

APPG on the Future of Financial Services Call for Evidence – Income in Retirement

Introduction

- 1.1 [The Pensions Policy Institute \(PPI\)](#) is the UK's leading independent authority on pensions and retirement policy. We conduct rigorous, impartial research and analysis from an evidence-based, long-term perspective. Our work is used by government and across Westminster, industry and consumer groups. It informs major decisions that affect millions of people's lives in retirement.
- 1.2 This response is intended to contribute to the evidence-gathering process for the APPG on the Future of Financial Services Inquiry into income in retirement, providing the PPI's most relevant research findings. It does not contain amendments or policy recommendations.

Response to Call for Evidence Questions

- 2.1 In this submission we have provided evidence where it is relevant to the questions posed in the [call for evidence document](#). This evidence should be considered in the broader context of how policy relating to income in retirement cannot be viewed in isolation from wider pensions, tax, housing, and labour market and social security policy.
- 2.2 Outcomes in retirement are shaped not only by decisions made at the point of access, but by factors across the life course, including levels of pension saving, employment patterns, health, housing, and access to guidance and support. The effectiveness of the retirement income framework therefore depends on how well it balances adequacy, sustainability, flexibility and fairness, while supporting individuals to manage longevity, inflation and investment risks.
- 2.3 Wider policies and interventions, including: the design of decumulation options, access to guidance and advice, the role of default pathways, the interaction with the State Pension and means-tested benefits, and targeted support for underpensioned groups, are all relevant to understanding how the current system operates and the outcomes it delivers for different groups.

Based on various pension pot sizes and life expectancy data, what do optimal retirement incomes look like? How does this compare to reality?

- 3.1 PPI research indicates that there is no single, universally accepted definition of "adequate" retirement income. Achieving consensus on adequacy is challenging, and involves balancing economic, political and societal pressures. Our analysis has emphasised that any future approach to adequacy is likely to require broad stakeholder agreement to create a comprehensive idea of what constitutes acceptable outcomes.¹
- 3.2 Two broad approaches to assessing adequacy are used:
- Fixed income targets, often linked to a basket of goods and services (Pensions UK Retirement Living Standards).
 - Proportional targets, such as target replacement rates, which aim to maintain living standards relative to working-life earnings.²

¹ Hurman, N. et al. (2021) What is an adequate retirement income? London: Pensions Policy Institute

² Hurman, N. et al. (2021) What is an adequate retirement income? London: Pensions Policy Institute

- 3.3 PPI work suggests adequacy should not be treated as income alone. Individuals also value security, independence, and choice, and may need both an income stream and access to liquid savings, as well as reserve capital to manage changing needs during retirement.³
- 3.4 Evidence from the PPI's 2025 UK Pensions Framework indicates that overall retirement income outcomes remain weak for a substantial minority of pensioners. Around a quarter of pensioner households receive income below the level required to meet a minimum standard of income in retirement, a position that has remained largely unchanged in recent years. Single pensioners remain most at risk of falling below minimum standards, particularly women. Using the Pensions UK Retirement Living Standards framework, around a third of pensioners have income sufficient to afford a moderate standard of living, while just 10% are likely to be achieving living standards that could be considered comfortable.⁴
- 3.5 PPI analysis also highlights distributional issues. Groups more likely to have low or interrupted earnings, such as carers, some disabled people, and the self-employed, may find it particularly difficult to meet basket-of-goods adequacy levels. Replacement-rate targets may be easier to meet for these groups but can still imply low living standards if working-life incomes were low.⁵

What is the current framework for generating an income from the assets people build up for their retirement? Does it work - and does it produce good enough outcomes?

- 4.1 The retirement income landscape increasingly reflects the shift from Defined Benefit (DB) to Defined Contribution (DC) saving, with DC now the primary form of workplace pension provision in the private sector. Automatic Enrolment (AE) has driven participation in DC workplace pensions, and the majority of active DC members are now in trust-based schemes, particularly master trusts. Most members remain invested in defaults during accumulation.⁶
- 4.2 However, while AE has been effective at increasing participation through inertia, Pension Freedoms rely on active engagement at the point of access. Research highlights a structural disconnect: people enter pensions passively during working life but face complex, high-stakes choices during decumulation.⁷
- 4.3 PPI work on the retirement income market identifies a key barrier to assessing whether the framework "works": the evidence base is incomplete, particularly because much of the available information is reported at the pension pot level, not at individual level across multiple pots. This limits the ability to understand total retirement resources, track behaviour across the retirement journey, and evaluate outcomes by governance type, product choice, or the presence/absence of support.⁸

³ Hurman, N. et al. (2021) What is an adequate retirement income? London: Pensions Policy Institute

⁴ Adams, J. et. al. (2025) The UK Pensions Framework 2025 Indicator Appendix. London: Pensions Policy Institute.

⁵ Upton, J. (2025). From Payslip to Pension: Life Course Impacts on retirement saving among Low Earners. London: Pensions Policy Institute.

⁶ Garcia Requejo, M. (2025). Assessing the Retirement Income Market: Defaults, Active Choices, Innovation, and the existing gaps and challenges for Delivering Value for Money. London: Pensions Policy Institute.

⁷ Garcia Requejo, M. (2025). Assessing the Retirement Income Market: Defaults, Active Choices, Innovation, and the existing gaps and challenges for Delivering Value for Money. London: Pensions Policy Institute.

⁸ Garcia Requejo, M. (2025). Assessing the Retirement Income Market: Defaults, Active Choices, Innovation, and the existing gaps and challenges for Delivering Value for Money. London: Pensions Policy Institute.

What are the options and choices for people entering retirement to optimise their available funds and assets over the rest of their lives?

5.1 People entering retirement in the UK face a range of options for converting accumulated pension savings and assets into income. For those with DC pensions, these choices have expanded significantly since the introduction of Pension Freedoms, placing greater flexibility, and greater responsibility, on individuals. Broadly, savers can choose between:

- Purchasing an annuity, which converts pension savings into a guaranteed income for life and provides protection against longevity risk but typically involves an irreversible decision and limited flexibility once purchased.
- Income drawdown, which allows individuals to keep their pension invested while withdrawing income over time. Drawdown offers flexibility and the potential for continued investment growth, but exposes individuals to investment risk, inflation risk and the risk of exhausting savings prematurely.
- Lump sum withdrawals, including full cash withdrawals, which provide immediate access to pension savings but may increase exposure to tax, reduce future income security, and shift responsibility for managing assets entirely onto the individual.
- Combination of approaches, where individuals phase withdrawals, combine drawdown with later annuitisation, or use different pots for different purposes.⁹

5.2 For some individuals, DB pensions, the State Pension, and housing wealth also form important components of retirement resources, influencing how DC savings are used. The presence of secure income from DB or State Pension may allow greater flexibility in the use of DC pots, while housing wealth may provide additional options such as equity release, though these involve trade-offs and are not suitable for all.

5.3 Optimising outcomes over the course of retirement requires individuals to balance competing objectives, including income adequacy, flexibility, protection against longevity and inflation risks, tax efficiency, and the ability to respond to changing needs. These decisions are complex, and research highlights that many individuals must make them without regulated advice or with limited guidance, increasing the risk of sub-optimal outcomes.¹⁰

5.4 Overall, while the range of options available at retirement offers flexibility, the effectiveness of these choices depends heavily on access to appropriate support, clear information, and products that are designed to manage long term risks as well as short-term preferences.

Can people considering retirement access sufficiently robust and reliable default options?

6.1 Regardless of scheme type, most savers must currently make active decisions when accessing DC pensions. Access to structured support varies greatly:

- Single-employer trust-based schemes often require savers to transfer out to access cash withdrawals or retirement income products and typically do not offer in-house decumulation.

⁹ Garcia Requejo, M. (2025). Assessing the Retirement Income Market: Defaults, Active Choices, Innovation, and the existing gaps and challenges for Delivering Value for Money. London: Pensions Policy Institute.

¹⁰ Garcia Requejo, M. (2025). Assessing the Retirement Income Market: Defaults, Active Choices, Innovation, and the existing gaps and challenges for Delivering Value for Money. London: Pensions Policy Institute.

- Some master trusts are developing in-house decumulation solutions, but members still generally face key choices between products and approaches. Several master trusts now offer diversified strategies and default retirement income products.
- Contract-based schemes have been required since 2021 to offer Investment Pathways for non-advised drawdown customers, providing some structure but still requiring individuals to select a pathway.¹¹

6.2 In the absence of formal, scheme-led defaults in the decumulation phase, PPI research identifies the emergence of unintended “informal defaults”. One such pattern is *default by withdrawal*, where individuals withdraw their pension pot as cash without regulated advice or necessarily having full consideration of the longer-term implications. Another is a *passive default*, where individuals make no active decision at retirement and instead remain invested in accumulation-oriented strategies, which may not be designed to support sustained income withdrawals in later life.¹²

6.3 PPI work highlights that these behaviours may be rational for some individuals (i.e. meeting immediate needs), but may be sub-optimal for others. PPI analysis also emphasises the difficulty of evaluating how well “defaults” are serving savers due to limited data on individual circumstances and outcomes, and because data is often not linked across multiple pots.¹³

Do people understand their options in retirement and are they able to make good decisions?

7.1 Decision-making at retirement is shaped by many factors including personal circumstances, financial literacy, risk tolerance, and wider economic conditions. For many, accessing pensions is driven by immediate needs rather than long-term planning.

7.2 Evidence summarised in the PPI’s UK Pensions Framework indicates that many people do not know how much income they will need in retirement, and many are unaware of their contribution rates. Engagement gaps are more pronounced among women, low-income groups and those with lower financial literacy.¹⁴

7.3 PPI research also highlights complexity as a barrier to informed decision-making, including:

- interactions with the tax system
- complex withdrawal choices and their tax implications
- the shift from DB (low decision burden) to DC (high decision burden)
- vulnerability to scams, particularly where people can access full pots and where capability is low

7.4 Evidence shows that a large proportion of individuals access DC pension savings without advice or guidance. Nearly three in ten people (29%) who accessed a DC pension reported receiving no information, advice or guidance from their pension provider, Pension Wise or a financial adviser.

¹¹ Garcia Requejo, M. (2025). Assessing the Retirement Income Market: Defaults, Active Choices, Innovation, and the existing gaps and challenges for Delivering Value for Money. London: Pensions Policy Institute.

¹² Garcia Requejo, M. (2025). Assessing the Retirement Income Market: Defaults, Active Choices, Innovation, and the existing gaps and challenges for Delivering Value for Money. London: Pensions Policy Institute.

¹³ Garcia Requejo, M. (2025). Assessing the Retirement Income Market: Defaults, Active Choices, Innovation, and the existing gaps and challenges for Delivering Value for Money. London: Pensions Policy Institute.

¹⁴ Khambhaita, P. et. al. (2025). Progress Required for Adequacy: Generational Pressures and Policy Gaps (2025 UK Pensions Framework). London: Pensions Policy Institute.

Across all pot sizes, more than 70% of withdrawals occurred without professional support, compared with around 22% taken with regulated advice and 8% with Pension Wise guidance. This pattern is particularly pronounced for smaller pension pots. Pots under £10,000 account for the majority of full withdrawals, and around three quarters of these withdrawals were made without any form of advice or guidance.¹⁵

- 7.5 Ongoing policy developments, including the FCA and HM Treasury's Advice Guidance Boundary Review, are relevant in this context. These initiatives aim to enable more tailored and targeted forms of support without necessarily triggering the full regulatory requirements associated with personalised financial advice, with the potential to widen access to support for underserved groups.¹⁶

What would retirement income policy, regulation and the financial product landscape look like if we could redesign them from scratch?

- 8.1 When considering how retirement income policy, regulation, and financial products operate in practice, evidence from the PPI's UK Pensions Framework Indicator on Data and Metrics (S3.4) highlights the central role played by data quality, consistency and accessibility. Despite the wealth of information available across the UK pension system, barriers related to harmonisation, consistency and data sharing mean that it remains difficult for individuals, providers and policymakers to achieve oversight of how the pension system is working to deliver adequacy, sustainability or fairness in later life. The result is reduced transparency of system outcomes and increased challenges associated with engagement and informed decision-making around retirement saving.¹⁷
- 8.2 At scheme level, the Indicator notes that pension schemes collect and hold large amounts of data, much of which changes regularly, and that managing this data can involve dependencies across providers, employers, payroll providers and administrators. Additionally, although schemes are required to measure the accuracy of their member data and report annually, much of the underlying data is supplied by employers, for whom there is no legal requirement to ensure accuracy or consistent formatting, which creates harmonisation issues.¹⁸
- 8.3 At the individual level, the Indicator highlights that people currently have no way of looking across their pension pots on an aggregate basis. This makes it difficult to establish how much has been saved, how much is needed, and when it might be possible to stop working. The Pensions Dashboard is expected to address some of these challenges.¹⁹ The Indicator also highlights widespread variation and inconsistency in the way information and assumptions are formatted and presented between providers, meaning that people need not only access to data but also clear communications and sufficient understanding to use it effectively.²⁰

¹⁵ Garcia Requejo, M. (2025). Assessing the Retirement Income Market: Defaults, Active Choices, Innovation, and the existing gaps and challenges for Delivering Value for Money. London: Pensions Policy Institute.

¹⁶ Garcia Requejo, M. (2025). Assessing the Retirement Income Market: Defaults, Active Choices, Innovation, and the existing gaps and challenges for Delivering Value for Money. Pensions Policy Institute.

¹⁷ Adams, J. et. al. (2025) The UK Pensions Framework 2025 Indicator Appendix. London: Pensions Policy Institute.

¹⁸ Adams, J. et. al. (2025) The UK Pensions Framework 2025 Indicator Appendix. London: Pensions Policy Institute.

¹⁹ Adams, J. et. al. (2025) The UK Pensions Framework 2025 Indicator Appendix. London: Pensions Policy Institute.

²⁰ Adams, J. et. al. (2025) The UK Pensions Framework 2025 Indicator Appendix. London: Pensions Policy Institute.

8.4 At a system level, the Indicator notes that data is essential to understanding system strengths and weaknesses and isolating the impacts of policy change over time. However, much of the information used to describe later-life outcomes is collected through self-reported surveys (for example: the Wealth and Assets Survey (WAS) and Family Resources Survey (FRS)) and the cost and effort required to collect and produce this data can limit frequency and continuity.²¹

Are sufficient policy and regulation resources and attention dedicated to the issue of income in retirement?

9.1 Evidence from the PPI's UK Pensions Framework (2025) shows that while policy attention has prioritised increasing participation and saving through automatic enrolment, comparatively less focus has been directed toward the retirement income phase. While participation in pension saving has increased significantly, persistent weaknesses remain in areas that are central to delivering adequate and sustainable income in later life.²²

9.2 The PPI's Framework highlights that data and metrics (Indicator S3.4) and engagement (Indicator F1.2) have both remained at low ratings, indicating limited progress over time. Barriers related to data quality, consistency and sharing continue to restrict transparency and limit the ability of individuals, providers and policymakers to assess outcomes. These limitations are compounded by the lack of individual-level insight into how people manage multiple pension pots or draw income in retirement, which constrains the design and evaluation of effective interventions.²³

9.3 The PPI's Framework also highlights risks in the wider income system that affect retirement adequacy. High dependency on means-tested benefits, alongside high levels of non-take up, suggests that means-tested support provides weak protection against inadequate income in later life. In addition, falling adequacy of benefit income relative to minimum income standards, and risks associated with working age benefits for those below State Pension age, continue to affect outcomes for people with limited private resources.²⁴

9.4 Across the PPI's Framework, there is a clear emphasis on the need for greater policy focus on adequacy, rather than relying solely on participation and investment performance. The 2025 Framework notes that savers can only benefit from investment returns if they are able to contribute and accumulate sufficient savings over time, and that gaps in early and consistent saving, combined with challenges in decumulation, require renewed attention. This includes consideration of contribution structures, engagement and support mechanisms, and how retirement income is accessed and sustained over time.²⁵

9.5 Taken together, the evidence suggests that improving income outcomes in retirement will depend on sustained and coordinated attention to adequacy across the system, including the structure and availability of decumulation options, access to guidance and support, improved

²¹ Adams, J. et. al. (2025) The UK Pensions Framework 2025 Indicator Appendix. London: Pensions Policy Institute.

²² Khambhaita, P. et. al. (2025). Progress Required for Adequacy: Generational Pressures and Policy Gaps (2025 UK Pensions Framework). London: Pensions Policy Institute.

²³ Adams, J. et. al. (2025) The UK Pensions Framework 2025 Indicator Appendix. London: Pensions Policy Institute.

²⁴ Khambhaita, P. et. al. (2025). Progress Required for Adequacy: Generational Pressures and Policy Gaps (2025 UK Pensions Framework). London: Pensions Policy Institute.

²⁵ Khambhaita, P. et. al. (2025). Progress Required for Adequacy: Generational Pressures and Policy Gaps (2025 UK Pensions Framework). London: Pensions Policy Institute.

data and metrics, and broader system conditions that shape individuals' ability to plan for and manage income throughout later life.²⁶

²⁶ Garcia Requejo, M. (2025). Assessing the Retirement Income Market: Defaults, Active Choices, Innovation, and the existing gaps and challenges for Delivering Value for Money. London: Pensions Policy Institute.