

Pensions and AI: Potential but beware the pitfalls

➤ **Ian D'Costa highlights key precautions to consider when using AI in pension-related tasks**

AI is already reshaping pensions administration and member communications, and adoption is now described as 'universal' across the sector. The prize is speed and efficiency, but pensions is a high-stakes environment and the pitfalls are real.

Operationally, administrators are using AI for data cleansing, spotting missing or inconsistent information, extracting data from documents and triaging routine cases, reducing cost and improving turnaround times. On the member side, chatbots can handle basic queries, communications can be more personalised and interactive, and nudges can be better targeted, although member facing use cases remain a work in progress.

The need is obvious: Engagement with DC pensions remains stubbornly low. Automatic enrolment has brought most eligible employees into workplace saving, yet many savers do not regularly check pot values, contributions, investment choices or charges.

Retirement feels distant, but waiting until retirement to engage reduces the options available. Regulators are trying to close the 'support gap', including exploring targeted support that sits between guidance and fully personalised advice. And most DC members stay in the default strategy and rarely use self-select funds, so anything that helps people ask whether the default, asset allocation and fees are right for them is welcome.

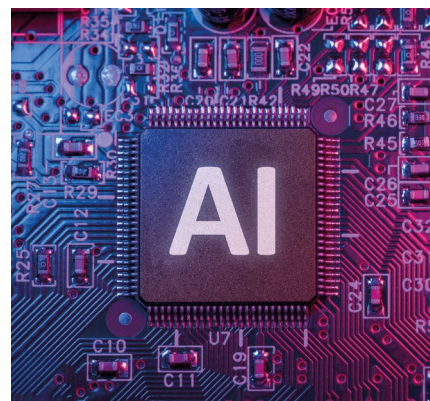
Used well, AI can provide a low friction starting point that feels private: a way to ask questions without

embarrassment and to frame concerns before approaching a trustee, provider or adviser.

But general purpose AI models used at home introduce risks: They can produce confident-sounding answers that are incomplete or wrong, particularly where the user cannot test assumptions, spot omissions, or challenge the output, something we increasingly see when people rely on such tools for legal guidance.

AI is only as good as the prompt: A poorly framed question can funnel the user toward a preferred outcome, confirm what they want to hear, or miss key options, and those risks increase where the user does not disclose key facts. Data quality, bias, explainability and hallucinations remain well-rehearsed concerns; and data protection is also material, because individuals may be reluctant to upload sensitive details, which in turn undermines the quality of the answer.

In pensions, the stakes are high because some choices are hard or impossible to reverse, such as accessing benefits or taking tax-free cash. The DC member already bears investment risk, but that risk sits within a framework: governance sits behind defaults and established complaint routes apply if trustees or providers fall short. By contrast, if a general AI tool suggests a course of action that turns out poorly, there is usually no straightforward redress against the model provider: Terms typically limit liability and providers generally state they are not providing financial advice.



From a legal perspective, that 'disclaimer first' model is designed to avoid an assumption of responsibility, making reliance claims harder to establish, so the user can end up carrying investment risk, advice risk and legal risk if they treat a generic model as an adviser.

So, what is the sensible near term solution?

Treat AI as the start of the consumer journey, not the end. AI can be an engagement engine and question shaper, but it is not a substitute for regulated financial or legal advice. Second, start earlier: Better financial education from a young age is linked with improved money confidence and healthier behaviours, and more financially capable consumers will be more discerning users of AI and better able to interrogate advisers. Finally, providers should consider either specialised pensions AI tools and/or clear guardrails: what AI can and cannot do, what assumptions sit behind outputs, when a human should intervene, and where members can go next.

AI can make pensions feel more accessible, but it will only improve outcomes if it enhances, rather than replaces, human judgement, up-to-date rules, knowledge and accountability.



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