

## Collective Defined Contribution Plans

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### Key Points

- CDC plans can provide lifetime retirement income for participants, with highly predictable costs for employers. With these advantages, these programs can potentially play a role within national retirement policy.
- Though not generally permitted under current law in the United States, they are currently available under non-ERISA plans and may gain additional attention as they gain popularity around the world. Examples of recent global strategies in Canada, the Netherlands, the U.K., and Australia offer perspectives on the potential future utilization in the U.S.
- Understanding what a CDC plan is and how to address concerns related to equity, scale, communications, and future flexibility can help policymakers, employers, and actuaries work together to influence the future of CDC plans in the U.S. economy.

### Introduction

A Collective Defined Contribution (CDC) plan is a retirement plan in which periodic, predefined contributions are made by the funding agents (generally, employers and/or employees) and lifetime income is provided to retirees (and potentially spouses/partners). Benefit amounts are not guaranteed, as they are subject to change based on the investment and demographic experience of the plan.

Such plans have existed for several decades outside the U.S. but have recently gained greater attention and discussion due to new developments in several countries. For example, in 2021 the U.K. enacted legislation to begin allowing CDC plans, while in 2023, the Netherlands modified its longstanding statutory provisions related to CDC plans.

This issue brief will define CDC plans broadly, provide some examples of CDC plans that exist in various countries, discuss some advantages and criticisms of CDC plans, and consider possible options to address the criticisms.

### What Is a CDC Plan?

There are many potential variations to CDC plans. A more traditional variation resembles a defined benefit (DB) plan, in that a targeted monthly retirement benefit is defined by a formula. However, the actual benefit is not guaranteed, but subject to change based upon the funding level of the plan. Thus, there is a risk that retirees may receive a lower-than-expected benefit amount. Other variations may express a participant's benefit as a notional



AMERICAN ACADEMY  
of ACTUARIES

1850 M Street NW, Suite 300  
Washington, DC 20036  
202-223-8196 | [www.actuary.org](http://www.actuary.org)

Geralyn Trujillo  
*Senior Director, Public Policy*

Linda K. Stone, MAAA, FSA  
*Senior Retirement Fellow*

account balance during the accumulation phase, rather than a monthly annuity, or serve as a vehicle for decumulation of a participant's account balance from a traditional defined contribution (DC) plan.

Like traditional DC plans, CDC plans are attractive to sponsors because of the predictable cost. However, as in traditional DB plans, retirees benefit from the availability of lifetime income from CDC plans. For purposes of this issue brief, a requirement of a CDC plan is that the plan itself can provide the lifetime income payments, without the need for an insurance company or additional funding from either the plan sponsor or participants. Benefit payments are determined in such a way that they can be supported solely by the periodic contributions made to the plan and subsequent investment earnings on those contributions.

As defined above, CDC plans are not currently available in the U.S. under the *Employee Retirement Income Security Act of 1974* (ERISA). However, there are some church plans<sup>1</sup> that employ key principles of CDC plans, such as longevity and investment pooling. While variable annuity plans are allowed by ERISA, they are not considered to be CDC plans because they adjust benefits for investment experience only, and not demographic experience (e.g., mortality). As a result, the plan sponsor may need to make additional contributions if retiree longevity is greater than assumed or other demographic experience results in an increase in plan obligations. Conversely, target benefit plans in the U.S. create contribution certainty for the plan sponsor, and these plans must offer annuity options. However, at retirement, the annuity benefit (if elected by the participant) is determined from the resulting account balance and is provided by an insurance company rather than the plan itself.

<sup>1</sup> For more on church plans, see the Academy's January 2024 issue brief, [Church-Sponsored Retirement Plans—Overview and Considerations](#).

The Retirement Policy and Design Evaluation Committee, which authored this issue brief, includes Claire Wolkoff, MAAA, FSA—*Chairperson*; Lee Gold, MAAA, ASA, EA, FCA—*Vice Chairperson*; David Driscoll, MAAA, EA, FCA, FSA; Scott Hittner, MAAA, EA, FCA, FSA; Kyuman Lee, MAAA, EA, FCA, FSA; Timothy Robson, MAAA, ASA, FIA; Matthew Rustige, MAAA, EA; Connie Rydberg, MAAA, EA, FSA; and Andrea Sellars, MAAA, FSA.

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As we begin our discussion of CDC plans, the following summary of plan features may be helpful:

**Table 1. Summary of CDC Plan Features.**

	Traditional CDC	Modified CDC	Decumulation-only CDC
Benefit definition pre-retirement	Targeted monthly income at retirement	Notional account balance (similar to a cash balance plan)	Individual account balance (e.g., 401(k))
Benefit at retirement	Monthly income	Monthly income	Monthly income
Self-directed investments (pre-retirement)	No	No	Yes
Pooling of pre-retirement experience	Yes	Yes	No
Pooling of post-retirement experience	Yes	Yes	Yes

## Traditional CDC Plans

For purposes of this issue brief, we define a “traditional” CDC plan as one in which benefits are initially based on an aspirational benefit formula. These benefits are similar to what a participant might expect to receive from a traditional DB plan, with the monthly income amount typically defined based on pay and/or years of service. The benefits are aspirational, because the monthly income amounts are not guaranteed. For a traditional CDC plan, the annual contribution (typically expressed as a percentage of worker payroll) is developed at the plan outset, using actuarial principles, as the best estimate of the contribution needed to fund all the aspirational benefits that will be earned by plan participants. Benefits can subsequently be adjusted (up or down) to a level supportable by the funded status of the plan. Such adjustments could occur due to favorable or unfavorable investment or demographic (e.g., mortality) experience. This experience does not increase or decrease the contributions required from the plan sponsor or participants, as benefits will be adjusted (up or down) based on the actual experience.

## CDC Plans More Broadly

There are other variations beyond the traditional CDC plan (e.g., the “Modified CDC” and “Decumulation-only CDC” shown in the table above), which this issue brief will explore more broadly. The combination of DC-like fixed contributions and variable DB-like benefits as described above is what defines a CDC at the most basic level. The presence of both features will serve as our broadly defined CDC plan. For the remainder of this issue brief, the term “CDC plan” refers to this broader definition of a CDC plan.

## Fixed Contributions

Contributions to CDC plans are usually determined as a percentage of pay, funded by the employer and/or employee. These contributions could, but need not, be accumulated in an individual account, whether self-directed by the participant or invested in pooled accounts without participant direction. The amount could also be discretionary, changing periodically based on the plan sponsor/employer's funding ability and the employee's individual discretion.

## Variable Lifetime Benefits

Plans that pay DB-like benefits (e.g., lifetime income), without the need for any additional funding or insurance guarantees, will require a method to adjust benefits periodically based on available assets. In a traditional DB plan, contributions would increase or decrease to address any shortfall or excess. In a traditional DC plan, the benefits to be paid are undefined, not payable for life, and do not require any adjustments to contributions. DC plan benefits are also often paid out as a lump sum to the retiree, which the retiree then must manage on their own, perhaps with the assistance of a financial adviser.

Under a CDC plan, there is no adjustment to contributions to account for unfavorable or favorable experience. Rather, the benefits will be adjusted to bring the plan back into actuarial balance. Note that this adjustment is not limited to “downward” adjustments; it is also possible that experience will be better than anticipated and benefits could be increased.

Benefit adjustment mechanisms vary significantly among CDC plans. There are innumerable ways to adjust benefits to maintain the financial health of the plan.

With this broader definition of CDC plans—DC-like fixed contributions and variable DB-like benefits at retirement—we now provide examples from around the globe where these principles have been put into practice.

## Global Examples of CDC Plans

There are numerous examples of CDC approaches around the globe. A detailed description and analysis of these approaches is beyond the scope of this issue brief. However, we provide the following from the *OECD Pensions Outlook 2022*, Chapter 5,<sup>2</sup> which lists countries that provide retirement benefits that have a fixed contribution and variable lifetime income.

<sup>2</sup> *OECD Pensions Outlook 2022*, Chapter 5: Policy lessons for the design, introduction and implementation of non-guaranteed lifetime retirement income arrangements.

**Table 2. Countries That Provide Retirement Benefits With Fixed Contributions and Variable Lifetime Income.**

Country	Program
Australia	Lifetime pension option (Australian Retirement Trust)
Canada	Shared Risk Pension Plan (New Brunswick)
Canada	Target Benefit Pension Plans (Quebec)
Canada	Longevity Pension Fund
Denmark	Occupational DC
Germany	Social Partner DC (Talanx & Zurich)
Iceland	Occupational DC
Japan	Risk-sharing pension plans
Netherlands	Collective Defined Contribution
Netherlands	Flexible Collective DC Scheme (new contracts)
Netherlands	Solidarity Collective DC Scheme (new contracts)
Sweden	Unit-linked Annuity for Premium Pension
United Kingdom	Collective Defined Contribution (Royal Mail)
United States	TIAA Variable Income Option

We would encourage interested readers to access the OECD paper for the details regarding the specific characteristics of these plans. Each program differs in how the benefit is accumulated and how benefits are adjusted to maintain the long-term sustainability of the program.

**Spotlight on a Few Countries**

While the above table provides a list of countries using CDC approaches, recent developments in several countries are worthy of some additional commentary.

**The Netherlands**

For many years, most pensions in the Netherlands were CDC arrangements. Pensions were designed to provide inflation protection and stable benefits for retirees. To provide this stability, they were also designed so that those not yet retired might have larger adjustments to their benefits than retirees. The financial crisis of 2008 caused funding ratios to plunge to all-time lows, resulting in some retirees not receiving any inflation indexation for more than a decade and some seeing their benefits decrease. This outcome created significant disruption, as plan participants did not understand that their benefits might turn out to be lower than expected under the Dutch CDC benefit structure. The disruption also generated significant conflicts between active and retired participants over how to manage intergenerational equity issues in addressing the unexpected shortfall.

On May 30, 2023, the Dutch Senate adopted the new Dutch Pension Act to reform the Dutch pension system. The act became effective on July 1, 2023, and requires that all occupational pension schemes will be contribution-based and DB accruals will no longer

be permitted. Essentially, all new pre-retirement benefits will be based on individual accounts. There will still be options available for converting these individual accounts into lifetime income, either fixed with an insurer or variable within the scheme. Pension funds must complete their transitions by January 1, 2028.

The Dutch CDC history highlights the need to educate plan participants about possible reductions in plan benefits and to clearly communicate how intergenerational issues will be addressed.

#### **Canada—Private options**

The 2019 Canadian federal budget introduced the Variable Payment Life Annuity (VPLA) concept. The legislation creates the VPLA, a new payout option, for members of pooled retirement pension plans or DC registered pension plans. The basic concept is to allow employers to join a Canadian regulatory approved program wherein retiring employees can convert a portion of their DC plan balances into a variable retirement income benefit designed to last a lifetime.

These programs separate the fund for retired employees from those not yet retired. The income benefits payable from this separate retiree fund are adjusted annually based on the actual investment performance of the VPLA fund and on the longevity experience of VPLA members. At least 10 participating retired members are needed before a VPLA can be paid within a program. Prior to reaching this threshold, benefits are paid out strictly based upon actual investment experience with no mortality adjustments. Programs may include adjustments based on inflation, minimum guarantee periods, and other optional forms.

#### **United Kingdom**

The following was reported in a U.K. legal publication:

*The Pensions Regulator authorised the UK's first collective defined contribution (CDC) scheme — also known as a collective money purchase scheme — the Royal Mail Collective Pension Plan, on 13 April 2023. This development comes shortly after a period of consultation by the Department for Work and Pensions on proposals to extend the CDC legislation to permit “whole of life” schemes (including master trusts) for non-connected employers and CDC “decumulation only” schemes. Whole of life schemes would provide for members in the saving and retirement phases. “Decumulation only” schemes would provide a retirement income option as an alternative to annuities or drawdown. At the moment, the CDC model is only available to single or connected employers.*

*When the government announced the consultation on extending CDC, it was as one of four measures intended to “help address the pension inequality gap which has risen since the decline of defined benefit (DB) and the emergence of defined contributions (DC).”<sup>3</sup>*

As of publication date of this issue brief, the Royal Mail Collective Pension Plan has not yet been implemented.

### **Australia**

Australian retirement plans have evolved considerably over the past 30 years, heavily influenced by a requirement that employers contribute at least a minimum amount to a plan for all employees—the Superannuation Guarantee (SG). The SG is set to increase from the current 10% of pay to 12% of pay on July 1, 2025. DB plans have mostly been replaced by DC plans in Australia, making it much easier to prove compliance with the SG. These DC “Super” plans provide accumulation investment options during employment.

Post-retirement income drawdown products are being developed, as more retirees accumulate significant SG balances. These are primarily based on annuity products with riders. For example, a guaranteed minimum income rider ensures that annual payments do not fall below a certain level while offering some upside if markets outperform.

Accumulated SG balances can be converted into CDC products at retirement. For example, the Australian Retirement Trust product referenced in Table 2 invests retiree funds in a balanced investment product. SG balances transferred to the product are converted to an annual payment using an appropriate set of annuity conversion assumptions. Participants’ payments may change each year reflecting the plan’s investment and mortality experience. If the combination of those two factors exceeds 5% (positive or negative), participant payments are adjusted to reflect the combination of the factors.

There are a few “traditional” CDC plans covering employees in certain sectors. For example, certain employees of the Australian University System—UniSuper—participate in a CDC plan. Active participants in the plan contribute 7% and the university 14% of pensionable pay. Participants accrue a lump sum benefit based on their average salary times their service, multiplied by a lump sum payout factor based on their age at the date of benefit payment.

<sup>3</sup> [“Collective defined contribution pension schemes: the future for larger UK employers?”](#) Osborne Clarke; April 18, 2023.

The plan's trustee board monitors the funded status of the plan through annual actuarial valuations and quarterly estimates of two funding measures, reflecting an ongoing plan basis and a plan termination basis. If both funding measures fall below pre-defined levels, a four-year monitoring period is declared and announced to the participants. At the end of the monitoring period, if the actuary's investigation report indicates that the actuarial measures of the plan have not improved enough, the trustee board must consider whether it is in the interests of all plan participants to reduce benefits payable. If benefit reductions are required, the board must do so on a fair and equitable basis.

## Advantages of CDC Plans Over Traditional DB and DC Plans

Many workers and retirees may prefer the predictability of a traditional DB plan over a traditional DC plan. DB payment amounts are guaranteed, longevity and investment risks lie with the plan sponsor, and decision-making by the retiree is limited, requiring little or no financial expertise. However, plan sponsors have demonstrated a reluctance to sponsor traditional DB plans for a variety of reasons, including the possibility that contribution levels and financial statement expense could significantly increase based on unfavorable experience. The DC plan has generally become the preferred model for plan sponsors, as it limits plan sponsor funding obligations and expense to a fixed level. However, from a worker and retiree perspective, the level of sustainable retirement income is unknowable, with potentially significant consequences if one lives a long life or makes poor/suboptimal investment decisions.

When considering advantages of CDC plans over traditional DB and DC plans, we need to consider the perspective of different stakeholders. Sponsors funding the plan clearly benefit from the stable and predictable contributions that a CDC or DC plan offer, but a DB plan does not. Providing a CDC plan may be a better employee retention tool than a DC plan, because it provides the security of a targeted lifetime benefit, even if that benefit is not guaranteed. Employees may appreciate the CDC plan's targeted benefit provision over a DC account balance, which provides little insight into the potential level of retirement income and length of payment. An employee might also find a CDC plan preferable to a comparable DB plan, in that funding rules for DB plans might enable an employer to forgo contributions, potentially resulting in worsened funded status and lost benefits in the event of sponsor bankruptcy.

The ability to pool investments provides CDC plans with additional advantages when compared to traditional participant-directed DC plans. These advantages include:

- (1) professional investment management, without the need for participants to make



investment decisions, and (2) no need to derisk investments as individual participants age. Professional investment management eliminates the consequences of individuals making poor investment choices. The absence of a need to derisk with age allows a participant to continue to participate in market performance without the fear of running out of money. Given this pooling and professional management, CDC participants are spared the complex and challenging calculations needed to determine (or guess) how quickly they can draw down their DC funds.

In aggregate, the CDC plan would be expected to provide more retirement income to retirees (and spouses) than a DC plan for the same cost. This is due to pooling, which allows the CDC pension fund to concentrate the funds on the intended recipients—retirees and spouses or their beneficiaries—exclusively. In a traditional DC plan, retirees have complete control over their retirement funds, including the ability to bequeath significant amounts to heirs and charities of their choosing. These bequests may often be unintended and can occur when a retiree and spouse die early or when retirees are overly conservative in spending down their nest egg. Keeping these “bequest funds” within the CDC plan allows for more retirement benefits to be paid to the intended recipients—retirees and spouses or their beneficiaries.

When compared to traditional DB plans in the U.S., CDC plans in other countries often have expected cost-of-living adjustments (COLAs) built into the underlying cost model. If funded status suffers due to poor investment performance, it is often these COLAs that are withheld first, while keeping the base benefit intact. COLAs are not common in U.S. DB plans. By building in an expectation of future COLAs, CDC plans may be able to provide an attractive feature not available in traditional DB plans.

## Criticisms of CDC Plans

The main criticisms of CDC plans are regarding scale, conversion, communications, and future flexibility. Intergenerational inequity is also a concern. Each of these issues is discussed in more detail below.

### Scale

For a relatively stable and predictable benefit to be paid from a CDC plan, the plan needs to cover a sufficiently diversified group of participants that the plan's experience will not be subject to significant fluctuations. Ideally, there should be a large number of participants, and the participant group should be diversified across the age range covered

by the plan. For example, the U.K.'s Actuarial Research Centre<sup>4</sup> concluded that benefit payment volatility could be significantly reduced by increasing plan participant numbers and ensuring that a steady stream of new younger participants join the plan. Careful consideration should be given to what happens when the number of participants falls or the average age of the participant group increases.

## Transition

As mentioned previously, CDC plans are not currently permitted under ERISA. Should this change, the conversion from an existing DB or DC plan will be challenging depending upon the nature of the CDC plan. For that reason, the U.K. Royal Mail will only apply its new CDC plan to new hires. Existing Royal Mail employees will remain in their existing plans, which will be run in parallel to the new CDC plan.

Below are a few other considerations related to transition:

- Conversion of existing DB plan participants to a CDC structure may weaken the funding of the existing DB plan. Freezing the current DB plan and starting a new CDC plan may be preferable.
- Companies may not want to convert an existing DC plan to a traditional CDC plan for active employees due to the intergenerational impact on funds already accumulated. Instead, they may want to introduce a decumulation-only CDC option.
- It is unclear how job changers will be handled (e.g., will rollovers be allowed and how would they operate?).

## Communications

In CDC plans, participants bear the investment and group longevity risks of the benefits to be provided and the benefit levels will fluctuate. Therefore, it is important for participants to understand how benefits may change over time as plan experience develops. Any benefit amounts communicated to participants should be considered carefully to ensure that undue expectations of a right to those benefits are avoided. The communication of any benefit cuts may be complex and may generate emotion-filled responses from participants.

## Future Flexibility

CDC plans are a long-term commitment; they will operate best when they run for many years. For example, it may be hard for a plan sponsor to reduce or suspend contributions to a CDC plan, because doing so could create inequities.

<sup>4</sup> [“Quantifying the Trade-Off Between Income Stability and the Number of Members in a Pooled Annuity Fund”](#); *ASTIN Bulletin*; October 22, 2020. [“The next generation of CDC pensions?”](#) ARC webinar series; 2022.

A December 2021 report issued by Brookings states that “[f]or employers, one drawback of CDCs, relative to a DC, is the inability to reduce or suspend contributions in an adverse economic climate. For workers, the key drawback is that benefit levels are not guaranteed: employees bear the investment risk, in the form of potential benefit cuts or increased employee contributions if the plan is doing poorly.”<sup>5</sup>

## Equity

Funding approaches need to be equitable. For example, the Netherlands’ original CDC plan determined that a level employee contribution rate, irrespective of age, is inequitable. This is because the actuarial cost of a career average benefit accrual is not uniform. The cost of the accrual for a young person is much less than the cost of the accrual for a similarly paid older person. In another example, resolving a funding deficit by increasing active participant contributions to the plan would be inequitable since participants who are not making contributions would also benefit from the contributions.

Approaches used to address funding issues and significant events impacting the plan need to be equitable. Careful consideration should be given to benefit adjustments when adjusting plan benefits for disclosed surpluses or deficits. In addition, events impacting a significant proportion of participants may require a plan valuation and possible benefit adjustment to ensure groups are treated equitably.

Participants must trust the CDC plan administrators to run the plan fairly and equitably, particularly when a benefit reduction is being considered.

## Addressing the Criticisms of CDC Plans

In this section we will discuss how each of the criticisms in the prior section could be addressed to lessen such concerns.

## Scale

To provide the scale necessary for effective pooling, pooled employer plans (PEP) could be allowed to protect smaller employers from the uneven experience of their own small workforce. PEP providers would be required to achieve a certain minimum size to provide experience pooling. This PEP approach could be provided only at retirement and would not be necessary during the accumulation phase, although a PEP during the accumulation phase may also have some advantages.

<sup>5</sup> [Collective Defined Contribution Plans](#); Brookings Institution; December 3, 2021.

Consideration should also be given to the minimum number of participants that will be allowed, below which the plan would be deemed unsustainable, and to developing the process to be followed if the number of participants falls below that minimum.

Allowing plan sponsors to mandate that a portion of an individual account be deposited in a post-retirement CDC arrangement is another method for achieving the scale necessary for proper functioning of the CDC.

## Conversion

The conversion issue is limited if benefits are provided through a traditional DC plan during the accumulation phase. Creating a CDC distribution option would entail a voluntary election by the participant, at retirement, to place a portion of their retirement savings within a pooled payout option, where they receive variable lifetime income.

Converting existing DB plans to CDC plans will likely require that existing DB benefits be preserved. CDC benefits would only be earned prospectively. A voluntary election by a participant to have their current fixed DB benefit converted to a variable CDC benefit could be permitted, with the conversion based on best-estimate assumptions used by the CDC for valuation purposes.

For individuals changing jobs, there could be a mechanism to convert a CDC benefit to a lump sum to facilitate rollovers. In Modified CDCs and Decumulation-only CDCs, this is not an issue. Additionally, if both the old and new employer have a CDC plan, the benefit in the old plan might be transferable to the new plan. This presents a potential challenge if the two CDC plans do not use the same best-estimate assumptions for determining the annuity amount. A participant could be provided with a lump sum value from the old plan. That participant would then be given the option to “purchase” a benefit in the new plan. The benefit in the new plan may be more or less than the benefit under the old plan, depending on the assumptions used in the conversion calculations. If the purchase of a benefit in the new plan is voluntary, this should alleviate concerns. There is no opportunity for employees to manipulate the process, because each plan is using its own assumptions for each respective conversion (old benefit to lump sum, and lump sum to new benefit).

At a minimum, a participant could choose to just leave their benefit in the plan and avoid any of the above conversion issues. This would require participants to keep track of the prior employers from which they are entitled to receive retirement benefits, rather than having their benefits consolidated in fewer plans/accounts.

## Communications

Participants must clearly understand that their benefit is not guaranteed. It can go up or down. An annual, mathematical, systematic adjustment mechanism has the advantage of being impartial and objective. On the other hand, it has the disadvantage of potentially being overly responsive to short-term experience deviations from long-term expectations. Approaches that smooth out short-term fluctuations have the advantage of stability but will be more complicated to communicate and less transparent to the average participant. A combination of some smoothing mechanisms coupled with objective adjustment formulas is likely to achieve the best balance of transparency and stability.

An example of a formulaic and systematic approach is a plan that adjusts benefits annually to bring the plan to 100% funded status each year. This will result in a relatively high degree of benefit fluctuation. Alternatively, a plan could be structured so that no adjustments are needed if the plan's funded status is between 97% and 103%. This would eliminate adjustments for small, short-term deviations from expectations, while still providing an adjustment mechanism to keep the plan well-funded. Additionally, benefit adjustments could be bifurcated, with investment experience adjustments happening annually, and non-investment experience adjustments occurring only every three to five years. There are numerous approaches for adjusting benefits that try to balance transparency, simplicity, and benefit stability. However, it may be difficult to ensure that all participants are treated equitably under any non-continuous mechanism.

## Future Flexibility

Financial conditions for plan sponsors can change. Consequently, CDC plans could allow for the reduction or cessation of employer contributions. For Decumulation-only CDC plans, this is not a concern. For CDC plans that include provisions for defining an aspirational benefit, plans are likely to work best if each year's accrual is funded by the contribution being made that year. For example, cash balance-type benefits or benefits that accrue based solely on the current year's pay would meet this description. A final average pay formula would not meet this description and could present challenges if sponsor contributions needed to be reduced.

If designed as described above—current year's accrual based on current year pay only—the funding employer could decide to contribute X% of the otherwise normal annual contribution percentage. The corresponding benefit accrual would then be X% of the normal benefit formula. Note that X% could be less than 100% or more than 100%, depending on the financial situation of the plan sponsor.

Best estimate valuation assumptions will need to be adjusted whenever a valuation is completed. These adjustments will impact both existing benefits and benefit conversions (e.g., lump sum to an annuity). The impact of the adjustments will need to be borne by participants, rather than changing contribution levels for plan sponsors. Valuation assumptions could reflect a modest amount of conservatism, which would allow for some negative experience to emerge without impacting benefit levels. Rather than immediately reflecting the impact of changes in underlying assumptions by adjusting benefit levels, these adjustments could occur over a period of three to five years to lessen the impact in any one year. Some inequity would be introduced by taking these approaches. However, the administration costs saved by avoiding a benefit adjustment may offset this intergenerational inequity.

## Equity

Under normal circumstances, all participants—retirees and active employees if in a CDC while active—should participate in the experience of the pool. Any benefit adjustments should be applied on an equal percentage basis to all participants. If instead a CDC protects one group of participants' benefits, this will require that other plan participants bear the impact of adverse experience, creating intergenerational inequities.

Careful consideration should be given to the process of adjusting benefits to ensure that all participants will be treated equitably. For example, consider a situation where significant investment losses occurred in the first half of the year before a valuation, while the second half of the year experienced a recovery in the value of plan investments. Unfortunately, the recovery was not enough to avoid a post-valuation benefit cutback. Should the participants joining the plan in the second half of the year suffer the same cutback as the participants who participated for the entire year?

A well-defined, documented process where equity issues are considered and addressed is recommended.

## Considerations for U.S. Lawmakers

CDC plans can provide lifetime retirement income for participants, with highly predictable costs for employers. With these advantages, these programs can potentially play a role within national retirement policy. This issue brief does not prescribe specific policy language, but provides a few considerations for deeper exploration by lawmakers:

- Allowing U.S. DC plans (including money purchase and target benefit plans) and pooled employer plans (PEPs) to offer lifetime income, with benefits that adjust for actual plan experience rather than requiring an insurer.<sup>6</sup>

<sup>6</sup> See Academy issue brief from June 2023: [Experience-Sharing Lifetime Income](#).

- Allowing variable annuity plans to adjust benefits for both investment experience and demographic experience. Under current law, only adjustments for investment experience are permitted.
- Allowing variable annuity plans to be offered on a pooled employer basis, similar to what is allowed for DC PEPs.

## Summary

CDC plans offer the opportunity to provide fixed, predictable costs for plan sponsors, and the security of cost-effective lifetime income for participants within the employer plan. These attractive attributes make these plans viable alternatives to traditional DB or traditional DC plans. The variety in how these plans can be structured does pose a challenge regarding both managing fluctuations in income levels and ensuring intergenerational equity. Managing the expectations of participants will require clear communication regarding the likelihood that benefits will require adjustments. Though not generally permitted under current law in the United States, CDC plans are gaining popularity elsewhere around the world. They are currently available under non-ERISA plans in the United States but may gain additional attention as global CDC adoption increases.

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