

The Society of Pension Professionals (SPP) response to the DWP consultation on Retirement Collective Defined Contribution (CDC) pension schemes

1. Introduction

- 1.1. The SPP supports the government's continued development of CDC pension schemes – including Retirement only CDC.
- 1.2. We also welcome the fact that the government is moving quickly from the laying of regulations for unconnected multiple-employer CDC schemes (UMES) to consulting on Retirement CDC policy.
- 1.3. We suggest that government continues to work at pace on the development of this framework and addresses the substantial timing challenge relating to Guided Retirement that it would be good to dovetail with to avoid that being a missed opportunity.

2. Executive summary

- 2.1. **The SPP agrees with the proposal to apply the definition of promotion or marketing in the 2025 Regulations to communications aimed at trustees and managers of occupational pension schemes.** However, this must not limit trustees' ability to provide factual information to members about the Retirement CDC scheme.
- 2.2. **There are arguments for and against Retirement CDC schemes being made available in the retail environment.** If not available, there is a risk that individuals who are arguably less well-supported from a pensions regime perspective (for example, self-employed people) would not be able to take advantage of the benefits of Retirement CDC schemes. However, there are practical considerations as CDC frameworks assume stable membership and predictable mortality which will be much harder to achieve in a retail environment and there is currently no natural aggregator.
- 2.3. **The SPP strongly supports the introduction of a 'cohorting' approach.** We believe this to be essential to ensure that CDC pensions can remain an attractive and sensible proposition for DC members at retirement, regardless of the past performance of a CDC scheme.
- 2.4. **The SPP is supportive of the intent of removing upper thresholds and allowing the spreading of cuts to benefits over the lifetime of the scheme as one of the approaches to cohorting.** However, it could be left to individual schemes to decide whether to adopt this as part of their chosen scheme design, rather than regulations compelling all schemes to adopt one or other approach.
- 2.5. **The SPP agrees that there is a strong case for a charge cap to be introduced given the likely small number of providers as they will need to be quite large in scale to be cost effective and to offer sufficient pooling of risk.** There will need to be flexibility around costs for development and set up in the early years in order to avoid stifling innovation.
- 2.6. **The SPP believes that it would be a significant missed opportunity if the Government were to introduce their Guided Retirement requirements on DC schemes in advance of Retirement CDC schemes being made available.** Once finalised, the largest DC schemes are unlikely to have much appetite to revisit their Guided Retirement options in the short term.

NOTICE

*Please feel free to share, reprint or quote any of this consultation document providing you acknowledge the source
(The Society of Pension Professionals).*

This response is not meant to give accounting, financial, consulting, investment, legal, or any other form of professional advice. If you require such information, advice or guidance, please speak to a professional adviser. The publisher (The Society of Pension Professionals) 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.

3. Consultation response

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

Comparison with whole-life CDC

- 3.1. As the overall approach to how investment experience is translated to pension increase adjustments is the same for Retirement CDC and whole-life CDC, we would not expect significant differences between the age-based investment strategy for Retirement CDC and the post-retirement element of the age-based investment strategy for a whole-life CDC scheme (assuming a similar level of risk is being targeted overall).
- 3.2. For a whole-life CDC scheme to be able to operate as a closed (maturing) scheme in the future without disadvantaging the final group of members, an age-based investment strategy which de-risks at older ages is appropriate and we would be nervous about scheme designs which do not incorporate this. This is the same for a Retirement CDC scheme.

Cashflows and liquidity

- 3.3. Retirement CDC schemes will be paying out benefits as soon as they start running. In most cases they are also likely to be receiving large inflows as members join the scheme and use some or all their DC savings. However, such inflows are not guaranteed, which presents a liquidity risk in the event that planning assumptions/expectations for new members are not borne out in practice.
- 3.4. For an open scheme with a similar level of new joiners each year, the scheme can expect to be cashflow positive for the first 10-15 years, netting benefit payments against cash inflows.
- 3.5. Where there are significant inflows from day 1, Retirement CDC schemes can expect to grow and reach sufficient scale quickly to allow investment in a range of asset classes including private markets and UK productive finance.
- 3.6. Pre-retirement, investment glidepaths could be developed for DC members who are expecting (through choice or default) to join a Retirement CDC scheme at retirement. The final asset allocation for the DC pot at retirement could be designed such that the Retirement CDC scheme could transition assets in-specie, which would reduce transaction costs for members at the point of retirement, and facilitate private market investments before and through retirement.

Question 2: What do you estimate the establishment and running costs of an r-CDC scheme to be? Please outline one-off and ongoing costs.

- 3.7. Irrespective of the type of CDC scheme, one of the key factors and potential barriers for employers and providers when considering CDC is cost and how to fund the set-up, build, authorisation and on-going running of the CDC scheme, including an R-CDC scheme.
- 3.8. Whilst the SPP's December 2025 "*Practical Guide to CDC*" paper¹ did examine the issue of costs, this was primarily in relation to accumulation CDC. With regard to R-CDC we are unable to comment definitively beyond a broadly agreed suggestion of the costs being "multi-million".
- 3.9. This would cover regulatory/legal/actuarial work in designing the scheme, doing viability modelling, projections, setting up governance, actuarial reports and so on; any authorisation fees from the regulator; IT systems and infrastructure costs (administration/member records/transactions); the cost of member communications, documentation, trustee recruitment, training and of course, the ongoing governance / actuarial / administration costs e.g. valuations, regulatory reporting, administration and the like.

¹ **A Practical Guide to CDC, December 2025:**

<https://the-spp.co.uk/document-category/guides-and-reports/>

NOTICE

Please feel free to share, reprint or quote any of this consultation document providing you acknowledge the source (The Society of Pension Professionals).

This response is not meant to give accounting, financial, consulting, investment, legal, or any other form of professional advice. If you require such information, advice or guidance, please speak to a professional adviser. The publisher (The Society of Pension Professionals) 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.

Question 3: Should all business plan requirements that would apply to whole-life unconnected multiple employer CDC schemes also apply to Retirement CDC schemes? What, if anything, should change or be added?

- 3.10. In summary, we think it is generally acceptable that all the business plan requirements applying to whole-life unconnected employer schemes should apply to Retirement CDC schemes. Considering the existing business plan requirements in turn:
- 3.11. Authorisation by TPR
Authorisation by TPR remains fundamental. This is especially important if the policy intent is to have only a handful of these schemes in operation, as authorisation will underpin confidence in the schemes.
- 3.12. Financial sustainability
Financial sustainability is critical, arguably even more so for Retirement CDC schemes. The nature of cashflows, immediate benefit payments and irregular inflows, introduces additional complexity, so plans should demonstrate solvency under a range of scenarios.
- 3.13. Scheme proprietor
It seems likely that these schemes would be operated by existing companies already running master trusts. On that basis, the proprietor requirements should remain broadly consistent with those for whole-life CDC schemes.
- 3.14. Governance arrangements
Governance standards should mirror those applied to master trusts and whole-life CDC schemes. However, consideration could be given to stricter solvency or reserve-building requirements in the early years, given the need to manage liquidity and member expectations from day one.
- 3.15. Benefit design and risk management
Benefit design will naturally differ from whole-life CDC. With no employer link and members purchasing a CDC pension at retirement, actuarial equivalence becomes key. This will need to be clearly explained in the business plan. Cohorting, as explored in later questions, could be an effective mechanism to ensure fair pricing and manage risk across different groups of members, and again, any plans to apply this should be clearly explained in the business plan.
- 3.16. Member communications
Clear, transparent communication is essential. There should be flexibility for schemes to choose if they would like to offer guaranteed quotes or not, to help to set realistic expectations. Ongoing communications should follow similar principles to those used for retired members in whole-life CDC schemes, with a strong emphasis on variability and risk.
- 3.17. In addition, we think there are some other considerations for Retirement CDC business plans:
- 3.18. Liquidity and cash flow planning
The potential for immediate pension payments (net of the money from new participants) will require strategies for maintaining liquid assets from inception, including stress testing under adverse market conditions and contingency planning for market shocks.
- 3.19. Irregular contribution management
Business plans should address operational and financial handling of 'lumpy' cash inflows ensuring systems can cope with large, unpredictable inflows without disrupting benefit payments. This may include liquidity buffers.

NOTICE

Please feel free to share, reprint or quote any of this consultation document providing you acknowledge the source (The Society of Pension Professionals).

This response is not meant to give accounting, financial, consulting, investment, legal, or any other form of professional advice. If you require such information, advice or guidance, please speak to a professional adviser. The publisher (The Society of Pension Professionals) 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.

- 3.20. Scale and viability projections
Include detailed assumptions on how the scheme will achieve sustainable scale, manage demographic risks, and maintain cost efficiency during its formative years. Sensitivity analysis on membership growth and investment returns should be part of the plan. Similarly, the business plan should show plans for the scheme should it no longer become viable.
- 3.21. Arbitrage risk controls
Outline measures to prevent timing-based arbitrage, such as joining when conversion rates are favourable. This could include periodic pricing reviews, anti-selection safeguards, and transparent disclosure of pricing methodology.
- 3.22. Transfer processes and pricing fairness
Provide a clear framework for setting and reviewing conversion rates, alongside cohorting strategies to maintain fairness and transparency across different member groups. Governance should include independent oversight of pricing decisions.

Question 4: What numbers of member onflows, and at what pot sizes will be needed to achieve stability in Retirement CDC, given there are no ongoing contributions, and what allowances need to be made for members who opt-out of their default pension benefit solution?

- 3.23. The SPP, as a representative body, is not in a position to comment as to the member onflows and pot sizes needed to achieve stability as this is a question for providers.

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

- 3.24. The SPP agrees with the proposal to apply the definition of promotion or marketing in the 2025 Regulations to communications aimed at trustees and managers of occupational pension schemes.
- 3.25. We note that the proposal is to prohibit promotion and marketing to prospective and existing members of Retirement CDC schemes. We do not see this as an issue provided it does not limit Retirement CDC schemes' ability to provide factual information to members about the scheme etc. We assume the same prohibition on promotion and marketing to prospective and existing members will apply to a UMES so that the two types of scheme are being treated in the same way.
- 3.26. Paragraph 66 of the Consultation document states that trustees of DC schemes should not distribute such materials on behalf of the CDC scheme. Trustees will need to share information with members about the Retirement CDC scheme if it is to be one of their schemes default pension benefit solutions (or if the trustees decide to make available a Retirement CDC scheme option for members to self-select), as members will need to understand the solution being made available to them. We would expect that the information shared with members will be provided by the Retirement CDC scheme. The information should be factual rather than a marketing document.
- 3.27. It will be important to ensure that there is nothing in the legislation that would prevent such factual information being prepared by Retirement CDC schemes and then distributed by trustees to members of their scheme.
- 3.28. In practice, there is likely to be some concern about what constitutes factual information and what constitutes marketing material. For example, you could argue that a factsheet setting out the benefits of CDC is a communication that could induce someone to use the scheme. It may be helpful if there could be some guidance on what marketing material versus factual information looks like to help trustees understand the distinction and what type of information they can share with their members.

NOTICE

Please feel free to share, reprint or quote any of this consultation document providing you acknowledge the source (The Society of Pension Professionals).

This response is not meant to give accounting, financial, consulting, investment, legal, or any other form of professional advice. If you require such information, advice or guidance, please speak to a professional adviser. The publisher (The Society of Pension Professionals) 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.

Question 6: How would an approach to allow access to Retirement CDC via a Guided Retirement default or formal partnership between trustees, protect members, and impact a developing market? Would there be any unintended consequences?

- 3.29. As noted in the consultation, trustee boards have become increasingly professionalised and so the trustee board is likely to already possess the expertise and resources needed to evaluate which Retirement CDC scheme would meet the needs and interests of their membership (if Retirement CDC is offered as a retirement option).
- 3.30. All trustee boards, professional or otherwise, will need to take advice on their default decumulation option and come to a decision consistent with their fiduciary duties. There is an analogy with the requirements and process already in place for bulk transfers of DC assets without consent.
- 3.31. With proper due diligence, we would not expect unintended consequences. That said, even with the clearest communications, there may be some regret risk with members who, for example, wish they had the flexibility that would have been available under a drawdown default.
- 3.32. The SPP does support the ability for trustees to select Retirement CDC as a default retirement solution as a well-designed Retirement CDC has the key characteristics of a good default:
- An income for life and where required an income for life for their spouse
 - No ongoing planning/decision making required by members
 - Higher expected incomes than other solutions such as annuity purchase.
- 3.33. Equally, we support the ability for formal partnerships between DC schemes and Retirement CDC schemes, to allow engaged members the ability to choose Retirement CDC and also to combine these two retirement solutions. Placing the responsibility on trustees to evaluate Retirement CDC and only make it available to members if they believe it appropriate helps protect members.
- 3.34. The policy intent may be viewed as unfair for those not in trust-based schemes as these pension savers will not have access to Retirement CDC. There is no fundamental reason why CDC would not benefit members of contract-based schemes or SPPs, and there is currently a lack of alternative retail products that provides the same benefits as CDC, which makes the restriction of its availability appear unnecessary.
- 3.35. That said, there are practical considerations given CDC frameworks assume stable membership and predictable mortality which will be much harder to achieve in a retail environment and that there is currently no natural aggregator but such arguments really only apply to a retail offering in isolation. If a R-CDC scheme has already been established, it seems unreasonable to restrict it from being available to the retail market if that is what the provider wishes to do.
- 3.36. However, the SPP accepts that having appropriate regulations and safeguards for CDC to be made available more widely, including as a retail product, needs further and careful consideration and we therefore support the intention to restrict availability initially to trust-based members. This allows Retirement CDC schemes to launch over the next few years and be made available to many millions of people. We believe it is important that CDC progresses quickly to allow it to be considered as part of guided retirement requirements and would worry about any potential delays caused by any further consideration and work to make Retirement CDC available to the retail market from day one.
- 3.37. Selecting Retirement CDC as a default retirement solution does come with risks. Members in poor health may get poor value from a Retirement CDC scheme depending on the level of medical underwriting. Clear communication will be needed prior to retirement to warn members of this risk and help support members in poor health (who may be less able to engage than the average member).

NOTICE

Please feel free to share, reprint or quote any of this consultation document providing you acknowledge the source (The Society of Pension Professionals).

This response is not meant to give accounting, financial, consulting, investment, legal, or any other form of professional advice. If you require such information, advice or guidance, please speak to a professional adviser. The publisher (The Society of Pension Professionals) 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.

Q7 What are your views on the risk, benefits and potential protections for members of FCA-regulated pension schemes being transferred to a Retirement CDC to access their pension savings?

- 3.38. The risks and benefits for members of FCA-regulated pension schemes being transferred to a Retirement CDC scheme will be broadly the same as those for members of occupational pension schemes. The FCA rules could be drafted on similar terms to the second condition in clause 50(3) of the Pension Schemes Bill i.e. that the provider has to determine that the Retirement CDC scheme will provide a better expected outcome for the members concerned. The IGC could also have some form of oversight role whereby they have to review and report on whether the proposed Retirement CDC scheme will meet the needs and interests of members. The IGC could also have some form of ongoing monitoring role.
- 3.39. There is a compelling argument that Retirement CDC schemes should be made available in the retail environment. Otherwise, there is a risk that individuals who are arguably less well-supported from a pensions regime perspective (for example, self-employed people) would not be able to take advantage of the benefits Retirement CDC schemes have to offer. We agree that an advice requirement may not be proportionate as the cost of advice may act as a barrier to individuals accessing Retirement CDC schemes. If operators of non-workplace pension schemes are to partner with CDC schemes, there could be an obligation on them to: (i) consider whether the Retirement CDC scheme provides value for money; (ii) not promote or market the scheme i.e. they would only be able to provide factual information about the scheme to their members; (iii) have a prohibition of any form of commission type arrangements; and (iv) require there to be some form of ongoing monitoring. Alternatively, perhaps some specific guidance could be provided as part of the overarching Consumer Duty requirement.
- 3.40. As stated in response to question 6 above, the policy intent may be viewed as unfair for those not in trust-based schemes as these pension savers will not have access to Retirement CDC. There is no fundamental reason why CDC would not benefit members of contract-based schemes or SIPPs, and there is currently a lack of alternative retail products that provides the same benefits as CDC, which makes the restriction of its availability appear unnecessary.
- 3.41. That said, there are practical considerations given CDC frameworks assume stable membership and predictable mortality which will be much harder to achieve in a retail environment and that there is currently no natural aggregator but such arguments really only apply to a retail offering in isolation. If a R-CDC scheme has already been established, it seems unreasonable to restrict it from being available to the retail market if that is what the provider wishes to do.
- 3.42. We would expect that in the event of a Retirement CDC scheme being made available to trust-based and FCA-regulated scheme members that the terms being offered to new joiners should be the same.

Question 8. What matters should we consider in developing an actuarial equivalence requirement for transfers into the scheme, and are there other factors to address regarding member entry?

- 3.43. For whole-life multi-employer CDC schemes, contribution rates will typically be set in advance, based on financial conditions at a particular date, then communicated to members (and prospective members) before being adopted for accrual over a fixed period (perhaps a year), unless financial conditions change significantly.
- 3.44. Retirement CDC schemes will receive lump sum payments on people's retirement dates, from which benefits will be purchased. It is likely that the terms offered by Retirement CDC arrangements will need to reflect current financial conditions much more closely and will therefore vary much more often.
- 3.45. Transfers into a Retirement CDC scheme should use central estimate assumptions to calculate the benefits that are offered to potential members. If the Retirement CDC scheme is part of a whole-life CDC scheme, the assumptions should be the same as those that are used for transfers in, transfers out and accrual in the whole-life CDC scheme.

NOTICE

Please feel free to share, reprint or quote any of this consultation document providing you acknowledge the source (The Society of Pension Professionals).

This response is not meant to give accounting, financial, consulting, investment, legal, or any other form of professional advice. If you require such information, advice or guidance, please speak to a professional adviser. The publisher (The Society of Pension Professionals) 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.

- 3.46. As with DC schemes, charging structures should be able to take a number of forms and this includes being able to charge a flat fee charge or contribution percentage charge rate. If a provider can isolate the cost of “setup” for a new member joining then it may perhaps make sense to deduct this fee from the pot at the point of entry. Otherwise, you could argue existing members are negatively impacted if lots of small pots join with fixed admin setup costs.
- 3.47. Underwriting considerations and setting appropriate longevity assumptions will be very important for Retirement CDC too. From a member perspective, particular consideration is needed around those who may have serious health conditions. From an anti-selection perspective, mortality is likely to vary between employers (i.e. the previous employer schemes) due to the different nature of their workforces, and it may therefore be appropriate to allow for these expected differences to avoid cross subsidies and/or to reduce the risk of future underperformance due to longevity experience.

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

- 3.48. There would appear to be several possible approaches that a Retirement CDC scheme might adopt:
- 3.49. Fixed terms
The scheme quotes the CDC pension that would be purchased by a member’s current fund value. This could be guaranteed for a period, for example for three months in a similar way as defined benefit cash equivalent transfer value are currently guaranteed. If the member decides to go ahead, within the guarantee period, they would be guaranteed those terms. Note that if their fund value changes over the period, this would be reflected – for example, a 5% decrease in fund value would mean a 5% lower CDC pension.
- 3.50. This would present a number of challenges. For the member, if their pension is in any case dependent on their capital value, fixing the conversion rate may not really add much value to them (unless their pension capital is invested in line with the strategy of the R-CDC scheme in which case the pension would be more fixed).
- 3.51. Buying a Retirement CDC pension is more like an annuity purchase. Transfers out from DB were usually from occupational pensions and the legislation likely evolved around this. DB transfers in are also uncommon in a modern setting.
- 3.52. As a result, a more effective approach may be for Retirement CDC schemes to set up “feeder funds” where scheme members could invest in the period before retirement and where the investments are in line with the Retirement CDC scheme and provides more certainty about how much pension the saver is going to get. However, the member has not contracted to receive the pension yet so is free to withdraw their investment from the feeder fund at any point before retirement.
- 3.53. Variable terms
As before, the scheme quotes the CDC pension that would be purchased by a member’s current fund value. This is based on financial conditions on a recent, stated date, but this would not be guaranteed. The rate is re-calculated when the member decides to go ahead with the transfer. The actual CDC pension is based on the financial conditions at the date of transfer and the actual amount transferred.
- 3.54. Direct pension but with a cooling off period (e.g. 1-3 months)
The member transfers their pot and starts receiving pension but has a cooling off period in which they have a right to terminate the contract. If they do terminate, they receive back their money less pension paid and less investment returns.

NOTICE

Please feel free to share, reprint or quote any of this consultation document providing you acknowledge the source (The Society of Pension Professionals).

This response is not meant to give accounting, financial, consulting, investment, legal, or any other form of professional advice. If you require such information, advice or guidance, please speak to a professional adviser. The publisher (The Society of Pension Professionals) 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.

- 3.55. Deferred pension commencement with a cooling off period
The member transfers their pot and is quoted a pension which will start in say 1, 2, or 3 months' time. They have the right before their pension starts to terminate the contract and receive back their money in full (minus admin costs). In general, having similar regulations for annuities and R-CDC in terms of cooling off periods would make sense so that (potential) customers see similar terms and are not then confused between very different approaches.
- 3.56. Timed option
To avoid issues with members joining the pool mid-year, one could also operate under a system where the member joins the scheme initially, but sits in drawdown (with the pension being drawn aiming to broadly be in line with the expected pension at the next review). The member's benefit under the R-CDC scheme is then crystallised at the next annual funding review so that their initial pension under R-CDC is on exactly the same terms as the existing membership. This also avoids issues of lags in the pricing so that members cannot "time the moment" they join to the disadvantage of existing members.
- 3.57. In our view, the legislation should allow all of the above approaches.
- 3.58. In addition to focusing on what the form of a quote would be, it will be important to ensure it is fair and not misleading in the medium to long term. Whilst there are some similarities with an annuity quote, a CDC income is not guaranteed. Therefore, the SPP would expect illustrations with a potential range of outcomes to be provided reflecting potential future scheme experience. A key challenge is likely to be how best to align illustration projections between different providers/schemes, to avoid the scenario where those with 'aggressive' assumptions (all else being equal) simply show just a higher income at the outset.

Question 10: What are your comments on a 'cohorting' approach to helping well-performing schemes remain affordable for members and are there alternative approaches you would recommend? What should scheme rules on cohorting include? And does the illustrative drafting capture the policy intent and would this drafting work in practice?

- 3.59. We are very supportive of the introduction of a 'cohorting' approach. We believe this to be essential to ensure that CDC pensions can remain an attractive and sensible proposition for DC members at retirement, regardless of the past performance of a CDC scheme – so that poor-performing schemes don't look overly attractive by providing high initial income rates for a given DC pot size (due to low expected future increases) and *vice versa* well-performing schemes don't unfairly appear unattractive. Cohorting means that schemes would always be able to offer pensions to new retirees which target increases in line with inflation at outset (or some chosen margin above inflation should the scheme desire). This has two key benefits. Firstly, it is likely to be a more natural shape of income for retirees than some arbitrary margin above or below inflation and secondly, it allows for easier comparison with other options a DC member may have at retirement which are more likely to be designed to increase in line with inflation than some arbitrary margin relative to that (albeit noting that, regardless of the decision on cohorting, a Retirement CDC pension wouldn't be able to target nil increases like an annuity could without a further change to legislation).
- 3.60. As an alternative to cohorting, CDC schemes could instead adopt a narrow cap and floor to benefit adjustments, which would mean that target pension increases offered to new retirees would always remain within a "desirable" range. However, this would have the consequence of increasing year-on-year volatility of incomes with the need to apply one-off cuts or bonuses to remain within the cap and floor, and may still lead to offering pensions to new retirees with "odd" target increases that are neither desirable nor easy to compare to alternatives (e.g. inflation plus 0.7% pa or inflation less 0.3% pa). We therefore do not believe alternative approaches are able to achieve the desired outcome of cohorting.
- 3.61. While we think it may be helpful for scheme rules to provide some direction to trustees on the approach to cohorting, we note that the implementation of cohorting would not impact existing members of the scheme. We therefore do not believe it is essential for the precise approach to cohorting to be set out in detail in the scheme rules, leaving open the potential for trustees or scheme managers to be given some flexibility as to when to create new cohorts and to vary their approach over time should that be deemed appropriate in changing external environments.

NOTICE

Please feel free to share, reprint or quote any of this consultation document providing you acknowledge the source (The Society of Pension Professionals).

This response is not meant to give accounting, financial, consulting, investment, legal, or any other form of professional advice. If you require such information, advice or guidance, please speak to a professional adviser. The publisher (The Society of Pension Professionals) 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.

- 3.62. We believe the illustrative drafting broadly captures the policy intent, although we have a few comments on some points of detail:
- 3.63. We believe (4B)(f), starting “the adjustment to the rate or amount...” should instead be referenced as (4B)(a)
- 3.64. Within that paragraph, we believe the wording of (i)(aa) and (i)(bb) may be easier to digest if the parts of the sentences starting “in respect of...” were brought to the beginning of the sentences. E.g. (i)(aa) would become “in respect of the first benefit adjustments after the cohort joining the scheme, the percentage adjustment applicable in accordance with scheme rules;”.
- 3.65. Within (4C)(c) we believe “a one-off reduction *representing the equivalent actuarial value* to the reduced amount” requires further detail to clarify the policy intent. I.e. is “equivalent actuarial value” to be determined solely for the cohort in question, or assuming the one-off reduction would be applied to the scheme as a whole? Equivalent value determined at the scheme-wide level is perhaps most consistent with the application of one-off reductions in the whole of life regimes, although to the extent the profile of the cohort differs from the scheme as a whole then it will create gains or losses that need to be spread across other cohorts and so a different approach may be preferable where cohorting applies. However, we note that where equivalent value is determined for solely the cohort in question, then a consequence of this is that a 0.1% pa reduction below 0% nominal would translate into a significantly greater one-off reduction for the very youngest cohort in a scheme relative to the very oldest cohort (although this is demonstrably “fair” because that annual reduction would be expected to be applied for a far shorter period of time for the oldest cohort). Similar consideration applies to (4E)(b)(ii) and (4E)(c)(ii).
- 3.66. We note that (4B)(f)(iv) (which should perhaps be (4B)(a)(iv) as noted above) references (4F), which appears to be missing from the draft in Annex B.
- 3.67. Finally, we welcome the commentary in paragraph 109 of the consultation that you are working with HMRC to ensure Retirement CDC benefit adjustments operate with tax legislation – as currently cohorting would fall foul of regulations that require any benefit reduction to be applied to all members equally in a scheme for it to be an authorised payment.

Question 11: What issues would removal of the upper threshold and allowing the spreading of cuts over the lifetime of the scheme, for schemes using cohorting, create and how might these be mitigated?

- 3.68. Removing the upper threshold, and similarly allowing cuts to be spread over the lifetime of the scheme, would have the effect of prolonging the period over which experience is applied – and in the case of poor performance would potentially prolong the perceived impact of cuts for members (i.e. the risk of this being perceived as “death by a thousand cuts”).

However, we can see the appeal of being able to spread all experience over the future lifetime of the membership – this being a key selling point of CDC schemes in order to provide year-on-year stability of income which makes it easier for pensioners to budget to meet their retirement spending needs. In practice, even if the scheme plans to make gradual cuts over the long term, actual experience is likely to be that some years are better than expected (potentially leading to the reintroduction of increases) and some years are worse than expected (potentially leading to higher cuts) and so, really, spreading of experience is just a budgeting exercise which is reviewed every year. Further, in a Retirement CDC scheme with cohorting, the need to “reset” pension increases is less necessary (given it is automatically reset for new cohorts and noting the shorter time horizon for retirement-only cohorts relative to whole-life CDC schemes). Nevertheless, we believe that, at any time where the expectation is that there will be cuts applied over many years into the future, this would require clear member communications to manage expectations, as would the design for members considering joining the scheme.

NOTICE

Please feel free to share, reprint or quote any of this consultation document providing you acknowledge the source (The Society of Pension Professionals).

This response is not meant to give accounting, financial, consulting, investment, legal, or any other form of professional advice. If you require such information, advice or guidance, please speak to a professional adviser. The publisher (The Society of Pension Professionals) 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.

- 3.69. Given the above, we are supportive of the intent of removing upper thresholds and allowing the spreading of cuts over the lifetime of the scheme, although we wonder if it could be left to individual schemes to decide whether to adopt this as part of their chosen scheme design, rather than regulations compelling all schemes to adopt one or other approach?
- 3.70. Further, we wonder whether trustees could be given flexibility or discretion in some circumstances to determine at a point in time whether to apply (or disapply) one-off cuts or increases – subject to these still being applied using a pre-determined mechanism? For example, while a scheme may generally wish to avoid spreading a one-off cut over the lifetime of the scheme, its view as to the appropriateness of this may be different if we were in a prolonged period of deflation (and so the proposed recurring cuts actually represented increases in real terms).

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

- 3.71. We agree that, so far as relevant, there should be consistency with information that is communicated to members of whole of life CDC schemes; in particular, the aim is to provide a stable income for life, but CDC benefits are not guaranteed and may fluctuate.
- 3.72. Consideration could be given to a requirement to provide examples and comparatives with other decumulation options with guidance provided in the Communication and Disclosure section of the Pension Regulator's General Code.

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

- 3.73. There are parallels here in the way that many single employer DC schemes currently partner with a different provider to offer drawdown services, so this is not entirely new ground.
- 3.74. We agree that, where the DC and Retirement CDC arrangements are different sections of the same overarching scheme and share trustees, such as in a master trust with a Retirement CDC section, communications to prospective members of the Retirement CDC section can and will be issued internally by the trustees or managers of the scheme.
- 3.75. We also agree, for the reasons set out in the consultation that, where individuals are transferring from a different DC scheme, communications should be routed through the trustees of the member's existing DC scheme.
- 3.76. Further, we agree that the member journey, including the communications members receive about a Retirement CDC scheme, should be consistent (as far as possible) whether they enter the scheme as a default pension benefit solution or by actively engaging with their retirement options.
- 3.77. In terms of practical or operational challenges in delivering Retirement CDC communications through DC scheme trustees, trustee knowledge and understanding is vital and, again, this could be supported by The Pensions Regulator in the General Code and Trustee Toolkit.
- 3.78. There are also links with the Advice / Guidance Boundary and Targeted Support measures; in particular confidence that meaningful information can be provided without it constituting advice.
- 3.79. Another practical point is that TPAs are likely to rely on and link to information provided by the prospective Retirement CDC scheme; for example, there may be a portal to a Retirement CDC scheme site. So, links to third party information is a consideration.

NOTICE

Please feel free to share, reprint or quote any of this consultation document providing you acknowledge the source (The Society of Pension Professionals).

This response is not meant to give accounting, financial, consulting, investment, legal, or any other form of professional advice. If you require such information, advice or guidance, please speak to a professional adviser. The publisher (The Society of Pension Professionals) 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.

Question 14: What additional costs might a Retirement CDC illustration create, and what considerations should be taken into account to ensure illustrations are realistic, consistent, and not misleading?

- 3.80. Where Retirement CDC is likely to be the default pension benefit solution, illustrations that do not adequately take this into account could be misleading and will probably understate the member's potential outcome. In consequence, such illustrations could fail to support retirement planning and improving member awareness of the benefits of Retirement CDC.
- 3.81. So, where Retirement CDC is likely to be the default pension benefit solution, just following the current TM 1 could have adverse consequences.
- 3.82. Retirement CDC illustrations must be provided, and we agree that the illustrations should be based on standards, on content and form, setting out assumptions to be used in the calculation.
- 3.83. SMPIs currently assume purchase of a non-escalating annuity at retirement. If this continues to be required to be provided, it will create significant challenges for members to fairly compare the SMPI with a R-CDC illustration, which will likely assume inflation-linked target increases.
- 3.84. Finally, it would be helpful if DWP were to align with the FRC so that ideally a single communication can satisfy both any Retirement CDC illustration requirement and the SMPI requirement, rather than having two potentially conflicting illustrations.

Question 15: What charging structure/what charge levels is your organisation considering levying on members? If implemented, at what level should a Retirement CDC charge cap be set?

- 3.85. There is a strong case for a charge cap to be introduced given the likely small number of providers as they will need to be quite large in scale to be cost effective and to offer sufficient pooling of risk.
- 3.86. The cost base for the providers is likely to benefit from them needing to be large in terms of assets and number of members. However, there are likely to be a number of other costs not associated with other types of provision. One such cost is the likelihood for ongoing high levels of communication both with new members and existing members including digital and other forms of engagement tools.
- 3.87. Enhanced governance and actuarial services are also additional costs that will need to be accounted for. The 75 basis point reference point of DC accumulation provides a useful starting point for considering a cap, though there are well understood issues around the restriction on investment choices, especially in private markets, that this cap causes.
- 3.88. Exclusions e.g. transaction costs that are in place for DC could also be applied to CDC for consistency.
- 3.89. There will need to be flexibility around costs for development and set up in the early years in order to avoid stifling innovation. This is particularly relevant given the proposed timing of Retirement CDC coming after decumulation defaults are put in place. It would also make sense to incorporate value for money considerations more formally into regulation as is happening in DC.
- 3.90. It is critical that the investment proposition for Retirement CDC is institutional in nature rather than potentially higher cost and less appropriate retail focused investment funds, which are currently being used to develop retirement income solutions by the asset management industry outside of the occupational pensions umbrella.

Question 16. Do you foresee any areas of potential arbitrage, and how should Government and regulators seek to mitigate this?

- 3.91. If people join a Retirement CDC pension scheme when the starting indexation target is not CPI and the scheme has a floor of zero and a ceiling for indexation, then there can be arbitrage opportunities.

NOTICE

Please feel free to share, reprint or quote any of this consultation document providing you acknowledge the source (The Society of Pension Professionals).

This response is not meant to give accounting, financial, consulting, investment, legal, or any other form of professional advice. If you require such information, advice or guidance, please speak to a professional adviser. The publisher (The Society of Pension Professionals) 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.

- 3.92. This is most easily explained with an example. If a person joins at age 55 and the target pension increases are zero, then there is a 50% chance of a cut in the next year (and a 50% chance of indexation increasing). When a cut is made, it has the same effect on the value of each member's pension independent of age. When indexation changes, the effect on the value of each member's pension varies by age, with higher value effects at younger ages and lower value effects at older ages. For a member of average age, the potential cut has the same change in value as the potential indexation increase, but in the opposite direction. However, for a younger member as in this example where the average scheme age is older than age 55, the potential cut has a smaller negative value effect on the 55 year old joiner than the positive value effect of a potential indexation increase (in the opposite direction). This member has made the most of an arbitrage/cross subsidy opportunity. The arbitrage opportunity comes at the expense of other members in the Retirement CDC pension scheme.
- 3.93. **Question 17: Are there any other matters you wish to raise in relation to the possible extension of the CDC authorisation and supervisory framework to include Retirement CDC schemes?**
- 3.94. We note, from Chapter 2 of the consultation document, the Government's desire for Retirement CDC schemes to be trust-based schemes and welcome the news that Government is looking at how best to define the new type of scheme and how to ensure such schemes get the same tax treatment as other occupational pensions schemes. We suggest thought be given to the following as a minimum:
- extending the definition of occupational pension scheme for this purpose - we query whether any (or at least, many) commercial providers would be able to set up a scheme without doing so. We anticipate that many DC Master Trusts would not fall within the definition under the wording of the statutory definition at s1(1) of the Pension Scheme Act 1993 were it not for the prescription at regulation 2(2) of The Pension Scheme (Categories) Regulations 2005. This is because they are often created by a commercial provider which is neither an employer or representative of employers (or members) but are able make use of the prescription at regulation 2(2) because all participating employers are contributors to the scheme in question. The same will likely not be possible in the case of Retirement CDC schemes for whom there will presumably be no participating employers who contribute to the scheme.
 - extending sections 153(5) and 158(1) Finance Act 2004 – we suggest section 153(5)(i) and 158(1)(g) could be problematic for a scheme which may not have sponsoring employers in the intended sense. A solution maybe to allow for new intended Retirement CDC schemes in the same way as new intended authorised master trust schemes as provided for at sections 153(5)(h) and 158(1) Finance Act 2004.

Link to Guided Retirement

- 3.95. We believe that it would be a significant missed opportunity if the Government were to introduce their Guided Retirement requirements on DC schemes in advance of Retirement CDC schemes being made available. Once finalised, the largest DC schemes are unlikely to have much appetite to revisit their Guided Retirement options in the short term. There is therefore a risk that Retirement CDC will not be considered for several years if it is not available when those DC schemes design their first set of Guided Retirement options.
- 3.96. There are three potential solutions to this problem which should be considered.
- i) The timescales for authorising Retirement CDC schemes should be accelerated to fit the current Guided Retirement timescales
 - ii) The timescales should be pushed back
 - iii) A short extension should be granted to those schemes that are actively considering introducing Retirement CDC.
- 3.97. There are advantages and disadvantages to each of these solutions but the first option, accelerating the timescales, appears to be preferable given any delay to Guided Retirement could disadvantage those who would be impacted.

NOTICE

Please feel free to share, reprint or quote any of this consultation document providing you acknowledge the source (The Society of Pension Professionals).

This response is not meant to give accounting, financial, consulting, investment, legal, or any other form of professional advice. If you require such information, advice or guidance, please speak to a professional adviser. The publisher (The Society of Pension Professionals) 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.

Continuity options

- 3.98. We think it would be helpful for the Government to consider whether it should offer a Retirement CDC arrangement (or a Whole of Life UME CDC scheme) to provide all commercial CDC schemes with the continuity option of transferring out to another CDC scheme. A natural place for such an arrangement to be built would be in NEST. As we believe that CDC schemes can provide better member outcomes with less decisions making, we think there is merit in NEST offering a DC and CDC scheme option for AE purposes. This would help provide confidence to sponsors and members that even if their commercial CDC scheme were to be wound up, it would be possible for continued CDC provision from NEST to be an option that the trustees could consider as part of their continuity strategy.

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

- 3.99. We are supportive of the policy intent behind these proposed amendments. However, we question whether the parallels being drawn with the transfer of DC benefits to an authorised DC master trust are appropriate for the transfer of DC benefits to an authorised CDC scheme.
- 3.100. While in both cases the receiving scheme will have gone through a robust approvals process and so can be determined to be an appropriate vehicle for the transfer, in the case of a DC to CDC scheme transfer, there will potentially be a fundamental change in the nature of the benefit being provided which is not the case for a DC to DC scheme transfer. We would therefore propose that some of the protections which are put in place for either transfers from DB schemes, or transfers between non-authorised DC schemes, are equally included here – such that sign-off from a recognised “expert” (which could be an actuary) as to whether the change in benefit being proposed is appropriate for the membership to be transferred without their consent is required before the transfer can proceed.

4. Further information

- 4.1. For more information about this consultation response please contact SPP Director of Policy & PR at: phil.hall@the-spp.co.uk or telephone the SPP on 0207 353 1688.
- 4.2. To find out more about the SPP please visit the SPP web site: <https://the-spp.co.uk/>
- 4.3. Connect with us on LinkedIn at: <https://www.linkedin.com/company/the-society-of-pension-professionals/>
- 4.4. Follow us on X (Twitter) at: <https://twitter.com/thespp1>

3 December 2025



NOTICE

Please feel free to share, reprint or quote any of this consultation document providing you acknowledge the source (The Society of Pension Professionals).

This response is not meant to give accounting, financial, consulting, investment, legal, or any other form of professional advice. If you require such information, advice or guidance, please speak to a professional adviser. The publisher (The Society of Pension Professionals) 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.