



Collective Defined Contribution (CDC)

The dawn of a new (pensions) era

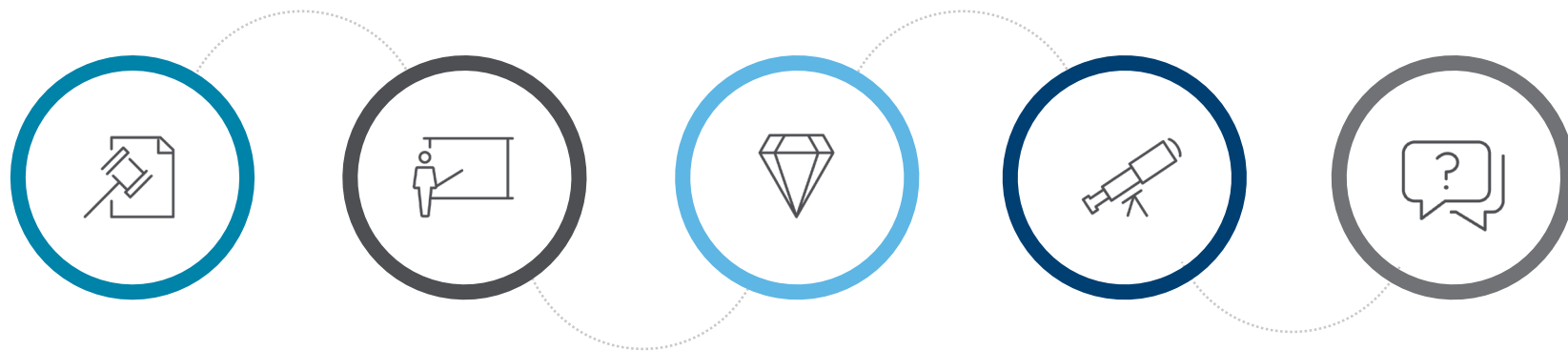
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For a **fixed cost** to **employers**, CDC can provide what the majority of employees want in retirement:

A target inflation-linked income **payable for life**, from DC savings, **without** having to make complex financial and investment decisions along the way.



The case

Why does CDC have a place in UK pensions?

The explanation

What is CDC and how will it work in the UK?

The value

What value will CDC bring to employers and savers?

The evolution

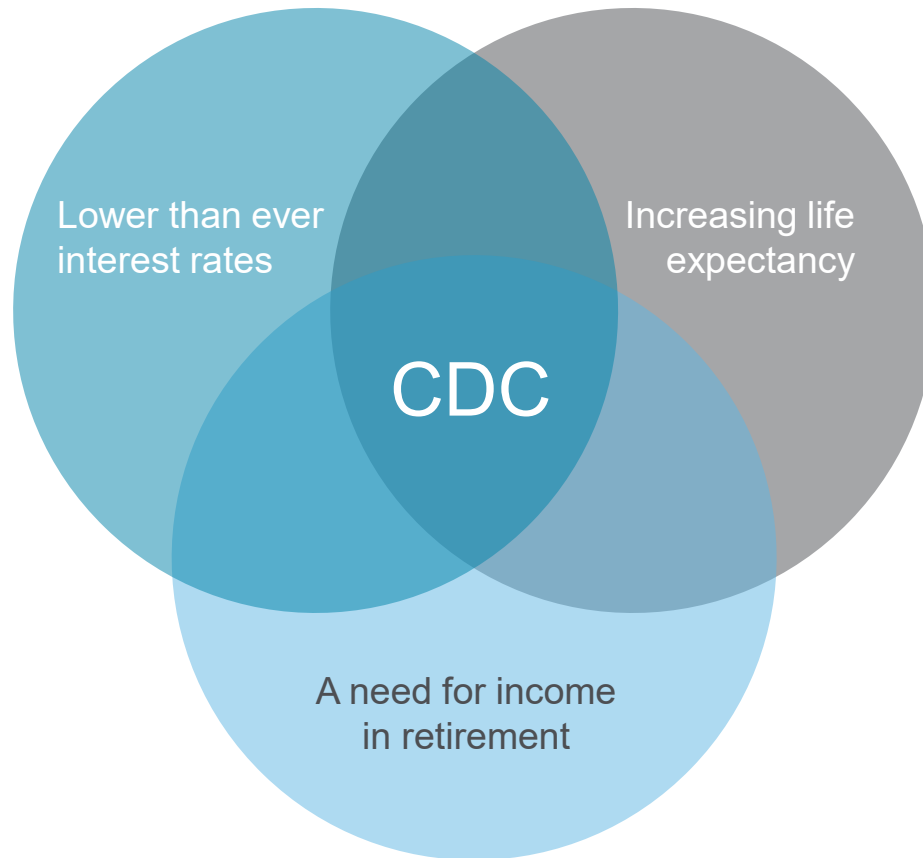
How do we expect UK CDC schemes to evolve?

The questions?

I will try to answer any questions you may have

The case for CDC pension schemes

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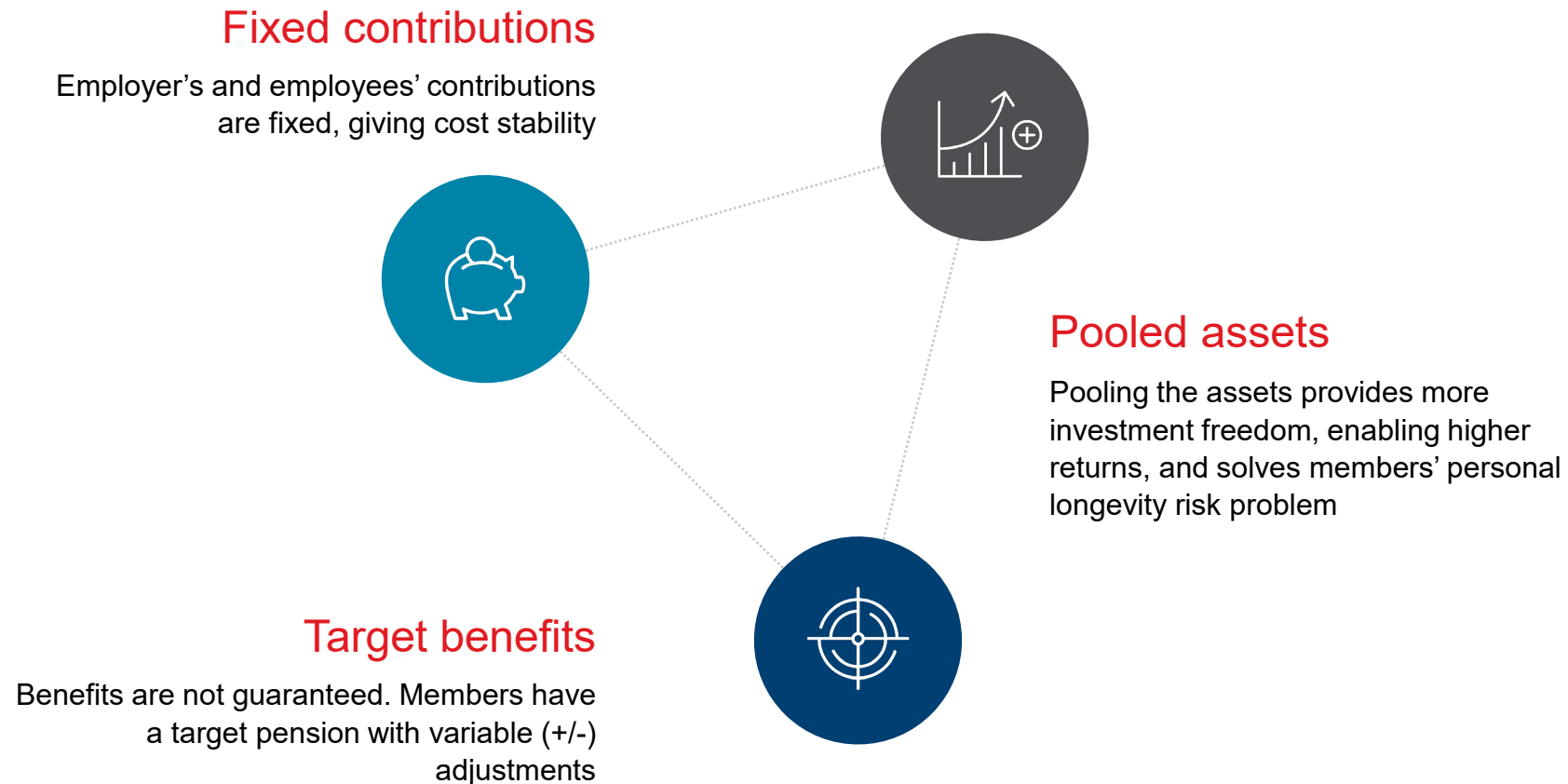


c. 60%

Aon's DC survey showed that around 60% of members want a retirement income for life from their DC savings

What does a CDC scheme look like?

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Example: Royal Mail's proposed CDC design

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Contributions

Employer & member contributions fixed as a percentage of pensionable pay

Target CDC pension

1/80ths of pensionable pay (accrued in blocks and subject to adjustment each year)

Target adjustment

Targeting inflationary increases – actual adjustment (increase or decrease) for all members calculated each year



Contingent pensions

50% of member's CDC pension (subject to adjustment each year on same basis as other members)

Retirement age

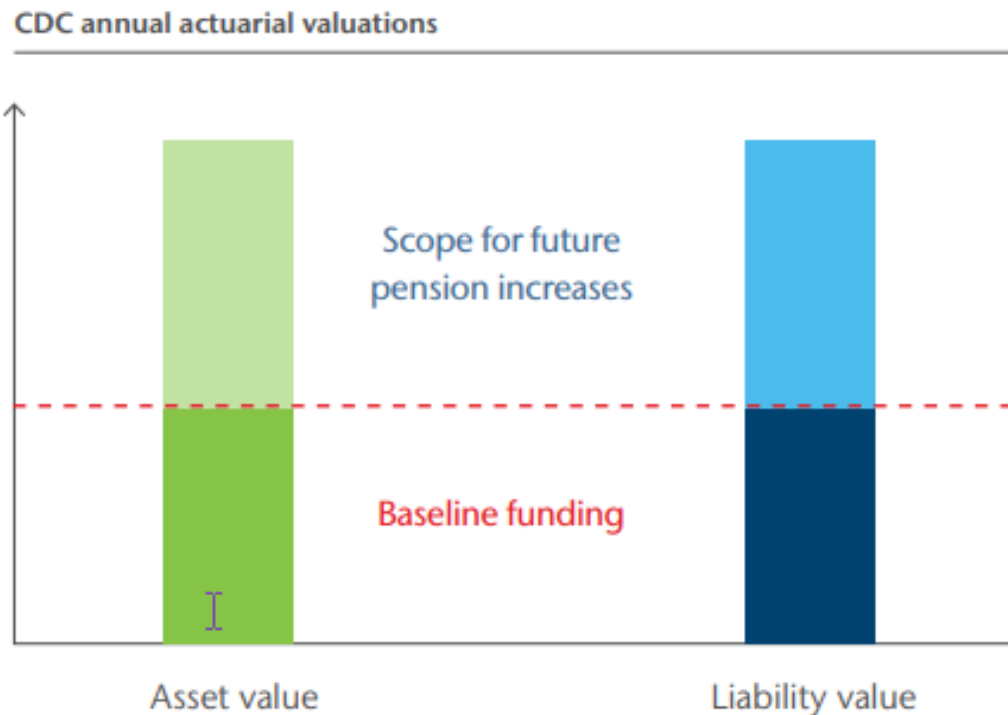
Normal Retirement Age of 67

Valuations

Annual valuations to determine scope for future pension increases: valuation rebalances liabilities and assets so there is no funding surplus or deficit

How does CDC work? Annual valuations

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Baseline funding

- The asset level needed to support pensions without any further increases
- Below the 'baseline funding' line, reductions in pensions are required to restore the funding level to 100%

Scope for future pension increases

- The portion of assets used to help deliver increases to target benefits
- Target increases vary each year, to match what assets can afford
- Designed to absorb most asset / liability movements, without needing to resort to benefit cuts

Liabilities determined by / based on:

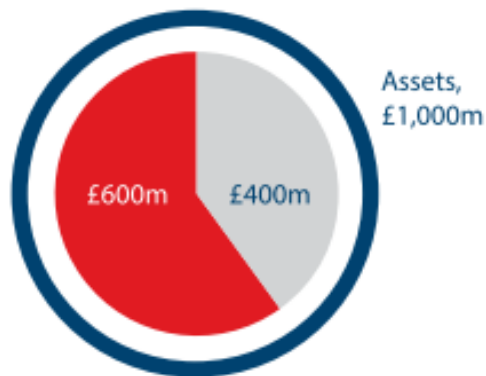
- **Best estimate assumptions:** no prudence, which would otherwise introduce intergenerational unfairness
- **Sustainable level of increases funded by the assets:** funding level is always 100%

How does CDC work? Market shock

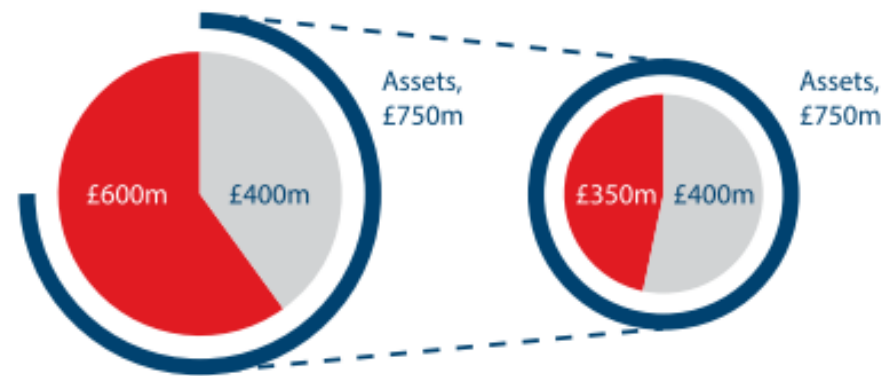
Worked example of a market shock in a CDC scheme

■ Scope for future increases ■ Baseline funding

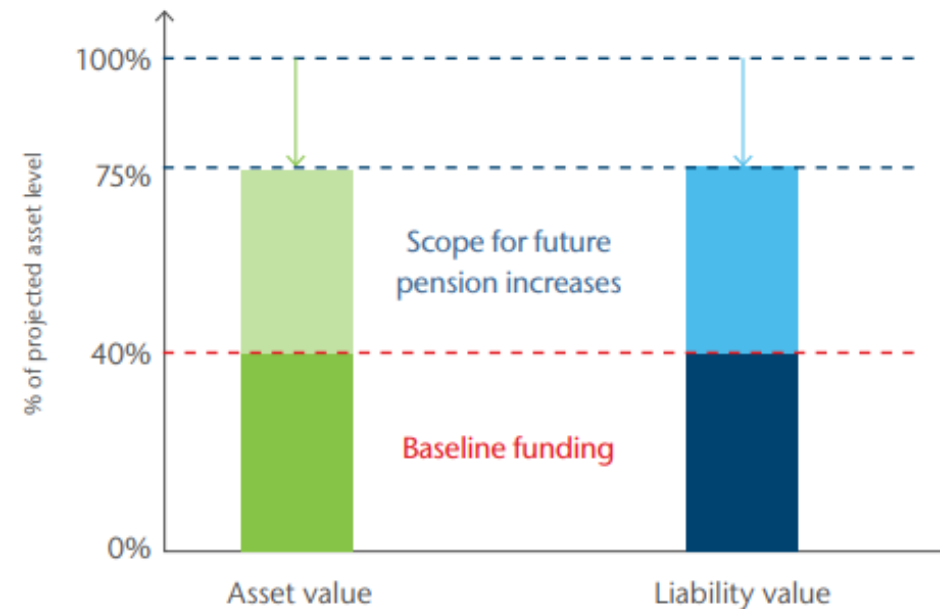
Previous CDC valuation: before market shock



Current CDC valuation: after 25% shock



CDC funding in response to a fall in assets



The value of CDC for employers

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Harmonisation

Pensions can be harmonised across the entire workforce

Retirement income

Provide an income for life in retirement to their employees

Certainty over costs

Costs are fixed and there is no reliance on the sponsor covenant



Union friendly

Unions are likely to be supportive given CDC targets an income for life in retirement

Reward strategy

Pensions can be reintegrated into wider HR, reward and workforce management strategies

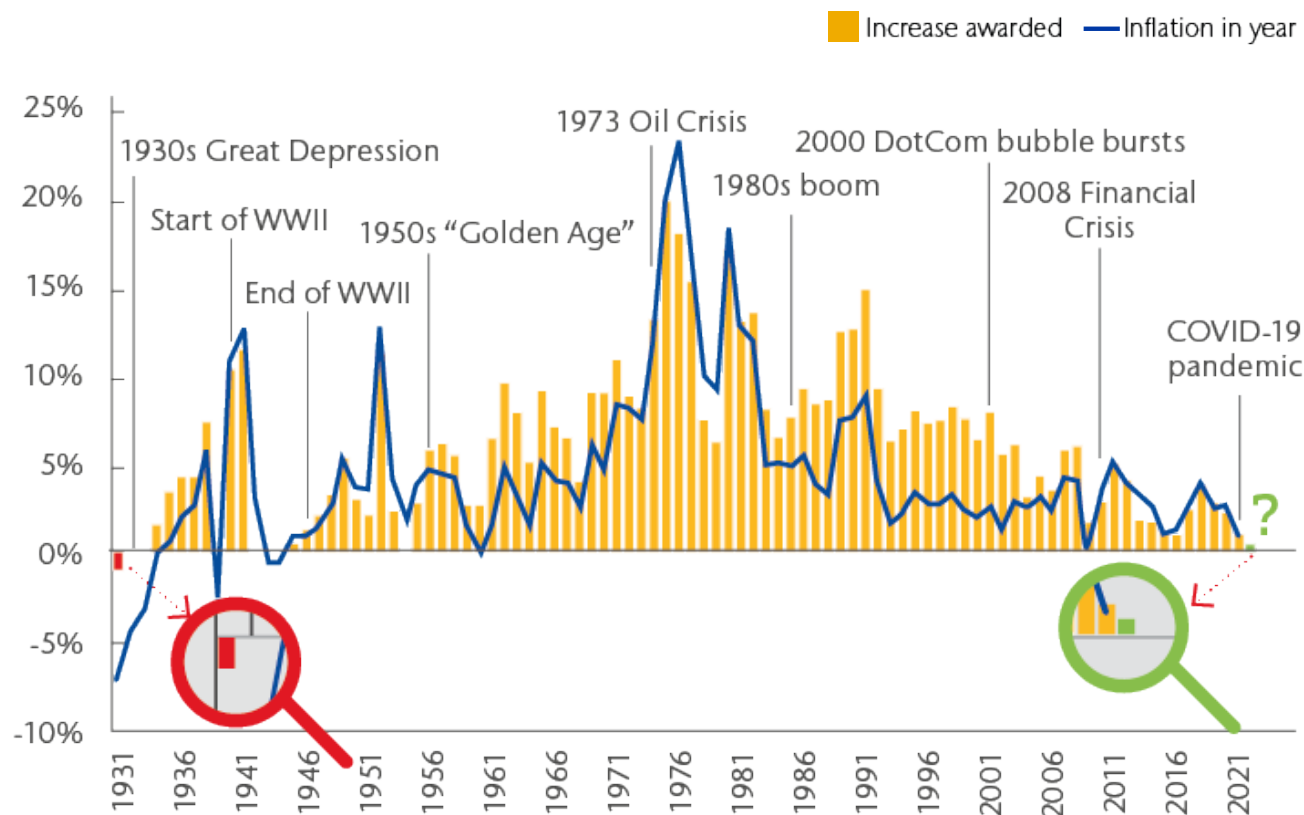
Resilience

In adverse markets, CDC schemes remain resilient, with costs remaining fixed

Resilience in adverse markets

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Back-testing CDC benefit adjustment outcomes



CDC in adverse markets

A well-designed CDC scheme targeting inflationary increases would not have needed to cut members' benefits in the wake of 2020's adverse markets.

Back-testing the impact of market performance over the past 90 years revealed only one benefit cut would have been made – following the Great Depression.

Read Aon's 'Collective DC in adverse markets' briefing paper [here](#) for more details.

The value of CDC for savers

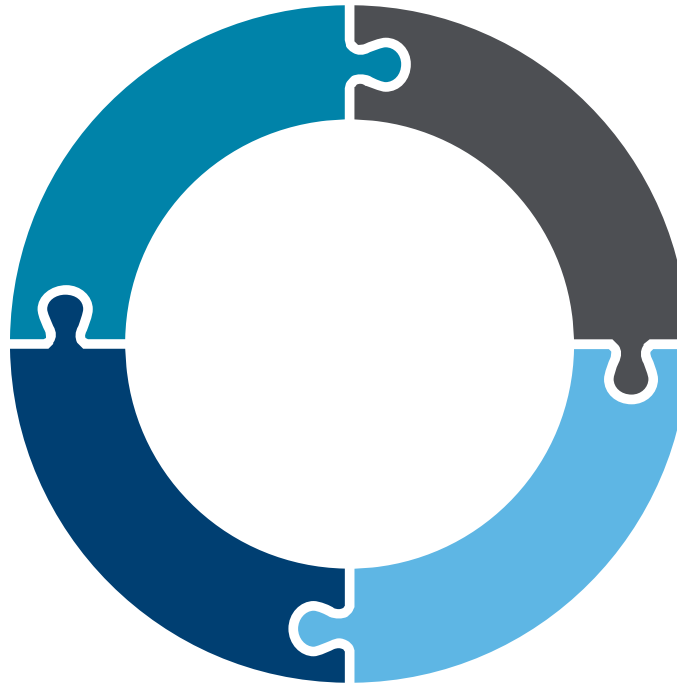
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Target income for life

Savers get a target income for life in retirement, until the day they die

Complementary option

CDC works alongside existing options



Pooling of risks

In particular, CDC solves their personal longevity risk problem

Less hassle

Reduced decision making and potential for higher engagement

What CDC 'flavours' may develop over time?

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Own trust

Suitable for paternalistic single employers / groups with 5,000+ employees, who may be unionised, and who are reviewing benefits



Multi-employer / industry

Available for all employers (regardless of size)
Suitable for a group of employers, including those operating in the same industry



Master trust

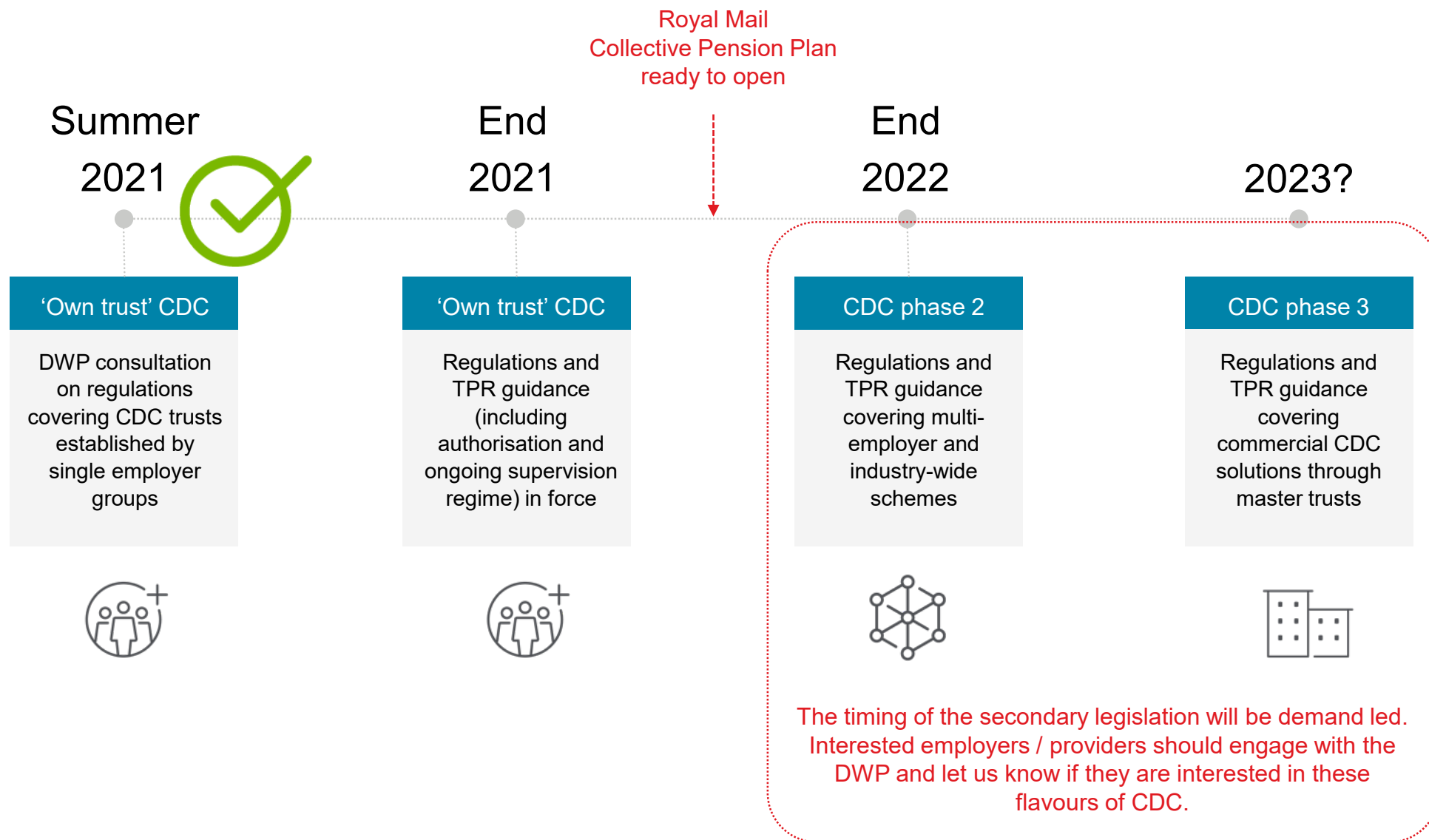
Available for all employers (regardless of size) to help employees build up CDC pension

Available for DC savers at retirement – sitting alongside existing drawdown and annuity purchase options in the DC decumulation space

Innovation to provide CDC pensions for the self-employed?

Expected timeline

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*Do you have any
questions?*

Find out more

Aon's Collective DC team can help

Contact us at cdc.uk@aon.com or speak to one of us directly:



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Further information

Visit our [website](#)

Take our [quick quiz](#) to find out which flavour of CDC you should keep an eye on

Gain a deeper understanding of CDC by reading our introductory guides:

[The dawn of a new \(pensions\) era](#)

[Collective DC in adverse markets](#)

Join our employer interest group by emailing cdc.uk@aon.com

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