

Work smarter and harder

Reshaping retirement investing

February marks the start of the Chinese Lunar New Year and ushers in the 'Year of the Fire Horse' – a period associated with 'momentum', 'transformation' the 'need for balance' and 'bold decisions'.

It's a fitting backdrop for a pensions industry entering a pivotal period of change – particularly as the pension adequacy challenge grows. With increasing numbers of people under saving for retirement¹, it's become a shared responsibility for government, regulators, industry and individuals alike.

As DC pensions become the dominant retirement vehicle in the adequacy journey, investment strategies will play an increasingly vital role in unlocking long-term growth for savers.

We all know the saying 'work smarter, not harder' – but what if the future of retirement requires us to do both. To help tackle pensions adequacy and meet the needs of today's savers, we need to rethink how we approach retirement investing.

Recent years have seen significant evolution in investment strategy, particularly since the introduction of auto-enrolment.

'Momentum' – new markets for DC savers

A key development has been the emergence of new responsible investing opportunities, particularly in nature conservation and biodiversity. DC schemes can now lend to projects supporting education, healthcare, clean water, and habitat conservation. These investments not only seek to deliver

positive impact but can also provide savers with exposure to a growing segment of the global fixed income market.

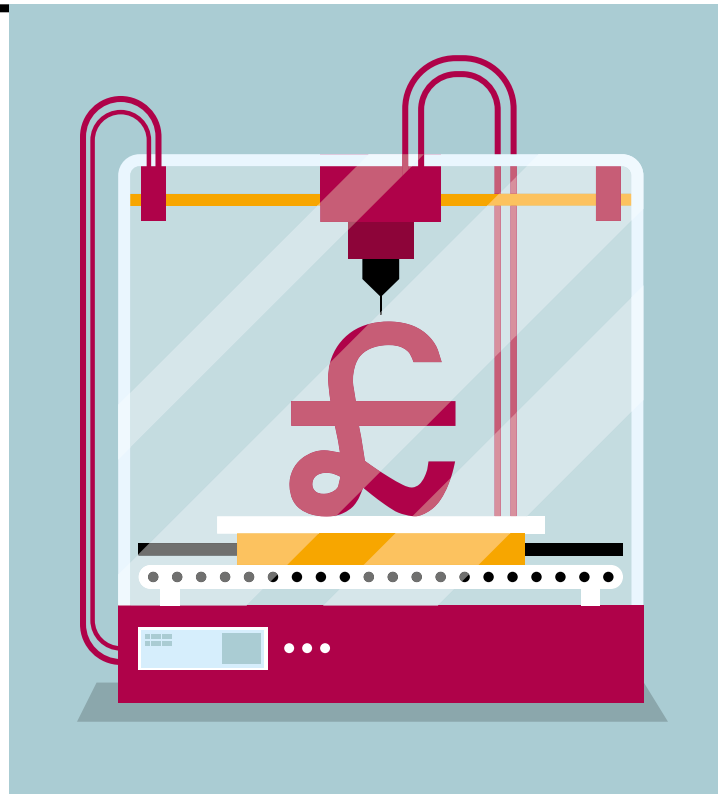
Private markets has also become a focal point for DC innovation. Assets such as clean energy, infrastructure, affordable housing, and venture capital offer tangible examples of how members' savings are being used. In our view, the long-term nature and diversified opportunity set (relative to traditional listed equities) of these investments make them a natural fit for DC default funds.

Other markets, like Australia, have already embraced this approach as part of diversification, risk management and higher risk-adjusted return strategies.

Affordable housing, for example, can offer lower volatility and stable cashflows even during downturns, while seeking real economic value to communities.

The inclusion of private markets has been largely driven by regulators and government, shifting the DC mindset from a primary focus on fees to one of value.

Private assets may cost more but can offer diversification and a liquidity premium, potentially improving long-term member outcomes. The Mansion House Accord in May 2025 set broad



targets for private assets by 2030. A UK tilt offers further benefits in boosting saver engagement by referencing more tangible examples of assets that they can recognise and relate to – a key factor in encouraging higher saving rates.

'Transformation' – innovation in default strategies

With around 90 per cent of UK DC pension savers in default strategies², innovation here is essential to help address adequacy.

Modern defaults aim to deliver more growth opportunities when members are far from retirement while balancing flexibility in decumulation. Approaching retirement, strategies need to place greater emphasis on risk management by lowering equity exposure and increasing dynamic asset allocation. However, doing so too quickly can mean missing out on significant equity market upside, especially for those remaining invested for long-term income drawdown.

There has also been a recent evolution in the design of default strategies, with target date structures offering clarity and flexibility for members. These allow schemes to adjust for derisking or innovation as members approach and move through retirement.

‘The need for balance’ – growth and risk

Balancing growth with *risk management is a central challenge for DC schemes. In a continuing climate of uncertainty and scrutiny, striking the right balance between risk and return is crucial.

When auto-enrolment was launched over a decade ago, initially pension schemes were more cautious, diversifying investments to mitigate the risk of negative returns that might discourage saving.

However, investor behaviour indicates that many savers remain committed to long-term retirement saving, even during market downturns. This has been evidenced during periods of market volatility such as the 2020 pandemic and 2022 market downturn. As a result, allocations to equities and other growth assets increased, targeting higher long-term expected returns while accepting greater investment risk.

Nevertheless, we still believe different types of *diversification remain crucial in managing risk and growth. This is important not just across regions, but also by including assets like infrastructure and global property,

which offer long-term exposure to economic growth and inflation-linked cashflows. Even as risk-taking increases to help retirement growth, pension schemes are shortening derisking periods and maintaining higher levels of growth assets closer to retirement, aiming to unlock more value for scheme members.

‘Bold decisions’ – future focus

Of course, investment evolution alone can’t solve the pension adequacy challenge. Regulatory change is a key driver, with the Pensions Commission, the government’s Pensions Investment Review, and Financial Conduct Authority’s Advice Guidance Boundary Review all set to bring more consolidation, increased investment in UK productive assets, and a greater focus on adequacy and value for money. Schemes must adapt to new frameworks and support members through complex retirement decisions.

A major shift is the move from cost-focused strategies to prioritising value and member outcomes. Trustees and employers are seeking improved retirement results for savers, driving innovation in pension design and investment strategy.

Technology is also transforming saver engagement and investment personalisation, with digital tools, AI, and data-driven solutions helping savers make better decisions and enabling schemes to

tailor strategies to individual needs.

We also expect to see more industry innovation in retirement income solutions, with hybrid default strategies – combining target date structures and guaranteed income products – gaining traction to help DC savers transition smoothly from saving to spending in retirement.

The future is about using every investment lever available, combining private and public market assets, multiple asset classes, dynamic asset allocation, and advanced risk management. Smarter investment strategies are about building resilience and focusing on long-term goals and outcomes, not chasing quick wins.

If the Fire Horse year symbolises anything, it’s that progress requires both courage and control. Solving pensions adequacy will mean working smarter through innovation, and harder through sustained regulatory, policy and investment effort. And nowhere is that more important than in the evolution of DC investment strategy, where smarter fund construction, diversification and long-term design can seek to unlock the growth today’s savers need.



Written by L&G head of UK DC distribution, Jayesh Patel

In association with



¹ DWP states a third of the UK working age population may be under saving for retirement in its Analysis of Future Pension Incomes 2025 report.

² As at date 27 November 2024 - Pension fund investment and the UK economy - GOV.UK

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