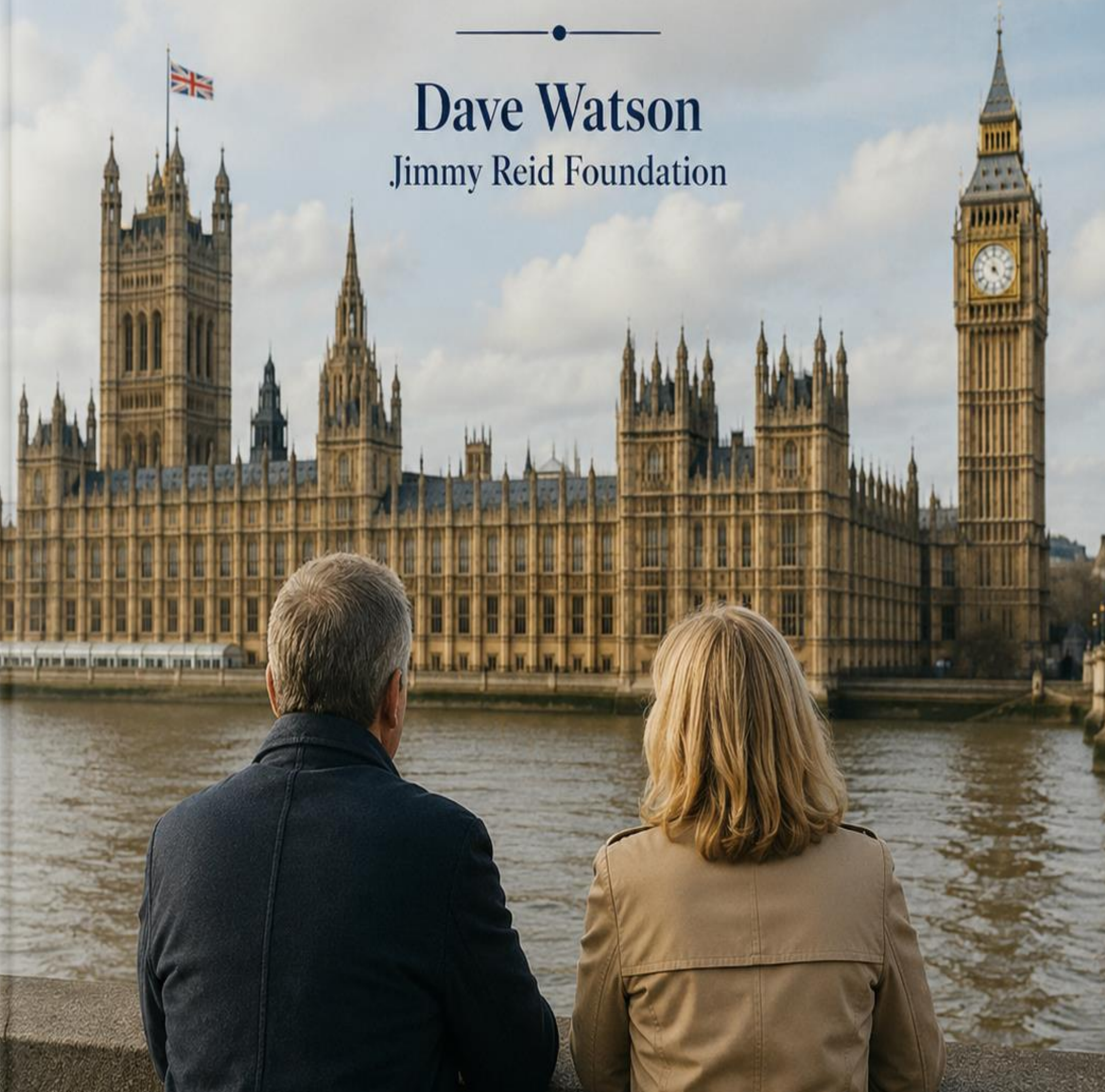
The Future of Pensions in the UK

Adequacy and Affordability

Dave Watson

Jimmy Reid Foundation



About the Jimmy Reid Foundation

The Jimmy Reid Foundation is a think tank which brings together different voices from across the left in Scotland to make the case for economic, environmental, political and social equity and justice in Scotland and further afield. In doing so, the Foundation seeks to build on the legacy that Jimmy Reid left us.

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Table of Contents

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Executive Summary

- The UK Government is undertaking a ‘once in a generation’ reform of the pensions system. Legislation sets out the broad approach, but much of the detail will be set out in secondary legislation. It has also established a Second Pensions Commission to review whether the UK pensions system remains fit for purpose in the coming decades.
- In this paper, we argue that while the reforms are moving in the right direction, they may not be radical enough to address key failings in the UK pensions system. The primary challenge is ensuring an adequate retirement income. Almost a fifth of working-age private-sector employees, primarily low earners and the self-employed, do not save for a pension, despite auto-enrolment boosting take-up. Those who do save invest too little to achieve an adequate income in retirement, typically around half the sum they will actually require.
- We examine the state pension, which is among the lowest in Europe. Despite some improvements in pensioner incomes, many pensioners remain in poverty and rely on social security to reach a minimum income. The retirement age is rising to a point that many lower-paid workers will never reach, or at best will reach only briefly.
- The UK pension system relies on occupational and personal pensions to plug the retirement income gap. However, high-quality Defined Benefit (DB) schemes are being replaced by Defined Contribution (DC) schemes, which depend on investment performance and shift risk from employers to workers, who are least equipped to manage it.
- We examine how so-called pension freedoms have introduced additional risks, and how many schemes suffer from poor governance, high costs, limited transparency and representation. The government supports occupational pensions through £50 billion of tax reliefs, and we consider how effective and fair these reliefs are.
- The UK Government is also focused on where our pensions are invested. We update our previous analysis of this issue, which highlights how little of the £3.2 trillion of UK pension assets is invested in the UK. We examine how this investment could become a serious contributor to the underinvestment that has plagued the UK economy for many years. This includes responsible investment in quality jobs and efforts to tackle climate change.
- While pensions are largely a Reserved power of the UK government, we will examine pensions in Scotland. In particular, how the largest pension scheme, local government, can do more to support the Scottish economy and highlight the glacial pace of governance reform since the 2019 consultation.
- We examine a range of reform proposals from the UK government, the pensions sector, and other organisations. These include changes to the state pension and measures to increase contributions to occupational pensions. We also consider international experience from countries facing similar challenges.
- We conclude by summarising the key challenges facing the UK pension system, primarily the need to raise retirement incomes. We then make a series of recommendations on the state pension, occupational pensions and how pension funds invest our pension contributions.
- The simple solution of creating a simple state pension system is sadly not practical, and we have costed the options for doing so. This means that solutions will have to retain a mix of state and

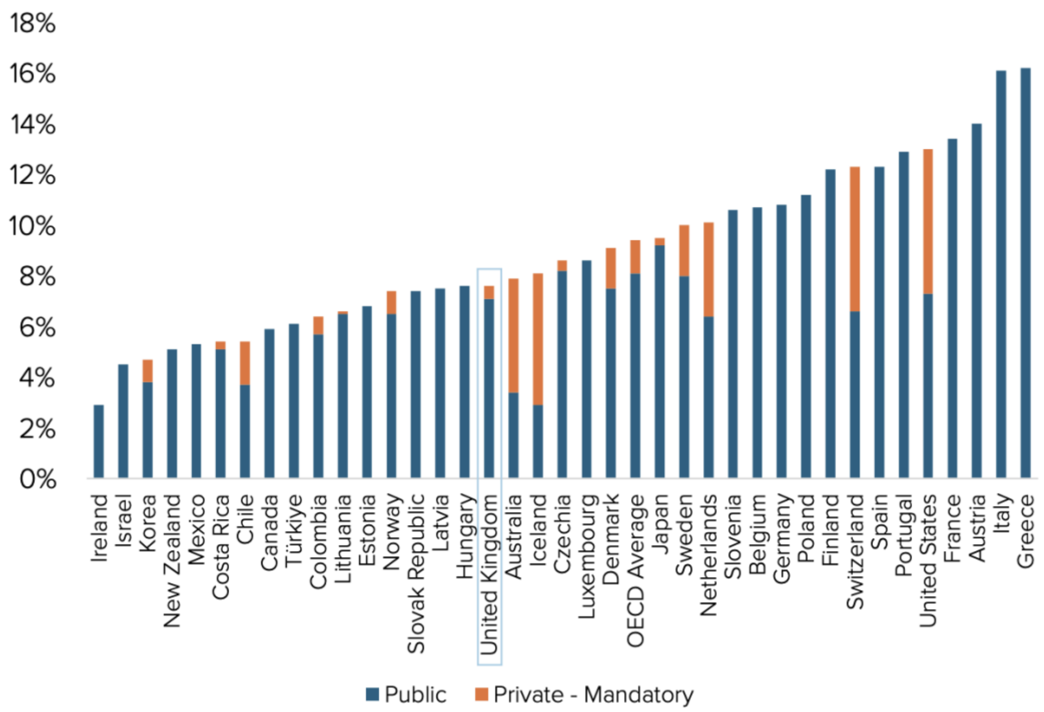
occupational pensions. This is the direction almost all European countries are travelling in, for the same reasons. However, that does not mean we cannot make meaningful changes to create a better and fairer pension system. These include strengthening the state pension and resisting increases in the retirement age that are not justified by life expectancy or health inequalities.

- Major reforms are needed to occupational pensions, including a return to more DB schemes, fair increases in contribution levels, and reforms to auto-enrolment. Any changes to the tax system should be part of a major package to avoid continually undermining the pension system through piecemeal measures. Any changes must be implemented gradually to avoid significant disruptions to retirement planning.
- Pensions also offer much more to the economy than retirement income. They should be a powerhouse for the economy by investing in a better life for workers who are making increasing contributions. We support the drive to scale up and strengthen incentives for UK investment, underpinned by responsible investment policies.
- The key message of these reforms is that there is no single solution. Pensions are complex, and the costs involved need to be shared across the state, employers and workers. They also need to be applied more fairly across income groups, with better governance and responsible investment. We also need to look at the whole picture, rather than treating pensions as an isolated policy issue. That includes occupational, personal and state pensions, as well as related issues such as health inequalities, housing, wages, the gender pay gap, ending bogus self-employment and social security.

1. Introduction

The UK Government is undertaking a 'once in a generation' reform of the pensions system. These reforms have strong cross-party support, rare in these challenging political times, which hopefully means the changes are sustainable over the longer term. However, industry resistance remains, even if mostly to the pace rather than the substance of change. While the primary legislation has Royal Assent, most of the substantive change is in secondary legislation, which is subject to further consultation over the coming years. The UK Government has also established a Second Pensions Commission to review whether the UK pensions system remains fit for purpose for the coming decades. It has published an interim report and is expected to report in 2027.[1]

In this paper, we argue that while the reforms are moving in the right direction, they may not be radical enough to address key failings in the UK pensions system. The primary challenge is ensuring an adequate retirement income. Almost a fifth of working-age private sector employees, primarily low earners and the self-employed, do not save for a pension, although auto-enrolment has boosted take-up. Those who do save invest too little to achieve an adequate income in retirement, around half the sum they will actually require. Overall, we are at best mid-table in pension spending, as the OECD has calculated.



[1] *Pensions 2050: evidence and future priorities – interim report*, (May 2026), https://www.gov.uk/government/publications/pensions-2050-evidence-and-future-priorities-interim-report

The state pension does not plug the gap, as it is among the lowest in Europe. An ageing population places financial demands on the State Pension system. Attempts to manage the costs of the State Pension include increasing the State Pension Age and determining how to maintain the 'triple lock' formula (the highest of: average earnings growth, inflation, or a baseline of 2.5%) that determines pension increases. The UK Government has been consulting on these issues and the Pensions Commission will make recommendations. There have been some changes in the favourable tax treatment of pensions, and given the cost, more may be on the way.

While the state pension has always been relatively low in the UK, we used to have well-established company pension schemes based on the Defined Benefit model that guaranteed a lifetime payout in retirement. These remain the norm in the public sector, but the share of private-sector employees participating in a defined-benefit pension halved from 24 per cent in 2005 to 12 per cent in 2020. In 1995, there were roughly 5.2 million open private sector DB members. By 2006, this dropped to 3.5 million, and just over 660,000 today. Up to 72 per cent of private DB schemes are closed to future accrual (the buildup of new benefits).

This system is being replaced by Defined Contribution (DC) schemes, which depend on investment performance and shift risk from employers to workers. Most employees struggle with what's been termed 'the nastiest, hardest problem in finance'. Nearly three-quarters (74 per cent) of DC pension savers feel like they are not on track to achieve a reasonable standard of living in retirement, and confidence is at its lowest level since 2017. This is compounded by the introduction of 'pension freedoms', which gives retirees flexibility on how to spend their funds but creates difficulties in managing wealth safely. Many individuals withdraw their pots early to make large purchases, and few seek financial advice or buy annuities to protect against running out of money.

The UK Government's primary focus has been on where the huge sums of money in UK pensions are invested. The UK pension system is the world's fourth-largest pension market, with assets of £3.2 trillion, and very little of that is invested in the UK. Investment in the UK has declined sharply in recent years, making the country an international outlier. This is partly because the UK also has many small pension schemes, and because investment returns have been higher elsewhere. There is little doubt that consolidation offers significant benefits, including cost reductions and broader investment opportunities. It should also help address what is seen as poor governance of many pension schemes. However, questions remain over the speed of change and whether a more radical solution is required.

We should also question the companies and projects our pension funds are invested in. Environmental, Social and Governance (ESG) has been high on the agenda of pension funds for many years. While ESG began as a voluntary initiative, it is now a regulatory requirement, with larger companies legally required to report on their sustainability and climate risks. There are also a plethora of indices, initiatives and investment funds that claim to support ESG. However, ESG investment has declined, largely driven by ideology in the USA, and many remaining initiatives have been criticised as greenwashing.

While pensions are largely a Reserved power of the UK government, we will examine pensions in Scotland. The Scottish Government has not yet published detailed proposals for occupational pensions in an independent Scotland, and commissions and studies have found little merit in devolving occupational pensions, other than expanding powers over public service schemes. However, the regulation of public sector pension schemes is devolved to the Scottish Government. The devolved Scottish Local Government Pension Scheme is the largest pension scheme in Scotland, with 652,753 members and assets of over £65 billion. We will examine whether this scheme could do more to support the Scottish economy and highlight the glacial pace of governance reform since the 2019 consultation.

Pensions do not exist in a vacuum and are closely tied to broader issues of financial and personal well-being. These include low wage growth, falling home ownership, and expensive and insecure private rented accommodation. These issues fall even more heavily on a younger generation, particularly those living in disadvantaged families without the benefit of inheritance. Many current pensioners are having to work past the normal retirement age, but only if they are able to. Health inequalities mean that improvements in longevity are at best flatlining, as is good health in retirement. Access to good public services, particularly social care, also affects retirement.

Getting all this right matters. For individuals who have already reached retirement age, cohort life expectancy measures the average number of additional years they are projected to live. Men in the UK aged 65 are expected to live an additional 19.8 years, women an additional 22.5 years. Scotland consistently records the lowest life expectancy of the four nations in the UK, with a 13-year gap between the most and least deprived areas. This may reduce pension costs, but poor healthy life expectancy increases other costs for individuals and the state.

We will analyse all these issues and highlight the need for a more radical and sustainable approach to the pensions system. We will conclude by examining new approaches to pension reform to achieve a more equitable pension system for all our citizens.

2. The State and Pension Provision

The UK pension system is designed to provide financial support to individuals in retirement. It has three primary pillars: State Pension, occupational pensions, and personal pensions.

State Pension System

The UK government-funded pension is paid to eligible individuals who have reached the State Pension age and have made sufficient National Insurance (NI) contributions or credits. It requires at least 10 years of National Insurance contributions. For the full State Pension, you generally need 35 qualifying years. The full State Pension is £241.30 per week (£12,547 p.a.) and increases annually based on the highest of three factors: inflation, average earnings growth, or 2.5 per cent, known as the 'Triple Lock'.[2] The State Pension has 13.2 million claimants.

The UK State Pension is not underpinned by an actual fund. Such schemes are often described as "Pay As You Go" (PAYG). The government finances pension payments on an ongoing basis through National Insurance contributions and general taxation. As such, liabilities can only be estimated, and there is no net value (liabilities less assets). However, the Office for National Statistics (ONS) did publish accrued-to-date pension entitlements in social insurance. The data is not regularly updated, but the latest figures show £4.8 trillion in state pension entitlements.

Table 1: UK pension liabilities, end-year

	Non-government managed	Government managed			Total
Table 29 column	C	E	G	H	I
	Workplace (DC and DB)	Workplace funded (DB)	Workplace unfunded (DB)	State pensions	
2015 £ billion	2,344	334	917	4,027	7,622
2018 £ billion	2,553	413	1,180	4,792	8,938
2015 % GDP	122	17	48	210	397
2018 % GDP	119	19	55	224	417

Source: Office for National Statistics (ONS)

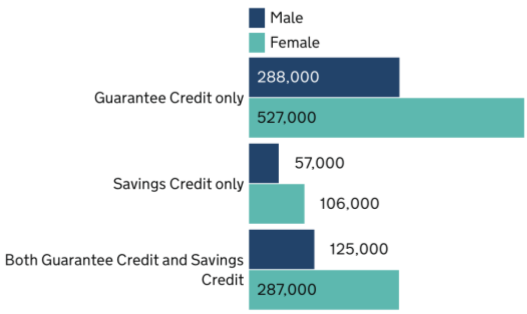
[2] UK Government: *The new State Pension*, https://www.gov.uk/new-state-pension

Pensions are uprated each year by the triple lock. It was introduced in 2011, and means the state pension rises each year in line with either inflation, wage increases or 2.5% - whichever is the highest. Successive administrations have retained it, despite it becoming steadily more expensive as the population ages. It is popular with older people, who tend to vote in greater numbers, but has been criticised for being unfair to younger generations. We will look at reform proposals later in this paper.

Without an occupational pension or other savings, many pensioners rely on social security benefits, including Universal Credit and Pension Credit. As of August 2025, 1.4 million people were receiving Pension Credit, representing 1.6 million beneficiaries including partners. As of August 2025, two-thirds (66%) of people getting Pension Credit (PC) were women. Pensioners (State Pension Age) who live with a working-age partner cannot claim Pension Credit and are generally required to claim Universal Credit as a couple. Despite its availability, up to 910,000 eligible families fail to claim Pension Credit, leaving an estimated £2.5 billion of available support unclaimed annually, an average of £2,600 per family. Receiving Pension Credit can be worth more than £3,300 per year on its own and can be a gateway to up to £8,000 in additional support. Research estimates that low uptake of Pension Credit costs the government £4 billion a year in increased NHS and social care spending. The data on who isn't receiving Pension Credit is limited. What we do know from the estimates the DWP produces is that, just like recipients of Pension Credit, those who don't get it are more likely to be 75+ and are much more likely to be single than in a couple. Polling by Independent Age of those not claiming indicates that 83 per cent gave their reason for being unlikely to claim as 'I don't think I'd be eligible'. They are calling for a national plan to improve take-up.[3]

Figure 5: A comparison of Pension Credit recipients by payment type and gender at August 2025

Change to table view



Source: DWP benefits statistics

Like other claimants, pensioners are entitled to claim Housing Benefit (HB), and 85 per cent of those eligible (around £1.2 million) did so. This still leaves up to 230,000 pensioner families entitled to receive HB but not claiming the benefit. Up to £1.1 billion of available HB (for pensioners) went unclaimed, around £4,600 per year for each family.[4]

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[3] Independent Age, *A briefing on low uptake of Pension Credit*, (Nov. 2022), https://www.independentage.org/sites/default/files/2022-11/Pension-Credit-briefing_Nov-2022_Independent-Age_0.pdf

[4] DWP, *Income-related benefits*, (Oct 2025), https://www.gov.uk/government/statistics/income-related-benefits-estimates-of-take-up-financial-year-ending-2024/income-related-benefits-estimates-of-take-up-financial-year-ending-2024

Pensioner Incomes

Recent studies have highlighted the relative plight of younger persons. The IFS identified three key findings: 42% of 25-year-olds in Britain now live with their parents, out-of-work benefit claims for 18- to 24-year-olds rose significantly between 2022 and 2025, and median earnings for young adults have stagnated over two decades.[5] These developments have a direct impact on pensions as younger persons have less disposable income to increase their pension contributions.

However, this is then wrongly translated into an argument that pensioners have been privileged, when pensioner poverty is still a major issue. There are 1.9 million pensioners living in poverty across the UK (around 16 per cent). This particularly impacts renters, single people, older pensioners, women, disabled people, carers and people from ethnic minority backgrounds. 10 per cent of pensioners are in deep poverty, 11% are in material deprivation, 24% do not reach the Minimum Income Standard, 31% do not reach the Pensions UK Minimum retirement living standard, and 13% are in poverty under the 'below average resources' measure. The benefits system is not fully addressing this issue because, for example, renters' housing costs are not fully covered by Housing Benefits or council tax support. Many others are not even receiving the benefits they are entitled to. Age UK argues that there is a need for policy action, including continuation of the triple lock so that the State Pension moves towards delivering an adequate income to those who rely on it as their main/only source of income.[6] Pensions UK argues for new, adequate, fair and affordable objectives for the UK pensions system, which includes boosting workplace pensions and support for disadvantaged groups.[7]

Overall pensioner incomes have stabilised since 2022. Pensioners' average weekly incomes increased for all pensioners, between the start of PI in FYE 1995, when it was £210, to £399 in FYE 2010. This increase is statistically significant. In the 3 years from FYE 2022 to FYE 2025, pensioners had similar average incomes of £443 and £455 respectively. Pensioner couples are also less reliant on benefit income than single pensioners.[8]

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[5] IFS, *Recent fall in youth employment approaching the decline seen during COVID and 2008 financial crisis*, (May 2026), https://ifs.org.uk/news/recent-fall-youth-employment-approaching-decline-seen-during-covid-and-2008-financial-crisis

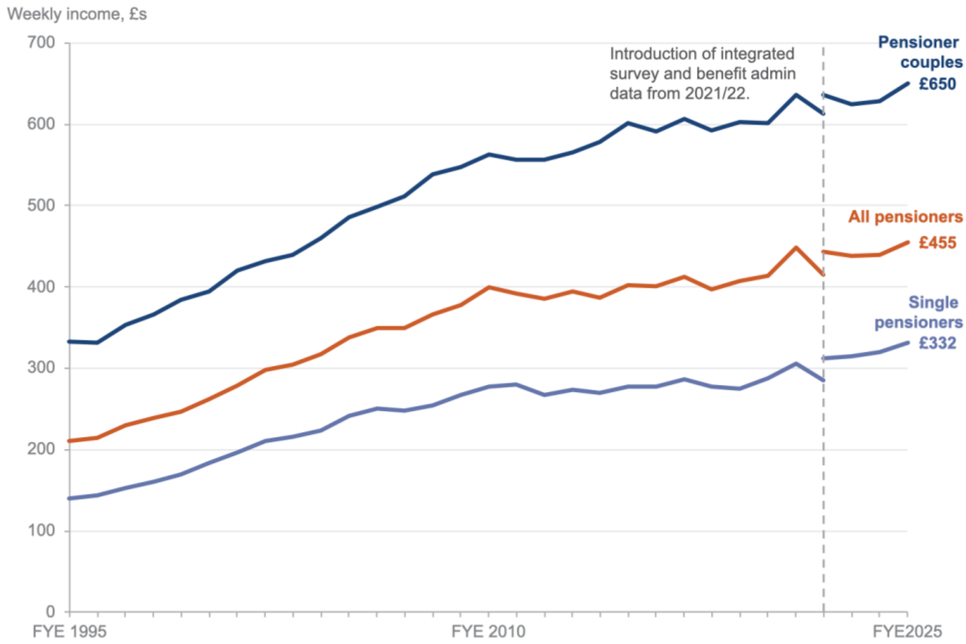
[6] Age UK, *Tackling poverty and financial disadvantage in later life*, (October 2025), https://www.ageuk.org.uk/siteassets/documents/policy-positions/money-matters/age-uk-poverty-and-financial-disadvantage-policy-briefing-2025.pdf

[7] Pensions UK, *Call for evidence: pensioner poverty, challenges and mitigations*, (January 2025), https://www.pensionsuk.org.uk/Portals/0/Documents/Policy-Documents/2025/Pensioner-Poverty-Challenges-and-Mitigations-Jan-2025-v2.pdf

[8] UK Government, *Pensioners' Incomes: financial years ending 1995 to 2025*, (March 2026), https://www.gov.uk/government/statistics/pensioners-incomes-financial-years-ending-1995-to-2025/pensioners-incomes-financial-years-ending-1995-to-2025

Pensioners' incomes have continued to be stable since 2022

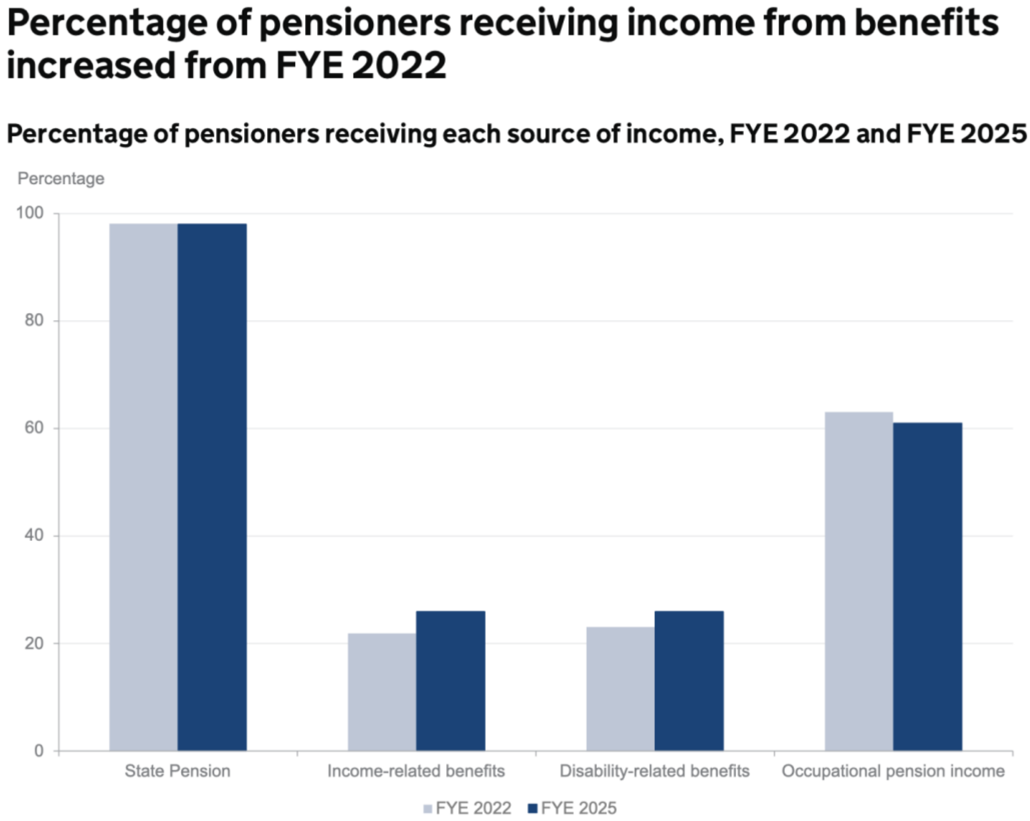
Average weekly income of pensioners (AHC) by family type in FYE 2025 prices (£)

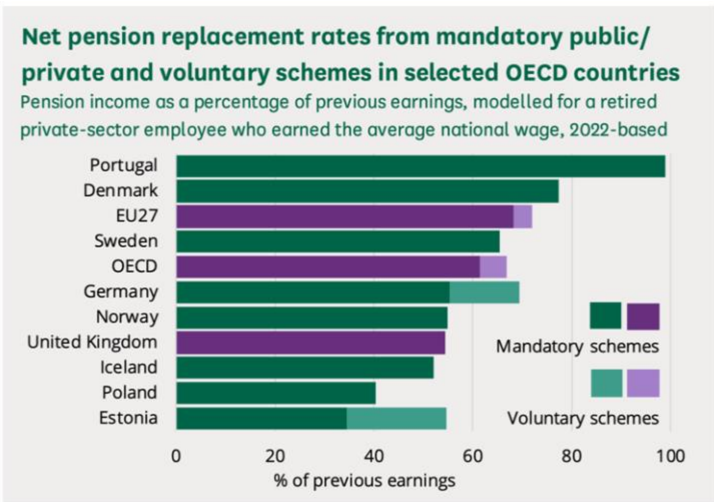


Younger pensioners had higher average incomes than older pensioners, probably because they are more likely to be in work, or have a partner in employment. Pensioners under 75 had an average weekly income of £502, while pensioners aged 75 or over had an average income of £417. The UK average weekly income over the period FYE 2023 to FYE 2025 was £634 for pensioner couples, and Scotland is at the average, with the south-east the highest and the East Midlands the lowest. For single pensioners, Scotland is above the average.

While income from state and occupational pensions is stable, social security benefits are increasing. Benefit income, including State Pension income, was the largest source of income for both single pensioners and couples in the bottom fifth of the income distribution over the 3-year period FYE 2023 to FYE 2025. For pensioner couples in the bottom fifth, benefit income accounted for 79% of income, while for single pensioners this was 88%. There has been very little change in pensioners' position within overall income distribution.

For the top fifth of both couples and singles, the largest source of income was occupational pension income (35% for couples and 38% for singles).





Source: OECD Pensions At A Glance 2023, Table 4.2 and 4.5

A comparison of state pensions alone shows the UK provides a lower level of pension than most other advanced economies relative to average earnings. The UK has an overall net replacement rate of 54.4% from mandatory pensions for an average earner, below the OECD average of 61.4%. [9] Almond Financial calculates the state pension of European countries based on a breakeven with the cost of living. The best country is Luxembourg, whose state pension is 514 per cent above the average cost of living. Norway is 240 per cent, and Spain, Malta, Sweden and Denmark are all around the breakeven point. The UK is at a miserable 27 per cent, similar to Ireland at 30 per cent.

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[9] Harker, R, *Pensions: International Comparisons*, (House of Commons Library, October 2024), https://researchbriefings.files.parliament.uk/documents/SN00290/SN00290.pdf

Demographic and other pressures mean that spending on state pensions and other benefits for pensioners is projected to rise by £100 billion annually by 2070. The Office for Budget Responsibility projections for state spending on payments to pensioners show an increase from 5.6% to 9.6% of national income over the next 50 years.

Pension Age

The State Pension age is currently 66, rising to 67 between 2026 and 2028, with further increases expected in the future.

Increasing the state pension age is probably the easiest way to save money on the State Pension. This is a popular proposal from the political right. Liz Truss allegedly said, "Nobody should be allowed to retire until they're 80." The Institute for Economic Affairs think tank has repeatedly called for the state pension age to rise more quickly. Tory peer Lord Frost, a former ally of Liz Truss, called for the pension age to rise to 75 to slash public spending.[10]

As Brian Leishman MP says, "In Scotland we are seeing life expectancy decrease. There's a lot of reasons why that's happening but fundamentally people should have the chance of enjoying retirement. The retirement age should be coming down, not going up."[11].

The UK government is undertaking the Third State Pension Age Review to assess if the current retirement timeline and rules are appropriate.[12] It has been reported that Treasury officials have told the OBR that the current policy is to bring the increase in the retirement age forward by at least seven years, to 2037.[13] This would mean that about five million people aged between 49 and 55 at present would have to work an additional year before becoming eligible for their state pension, costing them about £12,500. The decision would save the government about £6 billion a year from 2037 compared with the present timetable. The OBR said: "We assume that the state pension rises to 68 in 2037-39. The Treasury has confirmed to us that this is the government's current policy position, rather than the legislated increase set in the Pensions Act 2007." However, this is for economic forecasts; the government insists no decisions have been taken.

However, many pensioners are not able to continue in work, with over half of pensioners (57 per cent) no longer in paid work in the year before pension age. The rise in pension age means an extended period on working-age benefits, depleting savings or resources that might otherwise have supported them in retirement. Once in receipt of State Pension, they can expect payments for fewer years than

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[10] M. Smith, *'Loopy' Liz Truss 'suggested increasing pension age to 80'*, (Daily Mirror, 13 July 2024),

[11] Quinn, A, *Scottish Labour MP in bid to stop state pension age from rising further*, (Daily Record, 23 Oct. 2024), https://www.dailyrecord.co.uk/news/politics/scottish-labour-mp-bid-stop-b

[12] https://www.gov.uk/government/collections/third-state-pension-age-review

[13] O. Wright, *Millions forced to work longer under state pension age extension*, (The Times, 14 July 2026), https://www.thetimes.com/uk/politics/article/state-pension-uk-retirement-age-68-nc50dzgcn

their wealthier counterparts, as their life expectancy is shorter. The House of Commons Work and Pensions Committee has long argued for a review of the Transition to State Pension Age. [14] Governments have said they would do so, but this was not delivered.

“In addition, we now have a clearer picture of the likely impact of the increase to 67. The last rise—from 65 to 66, between late 2018 and 2020—caused the income poverty rate among 65-year-olds to more than double. The fact that those affected will be a year older, leads us to fear that the impact may be even greater this time. Half of pre-pensioners (aged 60 to 66) in the lowest income quintile are already frail, and so vulnerable to significant deterioration in their physical and cognitive functioning.”

“For the future, we recommend that the government improve its SPA impact assessments by ensuring that they reflect: i) the range of outcomes for pre-pensioners and the impact a State Pension age increase is expected to have on that; and ii) the downstream impact on demand for health and social care services. It also needs to demonstrate its commitment to learn from mistakes, through effective implementation, evaluation and monitoring of the action plan developed with the Parliamentary and Health Service Ombudsman following its maladministration in communication of State Pension age increases to 1950s women.”

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[14] Work and Pensions Committee, *Transition to State Pension Age*, (July 2026), https://publications.parliament.uk/pa/cm5902/cmselect/cmworpen/76/report.html#heading-0

The latter point covers what is known as the WASPI (Women Against State Pension Inequality) campaign. They claim that 1950s-born women suffered financial hardship and distress due to a lack of adequate notice when their state pension age was increased to match men's. This meant that women had planned to retire at 60 and were unable to adjust their savings, find alternative work, or cope with unexpected income gaps.[15] The Parliamentary and Health Service Ombudsman (PHSO) concluded there was maladministration in how the changes were communicated, suggesting compensation ranging between £1,000 and £2,950 per person. Successive governments argue that paying a multi-billion pound compensation scheme is unaffordable and places an unjust burden on taxpayers. They maintain that changes were legislated via the 1995 Pensions Act and widely publicised over many years, meaning most people were or should have been aware of the timeline.

The retirement age

Flag	Country	MEN	MEN	MEN	WOMEN	WOMEN	WOMEN
		Current	Future	Change	Current	Future	Change
	Denmark	67.0	74.0	7.0	67.0	74.0	7.0
	Netherlands	67.0	70.0	3.0	67.0	70.0	3.0
	Iceland	67.0	67.0	0.0	67.0	67.0	0.0
	Norway	67.0	67.0	0.0	67.0	67.0	0.0
	Germany	66.2	67.0	0.8	66.2	67.0	0.8
	Sweden	66.0	70.0	4.0	66.0	70.0	4.0
	UK	66.0	68.0	2.0	66.0	68.0	2.0
	Ireland	66.0	66.0	0.0	66.0	66.0	0.0
	Portugal	65.3	68.0	2.7	65.3	68.0	2.7
	Cyprus	65.0	70.0	5.0	65.0	70.0	5.0
	Finland	65.0	68.0	3.0	65.0	68.0	3.0
	Romania	65.0	67.0	2.0	62.2	67.0	4.8
	Belgium	65.0	67.0	2.0	65.0	67.0	2.0
	Austria	65.0	65.0	0.0	60.5	65.0	4.5
	Croatia	65.0	65.0	0.0	63.5	65.0	1.5
	Switzerland	65.0	65.0	0.0	64.0	65.0	1.0
	Spain	65.0	65.0	0.0	65.0	65.0	0.0
	Hungary	65.0	65.0	0.0	62.0	62.0	0.0
	Poland	65.0	65.0	0.0	60.0	60.0	0.0
	Italy	64.8	70	5.2	63.8	70	6.2
	Estonia	64.8	71.0	6.3	64.8	71.0	6.3
	Latvia	64.8	65.0	0.3	64.8	65.0	0.3
	Lithuania	64.7	65.0	0.3	64.3	65.0	0.7
	EU27	64.7	66.7	2.1	64	66.6	2.6
	Bulgaria	64.6	65.0	0.4	62.2	65.0	2.8
	France	64.3	65.0	0.8	64.3	65.0	0.8
	Czechia	64.2	67.0	2.8	64.2	67.0	2.8
	Malta	64.0	65.0	1.0	64.0	65.0	1.0
	Slovakia	63.2	69.0	5.8	63.2	69.0	5.8
	Greece	62.0	66.0	4.0	62.0	66.0	4.0
	Luxembourg	62.0	62.0	0.0	62.0	62.0	0.0
	Slovenia	62.0	62.0	0.0	62.0	62.0	0.0
	Turkey	52.0	65.0	13.0	49.0	63.0	14.0

According to OECD data as of 2024, the highest retirement age for men is 67, recorded in Denmark, Norway, Iceland and the Netherlands. The EU average is 64.7 years. Increasing retirement ages remains a common strategy to improve the financial sustainability of pension systems without reducing pension levels. Men in Turkey will face the largest increase, with their retirement age projected to rise by 13 years, from 52 to 65. For women, Denmark, the Netherlands, Iceland and Norway currently have the highest retirement age, at 67. The EU average is 64.

For a workplace pension, the minimum age to access funds in the UK without a tax penalty is 55. However, this is legislated to increase to age 57 on April 6, 2028.

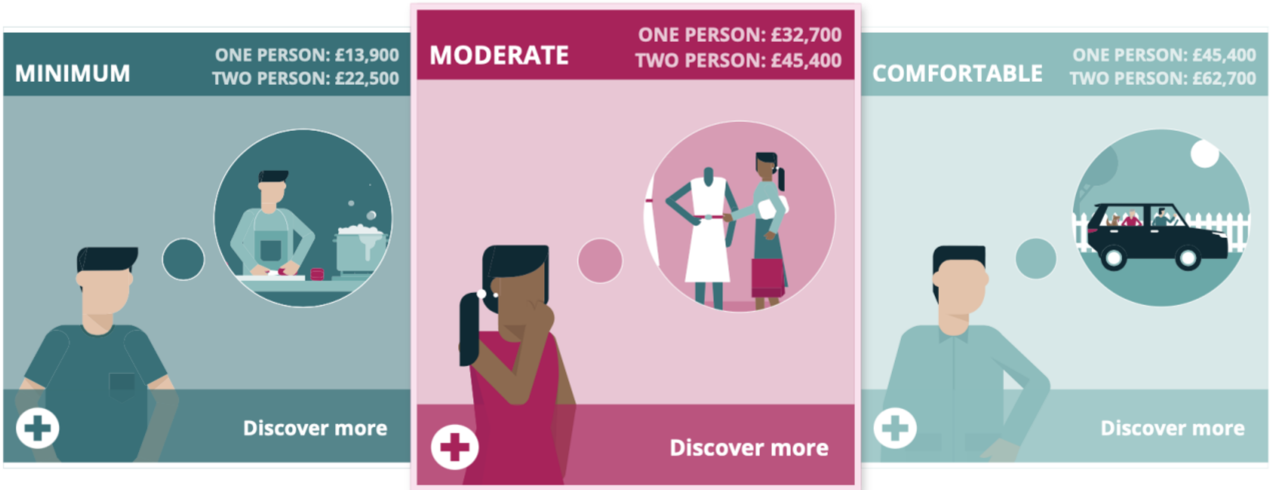
[15] WASPI Campaign, *1950s Women Unfairly Affected By State Pension Age Changes*, https://waspi.co.uk/information/background-information/

3. Private Pension Provision

The other two pillars of the UK pension system are occupational pensions and personal pensions.

Occupational Pensions

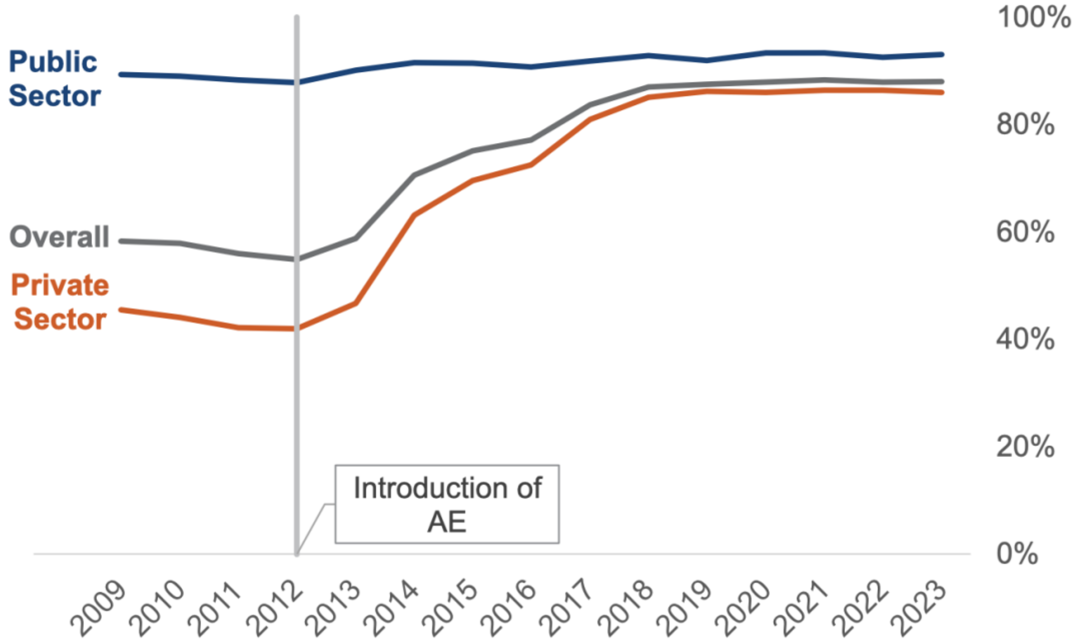
Occupational pensions are workplace schemes employers provide to help employees save for retirement. These are essential elements of retirement income in the UK, primarily because the state pension is so low. Pensions UK sets out what individuals will need to save for different retirement lifestyles. For a 'minimum' retirement lifestyle (RLS), pensioners will need £13,900 a year for a one-person household and £22,500 a year for two people. The 'moderate' RLS is £32,700 for one-person households, and £ 45,400 for two-person households. The 'comfortable' RLS is £45,400 for one-person households and £62,700 for two-person households. Pensions UK expected approximately 82 per cent of the working population to meet the minimum RLS, while just 23 per cent were forecast to reach the moderate standard and 9 per cent were expected to reach the comfortable RLS.[16]



To increase pension take-up, Automatic Enrolment was introduced in 2012. This policy mandates that employers enrol eligible workers (aged 22 to State Pension age and earning above a threshold) into a workplace pension scheme. Key features include minimum contributions of at least 8% of qualifying earnings (5% employee, 3% employer). 19.4 million people who had not previously saved into a pension scheme are now setting money aside for their retirement, albeit at low levels.

[16] Retirement Living Standards, https://www.retirementlivingstandards.org.uk/#tell-me-more

Figure 4: Pension Participation for those eligible for AE [footnote 12]



While this has been a major success, a mid-life crisis is emerging for those caught between the decline of DB schemes and the creation of AE. They will be a large part of the 45 per cent of working-age adults who are not saving into a pension at all, despite nearly half of them being in work. Born between 1965 and 1980, this generation is approaching retirement after living through one of the biggest shifts in the UK's pension system, often without an adequate pension. Women in this group are also more likely to have had more 'traditional' home arrangements and less access to strong maternity or paternity policies earlier in their careers. There is little they can do, although for some other forms of wealth may help, such as housing income. But most will enter retirement well short of what they need, and further thought is needed.

Because the UK's pension system is highly fragmented, many workers retire with multiple pension schemes. Tracking this down can be a nightmare. The government has legislated to address this through the Pension Schemes Act 2021 and the Pensions Dashboards Regulations 2022. However, progress has been slow, not least because of the complexity of the task. Pensions dashboards will enable individuals to access their pensions information online, securely and all in one place. Dashboards will provide clear and simple information about an individual's multiple pension savings, including their State Pension. The pace of change is accelerating, and the latest report shows that around 85% of pension records are available through dashboards. The Pensions Dashboards Programme claims it remains on course to meet the connection deadline of 31 October 2026. However, that is scheme connection; the service will not be available to the public until 2027/28.

Occupational pensions are funded by contributions from both employees and employers and are categorised into two main types: Defined Benefit (DB) Schemes and Defined Contribution (DC) Schemes.

Defined Benefit (DB) Schemes

Also known as 'final salary', even though they are more likely to be 'career average' pensions in recent years. A final salary pension calculates your retirement income based on your salary when you leave or retire, and tends to favour career jobs, predominantly men. A career average (CARE) pension calculates your benefit using a fraction of your earnings from every year you work, adjusted for inflation.

These pensions provide a guaranteed income in retirement based on salary and years of service. They are becoming less common, ostensibly because of their high cost to employers, but also because costs can vary considerably over time, creating financial uncertainty for employers. The share of private-sector employees participating in a defined-benefit pension plan halved, from 24 per cent in 2005 to 12 per cent in 2020, and is estimated at around 7 per cent today. However, liabilities still total over £1 trillion across 4,840 DB schemes. DB schemes are much more common in the public sector (bringing DB schemes to 34 per cent of workers), although most are pay-as-you-go schemes (misleadingly called 'unfunded') that don't have investments. The exceptions are the Local Government Pension Scheme (LGPS) in England and Wales and a separate scheme in Scotland.

Many smaller DB schemes are still planning their endgames, which, in most cases, involve buyouts by an insurance company. The FCA has reported that schemes now closed to new savers could be receiving poorer value than those in newer ones. Charlotte Clark, director of cross-cutting policy and strategy at the FCA, said: 'Consumers in older products should not be left behind, and the good news is that some firms are already showing it doesn't have to be this way. We want to see that progress reflected right across the market.'[17]

The Pension Protection Fund (PPF) was established on 6 April 2005 under the Pensions Act 2004. It serves as a statutory lifeboat to compensate members of eligible defined benefit pension schemes when their sponsoring employers become insolvent. It tops up the remaining scheme assets to provide a nominal 90 per cent of a member's expected pension, subject to an annual cap (currently £45,455). New legislative changes allow them to pay inflation-linked increases, capped at 2.5 per cent a year, on pre-1997 benefits where members' former scheme rules provided for them. It (2026) looks after £31 billion in assets and over 400,000 members across the PPF and the Financial Assistance Scheme (FAS) and is funded by a levy from other pension schemes, although that levy has not needed to be raised in recent years. They also act in Fraud Compensation Fund cases, resulting in payments of more than £100 million to help provide restitution for the victims of pension fraud.[18] There is a separate General Levy, which funds the system of regulation, oversight, and protection for the UK's private pensions

[17] FCA, *Pension firms must do more for customers in older pensions and fund savings*, (2 July 2026), https://www.fca.org.uk/news/press-releases/pension-firms-must-do-more-customers-older-pensions-fund-savings

[18] PPF, *Annual Report 2026*, https://www.ppf.co.uk/annual-report

market. The government is proposing to increase this levy, as it has a structural funding gap at a time when demands are likely to increase in line with changes to the pensions landscape.[19]

The UK government's reforms so far have largely ignored DB schemes. While they have declined, they remain the best pensions in the UK. Nearly 10 million people with access to a DB pension are more likely to be on track for an adequate income in retirement. Therefore, the government should encourage and support the sustainability of open DB schemes, and help closed (to new members) DB schemes run off more efficiently and ultimately secure member benefits.

Superfunds, which are DB consolidators similar to those proposed for DC schemes, can provide an affordable additional option for employers, creating an incentive and achievable goal for them to secure member benefits. The government could also change the funding rules to allow DB pension funds greater flexibility over their investments and to take more investment risk where appropriate to protect member benefits. DB schemes are currently well funded, with surplus sharing often taking the form of contribution holidays for employers. Around 4 in 5 schemes are now in surplus, with an estimated total in aggregate of around £160 billion. The aggregate surplus of DB schemes increased by £7.3bn in the latest PPF data to £271.3bn, increasing the aggregate funding ratio to 133 per cent, the highest level recorded since July 2023. The UK government is consulting on changes to the regulations to allow schemes to use their surplus due to strong investment performance in recent years. The DWP has said the reforms would give trustees the option to release surplus funds where it is safe to do so, benefiting sponsoring employers, scheme members and the wider economy.[20] However, there is a risk of conflict with fiduciary duty, particularly for professional trustees. Research published by Barnett Waddingham found that 20 per cent described this pressure as significant, while the remaining 80 per cent said it existed to some extent.

The House of Commons Work and Pensions Committee (WPC) made recommendations for the DB pension market in March 2024, arguing that a 'fresh approach' is needed to both funding regulation and the treatment of surpluses in DB pension and compensation schemes. This is required to ensure they remain an active part of the pensions landscape and work in members' best interests.[21] The Pensions Regulator has also noted that while buyout may still be the preferred approach for many schemes, trustees are considering new strategies and reassessing their long-term objectives, as well as considering whether there is potential to release surplus for members and sponsors. Instead of

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[19] UK Government, *The Occupational and Personal Pension Schemes (General Levy) Regulations review 2026*, (14 July 2026), https://www.gov.uk/government/consultations/the-occupational-and-personal-pension-schemes-general-levy-regulations-review-2026/the-occupational-and-personal-pension-schemes-general-levy-regulations-review-2026

[20] DWP, Surplus Flexibilities for Defined Benefit Pension Schemes, (June 2026), https://www.gov.uk/government/consultations/surplus-flexibilities-for-defined-benefit-pension-schemes-unlocking-value-for-employers-and-scheme-members

[21] Smith, S, *Govt to share response to WPC DB pension report in the new year*, (Pensions Age, 19 Nov. 2024), https://www.pensionsage.com/pa/Government-response-on-wpc-db-pension-recommendations-due-new-year.php

almost entirely focusing on how to end DB schemes, schemes with strong governance and sponsor support should consider running on. This argument is supported by the Society of Pension Professionals, which suggests trustees and sponsors should not assume buyout was the only valid destination.

There is also an argument for moving the public sector 'pay-as-you-go' schemes to a funded model, such as the LGPS, potentially saving the Treasury £70 billion over 20 years. One report argues, 'Such a move would enable them to be global investment powerhouses, driving long-term sustainable outcomes for public servants, cheaper finance for the Treasury, better outcomes for taxpayers, higher levels of investment, deeper capital markets, and a more stable international investment position.'[22] On the other hand, the current system is financially sustainable, off the government balance sheet, given the current fiscal rules, and would incur costs and potential savings.

The largest funded DB schemes in the UK are the Local Government Pension Schemes (LGPS), one for England and Wales and a separately funded one in Scotland, regulated by the Scottish Parliament. They have been extensively reformed in recent years, with a shift from final-salary to a career-average scheme. Like other pension funds, they have performed well, and the England and Wales scheme has nearly £550 billion in assets. We will look at the Scottish scheme later. Andy Burnham is being urged to tap into a £150 billion surplus sitting in town hall pension funds to boost local economies without raising taxes, borrowing more or breaking any fiscal rules. But pension payment 'holidays' are controversial and the legal status of surpluses is unclear. Professor Iain Clacher of Leeds University Business School makes the point that "It is an easy win to try and unlock these surpluses at a time when interest rates are high, and schemes are well funded. But it needs very careful consideration and a full understanding of the costs, benefits and risks of doing so."[23]

Defined Contribution (DC) Schemes

Also called "money purchase" schemes. Contributions from employees and employers are invested, and the retirement income depends on the fund's performance. Effectively shifting the investment risk from employers to employees. There is a hybrid version known as the Collective Defined Contribution (CDC) scheme, in which both the employer and employee contribute to a collective fund. Like a defined benefit scheme, the collective fund pays scheme members an income in retirement. However, unlike in a defined benefit scheme, the employer does not guarantee the pensions the scheme pays.

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[22] Nangle, T, *The radical option in UK pensions*, (New Financial, February 2024), https://www.newfinancial.org/reports/the-radical-option-in-uk-pensions

[23] P. Tooher, *Burnham urged to tap up £150bn council pension surplus to boost local economies*, (This is Money, 28 June 2026), https://www.thisismoney.co.uk/money/markets/article-15934917/Burnham-urged-tap-150bn-council-pension-surplus-boost-local-economies.html?trk=public_post_comment-text

Most private-sector pension participation is through DC schemes, which leave individuals bearing risks that are difficult to manage. Unlike in DB schemes, there is no risk sharing with employers, other members, or other generations. Pension freedoms bring the risk of running out of private resources or of being so cautious that one ends up with a needlessly austere retirement. Even for the most numerate, decisions about how to draw on their pension wealth in retirement are difficult. In a survey, advisors point to three 'major misconceptions' among their clients: Underestimating how much they need to save (51 per cent), understanding life expectancy (47 per cent), and miscalculating likely retirement spending (46 per cent).[24] Nearly three-quarters (74 per cent) of DC pension savers feel like they are not on track to achieve a reasonable standard of living in retirement.[25] Confidence is at its lowest level since 2017.

While most DC schemes are privately managed, the largest workplace pension in the UK is the National Employment Savings Trust (NEST), a public corporation run by the DWP, with more than one in three of the UK's working population in the scheme. NEST is run on a not-for-profit basis, ensuring that all employers (it is not available to individuals) have access to suitable, low-charge pension provision to meet their new duty to automatically enrol all eligible workers in a workplace pension. NEST holds £62.9 billion in net assets for 14 million members, including £13 billion invested in the UK economy (March 2026). New contributions to its members' pots grew from an average of £663m per month to £713m. Over 500,000 employers use Nest as their pension scheme, with 98 per cent having fewer than 50 employees. It made a surplus of £40.5m in 2026, after strong investment performance, which will be reinvested to strengthen the scheme's financial sustainability.[26]

Most DC schemes are delivered by multi-employer schemes. The governance of these schemes is, at best, opaque. Studies undertaken by this author for employers highlight limited information on employee policies, investment performance and ESG reporting. On ESG, they are often strong on principles and processes, though less strong on specific details. This includes investments in fossil fuel companies in general or in other major polluters. On social factors such as basic human and labour rights, investments in the occupied West Bank or employers with exceptionally poor employment rights. In fairness, this is a challenging area for all pension schemes, as data collection standards across the sector are not robust. Reporting on shareholder engagement tends to follow a fairly standard format that lists their overall voting statistics and a few significant votes. The overall statistics tell you

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[24] Gray, J, *DC pension savers 'at risk' of advice gap both at and in retirement*, (Pensions Age, 25 Nov. 2024), https://www.pensionsage.com/pa/DC-pension-savers-at-risk-of-advice-gap-both-at-and-in-retirement.php

[25] Perrin, P, *UK facing a retirement 'crisis' as pension confidence falls to lowest level since 2017*, (Pensions Age, 28 Nov. 2024), https://www.pensionsage.com/pa/Majority-of-UK-DC-savers-feel-not-on-track-for-a-reasonable-retirement-living-standard.php

[26] NEST, *Annual Report 2026*, https://www.nestpensions.org.uk/schemeweb/nest/nestcorporation/news-press-and-policy/press-releases/nest-annual-reports-show-growth-strong-returns-rising-uk-investment.html

very little without understanding the issues being voted on. The follow-up action is typically more engagement rather than disinvestment.

As DC pension schemes place the investment risk on employees, who are ill-equipped to make these complex decisions, a provider's investment performance is crucial. However, there is no equivalent to a price comparison website to help employers or employees select the best value provider. This is something being addressed in the UK Government reforms, but it is not yet available. Additionally, it is a well-known maxim that past performance is no guarantee of future results. The Barnett Waddingham investment performance review is regarded as the best in the sector. The latest report includes TPT, although providers are not named.[27] They show a 14.4 per cent difference between the highest- and lowest-performing DC schemes. They also make the point that the excellent returns from the equity markets last year (20 per cent+) can hide poor performance. Investing Insiders has created something akin to a comparison website, although, as they explain, pension performance depends on a range of factors. They again show a wide range of outcomes.[28] Employers questioning investment performance can be fobbed off with claims that detailed information is 'confidential'. The Trustees of schemes have a statutory duty to undertake Value for Money Assessments, and The Pensions Regulator publishes guidance on how to fulfil this duty.[29] The extensive use of Pooled Investment Vehicles (PIV) adds another level of opacity to investments.

The new legislation (which came into effect on 31 July 2026) will enable multi-employer collective defined contribution (CDC) schemes. In these schemes (Royal Mail is the leading example to date), contributions are pooled and invested together, allowing for potentially higher returns and a more predictable income stream compared to individual DC pots. Risk is shared among scheme members, and it offers a more predictable cost structure for employers. Research from Hymans Robertson revealed that nearly half of companies with DC schemes are 'very likely' to introduce a CDC pension scheme or a risk-sharing alternative. Aon has announced its intention to introduce a whole-of-life multi-employer CDC section into its DC master trust from 2028, which opens the CDC market to smaller firms. Pension professionals are less confident that it will be widely adopted, with a survey from the pensions law firm Sackers finding that 61 per cent were not confident that CDC schemes would garner significant uptake. Continued government support, practical regulation and increased real-life experience will all be essential if CDC is to fulfil its potential. Former Pensions Minister, Guy Opperman, said, "If government, regulators and the pensions industry work together, CDC can become a

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[27] Barnett Waddingham, Fiduciary Management Investment Performance Review, https://bwd10barnettwaddingham-live-4d8d2562916-81f9e7d.divio-media.net/filer_public/c3/18/c318b2b0-7752-4a52-aadc-2b116ec9aa95/11062025_briefing_2025-fmipr_v13.pdf

[28] Investing Insiders, Workplace pension fund performance: 2025 comparison, https://investinginsiders.co.uk/insights/workplace-pension-funds-performance-tables-2025

[29] TPR, Value for DC scheme members, https://www.thepensionsregulator.gov.uk/en/document-library/scheme-management-detailed-guidance/governing-body-detailed-guidance/5-value-for-members

mainstream feature of the UK retirement system and help deliver brighter futures for generations of savers."

Investment charges are another key area to consider when selecting a DC provider. However, this is often not referenced in reports. This is precisely the challenge that has led the UK Government to introduce greater transparency in reporting. DC providers emphasise that performance comparisons are less relevant due to employee choice. However, this is misleading because members rarely have the necessary knowledge and rely heavily on the provider.

Another measure of provider performance is how effectively they manage the scheme's day-to-day administration. This includes addressing member queries, ensuring easy access to information, and managing new entrants and changes to contributions. Most schemes agree on a set of service levels and key controls covering the timeframes for and the accuracy of processing core financial transactions. Thanks to the work done by UNISON and others some years ago, there is now much greater transparency over the transaction and administration costs charged by fund managers. While there is still work to be done, these charges are now being reported, whereas they were previously largely secret. This matters to DC scheme members, as they are meeting these charges. These charges are typically around 0.3% to 0.75% of the pension pot. The Pensions Regulator publishes general advice on choosing a pension scheme provider. The basic criteria include meeting the minimum requirements for automatic enrolment and default investment arrangements with charges that do not exceed 0.75% of the fund value. CIPD recommends regular reviews, with their survey finding that 44% of employers performed such a review sometime in the past five years.[30]

Most employers remain with the pension provider they initially chose, primarily due to inertia or a lack of knowledge. A DWP employer survey found that the majority of employers (82 per cent) have not switched or even considered switching pension providers.[31] Compared to 2022, employers were more likely to say that they had not switched providers and wouldn't know how to switch. Of employers who were asked this question, just one in ten had switched or considered switching pension providers; one in twenty said they had switched providers once, and only one per cent had switched providers more than once. Forty-six per cent said there were no circumstances under which they would consider switching their providers. Large employers were likelier than small and medium-sized enterprises (SMEs) to say they had switched or thought about switching, with 44 per cent saying they wouldn't know how to switch[32].

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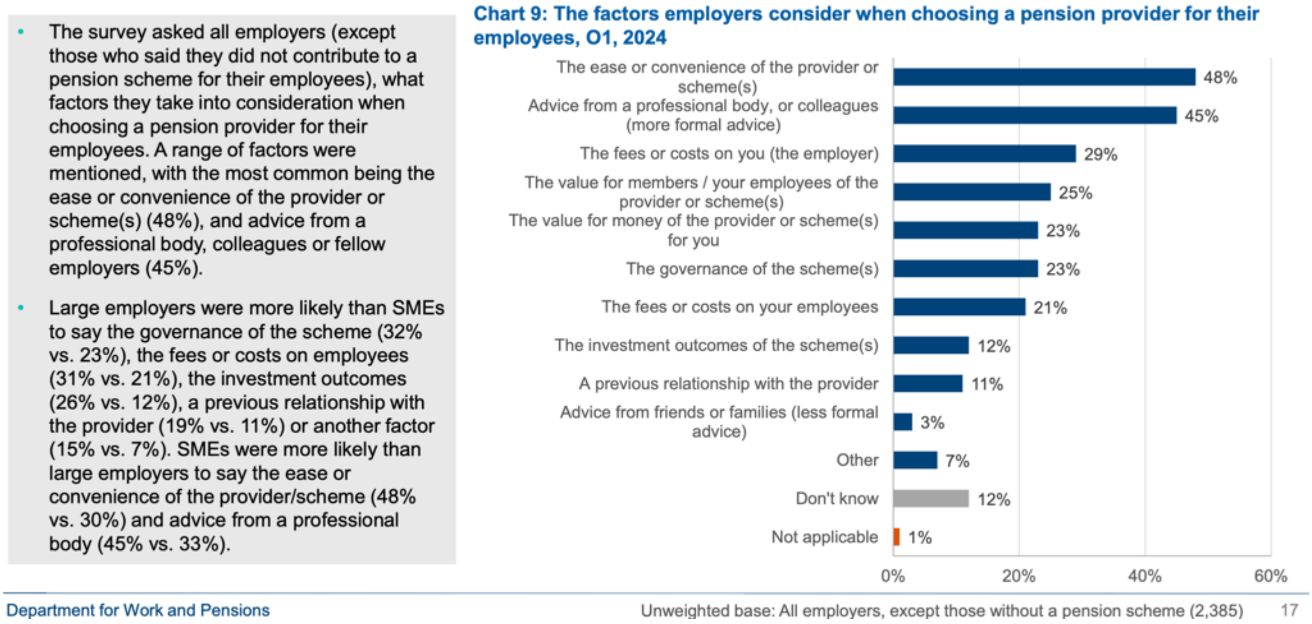
[30] CIPD, How can defined contribution pensions deliver better value? (March 2025), https://www.cipd.org/uk/views-and-insights/thought-leadership/insight/pension-contributions-value/

[31] DWP, *DWP Employer Survey 2024*, (May 2025), https://assets.publishing.service.gov.uk/media/681dc67354794a0be2743a9a/employer-survey-2024-pensions.pdf

[32] Small and medium-sized enterprises (SMEs) are defined as organisations with 2 to 249 employees.



DC schemes are the most common provision, and the numbers offering no scheme may appear high (20%), but this is driven by very small employers (2-4 staff).

The latest employer survey reveals the key factors employers consider when selecting a pension provider. The responses to questions about fees, costs and investment performance have fallen significantly since 2022. It is unclear why this should be, although DWP statisticians think it may have more to do with the differing ordering of the questions between the survey waves. It may also reflect the general lack of understanding about pensions highlighted above, and that less than half of employers had taken advice. The factors that employers who had switched provider considered have remained relatively consistent, and the weighting differs from the factors adopted when first choosing a scheme. Value for money and other cost factors become more critical. There also appears to be an increasing awareness of the importance of investment outcomes in DC schemes.

Pension Freedoms

The Pension Freedom Rules (2015) allow individuals more flexibility in accessing their DC pension pot (e.g., lump sums, annuities, or drawdown). However, this flexibility increases risk for pensioners due to a lack of guidance, scammers, riskier investments, and limited consumer protection. Since 2015, only around 60 per cent have sought regulated advice, with just under 10% taking advantage of a Pension Wise call. Most people struggle with what's been termed 'the nastiest, hardest problem in finance', given limited financial education in schools and the sheer complexity of the decision-making process.[33]

A total of £75.5bn has been withdrawn as taxable flexible pension payments by savers under the age of 65 since the introduction of pension freedoms in 2015, and the sum is increasing each year. These

[33] Pensions Watch, *Decumulation decision making*, (June 2024), http://www.pensions-institute.org/wp-content/uploads/PW30-Final.pdf

payments do not include the tax-free lump sum, illustrating the scale of early access to retirement savings. Flexibility looks fine on paper, but it has long-term consequences, with investment loss, often unnecessary tax payments and a loss of retirement income.

Data from Report Fraud (police fraud reporting system outside Scotland) shows the terrible impact pension fraud has on victims, the average financial loss in 2024 to 2025 was £18,400, and where an investment was identified as the primary vehicle for pension fraud, as is commonly observed in case studies relating to Small Self-Administered Schemes (SSASs), the average loss per victim increases drastically to £38,400.[34] Sadly, Police Scotland does not report pensions fraud separately, but there is no reason to believe it is any different from the UK levels. It is estimated that fewer than 1 in 5 victims report the crime, meaning the actual scale of the devastation is likely much larger than official statistics show. A particular concern is overseas investments, which, although proportionately small, may be more vulnerable to misuse. The government's anti-fraud strategy is focusing on pension fraud, with the minister saying, "Pension scams can rip away not just people's savings, but the retirement they are looking forward to. This government is determined to stay one step ahead of criminals who seek to exploit savers. Too often, we see fraudsters trying to trick workers into transferring their savings into bogus pensions. We are stepping in to automatically block transfers where the warning signs are flashing red."

Pension scams are a particular problem for pensioners because they have little time to recover. Scams take a severe psychological and physical toll on victims. Reports highlight that falling for fraud leads to intense feelings of guilt, shame, and self-blame. Many victims experience heightened anxiety, depression, and a loss of confidence in their financial security, which can even affect personal relationships and family stability

Personal and Stakeholder Pensions

While not occupational, individuals can set up private pensions independently to complement the State and workplace systems. These offer tax relief on contributions. They are entirely reliant on the investment performance of the private companies that provide them. £12.8 billion of individual contributions were made to personal pensions from 2022 to 2023. £2.3 billion of individual contributions were made by self-employed members from 2022 to 2023.[35] The FCA says research suggests that at least one in four adults have money saved in non-workplace pensions. It notes they are diverse in age, income, and financial sophistication. They might be self-employed, not employed,

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[34] DWP, *Protecting Pension Savers*, (9 June 2026), https://www.gov.uk/government/consultations/protecting-pension-savers-proposals-to-amend-the-occupational-and-personal-pension-schemes-conditions-for-transfers-regulations-2021/protecting-pension-savers-proposals-to-amend-the-occupational-and-personal-pension-schemes-conditions-for-transfers-regulations-2021

[35] HMRC, *Private pension statistics commentary*, (July 2024), https://www.gov.uk/government/statistics/personal-and-stakeholder-pensions-statistics/private-pension-statistics-commentary

working but not eligible to save into an employer scheme, or former members of work schemes whose savings were transferred to a private plan at some point.

The service savers receive, the charges they pay, and the flexibility and transparency offered can vary widely. Engagement is often limited, leaving difficult decisions to the investor, who may have limited knowledge. Fees can be substantial and erode the investment. If they completely fail, the Financial Services Compensation Scheme can usually protect pensions provided by UK-regulated insurers, as long as they qualify as 'contracts of long-term insurance'. A common example is an annuity, where you exchange the cash in your pension for a regular income from an insurance company.

Pensions and taxes

To encourage pension saving, there is a public policy case for tax relief on certain aspects of pension saving. Currently, pension savers do not pay income tax on contributions to pension schemes, subject to the annual allowance of £60,000 (2026-7). People can access up to 25 per cent of their pension without paying income tax, subject to an allowance of £260,000, with a taper thereafter. Employers do not pay National Insurance Contributions (NICs) on pension contributions, but employees and self-employed people do. Employers can usually deduct pension contributions from taxable income when calculating a company's taxable profit, reducing taxable profits and, therefore, corporation tax due.[36]

Some employers offer salary sacrifice pension schemes to make tax-efficient use of this difference. Around 42 per cent of employers offer this arrangement. Pension contributions made via salary sacrifice are exempt from both income tax and National Insurance (NI), making them highly efficient for employees and employers alike. However, the UK Government has announced that, as of April 2029, it is capping the maximum amount of salary that can be sacrificed into a pension without incurring NI to £2,000 per year. Any pension contributions above that £2,000 cap will, from 2029, incur both employee and employer National Insurance contributions. Income tax relief on pension contributions will still apply in the normal way.[37] This change does not ban salary sacrifice for pensions, but it does limit the amount that qualifies for National Insurance savings. The changes have less impact on lower earners, with around 40 per cent of participating employees affected by the cap. For example, if you pay £2,400 into your pension using this method, NI will be calculated and paid on £400 of your contributions. There are also almost three tax years to make full use of what's on offer before the changes take effect, a provision which could be attractive to staff nearing retirement. While salary

[36] Mirza-Davies, J, *Pensions Tax*, (House of Commons Library, 4 November 2024), https://commonslibrary.parliament.uk/research-briefings/sn00625/

[37] *Changes to salary sacrifice for pensions from April 2029*, https://www.gov.uk/government/publications/changes-to-salary-sacrifice-for-pensions-from-april-2029/changes-to-salary-sacrifice-for-pensions-from-april-2029

sacrifice is generally advantageous, safeguards need to be built into schemes, as the Unite briefing highlights.[38]

The Chancellor also announced changes to Inheritance Tax (IHT) after April 2027, with unused pension funds and certain pension death benefits included in the value of an individual's estate for IHT purposes. The main reason is to stop people from using pensions as a tax-free way to pass large amounts of money to family, rather than using the money to fund their own retirement. It also removes inconsistencies in the Inheritance Tax treatment of different types of pensions.[39]

Some workers view ISAs as an alternative or a supplement to their pension contributions. In 2027, the annual Cash ISA allowance is expected to be reduced from the current £20,000 to £12,000 for most savers under 65. This policy aims to encourage retail investment in higher-growth assets like the stock market rather than keeping funds in cash. However, this is unlikely to shift investment into equities. Research by KPMG indicates that 87 per cent of UK adults with cash ISAs won't invest in stocks and shares when the cash ISA allowance is reduced. They will be more likely to shift savings into other forms of investment, including pensions. Both the young and those approaching retirement have a "strong preference for stability means they are similarly reluctant to shift. It's a small portion of the UK population who exceed the ISA limit every year – catering for those with less to invest will be the key challenge."[40]

This may not be the end of government action on pensions tax. There is a case for a single rate of tax relief rather than relief being given at someone's marginal rate of income tax.[41] Supporters often argue that it would be fairer for all taxpayers to receive the same rate of relief, although it could bring a range of professions into the higher tax bands (e.g., experienced nurses). A similar progressive tax reform would be to lower the lump-sum allowance to around £100,000, thereby increasing tax revenue without affecting most pension savers. This subsidy for pension savings has an estimated long-run annual cost of £5.5 billion.

[38] Unite the Union, *Salary Sacrifice*, https://resources.unitetheunion.org/unite-at-work-bargaining-support/pensions/salary-sacrifice

[39] UK Government, *Technical note: Inheritance Tax on pensions*, (May 2026), https://www.gov.uk/government/publications/inheritance-tax-on-pensions-technical-note/technical-note-inheritance-tax-on-pensions

[40] N. O'Connor, *Cutting ISA limits won't shift commitment to cash*, (KPMG, Nov. 2025), https://kpmg.com/uk/en/media/press-releases/2025/11/cutting-isa-limits-wont-shift-commitment-to-cash.html

[41] Stenhouse, G, *Labour should scrap tax relief on pensions for higher tax rate payers*, (The Herald, 5 October 2024), https://www.heraldscotland.com/politics/viewpoint/24629922.labour-scrap-tax-relief-pensions-higher-tax-rate-payers/

Some argue that this tax relief is simply a gift to the wealthy. Phillip Inman in The Guardian says the Chancellor should equalise the tax break on pension savings to stop inequalities from widening.[42] The cost of income tax relief on pensions soared from £48bn in 2022-23 to £60bn in 2024-25, an increase of a quarter in just two years. About £40bn is swallowed up by higher-rate taxpayers. That's because higher earners get a 40% tax break while everyone else gets 20%. He links the need for change to changes in life expectancy: "Someone aged 60 in the UK will live, on average, to 84 and have a 33% chance of living to 90, according to the Office for National Statistics' life expectancy calculator. And that predicted lifespan is longer the more affluent you are." He concludes, "Professional baby boomers may have escaped with their winnings to live the high life, but Healey can stop gen Xers perpetrating the same heist."

Contributions and investment growth are exempt from income tax, but they are paid when savings are used to make pension payments. A different approach would be to tax contributions like other earnings, but investment growth and withdrawals would be exempt. Some also argue that the government should extend the tax relief on employer National Insurance to employees. Taxing employer contributions could raise around £17 billion a year but would come on top of the Budget's increase in employer NI contributions to predictable howls. The Association of British Insurers also cautioned that this could lead employers to make lower pension contributions. Another option would be to share the tax relief between employers and workers.

The IFS has set out its views on the options for reforming pension taxation.[43] They caution against taxing contributions at a flat rate due to various practical difficulties. More coherent and implementable ways exist to reform the system – including better ways to raise revenue from those with the highest income and wealth. They support including pensions within inheritance tax, which the Chancellor has now done. More controversially, they argue that the 25% tax-free component should be targeted towards those with smaller pensions, as 70% of the relief goes to pensions accumulated by those in the top fifth of earners when making their contributions. This would raise about £2 billion for the Treasury.

The challenge is that many people have made their retirement plans based on this tax relief, which risks another WASPIE-style transitional dispute, as Unite's General Secretary said in their 2024 pre-budget submission, 'Retirement planning for Unite members involves a choice between how much of their retirement savings to take as income and how much as a lump sum. Many Unite members have made plans for their future based on their ability to exercise this choice, for example by using the lump sum option to support other family members or to pay off their mortgage. Tinkering with the tax

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[42] P. Inman, *Private pensions are a publicly subsidised gift to the wealthy,* (8 August 2026), https://www.theguardian.com/business/2026/aug/08/private-pensions-publicly-subsidised-gift-to-the-wealthy

[43] IFS: *Raising revenue from reforms to pensions taxation*, (September 2024), https://ifs.org.uk/articles/raising-revenue-reforms-pensions-taxation

treatment of the lump sum would potentially undermine the retirement plans of thousands of workers.'

The IFS also reasonably argue that stability is vital in pensions taxation, given the long-term nature of the provision. More recently, the investment platform AJ Bell urged the new Chancellor to commit to pension tax stability ahead of the 2027/8 Budget to avoid people withdrawing money from their pensions in response to speculation. Using FCA data, they argue that in 2024/25, withdrawals increased 'dramatically' to £18.3bn, which AJ Bell said indicated a £10bn increase spurred by rumours of a possible cut to tax-free cash at the Autumn Budget 2024. While money taken out of investments is a problem for the economy and retirement plans, such a commitment would halt any reform of taxation and spending.

Another taxation solution comes from Andy Haldane, the president of the British Chambers of Commerce. The former Bank of England chief economist argues that pension tax relief worth more than £50bn should only be offered to savers who are prepared to invest in Britain. The plan would force retirement schemes to channel funds into UK companies as the price of pension tax relief, avoiding the need to deploy taxpayer funds.[44]

Pensions Governance

The Pension Schemes Act makes significant changes to the governance of pension schemes.[45] The biggest change seeks to drive a consolidation of pension funds. Most multi-employer commercial providers must reach £25bn in a qualifying default investment by 2030, or £10bn by then with a credible plan to reach £25bn by 2035.[46] The government argues that these larger megafunds would be able to deliver lower fees, stronger returns and greater investment diversification. We will cover this in more detail in the chapter on pension investments.

The Act also includes a Value for Money (VfM) framework, with further detail expected through consultation and regulation.[47] A roadmap for the changes has been published, with the minister saying, "We can't have people working hard to earn the money they save towards retirement, only to have those funds sitting in schemes that aren't working just as hard on their behalf. The stakes are

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[44] P. Inman, *Make pension tax relief only available to savers prepared to invest in UK, Andy Haldane says*, (The Guardian, 25 June 2026), https://www.theguardian.com/business/2026/jun/25/make-pension-tax-relief-only-available-to-savers-invest-in-uk-andy-haldane

[45] This is a readable two-page briefing setting out the main changes. https://xps-13503-s3.s3.eu-west-2.amazonaws.com/files/7217/7997/3877/27_05_N_XPS_DC_Insights_.pdf

[46] DWP, *Discussion paper on key elements of the Scale Policy*, (13 July 2026), https://www.gov.uk/government/publications/discussion-paper-on-key-elements-of-the-scale-policy/discussion-paper-on-key-elements-of-the-scale-policy

[47] UK Government, *The Value for Money Framework: Consultation*, (July 2026), https://www.gov.uk/government/consultations/the-value-for-money-framework-consultation

high, when the gap between the best and worst performers could cost a saver with a £10,000 pot over £5,000 across just five years."[48] The framework emphasises investment returns and risk but gives less weight to engagement and service. It will require assessment against comparator schemes using set metrics for investment performance, cost, and service quality. There will be a standardised grading system, although this is not expected until 2028. One group that is typically ignored are deferred members, those who are no longer contributory members, but are still entitled to a pension. Poor engagement can create challenges for schemes further down the line, particularly around member records.

The new legislation enables multi-employer collective defined contribution (CDC) schemes. In these schemes (Royal Mail is the leading example to date), contributions are pooled and invested together, providing a halfway house between DB and DC schemes. This is a major new development, and progress is likely to be slow. At least one provider is currently designing a multi-employer CDC scheme.[49] By pooling investment and life expectancy risk amongst the membership, a CDC pension is expected to generate higher returns than an individual DC scheme, resulting in higher expected benefits.

Pensions administration is often forgotten, even by trustees who are understandably drawn to investment issues. A Law Debenture study found that 62 per cent of UK pension schemes have no plans to review their administration arrangements, despite increasing regulatory scrutiny, such as the introduction of dashboards, and expectations around member outcomes. Poor data or insufficient resources can hinder schemes' ability to fully understand their liabilities, membership, and future obligations. New guidance from The Pensions Regulator has sharpened expectations around pension scheme administration, placing greater emphasis on governance and operational resilience.[50]

The risk register of most pension schemes includes administrative tasks like data security and, more recently, AI. Pension providers across Europe are concerned that AI is making it harder for pension companies to spot scams. Fraudsters can use AI to create convincing emails, clone websites, and imitate trusted individuals. The usual faulty spelling and obvious errors are less likely, and the most important warning signs are often in what someone is asking you to do. Providers need strong security, employers can help raise awareness, and employees should feel confident taking a moment to question any unexpected request. A survey from Scottish Widows indicates that only 30 per cent of

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[48] DWP, *Workplace pensions: an updated roadmap*, (13 July 2026), https://www.gov.uk/government/publications/workplace-pensions-an-updated-roadmap/workplace-pensions-an-updated-roadmap

[49] TPT, CDC Pensions, https://www.tpt.co.uk/our-pension-services/collective-defined-contribution-cdc-pensions/

[50] TPR, *Administration of a pension scheme*, (January 2026), https://www.thepensionsregulator.gov.uk/en/document-library/scheme-management-detailed-guidance/administration-detailed-guidance/administration-guide-for-pension-schemes

people trusted AI to give them guidance about their pension, with 80 per cent of these respondents trusting AI from their pension provider or financial advice firms. Just one in 10 retirees would be comfortable using AI to suggest the best way to withdraw from their pension pot, falling to 5 per cent among those aged 50 and older.[51]

Other changes include allowing certain financial companies to provide customer support that goes beyond generic information but falls short of fully regulated financial advice. This might include increasing contribution rates for people who are under-saving for retirement. A recent report estimates that around 82 per cent of the working population will reach the Minimum standard of living in retirement. However, this falls to just 23% reaching a Moderate standard and 9% reaching a Comfortable standard.[52]

Environmental, Social and Governance

Pension schemes use Environmental, Social, and Governance (ESG) factors to evaluate long-term investment risks and opportunities. Integrating ESG helps protect retirement savings from climate and societal shifts. Climate change is often the main focus, although good ESG also covers human rights and employment standards. All pension schemes face some degree of material risk from climate change. These risks may include the physical effects of climate change such as rising temperatures, higher sea levels, droughts, floods and storms. An effective governance system should ensure that environmental factors are considered in investment decision-making, that climate change risks and opportunities are built into decisions, and that measures are taken to reflect climate change risk within investment portfolios.

Younger pension savers, in particular, are already making it clear what they want their money to do, with most under-40s stating that they care about climate change and the risks it poses to them. Physical climate risks will reduce global output, with modelling suggesting global GDP could be 3% below baseline by 2030, with losses rising thereafter. For comparison, the COVID-19 pandemic caused a 3–3.5% drop in global GDP in 2020 and multi-trillion-dollar economic losses. Longer-term modelling suggests expected annual pandemic global losses of c. $500 billion, with severe events producing multi-trillion-dollar shocks. For pension funds, these shocks create the prospect of lower global growth and earnings, inflation volatility from supply-chain disruptions, and the sudden repricing of risk assets. The Institute and Faculty of Actuaries report says, “Widely used but deeply flawed assessments of the economic impact of climate change show a negligible impact on GDP, rendering policymakers blind to

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[51] J. Gray, *Trust in AI for pension guidance improving but concerns remain*, (11 August 2026), https://www.pensionsage.com/pa/Trust-in-AI-for-pension-guidance-improving-but-concerns-remain.php

[52] Pensions UK updated Retirement Living Standards, https://www.pensionsuk.org.uk/News/Article/Retirement-Living-Standards-update-shows-the-nation-is-not-saving-enough-

the immense risk current policy trajectories place us in. The risk led methodology, set out in the report, shows a 50% GDP contraction between 2070 and 2090 unless an alternative course is chartered." [53]

Pension schemes have a limited statutory requirement to complete a framework for climate-related disclosures[54]. Over an extended period, Responsible Investment has delivered similar returns to traditional investment strategies, although this was not the case last year due to exceptional equity returns in specific markets, primarily US markets.

There is a wide range of indices and specific funds to assist pension schemes in ESG investments. However, they have lower reliability than financial indices. Different rating agencies show weak correlation in their scores for the same companies. This divergence happens because providers use different metrics, weights, and data sources, lacking a universal standard. Indices also rely heavily on data that companies provide themselves. This leads to gaps, missing information, and potential "greenwashing."[55] A detailed study concluded that "We find that while ESG ratings providers may convey important insights into the nonfinancial impact of companies, significant shortcomings exist in their objectives, methodologies, and incentives which detract from the informativeness of their assessments."[56]

Environment groups and trade unions have been campaigning on divestment. They argue that Fossil fuel giants like BP and Shell are some of the wealthiest and most powerful companies on the planet, yet they're using their money and influence to block every serious attempt to stop the climate crisis. Divestment gives people like you the chance to say, "I don't want my money invested in companies that behave like this." [57]

Pension fund trustees are reluctant to join divestment campaigns, sometimes because they are frightened off by advice (usually wrong) that this would be a breach of fiduciary duty. They are therefore more likely to want to focus on shareholder engagement. Many have signed up to the UN Principles for Responsible Investment, which has more than 2,000 institutions as signatories. At the heart of the Principles and other frameworks is the commitment to integrate ESG factors into decision-making at all levels. If pension funds are serious about responsible investment, they need something

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[53] Faculty of Actuaries, *Current climate policies risk catastrophic societal and economic impacts*, (January 2025), Current climate policies risk catastrophic societal and economic impacts

[54] Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021.

[55] S. Erhart, *Take it with a pinch of salt—ESG rating of stocks and stock indices*, (NLM, 2022), https://pmc.ncbi.nlm.nih.gov/articles/PMC9484544/

[56] B. Taylor, *ESG Ratings: A Compass without Direction*, (Harvard, August 2022), https://corpgov.law.harvard.edu/2022/08/24/esg-ratings-a-compass-without-direction/

[57] Friends of the Earth Scotland, *Divestment*, https://foe.scot/this-years-divestment-campaign-highlights-3/

more than a glossy document and some fine statements of principle. Here is a practical seven-point plan:

1. The statement of investment principles needs to explicitly set out the pension fund's position on key ESG issues, including climate change, workforce issues, and tax avoidance. Vague assurances that these issues will be considered are not enough.
2. Systematically assess the risks associated with their investments in relation to ESG policies. This must include pooled investments.
3. Risk assessments should be published regularly, alongside regular communications to scheme members.
4. The annual report should include progress made by the fund towards its ESG objectives.
5. Publish an engagement policy that sets out how share voting is handled, together with an annual assessment of how they have advanced the fund's ESG principles.
6. Identify categories of investment that pose a significant long-term risk to the fund and consider the case for divestment in a way that ensures no damage to the fund and members' pensions.
7. Set targets for positive, responsible investment in specific sectors, including low-carbon infrastructure, housing, and low-emission transport.

Pension funds exist to provide pensions for members. However, surveys show that members want to see their pensions invested responsibly, especially when this can be done without damaging the fund. To achieve this, pension funds need to move from fine words towards effective systems for delivering responsible investment.

Financial advice

Pension decisions are complex, and individual circumstances play an essential part in making the best decision about a worker's pension provision. Research from the Pensions Policy Institute (PPI) suggested that millions of people saving into DC pensions need more help and guidance to make sure they access the right user-friendly retirement products for their personal circumstances, warning that many retiring savers take full cash withdrawals or stay in investment strategies designed for pre-retirement, not post-retirement, needs.[58] The Pensions Regulator has called for a retirement 'sat-nav' and there is likely to be a Guided Retirement duty in future legislation.

Over a third (37 per cent) of UK employees say their workplace pension was either not clearly explained, or they do not remember the explanation, despite 89 per cent of employers feeling confident about explaining their scheme to workers, according to research by Penfold. "Our research shows a clear gap between what employers think they're communicating and what employees are

[58] PPI, *Assessing the UK Retirement Income Market*, (14 May 2025), https://www.pensionspolicyinstitute.org.uk/research-library/research-reports/2025/assessing-the-uk-retirement-income-market/

actually taking away. Many workers still aren't sure how their pension works, what they're paying in, or what it could mean for their future."[59]

While employers cannot generally provide regulated financial advice, they can offer financial education and communicate the benefits of guidance and advice. Some employers include this advice as part of their wider wellbeing programme. Most employers (80%) don't offer information or guidance on retirement preparation, although a higher percentage (69%) do so upon request. There appears to be a reluctance to provide advice due to the risk of providing inaccurate guidance and a general lack of knowledge. A significant proportion of employers argue that it is not their role, claiming it is a government or pension provider function.

A basic provision could be a pack of information, which includes the basic services offered by the pension provider. There are also free services, such as Pension Wise, a service provided by MoneyHelper, which is government-backed. They offer free, impartial guidance to over 50s, focusing on the options for taking money from DC pension pots. Some employers provide access to independent financial advice and offer discounted financial services as part of their benefits and rewards packages. This can be obtained within a package from a recognised employee assistance company or by an arrangement with a local firm[60]. Fees can vary considerably, and employers also need to be aware of the taxable benefit provisions, although there are some exemptions.[61]

A small number of employers offer financial assistance or other support initiatives, primarily salary advances or non-pension-related savings schemes where deductions are made through payroll.

Broader considerations

Increasing numbers approaching retirement age live in more expensive, less secure private rented accommodation. This leads to a combination of a low standard of living in retirement and greater reliance on housing benefit. Workers in the UK are now delaying retirement by almost four years due to the high cost of living, and nearly one-fifth are unsure when they will retire.

Higher state pension ages were meant to reflect increased longevity. However, longevity improvements have not been as big as predicted a decade ago. Many are unable to work until retirement age, with 35 per cent of men and 40 per cent of women disabled. The increase in state pension age from 65 to 66 more than doubled the income poverty rate for 65-year-olds. A report from

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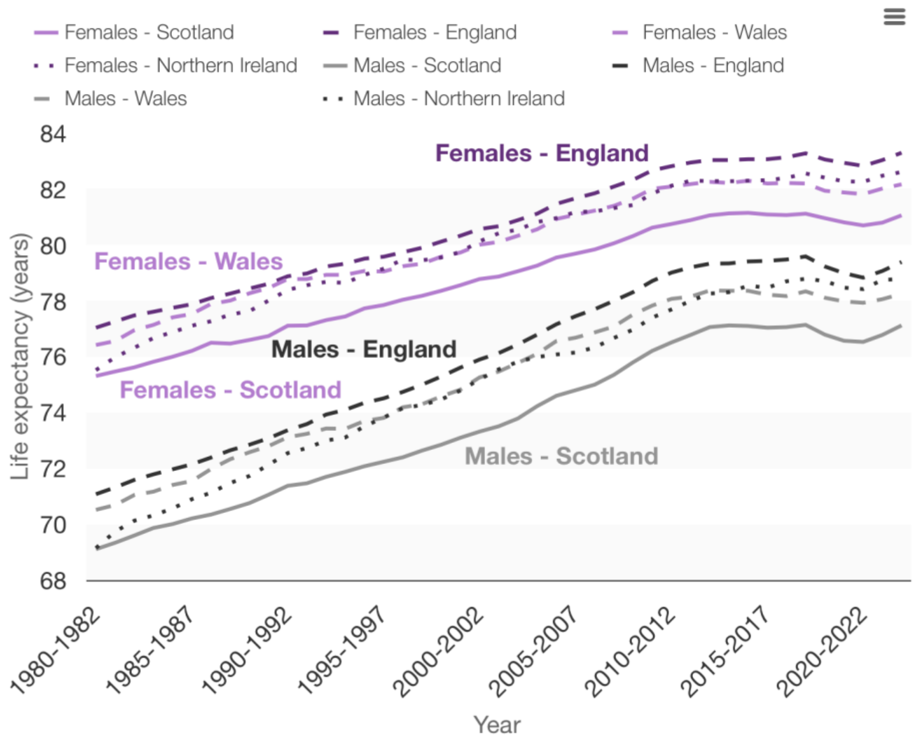
[59] E. Carric, *Employees confused about their pension as employers overestimate comms clarity*, (Pensions Age (22 June 2026), https://www.pensionsage.com/pa/One-in-three-employees-confused-about-their-pension-as-employers-overestimate-communications-clarity.php

[60] A typical provider is Bippet https://bippit.com. This is illustrative, not a recommendation. For example, they are not an accredited Living Wage Employer.

[61] HMRC's EIM21803 exemption includes a tax exemption of £500 per employee in each tax year.

the Fabian Society revealed that 1.9 million pensioners (16 per cent) are living in poverty. The research also showed that pensioner poverty was particularly high for those in rented homes. Of pensioners who rented, 34 per cent were in poverty, compared with 16 per cent for all pensioners, and 40 per cent of all pensioners in poverty were renters.[62]

Figure 4: Scotland continues to have the lowest life expectancy across the UK
Life expectancy at birth in UK countries



Different working patterns and the gender pay gap cause a pension gender gap.[63] At just under 37.9 per cent, the gender pension gap is much wider than the gender pay gap, according to annual research by Prospect. The TUC argues for a Carers Credit to help bridge the gap.[64] There are also ethnicity gaps in pension participation. The OECD points to wider measures to address the pensions gap, including increasing women's lifetime earnings and working hours, and improving childcare provision. Others point to inconsistent treatment of pensions in divorce settlements in England. People's Pension chief operating officer, Angela Staral, highlighted this issue, saying, "Pensions are one of the most valuable

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[62] Fabian Society, *Mature Decisions: Options for alleviating pensioner poverty*, (January 2025), https://fabians.org.uk/publication/mature-decisions/

[63] Prabhaker, R, *How the gender pay gap evolves into a gender pension gap*, (The Conversation, 11 Nov. 2024), https://theconversation.com/how-the-gender-pay-gap-evolves-into-a-gender-pension-gap-242506

[64] TUC, *Gender Pension Gap Day*, https://www.tuc.org.uk/blogs/its-gender-pension-gap-day-and-we-need-talk-about-carers-credit

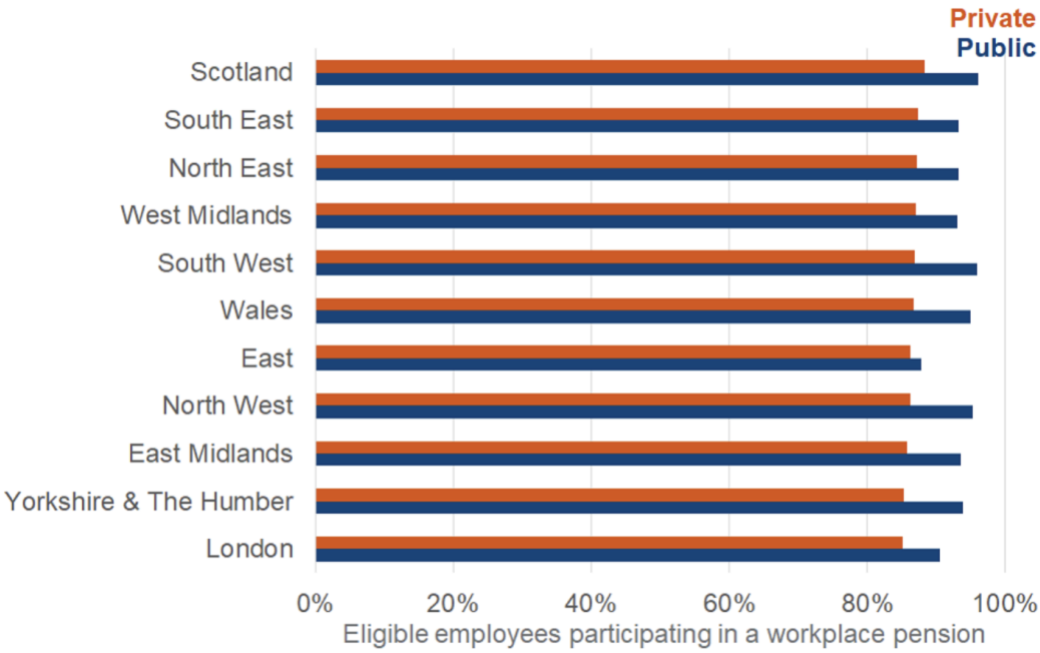
assets most couples own, yet they remain largely overlooked today, with only around one in nine divorcees making arrangements for pension sharing."

A paper from the Society of Pension Professionals, *Home Truths: Rethinking Retirement Wealth*, highlighted a "structural mismatch" between the £3.84trn of housing wealth held by UK retirees and an aggregate annual retirement income deficit of more than £48bn against moderate living standards.[65] The reality of modern housing market access for young people means that they are unlikely to enter retirement with their mortgage paid off, as is assumed for existing pensioners. Homeownership rates have already fallen from around 71 per cent in the early 2000s to around 65 per cent in 2024/25, and that is likely to worsen. Renters will require a much higher retirement income to cope with private rent levels. "While current retirees often rely on property equity to mask savings shortfalls, future generations facing high rents and lower homeownership rates simply won't have that cushion. We need an integrated approach, one that unifies guidance, updates living standards to reflect real housing costs, and unlocks institutional pension capital to help build the homes the UK desperately needs."

[65] SPP, *Home Truths: Rethinking Retirement Wealth*, (13 August 2026), https://the-spp.co.uk/document/spp-paper-home-truths-rethinking-retirement-wealth/

4. Pensions in Scotland

While occupational pensions are reserved mainly for Westminster, many Scottish issues remain to consider. Over one million people in Scotland participate in a workplace pension scheme. Participation rates among eligible employees are very high, reaching roughly 88% in the private sector and 96% in the public sector. However, the Scottish experience reflects all the challenges highlighted in previous chapters.



Source: DWP estimates derived from the ONS ASHE, GB, 2009 to 2021

Constitutional issues

Occupational pensions are a devolved matter for Northern Ireland, so there is no reason in principle why they could not be in Scotland. We looked at this issue in the Reid Foundation paper, *Devolving Employment Legislation to Scotland*. We concluded, "It is difficult to identify many benefits of establishing a separate pensions regulator, ombudsman and protection fund, with the associated costs. Pensions are one of the few policy areas where scale brings benefits, and there is a legitimate case for further consolidation in pension funds. On balance, this is probably not an employment law area ready for devolution."[66]

Public service pension regulation is devolved to Scotland, although the Treasury has an effective veto over pay-as-you-go schemes such as the NHS and teachers' schemes, limiting this power. Experience with the UK Public Service Pensions Bill confirmed the trade union view that a one-size-fits-all UK approach is not appropriate for this issue. In their submission to the Smith Commission, the EIS

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[66] D. Watson, *Devolving Employment Legislation to Scotland*, (Reid Foundation, 2024), https://reidfoundation.scot/2024/02/devolving-employment-legislation/

highlighted the problem: "Recent negotiations with the Scottish Government on the Scottish Teachers' Superannuation Scheme have highlighted an anomaly which, ultimately, led to the collapse of these talks. Essentially, while the regulatory administration of similar schemes is devolved to the Scottish Parliament, overall control of Public Sector Pensions Policy remains a reserved matter. This has resulted in the Westminster Government (i.e. the Treasury) holding a veto over decisions covering the Scottish Teachers' Scheme despite the fact that the enabling regulations require to be approved by the Scottish Parliament."[67]

Pensions have not been central to the debate over Scottish independence. The Scottish Government's position is that future Scottish governments would be responsible for the pension system in an independent Scotland, including funding state pension payments from the Scottish budget. They intended to publish full proposals for occupational pensions in an independent Scotland as part of the 'Building a New Scotland' series of papers.[68] However, that series appears to have been completed.

Analysing the merits of pension devolution or independence without good-quality data is challenging. The ONS publishes a range of statistics on pension provision. However, the data has a very limited national or regional breakdown. In fairness, this is difficult to collect given how schemes are administered and the returns they currently generate.

The Tony Blair Institute propose using the Pension Protection Fund (PPF) model, replicated and rolled out throughout the UK in a series of regional, return-generating, not-for-profit entities that would progressively absorb the UK's 27,000 defined-contribution funds, the Local Government Pension Schemes, the remaining DB funds and, potentially, public-sector pension schemes. While they are not proposing devolving occupational pensions to Scotland, one such fund could be established in Scotland, creating the opportunity to at least administer these funds locally.[69]

Scottish Local Government Pension Scheme (SLGPS)

The Scottish Local Government Pension Scheme (SLGPS) regulation is fully devolved and has funds separate from those in England and Wales. However, it is still subject to overall reserved occupational pensions legislation as covered above. This is the largest pension scheme in Scotland, with 681,174 members and assets of £65.7 billion (2024-25).[70]

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[67] EIS submission to the Smith Commission, https://webarchive.nationalarchives.gov.uk/ukgwa/20151202171052/http:/www.smith-commission.scot/resources/submissions-organisations/

[68] Scottish Government, *Scottish Government position on pensions in an independent Scotland*, (Dec. 2023), https://www.gov.scot/publications/scottish-government-position-on-pensions-in-an-independent-scotland-foi-release/

[69] TBIGC, *Investing in the Future: Boosting Savings and Prosperity for the UK*, (May 2023), https://institute.global/insights/economic-prosperity/investing-in-the-future-boosting-savings-and-prosperity-for-the-uk

[70] Scottish Government, *Scottish Local Government Finance Statistics 2024-25* (Feb. 2026), https://www.gov.scot/publications/scottish-local-government-finance-statistics-2024-25/pages/6--pensions/

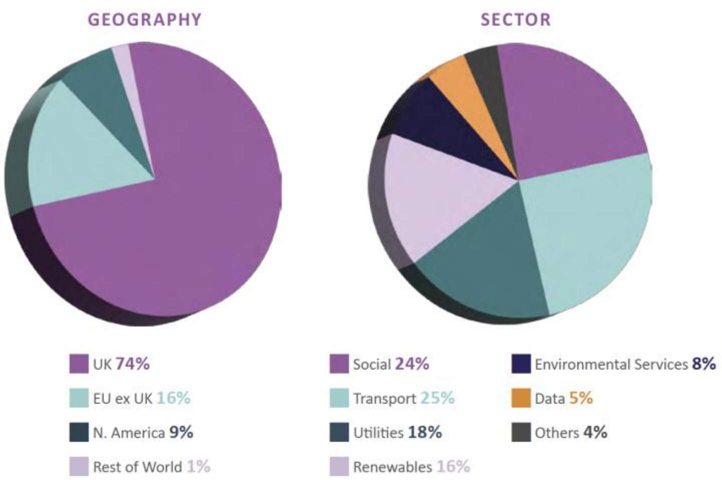
This is a DB scheme based on a career average. Employee contributions are fixed at a set percentage of pay, depending on the salary level. Employer contribution rates are variable and reviewed on a triennial basis, with actuaries determining the rates for the following three years. Employer pension contributions decreased by 33%, or £465 million, because pension funds reported strong funding positions following triennial actuarial valuations.

The Reid Foundation analysed the latest annual report and accounts for each pension fund in 2023-24. The table below shows each fund's investment assets (in grey). These assets have further been grouped under similar headings. Comparisons between funds are impractical because each fund classifies assets under different headings with differing levels of detail. So, they grouped them under generic headings to give a rough indication of how the assets are split. The comparative position is further complicated by pooled investments, which are not always detailed. In any case, this is simply a snapshot as of 31 March 2024.

Fund	Assets (£000)	Bonds	Equities	Property	Infrastructure	Pool inv.	Other
Dumfries & Galloway	1107945	158554	545038	112961			274071
Falkirk	3444821	407017	1317528	160570	518490	818187	79236
Fife	3228414	494364	608309	199664	494556	1433521	
Highland	2649706		1022199	233428	161890	902559	350965
Lothian	10190419	1700485	5610224	124575		1946321	707134
North East	6129385	840348	2432401	381000	550149	1125612	827947
Orkney	535405		306735		44380	174367	9923
Scottish Borders	937098	130849	417978	104604	146193	77439	60035
Shetland	766656			59039	67147	312447	327938
Strathclyde	30568878		6283117	2339949	6970847	14105656	869310
Tayside	5493525	264751	3947382	485213			796199
Totals	65052252	3996368	22490911	4201003	8953652	20896109	4302758

There is an old pension joke that British Airways is a pension scheme with an airline attached. The same could be said for most long-standing companies. The assets of the SLGPS in the table above are some four times greater than the annual income of all Scottish local authorities. While this statistic is largely meaningless as a comparison, it indicates the scheme's importance to the Scottish economy.

Most funds do not differentiate between UK and overseas equities in the financial statements, although others do reference this issue in the report narrative. Like other pension funds, most equity investment appears to flow outwith Scotland. There should be a minimum reporting standard for local investments, properly defined, to avoid definitions of fiduciary duty that are often too narrowly construed.



Lothian Pension Fund infrastructure investment

Infrastructure is an important and growing element of SLGPS investment strategies, with at least £9 billion invested. For example, the Lothian Pension Fund has 15% of its portfolio in infrastructure investments and 74% in the UK. Lothian is an interesting case study because 93% of its investments are managed in-house.

In 2009, Strathclyde Penson Fund established a New Opportunities Portfolio with a broad remit to invest in assets for which there was an attractive investment case but to which the then-current structure did not provide access. It has subsequently been renamed the Direct Impact Portfolio, with similar objectives. Just over £2 billion (7%) is invested in this fund, primarily in renewable energy and property.

While there is one scheme, it is administered by 11 different funds. The Scottish Local Government Pension Scheme Advisory Board (made up of trade union and employer representatives) is responsible for advising the Scottish Government. In June 2018, they published a consultation paper on structure review options after commissioning research highlighting the scheme's challenges and developments in pension investment governance worldwide. Based on this research, it developed four consultation options which Scottish Ministers approved.[71]

1. Retain the current structure with 11 funds.

2. Promote cooperation in investing and administration between the 11 funds.

3. Pool investments between the 11 funds.

4. Merge the 11 funds into one or more new funds.

Consultation responses were published in 2019.[72] Progress since then has been glacial, occasionally prodded by successive Scottish Government finance ministers. This is primarily due to employer resistance to losing control of their funds, despite the strong case for reform. This is highlighted in the UNISON Scotland response to the consultation.

'UNISON Scotland accepts the case for scale in pensions. There is an international movement towards greater scale in pension management that makes the status quo in Scotland very difficult to sustain. With greater scale comes economies of scale, which reduce costs, increase efficiencies, and ultimately secure the pension benefits of UNISON members. UNISON's own research reinforces the benefits of scale. A study we commissioned from the Dutch pensions group, APG (The Netherlands probably has the best pension system in the world), showed that a single fund in Scotland would have delivered an additional £830m p.a. Even accepting the limitations of any historical look back, this is a huge difference and would be a much higher saving at today's prices.'

The Scheme Advisory Board is making some very limited nods towards greater cooperation, probably to discourage Scottish Ministers from taking the sorts of action being taken in England and Wales. This includes looking at asset classes where cooperation could be beneficial, a flexible definition of 'local investment', and encouraging 'coalitions of the willing'. As employer members have demonstrated very little interest in cooperation, coalitions of the willing look unlikely.

[71] SLGPSAB, *SLGPS structure review consultation*, (June 2028), https://lgpsab.scot/consultation2018/

[72] SLGPSAB, Structure Review – Consultation Responses, (Feb. 2019), https://lgpsab.scot/consultation-responses/

The UK Government proposals for the LGPS in England and Wales have prompted further prodding by the Scottish Government. The LGPS England and Wales consultation gives more detail on the proposals,[73] which include:

- Requiring LGPS pools to be FCA-regulated entities with the capability to manage assets internally and to provide investment advice to their LGPS partner funds
- LGPS funds will retain responsibility for setting their fund's strategic asset allocation but would be required to fully delegate the implementation of their investment strategy to the pool and to take their principal advice on their investment strategy from the pool
- LGPS funds would be required to transfer legacy assets to the management of the pool
- LGPS funds and pools will be required to work more closely with Combined Mayoral Authorities and will be asked to formulate a plan for more investments in local growth, taking account of local growth plans.

Consultation responses have been broadly supportive, although trade unions have highlighted the poor governance of the pooling arrangements in England and Wales, which have not always delivered the promised returns and cost savings. For example, Unite argue that 'There needs to be union member nominated representatives on the pools and they must have full voting powers.'[74] The UK Government has published guidance on asset pooling, which will drive larger pools. The Secretary of State now has the powers to direct an administering authority to participate in a particular pool, to direct that an administering authority cease to participate in a particular pool, or both.[75] The aim is to build larger asset bases to boost buying power and reduce operational overhead, direct collective capital into UK infrastructure and private equity markets, and enforce uniform operating and reporting minimum standards across all regional pools.

In March 2013, UNISON Scotland, with assistance from the Scottish Federation of Housing Associations, published a proposal to utilise SLGPS funds as a source of finance to build new houses for rent.[76] This built on discussions in England, including housing projects funded by the Greater Manchester Pension Fund and a report by the Smith Institute. In 2018, the Scottish Government picked up the idea in a modest way with its *Places for People* approach.[77] Pensions UK has highlighted that

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[73] UK Govt, *Local Government Pension Scheme (England and Wales): Fit for the future*, (Nov. 2024), https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-fit-for-the-future/local-government-pension-scheme-england-and-wales-fit-for-the-future#introduction

[74] Unite the Union, *Response to the Ministry of Housing, Communities and Local Government (MHCLG) consultation on the Local Government Pension Scheme (England and Wales): Fit for the future*, (16th January 2025)

[75] UK Government, *Local Government Pension Scheme: asset pooling*, (June 2026), https://www.gov.uk/government/publications/local-government-pension-scheme-asset-pooling/local-government-pension-scheme-asset-pooling#directions-by-the-secretary-of-state

[76] D. Watson, *Funding and building the homes Scotland needs*, (UNISON Scotland, March 2013), https://unison-scotland.org/wp-content/uploads/FundingAndBuildingTheHomesScotlandNeeds_Mar2013.pdf

[77] Scottish Government, *More Homes Scotland mid-market rent proposal*, (June 2018), https://www.gov.scot/publications/more-homes-scotland-mid-market-rent-proposal/

social and community growth assets present a 'clear opportunity' for the LGPS and other funds to increase investment in the UK while supporting local economic development and delivering appropriate returns.[78] They include housing, infrastructure, utilities and essential services that generate stable and predictable income over extended periods. The key challenge will be to put together opportunities that make it easier for pension funds to invest. They argue four improvements must be made:

1. Better policy coordination and accountability across Government and public bodies.

2. Public finance bodies that genuinely enable pension access through suitable vehicles.

3. A stable regulatory environment that supports long-term investment and a shift from cost to value.

4. Improved guidance, training and engagement across trustees, advisers and consultants, allowing time for understanding to be gained and decisions to be taken.

The 2017 and 2018 STUC Congress saw significant debate amongst affiliates about a motion urging Scottish pension funds to investigate the long-term risks of investing in fossil fuels, promote divestment, and promote alternative reinvestment in the sustainable economy. FoE Scotland has highlighted that £2 billion from council pension funds in Scotland is invested in fossil fuel companies.[79] This staggering figure includes investments in many of the world's worst polluters. The structural change consultation also has implications for ethical investment as a larger fund would have a greater capacity to address these issues. As the UNISON response says: "An ESG unit that ensures ESG assessments are undertaken on all investments and delivers active shareholder engagement. It would develop best practice in relation to ethical investment in accordance with the values of our members and the public services they deliver."

Other public sector schemes

The Scottish Public Pensions Agency (SPPA) also administers other schemes in Scotland. They administer pensions for Scottish Teachers, Police, Firefighters and National Health Service employees on behalf of the Scottish Government. Because these schemes don't have investable funds, the Treasury must approve changes. This means they remain very similar to the schemes in the rest of the UK.

They have been struggling with the McCloud Remedy, which followed a court ruling that the UK Government unlawfully discriminated against younger public sector workers through pension reforms introduced in 2015. Pension schemes have since had to recalculate benefits so eligible members can choose the pension that leaves them better off for the period between April 2015 and March 2022. More than 95,000 public sector pension remedy statements are still to be issued. Some pensioners

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[78] Pensions UK, *From Commitment to Deployment*, (May 2026) https://www.pensionsuk.org.uk/Portals/0/Documents/Policy-Documents/2026/2030-Ready-From-commitment-to-deployment-May-2026.pdf

[79] FoE Scotland, Scotland's council pension funds pour £2bn into fossil fuel industry, (Nov. 2023), https://foe.scot/scotlands-council-pension-funds-pour-2bn-into-fossil-fuel-industry/

are waiting for payments worth tens of thousands of pounds, and the original 2025 deadline now looks likely to shift to 2028.[80]

It is not alone in pensions administration problems, including the McCloud judgement. The civil service scheme is administered at UK level and was privatised to Capita in 2025. This caused widespread delays to retirement quotes and payments. The UK government has since deployed independent auditors and remedial advisers to oversee Capita's ongoing recovery and operational performance. On 28 January 2026, Cat Little, permanent secretary at the Cabinet Office and chief operating officer for the civil service, sent a message to all civil servants admitting that the situation affecting Civil Service Pensions has caused hardship and falls short of what the service scheme members deserve. PCS Parliamentary Group Chair John McDonnell told a rally, "There are members who have retired and have received nothing and are living in real hardship. And it's causing incredible stress and mental ill health. What's amazing is this isn't just one example by Capita. They're making millions out of these contracts."[81]

While there is a case for a marginal increase in the Scottish Government's powers over public service pension regulations, much could be done under existing powers. Scotland once led the way in using local government pension fund investment to strengthen returns for members and benefit the Scottish economy. However, progress has been slow, and we are now trailing behind the actions taken in England and Wales.

[80] M. Williams, *Scotland's £1.7bn pensions scandal fall-out slips into 2028*, (8 August 2028), https://www.heraldscotland.com/news/26428084.thousands-scots-hit-1-7bn-pensions-scandal-drags-2028/

[81] PCS, *Capita protesters sound strong message over pensions crisis*, (18 May 2026), https://www.pcs.org.uk/news-events/news/capita-protesters-sound-strong-message-over-pensions-crisis

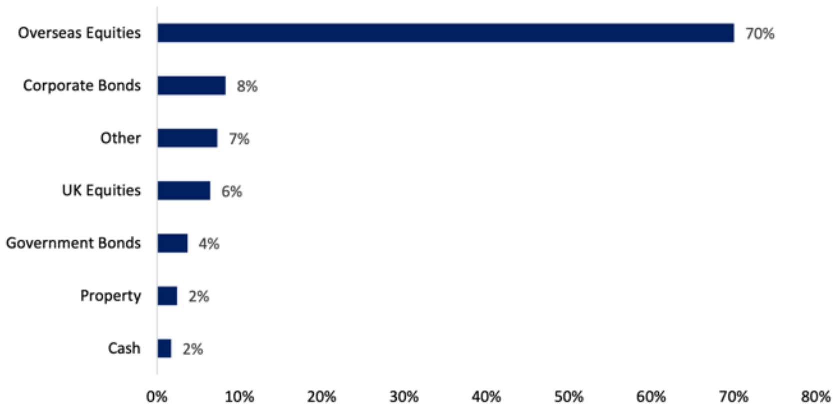
5. Pension Investment

Pension funds worldwide have been focusing more on infrastructure investment, and this has caught the attention of the UK Government. Some countries like Romania and Poland invest nearly all their pension funds locally. The Scottish Government has had limited engagement on the issue over the past decade. Scotland and the UK certainly have extensive infrastructure challenges. An ageing electricity grid, a patchwork of rail system fixes, inconsistent broadband, underwhelming 5G coverage, and fragile water systems reflect a broader lack of strategic vision and investment. All these issues, which the new Prime Minister, Andy Burnham, has highlighted, leave Britain ill-prepared for the demands of a 21st-century economy.[82] Therefore, the UK government's pension focus is on investment using pension funds. This chapter examines where our pension funds are currently invested and the UK Government's reforms.

Where pension funds invest

The data on pension investment have significant limitations due to data availability and definitions. Comparative international data has similar limitations and must consider government policy and tax treatment. The DWP attempted to pull the available data together with help from the Government Actuary Department (GAD), although they also caveat the data limitations.[83]

Domestic pension investment in the UK has declined sharply in recent years. As the chart below shows, 70 per cent of DC scheme assets are invested in overseas equities.



Source: DWP analysis based on Corporate Adviser MT/GPP Report 2024 data

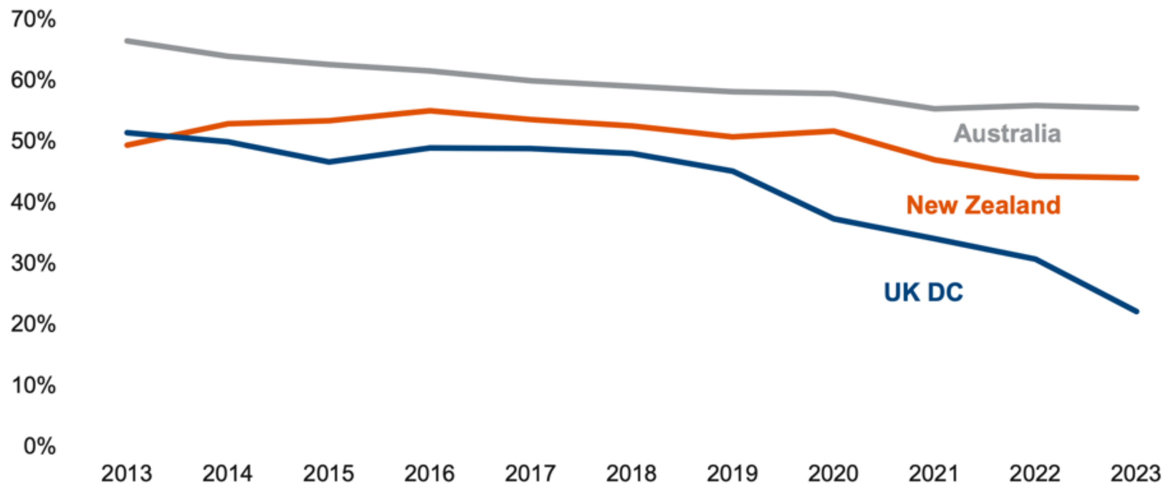
[82] L.Feng, *Rail disruption in the UK is so common that the economic damage it causes is barely noticed – but change is possible*, (The Conversation, 13 December 2024). https://theconversation.com/rail-disruption-in-the-uk-is-so-common-that-the-economic-damage-it-causes-is-barely-noticed-but-change-is-possible-245515

[83] DWP: *Pension fund investment and the UK economy*, (Nov. 2024), https://assets.publishing.service.gov.uk/media/6735d9ebb613efc3f18230e9/pension_fund_investment_and_the_uk_economy.pdf

Just over 50 per cent of DC assets were invested domestically in 2012, and this has gradually declined to just over 20 per cent by 2023. This is not simply an unwillingness to invest locally; it likely reflects the strong performance of global equities in recent years, as shown by the decline in the UK's global weighting in investment allocations. This shift has also happened to a lesser extent in the LGPS, with 28 per cent of assets invested in the UK. Private-sector DB schemes have retained a much higher level of UK investment. However, as these schemes mature, they have shifted away from UK-listed equities and into Gilts, a de-risking move. Overall, pension funds account for around 2% of ownership of UK-quoted shares.

UK DC schemes and the LGPS appear to be international outliers in their total investment in domestic markets compared to other countries. 22 per cent of UK workplace DC is invested domestically, compared with 44 per cent and 55 per cent in New Zealand's KiwiSaver and Australia's Superannuation systems, respectively. This is despite each country being estimated to have had similar levels of total domestic investment in the recent past. Their domestic investment has also fallen, but not as much as in the UK.

Figure 7a: The total domestic allocation of UK DC appears low relative to international comparators and has fallen faster



Source: DWP Calculations as Figure 3. Australia: APRA Quarterly Superannuation Statistics; New Zealand: RBNZ Kiwisaver Assets

This is reinforced by a report prepared by the New Financial think tank examining 12 other developed pension systems worldwide. This report shows that while the UK is not alone in dealing with a low and falling allocation to its local stock market by local pension funds, UK pensions in aggregate and the different 'buckets' of UK pensions are towards the bottom of the pack in absolute and relative terms.[84]

[84] Wright, W & Thornhill, J, *Comparing the asset allocation of global pension systems*, (New Financial, Sept.2024), https://www.newfinancial.org/reports/comparing-the-asset-allocation-of-global-pension-systems

Apart from government policy, there are several reasons for domestic preference in pension fund investment, including the costs and barriers to foreign investment, information and expertise, transparency, behavioural bias, and, as with trade, investing in countries you are close to.[85]

Data on alternative asset classes (infrastructure, private equity, etc.) is even more challenging. However, UK pension schemes have relatively low allocations, less than 3% compared to 11% in Canada. We have seen this in Scotland with Canadian pension investment in gas networks and, most recently, Glasgow and Aberdeen airports.[86] The other notable difference is the activism of this investment compared to the more common bond purchases made by UK pension schemes. While there is a domestic bias, a common complaint among UK pension schemes is the lack of investable opportunities for domestic investors, a pattern replicated in other countries.

UK government borrowing costs have risen rapidly to their highest level since the 2007-08 banking crisis, with implications for the government's tax and spending plans. Yields on gilts, as UK government bonds are called, have been rising – and these yields are effectively the level of interest that the government pays on its borrowing.[87] This is primarily linked to inflation rather than to how attractive investors believe the UK currently is.

The DWP paper identifies several macroeconomic benefits of investing pension funds in the UK economy. These primarily relate to the long-term investment horizons of pension funds, which might challenge the short-termism that has bedevilled the UK economy for so long. This could particularly benefit funding for start-up and early scale-up businesses that face funding challenges. As this analysis in The Economist shows, Britain may be a good place to start a business, but it is a bad one to scale it up.[88] The governance drivers of pension funds could also improve the governance of business, particularly concerning ESG issues, the Living Wage and fair work requirements.

The DWP report includes the Government Actuary's Department (GAD) modelling for DC schemes, assessing the potential member impacts of different asset allocations and UK asset-class exposures.

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[85] SSRN, *The Equity Home Bias Puzzle: A Survey*, (Jan 2014), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2380337

[86] McConnell, I, *Glasgow Airport's future in focus with major change*, (The Herald, 15 Nov. 2024), https://www.heraldscotland.com/opinion/24725557.glasgow-airports-future-focus-major-change/?ref=eb&nid=1224&block=article_block_a&u=34f83e6edd8c6c3e60fb76fd3fd4cb97&date=151124

[87] L. Yueh, *UK borrowing costs have hit their highest level since the banking crisis*. (The Conversation, 10 Jan. 2025), https://theconversation.com/uk-borrowing-costs-have-hit-their-highest-level-since-the-banking-crisis-an-economist-explains-whats-happening-247122

[88] The Economist, *Britain is a great place to start a company, but a bad one to scale it up*, (21 June 2022), https://www.economist.com/britain/2022/06/21/britain-is-a-great-place-to-start-a-company-but-a-bad-one-to-scale-it-up

This modelling shows little difference between the scenarios, which are anyway subject to a range of sensitivities.

The scale of pension funds

A key issue underpinning the UK Government's proposals is the scale of pension funds in the UK, with a focus on the DC market, which has grown rapidly since the introduction of automatic enrolment, from around £22 billion in 2012 to over £143 billion at the start of 2023. The UK's DC workplace pensions market is projected to hold around £800 billion in assets by 2030. At the same time, the number of DC trust-based pension schemes has been falling over the same period, from nearly 3,700 in 2012 to about 1,200 in 2023, around 11 per cent per year.[89] If this trend continues, over 80 per cent of trust-based members could be in the largest five master trusts, with around 86 per cent in the largest 10. This could mean that over three-quarters of trust-based members are in schemes of over £50 billion, and across the DC workplace market, the vast majority of savers will be in schemes holding £30 billion or more by 2030.

The benefits of consolidation include:

- Economies of scale – Greater size can help reduce the average cost per member.
- Reduction in member charges – Larger schemes may be able to lower charges for members due to their size and reduced costs.
- Greater investment opportunities – Larger schemes may be able to invest in a greater variety of investment opportunities (including private equity and venture capital, and at lower costs/fees). This will help deliver greater diversification within investment portfolios.

Larger schemes can also strengthen pension governance. Research carried out by the Pensions Regulator (TPR) in 2019 showed around 70 per cent of micro (2-11 members) and 60 per cent of small (12-99 members) schemes were not hitting any of the five key governance requirements that applied to them. In contrast, 84 per cent of large schemes (1000+ members) meet at least two of the five key governance requirements. Larger schemes are also better at assessing value for money, and a DWP analysis shows that the larger the scheme, the lower the costs.[90] Not least, it is possible to invest directly and move investment in-house, both of which reduce costs. In-house expertise also means pension funds can better meet the ESG concerns of funds and savers. An estimated £88bn of the £3tn

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[89] DWP, *Trends in the Defined Contribution trust-based pensions market*, (Nov. 2023), https://www.gov.uk/government/publications/trends-in-the-defined-contribution-trust-based-pensions-market/trends-in-the-defined-contribution-trust-based-pensions-market#the-potential-benefits-of-consolidation

[90] DWP, *Pension charges survey 2020*, (Jan. 2021), https://www.gov.uk/government/publications/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes

in UK pension funds is invested in fossil fuel firms, including the National Employment Savings Trust (NEST), a public body.[91]

This is confirmed in international studies on consolidation. Research by the Pensions Policy Institute showed that achieving scale positively impacts costs, albeit subject to diminishing returns after £500m. Large funds face new opportunities to achieve asset diversity through unlisted or direct investments to secure consistently high returns.[92] This and other evidence indicate an optimum size for pension schemes of at least £25 billion and probably as high as £50 billion or more. Not everyone agrees with this view, including, unsurprisingly, some small commercial funds and their advisors. Even the DWP paper concedes that costs can rise in the short term as expertise is brought in-house, and there are concentration and competition risks if too few providers hold a large proportion of assets. Some argue that markets are always better than government interference: “We already achieve diversification and thus moderation of risk through the use of public investment markets.”[93]

The UK Government’s interest in scale is also driven by its desire to stimulate economic growth. They point to international evidence that greater scale among UK pension providers could, through greater investment, lead to higher economic growth. In addition, there is evidence that if scale can reduce costs and improve member outcomes, this could increase the amount of pension members have to spend upon retiring. The California Public Employees' Retirement System, the largest public pension system in the United States, with over 2 million members, shows how they benefit the local economy.[94]

A radical solution, proposed in a paper for the Tony Blair Institute, would be to allow them to transfer their pension fund to the PPF instead of having to fail in order to do so. Sponsors of the smallest 4,500 UK defined-benefit (DB) schemes would be offered the voluntary option of transferring to the PPF on a benefit-preserving basis to be agreed between the companies and the PPF. The PPF model would then be replicated and rolled out throughout the UK in a series of regional, return-generating, not-for-profit entities that would progressively absorb the UK’s 27,000 defined-contribution funds, the Local Government Pension Schemes, the remaining DB funds and, potentially, public-sector pension schemes, which in most cases are not funded. Through this approach, the UK would, in three to five years, emerge with around half a dozen global-scale (£300 billion to £400 billion apiece), professionally

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[91] Friends of the Earth Scotland, *Fighting for fossil-free pensions*, (December 2024), https://foe.scot/fighting-for-fossil-free-pensions/?mc_cid=04829f0835&mc_eid=d6dd7080c3

[92] PPI, *What can other countries teach the UK about measuring Value for Money in pension schemes?* (Nov. 2021), https://www.pensionspolicyinstitute.org.uk/media/o52aoucb/20211118-value-for-money-final.pdf

[93] Worstall, T, *The problem with Rachel Reeves’s pension pretensions*, (The Critic, 19 Nov. 2024) https://thecritic.co.uk/the-problem-with-rachel-reevess-pension-pretensions/

[94] CalPERS, *Economic Impacts of CalPERS Pensions in California, FY 2022-23*, (Updated June 2024), https://www.calpers.ca.gov/page/about/organization/facts-at-a-glance/economic-impacts-pensions-california-fy-2022-23

managed, long-time horizon, diversified funds. Not only would these superfunds generate better, more secure returns for pensioners than the 5,200 existing DB funds, but they would also strengthen pensions for the entire generation stuck with inadequate provision since the closure of the DB funds over the past two decades.[95]

UK Government proposals

In her Mansion House speech on 14 November 2024, the Chancellor announced the publication of the interim report of the Pensions Investment Review.[96] She pointed to Australian pension schemes that invest around three times more in infrastructure investment than Defined Contribution schemes in the UK and 10 times more in private equity. She argued that this is down to the much larger size of their funds, saying, "And more often than not, it is Canadian teachers and Australian professors reaping the rewards of investing in British productive assets through their pensions schemes rather than British savers."

The proposals include four workstreams:

1. Scale and Consolidation in the Defined Contribution Workplace Market
2. The Local Government Pension Scheme in England and Wales
3. Cost vs Value in the Defined Contribution Workplace Market
4. UK Investment

This work led to legislation the following year, in the Pension Schemes Act. There were two consultation papers:

1. Unlocking the UK pensions market for growth
2. Local Government Pension Scheme in England and Wales: Fit for the future.

The minimum size and maximum default numbers of DC funds will be set following consultation and, to reflect the lead-in time, won't apply until 2030.[97] Automatic enrolment schemes in scope will be required to hold at least £25bn in assets under management, or to have at least £10bn in assets under management alongside a credible plan to reach £25bn by 2035. While this appears to be a gentle pace,

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[95] TBIGC, *Investing in the Future: Boosting Savings and Prosperity for the UK,* (May 2023), https://institute.global/insights/economic-prosperity/investing-in-the-future-boosting-savings-and-prosperity-for-the-uk

[96] HM Treasury, *Pensions Investment Review Interim Report*, (Nov. 2024), https://assets.publishing.service.gov.uk/media/6736181254652d03d5161199/Pensions_Investment_Review_interim_report.pdf

[97] DWP, *Discussion paper on key elements of the Scale Policy*, (13 July 2026), https://www.gov.uk/government/publications/discussion-paper-on-key-elements-of-the-scale-policy/discussion-paper-on-key-elements-of-the-scale-policy

most parts of the pensions sector have welcomed the clear sequence of reforms and allowing sufficient time for implementation would put the industry in a stronger position to deliver lasting improvements for savers.

For the LGPS, it plans to mandate minimum standards and measures to boost local investment.[98] Progress has been slow, with most major DC pension providers not meeting the £25bn minimum scale requirement set out under the legislation; Hymans Robertson found only seven of the 16 providers analysed above the threshold. Three more are getting towards the transition pathway.[99]

Industry experts have described the proposals as ‘genuinely radical’, even though the plans so far appear relatively modest in scale and speed.[100] The LGPS proposals apply only to pooling and do not change the structure of the underlying 86 funds in England and Wales. The UK government hopes that an additional flow of funding from larger pension schemes will boost investment in the UK economy. UK pension organisations have expressed ‘strong support’ for the government’s reforms in a joint letter to the Chancellor, welcoming their potential to foster economic growth, drive consolidation, and improve outcomes for savers.[101] Research from Standard Life calculates that megafunds could increase DC pension pots by up to 20 per cent. An early-career saver could have up to £49,000 more in their pension pot in real terms by retirement, equivalent to a 17 per cent uplift compared with current investment strategies.[102] A consortium of major UK pension providers is exploring the establishment of a new UK Scale-up Fund worth more than £1bn to invest in high-growth British science and technology companies. It aims to connect institutional pension capital with UK companies, founders, and venture managers operating in science and technology. This is precisely the type of investment the UK government is hoping for, with the Chancellor John Healey saying, “We create great companies in Britain but don’t do enough to grow them with British capital and keep profits in the UK. I want the UK to become the best place in the world both to start and scale a business, with investment, jobs and skills in every region.”

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[98] Smith, S, *Govt shares interim Pension Investment Review report and reform package consultations*, (Pensions Age, 15 November 2024) https://www.pensionsage.com/pa/Govt-launches-consutlation-on-radical-reform-package.php

[99] C. Conway, *Most major DC pension providers yet to meet £25bn scale threshold*, (Pensions Age, 6 July 2026), https://www.pensionsage.com/pa/Most-DC-providers-yet-to-meet-25bn-scale-threshold-Hymans-finds.php

[100] Smith, S, *Industry reacts as govt announces plans for pensions 'megafunds'*, (pensions Age, 13 Nov. 2024), https://www.pensionsage.com/pa/Industry-reacts-as-govt-reveals-radical-set-of-pension-reforms.php

[101] PLSA, *Pension funds back mansion house reforms*, (29 Nov. 2024), https://www.plsa.co.uk/News/Article/Pension-funds-back-Mansion-House-reforms-in-joint-letter-to-Chancellor

[102] Standard Life, *New Standard Life report sets out blueprint for successful UK DC pensions transformation to improve outcomes for savers and the economy*, (26 June 2026), https://www.standardlifeplc.com/news-and-views/press-releases/article-page/blueprint-for-successful-dc-pensions-transformation

Some LGPS professionals have concerns about how local investments should be defined, arguing that 'local' is too narrowly defined and should include UK-wide investments. The Society of Pension Professionals (SPP) commented: "This SPP polling demonstrates that pension professionals recognise the value of encouraging investment that benefits local communities, but not at the expense of members' returns."[103]

While both scale and the processes announced may enable that, it remains to be seen if pension fund managers and savers will be confident that the UK, and in particular sectors such as private equity and infrastructure, are the best home for some of their pension pot.[104] The loss of £350m on an investment by Aviva in waste incinerator plants illustrates the concern.[105] However, ministers have not ruled out forcing pension schemes to invest more in British assets if reforms fail to drive savings into domestic infrastructure and companies.[106] The powers in the Act were watered down after industry lobbying, but still exist as a reserve power. Achieving this will require the government to develop a pipeline of investable opportunities that align with the megafunds' scale and risk requirements.

The proposals also have significant gaps, not least in ignoring DB schemes. As one expert says, "As it stands, the current regulatory and legislative regime incentivises trustees and sponsors to pursue insurance buyouts as soon possible and more needs to be done to support those well-funded schemes with strong covenants who want to run-on."[107]

There is little doubt that the UK pension system is not working for savers or the economy. The evidence strongly supports the direction of travel announced by the Chancellor, which helpfully has cross-party support. Larger pension funds in the DC market and the LGPS should drive better investment strategies for savers and the economy. The question marks remain over the speed of change and whether a more radical solution is required.

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[103] C. Conway, *Industry backs LGPS local investment if returns are unaffected,* (Pensions Age, 3 July 2026), https://www.pensionsage.com/pa/LGPS-local-investment-must-not-come-at-expense-of-returns-SPP.php

[104] Lowe, J, *The UK government wants to shake up pensions – but it can't guarantee that 'megafunds' will want to invest in Britain*, (The Conversation, 19 Nov. 2024), https://theconversation.com/the-uk-government-wants-to-shake-up-pensions-but-it-cant-guarantee-that-megafunds-will-want-to-invest-in-britain-243819

[105] Ambrose, J, *UK pension fund loses more than £350m with waste incinerator power plants*, (Guardian, 20 Nov. 2024), https://www.theguardian.com/business/2024/nov/20/uk-pension-fund-loses-350m-waste-incinerator-power-plants

[106] McDougall, M, *Government could force pension funds to invest more in UK assets*, (FT, 18 Nov. 2024), https://www.ft.com/content/b92011cf-5c81-494a-a999-baba0a5a5fb7?shareType=nongift

[107] Gray, J, *Industry disappointed at omission of DB reform in Mansion House speech*, (15 Nov. 2024), https://www.pensionsage.com/pa/Industry-expresses-disappointment-at-omission-of-DB-reform-in-Mansion-House.php

6. Pension reform

Introduction

While current pensioners may be doing well on average, the future looks risky at best for many current workers hoping for a comfortable retirement. As the Pensions Commission's interim report highlights, "with fewer retirees set to receive defined benefit pensions and significant gaps in existing policy, this report shows that there remains much work to be done to ensure income adequacy in later life, through a renewed, fair and sustainable settlement."[108]

As the IFS concludes, "The continued decline of defined benefit pensions in the private sector, the abolition of state earnings-related pensions, low interest rates, falling homeownership, low average contributions to defined contribution arrangements, the introduction of pension freedoms which offer flexibilities but reduce the extent of risk-sharing in retirement, and a collapse in pension saving among the self-employed."[109] They argue that we need a major review of pension provision now to give us a chance of avoiding a future that looks worse than the present.

Pensions UK (formerly PLSA) is advocating for gradual increases in pension contributions over the next decade, from the current 8% of only a portion of earnings to 12% of all salary, with employers paying more so that, by about 10 years from now, both employers and employees would pay the same. Their modelling shows that the annual retirement income generated by workplace pensions for a median-earning man would increase from £6,200 to around £9,100, and from £5,700 to £8,300 for women, i.e., an increase of more than 45 per cent. This reform should include introducing and extending Automatic Enrolment to allow saving from the first pound of earnings and from age 18.[110]

The UK government has established a new Pensions Commission, "to finish the job by mapping out a path to a pensions system that is truly adequate, in the broadest sense of that word."[111] While welcoming improvements due to Automatic Enrolment, the government recognises that we are

[108] The Second Pensions Commission, *Pensions 2050: Evidence and Future Priorities*, P. 8. https://assets.publishing.service.gov.uk/media/6a073f6cf7c2e79c33db903d/Second_Pensions_Commission_Report_standard.pdf

[109] IFS, *Challenges for the UK pension system: the case for a pensions review*, (April 2023), https://ifs.org.uk/publications/challenges-uk-pension-system-case-pensions-review#:~:text=There%20are%20risks%20of%20running,looks%20worse%20than%20the%20present.

[110] Pensions UK (formerly PLSA), *First 100 days of government*, (June 2024), https://www.plsa.co.uk/Blog/Article/First-100-days-of-government-Support-adequate-pension-saving#:~:text=The%20PLSA%20is%20advocating%20for,employees%20would%20pay%20the%20same.

[111] Pensions Commission launch, (4 August 2025), https://www.gov.uk/government/publications/finishing-the-job-launching-the-pensions-commission/finishing-the-job-launching-the-pensions-commission

currently on course for tomorrow's pensioners to be poorer than today's. They also recognise that individuals are bearing far too much risk with the shift from DB to DC, which at its heart is a transfer of risk from employers to individuals.

The STUC response to the Pension Commission interim report recognises that it provides a clear and urgent call to action. The TUC recommendations are soundly based, calling for radical policy changes to contribution levels and the wider issues that affect pension provision. They also emphasise how problems of low pay and lack of access to workplace pension schemes are not distributed evenly across the population. Women, disabled people, and black and ethnic minority people are at considerably higher risk of poor retirement outcomes.[112]

While the government's pension reforms have been generally welcomed by the pensions sector, not everyone is convinced. Some argue that the system is overcomplicated, with governments and regulators not always working to the same ends. Others argue that the risk of guided retirement default pension benefit solutions will encourage 'herding' around predictable investment choices, discourage innovation, increase concentration risks, and ultimately lead to worse outcomes for scheme members because of the fear of a scheme receiving a poor rating. Some feel that legislative changes are undermining the basic fiduciary duty of pension fund trustees and that this should have been addressed in the legislation. This includes the release of scheme surpluses. The government is now expected to publish non-statutory guidance on fiduciary duty at some stage.

The smaller number of schemes, while welcome, also raises questions. The scale of decision-making is resulting in greater use of professional trustees and a move away from trustees with a 'skin in the game'. A growing number of schemes now have a single professional trustee, with half of DB schemes now having at least one. Almost a quarter of DB and hybrid schemes were governed by a professional sole trustee, although these tend to be smaller schemes with assets of under £100 million and fewer than 1,000 members. The rise of professional trustees can create conflicts of interest through 'cross-selling' and weaken trustee independence. The absence of diversity risks embedding historic inequalities on a larger scale. Most professional trustees have years of experience, which raises the question of where the next generation of trustees comes from.

Pensions have always been viewed as complicated, which discourages volunteers, and the level of continuous personal development required is another challenge. This is likely to concentrate power in the hands of a small number of trustees. Former pensions minister Steve Webb argues that "While these individuals will be carefully chosen and typically highly expert, the model of having a handful of people overseeing huge 'megafunds' raises serious questions that the government has not so far

[112] STUC, *Pensions 2050: Evidence and future priorities*, (July 2026), https://www.tuc.org.uk/sites/default/files/pensionscommissionreportaugust2026.pdf

addressed."[113] They will also muffle employer and worker voices, reducing challenge and diversity. As AMNT argue, "Member trustees are the only group with 'skin in the game'... We should be nurtured and not discarded just because most people working today have forgotten the outrageous behaviour of Robert Maxwell."[114]

If scale and recruitment challenges continue, then another solution is better communication. NEST has established a Member Assembly to consider the bigger issues around how NEST invests, ownership rights and member engagement.[115]

Increasing Pension Contributions

For most people, making a larger contribution during their working lives makes sense, and the need for increasing funding is undeniable. That is, unless their earnings leave them close to the State Pension, or they have insufficient disposable income. A single savings rate is also unlikely to suit every pensioner, given the variety of individual circumstances. One approach that has gained increasing attention is to introduce flexibility in the rules governing default contributions in the UK automatic enrolment scheme (AE). This would allow savers, especially those on lower incomes, to adjust their contributions to suit their needs, without needing to opt out altogether. Another is to tailor contribution rates to the needs of people on different incomes – as is already being done, to some extent, through mechanisms like the Lower Earnings Limit (LEL), currently (2025/26) at £125 per week, which ensures that a worker contributes only when they earn a sufficient amount in a given pay period.

Pensions UK commissioned a report to examine different ways of doing this, looking through three lenses: adequacy, sustainability and fairness, including:

- The flexibility of 'opting down' to reduce contributions to a more manageable level
- Tiered contribution rates that make saving more affordable for lower earners
- The option to receive employer contributions without needing to make an employee contribution
- Additional models such as emergency savings pots and auto-escalation, that can adapt the contributory system around the realities of household budgets.[116]

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[113] E. Carric, *Fewer hands, greater power*, (Pensions Age, July/August 2026), https://www.pensionsage.com/pages/DigitalEditions/padigital-july-august2026/padigital-july-august2026.pdf

[114] AMNT Trusted, (May 2026), https://cdn.prod.website-files.com/63c66b20503acc1fc4573c74/69f4bacd86f159bb83d89967_AMNT-Trusted-Magazine-21st-Edition-01.05.26.pdf

[115] NEST, *Nest launches pioneering member assembly*, (10 Feb. 2026), https://www.nestpensions.org.uk/schemeweb/nest/nestcorporation/news-press-and-policy/press-releases/nest-member-assembly.html

[116] J. Wells, *Closing the gaps*, (Pensions UK, June 2026), https://www.pensionsuk.org.uk/Portals/0/Documents/Policy-Documents/2026/Closing-the-gaps-Can-flexible-contributions-make-retirement-savings-more-affordable-June-2026.pdf

They found, unsurprisingly, that the current policy falls short on adequacy, as none of them met the minimum rates needed to fund an adequate income. However, a 12 per cent contribution rate significantly improves outcomes for most low- and middle-income households modelled. This assumes it is affordable, which is challenging in the current private rented housing system. Many households already fail to meet the Joseph Rowntree Foundation's Minimum Income Standards (MIS), even before they start paying pension contributions. Despite this, many saw a modest increase in contributions from 5 per cent to six per cent as achievable, especially if it was aligned with pay rises. Employees also saw the 6%/6% split with their employers as a fairer settlement, given a shared responsibility for their retirement savings.

The options for introducing greater flexibility met with mixed responses. They preferred a simple, government-set default and worried that flexibilities could undermine retirement outcomes. They also stressed the need for safeguards to prevent lower contributions from continuing for a long period. The smallest employers also had concerns, particularly those without sophisticated payroll solutions and already worried about accidental non-compliance. Such a policy may also reduce GDP in the short term by lowering household spending, tax revenues, and potentially holding back wage growth, although we should always recognise that pensions are a longer-term issue.

The report concludes, "that no single policy option performs well against all three criteria. Improving adequacy inevitably creates trade-offs with affordability, sustainability and perceptions of fairness. The evidence highlights the importance of simplicity, strong defaults and gradual reform, while leaving fundamental judgements – about the appropriate balance between adequacy, affordability and individual choice – for policymakers to determine."

In a follow-up, Pensions UK argues for the development of a national framework to measure retirement adequacy, built around a minimum income threshold and target replacement rates.[117] Its proposed approach combines a minimum level of income (around 32 per cent of median earnings) that everyone should reach, based on the Retirement Living Standards, and a set of target replacement rates to ensure people with middle and higher incomes can achieve a level of income consistent with their pre-retirement living standards. An independent National Council for Retirement Adequacy should be established to review the minimum adequacy threshold and wider pensions system every five years. They also argue that contribution rates in automatic enrolment should rise gradually to 12 per cent by 2035.

IFS recognises that automatic enrolment has transformed private pension saving in the UK: workplace pension participation among eligible private sector employees rose from just over 40% in 2012 to 89% in 2024. Despite this, there are concerns that current levels of pension contributions will lead to many

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[117] Pensions UK, *Second Pensions Commission's Interim Report - Pensions 2050: evidence and future priorities: Pensions UK's response*, (15 July 2026), https://www.pensionsuk.org.uk/Policy-and-Research/Document-library/Second-Pensions-Commissions-Interim-Report-Pensions-2050-evidence-and-future-priorities-Pensions-UKs-response?

falling short in retirement. They calculate that among people currently saving in DC pensions aged 25 to 59, 66% of private sector employees are on track to reach their 'target replacement rate' – a benchmark for avoiding large falls in living standards at retirement. Raising it to 12 per cent (as Pensions UK propose) would increase this adequacy measure by 8 percentage points to 74%. However, they caution that gains in retirement saving come at the cost of lower take-home pay today, especially for low earners.[118]

"Raising minimum contribution rates to 12% of a qualifying earnings band of £6,240 to £65,000 would result in a reduction of 0.4% of take-home pay due to higher employee contributions and a further 0.8% reduction assuming full pass through of employer contributions to wages. The effect on the highest earning third is smaller – the reduction in take-home pay from higher employee contributions is 0.2% and higher employer contributions 0.4% (assuming full pass through to wages) – compared with 0.3% and 0.9% respectively for the lowest earning third."

The reduction would be even higher if the 'lower limit of qualifying earnings' was reduced or cut. If the 12 per cent contributions were instead calculated on earnings from the first pound, without the lower limit of qualifying earnings, the reduction in take-home pay for low earners would be 4.0 per cent. Employer costs would also rise in industries with more minimum wage earners, because wages could not be reduced.

The Society of Pension Professionals argues for an auto-enrolment equivalent system for the self-employed, saying that the voluntary pension saving alone has failed to deliver adequate retirement outcomes for the group. They recommend that pension contributions for sole traders could be deducted as a percentage of profits through the self-assessment system, with an opt-out mechanism and a default pension arrangement, backed up by a state-backed default scheme.

The Pensions Policy Institute report, *From Payslip to Pension: Life Course Impacts on Retirement Saving Among Low Earners*, argues that no single reform can address the issues facing low earners. The £10,000 AE earnings trigger was now 43 per cent, or £4,300, lower in real terms than when it was last increased in 2014. The lower earnings limit (LEL), which determines the portion of earnings on which minimum contributions are calculated, was also 28 per cent lower in real terms after being frozen at £6,240 since 2020/21. This means that more people are gradually brought into scope: "AE started with the assumption that low earners may not opt out by themselves and needed a degree of protection, but this assumption appears to be shifting: they are excluded from automatic enrolment to a degree, but as thresholds reduce with inflation, more people are gradually brought into scope."

118 IFS, *Automatic enrolment: trends in employer pension contributions and the impact of potential reforms*, (21 July 2026), https://ifs.org.uk/publications/automatic-enrolment-trends-employer-pension-contributions-and-impact-potential-reforms?mc_cid=bfe4757e10&mc_eid=aebfe072fa

State Pension

The Tony Blair Institute (TBI) has proposed a new approach in its report, *The Lifespan Fund: Reforming the state pension for a more affordable, flexible and fair future*.[119] The think tank proposes a complete redesign of the state pension in favour of a new, flexible retirement fund. Under the Lifespan Fund, retirement age would be calculated on an individual basis, linked to health records. To ensure fiscal sustainability, the triple lock would be replaced with a smoothed earnings link, aimed at reducing long-term cost to the Treasury. The TBI estimates these changes, along with reducing average time spent in retirement, would keep state pension spending at 5.5 per cent of GDP by 2070, saving £66 billion a year compared to current projections. These proposals have been criticised as too complex, failing to address inequality in life expectancy, and not looking at the whole pension system.

Others focus more narrowly on the triple lock, arguing that it has outlived its purpose. The Resolution Foundation argues, 'Pensioners have seen three times as much living standards growth as non-pensioners over the last two decades, a typical pensioner household now has the same level of income as the typical working-age household, and pensioners are less likely to be in poverty than the rest of the population. There is not a strong case for continuing to increase state support for pensioners faster than the wages of typical workers – the inevitable practical effect of the triple lock.'[120] Their report, *What a ratchet*, suggests that replacing it with a smoothed earnings link would save £650 million by 2029-30.

The OECD argues that the triple lock is 'unusually generous', creating increasing uncertainty about state pension expenditure, while gaps in private pension participation were leaving groups, including the self-employed and women, at risk of inadequate retirement incomes.[121] The average pension provision for self-employed workers, relative to employees, was among the lowest in the OECD, reflecting low participation in private pensions. The report recognised that self-employed workers often had volatile earnings, which would make a conventional workplace AE model difficult to replicate, but argued that using the tax system to facilitate default contributions could improve coverage.

[119] TBI, *The Lifespan Fund*, (May 2026), https://institute.global/insights/economic-prosperity/the-lifespan-fund-reforming-the-state-pension-for-a-more-affordable-flexible-and-fair-future

[120] Resolution Foundation, *What a ratchet! Why it's time to stop being polite about the triple lock*, (10 June 2026), https://www.resolutionfoundation.org/publications/what-a-ratchet/

[121] *OECD Economic Surveys: United Kingdom 2026*, (15th July 2026), https://www.oecd.org/en/publications/oecd-economic-surveys-united-kingdom-2026_aa997c6e-en.html

While the triple lock may be outdated, that still leaves two million pensioners in poverty, which is inevitable when even the full state pension is less than 50% of the minimum wage. So, any replacement has to address that issue.

Pushing the pension age even further is a common response, but unless healthy life expectancy improves significantly, this will simply place further pressure on other benefits and discriminate against the most disadvantaged. Young people are looking at the increasing age and conclude that they don't expect the state pension to even exist by the time they retire.[122] “The goalpost keeps moving. At the minute I'll be 68 by the time I can retire, but I do think I'll be probably closer to 75, if I'm honest.” Experts warn that if a whole generation stops believing the state pension will be there, it could push people towards more risky investments, prompt overly restrictive behaviour, or lead others not to save at all. We already have one of the lowest savings levels in Europe.

International experience

The challenges facing our pensions system are not unique to the UK, particularly around ageing populations and life expectancy. This drives up the cost of state pensions, increasing interest in funded pension schemes and individual savings.

Ministers and other experts frequently compare the UK’s pensions system with those of other countries. The examples most frequently cited are Canada, Australia, and the Netherlands, which have mature, well-developed pension systems. UK government documents reference Australia’s value for money and larger master trusts. For the LGPS, Canada’s public service funds are referenced for their wider range of investments. The Dutch collective DC (CDC) model has attracted significant attention from the UK government as they develop legislation for CDC schemes. Sweden demonstrates the benefits of scale, with retirement assets concentrated in a small number of very large funds, helping to keep costs exceptionally low. The Pensions dashboard programme in Denmark and the Netherlands clearly provided a basis for UK reforms. This doesn’t mean a direct copy but instead looking at what works well. Countries develop their systems in relation to their own circumstances, but common trends include consolidation, scale, and auto-enrolment. The UK is also a source of inspiration from abroad, not least for its work on auto-enrolment.

The EU has published its pension adequacy report, highlighting pension inequality and the gender pension gap. The report calls for further reforms to ensure fair retirement security for all and prevent socio-economic inequalities from increasing with age amid demographic and labour market changes.[123] The EU has a regulatory agency, the European Insurance and Occupational Pensions Authority (EIOPA), which aims to protect the rights of policyholders, pension scheme members and

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[122] C. Smith, *Why Gen Z are planning for life without a state pension*, (BBC, 1 July 2026), https://www.bbc.co.uk/news/articles/c8e2yp1gg37o

[123] EC, *Pension adequacy report*, (June 2024), https://ec.europa.eu/social/main.jsp?langId=en&catId=89&furtherNews=yes&newsId=10854

beneficiaries. EIOPA is an independent advisory body to the European Commission, the European Parliament and the Council of the European Union.[124]

European occupational pension schemes (IORPs) had nearly €2.89trn at the end of 2025. They increased by €26bn over the year, mostly driven by increases in equity holdings. The average funding ratio across member states was 123 per cent; however, Sweden was well above this average, at close to 200 per cent. In terms of total assets, Sweden accounted for 10.8 per cent of the EEA market, followed by Germany with 8.9 per cent and Italy with 7.2 per cent. Based on 2024 annual data, occupational pension funds had almost 36.5 million active members. Of these, just over nine million belonged to DB schemes, while around 20 million were members of DC schemes.[125] There has also been a continued shift towards DC pension provision, largely driven by changes in the Netherlands' system.

The Netherlands is transitioning its €1.5 trillion occupational pension system, the largest in the EU (60 per cent of all European Economic Area pension schemes), from a DB to a DC model.[126] The key changes include no longer promising a fixed retirement income. Payouts are entirely dependent on monthly contributions and fluctuating market performance. Younger workers' contributions will be invested at higher risk to potentially achieve higher yields, while risk is significantly reduced for older members as they approach retirement. Pension funds and employers must choose between the Solidarity Premium Scheme (which retains collective risk-sharing and solidarity reserves to smooth out market shocks) and the Flexible Premium Scheme (which offers more individual choice over investments). While the law officially took effect in July 2023, the massive transition phase requires all Dutch pension funds to complete the migration by January 1, 2028. Progress has been slow, with only around 30 per cent having converted so far, although implementation plans have already been submitted and are currently under assessment, indicating that pension funds remain broadly on track for the transition. The average funding ratio for Dutch pension funds increased to 134 per cent in the latest figures.

A commission appointed by the **German** government has proposed establishing a new state-run, capital-funded pension pillar and reforms to the retirement age. Under the proposals, the pension age will be increased incrementally, linked to life expectancy, from 2032, rising to 68 by 2051 and to 70 by 2092, according to current estimates. The pension age is currently set to reach 67 by the early 2030s. The commission has also set out plans for a new state-run pension fund, modelled on the Swedish premium pension. The mandatory, capital-funded pension pillar will fall within the statutory

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[124] The European Insurance and Occupational Pensions Authority (EIOPA), https://www.eiopa.europa.eu/index_en

[125] N. Tuck, *European occupational pension assets near €3trn despite market shifts*, (European Pensions, 25 June 2026), https://www.europeanpensions.net/ep/European-occupational-pension-assets-near-3trn-despite-market-shifts.php

[126] *Nieuwe pensioenwet: wat betekent het voor u?*, https://www.rijksoverheid.nl/documenten/2023/05/30/antwoorden-op-vragen-over-nieuw-pensioenstelsel

system and will be financed by employer and employee contributions. A portion of contributions will be invested in capital markets through the fund, rising in phases from 0.5 per cent to 2 per cent of gross wages. Its aim would be to stabilise pension levels and increase them from 2040, as the country seeks to address an ageing population and strained public finances. Critics argue that these proposals will do little to address the challenges facing those retiring in the 2030s. As in the UK, they also argue that in many jobs, the physical and mental demands make a retirement age of 67 unattainable for many.[127] The German government has also approved an 'Early Start' pension, with children and teenagers aged between six and 17 able to begin saving for retirement. The government pays a subsidy of €10 per month. Once the account holder has reached adulthood, the funds will be transferred into the private pension system, and investment returns will be tax-free until the withdrawal phase that starts at age 65.

Slovakia has relinked the statutory retirement age to life expectancy from 2030, and indexed the pension point to 95 per cent of average wage growth, down from 100 per cent. The reforms reduced the projected increase in public pension expenditure from 5.9 per cent of GDP between 2019 and 2070 to 2.8 per cent of GDP between 2022 and 2070. They have also allowed greater investment in Slovak-based assets. The OECD has also questioned whether provisions allowing mothers to retire earlier and pension bonuses for parents are likely to achieve their stated objective of boosting fertility, noting there is little empirical evidence that such pension incentives influence family planning decisions.[128]

Finland has launched a public consultation on draft reforms to the Self-Employed Persons' Pensions Act (YEL), which would allow entrepreneurs to choose whether their pension contributions are based on the current assessment model or on taxable earned income. The intention is for it to come into force on 1 January 2028. Finland has also significantly reduced pension administration costs, although the numbers do not reflect investment management costs. Finnish earnings-related pension companies have reduced their operating costs by 34 per cent in real terms over the past two decades.[129] The Finnish Pension Alliance (Tela) said the reforms would increase the complexity and costs of YEL pension insurance.

The **Swiss** system is structurally similar to the UK, with a state pension, occupational and private pensions. The age of retirement for women is catching up with men at aged 65. For occupational pensions, reforms have been under discussion by the Federal Council to secure long-term sustainability. Key proposed changes include lowering the minimum conversion rate used to calculate

[127] J. Gray, *German Pension Commission to propose pension age reform and new state-run fund*, (European Pensions, 22 June 2026)

[128] N. Tuck, *Slovakia's pension future 'hinges on the success' of pillar II – OECD*, (European Pensions, 26 June 2026), Slovakia's pension future 'hinges on the success' of pillar II – OECD

[129] N. Tuck, *Finnish pension companies cut operating costs by 34% over two decades*, (European Pensions, 25 June 2026), https://www.europeanpensions.net/ep/Finnish-pension-companies-cut-operating-costs-by-34pc-over-two-decades.php

pensions and altering contribution thresholds to better reflect modern part-time and lower-income workers. The average funding ratio of Swiss private-sector pension funds is an impressive 123.3 per cent.

Austria has an undeveloped pension system, and the government is proposing reforms. The government aims to make occupational pension schemes more attractive, transparent, and efficient for employees, whilst taking the pressure off the first pillar (state pension).[130] They are planning a General Pension Fund Agreement, which will significantly broaden access to occupational pension schemes for all employees (it previously covered around 25 per cent). There will be options that reflect DC and DB guarantees, coupled with improved tax treatment. However, Austria's transport and services union, Vida, has called for measures to increase women's incomes rather than introducing pension reforms that it argued would disadvantage female workers. The pensions of women workers are on average 39.4 per cent lower than those of men.

An example of the challenges facing European pensions systems is **Lithuania**. It is changing its Pillar II (non-state) element, including ending automatic enrolment and allowing early withdrawals or contribution breaks from 2026-2027, which the IMF said will lower replacement rates and raise future fiscal costs. The IMF recommended that the near term should focus on stabilising the second pillar by maintaining state contributions to preserve incentives to participate.

Funded pension schemes have been doing as well as workplace schemes in the UK, which has reached an aggregate funding ratio of 131%. The **Czech** scheme increased by CZK 40.3bn (£1.4bn) compared with the end of the first quarter. **Poland**'s open pension funds (OFE) saw their assets reach a record PLN 354.9bn at the end of July. Returns averaged 6.1%, and interestingly, more than 80 per cent of OFE assets are invested in shares of domestic companies. In Poland, there is a tax break on pension investments up to PLN 100,000 (£20,000). There has been a similar increase in **Romania**, where 95% of assets are invested inside the country. The **Irish** master trust assets grew by 17 per cent in 2025. Corporate master trusts now account for more than €34bn of Ireland's defined contribution (DC) market.

[130] N. Tuck, *'Paradigm shift' to Austria's pension system moves forward,* (European Pensions, 23 April 2026), https://www.europeanpensions.net/ep/Paradigm-shift-to-Austria-pension-system-moves-forward.php

7. Conclusion

"When we talk of pension adequacy, we are not discussing academic abstractions. We are talking about whether millions of British citizens can afford to eat, heat their homes and access the healthcare they need. We are talking about dignity not just survival."[131]

The interim report of the Second Pensions Commission fairly sums up the challenges facing our pension system,

"The forces reshaping our society – longer retirements, slower growth, and falling home ownership – demand a renewed national settlement on pensions. We face questions as demanding as those of 20 years ago: how to build future financial resilience when working lives are more precarious; how to ensure fairness between generations when the population structure is shifting; and how to protect individuals when the balance of risk has moved decisively from institutions to citizens."[132]

While the UK government is making an important start on pension reform, this paper sets out a substantial range of issues that need to be addressed not only in the pensions system but also in related fields such as health and housing. The primary aim of our pension system should be to ensure an adequate retirement income for everyone. The challenges to achieve this include:

- Only 23 per cent of people are anticipated to reach the moderate Retirement Living Standard (£32,700). 18 per cent won't even reach the minimal level.
- The state pension is one of the lowest in Europe. There are cost pressures to weaken the 'triple lock' on pension increases and raise the retirement age, despite life expectancy gains slowing. Social security payments are having to cover the gap, and pensioner poverty still exists for nearly two million people.
- Pensioners are having to work longer than many are able, even as healthy life expectancy fails to improve.
- There is a strong case for taxation relief on pensions, currently costing over £50 billion, but there are legitimate questions over how well that is currently deployed. However, piecemeal reform risks driving people out of pension savings or undermining long-term retirement planning.
- The loss of high-quality workplace pensions using the DB model, and its replacement with weaker DC schemes. Automatic Enrolment has increased pension contributions, but at low levels. A gap remains for those who lost out on DB schemes and AE.

[131] J. Flynn, *AMNT: Three urgent reforms for the protection of member rights*, (13 August 2026), https://www.professionalpensions.com/opinion/4534298/amnt-urgent-reforms-protection-member-rights

[132] Pensions 2050: *evidence and future priorities – interim report*, (May 2026), p. 3. https://www.gov.uk/government/publications/pensions-2050-evidence-and-future-priorities-interim-report

- Pension schemes are complex, and many people have multiple schemes. The Pensions Dashboard should help, but it is yet to be implemented. Small employers also struggle with pensions complexity, limiting real market competition.
- DC and personal pensions place investment risk on workers who are ill-equipped to make these decisions. Financial education is limited, and most people underestimate how much they will need in retirement. Shared risk CDC schemes offer the prospect of some improvement, but opinions vary on uptake.
- Pension freedoms introduced in 2015 expose workers to the risk of scams and poor decisions about their retirement needs and tax liabilities. Most are not taking regulated advice, and pension liabilities are rising.
- Strong recent investment performance may be used to take money out of pension funds when those surpluses could be needed in the future, or to improve pension outcomes now.
- Younger people are finding it difficult to invest in pensions and access the housing market; rising private rents result in the likelihood of lower pensions or other income in retirement. We are creating a huge problem for future generations unless we coordinate the policy response across issues that affect pensions, including health, wages, and housing.
- Only modest amounts of pension assets are being invested in the UK, with some 70 per cent of DC schemes going abroad. Other countries have much higher inward investment. Increasing scale will help, but investable opportunities are also required.
- Some progress is being made to increase scale in DC schemes and the LGPS in England and Wales, but progress in Scotland is glacial.
- A large number of smaller schemes that drive up costs and restrict broader investment opportunities. They often have poor governance models, and investment performance varies considerably. The administration of schemes is being addressed through value-for-money initiatives, but progress is slow, and it remains to be seen how rigorous and transparent the standards will be.
- Pensions administration is often overlooked, with most pension schemes not even reviewing their arrangements. Professional trustees are increasingly used, but they may have expertise without any skin in the game. AI is being introduced, but few people trust its advice.
- There is a lot of discussion and methodology around Environmental, Social and Governance (ESG) issues, but action is limited, and reporting standards are poor. Climate change will materially impact investments, but indices are weak. Engagement with pension scheme members who want their investments to be responsibly invested is limited.

So how can we respond to these challenges?

In an ideal world, there would be one simple state pension system that delivered the moderate Retirement Living Standard (RLS) for everyone, funded by National Insurance and wider taxation. That would be an increase from £12,547 to £32,700 per annum. The UK currently spends around £138 billion on the state pension and would need an additional £285 billion annually to fund this level of pension. To give an idea of scale, one penny on all income tax bands raises around £11 billion, and

NHS spending in the UK totals £242 billion. In practice, it would cost somewhat less because, at current tax rates, pensioners would pay nearly £4,000 of that back in Income Tax. It would also save pension credit and other social security benefits, as well as other health and well-being financial benefits. An alternative target would be to raise the state pension to the National Living Wage (£23,132 to £26,436), which would cost between £167 billion and £211 billion, depending on the hours per week used as the reference point.

You could reduce overall cost by targeting the increase on, say, the lowest 30 per cent of pensioners, roughly those who qualify for Pension Credit. That would cost £180 billion to fund moderate RLS levels, and between £98 billion and £129 billion, although after tax and benefit changes the cost falls to around £77 billion. However, as the IFS points out, aggressive means-testing creates a major economic distortion and discourages savings.

No government is likely to be prepared to raise taxation to the required level, or to face the political backlash of not paying the higher pension to those who would have contributed towards higher National Insurance or wider taxation. There would also be wider economic consequences of such a change in taxation. This means that solutions will have to retain a mix of the state and occupational pensions. This is the direction almost all European countries are travelling in, for the same reasons. However, that does not mean we cannot make meaningful changes to create a better and fairer pension system. A comprehensive package of reforms could include:

- On the state pension, the case for reducing the triple-lock on pension increases is credible only if the basic state pension is increased to a level that would eliminate or at least significantly reduce the need for pension credit.
- There is no strong case for increasing the state pension age based on current life expectancy rates, especially when health inequalities are considered. Changing the pension age requires a significant reduction in health inequalities for older persons, including action on social care.
- This requires a funding model for the state pension that recognises the additional costs, while accounting for the broader tax and other policy decisions needed to fund it.
- The UK government's programme of reform to occupational pensions is moving in the right direction. However, it can go further and quicker.
- Policy incentives should encourage more occupational pension schemes to return to the DB model. Most schemes are now fully funded, many with significant surpluses. This model places the risk on those better able to bear it. CDC offers a compromise, but still remains a second-best option.
- Public sector DB schemes are also well funded, and recent reforms have placed them in a strong position. There is a case to gradually move the public sector 'pay-as-you-go' schemes to a funded model like the LGPS, creating a longer-term funding base and an investment powerhouse.
- A key part of the solution has to be increasing pension contributions for those making only modest contributions or no contributions towards an occupational pension. This requires

better financial education to build a realistic understanding of what it will take to move above minimum Retirement Living Standards.

- Basic occupational pension contributions should move towards a shared 12 per cent contribution, with an ambition to achieve 15 per cent. This should be shared fairly between employers and workers, as in almost all countries, returning to the days when employers made the largest contribution. There needs to be flexibility, particularly for the self-employed, alongside measures to address the gender pensions gap.
- The lower earnings limit for auto-enrolment should be removed, and the age threshold lowered from 22 to 18. The option for employers to postpone auto-enrolment should be removed. A national body of trade unions and employers, working with governments across the UK, should set contribution levels and other measures.
- Additional contributions will need to be considered when calculating the minimum wage and employers' National Insurance payments.
- There is a case for reforms to the tax system, including capping benefits for those on higher income levels. However, this should be part of a major package to avoid constantly undermining the pension system with piecemeal changes. Any changes must be implemented slowly, to avoid significant disruptions to retirement planning.
- Private sector DC schemes urgently need governance reform. This involves a major increase in scale and a rigorous value-for-money framework that tackles poor investment performance and transparency, along with extending requirements for member representation. There is a case for moving towards a national, or at least country/regional, system of pension pools, possibly expanding the NEST model.
- The legal concept of fiduciary duty needs to be reviewed, as it is all too often narrowly defined. While professional trustees have a role, lay trustees also play an important role and should be supported. All pension schemes should have member representation.
- The so-called 'pension freedoms' need to be more closely regulated and, in some cases, ended. They are causing workers to lose tax benefits and are driving lower retirement incomes. They also encourage AI scams.
- Pensions also offer much more to the economy than retirement income. They should be a powerhouse for the economy by investing in building a better life for workers who are making increasing contributions.
- Investment in the UK and locally needs to increase to levels seen in countries with pension systems like our own. Most pension schemes should be permitted to take higher levels of risk, enabling genuinely balanced investment strategies that serve members' interests rather than regulatory convenience. This requires support through investment-fund expertise and products that make it easier for pension funds to invest. That can include government incentives to guarantee returns.
- The drive to scale is an important part of that and should be pursued more quickly. Changes to the LGPS in England and Wales are in the right direction. Scotland is slipping behind and should

quickly move to a single pension fund that promotes local investment as part of the Community Wealth Building process.

- ESG must be built into the investment process of all funds, with stronger statutory requirements on transparency, data and outcomes. Engagement policies should be driven by a statutory framework that drives meaningful change in the companies receiving pension fund investments rather than meaningless discussion. Responsible investing should ensure pension fund members get good pensions and the broader economic and social benefits they want.

The key message of these reforms is that there is no single solution. Pensions are complex, and the costs involved need to be shared across the state, employers and workers. They also need to be applied more fairly across income groups, with better governance and responsible investment. We also need to look at the whole picture, rather than treating pensions as an isolated policy issue. That includes occupational, personal and state pensions, as well as relevant issues such as health inequalities, housing, wages, the gender pay gap, ending bogus self-employment and social security.

Author and Acknowledgements

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