# Calculating a Living Pension: the 2024 update

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All errors remain the sole responsibility of the authors.

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## Summary

The Living Pension is a voluntary savings target designed by the Living Wage Foundation with the aim to help workers build up a pension pot that will provide enough income to meet basic everyday needs in retirement. The standard sets out the minimum annual contribution rates required throughout working life to reach the level of savings required. These rates provide a benchmark for employers to voluntarily commit to, to ensure their employees are saving enough to have a sufficient income in retirement.

In January 2021, researchers at the Resolution Foundation set out a framework through which a living pension could be calculated, identifying the pension contributions required (whether made by employees, employers or the state) for workers to achieve an adequate income in retirement. But the UK has seen significant changes in the economic context since January 2021, particularly with the subsequent cost of living crisis, which saw inflation reach its highest rate since the early 1980s and a rise in interest rates. For instance, between April 2021 and April 2023, the real Living Wage increased by 21.2 per cent and the main price index increased by 16.2 over the same period. This changing economic context means that a number of underpinning assumptions used in calculation of the January 2021 rates needed updating, including: the level of income pensioners will need in retirement; rates of return on pension fund investments and drawdown products; and earnings growth. Under the guidance of the Living Wage Foundation, we have therefore re-estimated the Living Pension rates; this report explains the new calculations and presents the new rates.

The Living Pension contribution rate has been calculated for various scenarios to reflect the unique experiences of individuals contributing to a pension. Savings rates and cash benchmarks have been determined for individuals working full-time (37.5 hours a week) on the Living Wage, as well as for those working a typical number of hours (30 hours per week) on the Living Wage. These calculations consider people who begin saving at 25 and those who start at 35 (with the latter being an approximation that accounts for the fact that some people spend time out of the labour market). Based on these saving rates and annual cash saving benchmarks, the Living Wage Foundation has decided to keep the Living Pension standard at 12 per cent, with a cash figure of £2,800.

The rest of this report describes the methodology through which the Living Pension rate is calculated and the factors influencing changes since the initial calculation in 2021.

## An outline of the Living Pension methodology

In this paper, we provide an outline of the method used to recalculate the Living Pension rates, detailing the data sources and assumptions used. [1]

In broad terms, the calculation is founded on three steps. First, we calculate the amount of private pension income required above the State Pension to afford a basket of goods and services that together represents an acceptable standard of living in retirement. This calculation is done separately for different family types and housing tenures, and takes account of the Income Tax regime. Second, we estimate the pension pot required at retirement to provide this additional income; we refer to this as the target 'Living Pension pot'. Finally, we calculate the amount of saving required throughout working life to reach the Living Pension pot. In all cases, the various assumptions we have made for the Living Pension calculation aim to balance the long-run stability of the calculation with realism and the need to reflect current behaviour.

We describe the calculations as being done for 2023-24. This means that cash values (for the amount of money needed in retirement, the size of the required pension pot, and the amount that needs to be saved each year) are in April 2023 prices, and that other inputs to our calculations (such as the New State Pension, or the level of rents) were taken at their 2023-24 values.

## Income required in retirement

The Living Pension is designed to provide today's workers with an adequate income in retirement. At the core of this are estimates of the Minimum Income Standard (MIS) for pensioners, which determines how much older people need to spend to achieve an adequate standard of living. We then turn that into an estimate of how much income is needed by considering what income older people can expect from the new State Pension, and how much income tax they are likely to pay. These steps are set out below.

### 1. Minimum Income Standard

The first step in our calculation is to estimate the total income pensioners need in retirement to attain an adequate standard of living. As with the Living Wage calculation, this is underpinned by the Minimum Income Standard (MIS) which is produced by the Centre for Research in Social Policy (CRSP) at Loughborough University and funded by the Joseph Rowntree Foundation (JRF).[2]

1 There is more detail in: D Finch & C Pacitti, Building a Living Pension: Closing the pension savings gap for low-to-middle income families, Resolution Foundation, January 2021.
2 M Padley & J Stone, A Minimum Income Standard for the United Kingdom in 2023, Joseph Rowntree Foundation, September 2023.

The MIS estimates the cost of achieving a socially-acceptable minimum standard of living in the UK today, based on what members of the public think. It is calculated by specifying baskets of goods and services required by different types of households to meet their needs and to participate in society.

In 2022, the MIS basket for households without children was 'rebased', meaning that new research was undertaken with members of the public to decide which goods and services are required by households without children. The 2022 MIS rebasing research was undertaken between summer 2021 and early 2022, when the country was emerging from Covid-19 restrictions, and before households experienced the impact of the cost of living crisis in earnest.[3] The research concluded with some large changes in the MIS basket, which were carried over to the latest MIS basket published in September 2023.[4] For example, between April 2021 and April 2023, the MIS increased by 34 per cent for a single pensioner that owns their own home and 35 per cent for a pensioner couple that owns their own home. By way of comparison, the real Living Wage (RLW) increased by 21.2 per cent and the main price index increased by 16.2 over the same period.[5]

That research took place in what was a markedly different context to where we are today. As a result of the changing economic context, JRF and CRSP have together made the decision to alter the planned cycle of updates for MIS and will bring forward the timing of a full 'rebasing' of the MIS basket with the results being published in late 2024. This is to "ensure that MIS fully captures and reflects the views of the public in this time of significant uncertainty and flux".[6] The work for this Living Pension was completed in the first half of 2024, and so we have used the same methodology used to calculate the Living Wage rate announced in October 2023, which updated the 2021 basket in line with prices.[7] The implication of this decision is shown in Table 1. In the rest of this report, we refer to this as an adequate or an acceptable income, although we recognise that the levels of income are lower than those in the 2023 MIS report.

The calculations done for the MIS recognise that the amount of income that someone needs to achieve an acceptable standard of living in retirement varies on their family

3 A Davis et al., A Minimum Income Standard for the UK in 2022, Joseph Rowntree Foundation, September 2022.
4 Categories in the Minimum Income Standard that saw particularly large increases in cost between April 2021 and April 2023 include: personal goods and services (up 66 per cent for a single pensioner and 49 per cent for pensioner couples), food (up 44 per cent for a single pensioner and 51 per cent for pensioner couples) and household goods (up 38 per cent for a single pensioner and 39 per cent for pensioner couples).
5 Living Wage Foundation, What is the real Living Wage; ONS, CPIH index.
6 In 2024, all household types will be rebased. JRF states that they will "start from scratch with groups of members of the public, to produce detailed descriptions of the goods and services that the public agree are needed to live with dignity in the UK today." For more information see: M Padley & J Stone, A Minimum Income Standard for the United Kingdom in 2023, Joseph Rowntree Foundation, September 2023.
7 N Cominetti & L Murphy, Calculating the Real Living Wage for London and the rest of the UK: 2022, Resolution Foundation, September 2022.

circumstances and housing tenure.[8] For example, single home-owning pensioners would need £258 a week (or £13,500 annually) while pensioner couples that own their own home would need £395 a week (or £20,600 annually). Those that don't own their own home will need a substantially higher income: single pensioners that live in the private rented sector would need an additional £6,900 a year compared to a home owner to achieve acceptable standard of living. [9] The average annual income required across all six groups is £19,300, and this is what the Living Pension target is based upon.

TABLE 1: **We assume that home-owning pensioners would need £258 a week if living alone and £395 a week if living as a couple**

Input costs in calculation of the Living Pension 2023-24 and percentage change since 2021-22, by cost element

| | MIS uprated to 2023-24 | | Change since 2021-22 | |
|---|---|---|---|---|
| | Single | Couple | Single | Couple |
| Energy | £30 | £40 | 75% | 78% |
| Food | £60 | £96 | 27% | 27% |
| Other core goods and services | £127 | £206 | 14% | 14% |
| Travel | £18 | £23 | 20% | 20% |
| Council Tax | £23 | £31 | 9% | 9% |
| Social rent | £88 | £97 | 11% | 11% |
| Private rent | £132 | £150 | 5% | 8% |
| **Total costs (home owner)** | **£258** | **£395** | **22%** | **21%** |
| **Total costs (social renter** | **£346** | **£492** | **19%** | **19%** |
| **Total costs (private renter)** | **£391** | **£545** | **15%** | **17%** |

SOURCE: RF analysis of ONS, CPIH index; A Minimum Income Standard for the United Kingdom in 2023, Joseph Rowntree Foundation; A Minimum Income Standard for the United Kingdom in 2021, Joseph Rowntree Foundation; Retirement living standards in the UK in 2021, Centre for Research in Social Policy.

## 2. Housing tenure

An important principle of the Living Pension calculation is that it recognises that some older people will be incurring housing costs in retirement, and that this issue is likely to

8 The minimum income targets used to calculate the Living Pension are not directly comparable to the Retirement Living Standards (RLS) developed by the Pension and Lifetime Savings Association. Both are based on the MIS produced by CRSP and are expenditure-based but there are two differences. First, the Living Pension takes into account average housing costs for non-homeowners. Second, the Living Pension targets put greater emphasis on the income necessary to meet a socially acceptable minimum expenditure by considering the Income Tax that pensioners may owe on their state pension and other income.

9 As per our original analysis, we overlook the fact that some pensioner households with have dependent children, because it is set to apply to only around 1 per cent of the pensioners population. For more information see: ONS, Household projections for England, June 2020.

increase over time.[10] It is therefore important to consider how the minimum income in retirement varies with housing tenure.[11] In particular:

- For rents in the social rented sector, we use the rent assumed in the MIS. This has been uprated in line with government policy, that is, rents are increased every April by the previous September's CPI figure plus 1 per cent. The exception to this was for the year 2023-24, when the increase was capped at 7 per cent, in light of the high inflation.
- For rents in the private rented sector, we assume that single pensioner households have private rent that equals the average lower quartile rent for a one-bedroom property in England. For pensioner couples, we assume the rent reflects the average lower quartile rent for a two-bedroom property in England. Data on rents comes from rental prices between October 2022 to September 2023, uprated to April 2023 prices to be consistent with the costs in the MIS.[12]

### 3. Entitlement to the state pension and other social security benefits

We assume that individuals make enough National Insurance Contributions through their lifetime to build a full entitlement to the new State Pension.[13]

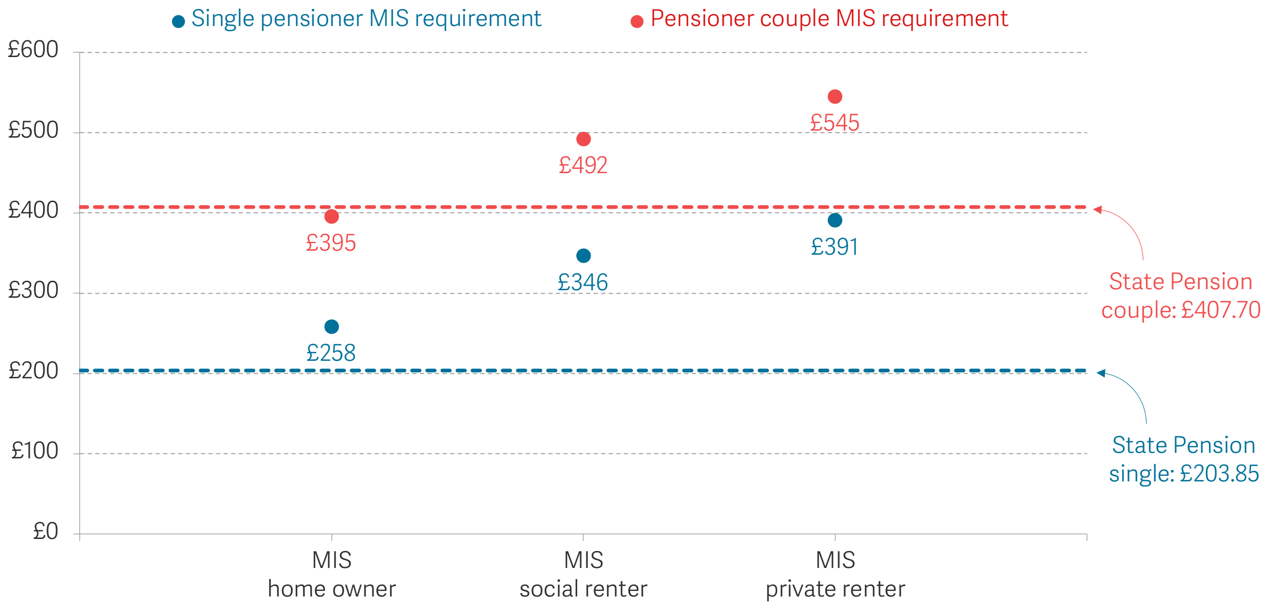
As well as the new State Pension, pensioners can also be entitled to forms of means-tested support through Housing Benefit and Council Tax Support. Our analysis does not consider these forms of means-tested support when determining how much private income people need in retirement. This is because such benefits are only payable to people with relatively small amounts of savings, something that would not happen in the simulated retirements until very late in life.[14]

Figure 1 shows that the new State Pension currently provides a sufficient income for pensioner couples (i.e. where both adults receive the full new State Pension) that own their own homes. However, for social and private renters, as well as single pensioners across all tenure types, the new State Pension alone does not provide a sufficient income to meet a minimum income standard. Therefore, these individuals will need to supplement their State Pension with private pension saving if they are to attain an acceptable standard of living in retirement.

10 D Finch & C Pacitti, Building a Living Pension: Closing the pension savings gap for low-to-middle income families, Resolution Foundation, January 2021.
11 Owner occupiers are assumed to have paid off their mortgage but have costs associated with the insurance and routine maintenance of their property.
12 ONS, Private rental market summary statistics in England, December 2023.
13 The Living Pension calculation is being done for today's workers, all of whom will be entitled to the new State Pension when they reach the state pension age.
14 Age UK, How your benefits are means-tested, October 2023.

FIGURE 1: **The New State Pension provides a sufficient income for home-owning pensioner couples, but falls short for other tenure types, and for single pensioners in all housing tenures**

Comparison of the new State Pension with minimum income standard benchmarks, by housing tenure: 2023-24




NOTES: Minimum income standard benchmarks are based on 2021 figures uprated in line with prices.
SOURCE: A Davis et al., A Minimum Income Standard for the United Kingdom in 2021; ONS, CPIH index; ONS, Private rental market statistics October 2022 to September 2023; and DWP, Benefit and pension rates 2024 to 2025.

## 4. Income Tax and Council Tax

Our analysis also considers the personal taxes that pensioners pay: Council Tax and Income Tax. We assume that Council Tax is paid for a Band B property, with single pensioners being entitled to claim the 25 per cent single persons' discount.[15]

We assume that people will continue to be able to withdraw 25 per cent of their pension pot tax-free.[16]

## 5. Changes over time

Steps (1) – (4) are sufficient to determine how much private income a pensioner would need on top of the new State Pension to reach the MIS levels in 2023-24. It is a key principle of the Living Pension that the living standards of older people should keep pace with those of workers throughout retirement, meaning that simply inflation-linking

15 Department for Levelling Up, Housing and Communities, Live tables on Council Tax.
16 D Finch & C Pacitti, Building a Living Pension: Closing the pension savings gap for low-to-middle income families, Resolution Foundation, January 2021. At present, only a small minority (6 per cent in the October 2021 to March 2022 period) use this option, with most taking a cash lump sum (FCA, Retirement income market data 2021/22, September 2023). But a draw down strategy is the simplest way to ensure that people's income rises in real terms through their retirement, a core principle of the Living Pension methodology.

incomes in retirement will not be sufficient. So, to forecast the amount of private income a pensioner would need in future years, we assume that the level of spending required to achieve a socially-acceptable minimum standard of living in retirement increases in line with growth in average earnings. We also assume that all relevant elements of the tax and benefit system – the new State Pension, the Income Tax personal allowance, and Council Tax – track earnings growth over the long-term.[17]

## A target 'Living Pension' pot at State Pension age

Having calculated how much private income would be needed on top of the new State Pension to provide an adequate income in retirement in this and future years, we then calculate a Living Pension pot. This is a single number, and should be understood as a pension pot required at State Pension age that would, on average, provide an adequate income to meet the minimum standard of living throughout all years of retirement, allowing for the fact that mortality is uncertain, that older people may live alone or with a partner, and may be in the private rented sector, the social rented sector or owner occupiers. The pot is estimated from the point of view of someone who is aged 25 now (i.e. it estimates the size of pension pot that they will need when they retire in 2066, aged 68, but is expressed in 2023-24 prices). We estimate this target pot to be £107,800.[18]

This calculation requires further assumptions about future family formation, life expectancy, housing tenure and the way in which pension savings are accessed throughout retirement. These assumptions are summarised below. [19]

### 1. Pensioner population, life expectancy and family formation

We estimate mortality by applying cohort-specific survival curves to the projected population of people aged 68 in 2066 (the year that today's 25-year-olds reach State Pension age). The survival curve is taken from ONS's principal cohort life expectancy principal projections.[20]

The likelihood that an older person is living alone or with a partner is estimated from the ONS's household projections for England, which provides estimates on the future number of one-person female households, one-person male households and households with two or more adults.

17 The current triple lock means that the new State Pension is currently growing faster than earnings. On the other hand, the Income Tax personal allowance has grown less quickly than earnings over the past 14 years.
18 The Living Pension pot for 2021-22 was £68,300.
19 There is more detail in: D Finch & C Pacitti, Building a Living Pension: Closing the pension savings gap for low-to-middle income families, Resolution Foundation, January 2021.
20 ONS, Life tables: principal projection: UK, January 2022.

## 2. Housing tenure

Our assumptions on the proportion of future pensioners that will be home owners, private renters or social renters remains unchanged from our original calculations in 2021. In particular, we assume that, by the age of 68, 55 per cent of today's 25-year-olds will be home owners, 21 per cent will be privately renting and 23 per cent will be in the social rented sector. [21]

## 3. Accessing private pension savings in retirement

We assume that people access their pension savings through a drawdown product, and we assume an annual administration charge for a drawdown product of 0.75 per cent.[22] We believe that people accessing their savings via a drawdown product is an appropriate assumption because, in Q4 2023, a third (33 per cent) of pension plans were accessed through a drawdown product, compared to fewer than 1-in-10 (9 per cent) pension plans that were accessed through an annuity.[23]

Our assumed return on savings in retirement is based on assumptions used in the Financial Conduct Authority's (FCA) prescribed projections and the 'balanced' asset mix suggested as a central scenario by the Institute and Faculty of Actuaries.[24] Since our original analysis, long-term gilt yields have increased, with previous Resolution Foundation analysis concluding that, based on current market expectations, yields on ten-year UK government bonds could settle at 3 per cent, lower than rates today, but well above pre-pandemic norms of around 1 per cent.[25] If this uplift in returns is mirrored across other assets, then this would result in a 4.7 per cent nominal return in decumulation (or 2.7 per cent real return)[26], up from 3.7 per cent in our original analysis: see Table 2.[27]

21 D Finch & C Pacitti, Building a Living Pension: Closing the pension savings gap for low-to-middle income families, Resolution Foundation, January 2021.
22 The annual administration charge assumption is underpinned recommendations from the FCA Retirement Outcomes Review. For more information see: Financial Conduct Authority, Retirement Outcomes Review: Final report, June 2018.
23 Financial Conduct Authority, Retirement income market data 2022/23, April 2024.
24 Institute and Faculty of Actuaries, Can we help consumers avoid running out of money in retirement?, March 2018.
25 M Broome, I Mulheirn & S Pittaway, Peaked interest?: What higher interest rates mean for the size and distribution of Britain's household wealth, Resolution Foundation, July 2023.
26 The return in decumulation reflects the interest received on savings held in a drawdown product. For more information see: D Finch & C Pacitti, Building a Living Pension: Closing the pension savings gap for low-to-middle income families, Resolution Foundation, January 2021.
27 If an individual decides to annuitise their Living Pension pot, their income stream will vary based on the product chosen and their personal circumstances. For example, as of 1st June 2024, annuity rates for a 65-year-old man, based on a £100,000 purchase of a single life annuity with level payments, ranged between 6.9 per cent and 7.1 per cent. In contrast, annuity rates for a 65-year-old man purchasing a joint life two-thirds annuity, guaranteed for 5 years, with payments adjusted by RPI, ranged between 3.9 per cent and 4 per cent. For more information see: The Annuity Project by William Burrows.

TABLE 2: **We assume a 4.7 per cent nominal return in decumulation**

Assumed pension portfolio asset mix and rates of return in decumulation

| | Cash | Gilts | Corporate bonds | Equity | Property |
|---|---|---|---|---|---|
| *Pension portfolio asset mix:* | | | | | |
| Balanced portfolio | 0% | 25% | 45% | 25% | 5% |
| *Projected rates of return:* | | | | | |
| FCA 2017 | 1.5% | 2.0% | 2.8% | 6.5% | 5.5% |
| RF suggested new rates | 2.5% | 3.0% | 3.8% | 7.5% | 6.5% |

Note: FCA 2017 refers to: FCA, Prescribed projected rates of return; Institute and Faculty of Actuaries, Can we help consumers avoid running out of money in retirement?.

## Amount of saving required in working life

The third step is to calculate the annual contributions needed throughout working life to accumulate the target Living Pension pot. To do this, we assume that people make contributions from their earnings with a working life beginning at age 25 and ending at the State Pension age (68).[28]

We also assume that individuals are making pension contributions in line with auto-enrolment policy. Within this, we assume that the £10,000 earnings trigger remains in place, so that those that earn less than £10,000 will not contribute to their pension in that year, but that it is fixed in nominal terms (as has been the case since its introduction), and so gradually becomes less relevant over time.[29] But we assume that the lower earnings limit on contributions is removed by the end of the decade, in line with Government announcements, so that, from 2030, those earning more than £10,000 make contributions from the first pound of earnings.[30]

Turning the required pension pot from step 2 into a required rate of saving requires us to make assumptions on the net returns to private pension savings, and people's likely lifetime earnings trajectories. We explain those below.

28 The State Pension Age Review, published in March 2023, confirmed that the State Pension age will increase to 67 between 2026 and 2028. Another review will reconsider the rise to age 68. However, since the Living Pension methodology is based on long-term future assumptions, we deemed it appropriate to assume that the increase to 68 will proceed and apply to the cohort of individuals used in the model.

29 "The previous Conservative Government said that it intended to removing the lower earnings limit and lowering the age of auto-enrolment from 22 to 18 (see: Department for Work and Pensions, Automatic enrolment review 2017: Maintaining the momentum, December 2017) but had not set a timetable for these changes. It is not yet clear what is the current Government's view on these issues.

30 Department for Work and Pensions, Government backs bill to expand pension saving to young and low earners, March 2023.

### 1. The financial return to private pension savings

In the 2021 calculations, we assumed a long-run nominal return on savings in accumulation of 5 per cent a year (or a 2.9 per cent real return).[31] This was an adaptation of assumptions used by the Pensions Policy Institute in earlier research where they assumed a long-run nominal return of 5.6 per cent a year based on the OBR's projection that long-run nominal earnings would grow at 4.3 per cent.[32] However, since that research, the OBR has revised down its view of long-run nominal earnings growth to 3.8 per cent. Therefore, to maintain the same relative rate of return over earnings, the 2021 calculations adopted a lower return on private pension savings by the same ratio of reduction in the earnings assumption. In its most recent projection, the OBR continued to assume that long-run nominal earnings growth will be 3.8 per cent, so we have not changed our assumed long-run nominal return on savings.

### 2. Private pension scheme fees

In the 2021 calculations, we assumed an annual fee of 0.5 per cent on the total pot, broadly equivalent to the charging structure of NEST, the workplace pension scheme set up by the government to support auto-enrolment. The charging structure of the NEST pension scheme has not changed, with a 0.3 per cent annual fund management charge and 1.8 per cent charge on new contributions.[33] Therefore, we have made no change to this assumption, with the annual fee remaining at 0.5 per cent on the total pot each year during accrual.

### 3. Future earnings trajectories

In the 2021 calculations, we estimated earnings trajectories for six hypothetical case studies: men and women with low, intermediate and high qualification levels, taking into account that people may have periods of their working lives in which they are not employees, either because they are self-employed or out of work.

To calculate an overall required saving rate, we took the average over these six types in a way that meant that the average was broadly reflective of earners in families with below-median household incomes (which we referred to as low-to-middle income families). We have re-estimated the required saving rate using this methodology, the results can be seen in Table 3, in the Annex.

31 D Finch & C Pacitti, Building a Living Pension: Closing the pension savings gap for low-to-middle income families, Resolution Foundation, January 2021.
32 D Finch & L Gardiner, As good as it gets? The adequacy of retirement income for current and future generations of pensioners, Resolution Foundation, November 2017.
33 https://www.nestpensions.org.uk/schemeweb/nest/advisers/using-nest/fees-and-charges.html, accessed June 2024.

But in this update, we have also calculated directly the required contribution for someone earning the Living Wage to achieve a Living Pension.[34] This change is based on feedback from the Living Wage Foundation, which highlighted the usefulness of the cash benchmark accreditation requirement.[35] The new methodology better reflects what someone on the real Living Wage would need to contribute annually to achieve the Living Pension pot.

We have calculated two rates: one for a person on the Living Wage working full time (37.5 hours per week) and one that reflects the typical working patterns of someone on the Living Wage (30 hours per week).[36] We have assumed that such a person works in every year from age 25 to the year they reach State Pension age, which is assumed to be 68.[37] The Living Wage is assumed to be uprated in line with average earnings growth over this period. Having calculated a hypothetical trajectory for annual earnings over a lifetime for someone on the Living Wage, we then apply the pension accrual rules we set out above to calculate the saving rate required to reach the Living Pension pot of £107,800. These rates are:

- 9.0 per cent for a person working full-time on the Living Wage.
- 11.4 per cent for a person on the Living Wage working 30 hours a week.

These rates equate to an annual saving benchmark of £2,100.

Unlike the original earnings trajectory approach, this new calculation does not account for periods of time when someone is not an employee. As an approximation to this, we have also calculated the saving rates and annual savings benchmark necessary for a person to reach the Living Pension pot of £107,800 if they begin saving at age 35 instead of 25. The required rates are:

- 11.9 per cent for a person working full-time on the Living Wage.
- 15.2 per cent for a person on the Living Wage working 30 hours a week.

These rates equate to an annual saving benchmark of £2,800. This illustration shows that, if individuals experience periods where they are not contributing to their pension, then their contribution rates during the years they do save must be higher to compensate.[38]

34 The 2021 calculation reported a figure for someone who was a full-time Living Wage employee, but that was produced by taking the average required saving rate (among all workers in LMI families), and applying that rate to the salary of someone working full-time at the Living Wage. Our new calculation is more accurate, as we have estimated directly what contribution would be needed for someone on the Living Wage to reach the target pension pot.

35 This requirement allows employers to become Living Pension accredited as long as pension contributions meet a minimum cash amount of £2,800, with at least £1,630 coming from the employer. See: https://www.livingwage.org.uk/living-pension.

36 This is based on the typical (median) hours worked of those that are paid +/- 5% of the Living Wage.

37 Assuming that someone works and contributes to a pension every year from age 25 to 68 might appear optimistic. However, this is balanced by the assumption that the individual is paid the real Living Wage throughout their entire working life. In reality, many people will transition from the real Living Wage to higher-paying jobs.

38 The new cash benchmark comes from an explicit calculation of what saving rate would be needed by someone who earned the real Living Wage throughout their entire working life. This is different from the initial estimates, which used six lifetime labour market and earnings trajectories to calculate the average saving rate for all workers in low-to-middle income families, and then applied that average rate to the earnings of a full-time Living Wage worker. Our new calculations assume a worker spends longer in the labour market, on average, and this offsets the impact of their being a higher Living Pension pot.

## The new Living Pension rates, and the future of the Living Pension

As outlined above, the Living Pension standard was set up by the Living Wage Foundation in 2023, to build on the work of the real Living Wage. Its goal is to provide stability and security for low-to-middle income workers, both now and in the future, by offering a pension saving benchmark sufficient to meet basic everyday needs in retirement.

When creating the standard, the Living Wage Foundation took the view that it was important for the target to be realistic, so as to encourage wide adoption by employers, and to be simple and easy to understand. It was set as a cash or percentage benchmark, based on 12 per cent of the real Living Wage. This review has concluded that the calculations should be more closely aligned with the real Living Wage, both in terms of taking an approach to determining the required level of income in retirement that is consistent with the methodology used to calculate the real Living Wage, but also by estimating directly the required pension contributions for a Living Wage worker.

These new calculations have resulted in a range of contribution rates that are within an acceptable range of the existing saving target and annual saving benchmark. Therefore, the Living Wage Foundation has decided to keep the Living Pension standard at 12 per cent, and the cash benchmark at £2,800, so as to build on the initial success, to encourage more employers to sign up, and to continue to improve the level of savings going into workplace pensions for low-to-middle income workers. However, as discussed in the previous section, where people are not in employment for periods of time, the required contribution rate increases and it is important for this to be drawn out in communications to employers and workers, which the Living Wage Foundation will do in their supporting resources.

The original framework for calculating the Living Pension suggested that, ideally, a method for calculating a Living Pension should not lead to large changes in the outcome each year. But the complexity inherent in the Living Pension calculation, and the reliance on certain assumptions, means that there is considerable scope for volatility in the calculations between successive updates, and perhaps even more so than there is for the Living Wage calculations. This is because small near-term changes can easily compound to something far more significant over the long term. Because of the greater risk of volatility, the Living Wage Foundation is planning to review their approach to the Living Pension in future and consider whether it would be appropriate to adopt a similar approach to the Living Wage by introducing a 'shock absorber' that allows changes to be gradually phased in, thereby avoiding extreme year-to-year changes.

Looking ahead, given the long-term nature of retirement savings, the Living Wage Foundation intends to review the Living Pension rate every two to four years, and that any significant changes be considered alongside the real Living Wage, so that the target remains fit for purpose for the long term.

# Annex 1: Sensitivity analysis

Table 3 shows how varying some of the assumptions used in the calculation of the Living Pension affect the required saving rate.

TABLE 3: **Assumptions about the rate of return in accumulation make a significant difference to the saving required throughout working life**

Sensitivity of Living Pension pot and saving rate to various assumptions, based on a person working part-time on the Living Wage

| | **Target Living Pension pot at SPa** | **Required saving rate** |
|---|---|---|
| Living Pension 2021-22: earnings trajectory methodology | £68,300 | 11.2% |
| Living Pension 2023-24: start saving at 25 | £107,800 | 11.4% |
| Living Pension 2023-24: start saving at 35 | £107,800 | 15.2% |
| Living Pension 2023-24: start saving at 22 | £107,800 | 10.6% |
| Living Pension 2023-24: no £10,000 AE trigger | £107,800 | 11.4% |
| Living Pension 2023-24: low rate of return in accumulation (2.6 per cent) | £107,800 | 18.2% |
| Living Pension 2023-24: no income tax | £100,300 | 10.6% |
| Living Pension 2023-24: no housing costs | £39,100 | 8.1% |
| Living Pension 2023-24: earnings trajectory methodology | £107,800 | 15.0% |

NOTES: Unless otherwise indicated, required saving rate is based on a person on the Living Wage working 30 hours a week from the age of 25 to 68 (State Pension age). The low return scenario uses 2.6 per cent nominal returns in accumulation, this is based on the average return of a balanced portfolio of assets between 2017 and 2021 i.e., before the Bank of England commenced its monetary policy tightening. Earnings trajectory method refers to the method used in the 2021 calculations.
SOURCE: RF analysis.

The Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged.

We do this by undertaking research and analysis to understand the challenges facing people on a low to middle income, developing practical and effective policy proposals; and engaging with policy makers and stakeholders to influence decision-making and bring about change.

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