HYMANS ROBERTSON

Pensions in 2025

Reflections and lessons learned from 2024

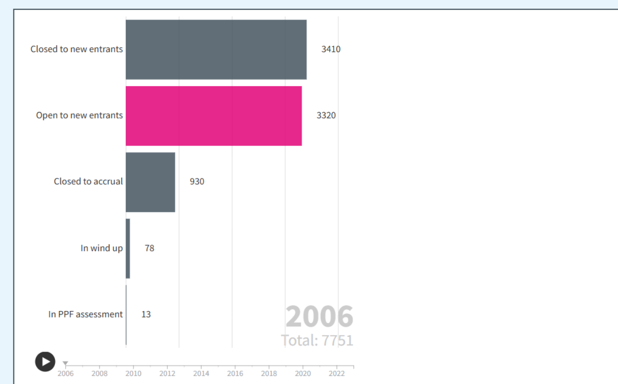
To see what the future might hold for pensions, it’s helpful to consider how we’ve got to where we are.

Arguably, the global financial crisis was the event that shaped UK pensions as we know them today. The Pensions Regulator (TPR) and Pension Protection Fund (PPF) were just a few years old then. During the crisis, the value of growth assets fell acutely, yields on AA bonds were more than 230 basis points over gilt yields, and some banks were bailed out as others disappeared. Risk became something to studiously and systematically reduce.

In the aftermath, pension schemes bought £1trn of government bonds, which became the principal investment they used to pay pensions. This move played its part in making bonds, and future pensions, a bit more expensive. In 2016 DB schemes’ aggregate solvency deficit was £1trn. After £350bn of deficit reduction contributions and the ‘mini budget’ of 2022, TPR now sees it as nil.

The theme in pensions has changed from adequate collective savings and long-term investments to lower, individual savings and shorter-term, risk-reducing investments, with a focus on flexibility. Fifteen years ago we had thousands of open DB collective savings vehicles; now we have a precious 200.

Figure 1. How DB schemes in the UK have changed since 2006



View full chart here

Thankfully, auto-enrolment into DC pensions has stemmed the loss of retirement provision. But it’s still not enough, especially as only 1 in 7 self-employed people save for a pension[1].

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[1] **https://www.gov.uk/government/news/help-for-millions-of-self-employed-to-save-and-plan-for-retirement**

The problems

Individual pensions give people less income than the collective arrangements of yesterday. Low-risk assets lead to slower economic growth and fewer opportunities for the next generation. Inadequate pension provision, with low investment in enterprise assets and high national debt, is not a great place to be.

More investment in enterprise and more collective savings wouldn't be enough to solve the problem: pensions would receive materially less investment than they used to. We are on course for an inadequate, inequitable and unsustainable pensions future.

Green shoots in 2024?

We're not yet on a path to saving more for the future. But in 2024 there were signs of a move from individual savings to collective savings and long-term investments. Real gilt yields are much higher than they were, and the cost of new pensions has fallen by around 50% since 2021.

Will the high yields last? No-one writes blogs if they can predict the future. However, looking back over 40 years, it's the last 15 that look unusual. Real yields are broadly in line with economic growth on a rolling basis, whereas they were way below it since the global financial crisis. So perhaps things are more normal now.

Figure 2. Changes in the cost of living and future pensions since 2021

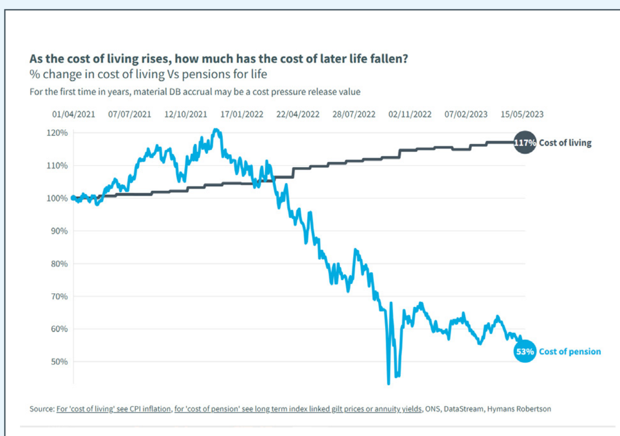

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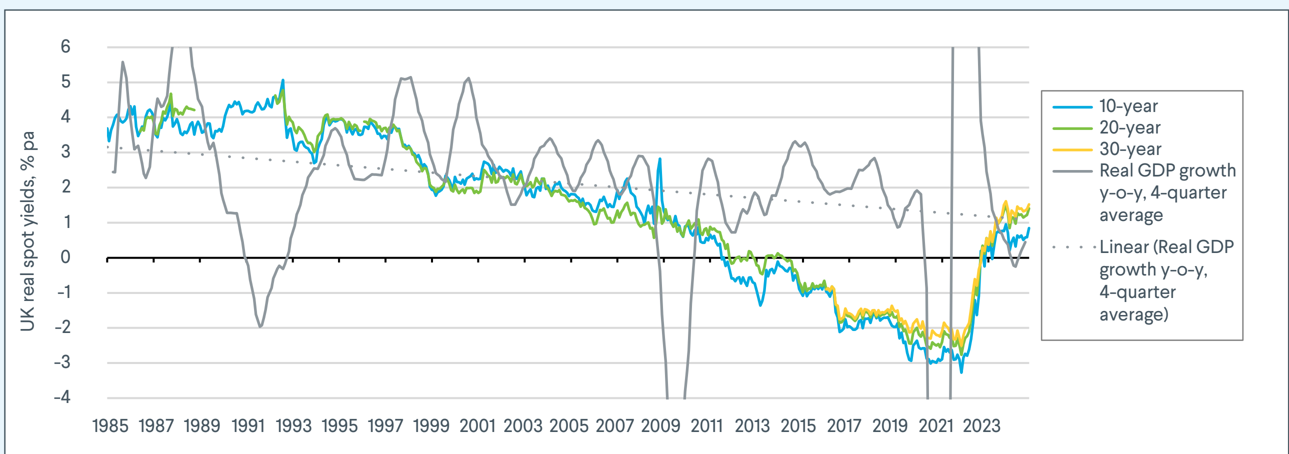
Figure 3. The relationship between gilt yields and GDP growth over the past 40 years



What changed in 2024?

Several industry developments in 2024 have changed the pensions market and could point the way towards how it might fare in 2025.

Superfunds are a go

Now three **superfund** transactions are complete. They'll give confidence in structural innovation in the large space between pensions and insurance. Kudos to the Clara-Pensions team for persistence and putting members first.

Endgames go plural

In 2024 many DB schemes took a **strategic pause**. Having reached full solvency funding, they started to talk to their sponsors about whether they may wish to run on to create and share value for members and future generations. Sponsors are shifting from thinking of pensions as a liability to exploring their potential.

CDC gets going

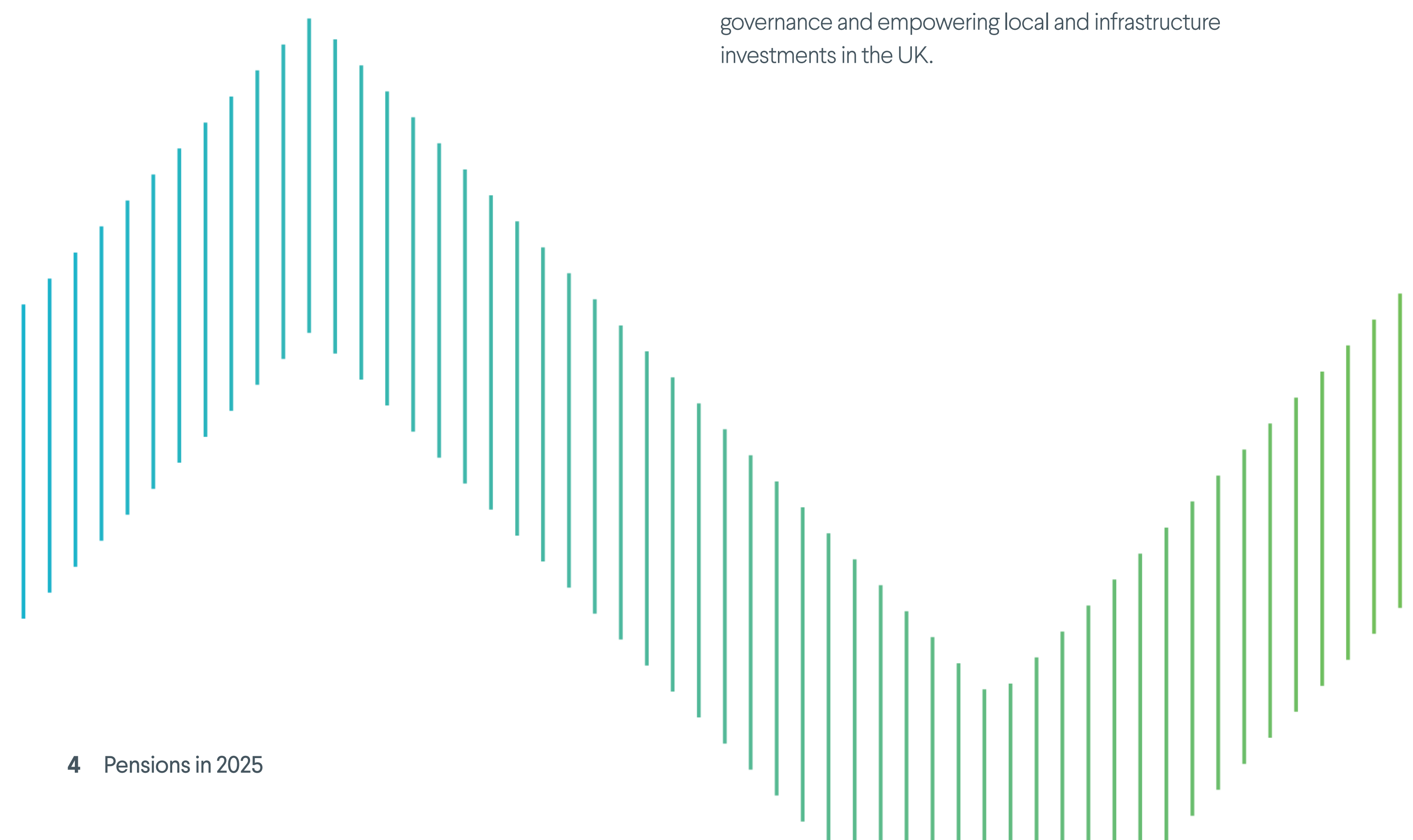
The trailblazer of new collective saving is the Royal Mail collective defined contribution (CDC) scheme. CDC could be new way to improve outcomes **within and across generations**, and we've seen appetite to design the next generation of CDC.

LGPS reaches higher

As private-sector DB funding has improved, **public-sector pensions** have used their collective savings and long time horizons to do even better. The intergenerational focus of the £400bn open local government pension scheme (LGPS) has really shone through, making it a rare pocket of adequacy in pensions. The productive underlying investments have delivered a sustained surplus for many.

A new government goes big on growth

The mission of the Labour government is clear: stimulate growth and invest in the UK, without a repeat of October 2022. Phase 1 of the government's pensions review has been about testing and enhancing the productive foundations in LGPS and DC, with a focus on scale, governance and empowering local and infrastructure investments in the UK.



Our top three pensions wishes for 2025

1 Rekindled potential of private-sector DB pensions

DB pensions are an opportunity for employers and give the next generation a better future. And at £1.4trn, DB pensions are too big for the government to ignore. If all DB schemes could easily run on, share surplus and invest 10% more in growth assets, they might be able to raise £100bn in productive finance.

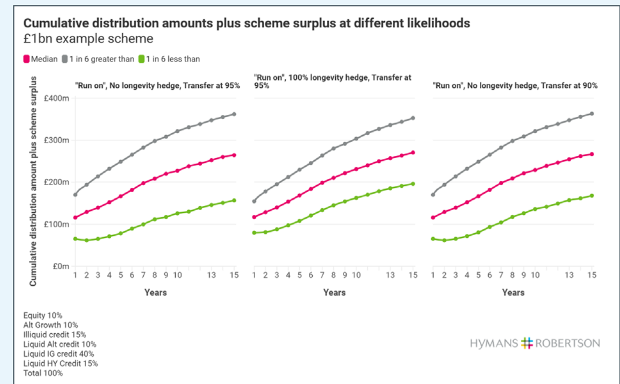
Of course, not all schemes will run on – nor should they. We're talking about £10bn of extra productive finance if the **government makes it easier to share surplus**. But we're also talking about £100bn of economically unproductive assets that could release value to sponsors and members, and even future generations via DC, which will stimulate growth. The vanguard could even use these assets as 'seed capital' to set up CDC for future employees – which would improve pensions by over one-fifth, for the same spend.

2 A clear path to adequate pensions

We'd like Phase 2 of the pensions review to give us confidence in **the government's commitment** to adequate pensions. We'd like it to set out a path for employers, employees and self-employed people, in the context of plans for the state pension and means-tested benefits.

Clearing a path to adequate pensions is a big and difficult job that could require a lot of political capital. The project would benefit from a cross-party commission to ensure it gets done.

Figure 4. Impact of productive investment on creating value in DB



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3 Re-energised collective savings

The government and industry need to work together to harness the power of collective savings to deliver better pensions for the same spend. They could do this in several ways: though the next generation of CDC designs, through decumulation that pools risk or through more flexibility in the benefits that DB schemes can offer.

If you'd like to discuss anything further, please get in touch.

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Important information

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