PENSIONS POLICY INSTITUTE
PPI

Technical Report

Every little helps: Should low earners be encouraged to save?

The analysis in this Report is kindly sponsored by the PLSA:

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

About this report

This technical report provides details of analysis undertaken for the **Pensions and Lifetime Savings Association (PLSA).** The paper has been split into sections, covering:

- Background to the research including a summary of the analysis.
- A look at the statistics of the population of low earners, compared to the population of all earners. Highlighting some of the key drivers of low earnings.
- Identifies some of the largest subpopulations within low earners. Highlighting the real-world motivations and nuances to low earnings.
- Examines the effect of removing trigger income, through the lens of the characteristics of low earners identified in previous sections.
- A Technical Appendix with results from the analysis.

John Upton, Policy Analyst, and Tim Pike, Head of Modelling, at the Pensions Policy Institute (PPI), carried out the modelling and produced this report from January-July 2023.

The PPI is grateful for the input from Alyshia Harrington-Clark, Nicky Day and Simon Sarkar, of the PLSA, in the production of this paper. Editing decisions remains with the author, who takes responsibility for any remaining errors or omissions.

Sponsorship has been given to help fund the research, and does not necessarily imply agreement with, or support for, the analysis or findings from the project.

Section 1: Background to the analysis

Introduction

There are many different segments of the low earning population. Some may be young people, balancing university and a job, or on the first rung of the career ladder; some may be juggling work and childcare; some may have enough money to only need to work a few hours a week. There are many possible reasons for having low earnings, and because of this, the group of low earners, as a whole, is poorly understood.

This work explores how the £10k trigger earnings within automatic enrolment affects these groups. This is the rule that specifies that an employee needs to be earning over £10k for their employer to be obliged to automatically enrol them in a pension scheme. The removal of this rule could help some people, while putting others at risk. To do this, it is necessary to understand the different motivations, circumstances, and outlooks for low earners. Some may be low earning out of choice, safe in the knowledge that they have savings or higher earning family members to support them. Some may have a worrying financial situation, and need all the money they can get in the here and now. Some low earners may have earned a lot in the past, or may expect to earn more in the future; some may be low earners their whole lives. This analysis is based upon the Understanding Society dataset[1] – this is a longitudinal study of UK individuals, that has enough information on income to be able to classify people as low earners. Understanding Society is a longitudinal study led by the Institute for Social and Economic Research (ISER) at the University of Essex. The survey covers a wide range of themes including family life, education, employment, finance, health and wellbeing. This allows us to further class the low earners we identify into further meaningful subpopulations. This analysis also assumes the removal of the Lower Earnings Limit (LEL), which is anticipated to have been removed by the time trigger earnings would be removed, and would be necessary to meaningfully implement the removal of trigger earnings.

Removing the trigger earnings from automatic enrolment could bring increased retirement benefit to large sections of the low earning population, while worsening the circumstances of approximately 300,000 people during working life.

This report investigates what the effects would be on people with low earnings if trigger earnings were removed from automatic enrolment. Trigger earnings refers to a rule within automatic enrolment which specifies that an employer is only obliged to automatically enroll their employees into a pension scheme if their annual earnings are above £10k. This feature of automatic enrolment avoids enrolling anybody who might not have the financial stability to be able to safely make pension contributions. However, many people will also be excluded from automatic enrolment, even though they actually can afford to make pension contributions, and will have a reduced retirement income as a result. This report investigates the population that earns under £10k a year (hereafter referred to as low earners). The analysis identifies which segments of this population need their working life

[1] Understanding Society

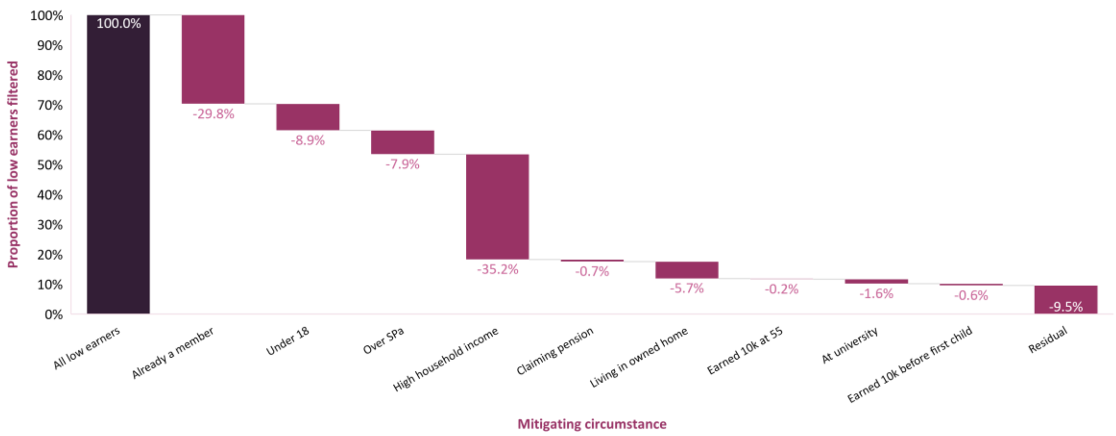
income protected, which can afford to make pension contributions, and of those that can afford to, how much benefit they will see in retirement from making these extra contributions.

We have identified some of the larger segments within the low earning population – young people at the start of their careers, who live with their parents and may or may not also be studying; mothers who take breaks from better paid careers to juggle childcare and part-time work; and people nearing retirement, not needing or not able to do a full-time job, but not yet having retired completely. These are by no means the only ways to be a low earner, and even within these groups, there are clear splits between those that are low earning because they can, and those that are low earning because they must.

To answer the question, then, of whether low earners would be better served by the removal of the £10k earnings trigger, it is best to define directly what would shield them from harm. For example, if a low earner lives in a household with other family members that earn significantly more, this low earner is classified as being able to make pension contributions, since diverting a small amount of their income towards pension savings is unlikely to place them at risk of poverty. A series of these mitigating circumstances are used to filter out those low earners who would either be unaffected by the policy change, or have some other protection against poverty apart from their current earnings. The resulting "waterfall" that arises from removing each group of low earners that corresponds to a test, one by one, is shown below in Figure 1.

Figure 1: Most low earners have some characteristic that means they would be unaffected by, or protected from, the removal of the trigger income for automatic enrolment

The percentage of the total number of low earners filtered by each test after removing those captured by previous tests



After filtering the population accordingly, we are left with a residual group that has no identified protection against the removal of the trigger income, and we must assume that they are at risk. We estimate this group to be approximately 300,000 people and some attributes of this group have been explored. Particularly interesting is the fact that they are mostly paid by the hour, since this information is available to employers and could be included in automatic enrolment legislation. However, by and large, this residual group appears to be almost as heterogeneous as the whole low earning population.

Having identified that only a small proportion of low earners would be at risk from this legislative change, we are left with the question of whether that majority that is not at any significant risk would stand to benefit from the change. Using PPI models, we estimated the increase in retirement income for representative individuals from the aforementioned groups of young people, mothers, and those approaching retirement – estimating that they would see increases in their retirement income ranging from 6.8% to 12.6%.

To summarise, this work separates out the low earners that could benefit from the removal of trigger earnings, and those that would be placed at risk by it. We describe each of these groups in more detail, and we model the benefits of the extra savings that would be made under this new policy. By doing this, we highlight the possible benefits of removing trigger earnings, highlight the risks, and offer some insights into how to mitigate these risks, if policymakers decide to pursue its removal.

Section 2: Who are the low earners as a group?

This section looks at the statistics of the population of low earners, compared to the population of all earners. It highlights some of the key drivers of low earnings. It shows that low earning is most common at the ages of 16-22 and 59-62, that a majority (67%) of low earners are women, and that when looking at a low earner's earnings as a proportion of the total household earnings, they are usually low, most commonly around 10%. It also examines statistics that do not reveal significant findings but are useful for completeness. It shows that only a minority of low earners are on benefits against which pension contributions are disregarded, meaning that there is minimal interaction with the benefits system that needs to be considered for this analysis. It also highlights the lower incidence of single occupant households, and the higher incidence of households with more than 2 adults, among the low earning population.

The trigger income is a feature of automatic enrolment that excludes the lowest earners

This work examines low earners in the context of the trigger income within automatic enrolment. This rule specifies that employees need only be enrolled if they earn above £10k a year. Therefore, a low earner in this project is defined as someone who earns less than £10k from income that would count towards automatic enrolment, as these are the only people that could be affected by this policy change.

The removal of this rule could help some groups, whilst simultaneously placing others at risk. To understand how different groups of low earners would be affected, it is necessary to understand the different motivations, circumstances, and outlooks of the low earning population. Some may be low earning out of choice, safe in the knowledge that they have savings or higher earning family members to support them. Some may have a worrying financial situation, and need all the money they can get in working life. Some low earners may have earned a lot in the past or may expect to earn more in the future; some may be low earners their whole lives. This analysis is based upon the Understanding Society dataset[2] – this is a longitudinal study of UK individuals, that has enough information on income to be able to classify people as low earners. Understanding Society is a longitudinal study led by the Institute for Social and Economic Research (ISER) at the University of Essex. The survey covers a wide range of themes including family life, education, employment, finance, health and wellbeing. This allows us to further class the low earners we identify into further meaningful subpopulations. This analysis also assumes the removal of the Lower Earnings Limit (LEL), which is anticipated to have been removed by the time trigger earnings would be removed and would be necessary to meaningfully implement the removal of trigger earnings.

The low earning population as a whole has some immediately apparent differences when compared to the whole population or even the earning population – they are more likely to be either young or almost retired; they are more likely to be women; the profile of the rest of their household may also be different. In this report, a low earner is defined as an employee who earns less than £10,000. This is because, in terms of trigger earnings, these are the people who would be affected if this rule were to be removed. A notable exclusion is self-employment earnings – this does not count towards

[2] Understanding Society

somebody's eligibility towards automatic enrolment, so these earnings are not factored in when determining if somebody is a low earner in this analysis.

There are 3.2 million low earners in the UK

Around one in nine employees, equivalent to 3.17 million employees in 2022, meet the age criteria for automatic enrolment but earn less than the trigger income of £10,000 a year.[3] There are 29.8 million people in payrolled employment,[4] of which 94.5% are within the age criteria for automatic enrolment.[5] By overlaying the rates of low earning derived from understanding society on to this population, we arrive at the 3.17 million figure.

Low earning is most common among people at the beginning and end of their career

Among low earners, young people are the most overrepresented, between the ages of 16-23. There is also a peak just before retirement age, from the ages of 59-62. Figure 2 compares the age distribution of the whole population, the earning population for comparison, and the low earning population, showing what percentage of each group is made up of people of each age.

Figure 2: The age distribution of low earners is much more concentrated around young adulthood and the ages just before retirement.

Percentage of people at each age in 2020, ages 16-80.

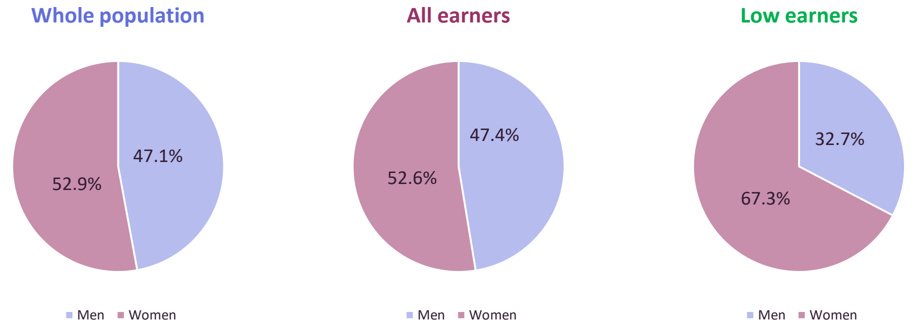
The majority of low earners are female

The low earning population is predominantly female, being 67.3% women. By contrast, both the general UK population and the population of all earners have virtually the same split as each other, which is much more even, being 52.9% and 52.6% female respectively (Figure 3).

[3] PPI calculations using Understanding Society data
[4] ONS (2023)
[5] ONS and HMRC (2023)

Figure 3: The low earning population is predominantly female, despite the whole population and the earning population being evenly split.

Percentage of people at each age in 2020, ages 16-80.

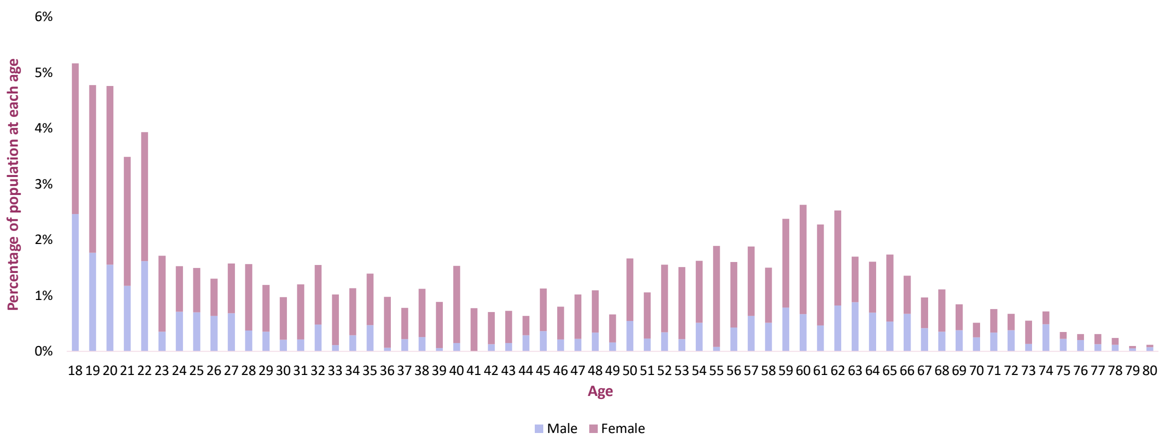


The gender imbalance of low earners varies with age

One phenomenon that is not apparent when examining age and gender separately, is that the gender makeup of low earners varies according to age. At the younger ages, women outnumber men slightly, but the gender imbalance increases significantly around the age of 28. After this, the imbalance towards women persists until retirement age, at which point the gender split becomes more even (Figure 4).

Figure 4: The low earning population becomes more female with age.

Percentage of people at each age in 2020, ages 16-80, with colours representing gender split at each age.



Most low earners are not on benefits

The majority of low earners are not in receipt of benefits. Somewhere between 8% and 10% are in receipt of Universal Credit, against which pension contributions are disregarded. For example, if you earn £500 a month, and make a £40 pension contribution out of that, you receive Universal Credit as if you earn £460 a month.

There are several other means tested benefits against which 50% of pension contributions are disregarded – namely, housing benefit, job seeker's allowance, employment and support allowance, and income support. For example, if you earn £500 a month, and make a £40 pension contribution out of that, you receive these benefits as if your earnings were £480. A smaller proportion of low earners are in receipt of these benefits, ranging from around 0% to 4%, as shown in Table 1.

Within Understanding Society, 11.5% of low earners responded positively that they are in receipt of at least one of the benefits mentioned above, including Universal Credit.

Table 1: Proportion of low earners in receipt of each type of benefit against which pension contributions can be disregarded

	Refused to answer	Don't know	No	Yes
Universal Credit	0.6%	0.7%	90.7%	8.0%
Housing Benefit	0.7%	0.5%	96.0%	2.8%
Job Seeker's Allowance	0.6%	0.7%	98.4%	0.3%
Employment and Support Allowance	0.4%	0.4%	98.1%	1.0%
Income Support	0.6%	0.7%	97.7%	1.0%

Most low earners live in households where they contribute a small proportion of the total household earnings

Low earners tend to live in households where other members of the household bring in significantly more income. Just over a quarter of low earners are providing the sole income of the household – of these, 51.7% are the only adult in the household. On top of this, an additional 19.6% of these one-earner households are couples where one has reached State Pension age but the other has not.

Within the remainder of households, where the low earner is not the sole contributor to the household income, the common value of a low earner's income as a proportion of the total household income is 10%, as shown in Figure 5.

By comparison, within the whole earning population, again a quarter of all earners provide the entire household income, with the proportions being contributed by the remaining population being more varied. While it is most common for earners to contribute around half of the total household earnings, we can see the wide range of household types and different earning levels within households from the wide distribution of household income proportions of all earners, as shown in Figure 6.

Figure 5: The proportion of total household income contributed by the low earning population is typically low, with the modal value being 10%.

Distribution of percentage of total household income contributed by low earners, ages 16-80.

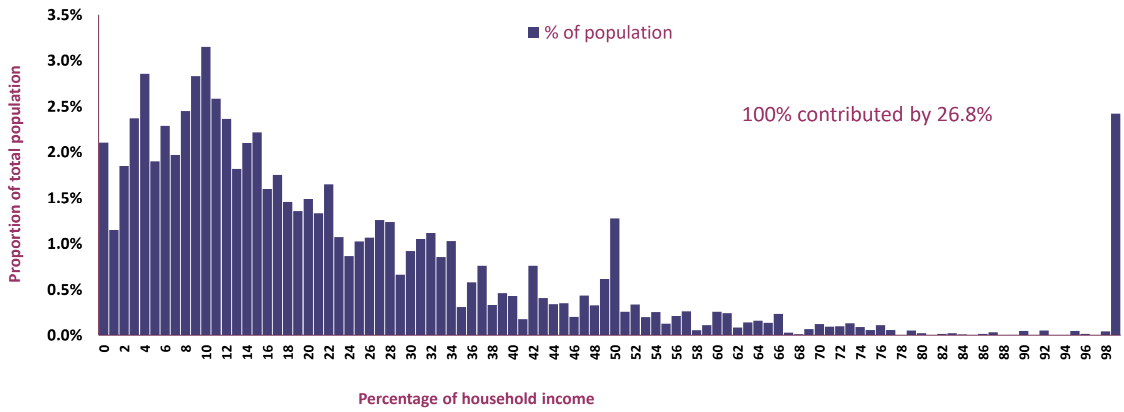
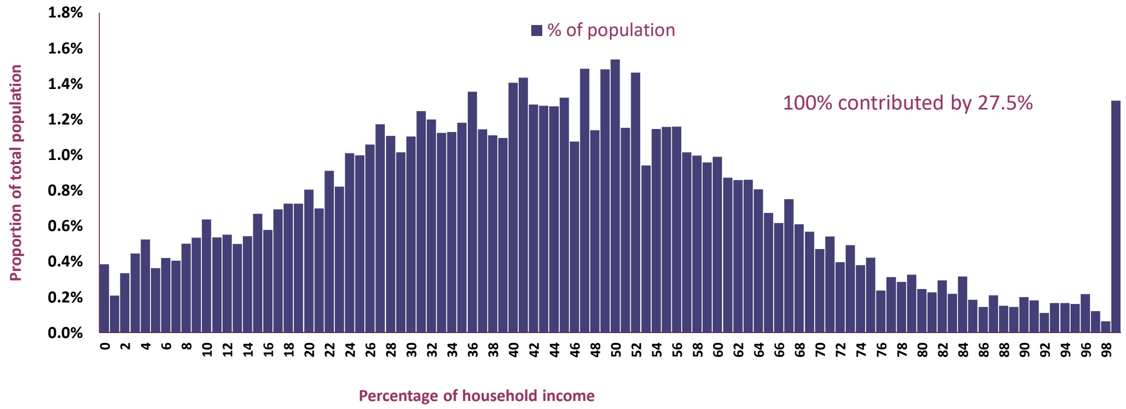


Figure 6: All earners, as opposed to low earners, tend to contribute around half of household earnings, but a variety of household compositions and earnings profiles gives a wide distribution of proportions contributed

Distribution of percentage of total household income contributed by all earners, ages 16-80.



Household makeup

The UK population lives in a variety of different household types – some are lone adults, some are couples, some live as part of groups of adults which may or may not contain some couples. Some of these adults will have children living with them, and others not.

Low earners are less likely to live alone in working life, with 5.5% living alone compared to 8.7% and 11.3% of the whole population and the earning population respectively. This is also true for a household composition of two working age adults, with 6.4% of low earners having this household composition, compared to 8.7% and 12.7% of the whole population and all earners.

There is also a higher incidence of households with more than 2 adults as well as children among the low earning population (15.5% compared to 8.1% and 10.2%), reflecting the sections of the low earning population who have households that contain multiple generations.

Full details of household composition are available in the Appendix.

Section 3: Who are the low earners as individuals?

This section looks at the three largest subpopulations of low earners: people aged 16-22, people aged 59-63, and mothers. It identifies extra nuances to their situations, that may affect the affordability of pension savings for them: that young low earners tend to live with their parents and work part-time, but may or may not be in full-time education; that young earners approaching retirement age are more complex with a wide range of circumstances; and that mothers tend to be low earning as a direct result of their having had children, and that they are typically supported by a household with adequate income.

Young low earners tend to live with their parents, work part-time, and may or may not be in full-time education. Living with their parents and future earning prospects protect them from poverty.

Young low earners, particularly between the ages of 16 and 22, are very likely to be working part-time and living with their parents. Around 50% are still in full-time education. This group is protected from the removal of the £10k trigger, because by living with their parents, they are shielded from poverty – assuming that their parents have an adequate income. Furthermore, many of these young people will go on to earn considerably more than their current place in the earnings distribution would suggest – especially those that are still in education.

People approaching retirement could have many different reasons for low earning, but key common themes are their accumulated wealth from property or past earnings, and whether their partner or families bring in extra household income.

The low earners that make up the peak in the age distribution around 60 years old, by comparison, have much more complex circumstances – they may or may not be low earning by choice, and they may or may not be financially stable enough to take a reduction in their salary. This group itself could be divided into further groups, with different reasons for having low earnings.

Some reasons why older workers could be forced into low earnings are poor health, caring for a spouse or a parent, or highly paid workplaces not being willing to hire people if they are nearing retirement. However, there are also many reasons why older workers may also take a reduction in earnings voluntarily: living expenses may be lower because of home ownership, children moving out, or not needing to build any more savings. On top of this, being closer to retirement means that future spending needs and pension income are more predictable.

Furthermore, being married to someone else who is earning a higher salary, or has even already reached State Pension age, may mean that there is even less incentive for an older worker to stay working full-time or in a stressful job. Examining this group is much more complicated as there are so many factors, but some simple factors can be pulled out to try and assess whether they are earning small amounts through a conscious "winding down" process, or because they need more but are unable to earn more. These factors could be whether they own their home, whether the total household income is higher, or whether they had higher earnings in the past.

Mothers are often low earning directly as a result of being mothers, and the key factor in determining their financial resilience is the total household income.

Mothers are likely to have been earning more immediately before having a child, and are likely to live in a household with other people who supply most of the household income. Motherhood among low earners seems to be the key driver behind the gender imbalance among low earners, with 33% of all low earners in the 30-49 age group being mothers.

There is clear evidence that having a child is an event that pushes many mothers below £10k earnings, and that in many cases, their earnings are severely affected in the long run. If we look at the proportion of mothers earning nothing, under £10k, and over £10k the year before having their first child, and then by the age of their youngest child thereafter; we see that 72% earned above £10k before having a child, and only 40% earned above £10k in the year that they had their first child. In the following years, it seems that many mothers that stopped earning above £10k go on to earn nothing at first. However, as their children get older, it appears that many go into low earning, rather than returning immediately to their old salaries. Even when their youngest children are as old as 14, it appears that the rate of these mothers earning above £10k does not return to the rate it was before they had children. These proportions are shown by each year in Figure 7.

Figure 7: Many mothers are pushed under the trigger income for automatic enrolment when they have their first child.

The proportion of mothers earning nothing, under 10k and over 10k in the year before they have their first child, and by the age of their youngest child thereafter.

Low earning mothers usually live in a household where other household members bring in a larger income. Around 30% of low earning mothers are the sole earners of the household (which is still much higher than the 15% of all mothers that are the sole earners of their household). This is shown in Figure 8. Among those low earning mothers that earn some proportion of the total household income, the proportions tend to be distributed between 5% and 30%, as shown in Figure 9. By comparison, the group of all mothers is more widely distributed and the distribution centres around 40%.

Figure 8: Mothers who contribute some proportion of the total household income typically contribute less than half, with the distribution centered around 40%.

Distribution of percentage of total household income contributed by all mothers, ages 16-80.

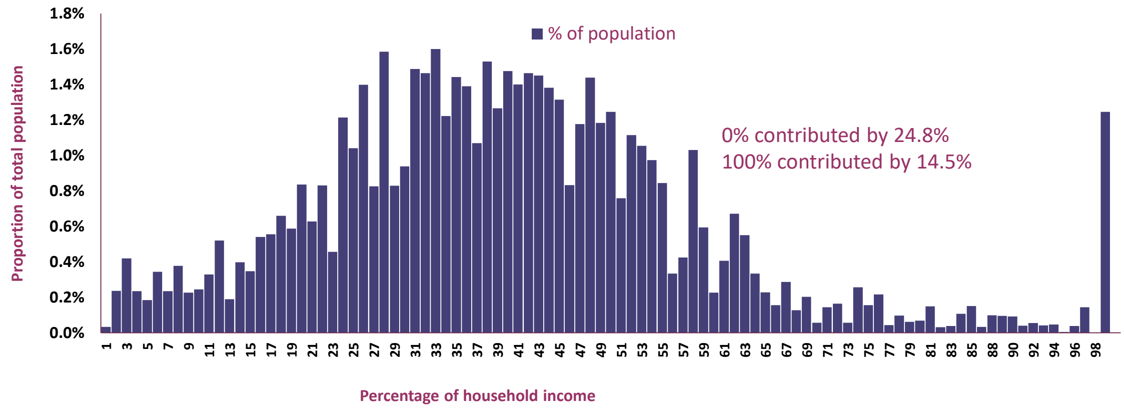
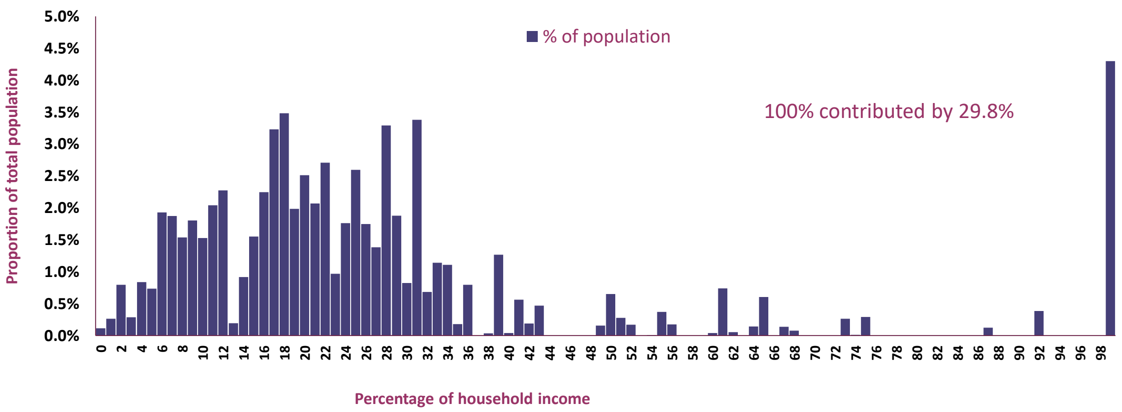


Figure 9: Low earning mothers, by comparison, contribute somewhere between 5% and 30% of the total household income

Distribution of percentage of total household income contributed by low earning mothers, ages 16-80.



Even among two new mothers with low earnings, their sensitivity to the removal of the £10k trigger could be very different. For a mother among the 30% of low earners who earn the entire household income, we can only assume that she earns all she can while juggling childcare, that she does not have any spare income to divert towards pension savings. However, for a mother who only contributes 5% of the total household income, automatically enrolling her could be beneficial. Since she lives in a household with a much higher income, her income is unlikely to be crucial in keeping the household out of poverty. Since being a mother may have pushed her into low earnings for a long time, not enrolling her would have a large negative impact on her savings. Couples who divorce rarely include pension assets in the settlement, with one study finding this to be as rarely as 12% of the time,[6] meaning if the mother has been focused on caregiving while her partner has been earning, the mother may not receive as much pension as she would be found to be entitled to if a pension sharing order were issued.

[6] Buckley, J., & Price, D. (2021)

Section 4: Which low earners can afford pension contributions?

This section aims to answer the following questions:

- How can we identify somebody as protected against poverty in working life, in the case that trigger earnings are removed?
- If we identify everybody with these mitigating circumstances among the low earning population, who is left over, and what does this residual group look like?
- Of those who do have mitigating circumstances, what positive result could they expect from the removal of trigger income?

This section identifies these mitigating circumstances based on the subpopulations identified in the last section. Identifying this list of mitigating circumstances produces a series of "tests" that can be applied to the low earning population, and as each test is applied one by one, low earners are stripped away from the remaining population until only the residual group is left. As each test is applied, the reasoning for applying this test is given.

Once the residual group is identified, a similar analysis as in the second section is applied: the statistics that describe this group as a whole are given and discussed. It appears that many of the same patterns exist within the residual as they do within the low earning group more generally, for example, there are peaks in the age distribution at the beginning and end of working life. This suggests that there is no neat explanation or descriptive individual that captures this residual, however, some notable features are discussed that may help to identify policy options to protect these people in the event that trigger earnings are removed.

Finally, after filtering out all the people who fit the individual profiles identified previously, modelling is used to estimate the increase in retirement income to these individuals.

Across the different groups that make up low earning employees that have been identified above, the same key factors end up determining their vulnerability to poverty, particularly their total household income. Other factors are their past/future earnings potential, anything that suggests whether or not they chose to become low earners, or significant financial assets they may have despite their low earnings. These other factors might be harder to measure than total household income, but proxies can be used that apply to at least some of the population. For example, knowing that a low earner is at university is a good indicator that their earnings potential will increase once they graduate.[7] This doesn't help to understand the earnings potential of older low earners, but it does filter out at least some low earners as being at lower risk.

We can measure the negative effects of the proposed policy change by filtering the population through the lens of these factors that mark certain low earners as more likely to have mitigations against the financial pressures of starting pension saving. If we remove all low earners that have at least one of these mitigating circumstances, we are left with a smaller group which we can assume

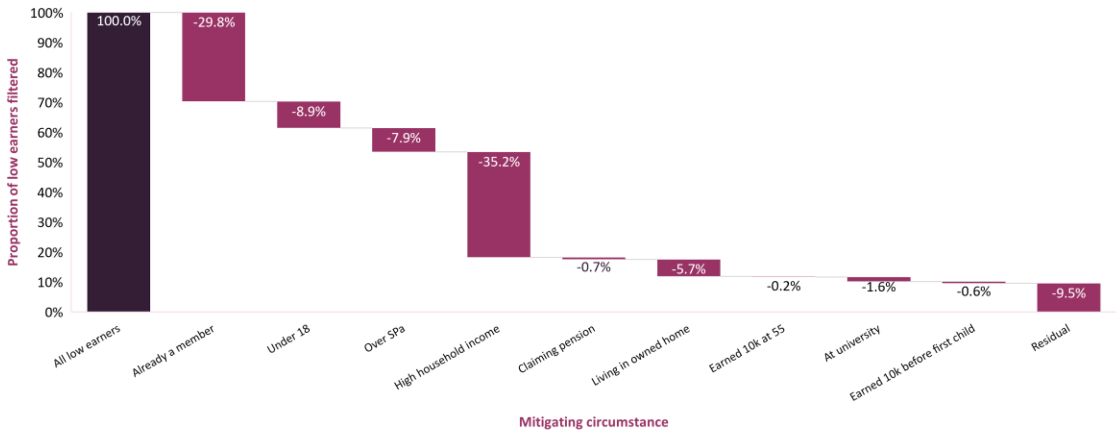
[7] Britton, J et al. (2020)

are vulnerable to the removal of the trigger income and may need alternative protection from additional immediate financial hardship caused by making pension contributions.

Filtering the low earning population accordingly produces the waterfall graph below (Figure 10), with each test being explained underneath:

Figure 10: Most low earners have some characteristic that means they would be unaffected by, or protected from, the removal of the trigger income for automatic enrolment

The percentage of the total number of low earners filtered by each test after removing those captured by previous tests



In detail, the following explains what these tests are, and what we learn from applying them:

People who are already a member of their employer's pension scheme

29.8% of low earners are already a member of their employer's pension scheme, despite the fact that their employer is not obliged to enroll them. This could be because their employer, out of convenience or generosity, chooses to enroll every employee regardless of their earnings. It could also be because an employee (perhaps an older employee who is approaching retirement) has previously earned above £10k, and continues to contribute despite having reduced their hours. It could also be because they are a "non-eligible worker" or an "entitled worker", which means that while they do not qualify for automatic enrolment, they can still join their employer's scheme, and have consciously chosen to do so. Regardless, this group would not be affected by the removal of trigger earnings, even if they are at risk of poverty. Therefore, the removal of trigger earnings would not cause this group any additional hardship.

People who are under 18 or over State Pension age

Once people already contributing have been removed, removing people under 18 and over State Pension age removes a further 8.9% and 7.9% respectively. These people would not qualify for automatic enrolment, on account of their age, and would therefore also not be caused any additional hardship from the removal of trigger earnings. They are worth highlighting however, because they form such a large proportion of the low earning population.

People who live in a household with an adequate income

This group is perhaps the most crucial to this analysis. This is one of the key risk indicators for every demographic group identified so far – a low earning young person, new mother, or person near retirement age can be most reliably judged as being vulnerable to the removal of trigger earnings by whether or not they live with family or a partner that brings the total household income up to an adequate level.

For these purposes, an adequate income is deemed to be the household equivalised working life equivalent of the PLSA Minimum Retirement Living Standard for a couple. This level is calculated by taking the PLSA Minimum Retirement Living Standard for a couple, and applying the Pension Commission Replacement Rate methodology in reverse, to obtain the working life equivalent. It should be noted that several different definitions of an equivalent household income were tried, such as an equivalent approach to the State Pension, and the Joseph Rowntree Foundation's Minimum Income Standards,[8] and the end results of the analysis were similar. In 2023 terms, this level would be a net monthly income of £2,073, after housing costs, for a working age couple.

After removing the earlier levels, removing low earners in a household with an adequate total household income removes a further 35.2% of the total low earning population. This is not only a very large percentage, but it is different from the previous three groups we have removed: these are people that would actually be affected by the removal of trigger earnings.

People who are already drawing a pension income

This test aims to capture people who have either crystallized their pension savings or taken an Uncrystallised Funds Pension Lump Sum (UFPLS). This test assumes that people who do this are engaged with their pensions and no longer accumulating pension savings. This test removes a small number of low earners, a further 0.7%.

People who live in an owned home

This test has a lot in common with the adequate household income test: it suggests that, even though an individual's income may be low, their overall household financial situation is stable. An owned house suggests lower housing costs, but also that either the individual's family, or possibly the individual themselves, has been able to build up significant assets. These could be the individual's parents, but it is probably also likely that this test will catch a lot of people near retirement who have had a lifetime of adequate earnings, and only now reduced their income. This test removes a further 5.7% of low earners. This group is also especially comparable to the modelled couple that ramp down.

People who earned above £10k before the age of 55

This test is also aimed at capturing those that are reducing their workload gradually as they approach retirement. If the individual had higher earnings before this age, it may be a good indicator that their lower income has been a choice. Again, the kind of person this test is aimed to capture may also be captured by earlier tests, and is also somewhat limited by the survey data: it can only successfully identify people who have either been in the survey for a long time, or are only slightly older than 55. We see that this test filters out a further 0.2% percent of low earners.

This is the final test that would capture the near-retirement-age group discussed earlier. We know that many of these ramping down couples will have one or more of these indicators of mitigating circumstances against the removal of trigger earnings. This begs the question, then, that if the removal of trigger earnings presents a minimal risk for these people, is there a substantial benefit to outweigh it?

[8] Joseph Rowntree Foundation

To answer this question, the PPI's Individual Model was used. This is a model that uses the OBR's Economic Fiscal Outlook[9] to model the development of the pension system into the future, and model different individuals under different policy situations to be able to model the effects in each case.

To estimate the benefit to this group nearing retirement age, the PPI Individual Model was used to model a married woman and man who both, when they turn 58, work part-time and take a proportionate reduction in earnings. They otherwise both earn the median amount for their age and gender. The man is four years older than the woman, as is the average age difference of married couples, and each person fully retires when they reach State Pension age. These individuals were modelled in two policy scenarios, one with and one without trigger earnings and the Lower Earnings Limit (LEL), starting in 2023 at ages 18 and 22.

We found that, under the current policy situation, when this couple are 72 and 68, they have a net household income of £34,270. With the removal of the LEL and trigger earnings, it becomes £36,740 (an increase of 7.2%).

People who are currently at university

This test captures those who are currently enrolled in university. As mentioned, they can probably be assumed to be less vulnerable because they will soon have more time and qualifications, allowing them to earn much more. While it is concerning that these students are potentially in a precarious financial situation, as they do not appear to come from households with adequate incomes, it could still be assumed that the students themselves would go on to have a higher earning potential. There may also be some explanations, for example, the students have permanently moved out of their parents' home, but are still receiving financial support from them. This test removes a further 1.6% of lower earners.

This is the final test aimed at capturing the group of young people mentioned earlier. Again, this test captures few people, because most young low earners will be living with their parents, and therefore caught by the adequate household income test, or the living in an owned home test.

A further two individuals were modelled, to similarly estimate the benefit to young university students. While there is a fairly even split among young low earners between being in full-time education or not, modelling those that earn higher salaries later on is especially useful, as it presents a "worst case" in relation to the question of trigger earnings: if they are going to earn so much more later on, is there much point encouraging them to save a little extra at the beginning of their careers?

We modelled a university student, who earns below £10k while at university, from ages 18 to 22. From 23 onwards, they earn at the 70th percentile, to reflect the higher average earnings of university graduates. A male and a female version of this individual were modelled to capture the effects of the different earning distributions of men and women.

Under the current policy situation, when the male and female university students reach 68, they have a net retirement income (in 2023 earnings terms) of £20,550 and £19,280 respectively. With the removal of the LEL and trigger earnings, it becomes £21,940 and £20,620 (an increase of 6.8% and 7.0%).

People who earned above 10k before having a child

This test is aimed at capturing those mothers whose low incomes are a direct result of motherhood. This suffers the same limitations as the "10k at 55" test, in that many mothers who ought to be filtered

[9] Office for Budget Responsibility (OBR), 2022

out by this test were not in the survey before they had their first child. And, again, it is concerning that these mothers may not have adequate financial support from family to supplement their low earnings. However, this test does highlight those mothers who can be assumed to have had earnings before their child, and are likely to return to work after their children are older.

This is the last test aimed at capturing women who are pushed under £10k of annual earnings by having a child. To estimate the benefit to this group, we modelled a married woman and man who have a child, where the woman follows the earnings profile of similar women in the dataset. She earns slightly above £10k before having a child, before taking reduced hours with less than £10k annual earnings, until her child turns 12. The man earns the median earnings for a man of his age consistently throughout his life.

The modelling results for this group are especially worth discussing. They show that, for a mother whose prime earning years are spent caring for a child, there is a lot of benefit from this policy change. The joint retirement income of the household is substantially increased, even if the husband's earnings are greater throughout the couple's life. But, for the mother, her individual savings are increased by an even greater factor.

Under the current policy situation, when the married couple who have a child are both 68, they have a net household income of £31,790. With the removal of the LEL and trigger earnings, it becomes £34,930 (an increase of 9.9%). However, in this case it is particularly important to separate the income of the man and the woman: In the current policy situation, they receive £18,680 and £13,110 respectively; and, with the removal of trigger earnings and the LEL, they receive £20,180 and £14,760 – an increase of 8.0% and 12.6%.

All modelled individuals

Having modelled representative individuals from all the subgroups identified within the low earning population, we are left with these results (Table 2):

Table 2: Modelled retirement incomes for model individuals under policy scenarios with and without trigger earnings and the lower earnings limit (LEL)

	Net income at retirement under Current policy situation (£)	Net income at retirement with trigger earnings and LEL removed (£)	% improvement
Students			
Woman	19,280	20,620	**7.0**
Man	20,550	21,940	**6.8**
			Parents
Household	31,790*	34,930*	**9.9**
Mother	13,110	14,760	**12.6**
Father	18,680	20,180	**8.0**
			Semi-retirees
Household	34,260**	36,740**	**7.2**

Woman	16,490	17,620	**6.9**
Man	17,930	19,390	**8.1**

*Individual incomes may not sum exactly to household income because of some small household benefits that do not go to either individual.

**individual incomes for the semi-retirees are given for when each one reaches SPa, but the total household income is given for when the woman, who is four years younger, reaches SPa. By this point the man's retirement income is slightly lower as he has drawn down some of his funds.

The residual group

9.5% of low earners – approximately 300,000 people – could face serious financial challenges from the removal of the £10k earnings trigger. These are the people left over who can't be confidently identified as being low-risk by any test we have identified so far. Some of them may in fact have some other mitigating factor, and it is simply that none of the tests identified capture their circumstances well. However, just that they have a low individual income, a low household income, and don't own their own home would suggest that there would have to be a very particular set of circumstances for them to be financially secure.

This higher risk residual group does not neatly fit a single profile, with the most outstanding statistic being that most of them are paid hourly rather than salaried. This fact is particularly noteworthy because it would be information available to an employer, and could therefore become part of automatic enrolment legislation. This data, as well as a few other descriptive statistics for the residual group are given below.

Besides this, there are some other notable features. Like the population of all low earners, the age distribution peaks at the beginning and end of working life – however, these peaks are in slightly different places. While the whole low earning population peaks around 15-19 years old and 60-64 years old, the residual peaks around 20-24 years and 55-59 years, at 23.6% and 10.4% respectively. The gender split of the residual is almost identical to that of the whole low earning population, being 68.9% female.

Full details, including a complete age distribution, as well as other statistics are available in the results Appendix.

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Section 6: Appendix

Technical Appendix

Data sources

The report draws from data from Understanding Society and the Office for Budget Responsibility.

All figures are presented in 2023 earnings terms.

The pensions system is modelled as currently legislated.

Understanding Society

Understanding Society is a longitudinal study led by the Institute for Social and Economic Research (ISER) at the University of Essex. The Survey covers a wide range of themes including family life, education, employment, finance, health and wellbeing.

Office for Budget Responsibility

Other economic assumptions are taken from the Office for Budget Responsibility's (OBR) Economic and Fiscal Outlook (EFO).

Results Appendix

Table A1: Household compositions of the UK population, population of all earners and population of low earners

	Whole population	All earners	Low earners
1 male, aged 65+, no children	3.22%	0.46%	1.05%
1 female, age 60+, no children	7.55%	1.72%	3.23%
1 adult under pensionable age, no children	8.74%	11.31%	5.52%
1 adult, 1 child	1.29%	1.38%	1.94%
1 adult, 2 or more children	1.44%	1.32%	3.23%
Couple both under pensionable age, no children	8.66%	12.73%	6.40%
Couple 1 or more over pensionable age, no children	18.19%	5.77%	10.41%
Couple with 1 child	5.54%	8.08%	3.66%
Couple with 2 children	7.91%	11.94%	7.45%

Couple with 3 or more children	2.81%	3.43%	3.48%
2 adults, not a couple, both under pensionable age, no children	2.09%	2.83%	2.88%
2 adults, not a couple, one or more over pensionable age, no children	2.01%	1.58%	1.83%
2 adults, not a couple, 1 or more children	1.55%	1.60%	2.97%
3 or more adults, no children, incl. at least one couple	14.64%	18.85%	19.36%
3 or more adults, 1-2 children, incl. at least one couple	8.06%	10.02%	15.49%
3 or more adults, >2 children, incl. at least one couple	2.11%	2.61%	3.70%
3 or more adults, no children, excl. any couples	2.04%	2.00%	3.06%

Table A2: Descriptive statistics for the residual group of low earners not identified as low risk after applying tests for resilience if de minimis rule was removed

Age	All earners	All low earners	Residual
15-19 years old	4.71%	19.04%	8.25%
20-24 years old	9.35%	15.43%	23.64%
25-29 years old	9.75%	7.14%	18.91%
30-34 years old	8.74%	5.88%	9.52%
35-39 years old	9.43%	5.16%	5.69%
40-44 years old	10.24%	4.38%	7.20%
45-49 years old	10.76%	4.71%	5.95%
50-54 years old	12.72%	7.42%	5.29%
55-59 years old	11.89%	9.26%	10.40%
60-64 years old	8.39%	10.74%	4.67%
65-69 years old	2.73%	6.02%	0.48%

70 years or older	1.27%	4.78%	0.00%
Sex			
Male	47.41%	32.67%	31.09%
Female	52.56%	67.28%	68.91%
Marital Status			
Single and never married/in civil partnership	40.70%	53.13%	66.71%
Married	47.01%	34.57%	16.66%
In a registered same-sex civil partnership	1.10%	1.71%	8.70%
Separated but legally married	1.50%	1.23%	2.81%
Divorced	7.65%	6.51%	3.09%
Widowed	1.29%	2.34%	0.98%
Separated from civil partner	0.07%	0.00%	0.00%
A former civil partner	0.02%	0.00%	0.00%
A surviving civil partner	0.06%	0.02%	0.00%
Zero hours contract			
No	84.58%	67.68%	65.57%
Yes	8.47%	14.03%	13.67%
Hours spent caring			
0 - 4 hours per week	6.93%	7.35%	5.01%
5 - 9 hours per week	3.05%	3.06%	3.73%
10 - 19 hours per week	1.59%	2.06%	1.44%
20 - 34 hours per week	0.72%	1.18%	2.71%
35 - 49 hours per week	0.66%	1.45%	0.47%
50 - 99 hours per week	0.31%	0.54%	0.56%
100 or more hours per week/continuous care	0.48%	0.47%	1.47%
Varies under 20 hours	0.54%	0.47%	2.10%
Varies 20 hours or more	0.28%	0.27%	0.02%
Full-time/part-time			
Full time	71.59%	16.35%	21.34%
Part time	23.23%	69.35%	62.35%
Pay type			

Salaried	58.40%	20.16%	9.47%
Basic salary plus commission	1.76%	0.33%	1.23%
Paid by the hour	33.36%	60.55%	71.29%
Other	1.68%	2.37%	2.21%
Member of employer's pension scheme			
inapplicable	16.60%	52.14%	76.00%
Yes	73.36%	29.76%	0
No	9.29%	16.69%	21.34%
Job status			
Self employed	1.84%	5.15%	3.15%
Paid employment(ft/pt)	88.77%	62.62%	79.07%
Unemployed	0.49%	1.59%	1.31%
Retired	1.11%	5.11%	0.56%
On maternity leave	0.57%	0.44%	1.19%
Family care or home	0.20%	0.87%	1.66%
Full-time student	3.65%	16.38%	1.19%
LT sick or disabled	0.25%	0.47%	0.93%
Govt training scheme	0.01%	0.09%	0.00%
Unpaid, family business	0.03%	1.34%	0.00%
On apprenticeship	0.59%	3.64%	2.17%
On furlough	1.85%	0.70%	5.72%
Temporarily laid off/short term working	0.19%	1.48%	1.47%
Doing something else	0.36%	0.00%	0.41%
Permanent job			
A permanent job	88.32%	68.38%	73.04%
Or is there some way that it is not permanent?	8.93%	21.59%	15.55%

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