THE INVESTMENT ASSOCIATION

INVESTING FOR A BETTER RETIREMENT

Recommendations for change in the new retirement income landscape

July 2025

ABOUT THE IA

The Investment Association is the trade body that represents the interests of UK investment managers. Our 250 full members manage in excess of £9.1 trillion of assets and the investment management industry supports 126,800 jobs across the UK.

Just under half of total assets managed in the UK are for overseas customers, making us a leading global centre for our industry.

The IA network lets our members share strategic thinking about the future of the investment management industry, especially as we embark on significant change in European and international trade. The Investment Association ensures that our industry's voice is heard at both national and international level.

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EXECUTIVE SUMMARY

While the central focus of the current pension reform debate is on the accumulation phase of the DC pension process, retirement income is also increasingly coming into focus through the FCA's work on Targeted Support and the proposed requirement in the new Pension Schemes Bill for a default pension benefit solution.

This paper sets out a series of principles for the delivery of high-quality retirement income solutions and introduces four overarching recommendations with associated actions intended to ensure that customers are able to access retirement income strategies that can deliver income in line with those principles. Some of the recommendations endorse and build on the existing direction of travel. Others will require further dialogue and change. Given widely different individual circumstances and expectations, a central theme running throughout the paper is the need for greater engagement to help pension savers achieve an appropriate outcome.

The IA and member firms look forward to working with all stakeholders to help fully realise the benefits of the pension freedoms, ten years on.

PART ONE:
THE PENSION FREEDOMS AND PRINCIPLES FOR DELIVERY

The pension freedoms bring great benefits to individuals by enabling them to shape their retirement income to their needs. Maintaining them is critical, but their legitimacy rests on customers getting good outcomes. A good retirement income strategy may include a mixture of investment and annuitisation. It must ideally have the following features:

- Be understandable for customers and offer value for money
- Offer flexibility that caters for changing customer needs over time
- Offer suitable protection for dependants
- Provide a level of future guaranteed income acting as a sustainable underpin, which can come from a mixture of State and private provision
- Generate a stable and durable income that is protected against inflation
- Tax efficiency, whereby a customer's tax liabilities are minimised

PART TWO:
RECOMMENDATIONS TO DELIVER MEANINGFUL CHANGE IN PARTNERSHIP

Recommendation 1:
Deliver an Enhanced Support Framework for Non-Advised DC investors

1a	Industry, FCA and TPR to work to ensure Targeted Support can direct customers to a specific outcome. The pensions industry should ensure there is widespread availability of Targeted Support for customers to access
1b	A backstop retirement income solution should be in place for non-advised customers that opt out of receiving Targeted Support

Many individuals lack the knowledge and confidence to make informed retirement decisions without some form of advice or guidance. For those accumulating DC wealth through workplace and personal pensions and not seeking regulated financial advice, Targeted Support will be critical in guiding them to good retirement decisions and outcomes, and we are very supportive of the current FCA regulatory change process. For those truly unwilling to engage beyond simply indicating that they want retirement income, a backstop solution, that keeps them invested while generating some income, will be necessary as reflected in proposals in the Pension Schemes Bill. However, our proposal is that there is a strong emphasis on deploying Targeted Support to encourage engagement rather than relying on defaults as is the norm during the accumulation phase.

Recommendation 2:
Support advisers to further improve client outcomes from retirement income advice

2a	The FCA should encourage advisers to consider a client's Attitude to Risk and Capacity for Loss in retirement in relation to the need for a stable income that keeps pace with inflation
2b	FCA, investment managers and advisers should work together to consider whether the objective of stable (real) income requires a different set of risk metrics for funds and investment strategies used to support retirement income

While Targeted Support can play an important role, high-quality, value-for-money retirement advice is likely to be the best way for many to maximise the benefit of the freedoms. While the FCA's 2024 review of the retirement income advice market showed that it largely functions well, there are a number of areas where the market could be further enhanced to the benefit of customers. In particular, a greater focus from advisers around the stability and sustainability of income, allied with an approach to risk ratings for funds and strategies used to support retirement income that is linked to client retirement objectives, will deliver better outcomes for customers in terms of stable retirement income.

Recommendation 3:
Ensure Value for Money (VfM) in retirement

3a	Policymakers and industry should work to ensure the retirement income market has a value-focused mindset embedded in the market place
3b	If the DC Value for Money Framework is applied to the retirement income market in future it should be adapted to incude a more retirement income-focused set of metrics

The conflation of cost and value has been a central challenge in the DC pensions environment over the past decade. This is now being addressed in the accumulation phase. Embedding a value for money mindset in the retirement income market is essential as well rather than starting from a mindset of low cost. This will enable the delivery of retirement income portfolios that are geared above all to delivering good customer outcomes, rather than being artificially constrained. This will require a different approach to the assessment of Value for Money in retirement, as compared to the current proposals for DC accumulation, for example with an emphasis on achieving a stable income and measurement of risk in relation to income stability and durability.

Recommendation 4:
Reform UK authorised fund rules to better enable investment managers to deliver retirement-income oriented products

4a	In order to support retirement income focused product innovation the FCA should allow UK authorised investment funds the ability to both distribute capital to supplement income and retain income instead of paying it out fully
4b	The FCA should ensure that retail distribution rules support the delivery of retirement income focused investment strategies by permitting managers to utilise a broad investment toolkit
4c	Investment managers should work with advisers, pension schemes and platforms to ensure that private assets can play a role in portfolios to and through retirement

An appropriate product set is needed for the benefits of the freedoms to be fully realised, with advisers highlighting sustainable income generation as an area where innovation was particularly needed. However, innovation in retirement investment products is hindered by current UK authorised fund regulations. Permitting funds to both distribute capital and retain income will enable the creation of products that provide smooth, predictable income. Further changes – to conduct regulations to permit the use for retail investors of derivatives to provide downside protection, and the integration of private assets into retirement portfolios – will create the opportunity for firms to design products that are especially geared towards delivering stable retirement income.

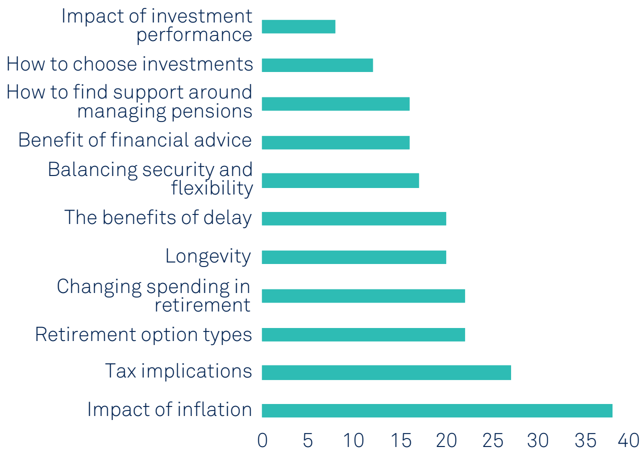
PART ONE: THE PENSION FREEDOMS AND PRINCIPLES FOR DELIVERY

OPTIMISING THE PENSION FREEDOMS: PRINCIPLES FOR DELIVERY

Since the introduction of the pension freedoms in 2015, it has become ever clearer that the choices faced by individuals when accessing pension benefits are often complex and that, in the absence of appropriate support frameworks, the risk of poor decision-making is high. There is a range of evidence to show that faced with a complex series of issues to assess in retirement, customers, particularly the non-advised, are at risk of making poor decisions.

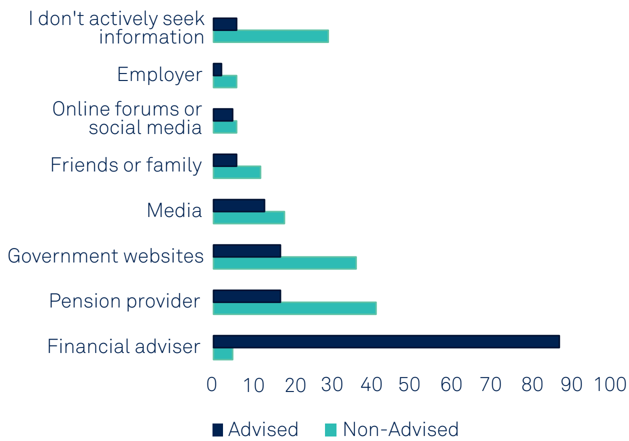
Figure 1 highlights that customers recognise the challenges they face in retirement, noting that there is greater appetite for information about the risks they face – such as inflation, longevity and investment – and the decisions they must take around factors such as spending patterns, investment choices, retirement products and tax, to name a few. Figure 2 demonstrates that in the face of such complexity, individuals turn to a variety of sources of information, ranging from financial advisers, pension providers and the government to family/friends and social and traditional media. Worryingly, a high proportion of non-advised customers (nearly 30 per cent in this survey) may not actively seek any information whatsoever.

FIGURE 1: TOPICS CONSUMERS WISH THEY HAD KNOWN MORE ABOUT AT RETIREMENT (% CITATIONS OF NON-ADVISED RESPONDENTS THAT WISH THEY KNEW AT LEAST ONE FACTOR)



Source: Better retirement outcomes in the DC era, Invesco, 2024

FIGURE 2: SOURCES OF INFORMATION ABOUT RETIREMENT FINANCES (% CITATIONS)



Source: Better retirement outcomes in the DC era, Invesco, 2024

This has the potential to become an ever-greater public policy challenge in the future, as more people come to retire being reliant solely on DC pensions to top up State provision: amongst those due to retire in the 2020s, 11% of individuals are from households who have DC pension income only. This is estimated to rise to 37% of those due to retire in the 2060s[1].

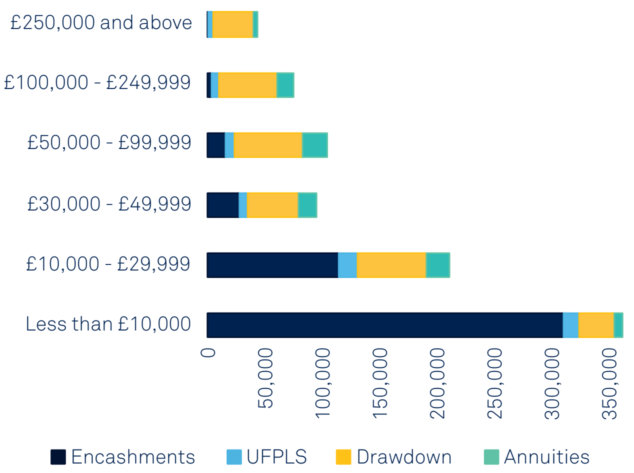
Some may conclude that it is tempting to be much more prescriptive or potentially to move back to a pre-2015 world on the grounds that the previous system delivered guaranteed income via annuities with a much lower decision-making burden on customers.

This would not be the way to deliver better retirement outcomes, and it would go against the popularity of the reforms: recent research showed that 79% of respondents liked having the choice to access their pension in the way they want to[2]. This points to a reality that we should recognise and build on: the pension freedoms are the correct approach to accessing DC pension savings. People should have the right to access their pensions in the way that best suits their circumstances, relying on a mix of products to do so as appropriate, but also with robust support frameworks available in taking decisions.

Importantly, this is as true of those with significant amounts of wealth, for whom pensions may just be one element of retirement income, as it is for those with less to invest and who are more reliant on their DC pension savings to generate a retirement income.

Figure 3 shows how customers across the pension wealth distribution are making use of the flexibilities offered by the freedoms to access their pensions. Across all account sizes the full range of flexibilities are used to access pensions, indicating that people do blend products to suit their retirement income needs. The exception is encashment, which as expected, is much more prevalent for smaller account sizes (particularly £10,000 or less) where the income generated from a small account is too low to be worthwhile; and very rare for larger account sizes, where taking large amounts of cash will trigger large tax liabilities.

FIGURE 3: NUMBER OF PENSION PLANS ACCESSED IN 2023/24 BY ACCOUNT SIZE AND METHOD OF ACCESS



Source: FCA Retirement Income Market Data 2023/24

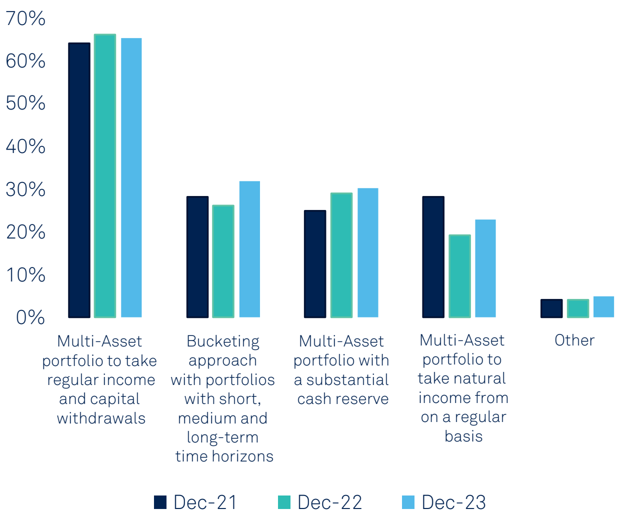
Indeed, the freedoms may actually be more valuable to those with lower levels of accumulated wealth. Being able to use pension pots to reduce debt at retirement and/or bridge to other sources of income, particularly the State Pension, will be very important. Having the flexibility to use their pension wealth according to their needs is an unambiguous improvement on the pre-2015 system. The same research quoted above showed that 84% of respondents felt they had benefitted from being able to access their pension[3].

Greater flexibility also allows customers to make access decisions at an optimal time. For example, with interest rate rises since 2021 feeding through to higher annuity rates, customers choosing to purchase annuities have been able to optimise their decision over when to do so.

[1] *Analysis of future pension incomes*, DWP, 2023
[2] See *'Ten years on: The ongoing impact of Pension Freedoms'*, Standard Life, 2025
[3] Ibid.

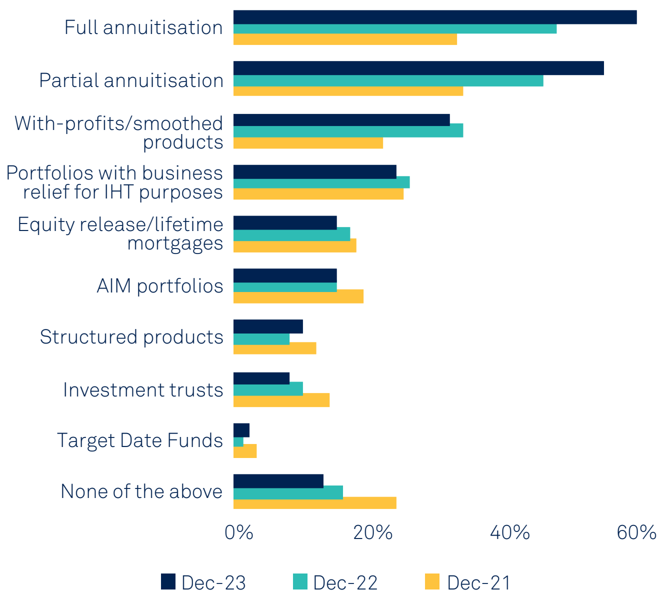
The ultimate benefit of the freedoms then, is the ability for customers to access a mix of products and investment approaches to create a blended retirement income solution that is tailored to their specific needs. This is true both within drawdown products – where, as demonstrated in Figure 4, advisers use a range of different investment strategies to deliver income – and across different types of retirement product. Figure 5 demonstrates how advisers have been recommending different products to clients seeking retirement strategies in recent years, typically employing a mix of investment, insurance and other products. Perhaps the most noticeable aspect here has been the growing popularity of annuitisation (full or partial) from 2021 to 2023, which has been prompted by annuity rates rising in response to rises in interest rates that began in 2022.

FIGURE 4: INVESTMENT SOLUTIONS IN DRAWDOWN



Source: Advice in Decumulation, Platform, 2024

FIGURE 5: INVESTMENT PRODUCTS AND STRATEGIES RECOMMENDED TO CLIENTS IN DECUMULATION, 2021 TO 2023



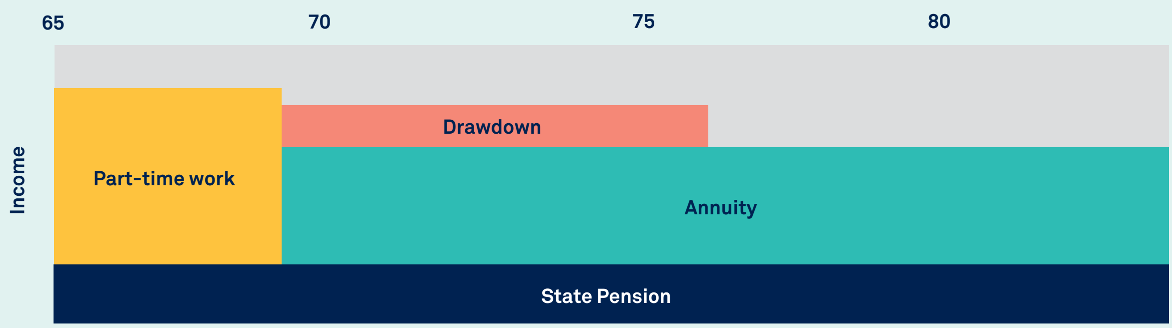
Source: Advice in Decumulation, Platform, 2024

It is clear that in terms of both investment solutions and wider products, a variety of options are available for customers to use in shaping an income strategy according to their needs. The challenge is both how to engage customers and how to combine different products in a fashion that best suits individual needs. The case study below provides a simple stylised example of how products can be blended to suit individual needs.

CASE STUDY: BLENDED RETIREMENT INCOME SOLUTIONS

On reaching age 65, this individual begins to receive their State Pension but also wishes to supplement this by staying in part-time work for a few years as they pay off their mortgage. Having done this by age 69, they choose to stop work and use a portion of their DC wealth to purchase an annuity that is estimated to be sufficient to cover their basic expenditure for life. The remainder of their DC wealth continues to be invested through an income drawdown plan which generates additional income.

By the time this individual reaches their mid-70s, their expenditures drop below their guaranteed income, and any residual DC wealth can either be fully drawn down or preserved for their estate (although it will now be subject to Inheritance Tax).



Source: Adapted from 'Retirement blending case studies', Aviva, 2020

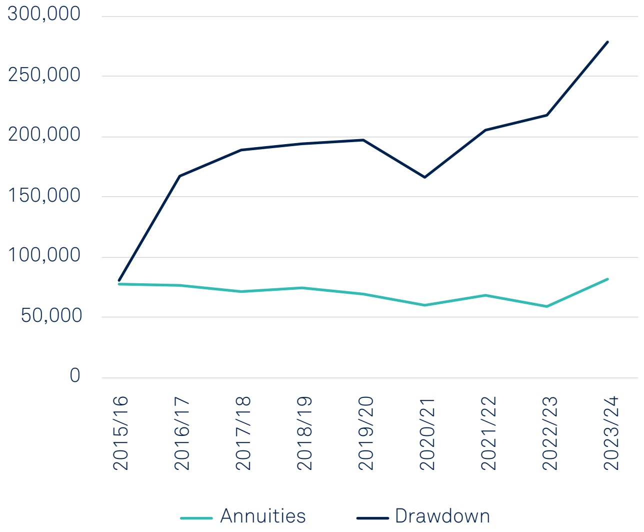
THE IMPORTANCE OF INVESTING IN RETIREMENT

Data from the ABI shows that age 65 continues to be the most popular age for annuitisation, accounting for 20% of all sales in 2024[4]. FCA data on the retirement income market is not granular enough to provide evidence on how the precise age of annuity purchase has evolved over time, continuing to show age ranges 55-64 and 65-74 as the two most common age bands for annuity purchase[5]. Nonetheless, there is reason to think that as people live longer they may choose to defer annuitisation in order to benefit from the higher rates available at more advanced ages.

Regardless, the growth in drawdown product sales has been especially striking. As shown in Figure 6, beginning from a similar sales volume in 2015/16, the first year of the pension freedoms, drawdown plans have consistently outsold new annuity contracts by a factor of 2.5x-3.5x per annum. With drawdown having overtaken annuitisation in terms of being the primary way of accessing pensions post-freedoms, more people continue to be invested in retirement.

[4] *Another post pension freedoms record for annuity sales*', ABI, 2025
[5] *FCA Retirement Income Market Data 2023/24*

FIGURE 6: ANNUITY AND DRAWDOWN SALES SINCE THE PENSION FREEDOMS



Source: FCA Retirement Income Market Data 2023/24

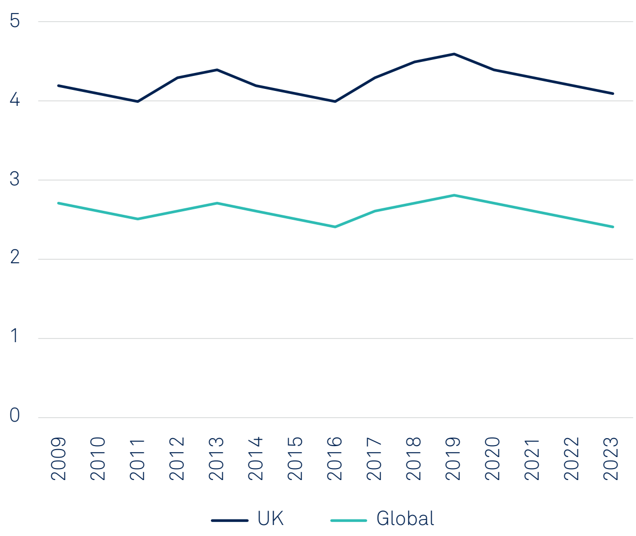
The longer customers stay invested the greater will be their need to realise strong returns in order to generate both the capital and income needed to fund their retirement. Staying invested also brings the opportunity to hedge against inflation through exposure to real assets.

Given a retirement period of 20-25 years, based on current life expectancy at age 65, retirees will need to take appropriate levels of investment risk to generate the returns needed to provide the kind of retirement many aspire to. Failing to take some risk will increase the possibility that people fail to achieve their desired retirement income since their assets may not grow sufficiently. This means there is a need to continue investing through retirement in higher-risk, higher returning assets including equities (public and private) and possibly higher yielding credit assets. Income-generating real assets such as infrastructure or real estate will also have a role to play in retirement portfolios.

The DC market is projected to grow to around £1.3 trillion of assets under management by the mid 2040s[6]. Assuming that people take the maximum tax-free lump sum cash element of 25%, that still leaves around £975 bn of assets available to fund retirement portfolios. Allocating, for example, even just 10% of these funds to UK growth assets would generate around £100bn of funds for investment into the UK economy, making a significant contribution to UK economic growth.

Retirement investors' need for income also aligns well with the characteristics of the UK equity market, given that the UK offers an attractive equity income sector with higher yielding companies in comparison to global markets, as shown in Figure 7.

FIGURE 7: UK VS GLOBAL DIVIDEND YIELD (%)



Source: Janus Henderson Global Dividend Index

[6] Median projected outcome based on 1,000 randomly generated economic scenarios, figure expressed in 2024 earnings terms. Source: The DC Future Book 2024, Pensions Policy Institute.

PRINCIPLES FOR THE DESIGN OF HIGH-QUALITY RETIREMENT SOLUTIONS

Retirement income solutions in the future will likely be blended (see the example above for one possible way that the flexibilities can be used), with a mix of secure income and investment portfolios designed to provide predictable income while maintaining greater flexibility than an annuity alone. Together, these solutions will generate a predictable income throughout retirement, with a guaranteed underpin that provides an element of longevity insurance.

In a pure DC system, which will increasingly be the case for the UK private sector, guaranteed income remains critical and is the only way for individuals to insure against longevity risk – the risk of outliving their savings. Annuities will therefore continue to play an important role in the system, providing guaranteed income along with the State Pension.

One possibility is that annuities may be used later in life to hedge the tail risk of outliving one's residual savings. At age 60 or 65, when individuals typically purchase annuities, the likelihood of living for many years beyond these ages is high: people aged 65 years in the UK in 2023 can expect to live on average a further 19.8 years for males and 22.5 years for females[7]. Seen from this standpoint, annuity purchase may make more sense later in life, when people can also benefit from the higher rates available from delaying annuity purchase to a more advanced age[8].

Equally, blending annuities with investments earlier in retirement can provide greater certainty of income and also allow more risk to be taken in the investment portfolio.

Either way, investment has an important role to play in conjunction with annuities. It fulfils this role through generating income, and, by continuing to take investment risk, providing some protection against capital being depleted too fast.

Drawing these elements together, a good retirement income strategy must have the following features:

- Be understandable for customers and offer value for money
- Offer flexibility that caters for changing customer needs over time
- Offer suitable protection for dependants
- Provide a level of future guaranteed income acting as an underpin, which can come from a mixture of State and private provision
- Generate a stable and durable income that is protected against inflation
- Tax efficiency, whereby a customer's tax liabilities are minimised

MOVING FORWARD: OPTIMISING THE FREEDOMS

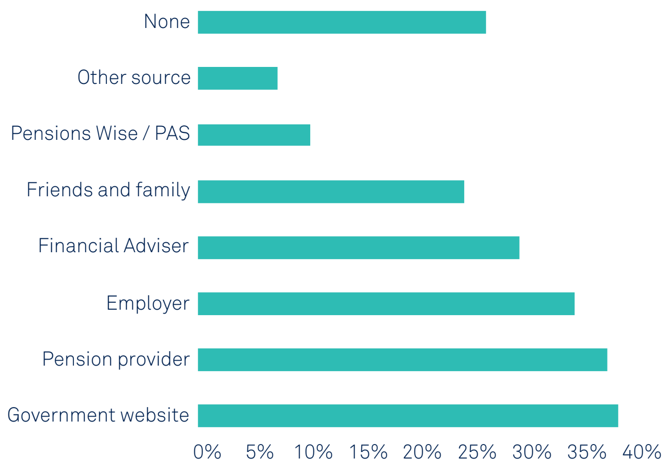
The prize of customers achieving tailored, more flexible, retirement incomes is significant. The challenge from here is how to get to it. This paper sets out the areas where change can help deliver these outcomes.

Above all, customers need better access to support when making retirement decisions, whether that is through Targeted Support or regulated advice. For non-advised customers, the Targeted Support regime offers the opportunity to engage and guide them to better outcomes, and providers – whether trust or contract-based – should seek to use the regime to help customers make better decisions.

For those who opt out of Targeted Support and simply express a desire to receive income without providing any specific instructions as to how that income is delivered – which could be as high as more than a quarter of customers (see Figure 8) – we advocate a backstop retirement solution that keeps the customer invested, while paying an income. While this, by design, cannot be a tailored solution, it does preserve flexibility for the customer while generating an income where desired.

[7] *Past and projected period and cohort life tables: 2022-based, UK, 1981 to 2072*, ONS. Based on cohort life expectancy.
[8] Albeit the cost of foregoing annuity income till a later age must also be recognised.

FIGURE 8: PROPORTION OF PEOPLE PLANNING USING DIFFERENT SOURCES OF INFORMATION, ADVICE OR GUIDANCE WHEN PLANNING FOR RETIREMENT



Source: Planning and Preparing for Later Life 2020/21, DWP

In the retirement advice market, we suggest considering whether there is a need for changes to the risk classification of products as well as an income-oriented approach to assessing a customer's capacity for loss. These proposals are intended to help advisers reach recommendations for clients that are focused on managing the key risks in the provision of retirement income – the stability and sustainability of income[9]. These changes can help support customers get access to products that are more appropriate to their needs.

With a support structure in place, we emphasise the need to ensure the retirement income market starts from a position of competition to deliver value for money products rather than just low-cost ones. This will be critical since the low-cost, inertia-based approach of DC accumulation, whereby contributions can be invested and left to accumulate for decades, is unlikely to deliver good retirement outcomes. This is because delivering a target level of stable income in line with the principles above requires both customer engagement and a more active approach to the design and implementation of an income-generating portfolio. To support a value-based focus we make a number of observations as to how the proposed DC Value for Money Framework[10] will need to be adapted for retirement.

The final step to improving the market is to ensure customers have access to an enhanced suite of retirement products. To that end we make a series of recommendations in respect of changes to the rules for the design and distribution of UK authorised funds. These will allow investment managers to create products that are focused specifically on the provision of stable income in retirement. These products will complement those available in the market today and help with the creation of the blended retirement solutions discussed above.

Together these changes will help fully maximise the benefits to customers offered by the Pension Freedoms.

[9] Sustainability in this context means an income that can last well into a person's retirement and that does not exhaust their capital too soon.
[10] *CP24/16 The Value for Money Framework*, FCA 2024

PART TWO: RECOMMENDATIONS TO DELIVER MEANINGFUL CHANGE IN PARTNERSHIP

RECOMMENDATION 1: DELIVER AN ENHANCED SUPPORT FRAMEWORK FOR NON-ADVISED DC INVESTORS

1a	Industry, FCA and TPR to work to ensure Targeted Support can direct customers to a specific outcome. The pensions industry should ensure there is widespread availability of Targeted Support for customers to access.
1b	A backstop retirement income solution should be in place for non-advised customers that opt out of receiving Targeted Support

In the long run, better investor education will be a key enabler to enhanced understanding of the issues facing customers not only in retirement, but in personal finances more generally. There is a long-standing evidence base in this area and work from last year by the Social Market Foundation[11] cites a range of evidence highlighting the fact that financial literacy has been linked to increased savings, a higher likelihood of investing, participation in pensions and retirement planning, and better financial management. Clearly this is a long-term societal issue that needs concerted effort across Government, regulators and the financial services industry.

More urgently, too many people today still don't feel confident to make appropriate choices about how to receive their retirement income – in some data sources this is as high as nearly three quarters of respondents[12]. Some of these people will seek financial advice and this will lead them to better outcomes. However, this may be a small number relative to the total number of pension savers: the most recent comprehensive data source[13] indicates that just 4.6 million consumers, or 8.6% of the adult population, had received regulated financial advice in the year to May 2024. More encouragingly, the FCA report that 59% of adults who had accessed a DC pension in the four years to May 2024 said they had received regulated financial advice about how to take their pension before accessing it[14].

However, the reality is that many people will choose (consciously or unconsciously) not to go down the advised route – including potentially millions of people accumulating DC wealth through being automatically enrolled into workplace pensions. The FCA report that as of May 2024, 23.7 million adults[15] had a DC pension in accumulation. Assuming the figure quoted above of 59% of DC investors taking regulated advice before accessing their pension were to apply in future, that would still leave around 10 million people in the current population of DC savers that do not seek advice. It is crucial that these people are helped to achieve good retirement outcomes.

Two key pieces of work are needed to address the needs of non-advised customers: the successful implementation of the FCA's proposed Targeted Support regime, and the requirement in the Pension Schemes Bill on trustees and providers to put in place a 'Default Pension Benefit Solution' for scheme members[16]. While the current direction of Government policy appears to put more weight on the use of a default solution, we favour using Targeted Support to encourage active customer engagement, with a default acting more like a retirement income 'backstop' for members that opt out of Targeted Support and express a simple desire to receive retirement income, with no further instruction as to how.

[11] 'Investing in the future: The case for universal financial education in the UK', Social Market Foundation, 2024
[12] 'Retirement Voice 2024', Standard Life, 2024. According to the report *77% of respondents were not confident about accessing their pension*. This is corroborated by a data point from the FCA's Financial Lives Survey 2024, which states that 75% of customers over 45 do not have a clear plan for how to take money from their pension or didn't know they had to make a choice. See the FCA press release '*Millions of people could get more support with their pensions under new proposals*', December 2024.
[13] Financial Lives Survey 2024, FCA, 2025
[14] Financial Lives Survey 2024, FCA, 2025. Note however that the FCA states that it did not check whether these individuals paid for the advice they received, nor what type of adviser they used. This number is therefore likely to be an overestimate, as it is likely to include some who did not receive regulated advice, and instead received information or guidance from, for example, their pension provider or a formal guidance source such as Pension Wise or MaPS.
[15] Financial Lives Survey 2024, FCA, 2025
[16] Part 2, Chapter 5, Clauses 42-50, Pension Schemes Bill – as introduced on 5 June 2025.

A MORE ACTIVE APPROACH TO MEMBER DECISIONS: MAKING TARGETED SUPPORT WORK

Accessing retirement income should not generally be a default decision: peoples' circumstances are too heterogeneous to deliver a default retirement solution that is capable of delivering a reasonable outcome with no engagement. Every effort must be made to engage customers to help them reach a better set of decisions. If Targeted Support allows firms to direct customers to make clear decisions that result in specific product choices, it offers an important opportunity to help non-advised customers better realise the benefits of the pension freedoms. Figure 9 shows the areas where advisers think it could most help customers. It is notable that helping understand the type of retirement options is where Targeted Support is viewed as having the greatest potential to help customers.

FIGURE 9: RETIREMENT NEEDS THAT TARGETED SUPPORT MAY HELP WITH (% CITATIONS, ADVISERS)

Source: Better retirement outcomes in the DC era, Invesco, 2024

We welcome the recent impetus to reform the current UK regime to facilitate both better Targeted Support and simplified guidance and are highly supportive of the FCA's proposals to introduce Targeted Support for pensions, particularly in recognising the importance of providing consumers with additional support to navigate complex retirement decisions.

The shift towards enabling firms to offer more effective guidance is a welcome and significant development. We are particularly pleased to see that the FCA has incorporated the IA's previous recommendations, including amending the proposals so that Targeted Support is offered on an opt-out basis.

While safeguarding consumers from poor outcomes is crucial, the core purpose of the regime should be to empower firms and trustees to deliver better outcomes and foster innovation. Establishing clear criteria for when Targeted Support can be offered will encourage firms and trustees to develop innovative, outcome-focused solutions that help customers navigate the complexities of the pension freedoms.

However, challenges remain in differentiating between guidance and advice, particularly regarding regulatory boundaries and liability concerns. In our response earlier this year to the FCA's consultation[17] we recommended a number of specific technical enhancements that will help address these issues, ensuring the proposed regime effectively supports both firms and consumers.

PUTTING IN PLACE A FRAMEWORK FOR RETIREMENT PROVISION IN WORKPLACE DC SCHEMES

Where current members of FCA-regulated contract-based DC schemes typically have access to retirement products, members of trust-based schemes do not yet all have the same opportunity. This is partly because the legislative framework for trust-based schemes to develop decumulation solutions is currently incomplete but also reflects the reticence of employers to extend the scope of their pension provision to include in-scheme retirement options.

We are therefore broadly supportive of the DWP's proposals, set out in the Pension Schemes Bill, to require trustees and pension providers to implement what the Bill defines as 'Default pension benefit solutions[18]'. As we understand the proposals in the

[17] IA response to FCA CP24/27 'Advice Guidance Boundary Review – Proposed Targeted Support Reforms for Pensions'
[18] Part 2, Chapter 5, Clause 42, Pension Schemes Bill – as introduced on 5 June 2025. A default pension benefit solution is defined as one that "is designed to provide a regular income for the eligible members concerned in their retirement"

Bill, this is not a genuine default in the sense that a customer is automatically put into it, but rather a retirement solution designed by the trustees/provider which the scheme must communicate to its members, who must then choose to enter it. Where this does have default-like characteristics is in the 'one-size' fits all nature of the solution.

Such a quasi-default solution does have a place, although we view this as more of backstop (discussed further below) rather than the primary solution from which members receive retirement income. Instead, we envisage schemes first using Targeted Support to engage with members in order to help them arrive at a decision on how to access their pension wealth, with signposting to specific products as appropriate. These could be either an in-house offering or may involve partnership with an external product provider.

Our preference for Targeted Support to be the first intervention reflects our view that it can deliver a better outcome for scheme members, by guiding them to take retirement income in a manner better suited to their particular characteristics.

INVESTMENT PATHWAYS AND TARGETED SUPPORT

The FCA introduced Investment Pathways in 2021 as way to help non-advised customers in contract-based schemes align their investment strategy with their chosen method of pension access. They are not in and of themselves retirement products and it is not yet clear how their use will evolve as providers implement and roll out Targeted Support to customers. They could in principle form part of the Targeted Support process as a way to help customers align their investment strategies with their retirement goals. However, further evolution may be needed for them to stay fully relevant, as they orient customers to discrete choices on access rather than the more blended retirement products that are expected to become more commonplace in future.

NON-ADVISED AND UNSUPPORTED CUSTOMERS: A DEFAULT OR A BACKSTOP?

With the right regime, Targeted Support will assist those non-advised customers that engage with their provider, since they will be steered to specific products that reflect their active decisions. Government should therefore primarily focus on encouraging the implementation and use of Targeted Support as far as possible, across both the trust and contract-based segments of the DC market.

Nonetheless, there may still be a residual group of customers that cannot be assisted in this way because they have opted out of Targeted Support and chosen not to seek regulated advice. A solution needs to be found for this group, across both trust and contract-based schemes.

This is where the Pension Schemes Bill proposal for default pension benefit solutions can play a role, as a backstop for those who opt out of Targeted Support while indicating that they want an income, without making a more specific choice as to how they access their pension.

Such a backstop is unlikely to be able to offer the full flexibilities of the freedoms. It will have to be flexible, so that the customer retains the ability to make an active decision in the future. The implication here is that annuities may not be suitable for a backstop: we do not see how a decision by the provider – without customer consent – to purchase an annuity on behalf of the customer can be taken when that decision is irreversible. Of course, this does not preclude the use of a 'flex and fix' approach to the backstop if trustees and providers are subsequently able to obtain customer consent to annuity purchase.

A backstop must therefore necessarily be an invested solution, at least at the outset, since this is the approach that continues to offer the customer full flexibility in the future. It must be able to deliver an income, although the customer must elect to receive an income before the backstop solution starts paying out. As set out in the Bill, it will be for trustees and providers to decide what is an appropriate design for the backstop, based on their view of the circumstances of the residual membership in it.

Trustees and providers should be required to review the backstop solution periodically e.g. every 3 years, to ensure that it remains appropriate for the scheme's membership given any change in demographics, or other circumstances.

RECOMMENDATION 2: SUPPORT ADVISERS TO FURTHER IMPROVE CLIENT OUTCOMES FROM RETIREMENT INCOME ADVICE

2a The FCA should encourage advisers to consider a client's Attitude to Risk and Capacity for Loss in retirement in relation to the need for a stable income that keeps pace with inflation

2b FCA, investment managers and advisers should work together to consider whether the objective of stable (real) income requires a different set of risk metrics for funds and investment strategies used to support retirement income

The IA are strong supporters of customers taking retirement advice where possible. Given the personal nature of retirement needs and the complex tax and product environment in retirement, some form of personal recommendation will always be best for customers. While this may come from the traditional adviser route or possibly even a lower cost 'robo' type of offering, Targeted Support may offer another route to a specific product recommendation, if the FCA and industry, together, get the design and delivery of the regime right.

However, fully regulated advice remains the gold standard due to its ability to deliver a recommendation precisely tailored to a customer's circumstances. It is vital, therefore, that the retirement income advice market works well for customers. In that regard, the FCA's 2024 thematic review of the retirement income advice market[19] provided a broadly reassuring picture of the market with some clear examples of the regulator's expectations in relation to key elements of advice, as well as providing helpful examples of good and poor practice. On the whole the review's findings can help strengthen advisers' ability to support customers.

There are a number of areas highlighted in the review where the FCA considers there is room for advisers to improve their practices in order to deliver better customer outcomes. In particular, the FCA found that the majority of firms[20] covered in its thematic review did not adequately distinguish the risks faced by those seeking retirement income from those accumulating wealth. In particular, firms were not always considering capacity for loss in terms of the client's ability to tolerate a change to or reduction in income.

Given that retirement investing is likely to involve a greater focus on generating stable and sustainable income, as well as managing sequencing risk[21] and broader risks to income, there is an opportunity for investment managers to work to build a better dialogue with advisers to explore ways in which risk assessment can be enhanced and an appropriate product set developed.

Equally, there are aspects of current conduct regulation that require the presentation of investment risk in a way that is not always well-suited to retirement investing. This makes advisers' work more challenging when considering customers' ability to bear risk and make a recommendation accordingly.

Traditional fund risk ratings focus on the volatility of the investment strategy – and by extension, the investor's capital. However, while capital volatility is important, for retirement income it is also necessary to consider the stability and sustainability of income (i.e. can a given level of income be maintained in real terms without exhausting the investor's capital too soon). Two examples of where this might hinder the design of good retirement portfolios are as follows:

- It is possible to construct income-generating portfolios where the income is stable but the capital invested is not[22]. Applying a traditional Attitude to Risk (ATR) approach may result in stable income strategies not being recommended on the grounds that traditional volatility-based fund ratings are not consistent with the investor's risk preferences. This is unlikely to be the best outcome for the customer if stable income is their primary goal.

[19] TR24/1 Retirement income advice thematic review, FCA, 2024
[20] None of the firms which the FCA carried out a deep dive on as part of the review used different approaches in decumulation. Only 221 out of 970 firms surveyed in addition had a different approach in decumulation.
[21] Sequencing risk or 'sequence of returns' risk is the risk that portfolio losses are compounded by income withdrawals so reducing the ability of the portfolio to support future income payments. It applies throughout retirement but is particularly relevant in the early years, especially if clients are taking higher levels of income to fund a more active retirement, as is often the case. Sequencing risk can be mitigated by limiting downside volatility and drawdowns, but this can, in turn, reduce portfolio growth which will also undermine income sustainability.
[22] Some of the innovation we discuss under recommendation 4 may result in such portfolios.

- The need to combat inflation increases the need for asset classes that can generate growing income, such as equities or real assets. The traditional ATR approach using volatility-based fund ratings would say these are risky, despite the fact that they would actually help provide greater protection when risk is considered against the objective of providing a stable real income.

Similarly, a retirement investor's capacity for loss is best judged in relation to the impact of portfolio losses on the income the portfolio generates, rather than the capital alone. Again, such a determination may lead to different conclusions about the appropriate recommendation for an individual.

There is a linked issue here with how current risk assessment tools used by advisers measure income sustainability. In particular, the focus on volatility does not capture the risk to income. Additionally, many of the asset models do not adequately show the effect of auto-correlation (i.e. the extent to which assets are likely to recover after a fall and vice versa). As a result, advisers may be overly cautious in some of the results and overly optimistic in others.

We recommend that a client's Attitude to Risk and Capacity for Loss should be considered in terms of the client's objective. For retirement clients this will usually be the retirement income (in real terms) that they require. Managing investment strategies to meet this objective requires looking beyond traditional fund volatility measures and so may require the development of new risk metrics for funds and strategies used to support retirement income. The investment management industry is keen to work with the FCA to address these issues in order to improve the ability of advisers to recommend retirement income-focused products.

RECOMMENDATION 3: ENSURE VALUE FOR MONEY (VFM) IN RETIREMENT

3a	Policymakers and industry should work to ensure the retirement income market has a value-focused mindset embedded in the market place
3b	If the DC Value for Money Framework is applied to the retirement income market in future it should be adapted to incude a more retirement income-focused set of metrics

EMBED A VALUE FOR MONEY MINDSET IN THE RETIREMENT INCOME MARKET

The value for money debate is currently very much on-going in DC accumulation but has started much later than it should have done, in a market that was heavily shaped by auto-enrolment and a focus on protecting DC investors from high charges. The result, as we have documented in detail elsewhere[23], is a market that competes primarily on price.

In recent years, driven by a desire to see greater diversification in DC investment, regulators have tried to correct this course and shift the market mindset from one of focusing on cost minimisation to a greater consideration of value, net of charges, a welcome shift.

This context is important when thinking about value for money in retirement. Reasonable charges, and value for money, are vital in delivering good retirement outcomes. However, the cost-minimisation approach seen in auto enrolment will not on its own deliver good outcomes for customers.

Retirement investing is a different and significantly more complex proposition than accumulating savings over a 30-to-40-year time horizon, since it usually involves generating a stable income that keeps pace with at least moderate levels of inflation. This naturally lends itself to active management, since it is extremely challenging to build a reliable income portfolio using passive components.

[23] '*Investing for Everyone's Future: A response to the Pensions Investment Review Call for Evidence*', IA, 2024

Thus, the services offered in retirement investing may be quite different from those in accumulation and charging structures and levels may vary accordingly from those in the accumulation phase. This is true of decumulation services more broadly.

Policymakers and the pensions industry should therefore put an emphasis on value for money in retirement income at the outset. Appropriately designed and calibrated to ensure a focus on broad value rather than cost alone, this will help deliver better customer outcomes by allowing investment portfolios to be built to deliver good outcomes, and not primarily constructed according to a cost constraint. It will also give pension providers the confidence to improve the value of their broader retirement propositions, helping to deliver a better customer experience.

Regulators should not seek to impose price regulation or take any approach that results in competition where a focus on price ends up inhibiting innovation. Instead, decumulation charges should be considered on their own merit, relative to the services provided and the outcomes delivered, and not from the starting point that accumulation and decumulation charges should be in line.

VALUE FOR MONEY IN RETIREMENT AND THE DC VALUE FOR MONEY FRAMEWORK

Given the ongoing work to develop a Value for Money Framework in DC accumulation, the obvious starting point is to think about how the Framework may apply to the retirement income market in future[24]. With the relevant modifications, it is right that it should.

In that regard, the Framework metrics would require significant change if applied to decumulation products, particularly those that focus on investing for income in retirement:

- For most, retirement investing is primarily about the delivery of a stable income stream. At a minimum, value for money in retirement will need some metrics focused on income and stability of income for those strategies that explicitly seek to provide retirement income. This would be in addition to the existing metrics relevant for any investment exposure in retirement: asset allocation, past performance, investment charges and risk metrics (particularly maximum drawdown)
- Further work is needed to define the most appropriate definition of risk in retirement investing. While volatility of capital is a consideration in decumulation, the stability of income is the key metric of success for strategies whose main objective is to provide income. Capital drawdowns only impact a decumulation strategy if it impacts either the amount of income paid or increases the risk of running out of money.
- Forward-looking projections could have a role to play, if adapted to focus on features such as the level of confidence around a target level of income, and the combined impact of withdrawals and projected returns on the remaining capital invested. These would likely be complex projections and would need to be tested with customers to see if they provided decision-useful information.
- We have previously set out[25] our concerns with the Framework proposals for cross-scheme comparisons in the accumulation phase, which are likely to reduce the incentive to innovate and so increase herding risk. Cross-scheme comparisons are even less useful in retirement where there is much greater heterogeneity between individual needs. Value in retirement investing is far better judged by focusing on customer objectives and assessing how far a particular product is meeting them.
- The currently proposed service metrics are more focused on actions in the accumulation phase. A more retirement-focused set of service quality metrics is likely to be necessary.

We recommend that, should the FCA choose in future to implement a Value for Money Framework for retirement income, a more explicitly retirement-focused set of metrics is developed. The Investment Association and its members are ready to work with the FCA to ensure an appropriate Value for Money Framework is applied to the retirement income market.

[24] Consumer Duty already applies to the FCA-regulated element of the retirement income market and means that the value of FCA-regulated decumulation products must be assessed. The main gap currently exists on the trust-based segment of the market, where Consumer Duty does not apply. Regardless of the regulatory approach taken, the comments here about the different approach needed for value assessment in retirement apply.

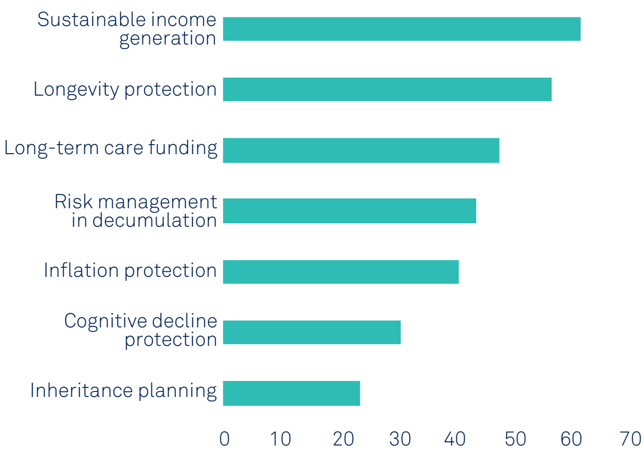
[25] ***IA response*** to FCA CP 24/16 DC Value for Money Framework, IA, 2024

RECOMMENDATION 4: REFORM UK AUTHORISED FUND RULES TO BETTER ENABLE INVESTMENT MANAGERS TO DELIVER RETIREMENT-INCOME ORIENTED PRODUCTS

4a	In order to support retirement income focused product innovation the FCA should allow UK authorised investment funds the ability to both distribute capital to supplement income and retain income instead of paying it out fully
4b	The FCA should ensure that retail distribution rules support the delivery of retirement income focused investment strategies by permitting managers to utilise a broad investment toolkit
4c	Investment managers should work with advisers, pension schemes and platforms to ensure that private assets can play a role in portfolios to and through retirement

We have outlined ways to strengthen the customer support frameworks around retirement income decision making as well as embedding a value for money mindset in the market. Alongside this, it is critical that industry can deliver products that give customers the best outcomes in retirement. A 2024 report[26] highlighted that nearly three quarters of advisers surveyed considered product innovation very important or somewhat important to addressing retirement income challenges. On being asked to identify where further product innovation was needed, Figure 10 shows that advisers highlighted sustainable income generation as the most important feature, followed by longevity protection. Such views motivate much of the work happening across the industry, particularly in relation to 'flex and fix' type blended solutions.

FIGURE 10: AREAS OF RETIREMENT PLANNING IN NEED OF INNOVATION



Source: Better retirement outcomes in the DC era, Invesco, 2024

While longevity protection is beyond the scope of investment products, the investment management industry has been focused on the question of sustainable income generation. In that regard, we have identified a series of technical barriers to retirement product innovation at the level of product regulation in the UK authorised investment funds market. Addressing these barriers will help investment managers to construct products and portfolios that can better serve retirement investors.

ADAPTING UK AUTHORISED INVESTMENT FUND RULES TO FACILITATE THE CREATION OF RETIREMENT INCOME-FOCUSED FUNDS

The pension freedoms have created the need for new retirement income products. With the de facto requirement to use DC pensions to purchase an annuity now removed, FCA data has shown a significant drop off in annuity sales since 2015 (albeit there has been some recovery over the last year as interest rates have risen – see Figure 6 on page 9). Regardless, the need for a secure and stable retirement income remains.

[26] Better retirement outcomes in the DC era, Invesco, 2024

Research has consistently shown has shown that what people want from a pension is a secure and predictable income[27]. What they describe is an annuity, but these preferences are not expressed in annuity sales, with a significant drop in annuity purchase taking place since the pension freedoms came into force. The cost and inflexibility of annuities seems to be the issue here: handing over a lump sum forever, in return for income streams that seem small to customers. The cost of inflation protection and providing income for a surviving spouse add to the cost of annuity provision, resulting in customers experiencing even lower annuity rates.

There is an opportunity for authorised funds to play a part in addressing this unmet demand for flexible, but predictable, income streams. Ideally a fund would be able to deliver a predictable level of income – much like an annuity. Income funds cannot do this because the level of income will fluctuate depending upon the dividends or cashflows paid out by the portfolio. But if the fund could also distribute capital to make up any shortfall in the targeted income level, it would be possible to deliver a predictable level of income with a high degree of certainty[28].

This approach is entirely consistent with certain retirement objectives: current income drawdown approaches can be too cautious. The risk of running out of money can mean that customers end up taking less than they actually need and leaving money on the table. This is inefficient, particularly if there is no customer preference to leave any capital to their estate.

Running down assets is a more efficient way of using a pension, particularly if a customer doesn't have a bequest motive. And there is complete flexibility here because such approaches can be combined with other funds.

The issue is that authorised funds cannot distribute capital, so this approach is not allowed under current rules.

There is precedent here: listed investment companies have had the ability to distribute capital for some time, a feature which has generally been welcomed by the market. Furthermore, Charity Authorised Investment Funds ("CAIFs") also allow for distribution of capital as part of a total return approach, ensuring that charities can receive a consistent revenue from their investment regardless of whether these are obtained from income or capital returns. For example, if investment income is low and capital gains are high, charities investing in CAIFs using a total return approach will continue to receive the same revenue from their investments, giving visibility on their investment revenue for budgeting and planning of their charitable projects and operations. If this flexibility were not available, the risk is that their investment revenue would fluctuate, current income needs would not be met, and future needs may be over-provided for.

This situation could apply equally to retirees and the flexibility of capital distribution will facilitate the provision of new products that are entirely in the spirit of the pension freedoms, while giving customers greater choice of products for their retirement portfolios.

We recognise that there are additional risks to investors in capital-distributing funds – the current restrictions exist to prevent the investor's capital being depleted in a manner that may not be fully transparent to them. The distribution of capital from authorised funds should therefore be subject to specific disclosure requirements, with the product literature needing to be fully transparent on the possibility of distribution of capital. In developing product disclosures, any communications should be tested with consumers to make sure the implications for their capital of any distributions are properly understood.

Alongside changes to these rules, we recommend giving UK funds the ability to not have to pay out all income, carrying forward any excess income over accounting years. This will help the ability to smooth income which is not aligned to underlying dividend payment dates.

There are associated tax consequences with these changes: notably capital distributions would be treated as income in the hands of investors and so be taxed at a higher rate; there may also be tax issues with income deferral. However, we have developed solutions to some of these issues and will work with the FCA, HM Treasury and HMRC to address them.

[27] For a very recent example of this see 'Retirement reality: Managing money in mid-retirement', Aviva and Age UK, 2025.

[28] Some have queried what capital distribution adds when unit encashment is already in use as a way of drawing down capital. However, unit-encashment is not the same thing as delivering an income, compared to a fund that uses capital distribution as part of an investment strategy that actively targets a given level of income. Furthermore, unit encashment is dependent on investor action, whereas capital distribution would involve the income being generated and being paid out automatically as part of the fund's investment strategy.

BARRIERS TO RETIREMENT PRODUCT DEVELOPMENT FROM CONDUCT REGULATION

Conduct regulations can also act as a barrier to the development of retirement-focused funds. As described above, downside protection and mitigation of sequencing risk are important components of the retirement investing toolkit. Increasing downside protection in funds is typically done by using derivatives. Unfortunately, this results in a product being designated as complex and being subject to restrictions on distribution to retail investors.

We question whether this is appropriate from a customer outcomes perspective and would like to explore with the FCA the possibility of a different regulatory treatment for such products, that enabled broader retail distribution. An outcome-focused perspective may lead to a different conclusion to one based on the composition of instruments in the portfolio.

THE ROLE OF PRIVATE ASSETS – AND THE LONG TERM ASSET FUND (LTAF) – IN RETIREMENT

Recent years have seen a great deal of focus by policymakers and regulators on the 'democratisation of private assets', with DC schemes and retail investors in particular now able to access asset classes and investment strategies – which previously had only been accessible to institutional investors – through the LTAF.

However, the democratisation debate so far has focused primarily on the accumulation of assets and the inherent illiquidity of private assets has meant that they have not featured heavily in the thinking about portfolio construction in retirement investing.

Some of these assets have very long holding periods and retaining them into retirement may help ease concerns about their illiquidity by lengthening the holding period, giving more time to prepare for any eventual sale. In addition, some private asset classes – private credit, infrastructure debt, for example – are particularly well suited to generating stable, predictable income, sometimes with an inflation linkage, through interest payments or revenue structures linked to inflation-adjusted contracts. This makes them very well suited to retirement income portfolios.

Private market allocations should therefore be viewed for the role they play across the lifetime of pension investors, rather than being seen in isolation as part of accumulation or retirement portfolios.

The investment management industry is ready to work with advisers, pension schemes and platforms to ensure any barriers to the use of private assets in investment to and through retirement can be addressed.

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