VAN LANSCHOT KEMPEN

INVESTMENT MANAGEMENT

Building CDC the right way

For Professional Investors only
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This is the first of a series of papers created by Van Lanschot Kempen, Law Debenture and Gallagher covering Collective Defined Contribution. This first paper considers the lessons from the one major existing CDC market – the Netherlands, which draws on Van Lanschot Kempen's experience there. The future papers in this series will consider how to get CDC right from member, employer, and provider perspectives.

Dutch lessons for the UK

Getting CDC right

Collective Defined Contribution (CDC) is now moving into practice in the UK. The framework is in place, but the outcome will come down to design.

Done well, CDC can materially improve outcomes. Done badly, the trade offs become visible very quickly.

The Netherlands has already tested collective pensions at scale, showing where pressure builds when design meets reality. Those lessons matter directly for how CDC is built in the UK.

What CDC is trying to fix

A CDC scheme pools employer and member contributions into a single fund, invests them collectively, and targets an income for life. It sits between the two existing UK models: in defined benefit (DB), the employer promises a pension and bears the risk; in defined contribution (DC), the employer pays a fixed contribution, and the member bears the risk. CDC combines fixed employer contributions with collective investment and shared risk between members.

	Defined Benefit (DB)	Defined Contribution (DC)	Collective Defined Contribution (CDC)
Who bears risk	Employer	Member – individually	Member – shared across membership
Employer cost	Open-ended / variable	Fixed	Fixed
Member receives	Guaranteed pension for life	Individual pot	Target pension for life (not guaranteed)
Key decisions	Scheme / sponsor	Individual	Scheme (collective)
Outcome in bad years	Employer funds deficit	Member's pot falls	Target pension may be reduced

In CDC, the target pension is not guaranteed. Pensions can be adjusted up or down over time as investment returns change, so the scheme remains fully funded. In return, members avoid the complexity that defines DC. There are no investment decisions, no need to decide when to buy an annuity, and no need to manage drawdown in later life.

If DB produces better outcomes, why not revive it?

Employers will not bear open-ended risk. Private sector DB closed because of the volatility, deficits and balance-sheet exposure to those promises created.

CDC preserves the cost certainty that made DC attractive to employers, while recovering collective advantages lost when DB closed, including risk-sharing, professional investment and longevity pooling. CDC should be judged against DC, not DB.

Where DC falls short

The case for CDC rests on the structural weaknesses of the DC system. Members bear all investment and longevity risk individually. Further, they often put too little money in, driven by an assumption that the minimum auto-enrolment contribution of 8% is sufficient.

To manage the former risks, lifecycle strategies de-risk members into bonds and cash as retirement approaches, precisely when pots are largest and lost growth is most costly. Then at retirement, individuals face complex decumulation decisions, with no straightforward way to manage their individual longevity risk other than buying an annuity.

CDC aims to overcome these risks and increase pension pots, but there is a reality; members underestimate what an adequate pension looks like. Putting too little money in is hard to overcome, no matter how sophisticated the investment and risk-pooling design.

The government has framed CDC as serving two objectives:

First, better pensions

Government and industry modelling suggests CDC could deliver retirement incomes up to 60% higher than DC followed by annuity purchase in some scenarios. This reflects two drivers: maintaining exposure to growth assets for longer and removing insurance margins through collective longevity pooling. That pooling, where members give up the inheritance of unspent pots, may account for around 10% to 15% of that improvement.

Second, productive investment

CDC is seen as a way to channel pension capital into UK infrastructure, private equity and growth companies. The Pensions Investment Review of May 2025 and the Mansion House Accord point in the same direction, towards fewer, larger pools and allocation to private markets.

> “Regardless of whether that uplift may be 10%, 60% or somewhere in between, there is an implicit value which should not be understated – removing the onus of complex and life-changing decision-making at retirement from individuals. DC delivers a pot; CDC delivers a pension.”
>
> Andre Clarke, Senior Investment Consultant at Gallagher and investment advisor to the trustees of the UK’s only live CDC scheme

What the Dutch did

The old system

The Netherlands shows how collective pensions behave at scale. Dutch occupational pensions covered around 90% of employees through large sector-wide and company pension funds. These operated a DB-style form of CDC, with career-average benefits, conditional indexation and contributions in the range of 18 to 25% of pensionable salary, managing some €1.8 trillion in assets.

The system was governed by the Financial Assessment Framework (FTK), which required market-based valuation of liabilities and placed strong emphasis on funding ratios and liability-driven investment.

What went wrong

Until 2007, Dutch funds discounted liabilities at a fixed 4%. When interest rates fell, market rates had to be used instead, but funds had not hedged their exposure. Liabilities rose as yields fell, and funds appeared underfunded even though cashflows had not changed.

Pension increase in indexation was frozen for much of a decade, eroding trust as members saw large asset pools but no increase to their pensions. Investment behaviour became pro-cyclical, with funds pushed to de-risk at the wrong time with the focus shifting towards regulatory compliance rather than member outcomes.

The system relied on implicit transfers between generations, which only worked if members stayed in the same scheme throughout their careers. A more dynamic labour market broke that assumption.

Finally, the system lacked transparency. Benefit cuts were often delayed in the expectation that conditions would improve, and members could not clearly see how contributions, assets and outcomes related.

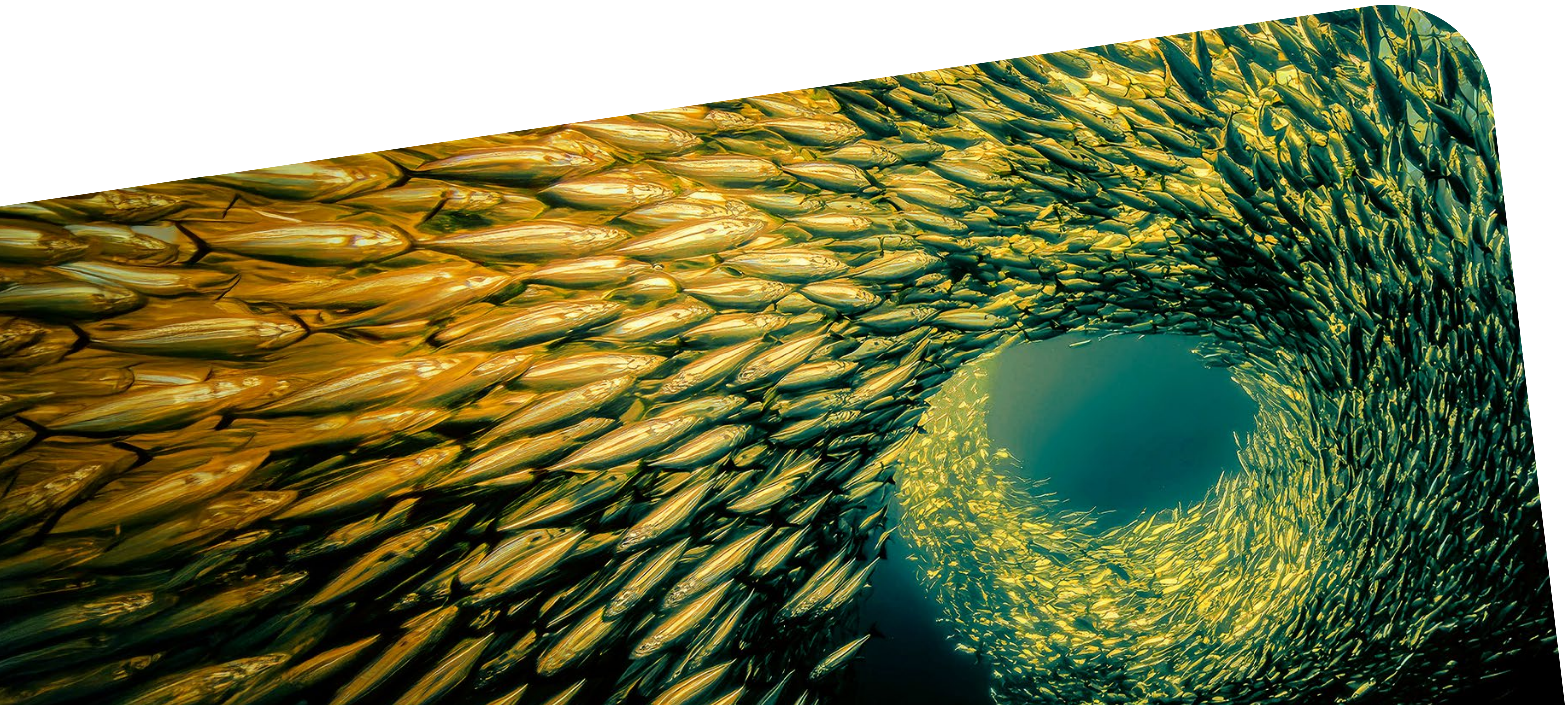
The reform: the Future of Pensions Act (Wtp)

The Future of Pensions Act (Wet toekomst pensioenen, or Wtp) came into force on 1 July 2023, requiring all funds to transition by 1 January 2028. It applies not only to future accrual but also to existing benefits, across a €1.8 trillion system.

The reform replaces the old framework with new contract types that retain collective investment while introducing clearer individual outcomes.

Contributions become flat-rate and age-independent, replacing the previous 'doorsneesystematiek', where contributions and accruals were averaged across age groups. Under that system, younger members effectively paid more relative to expected benefits, while older members paid less.

> Members gain individual pension accounts with clearer visibility, although investment remains collective. There are no formal guarantees, and pensions are adjusted each year in line with investment performance.



What the UK is proposing, and how it differs

The UK is constructing its framework in three phases:

Phase 1 (already live)
Permits single-employer CDC, with the Royal Mail Collective Pension Plan, currently the only example, covering over 100,000 members.

Phase 2
Came into force on 31 July 2026, enabling unconnected multi-employer CDC schemes to apply for authorisation under a master-trust-style regime. This is the critical phase, since single-employer CDC is likely to remain niche given the scale it demands.

Phase 3
Expected later as set out in DWP's updated roadmap for workplace pensions, could introduce retirement-only CDC, allowing DC savers to transfer pots at retirement into a trustee-managed collective income arrangement. This depends on further policy development and overlaps with the broader 'better DC' agenda.

This approach may require continued de-risking before retirement, like traditional DC, as retirement only CDC is likely to operate with lower risk investment. A similar model is emerging in the Netherlands, combining individual DC accumulation with a more collective retirement phase.

Key structural differences from the Dutch model

The differences from the Netherlands determine which lessons transfer.

The most fundamental is the UK's prohibition on buffers. Reserves to smooth or top up benefits are not permitted. Assets must equal liabilities at all times, with changes recognised immediately. This makes the UK model more transparent, but also more exposed to volatility.

> "These are hard questions to grapple with and ensuring fairness is a big topic. For example, how should benefits be adjusted over time? Scaling of the underlying pension amount, adjusting the indexation rate, or a balance between the two? This is just one of the key scheme design questions that a CDC scheme needs to work through."
>
> Andrew Fifer, Actuary at Gallagher

The scope also differs.

The Dutch are converting an existing system. The UK is adding CDC alongside DC, likely starting with no scale, no assets and no track record. Contribution levels are also much lower, around 8% in the UK compared to 18 to 25% in the Netherlands, and no investment strategy can fully offset that gap.

> "DWP's recent confirmation that bulk transfers without consent will be allowed into whole-life CDC schemes may help accelerate the building of scale."
>
> Andrew Fifer, Actuary at Gallagher

Perhaps the most distinctive feature is that UK CDC will operate in a competitive market.

Dutch sector funds were effectively mandatory. UK multi-employer schemes must be built and must compete for employers and members. This adds complexity, not least because UK members cannot take their CDC pension with them when they change employer. The absence of portability remains a live design question.

> "This is the main issue for multi-employer CDC and will require levels of cross employer agreement. Is it realistic to expect this from competing employers in the same industry (for an industry-wide scheme) or unrelated industries with very different business models."
>
> Mark Humphreys, Trustee at Law Debenture

It is worth noting that there is a limited competitive market in the Netherlands through General Pension Funds (Algemene Pensioenfondsen), which were created as a consolidation mechanism to absorb single-employer schemes into multi-client structures. However, the majority of assets remain in sector funds, which are largely non-competitive.

The Dutch old system also relied on implicit cross-subsidy, while the new system moves to flat contributions with explicit one-off compensation for those who lose out.

Six lessons from the Dutch experience

The Dutch experience shows what works and what breaks in collective pension provision. Six lessons stand out.

1 Design for intergenerational fairness from the outset

Implicit cross-subsidies eroded trust in the Dutch system and forced reform. UK multi-employer CDC largely addresses this through dynamic pricing. Flat accrual will work for some single-employer CDC schemes, so long as the risks are managed appropriately, but dynamic pricing is likely to be the more common approach moving forward in the UK.

> "Intergenerational fairness is one issue that will make or break whole of life CDC – it is its potential Achilles heel. It is a highly technical area that will be a challenge both from a trustee governance and member understanding point of view."
>
> Mark Humphreys, Trustee at Law Debenture

2 Transparency matters more than smoothing

Dutch buffers smoothed outcomes but created opacity, which proved more damaging than volatility. The new system retains limited buffers, but with clearer rules and no negative outcomes. The UK model is clearer, but members could at times see pension cuts. Whilst members may be told at outset that these are target pensions, not guarantees, cuts would be difficult from a governance and communication perspective.

> "Cuts and communication would be a huge governance crisis, trustees would need to explain why previous decisions were made in better years given cuts have now been needed."
>
> Mark Humphreys, Trustee at Law Debenture

3 Discount rates must be grounded in reality

Market-consistent discounting drove pro-cyclicality in the Dutch system, although this reflected a shift from previously fixed assumptions and limited hedging rather than discounting alone. Competitive pressure may still push assumptions too far. The most generous promise is often the first to be cut.

4 Preserve the growth asset advantage

CDC relies on sustained exposure to growth assets. That advantage was constrained under the Dutch framework. Hedging should remove unrewarded risk, with risk budget focused on assets with proven premia. The UK must resist the temptation to over-hedge or to manage short-term volatility too tightly.

> "The lesson from the Netherlands is clear: if the system puts interest rate risk on your balance sheet, hedge it away if you can. This allows you to take on risks that are rewarded with a premium."
>
> Frank van der Ploeg, Fiduciary Manager and Dutch CDC expert at Van Lanschot Kempen NL

5 Illiquid assets require scale

CDC schemes are suited to infrastructure, private credit, real assets and private equity, where illiquidity premia compound over time to deliver returns. UK schemes will need to build the scale and capability to invest in these assets, when not at scale this is likely to be through outsourced models.

6 Inflation protection needs explicit attention

The Dutch annuity phase offers limited inflation protection, and while the UK has more flexibility, it carries no CPI-indexation requirement. Stagflation is the key risk scenario. Portfolio construction must balance explicit inflation hedging against growth assets with inflation sensitivity.

Risks the UK has yet to address

At the member level, contribution adequacy is the largest issue. Notably, if CDC schemes remain fixed around the current (minimum) 8% DC contribution rate pensions in retirements may remain below expectations. CDC is expected to deliver meaningfully improved outcomes for members, but it is not a magic bullet that can overcome contribution in-adequacy alone, which to many is the key issue.

At the employer level, the most practical route into CDC is likely to be through master trusts, which reduces employer control. Costs may be higher than for DC, particularly while the market is in its infancy.

At the provider level, the no-buffer rule may prove constraining in practice, so modest and transparent buffers may merit future consideration. Scale must be built deliberately. Retirement CDC remains untested, carrying the highest design risk.

> "Maybe more crucially, CDC allows members to see the amount of annual pension income their contributions are expected to buy. This makes the link between pension savings and retirement income more tangible, and help members recognise they aren't saving enough."
>
> Andre Clarke, Senior Investment Consultant at Gallagher

Six principles for getting CDC right

Drawn together, six principles should guide the UK's approach:

1. **Design for fairness from the outset**
   In particular, be explicit about how cross-subsidies and intergenerational fairness are managed.

2. **Communicate honestly about targets, not guarantees**
   Members need to understand from the outset that pensions can move up or down, and that any reduction would be a major governance and communication test.

3. **Keep pricing and promises grounded in reality**
   The assumptions used at launch must flow through into investment strategy, benefit adjustments and the way pension increases are granted over time.

4. **Preserve the growth asset advantage**
   CDC's potential rests on maintaining exposure to rewarded risk for longer, while hedging unrewarded risks, such as interest rate risk, where appropriate. This was a notable failing and learning lesson from the Dutch system.

5. **Build scale and capability deliberately**
   Early UK schemes may lack scale, so decisions on investment governance, outsourcing and future insourcing need to be made consciously and revisited as schemes grow.

6. **Address adequacy as well as design**
   CDC can improve expected retirement incomes and make the link between contributions and pension income clearer, but it cannot solve low contribution rates on its own.

> "These principles are difficult to argue with. The real challenge is whether governance and regulatory structures are strong enough to ensure they are met in practice."
>
> Mark Humphreys, Trustee at Law Debenture

From design to delivery

The UK has the legislative architecture, the political will and the benefit of the Dutch experience. Royal Mail has shown that CDC can work in practice. Multi-employer CDC is moving towards implementation, and retirement-only CDC remains under development.

The question now is execution. CDC gives the UK a chance to improve retirement outcomes without reopening the door to open-ended employer guarantees. But that promise will only be realised if schemes are designed honestly, governed robustly and managed through market conditions with a clear focus on members. The Dutch lesson is simple: collective pensions are not judged by their design on paper, but by how they behave when conditions are difficult. That is where UK CDC will prove itself or fail.

> "The outcomes for members will vary hugely depending on the initial design which is then effectively locked in. Trustees are then heavily constrained in their ability to materially change the trajectory for the scheme which raises questions about who is steering the ship."
>
> Mark Humphreys, Trustee at Law Debenture

This is the first of a series of papers on CDC. The following papers will consider the principles for getting CDC right from member, employer and provider perspectives respectively.

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