

# CDC Pensions

Everything you need to know in 2026



Collective Defined Contribution (CDC) pension schemes have been discussed in the UK for well over a decade but 2026 represents a milestone in their practical and widespread implementation. In this update, we draw together our previous research on CDC along with Aon's latest thinking to produce a short summary of what you need to know in 2026.

### What is a CDC Pension?

CDC pension schemes:

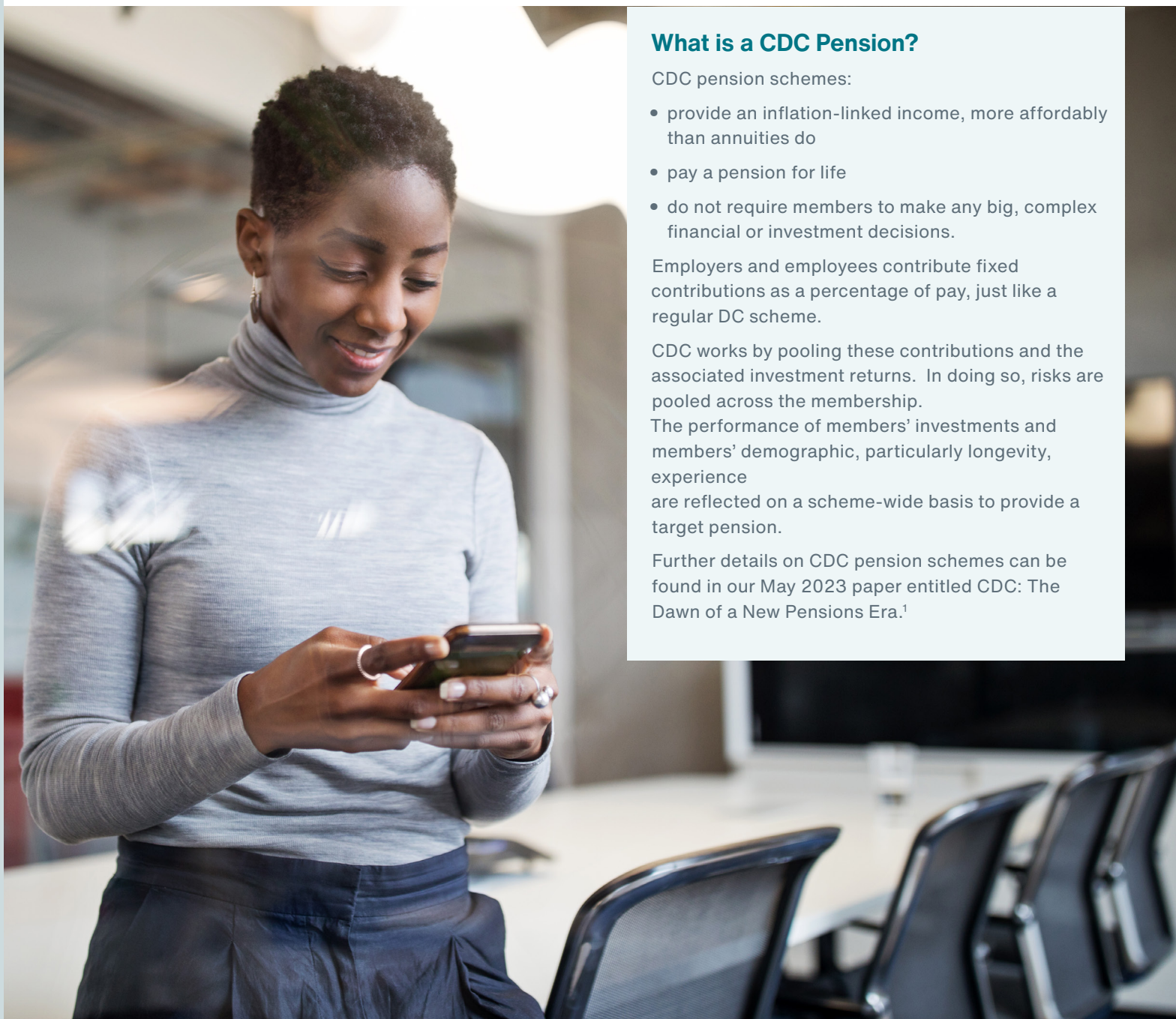
- provide an inflation-linked income, more affordably than annuities do
- pay a pension for life
- do not require members to make any big, complex financial or investment decisions.

Employers and employees contribute fixed contributions as a percentage of pay, just like a regular DC scheme.

CDC works by pooling these contributions and the associated investment returns. In doing so, risks are pooled across the membership.

The performance of members' investments and members' demographic, particularly longevity, experience are reflected on a scheme-wide basis to provide a target pension.

Further details on CDC pension schemes can be found in our May 2023 paper entitled CDC: The Dawn of a New Pensions Era.<sup>1</sup>



## Unlocking CDC's full potential

To get the most from CDC, a few ingredients are essential:

- **Scheme design** — ensuring maximum income in retirement within a reasonable risk tolerance.
- **Efficiency** — ensuring the best, smoothest experience for employees, pensioners and employers while explaining the risks involved.
- **Best in class investment** — ensuring opportunities from scale are maximised with acceptable levels of volatility.
- **Employers willing to review retirement outcomes** — employers need to be prepared to consider whether CDC is right for their workforce via conversations with specialists.

We believe that CDC could revolutionise pensions in the UK, creating value for both employees and employers. Aon is at the forefront of the CDC revolution, shaping the future with the authorities and employers.

## Aon's Role: From Concept to Live Schemes

Aon has been closely involved in the development of CDC pension schemes. After DB and DC pensions, CDC has been designed to be a third alternative means of saving for retirement. Contributions are fixed, as with DC pensions, but assets are pooled and invested collectively. A CDC pension aims to provide a higher income that is targeted, but not guaranteed, to keep pace with the cost of living and is adjusted in a transparent way in response to future investment and demographic experience.

Aon's 2015 work on stability and fairness<sup>2</sup> set out how CDC could share risk more evenly between ages and generations of members, offering a blueprint for pooling effectively across all CDC members.

The UK's first live CDC plan, The Royal Mail Collective Pension Plan, launched in October 2024, is a direct evolution of our research. Royal Mail appointed Aon to help design the scheme, translating theory into a large scale CDC arrangement.

More recently, our modelling and engagement with policymakers at both the Department for Work and Pensions and for the Pensions Regulator (TPR) helped inform the regulations for unconnected multi-employer CDC schemes (UMES)<sup>3</sup> and TPR's Code of Practice.<sup>4</sup> These now pave the way for CDC to be delivered to all employees, including via master trusts.

This track record — from thought leadership through to implementation and regulatory development — underpins Aon's deep and increasing expertise in CDC.

<sup>1</sup> Aon paper CDC: The Dawn of a New Pensions Era  
<https://www.aon.com/unitedkingdom/retirement-investment/defined-contribution/collective-defined-contribution/guide-to-cdc>

<sup>2</sup> Aon white paper Collective DC— Stability and Fairness  
<https://www.aon.com/unitedkingdom/retirement-investment/defined-contribution/collective-defined-contribution/whitepaper-collective-dc-stability-and-fairness>

<sup>3</sup> Department for Work & Pensions— Consultation outcome on the draft regulations  
<https://www.gov.uk/government/consultations/the-occupational-pension-schemes-collective-money-purchase-schemes-extension-to-unconnected-multiple-employer-schemes-and-miscellaneous-provisions/outcome/the-occupational-pension-schemes-collective-money-purchase-schemes-extension-to-unconnected-multiple-employer-schemes-and-miscellaneous-provisions>

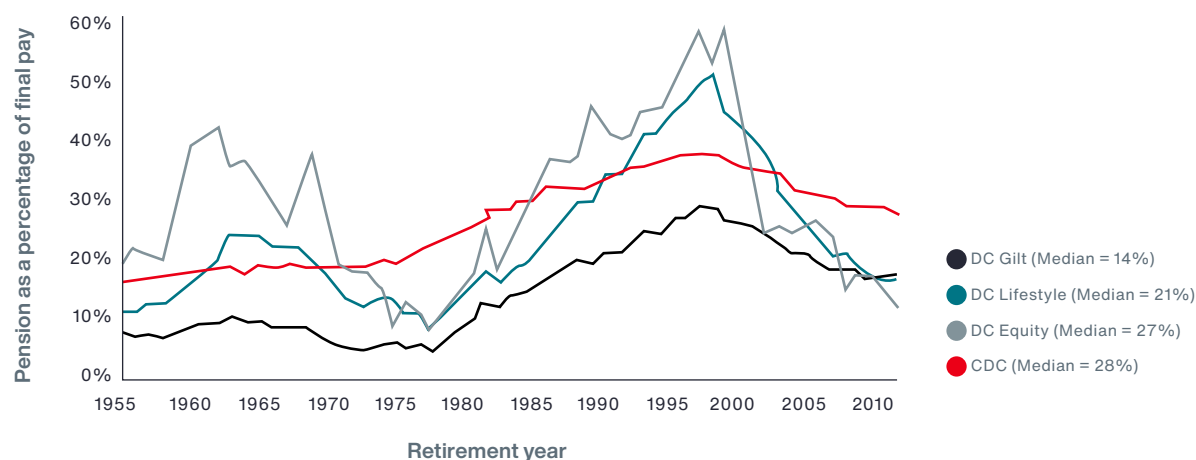
<sup>4</sup> The Pensions Regulator— Draft consolidated CDC code of practice  
<https://www.thepensionsregulator.gov.uk/en/document-library/consultations/extending-the-cdc-code-of-practice-consultation/extending-the-cdc-code-draft-code>

## The Value Case: Better Use of Every £ of Contribution

### 1. Efficiency

Pooling longevity and investment risks provides a very efficient means for delivering pensions. Aon's original 2013 research<sup>5</sup> suggested that CDC pensions, for the same contribution level, could deliver around 30 percent better outcomes, on average, than a traditional DC scheme lifestyling into an annuity at retirement. The chart below also shows how income levels at retirement from CDC pensions are smoother between generations of retirees.

### Historic CDC and DC



### 2. Employee value

'Whole-life' CDC pension schemes (that is, ones where members build up CDC pensions during working life and then draw on them in retirement) will provide a powerful tool to attract, reward, retain and retire employees on time. By expressing pension savings as a target income for life, employees can more easily assess life after work and so when to retire. This helps address the growing trend of people reaching retirement with inadequate DC savings, being financially unable to retire, and leading to workforce management and productivity challenges.

In this way, CDC pensions can strengthen the employee value proposition, especially in competitive labour markets.

### 3. Exposure to growth and illiquid investments

Collective investment and the resulting long-term horizon allow CDC schemes to maintain meaningful exposure to growth assets all the way up to and through a member's retirement. Staying invested in growth assets allows the maximum time for those investments to deliver for members. By pooling assets over long time horizons, CDC schemes are able to invest more productively, for instance in private markets, infrastructure and illiquids. Environmental, Social and Governance oriented investment by CDC pension schemes will support responsible, sustainable outcomes and helps deliver the kind of world members — and future generations — want to retire into.

<sup>5</sup> Aon white paper The Case for Collective DC  
[https://www.aon.com/getmedia/a745af28-9106-4e25-a09a-bdf4f5ead150/The-Case-for-Collective-DC\\_update\\_2020.aspx](https://www.aon.com/getmedia/a745af28-9106-4e25-a09a-bdf4f5ead150/The-Case-for-Collective-DC_update_2020.aspx)

## Built in Resilience: What Happens When Markets go Wrong?

An important question for any pension scheme design is, ‘what outcomes can we expect when bad years inevitably happen?’ Aon has stress tested different CDC designs against adverse market scenarios, including severe and prolonged economic downturns.<sup>6</sup>

### Key features of a resilient CDC design are:

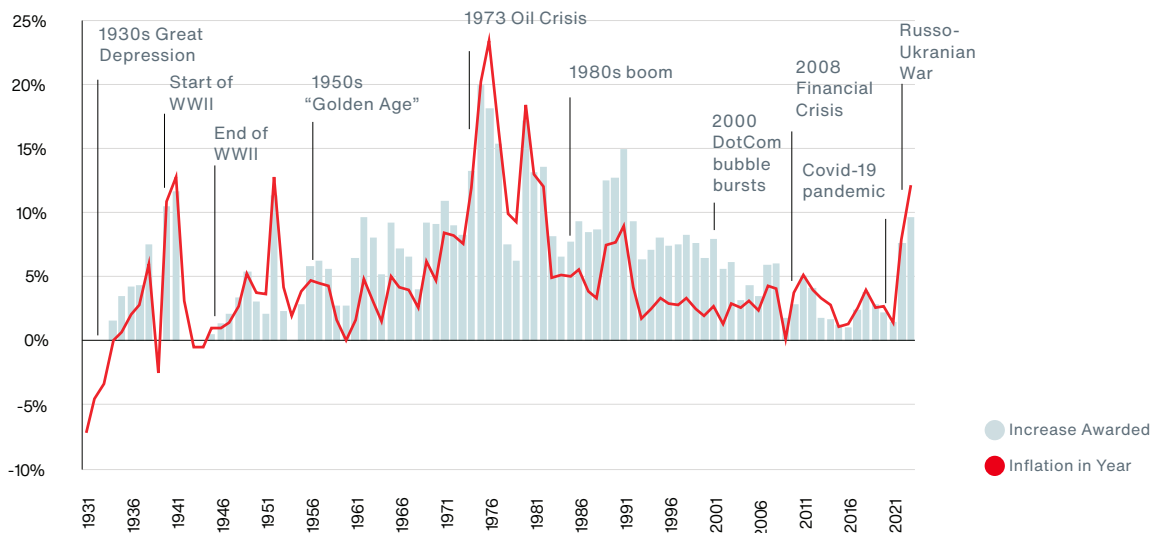
- **Transparent adjustment rules** for increasing or, when necessary, decreasing benefits. These ensure the scheme remains 100 percent funded each year and is sustainable into the future. Transparent rules help reduce the inevitable pressure that trustees will feel when delivering bad news in the form of reduced pension increases or cuts to benefits.
- Ensuring **intergenerational fairness** between members and **fairness between employers**. Each employee purchases CDC benefits of equal value to their contributions (including employer contributions). The level of benefits purchased takes into account life expectancies, so one employer with long-living employees is not subsidised by others. The amount of pension earned is higher for younger members, taking into account the longer time until retirement for investments to grow.
- **Scale** is important within a CDC pension scheme to ensure that there is a large enough population for risk pooling to be effective. A CDC pension scheme should aim to be of sufficient size that it is resilient to shocks.

Aon has modelled stochastically what would happen to a scheme under a number of different scenarios — good and bad. In other words, we have looked at thousands of potential future scenarios, ranked the outcomes and assigned probabilities to certain types of them.

In well-designed schemes, the rules-based pension adjustments mean that well-designed CDC pension schemes are resilient to all shocks as long as they remain large enough. The potential to reduce pension increases and cut benefits when necessary means that CDC pensions remain resilient in all scenarios.

We back-tested various CDC pension scheme designs across historic and simulated market paths, not just ‘average’ conditions. The analysis from this work showed that a well-designed multi-employer CDC scheme can remain robust even through sustained market stress and without compromising long term fairness across different groups and generations of members:

## Back testing CDC benefit adjustment outcomes



<sup>6</sup> Aon paper Collective DC in adverse markets  
<https://www.aon.com/getmedia/7e8cce1d-c215-4ce3-a77c-03f9b1fadef1/Aon-Collective-DC-in-adverse-markets.aspx>

## Where Now? Multi-Employer CDC Pension Schemes to Open from 2027

CDC schemes have now been thoroughly researched and it is clear that they can provide distinctive features to both members and employers. Additionally, well-designed schemes ensure fairness across members, young and old, current and future, and between different employers. They are also resilient to adverse market conditions. However, currently, only one CDC scheme exists, so what is the outlook?

### We are at a pivotal moment:

- Whole-life multi-employer CDC regulations have been finalised – the government has laid regulations allowing whole-life, unconnected multi-employer pension schemes to provide this form of CDC in which employees contribute during their working lives and receive a CDC income in retirement.
- TPR has laid its revised CDC Code of Practice that incorporates multi-employer CDC pension schemes, setting out how authorisation and supervision will work.

### In practical terms, this means:

- From the summer of 2026, multi-employer CDC schemes can apply for authorisation from TPR, enabling commercial master trusts, among others, to offer CDC pensions.
- From 2027, these schemes are expected to begin operating and accepting contributions.

That timetable effectively enables access. Employers of all sizes, and eventually the self-employed, will be able to implement a CDC pension that provides employees with an income for life in retirement, providing all the advantages of CDC pensions, whatever each employer's size or pension budget.

Employers have already started to engage with providers, trade unions and employees to decide whether CDC pensions are the right pension for them.

## Where Next? Retirement CDC and Guided Retirement

**Retirement CDC (RCDC)** – under which members would transfer their DC pot at retirement into a CDC pension and receive an income from it during their retirement – is further away, though likely to be available from 2028.

The government has already completed a consultation on RCDC<sup>7</sup>, which is intended to sit alongside new guided retirement duties on DC schemes, so that at retirement defaults can include CDC as an option.

### Guided Retirement matters because:

- Many members do not feel sufficiently confident to be able to select their decumulation options and will be defaulted into one, via their workplace pension.
- The quality of the at retirement default will be critical to actual retirement outcomes.
- Evidence shows that many savers value a collective, income for life option at retirement. Aon's survey in conjunction with Aegon, found that approximately one-third of people would choose a CDC pension at retirement rather than an annuity or drawdown options.<sup>8</sup>

<sup>7</sup> Retirement Collective Defined Contribution pension schemes - GOV.UK

<sup>8</sup> Aon and Aegon report Collective DC Decumulation  
<https://www.aon.com/getmedia/f4195ed0-012d-4964-b965-ae0df1548d6a/Collective-DC-Decumulation.pdf>

Aon's 'Power of Pooling' analysis<sup>9</sup> and wider market research point to a clear role for CDC at retirement within guided retirement frameworks. We believe that **guided retirement duties should not be rushed into full effect** until RCDC is available to be integrated into schemes' default solutions, rather than enabled later.

However, trustees can now start looking to choose a default and the options they would like to make available to their members. As a first step, trustees can survey their members to find out more about them and what they think would be best for them at retirement. With that information, trustees will be in a better place to decide on the right default for their members and what other options and support should be made available.

While the introduction of guided retirement duties and RCDC may not be imminent, if CDC is suitable for their members then trustees should consider engaging with providers to understand how this can be incorporated into the retirement defaults they would like to implement.

### Common Misconceptions we Regularly Address Include:

- “CDC is a free lunch”
  - Compared to annuities, the additional income comes mainly from taking more investment risk, but this means that target pensions are not guaranteed and could go down in response to poor performance.
  - Compared to drawdown, CDC ensures an income for life but this has the disadvantage that, as with DB, if a member dies young then their remaining pension savings are not passed on as part of inheritance, conversely, members cannot run out of savings if they live longer than expected.
- “CDC is just DB by another name” — In fact, contributions are fixed and there is **no employer guarantee**; benefits can go up as well as down.
- “You can't explain cuts to members” — The rules for adjusting benefits can be designed to be **simple, rules based and well communicated**.
- “CDC only works for very large single employers” — Multi employer regulations have been introduced which will allow **smaller employers to benefit from large scale pooling**.
- “Cross-subsidies will occur” — Well-designed CDC pension schemes will have minimal cross subsidies with contributions equaling the value of benefits being accrued for each member.

Aon research revealed that when used at retirement, CDC could offer retirees up to 50 percent higher pension compared with an inflation-linked annuity purchase<sup>10</sup>, without the risk of running out of money inherent with drawdown. The actual potential value on offer from CDC will however vary over time due to a number of factors, including the relative pricing available on individual inflation-linked annuities.

### An open invitation

CDC has moved from a concept on paper to a live single-employer CDC pension scheme opened by Royal Mail. Soon, multi-employer CDC pension schemes will open with Retirement CDC pension schemes following shortly after. Aon has played a leading role in that journey from the beginning — from **research and modelling**, through **scheme design**, to **shaping the rules** that will govern the next generation of CDC provision.

The opportunity now is to turn that framework into practical solutions that work for real members, real employers and society at large.

Employers and trustees should consider how CDC pensions might fit into their pension strategy — either for employees to build up pensions throughout their career or as an option at the end of their working life.

This is the moment to start a conversation.



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