



# Balancing today and tomorrow

Summary report

—  
A blueprint for  
unlocking a more  
adequate, fair and  
sustainable auto  
enrolment system



The  
**BlackRock.**  
Foundation

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## Acknowledgements

This policy blueprint has been developed following extensive engagement and consultation with a working group of stakeholders from across the system who would likely be involved in delivering or implementing Pension-Adjacent Emergency Savings Accounts. This includes employers, pension providers, savings providers, consumer groups and charities, think tanks, research organisations, trade unions, and payroll professionals. We are deeply grateful to the individuals from the following organisations who generously gave us their time and expertise, as well as the much wider group of employers, providers and policy-makers who have given us feedback and helped shape our thinking:

### All Together Money

Aon

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Chartered Institute of Payroll Professionals

Deel

Department for Work and Pensions

Fair4All Finance

Financial Conduct Authority

Federation of Small Businesses

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## About Nest Insight's strategic partners

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Guided by BlackRock's purpose to help more and more people experience financial well-being, The BlackRock Foundation funds and partners with organizations that strengthen financial security by helping people earn, save and invest – earlier, more often and for their futures. BlackRock's Emergency Savings Initiative is made possible through philanthropic support from The BlackRock Foundation. The initiative brings together partner companies and nonprofit financial health experts to make saving easier and more accessible for people living on low and moderate incomes. For more information, visit: [blackrock.com/corporate/about-us/social-impact](https://blackrock.com/corporate/about-us/social-impact)

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# Introduction

The Second Pensions Commission marks a pivotal moment for the UK's pension system. Tasked with addressing the system's most significant long-term challenges, the Commission has warned that, as things stand, future pensioners face incomes that are too low, risks that are too high, and a system that is too unequal.<sup>1</sup>

Too many people are undersaving for retirement and do not have the income they need to maintain their living standards in later life. But the challenge is not just the amount people are saving for retirement: it is also in ensuring that routes to saving are fairer and more inclusive. Evidence shows that increasing pension contributions across the board, while simultaneously bringing more low-paid employees into retirement saving, would intensify the trade-offs between financial resilience in their working lives and security in retirement.

This blueprint sets out a different route forward, **bringing shorter- and longer-term saving together in one framework to enhance outcomes for employees at all income levels.**

We describe a **universal workplace savings** approach, with a **shifting balance in minimum default employee contributions from emergency savings to pension saving** as earnings rise. In this model, **everyone, irrespective of earnings, is entitled to an employer contribution to their pension**, provided they contribute themselves. But individuals' **own** contributions flow to a mix of emergency savings and/or pension saving, with the balance shifting towards pension saving as incomes increase.

Integrating '**Pensions-Adjacent Emergency Savings Accounts**', or **PAESAs**, (a version of what our work has previously referred to as 'sidecar' savings) into auto enrolment in this way – implemented over the right timeframe – could help to reconcile the need for a more inclusive auto enrolment system that meets the needs and challenges of lower earners, with the goal of adequate retirement incomes for all. It offers a route to broader coverage, higher retirement saving and stronger financial security.

We have developed this blueprint collaboratively, with input from employers, the payroll, pensions and savings sectors, as well as the third sector, regulators and government. We share it to help drive debate on whether and how PAESAs could be built into the auto enrolment framework and look forward to further engagement alongside the next phase of the Commission's work.

## 1. The trade-offs inherent within pension reform

### The current system leaves many people off track for an adequate income in retirement

Pension coverage has dramatically increased in recent years as a result of automatic enrolment (AE): more than 22 million people were saving into a workplace pension in 2023, a rise of over 10 million more people than in 2012.<sup>2</sup> Auto enrolment is rightly hailed as a success story in long-term, consensus-based policy-making and as an unprecedented financial inclusion achievement.

However, concerns remain that many people are not saving enough for their retirement: 4-in-10 (43%) working age adults are not on track to achieve their Target Replacement Rate (TRR).<sup>3</sup> This is largely due to the fact that the additional voluntary contributions envisaged by the first Pensions Commission, beyond the default 8%, have not materialised.

### But increasing contribution rates across the board carries significant risks

As a result of the shortfall in additional voluntary saving, many organisations have suggested that default contribution rates need to rise. This could be achieved by increasing the minimum rate of contributions and/or by removing the Lower Earnings Limit (LEL).<sup>4</sup> But undersaving is not evenly distributed across the earnings distribution. Against TRRs, **higher earners are more likely to be undersaving for retirement than lower**

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<sup>1</sup> Department for Work and Pensions (2025). [Pensions Commission: Terms of Reference](#)

<sup>2</sup> Department for Work and Pensions (2025). [Analysis of Automatic Enrolment saving levels](#)

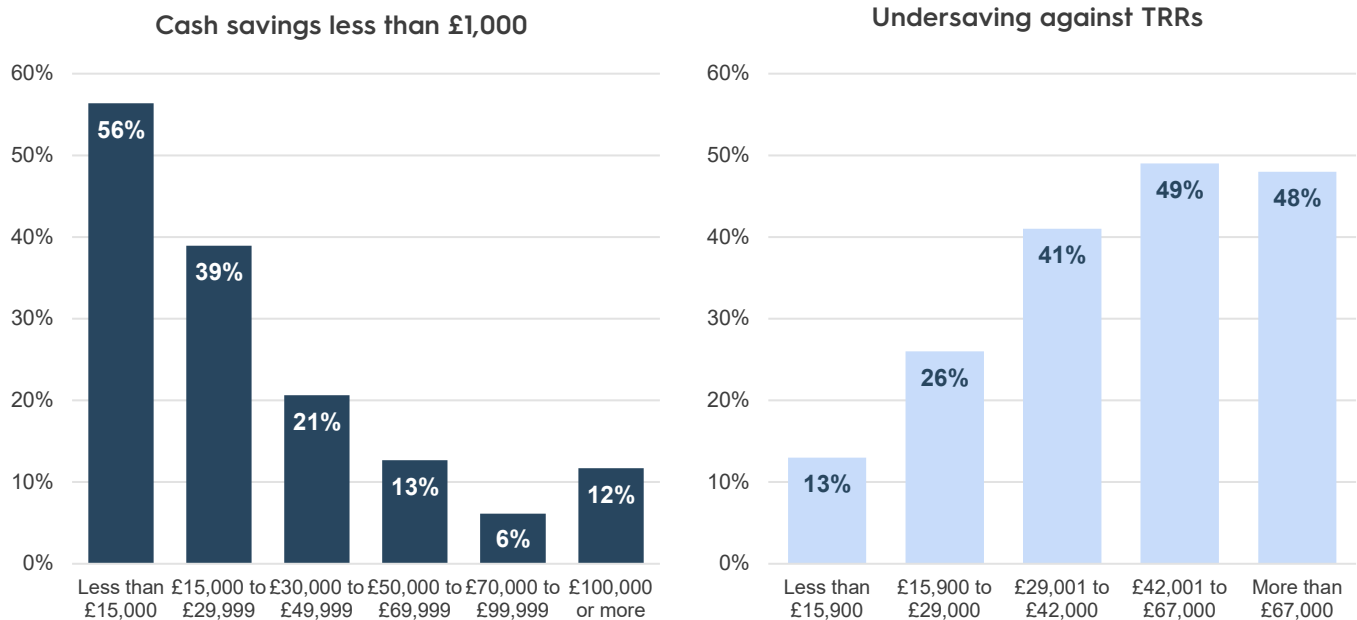
<sup>3</sup> Department for Work and Pensions (2025). [Analysis of Future Pension Incomes 2025](#)

<sup>4</sup> Department for Work and Pensions (2025). [Analysis of Future Pension Incomes 2025](#)

**earners.** By contrast, Figure 1 shows that **those on lower earnings face a different set of financial challenges including an acute lack of short-term financial resilience through emergency savings.**

**Figure 1: Financial challenges differ across the earnings distribution**

Proportion of employees aged 22 to 64 with less than £1,000 in cash savings in May 2024, by personal income (left panel) and proportion of working-age people projected to not meet their Target Replacement Rate in 2025, by pre-retirement earnings band: UK



Notes: Cash savings defined as money in current accounts, savings accounts, National Savings and Investment (NS&I) bonds, credit union accounts, current account with a payment services institution or an e-money provider, Cash ISA, Help to Buy ISA, Lifetime ISA and ISAs where respondent doesn't know if money is invested or in cash. Working age population defined as the current AE eligible group (those aged 22 to SPa). TRRs are before housing costs.

Source: Nest Insight analysis of FCA, Financial Lives Survey 2024; DWP, Analysis of Future Pension Incomes 2025.

As the Commission has highlighted in its interim report, absolute retirement income benchmarks such as the Pensions UK Minimum Retirement Living Standards tell a slightly different story: around half (47%) of people earning less than £13,500 were projected not to meet the minimum RLS.<sup>5</sup>

We agree with the Commission that lower income in working age should not result in very low income or poverty in retirement, and that higher overall pension savings rates for lower earners should also be part of any solution. But the interaction with short-term financial resilience suggests that mandating higher *individual* pension contributions may not be the right way to achieve this. For example, research from 2024 found that 71% of low earners agreed that they cannot afford to put money away for retirement 'at the moment'.<sup>6</sup>

Asking these groups to fund more pension saving through their own member contributions – and consequently lower take-home pay – risks **pushing some towards oversaving against TRRs**. Evidence also shows that those on lower earnings are already **more likely to opt out** at current contribution rates, with the risk that this pattern worsens if contribution rates increase. A growing volume of research also shows that increasing minimum contributions can **crowd out other saving and crowd in debt** among some groups. Increasing individual contributions for lower earners could therefore also drive an imbalance against absolute standards where future gains are made at the expense of basic financial security today.

<sup>5</sup> Department for Work and Pensions (2025). [Analysis of Future Pension Incomes 2025](#)

<sup>6</sup> For more information see: Department for Work and Pensions (2025). [Pensions 2050: Evidence and Future Priorities](#) and Department for Work and Pensions (2014). [Automatic enrolment: experiences of workers who have opted out](#)

## The need to bring more people into pension saving further intensifies trade-offs

The challenges facing the UK's pension system extend beyond income adequacy alone. While auto enrolment has been highly effective in increasing participation among eligible employees, only 55% of the working-age population is saving into a pension at any given moment, reflecting self-employment but also different patterns of paid work, earnings and caring responsibilities, with the Commission highlighting particular challenges facing women, people with disabilities, some minority ethnic groups and those with multiple low-paid jobs.<sup>7</sup>

To improve inclusivity and fairness within auto enrolment, policymakers could consider removing the £10,000 earnings trigger – bringing an additional 1.6 million people into workplace pension saving – and removing the LEL to make the system simpler and more generous.<sup>8</sup> However, these changes would see pension saving disproportionately increase among lower earners, both those already covered under AE and those not yet included. As a result, efforts to address income adequacy by increasing default contributions while simultaneously expanding coverage are likely to intensify the trade-offs outlined above.

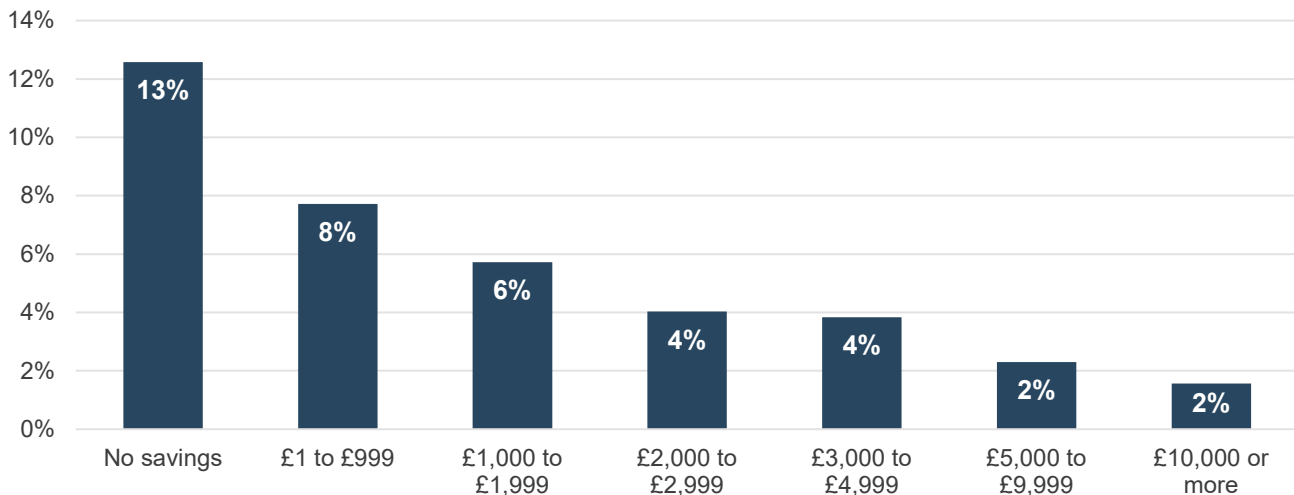
## A lack of short-term financial resilience is undermining pensions outcomes

Many employees – both those eligible and ineligible for auto enrolment – have low levels of financial resilience. This is important in the context of retirement saving **as low emergency savings buffers can undermine people's capacity to save for retirement**. As shown in Figure 2, employees with little or no emergency savings were **more likely to stop pension contributions** to make ends meet: 13% of those with no savings had stopped contributing to their pension in the 12 months to May 2024.

Wider research also suggests **improving financial resilience enables more consistent pension saving, supports additional contributions, and helps ensure that pensions are used primarily to provide retirement income rather than as a source of liquidity** in response to financial shocks.<sup>9</sup>

Figure 2: Those with no savings are more likely to stop contributions to their pension

Proportion of people, aged 22 to 64, that have stopped contributing to their pension in the 12 months to May to make ends meet, by amount in cash savings: UK, May 2024



Notes: Sample is limited to those aged 22 to 64 that are employees and have a personal income of £10,000 or more to more closely align with auto enrolment eligibility. Cash savings defined as money in current accounts, savings accounts, National Savings and Investment (NS&I) bonds, credit union accounts, current account with a payment services institution or an e-money provider, Cash ISA, Help to Buy ISA, Lifetime ISA and ISAs where respondent doesn't know if money is invested or in cash.

Source: Nest Insight analysis of FCA, Financial Lives Survey 2024.

<sup>7</sup> Department for Work and Pensions (2025). [Pensions 2050: Evidence and Future Priorities](#)

<sup>8</sup> Department for Work and Pensions (2025). [Workplace pension participation and savings trends](#)

<sup>9</sup> For more information see: Centre for Analysis of Social Exclusion (CASE) & Department of Social Policy (2021). [Can't save or won't save: financial resilience and discretionary retirement saving among British adults in their thirties and forties](#); Commonwealth and DCIA (2022). [Emergency Savings Features that Work for Employees Earning Low to Moderate Incomes](#); Vanguard (2025). [Emergency savings protect retirement savings](#)

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## Low financial resilience is also a problem in its own right

Beyond the implications for pension saving and engagement, low levels of cash savings represent a serious issue in their own right. In 2024, nearly two in five UK adults (38%) said they could not use existing savings to cover a £250 emergency expense, rising to around half of low- and moderate-income households.<sup>10</sup> This lack of day-to-day financial resilience has far-reaching impacts, including an increased risk of **problem debt** and **poor mental health**, as well as making it harder for people to leave abusive relationships.<sup>11</sup> It also has serious consequences for society – it can **harm economic growth** through reduced workforce productivity and increased absence and **increase healthcare and welfare costs**.<sup>12</sup>

Supporting more people to save and build an emergency buffer should therefore be seen as a priority not only for pensions policy, but also across wider areas of the Government's agenda, including the Financial Inclusion Strategy.<sup>13</sup>

## There is therefore a strong argument for taking a more holistic view of household finances in reforming the pension saving system

While many employees need to save more for retirement, low earners may lack the capacity to contribute more to a pension, and improving financial resilience is likely to be a more urgent priority. Where someone is on track to meet their TRR but still falls short of an absolute adequacy benchmark, the answer cannot simply be higher pension saving at the expense of an acceptable standard of living during working life. Pension reform therefore cannot be approached simply as a question of all employees saving more into a pension.

**A more flexible auto enrolment framework that shifts the balance between cash savings and pension saving as earnings rise could help manage these trade-offs and support short-term and long-term financial resilience.** Nest Insight's previous payroll saving trials point to a potential route to improving retirement outcomes while taking a more holistic approach to people's finances.<sup>14</sup> These are the arguments that underpin the approach set out in the next section.

# 2. An auto enrolment system that works better for people in low- and moderate-income households

## The core approach: universal workplace savings, with a shifting balance in minimum default employee contributions from cash savings to pension saving as earnings rise

Any reform to auto enrolment that seeks to increase pension saving must also address the affordability risks that higher contributions can create for lower earners. The model we set out here would integrate PAESAs into auto enrolment alongside pensions, shifting the balance of employee contributions from cash savings to pension saving as earnings rise. Taken together, these reforms would help manage the trade-offs set out above, supporting higher overall contribution levels to improve adequacy, widening inclusion by removing the £10,000 earnings trigger, and improving fairness and simplicity by removing the LEL.

The model is designed as a coherent package, with the following structure:

- › **Employer contributions:** all employees would receive the same minimum default employer pension contribution from the first pound of earnings.
- › **Employee contributions:** minimum default contributions would vary by income:
  - › **Up to an initial lower-earnings threshold:** most/all employee contributions would go into a Pension-Adjacent Emergency Savings Account, with no or a small employee pension contribution required.

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<sup>10</sup> Nest Insight analysis of FCA, Financial Lives Survey 2024.

<sup>11</sup> For more information see: StepChange Debt Charity (2015). [Becoming a nation of savers](#); Money and Pensions Service (2022). [Adult Financial Wellbeing Survey 2021 Nation of Savers Report](#); Surviving Economic Abuse and Money Advice Plus (2022). ["Tsunami of need" for abuse victims](#)

<sup>12</sup> For more information see: Cebr (2023). [Financial wellbeing & productivity in the workplace](#); Nest Insight (2026). [More than a loan](#)

<sup>13</sup> HM Treasury (2025). [Financial Inclusion Strategy](#)

<sup>14</sup> Nest Insight (2025). [Easier to save](#)

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- › **Between the lower-earnings threshold and an upper threshold:** employee contributions would be split between a Pension-Adjacent Emergency Savings Account and a pension.
  - › **Above the upper threshold:** employee contributions would go fully into a pension.

### **Delivered within a higher-contribution framework? Recognising trade-offs for employers**

A PAESA model could be introduced at today's default contribution rates. However, the context of this work is one in which it is widely recognised that overall contribution rates will need to rise at some stage, for at least some people, if adequacy goals are to be met. The approach we set out delivers its strongest benefits and is most coherent when combined with a higher total contribution rate.

For the purposes of the work, we have assumed that higher overall contributions, including from employers, is the likely long-term direction of travel for pensions policy. In our working group discussions, including among employers, there is a recognition of this need. But there was also broad recognition of the challenges facing employers and the wider economy and for these reasons, we view it as a future target model that would take some significant time to reach. As the Commission sets out, any adjustments to the automatic enrolment framework would need to be affordable for businesses, individuals and the state, and would therefore need both a significant lead-in time and to be appropriately staged and phased once implementation begins.<sup>15</sup>

In the full report, we discuss how models at a lower total contribution rate could work either in transition to this level or as an end-state but, for the most part, we describe the model in the context of a 12% overall minimum contribution rate, with at least 6% coming from the employer.

This would represent an increase in costs for employers relative to today. But if we assume both that total contributions will ultimately need to rise, and that with a suitable road-map and lead time, some of this rise will need to fall to employers, then our discussions with employers suggest that the approach set out in this blueprint could actually be preferable to employers versus a pensions-only model. The PAESA model supports commercial outcomes because of the benefits to productivity, attentiveness and employee engagement that come with boosting financial resilience. It also allows for a fairer and more equitable distribution of total reward spend across an entire employee population.

### **The balance of emergency saving and pensions**

Introducing emergency savings alongside higher contributions would create space for a savings element without reducing pension saving, while also allowing more lower earners to be brought into scope. Within that framework, there are clearly judgement calls as to the balance between emergency savings and pension contributions at different points in the earnings distribution. To support and prompt discussion, we have illustrated two different potential models: one weighted more to emergency savings and one more to pension contributions. These are set out in Figure 3 below.

- › In the model weighted more towards emergency savings, employee contributions go wholly to the emergency savings account for employees earning up to £25,000, equivalent to full-time work at the National Living Wage; are split equally between emergency savings and pension saving for employees earning from £25,000 to the higher-rate tax threshold (£50,270); and go wholly to pension saving above that point.
- › In the model weighted more towards pension saving, employee contributions are split 5% to emergency savings and 1% to pension saving up to £25,000; 2% and 4% respectively from £25,000 to £39,000, equivalent to full-time median earnings; and go wholly to pension saving above that point.

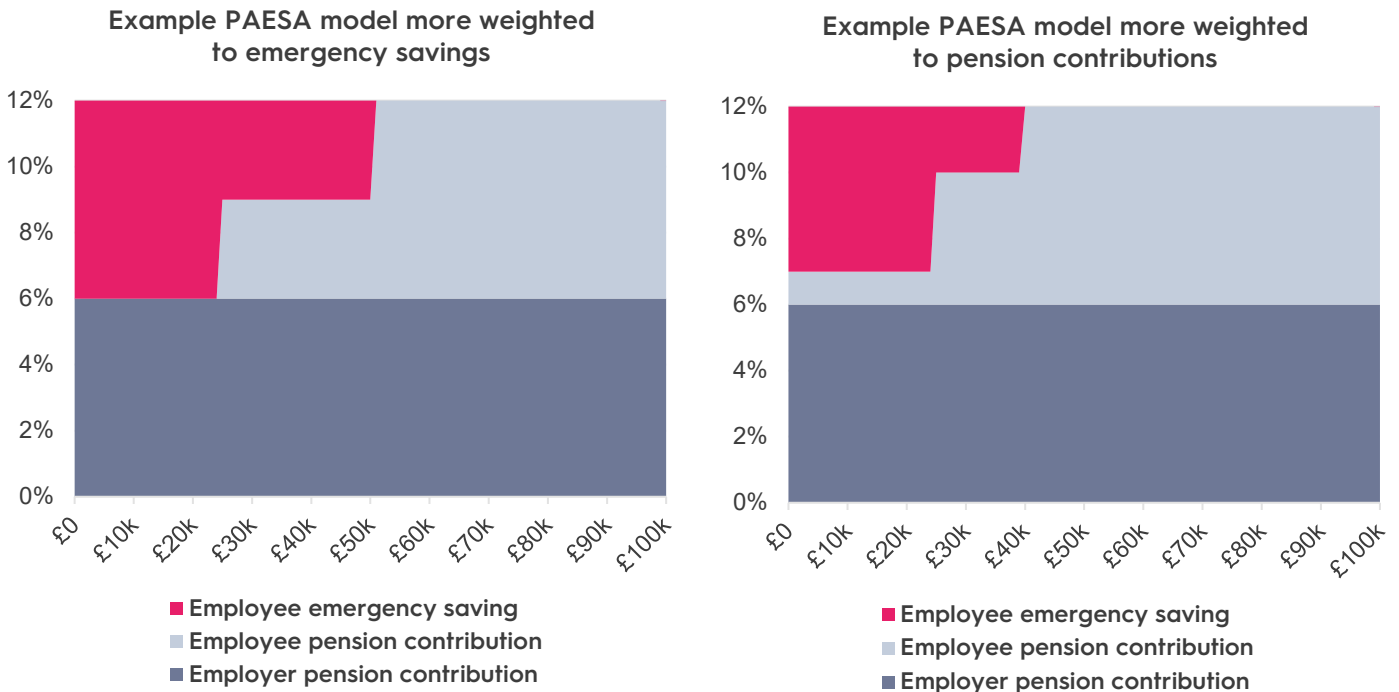
Subject to meeting both the minimum pension contribution and minimum total contribution at a given earnings level, people could choose to contribute more above the minimum default amount into either account and/or rebalance their contribution away from emergency savings and towards pension saving (but not in the other direction). This would allow people who already have enough emergency savings to save more for retirement.

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<sup>15</sup> The Second Pension Commission (May 2026), [Pensions 2050: Evidence and Future Priorities](#)

**Figure 3: Pension-Adjacent Emergency Savings Accounts could deliver stronger benefits when combined with higher contributions**

Illustration of pension and emergency saving contribution rates as a percentage of total pay where default contributions increase to 12% with left panel weighted to emergency savings and right panel weighted to pension contributions



**Table 1: of minimum pension and emergency saving contribution rates where default contributions increase to 12% for a model weighted to emergency savings and a model weighted to pension contributions**

	Example PAESA model weighted to emergency savings			Example PAESA model weighted to pension contributions		
<b>Earning thresholds</b>	<b>Lower threshold: £25,000 (full-time National Living Wage)</b>			<b>Lower threshold: £25,000 (full-time National Living Wage)</b>		
	<b>Upper threshold: £50,270 (higher-rate tax threshold)</b>			<b>Upper threshold: £39,000 (full-time median earnings)</b>		
	£0 to £25,000	£25,001 to £50,270	£50,271 and above	£0 to £25,000	£25,001 to £39,000	£39,001 and above
<b>Eligible employees</b>	All employees (no earnings trigger)			All employees (no earnings trigger)		
<b>Contributions calculated</b>	From first pound (no lower earnings limit)			From first pound (no lower earnings limit)		
<b>Total minimum auto enrolment contribution</b>	12%	12%	12%	12%	12%	12%
<b>Total minimum pension contribution</b>	6%	9%	12%	7%	10%	12%
<b>Minimum employer pension contribution</b>	6%	6%	6%	6%	6%	6%
<b>Minimum employee pension contribution</b>	0%	3%	6%	1%	4%	6%
<b>Default employee emergency saving contribution (can be diverted to pension)</b>	6%	3%	0%	5%	2%	0%

Source: Nest Insight, 2026.

Both the position of the thresholds, the contribution level in each earnings band, and the split between employer and employee contributions are very much open to debate. The purpose of this work is to set out the principles for designing Pension Adjacent Emergency Saving Accounts into AE, and to show illustrative examples of how it could work in practice to spark further discussion. Policymakers may wish to test alternative designs and place the thresholds at different points in the earnings distribution. In any event, mirroring the current system, we would anticipate these thresholds being reviewed annually to ensure they remain appropriate.

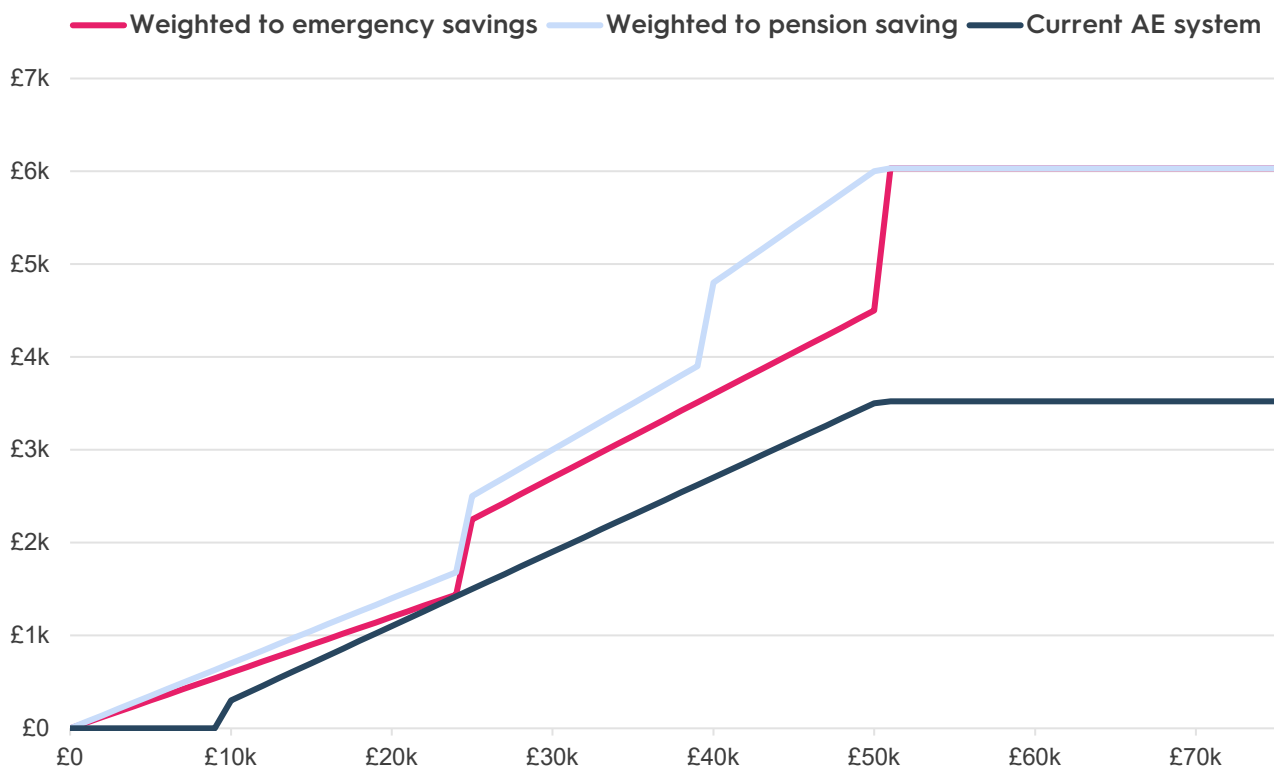
### Benefits of this approach – how it addresses the competing objectives for reform

We believe this model could represent a significant but positive evolution of the current automatic enrolment framework, building on the strengths of the existing system to create a more adequate and inclusive approach.

First, it supports higher pension saving in aggregate without placing undue pressure on lower earners, for whom higher contributions may be unaffordable. As shown in Figure 4, under either contribution structure, all employees would see an increase in total pension saving if they were enrolled at the defaults, but those on low- and moderate incomes would be contributing less to their pension directly from salary. This is possible because of the higher – and now universal – underlying employer contribution rate.

Figure 4: All employees would see an increase in pension saving

Comparison of annual employee and employer pension contributions under current auto enrolment policy and the policy weighted to emergency savings and the policy weighted to pension contributions, by gross employee earnings



Source: Nest Insight, 2026.

Second, the proposal supports greater inclusion and fairness. By removing the earnings trigger and the LEL, it would bring more low earners into workplace saving and ensure that all savers benefit from employer pension contributions from the first pound earned. This is especially important for employees in part-time work or multiple jobs who are disproportionately excluded under the current framework.

Finally, incorporating Pension-Adjacent Emergency Savings Accounts into automatic enrolment would support millions more employees to save persistently to build a buffer to cope with financial shocks and

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**emergencies today.** This matters for pensions policy because, as discussed above, people with a cash buffer are more likely to stay enrolled, contribute more, and avoid accessing their pension early when they face short-term financial pressure

### **3. Key design and delivery considerations**

There are different ways to integrate emergency savings into the pensions auto enrolment framework. But through our working group process, there has been a clear preference for simplicity of delivery and building on the existing supply options and approaches employers have already adopted. This has informed our proposed approach, which represents a model that mirrors the existing auto enrolment framework through a mandate on employers but with scope for different supply models to meet the new demand this would create. We are clear that any move towards this model would require a clear roadmap and runway to implementation with suitable notice ahead of, in particular, changes to contribution rates – this is discussed in more detail in the full report.

#### **A mandate on employers best mirrors the current policy and leaves the maximum flexibility to replicate existing delivery models**

We envisage Pension-Adjacent Emergency Savings Accounts being delivered through amending the existing mandate on employers to make deductions to a qualifying workplace pension. That mandate sets the contribution framework in terms of who is eligible, and the balance of employer and employee contributions. Building emergency savings into this mandate on employers and focused, similarly, on the contribution structure across emergency and pension savings ensures that the wider benefits of this as an integrated approach – the unlock to a more universal, inclusive and adequate retirement system – are delivered.

The model envisages that the market would innovate to meet employer needs, rather than prescribing a single delivery model. This flexibility should enable those employers that are already providing payroll savings schemes to employees to make adjustments to become compliant, while also recognising there is significant untapped supply for these tools in the market today across a range of different provider models and types.

#### **The right to opt out, or to opt across**

As with the current pensions automatic enrolment rules, we envisage that employees would be able to opt out of their contributions, whether to their Pension-Adjacent Emergency Savings Account or to their pension. Also as now, opting out of the minimum employee contribution would result in a loss of eligibility to the employer pensions contribution. Employees would also be able to 'opt across' by redirecting their emergency savings contributions to their pension and retain their right to a match, but only in this direction. Employees could not choose to divert minimum pension contributions to emergency savings.

#### **Pension-Adjacent Emergency Savings Accounts should be required to meet a set of qualifying criteria**

PAESAs should be required to meet a clear set of qualifying criteria to ensure value for money and adequate consumer protection, as is already the case with a qualifying workplace pension scheme under auto enrolment regulations.

Our previous research has highlighted what some of these criteria should be. At a minimum, they should include FSCS protection, a set of reporting requirements to a regulator or government and a single data standard to simplify delivery. Alongside these requirements, our previous work has identified a set of common design features that are critical to the success of workplace emergency savings programmes across areas such as high visibility, easy access without conditions or limits and no account fees. These are set out in the main report.

#### **Managing the risk of over-exposure to cash could be delivered through regulatory and disclosure-based approaches creating a 'soft' rollover, rather than a mandatory 'hard' rollover at a fixed balance**

A key question raised through the working group process was how to prevent people building up excessive cash balances in low-return savings accounts. Evidence from our workplace savings trials suggests that this would not

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be a widespread issue because of the way people actively use and engage with emergency savings and the frequency with which people move jobs. However, it is still important to think about guardrails for the scenario in which someone has a large amount of cash in their PAESA.

One solution, tested in our early sidecar savings trials, is an automatic rollover that redirects emergency savings contributions into pension contributions once a pre-set savings target is reached. This has clear advantages, particularly by helping people increase retirement saving once they have built a basic financial buffer.

However, our work with partners, and the lessons from our trials, suggest that a mandatory automatic rollover built into payroll systems would be administratively complex and difficult to scale. There are also issues around where to set a rollover threshold that balances the different needs people have. These challenges are discussed in full in the detailed report.

Instead, the evolving regulatory context such as the Consumer Duty and the potential for innovation around targeted support and open banking are likely to offer a more effective way to mitigate the risk of over-exposure to cash. In the near future it will make more sense to deliver the same rollover outcomes by nudging people with large cash balances to move money above what is needed as an emergency buffer into more suitable products for mid- and longer-term saving. This 'soft' rollover approach also allows some flexibility and greater potential for personalisation – depending on context, the most appropriate destination for additional savings beyond emergency savings may not always be a pension. Alongside additional disclosure requirements on employers that could be included to support PAESA implementation, including at the point of job moves, a non-mandatory 'soft' rollover may therefore be more effective and easier to implement.

As a result, our policy proposal does not include a mandatory 'hard' rollover element from day one. The pensions policy benefits of PAESAs are likely to be substantial without an automatic 'hard' rollover. Additionally, similar outcomes will be deliverable in future using 'soft' rollover approaches.

Nevertheless, we recognise that the system may evolve in the future, with advancements in payroll software and open banking potentially helpful in overcoming the operational challenges to implementing automatic rollovers and may also facilitate more personalised versions of a rollover model. This could mean that a harder, more automatic and mandated rollover could be incorporated into the policy at a later stage if considered desirable.

## **Employees should be able to transfer savings from their existing PAESA to a new PAESA or their pension when changing jobs**

Stakeholders raised concerns that employees moving jobs could end up with multiple emergency savings accounts, echoing problems already seen in the pensions system. Our proposed solution is a delayed transfer process: employees could either close their PAESA and have any remaining savings paid into their salary account or provide details of their new PAESA so the balance can be transferred. They could also be nudged to transfer larger balances above the amount required to provide an emergency savings buffer to either their pension or an alternative higher-growth savings or investment product. This strikes a balance between a more desirable long-term solution – a portable account that follows employees between jobs but would be complex to implement – and the simplest option of immediately defunding the PAESA, which would undermine the policy intent.

Employees could also choose to keep their existing sidecar savings account open and continue contributing outside the payroll system. However, this may require the savings provider to carry out additional Know Your Customer checks at that point.

## **Other policy and implementation design questions**

A number of other design issues also arose during this work, including the tax treatment of contributions to a PAESA, interactions with the benefits system and Help to Save, and how the approach could work for employers still offering Defined Benefit schemes (or, over time, Collective Defined Contribution). These are important questions that this paper does not address in detail, but our initial thinking and the output of our working group discussions are set out in the accompanying full report. At this stage, none of the issues appear to prevent implementation of the model, and some may offer opportunities for further integration and simplification.

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## Conclusion

This report has set out why the next phase of pension reform cannot be approached simply as a question of employees saving more directly into pensions. Increasing default pension contributions across the board could improve retirement outcomes for many employees, but it also risks harming some lower earners by reducing already thin financial buffers.

Embedding Pension-Adjacent Emergency Savings Accounts within auto enrolment offers a pragmatic way through these trade-offs. The model enables higher overall contributions while avoiding undue pressure on those with the least capacity to absorb a reduction in take-home pay. It also offers a clearer route to a more inclusive and fairer system by extending pension saving to those currently excluded.

**With the right design, sequencing and phased implementation, Pension-Adjacent Emergency Savings Accounts could become a cornerstone of a more inclusive, more adequate and more sustainable UK workplace savings system.**



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June 2026