UK pensions: opportunities and challenges

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1. Executive summary

- The UK pension system has faced multiple challenges during the past three decades. Efforts to overcome these, while partially successful, have not fully addressed the issues and have been slow dealing with new challenges.

- As a result, the system has arguably lost sight of its primary purpose and is increasingly at risk of failing to provide adequate and secure pension income.

- To address these fundamental failings, reform must tackle issues around market fragmentation, contribution rates, coverage gaps, gender disparities, low retirement income, portability, fees and other shortcomings.

- Drawing on both a wealth of existing studies and our own experience and insight, as well as interviews with UK and global pension experts, we outline a series of measures intended to restore a collective focus on pension income provision and so build a better system.

- We argue that effective, positive change is urgently needed if the UK pension landscape is to remain capable of benefiting the millions of people who have every right to expect it to function to best effect.

- This is likely to demand close collaboration between multiple stakeholders. As the ultimate beneficiaries of successful reform, savers and retirees themselves should not be excluded from the process.

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2. Introduction

The annual *Mercer CFA Institute Global Pension Index* report assesses and grades pension systems around the world. The 2024 edition awarded the UK a rating of B, which indicates a system "that has a sound structure, with many good features, but has some areas for improvement that differentiate it from an A-grade system".

With an "overall index value" of 71.6, the UK placed 11th out of 48 in the international rankings. Its fellow B-graders included Chile, Mexico and Uruguay, while the systems ahead of it included those of Norway, Singapore, Netherlands, Iceland, Israel and Denmark and – at the top of the list – the Netherlands. It had placed 10th, with an overall index value of 73.0, in the report's 2023 edition[1].

This modest decline in standing might not appear especially alarming. After all, the UK is still ranked ahead of France, Germany, Sweden, Switzerland, the US and other leading economies. Yet the fall can be seen as further evidence of a system in desperate need of reform – and, crucially, a system that lacks a clearly defined purpose.

The key question here is what the number-one objective of any pension system should be. The obvious answer is that a system should strive to provide adequate and secure pension income for the people it serves.

There is no doubt that the UK system seeks to accomplish this fundamental outcome. However, this primary purpose is not at the centre of the pension reform debate in 2024.

Much of the current debate around pension reform in the UK centres on leveraging savings to invest in the domestic economy and thereby support economic growth[2]. Fostering domestic investment is certainly a worthwhile policy objective, yet it should not be seen as more important than securing the retirement income of tens of millions of people.

Ultimately, there are many considerations that might *inform* pension reform – but there is only one consideration that should *drive* it. We believe this distinction lies at the heart of meaningful efforts to bring about positive change in this sphere.

In this paper we survey the landscape of UK pensions and explore the evolution of a system in search of a purpose. We focus in particular on the events of the past three decades, explaining how they have given rise to an array of major challenges that now demand serious attention.

We examine each of these challenges in detail, outlining their interconnections and impacts. Drawing on existing insights our own expertise, we then put forward a series of recommendations for rebuilding a pension arena that seeks to put retirement income first.

We are far from alone in suggesting pension reform in the UK is imperative. Industry experts, legislators, policymakers and other stakeholders continue to search for solutions. We would argue, though, that reform is now much more than merely necessary: it is a matter of the utmost urgency.

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[1] See, for example, Mercer and CFA Institute: *Mercer CFA Institute Global Pension Index 2023*, 2023, and *Mercer CFA Institute Global Pension Index 2024*, 2024.
[2] See, for example, Barr, N: *Pension Design and the Failed Economics of Squirrels*, 2021.

"There are many considerations that might *inform* pension reform – but there is only one consideration that should *drive* it."

3. Key recent events in the reshaping of UK pensions

Many of the milestones that have punctuated the history of pensions in the UK helped lay the foundations of social security as we now know it. The New Poor Law of 1834, the Contributory Pensions Act of 1925 and the introduction of a universal state pension in 1946 have been among the most notable landmarks.

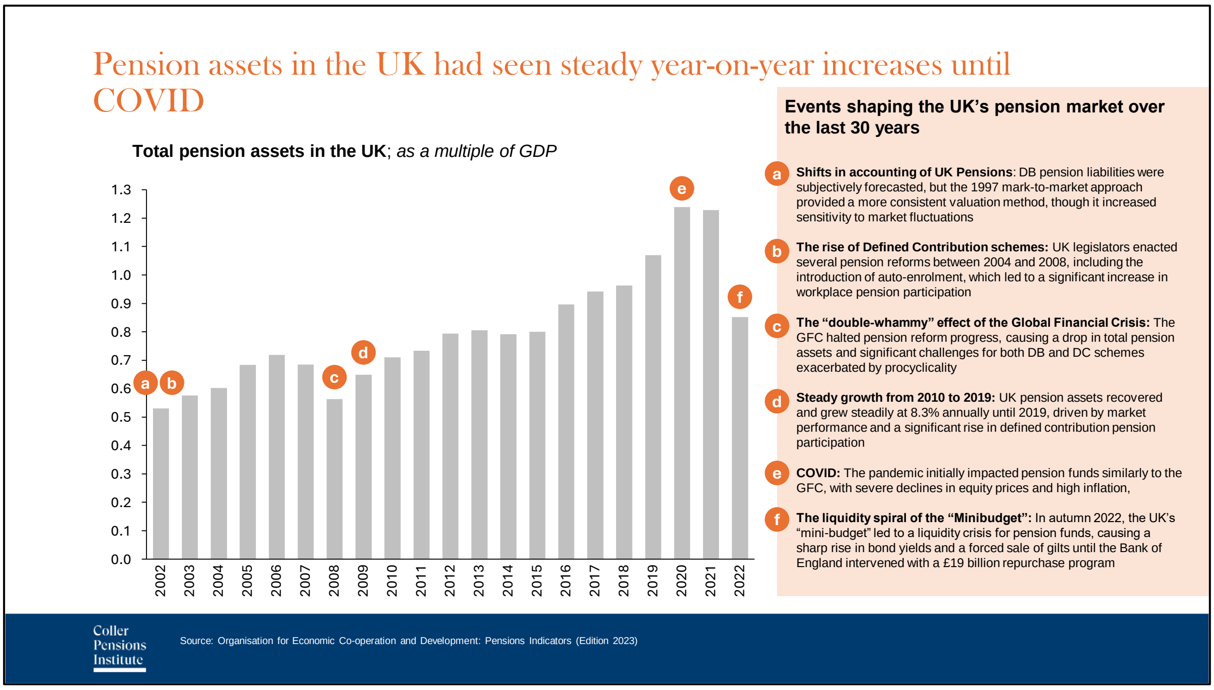
The "modern" pension system, which is itself more than a century old, has brought innovations and scandals alike. The former have included George Ross-Goobey's novel approach of investing pension assets in equities rather than bonds[3], while the latter have included the infamous fraud involving Robert Maxwell's Mirror Group Pensions[4].

In this chapter, to highlight the challenges that confront the system today, we focus principally on events since the late 1990s. The UK pension landscape has been particularly dynamic during this period, not least given the rise of defined contribution schemes.

Below we explore six key developments – some positive, some negative – that have dramatically reshaped the market. They are summarised in Exhibit 1. Together, they help explain how the UK has been left with a pension system that has lost sight of its principal purpose.

[3] See, for example, *Money Week*: "The world's greatest investors: George Ross-Goobey", November 10 2017.
[4] See, for example, *Guardian*: "Pension plunderer Robert Maxwell remembered 20 years after his death", November 3 2011.

Exhibit 1: Key events' impact on total UK pension assets



The accounting shift – 1997-2000s

It was once standard practice for defined benefit (DB) pension schemes' liabilities – that is, the amount of money payable to pensioners upon retirement – to be valued on a "best estimate" basis. This meant pension funds had to conduct long-term forecasts involving interest rates, life expectancy, wage growth, inflation and numerous other variables that were consistently hard to predict. How to value liabilities was important because the Pensions Act of 1995 introduced a minimum funding ratio of 90%, meaning that assets had to represent at least 90% of outstanding liabilities[5].

Estimating any one of these metrics individually could be both challenging and imprecise. Estimating all of them simultaneously was extraordinarily complex. A degree of subjectivity is necessary for any forecast, but in this instance, it could significantly impact outcomes for pensioners.

In 1997 a group of actuaries recognised the problem was making pensions inconsistent and volatile[6]. Jon Exley, Shyam Mehta and Andrew Smith observed that corporate contributions to DB schemes were fluctuating by approximately 7% per annum, reflecting the repeated adjustment of member contributions in light of ever-changing and difficult-to-predict macroeconomic conditions.

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[5] See, for example, Bank of England: *Procyclicality and structural trends in investment allocation by insurance companies and pension funds : A Discussion Paper by the Bank of England and the Procyclicality Working Group*, 2014.

[6] See, for example, Exley, C, Mehta, S, and Smith, A: *The Financial Theory of Defined Benefit Pension Schemes*, 1997.

Exley, Mehta and Smith proposed as an alternative to this method a mark-to-market approach. This entailed valuing liabilities similarly to other financial products with comparable cashflow streams, such as bonds and equities. If a pension is a promise of future cashflow, they argued, the best way to price that promise is through a financial transaction with similar economic effects – as opposed to relying on actuarial "guesswork".

This principle, which states that two identical cashflows should have the same market value, is known as the Law of One Price. As well as revolutionising how liabilities were conceptualised, its application influenced the investment strategies of pension fund managers.

A DB scheme entitles an employee to a fraction of their salary upon retirement, and the optimum means of meeting this entitlement is to invest in assets that will generate the required amount. Accordingly, drawing on the Law of One Price and relying on coupon payments, dividends or derivatives contracts, managers began employing a liability-driven investment (LDI) approach.

LDI's primary goal is to match the expected cash flows of liabilities and assets. This might involve pension fund managers hedging against inflation and interest rate risk and setting expectations of lower investment returns in exchange for reduced risk.

LDI strategies were widely adopted by the 2000s, with larger schemes substantially leveraging to increase their exposure to long-term bonds and smaller schemes using externally managed LDI funds[7]. However, this shift brought its own complications – foremost among them, as we will discuss shortly, UK pension portfolios' increased susceptibility to sudden changes in interest rates.

The rise of defined contribution schemes – 2002-2008

The new millennium brought a renewed focus on pensions. Whereas only five major legislative updates had emerged during the previous 90 years, UK legislators passed three pension-related Acts of Parliament between 2004 and 2008 alone.

The overall purpose of these Acts was to provide greater protection for pensioners under existing DB schemes and to strengthen the foundations of defined contribution (DC) schemes. The latter had been operating in the UK since the 1980s, but the early 2000s saw them earn much greater recognition as a viable alternative to DB plans.

The main reason for this shift was the growing cost of maintaining DB schemes in the face of increasing life expectancy and population ageing. The longer lives of pensioners meant larger liabilities for employers – that is, larger promises of future cashflows from schemes to beneficiaries.

[7] See, for example, Chen, R, and Kemp, E: *Putting Out the NBFIRE: Lessons from the UK's Liability-Driven Investment (LDI) Crisis*, 2023.

In tandem, the age demographics were changing. The old-age dependency ratio, which measures the number of people aged 65 or over relative to the number of working-age individuals, had grown markedly during the preceding decades and was projected to grow further – a prediction that duly came true, as exhibit 2 shows.

In addition to these trends placing ever more financial strain on DB schemes, market volatility increasingly drove employers towards the DC option. Here the appeal lay in the fact that DC schemes could essentially transfer the risk of investment shortfalls from employers to workers.

In light of these dynamics, the government accelerated its efforts to organise DC plans. The first step was the creation of the Pensions Commission, which was established in 2002 and tasked with undertaking an in-depth review of pensions in the UK[8].

Led by Adair Turner, a former Director of the Confederation of British Industry and future Chairman of the Financial Services Authority, the Commission found many existing DC schemes were suffering from serious deficiencies. It revealed, for example, that their gross replacement rate was significantly lower than that of DB schemes.

As shown in exhibit 3, the Commission discovered pensioners saving the benchmark 10% of their annual salary for 40 years would receive less than 50% of their final salary during retirement. By contrast, regular DB schemes typically ensured receipt of approximately 65%.

Meanwhile, DB schemes still had problems of their own. Their funding deficit in the early 2000s stood at £76 billion – roughly 3% of the UK's GDP at the time[9] – and regulators expected the shortfall to worsen[10].

In response, "safety nets" were provided for pensioners. The Pensions Act of 2004 established the Pension Protection Fund (PPF) to safeguard individuals in DB schemes in the event of an employer going bankrupt. In addition, the existing regulator, the Occupational Pensions Regulatory Authority (OPRA), was replaced by the newly formed Pensions Regulator, which was granted greater powers to ensure the adequate management of schemes.

While the 2004 Act primarily sought to mitigate the risks within the DB system, the Pensions Acts of 2007 and 2008 were designed to support the growth of DC schemes. They followed the government's adoption of two key recommendations issued by the Pensions Commission.

The first recommendation was to make the state pension "less means-tested" in a bid to simplify and broaden access to the first pillar of pension provision. The second was to

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[8] See, for example, Pensions Commission: *Pensions: Challenges and Choices – The First Report of the Pensions Commission*, 2004.

[9] See, for example, Pension Protection Fund: *The Purple Book*, 2020.

[10] They were right. The deficit reached £280 billion – nearly 10% of GDP – in 2015.

create a National Pension Savings Scheme (NPSS), which became the National Employment Savings Trust (NEST) a year later[11].

The original aim of the NPSS was to encourage saving for old age "amongst those who currently do not have a pension" and to fill the "savings gap" left by the decline of DB schemes. The Pensions Commission proposed a 4% employee contribution, matched by 3% from an employer and 1% from the government in the form of tax relief; it also stipulated that pension funds should not charge savers more than 0.3% in annual management fees[12].

The Pensions Act of 2008 introduced another essential feature that would shape the UK pension landscape in the years to come: auto-enrolment. The basic principle was that an employee would be automatically enrolled in a workplace pension scheme unless they decided to opt out.

There were several grounds for not making pension saving mandatory. It was argued that mandatory saving was already addressed in the first pillar of pension provision; that individual preferences regarding savings rates and retirement age should be respected; and that personal circumstances, such as health or accumulated assets, could influence an individual's approach to retirement.

The chief motivation for the introduction of auto-enrolment was to improve the coverage of pension schemes. Rooted in behavioural science, studies had shown the auto-enrolment could boost participation from 50% to as much as 90% when compared to opt-in mechanisms[13].

Further research duly confirmed auto-enrolment's effectiveness. In 2013, drawing on a sample of 1.6 million workers, the National Audit Office reported participation in workplace pensions had risen from 61% to 83%[14].

[11] See, for example, Institute for Government: *Pensions Reform: The Pensions Commission (2002-6)*, 2007.
[12] Ibid.
[13] See, for example, Madrian, B, and Shea, D: *The Power of Suggestion: Inertia in 401(K) Participation and Savings Behavior*, 2000.
[14] See, for example, Department for Work and Pensions: *Automatic Enrolment Evaluation Report 2013*, 2013.

Exhibit 2: Life expectancy and old-age dependency ratio

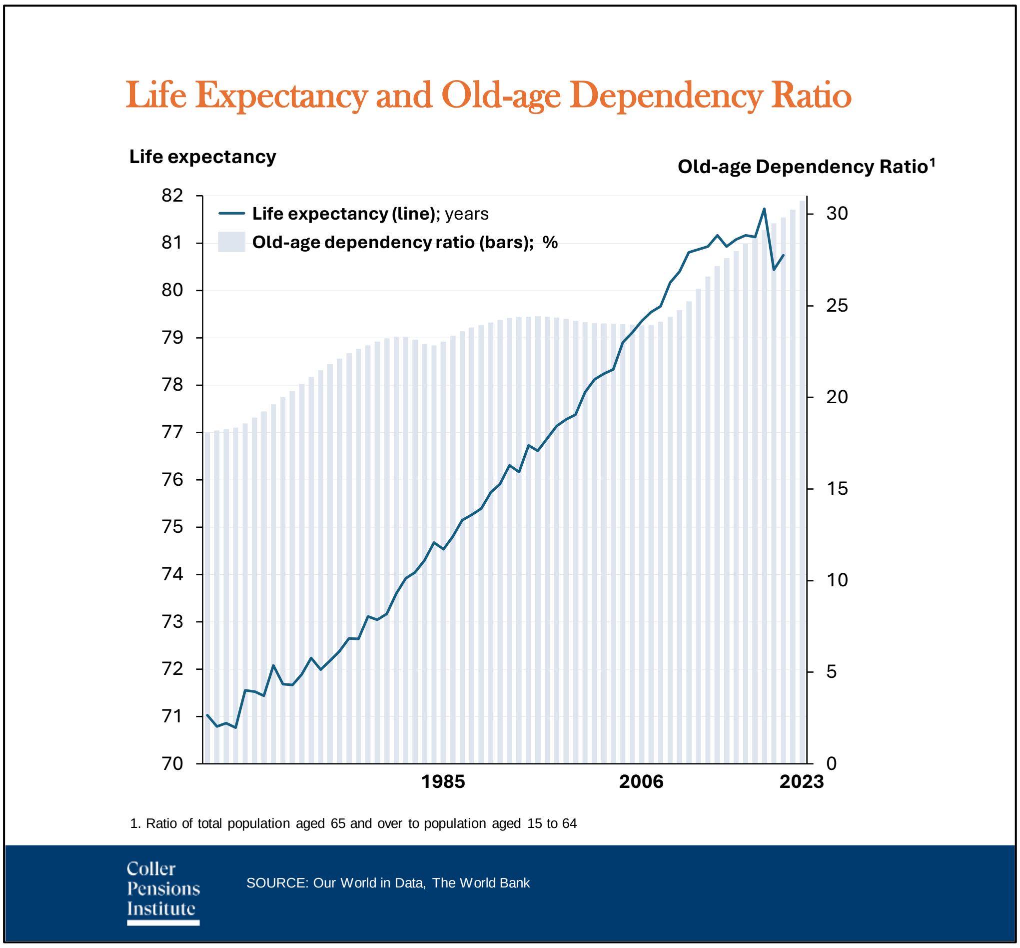
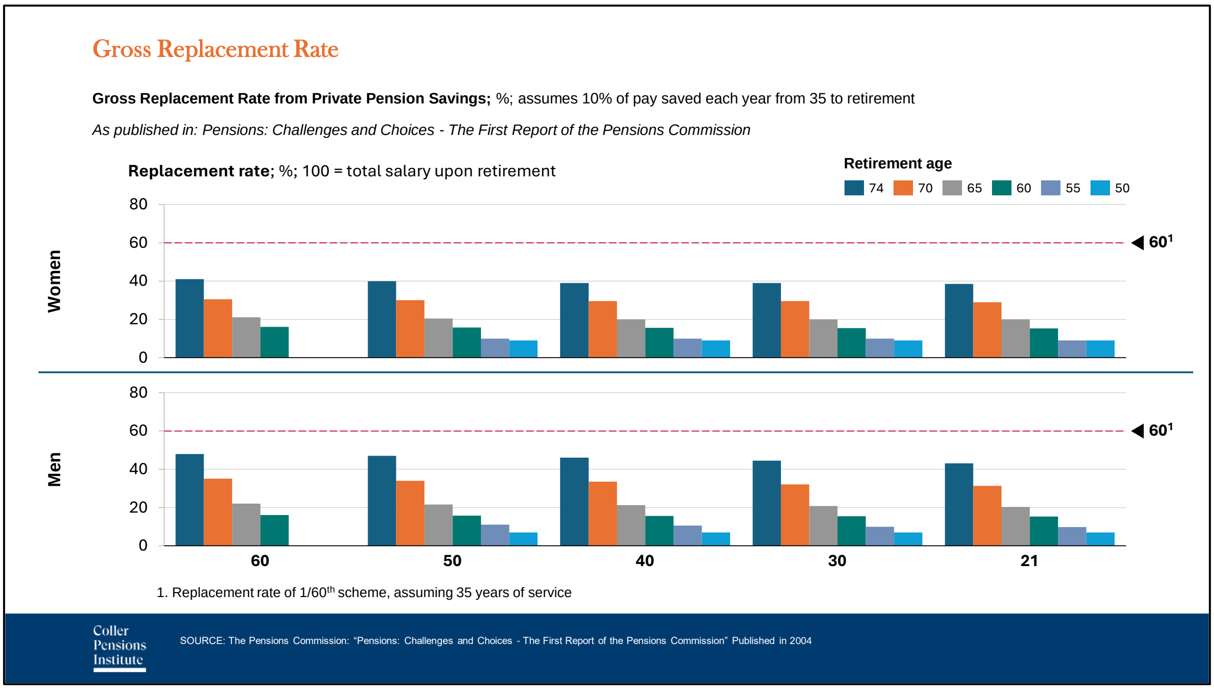


Exhibit 3: Gross replacement rate from UK private pension savings, 2003



The global financial crisis – 2008-2009

The positive momentum generated by pension reform was halted by the global financial crisis (GFC). Total pension assets in the UK fell by 22% relative to GDP in 2008-2009, resulting in a loss of $300 billion – the second-largest loss worldwide in absolute terms, behind only the US.

DC plans were hit hardest, primarily due to their exposure to equity markets, but countries with a high proportion of DB schemes also faced major challenges. Accounting and regulatory constraints played a key role in this respect.

Under the mark-to-market approach, as noted earlier, pension liabilities are highly sensitive to interest rates. In the wake of the GFC, when rates dropped sharply, pension liabilities increased rapidly. The Bank of England slashed rates from approximately 5.0% to 0.5% between October 2008 and April 2009, substantially raising liabilities' market value.

This compelled DB funds to boost their pension provision, which they did by drawing down existing assets. In addition, due to the dire economic circumstances, the UK allowed employers to temporarily reduce pension contributions, which depleted assets even further. The PPF supported over 360 schemes between 2008 and 2010 through its more solvent members, which eroded pension assets as well.

This amplification of negative consequences during an economic downturn – often referred to as procyclicality – weighed heavily on DB schemes. Some 73% were closed to new members by 2010, further intensifying the urgency of enrolling new pensioners under DC plans[15].

The decade of steady growth – 2010-2020

Pension assets in the UK gradually recovered from the effects of the GFC. By 2012, standing at $2.1 trillion, they were back to pre-crisis levels. From 2010 to 2019 they grew at 8.3% per annum – a faster rate than those of the US, Canada, Australia, Japan, Denmark, the Netherlands and other comparable systems[16].

The rise was supported by growth in equity markets, particularly in the US, yet perhaps more important was the sizeable increase in workers contributing to DC schemes. In 2012, when auto-enrolment was finally introduced, less than 20% of employees had a DC pension, whereas by 2021 the figure exceeded 50%.

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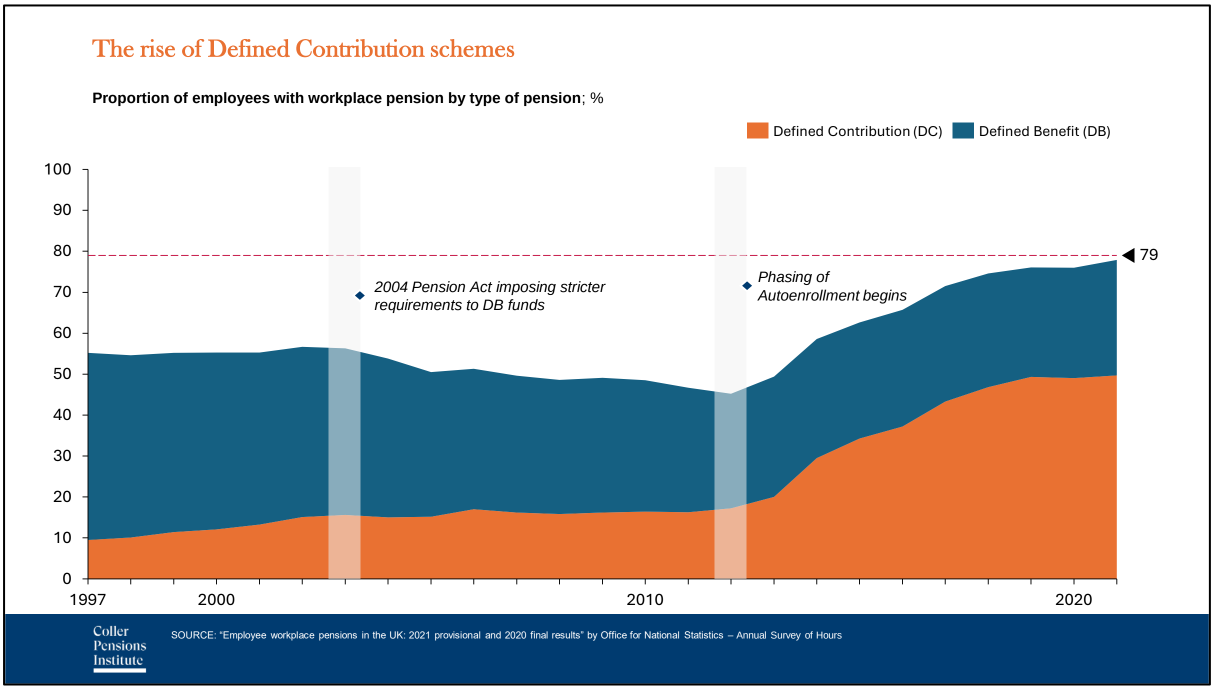
[15] See, for example, Yermo, J, and Severinson, C: *The Impact of the Financial Crisis on Defined Benefit Plans and the Need for Counter-Cyclical Funding Regulations*, 2010.

[16] See, for example, Organisation for Economic Co-operation and Development: *Pension Markets in Focus 2023*, 2023.

As shown in exhibit 4, workplace pension coverage reached nearly 80% in 2021[17]. Concomitantly, DC plans had clearly cemented their dominance by this point. Unfortunately, another major shock was imminent.

Exhibit 4: DC schemes' role in UK pensions' post-GFC recovery



Source: Office for National Statistics: *Employee Workplace Pensions in the UK: 2021 Provisional and 2020 Final Results*, 2022

The COVID-19 pandemic – 2020-2021

At least in some respects, the crisis that pension funds faced in the aftermath of the COVID-19 pandemic was not dissimilar to the turmoil brought by the GFC. Procyclicality was an exacerbating factor in both instances.

Largely due to the growing proportion of DC plans, declining equity prices had a more severe impact in 2020 than in 2008. Yet, with approximately 90% of pension assets still held under DB schemes, the effect on total assets was relatively limited in the early years of the pandemic, as exhibit 5 illustrates.

In the early days of the pandemic – as with the GFC – near-zero interest rates, rising liabilities, the relaxation of funding requirements to alleviate economic pressures on employers and the need for additional PPF support all played significant roles. The real damage, though, came later.

[17] See, for example, Institute for Fiscal Studies: "Private pensions explained", February 6 2023.

High inflation and a subsequent rise in interest rates had the greatest impact on pension assets, whose absolute value decreased by more than 30% from 2021 to 2022[18]. The investment performance of funds made matters worse, as exhibit 6 shows, with an internal rate of return of approximately -25% in real terms between December 2021 and December 2022.

Exhibit 5: Pension assets around the world, 2002 to 2022

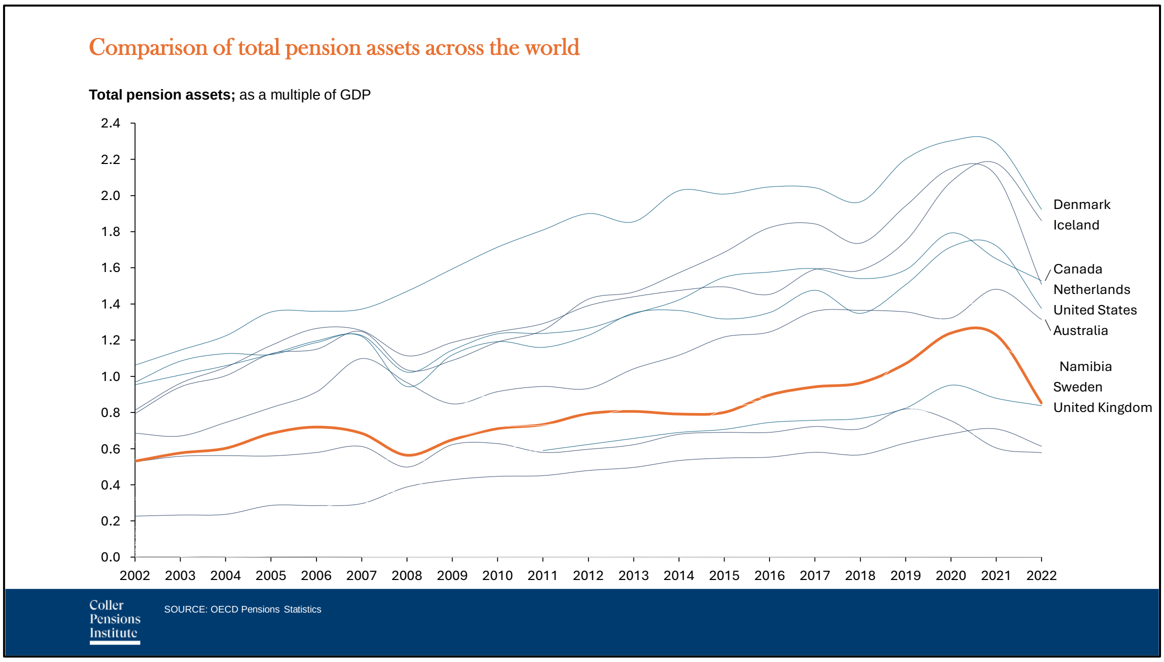
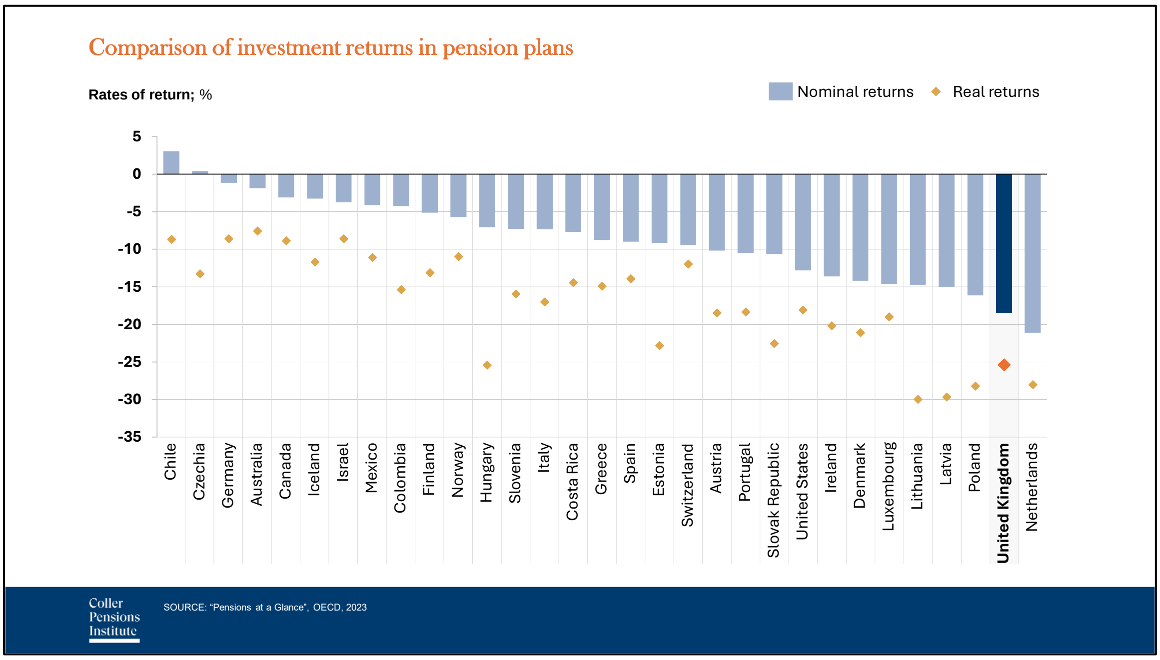


Exhibit 6: Pension investment returns around the world, 2022



[18] See, for example, Organisation for Economic Co-operation and Development: *Pensions at a Glance 2023*, 2023.

The mini-Budget liquidity spiral – 2022

UK pension funds hold approximately 30% of the nation's gilts market, which they often use as leverage in derivatives contracts. This proved significant in the autumn of 2022, when markets were spooked by the ill-fated "mini-Budget" unveiled under the short-lived premiership of Liz Truss.

In September that year, the government proposed a series of tax cuts and fiscal stimulus measures. Markets responded swiftly, and by the end of the month, the yield on 30-year nominal bonds had increased by 2 percentage points compared to the previous four weeks.

This forced the counterparties of pension funds, LDI funds, to make margin calls to address the rapid change in the value of UK bonds. The situation was made worse by the high leveraging in the context of LDI strategies[19].

With insufficient cash to meet demands, pension funds and LDI funds were compelled to sell some of their most liquid assets – namely, UK gilts – which further drove down bond prices. The cycle was eventually broken when the Bank of England intervened with a £19 billion gilt repurchasing programme[20].

"These developments... help explain how the UK has been left with a pension system that has lost sight of its principal purpose."

4. Major challenges facing the system today

As outlined in the previous chapter, the history of pensions in the UK reflects a complex interplay of legislative, economic and market forces. This has arguably especially been the case over the past three decades.

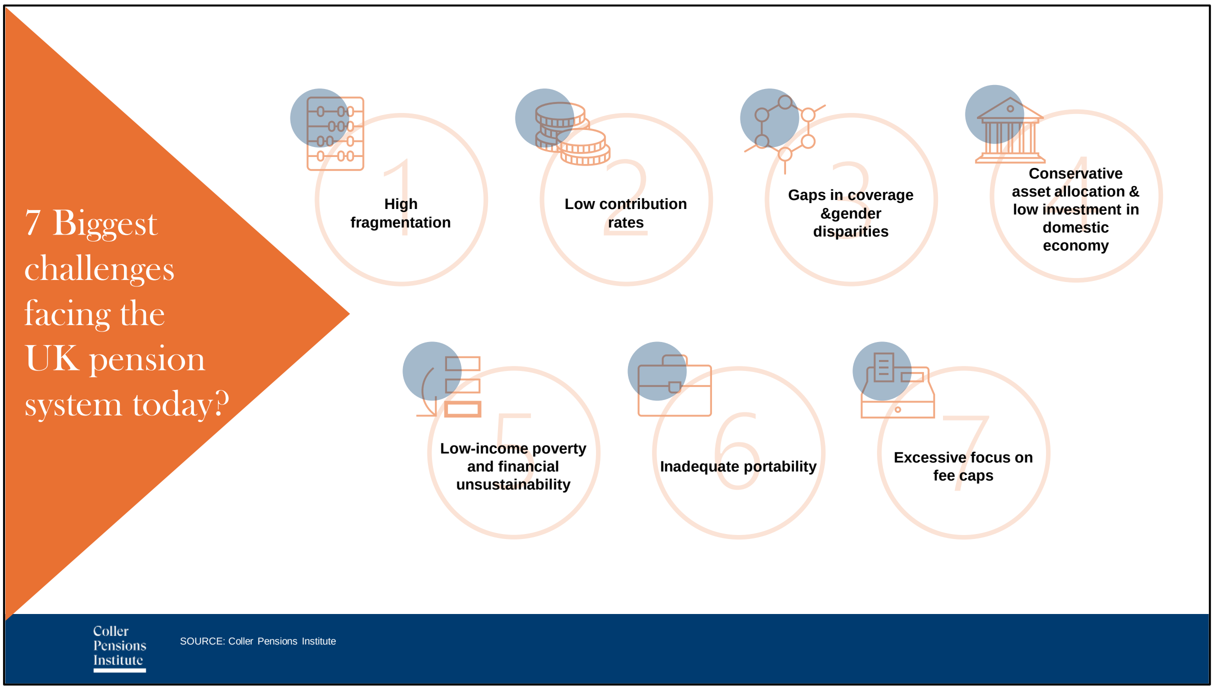
An important lesson of recent years in particular has been that evolution has repeatedly brought challenges alongside change. Numerous issues have been addressed over time, only for new issues to take their place.

In this chapter we consider what we regard as the biggest difficulties confronting the UK workplace pension system today. They are summarised in exhibit 7 before being discussed in detail.

[19] See, for example, Chen, R, and Kemp, E: *Putting Out the NBFIRE: Lessons from the UK's Liability-Driven Investment (LDI) Crisis*, 2023.
[20] See, for example, Patel, K, and Sordo Palacios, S: *UK Pension Market Stress in 2022 – Why It Happened and Implications for the US*, 2023.

We believe these problems, both individually and in concert, undermine the overall effectiveness of the system. By extension, we believe they threaten UK pensions' fundamental ability to ensure an adequate retirement income for millions of people.

Exhibit 7: The biggest challenges facing the UK pension system today



High fragmentation

The fragmentation of the UK workplace pension system has been widely recognised by policymakers, industry experts and financial watchdogs. The existence of numerous small workplace pension plans creates a landscape that is not only difficult to navigate but inefficient and costly.

The UK has more than 32,000 workplace pension schemes, as shown in exhibit 8. Fragmentation among DC schemes, which account for around 85% of this figure, is driven by a high number of very small schemes, with over 95% having fewer than 11 members (also known as micro-schemes).

As a result, assets are similarly fragmented. The Pensions Regulator estimates that, excluding micro-schemes, the average DC fund holds £5.4 million in assets, with an average account balance of £5,846[21] – approximately three months of minimum wages and certainly not enough to support an individual in retirement.

[21] See, for example, The Pensions Regulator *DC trust: scheme return data 2022 to 2023*, 2023, and *Occupational defined benefit (DB) landscape in the UK 2023*, 2024.

The UK has a much lower ratio of assets to schemes than many other countries, as exhibit 9 highlights. For instance, Australia's pension regulator oversees 2,511 schemes– more than 10 times fewer than in the UK – which together hold the equivalent of approximately 80% of the UK's total assets. Canada has 25% more assets but only half the number of funds, while Denmark, the Netherlands and Sweden have notably less fragmentation, with 50 to 200 pension schemes and assets ranging from $0.5 to $1.5 trillion[22].

In addition, although the UK system represents the world's third-largest retirement asset market by size, the biggest UK fund, the Universities Superannuation Scheme (USS), is only the 36th-largest fund globally[23]. This is partly explained by the fact that, historically, most UK pension arrangements have been single-employer schemes.

It is well documented that fragmentation tends to yield worse economic outcomes for pensioners, with smaller schemes generally more expensive for savers. Research from the Pensions Regulator has shown the average cost per member of funds with 99 or fewer members is almost 10 times higher than that of funds with 5,000 or more[24]. Larger pension funds are better able to spread their administrative and operational costs, reducing per-member costs and achieving greater economies of scale.

Fragmentation also negatively affects investment performance. Studies have shown a positive correlation between fund size and performance[25], especially when comparing funds with *millions* in assets to funds with *billions* in assets. Larger funds tend to have access to better investment funds and also achieve lower fees for external asset managers[26]; they have more in-house teams, further reducing costs[27]; and they have access to investment opportunities in alternative assets – including real estate, infrastructure and private debt/equity – which can boost returns and help diversify risk.

Finally, fragmentation makes regulatory oversight more expensive. In a country such as the UK, where there are thousands of DB schemes and tens of thousands of DC schemes, rigorous oversight across a broad pension landscape is necessary.

By way of illustration, the PPF primarily funds itself through levies on DB schemes based on size and risk. While the PPF plays a vital role in a fragmented market where small

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[22] See, for example, Banco de España: List of pension funds by country, 2024; De Nederlandsche Bank: Individual pension fund data, 2024; Statistics Canada: Pensions: A snapshot of fund values, payouts and memberships, 2023. Coller Pensions Institute Analysis.

[23] See, for example, Thinking Ahead Institute and Pensions & Investments: *Global Top 300 Pension Funds*, 2023.

[24] See, for example, Pensions Regulator: "DB scheme costs comparison tool", retrieved November 2024.

[25] See, for example, Australian Prudential Regulation Authority: *Drivers of Performance: Insights from a Member Outcomes Perspective*, 2023; and Dyck, A, and Pomorski, L: *Is Bigger Better? Size and Performance in Pension Plan Management*, 2011.

[26] See, for example, De Vries, T, Kalfa, S, Timmermann, A, and Wermers, R: *Scale Economies, Bargaining Power and Investment Performance: Evidence from Pension Plans*, 2023; and Begenau, J, and Siriwardane, E: *Fee Variation in Private Equity*, 2024.

[27] See, for example, De Vries, T, Kalfa, S, Timmermann, A, and Wermers, R: *Scale Economies, Bargaining Power and Investment Performance: Evidence from Pension Plans*, 2023.

pension funds may be at risk of insolvency, these levies represent an additional outflow from pensions.

Exhibit 8: The landscape of UK workplace pension schemes, 2023

Landscape of UK Occupational Pension schemes

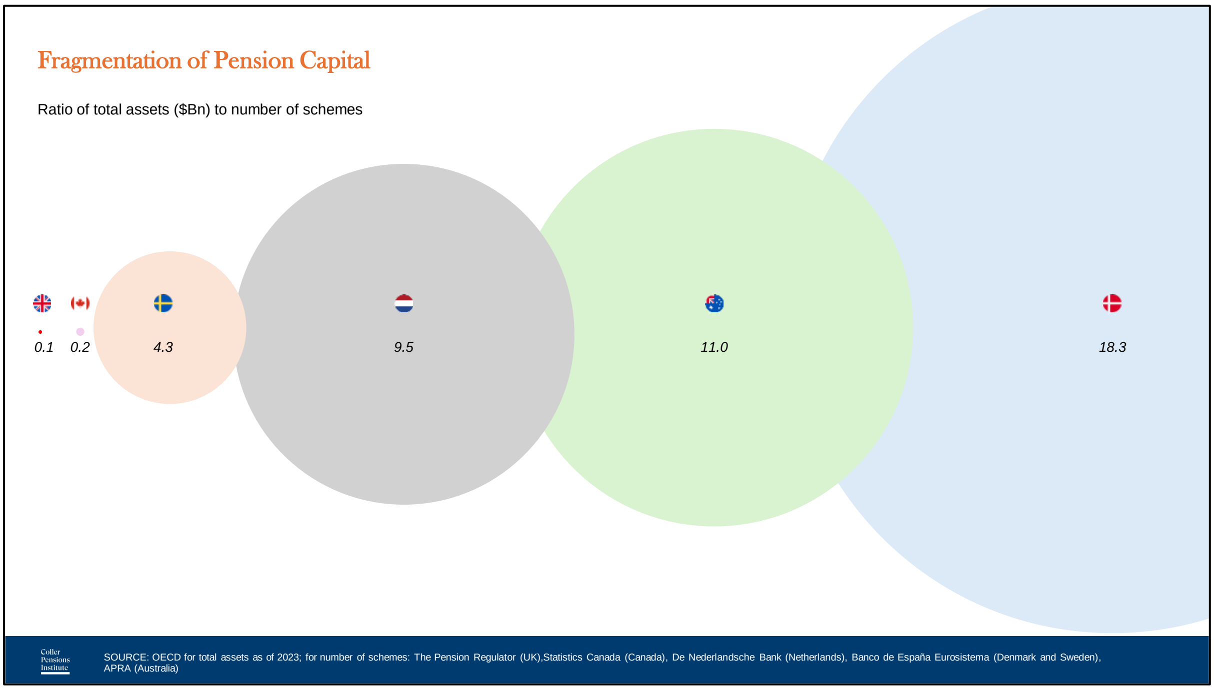
As of 2023

Size (members)	Defined Contribution (DC) Schemes (#)	DC Members (#; 000s)	DC Assets ($Mn)	Defined Benefit (DB) Schemes (#)	DB Members (#; 000s)	DB Assets ($Mn)
2 to 11	25,210	-	-	1,882	80	14,800
12 to 99	590	22	336			
100 to 999	320	122	1,952	2,194	760	124,800
1,000 to 4,999	180	413	5,752	668	1,507	230,900
5,000+	130	25,449	134,985	319	6,583	1,033,800
Total	**26,430**	**26,006**	**143,025**	**5,063**	**8,930**	**1,404,300**

Coller Pensions Institute

SOURCE: The Pensions Regulator: *DC trust: scheme return data 2022 to 2023*, Jan 2023; The Pensions Regulator: *Occupational defined benefit (DB) landscape in the UK 2023*, 2024

Exhibit 9: The fragmentation of pension capital – the UK versus other nations, 2023



Low contribution rates

While auto-enrolment has raised the number of individuals participating in workplace pensions, minimum contribution rates remain insufficient for most employees to build a fund that will provide an adequate income in retirement. According to the Organisation for Economic Co-operation and Development (OECD), the UK's average contribution rate – which includes both employer and employee contributions – lags those of many other developed countries.

The minimum contribution rate under auto-enrolment is currently set at 8% of qualifying earnings, with 3% from an employer and 5% from an employee. However, research suggests most individuals need to save closer to 15% of their earnings over their working life in order to secure a comfortable retirement income[28].

Given that life expectancy is increasing and individuals will therefore need to fund a longer retirement, the fact that many employees contribute only the minimum required amount is particularly concerning. The International Longevity Centre has warned many people face a significant shortfall in retirement without higher contribution rates, forcing them to rely more heavily on the state pension or continue working into old age[29].

Gaps in coverage and gender disparities

A key shortcoming of the current UK workplace pension system is its inadequate coverage for certain groups – especially workers under the age of 22, informal sector workers and the self-employed. These groups are often excluded from auto-enrolment, which means they do not benefit from the same level of pension savings as other workers.

Under current regulations, auto-enrolment applies only to employees aged 22 and over who earn more than £10,000 a year from a single employer. This leaves a sizeable number of younger workers, particularly those in part-time or low-paid jobs and those with multiple employers, without access to workplace pensions. The Department for Work and Pensions has acknowledged this represents a gap in the system[30], but changes to lower the age threshold have yet to be implemented.

Among the target demographic for auto-enrolment, 76% of private sector employees and 85% of public sector employees were reported as participating in a pension scheme in 2022. While these figures may appear encouraging, there are significant differences between income groups and genders[31].

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[28] See, for example, Organisation for Economic Co-operation and Development: *Pensions at a Glance 2021*, 2021.
[29] See, for example, International Longevity Centre: *Investment Strategies in UK Pension Funds*, 2021.
[30] See, for example, Statista: *Pension funds in the United Kingdom (UK) – statistic & facts*, 2024.
[31] See, for example, Institute for Fiscal Studies: *Pensions: Five Key Decisions for the Next Government*, 2024.

In 2019, for example, only 44% of those earning below the auto-enrolment threshold participated in a workplace pension. In the same year 53% of all private sector employees who participated had a total contribution rate of less than 8%; the figure stood at around 70% for workers in either of the two lowest quintiles for weekly earnings. This data underlines how low participation and low contributions are particularly salient issues for lower-income workers[32].

The situation is even more challenging for informal sector workers and the self-employed, who are not automatically enrolled in any pension scheme. Unlike employees, self-employed individuals do not receive employer contributions, and many struggle to save for retirement due to irregular income and lack of incentives. Only around 20% of the self-employed were saving into a private pension in 2022 – and it is important to acknowledge this is far from a marginal group, representing 15% of the overall workforce[33].

The government has explored various options to increase pension participation among the self-employed, including the use of nudges and incentives through tax policy, but progress has been slow. There is also a need for more tailored pension products that cater to this group's specific requirements and offer flexibility and support for those with variable incomes.

The gender pension gap remains a further serious concern, with women generally experiencing lower income in retirement. On average, according to the Pensions Policy Institute (PPI), they accumulate 38% less pension savings than men by the age of 57[34]. The fact that they are more likely to take career breaks or work part-time due to care responsibilities is the single largest contributor to the gap, accounting for more than half of the difference.

The introduction of auto-enrolment has increased pension participation among women, but it has not fully addressed the underlying issues that sustain the gender pension gap. Some 17% of employed women do not meet the eligibility criteria for auto-enrolment, according to a 2024 report by Now: Pensions, compared to only 8% of men[35].

The minimum earnings threshold is particularly important in limiting women's eligibility, with 79% of all employees under this threshold being women[36]. According to data for 2019, the difference in pension participation among workers is driven by less participation by female private sector employees and, to a lesser extent, by the female self-employed[37].

Conservative asset allocation and low investment in the domestic economy

[32] Ibid.
[33] Ibid.
[34] See, for example, Pensions Policy Institute: *The Underpensioned: Defining the Gender Pension Gap*, 2024.
[35] See, for example, NOW: Pensions: *The Gender Pension Gap Report 2024*, 2024.
[36] Ibid.
[37] See, for example, Institute for Fiscal Studies: *The Gender Gap in Pension Saving*, 2023.

In terms of investment, in general, UK pension funds tend to be conservative in their asset allocation. They often favour low-risk investments such as government bonds – in large part, as explained earlier, because of the shift towards the LDI approach which occurred in the late 1990s and the 2000s.

This strategy minimises the risk of capital loss, but it also limits the potential for returns – especially in a low-interest-rate environment. As a result, the returns generated by many pension funds are not sufficient to significantly grow the retirement savings of their members. The transformation of pension savings into productive investments that can support economic growth in the UK is also limited.

At the end of 2023, relative to those of other countries with large funded pension systems, UK pension funds had a notably cautious asset allocation. On aggregate, they held 58% of their assets in bonds, 26% in equities, 14% in real estate and other alternative assets and 2% in cash. As exhibit 10 shows, the allocation to bonds was unusually large – and that to alternatives unusually low – compared to most peers[38].

According to research by New Financial, the outsized allocation to bonds is driven primarily by corporate DB plans[39]. This, it is suggested, is because most such schemes have been closed to new members and have gradually de-risked as their memberships have aged[40, 41].

Relative to their peers, UK pension funds also tend to invest less in domestic equities. Among major markets, only Canada and Japan invested less of their total equity domestically in 2023[42]. This reflects a general trend of reducing domestic equity exposure over the past decade, although a figure of 30% still demonstrates a significant degree of "home bias".

The limited investment by UK pension funds in the domestic economy, particularly in alternative assets such as infrastructure, can be seen as a missed opportunity for both pensioners and the economy. Infrastructure projects – for instance, transport and energy – can offer long-term, stable returns[43]. Unfortunately, as discussed earlier, the fragmented nature of the UK system means many smaller funds do not have the scale or expertise required for such investments.

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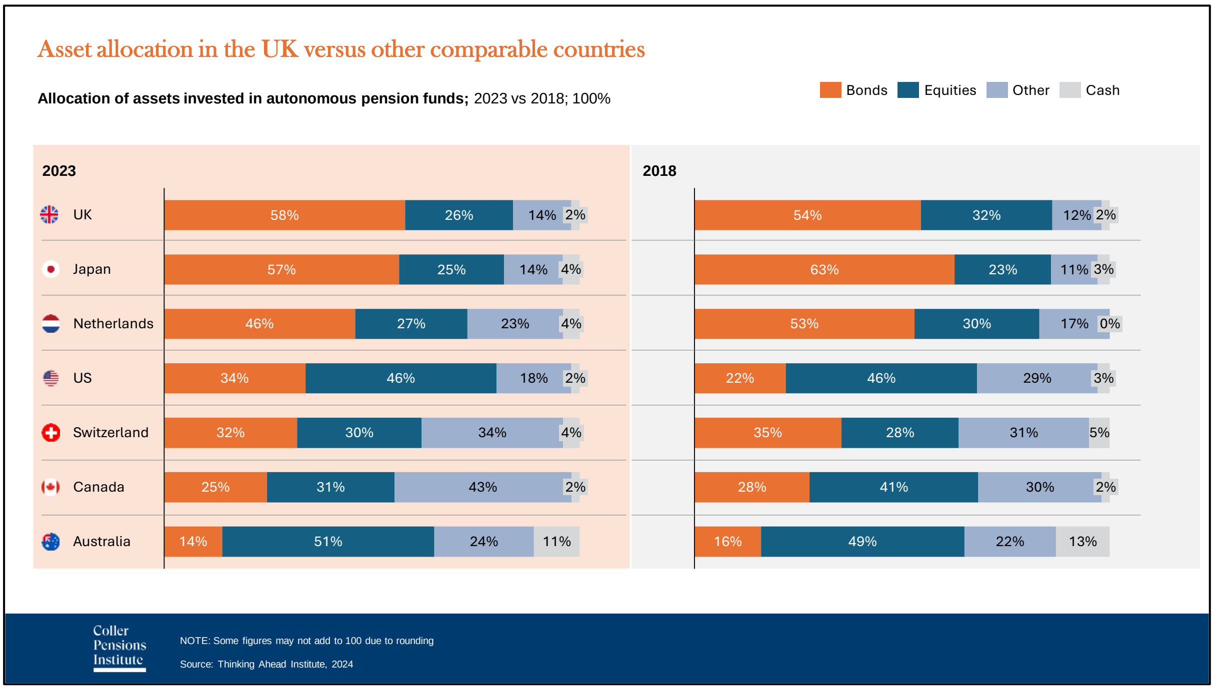
[38] See, for example, Thinking Ahead Institute: *Global Pension Assets Study 2024*, 2024.
[39] See, for example, New Financial: *Comparing the Asset Allocation of Global Pension Systems*, 2024.
[40] This interpretation is in line with academic research that finds older active participants in a pension fund lead to a reduction in equity exposure. See, for example, Bikker, J, Broeders, D, Hollanders, D, and Ponds, E: *Pension Funds' Asset Allocation and Participant Age: A Test of the Life-Cycle Model*, 2012.
[41] Interestingly, New Financial found the Local Government Pension Scheme (LGPS), a still-open public DB plan, to have a similar asset allocation (featuring just 18% in bonds) to those of many private DC plans. See, for example, New Financial: *Comparing the Asset Allocation of Global Pension Systems*, 2024.
[42] See, for example, Thinking Ahead Institute: *Global Pension Assets Study 2024*, 2024.
[43] The way pension funds invest in infrastructure – that is, directly or through infrastructure funds – has important risk/return implications. See, for example, Andonov, A, Kräussl, R, and Rauh, J: *Institutional Investors and Infrastructure Investing*, 2021.

Although policymakers have recognised the potential of pension funds to contribute to infrastructure development and have been encouraging greater investment in this sphere, progress has been slow. As discussed in more detail later in this chapter, a focus on minimising fees continues to lead many funds to prioritise low-cost, low-risk investments. The Financial Conduct Authority (FCA) has noted that, while important, fee caps should not deter funds from making investments that could deliver superior long-term returns[44].

Pension funds in other countries, including Canada and Australia, have been more successful in investing in infrastructure. This is because they have larger, more consolidated funds that can take on the complexity and scale of such investments.

Exhibit 10: Pension fund asset allocation around the world, 2023



Low-income poverty and financial unsustainability

The UK's basic state pension serves as the foundation of retirement income for many people. Yet it is often criticised for being too low, particularly for those with lower lifetime earnings.

The current full state pension is around £200 a week, which amounts to around £10,600 a year[45]. For many retirees, particularly those who do not own their own home, this is not

[44] See, for example, Department for Work & Pensions: *Review of the Default Fund Charge Cap and Standardised Cost Disclosure*, 2021.
[45] See, for example, Statista: *Pension funds in the United Kingdom (UK) – statistic & facts*, 2024.

enough to cover basic living costs. There are also many retirees, especially women who left work before 2010, who do not receive the full pension in any event[46].

According to a recent report by the Institute for Fiscal Studies (IFS), relative pensioner poverty increased from 13% in 2011-2012 to 16% in 2022-2023. A key reason for this, the IFS has argued, is that the growth in the state pension has led to a decrease in other means-tested benefits for low-income elderly people. Total benefit incomes rose by only 1% over the same period for pensioners in the lowest third of income distribution[47].

The situation is markedly dire for those who do not have significant workplace or private pensions to supplement their income. Low-income earners, including those who have spent time out of the workforce due to caring responsibilities or health issues, often find themselves reliant on the state pension alone. The Joseph Rowntree Foundation has highlighted how many older people are living in poverty, with the state pension providing only a minimal safety net[48].

In addition, means-tested benefits that are supposed to top up the income of the poorest pensioners are often underclaimed. For example, the Department for Work and Pensions has estimated around 1.4 million pensioners are eligible for Pension Credit but do not claim it – thereby missing out on an average of £3,000 a year[49].

Within this context, the overall financial sustainability of the state pension system demands careful consideration. Government spending on the state pension, Pension Credit and winter fuel subsidies reached £132 billion – 5.1% of national income – in 2023-2024 and has been projected to rise to 6.4% of national income by 2050-2051[50].

The first major factor driving this spending is demographics, with the number of pensioners projected to increase by 25% by 2050[51]. The second is how pension benefits are indexed – the so-called "triple lock", whereby the state pension is indexed each year to the highest of inflation, growth of average earnings or 2.5%.

The "triple lock" policy – to which the new Labour government has signalled its commitment – contributes to substantial uncertainty around the future financial planning of pension spending. The IFS has estimated it could cost between £5 billion and £40 billion (in 2023 terms) annually by 2050[52].

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[46] See, for example, Institute for Fiscal Studies: *The Future of the State Pension*, 2023.
[47] See, for example, Institute for Fiscal Studies: *How Have Pensioner Incomes and Poverty Changed in Recent Years?*, 2024.
[48] See, for example, Joseph Rowntree Foundation: *Poverty Amongst Pensioners in the UK*, 2022.
[49] See, for example, Statista: *Pension funds in the United Kingdom (UK) – statistic & facts*, 2024.
[50] See, for example, Institute for Fiscal Studies: *The Future of the State Pension*, 2023.
[51] Ibid.
[52] Ibid.

Inadequate portability

The lack of portability in the UK pension system is a significant issue for workers who change jobs frequently, which is increasingly common in today's labour market. It is possible to move pension pots between different workplace schemes, but many savers are not aware of this – or are not doing so for other reasons.

The current system can result in individuals accumulating multiple small pension pots, which are often difficult to manage and can lead to lost or forgotten savings. The consequences can be dramatic. According to the PPI, the UK is home to more than £31 billion in lost pension pots[53] – mostly as a result of employees overlooking or failing to consolidate them when changing jobs.

Consolidating pension pots allows a better overview of savings, simplifies the claiming of benefits and avoids the payment of management fees to multiple organisations. Better portability would also allow savers to have only one pension pot throughout their working life in the UK.

The Pensions Dashboards Programme[54], which is currently under development, aims to address this issue by providing a centralised platform where individuals can view and manage all their pension pots in one place. The initiative has the potential to improve portability and aid the consolidation of pension savings, but it is still several years from full implementation. The free Pension Tracing Service can also help individuals identify their pension pots.

Excessive focus on fee caps

The current focus on fee caps is intended to protect members from excessive charges. Unfortunately, as we have already discussed, it can also discourage funds from pursuing higher-return investments.

This underscores the need for a balance between avoiding the erosion of members' savings and investing in projects capable of generating superior returns. As noted earlier, the FCA has highlighted how a more flexible approach to fee structures and greater alignment with investment performance could lead to better outcomes for pensioners[55].

This issue is directly linked to broader concerns around retirement income. DC pension policy in the UK pays considerable attention to the accumulation phase, yet what really matters for savers is how much income they have in retirement – that is, the *de*cumulation phase.

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[53] See, for example, Pensions Policy Institute: *Lost Pensions 2024*, 2024.
[54] For more information see https://www.pensionsdashboardsprogramme.org.uk.
[55] See, for example, Department for Work & Pensions: *Review of the Default Fund Charge Cap and Standardised Cost Disclosure*, 2021.

The “pension freedoms” reforms introduced in 2015 abolished the mandatory purchase of an annuity upon retirement for DC savers, as a consequence of which individuals may now face complex financial decisions for which they are not prepared. There are growing calls for the government to devise and implement services that help address this issue.

“We believe these problems undermine the overall effectiveness of the system... and threaten UK pensions’ fundamental ability to ensure an adequate retirement income for millions of employees.”

5. Essential steps towards effective reform

Having outlined the biggest challenges facing the UK pension system today, we now turn to potential responses. In presenting our recommendations, which are summarised in exhibit 11, we keep in mind the underlying issue of a system that lacks a clearly defined purpose.

The inescapable reality is that the pension landscape is in urgent need of a more cohesive and focused approach. At present the system operates as a patchwork of different schemes and policies, with no overarching framework to ensure individuals can achieve a decent and secure standard of living in retirement. Going forward, every one of its components – state pensions, workplace pensions and private pension savings – should be aligned towards a unified objective.

A well-defined quantitative goal would provide a clear direction for designing policies that meet retirees’ needs. For example, the OECD has recommended a replacement rate of around two thirds of final salary as adequate – as a general rule of thumb – with higher rates for lower earners[56].

Such clarity would assist in setting appropriate contribution rates, crafting effective investment incentives and determining the necessary level of state support. All reform proposals could be measured against their impact on this objective, which would also provide a benchmark for gauging the success of the system as a whole.

We can easily place this approach in the context of the three pillars of the UK pension system. The state pension would focus on poverty alleviation; the workplace pension would focus on income replacement; and personal savings would focus on enhancing financial security. We believe clearly defining the role of each pillar would create a more coherent and effective system, to the benefit of all retirees.

[56] See, for example, Organisation for Economic Co-operation and Development: *OECD Pensions Outlook 2012*, 2012.

Exhibit 11: Potential responses to the biggest challenges facing the UK pension system today

Consolidate the pension market

As discussed in the previous chapter, pension fund size is correlated with higher returns.

The second of these failings stems from the fact that, contrary to classic competition theory, workers generally cannot be assumed to be suitably informed and capable of choosing the best options. Competition in this arena should instead be between asset managers for contracts with pension providers. Research has shown systems in which individual workers are faced with many competing pension providers are inefficient[57].

Recognising these failings, several countries with leading pension systems – Australia and the Netherlands arguably foremost among them – have experienced a wave of consolidation in recent years. The idea is also high on the policy agenda of the new Labour government[58], while the FCA's proposed Value for Money framework suggests underperforming funds should be merged with other funds[59].

An obvious place to push consolidation in the DB sphere is the Local Government Pension Scheme (LGPS), which oversees the pensions of 6.1 million public employees[60]. Despite some shared infrastructure, the assets of the UK's various government

[57] See, for example, Barr, N: *Reforming Pensions to Protect Adequate and Sustainable Benefits*, 2022.
[58] See, for example, *FT Adviser*: "Pension review to start with consolidation of DC market", August 19 2024.
[59] See, for example, Financial Conduct Authority: *The Value for Money Framework*, 2024.
[60] See, for example, *Financial Times*: "Sorry, but it's time to start caring about Local Government Pension Schemes", August 8 2024.

authorities are currently managed by 86 separate entities. The pooling of these assets would produce one of the largest pension funds in the world.

The government initiated the setting up of asset management pools for the LGPS in 2015, but only limited progress has been made since. Just 39% of total assets had been transferred to eight of these funds by March 2022. The resulting proposal of deadlines for asset transfers to larger pools should be picked up and formalised by the new government[61].

On the DC side, meanwhile, the role of NEST should be expanded – or similar structures should be established – to pool the assets of smaller schemes. A minimum standard for plan size and performance should be defined, with plans failing to meet this standard having to explore consolidation options. A transition period should also be set.

Other countries have shown it is possible to pool the assets of workers in various professions in a way that delivers returns for savers and provides sound governance. Encouragingly, the first phase of the pension review announced by the new government will focus on DC consolidation and the LGPS[62].

Aside from boosting performance, consolidation should simplify the implementation of default options and the development of tailored investment solutions, as well as reducing the administrative burden on employers. Importantly, it should also help realise the proposals explored in the remainder of this chapter.

Raise the minimum contribution rate in auto-enrolment

Another lever for positive change which the government should evaluate is the minimum default contribution rate in auto-enrolment. The current rate of 8% of salary, combined from employer and employee, is low compared to some of the best pension systems in the world.

In Denmark and the Netherlands, for example, total contributions for private sector employees are 12% and 18.6% respectively[63], while the contribution rate in Australia has recently increased to 11.5% and is scheduled to rise incrementally until it reaches 12% in July 2025[64]. In all three countries, contrary to the minimum contribution rates in the UK, employers also contribute more than employees[65].

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[61] See, for example, Department for Levelling Up, Housing and Communities: *Local Government Pension Scheme (England and Wales): Next Steps on Investments*, 2023.
[62] See, for example, HM Government: "Chancellor vows 'big bang on growth' to boost investment and savings", July 20 2024.
[63] See, for example, Organisation for Economic Co-operation and Development: *Pensions at a Glance 2023*, 2023.
[64] See, for example, AustralianSuper: "Superannuation guarantee rate has increased to 11.5%", August 1 2024.
[65] Only employers contribute in Australia.

Setting minimum default contribution rates is vital, as research shows most workers who start saving because of auto-enrolment save around these thresholds[66].
However, a blanket increase might not be optimal for everyone.

A recent IFS study concluded that increasing the default contribution rate to 12% would lead to one in eight DC savers achieving adequate retirement saving – but it could also encourage *over*-saving, particularly among low earners and young employees early in their careers. Moreover, mandating higher pension savings among low earners could reduce already low take-home pay[67, 68].

Decoupling employer contributions from employee contributions for low earners could limit the negative effects on take-home pay while still leading to larger pension pots. The IFS has recommended employers contribute 3% of income for all employees earning above £4,000[69].

Our own recommendation is that the minimum default contribution rate should be increased in a gradual manner, using a schedule fixed by legislation. In tandem, we believe employer contributions should start from a significantly lower income threshold than £10,000.

We also urge the government to explore personalised default contribution rates and their possible auto-escalation. This would mean rates adjust automatically – based, for instance, on age, so that employees are nudged to contribute more as they grow older[70].

Adjust auto-enrolment thresholds, develop a strategy for the self-employed and devise targeted measures for women

Expansion of workplace pension coverage is imperative. Weakening the age-related exclusions from auto-enrolment represents a potentially potent means of achieving this objective.

Only employees aged between 22 and the state pension age are covered by auto-enrolment at present, although a lowering of the minimum age to 18 is under way. We support the IFS's recommendation that all employees aged 16 to 74 should be covered, maximising the effect of compounding returns.

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[66] See, for example, Institute for Fiscal Studies: *On a Roll? The First Decade of Automatic Enrolment into Workplace Pensions*, 2022.
[67] See, for example, Institute for Fiscal Studies: *Policies to Improve Employees' Retirement Resources*, 2024.
[68] There is also research that suggests low earners are more likely than higher earners to stick to default contribution rates. See, for example, Beshears, J, Guo, R, Laibson, D, Madrian, B, and Choi, J: *Automatic Enrollment with a 12% Default Contribution Rate*, 2023.
[69] See, for example, Institute for Fiscal Studies: *Policies to Improve Employees' Retirement Resources*, 2024.
[70] Ibid.

We also suggest the annual income threshold for auto-enrolment should move from the income from a single job to an individual's total earnings. Current rules mean an employee is auto-enrolled by an employer only if they earn at least £10,000 annually from that particular work.

This means workers with multiple smaller jobs may be able to save but are not auto-enrolled. Public authorities could identify these individuals from digital records and mandate that they open an account with a pension provider and start making contributions. The government needs to investigate how employer contributions or government support could add to these employee contributions.

Developing a strategy for the self-employed is also essential. We propose this group should also be mandatorily affiliated with a NEST pension plan, with a certain percentage of profits automatically transferred to a pension provider upon the filing of taxes; monthly or quarterly contributions could be estimated on past income and adjusted at the end of the year.

In addition, an individual should be able to continue saving in the same pension plan as previously when transitioning from employment to self-employment. This could even be made the default option. Minimum contributions could be introduced and raised gradually over time, using a fixed schedule.

Designing effective and attractive savings products with a higher level of flexibility is particularly important for both the self-employed and informal workers, as these groups suffer from more income volatility. Emergency savings products trialled by NEST show promise in motivating people to save, and there is growing evidence that those with higher savings are more likely to start saving for retirement.

Targeted measures to reduce the gender pension gap are also urgently needed. While much of the focus to date has been on childcare and maternity leave periods, demographic trends are driving a surge in elderly people requiring care. Women already spend more time outside the labour force or in part-time work, and they are now likely to bear the brunt of increasing care responsibilities.

It is worth noting that policies specifically aimed at mitigating negative impacts on female labour supply and reducing the gender *pay* gap are likely to prove critical in narrowing the gender *pension* gap. Nonetheless, policymakers should also devise pension-specific instruments.

Carer's Credit is currently used by the state pension system to fill gaps in contribution years due to caring responsibilities. Given the rising importance of private pensions in retirement income in the UK, there is a strong case for similar initiatives for workplace pensions – for example, the "family carer top-up" proposed by the PPI[71].

[71] See, for example, Pensions Policy Institute: *Understanding the Gender Pensions Gap*, 2019.

Such policy innovations must be carefully designed to ensure retirement savings are strengthened without unduly affecting household income. One option would be to reduce employee contributions or replace them with public spending when low-income workers are engaged in caring duties.

Encourage genuinely productive domestic investment

The extent to which the UK's pension savings should be leveraged to invest in the domestic economy has been the subject of much debate in recent years. As part of this discussion, it has been rightly argued that pensions can support economic growth only if savings are invested in *productive* assets[72].

We firmly believe pension assets should be seen as just one element of a larger financial system. More specifically, we believe they should be seen as long-term savings and therefore an especially good match for long-term investments.

However, the primary purpose of pension funds should always be to ensure adequate income in retirement – not to fund domestic growth. This is why legislation that limits freedom around asset allocation – for example, by imposing quotas for domestic investment – can lead to sub-optimal outcomes for savers and is likely to generate a backlash from pension trustees and regulators[73].

In our opinion, more investment in domestic assets will emerge as a natural by-product of the consolidation and scaling up of pension funds. Crucially, this shift should also allow more funds to build in-house investment teams with the specialist knowledge required to invest directly in alternative assets such as unlisted equity and infrastructure, as well as venture capital and high-growth companies. Incentives for domestic investment, such as tax incentives should be carefully explored.

Formulate a clear, long-term plan for the state pension

The state pension should have a clearly defined goal: to prevent poverty in old age. It can meet this aim only if it is aligned with other support programmes and strictly focused on retirement income, giving it a clearer profile and strategic role in the policy sphere.

Published in late 2023, an IFS review acknowledged the existing state pension's "many strengths", including its simplicity, but highlighted problems such as ongoing uncertainty around what level it might reach and when[74]. The review proposed a "four-point pension guarantee" based on the following guiding principles:

[72] See, for example, Barr, N: *Pension Design and the Failed Economics of Squirrels*, 2021.
[73] See, for example, Pensions Policy Institute: Pension *Scheme Assets – How They are Invested and How and Why They Change Over Time*, 2024.
[74] Institute for Fiscal Studies: *The Future of the State Pension*, 2023.

1. The government should define a long-term target level for the state pension, as a share of median full-time earnings in the UK.

2. Every year, both before and after the target level is reached, the state pension should rise at least in line with inflation – thereby maintaining its real value.

3. As is the case now, the state pension should not be means-tested.

4. The state pension age should rise only as longevity in later life increases and never by the full amount of that increase. It should also be locked in for individuals 10 years before they reach it.

We fully support these proposals. They would facilitate a clearer long-term planning horizon for the system, ensure state pensioners' real income does not decrease excessively during recessions and generate benefits from wage growth in times of economic prosperity.

In addition, we suggest the old-age benefit system should be simplified. As part of this process, the government should carefully evaluate how a rise in the state pension might affect lower-income pensioners' total income through interaction with other, means-tested benefits.

Simplify the portability of workplace pensions

The government has several options to help savers consolidate their pension pots upon changing jobs. Some are focused on savers themselves, while others target employers.

A key step towards enhancing portability would be to prohibit pension providers from imposing fees for transfers in or out of a savings pot, with some limits on activity. Such charges represent a fundamental hurdle to consolidation.

Providers should also be mandated to ask members about their desire to consolidate their pensions when changing jobs and offer consolidation options. Providers should be seen as enablers of portability, not barriers to it.

Finally, the government should run more communication campaigns to alert savers to the Pensions Dashboards Programme and the Pension Tracing Service. Current efforts in this regard are at best inadequate, resulting in unnecessarily low awareness.

Consolidation is another issue that will be helped by consolidation of smaller pension schemes. However, this should not invite complacency.

Emphasise performance, not fees

Policymakers and regulators have devoted considerable effort to minimising the fees charged by pension providers. While this is in many ways commendable, we believe more attention should be given to what ultimately matters for savers: net returns on their savings.

A more flexible approach that focuses on performance could lead to significantly higher returns. The FCA recently proposed just such an approach, coupled with transparent disclosures around both fees and performance, in discussing how DC schemes might deliver better value for money[75].

It has been argued that fear of public outrage over higher compensation at public pension funds leads trustees to hire lower-skilled managers. In turn, this can lead to lower returns from riskier asset classes such as alternatives[76]. Meanwhile, research has shown funds with higher-paid CIOs experience better future returns over the long term[77].

This evidence suggests compensation at pension funds can have a sizeable effect on investment returns and therefore member benefits. In addition, more flexible compensation could enable greater and more productive investment in alternative asset classes – including domestically.

"Going forward, every one of the system's components – state pensions, workplace pensions and private pension savings – should be aligned towards a unified objective."

Conclusion

American economist and political commentator Thomas Sowell famously observed: "There are no solutions – there are only trade-offs." Particularly over the course of the past three decades, the history of the UK pension system appears to substantiate this maxim.

As we have seen, the system has faced a number of significant challenges in recent years. Efforts to tackle these concerns have often been at least partly successful but have not resulted in a first-class pension system.

As a result, what should be the primary purpose of any pension system – to help provide adequate and secure income for the people it serves – appears to have drifted ever further from the centre of industry, policy and legislative thinking. It remains an inherent component of pension provision, but it has become just another consideration rather than the key driver.

[75] See, for example, Financial Conduct Authority: *The Value for Money Framework*, 2024.
[76] See, for example, Dyck, A, Manoel, P, and Morse, A: *Outraged by Compensation: Implications for Public Pension Performance*, 2021.
[77] See, for example, Lu, Y, Mullally, K, and Ray, S: *Paying for Performance in Public Pension Plans*, 2023.

It is interesting to wonder how the average saver or retiree might view this development if it were fully appreciated by the public. Many individuals are only too aware that their pensions are inadequate and that the system needs to be improved, but what would they think of supposed “improvements” that arguably neglect to put savers and retirees first?

In this paper we have surveyed the pension landscape in the UK and proposed a range of responses to the biggest issues currently confronting it that, we believe, put pensioners first. A number of our recommendations chime with those of organisations such as the IFS and the OECD. We see consolidation as especially important, since it would help facilitate other aspects of positive change.

To date, as we have discussed, progress towards meaningful reform has been slow. While we hesitate to use the word “crisis”, we believe the system must be rebuilt as quickly as possible in order to address the growing threat of inadequate retirement incomes.

To that end, close collaboration between all stakeholders is essential. Crucially, savers and retirees should not be excluded from the reform process, as they are invariably the ultimate beneficiaries – or victims – of any developments in this sphere.

No reform is foolproof, of course, and it would be arrogant to suggest our recommendations – or, indeed, anyone else’s – will somehow produce a perfect pension arena. At least to that extent, Sowell’s dictum is likely to hold true.

Even so, restoring a collective focus on the overriding goal of ensuring adequate and secure pension income provision should go a long way towards creating a better system. We believe that the desired broader benefits for the UK economy that are at the centre of the current debate will follow naturally. This is what the UK’s savers and retirees want, deserve and are fully entitled to. Effective reform might remain a question of trade-offs, but ensuring adequate income in retirement must always be seen as a solution – one that all interested parties have a responsibility to deliver.

“Savers and retirees should not be excluded from the reform process, as they are invariably the ultimate beneficiaries – or victims – of any developments in this sphere.”

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