Collective action

Recent government and regulatory announcements will enable the creation of new whole-of-life collective defined contribution (CDC) schemes. With regulatory backing for retirement CDC also imminent, David Adams looks at the practical challenges facing schemes and providers seeking to turn the theoretical promise of CDC into reality

Summary

• Following recent government and regulator announcements we should see whole-of-life CDC schemes starting to go through regulatory authorisation processes during the next year.
• Further regulatory announcements that will enable development of retirement CDC are also expected within the next few months.
• But significant practical and technical obstacles linked to administration, investment strategies and member communications will need to overcome before schemes can seek regulatory authorisation.
• Arguably most important of all will be ensuring that scheme members have an adequate understanding of how CDC schemes work, to help build confidence in this new form of pension scheme.

After years of talk about its potential to radically alter the UK pensions landscape, the widespread roll-out of collective defined contribution (CDC) schemes should be underway within the next few months. So far in 2026, The Pensions Regulator (TPR) has unveiled its updated Code of Practice for CDC schemes and opened applications to run multi-employer CDC schemes; while the government has published its response to its 2025 CDC consultation, clarifying legal and regulatory requirements. The relevant actuarial standards have also been revised by the Financial Reporting Council (FRC).

Further regulatory announcements related to retirement-only CDC, which allows people to move pension

savings into a collective fund at or after retirement and is likely to be used within many schemes' guided retirement strategies, are expected soon.

We have also seen more evidence that CDC really can reduce costs and risks for employers and could deliver better outcomes for members. Modelling results published by LCP in April 2026 showed that CDC pensions would have been more resilient and stable than individual DC pension pots during most of the past 80 years and would have reduced the risk of 'point in time' losses at retirement.

This year has also seen publication of the first actuarial valuation for the Royal Mail Collective Pension Plan (RMCPP), the one CDC scheme already operating in the UK, albeit in highly bespoke form, which opened in 2024. The valuation showed it delivered a pension increase of 6.4 per cent, 2.6 per cent above the CPI measure of inflation, during its first full year in operation.

So, it now seems very likely we will see some whole-of-life CDC schemes, which pool longevity and investment risks during both accumulation and decumulation phases, opening within the next 12 months. One illustration of how quickly things are moving is that a week after TPR opened applications for multi-employer CDC, Aon announced its intention to seek regulatory approval to add a whole-of-life CDC section to the Aon MasterTrust, alongside DC benefits. It is also considering adding a retirement CDC section to the master trust when regulations allow.

But there are some significant practical and technical obstacles that employers, schemes and providers will need to overcome before CDC schemes can seek regulatory authorisation, in relation to administration, investment strategies and, arguably most important, member communications.

A very different kind of scheme

Association of Member-Nominated Trustees (AMNT) co-chair, Maggie Rodger, says many DB and DC schemes' trustees or managers will have to adapt to "a completely new way of thinking", as they start planning modelling likely membership and contributions of a proposed CDC scheme. One key difference is the annual valuation exercise, which assesses whether a scheme's assets and liabilities match.

"If they don't, you change your liabilities by changing your indexation," she explains. But the parameters within which this can be done will need to be agreed at the outset.

Pensions Administration Standards Association (PASA) CDC Focus Group chair (and Sackers partner), Helen Ball, points out that CDC administration is also significantly different from administration for DB or DC schemes.

"For DB schemes there are platforms for calculating contributions and benefit payments, and a payroll function for paying out benefits," she says. "DC schemes have different administration systems, because you've got to watch the size of the pot over the years and think about how you give benefit statements to people and allow them to make choices at retirement. *[Whole-of-life]* CDC administration brings together the actuarial part of working out what someone's target pension is, plus the payroll part at the end."

Administration solution provider Lumera's chief commercial officer, Peter Roos, sees the choice and construction of administrative infrastructure as a crucial factor that could determine the success or failure of CDC schemes.

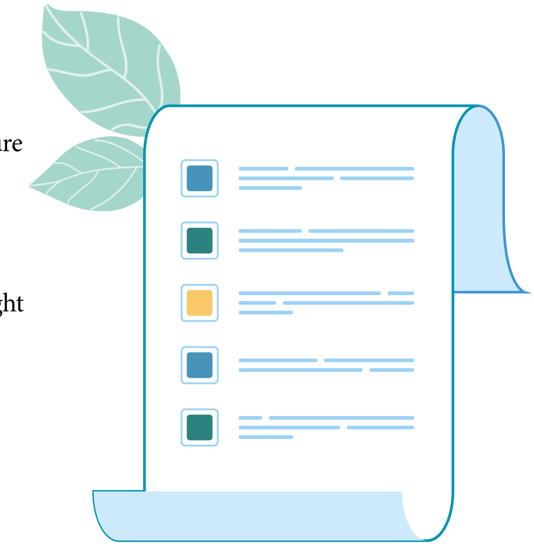
"This means implementing robust data and systems capable of supporting CDC's collective approach, alongside actuarial, governance and member communication requirements," he says. "High-quality data and fully auditable processes will be critical, enabling faster reporting, and robust monitoring of outcomes such as intergenerational fairness."

The latter is an important issue. CDC scheme members pool longevity and investment risks, which can have positive and negative impacts on the pensions they receive. But CDC also shifts some risk from older to younger members of the scheme, because it gives trustees or providers more flexibility to invest in higher risk assets on behalf of all the members. A CDC scheme is likely to produce better outcomes for all its members than if they had been saving in a DC arrangement for an equivalent period of time, but if younger members only spend a few years in the scheme they are likely to effectively subsidise some of the pension benefits received by older members.

"Hopefully, putting time in at the start doing the right modelling around scheme design will help to alleviate those issues," says Sackers partner, Andrew Worthington.

Communication and compliance

Even if not all CDC scheme members need (or want) to know all of the details



of scheme construction and strategy, they will need to understand how these pensions work, and how their benefits are affected by the performance of the scheme's investment strategy over time.

"There are legal requirements around what needs to be communicated and some key points that need to be explained, such as that pensions may decrease in retirement," says Worthington. "But there are some really positive messages around CDC, about it being an income for life, and about members not having to make any complex investment or retirement decisions."

Aon head of UK retirement policy, Matthew Arends, says the business is still developing its approach to explaining CDC to Aon MasterTrust members.

"The challenge is to make CDC benefits understandable without oversimplifying it," he says. "You need to find the right balance between explaining risk and ensuring they have confidence in the design of the scheme. In CDC we expect benefits to go up much more often than they go down, but we can't dismiss the risk that they may go down." He says it is essential to explain this risk in a proportionate way, to ensure members are not alarmed by it.

Arends also highlights the need for members who have not yet retired to be provided with a comprehensive, but comprehensible explanation of their right to transfer out of a CDC scheme.

"On request they will be able to see their transfer value, so we need to express the benefit accurately, in terms individuals can understand," he says.

"High-quality data and fully auditable processes will be critical"

Clear communications will also be critical for individuals who are transferred into whole-of-life CDC schemes from DC arrangements without their consent. The government's response to the 2025 CDC consultation states that such transfers will be permitted, although transfers into retirement CDC arrangements will not be possible without member consent.

Once effective preparations are in place, a scheme will need to complete the regulatory authorisation process. For whole-of-life CDC schemes or providers this will involve submitting the scheme rules, a viability report and a continuity strategy to TPR. Multi-employer CDC schemes will also need to nominate a single scheme proprietor to 'own' the scheme, holding or controlling sufficient money to cover the costs of an orderly wind-down. Multi-employer schemes must also submit a business plan, a set of accounts (if they exist) and accounts for any organisations partly or completely funding the scheme proprietor. There are additional rules governing marketing or promotion of these schemes.

TPR has built some flexibility into elements of the authorisation process, but it is also inevitable that future changes in pensions policy, regulation and other circumstances will force adaptations in CDC schemes' operations. Trustees, managers and the systems they use will all need to offer some flexibility.

"The regulatory framework is likely to evolve as the market matures, so CDC requires platforms that can adapt to rapidly changing regulatory and product requirements," says Roos. "Platforms will need to be able to evolve with the market and accommodate changing products and requirements without costly system rewrites."

With the practical capability to deliver CDC in place, Roos thinks the biggest factor that could delay widespread adoption of CDC will be a lack of confidence in the concept, among employers, trustees and scheme members.

"Employers and trustees will want assurance that CDC can provide more predictable retirement journeys and a positive member experience, while remaining practical and efficient to administer," he warns. But he is optimistic. "As the market matures and schemes build experience in this space, we expect that confidence to grow."

Written by Dave Adams, a freelance journalist