

Flexibility vs. Discipline

Why UK retirement defaults need income, growth and guardrails

- + Left to their own devices, retirees often make decisions that erode their long-term financial security: holding too much cash, de-risking too early or withdrawing at unsustainable rates. These behaviours are predictable, persistent and structurally harmful—in a system that expects individuals to make complex financial decisions without the support to do so confidently.
- + The Pension Schemes Bill 2025 and the Financial Conduct Authority's (FCA) targeted support framework address these issues, aiming for the same goal: better-designed defaults with clearer pathways plus support that puts member outcomes first. This should allow for autonomy but shift from a flexibility-first mindset towards a more disciplined, structured approach.
- + We explore how guided retirement—designed around income generation and inflation resilience, with rules-based guardrails—can materially improve retirement outcomes for a very large proportion of retirees.



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The unintended consequences of freedom

Pension Freedoms arrived in 2015 and were celebrated as a long-overdue modernisation of retirement planning in the UK. Retirees were no longer compelled to purchase annuities and were free to access their defined contribution pots however they wished. The policy was hugely popular. But a decade of real-world behaviour shows that flexibility, when unsupported, has produced outcomes far removed from policymakers' intentions.

For a minority of affluent or well-advised retirees, greater freedom enabled sophisticated tax planning and personalised strategies. For the majority, however, the complexity of managing withdrawals, inflation risk, sequencing risk and longevity has proved overwhelming. Data from the FCA highlights the consequences: nearly half of pots accessed for the first time are still fully withdrawn as cash^{1,2}. Whilst cash may feel safe, it exposes retirees to three intertwined risks:

01 CASH DRAG

Cash erodes purchasing power. With money market rates typically lagging inflation over the long term, excessive cash allocations create a persistent drag on portfolio returns. For a retiree with a 25-year time horizon, this drag can translate into tens of thousands of pounds of forgone potential growth, representing the difference between a constrained or comfortable retirement.

The FCA calculates that non-advised drawdown savers holding one-third of their assets in cash face a potential 37% return shortfall over 20 years compared with a balanced portfolio³.

02 INFLATION EROSION

Structural factors in the UK suggest a 2% long-term inflation forecast may be dangerously optimistic; 3% or more could be a more prudent baseline for post-retirement portfolios.



Health care, energy, food and care costs have all outpaced the headline Consumer Prices Index (CPI) in recent years, combined with a large fiscal deficit, energy transition risks and an ageing population all pointing to persistent inflationary pressures.

03 LONGEVITY RISK

Many retirees may be systematically underestimating how long they will live. UK cohort tables imply roughly 25% of 65-year-olds today will live to 90 (with the probability higher for women than men)⁴, which means inadequate growth in the early years of retirement can have potentially devastating consequences in later life.

The Pension Schemes Bill 2025 attempts to address these risks, requiring master trusts to offer guided retirement solutions by 2027, followed by trust-based schemes in 2028. Combined with the FCA’s targeted support reforms⁵, the direction of travel is clear: the industry must do more to protect members from predictable, harmful behaviours.

Collectively, these patterns confirm that unconstrained choice without structured support creates suboptimal outcomes for members in retirement. For asset managers and trustees alike, this represents an opportunity to design innovative, value-aligned solutions that genuinely serve member interests.

Our view: income, inflation resilience and growth

Allspring believes retirement must evolve from “flexibility first” to “discipline first”. Our approach rests on three pillars: income generation, inflation resilience and growth assets.

01 INCOME GENERATION IS THE PRIMARY OBJECTIVE

Retirees display a strong aversion to spending down capital, preferring to spend income rather than reduce savings⁶. Default decumulation solutions should be built around durable, diversified cash flows rather than pure total-return optimisation. Structures in place support this model, allowing natural income from the underlying investments to be paid directly into members’ bank accounts or supplemented with small, rules-based unit sales when needed. Prioritising income helps reduce sequencing risk, maintains investment discipline and, importantly, supports member confidence in retirement.



Sequencing risk: the danger that poor market returns early in retirement permanently damage a drawdown plan. Withdrawing assets whilst prices are depressed locks in losses, leaving fewer assets to recover.

Income-focused portfolio construction should blend four key building blocks:

Core income engine (60–80%)	Global exposure to dividend-paying equities and investment-grade credit provides the foundation of recurring distributions, offering diversified, “always-on” income across market cycles.
Satellite income (0–20%)	Tightly risk-budgeted allocations to high yield bonds, securitised income or covered-call overlays may modestly enhance yield and smooth volatility without compromising portfolio resilience.
Inflation buffer (10–20%)	Exposure to index-linked gilts and other inflation-resistant strategies strengthens purchasing-power protection in a world where structural inflation risks have clearly risen.
Small cash buffer (0–5%)	Operational liquidity should never become a structural holding, avoiding the significant long-term drag associated with high cash allocation.

Lastly, *transparency* is central to making income-focused portfolios intuitive for members. When income is drawn primarily from dividends and coupons, it becomes clearer to retirees where their payments are coming from rather than feeling abstract or unpredictable. Showing the split between natural income and capital withdrawals sets expectations early, reduces anxiety about “running out” and supports more sustainable spending behaviour. This clarity also aligns with the FCA’s Consumer Duty guidance, which emphasises helping consumers make effective decisions.

02 INFLATION RESILIENCE IS ESSENTIAL

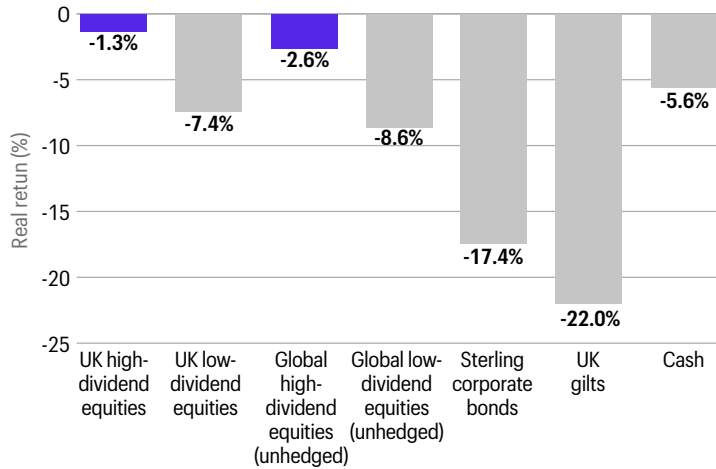
Retirement strategies should keep members invested in return engines that can help preserve purchasing power whilst funding withdrawals instead of letting inflation erode the real value of coupons and cash.

Carefully considered exposures to index-linked gilts and commodities are certainly part of the answer, but an often-overlooked asset class is high-dividend equities. They offer a natural inflation linkage because mature, cash-generative businesses can typically pass cost increases on to consumers, supporting dividends in real terms. They also tend to exhibit quality traits (strong free cash flow, sensible payout ratios and balance sheet discipline), making their value less rate sensitive than long-duration growth stocks. In short, when properly implemented, high-dividend equities are potentially both a practical income source and a structural hedge against inflation’s squeeze.



When considering drawdowns across asset classes during the COVID inflation shock, UK inflation averaged 8%. Cash and nominal fixed income were overwhelmed in real terms whilst high-dividend equities (UK and global) saw much smaller real drawdowns than low-dividend equities, sterling corporates and gilts (Figure 1).

FIGURE 1: HIGH-DIVIDEND EQUITIES HAD LOWER REAL DRAWDOWNS DURING THE COVID INFLATION SHOCK



Sources: Bloomberg and Allspring. October 2021 to October 2023. UK high-dividend equities = FTSE High Dividend Yield Total Return Index, UK low-dividend equities = MSCI UK Growth Net Total Return Local Index, global high-dividend equities = MSCI World High Dividend Yield Net Total Return Index, global low-dividend equities = MSCI World Growth Index, sterling corporate bonds = ICE BofA Sterling Corporate Index, UK gilts = ICE BofA UK Gilt Index, cash = SONIA Interest Rate Benchmark. Inflation is UK CPI EU (harmonised).

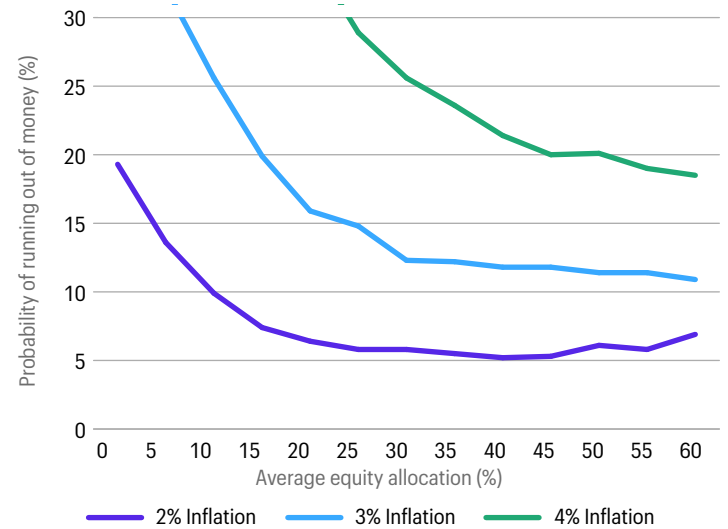
03 MOST RETIREES NEED MORE GROWTH ASSETS

With longer retirements and elevated inflation risk, conventional advice to steadily reduce equity exposure in retirement may no longer be appropriate.

We modelled outcomes for a typical UK retiree by running 10,001 simulations for ages 65–85, using a £50,000 starting pot (within the FCA’s median band for drawdown pots) and a 5% withdrawal rate indexed to inflation. These assumptions provide a realistic benchmark for typical members. Whilst a £50,000 pot may seem small in isolation, when combined with the State Pension payments, it exceeds the Pensions and Lifetime Savings Association’s minimum retirement living standard, making it a realistic benchmark for the average UK retiree. Full modelling details are set out in the appendix. The results in Figure 2 show that:

- At **2% inflation**, the risk-of-ruin curve is a shallow “U”, minimising at around 40% equity.
- At **3% inflation**, the curve shifts upwards and the minimum risk point moves above 40% equity. Higher inflation increases the probability of running out of money, irrespective of the average equity mix.
- By **4% inflation**, the probabilities shift meaningfully higher and average equity allocations of 50–60% are required to minimise the probability of ruin.

FIGURE 2: RISK OF RUIN WITH THREE INFLATION ASSUMPTIONS AND AVERAGE EQUITY ALLOCATIONS



Source: Allspring. For illustrative purposes only. Results of stochastic modelling are defined in the methodology. Refer to the appendix for further information.

Our modelling suggests that maintaining at least 40% average equity exposure through age 85 (and potentially more in higher-inflation environments) produces materially stronger outcomes than traditional de-risking approaches that reduce equity exposure throughout retirement.

Guardrails, not rigid constraints

Whilst our focus is investment design, we recognise effective decumulation also depends on administration, communications and scheme operations.

Guardrails can prevent catastrophic outcomes without removing member choice by introducing a discipline-first approach. Rules-based mechanisms help keep members broadly on a sustainable path whilst respecting autonomy and aligning with the FCA’s targeted support regime. Figure 3 highlights some of the guardrails we believe can support improved retirement outcomes.



FIGURE 3: GUARDRAILS TO SUPPORT IMPROVED RETIREMENT OUTCOMES

GUARDRAIL	WHAT IT DOES	RISKS IT HELPS MANAGE
Capital preservation trigger	Adjusts withdrawals temporarily during sharp market downturns; leans on natural income and pauses unit sales	Sequencing risk and forced selling
Overspending guardrail	Monitors withdrawal rate against a benchmark (e.g., 5%) and prompts members when it becomes unsustainable	Unintentional overspending
Portfolio rebalancing	Keeps allocations aligned with target income, growth and inflation protection mix through periodic rebalancing (with risk limits)	Portfolio drift and under- or over-risking
Escalation pathways	Provides simple prompts and a route back to the default if members deviate meaningfully from the strategy	Persistent misallocation and behavioural drift

Source: Allspring

From flexibility-first to discipline-first

The UK retirement income market is at an inflection point. A decade of pension freedoms has shown that flexibility alone has not always been a suitable retirement strategy—cash drag, inflation erosion and longevity risk affect members’ ability to sustain income in later life. Behavioural patterns and excessive caution are just as damaging. Similarly, without guardrails, many retirees unintentionally drift towards outcomes no policymaker ever intended.

People have unique needs and different risk tolerances, but for most savers, growth-focused, income-generating defaults with well-designed guardrails provide a more reliable path through retirement. The evidence based on market behaviour and financial modelling demands it.

In the UK, regulation now supports this direction. Guided retirement means that by 2027, master trusts must offer default decumulation solutions. Allspring is ready to partner with trustees and master trusts to build disciplined decumulation solutions aiming to deliver sustainable income, inflation resilience and behavioural safety without sacrificing member autonomy.

The era of unconstrained flexibility is ending. The era of disciplined, guided defaults is just beginning.



Appendix: modelling assumptions

We run 10,001 Monte Carlo simulations over a 20-year horizon, modelling a single retiree (age 65 to 85) who receives payments from the State Pension. Inflation scenarios of 2%, 3% and 4% are tested. The starting pot size is £50,000, chosen because it sits within the FCA's median band for drawdown pots accessed in 2024/25, making it a conservative and representative starting point. The 65–85 window reflects the “active” phase of retirement, when spending patterns are most stable and when it is reasonable to consider introducing guaranteed income thereafter.

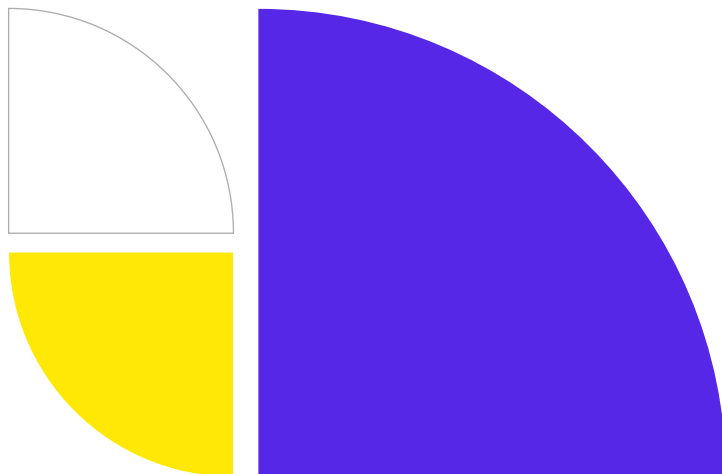
Withdrawals are set at 5% of the initial pot (£2,500 per year) and are inflated annually at the scenario inflation rate. A 5% withdrawal rate is used because prior Allspring research finds it generally provides a sustainable income to age 85, whereas higher withdrawal rates materially increase the probability of ruin⁷.

Asset class returns are modelled as independent annual draws from a normal distribution parameterised by the arithmetic mean returns and volatilities shown below. Forward-looking return assumptions are based on Allspring's risk-based capital market assumptions. “Ruin” is defined as the portfolio reaching zero before age 85.

We evaluate outcomes across 13 multi-asset blends, ranging from 0% to 60% equity in 5-percentage-point increments, to assess how different average equity exposures interact with inflation to affect the probability of running out of money.

ASSET CLASS ASSUMPTIONS:

Global equities (GBP unhedged)—mean return	9.5%
Global equities (GBP unhedged)—volatility	18%
Global aggregate bonds (GBP hedged)—mean return	3.2%
Global aggregate bonds (GBP hedged)—volatility	5.5%
Average equity-bond correlation	20%





For further information

We're committed to thoughtful investing, purposeful planning and the desire to deliver outcomes that expand above and beyond financial gains.

Click or scan the QR code to check out Allspring's insights:

1. FCA's retirement income market data 2024/25
2. We acknowledge that some retirees have defined benefit income or other assets; and for those with very small pots, taking cash is pragmatic. Our focus is the typical master trust member for whom the defined contribution pot is a meaningful source of retirement income and requires structured decumulation.
3. FCA's "Retirement Outcomes Review: Final report" (MS16/1.3), published June 2018
4. Office for National Statistics' National population projections, mortality assumptions: 2022-based
5. The FCA's targeted support regime, set out in Consultation Papers CP24/27 and CP25/17, introduces a new regulated framework that allows firms to provide ready-made suggestions to groups of consumers, specifically designed to steer pension savers towards better decisions at and through retirement. This marks a decisive regulatory shift from pure flexibility towards structured guidance and guardrails. The regime is expected to be fully operational by 6 April 2026.
6. Richard H. Thaler, 1999, "Mental accounting matters". *Journal of Behavioral Decision Making*, 12(3), 183–206.
7. Allspring 2022, "UK Retirement Income in 5, 4, 3, 2, 1: How Much Can I Spend, and Where Should I Invest?"

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