# Collective Defined Contribution (CDC) Pension Schemes

28th November 2024

Department for Work & Pensions

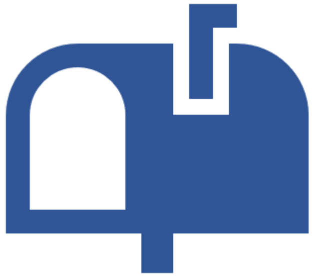
# Why do CDC?

| Advantages | Disadvantages |
|---|---|
| • Provides an **income in retirement**.<br>• Improved member experience - No need for members to **make complex financial decisions**<br>• More **resilient** to economic shocks.<br>• CDC can offer **better outcomes.**<br>• CDCs can take a **longer-term investment strategy**<br>• No continuing **liability** for employers<br>• The higher expected benefits provided by CDC could **aid recruitment and retention** | • Pensions **not guaranteed**<br>• **Communications**: CDC schemes are difficult to explain<br>• **Intergenerational (un)fairness**<br>• Some members could be **worse off.** |

Department for Work & Pensions

# Single and Connected Employer CDC Schemes

“Single or connected employer scheme” means a CDC scheme used, or intended to be used, only by a single employer or two or more employers that are connected with each other.



- **Royal Mail and Unions** jointly approached government at the end of 2017 with a clear commitment to create a CDC scheme.
- The legislative framework for single and connected employer CDC schemes came into effect on **1st August 2022**.
- The Royal Mail scheme was authorised in **March 2023.**
- The Royal Mail scheme launched on **7 October 2024**.

Department for Work & Pensions

# Authorisation Regime (Single or Connected)

To protect members and ensure schemes are well designed, existing legislation requires that a Single or Connected CDC scheme applying for authorisation must satisfy the Regulator:

- that the persons involved in the scheme are **fit and proper persons**;
- that the **design** of the scheme is sound;
- that the scheme is **financially sustainable**;
- that the scheme has adequate systems and processes for **communicating** with members and others;
- that the **systems and processes** used in running the scheme are sufficient to ensure that it is run effectively;
- that the scheme has an adequate **continuity strategy.**

Department for Work & Pensions

# Support for Extending CDC Provision

During the development of the regulations for single or connected employer CDC schemes, government indicated that it would consider extending CDC provision to unconnected **multiple employer** CDC schemes, including **Master Trusts**.

“unconnected multiple employer scheme” means a CDC used, or intended to be used, by two or more employers, some or all of which are not connected with each other.

- Broad cross-party support for expanding CDC.
- Government ran a public consultation on extending opportunities for CDC schemes from January 2023 to March 2023.
- Near unanimous support from respondents for the expansion of CDC provision and our proposals for doing so
- We now have more than half a dozen organisations actively looking to set up a multiple employer CDC scheme
- Support from Trade Unions, who have been closely involved in the development of CDC schemes

Department for Work & Pensions

# Authorisation Regime (UMES)

To protect members and ensure schemes are well designed an Unconnected Multiple Employer Scheme must satisfy the Regulator (in addition to the 6 criteria set out in the single or connected framework):

- that the scheme has a single **scheme proprietor** who meets specific requirements;

- that no person who **promotes or markets** the scheme has carried out promotion or marketing in relation to the scheme that is **unclear or misleading without rectification**, and that the scheme has adequate s**ystems and processes** for securing that promotion or marketing in relation to the scheme is clear and not misleading;

- that the scheme **trustees will not promote or market** the scheme or act as a chief financial officer for the scheme;

- that it is reasonable to consider that the trustees of the scheme would not be prevented from pursuing **continuity option 3** (operating as a closed scheme) whenever they consider it appropriate to do so should a triggering event occur in relation to the scheme.

Department for Work & Pensions

# New roles for UMES

**Scheme Proprietor**

- Makes the business decisions on the commercial aspects of the scheme
- Provides the money to fund the early years costs
- Stands behind the wind-up costs
- Prepares and maintains the Business Plan and submits it to the Regulator
- There must be a Scheme Proprietor and they cannot be the trustee

**Why introduce?**

- All schemes will have business/commercial decisions to make.
- Clearly establishes who is responsible for the scheme's business strategy and financial sustainability
- Should not be held by the trustees given the obvious conflicts of interests that could arise

Department for Work & Pensions

# New roles for UMES

## Chief Financial Officer

- The financial and commercial soundness of a multi-employer scheme is really important
- Lots of documents to prepare and send to TPR

## Chief Investment Officer

- Influential in setting the scheme’s investment strategy
- Managing the day-to-day implementation of the investment strategy

## Why introduce?

- Ensures the new framework captures any additional persons that we consider to be relevant in unconnected multiple employer CDC schemes
- Ensures these persons are brought within the scope of the fit and proper test so that they are subject to appropriate scrutiny.

# New roles for UMES

**Person who promotes or markets the scheme**

- When operating on a commercial basis acquiring new business through the promotion or marketing of their scheme will be essential.
- Not mandating this role – acknowledge that promotion or marketing of a scheme could be carried out by the scheme proprietor
- However, where a separate person/entity is assigned the role they are subjected to F&PP criteria

**Why introduce?**

- To mitigate the risk of schemes overpromising to gain a commercial advantage or mis-selling, we are introducing a new promotion or marketing authorisation criterion.
- Ensures such a key role is brought within the scope of the fit and proper test so that they are subject to appropriate scrutiny.

Department for Work & Pensions

# UMES Draft Regulations (other key features)

- Amending the **Pension Schemes Act 2021** to facilitate the expansion of CDC provision to UMES, including **definitions.**

- Bringing **additional relevant persons** within the scope of the **fit and proper test**.

- Mandating that schemes **value assets annually** and, if necessary, adjust benefits to ensure the value of assets held and the projected costs of benefits remain balanced.

- Establishing strict **rules on any adjustment** of benefits to guard against excessive **cross-subsidies** whilst providing more flexibility in design of schemes, for example **age related accrual.**

- Establishing that UMES schemes must meet the **communication requirement** (to the satisfaction of the Regulator), ensuring **effective scheme communications** are delivered to relevant persons .

- Making changes to **other legislation** that are linked to the expansion of CDC schemes to multiple unconnected employers (**publication and disclosure**).

Department for Work & Pensions

# Next Steps (UMES)

**November 2024**: Consultation on UMES Regulations closes.

**Winter 2024/Spring 2025**: Analysis of consultation responses and subsequent policy and legal work to redraft regulations where appropriate.

**Summer/Autumn 2025**: TPR to consult on its Code in respect of unconnected multiple employer CDC schemes.

**Spring/Summer 2026:** Legislation and Code of Practice providing for whole life multi-employer CDC schemes to come into force

**Some time in late 2026:** First multi-employer CDC scheme applications can be submitted to be assessed and authorised by TPR

Department for Work & Pensions

# Next Steps (Decumulation-only)

## How would it work?

- Members would transfer to the scheme at the point of decumulation with their pension pot.
- The value of their pot at that time will determine what pension income the member might receive from the arrangement

## Key Issues

### Target Market

- Who would benefit from a decumulation only option?
- Who is it not right for?
- What impact might this have on existing decumulation market?

### Member Protections

- Communications – ensuring members understand what it is
- Marketing – the risk of over-promising/mis-selling to individuals
- Risk of adverse comparisons with guaranteed income products.

### Entry Pricing

- What factors determine how much income a member gets with their pot?
- How can charges vary over time?

### Viability

- How will schemes cover the costs of setting up and running the scheme?
- How will sufficient scale and diversity be achieved to benefit from pooling?
- Shorter investment horizon and higher levels  of volatility

Department for Work & Pensions