

The logo for Pensions UK, consisting of a dark blue square with the text "Pensions UK" in white, positioned in the top left corner of the page.

Pensions UK

# Pensions UK response to DWP Retirement Collective Defined Contribution pension schemes consultation

December 2025

## EXECUTIVE SUMMARY

Pensions UK welcomes the opportunity to respond to the Department for Work and Pensions' consultation on the development of Retirement-Only Collective Defined Contribution (CDC) schemes.

Our organisation has long argued that well-designed CDC arrangements have the potential to deliver good retirement outcomes, and we watch the development of the whole-of-life CDC market with interest. Retirement-Only CDC offers one route for savers currently in DC schemes to benefit from risk sharing during the retirement phase. Other mechanisms for sharing risk in the decumulation phase, such as collective drawdown, are also under consideration by some members and can potentially deliver similar or even enhanced benefits. We would highlight the PPI's [research in this area](#).

Our long-standing position, set out consistently in previous PLSA submissions and research reports, is that CDC can deliver meaningful value only when supported by strong governance, disciplined actuarial standards, transparent and well-timed communication, and a tightly controlled market environment that protects savers from unrealistic projections or inappropriate marketing. A Retirement-Only CDC market will require the same high bar for authorisation and supervision as whole-life CDC schemes, including a fully developed regulatory framework and the operational capacity for robust TPR oversight.

It is essential that Retirement-Only CDC schemes are designed with clarity of purpose, fairness between entrants, and long-term sustainability at their core. Without these safeguards, the risk of intergenerational unfairness, volatility, mispricing, and member misunderstanding would be significant. With safeguards, Retirement-Only CDC has the potential to become a valuable, scalable, and trusted part of the UK retirement income landscape.

### **A regulatory framework grounded in governance quality**

A central message from Pensions UK's earlier responses on multi-employer CDC arrangements is that governance is the primary determinant of member outcomes. Retirement-Only CDC must therefore be restricted to trust-based providers who can meet strict fit-and-proper standards, demonstrate a clear separation of duties between trustees and schemes, and operate transparent investment, pricing, and communication processes. The complexity of collective actuarial management requires expertise at the trustee board level, and the authorisation framework must reinforce the expectation that only organisations with deep operational capability should enter this market.

### **The importance of actuarial discipline and pricing fairness**

The core value proposition of CDC depends on the integrity and stability of its benefit-adjustment mechanism. Pensions UK has consistently cautioned that poor

pricing discipline, excessive reliance on optimistic assumptions, or inadequate controls on cohort entry terms would undermine confidence in CDC as a whole. Actuarial equivalence must therefore be a binding requirement for all transfers into Retirement-Only CDC. This ensures new members neither dilute the position of existing pensioners nor receive unsustainable initial benefit levels. Schemes must also be required to use central estimate assumptions, sustainable benefit targets, and clearly articulated cohorting rules when variation in initial terms is permitted.

### **Scale, sustainability, and investment strategy**

Retirement-Only CDC schemes start paying pensions immediately, which means they will need adequate scale early on in order to manage liquidity needs while maintaining a meaningful allocation to growth assets. Pensions UK's prior research with the PPI has shown that the benefits of CDC –particularly longevity pooling and return smoothing –are significantly enhanced when large and diverse membership pools are achieved. It will therefore be important for authorisation to require realistic and evidence-based business plans setting out how scale will be achieved, without relying on speculative entry numbers or overly optimistic early asset growth assumptions.

### **The role of clear, consistent and timely communication**

Communication is a recurring area of concern. Members will join Retirement-Only CDC at the point of retirement, often making irreversible decisions. Unless communications are carefully designed, some members may perceive CDC benefits as guaranteed or fail to appreciate the variability inherent in the adjustment mechanism. To avoid this, narrative communication materials must prioritise clarity over complexity, avoid technical jargon, and avoid any implication of certainty. Within Guided Retirement pathways, providers must communicate the purpose, risks, variability and conditions of CDC income in ways that help members understand the nature of the product without overstating its advantages.

### **The need to embed protections against market distortions or mis-selling**

Because Retirement-Only CDC will operate in a wholesale environment mediated by trustees, restrictions on marketing to individual members must be appropriate and proportionate. Pensions UK agrees with the Government that direct-to-consumer marketing would pose significant risks, particularly where schemes could be incentivised to present overly optimistic income projections or understate the fluctuation risk. Equally, any extension of CDC into FCA-regulated pathways must ensure parity of consumer protection standards with the IGC and VFM frameworks. The regulatory perimeter must therefore be clear and enforceable.

## **Alignment with Guided Retirement reforms and wider pension policy**

Retirement-Only CDC will sit within a broader context of Guided Retirement requirements, the evolving VFM regime, and the expected expansion of default pathways across DC schemes. To avoid fragmentation or inconsistent member journeys, Retirement-Only CDC must be integrated seamlessly into these frameworks. This means clear rules on transfer mechanisms, shared standards for quotations and illustrations, and alignment with FCA decumulation rules where contract-based schemes are involved. It also means ensuring that trustees remain fully accountable for assessing whether Retirement-Only CDC offers better outcomes than alternative retirement solutions.

### **Question 1: How do you anticipate Retirement CDC investment strategies will need to differ from those of whole-life CDC schemes?**

Retirement-Only CDC schemes will require a noticeably different investment profile from whole-life CDC arrangements because they begin paying pensions from inception rather than after a long accumulation period. Whereas whole-life CDC can adopt a relatively growth-oriented investment strategy in early decades, a Retirement-Only CDC arrangement must maintain a higher degree of liquidity at all times to meet immediate benefit outflows. This does not imply that schemes must forgo productive or long-term investments entirely, but it requires trustees to balance liquidity needs with the desire to maintain exposure to return-seeking assets.

The critical challenge for these schemes will be shaping an asset strategy capable of sustaining income throughout a cohort's retirement while also providing the stability that supports more predictable annual adjustments. The absence of ongoing contributions means that investment losses cannot be naturally offset by incoming flows, increasing the importance of disciplined risk management. Nonetheless, with adequate scale, Retirement-Only CDC schemes should still be able to benefit from diversified portfolios and illiquidity premia, provided the liquidity profile of these investments is consistent with expected cash-flow demands. Over time, a gradual de-risking pattern may emerge naturally as cohorts age, but this should be governed by actuarial modelling rather than adopting traditional DC lifestyling patterns.

### **Question 2: What do you estimate the establishment and running costs of a Retirement CDC scheme to be?**

Retirement-Only CDC is likely to incur higher initial set-up costs than whole-life CDC schemes. This is because benefit payments must commence immediately. More specifically, the administrative infrastructure, actuarial modelling environment, pricing framework, cohort management rules and communication processes must be fully operational before the first member enters. Providers will need to invest in governance arrangements, high-quality scheme actuaries, robust

financial models, IT administration systems capable of applying adjustments fairly, and strong data interfaces with partnering DC schemes.

Running costs will reflect the ongoing need for annual valuations, actuarial scrutiny, investment management, liquidity monitoring, administration, trustee governance and member communication. We would expect annual running costs to be comparable to whole-life CDC's steady-state expenses, though slightly higher on a per-member basis until meaningful scale is achieved. The early years may therefore display cost asymmetries where the scheme must bear the burden of under-recovered costs until the first cohorts reach critical mass. For this reason, the authorisation regime should require business plans that present a credible pathway to cost recovery and financial sustainability.

**Question 3: Should business plan requirements for whole-life UMES CDC schemes also apply to Retirement CDC schemes? What should change or be added?**

The business plan requirements applicable to whole-life UMES (Unconnected Multiple Employer Schemes) CDC schemes should indeed be applied to Retirement-Only CDC, with minimal modification. The principles underpinning the whole-life requirements – such as demonstrating financial sustainability, identifying key risks, evidencing the capacity of the scheme proprietor to meet costs, and articulating a clear strategic purpose – are equally relevant in the retirement-only context.

The main difference lies in the need for the business plan to address the absence of ongoing contributions for retirement-only CDC schemes. Retirement-Only CDC business plans must provide greater clarity regarding projected membership onflows, expected cohort sizes, liquidity planning, and the transition from initial set-up to steady-state operation.

In addition, business plans should explain the methodology for pricing incoming members, the operation of actuarial equivalence tests, the governance of cohorting arrangements and the safeguards against adverse selection (when individuals with higher-than-average risk – e.g., poorer health or shorter life expectancy – disproportionately join a scheme because it offers better value for them). These considerations reflect the distinctive decumulation-focused purpose of Retirement-CDC and should therefore be explicitly incorporated into business plan expectations.

**Question 4: What member onflows and pot sizes will be needed for stability in Retirement CDC, and what allowances are needed for opt-outs?**

Retirement-Only CDC schemes will need to achieve meaningful scale quickly to ensure stability in benefit adjustments and to achieve investment efficiency. Unlike whole-life CDC, where contributions accumulate over decades, Retirement-Only CDC receives assets primarily at the point of retirement. This means the first few years of operation will be critical. To achieve adequate stability, schemes will likely need a predictable pipeline of retirees from large DC arrangements –

particularly Master Trusts –with pot sizes that enable a well-diversified asset base.

Given typical DC pot sizes at retirement, even several thousand members in early cohorts may be necessary to achieve the predictable cash-flow dynamics to stabilise annual adjustments. Providers should not assume that all members will accept the default retirement option; assumptions regarding opt-out rates must be conservative. Where Guided Retirement defaults are used, trustees must anticipate that a proportion of members will choose drawdown or annuitisation instead. Authorisation should therefore require evidence that the scheme can remain viable even if actual member inflows fall materially below initial projections.

**Question 5: What do you think the effects of the proposed adaptation to promotion and marketing criteria, including the prohibition on member marketing, would be?**

Restricting direct marketing to individual members is both necessary and appropriate. Retirement-Only CDC schemes are actuarially complex, and members may misinterpret benefit projections as guaranteed, particularly where CDC income levels appear higher than annuity rates. The prohibition on retail marketing reduces the risk of mis-selling and aligns the product with a trustee-mediated decision-making pathway, which provides a more informed and protected environment for selection.

Limiting marketing to trustees and managers reinforces the principle that Retirement-Only CDC should operate primarily as a wholesale offering within Guided Retirement pathways. This prevents distortion of the market through over-optimistic illustrations and ensures that communications are scrutinised by professionals with fiduciary responsibilities. It also helps maintain competitive fairness between UMES providers by avoiding circumstances where schemes pursue aggressive marketing strategies that could undermine sustainable pricing disciplines.

While we support appropriate restrictions on direct-to-member marketing to prevent mis-selling, it is important to recognise that trustees must be able to communicate clearly with members about Retirement-Only CDC, especially if it is the default retirement solution. Members need timely, accurate information about their retirement options well before reaching retirement age, ideally from the point they join the scheme in accumulation. This is particularly relevant where the Retirement-Only is provided by a third party, as overly strict limitations could prevent trustees from providing essential information until the point of retirement, which would not serve members' interests.

We therefore recommend that either greater flexibility is allowed in trustee communications, or that the regulations provide clear guidance on what trustees can and cannot say. This will ensure that important messages and guidance can

be delivered to members throughout their savings journey, supporting informed decision-making and member understanding.

**Question 6: How would access via Guided Retirement default or formal partnership protect members and affect market development? Are there unintended consequences?**

Using Guided Retirement defaults or formal trustee partnerships as the primary access mechanism provides a structured and protected route for members to enter Retirement-Only CDC schemes. Trustees are best placed to evaluate actuarial assumptions, pricing fairness, liquidity management and investment strategies, and can compare CDC offerings against drawdown, annuities and hybrid arrangements. This trustee-mediated choice reduces the risk of unsuitable transfers, helps ensure actuarial equivalence, and supports coherent member journeys.

A potential unintended consequence is concentration of early market power among the largest Master Trusts, which may be the only entities able to assess CDC offerings at scale. However, this is preferable to a fragmented, retail-driven market that exposes members to mis-selling or poor-quality schemes. In time, as the market matures and transparency increases, more providers may develop the capability to engage on equal terms.

**Question 7: What are the risks, benefits and protections needed when FCA-regulated schemes transfer members to Retirement CDC?**

Transfers from FCA-regulated schemes introduce additional regulatory coordination challenges. The principal risks arise from mismatches in consumer protection standards between FCA and TPR environments, particularly regarding disclosure, suitability assessments, cost transparency and projection assumptions. There is a risk that members of contract-based arrangements or SIPPs could transfer into CDC schemes without receiving sufficiently clear guidance or without understanding the variability of CDC income.

However, there are potential benefits to allowing FCA-regulated schemes to partner with CDC providers. These include access to longevity pooling for individuals otherwise reliant on drawdown or individual annuities. To ensure member protection, equivalent safeguards to the Guided Retirement framework must be applied, including robust disclosure rules, appropriate transfer checks, clear communication of variability, and a mechanism for ensuring that CDC projections are not more optimistic than permitted under FCA assumptions. Regulatory alignment between FCA and TPR will be essential.

**Question 8: What matters should be considered in developing an actuarial equivalence requirement, and are there other factors for scheme entry?**

Actuarial equivalence is essential to ensuring that new entrants neither dilute existing entitlements nor receive an unfair uplift at the moment of entry. In designing this requirement, the primary considerations must include the use of

central estimate assumptions, the avoidance of optimistic mortality or investment models, transparency around discount rates and a consistent methodology for converting pots into initial income. The scheme actuary should be required to certify equivalence and document the assumptions underpinning the calculation.

The equivalence test must also address demographic differences. Without clear guidance, there is a risk that entrants with lower-than-average life expectancy could impose costs on existing members. In addition, the test should work seamlessly with cohorting arrangements, ensuring that new members join on pricing terms consistent with their cohort's target conditions. Entry rules should prohibit practices that intentionally recruit healthier-than-average members or that offer time-limited incentives inconsistent with actuarial fairness.

**Question 9: What mechanisms should be introduced to ensure that quotations are accurate and not misleading?**

Quotations must convey a realistic picture of the income that can be purchased with a member's DC pot while making clear that the figure is not guaranteed and is subject to annual adjustment. To ensure accuracy, quotations should be based on the same actuarial models used for pricing and the assumptions should be clearly documented. Providers should be prohibited from presenting upside scenarios without proportionate disclosure of downside possibilities. Quotations should be routed through trustees, who must confirm that the material is not misleading.

In addition, the regulatory framework should require that quotations include a statement explaining the variable nature of CDC income, the mechanisms of annual adjustment and the fact that benefit cuts are possible. Where appropriate, schemes may include a guarantee period for the quoted terms, but only if such guarantees are consistent with actuarial practice and scheme rules.

**Question 10: What are your comments on a cohorting approach, and does the illustrative drafting reflect the policy intent?**

Cohorting is a desirable and probably necessary mechanism for Retirement-Only CDC because it allows schemes to price new entrants in a way that reflects prevailing market conditions and avoids the distortions that arise when newly entered members inherit historically high- or low-benefit adjustment levels. A cohorting system would enable each new group of members to start with a target benefit adjustment linked to at least CPI, while subsequent adjustments would be based on the scheme's actual investment performance. The approach mitigates cross-subsidy between members who enter at different times and helps maintain fairness across generations. The illustrative drafting in the consultation paper broadly captures the policy intent, though further clarity may be needed on how cohorts close and re-open and how communication to members across multiple cohorts will be managed, particularly when cohorts experience different adjustment paths or one-off changes triggered by upper-threshold mechanisms.

**Question 11: What issues arise from removing the upper threshold and spreading cuts over the lifetime of the scheme, and how might these be mitigated?**

Removing the upper threshold and allowing cuts to be spread over the entire lifetime of the scheme can provide smoother benefit trajectories but raises concerns about intergenerational equity. Without an upper threshold, members who enter when the scheme has performed exceptionally well could receive disproportionately high increases that are not sustainable for subsequent cohorts. Similarly, spreading cuts over a lifetime could mask underlying deterioration and shift the burden to future pensioners.

If these mechanisms are removed, they should only be removed for schemes that use cohorting, where the intergenerational risk is already more contained. Even then, mitigation measures are needed. These include requiring scheme actuaries to certify that adjustment profiles remain fair under central estimate assumptions and demanding transparent communication about the long-term implications of smoothing cuts over many years.

**Question 12: Is there any further information that Retirement CDC schemes should be required to provide to new and prospective members?**

Retirement-Only CDC schemes should provide future members with information that helps them understand the nature of the product, the fact that income is variable and the rationale for collective risk pooling. Given that members will join at retirement and make a one-off choice, communication should explain the annual adjustment process, the possibility of benefit reductions, the reasons for actuarial equivalence rules and the broad investment strategy. It would also be useful to include a narrative explanation of the factors influencing adjustments, such as mortality experience or market performance and to give a high-level outline of the role of trustees and actuaries in maintaining scheme stability.

**Question 13: Are there practical or operational challenges in delivering communications through DC trustees, and how might these be addressed?**

There are operational challenges in routing CDC communications through DC scheme trustees, particularly where trustees must integrate scheme-specific CDC information into broader Guided Retirement messaging. This may create timing pressures and administrative complexity at the point of retirement, and trustees may need support interpreting technical CDC material. These challenges can be addressed by developing standardised templates for CDC-related communications, ensuring consistent terminology, and coordinating the timing of quotations with the DC scheme's member engagement processes. Over time, shared industry standards may reduce operational burden and help trustees deliver clearer information.

**Question 14: What additional costs might Retirement CDC illustrations create, and how can illustrations be realistic and not misleading?**

Producing additional CDC-specific illustrations is likely to impose new costs on providers and administrators because they must maintain consistent actuarial assumptions, run parallel illustration systems and create communication materials that are sufficiently clear and compliant. However, these costs are likely to be proportionate relative to the importance of helping members understand a complex product.

To ensure illustrations are realistic and not misleading, they should use consistent, central estimate assumptions comparable to those applied in whole-life CDC, should not emphasise optimistic outcomes and should avoid giving members a false sense of precision. They should reinforce the central message that income is variable and that future adjustments could be positive or negative. If illustrations are issued alongside SMPs, the relationship between the two must be carefully explained to avoid confusion.

**Question 15: What charging structures or charge levels are appropriate, and what charge cap should apply?**

Retirement-Only CDC schemes should be subject to a charge cap comparable to whole-life CDC schemes, to protect members and avoid excessive cost variation between providers. As collective schemes, Retirement-Only CDC arrangements cannot offer differential charging based on individual pot sizes, so a single administration fee applied uniformly is appropriate. Charge caps should strike a balance between allowing providers to recover the legitimate costs of governance, administration and actuarial services while ensuring affordability. A cap set at a similar level to whole-life CDC –subject to further evidence on early-stage operational costs –would be consistent with member protection and market stability.

**Question 16: Do you foresee any areas of potential regulatory arbitrage, and how should this be mitigated?**

Potential areas of arbitrage include differences between FCA and TPR regulation, inconsistencies in projection rules and misalignment between CDC schemes and annuity or drawdown providers. If CDC schemes were able to present more favourable or optimistic projections than FCA-regulated products, competitive distortions could arise. Arbitrage risks may also occur if UMES providers are subject to different marketing restrictions than Retirement-Only CDC schemes.

To mitigate these risks, DWP, TPR and FCA should ensure projection and communication standards are aligned, particularly between Guided Retirement pathways and CDC illustrations. A harmonised approach to disclosure and projection assumptions will help maintain a level playing field and prevent regulatory arbitrage.

**Question 17: Are there other matters relevant to extending the CDC framework to Retirement-Only CDC schemes?**

A key additional consideration concerns consistency with the forthcoming Value for Money regime. Retirement-Only CDC schemes will need to demonstrate value on both cost and performance grounds relative to drawdown and annuities. There should also be careful monitoring of the interaction between Retirement-Only CDC and the pension dashboards programme. Dashboards may eventually present CDC income projections, and these must be framed in a manner that avoids misinterpretation. Furthermore, long-term monitoring frameworks will be needed to evaluate whether Retirement-Only CDC schemes deliver their intended benefits and maintain public confidence.

**Question 18: Do you have any comments on the proposed amendment to Regulation 12 of the Preservation of Benefit Regulations 1991?**

The proposed amendment extending bulk transfers without consent to CDC schemes authorised under Part 1 of the Pension Schemes Act 2021 is logical and appropriate. It promotes consistency with Master Trust arrangements and supports the operational feasibility of Guided Retirement pathways. Allowing such transfers only to authorised schemes ensures that member protection is maintained. Pensions UK supports this amendment, provided that trustees retain clear fiduciary responsibility for assessing whether such transfers serve members' best interests.

**CONCLUSION**

Pensions UK supports the development of Retirement-Only CDC schemes as a natural evolution of the UK's collective risk-sharing framework. With the correct regulatory safeguards – including strong governance, disciplined actuarial standards, transparent communication, marketing restrictions, and a credible authorisation framework – the model has the potential to enhance retirement outcomes for millions of savers.

We appreciate the Government's phased and consultative approach. Establishing Retirement-Only CDC within the broader Guided Retirement and Value for Money reforms will help to create a more coherent and reliable member experience. We look forward to continued engagement with DWP, TPR, FCA and other stakeholders as the detailed regulations and supervisory mechanisms are developed.

## Disclaimer

Copyright © Pensions UK (the trading name of Pensions and Lifetime Savings Association) 2025. All rights reserved.

This material provided is meant as general information on matters of interest and is not intended as accounting, financial, legal or any other professional advice. You should speak to your professional advisers for advice.

The publisher cannot accept responsibility for any errors in this publication, or accept responsibility for any losses suffered by anyone who acts or fails to act as a result of any information given in this publication.