

Increasing pension contributions: what would higher employer minimums mean?

**Tuesday 21st July
10:00 - 11:00**



IFS Retirement Saving Consortium





Laurence O'Brien

21 July 2026

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How much do employers contribute to DC pensions?



Economic
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- The Second Pensions Commission is considering ways to improve adequacy
 - Changes to minimum employer and total contributions are a potential policy lever
 - → would help increase future retirement incomes for employees
 - → at the cost of lower take-home pay; higher employer costs; and a cost to the exchequer
- In this research we:
 - Investigate the distribution of employer contribution rates and how this has changed over time
 - Model the effects of increasing minimum contribution rates

Why do employer contribution rates vary currently?

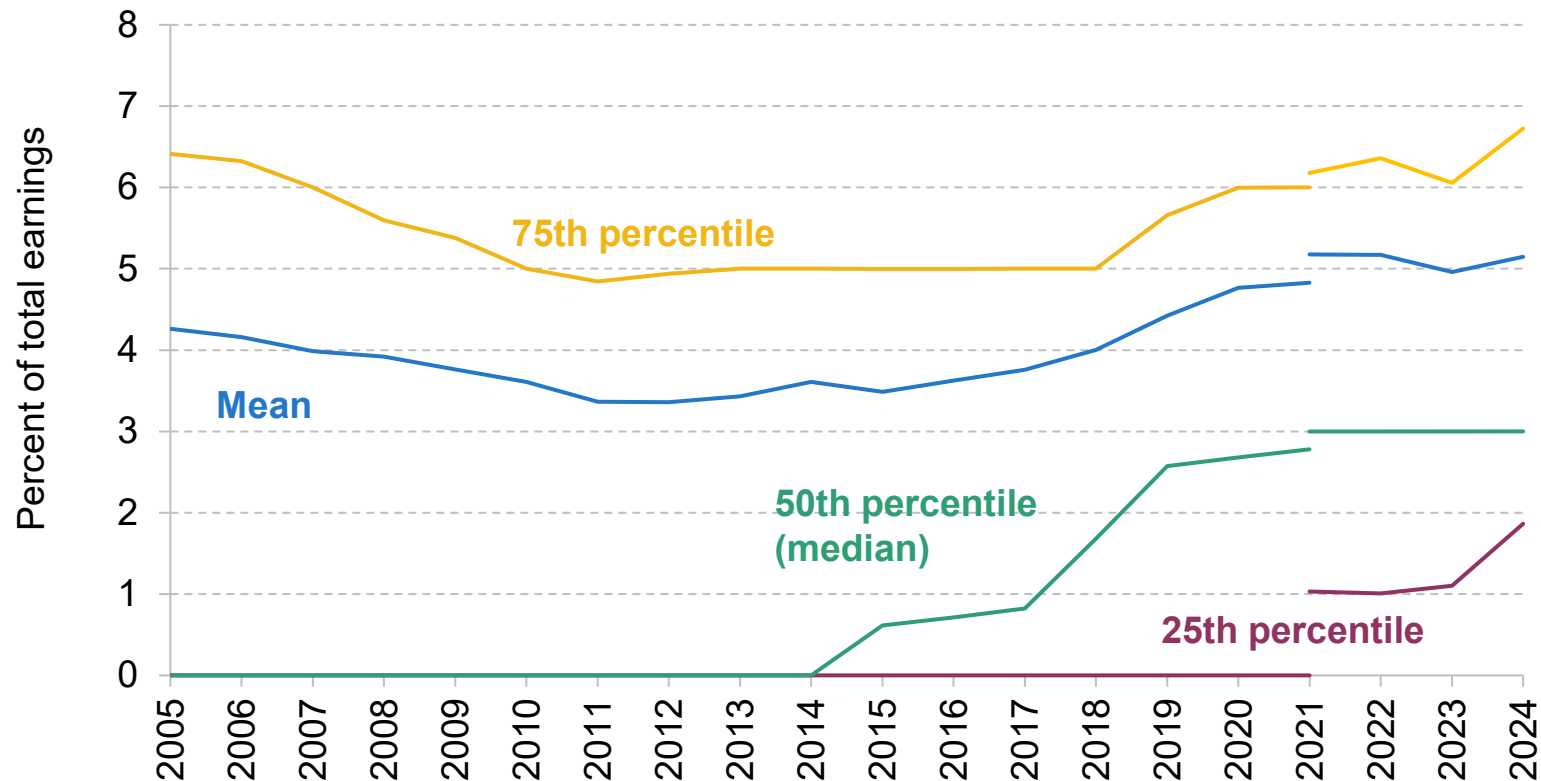


- Many employees receive statutory minimum employer contribution
 - This is near-mandated saving for employees (they receive it as long as they don't opt out)
- Many employers already offer more than minimum:
 - Makes sense in industries/employers where workers are particularly likely to value pension contributions
- Impact of policy change on minimum contributions will depend on how high current employer contributions are

- Employer-reported data on earnings and pension contributions of employees from the Annual Survey of Hours and Earnings
 - Employers have to report employer contributions and salary sacrifice contributions separately
- New data from ONS available (up to April 2024)
- Improvement on the previous methodology for cleaning pension contribution variables from 2021 to 2024
 - Ensure that all employee contribution variables include tax relief; better imputations for missing data

Distribution of employer contributions over time

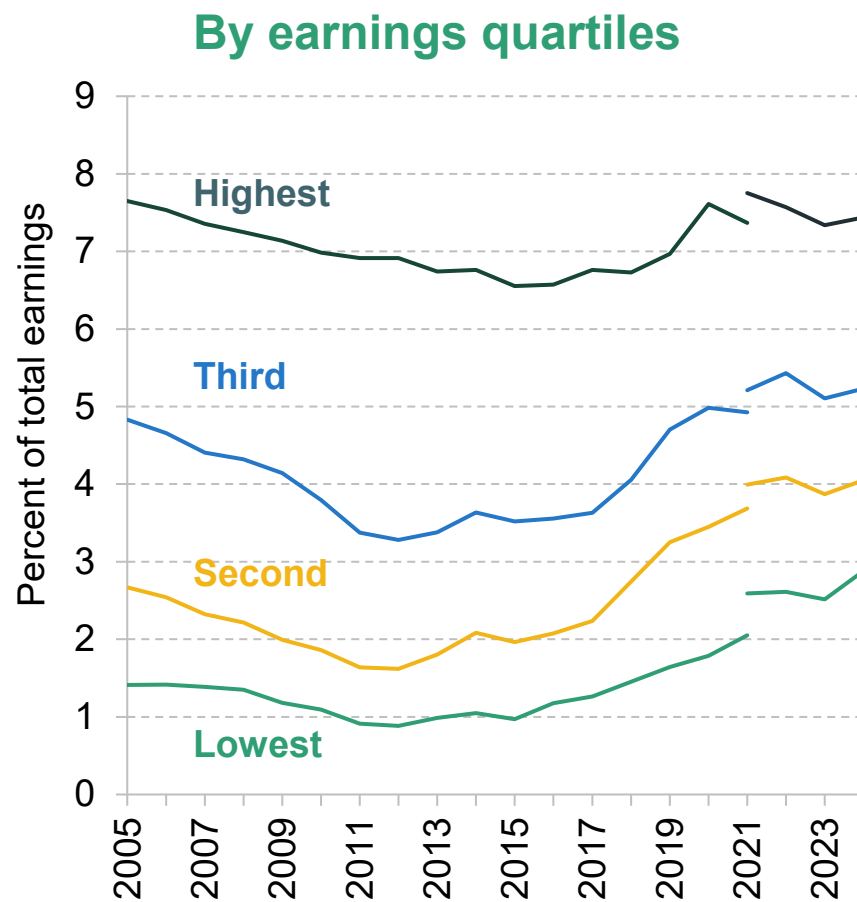
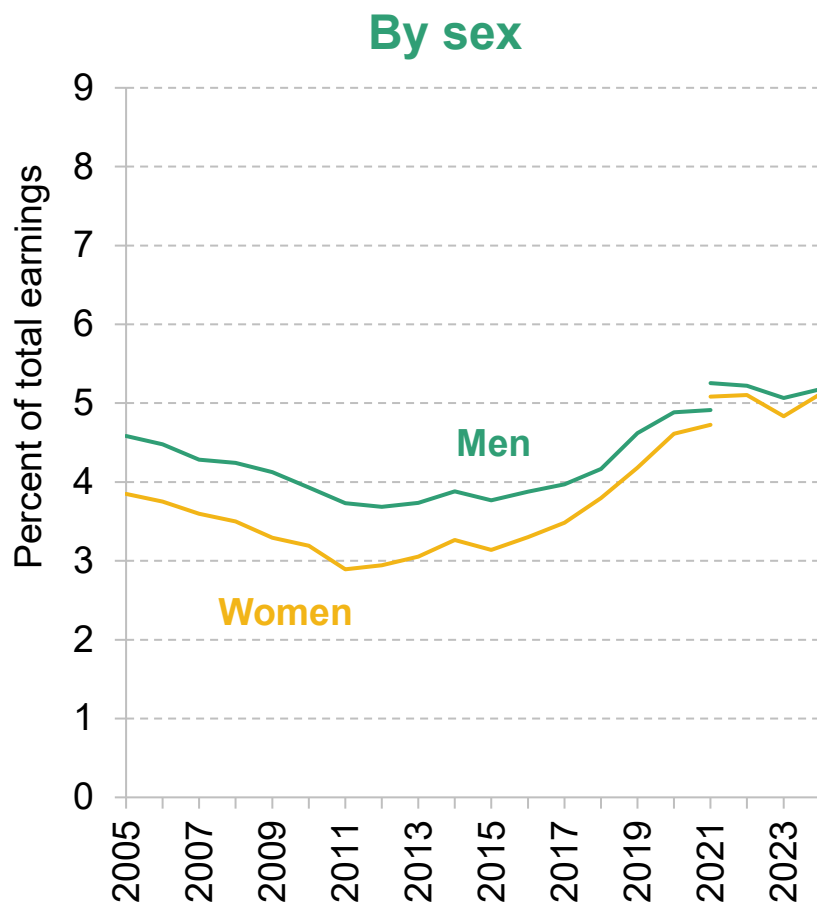
Among all private sector employees



Source: Authors' calculations using Annual Survey of Hours and Earnings.

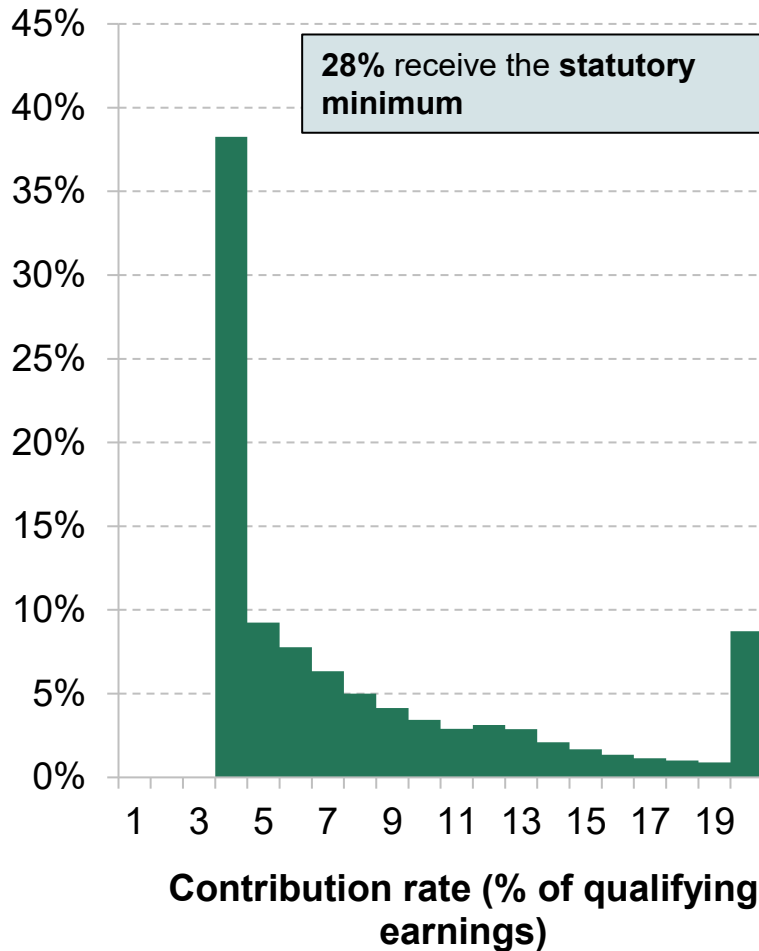
Differences in employer contributions diminished over time

Mean employer contribution rate among all private sector employees

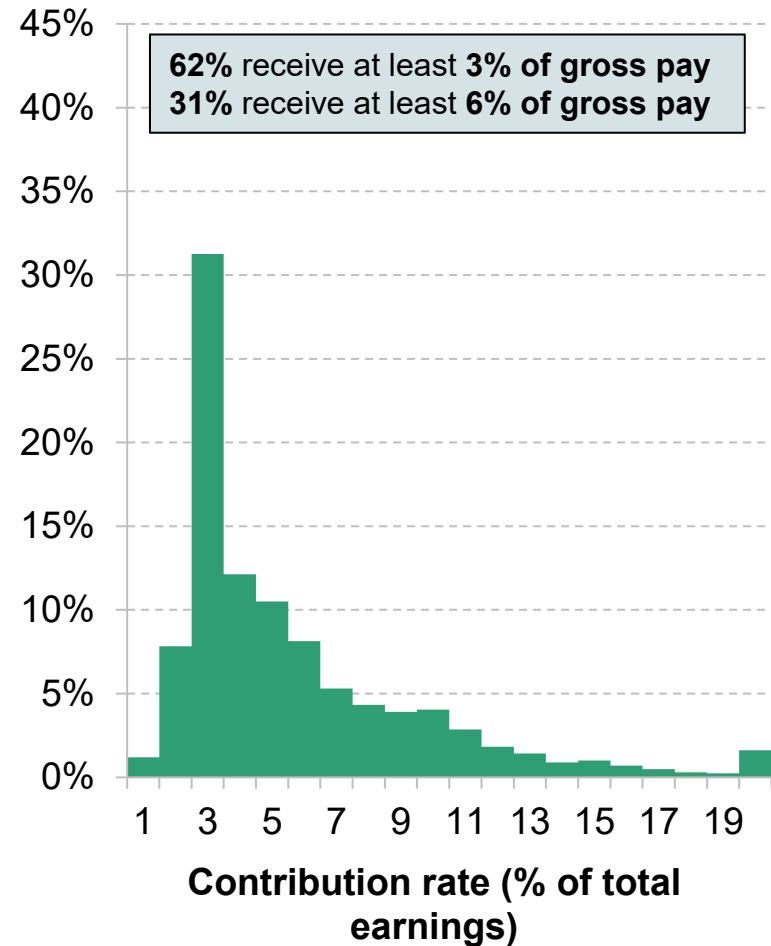


Distribution of DC private sector employer contributions

As % of qualifying earnings



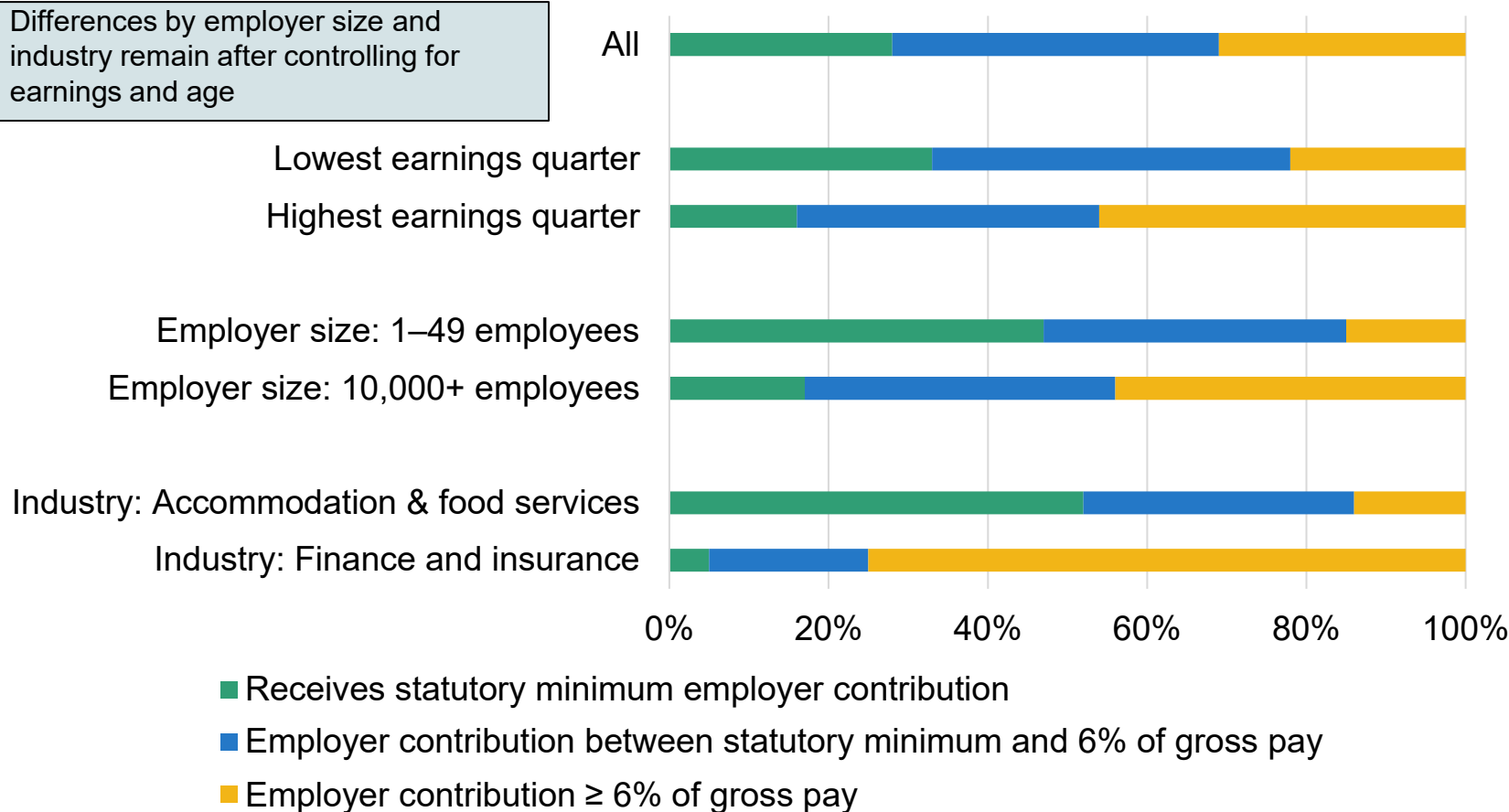
As % of total earnings



How do employer contributions vary for different employees and employers?

Distribution of employer contribution rates among private sector employees saving in a DC pension in 2024, by selected employee and employer characteristics

Differences by employer size and industry remain after controlling for earnings and age





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21 July 2026

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What would be the effects of changing minimum pension contributions?



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Scenarios to model

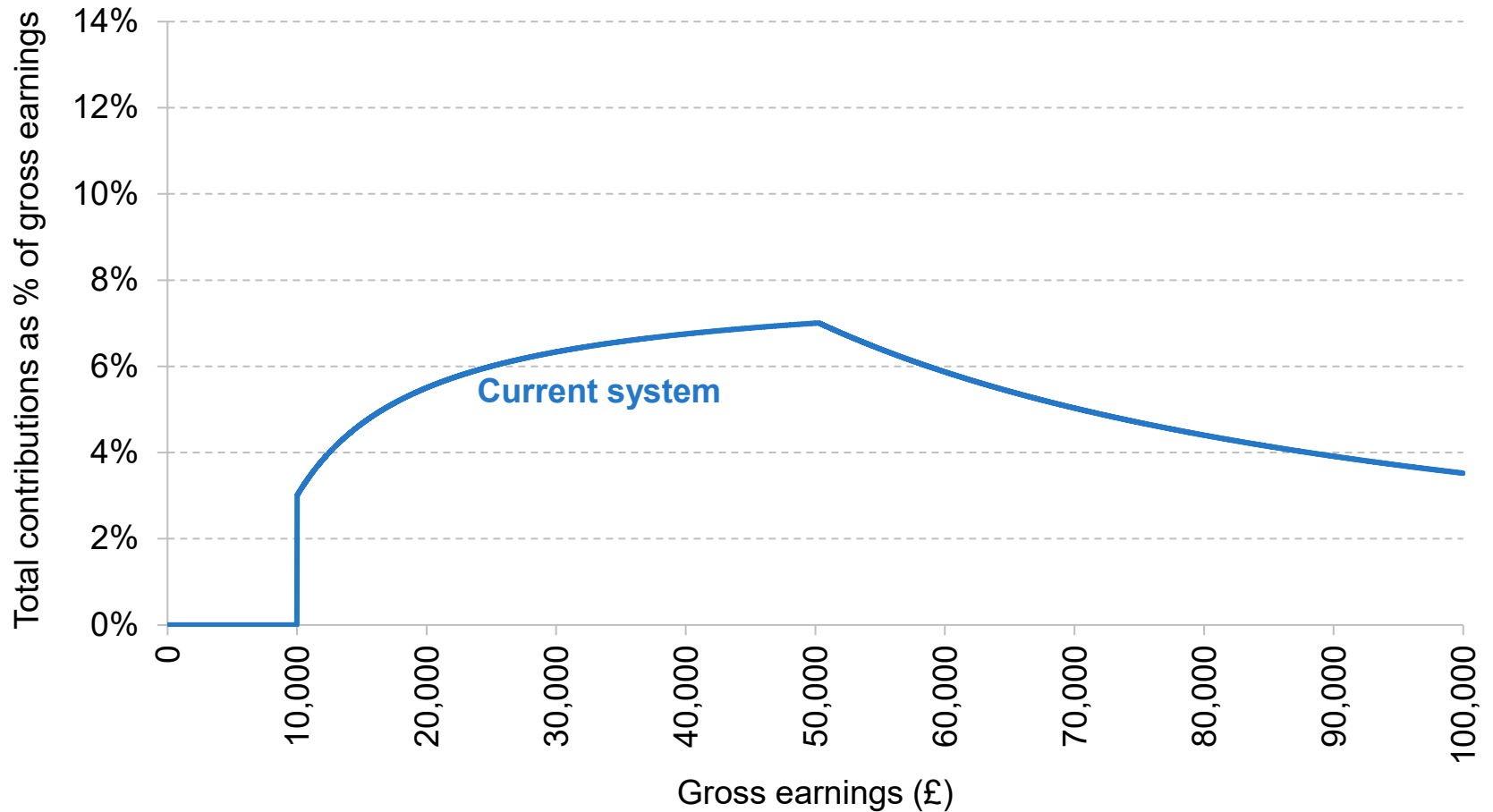


	Age range	Earnings trigger	Employer contribution rate	Total contribution rate	Qualifying earnings range
Current system	22 to SPA	£10,000	3%	8%	£6,240 to £50,270

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Minimum total contribution rate as percentage of total earnings



Scenarios to model



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Scenarios to model



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Scenario A: 8% from first pound	18 to SPA	£10,000	3%	8%	£0 to £50,270

Scenarios to model



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Scenario A: 8% from first pound	18 to SPA	£10,000	3%	8%	£0 to £50,270
Scenario B: IFS Pensions Review proposal	18 to SPA	£4,000	3% Non-contingent contribution	10%	Employer: £0 to £50,270 Total: £9,000 to £90,000

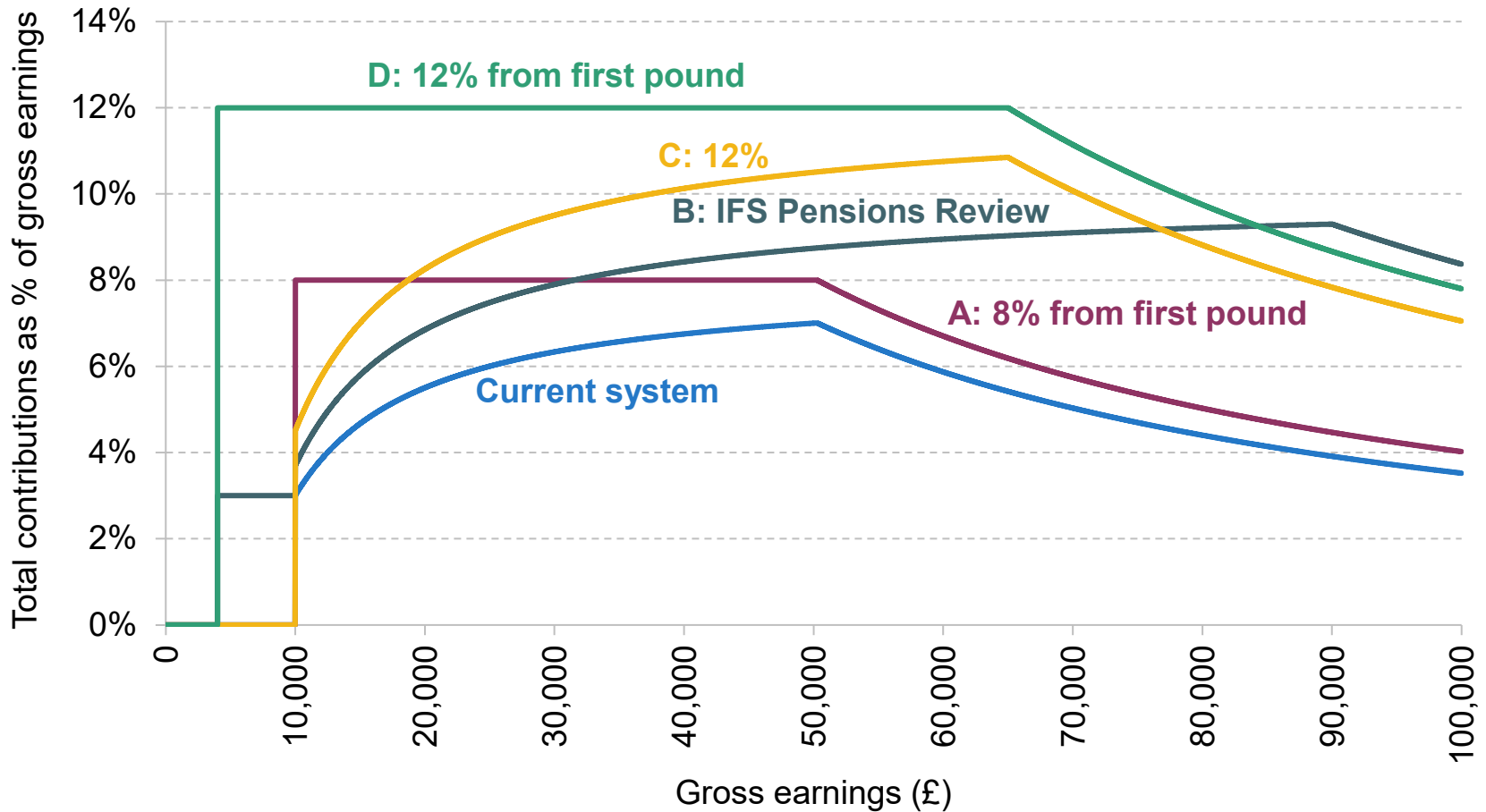
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Scenario C: Increase contributions to 12%	18 to SPA	£10,000	6%	12%	£6,240 to £65,000

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Scenario D: Increase contributions to 12% from first pound	18 to SPA	£4,000	6%	12%	£0 to £65,000

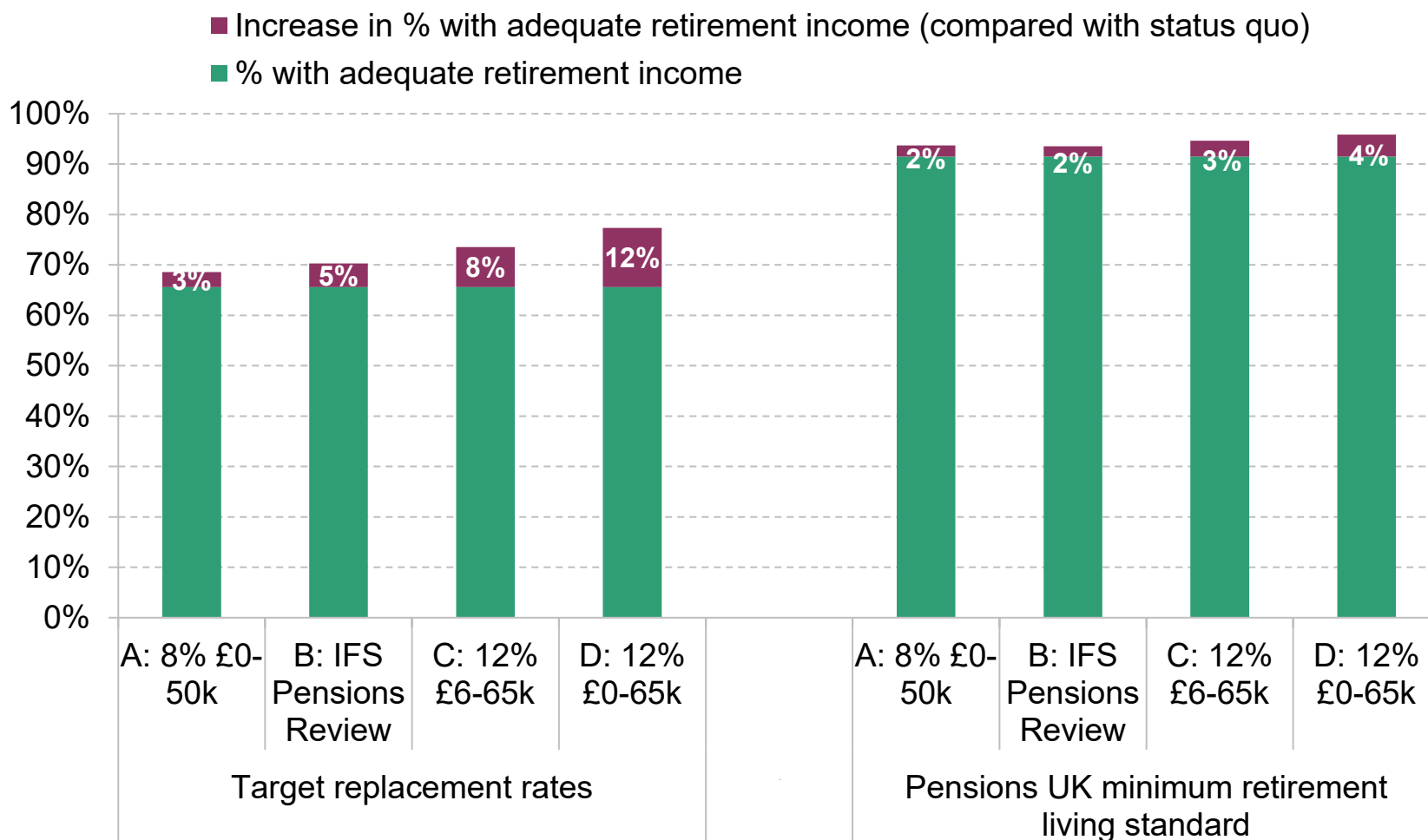
Minimum total contribution rate as percentage of total earnings



- We model the impact of reforms on take-home pay, employer costs, and tax relief using Annual Survey of Hours and Earnings (ASHE)
 - Show full pass-through of employer contributions into wages
 - Not allowing for other behavioural change (e.g. increased or decreased participation)
- We model impact on adequacy using a projection model based on the Wealth and Assets Survey (WAS)
 - Allowing for earnings dynamics and assuming an earnings-linked state pension
- We use two adequacy measures
 - Target replacement rate
 - Minimum retirement living standard (Pensions UK)

Effect on adequacy measures

Effect of automatic enrolment proposals on the percentage of people projected to have inadequate retirement income – DC only



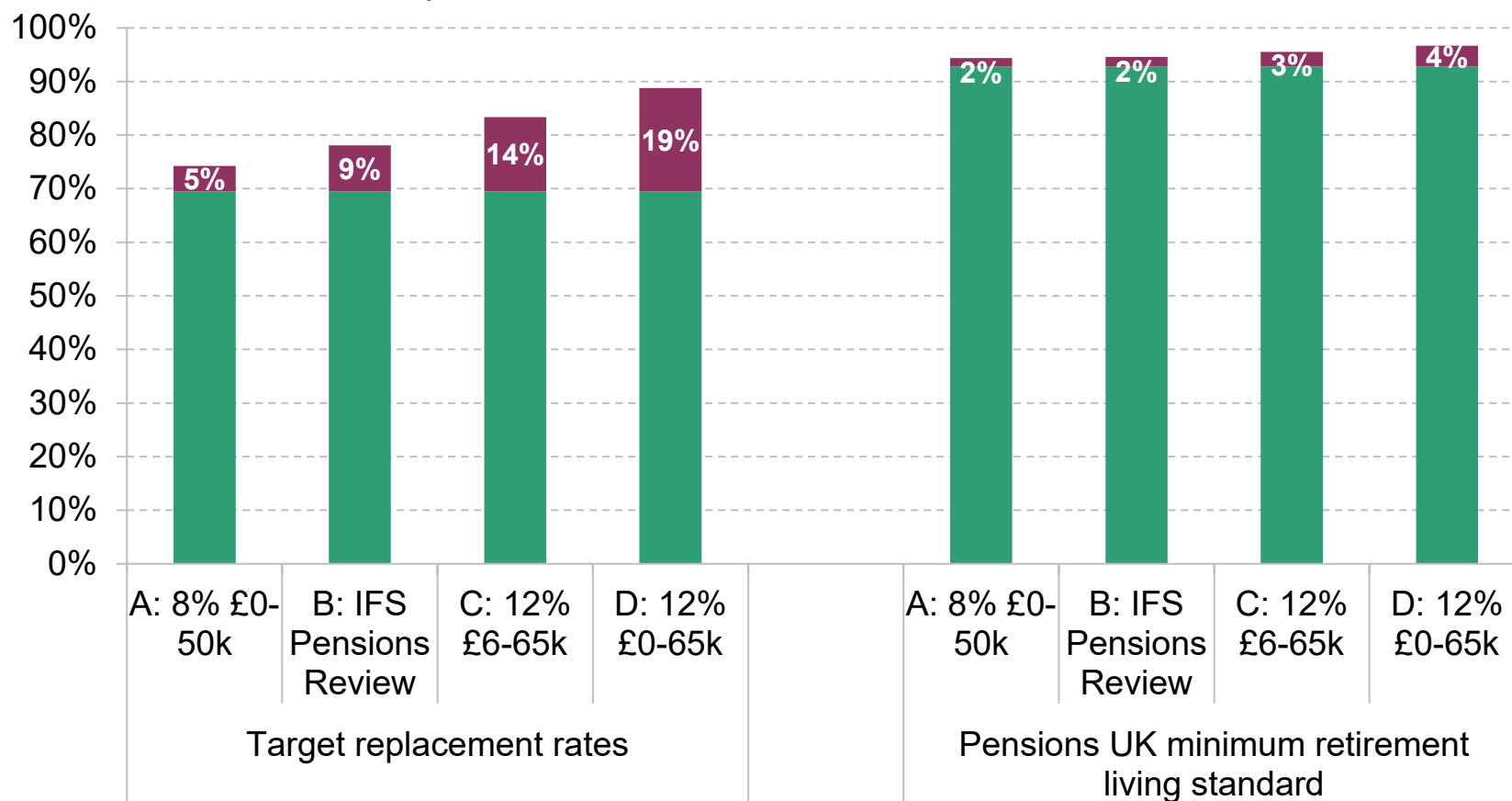
Note: The sample contains 25- to 59-year-old private sector employees saving into a DC pension in Round 7 of the Wealth and Assets Survey. Individual level.

Impact larger for 25- to 34-year-olds



Effect of automatic enrolment proposals on the percentage of people projected to have inadequate retirement income – DC only

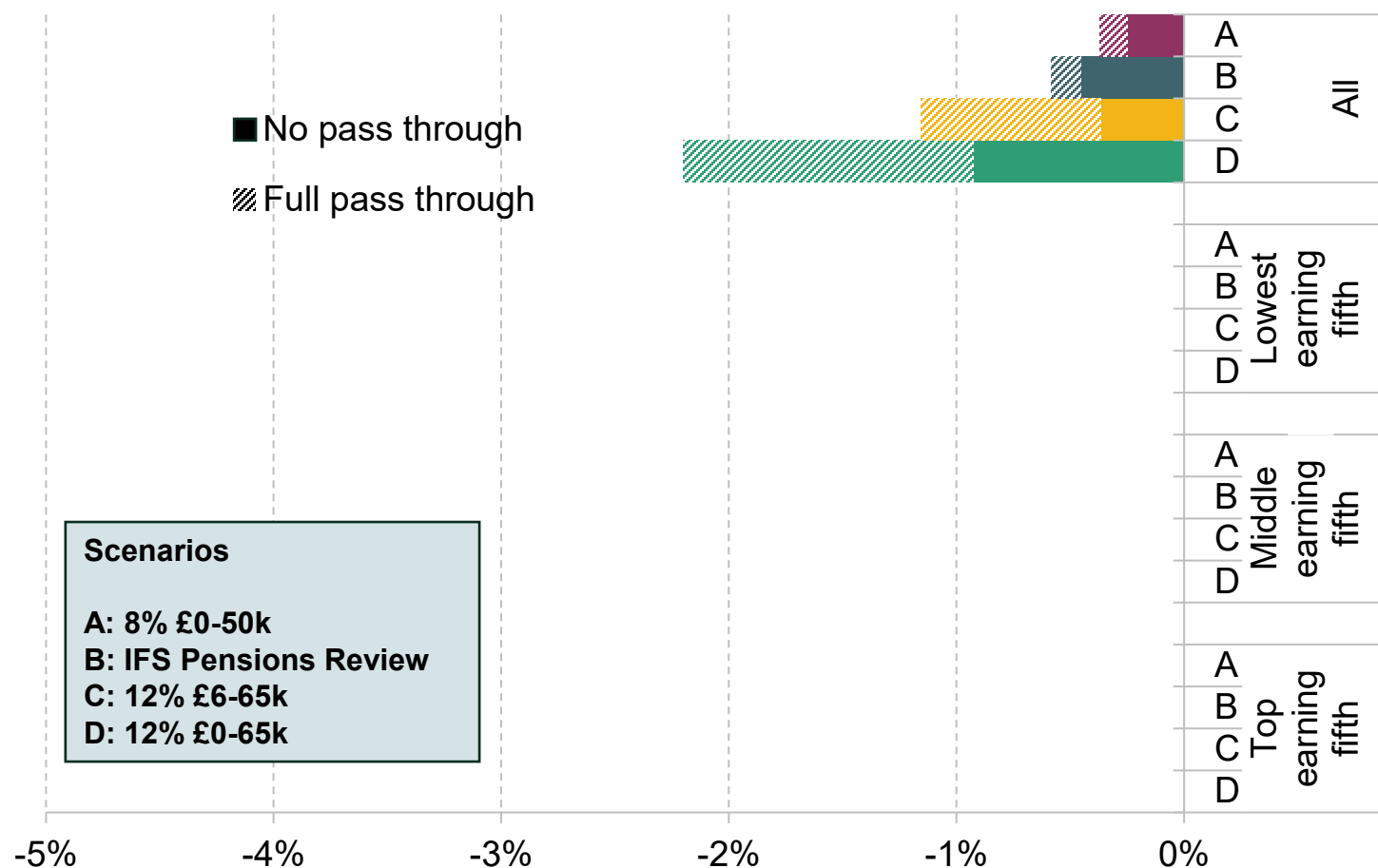
- Increase in % with adequate retirement income (compared with status quo)
- % with adequate retirement incomes



Note: The sample contains 25- to 59-year-old private sector employees saving into a DC pension in Round 7 of the Wealth and Assets Survey. Individual level.

Effect on take-home pay

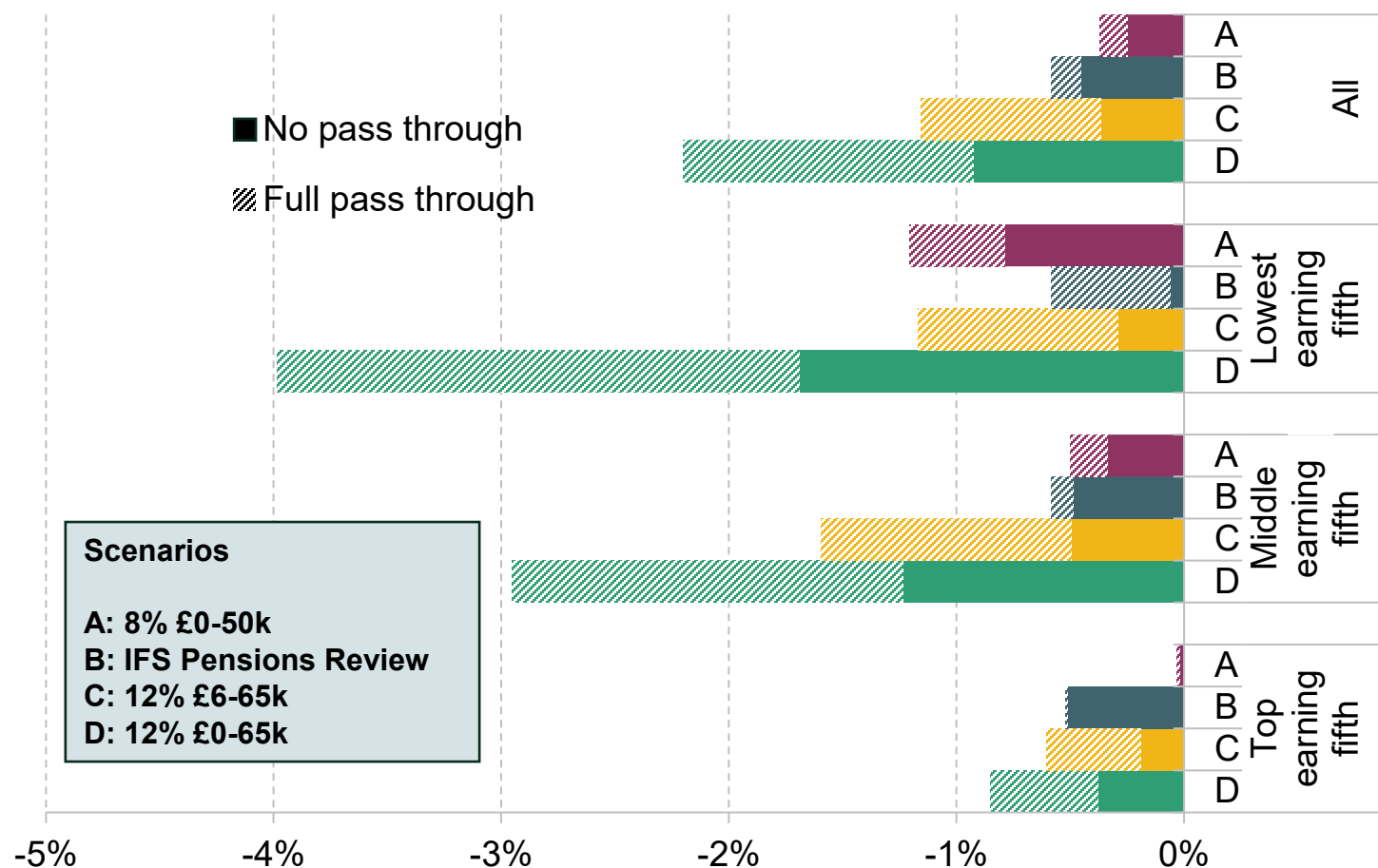
With and without pass-through of employer contributions to wages



Note: Modelled percentage change in take-home pay from different scenarios (A to D), for the top, middle and bottom quintile of the take-home pay distribution, with and without pass through of higher employer contributions onto pay. Authors' calculations using Annual Survey of Hours and Earnings. Among all private sector workers aged 25-59 saving in a DC pension. © Institute for Fiscal Studies

Effect on take-home pay

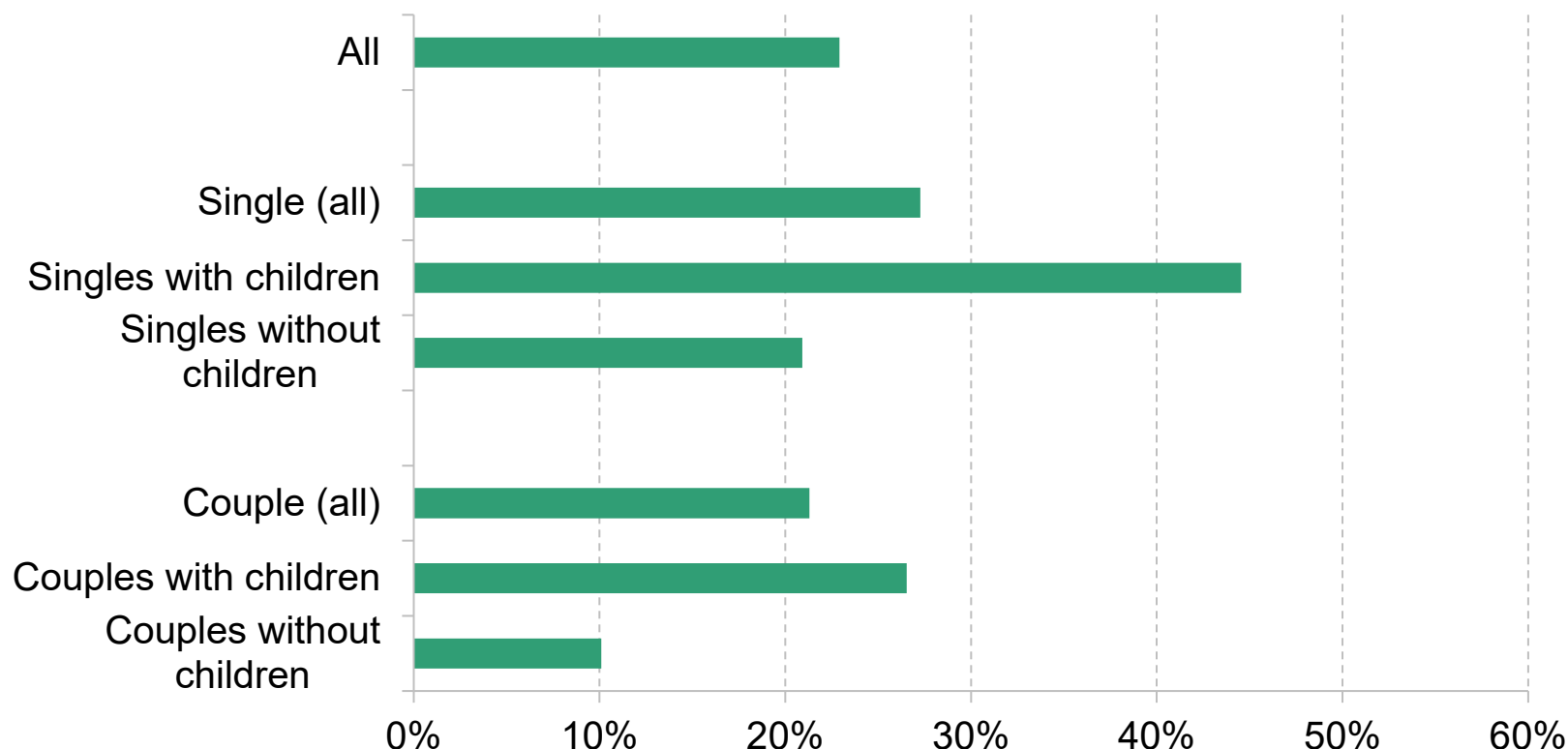
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Many not currently reaching the minimum living standard

Share of people in working households with income net of housing costs below the minimum Pensions UK retirement living standards, 2026



Note: Single/couple households with children have their income equivalised to the level of a single/couple household without children before being compared with the PLSA standards. Equivalisation uses the OECD modified scale. Working-age households with someone in paid work are included. Source: Authors' calculations using the Family Resources Survey, 2024–25, updated to May 2026. © Institute for Fiscal Studies

Aggregate impact of scenarios

	Total additional contributions (£bn)	Tax relief (£bn)	Long-run tax relief (£bn)
Scenario A: 8% from first pound	2.8		
Scenario B: IFS Pensions Review proposal	7.1		
Scenario C: Increase contributions to 12%	9.0		
Scenario D: Increase contributions to 12% from first pound	17.0		

Source: Authors' calculations using Annual Survey of Hours and Earnings.

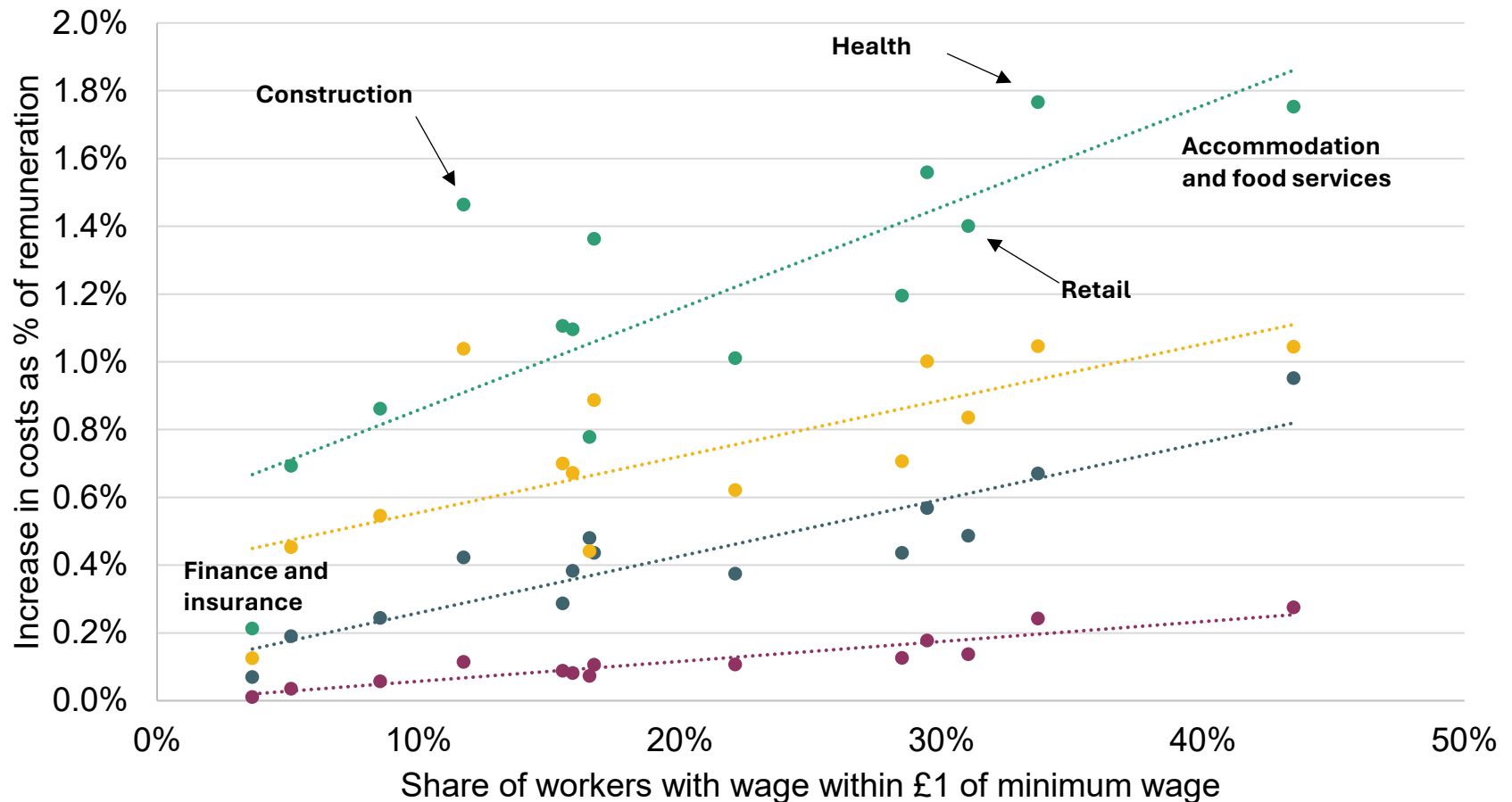
Aggregate impact of scenarios

	Total additional contributions (£bn)	Tax relief (£bn)	Long-run tax relief (£bn)
Scenario A: 8% from first pound	2.8	0.8	0.4
Scenario B: IFS Pensions Review proposal	7.1	2.5	1.4
Scenario C: Increase contributions to 12%	9.0	3.6	2.2
Scenario D: Increase contributions to 12% from first pound	17.0	6.1	3.6

Source: Authors' calculations using Annual Survey of Hours and Earnings.

Costs rise more for industries with more minimum wage workers

Scenarios: **A** - 8% £0-50k; **B** - IFS Pensions Review; **C** - 12% £6-65k; **D** - 12% £0-65k



Source: Authors' calculations using Annual Survey of Hours and Earnings 2024. Among all private sector workers not saving in a defined benefit pension.

- The impact of any reforms to automatic enrolment minimum contribution rates depends on current saving patterns
- There is no one size fits all answer to how much people should save into private pensions
 - More saving will come at the cost of lower take-home pay today
- Qualifying earnings band choice makes a huge difference
- Different structures could help with targeting, but increase complexity

Implications for the Pensions Commission

- Commission's policy choices should be guided by clear priorities and objectives – can help justify the trade-offs

- Policy certainty and stability also important
 - → Achieving consensus within the timeframes of the Commission may mean avoiding more controversial and complex reforms