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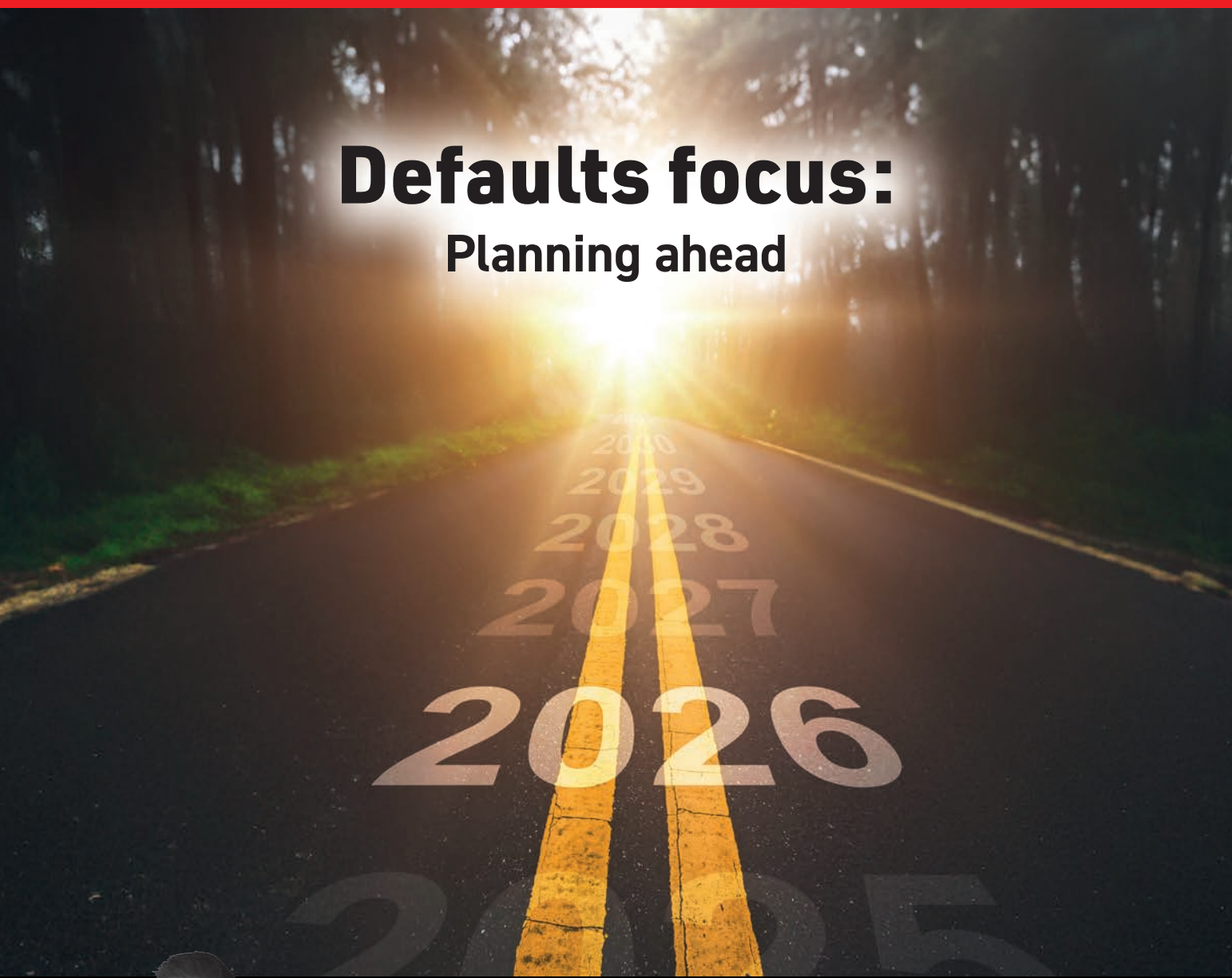
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What will workplace pension defaults look like in 2036?: *Lewis Daley looks ahead to 2036, exploring how employers' choices about default pension structures must evolve to keep pace with changing retirement needs and investment opportunities* ***p48***

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Defaults focus:

Planning ahead





Royal London workplace investment lead, Lewis Daley

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What will workplace pension defaults look like in 2036?

Lewis Daley looks ahead to 2036, exploring how employers' choices about default pension structures must evolve to keep pace with changing retirement needs and investment opportunities

Picture this: You're an office worker going about a typical day in 2016.

There are no virtual meetings; working from home is still unusual. You send version 15 of a document around, hoping everyone comments on the right copy because live collaboration isn't yet the norm. There's no AI to help draft your emails either. Later, on the way home, you untangle your wired headphones before listening to music on your iPhone 7.

It probably doesn't feel that long ago, yet so much has changed in just 10 years.

We expect technology, workplaces and businesses to move with the times. However, we haven't always expected the same from workplace default investments – even though they're designed to support our future selves.

But both expectations and opportunities are changing. Defaults were once judged mainly on whether they were suitable at that point in time. Increasingly, they'll need to evolve with the world around them and prepare employees for a future that could look very different. That means thinking carefully about how people will retire, what good value looks like and where their money will be invested in 2036 and beyond.

Change is already under way

Pension reform is changing what we expect from workplace defaults, with more focus on value for money, scale and access to a broader range of investments. Pension providers are being encouraged to look beyond low costs and focus on what will help employees achieve better long-term results.

People are also living and working for longer, reshaping what retirement looks like. Markets are evolving too, bringing new opportunities and risks. Tomorrow's defaults will need to keep pace.

Flexibility will be key

There's no longer one typical route into retirement. Only some people will stop work completely, while many others will reduce their hours, work for longer or take money from their pension in stages. Tomorrow's defaults will need to support these choices rather than assume everyone follows the same path. They'll also need to adapt as retirement patterns, regulations and investment opportunities change.

Bigger – and hopefully better

We're likely to see fewer, larger defaults as the market consolidates. Bigger doesn't automatically mean better, but greater scale could bring stronger oversight and influence, specialist expertise and access to a wider range of investments. Larger providers may also have greater resources to improve technology and employee support, making schemes easier for employers to manage and employees to understand.

Outcomes, not simply cost

Low charges will still matter, but they're only part of the story. A cheap default isn't good value if it doesn't help employees save enough for later life. Increasingly, defaults will be judged on investment performance, service and how well they balance risk with long-term growth. The real measure of value will be employee outcomes, not simply price.

A wider investment universe

By 2036, private assets will have moved beyond industry debate and become a normal part of workplace default investing. Billions of pounds will be invested across infrastructure, property and growing businesses – from renewable energy and transport links to new homes and technology.

Providers with the right experience, track record and expertise to manage private assets could open new opportunities for employees. These investments could help spread risk, provide new sources of long-term growth and support projects employees can see in their own communities.

Looking towards 2036

A lot is likely to change over the next 10 years. That's why defaults designed for 2036 and beyond need to adapt today.

If we make the right changes now, we may look back on 2026 as an important turning point and, just as our expectations of technology have evolved, wonder why things were ever done any other way.



Written by Royal London workplace investment lead, Lewis Daley

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Lewis Daley, Royal London workplace investment lead

Changing times

Royal London workplace investment lead, Lewis Daley, speaks to *Pensions Age* about how employers and advisers can future-proof workplace pension defaults

Traditionally, choosing a workplace pension default was treated as a one-off decision for an employer, rather than an arrangement that needs to evolve over time. Does this approach need to change, and if so, what events or changes would you recommend employers use as triggers to reassess default arrangements?

The vast majority of employers are not investment experts. They're not set up to conduct investment reviews of their defaults every year, nor do they want to. So, I think there's an acknowledgement at the start that we don't ever want to be in a world where the employer has to become a financial adviser, an investment expert or a market expert.

But, this 'fire and forget' approach is changing. A pension is such a big part of an individual's overall reward package, and the DC pot is going to be more important in retirement, so it needs to be treated with the seriousness it deserves.

This is a two-way street between a provider and an employer. Ultimately, what value is the pension delivering, and what trust can an employer have that they're delivering that value to their employees?

In terms of triggers for reviewing defaults, these are long-term investments. We don't expect intra-month performance to be a trigger for review. But employers should think about what they're trying to deliver for their employees, and whether they have governance structures, reporting and reassurance frameworks in place.

Ideally, their adviser would tell them about the health of the scheme, whether that's performance or member data, and help them understand that some form of control or governance is in place. That ultimately enables more seamless oversight and management of their pension, rather than making a one-off decision and then scrambling a few years later, after there have been a few complaints, to work out where to go.

Employers and advisers may place considerable emphasis on charges and investment performance when selecting a workplace pension provider but what additional factors should they be considering to ensure a default is genuinely fit for the future?

When we think about what the regulator is looking at through value for money, you have performance, costs and charges, and quality of service. These are the key areas that will be evaluated, but from an employer's perspective, that's only part of the overall picture.

That doesn't necessarily account for digital capabilities. Are they relevant to the employer? Some don't want them, but they might be something others want to evaluate. How many employees have actually updated their details, whether that's nominating beneficiaries, making sure addresses are correct, or managing the scheme's administration? These are other aspects that sit alongside those key value for money areas.

Our position is that, when evaluating a scheme, the provider, adviser and employer should work together to provide the relevant insights and information needed to support an informed decision-making process.

Value isn't always determined by a quantifiable comparison, where one number is higher than another. There needs to be an additional or supplementary element to determine whether you're getting good value from the arrangement.

As the workplace pension market consolidates around fewer, larger providers, how can employers and advisers distinguish between providers that are simply bigger and those that are genuinely better equipped to deliver good outcomes for members?

Scale ultimately has benefits in terms of access to investment capabilities that some smaller providers may not have, as well as the expertise that comes with scale. However, scale in isolation isn't the silver bullet.

An employer can't simply look at the biggest number and assume that means it's the right option. They need to consider what that scale delivers. Does it provide good value for the price? Does it offer more sophisticated investment capabilities, or greater confidence in those capabilities? Is the scale fragmented?

Scale has been very topical through the Pension Schemes Act: Fewer, bigger



providers. Scale could be framed as a hurdle or obstacle that providers and employers are going to have to navigate. When we think about 2030, £25 billion is the magic number being floated about. Does the pension provider have £25 billion in their default? From an employer's perspective, that's an important question to ask, because it may mean having to make another decision in a few years' time if the provider they choose isn't able to address that scale point.

Private markets are likely to play a greater role in workplace pension defaults over the next decade. What opportunities might these assets offer members, and what should employers and advisers look for when assessing a provider's expertise in this area?

That's a challenge we're being asked about quite a lot: How do I become a private-market expert? Is the expectation now that I need to know the difference between primaries and secondaries? Do I need to know the difference between forestry investments? In reality, that's not the level of expertise employers should be required to have.

"Looking 10 years ahead, default design will still be focused on delivering good customer outcomes, but there'll be a much greater focus on supporting customers as they access their pension"

Private assets are an investment opportunity that, when used well, can deliver strong customer outcomes, whether by improving growth or the diversification of the solution. They can be used to deliver good outcomes.

The questions we would ask are: If the headline focus of a solution is that it has a certain percentage in private assets, do you know why? Do you want to know why? Is it because you want to increase returns, smooth investment returns, or pay a better income to your customers or employees when they reach retirement?

You don't necessarily need to be an investment expert to get into the detail of that. However, private assets often come with complexity and can come with higher charges for some providers, so are you comfortable with what's going on and why you're using them?

Another aspect is that private assets can make some people nervous because they're private. They're not as transparent, and there isn't as much information. They are illiquid, so there's a concern that if something goes wrong, they'll be left stuck.

Private markets are currently in the spotlight, including its role within DC defaults. But generally, when people think investing in private markets can improve things, there's another side to that coin: What happens if it doesn't?

So that's why there are these questions, and rightly so. I think where we need to draw the balance is with the expectation of what the employer should do with that information. Most employers are not financial experts. They're not investment experts and they're not pension experts. So, a balance needs to be drawn, where we don't go too academic.

That's where the focus has pivoted more. The bar has been raised. But I think there will be some balancing with providing a lot of information, as how much of that is noise and how much of that is actually helping an employer?

Therefore, with private assets, the questions are: How can you give me confidence in how you've determined that this is suitable? What are the scenarios? If it goes wrong, what does that mean?

Ultimately, employers need to know why their provider is investing in private assets. Is it more of a marketing message than a clear investment use case? What's the impact? Is there going to be a price increase, and will that change the commerciality of these solutions? If you change your allocation, will it mean work for me as an employer or adviser? And what controls do you have? Can you give me confidence or reassurance about what happens if things don't go as planned? What's your modelling? What's your analysis? What confidence can you give me?

Those are the key aspects of the private-asset world.

Technology and member engagement are likely to develop significantly by 2036. How important will a provider's digital capabilities and ability to engage and support members be when employers and advisers are choosing a pension arrangement?

They're going to be integral to default offerings. When investment teams are designing defaults, they are obviously looking at building good investment portfolios. But members will experience those portfolios through their annual statements, and they'll generally have multiple other pots with other providers.

They'll most likely use their app to see clear information about their pension pot. How many touchpoints do we expect someone to have with their pension? It's not necessarily something everyone looks at twice a day, but when they do, there's often a reason such as they've seen something in the news, they're trying to do something, or they're trying to find something out.

From our point of view, when we're building the default, it's really important to understand how members will engage with their pension, because those touchpoints can lead to behaviours and actions that members take – or don't take.

It is also really important to think about investment as one piece of the puzzle. You then have to make sure you get engagement right, and you need to get the technology right as well. All of that needs to come together, because as we move forward, having that digital connection with a customer is going to be far more important.

"A pension is such a big part of an individual's overall reward package, and the DC pot is going to be more important in retirement, so it needs to be treated with the seriousness it deserves"

When building solutions, the richer data we get about member usage and behaviours can help inform how we build and design these defaults. That might mean seeing members log on and change their contribution profile, seeing them do nothing, or seeing them contact somebody for further details. This data is all really important, and a digital approach helps us build more robust solutions.

What structure and capabilities do you expect to be the norm in defaults by 2036?

The way we'd think about this is to roll back 10 years, to 2016. We'd just come through pension freedoms, and we'd seen moves from annuities to flexible options. There was obviously concern about whether everyone would buy a Lamborghini with their tax-free cash.

Where we are now is quite a long way from that, whether in terms of regional equity mix and the different asset classes involved in a default, or, importantly, the focus on DC pensions and how important they are to customers overall.

If that change has happened over 10 years, we expect the pace of change to pick up over the next 10 years.

From my perspective, private assets are currently a topic attracting a lot of conversation and focus. I think that, in 10 years' time, they'll simply be incorporated into building a solution. We won't necessarily dwell on the differences and complexities; they'll just be part of what we do in DC defaults. They'll be there on their own merit rather than because of their appeal in promotional material. I think they'll very much be mainstream.

From the member-experience perspective, we'd expect the average DC pot to grow. At the moment, we're in a phase where a lot of people have both DB and DC pensions, so we're still seeing behaviours such as encashments, often involving smaller pots. We expect that to change as pots grow.

We expect the behaviours and needs of DC members to increase, whether that's a need for flexibility, support, or the technology to back that up. With a smaller pot, people often decide to take cash in some capacity. But when it becomes a more sophisticated financial decision, it's not as simple as saying, 'give me my cash'. There needs to be support for customers as they make more significant financial decisions about their retirement.

Looking 10 years ahead, default design will still be focused on delivering good customer outcomes, but there'll be a much greater focus on supporting customers as they access their pension.

In terms of what'll become the norm, I'd say the bar will have fundamentally risen across all providers. The ability to get support and insight, and to access pensions, will be far more efficient and robust.

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