Consultation Response

Pensions Commission interim report

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About this consultation

In 2025 the Government announced the second Pensions Commission, with Baroness Jeannie Drake, Sir Ian Cheshire and Professor Nick Pearce appointed as Commissioners. The Commission is exploring the long-term questions of adequacy and retirement outcomes, focused on the role of saving into private pensions. It follows the first Pensions Commission (2002-2006), which laid the foundation for our current pensions system, and is framed as 'finishing the job' that it started. The Commission published its interim report in May 2026. This is Age UK's response to that report in which we comment on its analysis and recommend areas for further policy development.

Key points and recommendations

1. The State Pension will continue to have a central role in many people's income. Our forthcoming research into the adequacy of the State Pension shows that for those who are largely reliant on it, a common feeling is that it is close to meeting their essential costs with careful budgeting but they have a very constrained and insecure way of life.
2. Age UK believes everyone should have a decent standard of living in retirement. This means being free from worry about purchasing essential goods and services, having enough money to avoid financial stress, and being able to afford to socialise. Our system is designed around both State and private pensions, which need to work together to deliver this. However, at present, as the Commission has identified, the private system is not helping enough people reach this level, placing greater emphasis on the role of the State.
3. Essential costs like energy and rent have risen significantly in recent years, with many people on lower incomes struggling. The Commission should also consider the role of the Government in reducing costs, for example whether targeted support specific to energy bills should be considered as an alternative means of getting support to those who need it the most.
4. We welcome the analysis of groups at particular risk including women, disabled people, carers, renters and single people. Many homeowners also face their own financial challenges, and we urge the Commission not to neglect this group, in spite of the Interim Report's focus on renters.
5. We welcome the development of a hybrid measure of adequacy. However, we believe that if the intention is to use this for the purposes of communication with individuals, a basket of goods measure is preferable – replacement rates are too complex to be easily understood.
6. We agree with other commentators that people are not saving enough into their DC pension to deliver a decent income in retirement. We recommend that the Commission looks at the model set out by the Living Pension campaign, which requires 12% total contributions and also a cash minimum for lower earners. Any changes here will require a long lead in time.
7. We welcome the introduction of the Value for Money framework, however we believe that charges are the most important element of this. There is a strong case for reducing the Charge Cap to 0.5%, which is still above the average DC annual charge, and would help

drive the Government's scale agenda by forcing smaller, inefficient schemes to wind themselves up and consolidate.

8. The governance of pension schemes is largely hidden from view yet is extremely important. If the Commission is unable to look at this in detail itself, it should instead recommend a more detailed review to look at the future of contract-based and trust-based governance models, as well as any alternative.
9. While we welcome the development of a hybrid measure of adequacy, we are concerned that it will be too complicated to communicate with savers. Age UK believes a basket of goods measure is more appropriate for this purpose. The Commission should go back to first principles and decide what is the primary goal of a new measure before deciding which route to go down – on balance, we would prefer a basket-of-goods approach, although a hybrid measure may be preferable for modelling and policy decision-making. In any case, both measures can co-exist peacefully.
10. We welcome the Commission's focus on people in the years below State Pension age (SPa), including on how to support more to work for longer. Flexible working, coaching services, improved employment support and tweaks to the social security system can all contribute to this goal.
11. There will always be some people who realistically are unable to work right up to the SPa. Such people are left living in extreme hardship with zero possibility of working. The Government should mitigate pre-SPa poverty by providing an enhanced level of benefit income to a defined group of people receiving UC and unable to work due to disability/illness/caring in the three years before SPa. Conditionality should also be relaxed for this group.
12. People should access their DC pension as late as is feasibly possible. Age UK believes that as the purpose of a pension is to give people an income throughout their retirement and later life, a 10-year gap is too much and the Commission should look closely at cutting this, probably to five years. Other forms of income and support should be accessed first, whether through employment or the benefits system.
13. We strongly welcome the discussion of means-tested benefits – indeed, pensioner benefits should be seen as a fourth pillar in the pensions system. The future of passporting is a key issue and there are options for how to address this, which the Commission should explore in more depth. It should also see the issue of low benefit take-up as a relevant and important element of adequacy.
14. Given the growing number of people with small/modest DC savings, we are concerned about the risk of people decumulating in a way that avoidably reduces or eliminates their eligibility for means-tested benefits. This an underexplored area in the Commission report. The Commission should develop improvements in the information and guidance provided to help people manage these risks.
15. We welcome the Commission's focus on the decumulation of defined contribution pensions, which carry an increasing degree of importance for people's incomes. We strongly support moves to introduce 'guided retirement' pathways, and believe these should be as close to a default as possible.
16. A key part of the decumulation journey is turning the flexibility of the pension freedoms into a secure income later in life. Overwhelmingly, a stable and secure income is what people look for, and increasingly so as they get older. 83% of our research sample of 65-74s who are managing some DC savings, wanted this. However more needs to be done

to unpick the behavioural difficulties connected to purchasing an annuity, which remains an important product. Furthermore, we recommend that for couples a joint-life annuity becomes the norm.

17. There is a lack of support for people in their mid-retirement and beyond and who are managing a pension in drawdown. In spite of the challenges people face with low financial literacy and cognitive decline, there is no mass market support. Age UK and Aviva are currently working together to set up an intervention to provide guidance about pensions, finances and wider life events, to help people decide how to best look after their money as they approach later life. We would welcome the opportunity to share further details with the Commission, and believe this or a similar intervention should be available to everyone.

About Age UK

Age UK believes every older person should be included and valued. We're working locally, nationally and internationally to change the way we age. Together with our partners, we're changing the day-to-day experience of getting older through essential services and local support. In the UK, the charity helps more than seven million older people each year by providing advice and support, including through our national advice line and our friendship services. It also researches and campaigns on the issues that matter most to older people, aiming to put older people at the heart of public policy and shift the way ageing is treated and represented.

Introduction

While automatic enrolment has dramatically improved the pensions system, the Commission's Interim Report makes it clear that there are still significant gaps and there is much work yet to be done. How, where and when people save into a pension is crucial to their later life outcomes, and the system of private savings has the potential for significant improvement if it is to serve people's needs.

We believe that ultimately, the purpose of saving into a pension is to provide an income for retirement and later life. If we as a society are to continue tackling financial hardship and deprivation among older people, then both how people save and access/use their savings – the accumulation and decumulation phases – are extremely important. We urge the Commissioners to keep this sentiment at the forefront of their minds as they carry on with the process.

Our vision is for a pension system that provides a good standard of living for everyone in retirement. The DC system doesn't always fulfil this objective – as defined benefit (DB) pensions have declined over the last few decades, an unprecedented amount of risk has transferred to the individual saver in both the accumulation and decumulation phases. The 'freedom and choice' reforms to accessing DC savings introduced 11 years ago have exposed people, who are all-too-often ill-equipped to take difficult financial decisions, to the complexities of the marketplace, leaving them attempting to guess how long they'll live for and struggling to overcome behavioural biases. There is too little support available both at the point of access and during retirement. We welcome moves to introduce 'guided retirement' pathways, which have the potential to make a real difference.

For most people, the State Pension is the bedrock of retirement income. Its importance cannot be overstated – while many people will also rely on private savings, those who are not saving at all or not saving enough, will continue to depend on it for the overwhelming majority of their income throughout retirement. Age UK has argued from the outset that the Commission should examine the role of the State Pension in providing for people in later life, including what the aims and aspirations are for its future. Without this, it is difficult if not impossible to set out the level of private saving required to deliver a sufficient income. We believe that unless there is a constructive debate on making the pension system work for everyone, across both State and private pensions, making the system work for everyone will become increasingly challenging.

Ultimately, the UK has a system designed around both State and private income, and both need to work together help people attain a good standard of living. We are pleased that the Commission's Interim Report has considered this, and we look forward to continuing to work with the Commissioners to help build a system fit for the future.

Our response is divided into five sections:

1) The importance of the State Pension
2) Accumulation and adequacy
3) Pre-State Pension age – work and social security
4) Means-tested benefits
5) Decumulation

1. The importance of the State Pension

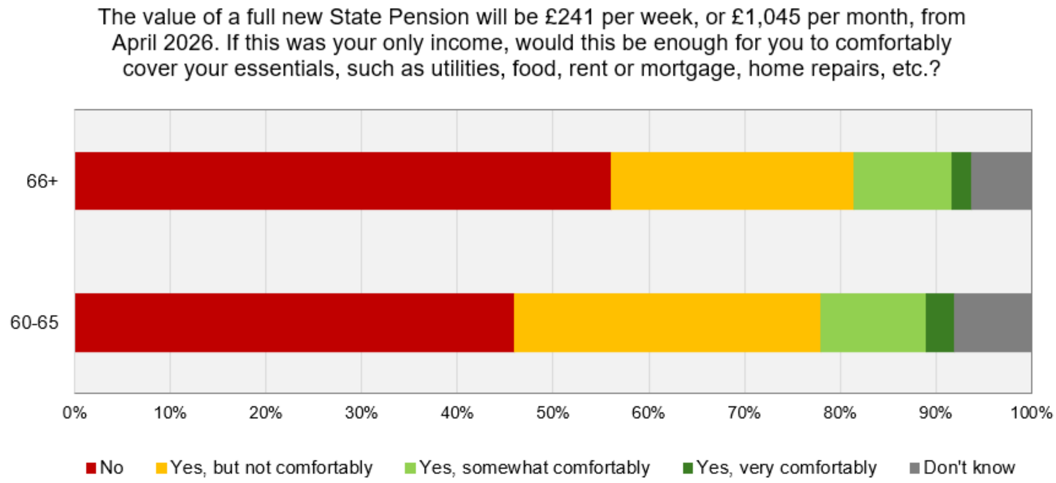
The State Pension will continue to have a central role in many people's financial lives. It should be set at a level to relieve poverty, meet the cost of essentials and give a degree of security and wellbeing. While for the majority it will be a 'foundation' underneath pension saving, for significant minority it will be the 'core' of their income in later life (e.g. 90-100%).

Ideally, everyone will be able to combine state and private pension income to have a decent standard of living. We welcome how the Commission has made it a central point that 'almost half of working-age people are not saving into a pension in a typical month'. This will likely decrease with policy action but we should not overlook the scale of this problem or be over-optimistic about enabling everyone or even a significant majority to build significant pension savings.

Even among those who have accrued private pension savings, some will be or could become largely/fully reliant on the State Pension over time. This could be because they cash in their small pension pot/s before State Pension age (SPa) to supplement their income (especially if unable to work), pay off debts, hold some savings, etc. It could also be due to exhausting/running down other sources of income later in life, such as through losing a deceased partner's pension/s or being 20+ years into a modest, non-inflation-proofed annuity. Indeed, there could be a specific cohort risk, i.e. among people who were, say, 60 at the time of the new pension freedoms in 2015, who took their pensions in various non-annuity ways, some could reach age 80 in 2035 in an exposed financial position. **The Government should assess this specific cohort risk, including the likely degree of reliance on the State Pension.**

In this context, the exact level the State Pension is set at, and people's perception of its adequacy with the cost pressures they face, is worth continuing to explore. In nationally representative polling conducted in January 2026,[1] we asked, 'The value of a full new State Pension will be £241 per week, or £1,045 per month, from April 2026. If this was your only income, would this be enough for you to comfortably cover your essentials, such as utilities, food, rent or mortgage, home repairs, etc.?' More than half (56%) of people over SPa said

‘No’ and a further 25% said ‘Yes, but not comfortably’. These proportions decrease a little among people on lower incomes, who are presumably more used to getting by on less. Yet even among people with an income up to £20,000 pa, 42% said ‘No’ and a further 36% said ‘Yes, but not comfortably’. Among people aged 60-65, 46% said ‘No’ and a further 32% said ‘Yes, but not comfortably’. **So, among current and near-future pensioners, small proportions think they can comfortably cover their essentials on a full State Pension.**



We commissioned qualitative research among people above and below SPa, conducted in December 2025. We will publish a full research report in the coming months but briefly highlight below some themes with illustrative quotes. Note that in this section the quotes are all from people over SPa.

Many people can get by on their State Pension but only with very careful budgeting and with little left over.

> *With the State Pension, you might have a few quid left at the end of the month, and that's about it. But if you want to go on holiday or anything like that, I couldn't even afford to go on holiday anymore. You’ve still got your electric, your gas, and it's all expensive now.*

People’s responses when asked what they would spend extra income on illustrates how constrained their living standards are. Answers included putting the heating on more often, eating better, treats like a takeaway and saving into an emergency buffer. One can see how these things would improve people’s health and wellbeing; another common response was that extra income would give them peace of mind.

> *Even an extra £20-£30 a week would help cover basics like food, heating, and bills. To feel more secure, around £40-£50 a week would make a noticeable difference. That extra money would make it easier to cope with the rising costs and unexpected bills. I’d be able to keep the heating on when needed, buy better quality food, and manage without constantly worrying about running short. It would reduce stress a lot and give me more peace of mind, knowing I wasn’t living so close to the edge.*

Some people rely on credit, including buy-now-pay-later (BNPL) schemes, to afford the essentials.

> *I use Clear Pay, which is basically a BNPL. It helps me to be able to afford to do a big shop.*

Some people are so worried about money that their social life becomes very minimal.

> *I don't go out very often. I never go out socialising. I do go out, sometimes there's a pond not too far away from here, so I take my glass bottles along there and recycle them, and I'll feed the ducks, you know, that sort of thing. But mostly the only socialising I'm doing is with one of my sisters and my daughter. I hate spending money now in case I don't have enough.*

People can downplay the extent of the deprivation they face. In Pauline's case, what looks like a dangerous level of fuel poverty is described as being 'careful'.

> *I don't put the heating on, which would cost me money. I'm sitting here now with a hot water bottle and a blanket on me, so I don't have to put the heating on. I've got a scarf on as well. I'm just careful.*

People's needs and wants are often modest. Things many people would regard as ordinary are often seen as unaffordable 'luxuries'.

> *I have had to give up certain things, like getting my nails done or buying new clothes, because I don't have the money for those luxuries.*

Even where people can usually manage their costs, they can have little buffer or sense of security. Unexpected energy bills is a common example of a crisis and cutting back on food a common response.

> *I definitely have money worries. I wonder how I will cope if some major expense or bill comes up? Basically, I purchase only necessary food items.*

Some people have small private pensions but see them as savings, held for emergencies (e.g. home or appliance repair, medical costs) rather than a source of income.

> *I would only use any pension savings for essential costs or emergencies, such as urgent repairs or medical expenses. I'm cautious about spending it because there isn't much to fall back on.*

Some felt the State Pension is adequate where two people in a couple are receiving it but not for single people.

> *It's a very, very low amount for people to live on. If there are two of you, it is OK. I have friends who still have their husbands, they've got two lots in one building, so they've got two lots of pension that pays for the all the bills and everything and that makes a big difference. I've got a few friends, unfortunately, who recently lost a husband, and they realize how difficult it is when it's only one pension coming in*.

A common theme was the feeling that the State Pension is not fully keeping up with the rising cost of living. This is worth noting because the State Pension is uprated to at a minimum reflect the cost of living and in many years goes beyond this but people on lower incomes often feel this isn't happening. Also, pensions and benefits rise only once a year, whereas price rises are constant, so the 'gap' can cause financial difficulties. This can reflect different spending profiles.

> *Because every week, every month, food is more, and every so often, your energy bills go up, your water rates go up. Insurance goes up, so everything is rising all the time. Everything else is going up too much for you to even notice that you've got a*

rise in the pension. It may go up by the odd pound or two, but everything else is going up more than that.

Rising costs include rent, with some people struggling with a rising shortfall.

Housing Benefit covers a small amount, so that helps, but it has a maximum benefit allowance, so when the rent increases, the benefit doesn't.

When asked directly about adequacy, there were a range of views. One person said that it should give a sense of security while not being overly generous compared to working-age people who struggle. **A common, key theme is that people feel the State Pension alone is close to covering essentials but is not keeping up with the rising cost of living and does not allow for a reasonable amount of leisure or a sense of security.**

The purpose of the State Pension is just to be where you're comfortable, where you don't have to watch the pennies. You're not afraid to turn on your kettle. I read about these people who are scared to do that. And I think that's just not right. It shouldn't go too far, as I think it would be a bit unfair – because some people can't afford holidays that do work.

Here are some policy reflections on the State Pension from this research and on the Commission report's analysis:

1. A sense of constrained lives and/or precarity is striking, including among people on the new State Pension, with small private pensions and/or who own their home. It echoes elements of the Commission's emerging qualitative research on adequacy (safety, stability and predictability). **Policy needs to reflect this kind of insecurity, which may be felt by people not technically in poverty. A basket of goods approach can help with this.**
2. The Commission report says 'the full rate of the new State Pension represented 30% of median earnings in 2025, up from 29% in 2016, almost achieving the 31% of median earnings envisaged by the first Commission. This has meant that the new State Pension is now providing the firm foundation for retirement incomes as envisaged by the first Pensions Commission.' **Given the pressures and insecurity experienced by people reliant on the new State Pension, we believe that instead of relying on the work of the first Commission over 20 years ago, the second Commission should re-evaluate the evidence in the current context and draw its own conclusions. Age UK believes that a State Pension set at 31% is insufficient to meet the principles we set out earlier.** We welcome the Commission's modelling that indicates the potential for an increase in poverty over the long run even with the triple lock, under the 'low volatility' scenario.
3. The Commission clearly evidences the structural challenges facing Gen X in terms of opportunity to save through auto enrolment. **The Commission should consider the role of the State Pension and the welfare system for this cohort in maintaining an adequate income. We believe state support will have to play an outsized role here when compared to future cohorts.**

Bearing down on essential costs

Assessing the adequacy of any given level of State Pension requires looking at the other side of the ledger, i.e. people's costs, particularly their essential costs. There is no universally agreed definition of essential costs but housing, food and energy is a good broad definition. Age UK analysis[2] shows the clear pattern whereby these items represent a greater share of total spending for pensioners on lower incomes. So lower income pensioners are especially sensitive to price rises in these areas. We have seen this clearly during recent energy price spikes, when people contact Age UK asking for help as they can no longer afford to keep their home warm. Even before the most recent price spikes, many pensioners were experienced chronic struggles to reliably afford sufficient energy and food, for example. In our January 2026 polling, one in four (25%) pensioners said energy was unaffordable, one in six (16%) said food was unaffordable, and one in five (19%) said their home was colder than they would like it to be all the time/most of the time.[3]

Bearing down on these essential costs for those on lower incomes would mean their State Pension income goes further. This could be achieved through a more effective (i.e. more generous and targeting based on income thresholds rather than benefit receipt) energy support scheme, ensuring less of a gap between Housing Benefit and actual rents, and/or a substantial increase in housing supply and affordability. These may take time and cost to implement but in the long-term could mean there is less pressure on people's State Pension income to meet these essentials, giving them a greater feeling of security.

Groups at risk

We welcome the Commission identifying groups with low rates of pension saving – women, disabled people, carer and some ethnic minority groups – and considering intersectionality among these. We also welcome the focus on single people and renters, both as a working-age group who face barriers to saving and as a group of pensioners with high housing costs. Here we briefly reinforce the importance of looking at these groups, including with recent polling evidence.

Women	In January 2026 polling, we asked '*Thinking about your finances and the current the cost of living, would you say you are comfortable or struggling?*' Among pensioners (66+), 33% of women said they are financially struggling v 23% of men.[4] Among 60-65s, 50% women said they are financially struggling v 43% of men. The Commission shows that State Pension gender inequality is declining but that private pension inequality is still a key challenge. Women are disproportionately affected by the financial challenges around caring, divorce and bereavement.
Disabled people	Among pensioners, 35% of disabled people said they are financially struggling v 25% of people with no long-term health condition. Among 60-65s, 62% of disabled people said they are financially struggling. Disabilities and long-term health conditions often bring additional essential costs, including transport to medical appointments and higher energy consumption. In theory these are supported by Attendance Allowance but it has issues with take-up (see below) and adequacy (no mobility component).
Carers	Among pensioners, 32% of carers said they are financially struggling v 27% of non-carers. Among 60-65s, 50% of carers said they are financially struggling.

	We welcome the Commission's focus on carers and the policy progress made. It is right to highlight the key issue of low take-up of Carer's Credits. The Commission should also consider the case for a more generous carer premium in Pension Credit, easier access to this premium and a longer run-on period for carer benefits after the death of the cared-for person.
Renters	Among pensioners, 51% of private renters said they are financially struggling v 48% of social renters and 22% of owners. Among 60-65s, 70% of private renters said they are financially struggling. In our full cost of living report *Fragile Budgets, Difficult Choices*[5] it is striking that private renters consistently report the highest levels of worry/vulnerability across a range of questions. Housing Benefit is an invaluable support but doesn't always fully cover someone's rent. This means that some people subsidise their rent payments from their State Pension or other benefit income – it is an additional pressure on people's State Pension. Adequacy analysis based on the Minimum Retirement Living Standard will underplay this rent gap.
Homeowners	Although there will be a growth in private renting in retirement, for the foreseeable future most pensioners will likely still be homeowners and many will face financial struggles. Indeed, among current pensioner homeowners, one in 10 (10%) are in poverty.[6] Homeowners face costs around maintenance, repair and adaptation that renters often don't. These can be substantial and many people try to hold back savings for such eventualities. Also, there will be an increasing number of people past SPa but still making mortgage repayments.
Single people, including bereaved and divorced	Among pensioners, 32% of people who live alone[i] said they are financially struggling v 24% of those in a two-person household. 40% of people who are divorced said they are financially struggling. Among 60-65s, 61% of people who live alone said they are financially struggling. We welcome the Commission's analysis of the income and cost changed following bereavement. It should continue to look at this issue and bring forward proposals, whether on joint-life annuities and/or re-introducing a degree of State Pension inherited rights. The latter is a complex, genuine debate but options could include time-limited and/or means-tested/targeted support, or a different approach such as effective links to the range of means-tested benefits and social tariffs for bereaved people, ideally with a degree of automation.

[i] 'People who live alone' are the best proxy for 'single' in the polling dataset due to sample sizes.

State Pension age

We submitted evidence to the independent report for the current SPa review. We understand that SPa policy is closely related to State Pension and wider retirement income policy. Our position is that the SPa timetable should not changes unless it is clear that changes would not have a disproportionate effect on disadvantaged groups. Given the growing inequality in life expectancy, decreases in healthy life expectancy and the many people who find it difficult or impossible to work up until SPa, we believe there is no justification for further rises in SPa at present. Our main recommendation is to introduce supplementary financial support through the benefits system for those who can't work in the three years below SPa, as outlined below.

2. Accumulation & adequacy

How, when and where people save for their retirement is absolutely crucial for delivering adequate incomes in later life. People need to be saving an appropriate amount to give themselves the best chance of achieving a decent standard of living throughout their later life, in a well-managed scheme with good governance, that delivers good returns offset by low charges, and ideally from a young age in order to maximise the benefits of compounding returns.

Automatic enrolment is arguably the greatest policymaking success story of the 21st century. With over 11 million people newly saving for their later life, it has made a huge difference to people's retirement outcomes, and successive Governments should be applauded for continuing to back its rollout, even when economic times were difficult. This sets a clear precedent and vision for extending the scheme further – a clear vision with wide political buy-in, coupled with long lead-in times to help employers adjust, is crucial if any reforms are to be a success.

As the Commission highlights, the current regime does not serve many people well enough, with many gaps, particularly for people earning below the threshold, people with multiple employers, and the self-employed. Opt-out rates have been very low, but we believe the debate would benefit from some qualitative research with those who are choosing to opt out, to see more clearly why these decisions are being taken.

The State Pension remains of crucial importance. Without certainty over the role of the State Pension, it is impossible for anyone – savers, Government, or employers – to know how much private saving is necessary. This is why we continue to believe that the Commission should assess the social purpose of the State Pension, and explore what role it should play in delivering income adequacy for pensioners. This is the bedrock on which auto-enrolment is built.

Contribution rates

We agree with the widespread calls that the auto-enrolment minimum saving levels are insufficient to provide a decent standard of living in retirement, although we do not have a specific view about the overall level of savings required. Nevertheless, it is clear from the evidence set out by the Commission that higher levels of saving are required. Age UK believes that ideally the auto-enrolment minimums should reflect those set out by the Living Pension standard, a sister to the Living Wage. For an employer with a DC scheme to be accredited as a Living Pension organisation, they must ensure employees pay 12% in total, with 7% coming from them and 5% from the employee. For lower earners, there is also a minimum cash contribution of £3,150 a year, so everyone is saving a decent amount that makes a meaningful difference to their future retirement income.

If this isn't implemented, we broadly agree that moves to equalise the minimum contribution rates between employers and employees, for example with each party paying 5% or 6%, totalling 10% or 12% accordingly, are appropriate. This level should be set depending on the best assessment of the available data.

Also, many people are missing out, especially some low earners and the self-employed. We agree with the groups the Commission has highlighted. There is a question around whether it is always in someone's interest to save into a pension, for example if they are finding it difficult to make ends meet or are paying high interest charges on debt. We support moves to improve the flexibility of pension saving, for instance by enabling people to opt down their saving, potentially to 0%, while continuing to receive the full employer contribution, and by introducing sidecar savings to enable people to meet additional, ad hoc expenses, which may otherwise deter them from pension saving.

Given these provisos around flexibility for lower earners, we support proposals to make contributions from the first pound of earnings, which makes a significant difference, and are pleased that the Commission has highlighted the frozen upper threshold.

In addition to lowering the minimum age to 18, we also believe serious consideration should be given to raising the upper age limit to 75, or even removing it altogether. If people are still working and earning, they can still benefit from pension saving – although there is not much time to receive compounded investment returns, there are good tax reasons for continued saving (tax relief on contributions and the tax-free lump sum) that make saving worthwhile for many older workers. With ever increasing numbers of people working to older ages – currently about one in eight past age 65 are still employed – such a change would help many people prepare for their retirement, at whatever age it may come.

Charges and Value for Money

Value for Money is important, and we are supportive of the framework being developed by the Government and regulators. Within this, there is a strong case for reducing the charge cap. This is currently set at 0.75% and has proven one of the most effective consumer protections against the excesses of industry. However, the average charge in the DC world is about 0.5%, with many larger schemes charging less. In the future, with fewer, larger schemes, there is a strong case for cutting the charge cap to 0.5%, which would help the many savers stuck in higher-charging schemes. These are mainly smaller, single-employer trusts, so this policy would also support the Government's agenda of consolidation while making a material difference to many savers. Obviously, schemes need to have the resources to make sensible, beneficial decisions for members, but larger schemes are already able to do this for an AMC of less than 0.5%, so we believe this should become a legal cap.

Governance

While we welcome the allusion to scheme governance and accept that it is difficult for the Commission to cover all issues in detail, we believe that greater consideration could be given here. There is a greater focus on the regulatory environment, but the operational detail of how schemes are governed is important and can make a significant difference to savers' outcomes. We would recommend that the Commission goes further and considers how this should best operate, given the rise of Master Trusts and the shift towards a world of fewer, larger schemes. This need not be detailed, but raising the issue and recommending that the Government should, in the near future, do a deep dive into the pros and cons of trustee governance vs contract-based governance vs alternative models would be welcome. This is also linked to the Value for Money framework, and plays an important but underrated role in ensuring savers get good outcomes.

Tackling saving gaps

The Commission notes the existence of several groups who experience 'gaps' in their saving, meaning they are particularly likely to be saving less than required to deliver an adequate income. Such groups include women, carers, people from ethnic minority groups (with significant variation between ethnicities), people with a disability, and the self-employed. Age UK supports the Commission's efforts to address these disparities.

We do not go into detail here, but we would in particular flag the impact of divorce on women's pension saving. This came out strongly in our report 'For Love and Money', which looked at the impact of the pension freedoms on women and in greater detail at how retired couples, with a focus on women, manage their finances.[7]

For those affected, and approximately one third of women born in 1955 have been divorced at some point in their lives, divorce can have a catastrophic impact on retirement finances. All too often, the pension isn't considered in the divorce process at all, or because a of a present bias insufficient weight is placed on it. As part of this research, we heard several stories from women who had either not saved into their own pension so had nothing in their name, and then failed to account for pensions during the divorce process:

> *I was married to my husband for 23 years. We are now divorced and have been for almost seven years. As a result of not working for almost nine years to raise children and then only returning to work on a part time basis, I myself have a pretty worthless workplace pension. Unfortunately, when we were divorced neither party consulted with any legal bodies and we resolved the property issue between ourselves. However nothing was said regarding pensions. I am now wondering what my rights are if any?*

We also heard a harrowing story about one woman who had paid into her husband's SIPP, and then lost everything on divorce.

Our report recommended that a 'nudge' be placed into the divorce process to push people to consider their pensions, for instance ticking a box to 'I have considered how our respective pension saving should be shared'. This recognises there are legitimate circumstances where it is inappropriate to include pensions in a settlement, but encourages people to at least consider doing so.

More positively, our research also identified that although there is some gendered spending (e.g. women more likely to shop for groceries; men for cars and holidays), by-and-large most couples take financial decisions on a consultative basis – of course, not to say are no issues.

Gen X

Recent research by the Social Market Foundation and Legal & General have both highlighted the difficulties that Gen X faces in saving for their retirement. The L&G research included findings relating to 40-54 year olds, suggesting that around five million people in their forties and early fifties are at risk of falling short in retirement.[8] The SMF research found that 54% of Gen X are projected to have inadequate retirement incomes.[9]

This cohort are disadvantaged because they have missed out on widespread access to final salary pensions, yet not been auto-enrolled early enough to benefit from the compounding returns on their investments.

The DWP's own analysis finds a drop in private pension incomes over approximately the next 20 years. It is clear that this cohort represents a particular problem, which requires more detailed thinking about how to help them. They are likely to be more reliant on the State Pension than previous or subsequent cohorts, bringing to the fore the importance of the questions raised in Section 1 of our response around the adequacy of the State Pension.

Means-tested benefits

We are also concerned about people oversaving, or accessing their pension in a way that affects their eligibility for means-tested benefits. Benefit rules are complex and it is difficult for savers to understand the interaction between the two.

Furthermore, there is limited support for this. Even a financial adviser is unlikely to have the detailed knowledge of the benefits system required, while a guidance service like Pension Wise will alert people to check this but is unable to provide any detail – the financial sector broadly lacks the knowledge and expertise on this issue.

Conversely, benefits advisers will be unable to offer people help with accessing their pension, not least as this may well constitute regulated financial advice which they are not allowed to give.

This means that, to make accurate decisions, people accessing their pension savings are likely to find it particularly challenging to understand the ins and outs of two completely different systems.

There is a possibility that firms could use Targeted Support to help those they identify as being likely to be eligible for means-tested benefits. However, this is currently undeveloped and, given the lack of expertise across the industry, may never come to fruition. We believe there is a role for organisations offering advice to people about both working-age and pensioner benefits. However, this would necessitate a clear, fully authorised remit, and sufficient resources to help a large number of people. We would be grateful if the Commission could consider this in greater detail.

Measuring adequacy

We are interested in how to define and measure adequacy, which is not straightforward and there is a plethora of academic literature on the subject.

The first Pensions Commission advocated the use of 'replacement rates'; however, there are several problems with this approach. As the current Commission flags, the definition used meant that the full State Pension supposedly provides an 'adequate' income for lower earners, meaning there is little need for additional private saving, in spite of there being clear issues with meeting day-to-day expenses for this group. The replacement rate is effectively a pre/post-retirement income ratio; however, it is unclear how to treat pre-retirement earnings. For example, are these defined as the final year of work, a career average, or another option? And how are housing costs factored in?

Age UK believes a basket-of-goods measure, such as the Pensions UK 'Retirement Living Standards' – which are themselves based on the Joseph Rowntree Foundation's 'Minimum Income Standard' – is preferable. These measures set out the level of income someone needs to afford a particular standard of living. Of course, they are not tailored to each individual and their lifestyle choices, so people should still be encouraged to use Pension Wise and MoneyHelper to understand how best to use their pension income to meet their own needs. This approach has the additional advantage of being much easier to communicate.

The Commission has suggested that a hybrid system should be developed, using a replacement rate for some and a 'basket of goods' measure for others. This has benefits for lower earners, for whom a basket of goods measure is more appropriate, while allowing stronger savings incentives for people with slightly higher disposable incomes.

It could, however, complicate communications about saving rates and make it difficult for employers and employees to understand what an appropriate amount is to save in their specific circumstances – depending on how the pre-retirement earnings element is defined, it could be impossible for people to know in advance what income they are targeting. The crucial factor in deciding what approach to use is to identify the core purpose of the measure – if it is for Government policy and academic modelling then replacement rates are fine, if it's for communicating with the public about their savings then a basket of goods approach is preferable.

Whatever measure is used, people will still want the certainty of knowing what lifestyle and spending choices the State Pension is expected to provide once they come to retire. This is why we prefer a tiered approach based around different baskets of goods, akin to the Pensions UK standards (Minimum, Moderate, and Comfortable). We believe this approach achieves a similar outcome to the suggested hybrid approach but makes pension saving clearer to individuals. If a hybrid approach could mimic this and the Government and providers could ensure clear communications, it could also work well.

3. Pre-State Pension age – work and social security

We welcome the Commission's focus on people in the ~10 years blow State Pension age ('pre-SPa'). This is important given the challenges around staying in work and there are an important set of policy issues and potential solutions. We have written about this in a 2023 research report[10] and for the Work and Pensions Committee[11] and highlight some key points below. We emphasise elements of the current context – healthy life expectancy falling while the SPa is rising to 67 and 68, meaning frequent challenges to working during the increasing wait for a State Pension, and the relatively high rate of poverty among people aged 60-SPa. Many people are juggling disabilities, health problems, caring and work. This is a challenging context that requires a balanced approach.

Helping people work for longer

Broadly speaking, there are two elements to helping people work for longer – 1) staying in work and 2) moving back into work. In both cases, the barriers identified by the Commission are key – health, job quality, flexibility and skills. The Commission also correctly identifies the challenges faced by carers.

Having access to genuine flexible working is a particularly important factor in people's ability to keep working.[12] Flexibility enables older workers to maintain a work life balance, particularly important at a time when they are more likely to hold a caring responsibility, develop a limiting health condition, experience age discrimination (particularly in recruitment), or struggle to move back into work for other reasons.

Successive Governments have made great progress enhancing rights around access to flexible working in recent years, including making the Right to Request a day one right. We believe there is still further to go here, and the Government should pursue the aim of having 'flexibility by default', where all employees can assume they can work flexibly unless otherwise justified.

Part of what is required is a cultural shift, where employers of all sizes normalise flexibility and have the knowledge and skills to make it work within their business. Our previous research found that people struggled to find 'genuine' flexibility, and more needs to be done to work with employers, especially SMEs.[13] Although this is now quite old, it's unlikely that today's employment landscape is substantially different.

Given the rise in economic inactivity among the over 50s since the Coronavirus pandemic, there is still significant work for Government to do here, and we are pleased the Commission has highlighted this as a key issue.

Some older workers find themselves out of work, and struggle to get a new job. This can be due to ageism in the labour market, issues with skills (e.g. outdated skills and/or a lack of appropriate training available), or a lack of flexibility available as discussed above.

Some local Age UKs run services helping people in their 60s get back into work. They shed light on the barriers / challenges some people of this age face, including:

- low confidence – significant, especially among people who had the same job for 20+ years before being out of work,
- mental health issues,
- musculoskeletal problems,
- digital exclusion – more common among this age group than one might assume,
- age discrimination in and out of work,
- life events like bereavement or menopause,
- provision of care, including sandwich care (care for people in younger and older generations).

These services support people by identifying skills and appropriate work sectors, building confidence, help with CVs, teaching job search skills and doing practice interviews. **There may be scope to expand this kind of support to help more people back into work.**

There is also scope to improve employment support services to better meet the particular challenges of people in their 50s and 60s. Previous Age UK research shows how system design within employment support services can systematically disadvantage older jobseekers.[14] More recently, the Centre for Ageing Better (CFAB) has done extensive research into these barriers and how services can be designed inclusively to achieve better outcomes for older jobseekers.[15] For example, services should make clear that they will look at a person's whole circumstances and challenges and not focus on 'getting any job'. Older jobseekers should see themselves represented in promotional materials.[16] CFAB also give detailed examples of how employers can make recruitment processes more inclusive across the age range. For example, using age-inclusive language and imagery, advertising in places where older jobseekers tend to look, and highlighting employee benefits such as pension contributions and flexible working.[17] None of this requires 'big bang' policy changes, rather a sustained commitment to improving employment support and recruitment practices. **The Commission should make the case for Government commitment to such improvement.**

Reforming the social security system for older workers

Turning to the social security system, there is scope to better enable people to work through changes to the system of work allowances and conditionality in Universal Credit (UC). **There is a case for extending work allowances to everyone aged 60 (for example) to SPa, not just those receiving health- or child-related elements as currently.** This would act as an additional incentive to work for an age group of people very likely to be juggling health and caring responsibilities, including at a level that is substantial but below that which makes them eligible for additional support. This would be a pragmatic reform to get and keep more people in some work rather than drop out of the labour market and likely not return. The context is one of very low employment among this group – 'just 15% of people on UC who are aged 60+ are in employment, compared to 27% of those in their 50s.'[18] It would bring additional costs but those should be weighed up against the compounding benefits of longer working that the Commission report outlines – earning and saving more and not using up savings in the years before SPa.

There is also a case for introducing a work allowance for people receiving the UC carer element. The challenges of juggling work and unpaid caring responsibilities are well known. Introducing a work allowance would bring more rewards from work to those carers who can juggle both, incentivising more carers to do some work/stay in the labour market for longer. It would move the system into line with people who receive the health element of UC – they already have a work allowance.

There may also be a case for removing/easing the minimum income floor for people aged 60-SPa. The floor treats self-employed people as earning a nominal minimum, which limits the financial support for them through UC if they are actually earning less than this. Self-employment is relatively common in the run-up to SPa. Removing or easing the floor would mean people earning relatively small incomes get more financial support through UC and are incentivised to maintain whatever self-employment they can for as long as possible, rather than give up as it is not worthwhile. As above, this would bring the compounding benefits of working for longer.

Relaxing work conditionality for older workers (e.g. 60-SPa) could be a pragmatic way to ease the pressure and complexity they face and keep them doing some work for as long as possible. There is already some discretion on conditionality but this could be more consistent. An example could be relaxing *in-work* conditionality. We support the Resolution Foundation's recommendation:

> *DWP could make it clear to claimants that 'in work conditionality' – where people are expected to move from [part time] to [full time] work, including by taking on a 2nd job – is not applied to people approaching SPa.*[19]

These examples use 60 as a lower age limit for various support. While any age limit may be arguable, it would be better to have one than not. It should be thought of as 'age-appropriate' incentives and conditionality and seen in light of the rapid increases in the SPa in recent years alongside the mixed picture on (healthy) life expectancy.

Support for those unable to work in the run-up to State Pension age

Even with positive reforms to extend working lives, there will always be some people who are unable to work for the last couple of years before SPa. This is often due to long-term illness, disability or caring responsibilities, common experiences among people in their mid-60s. We give real examples in our 2023 report *Waiting for an Age*.[20] The poverty rate among people aged 60-64 is 20%, higher than for all age groups over the age of 24. The last rise in the SPa increased poverty among 65-year-olds who would have access their State Pension if the SPa hadn't changed.[21] The rise to 67 and then 68 could exacerbate this problem of poverty in the years before SPa, especially if healthy life expectancy continues to decline or stall and too many people in their mid-60s continue to be unable to work to SPa.

We think there is a strong case for the Government to mitigate pre-SPa poverty by providing an enhanced level of benefit income to a defined group unable to work due to disability/illness/caring in the three years before SPa. There are a range of options for how this could be done in practice; via an enhanced rate of Universal Credit (UC), a lower eligible age for Pension Credit or early access to the State Pension. We think an enhanced rate of UC is the most feasible route and will develop specific proposals in the coming months. The Work and Pensions Committee has investigated this issue and made a similar recommendation.[22] We have argued for this since the Cridland Review in 20216-17.

As well as financial support, there should be support through relaxed conditionality. The requirement to find work or more work is, for some people just below SPa, hugely unrealistic and counterproductive, given their health and/or caring situation, juggling these, facing ageism and other challenges to get into appropriate work. Relaxing in- and out-of-work conditionality could make it easier for people to engage with the system, which is currently experienced by some people in the years before SPa as stressful and inflexible to their challenges around caring and health. Some people simply opt out due to these pressures, surviving on very low incomes as a result. Relaxing conditionality would bring some costs but would be a pragmatic approach to help older people, many with health and care issues, to work for a bit longer, save a bit more for retirement, etc.

Private pensions as a bridging fund to SPa

As access to DC pensions is available from age 55 (soon to rise to 57), we have become concerned that many people access their savings too early, depriving themselves of future income and potentially missing out on means-tested benefits as a result. The Commission should examine the first point of access, especially the role of the Tax Free Lump Sum (also known as a Pension Commencement Lump Sum) – see the section on Decumulation for further detail on the TFLS issue.

While many people simply access the TFLS and leave the rest in drawdown without using it, there is a risk that some people, particularly those who are out of and struggling to get back in to work, use their DC savings to bridge the gap until they reach SPa.

A genuine debate needs to be had exploring to what extent should people aged 55/57-SPa access their DC savings to tide them over until they can receive a State Penson, and whether it is a significant problem if too many people access their pension quite a few years from SPa (e.g. late 50s/early 60s), reducing their long-term income prospects.

Age UK believes that the ultimate purpose of a pension is to provide an income for retirement and later life, and that early access, including using it as a bridging fund is not the intended purpose. The Commission should consider the gap between the earliest point of withdrawal and the SPa – in our view, 10 years is too long, and it should be reduced to five, and there are possibly arguments to further restrict this.

The welfare system should provide adequate support so that people are not forced to take their pension early.

Furthermore, it can lead to regret:

> *I currently draw a personal pension which now pays a reduced amount due to taking it earlier than originally planned. The reason I'm not in fulltime work is caring duties. I'm saving the state money and being penalised for doing so. …. as an unpaid carer I should receive a carers pension or salary.* (Campaigner, female, aged 61)

In some cases, people access their pension as it looks preferable to another option, such as engaging with the social security system/employment support. If those systems were improved, as discussed above, more people would access that support and some would move into work and/or receive social security support, enabling them to delay accessing their pension. **The emerging principle is that people should access their pension as late as is feasibly possible, with other forms of income and support accessed first, whether through employment or the benefits system.**

4. Means-tested benefits

We strongly welcome that the Commission is planning to 'explore whether means-tested benefits need to be renewed to remain appropriate in 2050'. We welcome the Commission's analysis showing the decline in the future Pension Credit (PC) caseload and increase in the pensioner Housing Benefit caseload (HB) caseload. One takeaway is that in 2050 (and beyond) there will be a significant minority of pensioners who rely on support from the means-tested benefits system. We understand that the decrease in PC caseload reflects the growing proportion of pensioners receiving the new State Pension. We are a little surprised that it will be as high as ~800,000 people in 2050, when the vast majority of pensioners will be on the nSP. This prompts us to ask:

- Does this reflect an expectation that a significant proportion will have an nSP significantly below the full rate? Does DWP data indicate this?
- What assumptions have been made about the take-up rate of PC? Is the modelling specifically about the Guarantee Credit element only?

Passporting

We agree that further consideration should be given to the decline in eligibility for passported benefits arising from the decline in the PC caseload. We don't at this point propose a particular new regime but instead raise a number of issues and potential reforms to explore.

It is instructive to look at the passported benefits in turn, to show the level of financial support from each one, to consider what is already passported from non-PC benefits, to separate out issues with HB (which is one of the passported benefits) and to consider other options for individual benefit access.

Passported benefit/discount	Value (pa)	Passporting notes

Housing Benefit (HB)	£5,512[23]	Accessing HB via PC means someone is eligible for full HB up to the eligible rent, with no taper, and without a hard capital limit. It is possible to receive HB without PC but those who do so through the HB means test often have a reduced award and can be worse off than those with a slightly lower income and qualifying though PC. The projected decrease in PC caseload and increase in HB caseload could make this issue more common. The Commission should investigate further. The Government is bringing together the administration of PC and HB. This is about streamlining applications to those benefits but there could be scope to improve access to wider support.
Council Tax Reduction (CTR)	£1,380	There is a similar issue with CTR as with HB in that qualifying via PC can result in a full discount whereas qualifying through the CTR means test can result in tapered support. As with HB, the Commission should investigate this further.
Warm Home Discount	£150	The Government recently expanded eligibility beyond the core group of PC recipients to include people receiving any means-tested benefit across all ages. So, pensioners receiving HB (even without PC) will be passported to this benefit now and in future. More generally, this approach deems it appropriate to target support based on receipt of HB. The Government is working across-departments to make possible household income data-sharing for the purposes of targeting energy support. This is a medium-term piece of work that could open up ways to identify households for support through a social tariff that doesn't just rely on receipt of benefits. **If successful, this could be a route for wider passporting in future.**
Water social tariff	£150[24]	Beyond passporting, there have been interesting and welcome attempts by water companies to – 1) Enable people to apply for a social tariff through a benefits calculator, without having to start a new application on the company website – an 'Apply Once' approach. 2) Automatically enrol customers onto a social tariff, through combining multiple datasets through a trusted third party.[25]
Broadband social tariff	£200[26]	
TV licence (75+)	£180	

NHS dental and optical costs	£360*	
Cold Weather Payment	£25 per 7 days	

* Estimate on the basis of maximum allowance for voucher for glasses and lenses,[27] and two routine dental visits per year plus one treatment for a filling or root canal treatment.[28]
^ Total assumes two Cold Weather Payment triggers of £25 each.

Government developments on sharing data on household income is a promising avenue for targeting energy support to households in need without having to rely on benefit receipt. As we discuss below, an obvious problem with the benefit-receipt approach is that a significant number of people do not receive the benefits they are entitled to and so miss out on passported support. **The initial work is around energy support but, if successful, the approach could be expanded to other essential services.**

Returning to the point about people who just miss out on PC but feel an acute sense of hardship, a more nuanced household income-related approach could identify and deliver support to people in this situation. Another possible option for addressing the 'just missing out' group would be to look at uprating the PC capital thresholds used in establishing eligibility. These have not been uprated since 2009.

In terms of other potential solutions, there is a case for simply expanding the passporting regime to receipt of HB as well as PC. While this would be a blunt reform, it would have a simple logic – a pensioner on any means-tested benefit is likely to face a degree of financial hardship and/or insecurity and would benefit from additional passported support. Indeed, PC and HB recipients have similar levels of relative poverty after housing costs (20% and 22% respectively) and material deprivation (35% and 36%).[29] The Commission's projection suggests that aggregate caseload would be similar in 2050 to 2025, around 2.5m people (although the reality is more nuanced as some people receive both).

Benefit take-up

The Commission report doesn't mention the issue of pensioner benefit take-up. This is particularly acute with PC, which had an overall take-up rate of 62% in 2023/24, with Guarantee Credit at 69%.[30] HB take-up was at 85%, and while there are no official estimates for other benefits, take-up of Attendance Allowance could be 69% and Council Tax Reduction could be 62%.[31] As an advice provider, we know that people also miss out on the underlying entitlement to Carer's Allowance, which opens access to PC and other benefits. **Looking to the future of retirement incomes, a strategic approach to substantially increase take-up of all pensioner benefits would boost the incomes of many on lower incomes.** This would include people who have been unable to save (much) into private pensioners and/or who face additional costs from housing, disability and caring – groups at a higher risk of poverty. **This should be seen as a pensions system issue, since it involves supplementary income from the state to meet the essential needs for those worst off in later life. Pensioner benefits should be seen as a fourth pillar in the pensions system.**

The interaction of small/modest DC pots with means-tested benefits

Given the growing number of people with small-modest DC savings in future, we are concerned about the risk of people decumulating in a way that avoidably reduces or eliminates their eligibility for means-tested benefits. This could apply to working-age and pensioner benefits, although the risk feels highest for the former, given that people tend to access their pension in their late 50s and early 60s.[ii]

Here is simple, imagined scenario to illustrate **the risk of making yourself ineligible for a benefit**. Peter is 60 and single. He leaves work due to the onset of a long-term health condition. He has £50,000 in DC pension savings. He has £10,000 of other, accessible savings and no other income, so plans to apply for Universal Credit (UC). He considers how to use his DC pot. He takes the 25% tax-free lump sum (£12,500) to supplement his income and pay off £3,000 of debt. He now has total capital of £22,500, falling to £19,500 after paying off debt. UC assesses him as having £19,500 capital so he is not eligible. If he had understood these consequences in advance, he would have taken a smaller lump sum, he may have made different decisions around repaying debt, and so would have been eligible for UC.

Here is a simple, imagined scenario to illustrate **the risk of being no better off after accessing a pension by taking an annuity**.[32]

> **Case study – seek a secure income**
> John is 57 years old and lives with his wife Nora. John is paid £1,006.97 a month Universal Credit for him and Nora. This includes their monthly rent of £340.
>
> John has £30,000 in his pension pot, which he uses to buy an annuity paying £130 a month. This is taken fully into account as income so Universal Credit is reduced to £876.97 a month. Their overall monthly income remains the same.

In both cases, an uninformed decision leaves people no better or worse off than they could otherwise have been in the short-term while also worsening their long-term pension income prospects. This is an issue of adequacy.

Given that pensioners (over SPa) are likely to have already accessed their pension/s, the risks for them may be slightly different. **This includes that their regular income from a DC pension – whether via an annuity or drawdown – tops up their total income to a level that is modest and not much higher than if they had had no DC pension at all.** The Commission report touches on 'net payback' from pension saving, factoring in reduced income from means-tested benefits. We welcome this analysis although the Commission report arguably underplays the risk –

> *If they retire in the private rental sector they may lose out on [HB] as a result of their pension wealth. But even in the small number of cases where someone would lose all of their [HB], a low-income renter would still be better off for having saved towards their retirement, receiving £1.46 in payback for every £1 saved into their workplace pension.*

[ii] We welcome the work LCP produced on this issue in 2021: On point paper - How getting pension freedoms wrong could cost you your benefit

Obviously, there is a risk of weakening the incentive to save when so much can be lost to means-testing, although presumably many people in their 30s, say, will not be making this calculation for the future. Pensions Policy Institute (PPI) addressed this issue in 2023:[33]

> *Pension savings that have been accessed and are in an annuity, drawdown account or bank account, will count in the means test for [HB]. As a result, people who have saved into a private pension, and claim [HB], could end up with a similar level of disposable income in retirement as had they not saved, because their benefit entitlement may be reduced by the amount of their private pension income.*

The PPI proposes a reform to mitigate this problem:

> *Excluding private pension income (up to a certain level) from the [HB] means test could offer one way to reform the system, so that it better suits a larger proportion of renters in retirement and reduces the risk of introducing disincentives to saving.*

The Commission should investigate further, including 1) modelling the payback for a wider range of low-modest earners and the impact on adequacy standards (factoring in housing costs) and 2) model the impact of variations of the PPI's proposal.

And while housing policy is outside the scope of the Commission, wider issues of housing supply, tenure mix and affordability are inescapably linked to retirement income adequacy and people's sense of security. There is no secure retirement without secure housing. Long-term spending on HB must be managed and mitigated through wider housing supply policy. **The Commission should draw links between these housing policy issues and retirement income adequacy across Government.**

Where someone takes money form their DC pension *while receiving PC*, there are a set of complex calculations to establish the changes in imputed and actual income and how this affects the amount of eligible PC. This may be a fairly minority issue, affecting only those receiving PC and with pots that still contain funds. However, with income drawdown an increasingly common choice, the associated benefit entitlement complexity could also grow.

- The rules around deprivation of capital for benefit eligibility can be unclear/contested. It would be challenging for the state and individuals if such cases were increasingly common.
- The potential for cases of accidental overpayment of benefits where there is a delay in the DWP or a local authority being aware of a benefit recipient's pension decisions/situation.

This complexity between DC pensions and means-tested benefits and the associated risks is an underexplored area in the Commission report. It should investigate this issue in more detail, identifying which risks are significant and could grow in future, and develop improvements in the information and guidance provided to help people manage these.

Working while receiving Pension Credit

The final point on pensioner benefits is that there may be scope to make it more rewarding for people to work while receiving PC. While many pensioners are unable to keep working and PC helps them cover their essentials, some on PC continue to struggle financially and are able and willing to work. Currently, there is little incentive to do so, given that every £1 of earnings is deducted from PC £1 for £1 beyond a £5 per week earnings disregard for a single person – less than half the minimum wage for a single hour worked. Increasing the earnings disregard or introducing a taper on earnings would mean that those who are able and willing to work past SPa receive more income for doing so without losing PC.

This is unlikely to apply to large numbers of people given the PC caseload is declining. However, the decline will happen slowly and the Commission's projection still has a significant number of recipients by 2050. Having a small number of people benefiting would limit the additional cost to the state.

5. Decumulation

The biggest change since the first Pensions Commission has been the introduction of the pension freedoms, which have transformed how people access and use their pension savings. While limited engagement is needed during the savings phase due to automatic enrolment, at retirement people suddenly face a series of complex choices. They need to understand different products and processes, avoid scams, and guard against behavioural biases, all while making difficult judgements about how long they may live and how long their money needs to last. For most people, this is too much to navigate without support.

Accessing DC pensions

Accessing pensions is an extremely difficult decision for savers to take. At one stroke, you switch from being a disengaged saver to a (supposedly) active consumer, expected to navigate complex retirement income products markets, understand how long you're likely to live for, and push past behavioural biases.

Engagement and education are part of the solution, but far from the whole picture. Age UK supports moves to increase people's knowledge – we continue to believe that an auto-appointment system for Pension Wise should be created and have campaigned on this for several years – however, alone this is not sufficient to improve outcomes.

Even a switch to a default income solution or 'guided retirement pathway' (see the next section on 'Drawdown, annuities, and guided retirement') does not completely answer the question – people will still have to take an active decision to trigger access to their pension, for example by taking their tax-free lump sum (TFLS), and at least provide bank account details and confirmation of ID.

Access is a critical moment, and a great opportunity to provide people with more information and steer them in a direction that meets their long-term needs. As such decisions may interact with decisions about work, employers might be a good vehicle through which to reach people.

Overall, however, **we strongly support moves to put in place default solutions, which will enable people to get the most out of the freedom and choice reforms.**

There has been much discussion over capping the tax-free lump sum in recent years, ostensibly to save the Treasury money. The TFLS is viewed as an important part of the DC system, and many people use the money for sensible purposes. Research by Quilter found that 15% use it for home improvements and healthcare costs respectively, while 14% gift it to children/grandchildren or use it for day-to-day living costs. We have also heard of people paying off mortgages or other debt. It is undoubtedly an advantageous part of the DC saving arrangements.

However, as the Commission observes, many people take it simply because they can – it has become the 'norm' and people access their pension, often as early as possible, without clear reason.

People will also take their TFLS – and possibly use more or all of the remainder of their savings too – in order to bridge the gap between work and SPa (see Section 3 for more detail).

Age UK believes this is unhelpful. The primary purpose of saving into a pension is to provide an income throughout retirement and later life, and accessing the TFLS prematurely runs counter to this aim. There are, of course, lots of legitimate reasons why people might want to spend the TFLS on other goods and services, and we are not making a moral judgement about the rights and wrongs of spending it on different things. However, the system could be designed more robustly to encourage people to leave their lump sum alone until later on and to put their future income needs at the forefront of their decision-making.

This is partly about changing norms and behaviours, but **the Commission should also consider reducing the gap between the age of access and the State Pension age, and look at different approaches. The Commission should look closely at this, and we believe there is a strong case for reducing the gap to five years** (i.e. access from age 62, with an SPA of 67), although there are pros and cons of this and other outcomes, which should be explored in more detail. At a minimum, we believe there should be a clear link in legislation setting out the gap, whatever it ends up being set at, so that if/when SPA rises (or falls) in future, the change is automatic.

Drawdown, annuities and 'guided retirement'

We welcome the provisions in the Pension Schemes Act 2026 that will ensure that all trust-based pension schemes offer a 'guided retirement' pathway to help people with their decumulation decisions; alongside proposals for the contract-based regime to follow suit. This will help overcome some behavioural biases and remove the need for members of the public to navigate complex product markets, where currently they have to take difficult decisions involving significant amounts of money on an ongoing basis.

As future cohorts rely increasingly on DC savings, this will become even more important. We envisage three major challenges to ensuring that 'guided retirement' works for savers.

Firstly, there will remain a challenge in how people can manage multiple pots with different 'guided retirement' pathways, likely involving several different pension schemes, and although this is likely to be mitigated by the auto consolidation vehicle for micro pots and the introduction of the pensions dashboard, this will require further consideration by the authorities.

Secondly, there is still a question about how annuity purchase fits this model, given people's reluctance to hand over large amounts of money to an insurance company in exchange for what they often perceive as an uncertain return. Our joint research with Aviva found that this is still as true at age 75 as at age 65. Making annuitisation in later life the norm (likely at age 75 or 80, or between those ages) requires delicate footwork. For example, it could be possible through the purchase of a deferred annuity, although no market currently exists in the UK, or through locking in to annuity purchase well in advance. Alternatively, following the example of Nest and using a built-in life assurance product might be possible as a way of delivering a fixed income later on; so might moving to a CDC decumulation solution at an appropriate point.

Other guarantees in annuities are also available. For example, people can purchase a right to receive their money back if they die within a certain period of time, which can reduce some behavioural barriers to purchase. These are not always expensive, and so providers should consider how to build in such mechanisms to ensure people are not unnecessarily dissuaded from converting their remaining funds to a fixed income.

Thirdly, most people live as part of a household (at least until they become bereaved), and plan their finances accordingly. There is a real challenge to convert our highly individualised DC pensions system into a model that works at a household level, but we believe it is of crucial importance. Factoring in other household members' pension savings, as well as wider sources of income (e.g. savings, or in some cases housing wealth) is an important part of managing money and planning for the future. And on bereavement, the surviving spouse, typically the wife, can experience a sharp and sudden decline in income. This is a serious problem that can plunge people into financial hardship – in the context of guided retirement pathways, it is essential to consider how to build joint-life annuities into any defaults.

Providing appropriate support

There is a near-total absence of support for people in drawdown once they are in mid-retirement. Aside from limited help offered by pension schemes, there is no trustworthy support aimed at the mass market. A solution is necessary. Age UK and Aviva are currently working together to pilot a Mid-Retirement MOT, which aims to give DC savers the guidance they need for big pension decisions, such as purchasing an annuity, while helping with the broader aspects of their finances as well as wider lifestyle issues. The diagram below demonstrates what is expected to be included:

The pilots are based on research co-published by the two organisations in 2025. The research was conducted with people who are reliant on DC savings – having some pension but with a limit on household DB. In addition to the Mid-Retirement MOT intervention, the other main recommendation was that a 'flex first, fix later' approach delivered the best outcomes and was most aligned with savers' needs.

The research is available [on the Age UK website](). [34] We won't go into detail here, but findings included several themes that are important for decumulation.

- There is a strong demand for a stable, secure lifetime income. 83% of the survey participants agreed that the security of an income for life has become more important as they get older.
- People adopt a set-and-forget behaviour. There is limited planning or thinking ahead, with very few people reviewing sustainability.
- Only 48% were confident their savings would last for the rest of their lives. 38% did not know.
- People typically underestimate their longevity. Other research agrees, and also finds that when people get older they will switch to overestimating this.[35]
- The State Pension is not seen as being enough to live on, with only 10% thinking this would be possible. Only 26% feel financially secure.

- Bereavement is a key event, and greater support is needed for people at this moment. The research also reiterates the point about the need for joint-life annuities.
- People need wider support linking pensions with other financial and life events, as per the figure above.

We believe that providing appropriate support to DC consumers post-access is essential if we are to avoid people drawing down their money at inappropriate rates – either too fast or too slow – and to alleviate some of the biggest emerging problems with the pension freedoms, including scams and surviving spouses running out of money. We urge the Commission to explore this in more detail, and we would be happy to meet to discuss our work here further.

Building a strong and sustainable decumulation system

This research found that people strongly value security of income, increasingly so as they get older, making annuities a crucial part of any solution. In the absence of a marketplace for deferred annuities in the UK, it is important to consider how these could work. Given the fact that everyone experiences cognitive decline, albeit in different ways and at different speeds, making it increasingly harder to take complex financial decisions as they get older, based on the findings in our research we believe the following should be put in place to help provide secure long-term incomes that protect people throughout later life:

1) **Make annuity purchase the norm in later life, likely at age 75 or 80.** 'Guided retirement pathways' should culminate in an annuity purchase for most people, except where this is inappropriate for the saver. This should be on an opt-out basis.
2) **Factor household circumstances into the pathways.** The main ingredient of this is to default people into a **joint-life annuity** where appropriate (which should be fairly easy for providers to do, with separate defaults for where people are married and where they are not) and also consider wider factors like known social-care costs of a spouse.
3) **Provide sufficient guidance and advice to help people plan finances and their futures.** At present, there is a dearth of support for people once they are past retirement. This means millions of people managing their drawdown with nowhere to turn to for help. This needs to change, and Age UK and Aviva are launching 'a mid-retirement health check' to develop a solution here.
4) **Maintain the flexibility so that people can adjust expenditure earlier in their retirement.** The freedom and choice reforms remain fairly popular – or at least not unpopular – and people value the ability to flex their expenditure around their needs.
5) **Protection from high charges and unfair business practices.** The FCA's Consumer Duty does not go far enough to help with the myriad decisions people will take, plus, of course, the fact that most people will have a trust-based scheme which may not fall under its jurisdiction, even for some pathways. The regulators must both implement a satisfactory consumer protection regime, which caps charges in

drawdown schemes at 0.75% to mimic the charge cap on AE default funds in accumulation.

6) **Greater protection from scams, and redress when they do occur.** These are a scourge for many pensioners, with ruthless scammers specifically targeting people because of their age. Age UK research has found that 75% of over-50s worry about scams some or most of the time. A route should be opened for reimbursement when these do happen.
7) **Ensure the system protects people with high housing costs.** The Commission's interim report rightly flags renters, and we must ensure that accessing a pension does not unfairly interfere with eligibility for means-tested benefits, especially Housing Benefit (see Section 4). There are also notable issues for homeowners who, faced with the responsibility of maintaining a home throughout their later life, often struggle with the cost of doing this or find it extremely difficult to organise repairs while experiencing cognitive decline. This is particularly true for low-income homeowners. All too often, the full costs of being a homeowner are not accounted for – for example, the Pensions UK Minimum Income Standard allows only £200 a year for upkeep costs – meaning true costs are significantly underestimated. The Commission should explore this in greater detail, in addition to its work on renters.

We also believe that those who rely on DC savings are typically worse off than people with a substantial amount of DB income. We urge the Commission to avoid recommending changes to the system that penalise DC savers, as this could effectively lead to making people on lower incomes worse off.

Data

The Commission's interim report refers to the FCA's Retirement Income series data. This is collected on a 'per pot' basis, which limits its usefulness for exploring wider trends in consumer behaviour and trends across decumulation. In order to generate sufficient understanding and help people manage their money, it is essential that improved data is collected systematically and made available for analysis. Crucially, this needs to cover 1) an individual's total pension savings, across possible multiple DC pots and any DB someone might have, and 2) link it to broader household finances – as couples tend to manage most of their money jointly, looking only at individual units within a household paints a limited picture. We recommend the Commission pushes the Government to improve data along these lines.

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[1] Polling commissioned by Age UK, conducted by Opinium, 8-23 January 2026, GB, 2,700 adults aged 60+.
[2] Unpublished, to be published in the coming months.
[3] Polling commissioned by Age UK, conducted by Opinium, 8-23 January 2026, GB, 2,700 adults aged 60+.
[4] Polling commissioned by Age UK, conducted by Opinium, 8-23 January 2026, GB, 2,700 adults aged 60+.
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