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The Pensions Review: Final recommendations

2 July 2025

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Key issues – where should policy focus?

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- Ageing population adds pressure on public finances and there is a lack of trust in the future of the state pension

- Significant rises in income poverty for those in their early 60s following state pension age increases

- Growing numbers of older people living in more expensive and less secure private rented accommodation

Key issues – where should policy focus?

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- Around 20% of private sector employees and 80% of self-employed are not saving in a private pension

- Significant minority of those saving in DC pensions are set to miss a standard benchmark for an adequate retirement income

- People managing DC pension pots through retirement face too many complex decisions over their (often numerous) pension pots

Key themes for reform

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State pension: a secure and stable system

- Clear average earnings-related target to increase predictability

- State pension age should only go up when longevity at older ages increases

Means-tested benefits: additional support

- For those hardest hit by SPA rises

- For those particularly at risk of pensioner income poverty

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Key themes for reform

Private pension saving: **help many save more**

- Minimum employer contribution for almost all employees

- Minimum default total contributions increased for those most able to save more

- Saving in a pension made easier for the self-employed

Managing wealth through retirement: **simpler decisions**

- Help people use DC pots through retirement

- Steering people towards appropriate outcomes

State pension

State pension: four-point pension guarantee

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1

Long-term commitment to keep the state pension at a **set level relative to average earnings**

2

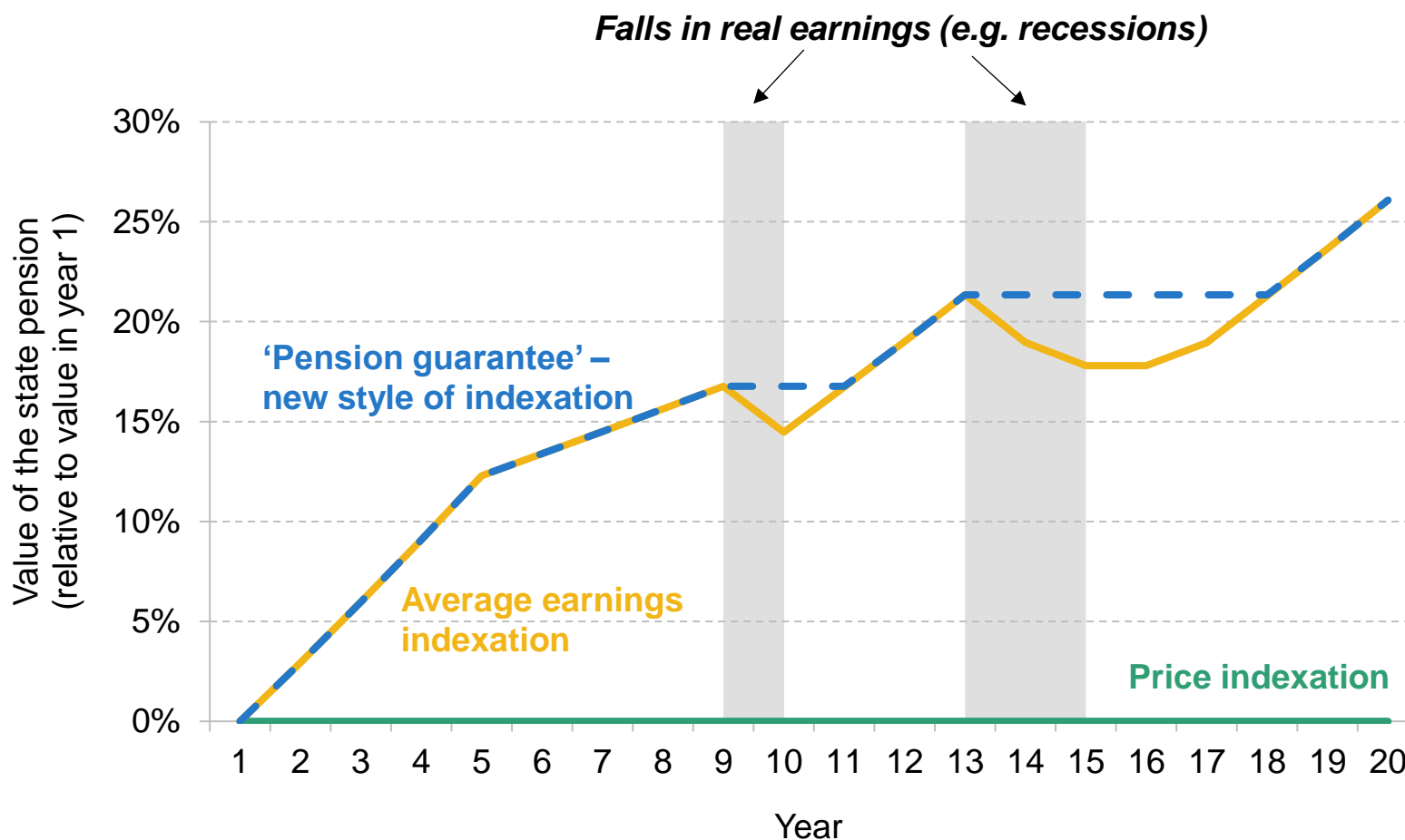State pension will **always** be **protected against inflation**

3

State pension will **never** be **means-tested**

4

State pension age will only go up **when life expectancy increases**

Indexation in the long run

Illustration of how our suggested new style of indexation would operate

Source: Figure 2.2 from Cribb et al. 2025.

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Level of state pension

Value of the new state pension relative to earnings	2025 Weekly nSP (£)	2025 nSP difference relative to current	2050 Cost relative to earnings indexation from now (£bn)	2050 Saving relative to triple lock (£bn)

Memo: Current level is £230 per week (30.2% of average earnings), with total spending of £146 billion.

Source: Adapted from Table 2.1 from Cribb et al. 2025.

Level of state pension

Value of the new state pension relative to earnings	2025 Weekly nSP (£)	2025 nSP difference relative to current	2050 Cost relative to earnings indexation from now (£bn)	2050 Saving relative to triple lock (£bn)
31%	236	+2.5%	4.2	16.4
32%	244	+5.8%	9.7	11.0
33%	251	+9.1%	15.1	5.5
34%	259	+12.5%	20.3	0.3

Memo: Current level is £230 per week (30.2% of average earnings), with total spending of £146 billion.

Source: Adapted from Table 2.1 from Cribb et al. 2025.

Means-tested benefit system

Means-tested benefits for those just below the SPA

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- We recommend additional support through Universal Credit for those within a year of their state pension age:

  1. targeted to everyone with low incomes and assets, or;

  2. targeted to those with low incomes and assets who are also receiving disability benefits

- We model two reforms, costed at £600 million and £200 million a year, while a one-year increase in the SPA saves £6 billion

Pensioner benefit system

- Among pensioners low Pension Credit take-up remains an issue

    - Deliver integration of Pension Credit and Housing Benefit

- Private renter pensioners face higher poverty rates and risks due to lower housing security

- Increase maximum housing benefit for private renter pensioners by allowing an extra bedroom in setting the maximum allowance

    - pensioners spend more time at home than working-age individuals and might want carers or relatives to stay

    - brings treatment of private renters closer to that of social renters

    - initial cost £150 million a year, but this would rise over time

Conclusion

Conclusion

- **Reforms to state support**

    - Clear earnings target for the state pension to increase predictability

    - Higher means-tested benefits for those hardest hit by SPA rises

    - Support post-SPA streamlined and more generous for private renters

- **Implementation** does not have to be immediate

    - For the state pension: the government should announce a target for the next parliament

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2 July 2025

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Private pension reforms

Key themes for reform

Private pension saving: help many save more

- Minimum employer contribution for almost all employees

- Minimum default total contributions increased for those most able to save more

- Saving in a pension made easier for the self-employed

Managing wealth through retirement: simpler decisions

- Steering people towards appropriate outcomes

- Help people use DC pots through retirement

Private pension saving

Automatic enrolment reforms

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1. **Expand age range for AE** (currently 22-SPA) to 16-74

2. **Minimum employer contribution for almost all employees**
   - Regardless of whether employee makes contribution
   - Prevents employees from missing out on part of compensation
   - Worth 3% of earnings between zero and £50,270

3. **Higher minimum default total contribution rates targeted at average and above-average earnings**
   - Helps people save at points they have higher incomes
   - 3% of £9k + 10% of qualifying earnings (between £9k and £90k)
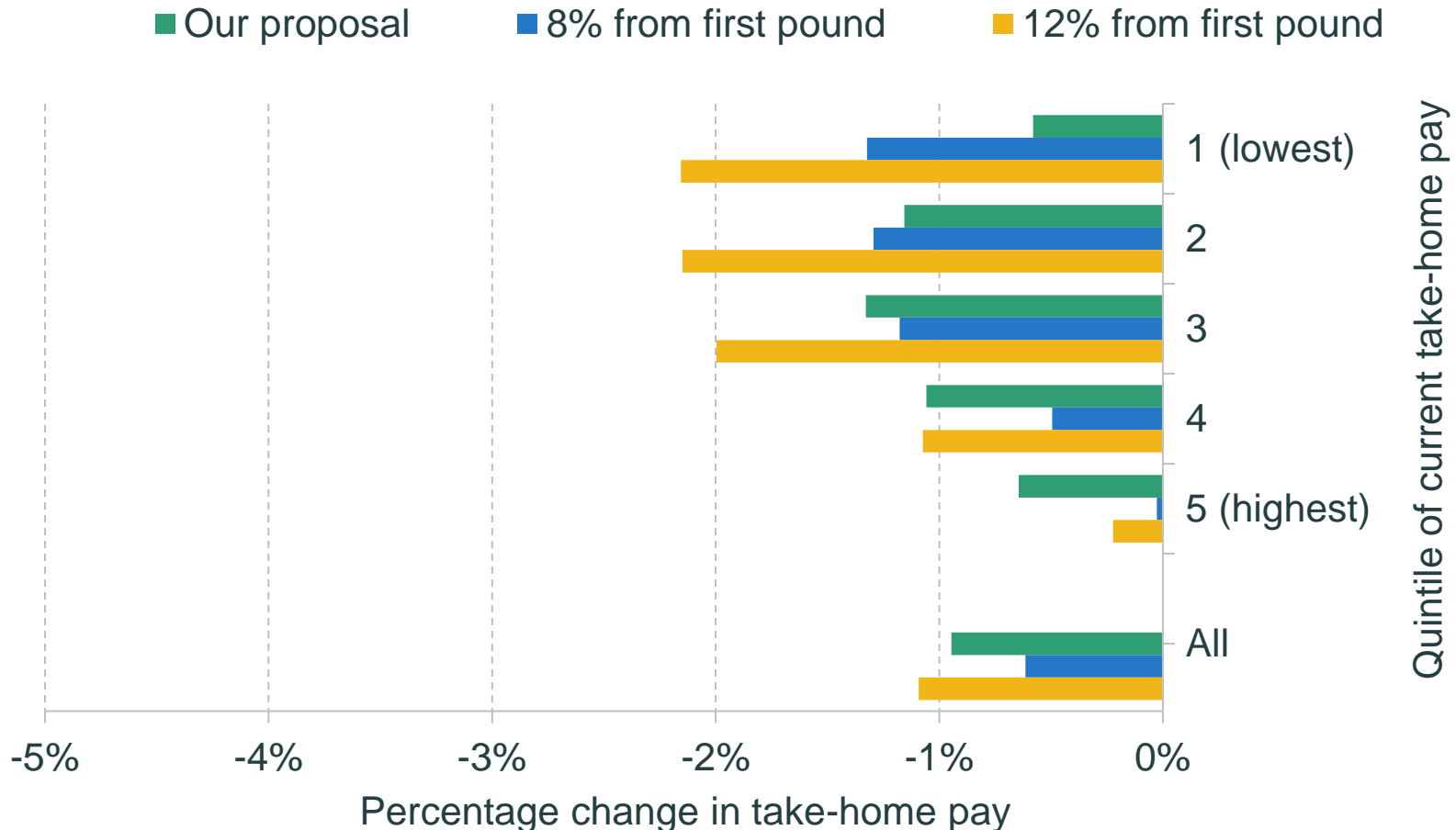
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Effects on retirement incomes

Percentage change in projected retirement incomes from different automatic enrolment proposals

Source: Figure 3.1 from Cribb et al. (2025)
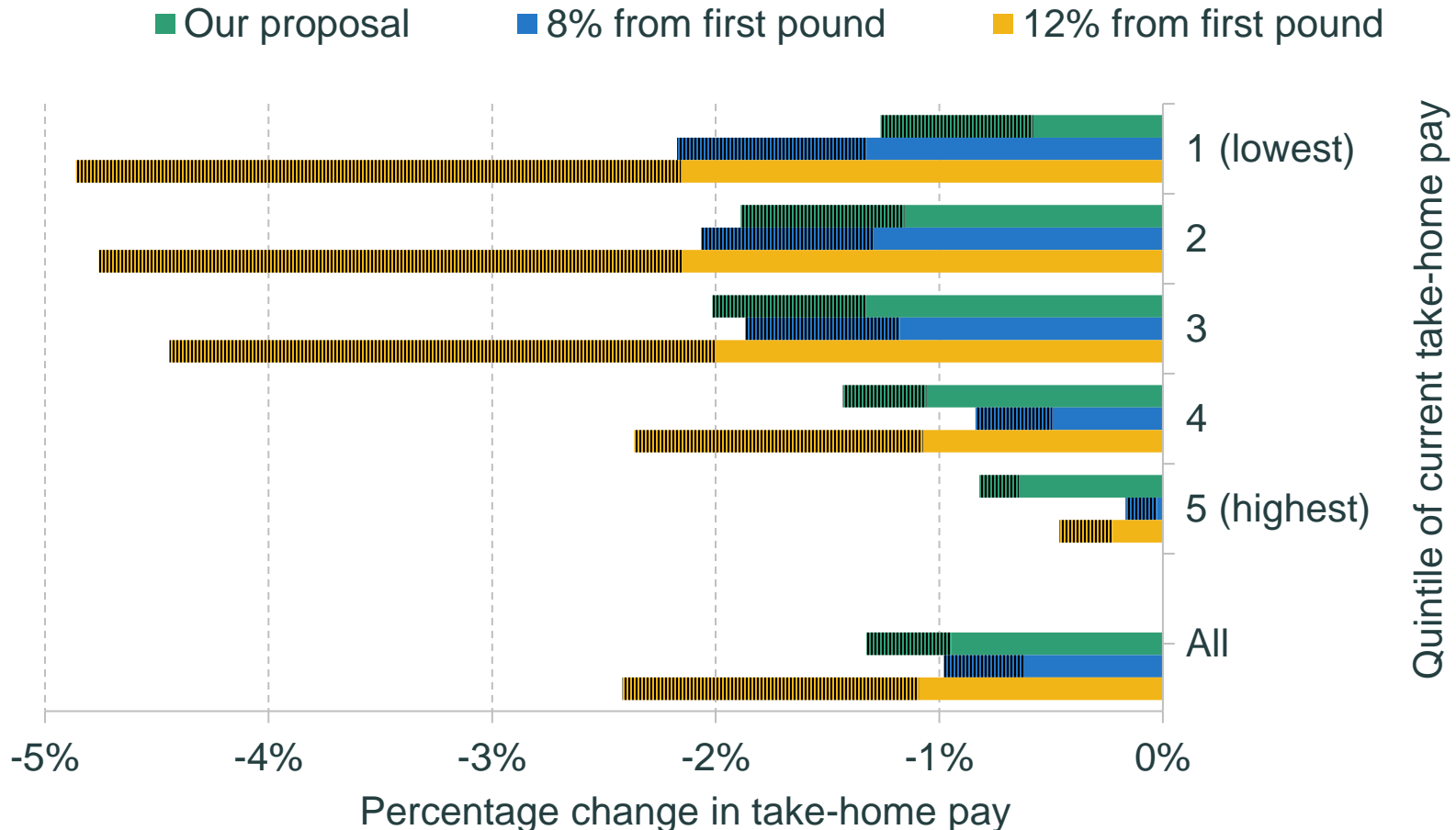
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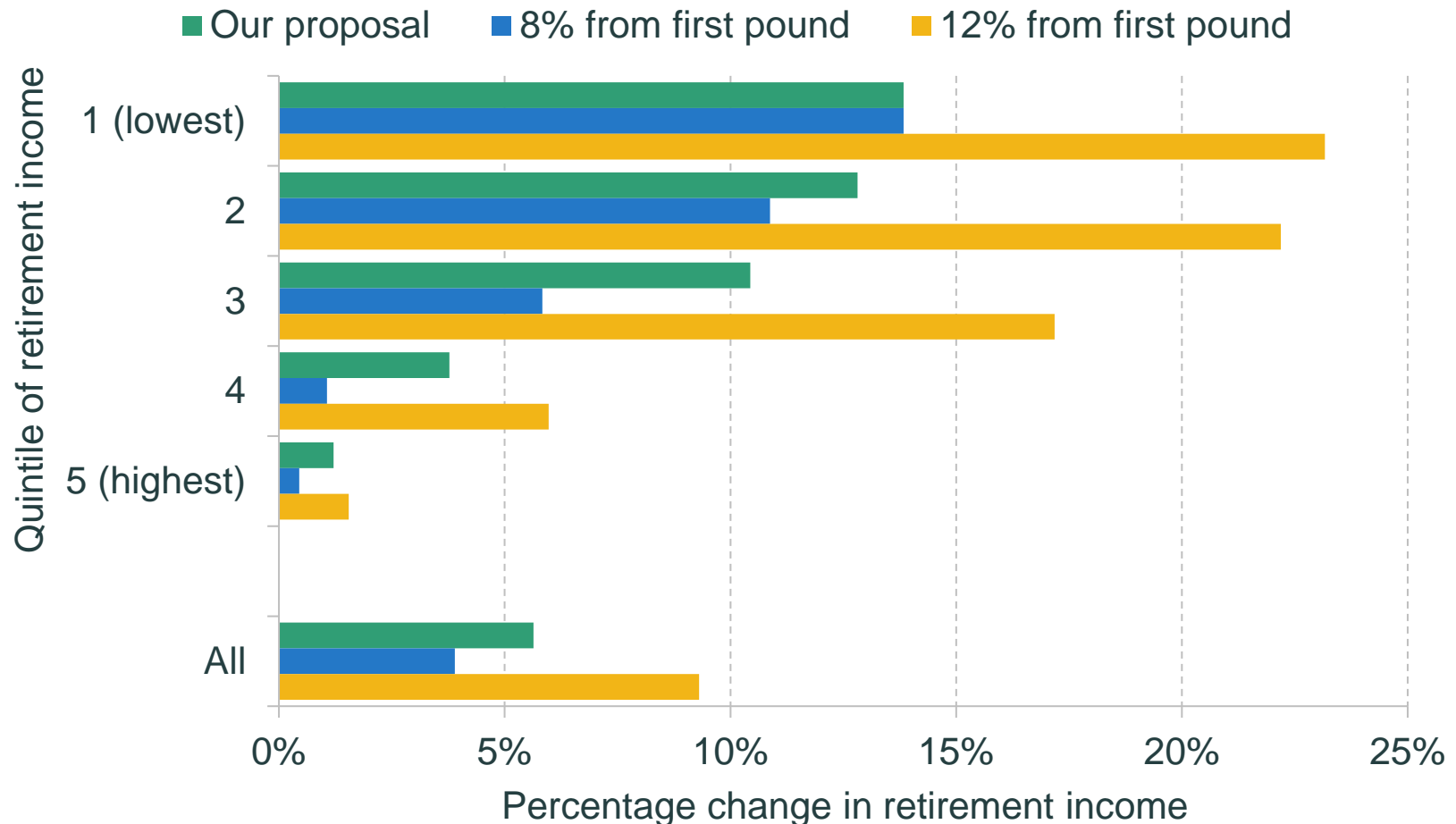
Effects on take home pay

Percentage change in take home pay from different automatic enrolment proposals, (shaded bars assumes full incidence of employer contributions on wages)

Legend: ■ Our proposal ■ 8% from first pound ■ 12% from first pound

X-axis: Percentage change in take-home pay (-5% to 0%)
Y-axis: Quintile of current take-home pay (1 (lowest), 2, 3, 4, 5 (highest), All)

Effects on take home pay

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Percentage change in take home pay from different automatic enrolment proposals, (shaded bars assumes full incidence of employer contributions on wages)

- Our proposal
- 8% from first pound
- 12% from first pound

Quintile of current take-home pay (y-axis)

Percentage change in take-home pay (x-axis)

Categories: 1 (lowest), 2, 3, 4, 5 (highest), All

Our proposals would lead to £11bn of extra saving per year

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Policy reform	Extra employer contributions (£bn)	Extra employee contributions (£bn)	Extra up-front tax relief (£bn)
Our proposals	5.0	6.0	
8% from first pound			
12% from first pound			

Our proposals would lead to £11bn of extra saving per year

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Policy reform	Extra employer contributions (£bn)	Extra employee contributions (£bn)	Extra up-front tax relief (£bn)
Our proposals	5.0	6.0	3.7
8% from first pound			
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Our proposals would lead to £11bn of extra saving per year

IFS

Policy reform	Extra employer contributions (£bn)	Extra employee contributions (£bn)	Extra up-front tax relief (£bn)
Our proposals	5.0	6.0	3.7
8% from first pound	1.4	3.8	1.4
12% from first pound	9.9	8.9	6.4

Facilitating pension saving for the self-employed

- Status quo not good enough for **self-employed workers**. Either:

  - Require active choice about pension contribution when filling out Self Assessment tax return

  - OR Automatic enrolment administered at point of Self Assessment

Consolidating small pots

- **Small pots:** deferred small pots should be **consolidated by default**

  - Government's multiple default consolidator approach would be a significant improvement

  - Case for higher threshold for consolidation

  - People still likely to need further help consolidating pre-retirement

Managing wealth through retirement

Recommendations

- Schemes to introduce **default retirement income solutions**

    - Hybrid "flex then fix" models likely to be good for many

- Some will need to **deviate from the path of least resistance**

    - Menu of options should be provided

    - High quality information available without ongoing commitment to expensive financial advice

- People should **"*have a pension and not just a savings pot"*:**

    - Pots consolidated by retirement

    - Minimum access age to rise gradually to 60 by mid 2040s

    - Change framing of tax-free withdrawals away from "lump sum"

Timetable and summary

Timetable for reforms

- These are long-term issues, but **urgent policy action is needed**

- **Auto enrolment reforms: phased approach is crucial**

  - Prompt consultation and announcement of changes

  - But implementation should happen several years thereafter

    - Gives employers time to prepare for the reforms

- **Decumulation:** prompt announcement of reforms, as implementation will take time to get right

Summary of recommendations

1 | **State pension: a secure and stable system**

- Four-point pension guarantee to increase predictability

2 | **Means-tested benefits: additional support**

- Targeted at those approaching SPA and private renter pensioners

3 | **Private pension saving: help many save more**

- Near universal employer contribution and higher total contributions for those best placed to save more

4 | **Managing wealth in retirement: simpler decisions**

- Steer towards "flex then fix"; ensure DC pensions provide an income

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