



# Falling behind the curve: The costs of delaying an increase in auto-enrolment contributions

April 2024

A WPI Economics report for Phoenix Group

# Contents

Foreword	04
Executive summary	05
Chapter 1: Introduction	07
Chapter 2: Striking the balance	08
Chapter 3: The costs of a delay to retirement incomes	10
Chapter 4: The costs of a delay to the economy	13
Chapter 5: The costs of a delay: paying for housing in retirement	17
Chapter 6: Conclusion	21
Annex 1: Methodology and assumptions	22
Annex 2: Shorter delay scenarios	23
Endnotes	24

---

**Disclaimer & Legal**

This report has been produced by WPI Economics, an independent economics, policy and data insight consultancy. The views expressed in the report are based on independent research and represent solely the views of the authors. They are provided for informative purposes only.

Whilst we undertake every effort to ensure that the information within this document is accurate and up to date, neither WPI Economics nor the report's authors accept any liability for direct, implied, statutory, and/or consequential loss arising from the use of this document or its contents.

## About Phoenix Group

Phoenix Group is the UK's largest long-term savings and retirement business with £283 billion of assets under administration. As life expectancy continues to increase and the pension landscape continues to shift, we offer our 12 million customers a broad range of pensions, savings and life insurance products across our family of brands which include Standard Life, SunLife, Phoenix Life and ReAssure. Our vision is to help even more people on their journey to and through retirement, providing the right support at the right time.

## About WPI Economics

Founded in 2016, WPI Economics makes an impact through economics that people understand, policy consulting and data insight. We work with a range of organisations – from FTSE 100 companies, to SMEs, charities, central and local government – to help them influence and deliver better outcomes through improved public policy design and delivery.

Our focus is on important social, environmental and economic policy debates, such as tackling poverty and inequality, the future of the green economy, productivity and growth, levelling up and mental health. We are driven by a desire to make a difference, both through the work we do and by taking our responsibilities as a business seriously. We are a Living Wage employer, currently working towards B Corporation accreditation.



[wpieconomics.com](http://wpieconomics.com)



[info@wpieconomics.com](mailto:info@wpieconomics.com)



[@wpi\\_economics](https://twitter.com/wpi_economics)

# Foreword

Pension savings in the UK have been transformed by the introduction of automatic enrolment in 2012. It has helped millions of workers put more into their pension pots than ever before. Collectively, employees across the UK have saved £114.6 billion into their pensions.

While we can be proud of this success, we must not be complacent. All the data shows that the UK is under-saving for retirement. There is now widespread consensus that current minimum auto-enrolment contribution rates are simply not enough to meet the future retirement income needs of today's in work population. The question for policy-makers is therefore not if contributions are increased but when.

This second report from Phoenix Group and WPI Economics builds on the work of the first report - setting out a framework for increasing contributions when the economic conditions are right for both individuals and employers - and delves into the costs of delay. It demonstrates that the ramifications are far-reaching, impacting individuals, the UK economy and paying for housing costs.

The data from this report demonstrates the importance of taking action sooner rather than later. If we continue on the current trajectory, the repercussions will be severe. The strain on social support systems and the potential increase in poverty among those in retirement are issues that we cannot ignore. And the benefits are wider than just better outcomes for individuals. As policymakers look to get greater pension fund investment in UK companies and infrastructure, increasing private pension contributions could have huge benefits for the wider economy.

As we approach a general election, it is imperative we start to address the problem of insufficient pension savings. The urgent need to increase contribution levels is evident, and the future implications of inaction are too significant to overlook. By exploring practical solutions and taking steps towards increasing contributions, we can ensure a brighter and more secure retirement for all individuals in the UK.

**Andy Curran, CEO, Standard Life, part of Phoenix Group**



# Executive Summary

There is widespread consensus that current auto-enrolment contribution rates are unlikely to provide an adequate retirement income for most savers, and that there is a need increase the default contribution rate from 8% to 12%. As a result, the question for policymakers ought not to be if default contributions should be increased, but when. Increasing default auto-enrolment contributions sooner would deliver a range of benefits to savers and the economy, and these benefits need to be balanced against the urge to delay any increase because of short term costs to households and employers.

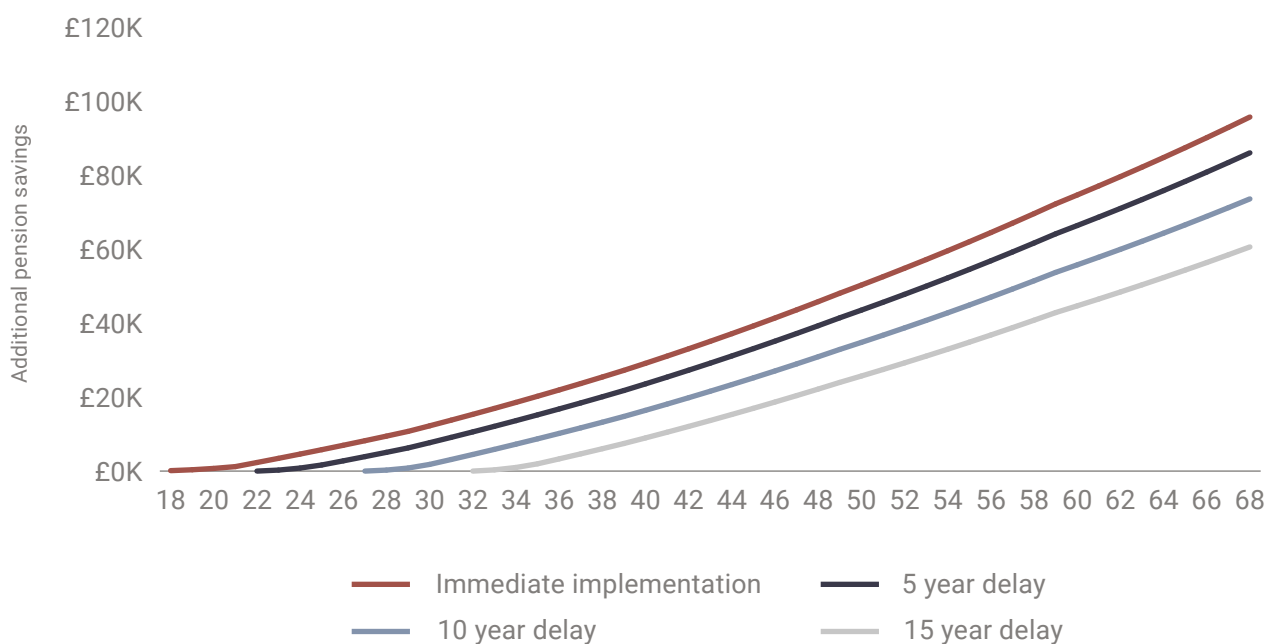
Our previous report with Phoenix, Raising the Bar, set out how a series of tests could be used to ensure increases in default contributions don't happen at a time when financial pressures on households and businesses are particularly acute.<sup>1</sup>

This report considers the costs of delaying an increase in contributions, considering the impact across three areas:

## The costs to retirement incomes

To take the case of someone saving throughout their life, our analysis shows that increasing auto-enrolment contributions to 12% could lead to a typical 18-year-old today having an **extra £96k in their pot at retirement, or £64/week**.

Figure 1: The costs of a delay to an 18-year-old on median income



Source: WPI Economics analysis

However, **delaying the policy change by 15 years would reduce the benefit of increasing contributions by £35k**, and result in a **37% reduction in their future weekly pension**, assuming a retirement age of 68. This shows that increasing contributions adds substantially to the savings at retirement of someone entering the labour market today, and that any delay would result in a significant cost.

For older savers, the gains from increasing contributions are smaller, but the costs of a delay are greater. For a 45-year-old median earner, a 15-year delay means they would lose around three quarters of the benefit of increasing contributions. This shows that the window to support savers currently in midlife to improve their pension adequacy is beginning to

close. As other research has shown, this group is at significant risk of under saving for retirement, with an estimated average of only £88,000 in DC savings.<sup>2</sup>

## The cost to the economy

Our first report highlights the need to manage the costs of increasing contributions to businesses and the economy, and sets out a framework to help address this. There are also wider economic benefits to increasing contributions. Pension funds are key institutional investors, and there is an increasing policy focus on driving more pensions investment into private assets such as Venture Capital, private equity, private debt, infrastructure and real estate.

Increasing investment in these asset classes is critical for the long-term growth and productivity of the UK economy by supporting our competitive and high-growth sectors. Key sectors such as Fintech, Life Sciences, and Artificial Intelligence all rely on significant investment to fund growth and R&D.

In addition, investment in these asset classes can help to build the infrastructure that will deliver net zero and environmental goals. Significant funding is needed to retrofit the UK's housing stock, build the net zero power system of the future, and deliver the infrastructure needed for low carbon transport. The Climate Change Committee (CCC) has identified £2.4 trillion of required investment over the life of the Sixth Carbon Budget.<sup>3</sup>

Our analysis estimates that every 5-year delay in increasing contributions could cost £11.5bn in UK listed equities, a further £2.5bn in investment in unlisted equities, and £2.5bn in investment in infrastructure and real estate. This amounts to an estimated nearly £16.5bn cost to investment across these asset classes for every 5 year delay in increasing contributions.<sup>4</sup>

## The costs of housing in retirement

Looking to the future, housing costs in retirement are likely to increase, and to be a factor for many more retired households than today, with significant implications for pensions adequacy.

Previous work by the Pensions Policy Institute (PPI) projects that the proportion of pensioners in the Private Rented Sector will increase by 11 percentage points and the proportion in the Social Rented Sector (SRS) by 4 percentage points. New modelling for this report finds that, if this increase were to happen to today's retirees, it would increase the poverty rate for pensioners 1.3%, leading to an extra 145,000 pensioners in poverty. Furthermore, it would increase spending on housing benefit by £3.5bn.<sup>5</sup>

Increasing pension contributions is one way in which these costs can be addressed for certain groups. While not a silver bullet, better savings adequacy for today's workers is an important 'tool in the toolbox' for how we address housing costs in retirement in the future, particularly costs resulting from outstanding mortgage debt. There is also a broader question about the complementary role that long term savings can play towards supporting home ownership, which merits greater consideration in future work. In addition, a trade off needs to be acknowledged between pension saving and other priorities, including buying a home.

Delaying any increase in auto-enrolment contributions will mean many more people will retire without a plan for how to pay for housing costs which will be a factor for many, if not most, households in retirement.

# Introduction

There is widespread consensus on the need to increase auto-enrolment contributions to support better retirement outcomes for those on median and lower incomes. The decision around when to increase contributions is a carefully balanced one, as delaying an increase will reduce many of the benefits of doing so. This should be weighed against managing the short-term costs to employers and households of increasing contributions.

This report sets out a series of costs to delaying an increase in contributions:

- **Chapter 2** sets out the context for the debate around when to increase auto-enrolment contributions.
- **Chapter 3** looks at the costs to retirement incomes of a delay in an increase in contributions.
- **Chapter 4** considers the impact of a delay on the availability of assets for productive finance.
- **Chapter 5** looks at a delay in the context of housing costs in retirement.

The report finds that in each of these areas, delaying an increase in contributions results in significant costs, in particular by reducing the future retirement incomes of today's workers, and limiting available investment for the UK's growth industries and net zero infrastructure.

## Striking the balance

The next Government faces a set of choices about supporting the future living standards of its citizens. Current pension savings levels are inadequate to support a decent standard of living in retirement for many households, particularly median earners.<sup>6</sup> The latest analysis by the Pensions Policy Institute (PPI) of the updated Pensions and Lifetime Savings Association (PLSA) Retirement Living Standards (RLS) finds that 89% of households are projected to miss the moderate RLS, or 74% once housing equity is taken into account.<sup>7</sup> The same analysis finds that 40% of households are projected to miss their Pensions Commission Target Replacement Rate (TRR) once housing equity has been taken into account.<sup>8</sup>

Figure 2: The proportion of working-age households projected to miss retirement income thresholds

Retirement Income threshold	Proportion of households below the income threshold		
	Standard Income	Additional Capital	With Housing Equity
PLSA RLS Minimum	37%	32%	27%
PLSA RLS Moderate	89%	81%	74%
PLSA RLS Comfortable	96%	92%	90%
Pensions Commission Target Replacement Rates	59%	49%	40%

Source: PPI<sup>9</sup>




To address this, there is a need to implement the findings of the 2017 review into auto-enrolment, by removing band earnings and lowering the participation age to 18. Once this has been implemented, there is a need to increase contribution rates from 8% to 12% over time.

The critical question, therefore, is not *if*, but *when*? In making any judgments about when and how to increase contributions, the Government will necessarily look to manage the short-term costs of increasing saving today alongside the imperative to boost savings levels for future pensioners in order to support their living standards in retirement and reduce spending on state benefits. In a report for Phoenix Group from November 2023,<sup>10</sup> WPI Economics worked with an advisory group made up of representatives of employers, trade unions, the pensions industry, and personal finance charities to set out a series of tests for when contributions could begin to rise, and the circumstances in which any staged increase could be temporarily paused. The framework capturing these tests is set out below.





Figure 3: Framework for increasing contributions

Area of framework	Description	Tests
 Start/go ('starting the journey')	Demonstrates whether contributions should begin to rise from 8% to 12%.	<ul style="list-style-type: none"> <li>• That these changes are needed to address pension saving adequacy, and AE opt out rates are not above a certain threshold (e.g. 20%).</li> <li>• Real Household Disposable Income per person (RHDlpp) has risen in one of the last two quarters.</li> <li>• Vacancies are between 2% and 3% of total employment.</li> </ul>
 Pause ('handbrake')	Determines whether increases in contributions should be temporarily paused due to extreme wider conditions.	<ul style="list-style-type: none"> <li>• RHDlpp has fallen every quarter for a year.</li> <li>• Vacancies are above 3.5% or below 1.5% of total employment.</li> </ul>
 Wider considerations in increasing contributions rates	A set of metrics that wouldn't prevent/slow rate increases, but that government should address with wider policy measures.	<ul style="list-style-type: none"> <li>• High overall employment costs, including those driven by e.g. Employer's NICs.</li> <li>• Rising household debt among low-income households.</li> <li>• Increased risk of over saving by those on lower incomes.</li> </ul>

Source: WPI Economics for Phoenix: Raising the bar<sup>11</sup>

Our analysis for this report found that these tests represent meaningful safeguards which would have prevented contributions from rising during challenging economic times historically – including during the aftermath of the financial crisis, the Coronavirus pandemic, and the cost-of-living crisis.

### Action versus delay

Our first report 'Raising the bar' addresses the question of timeliness – how to manage the short-term costs of pension saving by avoiding any increase in contributions when households and businesses are facing particular challenges. This report addresses the question of timeliness from a different perspective – *what is the cost of delaying an increase in contributions beyond the next Parliament?*

To answer this question, we have carried out three pieces of analysis:

- What is the impact of a delay in increasing contributions on peoples' retirement incomes? How will this affect different cohorts?
- How will a delay in increasing contributions impact the productive finance agenda? How will unlisted equities and other investments be affected?
- What housing costs will retirees face in the future? How can increasing contributions support better outcomes in the face of higher housing costs?

In each of these cases, our analysis shows that there is a compelling case to increase contributions more quickly, in order to deliver greater benefits to savers and the economy. This needs to be balanced carefully against the desire to delay an increase in contributions due to the short-term costs of doing so.

# The costs of a delay to retirement incomes

The first and most important purpose of pensions is to provide a retirement income for savers. This section sets out what delaying an increase in contributions from 8% to 12% could cost different groups of savers in retirement. It addresses the following questions:

- How much would an increase in contributions benefit people in retirement?
- What is the cost of delay by 5, 10, or 15 years?
- What will this mean for different cohorts of retirees?

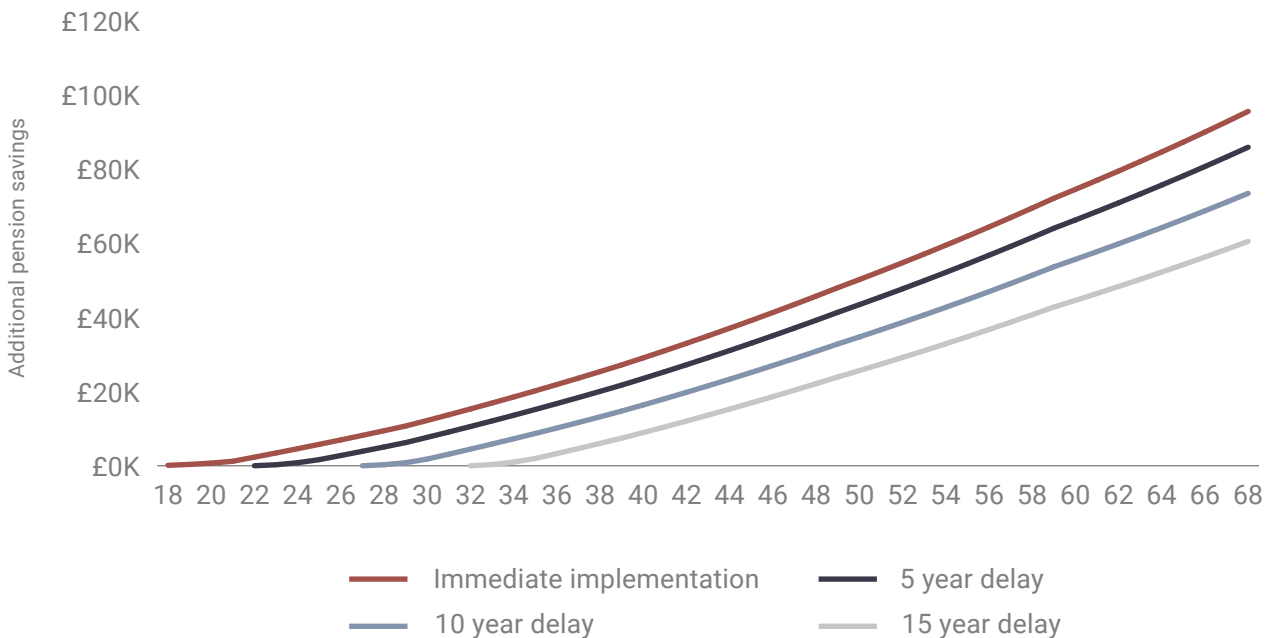
To answer these questions, we developed a savings and retirement income model, the details of which can be found in Annex 1. Using our model, we calculated what different amounts of delay could cost different age cohorts in retirement.

## Contribution delay scenarios

### *Delaying an increase to 12% would cost an 18-year-old on median income £35k at retirement*

Starting with the case of someone saving throughout their life, our analysis showed that increasing auto-enrolment contributions to 12% could lead to a typical 18-year-old today having an **extra £96k in their pot at retirement, or £64/week**.

Figure 4: The costs of a delay to an 18-year-old on median income.



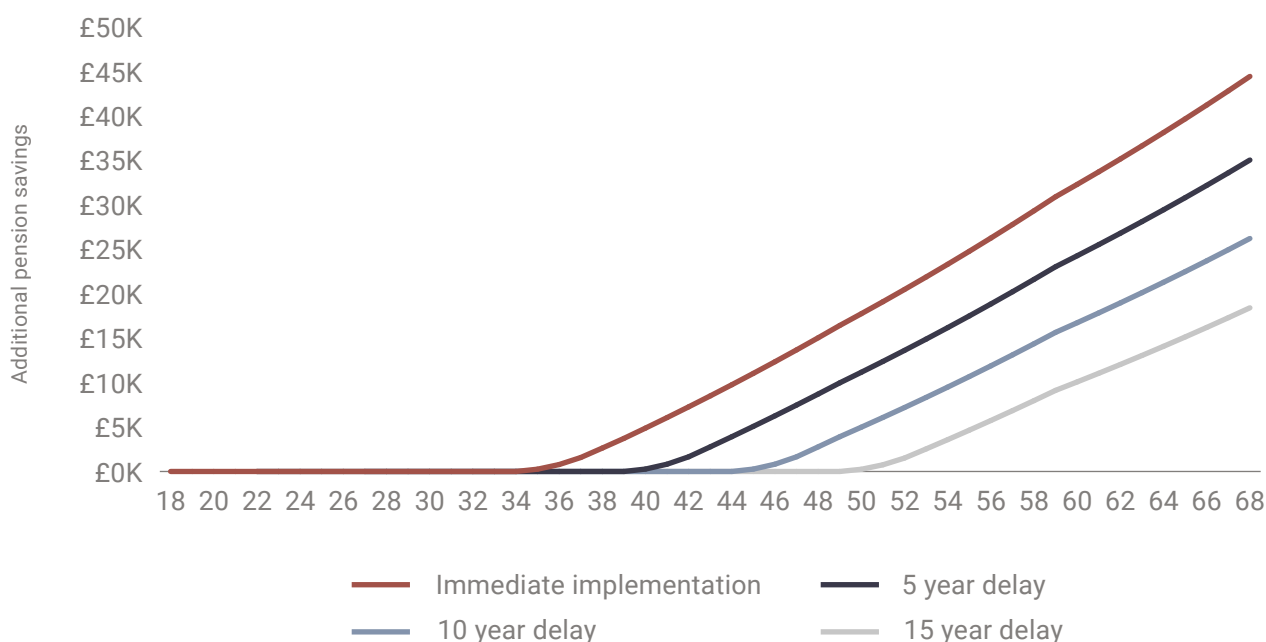
Source: WPI Economics analysis

However, **delaying the policy change by 15 years would reduce the benefit of increasing contributions by £35k**, and result in a 37% reduction in the increase to their future weekly pension, assuming a retirement age of 68. This shows that increasing contributions adds substantially to the savings at retirement of someone entering the labour market today, and that any delay would result in a significant cost.

**A 35-year-old on below median income could lose 59% of the benefits of an increase due to a delay**

Increasing auto-enrolment contributions to 12% could lead to a 35-year-old on 80% of median income today having an **extra £44k in their pot at retirement, or £30/week**.

Figure 5: The costs of a delay to a below median income 35 year old



Source: WPI Economics analysis

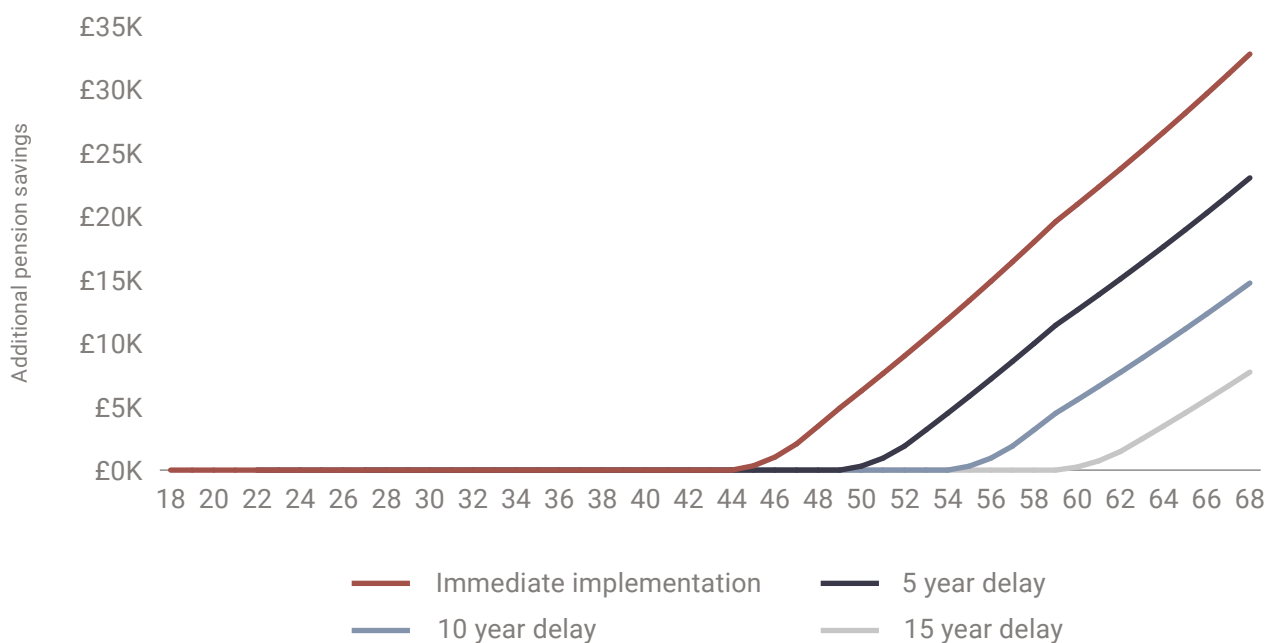
However, delaying the policy change by 15 years would reduce the benefit of increasing contributions by **£26k, and result in a 59% reduction in the increase to their future weekly pension**. In absolute terms, this is a smaller cost of delay than for the 18-year-old median earner. However, in relative terms it is a much bigger loss, with this saver losing more than half the benefit of the increase in contributions as a result of a 15-year delay.

The Phoenix Insights Longer Lives Index shows that 35-44 is the age group with highest confidence-savings gap, i.e. they are confident about saving enough while having a substantial saving gap of over £100k, showing a huge disconnect between perceptions and reality.<sup>12</sup> This suggests that the use of defaults is likely to be an important way of boosting saving levels among this cohort.

**If we delay increasing the default rate, a 45-year-old on median income could lose the vast majority of any benefits of an increase in contributions**

Our modelling found that increasing auto-enrolment contributions from 8% to 12% could lead to a typical 45-year-old today having an **extra £33k in their pot at retirement, or £22/week**.

Figure 6: The costs of a delay to 45-year-old on median income



Source: WPI Economics analysis

Delaying the policy change by 15 years would **reduce the benefit of increasing contributions by £25k, and result in a 76% reduction in the increase of their future weekly pension compared to increasing contributions today**. The absolute benefit of increasing contributions to this cohort is relatively small, because of how far through their working life they are. However, this analysis shows that the window to support this generation’s retirement incomes by increasing default contributions is closing, with the vast majority of any benefit disappearing in the event of a 15-year delay.

This finding is especially worrying, as we know many of the people in this age group are concerned about how to fund their retirement. Research by Phoenix Insights found self-reported retirement savings among people in mid-life (45-55) is on average £88,000, around £212k lower than the estimated DC pension pot size needed for a ‘moderate’ retirement income according to the PLSA retirement living standards. However, six in ten are taking action to save more for retirement.<sup>13</sup>

### Summary

Delaying an increase in contributions will reduce the retirement incomes of different groups of savers. For those entering the labour market now, increasing contributions to 12% will significantly increase savings and incomes available in retirement, and the tax paid on retirement incomes. Any delay will eliminate a substantial minority of the potential benefit. For those who are halfway through their working life, the benefits of an increase are smaller. However, the costs of a delay to this group are significant, wiping out most of the potential gains of increasing the contributions.

# The costs of a delay to the economy

The UK has faced low levels of growth since the financial crisis of 2008, lagging other developed economies in the OECD and the G7).<sup>14</sup> A range of steps need to be taken to improve growth, and there is widespread acknowledgement that higher business investment is an important piece of the puzzle.

In their report, *Ending Stagnation*, Resolution Foundation found that if UK business investment had matched the average of France, Germany and the US since 2008 our GDP would be nearly 4 per cent higher today, boosting wages by around £1,250 a year.<sup>15</sup>

This section explores the role that greater UK investment supported by higher levels of household savings could play in growing the UK economy, and the costs of delay in increasing DC pensions contributions in terms of the pool of investment capital available.

## DC to VC

Many of the UK's high growth potential sectors require high expenditure on research and development at an early stage, which usually requires Venture Capital (VC) investment to support growth. The Data City, which uses machine learning to track emerging sectors in the economy, shows the total investment funding in UK based companies in these sectors in recent years.<sup>16</sup>



Life Sciences - £35 billion across 18,000 companies.



Fintech - £60 billion across 5,700 companies.



Artificial Intelligence - £42 billion across 3,500 companies.



Advanced manufacturing - £10 billion investment across 11,600 companies.

Institutional investors such as pension funds are a key source of VC funding, as well as related asset classes private equity and private debt. As a result, the UK Government has placed much of its focus on how to unlock more investment from pension funds into productive finance, in particular unlisted equities such as VC. This has included:

- **The Mansion House Compact** - to encourage providers to invest more than 5% of their default funds into unlisted equities,
- **Value for Money Framework** - to support greater scale and consolidation and encourage a market that pursues returns rather than only managing costs,
- **Allowing performance fees to be excluded from the charge cap on default funds** – so that fees on more complex investments like VC are less likely to breach the charge cap.

These are all important steps to help increase the proportion of the current pool of Defined Contribution (DC) pension savings that can be allocated to productive finance assets. In addition to this, there is also a need to increase the size of the pool of UK pension savings that are available for investment. The Association of British Insurers (ABI) and Pensions and Lifetime Savings Association (PLSA) highlighted that increasing contributions is a key intervention needed to boost pensions investment in productive finance such as unlisted equities.<sup>17</sup>

### Quantifying the impact

Modelling for this report estimates that increasing contributions from 8% to 12% could result in **total additional annual pension contributions of £10 billion**,<sup>18</sup> compared to an estimated £600bn of current DC pension assets.<sup>19</sup>

Based on this, we estimate that every 5-year delay to increasing auto-enrolment contributions could cost **around £2.5bn in investment in unlisted equities**, assuming a 5% asset allocation to unlisted equities in line with the Mansion House compact.

Furthermore, assuming a 23% allocation to UK listed equities,<sup>20</sup> we estimate that every 5 year delay to increasing auto-enrolment contributions could cost £11.5bn in investment in UK equities.

### Investing in the future economy

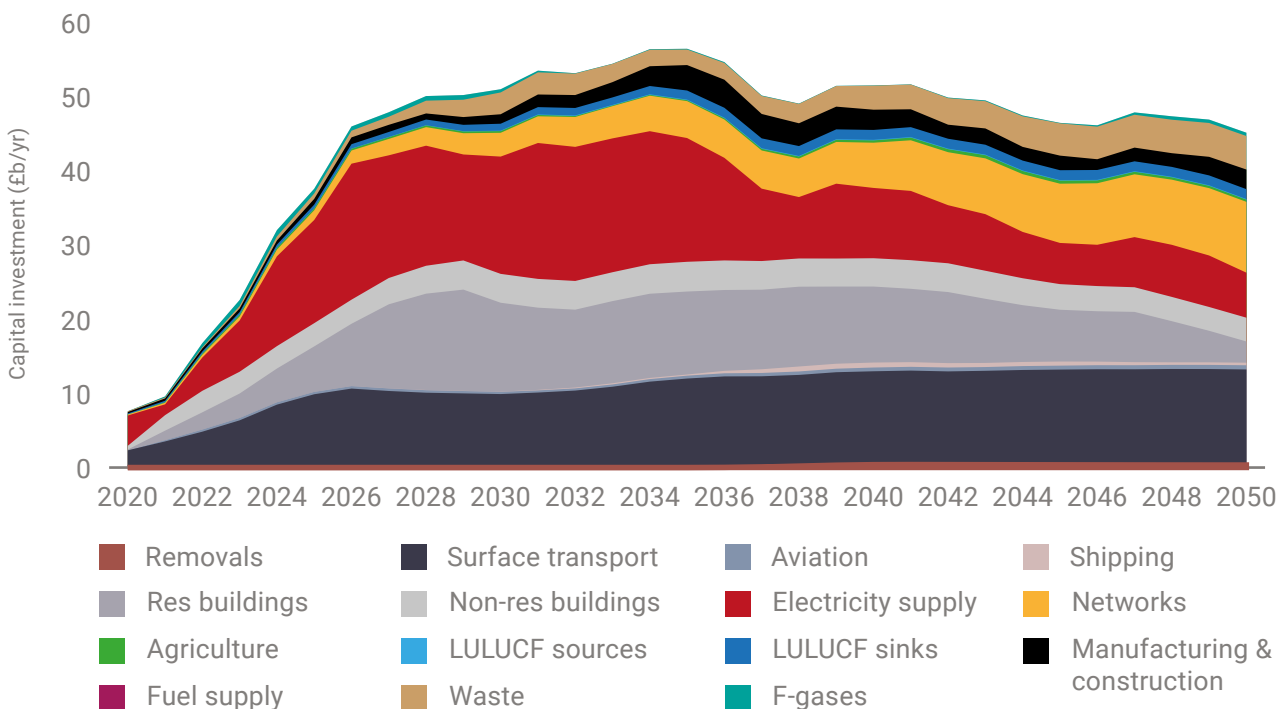
This analysis demonstrates the importance of increasing contributions for supporting the UK economy. There is a short-term cost to businesses of increasing contributions, and this needs to be addressed by the adoption of the framework that we have proposed in our first report, Raising the Bar. In particular, a relative normalisation of the labour market would make it easier for firms to pay for rising contributions. In addition, a clear roadmap and long-term certainty for businesses could help them to plan for increases and ensure a level playing field between employers.

However, more pension saving is vital to support economic growth over the longer term through greater investment in our growth sectors, a major source of which is institutional investors such as pension funds.

### Financing net zero

Delivering net zero and the other environmental targets is a major policy imperative for the UK in the coming decades. Greater long-term investment in the infrastructure needed for a low carbon economy is one key prerequisite for meeting UK climate targets. The total investment required to deliver the balanced net zero pathway in the Climate Change Committee (CCC) Sixth Carbon Budget has been estimated at £2.4 trillion by 2035.<sup>21</sup>

Figure 7: The Balanced Net Zero Pathway Investment programme 2020-2050



Source: CCC Sixth Carbon Budget<sup>22</sup>

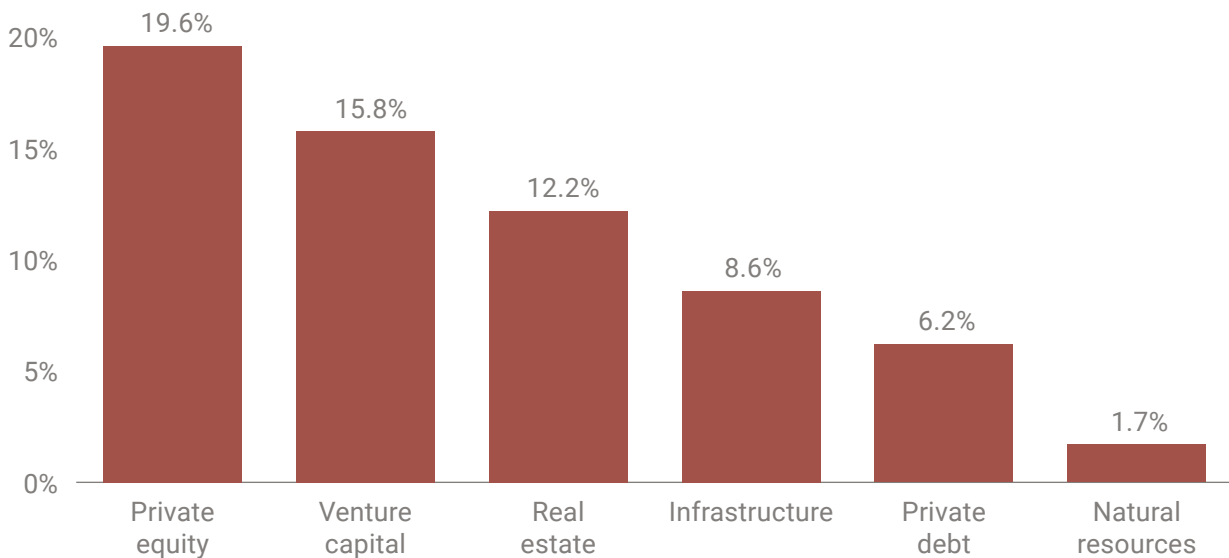
As shown in the graph above, a range of the activities required to hit our emissions reduction targets are highly capital intensive. This includes decarbonising the building stock through energy efficiency and low carbon heating, building the generation and network required for a net zero power system, and decarbonising transport through rail infrastructure and Electric Vehicle (EV) charging points.

Private finance will need to make a significant contribution to the overall investment required to deliver net zero, not least because of the sheer scale of capital needed. Much of this investment could come from DC pension saving, through asset allocations to Real Estate Investment Trusts (REITs) and infrastructure. Master Trusts invest 3% in infrastructure on average at present,<sup>23</sup> while current REIT allocations are around 8% for the quarter of schemes who currently invest, meaning around a 2% allocation on average across all schemes. Therefore, **we estimate that every 5-year delay to increasing auto-enrolment contributions could cost around £2.5bn in investment in REITs and infrastructure.**

### Higher household savings

As well as providing more investment for UK growth sectors and net zero, more household pension saving in unlisted equities and other private assets can support better investment returns for UK households. Analysis by the British Business Bank (BBB) shows the significant returns obtained by private equity, VC, and Real Estate assets in recent years. Private debt offers smaller but still significant returns, but with a lower risk profile in comparison to VC and private equity.

Figure 8: Median Internal Rate of Return by asset class, 2002-2018 vintages



Source: BBB<sup>24</sup>

These types of investments can generate significant returns for household pension savings. Analysis from the BBB shows that a 5% allocation to venture capital and growth equity could deliver a 22-year-old saver a 7% to 12% increase in retirement savings over their lifetime.<sup>25</sup> As a result, increasing contribution levels and allocating these savings into private assets is a win-win for households and the economy.



### ***Towards higher savings and higher investment***

In practice, the UK participates in a global market for investment, and new UK pension saving from higher contributions will seek returns in overseas investments as well as domestic opportunities. In turn, UK firms and infrastructure will also attract money from overseas investors, an area in which we are relatively strong as a country.

However, most countries that succeed in boosting investment tend to finance this to a large extent through higher household savings. Firstly, this is because there is always an amount of 'home bias' in where savings are invested. Secondly, funding higher investment purely through overseas routes is likely to increase the UK's already large current account deficit, which risks macroeconomic instability.<sup>26</sup>

The UK should double down on its success in increasing household savings through auto-enrolment by increasing default contributions to 12%: supporting higher household savings, greater investment, and boosting growth.





CHAPTER 5

# The costs of a delay: paying for housing in retirement

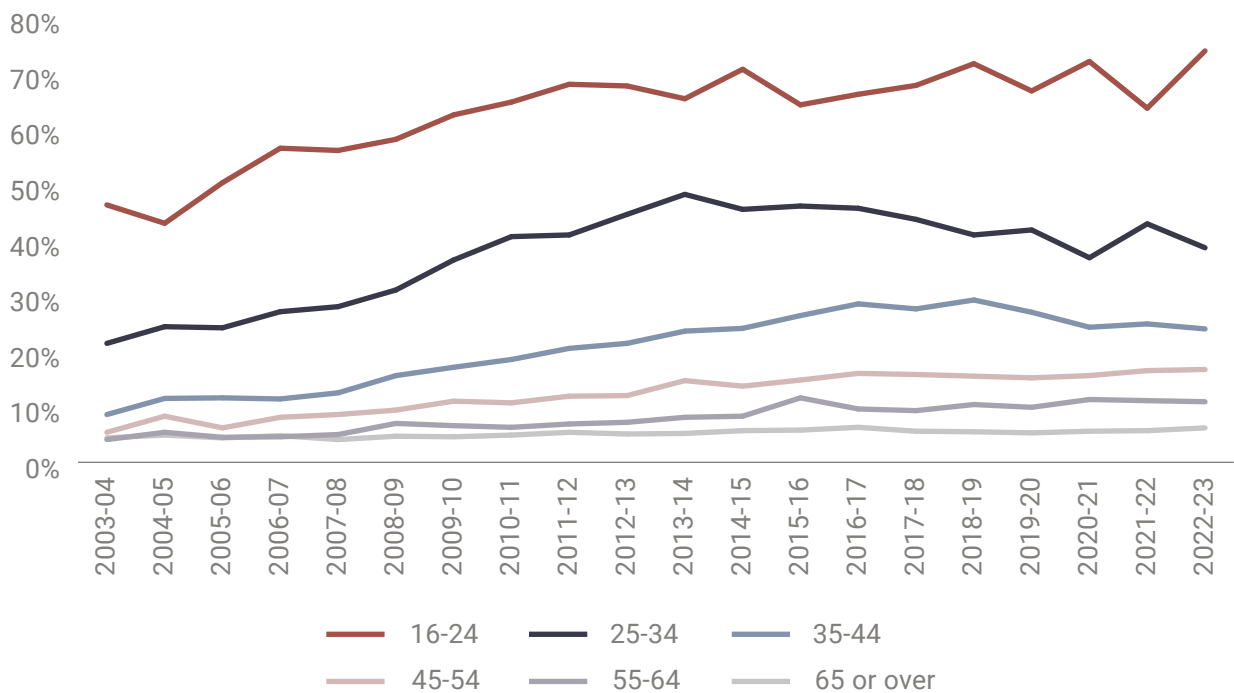
This section looks at future savings and retirement income needs from the perspective of what different individuals may need to fund their housing costs in retirement, considering the impact of increased numbers of renters and those retiring with outstanding mortgage debt.

Society is currently undergoing a transition from an assumption of zero housing costs in retirement, to housing costs being a factor for many households for at least some of their retirement. This has implications for pension savings adequacy in retirement.

## Housing costs and age today

At present, housing costs in retirement are a factor for only a minority of pensioners. Data from the English Housing survey suggests that, currently, only around 6% over 65 live in the private rented sector. This has steadily risen since 2003/04, from 4.4%, an increase of 41%.

Figure 9: Percentage in the private rental sector, by age (2003/04 -2022/23)

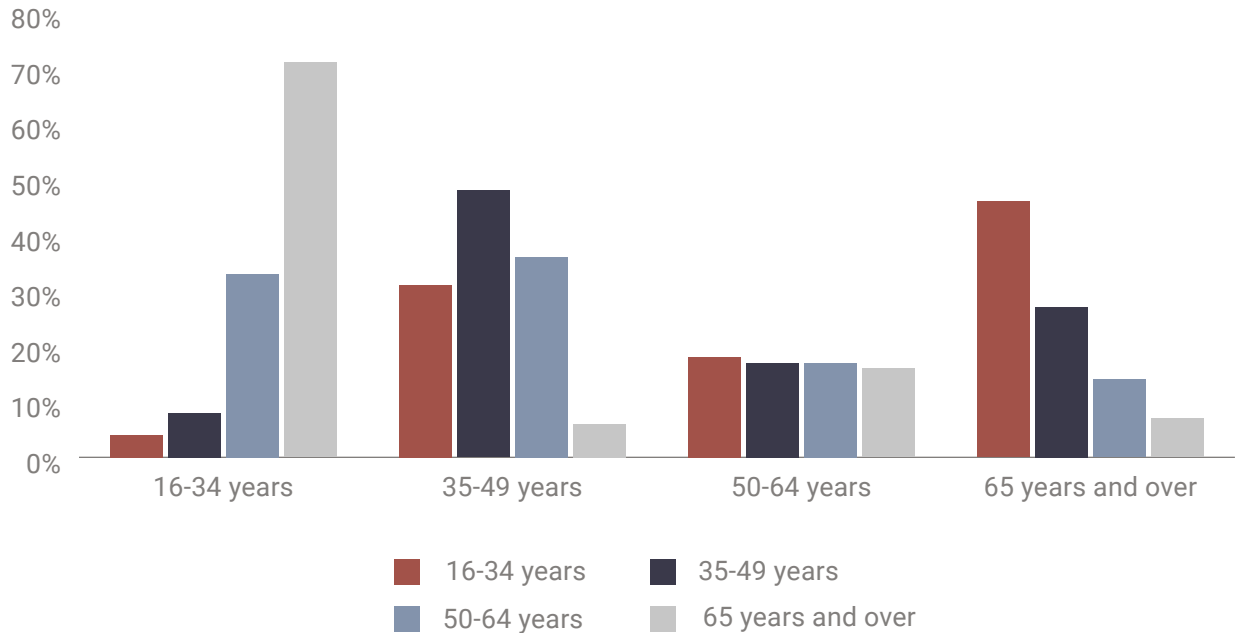


Source: English Housing Survey<sup>27</sup>

This stands in stark contrast to the prevalence of private renting among other age groups, which has risen considerably. The same dataset shows that those in the 45-54 age bracket are more than three times as likely to be privately renting today than 20 years ago, rising from 5.4% to 16.7% in this period. Those in the 35-44 age bracket are more than 2 and a half times as likely to privately rent today, rising from 8.6% in 2003/04 to 24% in 2022-23.<sup>28</sup>

Further to this, just over 6% of households over age 65 in England own with a mortgage, compared to 36% of those aged 50-64 and 45% of aged 35-49 years old.<sup>29</sup>

Figure 10: Percentage of households by tenure and age of the household reference person, England, 2021



Source: Census 2021<sup>30</sup>

The fact that pensioners are much less likely to be renting or to have any housing costs in retirement has a big impact on their living costs, and helps to reduce pensioner poverty, as the next section outlines.

### Housing and pensioner poverty

One of the major policy successes in recent years has been a significant decline in pensioner poverty. This has been driven by a number policy changes and reforms, not least the sustained increase in the generosity of the state pension and the introduction of Pension Credit. Rates of relative low-income for pensioners are significantly lower now than 20 years ago, and pensioners are much less likely to be in relative low-income than working age adults or children.

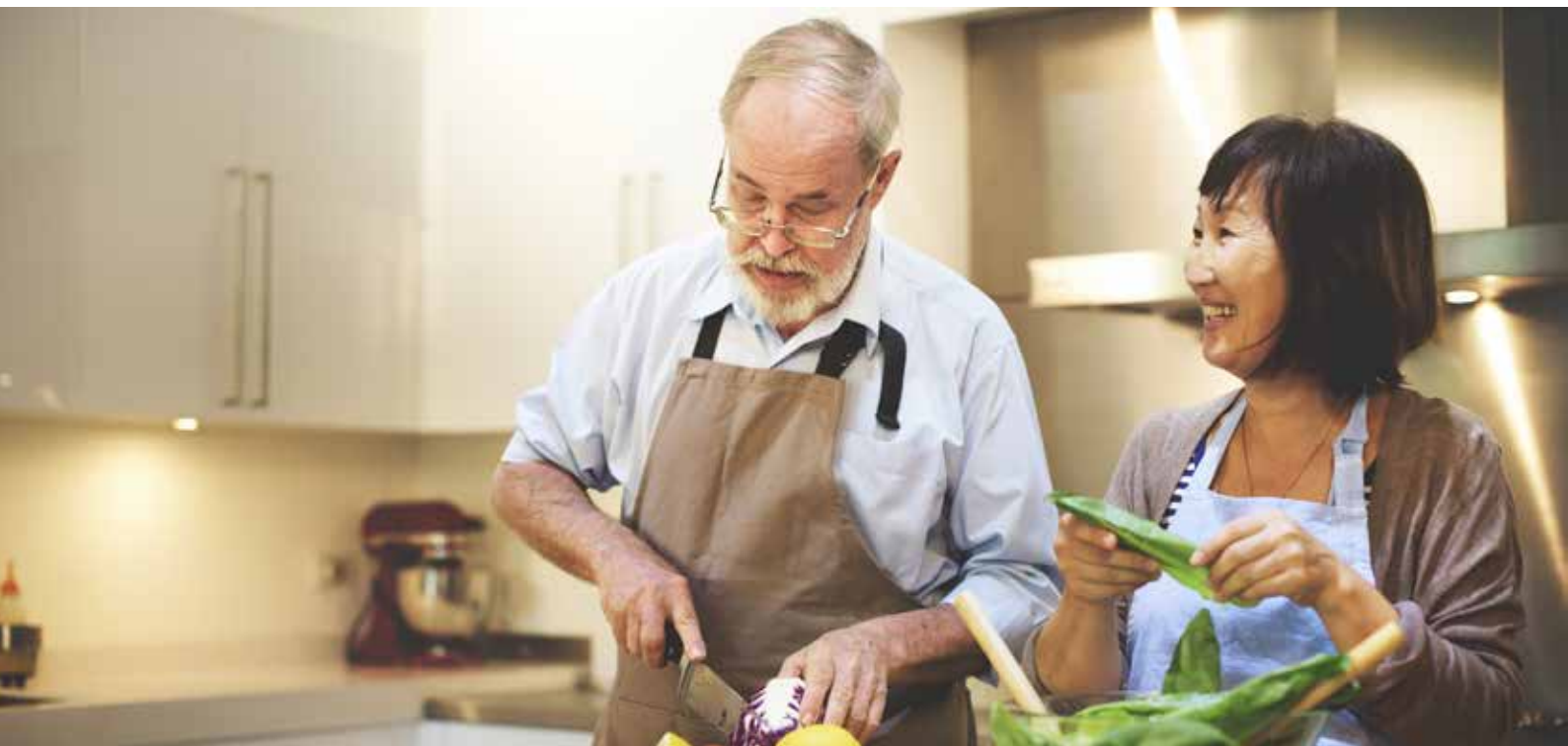
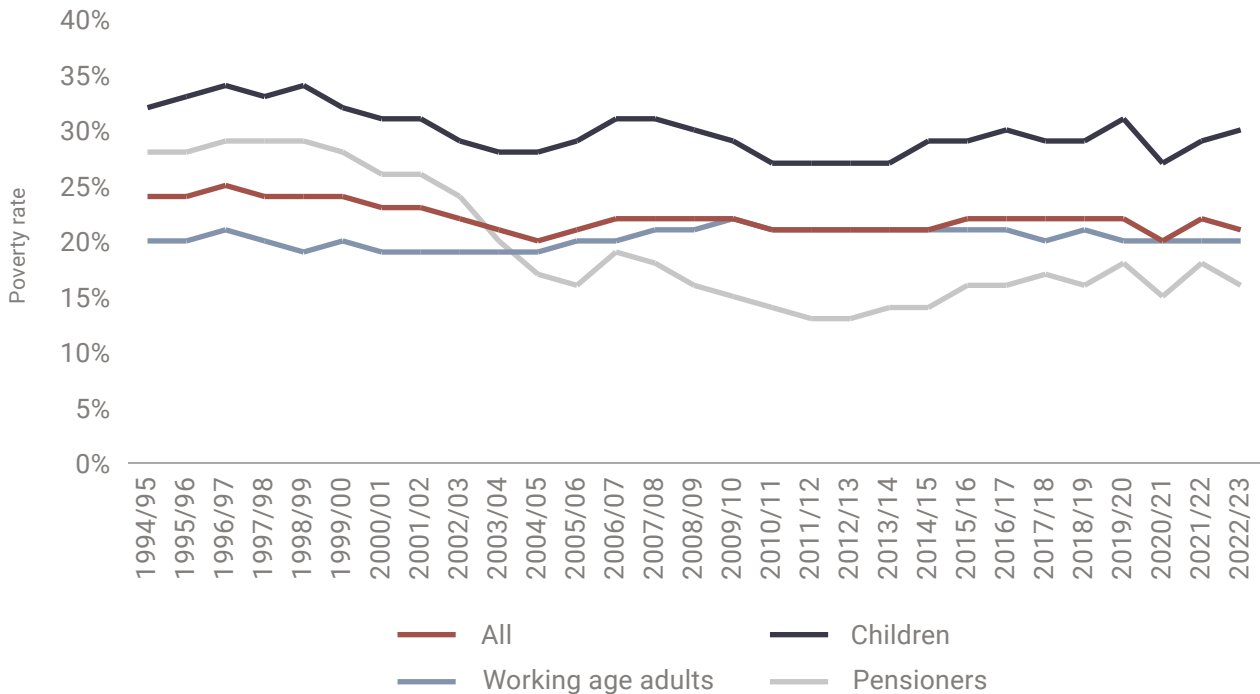


Figure 11: Rates of HBAI relative low income (60% of median income, AHC) for the UK population, by age, 1994/95 to 2022/23.



Source: Households Below Average Income (FYE 1995 to FYE 2022)<sup>31</sup>

However, any increase in housing costs is likely to increase pensioner poverty. At present, nearly 40% of pensioners who head households in the private rented sector are in poverty.<sup>32</sup> New analysis for this report shows that a lack of pensioner housing costs today makes a significant contribution to currently low levels of pensioner poverty.

Previous work by the Pensions Policy Institute projects that the proportion of pensioners in the Private Rented Sector will increase by 11 percentage points and the proportion in the Social Rented Sector (SRS) by 4 percentage points. New modelling for this report finds that this, if this increase were to happen to today's retirees, it would increase the poverty rate for pensioners 1.3%, leading to an extra 145,000 pensioners in poverty. Furthermore, it would increase spending on Housing Benefit by £3.5bn a year.<sup>33</sup>

This analysis demonstrates that changing housing costs in retirement can have a major impact on whether pensioners can avoid poverty, and an increase in housing costs could significantly increase the role of the state in supporting incomes in retirement.

## Housing costs in retirement in the future

Looking to the future, housing costs in retirement are likely to increase, and to be a factor for many more retired households than today, with significant implications for pensions adequacy. This will be the case across both renters and those with outstanding mortgage costs:

- **Private renting** – the PPI forecasts that 17% of pensioner households will be living in the private rental sector through retirement by 2041, which is three times higher than the current proportion.<sup>34</sup>
- **Mortgages** - Around half of all new homeowner mortgages issued in 2021 are due to end after the borrower reaches age 65.35 The average outstanding mortgage debt for someone retired today is around £38,000.<sup>36</sup>

Turning to what this might mean for a typical earner, increasing auto-enrolment contributions to 12% could lead to a typical 45-year-old today having an **extra £33k in their pot at retirement, or £22/week**.

This increase should be considered alongside the typical housing costs someone might face in retirement: average mortgage debt at retirement was £38k, while a typical flat in the UK costs £280 a week to rent. The additional pension savings from a contribution increase identified in our scenarios could, in many cases play a big role in meeting outstanding mortgage costs at the start of someone's retirement.

However, the increase in weekly income for a median saver is small in comparison to the potential costs they may face if they need to rent privately. In order to address the potential consequences of an increase in the number of renters in retirement on both poverty levels and state benefit expenditure, there is an urgent need to develop a holistic approach to supporting people to become homeowners during their working life. Long term savings is one part of this question, but there is further work to be done around how pension saving and home ownership can complement each other more effectively.

In addition, it must be acknowledged that there is a trade-off between pension saving and other priorities, including buying a home, as increasing contributions to a DC pension could reduce the ability to save for a deposit. The trade-off between pensions contributions and other requirements is being explored in detail by an ongoing Phoenix Insight and Nest Insight project.<sup>37</sup>

## Summary and conclusion

Housing costs in retirement will change significantly in the coming decades – both in terms of renting and mortgages. This completely changes the calculation around pensions adequacy.

Increasing pension contributions is one way in which these costs can be addressed for certain groups, particularly to support people to pay off mortgage debt. While not a silver bullet, better savings adequacy for today's workers is an important 'tool in the toolbox' for how we address retirement housing costs in the future, provided they do not crowd out saving for a housing deposit.



# Conclusion

The next Parliament represents a critical opportunity to make the changes needed to address the social and economic problems of the future, including to improve savings levels to support the future living standards of today's workers.

The analysis in this report shows the cost of any further delay to increasing default AE contributions.



Delaying the policy change by **15 years** would reduce the benefit of increasing contributions by **£35k** to an 18 year old

There would be an estimated **£16.5bn** investment cost for a **5 year delay** to increasing contributions



Increasing housing costs for today's retirees would increase spending on housing benefit by **£3.5bn**

This analysis on its own will not shift the debate. As has previously been highlighted, system change is needed to ensure that the future retirement needs of current savers are considered and addressed by policymakers.

To this end, we recommend that legislation is put in place for a new Statutory Requirement to review long term pensions adequacy, followed by an annual assessment against economic indicators to understand whether timing is right to increase default contributions. The initial review should consider:

- How we manage the short-term costs to households and businesses, along the lines of the Framework set out in 'Raising the Bar'.
- The costs of delaying action – for savers, the national economy, and the benefits system – highlighted in this report.
- How this interacts with wider provision, in particular the role of the State Pension and of Pension Credit.

As part of this analysis, it is important that Government engages with representatives from employers, unions, personal finance charities and other key groups with an interest in pension contributions. Furthermore, the findings of this annual review should be shared publicly and communicated widely, promoted through an annual campaign.<sup>39</sup>

This will help to ensure that current and future Governments are held to account for increasing AE contributions, balancing the short-term costs of contributions with the long-term social and economic benefits we have demonstrated that auto-enrolment can bring.

# Annex 1: Methodology and assumptions

## Lifetime savings impact

To estimate the impact of increased auto-enrolment rates across a lifetime, this report looks at an 18 year old earning the median salary throughout their life who saves an additional 4% of their salary (3% from their employer and 1% from their salary). This is based on the current median earnings for each age group from the Annual Survey of Hours and Earnings (ASHE), looking at the average across genders and full-time/part-time workers. These additional assumptions are used to estimate cumulative savings and income in retirement:

- The real rate of return on investment is 2%
- At retirement, savings are drawdown at 3.5%

## Productive finance impact

There is significant uncertainty in how employers and employees would respond to change in auto-enrolment rates due to both limited data about current contributions and uncertainty in behaviour responses by both employers and employees. The numbers in this report represent an indicative and conservative estimate based on the available data.

The modelling in this report is based on analysis of the tables from ASHE which presents the current number of employees in different bands of employer/employee pension contributions. A bespoke approach was taken to estimate the average contribution and required increase in each band, based on its midpoint as well as current default rates. We then estimated total increases in contributions based on the median wage and number of jobs in each age bracket.

Based on this analysis, we estimate that increasing contributions from 8% to 12% will represent a £10 billion annual increase in annual pension contributions, phased in over 4 years.

## Assumptions

The analysis in this report uses a number of assumptions:

- Where averages are used, medians are taken rather than means to prevent results being skewed by high earners/contributors
- Qualifying earnings are not used, and this analysis assumes that a shift to contributions on all earnings is implemented
- There are no dynamic effects, especially that an increase in employer contributions does not result in lower real incomes.
- The increase in auto-enrolment rates will be phased in evenly over four years
- The proportion of assets held by pension funds in unlisted British equities will rise to 5%, in line with the Mansion House agreement



## Annex 2: Shorter delay scenarios

The tables below shows the results of the scenarios in Chapter 2, but including delays of 5 and 10 years.

Figure 12: An 18 year old on median income

Multiple of median	How many times the average salary	1
Rate of return	Real annual returns on investment	2.0%
Additional contributions		4.0%
Phase-in period	Number of years increase will be	4
Starting age	Must be at least 18	18
Drawdown rate	The rate at which the pension pot is turned into an income	3.5%

Cost of delay by	Absolute	Relative	Weekly
5 years	£9,661.00	10%	£6.50
10 years	£22,090.68	23%	£14.87
15 years	£35,051.36	37%	£23.59
Total additional pot >	£95,531.09	Change in weekly pension >	£64.30

Figure 13: A 35 year old on 80% of median income

Multiple of median	How many times the average salary	0.8
Rate of return	Real annual returns on investment	2.0%
Additional contributions		4.0%
Phase-in period	Number of years increase will be	4
Starting age	Must be at least 18	35
Drawdown rate	The rate at which the pension pot is turned into an income	3.5%

Cost of delay by	Absolute	Relative	Weekly
5 years	£9,399.53	21%	£6.33
10 years	£18,219.76	41%	£12.26
15 years	£26,014.12	59%	£17.51
Total additional pot >	£44,414.02	Change in weekly pension >	£29.89

Figure 14: A 45 year old on median income

Multiple of median	How many times the average salary	1
Rate of return	Real annual returns on investment	2.0%
Additional contributions		4.0%
Phase-in period	Number of years increase will be	4
Starting age	Must be at least 18	45
Drawdown rate	The rate at which the pension pot is turned into an income	3.5%

Cost of delay by	Absolute	Relative	Weekly
5 years	£9,742.94	30%	£6.56
10 years	£18,021.32	55%	£12.13
15 years	£22,033.04	76%	£16.85
Total additional pot >	£32,742.83	Change in weekly pension >	£22.04

# Endnotes

- 1 <https://wpieconomics.com/site/wp-content/uploads/2023/11/Phoenix-Report-231116-Web.pdf>
- 2 <https://www.thephoenixgroup.com/news-views/over-five-million-midlifers-taking-action-now-to-save-more-for-retirement/>
- 3 <https://www.theccc.org.uk/wp-content/uploads/2020/12/The-Sixth-Carbon-Budget-The-UKs-path-to-Net-Zero.pdf>
- 4 WPI Economics analysis of ASHE data
- 5 Analysis of changing housing costs developed by WPI Economics, with estimates of poverty impacts and policy costings based on this provided to WPI Economics by the Centre for Social Policy Studies, using the IPPR tax and benefit microsimulation model.
- 6 <https://www.pensionspolicyinstitute.org.uk/media/e5mjkwmk/20240207-ppi-technical-report-for-plsa-adequacy-modelling-update.pdf>
- 7 <https://www.pensionspolicyinstitute.org.uk/media/e5mjkwmk/20240207-ppi-technical-report-for-plsa-adequacy-modelling-update.pdf>
- 8 <https://www.pensionspolicyinstitute.org.uk/media/e5mjkwmk/20240207-ppi-technical-report-for-plsa-adequacy-modelling-update.pdf>
- 9 <https://www.pensionspolicyinstitute.org.uk/media/e5mjkwmk/20240207-ppi-technical-report-for-plsa-adequacy-modelling-update.pdf>
- 10 <https://wpieconomics.com/publications/raising-the-bar/>
- 11 <https://wpieconomics.com/publications/raising-the-bar/>
- 12 <https://www.thephoenixgroup.com/media/bqzf3fy4/phoenix-insights-longer-lives-index-crisis-of-confidence.pdf>
- 13 <https://www.thephoenixgroup.com/news-views/over-five-million-midlifers-taking-action-now-to-save-more-for-retirement/>
- 14 <https://economy2030.resolutionfoundation.org/wp-content/uploads/2023/12/Ending-stagnation-final-report.pdf>
- 15 <https://economy2030.resolutionfoundation.org/wp-content/uploads/2023/12/Ending-stagnation-final-report.pdf>
- 16 The Data City and Dealroom (licensed), [https://products.thedatacity.com/v2/analyse/?list\\_id=All&model\\_code=All&list\\_cutoff=0&list\\_size=undefined&origin\\_list=false&filters\\_code=833ivemnk0uiib9](https://products.thedatacity.com/v2/analyse/?list_id=All&model_code=All&list_cutoff=0&list_size=undefined&origin_list=false&filters_code=833ivemnk0uiib9)
- 17 <https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2024/Four-measures-to-boost-UK-growth-through-greater-pension-investment-PLSA-ABI-statement-Feb-2024.pdf>
- 18 WPI Economics analysis
- 19 <https://www.pensionspolicyinstitute.org.uk/events/2023-the-dc-future-book-2023/>
- 20 <https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2023/Pensions-and-Growth-Jun-2023.pdf>
- 21 <https://www.thephoenixgroup.com/media/xv5f2tq4/unlocking-investment-in-climate-solutions.pdf>
- 22 <https://www.theccc.org.uk/wp-content/uploads/2020/12/The-Sixth-Carbon-Budget-The-UKs-path-to-Net-Zero.pdf>
- 23 <https://www.pensionspolicyinstitute.org.uk/media/yixnmzi5/20230309-role-of-alt-assets-in-dc-investments-final.pdf> and <https://www.abi.org.uk/globalassets/files/publications/public/Its/2023/abi-pension-investment-report.pdf>



- 24 <https://www.british-business-bank.co.uk/wp-content/uploads/2023/12/BBB-UK-Venture-Capital-Financial>Returns-Report-2023-1.pdf>
- 25 <https://www.british-business-bank.co.uk/wp-content/uploads/2019/09/Oliver-Wyman-British-Business-Bank-The-Future-of-Defined-Contribution-Pensions.pdf>
- 26 <https://economy2030.resolutionfoundation.org/wp-content/uploads/2023/06/Beyond-boosterism.pdf>
- 27 <https://www.gov.uk/government/statistics/chapters-for-english-housing-survey-2022-to-2023-headline-report>
- 28 <https://www.gov.uk/government/statistics/chapters-for-english-housing-survey-2022-to-2023-headline-report>
- 29 <https://www.ons.gov.uk/peoplepopulationandcommunity/housing/articles/householdcharacteristicsbytenu-reenglandandwales/census2021>
- 30 <https://www.ons.gov.uk/peoplepopulationandcommunity/housing/articles/householdcharacteristicsbytenu-reenglandandwales/census2021>
- 31 Department for Work and Pensions (2023). Households Below Average Income: an analysis of the UK income distribution: FYE 1995 to FYE 2022. See: <https://www.gov.uk/government/statistics/households-below-average-income-for-financial-years-ending-1995-to-2022/households-below-average-income-an-analysis-of-the-uk-income-distribution-fye-1995-to-fye-2022>. Accessed 10/04/2024.
- 32 <https://ageing-better.org.uk/sites/default/files/2023-12/The-State-of-Ageing-interactive-summary-2023-4.pdf>
- 33 Analysis of changing housing costs developed by WPI Economics, with estimates of poverty impacts and policy costings based on this provided to WPI Economics by the Centre for Social Policy Studies, using the IPPR tax and benefit microsimulation model.
- 34 <https://www.pensionspolicyinstitute.org.uk/media/fwmmf323/20231129-ppi-framework-press-release-ppi-final.pdf>
- 35 UK Finance
- 36 <https://www.lv.com/about-us/press/third-of-mortgage-holders-unlikely-to-pay-off-mortgage-by-65>
- 37 <https://www.thephoenixgroup.com/phoenix-insights/publications/how-much-is-enough-a-new-retirement-adequacy-model/>
- 38 <https://www.theguardian.com/australia-news/2019/nov/24/the-great-superannuation-debate-raise-it-freeze-it-or-do-away-with-it-altogether> and <https://www.maddocks.com.au/insights/super-to-incrementally-increase-to-12-from-1-july-2021-are-you-prepared>
- 39 <https://wpieconomics.com/site/wp-content/uploads/2023/11/Phoenix-Report-231116-Web.pdf>



WPI Economics Limited

5-6 St Matthew Street  
London  
SW1P 2JT

@WPI\_Economics

**[wpieconomics.com](http://wpieconomics.com)**

WPI Economics Limited, registered address 28 Church Road, Stanmore, Middlesex, England, HA7 4XR, is registered as a limited company in England and Wales under company number 10086986.

**April 2024**