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THE WRONG QUESTION ABOUT RETIREMENT

RETHINKING DC: WHAT RETIREES NEED AND HOW TO DELIVER IT

JULY 2026



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- **Retirement planning asks the wrong question, in our view – instead of focusing on the size of a retiree’s retirement pot, we should look at what level of sustainable income a retiree’s pot can deliver.** This will help us understand the true risks that shape retirement outcomes.
 - **Retirees tend to face three core regrets: running out of money, dying with too much unspent wealth, and being forced into painful income cuts.** Most current approaches to retirement planning avoid one regret only by making the others more likely.
 - **A good retirement income solution should deliver three things: income that is lifelong, flexible, and stable.** Achieving these goals requires managing interest rate, growth, and sequencing risks.
 - **Individuals cannot solve these problems on their own.** Defined benefit pension schemes have the right tools, but they rely on scale, pooling and institutional expertise that retail retirees typically do not have.
 - **Applying proven techniques, in the right product design, can help retirees achieve their goals.** Such an approach could combine a managed account in early retirement with annuitisation later in life, to preserve flexibility while securing guaranteed income later.
 - **The next step is product development.** The institutional toolkit already exists, but regulation, distribution economics and investor behaviour have slowed its translation into retail solutions.

WHY “HOW MUCH DO I HAVE?” IS THE WRONG MEASURE – AND WHAT GOOD RETIREMENT INCOME ENGINEERING WOULD ACTUALLY LOOK LIKE

Most retirement planning answers the wrong question. The question it answers is “**how big is my pension pot?**” – measured in currency units, compared to rules of thumb, projected forward with Monte Carlo simulations. It is the question banks, advisers, calculators, and most retirees default to.

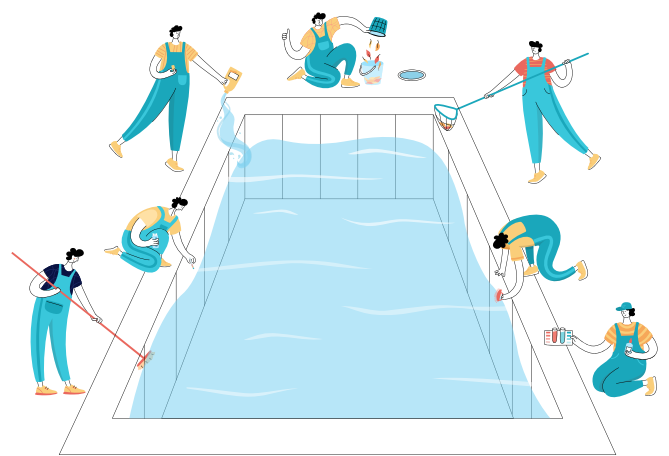
It is not the right question.

The right question, in our view, is “**how much sustainable income can my wealth produce, for the rest of my life, in conditions I cannot predict?**” The answer is rarely a number close to what pot-size thinking suggests. It depends on interest rates at the moment you retire, the path of real returns over the following decades, the order in which those returns arrive, how long you live, and what shocks reshape your life along the way. A pot of £1,000,000 at 65 years old in 2008 would have produced fundamentally different income than the same pot in 2018. Pot-size thinking obscures this. Income thinking surfaces it.

This essay argues three things. First, that the unit of measure for retirement wealth should be **sustainable income for life**, not pot value. Second, that good retirement income solutions must deliver three characteristics – **lifelong, flexible, and stable** – against three structural threats: interest rates, growth, and

sequencing. And third, that the institutional toolkit to deliver these characteristics exists, has been used by defined benefit (DB) pension funds for decades, and is in principle available to retail retirees – but not yet operationalised at retail scale by any product currently on offer.

In setting out these points, we believe investment managers and pension providers can be well placed to design and develop products that give retirees what they need.



THE THREE REGRETS OF RETIREMENT

Retirees experience three distinct kinds of regret, and most planning addresses only one.

① RUNNING OUT

Your wealth is exhausted before your life is. You are 85, dependent on state support or family, and the comfortable retirement you planned for has ended a decade early. This is the regret most planning frameworks address – and over-address – through conservative withdrawal rules, generous contingency margins, and the implicit assumption that surviving capital matters more than spent capital.

A framework that addresses only one of these regrets creates the other two. Most professional retirement planning addresses running out by recommending withdrawal rates so conservative that dying rich becomes near-certain. Most informal planning addresses dying rich by spending freely and absorbing whatever adjustment becomes necessary later. Neither operates with all three in view.

If we are looking to plan a retirement that helps people avoid these regrets, a new approach is needed.

② DYING RICH

You spent your retirement clipping coupons, declining the trip, postponing the gift, refusing the experience. Then you receive a diagnosis at 78, and the unspent wealth that gave you anxious comfort becomes evidence of a life lived more cautiously than necessary. This regret is enormous and silent. It is the price most conservative-withdrawal retirees pay for avoiding running out of money.

③ UNWELCOME ADJUSTMENT

Markets fell 35% in year three of retirement. Your annual income had to drop by 30% for five years. You spent that period with the fear that the cut would become permanent. The lived experience of the adjustment – and the fear that accompanied it – feels worse than either of the above, because it was both real and, in hindsight, preventable through better preparation.

THREE DESIRABLE CHARACTERISTICS. THREE STRUCTURAL THREATS.

If we step away from the regrets and ask what positive characteristics retirement income should deliver, three emerge: that this income should be lifelong, flexible, and stable.



The income must last as long as the retiree does. This is the longevity question. A 65-year-old today has a meaningful probability of living past 95, and a non-trivial probability of living past 100. Any income plan that doesn't extend across this range leaves a structural risk that the retiree may experience the regret of running out of money. However, planning for the extremes would lead to the second regret we state above – spending less just in case you live for longer, and in all likelihood leaving your wealth unused.



The retiree's circumstances will change in ways the plan cannot foresee. A spouse will need care. A child will need help. Health will deteriorate or recover. The retiree will discover they want to spend their seventies in Sicily, or want to gift large sums to grandchildren, or need to move closer to family. A rigid income solution that cannot flex to accommodate these life events is failing on a dimension that matters as much as the financial calculations.



The retiree should be able to plan their life with confidence. Income that lurches up and down with markets makes planning impossible – should we buy the holiday cottage? Can we afford the kitchen? Should we worry about our grandchildren's school fees? Stability is what converts a portfolio into a **simple, salary-like income experience**, which allows retirees to feel secure rather than anxious about their resources.

These three characteristics are mutually constraining. Pure lifetime guarantees require sacrificing flexibility (annuities). Pure flexibility requires sacrificing the lifetime guarantee (drawdown). Pure stability requires sacrificing both (a fixed bond ladder). The interesting engineering question is whether all three can be approximated simultaneously.

To answer it requires understanding what threatens these characteristics. Three structural risks can break sustainable retirement income: interest rate, growth, and sequencing risk.

Interest rate risk

When the retiree comes to lock in lifelong income – through an annuity, a long-dated bond ladder, or any other rate-sensitive instrument – the price of doing so depends on prevailing rates. A 65-year-old retiring in 2020 faced annuity rates at multi-decade lows. The same income required vastly more capital to lock in than it would have 10 years earlier or later. Retirees with no protection against rate movements are gambling, implicitly, on the rate environment at their retirement date.

Growth risk

If real returns on growth assets fall short of the assumptions built into the plan, sustainable income drops with them. The 1965-1982 US experience and the 1990-2020 Japan experience are the canonical examples – long stretches where equity returns failed to deliver the historical real average. Plans that depend on assumed long-run equity returns are exposed to this risk in ways that don't show up until decades have passed.

Sequencing risk

The order of returns matters more than the average when you are drawing income. A retiree who experiences poor returns in their first five years of retirement is permanently impaired relative to one who experiences the same returns later in retirement, even if the long-run averages are identical. Sequencing risk is the cruellest of the three because it is invisible during accumulation and devastating at the moment of retirement.

These three risks are the causes. The three regrets are the **symptoms**. The three desirable characteristics are the **outcomes we want**. A complete framework must connect all three layers – defending against each risk, in pursuit of each characteristic, to avoid each regret.



WHAT A GOOD SOLUTION WOULD LOOK LIKE

A solution that seeks to address the three regrets, defends against the three risks, and delivers the three desirable characteristics of any retirement income will, we believe, have the following structural properties.

- **Inheritance and flexibility preserved for as long as possible.** In early retirement, the retiree's wealth is invested, monthly income is paid, and the framework manages the journey toward a specific endpoint. In late retirement, a lifetime annuity is purchased with surviving members' assets, providing guaranteed income for the remainder of life.

In the early, 'flexible' phase, pension payments are calibrated to deliver this transition smoothly: each year's payment is the amount that maintains the path to a later annuity purchase at the same income level. Prevailing yield curves at each calculation point determine the income that can sustainably be paid while preserving the capital needed to purchase the annuity.

If a retiree dies in early retirement, the remaining value of their pension pot passes to their estate. This addresses the bequest motive that makes retirees reject annuities and collective defined contribution (CDC) schemes. In later retirement, when an annuity is purchased, the trade-off is explicit – the member has transferred the bequest motive for the income guarantee. In later life this trade is one most retirees would accept; earlier, it is one most retirees would refuse.

- **Sustainable withdrawals calculated automatically.** Each year, the fund uses prevailing yield curves to compute the income payable such that, in late retirement, the remaining capital can purchase an annuity at the same income level. As fund performance varies relative to assumptions, the income automatically adjusts. The result is an income stream that responds to conditions rather than pretending conditions are fixed. Importantly, this should happen without members having to engage in the complex calculations required to derive this annual payment.

- **Sequencing risk managed.** The solution should ensure the retiree is not forced to sell growth assets at precisely the wrong time. Rather, an effective design will create flexibility over the source of cashflows: e.g. using cashflow-driven investing to meet near-term payments, allowing asset allocation to flex when markets are stressed, or using overlay strategies to protect against severe drawdowns. These techniques have been widely used in DB pension management.
- **Downside impact limited.** In seeking growth, protected structures in which the right tail (very strong markets) is partially given up in exchange for protection against the left tail (severe drawdowns in early retirement) is usually attractive for a retiree whose income reliability matters. The behavioural impact is also positive: with the worst scenarios partially bounded, the retiree is less likely to experience the panic that destroys outcomes.

We believe a solution following the above principles would help to deliver the three desirable characteristics that we have identified – a lifelong pension income, with flexibility and stability.



It also seeks to defend against key risks:

- by building in the price of a future annuity purchase, **it protects against interest rate risk;**
- by using protected growth strategies, **it manages growth risk;** and
- through techniques to avoid forced sales, **it mitigates sequencing risk.**

WHAT STABILITY ACTUALLY MEANS IN THIS DESIGN

Stability is not the same as a guarantee. The fund cannot guarantee that monthly income will never vary. Understanding how such a framework seeks to deliver a stable income is instructive.

- **If the design uses a bond portfolio structured to deliver predictable cashflows, mark-to-market variability in bond values does not flow through to income.** The bonds are held to maturity; the cashflows are contractually defined; income is unaffected by interest rate movements during the holding period. This is the most stable possible structure for the matched portion of the portfolio.
- **If the design relies on growth-asset performance to deliver part of the lifelong income, then the performance of those assets against the discount rate used in the valuation will produce income variability.** If growth assets compound faster than the assumed rate, distributions can rise. If they compound more slowly, distributions can fall. This is honest variability – the kind that pension fund actuaries have managed for decades – but it is variability that can be managed to be more stable, albeit not a guarantee.

The right design balances these. The matched sleeve delivers the stable backbone. The growth sleeve, with protected structures and leverage management, delivers the upside potential needed to make the overall income meaningfully higher than a pure bond-ladder alternative would allow.

The promise to the member is not “your income is guaranteed”. It is “your income is engineered to be stable and last a lifetime”.

This is much better than what current retail retirement products offer; it is honest about what it cannot promise.



WHY INDIVIDUALS CANNOT SOLVE THIS ALONE

The principles we have laid out above are already well appreciated, and DB pension funds have addressed these problems for decades. Their toolkit is well-established.

- **Liability-driven investing (LDI)** for matching long-dated cashflow obligations to long-dated assets, which neutralises interest rate risk on the liability side.
- **Cashflow-driven investing (CDI)** for ensuring physical cashflows from coupons and maturities match required payments, meaning forced sales are not necessary.
- **Protected growth structures**, such as collared equity, buffered exposures, and structured products, aim to capture equity upside while bounding the worst outcomes.
- **Actuarial valuation methods** convert uncertain liability streams into present values, that can be funded against.
- **Longevity pooling**, through annuity purchase or longevity insurance, transfers the individual longevity risk to entities with large enough books to diversify it statistically.

These techniques are not theoretical. They are run, every day, by pension fund managers and actuaries on behalf of millions of DB scheme members worldwide, and Insight has taken a leading role in developing and refining these tools. They deliver the lifetime-flexible-stable combination that DB pensions were famous for – the combination retirees now cannot access because DB schemes have closed.

The individual retiree cannot operationalise any of this alone, because these techniques require scale, expertise, and structures that no single household possesses.

- LDI requires liability streams large enough to justify the hedging infrastructure. A single household’s liability is too small to access wholesale hedging markets directly.
- CDI requires sophisticated cashflow modelling and active rebalancing across instruments that retail investors typically cannot own efficiently – long-dated index-linked gilts in size, swaps, and synthetic exposures.
- Protected growth structures exist at retail (such as buffered ETFs and structured notes) but pricing is materially worse than the institutional equivalents. The retail investor pays a fee for accessibility.
- Actuarial valuation of one’s own retirement requires actuarial expertise. No retiree should be performing their own mortality-adjusted discounted cashflows.
- Longevity pooling at retail is available only through annuities, and annuities are an all-or-nothing decision at a single point in time. The institutional version – group longevity pooling with smoothing and partial annuitisation – does not exist for retail.

This is the gap. The techniques exist, and the need exists, but the structures to apply the techniques where they are needed do not.

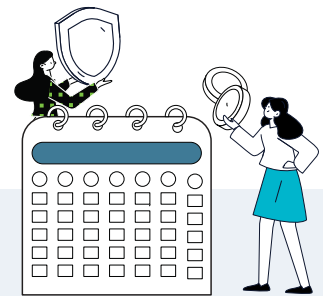
WHAT THIS MEANS FOR THE INDIVIDUAL RETIREE TODAY

In the absence of a product doing this properly, the individual retiree could try to apply a framework to achieve our model retirement solution, even when the institutional toolkit is not available. Today, you could seek to do the following.

- **Measure your retirement in income, not pot size.** Calculate the sustainable lifelong income your current wealth can deliver, and track changes in that number, not changes in your pot value. The pot is the input, but the income is the output: plan against the output.
- **Identify which of the three risks your current arrangement is most exposed to.** If your wealth is entirely in equities with no annuitisation plan, you are exposed to growth risk and sequencing risk and have no longevity hedge. If your wealth is locked in early annuitisation, you have no flexibility and have made an irrevocable bet on rates at your retirement date. Most retirees are unaware of which risks they have implicitly chosen to bear.

- **Replicate, imperfectly, what the institutional design would do.** You could implement a bond ladder to 80 with deferred annuity purchase, use protected growth exposures rather than naked equity, use inflation-protected sleeves for essential spending, and fund discretionary spending from a variable sleeve that can be cut without changing essential income. None of this is as efficient as a pooled institutional solution would be, but all of it is better than pot-size thinking with a 4% rule.

The retirement income gap is not a law of nature, but a temporary failure of product development. Given the institutional tools are well established, we believe new retirement income products that address these goals are possible.



WHY THIS DOESN'T YET EXIST

The institutional toolkit is mature, the need is widespread, and the mathematical insights have been known to actuaries for decades. So why isn't there a retail product already doing this?

There are a few reasons. Regulatory frameworks for collective decumulation are immature in most jurisdictions; where they exist (e.g., UK CDC, Dutch collective schemes, Australian retirement income covenants) they have been designed for problems somewhat different to those described here. Distribution economics for genuinely innovative retirement products are also difficult; traditionally, fees for financial advice have by and large been linked to transactions and ongoing management, rather than for transferring investors to a single fund that handles everything.

Also, the behavioural ask – accepting some pooling, some annuitisation, some protected equities – is unfamiliar to retail investors who have been told for years that maximising flexibility is paramount. And the engineering effort required to build the fund infrastructure is non-trivial, requiring genuine institutional capability rather than retail repackaging.

These are real obstacles but they are not insurmountable. Clarifying what good retirement income engineering would actually deliver, so that when products approaching this design appear, means retirees can recognise them, evaluate them, and prefer them to the current alternatives.

THE WRONG QUESTION, RESTATED

We began with the wrong question. “How big is my pension pot?” is a measure of wealth, not retirement security. It tells a member little about what they can safely spend, how that number should change as markets move, or how long their income can last.

The right question is: “how much sustainable income can my wealth produce, for the rest of my life, in conditions I cannot predict?” That question is more complex to answer and more demanding for the provider, but answering it should make life simpler for the member. The role of good retirement income design is to absorb the complexity of rates, markets, longevity and sequencing risk, and translate it into a clear income figure the member can use.

Done well, the member is not asked to become a financial expert. They are given a practical way to achieve the goal that matters most: living within their means, because the solution tells them what those means are at any point in time.

That is the promise of better retirement income design: not to make retirement feel more sophisticated, but to make it more usable. The industry challenge is to turn institutional pension techniques into a simple, salary-like income experience that allows members to spend with confidence, for life.

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