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From Concept to Practice:

A practical guide to CDC pension schemes

January 2026

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Foreword

As the conversation around retirement adequacy evolves, due in part to the recent revival of The Pensions Commission, Collective Defined Contribution (CDC) pension schemes have emerged as one of the most promising developments in the UK's pension landscape.

The potential of CDC is generating widespread interest across the industry, including employers, Trustees and unions, as part of broader discussions on the future of workplace savings.

Yet, to unlock the full transformative power of CDC, we must look beyond its initial introduction for The Royal Mail and consider how multi-employer schemes and Retirement CDC (decumulation-only) designs can reach a wider population.

While much has been said about CDC's design, in particular the pooling of risk to provide higher expected retirement incomes, less has been said about the next critical step - real-world implementation.

How do we address the practicalities of administration, cost management, and governance in a way that makes CDC accessible, resilient, and trustworthy for both employers and pension savers?

This guide is designed to illuminate that path. By exploring the structures of single employer, multi-employer, and Retirement CDC schemes, we aim to provide readers (from pension and HR managers to Trustees and governance professionals and beyond) with clear, actionable insights. The goal is not merely to inform, but to inspire: to show that, while the task of establishing CDC at scale may be ambitious, it is likely to be an endeavour worthy of our collective effort.

CDC offers us the chance to rethink how retirement income is delivered, while contributing to the broader economic and social fabric of the UK. We invite you to join us in embracing this challenge and to consider the possibilities that lie ahead.

Keith McNally
Chair, SPP CDC Committee



Executive Summary

In examining the practical issues surrounding emergence of CDC pension schemes in the UK, this guide explores many of the challenges and opportunities that need to be considered ahead of implementation. In summary, these include:

Governance

- > For a CDC scheme to be successful, the scheme design and rules need to be written in such a way that ensures the scheme can be run in a truly collective way.
- > Integrated Risk Management will be even more relevant to CDC schemes, because the risks requiring management have a more immediate impact on member benefits. The interaction between the key risks will require a bespoke approach to monitoring and management.
- > Trustees will need to consider their approach to investment strategy and long-term risk, given members' expectations of outcomes and the potential for benefit volatility.
- > It is possible that a large CDC could operate separate sections with different levels of risk/return aspirations, with participating employers selecting which section to join based on their objectives. However, any such subdivisions would dilute the collectivism a CDC scheme is trying to benefit from.

Actuarial

- > In a CDC scheme the annual valuation has a direct impact on benefit adjustments, so the Scheme Actuary has a key role to play in determining the level of annual benefit adjustment awarded.
- > The potential for benefit reductions is clearly a significant point of risk for CDC schemes. Having appropriate structures in place for dealing with these will require significant thought to mitigate the wider impact – both internal processes for decision making and externally communicating the outcome and reason to members.

Investment

- > The investment risk profile in CDC schemes is fundamentally different from that of individual DC schemes. Whilst DC schemes have traditionally prioritised liquidity when near (or beyond) retirement, CDC schemes are structured to think with a longer-term horizon.
- > The design of CDC schemes allows for more efficient risk sharing and investment management. By pooling both investment and longevity risks, CDC schemes can provide more stable and potentially higher retirement incomes for members.
- > CDC will also suit those who simply want an income in retirement, analogous to that enjoyed in work.

Administration

- > CDC schemes have the potential to make a material impact on the industry which will entail significant changes for pensions administration.
- > Key aspects of CDC scheme administration include establishing a scheme under an irrevocable trust, adhering to TPR's code of practice, and ensuring members are clearly informed that their target income is not guaranteed.



CDC schemes have the potential to make a material impact on the industry...



Costs

- > From an employer's perspective, there are likely to be significant cost efficiencies in seeking to participate in a multi-employer CDC scheme rather than look to establish a single-employer CDC scheme.
- > To achieve these cost efficiencies, employers are likely to partner with a group of similar employers in a specific sector to share the costs of set up, or participate in an existing commercial multi-employer vehicle, looking to benefit from a role as seed employer and the provision of initial assets with preferential member charging.
- > From a provider's perspective, the key question is the employer pipeline and whether its business plan and projected pipeline for new business is sufficiently strong to justify the upfront costs of set up and authorisation. New entrants to the commercial CDC market will likely need a seed employer – or at the very least – a clear distribution channel and promise of sufficient participating employers to evidence a sufficient business case.
- > Looking at international examples, it appears that CDC schemes have a low fee regime for members. Consolidation and market pressures can exert a downward pressure on fees.

Communications

- > Due to the internal complexity of CDC operations and the collective sharing of risk between members, communicating these points to members effectively will be challenging. Poor communication could lead to future complaints of mis-selling.
- > From a member's perspective, communications may be similar to those for a DB scheme, but there will need to be key differences to ensure that members fully understand the nature of the risks they are exposed to.

Regulatory risk

- > There are risks that future changes in CDC regulations make it more onerous or costly for the provider. This may result in a CDC scheme becoming unattractive for a provider to want to continue operating.

Introduction

Collective Defined Contribution (CDC) pension schemes are a new type of pension arrangement in the UK. They were introduced by the Pension Schemes Act 2021 and combine features of both Defined Benefit (DB) and Defined Contribution (DC) schemes. They are, however, DC in law.

For savers, CDC schemes seek to offer a more stable and potentially higher income in retirement compared to traditional DC schemes whilst still providing predictable costs for the employer.

This paper seeks to examine and explain the practicalities of establishing single employer, multi-employer and Retirement CDC schemes in a clear and comprehensive manner.

We hope this guide will prove helpful to a diverse audience from pension and HR managers to governance professionals, Trustees and more.

Legislation

On 23 October 2025 the government laid the regulations to allow unconnected multiple employer CDC schemes. These are subject to approval from Parliament. Government has stated its intention to bring the legislation and an updated Pensions Regulator's Code of Practice into force by 31 July 2026.

The government has also just held a short 6-week consultation on Retirement CDC¹ which would require legislative changes - amending the Occupational Pension Schemes (Preservation of Benefit) Regulations 1991 ("Preservation of Benefit Regulations 1991") to permit transfers of money purchase benefits, without consent, to authorised CDC schemes (which is already permitted for transfers to Master Trusts).



Poor communication could lead to future complaints of mis-selling.



¹ DWP consultation on Retirement CDC, 4 December 2025: <https://www.gov.uk/government/consultations/retirement-collective-defined-contribution-pension-schemes#:~:text=Consultation%20description,a%20%E2%80%9CRetirement%20CDC%20scheme%E2%80%9D.>



Types of CDC scheme

1) Single-Employer whole-life CDC

A single-employer whole-life CDC scheme is a type of workplace pension that is set up and run by a single employer for its employees. It can also include a scheme for a group of connected employers.

- > **How it works:** Both employer and employees contribute to a collective fund. Unlike traditional DC schemes, members do not have individual saving pots. Instead, members accrue a CDC pension, which is then paid from the shared fund in retirement.
- > **Advantages:** Investment and longevity risks are shared across all members. As there is only one employer involved, the scheme design can include a fixed accrual rate (like DB schemes), which can simplify communication but does come with cross-subsidy between younger and older members.
- > **Status:** These schemes are currently permitted under UK law following the Pension Schemes Act 2021.

2) Multi-Employer whole-life CDC

A multi-employer whole-life CDC scheme allows multiple, unrelated employers to participate in the same collective pension arrangement.

- > **How it works:** Employers join a central CDC scheme, managed by a third-party provider via a CDC master trust, contributing on behalf of their employees into a collective fund.

- > **Advantages:** Offers employers access to the benefits of CDC, without having to set up their own scheme.
- > **Status:** As of October 2025, the multi-employer legislation has been laid before Parliament following consultation. This is expected to come into effect from the end of July 2026.

3) Retirement CDC (Decumulation-only CDC)

Retirement CDC (or “decumulation-only” CDC) is designed specifically for people who have individual DC pots and are already at or near retirement.

- > **How it works:** Rather than purchasing an annuity or managing income drawdown individually, retirees can transfer some or all of their pension pot into a Retirement CDC scheme. The pooled fund then pays a target income, with risk shared among all members.
- > **Advantages:** Provides an alternative to traditional decumulation methods by offering a collective, income-for-life model that doesn’t guarantee fixed payments but aims for stability. It is particularly attractive to those who want more predictable income than drawdown but a higher expected income than offered under existing guaranteed annuities.
- > **Status:** the Department for Work & Pensions have this month concluded their public consultation on the subject² and are due to publish their response in 2026.

² DWP consultation on Retirement CDC, 4 December 2025:
<https://www.gov.uk/government/consultations/retirement-collective-defined-contribution-pension-schemes#:~:text=Consultation%20description,a%20%E2%80%9CRetirement%20CDC%20scheme%E2%80%9D>.

Practical issues

Governance

Due to the complex operational structure, effective governance at a high level is an essential part of a CDC scheme running successfully. This ultimately is the role of the Trustees, who should make appropriate use of professional advisers and providers with expertise in their areas to support their decision-making.

Scheme Design & Rules

The design of a CDC scheme's benefit structure and the powers given to Trustees in the rules are fundamental to facilitating good governance. This will need to be considered in detail at the outset of designing any CDC scheme, otherwise there could be unforeseen risks arising later that Trustees do not have the powers to control.

For a scheme to be successful, the scheme design and rules need to be written in such a way that ensures the scheme can be run in a truly collective way. It should aim to provide value for money across the membership and allow for different member characteristics. Careful consideration will need to be given to options such as:

- > Transfers in and out the scheme
- > Member option terms e.g. AVCs, and early and late retirement
- > Commutation
- > Ill-health retirements
- > Dependant's benefits

Trustee responsibilities

The Trustees are responsible for ensuring that the scheme is run in accordance with the legislative requirements and the scheme rules. Trustees should undertake appropriate training on an ongoing basis to enable them to fulfil their role effectively – much like Trustees of any pension scheme.

The objective of a CDC scheme is to deliver the target benefits for members, and it is the Trustees role to manage the risks the scheme is exposed to while looking to achieve this goal – the key risks being investment risk and longevity risk. The Trustees are responsible for making investment decisions and also approving the actuarial valuations (which must reflect a central "best estimate" basis). They must take appropriate advice from their investment adviser and scheme actuary, and offer appropriate challenge to those advisers, when making such decisions.



The objective of a CDC scheme is to deliver the target benefits for members, and it is the Trustees role to manage the risks...



Trustees should not be at risk of personal liability as a result of poor experience from these risks resulting in negative adjustments to benefits (e.g. increases lower than expected or reduction to accrued benefits), even though their decision making has an impact on actual experience. The design of the scheme overall and rules that prescribe an unambiguous mechanism for the calculation of benefit adjustments can avoid Trustee discretionary powers that could lead to potential claims of liability.

Risk management

Trustees will need to rely on a robust risk management framework to assist them with their role. This will need to be aligned with the General Code of Practice. This can be used to:

- > record and assess risks that are likely to stop the scheme delivering against its objectives
- > document appropriate mitigation actions to those risks
- > schedule regular reviews of policies
- > plan upcoming work/decisions required
- > assess the effectiveness of governance processes

Good risk management is not a tick box exercise, but helps the Trustees to achieve their stated objectives and to deliver better outcomes to the scheme members.

Integrated Risk Management is a familiar concept across the pensions landscape, and is possibly even more relevant to CDC schemes than DB schemes because the risks requiring management have a more immediate impact on benefits. While experience may improve or reduce a DB scheme's funding level, benefits remain as promised except in extreme circumstances – unlike in CDC where benefits will increase or reduce in response to experience. The interaction between the key risks will require a bespoke approach to monitoring and management. It may also be appropriate to monitor the level of any cross-subsidy between different groups of members.

Managing benefit volatility

The overall investment strategy, with its resulting level of relative investment risk and return, will form part of the initial scheme design and would not be expected to change materially over time, aiming to provide consistency of approach and stability of expected return:

- > Higher return/risk = more variability in benefits but higher starting pension and expected incomes
- > Lower return/risk = more stable benefits but lower starting pensions

Objectives for the investment strategy will be driven by expected member outcomes and investment beliefs. Investment governance should be a top priority for Trustees to make decisions consistent with the chosen objectives.

There is a risk that the awareness of members' expectations could make Trustees overly cautious and therefore deliver sub-optimal outcomes. Although CDC schemes do not purport to provide guaranteed benefits, and this must be communicated clearly to members, it is likely that members will be averse to short-term reductions to target benefits. It will be important for Trustees to take a long-term view to funding and investment risks for the greater benefit of all members.

Even after the choice of overall investment strategy (even a low risk one), there is the risk of underperformance against the return target and Trustees will need to be prepared to deal with this practically. The scheme design and rules will guide what must be done but there may be some flexibility available.

Given that longevity risk is typically less volatile than investment risk and cannot be influenced by the Trustees, the choice of mortality assumptions used to value benefits should be considered carefully. This should be given appropriate scrutiny to ensure it is not too pessimistic on life expectancy – as underestimating life expectancy would lead to negative experience developing over time.

Collectivism over sectionalisation

In theory, it is possible that a large CDC could operate separate sections with different levels of risk/return aspirations, with participating employers selecting which section to join based on their objectives. This could also apply to Retirement CDCs, where the prospective member has the choice of risk level at the point of joining. This would not be dissimilar to the investment choices offered to members of individual DC schemes between “adventurous”, “balanced” and “cautious” funds.

However, any such subdivisions would dilute the collectivism a CDC scheme is trying to benefit from and inevitably lead to hindsight bias when comparing outcomes of different sections – which would be viewed negatively by all but the best performer.

CDC scheme design should be a drive towards maximising the benefits of collectivism through defaults based on best thinking in all areas and economies of scale to achieve better outcomes for more members.

Actuarial

In a CDC scheme the annual valuation has a direct impact on benefit adjustments, so the Scheme Actuary has a key role to play in determining the benefits of members. This is fundamentally different to the case for DB Schemes where the outcome of a valuation influences the pace of funding only, not the benefits due to members.

The Scheme Actuary must carry out a full valuation of the CDC scheme every year and this must be completed within 10 months of the effective date. This compares with a requirement for a valuation every 3 years with a 15 month deadline for DB schemes. The valuation process for CDC schemes therefore will need to be streamlined to enable the work to be carried out and required decisions made within the 10 month period.

The discount rate, inflation, mortality tables and demographic assumptions used for the valuation must all be based on a central estimate – this is a legislative requirement. This compares to a DB scheme valuation where assumptions must be prudent. The Scheme Actuary therefore has to apply their judgement in a different manner when advising on CDC valuation assumptions.

Over time a CDC scheme operating at scale should be able to carry out investigations to calibrate demographic assumptions to the scheme's membership. This will be more challenging at outset, depending on how much information is known about new joiners, where there will be a lack of credible scheme-specific information and where wider population data may have to be utilised.

There is also the risk for new CDC schemes that do not launch with a large membership, that the influx of new members could change the average demographics of the scheme over a relatively short period, with the potential to introduce unintended cross-subsidies with the smaller initial membership.

The eventual outcome of the CDC valuation is the calibration of the benefit adjustment that can be funded from the assets held by the scheme at the valuation date.

1. If the scheme experience has been positive, higher adjustments will be provided;
2. If the scheme experience has been negative, lower adjustments will be provided;
3. If the scheme experience has been so negative that it is not possible to continue existing payments without an increase, then benefits must be reduced

Under 1 or 2, the updated benefit adjustment is then applied to all members' benefits, and the assumption for future benefits used in future projections is changed.

Under 3, the Trustees will need to determine how a reduction should apply in practice. Legislation allows for "multi-annual" reductions, which allow a required reduction to be spread over a period of up to 3 years. This will allow offsetting of the staged reduction against increases arising from positive experience revealed by subsequent valuations.

The potential for benefit reductions is clearly a significant point of risk for CDC schemes, which gets a lot of attention. Having appropriate structures in place for dealing with these will require significant thought to mitigate the wider impact of such an event – both internal processes for decision making and externally communicating the outcome and reason to members.

Investment

The investment risk profile in CDC schemes is fundamentally different from that of individual DC schemes. In CDC arrangements, the collective nature of the scheme allows investment risk to be shared across a large member pool, and the mechanism for benefit adjustments enables the scheme to smooth returns over an extended period.

DC pension schemes have traditionally prioritised liquidity when near (or beyond) retirement, focusing on the ease with which assets can be converted into cash to meet short-term obligations, at the expense of longer-term growth opportunities. In contrast, CDC schemes are structured to think with a longer-term horizon.

This leads to various advantages for CDC schemes.

- > Because CDC schemes can afford to run higher levels of investment risk for longer, as short-term volatility is absorbed and managed collectively, members can benefit from a higher expected return over the long term, since the scheme is not forced to sell assets during market downturns to meet individuals' liquidity needs.



- > As the investment horizon extends further into the future, the scheme's tolerance for risk can increase. Over longer periods, there can be greater confidence that growth assets such as equities could outperform bonds. Moreover, the pooling of members in a large collective scheme means that, even if some investment outcomes fall short, the impact can be shared across the population and among different cohorts. This risk sharing helps to smooth out the effect of adverse outcomes for any single member or group.
- > CDC schemes can harness the benefits of illiquidity, such as enhanced yields from long-term infrastructure or private market investments. This may not be feasible in a typical individual DC arrangement which has higher liquidity requirements, given a member may want to change their investment strategy and have this implemented quickly.
- > CDC schemes can help to manage longevity risk. In an individual income drawdown solution, members must plan conservatively, often assuming they will live to an advanced age such as 95 or 100, which leads to them targeting lower pensions to ensure their savings last. However, a CDC scheme only needs to provide for the average life expectancy of the group, meaning that members can typically receive a higher pension than if each were planning individually.

Overall, the design of CDC schemes allows for more efficient risk sharing and investment management. By pooling both investment and longevity risks, CDC schemes can provide more stable and potentially higher retirement incomes for members.

Administration

How will Administration need to change for CDC pension schemes?

Given that, at the time of writing, there is only one CDC scheme in the UK, CDC schemes have the potential to make a material impact on the industry which will entail significant changes for pensions administration. Some will be practical system or process changes, and others will be more about mindset and communication.

In summary, CDC pension scheme administration in the UK involves managing a pooled fund of assets, where employer and employee contributions are invested collectively to provide a target retirement income. Key aspects of administration, explored in more detail below, include establishing a scheme under an irrevocable trust, adhering to TPR's code of practice, and ensuring members are clearly informed that their target income is not guaranteed.

Authorisation and CDC administration

CDC schemes are subject to an authorisation process similar to that for master trusts. Administration aspects of this process include³:

- > IT functionality and maintenance
- > Scheme governance
- > Processes
- > Member communications

Annual Benefit Calculations & Record Keeping

CDC schemes are money purchase in law but, to members, they seem more 'DB-like' with a target income (as opposed to promise).



The regulations for multi-employer schemes for non-associated employers⁴ will not be prescriptive in terms of design but schemes need to demonstrate "actuarial equivalence" at the point contributions are converted to CDC pension. In practice this is likely to mean age-based accrual rates, that are reviewed over time to reflect current longevity and investment outlook.

As per any trust-based pension scheme in the UK, contributions will have to be paid by a combination of members and employers, with these being deducted (or sacrificed) and paid across to the CDC scheme as part of the employer's regular payroll systems. Any contributions will be subject to tax-treatment in line with defined contribution schemes, in terms of how tax-relief and any tax limits (e.g. Annual allowance) are applied.

Each member will then have a record of their accrued target CDC pension amount, which will change over time as more contribution are made and converted to pension, and pension adjustments are applied to accrued CDC pension.

In terms of pensions delivery, as contributions by and in respect of members are aggregated into a single pool of assets, which is invested by the Trustees, when members retire they are paid benefits from this pool of assets. There is no need to purchase an annuity from an external provider.

In a whole-life CDC scheme administration of the scheme benefits will continue into retirement while a Retirement CDC scheme will involve the member transferring in at retirement.

Annual Statements

For whole-life CDC schemes, members will receive annual statements showing their current target benefit level and any adjustments made during the year. There will be illustrations of projected retirement benefits.

Annual valuation:

The Scheme Actuary will need to assess the funding position of the scheme on an annual basis to determine the appropriate pension adjustment, i.e. to ensure that the expected value of future benefit payments is equal to the assets. The valuation of future benefit payments will reflect:

- > Member data, including date of birth, sex, accrued target benefits;
- > Expected future investment returns & inflation expectations;
- > Predicted longevity of members.

³ The Pensions Regulator, Systems and processes:

<https://www.thepensionsregulator.gov.uk/en/document-library/code-of-practice/collective-defined-contribution/authorisation-criteria/systems-and-processes>

⁴ The Occupational Pension Schemes (Collective Money Purchase Schemes) (Extension to Unconnected Multiple Employer Schemes and Miscellaneous Provisions) Regulations 2025: <https://assets.publishing.service.gov.uk/media/68f7a7a6b391b93d5aa39a1c/cdc-extension-regulations-2025.pdf>

Once the pension adjustment has been finalised, the scheme administrator will need a process for implementing the adjustment across the membership.

Practical Implementation for record keeping & calculations:

In a CDC scheme, several key pieces of information are recorded for each member. Some items you will recognise as standard whilst some will be new and will require system work to accommodate new fields.

CDC schemes will also require updates to administration systems to cover:

- > Adjustment of benefit records
- > Modification of payment amounts
- > Generation of new member communications
- > Calculations and systems will require new target benefit calculations and adjustments.

Payment Processing:

As mentioned above, upon retirement, members receive a regular income for life from the pool of CDC assets.

Administrators will need to update payroll systems and process backdated adjustments if needed.

Training:

Training will be a key step, with staff having to familiarise themselves with new calculations, member screens and scheme information.



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Costs

Irrespective of the type of CDC scheme, one of the key factors and potential barriers for employers and providers when considering a CDC scheme is cost and how to fund the set-up and on-going running of the CDC scheme. CDC schemes will have to operate under the existing DC charge cap requirements in the UK.

An employer's perspective

From an employer's perspective, there are likely to be significant cost efficiencies in seeking to participate in a multi-employer CDC scheme rather than look to establish a single-employer CDC scheme.

An employer would likely need similar features to Royal Mail to establish a single-employer scheme now that the final multi-employer CDC regulations have been laid in Parliament, including significant union involvement; a large employee base; and existing DB benefit structure which maximises the attractiveness of moving to CDC. In these circumstances, an employer may decide that the ability to design a bespoke CDC scheme for their workforce justifies the higher costs and higher potential risk in being liable if things go wrong.

Without these commercial drivers for setting up a single-employer CDC, it is more likely that an employer interested in CDC would either look to:

- a. Partner with a group of similar employers in a specific sector to share the costs of set up, authorisation and running the scheme; a sector-based multi-employer CDC could use a third party provider to set up, authorise and run the scheme in a similar manner to some of the existing non-associated industry wide multi-employer DC schemes.
- b. Participate in one of the emerging commercial multi-employer vehicles in the market and potentially look to benefit from a role as seed employer and the provision of initial assets with preferential member charging. In this scenario, an employer may need to relinquish a degree of control over scheme design, strategy and target income in return for lower costs of participation. It would also want to ensure it is not caught by the scheme proprietor requirements which would be a role for a third-party provider.

A provider's perspective

From a provider's perspective, the key question is the employer pipeline and whether its business plan and projected pipeline for new business is sufficiently strong to justify the upfront costs of set up and authorisation. We expect many of the existing master trust providers will want to gauge interest from their existing employer base in a move from DC to CDC and if there is none, to assess how and where the employer pipeline will come from.

Given the significant upfront multi-million pound costs of set up and authorisation, there is general reluctance to adopt a "build it and they will come" mantra. New entrants to the commercial CDC market (e.g. those not currently in the DC master trust market) will likely need a seed employer – or at the very least – a clear distribution channel and promise of sufficient participating employers to evidence a sufficient business case. This is important for a provider to secure upfront funding for the CDC project, whether from existing resources or external capital raising.

On a broad level, a provider (or indeed any employer) would need to secure funding to meet the following costs:

- > Structuring the CDC vehicle, including identification of the scheme proprietor
- > Designing the CDC scheme, including benefit design and gateway tests
- > Designing investment strategy to reflect scheme design and commercial drivers
- > Actuarial, legal, investment and other advisory fees (e.g. communications)
- > Appointment of service providers and agreement of contractual terms with service levels
- > Appointment of Trustee board (and independent advisers)
- > Preparation of full suite of authorisation documents
- > Engagement with the Pensions Regulator
- > Sufficient financial reserves
- > Authorisation fee
- > Running costs, including sufficient cashflow based on projected business plan

Cost efficiency is an important consideration for CDC schemes and international models can provide useful benchmarks. Of note, it appears that CDC schemes have a low fee regime for members.

As is well documented, consolidation and market pressures can exert a downward pressure on fees. While it is not possible to correlate the impact in the Netherlands, Dutch sectoral funds, many of which are transitioning to CDC under the Future of Pensions Act, report efficiencies being generated.

Interestingly, administration costs are often borne by the employer with investment costs, paid by the member, typically ranging from 0.3% to 0.7%.

Another perspective

In Denmark, PensionDanmark, one of the largest labour market pension funds operating CDC style arrangements, reports administration costs of just £3 per month per member⁵. This is possible due to very high levels of automation and advanced administration technology. This suggests that it is not the scheme type or design that drives an increase in fees, rather the same legacy-based challenges of outdated operating models. PensionDanmark also reports investment charges to members at an average of 0.60% of assets⁶. This is achieved by using a mix of internal and external management and managers.

Communications

Due to the internal complexity of CDC operations and the collective sharing of risk between members, communicating these points to members effectively will be challenging. This has been highlighted as a potential barrier to providers/employers due to the risk of poor communication leading to a lack of understanding from members and therefore future complaints of mis-selling.

From a member's perspective, communications may be similar to those for a DB scheme as benefits are accrued in a comparable way – but with variable increases and accrual rate (depending on the annual valuation outcomes and changing market conditions). There will be key differences to ensure that members fully understand the nature of the risks they are exposed to – most importantly that benefits accrued are only a target (and therefore could still reduce) and that future indexation is conditional on investment performance/funding level.

With the appropriate level of planning and consideration, these challenges can be overcome through good communication that is consistent across all stages of membership. We have set out a more detailed appendix on the types of communications that will need to be provided to members of a CDC scheme.

⁵ PensionDanmark, 2025:
<https://www.pension.dk/generelt/priser-og-omkostninger/>

⁶ PensionDanmark, Costs:
<https://www.pensiondanmark.com/en/about-us/costs/>

Regulatory risk & Inertia

Regulatory risk

CDC legislation falls within money purchase legislation – meaning that no liability exists for employers beyond paying contributions as they fall due. However, previous experience in the UK with the ratcheting of increasing guarantees being introduced into defined benefit schemes makes many employers wary that the same could happen with CDC. While it is impossible to rule out such changes ever being introduced to CDC schemes, the deliberate positioning within money purchase legislation should make this highly unlikely.

There are risks that future changes in CDC regulations make it more onerous or costly for the provider. This may result in a CDC scheme becoming unattractive for a provider to want to continue operating. As part of their authorisation and annual reviews, CDC schemes will need to demonstrate that they have adequate contingency plans if the scheme were to close in future in a way that protects members (although it may involve them being transferred to a standard DC arrangement).

Inertia

DC Automatic Enrolment (AE) is now very well established amongst UK businesses. CDC is likely to require a similar degree of education to raise awareness and understanding amongst employers. At the member level, as with AE, there is probably less of a need for this level of understanding.

CDC may also present some staff recruitment and retention benefits over traditional DC but it is unclear how much employees will value this. Industry wide CDC could remove the competitive advantage of being an early adopter but those employers that don't sign-up could be viewed negatively. Note that any employer offering CDC is likely going to need to provide a DC alternative (to provide for those who want to make their own investment decisions - particularly on religious/ethical grounds).

Employers moving from existing DC to multi-employer CDC schemes that allow flexibility to set your level of contributions, would give employers the ability to keep their pension costs the same.

There is an opportunity to use the CDC scheme as a way of dealing with a two-tier workforce and the idea of a DC nursery scheme before moving into a CDC scheme may have merits for some employers.

Conclusion

CDC schemes appear to have the potential to offer a genuinely transformative approach to retirement provision in the UK, combining the risk-sharing and income for life of Defined Benefit schemes with the cost predictability of Defined Contribution arrangements.

As this practical guide has shown, the promise of CDC extends across single-employer, multi-employer, and retirement-only designs, offering solutions for a broad spectrum of employers, employees, and retirees.

That said, implementing CDC at scale is not without challenges. Practical considerations around administration, governance, communication, investment strategy, and legislation must all be carefully navigated to ensure schemes are sustainable, fair, and transparent.

Trustees, providers, and employers will need to work in close collaboration, supported by robust risk management frameworks, clear communication strategies, and streamlined operational systems. Yet, the potential benefits are significant - more stable retirement incomes, efficient risk-sharing, and greater long-term value for members.

International evidence demonstrates that CDC schemes can be delivered cost-effectively, and the Royal Mail CDC plan provides an early indication as to how such schemes can operate in practice.

With the expected expansion of multi-employer schemes and regulatory support for retirement-only designs, the UK does appear to be on the cusp of a new era in pension provision.

CDC is more than a technical innovation; it is an opportunity to rethink retirement provision in a collective, sustainable way. For employers, Trustees, and policymakers, the task ahead is not without difficulty but with the right support – and this practical guide contributes to such support - more predictable, resilient, and equitable retirement outcomes certainly appear to be achievable.

Appendix: Detailed communications considerations

Below we set out some key considerations for communications to members at different stages. The central scenario here is for a multi-employer scheme, where we would expect communications to be driven by providers and therefore standardised across all participating employers. Most points will be equally relevant for single-employer schemes, although the employer is likely to have more involvement and some points may not apply.

Information prior to joining

At this stage, communication is likely to be directed through the participating employer although the provider is likely to provide the bulk of materials and support – including any website or online portal.

The first communication of key messages should be in a short and punchy format that people are more likely to read – anything longer than 1 page is likely to be too long. Going one step further – a short 90 second video with the key messages may work to maximise engagement. This short introduction will need to signpost where to get more detailed information and encourage individuals to understand how the scheme works.

Prospective members will need to be given a high level but clear outline of how a CDC scheme operates, e.g.:

- > Contribution rates (as a percentage of salary) are fixed for employee and employer each year, although employees may have flexibility to pay more or less if they wish.
- > Total contributions made are converted into a target pension benefit (regular income in retirement)
- > All funds are held and invested collectively
- > Costs and charges
- > After retirement, the collective fund will pay out an income for life (with dependant benefit if this is part of the scheme design)
- > Target benefits will be adjusted over time based on scheme experience
- > The valuation and benefit adjustment process, i.e.
 - A valuation is carried out annually to ensure the scheme remains fully funded
 - Target benefits for all members are adjusted each year depending on what the valuation determines can be funded

It is important to communicate that members have the choice to opt-out if they wish, and how they go about this. If there were some individual DC alternative provided by the employer then signposting to this could be given.

Members will also need to be given clear information on the target benefits provided by the CDC scheme:

- > Contributions they will pay – as a % of salary and £x amount
- > Contributions their employer will pay – again as a % of salary and £y amount
- > Illustration of the target benefit accrued in the one year – this would show how much £pa is accrued for the £x total contribution in the first year, based on the current actuarial assumptions (this calculation will need to be updated every time the accrual rate changes)
- > Normal Retirement Age, and any options for early or late retirement
- > Important features of the benefit design – such as dependant pension and tax-free cash option
- > Description of the target indexation
 - This should be the current assumption for future increases that is “priced-in” to the current accrual rate for target benefits – preferably in terms of (CPI) inflation plus a margin
- > What will happen to benefits if they leave service of the employer, including option of transferring out.

Ideally this would be member-specific, reflecting the members age and salary information.

These pre-joining communications need to make sure that expectations of what the scheme will and won't provide are realistic – so that individuals are not making decisions on false or incomplete information.

There may also be a need for some generic material (i.e. not member-specific) such that it can be distributed easily to employees of participating employers when they become eligible for membership. This could include all the descriptive elements above and use an example member age and salary to give illustrative £ amounts. Prospective members could be directed to a simple online portal/ tool linked to HR systems that would be able to give information specific to their circumstances.

It may also be appropriate to communicate overall statistics for the scheme including current number of members and profile of the membership, size of the total assets, and a history of investment performance and benefit adjustments. Appropriate risk warnings will be important.

Communication of nuances of scheme design

While most communications will intend to be short and snappy to engage members, there is also a need for prospective and current members to have access to an accurate description of how the CDC's design affects the benefits and the options available. While Trustees cannot guarantee that members will read this, it needs to be available so that it can be referred to in the case of queries – this may help to manage member expectations and reduce risk of “mis-selling” claims at a later date.

This must include a balanced description of the potential upside and downside risks resulting from the scheme design, e.g.:

- > State that Investment and mortality risks are shared collectively across all members
 - Give examples of individual risks mitigated by CDC – investment decision, timing risks, longevity
 - Describe in general terms the cross-subsidies inherent within a CDC scheme that arise from this risk sharing (this is an area that is likely to vary between different scheme designs, and also between multi-employer and single-employer arrangements)
- > Describe the investment return objective and intended impact on benefits (i.e. to provide inflationary increases to benefits)
 - Describe any mechanisms/principles in place for determining asset allocation (e.g. if based on split of membership status/age/liabilities)
 - Be clear that members do not have to make investment decisions – these are made by Trustee with support of professional advisers.
 - Provide details of the current investments being held.
 - Usual comments around actual returns being variable.
- > Outline how benefit accrual rates may vary based on age and why this is “fair” in an actuarial sense.

- > Target benefits are not guaranteed – the actual experience of investment performance and mortality will determine the adjustments to benefits that are made in future
 - If experience is better than expected, target benefits will increase and future increases may be higher than targeted
 - If experience is worse than expected, future increases may be lower than targeted
 - If experience is very poor, there is a risk that target benefits may need to be reduced (including the approach to any staggered reductions)
 - These scenarios could be illustrated with examples including charts.
- > It is possible that the CDC scheme ceases to be viable in future and what could happen to members' benefits at that point (i.e. continuation approaches)
- > Options that are and are not available once joined as a member (may cover opting-out, opting back in, transfers-in, buying additional benefits, transfers-out, early retirement, late retirement – scheme design will determine which of these are possible)

This generic information could be in the form of a member booklet (most likely online) – this would serve both prospective and joined members equally. Note this would not need to give a detailed description of the investment strategy, but an overview of the investment objective would be appropriate to include.

Initial information after joining

Members should have access to all of the information outlined above (summary of operation, risk information, etc.). The generic information could be in the form of a member booklet as noted above – very similar to any DB or DC scheme.

The member specific information should be given in a formal initial statement confirming:

- > Personal details (so that any errors can be identified and corrected)
- > Date of joining
- > Participating Employer
- > Member and employer contribution amounts, in £ per month and annual equivalent
- > Target benefit to be accrued, in £pa for the annual equivalent contribution*
- > Date of next benefit adjustment

- > Confirmation of when future communications will be issued, e.g. annual statement of benefits etc.
- > Direction to any online access available (see below) – with instructions for registration/activation and where to go for assistance.

**Assuming members are permitted to join during the scheme year, the accrual rate is likely to be adjusted during the first 12 months so care needed in how this works in practice.*

Post-joining communications should re-iterate and emphasise the points that members need to know such that expectations for benefits are realistic.

Contact details of all relevant parties should be given, so that members know who they can go to for more information:

- > Employer representative such as Pensions Manager
- > Provider/administrator representative or team helpline
- > Trustee contact or secretary to the Trustee
- > Complaints/feedback process

Periodic communications while active

Members should be given a “Statement of Target Benefits” annually. This would be similar to a DB annual benefit statement. It should include as a minimum:

- > Accrued target benefit at scheme year-start, in £pa
- > Contributions paid over the year, split by member and employer, in £
- > Target benefits accrued over the year, in £pa
- > Benefit adjustments applied during the year to previously accrued benefits – in absolute % terms and inflation plus x%
 - An explanation of the adjustment may be included, if this is different to expected – although it may be hard to fully explain all factors driving changes
 - If a reduction or staggered reductions are occurring, a full description of how these are expected to affect future adjustments should be included.
- > Accrued target benefit at scheme year-end.
- > Projection of target benefit at Normal Retirement Age – being clear that this assumes future increases/adjustments in line with current assumptions
 - Without future accrual, i.e. only benefits to date
 - Expected future accrual up to the normal retirement age – would need to be very clear that this assumes the current accrual rate is maintained and the assumption used for salary increases.

- > Member and employer contribution amounts for the next year, in £ per month and annual equivalent
- > Target benefit to be accrued in next year, in £pa for the annual equivalent contribution
- > Date of next benefit adjustment

Additional items that could be included in the annual statement, or alternatively distributed in a separate generic newsletter – similar to what many DB schemes produce:

- > General update from Trustees, including changes to Trustee board
- > Description of material changes to the CDC scheme – e.g. sectionalisation event
- > Outline of investment strategy & commentary on investment performance
- > Reminder of operation of CDC scheme (similar to booklet)
- > Relevant pensions news / developments
- > Links to resources – Member booklet, Online access portal
- > Key contact details

Periodic communications while deferred

On moving from active to deferred status, member should receive a statement of deferred benefit (similar to a DB scheme). The format would likely be the same as an annual statement for active, but covering the period from scheme year start to member’s date of leaving, plus other information on leaving service:

- > Confirm how deferred benefits in the scheme will be adjusted going forward
- > Alternative options available to the member, such as transfer value – including restrictions around this and how this would be calculated

Deferred members should also be given an annual statement, but this would be simpler as there are no new benefits accruing. Items to consider:

- > Target benefit at scheme year-start.
- > Benefit adjustments applied during the year to previously accrued benefits – in absolute % terms and inflation plus x%
 - Same explanations as for actives
- > Target benefit at scheme year-end.

- > Projection of target benefit at Normal Retirement Age – being clear that this assumes future increases/ adjustments in line with current assumptions
- > Date of next benefit adjustment
- > Costs and charges

If a newsletter is produced for active members, it is likely this will also be suitable for deferred members. However, it may be that there are reasons a different version may be used for deferreds.

Communications in lead up to & at retirement

Members should have access to (or be provided with) relevant information in the years leading up to retirement that is sufficient to help them plan for retirement holistically – i.e. considering income from all sources.

One way of achieving this would be via an online platform that displays their projected retirement income from CDC at future ages, including the impact of options such as taking tax-free cash and the amount of dependant's pension and death benefits. It must be clearly indicated where figures are known or projected (because the retirement date is after a future benefit adjustment date). This platform could also provide general information or links to resources to support members' understanding of their CDC benefits.

The process for formal retirement quotation, form completion and settlement is likely to be similar to DB schemes, although the aim should be to modernise using technology to make this simpler for members and to allow online processing.

Deferred members may decide to transfer their benefits out of the scheme. Communications in this situation will need to be clear on the risks an individual is taking on if they transfer out to an individual DC pot. As discussed elsewhere, scheme design around permitted options will need to be considered to manage selection risk, although interaction with overriding "Freedom and Choice" legislation may restrict what is possible.

Periodic communications while pension in payment

Once benefits are in payment, pensioners should receive an annual statement shortly before any benefit adjustment is applied, confirming their new pension in payment and changes. To include:

- > Pension in payment before adjustment, in £pa
- > Benefit adjustment to apply at DATE – in absolute % terms and inflation plus x%
 - Same explanations as for actives and deferreds for the adjustment
- > Pension in payment after adjustment, in £pa.
 - Could also include spouse pension after adjustment
- > Date of next benefit adjustment
- > Costs and charges

Online access / live information provision & Administration system integration

Future members of CDC schemes will be used to modern methods of communication via email, mobile phone apps and online platforms – rather than paper letters, which are still used for many DB schemes. It therefore makes sense to design communications strategies for CDC schemes with electronic communications as a default.

The most efficient way to manage this will be to have streamlined integration between the CDC scheme and IT systems – i.e. administration and communication platforms. Given that CDC administration systems will need to be built in a bespoke way to support the operational needs, there is a great opportunity to move away from outdated practices that legacy schemes/ systems are tied to and modernise the approach to pensions communication for the next generation.

Further to having systems linked up for periodic communications, it should be possible for members to have online access to live information about their benefits, copies of past documents, etc. This is supported for a majority of existing DB and DC schemes so will be an expectation for CDC to continue and improve this service. A secondary benefit of giving individuals live online access is the increased engagement with their pensions and savings in general – something we know has been a struggle for many years now. Members' benefits will also need to be included on pension dashboards and systems will need to be set up to provide the necessary information and functionality.

Information to prospective & participating employers

For multi-employer schemes, there is also the additional consideration of communications from the provider to the participating employers – both at the outset and for regular updates.

Employers are making a decision about pension provision on behalf of their employees, so any “marketing” information for prospective employers should include many of the same points as the booklet for prospective members – i.e. outline of operation and explanation of risks.

There will be additional considerations for employers that should be emphasised, such as the relative comparisons with DB and DC schemes in terms of: contribution amounts, contribution stability, risks to employer, accounting impacts.

Once a multi-employer CDC is up and running, it would make sense for the provider/Trustees to provide regular updates on key information and the “performance” of the scheme to all participating employers – to give confidence in the scheme or inform employers if there are any issues affecting their employees to be aware of.

An annual update is likely to be sufficient, unless a specific issue arises that need a bespoke communication. It is not clear yet what metrics would be most useful for employers, but this could include:

- > Investment objective reminder
- > Investment allocation and key investment decisions made
- > Investment performance
- > Costs and charges
- > Results of actuarial valuation
- > Benefit adjustments made, including explanations (particularly if reductions)
- > Any changes to operations relevant to employers

Information specific to each employer will need to be provided regularly to HR departments, to ensure contributions are collected correctly and employer understands the profile of their employee members – this is more a detail of administration than communications.

Retirement CDC considerations

Retirement CDC schemes have a different membership life-cycle – no active and deferred members, with members joining as pensioners when they retire – and therefore the communications approach will need to be suitable for this.

The first communications to prospective members are likely to be more like marketing information given in the run up to retirement age, as Retirement CDC may be offered to individuals with DC pots as an at-retirement solution (unless being used as a default at-retirement solution, but the same information must be available to members following a default option). These would need to be short and to the point to get key messages across – possibly in video format – and signpost to further, more detailed information (e.g. website).

Generic information for prospective members on operation and risks could be similar to pre-joining information for whole-life schemes, but tailored to the decumulation situation. Any process for underwriting will need to be described.

Key points to highlight will be the differences to other at-retirement options, such as:

- > No ongoing investment decisions, vs drawdown
- > No control on level of income to take each year, vs drawdown
- > Share in the experience of collective fund, vs annuity
- > Benefit is variable and can go down, vs annuity
- > What level of benefit is provided on death, if at all

Member specific information will need to be phrased in terms of converting a (DC) investment pot in £ into a regular income in £pa. This could be done through an online service, where a member inputs their personal details, the amount they have available and any options they wish to select (tax-free cash, dependant pension) – and are then provided with a personal illustration of CDC benefits they can “purchase”. The individual could then request a formal quotation confirming this information and the relevant forms to complete. As above, the aim should be to allow online processing where possible.

Given the context here is individuals making decisions about how to use significant amounts of savings to fund their retirement, there needs to be protections against the risk of poor decision making. Communications will need to include warnings and signposting towards getting independent financial advice before making a decision.

Periodic communications to pensioners would likely be very similar to that described above for whole-of-life schemes.

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