

HYMANS # ROBERTSON

CDC – the complete picture



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Introduction

We believe Collective Defined Contribution (CDC) has a vital role to play in the future of UK pensions. It has the potential to offer:

- 1 | Increased retirement incomes - addressing today's adequacy challenge for defined contribution (DC) savers.**
- 2 | A secure income for life – providing protection and delivering what matters most from a pension.**
- 3 | Smooth retirement experience – minimising the risks from DC members making poor decisions at retirement with their pot.**

The past 2 years have seen significant developments in CDC pensions that could benefit millions of future savers. At Hymans Robertson, we've been designing new forms of risk sharing in retirement for DC members for years and advocating for CDC as a model to deliver this.

Early last year, we [published](#) our approach for taking this forward. Our analysis and research were designed to provide valuable insight for the government and wider industry stakeholders, regardless of the outcome of the election, or the immediate priorities of the incoming government. Labour has since made pensions, especially CDC, a priority, starting a consultation on multi-employer CDC in October 2024. The Royal Mail CDC scheme went live at the same time, marking the UK's first single-employer CDC scheme under the existing CDC legislation for those schemes.

These developments have given CDC significant momentum, with further details on regulations for whole of life and decumulation only CDC expected in Autumn 2025.

Our purpose at Hymans Robertson is “building better futures”. Having confidence in your retirement plans when you're younger, and sufficient income to enjoy retirement when the time comes, is a key part of this. It's an area where we know we can make a big difference, not just for future generations of DC savers, but those coming to retirement now with less savings than they need.

Our objective has always been to work collaboratively across the industry to help promote understanding of CDC and enable it to grow. This helps us to strengthen the design of CDC for the UK and solidifies the governance to protect future members.

This paper summarises our research, industry engagement from last year, and the development of multi-employer draft regulations.

WHAT WE COVER:		
Scheme design and member outcomes	Overview of three alternative scheme designs and the different outcomes for members How does CDC stack up?	3.
Investment strategy	What do you need from your investment strategy and strategic asset allocation	
Member view	Survey results and thoughts from members - the people who matter	
Employer perspective	The benefits for employers and insight from corporate pension representatives	
International experience	Insight from existing international CDC schemes	
Timescales	Expected timeframe for the next phases of CDC	

Executive summary

CDC SCHEME STRUCTURES

WHOLE OF LIFE SINGLE EMPLOYER

- For large employers (10,000+ employees) with the appetite to go it alone (eg Royal Mail). Allows complete control over design and investment strategy (subject to the regulations controlling design flexibility).
- Expected to be adopted by a small number of employers with specialist objectives.
- Available today under established regulations.

WHOLE OF LIFE MULTI-EMPLOYER

- Can operate for “unconnected” employers in the same way as DC Master Trusts typically work today, or for sector-based groups of employers (eg care homes).
- Lower operating cost to the employer than a single employer scheme, and outsourced governance to the provider.
- Freedom for the employer to move away from CDC provision and leave the scheme in future.
- Regulations due imminently, with an anticipated launch date for the first schemes of around April 2027.

DECUMULATION ONLY

- Operates as an option at retirement for DC members, an alternative to an annuity or income drawdown.
- Expected to be available solely / primarily for workplace pension schemes at launch (not as a product for all consumers in the retail market).
- Could help pension schemes meet new default retirement income requirements in the Pensions Scheme Bill.
- More details expected soon on design options and timescales for regulations.

DESIGN FEATURES

ALL THREE DESIGNS FOLLOW THE SAME BROAD PRINCIPLES:

Investment and longevity risks are pooled amongst all members of the scheme.

Pooling investment risk across generations allows for a higher allocation to growth assets for longer than an individual DC member typically would adopt.

Pooling longevity risk means those members who live longest are protected from running out of money, funded by those members who die earlier.

Members build up a level of pension for each year of service. The amount reflects the value of their contributions and the cost of the benefit.

Pension income is designed to increase by at least inflation and provide a secure income for life, but it can decrease if the benefits are unaffordable.

Additional features such as dependants' pensions and death benefits can be included.

Members trade control, flexibility and the ability to pass on their unspent pension on death (as they would in DC) for a secure income for life.

MEMBER OUTCOMES

Our analysis shows that a 40-year-old member entering a whole of life CDC scheme could achieve a retirement income up to 50% higher than the income available through annuity purchase, based on current annuity prices.

Furthermore, a whole of life CDC scheme can offer a 30% higher and more secure income than a drawdown strategy typically used.

If the same member were to save via conventional DC in accumulation before joining a decumulation CDC scheme at retirement, they could increase their retirement income by 20-30% relative to annuity purchase or a typical drawdown strategy.

MEMBER VIEWS

We surveyed 1,000 DC pension members across the UK to understand how they feel about CDC.

80% would give up flexibility to receive a higher income overall.

The most valued benefits of CDC were:

- Protection against running out of money in retirement.
- Getting a higher overall pension from the same level of saving.

A small minority (4%) of respondents said that no aspects of CDC would appeal to them.

EMPLOYER PERSPECTIVE

Our 2025 research shows strong interest in CDC schemes among UK corporate pension decision-makers.

When asked what would appeal most about CDC, employers highlighted four key benefits in the following order:

- 1 | A pension offering that stands out from competitors.
- 2 | Higher pensions for members from the same contribution amount.
- 3 | Protection against members running out of money in retirement.
- 4 | Reduced burden of decision-making for members at and through retirement.

91% of respondents said they are likely to consider CDC or similar schemes for their business, up from 81% in 2024.

Our modelling indicates that an employer with 10,000 employees and a contribution structure of 5% / 7% could increase members' pensions by approximately 13% per year. At the same time, pension costs could decrease by £3.5 million annually by transitioning from DC to CDC and adjusting their contribution structure.



INTERNATIONAL EXPERIENCE

We looked at how similar schemes operated abroad, focusing in on Australia, Canada, Denmark and the Netherlands.

The main learnings we took were:

- 1 | Build in appropriate safety valves from the outset, and set expectations clearly.
- 2 | Consider the extent to which cross-subsidies are desired and acceptable, and design schemes accordingly.
- 3 | People's perception of fairness and transparency will dictate how schemes are viewed when things get tough.
- 4 | Understand the trade-off between seeking the greatest long-term returns and avoiding short-term income volatility.
- 5 | Tight annual funding limits can lead to avoidable benefit cuts – allowing buffers can reduce this volatility.

While the UK has learned from some of these, differences remain, and our regulations will involve a degree of compromise over competing features (eg allowing buffers v intergenerational fairness).

TIMESCALES

Whole of life multi-employer CDC

- Providers begin to design commercial CDC schemes – mid 2025.
- CDC regulations and code of practice expected – late 2025.
- The Pensions Regulator (TPR) assesses new CDC providers – 2026.
- Suitable providers receive authorisation from TPR – early 2027.
- Schemes launched and the first employers go live – mid 2027.



Scheme design and member outcomes

Employers, industry-wide schemes, own trust pension schemes and providers will have choices over the type of CDC scheme they could adopt.

We've looked at three main types of design:

- 1 | Standard DC
- 2 | Whole of life multi-employer CDC
- 3 | Retirement CDC

For CDC, members will be expecting a pension that delivers on the following promise:

- a reasonable level of benefit for the contributions being paid
- that broadly keeps pace with the increases advertised over time
- has a low chance of decreasing
- appears to be set in a fair way

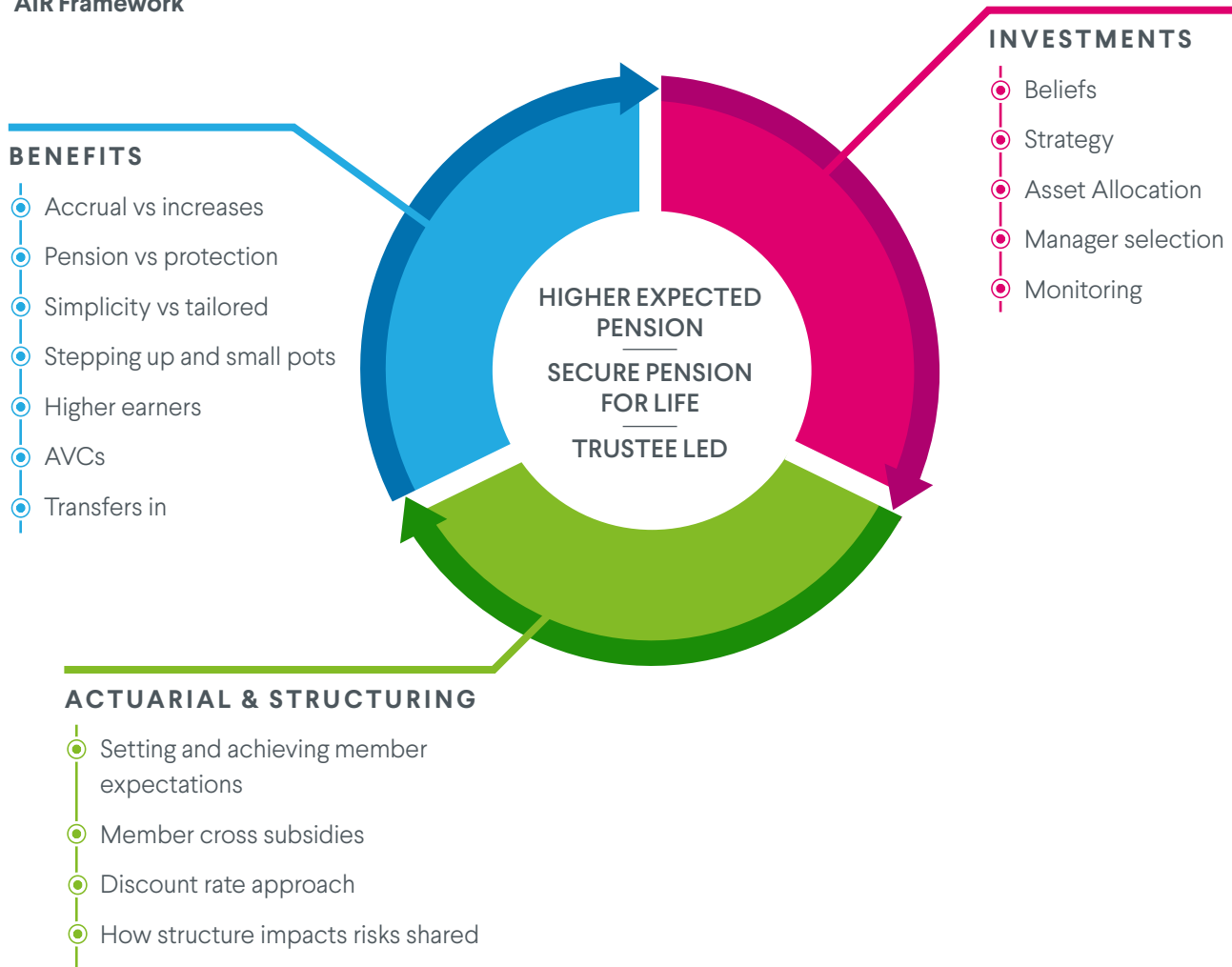
For providers designing schemes, some second-order design questions will be:

QUESTION	IMPLICATIONS
Simplicity vs tailored offering	• Experience suggests the largest schemes may demand flexibility. • Simplicity lowers operational cost, risk and increases scalability. • Variation can lead to structuring decisions (multi-sections or even multi-trust).
Pensions vs protection	• Impacts on how you integrate with existing (DC based) employer risk benefits. • Focus on higher pension/accrual rates or more generous protection benefits?
Accrual vs increases	• Do you seek higher accrual rates on day one, or higher increases which are less likely to go down in nominal terms?
Stepping up and small pots	• Do you allow auto-enrolment into the scheme on day one for employers? What are the cost implications for small pots?
Additional Voluntary Contributions (AVCs)	• Do you allow within the scheme? On a CDC or DC basis?
Transfers in	• How do you support the bulk transfer of existing DC savings?

These design choices, alongside the investment strategy, will lead to differentiated propositions across providers. We expect the industry will innovate rapidly as employers continue to engage and decide on their priorities, and we see which propositions build early momentum in this new market.

Our proprietary CDC Applied Integrated Risk (AIR) framework has been used to optimise the CDC design outcomes in the analysis that follows.

AIR Framework



For the modelling, we've assumed a 40-year-old earning £35,000 a year and with total employee and employer contributions of 12%. We've used relatively simple but realistic investment strategies across the different designs, but those strategies are not recommendations and should not be considered as optimal in any sense.



More details of the assumptions can be found in the appendix.

DC SCHEME

Scheme	£500m AUM own trust DC scheme
Design	• Lifestyle strategies targeting annuity purchase and drawdown are available to members. • Both lifestyles are fully invested in 100% equities until 10 years from retirement. • The annuity lifestyle derisks to 100% bonds at retirement, the drawdown strategy to 40% equities and 60% bonds. • In scheme drawdown available at retirement or transfer out.
Benefits	• Familiar to lots of savers. • Flexibility through retirement. • Unspent pot can be passed on to family on death (under income drawdown). • Ease of portability. • Scale and DC market maturity.
Other considerations	• Significant responsibility on the member for decision-making. • Projected retirement income amounts based on an optimal strategy. • Members' decision making and real experience can lead to lower amounts. • Likely members will either underspend (with the remaining potentially subject to inheritance tax) or overspend (and run out of money in retirement).

WHOLE OF LIFE MULTI-EMPLOYER CDC

Scheme	50 employers and £10bn AUM
Design	• Age-related pension accrual with increases targeted to CPI inflation. • Investment strategy is 60% equities, 20% private markets, and 20% corporate bonds, derisking to 80% equities and 20% corporate bonds at age 80.
Benefits	• Opportunity to improve outcomes from: – investing in growth assets for longer; and – pooling longevity risk. • Simple “do it for me” member experience removes difficult decision-making. • Accessible to most employers (not reliant on their size alone).
Other considerations	• Less flexibility for members. • No unspent pot to pass on to family on early death (potential for dependant’s pension instead if included in the design). • Final regulations and guidance needed before schemes can go live.

RETIREMENT CDC

Scheme

£1bn AUM decumulation only CDC scheme

Design

- Investment strategy is 50% equities, 50% corporate bonds.
- Members entering the decumulation CDC scheme are assumed to have been invested in a DC drawdown lifestyle strategy in accumulation.

Benefits

- Opportunity to deliver higher pensions from pooling longevity risk.
- An option for DC members who need to boost their income at retirement.
- Security – designed as an income for life with inflation protection.

Other considerations

- Benefits offered must outperform other market options at any time to attract members.
- Viability of schemes with poor initial experience is questionable.
- Time is needed to build assets before accessing the best investment options at competitive fees.

There are many ways to assess member outcomes across different retirement solutions. Making the right choice is about striking an appropriate balance between competing objectives, rather than finding a 'silver bullet' solution that performs best in every possible respect. In our assessment of member outcomes, we consider:



Income sustainability – providing an income that can be maintained throughout retirement



Income protection – insulating the member's income from heavy losses



Income stability – avoiding changes in income from year to year



Income flexibility – the capacity to draw more (or less) income in some years



Bequest provision – the ability to leave an inheritance to loved ones

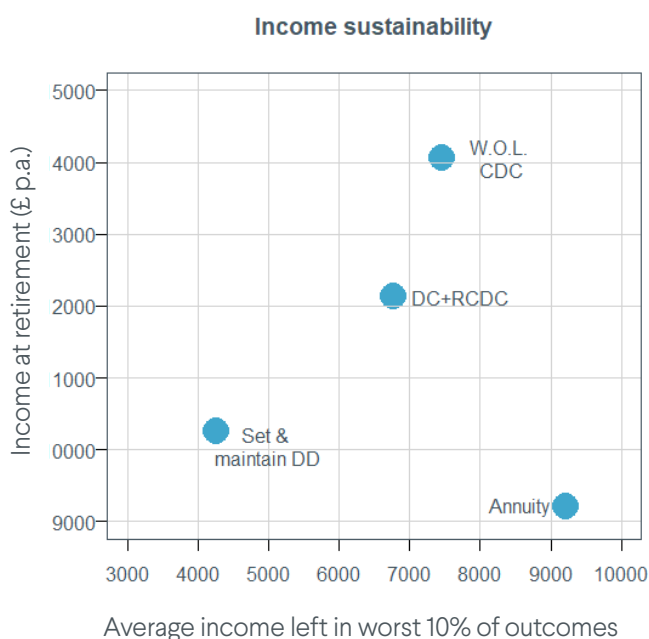


Resilience – navigating turbulent markets and significant events

In the next chart, we plot the income our sample member could reasonably expect to receive in the first year of retirement across the different structures, versus how much income might be remaining after 20 years if markets perform poorly¹.

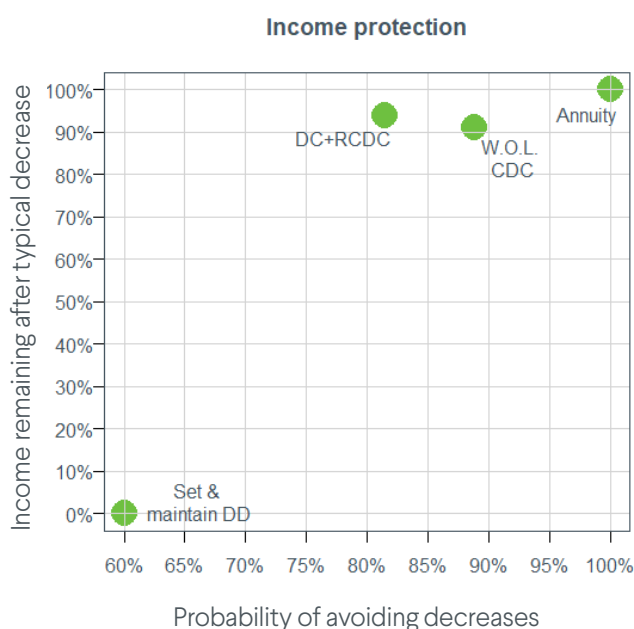
We won't know exactly how retirement CDC schemes will work in practice until more details are published. To give an illustration of its potential, we've made some broad assumptions about the scheme design and valuation methodology. The financial performance of retirement CDC schemes depends significantly on the assumptions we have made. In reality it could be better or worse than our illustration.

¹Defined as the average of the worst 10% of outcomes. An income at risk of 30% means that, in a poor outcome, the average income in the first 20yrs of retirement could be 70% of the initial income



- Buying an annuity gives a guaranteed income, but it's usually lower than what members could achieve through other, higher-risk options.
- On average, CDC outperforms the conventional DC options by up to c.50%. Incomes are boosted by the impact of longevity pooling and taking more investment risk for longer. In downside scenarios, more income remains than for our drawdown model.
- The drawdown strategy we've modelled assumes that the member sets an initial income and maintains that income, with inflation increases, throughout retirement. The initial income is set so that the member has a good (60%) chance of not exhausting their savings before death. The income at risk of this strategy is high because, in poor outcomes, the member will exhaust their fund within the first 20yrs of retirement.

Next, we assess the extent to which the different structures help the member avoid decreases in income and assess the typical impact if decreases do occur.



- Annuity purchase performs best through an income protection lens because it provides a guaranteed income.
- By design, the member's drawdown strategy gives the member a 60% chance of avoiding decreases but, when decreases occur, the member's pot is completely exhausted.
- The CDC options give the member a 80-90% chance of avoiding pension decreases and the typical impact of a decrease is reasonably modest compared to drawdown.

Other points for scheme design key features that all impact on the overall level of income in retirement:



Dependants' benefits – Will there be accrual for a dependant pension, and if so, at what level. Would this be a standard option or something a member can opt-into?



Guarantee periods – Will an income in retirement be provided for a minimum guaranteed period?



Ill health retirement benefits – What level of benefit will be paid should a member become seriously ill?



Early, late or partial retirement options – Will there be any flexibility as to when someone can start taking an income from the scheme?



Transfer values – If members are to transfer their benefits in or out of a CDC scheme, on what basis will their benefits be calculated?



Additional voluntary contribution (AVCs) – Will a member be able to pay more than the contribution levels set and if so, at what rate and what benefit will they accrue?



Investment strategy

A good investment strategy meets investors objectives whilst efficiently managing the risks along the way. In CDC, the specifics of that investment challenge can differ depending on the type of CDC scheme, benefit design and investor (and provider) risk appetite.

Whilst the specifics of investment implementation across potential design structures may differ, it is possible to adhere to some consistent investment principles across the board, such as:



Objectives
provide context



Risk should
be rewarded



Diversification
provides stability



Markets are
dynamic & offer
opportunities



Plan for
the worst



Good governance
is a must

Alongside, and consistent with, these investment principles, designing and agreeing on a set of investment beliefs drives the asset allocation design. Different schemes will have different beliefs but some key areas to consider are:



Views on market returns and risk - balancing upside vs downside

A successful CDC Scheme will be targeting a pension that is higher than a typical DC pension, with sufficient stability that there is a low chance of a nominal decrease to members' benefits. Target accrual rates, realised investment returns, and the likelihood of pension increases or cuts are all factors that impact the view on the appropriate balance of risk and return within the strategy.

It may be especially important to reduce the chance of a decrease in the early years. The proportion of growth assets in your strategy is the biggest driver of this. Diversification in alternative growth and use of non-linear products like structured equities could all have a role to play. This mix will need to evolve over time.



How to approach private market investment

Private market investment has the ability to improve member outcomes, but they are more complex and more expensive than listed assets. An agreed approach to assessing and monitoring these asset classes is needed to inform the choice of implementation (multi-asset, single sleeve, best of breed manager approach etc).



Embedding responsible investment

You'll need to take a view on how strongly to embed environmental, social and governance (ESG) criteria into the portfolio and to do so in a manner consistent with your (and your members') beliefs. Your climate and other goals will be intrinsic to setting this strategy. Strategies, such as impact funds, biodiversity and nature, may all have a role to play.

Our approach is to use clearly defined frameworks that reflect the three attributes of responsible investment – intent, integration and engagement. This allows us not only to be objective, but also to allow standards to evolve.



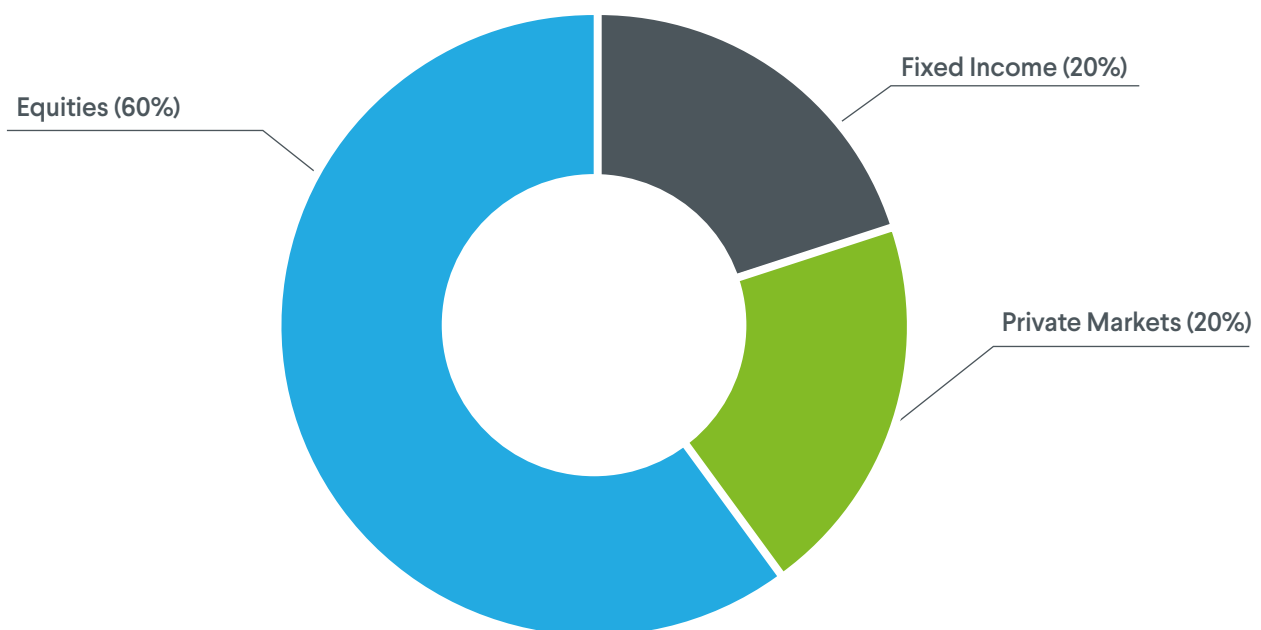
Focus on value, not cost

Ideally, you'll want to invest for better outcomes, not just to keep charges low. However, the success (and size) of the CDC scheme will also help deliver better member outcomes, so being competitive in relation to charges is important.

OUR VIEW ON INVESTMENT STRATEGY

Strategic asset allocation (SSA)

A simplified, high-level view for a whole of life (WOL) CDC scheme asset allocation could be:



ASSET CLASS IMPLEMENTATION

There'll be variations to this SAA for different risk tolerances and different scheme types (WOL, decumulation only, different sections within multi-employer schemes etc) but in terms of implementation, our preferences set out below would be relatively consistent across these.

Equities	• A tailored index approach that is aligned to investment beliefs (including climate objectives) • A conscious approach to regional and sector allocation – particularly US and tech • A (near) zero cost by using Total Return Swaps with a Banking counterparty • Partially hedged • A potential allocation to a structured approach that limits downside risk (most likely to be applicable in the early stages of scheme maturity)
Fixed income	• A diversified allocation across the liquid asset classes of Investment grade, Emerging Markets, High Yield and Asset Backed Securities (ABS) • A preference for asset allocation between asset classes in line with relative value and opportunities
Private markets	• A diversified allocation to private debt, private equity, infrastructure and real estate • A preference for single-sleeve implementation and top-tier managers
Net zero alignment	• Clear objectives and approach with temperature-aligned targets that are achieved through investments that have real real-world impact • An allocation to natural capital solutions in proportion to the objectives that have been set



Member view

In 2024, we carried out research of 1,000 DC scheme members across the UK to understand how they feel about CDC schemes. Our objective was to gain independent insight and their views on some of the trade-offs involved. We found a strong appetite for the features CDC offers.

78% would give up some flexibility with their pension to secure a guaranteed income in retirement and **80%** would give up flexibility to receive a higher income overall.

The most valued benefits of CDC were protection against running out of money in retirement (48%) and getting a higher overall pension from the same savings (46%).

This shows members see CDC as an opportunity to improve both security and adequacy, two areas where traditional DC schemes can struggle.

Our research also found that confidence in CDC grows with government involvement, with **63%** stating they'd find CDC more attractive if it were promoted through a government initiative.

Balancing this with the potential trade-offs, respondents seem realistic about what it takes to secure better outcomes. When asked if they'd accept a reduction in income in any year for a higher pension overall, they said:

- **32%** would accept a 1–2% drop in income in some years for a higher overall pension
- **34%** would accept a 3–5% drop for a higher income in most years
- **11%** would be comfortable with a reduction of more than 5%

Only 12% said they wouldn't accept any reduction in income in a single year, even if it meant a higher overall payout. A further 10% were unsure.

When asked how they feel about different generations receiving different retirement incomes, **62%** responded that they are comfortable – if their own pension is better than it would have been elsewhere.

This suggests members understand that collective approaches require sharing both risk and reward and are willing to do so if it leads to a better outcome.

These results were both interesting and reassuring. There appears to be a wide appetite for CDC amongst scheme members, though some remain cautious. A higher and guaranteed retirement income from the same pension contribution is a compelling draw to scheme members whilst others want to understand more about how safeguards will work and what level of control they'd retain.

POSITIVE

"I am likely to appreciate the collective aspect of CDC schemes, where risks and rewards are shared among members. This aligns with my pragmatic and risk-averse nature, as I would recognise that pooling resources and sharing risks can lead to more stable and predictable outcomes."

"This scheme provides great benefits and security for people after they retire."

CONCERNED

"I am aware that this is something that the government are considering as it would unlock investment for the country but I would want to understand more about the safeguards – having a minimum level below which the income was guaranteed not to drop would probably make people feel more positive about the scheme."

"I prefer being in control of my investments"

Employer perspective

Through our engagement with clients, it's clear there are three main drivers of interest in CDC from employers:

- **Delivering a better employee value proposition**
– paternalistic employers who want to do better for their people in retirement provision
- **Commercial benefit** – reshaping pension provision to reduce costs or enhancing benefits for the same spend to attract and retain talent eg retail sector
- **Sector-based approach** – leveraging scale from common employers in a single industry eg transport

Our 2025 research shows strong interest in CDC schemes among UK corporate pension decision-makers. When asked what would appeal most if their pension scheme converted to CDC, employers highlighted four key benefits in the following order:

- a pension offering that stands out from competitors
- higher pensions for members from the same contribution amount
- protection against members running out of money in retirement
- reduced burden of decision-making for members at and through retirement

Only 1% said nothing about CDC would appeal to their company. This confirms CDC's broad appeal to offer a competitive edge, improve member outcomes and simplify retirement decisions.

Appetite for CDC is growing – In both 2024 and 2025, most respondents saw benefits in a risk-sharing scheme, but interest has grown: **91%** said they are likely to consider CDC or similar schemes in 2025, up from **81%** in 2024. Nearly half said they are “very likely” to do so. This reflects ongoing regulatory and market developments, and a shift in how employers view their role in supporting retirement outcomes.



SECTOR DIFFERENCES

Interest in CDC was strongest in finance, IT & telecoms, and healthcare, with more than 95% of respondents in these sectors saying they are likely to consider CDC.

Retail, catering and leisure, and manufacturing sectors were also positive, though slightly less likely than finance and IT in their interest to adopt CDC. Education and arts & culture sectors also showed strong interest, with around 85–90% likely to consider CDC.

CDC is gaining momentum as a practical and appealing solution for employers who want to offer better retirement outcomes, reduce complexity for members and stand out in a competitive market.

ILLUSTRATIVE DESIGN EXAMPLE

Workforce – 10,000 employees with average pay of £35,000 a year

Current DC design – employee contributions 5% / employer contributions 7%

40-year-old earning £35,000 a year

Expected pension under DC – £9,600 a year

OPTION 1

Retain current contribution structure and move to whole of life CDC

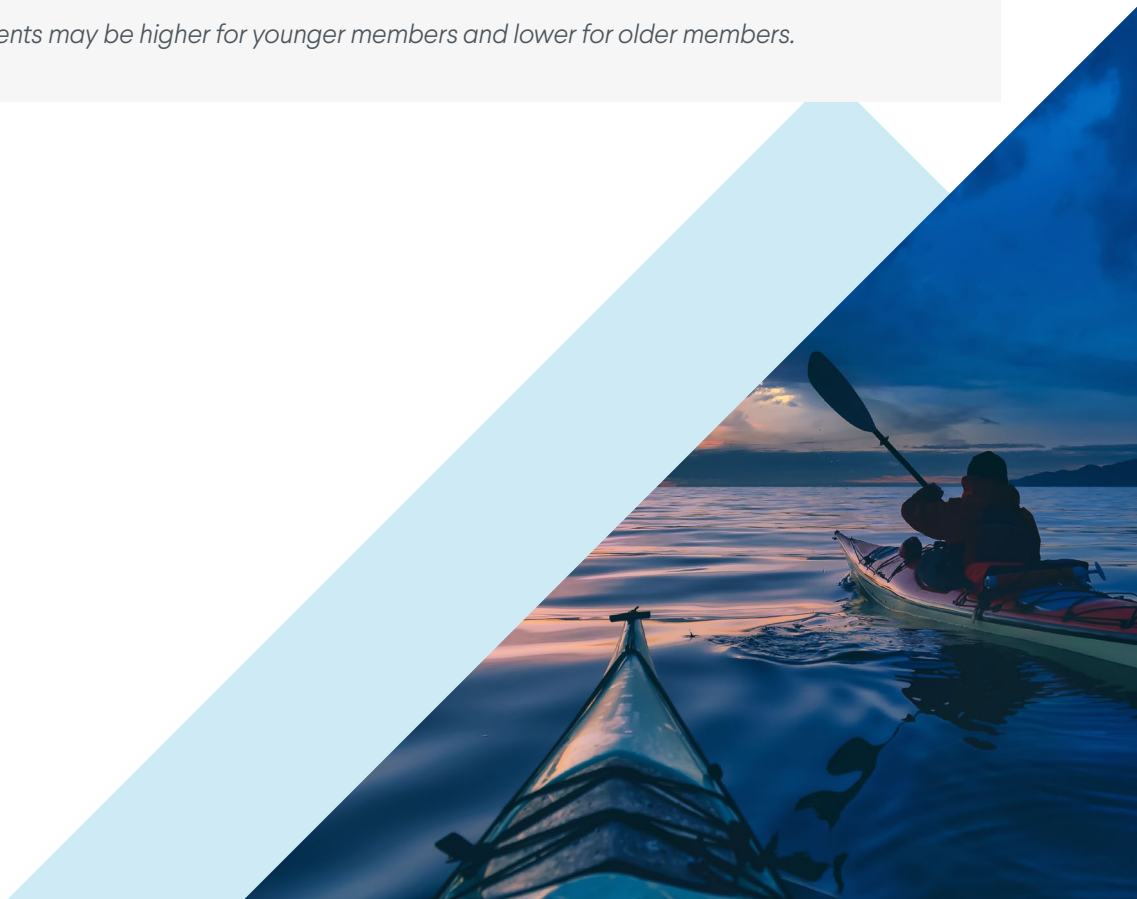
- Expected member pension – £11,900 a year (ie 23% increase in outcome for a 40 year old*)

OPTION 2

Introduce whole of life CDC and share benefits between employer and members

- Employee contribution 5% / employer contribution 6%
- Expected member pension – £10,900 a year
- Employer saving – circa £3.5m a year

**outcomes improvements may be higher for younger members and lower for older members.*



International experience

Forms of risk sharing in DC-type pension arrangements have been operated in other countries for some time. We explored how they were structured, what worked well and what didn't.

Our main learnings were:

1. Build in appropriate safety valves from the outset, and set expectations clearly.
2. Consider the extent to which cross-subsidies are desired and acceptable, and design schemes accordingly.
3. People's perception of fairness and transparency will dictate how schemes are viewed when things get tough.
4. Understand the trade-off between seeking the greatest long-term returns and avoiding short-term income volatility.
5. Tight annual funding limits can lead to unneeded benefit cuts – allowing buffers can mitigate against this volatility.

How does UK's version of CDC compare?

The regulations are not yet finalised, so we do not have the complete picture here yet. We expect that:

1. Safety valves and expectations – benefit adjustments will be made for all members if performance is below par. Communication with members will be key.
2. Extent of cross subsidies – these will be limited in practice, with each member accruing a level of benefit relative to them for a given cost.
3. Fairness and transparency – the lower cross-subsidies and benefit design are structured to be fair to all members.
4. Trade-off between returns and volatility – a matter of individual scheme design and investment strategy to get the balance right.
5. Annual funding limits and buffers – buffers are not expected to be allowed, meaning higher volatility of benefits.

International CDC models show that while risk sharing can improve outcomes, it can be complex and has potential for perceived unfairness. Member trust depends on clear communication, robust governance and a transparent approach.

“Only a fool learns from his own mistakes. A wise man learns from the mistakes of others”

Otto Van Bismark, German statesman and diplomat.

Netherlands Going Dutch: are risks better shared?

- Historically, pensions were delivered via large industry-wide DB funds with strong risk-sharing, conditional indexation, and financial buffers eg CDC.
- Dutch pension act 1 July 2023 marked a shift away from DB and CDC to DC.
- New pension system mandates all workplace pensions to follow DC principles.
- Transition period until 2028; existing accrued rights must be converted into new framework ("invaren").
- Two DC contract types (which employers must choose between).
- **Solidarity contract**
 - Members' benefits are paid from personal pots, but smoothed through collective mechanisms.
 - Longevity risk is shared via pooling at the retirement stage.
 - The amount of benefit paid can vary each year, based on investment returns, but is smoothed to avoid sharp fluctuations using a solidarity reserve buffer.
- **Flexible contract**
 - Members use their personal pension pot to buy a Variable Benefit Annuity. Monthly pension is based on an individual's pension pot, expected returns and life expectancy. Payments fluctuate more directly with market performance and longevity assumptions.

Canada Longevity Pooling: yes you Can(ada)

- Pension provision varies across different provinces.
- Various forms of CDC / DC risk sharing have been in place for decades.
- **Target Benefit Plans** in place.
- DB multi-employer with benefits adjusted up or down as funding position changes.
- Current attention focused on a fair treatment for provision of adverse deviations (PfADS) and how to communicate effectively to members.
- University of British Columbia Faculty Pension Plan (UBC FPP) **UBC FPP** is a longevity pooling concept in place since the 1960's.
- Members can purchase a Variable Payment Life Annuity where an exposure to growth assets is retained and payments vary based on investment performance and longevity experience of the pool.

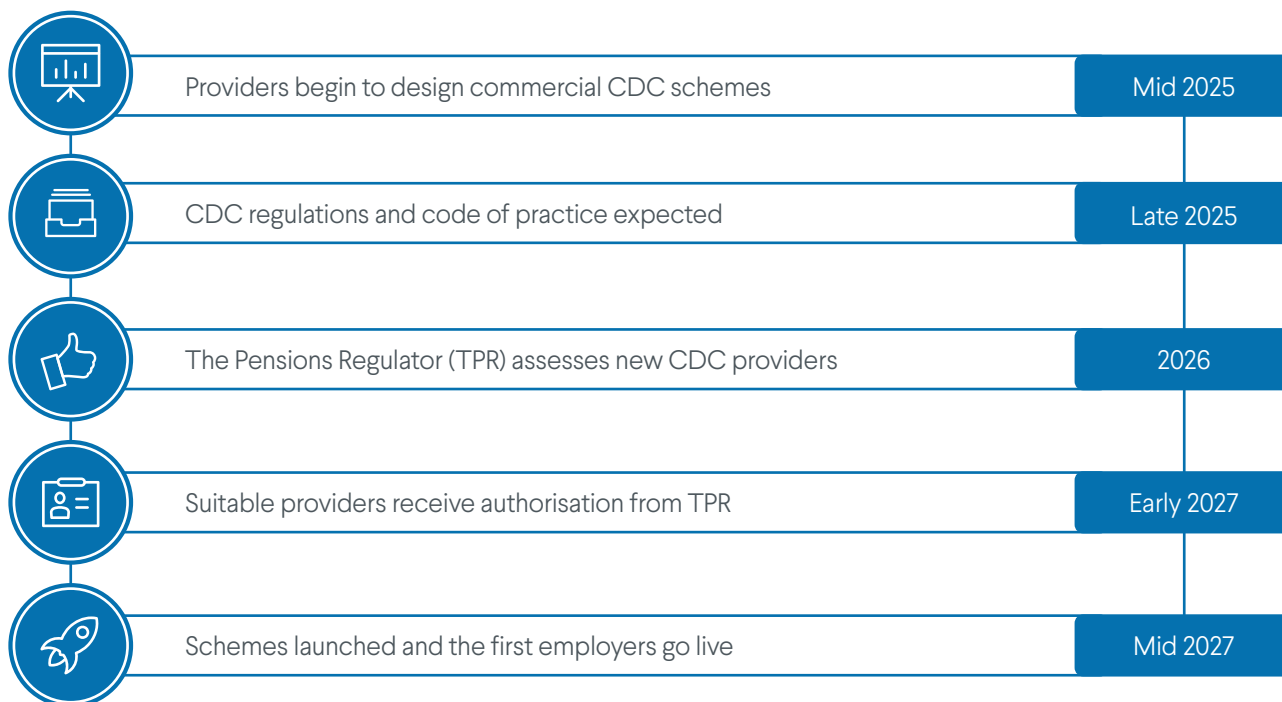
Australia Risk sharing down under – lessons from Australia's superannuation system

- Mandatory DC “Super” schemes with a current employer savings rate of 11.5%.
- 90% of the A\$3.5tn retirement savings in DC funds.
- At least two forms of CDC in place today.
- The Australian Retirement Trust (ART) allows members to convert DC pot into an income for life at retirement.
- Investments are then pooled with a target return of CPI+4%.
- Income is adjusted up or down based on performance, with a mortality adjustment mechanism too.
- Since inception in 2020 annual income adjustment has ranged from -6.89% to +7.53%.
- Unisuper lifetime income with fixed contributions 14% employer and 7% employee.
- Build up a salary-linked lump sum with the option to convert this to a CPI-linked income at retirement.
- If funding levels fall below 100% trustees enter a monitoring period and can cut benefits.
- Such periods occurred in 2008, 2011, 2012 and 2013 but benefits were only cut in 2008.
- Surplus can be built up to act as a buffer against reductions when things fare less well – this prevented more benefit cuts than would otherwise have been the case.

Denmark CDC in Denmark: an alternative state pension | Hymans Robertson

- Pension system set to deliver the highest level of replacement rate for low earners across the whole of the OECD.
- Part of this is funded by the mandatory “ATP” for those aged 16 to 67.
- Contributions paid 2/3rds employer and 1/3rd employee with a total of around £400 a year.
- Pays a guaranteed income for life from a future date linked to population life expectancy.
- Also pays a distribution of bonuses based on the assets of the scheme relative to liabilities.
- In today's terms, employees paying £11 a month for their working life receive an additional £2,900 a year in retirement.
- Benefits do not differ by socio-economic status, so the longer lived (typically better off) are rewarded at the expense of others.

Timescales for whole of life multi-employer CDC



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Appendix – modelling assumptions, reliances and limitations

MEMBER OUTCOMES MODELLING

Our outcomes analysis is based on a 40-year-old member earning £35k pa, with a total annual contribution rate of 12% and planning to retire at 65.

The modelled whole of life multi-employer CDC scheme is made up of equal numbers of members at all integer ages from 20 to 64. All members earn £35k pa and the scheme contribution rate is 12% pa.

When a 65-year-old member of the CDC scheme retires, they are replaced by a 20-year-old with the same (real) salary.

The member is assumed to join the modelled decumulation CDC scheme at 65 after accumulating in conventional DC. All members joining the decumulation CDC scheme each year are 65 years old.

All members are assumed to survive until their retirement age of 65.

Benefits across all structures are single-life and increase with inflation.

The investment strategies and fees modelled under the different structures are as follows:

Conventional DC + Annuity purchase: the member is invested in an annuity lifestyle strategy that is fully invested in equities until 10 years from retirement, at which point it starts to derisk towards 100% bonds at retirement. Conventional DC fee is 30 basis points (bps) pa.

Conventional DC + drawdown: the member is invested in a drawdown lifestyle strategy that is fully invested in equities until 10 years from retirement, at which point it starts to derisk towards 40% equities and 60% bonds at retirement. Conventional DC fee is 30 bps pa. Drawdown fee is 40bps pa.

Whole of life CDC: the scheme investment strategy is 60% equities, 20% private markets, and 20% corporate bonds until age 80, at which point it derisks to 80% equities and 20% corporate bonds. Whole of life CDC fee is 60bps pa.

Conventional DC + decumulation CDC: the member is invested in a drawdown lifestyle strategy. When the member retires, they join a decumulation CDC scheme, which is invested in 50% equities and 50% corporate bonds. Decumulation CDC fee is 75bps pa.

ECONOMIC SCENARIO SERVICE

The distributions of outcomes depend significantly on the Economic Scenario Service (ESS), our (proprietary) stochastic asset model, calibrated to market conditions at end March 2026. This type of model is known as an economic scenario generator and uses probability distributions to project a range of possible outcomes for the future behaviour of asset returns and economic variables. Some of the parameters of the model are dependent on the current state of financial markets and can be updated each month (for example, the current level of equity market volatility) while other more subjective parameters do not change with different calibrations of the model.

Key subjective assumptions are the average excess equity return over the risk-free asset (tending to approximately 3.5% pa as the investment horizon is increased), the volatility of equity returns (approximately 18% pa over the long term) and the level and volatility of yields, low risk spreads, inflation and projected (breakeven) inflation, which affect projected bond returns. The output of the model is also affected by other more subtle effects, such as the correlations between economic and financial variables.

While the model allows for the possibility of scenarios that would be extreme by historical standards, including very significant downturns in equity markets, large systemic and structural dislocations are not captured by the model. Such events are unknowable in effect, magnitude and nature, meaning that the most extreme possibilities are not necessarily captured within the distributions of results.

Given the context of this modelling, we've not undertaken any sensitivity analysis to assess how different the results might be with alternative calibrations of the economic scenario generator.





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