Summary
- Automatic enrolment has demonstrated the effectiveness of defaults, but pension freedoms has significantly expanded the number of decisions members face.
- Industry experts warn that excessive choice can create confusion, disengagement and poor outcomes, particularly at retirement.
- Guided retirement, targeted support and smarter default pathways are increasingly seen as key to improving long-term member outcomes.

The burden of choice

Callum Conway explores whether pension schemes should prioritise preserving member choice or designing better defaults as the industry grapples with disengagement, decumulation and increasingly complex retirement decisions

From what toppings to get on your pizza order to whether to bail on that social event you've been dreading, choices are a constant in all our lives.

Without even realising it, we make hundreds of small decisions every day; insignificant individually, but combined, they paint the canvas of the next day, week or year of our lives – a concept often referred to as the butterfly effect.

And when it comes to choice, pensions are no exception.

Pension freedoms came into force in April 2015, revolutionising retirement. They placed unprecedented control in the hands of savers and fundamentally shifted how the industry approached retirement planning.

The intention was to give defined contribution (DC) savers greater flexibility and control, enabling them to pursue better outcomes and tailor retirement planning to their individual needs.

But a decade later, that flexibility has also brought greater complexity and responsibility.

Now, many in the industry are questioning whether the sheer scale of choices available risks overwhelming members rather than empowering them.

As schemes increase member flexibility and personalise retirement journeys, the central debate is whether the industry should prioritise preserving freedom of choice or focus on designing better defaults for stronger long-term outcomes.

The power of defaults

In many ways, the industry's greatest success story – automatic enrolment (AE) – was built on members doing very little at all.

Introduced following the Pensions Act 2008, AE was intended to address declining workplace pension provision in the early 2000s.

XPS Group head of DC, Sophia Singleton, argues that it has demonstrated both the strengths and limitations of relying on defaults.

"AE has been a huge UK success, bringing over 11 million people into workplace pensions," she says.

"But the inertia that got people saving could now hold them back from adequacy."

Singleton says that the next phase of pension policy will require schemes to balance automation with stronger member engagement at retirement, particularly as members face increasingly complex decisions around decumulation.

That tension between engagement and simplicity is becoming increasingly central to the debate over member outcomes.

For many schemes, defaults remain the cornerstone of pension saving, with most DC savers staying invested in default arrangements throughout their working lives, relying on trustees and providers to make decisions on their behalf.

XPS Group head of DC investment,

Mark Searle, says that this should not necessarily be viewed negatively, as it "reflects the power" of AE inertia.

"For the vast majority of savers, the main default fund is likely to be the better option, benefiting from scale, governance and expert investment design that evolves over time, compounded by the growing use of private assets, to target stronger long-term outcomes."

Meanwhile, highlighting the risks of too much choice, AllianceBernstein portfolio manager, David Hutchins, says, "The new freedoms introduced dangers such as making suboptimal investment choices and over-optimistic drawdown rate assumptions".

"Our research shows that most DC savers facing retirement don't have, and can't access, the necessary resources to strategise for themselves," he continues.

"We believe a default strategy can make better investment decisions for them for a lifetime."

Echoing this, Singleton concludes: "The key is choice at the right time, underpinned by robust defaults in both the saving and retirement phase."

Guided retirement gathers pace

The recently passed Pension Schemes Act represents a significant shift in thinking when it comes to retirement choice.

For the first time, DC trustees will be required to provide a "default pension benefit solution", also known as guided retirement, rather than simply delivering a savings vehicle.

A growing focus on default decumulation solutions reflects wider concerns that the industry may have overestimated members' willingness or ability to engage actively with pensions.

People's Partnership proposition director, Kirsty Ross, says the provider's research highlighted how real-world saver behaviour often differs significantly from policymakers' assumptions.

"While members often say they value choice, the reality is that the majority don't actively engage with their pensions," she explains.

Instead, Ross suggests that many members feel overwhelmed by the scale and complexity of retirement decisions, meaning engagement alone is not a sufficient solution.

"The opportunity now is to extend that thinking across the member journey, combining well-designed defaults with flexibility for those who do want to engage," she says.

Similarly, TPT Retirement Solutions DC director, Philip Smith, warns that many savers remain poorly prepared for retirement decision-making.

> **"Pensions already feel complicated to most people, so when you add layers of choice on top of that, some people will freeze"**

"Our own research revealed that just 35 per cent of pension savers felt confident making basic retirement decisions, such as how to access their pension. If schemes offer a decumulation pathway for members, it could make it easier for savers to transition into retirement," he explains.

However, Lumera commercial director for data and dashboards, Maurice Titley, warns that the legislation intended to address this represents a major shift in trustee responsibilities.

"Assigning a default pathway is not just about presenting an option at the point of retirement – it defines the end-to-end asset allocation glidepath so has a very real effect long before retirement, meaning this assignment process will need to be justifiable, using evidence from membership characteristics and behaviour.

"For providers and administrators, maintaining this evidence creates a demand to get more from the data they hold than ever before," Titley adds.

The problem with too much choice

From a behavioural perspective, experts warn that increasing optionality can often lead to decision paralysis rather than better-informed decisions.

Quietroom senior writer and content designer, Maddie York, says "choice overload" remains a major challenge across pensions communications.

"Pensions already feel complicated to most people, so when you add layers of choice on top of that, some people will freeze," she states.

York argues that the industry often designs communications around idealised saver behaviour rather than how people actually make decisions in practice.

"You see journeys designed for a person who reads everything, weighs up every option and makes a calm, informed choice – that person doesn't really exist."

This is a concern echoed by Oxford Risk head of behavioural finance, Greg Davies, who argues that pension communications and retirement solutions often fail to account for how differently individuals behave.

"I could take two individuals who have absolutely identical financial situations, but if one is highly impulsive and one is not, it completely changes the right advice to give them and how it should be communicated," he explains.

"The impulsive person is less likely to stick to their spending plans, so they face greater longevity risk and sequencing risk problems."

With this in mind, York believes schemes need to focus more heavily on behavioural design, clearer communication and guided journeys that simplify complex decisions.

"The way to do it is to give people a clear, well-designed default path and then make it easy to step off that path if they want to," she says.

Supporting better decisions

Many across the industry argue that pension choice should not become a binary debate between preserving flexibility and protecting members.

My Pension Expert policy director, Lily Megson-Harvey, argues that the real challenge lies in ensuring members are properly supported to navigate their options.

"Choice has an important role to play in pension planning; however, people must be properly supported to understand the options available to them and which best suit their needs."

Megson-Harvey also challenges the idea that members are inherently unwilling to engage with pensions.

"In many cases, savers have not been given enough meaningful opportunities to do so," she explains, arguing that communications and education need to become more proactive and accessible earlier in people's working lives.

Similarly, Wedlake Bell senior associate, James Newcombe, suggests that trustees increasingly need to focus less on maximising optionality and more on delivering outcomes.

"Choice is only valuable where members are equipped to make an informed decision. Otherwise, more choice can create confusion, inertia or poor decisions."

This growing emphasis on support is increasingly being reflected in both regulation and retirement product design.

The Financial Conduct Authority's investment pathways regime was introduced to support non-advised drawdown consumers following concerns that many members were drifting into unsuitable retirement arrangements after accessing pension freedoms.

Meanwhile, from April this year, banks, pension providers and other authorised firms have been able to provide targeted support suggestions to groups of consumers with common characteristics, helping bridge the gap between generic guidance and regulated financial advice.

According to Newcombe, these developments reflect growing recognition that many savers require more structured support when navigating retirement decisions.

"Simply presenting more options is not enough," he stresses.

"Many savers need structured help, prompts and 'ready-made' suggestions tailored to groups of consumers with similar characteristics."

The picture is further complicated by increasingly sophisticated investment options, including ESG-focused funds, private market exposure and personalised fund ranges.

XPS Group head of DC investment, Mark Searle, warns that schemes risk overwhelming members if fund ranges become too broad.

"There is a balance to be struck: enough choice to meet genuine needs, without turning pensions into a bewildering menu."

However, he argues that sustainability considerations should increasingly be embedded within default arrangements themselves, with only a limited range of additional options for members with stronger preferences.

"The priority should be a high-quality default strategy that already reflects material sustainability-related risks and opportunities," he adds.

Despite the development of digitalised pension support, Aptia head of UK administration, Sue Doughty, stresses that human communication remains equally important, particularly at the point of retirement.

"Retirement is a major life stage, and for many people, confidence comes from being able to talk decisions through with someone."

Doughty notes that when people are helped to better understand their options, they are "far more likely to make decisions they feel comfortable with".

Conclusion

Ultimately, while the industry continues to expand flexibility, personalisation and member empowerment, many believe the future of pensions will increasingly centre on smarter defaults, guided journeys and structured support rather than simply providing more options.

After all, while the dozens of everyday choices we make may carry relatively small consequences in isolation, a single pension decision can shape someone's financial wellbeing for decades.

And unlike many of life's smaller choices, retirement decisions are often irreversible.

As DC pensions become an increasingly important component of retirement income, schemes are recognising that preserving member choice alone may not be enough to deliver strong long-term outcomes.

Instead, the challenge for trustees, providers and policymakers may now be to build pension systems that work effectively for the disengaged majority, while still preserving flexibility for those who want to take a more active role in shaping their retirement journey.

Written by Callum Conway