HYMANS ROBERTSON

Building resilience in de-risking strategies for UK DC members

Certified B Corporation

Contents

Executive summary

UK defined contribution (DC) default strategies have traditionally followed a lifestyling model. They gradually shifted members' holdings from growth assets, such as equities, into bonds and cash as they approached retirement. This structure made sense in an annuity-led world. However, since Pension Freedoms in 2015, member behaviour has shifted dramatically. Most members now access their pension pots flexibly and remain invested well into retirement. As a result, the usual very low risk or annuity aware glidepath approaches no longer match how members behave when they retire.

Despite the shift toward flexible drawdown, many glidepaths still de-risk early. This prioritises short-term volatility reduction over long-term adequacy. While long-term growth during the accumulation phase is widely accepted, there's less agreement on approaches at retirement.

We think it's important to focus more on the end of the glidepath, especially for members entering drawdown, where finding the right balance between growth and protection is still unsettled.

Key findings

Volatility sensitivity still matters for some. Members with smaller pots who plan to cash out remain exposed to short-term market losses just before retirement. For this group, some de-risking may help preserve confidence and avoid crystallising losses. However, as pot sizes increase, long-term adequacy becomes more important. Strategies must evolve to support income sustainability rather than prioritising short-term capital protection.

Investment time horizons are lengthening. As auto-enrolment matures and pots grow, more members will draw income over 10 to 20 years. This strengthens the case for maintaining meaningful growth exposure throughout retirement.

Early de-risking carries a high opportunity cost. Members who exit growth assets too early may miss years of growth-driven returns, particularly if markets rebound after downturns.

Defensive strategies reduce risk but limit outcomes. Glidepaths centred on diversified or more defensive multi-asset portfolios are often designed to reduce volatility. These typically result in 35 to 40% lower median retirement pots compared to growth-focused strategies. Although these portfolios generally lower overall volatility, they also limit potential gains, which may impact long-term adequacy.

Sequencing risk is real but manageable. Poor investment returns early in decumulation can erode pots more quickly when members are withdrawing income. Adjusting the investment strategy to minimise short-term volatility isn't always the most effective solution. Where pot size or other income allows, flexing spending in response to market conditions (eg reducing withdrawals during downturns) can be a more effective and targeted tool than a blanket shift into defensive assets.

Market recoveries are faster than often assumed. While downturns like the Great Depression and the Global Financial Crisis took several years to recover, most equity drawdowns historically have rebounded within one to two years. This reinforces the value of staying invested through volatility rather than overreacting to short-term market moves.

Recommendations for scheme design

Retain near 100% growth exposure during accumulation. Maintain a high allocation to equities or other growth assets until the start of de-risking, to maximise long-term return potential and build sufficient retirement savings. Equity markets have delivered positive returns in most ten year periods, and reducing growth exposure too early undermines outcomes.

Reduce the length of de-risking periods. Delay the start of de-risking until closer to eight years before retirement, not 15 years. This allows members to benefit from longer exposure to growth assets. Compressed glidepaths can address sequencing risk and maintain growth in the late accumulation phase.

Maintain meaningful growth exposure at retirement. Keep about 50% of your portfolio in equities and growth assets at retirement, especially if you'll stay invested during drawdown. As auto-enrolment continues to develop and contribution rates increase, this method will become more suitable for members over time.

In a post-annuity, drawdown-led world, the key challenge is no longer just managing short-term volatility. It's securing long-term adequacy. Glidepaths must evolve accordingly.

Anthony Ellis
Head of DC Trustee
anthony.ellis@hymans.co.uk

Gary Mallon
Senior DC Investment Consultant
gary.mallon@hymans.co.uk

Introduction

UK DC schemes have traditionally centred their default investment strategies on de-risking early, ie gradually shifting members from higher-risk growth assets, such as equities, into lower-risk investments like bonds and cash as they approach retirement. This structure was designed for a world in which annuity purchase at a fixed retirement age was a regulatory requirement.

In that context, 'risk' referred primarily to fluctuations in annuity pricing, caused by market volatility. Changes in bond yields could significantly affect the level of guaranteed income a member could secure at retirement. Glidepaths evolved to hedge these risks. Portfolios typically began with 65 to 75% in equities to support long-term growth. They then shifted progressively into bonds to match annuity pricing and into cash to fund tax-free lump sums.

However, the introduction of Pension Freedoms in 2015 changed the landscape. Annuity purchase is now the exception rather than the rule. Members can take all or part of their pension as cash, draw down income flexibly, or choose to remain invested well beyond traditional retirement ages. This shift has transformed retirement into a more phased, open-ended, and personalised journey. In this new environment, investment risk is less about annuity pricing. It is about managing market volatility in the early years of retirement, ensuring sustainable income over time, and guarding against inflation and longevity risk.

While many providers have updated their default glidepaths in response, a central question remains - have they evolved enough? In many cases, glidepaths still begin de-risking 15 years before retirement, reducing exposure to growth assets long before members access their savings. By the point of retirement, growth asset allocations may fall as low as 30%. This approach may not be suitable for members who plan to draw income gradually over one or two decades.

This paper re-examines the rationale for de-risking in modern DC default strategies. We draw on insights from member behaviour, historical performance, forward-looking modelling, and international comparisons. We explore whether current approaches remain fit for purpose, and how default strategies might evolve to better support long-term outcomes in a drawdown-led world.

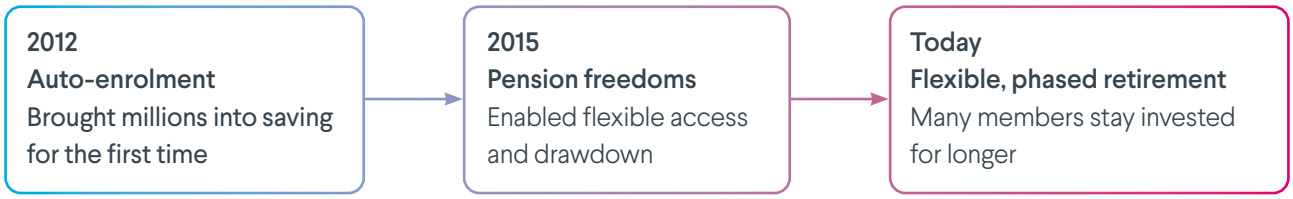
How member behaviour has shifted

Legacy de-risking made sense when annuity purchase was the default option, and retirement happened at a fixed point in time. Because annuity pricing is highly sensitive to bond yields, schemes looked to systematically reduce growth asset exposure and increase allocations to bonds and cash in the years leading up to retirement. This helped to preserve members' purchasing power and minimise investment risk, defined primarily as short-term volatility, at the point of annuity purchase.

However, the introduction of auto-enrolment in 2012, and the sweeping changes brought by pension freedoms in 2015, have changed the retirement landscape. Today, most members no longer purchase an annuity at retirement. Instead, most now favour flexible income drawdown or phased access to their savings. Many also remain invested well beyond their initial retirement date.

Retirement is no longer a fixed event. Many members now reduce their working hours, move to part-time roles, or retire in stages. They begin drawing income at different times. Fewer members retire exactly at their nominated retirement age, and a growing number remain invested well into later life. Some supplement their retirement income from other sources, such as defined benefit (DB) pensions, ISAs, property, or inheritance. Others, particularly those with smaller pots, may access their savings from age 55, often taking a lump sum or through short-term drawdown.

Member journeys have become more varied and more complex. Yet default glidepaths have not kept pace. Most still assume a linear path to full retirement at a set age (typically 65 or 67) and continue to apply substantial de-risking before or at that point.



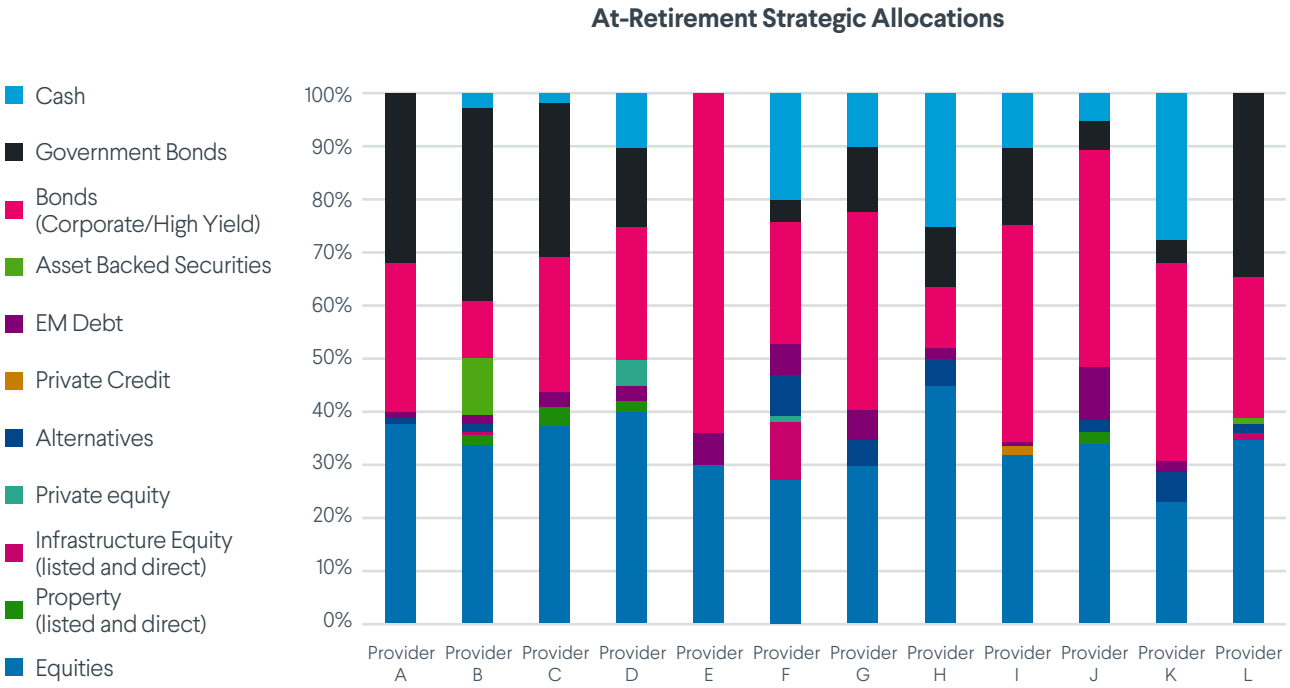


Figure 1: Provider at-retirement asset allocation
Source: Master Trust providers, Hymans Robertson

This creates two key risks:

Members who continue working or remain invested may be exposed to unnecessarily defensive portfolios for extended periods, missing out on potential growth.

Members accessing pots early, particularly via cash withdrawals, may experience volatility that directly impacts outcomes.

These dynamics highlight the limitations of rigid, one-size-fits-all glidepaths. Some degree of de-risking may still be appropriate for members with small pots or immediate income needs. However, the scale and timing of that shift should better reflect today's more flexible and diverse retirement behaviours.

Revisiting the case for growth near retirement

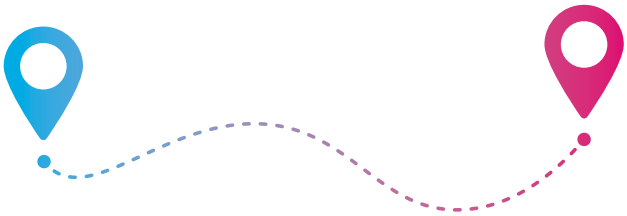
Traditional glidepaths have historically focused on reducing short-term volatility as members approach retirement. However, for many DC members, the greater risk isn't market fluctuations, it's failing to accumulate a sufficient pension pot to sustain their retirement.

A heavy shift into bonds and cash near retirement may reduce portfolio volatility, but it comes at a cost. Lower long-term returns from defensive assets can leave members more vulnerable to inflation risk, especially as retirement increasingly spans two or even three decades. Moving out of equities and other growth investments too early also carries a significant opportunity cost if markets perform well in the final years of accumulation and into early retirement.

While 2022 (when both equities and bonds fell sharply) was an exception, such periods remain rare over the long term. In most market environments, remaining invested in growth assets through late accumulation and early retirement has been rewarded. For those withdrawing their savings over just 3 to 5 years, poor early returns can have a significant effect, so we'd recommend a more cautious strategy.

For members who plan to enter drawdown rather than taking all their pension savings as cash or purchasing an annuity, the effective investment time horizon for growth assets extends well beyond their retirement date. In such cases, maintaining a higher allocation to equities and other growth assets for longer could be more appropriate. This could help members better support withdrawals and preserve purchasing power over time.

Retirement is not the end of the investment journey. It's the beginning of a new phase in which investment returns remain crucial to sustaining income. Assuming retirement happens abruptly can lead to investment strategies that don't match members' continuing financial needs and habits.



Sequencing risk and spending flexibility

A common argument in favour of de-risking is sequencing risk. Meaning the risk of poor investment returns just before or early in retirement can disproportionately erode a member's pension pot, especially when withdrawals begin. While sequencing risk is real, the response to it doesn't need to shift into highly defensive investments.

In cases where members have sufficient pension savings or access to other sources of income (eg DB benefits, ISAs, rental income), a more effective solution can be to flex withdrawals in response to market conditions. For example, temporarily reducing or pausing income withdrawals during a market downturn allows time for the portfolio to recover, preserving long-term value. This spending flexibility is a more targeted and efficient way to manage sequencing risk than pre-emptively sacrificing growth potential via early de-risking.

However, this strategy works best for members with larger pots or other income streams. Many members don't have other investments and rely heavily on their DC pot for retirement income. For those withdrawing savings through drawdown in the short term, some de-risking near the access point is crucial to prevent losses that might affect their ability to cover basic living expenses.

Members who intend to access their pot as a full cash lump sum are often particularly sensitive to volatility in the final years before retirement. While this concern may lessen as pot sizes grow and member behaviours evolve, it remains an important behavioural consideration for schemes today.

These differences highlight a broader question for the industry, whether default strategies should evolve beyond a one-size-fits-all model. Segmented defaults, dynamic de-risking, and member journey integration could better tailor risk levels to individuals based on pot size, income needs, and retirement plans. Although personalisation adds complexity, it can improve adequacy, risk management, and fairness for all members.

Modelling the impact of different glidepaths

To explore the implications of different glidepath designs, we modelled outcomes for a representative member across a range of strategies. The analysis considers two key variables:

1. The level of equity exposure during the accumulation phase. Comparing more defensive portfolios (eg diversified or multi-asset funds with limited equity content) against growth-focused strategies with higher equity allocations.
2. The pace and timing of de-risking. Testing shorter, more compressed glidepaths against traditional long-duration approaches that begin 15 years before retirement.

Our modelling assumes a representative member aged 25, earning a median salary of £30,000, with total pension contributions of 10% per annum, and no existing pension savings. We model outcomes to a retirement age of 65, assuming salary inflation of 2.5% pa. The projected pot sizes are in nominal terms. The analysis assesses both the long-term growth potential and downside risk across different glidepath designs, including the impact of varying de-risking timelines. Under the glidepath structure, members are assumed to de-risk into a portfolio comprising 30% equities and 70% fixed income by retirement.

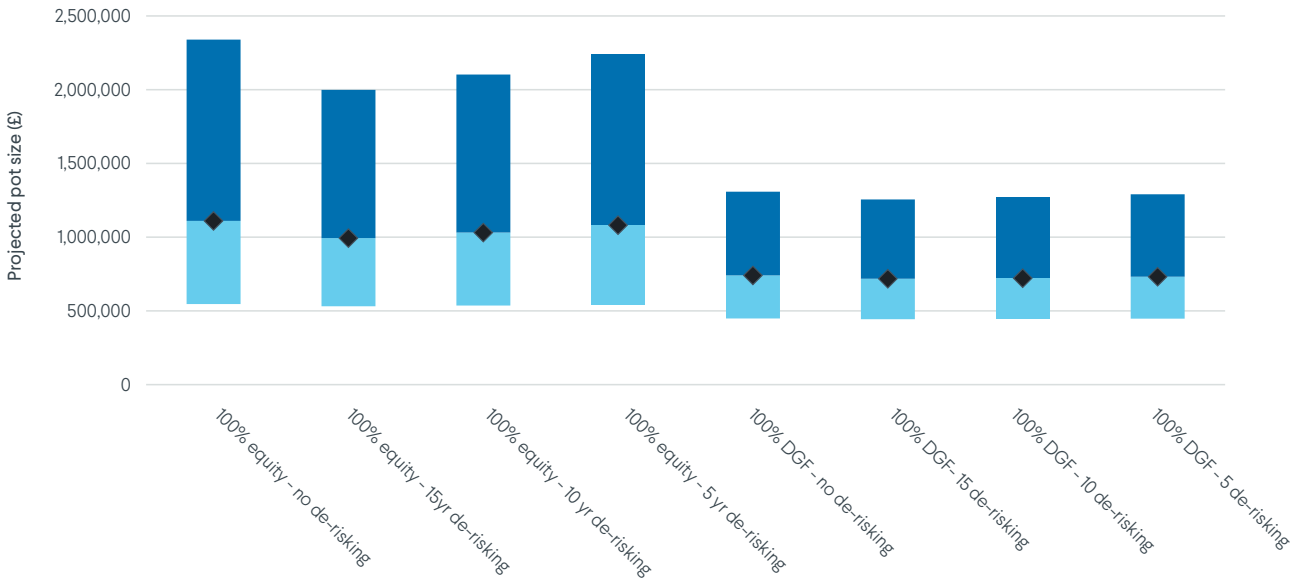


Figure 2: Modelled retirement outcomes under different glidepaths
Source: Hymans Robertson

Our modelling shows that maintaining exposure to growth assets closer to retirement leads to materially better outcomes for members, both in terms of higher median outcomes and greater upside potential.

As expected, the 100% equity strategy with no de-risking delivers the highest median retirement pot (approximately £1.1 million) and the widest potential range of outcomes. This approach introduces the most volatility, as reflected in the broader spread between the 25th and 75th percentile outcomes. However, it also offers the greatest upside potential, with the top quartile of outcomes exceeding £2.3 million.

Strategies that introduce gradual de-risking from equities, such as 10 year de-risking and 5 year de-risking, offer a strong balance. They achieve median outcomes close to the no de-risking strategy, but with narrower outcome ranges, reflecting more controlled volatility.

In contrast, glidepaths that are more defensively positioned throughout produce notably lower median retirement pots, typically around £0.7 million. This represents a reduction of about 35 to 40% compared to equity-based strategies. Although these defensive strategies have more limited distributions, their reduced range suggests a decrease in possible gains. The volatility dampening comes at the expense of long-term adequacy.

This spread of outcomes highlights the importance of glidepath design not only for managing short-term risk, but for maximising long-term opportunity. Maintaining equity exposure through the accumulation phase, and de-risking more gradually and closer to retirement, provides a better balance between growth and stability. Overly defensive approaches may reduce short-term variability, but risk compromising outcomes for many members.

We believe the modelling shows two conclusions.

First, a high allocation to equities during the accumulation phase remains critical for maximising growth during the early and middle stages of a member's savings journey.

Second, de-risking should be gradual and measured, allowing members to continue benefiting from equity market participation as they approach, and increasingly move beyond, their selected retirement age.

Managing risk at the end of the glidepath

In today's drawdown-led environment, the most critical time for managing investment risk isn't just the years leading up to retirement, but the early years of decumulation. Market losses during this phase can cause lasting damage if members begin drawing down during downturns. This reinforces the case for maintaining diversified growth exposure at the point of retirement, rather than defaulting to cash or gilts.

While higher growth asset exposure increases short-term volatility, especially around retirement, it also supports significantly stronger long-term outcomes. Managing this volatility and the risk of adverse market events just before drawdown remains important.

This should be weighed carefully against the opportunity cost of exiting growth assets too soon.

Historical equity data supports this view. Even after severe downturns, markets have typically rebounded within a few years, reinforcing the argument for retaining growth exposure into and beyond retirement.

What history tells us: equity returns and drawdown recovery

Worries about sequence risk, such as receiving low returns at the start of retirement, often lead to cautious investment glidepaths. Yet, looking at historical trends shows that equity markets tend to bounce back faster than many expect.

For members drawing their pot over a short period (4 to 5 years), sequencing risk becomes more immediate. In these cases, poor returns early in the withdrawal phase can reduce the amount available, especially if withdrawals coincide with market downturns. Although we recommend long-term equity exposure, a cautious strategy may suit those needing short-term access and lacking other income sources.

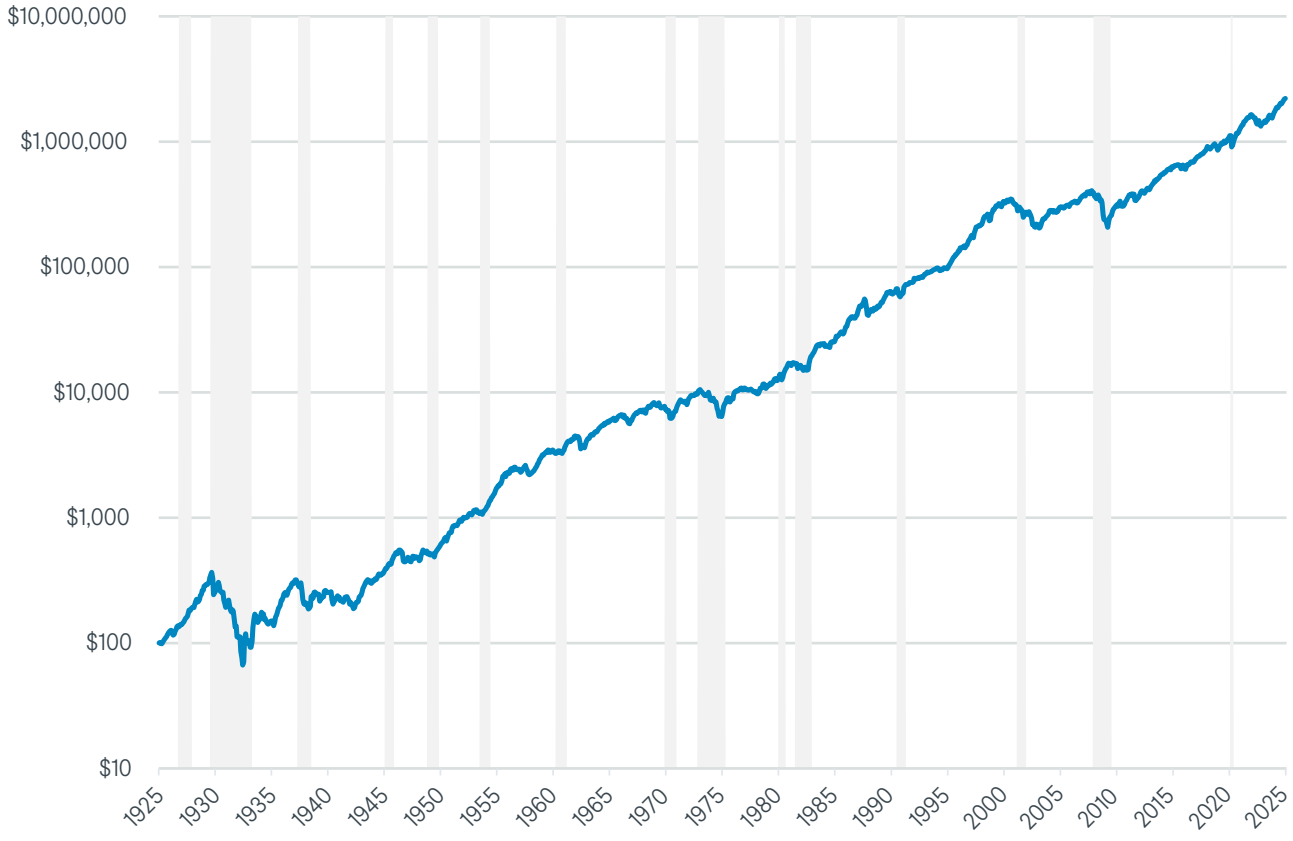


Figure 3: Cumulative equity growth and recession (US Equities, 1925–2025)
Source: Stock market data used in "Irrational Exuberance" Princeton University Press, 2000, 2005, 2015, updated Robert J. Shiller, Hymans Robertson

Figure 3 traces the cumulative growth of a $100 investment in U.S. equities from 1925 through to 2025, presented on a logarithmic scale to normalise the effect of compounding over a near-century. Vertical grey bands indicate periods of recession as defined by the National Bureau of Economic Research (NBER), providing context for market movements alongside broader economic cycles.

Equities deliver over the long term

Despite numerous periods of volatility, economic disruption, and financial crises, the value of a $100 investment grows to exceed $1,000,000 by the end of the period. This compounding illustrates the historical effectiveness of maintaining long-term equity exposure. This emphasises that staying invested in the market over time is more effective than trying to predict market movements.

The relationship between recessions and market drawdowns

Major equity drawdowns often happen during recessions, but not always. The 1987 market crash, for example, shows how external shocks or extreme valuations can trigger big corrections even without an economic downturn. Still, recessions remain a useful reference point for understanding broader patterns in market stress.

Inflation regimes and equity performance

The 1970s stand out as a period of low investment returns and slowed economic growth, underscoring the damaging impact of high and volatile inflation. In contrast, the low inflation environment of the 1980s and 1990s supported one of the strongest sustained bull markets in history – periods when markets rise significantly over time.

The role of policy in shaping market recoveries

More recently, the swift recovery following the 2020 recession highlights the increasing importance of coordinated fiscal and monetary policy. The combination of large-scale stimulus and central bank action helped markets rebound more quickly than in previous downturns. This reflects a wider trend since the Global Financial Crisis, where quick policy action has helped shorten the duration of bear markets.

Equity market drawdowns and recovery patterns

The chart of S&P 500 drawdowns since 1925 highlights the frequency, severity, and recovery time of past market downturns. Understanding the distribution and recovery patterns of past equity downturns is key to assessing sequencing risk and informing glidepath design, particularly for members who remain invested in and through retirement.

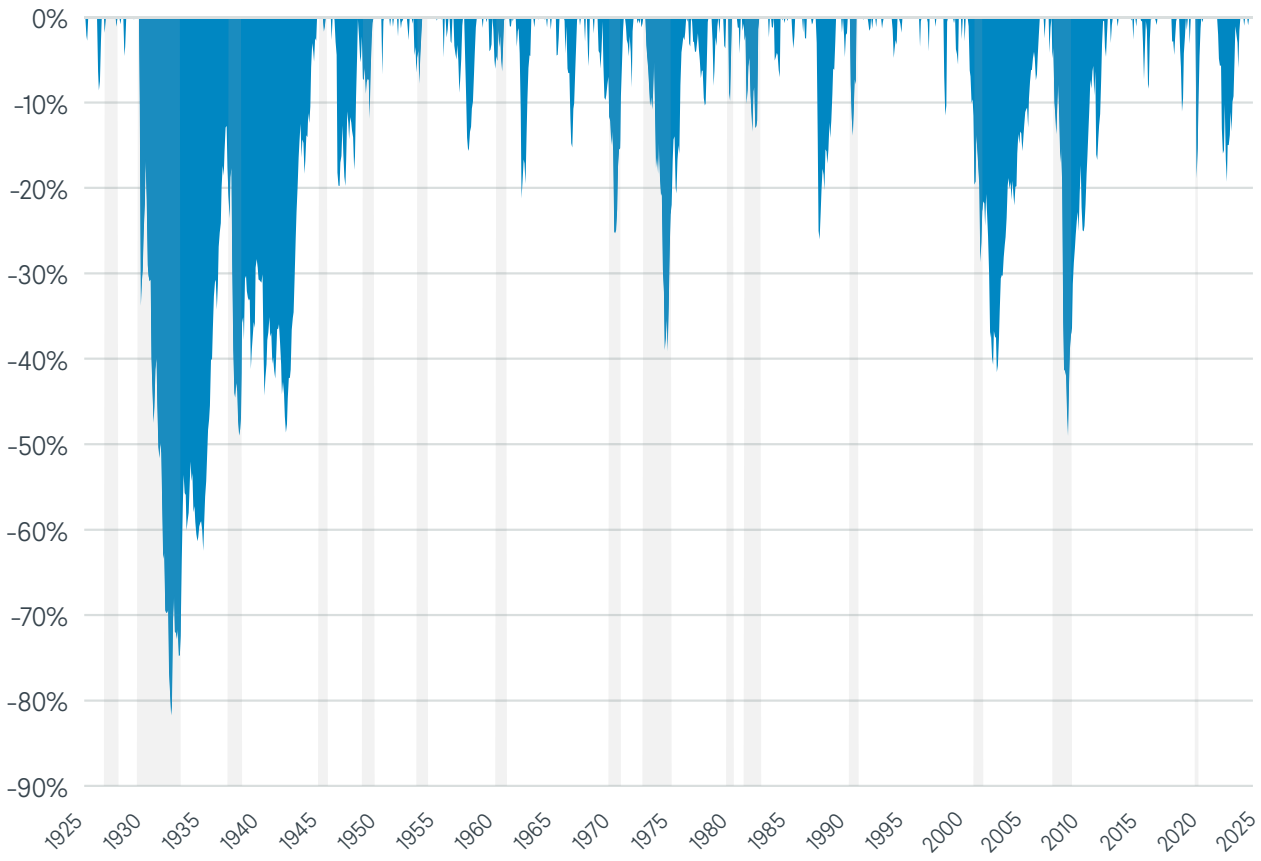


Figure 4: Drawdown depths and recovery times (S&P 500, 1925–2025)
Source: Stock market data used in "Irrational Exuberance" Princeton University Press, 2000, 2005, 2015, updated Robert J. Shiller, Hymans Robertson

Large drawdowns are rare, but they can impact investors and often lead to early de-risking. However, history shows that recovery times are often shorter than feared, particularly in recent decades. Bear markets exceeding 20% typically recover within 3 to 5 years, with outliers such as the Great Depression and the 1973–74 oil-inflation shock requiring much longer. In contrast, more recent episodes, such as the COVID-19 downturn, recovered in just four months, highlighting how decisive policy intervention has shortened recovery times in modern markets.

These patterns support the broader argument that long-term investors can often afford to remain invested through volatility, rather than pre-emptively shifting to defensive positions that sacrifice upside.

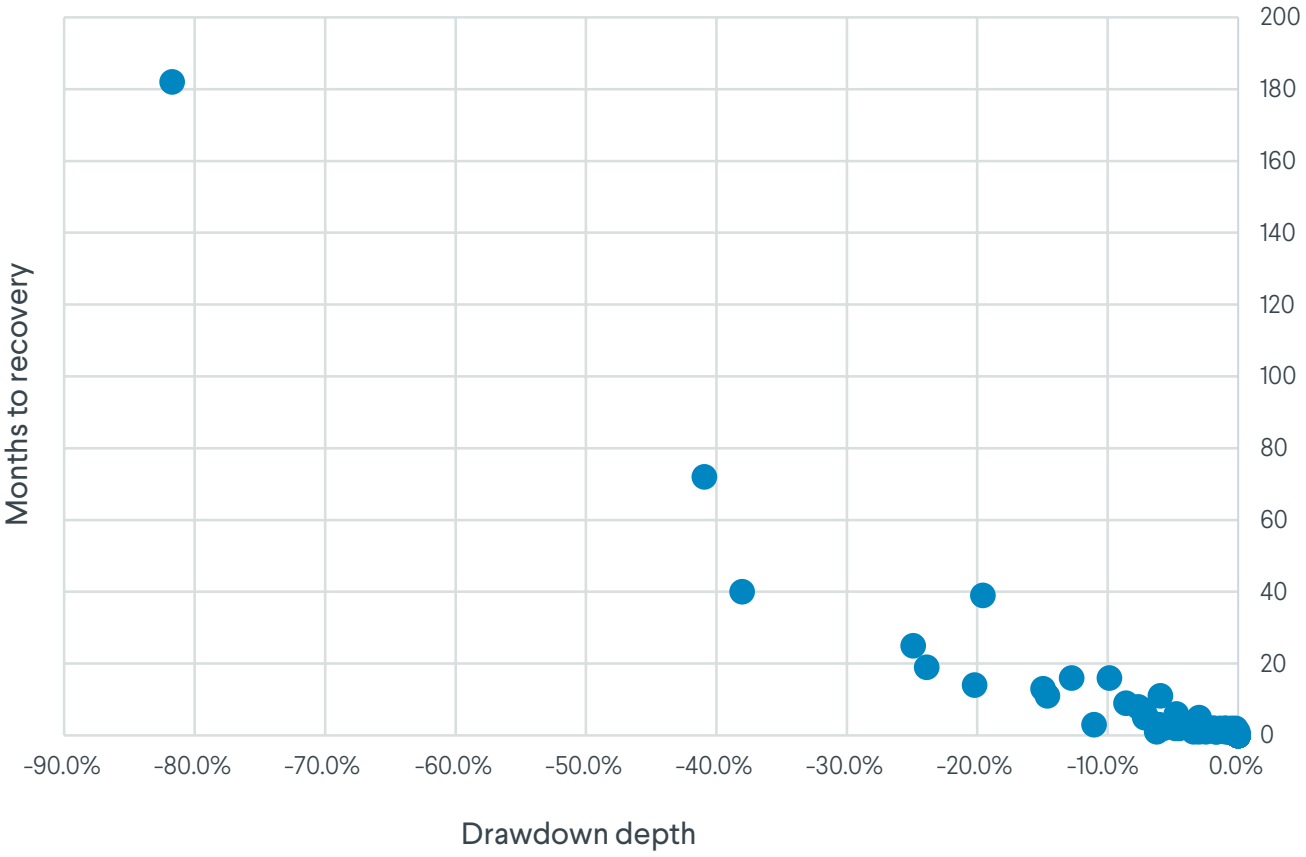


Figure 5: Equity drawdowns vs months to recovery
Source: Stock market data used in "Irrational Exuberance" Princeton University Press, 2000, 2005, 2015, updated Robert J. Shiller, Hymans Robertson

This century-long dataset reveals three broad regimes of equity drawdowns – shallow, moderate, and severe. Each with different implications for member outcomes and glidepath calibration. Understanding where risks are concentrated helps schemes calibrate their glidepaths to focus on the drawdowns that matter most.

Shallow corrections (<10%): minimal disruption, fast recovery

Nearly 80% of drawdowns have been milder than -10%, with an average recovery period of approximately 3 to 6 months. These events are usually triggered by sentiment-driven volatility or short-lived macro shocks. For long-term investors, they pose little threat to retirement sustainability. Retirees with liquidity reserves or phased withdrawals can usually withstand market dips while maintaining their portfolios. Such corrections are a normal feature of long-term investing and rarely justify a strategic shift.

Moderate drawdowns (10–20%): manageable but instructive

Drawdowns in the -10% to -20% range are less common and tend to coincide with recessions. These events generally recover within 12 to 18 months. While they are more disruptive than shallow corrections, they remain manageable for most members.

Severe bear markets (>20%): Rare but consequential

Only a small number of episodes in the past century have exceeded -20%. With average recovery periods of nearly 5 years, these are the primary drivers of sequencing risk for retirees. Events like the Great Depression, the 1973–74 oil-inflation shock, and the 2008 Global Financial Crisis require more active risk management at the scheme level. For members in drawdown, managing these events effectively, via pre-funded cash buffers, spending flexibility, or temporary asset reallocation, is critical. However, their rarity supports a targeted, rather than blanket, risk response.

These recovery patterns also show up in long-term return data. This strengthens the case for staying invested in equities as people approach and move through retirement. Our analysis shows that over 1 year, equities have posted positive returns approximately 75% of the time. This rises to around 85 to 88% over 3 and 5 year horizons, 95% over 10 years, and nearly 100% over 20 years. These probabilities underscore the importance of time in the market. While short-term returns are inherently unpredictable, the likelihood of positive outcomes increases substantially with investment horizon.

Implications for glidepath design

The evidence strongly supports maintaining high exposure to growth assets throughout the accumulation phase. Equity markets have delivered positive returns around 95% of the time over 10 year periods. In contrast, more defensive portfolios, such as those centred on diversified funds or bonds, may reduce volatility but significantly reduce long-term returns. Over several decades, this return drag can lower members' retirement outcomes. For default strategies aiming to build long-term wealth, the data supports a strong and sustained tilt toward return-seeking assets.

This long-term perspective also challenges traditional assumptions around the timing and depth of de-risking. While de-risking plays a role in managing sequencing risk, our analysis shows that large drawdowns are relatively rare and typically recover within 2 to 3 years.

De-risking too early can lock in short-term losses and limit the chance to benefit from future market recoveries. This points to a more balanced approach, where de-risking may be better timed closer to retirement, particularly for members likely to stay invested after they retire.

Rather than following rigid glidepaths that start derisking more than 15 years before retirement and shift heavily into defensive assets, a shorter glidepath may be more effective. De-risking from around 8 years before retirement and retaining meaningful growth exposure at retirement, may better reflect member behaviours and help improve outcomes.

Recognising member diversity

Not all members follow the same retirement path. Many hold relatively small pots, which are often accessed as lump sums or drawn down quickly. For these members, preserving capital near retirement will take priority over long-term growth. Short-term volatility, particularly a large market drop at or near the point of access, can have an outsized impact. For example, a 20% fall in markets just before accessing a pot could reduce a member's standard of living, especially if the pot is taken entirely in cash or through an unstructured drawdown.

In contrast, members with larger pots, especially those drawing income over longer periods or with other income sources, may benefit from maintaining exposure to growth assets well into retirement. A strategy retaining around 50% in equities or other return-seeking assets at retirement may be better suited.

These differences highlight the case for segmentation. Glidepaths should reflect not just the "average" member, but the diversity in pot sizes, retirement behaviours, and income needs. For instance, smaller pots may require a more conservative de-risking, while larger pots could support a higher allocation to growth assets.

Yet most members remain in default strategies and lack access to formal guidance. This places greater responsibility on schemes to evolve their defaults and improve support through clearer communications. It should prompt providers to reassess retirement age and goals, together with nudges that help guide income planning. Members' retirement dates need to be set correctly for the mechanism to work properly.

While this paper does not advocate for full personalisation, it reinforces the case for more intelligent defaults, such as branching glidepaths, pot-size segmentation, or dynamic asset allocations. These allow for more targeted risk profiles without the complexity of full member-level tailoring.

Scale and policy are also pushing in this direction. The Mansion House reforms, alongside ongoing regulatory developments, indicate that larger schemes will be expected to lead on innovation and deliver value for money. Schemes with over £25bn in assets will also need to offer more sophisticated, member-aware default strategies. As pot sizes grow and data visibility improves (eg through pensions dashboards), the ability to segment defaults intelligently will become more feasible and necessary.

Lessons from Australian Superannuation schemes

Australia's superannuation system provides a valuable comparison to the UK approach to retirement investing. UK default strategies often feature sharp de-risking in the lead-up to retirement, primarily via "lifestyling". Meanwhile, Australian default strategies tend to maintain a significant allocation to growth assets well into later life stages. Most large Australian super funds retain a significant equity exposure (over 50%) close to retirement, reflecting a different philosophy, that members will remain invested and draw income flexibly over time.

The Australian model also favours broader diversification within the growth component. Large super funds allocate meaningfully to unlisted infrastructure, property, and other real assets. These allocations help to build portfolio resilience while maintaining growth potential, rather than defaulting to defensive assets such as bonds and cash.

Several structural and behavioural factors underpin this approach. Mandatory employer contributions, which have steadily increased over time, combined with a generally long-term investment horizon, have supported a growth-oriented mindset among super funds and regulators. Importantly, lifestyling, the dominant de-risking model in UK DC schemes, is used by only around 30% of Australian funds and is treated as one of many available investment strategies, not a default solution.

Where Australian lifecycle strategies adjust asset allocation by age, they tend to do so gradually. De-risking is often delayed until very close to retirement. In some cases, it's not implemented at all. Whereas, in the UK, regulatory preferences have made lifestyling near-universal across DC defaults, rather than universally accepted investment theory.

Conclusion

UK DC schemes must evolve their investment strategies to reflect today's more flexible and dynamic retirement landscape. While many default strategies now acknowledge drawdown as the dominant decumulation route, they often still de-risk too early and fail to maintain adequate growth exposure through retirement. This prioritises short-term volatility management at the expense of long-term adequacy and is increasingly misaligned with how members access their savings.

Rigid lifestyling models that reduce equity and other growth asset exposure well before retirement can limit growth potential during the critical final years of accumulation and the early stages of retirement. Historical evidence shows that markets tend to recover over time, and members who remain invested are more likely to benefit, particularly when retirement is a gradual transition rather than a cliff-edge event.

A more member-centric and flexible approach to glidepath design is essential. One that recognises longer life expectancies, the prevalence of drawdown, and the diversity of income sources in retirement. Glidepaths should support adequacy across 20 to 30 year retirement outlooks, not simply reduce short-term volatility.

The case for reform is clear. Drawing on lessons from systems like Australia where members retain significant growth exposure well into retirement. UK schemes should reconsider the timing, scale, and rigidity of de-risking. For many, maintaining around a 50% allocation to growth assets at retirement, calibrated to pot size, income needs, and risk appetite, will deliver better long-term outcomes.

Default strategies must be robust, responsive and resilient. In today's evolving retirement landscape, following outdated models is no longer defensible.

To discuss this in more detail, please **get in touch**.

London | Birmingham | Glasgow | Edinburgh T 020 7082 6000 | www.hymans.co.uk