



November 2025

CDC INSIGHTS - PART 1: THE GROWTH OF COLLECTIVE DEFINED CONTRIBUTION SCHEMES

Collective Defined Contribution (CDC) arrangements, as an alternative to defined contribution and defined benefit schemes, operate on the basis that members pool their DC funds to allow risk sharing between members in order to achieve a targeted income in retirement. The trustee (rather than the individual) manages the income payments during retirement; the level of which can be adjusted annually based on the investment performance of the collective fund.

Although CDC schemes do not guarantee fixed benefits, the Government's impact assessment suggests that retirement incomes may be 20% to 60% higher than those provided in DC arrangements.

The Government is introducing CDC in three phases. The first phase allowed single or connected employers to form a CDC scheme. Although this phase completed in August 2022, the Royal Mail is currently the only employer to have set one up.

Phase two will allow unconnected multi-employer schemes to participate in "whole-life" CDC schemes. Whole-life schemes are those that allow employers and employees to contribute to the scheme during an employee's working life and they will also offer retirement benefits. The Government published draft regulations that will implement this phase from 31 July 2026, and we expect several large commercial CDC schemes to emerge quickly after that date.

Finally, phase three will extend CDCs to 'retirement only' schemes, available for pensioner members only, meaning that there will be no need to facilitate accrual via ongoing employer or employee contributions. In effect, this will be a decumulation option that DC scheme trustees can offer as an alternative retirement option for their DC members. The consultation for this phase opened in October, with an expectation that draft regulations will be published in 2027 and come into force in 2028.

The completion of phases two and three will open CDC to a much wider market and represents a major step forward in terms of what the pensions landscape might look like in 10 to 15 years. Employers and DC scheme trustees will no doubt follow these developments with interest.



PHASE 2

Unconnected multi-employer CDCs

In October, the Department for Work and Pensions published draft regulations – together with its response to the industry consultation – that will allow unconnected employers to join a CDC scheme.

“We need fewer, bigger and better schemes and collective funds are a key part of that,” said Torsten Bell, Minister for Pensions, in the Ministerial Forward to the response.

How will CDC arrangements work in practice?

In order to operate as a CDC arrangement, the fund will need to apply for authorisation from the Pensions Regulator. The process of obtaining authorisation is expected to take around 6 months, and various procedural requirements must be met:

- + The people involved in the CDC must be ‘fit and proper’, including anyone operating as the Chief Financial Officer, the Chief Investment Officer, the scheme proprietor or any person who promotes or markets the unconnected multi-employer scheme. The test is defined in the regulations and requires various confirmations, including that the person does not have a criminal record or has not been bankrupt or managed a company that has gone into insolvency.
- + The Regulator will need to confirm that the scheme design is appropriate, that it is financially sustainable with adequate, effective systems and communications processes and that it has an adequate continuity strategy, setting out how the scheme intends to proceed following a significant (or ‘triggering’) event such as insolvency or a warning notice from the Regulator.

CDCs will also be subject to marketing and communications restrictions, such as not overpromising or sending out misleading information, the test for which will be determined by the Regulator.

As part of the authorisation requirements, trustees will also need to declare that they have not promoted or marketed the scheme, which includes information sent for the purpose of inducing an employer to use the scheme.

The Regulator is due to consult on a revised code of practice that will detail the authorisation requirements for new CDC schemes. We look forward to seeing this new code to understand more about trustee requirements and restrictions.

PHASE 3

Retirement CDCs

On the same day as the release of the phase two regulations, the DWP also opened a consultation on phase three: ‘Retirement CDCs’.

Retirement CDCs are intended to be trust based, likely a section of a master trust or part of an unconnected multi-employer scheme, into which DC pots can transfer at the point of retirement. They will admit pensioner members only, and (like all CDCs) will offer income for life at a variable, but targeted, benefit level, thereby eliminating the need for the member to manage their pot in retirement.

Why are retirement CDCs needed?

Under the Pension Schemes Bill 2025, trustees will have a duty to provide default retirement options (see our article on page 7 for more information about default retirement).

However, not all schemes will be able to offer these options and so alternative solutions (under other arrangements) will be needed, and a Retirement CDC arrangement could be one such solution. Under the proposed new rules, trustees will be able to transfer members, without consent, if:

- + it is not reasonably practicable for the trustees to design and make available benefit solutions within the scheme; and
- + the trustees have determined that a qualifying scheme will provide a better outcome for the members than any option they can provide.

In many cases, the requirements for Retirement CDCs will be the same as for phase two’s ‘whole-life’ unconnected multi-employer CDCs. For example, the authorisation and communication requirements and restrictions are intended to apply across both types of CDC.



The Government is keen to encourage flexibility and not over-regulate what the benefits package might look like in a Retirement CDC, however, the consultation states that level (or flat rate) pensions should not be offered. Instead, the suggestion is that a Retirement CDC should seek, as a minimum, to target CPI increases on pension income.

The DWP expects trustees offering a Retirement CDC as an option, to give members information at least 4 months prior to their scheduled retirement date. The information will need to include certain details, such as:

- + that the Retirement CDC will aim to provide an income for life,
- + a target benefit rate, and
- + to explain that the rate of benefit may fluctuate as it is not guaranteed.

A key feature of the current proposal is that Retirement CDCs will only be available to trustees as a decumulation option; there will be no retail market, meaning that members will not be able to access this option directly. It will be interesting to see if this changes over time.

WHEN WILL WE KNOW MORE?

- + We are still in the early stages of phases two and three, and we look forward to seeing further information, codes and legislation, explaining how CDCs will work in practice. We will continue to provide updates as and when further information is released.
- + Phase three's Retirement CDC [consultation](#) will close in early December.
- + The Pensions Regulator's consultation on revisions to the CDC code of practice is due to open imminently.
- + The draft regulations for implementing the measures for Unconnected Multi-Employer CDC schemes are scheduled to be published on 31 July 2026, after the Pension Schemes Bill 2025 comes into force. The full name of the draft regulations is the Occupational Pension Schemes (Collective Money Purchase Schemes) (Extension to Unconnected Multiple Employer Schemes and Miscellaneous Provisions) [Regulations](#) 2025.
- + Draft regulations for phase three are expected to be laid in 2026 and published in 2027.

CONTACT US



STEPHEN RICHARDS

Partner

+ 44 20 7809 2350
stephen.richards
@stephensonharwood.com



ESTELLA BOGIRA

Partner

+ 44 20 7809 2298
estella.bogira
@stephensonharwood.com



PHILIP GOODCHILD

Partner

+ 44 20 7809 2166
philip.goodchild
@stephensonharwood.com