



+ CDC's investment secret

Chapter 2:
CDC through the lens of history:
markets, regimes and real-world
experience

CDC investment strategy is twice as important as the contributions paid.

Following on from [Chapter 1](#), In this Chapter we explore:



How robust is CDC in different market conditions?

Markets rarely behave the way investors expect. We back test CDC over the last 80 years and see how well it performs in different regimes. The results reveal that CDC's investment structure can deliver resilient retirement outcomes, but with some economic scenarios to watch out for.

Ivan Buzulutsky, Principal



What we can learn from the Dutch CDC experience

Collective pensions are often said to have “failed” in the Netherlands. But the story is more instructive than that. The Dutch experience shows that the durability of CDC depends not on avoiding investment risk, but on how that risk is immediately recognised and shared transparently across generations.

Laun Middleton, Partner

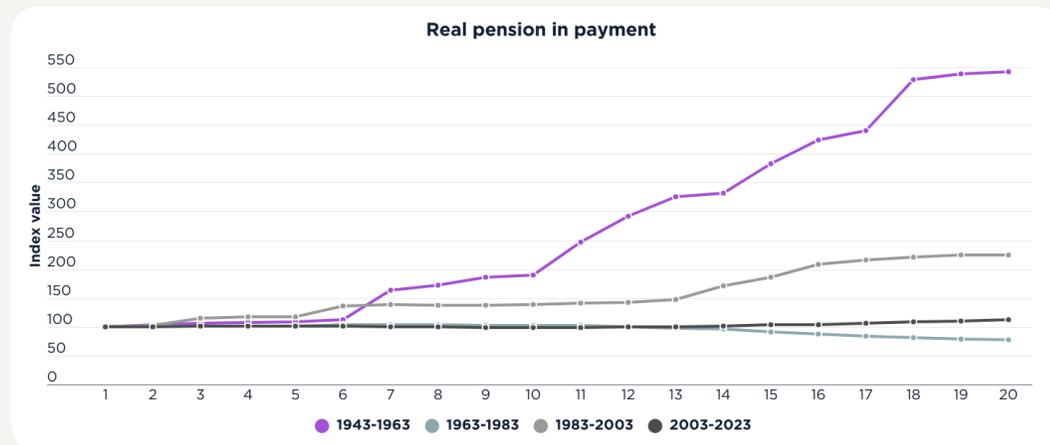
+ *The success of CDC will ultimately be determined by how investment risk behaves across markets and across generations. History — both in financial markets and in the Netherlands — already provides valuable clues.*

How robust is CDC to different market conditions?

What 80 years of market history tells us about CDC

Markets rarely behave the way investors expect. Over the last 80 years the global economy has moved through very different environments — from post-war expansion to stagflation, disinflation and the era of ultra-low interest rates.

To understand how CDC behaves across these conditions, we modelled outcomes using actual historical market data across four distinct 20-year regimes and show the results compared to the most recent regime that is most vivid in our memories.

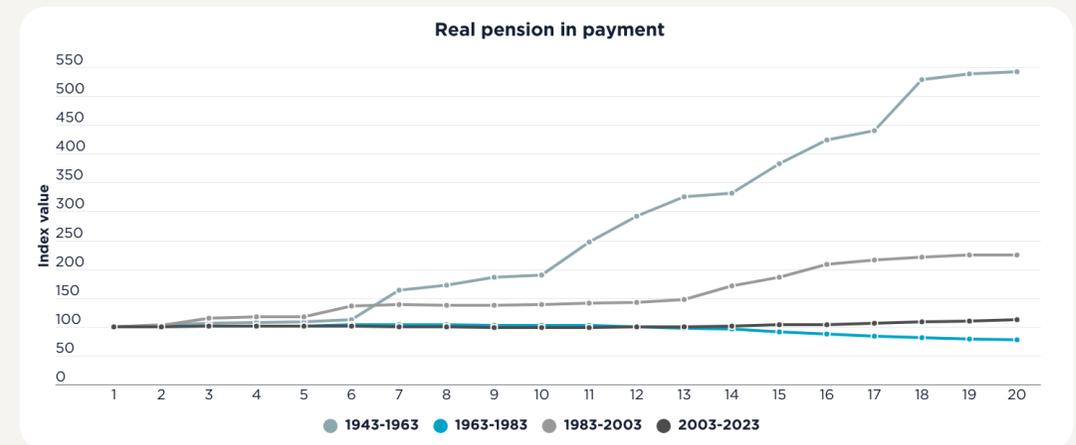


1943–1963:

The post-war boom – Real terms pension 86% higher than 2003-2023

This period combined strong equity returns with moderate inflation. Investment markets performed exceptionally well, and CDC schemes would have passed those gains directly through to members in the form of sustained pension increases.

With growth assets delivering strong real returns, members benefited from rising pensions throughout the period.



1963–1983:

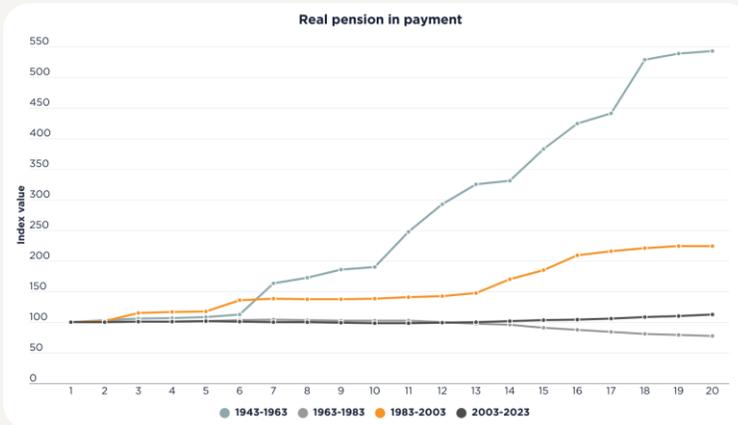
Stagflation and weak real returns – Real terms pension 24% lower than 2003-2023

The inflationary decades of the 1960s and 1970s were by far the most challenging environment in the analysis. Inflation surged while real investment returns were weak. CDC outcomes were therefore more subdued. Pension increases frequently lagged inflation and purchasing power fell in real terms for periods of time.

However, the structure still avoided large nominal cuts and allowed younger members to accrue benefits cheaply during difficult market conditions — positioning them to benefit when markets later recovered.

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What 80 years of market history tells us about CDC

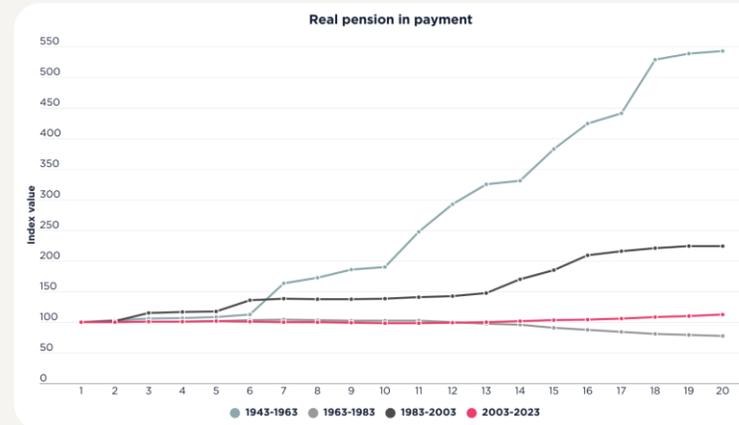


1983–2003:

Falling inflation and financial volatility – Real terms pension 11% higher than 2003-2023

This period saw inflation fall sharply while financial markets experienced significant volatility.

Despite market swings, our CDC scheme generally maintained and gradually increased members' purchasing power. Strong equity returns supported benefit increases and the scheme avoided cuts during the period.



2003–2023:

Low rates and modern crises

The most recent regime combined historically low interest rates with several major market shocks, including the global financial crisis.

This regime exposed the weaknesses of DB pension schemes and DC with annuity purchase as the costs or outcomes of these were dependent on the level of interest rates that collapsed during this period.

CDC responded differently. Because pensions adjust gradually over time rather than being fixed at retirement, members would have been able to participate in the market recovery that followed major downturns.

A system designed for changing conditions

These regimes show how unpredictable long-term economic conditions can be. CDC does not remove investment risk — but it changes how that risk affects outcomes, allowing pensions to adjust over time.

The investment strategies used in this analysis are deliberately simple. In practice, modern CDC schemes have access to a much broader investment toolkit and more sophisticated portfolio design.

In Chapter 3 we explore what this means in practice — how risk should be measured in CDC schemes and how portfolios can be built to perform across different economic regimes.

What the Netherlands teaches us about CDC

It is often said that collective pensions were tried in the Netherlands and ultimately abandoned — so why should the UK expect a different outcome? That framing misses the more instructive lesson. The Netherlands did not abandon collectivity; it redesigned it. The experience highlights not that collective pensions “fail”, but that the durability of any collective system depends on how investment risk is embedded, recognised and shared over time.



Expectations – and risk – fell out of alignment

For decades, Dutch collective schemes delivered strong outcomes through large, growth-oriented, collectively invested funds. Benefits were explicitly conditional, but long periods of stable outcomes led many members to perceive pensions as secure and predictable.

The tension emerged when markets disappointed and funding deteriorated. Dutch schemes operated with funding buffers that allowed investment gains and losses to be absorbed gradually rather than immediately reflected in benefits. That smoothing provided short-term stability particularly for pensions in payment, but it also deferred the visible impact of shocks.

As buffers were drawn down and funding pressures accumulated, eventual benefit adjustments became unavoidable. By then, however, expectations had shifted. Members were being asked to bear investment risk that, in practice, had been obscured for a period. The central challenge was not collectivity itself, but misalignment between the risks embedded in the investment strategy and what members believed their pensions represented.



Investment strategy as a structural choice

This is where investment strategy moves from implementation detail to core design feature.

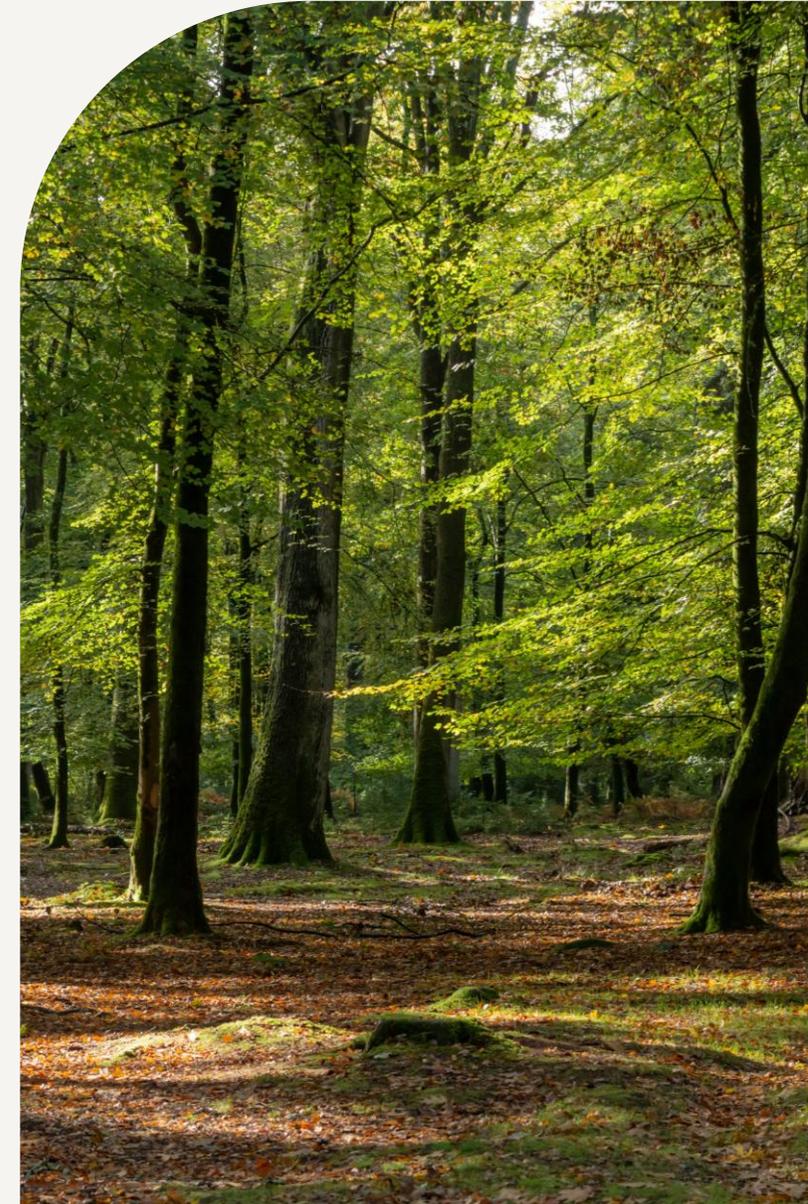
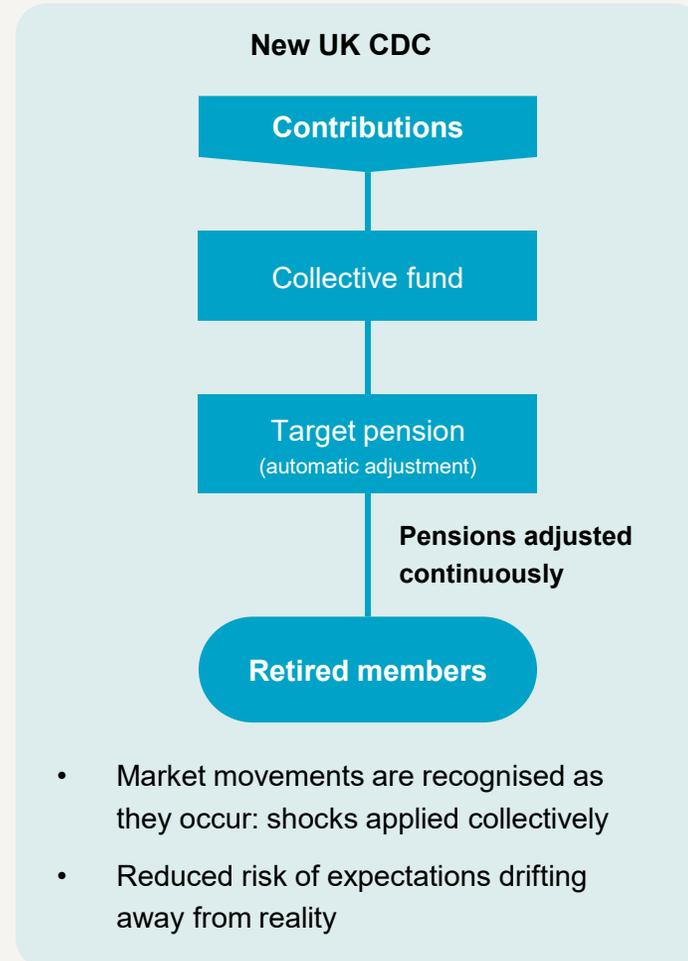
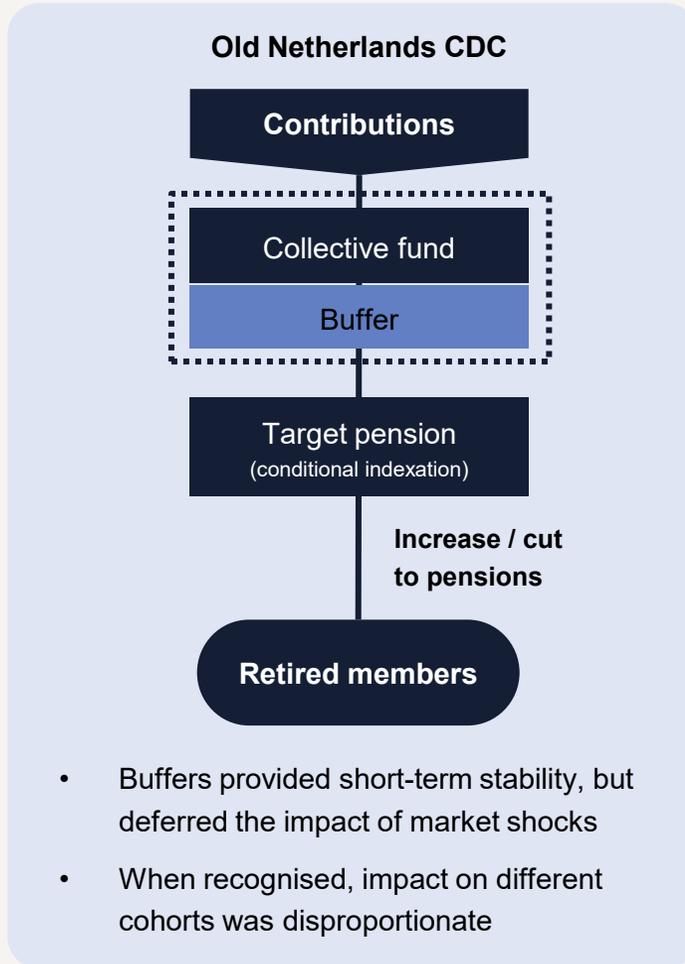
Higher expected returns can support higher pensions — but only by accepting greater variability in outcomes. When returns are smoothed through buffers or delayed recognition mechanisms, the economic risk does not disappear; it is redistributed over time and across cohorts.

Resilient collective pensions therefore depend on maintaining alignment between three moving parts:

- member expectations,
- the risks embedded in the investment strategy, and
- the mechanisms used to adjust benefits when conditions change.

Where those elements remain aligned, collective systems can pool longevity risk, mitigate poor individual timing and support higher long-term income.

What the Netherlands teaches us about CDC (cont.)



What the Netherlands teaches us about CDC (cont.)

The key is not whether risk is shared, but how and when that sharing becomes visible



Learning from others experience

The UK approaches CDC from a different starting point. Rather than evolving from a legacy defined benefit environment, it is being designed with the benefit of international experience.

A key structural difference is the treatment of investment shocks. The earlier Dutch framework relied on buffers to smooth volatility. The UK design of CDC does not. Market movements are recognised as they occur, with target pensions adjusted so that assets and liabilities remain aligned. Shocks are therefore acknowledged collectively rather than deferred.

This does not eliminate investment risk, nor does it remove intergenerational trade-offs — no collective system can. But earlier recognition reduces the scope for expectations to drift away from economic reality and makes the distribution of risk more transparent.



A second-generation approach

The Dutch reforms are better understood as an evolution toward greater transparency over how outcomes may vary, rather than a rejection of collective pensions. All collective systems involve intergenerational risk sharing. The critical point is not whether risk is shared, but how and when that sharing becomes visible.

For the UK, the challenge is therefore not to prove that collective pensions can generate higher returns, but to ensure that the risks taken to support those returns are consistent with what members understand and trustees can credibly manage over the long term.

The question is not whether CDC involves risk — it always does — but whether that risk is recognised and governed before expectations move beyond what economics can sustain.



What the Netherlands teaches us about CDC (cont.)

The key is not whether risk is shared, but how and when that sharing becomes visible

Why are UK CDC schemes more likely to succeed?



Immediate recognition of market movements: UK CDC adjusts target pensions as asset values change, reducing the risk that shocks build up unseen within funding buffers.



Clearer expectations around conditional benefits: The UK framework explicitly communicates that pensions may adjust, helping align member expectations with investment reality.



No large smoothing buffers: By avoiding collective buffers, the UK design reduces the risk that investment losses accumulate and later fall unevenly across generations.



Designed with international hindsight: The UK is implementing CDC after decades of international experience, allowing lessons from the Netherlands to be reflected in the regulatory and governance framework.



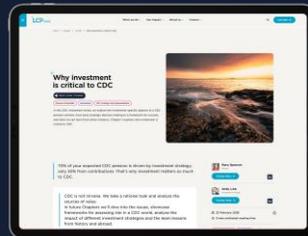
Investment strategy embedded in scheme design: UK CDC recognises that how investment risk is taken and shared is a structural feature of the scheme, not just an implementation detail – just as we showed in [Chapter 1](#).



Explicit mechanisms for benefit adjustment: UK schemes are built around transparent rules that allow pensions to rise or fall as funding conditions change.



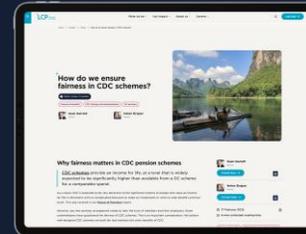
Keep up to date with our latest CDC insights



Why investment is critical to CDC – chapter 1

In chapter 1, LCP explore the investment-specific aspects of a CDC pension scheme, from early strategic decision making to a framework for success, and what we can learn from other investors.

[Read here](#)



How do we ensure fairness in CDC schemes?

In this blog, Sean Garratt explores the concept of fairness in CDC pension schemes, common concerns about intergenerational risk sharing, longevity differences and benefit adjustments.

[Read here](#)



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](#)

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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