Living pensions

An assessment of whether workers' pension saving meets a 'living pension' benchmark

Nye Cominetti & Felicia Odamtten

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Foreword

Over the last ten years the Living Wage campaign has grown in strength and numbers. Now paid by over 10,500 employers, it has delivered essential pay rises to 300,000 workers. But the current cost of living crisis has hit low paid workers hardest, and many are not only struggling to keep their heads above water today, but also worrying about an uncertain future. This report shows that 16 million workers are currently not saving enough to meet the cost of living beyond their working lives.

It is also ten years since the introduction of auto enrolment, a major policy change that brought over 10 million people into retirement savings by requiring employers to enrol all workers aged over 22 and earning above £10,000. But this was only ever meant to be the start, and for many with little to no savings to build on, it is probably not going to enable them to live with dignity and security in retirement. And there are still a significant number of workers not saving into a pension plan at all, particularly among lower earners.

Last year the Resolution Foundation published "Building a Living Pension" – looking at the feasibility of creating a Living Pension benchmark to improve pension outcomes, particularly for those on low incomes. They assessed the level of income that would be needed in retirement to meet the real cost of living, in the same way as the Living Wage does for millions of workers today, and used this to calculate an annual savings target based on age.

This was an important development in understanding the level of savings people need to be stable and secure when they stop working. It also takes account of different housing situations and recognises that increasing numbers of people will not have the luxury of owning their own home and will have the ongoing cost of rent. This formed the foundation of work we have been doing in partnership with Living Wage employers, and kindly funded by abrdn Financial Fairness Trust, to design and test a Living Pension standard.

In order to understand how many would benefit from such a standard, this new research from the Resolution Foundation looks at what working people in the UK are currently saving, and compares this to the Living Pension standards we have been testing. It is clear from the results the size of the challenge we face to close this gap, particularly for those on lower incomes: less than 5% of those on the lowest incomes are saving enough to meet a Living Pension target.

Our consultation with employers across the Living Wage network has shown how many employers are already going above and beyond, both in terms of contributions for

employees but also in raising awareness and engagement. In a competitive recruitment environment, many are seeing this as a way to differentiate themselves and retain staff by offering more than the auto enrolment minimums. We want to work together with those employers to recognise the work they have done and pave the way for more employers to do the same.

Developing a Living Pension standard will not only encourage and reward employers offering more than the minimums to their employees, it will also provide a clear benchmark for those employees to measure against. By making this accessible and simple, we aim to bring greater transparency, understanding and confidence to pensions, and build on the work of the Living Wage, by providing security and stability for workers now and in the future.

Katherine Chapman

Director, Living Wage Foundation

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Executive Summary

The Citizens UK Living Wage campaign has improved the pay of thousands of workers, by providing a clear wage benchmark which provides for an acceptable minimum standard of living. Building on this success, the LWF is developing a parallel standard to the Living Wage, a 'Living Pension' (LP), which will set a benchmark for the rate of pension saving needed – totalling the contributions made by workers, employers and the government – to afford an acceptable standard of living in retirement.

A previous RF feasibility study established a framework and methodology through which a LP benchmark could be calculated. The study set out a set of options for a LP benchmark, as follows:

- A 'whole career' benchmark (which applies if workers start saving in their 20s) of 11.2 per cent of pay, or £2,100 per year for someone working full-time at the living wage.
- A higher 'all age' benchmark (which is the average rate which would apply if all workers started saving at their current age – which includes some workers only starting to save later in their careers) of 16.1 per cent of pay, or £3,000 per year for someone working full-time at the living wage.

This report assesses workers' actual rates of pension saving against these benchmarks. It is important to note that the

LP benchmarks represent what on average workers need to save to meet an acceptable standard of living in retirement. Workers' individual saving requirements vary according to their individual circumstances, and we don't take those into account in this report. The analysis in this report should not be taken as saying who is or isn't on track for a minimum acceptable standard in retirement; instead, it looks at a narrower question of who, in 2020, was saving at or above the estimated benchmarks.

The introduction of 'auto enrolment' improved rates of pension saving, especially among the low paid. But low-paid workers still have much lower rates of saving

The 2012 introduction of 'auto-enrolment' hugely increased the proportion of workers saving towards a pension, from 47 per cent in 2012 to 77 percent in 2019. Importantly, the biggest increases in the take up of pension saving have come among groups that formerly had the lowest take up – the low paid, and those in low-paying service sectors. In 2011, and excluding workers with defined benefit (DB) pension saving from the analysis (as we do throughout the report and in the remainder of this summary), 5 per cent of low-paid workers (defined as having hourly pay in the bottom fifth distribution) were saving towards a pension; by 2020, this had risen to 44 per cent. Take up also rose among higher-paid workers, but not by as much (from 56 to 81 per cent among workers in the top fifth of the hourly pay distribution – again, excluding workers with DB pensions). This has meant the pension take up gap between low- and high-paid workers has narrowed. Gaps have also closed in pension take up between younger and older workers, and between those in different sectors. For example, the gap in pension take up between workers in their 40s and workers in their 20s fell by 4 percentage points and this was mainly driven by a higher increase in take-up by workers in their 20s. Similarly, the gap in take up between workers in higher and lower paying sectors had also fallen; in 2011 the gap between finance and hospitality workers was 57 percentage points, by 2020 this had reduced to 52 percentage points.

Because the minimum contributions required by auto-enrolment have been ratcheted up, the level of workers' pension contributions has also risen. From 2012 to 2017, the minimum auto-enrolment contribution rate was 2 per cent (including both workers' and employers' contributions); this was reflected in a modal total saving rate of between 1-3 per cent in the 2015-17 period. In 2019, the minimum auto-enrolment contribution was 8 per cent, and, correspondingly, the most common total saving rate across 2018-20 was between 6 and 8 per cent.1

In keeping with the Living Wage Foundation's campaigns, this report is focused on low-paid workers. As just mentioned, it's encouraging that auto-enrolment has driven up pension take-up among low-paid workers. But it's important to note that the level of take-up remains low. And on top of lower take-up, lower-paid workers also have lower levels of contribution rates when they are saving towards a pension, even relative to their pay level. In 2018-20, the most common saving rate for workers in the bottom hourly pay quintile and earning near the real Living Wage (RLW) was between 3-5 per cent of total earnings (this saving rate covered 22 per cent of workers with earnings near the real living wage who are saving towards a pension, and 19 per cent of workers in the bottom hourly pay quintile). In comparison, the proportion of all workers saving in this low 3-5 per cent band was lower, at 15 per cent. Similarly, in 2018-20, of those who were saving, 66 per cent of workers earning near the RLW were saving at rates below 5 per cent, compared to 52 per cent of all workers.

Meeting the Living Pension benchmark requires workers to contribute more than the auto-enrolment minimum

The minimum contribution rates under auto-enrolment are having an impact on workers' saving behaviour. But it's important to note that, according to the Living Pension benchmarks, these contribution rates won't be enough, on average, for workers to achieve an acceptable standard of living in retirement. Even the lower 'whole career' LP benchmark contribution rate of 11.2 per cent, which applies to someone

1 Auto-enrolment contribution rates do not apply to all of an enrolled worker's earnings. Therefore, the 'total pension saving rate' is lower than the auto-enrolment minimum contribution rate if a worker is making contributions against qualifying earnings only.

who starts saving in their 20s, is well above the current auto-enrolment minimum contribution rate of 8 per cent. The 'all age' benchmark of 16.1 per cent (which is the rate which applies if all workers started saving today, including older workers) is more than double the auto-enrolment minimum contribution rate. However, it is also important to note that while the living pensions benchmarks apply to all earnings, the auto-enrolment minimum only applies to earnings above £6240.

Given the influence the auto-enrolment scheme is having on workers' contribution rates, it is not surprising that we find relatively few workers are saving at or above the LP benchmarks. Outside of those saving in a DB pension, the vast majority of workers (over 80 per cent) are not meeting any of the LP benchmarks. There has been some improvement since 2011 – for example, the proportion of workers meeting the 'whole career' cash benchmark (the benchmark which workers are most likely to meet) increased from 12 to 19 per cent – but there the vast majority of workers are saving at levels below that which are likely to deliver an acceptable standard of living in retirement.

Lower-paid workers are especially unlikely to have pension contributions which meet the living pension benchmarks

Concerningly, lower-paid workers are even less likely to have pension contribution rates which meet the LP benchmarks. Just 2 per cent of workers with hourly pay in the bottom fifth of the distribution meet the higher 'all age' LP percentage benchmark of 16.1 per cent, compared to 20 per cent of workers in the top fifth of the hourly pay distribution (with both statistics excluding workers with a defined benefit pension). Even using the lower, 'whole career' LP percentage benchmark of 11.2 per cent, just 4 per cent of workers with hourly pay in the bottom fifth of the distribution meet this benchmark, compared to 34 per cent of workers in the top fifth of the pay distribution.

The feasibility study also calculated what the LP benchmarks meant in cash terms for someone working full-time and on the RLW. Low-paid workers are even less likely to meet these

benchmarks (reflecting that many earn less than what a full-time job at the RLW would pay). Even taking the lowest 'whole career' cash LP benchmark of £2,100 contributions per year, 1 per cent of workers in the bottom fifth of the hourly pay distribution meet this benchmark (excluding workers with defined benefit pensions), compared to 67 per cent of workers in the top fifth of the hourly pay distribution.

There are also differences in whether workers are meeting the LP benchmarks by occupation, gender, and sector

Men tend to be paid more than women, on average, and so it's not surprising that men are more likely than women to have pension saving rates above the cash LP benchmarks: 23 per cent of male workers met the 'whole career' cash benchmark, compared to 15 per cent of female workers. However, gender differences are much smaller when we look at the percentage LP benchmarks (again, these statistics exclude workers with defined benefit pensions).

And if we focus only on low-paid workers, the pattern is reversed. Low paid women are more likely than low paid men to meet the LP benchmarks. For example, 5 per cent of low-paid female workers met or exceeded the 'whole career' percentage LP benchmark, compared to 3 per cent of low-paid male workers. This is partly because low-paid women are concentrated in the public sector, where pension saving rates are relatively high (23 per cent of low-paid women work in the public sector, compared to 6 per cent of low-paid men). But even within sectors, the proportion of low-paid women attaining the LP benchmarks is similar to or higher than low-paid men. This tells us that the gender gap in meeting the LP benchmarks is driven principally by differing levels of pay, not different saving behaviour.

Panning out to look at all workers, there are differences in the proportion of workers meeting the LP benchmarks by occupation and sector. Workers in (often high-paid) Manager and Senior professional occupations are 12 times more likely to meet or exceed this benchmark than workers in (often low-paid)

elementary occupations. 55 per cent of workers in the finance industry save at or above the 'whole career' cash LP benchmark, compared to only 2 per cent of workers in hospitality. Interestingly, much of the differences between sector persist even if we control for workers' pay levels, their occupation and whether they work full-time. Although this report did not look directly at how much employers contribute to a pension, or in how employers promote the idea of saving for a pension, and how these vary between different sectors, this result does suggest that either employers' behaviour or their approach to the overall renumeration package plays an important role in determining whether workers are saving at rates that meet the LP benchmarks. This suggests that it may make sense to target campaigning efforts at the sector level, since sector appears to be an important determinant of low-paid workers' saving behaviour.

The auto-enrolment policy has a huge impact on whether people save for a pension, and the amount that they save, but overall contribution rates among savers remain too low for most workers

Auto-enrolment has been a hugely important policy in determining levels of pension saving, both in that its introduction has boosted the fraction of workers saving for a pension, but also because its particular parameters themselves have very direct impacts on pension saving. In particular, the minimum contribution rate is a clear driver of overall contribution rates, but the fact that contributions are only made for those who earn above £10,000, and even then are only made on earnings above £6,240, means that the headline minimum contribution rate of 8 per cent is in effect zero, for those who earn below £10,000, and can easily turn into an overall contribution rate (i.e. contributions as a proportion of all earnings) of far less than 8 per cent for those on modest earnings above £10,000. It is noteworthy that the Government continues to stall on the move to make auto-enrolment apply to all earnings.

More generally, although pension saving has increased over the past decade, the majority of workers – especially those in low pay – are still a fair distance from saving enough to be able afford an acceptable standard of living in retirement. There is still much to do to ensure low-paid workers can look forward to an acceptable standard of living in retirement.

Section 1

Introduction

There have been big changes to pensions policy in recent years

One of the most profound social changes of the last 50 years has been the increasing relative affluence and incomes of those in retirement. Poverty rates among pensioners have fallen considerably, falling by two-thirds from their 1980s peak.[2] Between 2005-06 and 2018-19, the typical income of a 70-year old increased by 25 per cent. This comes as a result of new pensioner cohorts now retiring with greater state and private pension entitlements, reinforced by government policies aimed at protecting pension benefits.[3] Despite the long-term progress, in more recent years, evidence suggests relative pensioner poverty has been on the rise.[4]

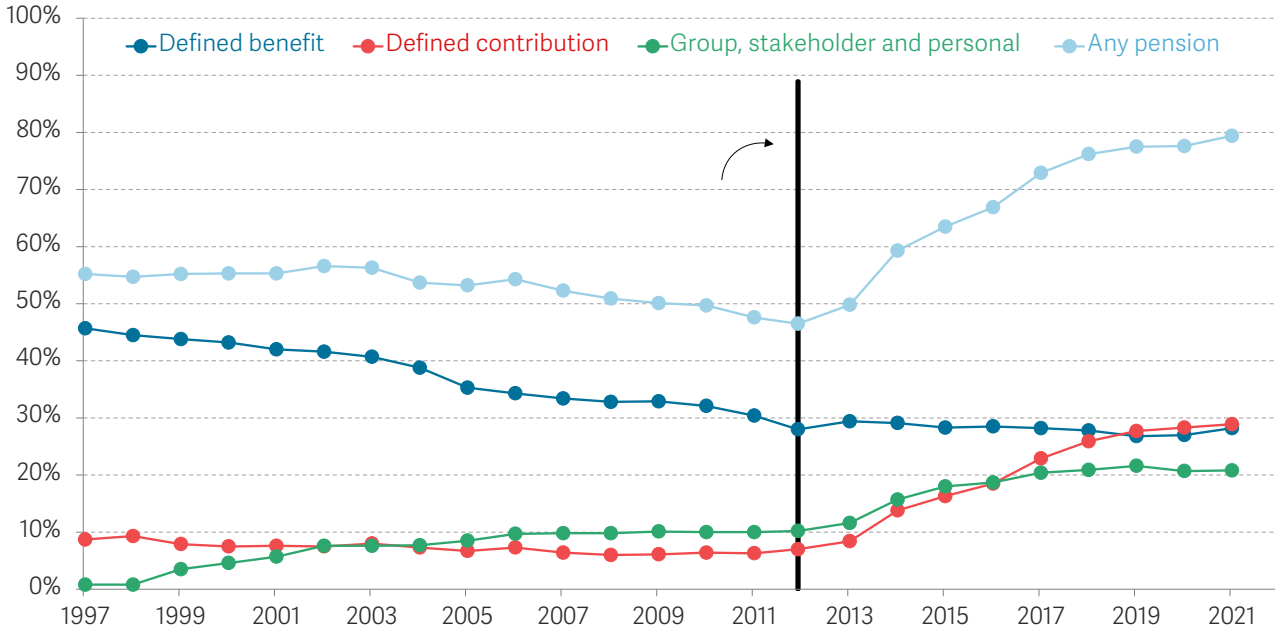
In 2016, the Government introduced a number of changes to the state pension, including the introduction of a new universal, flat rate state pension.[5] In addition to this, commitments to triple lock and uprate pension credit in line with earnings have further contributed to the strong income growth experienced by today's cohort of pensioners.[6]

A key part of the policy framework for pensions, and a recommendation of the Pensions Commission, is the policy of workplace pension 'auto-enrolment', introduced in 2012. As shown in Figure 1, this policy has been extremely successful in encouraging pension participation among workers, with the proportion of workers with any type of workplace pension rising from 47 per cent in 2012 to 79 percent in 2021, an increase of just over 30 percentage points. The increase in pension uptake was largely driven by increased participation among private sector workers taking up defined contribution (DC) schemes (where contributions from employers and employees are invested to build a pension savings pot). Box 1 provides a more detailed description of the auto-enrolment policy, including how the minimum contribution levels have risen over time.

2 A Corlett et al., The Living Standards Audit 2020, Resolution Foundation, July 2020.
3 D Finch & C Pacitti, Building a Living Pension, Resolution Foundation, January 2021.
4 IFS, Living standards, poverty and inequality in the UK: 2021, July 2021.
5 National Audit Office, Introduction of the new state pension, November 2016.
6 Pensioner benefits were not uprated in line with earnings growth in April 2021, as the measure of average earnings that is normally used was distorted, due to the impact of the furlough scheme. See 'To govern is to choose' for further discussion.

FIGURE 1: **The proportion of employees with any type of pension has increased significantly since 2012**

Proportion of employees with a workplace pension, by type of pension: UK



NOTES: This chart was originally created by the ONS and has been adapted from their 'Employee workplace pensions in the UK: 2021 provisional and 2020 final results' release.
SOURCE: ONS, Annual Survey of Hours and Earnings.

BOX 1: **The introduction of auto-enrolment**

Following a downward trend in workplace pension participation (to a new low of 55 percent in 2012, from 58 per cent in 2009),[7] and recommendations from the Pensions commission[8], the Government launched the auto-enrolment pension policy to boost participation. The scheme requires employers to automatically enrol employees aged 22 and over and earning over £10,000 per year to their workplace pension scheme. The government sets the minimum contribution rates: these currently total 8 per cent, made up of a 5 percent contribution from employees (including 1 per cent in tax relief from the government), and 3 percent from employers. These rates apply only to qualifying earnings: in the 2021-22 tax year, these were earnings between £6,240 and £50,270. Employees have the option to opt out of the scheme or to increase their contributions;

7 Department for Work and Pensions, Workplace pension participation and savings trends of eligible employees: 2009 to 2020, September 2021. The majority of statistics referenced in this box come from this source.
8 The Pensions Commission, A New Pension Settlement for the Twenty-First Century, November 2005.

those with earnings below £10,000 can choose to opt in if they wish. Employers also have the option to contribute more than the minimum 3 per cent requirement.

TABLE 1: **Statutory minimum contribution rates over time**

Time period	Individual	Employer	Total
October 2012 to September 2017	1%	1%	2%
October 2017 to September 2018	3%	2%	5%
October 2018 onwards	5%	3%	8%

SOURCE: Taken from ONS, Chapter 8: Pension contributions, 2014 edition, 2014.

In this report we will use workers' total pension saving rate as our main measure of workers' pension saving – total worker and employer contributions as a proportion of workers' total pay.

From a Living Wage to a Living Pension

Auto-enrolment has clearly had a significant impact on the proportion of workers who are saving towards a pension. However, although the Pension Commission[9] had always maintained that employees must make contributions above the minimum requirements in order to secure an adequate income in retirement, the 2017 auto-enrolment review found that a key challenge was encouraging 'under savers' to engage with their pensions and take greater responsibility in planning for retirement.[10]

In order to assess whether the rates of savings were enough, the Living Wage Foundation (LWF) has been investigating the feasibility of a 'Living Pension' (LP) benchmark, set at the level of the pension savings needed to afford an acceptable standard of living in retirement. As part of that work, a previous RF report assessed the feasibility of developing a methodology that could determine a LP standard, and provided a preliminary estimate of that LP saving requirement.[11] Although the specific savings requirements vary by cohort and years left to retirement, the study found that, on average, today's worker would need to contribute 16.1 per cent of their earnings, which translates to £3,000 a year for a full-time worker on the real living wage. This is twice as high as the minimum contributions required under auto-enrolment, and more than twice as high as the total contributions rate of someone who saves only at the minimum auto-enrolment rate, for the reasons set out in Box 1. Box 2 provides a more detailed overview of the feasibility study, and the calculation of the LP benchmarks.

9 The Pensions Commission, A New Pension Settlement for the Twenty-First Century, November 2005.
10 Department for Work and Pensions, Automatic enrolment review 2017: Maintaining the momentum, December 2017.
11 D Finch & C Pacitti, Building a Living Pension, Resolution Foundation, January 2021.

BOX 2: The Living Pension benchmark calculation

A previous RF report set out to establish a framework and methodology through which a LP benchmark could be calculated.[12] The study showed that it was feasible to calculate the contributions low-to- middle income earners had to make in order to secure an adequate income in retirement. This was done in two stages.

The first stage was to calculate the income required for an adequate standard of living through retirement for different cohorts, which then allows for the calculation of a target 'Living Pension' pot. Key assumptions and inputs for this calculation include:

- A core basket of goods and services pensioners will need to have an adequate standard of living, based on the Minimum Income Standard (which applies throughout retirement and does not change as people age);
- The assumption that living costs for pensioners keep pace with earnings growth over the long term (this effectively assumes that the minimum pensioner living standard remains fixed relative to the living standards enjoyed by workers);
- Forecasts of changes in housing tenure for future cohorts of pensioners, given that a greater share of future cohorts of pensioners can be expected to privately rent, and so have higher housing costs than today's pensioners;
- Forecasts of changes in household composition for future pensioner cohorts, to reflect changes in household formation over time, due to divorce, break-up or widow(er) hood;
- Life expectancy projections for each cohort based on ONS cohort life expectancy estimates;
- The assumption that people receive a full State Pension in retirement and their income considers the payment of tax and receipt of benefits;
- The assumption that the current structure of the tax and benefit system applies in retirement, with parameters maintained in line with current policy plans over the next five years and then increased in line with earnings growth beyond that.

The second stage was to calculate the total annual contributions that employees would need to make throughout their working life to accumulate this target pot. The calculation for this stage assumes that:

- The working life begins at age 22 and continues on an earnings trajectory

12 D Finch & C Pacitti, Building a Living Pension, Resolution Foundation, January 2021.

that varies with qualifications and sex until the individual reaches the State Pension age;

- Individuals make contributions on all their earnings, in line with a government aspiration, stated in 2017, to remove the lower earnings threshold in auto-enrolment.[13]

These contributions then form the basis of the LP benchmark.

These two stages were carried out separately for workers in different cohorts, to allow for the fact that older cohorts will already have some pension saving (which means that they will need to accumulate less to hit the same target pot than would a younger worker), but that they have fewer years of their working lives left (so they would have to contribute more in each year to hit a pot of a given size than would a younger worker). In reality, given that many low-paid workers currently have very low levels of pension wealth, the latter impact dominated, and so the original report estimated that older cohorts would need to contribute at a higher rate than younger cohorts. The results from the methodology revealed the different contribution rates and amounts required to achieve an adequate standard of living in retirement. Table 2 shows a summary of these contribution rates.

As discussed above, it's important to note that the study did not settle on a single benchmark. Rather, it showed that the benchmark varies depending on the age of the workers in question (in reality, this variation reflects different cohorts in the workforce right now). In this report, we compare workers' pension contributions to the average rate, which we refer to here as the 'all age' benchmark, and to the rate for those who start saving in their 20s, which we refer to as the 'whole career' benchmark (because it imagines a world where workers saved at the LP benchmarks for their 'whole career'). The original report also calculated what the rates would mean for a full-time worker paid the RLW, and we use those as cash benchmarks.

13 Earlier this year, the Government said: "The 2017 Review of Automatic Enrolment set the ambition to remove of the lower earnings limit in the mid-2020s. The 2017 Review report was clear that implementation will be subject to learning from the workplace pension contribution increases in 2018 and 2019, discussions with employers and other stakeholders on the right implementation approach, and finding ways to make these changes affordable. As with other areas of public policy, we will pay close attention to the impact and costs of making changes and consider the optimal approach on implementation. This will account for the economic conditions, whilst continuing to support long-term saving, balancing the needs of savers, employers and tax-payers. We will work to maintain the consensus that has underpinned AE's success, including giving employers and savers time to plan for future changes. In that way, we can help to minimise any risk of deterring individuals from continuing to save or undermining employer engagement. This longer-term policy direction does not pre-empt any future annual thresholds review, pending the introduction of legislation which would need to be enacted to remove the lower earnings limit of the qualifying earnings band." See DWP, Review of the automatic enrolment earnings trigger and qualifying earnings band for 2022/23: supporting analysis, 8 February 2022.

TABLE 2: **Living pension contribution rates and annual cash contributions**

	Contribution rate		Cash contribution working full-time at the Living Wage	
Benchmarks	Total	Additional to auto-enrolment	Total	Additional to auto-enrolment
Whole career	11.2%	3.2%	£2,100	£600
Existing cohort	16.1%	8.1%	£3,000	£1,500

NOTES: Cash contributions have been rounded to the nearest £100 and are assumed to apply across all earnings. The 'whole career' benchmark corresponds to the age 25 benchmark and the 'all age' benchmark corresponds to the average threshold, both originally calculated in the feasibility study. Note that the original study assumed that contributions would be made on all earnings, in line with a government aspiration stated in 2017 to remove the lower earnings threshold in auto-enrolment.
SOURCE: RF analysis using RF private pension accrual model from D Finch & C Pacitti, Building a Living Pension, Resolution Foundation, January 2021.

This report builds on the feasibility study by comparing workers' actual pension saving contributions to the estimated LP thresholds.[14] There are three important caveats to this.

First, this exercise cannot be used to confirm who is or isn't on course for a living pension. Instead, it sets out how current contributions compare to the estimated LP benchmarks. There are two important distinctions to make here.

- As we explain in Box 1, the LP benchmarks represent an average saving requirement across workers. The underlying method recognises that workers' needs will vary in retirement, and the fact that workers of different ages and different savings histories will need to save at different rates to meet these targets. But these are boiled down into a single benchmark, so that, as is the case for the Living Wage, they can be easily used for campaigning purposes. This means that we cannot say for sure that someone who saves at these rates will definitely have enough in retirement: we can only say that they are on course, on average, to do so.
- None of our analysis takes any account of the stock of savings that workers have already calculated (except that such information was used, at an aggregate level, to determine the different LP benchmarks for different cohorts). [15]

Second, the original report on LP benchmarks was agnostic about whether the saving needed to be done by employees, employers or the state (either through tax relief or some form of match-funding). This means that the implication of our finding that

14 In other work also supported by the abrdn Financial Fairness Trust, researchers at Nest are examining the current landscape of additional employer pension contributions, the context and motivations that shape this landscape and opportunities for innovation in employer contributions to pensions and other financial workplace benefits. This work is due to be published later in 2022. See https://www.financialfairness.org.uk/en/funding/funded-projects/nest-insight , accessed 8 July 2022.

15 For analysis which assesses whether or not people are saving the correct amount towards a pension given their existing stock of wealth, see: R Crawford & C O'Dea, Retirement sorted? The adequacy and optimality of wealth among the near-retired, September 2014.

most workers are contributing well below the LP benchmarks is not necessarily that 'employees must save more', but instead should be read as 'overall contributions will need to rise in order for more workers to reach these LP benchmarks'.

Third, we exclude workers with a DB pension from most of our analysis. This is because the original feasibility study looked only at DC pensions, partly because these sorts of calculations are much harder for DB pensions, but also because the structure of DB pensions makes it much less likely that someone will retire with an inadequate income.

The remainder of this report is structured as follows:

- Section 2 explores the distribution of pensions saving rates among all and low-paid workers and how this has changed over time;
- Section 3 compares current pension saving rates for different categories of workers against the four proposed LP benchmarks, and determines the extent to which different factors drive pension patterns among all and among low-paid workers; and,
- Section 4 concludes.

Section 2

The distribution of pension saving

This section explores trends in pension contribution rates over the past decade (2011-2020), and how they vary between different groups of workers. The key finding is that the introduction of auto-enrolment led to large increases in the fraction of workers saving towards a pension, and the change in the minimum contribution rates since auto-enrolment first began have led to workers saving more. The biggest increases in pension saving have come among groups that formerly had the lowest take up, such as the low-paid, and those in low-paying service sectors. However, low-paid workers were still less likely to save towards a pension in 2020, and, among those saving, were more likely to save at lower rates. As a result, this puts low earners at the greatest risk of receiving a pension that delivers an inadequate standard of living in retirement.

As discussed in the previous section, reforms to pension policy over the last decade have had a significant impact on the savings patterns of workers, substantially increasing the fraction of workers saving towards a pension. In this section we explore the distribution of pension saving rates among workers, with a particular focus on the low paid, and how this has changed over time, before turning to how current contributions fair against the LP thresholds in Section 3. Details of our analysis are set out in Box 3.

BOX 3: **Methodology**

Our analysis uses the Annual Survey of Hours and Earnings (ASHE) dataset. It is based on a 1 per cent sample of jobs taken from HM Revenue and Customs' Pay As You Earn (PAYE) records. It's important to note that it excludes the self-employed[16], or employees not paid during the reference period. Also, in the version of this dataset available to us, data on employees Northern Ireland is not included, so all the figures in our

16 See DWP, Planning and Preparing for Later Life, June 2022, for which includes analysis on pensions for the self-employed.

analysis relate to Great Britain rather than the whole UK.

The ASHE dataset allows us to see contributions to workplace pensions that are provided or facilitated by employers. It does not cover individual personal or stakeholder pensions, where individuals enter into a contract with an insurance company and where that contract is not facilitated by an employer.

Those saving into a DB pension holder (7 million workers) are excluded from our analysis. This is because they typically have much higher rates of pension saving than defined contribution (DC) savers, and are not the likely target group for a Living Pensions campaign. Therefore, the following analysis focuses on workers who are either not saving towards a workplace pension or who are saving through a DC scheme; in 2020, this amounts to 20 million workers. As our analysis classifies workers on the basis of the scheme they are currently paying into, it will include dual pension holders (i.e. workers with an old DB pension but now paying into a DC pension).

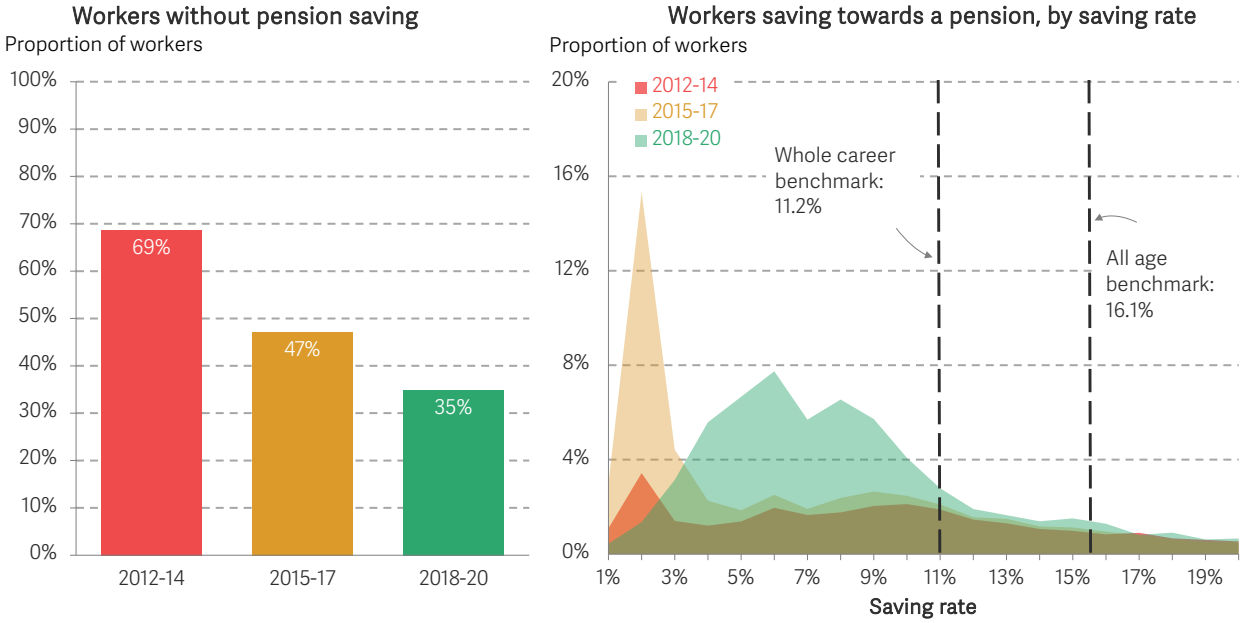
Pension saving in all cases refers to total savings – the sum of the employee's and the employer's contributions. Saving rates are total saving expressed as a percentage of the workers gross pay. The LP benchmarks were originally calculated in relation to 2020; for the cash targets, we have produced equivalent benchmarks for earlier years by adjusting them in line with growth in median earnings.

The introduction of auto-enrolment has seen increased levels of pension take up and more workers saving at higher rates

Figure 2 sets out the distribution of pension saving rates among all workers not saving into a DB pension, and splits the past decade into three different periods (as set out in Box 3, we focus on total saving, which is the total of pension contributions made by the individual and their employer, and we exclude workers with a DB pension). Because large numbers of workers do not save towards a workplace pension, we have shown this separately in a panel on the left. The right-hand panel shows all workers who are saving, by their saving rate. In both panels, the denominator is all workers – i.e. both workers with and without a workplace pension, but excluding those with a DB pension.

FIGURE 2: **The proportion of workers not saving towards a pension has fallen, and the most common saving rate has increased**

Proportion of all workers (excl. DB savers) who are not saving (left panel) and proportion of workers by pension saving rate (right panel): GB



NOTES: In both panels, the denominator is all workers other than DB pension holders. Due to there being a large number of workers who have zero pension saving (i.e. have a saving rate of 0 per cent, so are not saving towards a workplace pension) we have shown this separately in a panel on the left. The right-hand panel shows workers who are saving (i.e. with a savings rate at or above 1 per cent), by their saving rate. In both panels, the denominator is all workers – i.e. the total of workers with and without a workplace pension.
SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings.

The most striking feature of Figure 2 is the large number of workers who are not saving at all. As already shown in Figure 1, there has been significant improvement over time in the proportion of workers saving towards a pension, and the number of non-savers has fallen significantly, halving from 70 per cent of workers in 2012-14, to 35 per cent of workers in 2018-20.

Turning to workers who are saving, two things stand out. First, a large number of workers have relatively low saving rates (which don't meet the standards of the living pension benchmarks). These are shown in Figure 2 for illustration, and Section 3 will discuss in detail how workers' saving rates perform against these benchmarks. Second, the most common saving rate – represented by the peaks in the right-hand panel – has increased over time. Both of these trends are likely driven by the minimum saving rates under auto-enrolment, which started out very low and have risen over time (the rates are shown in Box 2 in Section 1).

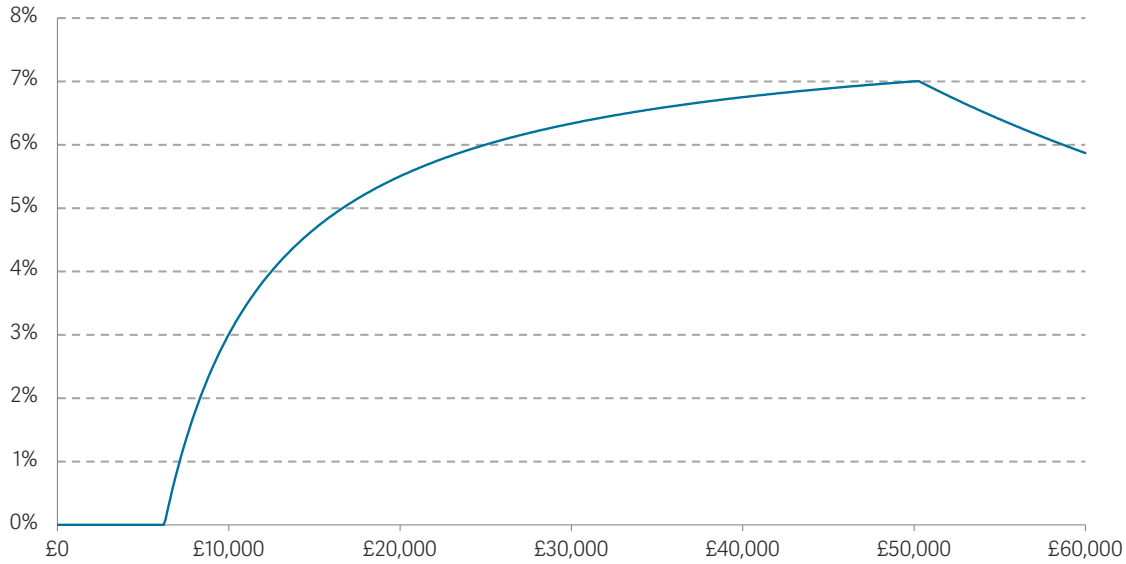
Indeed, Figure 2 makes clear that the auto-enrolment minimum saving rates have a very strong impact on pension saving: in 2018-20, approximately 4 million workers (a fifth of the non-DB total) are clustered close to the auto-enrolment minimum total contribution rate of 8 per cent. The answer to how workers in 2020 could be saving less than 8 per cent of their gross earnings, given that this is below the minimum contribution rate under auto-enrolment in that year is given in Box 3. And the impact of the rising minimum saving rate is also clear. In 2012-14, about 300,000 workers (2 per cent) were saving at or above the current auto-enrolment minimum contribution rate of 8 percent. By 2018-20, this had increased to 1 million workers (7 per cent). Similarly, in 2015-17 when the minimum auto-enrolment contribution rate was 2 per cent, almost a quarter of workers (4 million) were clustered at savings rates between 1 and 3 per cent. In 2018-20 the minimum rate was then raised to 8 per cent, and in this period, a fifth of workers (4 million) were clustered at savings rates between 6 and 8 per cent.

BOX 3: **Auto-enrolment contribution rates do not apply to all of an enrolled worker's earnings**

It is important to note that auto-enrolment does not mean that all enrolled workers are automatically saving 8 per cent of their earnings: indeed, most will be contributing that that. This is because auto-enrolment only requires that workers make contributions against qualifying earnings. Take, for example, an employee earning at the auto-enrolment earning threshold of £10,000. If this individual has 8 per cent auto-enrolment minimum contributions on their qualifying earnings (those above £6,240, so £3,760) then they would be saving £300.08 a year. Dividing this cash figure by their total earnings would give them a total contribution rate of only 3 per cent. Note that this is an extreme example: the full relationship between total contribution rates and auto-enrolment minimum contribution rates is set out inFigure 3, but this highlights that a worker following the auto-enrolment minimums would never contribute more than 7 per cent of their total earnings.

FIGURE 3: **The 'total pension saving rate' is lower than the auto-enrolment minimum contribution rate if a worker is making contributions against qualifying earnings only**

Total pension saving rate if employee and employer make auto-enrolment minimum contributions (8 per cent in total) on qualifying earnings only



NOTES: 'Total pension saving rate' = total pension contributions divided by total earnings. In financial year 2022-23, auto-enrolment qualifying earnings are £6,240 to £50,270. Total auto-enrolment minimum contribution rate is 8% (5% from employees; 3% from employers).

Of course, employers and workers are free to make contributions against earnings outside the qualifying earnings thresholds, so it is possible that a worker's total pension saving rate could line up with the auto-enrolment minimum contribution rate.

The auto-enrolment qualifying pay thresholds and the earnings trigger are reviewed every year. In setting the earnings trigger, the Government's aim is that workers who can afford to save are automatically enrolled, but that workers who cannot afford to divert resources from their day to day needs, are not automatically enrolled. The earnings trigger has been maintained at £10,000 since 2014-15, and is again unchanged in 2022/23.[17] As pay rises, freezing the trigger in cash terms brings more workers into the scope of auto-enrolment.

The lower limit for qualifying earnings – which continues to be linked to the National Insurance lower earnings limit – has also been frozen in cash terms, and remains at £6,240. Freezing the auto-enrolment qualifying pay lower limit means that, as earnings grow, a greater share of workers' earnings fall within the qualifying pay band, meaning workers and employers make larger

17 DWP, Review of the automatic enrolment earnings trigger and qualifying earnings band for 2022/23: supporting analysis, February 2022.

contributions. In the longer term, the Government has said it wants to abolish the lower earnings limit by the mid-2020s, so that workers and employers are making contributions from the first pound earnt.[18]

Saving has increased the most for groups of workers who previously had the lowest take up

Figure 4 shows the proportion of workers saving towards a workplace pension by pay category. As before, we exclude workers with an active defined benefit pension: the sample is workers who either are not making any pension saving or are saving into a DC scheme.

In 2020, 27 per cent of workers in the bottom weekly pay quintile were saving towards a pension compared to 86 per cent in the top weekly pay quintile. The gap between high and low paid workers is also large across the hourly pay distribution: 81 per cent of workers in the top quintile were savers in 2020, compared to 44 per cent in the bottom hourly pay quintile.

These gaps are clearly very significant, and show the scale of work still required to improve pension saving among low earners. But it is encouraging that these gaps between high and low earners were much smaller in 2020 than they were in 2011. This is because the rise in pension saving over the past decade has been more pronounced among low earners. In 2011, 5 per cent of workers in the bottom fifth of hourly pay were saving towards a pension, but by 2020 this had increased to 44 per cent. As a result, the gap in pension take up between the highest and lowest paid workers decreased from 51 percentage points in 2011 to 37 percentage points in 2020.[19]

An important reason why workers with low hourly pay still have lower rates of pension take up is that many have annual earnings which fall below the automatic earnings trigger of £10,000. In 2020, almost half (45 per cent) of workers in the bottom hourly pay quintile had annual pay below £10,000. By contrast, in 2017-19, 85 per cent of all employees earned more than £10,000, and almost all workers in the highest hourly pay quintile did so.[20] Those low paid workers earning below £10,000 can still opt in to a workplace pension, but will not have been automatically enrolled. Another potential reason could be higher opt-out rates among lower-paid workers who have been enrolled,

18 DWP, Automatic enrolment review 2017: Maintaining the momentum, December 2017.

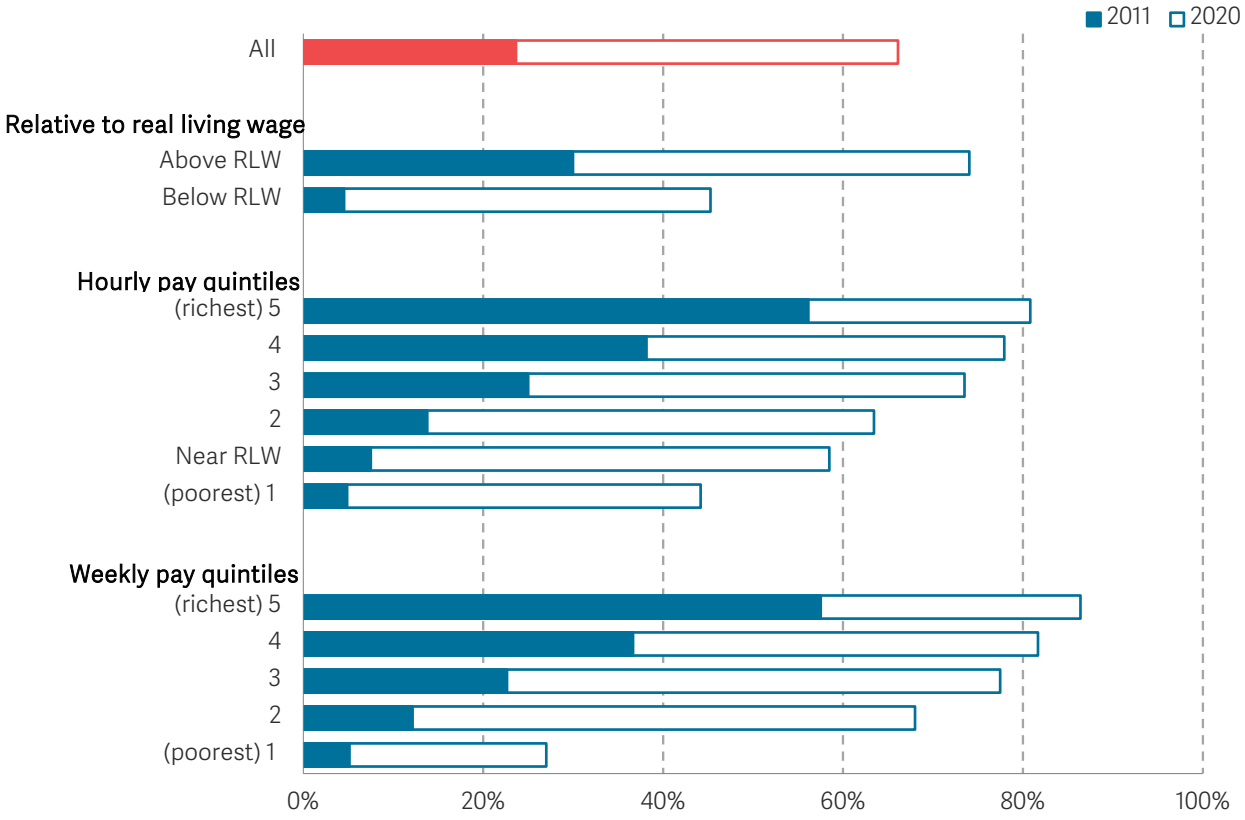
19 The gap between workers in high and low ***weekly*** pay has also fallen significantly, but not as dramatically as the gap between workers in high and low ***hourly*** pay. The gap between workers in the top and bottom weekly pay quintiles fell from 54 (in 2011) to 44 percentage points (in 2020). Again, this was driven mainly by large increases in proportion savers in the bottom fifth of weekly pay (from 21 per cent in 2011, to 47 per cent in 2020).

20 The latter is based on analysis of the Labour Force Survey datasets from 2017-19, which shows that the proportion of employees with annual pay above £10,000 is as follows. All employees: 85 per cent; hourly pay quintile 1 (the lowest paid): 50 per cent; hourly pay quintile 2: 83 per cent; hourly pay quintile 3: 95 per cent; hourly pay quintile 4: 98 per cent; hourly pay quintile 5 (the highest paid): 99 per cent.

but we don't have the data to confirm this. And in fact, sector level data on opt outs does not suggest a correlation with lower pay – survey data from the National Employment Savings Trust finds that opt-out rates are below average in the largest low-paying industries.[21]

FIGURE 4: **Workers in the lowest hourly pay quintile are almost half as likely as the highest paid to have a workplace pension, but the gap between high and low-paid workers has narrowed significantly since 2011**

Proportion of workers saving towards a pension, by pay category: GB



NOTES: Excludes DB pension holders. RLW stands for 'near the real living wage' and is defined as workers earning within 20p of the (area-specific) real living wage. For reference, gross average hourly pay ranges for 2020 (excluding overtime) are as follows: £9.49 and below for quintile 1; between £9.49 and £11.89 for quintile 2; between £11.89 and £15.90 for quintile 3; between £15.90 and £22.75 for quintile 4; £22.75 and above for quintile 5. The RLW for sits between hourly pay quintile 1 and 2 at £9.50 for 2020/21. Gross average weekly pay ranges for 2020 (excluding overtime) are as follows: £252.00 and below for quintile 1; between £252.00 and £400.90 for quintile 2; between £400.90 and £550.30 for quintile 3; between £550.00 and £784.80 for quintile 4; £784.00 and above for quintile 5.
SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings (ASHE).

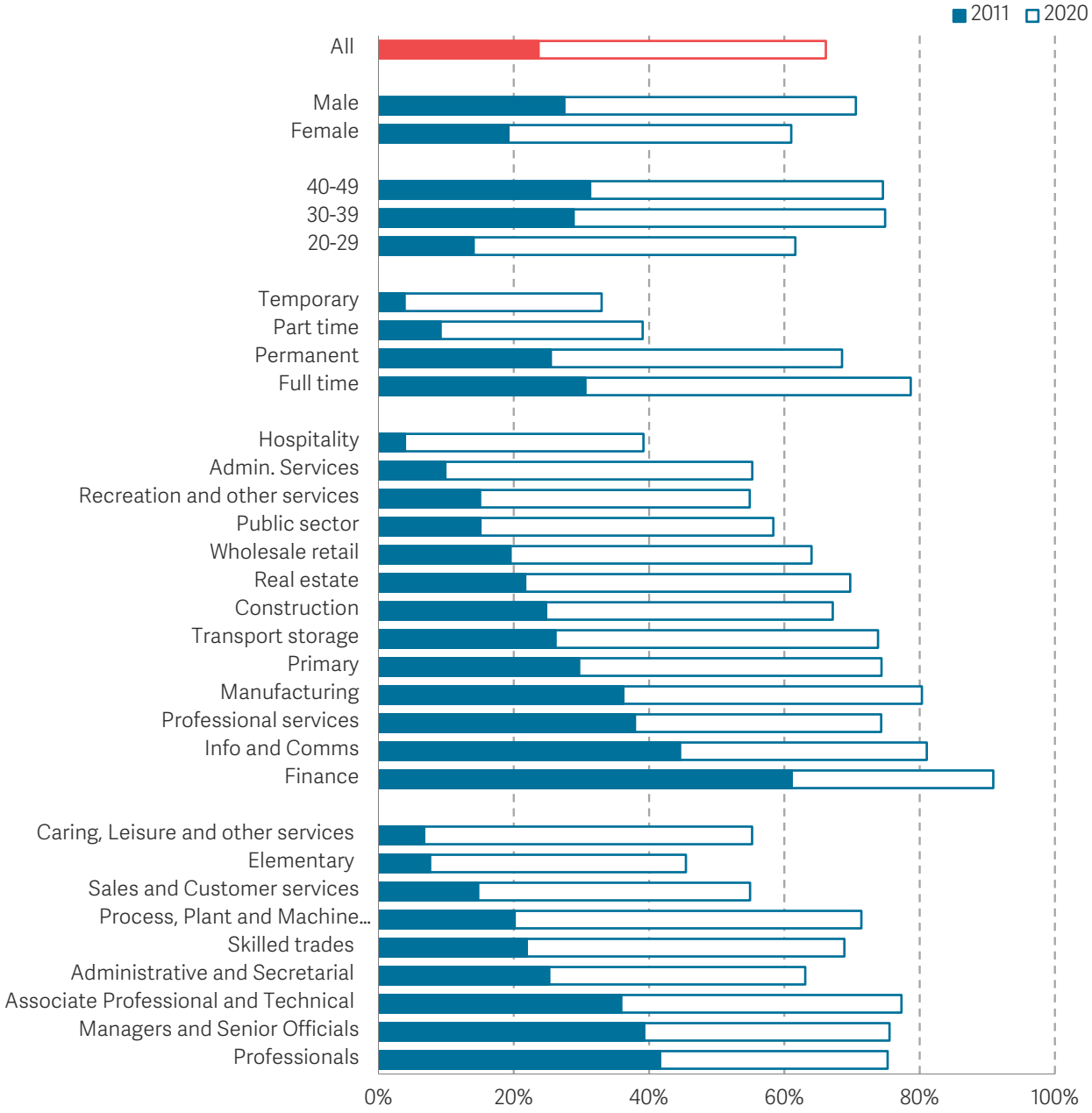
Figure 5 provides a breakdown of the proportion of workers saving towards a workplace pension across a number of other categories, comparing the situation before-auto-enrolment in 2011 with that in 2020. It shows differences across groups in the level of saving and the extent to which these have improved over time.

21 National Employment Savings Trust, Retirement saving in the UK 2020, February 2021.

Starting with the differences in 2020, we find that the proportion of workers saving towards a workplace pension is higher among older workers, workers in full-time or permanent jobs, workers in higher-paid occupation groups, and workers in the public sector and higher-paid private sectors. In general, therefore, it is the groups of workers whose typical pay is higher who have the higher rates of participation in workplace pensions.

FIGURE 5: **The proportion of workers saving across all categories has increased over time**

Proportion of workers saving towards a pension, by category: GB



NOTES: Excludes DB pension holders.
SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings (ASHE).

To give some examples:

- In 2020, 62 per cent of workers aged 20-29 were savers in 2020 compared to 75 per cent aged 40-49.
- 79 per cent of full-time workers and 69 per cent of workers with a permanent contract were savers in 2020 compared to 39 per cent of part time workers and 33 per cent of workers with a temporary contract.
- Hospitality had the lowest proportion of savers at 39 per cent, compared to 91 per cent of those in the finance industry.
- 45 per cent of workers in elementary occupations were savers in 2020 compared to 76 per cent of workers in professional occupations

The size of these differences in 2020 underlines the need for further progress on pensions take up. However, it's also striking, as with the gap between low- and high-paid workers, that in many cases the gaps in pension participation between groups of workers have narrowed considerably, with the greatest improvement in take up of pension saving coming among groups who in 2011 had the lowest take up. For example:

- The difference in the proportion of savers between those in their 20s and 40s decreased between 2011 and 2020, from 17 percentage points to 13 percentage points. This was caused by the larger increase in savers among workers in their 20s, which more than doubled, from 14 to 62 per cent (an increase of 48 percentage points). Pension participation among workers in their 40s also increased (from 31 to 75 per cent) but not as dramatically.
- Similarly, there was a bigger increase (+35 percentage points) in pensions participation in hospitality (starting from a very low point) than in finance, which started from a much higher point but saw a slightly smaller increase (+30 percentage points). As a result, the gap in the proportion of savers between the finance and hospitality industry had narrowed from 57 to 52 percentage points.
- The gap between elementary and professional occupations, also fell (from 34 to 30 percentage points and was driven by the proportion of savers in the elementary occupation rising slightly more (+38 percentage points) than the proportion of savers from professional occupations (+34 percentage points).

However, the gaps in the proportion who are saving towards a pension did not narrow across all categories. For example:

- The gap between the proportion of male and female savers slightly increased from 8 per cent in 2011 to 10 per cent in 2020. In 2011, 27 per cent of male workers were savers compared to 19 per cent of female workers. In 2020, 71 per cent of male workers were savers compared to 61 per cent of female workers.
- The gap in pension take up between workers on permanent and temporary contracts increased from 22 percentage points in 2011 and 36 percentage points in 2020. This was due to a greater increase in take up amongst workers on permanent contracts (+43 percentage points) compared to workers on temporary contracts (+29 percentage points).
- Additionally, the increase in savers among full-time workers (+48 percentage points) ***exceeded*** the increase of part time workers (+30 percentage points) between 2011 and 2020. As a result, the gap in proportion of full-time and part-time workers saving towards a pension increased from 21 percentage points to 40 percentage points.

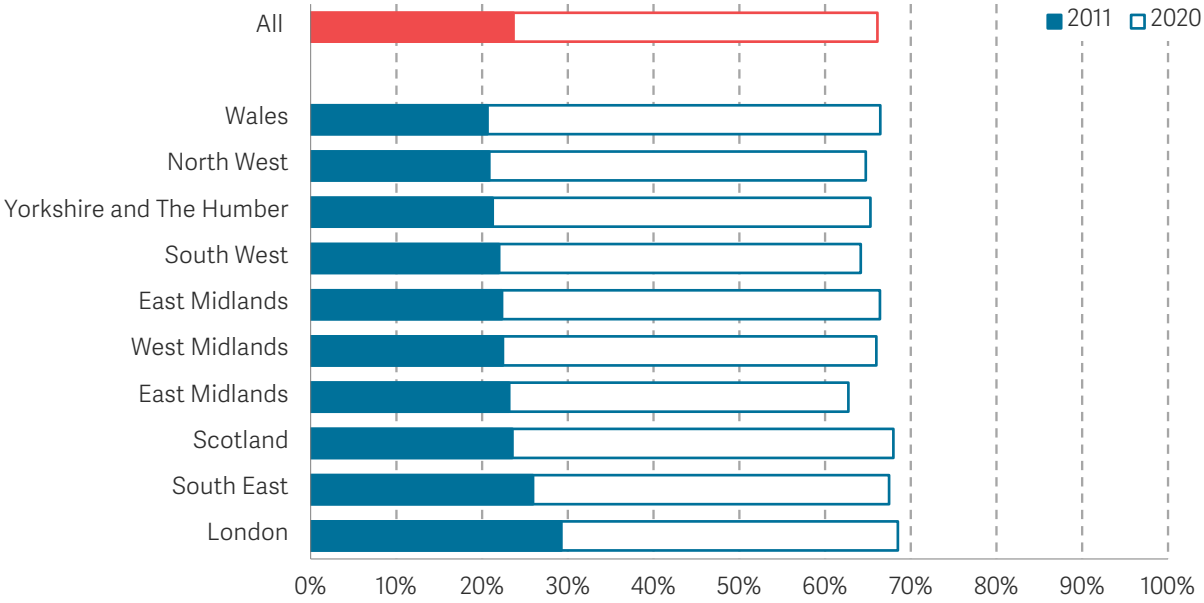
The greater progress among full-time workers is likely due to the fact that part-time workers are less likely than full-time workers to earn a salary that meets the auto-enrolment threshold of £10,000 per year. In 2021, approximately 40 per cent of part-time workers earned below £10,000 per year and were therefore not eligible for auto-enrolment; in comparison, the proportion of full-time workers earning less than £10,000 is essentially zero, meaning that almost all full-time workers (including those on the minimum wage) are eligible for auto-enrolment.[22]

Figure 6 shows the proportion of workers saving towards a workplace pension by region. There is not much variation in the fraction of workers who contribute to a pension across the UK, but the rates are highest in London, the South East, Scotland and Wales than they are in all other parts of England. As with the other breakdowns shown above, the past decade has seen these regional differences shrink, as regions with the lowest contribution rates in 2011 seeing them rise by the most. However, it should be stressed that region seems relatively unrelated to workers' saving behaviour.

22 We estimate these approximate figures using the ONS's published ASHE tables for 2021. This shows that among part-time workers, the 40th percentile of annual pay in 2021 was £9,625, hence approximately 40 per cent of part-time workers earn below £10,000. A full-time worker on the minimum wage (of £9.50) working 37.5 hours per week would earn £18,525 per year, which is well above the £10,000 auto-enrolment threshold. Hence our claim that 'essentially zero' full-time workers earn less than £10,000 per year.

FIGURE 6: **There is little regional variation in the proportion of worker saving towards a pension**

Proportion of all workers saving towards a pension, by region: GB



NOTES: Excludes DB pension holders.
SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings (ASHE).

Most workers, and almost all low-paid workers, are saving at rates below the estimated living pension benchmarks

The overall improvement in saving rates among workers demonstrates the success of the auto-enrolment schemes in boosting the proportion of workers saving towards a pension. However, how much workers are saving also matters, and Figure 2 shows that the vast majority of workers were saving a lot less than the estimated LP benchmarks.

In particular, in 2018-20, 85 per cent of all workers (approximately 16 million) were saving at or below the 'whole career' percentage benchmark, and 91 per cent of workers were saving below the 'all age' benchmark (note as usual in this report we are excluding workers with DB pensions from this analysis). For a typical worker earning a median salary of £26,000 and saving at the modal rate of 6 per cent, this translates to shortfall of at least £1,300 a year in pensions saving.[23] Using the threshold in cash terms, 82 per cent of workers (again, approximately 16 million) 2018-20 were saving at or below the 'whole career' cash benchmark, and even more (89 per cent, or 18 million) were saving below the 'all age' cash benchmark. Section 3 will discuss workers' pension saving in relation to the LP benchmarks in more detail.

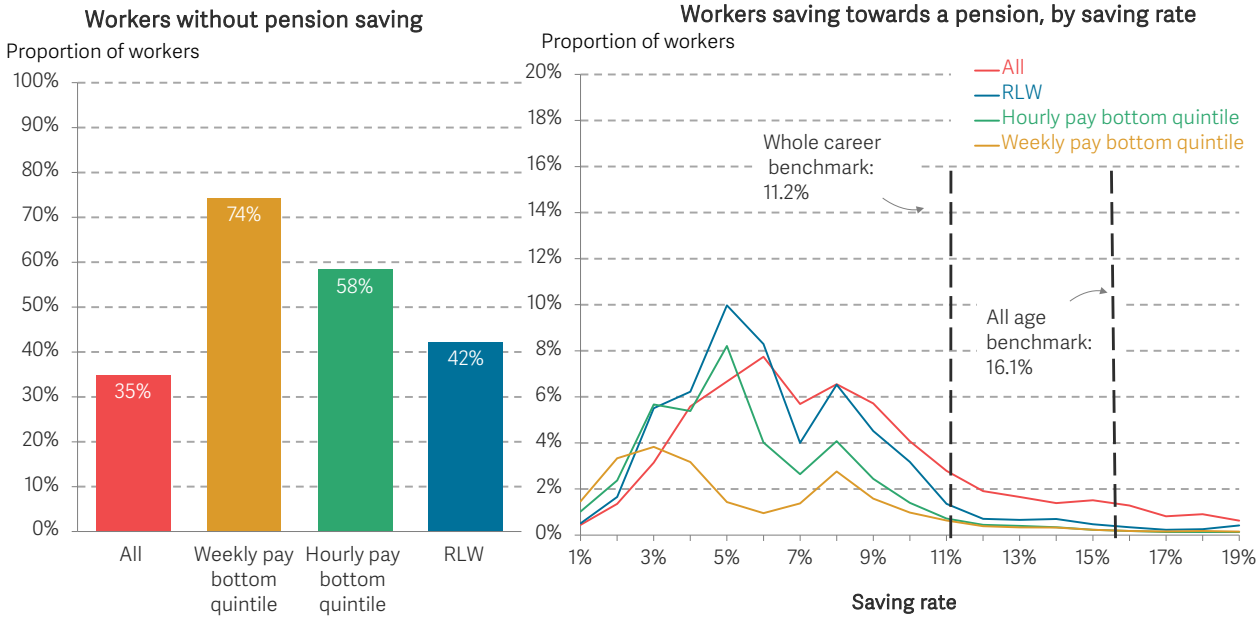
23 Office of National Statistics, Earnings and hours worked, October 2021

We showed above that low-paid workers were less likely to save at all. Figure 7 expands on that by showing the saving distributions in 2018-20 for different definitions of low-paid workers. We identify three groups: those in the bottom quintile or weekly pay (14 million workers), those in bottom quintile of hourly pay (15 million workers[24]), and workers who earn within 20p of the region-specific real living wage[25] (3 million workers).

Figure 7 shows that there are higher proportions of non-savers across all low-paid worker groups than there are for workers overall. This is particularly pronounced among workers in the bottom weekly pay quintile, who, at 74 per cent, have more than double (almost 2.5 times more) the proportion of non-savers than among all workers (35 per cent). The proportion of workers in the bottom fifth of the hourly pay distribution who are not saving towards a pension is lower (58 per cent) and the category for workers earning near the real Living Wage (RLW) has the lowest proportion of non-savers, at 42 per cent of workers. As we discussed earlier, almost half (45 per cent) of workers in the bottom hourly pay quintile in 2020 had annual pay below £10,000, below the auto-enrolment threshold.

FIGURE 7: **Low-paid workers are more likely to be non-savers and, if saving, are more likely to save at lower rates**

Proportion of workers by pension saving rate and pay category: GB, 2018-2020



NOTES: RLW stands for near the real living wage and is defined as workers earning within 20p of real living wage. Quintile 1 refers to the lowest paid group. Due to there being such a large number of low paid workers who have zero pension saving (i.e. have a saving rate of 0 per cent so are not saving towards a workplace pension) we have shown this separately in a panel on the left. The right-hand panel shows low paid workers who are saving (i.e. with a savings rate at or above 1 per cent), by their saving rate. In both panels, the denominator is low paid workers – i.e. the total of workers with and without a workplace pension. The chart excludes DB pension holders.
SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings (ASHE).

24 Note quintiles are not identically sized due to wages bunching.
25 This is defined specific to workers' location: there is a higher real living wage rate in London. Note that the real living wage sits at the 20th percentile of the pay distribution.

Low-paid workers who do save tend to save at lower rates than other workers. Between 2018 and 2020, the most common saving rate for workers in the bottom hourly pay quintile and earning near the real living wage was between 3-5 per cent of total earnings (this saving rate covered 22 per cent of workers earning near the real living wage, and 19 per cent of workers in the bottom hourly pay quintile). In comparison, a slightly lower proportion (15 per cent) of all workers were saving within this band. The most common saving rate among workers in the bottom weekly pay quintile was even lower, with 10 per cent saving at rates between 2 to 4 per cent. As mentioned previously, that is not inconsistent with those workers saving at the auto-enrolment minimum contribution rate of 8 per cent, because that only applies to qualifying earnings.

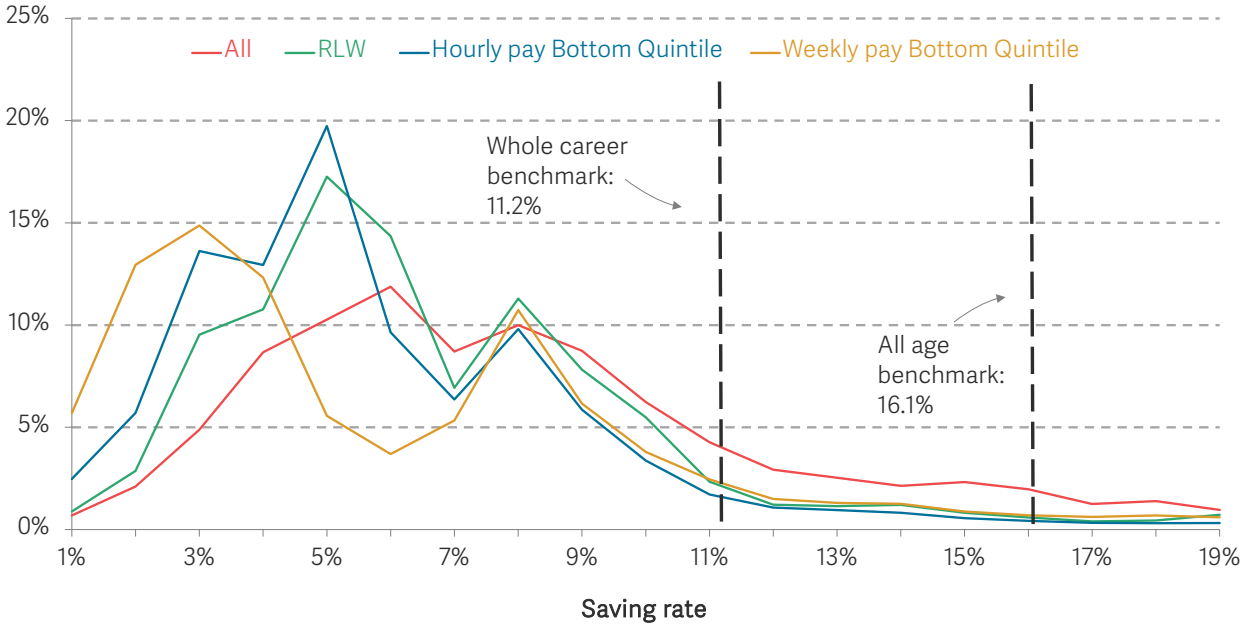
Unsurprisingly, then, the vast majority of low-paid workers were also saving below the estimated LP thresholds: in 2018-20, 96 per cent of workers in both the bottom quintiles of hourly and weekly pay and 98 per cent of RLW workers, were saving at rates below even the lower 'whole career' LP benchmark.

As before, the same patterns (of low-paid workers being more likely to be non-savers and, if saving, of being more likely to save at low levels) hold if we measure pension saving in cash terms rather than as a proportion of earnings. 66 per cent of RLW workers and 84 and 95 per cent of workers in the bottom fifth of hourly and weekly pay, respectively, have pension savings of less than £500 per year. By contrast, 48 per cent of all workers have pension savings of less than £500 per year. These figures include full-time and part-time workers.

To further illustrate the point that low-paid workers differ from higher-paid workers in their likelihood of saving at lower rates, Figure 8 shows the distribution of pension saving rates but taking savers (rather than all workers) as the base. In 2018-20, of those who were saving, 66 per cent of RLW workers, 86 per cent of workers in the bottom weekly pay quintile, and 81 per cent of workers in the bottom hourly pay quintile were saving at rates below 5 per cent, compared to 52 per cent of all workers. Only 11 percent of RLW workers and 6 per cent of workers in the bottom hourly pay quintile were saving at rates of 10 per cent and above, compared to 22 per cent of all workers. Pension saving among workers in the lowest weekly pay quintile (the yellow line in the chart) is particularly concentrated at low rates: 83 per cent of these workers who are saving make contributions of 3 per cent or less of their earnings, compared to 67 per cent of workers in the bottom hourly pay quintile, and 50 per cent of all workers.

FIGURE 8: **Even when excluding non-savers, low-paid workers are more likely to save at lower rates, though the differences between all workers and low-paid narrow**

Proportion of workers by pension saving rate and pay category (excluding non-savers): GB, 2018-2020



NOTES: Excludes DB pension holders. RLW stands for 'near the real living wage' and is defined as workers earning within 20p of the area-specific real living wage.
SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings (ASHE).

This section has highlighted the key role the introduction of auto-enrolment has played in boosting pension savings among workers. Not only have there been large increases in the rate of savers across worker categories, but workers are now saving at higher rates than they were prior to when the policy came into effect. However, despite this improvement, we still find that lower-paid workers are the most likely to not save at all and, when they do save, are mostly likely to save at lower rates than other workers. As a result, low-paid workers continue to face a greater risk of receiving a pension that delivers an inadequate standard of living in retirement. The next section of this report explores this in more detail as it seeks to assess actual pension contributions, across worker categories, against the proposed LP benchmarks.

Section 3

Who is saving above the living pension saving benchmarks?

This section assesses in detail how workers' pension saving compares with the estimated living pensions benchmarks. Despite some improvement since 2011, the vast majority of workers are not saving at or above even the lower of the benchmarks. Just 12 per cent of workers in 2020 had a total pension saving rate above the 'all age' living pension benchmark of 16.1 per cent. Low-paid workers are especially unlikely to be saving above the benchmarks. In 2020, just 2 per cent of those in the lowest hourly pay quintile had a pension savings rate above the 'all age' percentage living pensions benchmark. There are also large differences across worker categories. Workers in lower-paid parts of the private sector, young workers, and workers in part-time or temporary jobs, are all much less likely than the average to be saving at or above the living pension benchmarks.

The previous section explored the distribution of workers' pension saving. In this section we focus on whether workers have pension savings which meet the living pensions (LP) benchmarks.

As noted in Section 1, the original feasibility study did not settle on a single benchmark. A set of benchmarks were put forward to reflect that the current cohort of older workers would need to save at a higher rate than would younger workers in order to hit the LP benchmarks, reflecting that they had fewer years left in the labour market, and but without a correspondingly higher level of existing pension wealth. The benchmarks were calculated as a proportion of earnings, and then this was expressed in cash terms for a full-time worker earning the RLW. In this section, we therefore use four different benchmarks:

- An 'all age' cash benchmark of £3,000 per year.
- An 'all age' earnings percentage benchmark of 16.1 per cent of total earnings.

- A (lower) 'whole career' (age 25-35) cash benchmark of £2,100 per year.
- A (lower) 'whole career' (age 25-35) earnings percentage benchmark of 11.2 per cent of total earnings.

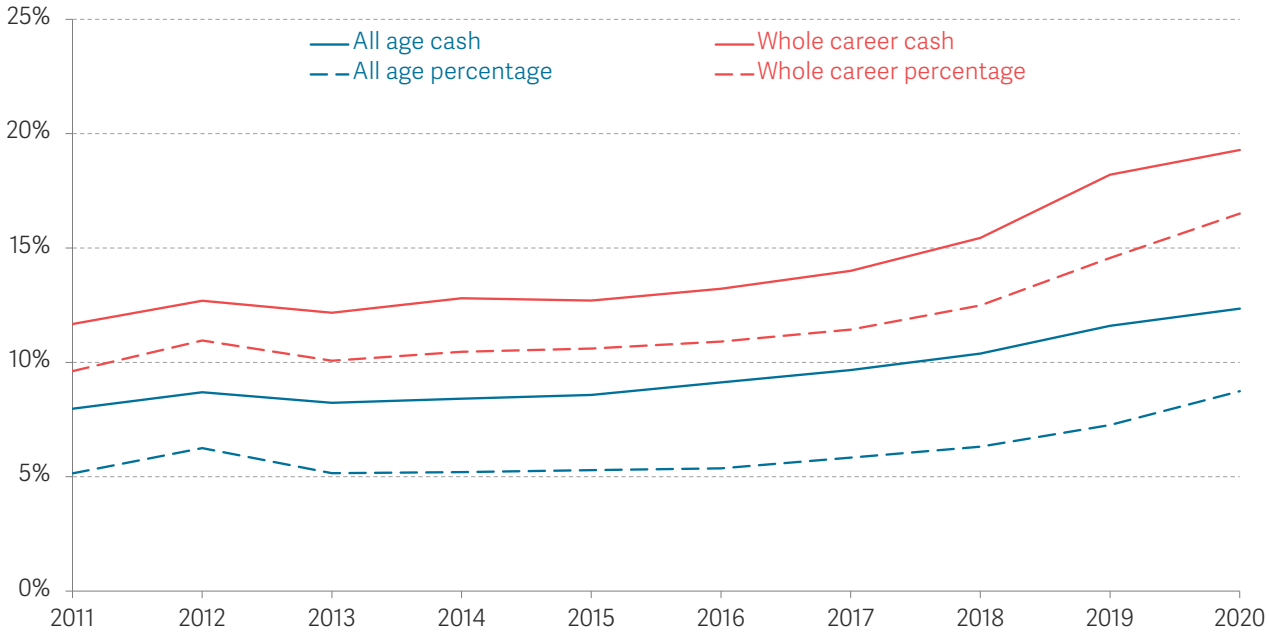
As we discussed in Section 1, the aim of this analysis is to compare workers' pension savings against these benchmarks; we are not able to say how many workers are on track towards receiving a living pension in retirement, as that would require taking account of workers' existing pension savings. As before, workers with defined-benefit pensions are excluded from the analysis.

A large majority of workers are not saving towards a pension at a rate which reaches the living pensions benchmarks

Figure 9 shows the proportion of all workers (including non-savers, but excluding those with a DB pension) who are saving at or above the living pension benchmark. The key take-away from this chart is that, even after the rise in pension contributions that we documented in Section 2, the vast majority of workers (over 80 per cent) in 2020 were not meeting any of the LP benchmarks. There has been some improvement over time; for example, between 2011 and 2020, the proportion of workers meeting the 'whole career' cash benchmark (of the four benchmarks, this the one that workers are most likely to meet) increased from 12 to 19 per cent. But the fact still remains that this was only a small improvement.

FIGURE 9: **Workers are more likely to meet the 'whole career' cash benchmark but are least likely to meet the 'all age' percentage benchmark.**

Proportion of workers with a pension saving above the various living pension benchmarks: GB



NOTES: Excludes DB pension holders. See Box 2 for further information on the living pension benchmarks and how they were calculated. The 'whole career' benchmarks are 11.2 per cent and £2,100. The 'all age' benchmarks are 16.1 per cent and £3,000.
SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings (ASHE).

Figure 9 also shows that there is a higher proportion of workers meeting the cash living pension benchmarks than the benchmarks defined in terms as a percentage of earnings. This is because the percentage benchmarks imply a level of contributions in pounds that scales up and down in relation to workers' pay, and that the cash benchmark was calculated by applying the percentage benchmark to the pay of someone working full-time on the real living wage. This means that the cash target is lower than the equivalent percentage target for workers with pay above this level. For example, for an employee with a salary of £20,000 (close to the earnings of someone working full-time on the real living wage), the 'all age' benchmark of 16.1 per cent would translate to a cash figure of £3,220, only slightly higher than the 'all age' cash target of £3,000. For an employee with a salary of £45,000 (which would place them in the top quintile) £3,220 equates to a saving rate of just 7 per cent saving rate, meaning for this worker the cash 'all age' benchmark is much easier to attain than the percentage 'all age' target of 16.1 per cent.

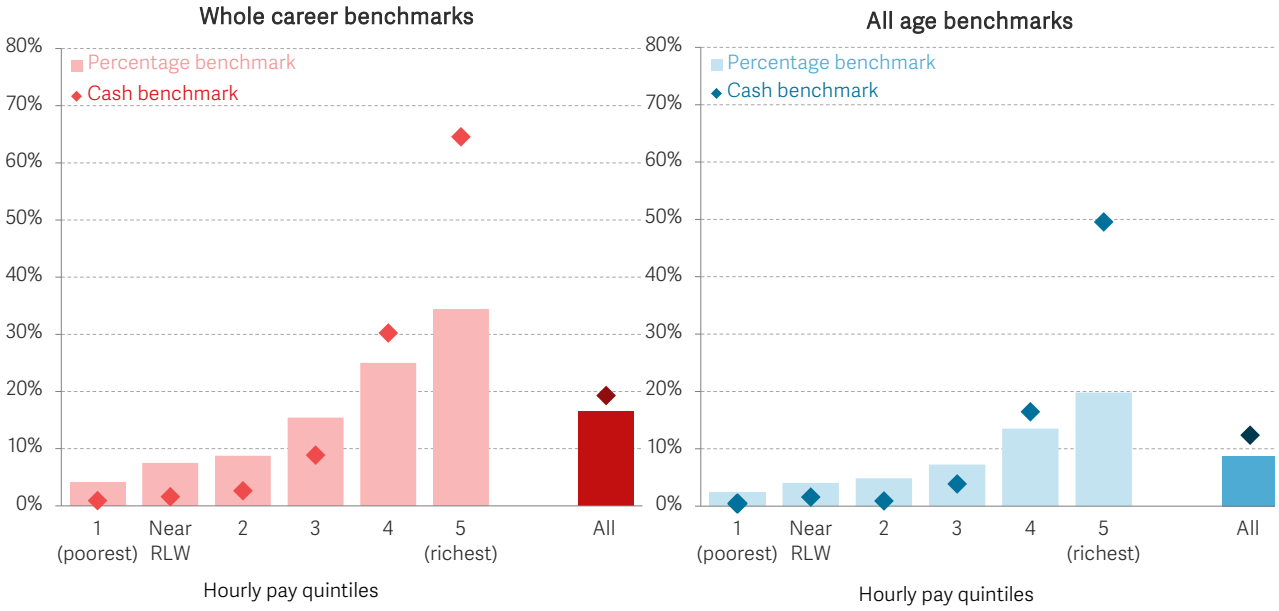
Higher-paid workers are significantly more likely to meet the living pension benchmarks than lower-paid workers

The proportion of workers with pension saving above the living pension benchmarks is low for workers taken as a whole, but it is especially low for low-paid workers. The following charts show the proportion of workers in 2020 with pension saving meeting or exceeding the living pension benchmarks by pay quintile; we look first at hourly pay (Figure 10), and then weekly pay (Figure 11) (workers earning near the real living wage are shown alongside the hourly pay quintiles in Figure 10). In both figures, the left panel shows the proportion of workers whose pension saving meets the lower 'whole career' benchmarks, and the right panel shows the proportion meeting the higher 'all age' benchmarks. The bars show the results using the percentage-of-earnings benchmarks, the dots show the results using the cash benchmarks.

When looking at either hourly or weekly pay, there is a very significant gap between high- and low-paid workers in the proportion saving above the living pension benchmarks. For example, 20 per cent of workers in the top fifth of hourly pay meet the 'all age' percentage benchmark (which is 15.1 per cent of earnings), compared to just 2 per cent of workers in lowest hourly pay quintile. Similarly, 34 per cent of workers in the top fifth of hourly pay meet the lower 'whole career' percentage benchmark (of 11.2 per cent of earnings) versus just 4 per cent of workers in lowest hourly pay quintile. Workers earning near the real living wage do better than workers in the lowest hourly pay decile (because their earnings are higher), but the proportion reaching the living pension benchmarks are still very low. Only 8 per cent of RLW workers meet the 'whole career' rate.

FIGURE 10: **Workers earning near the real living wage are only slightly more likely to save at or above the living pensions benchmarks when compared to workers in the bottom fifth of pay**

Proportion of all workers and low-paid workers with a pension savings rate above the living pension benchmarks in cash and rate terms, by hourly pay quintile: GB, 2020



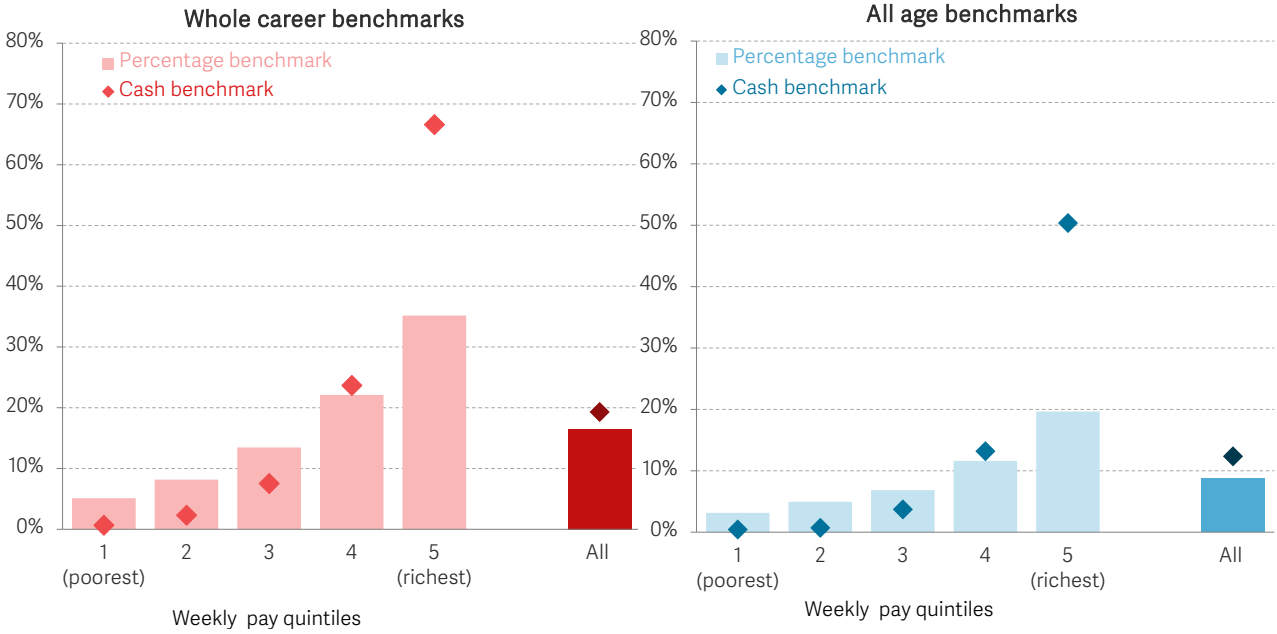
NOTES: Excludes DB pension holders. Near the real living wage is defined as those earning within 20p of the real living wage. The 'whole career' benchmarks are 11.2 per cent and £2,100. The 'all age' benchmarks are 16.1 per cent and £3,000. For reference, gross average hourly pay ranges for 2020 (excluding overtime) are as follows: £9.49 and below for quintile 1; between £9.49 and £11.89 for quintile 2; between £11.89 and £15.90 for quintile 3; between £15.90 and £22.75 for quintile 4; £22.75 and above for quintile 5. The RLW for sits between hourly pay quintile 1 and 2 at £9.50 for 2020/21.
SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings (ASHE).

For the reasons described above, the difference between high and low-paid workers is bigger when looking at the cash benchmarks than when looking at the percentage of earnings benchmarks. For example, 65 per cent of workers in the top fifth of hourly pay meet the 'whole career' cash benchmark versus just 1 per cent of workers in the lowest hourly pay quintile. This is a 64 percentage point gap, compared to a 30 percentage point gap when using the 'whole career' percentage benchmark.

Similar trends can be observed in Figure 11, which shows the distribution of workers meeting the living pension benchmarks across the weekly pay distribution. The gap between the highest- and lowest-paid workers is most stark across the 'whole career' cash benchmark, where 67 per cent of workers in the top fifth of pay meet this threshold compared to essentially nobody (1 per cent of workers) in the bottom fifth of pay. In contrast, the gap between the highest- and lowest-weekly paid workers is smallest for the 'whole career' percentage benchmark, where 35 per cent of workers in the top fifth of pay meet or exceed this benchmark compared to 5 per cent of workers in the bottom fifth.

FIGURE 11: **Higher-paid workers are more likely to meet the living pensions benchmarks than lower-paid workers**

Proportion of workers with a pension saving rate above the living pension benchmarks, by weekly pay quintile: GB, 2020



NOTES: Excludes DB pension holders. The 'whole career' benchmarks are 11.2 per cent and £2,100. The 'all age' benchmarks are 16.1 per cent and £3,000. For reference, gross average weekly pay ranges for 2020 (excluding overtime) are as follows: £252.00 and below for quintile 1; between £252.00 and £400.90 for quintile 2; between £400.90 and £550.30 for quintile 3; between £550.00 and £784.80 for quintile 4; £784.00 and above for quintile 5.
SOURCE: RF analysis of ONS, ASHE.

As discussed in Section 2, one of the reasons low-paid workers are less likely to be saving at or above the LP benchmarks is the fact that low-paid workers are less likely to be saving towards a pension at all. This, in turn, will be partly driven by the fact that low-paid workers are less likely to earn below the £10,000 auto-enrolment 'automatic trigger', meaning they are not automatically enrolled (although may still opt in).[26] Despite this, pension participation has increased fastest among low-paid workers, but there is still a significant gap between low and high-paid workers.

Across gender, working hours, occupation and industry, the pattern remains that the lowest-paid workers in each category are the least likely to meet the living pensions benchmarks

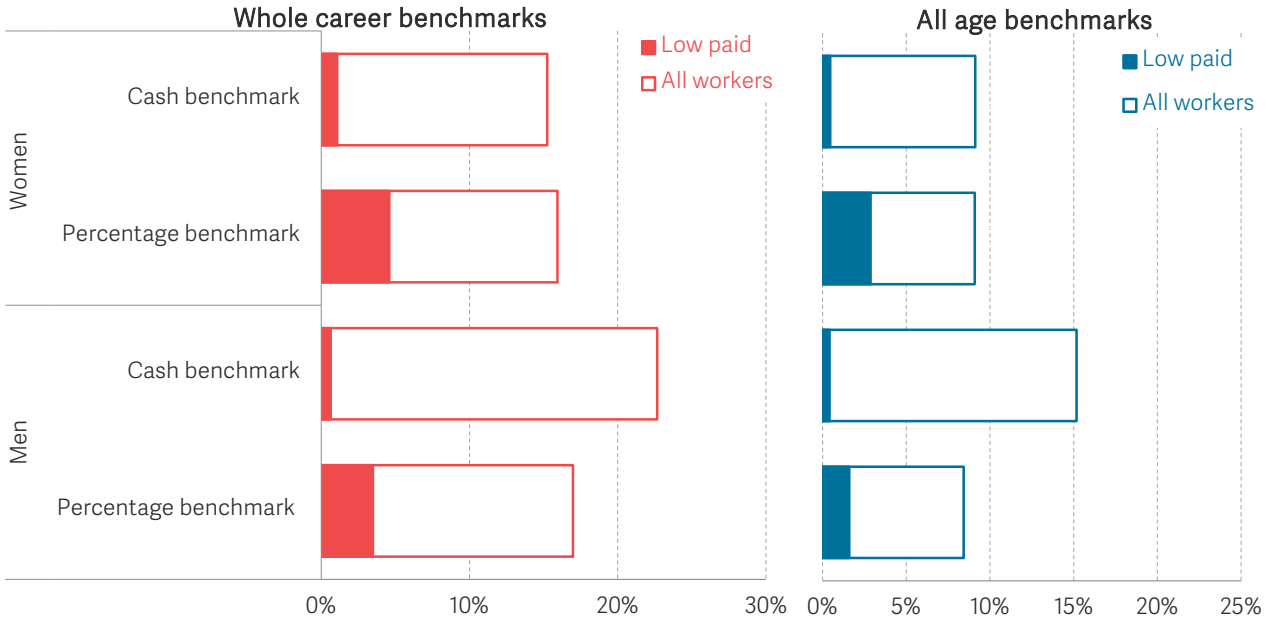
We now take a closer look at how the proportions of workers saving at or above the living pension benchmarks vary across different groups of workers, with a focus on low-paid workers (for this part of the analysis, low-paid workers are defined as workers in the bottom quintile of the hourly pay distribution).

26 See footnote 14.

Figure 12 compares the fraction of workers saving at or above the living pension benchmarks by gender. Across all workers, men are more likely to be meeting the benchmarks than women, although the difference is most pronounced in the 'whole career' cash benchmark where 23 per cent of male workers compared to 15 per cent of female workers meet the 'whole career' cash benchmark (a gap of 8 percentage points). This will be because men earn more than women on average and, as discussed above, the cash benchmarks are easier to attain than the percentage benchmarks for higher-paid workers.

FIGURE 12: **Low-paid women are slightly more likely to meet the living pensions benchmarks than low-paid men**

Proportion of all workers and low-paid workers with a pension saving rate above the living pension benchmarks, by gender: GB, 2020



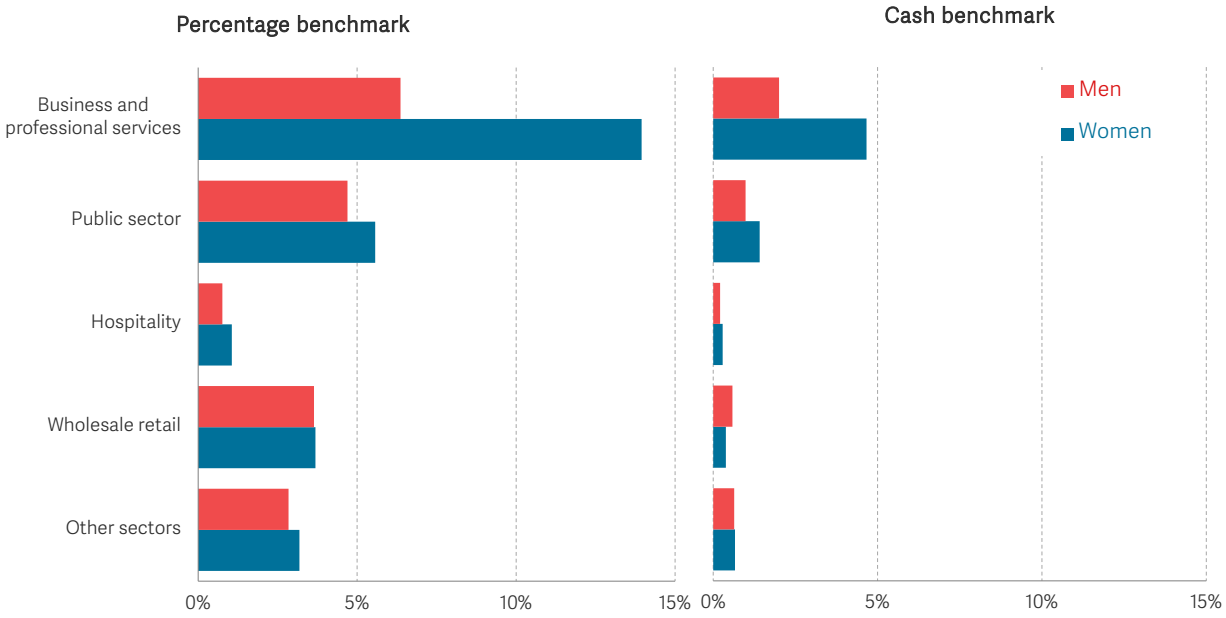
NOTES: Excludes DB pension holders. Low-paid is defined as workers with hourly pay in quintile 1. The 'whole career' benchmarks are 11.2 per cent and £2,100. The 'all age' benchmarks are 16.1 per cent and £3,000.
SOURCE: RF analysis of ONS, ASHE.

Interestingly, the gender breakdown is reversed when looking at low paid workers – low-paid women are more likely than low-paid men to meet the benchmarks (although this is still a rare occurrence for low-paid women): 5 per cent of low-paid female workers meet or exceed this benchmark compared to 3 per cent of low-paid male workers. This result is driven partly by which sector men and women work in. In particular, low-paid women are heavily concentrated in the public sector, where, even outside of those with a DB pension, typical pension saving rates are higher. In 2020, 23 per cent of low-paid women

worked in the public sector (excluding workers with DB pensions), compared to 6 per cent of low paid men. However, it's not just the impact of sector. A higher proportion of low-paid women than low-paid men meet the LP benchmarks even within sectors, as set out in Figure 13. For example, across a set of business services sectors (sectors were grouped for sample size reasons), 14 per cent of low-paid female workers met or exceed the 'whole career' percentage benchmark in comparison to 6 per cent of low-paid men.[27]

FIGURE 13: **Within sectors, a higher proportion of low-paid women than men are saving at or above the LP benchmarks**

Proportion of low-paid workers with a pension saving rate above the 'whole career' living pension benchmarks, by sector and gender: GB, 2020



NOTES: Excludes DB pension holders. The 'whole career' benchmarks are 11.2 per cent and £2,100 (in cash terms) of total pay.
SOURCE: RF analysis of ONS, ASHE.

Moving on from gender, Figure 14 compares the proportion of workers meeting the living pension benchmarks by age; it reveals that older workers are more likely to meet all the benchmarks than younger workers. The difference is most stark for the 'all age' cash benchmark, where 18 per cent of workers aged 40-49 have pension savings that meets or exceed this threshold compared to 14 per cent of workers aged 30-39 and 5 per cent of workers aged 20-29. This gap is clearly driven by the fact that older workers have higher average pay than younger workers and are therefore able to make greater contributions

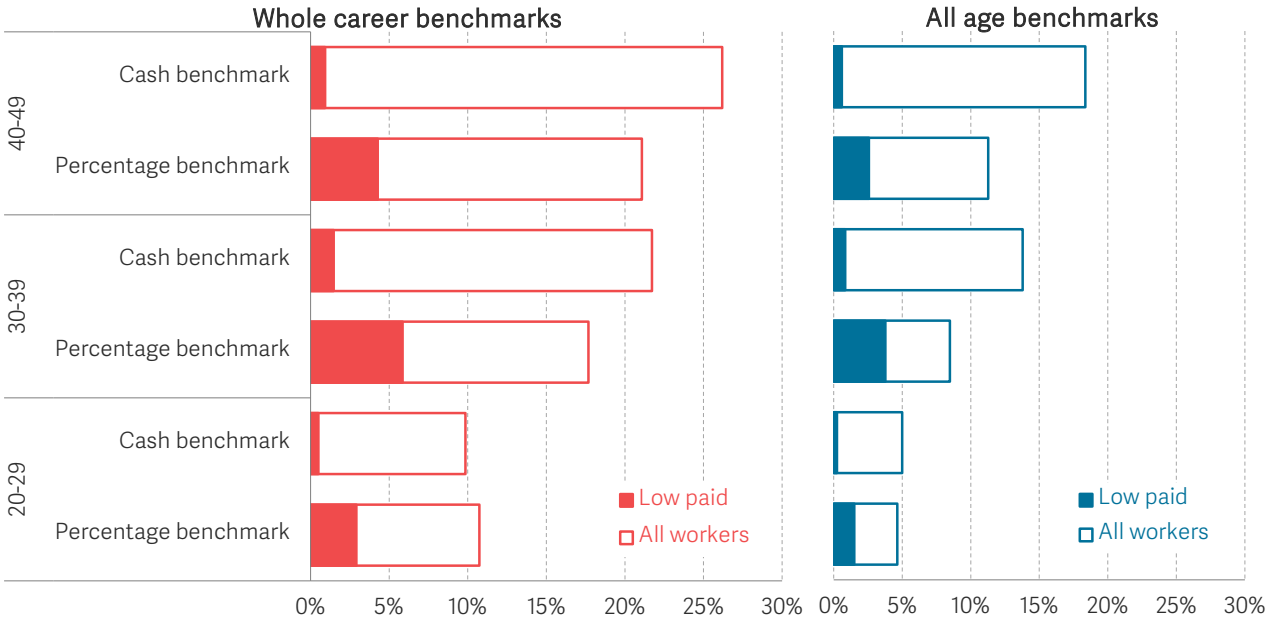
27 This is consistent with analysis by DWP showing that men working part-time are much less likely (73 per cent) than women working part-time (86 per cent) to be saving towards a pension, among workers who are eligible. There is no such gap between male and female full-time workers. See: DWP, Workplace pension participation and savings trends of eligible employees: 2009 to 2020, September 2021.

to their pensions (the median gross hourly pay for workers aged 40-49 in 2020 was £15.89, which is much higher than median pay for workers aged 20-29, which was £12.26).[28]

However, this pattern is not the same among low-paid workers. Not only are the gaps across age groups smaller, but there is no longer a clear relationship with age: a higher proportion of low-paid workers in the 30-39 age group (6 per cent) are meeting the benchmarks than in both the 40-49 (4 per cent) and 20-29 age groups (3 per cent). As a result, the largest gap between all and low-paid workers meeting the benchmarks across age groups occurs in the 40-49 age group: for the 'whole career' cash benchmark, 26 per cent of all workers meet this target compared to 1 per cent of low-paid workers.

FIGURE 14: **The gap between low-paid and all workers meeting the benchmarks highest in the 40-49 age group**

Proportion of all workers and low-paid workers with a pension saving rate above the living pension benchmarks, by age group: GB, 2020



NOTES: Excludes DB pension holders. 'Low paid' is defined as workers with hourly pay in quintile 1. The 'whole career' benchmarks are 11.2 per cent and £2,100. The 'all age' benchmarks are 16.1 per cent and £3,000.
SOURCE: RF analysis of ONS, ASHE.

Figure 15 compares workers saving at the benchmarks by contract type; in general, part-time (PT) workers are less likely to meet the living pensions benchmarks than full-time (FT) workers. This difference is most noticeable for the 'whole career' cash benchmark, where 4 per cent of PT workers meet or exceed this threshold compared to 25 per cent of FT workers. This is expected given that PT workers work fewer hours, receive less pay, and are more likely to be non-savers (as previously shown in Figure 5).

28 ONS, Earnings and hours worked, age group ASHE Table 6, October 2021.

Figure 15 also reveals that there are more FT workers meeting the cash benchmarks than there are meeting the percentage benchmarks, but the opposite is the case for PT workers. For example, 25 per cent of FT workers meet the 'whole career' cash benchmark compared to the 19 per cent who meet the 'whole career' percentage benchmark. In contrast, 4 per cent of PT workers meet the 'whole career' cash benchmark compared to 9 per cent that reach the 'whole career' percentage benchmark. This is in line with the general trend that higher-paid workers are more likely to reach cash targets compared to lower-paid workers, as shown in Figure 9 and Figure 11.

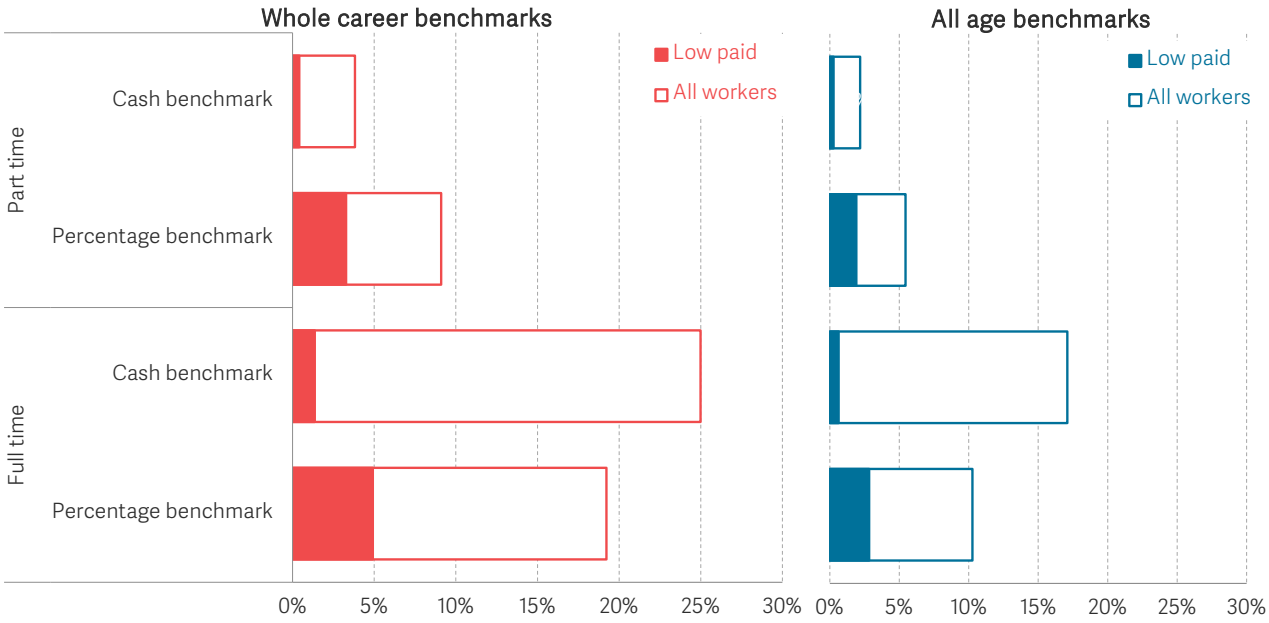
Among low-paid workers, the gap between those in FT and PT work is not as pronounced across the benchmarks as it is for all workers. Gaps in the proportions of low-paid PT and FT workers are narrow for each benchmark. For example, 2 per cent of low-paid PT workers meet the 'all age' percentage benchmark compared to 3 per cent of low-paid FT workers. Part-time workers account for roughly half of all workers in low hourly pay (using a below-two-thirds-of-median definition).[29]

However, there are large gaps between all workers and low-paid workers both in FT and PT work. This is most pronounced among workers in FT work; for example, 1 in 5 FT workers have a pension saving at or above the 'whole career' percentage benchmark compared to 1 in 20 low-paid FT workers. For part-time work the gaps are smaller but still apparent: PT workers are 3 times more likely to meet or exceed the 'whole career' percentage benchmark in comparison to low-paid PT workers.

29 Using this definition of low pay classes the lowest paid 14 per cent of workers as low paid. It is therefore a somewhat smaller group of workers than the bottom hourly pay quintile. These statistics can be found in: N Cominetti et al, Low Pay Britain 2021, Resolution Foundation, June 2021.

FIGURE 15: **There is only a small difference between the proportion of low-paid full-time and part-time workers meeting the living pension benchmarks**

Proportion of all workers and low-paid workers with a pension saving rate above the living pension benchmarks, by whether full-time or part-time: GB, 2020

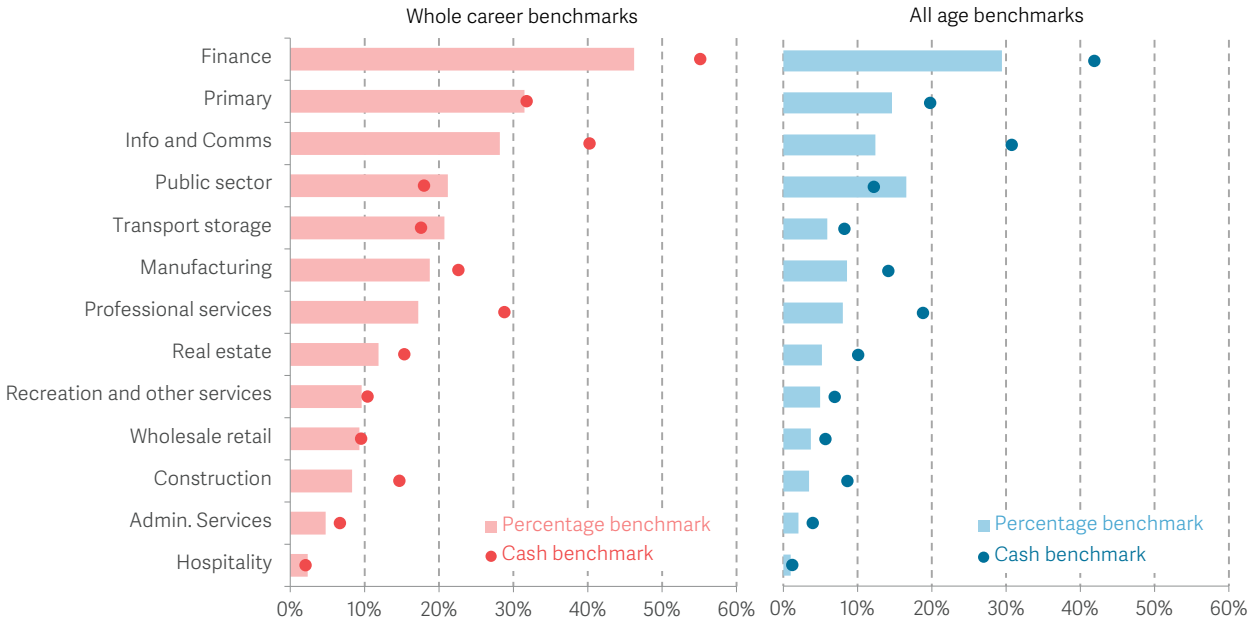


NOTES: Excludes DB pension holders. 'Low paid' is defined as workers with hourly pay in quintile 1. The 'whole career' benchmarks are 11.2 per cent and £2,100. The 'all age' benchmarks are 16.1 per cent and £3,000.
SOURCE: RF analysis of ONS, ASHE.

There is a large amount of variation in the proportion of workers meeting each benchmark across industry, as shown in Figure 16. This broadly reflects the levels of pay in each industry, with industries with higher average pay having higher proportions of workers meeting the thresholds. In particular, workers in finance are the most likely to meet the benchmarks, and workers in hospitality are the least (55 per cent of workers in the finance industry save at or above the 'whole career' cash benchmark, compared to only 2 per cent of workers in hospitality).

FIGURE 16: **There is a wide variation in workers' abilities to meet the living pension benchmarks across industries**

Proportion of all workers with a pension saving rate above the living pension benchmarks, by industry: GB, 2020

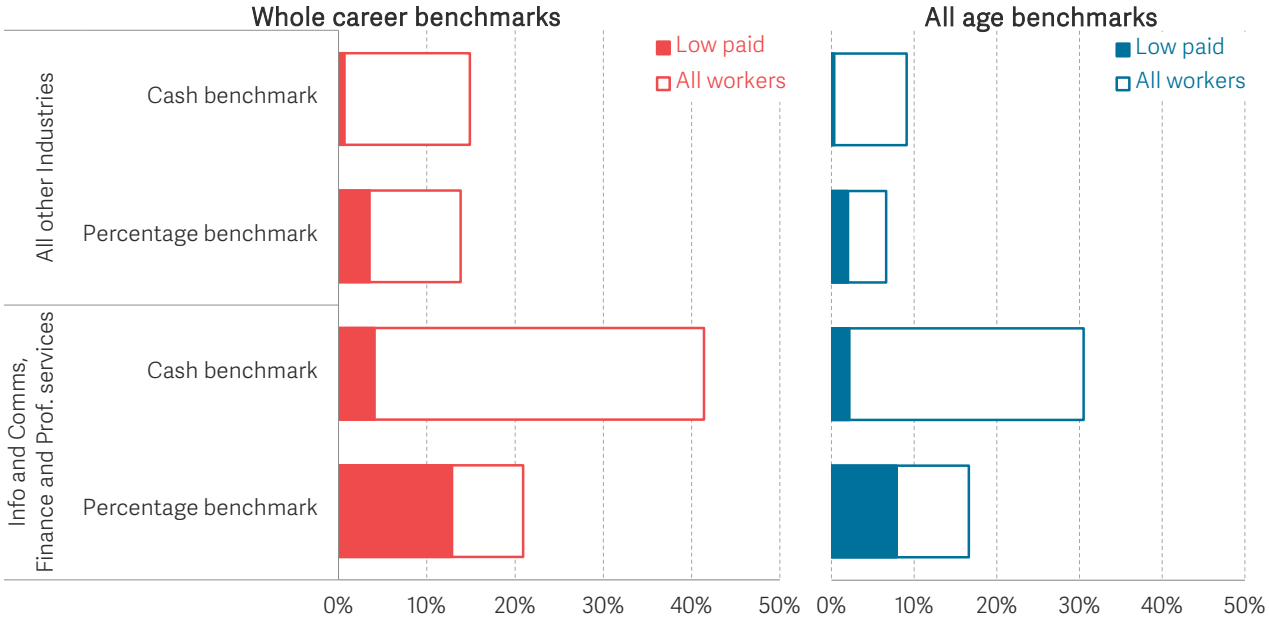


NOTES: Excludes DB pension holders. The 'whole career' benchmarks are 11.2 per cent and £2,100. The 'all age' benchmarks are 16.1 per cent and £3,000.
SOURCE: RF analysis of ONS, ASHE.

A closer look into the proportion of low-paid workers saving at the living pension benchmarks across industries reveals that low-paid workers in the Finance, Info and Communications and Professional services industries are much more likely to meet the thresholds than those in all other sectors. More specifically, low-paid workers in these industries are just over three times more likely to meet the 'whole career'-percentage benchmark than low-paid workers in all other sectors. This indicates that, although pay is a significant factor in driving the differences between workers' likelihood in meeting the living pension benchmarks, industry also plays a key role. This is presumably related to factors such as how remuneration packages vary by sector, and to what extent employers promote saving towards a pension.

FIGURE 17: **Low-paid workers in the Finance, Info and Communications and Professional services industries are much more likely to meet the thresholds than those in other sectors.**

Proportion of all and low-paid workers with a pension saving rate above the living pension benchmarks, by industry: GB, 2020

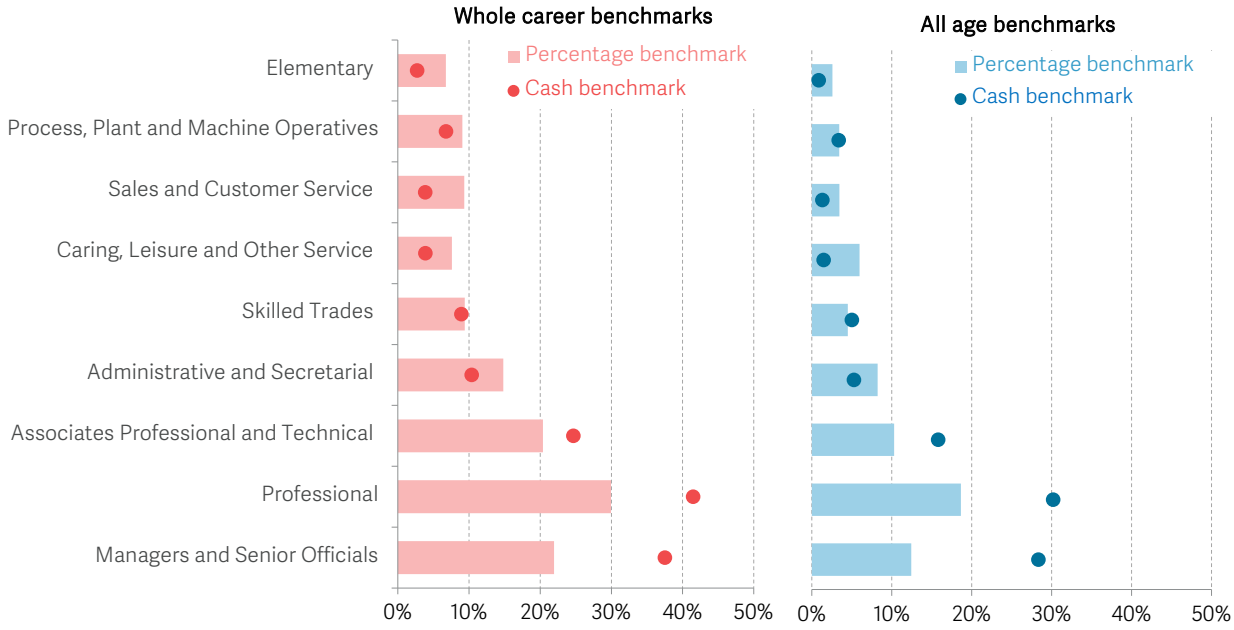


NOTES: Excludes DB pension holders. Low-paid is defined as workers with hourly pay in quintile 1. The 'whole career' benchmarks are 11.2 per cent and £2,100. The 'all age' benchmarks are 16.1 per cent and £3,000.
SOURCE: RF analysis of ONS, ASHE.

Figure 18 compares workers saving at or above the benchmarks in different occupations. While sample size prohibits a detailed analysis of pension saving patterns for low-paid workers across occupations, it is still worth looking at the general trends among all workers. Occupations with higher rates of average pay have the greatest proportion of workers meeting the benchmarks, and occupations with lower average pay have the least. For example, 22 per cent of workers in 'Managerial and Senior Official' occupations meet or exceed the 'whole career' percentage benchmark compared to 7 per cent of workers in elementary occupations.

FIGURE 18: **Workers in elementary occupations are the least likely to meet the living pensions benchmarks**

Proportion of all workers with a pension saving rate above the living pension benchmarks, by occupation: GB, 2020



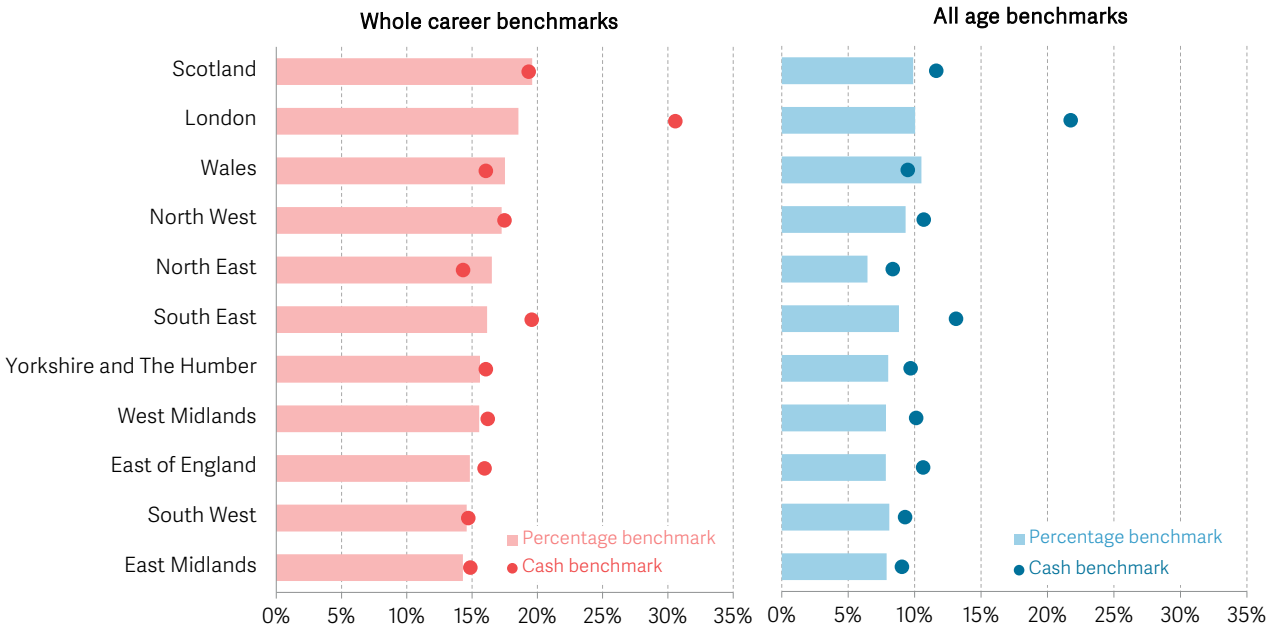
NOTES: Excludes DB pension holders. The 'whole career' benchmarks are 11.2 per cent and £2,100. The 'all age' benchmarks are 16.1 per cent and £3,000.
SOURCE: RF analysis of ONS, ASHE.

Workers in Scotland and Wales are slightly more likely to be meeting the percentage benchmarks than workers in all English regions other than London.

Figure 19 breaks down the proportion of workers meeting the benchmarks by region of England and nation of the UK. There is not a much regional variation in the proportion of workers meeting the LP benchmarks, other than workers in London being around twice as likely to meet the cash benchmarks than workers across the rest of the UK. This reflects the higher average rates of pay of workers in London. Workers in Scotland and Wales are slightly more likely to be meeting the percentage benchmarks than workers in all English regions other than London.

FIGURE 19: **Other than in London, which has the highest proportion of workers meeting the cash benchmarks, there is little regional variation in who is saving at the LP benchmarks**

Proportion of all workers with a pension savings rate above the living pension benchmarks in cash and rate terms, by region and nation: GB, 2020

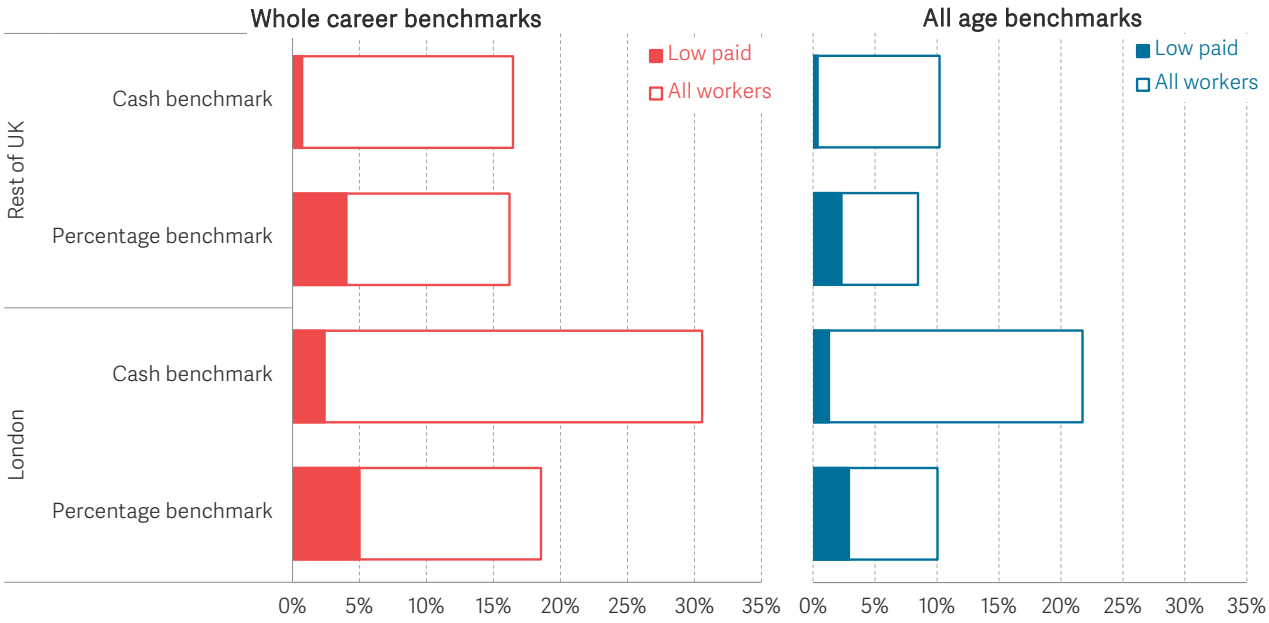


NOTES: Excludes DB pension holders. As mentioned in box 3, due to a lack of microdata for Northern Ireland, all the figures in our analysis relate to Great Britain. The 'whole career' benchmarks are 11.2 per cent and £2,100. The 'all age' benchmarks are 16.1 per cent and £3,000.
SOURCE: RF analysis of ONS, ASHE.

Figure 20 takes a closer look at regional variation among low-paid workers. Unlike Figure 19 which shows regional variation among all workers, this chart shows that there is little difference between low-paid workers meeting the benchmarks in London and the rest of the country. For example, 2 percent of low-paid workers met or exceeded the 'whole career'-percentage benchmark compared to 1 per cent of low-paid workers in the rest of the UK.

FIGURE 20: **Low-paid workers in London are more likely to reach the living pensions targets than low-paid workers in the rest of the UK**

Proportion of low-paid and all workers with a pension saving rate above the living pension benchmarks, by whether in London: GB, 2020



NOTES: excludes DB pension holders. Low paid is defined as workers with hourly pay in quintile 1. The 'whole career' benchmarks are 11.2 per cent and £2,100. The 'all age' benchmarks are 16.1 per cent and £3,000.
SOURCE: RF analysis of ONS, ASHE.

All in all, when assessing the proportion of workers saving at or above the living pension benchmarks, one trend remains consistent: lower-paid workers are much less likely to meet all the benchmarks than higher-paid workers, and are therefore at much greater risk of receiving an inadequate pension during retirement. Within low-paid workers, two interesting findings are that women are more likely than men to be reaching the benchmarks, even within the same sector, and that low-paid workers in in the Finance, Info and Communications and Professional services industries are more likely to be reaching the benchmarks that other low-paid workers.

Factors other than pay (such as sector and age) explain much of the gap in savings rates between high and low-paid workers

Our analysis so far has shown that there is significant variation in the proportion of workers saving above the living pension savings benchmarks across worker categories. There are particularly big differences between high and low-paid workers, between workers from different sectors, and between workers in different occupations. These variables are, of course, strongly associated with one another: for example, we noted above that hospitality, a sector where few workers are saving above the living pensions

benchmark, is characterised by relatively low pay, while typical pay is much higher in the finance sector, where the proportion of workers saving above the living pensions benchmark is also significantly higher.

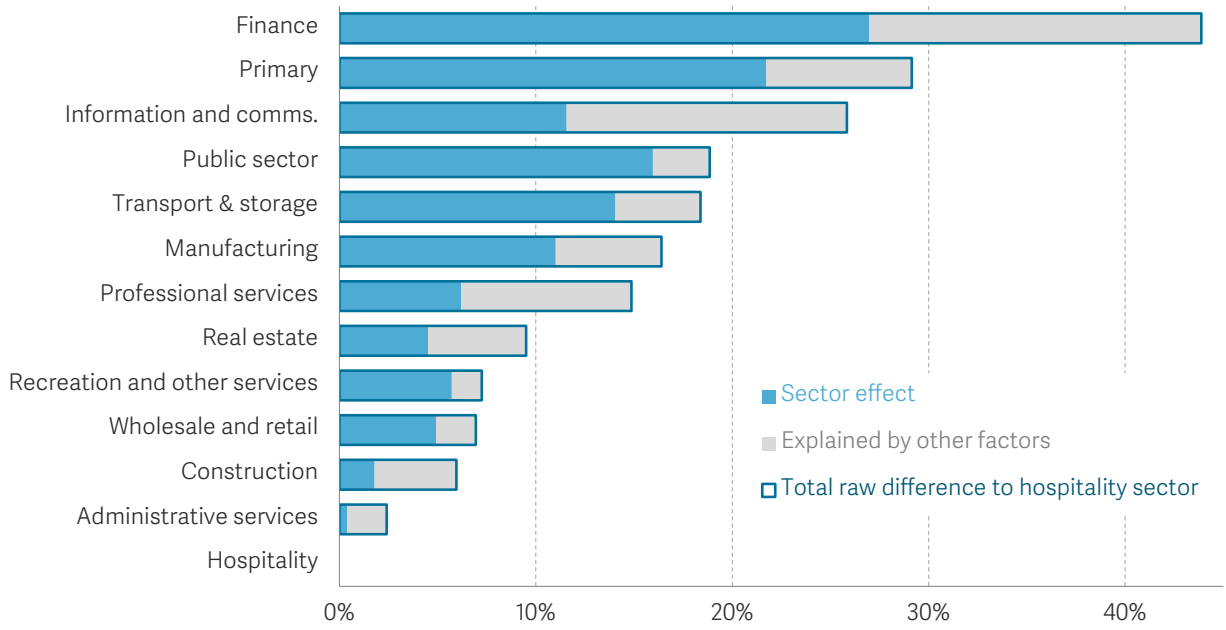
This prompts the question of which factors are driving pension saving behaviour. It could be that pay is the main determinant of pension saving behaviour, and differences in pension saving rates across sectors and occupations flow from differences in typical pay across sectors and occupations. Or it could be the opposite: that sector is an important determinant of pension saving, and low-paid workers happen to be more likely to work in those sectors. In fact, our analysis suggests that in many sectors, higher saving rates are predominantly a sector effect, rather than explained by the level of pay or worker characteristics in that sector.

This analysis is set out in Figure 21 which shows the difference, in percentage points, in the proportion of workers saving above the 'all age' percentage living pension benchmark, compared to the hospitality sector (the sector with the lowest proportion of workers saving above this benchmark). The blue-bordered bars show the total difference, while the part of the bars shaded grey show the part of the difference that can be explained by workers' pay, job type, and personal characteristics, and the blue-shaded part of the bars is what's left over – which we have called the sector effect.

In most sectors, pay and the characteristics of workers and their jobs only explain a minority of the difference within the hospitality sector. The finance sector, for example, has a 44 percentage point difference in the proportion of workers meeting the threshold compared to hospitality. Of this, 17 percentage points can be explained by differences in workers' pay and other characteristics, leaving a larger 27 percentage point difference which is attributed to differences between the finance and hospitality sectors themselves, as opposed to differences in the composition of the workforce. This finding – that sector effects play a dominant role in explaining observed differences between sectors – holds true across most sectors (and it is particularly true for the public sector: in other words, the fact that public sector workers (without a DB pension) are more likely to meet the LP thresholds than hospitality workers seems almost entirely unrelated to differences in pay, occupation and whether they work part-time or full-time, and is instead driven by the fact of working in the public sector). The exceptions are construction, real estate, professional services, and ICT, where underlying workforce characteristics play a more significant role in explaining differences in saving rates between those sectors and hospitality.

FIGURE 21: **Much of the difference between sectors comes down to 'sector effects', i.e. they can't be explained by differences between sectors in pay and worker characteristics**

Percentage point difference with hospitality sector in proportion of workers saving above 'all age' percentage living pension benchmark, raw difference, and difference explained by 'sector' and 'other' effects: GB



NOTES: Excludes DB pension holders. See Box 2 for further information on the living pension benchmarks and how they were calculated. Regression includes hourly pay quintile, weekly pay quintile, age, major occupation group, industry, and whether working full-time or part-time.
SOURCE: RF analysis of ONS, ASHE.

It was beyond the scope of this work to look directly at how much employers contribute to a pension, or how employers promote the idea of saving for a pension, and how these vary between different sectors. But it does suggest that either employers' behaviour or their approach to the overall renumeration package plays an important role in determining whether workers are saving at rates that meet the LP benchmarks. This suggests that it may make sense to target efforts at the sector level, since sector appears to be an important determinant of workers' saving behaviour.

Section 4

Conclusion

The Living Wage Foundation (LWF) has been investigating the feasibility of a 'Living Pension' (LP) benchmark, set at the level of the pension savings needed to afford an acceptable standard of living in retirement. As part of that work, a previous RF report assessed the feasibility of developing a methodology that could determine a LP standard, and provided a preliminary estimate of that LP saving requirement.[30] This report has looked at what fraction of workers are saving at rates that meet those benchmarks.

We have shown that, in 2020, the vast majority of workers (over 80 per cent)[31] are contributing much less than what has been estimated on average to be needed to achieve an acceptable standard of living in retirement. This is a particular matter of concern for low-paid workers, who are at greater risk, as only 2 per cent of workers with hourly pay in the bottom fifth of the distribution meet the higher 'all age' LP percentage benchmark of 16.1 per cent. Interestingly, although the level of pay is a key determinant of whether a worker is meeting the LP benchmarks, this also varies across sector in ways that are unrelated to differences in average levels of pay. It was beyond the scope of this work to look directly at how much employers contribute to a pension, or in how employers promote the idea of saving for a pension, and how these vary between different sectors. But it does suggest that either employers' behaviour or their approach to the overall renumeration package plays an important role in determining whether workers are saving at rates that meet the LP benchmarks.

More broadly, this report has shown how auto-enrolment has been a hugely important policy in determining levels of pension saving. Its introduction in 2012 has had a marked impact on the proportion of workers saving in a pension, rising from 47 per cent in 2012 to 77 percent in 2019, and this has been especially noticeable in groups who previously were very unlikely to be saving. What is also important is how the particular parameters of the auto-enrolment policy also have very direct impacts on pension saving, and we can see this in two ways. First, the minimum contribution rate is a clear driver of overall

30 D Finch & C Pacitti, Building a Living Pension, Resolution Foundation, January 2021.
31 Based on the 80 per cent of workers who do not reach the 'whole career' cash benchmark - the lowest of the living pension benchmarks.

contribution rates. Between 2012 and 2017, the minimum auto-enrolment contribution rate was 2 per cent, which was reflected in a modal total saving rate of between 1-3 per cent in the 2015-17 period. By 2019, the minimum auto-enrolment contribution had increased to 8 per cent, and, correspondingly, the most common total saving rate across 2018-20 was between 6 and 8 per cent. Furthermore, the fact that contributions are only made for those who earn above £10,000, and even then are only made on earnings above £6,240, means that a headline rate of 8 per cent is actually zero, for those who earn below £10,000, and can easily turn into an overall contribution rate (i.e. contributions as a proportion of all earnings) of far less for those on modest earnings above £10,000. It is noteworthy that the Government is yet to make a decision on the auto-enrolment minimum contribution rate applying to all earnings.

The implication of this is that there is still scope for policy makers and employers to do more to increase pension savings, especially for low earners. As the population ages, less-than-optimal contributions by employees could also have future implications for the state, who may have to pick up shortfalls through pension credit. It is for this reason that the state will also have an interest in promoting increased pension contributions as well as participation. The results from this analysis will be taken forward by the Living Wage Foundation in the development towards a LP standard.

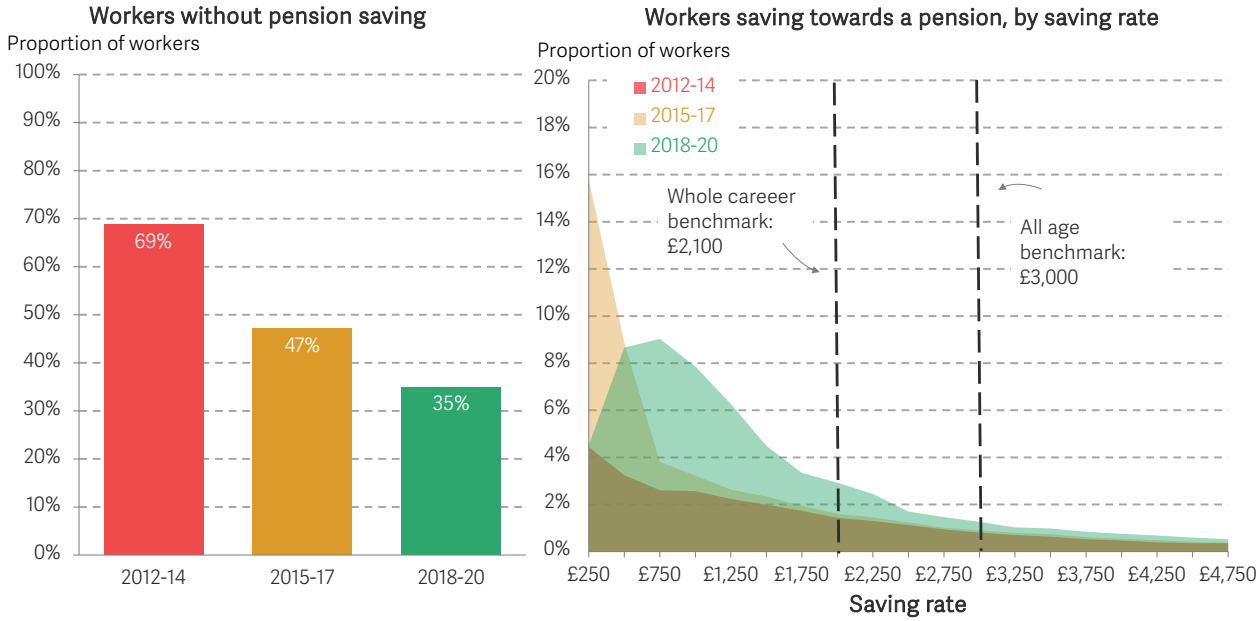
Annex 1

The distribution of workers' pension savings expressed as cash amounts

As discussed in Section 2 of this report, the savings distribution of workers can also be expressed in terms of cash savings. Figure 22 sets out the distribution of pension saving rates among all workers over time, while Figure 23 provides an overview on the savings distribution for different low-paid worker categories in 2018-20, expressed in terms of cash amounts.

FIGURE 22: **The proportion of non-savers has fallen, and most workers are saving at the lower end of the cash pensions distribution**

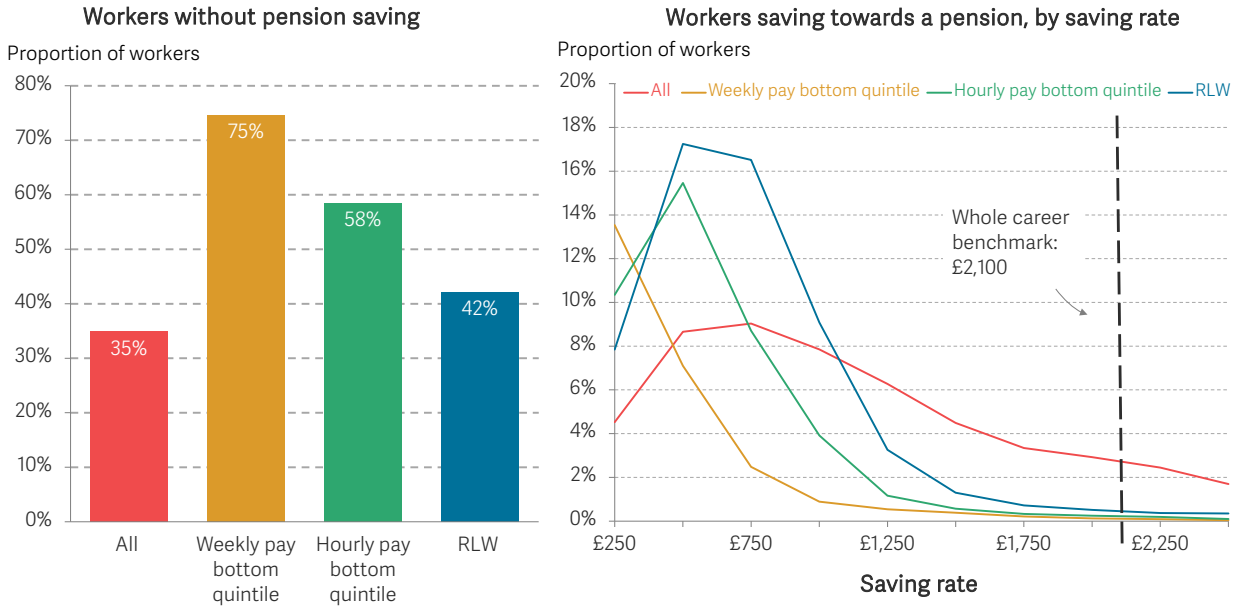
Proportion of all workers (excl. DB savers) who are not saving (left panel) and proportion of workers by pension cash saving amount (right panel): GB



NOTES: Excludes DB pension holders.
SOURCE: RF analysis of ONS, ASHE.

FIGURE 23: **The vast majority of low-paid workers are saving low amounts in cash terms**

Proportion of all workers (excl. DB savers) who are not saving (left panel) and proportion of workers by pension cash saving amount (right panel): GB



NOTES: Excludes DB pension holders.
SOURCE: RF analysis of ONS, ASHE.

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We do this by undertaking research and analysis to understand the challenges facing people on a low to middle income, developing practical and effective policy proposals; and engaging with policy makers and stakeholders to influence decision-making and bring about change.

For more information on this report, contact:

Nye Cominetti
Senior Economist
nye.cominetti@resolutionfoundation.org

Resolution Foundation

2 Queen Anne's Gate
London SW1H 9AA

Charity Number: 1114839

@resfoundation
https://www.resolutionfoundation.org/publications/living-pensions/