Pensions Policy Institute

PPI

Assessing the UK Retirement Income Market: Defaults, Active Choices, Innovation, and the existing gaps and challenges for Delivering Value for Money (VfM)

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OR CONTACT:

Danielle Elliott
Head of External Relations
danielle@pensionspolicyinstitute.org.uk

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This report is authored by:

Mariana Garcia Requejo
Senior Policy Researcher

Melissa Echalier
Research Associate

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Executive Summary

As Defined Contribution (DC) pensions become an increasingly central component of individuals' retirement income, concerns over how the retirement income market may be able to support savers to achieve better outcomes have become a priority for policymakers and those in the industry alike. This report explores the challenges to delivering Value for Money (VfM) in decumulation and seeks to identify learnings and opportunities for policy and market innovation.

This literature and evidence review, combined with stakeholder consultations, resulted in the following key insights:

A changing retirement landscape requires new forms of saver support

Pension Freedoms have introduced greater flexibility in how savers access their DC pots, but there is a lack of consensus around whether this has translated into favourable outcomes across all saver segments[1]. Most savers now favour drawdown or cash withdrawals over annuities[2]. However, behavioural trends suggest that many access their savings at unsustainable rates or without long-term planning, which may impact their later-life outcomes[3]. These decisions often reflect immediate financial pressures, tax incentives, or the perceived simplicity of "cashing out", rather than being part of a well-informed income strategy[4].

A significant portion of savers (70%) fully withdraw their pension savings without professional advice or tailored guidance, with this behaviour especially common amongst those with smaller pots[5]. Despite their increased vulnerability to poor outcomes, many overlook key risks such as inflation or longevity, highlighting the need for better support structures. While currently more prevalent among savers with small pots, these actions are likely to pose greater risks as average DC balances increase, amplifying the long-term impact of uninformed decisions. Although future savers are expected to have larger pots as a result of AE, it cannot be assumed that their behaviours will mirror those of today's larger-pot savers. Current FCA data shows that today's larger pots are more often accessed through drawdown and annuities, but future savers may not necessarily follow the same patterns.

Support provided through default decumulation structures remain underdeveloped

Unlike in accumulation, where automatic enrolment and default investment strategies guide most savers, the decumulation phase lacks consistent defaults. Many schemes, particularly trust-based ones, do not offer in-scheme retirement income options, leaving members to make complex decisions independently or transfer to retail products. In the absence of structured support, two informal 'defaults' have emerged: full cash withdrawals, and remaining in accumulation strategies post-retirement without re-evaluating investment needs.

Stakeholders consistently highlighted the need for well-designed, simple, and accessible decumulation defaults that can support those less likely to engage. A potential structure for defaults is a blended approach that combines existing products over time, for example, starting with flexible drawdown and later transitioning into a more stable income (e.g. annuity), later in life[7]. This blended approach seeks to balance flexibility with security, aligning with how many savers' needs and preferences evolve over time. However, implementing such models will require careful design to account for the diversity of saver circumstances, and to provide appropriate off-ramps for those who wish to make more active decisions. In spite of these defaults not necessarily being "fit for all", they provide an effective fallback that helps avoid negative outcomes for those less likely to engage.

Uncertainties around the advice/guidance boundary continue to limit tailored support

Providers are reluctant to offer more personalised communications or behavioural nudges due to fear of crossing into regulated advice. This leaves many savers navigating retirement without enough context or support to make informed choices. Services like Pension Wise help to some extent, but are not widely used, particularly by those who may benefit most[8]. Meanwhile, financial advice is often perceived as inaccessible, especially for those with smaller pots. These concerns were echoed by stakeholders interviewed, who highlighted the fact that structures in the pensions landscape do not sufficiently support decision-making in the decumulation stage of retirement.

Proposals such as the Financial Conduct Authority's (FCA) Targeted Support and the Department for Work and Pensions'(DWP) guided retirement pathways could help bridge this gap, enabling schemes to provide better structured suggestions without overstepping regulatory boundaries. However, interpretation and implementation by providers has been inconsistent so far, and it remains too early to evaluate the overall impact of these changes, or determine whether they will be sufficient. Further clarity is also needed on the scope and application of these reforms.

Data gaps and market fragmentation hinder a market-level understanding of savers' needs

There is a lack of detailed data on how savers use multiple pots or how they manage their income throughout retirement. Most existing data is reported at the pot level rather than the individual level, obscuring the broader picture. Trust-based schemes, in particular, often do not track post-retirement outcomes. These gaps make it difficult to assess potential for VfM or to design targeted policies that improve long-term outcomes.

Ongoing reforms and changes, such as the upcoming Pensions Bill, offer an opportunity to build a stronger evidence base through reduced fragmentation, improved transparency and enhanced data collection. Stakeholders as a whole agree that more detailed data integrated across organisations will be important in understanding saver behaviour and improving outcomes in retirement.

Innovation is emerging, but coordinated action within the market is needed to build momentum and deliver for all savers

Innovation in the retirement income market is advancing, with new tools and product structures beginning to offer more tailored support to savers. Master trusts, providers and industry experts are exploring options like bucket strategies, default decumulation solutions and combinations of flexible and guaranteed income to better reflect how savers' needs evolve over time. Digital platforms are also making retirement planning more accessible through digital modelling, engaging educational content, and prompts.

Beyond consumer-facing tools, developments in data collection, integration, and AI are creating opportunities for providers to better understand the needs and risks faced by different saver segments, and tailor services accordingly. However, innovation alone will not be sufficient. There is a need for more coordinated effort across government, regulators, providers, and employers to ensure that emerging solutions are designed and implemented with saver outcomes at the centre.

[1] Financial Conduct Authority, 2019.
[2] Financial Conduct Authority, 2024d.
[3] Boileau, B., Cribb, J. & Emmerson, C., 2025b.
[4] Pensions Policy Institute, 2024c.
[5] Financial Conduct Authority, 2024d.
[6] Financial Conduct Authority, 2022.
[7] Boileau, B., Cribb, J. & Emmerson, C., 2025a.
[8] Department for Work & Pensions, 2022b.

Introduction

Over the past few decades, the UK pensions landscape has undergone a significant transformation, shaped by shifting employment patterns, market developments and major policy and regulatory interventions – most notably, the introduction of Automatic Enrolment (AE) in 2012, which has led to a sharp increase in the number of savers contributing into a workplace pension.

These changes underpin a shift from defined benefit (DB) to defined contribution (DC) schemes. The former have become less viable for many employers, and DC pensions are now the primary vehicle for retirement saving. Alongside this change, Pension Freedoms (2015) led to savers having the flexibility to choose how to translate their DC savings into income.

As the AE population matures, it is more urgent than ever to assess whether the retirement income market is delivering Value for Money (VfM) for savers. In accumulation, automatic enrolment and the widespread use of defaults have allowed savers to benefit from passive participation. By contrast, the decumulation market currently requires individuals to make active decisions, often without structured support or guidance. These decisions (including the timing of withdrawals, product choice, and the management of investment and longevity risk) take place in a market that operates differently to accumulation. Ongoing uncertainty around the advice/guidance boundary has also limited the extent to which providers and schemes can offer better support, adding further complexity to the decision-making landscape. This creates challenges for developing a consistent approach to assessing whether the retirement income market is delivering VfM.

Government and regulators are exploring how the broader pensions system, including the available retirement income products, support, and choice architecture available, can deliver value. While the VfM framework for accumulation is still under development, it is expected to offer a structured approach to assessing value through a combination of investment performance, charges, and service quality. These principles offer a starting point for considering VfM in decumulation. However, applying the same approach in the retirement income phase may not be possible.

This report is an initial effort to shift attention towards understanding how savings are used in retirement, and what may constitute "value for money" in decumulation. It explores the behaviours and needs of savers, and how the market may or may not be beginning to respond to these needs, in the framework of the broader context of regulatory and policy reforms.

Methodology

Research Aim and Objectives

The research presented here is a review of existing literature, stakeholder perspectives, and available data on the DC landscape. It explores how savers access and use their pension savings, the role of defaults and active decision-making, and whether the products and support currently available meet the diverse needs of savers. The research considers different scheme types and identifies systemic gaps and opportunities for policy and market innovation.

Key objectives include:

- Mapping the structure of the retirement income market;
- Understanding patterns in saver needs and behaviour;
- Evaluating the accessibility and impact of advice and guidance;
- and exploring the effectiveness of existing decumulation pathways.

The findings are intended to inform the wider debate on how to support better outcomes for savers, and how a VfM framework for decumulation could be of value.

Approach

To ensure a balanced analysis, the literature review includes grey literature, industry reports, consultation responses, academic studies, and data from official sources. In addition, representatives from multiple scheme providers and subject matter experts were invited to participate in a consultation interview to share their perspectives. Insights were gathered into the practical workings of the retirement income landscape (e.g. support for navigating decumulation options, regulatory environment, product availability) and the challenges it presents for providing VfM. In-depth, semi-structured interviews with 21 key stakeholders were conducted between February and March 2025.

The initial stage of research involved a detailed exploration of the retirement market landscape, using key search terms to gather information from websites and data providers. It also included reviewing consultation responses on policy developments and proposals to understand current trends. The second stage involved reaching out to stakeholders, including research centres focusing on later life and economic security, trade organisations, and providers. A list of possible stakeholders was co-created and agreed. Following this, PPI scheduled and conducted consultation interviews. Interviews followed a semi-structured format, using a discussion guide with prompts prepared based on both the project scope and gaps identified in the literature. The guide was used flexibly to allow conversations to adapt to each participant's area of expertise and experience.

Interviews were up to 45 minutes in duration. A Thematic Analysis framework was constructed, and interview transcripts were coded into key concepts and themes. A series of quotes were also selected as representative, or relevant in terms of highlighting some of the main themes that arose during the calls. These are incorporated throughout the report and intend to highlight the stakeholder perspective and add depth to the literature review findings.

SECTION ONE:

WHAT DOES THE RETIREMENT INCOME MARKET CURRENTLY LOOK LIKE?

Key findings:

- **22.3 million savers currently contribute to a workplace pension. An increase in the participation in occupational DC pensions has been the main contributor to the growth in workplace pension participation since 2012.**
- **DC pensions now dominate private provision of retirement savings. For many, the income they receive from DC pots will represent a significant component of their overall retirement finances, making VfM at decumulation a key priority.**
- **Flexibility has reshaped access patterns: between October 2023 and March 2024, over 450,000 pots were accessed for the first time. 51% were fully withdrawn as cash, while only 10% were used to purchase an annuity, reflecting low uptake of guaranteed income options.**
- **Uncertainty remains around whether savers are actively choosing products that align with their retirement goals or avoiding 'income for life' solutions due to cost concerns, complexity, or the need for flexible income, particularly in early retirement.**
- **Small pots are most likely to be taken as cash: 68% of full cash withdrawals were from pots under £10,000. This suggests savers may be making isolated, short-term decisions without considering their total retirement wealth.**
- **Limited individual-level data across multiple pots and scheme types restricts understanding of post-retirement choices, though recent efforts by TPR and DWP aim to address these gaps.**

1.1 An Overview of the Retirement Income Market

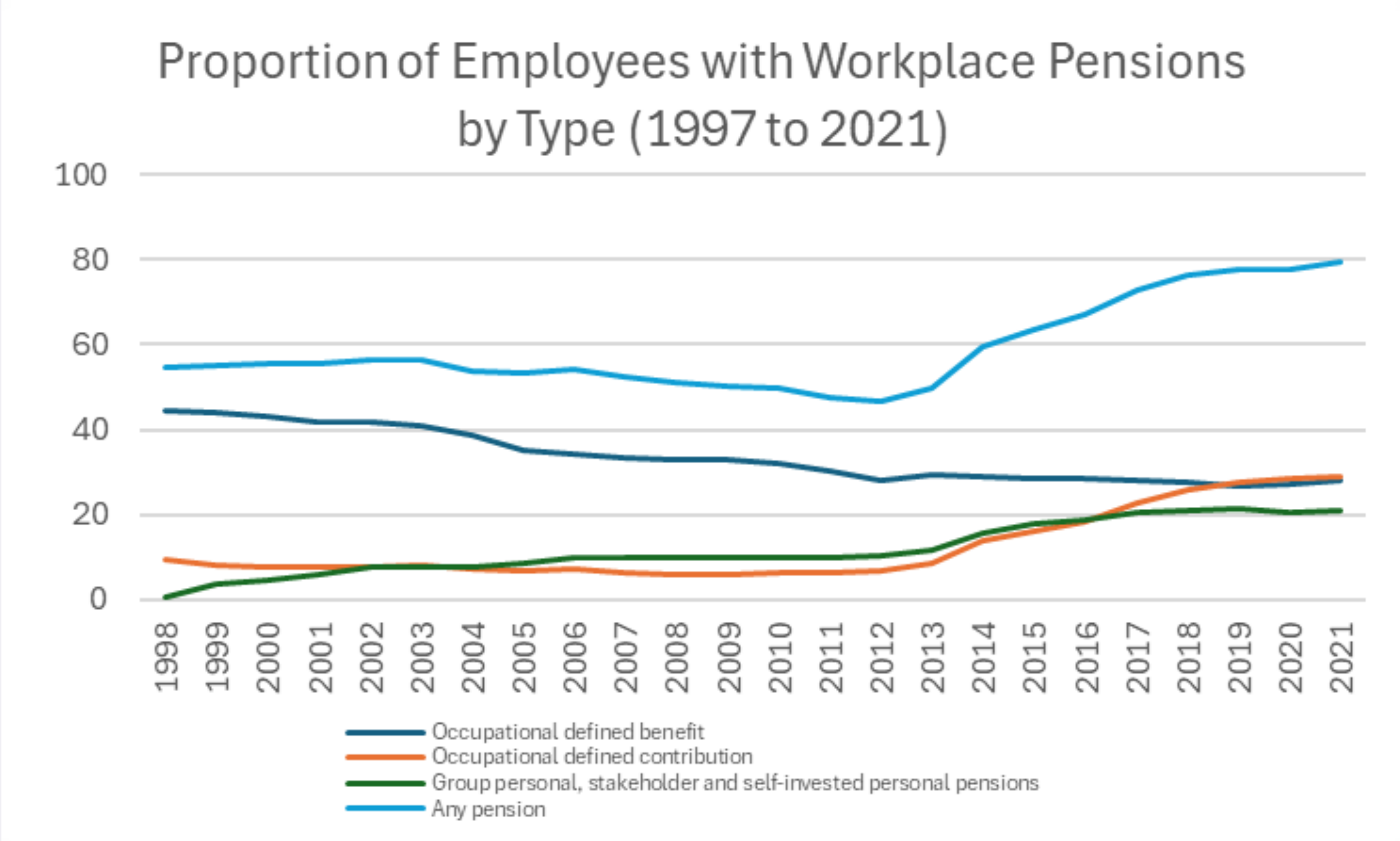
The retirement income market encompasses various products and services that individuals use to generate income in retirement and sustain their later life. In most cases, this is a combination of public and private sources of income. Public pension provision, i.e. the UK State Pension, is an integral component of retirement income, as it provides a guaranteed minimum income to all eligible individuals over the State Pension age (SPa), based on a flat rate[9]. Low-income groups could also be in receipt of means-tested benefits[10,11]. For most savers, the State Pension is a foundational source of income that is not sufficient on its own. As a result, decisions about how and when to tap into additional income streams are critical to ensuring financial stability in retirement.

Private pensions can be either workplace pensions (occupational pensions) or personal pensions. The market is subdivided into Defined Benefit (DB) and Defined Contribution (DC) schemes, which themselves can be contract-based or trust-based (each complying with a different regulatory regime)[12]. In recent years, Collective Defined Contribution (CDC) schemes have emerged as a third category of private pension provision, offering a potential alternative to traditional DB and DC schemes[13]. As of 2022, the Financial Conduct Authority (FCA) reported that 72% of adults in the UK had a private pension. This figure includes both private pensions in accumulation (i.e. active members) and private pensions already accessed (i.e. in the decumulation phase)[14]. Private pensions are commonly provided through an employer, although an individual can choose to take out a private pension directly with a provider of choice.

The evolving Pensions Landscape: the decline of DB schemes and the rise of DC schemes

Historically, workplace pension provision in the private sector was dominated by DB schemes. However, over the past few decades, a combination of factors, including rising life expectancies, investment and funding volatility, regulatory burden and changes in workforce patterns have made DB provision less attractive for many employers. As a result, DB schemes have declined sharply, with 92% now closed to new members[15], and most active DB pensions confined to public sector employees. DC schemes are now the primary form of workplace pension saving in the private sector, as seen in the trends over time between 1997 and 2021 (see Figure 1 below)[16]. Unlike DB pensions, DC schemes place investment and longevity risk on the individual, making the design of accessible and effective retirement income options all the more critical. Since its introduction, AE has brought more than 11 million people into DC workplace pensions[17], contributing to a workplace pension participation rate of 22.3 million individuals as of 2023[18]. These changes in pension participation rates by pension type from 1997 to 2021 can be seen below in Figure 1.

Figure 1



Constructed from: Office for National Statistics – Annual Survey of Hours and Earnings (ASHE).

Following the rollout of AE, occupational DC participation increased, surpassing DB participation.

9 Pensions Policy Institute, 2024c.
10 For example, pension credit.
11 Pensions Policy Institute, 2024f.
12 Pensions Policy Institute, 2024f.
13 Currently, the Royal Mail CDC scheme is the only operational example of this kind in the UK.
14 Financial Conduct Authority, 2023d.
15 Pension Protection Fund, 2024.
16 Financial Conduct Authority, 2019.
17 Pensions Policy Institute, 2024c.
18 Department for Work & Pensions, 2024b.

Key features of the DC landscape

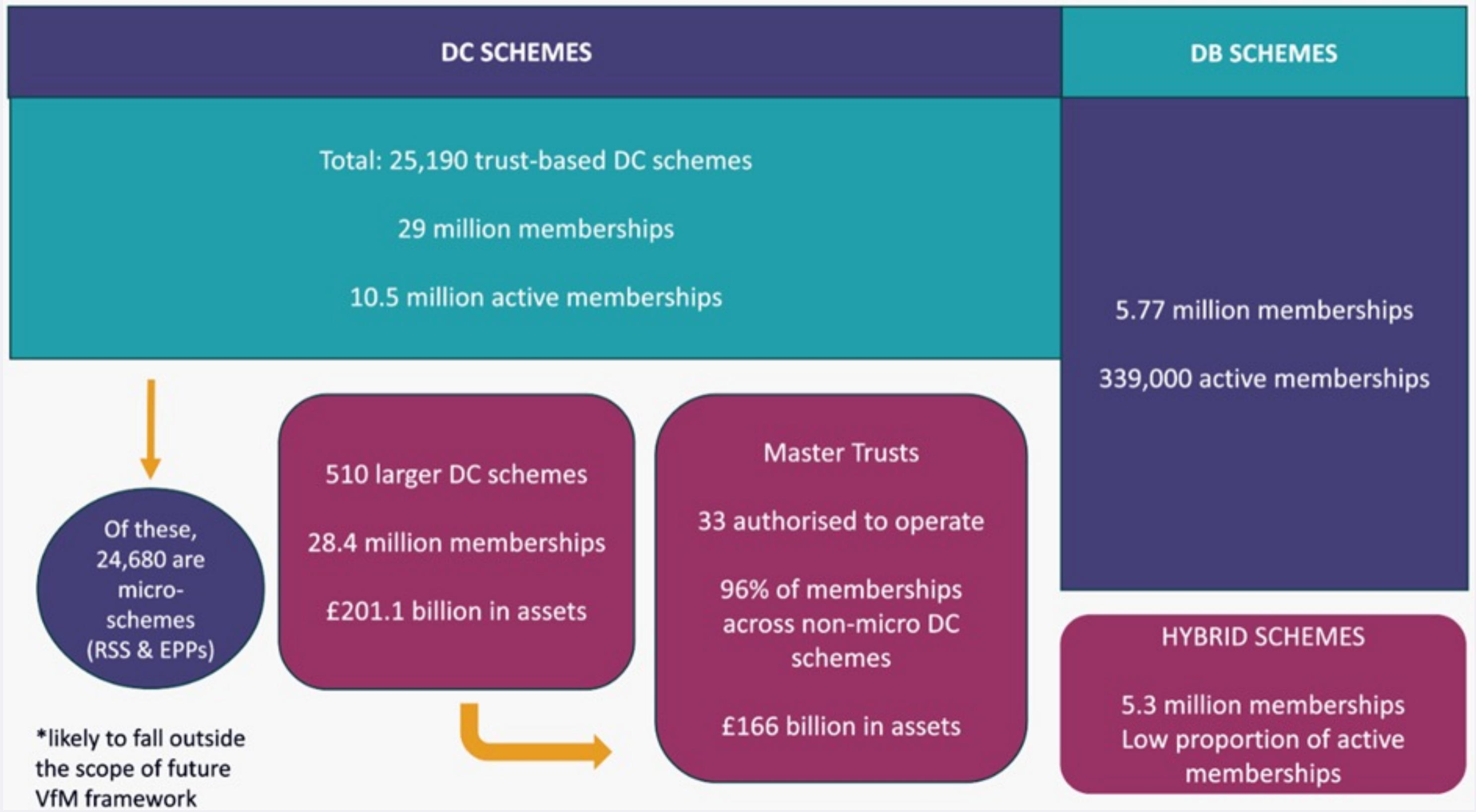
There are a select number of product types that savers can choose from to access their DC savings at the point of retirement. Traditionally, retirement income was most commonly delivered through annuities, which are insurance-based products that provide a guaranteed income for life. Before the introduction of Pension Freedoms in 2015, most savers were effectively required to purchase an annuity. Since then, new, more flexible options have emerged to suit a wider range of retirement needs and preferences. Today, savers can choose between[19]:

- Annuities, which remain available through insurance providers;
- Drawdown products, which allow savers to leave their pension invested while taking income gradually. These are offered in-scheme by a limited number of master trusts and trust-based schemes, or through contract-based providers;
- Uncrystallised Funds Pension Lump Sums (UFPLS), which let individuals take lump sums directly from their pension without entering drawdown or requiring the purchase of an annuity. These are usually offered by contract-based schemes;
- Full cash withdrawals, where the entire pension pot is taken as a single lump sum. This option is typically available through contract-based schemes or by transferring out of trust-based schemes.

The providers involved in delivering these products vary, and some schemes have partnered with multi-asset funds or insurance companies to offer a wider range of options to savers.

However, not all schemes offer the full range of options in-house, meaning some savers must transfer out to access the product that best suits their needs. This is particularly the case for Single Employer Trusts, which typically do not offer decumulation options in-house.

All savers are entitled to a 25% tax-free lump sum at retirement. The Institute for Fiscal Studies suggests that this feature may act as a powerful nudge, contributing to decisions on access to retirement income that do not always align with the long-term financial needs of savers[20].



There are 25,190 trust-based DC schemes in total, covering nearly 29 million memberships, including 10.5 million active memberships. The vast majority (24,680) are micro schemes, likely to fall outside the scope of future VfM frameworks and decumulation reforms[21]. Excluding micro schemes leaves 510 larger DC schemes covering 28.4 million memberships in open schemes (98% of memberships) and £201 billion in assets concentrated in those schemes[22]. By comparison, DB schemes account for 5.77 million memberships, with only 339,000 active memberships[23]. Hybrid schemes, which combine DB and DC elements, cover around 5.3 million memberships, but similarly show a relatively low proportion of active memberships[24].

The expansion of DC schemes has led to the rise of master trusts (MTs) as the dominant pension provider in the trust-based DC market. The 33 master trusts currently authorised to operate in the UK hold 96% of memberships across non-micro-DC schemes (excluding hybrids) and manage £166 billion in assets - representing 81% of DC scheme assets (excluding hybrids). These figures underscore the growing role of MTs in ensuring the future sustainability of retirement savings, as they continue to be the primary pension provider for millions of workers[25,26].

Future trends in DC Savings

Recent data highlights a continued shift in the retirement income landscape, with a growing proportion of individuals approaching retirement holding DC pensions. Among those aged 55 to 64, 45% report having DC pensions, compared to 39% with DB pensions[27]. However, it is important to acknowledge this transition is not a clean break, many savers nearing and at retirement will have a combination of both DB and DC entitlements, reflecting the gradual policy shift towards DC provision over the last two decades.

As AE matures, and debate around reforms to update coverage and contribution levels continues, future cohorts are expected to accumulate significantly larger DC pension pots[28]. Projections from the IFS underscore the growing significance of DC wealth in retirement savings, and the importance of ensuring that the market provides appropriate support and VfM for savers[29]. Among those with some DC savings, median pension wealth at retirement is expected to increase from around £74,000 for savers born between 1960-1964 to £102,000 for the 1970-1974 cohort, and to £131,000 for those born between 1975-1979. Even those at the lower end of the distribution are projected to see notable growth in pot sizes[30]. These figures reflect the increasing reliance on DC pots in retirement and reinforce the need for informed decision-making and innovation in product design, advice/guidance, and saver engagement for the market to best meet savers' needs.

19 Pensions Policy Institute, 2024f.
20 Boileau, B., Cribb, J. & Emmerson, C., 2025a.
21 Within this category, 84% (20,720) identified themselves as a relevant small scheme (RSS), and 3% (~ 700) are executive pension plans (EPPs).
22 The Pensions Regulator, 2024.
23 Figures for DC and DB schemes exclude hybrid schemes.
24 The Pensions Regulator, 2024.
25 The Pensions Regulator, 2024.
26 Department for Work & Pensions, 2023a.
27 Office for National Statistics, 2025.
28 While Wealth and Assets (WAS) survey data does not distinguish between trust-based and contract-based pension, and reflects individuals with active or preserved pensions, rather than those already drawing down, it does point to a system in transition.
29 Boileau, B., Cribb, J. & Emmerson, C., 2025b.
30 Boileau, B., Cribb, J. & Emmerson, C., 2025b.

1.2 Key Trends in Access to Pensions

While AE has succeeded in driving passive participation during accumulation, Pension Freedoms rely on active engagement, creating a disconnect between how individuals enter the pension system and how they access their savings in decumulation. As a result, the potential for sub-optimal decision-making has increased, particularly among those with lower financial literacy or limited access to guidance and advice. A large proportion of savers must now navigate complex risks, including longevity, inflation, and investment volatility[31]. Our understanding of saver behaviour in the decumulation phase remains incomplete. However, forthcoming data releases may address this gap[32].

Several policy developments aim to address the transfer of various risks to savers, including forthcoming DWP legislation on guided retirement defaults. These reforms could have important implications for trustees, who will play a central role in implementing solutions that support more structured decision-making at retirement. Ensuring savers are equipped to make informed, value-for-money choices is essential, as these decisions profoundly affect financial security in later life.

57% of 60-65-year-olds with a DC pension have taken advantage of Pension Freedoms, and accessed at least one of their pension pots, with the median age of first access being 60. Among those aged 55+ who had accessed their DC pension, 23% were still engaged in paid work, highlighting the diverse financial circumstances and needs of retirees, as well as the trend towards more staggered retirement[33]. During October 2023 to March 2024, a total of 450,851 pension pots were accessed for the first time. Of these, 51% were fully withdrawn as cash. Of the pots remaining, 32% were used to enter an income drawdown solution, and 6% were accessed through a first partial UFPLS payment, neither of which involved a full withdrawal[34]. This indicates a growing preference for flexibility and a desire for greater control over retirement savings. However, individuals who draw down their income without an appropriate strategy risk withdrawing too quickly or too slowly, impacting their financial security in later life. Only 10% of pension pots accessed for the first time were used to purchase an annuity. This aligns with the broader historical trend of declining annuity purchases (i.e. 'income for life' solutions) since pension freedoms were introduced and may also be an indication of savers preferring a degree of flexibility over security in their retirement[35].

There are a number of potential explanations for the high rate of full withdrawals of pension pots accessed for the first time: a preference for lump-sum withdrawals, a lack of other perceived options, or the small size of many pots. The trend of full cash withdrawals may stem from the shift from DB to DC pensions, where retirees have small DC pots and larger DB incomes. However, this may not apply in every instance. Many savers face a binary decision: take the pot as cash now, or navigate a complex and often unsupported process to secure a sustainable retirement income outside the scheme.

In the absence of accessible, scheme-facilitated decumulation solutions or clear guidance, there is a growing concern that individuals are defaulting to cash withdrawals. Small pension pots (less than £10,000) account for the majority of full withdrawals, representing 68% of all withdrawals across age groups and 67% among those aged 55-64 alone[36]. This trend likely reflects more than just the perceived limited long-term value of keeping small pots invested. Savers may be assessing decisions on a per-pot basis, without a clear view of their total accumulated pension wealth across multiple schemes.

To date, there has been no tool or platform available that brings all this information together. This fragmented approach could lead individuals to cash out smaller pots without considering how they might contribute to a broader retirement income strategy. The introduction of the Money and Pensions Service's MoneyHelper Dashboard, a free and secure service with all pension information including the State Pension, may help shift this behaviour over time.

1.3 Saver Needs and Behaviours

> **Is it short-term thinking or is it the right decision for people? The fact that the vast majority are doing that (as in, taking cash) would suggest that it's not necessarily a fully informed long-term decision. Or it might be that it's the only affordable decision** (SME)

The prominence of this pattern raises concerns about financial stability, as those who fully withdraw their pension may risk depleting funds later in retirement, or face tax implications from 'cashing out' on large sums.

> **I think people are really confused about what to do in retirement, so I don't think they're making conscious choices. They're slipping into the path of least resistance, obviously often stimulated by the prospect of tax-free cash, which is a very, very exciting idea for them at a time when they might be quite financially stretched** (MT representative)

Decisions around how savers access and spend pension savings are shaped by a complex interaction of personal circumstances, financial literacy, risk tolerance and broader economic factors. For many, accessing their pension is driven by immediate financial needs rather than long-term planning, which could have lasting consequences for income security in later life[37].

Evidence on retiree consumption habits shows that while younger retirees allocate a greater share of their spending towards transport and leisure, the overall spending amount remains stable throughout retirement[38]. DWP data shows that 67% of people who accessed their DC pension took a cash lump sum, with the most common use being covering living costs (38%), paying off debts (31%), making one-off purchases (21%), and supporting family (19%)[39]. Private pensions are often used to meet short-term financial needs, especially early in retirement, rather than being managed as a steady income stream throughout later life. However, retirement is not a static 'phase', and pension providers must consider how savers' needs evolve over the course of retirement to facilitate better outcomes.

Retirement income choices can be influenced by more than just immediate consumption needs - strategic financial considerations also play an important role. Some retirees may prefer flexible drawdown over annuities because DC pension pots are not counted as assets for means-tested benefits or social care costs. Keeping savings within a pension can help savers preserve assets for inheritance, as pension pots are not currently subject to inheritance tax. However, the government has relayed changes to the Inheritance Tax (IHT) treatment of pensions from 2027 onwards, which may affect this strategy in the future. When selecting a retirement income solution, individuals may also consider their housing costs and future care needs[40]. This highlights the complexity of retirement planning and the challenges of making informed decisions without adequate support.

31 Department for Work & Pensions, 2023d.
32 The next volume of the Planning and Preparing for Later Life Survey is expected to be published later this year.
33 Department for Work & Pensions, 2022b.
34 Financial Conduct Authority, 2024d.
35 Financial Conduct Authority, 2024d.
36 Financial Conduct Authority, 2024d. Financial Conduct Authority, 2024d. Calculations are based on FCA (2024) Retirement Income Underlying Data 2023/24, available at: **www.fca.org.uk/publication/data/retirement-income-underlying-data-2023-24.xlsx**
37 Department for Work & Pensions, 2022b.
38 Crawford, R. et al., 2022.
39 Department for Work & Pensions, 2022b.
40 Crawford, R. et al., 2022.

1.4 The Need to Address Evidence Gaps

To date, the evidence base for the decumulation phase has been less developed than for accumulation, in part because much of the focus until recently has been on supporting pension saving and building adequacy. This research marks an important first step in helping define what "value" might look like in decumulation. It plays a role in mapping savers' needs and behaviours, and setting the direction for what data is relevant for the market to collect. The development of a comprehensive evidence base is both a challenge and an opportunity: shaping the right questions will help determine the information needed to understand and improve outcomes for savers.

A major barrier to fully understanding the retirement income landscape is the lack of comprehensive, individual-level data on how savers manage their pension savings across multiple pots. Much of the existing data is presented at the pot level, which makes it challenging to assess aggregate pension wealth or track saver behaviour across the accumulation and decumulation journey, particularly as individuals increasingly move between jobs and schemes over their working lives.

This challenge is heightened by limited public data on how members of trust-based schemes access their pension savings. While the FCA publishes regular insights into contract-based decumulation behaviour, e.g. full withdrawals, these figures often present a narrow view of retirement outcomes, with less focus on broader strategies or long-term income adequacy. Adding to this, many trust-based DC schemes currently do not offer in-house decumulation options, requiring members to transfer into retail products, frequently without advice or adequate support, making it difficult to assess long-term VfM or member outcomes. There is still significant work to be done to address the evidence gaps and help build a more consistent picture of how savers are accessing their pensions under different governance arrangements.

DWP's (2022) Planning and Preparing for Later Life survey, was also a valuable attempt to capture saver behaviour across both trust and contract-based schemes following the introduction of Pension Freedoms[41,42]. This work is now being continued, with an updated version of the PPLL survey currently in development. Moving forward, further improvements in the quality and accuracy of data will be important. Upcoming legislation on guided retirement defaults is also likely to generate new data points on post-retirement engagement and outcomes.

While it remains difficult to track an individual saver's precise journey due to disparate data collections, existing evidence does offer a starting point for more nuanced policy debate. Strengthening the evidence base will require a continued alignment between regulators and policymakers: creating integrated systems that connect fragmented data sources. An ideal dataset would enable a stronger understanding of individuals' spending and income over time, with a holistic view of pension pots contributing to post-retirement income. In the absence of this, comprehensive year-on-year reporting by providers on members' decumulation strategies would be a valuable step forward.

Building on existing initiatives will be key to tracking behavioural trends over time, ideally with greater detail at the saver level. Encouraging data-sharing and improving linkages between trust and contract-based schemes can also contribute to a more holistic understanding of retirement outcomes. Finally, continued development of frameworks that enable meaningful comparisons across retirement income products and strategies will support better decisions, both at scheme and market levels.

[41] Department for Work & Pensions, 2022b.
[42] While it provides useful insights, it is important to recognise that, as a survey, responses are subject to inaccuracies and bias.

SECTION TWO:

WHAT ROLE DOES GUIDANCE, ADVICE AND OTHER TYPES OF SUPPORT AND EDUCATION CURRENTLY PLAY?

Key findings:

- **The current support landscape is fragmented, making it difficult for savers to navigate retirement options and make informed choices.**
- **Although support is available, advice is not perceived as accessible to all, and existing guidance may not support decision-making. Over 70% of pension withdrawals are made without regulated advice or Pension Wise guidance.**
- **Awareness of pension charges is low, with 55% of DC pension holders unaware that fees apply and only 12% knowing the exact costs, limiting individuals' ability to assess value and take action to better manage their savings.**
- **Many savers lack a structured decumulation strategy, with limited consideration of key financial risks like inflation (21%) and investment risk (21%), which raises concerns about long-term financial stability.**
- **Regulators and providers will continue to play an important role in supporting the delivery of VfM through ensuring that decumulation products are appropriately designed, and promoting access to appropriate support to guide decision-making.**
- **Stakeholders emphasized the challenge of balancing tailored support with regulatory constraints, as uncertainty around the advice/guidance boundary has made providers hesitant to offer more proactive guidance, despite its potential to improve retirement outcomes.**
- **Many savers would benefit from a more comprehensive approach that takes into account their full financial situation - proposed initiatives, such as the Pensions Dashboards Programme, could play an important role in supporting better decision-making.**

Wider advice and guidance services are a crucial part of the retirement income market landscape and are delivered by a range of actors. These services currently play a limited role in supporting decision-making, although those who can access them can have positive experiences. However, take-up is mixed, provision is fragmented, and an assessment of the current landscape suggests they do not consistently meet savers' needs across the board. This fragmentation also leads to some evidence gaps and difficulties in collating and comparing evidence across the board.

2.1 Terms, Provision and Tools

Individuals seeking support in making retirement decisions have several sources of information available to them. These include regulated financial advisers, employers, pension providers, and public sources such as Pension Wise (to which providers are required to signpost their members). To understand the support available for savers, it is important to outline the distinctions between advice, guidance and financial education within the UK context.

- Regulated financial advice provides personalised recommendations tailored to an individual's financial situation but often comes at a cost. This can deter many savers, particularly those with smaller pension pots, or those not aware of the value of receiving advice catered to their specific needs.
- Guidance, such as that offered by Pension Wise, provides general information on retirement options, without making specific recommendations. However, many retirees find themselves overwhelmed by the large quantity of information they receive and struggle to apply it to their own personal circumstances. As noted by one provider,

retirees are fed large quantities of information and must then apply it to their own circumstances to understand what's best for them. The scope of what they need to understand is huge - this is difficult, and targeted support could potentially help in this regard (MT Representative).

- Education and informal support may come from employers, pension providers or public sources, but engagement varies widely among different groups.

2.2 Barriers to Pension Guidance and Advice Uptake

Despite the availability of support, the uptake of advice and guidance remains limited, with many savers making retirement decisions without fully considering all relevant factors. 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[43]. Additionally, there is clear evidence that the majority of individuals making full pot withdrawals did so without seeking regulated advice or guidance, raising concerns about a lack of informed financial decision-making in retirement . Across all pot sizes, over 70% of withdrawals occurred without professional advice, compared to just 22% with regulated advice and 8% with Pension Wise guidance[45]. The tendency to withdraw pensions without support was even more pronounced among those with smaller pots: of the 69% of total withdrawals that came from pots under £10,000, three-quarters were taken without any financial guidance[46]. This pattern suggests that those with smaller pension savings are the least likely to seek financial advice before making critical retirement income decisions.

Low levels of financial capability may underpin limited engagement with retirement planning more broadly. 14% of UK adults have low financial capability, and 24% report low confidence in managing their money[47]. This highlights the need for improved financial education, particularly as more individuals retire with DC pensions and bear greater responsibility for managing their retirement income.

This reality is further complicated by the fragmented nature of pension communication across different schemes and providers:

if someone's got three or four different pension arrangements, each with slightly different terms, using different pieces of communication, and with providers having slightly different preferences for what they might want you to choose… it wouldn't surprise me if a number of people find it a bit of a maze to find their way through that (MT Representative).

Education and guidance (via timely communications) from schemes alone, however, may not be sufficient. For those less likely to actively seek support or engage in planning for later life, the availability of default or ready-made decumulation solutions (such as guided pathways or in-scheme retirement options) can play a role in supporting better outcomes by reducing some of the decision-making burden placed on savers.

[43] Department for Work & Pensions, 2022b.
[44] Financial Conduct Authority, 2024d.
[45] Financial Conduct Authority, 2024d.
[46] Financial Conduct Authority, 2024d.
[47] Financial Conduct Authority, 2022.

2.2 Barriers to Pension Guidance and Advice Uptake cont.

While 35% of those who accessed a DC pension used Pension Wise over a four-year period, wider saver engagement levels remain low. Of those who did use the service, only 5% had a face-to-face appointment, 13% received guidance over the phone, and 20% used the Pension Wise website. Among users, only a third (33%) said the service helped them "a lot", while 55% said it helped "a little", suggesting that while existing guidance does support decision-making to some extent, it may not be sufficient on its own, particularly at the point of decumulation[48]. This underscores the importance of not only supporting saver choices, but also ensuring the options available, whether selected by savers or trustees, help retirees navigate this phase and avoid negative outcomes.

Digital exclusion can further limit access to guidance (particularly given the proportion of savers who engage with services like Pension Wise online). In 2022, 7% of UK adults were classed as digitally excluded, with at least 73% of those aged 65 and over falling into this category[49]. This raises concerns about whether online resources, and digital innovation tools and platforms alone can adequately meet the needs of older savers, particularly those who may be the most vulnerable to making poor financial decisions. These issues should be front of mind for providers, advisers, and government services when designing communication and support strategies. It is equally important that trustees play an active role in selecting or designing decumulation pathways that take account of the diverse needs of savers, including those who might be vulnerable or digitally excluded. Ensuring that suitable default options and products are available, and that savers are supported to make informed decisions, where they want to, is central to securing good outcomes in the decumulation phase.

There are also clear gender and income disparities in pension engagement. Men, high earners, and individuals with larger pension pots tend to be more engaged with their savings[50]. In contrast, women and those on lower incomes are less likely to seek professional advice. While 29% of people who accessed their DC pension used a financial adviser, this was more common among older individuals, men, and those in higher income groups. The self-employed (36%) were also more likely to use financial advisers than employees (28%), likely reflecting a combination of greater financial resources and awareness, and the need to set up individual pension arrangements outside employer-sponsored schemes.

For lower-income households, the cost of financial advice is a major barrier, and many are put off by the perceived effort required to engage with support services alongside other life responsibilities[51]. One provider noted,

> **there's probably a need for people to take some sort of guidance and support, but there isn't really a demand from them to do it. They don't want to pay for it, and they might not recognise that they would benefit from it". They went on to add that, "because it's not the cultural norm that everyone else takes advice and guidance, they're not used to it. When their parents retired, they had DB pensions, so there was no question to ask...** (MT representative).

These financial and cultural barriers contribute to the persistent "advice gap", which is to say, the divide between holistic financial advice (often costly and perceived as inaccessible), and general guidance, which lacks the element of personalisation[52]. It is increasingly clear that many savers would benefit from more structured and tailored guidance aligned to their specific circumstances. This is currently under active consideration in both the FCA's Advice-Guidance Boundary Review and proposals around Targeted Support, as well as through DWP's work on guided retirement pathways.

A disconnect between awareness and action

Analysis of retirement decision-making data reveals a disconnect between awareness of pension issues and active financial planning engagement. While pension savers acknowledge the relevance of their pension savings, this does not always directly translate into informed decision-making or active management of their funds. For instance, while many savers are aware that their pension is invested, 66% have never reviewed where their pension is invested, or have not done so since they joined their scheme[53]. 96% of pension savers remain in their scheme's default investment strategy[54]. This highlights the extent to which savers default into investment options during the accumulation phase, which may not necessarily align with their long-term needs or their balance of risks and benefits. This passive approach to pension management often continues into retirement, reflecting a broader trend of limited engagement with key aspects of financial planning.

Similarly, knowledge of pension charges remains low. More than half (55%) of DC pension holders were unaware that charges apply to their pension, and only 12% knew exactly how much they were being charged[55]. Given that costs and fees can have a significant impact on retirement income over time, this lack of awareness may prevent individuals from properly assessing whether their pension offers VfM and taking action to better manage their savings.

This pattern of limited engagement is evident throughout retirement planning. Only 21% of DC pension holders aged 45+ have a clear plan for how they intend to access their pension savings. This number rises to 42% among those aged 65+[56]. While it is hoped that the pensions dashboard will promote better financial planning as retirement approaches, currently many individuals still enter retirement without a clear decumulation strategy. This lack of structured withdrawal planning raises concerns about long-term financial stability, particularly as retirees navigate unpredictable market conditions, inflation risks, and potential changes in government policy. Ensuring individuals have access to financial education and planning tools alongside default decumulation strategies will be crucial in supporting sustainable retirement income strategies.

Furthermore, fewer than half of adults who accessed a DC pension considered key factors such as what level of income they would need in retirement (41%) or how long they were likely to live (42%). While tax implications (43%) and reliance on the State Pension (41%) were considered by some, fewer individuals factored in inflation (21%) or investment risks (21%), both of which are crucial to maintaining financial security over time[57].

The low uptake of financial advice and guidance raises important concerns about retirement outcomes, particularly as consumers with lower engagement levels (often in combination with low financial literacy) are also more likely to make high-risk withdrawal decisions[58]. For example, those who fully withdrew their pension savings were less likely to receive guidance on key financial considerations compared to those who took an annuity or chose to make partial withdrawals. Only 51% of full withdrawal cases included guidance on tax implications, compared to 62% of annuity purchasers. Similarly, just 30% of savers who engaged in full cash withdrawals were informed about how long their income might last, compared to 53% of annuity purchasers[59]. Therefore, those making potentially riskier decumulation decisions may not be receiving adequate support to guarantee positive outcomes.

The challenges highlighted in this section point to a fundamental issue in the retirement income market: while guidance and advice services exist, they are not sufficiently used or tailored to meet the needs of diverse groups. In response, policy thinking has since moved beyond consultation, with both the FCA and DWP bringing forward proposals that aim to improve the accessibility and effectiveness of support at retirement[60]. At the same time, clear and timely communication remains essential. Acknowledging that savers engage in different ways, the market has to ensure that support structures are flexible and inclusive, meeting people where they are to enable better retirement decisions. Regulators and providers play a crucial role in supporting better outcomes for savers by ensuring that decumulation products are appropriately designed and accessible, promoting equitable access to guidance, and enhancing informed decision-making.

48 Financial Conduct Authority, 2022.
49 Financial Conduct Authority, 2022.
50 Financial Conduct Authority, 2022.
51 Department for Work & Pensions, 2020.
52 Financial Conduct Authority, 2023c.
53 Financial Conduct Authority, 2022.
54 Department for Work & Pensions, 2024.
55 Financial Conduct Authority, 2022.
56 Financial Conduct Authority, 2022.
57 Financial Conduct Authority, 2022.
58 Department for Work & Pensions, 2022b.
59 Financial Conduct Authority, 2022.
60 Specifically, the FCA's Advice-Guidance Boundary Review and proposals around Targeted Support, and DWP's work on guided retirement pathways.

2.3 Challenges from the Stakeholder Perspective

The Guidance and Advice landscape is fragmented

Several different types of organisations (pension providers, employers, financial advisers) are involved in the provision of guidance and information to pension savers in retirement. While in theory this broad availability of support is useful, in practice, it creates a fragmented and inconsistent landscape where individuals may struggle to find information that is relevant and meaningful to their specific circumstances. This overlap and duplication between sources, along with variation in the quality and clarity of communication, means that many savers are left uncertain about their options. Schemes and providers are trying hard to ensure that appropriate and informative communications are available at retirement, in the run-up to retirement, and when making key decisions. However, they also admitted that

the real challenge with that area is, as with anything in pensions, there comes the balance between compliance and caution (MT Representative).

The FCA's Post-Implementation Review of investment pathways reported on Independent Governance Committees' (IGCs) conclusion that their providers' communications were fit for purpose[61]. However, the review also found variation in the types of communication and how the risks of different options were communicated, noting that such variation could influence take-up of respective options and shape consumer understanding.

The fragmented landscape of pension guidance underpins an evidence gap in understanding how individuals engage with information. The main gap lies in decision-making behaviour - whether individuals understand their choices or make suboptimal decisions due to inconsistent communication. Without comprehensive longitudinal data, it is unclear if current strategies effectively support retirees' decumulation needs. Future research could focus on the impact of pension communications, examining whether individuals understand and apply the information to retirement planning. Without this evidence, it is difficult to design effective interventions.

Data-Driven Communication in Pension Schemes: Challenges of the Advice/Guidance Boundary

Research suggests that savers generally view their provider as well-placed to offer information and support around retirement planning[62]. The data held by schemes and providers offers significant potential to segment memberships by characteristics such as age, pot size and retirement proximity, enabling more tailored communications, targeted nudges and the design of more appropriate defaults[63]. However, many schemes do not yet systematically collect or make use of this type of member data, limiting their ability to deliver more comprehensive support. Stakeholders noted that innovation, particularly in data integration and digital tools, could help address these gaps by improving providers' ability to identify savers' needs and tailor communications accordingly. Still, both trustees and pension providers have expressed concerns that this type of personalised engagement risks being interpreted as financial advice – an activity that requires FCA authorisation.

While the FCA's Advice Guidance Boundary Review and its proposals on Targeted Support seek to clarify what is permissible, the proposals would still constitute a regulated activity and therefore remain subject to the FCA permissions[64]. This ongoing regulatory distinction has left many providers and trustees hesitant to engage in more proactive support, even when doing so could significantly improve retirement outcomes.

Pension Providers are working towards more integrated Support for Savers

As discussed earlier in the report, the retirement income market is becoming increasingly complex, and many savers would greatly benefit from support that reflects their broader financial circumstances. 34% of DC pension members would like advice that considers all of their pension pots, and a further 34% said they would value support that takes into account their full retirement finances[65]. However, delivering this level of personalised, holistic guidance would typically fall within the scope of regulated financial advice, something most schemes are not authorised to provide. That said, there are a growing number of digital tools and modellers in the market (such as calculator features provided by NEST and Aviva, among others) that can offer more tailored comparisons and projections without crossing the advice boundary. These tools allow savers to input personal information (including total pension savings, other sources of income, and retirement timing) to help them explore different withdrawal strategies or estimate future income. While these solutions do not constitute regulated advice, they represent an important area of innovation and can help bridge the existing support gap. Current policy developments and proposals outlined earlier in the report acknowledge the need to strike a balance between personalised, holistic advice, which is often optimal but inaccessible for many, and more scalable forms of targeted support that are less bespoke but can help prevent harm for a wider group of savers. If effectively designed, support structured around broad saver segments, supported by the use of digital tools, could enable more timely and relevant engagement from providers without breaching regulatory boundaries.

61 Financial Conduct Authority, 2023a.
62 Oakley, M. et al., 2023.
63 Thinking Ahead Institute, 2020.
64 Financial Conduct Authority, 2024e.
65 Scottish Widows, 2024.

SECTION THREE:

HOW DO CURRENT DEFAULTS WORK IN THE RETIREMENT INCOME MARKET?

Key findings:

- **Defaults have been effective in accumulation but are largely absent in the retirement income market post-Pension Freedoms, possibly leading to unsustainable income strategies. In the absence of providers establishing effective defaults, unintended defaults have emerged, with potential consequences for savers.**
- **While choice is important, many pension savers would benefit from more structured defaults that support sustainable income withdrawals and enhance VfM.**
- **Experts agree that decumulation pathways could help disengaged savers, especially as demand for retirement solutions increases.**
- **Most savers remain with their existing provider when purchasing drawdown products, limiting competition and potentially missing better-value options.**
- **Ensuring default structures deliver VfM is not just about cost - it's about providing decision support that helps savers optimize their savings.**
- **A critical challenge in evaluating how well current default structures are serving members is the lack of comprehensive and transparent data on pension assets and consumer behaviour.**

While there is a consensus that structural defaults work effectively during the accumulation phase, these are largely absent in the retirement income market. Where default behaviours have emerged (such as full case-withdrawals) they may run counter to the provision of a sustainable income for savers. The complexity faced by pensions savers when choosing retirement income products makes the establishment of effective defaults challenging. Considerations for savers when deciding which product or combination of products best meet their needs include:

- the **product type**: full cash withdrawals, UFPLS, a drawdown product or an annuity;
- the **specific product** purchased from the retirement income product provider;
- the **provider** they choose to purchase the product from.

Where savers choose to select UFPLS withdrawals, or flexi-drawdown solutions, they must also determine the rate at which they draw down their pension wealth, a decision that can significantly impact their financial stability over time. Default behaviour (through full cash withdrawals) currently appears to be more common among those with smaller pots. As DC pot sizes grow, the need for more structured defaults will likely increase. There is currently no widely adopted decumulation default pathway in practice, although the direction of policy increasingly points towards establishing one. Furthermore, many individuals hold multiple pension pots with different providers, resulting in contradictory information and making it difficult for consumers to navigate their choices.

Prior to the introduction of the Pension Freedoms, savers were effectively defaulted into a narrow set of retirement income products (typically an annuity or capped drawdown), though they often retained some choice over the provider and certain product features (e.g. single vs. joint annuity). Since 2015, however, individuals have been required to make active decisions about not only which provider and product to choose, but also what type of retirement income product best suits their needs. In recognition of this complexity, DWP have proposed requiring pension trustees to offer default decumulation pathways that act in members' best interests[66]. While this marks an important step towards protecting unengaged savers from poor outcomes, the requirement has not yet been implemented, leaving a gap in structured support at a critical decision point in retirement.

[66] The Pensions Regulator, 2023a.

3.1 Stakeholder Perspective: Challenges and Opportunities in Practice

The lack of structured defaults in the retirement income market has led to unintended, and potentially sub-optimal, outcomes for many pension savers. Stakeholders across the pensions industry recognise the importance of designing retirement defaults that are simple, accessible, and aligned with the way individuals engage with their finances throughout their working lives.

What does someone want in retirement? They want it to be simple. They want it to emulate to some degree what they've been used to in their working life, which is certainly around income and regular inputs of cash. Understanding where that's coming from, not having to go and manage it and pull it down themselves, but for it to be readily available (MT Representative).

There is broad agreement that while choice remains an essential element of the pensions landscape, many individuals would benefit from better structured defaults that enable them to receive sustainable income withdrawal strategies, ultimately enhancing outcomes for pension savers.

It's good having a default investment solution that takes you to the end journey, but you still have to engage with the individual, or somebody needs to engage with them or somehow they need to be engaged - to tell them what choices they still have, and to get basic information out of them (MT Representative).

However, many emphasised that both better-structured default solutions and more effective support to guide individuals in making informed decisions are needed.

Experts in the field acknowledge that introducing decumulation pathways could help less or unengaged pension savers, particularly as demand for solutions in retirement grows.

The demand will be there, and will increase, and people will look to their existing provider for these retirement solutions (MT Representative).

However, it is in the design of these pathways that the critical challenge remains. While innovation in retirement products is limited by the types of products available, the opportunity lies in structuring the right mix of elements (e.g drawdowns, annuities etc.) at the right points in retirement to create more suitable income strategies for scheme members. While defaults may not always deliver the optimal retirement strategy, having a structured approach is preferable to the alternative, which is complete disengagement.

It might not be optimal, but it's a lot better than the alternative, which is they do nothing; they don't have a pension! (MT Representative).

A major concern is that existing structures in the pensions landscape do not sufficiently support decision-making in the decumulation stage of retirement.

There is a definite gap which we think targeted support, if it's designed correctly, could fill. Because people want reassurance on that decision and what they should do at that time. They're not necessarily looking for full advice, with someone to manage their investment. They're just wanting to say, am I doing the right thing by buying an annuity? Or am I doing the right thing by choosing drawdown? What's safe to do? (MT Representative).

3.1 Stakeholder Perspective: Challenges and Opportunities in Practice cont.

In parallel, stakeholders within the industry highlight the complexity and diversity of individual circumstances, which makes it difficult to design a set of defaults that works for all (or "for most").

The circumstances that people have in retirement, both in terms of what they've got in terms of income and pots, what their partner and family have in terms of income and pots, and their individual circumstances on what they need, are so massively different, that to design a default you have to have really good and usable off-ramps for people it's not suitable for (MT Representative).

It is evident that a degree of flexibility is required within default structures and strategies, ensuring that savers who could benefit more from actively choosing a more customised option can have easy access to this option. While there was no clear consensus on the best approach in design, stakeholders agreed that whether defaults require an "opt-in/opt out" mechanism will have significant implications. This has to be carefully considered to ensure that savers feel supported while still maintaining a certain degree of choice and flexibility.

Recent analysis from the IFS reinforces these stakeholder perspectives. A "flex then fix" model (where individuals draw down their savings flexibly earlier in retirement, before annuitising at a later stage) could offer a balanced strategy for many savers[67]. This type of blended approach has been explored by a number of large providers. However, the success of these models hinges on key design decisions, such as the timing of annuitisation, appropriate drawdown rates, the ability to easily opt-out and the availability of further appropriate choice architecture.

Looking ahead, stakeholders argue that any future default retirement income strategies must be designed with the consumer experience at their core.

In retirement, we should be making the most of the fact that people are at an age where they're thinking about how to take their money, to actually try and take them through some simple decisions that they can make for themselves, which will help them personalise the solution to actually suit their individual circumstances, and then have defaults as a bit more of a backup or a safety net for people who really aren't engaging (MT Representative).

Ensuring that default structures deliver VfM is not only about cost, but also about providing decision support that helps individuals optimise their savings:

Decision support is a value for money thing. It's about enabling them as far as possible to continue to enjoy the benefits of having their money invested rather than withdrawing it too early (MT Representative).

[67] Boileau, B., Cribb, J. & Emmerson, C., 2025a.
[68] Department for Work & Pensions, 2023d.
[69] Department for Work & Pensions, 2023d.
[70] People's Partnership, 2021.
[71] Department for Work & Pensions, 2023d.

3.2 Effectiveness of Defaults

Pension Schemes have required Members to make more Active Choices to access their DC Savings

Regardless of the type of DC pension scheme, members have had to make active decisions when accessing their savings. The level of support and options available varies depending on the type of scheme, but members must currently take an active role in selecting their preferred approach.

In **Single-employer trust-based pensions** members typically have to withdraw their savings from the scheme if they wish to take their pension in cash or purchase a retirement income product. These schemes often do not offer in-house decumulation options, meaning savers must transfer their funds to an external provider.

While some **master trusts (MTs)** are developing or now offer in-house decumulation solutions, these options still require savers to make key choices over how they access their pension savings, including deciding between the types of products offered.

In **Contract-based pensions**, regulatory changes introduced through the FCA's Investment Pathways in 2021 help guide members through the drawdown phase. These pathways are designed to align investment strategies with members' retirement objectives, providing a certain level of structured decision-making. In the first quarter of 2023, 50% of savers selecting drawdown opted for an investment pathway, demonstrating a demand for guided solutions[68]. However, while these pathways offer more structure, they still require individuals to actively assess their needs and make a choice, which highlights the need for solutions that optimise outcomes by ensuring that savers receive the right level of support to make informed decisions.

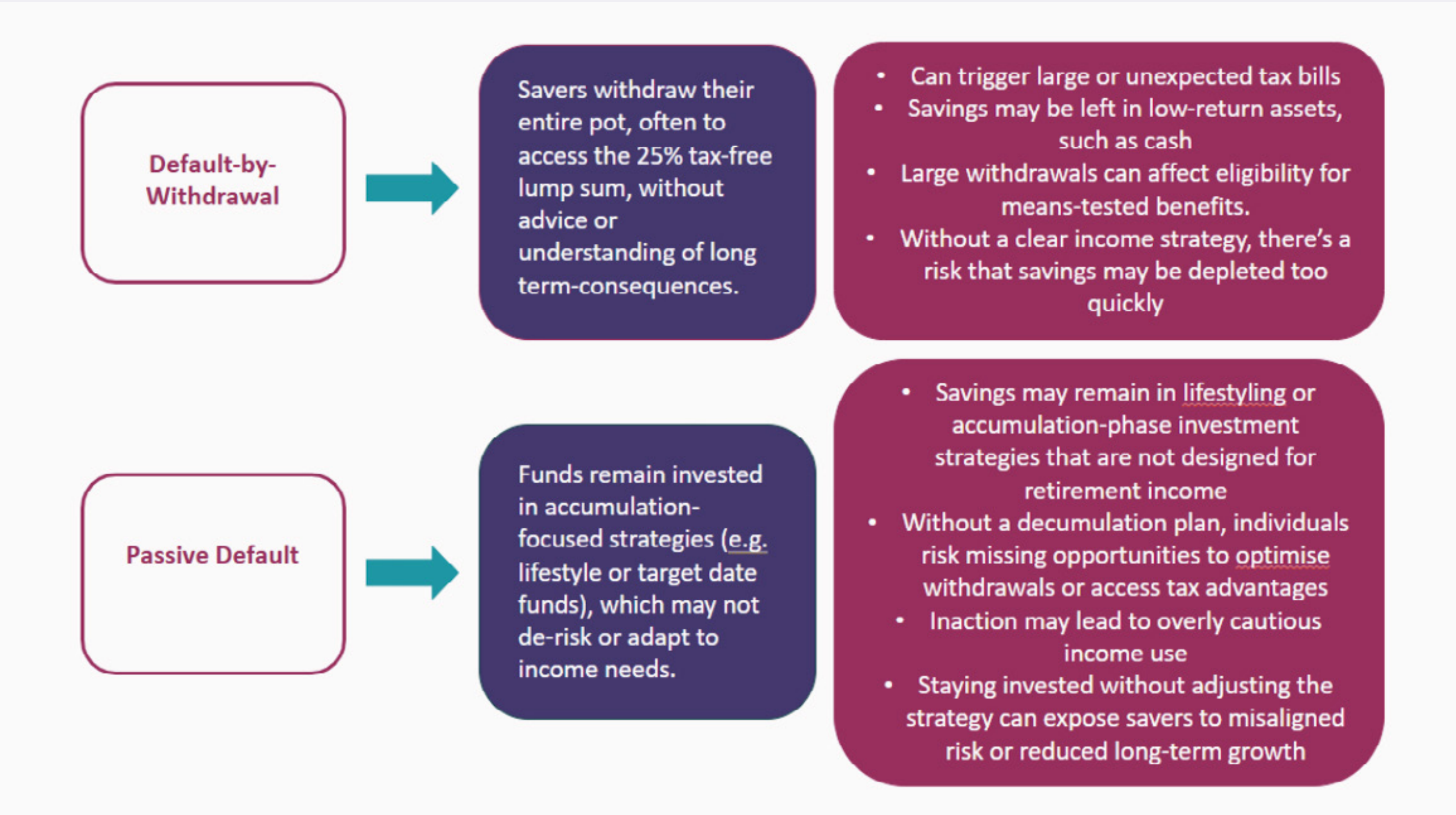
In the absence of provider defaults, informal defaults have emerged – with unintended consequences[69,70]

The absence of structured, provider-led defaults in the retirement income market has led to the emergence of unintended behavioural defaults, with potential implications for savers. In the absence of support or appropriate solutions, two patterns of behaviour can be seen:

1. **Default-by-withdrawal:** Savers who choose to withdraw their full pension pot as cash without regulated advice or fully considering the tax or long-term implications. This decision may be influenced by the perceived attractiveness of the 25% tax-free lump sum, and the perceived complexities of navigating the wider retirement income market.
2. **Passive default:** Savers who do not make an active decision at retirement and simply remain invested in their existing pension scheme, effectively "defaulting themselves"[71]. These individuals may stay in funds designed for accumulation (such as lifestyle or target date strategies), which may not be suitable as a long-term income withdrawal strategy.

Figure 2 illustrates how, in the absence of formal defaults, these two common pathways have effectively become de-facto retirement income defaults.

Figure 2



A default has emerged of savers' withdrawing their entire pots in cash

Where savers have made an active choice, this has typically been to withdraw their whole pension pot as cash[72]. This behaviour may be rational, particularly if the amount is used to meet everyday living costs or pay down expensive debt. However, for many, this behavior may be sub-optimal, particularly if the funds are transferred into low-yield cash savings accounts rather than being invested in a product aligned with long-term retirement income needs. While access to these withdrawals is largely driven by financial needs, there is also evidence that the prospect of a tax-free cash lump sum is also a major influence in this decision-making process[73]. A survey of DC pension scheme members found that:

- 42% of savers accessed their pension simply to obtain the tax-free lump sum;
- 50% of savers stated they would not have withdrawn their lump sum if it had not been tax free;
- 50% of savers reported that they withdrew more than they needed at that time[74].

There is growing concern (see IFS 2025), that the way the tax-free element is framed may itself steer individuals toward early and potentially unnecessary withdrawals, even when they have no clear plan for the funds[75].

Whereas savers frequently have more than one DC pension pot, the above behaviours relate to individual pots only. Current data shows that full cash withdrawals are much more common among smaller pots, while larger pots are more likely to be accessed through drawdown or annuitisation[76]. Looking ahead, it remains to be seen whether these patterns will persist as pot sizes increase through AE, supported by proposed reforms to extend coverage and contributions. While experience today suggests that larger pots are more likely to be drawn down or annuitised, it cannot be assumed that future savers with larger pots will behave in the same way. Many AE savers may continue to display inertia or low engagement even as their pots grow, particularly if the right support structures are not in place. Nonetheless, greater pot sizes, combined with improved access to advice, guidance, and innovative default product design, may still encourage different patterns of behaviour, such as leaving funds invested longer or exploring a wider range of decumulation options.

Risk of Misaligned Investments for savers who remain in their default Pension Scheme

For pension savers who do not actively engage with their retirement options, remaining invested in their existing pension scheme has become a de facto default. However, this can lead to sub-optimal outcomes if the assets their funds are invested in are not aligned with their retirement income needs. Pension schemes typically institute a glide-path, gradually moving funds into safer or less volatile assets as members approach their target retirement age. As savers move through retirement, we would expect the asset mix of their savings to continue changing in line with their retirement plans, reflecting evolving income needs and tolerance for risk. However, where members do not make a choice to access their funds, many schemes retain the asset mix that was in place when the member reached retirement age, regardless of whether it remains appropriate[77].

The key differences between pre- and post-retirement strategies are in purpose and risk management. Pre-retirement strategies focus on growth, embracing higher risk to build wealth, while post-retirement approaches prioritise income, risk mitigation, and capital preservation for financial stability. Many savers who remain invested in their pension scheme beyond retirement age may find themselves in investment strategies that were designed for the accumulation phase, and no longer reflect how they plan to access their money. Lifestyling strategies assume pension savings will be withdrawn at a specific age, gradually shifting investments into lower-risk assets. While suitable for some, it may be less appropriate for individuals intending to leave their funds invested or draw down gradually over time. These strategies carry both risks and possibilities, potentially reducing returns if not tailored to long-term income needs[78].

While accumulation strategies, such as lifestyling and target date fund TDFs, are well understood, there is limited publicly available data on how investments are managed once members pass their preferred retirement age, particularly in cases where savers remain in default funds without making an active choice[79]. Data around this is limited, although a number of research efforts are beginning to address this gap. Early efforts to reduce this evidence gap include, for example, the Financial Reporting Council (FRC)'s ongoing work on UK DC scheme default investment strategies, which is expected to provide new insights into how schemes structure investment pathways both before and after retirement[80].

Other research by Age UK (2019) suggests that many contract-based providers retain members in the same fixed asset mix as savers moved through retirement[81,82], even when those members have not made a decision about accessing their funds: this potentially results in either missed opportunities for growth or unnecessary risk exposure later in retirement. This set of circumstances has applied to 56% of pension savers in contract-based schemes who have not made an active decision around accessing their pension funds. As a result, they remain invested in the original accumulation strategy they chose (or were defaulted into) without the opportunity to reassess whether it remains appropriate in retirement, effectively "defaulting themselves"[83].

Although some master trusts are beginning to evolve their investment strategies beyond retirement age, this approach remains inconsistent. Most schemes continue to rely on traditional "accumulation" (pre-retirement) glidepaths that cease adjusting once set retirement age is reached, leaving members in a static asset allocation unless they make an active choice. A survey by Hymans Robertson of 16 master trusts found that 9 had static glidepaths post-retirement, while only five had introduced an after-retirement age glidepath aimed at better aligning investments with how members might draw down their savings later on[84]. Even among larger schemes, change appears to be limited, although providers such as NEST have begun transitioning eligible members into its Guided Retirement Fund.

While some providers offer alternative investment pathways post-retirement, these typically require members to opt in. Given how common it is for savers to remain passive after retirement, there's a clear opportunity for innovation in the design of default investment strategies. More adaptive, "to and through" (to retirement, and through to decumulation) approaches could better support those who don't engage.

72 Financial Conduct Authority, 2024d.
73 Department for Work & Pensions, 2022b.
74 Legal & General Investment Management, 2021.
75 Institute for Fiscal Studies, 2025a.
76 Financial Conduct Authority, 2024d.
77 Age UK, 2019.
78 Department for Work & Pensions, 2023d.
79 Pensions Policy Institute, 2024a.
80 Financial Reporting Council, 2024.
81 This research did not specify provider type.
82 Age UK, 2019.
83 Department for Work & Pensions, 2023a.
84 Hymans Robertson, 2024.

3.3 Exploring available Options and Consumer Choice

When purchasing drawdown products, most customers tend to remain with their existing pension provider (where such products are available) rather than exploring alternative options. FCA data covering the period of October 2023 to March 2024 indicates that over six in ten savers stayed with their current provider when purchasing a drawdown product[85]. This low level of switching may reflect a range of factors including ease, trust, or a lack of awareness that switching is possible. Given the complexity of drawdown charges and the challenges of comparing different providers, limited engagement at this stage may affect the value that savers receive[86]. The FCA has raised concerns that low levels of "shopping around" could reduce competition and contribute to higher prices, highlighting that trust in an existing provider is often a key reason people stay, rather than differences in product cost or value. They also suggest that the degree of engagement may vary across individuals, with more financially confident savers potentially more likely to explore options. These observations may be relevant when considering how to design and implement decumulation defaults, particularly in terms of ensuring that options remain open and savers are supported to consider what is best for their circumstances[87,88].

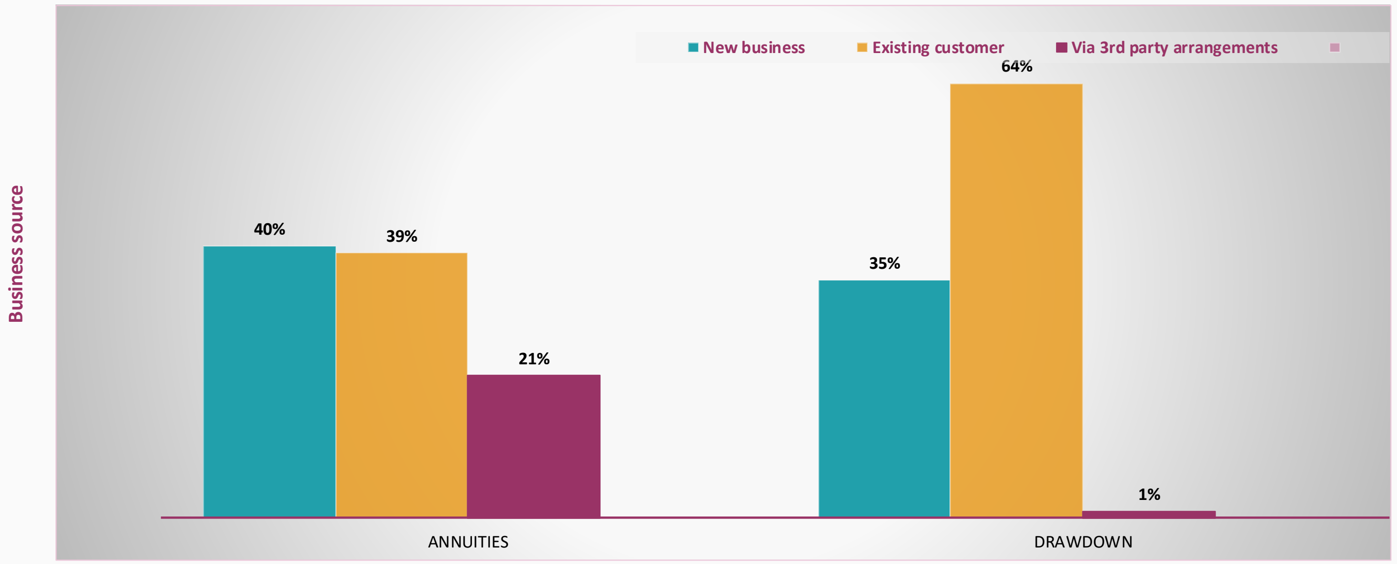
There is evidence of slightly higher engagement when it comes to annuities: during the same period, around 60% of annuity purchase represented new business for the provider (including purchases made via third parties), suggesting that some savers do explore the market to some degree before making a choice[89].

Figure 3

Over six in ten drawdown customers remained with their existing provider

Pensions Policy Institute PPI

Proportion of annuities and drawdown products sold by source of business



FCA (2024) Retirement Income Market Data

Figure 3 shows FCA's source of business data for retirement income products, highlighting the differences in shopping behaviours between annuity and drawdown customers.

3.4 Existing Gaps

A critical challenge in evaluating how well current default structures are serving savers is the lack of comprehensive and transparent data on pension assets and consumer behaviour. Contract- based pension schemes do not consistently disclose how they invest savers' assets, making it difficult to assess whether default investment strategies (often adopted in the accumulation phase) align with the long-term needs of savers approaching or in retirement[90].

Saver behaviours are linked to a per pot consideration rather than an understanding of full retirement provision based on their savings and contributions. This per-pot focus is reflected in the way data are reported by the FCA. Data are available separately for each pension pot, whereas savers are increasingly being encouraged to consider their retirement income holistically. The introduction of the Pensions Dashboard is one example of this. This disjoint between how data is reported and how savers are increasingly encouraged to plan for retirement limits our ability to assess whether current informal defaults (and the absence of structured defaults in decumulation) are delivering good outcomes for savers.

At present, schemes do not offer default decumulation solutions of the kind proposed by DWP, reflecting the fact that relevant legislation has not yet come into effect. In the absence of structured options, many of the patterns observed in the current market have arisen through saver inertia rather than through deliberate scheme-led design. Looking ahead, improving the evidence base (particularly around how savers access income across multiple pots), and increasing transparency on provider strategies post-retirement could support better policy and product development.

The findings in this section point to a clear need for innovation in the design of retirement income defaults that reflect current saver behaviours and offer better long-term support. Without appropriate scheme-led structures, savers are left navigating complex decisions alone, often defaulting into choices that may not serve their best interests. Implementing DWP's proposed legislation, alongside better data and transparency, would provide a foundation for more structured and value-driven solutions in the decumulation phase.

Implications and Potential Next Steps

The lack of comprehensive and transparent data on pension assets and saver behaviour presents a major challenge in evaluating the effectiveness of default pension structures. Where schemes fail to disclose investment strategies, this limits the ability to assess whether defaults effectively support savers as they approach and enter retirement. Options for addressing this include:

1) Improving Data Transparency: If pension providers can make a more concerted effort to disclose post-retirement investment strategies to improve transparency, this can support a more comprehensive assessment of how savers are supported.

2) Enhancing Holistic Reporting: Regulatory bodies, providers and wider stakeholders could work together to move towards a more integrated reporting approach that considers savers' total retirement resources, not just individual pension pots.

3) Supporting legislative action: Providers can collaborate with regulators to align default decumulation solutions with new legislative requirements, ensuring they uphold standards for financial security and sustainable long-term income.

[85] Financial Conduct Authority, 2024d.
[86] Financial Conduct Authority, 2019.
[87] Financial Conduct Authority, 2019.
[88] Boileau, B., Cribb, J. & Emmerson, C., 2025a
[89] Financial Conduct Authority, 2024d.
[90] Pensions Policy Institute, 2024a.

SECTION FOUR:

DEFINING AND ASSESSING VALUE FOR MONEY IN THE RETIREMENT INCOME MARKET – AN INITIAL PERSPECTIVE

Key findings:

- **There is currently no clear definition or framework for assessing Value for Money in decumulation. Understanding savers' needs, the direction of policy, and the current market landscape are a first step.**
- **The lack of in-house decumulation options in many trust-based pensions means savers often seek external solutions, which can disrupt continuity in support and lead to decisions that may not fully align with their retirement needs.**
- **Regulatory concerns around the advice/guidance boundary have restricted providers' ability to offer tailored support but better use of member data could help schemes improve communication, refine default solutions, and offer more tailored retirement income solutions.**
- **Although stakeholders agree on the value proposition of "targeted support" many of those operating in the trust-based sphere are worried about what the implications will be in terms of being able to offer members as comprehensive support as possible.**
- **Charges for retirement products remain complex and difficult to compare, limiting savers' ability to evaluate their options, and secure better-value products.**

4.1 The Challenge of Defining Value for Money in Retirement Income

There is currently no clear consensus on how VfM should be defined in the decumulation phase of the pensions savings journey and discussions around what "value" means in the context of retirement income are at a relatively early stage. Stakeholders themselves acknowledged this gap during consultations. Many expressed difficulties in articulating how VfM should be assessed in decumulation, not because they disagreed with its importance, but because the concept remains underexplored. As one stakeholder noted,

> **I don't necessarily know how it (the retirement income market) provides VfM, but I can tell you in what ways it doesn't** (MT Representative)

- highlighting how underdeveloped this area still is. This report is a starting point for a wider and ongoing conversation about what "value" could mean in the decumulation stage, and how the retirement income market might need to evolve to support better outcomes for savers.

[66] The Pensions Regulator, 2023a.

The VfM framework being developed for accumulation may provide a useful reference point for beginning to consider potential approaches in decumulation. Metrics such as charges, investment approach, and service quality could offer relevant dimensions, although how these should be interpreted in a decumulation context remains an open question. For example, service quality in decumulation may need to include not only communications and administration, but might also include how schemes support members to navigate choices or provide appropriate "fallback" options for those who do not engage. An analysis of the current retirement income market, and an assessment of what the future of retirement might look like suggests that the development of well-designed choice architecture will be essential to delivering good outcomes for savers. This includes mechanisms that both facilitate decision-making, helping savers align their choices with their needs, and provides appropriately designed defaults for those who do not make an active choice.

Each of the elements of cost, investments, and service quality are closely interconnected. Effective services and the smart use of member data can support more appropriate investment strategies. Clear and timely communication can better support decision-making. Efforts to minimise charges must be weighed against the need to provide services that meaningfully support members. These trade-offs must be considered within a wider system that builds trust and enables savers to make the most of their pension savings throughout retirement.

Given the diversity of saver needs, behaviours, and levels of engagement, defining and assessing VfM in decumulation is likely to require both a segment level and broader, market-level perspective. An open question remains around how the retirement income market can best support a wide range of outcomes, particularly for those who never actively engage. Key areas for further exploration and discussion include what "good outcomes" should look like across different saver segments; how far default structures can realistically go in delivering them; and the areas in which innovation, guidance or policy intervention may play an important role. Highlighting these areas is a step towards a more comprehensive understanding of how value can be conceptualised in the decumulation phase.

Understanding VfM through the Lens of 'Saver Segments'

Although there is still uncertainty around how VfM in decumulation could begin to be assessed, considering the needs of different saver segments can help build a more practical understanding of how effectively the system is delivering across the population. Broadly, savers approaching or entering retirement can be thought of as falling into three specific groups.

- Segment 1: Individuals with smaller pots and limited engagement. These savers may be less likely to seek advice and more likely to rely on default structures and solutions.
- Segment 2: Those with moderate pots (often accumulated through AE) who may benefit most from better signposting, tailored guidance, and support in navigating their options.
- Segment 3: Savers with larger pots, greater engagement, and broader access to financial advice or other forms of personalised support.

These saver segments are not rigid categories, but they offer a helpful way to explore how the market might better meet a range of needs and behaviours. This kind of framing could support the development of retirement income solutions that combine structured support with flexibility. Defaults and accessible guidance are likely to be most valuable for the first two groups, while more engaged savers may benefit from a greater 'menu' of options, and access to advice. Mapping how current products and services align with these groups could offer a more meaningful view of how effectively the market is delivering VfM across different parts of the saver population.

Costs and Charges: In-scheme drawdown keeps costs low but variability remains

Drawdown products are not subject to the 0.75% charge cap that applies to default funds in accumulation. However, there is an expectation that the downward pressure on charges seen in accumulation will extend into the retirement income market. In areas of the market expected to grow, particularly in-scheme drawdown, charges are generally considered to be reasonable. Where members remain within their workplace pension at retirement, they are often charged the same fees as during accumulation (typically below the 0.75% cap). Master trusts interviewed by Jackie Wells & Associates reported that they intend to keep charges for drawdown aligned with accumulation levels[91]. As master trusts play an increasingly important role in delivering retirement income products, their pricing strategies will help shape overall charge levels across the market.

Some insurers offering workplace pensions provide access to drawdown through a personal pension product. In some cases, this shift does not increase charges. In others, however, transitioning from a group scheme to an individual contract may lead to higher costs. The FCA has indicated that it is broadly comfortable with current charging levels for investment pathways, although it has identified some instances where charges exceed 0.75%[92]. This variation in charging levels highlights a key challenge in using costs and charges as a potential key measure of VfM in the retirement income market. Savers with similar pots may end up paying very different fees depending on the product or provider. While this reinforces the importance of including charges in VfM assessments, it also underlines the need to consider them alongside other key pillars (outcomes, service quality, support) to ensure fair and meaningful comparisons. Transparent pricing, alongside clear communication and appropriate support will be critical to ensuring that low engagement does not lead to poor outcomes in retirement.

There remain opportunities for Master Trusts to benefit further from economies of scale

The number of DC occupational pension schemes has continued to decline over the past decade, reflecting a trend towards consolidation[93]. However, DWP has noted that, while this journey is underway, the pace of consolidation remains slow.

The ongoing consolidation of the master trust market has resulted in fewer, larger schemes, bringing opportunities not only for cost efficiencies and economies of scale, but also for greater diversification of investments. DWP has noted that further gains could be made through additional consolidation, potentially enabling further charge reductions and improved services for members. This has particular relevance for decumulation, where greater scale may enable schemes to offer in-house drawdown or blended retirement income solutions, supported by better digital guidance and lower costs (options that smaller schemes may struggle to deliver). However, DWP has also acknowledged the risk that over-consolidation could reduce competition and result in an overly concentrated market, limiting potential for innovation and choice for savers.[94]

Limitations of a Cost-focused approach to Measuring Value

While reducing charges is important, some stakeholders have raised concerns about the industry's narrow focus on cost at the expense of broader measures of value. The Pension Investment Review found that employers often prioritise scheme cost when selecting pension providers, placing less emphasis on investment performance or service quality, both of which are equally important aspects[95]. This focus on cost can be traced back to a legacy of high fees and low transparency that translated into savers not having a good understanding of the impact of charges on their pension fund values. This issue becomes even more critical in decumulation, where assessing "good value" involves additional complexity, and also includes factors like income sustainability, longevity and service quality over time.

Pension Market structure and access to Productive Investments: Improving but still uneven

Although the pensions market has consolidated, particularly in the trust-based sector, there remains some variation in how different providers allocate assets, and how effectively they use scale to drive outcomes. This variation contributes to differences in long-term investment performance for savers[96]. In both contract and trust-based schemes, there is ongoing debate about how market structure affects schemes' capacity to benefit from economies of scale, enabling investment in a range of productive assets, such as private equity and infrastructure[97].

According to a recent survey from The Pensions Regulator (TPR), nearly nine in ten DC savers are in schemes that invest in at least one productive asset class. This figure reflects the fact that most DC members are in large master trusts, which are more likely to offer diversified investment strategies. However, at the scheme level, only 72% of master trusts, 57% of large DC schemes, and 45% of DB schemes currently report holding productive assets, indicating that access varies across the market (although around a fifth of master trusts, a third of large DC and two-fifths of DB schemes "did not know" for at least one investment type that was asked about)[98].

- In the contract-based sector, providers often operate on a scale (e.g. through GPPs), but investments tend to be split across a wide range of smaller default strategies. This can limit opportunities for schemes to invest in a range of productive assets that could potentially generate better returns[99].
- In the trust-based sector, while most schemes are small, the majority of members and assets are concentrated in large master trusts. The trust-based sector has many small schemes (95% have fewer than 12 members) and a small amount of very large schemes. These large schemes cover 91% of all DC and hybrid members and represent 81% of total trust-based assets. This scale provides the potential to invest in a broader range of asset classes but this has not been adopted by all schemes[100].

While less liquid, productive assets can support returns in accumulation, their role in decumulation is more uncertain. Regular withdrawals and valuations can make them harder to manage. This raises questions about whether different types of assets (particularly more income-generating or semi-liquid options) may be more appropriate. It also suggests that continuing investment beyond retirement could offer benefits, as long as liquidity and governance risks are managed. Consolidation may create further opportunities to improve investment approaches and governance. At the same time, there is a need to maintain competition and ensure savers are protected[101]. As access to productive assets continues to grow through consolidation, strong oversight will be important to ensure this delivers better outcomes for savers across different parts of the market.

The quality of pension scheme service varies, and change is required to enable savers to access their pension savings in line with their needs

The ability of pension schemes to deliver "value" goes beyond charges and investment performance: service quality is an equally important component that includes clear and accessible communications, efficient administration, and the effective use of member data to support better outcomes[102]. These elements help build trust in pensions and are key to ensuring that retirement income products work for savers with differing needs and levels of engagement. A broad range of stakeholders, including pension providers, employers, regulators and government, are responsible for delivering quality service, all within existing regulatory boundaries.

Since the introduction of Pension Freedoms in 2015, regulatory reforms have placed growing responsibilities on trustees and governance structures, reinforcing the fiduciary duty for trustees and the consumer duty for firms to deliver good saver outcomes. However, further improvements are needed to ensure schemes consistently support savers as they transition into retirement. Many providers have not focused sufficiently on assessing savers' typical risk profiles or the sustainability of income over time. A lack of such focus may help explain why some savers continue to hold investments or make choices that are misaligned with their long-term retirement income needs.

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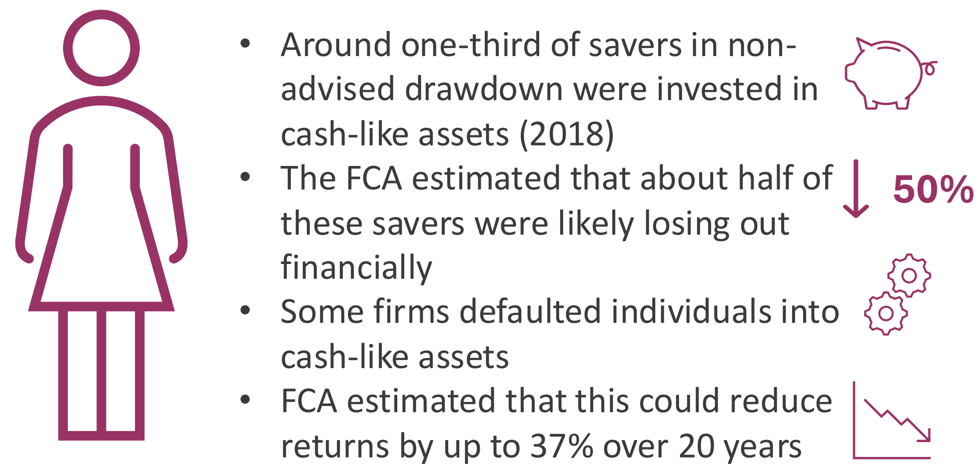
91 Wells, J. and Hurman, N., 2020.
92 Financial Conduct Authority, 2023a.
93 The Pensions Regulator, 2023b.
94 Department for Work & Pensions, 2023a.
95 Department for Work & Pensions & HM Treasury, 2024.
96 Department for Work & Pensions & HM Treasury, 2024.
97 Department for Work & Pensions, 2023a.
98 The Pensions Regulator, 2025.
99 Department for Work & Pensions & HM Treasury, 2024.
100 Association of British Insurers, 2023c.
101 Department for Work & Pensions & HM Treasury, 2024.
102 Department for Work & Pensions, Financial Conduct Authority & The Pensions Regulator, 2023.



For instance, in the early years following Pension Freedoms, a substantial group of non-advised savers withdrew their DC pensions and invested them in cash-like assets, even where they did not intend to access those funds for several years. This behaviour introduced the risk of significantly lower investment returns. In 2018, around a third of savers using non-advised drawdown were invested in cash-like assets[103], and the FCA concluded that roughly half of these individuals were likely to be losing out financially as a result. At the time, some firms compounded this trend by defaulting individuals into cash. The FCA estimated that this could reduce returns by up to 37% over a 20-year period[104].

These past patterns offer a cautionary lesson: when defaults or guidance fail to consider typical saver behaviours and income needs, the consequences for later life outcomes can be significant. As new retirement solutions are developed, there is a clear opportunity (and responsibility) to design services, defaults and support tools that better reflect how saver segments engage, helping prevent avoid avoidable losses and promoting more sustainable retirement outcomes.

The direction of policy is moving towards initiatives to support this, such as FCA's Investment Pathways, the stronger nudge to Pension Wise, and upcoming proposals around guided retirement pathways for trust-based schemes[105]. These measures, while a step in the right direction, are not without limitations. The pathways require savers entering cash drawdown to actively "opt in"[106]. However, they do not fully account for the fact that an individual saver might divide out a single DC pension pot or hold multiple pots across schemes. Nor do they apply to trust-based pensions[107]. In addition, the options available have been criticised for being too narrow and not addressing the risk of savers drawing down either too much or too little money[108].

Even beyond the challenge of asset allocation and product decision, savers continue to overlook key financial considerations or factors when accessing their DC savings. Of those surveyed who partially withdrew a DC pension in the four years leading up to 2022, almost half did not consider how much money they needed to last them in retirement[109]. Fewer than one in three considered inflation risk, and less than half factored in their expected State Pension income. Improved framing, support, and emphasis on nudges at the moment of decision could play a critical role in improving outcomes, particularly for disengaged or less confident savers (or those in Segment 1).

Some attributes of the current market structure work against the provision of cost-effective and sustainable financial outcomes

Certain structural elements of the pensions market hinder the availability of products that provide cost-effective and sustainable financial outcomes. One such challenge is the limited number of retirement income options available within trust-based pension schemes. Few single-employer trust-based pensions, and a limited but increasing number of master trusts, offer retirement income products to their members. This frequently means that savers are often left to purchase a product themselves, such as non-advised drawdown, externally (from the retail market) or to withdraw their fund as cash. In these cases, trustees often play a limited role in guiding members beyond providing access to guidance services or issuing retirement risk warnings. This lack of structured support means that trustees lose out on the opportunity to leverage the knowledge that they have of their scheme members to offer decumulation services or provide appropriate default solutions. Several of the stakeholders who participated in consultations raised the idea that they would like to see trustees taking an enhanced role in ensuring in-house or external solutions provided through partnerships provide appropriate VfM for savers in their schemes.

I think it should be a requirement on every master trust that is bringing people in through auto enrolment to offer something like a least harm default type solution. You should have to do. As a trustee, I feel it's part of my fiduciary duty to make sure that the Members have as good a service and have as much value for money in retirement as they do in the accumulation phase. So, we should be very explicit, I think on the responsibility of the fiduciary duty extending into the retirement phase as well (MT Representative and Trustee)

Not everybody needs to become a pensions expert! I always feel like the way to empower the consumer is to help them to access the system with the trustee on their side. (MT Representative)

Similarly, the absence of in-house decumulation solutions in some schemes disrupts the continuity of savers' education and guidance throughout retirement. As a result, and possibly as a consequence of the perceived lack of support and complexity in navigating this challenge, many savers may default into taking their entire pension in cash, even when this may not be in their best interest[110]. Consequently, these savers in trust-based pension schemes may be exposed to the same risks faced by those in contract-based pensions of placing their savings in assets that are inconsistent with their retirement income plans.

Some trust-based schemes have taken steps to improve saver outcomes by establishing agreements with third parties to offer FCA-regulated products and services to their members at retirement, e.g. via a Group Personal Pension[111]. In these cases, trustees are responsible for ensuring that these products are suitable for their scheme members. However, there is currently no regulatory requirement for all trust-based schemes to facilitate access to retirement income solutions in this way.

103 i.e. assets which can be converted into cash within a relatively short time-frame, including money market funds and short-term investment securities.
104 Financial Conduct Authority, 2019.
105 FCA's Investment Pathways and the Stronger Nudge to Pension Wise are already in effect.
106 Financial Conduct Authority, 2019.
107 Department for Work & Pensions, 2023d.
108 Department for Work & Pensions, 2023d.
109 Financial Conduct Authority, 2023d.
110 Financial Conduct Authority, 2019.
111 Pensions and Lifetime Savings Association, 2024.

Communications need to be further tailored to Savers' specific needs

Different saver segments have different communication needs, and communication is seen as a key part of service quality. However, pension schemes do not, as a general rule, tailor communications to specific saver segments. Research to date has shown that levels of understanding and preferences around communication vary significantly according to factors such as pension size, financial confidence, and capability.

- Among those with pots under £100,000, only 59% found communications from their provider easy to understand, compared to 76% of those with pots over £250,000.
- Individuals with smaller pots were also more likely to say that the communication they received was insufficient, or "too low"[112].
- Research participants with lower financial capability were more likely to struggle with standardised communications (such as annual pension statements) and many had not accessed them as a result[113].

A study by the Department for Work and Pensions (2020) found that individuals consistently express a desire for clearer, simpler information on pensions, and a single, reliable source of information and support. Many reported frustration at having to navigate multiple sources of information, often without clear guidance on what actions to take[114]. While the introduction of the Stronger Nudge legislation in 2022 aimed to promote greater uptake of Pension Wise, it remains unclear whether this goes far enough. Policymakers and regulators might need to consider whether trustees could, or should, take a more proactive role in encouraging engagement with guidance, including the potential use of more structured or targeted interventions for certain saver segments. The ability to deliver more tailored communications is often influenced by regulatory uncertainty around the advice/guidance boundary, which may contribute to a continued reliance on high-level, standarised messaging (see subsection below).

Another barrier to improving value for money in retirement income products is the limited use of member data in scheme decision-making. While many schemes do not hold detailed personal data beyond what is needed for administration, the challenge lies in getting providers to actively seek to understand savers' needs and behaviours. As with communications, hesitancy around straying into regulated advice can also act as a barrier to collecting and applying member data in more personalised ways. Where trust-based pensions did not meet their duty to assess the value for money of their scheme's charges, the barrier was that they did not research their members' attributes and preferences[115]. Smaller schemes in particular were more likely to fall short of meeting this requirement.

Better insight into saver characteristics and preferences could help schemes segment communications more effectively, deliver more timely and relevant nudges, or design decumulation strategies that reflect the needs of typical saver profiles. While full personalisation may not be realistic, schemes that recognise and respond to shared patterns of behaviour and risk across groups of savers are more likely to design products and services that meet real-world needs, and in doing so deliver outcomes that could be considered as offering good VfM for savers.

[112] Hymans Robertson, 2022.
[113] Department for Work & Pensions, 2020.
[114] Department for Work & Pensions, 2020.
[115] OMB Research, 2023.
[116] Financial Conduct Authority, 2024e.

4.2 Challenges to ensuring Competitive, Effective Retirement Solutions

Concerns over the Advice-Guidance Boundary (AGBR) and its Impact on providing Support

One of the perceived barriers to improving retirement outcomes is the regulatory boundary between financial advice and guidance. The provision of financial advice is strictly regulated by the FCA, with heavy penalties for unauthorised individuals or organisations offering personalised financial recommendations. This regulatory framework has given way to a 'cautious approach' among trustees and pension providers, who have stated they are reluctant to provide more tailored guidance to savers for fear of crossing into regulated advice. This has worked against the provision of tailored support and guidance based on consumer segmentation that might be of interest to members.

In a strict regulatory environment, schemes might be hesitant to engage savers about potentially harmful behaviours, such as high withdrawal rates, even if it risks poor outcomes later in life. The FCA's proposals[116] on targeted support would allow authorised firms to use limited information to provide savers with actionable suggestions regarding their pension scheme or retirement income product. These suggestions would be relevant to all savers within a consumer segment, designed for use in pre-defined scenarios, and suitable for individuals in similar circumstances. For example, in a high-withdrawal scenario, firms could suggest a more sustainable withdrawal rate to the saver, considered appropriate for people in similar circumstances with similar needs.

Although stakeholders agree on the value and potential of targeted support, this will be an FCA-regulated activity and subject to FCA permissions. Many operating in the trust-based sector have therefore asked how these proposals could be extended or adapted, alongside DWP's proposals on guided retirement, to ensure there is a level playing field for savers across the different regulatory frameworks. Questions also remain about how this approach will align with the challenges presented by a lack of consistent information on the broader financial landscape of individual savers, given an individual pension pot is only one element of a saver's portfolio.

Where single-employer trust-based pensions do not offer retirement income products, communication is more challenging.

While the Government has published plans to mandate that trust-based schemes provide access to retirement income solutions, either in-house or through appropriate partnerships with other providers, this policy has yet to be implemented across the market. In the meantime, fragmentation remains a challenge. In particular, the variation in how schemes support decumulation may complicate the development of consistent, scheme-led communication approaches that guide savers to-and-through their transition into retirement.

Even where retirement income products are provided externally, trustees will retain a duty to support and oversee communication throughout the transition from accumulation into decumulation. However, in the absence of a coordinated or standardised approach across schemes, the degree and quality of support available to savers at this stage may vary considerably. For some saver groups, this could result in limited guidance or unclear messaging at a time when informed decision-making is critical. This issue is aggravated by the way workplace pensions are selected in the first place. As noted in the earlier section on costs and charges, employers play a central role in determining which pension schemes their employees are enrolled in. However, cost is often the dominant consideration in these decisions, with less emphasis placed on longer-term factors such as governance quality, investment strategy, or the presence of appropriate retirement income options.

The VfM framework being developed for accumulation aims, in part, to facilitate a transition from a narrow focus on cost to a more expansive understanding of value. It also provides a foundation for thinking about how value could be better understood with a life-course lens and across the full pensions journey. This report is part of a wider effort to focus on this topic to ensure that VfM considerations are not limited to the accumulation phase, but extend through to decumulation, especially as decisions in the accumulation phase become more consequential and the potential consequences for savers' outcomes in retirement are now greater than ever.

4.3 Barriers to Competition and Consumer Decision-making in Retirement Income Products

Both supply-side and demand-side factors present challenges to the development of a retirement income market that truly addresses saver needs. On the supply side, market structure and regulatory constraints shape the availability of products, whilst on the demand side, consumer behaviours (inertia, low engagement, and difficulty comparing options) limit competition and innovation in the market. In practice, these different types of challenges may reinforce each other; e.g. where an employer's emphasis on cost over quality or new approaches negatively impacts the drive for innovation in the market.

A significant barrier to effective competition is the fact that drawdown charges, in particular, are complex and hard to compare, making it difficult for savers to explore alternative options[117]. This is particularly true in the case of drawdown products, where complex fee structures lead to consumers struggling to understand and weigh up the features of different products on offer. The potential need for comparing the cost of different types of products, such as the cost of an annuity relative to a drawdown product, adds another layer of complexity.

As savers move through retirement, increasing numbers will face a degree of cognitive decline. Three in ten individuals suffer from some form of cognitive impairment in their 70s compared to less than one in ten in their 60s[118]. This is problematic for savers who have purchased drawdown products (after Pension Freedoms) and who must regularly reassess their strategies to make sure they adapt to their evolving needs as they progress through retirement and are faced with changing life circumstances.

Upcoming proposals requiring trustees to offer retirement income solutions have the potential to transform the market. By acting as informed decision-makers for their members, trustees could drive demand for more customised and competitive decumulation products, prompting providers to create solutions that better meet retirees' long-term financial needs. In the future, greater numbers of DC pension savers may engage more with advice as their pension pots increase in size, but there is likely to still be a group of unadvised, unengaged savers. Ensuring this segment is not left behind will be key to supporting outcomes across the full saver demographic.

The current retirement income market and the existing advice and guidance landscape do not sufficiently account for (or help savers consider) many of the key factors in decision-making. This raises concerns about whether the market will be able to meet the needs of future savers at the point of retirement. The extent to which future technological advances will address some of these needs is not yet clear.

Without further intervention, the proliferation of small pension pots would be expected to continue to be a challenge[119]. However, proposed solutions such as the default consolidator model and the Pensions Dashboard initiative will potentially support improved decision-making in the retirement income market by providing savers with a more comprehensive view of their total pension savings[120].

Key findings:

- **There is currently no clear definition or framework for assessing Value for Money in decumulation. Understanding savers' needs, the direction of policy, and the current market landscape are a first step.**
- **The lack of in-house decumulation options in many trust-based pensions means savers often seek external solutions, which can disrupt continuity in support and lead to decisions that may not fully align with their retirement needs.**
- **Regulatory concerns around the advice/guidance boundary have restricted providers' ability to offer tailored support but better use of member data could help schemes improve communication, refine default solutions, and offer more tailored retirement income solutions.**
- **Although stakeholders agree on the value proposition of "targeted support" many of those operating in the trust-based sphere are worried about what the implications will be in terms of being able to offer members as comprehensive support as possible.**
- **Charges for retirement products remain complex and difficult to compare, limiting savers' ability to evaluate their options, and secure better-value products.**

117 Financial Conduct Authority, 2019.
118 Cribb, J. et al., 2023.
119 Department for Work & Pensions, 2023b.
120 Department for Work & Pensions & HM Treasury, 2024.

SECTION FIVE:

HOW MIGHT THE RETIREMENT INCOME MARKET CHANGE IN THE FUTURE?

Key findings:

- **Future retirees will face greater financial complexity as a result of increased longevity, shifting employment and retirement patterns, declining rates of home ownership, and more fragmented pension savings, which will likely influence decision-making around retirement income**
- **"Bucket" approaches and blended solutions that combine flexible drawdown and annuities, are emerging as potential default strategies to better match evolving retirement needs. Getting the design of these solutions right will be key.**
- **Digital tools, personalised modellers, and robo-guidance platforms are improving engagement but require better integration and regulatory clarity.**
- **Innovation in retirement products is limited by the types of products that can be offered, yet there is scope to improve outcomes by structuring the right mix of elements (e.g., drawdowns, annuities) at key stages in retirement to create more suitable income strategies for scheme members.**
- **Multiple small pension pots remain a challenge, making it harder for savers to track and manage their retirement income effectively, but should be addressed by initiatives like the Pensions Dashboard and small pot consolidation.**
- **The lack of individual-level data limits understanding of how savers use their income in retirement, highlighting the need for improved data collection and integration.**

The retirement income market is undergoing significant transformation, driven by demographic shifts, policy changes, and evolving employment and savings patterns. Future retirees will have radically different financial circumstances and challenges than those retiring today, requiring the market to adapt to meet their needs. Key factors shaping the future include increased longevity, later State Pension ages, a shift toward DC savings, declining home ownership rates, and more fragmented pension savings. These developments will increase the complexity of retirement planning, placing greater responsibility on individuals to make informed financial decisions. At the same time, technological advancements, innovation in how schemes operate and deliver services, and regulatory reforms may present opportunities to improve retirement outcomes through better support, improved product offerings, and effective default solutions.

5.1 Key Trends Shaping the Future

Several long-term trends will shape how individuals access and use their retirement savings in the coming decades:

- **Longer retirements and increased financial strain**
  Individuals will need to stretch their retirement income over a longer period due to increased life expectancy. The challenge of managing longevity risk will be even more pronounced for the increasing number of future retirees who will be reliant on DC savings rather than the guaranteed income of DB pensions[121]. This increases the risk of depleting pension savings too soon, particularly for those with smaller or lost pots, or those without appropriate withdrawal plans.
- **Changing work and retirement patterns**
  Many individuals are working longer, or phasing into retirement gradually, by reducing hours or shifting to self-employment[122]. This pattern is expected to continue[123]. This shift increases the need for more flexible solutions to align with evolving working patterns.
- **Falling home ownership and increased reliance on pension income**
  Housing wealth has historically played a major role in supporting retirement but this is expected to change. Current homeowners over 65 are likely to be the last generation with high levels of home ownership, as rates among younger cohorts have declined sharply. Over the next two decades, the proportion of retirees who own their home could fall from 78% to 63%, while the number of retirees in the private rental sector could increase from 6%[124]. This means that more retirees will face ongoing rent or mortgage payments, increasing pressure on pension savings.
- **Fragmented savings and multiple small pots**
  Future retirees are more likely to reach retirement with multiple small pension pots, accumulated from different jobs, creating challenges in tracking and managing savings. This is expected to become less of an issue over time, as proposed small pots solutions, market consolidation, and the rollout of dashboards are likely to reduce the extent of fragmentation[125].
- **Competing demands on pension savings**
  Retirement savings are increasingly being used for purposes beyond obtaining retirement income. Many retirees are using pension savings to cover rent, pay debts, support family members, or bridge the gap between leaving paid work and receiving the State Pension[126]. With the State Pension age set to rise, and as DC pots become the primary retirement savings vehicle, ensuring that pensions can adequately support long-term financial security will become even more important.

[121] Pensions Policy Institute, 2024c.
[122] Wagstaff, C., 2018.
[123] Pensions Policy Institute, 2022.
[124] Pensions Policy Institute, 2024e.
[125] Department for Work & Pensions, 2023b.
[126] Department for Work & Pensions, 2022b.

5.2 The Role of Innovation and Technology: Supporting Better Outcomes in Retirement

Technological advancements have the potential to reshape the ways in which individuals engage with their pensions, access guidance, and make financial decisions. Innovation in digital tools, data integration, and better suited product design could help bridge existing gaps in support and decision-making, ensuring that savers have access to the resources and structures they need to navigate the decumulation phase more effectively.

Innovation in product design and income strategies is emerging

While innovation in the retirement income market is developing, it is not necessarily focused where it is most needed. Most innovation in the market, in terms of products and solutions, has been targeted at high-value pension savers, while those with small to medium-sized pots, who require the most support, have seen fewer product developments[127]. Contributory factors include:

- Low consumer demand driven by saver inertia and lack of awareness,
- Providers wishing to retain their existing 'customers' rather than attracting new savers,
- The complexity of new products, which may be difficult to sell directly to consumers without financial advice.

Master trusts and some providers are taking steps to close this gap. For example, several are offering "bucket" approaches, that encourage members to segment their savings into different buckets based on their intended use and time horizon (creating small funds for essential spending or later-life annuity purchases). Others are exploring deferred annuities or decumulation-only CDC schemes to offer more secure retirement income without sacrificing flexibility.

Other providers, research centres, and policymakers have begun to explore new types of default retirement solutions that balance flexibility with security. One such approach is the "flex-and-fix model, which combines flexible income drawdown in the early stages of retirement with a transition to a more stable income in later life, such as through an annuity or guaranteed income product[128]. This kind of structure acknowledges that savers' needs evolve during retirement. In the early years, many savers seem to value flexibility, while later on, they may prioritise certainty and protection against longevity risk. Embedding this model into default decumulation options could provide better outcomes for savers who do not actively engage or seek financial advice. These approaches show early promise, though they remain inconsistently applied across the market.

Looking ahead, designing effective choice architecture, which helps navigate trade-offs and facilitates suitable retirement income approaches and products will be critical. Several industry experts emphasised that while the core products available in the retirement income market (annuities, drawdown, lump sum withdrawals) are unlikely to change dramatically, the real room for innovation lies in how these products are structured and combined, accounting for changes in savers' needs and desires as they progress through retirement.

Innovation is shaping saver communications and engagement

As savers take on greater responsibility for managing their retirement income, effective communication and accessible education tools are becoming increasingly important. Recent innovations in fintech are helping to meet this need by offering personalised, engaging, and practical ways for individuals to understand and plan for their retirement.

- **Interactive tools**

  Fintech platforms (e.g. Guiide and Smart Retire), are enabling more proactive retirement planning through interactive, self-guided journeys. These tools allow users to input personal information (pension balances, expense, and life expectancy assumptions) and generate tailored drawdown strategies. By helping individuals visualise how different decisions affect income over time, they encourage more informed planning and reduce the risk of unsustainable withdrawals.

- **Innovations in financial education**

  More providers are improving the delivery of pension information through engaging, multimedia formats through apps and websites. Platforms like Pension Geeks, Money Alive, and Legal & General in-house tools offer video-based educational content presented in simple, accessible language. These resources help break down complex topics, making it easier for those with lower financial confidence, to understand their retirement options and ask the right questions.

- **"Gamification" and behavioural nudges**

  Other innovations incorporate elements of personalisation and behavioural design to enhance engagement. Scottish Widow's Pension Mirror and LifeSight's AgeOmeter provide comparative insights into how a saver's situation stacks up against people like them and illustrate the long-term effects of variations in income and contribution decisions. These features are not a substitute for formal guidance or advice, but they can play a valuable role in prompting reflection and engagement.

- **Hybrid support models**

  Alongside these consumer-facing tools, workplace pension providers are increasingly partnering with robo-advice services to offer low-cost, automated financial guidance . These services can complement the more engaging tools by offering structured, algorithm-driven support that walks savers through different decumulation options and considerations. This may be particularly valuable for those with small to moderate pots who are unlikely to access regulated advice.

So there's a lot of AI, there's a lot of tooling – and I think that's all steps in the right direction. But it tends to be more about efficiency, so being able to do more for customers at the same price, because it's constrained by the advice-guidance rules. So if the advice-guidance rules change and allow for targeted support, that's where innovation can kick in, because people can look at how they do targeted support using big data, using data about the customer and using digital tools to provide personalised information. Then that opens the door to using the tools that are emerging in AI, but in a way that truly transforms (MT Representative).

As these innovations continue to evolve, they offer significant potential to bridge existing gaps in decision-making support. Achievement of better saver outcomes through innovation will depend on functionality and integration into the broader retirement journey. Considerations around regulation and consumer protection will be crucial in ensuring these tools serve savers' best interests, striking the right balance between accessibility, reliability and safeguarding against risks[130]. Regulatory clarity (particularly around the advice vs. Guidance boundary) will also be critical in unlocking the value of these innovative tools.

[127] Age UK, 2019.
[128] Boileau, B., Cribb, J. & Emmerson, C., 2025a.
[129] Age UK, 2019.
[130] Pensions Policy Institute, 2024c.

Data Collection and integration is also a key space for innovation development

Emerging technologies are beginning to improve how data is gathered, aggregated, and used to support better decision-making. Many schemes currently hold only limited administrative data, but innovations in data analytics and integration are expanding the possibilities for targeted support. New AI-driven tools are already helping providers segment their membership and identify typical behavioural patterns, enabling more personalised and timely nudges. Several master trusts are exploring the use of engagement analytics and AI to monitor how members interact with communications and to refine messaging accordingly. These behavioural insights could be crucial in prompting action from less engaged savers.

Data integration through initiatives like the Pensions Dashboard have a key role in enabling savers to better understand their overall retirement picture. They consolidate pension information from across multiple schemes, helping individuals track their various pots and develop a clearer view of their retirement readiness. Increased data visibility could support more proactive financial planning and reduce fragmentation across providers.

In the future, open pensions data, supported by regulatory developments such as the Smart Data Bill, may provide a platform for further innovation in tailored retirement journeys. However, several industry stakeholders note that the current lack of data at the individual level (as opposed to the pot level) makes it difficult to assess how savers are using different income sources in retirement, or how product and communication strategies might need to be adapted. Addressing these data gaps, alongside continued investment in AI and data analytics, will be essential in delivering services that are both efficient and responsive to the needs and behaviours of the growing DC saver population.

Innovation beyond the Pensions Industry

Not all innovation relevant to the retirement income market is happening within it. Increasingly, transformative developments are emerging from adjacent sectors, such as fintech, data science and digital governance, which are influencing how pension schemes operate and how savers are supported. Advancements in open data standards and cross-sector data integration (operating on the same basis as Open Banking, for example) are laying the groundwork for the future of open pensions data. At the same time, innovations in scheme administration, such as data quality management tools and AI-powered governance platforms, are helping trustees make better decisions and deliver stronger oversight. As collaboration between pension providers, tech firms, and regulators expands, the potential for innovation to enhance outcomes across the retirement journey can also grow.

Conclusion

The retirement income market is evolving rapidly, with more savers relying on DC pensions, and facing more complex decisions about how to use their savings in later life. While Pension Freedoms have introduced greater flexibility, they have also transferred substantial responsibility onto savers to make informed and sustainable financial decisions. This report has examined the extent to which the current retirement income market supports good outcomes for savers and has highlighted the barriers to assessing VfM posed by underdeveloped choice architecture, limited decision-making support, data gaps, and variable levels of consumer engagement.

Whereas the accumulation phase of pension saving is guided by a developing framework centred on investment performance, costs, and service quality, translating these VfM principles into the decumulation sphere is more challenging. The stakes are higher, the risks are held more personally, and the outcomes more varied. To ensure retirement income products deliver VfM, the focus must be on whether savers, as a group, are supported to make sustainable decisions that align with their evolving needs.

A key challenge going forward is ensuring a smoother and more supported transition from accumulation into decumulation. There is a growing need for seamless, guided pathways that help savers navigate the entirety of their retirement savings journey. Empowering individuals with tools, guidance, and the confidence to make informed decisions must remain a central objective. However robust, well-designed default structures must also be in place to ensure that those who do not engage are not at risk of poor outcomes.

This report has identified growing industry recognition of the need for such default solutions in decumulation. A potential model is the timely combination of "traditional" products in early retirement (e.g. flexible drawdown) followed by annuitisation or another form of secure income in later life. However, these solutions must be implemented carefully to reflect the diversity of saver circumstances, and to provide meaningful off-ramps for those who wish to take more control of their choices in accordance with their distinct personal circumstances.

Innovation both in the retirement income market, and beyond it, shows real potential - from bucket strategies and hybrid income solutions to digital tools that use data to offer more tailored planning support. These different advancements have the potential to reshape the retirement income landscape in ways that better support future savers at retirement. However, their success will depend on correct regulatory oversight, and a continued focus on ensuring that all savers are equipped to navigate these changes. Striking the right balance between permitting innovation, encouraging accessibility, and guaranteeing consumer protection will be crucial in shaping a retirement income market that is both flexible and secure for future savers.

Looking ahead, it is worth exploring how a dedicated VfM framework for decumulation might complement or extend the existing accumulation-focused approach. Future policy and regulatory discussions should carefully consider how best to support members in the retirement phase, including the role trustees and providers can play in guiding decision-making and delivering good outcomes. The next phase of this research will build on the insights from this report by examining whether the current VfM framework for accumulation could be expanded to include retirement income, or if a distinct framework is more appropriate. It will also explore what elements – such as new defaults, support structures, or regulatory reforms, might be needed to ensure all savers get the best possible value in later life.

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Contact: Chris Curry, Director
Telephone: 07718 647 567
Email: info@pensionspolicyinstitute.org.uk

Pensions Policy Institute
Thanet House
231-232 Strand
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All enquiries regarding the Pensions Policy Institute's activities should be addressed to Chris Curry, Director at:
Pensions Policy Institute, Thanet House, 231-232 Strand, Temple, London, WC2R 1DA

t: 07718 647 567
e: info@pensionspolicyinstitute.org.uk
w: www.pensionspolicyinstitute.org.uk

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