,500 to £39,300	67%
£25,000 to £40,000	£39,300 to £62,800	60%
£40,000 or more	£62,800 or more	50%

PLSA RETIREMENT LIVING STANDARDS

We have also compared the output from the modelling to the Retirement Living Standards (RLS) published by the PLSA in 2021¹⁵. The standards demonstrate what life in retirement looks like at three different levels of expenditure, and what a range of common goods and services would cost for each level. Based on independent research with the UK public, the PLSA proposed a level of income for singles and couples that would enable them to have a Minimum, Moderate or Comfortable standard of living in retirement.

¹³ Pensions Commission 2004, Pensions: Challenges and Choices, The First Report of the Pensions Commission

¹⁴ ONS June 2021, Seasonally adjusted Average Weekly Earnings (AWE) series, Table EARN01

¹⁵ [Home - PLSA - Retirement Living Standards](#)

TABLE 16: PLSA RETIREMENT LIVING STANDARDS

	 SINGLE	 COUPLE
MINIMUM Covers all your needs, with some left over for fun	£10,900 <i>LONDON £13,200</i>	£16,700 <i>LONDON £21,100</i>
MODERATE More financial security and flexibility	£20,800 <i>LONDON £24,500</i>	£30,600 <i>LONDON £36,200</i>
COMFORTABLE More financial freedom and some luxuries	£33,600 <i>LONDON £36,700</i>	£49,700 <i>LONDON £51,500</i>

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