

The UK market is currently at an interesting stage of its collective DC (CDC) journey, with the Royal Mail having the first such scheme in the country, and The Pensions Regulator recently opening applications to run multi-employer CDC schemes.

However, the UK is not unique with its evolving relationship with CDC provision, with similar situations emerging across Europe.

For instance, “in Denmark, CDC was introduced in 2008, and the stock of savings is around 200 per cent GDP,” BlackRock’s head of Northern Europe and senior adviser, Christian Hyldahl, says.

However, Denmark’s CDC differs from the system being introduced in the Netherlands.

“In the Netherlands, they have decided to implement CDC in a ‘big bang’ through transitioning their stock on a certain date for a fund, and that is a more solidary version of CDC than the Danish one, which is more individualised,” Hyldahl explains.

He also highlights Germany’s Sozialpartnermodell as another version of CDC, but stresses that this German version “is a very low volume, whereas the Danish and other versions have a lot”.

In terms of participation, CDC schemes in Denmark and the Netherlands are pillar 2 workplace pensions that are more or less mandated, Hyldahl highlights, meaning coverage is broad, at around 90 per cent. Meanwhile, Sweden has a pillar 1 supplementary CDC pension, called the Premium Pension System, which sees 2.5 per cent of salaries paid into a platform, allowing investment in unit-linked or a default, called AP7.

BlackRock’s Sophie Dapin notes that one driver behind the increased interest in CDC is the idea that a pound spent on a CDC pension can go further, resulting in higher expected outcomes for members.

This is achieved, Hyldahl explains,

The rise of CDC across Europe

➤ **How are European countries currently adopting collective DC (CDC) pension models, and what lessons can the UK learn from these established CDC markets?**



Sophie Dapin and Christian Hyldahl

by the fact CDC creates the ability to take on more investment risk, which can potentially increase long-term returns, as seen in Denmark’s CDC schemes.

Meanwhile, Sweden’s AP7 fund is a risk-on approach that generates returns through listed, levered equities, according to Hyldahl, although “its higher volatility highlights the challenge of managing investment risk during the decumulation phase”, he adds. *[How to manage payout volatility in decumulation is currently being reviewed].*

If the UK was to look for inspiration for its burgeoning CDC structure, both Dutch and Danish CDC are “the two biggest examples of pension systems transforming, although they have “very different motivations”, Hyldahl says.

According to Hyldahl, the Danish system switched to CDC after pension funds operating guaranteed schemes were forced by regulators to hedge their liabilities in full as interest rates fell in the 2000s.

Meanwhile, he adds, Dutch pension funds were not fully hedged during the 2000s interest rates decline, resulting in

surplus losses and prompting the industry to conclude a change was needed.

That change can occur is one reason why Dapin highlights the importance of building CDC members’ trust and confidence, as “in a CDC pension, the pension is a target rather than guaranteed such as in a DB pension”.

Hyldahl agrees, calling it “one of the changes” in the Dutch transition to CDC, particularly through the redesign of administration systems to improve member communication.

He also suggests that, as is the case in Denmark, where there are several versions of CDC depending on the pension fund, increased choice can increase member interest.

“Providing these choices starts to lean more to the right here in terms of DC, but you still maintain the benefits of having a collective scheme, in terms of having scale, in terms of having lifelong payouts to share longevity risk. It’s increasing financial literacy in general, which I think is a good thing,” Hyldahl explains.

Hyldahl says he hopes Europe would see a bigger rollout of workplace pensions. He believes Europe has the frameworks to expand workplace pensions, but stronger cooperation between governments, employers and unions is needed to make them successful.

➤ **Written by Paige Perrin**

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