

A new era for DC retirement solutions

Modelling expected member outcomes for
Retirement CDC and Flex & Fix against traditional
alternatives

March 2026

Introduction

Modelling Retirement CDC and Flex & Fix

- New Guided Retirement requirements proposed in the Pension Schemes Bill mean trustees of Defined Contribution (“DC”) pension schemes will need to select a “default pension benefit solution” for their members at retirement. The chosen solution has to provide an individual with a regular income throughout retirement and will become the default choice for any member who doesn’t actively choose another solution at retirement. This requirement is expected to come into force for master trust arrangements in 2027 and for single employer trusts in 2028.
- The largest providers in the industry are currently coalescing around two broad new retirement solutions to meet these requirements – “Flex & Fix”, which encompasses a range of different solutions that combine drawdown and the purchase of an annuity in different ways, and a post-retirement only version of Collective Defined Contribution, typically referred to as “Retirement CDC” or “R-CDC”. Both aim to provide sustainable retirement income with longevity protection, so that members don’t run out of money in retirement, but they achieve this in different ways.
- We have used stochastic modelling to illustrate the range of potential outcomes for members under each of these solutions alongside the traditional approach of providing a regular income of an immediate annuity purchase. We have had to make assumptions about the design of each of the solutions. As there can be many flavours of “Flex & Fix”, we have modelled three different designs for comparison. The key design features of each approach are detailed on slide 8. We have also made assumptions about the investment strategy under each approach. Details of the investment strategies are shown on slide 17.
- In theory, there are also more complex approaches to Flex & Fix that could seek to use similar calculations to translate experience to income adjustment as R-CDC schemes. However, this introduces complexity and risk for providers of such a solution and so does not appear to be the current direction of travel of industry. Therefore, we have focused on Flex & Fix designs which are most likely to be available in the market initially.
- Our analysis considers the post retirement period only. Any differences in investment strategy pre-retirement will also impact expected outcomes for members.

Scenario Overview

Individual DC member at retirement

Retirement
Age
67

DC Pot Value
at Retirement
(after TFC)
£100,000

Objective
Regular
income for life

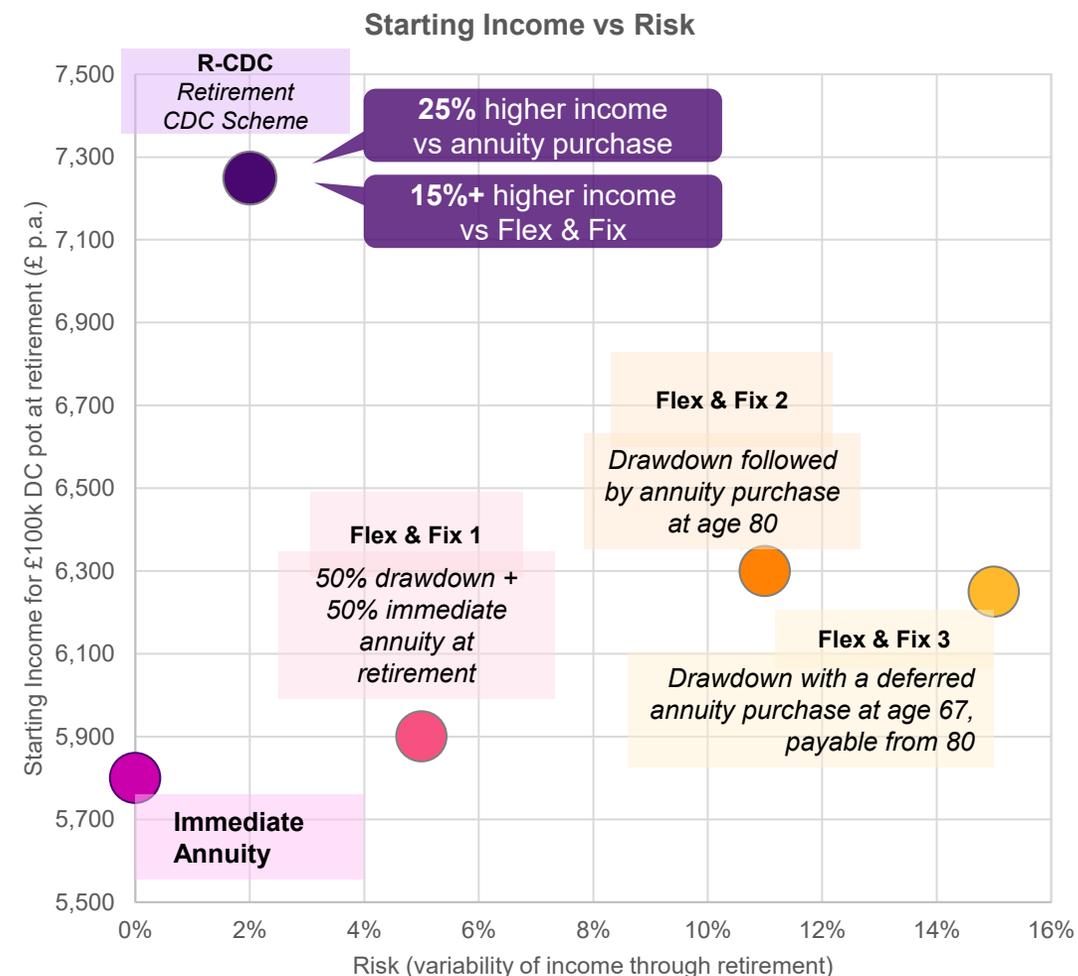
Key findings

Our modelling shows that R-CDC is expected to provide higher incomes at retirement than both an immediate annuity (+25%) and a range of Flex & Fix variants (+15% or more). This is due to the pooling of longevity risk and ability to hold growth assets for longer in an R-CDC arrangement.

Allowing for the expected lifestyling of investments in the run up to retirement associated with immediate annuity purchase, R-CDC provides even higher expected incomes (+40%).

Due to the smoothing mechanism in R-CDC, the income is also expected to be more stable over time in R-CDC compared with Flex & Fix.

// Different retirement solutions have materially different expected outcomes and risk levels for members, underscoring the importance of selecting the right default strategy. We believe R-CDC has the potential to be the best default approach for the majority of DC members. //



Note: Figures shown above ignore pre-retirement impacts

Guided Retirement

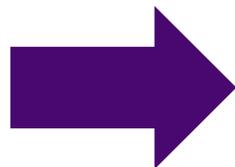
Context: Aims of Guided Retirement

Current DC retirement

DC drawdown can't be managed well over an unknown lifespan

Many members not equipped to make good decisions

Insured annuities perceived as poor value



DWP's aims behind Guided Retirement

Income for life

Managed for members

Improved 'value for money'

What are the new proposals?

Guided Retirement

- Schemes to have a “*default pension benefit solution*” which
 - Pays an income
 - Considers longevity protection

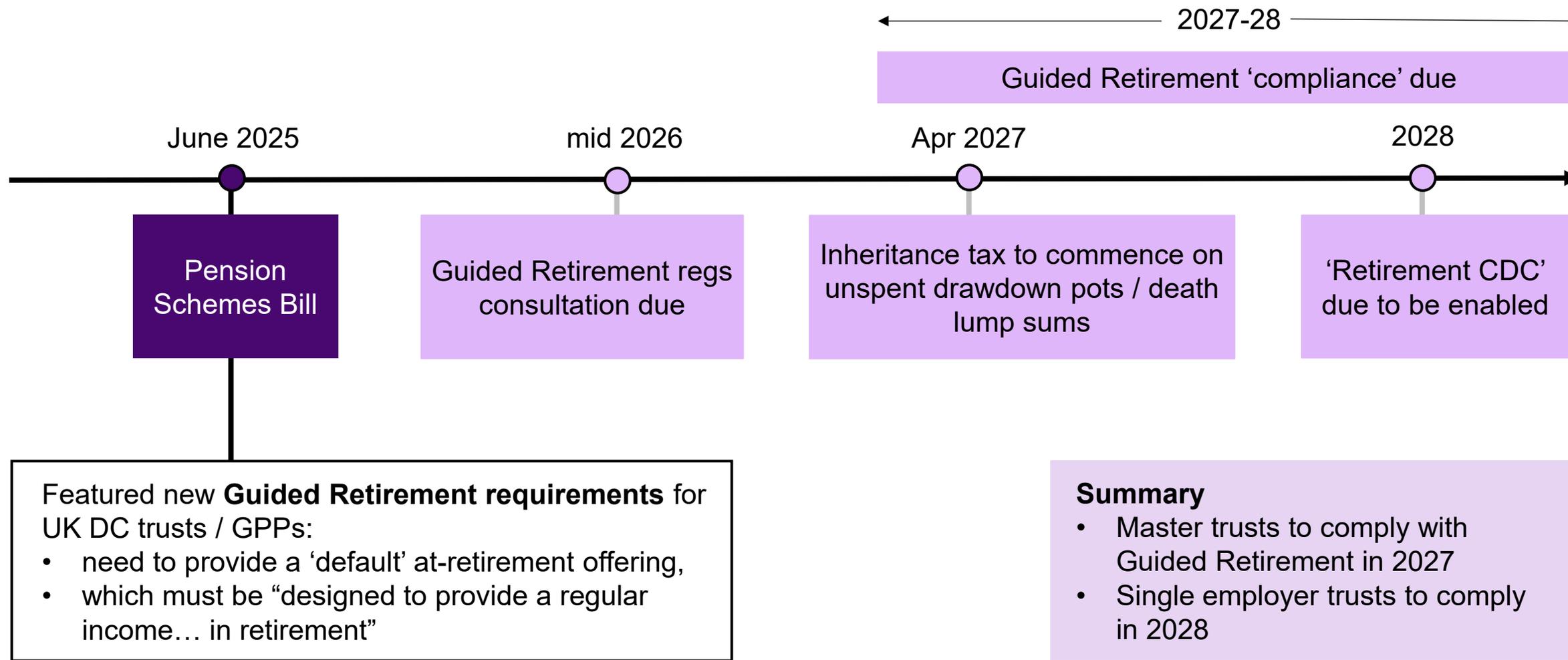
Targeted Support

- A new type of financial advice which
 - Provides a recommendation based on limited knowledge about someone
 - Bridges the gap between general guidance and personalised advice

Retirement CDC

- A retirement solution that turns a DC pot into a lifetime pension

Context: Guided Retirement timeline



Comparing solutions that provide an income for life

Description of each retirement solution

We have carried out stochastic modelling based on the retirement solutions set out in the table below.

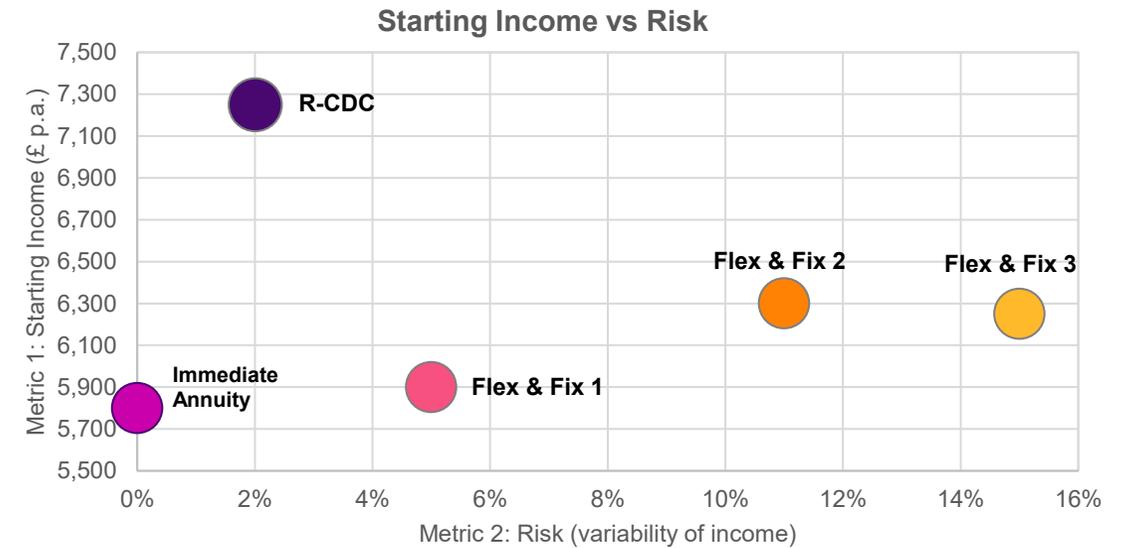
Key feature	Immediate Annuity	Flex & Fix 1	Flex & Fix 2	Flex & Fix 3	R-CDC
Overview of solution	100% immediate annuity at retirement	50% drawdown + 50% immediate annuity at retirement	Drawdown followed by annuity purchase at age 80	Drawdown alongside deferred annuity purchase at age 67, payable from 80	Retirement CDC pension
Initial pension increase target	CPI	CPI	CPI	CPI	CPI
Annual pension adjustment	N/A – pension increase unchanged throughout retirement	The amount withdrawn from the drawdown pot is recalculated each year such that CPI increases are sustainable up to age 92 (annuity pension increases unchanged throughout retirement)	In the flex period, the withdrawal amount is recalculated each year such that CPI increases are sustainable up to age 80 and a CPI annuity can be bought at age 80	In the flex period, the withdrawal amount is recalculated each year such that CPI increases are sustainable up to age 80	Adjustment (typically a pension increase, but could be a cut) recalculated each year – smoothing experience over expected remaining lifetime
Guarantee period	10 years	10 years on annuity purchase, plus refund of any remaining drawdown pot	No guarantee period on annuity purchase, plus refund of any remaining drawdown pot	No guarantee period on annuity purchase, plus refund of any remaining drawdown pot	10 years
Annuity purchase	67	At age 67, half of the pot is used to purchase an immediate annuity	At age 80, any remaining pot is used to purchase an immediate annuity	At age 67, a proportion of the pot is used to purchase a deferred annuity payable from age 80	N/A
Spouse's pension	40%	40% (on annuity purchase)	40% (on annuity purchase)	40% (on annuity purchase)	40%

Key results

Income level and risk

	Immediate Annuity	Flex & Fix 1	Flex & Fix 2	Flex & Fix 3	R-CDC
	100% immediate annuity at retirement	50% drawdown + 50% immediate annuity at retirement	Drawdown followed by annuity purchase at age 80	Drawdown alongside deferred annuity purchase at age 67, payable from 80	Retirement CDC pension
Starting income level Metric 1: <i>How much income can I expect (per £100k DC pot)?</i>	£5,800	£5,900 (+2%)	£6,300 (+9%)	£6,250 (+8%)	£7,250 (+25%)
Stability of income Metric 2: <i>How variable is the income likely to be year on year – in real terms?</i>	0% p.a.	5% p.a.	11% p.a.	15% p.a.	2% p.a.
Downside risk Metric 3: <i>What would happen to my income in a bad scenario?</i>	0%	-10%	-21%	-19%	-3%

Figures shown in brackets are expected uplift in retirement income vs immediate annuity
 See Appendix for further details on the downside risk scenario modelled. Downside risk (Metric 3) results are relative to CPI.
 Smoothing could be introduced into the Flex & Fix designs. However, this would add additional complexity and cost for providers.



//

R-CDC provides a significantly higher expected income than all the other solutions. It also has significantly lower year-on-year variability of income than any of the variants of Flex & Fix.

//

Detailed results

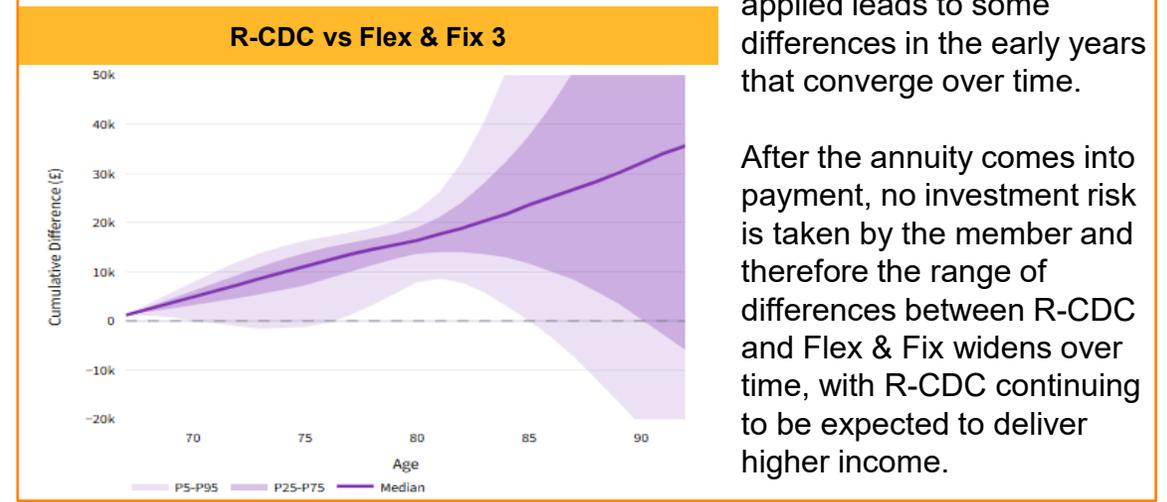
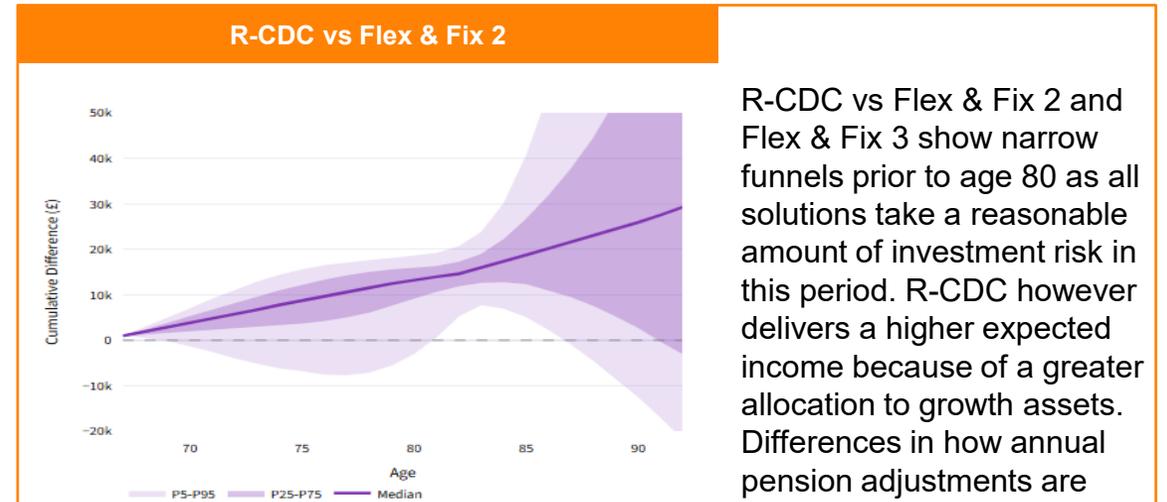
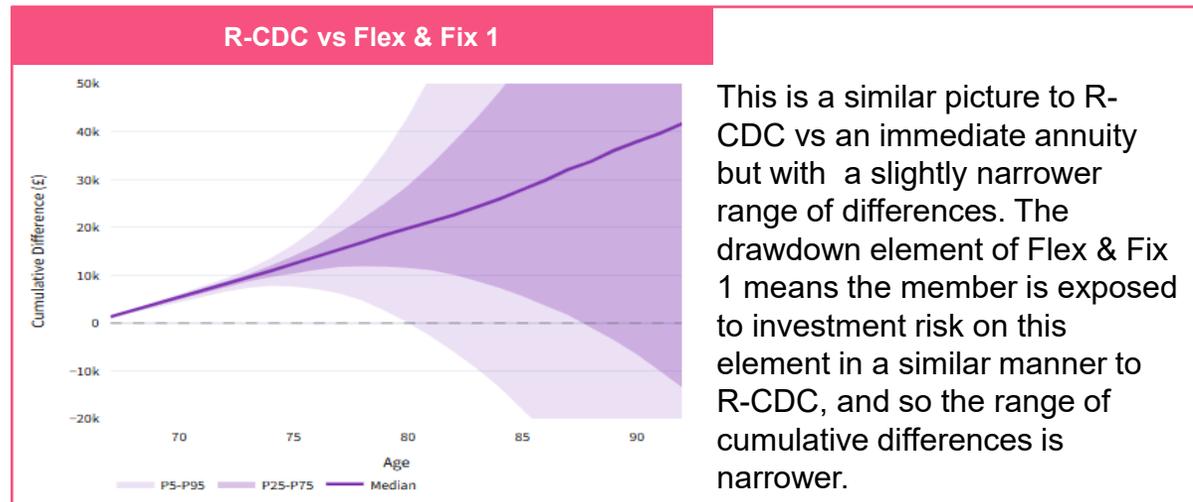
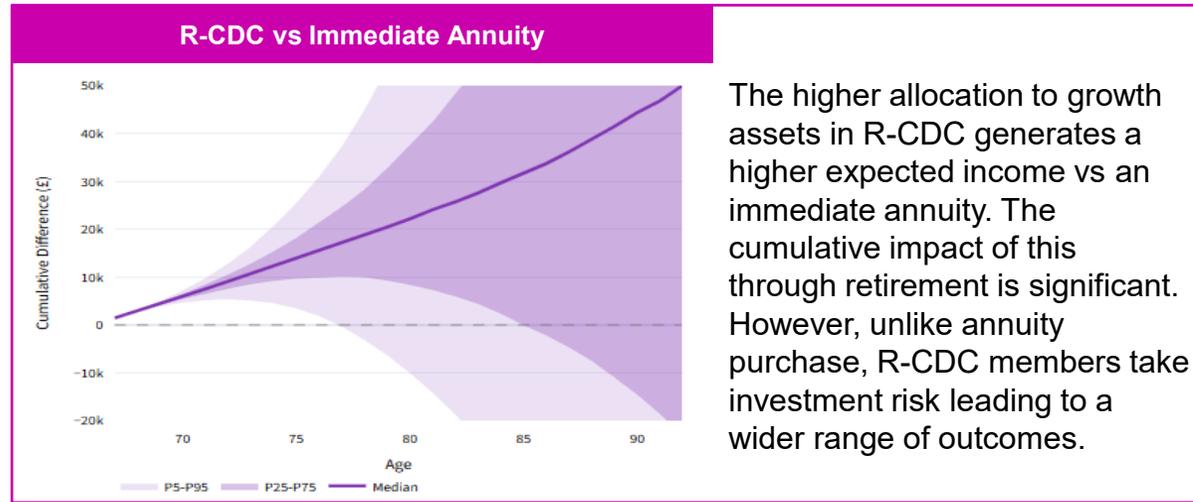
Income levels

- We can analyse the different risk and return profiles by comparing the difference in cumulative income over time across the simulations as summarised in the table opposite and shown in the charts overleaf.
- As the starting income has been calibrated using consistent assumptions for expected future returns and pension increases, a solution with higher starting income, i.e. R-CDC, will have higher expected income throughout retirement. The reasons for differences in income levels between solutions are explained on the following slide.
- However, as the risk profiles and smoothing methods are different between the approaches, the gap between income levels will vary over time depending on experience. In some scenarios members could end up with more overall under a Flex & Fix approach, even if the starting income is lower. **Overall, R-CDC is expected to provide more income than all of the Flex & Fix designs in the majority of scenarios.**

	R-CDC vs Immediate Annuity	R-CDC vs Flex & Fix 1	R-CDC vs Flex & Fix 2	R-CDC vs Flex & Fix 3
How much more income can you expect from R-CDC in year 1?	£1,450	£1,350	£950	£1,000
How much more income can you expect from R-CDC over 20 years?	£36,000	£32,000	£21,500	£23,500
Probability cumulative income from R-CDC is higher over 20 years	72%	76%	94%	70%

Detailed results

Potential range of difference in cumulative income through retirement



Detailed results

Stability of income

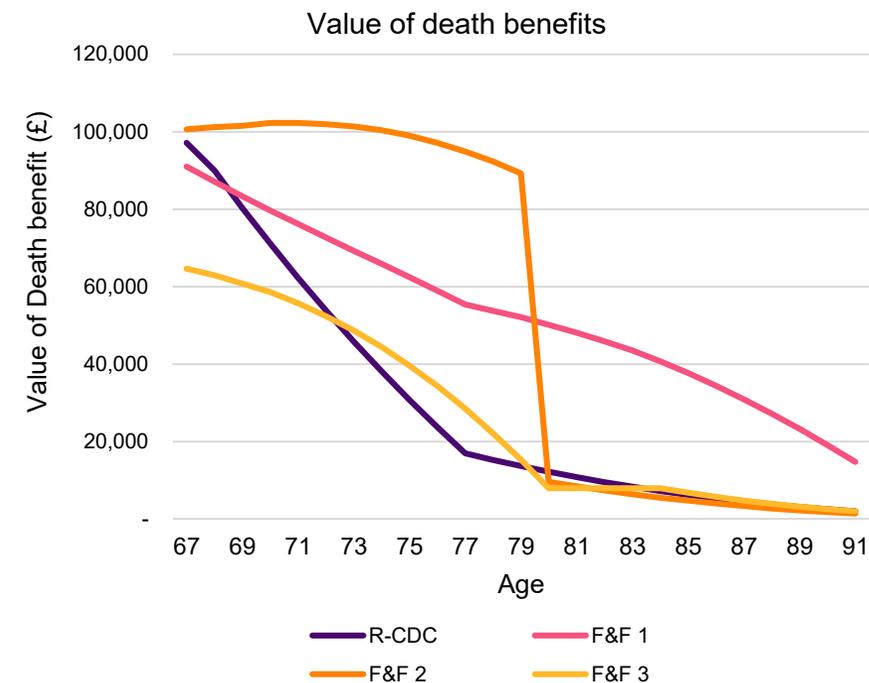
- We have assumed that the income level is adjusted automatically each year to reflect experience. We can measure the level of variability by calculating the volatility (standard deviation) of the change in the rate of income adjustment from one year to the next.
- We can calculate an overall volatility over a 25-year period of retirement (risk metric 2 on slide 9), but this does not capture any significant changes in risk through retirement.
- To understand the risk profile through retirement, we can calculate the risk in each year. The chart opposite shows the risk in each year under each retirement solution.
- **The risk profile for R-CDC remains relatively constant at around 1-2% p.a. throughout retirement. A consistent risk profile helps generate a stable income and minimise investment cross-subsidy between younger and older retirees.**
- The risk level is higher earlier in retirement under the Flex & Fix designs, reducing through retirement as the investment strategy de-risks.
- There is a spike at age 80 under Flex & Fix 3, as the income from 80 is fixed at age 67 when the deferred annuity is purchased. This leads to a disconnect as the drawdown income is adjusted over time based on investment experience. For example, if investment experience is higher than expected in the drawdown period, increasing the income withdrawn, there will be a step down in income at age 80.



Detailed results

Death benefits

- Death benefits are an important consideration for the default retirement solution. Death benefits include lump sums and spouse's pension. Our analysis shows the level of death benefits can differ significantly depending on the age of death and the retirement solution.
- The chart opposite compares the value of the death benefits¹ at each age under each design. Flex & Fix 2 has the highest level of expected death benefits in the early part of retirement, whereas Flex & Fix 1 has the highest expected death benefits later in retirement.
- The table below provides a summary of the death benefits we have included within each design. In practice, death benefits are a key part of each design and different options are possible.
- Lower death benefits lead to higher income for members, especially in designs where risks are pooled. When designing the Retirement CDC solution, we have included death benefits that are similar to those offered in traditional DB schemes and annuities, which is a contributing factor to the higher incomes seen in our analysis.



	Immediate Annuity	Flex & Fix 1	Flex & Fix 2	Flex & Fix 3	R-CDC
Description	100% immediate annuity at retirement	50% drawdown + 50% immediate annuity at retirement	Drawdown followed by annuity purchase at age 80	Drawdown alongside deferred annuity purchase at age 67, payable from 80	Retirement CDC pension
Death Benefits	10-year guarantee period 40% spouse's pension	Remaining pot (drawdown) 10-year guarantee period (annuity) 40% spouse's pension (annuity)	Remaining pot (drawdown) 40% spouse's pension (annuity)	Remaining pot (drawdown) 40% spouse's pension (annuity)	10-year guarantee period 40% spouse's pension

Comparing retirement solutions

There will always be trade-offs, depending on preferences

Flex & Fix 1

50% immediate annuity + 50% drawdown

Scores low for income level but higher for other categories including death benefits.

Flex & Fix 2

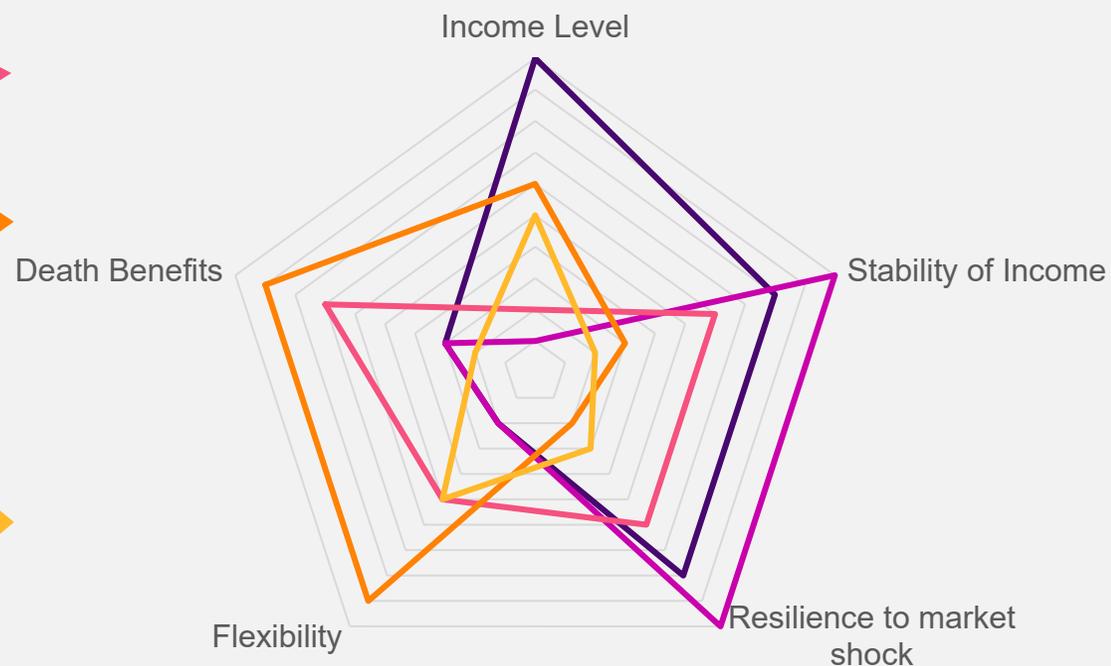
Drawdown then annuity purchase at age 80

Scores high for flexibility and death benefits but lower for resilience to market shocks, stability of income and income level.

Flex & Fix 3

Drawdown alongside deferred annuity purchase at age 67, payable from 80

Scores higher than immediate annuity for income level while retaining flexibility. However, scores lower for other categories.



R-CDC

Scores high for income level, stability of income and resilience to market shocks, but is less flexible and has lower death benefits than other solutions.

Immediate Annuity

Scores high for stability of income and resilience to market shocks, but has lower starting income, less flexibility and lower death benefits than other solutions.

Each solution has been given a score from 1 to 10 for each category based on a mix of quantitative analysis and qualitative views from the WTW team. Results are not intended to be factual but instead used to illustrate the concept that there is no perfect solution.

Contact details

If you have any questions or would like a further discussion, please reach out to your usual WTW contact or get in touch with any of the authors below.



Keith McNally
keith.mcnally@wtwco.com



Shriti Jadav
shriti.jadav@wtwco.com



Edd Collins
edd.collins@wtwco.com



Simon Eagle
simon.eagle@wtwco.com



Alison Fisher
alison.fisher@wtwco.com



Christy Wharton
christy.wharton@wtwco.com

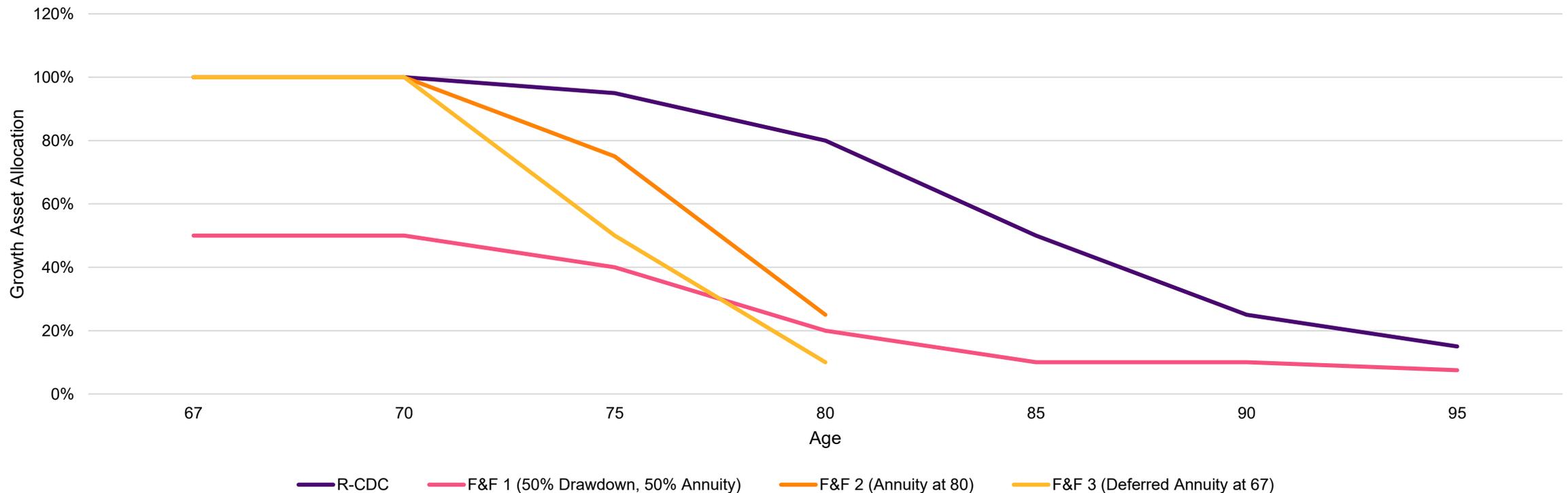
Appendix

Further details on modelling approach and assumptions

Investment Strategies

- Each decumulation approach assumes a specific investment strategy for members at different stages post-retirement. There are various strategies that could be adopted, each leading to different income and risk levels. Our analysis is based on what we consider a reasonable strategy for each approach; one designed to maximise returns while maintaining an acceptable level of risk.
- The growth asset strategy has been modelled as a diversified portfolio of return seeking assets including private markets.
- The non-growth assets are modelled as a low-risk portfolio of corporate bonds, government bonds and cash. For the Flex & Fix solutions, this portfolio has been designed to hedge the annuity price.

Growth Asset Allocation



Assumptions and notes

Key assumptions

- We have assumed members retire at age 67 with a starting pot of £100,000 (after TFC).
- Key assumptions and features underlying each design are on slide 8.
- Our stochastic modelling uses 3,0001 simulations from our WTW Global Asset Model as at 30 September 2025.
- Asset returns are net of asset management fees, and we have applied a further reduction of 0.35% p.a. as an assumption for additional cost and charges associated with the decumulation solution. This has been applied consistently across the R-CDC and Flex & Fix approaches.
- For simplicity, all payments are modelled as annually in advance.
- Annuity pricing assumed to have sensitivity to bond returns (50% sensitivity).
- Best estimate returns for bonds are dynamic (50% sensitivity – if returns are high in early years, our expectations of returns in future years falls (lower yield)).
- No longevity risk is allowed for in the simulations.
- Annuity pricing has been implied from current open market pricing and qualitative views on future pricing and implicitly includes charges. In summary, our assumptions are:
 - Immediate inflation-linked annuity at age 67: Gilts – 0.25% (17.2)
 - Immediate inflation-linked annuity at age 80: Gilts - 1% (10.7)
 - Deferred inflation-linked annuity at age 67, payable from 80: Gilts flat (4.6)
- Any CPI target uses 2% p.a. aligned with the BoE's long-term target.

Metric 1: Starting income

- To calibrate the starting income level, we have used the best estimate (median) returns net of fees across the 3,001 simulations associated with the investment strategy.
- The starting income is calibrated such that it is expected to be sustainable with CPI increases if actual investment returns are in line with expected over the period
- For the calibration, under the Flex & Fix approaches, the member is assumed to survive to the age the annuity comes into payment.

Metric 2: Stability of income

- We have assumed that the income level is adjusted automatically each year to reflect experience. We can measure the level of variability by calculating the volatility (standard deviation) of the change in the rate of income adjustment from one year to the next in real terms.
- The statistic is calculated using the income in each sim over the first 25 years of retirement i.e. up to age 92.

Metric 3: Downside risk

- Our downside scenario is a 1 in 20 market shock to growth assets (absolute return of -19% for Equities and -11% for Diversified Growth) at age 70.
- The scenario assumes investment returns are in line with expected up to age 70.
- Under the R-CDC design, future expected increases would also be reduced following a bad scenario. Under the Flex & Fix designs, future expected increases remain in line with CPI.
- Results are shown relative to CPI.

Cumulative differences

- Cumulative differences shown on slide 10 are in nominal terms over the first 20 years of retirement.

Key Investment Assumptions	Expected Return (10 year annualised)	Volatility
Equities	8.2%	18%
Diversified Growth	7.1%	12%
Bonds	5.2%	8%

WTW's Stochastic Modeller



Model detailed bespoke solutions including drawdown, annuity purchase, Flex & Fix and Retirement CDC



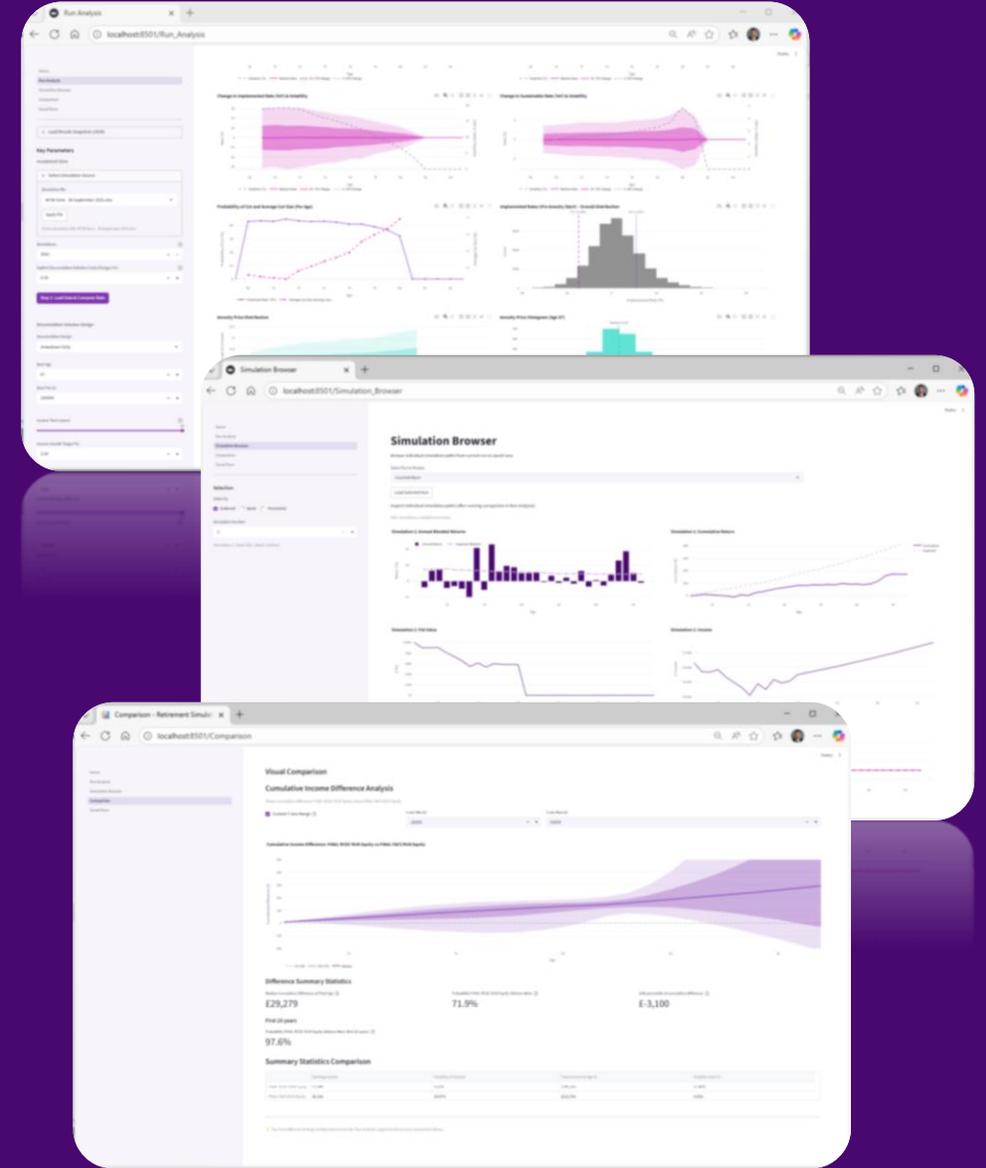
Bespoke scenario analysis to assess impact on income level in retirement



Fully customisable age-based investment strategies



3,001 simulations aligned with latest WTW house views



Purpose and limitations

1. Towers Watson Limited (WTW) has prepared this material for discussion purposes only and it should not be considered a substitute for specific professional advice. In particular, its contents are not intended by WTW to be construed as the provision of investment, legal, accounting, tax or other professional advice or recommendations of any kind, or to form the basis of any decision to do or to refrain from doing anything. As such, this material should not be relied upon for making any financial decisions and no such decisions should be taken on the basis of its contents without seeking specific advice.
2. This presentation should not be disclosed to any third party other than in accordance with the terms and conditions agreed with you or with our specific consent, except as may be required by law. In the absence of our express written agreement to the contrary, WTW and its affiliates and their respective directors, officers and employees accept no responsibility and will not be liable for any consequences howsoever arising from any use of or reliance on this material or the opinions we have expressed.
3. This material is based on information available to WTW at the date of this material and takes no account of subsequent developments after that date. In preparing this material we have relied upon data supplied to us by third parties. Whilst reasonable care has been taken to gauge the reliability of this data, we provide no guarantee as to the accuracy or completeness of this data and WTW and its affiliates and their respective directors, officers and employees accept no responsibility and will not be liable for any errors or misrepresentations in the data made by any third party.
4. The technical actuarial work involved in the preparation of this communication complies with the Financial Reporting Council's Technical Actuarial Standard TAS 100. This confirmation is provided on the basis that no decisions will be made on the basis of this communication.





About WTW

At WTW (NASDAQ: WTW), we provide data-driven, insight-led solutions in the areas of people, risk and capital. Leveraging the global view and local expertise of our colleagues serving 140 countries and markets, we help you sharpen your strategy, enhance organizational resilience, motivate your workforce and maximise performance. Working shoulder to shoulder with you, we uncover opportunities for sustainable success — and provide perspective that moves you. Learn more at [wtwco.com](https://www.wtwco.com).



[wtwco.com/social-media](https://www.wtwco.com/social-media)

Copyright © 2026 WTW. All rights reserved.

Project number, if needed

[wtwco.com](https://www.wtwco.com)

wtw | Towers Watson