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## Consultation Response

### **Which? response to the DWP's consultation on Retirement Collective Defined Contribution pension schemes**

**Submission date: 9/12/2025**

### **Summary**

- The introduction of CDCs, including Retirement CDCs, presents an opportunity to improve pensions adequacy in the UK by offering consumers greater security in retirement via an income for life, higher expected returns than current defined contribution pensions, and less risk at the point of retirement by removing the burden of individual decision-making.
- Although we see the potential benefits, there are still some wider questions around consumer expectations of CDCs that we want to see explored more deeply. We anticipate the upcoming Pensions Commission will fully explore the role CDCs and Retirement CDCs should play in the broader pension system and the necessary mechanisms for their delivery.
- Setting aside these wider questions, we agree that to be implemented, CDCs, including Retirement CDCs, must be carefully regulated to respond to the risks they pose to consumers.
- We support the DWP's overall regulatory approach for Retirement CDCs. In particular, we agree that the following are essential aspects of a strong regulatory framework:
  - The bespoke authorisation framework for retirement CDC schemes, distinct from whole-life CDCs.
  - Not permitting a retail market for retirement CDCs.
  - Requiring retirement CDCs to be set up under trust.
  - Limiting retirement CDCs to providers of Master Trusts or Unconnected Multiple Employer Schemes (UMES).
- However, there also remain several issues that must be addressed before this regulatory framework is finalised. These include:

- How to meet the unique needs of initial members of new retirement CDC schemes.
- The potential impact of weak competitive pressure on fees and charges.
- Ensuring there are appropriate and effective avenues for redress available, should consumers experience harm.
- How to ensure the Retirement CDC framework interacts neatly, and appropriately, with the incoming guided retirement provisions.

## Full response

### **The introduction of CDCs, including Retirement CDCs, presents an opportunity to improve pensions adequacy in the UK.**

We see the potential of CDC schemes generally to improve pensions adequacy in the UK by addressing some of the known challenges and harms within the current defined contribution (DC) system. Done right, we see that CDCs could offer consumers:

- **Greater security in retirement through an income for life.** CDCs provide a regular (though not guaranteed) income for life, effectively eliminating the risk of an individual outliving their savings. This provides a relatively predictable income stream, affording individuals greater financial security throughout the entirety of their retirement than they would receive under other models of decumulation (aside from an annuity).
- **Higher expected returns than current DC pensions.** By pooling investment and longevity risks, schemes can remain invested in growth assets for longer, potentially boosting retirement incomes by a substantial margin.
- **Less risk at the point of retirement by removing the burden of individual decision-making.** CDCs, particularly whole-life CDCs, remove the burden of complex, high-stakes financial decision-making for members at retirement as the scheme's trustees are responsible for the sustainable management of the income for life. Under the current Pension Freedoms, this is a major area of harm for consumers in defined contribution schemes as they are required to make these complex financial decisions. Research from MaPS found that 22.5 million UK adults feel they do not understand enough about pensions to make decisions about retirement.<sup>1</sup>

We also see the potential that Retirement CDCs specifically could have under the new guided retirement provisions in the Pension Schemes Bill. There has been a strong desire indicated by industry to specifically examine Retirement CDCs as a primary pathway to better meet the decumulation needs of their members.

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<sup>1</sup> Money and Pension Service, November 2025

**Although we see the potential benefits, there are still some wider questions around consumer expectations of CDCs that we want explored more deeply.**

We see a need to better examine consumer expectations of CDC schemes, to ensure there will be sufficient uptake of CDCs. In particular, we want to better understand consumers' actual levels of willingness to engage with a design that could see their income fluctuate across their lifetime, irrespective of whether they will produce better outcomes for savers overall. We see two key risks if there is insufficient consumer willingness to engage with CDCs:

- 1. Not reaching the levels of scale required to deliver expected benefits.** CDCs require a certain level of scale to achieve the longevity and investment risk pooling benefits they are designed to offer. There is a risk that if there is insufficient consumer willingness to take on the unique risks posed by CDCs, then these schemes will not reach the scale required to operate sustainably.
- 2. Further complicating an already challenging pensions landscape, and negatively impacting consumer decision-making.** In recent times, we've seen many incremental changes add up to make the pension system more complicated than it should be, particularly at the point of retirement where an individual bears significant decision-making risk. If there is not sufficient demand for CDCs then they risk becoming just another option for consumers to consider, making a consumer's decision-making even more challenging.

We anticipate the upcoming Pensions Commission will fully explore the role CDCs and Retirement CDCs should play in the broader pension system and the necessary mechanisms for their delivery. We therefore expect that the concerns outlined here will be explored within that context.

**Notwithstanding these wider questions, if introduced, we agree that Retirement CDCs must be carefully regulated with sufficient acknowledgement of the risks they bring.**

Retirement CDCs pose their own set of unique risks to consumers. As outlined in the consultation, this includes:

- **Benefit cuts.** Current retirees could see a cut in their income if the scheme performs poorly. This is the mechanism that keeps the scheme sustainable for future generations, but it exposes the individual to the loss of a predictable, guaranteed income floor that defined benefit (DB) pensions or annuities provide.
- **Potential inflexibility.** While reducing individual decision-making can be a benefit, it also leads to potential inflexibility for members who may need to access their funds for emergencies or for different retirement paths.

On top of this, we have seen harm occur with high-value financial products on a large scale before. An example of this is the mortgage endowment mis-selling scandal of the 1990s. Many consumers were not adequately informed of the risks, and when the investments underperformed, they were left with significant shortfalls, unable to pay off their mortgages.

Historical experiences like this can make us at Which? wary of emerging financial products in pensions, another high-value area.

Therefore we agree that, if we do introduce Retirement CDCs, then it is important to develop a strong regulatory framework with enough lead time to design it in a way that sufficiently protects consumers from harm.

## **We support the DWP's overall regulatory approach proposed for Retirement CDCs.**

The overall regulatory approach recognises and seeks to respond proportionately to the significant risk of consumer harm in this area. In particular, we welcome the inclusion of four key consumer protections in the framework. It is vital that these four protections continue to form the core of the regulatory framework for retirement CDCs. These protections are:

- **The bespoke authorisation framework for retirement CDC schemes, distinct from whole-life CDCs.** Having a distinct authorisation framework will ensure that as the market develops, TPR will have better oversight of firms and can better identify and respond to any emerging risks. The high bar for the authorisation requirements will help to ensure that only high quality retirement CDC offerings, which have a genuine chance of operating as a going concern, can enter the market.
- **Not permitting a retail market for retirement CDCs.** We agree that trustees will likely be better placed to identify appropriate retirement CDCs for their members than consumers themselves. We agree that operating a retail market would lend itself to direct-to-consumer marketing that could be misleading for consumers and lead to them making poor financial decisions, without understanding all of the associated risks. We think that this risk would be particularly acute when retirement CDCs first enter the market as they will be new and unknown to consumers.
- **Requiring retirement CDCs to be set up under trust.** We agree that trust-based models, and the associated fiduciary obligations of trustees, make them a more appropriate model through which to deliver retirement CDCs in a way that will align with a member's best interest than contract-based arrangements.
- **Limiting retirement CDCs to providers of Master Trusts or UMES.** Limiting the delivery of retirement CDCs to large Master Trust and UMES providers will help to ensure that only providers who are well resourced, both financially and from a systems perspective, can set up and deliver a retirement CDC offering. This will also limit the number of providers who can offer a retirement CDC which will minimise the potential regulatory supervision burden on TPR and help to ensure that providers reach sufficient scale to deliver good outcomes for their savers.

## **However, there also remain several issues that must be addressed before this Retirement CDC framework is finalised.**

Although this consultation addresses many significant areas of potential harm under Retirement CDCs, we have identified a handful of additional areas where further consideration must be given. It will be critical that these areas are addressed before this

framework is finalised, to ensure all consumers are sufficiently protected against harm. These are:

- **How to meet the unique needs of initial members of new retirement CDC schemes.**

As a CDC scheme develops and matures, the risk of scheme failure should lower. However, this means that the first consumers to join a retirement CDC scheme will bear a higher risk of poor outcomes than those who join the scheme later on. In recognition of this, there needs to be specific thinking given to if and how design, information, disclosure and consent requirements will need to differ for these initial members compared to those who join when the scheme has matured. There also needs to be an assessment of these consumers' willingness to take up a retirement CDC default option at retirement, once risks have been communicated.

- **The potential impact of weak competitive pressure on fees and charges.**

There can be a lack of competitive pressure on fees and charges in pensions generally, especially in workplace pensions where the employer chooses a scheme on behalf of its employees. This can result in poor value for money for savers if they are subject to high fees and charges. In CDCs, there is an additional challenge in that the complex, and often opaque, actuarial pricing models required to calculate members' individual benefits can more easily obscure high charges and fees.

Policy interventions aimed at addressing a lack of competitive pressure on fees and charges have been introduced before. In 2015, a price cap for workplace auto-enrolment schemes in accumulation was put in place to ensure consumers who were not engaged were not subject to unfair fees and charges. There may be value in exploring whether a similar cap on fees and charges, or alternative solutions that put downward pressure on fees and charges, will be needed in Retirement CDC schemes.

- **Ensuring there are appropriate and effective avenues for redress available, should consumers experience harm.**

Though retirement CDCs are being designed in a way that seek to minimise potential harm to consumers, it will be critical that consumers have access to fair, simple, impartial and timely dispute resolution should something go wrong. This is a complex area of financial services and consumers will therefore likely need extra support to identify misselling or other problems and pursue justice in retirement. Further clarity is needed on both the avenues of redress that will be available to consumers, such as via the Pensions Ombudsman, as well as the basis upon which consumers will be able to seek redress, particularly if they have been defaulted into a Retirement CDC pathway.

- **How to ensure the Retirement CDC framework interacts neatly, and appropriately, with the guided retirement provisions.**

We want to ensure that savers are moved into default options that are appropriate to their unique circumstances. For example, a retirement CDC will likely not be a

suitable option for someone with a known health condition that significantly reduces their life expectancy. As the guided retirement provisions are developed further, alongside this retirement CDC proposal, we want to ensure that appropriate information gathering is conducted by trustees, clear opt-out routes are included and consumers have access to suitable advice and guidance to support decision making where it is required.

## About Which?

Which? is the UK's consumer champion, here to make life simpler, fairer and safer for everyone. Our research gets to the heart of consumer issues, our advice is impartial, and our rigorous product tests lead to expert recommendations. We're the independent consumer voice that works with politicians and lawmakers, investigates, holds businesses to account and makes change happen. As an organisation we're not for profit and all for making consumers more powerful.

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