

4 December 2025

Context for our response

We welcome the opportunity to provide our comments on the Consultation on Retirement Collective Defined Contribution pension schemes.

The Law Debenture Pension Trust Corporation p.l.c. acts as trustee for over 230 pension schemes, operating as one of the longest established and largest UK providers of pension trustee services.

It is in our capacity as a professional pension trustee firm that we provide this response. We do not make this submission on behalf of the trustee boards on which we serve, whose views are not necessarily the same.

Consultation questions

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

We recognise that Retirement CDC schemes will face different investment challenges when compared to whole-life CDC schemes, primarily due to the absence of an accumulation phase and the requirement to commence benefit payments at once upon inception.

Investment strategies will need to maintain sufficient liquidity to meet ongoing benefit obligations, whilst balancing this with the need for growth required to target the increases through retirement. We believe this challenge can be effectively managed through appropriate investment design and is not dissimilar to the investment challenges faced by many mature DB pension schemes.

From a trustee governance perspective, establishing and monitoring appropriate liquidity metrics and associated risk metrics will be key. Trustees will need robust frameworks to assess liquidity on an ongoing basis, with contingencies and plans in place for times of concern. This becomes particularly important where schemes permit transfers out, under certain conditions. This could create additional liquidity pressures,

particularly during periods of market stress, when members may be more inclined to exercise transfer rights.

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.

Whilst we do not wish to provide explicit cost estimates, we anticipate that both establishment and running costs for Retirement CDC schemes are likely to be higher than those for traditional DC schemes or whole-life CDC schemes.

Several factors will drive these additional costs, including the annual actuarial valuation, specialist expertise and the framework to support the robust governance structures in this set up. Member communications will require particular investment given the new nature of this benefit structure and its complexity to ensure members understand both the opportunity and the risks.

We believe scale will be critical to viability, as without sufficient membership the cost burden per member could become prohibitive. This reinforces the importance of regulatory frameworks that encourage appropriate scale whilst maintaining member protections.

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?

We support the principle that the core governance and sustainability requirements for CDC schemes should apply to Retirement CDC arrangements. However, we think there is scope to amend the emphasis of these requirements to reflect the operational differences between whole-life CDC schemes and Retirement CDC schemes.

Requirements we agree remain unchanged:

- Governance and Fitness: Trustees must demonstrate competence, propriety, and robust decision-making processes.
- Financial Sustainability: Projections and stress testing remain essential to ensure benefit stability.
- Risk Management Framework: Required for investment and longevity risks.
- Continuity Strategy: A clear plan for triggering events, including wind-up or transfer options.
- Member Communications: Transparency about benefit variability and adjustment mechanisms.

Requirements we suggest are amended:

- **Contribution Strategy:** Remove requirements related to collecting ongoing contributions and managing active members, as Retirement CDC operates only in the decumulation phase.
- **Intergenerational Fairness:** We would welcome further thought on intergenerational fairness, as there may be considerations between cohorts.
- **Long-Term Projections:** Replace decades-long modelling with shorter-term projections (decades long) based on mortality and investment assumptions for retirees.

Additional Requirements for Retirement CDC which we would welcome:

- **Conversion Terms:** Clear rules for converting DC pots into Retirement CDC income, including assumptions and methodology.
- **Longevity Risk Management:** Detailed approach for handling mortality assumptions and benefit adjustments.
- **Closed Cohort Sustainability:** Specific stress tests for scenarios such as higher-than-expected longevity or poor investment returns.
- **Communication at Entry:** Strong emphasis on explaining risks and variability of income at the point of joining.

Most governance and sustainability requirements should apply, but accumulation-related elements can be removed. Additional provisions should be introduced for conversion processes, longevity risk, and closed cohort management. The business plan for Retirement CDC should be simpler in scope but go into more depth on payout sustainability and risk communication.

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?

We are not in a position to comment on this question.

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?

We support the proposed adaptations to prohibit promotion or marketing to prospective and existing members of Retirement CDC schemes. This approach sensibly mirrors the restrictions already in place for Master Trusts and provides important protections for vulnerable members while reducing the risk of mis-selling.

We assume these adaptations will not restrict trustees of DC schemes from sharing factual information about Retirement CDC schemes with their members, particularly where such important information is supplied by the trustees of the Retirement CDC scheme and where the scheme forms part of the DC scheme's default retirement solution. However, we do think a clear framework to distinguish between factual information and marketing will be helpful.

Whilst we are supportive, we recognise that this approach may create certain challenges. The lack of marketing visibility could result in reduced member trust, as members may be unfamiliar with Retirement CDC scheme providers due to limited brand exposure. This could particularly affect member confidence when considering transferring significant pension savings at retirement.

The approach could also reduce transparency of available options for members approaching retirement. We do believe this can be effectively managed through robust governance arrangements and clear guidance on best practice communications.

Trustees will need to ensure that members still receive comprehensive, balanced information about the available retirement options, including the features, benefits and risks, whilst avoiding direct promotional activity.

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 believe the institutional framework proposed for Retirement CDC access provides meaningful member protections. Trustees bring professional due diligence, fiduciary duties, and operate within established authorisation and regulatory frameworks. These multiple layers of oversight offer members considerably more protection than direct retail products. Additionally, this approach should deliver member protections through improved cost management and scale. Professional trustees, with their expertise in conducting due diligence and managing complex arrangements, are well positioned to navigate this landscape.

We would welcome clarity on whether the Value for Money framework would apply to these arrangements, including the practical considerations, and if any work has been done on performance reporting requirements. This transparency will be key for trustees to monitor ongoing performance.

Limiting pathways to Retirement CDC could stifle innovation and reduce competition in the market and may create barriers to entry for new providers. Trustees must also

remain mindful of conflicts of interest throughout. There is the potential for regret risk, for some members who may have preferred the flexibility of a drawdown default or for those who are in poor health.

Whilst we note the practical challenges, we are concerned that members of retail DC will not be able to access retirement CDC, under these arrangements. This may create additional inequity, and we believe this should be addressed in future phases of review.

Despite these challenges, we believe this approach represents a proportionate starting point.

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?

We believe the risks, benefits and protections for members of FCA regulated schemes transferring to Retirement CDC would be largely the same as those for members of occupational pension schemes.

The benefits would include access to some element of longevity protection through risk pooling, which individual pensions cannot provide. This would also widen the choices available at retirement beyond traditional annuities or drawdown. Members would also benefit from institutional costs and oversight frameworks that Retirement CDC schemes operate in, including trustee governance, fiduciary duty and the adviser framework.

We recognise there is a fairness argument for retail customers to be provided with Retirement CDC as an option, and this does come with some practical challenges which should not create permanent barriers to accessing potentially beneficial retirement solutions. We would support a framework that allows FCA regulated scheme members to access Retirement CDC schemes, provided appropriate safeguards are in place, including oversight, regulation and guidance.

We believe that transferring members from FCA-regulated pension schemes into a Retirement CDC arrangement offers both meaningful benefits and important risks that need careful consideration. The main advantage lies in the ability to pool longevity risk, which helps reduce the chance of individuals outliving their savings. By investing collectively and smoothing adjustments, members may enjoy a more stable income and potentially better outcomes than they would through drawdown or annuity products. In addition, economies of scale can help keep costs lower than individual solutions, which is an attractive feature for many retirees.

However, these benefits come with trade-offs. Members give up flexibility and control over their pension pot once they transfer, and the income they receive is not guaranteed, it can be adjusted downwards if market conditions deteriorate. There is also a risk that members may not fully understand the nature of collective risk-sharing and the variability of benefits. Moving from an FCA-regulated environment to a trust-based scheme changes the regulatory protections available, which could create uncertainty for some individuals.

To address these risks, strong protections should be in place. Clear and mandatory disclosures are essential, so members understand the implications before transferring. The process for converting DC pots into r-CDC income should be transparent and based on standardised assumptions. Independent guidance or advice should be required to ensure informed decisions, and a short cooling-off period could provide additional reassurance. Finally, robust governance, stress testing, and continuity planning overseen by The Pensions Regulator will be critical to maintaining confidence and protecting members if the scheme faces challenges.

In summary, Retirement CDC has the potential to deliver better outcomes for many retirees, but success depends on transparency, informed choice, and strong governance to balance the benefits of collective risk-sharing with the loss of individual control.

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?

We expect a range of actuarial factors will be required for transfer into Retirement CDC schemes, no less rigorous than those established in the DB landscape, though necessarily adapted for the CDC context. This will likely include consideration of age at retirement, pot size, postcode and industry. These need to balance both the individual level and also the dynamics at the population level. Establishing a streamlined and agreed baseline and guidance for these factors will be important to avoid unnecessary variation across different schemes, which could have unintended consequences.

We do hope that the framework does not become overly complicated. Whilst rigour is essential, excessive complexity could create barriers to entry, increase costs and introduce additional risks without proportional benefits. The framework should be sufficiently robust to ensure fairness and soundness, whilst remaining practical to implement, understand and administer. These products will likely be provided by experienced entities, at outset, which bring with it experience of managing these kinds of liabilities, under similar frameworks.

We note that similar smoothing and equivalence frameworks have been successfully created and are currently operating in other financial areas, such as with profits arrangements. We can learn from these established frameworks, both in terms of what works well and doesn't.

Question 9: What mechanisms should be introduced to ensure that quotations are accurate and not misleading?

To ensure accuracy in quotations, we believe the framework should rely on robust actuarial calculations underpinned by professional standards already used widely in the pensions industry. This should include established industry frameworks, peer review processes, and professional requirements that govern actuarial practice. Regular independent reviews of quotation methodologies would provide additional assurance that calculations remain appropriate and consistent.

To prevent misleading communications, we recommend a comprehensive approach to comms design and delivery. This should include clear regulatory requirements for how quotes are presented, with guidance on mandatory disclosures and standardised terminology. Communications should be designed with member understanding in mind, avoiding jargon and ensuring key risks and variabilities are clearly explained. Explaining that benefits are not certain is a well-trodden path in the DC landscape, so we can leverage the great work here.

Standardised illustration requirements that show a range of potential outcomes, not just a central projection, will support members understanding of the variable nature of CDC.

Members should also have access to a clear, designated resource for additional questions and support. This could be scheme websites, helplines or appointed administrators. Well-designed FAQ documents should address common concerns and misconceptions about Retirement CDC, including key differences with individual pot DC, DB pensions and whole-life 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?

We recognise the requirement for cohorting to prevent distortions where poor performing schemes might appear artificially attractive to new members, whilst well-

performing schemes could be disadvantaged. It is important that schemes can offer pensions to new members which target increases broadly in line with inflation at outset, regardless of the scheme's historic performance. This ensures new members can make informed decisions based on forward looking projections rather than being influenced by past performance that may not affect their benefits. Cohorting may also help manage the challenge of lumpy inflows versus more steady outflows.

However, we note that cohorting represents a complex arrangement to establish, govern and monitor on an ongoing basis. The administrative burden of maintaining separate cohorts, tracking their performance, and ensuring appropriate allocations of assets and liabilities will be significant. In addition, cohorts will likely need to be of a certain size to operate efficiently. Whilst we are confident there are alternative actuarial approaches that could achieve similar objectives, we would caution against overcomplication in what is already a complex area. The solutions adopted should balance fairness with practical implementation considerations.

Professional trustees can bring valuable expertise in governing these complex cohorting arrangements, drawing on their experience with similar challenges in other scheme structures.

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?

We recognise the benefits of spreading experience adjustments to provide greater certainty of providing year-on-year stability for members. This approach could help avoid sharp benefit adjustments that might otherwise undermine confidence in the system.

One risk for Retirement CDC is that members are taking investment risk through their retirement, but unlike working age CDC members, retirees may not have the ability to return to work or extend their working lives to bridge any gaps from benefit reductions. This vulnerability requires careful consideration, and spreading cuts over time can help address this risk.

Communications will need particularly careful design, striking a balance between transparency and maintaining member confidence. Schemes must avoid appearing either unnecessarily cautious when making small increases or overly negative when multiple consecutive reductions are required. Managing member expectations from the outset will be critical.

If the upper threshold is removed and spreading is allowed over the lifetime of the scheme, we would expect careful risk management frameworks to be implemented. This should include robust and multi-factor modelling, to assess both short term and long-term risks. Schemes would need to demonstrate that spreading adjustments do not create unacceptable intergenerational transfers or threaten long term suitability.

We recommend a regulatory framework for this that sets clear expectations through guidance on acceptable and unacceptable levels of risk, without necessarily mandating specific approaches. This would allow schemes flexibility to adopt approaches appropriate to their membership, whilst ensuring adequate protections.

Systemic risk must be a key consideration at the regulatory level. If multiple schemes adopt similar approaches to spreading, this could create sector wide vulnerabilities during prolonged market downturns. Mitigation measures should include stress testing requirements that specifically model these scenarios.

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

We believe Retirement CDC schemes should be required to provide clear, comprehensive information that helps members understand both the nature and implications of their decision to join.

Members must be supported to understand the key characteristics of this model. Clear information should be provided about “what happens when” scenarios, for example provisions for spouses and dependants upon members death. Members need to understand how benefits might transfer and how this process might work.

Members need to understand that benefits are designed to be stable and increase broadly with inflation, but that it is not guaranteed. This balance is critical.

Practical information about restrictions on entry and exit should be clearly stated, including the rationale for these restrictions.

These key characteristics could be summarised in a checklist table, where there are columns for Retirement CDC, drawdown and annuities. This would provide members with a visual representation of the key differences between the models, perhaps with ticks and crosses.

Signposting to support services should be included, which includes identifying key contacts within the scheme administrator, references to Money Helper and other impartial guidance services, and clear escalation routes for queries or complaints.

Members should know where to turn for help both before and after making their decisions.

Question 13: Are there practical or operational challenges in delivering Retirement CDC communications through DC scheme trustees, and how might these be addressed?

There are practical and operational challenges in delivering Retirement CDC communications through DC trustees, primarily stemming from the complexity of the arrangements and the interactions between two independent trustee boards with no formal connections.

The complexity creates risks around accuracy, consistency and liability for communications about the arrangements.

The interaction between two separate trustee boards means delineation of responsibilities is essential, with explicit hand off points where accountability transfers from DC trustees to Retirement CDC trustees. Without formal connection, there is a risk of communication gaps, inconsistent messaging or confusion as to which trustee is responsible for different aspects of member support.

To address these challenges, we recommend making it as straightforward as possible for trustees to collaborate and direct members to the right information. This requires a clear framework with explicit guidance around responsibilities. Professional trustees, with their experience managing complex governance arrangements and regulatory requirements, can play a valuable role in facilitating these communications and ensure appropriate hand-offs between schemes.

Standardisation will be helpful to reduce trustee burden and ensure consistency, for example the use of templates, standard disclosure documents, agreed terminology and model collaboration.

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?

To ensure illustrations are realistic and comparable, we would favour standardised assumptions, methodologies and templates. Stochastic illustrations would support showing a range of outcomes, rather than a single estimate.

Integration with existing Statutory Money Purchase Illustrations (SMPI) requires careful consideration, as the Retirement CDC ones should complement and not replace

current requirements. CDC could be presented as an alternative decumulation option within the existing illustration framework.

We would welcome market testing of the illustration framework before finalisation, to ensure they support rather than confuse decision making. Professional trustees can assist in reviewing the proposed illustrations also.

The costs of producing these enhanced illustrations should be weighed against the critical importance of ensuring members make informed decisions.

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?

We would welcome open and transparent charging structures that minimise conflicts of interests. Clear disclosure of all charges, including their basis and calculation methodology, will be important for maintaining member trust and enabling clear comparison between schemes also.

We see the merits of implementing a charge cap for Retirement CDC schemes, which would provide important member protection and prevent excessive charging that could erode the benefits of collective arrangements. It should be simple enough for members to understand at outset. However, flexibility will be needed regarding set-up costs and clarity on what is included within the cap and what is not. Regular review of the charge cap level will be needed to ensure it remains appropriate as the market develops and matures.

Question 16: Do you foresee any areas of potential arbitrage, and how should Government and regulators seek to mitigate this?

We are not in a position to comment on this question, but are supportive of individuals having access to a range of options in a competitive market.

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?

We would be in favour of a minimum scale threshold for Retirement CDC schemes, as scale is critical to ensure scheme viability and prevent member detriment from failed schemes. Without sufficient membership, schemes would struggle to achieve the pooling benefits that come with the structure, nor spread the costs effectively. Transition provision should be considered for the initial implementation period,

recognising the market will need time to develop, but this should not compromise member protections.

We would support the consideration of strong encouragement for professional trustees with specific CDC expertise. The technical nature of CDC schemes, combined with the particular challenges of retirement only arrangements, demands specific knowledge.

At outset, the addition of clear wind-up provisions would be beneficial, including the treatment of different cohorts and any unfunded benefit expectations. Details on whether and how transfers out would operate for Retirement CDC is welcome. Clear guidance is needed on transfer rights, calculation methods, and any restrictions, particularly given the liquidity implications for schemes and fairness considerations for remaining members. We would also seek clarification on the scope of trustee responsibilities and potential liabilities when selecting Retirement CDC schemes as the default solution, as this is a mostly irrevocable decision with longer term implications. It would be helpful if the framework delineates where trustee responsibilities conclude and provide appropriate protections for trustees who follow proper governance procedures, whilst ensuring members interests remain safeguarded.

Question 18: Do you have any comments on the proposed amendment to Regulation 12 of the Preservation of Benefit Regulations 1991?

The amendments are a logical extension of the regulatory framework, treating authorised CDC schemes as equivalent to Master Trust for bulk transfers, which is consistent with the rigorous authorisation requirement that CDC schemes must meet.

That being said, additional member protections could be included. Even without a consent requirement, trustees should be explicitly required to confirm that any CDC transfers serve members' interests. Clear communication requirements are essential, whereby members should receive advance notice of any bulk transfer proposals with a comprehensive explanation of the implications for their benefits. This should include how the CDC structure differs from their current arrangements, the variable nature of benefits and any restrictions on future transfers. Members should be informed of their opt-out rights and given sufficient time to exercise these rights before any transfer occurs.

We would strongly support the requirement for independent actuarial certification to confirm that transfer terms are fair to all members. This would provide additional assurance that the actuarial equivalence calculations appropriately protect different member groups and that one cohort is not disadvantaged. This is particularly important

where members may be at different stages of retirement and are being transferred together.