Institute and Faculty of Actuaries

December 2025

Retirement Collective Defined Contribution Schemes:

IFoA response

Introduction

The IFoA welcomes the opportunity to respond to the DWP consultation on Retirement Collective Defined Contribution (CDC) pension schemes, published on 23 October 2025. We see this as an important step forward in the evolution of UK pensions. CDC schemes have long been supported by the IFoA as a means of delivering better outcomes for savers by pooling longevity and investment risk, enabling more sustainable and potentially higher retirement incomes than traditional individual DC approaches. Unlocking the ability to join CDC schemes for those reaching retirement with DC pots represents a significant and beneficial opportunity for the current generation of pension savers.

We also note the Government's proposed Guided Retirement requirements, which aim to ensure members have access to default decumulation solutions. Retirement CDC schemes (R-CDC) could play a central role in meeting these objectives. However, it is essential that the development of Guided Retirement duties and the legislative framework for CDC schemes are aligned in timing and scope, to avoid fragmentation and ensure schemes can implement coherent solutions for members, particularly when they first become subject to the Guided Retirement requirements.

Executive Summary

1.Investment Strategy Alignment and De-Risking

- We anticipate that R-CDC investment strategies will be broadly aligned with whole-life CDC schemes, fundamentally requiring an age-based de-risking approach to protect older members as the schemes mature. Crucially, the early scale and cash-flow positive nature of R-CDC (due to large DC pot inflows) will enable investment in diverse asset classes, including private markets and UK productive finance, from the outset. Adapting DC glidepaths in partnered DC schemes to facilitate in-specie transfers could reduce costs and support the continuity of private market exposure post-retirement.

2. Membership Scale for Longevity Pooling

- To achieve stability and adequately pool idiosyncratic longevity risk (the main element of longevity risk that can be eliminated by pooling), an R-CDC scheme needs around 100-200 (or more) new members joining each year from around age 67. The scheme must ultimately reach a mature membership of at least approximately 3,000-5,000 members to ensure adequate risk pooling across all age groups. Importantly, the total scheme asset size is not relevant for the longevity risk pooling aspect.

3. Need for Guided Retirement Default Access

- We strongly support allowing R-CDC to be selected as a default retirement solution or offered through formal partnerships by DC scheme trustees. A well-designed R-CDC offers the key characteristics of a good default: income for life, no ongoing decision-making, and high expected incomes relative to annuity purchase. However, limiting access only to trust-based scheme members may be viewed as unfair by pension savers, and the Government could hinder CDC growth by excluding contract-based schemes and SIPPs. We support the initial restriction to trust-based members to facilitate a quick launch, but future expansion should be a priority.

4. Addressing Intergenerational Fairness and Cohorting

- We believe the proposed 'cohorting' approach is sensible as it allows different pension increases to apply to groups based on their retirement date, which is key to maintaining the attractiveness of better-performing schemes for new entrants. Furthermore, removing the upper threshold and allowing the spread of cuts over the lifetime of the scheme for cohorted schemes would be a welcome flexibility for CDC scheme design (including whole of life CDC).

5. Actuarial Equivalence and Pricing Flexibility

- R-CDC is fundamentally different from whole-life CDC as members purchase benefits with a single lump sum. Therefore, the terms offered must reflect current financial conditions much more closely and may need to vary frequently. We recommend using the same central estimate assumptions for transfers into an R-CDC scheme that are used for transfers in, transfers out, and accrual in a whole-life CDC scheme. Underwriting is an area that needs focus, especially if R-CDC is a default option, as health status significantly impacts longevity and value.

Question 1

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

- Since both Retirement CDC and whole-life CDC use similar mechanisms to translate investment experience into pension adjustments, we expect investment strategies to be broadly aligned. For both, an age-based approach that de-risks at older ages is essential to protect members, particularly as schemes mature.

- Retirement CDC schemes will pay benefits immediately but also receive substantial inflows as members transfer DC pots, making them cashflow positive for many years. This early scale enables investment in diverse asset classes, including private markets and UK productive finance.

- DC glidepaths could be adapted for DC members planning to join Retirement CDC, allowing in-specie transfers at retirement. This would reduce transaction costs and support continuity of investment, including private market exposure 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.

- The IFoA does not have sufficient data to provide a robust estimate of establishment or ongoing running costs for Retirement CDC schemes. We believe this is an area where practical experience from early adopters and industry consultation will be critical to inform accurate cost assessments.

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?

- In principle, we believe the business plan requirements for whole-life unconnected multiple-employer CDC schemes should also apply to Retirement CDC schemes, with appropriate adaptations. Key considerations include:

- Financial Sustainability – Requirements around set-up funding, ongoing costs, and wind-up scenarios remain essential, but should reflect the absence of employer and active member contributions in Retirement CDC.

- Scale of Membership and Contributions – Criteria should be adapted to account for inflows from retirees and the variability of pot sizes rather than ongoing payroll contributions.

- Financial Resources – Clarity is needed on responsibilities between the scheme proprietor and provider for maintaining adequate financial resources.

- Triggers and Continuity Strategy – These should apply in the same way as for whole-life CDC schemes.

- Member Communications – trustees must not act as marketing agents. It is important to balance the need for member education and communication with regulatory restrictions on promotional activity.

- Overall, the framework should ensure robust governance and member protection while recognising the operational differences of R-CDC.

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?

- Research funded by the Institute and Faculty of Actuaries' Actuarial Research Centre indicates that at least 100-200 new members each year are needed, joining from around age 67 (Donnelly 2023a). The exact minimum number required depends on how different members are in terms of their initial pot size and future mortality. The greater the differences between these member characteristics, the greater the number of members required to adequately diversify away the scheme members' “idiosyncratic” (i.e. individual rather than systematic) longevity risk. Idiosyncratic longevity risk is the main element of longevity risk, that can be eliminated by pooling members lives, as is done in whole of life CDC schemes.

- Ultimately, when the scheme reaches a mature membership, there should be at least around 3,000 - 5,000 members in order than there is adequate pooling of idiosyncratic longevity risk at all ages. Thousands of members are not needed at scheme inception, as there is a relatively low variance in the mortality rate for members in their late 60s. The variance in the mortality rate as members age is reduced by having a larger membership. This can be achieved by a steady flow of younger (retirement age) members into the scheme.

- From a longevity risk pooling point of view, the total fund size is not relevant in absolute terms (Donnelly 2023b). Rather, it is the spread of pot sizes across the membership that matters. Having 100-200 new joiners each year should be sufficient to pool longevity risk, which allows for members to bring in different pot sizes.

- If Retirement CDC becomes a default retirement solution for a DC scheme / Mastertrust (once Guided Retirement is in force), this will help provide a more predictable future membership profile. However, an assumption for the opt-out rate will need to be determined, which could be difficult to estimate given (at least initially), there will be a lack of data.

(Donnelly 2023a) Donnelly, C. Research findings around pooled annuity funds. August 11, 2023. URL: https://researchportal.hw.ac.uk/files/100128515/Deliverable2.4.pdf

(Donnelly 2023b) Donnelly, C. Heterogeneity among new entrants to a pooled annuity fund. March27, 2023. URL: https://researchportal.hw.ac.uk/files/100127869/Deliverable_2.2.pdf

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?

- R-CDC schemes, Unconnected Multiple Employer Schemes (UMES) and Master Trusts all have their individual promotion and marketing requirements, but it is very likely that there will be cross-promotions, for example a Master Trust promoting the Master Trust (for pre-retirement accumulation) and post-retirement R-CDC as a package. These regulations therefore need to work well together.

- Trustees of DC schemes may look to R-CDC schemes to provide literature that they can use to inform individual members close to retirement. There needs to be clear guidance on how this material may be distinct from marketing and promotion material, so that R-CDC schemes can aid DC scheme trustees in meeting their fiduciary duties, and are not caught by the marketing and promotion restrictions.

- Under UMES, there is a concern that trustees may "promote" schemes to employers and the 2025 regulations address this issue. We agree that this continues to be relevant in R-CDC schemes. However, there should be a clear distinction in the Regulator’s code on how any actions by trustees providing default R-CDC schemes as Guided Retirement solutions are not considered as promotion of the R-CDC schemes.

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?

- We 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
- No ongoing decision making required by members
- Value for money (higher expected incomes than other solutions such as annuity purchase, allowing for not too much risk, e.g. not too much volatility in that income).
- Equally, we support the ability for formal partnerships between DC schemes and Retirement CDC schemes, to allow engaged DC savers the ability to choose Retirement CDC. Placing the responsibility on DC scheme trustees to evaluate Retirement CDC and only make it available to members if they believe it appropriate helps protect members.
- These two routes to market could lead to significant uptake, achieved through decisions made by a relatively small number of trustees.
- However, we have concerns regarding limiting access to these channels only.
- 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. A possible unintended consequence of the proposals is the contraction of the SIPP market as savers look to place funds in Retirement CDC eligible saving vehicles The Pension Schemes Bill places an obligation on the FCA to implement Guided Retirement duties for contract-based schemes in due course. In designing its policy, the FCA should ensure that by the time these duties come into force, these schemes can partner with trust-based Retirement CDC schemes to provide access.
- It is also possible that a significant number of trust-based DC savers might be restricted from accessing Retirement CDC:
- While most DC pension savers have broadly similar needs, for an income for life, trustees may interpret these needs differently. This could result in some schemes offering retirement CDC (either as a default or partnership option) while others do not.
- Schemes with similar membership profiles may present retirement CDC differently – some as a default, others as an elective option. This inconsistency could confuse individuals, particularly those with multiple DC pots, and may restrict market growth.
- Members of smaller schemes may be disadvantaged if their trustees do not permit access and no retail market exists.
- A clear route to supporting market growth would be for TPR to publish guidance on membership profile characteristics under which retirement CDC should be considered good or optimal value by trustees. Once the market has developed, the Government could make it a requirement for an R-CDC option to be available to members of DC schemes.
- Depending on how Retirement CDC is priced (Q8), members in poor health may get poor value from a Retirement CDC scheme. Clear communication will be needed at the point of retirement (and in the lead up 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).
- Having appropriate regulations and safeguards for CDC to be made available more widely, including as a retail product, needs 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 in particular in the initial round of trustees choosing Guided Retirement solutions) and would be concerned about potential delays caused by any further consideration and work to make Retirement CDC available to the retail market from day 1.

Question 7

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

- Retirement CDC offers significant potential benefits for members transferring from FCA-regulated schemes. By pooling longevity and investment risk, it can provide a trustee-managed income solution that is more sustainable than individual drawdown and higher expected incomes than annuities. It could also serve as a credible default under the Guided Retirement framework, helping disengaged savers access better outcomes.

- However, there are important risks and considerations:

- Access risk – Members in FCA-regulated arrangements may not be offered a CDC option, creating inequity and limiting choice. To mitigate this, FCA-regulated providers should be encouraged or required to partner with authorised Retirement CDC schemes.

- Regulatory alignment – Current FCA Consumer Duty and targeted support frameworks do not yet accommodate CDC signposting. Without alignment with DWP's Guided Retirement requirements, members of FCA-related arrangements could face confusion or delays. A coordinated timetable between DWP, FCA, HMRC and TPR is essential.

- Advice/guidance boundaries – FCA's targeted support proposals restrict firms from recommending irreversible lifelong products without personalised data. This could limit CDC signposting unless rules evolve to allow segment-level guidance.

- Member protections – Transfers should include clear disclosures on CDC's non-guaranteed nature, annual adjustment mechanisms, and opt-out rights, supported by robust governance, continuity planning and transparent communication aligned with Consumer Duty

- Retirement CDC can play a central role in improving outcomes for DC savers, but success depends on regulatory coordination, clear communication, and ensuring equitable access across both trust-based and contract-based markets.

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?

- Whole-life multi-employer CDC schemes typically set contribution rates for a given level of benefits in advance, based on financial conditions at a specific date, and apply these rates for a fixed period (often a year). Members accrue benefits gradually, with each contribution purchasing a small proportion of the anticipated retirement benefit.

- Retirement CDC operates differently. Each member purchases benefits with a single lump sum at retirement, making the financial assumptions used at that point critical. Terms offered will need to reflect prevailing market conditions much more closely and may need to vary frequently to ensure fairness and sustainability. Consistency of assumptions across transfers in, transfers out, and accrual in whole-life CDC schemes is important.

- Transfer costs should be treated transparently. Costs incurred before the transfer reaches the receiving scheme should not fall on the scheme, while costs within the receiving scheme should not be deducted from the member's pot before conversion into CDC benefits.

Underwriting considerations

- Underwriting is a key area requiring attention. Around 20% of individuals aged 50-65 have a limiting long-term health condition (ONS Census 2021), and historically, medically-underwritten annuities accounted for nearly 28% of annuity sales (ABI, Q4 2013). It is difficult to see how Retirement CDC can deliver equitable outcomes for all members — particularly if presented as a default option — without some form of underwriting to reflect material differences in life expectancy. Incorporating underwriting practices that capture key drivers of longevity risk would improve fairness and make Retirement CDC more compatible with FCA's guided retirement framework and Consumer Duty requirements.

Question 9

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

- Calculations of member quotations for members approaching retirement will need to allow for the conversion terms (pricing) of the CDC. Any quotations or illustrations should be based on consistent assumptions to those used for actual conversion terms and annual actuarial valuations i.e. best estimate assumptions. We note that there may be slight differences in approach e.g. using unisex factors for pricing but sex-specific mortality tables for the actuarial valuations.

- A requirement to provide the information you have suggested, aligned with the viability report requirements, is sensible and ensures any quotations are explained with appropriate information on the benefits characteristics.

- We are supportive of adding a requirement to disclose a list of key features including risk warnings that benefits are not guaranteed.

Upside and downside scenarios

- Adding a downside risk scenario alongside the quoted expected CDC income could aid understanding of the non-guaranteed nature of CDC and potential for a reduction in benefits. For example, adding a 1-in-6 or 1-in-20 downside scenario to investment markets in the first year after retirement, showing the impact on future pension increases could help members understand the potential variability in the income. An upside scenario could also be provided.

- Example:

- CDC starting pension at retirement age: £7,000

- Expected / target pension increases through retirement: CPI (+2%) p.a.

- Impact of a poor investment scenario in the first year after retirement: Pension adjusted for year 2 to CPI - 1.9% = +0.1% p.a. (£7,007)

- Impact of a high investment scenario in the first year after retirement: Pension adjusted for year 2 to CPI + 1.4% = +3.4% p.a. (£7,238)

Unnumbered Question

Schemes' approach to lifestyling might be expected to change depending on the default(s) the scheme has in place. Where a Retirement CDC scheme is a section of a Master Trust, one might expect the approach to lifestyling in the Master Trust to be adapted more easily. We would be interested to hear views on how this could best work where members are being transferred from an external organisation.

- To maintain member confidence that Retirement CDC delivers good outcomes, it is essential to minimise exposure to material timing risk. This could be achieved through several initiatives:

  Gradual CDC Purchase
  Rather than adopting a traditional lifestyling approach that seeks to mirror the assets of a Retirement CDC scheme, a DC member nearing retirement could follow a default pathway that involves gradually purchasing increments of deferred CDC over the final few years before taking benefits. This phased approach would help smooth market timing risk, but may make it for difficult for members to understand and reduce ultimate flexibility in when they retire.

  Asset Class Guidance
  The target Retirement CDC scheme could provide high-level asset allocation strategies for use during the final years prior to retirement. These strategies would aim to replicate the mechanics of CDC pricing, thereby reducing timing risk for members transitioning from DC to CDC.

- Key to these options is early engagement and planning. Whether trustees select Retirement CDC as a default or partner with a Retirement CDC scheme to offer it as an option, it is vital that members understand the implications of any lifestyle strategy in relation to their intended retirement choice and what happens if they change their mind.

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?

- The approach seems sensible – a key aspect is that 'cohorting' in this context does not result in the scheme's assets or liabilities being sectionalised. It is simply a mechanism of allowing different pension increases to apply to different groups of members, based on date of retirement. This seems a sensible way of ensuring that the rate of increase offered to new members can be maintained at a level reasonably close to expected future inflation.

- If there was no such mechanism, we agree with your comments at paragraph 103, that higher performing schemes could become unattractive for new retirements and lower performing schemes might appear more attractive (with higher starting pensions).

- We broadly agree with your comments at paragraph 112, that schemes should be able to determine their own terms for the opening/closing of new cohorts. However, one area in which prescription would be appropriate would be for low-performing schemes which might otherwise offer new retirements high starting pensions (with low future increases).

- We welcome the progress the DWP has made in developing the cohorting draft, recognising that this is a complex area. On initial review, we found some aspects of the intended approach challenging to interpret, though we appreciate that this is an illustrative draft at this stage.

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?

- Removing the upper threshold and allowing the spread of cuts over the lifetime of the scheme would remove the main remaining intergenerational unfairness, so would be great. Most of the intergenerational unfairness is already removed by schemes that introduce cohorting, so this would actually be of more benefit to members of schemes without cohorting. A full description of the intergenerational unfairness is provided in answer to question 16.

- DWP have previously voiced concern that spreading cuts means you can end up with pensions that are reducing nominally over a sustained period. However, pensions increasing below CPI are already reducing in real terms. So the only difference is psychological/presentational. Clear communication and explanation of what the alternative would have been, will be important.

Question 12

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

- It will be important for members to understand the key features of the benefits they will receive from the CDC scheme. This could include:

- Any cooling off period (and clear communication regarding the irreversibility beyond this period)

- Any guarantee period

- Any spouses pension or other death benefits

- Any options e.g. spouses pension vs single-life

- It may also be appropriate (but perhaps not a requirements) to provide members with information on the overall scheme including:

- Current number of members, membership profile

- Total asset value

- Information on how the scheme assets will be invested

Question 13

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

- We see no significant practical or operational challenges in delivering Retirement CDC communications through DC scheme trustees. Retirement CDC schemes should provide appropriate and timely information to DC scheme trustees to facilitate effective communication to DC members.

- Communication is likely to be digital and could be provided through apps or websites. Retirement CDC schemes may develop online tools e.g. modellers to provide illustrations of income levels or educational tools to aid understanding of CDC. It may improve efficiency and enhance communication if access was permitted for DC members pre-retirement. We would support a framework that would allow this, with pre-approval required by the trustees of the DC scheme, to protect members.

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?

- We are in favour of pre-retirement benefit statements reflecting expected CDC income levels, particularly where Retirement CDC is the default retirement solution for the member.
- We agree that it could be confusing for members to receive Retirement CDC benefit illustrations alongside the current Statutory Money Purchase Illustration (SMPI). We would argue that the current SMPI reflecting flat-rate annuity purchase is less relevant once a default retirement solution is in place (unless the default is flat-rate annuity purchase).
- Could the SMPI requirements be changed to allow these illustrations to reflect CDC income instead of annuity income, particularly where Retirement CDC is the default retirement solution?
- Standard assumptions could be used for pre-retirement investment performance aligned with current SMPI to have consistency across providers. However, the Retirement CDC income should reflect the current pricing / conversion terms to ensure it provides an informative illustration of the likely income level at retirement.
- An alternative might be to revert statutory illustrations to being based on an index-linked annuity. That might be argued for *not* because it is the likeliest outcome but because it is a useful expectations benchmark as the lowest-risk real-terms maintained income, of which all other options necessarily involve additional risks, albeit often palatable because of the increase in the expected incomes.
- Either way, we think the FRC will need to carry out a fundamental reappraisal of statutory illustrations and how they might best meet members' needs, in the era of both dashboards but also guided retirement.
- Finally, we note that DC schemes provide an annual SMPI to members but are not required to provide an SMPI just before retirement.

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?

- As the IFoA will not be a provider of Retirement CDC schemes, we are not in a position to comment on charging structures or appropriate charge caps. We believe this is an important area for providers and regulators to consider carefully to balance consumer protection with scheme sustainability. However, we would not expect R-CDC to be at a systematic disadvantage to other decumulation methods.

Question 16

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

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

- This is most easily explained with an example. If a person joins at age 55 and the target (median) 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 increases, 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 higher ages. For a member of average age, which is above 55, the potential cut has the same change in value as the potential indexation increase, but in the opposite direction. However, for any member younger than the average scheme age, the potential cut has a smaller negative value effect than the positive value effect of a potential indexation increase.

- In summary, scheme members are exposed to a different risk according to their age. In the scenario above, younger-than-average-age members are expected to gain overall, whereas older-than-average members are expected to lose overall. However, there is no guarantee that this will happen and, additionally, as members age they will become the older-than-average. Therefore, it may not be considered as true arbitrage.

- The other area of potential arbitrage is where conversion factors are not updated frequently, resulting in new entrants potentially having the ability to purchase R-CDC pension when the theoretical "best estimate" factor would provide a lower pension that then actual factor being applied. This would negatively impact existing members. However, this can be mitigated with good scheme design. This should therefore be an important component of the review of scheme design as part of the authorisation process.

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?

Communications

- The restriction on promotion and marketing may have a detrimental effect on communications to potential members – ceding scheme trustees may be inclined to be overly cautious about how to explain to members the merits of Retirement CDC. This seems inconsistent with the general broader aim of encouraging member communications and supporting informed decision making. Schemes should be able to communicate with members about the benefits of all their retirement options including Retirement CDC in an engaging way.

Trustee comfort

- Trustees may be nervous about making decisions on behalf of members, particularly to the extent that the Retirement CDC solution is an irreversible option. The provision of some form of comfort to trustees that their focus should be on delivering better outcomes for the majority of members, and safeguarding against bad options. Choosing an option because it is reversible when it is subsequently not revisited by the member, subjects a member to potentially years of suboptimal outcomes, which should also be a trustee concern. Offering a relatively long cooling off period for R-CDC could also help alleviate trustee concerns.

HMRC

- HMRC rules should be reviewed and updated to ensure they facilitate the Government's intention for R-CDC, putting it on a level playing field with annuities.

Question 18

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

- Although the receiving CDC scheme will have undergone robust authorisation processes and can be considered an appropriate vehicle overall, a transfer from a DC arrangement into a CDC scheme represents a fundamental change in the nature of the benefits provided. Unlike a DC-to-DC transfer, where the member retains an individual pot and associated investment risk, moving to CDC means exchanging that pot for a share in a collective fund with variable benefits.

- This change introduces materially different risk characteristics. In particular, the volatility of the value of benefits in CDC can be significantly higher than the volatility of the individual pot value in traditional DC, and this volatility is greatest for younger members. While DC benefits fluctuate based on investment returns, they remain tied to an individual pot. In CDC, younger members' benefits are subject to collective funding adjustments over decades, meaning their projected pensions can vary substantially as the scheme responds to market conditions and demographic experience.

- Transfers to CDC schemes also involve converting money purchase pots into target benefits using actuarial techniques. This adds complexity and reinforces the need for expert oversight. Currently, DC schemes are exempt from the scheme actuary requirement under section 47 of the Pensions Act 1995, so they may not have actuarial advice embedded in their governance. For transfers to CDC without member consent, we therefore propose requiring sign-off from a recognised expert, such as an actuary, confirming that the change in benefit structure is appropriate for the membership being transferred. This mirrors protections applied to DB transfers (albeit a DB to DB transfer also requires actuarial certification or member consent) and transfers to non-authorised DC schemes and would help ensure fairness, transparency, and member confidence. Members should also be told in good time for a bulk transfer to CDC to give members time to get advice and opt-out.

END.