COLLECTIVE DEFINED CONTRIBUTION PENSIONS

CDC pension consultation response

DAVID PITT-WATSON AND HARINDER MANN

JANUARY 2019

RSA
Action and Research Centre

www.thersa.org

About the RSA

Since 1754 the RSA has sought to unleash the human potential for enterprise and creativity. We have a strong history of finding new solutions to social challenges by acting on the very best ideas and rigorous research, drawing on the expertise of our networks and partners.

The current mission of the RSA is '21st century enlightenment; enriching society through ideas and action'. We believe that all human beings have creative capacities that, when understood and supported, can be mobilised to make the world a better place for all its citizens.

Central to the RSA's current work are the concepts of convening and change making. The RSA has also developed a distinctive approach to change: 'Think like a system, act like an entrepreneur' which now runs through most of our projects. Our work is based on rigorous research, innovative ideas and practical projects, empowering citizens and partners, individually and collectively, alongside our 29,000 strong Fellowship.

About the project

The CDC Pensions Forum is part of the RSA's long standing Tomorrow's Investor programme which began in 2008. This examined the UK pension system and whether it could be improved to deliver better outcomes for savers and the wider economy. One of its recommendations was that the introduction of CDC schemes would provide a better income in retirement than most of the existing options available. Following the recent decision by Royal Mail and the Communication Workers Union to commit to delivering the UK's first CDC scheme, the Forum aims to support the policy debate and ensure that we take the opportunity to establish CDC plans that benefit the saver, within an effective regulatory framework and with appropriate governance.

Acknowledgements

This response was written by David Pitt-Watson FRSA and Dr Harinder Mann FRSA from the RSA's Tomorrow's Investor project. Thanks also to Toby Murray, Tom Harrison, Tony Greenham and Asheem Singh. The authors are grateful to the Royal Mail for their continued support of this project.

Summary

We welcome the government's decision to allow collective pensions in Britain, and would like to give what assistance we can in developing appropriate legislation, and encouraging their adoption. The academic consensus suggests that collective defined contribution (CDC) pensions give a 30 percent higher income in retirement than the other options available to most British private sector workers, so this is a huge prize. However, CDC requires appropriate regulation if it is to be safe and fulfil its potential.

The starting point for CDC should be the proposal by Royal Mail/CWU. However, the benefits of CDC should also be able to apply to other workers. Therefore the legislation passed for Royal Mail should be a foundation stone for further development.

We would suggest that legislative rules should not be too extensive. Rather the process of authorisation, the publication of best practice, and the governance of the pension fund should be central to the provisions to make CDC safe and effective.

As regards governance, we would recommend that the governing body of a CDC fund should consist of trustees owing loyalty only to beneficiaries. This will limit the incentive to establish new CDC plans, so it is likely that the future development of CDC will require support and guidance.

Legislation should ensure CDC funds cannot make hard promises which are not externally insured. They should provide protection against legislative or judicial recharacterisation.

CDC plans will need skilled and representative trustees, strong actuarial oversight, transparency of decision making both ex ante and ex post. Beneficiaries will need relevant information, suitably layered to combine a clarity of headline messages, and the ability to probe further into why and how decisions have been taken. This is particularly true in terms of the explanation of the need to be able to vary benefits, and the management of intergenerational transfer.

In the rest of this paper we expand on these points, and address all the issues raised in the consultation. We have not done this in detail, but at the DWP's request, will be more than happy to engage the networks established by the CDC Forum to address any subsequent questions you might have about this submission.

Introduction

We are delighted to respond to your consultation. For the past seven years, the RSA (The Royal Society for the Encouragement of Arts, Manufactures and Commerce), Britain's oldest think tank, has sponsored a programme known as Tomorrow's Investor. One of its key recommendations is that Britain should allow the introduction of collective pensions. During those years support has developed for this reform, including from the CBI and the TUC. We are very pleased to see it become a reality.

Indeed, building on our earlier work we have established the 'CDC Forum', whose aim, as a non-partisan, independent network of advisors and experts, is to contribute to the public understanding of CDC pensions, and support the government in implementing CDC. We have brought together both supporters and critics of CDC to understand their perspective, so that reform can be fashioned in a way which is effective and safe. This consultation response is the view of the RSA, but it is informed by these broader perspectives.

After many years research and investigation of other pension systems around the world, we believe CDC can make a huge contribution to providing effective pensions in this country. To quote the DWP Select Committee, they could be "a new Beveridge". But the regulations surrounding CDC must be well designed if the system is to prove effective, and not be open to abuse.

Much of the stimulus for action on CDC comes from the desire of Royal Mail to implement a CDC pension. This is an essential first step. But in writing the legislation for Royal Mail, the government will also be laying the foundations for others to follow. The prize could be huge. Pensions are by far the largest household financial asset in the UK. Funded pensions represent £2tn of savings. All estimates suggest that CDC pensions can provide an income in retirement which is 30 percent higher than other options which are generally available in this country.

In this paper we have given outline responses to all the questions raised in your consultation. We have not tried to incorporate details in each answer, but should the DWP have any further questions about our response, we are happy to elaborate, and can direct them to the appropriate experts. It is likely those experts will also submit their own response to this consultation. We hope this is helpful for the DWP. In framing the legislation for Royal Mail, we should also try and build the foundations for the healthy development of CDC in this country. Therefore, this response also sets a framework for the development of CDC policy, and the considerations the DWP might wish to have in mind if CDC is to fulfil its full potential.

This paper has the following structure:

1. The nature of CDC. Why the need for it has arisen. Why research shows it to have such large advantages. What might be its pitfalls.
2. What might be the adoption curve for CDC in the UK. What factors might help or hinder adoption.
3. A discussion of some of the issues raised in the consultation and a skeleton response to each of the questions.

Section 1

The nature of CDC. Why the need for it has arisen. Why research shows it to have such large advantages. What might be its pitfalls.

The purpose of a pension is to provide a reliable income in retirement. For any individual, that creates a problem since they don't know how long they are likely to live for. However, we do know with greater accuracy how long, on average, a group of people will live. Hence there is the need for pensions to find some way of harnessing collective arrangements to allow the sharing of 'longevity risk'.

Such collective arrangements are to be found in the provision of defined benefit (DB) pensions, and in the provision of annuities. When the DB pension system was created it had some flexibility in the promises it made and hence had CDC characteristics. However, during the 1980s and 90s the DB promise was hardened. In part this was a response to companies asking for 'pension fund holidays', in part it was the unintended consequence of legislation. It ultimately made DB pensions unaffordable to private sector employers.

Annuities collectivise risk through a contracted insurance contract. The problem is that such contracts are costly. Indeed they were so costly that the government felt the need to introduce 'pension freedoms'. These mean that pension savings do not have to be used to buy a lifetime income (to avoid annuity costs), but can be used as the individual sees fit.

This leaves a gap. How can an individual save in a cost efficient manner, for a predictable income in retirement? That is the gap CDC fills. The situation is illustrated in the example below.

Illustrative example

How CDC pensions can give better outcomes.

Jo is saving for a pension, and wants to have enough to provide for herself from retirement until death. She intends to retire at 65 but, of course, does not know how long she will live for. She wants to be sure that she will have enough, even if she lives to be 100. That means she needs to save for 35 years of retirement. To do so, Jo will need to set aside £350 per month. The money will be invested in a way which seeks to give a balance of risk and return, and which aims to protect against inflation, etc. When she retires she will drawdown an income each year, with the aim of making her savings last for 35 years. The income secured cannot be guaranteed, but her investment is designed to meet the cost of a decent living in retirement. This approach is known as Defined Contribution (DC) plus drawdown. Of course if she dies before she is 100, there will be money left in her will.

However, Jo also understands that her likely life expectancy, together with everyone else in her company is 85. That means that if they were able to save for a pension collectively, she and her colleagues would only have to save enough for 20 years. As with any insurance, those who die young might be said to be 'subsidising' those who live to an old age. But everyone knows they will be provided for until the day they die. This reduces the cost a lot. If saving for 35 years costs £350 per month, savings for 20 years might cost £200 a month. This approach is known as CDC. DC plus drawdown is thus 75 percent more costly than CDC, if the aim is an income in retirement and the money is invested in the same way.

The only other way Jo can get an income for life, is to buy an annuity. An insurance company provides these. To be sure that the payment is 'certain', the insurance company invests only in 'safe', low return securities. Once in retirement, these provide a very predictable income, albeit that annuities often do not offer protection against inflation. That is not a big concern today, but might well be in the future. Equally problematic, the cost of an annuity varies with the cost of 'safe' securities, so before retirement, it is difficult for Jo to determine how much she will need to save. And annuities are expensive. As a result, Jo needs to set aside £270 a month, 35 percent higher than CDC. This approach is known as DC plus annuity.

In summary, if the cost of a decent living in retirement is £200 per month using CDC, it will be £275 per month for DC plus annuity, and £350 for DC plus drawdown. That is why, properly managed, CDC can offer a higher income in retirement for the same cost as other available pensions.

Note that these figures are developed only for this simplified example. However they are consistent with the extensive studies that have been done on CDC. These are reviewed in Appendix 1 of this paper but a simple comparison is set out below. These studies have been undertaken by government, academic and professional bodies. Two of them have been commissioned by the DWP itself. All tell a similar story, that if the objective is to achieve an income which will last for the rest of an individual's life, CDC will achieve an outcome at least 30 percent higher than DC. It will also be more predictable.

Table 1: Comparison of studies into CDC pension projected income

Study	Comparison	Result	Assumptions
Almeida and Fornia	CDC vs DC plus drawdown.	CDC gives 83 percent higher income. (No Credit given to inheritance value of DC plus drawdown).	DC plus drawdown to give less than 2.5 percent chance of running out of funds.
Government Actuary	CDC vs DC plus annuity.	CDC 39 percent higher income.	Stochastic model.
The RSA	CDC vs DC plus annuity.	CDC 37 percent higher income.	Cost/return modelling.
AON Hewitt/the RSA	CDC vs DC plus annuity.	CDC 33 percent higher income.	Model based on historic outcomes in UK since 1930.
Pension Policy Institute	CDC vs DC plus annuity.	CDC 73 percent higher income (median).	Various return assumptions.

But there are downsides to CDC. There are two principle issues which are worth noting at this stage, and which should be considered as part of the legislative design. The first is that payments from a CDC pension need to be matched to what is affordable. So, if returns are low, trustees may need to agree to reduce pensions in retirement. One must be careful not to exaggerate this problem. In Holland, for example, a flexible system of pensions had successfully provided DB type benefits for two generations. It was not until the 2008 financial crisis that pensions in payment needed to be reduced across the board. Reductions were relatively small (average 2 percent, maximum 6 percent). Nevertheless this created considerable, understandable, dissatisfaction. There is therefore the need for clear communication. Not only of the benefits of CDC, but also of its downsides.

The difficulty in reducing pensions can lead to problems. In particular there is the danger that, to avoid the difficulty of announcing a pension reduction, trustees will be tempted to change assumptions and delay taking action. Appropriate actuarial and regulatory oversight will be needed to stop this happening. Indeed some of our respondents were keen that to resolve this issue, there should be two 'pots'; one for accumulation, and another for decumulation, the latter being more cautiously invested. That stops pensioners raiding younger people's savings and vice versa. Our own view is that such a structure should be allowed if CDC is to fulfil its potential, but it should not be required.

The second problem is the potential for those who manage CDC schemes to profit at the expense of the beneficiary, rather than by serving them. Given the flexible nature of the CDC promise, there are considerable opportunities to do so. For this reason, we would advocate that CDC pensions should be trustee governed; that is they should only owe loyalty to beneficiaries. This does not prevent private provision of other services such as fund management, administration, etc. But those services should be commissioned by trustees.

Section 2

What might be the adoption curve for CDC in the UK. What factors might help or hinder adoption.

It is important that, in drafting legislation for CDC, the DWP considers the practical development of CDC. Clearly the first and most urgent step is ensuring that the Royal Mail plan is safe, and is allowed to go ahead. But CDC has wider application. And the 30 percent plus upside which it offers should be made available to others if possible. This must be done in a way which is both safe and practical.

We would note that the principle of allowing CDC is already implicit in the 2015 Pensions Act. This gave the government powers to allow 'Defined Ambition' pensions, including CDC. The Act was passed with full cross party support. Therefore Parliament has agreed the introduction of CDC and similar pensions. However, the Act required a complex regulatory framework and so was not implemented. This time around, the government is proposing a more limited 'step at a time' approach which we applaud. However it is still important to design legislation with future steps in mind.

We believe there may be four stages in the adoption of CDC:

1. The first is to allow Royal Mail to introduce a CDC pension. This is the immediate priority. Royal Mail is a well qualified employer. Its plan must of course meet all legislative requirements and be appropriately authorised. But we cannot see any reasons why the government would not want to allow this plan to go ahead, or delay its introduction.
2. The second set of adopters will be other likeminded large employers. In drafting legislation, it is important that characteristics of the CDC plan, which are peculiar only to Royal Mail, are not hard wired into legislation in a way which prevents other well designed schemes from being established
3. The third will be to allow the establishment of multiple employer CDC plans. CDC does not depend on the underwriting of an employer. So, unlike DB, it can be readily consolidated, and hence reap considerable advantages in scale and efficiency. For example, if CDCs were established on an industry basis, many employees would be able to change job, without changing pension provider, that would be a big advantage. Such pension plans could also be made available to the self employed.
4. Finally, the legislation should envisage that that there will be a desire to establish a system where qualified bodies can offer CDC

> for those who want to use their DC savings to secure an income in retirement. This is an important compliment to 'Freedom and Choice', offering pensioners an effective pension choice other than annuitisation.

Such an adoption pattern may well take some years. Furthermore, it may require nudging from the government to both the industry and employers, if the best structure is to emerge. As we have already noted, CDC pensions should ideally be managed by trustee bodies which only owe loyalty to their members. This stipulation means that there is little market incentive to expand CDC provision. Therefore some guidance and encouragement is likely to be needed; for example in encouraging the establishment of industry CDC schemes. The government might also consider whether NEST might be allowed to offer CDC arrangements, for example as a decumulation option. The precise policy details are a matter for future discussion. At this stage we would simply note the need to ensure that legislation does not preclude these sorts of future developments.

Under all circumstances, it is essential that CDC pensions are never able to make hard promises unless these are separately insured. The experience of Equitable Life is a reminder of how dangerous it can be if some policy holders are damaged by unreasonable promises made to others. Indeed, more generally, CDC needs to be protected against any legislative or judicial recharacterisation. Many employers feel this was what happened with DB pensions, and will be nervous about supporting any new regime which lumbers them with liabilities they have not agreed to.

Section 3

A discussion of some of the issues raised in the consultation and a skeleton response to each of the questions.

We have grouped our response to the consultation around three topics:

1. Authorisation and governance
2. Valuation and investment
3. Benefits and communication

For each of these topics we have started with a general discussion of issues raised, and how best they might be addressed. We then give thumbnail answers to each of the specific consultation questions. These have been informed by discussions organised by the CDC Forum.

We have not tried to answer every question in depth, since some are detailed and require expert input. However, we would be delighted to elaborate on our answers, and to direct the DWP to the various experts who have been involved with the RSA and the CDC Forum. These include lawyers, actuaries, pension managers (including those from around the world where CDC is established), employers, unions, academics and pension policy experts.

Authorisation and governance

It is essential that CDC is well governed. This requires some technical expertise, as outlined in the consultation (Q 6,7,8). It also requires the right motivation for those charged with governance.

During our discussions some have suggested that CDC is similar to 'with profits' (WP) insurance. And indeed, whilst they are quite different vehicles, CDC and WPs do have some similar characteristics. Yet WP created problems. There are three reasons why this happened, and which CDC must avoid.

The first is that those in charge of WPs had mixed motives; both to look after the beneficiary and to maximize profit for the manager. So, although they had a proud history over 200 years, the privileges of the managers of WP were ultimately abused. It is therefore essential that the duty of the board of CDC pension must only be to the beneficiary. This does not stop the board hiring private agencies to manage all or part of the pension plan, so competition and markets can still flourish. But there must be no mixed motives in CDC governance. This has some important, (and potentially negative), consequences for the development of CDC, as discussed below.

The second is that structures and charging of WP was opaque. CDC must have the highest level of effective transparency, as discussed elsewhere, and fees should be limited.

The third is about the skills and motivation necessary to run a CDC fund. We agree these need to include technical skills as discussed in the consultation. But they should also involve the representation of beneficiaries.

We approve of all the considerations in paragraphs 66 to 75. In particular, it is essential that hard promises cannot be made by a CDC pension plan and should be separately insured. It was this error which brought the downfall of Equitable Life. Indeed CDC must be protected against legislative or judicial recharacterizations which could have this effect.

Finally we believe there is a strong argument to limit the detail contained in legislation. Rather protection should be sought by only authorizing those plans which clearly are well and competently managed. The government can issue best practice guidance for each of the areas covered in the consultation, and authorize those schemes which meet best practice and/or can demonstrate why they have an equally good policy to achieve success. Since trustees owe duties only to beneficiaries this should limit any desire to try to get around the intent of the law and the guidance.

Therefore, in response to your consultation questions we reply as follows:

1. (Q2,3) We are comfortable CDC benefits will be classed as money purchase.
2. (Q 4) Paragraphs 66 to 75 suggest specific regulatory requirements. Do they make sense? They do, and we would add the consideration above on the duties of the board of a CDC.
3. (Q 5) Does there need to be a minimum size in terms of membership of a CDC? This would best be adjudicated as part of the authorization process. But clearly there needs to be a minimum size to spread longevity risk and keep costs down.
4. (Q 6,7,8) Are there particular issues of trustee knowledge and understanding which need specified. We would suggest that TKU is important, and that as a group, trustees should have adequate knowledge. But they must also be able to show that they represent the beneficiaries, (and also to some extent the employers). Demonstrating a plan to do so should be part of the authorization process.
5. (Q 17,18) As regards authorization and governance, CDC will be established under the authority of the Pensions Regulator. Paragraphs 130 to 140 describe the regulatory regime. We support these powers, and indeed, should it be possible to do so, would also support the additional powers set out in paragraph 139.
6. (Q16) The consultation asks how a CDC fund can be wound up. As with a DC plan, we see no particular complications. However, prior to authorization, a CDC should be able to show how they can wind up the fund should that prove necessary.
7. (Q 21) We agree that CDC should be administered like money purchase but with the need to appoint actuaries (paragraphs 151 to 155).

Valuation and investment

Valuation of the assets of a CDC plan should be relatively straightforward. The liability, and hence what is currently affordable, is more difficult to calculate, and if done incorrectly can lead to intergenerational unfairness. There needs to be a 'best estimate' on how that calculation is made. It needs to be decided on by a trustee body which is skilled, representative of all beneficiaries, and has actuarial input and oversight.

One issue which has been raised about CDC is the risk that it could generate intergenerational unfairness. It is worth noting, in passing, that it is arguable the intergenerational unfairness of DC plus annuity is much greater than CDC. In every modelling of CDC, outcomes are much more similar in CDC than in DC. However, there will inevitably be variation in CDC and this needs to be managed.

The key is to be sure that systemic intergenerational transfer is modest, without overcomplicating the CDC arrangements. Ultimately the mechanisms for doing so may be done best through authorization, rather than details being written into law. So, for example, we note that the Royal Mail CDC pension proposes no capital buffers which limits intergenerational unfairness. That is an acceptable solution, but it may be that other CDCs may propose modest buffers. Royal Mail also proposes that similar pension rights accrue no matter how long until the beneficiaries' retirement. Again that is acceptable, and simple, though it does create some intergenerational unfairness.

Therefore, in response to your questions:

1. (Q 10) CDC will have no capital buffers. Is that a sensible requirement? If so what issues does it raise? As discussed above, in the context of Royal Mail, it makes sense, but it need not be a requirement.
2. (Q12) How valuation issues are best addressed? The criteria set out in paragraphs 109 to 113 encourage best estimates. This may be a sensible and pragmatic solution, but there may be situations where some buffer is appropriate. Note that the key is to trigger an adjustment when the pension is underfunded. Provided members are happy with the arrangement, some level of overfunding may be appropriate.
3. (Q13) Should CDC design insist on sustainability without continuing employer support? It should, but since it is a DC pension, there should be limited difficulty in doing so.
4. (Q14) How are risks best managed? Section 4.4 of the consultation deals with these issues, which should be part of the authorization process.
5. (Q15) How is intergenerational transfer best managed? In practical terms this might best be done through the authorization process and guidance. Legislation might wish to insist that it is the duty of trustees to manage intergenerational transfer. (See discussion in responses (a) and (b) above).
6. (Q 17,18, 19) We are content that valuation and investment of a CDC will be established under the authority of the Pensions Regulator. Paragraphs 130 to 140 describe the regulatory regime.
7. (Q 22,23) A CDC should have a charge cap, like money

purchase. Provided CDC is established at scale we believe the 0.75 percent should allow adequate flexibility of investment.

Benefits and communication

Honest communication is essential for CDC, so that members understand that benefits can be varied. Such information must be expressed in simple plain language. It should also be 'layered', where the essential terms are plainly presented but, should members so wish, they can inquire more deeply into how trustees have reached their decisions. They can learn where their money is invested, and the assumptions that have been made about future performance.

The way in which decisions have been and will be made needs to be effectively communicated to the members. This may well involve estimates of ranges of likely outcomes. Indeed whilst we recognize the need for a best estimate, we also note that there are different assumptions, and indeed different methodologies for determining what a pension fund can afford. We would encourage best practice guidance to outline the sort of valuation methods trustees might wish to consider.

In response to specific questions:

1. (Q 1) Might there be any existing or future equality act provisions which could negatively impact CDC? There might be, and some may be acceptable. However, as noted above, CDC needs protection from legislative recharacterisation, which could undermine the principles on which people have been saving.
2. (Q 9, especially paragraph 89) Which of the Automatic Enrolment tests makes most sense for CDC? We would tend to believe that the DC rules are most appropriate.
3. (Q 11) How are benefits best communicated to members. See discussion above.
4. (Q20) Paragraphs 146 to 150 lay out disclosure requirements. Are others required? Not as part of legislation. However best practice guidance could be given, and one can imagine how better practice could emerge over time.
5. (Q 24,25) How should transfers in and out of CDC be handled. Should either be restricted? While it would be convenient to allow market to market transfers in an out of CDC, the consequences of doing so may be problematic if members seek to arbitrage their pension savings. Again, this should be decided scheme by scheme as part of the authorization process. But it should be possible for trustees to decide that, in the interests of the members as a whole, transfers should be restricted, or a reasonable charge made. For example, it should not be possible for someone who has just been diagnosed with a terminal illness to withdraw from the pension fund, if that undermines the sharing of longevity risk. Members should, of course be made fully aware of any such conditions before joining the fund.

Appendix 1: review of studies about CDC outcomes

In this Appendix we review the studies which have been done to evaluate CDC. All show a 30 percent plus upside for CDC over DC saving plus annuity, which we believe is the best like for like comparator. Indeed the latest study commissioned by the DWP suggests a higher upside than that.

But equally important is that CDC does not mean that individuals are beset by 'timing risk'. That is that they lock in the return they will receive on the day they buy an annuity. Given the changes in annuity rates this is a considerable risk.

Observers often find it difficult to credit the advantage of CDC. However all the papers we can find that have seriously investigated the subject, including two commissioned by the government, suggest a 30 percent plus upside. The worked example in main body of this paper explains how these big differences can arise. Below we cite the most serious studies. We have included links to the articles cited.

Almeida and Fornia simply look at how much more you need to save individually if you want to be 97.5 percent sure that you will not run out of funds before you die. They compare that with a situation where longevity risk is shared and effectively eliminated. They conclude that the cost of the former is more expensive by 83 percent. This is equivalent to the comparison of DC plus drawdown shown in the worked example.

www.open.ac.uk/ikd/sites/www.open.ac.uk.ikd/files/files/events/financial-institutions-and-economic-security/a-better-bang-for-the-buck.pdf

In reality though, the saver can buy an annuity. The Government Actuary modelled this some years back. Part of their model though assumed that a CDC scheme had made hard promises and so could become insolvent, (that should never be part of the design). However their upside was 39 percent.

webarchive.nationalarchives.gov.uk/20130402184026/www.dwp.gov.uk/docs/collective-defined-contribution-schemes-dec09.pdf

At the RSA we did a very simple 'cost accounting', looking at where the upside comes from, and found an upside of 37 percent. The RSA papers are enclosed with this submission.

www.thersa.org/globalassets/pdfs/reports/collective-pensions-in-the-uk.pdf

The RSA with AON Hewitt then worked on modelling of DC vs CDC, starting in 1930. This models what would actually have happened to an individual who saved for 25 years and then retired, comparing DC and CDC outcomes. Our publication also reviews other literature.

www.thersa.org/discover/publications-and-articles/reports/collective-pensions-in-the-uk-ii

AON Hewitt full study explains their assumptions. It yielded a 33 percent upside, on the best like for like comparison.

www.aon.com/unitedkingdom/attachments/aon_hewitt/dc/Aon_Hewitt_The_Case_for_Collective_DC_Nov13.pdf

Finally, the government asked the Pensions Policy Institute to do another modelling in 2015. It compared a mature and stable CDC scheme, with individual DC. The former produced an income replacement of 27 percent to 30 percent. The latter a lower and more varied rate of 12 percent to 21 percent. Taking the median outcome of CDC is 28.5 percent, and of DC 16.5 percent. That means CDC gave a 73 percent better outcome.

www.pensionspolicyinstitute.org.uk/publications/reports/modelling-collective-defined-contribution-schemes

Other Bibliography

The DWP may also be interested in a book by Dutch academics, called The Costs and Benefits of Collective Pension Systems. This points out that some element of intergenerational transfer may mean that under CDC "all are better off but some are better off than others".

www.amazon.co.uk/Costs-Benefits-Collective-Pension-Systems/dp/3540743731

The RSA (Royal Society for the encouragement of Arts, Manufactures and Commerce) believes that everyone should have the freedom and power to turn their ideas into reality. Through our ideas, research and 29,000-strong Fellowship, we seek to realise a society where creative power is distributed, where concentrations of power are confronted, and where creative values are nurtured.

Recent RSA studies have explored the rise in self-employment, the gig economy and the ethics of artificial intelligence. In each case, we have sought to dig behind the headlines, unpick the nuance of debates, and canvas views from across the political spectrum. Our goal is to explore the big challenges facing society today.

8 John Adam Street
London WC2N 6EZ
+44 (0)20 7930 5115

Registered as a charity
in England and Wales
no. 212424

www.thersa.org