



2nd August 2025

CEPR Economics of
Longevity and Ageing,
London Business School

@TheIFS

IFS Pensions Review: Challenges for the UK pension system and proposals to address them

Jonathan Cribb, Institute for Fiscal Studies

www.ifs.org.uk/pensions-review



Economic
and Social
Research Council

- Pension systems face challenge **balancing provision** of retirement income **against cost to state and working-age living standards**
- We make a key contribution to the debate on UK private pensions
 - Large high-income country with substantial private pension system
 - with growing reliance on Defined Contribution pensions
- Policy context in UK:
 - **Nationwide automatic enrolment** into (mostly) DC pensions +
 - **Abolition of near-compulsory annuitisation** in 2015 leaves many facing difficult decumulation decisions
- **Aim:** Set out three key challenges and four proposed solutions to them

UK pensions system in one slide



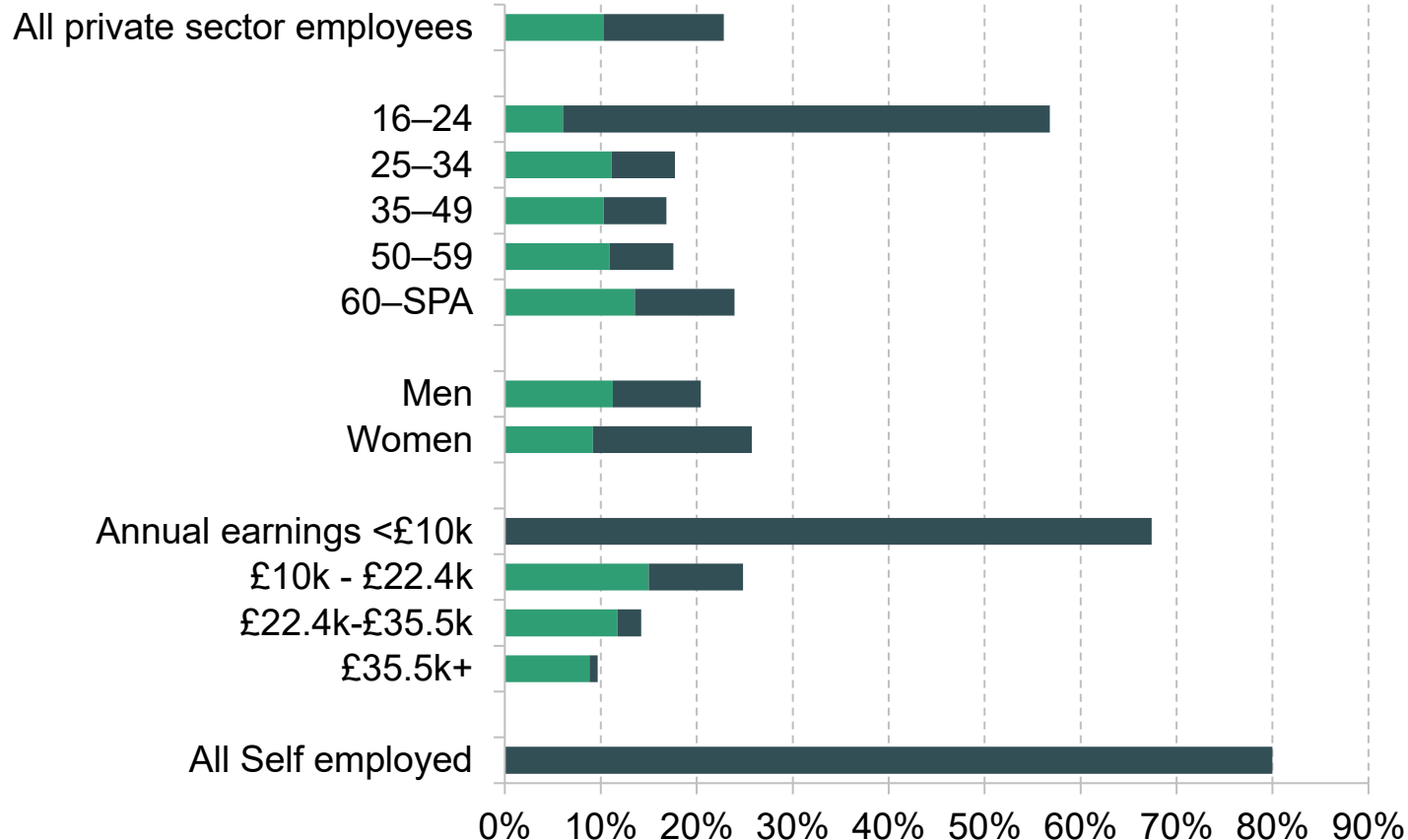
- **Balance of public** (5% of GDP) **and private** pensions (6% of GDP)
- **Flat rate state pension** (30% of median FT earnings) claimable from a **single state pension age** (66)
- Employers must **automatically enrol employees** earning £10,000+ into a workplace pension plan. 85% DC in private sector
- **Low min. contributions**: 8% of “qualifying” pay (£6k to max £50k)
 - Mean in private sector: 10.2% of earnings
- **Abolition of near-compulsory annuitisation** in 2015. Can draw DC pensions from age 55
- **Fiscal pressure** from ageing and generously indexed state pension
 - OBR: 6% of GDP on state pension in 2050, 7% in 2062
- **Need**: state pension level linked to average earnings growth + rises in SPA as longevity rises

Challenge 1: Many still not saving in private pension



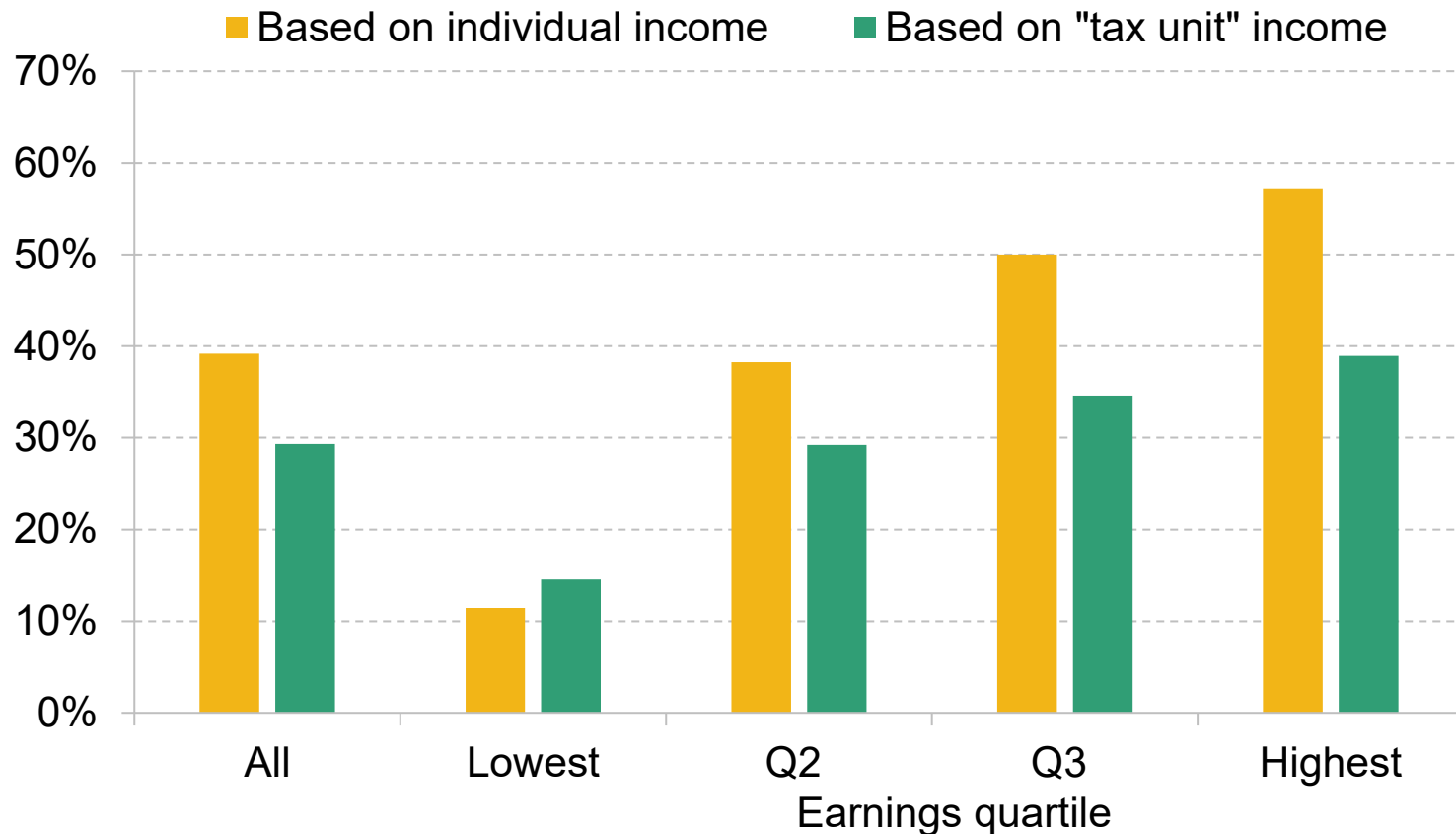
% of private sector employees (and self-employed) not saving in private pension, 2021

■ AE eligible and not saving in pension ■ Not AE eligible and not saving in pension



Challenge 2: Many in DC schemes set **alifs** to fall short in retirement

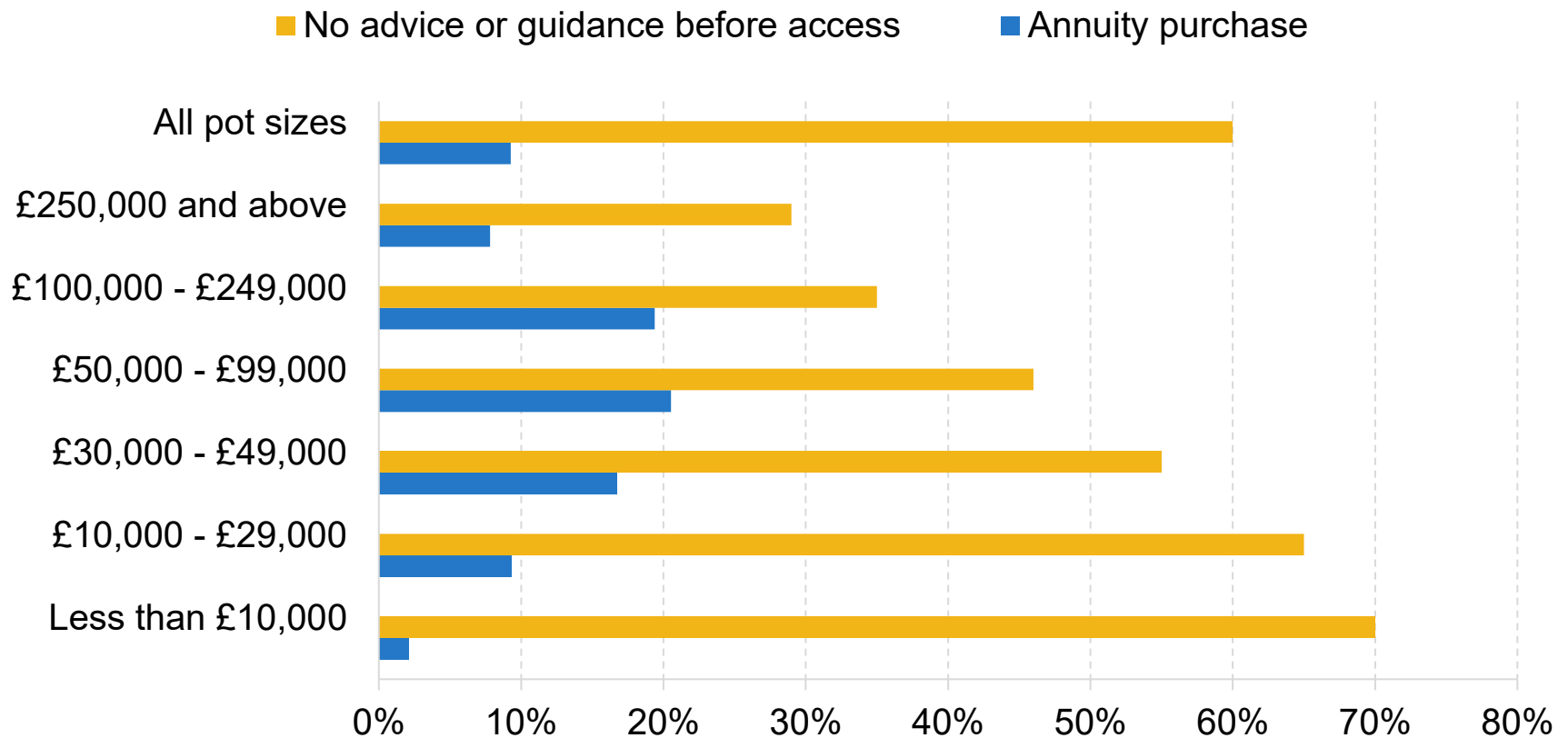
% of private sector employees in DC schemes on track to miss “target replacement rates”



Challenge 3: Complex decumulation decisions + low annuitisation



Decumulation of DC pension pots and use of advice/guidance, 2023-24



Source: Authors' calculations using Financial Conduct Authority retirement income market data

© Institute for Fiscal Studies

Proposal 1: Default contributions that rise more as earnings rise



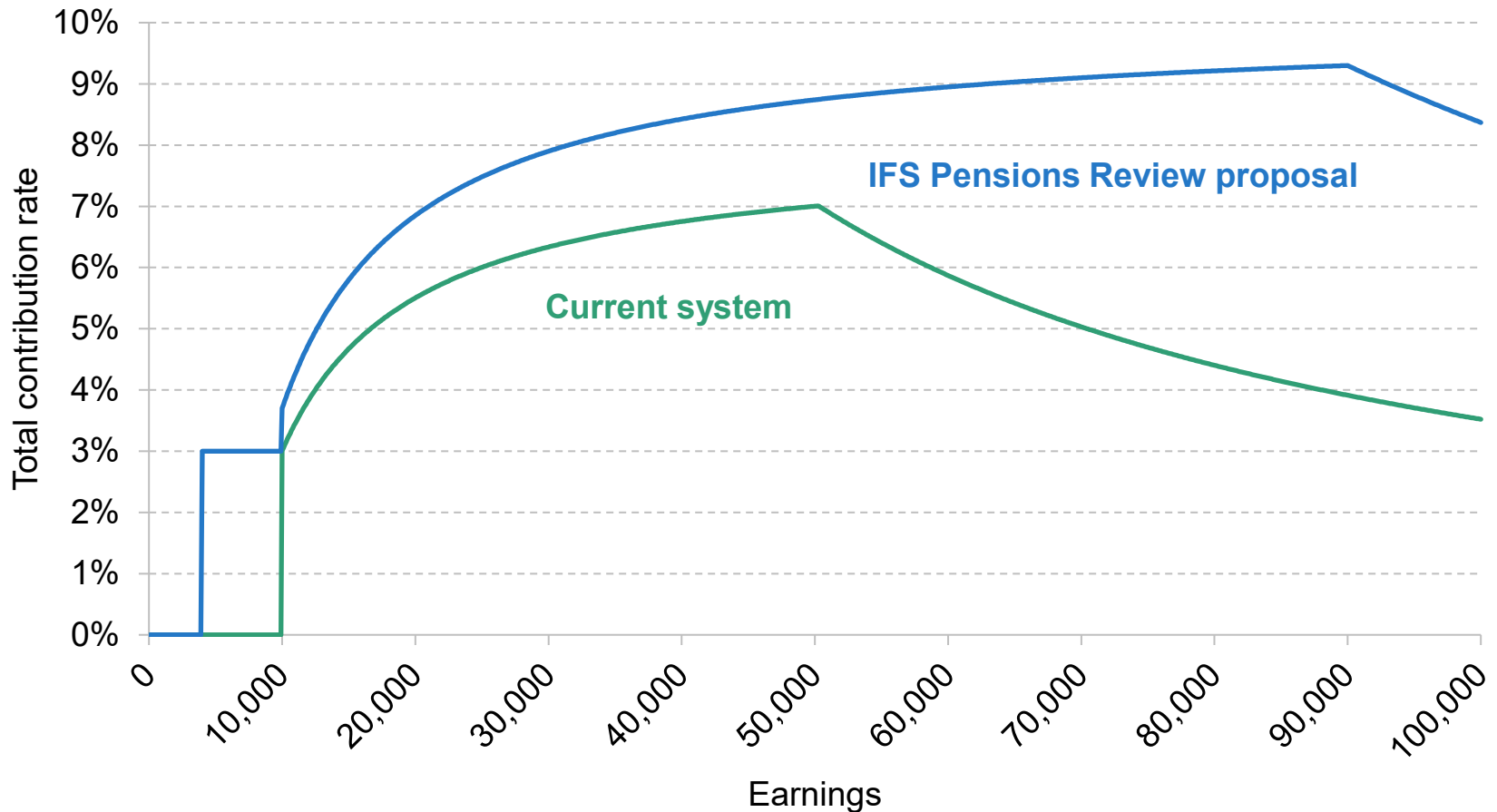
- **Higher minimum default total contribution rates targeted at middle/higher earners**
 - Change definition of qualifying earnings and increase contribution rate
 - Or higher contribution rate above certain earnings threshold
- **Helps balance competing priorities:**
 - Help employees reach adequate level of retirement income
 - Mitigate concerns around lower take-home pay in working life
 - Life cycle models suggest low earners shouldn't be saving

Proposal 2: Broaden pension participation for employees

- **Minimum employer contribution for almost all employees, regardless of whether employee makes contribution**
 - Worth 3% of earnings (up to £50,000)
- **Prevents employees from missing out on part of compensation**
 - Benefits: low paid; women; Pakistani/Bangladeshi minorities
 - Incidence on wages likely to be spread across employees
- **Potential reduction in % of employee making contributions?**
 - Beshears et al. (2010): opt out rises 8 ppt
 - Sensible option for some with high current consumption needs

Minimum total contribution rate

Minimum default total (employee + employer) contribution rate, % of total earnings, under different AE systems

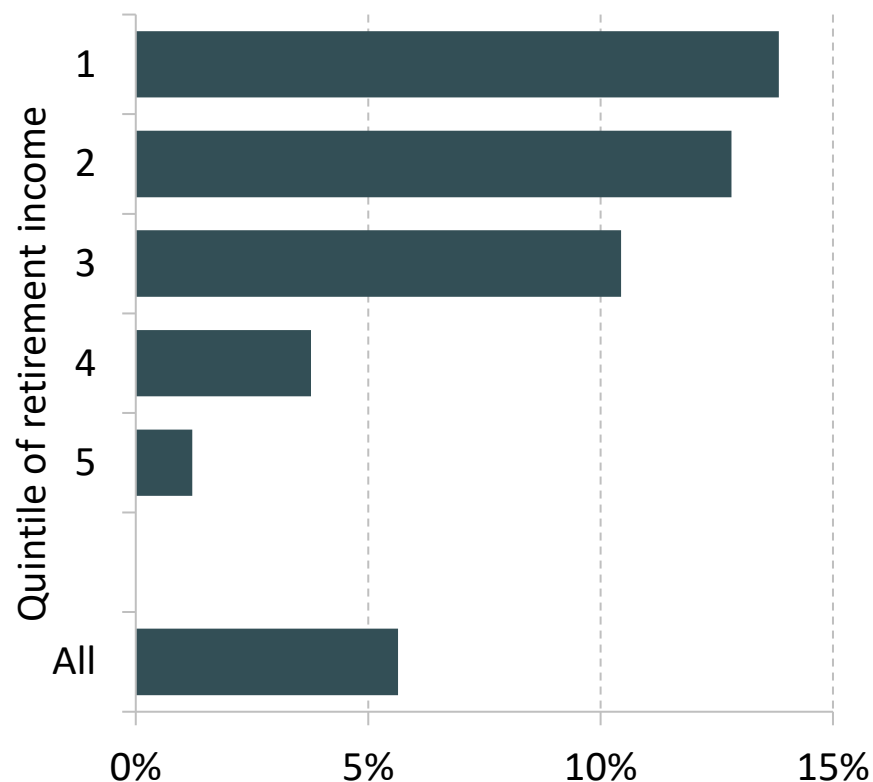
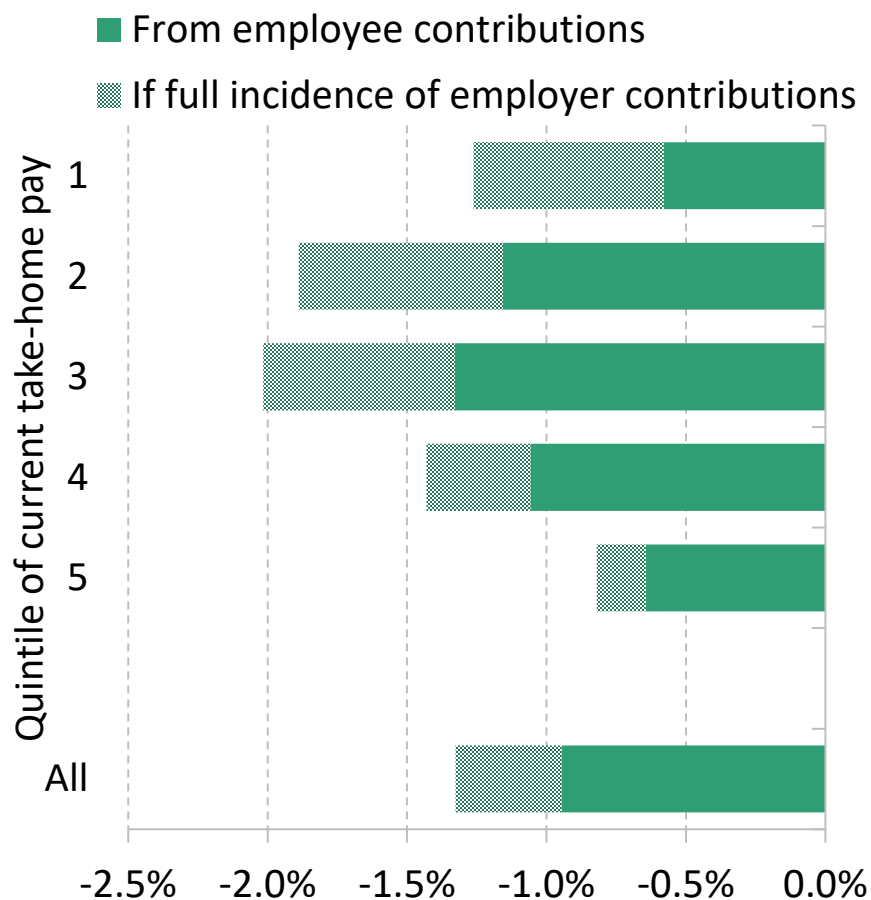


Effects of proposed changes on take-home pay and retirement incomes

IFS

% change in take-home pay

% change in retirement income



Proposal 3: Active choice or automatic enrolment for self-employed

1. **Require an active choice** about the level of pension contributions when filling out a self-assessment tax return

OR

2. **Automatic enrolment** administered at the point of self-assessment with easy opt-out
- Contributions could be sent by HMRC to **nominated DC pension account** (or state open one on the workers' behalf)

Proposal 4: Guide people towards products with annuity at older ages

- Many need to be **steered towards solutions** that provide some insurance against living longer than expected
- **Pensions Scheme Bill**: pension funds to provide default solutions
 - Hybrid “flex then fix” models likely to be good for many
 - Flex: drawdown early in retirement given benefits of flexibility
 - Fix: purchase annuity kicking at 75+ (when uncertainty over remaining life expectancy higher; lower cognition?)
- Annuitisation **not right for all** (e.g. if have large DB wealth)
 - Providers should give menus of options
 - Facilitate deviation from default

- **UK's private pension system faces key challenges** as DC pensions become the predominant source of private retirement finances
 - Incomplete coverage of workers
 - Low minimum contributions mean significant minority falling short
 - Difficult and risky decumulation decisions

- **IFS Pensions Review proposes:**
 - Non-contingent employer contributions to broaden participation
 - Increases in default contribution rates concentrated on middle and higher earners
 - Easier decision making on decumulation and steering people towards annuities at older ages