



Summary

- Many default pension strategies have adapted since the introduction of pension freedoms 10 years ago and no longer rely on traditional approaches. Instead, they are aligned with modern retirement behaviours, which often involve flexible and gradual transitions rather than a single retirement decision.
- While engagement with pensions typically increases as individuals approach retirement, default options remain necessary since many do not actively manage their savings.
- The introduction of the Financial Conduct Authority's default pathways for DC savers adds complexity, as member behaviour shows varied approaches to accessing pensions, emphasising the need for personalised solutions rather than a one-size-fits-all approach.
- The upcoming value for money framework could make it easier to standardise comparisons between defaults and assess if they are fit for purpose.

trajectory, this model is increasingly being tested. People are living longer, working in less linear ways, and approaching retirement with more diverse expectations than ever before. Against this backdrop, the question becomes unavoidable: are default funds fit for purpose and evolving alongside the people they are designed to serve?

How fit for purpose?

Legal & General global head of DC, Lesley-Ann Morgan, acknowledges that everyone is “in a different boat” in retirement, but argues that the majority of people do not engage with their pension saving before retirement.

“Whilst engagement levels do increase as people approach retirement, it is unlikely everyone will suddenly become engaged at retirement. For this reason, a default (or multiple defaults) is needed in retirement,” Morgan explains.

Isio director & head of DC investment, Helyne Slade, notes that “understanding member demographics and behaviours at retirement is central to how we assess the suitability of default strategies”.

Slade highlights the “clear move” away from annuity-targeting default strategies that has happened in recent years.

“Since pension freedoms in 2015, flagship defaults have tended to focus

Fit to deliver?

Default funds are a cornerstone of modern pension saving, but with retirement becoming more flexible and individualised, are they still fit for purpose? Paige Perrin investigates how default pension solutions are adapting and where they may fall short

Anything that is meant to accompany someone for a lifetime must be capable of evolving, supporting, and meeting that person's needs at every stage of their life. This principle is especially relevant for default pension funds, which are designed for individuals who do not actively make their own investment choices and therefore often rely on these funds throughout their entire retirement

savings journey.

The term ‘default’ often suggests a one-size-fits-all, set-and-forget approach. Yet in reality, default pathways and funds cannot afford to be generic if they want to provide savers with the best outcomes in retirement.

While these funds are structured to grow savings in the early years of a career and gradually de-risk as retirement approaches, mirroring a traditional life

on wealth preservation but are now progressively shifting towards income drawdown. At the same time, risk has increased across all stages of the default, including at retirement, reflecting the fact that members need to remain invested in growth assets for longer to make their savings last," she warns.

Adding to this, Smart Pension proposition manager, Andy Fergusson, notes: "For modern savers, traditional lifestyling, which assumes an annuity purchase, is outdated. Most people now prefer the flexibility of income drawdown.

"Moving an entire pension pot into low-risk assets like bonds or cash can actually do more harm than good. This approach can leave people's savings vulnerable to inflation and can shut down growth potential when the pot is often at its largest."

However, despite these developments, concerns remain about whether current defaults are truly delivering the right outcomes for pension savers.

Fidelity International investment director for FutureWise, James Monk, says that although "defaults remain essential, we don't believe all default pension funds are still fit for purpose".

He explains: "Many default pension strategies still rely on off-the-shelf thinking – offering multiple risk labels, retirement pathways, or bolt-on premium private asset options. That breadth can signal a lack of conviction about what truly delivers good outcomes, while pushing responsibility back onto employers at a time when they are explicitly seeking providers to take the lead."

Monk also emphasises that "too many defaults are still built around a cliff-edge retirement decision" and that "we [now] know this no longer reflects how people retire – flexibly, gradually, and often unpredictably".

Given this, he argues: "Strategies anchored to outdated assumptions risk delivering suboptimal outcomes and falling short of member expectations."

Default pathways

The Financial Conduct Authority's (FCA) default pathways plan, which was implemented in 2021 and provides DC savers aged 55 or over with a range of ready-made investment options, adds another level of complexity to the discussion on whether defaults are fit for purpose.

Ignition House managing director, Janette Weir, argues that not much has changed in the past 10 years since pension freedoms.

"Our studies show that people are exhibiting the same behaviours as we saw back then, despite the ever-changing economic climate," she says.

"Most are still taking their 25 per cent tax-free cash early, often while still working, and treating it more like a savings windfall than part of a long-term retirement plan."

However, Standard Life product director, Jenny Holt, disagrees and notes that since the introduction of pension freedoms, member behaviour has shown that people now access their plans in a variety of ways.

"It's no longer a one-size-fits-all journey," she says. "Many members now choose to 'decouple' the decision to take their tax-free cash from drawing an income from their pension pot. We don't expect this trend to change, which is why default pathways shouldn't mean the same approach for every member."

TPT Investment Management investment director, Peter Smith, also highlights the rise of DC as a factor gaining increasing importance in retirement decisions.

"Until recently, most DC pension pots have been relatively small, and for many members, they weren't used as a primary source of retirement income. As

a result, the dominant behaviour we've seen has been full cash withdrawal rather than sustained income drawdown," he says.

Smith adds that there also haven't been widely adopted "income in retirement" target-date funds, so "we don't yet have a strong behavioural track record of how members engage with those kinds of default pathways".

Given this, Smith argues that "we can't rely too heavily on past behaviour to predict future decisions around retirement income – because, in many cases, members simply haven't been in a position to make those decisions before.

"The real shift we're seeing is structural: larger pots, greater reliance on DC for income, and new default solutions emerging – so future behaviour may look quite different from the past."

Alongside default funds and pathways, the industry is simultaneously developing targeted

support, guided retirement solutions and simplified advice models.

While all are designed to improve member outcomes, their simultaneous development could raise the risk of overlap, fragmentation and inconsistent member journeys.

"There's a risk that we could end up with differing regulatory frameworks for contract and trust-based schemes, which could lead to confusing experiences and inconsistent outcomes for members," Holt says.

To avoid this, she underlines the importance of "keeping member needs front and centre" as well as "striving for a regulatory framework that allows providers to design propositions that enable members to make informed



“Ultimately, these solutions all exist to achieve the same goal: better retirement outcomes for members. There shouldn’t really be contradictions. Members have diverse needs and varying levels of engagement, so it is important that these tools work together as part of a coherent journey,” Smith argues.

“Default pathways can provide a strong foundation for those who prefer a ‘set and forget’ approach, while targeted support can offer more tailored assistance for those who want or need it.

“Providers should ensure that these options are presented as complementary, not competing, with clear signposting and consistent messaging throughout.”

Good value and comparison

As highlighted by Smith, member outcomes are of utmost importance.

Solutions should be fit for purpose and deliver good value, so how do default funds measure up?

“Default funds need to be designed with the changing needs of those retiring in mind. For those staying within a drawdown product instead of cashing out, defaults need to stay focused on long-term value,” Pensions UK executive director of policy and advocacy, Zoe Alexander, emphasises.

Meanwhile, Scottish Widows pension expert, Peter Glancy, explains that master trust boards and independent governance committees carry out annual value for money (VFM) assessments “on an absolute basis”.

“Their role is to challenge providers on behalf of members, looking at investment performance, charges and the support provided to make sure members are getting fair value,” he says.

Barnett Waddingham chief investment officer, Matt Tickle, adds: “Although many defaults still use traditional life styling approaches, this design increasingly needs to reflect how members actually behave, particularly given most savers never opt out of the default pathway.”

SEI managing director of DC, EMEA and Asia, Steve Charlton, adds that the “best way” to assess members’ outcomes is to balance peer comparison with whether members’ goals are being achieved, but also stresses how “essential” it is to understand each saver’s objective.

“Assessing whether a default fund is delivering good outcomes is relatively straightforward in the accumulation phase,” Fergusson says.

“Providers can set outcome-based targets using scheme data, such as expected returns relative to risk, and track performance against those benchmarks.

“Strategies anchored to outdated assumptions risk delivering suboptimal outcomes and falling short of member expectations”

“At retirement, this becomes more complex. A good outcome is no longer defined by performance alone, but may include income sustainability, member engagement and confidence in decision making.

“Different members will require different outcomes, so assessment needs to reflect this variation through a broader, more personalised set of indicators.”

Additionally, Fergusson notes that comparing default funds across providers is more challenging than assessing whether a default fund is delivering good outcomes.

“Even in the growth phase, headline performance can be misleading without understanding the level of risk taken to achieve those returns,” he says.

“At retirement, differences in how providers structure their solutions, how members access their savings and the level of support offered make direct comparisons difficult.”

Glancy echoes this and adds that

“the challenge is that providers collect and report data in different ways, so comparisons are not always like-for-like. Systems, cost allocation and how returns are calculated can all differ”.

Fergusson states that “success is also defined in different ways”, from flexibility to long-term income security, and these are not always captured in standardised metrics.

“As a result, comparisons often lack context, making it difficult to determine what good looks like across the market without a more consistent and holistic framework,” he says.

However, the FCA’s VFM framework aims to ensure DC schemes provide good value by assessing investment performance, costs, and service quality, rather than just focusing on costs.

“The VFM framework has the potential to make comparisons much clearer by allowing data to be published and benchmarked on a more consistent basis,” Glancy says.

“Ultimately, well-designed and well-managed default funds play a vital role in helping people to achieve better outcomes, and when combined with appropriate advice and guidance, can lead to greater financial security later in life,” Standard Life head of master trust and independent governance committee governance, Donna Walsh, says.

Default funds remain a cornerstone of the DC system, particularly in a market where many savers continue to rely on a ‘set and forget’ approach.

But, while they have evolved in response to pension freedoms, they are still adapting to a retirement landscape that is more flexible, uncertain and individual than ever before.

As policy and savers’ needs continue to evolve, it is clear that solutions must change with them.

The challenge for the industry is now whether defaults are evolving to meet how people actually retire.

 **Written by Paige Perrin**