July 2025

A new era for auto-enrolment

A targeted approach to higher pension saving

wpieconomics.com
@wpi_economics
info@wpieconomics.com
/wpi-economics.com

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

About us

We are an economics, data insights, policy and impact consultancy, but one that is a little different to many others. We draw on backgrounds in government and the private and charitable sectors to produce work designed to make a difference. We do not do research for research's sake. We are committed to ensuring that everything we do has an impact - which is part of the reason why we recently became a verified B Corporation.

REPORT AUTHORS

Joe Ahern
Director of Policy

Julia Wyjadlowska
Senior Consultant

Edward McPherson
Senior Consultant

Contents

Executive summary

The imperative to increase pension saving has never been greater – there is a huge crisis brewing in pensions adequacy, and we also face headwinds around housing, longevity, and challenges around health and care that need higher levels of saving for retirement. According to modelling by Phoenix Insights, more than half (54%) of all DC savers retiring between 2025 and 2060 are expected to be either "undersavers" or "financially struggling", meaning that they are either not saving enough for the retirement they expect, or are likely to have a financially precarious retirement. These newly retired groups are expected to peak at 8.6 million by 2045. This means that millions of people will be on track for disappointment in retirement unless we can take action today.[i]

Employers play a critical role in pension saving, particularly for lower earners who may be less able to afford the short term costs of higher pension contributions. As a result, there needs to be a clear roadmap for increasing employer pension contributions to raise overall levels of pension saving, alongside asking employees to contribute more.

It is important that employer pension contributions do not rise at a time of acute pressures for businesses, particularly in the current climate of a challenging economy and rising employment costs. In addition, employers need clarity and certainty to plan for increases in contributions. WPI Economics and Phoenix Insights have previously set out a framework for increasing contributions incrementally in a way that best manages the short term costs to households and businesses. This involves tests around labour market indicators and Real Household Disposable Income (RHDI). [ii]

This report finds that increasing minimum employer contributions by a 0.5% increment would mean an annual cost increase of £75 per employee per year enrolled in a Defined Contribution (DC) pension, or £971 million per year across all DC employees. This cost is unevenly distributed across sectors, driven both by sectoral differences in average pay, as well as differences in the proportion of employees in each sector that are currently at the minimum level of employer contribution. In addition, the risk of workers being unable to afford higher employee contributions to pension saving is more pronounced in lower paying sectors.

Some sectors affected by both of these impacts include:

- Accommodation and support service activities
- Arts, entertainment and recreation
- Human health and social work activities
- Wholesale and retail trade etc.

While it is critical to seek to address the risks faced by these sectors, it is equally important not to lose sight of the fundamental need to increase pension contributions. Our analysis showed that increasing auto-enrolment contributions to 12% could lead to a typical 18-year-old today having an extra £96k in

their pot at retirement, or £64/ week. Any benefit to 45-year-olds of increasing contributions, a group that is at high risk of under-saving, will mostly disappear after a 15-year delay, and 30% of it disappears after a 5-year delay.

Once an increase to 12% contributions has been achieved, this will also bring in £2.2 billion of additional investment into the UK every year.[iii] Previous analysis by WPI Economics for Phoenix Group found for every five year delay in increasing contributions, we lose an estimated £16.5 billion of investment.[iv]

This report sets out how a more targeted approach to auto-enrolment can help to achieve both objectives. In particular, we should:

- **Set out a phased approach to increasing contributions** – increase employer contributions by no more than 0.5% per year, with a target of achieving '6% and 6%' total contributions by 2035.[1] Additional scenarios are modelled in the annex to this report.
- **Use sectoral tests for increasing contributions –** in our previous work, we have set out a framework which contains a series of 'tests' to help determine when and how contributions in auto-enrolment could rise. The analysis in this report suggests it may be worthwhile to target these tests specifically at those sectors where these risks are greatest, such as human health and social work.
- **Implement measures to tackle savings affordability risks –** such as increasing the earnings trigger, having emergency savings access as part of any increase, or allowing employees to reduce their contribution rate without jeopardising all their employer contributions.

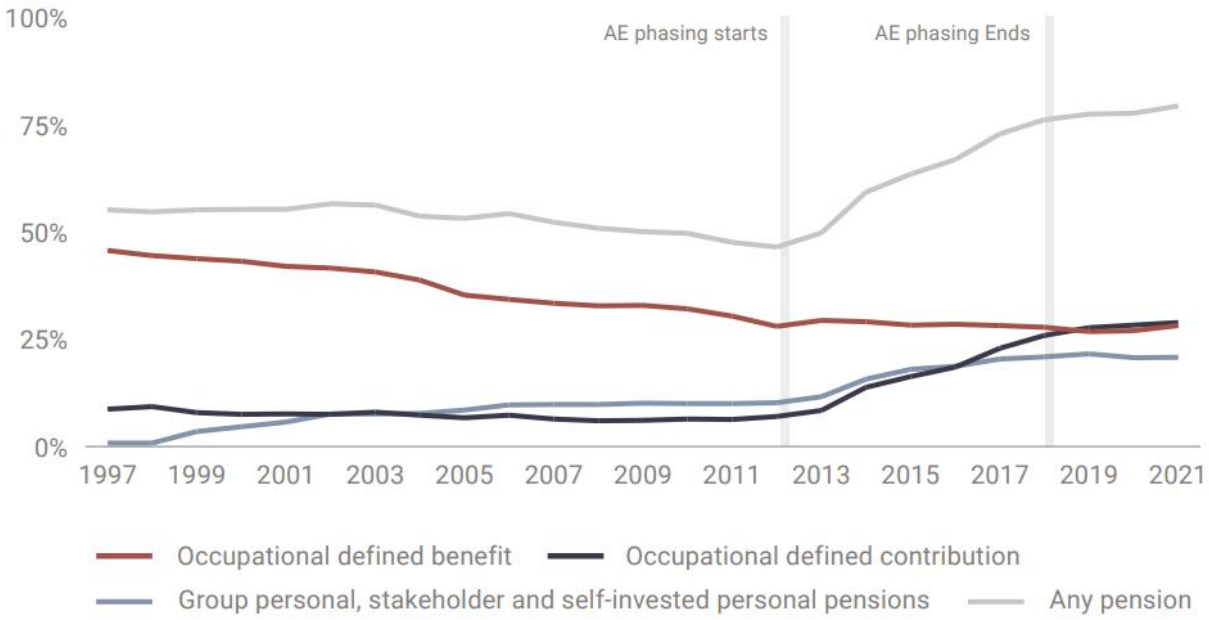
An increase in employer pension contributions will hit industry sectors differently as highlighted in this report. Consideration should be given to using sector-based metrics which determine when contributions rise, and ways of increasing flexibility in employee contributions to support lower earners and manage the overall cost of increasing contributions. Phoenix Insights will conduct a deep dive on these measures later this year and test several proposals with employers.

[1] Employers and employees would both pay a contribution equivalent to 6% of an employee's salary into a pension scheme by 2035.

Chapter 1: Introduction

Auto-enrolment has been hugely successful in boosting levels of pension saving participation, successfully reversing the decline in the proportion of people saving into a pension as the provision of Defined Benefit (DB) schemes reduced. It has been particularly effective at boosting saving levels among previously under-pensioned groups like young people and women.[v]

Figure 1: Percentage of employees with a pension by type



Source: Office for National Statistics (2022) Employee workplace pensions in the UK

While auto enrolment has widely been regarded as a success, coverage of pension saving is not yet 100%, due to gaps in coverage among low earners, workers under the age of 22, and the self-employed.

In addition, to addressing these gaps, there is widespread consensus that pension saving needs to increase for more people to have a decent standard of living in retirement. Analysis commissioned by Phoenix Insights found that only one in seven savers believe they are on track for a retirement income that will provide a 'sustained and decent standard of living'.[vi] Auto-enrolment is the only policy that has a proven track record in boosting savings rates across the population.[vii]

As a result, many have suggested that the way forward is to implement the recommendations of the 2017 review into auto-enrolment by removing band earnings and lowering the participation age to 18 and, following this, putting in place a phased plan to increase contributions to 12% of earnings, split 6% and 6% between employers and employees.[viii] What this change would mean for someone earning £30,000 a year in terms of contributions is set out below:

Table 2: Pension contributions at £30,000 a year under different scenarios

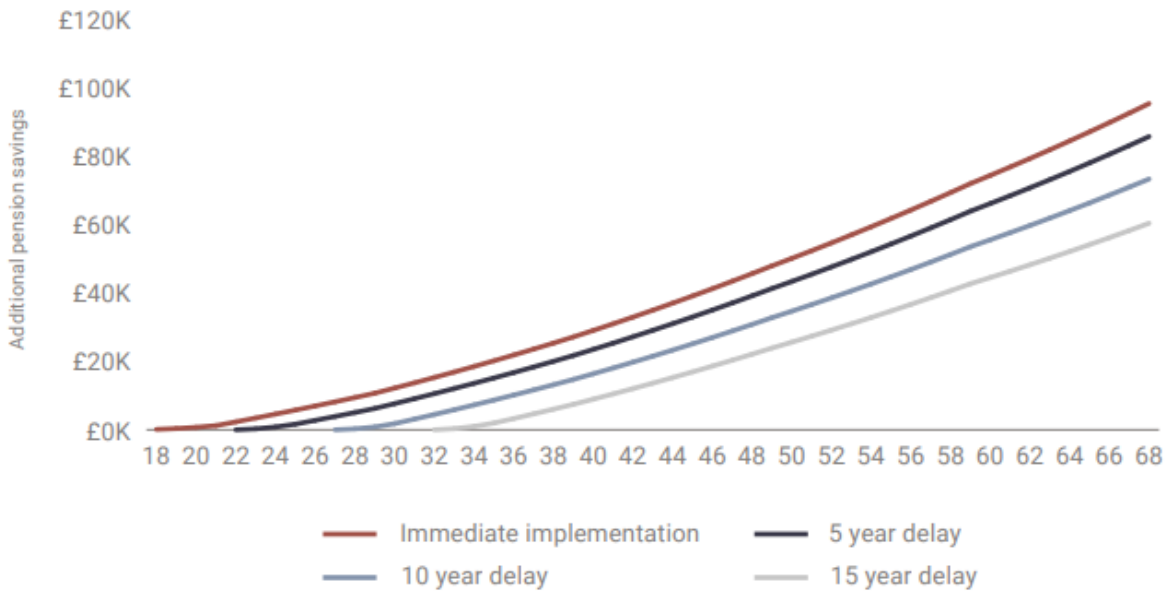
8% scenario – 5% & 3%			
Salary	**Employee contribution**	**Employer contribution**	**Tax relief on contribution**
£30,000	£1,500	£900	£300
12% scenario – 6% & 6%			
Salary	**Employee contribution**	**Employer contribution**	**Tax relief on contribution**
£30,000	£1,800	£1,800	£360

Source WPI Economics analysis

As we will go on to say, asking employers to increase their pension contributions is vital, in order to protect the short-term incomes of lower earners who nevertheless need to save more to live a dignified retirement.

Previous analysis by WPI Economics for Phoenix Group shows that increasing auto-enrolment contributions from 8% to 12% could lead to a typical 18-year-old today having an extra £96,000 in their pension pot at retirement, or £64 per week additional income when drawing down on their pension. Delaying this policy change by 15 years would reduce the benefit of increasing contributions by £35,000 for this saver, as show in Figure 3.[ix]

Figure 3: The costs of a delay to an 18-year-old on median income



Source: WPI Economics analysis

This report also found that the window is closing for policymakers to support those currently in their 40s to have a more secure and prosperous retirement. Increasing auto-enrolment contributions from 8% to 12% could lead to a typical 45-year-old today having an extra £33,000 in their pot at retirement, however delaying this by 15 years would wipe out over three quarters of the benefit. This further underlines the importance of a clear plan to increase pension contributions.

A changing environment for employers

In general, employers in the UK have a relatively lower share of overall pension contributions in comparison to similar countries. Research by the Pensions Policy Institute (PPI) found that, when looking at a set of comparable countries[2], only New Zealand had a lower share of mandatory/default contributions coming from employers, and only for some of the nation's workers. [x] Given this, it has been suggested that as part of increasing contributions the split between employers and employees is brought to parity – '6% and 6%' instead of the current 3% and 5%.

However, current cost pressures on employers give pause as to whether increasing contributions is the right thing to do at this time. Recent increases in Employer's National Insurance Contributions (NICs) have significantly increased employment costs for businesses, with the changes costing employers between £14.6 billion and £18.3 billion a year[3] over the Office for Budget Responsibility's (OBR) 5 year forecast period. The changes will result in a tax rise for an estimated 940,000 employers.[xi] These impacts will be felt unevenly across sectors, with more labour intensive sectors paying more.

In addition, the Government's Employment Rights Bill introduces a package of measures including entitlement to sick pay from day one of absence, making protection from unfair dismissal a day one right, and guaranteed hours contracts. The Government's Impact Assessment of these measures suggests that they will increase business costs by between £0.9 billion and £5 billion per year[4] with some measures being felt more in certain sectors of the economy, as set out in Figure 4 below.[xii]

[2] Italy, New Zealand, Japan and Denmark, and the UK.
[3] Once the reimbursement of public sector employers for the costs of the tax rise has been taken into account.
[4] Other research by WPI Economics has found that SSP reforms can deliver long-term benefits to business by supporting a better approach to workplace health. Read more here: Making Statutory Sick Pay Work.

Figure 4: Heatmap of sectoral impacts of employment bill policies

Source: Department for Business and Trade Impact Analysis[xiii]

These changes and wider economic pressures mean that many would argue now is not the right time to raise employer pension contributions. In previous work for Phoenix Group, WPI Economics set out a framework for staging an increase in auto-enrolment contributions in a way that can provide assurance that rises do not happen at times of the most acute challenges for households and businesses. [xiv] Taking this approach would have provided protection from contributions rising during much of the turmoil faced by businesses in the 2020s such as the pandemic, stagnant growth in the post pandemic period, and the impact of tariffs in 2025. Further measures may be needed to ensure that increases happen in a way that protects sectors facing the highest costs from increasing contributions, and provide long-term certainty for employers to plan effectively.

Affordability of saving risk

As set out in the previous section, there are also concerns about the impact of increasing contributions made by low earners, in addition to costs to employers. For many of those on the lowest incomes, increasing pension contributions may not be the best financial decision. This is for various reasons, including that these individuals might be better off paying down debt or funding everyday expenditure because of acute short-term pressures on their financial wellbeing. Furthermore, because they are on a very low working wage income, some of these earners may receive close to a 100% replacement rate from the State Pension in retirement, although this would be unlikely to provide a decent standard of living. Therefore, how to best increase contributions for all earners should be a policy focus.

Detailed analysis of these risks by Phoenix Insights and Nest Insights found that those earning just over the minimum earnings trigger in auto-enrolment (£10,000 per year) found it hardest to save for retirement:[xv]

> *'The greater challenge, though, is with those earning closer to the minimum earnings threshold for being auto-enrolled (representing a further 20% of workers). Financial pressures become more acute as an individual's monthly earnings fall below £2,000 per month. Here we find a range of individuals whose circumstances make it hard to prioritise pensions saving – both because of affordability constraints, and the fact that the full State Pension will provide a relatively high proportion of the amounts they earn from work. Also, disposable incomes change significantly over the course of a working life, and pension saving may be more accessible at some times than at others.'*

It is critical to balance the need to increase contributions for the majority with preventing the risk of detriment for this minority of very low earners, who may be pushed into financial difficulties or debt as a result of a short-term reduction in their take home pay.

Employers play an important role here in sharing the cost of saving for retirement for low earners. The final report of the Pensions Commission proposed compulsory employer contributions on the basis that it was important that employee saving was matched by employer contributions to encourage greater participation. Critically, employer matching would strengthen the overall real rate of return for individuals, particularly those on lower incomes who may face the withdrawal of means-tested benefits in retirement as a result of greater saving. Without this, it was concluded it would not be possible to safely default lower earners into pension saving.[xvi]

A new era?

It has been suggested that, due to challenges around employer costs and savings affordability, a more targeted approach to increasing contributions might be the answer. In particular, there is a need to identify which sectors in the economy face the greatest risk from increasing pension contributions,

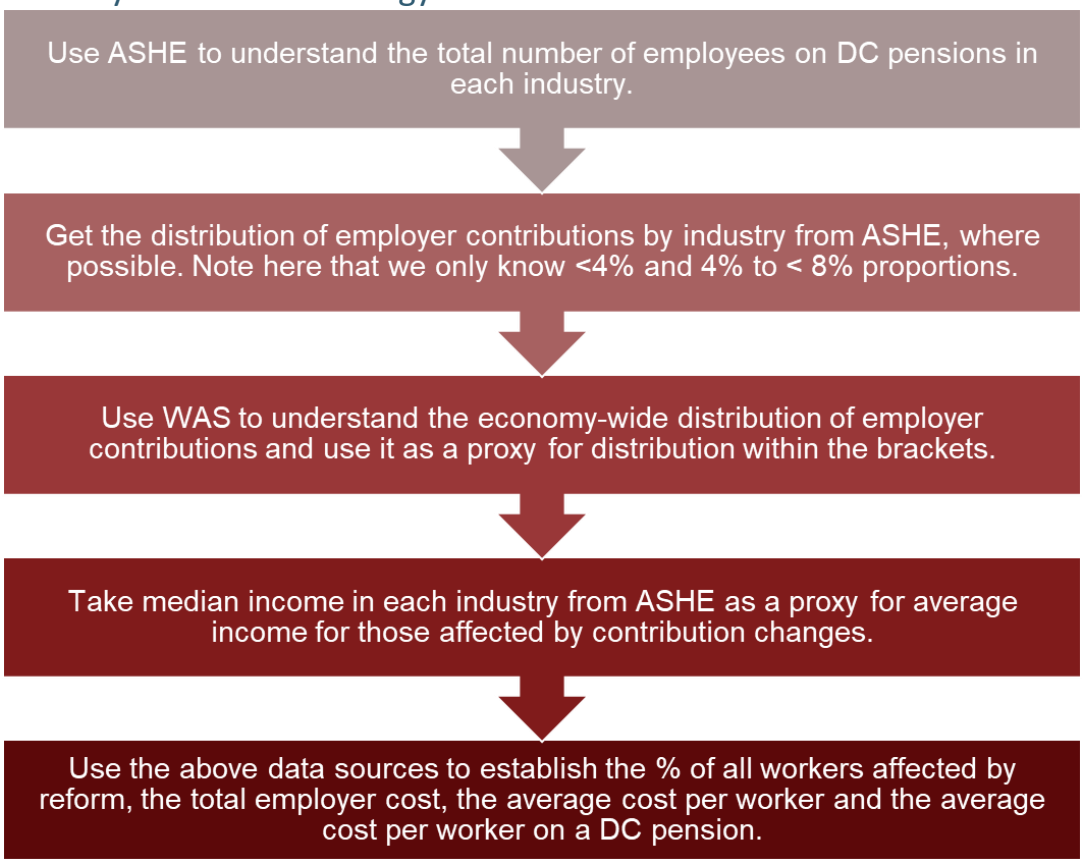
and how to support these sectors to play their part in increasing pensions adequacy. Furthermore, analysis is required of different options for policy measures to help achieve this.

Chapter 2: Approach to modelling

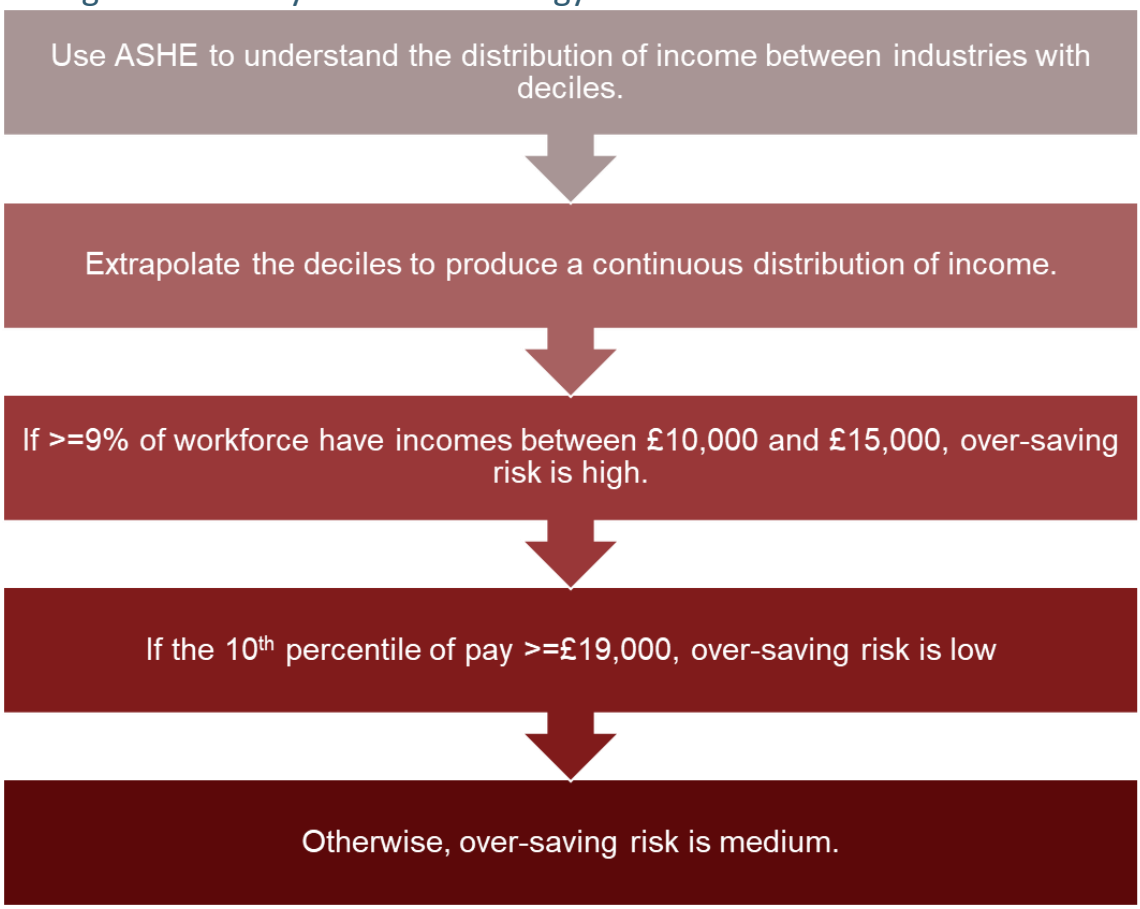
We carried out an analysis of the impact of increasing contributions by industrial sector considering (a) the costs to employer and (b) risks to lower earners who may not be able to afford higher levels of saving. This analysis drew on the Wealth and Assets Survey (WAS) and the Annual Survey of Hours and Earnings (ASHE). We used the official Standard Industrial Classification (SIC) system to classify sectors.

Our overall approach is set out below:

Industry costs: methodology



Savings affordability risk: methodology



The next chapter presents the results of the modelling set out above.

Chapter 3: Sectoral impacts of increasing contributions

Changing the debate

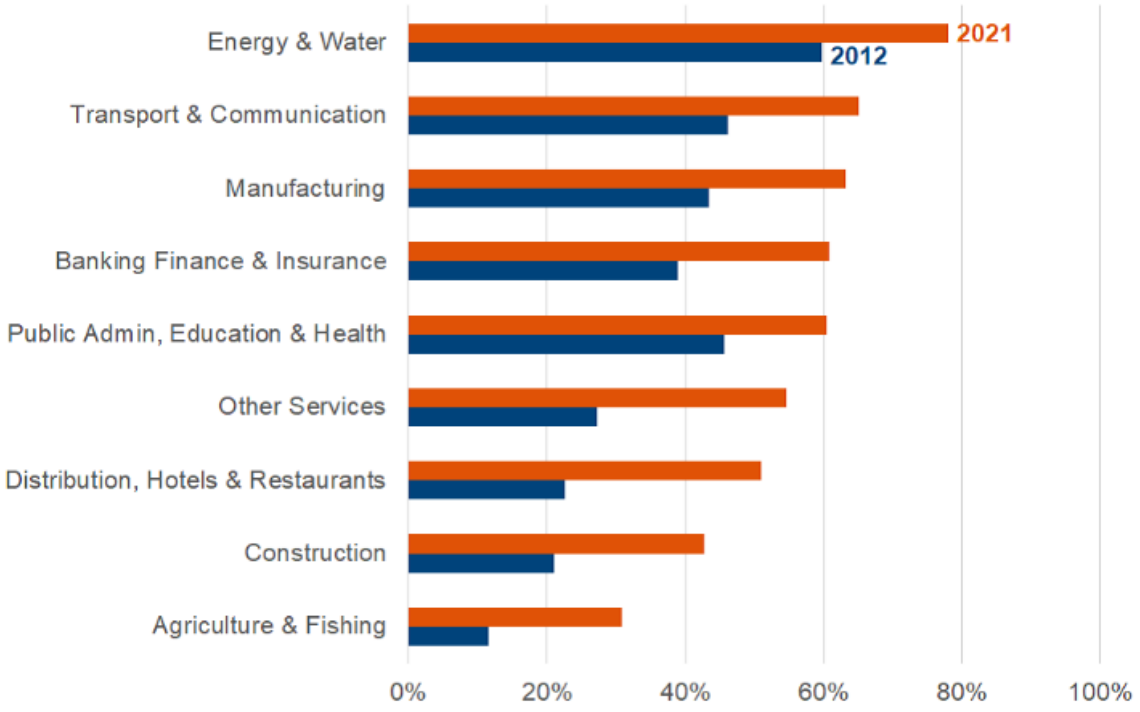
The debate around increasing pension contributions can often be focused on the short-term costs and risks, rather than the long-term benefits to the economy. Pensions are a key source of long-term capital for the economy, through their investments in corporate bonds, listed and unlisted equities, and property and infrastructure. Previous analysis by WPI Economics for Phoenix Group found for every five year delay in increasing contributions, we lose an estimated £16.5 billion of investment.[xvii] Savings are a key driver of investment, and countries with higher levels of investment than the UK also tend to have higher savings. However, the short-term costs and risks of increasing contributions are a significant political barrier to action, and so it is important understand how these are felt by different parts of the economy.

This section sets out the short-term effect of increasing the default rate in auto-enrolment on different sectors of the economy, with a particular lens on the costs to employers of increasing contributions, and the relative savings affordability risk of employees in different sectors. This helps to inform whether and how a more targeted approach to auto-enrolment could work.

Managing employer costs

The costs to employers of increasing the default contribution rate vary across the economy. One key variable is the extent to which different employers pay above the current auto-enrolment default rate. Analysis of the ASHE by the Department of Work and Pensions (DWP) found that **just over half of employees have employer contributions above the default minimum** in auto-enrolment.[xviii] This varies by economic sector, as we can see in Figure 5 below.

Figure 5: Private sector eligible employees with real terms employer contribution rates above the 2021 auto-enrolment minimum, by industry, 2012 and 2021



Source: DWP analysis[xix]

This highlights the importance of increasing defaults in order to increase pension saving across the whole economy. Employees in some sectors have generous employer contributions and are more likely to have an adequate income in retirement. In other sectors, saving is driven more heavily by the level of default contributions, which are currently unlikely to provide an adequate retirement income.

Figure 6 below shows how employer costs increase for different industries with a rise to '6% and 6%' contributions. Other scenarios are modelled in the annex.

Figure 6: Total cost to employers of an increase to 12% contributions

Description	Code	Total cost of increase in contributions (£ billions)	Total cost per employee (£)	Total cost per employee on DC pension (£)
Agriculture, forestry and fishing	A			
Mining and quarrying	B			
Manufacturing	C	1.05	400	530
Electricity, gas, steam and air conditioning supply	D			
Water supply; sewerage, waste management and remediation activities	E			
Construction	F	0.53	470	700
Wholesale and retail trade; repair of motor vehicles and motorcycles	G	1.44	340	460
Transportation and storage	H	0.33	290	530
Accommodation and food service activities	I			
Information and communication	J	0.46	460	590
Financial and insurance activities	K	0.2	200	250
Real estate activities	L	0.13	300	490
Professional, scientific and technical activities	M	0.91	440	600
Administrative and support service activities	N	0.49	310	550
Public administration and defence; compulsory social security	O			
Education	P	0.18	40	300
Human health and social work activities	Q	0.9	210	520
Arts, entertainment and recreation	R	0.12	240	440
Other service activities	S	0.11	230	390

Source: WPI Economics analysis of ASHE[5]

We can see that Construction (£700), Information and communication (£590), and Professional, scientific and technical activities (£600) stand out as sectors with a greater than average total cost per employee on a DC pension. This could be reflective of the fact that these sectors have (a) high numbers of employees who are below the new default employer contribution rate of 6% of earnings and/or (b) employees with higher than average salaries.

In order to isolate these effects, Figure 7 sets out which sectors had the highest cost per employee on a DC pension *as a percentage of the median pay in that industry.*

[5] Where there is a nil return for an industry, this is because there is insufficient data in ASHE to allow for us to understand this with any granularity.

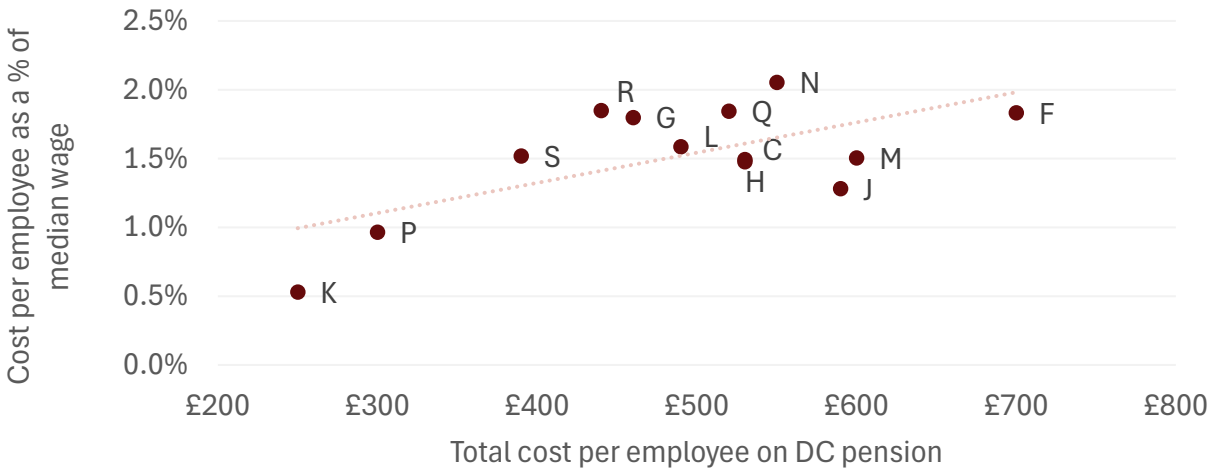
Figure 7: Total cost to employers of increasing contributions to 6% per employee on a DC pension relative to median pay within the sector

Description	Code	Total cost per employee on DC pension (£)	Median pay by industry (£)	Percentage of increase in cost relative to median pay
Agriculture, forestry and fishing	A			
Mining and quarrying	B			
Manufacturing	C	530	35,500	1.49%
Electricity, gas, steam and air conditioning supply	D			
Water supply; sewerage, waste management and remediation activities	E			
Construction	F	700	38,200	1.83%
Wholesale and retail trade; repair of motor vehicles and motorcycles	G	460	25,600	1.80%
Transportation and storage	H	530	35,900	1.48%
Accommodation and food service activities	I			
Information and communication	J	590	46,100	1.28%
Financial and insurance activities	K	250	47,200	0.53%
Real estate activities	L	490	30,900	1.59%
Professional, scientific and technical activities	M	600	39,900	1.50%
Administrative and support service activities	N	550	26,800	2.05%
Public administration and defence; compulsory social security	O			
Education	P	300	31,100	0.96%
Human health and social work activities	Q	520	28,200	1.84%
Arts, entertainment and recreation	R	440	23,800	1.85%
Other service activities	S	390	25,700	1.52%

Source: WPI Economics analysis of ASHE

This analysis paints a slightly different picture, with Admin and support service activities (2.05%), Arts, entertainment and recreation (1.85%), Human health and social work activities (1.84%), Construction (1.83%), and Wholesale and retail trade etc. (1.8%) having the highest percentage. It should be noted that construction appears high across both metrics, so particularly stands out as a sector at risk of higher employer costs from increasing contributions. The correlation between these two analyses is captured in Figure 8 below:

Figure 8: Relationship between cost per employer and cost per employee as a percentage of median pay from an increase to 6% contributions



Source: WPI Economics analysis of ASHE

At the cross-economy level, our modelling finds that an increase in default employer contributions from 3% to 6% would cost employers an estimated £7.4 billion per year. This is an overall average cost of £570 per employee enrolled in a DC pension. If employer contributions rose in 0.5% increments, the first rise would cost £971 million overall, or £75 per employee on a DC pension.

Standard labour market theory suggests that, over time, most if not all of this effect of increased employer contributions would be passed down to employees in the form of lower earnings than otherwise. To give an example from another increase in employer payroll costs, the OBR projects that 76% of the Employer's NICs rise will be paid by employees in real wages (i.e. lower pay and price increases) with the remainder being paid in reduced profits for businesses.[xx]

Savings affordability risk

As employee contributions will also increase, it is important to protect lower earners from unaffordable reductions in real wages in order to save into a pension. We have analysed savings affordability risk, looking at which sectors of the economy have high numbers of people close to the earnings trigger in auto-enrolment (£10,000), using the methodology set out in Chapter 2. We have defined this as people earning between £10,000 and £15,000 per year, drawing on analysis by Phoenix Insights and Nest Insight mentioned earlier in the report.

Figure 9: Savings affordability risk

Description	Code	Savings affordability risk
Agriculture, forestry and fishing	A	High
Mining and quarrying	B	Low
Manufacturing	C	Low
Electricity, gas, steam and air conditioning supply	D	Low
Water supply; sewerage, waste management and remediation activities	E	Low
Construction	F	Medium
Wholesale and retail trade; repair of motor vehicles and motorcycles	G	High
Transportation and storage	H	Low
Accommodation and food service activities	I	High
Information and communication	J	Low
Financial and insurance activities	K	Low
Real estate activities	L	Medium
Professional, scientific and technical activities	M	Medium
Administrative and support service activities	N	High
Public administration and defence; compulsory social security	O	Medium
Education	P	Medium
Human health and social work activities	Q	High
Arts, entertainment and recreation	R	High
Other service activities	S	High

Source: WPI Economics analysis of ASHE

We can see from the analysis in Figure 9 that Wholesale and retail trade etc, Admin and support service activities, Arts, entertainment and recreation, Human health and social work activities, Accommodation and support service activities, and Agriculture, forestry and fishing all have higher savings affordability risk relative to other sectors. We will need to ensure lower earners, particularly in these sectors, can make necessary adjustments to their contribution to balance short-term and long-term financial needs.

Summary of findings

This analysis shows that certain sectors are likely to both have higher employer costs associated with increasing contributions, as well as larger than average numbers of people who may be less able to afford increased pensions saving. These are:

- Accommodation and support service activities
- Arts, entertainment and recreation,
- Human health and social work activities
- Wholesale and retail trade etc.

While it is critical to seek to address the risks faced by these sectors, it is equally important not to lose sight of the imperative to increase pension contributions. For many of these sectors, the reason they would face high employer costs if auto-enrolment contributions were increased reflects the fact that they have many savers who are at the default rate and are under-saving for retirement. The next section explores how a targeted approach to auto-enrolment can address both objectives.

Chapter 4: Analysing options for the way forward

There is a clear imperative to prevent a future retirement crisis by increasing savings into pensions. However, the interplay between short term financial pressures on employers and affordability of saving for employees, especially in certain sectors, also need to be taken into account when increasing contributions. Therefore, a more targeted approach is needed.

We suggest an approach drawing on three areas:

A staged increase in contributions over time (e.g. 0.5% per year)

As previous work has set out, it is more important than ever to push for more adequate retirement savings as a result of the headwinds we face around demographic change, health challenges, and greater housing costs in retirement.[xxi] Increasing contributions gradually over time can achieve this while helping employers to manage the costs of increased contributions. An overarching target to move to contributions of 12% of salary the mid-2030s should guide policymakers. Increasing contributions in 0.5% increments would mean the first increase would cost employers £75 per employee per year.

Once this has been set out, further measures should be identified to address employer costs and risks about savings affordability in certain sectors.

Economic tests targeted at specific sectors

In our previous work, we have set out a framework which contains a series of tests to help determine when and how contributions in auto-enrolment could rise. These are based on a set of cross-economy income and labour market metrics chosen with the help of an advisory group representing businesses, employees, financial charities, as well as the pensions industry. The framework is set out below:

Figure 10: Auto-enrolment decision making framework

Area of framework	Description	Tests
Start/go ('starting the journey')	Demonstrates whether contributions should begin to rise from 8% to 12%.	• That these changes are needed to address pension saving adequacy, and AE opt out rates are not above a certain threshold (e.g. 20%). • Real Household Disposable Income per person (RHDIpp) has risen in one of the last two quarters. • Vacancies are between 2% and 3% of total employment.
Pause ('handbrake')	Determines whether increases in contributions should be temporarily paused due to extreme wider conditions.	• RHDIpp has fallen every quarter for a year. • Vacancies are above 3.5% or below 1.5% of total employment.
Wider considerations in increasing contributions rates	A set of metrics that wouldn't prevent/slow rate increases, but that government should address with wider policy measures.	• High overall employment costs, including those driven by e.g. Employer's NICs. • Rising household debt among low-income households. • Increased risk of over saving by those on lower incomes.

Source: WPI Economics analysis

As this report has set out, the risks and short-term costs around increasing contributions are not evenly spread around the economy, rather they are more pronounced in certain sectors. As a result, it may be worthwhile to target the metrics in this framework specifically at those sectors where these risks are greatest, such as Human health and social work. This would echo an approach taken by the Low Pay Commission, which focuses its analysis of whether an increase in the National Living Wage can be responded to by looking at economic conditions in a series of 'low paying sectors' including social care.[xxii]

Measures to support low earners

The ambition should remain to increase pension contributions, and therefore the adequacy of pensions savings for all. A series of measures were described in our previous report, Raising the Bar, that could potentially support low earners who may be less able to afford additional pension savings at the moment. These policy options have been suggested as ways to support the financial wellbeing of low earners while contributions rise, and include:

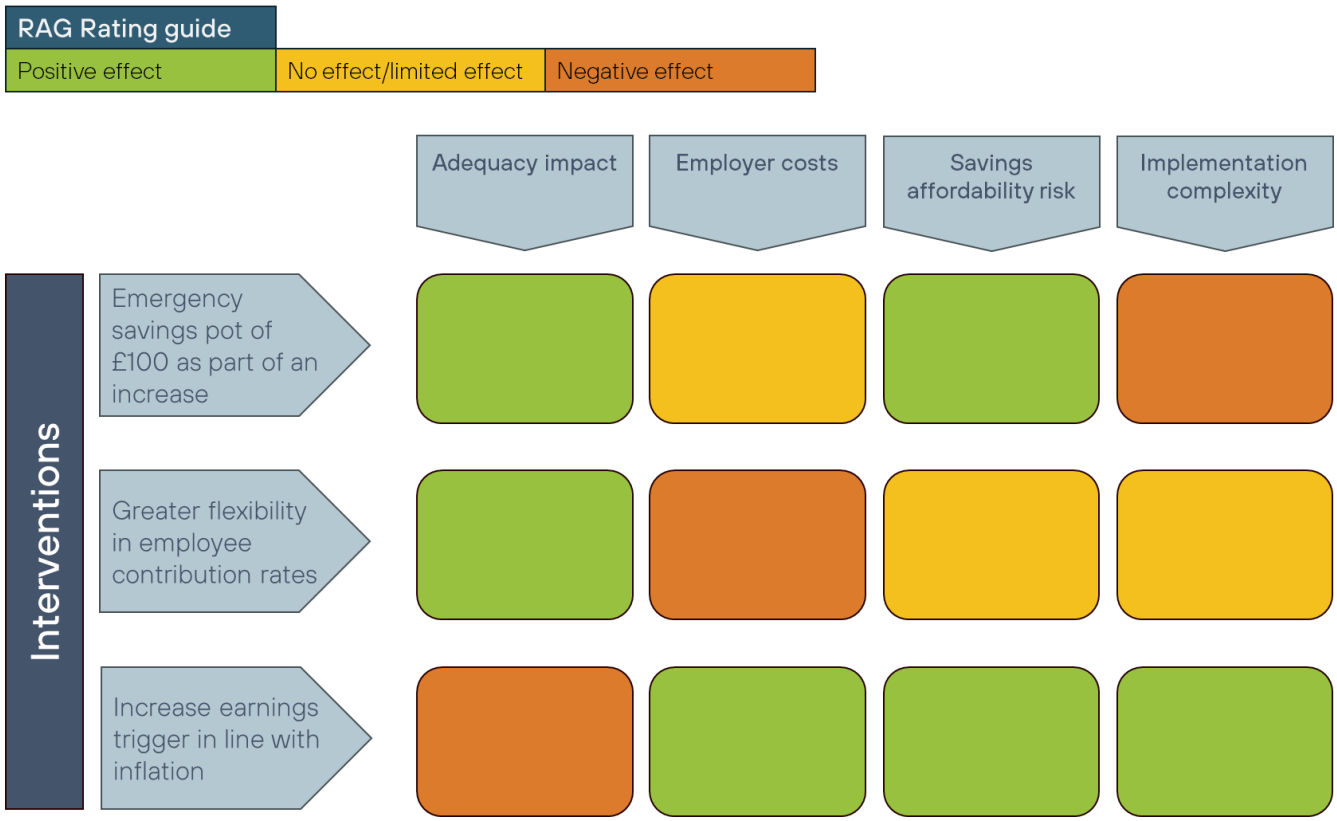
- **Emergency savings pot** – allow a proportion of the increased contributions to go into an emergency pot for short-term expenditure. This extra liquidity is particularly helpful for those on lower incomes, many of whom may also have very limited short-term savings.
- **Greater flexibility in employee contribution rates** – allow earners to forego some or all of their employee contributions and still receive the employer contributions. This means that people, particularly lower earners, can still build up some pension savings while not bearing the short-term costs of employee contributions.
- **Increase earnings trigger** – increase the earnings trigger from £10,000 to take more of the very lowest earners out of auto-enrolment.

We have scored each of these interventions below using a decision making framework, judging them by the following criteria:

- The impact on pensions adequacy
- The impact on employer costs
- The potential for savings affordability risks
- Implementation complexity

This analysis is captured in the RAG rating in Figure 11 below:

Figure 11: Policies to reduce savings affordability risk – decision making framework



Source: WPI Economics analysis

Some key takeaways from this analysis include:

- An emergency savings pot can deliver a lot of these objectives and importantly still supports adequacy, but faces implementation complexities and questions.
- Greater flexibility in employee contribution rates can support adequacy and protect low earners *as long as they engage*, but would have a cost increase for employers who would now have to pay the contributions of those who currently have opted out of auto-enrolment. We know from DWP data that around 8 – 10% of new savers in recent years opted out of auto-enrolment. A much smaller proportion (<1%) of active savers also stop saving.[xxiii]

- Increasing the earnings trigger and taking more people out of auto-enrolment would leave many with reduced pension savings at retirement, but could limit employer costs and increase the short-term resources of those with very low pay.

Government should work with a broad set of stakeholders to consider which measures (or combination) are needed to address risks of savings affordability, based on the list presented here as well as a wider set of interventions. The pensions industry should be prepared to embrace change and flexibility in auto-enrolment, alongside a staged increase in contributions.

Chapter 5: Conclusions

Increasing pension contributions today is the one of the biggest levers Government can pull to avert a future retirement crisis for millions of people. This involves short-term costs to employers and workers – and there is no means of fully avoiding this – but also can deliver long term economic benefits by increasing the level of savings for productive investment.

A more targeted approach can ensure that the benefits of pension saving are maximised for those who need it most, and that the short-term costs are managed. Employers and the pensions industry must prepare for this 'new era' of auto-enrolment and the complexities it inevitably brings.

An increase in employer pension contributions will hit industry sectors differently as highlighted in this report. Consideration should be given to using sector-based metrics and increasing flexibility in employee contributions to support lower earners and manage the overall cost of increasing contributions to each sector. Phoenix Insights will conduct a deep dive on different ways to introduce flexibility later this year and test several proposals with employers.

Annex: Increases to 5% employer contributions

Aggregate costs:

- Total annual increase in contributions – £4.5 Billion
- Per employee cost £340

Description	Code	Total cost of increase in contributions (billions)	Total cost per employee	Total cost per employee on DC pension
Agriculture, forestry and fishing	A	NA	NA	NA
Mining and quarrying	B	NA	NA	NA
Manufacturing	C	£0.63	£240	£320
Electricity, gas, steam and air conditioning supply	D	NA	NA	NA
Water supply; sewerage, waste management and remediation activities	E	NA	NA	NA
Construction	F	£0.33	£290	£440
Wholesale and retail trade; repair of motor vehicles and motorcycles	G	£0.88	£210	£280
Transportation and storage	H	£0.20	£180	£320
Accommodation and food service activities	I	NA	NA	NA
Information and communication	J	£0.26	£260	£330
Financial and insurance activities	K	£0.11	£110	£130
Real estate activities	L	£0.07	£180	£290
Professional, scientific and technical activities	M	£0.52	£260	£350
Administrative and support service activities	N	£0.32	£200	£350
Public administration and defence; compulsory social security	O	NA	NA	NA
Education	P	£0.11	£30	£180
Human health and social work activities	Q	£0.58	£130	£340
Arts, entertainment and recreation	R	£0.07	£150	£270
Other service activities	S	£0.07	£140	£230

Description	Code	Total cost per employee on DC pension	Median pay by industry	Cost as a % of median pay
Agriculture, forestry and fishing	A	NA	£27,300	
Mining and quarrying	B	NA	£47,000	
Manufacturing	C	£320	£35,500	0.90%
Electricity, gas, steam and air conditioning supply	D	NA	£51,900	
Water supply; sewerage, waste management and remediation activities	E	NA	£38,400	
Construction	F	£440	£38,200	1.15%
Wholesale and retail trade; repair of motor vehicles and motorcycles	G	£280	£25,600	1.09%
Transportation and storage	H	£320	£35,900	0.89%
Accommodation and food service activities	I	NA	£16,800	
Information and communication	J	£330	£46,100	0.72%
Financial and insurance activities	K	£130	£47,200	0.28%
Real estate activities	L	£290	£30,900	0.94%
Professional, scientific and technical activities	M	£350	£39,900	0.88%
Administrative and support service activities	N	£350	£26,800	1.31%
Public administration and defence; compulsory social security	O	NA	£36,100	
Education	P	£180	£31,100	0.58%
Human health and social work activities	Q	£340	£28,200	1.21%
Arts, entertainment and recreation	R	£270	£23,800	1.13%
Other service activities	S	£230	£25,700	0.89%

Methodology note: we believe that employer pension contributions as currently reported in ASHE might include salary sacrifice contributions made by employees. However, we expect the impact at an aggregate level and on the sectoral splits to be minimal.

References

[i] https://www.thephoenixgroup.com/phoenix-insights/publications/tomorrow-s-problem-analysing-the-future-impact-of-dc-pension-undersaving/

[ii] https://wpieconomics.com/wp-content/uploads/2023/11/Phoenix-Report-231115-Final-version-for-Publication.pdf

[iii] Based on £10 billion of additional pension contributions, and 22% of this being UK investment. Draws on: https://wpieconomics.com/wp-content/uploads/2023/11/Phoenix-Report-231115-Final-version-for-Publication.pdf & https://www.gov.uk/government/publications/pension-fund-investment-and-the-uk-economy/pension-fund-investment-and-the-uk-economy#chapter-6-wider-evidence

[iv] https://wpieconomics.com/wp-content/uploads/2024/06/Falling-Behind-the-Curve-WPI-Economics-report-for-Phoenix-final-version.pdf

[v] https://www.gov.uk/government/news/ten-years-of-automatic-enrolment-achieves-over-114bn-pension-savings

[vi] https://www.thephoenixgroup.com/media/xxipnlyc/phoenix-insights-2024-a-roadmap-to-adequate-retiremet-outcomes-for-all.pdf

[vii] https://economy2030.resolutionfoundation.org/wp-content/uploads/2023/06/Beyond-boosterism.pdf

[viii] https://wpieconomics.com/wp-content/uploads/2023/11/Phoenix-Report-231115-Final-version-for-Publication.pdf

[ix] https://wpieconomics.com/wp-content/uploads/2024/06/Falling-Behind-the-Curve-WPI-Economics-report-for-Phoenix-final-version.pdf

[x] https://www.pensionspolicyinstitute.org.uk/media/kixg1bev/20171013-who-pays-the-piper-report.pdf

[xi] https://commonslibrary.parliament.uk/research-briefings/cbp-10189/

[xii] https://assets.publishing.service.gov.uk/media/67c57146b0bb6528ee866cbf/Employment_rights_bill_economic_analysis.pdf

[xiii] https://assets.publishing.service.gov.uk/media/67c57146b0bb6528ee866cbf/Employment_rights_bill_economic_analysis.pdf

[xiv] https://www.thephoenixgroup.com/news-views/a-framework-for-increasing-auto-enrolment-contributions/

[xv] https://www.nestinsight.org.uk/wp-content/uploads/2024/09/How-much-is-enough.pdf

[xvi] https://globalag.igc.org/pension/world/2006/finalreportpensionsuk.pdf

[xvii] https://wpieconomics.com/wp-content/uploads/2024/06/Falling-Behind-the-Curve-WPI-Economics-report-for-Phoenix-final-version.pdf

[xviii] https://www.gov.uk/government/statistics/ten-years-of-automatic-enrolment-in-workplace-pensions/ten-years-of-automatic-enrolment-in-workplace-pensions-statistics-and-analysis

[xx] https://obr.uk/docs/dlm_uploads/OBR_Economic_and_fiscal_outlook_Oct_2024.pdf

[xxi] https://www.abi.org.uk/globalassets/files/publications/public/abi/abi10yearvisionprosperoussecurehouseholdsbusinesscommunitiesfebruary2025.pdf

[xxii] https://assets.publishing.service.gov.uk/media/679ce5e8a9ee53687470a34e/Low_Pay_Commission_2024_report.pdf

[xxiii] https://www.gov.uk/government/statistics/workplace-pension-participation-and-savings-trends-2009-to-2023/workplace-pension-participation-and-savings-trends-of-eligible-employees-2009-to-2023