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UK Pensions Overview

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UK pension system – Pillar 1

Pillar 1:

- "Basic State Pension" payable from age 66 (age 67 from 2028; age 68 from 2044)
- Flat rate of ~£12 000 p.a.
  - Compare: Current minimum wage ~£25 000 p.a.
  - Compare: UK median wage ~£36 000 p.a.
- Financed by pay-as-you-go system.
  - Funded through National Insurance Contributions (NICs).
- NICs depends on earnings level around two thresholds.
  - 35 years of NICs are required for the full Basic State Pension.
  - Non-workers can gain "qualifying years"– but complex eligibility rules.
  - By mid 2030s, the UK Gov. Dept for Work & Pensions says that 80% of retirees will receive the full amount (up from 50%).

UK pension system – Pillar 1

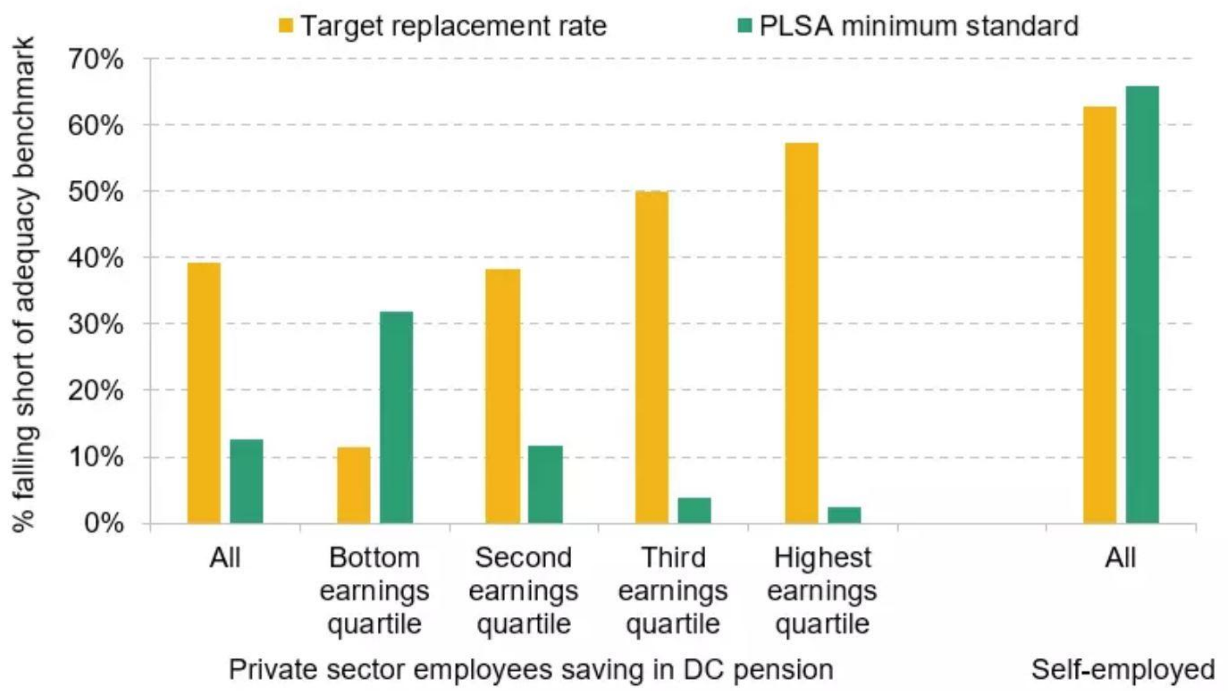
- Basic State Pension lifts people out of poverty
  - Pensioners in poverty halved to 15% from 1997 to 2010 (DWP 2024)…
  - .. But is rising since 2010, principally amongst single pensioners (Pensions Commission 2025).

- New retirees receiving the full amount, in addition to any means-tested housing benefit and support for council tax, are **close to or above** the relative poverty line (60% of the UK's median household income) (IFS 2023)
  - However, many older pensioners are receiving **much less** than the full new state pension.
    - Particularly for 3.6 million women who reached state pension age before 2010 – pension age equality without wage and childcare equality.

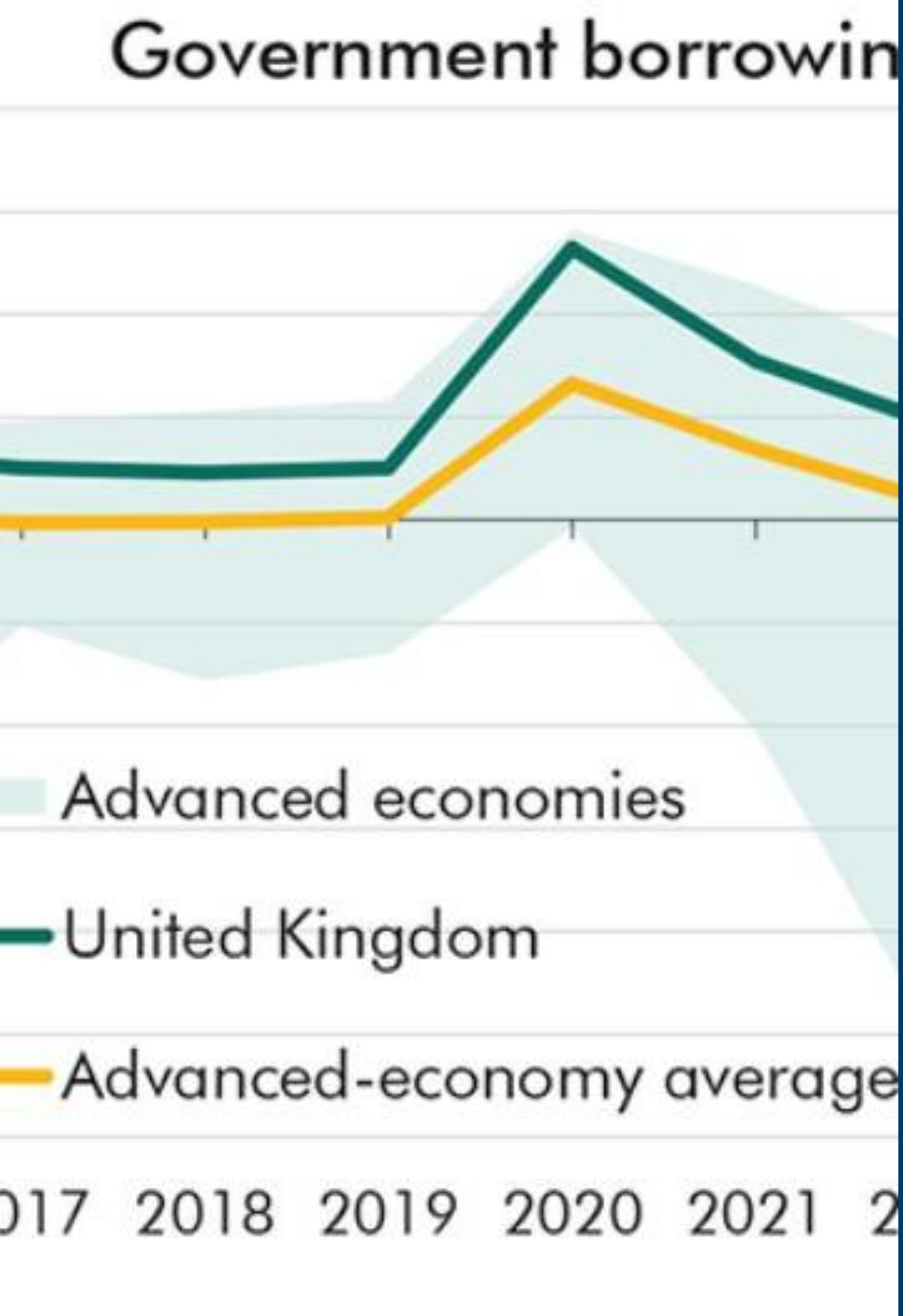
Percentage falling short grouped by income quartile (IFS 2025)

PLSA minimum standard: £13,400 p.a. for single pensioner, £21,600 couple, after taxes and housing costs, outside London.

Figure ES.1. Retirement income adequacy: percentage of private sector employees saving into a defined contribution pension, and self-employed, projected to fall short of selected benchmarks



Source: The sample contains 25- to 59-year-olds in Round 7 of the Wealth and Assets Survey. We simulate their projected future retirement income under their current saving rate, modelling everyone at the individual level and without accounting for future housing costs or receipt of inheritances.



UK pension system – Pillar 1

Pessimism from the people

- 80% of working-age people (20%) do not know how much is the full state pension.
- 38% of people think that, in the next 10 years, the basic state pension will not keep up with price inflation.
  - Despite it increasing by at least this rate every year since 1975.
- 1 in 3 UK people do not think the state pension will exist in 30 years' time. (IFS 2023)

Pessimism from the economists

- Cost of the state pension to rise from ~5% of GDP today to ~7.7% of GDP by the early 2070s (UK's Office for Budget Responsibility)
- The current long-term path for UK public finances is considered unsustainable due to increasing age-related costs, including health and social care, in addition to pensions.

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UK pension system – Pillar 1

Drivers of cost:

- Ageing population.

- "Triple Lock" : Annual pension increase = max{Price inflation, Average earnings growth, 2.5%}
  - Total cost is £12bn more than providing only *Average earnings growth*, since 2011 implementation.
  - IFS 2026: "*The 'triple lock' increases the value of the state pension in an unpredictable way and it could reasonably be expected to push up state pension spending by anywhere between £5 billion and £40 billion a year in 2050 in today's terms.*"
  - Removing the triple lock is politically contentious.

UK pension system – Pillar 2

Pillar 2:

- Funded occupational pension plans.

- Defined benefit pension schemes in decline,
  - 4% of private sector schemes open to new members in 2024.

- Individual defined contribution main alternative.
  - Minimum total contribution rate of 8% of salary.

- Collective defined contribution schemes are very new.
  - Only one single employer, whole life scheme in existence; Royal Mail Collective Pension Plan.

More and more people saving into DC pensions

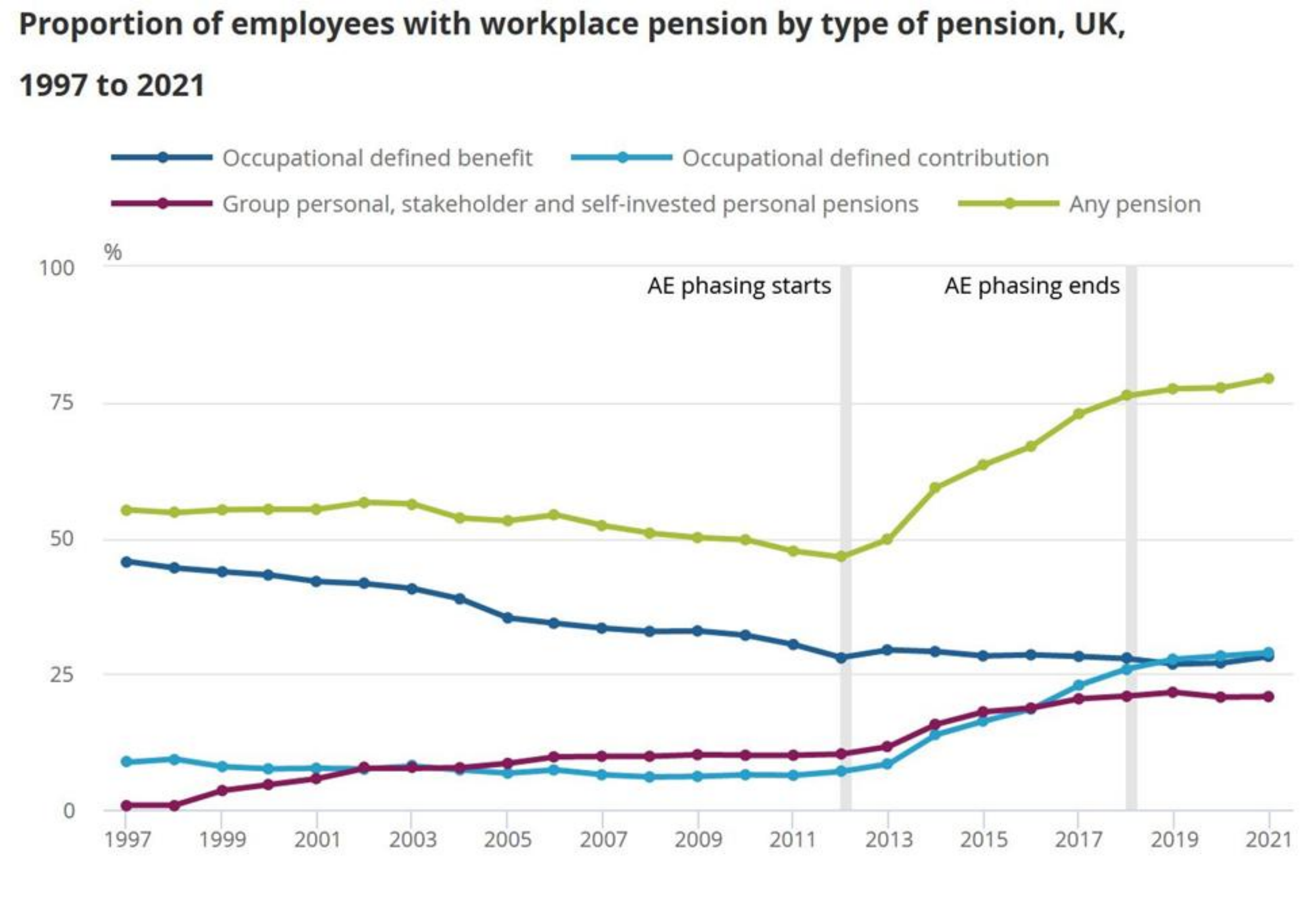

Figure from ONS: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/bulletins/annualsurveyofhoursandearningspensiontables/2021provisionaland2020finalresults

Public sector workers in DB schemes, Private sector in DC-type

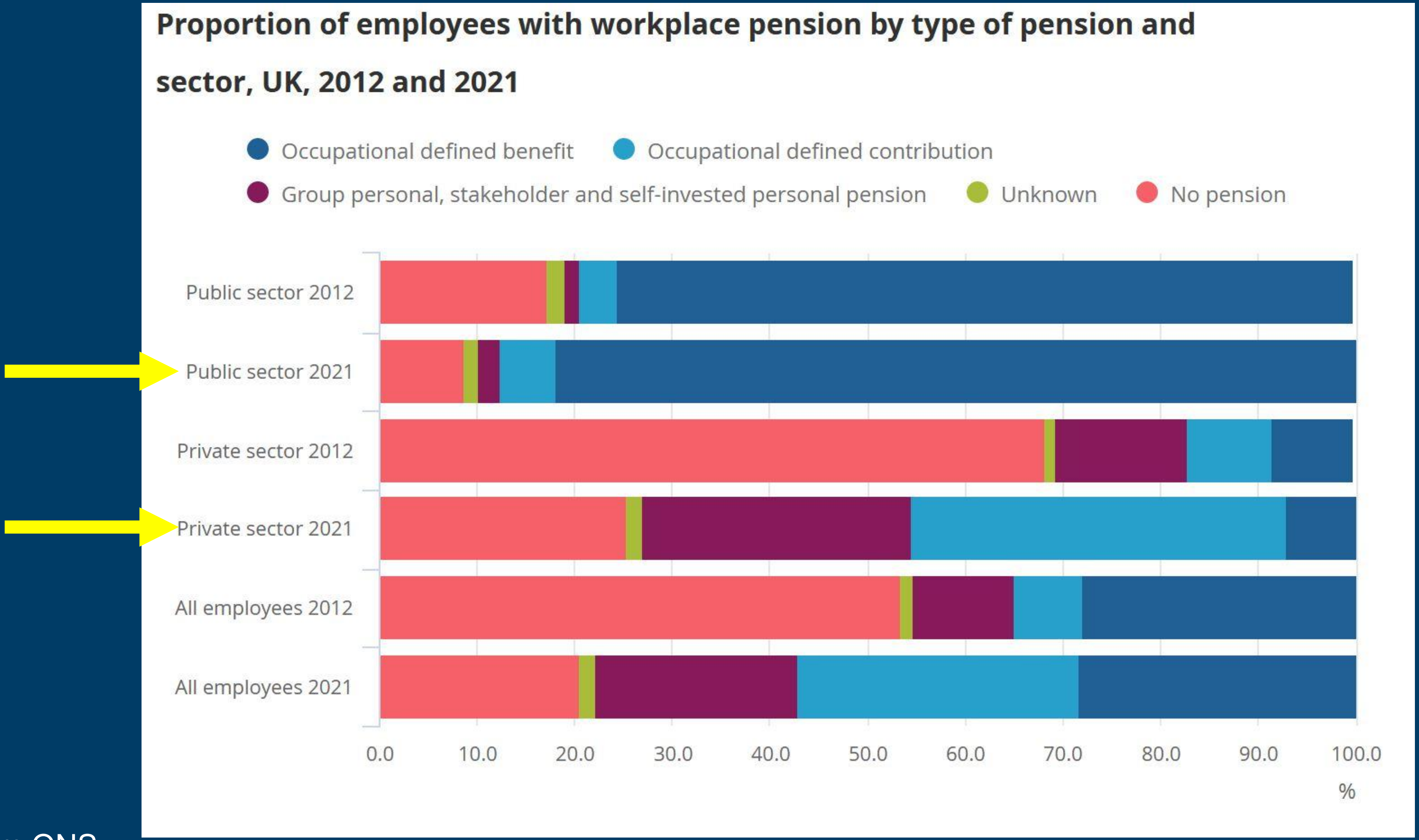

Figure from ONS: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/bulletins/annualsurveyofhoursandearningspensiontables/2021provisionaland2020finalresults

UK defined benefit pension schemes

Public sector DB schemes

- Mostly PAYG, financed from current government revenues.
  - NHS, Teachers, Civil Service, Armed Forces, Police, Firefighters.
  - ~£1,300 billion liability value.
- Local Government Pension Schemes (LGPS) are funded – but backed by local government.
  - Administered locally by ~90 local pension funds.
  - ~£425 billion in assets.

Private sector DB schemes

- All funded, but majority closed to new members and future accrual.
- Highly fragmented: 5,000 DB schemes.
- ~£1,400 billion in assets.

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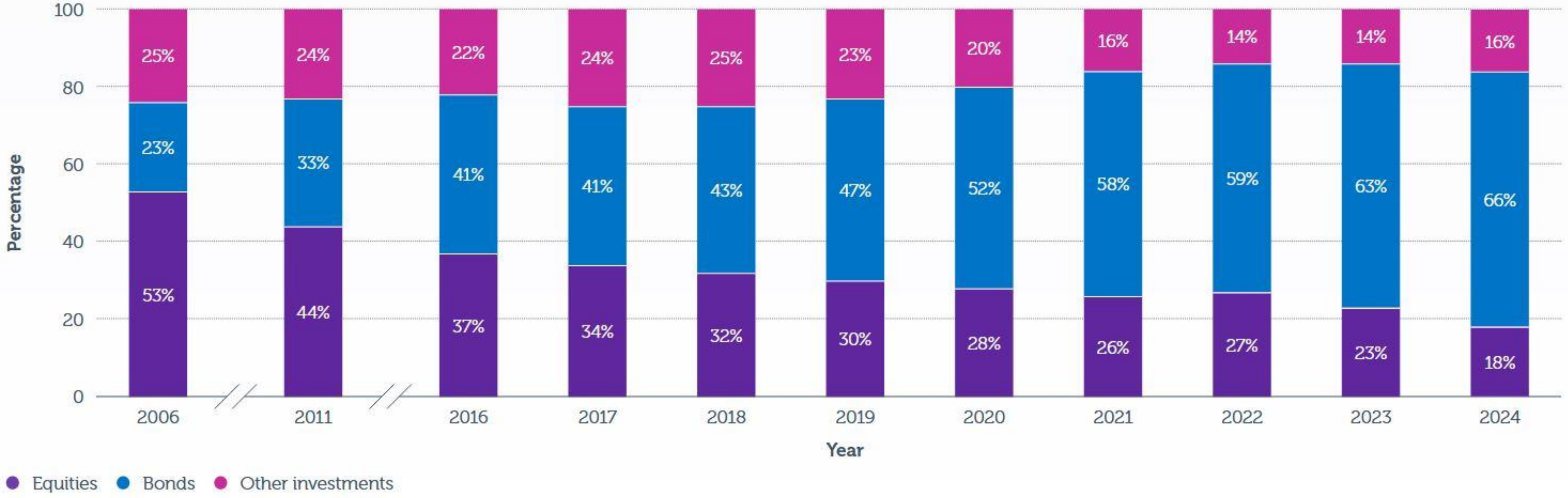
UK defined contribution pension schemes

- Trust-based DC schemes are either
  - Single trust, ~£100 billion in assets, or
  - Master trust – manage DC funds for a group of unrelated employers, ~£170 billion in assets.

- Contract-based DC schemes have a contract directly with the member – their employer is not a party to the contract.
  - Occupational, ~£275 billion
  - Personal pension, ~£790 billion.

DB scheme asset allocation (PPB 2024)

77% of bond allocation is in UK investment-grade bonds (Gilts £150 bn, ILG £350 bn, UK Corporate £90 bn), 13% in non-investment grade

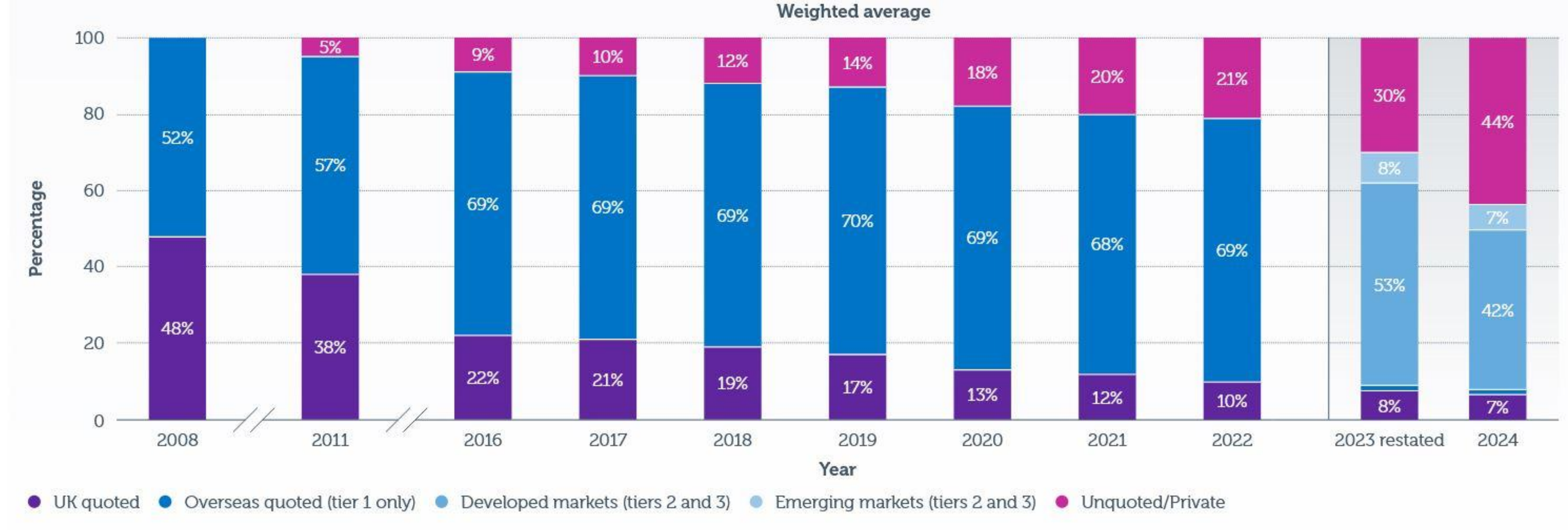


Note: figures may not sum to 100 per cent because of rounding.

Source: PPF

DB scheme **equity** allocation (PPB 2024)

2024 UK equity investment ~£15 billion.
Following 2008 asset allocation with 2024 asset value, would be ~£300 billion.



UK economy and election mandate for change

- From Economic Survey of the United Kingdom (September 2024) - OECD Economic Snapshot:

"The United Kingdom faces a challenging economic environment of high interest rates and low growth, limiting macroeconomic policy options."

…

"Low business investment has contributed to sluggish productivity growth."

https://issuu.com/oecd.publishing/docs/uk-brochure-2024-final

- From Labour Manifesto 2024:

"Labour will also act to increase investment from pension funds in UK markets. We will adopt reforms to ensure that workplace pension schemes take advantage of consolidation and scale, to deliver better returns for UK savers and greater productive investment for UK PLC. We will also undertake a review of the pensions landscape to consider what further steps are needed to improve pension outcomes and increase investment in UK markets."

- https://labour.org.uk/wp-content/uploads/2024/06/Labour-Party-manifesto-2024.pdf

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UK Pension Reforms

Consolidation/scale

- Multi-employer DC schemes must have >£25 billion in assets by 2030.
- LGPS management in England & Wales consolidated into 6 investment pools by March 2026.

Increasing investment in UK private assets – "cultural change"

- Government argue "cost versus value" - venture capital, infrastructure, property and private credit.

"…these sorts of investments can be a key source of funding for economically critical investments and sectors, including science and tech startups, pre-Initial Public Offering companies …, infrastructure projects and housebuilding." (PIR 2025)

- Mansion House Accord 2025: Largest DC workplace pension providers (~90% of active DC savers) state intention to invest[1]:
  - ≥10% of their default funds in private markets by 2030,
  - Of which ≥ 5% of default funds in UK private markets.

[1]Subject to fiduciary duty and the Government providing decent investment opportunities.

Turning to the DC scheme member

- Pension Schemes Bill 2025 proposes all trust-based DC schemes + Group Personal Pensions must offer a default decumulation pathway by 2028, i.e.
  - All members offered a way to convert savings into retirement income.

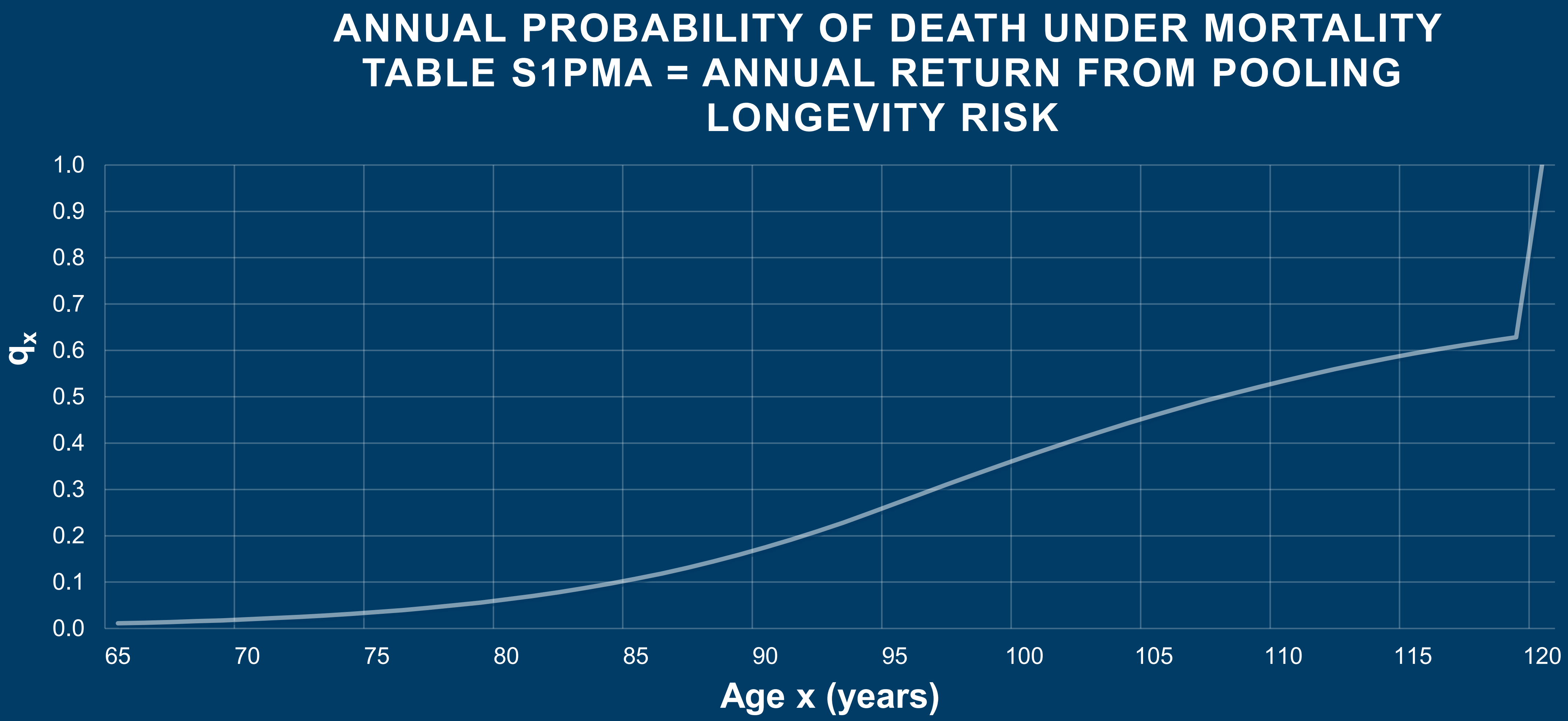
Current mainstream decumulation options:

- Life annuity purchase,
- Income drawdown, e.g. 4% rule.

Future possibilities which may become mainstream:

- “Flex-then-fix”, i.e. Income drawdown followed by life annuity at e.g. age 75.
- Decumulation-only CDC schemes (coming soon).

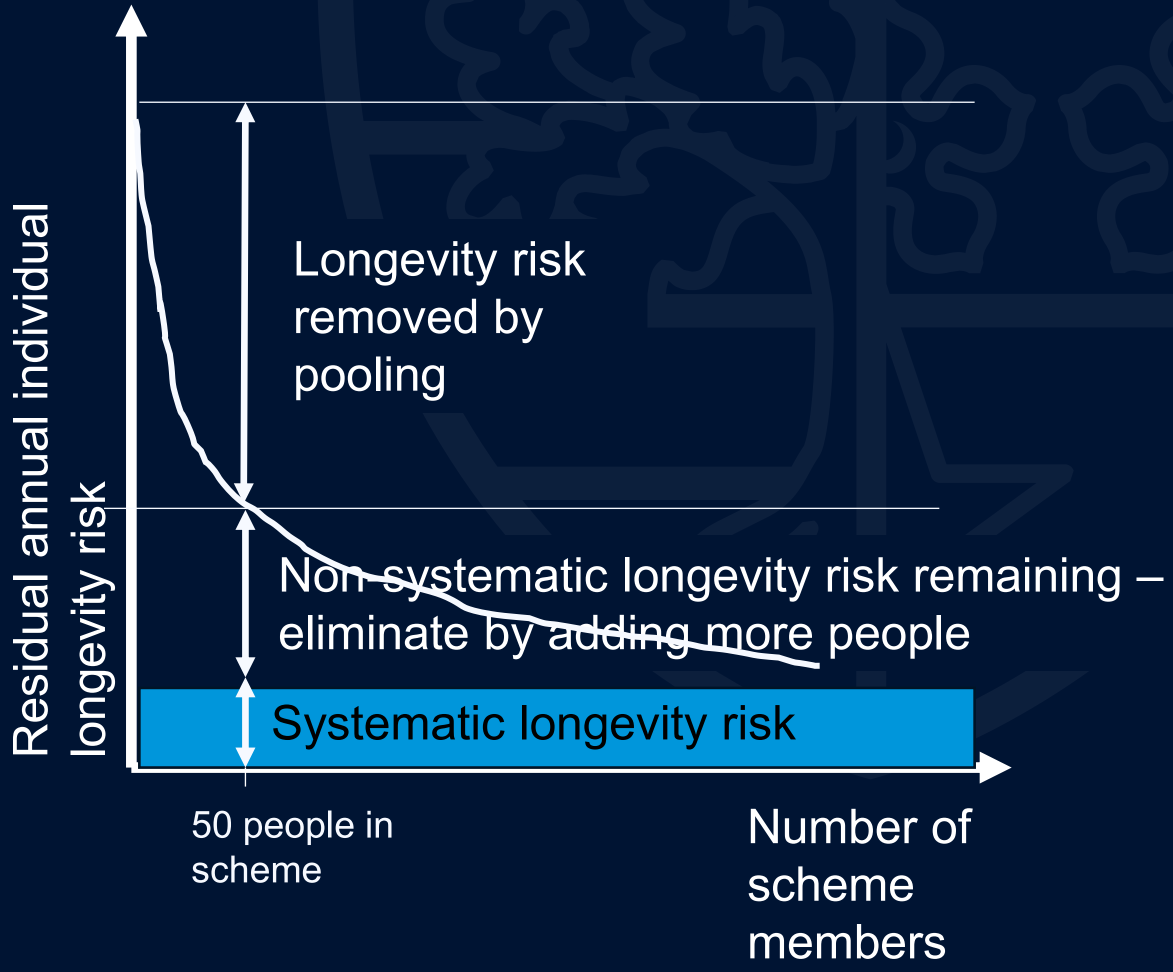
Financial benefit of pooling longevity risk is clear…



In longevity risk-sharing structures (life annuities, DB schemes and CDC schemes),

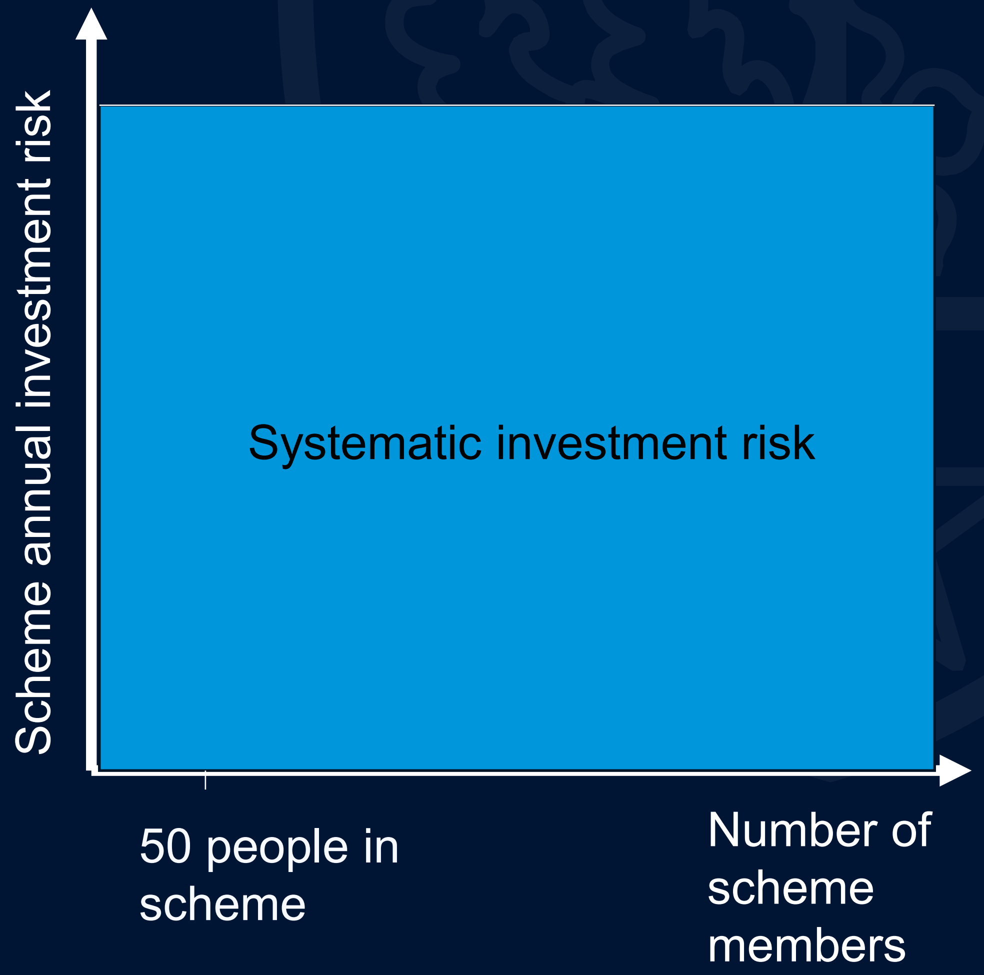
Most longevity risk can be eliminated

My research suggests that a decumulation-only scheme with 100-200 members joining each year is sufficient to eliminate the vast majority of idiosyncratic longevity risk.



But…

Investment risk is not diversified by pooling



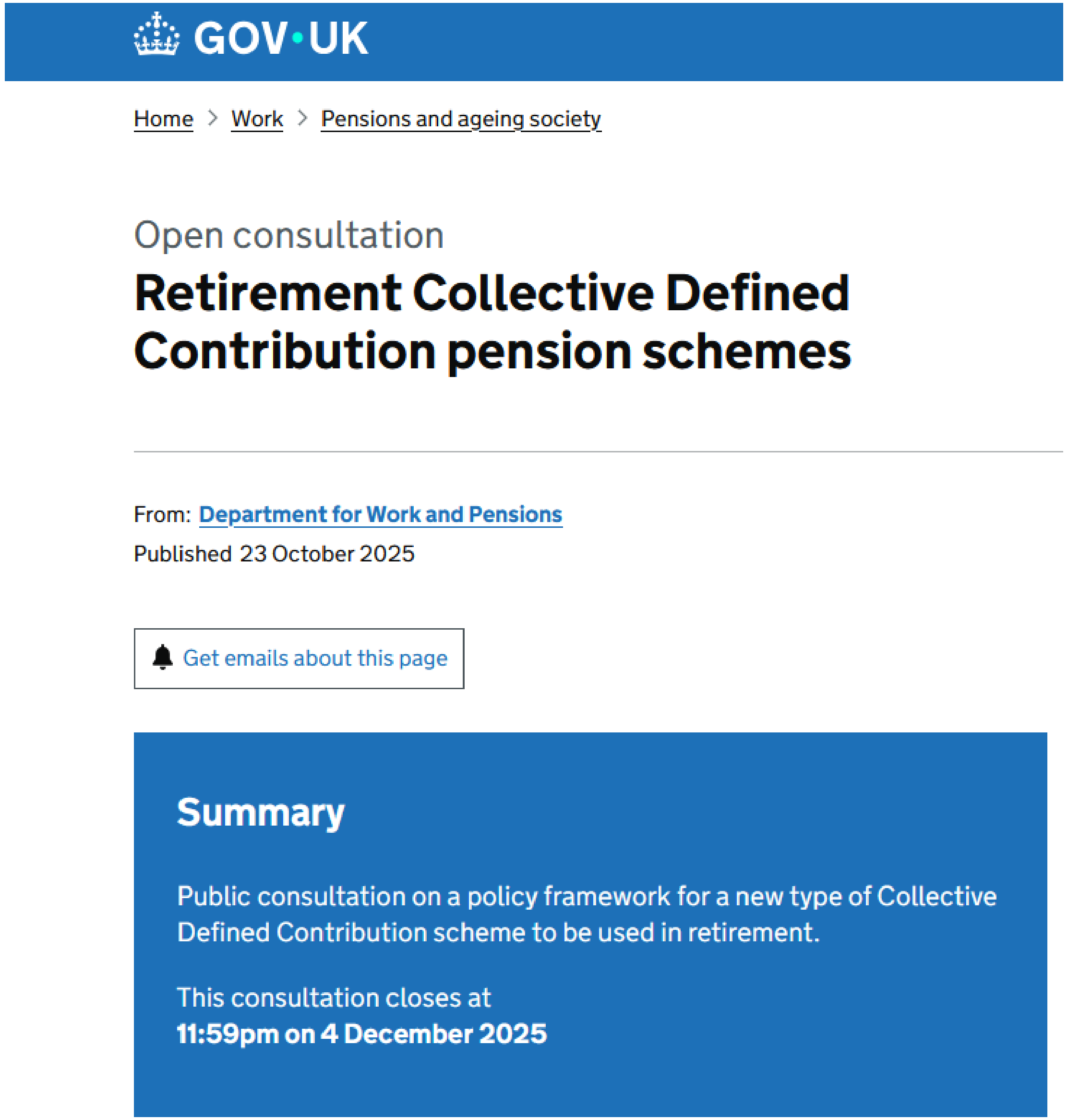
Investment risk management is critical.

What is a CDC scheme in the UK?

- Structure to pay a retirement income and other benefits to its members.
- Importantly, it collectively shares risks between its members.
  - Required to share investment and longevity risk.
- No employer duty to make good any funding deficit.
- Buffers are forbidden.
- Annual pension increases are determined to ensure PV(discounted projected benefits) = PV(assets).
  - The benefits are projected to retirement by the annual pension increases.

Regulations are developing to enable different CDC scheme types

- Only allowed as a trust-based pensions scheme, currently.
  - However, DWP discussing with FCA on how to extend to contract-based schemes.
- **Single or connected employer, whole-life**
  - Currently only allowed scheme type.
  - Royal Mail Collective Pension Plan is the only CDC scheme in the UK, started Oct 2024.
- **Unconnected multiple employer, whole-life**
  - Allowed from 31 July 2026.
- **Retirement CDC (r-CDC) schemes**
  - i.e. decumulation only.
  - DWP consulting now on these.



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Open consultation

Retirement Collective Defined Contribution pension schemes

From: Department for Work and Pensions

Published 23 October 2025

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Summary

Public consultation on a policy framework for a new type of Collective Defined Contribution scheme to be used in retirement.

This consultation closes at

11:59pm on 4 December 2025

Some challenges for the UK Pension system

- Individual savers are not the number one priority
  - Disjointed savings and investment choices and journey, weak understanding
  - Pension pots scattered across different providers (>2/3 savers)
    - Pensions Dashboards programme should make a difference (Oct 2026).
- Culture change for UK DB schemes?
  - A source of non-bank financing while maintaining fiduciary responsibilities?
- Growing industry's confidence in CDC schemes
  - Lack of understanding among professionals about what is going on "under the bonnet"
  - Royal Mail Collective Pension Plan unique design has driven regulations – drag on innovation?

References

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