PRESS RELEASE

FOR IMMEDIATE RELEASE - 0900 THURSDAY, 6 NOVEMBER 2025

PENSIONS POLICY INSTITUTE

PPI

PPI: Redesigned CDC could deliver 75% more in retirement outcomes than DC pensions

The Pensions Policy Institute (PPI), the UK's leading independent authority on pensions and retirement policy, in collaboration with Kings College London (KCL), has published the findings of a research project investigating how Collective Defined Contribution (CDC) schemes can work in the UK, revealing a reimagined CDC scheme design could deliver 75% more in retirement outcomes than a traditional defined contribution (DC) scheme upon retirement.(1)(2)(3)

The report, **'Making CDC work in the UK: Collective Defined Contribution pensions with investment choice',** funded by the Nuffield Foundation, said that a 'Collective Drawdown' CDC pension design may also offer members more choice on their investment strategy, helping to meet their risk and ethical preferences, with improved risk management potentially enabling greater investment in productive assets and in turn contribute to the wider UK economy.

The investigation advised Collective Drawdown could also provide a simpler scheme for members to understand, make it easier to calculate transfer values and be more straightforward to regulate. However, it also noted various issues which would need to be resolved to implement the scheme design, which would necessitate new regulation and potential legislation, in addition to plans announced by the government in October. (4)

The report further found that current, wider CDC schemes can outperform both Defined Benefit (DB) and DC options and cost less than currently available means of risk sharing. In addition, the report determined that CDC schemes could benefit members by sharing longevity risk, concluding that it is impossible to improve all member outcomes by sharing investment risk.

The research additionally concluded mispricing in a CDC scheme could reduce efficiency; effective risk management and member communications are critical for any collective pension design; and mimicking a DB structure in a CDC scheme generates inter-age cross-subsidies.

CDC schemes are a new approach to pensions which aim to allow members to achieve better pension outcomes through risk-sharing, but without relying on an employer guarantee. Only one UK CDC scheme exists at present, although some schemes, employers, and providers are investigating the potential of further single-employer designs.

Timothy Pike, Head of Modelling at the PPI and Co-Investigator for the project, commented: "We are incredibly proud of the analysis the PPI has contributed to this timely report, helping to close the knowledge gap on how CDC schemes can work in the UK. As the sector gears up for a future with a potentially larger role for CDC schemes, it is vital we understand how we can optimise retirement saving outcomes. I am immensely grateful to the Nuffield Foundation for funding this critical piece of research, and to Kings College London for selecting us to work with them."

ENDS

PRESS RELEASE

FOR IMMEDIATE RELEASE - 0900 THURSDAY, 6 NOVEMBER 2025

PENSIONS POLICY INSTITUTE

PPI

Note to Editors

1. The headline figure of an approximate 75% improvement of collective drawdown over DC + Annuity comes from the below table: 0.62 is 77% larger than 0.35. We have rounded this down to avoid giving a spurious impression of accuracy.

   Table 4.2: In our model, collective drawdown provides an approximately 75% better pension than an optimally invested DC strategy followed by full annuitisation.

Design	Certainty-equivalent replacement ratio
Optimal DC + Annuity	0.35
Optimal DC + Flex-then-fix	0.51
Optimal flat-accrual CDC	0.44
Optimal dynamic-accrual CDC	0.45
Optimal statistically-calibrated CDC	0.52
Collective drawdown	0.62

   Certainty equivalents of different scheme designs using the same score function as Figure 4.2

2. **'Making CDC work in the UK: Collective Defined Contribution pensions with investment choice'** is a collaborative project between The Pensions Policy Institute (PPI) and King's College London (KCL) which has been funded over two years by The Nuffield Foundation. The research undertaken investigates the implications of how CDC is envisioned to work in the UK.

   Collective Defined Contribution (CDC) has recently moved from theory to practice in the UK, with Royal Mail launching the country's first single-employer CDC scheme in late 2024. At a time when Defined Benefit (DB) provision continues to decline and concerns persist about the adequacy of Defined Contribution (DC) pensions, CDC offers a potential third way: combining the prospect of higher returns and protection against longevity risk for members, while remaining manageable for employers.

   The groundwork for CDC has already been established through existing and proposed legislation, giving a strong sense of how such schemes must operate. Yet, the current framework for single-employer CDC leaves significant design choices in the hands of scheme architects, and many anticipate that the longer-term future of CDC in the UK is more likely to lie in multi-employer models, an area where legislation has not yet been developed.

   This project explores the implications of the UK's approach to CDC, modelling outcomes for both single- and multi-employer schemes, and examining the consequences of different design decisions. Key issues such as fairness, cross-subsidy, and investment choice have been considered, alongside potential solutions for delivering sustainable CDC schemes.

   This report brings together the finding of the research project. All publications in the series can be found here.

3. While PPI analysis has informed this research, its role here is to highlight the trade-offs inherent in different policy choices, not to advocate for specific outcomes. The recommendations presented in the report, while based on PPI analysis, do not represent the views of the Pensions Policy Institute (PPI).

4. GOV.UK, 'Retirement incomes could increase by as much as 60% as Government green-lights 'collective' pension schemes', 22/10/25

A collaborative project between

This project has been funded by the Nuffield Foundation, but the view expressed are those of the authors and not necessarily the Foundation.

About The Pensions Policy Institute (PPI)

The Pensions Policy Institute (PPI) is the UK's leading independent authority on pensions and retirement policy. We conduct rigorous, impartial research to inform major policy decisions affecting millions of people's retirement security. Our evidence-based analysis is used by government and across Westminster – as well as industry and consumer groups - with extensive media coverage bolstering understanding of complex pension issues. Our work ensures that policymakers have the unbiased analysis needed to deliver better outcomes for those they serve.

Media contact

Sam Eccles, External Relations Officer
Pensions Policy Institute (PPI)
E: sam@pensionspolicyinstitute.org.uk
M: 07786795961