Taking another look

The pensions industry is a complex beast, with many products and concepts implemented over the years to benefit both the sector and its savers. Yet, which good ideas have perhaps not been given the recognition they deserve? *Pensions Age* asks, what warrants a new lease of life?

We believe that the concept of 'adequate levels of savings' could do with a rebranding and new lease of life. However, we are aware that the current financial market is leading to fiscal constraints for firms and individuals, with current levels of tax not having been seen since the 1970s. We understand that it's going to take time to get back to good levels of adequacy for retirement – via regulation changes, employer innovation and using the DC route. However, with long-term real yields now at 2 per cent p.a., a level not seen for a long time, and with the typical DB pension scheme contribution for future service having fallen by over 50 per cent in the past five years, now could be the time to take a closer look at dynamic DB accrual to provide adequate benefits, at least for an element of pension. Alongside appropriate benefit discretions, this should enable shared ambition and growth investments with minimum balance sheet risk. In an unexpected twist, DB pensions could have a renaissance; it is being talked about within the industry with run-on options only further cementing this belief.

However, a concept that deserves the greatest recognition, and feels undervalued, is a clearer path to adequate DC contributions, via the option for a savings 'sidecar' (as advocated by Nest Insight). Taking it a step further, as happens in different areas of the world and South Africa in particular, is enabling pensions to lend to savers to help them get on the property ladder. This merits a closer look.

Hymans Robertson head of pensions policy innovation, Calum Cooper

The one product that springs immediately to mind is tontines, which are products that pool mortality risk between their members. Like an annuity, they provide an income for life, but unlike an annuity, the members retain the financial upside from mortality risk pooling rather than the insurer and, by living longer, members can expect their income to increase meaningfully over time. Tontines could remove the worry for people that they live longer than their savings and, properly structured, could solve the pensions problem for individuals, corporate schemes, taxpayers and governments alike.

When widely available, tontines outsold annuities by many times, as the concept behind them is very understandable to the public, namely that they pool some of their retirement assets with people like them (age, sex, nationality etc), and if a member is to pass away, those assets are shared appropriately between the remaining members in their tontine pool rather than being opaquely retained by annuity providers.

Cartwright Pension Trusts outsourced chief investment officer, Ian McKnight

Since the introduction of pension freedoms, people will often say they don't want an annuity. But when asked what they would like from a retirement income product, they list factors like certainty, simplicity, an income that will last as long as they do – all of which describe an annuity.

However, we need to be cautious with how rejuvenation of annuities is framed. Historically, men with larger pension pots often bought single life level annuities without guarantees to get higher initial income. On death, their spouses would receive no benefits and, given women are more likely to work part time due to caregiving responsibilities or the impact of menopause, may not possess independent pension funds.

February 2025 Association of British Insurers data showed a rise in joint life and escalating annuities, which is encouraging. Perhaps high inflation has shown the value of escalation. But for some, higher income will always seem more attractive and could be to the detriment of their dependents.

The most suitable retirement income option will depend on specific needs, and while annuities aren't for everyone, there are circumstances where they can offer advantages. It's important that they are considered as part of the retirement planning process. Many want complete flexibility with their retirement income, while for others, buying an annuity offers them the comfort of a guaranteed income. For those people initially opting for drawdown, that may not be the final decision.

According to the Financial Conduct Authority Financial Lives survey, published in May, 3.8 million retirees worry that they won't have enough money to last retirement. So, as people get older, some may be keen to introduce a form of guarantee that covers basic living costs and may provide comfort and reassurance, while leaving the rest invested for extra flexibility. But it's important that those in a couple understand the implications of single life annuities.

Many people who have retired, or will be retiring soon, could have some

DB pension. This may provide enough, alongside their state pension, to guarantee essential spending in retirement. But as the years go on, fewer people will have any DB pensions. So, we may see the return of annuities, or more innovation in this space, for that mixture of guaranteed and flexible income in retirement.
Royal London pensions and tax expert, Clare Moffat

Salary sacrifice is 50 years old and needs a rebrand to 'salary exchange'. It's weathered changes in government, frequent rate changes, tax reforms and iterations but it's still here, providing one of the best levers an employer can pull to create cost savings or increase employee benefits.

The objective has never changed – to provide savings for both employer and employee.

The word 'sacrifice' is dated and misleading, contributing to the lack of take up and perception.

There is no material sacrifice, it is an exchange. Gross salary is reduced, and take-home pay is either maintained or increased because of the exchange.

Either employers cut costs and employees take home more in their pay (and get the correct tax relief at outset) or employers increase their employees' pensions contributions and employees have more going in, month on month. We know this can make over £20,000 difference over 25 years, for someone on a salary of £35,000, for example, helping support pension adequacy.

A rebrand (not just for pension salary exchange) would help present a more dynamic, modern solution for cost control and employee benefits.
Scottish Widows retirement expert, Susan Hope

Even though pension saving is a long-term journey, big short-term falls in investment markets make individuals nervous and perhaps reluctant to contribute more to their DC pension arrangements. This is especially true for younger individuals who would benefit most from paying in more at a younger age.

Like many DC pension funds, with-profits funds invest in a diverse range of asset classes but what distinguishes with-profits funds from other funds is smoothing that aims to reduce the volatility and funds grow at a steady rate. This can help with re-gaining the confidence of individuals who would no longer be exposed to big falls in values. It can also assist with long-term planning as more certain returns will mean you have more of an idea as to what will be the value of your fund when you eventually retire and again hopefully encourage individuals to contribute more before it is too late.
Quantum Advisory partner and actuary, Stuart Price

One concept in the pensions landscape that urgently needs revitalisation is value for money (VFM). In its current form, it is too often treated as a tick-box exercise – something that can be deferred or diluted – rather than a genuine measure of member outcomes. The emerging framework – yet to be finalised and some years from being fully implemented – risks being overly complex and susceptible to manipulation, rather than driving real accountability.

We continue to see employers, often under the guidance of advisers, selecting or retaining master trust providers with long-standing records of underperformance, and the impact on members is not marginal. Some providers being recommended don't even meet the average benchmark, raising serious questions about how VFM is being interpreted and applied in practice.

It's time to return to first principles and not just wait for the new framework to be published. Performance net of fees should already be a central pillar of any VFM assessment. A framework that is transparent, outcomes-focused, and rooted in long-term member benefit would not only elevate industry standards, but can deliver significantly better outcomes for members.
SPP DC Committee member and SEI DC managing director, Steve Charlton