

PRESS RELEASE

EMBARGOED UNTIL 0001 TUESDAY 5 DECEMBER 2023

PENSIONS POLICY INSTITUTE

PPI

“CDC can offer new opportunities in the retirement income market, delivering a lifelong, investment performance linked, income.” says Pensions Policy Institute

On Tuesday 5th December 2023, **The Pensions Policy Institute (PPI)** published **The role of Collective Defined Contribution in decumulation**. CDC has been subject to a lot of excitement and speculation. Following early milestones in the world of whole-of-life CDC, the PPI has explored the feasibility of decumulation-only CDC, which could naturally follow on from early whole-of-life CDC schemes if they prove successful. This report explores the results of the PPI’s modelling, showing where decumulation-only CDC could bring new possibilities for retirees.



John Upton, Policy Analyst at the PPI said “Decumulation-only CDC would allow a retiree to buy a product that gave them an income for life, removing the risk of spending their money too quickly or too slowly. It could also differentiate itself by offering more risk and reward than other income-for-life products currently on the market. The downside would be that this investment risk translates into less predictable benefit changes year on year. For providers, they must first decide on the scheme’s objectives, and then communicate this to members so that they can properly understand what they are signing up for. To explore these issues, the PPI constructed models to explore how this could play out in a wide range of circumstances.

The modelling results showed that decumulation CDC, investing more aggressively than an annuity would, would generate a larger benefit for members on average. However, because of the way a CDC scheme is currently anticipated to be legislated, the change in benefit that a member would see each year would be sensitive to investment performance, making it less attractive to savers who may not have capacity for this uncertainty.

The results suggest that chief among a decumulation-only CDC scheme’s considerations would be the investment strategy, allowing both the possibility of delivering attractive benefit levels, and the risk of not meeting member expectations of an income-for-life product. There does appear to be a home for decumulation-only CDC in the retirement product space, perhaps by complementing other products rather than competing with them. For someone who already has a suitable underpin from another source, decumulation CDC may offer a way to make their DC pot go further, without having to make complex decisions regarding longevity or investment whilst accepting greater uncertainty.”

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Notes for editors:

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2. **This report has been kindly sponsored by: Department for Work and Pensions, The Pensions Regulator, PLSA and Standard Life.** Funding has been given to help fund the research and does not necessarily imply agreement with, or support for the analysis or findings from the project. The PPI does not make recommendations as to the appropriate direction of future policy. Instead, our work provides **INDEPENDENT** evidence to allow policy development to be well informed.

An INDEPENDENT Report by the

Pensions Policy Institute

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