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**Response from the Pensions Management
Institute to DWP consultation: ‘Extending
Opportunities for Collective Defined
Contribution Pension Schemes’**





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Introduction

PMI is the professional body which supports and develops those who work in the pensions industry. PMI offers a range of qualifications designed to meet the requirements of those who manage workplace pension schemes or who provide professional services to them. Our members (currently some 7,000) include pensions managers, lawyers, actuaries, consultants, administrators and others. Their experience is therefore wide ranging and has contributed to the thinking expressed in this response. Due to the wide range of professional disciplines represented, our members represent a cross-section of the pensions industry as a whole.

PMI is focused on supporting its members to enable them to perform their jobs to the highest professional standards, and thereby benefit members of retirement benefit arrangements for which they are responsible.

We trust that the feedback in the following pages proves helpful.



Executive Summary

CDC pension schemes have proved particularly successful in other countries. The Netherlands and Denmark are consistently rated at the top of the annual Mercer CFA Index of national pension schemes, and CDC plays a prominent role in pension provision within those territories. It is therefore inevitable that there should have been pressure to introduce CDC to the United Kingdom.

However, CDC remains a controversial topic within the wider pensions community within the UK. Whilst CDC has many enthusiastic proponents, it also has a number of vociferous detractors. Critics of CDC argue that the system resembles the with-profits concept and that this design of scheme benefits older (retired) members at the expense of younger participants. CDC's champions, on the other hand, point to statistical evidence showing that retired CDC members in the Netherlands have incomes that are on average 20% higher than those of UK retirees who accrued benefits in traditional DC arrangements.

To date, just one employer has established a CDC pension scheme, and it is generally accepted that any future single-trust CDC schemes would be unlikely to emulate the design characteristics of that scheme. Expanding the scope for all employers to participate in a CDC scheme will cause many to approach the topic for the first time and to join the debate about the potential of CDC. The PMI is proud to be part of that debate.

1. Do you agree with the key principles we have identified as necessary for the new types of CDC schemes and in particular whole-life multi-employer CDC models? If not, please set out why.

We agree that the key principles are appropriate.

2. Do you agree with our thoughts on what requirements might need amending to accommodate these new CDC designs? What new triggers for sectionalisation other than a change to the actuarial plan do you envisage might be appropriate in these new schemes?

We agree that the principal amendments required have been identified.

3. Should the definition of “operates” at section 7(5) of the 2021 Act be amended for whole-life multi-employer CDC schemes? If you agree, please set out how.

We agree that the definition of “operates” should be amended. It should be noted that those bodies seeking to establish multi-employer arrangements would be at least broadly comparable to those which have established DC Master Trusts. Because of their size, these organisations could reasonably be expected to fund their own set-up costs.

4. How might legislation capture persons performing the functions listed at paragraph 39 in commercial and sectorial schemes so that they are within scope of the fit and proper persons test? Are there other persons that should be brought within scope of the fit and proper persons test for these new schemes?

Subject to the provisions of question five, we believe that the existing ‘fit and proper’ definitions for the operation of DC Master Trusts are more than adequate. In any event, as multi-employer CDC schemes are to be used as auto-enrolment schemes, it would not be desirable to operate parallel ‘fit and proper’ regimes.

5 Do you agree that those marketing and promoting CDC schemes should be within scope of the fit and proper persons test where certain conditions apply, and if those conditions should be similar to those in Master Trust schemes?

Yes and yes.

6. Are any changes or additions needed to Schedule 1 of the 2022 Regulations in respect of matters to be taken into account by TPR, as part of the fit and proper test to reflect the new roles envisaged to exist in sectorial and commercial schemes?

We are not persuaded that any additions are necessary.

7. Are the current scheme design requirements including the tests still appropriate for assessing soundness in the new whole-life multi-employer schemes? Are there any additional soundness considerations or tests needed in light of the new designs?

We are satisfied that the current design requirements (including tests) remain adequate.

8. If a scheme funder equivalent is introduced for the new whole-life multi-employer CDC schemes including Master Trusts, should similar scheme funder requirements to those in the DC Master Trusts regime apply? Are there any changes needed to ensure there is a clear focal point for TPR's scrutiny and liability for meeting the relevant costs?

We believe that it would be appropriate for multi-employer CDC schemes to have scheme funder requirements comparable to those currently applicable to DC Master Trusts.

9. Should business plan requirements, similar to those for Master Trusts, be introduced for commercial and sectorial CDC whole-life multi-employer schemes? What, if anything, should change? Who should be responsible for preparing the business plan?

We agree that it would be appropriate for commercial and sectorial whole-life multi-employer CDC schemes to be subject to business plan requirements similar to those currently applicable to DC Master Trusts. We would expect the scheme funder to have responsibility for the development of such a business plan.

10. Do you agree that the existing requirements should apply to new whole-life multi-employer schemes and are additional requirements needed to help ensure that communications used in promoting and marketing the scheme are not misleading? How might Schedule 4 of the 2022 Regulations be amended to achieve this?

We are satisfied that the existing provisions set out in Schedule 4 of the 2022 Regulations are adequate and that amendment is not necessary.

11. Are any changes or additions needed to the requirements in Schedule 5 of the 2022 Regulations to reflect the new designs and relationships anticipated in the new whole-life multi-employer schemes?

The provisions of Schedule 5 of the 2022 Regulations are very comprehensive. We do not believe that any amendments are required.

12. Do you agree that it is reasonable for the existing requirements in regulations 15 and 16 of the 2022 Regulations to apply to the new whole-life multi-employer CDC schemes, and that the continuity strategy should include an aspiration to operate the scheme as a closed scheme?

We agree that it is reasonable.

13. Do you agree that most of the existing requirements can read across to the new whole-life multi-employer schemes? What changes including the one proposed above do you think should be made to the existing requirements and why?

We agree that the existing requirements are adequate. The principle of maintaining a flexible relationship between funding levels and rates of benefits as they accrue or are paid is central to the CDC concept, and it would be unhelpful to introduce statutory constraints that would compromise this.

14. Do you think that the list of events in regulation 23 of the 2022 Regulations needs amending for the new whole-life multi-employer CDC schemes? If so, why? Are there new events that should be added or current events that should be removed?

The list of events set out in regulation 23 is very comprehensive. We not believe that any changes are required.

15. Do you agree that the list of triggering events that apply to single or connected employer CDC schemes needs some revision to accommodate whole-life multi-employer CDC schemes? Are there new events that should be added or current events that should be removed?

We agree that the participation of unconnected employers within a multi-employer CDC scheme will require additional triggering events. The obvious example is the insolvency of a participating employer.

16. Is a similar approach to the wind up commencement time (and the cessation of contributions/accruals) appropriate in respect of the new whole-life multi-employer schemes? If not, why not? Given AE obligations, how might participating employers be provided with sufficient opportunity to make alternative arrangements, before contributions are prohibited in the whole-life multi-employer CDC scheme being wound up, whilst managing risks to members?

We are satisfied that a similar approach is appropriate. The proposal set out in paragraph 105, whereby contributions would be transferred to a replacement Master Trust would be a pragmatic method for continued compliance with the automatic enrolment requirements.

17. Are the current default and alternative discharge options sufficient for the new whole-life multi-employer CDC schemes?

We are satisfied that the current default and alternative discharge options are suitable.

18. Do you agree that the existing framework for the wind up of a CDC scheme can read across to the new whole-life multi-employer schemes? What changes, other than the ones mentioned above, do you consider should be made for these new schemes?

We agree that the existing framework can be applied to multi-employer CDC schemes. We do not believe that any changes need to be made.

19. Do you agree that the existing requirements, outlined in Chapter 10, which apply to single or connected employer schemes can be read across to the new whole-life multi-employer CDC schemes, other than where a modification has been highlighted?

We agree that the existing frameworks can also be applied to the new multi-employer CDC schemes.

20. Who would be responsible for meeting the costs of establishing the arrangement and the short-medium term operating costs?

We believe that the scheme funder should be responsible for meeting these costs.

21. How could such arrangements establish scale and what evidence is there to support this? In addition, until such schemes achieve and maintain scale do commercial providers envisage providing the funding needed to smooth volatility and deliver the aspired to pension benefits? How would the potential issue of small pots be addressed?

We do not believe that there is an obviously viable answer to this. Established providers of Lifetime Annuities would already have the assets to achieve scale, but whether there is any commercial benefit to them in offering such schemes would be a commercial decision for them to take.

A decumulation only CDC scheme would be competing with traditional Defined Benefit Schemes, Defined Contribution arrangements and other CDC schemes. The potential appeal of a decumulation only CDC scheme to a consumer with flexible benefits would lie in being able to offer a 'halfway house' between annuitisation and SIPP's designed to offer 'Freedom and Choice' benefits. We believe members with DB benefits would probably be expected to remain with their original scheme unless the value of their transfer value makes a SIPP an attractive alternative. Frankly, it is difficult to see how a decumulation only CDC scheme could achieve adequate size in such an environment.

22. What mechanism should be used to determine the price at which people might buy into a decumulation only CDC arrangement and what can be done to ensure individuals are treated fairly? In addition, should mortality underwriting be a feature of these arrangements, and how would this best be done?

We would argue that the mechanism should not be dramatically different from annuitisation. Mortality Underwriting is a feature of the bulk annuity market, and it is not obvious that it would work as effectively for decumulation CDC schemes where transfers would be made on an individual basis.

23. What steps can be taken to ensure communications to members help them understand how these new arrangements will work and how can consistent standards be achieved in the way commercial arrangements market their products to prevent over-promising?

The safest option in achieving this objective would be to require anyone considering transferring to a decumulation only vehicle to seek regulated advice. This is the current requirement for DB to DC transfers over £30,000 and should be a requirement here.

24. What other changes in addition to those set out in this document, do you think need to be made to ensure the effective and fair operation of decumulation only CDC arrangements?

We have no comment on this.

