HYMANS ROBERTSON

DC pensions in 2025

Embracing opportunities, navigating challenges and key trends

As we look towards 2025, the DC pensions market is on the edge of an exciting transformation. In recent years, the landscape has evolved rapidly, driven by changing regulations, shifting investment strategies, and growing employer responsibility.

Looking ahead, 2025 will be a year where the market continues to mature, with an increased focus on member outcomes, innovation in pension design, and the ongoing need for transparency and value. Here, we share our key trends and predictions that will shape the DC pensions market over the next year.

A shift from cost to value: a more holistic approach

In 2024, the focus within DC pensions began to shift away from focusing on cost to a broader consideration of value and outcomes. This shift will continue to gather pace in 2025, as trustees and employers recognise the importance of delivering improved outcomes to scheme members. Whilst the focus will remain on consolidation, we expect many single trust schemes will remain with their current structure, either due to a move to use defined benefit (DB) surpluses to fund DC contributions and/or a continuing belief that they can offer good value against master trust arrangements. .

Improving pension adequacy

Pension adequacy will remain a central issue in 2025, both for scheme members and the employers providing DC pensions. With increased pressures on corporate pension spending - exacerbated by rising National Insurance contributions in 2025 - employers will need to assess how well their current offerings meet the needs of their employees. In the face of economic uncertainty, more employers are expected to review their pension schemes, ensuring that they are designed to encourage higher levels of saving and support employees in building adequate retirement funds.

At the same time, employers will need to consider the diversity, equity, and inclusion (DEI) implications of their pension schemes. With significant gaps in pension savings among different demographic groups, there is an increasing call for employers to address these inequalities within their pension and benefits offerings. Integrating DEI principles into pension design will help ensure that all employees, regardless of background, have an equal opportunity to build wealth for retirement.

Investment strategy: diversification and responsible investing

As the DC pensions market matures, investment strategies will continue to evolve, with a particular focus on diversification and long-term growth. Private markets will play an increasingly prominent role in DC investment portfolios, as more Long-Term Asset Funds (LTAFs) are introduced to the market. These funds, designed to offer higher returns over longer investment horizons, will be complemented by co-investment solutions and other forms of private market investments, allowing schemes to tap into emerging opportunities and diversify their risk profiles.

Another key development will be the ongoing evolution of responsible investment strategies. As schemes continue to embrace environmental, social, and governance (ESG) considerations, there will be a deeper focus on “real-world change” rather than simply decarbonising portfolios. The use of Climate Transition Benchmarks and Impact Investing will grow, alongside a greater emphasis on emerging markets and social impact strategies. These investments are not only seen as a way to achieve financial returns but also to align DC portfolios with global sustainability goals, making them more relevant to a growing number of scheme members who want their savings to contribute to positive change.

Decumulation

The shift towards decumulation will be one of the most significant trends in 2025. As individuals approach retirement and become more reliant on their DC savings to fund their retirement, the demand for tailored at-retirement decumulation strategies will grow. Although we’re still waiting for regulatory guidance on default decumulation solutions, many trustees and providers are beginning to review their retirement offerings to ensure they provide the necessary support to help members navigate this critical phase of life.

A renewed focus on improving retirement offerings and providing more personalised guidance will be essential, enabling members to make informed decisions about their retirement income. New models, such as risk pooling and longevity solutions, are expected to gain traction in addressing the risks retirees face, such as outliving their savings or the volatility of retirement income.

Consolidation and innovation

2025 will see significant advancements in pension scheme consolidation, as the drive for improved outcomes leads to more mergers and greater scale. The government's push for pension fund consolidation, including the creation of 'Megafunds', should enable the industry to help members in legacy poor value schemes transition more easily to modern, better-performing arrangements. The minimum size scheme from the Mansion House proposals mustn't be set too high, ensuring that innovation and creativity can remain a key feature from smaller more nimble market participants. A competitive pension market with a strong incentive for providers to innovate is essential to the success of any megafund regime.

The development of [Collective Defined Contribution (CDC)] schemes will continue to gain momentum, offering a more flexible and sustainable model for retirement savings. Collective DC will feature prominently in 2025 and we are optimistic about the role this can play. DC savers need help with a secure lifetime retirement income and CDC has the potential to provide this. For it to thrive, a flexible design framework that allows schemes to support the needs of different groups is needed. 'Decumulation only CDC' should closely follow the multi-employer model.

Finally, the November 2024 Mansion House speech also shone a light on employer duties. We hope that any "Employer duty" is implemented in such a way that employers have a legal obligation to review their pension scheme on a periodic basis. This would maintain a competitive market and help ensure that savers get the best value on an ongoing basis, further supporting improved outcomes.

The UK DC pensions market in 2025 is set for transformation, with a renewed focus on value, adequacy, and innovation. As we embrace change and adopt forward-thinking strategies, we can ensure better outcomes for members while driving positive change across the industry. We're thrilled to be exploring these themes at our ***Creating a legacy: your role in building better pensions for all*** conference on 27 March.

This one-day event will unite industry leaders to discuss how we can build a sustainable, inclusive, and fair pensions future – seizing this once-in-a-generation opportunity to shape the legacy we leave for future generations.

Contact

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