The pandemic and pensions inequality

How Covid-19 has financially affected underpensioned groups in the UK

December 2021

NOW: Pensions

Contents

Foreword

A pension is the well-earned fruit from a life of successful labour.

We should all be able to look forward to our later years with confidence that we have the same ability to draw a pension as everyone else. However, as our earlier reports on pension inequality have highlighted, there is still a widening gap between the pensions 'haves' and 'have nots' and it is a situation that's getting worse.

Over recent years, many more people have been encouraged to save, particularly through the auto-enrolment legislation that has been a tremendous success since it was introduced in 2012. As a result of this, more than 10 million people have started contributing to a workplace pension, many of whom would not otherwise have had the opportunity to save.

Yet there is still a long way to go. Through no fault of their own, there are millions of people in the UK are who are currently ineligible for auto-enrolment.

> That is 300,000 more than last year.

We are therefore calling on the government to make important policy changes that would bring more people into workplace pension savings and help to reduce pension inequality. It is crucial that we continue to shine a spotlight on these pension gaps and demand fairer outcomes for everyone.

The Covid-19 pandemic - which has seen millions of people furloughed or made redundant - has only widened the gap further; 300,000 more women are now ineligible for auto-enrolment compared to last year.

Joanne Segars OBE
Chair of Trustees, **NOW: Pensions**

It was very clear at the start of the pandemic that the underpensioned groups that we identified in our 2020 report would be the most financially affected by the economic downturn.

These underpensioned groups are most likely to work in sectors that were severely impacted by closures, furlough and redundancies. In this report, we look at both the short-term and long-term effects of the pandemic and continue to call on the government to make important policy changes, specifically the £10,000 earnings trigger which would get a further 2.8 million people saving in the UK.

Samantha Gould
Head of PR and Campaigns
NOW: Pensions

The pandemic has provided a unique opportunity to observe how economic crises affect members of underpensioned groups.

Developing a deeper understanding of the way in which changes in the labour market can impact future retirement outcomes of underpensioned groups can help to ensure that policies are designed to support them more effectively during the recovery from the pandemic-related economic crisis, as well as future crises and changes in the labour market, in order to achieve better retirement outcomes over the longer-term.

Lauren Wilkinson
Senior Policy Researcher
Pensions Policy Institute

Introduction

Auto-enrolment.

The process by which working people in the UK are automatically enrolled into a workplace pension scheme, has been hugely successful.

It was introduced by the government in 2012 following concerns that not enough people were saving adequately for retirement, and that the state pension would not provide an adequate income.

Why are so many missing out?

The problem with auto-enrolment is that it was designed for traditional patterns of work and is not suited to help employees who take significant career breaks, work in multiple or part-time roles, or frequently move between jobs. These are characteristics that we typically see in our underpensioned groups.

These groups, are much more likely to be ineligible for auto-enrolment and this worsens the widening pensions and savings gap as well the later-life inequalities they experience.

Auto-enrolment in numbers

Introduced in 2012

22m+ people saving into a workplace pension scheme

Eligibility criteria:
- Aged 22+
- Earning at least £10,000 a year

28m people working in the UK

6m+ people miss out due to ineligibility

Must earn £10,000 a year, in a single role

Underpensioned groups have been the most financially affected by the pandemic.

The report, using data from the Pensions Policy Institute (PPI) looks at the retirement incomes of these groups and compares their financial position to the national average to create income indices, by which inequalities can be measured over time.

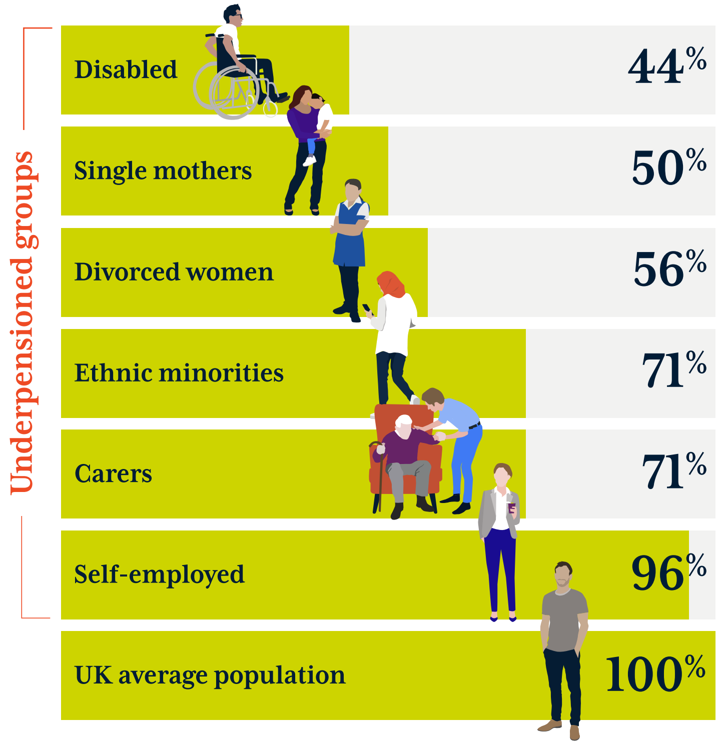
The report clearly shows that inequality experienced during a person's working life increases the risk of their retirement outcome being inadequate.

Gaps in work history are correlated with gaps in pension contributions, due to lack of a workplace pension and financial pressures caused by loss of income.

On average, underpensioned groups experience greater disruption during their working lives. For example, they are more likely to spend time out of the labour market or work part-time.

This has been compounded by the way in which underpensioned groups have been affected by unemployment and furlough during the pandemic. If the impact of the pandemic on careers and job prospects goes beyond the short term, it has the potential to have a long-term impact on pension incomes.

Underpensioned groups have retirement incomes less than 75% the population average



Private pension incomes as a proportion of population average by underpensioned group, aged 65+, 2018.

The impact of Covid-19

The Covid-19 pandemic has had a considerable impact on people's livelihoods and health, and fundamentally changed the way that many of us will work in the future.

Covid timeline (so far)

Furlough started 1 March 2020 and lasted until 30 September 2021.
11 million jobs are thought to have been saved by furlough, costing £66bn.

2020

20 March
UK Government announces furlough scheme to cover 80% of wages (max £2,500 per month)

23 March
PM announces first national lockdown ordering people to 'stay at home'

End of May
11m people were on furlough

1 June
Phased re-opening of schools

23 June
Relaxation of 2m rules and social distancing

July
Furlough payments reduced to 60% from the government (20% contribution from the employer)

22 September
PM announces restrictions in UK including working from home and 10pm curfew

31 October
PM announces new national lockdown

19 December
PM announces new tougher restrictions and 4 tier system

2021

6 January
PM announces third national lockdown

8 March
Schools reopen

End of July
1.6m people on furlough scheme

End of September
1m people on furlough scheme at the end of September when scheme ends

The pandemic has exacerbated existing inequalities within society and led to consequences that we will be dealing with for many years to come.

From carers and single parents to part-time workers, the pension savings gaps for some of the most financially at-risk groups have worsened during the pandemic.

The gap between average retirement outcomes and those of underpensioned groups will increase.

The bad news

Furlough and redundancy

Underpensioned groups are more likely to spend time out of the labour market or work part-time, which can have a long-term impact on their pension incomes. These labour disruptions worsened significantly during the pandemic.

People in underpensioned groups were more likely than average to experience labour market inequalities and be affected by furlough and redundancies. This is because they are more likely to work in the industries that have been most impacted by the public health restrictions such as retail, hospitality and tourism, or are in low-paid, part-time or irregular employment.

While the Coronavirus Job Retention Scheme protected jobs and pension contributions for those who were furloughed, they were only guaranteed to receive 80% of usual pay up to a maximum of £2,500. This had a huge impact on the pension savings of furloughed employees because they received correspondingly smaller pension contributions.

Debt has increased

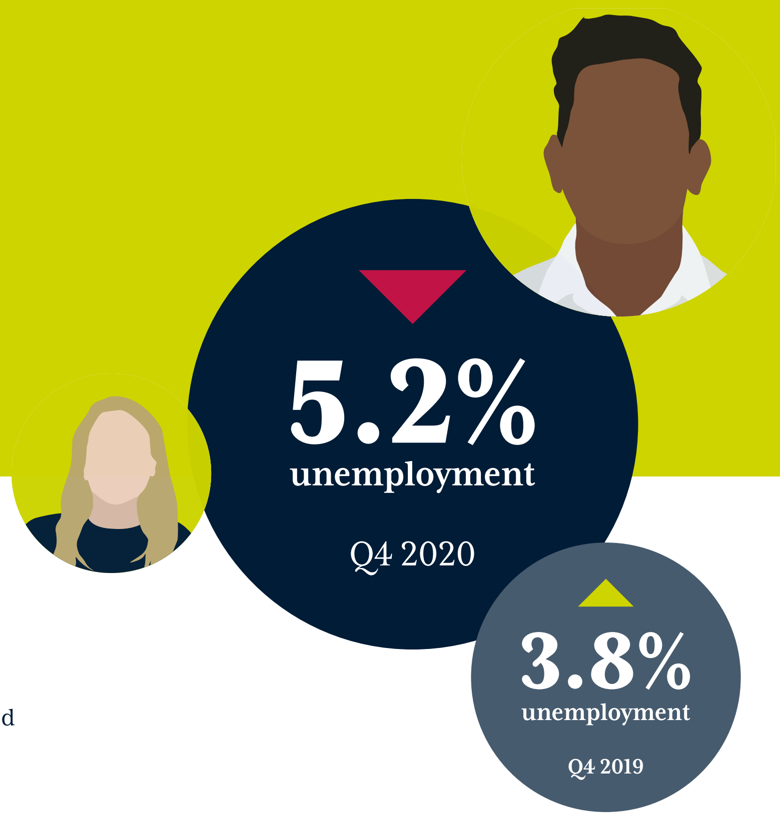
On average, underpensioned groups have lower levels of financial resilience, even before the pandemic. They were less able to keep up with bills and more likely to run down savings and fall into debt. This may impact their ability to save for later life over the longer term, as savings are used for more immediate needs.

During 2020, 53% of UK adults saw their overall financial situation worsen because of Covid-19, according to the Financial Conduct Authority (FCA).[1] The groups impacted the most were the self-employed, households with incomes below £15,000 a year, and ethnic minority adults.

This means that underpensioned groups are likely to need much more support to recover from the pandemic.

Unemployment and redundancies are up, but reverting to pre-pandemic levels

Unemployment reached a peak of 5.2% in Q4 2020, from a low of 3.8% in Q4 2019.[2] Rates of economic inactivity also increased during the pandemic, from 20.5% in Q4 2019 to a peak of 21.4% in Q1 2021. Covid-19 also led to many people being furloughed, working part-time, being forced to change their jobs, or switching to lower-paid careers.



As being underpensioned is closely correlated with inequalities during working life, the disproportionately negative impact that the pandemic has had on these groups' employment, income and financial resilience is likely to further increase their risk of experiencing poorer retirement outcomes.

Unemployment rates grew quickly in 2020. While the government's furlough scheme gave protection against the severest effects, some underpensioned groups were disproportionately affected.

Unlike people who were put on furlough, those who became unemployed during the crisis did not benefit from protected pension contributions and so are much more likely to experience longer term damage to the value of their pension savings.

Cause for optimism

Despite the economic recovery experienced in the UK during 2021, it is very likely that underpensioned groups will continue to be affected by the long-term effects of the pandemic.

However, the picture may be less bleak than it seems. While millions have undoubtedly had their financial future badly affected by the pandemic, the outlook for others has improved.

These silver linings give us cause for hope and the opportunity to address some of the structural and systemic challenges that underpensioned groups face in saving for retirement.

While many people are worse off because of the pandemic, a significant number have been able to put aside considerable sums into savings.

The good news

More people are saving

While many people are worse off because of the pandemic, a significant number have been able to put aside considerable sums into savings.

Overall, household savings have risen since the pandemic began. According to the Bank of England, households built up more than an extra £125 billion in savings between March and November 2020, increasing to over £200 billion by June 2021.[3]

This was largely driven by a fall in spending due to consecutive lockdowns and less opportunity to spend disposable income, as well as efforts to build up emergency savings during a period of uncertainty.

Flexible working has become increasingly common

Greater access to flexible employment could help to close these pension gaps – as well as supporting carers and people with disabilities to achieve better retirement outcomes – by increasing labour market engagement.

The PPI's Underpensioned Index (2020) identified that for some groups – especially mothers, carers and the disabled – labour market inequalities may make policies aimed at increasing employment rates more challenging in practice.

Policies aimed at increasing accessibility in the workplace and providing more flexible working arrangements could help to alleviate lower levels of employment among these groups. Improving labour market engagement would ultimately increase the likelihood of achieving better retirement outcomes.

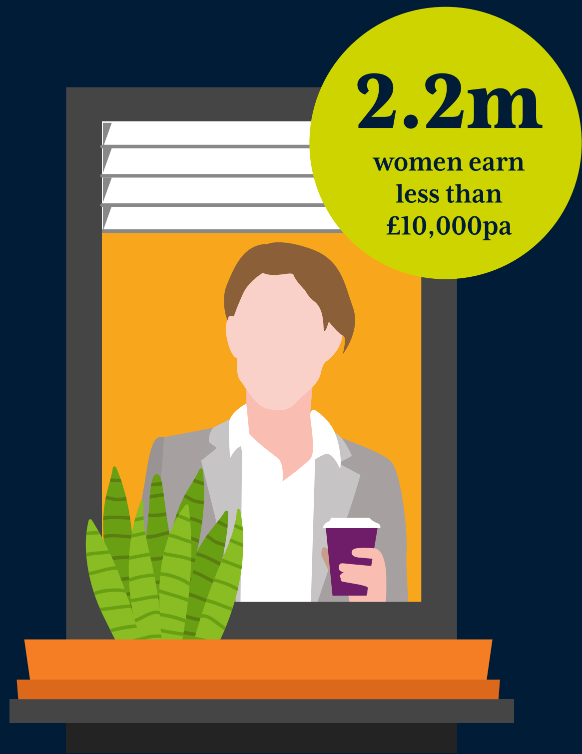
With underpensioned groups being disproportionately impacted by disruption to employment patterns and pension contributions, it is essential that they are saving enough during employment to help to bridge the gaps.

Due to the labour market rebounding, average incomes recovered to pre-pandemic levels across most underpensioned groups by March 2021.[4]

Chapter 1:

Women

Women were one of the hardest-hit underpensioned groups during the pandemic.



Almost 1 in 5 employed women earn below £10,000. This means a staggering 2.2 million women do not meet the auto-enrolment threshold.

Research by NOW: Pensions shows that 50% more women than men are heading towards retirement without any private pensions saving at all.

While businesses everywhere have been affected by the pandemic, the damage has not been equal.

The downturn of sectors such as retail and hospitality during the pandemic has been particularly hard for women, as they disproportionately work in lower paid, part-time roles in these sectors.

More women than men were furloughed during the pandemic, especially young women. The government estimates that 2.3 million women were furloughed during the third lockdown – and it is highly likely that many of these jobs will have been lost when the scheme ended in September 2021.[6]

The gender pay gap for all UK employees increased in the year to April 2021, according to the Office for National Statistics (ONS). This is partly because of the disproportionately high number of furloughed women.

The difference in national average hourly earnings, excluding overtime, between men and women was 15.4% in April, up from 14.9% a year earlier. The gap widened even more for full-time employees, albeit from a lower base: 7.9% in April this year from 7% in April 2020.[7]

Women have had to care more and work less during the pandemic.

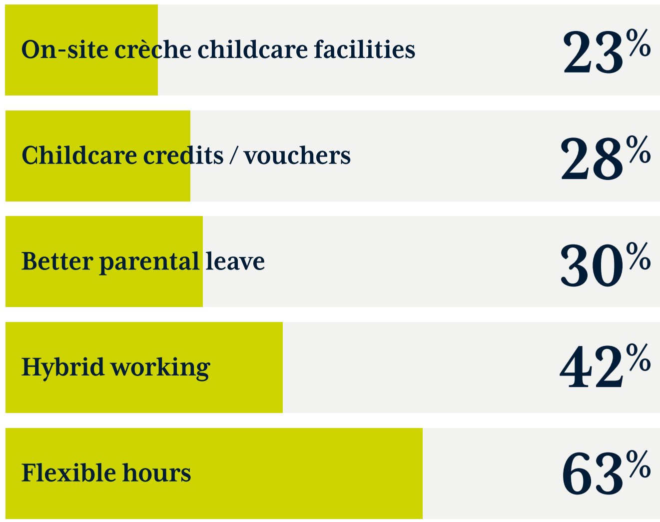
Repeated lockdowns, home schooling and greater domestic responsibilities have had an enormous impact on women's ability to work, earn and save.

Meanwhile, women also bear the brunt of non-paid care work. Almost all women had taken on more caring responsibilities since the start of the pandemic in March 2020, according to UK charity Pregnant Then Screwed. A quarter of working mothers used annual leave to manage their caring duties, 18% reduced their working hours, and 7% took unpaid leave.[8]

Women are also more likely to take time off to care for their families during their 20s and 30s. Unfortunately, this is also the age when pension saving is most effective for building long-term wealth due to the effects of compounding.

Once women start returning to work, most commonly in their 40s, they can once again start contributing towards their pension. But their total pension wealth will remain far below that enjoyed by men, who only rarely take a paternity-related career break.

In your opinion, what should employers be doing to support working mothers returning to work, post-pandemic?



Survey conducted in October 2021 with 2,000 working UK parents.

Flexible working helps women to earn and save more.

The pandemic brought with it one major reason to be positive about the future. Employers were forced to test the theory that working from home and flexible working are compatible with most traditionally office-based jobs, so more women are being given the option of working full-time.

Since the start of the pandemic, the proportion of women working full-time has increased to 64% – the highest level on record.[9] Working full time means they are far more likely to move above the £10,000 threshold for auto-enrolment.[10]

Between March 2020 and March 2021 women's average incomes increased 12.5% to £21,600. In contrast, men's average incomes only increased by 4.9%, although this was to a far higher figure of £30,000.[11]

While it remains to be seen whether working practices have changed significantly for the long term, flexible working patterns would almost certainly be beneficial for women. Meanwhile, 73% of employed adults in our recent research said more women would work full-time if childcare was more affordable.

Since the single most important factor for women to be able to save for their retirement is their ability to stay in the workplace, progress in their careers and earn higher salaries, we can be hopeful that this will have a positive impact on reducing pensions inequality.

Policy proposals to close the gap:

1. Removing the £10,000 trigger would get **2.2 million** more women saving through auto-enrolment.
2. Taking pension contributions from the first £1 of salary would increase women's pension wealth by an average of **52%** but for some groups this could be as much as **140%**.

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Chapter 2:

Ethnic minority groups

People from ethnic minority groups are likely to have lower levels of financial resilience compared to other groups – and the pressures on them worsened during the pandemic.

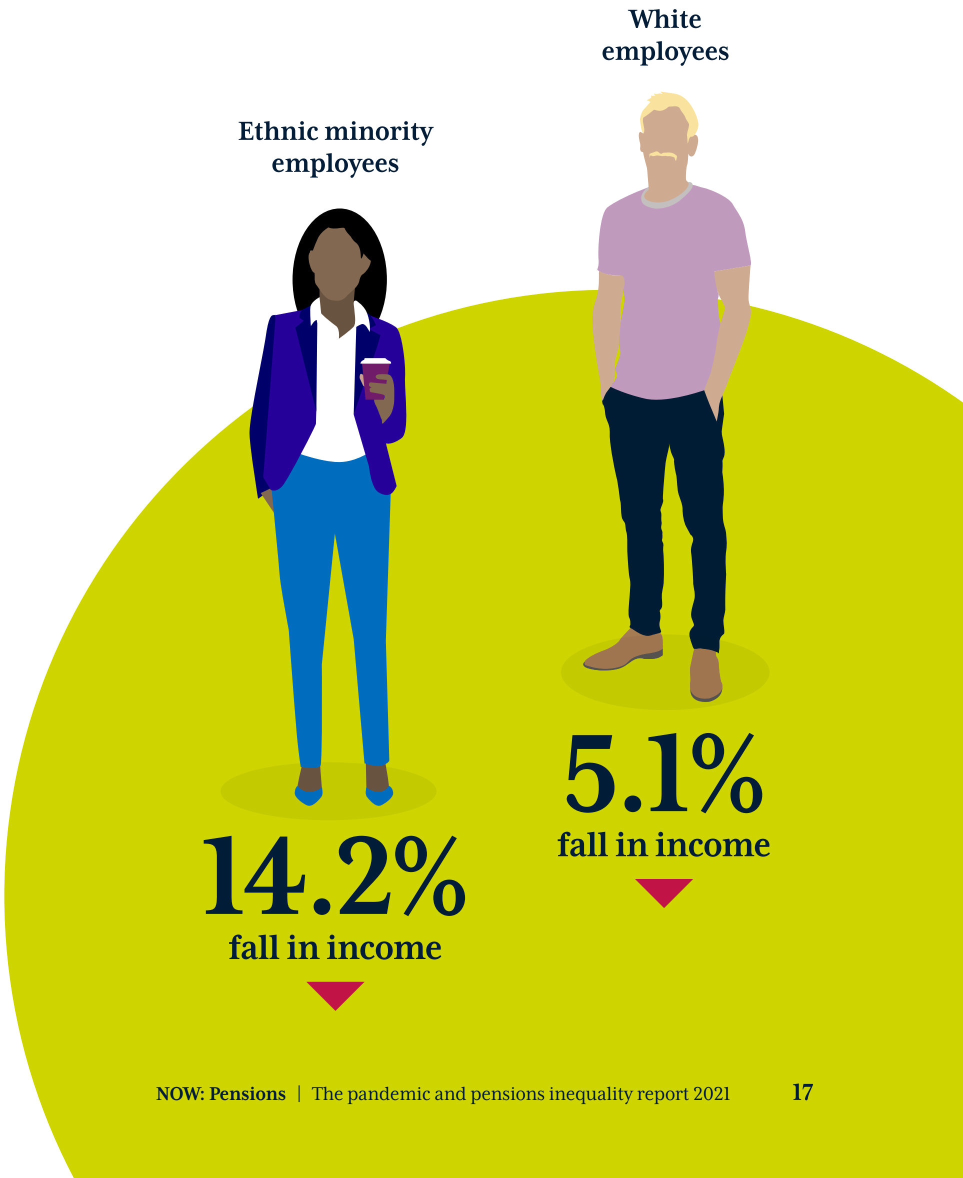
On average, ethnic minority groups faced much greater difficulty in keeping up to date with their bills and average debt levels increased.

The recent rise in inflation and energy prices would have affected all groups in the UK, however, ethnic minority groups were disproportionately affected by decreases in employment and income at the peak of the pandemic. [12]

Research shows that unemployment rose from 8.9% to 10% among Black, African, Caribbean and Black British people between the first quarter of 2020 and the second quarter of 2021. Other groups, such as Chinese people or those of mixed ethnicity, experienced bigger increases.[13]

Ethnic minority employees experienced a much larger reduction in income during the pandemic, falling by 14.2% between February and July 2020, compared to just 5.1% for white employees.[14]

In addition, those from ethnic minority backgrounds who had been put on furlough were more likely to become unemployed subsequently than white employees. By September 2020, more than a fifth had lost their jobs, compared to 9% of all employees.[15]



People from ethnic minority backgrounds had to access their savings to cover bills during 2020.

Between February and October 2020, 11% of ethnic minority groups used their savings to cover loan repayments, compared to 5% of white consumers, according to the FCA.

Similarly, 26% of ethnic minority consumers used savings for day-to-day expenses while 17% of white consumers did so, and 10% used savings to cover housing costs compared with just 5% of consumers from a white group.[16]

Meanwhile, 23% of mortgage holders from a minority ethnic group deferred a mortgage payment, compared to 17% of white mortgage holders. Almost a third of consumers from a minority ethnic group fell behind on bills or missed a payment, compared to 15% of consumers from a white ethnic group.[17]

Just under a third (31%) of black people fell behind on their bills due to the pandemic, compared to 12% of white people.[18]

Ethnic minority women were most impacted by the pandemic.

The impact of the pandemic on ethnic minority women has been disproportionately worse than on ethnic minority men, particularly when it comes to financial matters.

Half of employed ethnic minority women are concerned about their job or promotion prospects due to the pandemic. This compares to 43% of employed white women and 35% of employed white men.[19]

Policy proposals to close the gap:

1 Removing the £10,000 trigger would get **400,000** more ethnic minorities saving through auto-enrolment.

2 Taking pension contributions from the first £1 of salary would increase the average pension wealth of ethnic minorities by **31%**.

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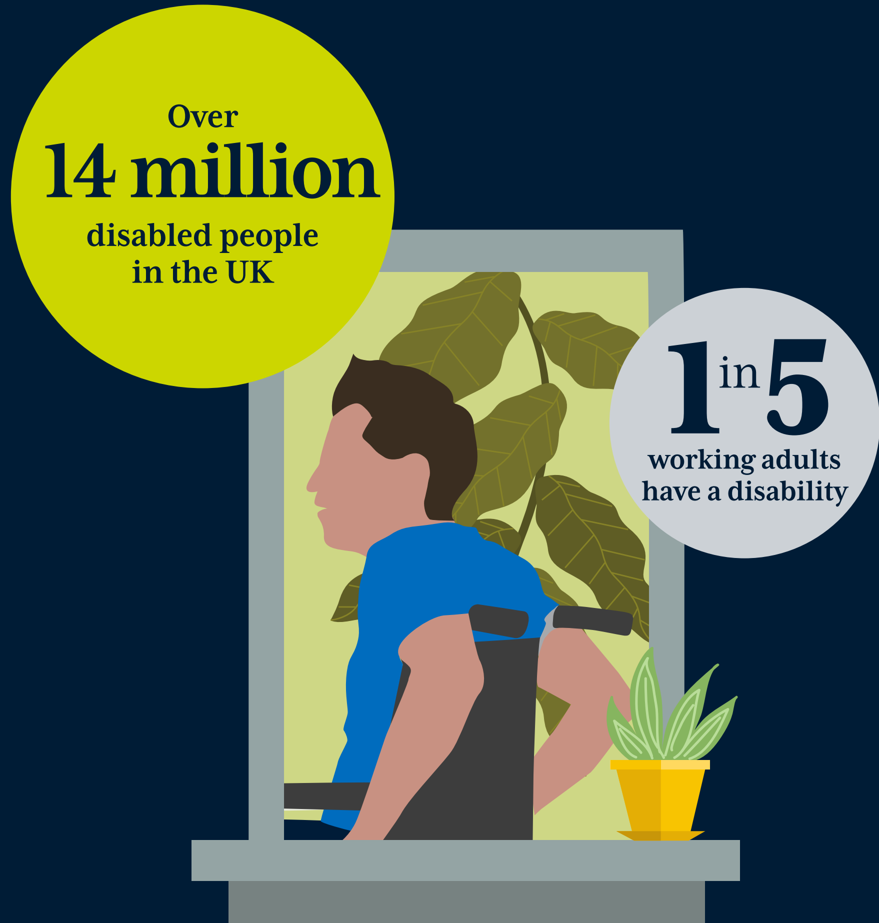
Chapter 3:
People with disabilities

The disability employment gap in the UK is vast. In 2020, the employment rate for disabled people was just 53.7%, compared with 82% for non-disabled people.



The employment gap widened slightly in 2020 but has been largely stagnant for years.

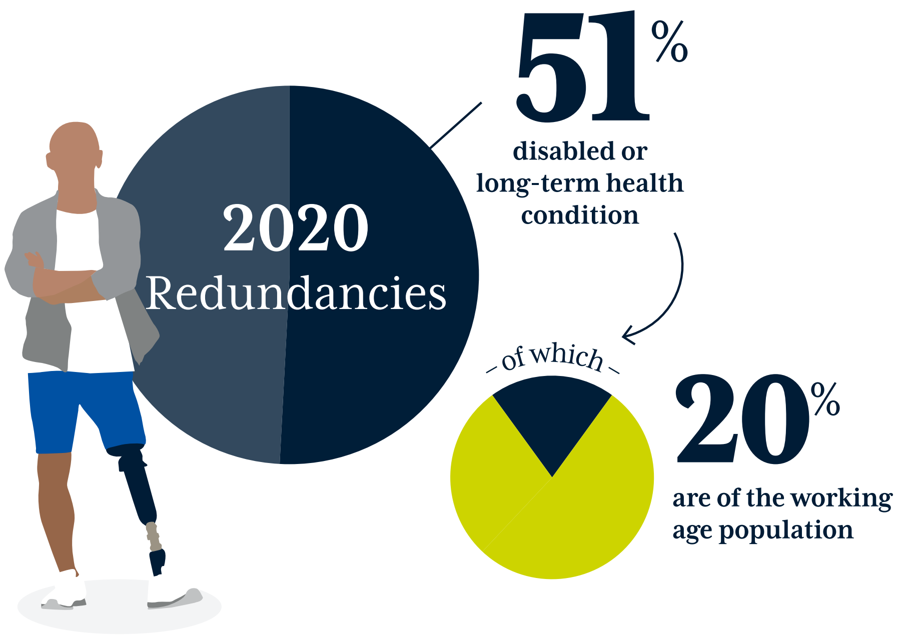
The employment rate for disabled people fell from 54.1% between October to December 2019 to 52.1% between July and September 2020, according to the Office for National Statistics.[20]

The effect of Covid-19

The pandemic had other disproportionate economic impacts on disabled people. They were more likely to work in pandemic-hit industries and face redundancy than non-disabled people. Of those made redundant in 2020, 51% have a disability or a long-term health condition, even though this group comprised 20% of the working age population.[21]

Over half (52%) of individuals with disabilities are spending significantly more on household bills and utilities than before the pandemic, and more than a third (37%) are spending somewhat more than they did previously.[22]

On a positive note, there has been a small rise in the number of people with disabilities in full-time employment since the recovery started. This is likely because being able to work from home has improved accessibility for some kinds of jobs.



Pandemic effect on household bills and utilities compared to previously

Keep flexible working practices to address the gap.

Retaining flexible working practices would be one way to address the disability employment and pensions gap. This would help many other underpensioned groups beyond disabled workers, including working parents and carers.

We believe flexible working should be extended in the coming months. A survey by the Chartered Institute of Personnel and Development found that almost half of the workforce is not offered flexible working arrangements, such as flexi-time, part-time hours or job shares.[23]

The majority of disabled people said they would benefit from remote working once the pandemic is over. By contrast, 25% felt remote working would disadvantage them.[24]

Many working disabled people will also benefit from the uplift in universal credit. It will mean millions of low wage workers across the country will keep more of their income.

Policy proposals to close the gap:

1 Removing the £10,000 trigger would get **660,000** more people with disabilities saving through auto-enrolment.

2 Taking pension contributions from the first £1 of salary would increase the pension wealth of people with disabilities by **36%**.

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Chapter 4:

Caring and childcare throughout the pandemic

Financial pressures on individuals with caring and childcare responsibilities increased significantly during the pandemic.

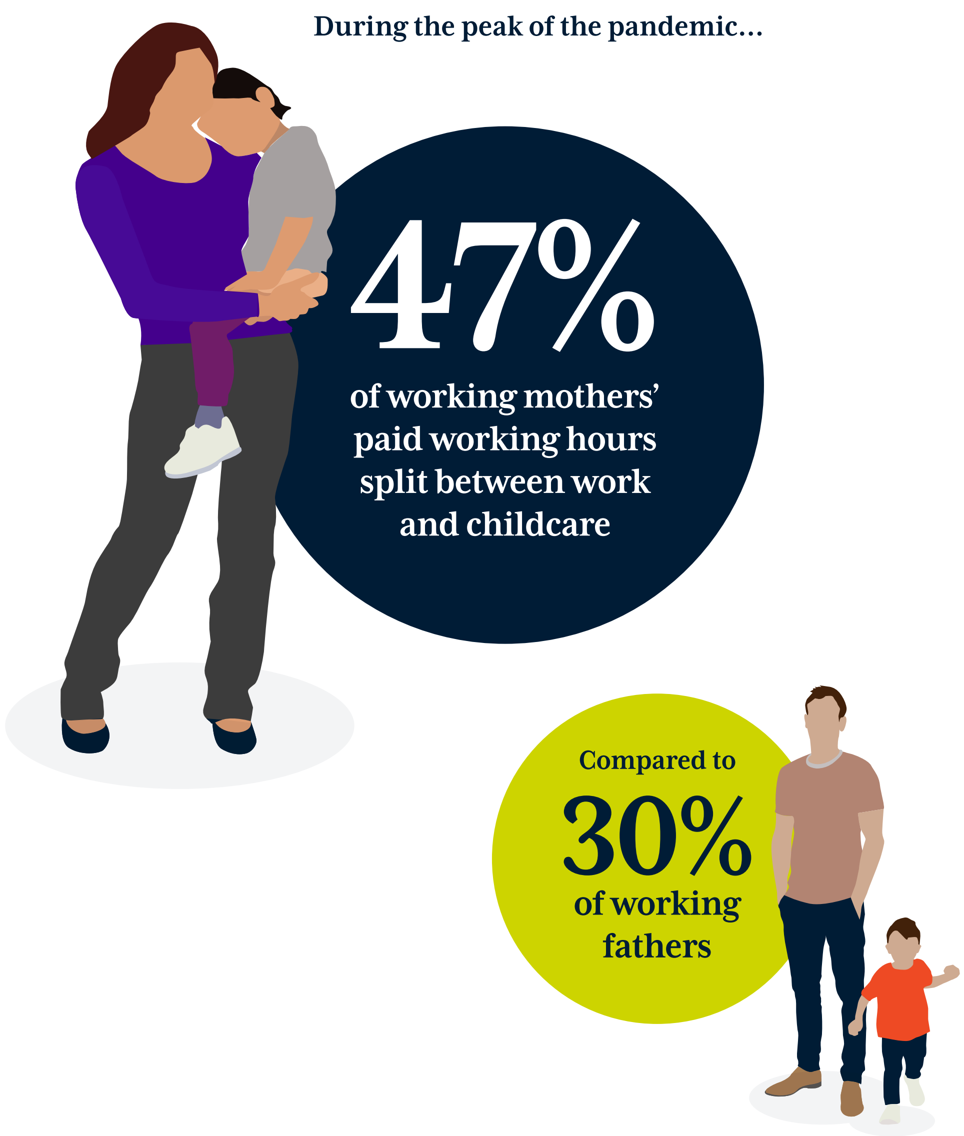
Almost a quarter of parents or carers had fallen behind on bill payments by July 2020, compared to 7% of people without parenting or caring responsibilities.[25]

Similar levels of men (4%) and women (5%) between March and October 2020 reduced their working hours to care for children or other dependents, or stopped working to become full-time carers.

However, among single parents, almost double (9%) were forced to cut their hours or stop working to care for children or others.[26]

During the peak of the pandemic and requirement for home-schooling, working mothers were more likely to be interrupted during paid working hours than fathers. Almost half (47%) of mothers' working hours were split between work and other activities such as childcare, compared with 30% of fathers' paid working hours.[27]

One issue is a significant rise in the cost of childcare. Three in ten employed parents say they had to pay more for childcare during the pandemic.[28]



Policies aimed at increasing access to flexible work could help improve financial outcomes in retirement.

Before the pandemic, flexibility based on the employee's needs and preferences was relatively inaccessible. Just 6% of employees were based primarily from home in 2017 and 27% had some form of flexible work arrangement.[29]

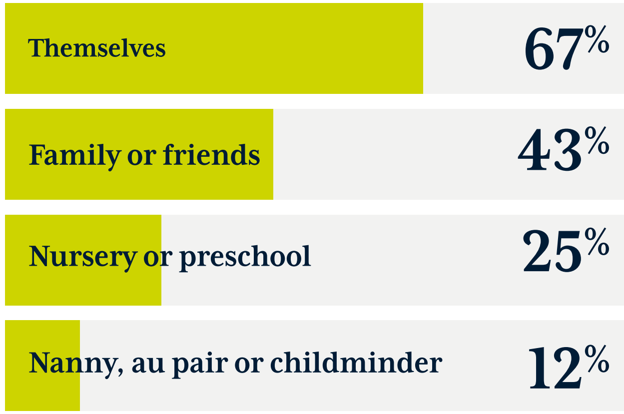
The need for flexibility is even more challenging for those looking to progress in their career. Before the pandemic, eight in ten working mothers said they felt trapped in their current role by the lack of flexibility offered by other available jobs.[30]

Just 15% of job adverts in 2019 offered flexible working options, and many of these concentrated in lower paid roles. This had risen to 24% in at the end of the first quarter of 2021, and then to 26% by April-August 2021.[31] This shift should provide more opportunities for people who wish to work flexible hours.

Flexibility around working hours and location could help carers to balance paid work with unpaid care work.

We believe that employers should aim to support those with caring and parenting responsibilities to help close the gap in retirement outcomes.

During the pandemic, which two childcare options did you rely on most?



Policy proposals to close the gap:

1. Removing the £10,000 trigger would get **100,000** more carers saving through auto-enrolment.

2. Taking pension contributions from the first £1 of salary would increase carers' pension wealth by **38%**.

Chapter 5:

Self-employed and holders of multiple jobs

Self-employed people already made lower pension contributions than average due to their exclusion from auto-enrolment.

They will also have experienced disruption to contributions if their income was impacted by the pandemic.

Our research shows almost one in three self-employed people and one in five part-time employees are working fewer hours since the pandemic started. By contrast, just 13% of full-time employed people worked fewer hours.[32]

Almost seven in ten self-employed people said they do not contribute to a pension, compared to just 17% of full-time employees.

While the furlough scheme announced in March 2020 protected job security and income for many in employment, the self-employed were far more vulnerable.

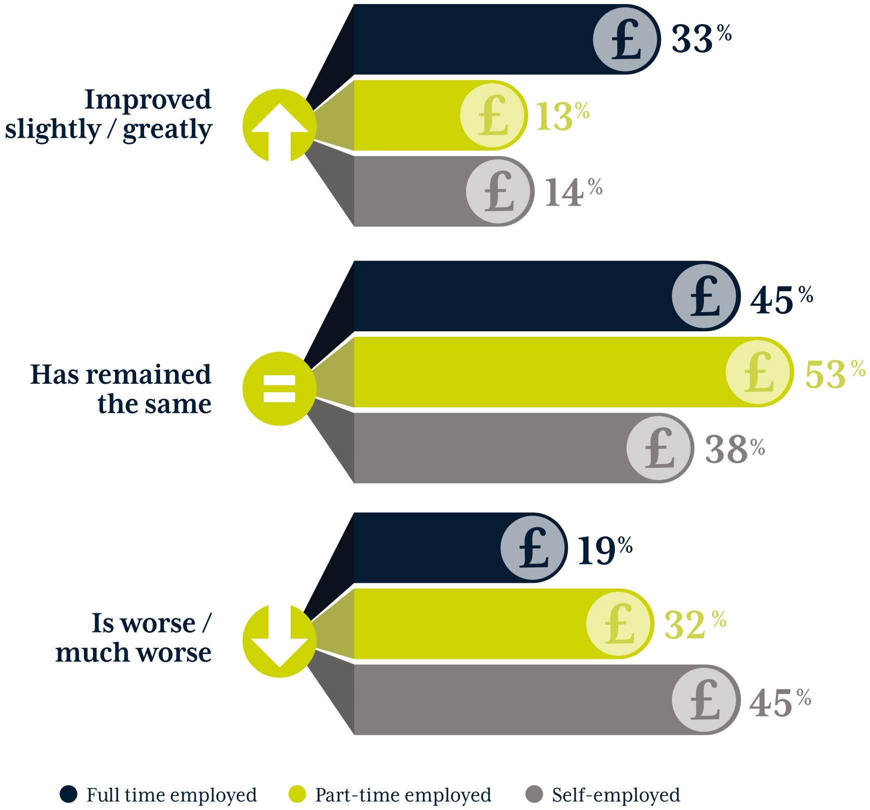
It took longer to develop a workable solution for self-employed workers and several iterations of the Self-Employment Income Support Scheme (SEISS) were put into practice between March 2020 and September 2021, when the scheme came to an end alongside furlough.

People who had recently become self-employed before the start of the pandemic often came under considerable financial pressure. This was because eligibility for grants under the scheme was reliant on having submitted a self-assessment tax return for the 2018/19 tax year that included self-employment earnings. Holders of multiple jobs who earn more than half of their income in employment and the rest in self-employment were also not eligible.

There were concerns that the targeting of support and strict constraints on eligibility for the SEISS left some self-employed excluded from income loss mitigation. Almost 30% of self-employed workers said that while the pandemic had caused their profits to fall, they were not eligible to receive a grant through the scheme.[33]

How financial stability for the self-employed and those with multiple jobs fluctuated throughout the pandemic.

My financial situation throughout the pandemic



Policy proposals to close the gap:

1. Removing the £10,000 trigger would get **106,000** more self-employed and multiple job holders saving through auto-enrolment.
2. Taking pension contributions from the first £1 of salary would increase these groups' pension wealth by **175%**.

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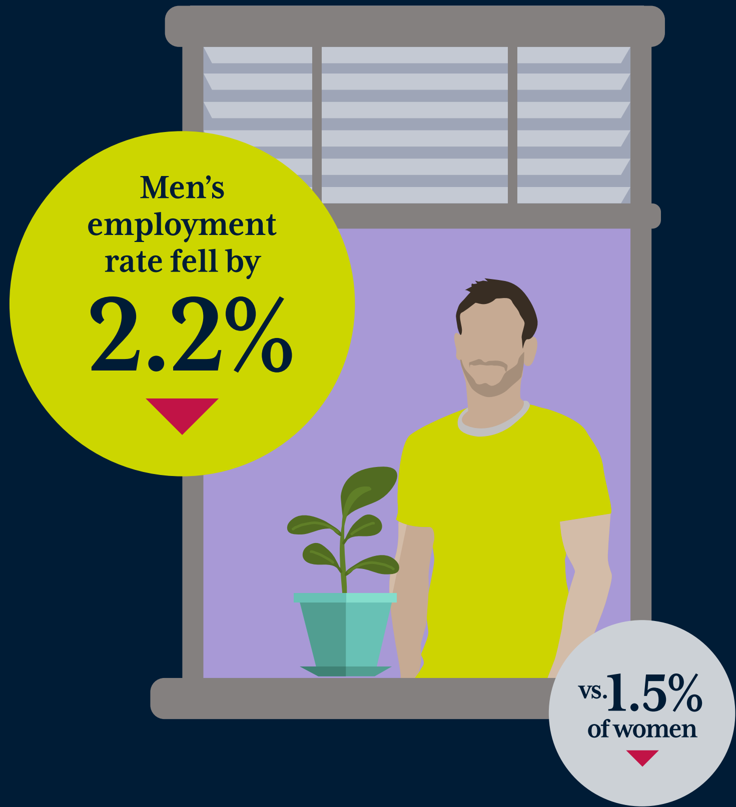
Chapter 6:
Unemployment among men

While women have borne a greater impact from the pandemic, men have also suffered.



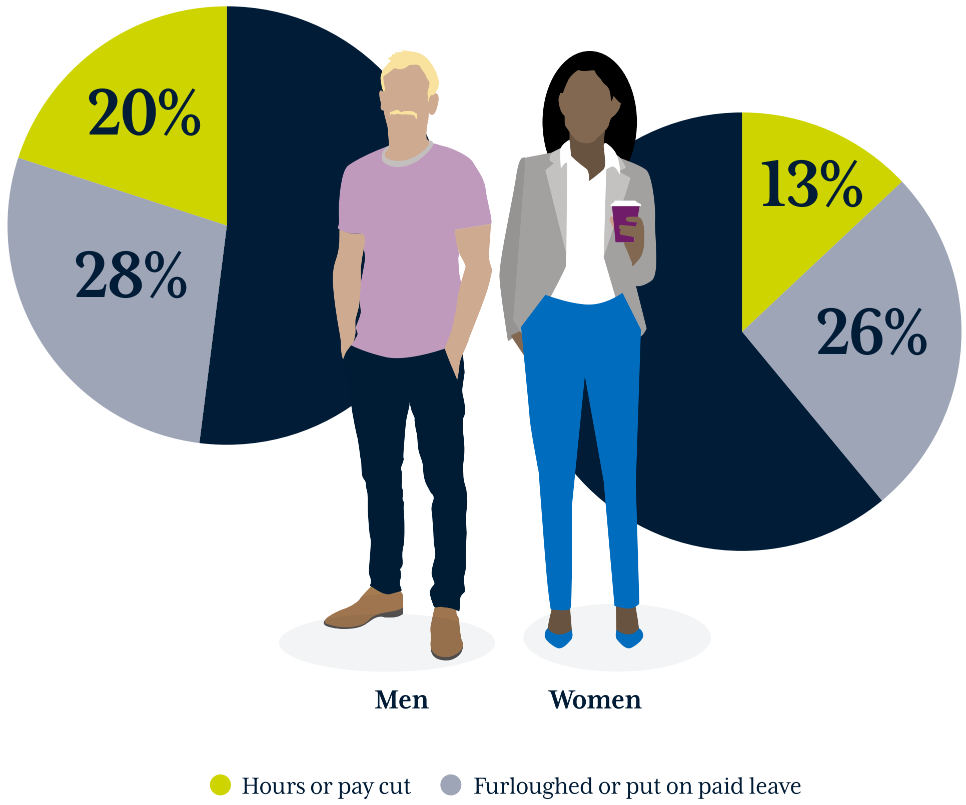
Between January-March 2020 and October-December 2020, men's employment rate fell by 2.2% compared to 1.5% for women, according to the Office for National Statistics. However, men's employment rates fell from a higher starting point.

Similarly, among those working for an employer at the end of February 2020, a higher proportion of men than women had their hours or pay cut between March and October 2020: 20% versus 13%, respectively, according to the FCA.

At the same time, a slightly higher proportion of men (28%) than women (26%) were furloughed or put on paid leave.[34]

However, men seem to be experiencing a recovery, with 35% saying their financial situation has improved since the start of the pandemic, compared to 22% of women. Just over a quarter of men said their financial situation had deteriorated, compared to 24% of women.[35]

In March and October 2020, of those employed, more men than women had their hours or pay cut, were furloughed or put on leave



Looking after the kids

Similar levels of men and women reduced their working hours to care for children or others, or stopped work to become full-time carers between March and October 2020 (4% men compared with 5% women).[36]

In our research, almost a quarter of working dads (24%) said that their working hours have increased since lockdown. As many as 58% of fathers have been forced to change childcare arrangements and 39% are paying more for childcare.

However, women still have responsibility for the majority of childcare, with 47% of mothers' hours spent doing paid work split between that and other activities such as childcare. By comparison, this takes up 30% of fathers' paid working hours.

Pension contributions

Just like other groups, the pandemic affected men's savings behaviours. A larger proportion of men than women reduced their pension contributions during the pandemic: 12% of men compared with 9% of women. Yet 20% of men said they have increased their pension contributions during the crisis, compared to 11% of women.[37]

Policy proposals to close the gap:

1 Removing the £10,000 trigger would get **600,000** more men saving through auto-enrolment.

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Summary

There is a clear need for policy changes to make the UK pensions system fairer.

The pressures on underpensioned groups worsened during the pandemic, exacerbating their already low levels of financial resilience, which may negatively impact their ability to save for later life.

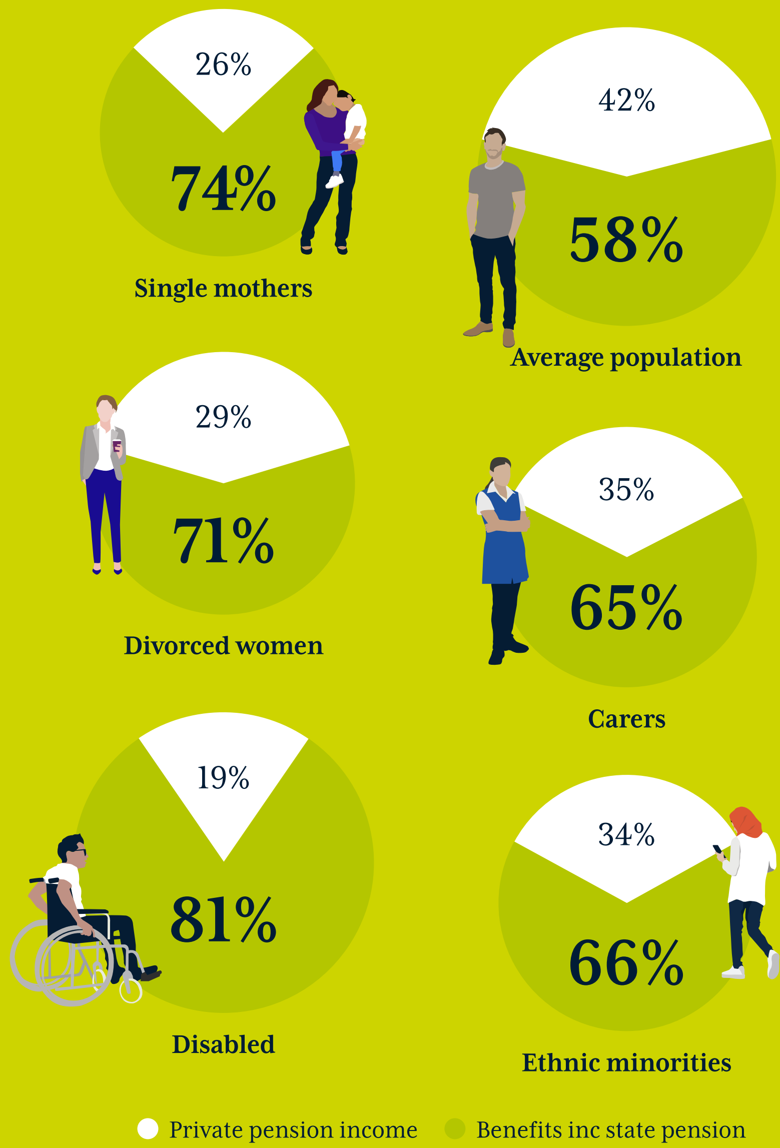
Disruption to pension contributions and being forced into making short-term decisions about accessing pension savings could lead to poorer retirement outcomes for some of those underpensioned groups.

> There is an urgent need to take action before it is too late.

Any permanent changes to the way that State Pension is uprated, such as the suspension to the Triple Lock, would have a disproportionate impact on members of underpensioned groups as they are likely to be more heavily dependent on the State Pension for income in retirement.

That is why NOW: Pensions is lobbying the government to make policy changes which will help bring at least an additional 2.8 million people into pensions.

Underpensioned groups have an over-reliance on income from the state pension.



Annual retirement incomes of underpensioned groups compared to the population average, split by state and private, aged 65+.

These policy recommendations were made by the 2017 Automatic Enrolment review and are expected to be introduced in the mid-2020s.

However, we urge the government to introduce them as soon as possible. This will enable the pension savings of underpensioned groups that may have been negatively affected by the pandemic to recover at a faster rate.

NOW: Pensions policy proposals for a fairer UK pension system

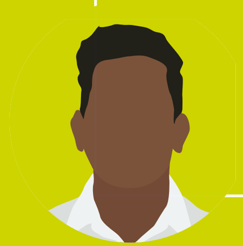
We believe that the following two policies would play a significant role in helping to close these pension savings gaps:

1 Removal of the £10,000 auto-enrolment trigger to get more people saving into a workplace pension

Employees are only enrolled in their workplace pension if they earn more than £10,000 per annum in a single role. We are calling for the government to reduce this threshold, with enrolment starting on the first pound of income.

2 Auto-enrolment contributions from the first pound of earnings

The minimum total contributions under auto-enrolment have been set by the government at 8%. The employee pays 5% of this and the employer must pay the remaining 3%. Pension contributions are only taken after the qualifying Earnings sum of £5,240 has been deducted. An employee earning just over the £10,000 threshold will only pay their 5% contribution on the remaining £3,860. We want the government to remove this barrier so that the contributions are deducted from an employees' full salary.



If both these policies were introduced, we could get a further 2.8 million people, increasing pension wealth by an average of 52%.

We are lobbying the government to help increase eligibility among underpensioned groups. Removing the lower limit for qualifying earnings will be the most beneficial for members of underpensioned groups on low incomes, as they will receive a greater proportional boost to pension savings as a result.

Six ways to save more for retirement

While the government and employers should be taking more action to help close the pension gap for these underpensioned groups, individuals can take action to increase the likelihood of having enough money to enjoy a comfortable retirement.

1
Start saving early

If you start contributing to a pension when you start work, your savings will have much longer to grow. Enrol in your company pension scheme when you begin full-time employment. Employees can opt into workplace pensions even if they are not aged 22 or do not earn the £10,000 minimum.

2
Do not opt-out

While there may sometimes be valid reasons for employees wanting to opt out of contributing to their pension, such as financial pressures, remember that saving into a pension is important to provide security in later life. In a workplace pension, you get the additional benefit of your employer's contributions and UK taxpayers also get tax relief.

3
Pay in the maximum you can afford

Find out what percentage your employer will match in terms of pension contributions. Minimum pension contributions of 8% total from employer and employee are not adequate to generate good retirement outcomes. If, for example, your employer will match your contributions up to 7%, you should aim to pay in at least 8% if you can afford it. This means you will be contributing 14% a month and you may also get tax relief on top.

4
Monitor your pension savings regularly

Your pension providers send you annual benefit statements showing how much you have contributed to your pension, plus an estimate of how much it will be worth at your target retirement date. Review your statements regularly to check you are saving enough. Also, if you have several small pension funds then consider consolidating them.

5
Set retirement goals

The Pension and Lifetime Savings Association (PLSA), an independent pensions body, publishes the Retirement Living Standards index, which explains how much to save to earn enough for moderate, comfortable and luxury levels of retirement. These can be very helpful for pension planning.

6
Self-employed? Set up a personal pension

Unlike employees who are automatically enrolled into a workplace pension scheme, it is up to the self-employed to start a pension. If you're self-employed, you can set up a personal pension and make regular contributions or make ad hoc payments. Your pension provider will claim tax relief and add it to your pension pot.

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Disclaimer

This report was created using the PPI Underpensioned Index, December 2020. To view the technical appendix and the full list of assumptions used to produce this data, please click here.

Information correct as at December 2021.