# Media Comments 2017

**CIDC schemes 'better' than CDC schemes, pension academic claims, by Natalie Tuck, Money Age/ Pensions Age, 10 January 2018**

Collective individual defined contribution schemes are the best pension scheme model, and "better" than collective defined contribution schemes, a top pension academic has said.

The Cass Business School's Pensions Institute director David Blake has said that CIDC schemes may be the only form of collective pension scheme that is feasible in the short term. He added that CIDC schemes might now be possible because of the freedom and choice pension reforms, introduced in 2015.

Blake made the comments in response to the Work and Pensions Committee's inquiry into CDC schemes, which is accepting written submissions until 31 January 2018.

"CIDC schemes maintain individual accounts, they are better able to deal with sudden cash withdrawals than CDC schemes, yet are still able to exploit economies of scale to the full which lowers costs, e.g., through automatic enrolment and the pooling of investment and longevity risks," Blake said.

The academic highlighted three key features of CIDC schemes that are specific to each individual member and which make the scheme easy to understand. The first is that CIDC schemes maintain individual accounts for all members in the accumulation phase, so it is easy to value each individual's pension pot.

Secondly, the contribution rate is set to be actuarially fair to each member, implying that there is a direct relationship between the contributions that an individual pays into the scheme and the pension they eventually receive. This contrasts with CDC schemes in which contributions are averaged on a collective basis to meet a target average salary pension.

And finally, each individual has their own de-risking investment strategy in the lead up to retirement.

Therefore, Blake, in his submission, recommended that the government examines the feasibility of establishing CIDC schemes for both the accumulation and decumulation phases.

"Such schemes would be compatible not only with the defined ambition agenda, they would also be compatible with the new pension flexibilities following the 2014 Budget, while, at the same time, exploiting economies of scale to the full and allowing a high degree of risk pooling," he said.

The Work and Pensions Committee announced its plans to launch an inquiry into CDC schemes in November 2017. The Committee's inquiry is considering the merits of CDCs, the role that they could play in the pensions landscape, the potential benefits to savers and the wider economy and the legislative and regulatory framework that would be required to successfully implement these schemes.

Also known as defined ambition schemes, CDCs differ from defined benefit schemes as they do not promise a retirement income, but have a target or "ambition" amount that it will pay out to members based on long term, mixed risk investment plans. These schemes have view to pay out an adequate level of index-linked pension for life, but also have the ability to redefine the benefits offered if circumstances, like volatile economic conditions occur.

The Pension Schemes Act 2015 outlines "shared risk/defined ambition" or CDC as a distinct category. Despite this, however, regulations under the Act to implement these schemes have not been introduced. This was delayed by further announcements in October 2015 that plans for CDCs would be paused indefinitely in order to allow for auto-enrolment and pension freedoms to be implemented.

Those in favour of CDC schemes have argued that they provide greater assurance of retirement income and more efficient pooling of costs and risks among members than traditional DC schemes.

**CIDC schemes offer best scheme model, says academic, By Pensions Expert | *January 10, 2018***

Collective individual defined contribution schemes may be the only viable form of collective pension scheme in the short run, according to David Blake, director at the Pensions Institute, Cass Business School.

In a submission to the Work and Pensions Committee inquiry on collective defined contribution pension schemes, Blake outlined three key features of CIDC schemes.

CIDC schemes keep individual accounts for all members in the accumulation phase, making it easier to value each saver’s pension pot, according to the academic.

The contribution rate, would be set to be actuarially fair to each member. Blake said a third advantage of CIDC would be the unique derisking investment strategy afforded to every individual in the run up to retirement.

“Such schemes would be compatible not only with the defined ambition agenda, they would also be compatible with the new pension flexibilities following the 2014 Budget, while, at the same time, exploiting economies of scale to the full and allowing a high degree of risk pooling,” he said.