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Pensions 2050: Evidence and future priorities

TUC response to the Pension Commission interim report
July 2026

Summary

The second Pension Commission's interim report provides a clear and urgent call to action. It describes a system in which, although participation rates in workplace pensions have doubled due to auto-enrolment, up to 19 million working age people are not on track to meet the retirement income targets set by the first Pension Commission.

The triple locked flat-rate State Pension provides a firm foundation on which retirement incomes are built, and auto-enrolment has more than doubled the numbers in workplace pensions. But minimum contributions rates are too low to provide an adequate retirement income for most workers, and those on lower incomes or at smaller companies are unlikely to get contributions significantly above this rate. At the same time millions of workers remain excluded from workplace pensions all together, either through low pay, or because they are in self-employment or insecure work.

These problems of low pay and lack of access to workplace pension schemes are not distributed evenly across the population. The interim report sets out the ways in which women, disabled people, and black and ethnic minority people are at considerably higher risk of poor retirement outcomes.

Addressing these issues will require ambitious policy changes to bring more workers into auto-enrolment and increase contribution rates for those who are auto-enrolled. It will require reforms to pension schemes to ensure that they make the most of every pound of contribution received and efficiently provide retirement incomes that are stable and secure. And it will require changes to the State Pension and wider social security system to boost retirement incomes for those with spells out of paid work, and to provide greater protection for those unable to stay in work until their State Pension age.

In many of these areas the commissioners will have to balance competing factors. These include weighing calls to preserve flexibility at retirement against the need to ensure pensions provide an income for life, and keeping the overall system as simple as possible while making sure it meets the needs of different groups. Channelling more money into the pension system will also have an impact on workers during their working lives and on employers and the wider economy.

This response to the commission's call for evidence addresses the main challenges set out in each chapter of its interim report.

Main policy proposals

Measuring adequacy

- Develop a hybrid benchmark for adequacy of retirement incomes incorporating both a minimum income standard and target replacement rates to ensure the pension system enables people to maintain pre-retirement living standards and provides a backdrop against poverty in old age
- Establish a successor body to the Pensions Commission to oversee the adoption of this benchmark and assess the progress of pensions policy towards achieving the target retirement incomes for different groups of people

Accumulation and adequacy

- Set out a phased timetable to increase minimum employer contributions from 3 per cent to 10 per cent, resulting in a combined employer and employee contribution of 15 per cent
- In combination with these increases, implement recommendations made in the 2017 *Auto-enrolment review* to remove the lower earnings limit so contributions are calculated from the first pound of earnings, and lower the age threshold from 22 to 18.
- Improve the quality and independence of pension scheme governance, including extending requirements to include member representation on trustee boards to multi-employer schemes

The participation gap

- Phase out the earnings threshold so that all workers are auto-enrolled and have the opportunity to benefit from employer contributions into a workplace pension
- Make employer contributions not contingent on employee contributions so that low paid workers who opt out continue to build up their workplace pension
- End auto-enrolment postponement so that eligible workers are enrolled from day one and seasonal workers and those on short-term contracts can build up a pension
- Provide additional State Pension entitlement for the self-employed, funded by higher National Insurance contributions from them
- Introduce a Carer's Credit to compensate those people – largely women – who are not in paid work due to unpaid caring responsibilities for the workplace pension accrual they miss out on by giving them additional State Pension entitlement
- Support older workers to remain in the workforce longer through improved job quality, flexibility and access to training, while strengthening the social security safety net for those unable to work until State Pension age to address rising pre-retirement poverty

Decumulation and adequacy

- Encourage wider take of collective defined contribution (CDC) pensions through the establishment of a national default CDC provider and the promotion of sector wide schemes to ensure that as many workers as possible can benefit from the higher, more stable retirement incomes that can be provided when risks are pooled

Response to Chapter 2: Measuring adequacy

We believe that the purpose of the pension system is to enable people to maintain their standard of living in retirement, and to provide a backstop against poverty in old age. We agree therefore with the proposal in the interim report to develop a hybrid measure of adequacy to be used when designing or assessing pensions policy. This would combine:

- An absolute level of income that no person should fall below in retirement, based on a calculation of what is required to reach a socially acceptable living standard
- Target Replacement Rates (TRRs) based on individual's pre-retirement income, to enable middle and higher earners to maintain their pre-retirement standard of living

Pensions UK's minimum Retirement Living Standard – currently £13,900 for a single person and £22,500 for a two-person household – is a reasonable starting point for considering how much people need to spend to maintain a decent standard of living.[1] The standard as a clear methodology based on the Centre for Research in Social Policy's Minimum Income Standards and is already widely used.

A national benchmark for pensions policy would need to be more stable than the Retirement Living Standards, and would need to consider the net income needed to achieve those living standards. It would need to be overseen by a body that ensured it remained credible and socially accepted. The TUC has long argued for a standing Pension Commission, comprised of employer and worker representatives and independent experts, to assess pensions policy. We believe commissioners should recommend the establishment of such a body to increase the durability of its recommendations under future governments. Further developing, overseeing and regularly reviewing a measure based on living standards to use as a benchmark for minimum incomes should form a key part of this body's remit.

For the second element of the benchmark, the TRRs set out by the original pension commission provide a sensible starting point. These target a replacement rate of two-thirds and a half of pre-retirement income for middle and higher earners respectively.

However, there have been several unforeseen developments since the original commission's report. Pay has stagnated, with real median weekly pay growth averaging just 0.3% a year since 2006, compared to 2.3% from 2000 to 2006.[2] Tax changes have lowered tax and National Insurance contributions on pre-retirement income and raised them on post-retirement income, meaning a higher gross replacement rate is needed to today to

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[1] https://www.retirementlivingstandards.org.uk/
[2] TUC analysis of ONS Labour Force Survey data

maintain the same standard of living.[3] And housing costs in retirement will rise for many as home ownership among over 65s is projected to fall. Taken together these factors mean there is a strong case for the TRRs to be revised upwards to ensure that pensions policy meets the objective of enabling people to maintain their living standards in retirement. For example, the Resolution Foundation has found that accounting for tax changes alone would require the TRR for a median earner to rise from 67 per cent to 72 per cent.[4]

Once the Pension Commission has set out updated TRRs, a standing pension commission could then periodically review these measures as part of its remit. This would enable future changes in pay, tax or costs faced by retirees to be taken into account.

We recognise that there is considerable variation in the income people will need in retirement depending on a wide range of factors, including housing tenure, where in the country they live, and whether they live alone or with a partner. A national benchmark could not be usefully designed to account for all of these different circumstances, beyond the broad divisions of low, middle and high earners. It would still be extremely valuable, however, in clearly articulating the goals of the pensions policy, and providing a yardstick to identify groups that were at higher risk of falling below these targets. In this way, a hybrid benchmark that is regularly updated would provide a firm foundation on which to base pensions policy, and measure progress.

Response to Chapter 3: Accumulation and adequacy

The interim report clearly shows the need to increase the rate at which many workers are building up a pension. Although nine out ten eligible workers are now actively building up a workplace pension, and the State Pension has almost reached the replacement rate envisaged by the original commission, up to 19 million people are still not on track to meet their TRR. This is largely because auto-enrolment minimum contribution rates are insufficient to meet these targets, and many workers – particularly on low and middle incomes or at smaller employers – are not receiving or making additional contributions above this.

As the experience of auto-enrolment has shown the power and stickiness of default contribution rates, the case for increasing these minimums is strong. Raising levels of contributions across working lives can best be achieved by a combination of measures including:

- Phasing out the lower earnings limit so that contributions are made from the first pound of earnings
- Lowering the auto-enrolment age threshold so that workers can start building up their pension earlier
- A phased increase in minimum employer contribution rates

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3 Resolution Foundation, *Perfectly Adequate*, October 2024 - https://www.resolutionfoundation.org/app/uploads/2024/10/Perfectly-Adequate.pdf

4 Ibid.

The 2017 auto-enrolment review

Removing the lower earnings limit that allows the first £6,240 of earnings to be excluded when calculating contribution rates and lowering the auto-enrolment age threshold from 22 to 18 were initially proposed in *Automatic enrolment review 2017: Maintaining the momentum,* commissioned by the then government. The Pensions (Extension of Automatic Enrolment) Act 2023 gave governments the power to implement these measures, although those powers remain unused.

Phasing out the lower earnings limit would have a powerful impact on contribution rates of the lowest paid. It would effectively double the contribution rates of a part-time worker on £12,500 whose employer currently applies the lower earnings limit. It should be noted however that under the current default contribution structure most of those additional contributions will come from the employee. This means that, firstly, they should be introduced alongside other measures to reset this balance between employer and employee contributions and improve the incentives for workers to remain in schemes (see below). Secondly, the commission should propose making employer contributions not contingent on employee contributions, so those that are unable to afford higher contributions do not miss out all together (see following chapter).

There is also a good case for raising the upper earnings limit of £50,200, or at least linking it to wage growth in future to ensure that it remains at an appropriate level. As the interim report shows that upper earners are already significantly more likely than other workers to benefit from employer contributions above the minimum, this should be a lower priority. The inadequate rate at which many low and middle earners are building up their pensions means that measures to raise contributions should be targeted at those workers.

Lowering the age threshold to 18 would help to normalise pension saving from an early age and enable young people entering the workforce to spend longer building up their pension. It also aligns with wider government policy to level pay and conditions for younger workers through phasing out minimum wage youth rates. Pensions are deferred pay, and without extending auto-enrolment to younger workers they will continue to suffer worse pay than older colleagues as they miss out on pension contributions.

As there is a degree of consensus on these measures, and existing legislation to implement them, there is a case that they should be prioritised. The Pension Commission should explore whether one or both measures could be implemented this parliament.

Raising minimum contribution rates

To increase the number of workers building up sufficient pension to fund an adequate income in retirement it will be necessary to increase contributions. The commission's analysis shows clearly that low and middle earners are unlikely to received contributions significantly above the minimum rates of 8 per cent of band earnings. Half of those earning between £10,000 and £20,000 are auto-enrolled at this minimum rate, while 71 per cent have contributions of 8 per cent of total earnings or less. Even with measures outlined elsewhere in this response this is not enough for most workers to reach a decent retirement income. Additional contributions above the legal minimum were a central component of the system set out by the first commission, but for too many workers they have not materialised.

The case for increasing minimum contribution rates is therefore very strong. It would be targeted at the lower and middle income workers who are the least likely to currently enjoy contribution rates above the minimum. To ensure that all workers build up sufficient levels of pension, the commission should target reaching a combined minimum contribution rate of 15 per cent of earnings up to the upper earnings limit.

We also believe that the additional contributions should fall on employers rather than workers, to reverse the current balance of contributions, which requires workers to put in more (5 per cent of band earnings, versus 3 per cent from the employer). The UK is an outlier among OECD countries in this respect. Chile and Poland are the only other countries that load contributions on workers in this way.[5] It was also the norm in the UK before auto-enrolment for employers to make the largest share of contributions, with a two-to-one split widely used. Returning to this contribution structure, with a minimum contribution rate of 5 per cent for workers and 10 per cent for employees would give a powerful boost to incentives to save.

Any increases in contribution rates would need to be phased in, with a timetable to allow employers to plan ahead. The government has already pledged not to increase contribution rates in this parliament. But the timetable will have to balance this against the need to act quickly enough to prevent current workers drifting further from the possibility of achieving a decent retirement income. The last increase in auto-enrolment contributions came in 2018, and the need for further rises has been clear for some time. We believe a timetable that starts raising employer rates early in the next parliament, to reach 12 per cent by the end of that parliament would strike the right balance.

Governance

Good governance has a material impact on the benefits delivered by pension schemes. Research has conservatively estimated that good governance improves returns by 1-2% a year,[6] which has a particularly powerful impact on adequacy in DC or collective DC systems where the level of benefits is directly linked to investment performance.

On top of this, high standards of governance – and in particular a visible and meaningful role for member representatives – are an important factor in ensuring sustainability, by maintaining trust in the system. A strong member voice in scheme governance also helps to tackle inequalities by ensuring that the experience of different groups of members are properly considered when decisions are taken (see, for example, the pivotal role of trade

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[5] Chile has no minimum employer contribution, while Poland has low minimum contributions of 1.5 per cent from employers and 2 per cent from employees, while Lithuania used a similar contribution structure to the UK in its brief experimentation with auto-enrolment. See Figure 9.1, OECD, *Pensions at a glance 2025*, November 2025 - https://www.oecd.org/en/publications/pensions-at-a-glance-2025_e40274c1-en/full-report/contributions-paid-into-pension-plans_00ab41bc.html#title-d3ecd52b3c

[6] Keith Ambachtsheer, Ronald Capelle, and Hubert Lum, *Pension fund governance today: Strengths, weaknesses, and opportunities for improvement,* October 2006 - https://www-2.rotman.utoronto.ca/icpm/2.pdf

union members of the Local Government Pension Scheme Advisory Board in securing meaningful reform to tackle the scheme's gender pension gap,[7] and the work of member-nominated trustees in the private sector in pushing for similar measures in their own schemes).

In March the TUC published a report setting out the positive impacts of member representation, and drawing on international experience to set out how it could work effectively in large scale multi-employer schemes.[8]

We welcome the government's current focus on this subject, including the recent consultation *Trustees and governance, building a stronger future*. However, given the impact governance has on the adequacy, sustainability and fairness of occupational pensions, the commission should also consider this area. Measures to extend requirements to have member representatives on trustee boards to the multi-employer schemes most commonly used for auto-enrolment, and to strengthen the independence of trustees of these schemes, would have a material impact on outcomes.

Triple lock

Although the triple lock has helped to raise the replacement rate of the State Pension to 30 per cent of median earnings, it is still falling short of the 31 per cent targeted by the original commission. So the case for further increases in the value of the State Pension relative to earnings remains strong.

As set out in the earlier chapter, we also believe it will be necessary to target higher replacement rates for total retirement income than the TTRs set by the original commission. The sources of this additional income should be split between the state and occupational systems. This means that as well as raising minimum contribution rates to workplace pensions as set out above, it is likely that the State Pension will have to replace a larger proportion of pre-retirement income. As the triple lock maintains a high level of public and cross-party support, we believe this mechanism remains the best way to increase the level of State Pension to meet this need.

Response to Chapter 4: The participation gap

Although auto-enrolment has brought more lower-paid people into workplace pensions, the commission's analysis reveals stark differences in expected outcomes for different groups. Higher rates of low income, part-time or insecure work, time out of work for sickness and caring, and more limited career progression mean that women, disabled people, some ethnic minorities and people in insecure work accumulate far less private pension wealth than average. The self-employed also among the most likely to be at risk of poor retirement outcomes, with just 1 in 25 actively contributing to a pension.

[7] DWP, *Pension scheme reforms to tackle gender pension gap*, February 2026 - https://www.gov.uk/government/news/pension-scheme-reforms-to-tackle-gender-pension-gap
[8] TUC, *Member voice in pension scheme governance*, March 2026 - https://www.tuc.org.uk/research-analysis/reports/member-voice-pension-scheme-governance

While lower levels of average pay, and therefore pension contributions, are a factor for many of these groups, the most significant barrier they face is the participation gap. Where people fall below the income threshold to be auto-enrolled, are not in paid work because of sickness or caring responsibilities, or do not have an employer to auto-enrol them because they are self-employed, there is no mechanism that makes pension participation the default.

Tackling these pension gaps will require a variety of approaches including:

- Extending auto-enrolment coverage through phasing out the earnings threshold, tackling bogus self-employment, and introducing day-one auto-enrolment for workers on short-term contracts
- Using the State Pension to improve outcomes for people who cannot be auto-enrolled by an employer through:
    - a Carer's Credit to provide additional State Pension accrual for people out of paid work because of caring responsibilities
    - additional State Pension for the self-employed funded by higher National Insurance contributions from these workers.

Extending auto-enrolment coverage

The earnings threshold

The £10,000 earnings trigger means that the lowest paid, and those working multiple low-paid part-time jobs do not have to be auto-enrolled into a pension. This, together with the lower earnings limit, was intended to protect the lowest earners from being defaulted into a pension scheme that was unaffordable.

We support the interim report's analysis however that many workers below the threshold contributions may in fact be able to afford contributions, because they are in a household with above median income, own their home outright, or hold multiple part-time jobs with a combined income above the threshold.

Decisions to freeze the threshold at £10,000 a year since 2015 have already brought increasing numbers of low paid workers into the workplace pension system and the IFS has argued for it to be significantly reduced.[9] The TUC believes it should be removed altogether. This would make pension participation the norm for all workers and would make the system simpler for workers to understand and for employers to administer.

The phasing of this relative to other measures to raise contributions would be important to consider. It would be desirable to remove the earnings threshold before phasing out the lower earnings limit, so the lowest paid workers would initially be auto-enrolled with low employee contribution rates that would rise over time as the lower earnings limit

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[9] Institute for Fiscal Studies, *Policies to improve employees' retirement resources*, September 2024 - https://ifs.org.uk/publications/policies-improve-employees-retirement-resources

decreased. This would replicate the phased contribution increases used when auto-enrolment was introduced to minimise the risk of high levels of opt outs.

Bringing the lowest paid workers into pension saving – particularly in combination with increasing employee and employer contributions by phasing out the lower earnings limit – would also increase the number of people opting out because they could not afford their employee contributions. The incentives for these workers to remain opted in extend beyond the employer contributions, and include tax relief and a partially offsetting increase in Universal Credit for many.

Even so, for some low paid workers the cost of contributions will be too high, and it will be in their best interests opt out. It seems fundamentally unfair that those workers will lose their employer contributions alongside the other incentives to participate. We believe therefore that employer contributions should not be contingent on employee contributions. There should be clear communications to those workers opting out to ensure they understand the impact of their decision on their current and retirement incomes. They could be subject to more frequent re-enrolment criteria than the current three-yearly criteria to ensure that actively contributing remained the default option, and limit the length of interruptions to pension accumulation caused by short-term financial pressures. If non-contingent contributions were to be restricted to low earners we believe the definition of a low earner should be set considerably above the current earnings threshold. The income received by a full-time worker on the National Living Wage – currently £24,800 a year – would be a useful benchmark, but affordability for individuals will vary with their household circumstances.

We are familiar with a range of employers that already offer non-contingent contributions. These range from medium-sized organisations that will contact staff who opt out and continue making employer contributions for those in financial hardship, to a large employer that automatically pays non-contingent contributions to anyone who opts out. In these cases the employers report low levels of opt outs and do not believe the non-contingent contribution acts as an incentive for workers to stop their own contributions.

Other options, such as allowing workers to opt down to a lower contribution rate, are worth considering. But this would introduce administrative complexity and experiences in the Local Government Pension Scheme, where take up of a similar '50/50' option has remained below 1 per cent, suggest take up would limited.

We believe therefore that a system in which all workers are auto-enrolled regardless of their income, but those who cannot afford to contribute are able to opt out without losing their employer contributions strikes the right balance between simplicity and flexibility.

Three-month postponement

The impact of the ability of employers to postpone auto-enrolling eligible workers for up to three months varies by industry. But in those sectors of the economy with high levels of seasonal working or short-term contracts it is clearly having a detrimental impact on the ability of workers to build up their pensions. These workers are among those currently at a high risk of poor retirement outcomes. Removing the option for employers to postpone will have a meaningful impact for them, by and extend the coverage of auto-enrolment to include groups who are effectively excluded.

In the film and TV sector for example, workers are often employed on a series of short-term contracts linked to specific productions. Reports from Bectu/Prospect representatives in this sector suggest that the vast majority of employers make use of postponement, and very few inform workers of their right to opt in to a scheme during this window. The result is that many otherwise eligible workers miss out entirely on the chance to join a pension scheme.

Removing the postponement option would ensure that all eligible workers were enrolled from day one. We recognise that this has the potential to increase the number of people with multiple small pots as different employers use different providers. But there are a number of mitigations that have developed since the 2017 auto-enrolment review recommended against removing the option to postpone. The government is introducing scale requirements that will considerably reduce the number of providers in the market, the Pensions Dashboard will make it far easier for workers to keep track on multiple pots and the government is introducing automatic consolidation of small pots (although the planned threshold of £1,000 will need to be increased to have the desired impact).

There is also scope to limit the number of small pots built up by people on short-term contracts or who change jobs frequently within the same industry by encouraging the development of sector-wide schemes. The potential for such a scheme in the adult social care sector is discussed in the following chapter, and there are a range of industries in which a similar approach could benefit workers. Fair Pay Agreements – which allow for sector-wide collective bargaining over pay and working conditions, and which the government has introduced in the social care sector through its Employment Rights Act – provide a powerful mechanism for enabling sector-wide schemes but they could also be established in industries not covered by sectoral agreements.

Bogus self-employment

Clamping down on bogus self-employment also has the potential to bring hundreds of thousands more workers into workplace pensions. Estimates have put the number of workers miscategorised as self-employed as high as 460,000.[10] The TUC has highlighted a growing number of cases of employers sectors such as retail and hospitality categorising agency staff hired through platforms as self-employed freelancers.[11] And the GMB union successfully forced Uber to recognise its drivers as workers rather than self-employed after a five-year legal battle, ensuring that 70,000 drivers were brought into auto-enrolment.[12]

This miscategorisation allows companies to evade their auto-enrolment obligations, as well denying these workers other rights such as the minimum wage, sick pay and protection from unfair dismissal.

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[10] Citizens Advice, *Neither one thing nor the other*, August 2015 - https://www.citizensadvice.org.uk.cach3.com/Global/CitizensAdvice/Work%20Publications/Neither%20one%20thing%20nor%20the%20other.pdf
[11] TUC, *Behind the app*, February 2026 - https://www.tuc.org.uk/research-analysis/reports/behind-app
[12] BBC, *Uber 'willing to change' as drivers get minimum wage, holiday pay and pensions*, March 2021 - https://www.bbc.co.uk/news/business-56412397

The government has already pledged to "move towards a single status of worker and transition towards a simpler two-part framework for employment status" and strengthen employment rights enforcement by establishing the Fair Work Agency (FWA) that combines several labour market enforcement authorities. While it is outside the remit of the Pension Commission, ensuring the FWA takes a proactive approach to policing employment status, introducing a presumption of worker status and removing employment agency loopholes would help to close the gaps in auto-enrolment coverage.

Boosting the State Pension

The self-employed

The commission's interim findings make clear that improving outcomes for the self-employed is a priority, with just 1 in 25 self-employed workers with no other sources of income contributing to a pension. Younger self-employed and those on low or middle incomes are particularly unlikely to be on track to meet current retirement income targets. This supports earlier analysis that found retirement incomes for the self-employed were just 56% of the average.[13]

That the self-employed fare worse than employed workers is unsurprising. Our system relies on the nudge of employers auto-enrolling workers into a pension, and employer contributions are both a strong incentive to remain in and make up a significant proportion of total contributions.

Poor retirement outcomes for the self-employed happen in spite of the State Pension being relatively more generous to them as a group. They pay lower National Insurance Contributions (NICs) than an equivalent employee does, but since the introduction of the New State Pension they qualify for the same level of State Pension. All self-employed workers benefit from this effective subsidy.

The self-employed themselves report a variety of reasons for not building up a private pension, including fluctuating incomes, concern about locking their money away where they won't be able to access it if necessary, and a lack of knowledge or confidence. But the most common reported reason is that they can't afford to.[14]

This is again unsurprising, given the high rates of low pay among the self-employed. Half of all self-employed workers (50%) are low-paid (defined as having an hourly income less than two-thirds of the median).[15] Self-employed people who are young (55 per cent), disabled

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[13] Page 2, The Pensions Policy Institute, *The Underpensioned Index*, December 2022 - 20221207-the-underpesnioned-index-2022-edition.pdf

[14] Nest Insight, *Retirement saving and the self-employed*, May 2018 - https://www.inclusivemoney.org.uk/wp-content/uploads/2021/02/Retirement-saving-and-the-self-employed.pdf

[15] Unpublished TUC analysis of the ONS Family Resources Survey. Rates of low pay are particularly high among self-employed workers aged 18-34 (55%) and those in 'Caring, leisure and other service' (65%), 'Sales and customer services' (69%) and 'Elementary' (68%).

(53 per cent) and female (51 per cent) are particularly likely to be low paid. This is often exacerbated by the fact that incomes will fluctuate from week to week or month to month.

Improving outcomes for the self-employed will require measures to replicate both the default nature of auto-enrolment and the incentive not to opt out. To maintain fairness within the system it will also need to avoid subsidies to the self-employed from other workers.

Most proposals have focused on using the self-assessment tax return system to replicate the nudge of auto-enrolment. These involve either requiring workers to make an active choice how much to contribute to a pension scheme, or automatically making contributions at a default level, with HMRC selecting a pension provider from a carousel of approved providers if no decision is made by the individual.

For basic rate tax-payers the incentive not to opt out is relatively weak in the absence of an employer contribution (and it is less attractive than contributing to a Lifetime Isa). Presenting the contribution as a large annual amount on the self-assessment form, rather than as a relatively small amount on each paycheck as experienced by employees is also likely to increase the pressure to opt out. The additional retirement income achieved by the lowest paid will also be small as a result of a low overall contribution rate on a low income, and the relative inefficiency of individual DC in turning small pots into retirement income.

The TUC therefore supports exploring an alternative approach of using a State Pension top-up, funded by additional NICs for the self-employed, to improve retirement outcomes. This could be arranged on a Pay as You Go basis, where new contributions are used to pay current pension obligations or other expenditure, or a funded basis, where contributions are invested and used to meet future obligations.

This model would see self-employed workers earn an additional flat-rate top up to the State Pension – of £2 a week, for example – for every full year of paying self-employed National Insurance Contributions. This would be funded by an increase in NICs for the self-employed.

These additional NICs would be calculated as a percentage of self-employment income. This would cost lower-earning self-employed people relatively little, and higher earners much more, introducing the cross-subsidy needed to pay for acceptable outcomes for all self-employed workers, without introducing any new subsidy from employed workers.

The required increase in NICs for the self-employed would need to be calculated by the Government Actuaries Department. Detailed analysis will need to be carried out to determine the appropriate levels of contributions and benefits, but is likely that a contribution of 2-3 per cent of income above the lower threshold would be enough to achieve better outcomes for the low paid-self employed than extending auto-enrolment to them.

This would represent a relatively less attractive deal for the one in five higher rate tax-payers already paying into a scheme, and benefiting from higher tax-relief, who would be forced to pay for a benefit they may not need. For many higher rate tax-payers it would still represent a valuable benefit, in spite of the cross-subsidy, and one that would be difficult and more expensive for them to replicate through a private DC pension.

From the government's perspective a major issue is what to do with the additional contribution income, which would be in the low billions of pounds a year.

The State Pension top-up could be unfunded like the rest of the State Pension system. This would generate significant additional revenues during the fiscal forecast period but higher long-term State Pension liabilities.

Alternatively, the State Pension top-up could be funded. This could potentially create a multi-billion pound fund that was available to make productive, long-term investments in the UK economy, in support of the government's wider pension policies.

All measures to improve pension outcomes for the self-employed involve trade offs. But we believe this proposal should be considered, as it ensures that additional contributions are used as efficiently as possible and tilts additional benefits in favour of the lower paid who are at greatest risk of inadequate retirement incomes.

Closing the gender pension gap

The gender pension gap has been extensively analysed. The interim report cites studies that consistently find women's pension wealth is on average around half that of men as they approach retirement. The trade union Prospect produces an annual estimate of the gender pension gap for current retirees and the latest report found a gap of £7,200 a year, or 33 per cent.[16]

The causes of the gap are also well understood. The gender pay gap plays an important role, resulting in lower employer and employee contributions. Historic differences in State Pension entitlement are significant for current pensioners but have reduced since the introduction of the New State Pension in 2016 and State Pension benefits will soon be equalised. But the most significant factor is different lifetime working patterns, with women much more likely to take time out of paid work or to work part-time. This is largely due to caring commitments, either bringing up children or looking after relatives with health conditions. One in ten women aged 30-34 is out of paid work because of caring commitments and women are 18 times more likely than men in this age group to be economically inactive for this reason.[17]

There are a range of measures that would reduce the gender pensions gap. These include addressing the pay and employment gaps that are its root cause, including by improving access to childcare and social care, reforming the parental leave system to enable more equitable sharing of caring responsibilities, and strengthening rights to work flexibly. Making the system work better for the low paid in general through measures set out elsewhere in this response such as phasing out the earnings threshold and lower earnings limit would have a positive impact. Recent changes to the Local Government Pension scheme – including making short periods of authorised unpaid absence automatically pensionable, making it easier to buy back lost pension after longer periods of absence, and making unpaid additional maternity leave, adoption leave and shared parental leave

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[16] Prospect, *Tackling the gender pension gap*, April 2026 - https://union.prospect.org.uk/asset/FB949474-23CF-45BE-86EE3566ABA5E308/

[17] TUC, *The gender pensions gap,* August 2025 - https://www.tuc.org.uk/sites/default/files/2025-08/GenderPensionsGapReport2025.pdf

automatically pensionable – would also have a significant impact if rolled out to more employers.

But the fact that the root cause of the gender pension gap is time out of paid employment means that tweaks to workplace pension arrangements can only go so far in addressing it. While women are outside of paid work because of unpaid caring roles, they receive NI credits to ensure they continue to build up their State Pension entitlement. But in the system envisaged by the first Pension Commission, this is only intended to make up half the retirement income of the average worker, with the other half coming from a combination of workplace or private pension wealth. It is necessary to compensate them for some of this lost workplace pension accrual to more fully protect their future retirement incomes.

That's why the TUC has campaigned for the introduction of a carer's credit.[18] This would essentially reintroduce a feature that was removed in 2016. Before this point, people looking after children under 12 and registered for child benefit built up State Second Pension credit in addition to a credit towards the basic State Pension.

When it was removed this credit was worth an extra £1.80 a week in pension in 2015-16 terms. So a worker who took five years out of paid work to raise kids, for example, would have built up almost £500 a year in additional State Pension over these years to plug the gap in their workplace pension contributions.

To improve the way caring roles are recognised and rewarded this would need to cover other groups such as registered carers as well. This would boost pension incomes of other underpensioned groups such as disabled people, who are also more likely to be carers themselves, and older BME women, one in three of whom leave the labour market before State Pension age due to caring responsibilities.[19]

Extending working lives

The interim report rightly highlights the impact of workers leaving the labour market before reaching State Pension age on retirement incomes. This both reduces the number of years over which they are contributing to a pension and increases the risk of either running out of money in retirement or having inadequate incomes as a result of accessing their pension pots early.

Supporting workers to stay in work longer would have a wide range of beneficial effects, and the TUC supports measures to do so. But this requires an understanding of why people are leaving the labour market before State Pension age, and how different groups of workers are affected by factors such as ill-health and caring responsibilities.

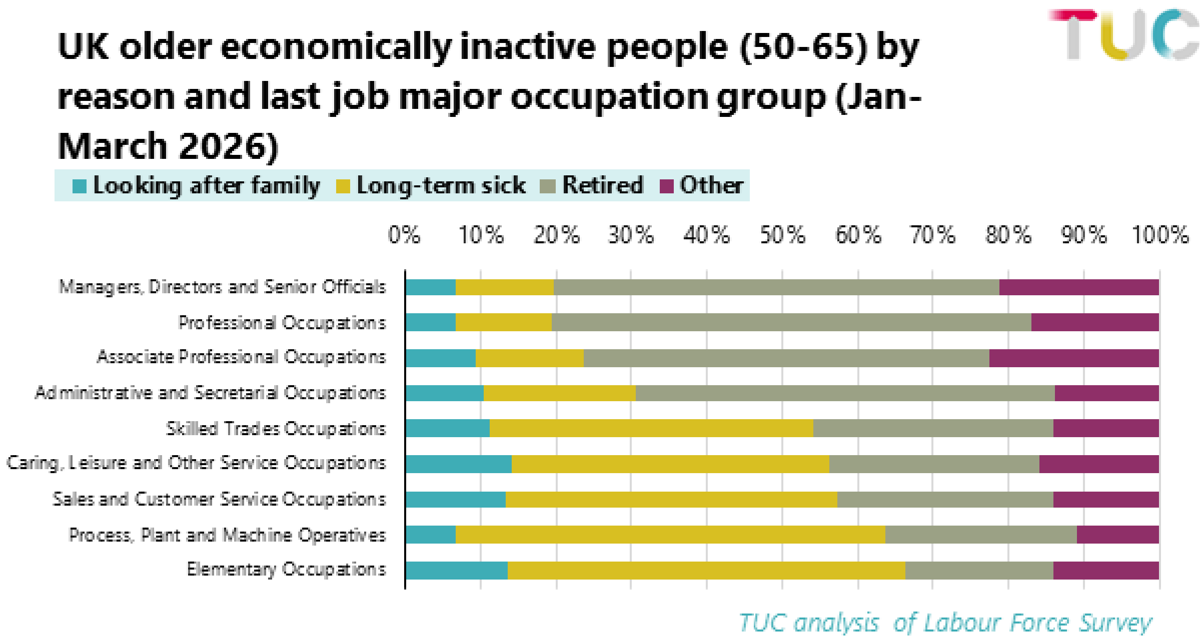
The recent rise in pre-State Pension age economic inactivity has been driven by increasing levels of sickness. Since the Covid-19 pandemic we have witnessed a fall of 97,000 or 1 percentage point in the number of workers age 50-65 who are economically inactive because they have retired This has been more than offset by an increase of 200,000, or 2

[18] TUC, *It's Gender Pension Gap Day – and we need to talk about Carers Credit*, August 2024 - https://www.tuc.org.uk/blogs/its-gender-pension-gap-day-and-we-need-talk-about-carers-credit
[19] TUC, *Creating a healthy labour market*, March 2023 - https://www.tuc.org.uk/sites/default/files/2023-02/CreatingAHealthyLabourMarket_23.pdf

percentage points, in the numbers in this age group who are economically inactive due to ill health.[20] Long-term ill-health is still the most common reason for being economically inactive in this age group, cited by 40% of those out of the labour market as their reason for not working.

For private sector workers, who the commission is focusing on, the role of ill-health in forcing people out of the labour market is even greater. Those who previously worked in a predominantly private sector industry[21] were around twice as likely to have become inactive due to long-term illness or disability (33 per cent) compared to those who previously worked in a predominantly public sector industry (16 per cent).

There is a clear class divide between workers who are able to retire early and those that are more likely to be forced out of work due to ill health or caring (*see chart below*).



Fifty-nine per cent of former managers and 63 per cent of former professionals who are economically inactive before they reach State Pension age have retired, while only around 13 per cent have been forced out by ill health.[22]

In the occupational groups of process, plant and machinery operatives and elementary occupations – a category that includes many of the lowest paid jobs such as cleaners, security guards and call centre workers – the proportion who have left the labour market for health reasons rises to 57 and 53 per cent respectively. In these two groups, around 64 and 66 per cent of all those who had left the labour market before State Pension age had

[20] TUC analysis of the ONS Labour Force Survey, Q1 2020 and Q1 2026
[21] One in which more than two thirds of jobs are in the private sector
[22] Our analysis on last job occupation reflects only the economically inactive people aged 50-65 who had worked in the past 8 years, which reflects the LFS survey design.

done so due to poor health or caring responsibilities. That compares to just 20 per cent for former managers and former professionals.

This high rate of people leaving the labour market early whose last job was in an elementary occupation or as process plant or machinery operatives, means that approaching two in five older people (37 percent) who are inactive due to long-term health problems came from these sectors. Meanwhile only three in twenty workers in the current workforce (15 per cent) were working in these parts of the labour market.

Improvements to our health service and extra job flexibility would enable some of these people to stay in work longer. Others who leave the labour market early could be supported to stay by better access to training to keep their skills up to date or enable them to switch to less physically demanding roles. And for older people who become unemployed and are much more likely to become long-term unemployed as a result, or who have left the labour market altogether, more targeted support and more age friendly employment policies have a role to play.

But pension and working age benefits policy will have to recognise that even with support many of these people are unable to work longer. And the increase in the State Pension age to 67 currently underway will lead to a rise in the number of people unable to work until State Pension age. The last increase to 66 increased pre-retirement poverty rates to almost one in four as a result of the inability of many people to respond by working longer.[23]

Trade unions have long campaigned against these increases, which hit those on lower incomes the hardest as they are more likely to have to stop working before they draw their State Pension and less likely to have built up sufficient occupational or private pension to be able to bridge the gap. Groups with lower life expectancy also see a greater decrease in the value of their State Pension as every increase in the pension age takes away a greater proportion of their total expected income.

To maintain fairness in the system people who are unable to work longer due to poor health will need to be better protected from poverty in the years leading up to their State Pension age. We believe the commission should recommend shelving planned further increases to ensure the State Pension age can continue to play its role as an anchor point for retirement, and to avoid further increases in pre-retirement poverty. Some of the savings from earlier increases should also be used to mitigate their impacts on those most affected.

The recommendation of the Work and Pensions Committee of a modest uplift to Universal Credit for people in the year before State Pension age[24] recognises the need for greater support for these people and would be a step in the right direction. There is a strong case to go further, however. While we support retaining a universal State Pension age, early access to an unreduced State Pension and eligibility for Pension Credit for those who are

[23] IFS, *How did increasing the State Pension age from 65 to 66 affect household incomes?*, June 2022 - https://ifs.org.uk/publications/how-did-increasing-state-pension-age-65-66-affect-household-incomes

[24] Work and Pensions Committee, *Transition to State Pension Age*, July 2026 - https://publications.parliament.uk/pa/cm5902/cmselect/cmworpen/76/report.html

unable to continue working because of ill-health or caring responsibilities would be the most effective way to prevent pre-retirement poverty from rising.

It is also important to note that while the State Pension age provides an anchor point for retirement, it is entirely appropriate for different jobs to have different normal retirement ages. This is most clearly recognised in the UK through lower normal pension ages for those in the uniformed services, and age restrictions on certain professional roles such as commercial airline pilots who are not allowed to fly once they reach 65. Attempting to increase labour market participation through further rises to the normal minimum pension age would hamper the ability of these workers to manage their retirement. It would also impact the ability of workers to fund a reduction in working hours by accessing a portion of their pension, which can enable people to extend their working lives and make up an important element of a phased retirement.

Chapter 5: Decumulation as a driver of adequacy

Collective DC

The commission is right to highlight the important role that decumulation design and decisions play in the level of retirement income people receive. The shifting of risk onto individuals that has come with the move to a largely DC system has resulted in an increasingly complex post-retirement landscape for people to navigate and lower retirement incomes than could be achieved by a pension system in which risks are pooled. This has been exacerbated by the 'Freedom and choice' legislation introduced in 2015.

The high number of DC pots being cashed out entirely or drawn down at a rate that means they are unlikely to provide an income that lasts for life shows that DC pensions are not generally being used effectively to provide a retirement income.

Guided retirement measures in the Pension Schemes Act 2026 that will require DC schemes to provide a default retirement solution to members are a meaningful step towards addressing this. If guided retirement products provide longevity protection, have strong governance, and guard against high charges then they will represent a significant improvement on existing DC retirement processes. It is also reasonable to assume that behaviours will change as the make up of retirees' pension wealth changes, with the amount of DB diminishing and DC pot sizes increasing.

The commission has an opportunity to be more ambitious, however. The TUC has long supported the development of collective DC as an upgrade for workers saving into individual DC. While the guaranteed income provided by DB still represents the best option for workers, collective DC arrangements have the potential to provide a significant uplift for workers currently in individual DC schemes.

Unlike individual DC, CDC provides an income in retirement by design rather than a pot of money (although without the guarantees of DB). This avoids the decumulation problems highlighted by the commission, and which the government is seeking to address through guided retirement. While CDC schemes can have a range of flexibilities built into their benefit structures, they will generally be less flexible than individual DC, but this is a reasonable trade off given the goal of pension policy is to provide an income in retirement.

Whole of life CDC schemes can improve adequacy in a range of ways. The government believes the boost to retirement incomes from moving to CDC could be as high as 60 per cent,[25] while modelling regularly shows an uplift of at least 30 per cent.[26] These increases mainly result from both the pooling of longevity risk and the ability of whole-of-life CDC schemes to invest in higher returning assets for longer than individual schemes by pooling investment risk. The latter factor will be difficult for individual DC schemes to replicate, even after they are compelled to provide a default retirement option that includes longevity protection.

The scale of this uplift over DC means that as many workers as possible should have the opportunity to build up their pension in a CDC scheme. The TUC has supported the measures of successive governments to firstly enable the Royal Mail to establish the UK’s first scheme (driven by the Communication Workers Union), and then to enable multi-employer and decumulation CDC.

But more measures are necessary for CDC to replace DC as the pension arrangement for the majority of private sector workers. This includes encouraging the creation of sector-wide schemes where appropriate. Trade unions have called for the establishment of a scheme for social care workers, which would improve retirement outcomes for millions of low paid women.[27] The government could enable unions and employers to establish a scheme through the Fair Pay Agreement which is introducing a sector-wide collective bargaining agreement in social care. As well as providing high-quality pensions to this underpensioned group of essential workers, this would also send a strong signal of the government’s support for CDC.

While sectoral arrangements might not be achievable in all industries, we believe there are many parts of the economy in which such a scheme would be suitable. As well as providing higher and more predictable retirement incomes these sectoral schemes would also enable workers who moved employers within the same sector to build up a single occupational pension, rather than multiple pots with different providers.

We also support the establishment of a default CDC scheme which would have a public service obligation to take on any employer, as Nest does in the individual DC market. This would guarantee that all employers who want to offer CDC pensions to their workers had a scheme they could use.

A default CDC scheme could also support the development of a CDC market by providing a ‘lifeboat fund’ to take on CDC members if their scheme fails. This would be an improvement on the current arrangements, which could see CDC benefits converted to an individual DC

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[25] DWP, *Retirement incomes could increase by as much as 60% as Government green-lights 'collective' pension schemes*, October 2025 - https://www.gov.uk/government/news/retirement-incomes-could-increase-by-as-much-as-60-as-government-green-lights-collective-pension-schemes

[26] For example, modelling by Hymans Robertson found whole of life CDC would deliver 50 per cent higher income than regular DC followed by annuitisation, 30 per cent higher income than DC followed by drawdown, and 20-30 percent more than DC followed by decumulation only CDC. See Hymans Robertson, *CDC complete picture*, October 2025 - https://cms.hymans.co.uk/media/fbohdqsh/cdc-the-complete-picture.pdf

[27] Unison, *Care workers deserve the chance of a decent retirement*, April 2026 - https://unison.org.uk/press/2026/04/care-workers-deserve-chance-decent-retirement

pot, which would both be detrimental to members affected and undermine confidence in the system if it happened.

These measures would significantly increase the number of workers who benefit from CDC schemes in future.

We also believe the commission should consider whether some or all of the increase in statutory minimum contributions they recommend should be paid into the new default CDC scheme, where an employer is not putting them into a CDC or DB scheme.

This would ensure that all eligible workers build up at least some of their wealth in a CDC scheme. It would also mitigate the impact of the variable returns achieved by individual DC schemes outlined in chapter 3 of the interim report by providing a single common scheme to provide an element of people's retirement income that would benefit from the scale, highest levels of governance and best investment practice the government is seeking to drive across the system.