

How to Fix Our Pension Regulators

It's time to shift from *regulating-for-risk* to *regulating-for-growth*

August 2025



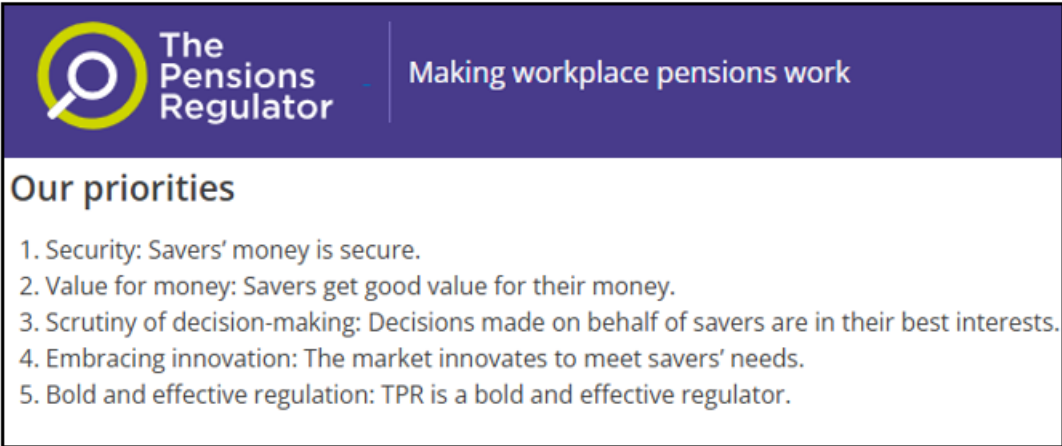
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- Reeves wants a culture shift from **'regulating-for-risk'** to **'regulating-for-growth'**.
- A good place to start this shift is the regulator's objectives. Today their priorities focus on **'safety'** & **'costs'** and do not prioritise outcomes such as investment growth.
- Such objectives perhaps suited the DB system but have less relevance to DC where investment growth matters more. **The result is a high level of risk aversion built into DC pensions.** Returns have suffered as a result.
- We show where to start – rewriting the regulator's goals away from safety & costs to **'best interests for generating retirement income'** – the objectives used in Australia.

"For too long, the UK has been regulating for risk, but not regulating for growth", said Rachel Reeves last year. It is a view that many in the pension industry would agree with.

You don't have to dig very hard to find evidence of the safety-first attitude. It is written in black and white on The Pension Regulator's website, together with a focus on costs. Missing from their objectives is any reference to retirement outcomes or the investment growth that requires.

The *Safety-First!* agenda in black and white.



The Pensions Regulator logo: A magnifying glass icon over the text 'The Pensions Regulator'.

Making workplace pensions work

Our priorities

1. Security: Savers' money is secure.
2. Value for money: Savers get good value for their money.
3. Scrutiny of decision-making: Decisions made on behalf of savers are in their best interests.
4. Embracing innovation: The market innovates to meet savers' needs.
5. Bold and effective regulation: TPR is a bold and effective regulator.

Source: www.thepensionsregulator.gov.uk

No one would say that safety and costs are issues that should be ignored. In fact, for a DB system that might be enough. But a great DC pension system requires so much more. In particular, a DC system relies much more on investment performance.

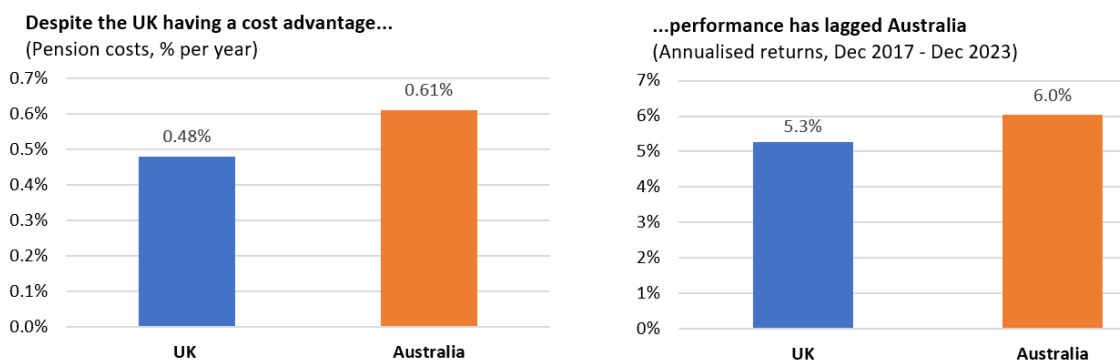
These skewed objectives mean regulators sometimes can't see the wood for the trees...

Example 1: Much focus on costs. Little focus on returns.

The cost focus was arguably more appropriate when autoenrollment was first introduced. But today, the UK DC industry compares well on fees. For example, UK pension schemes cost less than the world class Australian superannuation funds. [Research](#) shows how the costs for UK DC schemes come in at about 0.48% versus 0.61% for Australian schemes.

Despite this cost advantage, UK savers generally see lower long-term returns. There is limited mileage from pursuing costs further when it is not the deciding factor in generating performance.

The UK has an inexpensive but poorly performing system



Source: Policy Exchange, August 2024.

Example 2: Much focus on benefits of scale. Little focus on the problems scale can bring.

The government's plan to create 'mega-funds' of at least £25bn in assets is based in part on the desire to reduce costs further. But evidence from around the world suggests only a modest link between scale and performance.

Research suggests gains from scale come more from eliminating micro funds than creating mega funds.

Once assets reach ~\$10bn, there is little difference in returns. So the UK's new £25bn threshold is likely set too high.

Too little thought has been given to the problems this threshold could bring: creating pension behemoths, less competition, concentration risks, large funds all fishing in the same pool and little innovation.

Scale is an argument that can be taken too far

Average annualised returns, 2012-2022, by size, for US pension funds



Source: publicplansdata.org.
Sample size of 218 schemes

Australia is undergoing its own consolidation drive. Despite a much larger industry, their regulators are rumoured to have set a threshold of A\$30bn (~£15bn). Why the UK plumped for a much higher cut-off and how the UK intends to avoid the drawbacks of the enormous funds that will be created over the decades to come has never been properly explained.

Example 3: Lifestyling and the lower risk appetite of UK DC pensions

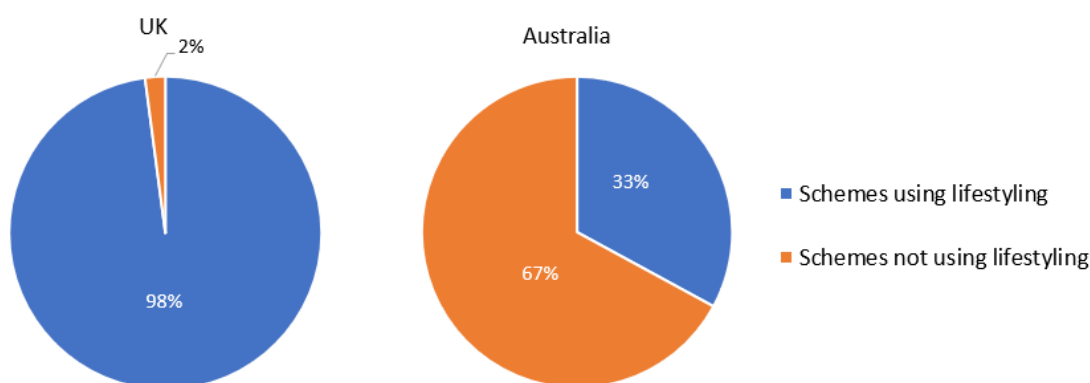
[Research](#) suggests the key reason behind UK pensions underperforming Australian is their lower risk appetite. This stems from the UK's adherence to the concept of lifestyling - an idea that progressively lowers equity allocations as savers get closer to retirement.

Around the world, such de-risking is not universally embraced. UK regulators - with their safety-first mindset - strongly endorse lifestyling. Rules around 'appropriateness' are written in a way that requires adherence. As a result, the UK places a large number of middle-aged savers into low risk / low growth categories.

By contrast, Australia's famous superannuation funds are given a free reign to decide if such a strategy is appropriate. Their trustees have a choice as to whether or not to adopt lifestyling. Most superfunds (67%) choose to avoid it.

Lifestyling is mandatory in the UK but avoided in Australia

(% of schemes using lifestyling for their default option, UK DC vs Superannuation)



Source: Policy Exchange, August 2024. Based on APRA and Pension Policy Institute data.

Our own [publications](#) have previously shown how lifestyling has resulted in a £12,000 penalty on the typical £100K pre-retirement pot. For the nation, the lower equity allocations also mean a £25bn hit to domestic investment and UK capital markets.

Running less risk as savers get older stems from the old concept of derisking to buy an annuity on retirement. But few savers behave like this. With lifestyling derisking savers sometimes 10-15 years before retirement, the opportunity cost (in terms of missed market gains) can be large.

Of course, the strategy is designed for safety. But even during bear markets, such as the Covid crash, our research highlighted even during the very worst of the market correction, long term performance was better when lifestyling was avoided.

Former Pension Minister Ros Altman has called the lifestyling approach “a hangover” from 10 or 20 years ago. She has argued this whole approach urgently needs revamping.¹

But no revamp is under way. We argue this is in part due to the regulators thinking too little about returns and too much about safety. And the £25bn cost to UK capital markets is overlooked entirely.

¹ See [news reports](#) and statements in [Parliament](#)

An alternative approach: Australian regulatory objectives

In contrast to the UK regulators, the Australian Regulator APRA directly references retirement outcomes in its objectives and publicly disavows a 'safety at all costs' attitude. And it has a far wider remit that includes increasing contestability and competition.

How the Australian Regulator focuses on outcomes

- "APRA seeks to ensure that a superannuation fund manages contributions [...] in members' best interests to generate retirement income"
- [considerations include:] "efficiency, competition, contestability and competitive neutrality"
- "Risks to these outcomes may be financial (e.g. risks of poor investment returns), operational (e.g. a failure of a computer system) or behavioural (e.g. risks relating to governance, culture and remuneration)"
- "APRA is not tasked to pursue a 'safety at all costs' agenda"

Source: APRA.gov.au, August 2025

Many of the defining features of the Australian system can be traced to these objectives.

- The focus on outcomes has led to superannuation funds eschewing strategies such as lifestyling that can give worse returns to savers.
- The focus on competition has led to super fund performance league tables – a media staple that in turn has created a performance culture. In the UK, it is almost impossible to compare a pension performance to other providers.
- The focus on contestability has led to the 'superstream' shared IT system that makes changing between providers easy. In the UK, changing pension provider is paper based and often a bureaucratic challenge.

Ultimately, the Australian superannuation regulatory objectives have helped create a virtuous circle of better growth alongside more investment for their nation.

Conclusion

Changing regulatory objectives may sound dull. But these objectives are disproportionately influential. Today the UK regulators prioritise safety and costs. While well intentioned, this leaves less room for focusing on the features that make a good DC system.

The Chancellor often references the success of superannuation in Australia. Compared to Australia, the UK pension system remains too defensive (particularly for older savers) and lacks competitive tension around performance.

The success of the Australian system can in part be traced to regulators prioritising a wider set of outcomes. For policymakers, a key attraction is moving the UK to Australian-style regulatory objectives wouldn't require legislation – it can be done by agreement with the DWP.

Such a reform has the potential to boost returns to savers by £12,000 and give the country a £25bn boost to its capital markets. Regulating-for-growth means taking a fresh approach. Setting new regulators objectives is the first and necessary step.



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