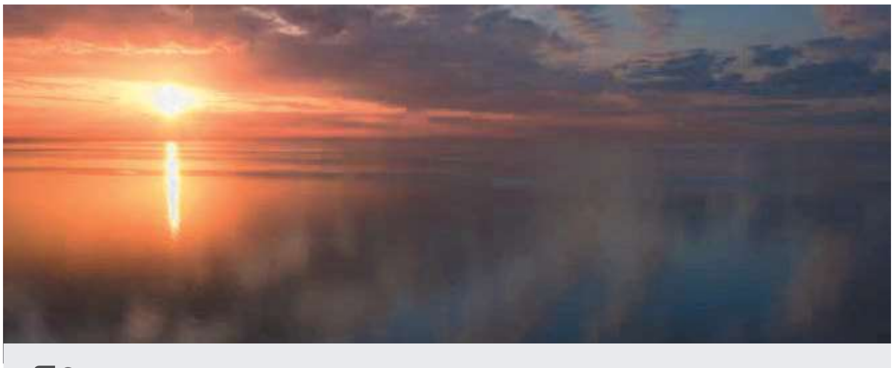

Summary
• Many UK providers and employers are keen to have an opportunity to form CDC schemes, although there are concerns that the single employer variants legislated for will not suit all parties.
• The CDC schemes hitting our shores are not identical to their Dutch counterparts, with UK variant not targeting a particular benefit.
• UK CDC schemes are also set to have asset allocation rules for trustees to follow, another difference from the Dutch schemes.

CDCs across the seas

Duncan Ferris examines how the UK's collective defined contribution (CDC) schemes appear to differ from those already established overseas

CDC schemes are on the horizon for the UK pensions industry. The Pension Schemes Act, which received Royal Assent back in February, has put in place the framework for the schemes' introduction on a single employer basis, although there are calls for multi-employer variants to be permitted as well.

For example, March saw Willis Towers Watson director and senior consulting actuary, Shriti Jadav, argue that there was "real potential" for CDC schemes to take off in the UK through master trusts, pointing out that costs and the need to set up an existing trust or start a new one meant going solo would not be an option for all employers. Such a development seems even more likely, as survey data released by Aon in April showed that just 7 per cent of employers were against offering CDC schemes to their workforce.

It is worth pointing out that a significant amount of the drive for CDC has come from employers themselves, with Royal Mail pushing for CDC schemes since forging an agreement with the Communication Workers Union in 2018. Looking ahead, the Royal Mail scheme will be the first of the UK's CDC schemes.

Looking further afield, CDC schemes have already been in use for years in countries like Canada, Denmark and The Netherlands, with the latter standing out as the most prominent example. But a key question is, will the version we see in the UK be exactly the same as those implemented abroad?

Utrecht University professor of international pension law, Hans Van Meerten, noted a number of differences between the Dutch form of CDC and the proposed UK form in his paper, *UK Collective DC: Is it 'Dutch-style' CDC?*, published in August 2020. The primary difference noted by Van Meerten, using the proposed Royal Mail scheme as a reference point, is that the Dutch model starts from the point of having a target benefit, while the UK counterpart "is not targeting a particular benefit".

He explained: "Instead it proceeds on the basis that members get what they will, as they would do in a traditional UK individual DC plan, but determined collectively and expressed and paid in pension form, rather than as an individual DC savings 'pot', which is then drawn down on or converted into pension form through an annuity purchase."

Additionally, Van Meerten pointed out that "the UK CDC plan is expected to have, at least in high-level terms, an asset allocation strategy set out in its plan rules which the plan trustees are obliged to follow".

He continued: "This should be an investment strategy that is consistent with the strategy assumed when the scheme's projected benefit outcomes were modelled. Having such a strategy that is clearly stated from the outset (albeit it will presumably prescribe whether the scheme's investments will de-risk as the scheme matures and if so how) may also be an important aspect of the scheme's transparency, which many commentators regard as critical to public confidence in such schemes in the UK."

Another clear difference in CDC in the two nations is the environment in which they will exist. Retirement saving in The Netherlands is, in many ways, a different beast to the UK, with average pension contributions almost double the proportion of salary put away into pension pots by British savers, while the Dutch state pension is also more generous than that seen in the UK.

Additionally, figures from the Dutch Pension Federation show that more than 90 per cent of Dutch employees have a pension, while comparable data from MoneySupermarket showed that 21 per cent of people in the UK had no pension.

Written by Duncan Ferris