Pensions Commission Interim Report
Isio response

14 July 2026

Document classification: Public

Isio response

views.pensions2050@dwp.gov.uk

This document is Isio's response to the Second Pensions Commission Interim Report.

We would be happy to discuss our response with you or expand on any of the points we have made.

Overall conclusion

We agree with the Commission's diagnosis that:

- The UK pensions system is built on strong foundations,
- But is not currently on track to deliver adequate retirement outcomes for a significant proportion of the population.

Without reform, the system risks delivering inadequate, unequal and uncertain outcomes, leading to erosion of trust.

Priority actions for the final report

1. Define and embed a clear **adequacy framework**
2. Encourage initiatives that **allow investment returns to deliver better outcomes**, including earlier savings and collective investment, and support overall financial resilience, e.g. flexible/early access or sidecars
3. Increase **minimum contribution levels,** with these being targeted and phased in over time with sufficient notice
4. Close **coverage gaps**, particularly for the self-employed
5. Address **inequality in outcomes**
6. Strengthen **decumulation frameworks and defaults**, including supporting the introduction of Collective DC arrangements and developing guidance and tools to help people retire gradually.
7. Align pensions policy with **housing and labour market realities**
8. Deliver a **credible, phased reform roadmap**

Key risks and recommended policy responses

1. Strong foundations, but material risk to future outcomes

The interim report recognises that the UK pensions system has strong structural foundations, including automatic enrolment and the State Pension and that the UK pension system has improved materially over the last two decades, driven by:

- Automatic enrolment (AE), which has normalised pension saving
- A strengthened, simplified State Pension; and
- Reductions in pensioner poverty

However, we are entering a new phase, characterised by structural pressures with longer life expectancy and extended retirements facing cost pressures due to increasing care costs and declining home ownership. These headwinds will intensify the onus on individuals, employers and the State to take responsibility for retirement outcomes.

We agree with the Commission's central diagnosis: the system is increasingly at risk of delivering inadequate, unequal and uncertain retirement outcomes at scale. The 15 million individuals who are currently under-saving is projected to increase in the absence of reform. To prevent this the Commission should move decisively from a focus on participation to adequacy of outcomes, and from access to delivery of sustainable retirement incomes.

2. Adequacy risk and minimum contribution trap

Adequacy

The structural under-saving problem identified by the Commission persists despite high participation rates, facilitated in part by minimum AE contributions acting as a behavioural anchor, which creates a misleading sense of suitability.

A first step towards tackling this would be establishing a clear, operational definition of adequacy, that combines:

- Replacement income rates, and
- Minimum income benchmarks.

The State pension (and housing benefit support) should provide basic adequacy for lower earners. The AE minimum should target a suitable replacement rate for middle earners. The outcomes for higher earners can be built on the AE minimum via additional voluntary employee and employer contributions.

The traditional focus on only replacement rates is not discarded, but the report notes its limitations. Low-earners may meet replacement-rate targets (because the State pension replaces a large share of earnings) while still having low absolute incomes.

The Commission suggests that a hybrid approach, combining replacement rates with minimum income benchmarks. That would redefine how success is judged but such an approach could help clarify what individuals need to contribute to achieve a decent income level in retirement.

We agree with the Commission's direction of travel towards a clear hybrid adequacy definition. While our preference would be to keep this as simple as possible, the Commission will have to reflect the variety of situations that individuals may find themselves in retirement and the resulting impact on their income needs, e.g. whether they own or rent their home, ability to work up to State Pension Age, caring responsibilities, etc.

Contributions

Increasing the minimum AE rates and widening the earnings bands, both in a careful, staged fashion are measures that could address under-saving.

Isio supports treating AE minimums explicitly as a floor, rather than a target and reviewing how effective pensions policy is in terms of member outcomes, not just participation metrics.

Equally, a focus on outcomes should result in different AE requirements depending on the savings vehicle used. There are already separate DB and individual DC requirements and we believe there is a strong case for separate Collective DC requirements too (recognising the expected better outcomes than individual DC).

Introducing a phased increase in minimum AE contribution levels could also be supported by auto-escalation mechanisms, which helps to reduce pressure on the marginal cost of new hires. This can be enhanced by promoting higher voluntary contributions and supporting more flexible and later working via clear communication of target retirement outcomes.

3. Participation gaps and coverage risk

Significant groups remain outside effective pension saving. For the self-employed, lower earners and individuals with fragmented employment, the current employer-based AE model is less suited to their role within modern labour markets.

This can be tacked by extending pension saving coverage through:

- Adjustments to thresholds and eligibility, by reducing the minimum age to 18 and considering whether to remove the age criteria altogether.
- Introducing an employer only contributions first AE tier, to better capture some savings for those working multiple jobs and to flexibility for employees to reduce savings not to have to exit savings completely.
- Targeted mechanisms for the self-employed, for instance by deducting pension contributions as a percentage of profits through the mechanism of Self-Assessment and funnelling contributions to NEST or by creating a lagged-annual pension savings allowance based on prior year earnings.

It also strengthens the case for developing flexible savings structures that integrate more easily with non-standard work patterns. Without such reform, there is a risk of a two-tier pensions system, and the Commission's challenge is to develop pensions coverage so it evolves alongside labour market change.

This includes considering the use of 'sidecar' savings to help support greater financial resilience for individuals and more general 'early access' mechanisms which make pensions savings more attractive by introducing a limited level of pre-retirement access (as more funds are ultimately held in tax-efficient long-term pension savings).

4. Inequality and distributional risk

Persistent inequalities in pension outcomes arise as a result of gender, caring responsibilities, income levels and being from certain demographic groups.

The Government could embed distributional analysis into adequacy policy and consider introducing targeted interventions. For example, this could including additional benefits or pensions for carers and retraining to support longer working lives.

5. Decumulation and retirement decision-making risk

Individuals face complex decisions with DC pension savings, but investment growth is a powerful driver of DC post size if given long enough, emphasising the importance of starting to save early, something else which points to lowering the minimum age for AE.

Along with ramping up financial education, generating flexible employment opportunities to retain older workers in the labour market, as well as helping to address their health needs and to facilitate their caring responsibilities.

The Commission notes the evidence of early/full withdrawals of DC pension pots is often geared towards short-term splurges with a knock-on impact for future adequacy although in many cases it helpfully facilitates longer-term working lives. Another view is that individuals are taking a logical approach to working through smaller pots before using the larger pots for their longer-term retirement income.

Our view is that people who have saved for their retirement will be careful when using their retirement savings and while some guardrails will be a constructive addition, it will need to avoid restricting the flexibility for members to take benefits when it suits them. We don't support significant changes to 'pensions freedoms'. Making changes to inheritance tax to avoid pension savings being turned into estate planning is one thing as it addresses an anomaly, but individuals are used to pension freedoms and the ability to draw benefits as they see fit (within the rules).

It's clear that the shift of risk from institutions to individuals is not matched by system support. We are encouraged by the Government's proposals to introduce default 'guided retirement' decumulation pathways. These should help support disengaged members to bring their DC pension pots into payment in a way that looks to manage some of the key retirement risks (investment, longevity, inflation) without having to pay for financial advice.

Decumulation is a core system risk, not a secondary issue and flexibility must be complemented by guardrails and defaults.

We are also supportive of the benefits that collective approaches can bring to improve members outcomes in DC pension schemes. Both whole-life and retirement Collective DC arrangements should help make pension savings easier to understand, focusing on income (not pot) outcomes, and delivering higher incomes from investing and managing longevity risk collectively.

6. Economic context risk (housing, work and intergenerational change)

Future retirees face lower home ownership levels resulting in higher housing costs in retirement. Coupled with more volatile working patterns this means traditional assumptions (e.g. mortgage-free retirement) are weakening.

There are also greater pressures on families to care not only for children, but for older relatives too. These responsibilities can shorten working lives or require more flexibility.

Pensions policy will need to align with housing outcomes and labour market trends. However, this will need to incorporate realistic economic assumptions into adequacy modelling as failure to reflect these changes risks system miscalibration.

Retirement income policy must be considered holistically alongside employment, care and housing policy.

7. Over-reliance on individual behaviour

The system relies on individuals to save sufficiently, engage with their pensions and manage retirement income decisions but behavioural inertia leads to sub-optimal outcomes at scale.

Addressing this will require a greater reliance on defaults and system design, rather than engagement alone. Devising a method to auto-escalate contributions, aligning default investment strategies with adequacy, and ensuring default decumulation pathways can consistently deliver meaningful retirement incomes for life.

Engagement is useful but alone it is not sufficient, and policy should be built around realistic behavioural assumptions. We support focusing policy on:

- Strengthening mandatory/automatic elements
- Improving integration between pension and other savings vehicles

8. Policy trade-offs and delivery risk

Improving adequacy will require difficult trade-offs that have to find the balance between sufficiently ambitious and deliverable:

- Higher contributions
- Longer working lives
- Increased state support

The Commission must clearly articulate trade-offs and distributional impacts and provide a phased, realistic policy roadmap, that includes transitional arrangements, affordability considerations and is realistic in its impact on employers.

Such reform must be economically sustainable, behaviourally credible and politically deliverable. We believe the key elements to balance these competing interests should involve:

- the **Government** agreeing clear adequacy requirements and a sustainable approach to the role of the State Pension;
- **employers** making contributions earlier, with a phased move to higher AE minimum contributions via auto-escalation;
- **individuals** being provided with a pensions system that reflects modern working careers, provides greater basic financial resilience and a clearer understanding of their likely retirement incomes.

About Isio

At Isio, we are a progressive and growing pensions, investment, employee benefits and wealth advisory firm, collaborating with a diverse client base.

Working with pension trustees, senior finance and HR leaders, individuals, families and charities, we are supported by 1,400 talented colleagues across 10 UK offices. We have a Big 4 heritage and emphasis on quality advice with a fresh perspective, challenging tradition.

Our culture shapes our work; we foster a supportive environment where we develop our people to grow and fulfil their potential. We invest in services and technology, and provide clear, expert solutions for our clients.

Bringing clarity, confidence, and better outcomes for every client.

Isio's core purpose is to bring clarity, confidence and better outcomes for everyone.

We believe that purposeful and clear advice makes a meaningful difference—whether guiding organisations through complex pension landscapes, or empowering individuals and families to take control of their financial future.

Our purpose drives us to help clients make confident decisions and achieve better outcomes, whatever their needs.

Pensions

We provide actuarial, administrative, and investment consulting services to UK pension schemes across all sectors and sizes in the UK. Our expertise helps companies and trustees fulfil their commitments and ensure well governed and efficiently run schemes. We are also leaders in supporting strategic decisions including the long-term endgame planning and consolidation of pension schemes.

Employee Benefits

A challenger business that works with HR leaders to design and manage employee benefits programmes by tailoring them to employer strategy and employee needs. We provide technology solutions to support the running of the programmes, arranging insurance, and facilitating communication and engagement programmes. All aimed to help employers support their employees in making smarter financial choices.

Please feel free to contact us about our response.

Our key contacts are:

Stewart Hastie (stewart.hastie@isio.com)

Iain McLellan (iain.mclellan@isio.com)

Paul Barton (paul.barton@isio.com)

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.