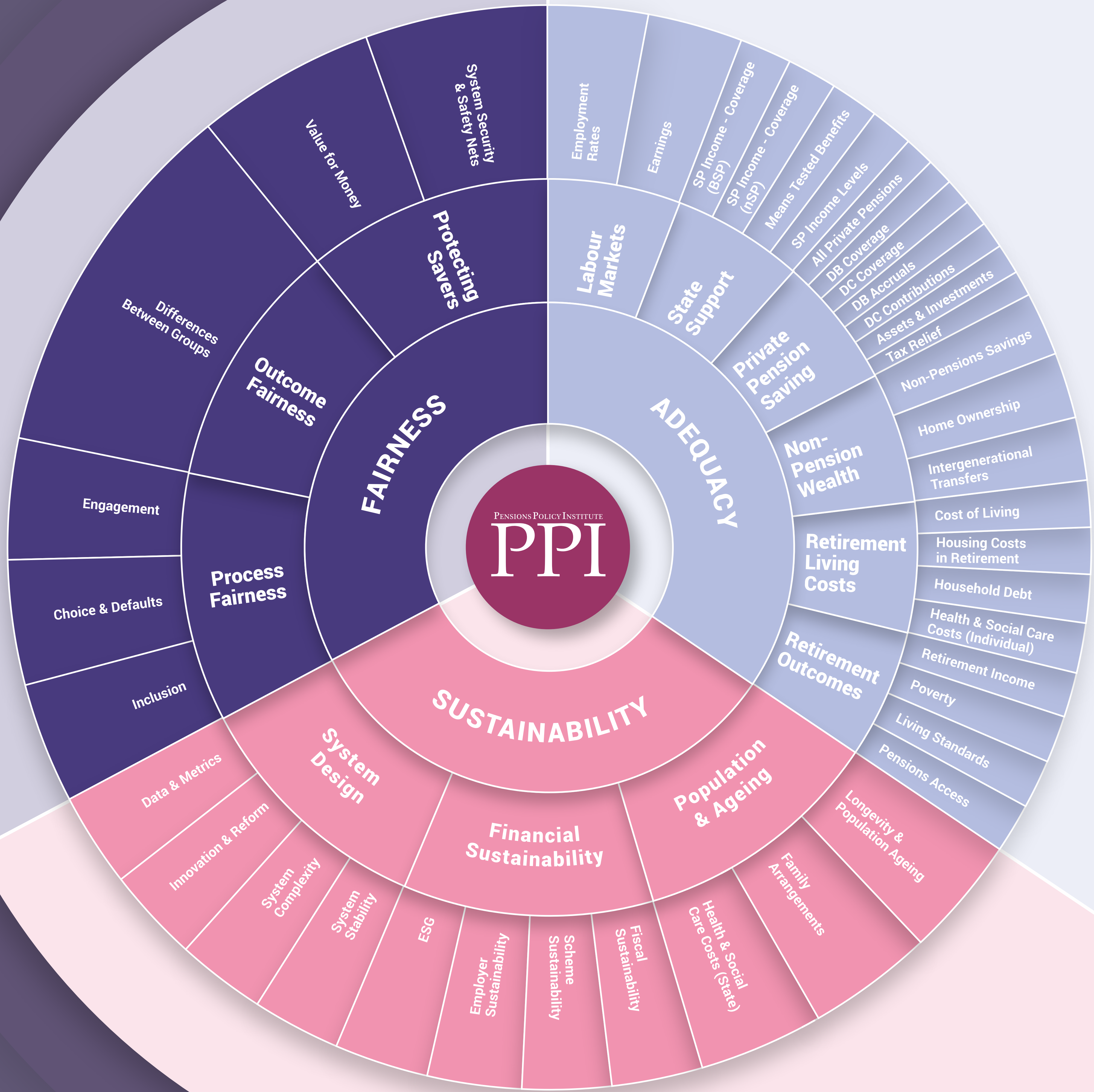
PENSIONS POLICY INSTITUTE

PPI

Red Sky in the Morning?

INEQUALITY, SAVINGS GAPS AND ADEQUACY IN THE UK PENSION SYSTEM



A report from the PPI UK Pensions Framework Series, in association with:

AVIVA

2024 EDITION

Registered Company Number: 4145584. Charity Number: 1087856 (England & Wales)

About the Pensions Policy Institute

We have been at the forefront of shaping evidence-based pensions policy for over 20 years.

The PPI, established in 2001, is a not-for-profit educational research organisation. **We are devoted to improving retirement outcomes.** We do this by being part of the policy debate and driving industry conversations through facts and evidence.

The retirement, pensions and later life landscapes are undergoing fast-paced changes brought about by legislation, technology, and the economy. Robust, independent analysis has never been more important to shape future policy decisions. Each research report combines experience with **INDEPENDENCE** to deliver a robust and informative output, ultimately improving the retirement outcome for millions of savers.

Our **INDEPENDENCE** sets us apart – we do not lobby for any particular policy, cause or political party. We focus on the facts and evidence. Our work facilitates informed decision making by showing the likely outcomes of current policy and illuminating the trade-offs implicit in any new policy initiative.

By supporting the PPI, you are aligning yourself with our vision to **drive better informed policies and decisions that improve later life outcomes** and strengthening your commitment to better outcomes for all.

As we look forward now to the next 20 years, we will continue to be the trusted source of information, analysis, and impartial feedback to those with an interest in later life issues. The scale and scope of policy change creates even more need for objective and evidence-based analysis. There is still much to do, and we look forward to meeting the challenge head on.

FOR FURTHER INFORMATION ON SUPPORTING THE PPI

PLEASE VISIT OUR WEBSITE:

pensionspolicyinstitute.org.uk

OR CONTACT:

Danielle Elliott

Head of Membership & External Engagement

danielle@pensionspolicyinstitute.org.uk

This report is authored by:

Anna Brain
Senior Policy Researcher

Daniela Silcock
Head of Policy Research

Tim Pike
Head of Modelling

John Adams,
Senior Policy Analyst

An INDEPENDENT Research Report by the

Pensions Policy Institute

PPI

This research report is kindly sponsored by:

AVIVA

Funding has been given to help fund the research and does not necessarily imply agreement with, or support for the analysis or findings from the project. The PPI does not make recommendations as to the appropriate direction of future policy, Instead, our work provides **INDEPENDENT** evidence to allow policy development to be well informed.

Published by the Pensions Policy Institute

ISBN 978-1-914468-21-6

www.pensionspolicyinstitute.org.uk

Contents

Red Sky in the Morning? - Inequality, savings gaps and adequacy in the UK pension system

Foreword

Michele Golunska
MD, Wealth and Advice, Aviva

This fourth edition of the PPI's Pensions Framework has come at the right time. Once again, the Framework challenges us to consider the UK's pension system in its entirety and prepares the ground for the Government's Pensions Review to do the same.

It's been twenty years since the report of the 2004 Pensions Commission was published and much has been achieved and millions have benefited in that time. Automatic enrolment and the new state pension have strengthened the system that so many millions rely upon, but while this should be celebrated the work is far from done.

The findings of this year's report deliver a powerful reminder that our pension system does not operate in isolation, and it will be external factors as much as pensions policy that determine its success. It reminds us that today's trends in health, wealth, housing, and employment are the foundations upon which tomorrow's retirement challenges will be formed. It reminds us that these wider issues are vast, and their interactions complex.

Scale and complexity, however, are no reason to turn our back on these issues. We have a responsibility to support good retirement outcomes for all – today, tomorrow, and long into the future. This responsibility requires us to consider the wider factors impacting savers and pensioners, and we can thank the PPI Framework for this helpful steer.

For this reason, a key takeaway for us at Aviva is the importance of engaging with our customers throughout their lives to help them feel empowered and confident to make decisions that help to grow their retirement income.

Aviva is delighted to support the PPI in delivering this important work and I want to extend my gratitude for another comprehensive and thought-provoking report. As always, the work of the PPI challenges our assumptions and forces us to think bigger.

The Pensions Framework has never been more relevant and important than it is today. I therefore invite all of us to the reflect the insights in this report and consider how - together - we can keep pushing towards a pension system that works for all.

AVIVA

EXECUTIVE SUMMARY

The UK pension system has reached a critical juncture. Reforms implemented following the Pensions Commission of 2004 have delivered unprecedented benefits to millions of workers and pensioners. In some areas however, policy gains have stalled and unresolved gaps in coverage, coupled with static levels of contributions mean that not everyone is saving enough for the living standards they might hope to have in retirement.

Simplicity has been a cornerstone of the success of pension reforms. In recent years however, UK society has evolved to become both more complex and unequal. Wealth gaps are widening, earnings have stagnated and income inequality remains high, making it harder for people to buy homes, move up the wealth ladder and save adequately for later life. Health inequalities are fast-becoming one of the greatest public policy concerns of a generation, bringing challenges to those with both the shortest, and the longest lives.

This PPI UK Pensions Framework report provides policymakers and thought leaders with a complete picture of how the combination of growing inequality and saving gaps could affect adequacy and the success of pensions policy. It concludes that this century's pension reforms have been a remarkable success. However, there will be scant more gains unless the system can evolve and reflect the challenges of modern society. The Pensions Review will be critical to this process, and to maximising the considerable potential we have to further improve the living standards, wellbeing and experiences people have through later life.

Executive Summary

The UK pension system is highly regarded for the success of recent policy reforms that have increased participation in workplace pensions, raised State Pension income among poorer households, and aim to reduce dependency on means-tested benefits in later life.

However, the pensions system is also a source of concern, as its tight link between contributions and adequacy put pressure on many individuals who do not meet the system's eligibility criteria, do not save beyond the minimum default contribution rate, or do not fit the expected employment profile of a typical saver.

Pensions adequacy is typically measured by the extent to which long-term savings allow people to maintain their living standards through later life. In the UK pension system however, the design of adequacy levers involves a number of important dependencies and behavioural assumptions, including those relating to employment, housing, health and wealth.

Some of the most material differences in pensions adequacy emerge from differences in dependencies. And since the current system design was proposed in 2004, the UK has become a materially more unequal society.

Changes to inequality are like an early warning system that can signal where challenges to adequacy, sustainability and fairness in the UK pensions system are likely to fall as evidence consistently shows that the economic gaps we see across the population today will become the pension gaps of tomorrow.

Inequalities are not constant however, and together they create a crucial challenge for future pensions policy. What happens to inequality matters to people, because it shapes differences in the adequacy, living standards and the experiences they have through working and later life. It also matters greatly to policymakers, because the success of public policy is determined not just by what is happening today, but by what could change in the future.

Executive Summary

Figure Ex.1: What inequalities are emerging that could widen differences in retirement adequacy and living standards going forwards?

HEALTH	23%	OF WORKING AGE ADULTS REPORT HAVING DISABILITY
WEALTH	£3.5tn	THE INCREASE IN THE GAP IN TOTAL WEALTH BETWEEN THE TOP 10% AND THE BOTTOM 10%. UK 2011-2019
HOUSING	1.7m	PENSIONER HOUSEHOLDS COULD BE LIVING IN PRIVATELY RENTED HOMES BY 2040
EMPLOYERS	75%	OF PRIVATE SECTOR WORKERS WHOSE EMPLOYERS HAVE LESS THAN 100 STAFF RECEIVE EMPLOYER PENSION CONTRIBUTIONS OF LESS THAN 4%
EMPLOYMENT	8m	WORKERS DO NOT QUALIFY FOR AUTOMATIC ENROLMENT BECAUSE THEY ARE TOO YOUNG, DON'T EARN ENOUGH OR ARE SELF-EMPLOYED

HEALTH

Widening health inequalities are making it harder for people from more deprived backgrounds to work a full and continuous career as State Pension ages rise, while pressure increases for those with longer lives to save more for later life.

- People in the least deprived areas of the country live around 10 years longer, and with around 18 more years in good health than those in the most deprived.
- Disability is the fastest growing source of disadvantage in the UK labour market. In 2023, 23% of working-age adults reported a disability, up from 16% a decade earlier, of whom almost half (4.2 million) are out of work.

WEALTH

Gaps in absolute wealth are widening as rising asset prices have yielded the greatest gains for those who own the most assets, making wealth and home ownership increasingly less attainable for those on lower incomes.

- The value of household wealth has risen from 300% to almost 700% of GDP since 1991. The richest 10% of households have consistently owned around half of the UK's total wealth while the bottom 50% have held around 10%.
- The gap in absolute wealth between the bottom 10% and top 10% grew by almost 50% between 2011 and 2019 (£7.5tn to £11 tn).

HOUSING

UK home ownership is in decline as rising property prices, widening wealth gaps and low wage growth make it harder for younger households to get on the property ladder, indicating that more people will soon be renting through later life.

- Home ownership among people aged 45-64 (those retiring over the next 20 years), fell from 81% to 68% over the 20 years to 2022-22. With no increase in social housing, private renting among this group has trebled from 5% to 14%.
- By 2040, 1.7 million pensioner households could be renting privately, up from 500,000 today, yet fewer than one in five will have enough pension savings to afford to rent even a modest home

EMPLOYERS

12 years on from automatic enrolment, the gap in pension participation between large employers and SMEs has narrowed to around ten percentage points but participation and employer contribution rates in the private sector still depend on who you work for.

- Eligible employees of small and micro private sector employers have persistently lower participation (81% and 59%) than large and very large employers (91%).
- 69% of automatically enrolled workers in employers with less than 500 employees receive less than 4% employer contributions. 65% of those with employers of more than 500 employees receive more than 4% contributions.

EMPLOYMENT

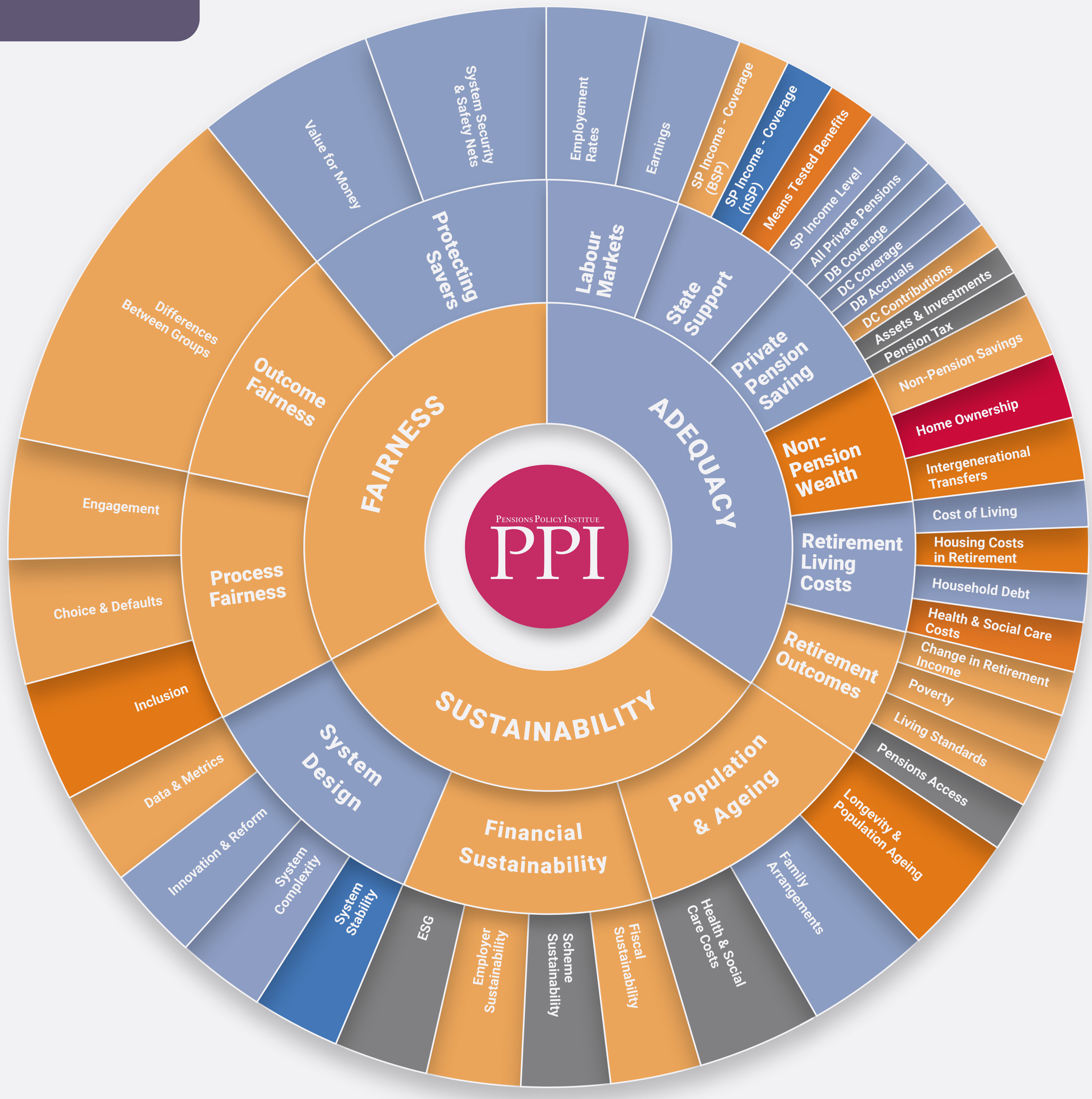
The link between pension outcomes and employment or contribution records exacerbates differences in adequacy between those who are able to work full, continuous careers and those who whose employment is compromised by social risks, health inequalities or precarious jobs.

- Around 3.5m (12%) of employees do not qualify for automatic enrolment due to age or earnings rules, while less than 20% of 4.2 million self-employed workers save into a pension
- 79% of all individuals who do not qualify for automatic enrolment on the basis of earnings criteria are women (17% of all female employees v. 8% of men).

Analysis from the PPI UK Pensions Framework shows that differences in retirement adequacy are reduced by recent pension reforms but widened by socioeconomic inequalities and saving gaps in the UK pension system.

Figure Ex.1 highlights major trends from the findings from the fourth report in the PPI UK Pensions Framework series, which explores where and how changing inequalities and savings gaps could impact adequacy differences in later life. The PPI UK Pensions Framework is a unique study of adequacy, sustainability and fairness in the UK pension system. It works by analysing 41 comprehensive, purpose-built indicators to provide a complete picture of changes in the UK retirement landscape. A full-size version of the Framework's signature Policy Wheel can be found on page 19.

Figure Ex.2: Results of the PPI UK Pensions Framework analysis of inequality and the UK pension system



Key: Changing trends in underlying gaps or inequalities could contribute to:

L6	Much higher levels of adequacy across the population
L5	Somewhat higher levels of adequacy across the population
L4	Slightly higher levels of adequacy across the population
L3	Slightly lower levels of adequacy across the population
L2	Somewhat lower levels of adequacy across the population
L1	Much lower levels of adequacy across the population
	No data, or no recent change in trends that will affect adequacy

Executive Summary

The links between inequality, savings gaps and adequacy paint an important picture of two contrasting stories.

Although the UK pension system is not designed to remedy inequality, policy reforms have made important advances towards better retirement adequacy among at-risk groups. However, not everyone has been able to benefit and there is scope for more improvement.

On one hand, analysis from the Framework shows evidence of trends across the pension system that will improve adequacy among at-risk groups in later life and reduce differences in adequacy across the population. These changes are indicated (to varying degrees) in blue.

Many of these changes can be linked to the success of major reforms in work and pensions policy, particularly those that have improved workplace pension coverage, reduced complexity and raised average retirement income among lower income groups. In part, this is because reforms have been designed to target high-risk and low-income groups of the population, and in part because the simple, universal nature of policy design has enabled the benefits of pension participation and a flat-rate State Pension to reach millions of current and future pensioners.

However, further gains are constrained by persistent savings gaps, inconsistent safety nets, and socioeconomic inequalities that are evolving alongside the pension system.

On the other hand, there is evidence of trends that have the potential to worsen adequacy and widen differences across the population. These changes are indicated (to varying degrees) in red. Behind them are two common themes – high or growing levels of socioeconomic inequality, and gaps brought about by the universal nature of the UK pension system that mean millions of people are still not saving, or not saving enough, for later life.

1. **Savings gaps:** The simplicity of policies like automatic enrolment and the new State Pension necessitate that the pension system is designed around the profile of what is, essentially, a stylised or typical individual. In a population with many forms of inequality however, it can be challenging for universal policies to meet people's retirement needs equally because so many people will not match the profile or needs of a typical saver. For those disadvantaged by lower levels of work, participation or contributions, a robust system of safety nets can mitigate the financial risks that people face in later life. Under the current system however, the benefits provided by safety nets can be inconsistent, difficult to access and do not increase at the same pace as the State Pension.
2. **Socioeconomic inequality:** Although not within the direct remit of pensions policy, rising inequalities can have material impacts on adequacy in later life. Many of these dependencies are related to widening differences in lifetime income, a lagging indicator of the UK's wealth and income inequality. The strong contribution-benefit link in workplace saving, for example, depends on high levels of uniformity and low distortion in the labour market. However, there is a growing risk that widening health inequalities could break this link by interrupting employment patterns. Unless mitigations are in place to protect pension saving, the result will be lower retirement adequacy for those who need to adjust their working patterns to manage their health. Widening health inequalities could also distort the link between life expectancy and a rising State Pension age, because people from more deprived backgrounds are typically less able to postpone their retirement than those from more affluent areas. A similar link is seen between contribution rates and sharp falls in home ownership among working-age adults, which in turn put pressure on pension adequacy by increasing the level of income replacement needed to cover housing costs through later life.

Findings from across the Framework point towards five key policy implications that could determine the future success of the UK pension system:

- **Build on success**, a review of the pension system is needed to align it with the changing landscape of modern society and extend the gains of the Pensions Commission reforms to more groups. Without reform, gains will stall and without urgency, differences in adequacy will continue to build.
- **Simplicity has brought benefits to millions, but is it time for trade-offs?** There is now a trade-off to be considered between maintaining the simplicity of automatic enrolment in its current form, and introducing more targeted measures that could improve adequacy among excluded or disadvantaged groups. The question highlights the contradictory nature of assumptions around behaviours during accumulation and decumulation in current system design. It also highlights the crucial balance between a universal system under which rule changes are needed for adequacy to be different, compared to a more flexible system under which rule changes are needed for adequacy to be the same, particularly as the industry works towards developing solutions to the complex process of decumulation.
- **Culture of engagement or culture of compliance?** Employers and providers are increasingly dependent upon eligibility, default mechanisms and regulation around the automatic enrolment system for the design of their pensions offering. Now that the system is embedded, there are cases whereby improving member outcomes could benefit from a better alignment between adequacy and individual circumstances, which in turn depends on greater engagement among decisions makers (employers, providers and individuals) as much as compliance.
- **Strengthen safety nets:** The pension system cannot solve all problems for all people and in some cases, safety nets are needed to support living standards through later life (such as income-related benefits), or to protect pension coverage and contributions in working life (such as National Insurance credits or policies that protect workplace pensions during periods of leave). In some cases however existing safety nets can be inconsistent, difficult to access, and at times, inadequate. Maintaining the simplicity of the system while protecting at risk groups will depend on improving safety nets for those who need them.

Integrate dependencies: Pensions are not a standalone policy system, and their outcomes are heavily dependent upon wider factors that put pressure on financial security and living standards in later life. As well as dependencies identified so far, factors are wide-ranging and include non-standard employment, care costs and family arrangements to name a few. To maximise the considerable potential that the system has to improve living standards, wellbeing and experiences that people have through retirement, the review or evolution of the UK pension system needs to be undertaken with wider dependencies in mind.

Executive Summary

CONCLUSION

This century's pension reforms have been a remarkable success, but gains will stall unless the pension system evolves to reduce savings gaps and reflect the growing challenges of modern society.

This report acts as a single, comprehensive source of information on how changing inequalities across the UK pension system could influence the success of current and future pensions policy. Its aim is to inform debate around where policy reform could be targeted, if the objective of reforms is to build an inclusive society, where people can live well, in the context of changing demography and ways of life. It does not seek to generate a detailed series of policy suggestions, or to argue for specific outcomes over others.

Overall, major changes to pensions policy have achieved considerable success in narrowing income and savings gaps in both the State and private pension systems, that together can help to reduce differences in adequacy between groups in later life. However, an abundance of caution should be exercised around assuming that successes are sufficient and that their gains will continue. On the contrary, the evolution of inequality as well as savings gaps in the current system, could widen adequacy differences in later life. Now is the time for review of the system, and for reform that can build on success to reflect the increasingly individualised nature of retirement.

Introduction

This report is the fourth in the Pensions Framework series, a multi-year project by the Pensions Policy Institute and sponsored by Aviva that monitors the UK pension system's performance against a set of core objectives, which overall determine the financial security that people have in later life.

A burgeoning body of research is dedicated to building a detailed understanding of differences in adequacy by well-known dimensions including gender, income and pension scheme type amongst others. Analysis of newer dimensions such as housing, the focus of the 2023 UK Pensions Framework report, are rapidly gaining attention. The purpose of this report however, is to develop a single, comprehensive picture of how inequalities, savings gaps and differences across the population are changing, and how they link together to highlight where the greatest improvements and challenges to adequacy are likely to fall in the future.

The findings are the product of an extensive programme of research that looked not simply at pension gaps, but at the inequalities that underpin their many constituent parts. Chapter 1 of this report presents a summary of headline trends in wider economic inequality. Chapter 2 presents the findings from the Pensions Framework research, looking at how changes to inequality and savings gaps around the pension system relate to each other, and what they could mean for the future of pensions policy. Health inequalities are examined in a more detailed case study in Chapter 3, and further details from the analysis are included in Chapter 4.

Chapter One:

This chapter provides a summary of key trends in inequality across dependencies of the UK pension system. It asks what has happened, what could happen next, and what changing levels of inequality could mean for retirement adequacy under the UK pension system.

Chapter Two:

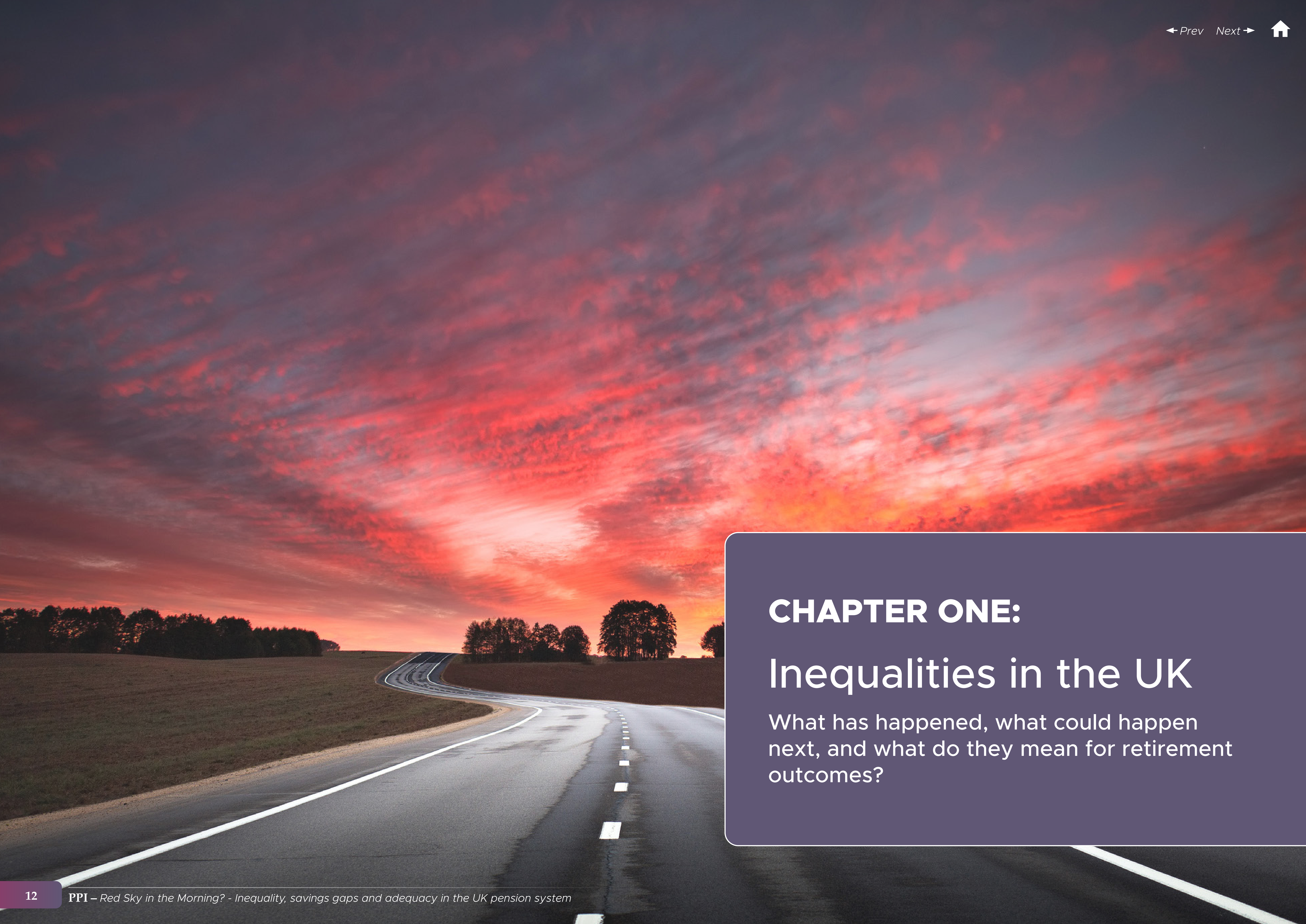
This chapter explores how a combination of widening inequalities and savings gaps in the UK pension system between socioeconomic inequalities and the UK pension system could impact adequacy in later life.

Chapter Three:

This chapter looks in greater detail at health inequalities, which emerge from the UK Pensions Framework analysis as one of the fastest-growing risks to employment and ultimately to retirement adequacy under the UK pension system.

Chapter Four:

This chapter documents headline findings from analysis of trends in gaps and inequalities across the UK Pensions Framework, along with evidence and implications.



CHAPTER ONE:

Inequalities in the UK

What has happened, what could happen next, and what do they mean for retirement outcomes?

Chapter Summary:

This chapter provides a summary of key trends in inequality across dependencies of the UK pension system. It asks what has happened, what could happen next, and what changing levels of inequality could mean for retirement adequacy under the UK pension system.

These topics, along with further trends and findings from the UK Pensions Framework analysis, are discussed in greater detail in Chapter Three, which presents further evidence from analysis of the UK Pensions Framework. Key findings include:

- 1.1 Inequality is both a driver, and an outcome of differences in pensions adequacy. However, focusing on income inequality alone misses important and growing divides that have a material impact on adequacy in later life.
- 1.2 Income inequality in the UK is very high and has been stable since the 1990s. Income inequality matters to retirement adequacy because it underpins living standards and is closely linked to other long-term inequalities by virtue of lifetime income, particularly those of wealth, health and housing.
- 1.3 Wealth inequality in the UK is very high and has risen sharply on an absolute basis. Wealth inequalities matter to retirement adequacy because wealth provides differing degrees of long-term financial security and entrenches differences in retirement adequacy through inheritance.
- 1.4 Falling home ownership at working-ages will soon drive a sharp increase in the share of households who rent through retirement. Differences in home ownership matter to retirement adequacy because four in five renters will not be able to afford their living costs through later life.
- 1.5 Rising health inequalities are quickly becoming one of the most important public policy challenges of a generation, with implications for how long people can work and how well they will live, as well as how long they live.

1.1 What is inequality?

The government has made a commitment to "tackle all the inequalities that pervade our society" in "a fairer Britain, where everyone lives well for longer".[1]

Later life is one of the areas in which the long-term, cumulative effect of inequalities can be seen most acutely. As people grow, work and age, the differences they accumulate in income, wealth and health and employment directly determine how long, and crucially how well, they will live.

Supporting people to live well throughout retirement, to the extent that they can maintain not just a minimum but a familiar standard of living, is arguably the most important objective of the UK pension system. In recent years however, changes which have brought greater financial sustainability to the pension landscape have also made people more responsible for their own retirement adequacy. The result is that not everyone is saving, and of those who are, not everyone is saving enough for the retirement that they might hope to have.

Behind these challenges are a series of complex savings gaps as well as structural and socioeconomic inequalities which, together, are the cause of differences in peoples' ability to build adequate savings for their retirement. The extent to which savings gaps and inequalities are growing or diminishing, and the way in which retirement adequacy could change as a result, is the focus of this report.

[1] The Labour Party (2024)

Inequality is complex. It takes many forms, but in an unequal society, inequality means that there are recurring patterns of differences in the opportunities people have, and the outcomes they are able to achieve.

Inequality matters both for the lived experience of individuals, who often face multiple, compounded disadvantages, and for society, where a growing body of evidence suggests that higher levels of inequality are associated with:[2]

- Lower levels of health, wellbeing and life expectancy
- Negative impact on economic growth, and the ability for economic growth to reduce poverty
- Reduced opportunity, social mobility and social cohesion
- Disengagement and distrust with politics, and lower political stability

Inequality is both a cause and an outcome of differences in pensions adequacy.

Throughout this report, inequality generally refers to recurring patterns of difference in circumstances, behaviours or characteristics that drive differences in:

- How people work and save for later life
- The extent to which they are able to access and benefit from the UK pension system

In turn, inequalities and their link to savings gaps in the UK pension system drive recurring patterns of difference in pension adequacy, meaning the extent to which individuals have:

- A minimally acceptable level of income and protection against deprivation
- An acceptable level of income and living standards relative to their earnings during working life
- The financial resilience to withstand short-term financial shocks.

Focusing on income inequality alone misses important and growing divides that have a material impact on adequacy in later life.

Inequality is often talked about in the context of income inequality, which overall provides only a narrow snapshot of the differences that we see among groups around the UK today. When it comes to retirement adequacy however, focusing on income alone misses other widening between the population that are central to the way in which people save and live through later life.

Findings from this report suggest that while there are many dimensions to inequality, some of those which have the most important impact on retirement adequacy are (as well as income), differences in wealth, health, housing and employment.

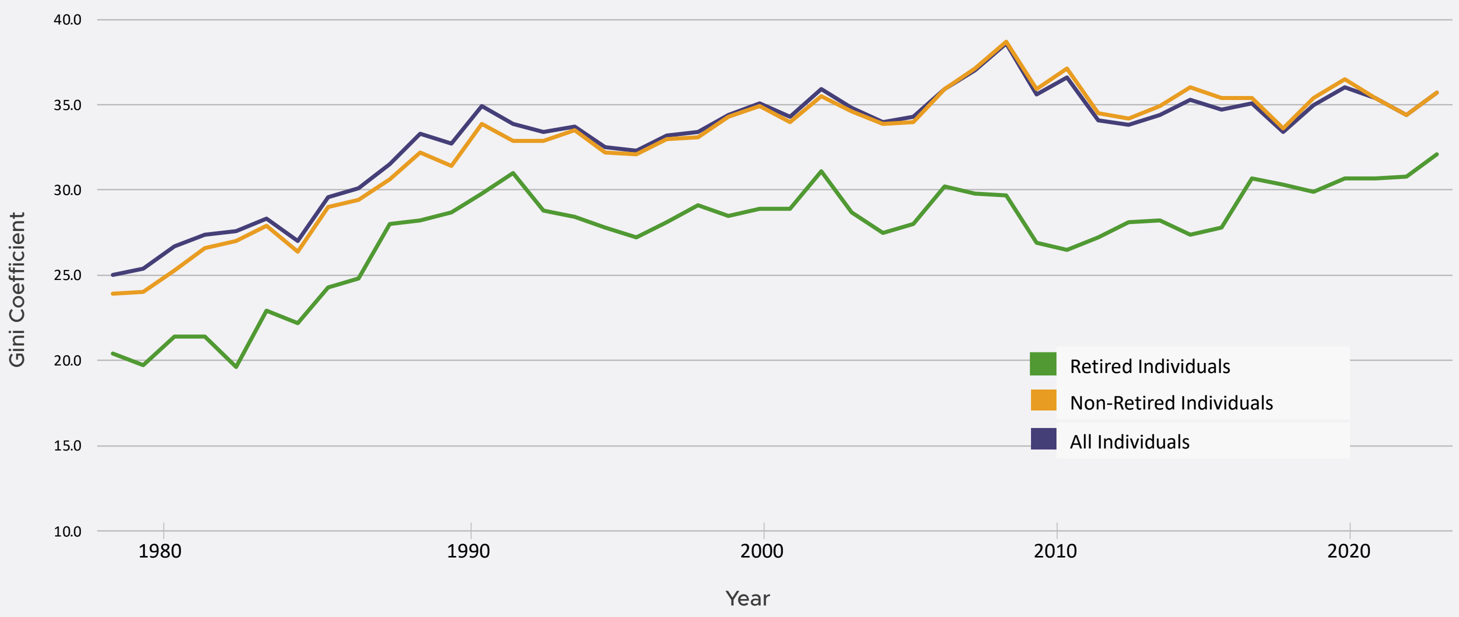
1.2 Income inequality matters to retirement adequacy because it underpins living standards and is closely linked to other long-term inequalities by virtue of lifetime income, particularly those of wealth, health and housing

On a relative basis, UK income inequality has been high by historical and international standards since the 1980s (Figure 1.1). UK income inequality is the highest of any large European economy and is surpassed only by the United States among the G7 economies. Over the past three decades, the top 20% of incomes have consistently been around 6 times higher than the bottom 20%. In 1980, the difference was around four times.[3]

[2] Marmot (2004); Wilson & Pickett (2009); Wilson & Pickett (2018); Deaton (2024); Satz & White (2024); Jeffrey & Snell (2024); Ravallion (2001); Alesina and Perotti 1996;
[3] ONS (2022a)

Figure 1.1: Disposable income inequality has been high among all groups since the 1990s, but is rising among retired households

Gini coefficients for disposable income by household type, UK, 1978 to financial year ending 2002.



Source: Household income inequality, UK: financial year ending 2022. ONS, 2023.

Since the Great Financial Crisis (GFC) in 2008, growth in disposable income has been low across the income distribution.

As a consequence, income inequality has changed very little on either an absolute or a relative basis and is not expected to fall in the near future. Although the headline level is stable however, it conceals a number of important trends. In recent years, increases in the National Minimum Wage have helped to reduce differences in earnings by raising wages among the low earners. However, their effect on income inequality is not immediately apparent, because it is offset by a reduction in the value of means-tested benefits which, in turn, has the effect of lowering disposable income in the lowest-income groups.

Long-term income inequality is leading to widening differences in lifetime income. These differences are now starting to be seen in retirement, where relative measures of both income inequality and poverty are rising.

Although lower than working-age groups, income inequality among pensioners reached a record high in 2022, At the same time, the share of pensioners in relative poverty rose to 16% (up from 13% in 2011-12) and the share of pensioners in material deprivation rose to 8% (from 6% in 2019-20). The changes are due in part to a sevenfold rise in pension wealth since 1980, and in part to the diminishing effect of cash benefits and lagging income growth among poorer pensioners who have less income from private pensions and other forms of financial wealth.[4]

There are different ways of measuring adequacy, but proportional measures of adequacy do not reflect changes to underlying income inequality and living standards.

Overall, adequacy refers to the extent to which the pension savings people have enable them to meet their needs and preferences equally through later life. Typically, it is measured using either:

1. Proportional income targets such as target replacement rates (TRRs), which measure the income people have in retirement as a proportion of the income they have in working life; or

2. Fixed income targets such as the Retirement Living Standards produced by the PLSA, which measure the income people have in retirement relative to the cost of a fixed basket of goods and services that represents a specific level of need or lifestyle in retirement.

[4] ONS (2022a)

Determining the best way to measure adequacy will be a key task for a pensions review. Traditionally, pension design has been based on TRRs, but TRRs do not easily reflect the effect of changes to income inequality on adequacy because they do not allow for changes in the extent to which income relates to living standards at a particular point in time. If income rises faster among richer households than poorer for example (inequality widens), it becomes proportionately easier for richer households to meet fixed income targets such as a “moderate” RLS, while not becoming easier for lower income households to do the same.

As income inequality has been largely unchanged since the Pensions Commission, this has not been an issue of material consideration to date. Were income inequality to change in the future however, it could become more important. In the event that income and earnings grows at different rates across the income distribution, households may need to adjust their savings behaviour accordingly if they are to achieve a fixed standard of living.

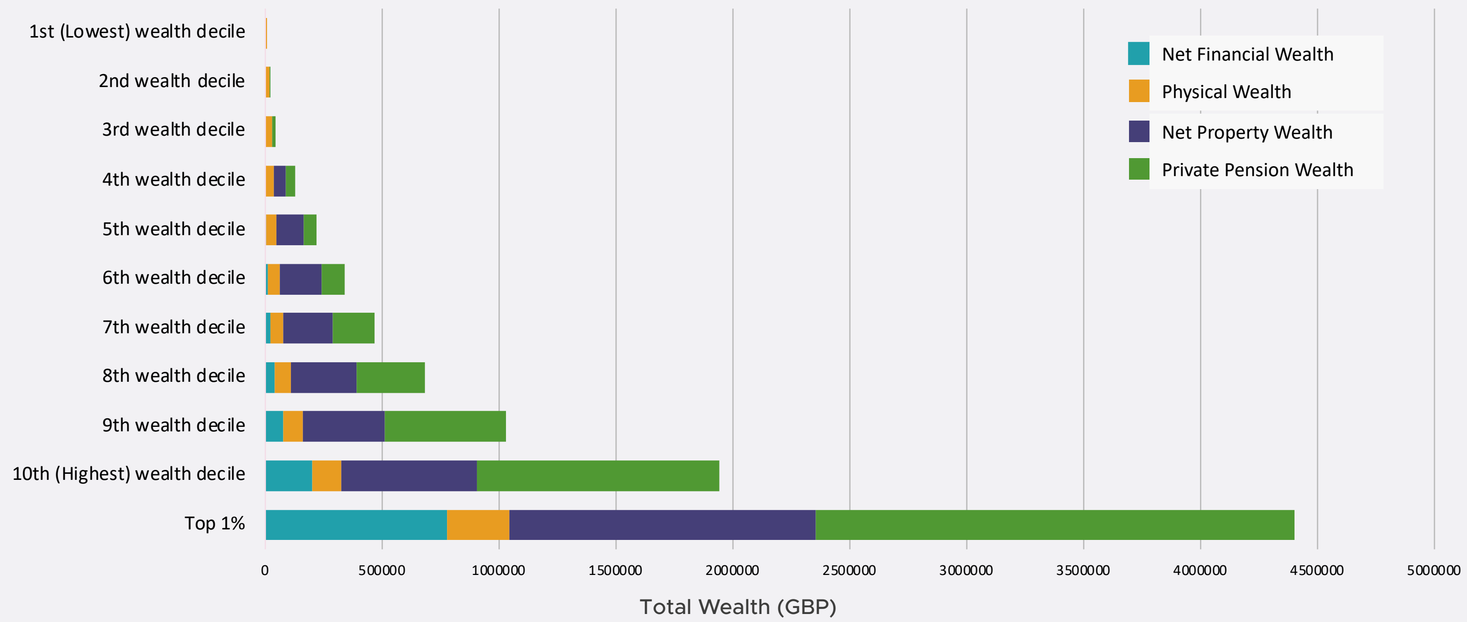
1.3 Rising wealth gaps matter to retirement adequacy because wealth provides long-term financial security through financial wealth, pensions and property. Wealth inequalities also entrench differences in retirement adequacy by virtue of inheritance.

To a great extent, disposable income is seen as a proxy for the living standards people have in working life or retirement, and also underpins the many of the differences between them.[5] However, household wealth also plays a material role in livings standards and the choices they make, particularly the wealth that people accumulate outside their pension.

On a relative basis, wealth is more unequally distributed across the UK than income. In 2018-20, the richest 1% of households were estimated to own more than 20% of wealth compared to 13% of income on a pre-tax basis. The wealthiest 10% of households held 43% of all the wealth in Great Britain. In comparison, the bottom 50% held only 9% (Figure 1.2). The UK gini coefficient for income inequality (a summary measure of how income is dispersed across the population where 0 represents perfect equality and 1 represents perfect inequality) was 0.36 in 2020, whereas the equivalent for wealth was around 0.6.[6]

Figure 1.2: The wealthiest 10% of households had wealth of £1.94 million, the lowest 10% had £15,400 or less.

Wealth components (median) by household total wealth decile, Great Britain April 2018 to March 2020.



Source: Household total wealth in Great Britain: April 2018 to March 2020. ONS, 2022.

[5] DWP (2022)
[6] ONS (2022b)

Although relative measures of wealth and income inequality have remained stable since the 1980s, absolute measures of wealth inequality have surged in recent years.

Like income inequality, the relative distribution of wealth has changed very little over the past three decades. Since 1991 however, the net value of total household wealth has more than doubled from around 300% to almost 700% of GDP.[7] Between 2011 and 2019 alone, the absolute wealth gap between the bottom and top 10% of households rose by almost 50%.[8] Rather than being due to increases in household saving, much of the increase in total wealth is due to a combination of economic factors including low interest rates drove a rapid increase in the value of interest rate-sensitive assets, particularly property. As asset values have grown, households with the greatest wealth have seen the greatest absolute gains, and the gap between poorer and richer households has almost doubled since the turn of the century. The absolute wealth gap in the UK is now second only by size to the US among OECD countries.

Wealth gains have been particularly strong in property and shares which in turn have yielded gains for homeowners and those with pension wealth and investments over and above renters and those who rely heavily on income from the State Pension. In 2018-20, the largest share of wealth for the most wealthy households came from pensions, followed by property. The largest share of wealth for mid-range households came from property, and physical wealth made up the largest share of wealth for the least wealthy households (Figure 1.2).

In the period 2018-2020, median UK household wealth was £302,500 with high levels of variation, having risen 20% since 2006-2008 (after adjusting for inflation). It was highest in the South East of England (£503,400, having risen 43% since 2006) and lowest in the North East (£168,500). Among individuals, it was higher among men (£131,500) than women (£117,200), and highest those from White, Chinese and Indian backgrounds (£163,000; £120,700; £119,600) while lowest among those from Bangladeshi, black backgrounds (£6,300), black backgrounds (£18,900) and those from mixed or other ethnic groups.[9]

Like income inequality, wealth inequality is expected to remain high on a relative basis and could widen further on an absolute basis.[10]

Overall, rising asset values mean that gaps between the rungs of the wealth ladder have widened, making it harder for households to move up as higher levels of wealth become less attainable. Importantly, these changes also contribute to the sentiment that inequality is widening across society, even though the distribution of wealth itself has changed very little.

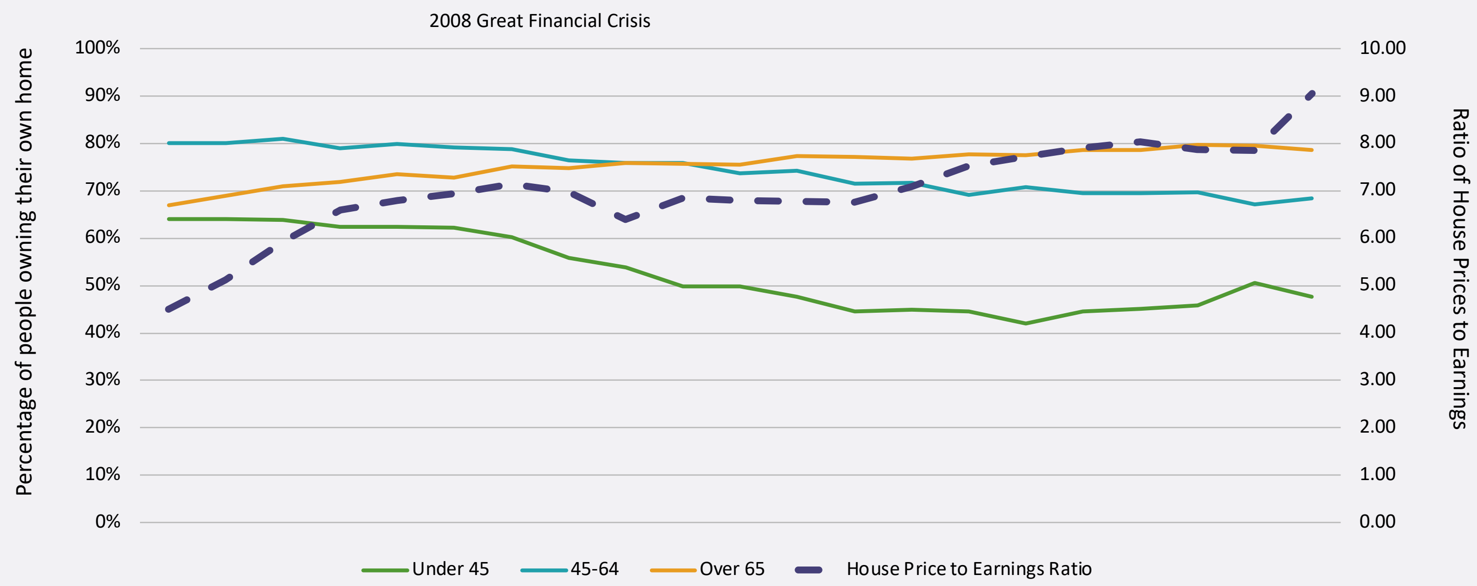
Going forwards, growing wealth gaps will also entrench differences in retirement adequacy by virtue of inheritance and home ownership. People high incomes are set to inherit an average of twice those on low incomes, and each group is likely to inherit double the wealth of the previous generation. Renters will face considerably higher living costs in later life than home owners, which in turn will lower the disposable income they have to maintain their living standards in later life.

1.4 Differences in home ownership matter to retirement adequacy because a fracture in the relationship between pensions and housing puts strain on the overall retirement income model.

The combination of rising asset values, widening gaps in absolute wealth, and low earnings growth have also made it harder for lower income households to get on the housing ladder. As a result, UK home ownership has peaked and is now in decline as rates fall among younger age groups. Over the next twenty years, the proportion of people who own their own home in retirement could fall to 63%, compared to 78% today.

Figure 1.3: Home ownership among households aged 45 to 64 fell by 15 percentage points over 20 years as property values have risen

Percentage change in home ownership as a share of overall housing tenure by age group, households in England; and ratio of median house price to median gross annual (where available) workplace-based earnings, England, 2001-02 to 2021-22



Source: PPI Analysis of English Housing Survey and ONS House Price to Residence Based Earnings data (2024)

As home ownership falls, the proportion of households in the private rental sector has increased, and the proportion of households living through retirement in the private rented sector could increase from 6% today to 17% by 2040 (500,000 to 1.7 million homes). In large part, this rise in private renting is a consequence of shortfalls in the social housing sector, where around one million homes were sold and not replaced as a result of Right to Buy policies through the 1980s.

Of greatest consequence to retirement adequacy are not simply differences in wealth and assets between homeowners and renters however, but the implication for living costs through later life. Analysis from the 2023 PPI UK Pensions Framework report estimated that fewer than one in five households aged 45 to 64 and renting privately today are likely to have sufficient pension income to rent even a modest one bedroom flat through retirement.[11]

[7] Mulheirn (2020)
[8] Tippett (2024)
[9] ONS (2022b)
[10] Bourquin et al (2021); ONS (2022a); Jeffrey & Snell (2024)
[11] Brain et al (2023)

1.5 Rising health inequalities are one of the most important public policy challenges of a generation, and in the context of retirement, have implications for people with both the longest and the shortest lives.

Health inequalities matter to retirement outcomes because they can determine how long you work, how much you save, how long you live, and what your quality of life is likely to be like in retirement. Increased longevity is evidence of the unprecedented success of advances in healthcare and other areas of public policy, but its gains are not shared equally and there is little sign of inequalities reducing in the near future.

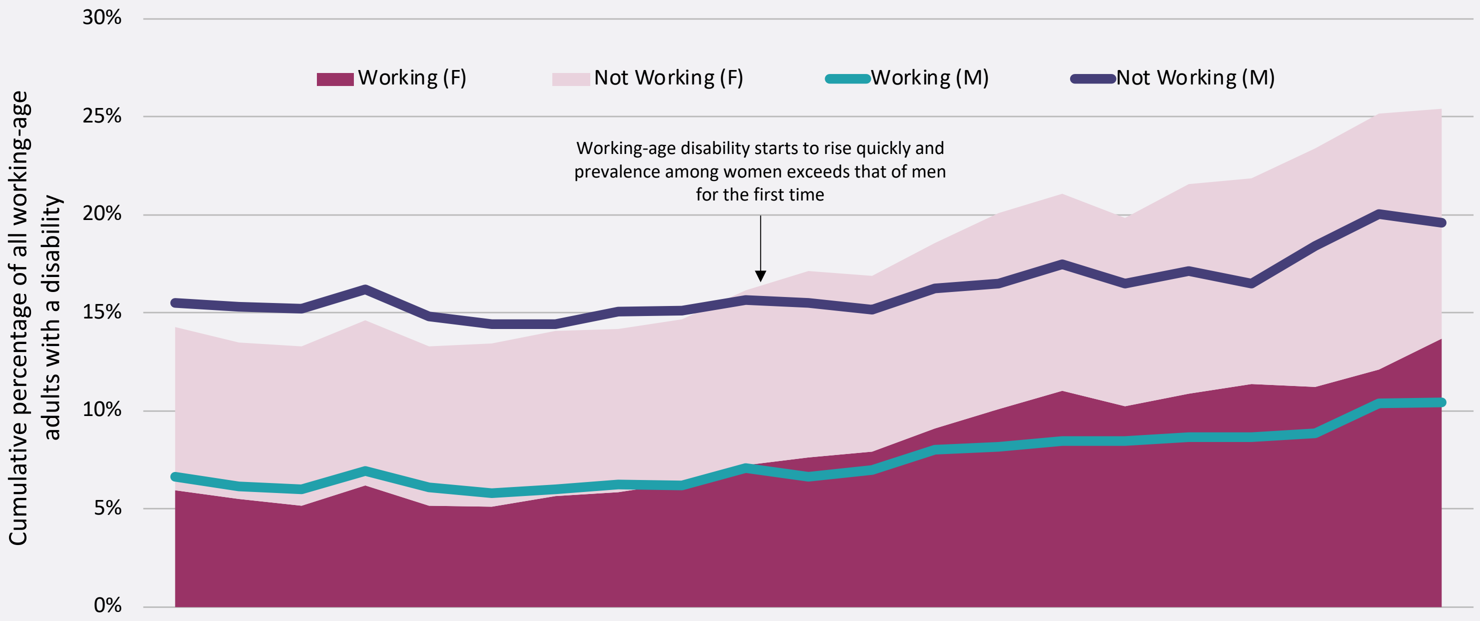
Longevity gains have benefited all groups but life expectancy gains among groups from areas of high deprivation have lagged behind those in more affluent areas, and overall gains have largely stalled since 2011. Longevity is closely linked to deprivation, and those from the least deprived areas can expect to live around ten years longer, with around eighteen more years in good health, than those from the most deprived areas.

The effect of these differences on retirement adequacy is not straightforward. Although people in areas of high deprivation are more likely to fall ill and leave the labour market during working life, those in areas of low deprivation who benefit from gains in life expectancy need to make their income last as much as ten years longer, and as a consequence, may not see the benefit of higher living standards from higher levels of pension saving.[12]

The strong link between contributions and benefits in the UK pension system is dependent upon low rates of distortion in labour market behaviours.

Figure 1.4: The proportion of working age adults with a disability has risen from 16% to 23% in just ten years with concerning implications for long term work and saving prospects.

Cumulative percentage of working-age males and females reporting a disability, in work and economically inactive, UK 2002-03 to 2022-23



Source: PPI Analysis of Family Resources Survey

Differences in retirement adequacy are strongly linked to employment patterns, and specifically to gaps in employment which mean that people stop contributing to their pension and may need to draw down on pensions, discretionary or other forms of saving to get by. Health inequalities underpin disability as one of the fastest-growing sources of disadvantage in UK labour markets. The number of working-age people with a disability rose to 9.1 million (23%) between 2012-13 and 2022-23 (Figure 1.4).

A more detailed case study on how changing health inequality could affect retirement adequacy is included in Chapter Three of this report.

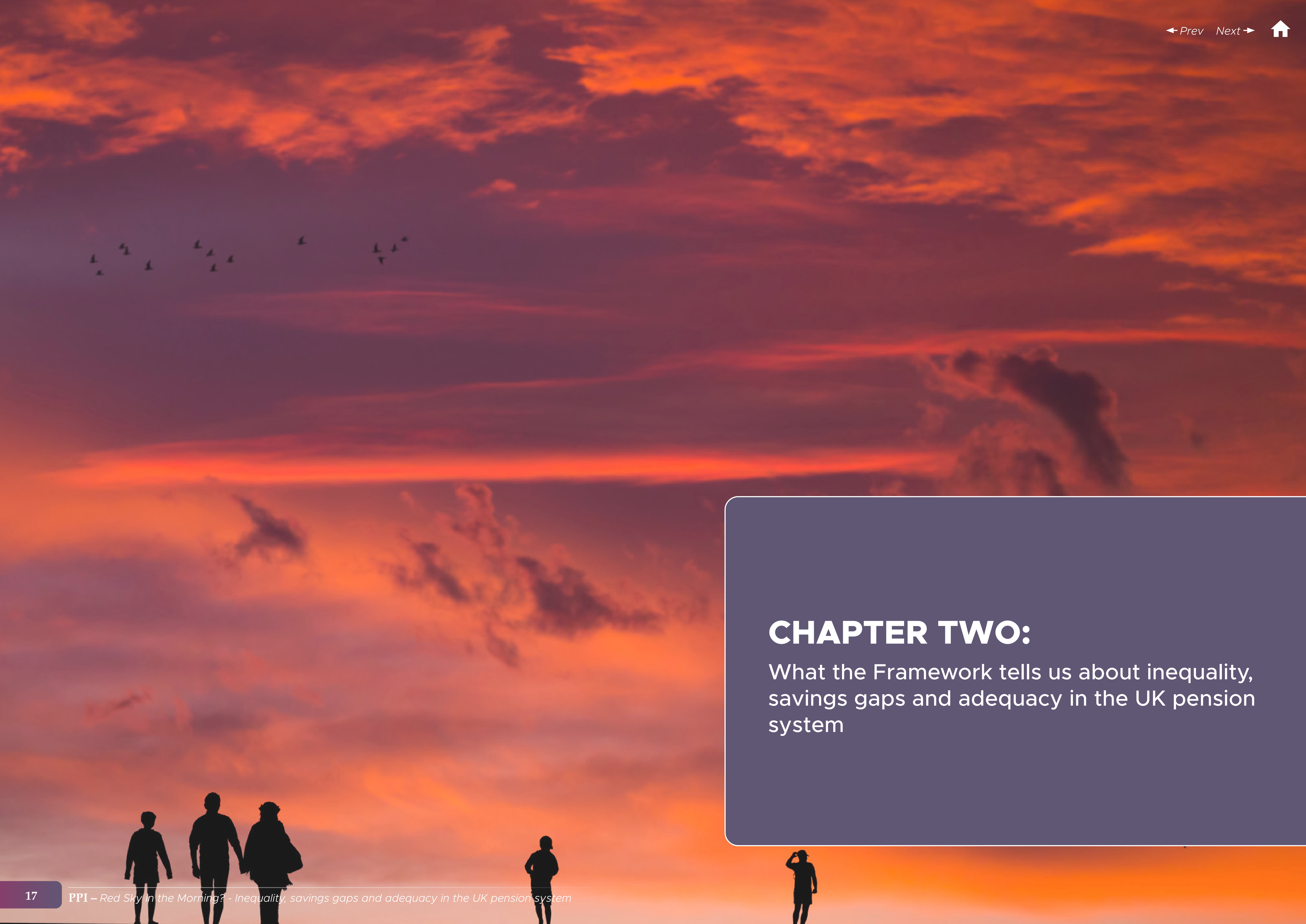
[12] ONS (2024)

CONCLUSION

A focus on income inequality in the context of differences that underpin adequacy in later life overlooks widening divisions in other dimensions of inequality.

UK income and wealth inequality have risen in recent decades and are likely to remain high by historical and international standards. Since the ascent of income inequality through the 1980s, rising asset prices and more recently a prolonged period of low earnings growth have increased wealth gaps and made it harder for people on lower incomes to buy homes, move up the wealth ladder and save for later life.

The effects of economic inequality take time to affect lifetime income and pension saving, but differences in lifetime income are also closely related to widening health inequality, which is fast becoming one of the biggest public policy challenges of a generation. Given the difficulties that this backdrop can bring to families and their day to day lives, there is a growing need to consider how the changing nature of inequalities can be reflected in future reform of the UK pension system.



CHAPTER TWO:

What the Framework tells us about inequality, savings gaps and adequacy in the UK pension system

Chapter Summary:

Chapter One outlined some of the headline changes to different kinds of inequality in the UK as well as their implications for adequacy in retirement. Building on the trends seen across the population, this chapter explores how a combination of widening inequalities and savings gaps in the UK pension system could impact adequacy in later life.

Its aim is to outline where differences in pension adequacy could increase or diminish as a result of changing inequalities, and where these differences might be entrenched or mitigated by current or future policy design. It finds that:

- Across the UK pension system, gaps and inequalities that contribute to differences in retirement adequacy are narrowing in some areas but widening in others.
- Trends with the potential to improve retirement adequacy across the population can be linked to the success of national reforms to the UK pension system including automatic enrolment and the new State Pension.
- Trends with the potential to worsen retirement adequacy across the population can be linked to wider socioeconomic inequalities trends in lifetime income, gaps in existing system design, policy trade-offs, the need for more integrative policymaking and stronger safety nets to support people who may be disadvantaged by gaps or insufficiencies in current universal policies.
- Along with the prevailing inequalities of income and wealth, emerging inequalities that are most likely to widen differences in retirement adequacy are those relating to health, housing and inheritance, as well as how much people work and the employers they work for.
- The UK pension system has reached the point where there are relatively few more gains to be made toward better pension outcomes from the reforms proposed by the Pensions Commission in 2004, meaning that there are considerable opportunities to build on the success of its recommendations with a new phase of reform that reflects a changing society.

The result is a picture which shows a pressing need to consider how the success of the Pension Commission's reforms can be extended to include more groups of people in wider sets of circumstances, improve levels of adequacy relative to living standards and circumstances, and better integrate pensions with other policy areas to reflect the increasingly individualised nature of retirement.

2.1 The PPI UK Pensions Framework is an analytical instrument that can be used to track and simulate how the UK pension system is changing around a set of core objectives, which overall determine the financial security that people have in later life.

Retirement outcomes are the product of systems that are complex, dynamic, and made up of interactions that happen between multiple component parts. The PPI UK Pensions Framework is a study of adequacy, sustainability and fairness in the UK pension system which provides a systematic way to think through these components, and overall shows the need for an integrative approach to policy design that can help people to build financial security for later life.

This report marks the fourth in the UK Pensions Framework series.

- In 2021, the PPI published the UK Pensions Framework Design Series, which described how and why the UK Pensions Framework was developed.
- In 2022, the Framework was used to conduct the first full, systemwide analysis into how the UK pension system was working. Its findings were published in a report titled "Trends, Trade-offs and Transitions in the UK pension system".
- In 2023, the PPI used its UK Pensions Framework to simulate a scenario under which home ownership among pensioners might fall, and private renting might rise, to reflect rates seen among households approaching retirement over the next twenty years. Its findings were published in a report titled "Renting in Retirement: The Fault Line Below the UK Pension System".

2.2 This year, the PPI has used its UK Pensions Framework to analyse the relationship between inequalities and adequacy, presenting the first comprehensive picture of where circumstances, behaviours and characteristics are changing in such a way that they could improve or worsen financial security in later life.

The PPI UK Pensions Framework works by analysing 41 comprehensive indicators to provide a complete and compelling picture of changes in the UK retirement landscape.

For this report, data underlying the Framework's indicators were examined to identify where differences in adequacy between population groups may be widening or narrowing as a consequence of inequalities, savings gaps and system design, or wider trends in behaviour or society.

When interrogating the data, researchers looked not just for changes to headline trends, but also where changes in underlying groups within each trend point towards smaller or wider differences between the most advantaged, and the least advantaged groups of the population. Results are presented in the Framework's signature Policy Wheel (Figure 2.1).

Figure 2.1: Analysis from the PPI UK Pensions Framework shows that differences in retirement adequacy are reduced by recent pension reforms, but widened by socioeconomic inequalities and saving gaps in the UK pension system.

How to read the wheel

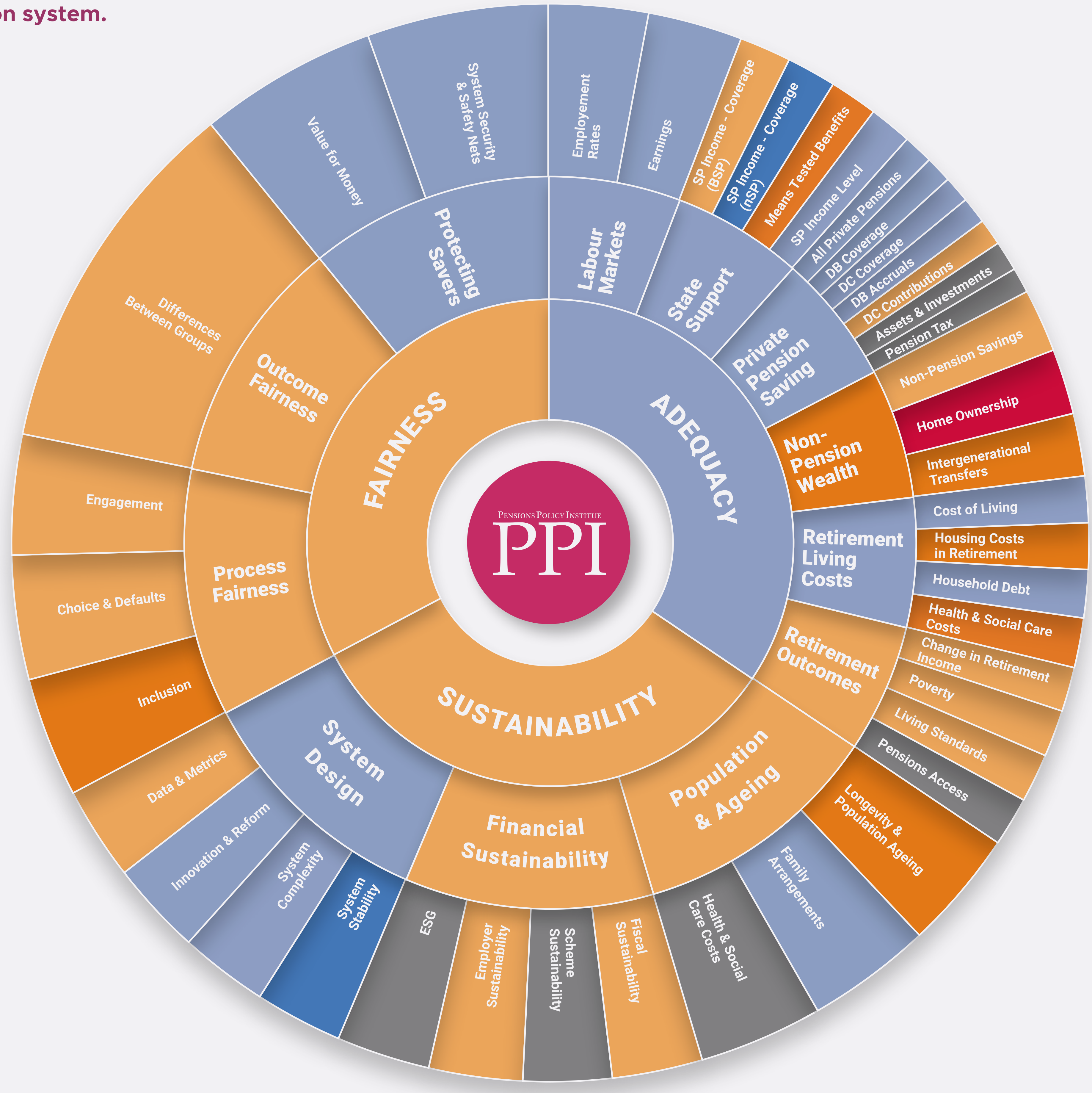
In previous reports, the UK Pensions Framework Policy Wheel has been used to illustrate how each component of the UK pension system (in the outside ring) is contributing to the overall success of adequacy, sustainability or fairness in the UK pension system (the inside ring).

This report, however, is a little different. Instead of examining each component against its relevant objective, all in scope components are examined for trends that widen or narrow the differences between constituent groups, which ultimately determine where adequacy might improve or worsen in later life. These trends are important because they can signal to policymakers where future challenges to adequacy, sustainability and fairness are likely to fall, and where policies could be likely to succeed or fail.

Blue outcomes indicate (to varying degrees) where retirement adequacy is likely to improve as a result of changes to trends in savings gaps and inequalities behind the pension system. Red outcomes indicate (to varying degrees) where retirement adequacy is likely to worsen as a result of changes to trends in savings gaps and inequalities behind the pension system.

Key: Changing trends in underlying gaps or inequalities could contribute to:

L6	Much higher levels of adequacy across the population
L5	Somewhat higher levels of adequacy across the population
L4	Slightly higher levels of adequacy across the population
L3	Slightly lower levels of adequacy across the population
L2	Somewhat lower levels of adequacy across the population
L1	Much lower levels of adequacy across the population
	No data, or no recent change in trends that will affect adequacy



2.3 Five short questions that explain the results

2.3.1 Do trends in the UK pension system point towards larger or smaller differences in adequacy across the population in the future?

Both. At first glance, results from the PPI UK Pensions Framework analysis show clearly that there is no one direction of travel for differences in adequacy as a consequence of changes to savings gaps or inequalities that could impact retirement adequacy.

Components of the UK pension system are not universally changing in a way that will widen the differences between those who have adequate retirement provision and those who do not. Nor are they universally changing in a way that will narrow them either. Against a backdrop of high (and in some cases widening) inequalities across the UK, it would not be unrealistic for this apparent ambiguity to come as a surprise. A closer look, however, shows that behind the diverging trends are three common themes: system reform, savings gaps and wider inequalities.

2.3.2 Why do some impacts appear stronger than others?

The potential impact that changing trends could have on retirement inequality is varied. In some cases, the effect of the change may appear relatively muted. In others, the effect of changes is likely to be stronger or more consequential.

Where the effect of the change on overall levels of adequacy is weaker, either:

- The effect of the change is relatively modest.
- The outcome is the result of mutually offsetting factors, which have the effect of disguising rich detail and important nuance that could potentially determine where policies success and fail; or
- The effect of the change could be material, but is offset by effective safety nets which reduce the risk to adequacy among affected groups.

Where the effect of the change on adequacy is stronger, either:

- The change is material and could affect a large share of the population; or
- The effect of the change is strong or modest, but problems with the design of existing safety nets (or lack of safety nets) could be exacerbating the risks that vulnerable groups face in later life.

2.3.3 Where could changes to savings gaps and inequality improve adequacy?

Across the pension system, changing trends in savings gaps and inequalities that point towards improving adequacy across the population are typically related to the success of systemwide reforms in work and pensions.

In part, this is because many of the measures introduced in recent years have been designed to target groups at highest risk of poor financial outcomes in later life. They include the new State Pension, automatic enrolment and increases in the National Minimum Wage.

2.3.4 Where could changes to savings gaps and inequality worsen adequacy?

Where changes to savings gaps and inequalities have the potential to widen differences in adequacy , they are largely related to two factors.

First, persistently high levels of socioeconomic inequality, particularly those relating to lifetime income and its links to wealth, health, housing and employment.

Second, residual savings gaps in the UK pension system where individuals with non-typical employment patterns find it harder to benefit from universal policies that are designed around the profile of an average individual. They include differences in how people work, and the coverage or contributions provided by the employers they work for.

2.3.5 So what do the results mean for policymakers?

Throughout the analysis, a series of policy implications point towards five key themes which could overall help towards reducing future differences in adequacy in later life. They include:

- Build on the success of the Pensions Commission reforms by expanding automatic enrolment and reviewing minimum contribution rates against adequacy requirements.
- Consider the impact of a trade-off between simple system with high levels of coverage and adequacy, or a more targeted system with fewer savings gaps.
- Determine where member outcomes best benefit from a culture of engagement or culture of compliance, given the extent to which employers and providers depend on the automatic enrolment mandate to determine their pensions offering.
- Strengthen safety nets for those who need greater support for pension coverage, contributions and income through working and later life.
- Integrate dependencies in pensions policy in order to reflect modern society and maximise the considerable potential that the system has to further improve living standards, wellbeing and experiences that people have through later life.

2.4 And three longer answers that provide more detail around where changes to inequality could improve or worsen adequacy, and what policymakers need to do.

2.4.1 Where could adequacy improve as a result of changes to savings gaps and inequality?

Trends which look set to improve retirement adequacy across the population can be linked to the success of systemwide reforms to work and pensions

Across the pension system, there is evidence that population level reforms to work and pensions are having a materially positive effect on adequacy and have the potential to reduce differences in retirement. In part, this is because many of the policy reforms introduced since 2004 have been designed to target groups at highest risk of poor financial outcomes in later life. These include average and above average income workers in the private sector who among whom workplace coverage was historically low, as well as low-earners who benefit most from increases in State Pension income.

In many cases, these improvements are linked by the common themes of automatic enrolment and the new State Pension, which together offset the move towards a near-universal system of low, flat-rate State Pension with the introduction of quasi-mandatory workplace pension saving. Key trends include:

Automatic enrolment has reduced participation gaps by sector, gender, age and ethnicity.

- Automatic enrolment has reduced the gap in workplace pension saving between employees in the public and private sector by 46 percentage points. Male and female participation rates have broadly equalised at around 90% in both the public and private sectors. However, 17% of employed women do not qualify for automatic enrolment on the basis of low earnings compared to 8% of men, with women making up 79% of workers who do not meet its minimum earnings threshold.[13]
- On average, women have lower employer contributions than men in both the public and private sector. Although the differences between employees (particularly between the public and private sector) are often attributable to the differing structure of total compensation, differences in compensation structure are closely linked to variation in working patterns, career trajectories and earnings as an indicator of seniority. In the private sector, women are less likely to receive employer contributions of less than 4% than men (57.3% v. 53.2%). In DB schemes, which are largely made up of public sector workers, women are less likely to receive employer contributions of more than 20% than men (48.1% v. 50.1%).[14]
- Eligible employee participation has risen among all ethnic groups since 2012. However, people from white

[13] Wilkinson & Adams (2023)
[14] ONS (2022c)

ethnic groups still have the highest rates of participation (86%), while those from Pakistani and Bangladeshi backgrounds had the lowest (74%) despite having more than doubled in ten years.[15]

- Automatic enrolment has all but closed age participation gaps between younger and older eligible workers, but its age eligibility criteria mean that employees aged 16 to 21 do not qualify for automatic enrolment. When the automatic enrolment system was designed, younger workers aged 18 to 21 were excluded from reforms because the lower age limit of 22 was based on previous National Minimum Wage (NMW) criteria. Since then, the NMW criteria was superseded in 2010 yet automatic enrolment criteria were not adjusted accordingly. Although these groups can choose to opt-in to a workplace pension and receive a mandatory employer contribution, take up rates are low and estimates suggest that lowering the eligibility age to 18 could bring around 900,000 more individuals into the automatic enrolment framework. There are also material differences in coverage between non-eligible employees in the private sector (2 in 10) and the public sector (8 in 10).
- Despite similar levels of coverage, there are material differences in retirement adequacy by generation. Generation X (those aged 44 to 59 today) will have lower levels of adequacy than the generations that precede them because they are less likely to receive DB income, and many workers only started saving towards a pension through automatic enrolment in the second half of their career. This means that for Generation X, time may be running out to build up an adequate pot to support them through retirement.

The new State Pension has narrowed differences in State Pension income among younger retirees by raising income for the poorest pensioners.

- The new State Pension, backed by NI credits, has helped to narrow the income gap between pensioners in the highest and lowest quartile of the income distribution by 30% among men, and by 60% among women; it has also helped to reduce complexity, improve stability and despite its low level, will slowly begin to reduce dependency on means-tested benefits in later life.
- Part of the reason for the success of the new State Pension in reducing differences in adequacy are mechanisms which reduce the likelihood that working life inequalities are carried thought to retirement. It is flat-rate, can be accessed by people out of work through National Insurance credits or voluntary contributions, and is formally linked to measures that maintain pensioner living standards through retirement (the triple lock).
- Over time, differences in the weekly income people receive from their State Pension will only be linked to labour market behaviour by virtue of qualifying years, not earnings. Years not in the labour market will also be boosted by years spent carrying out activities that qualify for NI credits, such as caring. In the future, differences in the total State Pension income that people receive over their lifetime will be the result of living longer and will no longer include additional earnings-related State Pension benefits. However, research suggests that only around half of all pensioners on the new State Pension are receiving the full amount because they have gaps in their NI record or were contracted out, and therefore paid lower National Insurance.
- Across the population, the highest lifetime totals of State Pension income are received by those who live the longest, who in turn are likely to be from the most affluent areas of the country. However, these individuals are also likely to have higher levels of lifetime income and earnings, and as a consequence pay higher salary-related National Insurance contributions than lower earners. Overall, evidence suggests that those who benefit most from the system are typically those who also pay the most in. Lifetime NICs make up around 30% of lifetime income from the State Pension among men earning at the 10th percentile compared to around 80% for men earning at the 90th percentile. For those with median earnings, lifetime NICs make up around 60% of lifetime income from the State Pension.

The National Minimum Wage (NMW)

- Increases in the national minimum wage have narrowed earnings inequality by lifting income at the lowest end of the earnings distribution and brought people into automatic enrolment where an uplift in pay means that they earnings exceed eligibility criteria. The proportion of workers in low-paid jobs (less than two-thirds of median hourly pay) fell to record lows of 8.9%, while the proportion of workers in high-paid jobs (1.5 times median earnings) fell to 24.3% in 2023.
- The effects of NMW increases are not obvious in relative measures of income inequality across the population because they are offset by a fall in working-age benefits among the lowest earners. A rising NMW could also mean that some households lose entitlement to income-related benefits. In these cases, it will be important that effective tapering measures ensure that they do not lose more income than they gain from policy changes.

Changing labour market trends also point towards more adequate retirement outcomes, but like the effect of the minimum wage, their effect is diluted by opposing effects of other changes which, instead, could put adequacy at greater risk for some groups.

On one hand, an increase in the share of women working full-time has narrowed gender employment (and consequently gender pension) gaps, and the share of men in part-time work has stopped rising. On the other hand, women still have lower labour market participation and poorer pension outcomes than men in all under-pensioned groups.

Disability gaps show a similar picture. Although the share of people with a disability in work (and therefore saving) is rising, a rapid rise in ill-health among working-age groups drove the number of people with a disability who were not working (and therefore not saving) up by 800,000 to 3.5 million in ten years to 2022-23.[16] The rise in working-age disability is perhaps one of the most consequential for future retirement adequacy not least because disability is occurring in younger adults, indicating that a growing number of people are facing greater long-term risks to their well-being, employment, and retirement prospects than has been seen in the labour market to date.

Overlay the two trends together, and evidence suggests that in spite of the boost provided to pension saving by higher rates of full-time work across the population, women are more likely to have disabilities than men, more likely to be carers, more likely to be caring for longer hours, and in all cases, less typically likely to be working (and saving) than men in the same circumstances.

In this case, policies to ensure people are given appropriate support during times of ill-health or caring, along with greater protection for pension contributions during time away from work, could help to limit the effect of gender and health inequalities on future retirement outcomes.

2.4.2 Where could changes to savings gaps and inequality worsen adequacy?

A decade on from the introduction of automatic enrolment, trends suggest the need for a more integrative and targeted approach to pension saving because although the system is working for many, it is not working for everyone.

An improving outlook for adequacy across several components of the pension system show that to a certain extent, policies are achieving their aim of creating platforms from which everyone can save for later life. A key reason for their success is simplicity, which has allowed their benefits to reach millions of people.

However, simplicity is also the reason that gains have come to a halt before everyone has been able to benefit from them. Millions of people find it difficult to benefit from universal policies, which simplify complex problems by focusing on typical earners, but overlook diverse individual circumstances which could become more common as wider socioeconomic inequalities grow.

Adequacy gaps are increasingly determined by differences in how much people work and how much they save, which in turn can be a function of who they work for.

[15] Wilkinson et al (2024), DWP (2023a)
[16] PPI analysis of FRS

Employment

- Groups with recurring patterns of low retirement income have lower rates of employment and higher rates of part-time employment than the average across the UK. Employment gaps are strongly associated with structural inequalities including those relating to gender, ethnicity and disability as well as geography. They are most evident among people who face multiple, compounded socioeconomic disadvantages, particularly those relating to health.
- The tightening of links between pensions with employment and contribution records will lead to widening pension gaps between people who have had long-term full employment, and those who face social risks or precarious jobs. To support narrowing these differences, future policy reforms would need to target persistent employment and participation gaps that are associated with structural inequalities, particularly those relating to gender, ethnicity, health and geography. As well as supporting employment and increasing participation among these groups, supporting adequacy though policies such as auto-escalation and protecting employment, pension contributions and entitlements during periods of leave will make a difference.
- An increase in full-time working has narrowed gender employment gaps, but gender remains the biggest contributing factor to employment gaps and women have poorer pension outcomes than men in all under-pensioned groups.
- Health inequalities are the fastest growing source of disadvantage in the labour market, rising most among younger adults at levels not seen among previous generations. Disability employment gaps are increasingly likely to lead to pensions gaps because people with long-term health conditions are less likely to work, and less likely to return to work after a career break than those without disabilities. Health inequalities also underpin differences in longevity which can have mixed effects on the pension system. On one hand, people with lower incomes have lower life expectancy, but on the other, longevity gains mean that even someone with average life expectancy and an average pension pot could run out of private pension income 7 years before they die.[17]
- For those who need to take time off work, the UK has low levels of income and employment protection and little formal protection for workplace pension contributions with the exception of individuals on maternal or other forms of parental leave.

Employers

- The type of employer people work for has a material impact on retirement adequacy. Beyond the differences in adequacy provided by public sector DB and private sector DC schemes, small employers have lower rates of participation among eligible staff and are less likely to make higher-than-minimum employer contributions to workplace pensions.
- Despite a voluntary element of saving included in replacement rate design by the Pensions Commission, higher contribution rates are not offered equally by employers and are not taken up equally by employees. Under the current system, self-employed are the only group who make their own pension arrangements without any form of legal framework or support, and there seems little clear rationale for not extending an appropriate opt-out mechanism to these workers.
- Most workers with DC pensions are clustered around minimum default contribution rates (80% of those in SMEs and 40% of those in large employers). Under the current system, households with the greatest projected shortfall versus their target replacement are middle and upper middle-income households. This is due in part to low-contribution rates and in part to longer life expectancy. In contrast, low-income households are most likely to meet their target replacement rates when State Pension income is considered, putting this group at risk of oversaving in the event that default contribution rates were to be universally increased.[18]

In rare cases, differences in adequacy can be widened by the effects of policy trade-offs, making it crucial that policymakers exercise added caution when adjusting policy design.

In some cases, although few, policies have the potential to worsen adequacy prospects among some groups rather than improve them. Two examples of this are the State Pension age and the triple lock, mechanisms used to manage the effect of rising longevity on financial sustainability in the UK pension system. A higher SPa is disadvantageous to lower-income groups because they are more likely to face work limiting health problems or disabilities in working life than those from higher income households. For those who need to leave work but have insufficient private pension income or savings, the level of financial support available through working-age benefits is lower than in retirement, increasing their risk of poverty during the years between labour market exit and SPa. Similarly, living standards among poorer households are more sensitive to changes in indexation that might limit uprating because the State Pension makes up a higher proportion of their income than wealthier households.

Widening socioeconomic inequalities, particularly those linked to lifetime income, are putting pressure on adequacy outcomes and are an important part of planning for later life

A common feature of trends that look set to widen differences in retirement adequacy is the link to broader socioeconomic forces which, although not always within the remit of pensions policy, have a material impact on outcomes in later life.

Health

- A detailed examination of health inequality is included in Chapter Three of this report, where headlines show that inequalities in both life expectancy and healthy life expectancy between the most and least deprived areas of the country have widened considerably in recent years. Areas of low deprivation can be found across the country in urban, suburban, rural and coastal settings, and are more complex and widespread than the UK's well-known regional divides would suggest. Health inequalities have retirement implications for both those with the poorest health, and the longest lives.
- Workers from areas with greatest deprivation are most likely to fall into ill health while they are still in work, and in turn are likely to leave work earlier than those from middle to least areas of deprivation. The years between leaving the labour market and reaching State Pension age bring a particularly high risk of poverty to these groups, particularly for those with low levels of discretionary or long-term savings who are dependent on working-age benefits. In contrast, people from the most affluent areas of the country benefit not only from the ability to work until later ages, but will also have the most years in retirement to enjoy in good health. Data in Chapter Three shows however that despite higher levels of pension saving, living standards among these groups will not necessarily be higher than those in poorer areas. Higher longevity requires that people from more affluent areas make their pension savings last as much as ten years longer than those from more deprived areas.
- One of the most concerning trends in health inequality is the rapid increase in disability among working-age adults. Although a rising State Pension age might seem a plausible explanation for the increase, bringing a greater number of older adults (with proportionately more health concerns than younger adults) into the definition of working-age, the largest increases are seen among younger working age adults, particularly women.

Wealth

- Wealth inequalities are closely linked to intergenerational transfers and home ownership which, in the Framework, are among components which stand out for the extent to which they could widen differences in retirement adequacy. As younger adults find it harder to accumulate wealth of their own (including buying their own home), inheritance is likely to become a more important factor in lifetime wealth and will increasingly be concentrated among higher income households.

Home Ownership

- As outlined in Chapter One, a fifteen-percentage point drop in home ownership among people approaching retirement is expected to add 1.2 million pensioner households to the private rented sector by 2040. For most of these people it is both too late to consider getting onto the housing ladder, and too late to save enough to cover their rent through later life.[19] At present, there is little evidence of mitigating factors that could offset the costs and insecurity these households will face (particularly given that Housing Benefit is not index linked, and private pension savings could disqualify claimants from eligibility), it is clear that widening differences in housing need to be front and foremost in policymakers' minds when thinking about how inequalities might manifest in later life. Safety nets to support groups who are disadvantaged by these inequalities include greater support for housing, either through social housing or affordable rent programmes, and support for income through means-tested benefits.

[17] PPI analysis of ONS data. Shortfall assumes a single pensioner with a moderate standard of living (PLSA) and take into account full nSP income.
[18] Broome et al (2024)
[19] Brain et al (2023)

Family arrangements are also changing, a rise in the share of couples who live together but have never been married or in a civil partnership indicate that more people could become vulnerable to differences in the rules around pension saving and separation or inheritance.

Single pensioner households face some of the greatest risks around poverty, adequacy and living standards in later life. Although one in three pensioner households is a single pensioner, this level has been stable both among retirees and those approaching retirement since 2002, signalling that in this respect, family arrangements are not likely to widen differences in adequacy in later life although their effect is still important.

A key trend which could affect differences in adequacy however, is the fall in the share of married couples living together and increase in couples cohabiting who have never been married or in a civil partnership. In 2002, 96% of retired couples were married but by 2022, this level had fallen to 90%. Among couples who live together and expect to retire over the next twenty years, 27% were not married or in a civil partnership compared to 18% in 2002.

Under the UK pension system, being married or in a civil partnership brings added security in the event of separation or inheritance. Where couples are cohabiting however, partners have less certainty over how their pensions and assets will be treated in the event of separation or death, meaning that a growing number of people could be at increased risk to adequacy and living standards in the future.

Safety nets are arguably the most important feature of the UK pension and welfare system. However, they do not just support people disadvantaged by economic inequalities, they are also important for groups who are unable to save (or save enough) under the existing pension system.

Means-tested benefits are an essential safety net for those with low income in working life, and those who have low income in later life because they have been unable to save enough to meet their needs under the UK pension system.

However, the UK has a relatively complex system of means-tested benefits, especially in retirement, where low take up rates mean that around four in ten people do not receive the income they are entitled to. Of the benefits available to people in later life, only the State Pension is uprated by the triple lock and most others are uprated by CPI. However, some benefits (including Housing Benefit) have no official uprating mechanism at all, which can lead to considerable shortfalls in the event that price growth exceeds income over time.

For people who need to take time away from work, the UK's flat-rate system of income replacement has been described as "an inadequate patchwork that in most cases falls far behind the support available in other rich countries".[20] There is also a material risk that people fall behind on pension saving because the only circumstances under which pension contributions are fully protected is parental leave. Income and employment gaps are most common among people who face multiple, compounded socioeconomic disadvantages, particularly those relating to health.

2.4.3 What do policy makers need to do?

- **Build on success**. Reforms introduced in response to the recommendations of the Pensions Commission in 2004 have had unprecedented success. As this report shows however, society is changing in response to widening differences in health, housing, wealth and employment and there are still millions of people yet to benefit from the reforms. Under current system design however, there are few gains left to be made. Extending the opportunity for adequate retirement outcomes to more people will require new reforms that can build on the success of work so far by widening access, improving adequacy and strengthening safety nets around UK pension saving. Now is the right time for a Pensions Review to initiate them.
- **Simplicity has brought benefits to millions, but is it time for trade-offs?** As inequalities evolve and individuals take on greater responsibility around saving for later life, a question arises over the extent to which the increasingly individualised nature of retirement is aligned with an increasingly uniform system of pensions policy. The answer, and the extent to which differences in pensions access and adequacy can be further reduced, depends on an important trade-off. On one hand, the simple design of universal policy systems like automatic enrolment can provide high levels of coverage but with varying levels of adequacy. In these cases, a rule change is needed for outcomes to be individual. On the other hand, more targeted policy systems can close residual coverage gaps and support more equal levels of adequacy. In these cases, rules are needed for individual outcomes to be the same. However, they come with the risk that added complexity could make them difficult to understand, difficult to access and difficult to administrate.
- **Culture of engagement or culture of compliance? Member outcomes should be key:** Pensions access and adequacy are increasingly dependent upon features of automatic enrolment such as eligibility and default mechanisms, because a high proportion of employers and providers shape their pensions offering around its mandate and design. However, it is difficult for universal policies to address gaps and variation in the needs of individual savers, and provision from employers.

  Unlike the public sector or State pension systems, individuals and employers in the private sector retain the ability to make decisions that can change adequacy outcomes. Now that the system is embedded, there is scope to revisit the circumstances in which a culture of engagement, rather than a culture of compliance, between employers, providers and members can lead to better outcomes for savers.
- **Strengthen safety nets:** The pension system alone cannot offset the impact of what can often be multiple, compounded socioeconomic disadvantages that underpin inequalities in later life. However, safety nets designed to support people in times of need can be inconsistent, difficult to access, and at times, inadequate. For those who need to take time off work due to ill-health for example, the UK has low statutory levels of income replacement, with little formal protection for workplace pension contributions. Carers have fewer employment and income protections and lower benefits than adults they look after, and self-employed workers in both circumstances have almost no protections at all. Eligibility for Housing Benefit in retirement may be compromised by relatively low levels of private pension saving, and uprating is irregular and unpredictable.
- **Integrate dependencies:** In many ways, the success of UK pensions policy depends on how trends and inequalities in other policy areas are integrated into policy design. The system's strong contribution-benefit link, for example, depends on high uniformity and low distortion in the labour market. However, if this link is broken by widening health inequalities that interrupt employment patterns, the result is poorer retirement outcomes unless mitigations are in place to maintain pension saving. Widening health inequalities can also distort the link between life expectancy and a rising State Pension age, because higher levels of ill health mean that people from more deprived backgrounds are less able to postpone their retirement than those from more affluent areas. A similar link is seen between contribution rates and falling home ownership, which put pressure on pension adequacy by increasing the level of income replacement needed to cover housing costs through later life.

CONCLUSION

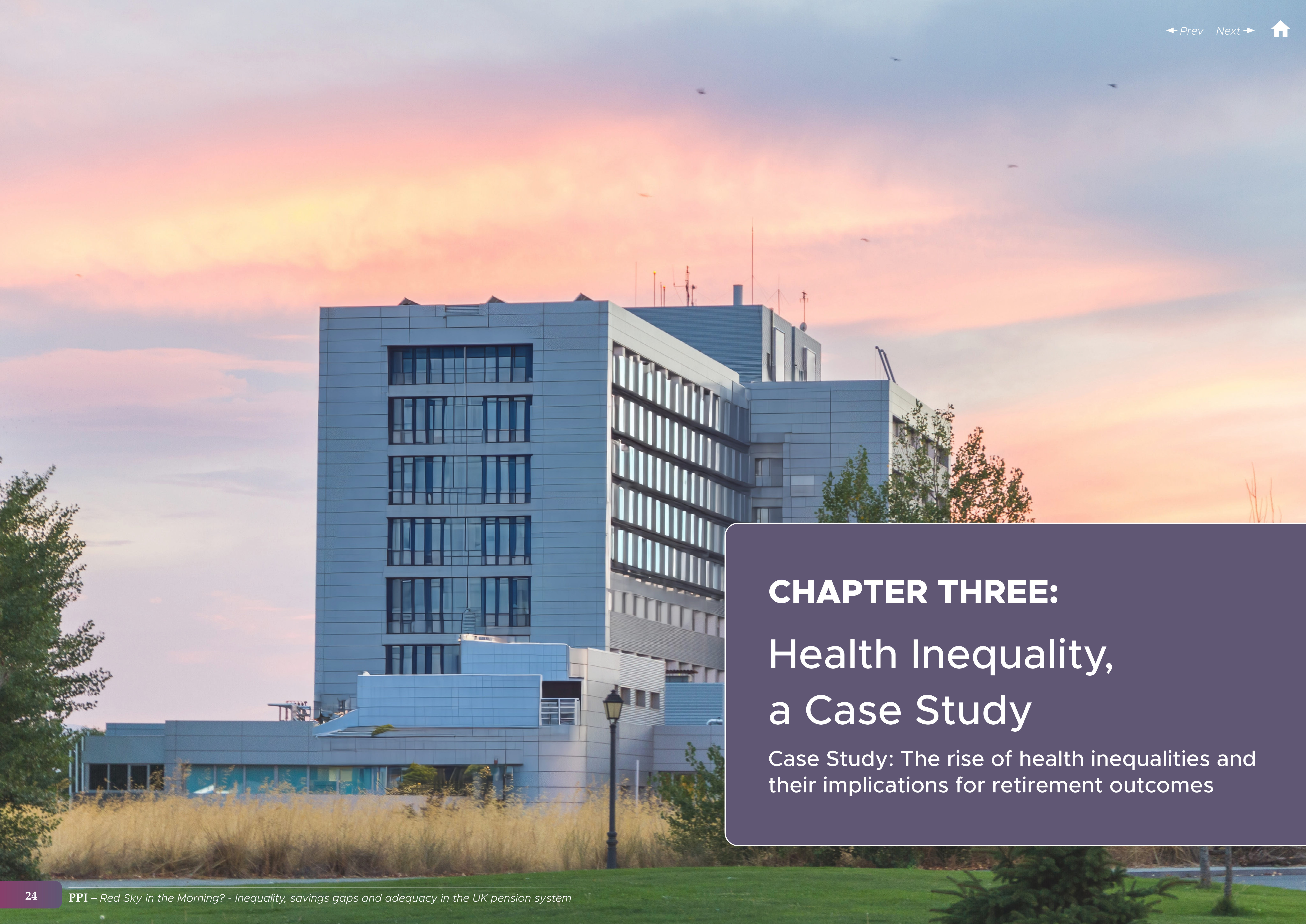
Evidence in this chapter shows that the success of pensions policy will be determined not just by what has happened to inequalities in the past, but by what is likely to change in the future as the circumstances people have will determine the income they accumulate over their lifetime.

It highlights not only where changes to savings gaps and inequalities could improve adequacy, but where important issues could make it harder for people to save for later life that policymakers should consider in preparation for an upcoming pensions review.

In most cases, these differences are determined by the positive effects of expansive national policy reforms, and the detrimental effect of widening socioeconomic and structural inequalities on adequacy. To some extent, the simple, universal nature of recent policy reforms is helping to narrow differences in retirement adequacy by extending the benefits of pension saving to large numbers of people at risk of poor outcomes in later life. However, it also brings risks to millions of workers whose diverse individual circumstances mean that they are disadvantaged in part by the lack of flexibility in a universal approach to policy design, and in part by the inconsistency of safety nets behind it.

Along with the prevailing inequalities of income and wealth, emerging inequalities that are most likely to widen differences in retirement outcomes are those relating to health, housing and wealth, as well as how much people work and who they work for.

[20] Fabian Society (2023)



CHAPTER THREE:

Health Inequality, a Case Study

Case Study: The rise of health inequalities and their implications for retirement outcomes

Chapter Summary:

This chapter looks in greater detail at health inequalities, which emerge from the UK Pensions Framework analysis as one of the fastest-growing risks to employment and ultimately to retirement adequacy under the UK pension system. Key findings include:

- The UK's high levels of health inequality are quickly becoming one of the most important public policy challenges of our time because they shorten lives and reduce quality of life among people in the most deprived areas, compared to those in the most affluent areas of the country.
- Health inequalities matter to retirement adequacy because they can determine how much people work, how much they save, how long they live, and their quality of life in retirement. Poor health is widely recognised as both a cause and a consequence of being poor.[21]
- Health inequalities underpin disability as the fastest-growing source of disadvantage in the labour market, particularly among younger workers, and signal a warning for future work, saving and retirement patterns.
- Disabilities also impact carers, among whom more are leaving work and hours spent providing care are rising. Women are more likely to have disabilities than men, more likely to be carers, more likely to be caring for longer hours, and in all cases, less likely to be working than men in the same circumstances.
- The UK shift to a flat rate state pension has reduced some of the regressive effect of differences in life expectancy on state pension benefits. However, health inequalities are likely to widen at the tail ends of the distribution. At the lower end, employment is more precarious and there are relatively few protections for employment, income and pension contributions. At the higher end, better health means that households are able to benefit from the ability to work longer.
- When it comes to retirement, health inequalities have implications for people with both the longest and the shortest lives. The greatest challenge for policymakers is not so much the presence of gaps between them, but the size of the gaps that exist.

Increased longevity is evidence of the unprecedented success of advances in healthcare and other areas of public policy, but its gains are not shared equally and there is little sign of inequalities reducing in the near future.[22]

Health inequalities describe differences in health across the population. They are typically analysed by measures such as life expectancy and healthy life expectancy, meaning the number of years that people are expected to live and the number of years they are expected to live in good health, based on a set of common circumstances or characteristics. On average, a male or female born in 2020 could expect to live around 32 years longer than someone born one hundred years ago, making longer lives one of the most celebrated achievements of recent generations. However, most people do not fit the profile of average, and health inequalities are fast-becoming one of the most important public policy challenges of our time.

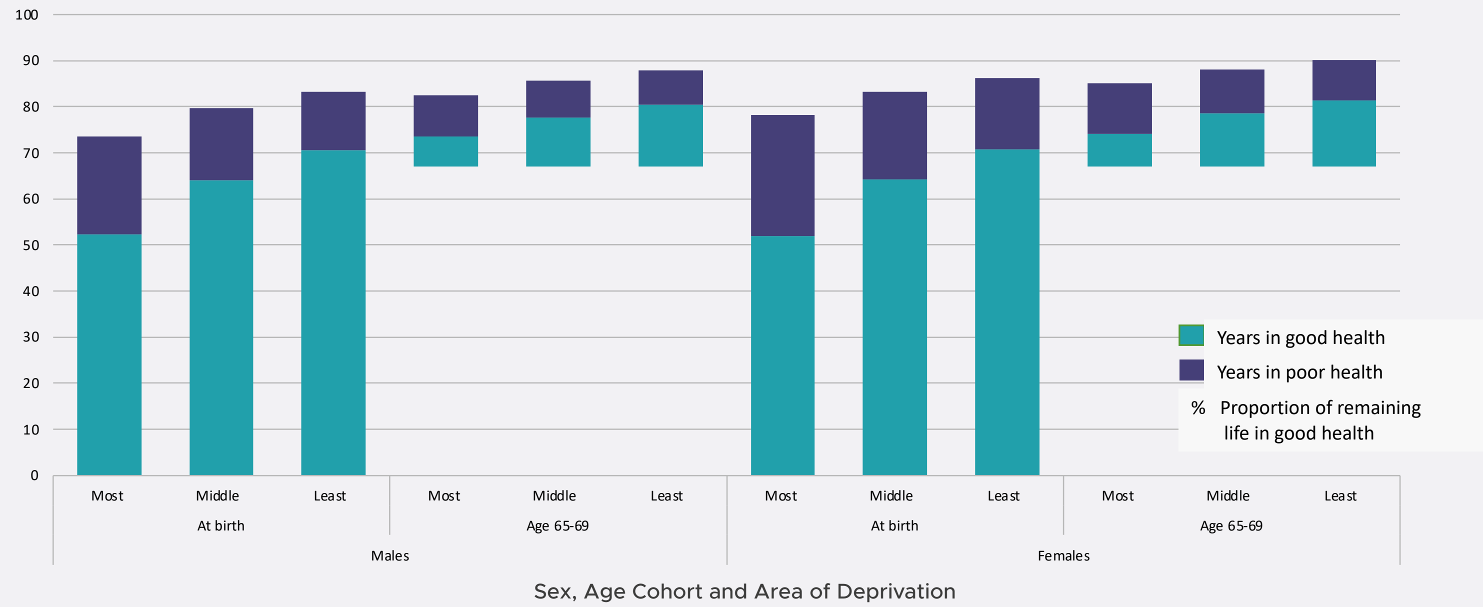
[21] Bell (2024); Marmot (2011)
[22] Raymond et al (2024); Ayuso, Bravo & Holzmann (2016)

Longevity gains among the most deprived areas of the country have consistently lagged those of the wider population.

In 2020, life expectancy at birth among the country's most deprived groups was still around the same as the average of the population had been in 1990. Males born in areas with the highest deprivation in 2020 could expect to live an average of ten years less than their counterparts from the least deprived areas while for females, the difference was eight years (Figure 3.1) In some areas of the country, the difference can be as much as 18 years between people who live just a few miles away from each other.[23]

Figure 3.1: People from the most deprived areas have shorter lives and fewer years in good health than those from the least deprived

Cumulative healthy life expectancy and life expectancy by sex and age cohort (at birth and at 65-69) by decile of deprivation, England, 2018-2020



Source: Health State Life Expectancies by Deprivation Deciles, England 2018-2020. ONS, 2022

Health inequalities are not just a factor of how long people live, they also determine how well people live.

People in the most affluent areas of the UK can expect around 19 more years of general good health than those in the most deprived areas, where the diagnosis of a major illness will typically occur around ten years earlier (Figure 3.1). The proportion of working-age adults who report having a disability has risen from around 16% to around 23% in just ten years, of whom almost half are likely to be out of work. Behind the overall increase is a sharp rise in poor health among younger adults, a relatively new trend which suggests that health inequality could have a widening effect on employment gaps among savers of today, and pensioners of the future. This the main focus of this chapter.[24]

There is a risk that health inequalities could get worse for the most disadvantaged groups, but better for the least disadvantaged groups.

Where inequalities widen, they are most likely to do so at the tail ends of the distribution. For those in the most deprived or lowest income groups, more precarious work conditions will put downward pressure on income and therefore health inequalities. In contrast, those in the least deprived groups (and those with highest lifetime income) will continue to benefit from the ability to work longer, as well as other factors that in turn increase longevity including better living conditions and access to healthcare.[25]

[23] Life expectancy at birth in the least deprived areas in 2018-20: 73.9 (males) and 79 (females). Average life expectancy at birth for England and Wales in 1990: 73.4 (males) and 79 (females); OHID (2022)
[24] PPI analysis of FRS
[25] Ayuso, Bravo & Holzmann (2016)

Health inequalities matter to retirement outcomes because they can determine how long you work, how much you save, how long you live, and what your quality of life is likely to be like in retirement.

Health inequalities matter to public policy for many reasons. When it comes to pensions however, both longer lives and shorter lives present challenges to a system in which good outcomes can be determined by the extent to which they are adequate, fair and sustainable.

Increased longevity brings both opportunities and challenges to the UK pension system.

On one hand, longer lives can allow people to benefit from the ability to work longer, particularly when working longer is associated with higher lifetime income and better living conditions, which in turn can increase longevity. This is particularly true for people from the most afluent areas of the country where longer lives are most likely to come with more years in good health, as the proportion of extra years spent in good health reduces as deprivation increases.

Without adequate mitigation however, longer lives also put pressure on public and private pension systems (as well as other age-related policy areas including health and long-term care), whose purpose is to support people in building adequate and sustainable sources of income through later life. They are the reason for recent transformations in the UK pension system including the shift from DB to DC, and reforms to the UK state pension system (and a rising State Pension age). As a consequence of the reforms, rising longevity also puts added pressure on individuals, who now bear most of the risk and responsibility associated with making their savings last after they leave the labour market.

The strong link between contributions and benefits in the UK pension system is dependent upon low rates of distortion in labour market behaviours.

On the other hand, rising rates of ill-health and disability ultimately lead to shorter lives, reduce the work that people can do and lower the income they can earn over their lifetime. Under the UK pension system, there is a strong link between income, earnings, contributions and retirement income because most people will need to supplement the flat-rate State Pension with earnings-related income from their DC savings. This link is heavily dependent upon having low rates of labour market distortions, meaning that people are expected to follow similar and predictable patterns of employment if they are to save enough for later life. If the link is disrupted however, as it is by employment or longevity gaps that result from widening inequalities in health and life expectancy, then it will lower the contribution base from which retirement income (both public and private) are determined.

Policy Implication

Health inequalities have implications for people with both the longest and the shortest lives under the UK pension system. Those with shorter lives spend fewer years in work and contributing to a pension, but fewer years in retirement. Those with longer lives spend more years in work but require higher savings and income to support more years in retirement. For policymakers, the greatest challenge is not so much the presence of health gaps, but the size of the gaps that exist.

The strong link between contributions and benefits in the UK state and private pension systems is dependent upon low rates of distortion in labour market behaviours. Health inequalities have the potential to materially disrupt employment patterns and present a growing risk to the adequacy of private pensions, and the sustainability of public. Although this link provides a straightforward system, it also entrenches inequality among those with less secure employment and opportunities for workplace pension saving.

Health inequalities are not simply a matter of rich and poor, they are closely linked to wider factors that together determine deprivation.

"People may be considered to be living in poverty if they lack the financial resources to meet their needs, whereas people can be regarded as deprived if they lack any kind of resources, not just income."[26]

Health inequalities are highly correlated with economic inequality and differences in lifetime earnings, but are perhaps better explained by measures of deprivation. Deprivation differs from income or poverty because it considers a wider range of factors that together influence health outcomes. In areas of highest deprivation, people typically face multiple, complex and interrelated disadvantages linked to income, employment, health, education, crime, housing and living environment; as well as factors which further influence health outcomes including access to services, smoking and diet, social networks and the control people feel they have over their lives.[27]

Differences in deprivation, and therefore differences in health, have widened in recent decades because groups from more deprived parts of the country have seen fewer benefits from improvements in working conditions, living conditions and healthcare than those from the least deprived areas. Studies have found that if everyone in England had the same mortality rate as people living in the best-off areas, there would have been around 877,000 fewer premature deaths between 2003 and 2018, equivalent to one death every ten minutes.[28]

Areas of high deprivation can be found all over the country.

The UK is known for its regional inequality, which generally finds that areas outside London and the south of England have the highest levels of poverty and lowest levels of income. However, areas of high deprivation are often clustered together geographically and can be found across the UK in rural, urban and coastal areas such as those in the East Midlands, Kent and the South West, as well as metropolitan areas including London, Birmingham and the North West.[29]

Inequalities are also found both within and between local towns and cities. In Westminster for example, males from the Knightsbridge and Belgravia ward are expected to live 18 years longer than those from the Westbourne ward. Among females, the difference is around nine years and equivalent to the national average. Similar effects are reported around the country.[30]

Policy Implication

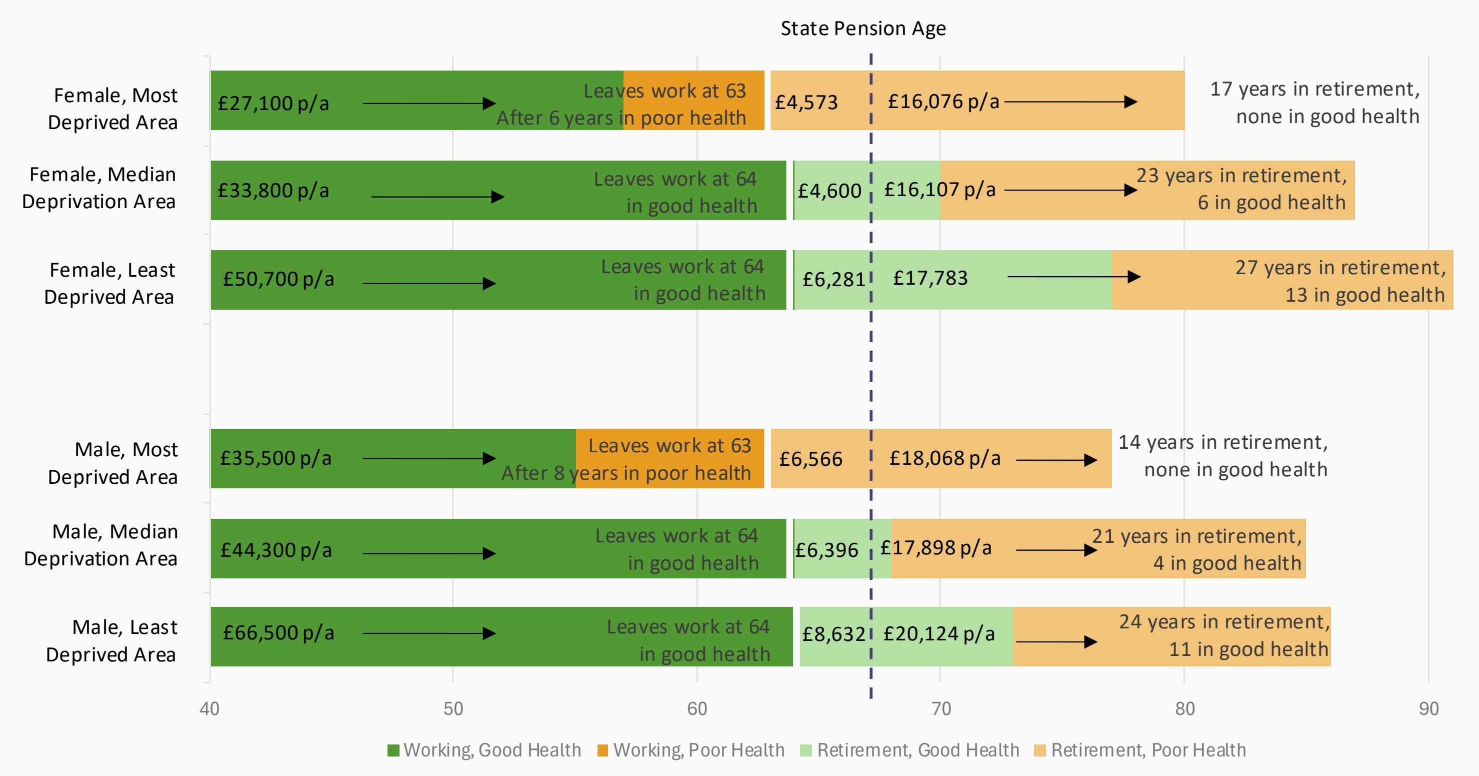
Health inequalities are linked to differences in lifetime income, which in turn are linked to overall levels of inequality in income and wealth. However, health (and other inequalities linked to lifetime income) can lag economic inequality because of the time that it takes for their effects to build up. This means that today's differences in longevity and population health are likely to persist or continue increasing in years ahead, and policy measures to reverse health inequalities may require a period of time commensurate with the time over which they have evolved to be effective. Supporting areas of high deprivation with other forms of targeted resources to counteract the effect of low lifetime income will therefore have the most immediate impact on health inequalities.

[26] MHCLG (2019)
[27] OHID (2022); MHCLG (2019)
[28] Lewer et al (2020)
[29] Raymond et al (2024)
[30] OHID (2024)

Figure 3.2: Health inequalities shorten lives and reduce quality of life among people in the most affluent areas compared to those in the most deprived.

People in high deprivation areas are most likely to fall ill during working life, but those in areas of low deprivation need to make their income last longer

Shows the average number by areas of deprivation (low, middle and high) of years that men and women are likely to spend in poor health before and after leaving work, and the average income they are likely to live on (DC income plus State Pension after SPa)



Notes: PPI analysis of FRS, ONS and ONS data. Working life income represents earnings at age 40. Individuals who have left the labour market are assumed to be in retirement. Earnings calculated as a proportion of median income based on analysis of material deprivation indices and regional income. Earnings at the 5th percentile (most deprived) are 80% of the median, earnings at the 95th percentile (least deprived) are 150% of median. Effective retirement age is calculated as the age when more than 50% of people in this group have left the labour market. Retirement income assumes continuous 8% contributions over 30 years, with annual uplift of 2% and 25% tax-free lump sum taken at retirement. Retirement income is calculated by converting DC pot to an illustrative income which reflects cohort future life expectancy. State Pension is added to income from age 67.

PPI analysis of median earners at age 40 in the most, middle and least deprived areas of the country show the material impact of differences in health and deprivation on the experiences people have as they live through later life (Figure 3.2). Although figures are based on a series of averages and will vary considerably between individuals, the most stark differences relate to groups who have to work in ill health and groups who are able to retire while they are well, although less deprived groups have longer lives which reduce differences in the income people have to live on through later life.

From the most deprived areas, median earners are likely to:

- Face the onset of ill-health or disability while they are still working. Among males, the onset of ill health is likely to occur around 8 years before leaving the labour market (6 years among females) and for both males and females, around 20 years before those from the least deprived areas.
- Face a longer and more precarious period of time between leaving work and receiving their State Pension (around 4 years) due to lower levels of private pension income and discretionary saving. Together, circumstances are resulting in greater pressure to work through periods of ill health, less agency over when to leave the labour market and rising levels of poverty among people in their 60s.
- Leave the labour market at age 63, around a year earlier than those from areas of middle or high deprivation, before spending around 17 years in retirement (females) or 14 years in retirement (males), all of which is likely to be in poor health.
- Save around half as much into a DC pension as someone from the most deprived area (£112,000 compared to £220,000 among men and £87,000 compared to £171,000 among women); with a tax free lump sum of around £28,000 (males) or £22,000 (females) when they leave the labour market; but
- Have a combined state and private pension income of a comparable level to someone from the least deprived area because they do not face the same longevity risk (£16-18,000 per annum). This figure is illustrative only, uncertainties around the level and adequacy of income that people might draw on in retirement include their own expectations around longevity, costs associated with their health condition, and the extent to which they need to draw down on pension savings to cover their living costs in the years between leaving work and receiving their state pension.

From areas of average deprivation, median earners are likely to:

- Have life expectancy similar to those from the least deprived areas but with more years in poor health and lower levels of income.
- Leave the labour market at age 64, before spending around 21 years in retirement of which 4 years are expected to be in good health (males); or 23 years in retirement of which 6 years are expected to be in good health (females).

From the least deprived areas, median earners areas are likely to:

- Remain in good health until they leave the labour market at around age 64, then spend around 27 years in retirement of which 13 are expected to be in good health (females); or 24 years in retirement of which 11 are expected to be in good health (males).
- Save around twice as much into a DC pension as someone from the most deprived area (£220,000 compared to £112,000 among men; and £171,000 compared to £87,000 among women); but
- Have a combined state and private pension income of around the same level as someone from the most deprived area because they can expect to live around ten years longer.

Policy Implication

The UK, like many other countries, has linked its State Pension age to life expectancy in the expectation that people will respond by postponing their retirement. In recent years however, inequalities in health and longevity have been driven by larger gains among less deprived groups compared to the most deprived groups, where improvements have stalled in recent decades.

A rising State Pension age entrenches health inequalities because it puts greater pressure on people to work longer, particularly those from more deprived backgrounds who are more likely to have to work through periods of ill health due to lower levels of pension and discretionary saving. On the other hand, groups from the least deprived areas may also need to work longer than they had expected because they benefit from more years (and therefore higher lifetime spending) in retirement. However, people from less deprived areas are considerably more able to work until later ages because on average, they are likely to stay in good health around twenty years longer than those from the highest deprivation areas.

State Pension age is scheduled to rise to 67 between 2026 and 2028, and a further rise to 68 is planned. Without considering how to mitigate widening imbalances in healthy life expectancy in any future rises, a future increase could further entrench differences in health through later life.

Policy Implication

Much of the discussion around health inequalities focuses on those in the most disadvantaged groups, while also recognising that those with the longest lives can work longer but will require greater resources to achieve an adequate income throughout their retirement. However, groups in the middle face a squeeze from both sides because they live almost as long as the least deprived groups (85 years compared to 86), but with fewer years in good health (68 compared to 73). As State Pension ages increase, it looks likely that these groups will be able to work to State Pension age, but will have little or no time to enjoy their retirement in good health and less to live on because lower earnings have produced lower lifetime income. For these people, engaging with their pension saving may afford some flexibility around when they leave the labour market.

Health inequalities underpin disability as one of the fastest-growing sources of disadvantage in UK labour markets. The number of working-age people with a disability rose to 9.1 million (23%) between 2012-13 and 2022-23[31]

Disability and health gaps are increasingly likely to lead to pensions gaps because people with long-term health conditions or disabilities are less likely to work, and less likely to return to work after a career break than those without disabilities.

25% of working-age women and 20% of working-age men reported having a long-term disability in 2022-23, up from 14% and 16% in 2002-03.[32]

Rates of disability started rising from around 2010. In 2012-13, around 6.1 million working-age adults reported a disability, equivalent to around one in six people. By 2022-23, this figure had risen to 9.1 million people, almost one in four people across the working-age population. In 2010, more men than women were likely to have a disability. In 2022-23, the reverse was true.

A disproportionate rise in ill-health (particularly mental health) among younger adults explains much of the increase in disability, rather than by SPa increases which increase the share of older adults in working-age groups. Between 2012-13 and 2022-23, rates rose faster for adults under 45 (9% among women and 5% among men) than for adults aged 45-SPa (5% and 3%).

The prevalence of disability and ill-health are predicted to continue rising over the next twenty years. 80% of the projected increase in the number of working-age people living with major illness between 2019 and 2040 will be concentrated in more deprived areas, where people can be diagnosed with a major illness up to ten years earlier than those in the least deprived areas.[33]

Findings signal that younger people could be more likely to experience career disruptions than in the past, and consequently greater pensions gaps. They also mean that the jobs people can access will play a key role because a lack of good jobs has been found to be bad for people's health, and poor health can make it harder for people to find appropriate work.

Figure 3.4: The proportion of people with a disability in work is rising, but the number of disabled people who were not working rose by 800,000 to 3.5 million because of the overall increase in disability.

The share of working-age men with a disability rose to 20% in 2022-23 (4 million men), up from 16% in 2012-13 (3 million men)	Of men with disabilities, the share in work rose to 53% in 2022-23 (2.1 million) from 43% in 2012-13 (1.3 million). The share out of work fell to 47% (1.84 million) from 57% (1.7 million)	Overall, there were 820,000 more men in work with a disability in 2022-23 than in 2012-13. However, 140,000 more men with a disability were not working due to the overall rise in disability.
The share of working-age women with a disability rose to 25% in 2022-23 (5.2 million women), up from 14% in 2012-13 (3.1 million women)	Of women with disabilities, the share in work rose to 54% in 2022-23 (2.8 million) from 45% in 2012-13 (1.4 million). The share out of work fell to 46% (2.4 million) from 55% (1.74 million)	Overall, there were 1.4 million more women in work with a disability in 2022-23 than in 2012-13. However, 650,000 more women with a disability were not working due to the overall rise in disability.
Overall, the share of working-age people with a disability rose to 23% in 2022-23 (9.1 million people), up from 15% in 2012-13 (6.1 million people)	Of people with disabilities, the share in work rose to 54% in 2022-23 (4.9 million) from 45% in 2012-13 (2.7 million). The share out of work fell to 46% (4.2 million) from 56% (3.5 million)	Overall, there were 2.2 million more people in work with a disability in 2022-23 than in 2012-13. However, 800,000 more people with a disability were not working due to the overall rise in disability.

Beneath headline data, several findings suggest a potentially negative effect for future employment patterns of people with disabilities, and consequently a risk to their ability to save for retirement[34]

- The number of workers (employed and self-employed) with a disability almost doubled to 4.9 million or 16% in 2022-23, up from 2.6 million or 10% in 2012-13.
- The disability employment gap is wider for disabled men, older people (aged 50 to 64), disabled people with no qualifications, disabled people of White ethnicity, and disabled people living in Northern Ireland, Scotland, Wales, the North West and the North East.[35]
- People with a disability are less likely to return to work after a period of absence than those without a disability (7.6% v 26.8% after three months). As well as the limitations brought about by the disability itself, longer periods out of work reduce the likelihood of finding a job, and people with a disability are proportionately older, which can negatively affect the chances of finding work.
- Women face additional disadvantage because they are more likely than men to have a disability (25% v. 20%), although almost equally as likely to be working (54% v. 53%).
- Women with a disability who work are more than three times as likely to work part-time as men (67% v. 20%). However, rates of part-time work fallen among women with a disability, but risen among men.

Policy Implications: Disability and employment

Policy Implication

For people who need to take time away from work in the UK, the UK's flat-rate system of income replacement has been described as "an inadequate patchwork that in most cases falls far behind the support available in other rich countries." The UK remains one of the few European countries without a compulsory system of earnings-related sick pay. In the short-term, time away from work can lead to an income shortfall that means people need to draw on discretionary saving, extend household debt, or access income-related benefits to get by. In the longer-term, it can lead to lower retirement income among those who stop saving, and those use their pension savings to retire early.

Policy Implication

In most but not all cases, pension contributions people receive during a period of leave are reduced in line with pay, rather than protected at prior rates. During maternity or other forms of parental leave, employer pension contributions are based on the level of pensionable earnings that an employee received before taking time off. For those who take time off for illness or other reasons, however, employee contributions are based on actual earnings over the period of leave and are not protected at the prior rate. Although most employers voluntarily pay more, Statutory Sick Pay (SSP) is just £109.40 per week in 2023/24, equivalent to around 16% of gross, full-time median earnings. In all cases, employee contributions are based on actual earnings received in each pay period. The scope of this report does not cover labour market policies and related welfare benefits. However, giving people greater support to maintain or return to employment, replace income and sustain pension contributions beyond existing statutory provision could help boost financial resilience and reduce short, and long-term financial hardship by helping people get through times of need.

Policy Implication

Maintaining the provision of National Insurance (NI) credits remains essential to the longer-term financial security of people who need to take a break from work: The extension of NI credits to certain groups who are not paying National Insurance during career breaks has been a major factor in closing the gap in State Pension income among retired groups. As disabilities continue to rise, ensuring that people who cannot work can continue to receive them through mechanisms such as Employment Support Allowance (ESA) will be crucial in helping people with health conditions and disabilities to maintain their living standards while reducing dependency on welfare benefits in later life. At present, not all groups receive NI credits automatically, meaning not everyone may be claiming who needs to.

[31] PPI analysis of FRS. For the purposes of this analysis, a person is considered to have a disability if they have a self-reported long-standing illness, condition or impairment, which causes difficulty with day-to-day activities. This definition is consistent with the Equality Act 2010 and the GSS harmonised definition.
[32] PPI analysis of FRS. In work includes employment, self-employment, full-time and part-time
[33] Raymond et al, The Health Foundation (2024). In this study, major illness is defined using the Cambridge Multimorbidity score and differs to the criteria used to define disability in FRS.
[34] PPI analysis of FRS; DWP (2023b); ONS (2021)
[35] The disability employment gap is the difference in rates of employment among people with a disability, compared to employment rates among people without a disability.

Policy Implication

Self-employed workers not only save considerably less into their pensions, but they are also excluded from most employment and income protection mechanisms: Periods of ill-health and disability present a considerable risk to the self-employed because they are not eligible for sickness benefits or protections around their work and income in the event of ill health. Self-employed workers are entitled to basic maternity benefits, but in all cases are more likely than employees to become economically inactive after a period out of work. In addition, self-employed workers are less likely to receive the practical support and that employees might have from an employer to help reduce the amount of time off they have to take, or prevent their work from ending.

Policy Implication

Low levels of precautionary saving mean that people with poor health are particularly vulnerable to financial shocks if they have to leave or take unpaid time off work: As disabilities rise, more people are likely to experience interruptions to their employment as they manage periods of ill health. Low legal levels of SSP, along with variation in the level of OSP people receive from their employers mean that people with disabilities are likely to need discretionary saving to manage periods out of work. However, one in three households has less than £1000 precautionary saving, rising to half of all low-income households. Policy initiatives to support financial resilience through precautionary saving (such as allowing access to a limited amount of pension savings through a "sidecar" savings programme) could be of particular help to people who need to balance their health needs with their work.

Rising disability is accompanied by a marked fall in employment among working-age carers, and an increase in the amount of care they provide.

In 2022-23, around 4 million working-age people (10%) described themselves as carers for a parent (41%), child (19%), spouse (14%) or other individual (26%).[36]

The increased need for care provision is an indirect yet important consequence of rising health inequalities. Carers have consistently low patterns of retirement saving compared to the population average because their responsibilities can limit the hours they are able to work. They also have a greater risk of ending up in poverty than other group.

The overall proportion of people who say they provide informal care was largely unchanged since 2012-13. However, there were some important changes in the challenges that carers face around managing work and caring responsibilities:

- **The employment gap between carers and non-carers widened** between 2012-13 and 2022-23, as 600 carers a day leave their job because they are unable to balance their caring responsibilities with work. The number of working-age carers in work fell from by 240,000 people between 2012-13 and 2022-23 (67% to 61%). The greatest falls were among women (67% to 57%), but employment also fell among male carers (70% to 65%).[37]
- **The share of carers providing more than 35 hours a week of care has doubled** and potentially explains some of the widening employment gaps among carers. In 2022-23, 15% of both male and female carers (600,000 people) were providing more than 35 hours a week of care, up from 7% in 2012-13. Of these, around half are caring for a parent or spouse/partner.
- **Working-age carers were more likely to be looking after a parent than any other dependent (41%).** However, the share of people looking after a parent fell slightly over ten years (from 49%) as people become somewhat more likely to care for a spouse or a child. 1 in 5 men and 1 in 4 women described themselves as a sandwich carer in 2022-23.
- **Half of all carers were looking after someone outside their household,** although more people were providing care for someone inside their household in 2022-23 (46%) than in 2012-13 (37%), potentially because they were more likely to be caring for children.
- **Across all age groups in the UK, 2 million carers live in poverty, often brought about by inability to participate in work and dependency on income-related benefits.** The poverty rate for unpaid carers was 50% higher than for those who do not provide care (27% v 18%)

Policy Implications: Carers and employment

Policy Implication

Policies to help carers remain in work or support temporary periods of absence could help to reduce the number of carers at risk of leaving the labour market or falling into poverty: Carers who are employed are legally entitled to just one week's unpaid leave per year, meaning that their short and long-term financial security is at greater risk than those on other forms of statutory leave (such as maternity leave or SSP) because they have fewer protections around employment, income replacement and pension contributions in the event that a week is not enough to fulfil their caring commitments. Self-employed workers have no protections beyond Carer's Allowance. As the prevalence of disability has risen, so too has the amount of time that people spend providing care, which in turn correlates with a fall in the proportion of carers in work. Together, these trends suggest that policies such as extended carer's leave could become increasingly important to help carers juggle work and care, stay in employment and better protect their short and long-term household finances.

Policy Implication

Long-term shortfalls in capacity and capability in the adult social care sector are adding to pressures on carers: Although social care policy is beyond the scope of this report, supporting the long-term prospects for living standards among unpaid carers can only be achieved with a holistic approach that includes a wider reform of the social care sector. This includes recognising the risks that carers face to current and future living standards when designing policies around rising demand and changing needs of local populations, as well as the implication of delays to decisions around the future of social care funding.

Policy Implication

Carers have fewer protections and lower benefits than adults they look after: Carer's Allowance is considered an earnings-replacement benefit. Although it is not means-tested, it is only available to people who are providing more than 35 hours a week of care to a qualifying individual, not gainfully employed (defined as earning more than £151 a week), and not in receipt of other income replacement benefits (such as the State Pension). Not only are eligibility thresholds very high, especially for carers who have to give up full-time jobs to work part-time, but Carer's Allowance is paid at a lower rate than other benefits. In 2023/24 it was £76.75 per week, or 14% of median earnings. SSP was £109.40, statutory maternity, paternity and parental allowances were £172.48, ESA was £84.50, and JSA was £84.80. People in receipt of Carer's Allowance are automatically credited with Class 1 National Insurance contributions which are essential to protecting carers from poverty in retirement. People who do not receive Carer's Allowance but who provide at least 20 hours of care can claim NI credits, but it is likely that take up is low among this group. Carers are also vulnerable to low levels of precautionary saving.

[36] PPI analysis of FRS
[37] Carers UK (2024); PPI analysis of FRS.

Widening regional inequalities underpin differences in both the prevalence of disability, and in disability employment gaps around the UK[38]

In 2022-23, there were more working-age people with disabilities in all areas of the UK than in 2012-13. The highest prevalence of disabilities, and the largest increases in the prevalence of disabilities, were generally concentrated in more deprived areas of the UK. Rates of disability in the North East of England (31%), Wales (29%) and Scotland (27%) were twice that of London (14%) in 2022-23.

Figure 3.6: Employment gaps between people with and without a disability generally narrowed across the UK between 2012-13 and 2022-23, but some areas improved more than others.

UK Region	With Disability 2022-23 (%)	Change in Disability 2012-13 to 2022-23	%With Disability in work 2022-23	% Without Disability in work 2022-23	Employment Gap	Change in Employment Gap 2012-13 to 2022-23	Change in number with a disability not working
North East	31%	+8%	52%	83%	31%	-7%	+33,107
Wales	29%	+10%	46%	81%	35%	-5%	+81,539
Scotland	27%	+9%	52%	81%	29%	-11%	+95,074
East Midlands	25%	+6%	52%	85%	32%	0%	+92,778
West Midlands	25%	+8%	50%	79%	29%	-8%	+110,032
North West	24%	+6%	44%	79%	35%	-3%	+132,703
Yorks & Humber	24%	+5%	52%	80%	28%	-8%	+34,427
South West	23%	+8%	60%	85%	25%	-6%	+87,824
East	23%	+8%	61%	85%	24%	-7%	+93,342
UK Total	**23%**	**+6%**	**54%**	**81%**	**28%**	**-8%**	**+793,302**
N. Ireland	22%	+5%	41%	84%	43%	-1%	+25,487
South East	18%	+5%	63%	83%	20%	-12%	+44,317
London	14%	+2%	56%	79%	23%	-12%	+3,945

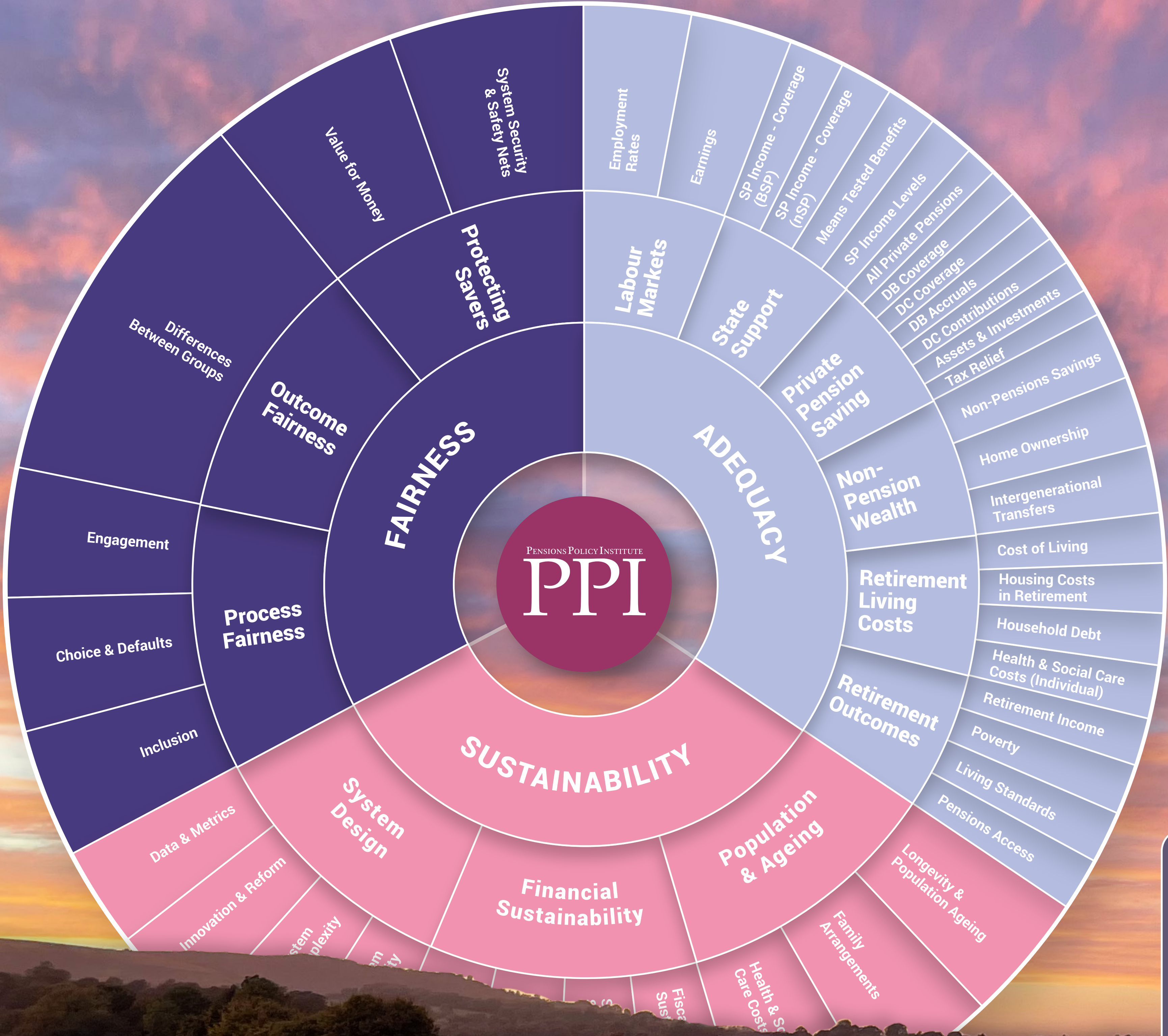
- In 2022-23, disability among working-age groups was most prevalent in the North East, Wales and Scotland. The widest employment gaps between those with and without a disability were in Northern Ireland, Wales, the North West, North East and East Midlands.
- The largest increases in employment among people with a disability were observed in London (12%), the South East (12%) and Scotland (11%).
- Employment gaps saw little improvement in the East Midlands (0%), Northern Ireland (1%), the North West (3%) and Wales (5%). Consequenlty, some of these areas saw a considerable increase in the number of people with a disability who were not working, adding up to almost 800,000 people across the UK and highlighting the localised nature of these challenges.
- The likelihood of being an informal carer is also concentrated in regions which also have higher levels of disability. Men in the East Midlands or South West (13%) were twice as likely to be carers as in London or the South East (6%).

[38] PPI Analysis of FRS

CONCLUSION

Differences in both life expectancy, and healthy life expectancy, in the UK are sizable, closely linked to lifetime income and deprivation, and not expected to reduce in the near future. The worse an individual's level of deprivation, the worse their health is likely to be. Health inequalities matter to retirement outcomes for many reasons, and in great part because quality of life in retirement is not just about the income that people have, but about what they can do with the income they have.

To some extent, the universal nature of key elements of the UK pension system including the increasing State Pension age in the public pension system and the tightening of the earnings-contribution link in the private pension system, have the effect of entrenching inequalities between those with the highest and lowest levels of health in the population. Although the emphasis on work to address health inequalities will naturally focus on groups with the greatest deprivation, in the context of pensions it is also important to consider the impact of proportionately longer lives on retirement adequacy among less deprived groups. In all cases however, the biggest challenges presented by health inequalities on retirement outcomes can be attributed to the size of the gaps between people, rather than the existence of gaps themselves.



CHAPTER FOUR:

Trends from the UK Pensions Framework Analysis

Chapter Summary:

This chapter documents headline findings from analysis of trends in gaps and inequalities across the UK Pensions Framework, along with evidence and implications. Key findings include:

- **Labour markets:** Modest improvements in employment and earnings gaps signal some reduction in pension gaps, but persistently unequal working patterns among underpensioned groups and rising rates of disability will continue to underpin retirement inequalities.
- **Income and Earnings:** UK income inequality remains high by international standards, but low and uneven rates of real wage growth have suppressed pension saving across all groups since 2008
- **State Support:** Differences in State Pension income are narrowing among younger pensioners as reforms reduce links to employment and earning patterns; but future inequalities will depend on eligibility criteria and State Pension age rises, as well as eligibility and indexation mechanisms for both the State Pension and other retirement benefits
- **Private Pension Saving:** Automatic enrolment has made a material contribution to reducing pension gaps, but low contributions and persistent variation in the risks that savers face from the type of employment, scheme and savings pattern they have will continue to underpin differences in future retirement outcomes.
- **Household wealth** is more unequally distributed than income, and the difference in the value of total household wealth between the richest and poorest has widened over the past twenty years

Key Findings:

- Groups with recurring patterns of low retirement income have lower rates of employment and higher rates of part-time employment than the average across the UK.
- Employment gaps are strongly associated with structural inequalities including those relating to gender, ethnicity and disability as well as geography. They are most evident among people who face multiple, compounded socioeconomic disadvantages, particularly those relating to health.
- An increase in full-time working has narrowed gender employment gaps, but gender remains the biggest contributing factor to employment gaps and women have poorer pension outcomes than men in all under-pensioned groups.

Key Policy Implications:

- The tightening of pension outcomes to employment and contribution records will likely lead to greater differences in retirement adequacy between people who have had long-term full employment, and those who face social risks or precarious jobs. Protection and safeguards using benefits and increased access to automatic enrolment can reduce the potential impact on people with disabilities, carers and the self-employed, but would generate higher complexity and public spending.
- For those who need to take time off work, the UK has low levels of income and employment protection and little formal protection for workplace pension contributions.
- Low levels of discretionary saving present particular risks to people who need to take time off work.
- Carers receive fewer statutory protections and lower benefits than employees on any other form of leave.
- Self-employed workers have no protections at all in the event they need to take time off work.

4.1 Employment

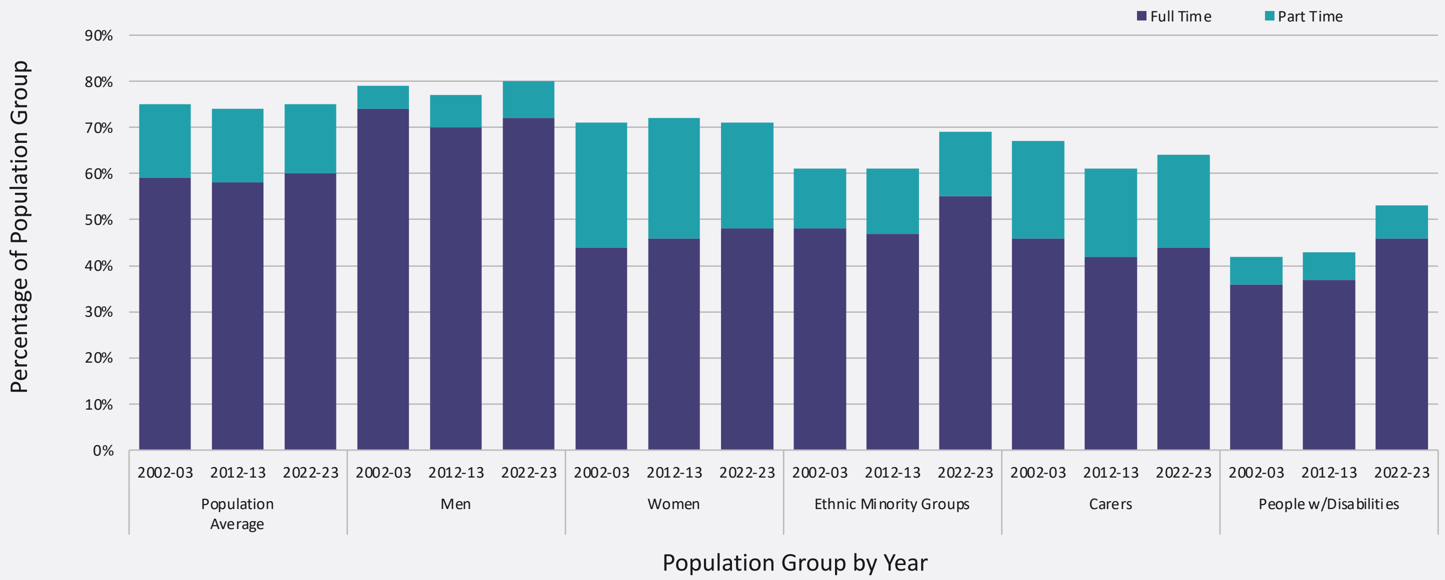
Modest improvements in employment and earnings gaps signal some reduction in savings gaps, but persistently unequal working patterns among underpensioned groups and rising rates of disability will continue to underpin differences in retirement adequacy.

UK retirement outcomes are increasingly dependent upon trends in the labour market which, in turn, are heavily driven by structural and socioeconomic inequalities. In recent years, the link between employment and adequacy has been tightened by the return to a low flat-rate State Pension in 2015 and the introduction of automatic enrolment in 2012. Although the new State Pension is set at a higher flat-rate than the Basic State Pension (£221.20 compared to £169.50 in 2024/25), its level is set just above that of Pension Credit. Together, this means that reforms have reestablished the purpose of the State Pension as being to provide a basic level of protection against poverty, meaning that any savings beyond this point need to be funded from earnings or other income, along with associated tax reliefs and employer pension contributions.

The PPI's highly acclaimed Underpensioned Index has found that groups most at risk of low financial security in later life all share common characteristics of below average rates of employment, above average rates of part-time work, and below average earnings.

Figure 4.1: Groups with persistently low retirement income (underpensioned groups), have lower rates of employment and more part-time employment than the average across the UK

Proportion of people in full and part-time work by underpensioned group, United Kingdom 2002-03 to 2022-23



PPI analysis of FRS data. This report recognises that people from ethnic minority backgrounds are not a homogenous group, however sample sizes of data across individual ethnic groups are not always large enough to support a more detailed breakdown of this analysis at present.

Lower levels of employment and earnings, coupled with higher rates of part-time work are related to lower levels of pension contributions and lifetime saving, and lower living standards in later life. Groups most at risk of these outcomes include:

- **Women, particularly divorced women and single mothers;** among whom rates of employment (particularly full-time employment) have risen but are still below those of men. 73% of women and divorced women, and 67% of single mothers, were in work in 2022-23 compared to 80% of men.
- **People with disabilities;** among whom an increase in employment from 44% in 2012-13 to 54% in 2022-23 was offset by a material increase in the share of people reporting disabilities.
- **People with caring responsibilities;** among whom employment fell from 67% to 61% between 2012-13 and 2022-23, over the same period in which disability increased. Of non-carers, 77% were in work in 2022-23. Around half of carers who work do so part-time.
- **People from ethnic minority backgrounds;** among whom employment has risen to 68% in 2022-23 from 61% in 2012-13 (compared to 79% among people from white backgrounds). Among these groups, more people work full-time than other underpensioned groups.
- **People in non-traditional employment:** including people with multiple part-time or low earning jobholders and the self-employed. In 2023 13% of the UK workforce was self-employed (4.4 million people) down from a peak of 15% before the pandemic.

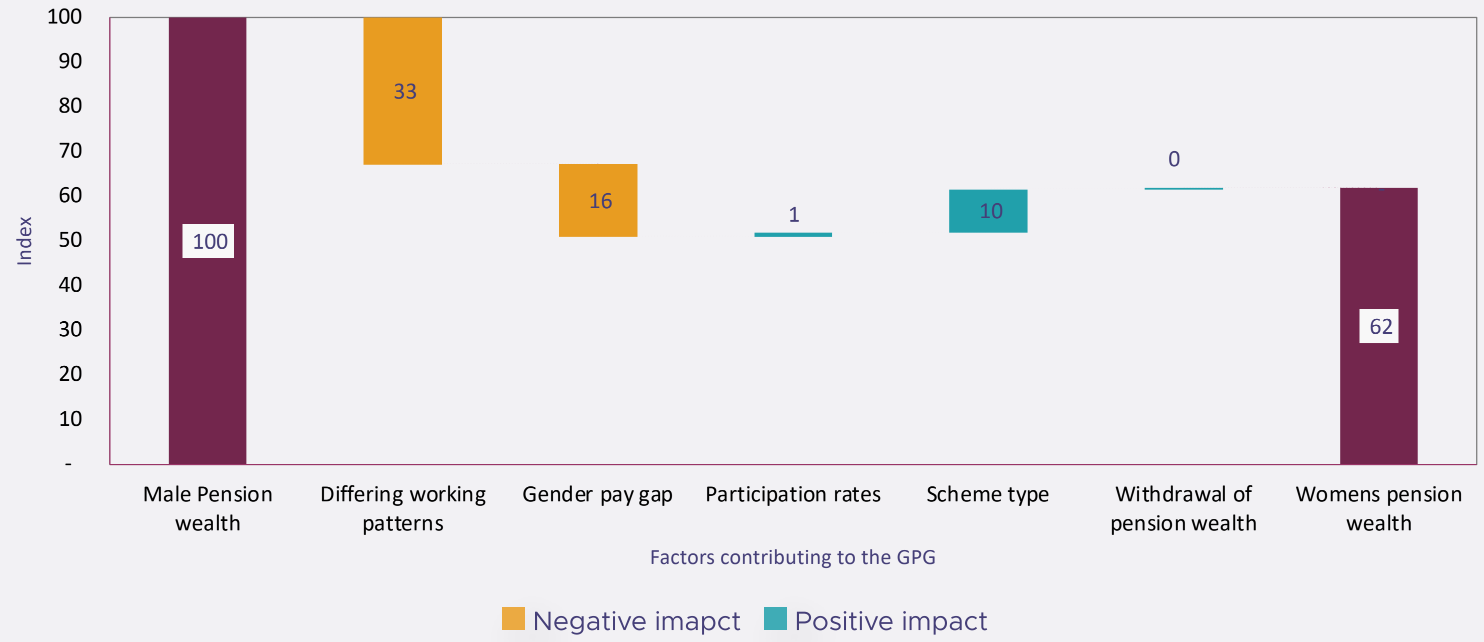
[39] Wilkinson & Adams (2023)
[40] PPI analysis of LFS.

Gender inequalities remain the largest single contributing factor to differences in working patterns and consequently retirement outcomes, even though more women are both in work and in full-time work than in the past.

Adjusted for part-time hours, labour market participation among women is 46% compared to 74% for men. This means that unequal working patterns are the largest contributing factor to the gender pensions gap, as well as much of the gender pay gap. The pattern is consistent across all groups.[39]

Figure 4.2: Women in their late 50s have less than two thirds of the pension saving of men, and working patterns erode the value of women's pension saving by around one third compared to men

Shows the different factors contributing to the difference in the average pension wealth and their magnitudes between a man and a woman aged 57



Working patterns have a greater effect on gender pension gaps than all other factors (33%). The gender pay gap erodes women's pension wealth by around 16%, and the combined effect of the two is only partially offset by the finding that women are more likely to have DB pensions than men, largely because they are more likely to work in the public sector.

On average, employment gaps mean that women have one third less pension saving than men by their late fifties. In all underpensioned groups, women are less likely to work and more likely to work part-time than men. Employment trends include:[40]

- The proportion of women in employment was 72.1% in late 2023 compared to 78.1% of men. This is down slightly from a record high of 72.4% in early 2020.
- The proportion of women in part-time employment rate was 37.4% in late 2023 compared to 14% of men. This is down from 42% in 2018 and 45% in the 1990s because rates of full-time employment grew among women over the past decade, with sharpest increases during the pandemic.
- The proportion of men in part-time employment rate has shown the opposite trend. It rose from around 7% in 1992 to 13% in 2010, and has remained at a similar level since.

There is no straightforward explanation for differences that underpin gender gaps in employment and retirement saving. Among women, prevailing patterns of decision making around the gendered division of caring responsibilities and domestic labour are likely to play a considerable role in different employment patterns. For the most part however, differences in lifetime income can be caused by a multitude of inequalities, many of which are compounded among people who face multiple disadvantages.

4.2 Income and Earnings

UK income inequality remains high by international standards, but low and uneven rates of real wage growth have suppressed pension saving across all groups since 2008

Changes to earnings growth and inequality matter to pension adequacy because they underpin differences in the extent to which people are able to save towards target living standards in retirement.

The increasing importance of earnings-related pension saving means that where real wages increase, or where incomes are high, retirement living standard targets can become more achievable as the value of pension contributions go further towards helping people to afford the outcomes they want through later life. Like employment, however, income and earnings inequalities are closely associated with wider socioeconomic and structural inequalities. And like employment gaps, where earnings inequalities change, they indicate a clear signal that changes to pension gaps are likely to follow.

Key Findings:

- UK **income inequality has been very high** since the 1990s. The UK has become somewhat more equal across much of the income distribution since 1990, but not at its extremes, and headline figures consist of several offsetting factors.
- Increases in the National Minimum Wage (NMW) and National Living Wage (NLW), including among younger workers, mean that **earnings growth has been strongly progressive** in recent years.
- **Real wage growth has stalled** since the Great Financial Crisis (GFC), making it harder for today's workers to maintain or improve their living standards through working or later life than earlier cohorts.
- Gender, ethnicity and regional pay gaps are slowly declining but there is still considerable inequality and regional variation in earnings outcomes.

Key Policy Implications

- Sustained patterns of low real-wage growth and high earnings inequality mean that **it is harder for people to save for later life,** despite recent improvements in earnings gaps for women and lower-paid workers.
- The relationship between real wages, earnings inequality and adequacy is better reflected in metrics that include **fixed income targets** rather than proportional saving targets, meaning that it will be important for a future adequacy review to examine both in order to understand the effects of distributional changes on living standards in retirement.

UK household income inequality has been among the highest in the world since the 1990s by several measures, driven largely by the gap between the middle-and-highest income households[41]

Overall income inequality in the UK (which includes the effects of taxes and cash benefits) rose sharply through the 1980s and has remained high since the early 1990s. Since 2008, household earnings inequality has improved because hourly wage growth has been strongly progressive for both men and women. This is due to a number of factors including increases in the minimum wage, and the fact that hours of work for low-wage men stopped falling. However, the effect of this improvement on income inequality was offset by significant cuts to working-age income-related transfers, meaning that the overall rate of income inequality has remained high and relatively unchanged.

Real-term growth in UK earnings has stalled since the GFC, although nominal wage growth in has been strongly progressive in recent years.

- **The UK has seen no sustained growth in real wages since 2008,** even though average earnings have increased steadily over the past twenty years and in real terms over the past 12 months.[42] After adjusting for inflation, median weekly pay for full-time employees was 8% lower in April 2023 than in 2008. As a consequence, studies suggest that the average worker is making £11,000 less per year (37%) than they would have done if real wages had continued to grow at the rate they did before the Great Financial Crisis (GFC). If the same worker was age 50 in 2008, received 8% in contributions to DC pension and retired in 2024, the difference in pay could also add up to around £6,000 in lost pension saving at retirement.[43]
- **This period of wage stagnation is making it considerably harder for people to save for retirement.** It follows a period before the GFC in which real wages had risen consistently for 60 years and means that not only have improvements in working-age living standards stalled, but the value of pension contributions, and consequently future retirement living standards, will stall commensurately too.

Average hourly pay (year-on-year) increased for groups in all income deciles in 2022-23.

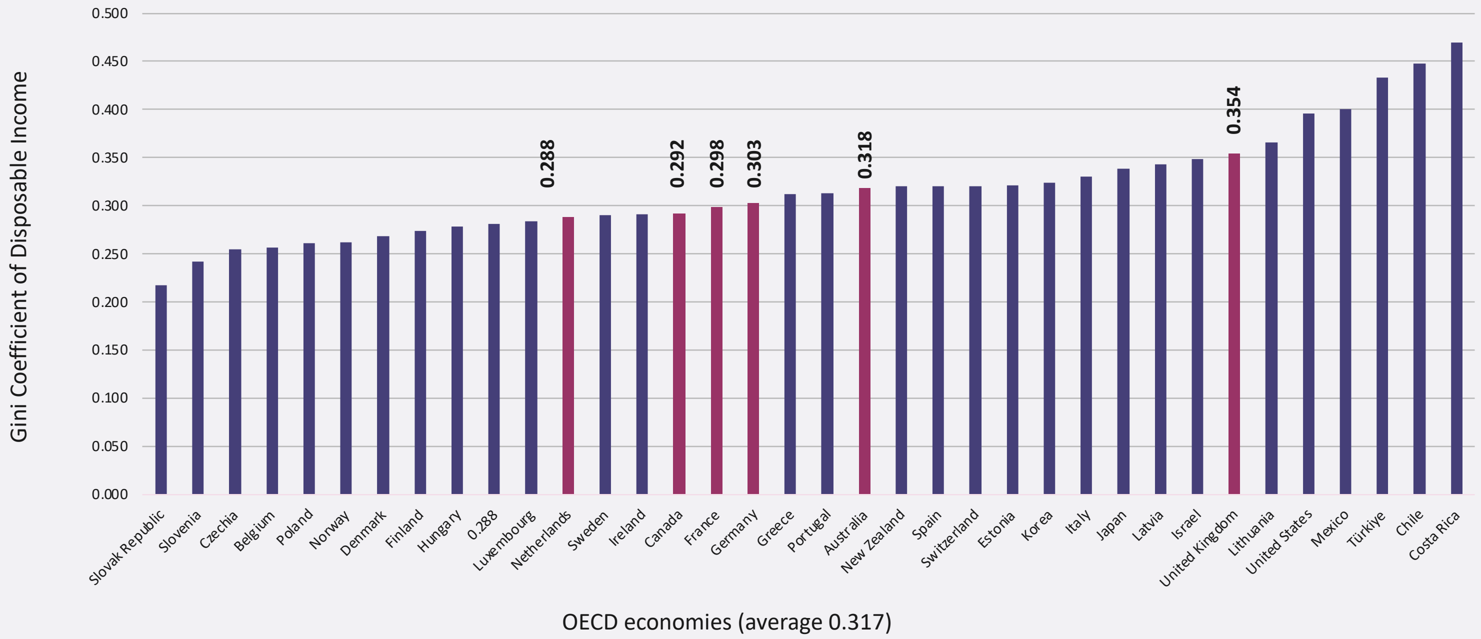
- **Increases in the minimum wage have boosted pay growth among lower-income groups** in recent years. As a result, the proportion of workers in low-paid jobs (less than two-thirds of median hourly pay) fell to record lows of 8.9%, while the proportion of workers in high-paid jobs (1.5 times median earnings) fell to 24.3% in 2023. Gaps between the share of men and women in low hourly pay are also closing quickly. These changes have a small but positive effect on inequality and retirement saving among lower income groups, particularly among younger workers who have more time to benefit from automatic enrolment.
- **The gender pay gap has steadily declined in recent years** (7.7%) and is now low among younger workers (4.7%). However, it remains high and rises among older (10.3%) and part-time employees. Regional variations have also grown. Higher gaps are seen across England than Scotland, Wales or Norther Ireland, and in more affluent areas including the South East (12.5%), the East Midlands (11.6%) and London (11.2%).
- **The ethnicity pay gap remains material but has also declined in recent years.** Black, African, Caribbean or Black British employees consistently earned less than White employees between 2012 and 2022. Widespread regional variation shows that the gap in London is 23.8%, compared to 1.4% in Wales.[44]
- **Regional pay gaps remain wide but have narrowed slightly over the past decade.** Real median full-time earnings are lower than, or the same as, in 2008 in every region and country in the UK (average 8%). Falls in real median earnings have been greater in more affluent areas such as the East of England (-16%), London (-12%) and the South East (-11%). In contrast, falls were limited in Northern Ireland (+1%), Scotland (-1%) and Wales (-3%), and between 5-7% for all other areas.[45]

[41] ONS (2023a)
[42] Average weekly earnings over the year to July 2024 (excluding bonuses) rose by 5.1% to £649, representing real term annual increase of 2.2%. Average weekly earnings were estimated at £689 for total earnings (including bonuses), representing a real term annual increase of 1.1%. (ONS 2023a)
[43] Resolution Foundation (2023)
[44] ONS (2023b)
[45] House of Commons Library (2023)

If the UK had lower income inequality, more people would be brought into automatic enrolment because average income would rise among lower earners, but ongoing low contribution rates means that reduced income inequality would not materially improve pensions adequacy

Figure 4.3: Income inequality in the UK is the highest of all large European economies, and around five points higher than peer economies in the OECD

Income inequality (disposable income), OECD countries 2022 (or nearest available data)
Gini coefficient: 0 = complete equality; 1 = complete inequality



The gini coefficient of income inequality in the UK is around 0.35, making it the second highest of the G7 countries behind the United States (0.4) and amongst the highest in the OECD.[46] By comparison, peers including Australia, Canada, Netherlands, France and Sweden have lower levels of income inequality and an average gini coefficient of around 0.29.

Analysis for this report shows that were UK income inequality comparable to the average of these five peer economies (a reduction from 0.34 to 0.29 among working-age groups) the effects could include:[47]

- Average annual income for households with below average income would be around £1800 higher, with increases largely attributable to rises in employment or hours worked
- Around 600,000 more employees could qualify for automatic enrolment because their total income would rise above the earnings threshold
- Additional income could generate an additional £6,500 in workplace pension saving over 35 years for households below average income, but it is likely that earnings uplift would be used to absorb additional household spending rather than put towards discretionary saving. By comparison, had earnings increased at the same rate as the years approaching the GFC, the average worker would have accumulated an additional £7,000 in pension saving over 15 years.
- Although the annual income uplift would be meaningful, very few households would improve their pension saving to the extent that their livings standards (compared to the PLSA Retirement Living Standard targets) would rise in later life. This is because the UK's low average pension contribution rate (8%) means that the additional income among low-paid households would amount to relatively modest sums by way of long-term saving.
- To improve pensions adequacy through earnings (without moving to higher paid work), will require greater levels of earnings growth, higher contribution rates, or a combination of both.

Fixed income targets better reflect the effect of income inequality on retirement adequacy than proportional targets: Proportional measures of adequacy, such as target replacement rates, are not particularly sensitive to changes in income or earnings inequality because they assume a fixed ratio between the income people need to maintain their living standards from working to later life (around two thirds of pre-retirement income). However, measures of adequacy that target a fixed level of income (such as the PLSA Retirement Living Standards) are more sensitive to income inequality because they measure actual or expected retirement income against the fixed cost of a basket of goods and services associated with specific levels of need or lifestyle in retirement. Where changes to income inequality or real wage growth occur (or when the cost of living changes), it can be difficult to capture the effect on retirement adequacy through analysis of contribution records, or to adjust savings behaviours appropriately.

Earnings remain strongly associated with variation in pension participation and contribution rates, but the likelihood of meeting benchmark replacement rates does not increase proportionately with earnings, with low earners most likely to achieve near their target rates.

- **Participation gaps between different earners have narrowed but still persist.** Differences in participation rates between the highest and lowest earning groups in the private sector had fallen to 16 percentage points in 2022, down from 59 percentage points in 2012. However, the public sector had a higher rate of workplace pension participation for full-time employees across all earnings bands than the private sector.
- **The likelihood of having a workplace pension increases with earnings.** In 2022, 92% of eligible employees in all sectors earning over £40,000 were participating in a workplace pension. Among lower earners, 76% of workers earning between £10,000 to £20,000 were participating. The group with the lowest rates of participation were private sector employees earning £100-£199 per week (43% participation compared to 88% in the public sector).[48]
- **Most private sector members of DC schemes have combined employee and employer contribution rates at the default 8%,** with the exception of larger employers where higher rates are more prevalent. In the Pensions Commission's report, the Commission proposed that the level of income replaced by a mix of the State Pension and automatic enrolment income should be below that of the target replacement rate set for each income group. This was intended to reflect individual circumstances and preferences. However, data shows that: removing the lower earnings limit (as recommended in the 2017 automatic enrolment review) could add around 2% to a median earner's replacement rate for those working a full career.[49]
- **Around 7 million workers in the private sector may be undersaving compared to their Pensions Commission target replacement rate and 5 million are undersaving relative to the PLSA minimum income standard.** Just over half (57%) of all private sector employees saving into a DC pension are expected to hit their target replacement rates (TRR) as recommended by the Pensions Commission, and two thirds are expected to hit the PLSA minimum RLS rate (68%).

[46] The Gini coefficient is a statistical measure of income inequality that measures the distribution of income among a population. It ranges between 0 in the case of perfect equality and 1 in the case of perfect inequality. A higher Gini index means higher income inequality because high-income groups receive a larger share of the population's total income.
[47] PPI Analysis of FRS, based on a hypothetical scenario to estimate the effect of income inequality on pension saving. The gini coefficient is adjusted by reducing equivalised net household income at the 90th percentile by 6%, and increasing it at the 10th percentile by 13%. For the purpose of analysis, the total amount of money in the system, and the cost of benefits, is held constant across the population.
[48] ONS (2022d)
[49] Broome & Mulheirn (2024)

- **Low-earners are more likely than any other earnings groups to reach their target replacement rates, but least likely to meet the PLSA minimum.** Through a combination of State Pension and automatic enrolment in its current form:
  - 88% of people in the bottom quartile of pre-retirement earnings are expected to meet their TRR, but 38% only are expected to hit the PLSA minimum RLS.
  - 57% of people in the second quartile of earnings re expected to meet their TRR, but 60% are expected to hit the PLSA minimum RLS.
  - 47% of people in the third quartile of earnings are expected to meet their TRR, but 80% are expected to hit the PLSA minimum RLS.
  - 40% of people in the highest quartile of earnings are expected to meet their TRR, but 92% are expected to hit the PLSA minimum RLS.

Policy Implication

Revisiting adequacy benchmarks will be an essential task for a Pensions Review because several economic factors have changed since the target replacement rates set by the Pensions Commission in 2004. They include low earnings growth and asset returns, as well as the impact of changes to the tax system and changing consumption patterns among groups across the income distribution.

As the DC landscape evolves, it is becoming evident that a universal approach to automatic enrolment does not support people equally to achieve their retirement expectations in later life, even though it offers the benefit of simplicity and has successfully brought around 10 million people into pension saving. A significant proportion of the working-age population are not saving enough to have a familiar level of income in retirement, and there are also gaps in coverage including younger workers and those in low-paid and part-time jobs, as well as by employer size and sector.

Personal taxes are an important but often overlooked factor in pension saving, but compared to the Pensions Commission estimates, a net reduction in the different between taxes paid on earnings, and taxes paid on retirement income is increasing the likelihood that people are undersaving across all but the highest income groups.[50] Where the difference in tax liabilities between working life and retirement narrows compared to the Pensions Commission assumptions, people need to save more to replace the same level of income in retirement. Where it widens, people need to save less. Although a reduction in differences across the income distribution generally mean that workers are able to retain more of their income in working life, the distributional effect of any future changes to personal taxes will be an important factor in the extent to which groups are able to meet their target replacement rates equally in later life.

4.3 State Support

State Pension inequalities are narrowing as reforms reduce links to employment and earning patterns; but future differences in adequacy will depend on eligibility criteria and State Pension age rises, as well as eligibility and indexation mechanisms for both the State Pension and other retirement benefits

The State Pension is the main source of income for around half of all pensioner households, making up almost three quarters of household income for the fifth poorest quintile of retirees. As the prevalence of DB pensions decline, it will also be the only source of guaranteed income for many.

In recent years, the UK's State Pension system has undergone considerable reform, leading to the replacement of the Basic State Pension (BSP) and earnings-related additional State Pension, with the new State Pension (nSP) in 2015. The reforms have resulted in a considerably simpler architecture and are quickly leading to more uniform outcomes among pensioners because:

1. All qualifying pensioners receive the State Pension from the same age (unless deferred).
2. All qualifying pensioners receive a single flat-rate of income (£203.85 a week in 2024/25, equivalent to 30% of median full-time earnings and uprated by the triple lock every year).
3. The new State Pension is not earnings-related, and is not means-tested.

Key Findings:

- Reforms to the State Pension system have achieved **considerable success** in terms of narrowing income and coverage gaps between pensioners in retirement, and in particular between men and women.
- They have also been successful in **simplifying the system** and reducing reliance on means-tested benefits, although there is room to further simplify the process of claiming NI credits.
- The triple lock has ensured that the value of the State Pension has risen faster than earnings, prices, or working-age benefits, leading to a **gradual improvement in pensioner living standards**, particularly those of low-income households, relative to other population groups.
- UK's broader system of retirement benefits (including means-tested benefits) has elements that are **complex, inconsistent and inefficient**, which overall can have the effect of widening inequality among some of the poorest households
- Single pensioners are three times more likely to claim income-related benefits than couples, and income inequalities are exacerbated by non-take up rates and eligibility rules.

Key Policy Implications:

- Eligibility rules will have an increasingly important effect on differences in State Pension income, meaning that it may be necessary to simplify or streamline the current system of NI credits in order to ensure the highest level of coverage and protection against poverty across the population.
- Any reforms to rules around eligibility or uprating of benefits need to be supported by efficient systems and processes that target households in greatest need.
- Measures to lower the cost of the State Pension are disadvantageous to lower-income households and could risk widening inequalities.

State Pension reforms have helped to narrow income gaps across the retired population, particularly between men and women, but important differences remain.[51]

- Most inequalities in State Pension income are linked to rules that determine (or have historically determined) qualifying years and eligibility. In recent years, the main changes that have helped to lower inequalities include a reduction in the number of qualifying years needed to be eligible for the full amount of State Pension, an expansion of National Insurance credits to parents and carers as well as those with disabilities or unemployed, higher levels of labour market participation among women, and the withdrawal of the earnings-related additional State Pension. Individuals who are not working and do not qualify for NI credits are able to make Voluntary National Insurance Contributions (VNICs) to maintain their qualifying years.
- These changes mean that women who reached SPa after 2016 and receive nSP are more likely to qualify for the full State Pension payment (84%) than women who reached SPa before 2016 and receive BSP (70%). This change reduces the gap between men and women from 25% under the BSP, to 8% under NSP, in part because the proportion of men who qualified for full NSP (92%) was slightly lower than those qualifying for full BSP (95%). At present however, just half of those who qualify for the new State Pension receive the full payment, indicating that a simple and robust system of NI credits will remain crucial to minimising differences in the State Pension income people receive in later life.[52]

[50] Broome & Mulheirn (2024)
[51] PPI Analysis of Stat Xplore
[52] Royal London (2024)

- The withdrawal of the additional State Pension has further helped to reduce inequalities in State Pension income because it removes the link between State Pension outcomes and employment or earning patterns. For pensioners receiving nSP, the income gap between those in the highest and lowest quartile of the distribution has narrowed by 30% among men, and by 60% among women. Going forward, the new flat-rate State Pension will mean that any remaining income inequalities are determined by the number of qualifying years people accrue towards their entitlement, rather than how much they have earned or worked.

Policy Implication

The UK shift to a flat rate state pension has reduced some of the regressive effect of differences in life expectancy on state pension benefits, although many of today's pensioners retain earnings-related income from past forms of additional state pension. Any differences in the total State Pension income that people will receive in the future above other groups will therefore only be the result of living longer, as opposed to the combined effect of living longer and accruing additional earnings-related State Pension benefits.[53] Higher paid workers are expected to live longer than lower earners, meaning that they are in receipt of the state pension for longer. However, they also pay higher salary-related National Insurance contributions than lower earners. The National Insurance fund is a Pay-As-You-Go system where people's NI contributions pay for current benefit recipients, not directly for their own benefits. However, an illustrative study shows that on average, the lifetime NIcs of lower earners constitute a lower proportion of lifetime State Pension income than those on higher incomes.[54]

- Among men earning at the 10th percentile, lifetime Nics make up around 30% of the total State Pension income they are likely to receive.
- Among men earning at the 50th percentile, NICs make up around 60% of State Pension income;
- Among men earning at the 90th percentile, NICs make up over 80% of State Pension income.
- Lifetime NIcs make up a lower proportion of State Pension income for women as a result of gender differences in earnings and higher life expectancy. They also make up a lower proportion of State Pension income for people in receipt of NI credits and the self-employed.

Policy Implication

The new flat-rate State Pension ensures that over time, differences in the income people receive from their State Pension will be linked to labour market behaviour by virtue of qualifying years, not earnings.

As a result, eligibility rules will become increasingly important if the goal of policymakers is to narrow gaps in State Pension income to mean fewer households are at risk of poverty in later life. As well as employment, qualifying years can be accrued through an extensive range of credits which apply to different circumstances under which people are unable to work. NI credits are not, however, universally applied automatically, with some groups being required to actively claim benefits and others receiving them by default when certain benefits are taken up. The requirement to apply for credits in some circumstances can pose a significant barrier to uptake, meaning that this important safety net does not operate equally among groups.[55] For those who are not working or receiving credits, VNICs are an important way to mitigate against gaps in contribution records, but at a cost of £907.40 for FY 2023-23 they are not affordable for all.

The triple lock has helped to increase the value of the State Pension against earnings and prices over time, but with no clear income replacement level to target, there is uncertainty over the extent to which it can be both sustainable and reliable in the future.

- The value of the nSP rose to 30% of median full-time earnings in 2023-24 from 28.9% in 2016, equivalent to just under 25% of mean full-time earnings. Increases have been driven by the triple lock which was introduced in 2010. In spite of concerns that the triple lock would not be uprated in line with inflation during the cost-of-living crisis, it has only once been temporarily suspended due to unusually high earnings data that followed the pandemic.
- The relatively generous nature of the triple lock is the subject of extensive debate, in no small part because its objectives remain unclear. Since its introduction in 2010, it has led to an average uplift in State Pension income of around 3.9% per year, compared to 3.1% for earnings, 3.1% for prices, and importantly, 1.6% for working-age income replacement benefits.[56] This has the effect of widening inequality between the poorest households in working life and in later life.

Policy Implication

Policymakers have two main levers by which to manage the long-term cost of the State Pension system – SPa, and measures of indexation, each of which has a different distributional impact. **A higher SPa is disadvantageous to lower-income groups** because they are more likely to face work-limiting health problems or disabilities during working life. This can drive a fall in short-term living standards for those who need to depend on less generous working-age benefits, a fall in long-term living standards for those who need to draw on private pension saving earlier than expected; and a reduction in total State Pension wealth compared to those who live longer and spend more years in retirement. In contrast, the **flat-rate State Pension itself is progressive** in nature because it replaces a greater share of income in low-income households than in higher-income households. However, this means that living standards in **poorer households are more sensitive to changes to indexation** that might limit uprating, than wealthier households for whom the State Pension makes up a lower share of their household income.

Beyond the State Pension, the UK's broader system of retirement benefits (including means-tested benefits) has elements that are complex, inconsistent and inefficient, which overall can have the effect of widening inequality among some of the poorest households

- **Single pensioners (32%) are still three times as likely to claim income-related benefits as pensioner couples (13%, even though the gap between the two groups has narrowed** Among single pensioner households, women (34%) were more likely than men (28%) to be claiming but the gap between them has not changed in recent years.
- **Income inequalities are exacerbated by the high rates of non-take up of benefits.** In FYE 2022, 4 out of 10 people (around 850,000) who were eligible for Pension Credit did not claim. Average Pension Credit is worth around £2,677 to eligible people, and also unlocks access to other support such as Housing Benefit, Council Tax Support and the Winter Fuel Allowance. Only 8 out of 10 pensioner households entitled to Housing Benefit (worth an average of around £5,500 per year) were claiming, meaning that up to 360,000 people could be missing out on important income support in later life. Considering the high rates of non-take up in the two main income-related benefits, it is likely that non-take up is also prevalent for benefits which people access through other circumstances such as Attendance Allowance and Carer's Allowance.[57]
- **Eligibility rules can mean that some benefits are difficult to access or poorly targeted.** Although there are several, a key barrier to benefits take up is that people need to know firstly that they might be eligible for a particular benefit, and secondly how to access it. In cases like Attendance Allowance, claimants are required to complete lengthy forms to access a valuable and universal payment worth £72.65 or £108.55 per week. In the case of Pensions Credit, people need to know that as well as supplementing State Pension income, eligibility is a gateway to other means-tested benefits including Housing Benefit, Council Tax Reduction, the Warm Home Discount and most recently, the Winter Fuel Allowance (WFA). However, the use of Pension Credit as a gateway to other benefits can be inefficient because payments do not always reach the people who need them.
- **Uprating measures are inconsistent, meaning that not all benefits rise by the same amount.** The State Pension is the only benefit which is uprated by the triple lock, meaning that it impacts living standards more positively than other payments. Pension Credit, claimed by around 1.4 million people in 2022, is uprated at least in line with earnings. Disability benefits (including Attendance Allowance), Carer's Allowance and Additional State Pension are among several benefits which rise in line with prices. However, Housing Benefit, claimed by around 1.1 million pensioner households in 2022, is uprated in line with the Local Housing Allowance (LHA), yet the LHA has no official uprating mechanism. LHA rates were last updated in April 2024 after having been frozen over a period of four years. It was also frozen for four years from 2016 to 2020, along with working-age benefits. During the period to 2024, rents rose rapidly, leading to growing gaps between support and rents and putting some of the poorest households at increased risk of poverty.

[53] Haan, Kemptner & Luthen (2020)
[54] Pensions Policy Institute (2023)
[55] Brain (2022)
[56] DWP (2024). Average uplift for Universal Credit covers the period since its introduction in 2013 to 2023, but excludes the temporary uplift paid to recipients during the pandemic, from April 2020 to October 2021.
[57] DWP (2024)

Policy Implication

Any reforms to rules around eligibility or uprating of benefits need to be supported by efficient systems and processes that target households in greatest need. At present, benefits are not equally accessed, or equally uprated, to the people who need them because their reach is constrained by the architecture of today's welfare system or concerns over cost. Beyond the State Pension, the wider benefits system can be inconsistent and difficult to navigate for people in later life. Recent proposals to means-test the WFA provide a clear example of a reform which aims to reduce cost whilst maintaining coverage among those who need it. However, its ability to achieve both is heavily curbed by the decision to link the payment (along with others) to Pension Credit, meaning that up to 2.5 million households need the money but will not receive it, either because they narrowly miss out on Pension Credit, or don't receive Pension Credit despite being eligible.

Finding ways to narrow the gap between take-up and non-take up of benefits, as well as differences in uprating outcomes, will be key to narrowing inequalities in retirement, and to ensuring that policy design does not disadvantage low-income households. The efficiency of the overall benefits system could become more important in the future as rising disability could impact pension saving among people who people face time away from the labour market, and increases in the share of private renters could lead to an increase in dependency on housing benefits through later life.

4.4 Workplace pension saving

Automatic enrolment has substantially reduced savings gaps, but low contributions and persistent variation in the risks that savers face from the type of employment, scheme and savings pattern they have will continue to underpin differences in future retirement outcomes.

The Labour Markets section outlined how reforms to the UK pension system have increased the link between workplace pension saving and retirement outcomes, reforms which together will likely have the effect of compounding the link between labour market and retirement inequalities.

The extent to which this effect is mediated (either reduced or expanded) by policy design has presented policymakers with a dilemma for many years.

- On one hand, the clear delineation between State benefits and private pension saving now means that responsibility for providing access to earnings-related saving has been fully transferred from the State to the employer.
- On the other hand, this transfer means that responsibility for the design of minimum workplace pension provision effectively now lies with the State, because so many employers design their DC pensions around the automatic enrolment mandate.

Going forward, beyond differences that stem from labour market inequalities and employment gaps, differences in private pension outcomes will be dependent upon automatic enrolment policies.

More specifically, they will be derived from policies that determine participation, contributions, value for money, investment and default pathways, as well as tax relief. A rich body of evidence-based research is growing around the adequacy of retirement outcomes that people are likely to receive under current conditions, not all of which can be replicated in the scope of this section. The focus of this section therefore is to outline where patterns of differences may be widening or narrowing that could impact inequalities in later life.

Key Findings:

- Automatic enrolment has been highly successful in its aim to reduce pension gaps that previously existed between sectors, industries, employers, gender and age groups but not all gaps are not fully closed.
- Smaller employers have lower participation rates and are less likely to provide higher-than-default contribution rates, while non-eligible employees in the public sector are twice as likely to opt-in to pension saving as their counterparts in the private sector.
- Over 3 million current employees do not qualify for automatic enrolment. Rules are most likely to disadvantage young (aged 16-22) and low-income workers and women, who are more likely to be ineligible than men and make up four in five workers below the minimum earnings threshold. Self-employed workers (4.2 million) are more vulnerable to poor retirement outcomes than any other group because they are the only workers expected to make their own pension arrangements.
- Although the type of pension scheme employers provide is typically a function of the overall employee benefits package that they choose to offer to their workers, DC savers face a wide and complex range of risks associated with their scheme type that do not apply to DB savers
- Earnings are strongly associated with differences in pension participation and contribution rates, but the likelihood of meeting benchmark replacement rates does not increase proportionately with earnings. Low earners are most likely to achieve near their target rates under the current system.
- While gender gaps in coverage between full-time eligible workers have almost disappeared, women are less likely to qualify for automatic enrolment than men, less likely to receive higher-than-average contributions than men, and less likely than men to save if they work part time than men.

Policy Implications:

- Adequacy outcomes are increasingly likely to be determined by the design of automatic enrolment because of the high proportion of employers and providers who shape their pensions offering around it.
- The employment opportunities people can access will have a material impact on retirement outcomes, because participation and employer contribution rates vary by employer size, as well as by sector.
- Risks facing self-employed workers were identified in the 2017 automatic enrolment review, and there seems little rationale for not extending an appropriate pension saving opt-out mechanism to this group.
- As the DC landscape evolves, it is becoming evident that while a universal approach to automatic enrolment offers the benefit of simplicity and can target large groups of people, it does not support people equally to achieve their target replacement rates in later life.
- The substantial volume of reforms on the current policy agenda mean that each reform will require careful integration with other policies, and there may be trade-offs associated with how reforms are prioritised. Where there is an opportunity to prioritise reforms, giving priority to savers who have the least time to prepare for retirement could help to mitigate some of the risks faced by Generation X.
- As reforms expand and embed, developing a culture of engagement between employers, providers, members and regulators, rather than a culture of compliance, will lead to better outcomes for savers.

Employer Type and Size

Some of the largest differences in patterns of pension saving are determined by whether workers are employed in the public sector, private sector or self-employment, and for those in the private sector, by the size of the organisation they work for.

Since the introduction of automatic enrolment in 2012, the gap in workplace pension participation between eligible public and private sector employees has narrowed from 46 percentage points in 2012 (88% public sector v. 42% private sector) to 6 percentage points in 2022 (92% public sector v. 86% private sector). Reforms have also narrowed large participation gaps between different occupations, industries and regions, meaning that pension outcomes are less likely to be determined by the work people do than in the past.

Despite this unequivocal success, the type of employer people have still makes a considerable difference to pension outcomes, and therefore to the differences that people accumulate as they approach retirement. They include:[58]

- **Smaller employers have lower participation rates.** Eligible employees in in small (5 to 49 employees) and particularly micro (1 to 4 employees) private sector employers have persistently lower rates of workplace pension participation (81% and 59%) than in large (250 to 4,999 employees) and very large (5000+) employers (91%).
- **Access to higher-than-default employer contribution rates is unequal,** and least likely to benefit employees of small or medium-sized employers, lower income, shorter tenure, a non-salaried position or less experience. In 2022, 4 in ten employees worked for an employer who offered the minimum 3% contribution to all their workers. In contrast, more than half of all employers were offering higher-than-minimum contribution rates to some or all of their staff. However, these rates were most likely to benefit employees of large organisations, those who feel confident making financial decisions (when offered through matching schemes), and those who are already financially secure (when offered as a reward for seniority, retention or recruitment).
    - In 2021, 69% of all automatically enrolled employees working for a business with less than 500 staff received employer contributions worth less than 4% of earnings. In contrast, 65% of employees in a business with 500 or more staff received employer contributions worth more than 4% of salary. Among employees working in a small employer (13 to 100 workers), just 20% were receiving employer contributions of 4% or more. Overall, most employees of small and median organisations (up to 500 staff) save around the default rate, while most employees of larger organisations (more than 500 staff) save above the default rate.
    - Around 10% of employees of larger employers (500 employees or more) received employer DC contributions worth 8% of earnings or more compared to around 3% of workers in organisations with less than 500 workers.
    - Among employers of all sizes, women were more likely to receive contributions below 4% than men, and men in large organisations were more likely to be receiving higher rates.
    - In all cases, employers were likely to contribute more to employees in a Group Personal Pension scheme (GPP).[59]
- **The concentration of minimum employer pension contributions around (but not limited to) SMEs may be explained by several reasons.** In some cases it can be because the employer's objective is simply to comply with legal requirements around providing access to workplace pension saving, or because they believe the default rate to be adequate as recommended by government. In other cases, employers may be sensitive to the cost of providing workplace pensions, or may not have the in-house expertise or benefits culture to further develop an offering beyond the default minimum. In most cases, retirement outcomes are seen by the employer to be mainly the employee's responsibility.[60]
- **Non-eligible employees in the private sector are less than half as likely to save into a workplace pension than their counterparts in the public sector,** despite a threefold increase over ten years (30% compared to 69%). This is important because one third of jobholders still do not qualify for a workplace pension. PPI analysis of the Family Resources Survey and the Labour Force Survey indicates that around 3.25 million jobholders (12% of employees), were not eligible for their employer's automatic enrolment pension scheme, typically on the basis of age or income.[61 62]
- **Self-employed workers are more vulnerable to poor retirement outcomes than any other group because they are the only workers expected to make their own pension arrangements.** Fewer than 1 in 5 self-employed workers is saving into a pension compared to 1 in 9 employees, with rates showing a slow decline over the past 15 years. The self-employed are an especially important group because they make up around 12.8% of the workforce (4.2 million people in 2024), yet do not qualify for automatic enrolment. Analysis has found that around half of all self-employed workers would meet automatic enrolment age and income criteria if they were employees.[63]

    It can be difficult to model adequacy among the self-employed because much of their wealth tends to be held in non-pension assets including property, savings and business wealth. However, around a quarter of self-employed workers have less than £10,000 in total wealth and of those who do contribute, many do not increase their contributions on a regular basis in cash terms. At the current rate of saving, around 55% of self-employed workers would have no pension savings with which to supplement State Pension income in retirement, and just one quarter would achieve the minimum Retirement Living Standards (RLS) produced by the PLSA. If other assets as well as the resources of partners and potential inheritances are included, a larger proportion are expected to meet adequacy benchmarks.[64]

Policy Implication

The range of employment opportunities people can access will have a material impact on retirement outcomes, because participation and employer contribution rates vary by employer size, as well as by sector. Workplace pension arrangements are a reflection, to a great extent, of the overall compensation package that employers choose to provide to their staff, meaning that equalising contributions across employers or sectors (beyond the default minimum) is not a stated policy objective. However, there are clear patterns between the type of employer people have and adequacy of pension arrangements they can access, which in turn are closely linked to the extent to which employers choose to engage with employees around their retirement offering. There is also considerable regional variation in the types of employment opportunities available to people in different parts of the country, meaning that some workers may be disadvantaged by where they live when it comes to finding an employer who offers a good retirement proposition.

Future policy initiatives which might seek to increase workplace pension participation and saving will need to consider differences between small and large employers, and greater engagement from employers. Among SMEs, particular consideration will be needed to understand barriers which mean that to date, they have lower participation rates and are less likely to offer higher-than-minimum contribution rates than larger employers. Among larger employers, initiatives will need to focus on how to increase take up of matching and other higher-than-minimum contribution initiatives, as well as how to expand them to all workers within the organisation. In all cases, there is value in engaging with employers to demonstrate how workplace pensions can benefit their employee propositions, with a view to moving beyond automatic enrolment as a function of compliance and towards a wider discussion over what role employers should play in the employee's retirement outcomes. Within the framework of the current system, several approaches could help to boost workplace pension saving, but implementing them would require considerably greater engagement from employers. They include salary sacrifice, auto-escalation, a hybrid model of precautionary and pension saving (such as a sidecar model) and higher default contribution rates.

The self-employed are the only group of workers required to make their own pension arrangements without any form of legal framework or support, in stark contrast to the concentration of effort made to boosting employee pension saving. As a result, pension participation rates are lower than any other group or workers and declining over time, although their retirement outlook improves when non-pension assets are factored into overall wealth profiles. Given the high number of people in self-employment and the concerns raised about self-employed workers in the automatic enrolment review of 2017, there seems little clear rationale for delaying the extension of appropriate opt-out or nudge mechanism towards these groups.

[58] ONS (2023c)
[59] ONS: Employer contribution bands by size of business and pension type: Table P12.
[60] Kuipers, A., Phillips, J. & Sandbrook, W. (2022)
[61] Pensions Regulator (2024)
[62] Non-eligible jobholders are individuals who earn below the Earnings Trigger (currently £10,000) but above the Lower Earnings Limit (currently £6,240), earn above the Trigger but are under 22 or above SPA or both earn below the Trigger and are under 22 or above SPA. Non-eligible jobholders are not automatically enrolled but can choose to opt-in to a workplace pension and receive a mandatory employer contribution. (DWP 2023a)
[63] DWP (2017)
[64] Francis-Devine & Powell (2024); ONS (2023) Check reference ; Cribb et al (2024)

Scheme Type and Size

Although the type of pension scheme employers provide is typically a function of the overall employee benefits package that they choose to offer to their workers, DC savers face a wide and complex range of risks associated with their scheme type that do not apply to DB savers.

DB pensions are widely known to provide considerably greater level of adequacy and lower levels of risk to members than DC schemes, partly because of the high rate of contributions made by both employers and savers, and partly because of a long-established framework of regulatory oversight and governance. The government has no stated policy aim to equalise outcomes between DB savers (most of whom are public sector workers) and DC savers (most of whom are private sector workers), not least because their provision reflects choices made by employers around the overall benefits (and cost of benefits) they offer to their employees.

Given the rapidly growing number of DC savers however, there is now a strong policy focus on reducing risks and increasing returns to support better outcomes for members of DC schemes, much of which will demand new or continuous regulation and oversight as the DC market increasingly converges around automatic enrolment mandates. This is because:

- **DC savers are exposed to considerably greater retirement risks than those with DB** including: inflation risk, longevity risk, investment risk, and risks associated with related sub-optimal decision-making, particularly at decumulation; and other factors including value for money, lost pensions, small pots, and vulnerability to pension scams. Nine in ten active DB savers are working in the public sector (7.1 million compared to 700,000 in the private sector), whereas Automatic Enrolment has created 14 million active DC members in the private sector, up from only 4.6 million in 2012.
- **Given that they hold responsibility for the future retirement incomes of many of today's workers, the regulation of master trusts remains a critically important policy focus going forwards.** Around 9.2 million of the 14 million active members of DC schemes are saving into one of 36 master trusts, many of whom work for small to medium sized employers. Master trusts can enhance the protection given to savers because they allow for economies of scale, simplified compliance and enhanced governance and oversight. However, the true cost-effectiveness of master trusts is complex and there is a material variance in investment performance and volatility among their propositions.[65]
- **Despite the rise of master trusts, the DC market remains large and diverse and there are a multitude of small schemes with limited assets under management.** As of 2023, there were 26,990 DC schemes, 25,700 of which have fewer than 12 members. For members, smaller DC schemes often lack the economies of scale needed to access more sophisticated and potentially higher-return investment options, such as private equity or infrastructure investments. Consolidation within the DC market is a goal of the Pensions Regulator (TPR), the Department for Work and Pensions (DWP) and the Financial Conduct Authority (FCA). In the past decade, the DC pension market has consolidated by nearly 40% and TPR has set out further plans to develop a landscape of fewer, larger pension schemes that deliver better outcomes for savers.[66]
- **A number of policy initiatives are underway which aim to drive higher investment returns for DC savers, for whom funds have typically invested in high liquidity and low-cost assets.** DC schemes have traditionally relied heavily on conventional investment approaches and low-cost, daily-traded assets to deliver steady returns and manage downside risks. In the early years of automatic enrolment, many also turned to low-cost assets such as listed bonds and passively managed equities when faced with cost pressures from the challenge of enrolling millions of new members. Many of these factors, along with the complex infrastructure around fund administration, mean that DC savers have not always benefited from the high returns or managed volatility that could otherwise be achieved through actively managed funds or alternative assets with less liquidity, but potentially higher investment returns. Several regulatory changes are underway to address these issues including changes to charge cap regulations and the introduction of Long-Term Asset Funds (LTAFs), at the same time as reforms announced in 2023 to increase investment in long-term, productive assets. The PPI's DC assets allocation survey shows that funds are increasing asset allocation to classes such as infrastructure, private equity, and real estate. While these changes will take time however, it is clear that the potential to enhance long-term returns through more diversified portfolios will play a key role in improving outcomes for DC savers.[67]

Policy Implication

The substantial volume of reforms on the current policy agenda mean that each reform will require careful integration with other policies, and there will be trade-offs associated with how reforms are prioritised. In response to the rapid expansion of the DC market and transfer of retirement-related risks to individuals, policymakers are developing a proliferation of reforms that can collectively support a combination of complex, long-term changes. They include changes to address adequacy, develop decumulation solutions, enhance returns, increase engagement and ensure savers get better Value for Money. Competing factors that could affect how and when policies are prioritized will each have a different effect on inequalities. They include:

- **Policy impact:** is the impact of the policy likely to be felt quickly or over time? Is it preferable to deliver a quick win for policymakers, or a longer-term strategic benefit?
- **Population impact:** Is it more important to target large groups of "typical" savers, or to target specific groups who face added risk because they are not "typical"?
- **Level of need:** How should need be determined? By people who will need the most help (and if so is this those on the lowest income or those least likely to reach replacement targets); or by people who face the most immediate risk (current pensioners, Generation X, and current or future renters)?
- **Cost:** To what extent should cost be a factor in prioritising policy reforms, and how can a fair balance be achieved between allocating costs to employers, individuals and the public finances?

Developing a culture of engagement between employers, members and regulators rather than simply a culture of compliance will lead to better outcomes for savers. Since the evolution of automatic enrolment, DC providers and employers have increasingly converged around regulatory-led policy mandates and reforms that together are shaping the future of the DC market and its coverage. While this brings benefits of uniformity and efficiency to some areas, it also presents the risk that providers take a simple approach of complying with regulations when developing their products, rather than actively engaging with members and regulators to deliver better value outcomes.

[65] Wilkinson et al (2024).
[66] TPR (2023) DC trust: scheme return data 2022 to 2023. https://www.thepensionsregulator.gov.uk; Wilkinson et al (2024)
[67] Wilkinson et al (2024

References

Alesina, A. & Perotti, R. (2001). Income distribution, political instability and investment. Available at: https://doi.org/10.1016/0014-2921(95)00030-5

Ayuso, M., Bravo, J. & Holzmann, R. (2016). On the Heterogeneity in Longevity among Socioeconomic Groups: Scope, Trends and Implications for Earnings-Related Pension Schemes. Global Journal of Hyman-Social Science: E-Economics. 17, 1, 2017. Available at: https://research.unl.pt

Bell, T. (2024). Great Britain? How we get our future back. London: Penguin Random House.

Bourquin, P., Joyce, R., Sturrock, D. (2021). Inheritances and inequality over the life cycle: what will they mean for younger generations? Available at: www.ifs.org.uk

Bourquin, P., Brewer, M. & Wernham, T. (2022). Trends in income and wealth inequalities. Available at: http://www.ifs.org.uk

Bourquin, P., Brewer, M. & Wernham, T. (2024). Trends in income and wealth inequalities. Available at Trends in income and wealth inequalities | Oxford Open Economics | Oxford Academic (oup.com)

Brain, A. (2021). The UK Pensions Framework Design Series. Available at www.pensionspolicyinstitute.org.uk/. Accessed 4 March 2024

Brain, A., Silcock, D., Pike, T. Mealor, A., Upton, J & Adams, J. (2022). The UK Pensions Framework 2022 Edition: Indicator Appendix. Available at: www.pensionspolicyinstitute.org.uk

Brewer, M. (2019). What do we know and what should we do about inequality? London: Sage Publications.

Broome, M. & Mulheirn, I. (Resolution Foundation) (2024). Perfectly Adequate? Available at: Perfectly-Adequate.pdf (resolutionfoundation.org)

Broome, M., Mulheirn, I. & Pittaway, S. (Resolution Foundation) (2024). Precautionary Tales: Tackling the problem of low saving among UK households. Available at: www.resolutionfoundation.org

Carers UK (2024) A right to paid Carer's Leave. Available at: A right to Carer's Leave | Carers UK

Cribb, J., Emmerson, C., O'Brien, L. & Sturrock, D. (Institute for Fiscal Studies) (2024). Private pensions for the self-employed: challenges and options for reform. Available at: www.ifs.org.uk

Deaton, A. (2024). 'What is wrong with inequality?'. In: Oxford Open Economics. Volume 3, Issue Supplement _1, 2024, Pages i2-i3. Available at: https://doi.org/10.1093/ooec/odad079. Accessed 15 August 2024.

Department of Work and Pensions (DWP) (2017) Automatic Enrolment Review 2017: Maintaining the Momentum. Available at: publishing.service.gov.uk

Department of Work and Pensions (DWP) (2022). Households below average income: an analysis of the income distribution FYE 1995 to FYE 2021. Available at: www.gov.uk

Department of Work and Pensions (DWP) (2023a) Workplace pension participation and savings trends of eligible employees: 2009 to 2022. Available at: www.gov.uk

Department of Work and Pensions (DWP) (2023b) Employment of disabled people 2022. Available at: www.gov.uk

Department of Work and Pensions (DWP) (2023) Employee Research Phase 2: Sickness absence and return to work. Available at: (publishing.service.gov.uk)

Department of Work and Pensions (DWP) (2024x) Abstract of DWP benefit rate statistics 2023. Available at: www.gov.uk

Department of Work and Pensions (DWP) (2024x) Income-related benefits: estimates of take-up: financial year ending 2022. Available at: www.gov.uk

Ebbinghaus, B. (2021). 'Inequalities and poverty risks in old age across Europe: The double-edged income effect of pension systems'. In: Social Policy and Administration: An International Journal of Policy and Research.55, 3, pp. 440-455. Available at: https://doi.org/10.1111/spol.12683

Fabian Society (2023). In Times of Need. Available at: www.fabians.org.uk

Frankfurt, H. (1987) 'Equality as a Moral Ideal', Ethics, 98: 21–43.

Haan, P., Kemptner, D. & Luthen, H. (2020). The rising longevity gap by lifetime earnings – Distributional implications for the pension system. The Journal of the Economics of Ageing, 17, 2020, 100199. Available at: https://doi.org/10.1016/j.jeoa.2019.100199

House of Commons Library (2023) Average earnings by age and region. Available at: www.parliament.uk

Francis-Devine, B. & Powell, A. (House of Commons Library) (2024). UK Labour Market Statistics. Available at: www.parliament.uk

Jeffrey, J. & Snell, W. (2024) Wealth Gap Risk Register, Fairness Foundation. Available at: Wealth Gap Risk Register

Joyce, R. & Cribb, J. & Wernham, T. (Institute for Fiscal Studies) (2022). Twenty-five years of income inequality in Britain: the role of wages, household earnings and redistribution. Available at: ifs.org.uk

Kuipers, A., Phillips, J. & Sandbrook, W. (Nest Insight) (2022). Employer pension contributions in the UK. Available at: www.nestinsight.org.uk

The Labour Party (2024) 5 Missions for a Better Britain: Breaking Down the Barriers to Opportunity. Available at: labour.org.uk

Lewer, D., Jayatung, W., Aldridge, R., Edge, C., Marmot, M., Story, A., Hayward, A. (2020). Premature mortality attributable to socioeconomic inequality in England between 2003 and 2018: an observational study. The Lancet Public Health, Volume 5, Issue 1, pp. e33-341. Available at: https://doi.org./10.1016/S2468-2667(19)30219-1

Marmot, M. (2015). Mind the Health Gap, the Challenge of an Unequal World. London, Bloomsbury Publishing Ltd.

Ministry of Housing, Communities & Local Government (MHCLG) (2019). The English Indices of Deprivation 2019. Available at: The English Indices of Deprivation 2019 (publishing.service.gov.uk)

Mulheirn, I. (2020). UK Households wealth tripled in 20 years: where did it all come from? Available at: www.economicsobservatory.com

Office for Health Improvement and Disparities (OHID) (2022). Health disparities and health inequalities: applying All Our Health. Available at: Health disparities and health inequalities: applying All Our Health - GOV.UK (www.gov.uk)

References

Office for Health Improvement and Disparities (OHID) (2024) . Indicators, Maps and Charts.
Available at: Local Health - Office for Health Improvement and Disparities - Indicators: maps, data and charts

Office for National Statistics (ONS) (2021). Which groups find it hardest to find a job following a period out of work?
Available at: www.ons.gov.uk. Accessed 1 August 2024

Office for National Statistics (ONS) (2022a). Household income inequality, UK: financial year ending 2022.
Available at: www.ons.gov.uk

Office for National Statistics (ONS) (2022b). Household total wealth in Great Britain: April 2018 to March 2020.
Available at: Household total wealth in Great Britain - Office for National Statistics (ons.gov.uk)

ONS (2022c). Employer contribution bands by size of business and pension type: Table P12.
Available at: www.ons.gov.uk

Office for National Statistics (ONS) (2022d) Employee workplace pensions in the UK:2021 provisional and 2020 final results. Available at: www.ons.gov.uk

Office for National Statistics (ONS) (2022e). Health state life expectancies by national deprivation deciles, England 2013 to 2020.Available at: www.ons.gov.uk

Office for National Statistics (ONS) (2023a). Household Income Inequality, UK, financial year ending 2022. Available at: Household income inequality, UK - Office for National Statistics (ons.gov.uk). Accessed 14 May 2024.

Office for National Statistics (ONS) (2023b). Low and high pay in the UK: 2023. Available at: www.ons.gov.uk

Office for National Statistics (ONS) (2023c). Workplace pension participation and savings trends of eligible employees: 2009-2022. Available at: www.gov.uk

Office for National Statistics (ONS) (2023d). Gender pay gap in the UK: 2023. Available at: www.ons.gov.uk.
Accessed 14 May 2024.

Office for National Statistics (ONS) (2023e). Ethnicity Pay Gaps, UK: 2012-2022. Available at: www.ons.gov.uk

Office for National Statistics (ONS) (2024). Life Expectancy for local areas in England, Northern Ireland and Wales: between 2001 to 2003 and 2020 to 2022. Available at: www.ons.gov.uk

Pensions and Lifetime Savings Association (PLSA) (2021). Five Principles for Pension Taxation.
Available at: www.plsa.co.uk

Pensions Policy Institute (2023). Contributions into the State Pension system versus receipts for people of different income and employment profiles. Available at: www.pensionspolicyinstitute.org.uk

Phillips, A. (2004). ‘Defending equality of outcome’. In: Journal of Political Philosophy, 12/1, 2004, pp. 1–19, Defending Equality of Outcome, Accessed: 1 October 2021

Ravaillon, M. (2001). Growth, Inequality and Poverty: Looking Beyond Averages.
Available at: https://doi.org/10.1016/S0305-750X(01)00072-9

Raymond, A., Watt, T., Douglas, HR., Head, A., Kypridemos, C. & Rachet-Jacquet, L (The Health Foundation).
Health inequalities in 2040: Current and projected patterns of illness by deprivation in England.
Available at: Health inequalities in 2040 - The Health Foundation. Accessed 2 August 2024.

Resolution Foundation (2023). 15 years of economic stagnation has left workers across Britain with an £11,000 a year lost wages gap. Available at: www.resolutionfoundation.org

Royal London (2024). Revealed: 150,000 pensioners get a State Pension of less than £100 a week.
Available at: www.royallondon.com

Satz, D. & White, S. (2024). ‘What is wrong with inequality?’. In: Oxford Open Economics, Volume 3, Issue Supplement_1, 2024, Pages i4-i17. Available at: https://doi.org/10.1093/ooec/odad040 Accessed 15 August 2024.

Sen, A. K. (2009). The Idea of Justice. Cambridge, MA: Harvard University Press

The Pensions Regulator (2024) Automatic Enrolment Declaration of Compliance Report.
Available at: www.thepensionsregulator.gov.uk

Tippet, B (2024). Measuring the Wealth Gap, Fairness Foundation. Available at: https://fairnessfoundation.com

Wilkinson, L. & Adams, J. (2023). The Underpensioned: Defining the Gender Pension Gap.
Available at: pensionspolicyinstitute.org.uk. Accessed 12 June 2024.

Wilkinson, L., Silcock, D., Adams, J. & Okello, S. (2024). The DC Future Book 2024.
Available at: www.pensionspolicyinstitute.org.uk

Wilson, R. & Pickett, K. (2009). The Spirit Level. Harmondsworth: Penguin

Wilson, R. & Pickett, K. (2018). The Inner Level. Penguin Random House

Acknowledgement & Contact Details

The Pensions Policy Institute is grateful for input from many people in support of this paper, including:

Hannah Barker

Professor Nicholas Barr

Frank Carson

Chris Curry

Lousie Davey

Emma Douglas

Baroness Jeannie Drake CBE

Danielle Elliott

Kathryn Fleming

Fuzzmedia Ltd

Michele Golunska

Jamie Jenkins

Maritha Lightbourne

Sarah Luheshi

Dr Suzy Morrissey

Richard Mosley

Alistair McQueen

Sir Steve Webb

Sarah Webster

Editing decisions remained with the author who takes responsibility for any remaining errors or omissions.

Contact: Chris Curry, Director

Telephone: 020 7848 3744

Email: info@pensionspolicyinstitute.org.uk

Pensions Policy Institute

King's College London

Virginia Woolf Building

1st Floor, 22 Kingsway

London WC2B 6LE

SPONSORING PPI RESEARCH

The PPI gives you the power to shape the cutting edge of policy making. Each research report combines experience with independence to deliver a robust and informative output, ultimately improving the retirement outcome for millions of savers.

We lead the debate and contribute fact-based analysis and commentary to the policymaking process. Our reports are well respected by Government and organisations alike, and frequently used to inform policy changes.

We've been at the forefront of shaping evidence-based pensions policy for 20 years – our analysis informs decision making.

Our independence sets us apart – we do not lobby for any particular cause or political party. We just focus on the facts.

If you would be interested in discussing sponsoring future reports, please contact Dr Suzy Morrissey, Deputy Director

suzy@pensionspolicyinstitute.org.uk

The PPI is grateful to our Supporters for their continuing support:

Platinum Supporters

Aviva, Columbia Threadneedle Investments, Just., The Pensions Regulator, World Gold Council

Gold Supporters

Association of British Insurers (ABI)
Aegon UK
Capita Pensions Solutions
Cardano Group
(including NOW:Pensions)
Department for Work and Pensions
Legal & General
Hymans Robertson LLP
Money and Pensions Service (MaPS)
MFS Investment Management
Nest
People's Partnership
Phoenix Group
Railpen
Scottish Widows

Silver Supporters

AON
Barnett Waddingham
BP Pensions Trustees Ltd
Chartered Insurance Institute
Exxon Mobil
LCP
PLSA
Royal London
Shell
Smart Pension
USS

Pensions Policy Institute

PPI

All enquiries regarding the Pensions Policy Institute's activities should be addressed to Chris Curry, Director at:
Pensions Policy Institute, King's College London, Virginia Woolf Building,
1st floor 22 Kingsway, London WC2B 6LE

t: 020 7848 3744
e: info@pensionspolicyinstitute.org.uk
w: www.pensionspolicyinstitute.org.uk

ISBN: 978-1-914468-21-6

Registered Company Number: 04145584. Charity Number: 1087856 (England & Wales)