Department for Work & Pensions

Laura Trott MBE MP
Minister for Pensions

Sir Stephen Timms
Chair
Work and Pensions Select Committee
House of Commons
SW1A 0AA

3rd March 2023

Dear Sir Stephen,

DWP Publication – Analysis of Future Pension Incomes

In the recent debate of the WPSC report on *"Protecting pension savers – five years on from pensions freedoms: saving for later life"* and as promised in our letter to you of 26 August 2022, we agreed to provide an update to our analysis of pension adequacy as soon as the data is available.

Today, 3 March 2023, we have released a substantial report examining pension adequacy and under-saving using the latest available modelling and data, which I wished to share with you.

The report's highlights include:

- 38 per cent of working age people (equivalent to 12.5 million) are undersaving for retirement when measured against Target Replacement Rates (TRRs). This is calculated on the basis of converting the full value of an individual's Defined Contribution (DC) pension into an annuity and before housing costs.
- Higher earners are more likely to be undersaving relative to TRRs. Around 14 per cent of those in the lowest earnings band (less than £14,500 gross pre-retirement earnings per year) are undersaving compared with 55 per cent in the top earnings band (more than £61,500 per year). State Pension will make up a larger proportion of a lower earners target income.
- Of the 12.5 million people undersaving, 5.3 million (42 per cent) reach more than 80 per cent of their target income.
- 12 per cent of working age people are undersaving for retirement when measured against the PLSA Minimum RLS (one of many alternative ways of

measuring adequacy of pension income). This increases to 51 per cent and 88 per cent when comparing against the PLSA Moderate and Comfortable RLS.

- Lower earners are more likely to be undersaving when measuring against the PLSA RLS. Around 34 per cent of people in the lowest earnings band are projected to fall below the PLSA Minimum RLS, compared with only 3 per cent in the top earnings band.

The report highlights the success of Automatic Enrolment (AE) during its first decade in expanding workplace pension saving and reducing undersaving. We know, as this report makes clear, there is more to do across government, employers and the pension industry to help more people achieve greater financial security in later life. That is why the government has been clear that, as part of our next steps, we intend to implement the recommendations of the 2017 Review of Automatic Enrolment (AE) in the mid-2020s. I am determined to make progress here and I have secured government support for Jonathan Gullis's Private Members' Bill, which received its second reading on Friday 3 March, as this presents an immediate route for the legislative powers to expand the AE framework in the current Parliamentary session.

I would be more than happy to discuss the findings of the report in more detail and look forward to continuing to work with you and colleagues on the WPSC committee on these important matters.

Yours sincerely,

Laura Trott MBE MP
Minister for Pensions