Retirement reimagined

Securing lifelong financial independence for all

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ASSOCIATION OF CONSULTING ACTUARIES

Foreword

Quite a grand title, don't you think? When we started this work – kicked off by the Association of Consulting Actuaries (ACA), who asked us to present their inaugural Bloomfield Bowtie Lecture (*password: stochastic)* – we weren't sure of the direction that it would later take. We opted for a "keep it broad and vague" approach - this was mainly so that we could argue that we'd hit our brief regardless of what we said! What we didn't expect was for our work to then be as expansive and far-reaching as it has since become.

This is the first report we have co-authored together, where we bring together the work undertaken for the aforementioned lecture and introduce other elements that we didn't have time to cover on the night. With the kind feedback received, we wanted to ensure that our work had a permanent home for others to read, share and challenge – thank you to the ACA and the Institute and Faculty of Actuaries (IFoA) for sponsoring our work. An interactive version is also available.

With the enjoyment found researching, discussing (with a little constructive arguing) and presenting our findings and thoughts, we hope that this is likely the first in a series from us, so watch this space. For now, we hope you enjoy our foray into the shifting views and needs in the world of retirement and pensions. We think that it needs reimagining and this report shares why.

A final note from us
We wrote this piece in a personal capacity, outside of our day jobs. It's a follow-up to our lecture and more of an exploratory thought piece than it is a formal position. The views are entirely our own, and are not necessarily those of our respective employers, the ACA, or the IFoA. If you've got questions, thoughts, or challenges, we'd love to hear them — just direct them to us, not the organisations we're connected to.

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Al is an investment actuary, and DC pension fund manager. Endlessly curious, Al believes that to address the structural shifts we all face requires creative thinking, and that this lies in creating opportunities for new and unexpected connections.

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James is a pensions actuary and financial wellbeing consultant. Increasingly disruptive, James is unconvinced that the system works and believes that by rethinking solutions holistically, we can deliver a more equitable and thriving society.

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Executive summary

The UK's retirement system is built on outdated assumptions: people retire at 65, live modestly for a decade, and state and workplace pensions suffice. That era is over. Today brings longer lives, rising inequality, insecure housing, and fragmented savings – with millions working hard all their lives, yet falling short of dignity in retirement.

Our system remains tied to rigid thresholds and averages, failing to reflect real lives. This report reimagines retirement across **four phases: the phase-in, the white-linen years, the television years, and the increased dependency years**. Each builds on the last and is rooted in securing financial stability before enabling financial ability, flexibility and contingency.

The case studies we explore alongside existing data reveal a stark truth: those who need most often get least. Homeownership now drives financial security more than income. Renters and women face significantly higher retirement costs. Meanwhile, the flat-rate State Pension increasingly helps those who don't need it – leaving others behind.

We propose bold but achievable reforms within auto-enrolment boundaries:

- A restructured State Pension with means-tested later-life supplements, potentially saving up to £34bn a year.
- A Universal Employment Pension ("UEP"), alongside a reformed State Pension, to guarantee a basic income – indexed to the Minimum Income Standard ("MIS").
- Use of existing infrastructure and evolving regulation – like the National Wealth Fund and multi-employer Collective Defined Contribution ("CDC") rules – to align pensions with UK growth, unlocking up to £25bn a year.
- Default sidecar saving to boost today's resilience and tomorrow's security, without harming retirement outcomes.

This isn't just about money. It's about fairness, dignity, and preparing for 100-year lives. Reform can't rest solely on individuals. Employers and the State must step up – with systems fit for modern life, not Victorian ideals.

Lifelong financial independence shouldn't be a privilege. It should be a right.

Retirement reimagined: securing lifelong financial independence for all

1. A fresh perspective

Retirement is a very new concept for us as humans at only ~150 years old. To put that into context, if human existence were compressed into 24 hours, "retirement" came just 43 seconds ago.

We think of retirement as a point in time, beyond which just 50 years ago you'd have been lucky to have had another decade to enjoy it. Retirement equated to the giving up of work and the passing of the torch to a new generation, whilst one rode into the sunset aboard a steady and secure income.

This hasn't been the reality for a long time, that decade long retirement has more than doubled over the last half century and with it the wants and expectations from those experiencing it have changed[1] as can be observed in Figure 1.

94%	94% of people want financial **security** when the time to retire comes alongside the financial **ability** to be able to live the lives they want in retirement.
81%	Over 4 in 5 (81%) want to be able to pay for care and assistance if they need it. A want for financial **contingency**.
~70%	Between 69% and 73% want financial **flexibility** to support their families, to travel, and afford big life events.

Figure 1: Research into retirement wants and needs

Despite this, as an industry, we fall short when helping people. We still think of retirement as a point in time and we talk about ideal pot sizes or replacement ratios, when we know that averages are exactly that - averages. The majority will not have an average savings journey, nor an average retirement.

Trying to solve an "adequacy" problem would benefit from multi-dimensional thinking, firstly breaking down adequate income levels based on the above wants and needs:

- **Security** – meeting an individual's basic needs on an ongoing basis;
- **Ability** – levelling up income to meet the ongoing living standards an individual wants;
- **Flexibility** – optionality to draw an additional income as and when is required; and
- **Contingency** – support if an individual's needs change significantly.

1 New research reveals: Financial stability is the UK's ultimate retirement dream | Legal & General Group

The four phases of retirement

Before rethinking retirement for what it is; a journey with ever-changing needs and some surprises thrown in too for good measure. To guide future pension systems and scheme design, the creation of products and to better support engagement, we have also created our **four phases of retirement** shown below in Figure 2.

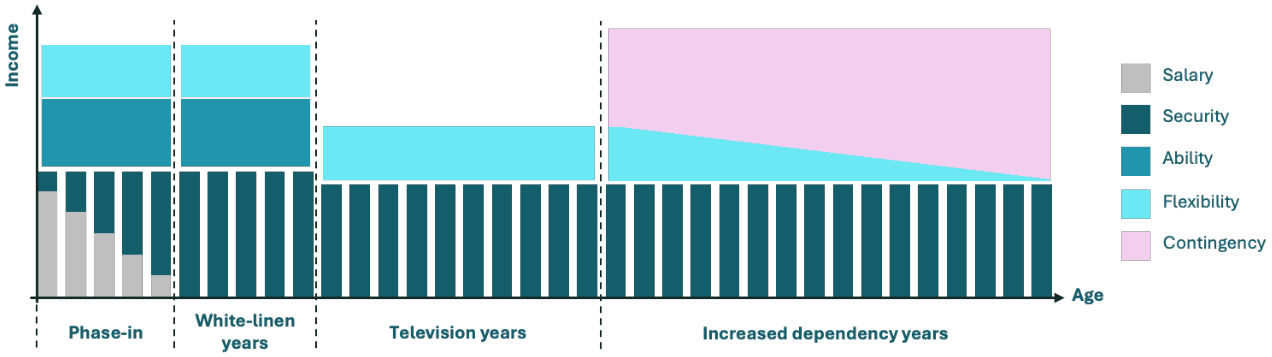

Figure 2: An overview of the four phases of retirement

The phase-in years

It is now the expectation of many that they will work into retirement, either by choice or by necessity.

45% of people are expecting to retire beyond the State Pension age ("SPA") or do not know when they'll retire. For the most part, these people expect to do so because either they want to keep working to maintain their physical or mental health, or indeed because they do not believe they will have the financial resources to retire.

In this phase, people will need the financial ability to supplement a reducing salary alongside the drawing of any state benefits.

The white-linen years

Beyond phase-in, people are now no longer earning a salary, but they have the health to enjoy this new freedom.

Attuned to the earlier want of financial security and the financial ability to live the life they want, it is in this phase that people need financial security via a steady income to meet their fundamental day to day needs, with something above this to provide financial ability to level up this income and the flexibility for the occasional trip or treat.

The television years

Following the white-linen years, the third phase or our "television-years" are those in which people are less inclined to go out so much.

In this phase, people's physical health begins to deteriorate, and a desire for a faster pace of life in retirement can wane. Their need for security is more important than ever and whilst social activity has dialled back, people still want the ability and flexibility to support and treat their families.

The increased-dependency years

Finally, we enter the fourth and final phase. It is an extension of the television years, but a risk of becoming increasingly dependent on others arises. Here, we know that the costs of care and assistance can very quickly mount up. Whilst a level of security remains fundamental, people need a financial contingency plan.

By understanding these phases and people's priorities, we can create solutions that meet real needs - not just theoretical ones, but what are the costs?

2. The price of dignity

Mapping retirement through four distinct phases clarifies how needs change over time. But understanding what retirement looks like is only part of the picture—we must also consider what it costs.

"Individuals, families and groups in the population can be said to be in poverty when they lack the resources to obtain the types of diet, participate in the activities, and have the living conditions and amenities which are customary, or at least widely encouraged or approved, in the societies to which they belong. Their resources are so seriously below those commanded by the average individual or family that they are, in effect, excluded from ordinary patterns, customs and activities."

Peter Townsend, 1979

Retirement should not mean exclusion from everyday life. This section examines what a dignified retirement costs, who can afford it, and the consequences for those who cannot.

Professor Matt Padley and the Centre for Social Research at Loughborough University have been asking these questions for nearly 20 years, and during this time developed the Minimum Income Standard (MIS). We spoke to Professor Padley, and he cited four words to us as being key components to fulfil dignity in retirement – choice, connection, security and opportunity.

As an aside, this team's work underpins a range of other well known reference point in industry including both the Living Wage Foundation's Living Pension and the Pensions UK Retirement Living Standards. It's regularly noted when many reference the latter that "they aren't helpful because they are net of tax". This is a misnomer. Expenditure amounts are used because people will take income in different ways in retirement; eg from ISAs, pensions or other savings vehicles. Depending on someone's circumstances and where they have saved throughout their working life, it is entirely possible for someone to draw an income to meet the expenditure needs referenced without paying income tax.

The Minimum Income Standard ("MIS")

The latest September 2024 update shows a total MIS[2] expenditure of £257 per week for a single pensioner, with the underlying detail on the various components that feed into this shown in Chart 1 below.

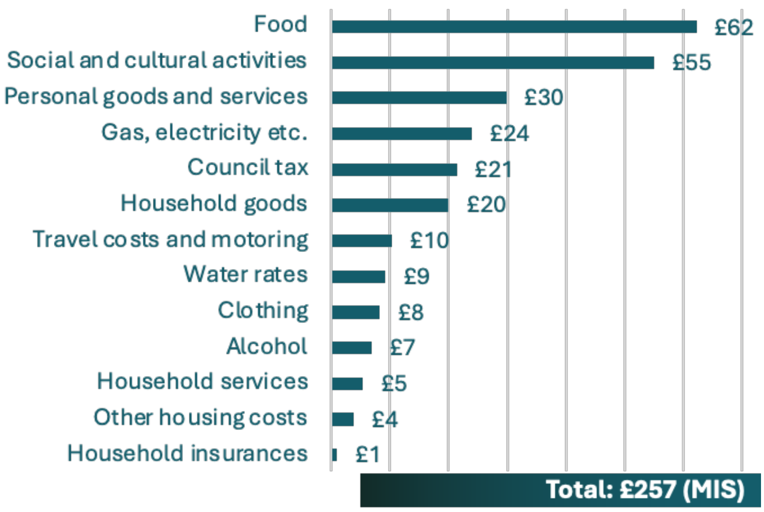

Chart 1: The Minimum Income Standard ("MIS") per week

[2] A minimum income standard for the United Kingdom in 2024

Note that the total doesn't include any mortgage or housing costs. You may also observe that the second largest component after food is the inclusion of social and cultural activities. This links directly to Professor Padley's use of the words connection and opportunity and can be linked further back through history to the work of Peter Townsend and his definition of relative poverty – an exclusion from ordinary living patterns, customs and activities.

We were sad to hear that, despite them being discussed each time the MIS is recalibrated, the MIS makes no allowance for pets in retirement… sorry Spot.

How about those housing costs though?

In the UK there are increasing numbers renting, and due to limited social rental stock, increasing numbers are doing so privately. This is set to rise further over the coming decades.

Data from the English Housing Survey[3] assessing changes over the decade to 2021-22 in Chart 2 shows increased proportions of every age group privately renting.

The prospect of renting into and through retirement may well be the reality for many, and with it the associated increased ongoing expenditure. Latest figures from the English Housing Survey for rental costs[4] for various areas of the UK are shown in Chart 3.

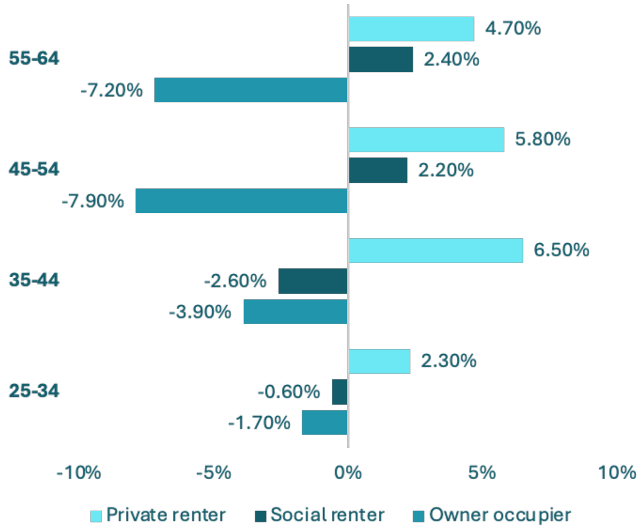

Chart 2: Change in % of age group in each category of tenure, 2010-11 to 2021-22

Chart 3: Median UK rental costs per week

From herein, we will use the median rental cost of privately renting across All England, **£196 per week**, in our figures and case studies. When we add this to the **£257 per week** for the latest Minimum Income Standard figure, an individual renting into retirement may be expected to require broadly **£453 per week** for dignity.

3 English Housing Survey 2021 to 2022: private rented sector - GOV.UK

4 English Housing Survey 2022 to 2023: rented sectors - GOV.UK

Costs for homeowners

Let's start with those who own their homes outright. We initially model an expected retirement expenditure of **£13,400 pa** (£257 per week from the MIS) as the price of dignity - shown in Figure 3.

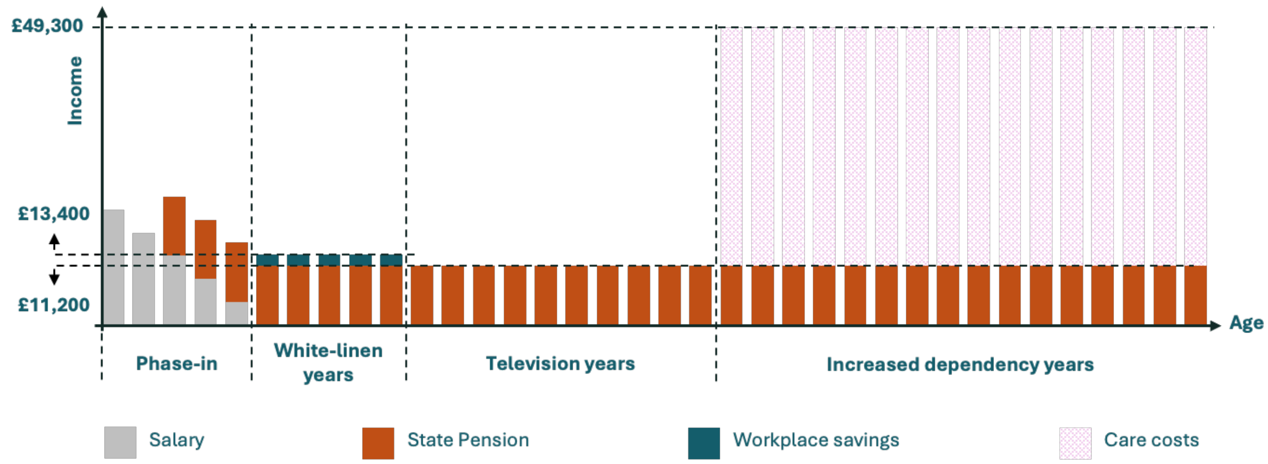

Figure 3: Estimated annual MIS costs for homeowners in retirement

In the **phase-in**, our retiree earns the national living wage while gradually reducing work. As they begin drawing a full State Pension – well-earned – their combined income from their salary and State Pension comfortably meets this target.

Eventually, they stop working entirely and enter the **white-linen years** but still want to enjoy retirement – perhaps a coach trip once a year (yes, that's factored into the MIS). However, the State Pension alone won't quite cover the £13,400 pa today, meaning workplace savings must bridge the gap.

That £13,400 pa isn't what we'd expect a retiree's expenditure will be forever and as they start to ease up on the social front, their expenditure reduces. As they enter the **television years**, we might expect our retiree to need **£11,200 pa** (£216 per week – adjusting for a slower pace of life and less travel).

At the current time, the State Pension covers this lower level of expenditure.

Later in retirement, our retiree is increasingly likely to be dependant on others for support, hence the **increased dependency years**. They might be able to be self-sufficient, but if they end up in care the cost of dignity will sky-rocket.

In the UK, average care costs are vast – our figure of **£49,300 pa** (broadly £949 per week from Age UK[5]) is the average cost of residential care. Nursing homes will set you back over 25% more than this.

Whilst we have not tried to fully solve the care conundrum as part of this work, we do explore one idea later as it is something that cannot be ignored. The expected pressure of care costs on the state in the years to come is something we cannot afford to close ourselves off from. It must be a part of our conversation.

As a reminder, we are actuaries, so we couldn't miss the opportunity to wave our fingers in the air and calculate some present values at retirement age. Joking aside, we actually have waved our

5 How much does care cost? | Age UK

fingers in the air here, not because we're lazy but because the point we're making is about principles.

On a reasonable set of assumptions, with a solid expected return of around 3.70% pa over inflation (Al is adamant she could achieve this in the long-run), our retiree living to 100, and a four-phase pattern of 5/5/10/15 (the years in each phase). We come to the above figures, with some liberal rounding.

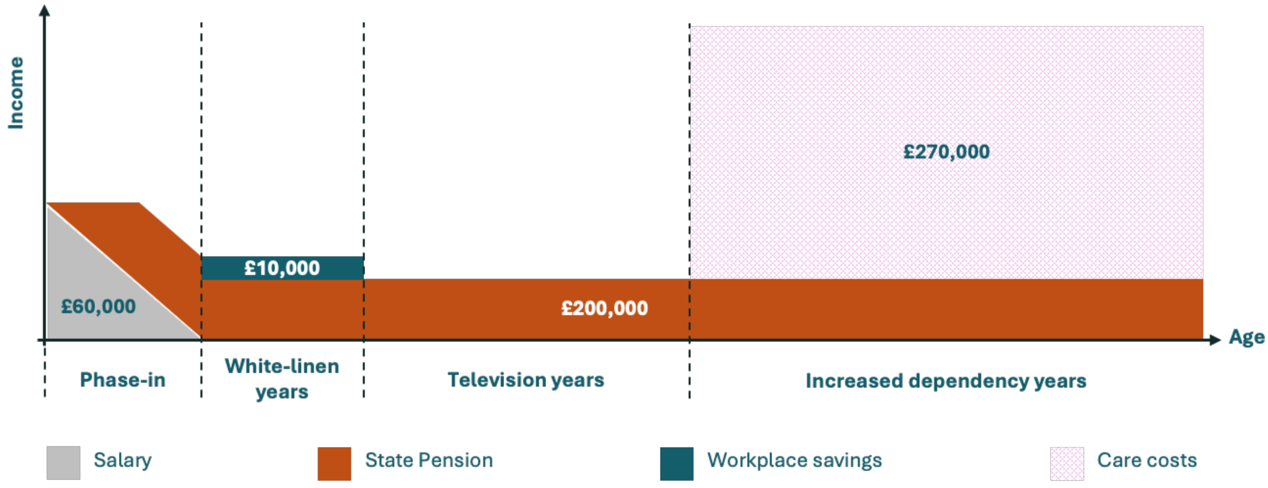

Figure 4: Estimated present values of incomes for homeowners in retirement at retirement age

In total, as seen in Figure 4, our homeowner retiree will need **£270,000** from their various sources of income in retirement, with just £10,000 needed from workplace savings, excluding any costs of care in later life. The costs of care have the potential to double an individual's retirement costs.

Costs for renters

But how does this picture compare for someone expecting to rent into retirement? Almost 1 in 4 people aged over 65 are expected to be renting in retirement from 2040 and this is only expected to increase. Akin to the care conundrum, this is an issue that cannot be ignored.

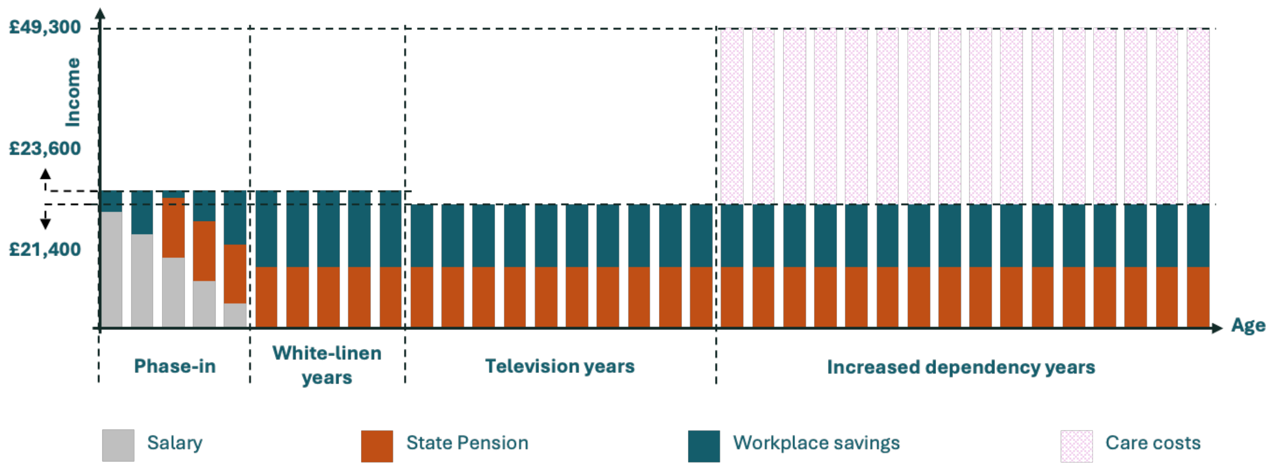

Figure 5: Estimated annual MIS costs for renters in retirement

Our renter in this example is all but identical to our homeowner, with exception of the property. This additional cost is substantial for our renting retiree. As you'll see in Figure 5, due to the levels of private rents in the UK, our renter in retirement will begin needing **£23,600 pa** – £10,200 pa more than our homeowner (the £196 per week for private rents across the UK).

It should be noted that this is more than the gross national living wage if working full time. They will need to draw on savings and their State Pension as soon as possible to give them dignity through these phases.

In the television years, the expected expenditure falls again to **£21,400 pa**.

Finally, in the increased dependency years our renting retiree can expect the same astronomical costs of care, **£49,300 pa**, should they find themselves there. Their silver lining? They've already been paying more to survive in the first place.

When we pull out our trusty calculators again here to assess the sum needed at retirement for renters, shown in Figure 6, you'll note that the value of our renter's income from their salary and State Pension is the same as our homeowner.

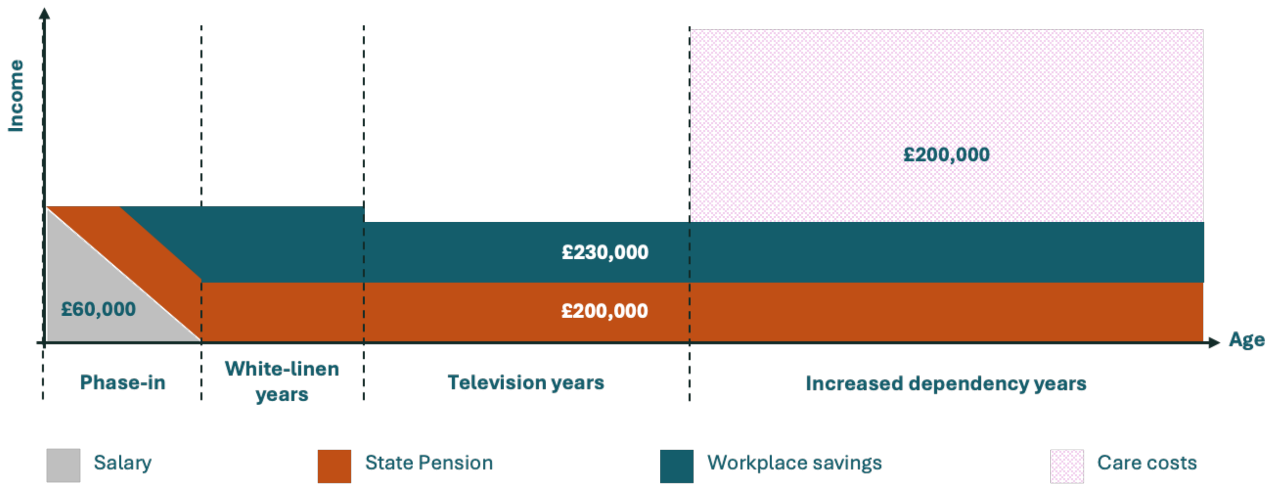

Figure 6: Estimated present values of incomes for renters in retirement at retirement age

The significant difference, is in their workplace savings – our renting retiree will need to have saved 23x more than the £10,000 needed by homeowners to meet their respective MIS.

Overall, our renting retiree will need **£490,000** from their various sources of income in retirement, excluding any costs of care in later life – this is nearly double the £270,000 needed by someone who owns their own home.

Note that whilst, the annual costs of care for a renter are the same, but due to the allowance they have already made for renting in later life, the top up for care is lower at £200,000.

Case studies: Renée and Paul

Now what better way to bring this to life than with a couple of case studies. Renée and Paul are based on real people. Renée is based on a lady Al has met in her time trying to solve pensions problems. Paul is someone we all know. Read more about their expected retirement positions overleaf.

Renée

- Is a single mother to two young children
- Works a full-time job in the care sector and has done since leaving school
- Earns the national living wage
- Receives auto-enrolment minimum pension
- Had time out of work to raise children
- Lives in privately rented accommodation
- Is just about keeping on top of her bills
- Has very low emergency savings

What might Renée have when she gets to retirement?

- Renée works throughout her life and despite career-break when she had her two children, will qualify for the full value of the State Pension - **£200,000**.

- As she nears retirement, Renée recognises she'll need to work partly in retirement to give herself the best chance. She has always been on national living wage in a physical job – she can't keep it up forever, nor does she want to. This gives Renée **£60,000** through her phase-in.

- Renée has benefitted from auto-enrolment pensions her whole life (except her career break). She's been fortunate that her employers have contributed from the first £1 of pension and from age 18. She's built a pot of around **£170,000** by the time she comes to retirement.

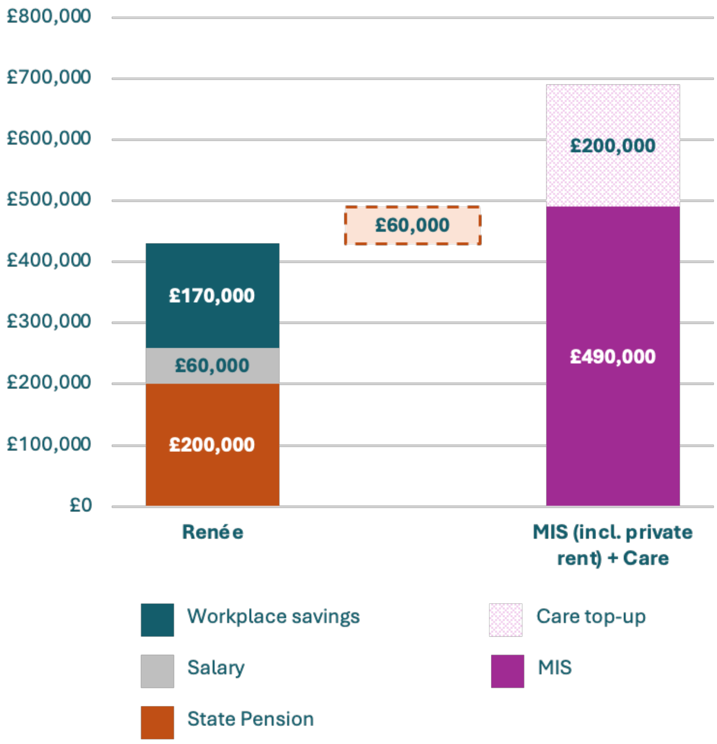

Chart 4: Renée's estimated retirement position at retirement age

- If Renée's employer had subjected her to the lower earnings limit, or not allowed her to contribute until the age of 22. Renée would have less than half of this saved – just **£80,000**.

How does this compare against the MIS?

- Well Renée has never owned her own home, and unfortunately due to the low levels of social housing where she lives, she expects to have to rent privately in retirement. The cost for Renée to live with dignity throughout retirement is expected to be **£490,000** - the figure we saw earlier.

- There is a chance that as Renée gets older, she might need to pay for a degree of care. Without other assets, Renée will be wholly reliant on the state should she find herself there – another sum of **£200,000** on top of the value of the State Pension she's receiving.

- As it stands, as you'll observe in Chart 4, Renée is expected to be around **£60,000** short of what she might need in retirement (excluding care) as a minimum.

- Despite working solidly throughout life; despite paying her taxes and her NI contributions; despite raising two children; Renée is unlikely to have dignity in retirement.

Paul

- Married with two children
- Joined the workforce as a graduate and works full-time as a consultant
- Earns consistently above the median wage
- His employer provides a generous pension
- Has remained in employment from age 22
- Recently bought his forever home
- Finances still feel tight
- Has multiple emergency savings options

What might Paul have when he gets to retirement?

- Paul similarly works throughout life but joined the workforce later as a graduate. He will qualify for the full value of the State Pension - **£200,000**.

- As Paul closes in on retirement, he doesn't want to give up work completely. He's earning well and he's in a comfortable role. Paul winds himself down into retirement on a good salary giving him a further **£160,000** over his phase-in.

- Paul's employers have been more generous through his life when it came to pensions. On average between him and his employer he's saved at a rate of 15% and as such at retirement Paul has workplace savings of **£790,000**.

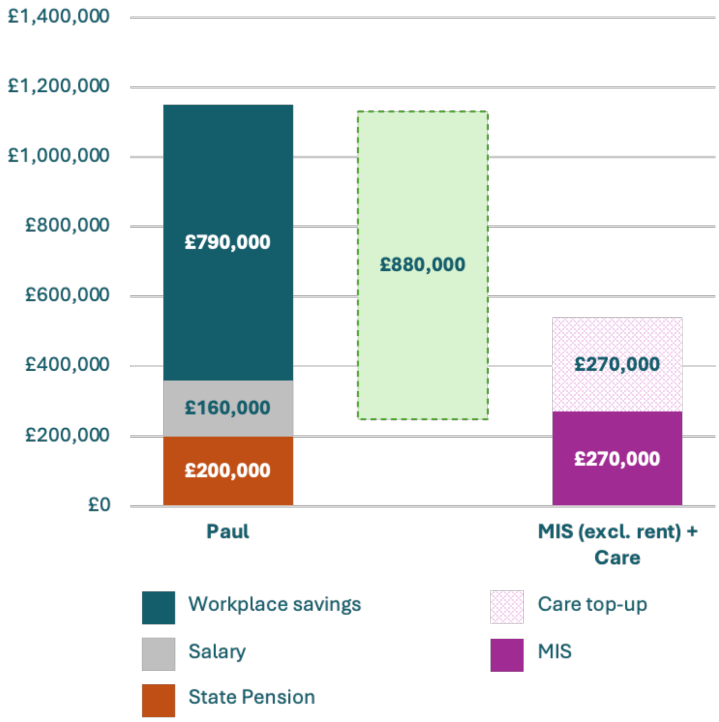

Chart 5: Paul's estimated retirement position at retirement age

- If Paul's savings journey had been the same as Renée's – ie on auto-enrolment minimums and with a career break – his workplace savings pot would be broadly **£300,000**.

How does this compare against the MIS?

- Sadly, when Paul and his partner spent more time together after the kids flew the coop they realised they weren't right for each other anymore. Fortunately, following an amicable divorce, Paul held onto his pensions and was able to buy himself a comfortable bungalow after they sold the family home. [You can also read this as we need Paul and Renée to be comparable…]

- The cost for Paul to live with dignity throughout retirement is expected to be **£270,000**.

- Similarly to Renée, as Paul ages, he might need to pay for care. Whilst the cost of care is the same, Paul is not funding for rent in retirement and thus the difference between his MIS and the total cost of care is also **£270,000**.

- As it stands, as shown in Chart 5, Paul is expected to have **£880,000** more than what he might need in retirement (excluding care) as a minimum.

- It's more than likely that Paul will be fine. He will be able to use this to fund a lifestyle that he wants.

We can probably agree that Renée and Paul have both worked hard? They've contributed to society and they have earned the right to retire and to do so with dignity. The interesting observation however is the disparity of their outcomes.

Whilst Paul's earnings through life are somewhere between 2-3x that of Renée's, when it comes to wealth Paul is expected to have assets come retirement of nearly 5x more than Renée (excluding his home and other savings – of which Renée has neither). When you then consider that the cost of Paul's dignified retirement will be half of Renée's, we might argue that Paul will be 10x better off. This is a phenomenon far bigger than Renée and Paul…

Inequality in the UK

When we zoom out and look at the UK we see the same picture. In Chart 6, we observe a steady increase in net equivalised income by wealth decile.

What is not shown here is that amongst 38 OECDs, the UK ranks **9th most unequal** when considering income levels[6].

Whilst Renée and Paul sit somewhere in the 4th and 9th deciles respectively with a 2-3x income difference between them, those in the highest decile earn more than 7x those in the lowest.

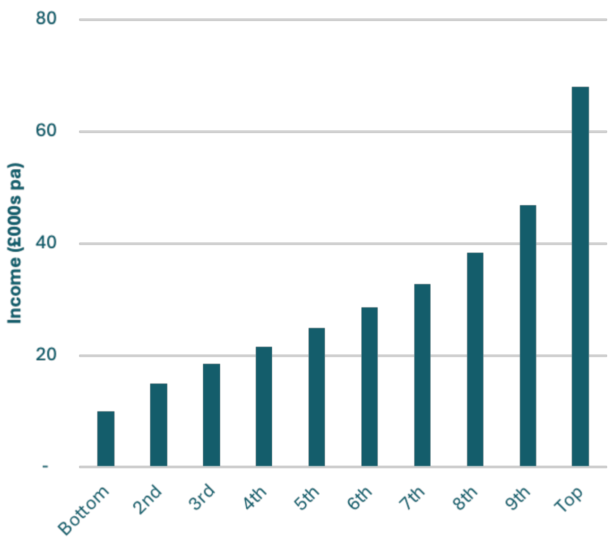

Chart 6: Median household net equivalised income by decile

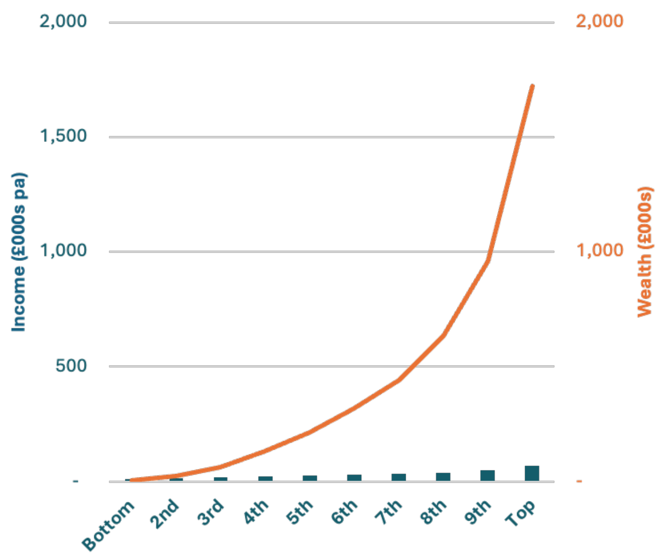

Chart 7: Median household net equivalised income and total wealth by decile

Whilst incomes are somewhat unequal, the level of total wealth inequality is extraordinary.

When you overlay the median wealth held by those in each decile and compare this to income, in Chart 7, we observe the phenomenon we saw just between Renée and Paul.

Here, the top 20% hold broadly two-thirds of the wealth in the UK. The bottom 20% holds less than 0.5% - 134x more.

6 Income inequality | OECD

Drivers of inequality in the UK[7]

Lorenz curves are a graphical representation of net wealth distribution. They plot cumulative net wealth against the cumulative population, ranked from poorest to richest. The further the curve is from the 45-degree dotted line (perfect equality), the more unequal the distribution. We can use Lorenz curves to view inequality by component of wealth - see Chart 8.

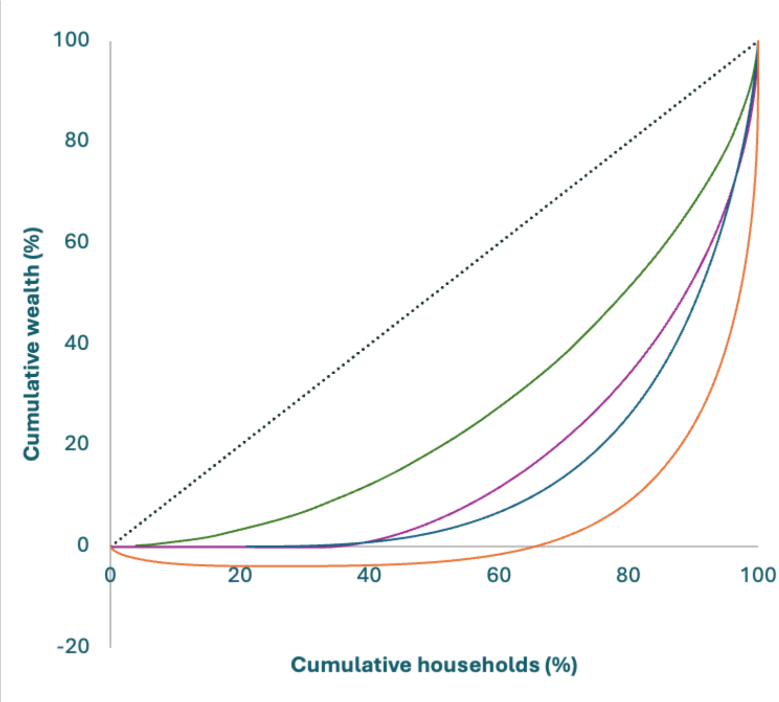

Chart 8: Lorenz curves for components of wealth in the UK

The least unequal component in the UK is physical wealth (the **green** line) – think your cars, artwork, the bike you tell yourself you'll ride again one day. Most households in the UK have some level of physical wealth.

Next up is property wealth (**purple**) – you'll note that the first ~35% of the UK hold no property wealth.

The second leading driver of inequality in the UK is private pension savings (**blue**) – over 50% of pension wealth is held by the wealthiest 10% in the UK.

Finally, the largest driver of inequality in the UK is financial wealth (**orange**) – including mortgages as well as other investments.

7 Wealth in Great Britain Wave 5 - Office for National Statistics

3. The individual effort

We've just seen the extraordinary levels of inequality, with pension wealth being more unequal than overall wealth. It is clear that some will be okay, but many will not be.

The choices that individuals have ahead of them will also be limited by a whole raft of circumstances that they may well find themselves in, one could argue through no fault of their own.

The tired answer to this problem is to say that everyone must save more, but this just isn't good enough for several reasons that we'll explore in more detail in this section.

The very idea of retirement is shifting, with future generations set to move away from the traditional three-phases of full-time education, work and finally retirement, to something far more fluid. In Lynda Gratton and Andrew J. Scott's book, the 100-Year Life: Living and Working in an Age of Longevity[8], they explore how life might look given the extra time most of us will have with recent longevity improvements.

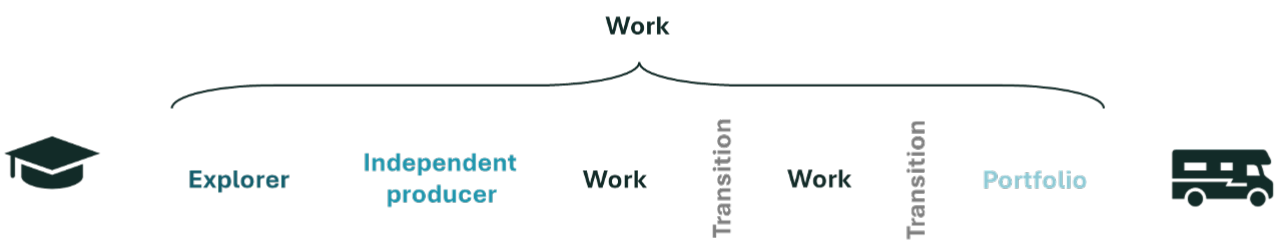

Figure 7: 100-year life future expectation of working life

Work they envisage will be far more fluid, broken into various different stages or phases including:

- **Explorer** – discovering what is out there, how it works, what you like and what you might be good at. This is a process of engagement rather than mere observation.
- **Independent producer** – making a product, creating a service, building an idea. At this stage you are engaged in independent self-supporting productive work.
- **Portfolio** – towards the end of your work phase, pursuing a combination of activities may well appeal to (1) continue to earn, (2) maintain vitality and stimulation and (3) continue to learn and make a social contribution.

But a reminder that this new reality will not be for all, there is currently a huge difference in life expectancies between the most and least deprived in the UK, a whopping 8-9 years (Chart 9).

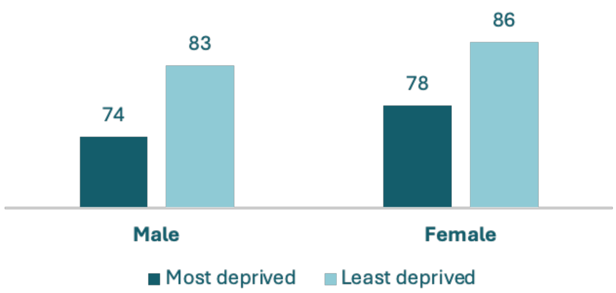

Chart 9: Average life expectancy at birth, years

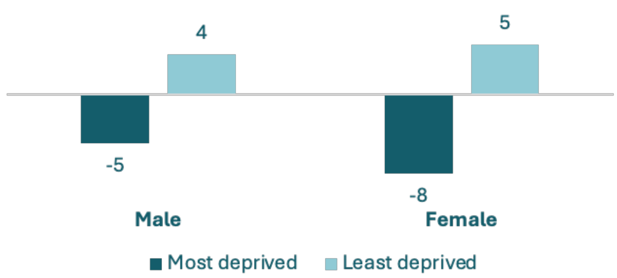

Chart 10: Recent improvements in life expectancy, months

8 The 100-Year Life

This difference in longevity expectations is widening over time. Over the last decade the improvement gap has widened by on average 7 months (Chart 10) and is especially pronounced for women. It is unlikely that someone like Renée will have as much choice and opportunity when it comes to whether they can work for longer.

Whilst we look at average life expectancies here, it's also been reported that the difference between "healthy life" expectancies – ie the age to which people maintain good health – is 19 years between the most and least deprived.

This further demonstrates that to ask those who are more deprived to work longer is a tall order.

Why can't people save more?

According to the latest Households below Average Income survey from the Office of National Statistics (ONS)[9], 20% of the roughly 40 million of us working are deemed to be living in relative poverty - defined as an income below 60% of the median income of the total population[10].

Of these, just over 1 in 4 of those in relative poverty are deemed materially deprived (to be classed as materially deprived, individuals need to answer "No" to enough of the questions they are asked on whether they have access to the likes of; a holiday away from home annually, at least one filling meal a day and having a warm waterproof coat) so broadly 6% of the working population.

Beyond relative poverty and material deprivation, recent Resolution Foundation research[11] found that 11.2 million people live in households that have savings of less than £1,000, accounting for about one in three working-age households.

People like Renée will often be found in these households. These people can barely save for an emergency fund – expecting them to save more into a pension is a big ask.

Who is struggling most?[12]

Women - some 19% of women over State Pension age are living in poverty, compared to 16% of men. These figures are worse for women who live alone, with 26% of single women in poverty.

Renters - over the last decade, there was an increase of 56% in the number of households of those aged 65+ privately renting. Research commissioned by Independent Age shows that 1-in- 4 older private renters in the UK are living in long-term poverty (deemed as experiencing poverty for seven to nine years).

Single people - 35% of those aged 65+ live alone in the UK. Some 25% of all single pensioners were in relative poverty in 2021–22.

Low savings - 60% of those with no workplace/personal pension are in relative poverty, compared to 26% of the overall pensioner population with no workplace/personal pension. A total reliance on state support in retirement is the largest risk factor in terms of the proportion of older people in poverty.

9 Households below average income: for financial years ending 1995 to 2023 - GOV.UK

10 UK Poverty 2024: The essential guide to understanding poverty in the UK | Joseph Rowntree Foundation

11 https://www.theguardian.com/business/2024/feb/12/more-than-11-million-britons-have-less-than-1000-in-savings

12 The hidden two million: The reality of financial hardship in later life

The challenges we're facing

Increasing longevity

More than half born today are expected to reach 100, meaning retirement will soon extend beyond three decades for many. Healthy life expectancy expectations haven't kept pace - retirement costs can be expected to sky-rocket.

Shifts in housing

In the last 30 years of homeownership, for those aged 30-34, home ownership has fallen from 65% to just 40%[13].

Declining birth rates

Falling fertility rates, linked to rising gender equality and lifestyle costs will lead to a shift in the old-age dependency ratio further. In England & Wales[14], we have just recorded our lowest rate in history – just 1.4 – well below the required replacement ratio of 2.1 (excluding immigration).

Stagnation

There has been a troubling lack of growth in productivity and living standards for a fair few years now in the UK, with earnings growing over the last decade at their slowest rate in more than 200 years according to the Institute of Fiscal Studies.

Keeping up appearances

A lack of control over one's finances was quoted by StepChange as the leading reason for debt in 2022, overtaken only by the cost-of-living crisis in 2023[15].

Debt levels

Household debt levels are vast, currently averaging ~99% of the median annual income. Homeownership (for the lucky few) is happening later, meaning higher debts later in life. 43% also hold credit card debt, 22% have overdraft debt[16], and 1.8m have student loans over £50,000.

We're sleepwalking into a crisis, and when a minority sound the alarm, the majority hit snooze. People are living longer – many will reach 100 – but few have the savings to fund decades of retirement. Healthy life expectancy isn't keeping pace, so the cost of later life is set to spiral. Meanwhile, wages have stagnated, homeownership is slipping out of reach, and household debt has soared to 99% of median annual income.

And yet, where's the urgency? Fertility rates have hit record lows, shrinking the future workforce expected to support an ageing population. Instead of tackling these systemic failures, we act as if individuals can somehow save their way out of it.

13 The decline of homeownership among young adults

14 Births in England and Wales: 2023

15 Personal debt in the UK

16 The state of managing debt in the UK, 2023

For over 90% of private sector workers, the responsibility of retirement saving has shifted firmly into their hands. The great risk transfer employer to individual has left people navigating an increasingly hostile financial landscape with little more than wishful thinking.

We pretend this is about “personal responsibility” when the reality is far starker. People cannot save what they don’t have. They cannot plan for a system that no longer works. And they cannot bear a burden that was never meant to be theirs alone.

So, where’s the action? Instead of real reform, we get half-hearted debates and empty gestures. The longer we ignore this, the worse the fallout will be. It’s time to stop treading water and start fixing the system before it’s too late.

4. The state of the State

In a White Paper[17] published in 2006, which announced the launch of auto-enrolment amongst other changes, the Government set out its plans to reform the structure of the UK pensions system - "Government has a responsibility to protect its citizens against poverty and insecurity in retirement".

The Government set five tests for any reform package, building on the successes and principles for reform to date:

1. **promote personal responsibility**: tackling the problem of under saving for retirement.
2. **be fair**: protecting the poorest, and being fair to women and carers, to savers, and between generations.
3. **be simple**: clarifying the respective roles of the State, the employer, and the individual.
4. **be affordable**: maintaining macroeconomic stability and striking the right balance for provision between the State, the employer, and the individual; and
5. **be sustainable**: setting the basis of an enduring national consensus, while being flexible to future trends

Nearly 20 years on, we reflect on these principles of reform and ask if the system meets these tests.

Is the system fair?

The second of these principles was that any reforms should **be fair**; notably protecting the poorest.

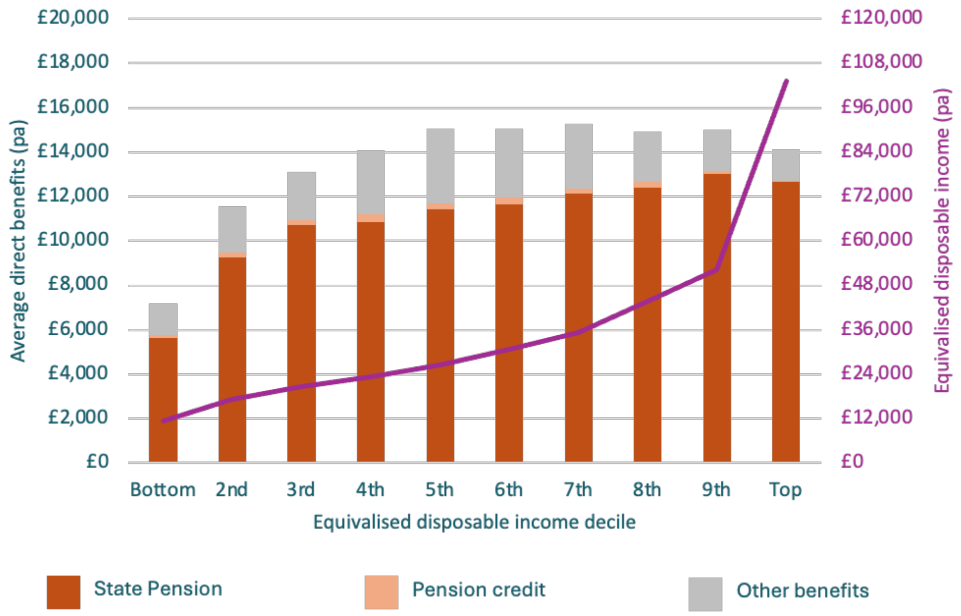

Chart 11: Average direct benefits in retirement compared to equivalised disposable income

17 Security in retirement: towards a new pensions system - GOV.UK

Chart 11 is from the most recent Wealth and Assets survey, 2018 to 2020[18], and shows the average household direct benefits in cash received by retired individuals by decile, ranked by equivalised household disposable income.

The State Pension as you might expect is the largest benefit, but the shape of who is supported by this might surprise you.

Pension credit, a means-tested benefit for people over State Pension Age and living on a low income, provides a very small addition to the picture, with a known significant amount of this benefit unclaimed each year by pensioners.

Independent Age estimates that around 3 in 10 eligible for it are not claiming it, amounting to ~£1.5bn in unclaimed benefit per year.

Completing the picture are other benefits such as carers allowances, disability benefits and winter fuel payments.

The equivalised disposable income for each decile is shown by the purple line overlaid on the chart. Those with the least disposable income seem to be currently receiving lower direct benefits in cash in retirement than those on far greater income levels.

This is very different to the picture for working age households, as seen in Chart 12, where those with lower disposable income receive greater levels of support from the State. Is the distribution of state benefits in retirement fair?

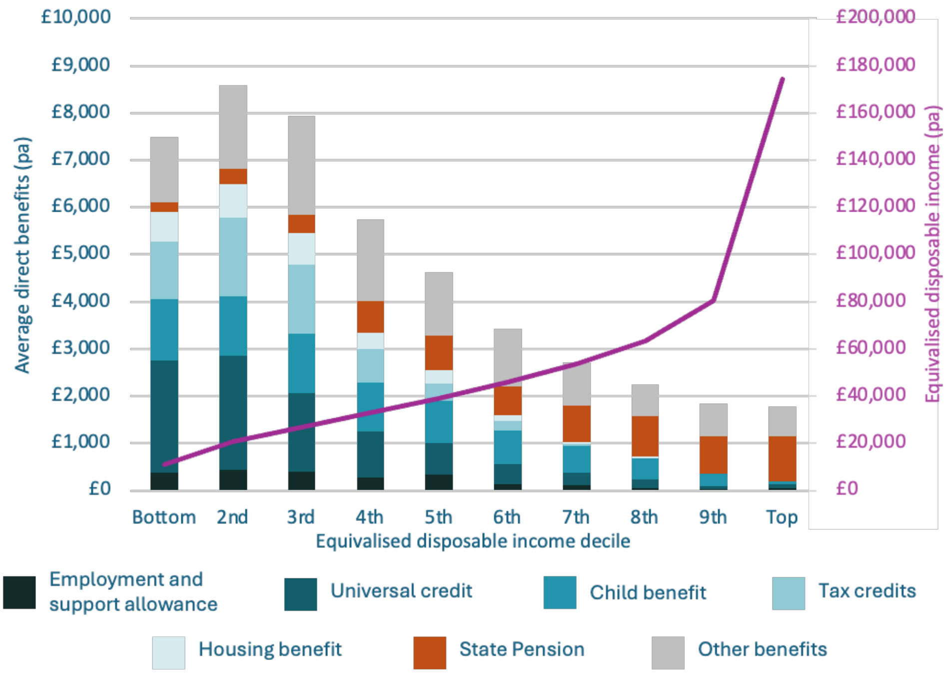

Chart 12: Average direct benefits in working life compared to equivalised disposable income

Is the system affordable?

Next, we consider principle 4 where reforms should **be affordable**; maintaining macroeconomic stability and striking the right balance for provision between the State, the employer, and the individual.

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[18] The Effects of Taxes and Benefits on Household Income, UK, ONS

So, how is state support estimated to change over the coming years? Chart 13 from the Office of Budget Responsibility (OBR) shows the projected total Government revenue and spending over the next 50 years[19].

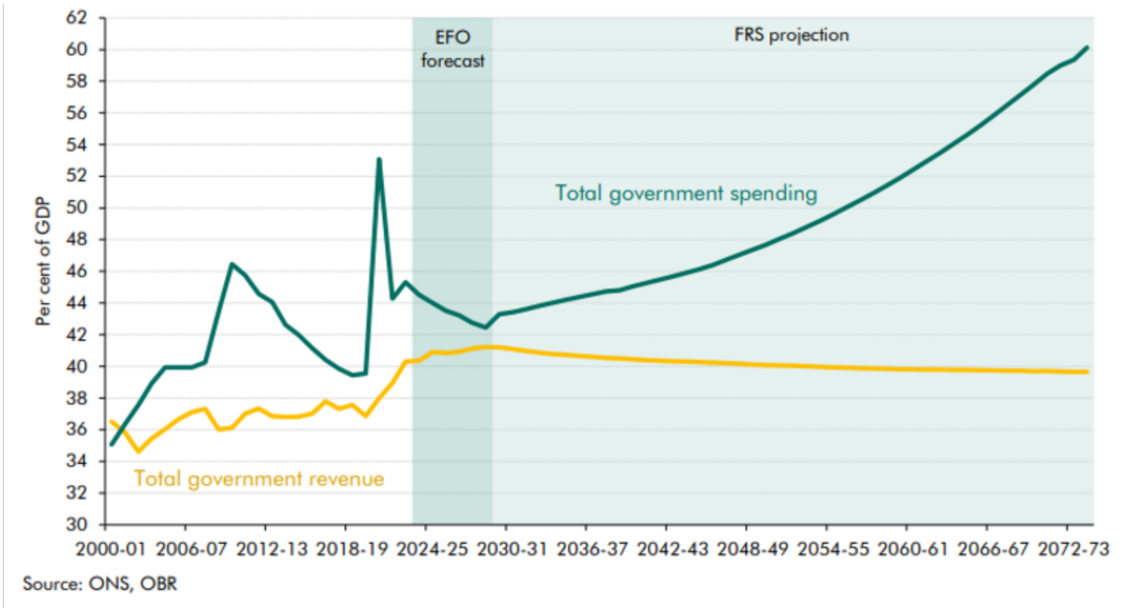

Chart 13: OBR projection of government spending and revenue

Given the demographic changes touched on earlier, the median age of the population rises from 40 to 46 over the projection period. Why is this relevant? Because after interest on borrowing, the spending implications arising from our ageing population are expected to be the largest contributors to the growing gap between government revenues and spending.

Whilst government revenues are estimated to slightly decline over the period, spending is projected to steadily increase as a share of GDP. This is driven by demographic changes and other economic pressures. By 2073, when today's 18-year-olds will be retiring, spending is forecasted to be a whopping 60% of GDP. Of this, just under half is predicted to be spent on health, adult social care and State Pension costs.

Given that State Pension costs are one of the main contributors to the projected increased state spending over the next 50 years, could the funding potentially dry up?

Chart 14, which can be found in the Government Actuary's Quinquennial Review of the National Insurance Fund (NIF), April 2020[20], shows the principal projection to 2085-2086 of the NIF balance. This review of the NIF shows the balance was projected to rise to £105bn by 2032-2033 then to decrease and, in the absence of any additional financing, to be exhausted by 2043-2044.

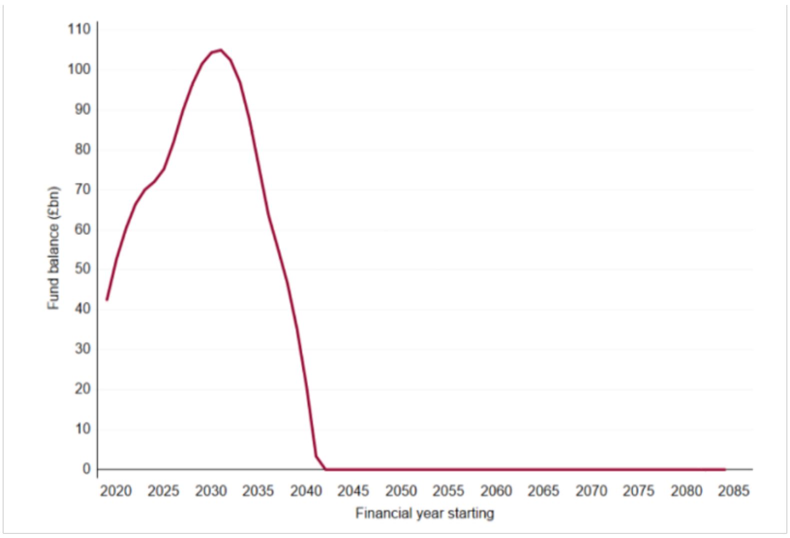

Chart 14: Projected National Insurance Fund balance 2020-21 to 2085-86

19 Fiscal risks and sustainability – September 2024 - Office for Budget Responsibility (Chart 1.1)

20 Quinquennial Review 2020 - GOV.UK (Chart 2.1)

Changes in the NIF balance are a function of contribution income (mainly National Insurance Contributions, 'NICs') and benefit expenditure (mainly State Pension payments). As the NIF balance is small relative to annual contribution income and benefit expenditure, small changes in the size of these cashflows can have a large impact on the NIF balance.

The NIF has seen turbulent times since 2020, including unprecedented strain on the health service arising from the Covid-19 pandemic, reductions on the rate paid by employees and then recently increases on rates paid by employers – the latter recent change was forecast to raise an additional £25bn pa. The April 2025 review may show the NIF balance projection to be healthier than what is shown here, but can we continue to consider the State Pension to be affordable?

Is the system sustainable?

Finally, we consider whether reforms remain **sustainable**; they should meet a national consensus and be flexible to future trends.

Projected changes in the size and age structure of the population of the UK mean that over the next 50 years there is a major increase in the number of State Pension recipients relative to the working age population. This results in NIF expenditure projected to increase more rapidly than NIF income.

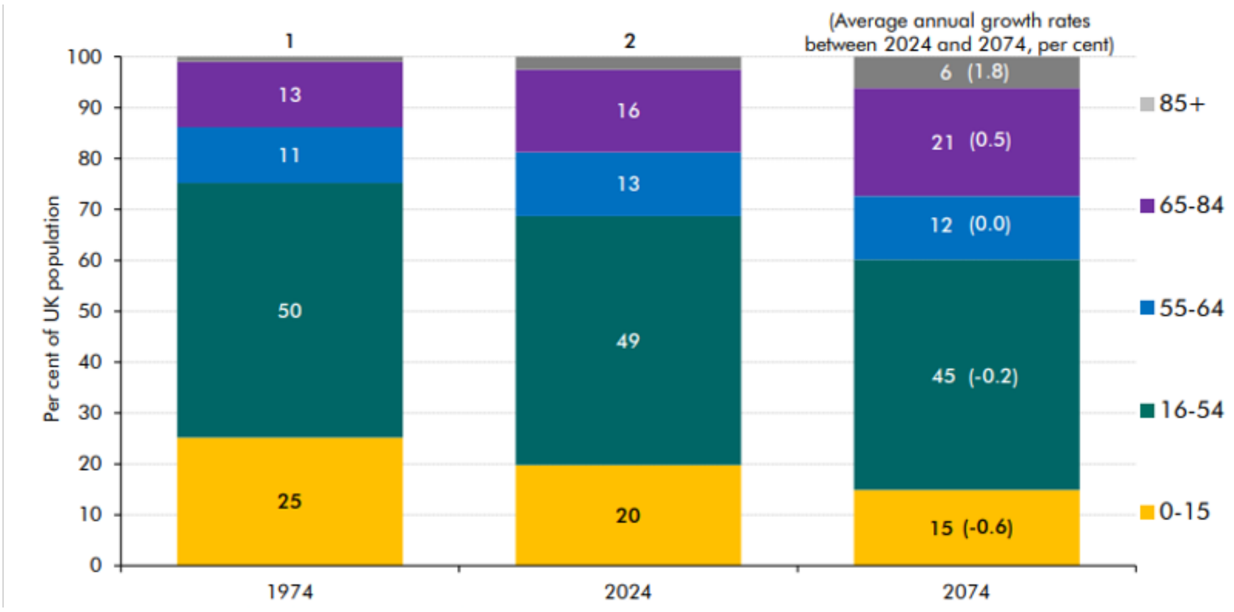

Chart 15: OBR projection of population age structure in 1974, 2024 and 2074

The effect of assumed increases in State Pension age has only a limited impact in mitigating this trend. The old-age dependency ratio – the number of pensioners per 100 working-age people – is projected to increase over the coming 50 years, with an increasing number of pensioners dependent on the working-age population[21]. The OBR projects that the old-age dependency ratio will drastically increase from 31% (ie just over 3 workers per retiree)to 47% (just over 2 workers per retiree) - shown in Chart 15.

The latest quinquennial review of the NIF provides an estimated 12% absolute increase in National Insurance rates required to cover benefit expenditure at the end of the projection period due to these changes in demographics.

21 Fiscal risks and sustainability – September 2024 - Office for Budget Responsibility (Chart 1.8)

Could we solve the funding gap with taxes?

We've very briefly explored three of the five principles and tests that were applied to any reform considerations. Based on expected population trends and the subsequent impacts on spending, it strikes us that the current system is not sustainable. Neither does it appear to be fair with those with the largest levels of disposable incomes receiving the greatest state support in retirement.

When we consider affordability, we face a tricky question of "affordable for who?". Retirement will not come cheaply for many of us, and when we consider who should be paying for it, it is clear that the status quo is not affordable for the State - the balance is going to have to shift.

A blunt instrument to shift this is via taxes; something we seem to generally consider to be the answer. A slightly greater burden being put on employers and employees (directly and indirectly) via increased NICs, or via the wonder of fiscal drag coming from tax threshold freezes.

But the root of the problem we are facing is not wholly economic, it is largely demographic. It is that we are not expected to have a working population that is sufficient in size to support our growing population of retirees without such tax hikes. Our options are therefore to relax immigration to fill the void, or to promote reforms that lead to more affordable working lives and thus a greater numbers of babies…

The leading reasons cited by many for not wanting any (or more) children is the impact on their standard of living and the cost (emotional, physical, time and financial…). By the time people feel able to, many feel or indeed are too old; with IVF requests at all time highs. What we have created is a self-fulfilling prophecy of demographic decline – insofar as by the time we are willing to accept the change of lifestyle and believe we can afford it; we then think that we're past it.

With affordability and living standards the leading reasons for our low fertility rate, the raising of taxes will only drive our fertility rate down further. We must review the whole system to deliver a society that fosters community and a world we are willing to bring children into. This must start with the State; but what could they do differently?

State Pension reform

While the State could, in theory, just **pay more**, the financial reality makes this unrealistic. The charts earlier highlight an unsustainable burden, meaning it would require steep tax hikes or major cuts elsewhere. With rising costs and demographic shifts, this approach isn't viable. Instead, we need to focus on more sustainable solutions.

Beyond paying more, some propose further **increasing the State Pension age**. However, as shown earlier, the poorest live nearly a decade less, meaning those most reliant on the benefit may never even receive it – worsening inequality. Raising the pension age to 70+ could mean one in three of the poorest miss out entirely.

Alternatively, we could **pay less**. The flat-rate State Pension has helped reduce pensioner poverty, yet the UK ranks only 18th among OECD peers. The next generation of retirees won't have generous Defined Benefit ("DB") pensions, nor significant Defined Contribution ("DC") savings. With four million pensioners expected in poverty by 2040, cutting their main income source isn't viable.

Which then only leaves a significant shake-up via **means-tested support** – focusing on those that really need the help. Recent Government figures showed that 7% of pensioner couples, and 20% of single pensioners have no source of income other than State Pension and other benefits. A start could be made here by enabling and widening use of the existing benefits and programmes we do already have, for example Pension Credit, but this will only go so far and certainly won't help our future spending concerns. It is times like this that we must look internationally for inspiration.

When in doubt look to the Nordics

In Iceland[22], state benefits in retirement look somewhat different. Whilst the base state pension is not means tested, it is lower at roughly 15% of the median income and paid from 67.

On top of this, overall retirement income is then built up via a handful of means-tested supplements each dependent (shown in Chart 16) on how much you have managed to save into a workplace pension.

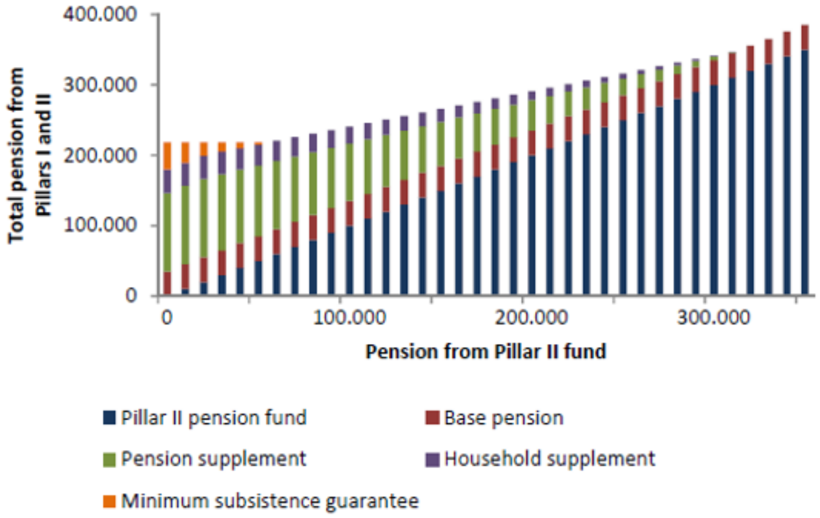

Chart 16: Overview of Icelandic state retirement benefits

Here, workplace pensions are compulsory and have 12% contribution rates, split 4% employee & 8% employer.
There are three supplements:

1. a pension supplement, based on your savings levels;
2. a household supplement, for people who live alone; and
3. a minimum subsistence guarantee, ensuring that everyone secures a minimum total amount of at least 45% of the median income.

This is ~10% above the Icelandic poverty indicator, set at 60% of median disposable income.

You might think that with all this state support; people would be inclined to kick-back and not worry too much about working? In fact, the opposite is true. According to OECD statistics[23], Iceland ranks highest overall for both male and female employment rates. In the youngest (15-24) and oldest (55-64) population groups, Iceland achieves by far the highest work participation scores. Chart 17 shows how employment rates in Iceland compare to the UK.

Furthermore, in Iceland, employment participation among the 65-69 age group is again by far the highest among OECD countries. Icelanders generally retire later than other advanced Western nations.

This reduces the burden on the social security system, as Icelanders have fewer years in retirement than is common elsewhere, even though Icelanders are right at the top of the longevity list.

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22 Retirement savings adequacy, The Financial Supervisory Authority in Iceland

23 OECD, Employment rates in the UK and Iceland, 2024

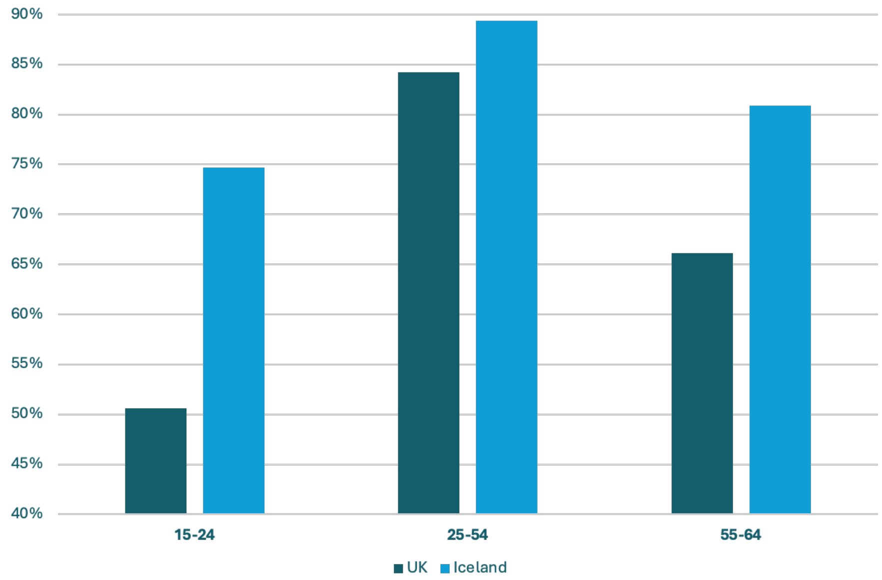

Chart 17: Employment rates by age group in the UK and Iceland

Now we are more than aware that we aren't Iceland. You also can't pick and choose the bits and bobs from other international systems without an appreciation of the context within which they've been created – although we do happily do this with Canada and Australia. So, permit us the opportunity to take some Icelandic inspiration and let's see where we get to…

Icelandic inspiration

First things first, let's look at what we are delivering today for our retirees in Chart 18.

- Starting with our guiding light of our minimum income standard (excl. housing) – you can observe this as the dashed line.
- When we build the picture starting with net incomes (private pensions and other private income) and other state benefits, we observe that the top 50% have sufficient incomes from these to meet the MIS.
- The current State Pension system then delivers MIS for all but the bottom decile as well as topping up the incomes of those already above MIS.

The entire bottom 50% are reliant on the State Pension to meet the MIS. It could be argued that the top 50% do not need it.

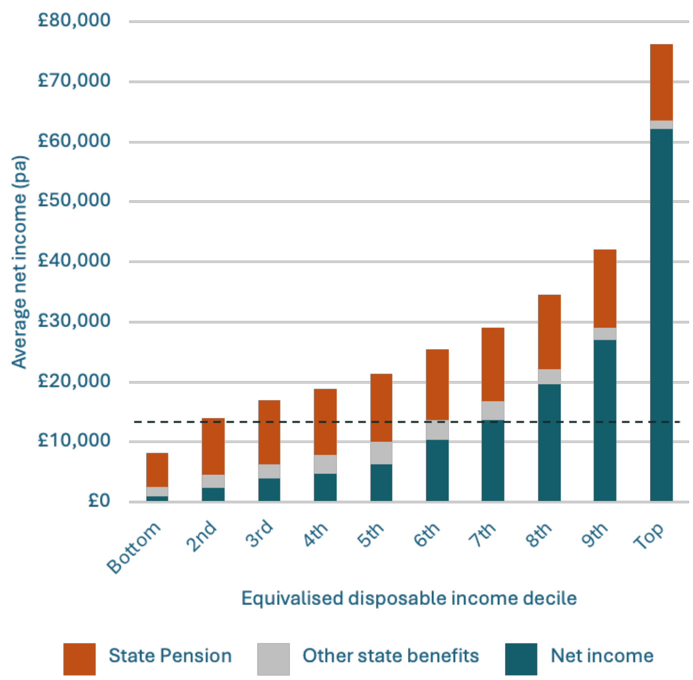

Chart 18: Average net incomes by disposable income decile, split by income source

Having just reviewed affordability, sustainability and fairness of this. We must question the delivery and distribution of the State Pension in order to protect those most susceptible to poverty in retirement.

So, in the interest of ensuring a system that is more affordable, sustainable and fair – Chart 19 demonstrates replicating the Icelandic system in the UK.

- Firstly, we scrub out the existing State Pension and include a new base State Pension for all at 15% of median earnings.
- Alongside a base State Pension, individuals would also receive a means-tested pension supplement.
- Those who are below MIS would then also receive a MIS guarantee bringing everyone to at least the MIS.
- Finally, taking inspiration from the Icelandic model which provides a "household supplement" recognising single households, we've modelled a "housing supplement" to ensure those renting into retirement meet their increased MIS (dotted line).

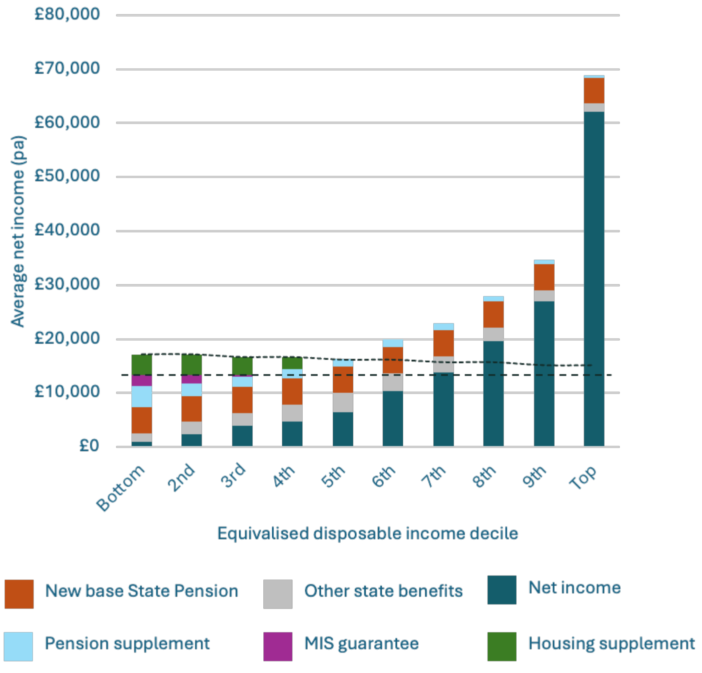

Chart 19: Average net incomes by disposable income decile, split by income source (Icelandic model)

In practice, each element would be constructed differently to the approach taken in Iceland, but this demonstrates an affordable and sustainable alternative.

The impact on Renée and Paul

You'll recall that Renée and Paul showed us the significant level of inequity between two people who we are all familiar with. Renée struggling and unable to meet her basic needs in retirement and Paul significantly better off and likely to live comfortably into his older years.

Both Renée and Paul would currently receive a State Pension that is growing increasingly unaffordable and unsustainable. A benefit heavily relied upon by one, whilst a top-up for the other. If nothing changes, neither will benefit. What would the reality of this alternative State system therefore be for them?

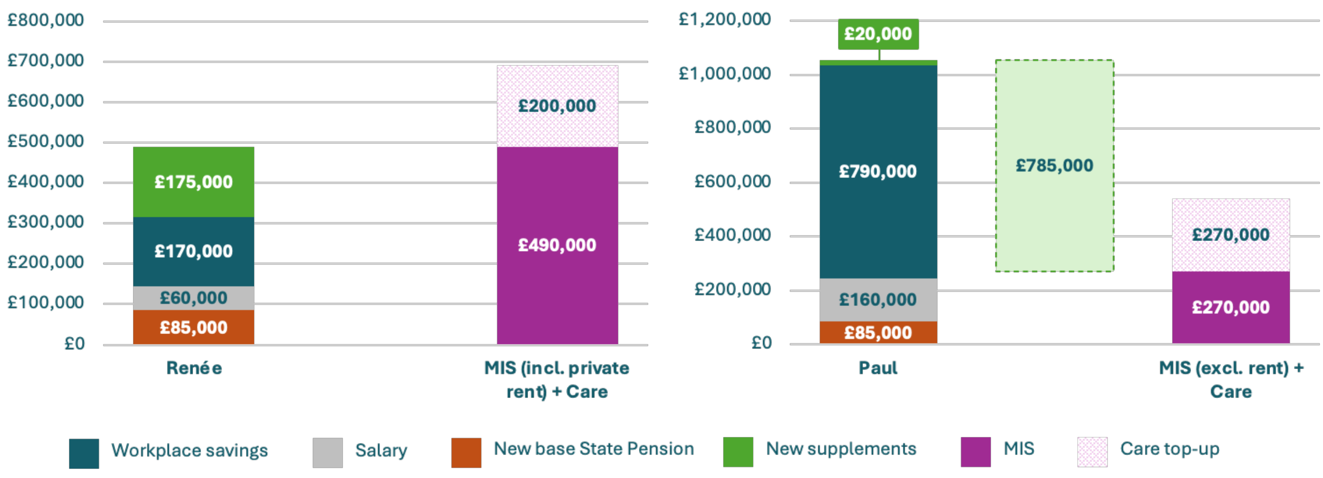

Chart 20: Renée and Paul's estimated retirement position at retirement age under Icelandic-style retirement model

As illustrated in Chart 20, both would now benefit from a lower based State Pensions worth broadly £85,000 through their retirements and both have retained the same level of phase-in earnings and workplace savings.

Both now receive, new but differing levels of additional State support in retirement:

- Renée and Paul receive pension supplements (mean-tested against Pillar II savings)
- Renée requires a housing supplement to support her renting needs in retirement.
- Neither require a basic MIS guarantee as both have savings, incomes and new State Pension totalling equal to or over their respective MIS.

The result? Renée has sufficient support to meet her basic needs in retirement. Paul remains significantly above his MIS.

The implications of the Icelandic model

For the State

- **Significant long-term savings** - adjusting the flat-rate State Pension and introducing a series of means-tested benefits in retirement could save the Treasury **£34bn** a year. But we can't flip the switch overnight. A realistic transition would take years, and savings would take time to come through.
- **A big political headache** – many have built their retirement expectations around their "qualifying years". To do this, you'd need to taper to the new model appropriately with a smart communications strategy, bi-partisan commitment, and possibly a shift to a single tax blending NI and Income Tax. Otherwise, expect uproar from people who feel short-changed.
- **It's complicated *(but not impossible)*** – this move would add layers of complexity and administrative cost. But tethering it to Pillar II savings (like the Icelandic model) and making use of things like the Pensions Dashboard – it becomes palatable. You'd also need to mandate pension saving going forward or risk a generation trying to game the system.

For Employers

- **Plugging the security gap** – if that steady and predictable income that many counted on for security was to be cut back then something will need to plug the gap. Employers may want to reconsider the shape and style of benefit they deliver to their people.
- **An opening to do more** – notably on housing, if the State were to shift the way it was to deliver more holistically, with a benefit to support those renting in retirement then what if Employers considered other ways to support their people achieve long-term security through home ownership.
- **A sharper focus on building real savings** - if a secure retirement income is no longer a given, growing meaningful savings pots becomes non-negotiable. We'll need to see a doubling down on pension engagement, nudge behaviours earlier, and reframe additional savings as essential - not optional. The role of the workplace in shaping lifetime financial outcomes will be a whole lot bigger.

5. The shifting role of the Employer

We've established that individuals are struggling. Whilst some will be able to contribute reasonably to their workplace pensions, others will not. The State isn't in much better a position. With an already significant fiscal deficit and the picture not looking like it will improve much any time soon; certainly not without a retirement benefits overhaul.

So, what role do employers play within this tricky triptych? Given the expected increase in NI costs required (which we might expect to largely be funded by employers) to continue to support long term costs then we might expect employers to be somewhat in favour of State pension changes and broader reforms to ease the cost of social security in retirement. Whether it's via means testing or a blanket cutting back in the longer term, the secure income many individuals require for their basic needs will have to come from elsewhere.

Let's remind ourselves of the wants and needs of individuals.

94%

94% of people want financial **security** when the time to retire comes alongside the financial **ability** to be able to live the lives they want in retirement.

81%

Over 4 in 5 (81%) want to be able to pay for care and assistance if they need it. A want for financial **contingency**.

~70%

Between 69% and 73% want financial **flexibility** to support their families, to travel, and afford big life events.

Figure 8: (Repeat of Figure 1) Research into retirement wants and needs

As part of a meaningful adequacy review, the role of individuals, the State and employers should be defined. Adequate lifelong financial independence should be considered as **security**, **ability**, **flexibility** and **contingency**.

For simplicity and to support greater equity in future outcomes, we take the view that financial security (taken as delivering MIS) should be delivered jointly by the State alongside a minimum pension offering from employers. Anything greater than the MIS, defined therefore as ability, flexibility and contingency is the responsibility of individuals and incentivised by their employers.

Employer role in supporting Renée

Looking at the retirement picture for Renée let's look at how retirement changes because of State Pension reforms.

In Figure 9, overleaf, we can observe Renée's stable income coming from her phase-in salary and then the current State Pension taking over. Under the current system, we know that Renée also has a pension pot of £170,000 (her case study on page 10) and that we expect this will not be sufficient to meet the MIS for someone renting into retirement.

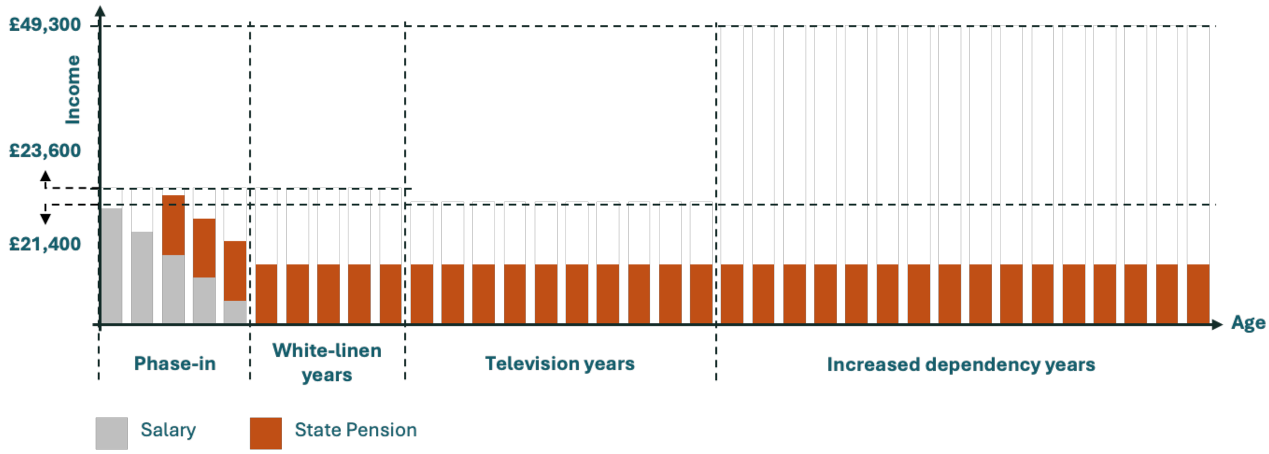

Figure 9: Renée's current projected retirement income excluding private pension provision

In Figure 10, we observe Renée's adjusted position following our suggested reforms. Renée has had her benefits means-tested against her workplace savings such that she achieves her MIS and receives a housing supplement to support her with her rental commitments.

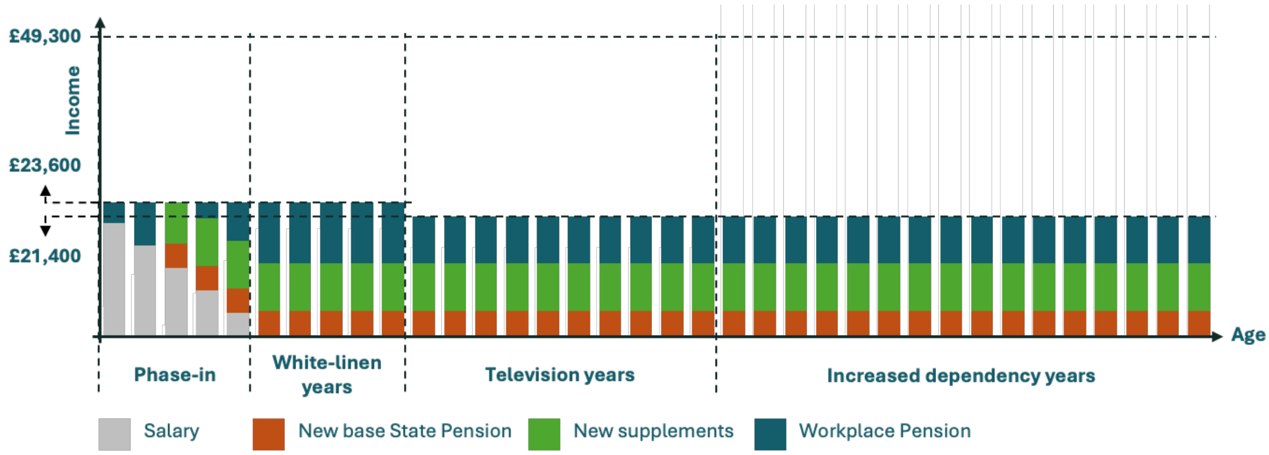

Figure 10: Renée's adjusted projected retirement income including private pension provision

To meet the ongoing expenditure needs of her MIS, Renée will need a secure income from her workplace savings and it'll be Renée who will need to figure out how best to get this.

The questions that employers (and in part, the State) might want to consider here are:

- How can the AE minimum benefit being provided to Renée deliver better outcomes for her both today and tomorrow?
- Is it reasonable to ask Renée to try and navigate the complex world of retirement flexibilities and all that comes with it?
- And should we strive to deliver a better vehicle for Renée that would give her the secure income that is needed?

Delivering more through auto-enrolment

We've rebased a new State Pension and introduced mean-tested (against mandatory Pillar II savings) pension supplements to ensure all make it to MIS. We recognise that mandating saving could be argued as overstepping, but what if this mandatory saving was still somewhat flexible, provided a stable and guaranteed income, and helped UK growth?

We propose three core elements to the delivery of more effective AE pensions.

1. Universal Employment Pension

First and foremost, we propose a new multi-employer Universal Employment Pension ("UEP") which would deliver an income in retirement, not a pot, for all.

In principle the UEP would be designed to deliver an income that would close the gap between the state entitlement and the MIS for a lifetime national living wage worker and by proxy deliver basic security for all.

To combine long-term pension security with nation-building investment, a UEP could be delivered via a new vehicle with contributions flowing into a new UK Sovereign Wealth Fund. Under this model, contributions can be pooled nationally with a proportion invested in productive UK assets. These investments generate long-term income streams that help fund the delivery of the pension benefit.

This approach offers five powerful advantages:

Secure, equitable retirement outcomes

The UEP delivers a clear, MIS-linked retirement income based on years of service – not earnings. Currently, an indexed £1,100 annual contribution buys, for example, £225 of annual pension from age 70; so, with 45 years of service, one might expect a UEP of ~£10,000 pa. This would sit alongside our revised State Pension, creating a meaningful and predictable retirement income floor that aims to deliver MIS.

By decoupling outcomes from salary and investment risk, the model helps low and moderate earners, part-time workers and career switchers to build a dignified pension – something the current DC model cannot guarantee. The focus is shifted from uncertain pot values to targeted income, improving understanding and trust.

For employers, the appeal is relative predictability: contributions are more stable and scalable. For workers, it's simple: each year of service builds a guaranteed income that will support their basic needs in retirement.

There is no reason why self-employed individuals could not also participate in the UEP.

Nation-building with long-term capital

Currently, most UK pension assets are invested in global equity markets. This is efficient, but disconnected from the economy pension savers will retire into. Whilst the Mansion House Accord and recently tabled reserve powers to mandate UK investment seek to do similar, there is significant challenge.

By utilising a new Sovereign Wealth Fund, we would direct a proportion of future pension capital into productive, strategic national assets – including affordable housing, clean energy, transport, digital innovation, and infrastructure. These investments would:

- Long-term (matching pension liabilities)
- Inflation-linked (protecting income value)
- Productive (supporting jobs, growth, and resilience)

It's a powerful feedback loop: workers build secure retirements by building the country they'll retire into.

Global precedent, local opportunity

This model is well-grounded in international precedent.

- Denmark's ATP delivers a flat-rate employer-funded pension with pooled risk and inflation protection.
- New Zealand's Super Fund invests long-term to support future pension costs and national resilience.
- Norway's Government Pension Fund channels oil revenues into a globally diversified sovereign fund with strong governance.

The UK has much of the necessary infrastructure in place already – eg Nest, the National Wealth Fund, and lessons from the LGPS. With the right governance and a long-term mandate, the Sovereign Wealth Fund could scale rapidly and credibly.

Seed funding through DB surplus sharing

To build scale early and reduce reliance on future contributions alone, the fund could be seeded by voluntary transfers of surplus assets from closed or legacy defined benefit schemes. Recent announcements in the Pension Schemes Bill will create the opportunity for those with surpluses to redistribute these.

Employers could transfer a portion into the Sovereign Wealth Fund in exchange for future contribution credits towards the UEP.

This creates a bridge between legacy and modern schemes. It frees up capital that's otherwise stranded, and offers a fair incentive to employers who have contributed generously in the past.

An early evolution of CDC

Our proposal builds on the core principles of CDC – stable contributions, pooled risk, stable outcomes – but goes further.

It introduces a universal structure, offering pension income based on years of service and an indexation to MIS, and aligns investment strategy with national interest. It also shifts the narrative from "saving enough" to "building towards a pension you can understand and rely on."

CDC legislation is now in effect for single-employers with the government committed to expanding it to multi-employer and master trust arrangements; that legislative framework could be a launchpad for this broader model.

This is not a departure from CDC – it's a natural progression: simpler, more equitable, more impactful, and nationally scalable.

This model will inevitably draw comparisons with CDC or even legacy DB schemes – but it's a distinct evolution. Overleaf, in Figure 11, we show how we see the UEP differing from CDC.

Feature	UEP	CDC
Benefit type	Targeted income per year of service to deliver MIS (currently ~£225/year per year of service)	Targeted income based on pooled fund performance
Contributions	Stable and indexed to MIS (currently ~£1,100/year per worker)	Fixed % of salary (employer + employee)
Cost predictability	High – fixed per employee	High – fixed contributions, variable outcomes
Risk exposure	Low – collective smoothing, stable benefits	Moderate – benefits can be adjusted based on funding
Portability	National and multi-employer by design	Currently limited to single/connected employers
Governance	Independent, central public fund governance	Trust-based, employer-specific governance
Investment strategy	UK-tilted: housing, infrastructure, green energy	Broad market portfolio, return maximisation focus
Social impact	Directly aligned with national priorities and economic renewal	Financial return-focused; no built-in social mandate
Communication	Clear: "You earn £X/year pension per year of service"	Abstract: "Projected income, subject to change"
Legislative readiness	Would need new or adapted legislation	Enabled for single employers; multi-employer legislation in train

Figure 11: Feature differences between UEP and CDC

2. Sidecar savings vehicles

In a model built around the UEP, where employers contribute a stable amount to fund a MIS-indexed pension, we introduce the question of what to do with contributions made over and above this level. Enter the sidecar.

This mechanism captures contributions made after the UEP has been funded. These excess funds first flow into a sidecar short-term savings account, before overflowing into a conventional workplace DC pot once a cap (we have chosen £1,000 for illustrative purposes) is reached.

This can serve two critical purposes:

1. **Short-term resilience**: Employees can access sidecar savings in emergencies, helping them avoid debt or opting out of pensions altogether. For lower earners, this flexibility is particularly valuable – building trust in the system.

2. **Medium-to-long-term savings overflow**: Once the sidecar reaches a pre-defined threshold (say £1,000), contributions automatically spill over into a conventional workplace DC pot, supporting long-term retirement savings without disrupting the flow.

This approach delivers value across time horizons, while maintaining employer cost stability and employee engagement.

From an operational perspective, sidecars can be integrated into payroll or built into master trust infrastructure. Nest Insight's UK pilot has shown promising behavioural effects, particularly in reducing opt-out risk and improving financial resilience and all the good things that come with it.

3. Workplace DC pensions

Through the continued delivery of improved workplace DC resulting from the forthcoming value for money ("VFM") framework and other initiatives to elevate outcomes, individuals should be encouraged to use this part of the solution to save for the lives they want in retirement. This we believe is a better use than being wholly reliant on it for basic financial security - not to mention the sound decision making most would also need to deliver this for themselves.

For those who do not have the need for a sidecar, their workplace DC arrangement pension would provide an "opt-across" functionality, allowing for saving to be immediately diverted to their DC arrangement if desired.

What this reformed approach could deliver for Renée and Paul

Instead of the 8% auto-enrolment minimum being paid into a DC pot, both Renée's and Paul's contributions would now be split. First, to fund their UEP, with the excess directed through a sidecar, overflowing into DC.

Any additional DC saving above auto-enrolment, be it through personal contributions or from employer incentivised saving would continue to be directed straight into DC. Here we can observe that our reforms come at no additional cost to either of Renée or Paul's employers.

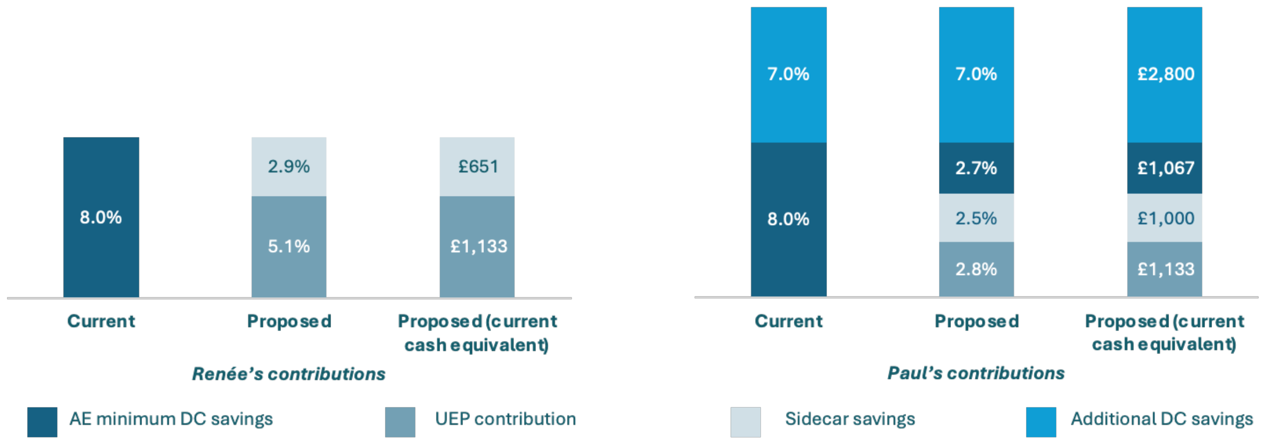

Chart 21: Annual contributions for Renée and Paul, split by delivery vehicle

As you can observe in Chart 21, under this structure contributions for both Renée and Paul remain unchanged. What differs is where their contributions are paid.

- You'll observe that both Renée and Paul have £1,133 of their annual contribution directed firstly into the UEP - purchasing a year's worth of pension (~£225 pa) come retirement.
- Savings in excess of this, are first directed into the sidecar savings vehicle.
  - For Renée, all of her contributions go via the sidecar first. Once Renée hits the sidecar savings cap, contributions would flow into their DC pension.
  - For Paul, for illustration purposes his contribution is capped at £1,000 - the limit of the sidecar we're using in this example.
- As Paul's auto-enrolment minimum is greater than the sum of the UEP contribution and sidecar cap, he has further contributions flow directly into his workplace DC pension.
- We know that Paul also has a generous employer pension - this additional offering goes directly into his workplace DC pension.

Lifelong financial independence

We've seen how these products interact, and how they would build for both Renée and Paul, but what would these reforms look come retirement? Can they deliver lifelong financial independence?

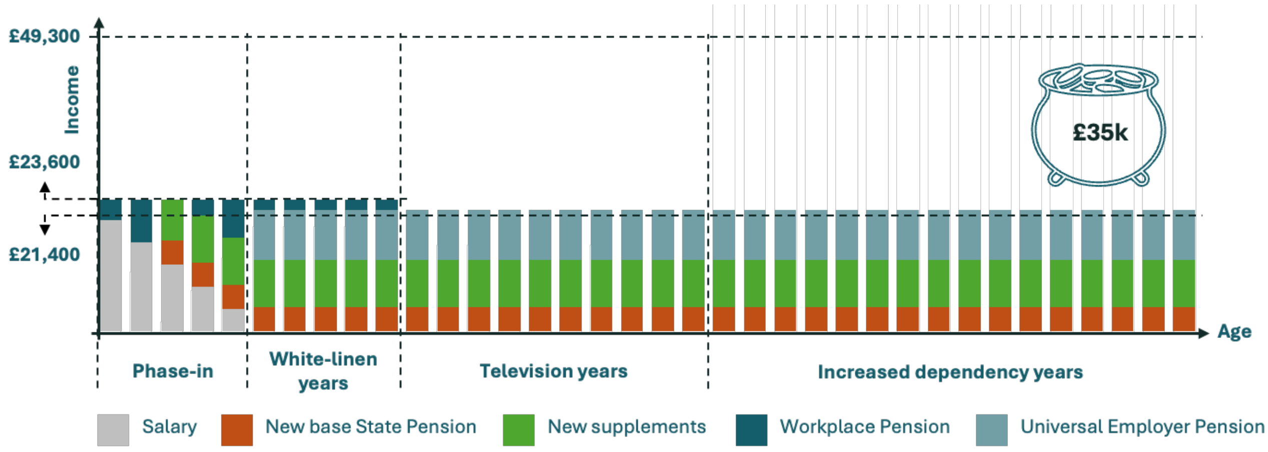

Figure 12: Renée's adjusted projected retirement income including UEP and additional DC

As is seen in Figure 12, Renée is now expected to receive a secure income in retirement from age 70, with a handful of small gaps between her income earlier in retirement and MIS, which she can fill using her smaller residual DC pot that will grow to broadly £35,000.

The sidecar that Renée has access to in working life will improve her short-term financial resilience, reduce her exposure to the poverty premium, and give her the opportunity to live a healthier and wealthier life overall.

We can conclude that Renée will benefit from this model. The UEP alongside the State Pension will deliver Renée with financial security throughout her retirement, and the sidecar and other workplace DC will give some flexibility where needed.

Now how does Paul fare with this reformed model? Without the UEP, Paul would have fallen short of the MIS in later life. Yes, he'd have had a significant DC pot with which to support himself, but now instead Paul also benefits from a basic level of financial security delivered by the State Pension and the UEP, shown in Figure 13, without any of the complex decision making.

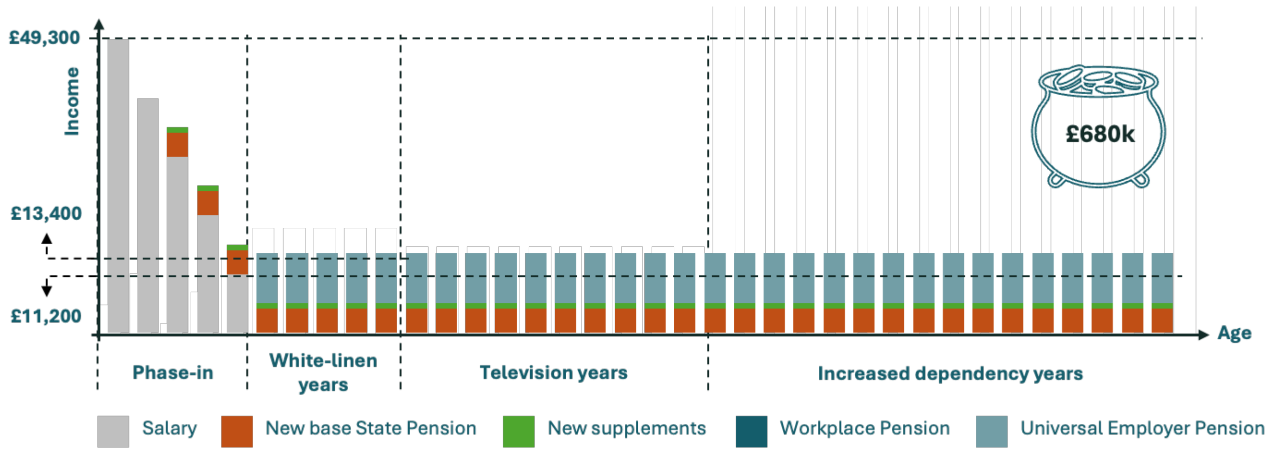

Figure 13: Paul's adjusted projected retirement income including UEP and additional DC

All Paul has to worry about in retirement is how his additional pot of £680,000 will fund the life he'd like to live. The Pension Schemes Bill and in particular work expected from default decumulation pathways and targeted support rules will go some way to helping Paul with this challenge.

Whilst Paul will receive less from the State, the UEP helps deliver a more efficient income than he'd manage himself. His pot can now be used to give him an income to support the life he wants to live in retirement, as well as the flexibility he might need too.

Acknowledging the care conundrum

Now what about care? The UK faces a rapidly aging population, with those aged 85+ projected to nearly double over the next 25 years[24]. The current means-tested system is fragmented and underfunded. Introducing **Long Term Care Insurance (LTCI)** could provide dedicated, sustainable funding to ensure fair access and quality care for all.

Key learnings from Japan and Germany
Drawing on the experiences of Japan[25] and Germany[26], two countries ahead of us when it comes to planning and funding longer-term care costs, the UK could develop a sustainable system funded by introducing a new 4% shared contribution between employer and employee. This could sit alongside the existing 8% auto-enrolment pension minimums, itself partly redistributed to fund the UEP, to create a comprehensive social protection package for an ageing population.

	Japan	**Germany**
Launch year	2000	1995
Funding model	~50% from premiums from all citizens 40+ ~50% from general taxation.	Mandatory social insurance for all citizens. Equal contributions from employer and employee, currently a combined ~4.0% for those with children, and 3.4% for those without.
Benefit design	Service-based benefits only. No cash benefits. Benefits provided in-kind according to assessed care needs.	Choice of cash benefits, services or combination. Cash benefits often used to pay family carers.
Assessment & eligibility	Standardised national needs assessment by municipal government with expert panels. Focused on physical and cognitive ability to perform daily activities.	Standardised medical assessments determine eligibility and care grade. Conducted by Medical Review Board using dependency criteria.

Looking forward: community-based integrated care
The future of long-term care in the UK should prioritise a shift away from institutional settings towards home and community-based services that allow older adults to remain independent in familiar environments. Integrating long-term care with broader health and social care systems would create more seamless, person-centred support.

Technology and preventive interventions can play a key role in maintaining health and delaying dependency. Additionally, stronger support for informal caregivers – including training, respite services, and financial recognition – will be essential to sustain family involvement.

This would provide high-quality, person-centred care while moving towards a longer-term integrated, community focused model that supports families and independence.

24 National population projections: 2022-based

25 JHPN Long-term Care Insurance

26 Long-Term Care Guide

6. Does it pass the test?

To build a retirement system fit for a modern, ageing society, we must test both the current model and our proposed reforms against the five benchmarks set out in the 2006 White Paper on pensions reform. Our findings show a clear contrast between the outdated status quo and our vision for a more bold, inclusive path forward.

Test	Current system	Our reforms
Personal responsibility	Assumes high individual financial literacy and foresight. Undersaving is widespread, especially among renters, carers, and low-income groups.	Auto-enrolment into a UEP with income guarantees removes friction. A mandatory approach with sidecar savings boosts short-term resilience whilst protecting retirement outcomes.
Fairness	Rewards wealth and property more than work or need. Flat-rate pensions help those who don't need it and miss those who do. Underserved groups, like women and carers, remain disadvantaged.	Targeted reforms offer means-tested adequacy, not windfalls. Deliberate redistribution and neutral housing models better support renters, women, and the self-employed.
Simplicity	A confusing patchwork of schemes and thresholds. Complexity erodes trust, engagement, and effective planning.	A collective UEP and sustainable State Pension delivers a secure income with modern eligibility to simplify the system, making it clearer for individuals, employers, and government.
Affordability	Disperses public funds inefficiently via flat-rate payments and scattered tax reliefs. Rising dependency ratios add fiscal pressure.	Targeted benefit delivery deliver fiscal headroom. The UEP delivered at scale creates long-term smoothing and stability of contributions and payments. Contributions and participation can also aid national productivity.
Sustainability	Relies on outdated assumptions – homeownership, stable jobs – that no longer hold. Intergenerational trust is breaking down.	A reimagined system reflects modern work, family, and longevity. Builds consensus and fairness, giving young workers a path to a secure, dignified future.

The current pension system fails the very tests the government set in 2006. We believe that our proposals pass them, both technically, and ethically.

We face a choice: entrench inequity or reimagine retirement for everyone. We choose the latter.

A - Assumptions

The following assumptions have been applied in the preparation of this report and any associated calculations. These assumptions are based on the best available data and professional judgement at the time of writing. Any significant deviation from these assumptions may affect the outcomes or conclusions presented.

Please refer to the below for a summary of the key assumptions:

- We have assumed the adoption of the 2017 recommendations for auto-enrolment, notably being based on basic earnings and from age 18.
- National Living Wage using the value as at 6 April 2025 – £12.21 per hour.
- State Pension payable from 67 as at 6 April 2025 - £230.25 per week.
- Discount rate: 6.7% pa
- Rate of inflation: 3.0% pa
- Life expectancy: 100 years old

Paul

- Paul's salary is £40,000 at age 22.
- Paul has a salary premium of:
    - 2.0% up to age 30
    - 1.5% from age 30 to age 40
    - 1.0% from age 40 to age 50
    - 0.0% from age 50 to age 60
    - -0.5% from age 60 to age 65

Renée

- Renée's salary is the National Living Wage.
- Renée receives salary increases in line with inflation.

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