

+ CDC's investment secret

Chapter 1: Why investment is critical to CDC

70% of your CDC pension is driven by investment strategy; only 30% from contributions. That's why investment matters to CDC.

In this Chapter we explore:



Why can CDC offer better outcomes?

CDC allows for more assets to be invested in growth assets for longer. The impact is higher income per £ invested than either DB or DC. CDC allows investors to capitalise on the power of compounding higher returns like no other pensions system.

Andrew Linz, Principal



Investment strategy impacts everything(!) for a CDC scheme

Small changes in returns compound to make big differences in pot sizes, but so does the impact of inflation and managing market volatility through generations. We look forward to sharing our expertise on setting investment strategy to optimise risk, return and inflation protection.

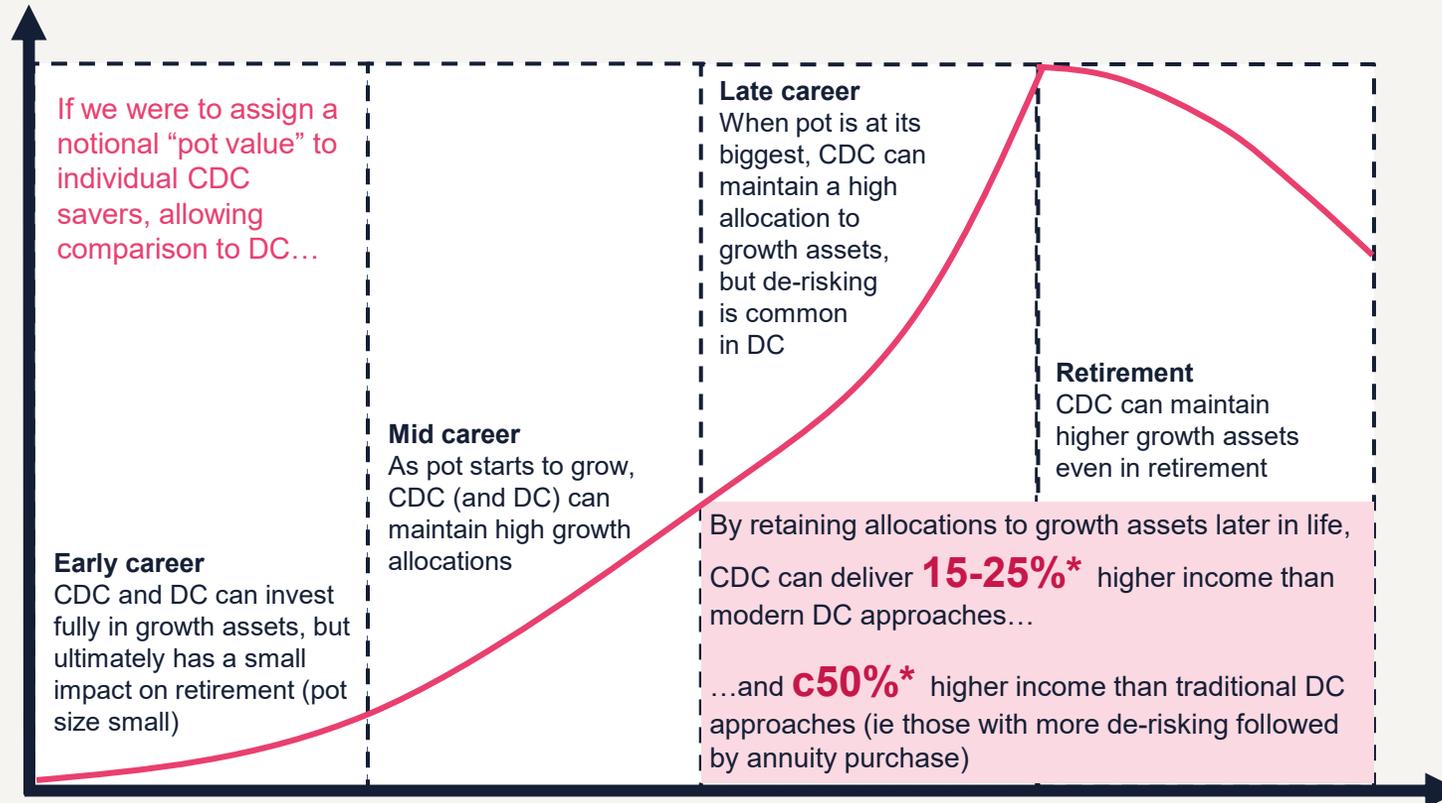
Mary Spencer, Partner

+ *CDC is not nirvana. We take a rational look and analyse the sources of value.*

In future Chapters we'll dive into the issues, showcase frameworks for assessing risk in a CDC world, analyse the impact of different investment strategies, and the lessons learnt from history and abroad.

Why can CDC offer better outcomes?

Because it can invest in growth assets for much longer



*Contributions growing slightly above inflation and with reasonable assumptions about asset strategies and their expected returns

A better way to explain outcomes from different pension types?

For a saver joining at 25 and living to 90

Allowing for cashflows in and out, we think about the number of years of exposure to growth assets.

CDC
around **60**
years

- **c30 years more than DC with annuity purchase** (ie double!)
- **c15 years more than DC with drawdown** (where saver also bears risk of money running out)

Why can CDC sustain growth exposure?

CDC is structurally better able to remain invested in growth assets because it:

- pools longevity risk across members
- shares investment and sequencing risk collectively
- avoids the need for individuals to self-insure through early de-risking

By contrast:

- DB schemes** are typically focused on securing promises already made, limiting appetite for growth
- DC schemes** often de-risk as retirement approaches, precisely when pots are largest



Investment strategy impacts everything(!) for a CDC scheme

Why you should think about CDC investment strategy sooner rather than later

1. Small differences in returns magnify over time

A. Returns of 7.0% pa

B. Returns of 7.3% pa

Over 60 years

B outgrows A by c20%

So, a big increase can be achieved by minor differences in investment allocations which do not materially impact risk. Specifics of investment strategy matter for expected member outcomes.



2. Inflation linkage will be key

Do you secure inflation protection by **buying assets with explicit linkage (and lower yields), or take your chances on a looser link but higher yielding investments?**

Have you assessed how inflation linkage could break down in (eg) high inflationary scenarios? This will impact how you advertise a CDC scheme to members.



3. Intergenerational fairness

CDC is most likely to “go wrong” on the terms converting contributions into pension, and increases in pension provided. If these are inconsistent with the investment strategy, the risk of generations inadvertently cross-subsidising each other increases.

More closely aligning these terms and investment strategy can drive better trustee decisions.



An implementation perspective

Whether you are a provider or individual scheme considering launching a CDC structure, these issues are key to consider up front, and are all impacted by investment strategy.

1 Reputation

Expected return will impact expected outcomes, but potentially more importantly, risk will drive the likelihood of benefit cuts. In a competitive market, avoiding cuts (especially in early years) could prove to be a big advantage.

2 Resource

Using existing building blocks is an obvious way to manage resource, but will they maximise risk-adjusted returns and can they smoothly support large-scale asset deployment?
Additional needs will be influenced by investment approach but will also influence feasibility.

3 Costs

All the issues in this article will impact costs and the approach to charge cap compliance. It is better to understand these implications sooner rather than later.

We look forward to exploring many of these issues in future chapters of this CDC investment series.

Keep up to date with our latest CDC insights

The future of pensions?

We take a step back and consider what is right for our savers going forward, based on key criteria.

We explore the relative strengths of DB, DC and CDC scheme structures

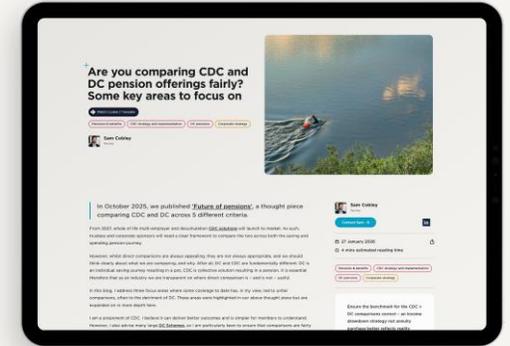


[Read here](#)

CDC vs DC

In this blog, Sam Cobley flags that DC and CDC are fundamentally different beasts.

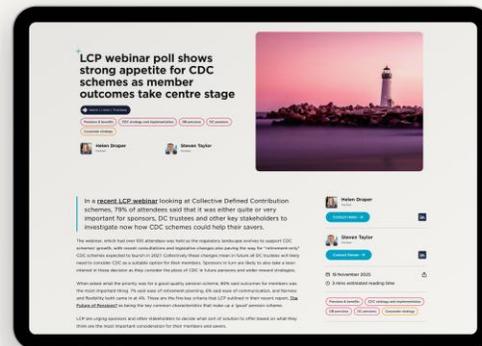
He highlights three focus areas and sets out how to fairly frame comparisons.



[Read here](#)

A member focus

We summarise the outcomes from a CDC webinar in late 2025, where participants' focus on member outcomes came out loud and clear.



[Read here](#)

CDC consolidation?

LCP's David Fairs has submitted a proposal to the Pensions Commission for a CDC consolidator or superfund.



[Read here](#)

Contact us

CDC is a fast-evolving area. Get in touch to discuss our latest views on where the market is heading and how we can support you in developing your own approach. Our CDC team brings together specialists across benefit design, actuarial, DB and DC investment, and advanced modelling to advise on every aspect of a CDC scheme.



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