Gauging appetite for CDC

Following the Chancellor's Mansion House announcements on decumulation policy and the expansion of collective defined contribution (CDC) schemes in the UK, there seems to be mixed opinions as to what impact the introduction of CDC schemes will have. *Pensions Age* asks: Are you excited by the prospect of CDC?

"I am greatly encouraged by the government's Mansion House proposals for the implementation of CDC in the UK. That there is strong cross-party consensus for CDC is a clear indication that this design of scheme will become common in the UK and that future members can look forward to the favourable retirement outcomes experienced in the Netherlands.

"The creation of decumulation-only vehicles will offer the public a 'halfway house' between the rigidity of traditional annuitisation, and the risks associated with drawdown arrangements. Most importantly, the creation of schemes for non-associated schemes will see CDC move into its natural environment of auto-enrolment. Such schemes will allow members to experience true end-to-end defaults through induction into benefit accrual and finally into the provision of a lifetime income via the scheme.

"This surely represents a superior alternative to the decumulation minefield associated with traditional DC schemes. CDC offers an exciting future for the next generation of pension scheme members, and the government is to be congratulated for allowing it to happen."

PMI director of policy and external affairs, Tim Middleton

"Theoretically, CDC should be a good thing. Risk sharing across members, with the release valve of reduction in benefits has advantages. It also has the potential to play a decumulation role, somewhere between an annuity and drawdown.

"However, what you get out of a pension is a function of how much is invested, what investment returns are made, and what charges are paid. A lot of focus is currently given (e.g., in a Chair's Statement) to investment returns and charges. But there isn't anywhere near enough focus on how much is invested.

"Until we wake up as a nation and realise that we aren't putting enough into the system in the first place, we have a problem. One in 10 Japanese people are now over 80. The idea that we can all work for 40 years, save the current auto-enrolment minimum of 8 per cent of salaries, then have a 'comfortable' level of income throughout our retirement is just wrong. Today's 30-year-old may well have an average 30-year retirement if they plan on retiring at 65. Yes, CDC is an innovative solution. It has mileage. But there are other fundamental issues at play."

Dalriada Trustees director, Adrian Kennett

"It's encouraging to see that CDC is now on the government's policy agenda. Employers, scheme members, and the wider economy could all benefit from the introduction of CDC schemes, and we would welcome legislation to enable the creation of multi-employer CDC schemes.

"CDCs provide a whole-of-life pension, which is typically expected to provide better outcomes for members compared to DC alternatives at the same cost. Compared with DB, CDC is also much less burdensome and costly for employers. Firms can still offer their employees a generous pension, but it doesn't require the open-ended sponsor guarantee. CDC could help these firms to attract and retain talent by standing out from their competitors.

"As a multi-employer master trust that offers both DB and DC to members, we're already speaking with employers in the housing and education sectors who may potentially be interested in joining a CDC scheme."

TPT Retirement Solutions employer & strategic partnerships director, Andy O'Regan

"I am pleased to see the government progressing with plans to legislate to enable a wider range of CDC pension schemes. It is great to see both the Pensions Minister and the Chancellor talking enthusiastically about CDC, building on the great work that has already made CDC schemes a reality and got us to this point. I agree with the comments made by the Chancellor in his Mansion House speech that CDC schemes 'hold great promise for the future'.

"Looking at the pensions landscape in the UK, DB schemes are now mostly the preserve of a lucky few, at least in the private sector, and DC schemes have yet to solve the decumulation conundrum as to how to convert a pot of money into an attractive level of income that will last a lifetime. I believe that CDC pension schemes offer the prospect of helping to close the gap between DB and DC members and so improving retirement outcomes for millions of individuals in the UK.

"Therefore, I look forward to seeing the government bring forward draft regulations later this year that will extend the existing regime to multi-employer and master trust arrangements, as well as providing greater flexibility on scheme design. Both of these developments will broaden access to CDC, allowing more individuals to benefit.

"However, it is disappointing that, despite the strong support from government for decumulation only CDC, there is not yet a clear timetable as to when the government will bring forward legislation in this area. Decumulation-only CDC, as a solution at retirement for DC savers, is needed to truly open up CDC to the masses and it is also where there is the greatest need for CDC. Acting as a middle ground between drawdown and annuities for DC members, it has the potential to: Materially increase, by around 50 per cent, members' expected annual incomes compared with traditional annuities; and enable a generation of millions of existing DC savers to remain invested in growth assets into retirement, without the risks presented by drawdown of drawing too much or too little of their savings each year (and which will also help with the government's broader productive finance agenda).

"I would therefore urge the government to set out a clear timetable for legislating to allow decumulation-only CDC. This will help provide clarity and certainty to providers who would be crucial in ensuring that this market evolves."

WTW senior director and Society of Pension Professionals CDC group chair, Edd Collins

"The Mansion House reforms have added to the momentum around CDC – and that really is to be welcomed. The Chancellor has recognised that CDC schemes have the potential both to offer better outcomes and to facilitate wider investment opportunities – one of his key objectives for the broader economy.

"By pooling risk and aspiring, but not guaranteeing, to provide increases to pensions, CDC schemes can help navigate new forms of volatility and hold more return-seeking investments – and over a longer period – than DC and closed DB schemes.

"Infrastructure is a great example of how this could generate returns and aid the transition to the low carbon economy. However, CDC schemes can go further, including through investment in private equity focused on new and emerging technologies with broader environmental or social impacts – and potentially address the bigger goal of helping grow the UK's economic prosperity."

Aon partner and head of CDC, Chintan Gandhi

Written by Jack Gray