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Past Lessons, Future Gains:

Examining the case for DB and CDC pension schemes in the modern pensions landscape

September 2025

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Foreword

As the second Pensions Commission begins its work focusing on pensions adequacy, the SPP seeks to further contribute to the debate and impact the direction of travel. The move away from Defined Benefit (DB) schemes in the past decades has seen huge gaps opening up between those who have defined benefits and those who do not, and a looming pensions adequacy crisis. It is essential that we learn the lessons of the past in forming the policies of the future, so that we can fix this problem for future generations and crucially, avoid making it worse.

The SPP's experts in the fields of DB, investment, Collective Defined Contribution (CDC) and more, have collaborated to create this paper, in which we explore the case for policies that will enable collective schemes - including DB and CDC - to thrive in the decades to come. We believe this is essential to a healthy future pensions landscape that provides UK employees with a secure and comfortable retirement, whilst also benefitting the wider economy in terms of reduced reliance on the State and increased disposable incomes.

There have been huge successes in the DC field in recent years, most notably Automatic Enrolment, though of course there is work still to be done. DC pensions will undoubtedly form part of a future pensions landscape, but we do not believe they should be the only choice, and as such this paper focusses on what can be done to enable collective schemes to thrive.

We hope that this paper provides food for thought for policymakers, regulators and industry. We would be delighted to discuss these ideas further with interested stakeholders as policies continue to evolve as part of ongoing pensions industry developments.

Jon Forsyth
Chair, SPP DB Committee

Executive Summary

In examining the case for collective pension schemes in the modern pensions landscape, this paper sets out a number of recommendations for policymakers to consider. In summary, these are:

> **In relation to pensions adequacy**

- Government steps to improve adequacy in retirement should not be restricted to a review of AE contributions - the nature of the pension scheme that individuals are contributing to is another fundamental consideration, one which has largely been ignored as employers have switched out of DB and into DC.

> **In relation to DB scheme design**

- By providing a stable and sufficiently flexible regulatory regime, and allowing more attractive design features than currently exist, the 200+ open DB pension schemes[1] will be more likely to remain open. Over the long term, as confidence in DB schemes is restored, this may even encourage some corporate sponsors to offer DB schemes again, no matter how remote that possibility may currently seem. The potential of surplus release from open DB schemes could in turn have additional benefits for the wider economy.
- Such features may include: enabling and encouraging the release of DB surplus assets; conditional indexation; and innovations to make longevity hedging more efficient.
- The government should explore the possibility of developing a framework under which a DC member could exchange their savings pot at retirement to receive a secure income from a DB scheme (much like an annuity).

> **In relation to DB scheme surpluses**

- Further amendments to the current tax landscape should be considered to enable schemes to release surplus, support pensions adequacy objectives and encourage innovation in collective pension provision. For example, allowing trustees to make one-off payments to members as an authorised payment in conjunction with a release of surplus.
- To explore ways to reassure trustees of the security of members' pensions and thereby encourage more to approve surplus release, without excessive prudence. For example, the government should examine the idea of increasing the protection offered by the PPF to 100% of benefits for all DB schemes (subject to them investing in line with regulatory guidelines).

> **In relation to the PPF surplus**

- Policymakers should decide how any surplus in the PPF should be used and implement its preferred approach as soon as practicable. Consideration should be given to using some of this surplus to support policies that will enable other collective schemes to thrive, where such policies require capital investment or ongoing funding.

> **In relation to Collective Defined Contribution (CDC) schemes**

- Policymakers should consider support mechanisms for smaller schemes, such as pooled arrangements or simplified regulatory requirements, to ensure broad access.
- Support the establishment of multi-employer CDC arrangements by having NEST provide a whole-of-life CDC scheme. As well as providing a no-cost option to improve outcomes for NEST members it would provide an alternative continuation option for commercial providers looking to establish CDC schemes if they cannot achieve suitable scale following authorisation.
- The government should consider whether better expected outcomes from a multi-employer CDC arrangement might allow initially lower AE requirements to encourage adoption or a simpler AE compliance regime for those who adopt a CDC scheme.
- Align the timing of the availability of Decumulation-CDC arrangements with the roll-out of default DC retirement income requirements.

In addition to the recommendations set out above, there are several cross-cutting issues that policymakers and industry stakeholders should consider to ensure the long-term success and fairness of collective pension schemes. These include member engagement, governance, regulatory stability, intergenerational fairness, investment strategy, taxation, portability, risk management, the impact on smaller employers, and the wider societal implications of pension policy.

Background

Sixty years ago DB pension schemes dominated the workplace pension landscape.

In 1967, there were over 8 million active members of DB schemes in the private sector. However, by the turn of the century, this had fallen to 4.6m[2]. In 2024, the number of active members in private sector DB schemes had fallen to just 661,000[3].

The DB pension promises made by employers were more affordable than they are now, due in no small part to the fact that guaranteed benefits were more limited, and many elements were provided on a discretionary basis. As the original Pension Commission, led by Adair Turner, recognised "it was precisely these gaps and the discretionary nature of the promise that made the pension promises affordable"[4].

Over time, however, these gaps were filled with the introduction of rights for early leavers, prescribed spouses' benefits, and minimum statutory indexation requirements. Inflation fell and life expectancy increased further increasing the costs of providing DB pensions.

Changes to the tax treatment of dividends and 'mark to market' approaches in accounting standards and the scheme funding regime added further challenges in the early 2000s.

In light of these experiences with DB schemes, many employers have lost trust in policymakers and regulators in relation to pension arrangements. In particular, the role successive governments and regulators have played in extending and 'gold-plating' the promises made under DB schemes, and increasing the cost of providing these, lives long in the memory of many company directors and pension managers.

The risk of generous DB promises being further gold-plated still exists today, with calls from some MPs and member groups for discretionary increases on benefits accrued before 6 April 1997 to be made mandatory for DB schemes in surplus and for the Pension Protection Fund[5]. This suggests the lessons from history have not yet been learned and it risks undermining the assurances given by policymakers that collective CDC schemes (which benefit from conditional indexation and even the ability to reduce benefits, in extremis) will not suffer the same fate that has befallen DB schemes.

If the government and regulators are serious about encouraging employers to retain those DB schemes that remain open and to consider establishing CDC schemes, it is essential policymakers and regulators (both now and in the future) learn these lessons and avoid the temptation to further gold-plate generous DB pensions or to turn 'target' or discretionary benefits into hard promises.

Adequacy

DWP research shows that 46% of working age people in the UK (equivalent to 15 million people) are not saving enough for retirement[6].

Having insufficient income in retirement is already a major issue, and this is only expected to worsen in the coming years with more pension scheme members relying solely on DC savings in retirement.

The Government has revived the landmark Pensions Commission to look at the issue of pensions adequacy and the SPP has already responded with a well-received thought leadership paper on the subject[7].

It is clear that changes need to be made to ensure the next generation of savers will have a sufficient income in retirement. One way of achieving this is to increase minimum Automatic Enrolment (AE) contribution rates. AE has helped many individuals who otherwise would have saved nothing for their futures, yet for many individuals, the Government has acknowledged the current minimum contribution rates "...are unlikely to give all individuals the retirement to which they aspire"[8].

As SPP's recent adequacy paper[9] highlighted, there are challenges – political, social and economic – and whilst delivering any such increases are not insurmountable, they will take time, not least because the current government has ruled out doing so for the life of this Parliament.

Collective schemes such as DB or CDC schemes offer an alternative option. Modelling by WTW suggests that for the same level of contributions, those in a CDC scheme would receive 40% more than those in a DB scheme and 70% more than in a DC scheme[10]. Similarly, LCP research published in 2024 indicated that the expected benefits of a CDC scheme could be 50% better than DC schemes[11].

So, if the Government is looking to improve adequacy in retirement, then this should not be restricted to a review of AE contributions. The nature of the pension scheme that individuals are contributing to is another fundamental consideration, one which has largely been ignored as employers have switched out of DB and into DC.

Recommendation:
The Pensions Commission should consider the nature of the pension scheme that individuals are contributing to as part of its work on improving pensions adequacy.

DB Pension Schemes

Although there is a broad consensus that it is very unlikely that new DB schemes will be opened in the near future, it would make sense for the Pensions Commission to consider recommendations that create an environment for the remaining schemes to stay open and thrive.

It is now accepted that DB schemes are typically costly for employers, their liabilities must sit on a corporate's balance sheet, and other options are generally cheaper and lead to less financial risk for the corporate. However this was not always the case. Over time, problems led new requirements to be introduced for DB schemes that added to costs and complexity.

The environment for DB schemes today is very different. Many, in fact most, DB schemes are now in surplus – even against a very prudent "insurance buyout" basis[12]. With DB schemes still responsible for well over £1 trillion in assets, and looking to secure the pensions of millions, they remain valuable both for individuals and the wider economy. There is therefore a clear interest in maximising this value.

There are several ways in which DB schemes can be made more attractive for corporate sponsors to run, enhancing and extending their potential.

- Stable regulatory requirements: regulations regarding different aspects of DB schemes – including reporting requirements – have frequently changed over time, introducing undesirable instability and complexity. The Pension Schemes Bill is expected to lead to some significant regulatory change: if this is clear and leads to stability, this would simplify the implementation and ongoing management of DB schemes.
- More flexible funding regime: a funding regime that provides sufficient flexibility for open schemes, and which ensures that the costs of running DB schemes are not punitive relative to running DC schemes would make DB schemes more attractive to run. We recognise and appreciate that The Pensions Regulator (TPR) took steps towards this in designing the new funding regime, following feedback from the SPP and others in the industry. We would support TPR in employing this flexibility in practice as well as in theory as the first DB schemes submit valuations under the new regime, and going forward.
- Enabling and encouraging the release of DB surplus assets: changes to achieve this have been introduced in the Pension Schemes Bill and could have a significant positive impact on DB schemes (see the following section for more details and recommendations here).
- Conditional indexation: unlike automatic indexation, which guarantees regular increases in line with inflation, conditional indexation only grants these increases if the scheme's funding level meets certain predefined criteria. This reduces the risk of underfunding and unexpected cost increases.
- Innovation to hedge risks more effectively: the risks faced by DB schemes are well known, and many – such as interest rate and inflation risks – can be readily hedged, although not necessarily well-hedged given the basis risk with the scheme benefits (caps, inflation indices, changes to RPI methodology etc.)

Other risks, such as longevity, can be hedged using longevity swaps, but this option has been less widely used, partly due to prohibitive cost and complexity. Innovations to make longevity hedging more efficient would lower costs and help manage a key remaining risk for DB schemes. Longevity risk is generally expensive to hedge because it is very difficult to predict over the long-term and more so with inflation-linked liabilities. Greater scale would help, so allowing schemes to pool longevity risk (or merging schemes in general) would help reduce scheme-specific longevity risk.

There are other innovative ways in which DB schemes could extend their value. For example, a framework might be developed under which a DC member could exchange their savings pot at retirement to receive a secure income from a DB scheme (much like an annuity). This would require a new framework to be developed but, in principle, could be achieved and offer an attractive option for DC members – especially given the government's focus on developing default retirement income solutions for DC schemes.

Recommendation:

- By providing a stable and sufficiently flexible regulatory regime, and allowing more attractive design features than currently exist, the 200+ open DB pension schemes[13] will be more likely to remain open. Although seemingly remote now, over the long term, as confidence in DB schemes is restored, this may even encourage some corporate sponsors to offer DB schemes again.
- Such features may include: enabling and encouraging the release of DB surplus assets and conditional indexation.
- The government should also consider allowing schemes to pool longevity risk (or merging schemes in general) which would help reduce scheme-specific longevity risk.
- The government should also explore the possibility of developing a framework under which a DC member could exchange their savings pot at retirement to receive a secure income from a DB scheme (much like an annuity).

New surplus sharing rules

The UK's DB schemes look to provide a secure retirement for millions of members, and in doing so already provide a valued and valuable role in the UK economy. In recent years, many have moved into surplus, and their strength today presents a clear opportunity to unlock their potential and provide a financial boost for sponsors, scheme members and the wider economy.

This potential has been recognised by the Government, which has valued potential DB surplus assets for release at £160 billion on a "low-dependency" basis, and in June 2025 introduced greater flexibility for schemes to release surplus assets in the Pension Schemes Bill.[14]

Changes in the Bill include a statutory override for trustees to allow surplus payments to sponsors, and a lower minimum funding level for surplus release, down from full funding on a buy-out basis to full funding a low-dependency basis. These changes mean that DB schemes will be enabled to release surplus more easily, and more will be available for release, all while retaining security for members.

- Further amendments to the current tax landscape could be taken to enable schemes to release surplus, support pensions adequacy objectives and encourage innovation in collective pension provision
- Where employers have a DB surplus in the same trust as a DC scheme, the surplus can be easily used to reduce DC contributions. In the short term, employers are using this as a cost reduction exercise, but over time this could be used as a mechanism for increasing employer's DC contribution levels. However, this is not easily achievable where the DC scheme is held under a separate trust, which is increasingly common given the move towards greater consolidation and improved quality for DC schemes. Therefore, to encourage higher levels of employer contributions to DC schemes whilst also ensuring schemes are of sufficient quality, mechanisms for tax-free sharing of DB surpluses may need to be considered, with the tax savings conditional on the use of the surplus funds.
- One-off lump sum payments are seen by many trustees, who are considering releasing surplus, as an attractive form of distribution as it avoids compounding the future liabilities. However, the current tax regime makes this prohibitive as payments are classed as unauthorised and taxed accordingly. Making one-off payments a more viable option for trustees, with appropriate limits and controls, may provide the encouragement needed to agree to a broader package of surplus distribution.

Surplus release could mean the value of DB schemes to both members and the wider UK economy becomes clearer. More schemes would be encouraged to run on for the longer term, rather than to buyout, thereby maintaining their crucial support for the gilts market. It would also give DB schemes more appetite to invest in more 'productive assets', such as infrastructure projects and green finance, which are typically longer-dated and less liquid. Policymakers should consider incentives or guidance to support such investments, while ensuring that member security remains paramount. Discretionary or 'bonus' payments to members from surplus may also result in a greater appreciation of the value of DB benefits among individuals.

However, the government's own impact assessment states that the new rules will only result in £11 billion of surplus being released over the next decade.[15] There is some debate as to whether this assessment is too pessimistic or optimistic, but it sharpens the focus on how the government could increase the amount of surplus released.

A key issue will be trustees' focus on the security of member benefits. Even if their pension schemes have more than enough assets to secure member outcomes, trustees may be understandably cautious and decide against releasing any assets beyond what is required to conduct a buy-out with an insurer, other than in situations where the sponsor covenant is very strong or there is other robust support in place.

Addressing such issues will be key to the success of the government's surplus release policy. For example, although the government recently decided that an opt-in 100% PPF underpin is not feasible on the basis that it would be unaffordable for most schemes, an alternative would be to increase the protection offered by the PPF to 100% of guaranteed benefits for all DB schemes (subject to them investing in line with regulatory guidelines). This would help to reassure trustees of the security of members' pensions and thereby encourage more to approve surplus release, although it should be acknowledged that several market options already exist that can effectively provide this protection, albeit for a cost which may be prohibitive for some schemes.

The SPP has raised the challenges of such a policy in the past, including "moral hazard" risk, but these challenges can be overcome. The implications for the PPF's role as a material contingent creditor would also have to be considered – the PPF acts as a contingent creditor where there is a credible risk of PPF entry (the PPF has previously expressed a view that it would like to accelerate entry of all DB schemes of challenged sponsors to reduce PPF drift).

By extending that risk to cover nearly all schemes, this would represent a material widening of the PPF's role in the UK corporate and restructuring market, potentially to its detriment. Nevertheless, this policy may warrant further exploration depending on the experience of the new surplus release regime.

Recommendation:

- Further amendments to the current tax landscape should be considered to enable schemes to release surplus, support pensions adequacy objectives and encourage innovation in collective pension provision.
- To reassure trustees of the security of members' pensions and thereby encourage more to approve surplus release, the government should consider increasing the protection offered by the PPF to 100% of benefits for all DB schemes (subject to them investing in line with regulatory guidelines).

PPF surplus

The PPF had £1.78 of assets for every £1 of liabilities as at 31 March 2025 according to its 2024/25 annual report and accounts.

Its funding reserve at the time was £14.1bn, an increase of c£2bn over the last two years. Whilst a provision is made in the reserves for schemes currently in assessment, as the industry lifeboat for DB schemes, the PPF needs to make prudent allowance for future claims and exposure to factors such as inflation and interest rate risk and longevity risk.

However, it needs to be considered that the PPF has a finite lifespan. The number and size of claims in the last five years has notably reduced alongside a general improvement in scheme funding over the last few years.

There have been several calls on how the PPF reserves should be distributed, notable options being:

1. Increased compensation to PPF members and their dependants.
2. A reimbursement to levy payers - it may be logical for PPF levy payers, from whom the PPF has sought extra funds when funding levels have been strained, to be the beneficiaries when the PPF now enjoys a substantial surplus.
3. A capital buffer for a public sector consolidator - although proposals for a Public Sector Consolidator were not included in the Pension Schemes Bill, we understand the Government continues to explore this policy and how it might best work.
4. Funding the indexation of those that have not received it on their pre-1997 accrual but were promised it in their original DB scheme.
5. Absorbed into public finances on wind up.

Irrespective of how the reserves are distributed, the key consideration must be to decide sooner rather than later. Delaying decisions on how to spend the reserves generates uncertainty and undermines trust. Extended delays in any decision will increase the chances of defaulting to option 5. For many, this would be the least favourable approach as it redirects the surplus away from those who have contributed to it and away from its intended beneficiaries.

Recommendation:
Policymakers should decide how any surplus in the PPF should be used and implement its preferred approach, in a transparent way, as soon as practicable. Consideration should be given to using some of this surplus to support policies that will enable other collective schemes to thrive, where such policies require capital investment or ongoing funding.

CDC Pensions

DB schemes have provided an efficient way for members to collectively invest and pool demographic risks to provide a retirement benefit.

However, as described above, successive changes in pensions legislation over the last few decades have made DB scheme benefits more onerous for sponsors to provide, resulting in most private sector DB schemes being closed. Private sector employees are now being provided with a DC pension arrangement, which transfers the management of investment and demographic risks onto individual members. For example, in a DC scheme members bear the full investment risk. If the investments underperform, the final pension pot will be smaller whereas in a DB scheme the employer (or plan sponsor) assumes the investment risk with members promised a fixed benefit regardless of investment performance. Likewise, in a DC scheme members bear the risk of outliving their retirement savings. There's uncertainty around how long the funds need to last whereas a DB scheme provides an income for life, transferring longevity risk to the employer or plan provider. There are also additional contribution, inflation and decumulation risks.

This has resulted in calls for governments to introduce a new form of collective pension arrangement, allowing savers to benefit from the pooling of investment and demographic risks to provide a target – but not guaranteed – income in retirement. After many years of lobbying and effort, the first Collective Defined Contribution ("CDC") pension scheme in the UK was launched in 2024 by the Royal Mail.

This CDC scheme feels like a DB scheme for members – targeting a level of pension income in retirement based on their service and salary, with no need to make individual investment strategy decisions – but like a DC scheme for sponsors – paying a fixed level of ongoing contributions with no subsequent funding or accounting requirements.

The current regulations only allow single or connected (i.e. part of the same corporate group) employers to establish a CDC scheme. The set-up costs and size of workforce needed to achieve suitable scale present a material barrier for other organisations to follow in the Royal Mail's footsteps, as do the difficulties in leaving the scheme if unsuccessful.

Multi-employer CDC schemes

The Government has consulted on draft regulations that would allow unconnected employers to participate in a CDC scheme. Current expectations are that the Regulations and updated TPR guidance will be finalised during 2026, allowing multi-employer CDC schemes to be established from 2027.

Multi-employer CDC schemes provide the potential to make it much easier for an employer to adopt a CDC scheme, without the need to incur significant set-up costs or have a large workforce. For their employees, most modelling indicates that, for the same level of contributions, a CDC scheme should provide a materially higher level of income in retirement compared to a DC scheme. Multi-employer CDC scheme designs are similar to single-employer/ connected CDC schemes but must make adjustments to avoid cross-subsidies between different groups of employees – there is a need to use age-related benefits accruals, which avoids younger members subsidising older members.

Challenges in establishing multi-employer CDC schemes in the UK include the set-up costs, first-mover hesitancy, being able to achieve the scale needed to deliver the benefits of pooling and ensuring the marketing of the scheme is not misleading. At the time of writing, only one provider has publicly confirmed that they intend to launch a multi-employer CDC scheme[16], though we are aware of many others exploring the possibility.

As collective schemes become more complex, clear and regular communication with members is essential. Trustees and sponsors should ensure that members understand the nature of their benefits, the risks involved (such as conditional indexation in CDC), and any changes to scheme rules or surplus policies.

CDC schemes must be carefully designed to ensure fairness between different generations of members. This includes transparent rules for benefit accrual and surplus distribution, and regular reviews to ensure that no group is unduly advantaged or disadvantaged.

As the pensions landscape evolves, it is important to ensure that members can move between DB, CDC, and DC schemes with minimal friction and robust consumer protections. The development of frameworks for DC-to-DB exchanges and CDC transfers should be a priority.

Smaller employers may face barriers to participating in collective schemes due to cost and complexity. Policymakers should consider support mechanisms, such as pooled arrangements or simplified regulatory requirements, to ensure broad access.

Decumulation-only CDC schemes

The Government has indicated that once the regulations for multi-employer CDC schemes are in place, it will then move to look at introducing decumulation-only CDC ("D-CDC") schemes. D-CDC schemes would provide an alternative option for members who have built up pension savings in a DC scheme to convert these savings into a regular income in retirement.

A D-CDC scheme is expected to be able to provide a higher level of income compared to an annuity policy as they provide a targeted, but not guaranteed, level of benefits and do not have to be invested as cautiously or be backed by regulatory capital. Equally, they are expected to be much simpler for members to manage compared to adopting a drawdown strategy, which comes with the need to manage investment and mortality risks (with the potential to run out of money in retirement).

D-CDC has the attraction for private sector employers that they could leave their existing DC schemes in place, which provides flexibility for individuals to express any investment preferences, with the D-CDC option been made available at the point of retirement. The Government, as part of the draft Pension Schemes Bill, is going to make it a requirement for the Trustees of DC pension schemes to provide at least one default retirement option. D-CDC should be able to provide a compelling default option that provides a better outcome for most members in terms of simplicity and ability to provide an income for life.

Although the need for DC schemes to introduce a default retirement option provides an obvious flow of potential users, there are a variety of challenges that would need to be overcome which are more complicated to address than single or multiple employer CDC schemes. D-CDC schemes will have a shorter duration, as funds are only transferred in at retirement, and there are greater challenges of avoiding selection risks (i.e. those with shorter life expectancies do not join) and achieving scale needed to benefit from pooling whilst managing any cross-subsidy between different generations of members.

> *...a compelling default option that provides a better outcome for most members...*

How to promote the establishment of CDC schemes in the UK

The SPP is supportive of the intention to expand the provision of CDC schemes in the UK to include multi-employer and decumulation-only designs. We believe the Government should consider the following options which would help to establish such arrangements:

- **The Government should set-up a multi-employer CDC scheme**
  This would provide explicit endorsement by the Government of the use of CDC schemes in the UK. A government sponsored CDC scheme would have a number of benefits for employees, employers and the government. It supports the Pensions Commission objective to improve retirement outcomes without increasing contributions today that many savers cannot afford, whilst simplifying their experience (as they do not have to make investment or decumulation choices). It also provides confidence that the government believes in the benefits of establishing a market for CDC schemes in the UK and supports broader engagement and implementation of private sector CDC schemes.

  The obvious place for the Government to establish a multi-employer CDC scheme would be in NEST, which has successfully helped lots of employers meet their AE requirements. It has the scale, both in terms of number of members and investment capability, to credibly launch a simple low-cost CDC arrangement. Employers using NEST could be given the option of defaulting into either the DC or CDC section, alternatively this could be a decision taken by the member on joining. Other provider options could be considered, potentially including the PPF which is effectively already operating a large collective scheme and it has a surplus which could be used to fund the build cost.

  A government sponsor would also provide a lifeboat function, similar to the PPF providing assurance to larger employers that there is a home for their employees' benefits should they need to wind up their CDC scheme (either due to insolvency or reduced scale of operations). A requirement to accept transfers of benefits from any authorised CDC scheme that was being wound up would provide the trustees of other CDC schemes (of all types) with a continuity option of being able to continue to offer their member a CDC benefit, rather than only having the option to transfer them to a DC scheme.

This would help with the establishment of the CDC market in the UK as it provides comfort to potential users that a CDC scheme that wasn't able to reach scale or which TPR believed was not meeting the necessary governance standards could be wound up in an ordered manner.

- **Lower AE requirements for multi-employer CDC**

  As single/multi-employer CDC schemes are expected to provide higher levels of income in retirement compared to DC schemes the Government could consider whether an initially lower level of AE contributions should apply to CDC schemes.

  With the current low level of contributions required for AE compliance, it may be initially introduced as an alternative if the Government was to increase the level of minimum contributions, e.g. from 8% to 12% for DC schemes, but only to 10% for CDC schemes.

  However, we do recognise that there is a strong argument not to reduce what is invested into pensions in any way.

  A better alternative may be for the Government to introduce a simpler AE compliance regime for employers who adopt a CDC scheme.

- **Align D-CDC availability with default retirement option requirement**

  The introduction of default retirement requirements for DC schemes feels like the perfect opportunity for trustees to consider D-CDC options. We would suggest that the date for introducing a default retirement option is aligned to D-CDC schemes becoming available (whether by accelerating the timetable for D-CDC regulations or aligning the introduction of default retirement requirements to when D-CDC schemes are available).

Recommendation:

- Policymakers should consider support mechanisms for smaller schemes, such as pooled arrangements or simplified regulatory requirements, to ensure broad access.
- Support the establishment of multi-employer CDC arrangements by having NEST provide a whole-of-life CDC scheme. As well as providing a no-cost option to improve outcomes for NEST members it would provide an alternative continuation option for commercial providers looking to establish CDC schemes if they cannot achieve suitable scale following authorisation.
- The Government should consider whether the better expected outcomes from a multi-employer CDC arrangement would permit them to have a lower AE requirement to encourage adoption by employers.
- Align the timing of the availability of Decumulation-CDC arrangements with the roll-out of default DC retirement income requirements.

Acknowledgements

The SPP is grateful to all its members for their contribution towards this publication, particularly Rosie Twist, Shani McKenzie, David Hamilton, Oliver Warren, Katie Bromley, Mike Whittingham, Jon Forsyth, Iain McLellan, Jeremy Goodwin, Jos Vermeulen, Phil Craig and Ian Steward.

Appendix/Footnotes

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About The Society of Pension Professionals

Founded in 1958 as the Society of Pension Consultants, today SPP is the representative body for a wide range of providers of pensions advice and services to schemes, trustees and employers. These include actuaries, accountants, lawyers, investment managers, administrators, professional trustees, covenant assessors, consultants and pension specialists.

Thousands of individuals and pension funds use the services of one or more of the SPP's members, including the overwhelming majority of the 500 largest UK pension funds.

The SPP seeks to harness the expertise of its 85 corporate members - who collectively employ over 15,000 pension professionals - to deliver a positive impact for savers, the pensions industry and its stakeholders including policymakers and regulators.

Further information

If you have any queries or require any further information about this discussion paper, please contact the SPP's Director of Policy & PR, Phil Hall phil.hall@the-spp.co.uk or telephone 07392 310264

To find out more about the SPP please visit the SPP web site: https://the-spp.co.uk/

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