Retirement Collective Defined Contribution pension schemes: consultation

Response from the Pension Protection Fund

December 2025

About the PPF

The Pension Protection Fund (PPF) was established to pay compensation to members of eligible defined benefit (DB) pension schemes, when there is a qualifying insolvency event in relation to the employer and where there are insufficient assets in the pension scheme to cover PPF levels of compensation.[1] Since inception, we have consolidated over 1,100 DB schemes into the Fund, and now have around 290,000 members, to whom we paid £1.2 billion in 2024/25. We protect a further 8.8 million members of DB schemes.

The PPF is a statutory fund run by the Board of the PPF, a statutory corporation established under the provisions of the Pensions Act 2004. The PPF became operational on 6 April 2005.

In 2009 the Board of the PPF was also given the responsibility of being the scheme manager for the taxpayer funded Financial Assistance Scheme (FAS). FAS provides assistance to around 140,000 members of around 1,000 eligible underfunded defined benefit schemes that started to wind-up between 1 January 1997 and 5 April 2005, or between 6 April 2005 and 27 March 2014 where an employer insolvency event occurred before 6 April 2005.

The Board of the PPF has also held, managed and applied the – wholly separate – Fraud Compensation Fund (FCF) since 2005. The FCF was set up as a result of the Pensions Act 2004 and provides compensation when a scheme (and as a result an individual member) has lost out financially due to dishonesty.

[1] What being a PPF member means | Pension Protection Fund

Key points

The Government has made clear the urgent need for innovation within our pension landscape, particularly for the 16 million people in the UK currently saving into a defined contribution (DC) scheme.[2] As noted in the consultation, research suggests collective defined contribution (CDC) schemes could improve retirement outcomes although the extent of the modelled improvements is open to debate. The PPF stands ready to play a role in supporting the Government's development of CDCs to provide a better range of options for pension savers.

We note the discussion about the merits of operating Retirement CDC ('r-CDC') schemes through a universal provider of scale, such as the PPF. We agree that this could offer long-term advantages, but recognise that the proposals set out in the consultation are aimed at providing a quicker route to enabling r-CDC to serve as a default pension benefit solution. As with any risk-sharing pension arrangement, security and sustainability are key pillars. The PPF, in its role as an insurer of last resort, provides this security to trustees of corporate defined benefit schemes. We stand ready to support the Government and serve the industry in future, if this would help to develop a successful and sustainable CDC market for savers.

Lessons can be learned from global pensions best practice, to inform the features the UK pension system requires to deliver the outcomes needed by stakeholders. Experience suggests that the elements of a world-class pension system include:

1. Risk sharing, as sharing collectively can support higher risk overall and better expected outcomes;
2. Size and scale, to drive down cost, enable a sophisticated approach to investment, improve value for money and unlock significantly better investment returns;[3] and
3. Fiduciary management and strong governance, as when investments are managed on a not-for-profit basis by in-house professionals with a fiduciary responsibility to members, they tend to perform better than retail funds run by for-profit organisations.[4]

CDC schemes have the potential to deliver all of these key elements.

A key theme which arises through a few of the consultation questions is the approach which should be taken to regulate the new r-CDC market. Based on our knowledge, and global best practice of similar pension products, we believe that a principles-based approach to regulation is likely to be better than excessive prescription. This would align with the UK's long history of principles-based regulation, as well as the CDC regulations already in place, which has helped ensure we have a strong reputation in the financial services global market. This has been a recent topic of discussion in Canada's CDC market, with the Canadian Institute of Actuaries arguing against strict regulation,[5] in preference for a more flexible principles-based approach.

We support the Department for Work and Pensions' proposed approach of initially offering r-CDC through trust-based schemes. The most critical component of establishing a successful market will be developing and maintaining trust amongst pension savers, employers and trustees.

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[2] Retirement Collective Defined Contribution pension schemes - GOV.UK
[3] World Bank Document
[4] 18_GR_Collective_Plans_Research_Neutral_Version_SinglePage.indd
[5] Comments to Retraite Québec on draft regulations concerning VPLPs

We welcome further debate and engagement on r-CDC matters and are keen to support such discussions. We have set out below responses on a selection of the specific questions raised in the consultation.

Responses to selected questions

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

As referenced in the consultation document, a fundamental difference between r-CDC and whole-life CDC schemes will be the need for liquidity to meet pension payments from the outset. The materiality of this issue will depend on the extent to which new entrants are expected to join in future.

As with many other aspects of r-CDC schemes, size and scale will be important to provide the best possible outcomes for members. If a scheme has sufficient size and scale that it can expect a regular flow of new members with associated cash inflows, this will reduce the need for liquidity in the investment strategy, potentially allowing more investment in illiquid assets which should ultimately lead to better returns over the long term and improved outcomes for members. Conversely, a smaller scheme with lumpier and more uncertain cash inflows might need a lower risk investment strategy providing more certain cashflows to meet pension payments. An investment strategy predicated on a steady inflow of new members would be exposed to the risk that this inflow fails to materialise or ceases, potentially requiring unexpected disinvestments and poorer outcomes for members. This risk might be greater for a smaller scheme.

Two other key drivers of investment strategy for an r-CDC will likely be:

1. The objective to sustain CPI inflation-linked pension increases over time (in common with whole-life CDC schemes); and
2. The impact of investment strategy on pricing for new joiners, as this will influence commercial success relative to other retirement income options such as annuities, income drawdown or potentially alternative r-CDC schemes.

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?

A critical determinant of success will be r-CDC schemes being able to achieve the necessary size and scale to deliver the best outcomes for members. As noted in the consultation, the benefits of a successful r-CDC market for pension savers in the UK could be transformational. There are risks associated with the transfer of members from FCA-regulated schemes to r-CDC schemes, for example around the communication of an individual's retirement options and recognising that transferring to an r-CDC pension scheme may not universally be the best option for every member of FCA-regulated schemes and these will need to be weighed against the potential benefits to members and society. Offering r-CDC as a member-elected option may create fewer challenges than defaulting members into r-CDC.

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?

While a cohorting approach helps to address intergenerational risk sharing,[6] it significantly increases the level of complexity of a r-CDC arrangement. Such an approach is likely to be significantly more difficult to understand for members, trustees and fiduciaries and there are likely to be substantial communication challenges. It could also have implications for the choice of investment strategy.

There are r-CDC schemes in other countries that operate successfully without using a cohorting approach, for example the Australian Retirement Trust Lifetime Pension (ART LP) and the University of British Columbia Faculty Pension Plan Variable Payment Life Annuity (UBC FPP VPLA). However, this relies on members and trustees being willing to accept intergenerational risk sharing in exchange for simplicity.

From our conversations with international providers of comparable products, a key point is that the past may constrain the potential future success of r-CDC arrangements in the UK and determine which r-CDC scheme designs may be the most acceptable, which may not be the most optimal designs, i.e. path dependency. For example, in the case of whether to use a cohorting approach, UK defined benefit pension schemes are well regarded and very much valued but can sometimes be perceived to contain a degree of intergenerational risk sharing, e.g. a fixed employee contribution rate at all ages when the cost of providing defined benefit pensions is higher for older members than younger members. However, members in defined contribution pension schemes have an individual ringfenced pot of assets, so some members might prefer to avoid the intergenerational risk sharing that would be inherent in a r-CDC without a cohorting approach. The Netherlands, for example, is currently reforming their CDC pension provision to do more to address intergenerational risk sharing.

Overall, there are benefits and drawbacks to using a cohorting approach. As stated in our key points section above, our view is that it is best to adopt a principles-based approach to regulation and not be overly prescriptive and therefore we think the most appropriate course of action would be to permit both approaches in the regulations, i.e. give r-CDCs the option of whether to use a cohorting approach.

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?

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[6] Intergenerational risk sharing in this context refers to the practice of spreading investment and longevity risks across different age cohorts within the same collective fund. This approach smooths financial shocks over time, reducing volatility for individual members and promoting benefit stability, but it can create cross-subsidies between generations if not carefully managed.

For r-CDC schemes that use a cohorting approach, the removal of the upper threshold would help to simplify the approach and would help to reduce subjectivity, although a cohorting approach is still inherently complex. However, not allowing the spreading of cuts over the lifetime of the scheme would result in potentially larger cuts in pension income for some r-CDC schemes, so effective communication with members and trustees is paramount to ensure expectations are managed. In spite of this, potentially larger cuts in pension income may be too undesirable, so measures like allowing the spreading of cuts may have their place.

Ultimately actual experience must still be passed on to the aggregate membership, so treating large gains in a different way or spreading losses could be perceived as introducing unnecessary subjectivity and complexity.

As stated above, our view is that it is best to adopt a principles-based approach to regulation and not be overly prescriptive. We therefore think the regulations should permit all r-CDC schemes to choose for themselves whether to spread cuts or large increases over one year, three years, the lifetime of the scheme or any other period, instead of permitting r-CDCs to use a subset of these possibilities depending on whether they use a cohorting approach. This would then permit r-CDC schemes to be established in the UK which have characteristics in common with some of those that have been successful in other countries, like the ART LP and the UBC FPP VPLA (which apply cuts or large increases over one year and do not use spreading).

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

Our view is that transparency is key to new and prospective members of r-CDC schemes. It is of paramount importance to be open, clear and honest with members and trustees about the nature of r-CDC schemes – e.g. that pension incomes can go down as well as up – so that member expectations are accurate, they are able to make informed choices about their retirement plans, and to help avoid any claims of mis-selling in the years to come.

Of critical importance will be illustrations which help the member understand the potential for (perceived) inequitable outcomes to complement scenarios showing the upside of risk sharing under r-CDC.

Insufficient transparency is one of the reasons why the CDC arrangements in the Netherlands are in the process of being reformed. Above all, communications must be clear to manage the risk of the r-CDC scheme being perceived as defined benefit in nature.

With this in mind, any information that can be provided to help members and trustees really understand the risks of r-CDC schemes would be invaluable to aid the success of r-CDC schemes.