Retirement Insights
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The Decumulation Opportunity:

Learnings for the UK from around the globe

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The introduction of auto enrollment in 2012 accelerated the transition from defined benefit (DB) to defined contribution (DC) provision in the United Kingdom. Today there are over 14 million active members in DC schemes.[1] While auto enrollment has been a success in improving pension coverage, an aging population, low savings rates and increasing life expectancy presents the UK with a broad retirement challenge. Consider the following:

A third of the UK workforce is over age **50**.[2]

The average life expectancy for a 65-year-old is **19.5 years**.[3]

The average State Pension income is **£10,600 per year**.[4]

Women's pensions are on average **35% lower than men**.[5]

The median combined employer and employee DC contribution is **less than 8%**.[6]

Only **26% of Britons** are confident they can retire at the age they want to.[7]

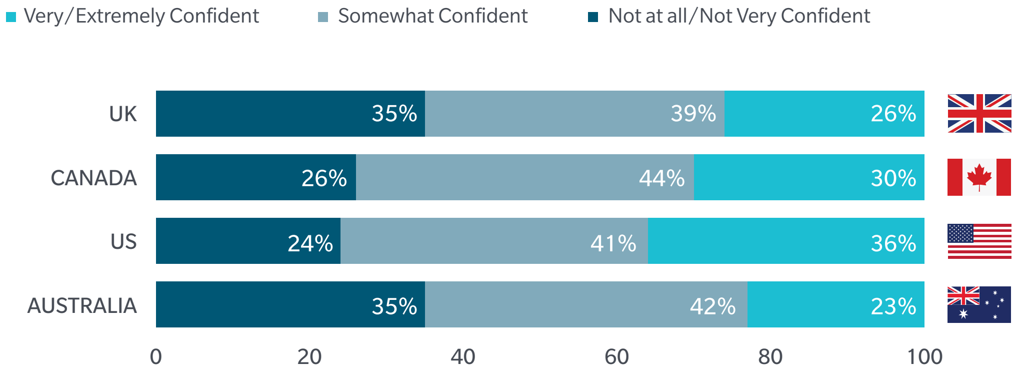
Given these facts, the retirement industry is focused on finding retirement income solutions that can work in a DC world. While it is a daunting task, we believe there are lessons the UK can learn from other countries at different points in their retirement income journey.

In this paper, we examine case studies from around the world, highlighting examples of best practices as well as areas of caution.

Member concerns are universal

In the MFS 2024 Global Retirement Survey, we asked members and pensioners around the world their views on retirement issues and found that there are more similarities than differences across countries, starting with retirement confidence.

Exhibit 1: Member Confidence in Ability to Retire at the Age they Want



Source: MFS 2024 Global Retirement Survey, Global member respondents.: How confident are you that you will be able to retire at the age you want to?

The survey shows low levels of retirement confidence around the world, with the UK exhibiting slightly lower confidence than the US and Canada and similar confidence as Australia.

Given this, many members expect a lower standard of living in retirement, with only 17% indicating they feel they could attain a "comfortable" standard of living as defined by the PLSA and 34% expecting they would be living on the "minimum" standard.[8]

Member views on how they want to retire are also changing, with about two-thirds looking for a more gradual transition into retirement, where they potentially reduce hours or take on part-time work.

Exhibit 2: Member Perception of Retirement is Changing

	A more gradual transition, where you may reduce hours or switch jobs	A hard stop, where you stop working for pay entirely	I am not sure
US	61%	18%	17%
Canada	66%	18%	15%
UK	68%	18%	10%
Australia	63%	19%	15%

Source: MFS 2024 Global Retirement Survey, Global member respondents Q: (Member) Do you expect your retirement to be... Not all answer options shown; results may not add up to 100%.

Across many dimensions, including worries about competing financial priorities, views on sustainability and opinions on advice, our survey found that member concerns and expectations were generally consistent across regions. This suggests that strategies that are successful in helping meet member goals in one region, could apply in other places.

> 62% of UK pensioners are spending less in retirement versus their working years.

Member expectations often conflict with retirement reality

Our survey found that pensioners have a higher degree of confidence in retirement than pre-retirees, with 47% indicating they were very confident and 39% somewhat confident their assets would provide enough cash flow to last throughout retirement. It is interesting to note that pensioner confidence is similar regardless of whether they had a defined benefit scheme.

However, when we dig deeper, we see that 62% of UK pensioners are spending less in retirement versus their working years. A closer look at spending patterns shows further disconnects between member expectations and retirement reality.

Exhibit 3: Top Three Expected/Actual Expenses in Retirement

PERCENTAGE OF RESPONDENTS

	MEMBER EXPECTATIONS	PENSIONER REALITY
Basic living	85%	100%
Health care	49%	30%
Housing	50%	27%
Leisure/travel	53%	82%
Debt/loans	18%	10%
Taking care of family	38%	34%
Charitable donations	5%	11%

Source: MFS 2024 Global Retirement Survey, UK respondents. Q: What do you think your/are your biggest expenditure categories in retirement?

All pensioners note that basic living expenses, such as utilities, food and transportation are a top three expense, while 82% of pensioners note that leisure and travel constitute a top expense, far higher than member expectations. Also, health care and housing are not a top expense for many pensioners, counter to member expectations, which may be an indication of the growing housing challenge in the UK, with declining levels of home ownership in the UK.[9]

The data suggest that pensioners tend to adapt to their circumstances and develop a retirement strategy that works for them. This is not to say that the industry doesn't have work to do to help improve confidence and outcomes, but it is a reminder that pensioners are often more resilient than we give them credit for.

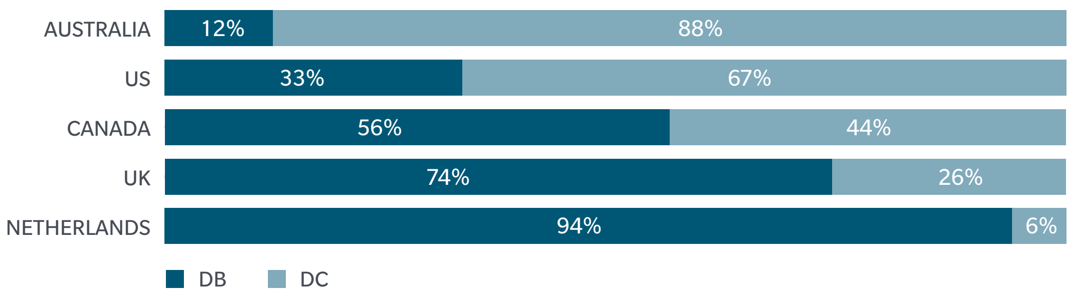
UK sponsors can apply learnings from our case studies around the globe.

READ CASE STUDIES

Countries are at different points along their journey from DB to DC

It is important to recognize that countries are at different points along their journey from DB to DC, as evidenced in Exhibit 4.

Exhibit 4: DB Versus DC Assets for the Largest Pension Markets



Source: Thinking Ahead Institute Global Pension Assets Study 2024.

The UK is still relatively early in the journey, with about three-quarters of retirement assets still in DB schemes. Contrast this to Australia, which has had a mandatory DC system since 1992, with nearly all assets in DC schemes. The United States is well along the DC path, with about two-thirds of assets in DC plans, and roughly eight times as many DC participants as DB participants, and Canada is about half-way along their journey.[10]

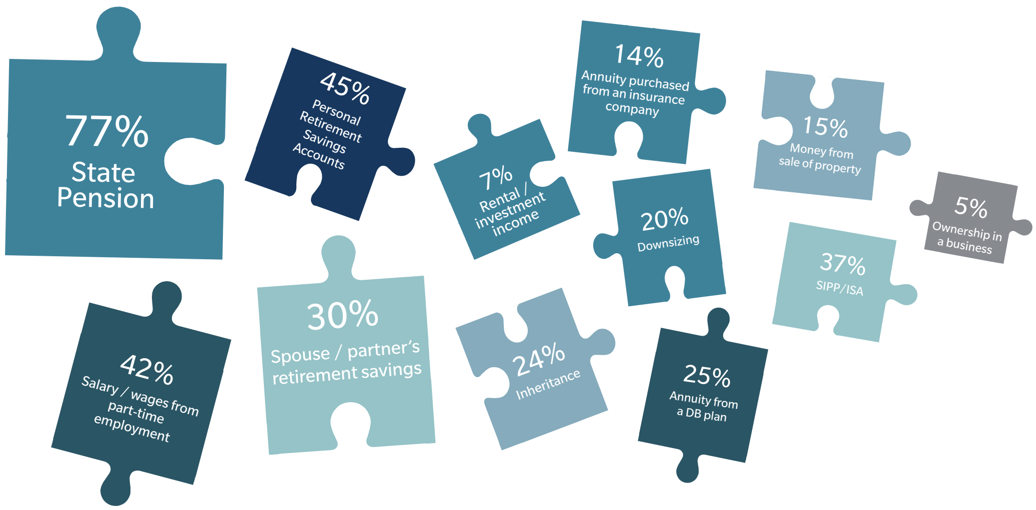
Where a country is in their DB to DC journey is important, as retirement income solutions should consider the prevalence of DB plans as well as benefits offered by tier one pension coverage such as the State Pension.

For example, even though many UK DB plans have been closed to new accruals, there are 8.9 million active members in private DB schemes,[11] meaning that many DC members have a legacy DB benefit that can serve as a foundation for their retirement income needs. Contrast this to Australia, where very few members have a legacy DB benefit.

There is no one-size-fits-all solution

The retirement industry often likes to talk about solving the “retirement income puzzle,” and in the UK, there is a push to design default decumulation solutions. But how can we solve the puzzle when everyone’s pieces are different? Our survey asked respondents to select all potential sources of income in retirement as shown in Exhibit 5.

Exhibit 5: Potential Sources Of Retirement Income



Source: MFS 2024 Global Retirement Survey, UK respondents, Q: Select all potential sources of retirement income in retirement. This question was only posed to respondents age 45+. Respondents could choose more than one response so responses will not total to 100%.

We know the State Pension will be an important part of the retirement savings puzzle for many, as confirmed by 77% of respondents. But beyond the State Pension, we see a wide variety of potential income sources. For example, 42% indicated continued salary and wages from part time employment and 25% say they have an annuity from their DB plan.

We also see the role of housing as a retirement income solution, with downsizing, sale of property or rental income all potentially playing a part. With 63% of households in England owning their own homes, real estate could be a key component of a retirement income strategy for many pensioners, although this will likely change generationally as outlined in the recent PPI report on the potential strain on future retirees, which analyzed the potential impact of declining home ownership in the UK.[12]

The takeaway is DC schemes should be cautious in trying to find the retirement income product or solution that is the best "fit" for their membership, as there is no one-size-fits-all solution to the retirement income puzzle.

Members are looking for guidance

Our survey found that members and pensioners are overwhelmingly looking for advice, and currently receive advice from a wide array of sources as shown in Exhibit 6.

Exhibit 6: Resources Used to Make Retirement Planning Decisions

	GENDER		GENERATION			
	Female	Male	Gen Z	Millennial	Gen X	Boomer
Financial advisor/planner	30%	42%	36%	39%	32%	39%
Scheme provider	29%	35%	30%	36%	32%	26%
Employer	41%	39%	50%	44%	38%	24%
Family member	25%	28%	47%	30%	19%	12%
Financial media	19%	35%	20%	30%	28%	28%
Online investment service	21%	32%	32%	30%	23%	19%
Friend/peer/coworker	19%	19%	27%	24%	14%	11%

Source: MFS 2024 Global Retirement Survey, UK members Q: What resources do you use to help make investment and/or retirement planning decisions? Examples of financial media include newspaper, magazine, podcast, or TV show. Scheme provider, i.e., the company that sends statements for your account or website you visit to manage and monitor your account. Number shown is the percentage that indicated they use the given resource.

Members use a variety of resources and have different ways in which they want to access advice. This is an important consideration for DC schemes, as they consider how best to engage with members on retirement issues. We also see that men are more likely than women to use a financial advisor and leverage online investment services and financial media.

We see that scheme providers and employers are also key sources of advice, with 72% of respondents indicating they would utilize advice resources if their scheme were to offer access.

This point of access is important: We are not suggesting that DC schemes hold themselves out as sources of advice, rather they should position the scheme as a resource hub from which members can access advice, education and tools. It will also be interesting to see how artificial intelligence evolves to play a role in helping members make better retirement decisions.

Closing

While this paper focuses on how countries are approaching the decumulation challenge, it is important to remember there is no decumulation without a strong accumulation foundation.

Automatic enrollment has improved coverage in DC schemes, but it is not without room for improvement. The number of members who fail to meet automatic enrollment criteria continues to grow, including the nation's large cohort of self-employed and part-time workers, who tend to be disproportionately female. There have also been recommendations to bring down the minimum age from 22 to 18.[13]

There is also the risk that members anchor to contribution rates that are unlikely to deliver adequate retirement outcomes. This is borne out in the data that show median employee and employer contribution rates have stagnated at 4.1% and 3.4%, respectively.[14] A critical component to a successful retirement outcome will be members contributing adequately to their DC schemes to be able to have a sufficient drawdown experience.

While the retirement income challenge is daunting, we believe there are reasons to be optimistic. The UK can benefit from the best practices and learnings of other regions that are at various points along the retirement income journey. We also think that the master trust and CDC systems give the UK a structural advantage over other regions, offering an opportunity to use scale to drive better outcomes — something Australia may wish they had begun in the early days of superfunds. Also, the UK has a well-established financial services industry that can help support the development of products and services.

The UK can leverage a principles-based approach to help provide members with the solutions they are looking for rather than allowing product providers to drive the discussion. To the extent that products are part of the answer, they should be simple to understand, flexible and portable.

Finally, it is important to remember that every member's circumstances are different, and there is no one-size-fits-all solution will solve the problem. Accordingly, we believe that providing members with access to high-quality guidance will be a key component of any successful solution.

Case Studies

Netherlands: Together is Better

Recent Dutch pension legislation mandates most DB schemes convert to DC by early 2028. Schemes are expected to have combined employer/member contribution levels above 25%, collective investment programs with age and risk-based asset allocations, and risk sharing features such as smoothing investment returns over time and allowing for variable benefits or limited cost of living increases in case of adverse experience. Schemes will offer some flexibility in payout options at retirement, but lump sums will be limited to 10% of the account value. The risk sharing features have some similarities to the Royal Mail CDC and it will be interesting to compare and contrast the experience of the two systems in the future. There are still many details to work out and only a handful of schemes are likely to convert in 2025, so schemes should keep a close eye on the Netherlands over the coming years to see if there are facets of the Dutch system that might be leveraged in the UK.

What can the UK learn from the Netherlands? While the new system has parallels to the Royal Mail CDC, a key philosophical difference between the Netherlands and the rest of the world is their system is based on better outcomes for all members, rather than individual experience. Convincing members that they can be better off by pooling experience rather than "going it alone" could be a critical component to driving effective retirement income solutions. Another observation is that the Dutch system will have significantly higher contribution rates than what we currently see in the UK, which will undoubtedly drive better outcomes for members. While attention is rightly being directed towards retirement income, the UK needs to keep focused on getting members and employers contributing higher levels towards schemes.

Australia: Principles over Solutions

As a predominately DC market, Australia is often looked to as a leader in the DC space. However, it has only been in the past decade that the retirement industry has begun to focus on decumulation and retirement income solutions. The government enacted a "retirement income covenant" in 2022, which requires superfunds to prepare a retirement income strategy for all members, considering the Age Pension, tax implications and how to assist members to maximize their retirement income and manage risks that might affect their income – specifically investment, inflation, and longevity risk.

This is a principle-based, not prescriptive, system, intended to encourage superfunds to develop innovative solutions for members. A few supers have begun to develop retirement income products, but it is still early days, and it is likely there will be significant development of products and strategies over the next few years as supers put their covenants into action.

What can the UK learn from Australia? A system that compels schemes to formulate and document a principles-based retirement income strategy for their members, is focusing trustees on solutions that work for their members rather than reacting to product development. As a practical takeaway, we encourage schemes to document their own retirement income roadmap, detailing their philosophy on retirement income and their key objectives for member outcomes. Only after this roadmap is developed can schemes make informed decisions on products and solutions that fit member needs.

United States – Don't let product drive the discussion

The US retirement market was predominantly DB until the mid-2000s, when regulatory and accounting changes compelled plan sponsors to move towards DC plans.

It is only recently that the US has begun to focus on decumulation in DC plans. With this, the range of solutions offered on US plan menus has expanded, and plan sponsors are now faced with a bewildering array of options, as shown below.

US Range of Retirement Income Solutions

SOLUTION	DESCRIPTION	LIQUIDITY/ FLEXIBILITY	GUARANTEED INCOME	EASE OF USE (FOR PARTICIPANT)	EASE OF MONITORING (FOR SPONSOR)
Tools and Services	Retirement income calculators and tools, *e.g.*, Social Security calculator	✓	X	X	✓
Income-Oriented Fixed Income	Income yielding fixed income strategies, *e.g.*, stable value or shorter duration strategies	✓	X	✓	✓
Target Date Funds	Income or retirement vintage of existing TDF plan option	✓	X	✓	✓
Managed Accounts	Professionally managed asset allocation service, can incorporate retirement income planning	✓	X	✓	?
Managed-Payout Funds	Strategy focused on providing steady stream of income (either as a fixed dollar amount or percentage of portfolio)	✓	X	✓	✓
TDFs With Guarantee	Typically, a portion of fixed income allocation is replaced by buying into an annuity (immediate or deferred) or GMWB* over time	?	✓	✓	X
In-Plan annuities	Ability to purchase annuity, sponsor vets the service and makes it available to participants	X	✓	?	X
Out-of-Plan annuities	Similar to above but distinction is that transaction occurs out of plan	X	✓	?	X

*Guaranteed Minimum Withdrawal Benefit.

What can the UK learn from the US? The retirement income discussion in the US has largely been driven by product development, rather than first principles, which has left many sponsors frustrated and confused. There is a dizzying array of solutions, no uniform standard and an onus placed on sponsors to implement the correct "solution" for their workforce rather than establish a retirement income philosophy for their plan. And as noted earlier, it is unlikely that adding just one of these solutions will solve the retirement income needs of a broad employee population.

Canada: Early Stages of the Retirement Income Journey

The Canadian retirement income experience has been hampered by several factors including:

- A relatively small DC market
- Sometimes conflicting federal and provincial regulatory frameworks
- Product development and delivery is controlled by relatively few large recordkeepers
- A lack of large plan sponsors to help drive innovation

That said, competition can help drive retirement income innovation, so regulators and industry players will need to strike the right balance between consolidation and competition.

What can the UK learn from Canada? While progress has been slow to date, it may be easier to achieve consensus in a system that is controlled by a relatively small set of players, leading to strong solutions with meaningful scheme and member adoption. The UK trend towards further consolidation in master trusts and CDCs provides an opportunity for these entities to use their scale and governance resources to help drive more innovation in the retirement income space.

Sources

[1] Pensions Policy Institute, The DC Future Book 2024

[2] Office for National Statistics, Labour market by age group, groups ages 50-64 and 65+, March – May 2024.

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[4] GOV.UK – full weekly rate of State Pension as of August 2024

[5] Department for Work & Pensions, The Gender Pensions Gap in Private Pensions, June 2023

[6] Pensions Policy Institute, The DC Future Book 2024.

[7] MFS 2024 Global Retirement Survey, UK Members.

[8] MFS 2024 Global Retirement Survey. Q: Based on your current and expected level of pension assets at retirement, which PLSA standard of living is most realistic for you to reach in retirement? PLSA Comfortable Standard = £43,100 per year for a single person and £59,000 for a couple. Minimum Standard = £14,400 per year for a single person and £22,400 for a couple.

[9] Pensions Policy Insittute: Renting in Retirement – The Fault Line Below the UK Pension System, November 2023.

[10] Employee Benefits Security Administration: Private Pension Plan Bulletin Historical Tables and Graphs October 2022.

[11] Pensions Policy Institute, The DC Future Book 2024.

[12] gov.uk Home ownership, published 4 February 2020, updated 8 August 2023.

[13] Pensions Policy Institute, The DC Future Book 2024.

[14] Pensions Policy Institute, The DC Future Book 2024 Median rates for trust based DC schems.

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We welcome the opportunity to discuss key retirement themes further with you. Please contact one of the UK team members and we will be happy to help.

Survey Methodology:

Audience: Ages 18+, employed at least part-time. Active workplace retirement plan participants/members and retirees in the US, Canada, UK, and Australia.* Data weighted to mirror the age/gender distribution of the workforce in each country. **Methodology:** Mode: 15 minute online survey. MFS not revealed as the sponsor. Field period: March 8 – April 13, 2024. **Key Topics of Inquiry:** Impact of market events, retirement confidence and advice, target date funds, retirement income and sustainability.

*To qualify in each region: US, actively contributing to or retired from a 401(k), 403(b), 457, or 401(a)/Canada, actively contributing to or retired from a DC Pension Plan, Group Registered Retirement Savings Plan, Deferred Profit Sharing Plan, Non-Registered Group Savings Plan, or Simplified Employee Pension Plan/UK, actively contributing to or retired from a Defined Contribution Scheme, Master Trust, or Individual Savings Account./Australia, actively contributing to or retired from an industry, retail, corporate or public sector super fund or a self-managed super fund.

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