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The news is spreading. We're giving DC pension savers more access to private markets.

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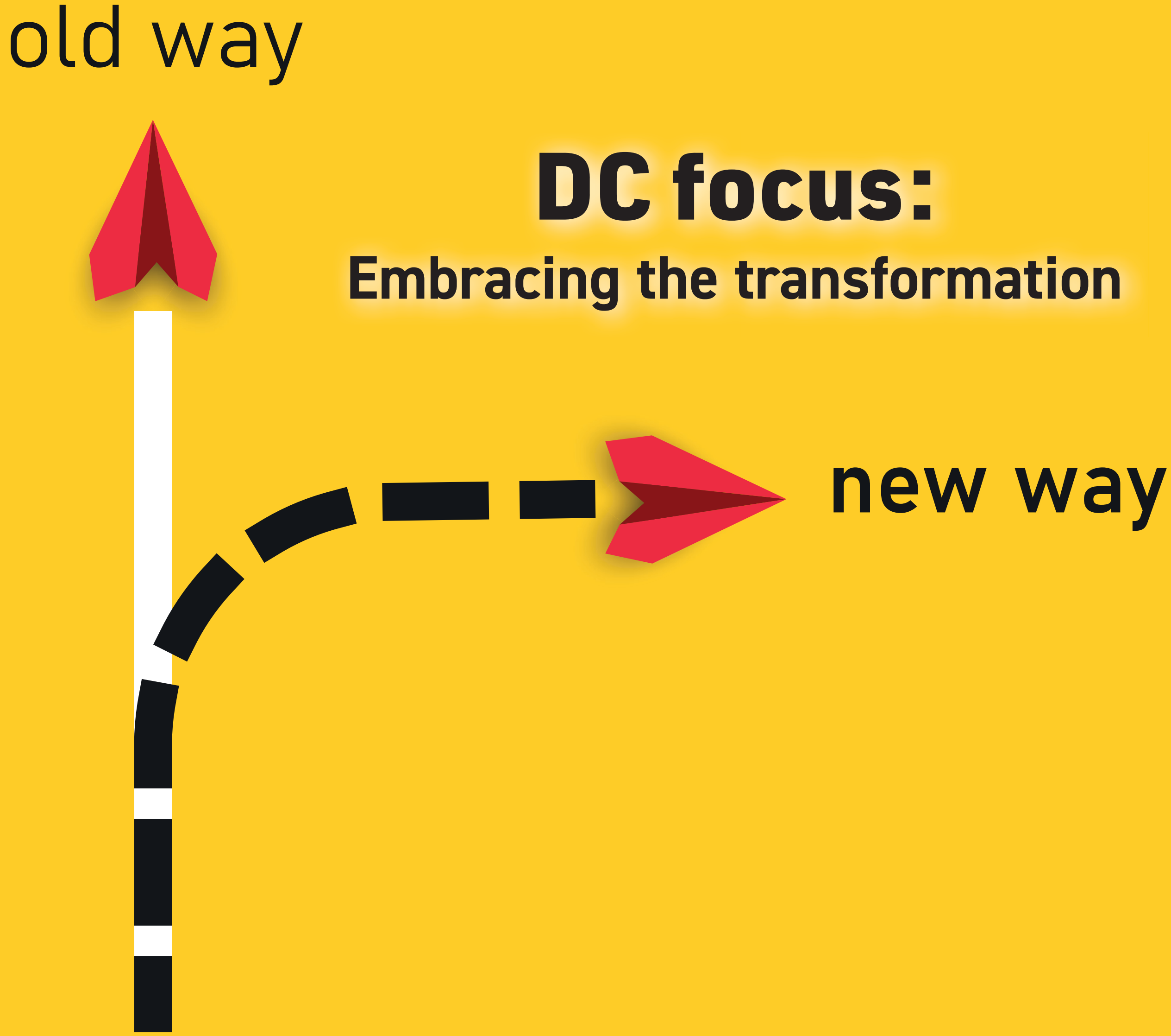
Work smarter and harder: *Reshaping retirement investing* **p34**

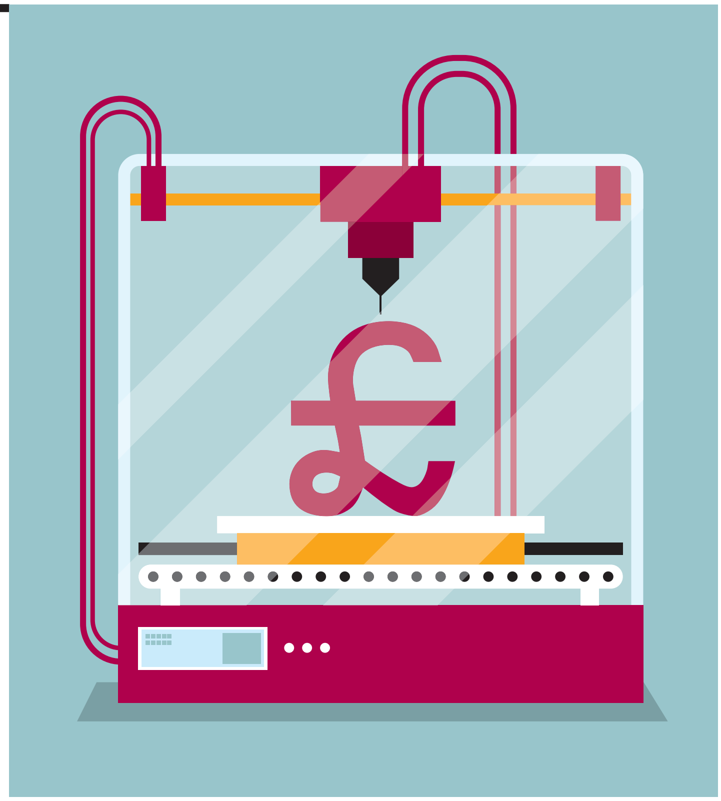
Two rivers come to meet: *The role of communications within the pension landscape is changing rapidly as the shift continues from DB to DC for members. But how can those managing DC schemes utilise technology to improve member engagement?* **p36**

DC focus:
Embracing the transformation



Jayesh Patel, L&G head of UK DC distribution

Work smarter and harder



Reshaping retirement investing

February marks the start of the Chinese Lunar New Year and ushers in the 'Year of the Fire Horse' – a period associated with 'momentum', 'transformation' the 'need for balance' and 'bold decisions'.

It's a fitting backdrop for a pensions industry entering a pivotal period of change – particularly as the pension adequacy challenge grows. With increasing numbers of people under saving for retirement[1], it's become a shared responsibility for government, regulators, industry and individuals alike.

As DC pensions become the dominant retirement vehicle in the adequacy journey, investment strategies will play an increasingly vital role in unlocking long-term growth for savers.

We all know the saying 'work smarter, not harder' – but what if the future of retirement requires us to do both. To help tackle pensions adequacy and meet the needs of today's savers, we need to rethink how we approach retirement investing.

Recent years have seen significant evolution in investment strategy, particularly since the introduction of auto-enrolment.

'Momentum' – new markets for DC savers

A key development has been the emergence of new responsible investing opportunities, particularly in nature conservation and biodiversity. DC schemes can now lend to projects supporting education, healthcare, clean water, and habitat conservation. These investments not only seek to deliver positive impact but can also provide savers with exposure to a growing segment of the global fixed income market.

Private markets has also become a focal point for DC innovation. Assets such as clean energy, infrastructure, affordable housing, and venture capital offer tangible examples of how members' savings are being used. In our view, the long-term nature and diversified opportunity set (relative to traditional listed equities) of these investments make them a natural fit for DC default funds.

Other markets, like Australia, have already embraced this approach as part of diversification, risk management and higher risk-adjusted return strategies.

Affordable housing, for example, can offer lower volatility and stable cashflows even during downturns, while seeking real economic value to communities.

The inclusion of private markets has been largely driven by regulators and government, shifting the DC mindset from a primary focus on fees to one of value.

Private assets may cost more but can offer *diversification and a liquidity premium, potentially improving long-term member outcomes. The Mansion House Accord in May 2025 set broad targets for private assets by 2030. A UK tilt offers further benefits in boosting saver engagement by referencing more tangible examples of assets that they can recognise and relate to – a key factor in encouraging higher saving rates.

'Transformation' – innovation in default strategies

With around 90 per cent of UK DC pension savers in default strategies[2], innovation here is essential to help address adequacy.

Modern defaults aim to deliver more growth opportunities when members are far from retirement while balancing flexibility in decumulation. Approaching retirement, strategies need to place greater emphasis on *risk management by lowering equity exposure and increasing dynamic *asset allocation. However, doing so too quickly can mean missing out on significant equity market upside, especially for those remaining invested for long-term income drawdown.

There has also been a recent evolution in the design of default strategies, with target date structures offering clarity and flexibility for members. These allow schemes to adjust for derisking or innovation as members approach and move through retirement.

'The need for balance' – growth and risk

Balancing growth with *risk management is a central challenge for DC schemes. In a continuing climate of uncertainty and scrutiny, striking the right balance between risk and return is crucial.

When auto-enrolment was launched over a decade ago, initially pension schemes were more cautious, diversifying investments to mitigate the risk of negative returns that might discourage saving.

However, investor behaviour indicates that many savers remain committed to long-term retirement saving, even during market downturns. This has been evidenced during periods of market volatility such as the 2020 pandemic and 2022 market downturn. As a result, allocations to equities and other growth assets increased, targeting higher long-term expected returns while accepting greater investment risk.

Nevertheless, we still believe different types of *diversification remain crucial in managing risk and growth. This is important not just across regions, but also by including assets like infrastructure and global property, which offer long-term exposure to economic growth and inflation-linked cashflows. Even as risk-taking increases to help retirement growth, pension schemes are shortening derisking periods and maintaining higher levels of growth assets closer to retirement, aiming to unlock more value for scheme members.

'Bold decisions' – future focus

Of course, investment evolution alone can't solve the pension adequacy challenge. Regulatory change is a key driver, with the Pensions Commission, the government's Pensions Investment Review, and Financial Conduct Authority's Advice Guidance Boundary Review all set to bring more consolidation, increased investment in UK productive assets, and a greater focus on adequacy and value for money. Schemes must adapt to new frameworks and support members through complex retirement decisions.

A major shift is the move from cost-focused strategies to prioritising value and member outcomes. Trustees and employers are seeking improved retirement results for savers, driving innovation in pension design and investment strategy.

Technology is also transforming saver engagement and investment personalisation, with digital tools, AI, and data-driven solutions helping savers make better decisions and enabling schemes to tailor strategies to individual needs.

We also expect to see more industry innovation in retirement income solutions, with hybrid default strategies – combining target date structures and guaranteed income products – gaining traction to help DC savers transition smoothly from saving to spending in retirement.

The future is about using every investment lever available, combining private and public market assets, multiple asset classes, dynamic asset allocation, and advanced risk management. Smarter investment strategies are about building resilience and focusing on long-term goals and outcomes, not chasing quick wins.

If the Fire Horse year symbolises anything, it's that progress requires both courage and control. Solving pensions adequacy will mean working smarter through innovation, and harder through sustained regulatory, policy and investment effort. And nowhere is that more important than in the evolution of DC investment strategy, where smarter fund construction, diversification and long-term design can seek to unlock the growth today's savers need.

Written by L&G head of UK DC distribution, Jayesh Patel

In association with L&G

[1] DWP states a third of the UK working age population may be under saving for retirement in its Analysis of Future Pension Incomes 2025 report.
[2] As at date 27 November 2024 - Pension fund investment and the UK economy - GOV.UK

Key Risks

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Summary
• The shift from defined benefit (DB) to defined contribution (DC) pensions has made retirement planning more complex, requiring members to take greater responsibility for their financial futures.
• Technology, especially AI, is increasingly used to personalise communications and improve member engagement, with trends moving toward short, digital messages and video statements rather than lengthy documents.
• Industry regulators and working groups are urging pension schemes to adopt modern technology and high-quality data, aiming for more targeted guidance, responsible AI use, and a connected ecosystem that supports savers throughout their financial journey.

Two rivers come to meet

The role of communications within the pension landscape is changing rapidly as the shift continues from defined benefit to defined contribution (DC) for members. But how can those managing DC schemes utilise technology to improve member engagement?

The ongoing shift in the pensions landscape from a prevalence of defined benefit (DB) schemes to the now most-common defined contribution (DC) models has sparked many changes. Whereas decades ago, pension holders may have paid little attention to their arrangements, assured of a guaranteed amount at the end of their working lives, many in 2025 may find their retirement planning to now be complex and overwhelming.

"Members are taking on far greater responsibility for their financial futures," says Legal & General director of customer strategy and engagement, Jenny Hazan, "at a time when decisions are becoming more complex, retirement is lasting longer, and everyday financial pressure is rising. Many underestimate what they will need, feel overwhelmed by the choices, or delay engaging altogether. There is also a degree of quiet optimism, a sense that things will probably work out, even when people may be off track."

These are challenges that are also not felt equally, with consumer outcomes varying by age, income, ethnicity and life stage, and caring responsibilities or broader financial commitments. The time of a one-size-fits-all approach has come to an end.

Technology has also marched on in recent decades, from paper-and-pen to digital, and now facing the incoming use of AI.

These two rivers are now coming to meet. In October 2024, The Pensions Regulator (TPR) released a new report – *Digital, Data, and Technology Strategy – Innovating for Better Saver Outcomes* – that looked at the landscape and attempted to assess how technology could assist in improving outcomes for consumers.

"Our savers," the authors wrote, "must have value for money throughout the savings journey and into retirement. Empowered by technology, they expect their data to be accessible and their pension schemes and providers to be transparent and accountable."

TPR also predicted that AI will reshape financial markets and the pensions landscape, introducing with it new opportunities and risks. A proactive approach, it wrote, is crucial in navigating these changes in order to safeguard and enhance the future of the industry.

It concluded: "We must be ready to embrace this change, by supporting the industry to provide clear, accessible, and reliable pensions data that keeps us ahead of savers' changing needs, while developing quality pensions offerings from joining the workforce right the way through retirement. We can only do this by unlocking the transformative power of digital, data, and technology."

TPR has gone further since. In December, it convened a new data and digital industry working group, urging schemes to accelerate the adoption of modern technology and higher-quality data. It agreed three initial objectives: supporting more targeted, action-oriented guidance for savers; helping schemes adopt AI responsibly, underpinned by robust data; and working towards consistent data standards and a 'single source of truth' to reduce system friction and support 'tell me once' processes.

The working group's members highlighted from the outset the need for a more-connected ecosystem with pension at the heart, seamlessly, of a saver's financial life. They also highlighted the potential uses for AI to improve scheme operations.

Engaging with pensionholders

Technology, and its use, will be vital for the industry when it comes to engaging with its consumers.

"Most members" says FinancialEducation.co.uk founder, Saq Hussain, "now rely on technology to be

communicated with, so DC schemes need to meet them where they already are. People expect to get information on their phone, in short bursts, and not through long newsletters or chunky PDFs."

People, he says, have different expectations in 2025 on how they receive information, wanting to access it through their phones and in short bursts rather than in long newsletters or chunky PDFs. Many schemes and providers, he adds, have moved away in recent years from sending out four-to-six-page documents a handful of times each year to instead producing short digital messages that cover only one topic at a time.

He states: "Video has become a big part of this too. Video benefit statements are now pretty normal across providers. Most people never really looked at written benefit statements. The statistics were that, on average, people spent fewer than ten minutes a year looking at their pension statements. But a short video explaining what their pension is worth and what it could become makes it feel more real. This type of direct personalisation is the way member communication engagement has to go. This could all be achieved through technology."

The role of AI in pensions engagement

Most industries within the past two years have felt the onslaught of AI as many rote jobs and tasks have been automated by the technology. Back in October, the financial services giant PwC released a report, *Use of AI in pensions administration – embrace the opportunity with caution*, that explicitly called out the 'remarkable potential' of AI to enhance administration functions. Even so, the firm warned that organisations needed to proceed with 'responsibility and caution'.

"AI has real potential," says Trafalgar House director, Daniel Taylor, "but it needs to be used carefully. It works best as a guide rather than a decision-maker. Used well, AI can personalise nudges, explain complex choices in plain English, and help members explore scenarios without feeling overwhelmed. It should support better conversations, not replace advice."

It is important to note that while AI seems like a miracle technology, it is fundamentally derived from large language model technology that is prone not to breaking, but infiltration by bad data and information. AI can fail at making judgement calls, producing false information and – in a worst-case scenario for the pensions industry – bad advice when the designation of 'advice' can land firms and funds in hot water.

"Members are taking on far greater responsibility for their financial futures at a time when decisions are becoming more complex, retirement is lasting longer, and everyday financial pressure is rising"

Festina Finance UK country head, Dan McLaughlin, advises, too, that AI assistants and agentic AI have the power to elevate the member experience. At the same time, their roles should be clearly defined, controlled, and overseen.

He adds: "But this isn't and mustn't be about AI for the hell of it but rather clear-use cases that create new value for members. This is about standalone or more complex tasks, normally handled by a human, being replaced by AI. Therefore, trustees and the like will need to understand where their risk appetite lies in relation to technological autonomy. And a strong technology foundation is required to achieve this as legacy systems will typically always have limitations in this area."

Where the future lies

Technology moves and progresses quickly. That is also true of its role within the pensions sector. Part of the demand for this will come from within – funds and firms looking to streamline and make efficient their operations – and some will come from without, with members increasingly expecting tools that reflect their own circumstances rather than a generic set of functions.

"Trustees and providers need to keep pace," says Taylor, "which means being open to change and asking harder questions of their suppliers. The schemes that prepare well will be those that focus less on shiny features and more on whether the technology genuinely helps members feel more confident about their retirement choices."

Hazan, meanwhile, sees two shifts. The first will be more intelligent, AI-assisted experiences that can respond in real time to member needs, requiring strong data foundations, behavioural insight and best-in-class tech. The firm, she adds, is launching an AI virtual assistant to help people move from questions to action, with clear escalation to human support when decisions become more complex.

The second will come on the back of the Financial Conduct Authority's (FCA) new Targeted Support framework. This, said the FCA in December, will allow firms to provide suggestions designed for groups of consumers with common characteristics to help them make important decisions across their pensions and investments.

Such a move, says, Hazan, creates an opportunity to go further. She concludes: "It bridges the gap between information and full advice and supports more suggestive, well-governed support at scale. We have been early contributors to this work and see it as a positive step for members and employers."

Written by Pete Carvill, a freelance journalist

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