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From personalised guidance to innovative tools, we're always here to help members make confident decisions about their financial future.
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Retirement income defaults:

A helping hand

Standard Life head of retirement proposition, Esther Hawley, and Standard Life Master Trust Company Limited board chair, Helen Dean

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Retirement income defaults: What it means for trustees

Esther Hawley explores what trustees need to consider when offering a default retirement solution for their members

2027 could herald a sea change in how DC members take their retirement benefits. If the Pension Schemes Bill passes swiftly through parliament in its current form, it will introduce a requirement for all trust-based schemes to offer their members a "default pension benefit solution" that provides a regular income in retirement. This will shift a lot of the onus of deciding how to 'do retirement' from the individual member to trustees.

So how can trustees approach the concept of a retirement income default, and what are the key things to keep in mind?

Defaults in retirement: A different challenge

The concept of a retirement default is more nuanced than the default investment solutions used in the savings phase. While saving for retirement, the vast majority of people have a common aim: to grow their savings cost-effectively. It's therefore relatively straightforward to offer one solution designed to meet that objective.

At retirement, however, people have a range of individual needs as well as significant differences in their wider financial circumstances. For example, Standard Life research found that:

- More than a quarter of people (28 per cent) expect to use non-pension savings as part of their retirement income
- One in seven people anticipate using an inheritance for their retirement income, despite the risks around the amount and timing of such windfalls
- More than a third (38 per cent) of Gen X homeowners view property as their main retirement asset

This makes it very hard to design one solution that is suitable for all.

We can tackle this challenge by separating out the different retirement objectives that people may have. Despite the wide variances in people's circumstances, in almost all cases people's requirements can be met through a combination of:

- Guaranteed income
- Regular drawdown income
- Ad-hoc or 'lumpy' drawdown
- Immediate cash withdrawal

We can therefore design default retirement solutions by separating the 'default' into two stages.

Firstly, a default decision framework with:

• Pre-set structures for how an individual may wish to set up their retirement

• Different options for cohorts of members with distinct characteristics – for example, a cohort with relatively low need for additional guaranteed income to cover essential spending needs might have a profile allocating 20 per cent to guaranteed income, and 80 per cent to regular drawdown

• High quality, behaviourally aligned decision journeys to help people understand whether the default structure is right for them

And secondly, default options for putting each element into practice:

• Default investment solutions to deliver the drawdown elements (whether regular or ad-hoc)

• A supported process to enable the individual to secure the best whole-of-market annuity for their guaranteed income

• Seamless processes to deliver cash withdrawals

The engagement challenge

This structure can be used to offer a 'true' default, where the individual doesn't need to make a decision other than when to begin drawing their benefits. It is clear, however, that this would be a relatively limited solution, and particularly difficult in the context of purchasing any element of annuity.

It is equally apparent that most individuals will receive a better solution if they are willing to engage to some extent with a decision-making process. There are encouraging reasons to think that this will be possible:

1. People are naturally engaged at the point of retirement decision-making – they have an immediate goal (getting their money) and will put effort in to making it happen – in a way they simply aren't during the savings phase when retirement feels like a distant challenge.

2. The default structure allows individuals to focus their input on factual information that they know about themselves, rather than asking them to make decisions they do not feel equipped to make. For example, offering a pre-designed structure for their retirement and asking them to consider whether it looks appropriate for what they want is very different – and much preferable for most people – to asking someone to work out, from scratch, what they think the structure should be for their own individual circumstances. Equally, suggesting that a particular amount of annuity is appropriate and then asking for input to shape and more accurately price the annuity is likely to be something most people can engage with.

Designing a default decision framework

Finally then, how do you decide what combinations of solutions should be offered to which group of members?

Our philosophy is to help people build up their retirement by considering their essential spending needs first. Do they have sufficient guaranteed income to cover those – for example, through their state pension or any defined benefit pensions they may have? If not, their DC savings can be used to purchase an annuity to 'top up' their guaranteed income.

Any DC savings left can be used to fund more discretionary spending through either regular or ad-hoc drawdown.

This is where our Mixed Income Builder, a retirement income planning tool, may help – by allowing individuals to balance guaranteed income with flexible withdrawals from their pension savings.

The Mixed Income Builder allows users to explore a combination of guaranteed income options, such as annuities, alongside flexible withdrawal strategies from their pension pots. This tool aims to provide a balanced approach to retirement planning and addresses the common desire for both security and flexibility among retirees – a growing trend in retirement planning.

Building on this philosophy, we can design default options offering different balances of guaranteed versus flexible income for different groups of members at retirement.

A worthwhile challenge

It's clear that there is much work to do to put in place default retirement income options for members, but the challenge is worthwhile. Standard Life research shows that:

• Two-thirds of people (66 per cent) do not seek professional financial advice before accessing their pension

• A quarter (24 per cent) worry whether they have enough to live comfortably, while one in ten (11 per cent) regret the timing of their income decisions

By providing clearer and simpler ways of helping people access regular income in retirement, default retirement income options could go a long way to alleviating the pressure people feel around making their retirement decisions.

Written by Standard Life head of retirement proposition, Esther Hawley

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The trustee perspective

Standard Life Master Trust Company Limited board chair, Helen Dean, speaks to *Pensions Age* about retirement income defaults and how this fits in with member engagement

Helen Dean

What are your views on the new retirement income requirements, as covered in the recent Pension Schemes Bill?

The Pension Schemes Bill marks a significant positive shift in how we approach retirement income for DC savers. Auto-enrolment has been a hugely successful way of democratising pensions, bringing millions into pensions saving – but it's important to remember that its success is built on inertia. We rely on default 'accumulation' pathways to guide members through their working lives, yet at retirement, we suddenly expect them to become engaged and make difficult financial decisions.

This is particularly challenging given the shift from DB schemes, which offered a guaranteed income for life with minimal engagement and decision making required, to DC pots that offer flexibility but require complex decision making. In the absence of accessible financial advice and personalised guidance, many members struggle to understand what to do with their pension savings. Retirement income defaults offer a vital safety net for those who don't engage, while still allowing members to 'grab the steering wheel' and take control if they wish. Whether members engage or not, developing solutions that support both paths could be transformational for the industry and for member outcomes.

Over the past 10 years, individuals have had more choice than ever when deciding what to do with their pension pot. How successfully have they managed to balance the need for guaranteed income at retirement with flexibility?

I think many people have struggled with this. However, up to now most DC pots have been supplementary to other pensions, often quite small amounts and this has masked the problem. Now we're in a period of transition; the first generation of primarily DC savers is now approaching retirement, and many are navigating this landscape for the first time.

While pension freedoms have given individuals more choice, they've also introduced complexity. If you ask people what they expect from a pension their view is clear, they are there to provide income in retirement. There is a danger that complexity and choice overload, create a barrier to this traditional role for pensions and they become just another flexible savings pot to draw from.

We must help people turn their pension pot into the later life income they need. While an element of choice is welcomed by most, there's value in security and a level of guaranteed income to cover essential expenses can serve as a vital safety net. Without guidance or defaults, many risk underspending due to fear of running out, or overspending without a sustainable plan. Tools like Standard Life's Mixed Income Builder are helping members explore this balance by modelling how guaranteed and flexible income can work together, but there's work to be done to get the balance right.

As the UK considers retirement income defaults, what lessons can we learn from other countries?

It's natural to look at the usual suspects… countries like Australia and the Netherlands, which have embraced hybrid retirement income models combining guaranteed income with flexible access. In the Netherlands, segmentation and tailored solutions are standard practice, helping align retirement options with individual needs. Australia's Retirement Income Covenant was intended to drive innovation by requiring providers to balance income, risk, and flexibility. However, despite being mandated for over three years, it hasn't necessarily delivered the momentum many expected.

"Retirement income defaults offer a vital safety net for those who don't engage, while still allowing members to 'grab the steering wheel' and take control if they wish"

The reality is that no country has truly mastered retirement income defaults yet. While there are useful insights to be gained, the UK is in a strong position to lead in this space – particularly given the breadth of retirement products already available, looking at Standard Life alone with their range of annuities and new annuity desk, smoothed managed funds, and the Mixed Income Builder tool, which has some exciting developments planned this year. The US offers a similar advised model to the UK, and that's something we can build on, especially in how advice and targeted support will work together to serve a broad base of members. The US also nudges ahead in tech and product innovation, particularly in supporting employers and individuals.

Ultimately, the lesson may be that simplicity, guidance, and adaptability are key. As we shape our own approach, we should focus on building solutions that reflect the UK's unique context and member needs, rather than trying to replicate models that haven't yet proven fully effective elsewhere.

Pensions are often considered a complex subject by the public – how can trustees improve member understanding and engagement at retirement?

Engagement at retirement is one of the most critical touchpoints in a member's pension journey, and trustees have a unique opportunity to shape that experience for the better. The first priority is clarity: Communications should be simple, timely, and tailored to the individual. Generic projections often feel abstract, so showing members what their pot translates to in terms of monthly income after tax can be more useful.

Trustees should also ensure members have access to tools that model different retirement scenarios, such as drawdown, annuity purchase, or taking lump sums. These tools help bring options to life and encourage members to think about trade-offs, risks, and long-term sustainability.

Well-timed nudges in the lead-up to retirement, supported by decision trees or step-by-step guides, can reduce the risk of overwhelming members and support better decision-making. Digital resources like calculators, explainer videos, and webinars offer accessible ways to engage, while printable materials and telephone support ensure inclusivity for those less digitally confident.

Engagement shouldn't be seen as a one-off event triggered by a retirement age. Building awareness earlier in the journey helps ensure members arrive at retirement informed and prepared. A blend of clear communication, practical tools, and human support will give members the confidence they need to make sound decisions and ultimately improve outcomes.

It feels like this is a positive development for members in retirement. Are there any pitfalls you need to be aware of as a trustee?

There's a lot to be optimistic about with the move toward retirement income defaults, but trustees do need to keep an eye on a few potential challenges. One of the big ones is fragmentation. Many members have multiple pension pots with different providers, and if each provider takes a different approach to decumulation, it could lead to confusion and inconsistent outcomes. That's why the government's plans to introduce a default consolidator for small pots and move towards 'megafund' consolidation, other key elements of the Pension Schemes Bill, are part of the solution to the same puzzle.

Another key issue is adequacy. It's not enough for defaults to be simple, they also (crucially) need to deliver a decent income, especially for those with smaller pots. Clearly this involves boosting levels of pension saving throughout people's careers too and it's encouraging that the government has revived the Pensions Commission to look at long-term adequacy and how we can improve retirement outcomes across the board.

Finally, while innovation is exciting, it has to be matched by strong governance. Trustees have a responsibility to make sure new solutions are well-designed, transparent, and genuinely in members' best interests.

I feel that we are on the cusp of something important here, the government is legislating in a positive way, and the industry are stepping up to deliver. If we get this right, we have a great opportunity to reshape the pensions landscape for the better and help millions of people in the UK to have a more comfortable and secure retirement.

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