

Retirement adequacy: can employers afford not to care?

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Imagine a world where the current retirement provision continues as it is. Limited changes or innovations by providers to deliver better outcomes. No intervention by the government to mandate stricter requirements on employers. If employers continue to meet only the legal minimum standards, how resilient will they be as the industry evolves?

We don't think this will happen in practice. We already know the pensions industry is working hard to create new and innovative solutions, bringing better value to members. The government has shown commitment to improving member outcomes, the first step of this by relaunching the Pensions Commission. But, by considering this picture, we see a serious risk emerging within today's pension provision if change doesn't happen. And for employers specifically, what are the consequences?

Some that come to mind are:

- ◆ A growing trend of employees unable to afford to retire, causing a demographic bottleneck within your workforce.
- ◆ Ongoing confusion about pensions.
- ◆ Financial and mental stress caused by low savings and limited support. This can affect employee wellbeing and lead to lower productivity.

Workforce mobility has increased over the last few decades. Employees often leave their pensions in the schemes of their former employers. Many employers, understandably, struggle with this lack of control and visibility over benefits accrued elsewhere. Why, then, should an employer assist their staff in bridging any pension gaps caused by previous employment? We believe there are various reasons, and the downsides of inaction can be very significant to both employers and employees.

THE LAUNCH OF THE PENSIONS DASHBOARD WILL MEAN EMPLOYEES DEMAND MORE OF THEIR EMPLOYER

There's been significant work in recent years on the Pensions Dashboard. It's expected that the dashboard will be made available to the public within the next couple of years. There will be a lot of attention around the launch as it'll also allow employees to view their pension savings in their entirety. For the first time, it will provide a single place for employees to understand their progression of their pension savings.

What does this mean for employers? Both current and new employees will have readily available information on their overall progression (or lack of) towards their retirement. Employees may increasingly consolidate all of their pensions with their current employer. This could mean their past pension savings end up in the same scheme that provides their future benefits. This will create even more desire for pension offerings to be compelling. We expect the Pensions Dashboard to make good pension offerings more desirable and a more prominent talking point for employees.

KEY INSIGHT

As an employer, while you weren't responsible for any gaps in pension savings from previous employment, employees will certainly demand more from employers to help them bridge any shortfalls they can now readily see.

THE CHALLENGES OF EVOLVING RETIREMENT TRENDS

In recent years, there has been growing uncertainty about how employees are retiring, which makes it difficult for employers to make succession plans. There has been a large rise in partial retirement, where employees draw from their pension savings while continuing to work. Many retirees have been looking to re-enter the workforce. [Legal & General](#) reported that 2.8 million former retirees have returned to work. We're moving into a world where retirement adequacy is significantly altering retirement behaviours.

It isn't just retirement adequacy that's causing these changes, however. [Research by Standard Life](#) note some of the social reasons causing employees to return to the workforce, ranging from boredom and loneliness. They search for a greater purpose that their employment used to give them.

With these trends looking to continue, an important open question to employers is this. Would you rather have an ageing workforce that needs to work solely for financial reasons, or one that chooses to work because it brings purpose and fulfilment? An employer has the ability to reduce the risk of employees working longer solely for financial reasons, and thus having an impact on their employees who wish to remain in service for a wider purpose.

PENSIONS RANK AS A HIGHLY VALUED BENEFIT AMONG EMPLOYEES

In a fast-moving world with a dynamic workforce, employees views remains the same; they value pensions as a benefit. [According to research by Royal London](#), the pension offering of an employer is the second most valuable benefit employees look at when applying for a new job, falling just behind salary. A pension is more valuable than some of the 'newer' benefits that employers provide, such as flexible and remote working.

We expect salary to still be the key factor for employees looking to move roles. However, offering a strong pension vehicle will become increasingly important. This ultimately provides dual benefits; employees appreciate the offering, and employers are better equipped to manage the progression of employees within the business.

THE INEVITABLE CHANGE

While an employer may be able to ignore today's retirement adequacy challenge, there are upcoming changes that should challenge that view. Pensions, and the concept of retirement is changing. Employees will be more engaged and, as retirees rely more on their DC benefits, the desire of employees will only become louder. If an employer can standfast on today's challenge, can they do so for the challenge of tomorrow?

At the start of this publication, we discussed the world of inaction. However, it seems the government won't stand and watch as retirement adequacy continues to wane. The Pensions Commission will help the government understand the depth of the problem, and they are active in their pursuit of other areas of innovation (such as longevity protection in DC default retirement solutions, or the launch of collective defined contribution schemes). With an increasing State Pension bill, we would expect the government to place more weight on the shoulders of employers to meet this issue.

In this case, the question is: can employers afford not to care about the retirement adequacy challenge? In our view, at the very least, employers should have a strategy to meet the short-term adequacy challenges and emphasis that will be present in the coming years.

If you would like to discuss this in more detail, please [get in touch](#).



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