From scale to impact: A blueprint for the future DC pensions market

A report prepared for Standard Life by WPI Economics

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WPI ECONOMICS

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About us

About Standard Life

We are a retirement specialist focused entirely on retirement savings and income. For more than two centuries, we've been standing beside our customers, helping them plan and prepare for their financial future. Our diverse portfolio of brands allows us to deliver for our customers at every stage of their lives. It's how we help even more people imagine the later life they want and to live retired life their way.

About WPI Economics

We are an economics, data insights, policy and impact consultancy, but one that is a little different to many others. We draw on backgrounds in government and the private and charitable sectors to produce work designed to make a difference. We do not do research for research's sake. We are committed to ensuring that everything we do has an impact - which is part of the reason why we recently became a verified B Corporation.

Acknowledgements

We gratefully acknowledge the contributions of the leading global industry experts who supported this research. Their insights – spanning a number of professional fields including economics, asset management, consultancy, retirement and finance – have strengthened the depth and quality of our work.

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Foreword

One of the reasons why I love what I do is that it gives me the opportunity to make a difference to the lives of millions of people.

My ethos since arriving at Standard Life has been about making it a values-based retirement champion. This means an organisation that gives people the right support for the life they want to lead. Standard Life champions the belief that everyone's journey to and through retirement can be better and driving change that reflects how people actually live, not how the system assumes they do. One of the best ways that we can help people make the most of their savings is by ensuring that the structures they save and invest into give them the best possible outcomes.

This is one of the reasons why I'm so delighted to have been involved in and to have sponsored this report. It sets out the exciting potential of the current direction of pensions policy and the benefits it can bring both to pension savers and wider UK society.

The pensions system in this country has a long and illustrious history but, like many, it has structural problems and inefficiencies that are not faced by its more recently constructed peers.

The current set of proposals for the Defined Contribution (DC) market has the capacity to address these structural issues, establishing a system of at-scale providers that can compete with the largest funds in the world. The UK has one of the highest levels of investable capital in the world, but by splitting it up among so many schemes we have sapped our own strength.

As with any refurbishment of an historic system, the pensions market faces challenges and naysayers. There are many who think the journey is too arduous for the destination to justify. This report shows why the journey is not only worthwhile but also essential. Scale providers have the ability to invest in a way that few other entities do. Using a long-term horizon and increased capacity, they will be able to make the long-term decisions that often elude other types of investor. The report shows that if the whole market adopts this approach then the impact it could have on the UK is extraordinary.

I'd like to thank our friends at WPI Economics for producing such a robust report, and I hope that its contents will help us focus on the extraordinary upsides that our current path could bring.

Andy Briggs MBE
Group CEO, Standard Life

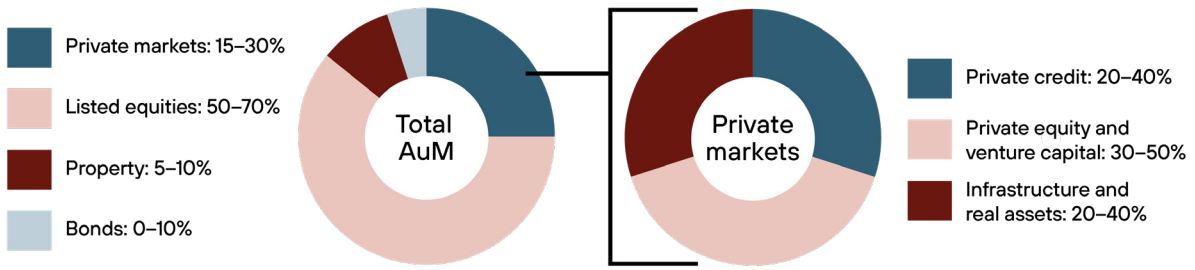
Executive summary

Bold, system-wide reform is needed to deliver a better workplace Defined Contribution (DC) pensions market, improve outcomes for savers, and supply much-needed investment capital to the UK economy. The Government's policy agenda contains the key ingredients – consolidation, targeting private market allocation, decumulation,[i] and a renewed focus on net member value. However, achieving meaningful change will require significant ambition and transformation across the pensions system.

This research sets out an ambitious blueprint for the future pensions market based on best-in-class target asset allocation for DC default funds – and it quantifies the potential benefits of these for both savers and the economy. To realise this positive vision for the future pensions market, this report sets out eight key principles needed to deliver a new regulatory and competitive framework.

Projections based on the current consolidation trends and the UK Government's reform agenda indicate that the DC workplace pensions market is likely to be dominated by 10–15 large megafunds by 2035. In a future where individual schemes manage more than £50 billion in assets under management (AuM), we would expect greater targeting of private market opportunities that deliver improved performance and diversification. This could see allocation levels in DC default funds to private markets ranging from 15%–30% of total AuM in the growth phase – a significant shift in investment strategies from levels today (currently just 2–4% of AuM in UK DC schemes are allocated to private markets).[1] This estimate is based on the best available evidence from international markets, extensive engagement across the UK market, and allocations targeted by providers' higher-conviction default strategies.

Figure 2: Blueprint for default workplace DC pension investment during growth stage in 2035



i The phase when pension scheme members begin to access their savings.

Our research modelled outcomes for several representative saver profiles, comparing the proposed investment blueprint with a counterfactual reflecting current DC market asset allocations. The findings highlight the structural advantage of shifting DC asset allocation towards productive private market investments, with savers receiving up to a 20% uplift in the value of their savings pot upon retirement. The benefits for savers of all types are broadbased, resilient across market conditions, and most powerful when applied as early as possible in the savings journey.

Under the blueprint, an early career saver could have **up to £49,000** more in real terms in their retirement pot – **17% higher** than if investment strategies remain unchanged.

If market performance is more favourable, an early career saver could be **up to £80,000** better off in real terms at retirement.[ii]

In addition to the significant benefits on offer to the next generation of retirement savers, shifting investment approaches to include greater allocations to private markets would offer gains for the UK economy through greater investment in much-needed infrastructure and direct investment into UK businesses (see Chapter 2).

Under the blueprint, infrastructure investment could support **up to £115 billion** in Gross Domestic Product (GDP) and **330,000 jobs** in the UK economy.

Under the blueprint, **up to 14,000** UK small- to medium-sized enterprises (SMEs) could receive venture capital (VC) and private equity investment, creating **up to 32** UK unicorns.[iii]

The pensions market will change markedly as a result of the Government's reforms, and so will the framework that is needed to oversee it. We have set out below a series of principles for determining the regulatory and competitive framework for the future pensions market. These are key to maximising the benefits of the new market to savers and the economy, while managing the downside risks.

ii At 75th percentile of market performance scenarios modelled. Real-terms increase using 2026 prices. See Chapter 2 for more details.

iii Privately-held start-up businesses valued at over $1 billion. See Chapter 2 for more details.

Figure 14: Principles for the regulatory and competitive framework

1. The regulatory and competitive framework for the future pensions market should be guided by the **north star of higher net member value**. This should then shape key decisions around performance fees, value for money (VFM), and how intermediaries operate in the market.
2. All members should receive **equal levels of protection through a single regulatory approach**.
3. The **VFM framework should enable – rather than hinder** – the maximisation of net member value through a single and consistent set of performance metrics, with a continuous improvement approach to the reforms and their impact.
4. A **regulated intermediary sector should add value** by advising employers on solutions that provide maximum value to members and facilitate an orderly secondary market for workplace pensions.
5. Trustees should be drawn from a pool of **highly-skilled and technically-capable individuals** who can competently and effectively represent members' interests.
6. **The pensions system should deliver for saver outcomes and the economy**, with reforms to areas like planning and industrial strategy helping to provide a pipeline of investable assets for pension schemes that are both good for growth and deliver strong net member value.
7. A **universal pensions system** that supports all (or the overwhelming majority) to save should underpin the new market.
8. Helping savers to **access their savings in a sustainable manner** will also be a crucial part of the future pensions market.

See Chapter 4 for more details.

The prize of a consolidated market focussed on driving better value for pension scheme members is a significant one. Without concerted action to ensure the commercial and regulatory enablers and safeguards are in place, we risk missing the opportunity to capture the truly transformational outcomes on offer in the future DC pensions market.

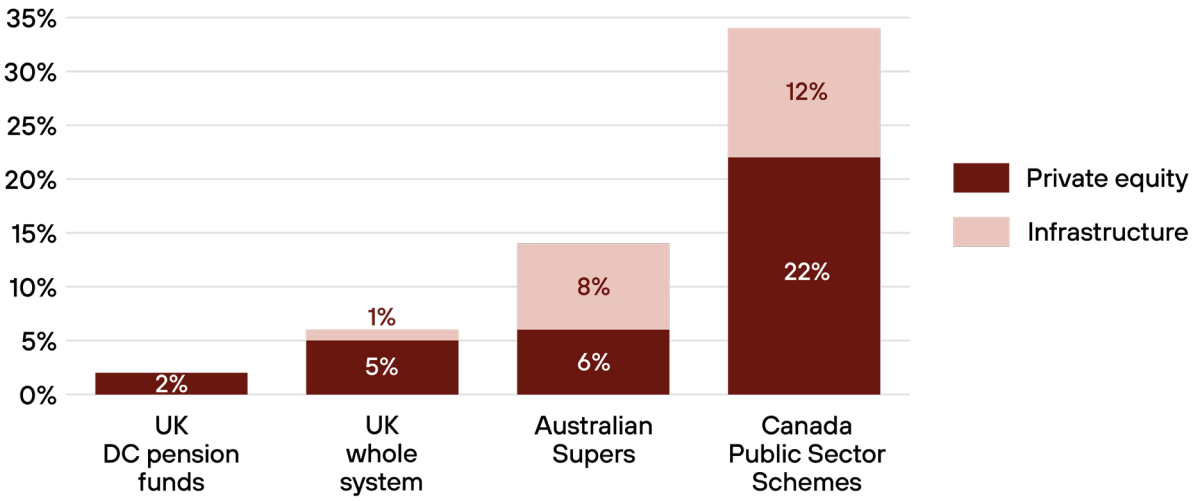
Introduction – a moment to redesign the future of DC pensions

Defined Contribution (DC) workplace pensions are now the cornerstone of the UK's pensions system. As a result of the introduction of auto-enrolment, 22 million people are now regularly saving into a workplace DC scheme.[2] For most workers, these savings are of huge importance to their standard of living in retirement. The growth of DC savings will also transform the UK's pension landscape, increasing assets under management (AuM) within the UK's DC pensions system to an estimated £1.3-1.8 trillion by 2035 if default contribution rates remain unchanged.[3]

However, despite this progress, widespread concerns remain about the number of savers who are on track for inadequate savings. Indeed, the 2026 interim report of the re-formed Pensions Commission reported that 15 million people are currently undersaving for retirement – and that, without action, this could rise to 19 million.[4] This stores up a future crisis of increased pensioner poverty and falling living standards in retirement.

Part of the solution to this crisis is increasing default contribution rates within auto-enrolment, as argued in previous work by WPI Economics and Standard Life.[5] In addition, major changes are required to optimise the pensions system for both savers and the economy. The UK has one of the most fragmented and cost-sensitive pension systems in the world, and it has been highlighted that UK DC pensions' investments underperform compared to international peers, in part due to a reliance on passive investments. This is a significant issue given that compound returns contribute up to two thirds of a saver's total pot value.[6]

Figure 1: Estimated asset allocation to private markets (data available for private equities and infrastructure only) as a percentage of total AuM in international pension systems



Source: New Financial research, September 2024 [7]

While some of this difference in investment profiles is driven by structural differences in pension systems, with typically higher levels of allocations to private markets amongst open Defined Benefit (DB) funds, currently just 2–4% of AuM in UK DC schemes are allocated to private markets.[8] Voluntary commitments under the Mansion House Accord[iv] aim to increase this to around 10% by 2030,[9] although many argue that even higher allocations would be beneficial to savers (see Chapter 1).

The UK Government has therefore embarked on an ambitious policy agenda with the threefold aim of improving value for savers, ensuring retirement adequacy and boosting economic growth. Key to this agenda is the consolidation of DC workplace pensions, a new VFM framework, and the return of the landmark Pensions Commission. These changes are expected to materially shift how the DC market operates today, unlocking new opportunities to deliver better outcomes for savers. For example, our previous work for Standard Life modelled the impact a £25 billion minimum AuM threshold could have on the pensions market. This projected that there would be 10-15 master trusts and six group personal pension (GPPs) providers, and with this scale we could expect far higher investment in private market assets.[10]

Yet, while there are early movers and ambitions from market participants to increase allocations to private market assets, particularly in higher-conviction strategies,[v] most savers are in defaults funds where private market investment remains very low due to cost sensitivity in the wider pension system (discussed further in Chapter 3). Recent estimates show that this could mean savers are losing out on up to a 20% uplift on their pension pots at retirement.[11] With the scale that will amass in the next decade – from both continued contributions and consolidation – and the pressing need to improve retirement outcomes for the millions that will rely on their workplace pension savings in retirement, now is the key moment to ensure the wider system is capable of delivering the very best outcomes for both savers and the economy. The challenge is how we bring the emerging strengths of higher-conviction strategies into the default space.

Therefore, this research considers what best-in-class allocations would look like in a future market characterised by scale and focused on delivering the best possible value for savers. Through interviews with pensions sector and investment experts, leading employee benefit consultants (EBCs) and international frontrunners, the research considered the opportunities and constraints that underpin potential investment approaches, the importance of getting this right for savers, and the enablers needed to make this a reality.

iv The Mansion House Accord is a voluntary industry-led agreement between major pension provides and the UK government which was signed by 17 of the UK's largest workplace pensions providers in 2025. It builds on the earlier 2023 Mansion House Compact.

v High-conviction or premium strategies are alternatives to low-cost default funds offered by pension schemes which typically include broader asset diversification, more active management and higher expected long-term returns, but with higher implementation and administration costs reflected in the fees.

In this report

Drawing on the research findings, this report presents a blueprint for the best-in-class asset allocations that could be expected from default DC workplace pension funds in 2035 and beyond (Chapter 1). Chapter 2 shows the tangible benefits this could deliver for the next generation of savers and the UK economy. Chapter 3 then considers how we get there and how the commercial, policy and regulatory environment needs to adapt to fully realise the benefits of scale. Finally, Chapter 4 presents a set of principles for the future competitive and regulatory framework, which will be crucial to both unlock and safeguard good outcomes for savers.

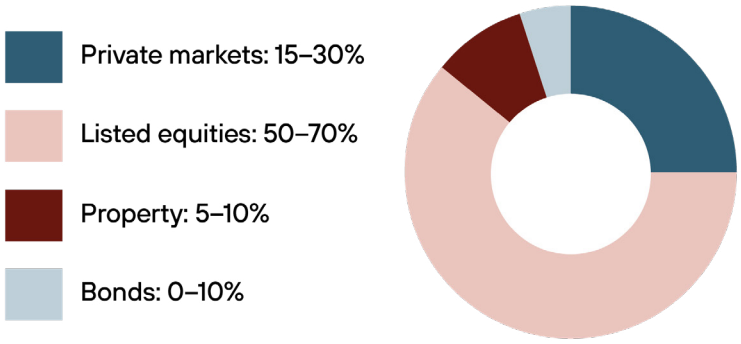
Chapter 1: A blueprint for investment in 2035

By 2035, we expect consolidation to have materially shifted investment strategies in ways that are not possible at the current market scale. This is especially key in the growth stage[vi] when assets should be invested to optimise returns to maximise the value of pension savings ready for decumulation post-retirement. The blueprint below sets out the best-in-class allocations that could be expected, with the right policy and regulatory framework in place, during the growth stage for a workplace DC pension scheme in 2035 operating under scale and prioritising value for its members. This is inclusive of both contract- and trust-based schemes.

vi Growth stage refers to the majority of the accumulation period, running from early- to mid-career when a saver is making contributions to their pension and investment should be focused on aggressive growth to grow their savings pot for retirement in the future. A saver will then enter a glidepath in their 50s, which begins to prepare for decumulation, taking a more cautious investment approach to protect the saver from potential volatility and downside risks, and ensuring there is sufficient liquidity to provide the post-retirement income they need.

Figure 2: Blueprint for default workplace DC pension investment in 2035

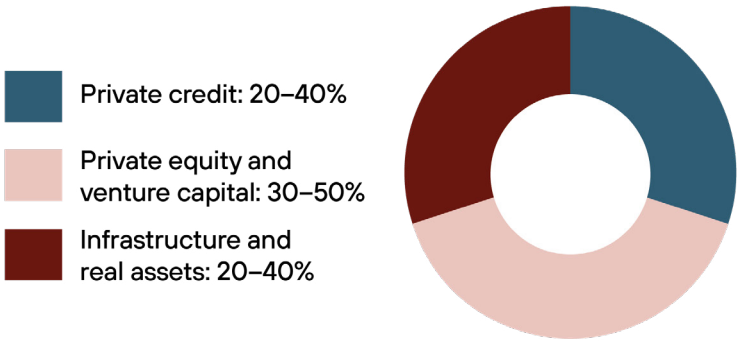
Headline asset allocation during growth stage (percentage of AuM by asset class):[vii]



Definitions:

- **Private markets:** investment in assets that are not traded on public or listed markets, including private equity, venture capital, private credit, infrastructure and private real estate.
- **Listed equities:** investment in shares of publicly traded companies bought and sold on stock exchanges, providing dividends paid to shareholders and capital gains over time.
- **Property:** direct or indirect investment in commercial or residential real estate, providing income through rent and potential asset value growth.
- **Bonds:** investment in debt instruments issued by governments, companies or other entities on which investors receive regular interest payments and repayment of the principal on maturity.

Breakdown of private market allocations during growth stage (percentage of total AuM in private market assets):



Definitions:

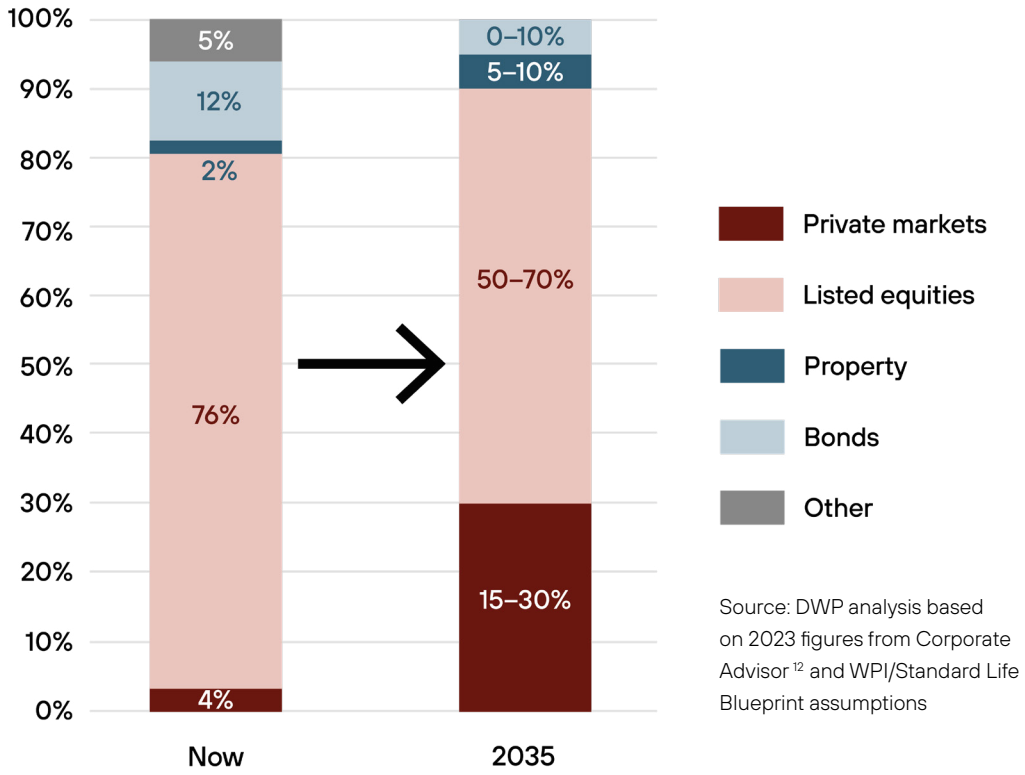
- **Private credit:** direct lending made to companies or through infrastructure and real estate debt, undertaken outside of public markets, providing returns through contractual income (namely, interest, fees and – in some cases – profit-sharing rights).
- **Private equity and venture capital:** investment in privately-owned companies through purchasing a share of equity or ownership directly from the company rather than through a public market. Private equity focuses on established business, whereas venture capital invests in early-stage, high-growth potential firms.
- **Infrastructure and real assets:** investment in physical assets such as transport networks, utilities, or natural capital (natural resources that provide essential goods and services) through equity ownership or financing deals over a long duration.

vii Note – cash and emerging markets debt expected to be at low levels or 0% during growth stage. Bonds are included at a positive percentage to account for potential high-yield bond options, but may also be expected to be 0% in some scenarios.

Higher allocations to private market assets

In a future with 10–15 large megafunds, each with more than £50 billion in AuM, combined with the completion of the VFM policy agenda, we would expect greater targeting of private market opportunities that deliver improved performance and diversification. This could see allocation levels in default funds ranging from 15–30% of total AuM in the growth phase – a significant shift in investment strategies from the 2–4% levels of today.

Figure 3: Current DC pension investment compared to 2035 blueprint for DC default funds (percentage of total AuM by asset class)



Source: DWP analysis based on 2023 figures from Corporate Advisor [12] and WPI/Standard Life Blueprint assumptions

Under the blueprint, allocations to private markets in DC default funds would move closer to emerging targets for today's high-conviction strategies and to levels seen in other major markets such as Australia and Canada. Australian superannuation funds invest 17% of assets in private markets, with some supers investing up to 40% in the growth stage,[13] while Canada's public DB schemes allocate 25% of their AuM to such assets.[14] While DB funds have distinct features that support investment in more illiquid assets, namely the certainty of their liabilities over set long-term time horizons, it is expected that scale can create similar circumstances within very large multi-employer DC funds. However, liquidity risks will remain a more relevant and less predictable in the DC space and, therefore, it is expected that private market allocations by DC funds will remain slightly below the highs of Canada's DB funds.

There are, however, lessons to be drawn from these leading international markets despite their differences. Canada in particular has been an early adopter of private market assets, utilising both direct and co-investing strategies. Research indicates that private markets account for around half of returns for some Canadian funds. In both countries, scale in their pensions system has enabled cost-effective implementation. Experts believe the UK is on the verge of achieving similar scale and, with the right supportive drivers (discussed further in Chapter 3), could reach comparable allocation levels by 2035.

This would be beneficial for savers. While private market assets carry higher risks, costs and illiquidity, they have historically delivered higher returns. Research by Future Growth Capital shows private markets have outperformed public markets over the past 25 years.[15] The future is expected to bring significant opportunities for high-value investment in these areas – with £350 billion of projects in the Government's infrastructure pipeline in the next decade, £160 billion of private equity deals taking place each year, and the UK representing the largest private debt market in Europe.[16] However, careful management is required to manage illiquidity, and we expect 25–30% to be a practical upper limit based on our extensive market engagement.

This level of investment in private markets is also consistent with targets in today's higher-conviction strategies. Leading market participants are aiming for 10–30% private market exposure, largely as part of higher-conviction strategies, although recent research from pensions advisory firm Isio reports 15–20% target exposure in some main default funds.[17] By 2035, we expect schemes will have solved for cost constraints and developed increased sophistication either through large in-house schemes or outsourcing, enabling access to a wider range of investment options which can benefit all savers. Combined with a shift from a cost-centric approach to a value-focused regime under the new VFM framework, this will allow today's higher-conviction approaches to be applied across DC default funds and to support the use of higher-cost, higher-value strategies.

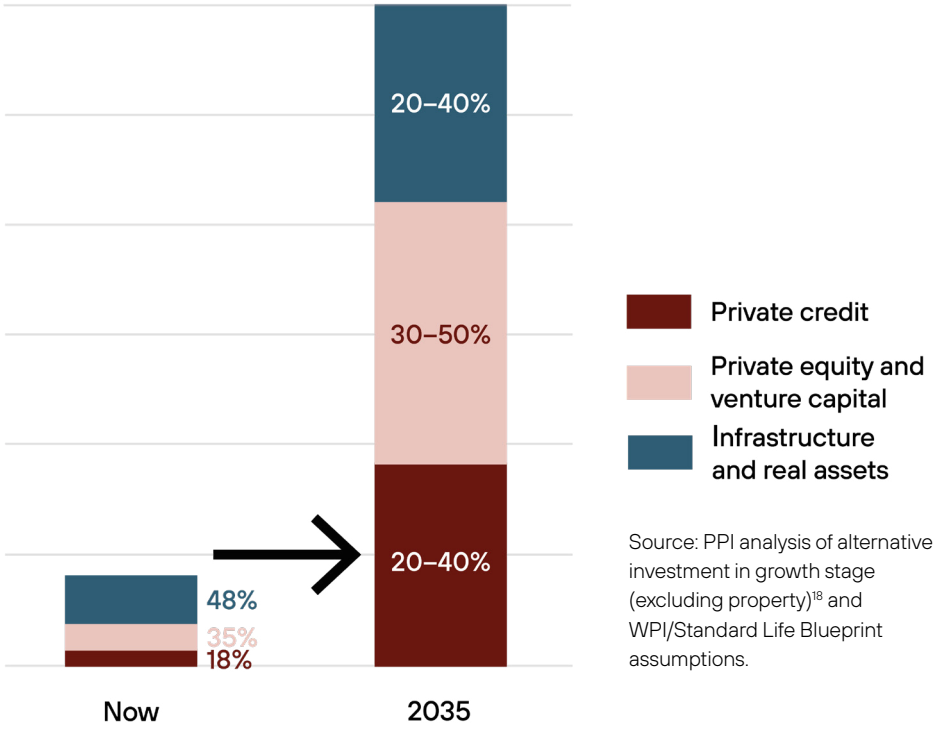
Experts consulted for this research expressed differing views on optimal allocations. Therefore, the ranges included in the blueprint show that variation is to be expected in a competitive and well-functioning market. Target allocations will be affected by the maturity of the scheme's membership, investment practices, and relative asset performance. The blueprint does not intend to describe a single perfect mix of assets, but to describe what portfolios constructed to the highest standard of investment practice in 2035 could look like to deliver the best possible long-term, risk-adjusted returns for savers.

Greater diversification and quality of private assets

As well as higher allocation to private market assets, by 2035 we expect greater targeting of private market opportunities that deliver improved performance and diversification, leading to an expansion of asset classes such as private credit, real estate debt, and natural capital. Experts consulted for this research cautioned about the importance of the availability of strong investment opportunities to underpin the blueprint levels. This is discussed further in Chapter 3. However, investors we spoke to were largely optimistic about the scale of

opportunities available. As a result, we expect a roughly even split between investment in private credit, private equity and venture capital, and infrastructure assets, with variation depending on relative performance and competitive differentiation.

Figure 4: Current DC pension investment in private markets compared to 2035 blueprint for DC default funds (percentage of total AuM invested in private markets by asset class)



Source: PPI analysis of alternative investment in growth stage (excluding property)[18] and WPI/Standard Life Blueprint assumptions.

Internationally, different countries have different emphases in their private market mixes too. Australia has a higher percentage of AuM invested in infrastructure and real assets (58% of private market asset investment, compared to 42% in private equity and venture capital), whereas Canada invests more heavily in private equity and venture capital (55% compared to 45% invested in infrastructure).

Each type of private market asset brings distinct benefits and relative strengths to the investment mix. Private equity and venture capital offers the strongest growth potential and a higher risk of failed investments. This means it plays an important role in the asset mix to target higher returns but it also brings an element of management risk. Infrastructure offers diversification benefits, smoothing long-term returns for pension savers and reducing volatility, especially compared to traditional, equity-heavy portfolios. Infrastructure investment typically has steady cashflows which bring inflation proofing and little co-movement risk with traditional asset classes, but with the highest illiquidity risk. Private debt is then important

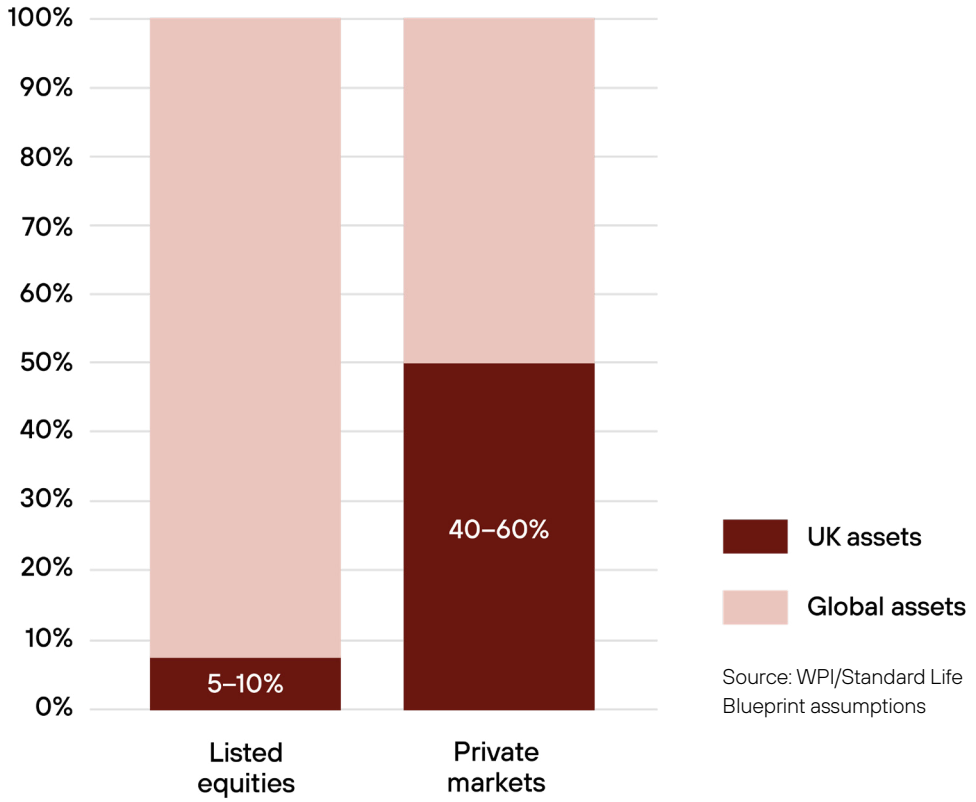
to manage illiquidity and downside risks, being more liquid and easily traded on secondary markets. Opportunities are opening across these asset types as demand increases from business and government for private equity, private debt and infrastructure investment. By 2035, we would therefore expect that all funds have a spread of private market asset types to avoid concentration risk and the best possible risk-adjusted returns for members.

This is consistent with known targets from current market participants who are targeting multi-asset strategies.[19] However, reaching these levels of allocation will likely be an evolution over time as funds build their capabilities across asset types. For example, some providers have stated an intention to begin with a single asset type before adding others to their investment strategies over time.[20]

Greater volume of AuM invested in the UK economy

In the future DC market, we expect domestic bias to remain broadly in line with current levels. Assuming continued strong performance of UK assets and equities, this implies a range of 5-10% domestic exposure in listed equities and 30-50% in private markets. As a result, the growth of AuM allocated to private markets will translate into a larger absolute volume of investment flowing into the UK economy compared to today.

Figure 5: Expected domestic bias in 2035 blueprint allocations for DC default funds (percentage of AuM invested in asset class)



Source: WPI/Standard Life Blueprint assumptions

At present, it is estimated that 8% of AuM invested by UK DC pension funds in listed equities is invested domestically, while private markets have a considerably higher home bias – at around 50%.[21] Given the continued importance of effective diversification, we do not expect the proportion of domestic investment to increase materially by 2035. Private markets typically maintain higher domestic exposure due to the need for close oversight of investment opportunities, active asset management, and management of currency and inflation risks. This pattern is consistent with international practice. For example, in Australia, 57% of unlisted infrastructure investment is in Australian-based assets, and 20-40% of Canada's infrastructure and property investment is home-based.[22] This reflects the broader role of home bias in private markets where local knowledge, governance proximity and risk management considerations naturally make domestic allocations both practical and value enhancing.

Chapter 2: Next generation outcomes for savers and the economy

If the blueprint set out in Chapter 1 is realised across the market and default DC schemes, the tangible benefits for the economy and savers would be significant. Modelling conducted for this report shows the opportunity on offer to both improve returns for savers and support the economy through greater levels of private market investment. This includes:

- higher net returns for savers, improving retirement incomes and adequacy;
- economic gains from increased investment in the UK economy;
- productivity effects and growth for UK businesses; and
- social and environmental benefits arising from investment and stewardship.

Higher returns for savers

Of prime importance is that the analysis demonstrates that higher allocations to private market investment can materially enhance long-term returns for savers. This is crucial given persistent pension inadequacy and the growing dependence on DC workplace pensions to provide vital retirement income.

The research modelled outcomes for several representative saver profiles, comparing the proposed investment blueprint with a counterfactual reflecting current DC market asset allocation. Figure 6 details the saver profiles used. This included two early career savers beginning to make contributions in 2035, who experience the full effect of the blueprint from the outset. In contrast, this research also modelled outcomes for a mid-career saver whose early-career contributions were accumulated under today's lower private market exposure but who then benefits from increased allocations from 2035 onwards.

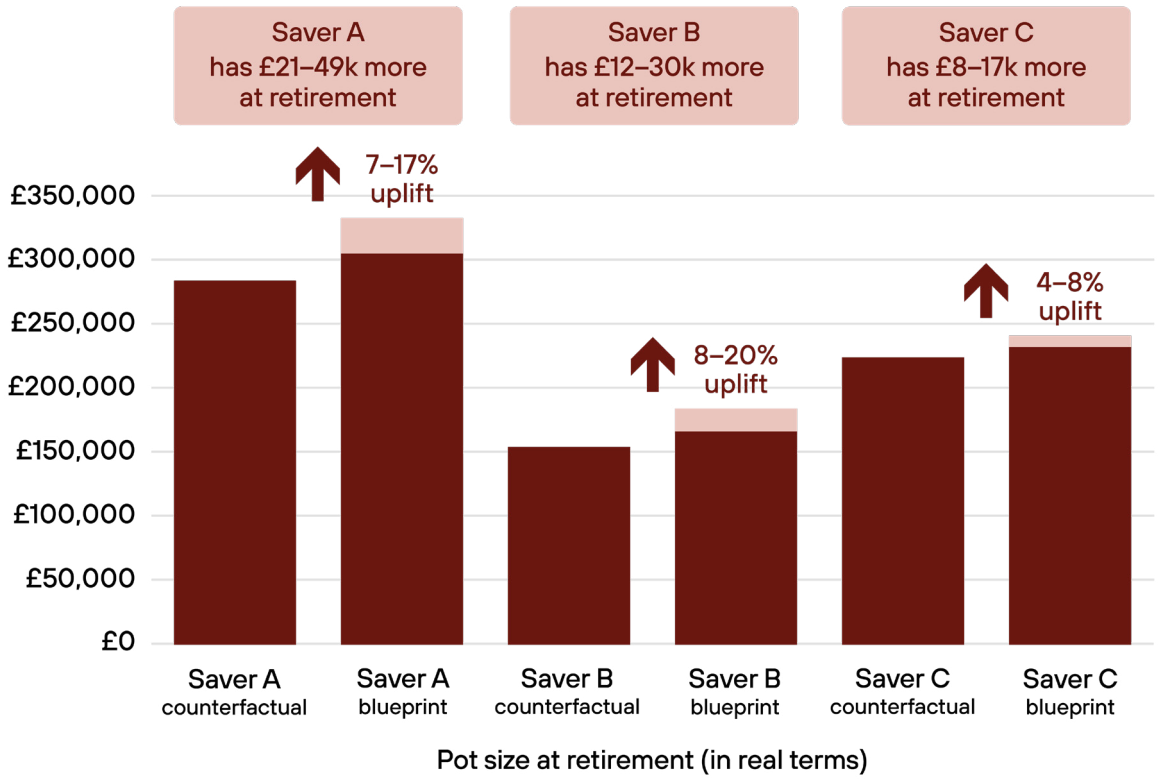
Figure 6: Saver profiles

Saver A Early-career saver	Saver B Early-career saver with career break	Saver C Mid-career saver
21 years old in 2035, earning minimum wage Starts saving in 2035 and works full-time until retirement at 68 years old.	**21 years old in 2035, earning minimum wage** Starts saving in 2035 while working full-time, before taking a career break and returning to work part-time until retirement at 68 years old.	**45 years old in 2035, earning median wage** Already has a modest pension pot, and continues saving post-2035 and working full-time until retirement at 68 years old.

The model compared the pension pot value at retirement for these different savers across a range of scenarios. A counterfactual with low private market allocation was compared to blueprint scenarios where private market allocations varied from 15-30%. See the methodology section for more information about the saver profiles and assumptions.

Across all profiles, the modelling shows the blueprint consistently outperforms the counterfactual. With 15–30% private market allocations, the blueprint delivers pension pot values at retirement 4%–20% higher depending on the level of private market exposure (see Figure 7). Retirement pot values are presented in real terms, using 2026 prices. This reflects the purchasing power of the accumulated savings if they were spent today, rather than their nominal cash value in the future.

Figure 7: Median outcome for pot size at retirement
(net of fees, real terms, 2026 prices)



Source: WPI Economics analysis

The uplift is most pronounced for savers at the start of their working lives. Early-career savers benefit from the long-term horizon over which compound returns on their contributions can amplify the performance of private market assets. Longer time horizons also provide greater protection against short-term private market asset volatility. As shown in Figure 7, for Saver A, this translates into an estimated £21,000–£49,000 real-terms increase in their pot value at retirement.

Under the blueprint, an early-career saver could have **up to £49,000** more in real terms in their retirement pot – **17% higher** than if investment strategies remain unchanged.

The early benefit of more productive investment is of particular importance for savers with interrupted contributions, such as those who take a career break or experience periods of unemployment. Saver B, who takes a career break, benefits from the higher productivity of prebreak contributions, which continue to grow despite the pause in saving. For these savers,

higher private market allocations can help reduce the negative effects of a career break by increasing the value of the pension pot on retirement by 8–20% depending on the level of private market exposure.

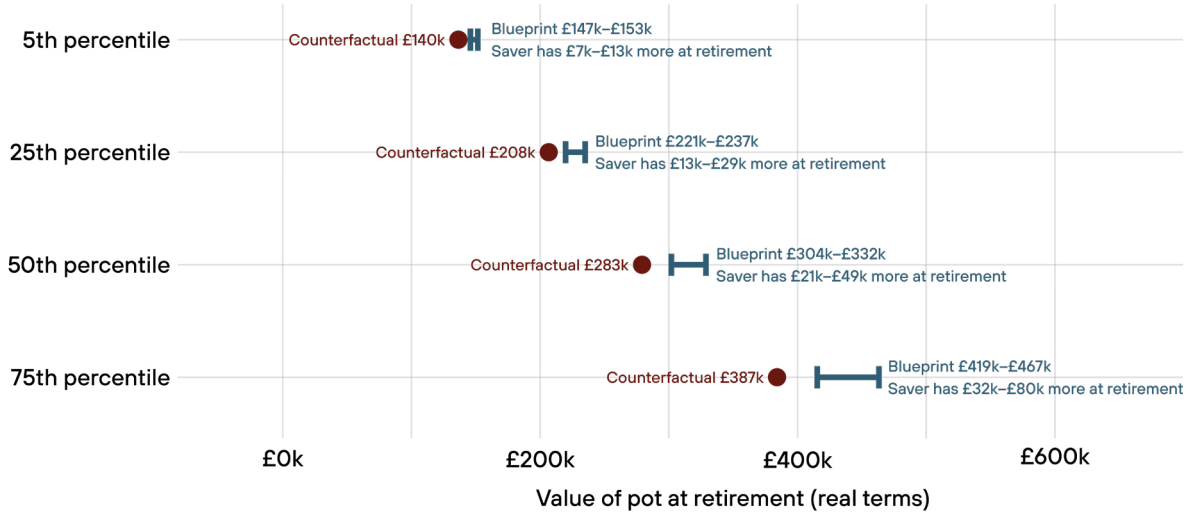
These scenarios show the size of the impact available across a saver's full savings journey due to the importance of compound returns for DC pensions savings. However, even for savers later in their career (such as Saver C), while the effect is naturally smaller, the model predicts they will still benefit from higher private market allocations. For example, Saver C, who experiences higher private market allocations only for the final two decades of their working life, sees a 4–8% uplift, equivalent to £8,000–17,000 more in their pension pot at retirement compared to if their exposure to private markets had remained at very low levels.

Under the blueprint, a mid-career saver could have **up to £17,000** more in real terms in their retirement pot – **8% higher** than if investment strategies remain unchanged.

To test robustness, the model also considered outcomes across 20,000 different market performance simulations to account for uncertainty about the future performance of different asset types. For each saver, results were assessed at the 5th, 25th, 50th and 75th percentiles to show the potential outcomes in the worst 5% of market scenarios for the saver, through to the top 25% of scenarios. The modelling showed an unusual and useful smoothing of risk in both upside and downside scenarios. Even in the worst 5% of scenarios, higher private market allocations delivered improved outcomes relative to the counterfactual because of the enhanced diversification that a spread of private market assets provides. This therefore demonstrates that by accounting for higher risk levels, savers' net-returns benefit from higher allocations to private markets in the 15–30% range (see Figures 8, 9 and 10). At the upper end of performance (75th percentile example), savers beginning to save in 2035 could see gains of up to £80,000 (see Figure 8).

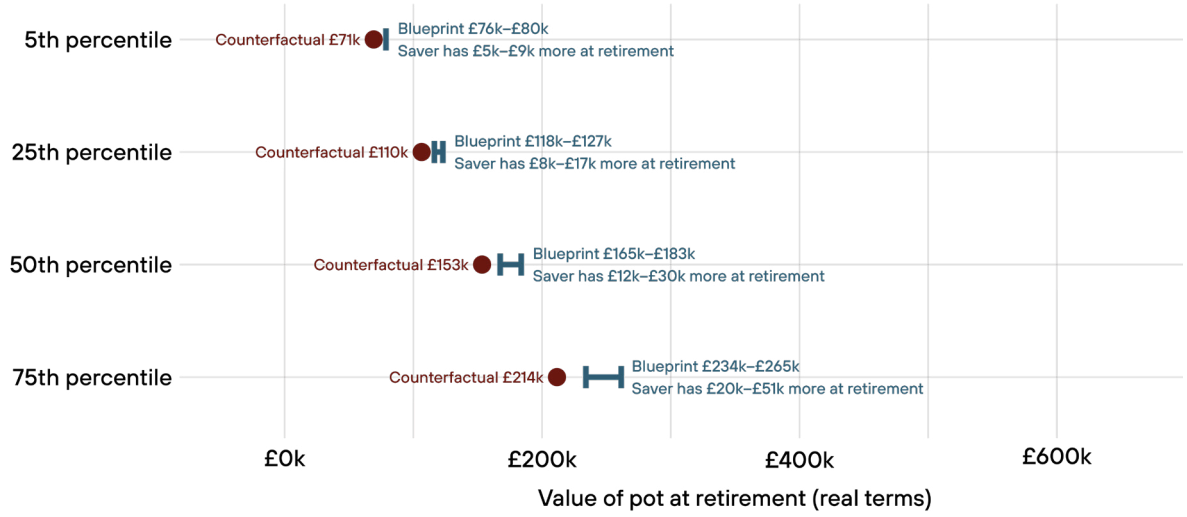
Overall, the findings highlight the structural advantage of shifting DC asset allocation towards productive private market investments. The benefits for savers of all types are broadbased, resilient across market conditions, and most powerful when applied as early as possible in the savings journey.

Figure 8: Saver A (early-career saver) outcomes across different market performance scenarios (net of fees, real terms, 2026 prices)



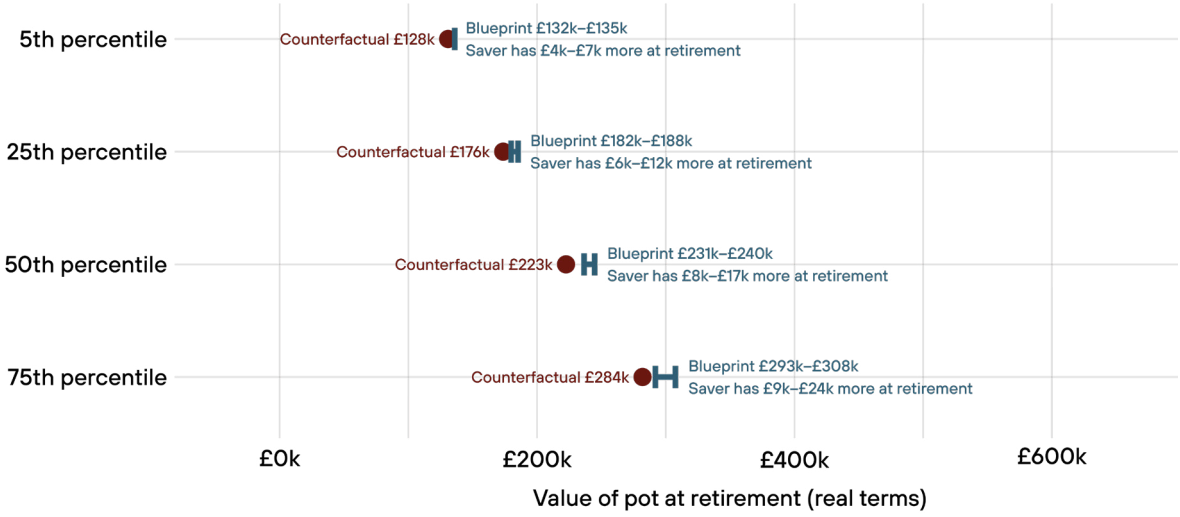
Source: WPI Economics analysis

Figure 9: Saver B (early-career saver with career break) outcomes across different market performance scenarios (net of fees, real terms, 2026 prices)



Source: WPI Economics analysis

Figure 10: Saver C (mid-career saver) outcomes across different market performance scenarios (net of fees, real terms, 2026 prices)



Source: WPI Economics analysis

Economic gains from more investment in the UK economy

In addition to the significant benefits on offer to the next generation of retirement savers, a shift in investment approaches to include greater allocations to private markets offers gains for the UK economy through greater investment in much-needed infrastructure and direct investment into UK businesses.

Under the blueprint, **up to £200 billion** could be invested in UK private markets.

Modelling for this research estimates that total AuM in the DC workplace pensions market in 2035 will reach between £1.3 and £1.8 trillion. Under the blueprint vision for the future market, between £40 billion and £200 billion of these assets would be invested in domestic private markets.[viii] This is a stark increase compared to the estimated £2-3 billion invested in private markets by today's master trusts.[23]

Under the blueprint, infrastructure investment could support **up to £115 billion** in GDP and **330,000 jobs** in the UK economy.

This investment would support the UK economy in a number of ways. Firstly, through supporting large-scale infrastructure projects, as well as via significant residential and

viii Assuming 15–30% of assets in the growth phase are allocated to private markets with a 30–50% domestic bias.

commercial developments. We estimate this would include £15 billion to £60 billion invested in private infrastructure and real assets, together underpinning £25 billion to £115 billion in GDP and supporting the creation of between 70,000 and 330,000 jobs.[ix] Investment at this level could support the equivalent of the entirety of the Northern Powerhouse Rail project or three new runways at Heathrow airport.[24]

Under the blueprint, **up to 14,000** UK small- to medium-sized enterprises (SMEs) could receive venture capital (VC) and private equity investment, creating **up to 32** UK unicorns.[x]

Secondly, an increase in private market investment to this level would significantly increase pension funds' direct investment into UK businesses and start-ups. We estimate in 2035 this would provide £17–80 billion of investment in domestic private equity and venture capital investment, which could support up to 14,000 UK SMEs.[xi] Figures suggest that every $1 billion of seed investment in the US generates 1.22 unicorns (privately-held start-up businesses valued at over $1 billion), and in the UK this could be as high as 3.08 unicorns per $1 billion.[25] Therefore, using a conservative estimate, this level of increase in venture capital investment from DC pension funds could also help create between seven and 32 UK unicorns driving regional growth, high-value employment and globally-significant UK companies.[xii]

There is also evidence that this investment in UK businesses would raise productivity levels within these businesses. Private market investment requires pension schemes and asset managers to take a more active role in engaging with the businesses they invest in. A Danish study found that businesses which receive investments from pension funds saw their productivity rise by 3–5% – often due to active engagement between the investor and the firm with this aim in mind.[26] There is a growing preference among UK businesses for private equity, as many companies value this strategic input and the handson support that comes with direct ownership. Increased capital flowing into private equity would also help address a longstanding gap in the UK investment landscape, where firms often struggle to access latestage growth finance needed to scale and remain UKbased. Furthermore, greater engagement by pension funds and investment in infrastructure and real estate can also deliver wider social and environmental benefits – not only through investment in environmentally-important projects such as solar and wind energy, but through active stewardship and environmental, social and governance (ESG) focused engagement with portfolio companies.

ix Assuming no crowding out- or in- of foreign investment.
x Privately-held start-up businesses valued at over $1 billion.
xi Based on the average SME private equity deal of £5.74 million according to the British Business Bank Small Business Equity Tracker 2025.
xii Assuming 25% of venture capital and private equity investment is early-stage venture capital investment and 1.22 unicorns per $1 billion of seed investment.

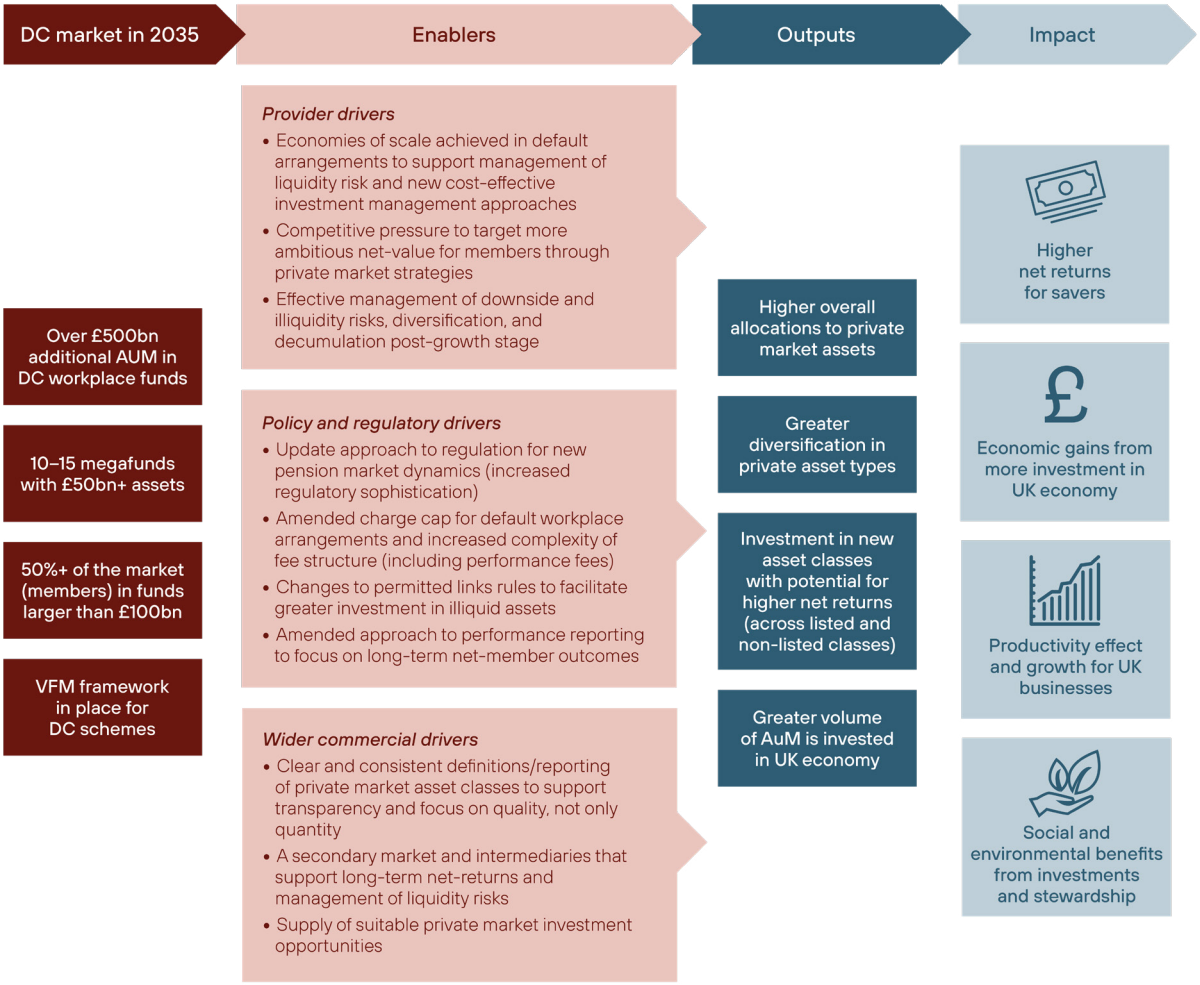
Chapter 3: Laying the groundwork

The modelling in the previous section sets out how greater scale in the workplace DC pensions market could deliver significant benefits for savers and the UK economy. This section sets out the key enablers and drivers that need to be in place to ensure that these benefits are realised to mitigate the risks of adverse consequences from the shift to the new market structure.

How do we get there?

Our Theory of Change (below) shows the set of enablers and drivers that need to be in place to ensure the new market structure results in the tangible benefits set out by the modelling. The providers, policy and wider commercial drivers are covered below.

Figure 11: Future pensions market Theory of Change



Source: WPI Economics analysis

Provider drivers

The achievement of meaningful scale in default arrangements is critical to delivering the potential benefits we have set out to savers and the economy. This scale will be achieved as a result of Government policy on minimum default fund size, increased pension saving, and the continuation of previous sector consolidation trends.

International evidence is clear that increased scale in AuM tends to result in a higher allocation to private markets by pension funds:

- Data from CEM Benchmarking shows funds over £100 billion have 23% in private markets, while funds over £20 billion have 20%;[27]
- WPI Economics research found that seven large asset-owning pension funds in the UK allocate around £1 in £4 to private markets, compared with £1 in £9 for the rest of the UK pensions system;[28]
- Tier 1 Australian superannuation schemes, with their much larger average fund sizes, achieve as much as 40% of AuM allocation to private markets at the growth stage.[29]

This occurs due to the ability of larger funds to invest in their internal private markets expertise, and to use their economies of scale to negotiate better deals with fund managers.[30] Greater scale also allows for easier management of downside and illiquidity risks by providers, especially in the context of workplace DC pensions which are net cashflow positive.

Another key enabler of private market allocation is a shift from cost to value in decision-making on default fund selection across the market. This requires a cultural and behavioural shift among employers and intermediaries to overcome the existing focus on cost. Much of this has been driven by the charge cap, though the vast majority of provider charges sit significantly below the current cap level. The consensus from our stakeholder engagement is that the market is gradually moving towards private market allocation and net member value, with initiatives like the Mansion House Accord driving behaviour change at the provider side, and intermediaries reporting the beginnings of a cultural shift at the demand side, particularly for larger corporate clients.

Policy and regulatory drivers

The effective implementation of the VFM framework is considered a key factor in the extent to which there is an increase in private market allocation. A greater focus on VFM over cost could potentially help to result in the demand-side shift that is needed to change provider behaviour towards investments with a higher cost but greater ultimate net member benefit. However, concerns from how similar reforms were implemented in Australia suggest a risk of herding investment behaviour if provider benchmarking under the VFM framework is not implemented with care. This could discourage allocations towards asset classes subject to a J-curve,[xiii] such as private equity. Effective and consistent, long-term monitoring of investment performance – net of fees – should help to manage this transition.

Charge cap reforms to allow for the payment of performance fees to fund managers are vital for increasing allocations to private markets which, in turn, drives value creation. At present,

xiii A J-curve is a trendline that shows where performance or value of investments initially drops and is then followed by a dramatic gain.

changes are being implemented inconsistently across trust- and contract-based schemes, making allocations to private equity more difficult within GPP schemes where cost constraints remain tighter. In addition, changes are required to permitted links rules that manage liquidity risk by limiting investment in illiquid assets. This is for when allocations are made directly within a long-term asset fund (LTAF). Moreover, the cap adds complexity to the process of allocating to private markets for contract-based schemes.

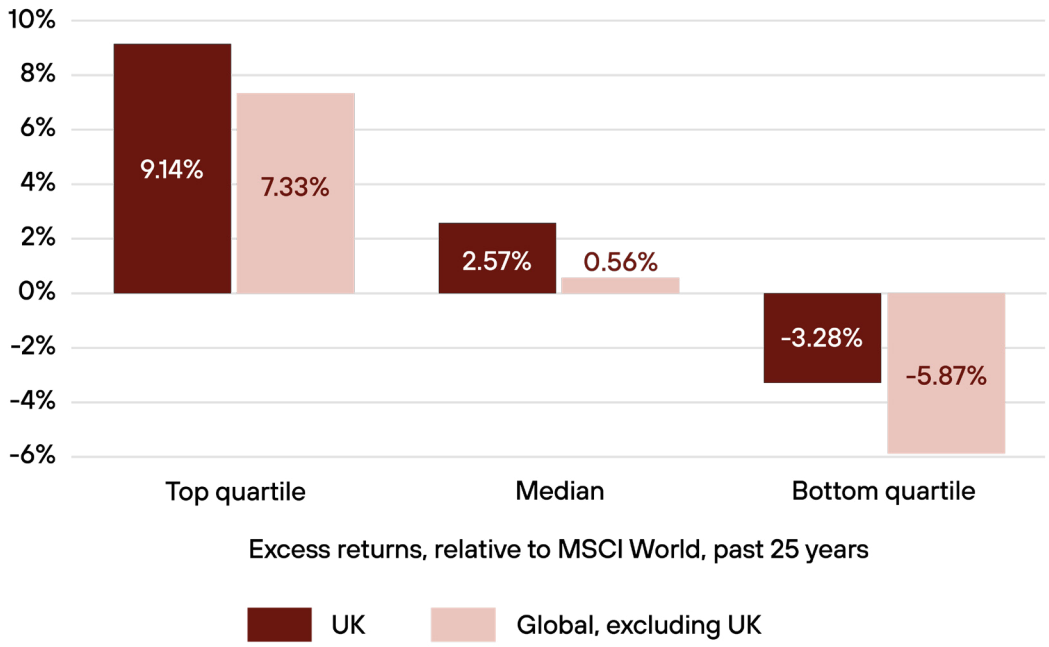
Both issues urgently need to be addressed, and Chapter 4 considers how broader alignment between the regulatory framework for trust- and contract-based schemes is vital for the success of the future market.

Wider commercial drivers

Genuine competition in the future pensions market based on net member value requires employers and intermediaries to be able to take decisions about default fund selection based on meaningful information about performance and private market allocation. As providers look to scale their private market allocations to meet commitments to policymakers, there is concern about whether providers are reporting these to consistent definitions. This could include, for example, whether publicly-traded investments such as real estate investment trusts (REITs) are reported as private markets when they may be more accurately described as listed alternatives. Given that improved returns for private markets are clearly linked to the illiquidity of assets, it is vital that private market allocations are reported in a consistent and accurate way to drive better decision making, increase allocations to private markets, and improve outcomes for savers.

Furthermore, the drive for greater allocations of capital to private markets investment needs to be supported by a healthy supply of pension fund investment opportunities. This is particularly the case for estimates of UK private market allocation at the upper range of our modelling, which would require hundreds of billions in shovel-ready investments to be available. Here, the development of clear routes for private finance to flow into the Government's £725 billion infrastructure pipeline will be key. Some investment analysts have highlighted that, even at ambitious investment levels, there should be ample opportunities for UK master trusts to invest in the UK's world-leading private equity, private credit and infrastructure markets.[31] In addition, UK private equity has historically delivered strong outperformance versus listed markets.

Figure 12: UK private equity has delivered long-term outperformance (excess returns, relative to MSCI World, past 25 years)



Past performance is not a guarantee of future results. Source: Future Growth Capital, Burgiss, June 2025. Figures reflect the Direct Alpha methodology, which calculates an Internal Rate of Return based on cash flows that are discounted using the returns of the benchmark index (in this case, MSCI World), to better reflect outperformance.

One of the issues presented by a consolidated market in occupational DC pensions is how to ensure that competitive pressure remains with a smaller number of providers, especially as the buy side of this marketplace has been recognised as weak by the Competition and Markets Authority (CMA). Helping to ensure a thriving secondary market, where an employer is already part of a master trust and wishes to move to another one, is key to maintaining and strengthening competition in the market.

One issue in the secondary market is the range of eventualities at the point that a scheme switches between master trusts. For example, all of the following are possible:

- The ceding master trust moves all active and deferred pots to the receiving master trust;
- The ceding master trust moves only the active pots to the receiving master trust and does not move deferred pots; or
- The ceding master trust makes the active members deferred and they begin to contribute to new pots in the receiving master trust without assets being moved.

This degree of flexibility is not ideal in a functional marketplace. If an employer has undertaken an exercise to evaluate the value for money offered by its current provider and the marketplace has provided a better offer, it is likely to be not appropriate for the current provider to be able to stop any of those savers from benefitting from the new arrangement. Chapter 4 sets out how this could be addressed by the future regulatory framework.

A new settlement

Opportunities and challenges present themselves at every element of the new market structure. A new settlement is needed to ensure that the benefits set out by our modelling in Chapter 2 are realised for every saver. Chapter 4 sets out the principles needed for this new regulatory and competitive framework.

Figure 13: Opportunities and threats for the future pensions market

Opportunities	Threats
• Significantly greater scale and consolidation providing cost-efficiency and new investment opportunities through reduced liquidity risk. • Growing expertise in direct lending and private equity. • Increased demand for private equity finance and infrastructure investment. • Improved member outcomes and diversification providing better saver outcomes. • Pensions dashboards and product innovation offering more bespoke products and active engagement with members. • Removal of default legacy exposures.	• Ineffective or counter-productive VFM benchmarks that encourage herding of investment behaviour. • Poor governance in the face of increasingly-sophisticated investment strategies. • Necessary policy/regulatory changes are not delivered to address current constraints. • Intermediaries continue to drive a focus on cost over value. • Reduced pension savings/contributions as consumers struggle with the cost of living. • Transition risks and adverse events that damage confidence and dampen private market ambitions. • Regulatory arbitrage. • Regulation around communications that might restrain providers' ability to engage members effectively.

Chapter 4: Future-fit foundations for the DC market

This research has shown the significant opportunities for the future pensions market. This builds on the existing strengths of the market, such as strong competitive pressures and pricing, multi-layered governance, and growing expertise in direct lending and private equity. Yet, there are a number of threats that could prevent these opportunities from delivering the desired outcomes for members and the UK economy. It is therefore crucial that the future regulatory and competitive framework addresses these threats to support effective competition, accountability, and innovation.

To address these opportunities and threats, we set out below a series of new principles that are designed to improve the regulatory and competitive framework for the future pensions market.

Figure 14: Principles for the regulatory and competitive framework

1. The regulatory and competitive framework for the future pensions market should be guided by the **north star of higher net member value**. This should then shape key decisions around performance fees, value for money (VFM), and how intermediaries operate in the market.
2. All members should receive **equal levels of protection through a single regulatory approach**.
3. The **VFM framework should enable – rather than hinder** – the maximisation of net member value through a single and consistent set of performance metrics, with a continuous improvement approach to the reforms and their impact.
4. A **regulated intermediary sector should add value** by advising employers on solutions that provide maximum value to members and facilitate an orderly secondary market for workplace pensions.
5. Trustees should be drawn from a pool of **highly-skilled and technically-capable individuals** who can competently and effectively represent members' interests.
6. **The pensions system should deliver for saver outcomes and the economy**, with reforms to areas like planning and industrial strategy helping to provide a pipeline of investable assets for pension schemes that are both good for growth and deliver strong net member value.
7. A **universal pensions system** that supports all (or the overwhelming majority) to save should underpin the new market.
8. Helping savers to **access their savings in a sustainable manner** will also be a crucial part of the future pensions market.

1. *The regulatory and competitive framework for the future pensions market should be guided by the **north star of higher net member value.***

The central aim of the UK pensions system should be to deliver better outcomes for members in retirement – especially in the context of a retirement adequacy crisis rightly identified by the Pensions Commission. While previous regulatory efforts have been focussed mainly around reducing costs, a fundamental shift is needed to ensure that an objective to

drive net member value flows through all policy and regulatory decisions around the new market. Furthermore, while the new market will deliver benefits to the UK economy as we have set out, these are secondary to delivering value for members.

2. *All members should receive* ***equal levels of protection through a single regulatory approach with the potential for a single regulator in the longer term.***

The multi-employer DC pensions market is currently split between the master trust and contract-based sectors, with each element regulated by The Pensions Regulator (TPR) and the Financial Conduct Authority (FCA) respectively, although many master trusts and GPPs may use the same default arrangements at an individual provider level. This creates a range of issues, including risk of regulatory arbitrage and a lack of alignment on important changes such as reforms to performance fees, which create inefficiencies and prevent system improvements that would benefit savers. In addition, the trustee model is arguably better empowered to act in the best interest of savers in ways that are not currently fully replicated in the contract-based world, with independent governance committees (IGCs) not having the same powers.

However, there was scepticism found in our market and stakeholder engagement for a move to one regulator for contract- and trust-based schemes, with a view that unpicking each regulatory system may prove difficult, and that the resources required to deliver this across the whole pensions system is unlikely to exceed the opportunity cost. Instead, the aim should be for *alignment* of approaches through a single framework, whereby enhanced coordination between the two systems would ensure that the benefits of the future pensions market will be felt by savers across both types of solution. In the longer term, once a high degree of regulatory alignment has been achieved the opportunity cost of moving to a single regulator could be considerably lower.

3. *The* ***Value for Money framework should enable – rather than hinder –*** *the maximisation of net member value through a single and consistent set of performance metrics, with a continuous improvement approach to the reforms and their impact.*

As discussed, one key enabler of private market allocation is a shift from cost to value in decision making on default fund selection across the market, with the VFM framework being seen as a key enabler of this shift. Whether the VFM framework ultimately achieves its intended objectives is a finely balanced question, with concerns around whether the tests could encourage herding behaviour of providers' investments, something which has been observed as a result of performance testing in Australia. A focus on forward- as well as backward-looking metrics should be key to mitigating this risk.

Linking into Principle 1, the purpose of the VFM framework should be reprioritised to focus on net member value through consistently measuring future investment performance, and the impact of the reform should be continuously monitored to ensure it is meeting this objective. Other aspects of VFM, such as around service levels, could be moved into a regulation in the context of a market with much fewer providers.

4. *A **regulated intermediary sector adds value** by advising employers on solutions that provide maximum value to members and facilitates an orderly secondary market for workplace pensions.*

Regulation is key to ensuring that individual consumers who receive financial advice are protected. There is no reason that this should not extend to advice given to businesses on selecting their pension scheme given the societal and policy imperative to appropriately invest members' money. Furthermore, there is often an information asymmetry which is similar to the consumer advice market, with many of those making decisions at businesses lacking a sophisticated understanding of pensions and investments. This is particularly the case for smaller businesses where the decision maker is likely to be the business owner. As a result, regulation should be in place to ensure advice given to businesses on workplace pensions is appropriate.

In addition, further regulatory intervention is required to support the effective functioning of the secondary market, which faces a set of issues as noted in Chapter 3. Currently, there is little incentive for ceding providers to prioritise executing transactions that will reduce their AuM. It is, however, essential for the market that these transactions are not held up by either slow administration or spurious barriers, and that any regulator activity in this space should be focussed on speeding up transactions.

Guidance and/or regulation should set out:

- a maximum period of time that a scheme level transfer should take;
- good practice for ceding and receiving providers for a scheme level transfer;
- an escalation mechanism outside of litigation for those who do not adhere to agreed timelines.

There is a similar set of issues around transfer and consolidation initiated by savers, which will, in part, be addressed through implementation of dashboards.

A more differentiated and innovative workplace pensions market will require a thriving intermediary sector to play its part. The changes set out above are just two key steps to help ensure this.

*5. Trustees should be drawn from a pool of **highly-skilled and technically-capable individuals** who can competently and effectively represent members' interests.*

There has been significant progress in professionalising and diversifying the pool of trustees available to DC schemes, which has strengthened the quality of governance that DC savers benefit from. Trustees are critical for the success of any pensions system and, in a new world of megafunds, will play an equally important role, but one that may be different from the one they play in the current diffusion of single employer trusts and smaller master trusts. In general, larger schemes already benefit from better governance, and there are several ways in which this can be built upon further in the future pensions market.

Members of trustee boards could further develop more specialist skillsets in areas such as finance and investment, building on the more generalist skillset that trustees have currently. Given the scale and complexity of the new megafunds, this could allow a deeper level of challenge and scrutiny to different elements of the megafunds' activities. In particular, knowledge and understanding of investing in private markets will be vital to ensure that higher allocations to these assets result in meaningful benefits to members.

6. The pensions system and economy should support each other, with reforms to areas like planning and industrial strategy helping to provide a pipeline of investable assets for pension schemes that are both good for growth and deliver strong net member value.

This research sets out that the Government's policy agenda can both boost investment in the UK economy by billions of pounds while also delivering substantial increases to savers' pension pots. For this to be a reality, and for new private market allocations to flow into the UK economy, it is vital that the UK Government ensures a steady, predictable, and commercially-viable supply of shovel-ready projects for pension schemes, and that the broader tax and policy environment supports business investment and growth.

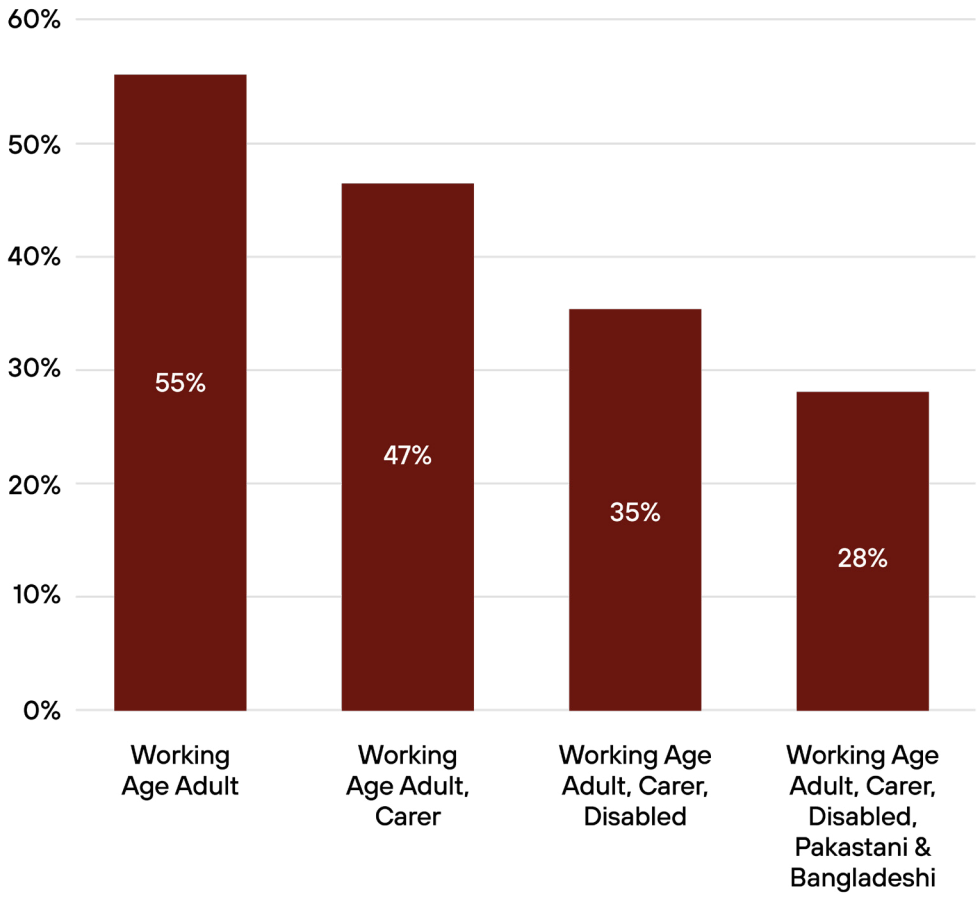
One option for ensuring this is delivered would be for the Sterling 20 to form a partnership which provides steer, direction, and seconds expertise to Government teams working to develop the infrastructure pipeline.[32] This can help ensure the framework is in place to support flow of private finance from pension funds into infrastructure projects.

7. A universal pensions system that supports all (or the overwhelming majority) to save should underpin the new market.

The impetus for reform of the pensions system is to improve levels of pension savings and help address the adequacy crisis that society faces. However, a significant minority do not save into the pensions system, as identified by the Pensions Commission.

Boosting participation in pensions saving should go hand-in-hand with the development of the future pensions market – a universal pensions system supported by a commercial market that is built around maximising social and economic outcomes.

Figure 15: Pension participation by different groups



Source: The Pensions Commission interim report

8. Helping savers **access their savings in a sustainable manner** will also be a crucial part of a future pensions market.

The analysis and principles set out in this report focus on the growth phase and maximising the value of the pensions system during a saver's working life. To translate these system improvements into better retirements for all, there is a need to improve the products and wider support available at and through retirement, including through implementation of guided retirement solutions. Greater scale and use of private markets are key to tackling this challenge – and further research should address how these tools can be best used to deliver better retirement outcomes.

Methodology

Total market AuM is based on the historic growth of the UK DC pensions market for both trust- and contract-based markets. 75% of AuM in DC workplace pensions is assumed to be in the growth phase.

Savers' returns were computed using a Monte Carlo simulation, reporting percentile outcomes based on 20,000 simulations for each saver. To ensure comparability, a set seed was used across simulations. The model considered three savers contributing to a pension pot invested in line with the blueprint set out in Chapter 1, with a 2035 start year. The blueprint scenarios (low/central/high) assume, respectively, that 15%, 22.5% and 30% of growth-phase AuM is invested into private markets. Asset allocation is then assumed to transition gradually towards non-growth assets between 15 and zero years before retirement begins. Outcomes are compared to a counterfactual based on current DC asset allocation, which assumes just 1.7% of growth-phase AuM is invested in private markets. All monetary values are presented in 2026 real terms and are net of fees.

Parameter	Saver A	Saver B	Saver C
Starting age (as of 2035)	21	21	45
Retirement age	68	68	68
Starting salary (2026 prices)	£26,400	£26,400	£39,000
Annual salary growth	0.5%	0.5%	0.5%
Annual contribution	8%	8%	8%
Starting pot (2026 prices)	£0	£0	£50,000
Career break	No	Yes	No
Age career break starts	–	30	–
Age career break ends	–	38	–

Source: WPI Economics analysis

For the economic outcomes, crowding in and out of foreign investment is assumed to be net 0% due to mixed evidence on the effects of increases in domestic investment on foreign investment. GDP and employment effects of the increase in private infrastructure and real assets investment is derived from analysis of data and modelling based on Standard & Poor's analysis and Office for Budget Responsibility forecasts. The effect of increase in private equity and venture capital investment on encouraging growth of UK unicorns is based on historic data analysed by IMS Digital Ventures and Office for National Statistics estimates.

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