



Balancing today and tomorrow

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



The
BlackRock.
Foundation

Authored by

Molly Broome, Jo Phillips and Will Sandbrook,
Nest Insight, London

© 2026 National Employment Savings Trust Corporation

Research and analysis by

Molly Broome, Joel Llewellyn, Fionna McLauchlan,
Jo Phillips, Guillermo Rodriguez-Guzman and
Emma Stockdale

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

BrightBlue

BT Group

Building Societies Association

Chartered Institute of Payroll Professionals

Deel

Department for Work and Pensions

Fair4All Finance

Financial Conduct Authority

Federation of Small Businesses

HM Treasury

Hymans Robertson

Institute for Fiscal Studies

Institute and Faculty of Actuaries

Legal & General

Money A+E

Money and Pensions Service

Nest

PayCaptain

Pensions Policy Institute

Pensions UK

People's Partnership

Public First

Rooted Finance

Scottish Widows

Social Market Foundation

Standard Life Centre for the Future of Retirement

StepChange

SUEZ UK

Sync Savings

Taylor Wessing

The Investing and Saving Alliance

The Money Charity

The Pensions Regulator

UK Finance

Unite the Union

Which?

Workplace Pensions Direct

This blueprint does not necessarily represent the views of Nest Insight's strategic partners and funders, nor the working group of stakeholders consulted during the process.

While Nest Insight was set up by and is part of Nest Corporation, it operates under a distinct public-benefit remit and the blueprint should not be read as a Nest Corporation position or viewpoint.

About our programme partner

The **BlackRock** Foundation

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

About Nest Insight



Nest Insight is a public-benefit research and innovation centre. Our mission is to find ways to support people to be financially secure, both today and into retirement. We conduct rigorous, cutting-edge research, working collaboratively with industry and academic partners to understand the financial challenges facing low- and moderate-income households. We use these data-driven insights to identify and test practical, real-world solutions. Our findings are shared widely and freely so that people around the world can benefit from our work. For more information, visit: nestinsight.org.uk

About Nest Insight's strategic partners

The
BlackRock
Foundation



JPMorganChase



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

Since its creation in 2012, following the introduction of auto enrolment, Nest offers every UK worker somewhere good to save, and aims to deliver long-term growth for members while carefully managing risk. It's now the largest workplace pension scheme in the country, with 14 million members. One in three of the working population has a Nest pension pot. By 2030, we expect that number to grow to half of the entire UK workforce. One in three of the working population has a Nest pension pot. By 2030, we expect that number to grow to half of the entire UK workforce. Nest's members benefit from an award-winning responsible investment strategy and one of the most diversified DC portfolios in the industry. By the end of the decade Nest will have close to £100 billion assets under management. For more information, visit: nestpensions.org.uk

With a legacy dating back more than 200 years, JPMorganChase has a track record of demonstrating leadership during times of both economic growth and financial instability. The firm employs approximately 22,000 employees throughout the UK and is committed to operating a healthy and vibrant company that plays a leading role in advancing a sustainable and inclusive economy. The firm provides £600 billion in credit and capital to nearly 4,500 medium and large companies and supports over two million retail customers. At the same time, together with its non-profit partners the firm has supported over 33,000 low income households reduce their debt and improve their financial health, helped nearly 20,000 small businesses to grow their activity and placed over 9,800 individuals into apprenticeships or full and part-time employment. For more information, visit: jpmorganchase.com

The Money and Pensions Service (MaPS) is an arm's-length body sponsored by the Department for Work and Pensions (DWP), established by the Financial Guidance and Claims Act 2018. It was set up to support the policy aims of DWP and HM Treasury in relation to pensions guidance, money guidance, debt advice, and the improvement of financial capability from childhood through to later life. Central to MaPS' purpose is providing credible, expert information that drives action. By working with organisations that produce or commission research on consumer financial wellbeing, MaPS helps fill evidence gaps and supports government, partners and industry to make more informed decisions. For more information, visit: maps.org.uk

Contents

Introduction	2
1. The trade-offs inherent within pension reform objectives	4
The current system leaves many people off track for an adequate income in retirement	4
But increasing contribution rates across the board carries significant risks	5
The desire to bring more people into pension saving further intensifies trade-offs	8
Low financial resilience undermines pension outcomes	8
Low financial resilience is also a problem in its own right	11
Incorporating emergency savings into the auto enrolment framework alongside pension saving could help balance these trade-offs and mitigate the risks	11
2. A route to a more adequate and inclusive auto enrolment system	12
The core approach: universal workplace savings, with a shifting balance in employee contributions from cash savings to pension savings	12
Benefits of this approach – how it addresses the competing objectives for reform	16
Higher contributions could be phased in alongside Pension-Adjacent Emergency Savings Accounts	21
3. Key design and delivery considerations	24
A mandate on employers best mirrors the current policy and leaves the maximum flexibility to replicate existing delivery models	24
Employees would retain the right to opt out, or to opt across	24
PAESAs should be required to meet a set of qualifying criteria	25
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	26
Employees should be able to transfer savings from their existing PAESA to a new PAESA when changing jobs	27
Interaction with the tax and benefits system	29
Help to Save	31
Workplace saving within defined benefit schemes	31
Conclusion	32

Introduction

Now is a once-in-a-generation opportunity to build on the initial success of auto enrolment in the UK, addressing critical issues of inclusion and adequacy.

The revival of the 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 will face incomes that are too low, risks that are too high, and a system that is too unequal.¹

A central part of this challenge is that too many people are undersaving for retirement. Projections suggest that someone retiring in 2050 is set to have 8% lower private pension income than a retiree in 2025, while nearly 15 million working-age people are not on track to have an adequate retirement income.²

But the agenda is not only about adequacy. There is also a clear need to make the system fairer and more inclusive. In 2023, 45% of working-age adults did not contribute to a pension scheme, with people on lower incomes in general, and women, disabled people and people belonging to some minority ethnic groups in particular, considerably less likely to participate in pension saving.³ This is partly because those earning below £10,000 are not automatically enrolled. But affordability constraints for eligible employees also play a role. Where lower-earning employees are covered by auto enrolment, they are more likely to opt out of their pension: in 2024, 77% of eligible private sector employees earning between £10,000 and £20,000 were participating in workplace pensions – compared with 89% across all eligible private sector employees.⁴

Millions of people need to save more to achieve the income they will want and need in retirement, and this has led to calls for minimum auto enrolment contribution levels to be increased. We strongly agree that default retirement savings need to rise for some. But Nest Insight's work on retirement income adequacy shows that for millions of people, saving more directly into a pension today is neither realistic nor likely to be of overall material benefit.⁵

For employees living in low-income households, building an emergency savings buffer is often the more immediate priority. While the State Pension combined with minimum auto enrolment contributions will deliver a good replacement income in retirement for many low earners, these people often lack financial resilience today, with around half of people living in low- and moderate-income unable to cover a £250 expense from savings.⁶ Raising minimum pension contributions across the board risks pushing lower earners to prioritise future income over their immediate needs or lead them to opt out and miss out on pension saving altogether, including employer contributions. Strengthening short-term financial resilience is therefore a prerequisite for higher pension saving to be feasible and beneficial for these groups.

Bringing shorter- and longer-term saving together in one framework could help manage these tensions. More people could be included in auto enrolment and default minimum contribution levels could be increased, if the system brought together emergency savings alongside pension saving.

Workplace pensions auto enrolment has supported millions of people who previously didn't save into a pension to begin saving for retirement. Workplace saving via payroll has been shown to be similarly effective in helping people who have struggled to build cash savings previously to do so, but it is not widely implemented by employers.⁷ Last year, Nest Insight set out a roadmap for scaling payroll savings participation. This roadmap concluded that, for access to payroll saving to scale universally for all UK workers, and for appropriate employee participation to be achieved, employer participation would need to be mandated, as it is for pensions auto enrolment.

¹ Department for Work and Pensions (2025). [Finishing the job: Launching the Pensions Commission](#)

² Department for Work and Pensions (2025). [Finishing the job: Launching the Pensions Commission](#)

³ Department for Work and Pensions (2025). [Finishing the job: Launching the Pensions Commission](#)

⁴ Department for Work and Pensions (2025). [Workplace pension participation and savings trends of eligible employees: 2009 to 2024](#)

⁵ Nest Insight (2024). [How much is enough?](#)

⁶ Nest Insight analysis of FCA, Financial Lives Survey 2024.

⁷ Only around 7% of employers currently offer payroll savings schemes. See FCA (2025). [Statement on workplace savings schemes](#)

Building short-term savings into the evolution of the auto enrolment framework is a promising route to achieving this.⁸ As well as supporting critical pensions policy objectives, such as making it more feasible and palatable to extend auto enrolment to more groups and to raise contributions levels, this would also represent a significant financial inclusion gain, helping to tackle the financial insecurity that is holding many households, and the wider economy, back. The revived Pensions Commission therefore presents a once-in-a-generation opportunity to consider incorporating emergency savings into the auto enrolment system to support multiple policy goals.

This blueprint proposes a model for integrating emergency savings into the UK's auto enrolment framework; delivering a version of a 'sidecar' savings model which we refer to here as Pensions Adjacent Emergency Savings, or PAESA. It describes a **universal workplace savings** approach, with a **shifting balance in minimum default employee contributions from cash 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 pensions, with the balance shifting more in favour of pension saving as incomes increase. This helps reconcile the need for immediate financial resilience with the goal of adequate retirement incomes. It offers a route to broader coverage and higher overall contribution rates towards retirement, while also addressing the separate – but related – challenge of low financial security.

We also set out a practical approach for how this could be achieved, recognising that any transition to a higher contribution regime will take time and need to be phased in to manage the implications for employers and individuals. This proposal draws on robust evidence from our data analysis, research with people living in low- and moderate-income households and real-world workplace savings trials, as well as extensive engagement with stakeholders from across the breadth of the system – including employers, pension providers, savings providers, consumer groups and charities, trade unions and payroll providers and professionals. We believe this model offers a credible pathway to strengthening retirement outcomes over time, as well as supporting millions more people towards great financial resilience and wellbeing in the shorter term.

Box 1: A version of 'sidecar' savings

The term 'sidecar' savings has become common as a catch-all term for workplace emergency savings tools which are connected in some way to workplace pensions. In practice, our work has encompassed models with no connection, right through to ones with a hard-wired connection in the form of an automatic rollover of contributions between the two accounts. In the US, legislation has created a category of workplace savings provided within the pensions tax and legislative wrapper – called Pensions Linked Emergency Savings or PLESAs.

We view the model we've developed in this paper as one possible version of a sidecar model – connected to pensions because it's embedded in the auto enrolment mandate and has a sliding-scale default contribution rate across the two accounts. But separate in that we see it being provided by a different delivery ecosystem, and at least initially without a mandatory rollover. As such we've created the working term 'Pensions Adjacent Emergency Savings Account' or PAESA to denote this specific version within the broader 'sidecar' category and refer to the model this way throughout the paper.

⁸ Nest Insight (2025). [Easier to save](#)

1. The trade-offs inherent within pension reform objectives

There are a set of inherent tensions in the different goals for pension reform, outlined in the remit of the new Pensions Commission.

The Commission has been tasked with addressing the most significant long-term challenges facing the UK's pension system, with a focus on adequacy, fairness and sustainability. This means assessing whether it delivers adequacy of income in retirement and for whom; how to ensure the system continues to work for those on lower incomes and with greater financial vulnerability; and how to address the fact that many people, mostly lower earners remain outside of the scope of auto enrolment.

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

Pension coverage has increased dramatically in recent years as a result of auto enrolment: more than 22 million people were saving into a workplace pension in 2023, over 10 million more than in 2012.⁹ 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, leaving them at risk of significant falls in living standards in retirement. Analysis from the Department for Work and Pensions indicates that millions of people are undersaving for retirement: 4 in 10 (43%) working-age adults – equivalent to 14.6 million people – are not on track to achieve their Target Replacement Rate (TRR).¹⁰

A key driver of this undersaving problem is the default nature of auto enrolment. Because most employees do not actively engage with their pension, many remain at the minimum contribution level.¹¹ For example, around 3 in 10 – equivalent to 4.3 million private sector DC employees – were saving at the auto enrolment minimum level in 2023.¹²

The first Pensions Commission was clear that auto enrolment defaults were not expected to deliver full pension adequacy on their own. It argued that a “reasonable aim of public policy” was for the median earner to achieve a replacement rate of at least 45%, with saving beyond that left to individual and employer choice in recognition of differing preferences and circumstances.¹³ It envisioned that many would be making additional voluntary contributions to reach their TRR. In practice, however, defaults have proven sticky, and the additional voluntary saving anticipated by the Commission has not materialised.

As a result of the shortfall in additional voluntary saving, many organisations have suggested that contribution rates need to rise.¹⁴ This could be achieved by increasing the default rate of contributions, and/or by removing the Lower Earnings Limit (LEL).

⁹ Department for Work and Pensions (2025). [Analysis of Automatic Enrolment saving levels](#)

¹⁰ Department for Work and Pensions (2025). [Analysis of Future Pension Incomes 2025](#)

¹¹ This low engagement has been widely documented. In 2020, Nest Insight research found only around a quarter of Nest members have ever logged into their online account. Nest Insight (2020). [Beyond the Defaults](#)

¹² Department for Work and Pensions (2025). [Analysis of Automatic Enrolment saving levels](#)

¹³ Pensions Commission, A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission, November 2005.

¹⁴ For example, Pensions UK has called for the Government to expand the scope of automatic enrolment and increase pension contributions for millions of workers including, removing the LEL, automatically enrolling those below the age of 22 and increasing default contribution rates to 6% for employees and 6% for employers by the early 2030s. For more information see: Pensions UK (2022). [PLSA calls for levelling up of workplace pensions](#)

But increasing contribution rates across the board carries significant risks

Lower earners could be pushed to over save at the expense of living standards today

However, any move to increase contribution rates should take account of the fact that undersaving is not evenly distributed across the earnings distribution. Consequently, a universal increase in minimum pension saving rates comes with some risks of unintended negative consequences.

As shown in Figure 1, median and higher earners are much more likely to be undersaving for retirement than lower earners, while the majority of lower earners are already on track. Around 1 in 8 (13%) individuals in the lowest earnings band (with pre-retirement earnings below £15,900 per year) were projected to be undersaving for retirement, compared to 1 in 2 (48%) in the highest earnings band (earning over £67,000 per year). This pattern reflects the role of the State Pension, which provides a relatively higher level of income replacement for low earners.¹⁵

This suggests that – against TRRs – saving more into a pension would not be beneficial for millions of low earners. For example, for workers earning less than £12,500 a year, the generosity of the State Pension means that retirement income may exceed working-age income – particularly when combined with workplace pension saving. This runs counter to the principle of consumption smoothing and suggests that these individuals could have experienced higher living standards during working life had they not been contributing as much to their pension.¹⁶

Absolute adequacy benchmarks – such as Pension UK’s Retirement Living Standards (RLS) – help people understand the level of income needed in retirement to achieve a minimum standard of living.¹⁷ Against these benchmarks, low earners are more likely to be undersaving compared to median and higher earners: around half (47%) of people earning less than £13,500 were projected not to meet the minimum RLS.¹⁸ 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 higher individual pension contributions may not be the right way to achieve this.

Where a low earner is on track to achieve their TRR yet still falls short of an absolute benchmark, the answer cannot simply be to require higher saving at the expense of an acceptable standard of living during working life. Put differently, if someone’s disposable income while working already sits below a minimum retirement benchmark, saving more of their income into a pension is unlikely to be the best strategy. For employees earning the National Living Wage (NLW) – or close to it – higher personal pension contributions are likely to come directly at the expense of essential consumption and other acute financial pressures.¹⁹

¹⁵ Department for Work and Pensions (2025). [Analysis of Future Pension Incomes 2025](#)

¹⁶ Nest Insight (2024). [How much is enough?](#)

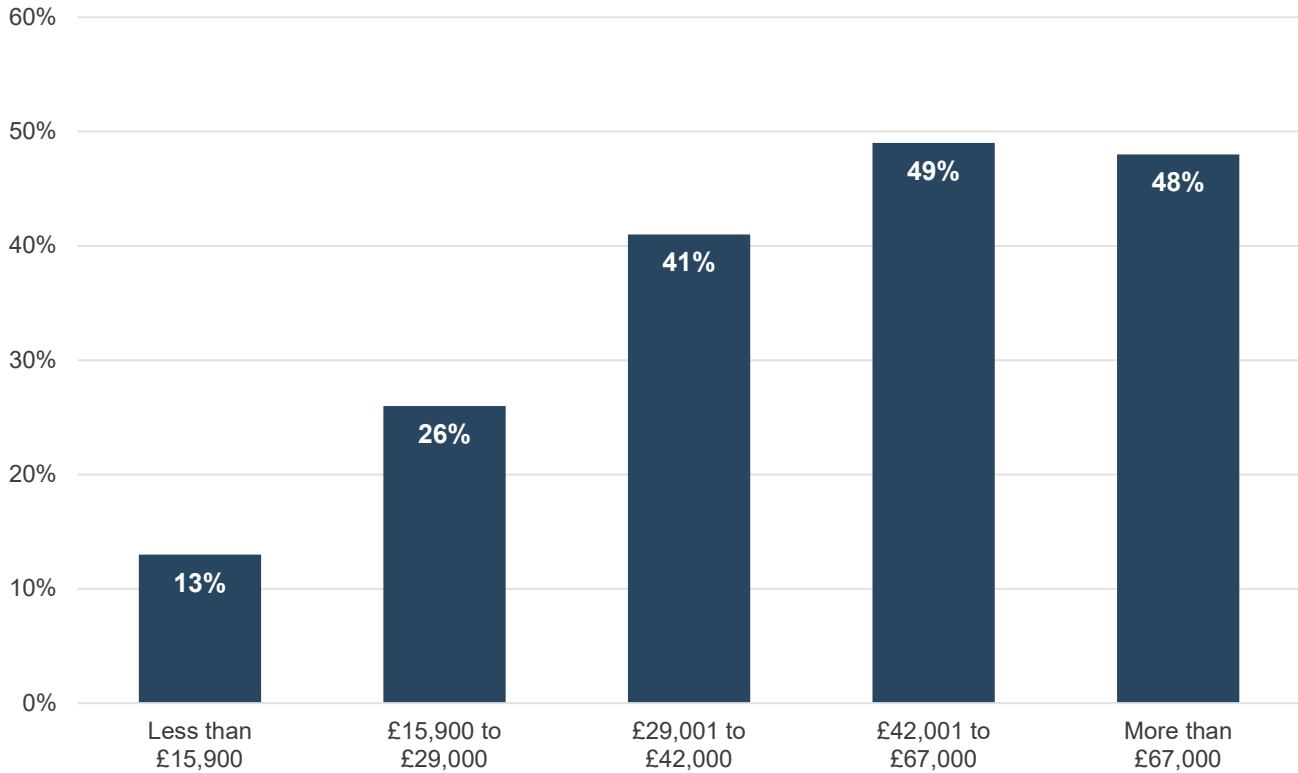
¹⁷ Pensions UK. [Retirement Living Standards](#)

¹⁸ Department for Work and Pensions (2025). [Analysis of Future Pension Incomes 2025](#)

¹⁹ Nest Insight (2024). [How much is enough?](#)

Figure 1: Median and higher earners are much more likely to be undersaving for retirement, while the majority of lower earners are already on track

Proportion of working-age people projected to not meet their Target Replacement Rate, by pre-retirement earnings band: UK, 2025



Notes: Working age population defined as the current AE eligible group (those aged 22 to SPa). TRRs are before housing costs.

Source: DWP, Analysis of Future Pension Incomes 2025.

More people could be pushed to opt-out, excluding them from the opportunity of pension saving, including employer contributions

Another risk to consider before introducing higher default contribution rates is the impact that it could have on opt-out rates. While opt-out and cessation rates have remained exceptionally low, even during the Covid-19 pandemic and the subsequent period of high inflation, it would be unwise to assume that there is no tipping point at which people begin to perceive pension saving as no longer affordable. For example, the increase in opt out when contributions rose from 3% to 5% was significantly higher than when they rose from 1% to 3%.²⁰

Figure 2 shows that participation in workplace pension saving is already lower among lower earners, likely reflecting existing affordability pressures. Research from 2024 found that 46% of working-age people agree that they cannot afford to put money away for retirement ‘at the moment’. For low earners, the figure was as high as 71%, reflecting that for individuals with little or no disposable income after meeting day-to-day costs, or those managing debt repayments, may feel they have little option but to opt out of pension saving.²¹ Increasing default contribution rates could exacerbate these pressures, which could undo the success of automatic enrolment and lead to people being worse off in retirement than they would under an 8% contribution.²²

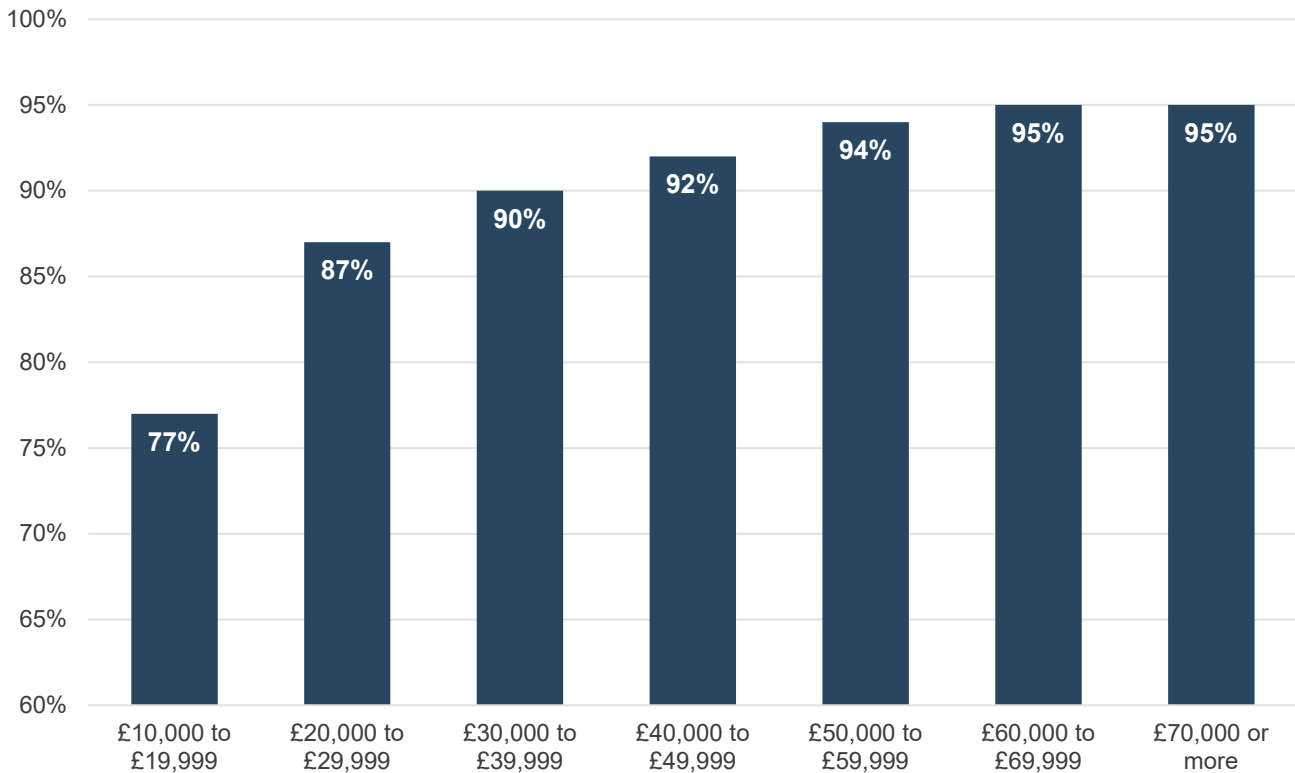
²⁰ Nest Insight (2024). [How much is enough?](#)

²¹ 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](#)

²² Pension Policy Institute (2024). [Automatic Enrolment Contributions Briefing Paper](#)

Figure 2: Lower earners are more likely to have opted out of pension saving

Proportion of private sector eligible employees participating in workplace pension saving, by earnings: GB, 2024



Notes: Eligible employee is defined as those who meet the automatic enrolment age and earnings criteria.

Source: DWP estimates derived from the ONS, Annual Survey of Hours and Earnings.

Increased minimum pension contributions could push some people to take on more debt

Alternatively, if opt-out rates remain low at higher contribution rates, people may compensate in other areas of their household balance sheet – for example, by reducing emergency savings or taking on additional debt to cope.

These spillover impacts of pensions auto enrolment have largely been masked thus far because they are difficult to measure. However, research by Nest Insight and others has begun to shed light on what impact auto enrolling people at minimum default levels has elsewhere.

Pensions policy assumes that people will ‘pay’ for retirement saving with reduced consumption today. However, analysis shows that when default contribution rates were increased from 2% to 8% between April 2018 and April 2019, every £1 reduction in take-home pay resulted in just a 34p fall in consumption. The remaining adjustment came through reduced liquid savings or increased deb.²³ Research also shows that during the early phases of the auto enrolment rollout, there was an average increase of £7 per month in existing overdrafts or loans.²⁴

This suggests that higher pension deductions can crowd out the emergency savings households need to manage everyday financial shocks, or, worse, could cause financial harm in households where there is no savings buffer and consumption cannot be reduced, pushing them towards higher levels of debt.

²³ T Choukhmane & C Palmer (2023). [How do consumers finance increased retirement savings?](#)

²⁴ Nest Insight (2024). [How much are UK workers really saving as a result of pensions auto enrolment?](#)

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

The risks of oversaving for retirement, higher opt-out rates and shorter-term financial harms reflect the inherent limitations of a one-size-fits-all auto enrolment regime combined with a flat-rate State Pension. Such a system involves a trade-off between the risk that some lower-earning employees save more than they can afford and the risk that others – particularly middle- and higher-earners – do not save enough.²⁵ These risks would be increased if more lower earners were brought into auto enrolment.

The challenges facing the UK's pension system extend beyond income adequacy alone. The Pensions Commission has also been tasked with addressing inequalities within the current auto enrolment system. 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. This partly reflects the fact that some people are self-employed or not in paid work and so are not automatically enrolled into a workplace pension. But some low earners – including those holding multiple part-time jobs – are excluded as a result of the £10,000 earnings trigger.²⁶ For instance, only 37% of employees earning less than £10,000 are saving into a workplace pension, compared with 71% of those earning between £10,000 and £20,000.²⁷

To improve inclusivity and fairness within auto enrolment, policymakers could consider removing the £10,000 earnings trigger – bringing an additional 1.6 million private sector employees into workplace pension saving.²⁸ This is another idea some commentators have argued for, often alongside removing LEL to make the system simpler, more inclusive and more generous. However, these changes would see pension saving disproportionately increase among lower earners, both those already covered under automatic enrolment and those not yet included.

The interaction between low income and capacity to save is not straightforward. The Commission points to evidence suggesting that 85% of people earning under £10,000 a year may be able to afford to save for retirement, in part because of the difference between individual and household income. Simply assuming those on very low incomes 'can't' or shouldn't save for retirement is likely to have a particularly negative impact on private pension outcomes for women and carers. At the same time, perceived and actual affordability constraints stretch well beyond the current £10,000 earnings trigger threshold – as shown for example by 2024 research showing that 71% of low earners said they cannot afford to save for retirement 'at the moment';²⁹ and by the higher observed opt-out rates observed among those earning £10,000 to £19,999.³⁰ On balance, these trade-offs suggest that simply bringing more people into a pensions-only auto enrolment system brings further risk of oversaving, unfairness and/or financial harms for some groups.

Low financial resilience undermines pension outcomes

In addition to considering the pension policy levers that could be pulled to address the adequacy and inclusion challenges within the pension system, it is important to examine wider factors that may also be limiting people's ability to engage with, or sustain, pension saving.

Many employees – both those eligible and ineligible for auto enrolment – have low levels of financial resilience. In 2024, 29% of employees aged 22 to 64 had less than £1,000 in cash savings, leaving them more exposed to short-term financial shocks.³¹

This is particularly relevant for lower-income employees, who are already more likely to have limited emergency savings buffers. As shown in Figure 3, in 2024 nearly two in five (38%) employees earning between £15,000 and £30,000 had less than £1,000 in cash savings, rising to more than half (57%) among those earning less than £15,000.

²⁵ Resolution Foundation (2024). [Perfectly adequate? Revisiting pensions adequacy 20 years after the Pensions Commission](#)

²⁶ Department for Work and Pensions (2025). [Finishing the job: Launching the Pensions Commission](#)

²⁷ Department for Work and Pensions (2025). [Workplace pension participation and savings trends of eligible employees: 2009 to 2024](#)

²⁸ Department for Work and Pensions (2025). [Workplace pension participation and savings trends](#)

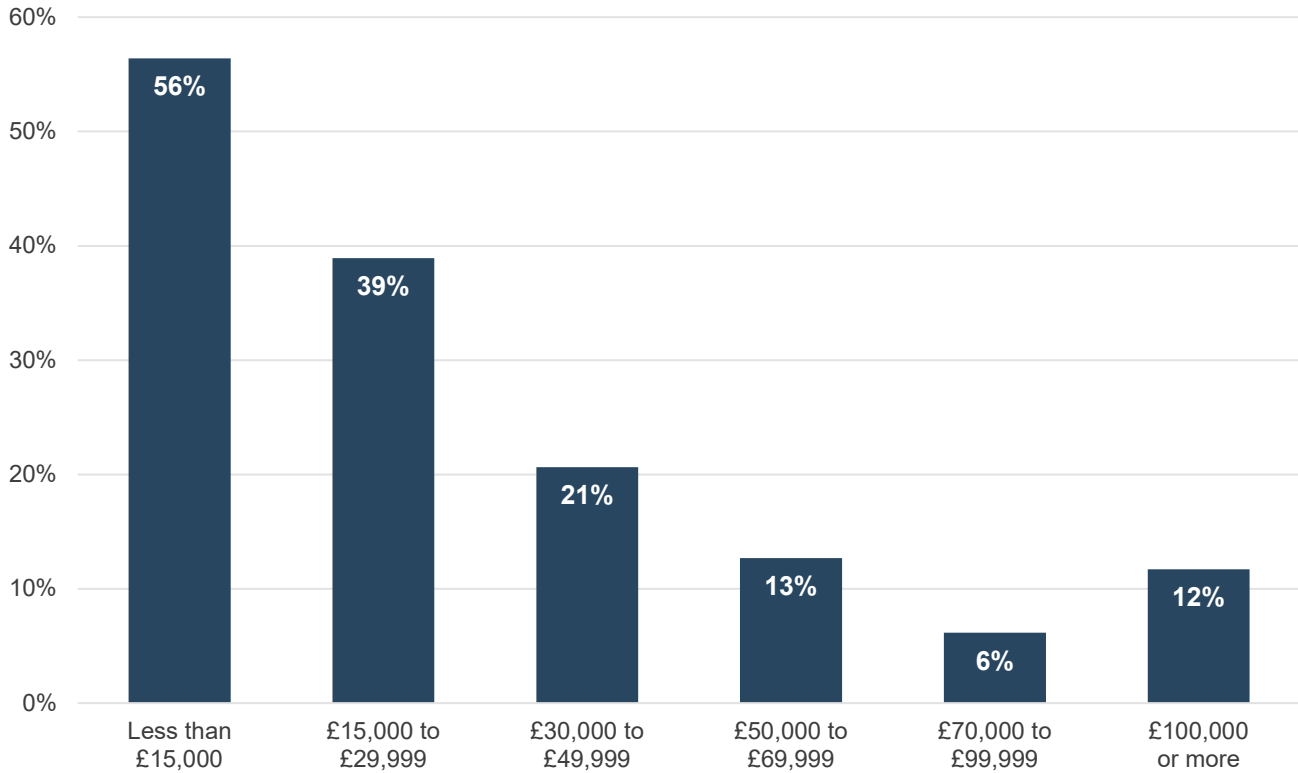
²⁹ DWP analysis of NatCen, British Social Attitudes survey, 2024.

³⁰ Department for Work and Pensions (2025). [Pensions 2050: Evidence and Future Priorities](#)

³¹ Nest Insight analysis of FCA Financial Lives Survey 2024.

Figure 3: Low emergency savings is more acute among those with lower income

Proportion of employees aged 22 to 64 with less than £1,000 in cash savings, by personal income: UK, May 2024



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.

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

This chart is almost the mirror image of Figure 1 – most low earners are on track to achieve adequate replacement incomes in retirement but lack financial security today, whereas for higher earners the pattern is reversed.

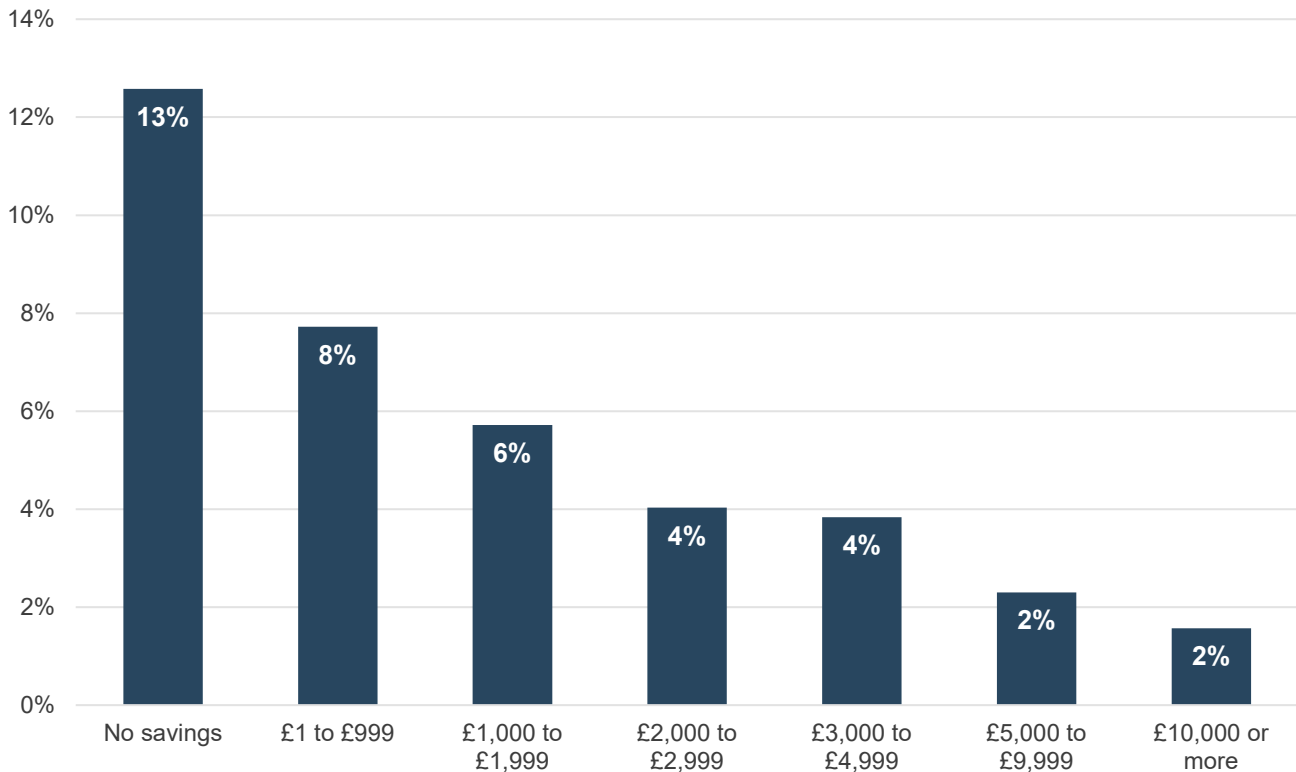
Low levels of financial resilience are important in the context of retirement saving because having low or no emergency savings can undermine people's pension saving in at least three ways: people with low financial resilience are more likely to opt out of pension saving, less likely to contribute more to their pension and more likely to access their pension savings early rather than using them towards income in retirement.

People with low financial resilience are more likely to opt out of retirement saving

As shown in Figure 4, 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, compared with 4% among those with £2,000 to £2,999 in savings and 2% among those with £10,000 or more.

Figure 4: 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.

People with low financial resilience are less likely to make additional pension contributions

There is also wider evidence that demonstrates that people who lack financial resilience are less likely to save more into their pensions. A study of saving among UK workers in their 30s and 40s found that financial resilience was the strongest predictor of discretionary retirement saving, that is saving that occurs outside a workplace pension scheme.³² Similarly, research in the US has also shown that people with emergency savings are 70% more likely to contribute to their DC retirement plan.³³

People with low financial resilience are more likely to access their pensions early

Lower cash savings are also associated with a greater likelihood of accessing pension pots at or after age 55 to pay down debt or cover current living costs, rather than to support retirement income. Qualitative research found that participants who felt financially secure were unlikely to draw on their pension to meet essential outgoings such as bills or household purchases. By contrast, some participants experiencing ongoing financial pressure had accessed their pension savings to manage day-to-day costs or reduce debt.³⁴ This is reinforced by US evidence

³² 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](#)

³³ Commonwealth and DCIIA (2022). [Emergency Savings Features that Work for Employees Earning Low to Moderate Incomes](#)

³⁴ Department for Work and Pensions (2020). [Pension Freedoms: a qualitative research study of individuals' decumulation journeys](#)

showing that individuals with emergency savings both contribute more to, and withdraw less from, their 401(k) pensions.³⁵

Even when pension savings are preserved to provide an income in retirement, that income will go less far for those entering retirement with outstanding debt than for those who retire with strong financial resilience.

Taken together, this evidence suggests that 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. It should therefore be a priority for pensions policy to consider the interaction between shorter and longer-term financial security.

Low financial resilience is also a problem in its own right

Beyond its 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. This rises to around half of low- and moderate-income households.³⁶

This lack of short-term financial resilience has serious consequences for individuals, including an increased risk of problem debt and poor mental health.³⁷ It also has broader societal and economic impacts:

- › It can harm economic growth through reduced workforce productivity and attendance.³⁸
- › It can increase healthcare strain and costs – for example, people with low financial resilience have more GP appointments.³⁹
- › It can prevent people leaving abusive relationships – research has shown that a woman who can't access £100 at short notice is 3.5 times more likely to experience domestic abuse.⁴⁰

Supporting emergency saving could therefore support a broad range of Government policy ambitions including supporting economic growth, keeping people working, reducing health service costs and waiting lists, reducing child poverty and tackling violence against women and girls.

Incorporating emergency savings into the auto enrolment framework alongside pension saving could help balance these trade-offs and mitigate the risks

The Pensions Commission faces a complex challenge. It has been tasked with addressing both the retirement adequacy problem and the need to make auto enrolment more inclusive of lower earners addressing issues of fairness and sustainability. Doing this in a way that recognises the wide variation in employees' financial pressures and levels of security is extremely challenging.

An expansion of auto enrolment that allows greater flexibility to shift the balance between cash savings and pension saving as earnings rise could address the trade-offs and risks highlighted in this section, as well as unlocking the UK's savings challenge. It would enable higher contributions and wider coverage without placing undue pressure on lower earners.

One way to achieve this flexibility would be to incorporate Pension-Adjacent Emergency Savings Accounts within the automatic enrolment framework. The next section sets out what such a policy could look like in practice.

³⁵ Vanguard (2025). [Emergency savings protect retirement savings](#)

³⁶ Nest Insight analysis of FCA, Financial Lives Survey 2024.

³⁷ StepChange Debt Charity (2015). [Becoming a nation of savers](#); Money and Pensions Service (2022). [Adult Financial Wellbeing Survey 2021 Nation of Savers Report](#)

³⁸ Cebr (2023). [Financial wellbeing & productivity in the workplace](#)

³⁹ Nest Insight (2026). [Spotlight on... financial resilience](#), and Nest Insight (2026). [More than a loan](#)

⁴⁰ Surviving Economic Abuse and Money Advice Plus (2022). ["Tsunami of need" for abuse victims](#)

2. A route to a more adequate and inclusive auto enrolment system

Incorporating Pension-Adjacent Emergency Savings Accounts into the auto enrolment system in future could meaningfully address pensions adequacy and inclusion challenges, supporting millions of people to build an emergency savings buffer, alongside delivering multiple pensions policy goals. The model is straightforward and deliverable and balances the interests of multiple stakeholders.

The core approach: universal workplace savings, with a shifting balance in employee contributions from cash savings to pension saving

For the reasons set out in the previous chapter, any reform to auto enrolment aimed at increasing pension saving must also address the affordability risks that higher contributions can create for lower earners. Our starting point is therefore a package of reforms that:

1. introduce Pension-Adjacent Emergency Savings Accounts alongside pensions within auto enrolment;
2. increase overall contribution levels to improve adequacy;
3. remove the £10,000 earnings trigger to widen inclusion;
4. remove the Lower Earnings Limit (LEL) to improve fairness and simplicity;
5. provide an employer pension contribution on all earnings; and
6. shift the balance of employee contributions from cash savings to pension saving as earnings rise.

Together, these measures balance the trade-offs set out in the previous chapter. The model is designed as a coherent package, with the following structure:

- › **Employer contributions:** all employees would receive the same employer pension contribution from the first pound of earnings.
- › **Employee contributions:** these would vary by income:
 - › **Up to an initial threshold:** most/all default employee contributions would go into a Pension-Adjacent Emergency Savings Account, with no or a small employee pension contribution required.
 - › **Between the initial and upper thresholds:** default employee contributions would be split between a Pension-Adjacent Emergency Savings Account and a pension.
 - › **Above the upper threshold:** default employee contributions would go fully into a pension. Employees could still opt into a sidecar savings account, but only in addition to the default pension contribution.

Delivered within a higher-contribution framework? Recognising the challenges of a higher contribution rate for employers

The PAESA model could, in theory, 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 ultimately from employers, are 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.⁴¹

⁴¹ The Second Pension Commission (2026). [Pensions 2050: Evidence and Future Priorities](#)

Many proposals have been made for higher pension contributions, but perhaps the most common is for a rise to 12% total contributions with a minimum of 6% from the employer.⁴² We have therefore used these parameters in our analysis, not to advocate for a 12% overall rate – which is ultimately a political decision, balancing the needs of individuals, employers and the wider economy – but because they help to illustrate the potential benefits of the approach within a future auto enrolment landscape.

Later in the report, we illustrate how the model could work at lower total contribution rates, potentially as a transitional path to a 12% or other higher-contribution end-state.

Box 2: Understanding the benefits to employers of the supporting employees' short-term financial resilience

As set out in the main body of the report, any decision about higher overall employer contributions under auto enrolment would need to take account of affordability to businesses, individuals and the state, and as the Commission has made clear would need to be delivered over a long-term timeline with appropriate phasing and staging to mitigate the impact. It is not the aim of this work to settle on or advocate for a specific eventual contribution rate.

However, evidence does suggest that, at any given overall contribution rate and balance, there are some direct business benefits to employers from supporting employees' short-term financial resilience alongside their retirement saving. For example, research has shown that:

- › People who lack financial resilience and who are worried about money are less productive, with self-reported levels of productivity and performance lower among employees with poor financial resilience⁴³ and workers experiencing financial difficulties feeling like they've achieved less than they would have liked at work.⁴⁴
- › Workers experiencing financial difficulties felt they worked less carefully and were more than twice as likely to have faced challenges with concentration compared with those who were financially comfortable,⁴⁵ which plays out in different sectors in different ways – for example truck drivers more likely to have accidents.⁴⁶
- › There is also evidence that employees who lack financial resilience are less satisfied at work,⁴⁷ less likely to stay in a job⁴⁸ and more likely to be absent due to ill-health.⁴⁹

Overall, there are therefore likely to be significant productivity and employee engagement benefits to employers of building in an emergency savings element to auto enrolment. Evidence from our trials also suggests that the costs to implement a workplace savings tool are low relative to many other employee benefits. If this is part of a wider move to higher employer pension contributions, that clearly still represents a cost to employers relative to today. But compared to an equivalent pensions-only model the cost-benefit may be more favourable to employers overall.

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,

⁴² The Pensions and Lifetime Savings Association (PLSA), now Pensions UK, has called on the Government to increase minimum employer contributions to 5% by the end of the decade, followed by a further 1 percentage point increase from both employers and employees to bring total automatic enrolment contributions to 12% in the early 2030s. For more information see: Pensions UK (2022). [PLSA calls for levelling up of workplace pensions](#)

⁴³ Money and Mental Health Policy Institute (2017). [Overstretched, overdrawn, underserved: financial difficulty and mental health at work](#)

⁴⁴ Building Societies Association (2022). [Boosting financial resilience and wellbeing through workplace saving](#)

⁴⁵ Money and Mental Health Policy Institute (2017). [Overstretched, overdrawn, underserved: financial difficulty and mental health at work](#)

⁴⁶ Leana et al. (2025). [The effect of an emergency savings program on employee savings and work performance: a two-year field intervention](#)

⁴⁷ Rao, Burke and John (2024). [Does saving for emergencies improve productivity at work?](#)

⁴⁸ PwC (2023). [Employee financial wellness survey](#)

⁴⁹ CIPD (2023). [Supporting employee financial wellbeing: SUEZ payroll autosaving](#)

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 potential models, one weighted more to emergency savings and one more to pension contributions. These are set out in Figure 5 below.

Under both models, all employees would receive a 6% employer pension contribution from the first pound of earnings. Employee contributions would then vary by income ensuring that no one contributes less to their pension than under the current system, while aligning with patterns of under-saving for emergencies and retirement.

- › **Under the model weighted more towards emergency savings**, employees earning under £25,000 – equivalent to full-time earnings at the National Living Wage – would contribute 6% of gross pay to a Pension-Adjacent Emergency Savings Account and would not be required to contribute to a pension. Employees earning between £25,000 and £50,270 (the higher-rate tax threshold) would contribute 3% of gross pay to a Pension-Adjacent Emergency Savings Account and at least 3% to a pension. Employees earning £50,271 and above would not be automatically enrolled into a Pension-Adjacent Emergency Savings Account and would contribute the full 6% to a pension.
- › **Under the model weighted more towards pension saving**, employees earning under £25,000 would contribute 5% of gross pay to a Pension-Adjacent Emergency Savings Account and 1% to a pension. Employees earning between £25,000 and £39,000 – equivalent to full time median earnings – would contribute 2% of gross pay to a Pension-Adjacent Emergency Savings Account and at least 4% to a pension. Employees earning more than £39,000 would not be automatically enrolled into a Pension-Adjacent Emergency Savings Account and would contribute the full 6% to a pension.

Subject to meeting both the minimum pension and minimum total contribution at a given earnings level, people could choose to contribute more into either account and/or to rebalance their contribution away from emergency savings and towards pensions. This would allow people who already have enough emergency savings to save more for retirement.

Figure 5: 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

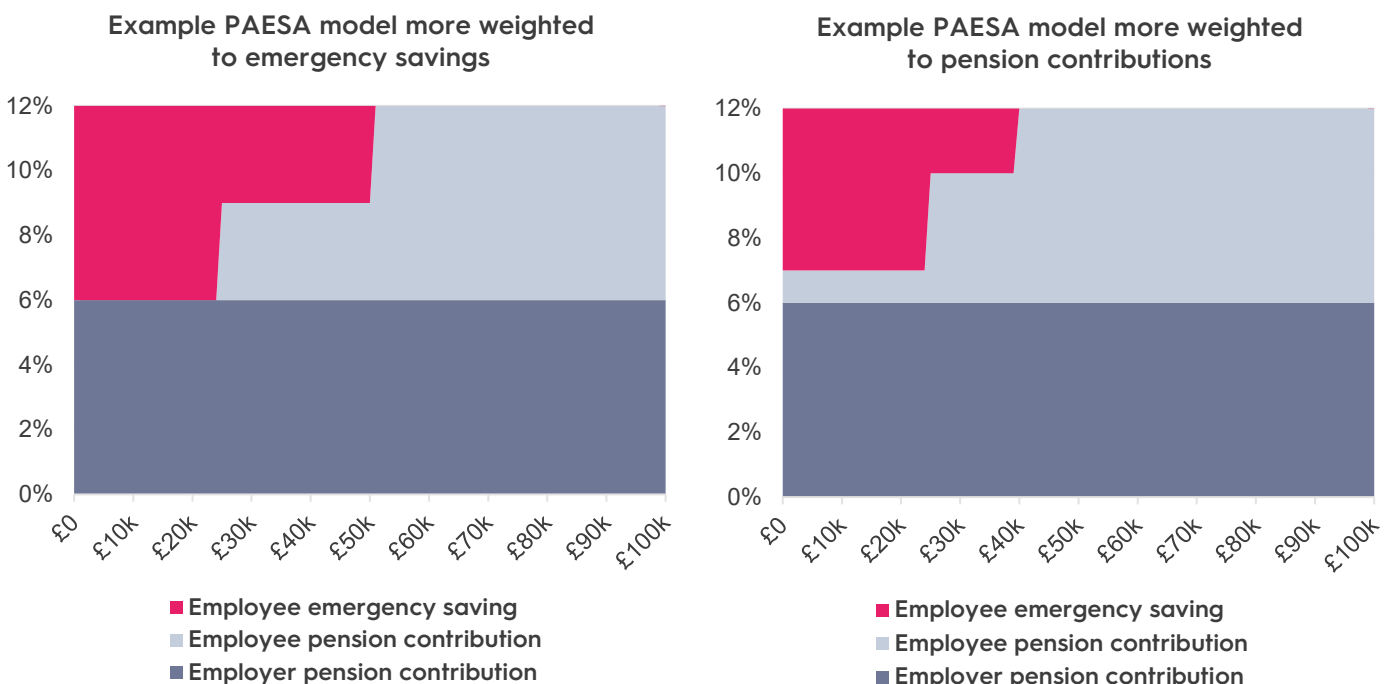


Table 1: of minimum pension and emergency saving contribution rates where default contributions increase to 12% for a model weighted to emergency savings and a model weighted to pension contributions

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

Source: Nest Insight, 2026.

All of these parameters are, of course, open to debate. The earnings thresholds and contribution rates could clearly be set at different levels. The purpose of this work is to set out a workable model 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.

Later in this chapter, we outline a possible phasing roadmap showing how the policy might operate at different contribution levels, starting closer to the current 8% model. Either stage in this phased model – or indeed a higher destination rate – could serve as the final contribution level.

Box 3: The contribution model – earnings thresholds or bands of earnings?

During our working group discussions, one point that was raised was that using earnings thresholds may create cliff-edges for individuals – for example, if they fall on different sides of a threshold in different periods, or receive a pay rise that takes them across a threshold. An alternative model is to calculate contributions to the pension and emergency savings elements on bands of earnings – for example, directing 6% of income on the first £20,000 to a Pension-Adjacent Emergency Savings Account, but only 3% of income above that level. The recent IFS pensions review proposed a version of this for calculating pension contributions, and it has the advantage of smoothing these cliff-edges.⁵⁰

However, it would also mean that people right up the income distribution would have a default emergency savings contribution, and setting the right parameters to best approximate need could be difficult.

In the model we propose, the total contribution rate remains constant, so any cliff-edges would not be felt in take-home pay or would be small. As such, we judge the risks of this model to be low – but we anticipate this is a parameter that could be tested under different designs and at different levels if the policy were taken further.

⁵⁰ Institute for Fiscal Studies (2025). [The Pensions Review: final recommendations](#)

Employee minimum emergency savings contributions count as qualifying contributions

We propose that eligibility for the employer contribution should be linked to the employee making a qualifying *savings* contribution – either to the Pension-Adjacent Emergency Savings Account or to a qualifying pension scheme, depending on which earnings group the employee falls into. As discussed in more detail in the next chapter employees would be able to ‘opt across’ by redirecting their emergency savings contributions to their pension and retain their right to an employer contribution, but only in this direction.

As such, the model retains a contingent responsibility on the worker to make contributions to qualify for the employer minimum contribution, but with some of the benefits of a non-contingent model as has been proposed in, for example, recent IFS work by virtue of individual contributions remaining accessible for more vulnerable workers.⁵¹ The logic behind this approach is expanded on in Box 4.

Box 4: Would a contribution to a pensions-adjacent emergency savings account be sufficient to meet employers’ expectations of shared responsibility in pension saving?

One idea that has gained some currency in debates about reforming auto enrolment is ‘non-contingent employer contributions’ – making the employer contribution mandatory, as in Australia, irrespective of whether the employee contributes. This approach helps lower earners build pension entitlement even if they are unable to contribute themselves and, like the model we propose, could unlock inclusion for lower-earning and more vulnerable groups.

However, evidence and experience from the debate around the original Pensions Commission recommendations suggest that employers and consumers generally favour models based on shared responsibility. This implies that a fully non-contingent approach may be less likely to command consensus.⁵²

Our proposal sits between these positions. It retains a contingent element but allows employees to qualify for the employer contribution through saving into either a qualifying pension or a qualifying Pension-Adjacent Emergency Savings Account, depending on their earnings. This is a softer form of conditionality than the current system. However, some may argue this dilutes conditionality and weakens the principle of shared responsibility.

Evidence from our trials suggests the behavioural effect remains meaningful. Savings built through payroll are treated differently from pay in a current account: many savers build balances over time and almost all continue to contribute after making a withdrawal.⁵³ In that sense, the principle of shared responsibility is preserved while many of the benefits of a non-contingent model are also delivered.

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

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

It is designed to better meet the needs of low- and moderate-income employees by taking a more holistic view of individuals’ financial circumstances, while also delivering clear benefits from a pensions policy perspective:

- › all employees would achieve higher total pension contributions, without putting pressure on lower earners;
- › more employees would be included in pension saving;
- › firming up the financial footing of millions of employees would enable them to more consistently engage with pension saving.

⁵¹ Institute for Fiscal Studies (2024). [Policies to improve employees’ retirement resources](#)

⁵² Forthcoming Pensions UK (2026). [Closing the Gaps](#).

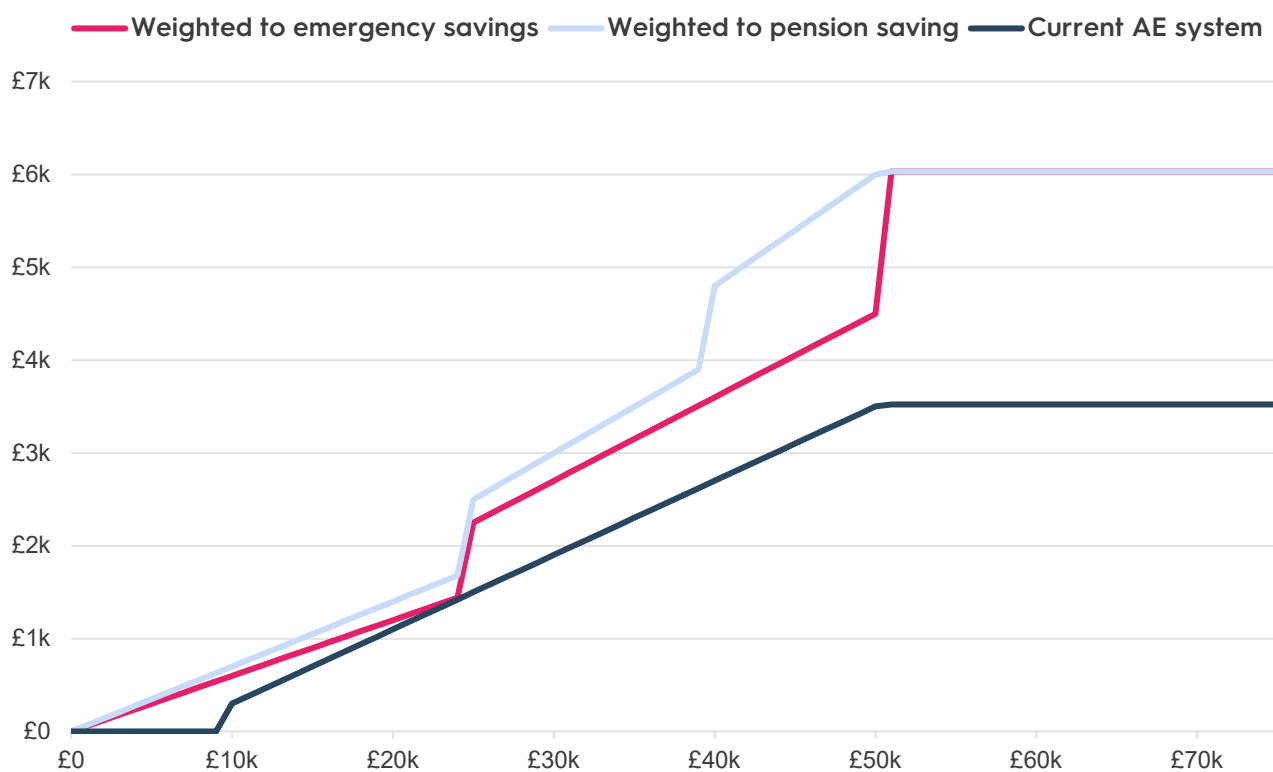
⁵³ Nest Insight (2025). [Easier to save](#)

All employees would achieve higher total pension contributions, without putting pressure on lower earners

The first key benefit of this model from a pensions policy perspective is that it provides a sustainable route to increasing default contribution rates without placing undue pressure on lower earners, for whom higher contributions may be unaffordable. As shown in Figure 6, 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.

Figure 6: 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.

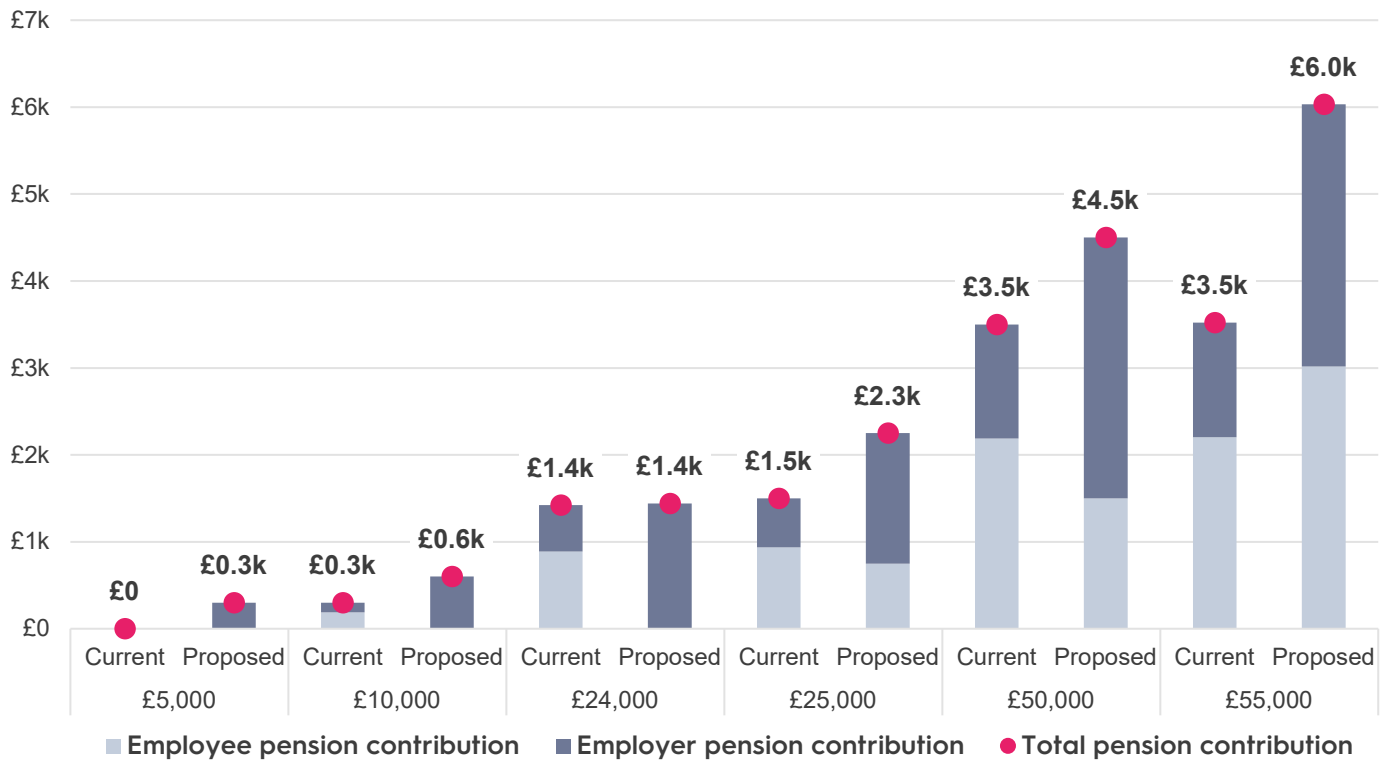
Figure 7 compares annual employee and employer pension contributions under the current auto enrolment system and the model weighted more to emergency savings. While all employees would see an increase in total pension contributions, the scale of that increase varies by earnings, both in cash and percentage terms. For example, employees earning £5,000 – who are currently excluded from auto enrolment – would become eligible for an annual employer pension contribution of £300, equivalent to 6% of total pay.

Those earning close to full time at the National Living Wage would see the smallest increase in total contributions. For instance, an employee earning £24,000 would see contributions rise by just £19, or around 0.1% of pay. However, this reflects a rebalancing between employee and employer contributions. Under the current system, an individual earning £24,000 contributes around £888 and receives £524 from their employer. Under the proposed model, employer contributions would increase to £1,440, more than doubling employer support for pension saving, freeing up employee money towards emergency savings.

At higher earnings levels, the absolute increases are larger. For example, someone earning £55,000 would see annual pension contributions increase by around £2,510, equivalent to approximately 5% of total pay.

Figure 7: Some employees would see a significant rebalance across employee and employer contributions

Comparison of annual employee and employer pension contributions under current auto enrolment policy and the model weighted more to emergency savings at different points of the earnings distribution



Source: Nest Insight, 2026.

To be clear, the models set out above outline proposed minimum default contribution rates (in much the same way as current minimum defaults are set out in legislation). Employers that already offer more generous pension arrangements would remain free to continue doing so, as would employers who might want, for example, to contribute direct to their employees’ emergency accounts in addition to making pension contributions on their employee’s behalf.

Box 5: The wider benefits of higher contribution rates

Higher contribution rates could also deliver benefits for pension providers and the wider UK economy. Combined with ongoing efforts to consolidate pension funds, higher contribution rates would contribute to the growth of larger funds with greater assets under management. This, in turn, would enable funds to diversify into a wider range of asset classes – including productive, illiquid assets such as infrastructure and private equity – and may allow some funds to invest directly, rather than needing to be part of a pooled fund to do so.⁵⁴

These developments could benefit members through lower costs and more diversified portfolios, potentially improving risk-adjusted returns. At a macroeconomic level, larger pension funds could also act as a stable source of long-term capital, supporting investment, driving economic growth, and contributing to improved retirement outcomes.⁵⁵

⁵⁴ Department for Work and Pensions (2024). [Pension fund investment and the UK economy](#)

⁵⁵ Department for Work and Pensions (2024). [Pension fund investment and the UK economy](#)

More employees would be included in pension saving

A second advantage of this model, from a pensions policy perspective, is that it would enable universal participation from the first pound of pay without worsening affordability pressures for low earners.

The 2017 Review of Automatic Enrolment highlighted the importance of simplifying the system while enabling low- to moderate-income earners to save more effectively for retirement.⁵⁶ Under the current system, contributions are calculated on pay above the LEL – £6,240 for 2026/27 – and employees earning below the LEL may opt in but are not entitled to employer contributions.

Removing the LEL increases the portion of earnings on which contributions are calculated, allowing eligible savers to build their pension pots more quickly. It is estimated that removal of the LEL would result in around 6 million people (35% of private sector participants) making increased contributions.⁵⁷ But these higher contributions and the resultant reduction in take-home pay will be felt most acutely by lower earners, for whom the LEL makes up a larger share of total pay. For example, for an employee earning £20,000, removing the LEL increases annual pension saving by around 45%, compared with a 14% increase for an employee earning £50,000. As set out above, the model that is weighted more toward emergency savings mitigates this risk by increasing pension contributions without reducing take-home pay for low- and middle-earners.

The proposal also removes the £10,000 earnings trigger. In 2024, there were around 2.3 million private sector employees earning less than £10,000 who were therefore not automatically enrolled into a workplace pension. Of these, 31% (around 700,000 employees) were participating in a workplace pension. Removing the £10,000 trigger would bring the remaining 1.6 million private sector employees into workplace saving.⁵⁸ This means every employee who is saving – either into a qualifying Pension-Adjacent Emergency Savings Account or into a pension – would receive an employer contribution. As discussed above, under the current system, employees who opt out, or who are not enrolled at all, miss out on a component of their total remuneration and effectively subsidise the pension saving of their higher paid colleagues.⁵⁹

Removing the £10,000 trigger alongside the LEL would also improve outcomes for people in multiple jobs because they would get an employer contribution for every pound they earn in every job.⁶⁰

In total, removing the LEL and the £10,000 earnings trigger also represent simplifications of the current system, which requires pay-period-by-pay-period assessment of earnings to assess eligibility. While this simplification is offset to a degree by the need to split contributions across two destinations, there may be scope for exploring whether worker income categories could be assessed less frequently as a further simplification.

Taken together, integrating Pension-Adjacent Emergency Savings Accounts into automatic enrolment would strengthen pension saving among low earners by ensuring that all savers can benefit from employer contributions on the first pound earned. This would directly support the Pensions Commission's objective of improving retirement outcomes for those on the lowest incomes and at greatest risk of poverty.⁶¹

⁵⁶ Department for Work and Pensions (2017). [Automatic Enrolment Review 2017: Maintaining the Momentum](#)

⁵⁷ Department for Work and Pensions (May 2025). [Pensions 2050: Evidence and Future Priorities](#)

⁵⁸ Department for Work and Pensions (2025). [Workplace pension participation and savings trends](#)

⁵⁹ Institute for Fiscal Studies (2024). [Policies to improve employees' retirement resources](#)

⁶⁰ Department for Work and Pensions (2017). [Automatic Enrolment Review 2017: Maintaining the Momentum](#)

⁶¹ Department for work and Pensions (2025). [Pensions Commission: Terms of Reference](#)

Box 6: Low earners would benefit from a fairer distribution of employer contributions

We believe this approach would support a fairer distribution of employer contributions across the workforce. At present, employer contributions are unevenly spread across the earnings distribution. For example, employees earning £70,000 or more typically receive employer contributions equivalent to around 7% of total pay, while those earning between £10,000 and £20,000 receive closer to 2.2%.⁶² Nest Insight research has found that the current models used by employers to offer more generous pension benefits – such as matching arrangements and offering higher contributions based on seniority – often direct any higher-than-minimum employer pension contributions to employees who are likely to already have greater financial security.⁶³

In this context, it is important to recognise that a portion of employer pension contributions is likely to be passed through to employees in the form of lower wages or higher prices over time. This means that individuals who opt out of pension saving, or who are unable to benefit from more generous matching arrangements, may effectively subsidise the contributions of those who remain enrolled or take full advantage of matching. In a scenario where contribution rates increase without additional flexibility, these dynamics could exacerbate inequalities, particularly if opt-out rates rise among lower earners. By contrast, under this universal workplace savings model, lower-income employees would receive higher employer contributions, which may improve overall compensation.

In practice, there is often limited scope to offset these costs through lower wages for low earners due to minimum wage constraints. Evidence also suggests that the cost of higher employer contributions is likely to be distributed across the workforce more broadly, rather than leading to material reductions in pay for those on the lowest incomes.⁶⁴

Firming up the financial footing of millions of employees would protect their capacity for sustainable long-term saving

The final advantage, from a pensions policy perspective at least, is that this model has the potential to help millions more employees build financial security in ways that support their pension-saving capacity.

As set out above, millions of employees have low emergency savings. The challenge is not a lack of understanding or motivation. Almost everyone recognises the value of having savings to protect against emergencies and wants to save, yet many still struggle to get started.⁶⁵ Behavioural and practical barriers play a major role, including present bias and inertia, low awareness and complexity of options, friction in opening accounts, the impacts of low confidence, stress and scarcity, and competing financial pressures.⁶⁶ Nest Insight's research highlights the scale of this intention-action gap. In trials of one opt-in workplace emergency saving scheme, Jars, 46% of employees said the account would help them, yet only 1% actually signed up to save.⁶⁷

Payroll savings schemes offer a powerful way to overcome this intention action gap – particularly when delivered on an opt-out basis. Opt-out designs increase participation by around 50 percentage points, with up to seven in ten employees saving when enrolment is automatic rather than voluntary. Importantly, opt-out payroll approaches are also inclusive, reaching the people who most need support to get started with saving.⁶⁸

Incorporating Pension-Adjacent Emergency Savings Accounts into automatic enrolment could support millions more employees to save persistently over time by giving them an account automatically. In our trials, employees valued having savings partitioned from everyday money, and this kind of separation can help turn good intentions into a sustained habit. And establishing a saving habit matters in its own right for financial resilience: for example,

⁶² Department for Work and Pensions (2025). [Analysis of Automatic Enrolment saving levels](#)

⁶³ Nest Insight (2022). [Employer pension contributions in the UK](#)

⁶⁴ Institute for Fiscal Studies (2024). [Policies to improve employees' retirement resources](#)

⁶⁵ Nest Insight (2023). [Workplace sidecar saving in action](#)

⁶⁶ Nest Insight (2025). [Easier to Save](#)

⁶⁷ Nest Insight (2023). [Workplace sidecar saving in action](#)

⁶⁸ Nest Insight (2023). [Opt-out autosave at work](#)

research has found that households that save consistently, regardless of the amounts, have over 70% lower odds of falling behind with their bills than non-savers.⁶⁹

These findings are relevant for pensions policy because, as set out above, improving employees' financial resilience can support stronger pension saving over time. 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. Supporting saving would also support other aspects of the Government's agenda such as the Financial Inclusion Strategy.⁷⁰

Higher contributions could be phased in alongside Pension-Adjacent Emergency Savings Accounts

Finally, it is important to recognise that implementing a policy of this nature would take time. The Pensions Commission's final recommendations are not expected until 2027, with any subsequent implementation likely to fall within the following Parliament. Moreover, any increase in contribution rates would require a substantial lead-in period to allow employers and payroll providers to prepare.⁷¹

Figure 8 outlines a potential approach to phasing in higher contributions alongside Pension-Adjacent Emergency Savings Accounts under the model weighted more towards emergency savings (similar progressive models could be developed for other end states).

Starting closer to the current 8% model, the first phase could involve removing the LEL, so that contributions are made from the first £1 of earnings, and extending coverage to those earning below £10,000, with the employee contributions of new savers brought into auto enrolment directed into a Pension-Adjacent Emergency Savings Account. This would start to increase costs for employers and raise pension saving for some lower earning employees.

The second phase could involve a more substantive increase in contribution rates. In phase 2 below, employer contributions rise to 5%, accompanied by a rebalancing of employee contributions for those earning between £10,000 and £50,270 with 3% directed to the pension and 2% to a Pension-Adjacent Emergency Savings Account, ensuring no reduction in pension saving.

The third phase corresponds to the model described above, based on a combined 12% contribution rate.

Consultation with payroll professionals also highlighted the benefits of staging the rollout by employer size, starting with larger employers. During the introduction of automatic enrolment, this approach gave payroll providers time to adapt systems and refine delivery before smaller employers were brought into scope. Providers noted that lessons from the early phases significantly improved later implementation. A similar approach could therefore be adopted for Pension-Adjacent Emergency Savings Accounts.

On this basis, even the initial phases would start to introduce higher contribution costs for both employers and employees. Targeting employee increases at accessible savings provides some natural mitigation of any affordability concerns for employees. But the affordability implications for businesses remain and should not be understated. As set out earlier, this blueprint is intended to describe what an end-state model for the future evolution of auto enrolment policy, incorporating emergency savings, might look like. The lead-in times and the staging and phasing profile for any implementation would need to reflect these affordability implications and ensure employers could plan for, and smooth the impact of, the additional costs.

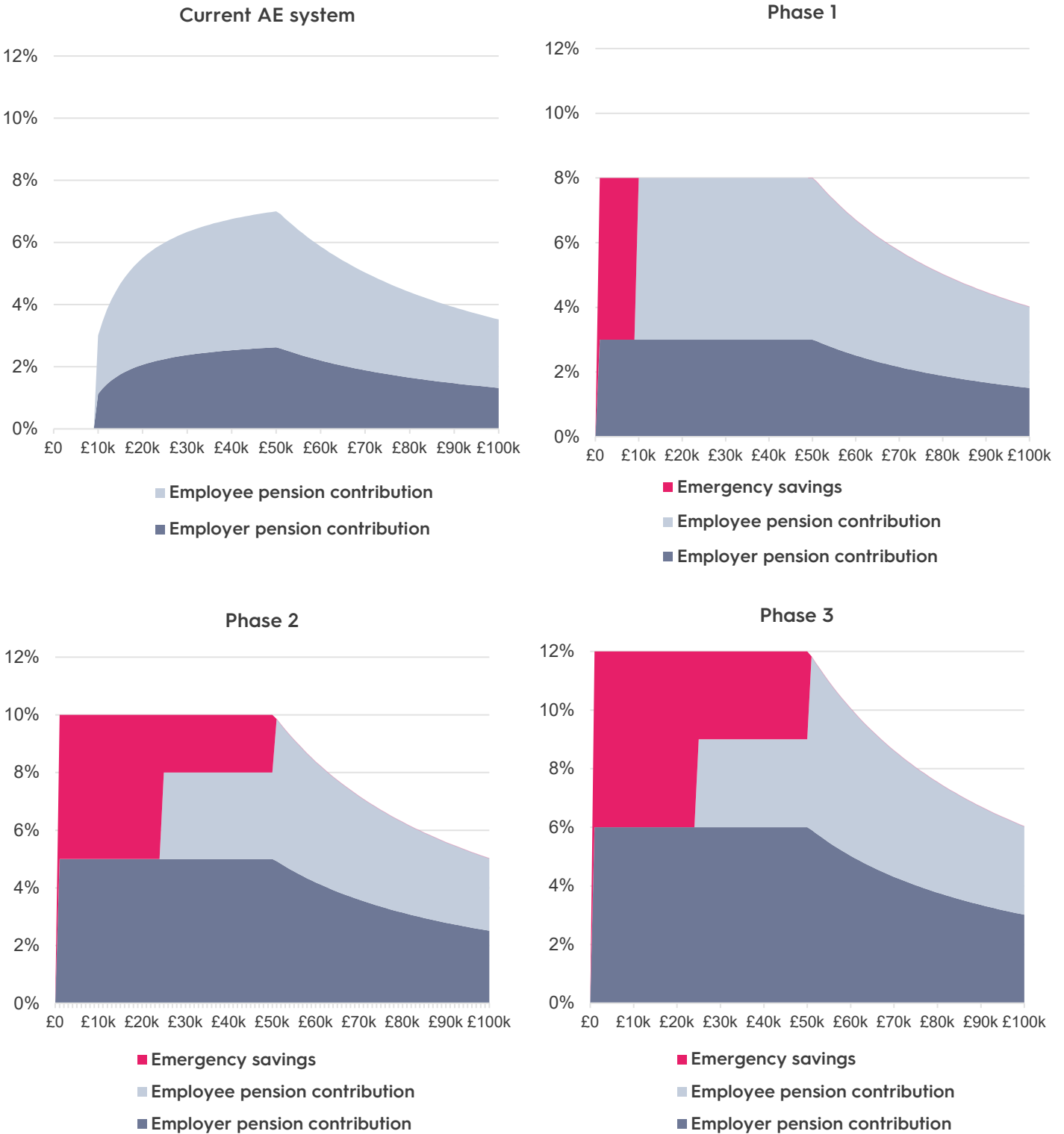
⁶⁹ Personal Finance Research Centre (PFRC) and University of Bristol (2025). [Understanding the role of savings in building longer-term financial security](#)

⁷⁰ HM Treasury (2025). [Financial Inclusion Strategy](#)

⁷¹ The Second Pension Commission (2026). [Pensions 2050: Evidence and Future Priorities](#)

Figure 8: Pension-Adjacent Emergency Savings Accounts could be phased in alongside higher pension contributions

Illustration of pension and emergency saving contribution rates as a percentage of total pay under the existing auto enrolment system and where contributions increase from 8% to 10% and finally to 12% under a model weighted more to emergency savings



Source: Nest Insight, 2026.

Recognising that a policy of this kind would take time to implement, there is an opportunity to lay the groundwork for employers to offer emergency saving alongside pension saving ahead of any changes to auto enrolment. The FCA's regulatory statement has given employers greater clarity and confidence that workplace savings schemes can be offered to employees.⁷² However, employers still cannot automatically enrol employees into payroll savings, even though opt-out approaches have been shown to dramatically boost participation and are far more effective at reaching groups previously excluded from saving.⁷³ Addressing these regulatory barriers would enable progress in the near term and help prepare the ground for the future introduction of a universal workplace savings policy.

This chapter has set out a potential route forward for policymakers seeking to integrate pensions-adjacent emergency savings accounts into the automatic enrolment framework. The next chapter explores the potential supply routes for implementation, alongside wider considerations for policy design.

⁷² Financial Conduct Authority (2025). [Statement on workplace savings schemes](#)

⁷³ Nest Insight (2025). [Easier to save](#)

3. Key design and delivery considerations

Pensions Adjacent Emergency Savings Accounts can be incorporated into the auto enrolment system through a number of models. Each has trade-offs, as well as benefits.

In this section, we set out some of the design and delivery considerations involved in implementing this approach. We have conducted extensive engagement through working sessions and one-to-one discussions with a range of stakeholders to understand the real-world context of the different parties involved in the delivery landscape. This has helped us to understand the complexities and trade-offs involved, and to explore how best to balance them. In each case, we propose what appears to be the most feasible way forward.

The approach aims to mirror much of the current auto enrolment policy and build on existing supply routes of payroll workplace savings. There was a clear focus in our working group discussions on the need for simplicity of delivery, albeit leaving sufficient space to allow for the policy to evolve over time and potentially incorporate additional desirable features as the system allows.

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 by 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 the PAESA model set out in the previous chapter into this mandate on employers and focusing, similarly, on the contribution structure across emergency and pension savings would ensure delivery. It would also unlock a more universal, inclusive and adequate retirement system.

This approach also has clear benefits for scaling take-up of emergency saving. Existing activity around workplace emergency savings – notably the National Coalition for Workplace Savings, announced in the Financial Inclusion Strategy and which Nest Insight supports – is focused on scaling voluntary take-up of effective, behaviourally informed workplace savings tools. This work is making positive progress but is unlikely to reach employees working for smaller employers at scale, given they often have limited capacity to implement new schemes. We have also seen proposals – such as from the Lifetime Savings Initiative – to scale workplace savings via a mandate on pension providers to provide emergency saving products to sit alongside an employees' pension.⁷⁴ However, such models would still likely see low take-up and also fail to build on the existing supply capacity of workplace savings products. Crucially, neither approach develops the integrated contribution framework set out here that would deliver the significant wider benefits of a more universally inclusive, but also more adequate auto enrolment system. For these reasons, the model we propose would deliver Pension-Adjacent Emergency Savings Accounts through an expansion of the current mandate on employers.

This leaves flexibility for employers in deciding how best to comply and leaves room for innovation on the supply side, rather than prescribing a single delivery model. This flexibility should enable those employers that already provide payroll savings schemes to make the adjustments needed to become compliant, while also recognising the significant untapped supply of these tools in the market today. However, placing the responsibility on employers to choose a compliant arrangement may be challenging for some, particularly those with limited capacity. For this reason, some stakeholders suggested there may also need to be a default provider, similar to the role Nest played in auto enrolment, and have highlighted the risk that in the absence of such a provider, compliance rates could be lower. Our working group discussions and the evidence built during our programme of research in this area suggests that there are likely to be existing or emerging commercially viable models that would enable all employers to comply, but this would need further testing under any detailed policy development.

Employees would retain 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 PAESA or pension contributions. Also as is the case now, opting out of the minimum employee contribution

⁷⁴ Schrodde (2024). [Lifetime Savings Initiative: A vision for success and self sufficiency](#)

would result in a loss of eligibility to the employer pensions contribution, although with contributions for lower earners heavily or fully weighted to accessible savings, there should be little or no reason for them to opt out under this model. Members would also be able to 'opt across' by redirecting their emergency savings contributions to their pension and retain their right to the employer contribution, but only in this direction. In effect the employee pensions element of the total contribution would be a harder minimum than the emergency savings contribution, protecting pension saving.

In terms of the opt-out mechanism, we envisage an approach broadly consistent with current policy, whereby employees can opt out either through their employer or via their provider. Providers and employers would have disclosure obligations around the impact on the entitlement to employer contributions as part of the opt-out process. In practice, given the potential need to communicate with two providers, this approach might tilt the balance further towards opt-out through the employer. This has raised concerns from some about whether this could create an additional touchpoint through which employers might encourage employees to opt out of one or both elements. However, given that this route already exists within the current system, we do not believe it would materially exacerbate the risk of poor employer behaviour. Furthermore, the fact that for lower earners there is no longer as clear a take-home pay benefit to opting out, the incentives to go along with pressure to opt out are arguably significantly reduced in this model.

PAESAs should be required to meet a set of qualifying criteria

In terms of the delivery ecosystem, the stakeholders we consulted with during this process were clear that any model needed to allow space for the market to innovate to meet employer needs, rather than prescribing a single delivery model. This flexibility would 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 and considerable existing innovation in the delivery of these tools in the market today across a range of different provider models and types, including credit unions, fintech employee benefit platforms, building societies and others.

In practice, this is likely to require employers to nominate both a qualifying PAESA provider and a qualifying workplace pension scheme. Previous Nest Insight work highlights a range of potential delivery models building on the existing ecosystem. For example, payroll providers could partner with short-term savings providers – such as high street banks, credit unions, building societies, employee benefit platforms or fintechs – to offer employers 'off-the-shelf' payroll savings solutions to employers. Alternatively, pension providers could develop the capability to offer emergency savings alongside pensions, either directly or in partnership with others. Some providers already have elements of this model in place where they offer cash savings products as part of their wider proposition. This approach may be particularly attractive to smaller employers, as it would mean maintaining one relationship instead of two.

Leaving the emergency savings and payroll markets to develop solutions would likely result in models where emergency savings accounts and pension accounts are not directly linked, which may make transfers into pensions more complex (as discussed below). However, given the substantial lead-in time needed to implement a policy of this nature, it is likely that there will have been considerable technological advances, such as open banking and pensions dashboards, that would enable employees to see all parts of their finances and potentially support greater integration.

Regardless of the delivery model adopted, Pension-Adjacent Emergency Savings Accounts 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 to enable evaluation and a single data standard to simplify delivery.⁷⁵ Alongside these requirements, our work identifies a set of common design features that are critical to the success of workplace savings programmes aimed at improving the short-term financial resilience of low- and moderate-income employees. Evidence from our trials suggests that these features should be preserved irrespective of the final policy design.

⁷⁵ Reporting could cover metrics such as the number of accounts opened and closed, total deposits and withdrawals, and the number and value of transfers from existing PAESAs.

Table 2: Key design elements of emergency savings accounts

Simple	› The account structure should be straightforward, and communications should be jargon-free.
Flexible	› Employees should be able to change, pause and stop their contributions at any time.
Payroll-linked	› Employees are able to save consistently and automatically, with money moved into their savings account through payroll before it's felt in their pockets.
Visible	› Employees should be aware of their savings and know that they can access them easily when they need.
Partitioned	› Savings are set aside from an employee's everyday money and retirement saving in an individual account in their name that is ringfenced for saving.
Fee-free	› There are no fees for account management or set-up, ensuring any savings aren't eroded.
Easily accessible	› Savings can be accessed quickly and easily when needed. There are no conditions for or limits on access. Employees are free to access their money when they need it, as frequently as they need to.

A further theme that came out strongly in our working group discussions was the central importance of a common data standard that would allow easy integration between payroll providers and the potentially wide range of qualifying emergency savings providers. The lack of such a standard for the roll-out of automatic enrolment created significant challenges and delays in the extent to which payroll providers were able to support employers with implementation, and many are still not integrated to all the different data standards set by qualifying pension providers. A model that allows supply-side innovation creates a challenge around the need for many-to-many integrations between payroll and different providers which a common data standard would resolve. This could be required as a further criterion for PAESA providers.

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. One solution would be the introduction of an automatic rollover mechanism. Nest Insight has previously trialled a model where a liquid emergency savings account is linked to a traditional defined contribution pension pot. In these trials, employees saved into an instant-access savings 'jar' via payroll, alongside their existing workplace pension. Once a pre-set savings target was reached and the jar filled, further contributions were automatically redirected into the employee's pension as additional voluntary contributions. Money could be taken out of the accessible savings jar for any reason, and if the balance fell below the savings target, payroll contributions reverted back to refilling the savings jar.⁷⁶ This model has the added advantage that it enables people to save more for retirement once they'd built up a basic level of financial resilience. For example, 5% of Jars users had their Jars payroll saving going into their pension at 18 months.⁷⁷

We – and others we've spoken to – have long-assumed that any move to incorporate emergency savings into the pensions auto enrolment framework would feature a rollover. However, our work with partners, and the lessons from our trials, suggest that a mandatory automatic rollover built into payroll systems would add significant complexity and administrative burden, without necessarily enhancing pension outcomes significantly over and above the improvements driven by other elements of the overall approach.

⁷⁶ Nest Insight (2023). [Workplace sidecar saving in action](#)

⁷⁷ Nest Insight (2023). [Workplace sidecar saving in action](#)

Firstly, to operate effectively, it would require a single entity to have visibility of the employee's salary, the balance in the emergency savings account and the employee's pension provider. This visibility is necessary to ensure savings above the emergency savings threshold are correctly rolled over into the pension. While payroll is likely best placed to perform this coordinating role, given their central position in salary processing and pension contributions, the feasibility of implementation would vary significantly. Employers' payroll systems differ widely in sophistication, and a rollover mechanism could be more difficult to implement depending on payroll setup.

In addition, savings and pensions are, for the most part, regulated separately – with pensions overseen by The Pensions Regulator (TPR) and savings regulated by the Financial Conduct Authority (FCA). Aligning regulatory oversight across the two would be complex and could take considerable time to agree and implement.

There are also challenges in setting an appropriate rollover threshold across the earnings distribution. The level of savings required to provide effective financial resilience varies considerably depending on individual circumstances, including housing tenure, household composition, caring responsibilities, disability, and long-term health conditions.⁷⁸ Any threshold would also require regular review and updating over time to remain appropriate, adding further administrative complexity.

There is also the added complexity that directing additional savings into a pension may not be in the best interests for every employee. For example, employees saving to buy a home may be better served by directing savings above their emergency buffer into another medium- to long-term savings vehicle, such as an ISA.

Finally, the different pension tax relief mechanisms – Relief at Source versus Net Pay – might add an additional complication for payroll and pension providers in facilitating the rollover.

In light of these issues, we believe that 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 greater potential for personalisation. Alongside disclosure requirements on employers, 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. While this means no automatic link between emergency savings and pension saving is created, the policy still delivers a significant boost to retirement saving across the earnings distribution. 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.

Overall, we have taken a pragmatic approach to policy design, recognising the varying capabilities of employers' payroll systems and the need to minimise complexity. This does not mean a rollover mechanism lacks merit. More sophisticated payroll providers may wish to offer rollover as an optional feature, potentially extending beyond pensions to other medium- and long-term savings vehicles, such as ISAs.

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

A key concern raised by stakeholders during the development of this design was the risk of a proliferation of emergency savings accounts as employees move between jobs – mirroring challenges already seen within the pensions system. A solution to this problem would be to allow employees to have a portable emergency savings account that follows them from job to job. In practice, however, this was considered administratively complex, as payroll providers would need to establish and maintain relationships with multiple emergency savings providers. It could also weaken the auto enrolment nature of the policy, requiring employees to supply their account details when starting a new job – a relatively small, but nonetheless meaningful, source of friction.

⁷⁸ Resolution Foundation (2025). [Money on my mind: Understanding the savings, debt and financial resilience of low-to-middle income families](#)

The simplest solution would be to close (defund) an employee’s emergency savings account when they leave their job. Payroll savings providers already collect employees’ salary account details during onboarding for fraud prevention purposes, which means any remaining savings can be paid back into the employee’s salary account on exit. However, this approach would blur the distinction between everyday money and emergency savings and risks undermining the savings habit employees have developed.

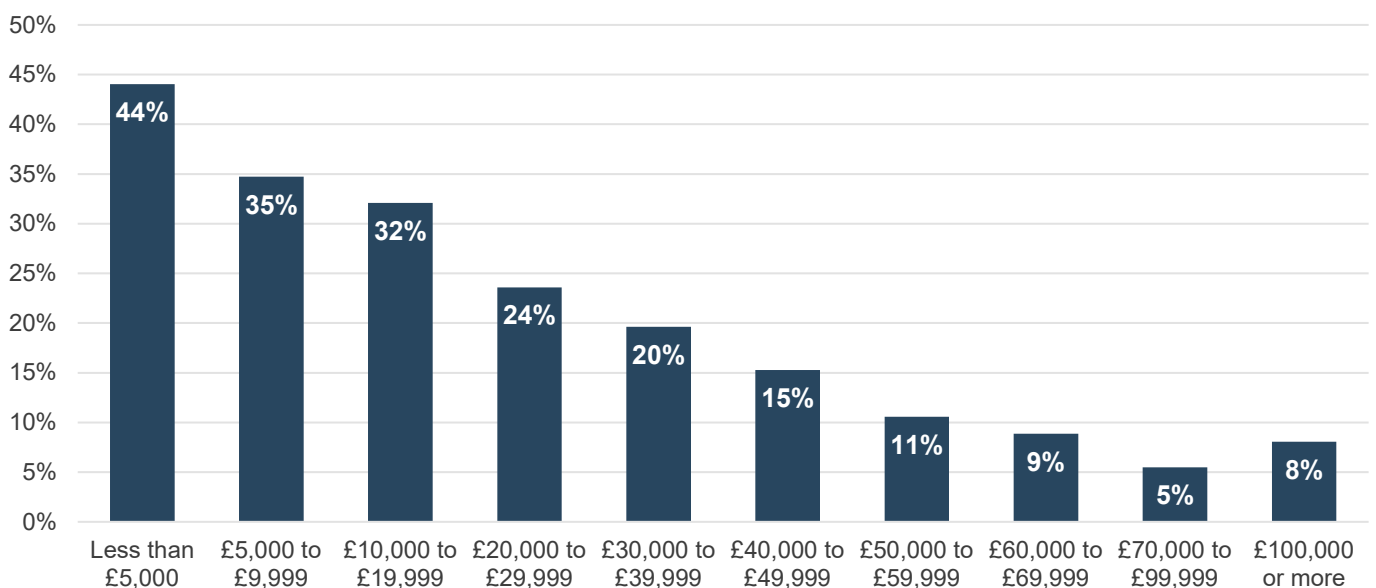
Instead, a more desirable and still practical solution would be to introduce a delayed transfer process. Under this approach, an employee could either choose to close their emergency savings account and have any remaining savings paid into their salary account or keep the account open and accessible for a limited period after their employment ends. During this window (for example, up to three months), the employee could provide details of a new PAESA, allowing the balance to be transferred across. If no details are provided within this period, the balance would be paid into the employee’s salary account by default.

Employees could also choose to keep their existing PAESA open and continue contributing outside the payroll system. Evidence from Nest Insight’s trial suggests this could be a popular option: in the sidecar trial, around 1 in 4 people who left their employer but kept their savings account open continued to make deposits.⁷⁹ However, this may require the savings provider to carry out additional Know Your Customer checks at that point but, unlike when the account is opened, this would be part of an existing proactive engagement from the saver and therefore less of an issue.

Equally, employees would have the option to transfer funds to an existing savings account, on leaving a job or indeed on an ongoing basis if they had one that they felt was more suitable. Figure 9 shows that a significant proportion of employees – particularly those on lower incomes – do not have a separate savings or investment account. For example, nearly a third (32%) of those earning between £10,000 and £19,999 lacked any form of savings or investment account outside of their current account. However, the figure also highlights that many employees – especially those likely to fall into the middle group who under this model would be contributing to both a PAESA and a pension – already hold existing savings products. Employees could also be nudged to transfer larger balances above the amount required to provide an emergency savings buffer to their pension at the point they leave their job, facilitating an additional voluntary contribution at a moment of engagement.

Figure 9: Many middle- and higher-income employees already hold savings products that may meet their needs

Proportion of employees aged 22 to 64 that do not have a savings account or an investment account, by personal income: UK, May 2024



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

⁷⁹ Nest Insight (2025). [Easier to save](#)

Interaction with the tax and benefits system

Interaction with the tax system

A question that has come up repeatedly in our work on emergency savings, and again during the current working group process, is how emergency savings contributions would be treated for tax purposes. Pension contributions attract tax relief at the marginal rate of Income Tax, meaning that, in effect, the 5% minimum employee contribution really only ‘costs’ a basic-rate taxpayer 4% of their take-home pay. Under a *net pay arrangement*, pension contributions are deducted before income tax is calculated, reducing the employee’s tax liability. Under a *relief at source* arrangement, contributions are deducted after tax and the pension scheme claims basic-rate tax relief (20%) from HMRC on the employee’s behalf. Higher- and additional-rate taxpayers must claim any extra relief through self-assessment.⁸⁰ This relief is intended to incentivise pension saving and, because pensions are deferred income, is often seen as ‘fairer’ than taxing the income immediately, as tax is instead paid when the pension is taken in later life.

Most stakeholders we have spoken to start with the assumption is that emergency savings contributions should come from post-tax income and should not attract tax relief, and that is the starting point for the approach we have modelled. This would also reduce the government’s near-term tax relief costs compared with a counterfactual in which contributions rise to 12% and all of the money goes into pensions.

In practice, this would require some choices about how contributions are calculated. A 3% contribution from gross pay into a pension works out as a 2.4% deduction from take-home pay. But a 3% contribution from gross pay into an emergency savings account would be experienced as a 3.6% deduction from take-home pay if applied in the same way. This would either mean small cliff-edges in take-home pay as people move through different earnings bands (if the full contribution were applied), or that those making some emergency savings contributions would save slightly less as a total percentage of pay than those directing more of their contributions to a pension. There may also be administrative trade-offs between employers currently using net pay pension arrangements and those using RAS.

These considerations require further design work, but our working group process suggested they should be surmountable, and the differences between approaches for individuals are fairly marginal.

A more radical option would be to make qualifying emergency savings contributions eligible for pension tax relief. Under this approach, an individual making a 3% contribution to their emergency savings account would actually contribute 2.4% from net pay, with 0.6% flowing into their pension as tax relief. This model would slightly tilt the overall contribution balance further towards pensions, relative to our baseline model, and would create additional support for lower-earning savers to build pension entitlement.

By the same token, qualifying emergency savings contributions could also be treated in the same way as pension contributions for those eligible for Universal Credit, as discussed below. How people respond to these ideas is likely to be closely linked to how they view the arguments around non-contingent employer contributions. If qualifying emergency savings contributions are seen as more like ‘pay’, it becomes harder to argue that there is a contingent link to employer contributions and, probably, harder to justify making them eligible for tax relief or shielding them from the benefits system. But if these contributions are seen as meaningfully different from pay – representing a shift in behaviour towards saving and building financial resilience – the arguments may be stronger. As set out previously, our trial evidence suggests it is very much the latter, but we also recognise that people will see this in different ways.

Interaction with Universal Credit

One concern raised in our discussions was how the model would interact with Universal Credit (UC) and what this would mean for entitlement. Under the current system, employee pension contributions are deducted from earnings before UC is calculated. Because UC is means-tested and based on net pay, this can increase the amount of benefit a person receives. Under the model outlined in the previous chapter, low and middle earners would make lower employee pension contributions than under the existing system, which would increase their assessed income for UC purposes. Because UC is withdrawn as earnings rise (at a taper rate of 55%), claimants would not keep the full benefit of their increase in net pay from lower employee pension contributions: for every £1 increase in assessed earnings, UC falls by 55p. Nevertheless, as shown in Table 3, a person receiving UC

⁸⁰ Low Incomes Tax Reform Group (2026). [How tax relief is given on pension contributions](#)

would still see a increase in overall income alongside a slightly higher pension contribution, driven by the more generous employer contribution.

Table 3: Impact of Pension-Adjacent Emergency Savings Account on Universal Credit entitlement for an employee earning £24,000

	Current	Proposed
Salary	£24,000	£24,000
Employee pension contribution	£888	£0
Employer pension contribution	£533	£1,440
Income Tax	£2,108	£2,286
National Insurance	£914	£914
Net pay	£20,089	£19,552
Pension-adjacent emergency savings	£0	£1,248
Universal Credit	£9,912	£9,423
Child benefit	£1,407	£1,407
Income and emergency savings	£31,408	£31,630
Pension contribution	£1,421	£1,440

Notes: Benefit entitlement has been calculated using the turn2us benefit calculator and is based on the entitlement on a lone-parent with one dependent child (aged 6) living in the privately renting a two-bed flat in Leeds with a monthly rent of £960 and Council Tax Band B.

Source: Nest Insight analysis of turn2us benefit calculator, 2026.

A further interaction with UC is through the capital rules. Eligibility and entitlement are affected by the level of capital a household holds – including cash, savings and investments. For UC purposes, the first £6,000 of a family’s capital is disregarded, while households with capital above £16,000 are not eligible. Capital between £6,000.01 and £16,000 is treated as generating ‘tariff income’ of £4.35 per month for every £250 (or part of £250) – and this is treated as unearned income, reducing UC entitlement pound-for-pound.

For most employees contributing under the default rates set out in the previous chapter, saving £6,000 in a Pension-Adjacent Emergency Savings Account would take many years before any reduction in UC entitlement applied. Furthermore, trial evidence shows that savers actively use their accounts to manage their money by making frequent withdrawals: twelve months after joining the benefits app, 74% have made at least one withdrawal, 43% have made at least 3 and 28% have made at least 5.⁸¹ This suggests that the risk that this policy would materially reduce UC entitlement through the capital rules is likely to be overstated. Nevertheless, further consideration could be given to the treatment of withdrawals from PAESA accounts under deprivation of capital rules. For simplicity, it may make sense to exclude withdrawals PAESA accounts from the deprivation of capital rules for example. However, as discussed above, this will be influenced by whether qualifying emergency savings contributions are seen as more like pay or meaningfully different to pay.

⁸¹ Nest Insight (2025). [Easier to save](#)

Help to Save

Help to Save is one of the few schemes which provides a direct financial incentive to help people on lower incomes build a savings habit. It allows those in work and receiving Universal Credit to get a bonus of up to 50p for every £1 they save over 4 years. However, the current model relies on individuals self-identifying their eligibility and navigating a separate, opt-in account-opening process. Take up has been low.

To unlock the full potential of Help to Save, we believe could be scope to integrate Help to Save with Pension-Adjacent Emergency Savings accounts. While the model would need to be designed and tested, it is possible that providers, working with HMRC and DWP, could develop mechanisms to enable eligible Universal Credit recipients saving into a qualifying Pension-Adjacent Emergency Savings Account to automatically claim the Help to Save Government bonus – similar to the way the Relief at Source tax relief operates for pensions. Given Help to Save eligibility is based on in-work benefits, and employers already hold National Insurance numbers for most employees, an account opened by the employer on behalf of the worker could carry the accompanying information needed for such an integration to work.

Integrating Help to Save with Pension-Adjacent Emergency Savings Accounts would reduce friction, support eligible workers to build emergency savings more easily, and ensure they can access government bonuses, helping them to build a meaningful buffer more quickly. This would further support the Financial Inclusion Strategy's ambition to expand the reach and impact of Help to Save. This would also eliminate one potential objection to opt-out payroll savings models – that people who are eligible for Help to Save and would be better off under that scheme instead end up in a workplace savings model.

Workplace saving within defined benefit schemes

This policy blueprint has been developed largely with defined contribution (DC) pension schemes in mind, where contributions are typically calculated as a percentage of gross pay. In defined benefit (DB) schemes, by contrast, contributions are calculated using a formula based on factors such as years of service, accrual rate and pensionable pay. This would make it significantly more complex to integrate a Pension-Adjacent Emergency Savings Account within DB arrangements. However, many low earners accrue DB pensions and would likely benefit from additional support to build emergency savings through the workplace. For example, in 2024, 28% of employees with a DB pension had a weekly income of less than £500 – equivalent to around £26,000 a year.⁸² We have not considered designs for building emergency savings into the DB framework in detail, but our working group discussions suggested a couple of possible approaches. The simplest would be to require employers running AE-qualifying DB schemes to also offer a separate, standalone emergency savings scheme on an opt-in basis. An alternative would be to require it on an opt-out basis, but to allow the qualifying DB requirements to remain at current levels rather than increasing to reflect increased minimum contributions to DC. Either would of course require further design work.

This chapter has discussed some of the key delivery considerations for incorporating Pension-Adjacent Emergency Savings Accounts into the auto enrolment framework. It has highlighted the case for an employer mandate that mirrors existing delivery routes, alongside clear rights for employees to opt out or 'opt across' in ways that protect pension saving. It has also set out the importance of proportionate qualifying criteria and reporting requirements. It touched on how the model could interact with the tax and benefits system, including opportunities to strengthen incentives through mechanisms such as Help to Save. Taken together, these considerations point to a model that is deliverable within the existing pensions and payroll ecosystem, while leaving space for policy development as evidence and market capability evolve.

⁸² ONS. [Employee workplace pensions in the UK](#)

Conclusion

This report has set out why the next phase of pension reform cannot be approached as a simple question of saving more. The Pensions Commission has been tasked to address challenges related to adequacy, inclusion and fairness – but the evidence shows these objectives can pull in different directions when applied through a one-size-fits-all auto enrolment framework. Increasing default contributions across the board could improve retirement outcomes for many middle and higher earners, but it also risks harming some lower earners by reducing already-thin financial buffers when many of these people are somewhat on track in terms of retirement saving.

In this context, there is an opportunity for pensions policy to take a more holistic view of people's finances. Low levels of cash savings are common – particularly among low- and moderate-income employees – and financial insecurity already undermines pension outcomes by driving contribution pauses and early access. Strengthening short-term financial resilience is therefore not a distraction from pensions policy, but a route to more consistent long-term saving.

A Pension-Adjacent Emergency Savings Account embedded within auto enrolment offers a pragmatic way through this set of trade-offs. By shifting the balance between emergency savings and pension saving as earnings increase, 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 provides a clearer route to a more inclusive and fairer system by extending pension saving to those currently excluded by the £10,000 earnings trigger and by supporting employer contributions from the first pound earned.

The design set out in this report is grounded in trial evidence of different implementation models built over a number of years and has been developed with those who would play key roles in implementation – employers, payroll providers and workplace pension and savings providers. Our working group discussions repeatedly emphasised the importance of keeping delivery as simple as possible, while leaving space for the policy to evolve over time and incorporate additional features as the system allows. This has led us to a deliberately pragmatic approach on implementation, recognising that mandating complex mechanisms such as automatic rollovers would add administrative burden and slow delivery. The approach could be delivered through an employer mandate, supported by market-led innovation across pensions, savings and payroll, underpinned by clear qualifying criteria and proportionate reporting requirements.

Taken together, integrating PAESAs into auto enrolment could represent a significant but positive evolution of the existing framework: it supports millions more people to build a basic emergency buffer, helps protect and sustain pension saving over time, and creates a more credible pathway to higher contribution rates and wider coverage. With the right design, sequencing and a phased implementation plan, Pension-Adjacent Emergency Savings Accounts could become a cornerstone of a more inclusive, more adequate and more sustainable UK workplace savings system. We look forward to continuing to engage with our working group and with policy makers to refine our thinking and to explore how these ideas could be brought to fruition.



Contact us:

—
insight@nestcorporation.org.uk

To find out more, visit our website:
nestinsight.org.uk

—
© 2026 National Employment Savings Trust Corporation. All rights reserved. Reproduction of all or any part of the content, and use of the Nest trademarks and trade names, is not allowed without the written permission of Nest. Nest does not warrant nor accept any responsibility for any loss caused as a result of any error, inaccuracy or incompleteness herein. This content is provided for information purposes only and should not be construed as financial, investment or professional advice or recommendation by Nest. Data may be obtained from third-party weblinks, but these may not be error-free and cannot be verified.

Contact insight@nestcorporation.org.uk for more details.

—
Image credits

Front cover: [Jessy25/peopleimages.com](https://www.peopleimages.com) / Adobe Stock

June 2026