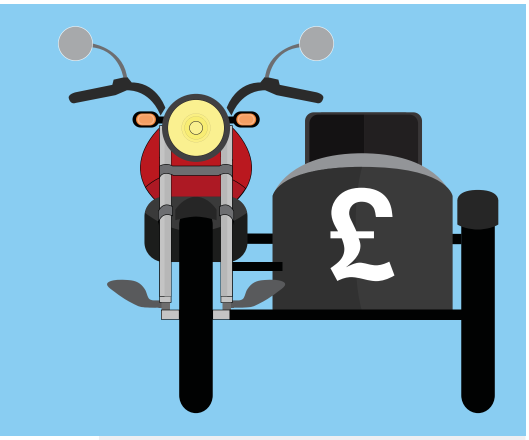

Making sidecars stick

Sidecar savings are emerging as a potential tool to boost workers' financial resilience – but employers and providers face operational, technical, and regulatory hurdles. Paige Perrin investigates the challenges and opportunities

Summary
- The pensions commission's revival brings attention to new savings models, including sidecars.
- Sidecar schemes face implementation hurdles: Regulatory uncertainty, operational complexity, and engagement challenges.
- Opt-out defaults and clear design could be key to improving adoption.

The government's revival of the Pensions Commission in July has brought some widely unexplored areas to the fore, including the sidecar savings model. Although the commission's final report is not expected until 2027, the government's willingness to explore measures such as sidecar savings represents a step forward.

Secretary of State for Work and Pensions, Liz Kendall, said she wants the commission to propose ways to broaden access and tackle pension inequalities in pension saving, including by examining tools like sidecar savings.

The Financial Conduct Authority (FCA) says it welcomes this statement, noting the potential of innovative solutions to help workers cope with financial pressures.

FCA director of retail banking, Emad Aladhal, adds: "Financial inclusion is a shared effort, which is why we're teaming up with partners and playing our part to help businesses understand how to apply the rules for the benefit of consumers. This clarity should give employers greater confidence to offer savings schemes that can help people navigate their financial lives."

Recent analysis from the Department for Work and Pensions shows that four in 10 people under save for retirement, and 45 per cent of working-age adults save nothing, highlighting challenges for the UK pension system. These findings are not only concerning but call into question the current viability of the UK pension system.

Barriers and design challenges

Against this backdrop, sidecar savings have been put forward as a potential way to ease the pressure, helping people build short-term financial resilience while still saving for retirement.

Yet, Redington head of DC and financial wellbeing, Jonathan Parker, cautions that while sidecars are a "smart idea on paper", they've "struggled to cut through in practice" as employers often see them as an additional administrative burden and unclear regulatory guidance.

Both Parker and Resolution Foundation economist, Molly Broome, point to sidecar's design as both a barrier and an opportunity.

Parker notes the lack of standardisation makes sidecar schemes "daunting" for employers, while Broome highlights that effective design is critical for reaching low-income families.

"For sidecar models to gain traction, they need to be simple, intuitive, and backed by clear evidence of impact. That means better integration with payroll systems, clearer messaging, and ideally, leadership from policymakers to help shift the dial," Parker says.

He says these adjustments could make sidecars a valuable part of the workplace savings toolkit, but the industry is "not quite there yet".

Another key barrier for sidecar savings is the opt-in approach.

Nest Insight managing director, Will Sandbrook, highlights that take-up for opt-in schemes is around 5 per cent, with the lowest earners, who could benefit most, often unable to redirect contributions.

Supporting this, Money and Pensions Service senior policy and propositions manager, Michael Royce, found that switching to an opt-out default greatly increased employees directing pay into a cash account. Sandbrook calls this a "breakthrough", with participation rising to seven in 10, showing opt-outs could boost sidecar adoption.

Hymans Robertson personal wealth client director, James Smith, notes that pilot programmes proved the concept works, and now the right conditions are needed for it to succeed at scale.

However, he says: "Diverting gross pay into a sidecar saving scheme on an opt-out basis risks breaching minimum wage laws and setting them up can often mean amending contracts."

Parker adds: "To encourage innovation, policymakers need a more flexible regulatory framework, one that recognises the importance of short-term financial resilience alongside long-term retirement outcomes."

While opt-out defaults clearly boost participation, challenges remain for those who could benefit most.

Pensions Policy Institute head of modelling, Tim Pike, notes that the lowest earners stand to gain the most from tools that enhance financial resilience. Yet, when employers offer only minimum pension contributions, there's often no headroom to divert funds into a sidecar – presenting a "significant challenge" for members who could benefit the most.

Similarly, Broome argues that higher pension saving may not be optimal for the many people with little or no rainy-day savings. She calls for a move away from a 'one-size-fits-all' approach and towards contribution models that better balance long-term pensions with short-term precautionary savings.

Pike adds that it is not only about creating the right product, but about ensuring the right people are reached at the right time.

Together, their comments underline that while behavioural nudges like defaults can boost participation, success hinges on whether employers and policymakers can create simple, scalable models that fit within existing systems.

This is particularly relevant because people often forgo saving or take on debt when faced with unexpected expenses.

Parker highlights that this is where sidecar savings could help. "By giving people a way to build up a buffer alongside their pension, sidecar savings could help reduce that tension," he says.

Implementation and ownership

This raises the question of who should take responsibility for implementing sidecar savings. Industry experts are divided, with opinions differing on whether employers, policymakers, or the government should lead the charge.

Smith argues that responsibility for offering a sidecar "has to start with policymakers", as regulation is needed to make schemes viable for employers.

He highlights key challenges, including minimum wage compliance, added complexity from overflow mechanisms, and uncertainty over tax treatment – particularly if sidecars were to be integrated with pensions, which he says up until this point most trials have kept the two separate.

While some worry sidecars could dilute pension contributions, Smith points to Nest's research that shows pension participation is largely unaffected when schemes use an opt-out approach.

Broome agrees the government should take the lead, suggesting sidecar savings be included as part of what the commission explores to avoid employees "missing out" if responsibility falls only to employers.

Sandbrook and Parker call for a shared effort, noting that the whole industry has an important role to play.

"By giving people a way to build up a buffer alongside their pension, sidecar savings could help reduce tension, boost engagement, and ultimately strengthen outcomes across the board"

Parker says employers are well placed to offer sidecar products due to their payroll systems and workforce relationships, but it's "not realistic" to expect them to lead in the current economic climate. Providers, he argues, have the expertise to design scalable solutions, while policymakers hold the levers to set the right incentives.

"What's missing is coordination. If we want sidecar savings to become mainstream, we need a framework that makes it easy for employers to plug in – with clear standards, minimal admin, and demonstrable impact," he says.

The consensus seems to be that no single actor can deliver sidecars alone – but without stronger government leadership, progress risks stalling.

Pensions Commission and adequacy

With questions around ownership and implementation still unresolved, attention is now turning to the next phase of pension reform.

Many experts see the commission's revival as a key chance to bring payroll-linked savings like sidecars onto the policy agenda. Sandbrook says he is encouraged to see sidecar savings earmarked for review.

"Making it a formal part of the discussion and creating the time and space to analyse whether it could complement the current auto-enrolment system is the right next step," he says.

Parker also welcomes the renewed focus, calling it "long overdue". "The revival of the commission and the second phase of the pension review give us a rare chance to take stock of what's working and where the gaps are," he says. Payroll-linked savings mechanisms like sidecars, he adds, "could play a key role in bridging those gaps, especially for financially vulnerable people or disengaged from traditional products".

Smith warns there is a "danger" that sidecars could be "misread as a distraction" but argues the commission should instead see them as an opportunity to improve engagement, flexibility and resilience.

"They fit perfectly with the UK's under-saving challenge and the government's push for financial resilience, which leads to greater productivity and growth," he says. Whether sidecars feature in phase two, Smith adds, will depend on how the commission defines adequacy.

Sidecar savings could bridge short-term resilience and long-term retirement security – but only if policymakers, employers, and providers make them simple, scalable, and inclusive.

Written by Paige Perrin