

Summary

- Regulatory drift and misaligned timelines could risk putting decumulation-only CDC adoption just out of reach for many savers.
- Further clarity and a shift in timings is needed to give trustees enough time to consider decumulation-only CDC and decide whether it is the right choice for their scheme.
- Scale, governance and communications will also be challenges for decumulation-only CDC offerings.

After years of discussion, the time for decumulation-only collective defined contribution (CDC) options seems to finally be on the horizon. The government's recent consultation on 'retirement CDC' schemes signals a clear step toward rethinking how savers access secure retirement income.

Responses to this consultation have seen the pensions industry unusually united: Retirement CDC has real potential to fill the 'missing middle' between drawdown and annuities, but the pitfalls are real, and member communications could make or break adoption. And whilst the upcoming guided retirement duty creates renewed support for decumulation solutions, it also creates a tight timeline and added pressure.

The risk of regulatory drift

To be introduced as part of the Pension Schemes Bill, the guided retirement duty will require trustees to provide one or more default decumulation solutions.

This should fit hand-in-hand with retirement CDC, as TPT Retirement Solutions head of CDC, Paul Eagles, says that the pair "should be mutually reinforcing: The duty creates demand for robust lifetime income solutions, and retirement CDC offers an efficient means of meeting that demand collectively".



Against the clock

▣ The government's retirement CDC consultation has sparked renewed enthusiasm, but with guided retirement duties coming fast and a decumulation-CDC framework yet to be finished, industry experts fear it could be too little, too late

But work on the guided retirement duty is expected to move at pace, with master trusts set to comply from 2027 and group personal pensions (GPPs) from early 2028.

Eagles admits that "this doesn't provide a lot of time" to develop the regulatory framework and allow schemes to establish CDC arrangements.

This is already emerging as a shared concern across the industry, with growing frustration that guided retirement duties may be introduced before retirement CDC is available.

Indeed, Zedra head of proposition development, Mark Stopard, points out

that many schemes may not be able to integrate CDC into their initial guided retirement offerings. "DC trustees need clarity on the framework and potential schemes to consider before any decisions in principle can be made," he says.

Aon partner and head of CDC, Chintan Gandhi, warns this risks retirees being defaulted into annuity purchase over CDC as their default option, which will not necessarily suit everyone's needs.

And these decisions will have a longer-term impact, as Stopard warns that revisiting the guided retirement options decision will be significant and likely require a period of member



experience, so a 'near miss' in the timescales is likely to mean a longer delay in adoption. "A three-month miss on the deadline could easily result in three years before retirement CDC is looked at again," he says, suggesting that ideally the timing of the legislation and associated regulations should be aligned.

Eagles agrees, stating that guidance and regulations will also need to align with the Financial Conduct Authority (FCA) on how contract-based schemes can signpost retirement CDC, to ensure GPPs don't miss out.

Too little too late?

Gandhi warns that this timing mismatch also risks prospective retirement CDC providers being unable to establish sufficient scale – which appears to

undermine the policy intent.

Given this, he calls for a "pragmatic approach in the early years" from The Pensions Regulator (TPR), especially for schemes intending to use retirement-only CDC as their guided retirement default.

Gandhi says that providers also need clarity from TPR on how it will regulate the promotion and marketing activity of retirement CDC schemes, noting that TPR has yet to consult on its extended CDC Code, creating a 'chicken and egg' dilemma: Providers must show scale to gain authorisation, but they cannot build scale without clarity on what they are permitted to communicate to the trustees whose commitment they need.

Gandhi's position is clear: The industry needs the "swift extension" of TPR's CDC guidance to cover both

whole-life multi-employer CDC schemes as well as retirement CDC schemes.

"Prospective providers need visibility of the entire regulatory regime to judge whether they can introduce scalable CDC schemes to the masses – and in a way that is commercially viable," he says.

But in the meantime, trustees face a delicate balancing act. With much still unknown about the final retirement CDC framework, they must weigh innovative solutions against prudence.

Despite this sense of unknown, industry consensus is leaning toward retirement CDC as a future default. As Stopard says: "In a system where retirement incomes are generally modest, the potential lifetime income uplifts from CDC are too significant to ignore."

Industry research backs this up,

to savers with moderate incomes, who value financial certainty in retirement, want limited decision-making, or want to cover regular financial commitments.

Employers are also showing interest. Gandhi says: “Our recent experience from speaking to a number of employers and DC trustees is that there is strong demand for retirement CDC,” especially as part of an income-for-life default.

But many are also keen for the new initiative to be given more time to bed in before officially branding it the new gold standard for decumulation defaults.

Aegon pensions director, Steven Cameron, for instance, says that while the concept is worth exploring and may appeal to some, it looks premature for the government to position it as the ‘default’ solution.

“There are many unanswered questions over both guided retirement solutions and retirement CDC,” he says.

“Trustees and providers will want to see what forms of retirement CDC are created across the industry before considering if one of these might be appropriate within guided retirement. There’s a strong case for pushing guided retirement solutions back until 2030.”

Getting the messaging right

Beyond timing and legislative issues, many agree that communications will define whether retirement CDC succeeds. “A key element to resolve will be communications for schemes in complying with guided retirement rules,” Eagles says. “We expect the government to look at this in more detail next year, as there will be some key principles members need to understand where CDC is provided as a default.”

Stopard agrees, emphasising that “we need to communicate risks and benefits simply with new and prospective members without taking on additional regulatory risk”.

Members will need to clearly understand what CDC is, and what it is not. But this, according to Draper, will

also require “a significant acceleration in member education to explain CDC and its part in the future of pensions”.

This could be made harder by the current proposals, as Gandhi says that the consultation suggests that retirement CDC schemes will operate in a non-retail market and hence not be allowed to market directly to individual members.

“This has the potential of creating an unlevel playing field, given FCA providers offering advised drawdown products are permitted to market to and engage directly with individual members,” he warns. “We believe DWP and TPR should consider what additional powers and skills TPR needs to regulate retirement CDC in a retail market, given future retirees could be unable to access retirement CDC if the DC scheme they are in has chosen not to include this as an option.”

Cautiously optimistic

Across the industry, optimism about retirement CDC is real. Providers see a chance to deliver the sustainable, pooled lifetime income that the DC system has lacked in comparison to DB.

But the warnings are equally clear: Action is needed sooner rather than later, or the opportunity could be lost.

Written by Sophie Smith



with a poll from Aon and Aegon, for instance, revealing that nearly one in three savers would prefer a CDC pension to traditional drawdown or annuity products. LCP research also found that CDC came out clearly on top for both member outcomes and ease of planning.

The attraction is clear: CDC promises a more efficient conversion of a DC pot into predictable income, while removing the risk of running out of money that can be seen with drawdown.

Eagles also points out that, although trustees can’t select CDC yet, they can consider where it would sit in the ‘guided retirement toolkit’ and what member cohorts it might best serve.

In particular, LCP partner, Helen Draper, suggests that being part of a CDC scheme is likely to appeal most