



Hidden risks

Your Workplace Pension

pib employee
benefits

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What are some of the key risks in your pension scheme?

A strong workplace pension can deliver significant value, but many schemes carry hidden risks and missed opportunities that can impact employers and employees.

For many organisations, the workplace pension is now one of the largest investments they make in their people.

Yet despite the scale of this spend, pension strategies are often left largely on autopilot. Default funds are rarely revisited, long-standing provider relationships go unchallenged, and many employees are unclear about how their scheme works or what it means for their future.

The result is a growing disconnect: employers are spending more, but employees are not necessarily getting better outcomes. Our research shows that only around half of employees feel confident about their retirement prospects, despite automatic enrolment and rising contribution levels. Worse still, 16% of employees admit they never check their pension balance*.

In this article we explore four common but often overlooked weaknesses in workplace pension arrangements - and what forward-thinking employers can do to address them.

Taken together, these areas can materially affect employee outcomes, the perceived value of your benefits package and the overall return on your benefits spend.



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1 | Over-reliance on default funds

Default funds are vitally important for workplace pension schemes and those who look after them; many employees will never make an active investment choice, so a well-designed default fund is essential.

Default strategies are typically designed to suit the “average” member. But there is no such thing as an average workforce; your people span different ages, salary levels, financial responsibilities, personal circumstances, and attitudes to risk. A single investment pathway is unlikely to be optimal for them all.

Companies have a responsibility to ensure their default fund is fit-for-purpose, and communicate it effectively to their scheme members.

Misaligned risk

Younger employees might be invested too cautiously, missing out on long-term growth. Pre-retirement employees might be taking more risk than they are comfortable with.

Changing retirement patterns

Traditional “cliff-edge” retirement at a fixed age is being replaced by phased retirement, portfolio careers and part-time work - our research shows 1 in 10 employees believe they will not be able to retire. Defaults that gradually de-risk into bonds and cash by a single target date may not fit these new patterns.

Regulatory and market change

Investment markets, charges and regulations evolve. A default fund that was best-in-class five years ago may now look expensive or outdated.

What actions should employers take?

Regularly reviewing the default design: Assess whether the underlying funds and risk profile remain appropriate for your specific workforce population.

Using data intelligently: Analyse membership demographics, contribution levels and retirement behaviours to understand how employees are actually using the scheme.

Offering guided choice: Modelling tools and financial education can help those with different objectives choose alternative funds where appropriate.

2 | Outgrown pension providers

Business growth can result in a pension arrangement no longer being the best fit; older or legacy arrangements can struggle to keep pace with changing expectations, or there may be more cost-effective options now available to a larger organisation.

The pensions market has evolved rapidly, with new providers, improved platforms and more transparent charging structures. An outdated arrangement can lead to reduced employee retirement outcomes, lower perceived value, and governance and compliance challenges if service or communications fall short of regulatory expectations.

Warning signs you may have outgrown your provider:



A narrow investment range

A lack of diversified funds, sustainable investment options or modern retirement solutions



Higher-than-average charges

Legacy pension schemes may carry higher Annual Management Charges (AMCs), reflecting older pricing structures and less efficient investment platforms



Weak member support

Limited access to guidance, tools or helplines undermines employees' ability to make informed decisions



Limited digital functionality

Clunky interfaces, poor mobile access, or fragmented reporting make it harder for members to engage with their pensions and for HR teams to manage schemes efficiently

What actions should employers take?

Periodic whole-of-market reviews test whether your current provider still represents the best option for your scheme and workforce.

3 | Low employee engagement

Even the best-designed pension scheme will underperform if employees do not understand it or do not feel confident using it.

Despite years of automatic enrolment, many people still struggle with the basics: how much they should be contributing, how pensions are invested, and what sort of retirement lifestyle their current savings are likely to support.

Only 48% of employees feel confident they'll have enough money for retirement*

For businesses, widespread pension disengagement can cause issues with succession planning. For employees, it can manifest in a number of ways:

- **Poor contribution levels:** Employees may leave contributions at the statutory minimum
- **Sub-optimal decisions:** Opting out of enrolment, cashing out small pots, or ignoring investment choices can all erode retirement outcomes
- **Wellbeing:** Financial worry is linked to stress; employees who are anxious about money could be less productive and are more likely to experience health issues

What actions should employers take?

Employers should build a multi-channel communications strategy that engages employees throughout the year:

- ✓ Clear, jargon-free communications tailored to different life stages and financial circumstances
- ✓ Personalised modelling tools that show what today's decisions mean for tomorrow's retirement income
- ✓ Seminars, webinars and one-to-one guidance to help employees translate information into action
- ✓ Joined-up financial wellbeing programmes that link pensions with budgeting, debt management and savings

4 | Not using salary sacrifice

Salary sacrifice (also known as salary exchange) remains one of the most under-used tools in the workplace pension toolkit, despite its potential to improve tax efficiency for both employers and employees.

Under a typical salary sacrifice arrangement, employees agree to reduce their gross salary by the amount of their pension contribution. The employer then pays that amount into the pension on their behalf, alongside the employer contribution. Because National Insurance contributions (NICs) are calculated on the reduced salary, both parties usually pay less NIC; employees can receive higher net pension contributions, and employers can generate cost-savings which can be reinvested elsewhere.

Proposed pension reforms towards the end of this decade - combined with increasing focus on retirement adequacy and value for money - are bringing salary sacrifice into the spotlight.

What actions should employers take?

Salary sacrifice will not be right for every organisation or every employee. During a discovery exercise, employers should:

- Assess the impact on different salary levels, particularly lower earners and those close to statutory thresholds
- Ensure payroll and HR systems are able to manage the change successfully



What should employers do next?

Regulatory change, evolving workforce expectations, and the intense competition for talent means your pension strategy needs to be actively managed and regularly refreshed.

Companies should look at:

Governance review: Clarify roles, responsibilities and decision-making processes

Default fund assessment: Test whether your investment strategy still fits your workforce demographics and retirement patterns

Provider benchmarking: Compare your current provider against the wider market on service, technology, investment options, charges and member support

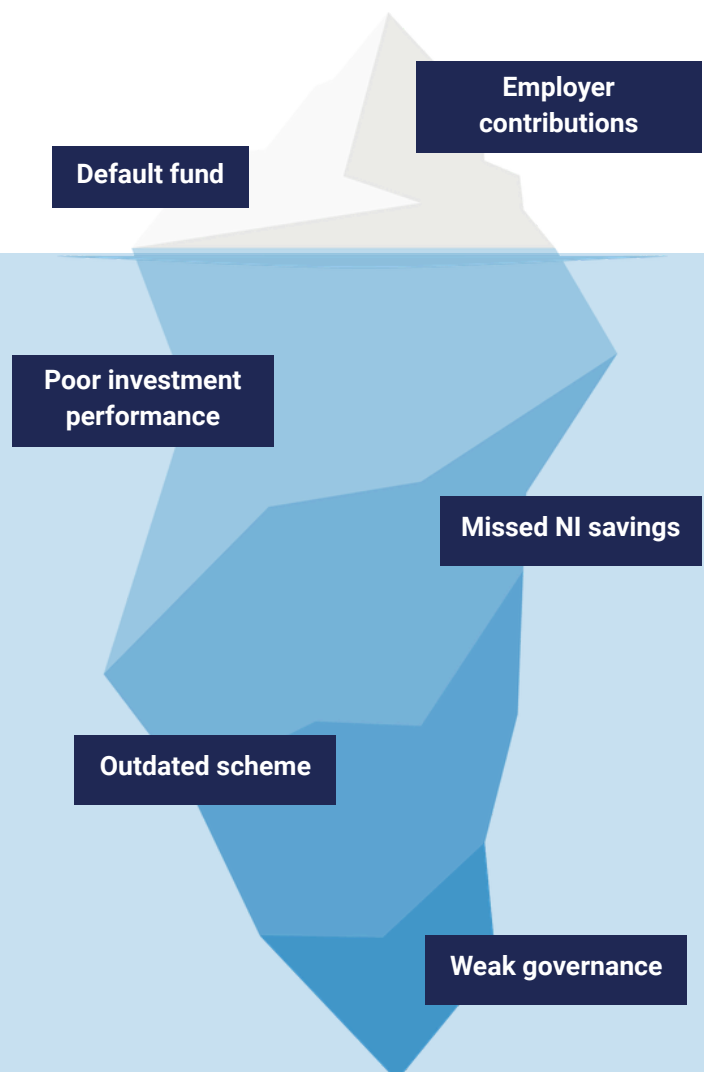
Engagement redesign: Develop a year-round communications and education plan

Salary sacrifice feasibility study:
Model the impact, identify risks, and design an approach that works for your organisation and your people

Book a Pension Health Check

Our experts can help you spot what's hidden beneath the surface of your workplace pension.

Through a free, high-level review, we'll confirm your scheme type, provider and default funds; assess structure, service, investment and governance; and highlight what's working, what's not and any potential compliance risks - giving you a clear, practical view and next steps.



Get in touch

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