

Hot Topic: CDC schemes – the future of pensions?

November 2024

Building on “significant appetite from industry”, the DWP has published a consultation on extending the CDC framework to enable whole-life unconnected multiple employer CDC schemes, including master trusts. This Hot Topic sets out the key CDC developments to date and what is still to come.

What is CDC?



CDC, or Collective Defined Contribution, is a type of DC arrangement where member and employer contributions are invested in a single collective fund, rather than individual pots. Unless a member chooses otherwise, a CDC scheme will provide a pension from the scheme at retirement based on the value of assets in the scheme. As they offer a target level of pension benefits, as opposed to a guarantee, CDC schemes are seen as a “third way” between traditional DB and DC schemes.

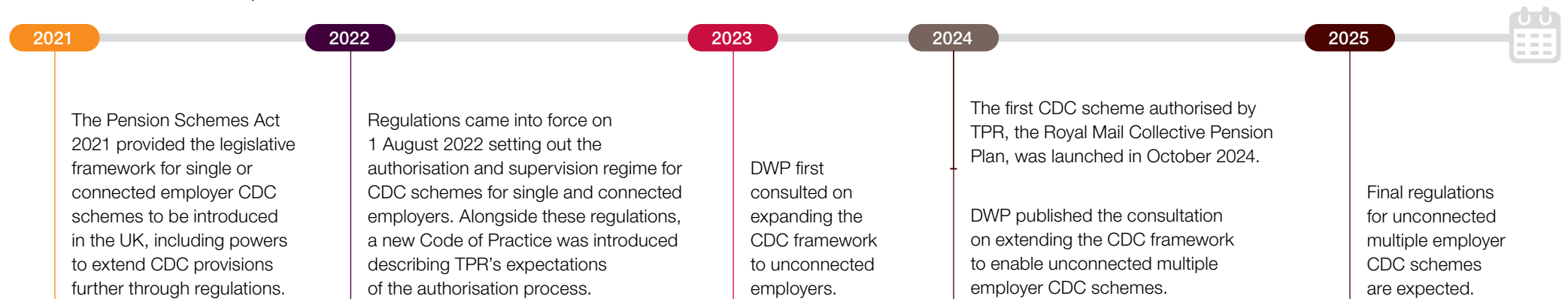
Expanding the CDC framework to unconnected employers



The DWP has published a consultation on extending the CDC framework, which it hopes could “modernise” the pensions market. The consultation follows on from the DWP’s 2023 consultation and sets out what CDC schemes that are whole-life unconnected multiple employer schemes (“unconnected multiple employer CDC schemes”) must do to become authorised and to operate effectively under regulatory oversight.

The DWP is asking for views on the draft regulations included in the consultation, as well as broader thoughts on whether the regulations deliver the intended outcomes.

Timeline of CDC developments



What is the DWP proposing in the new consultation?



- ✓ Removing the current exclusion of unconnected multiple employer schemes from operating under the CDC legislation.
- ✓ Setting out what unconnected multiple employer CDC schemes need to do to become authorised, and to continue to be authorised, by TPR. The proposals broadly follow the existing CDC regime for single and connected employers, as well as using certain elements from the existing DC master trust authorisation regime, where appropriate.
- ✓ A framework for ongoing supervision.

Differences from the current regime

An unconnected multiple employer CDC scheme must:

- ✓ start operating within 18 months from the date on which the TPR receives the application
- ✓ have a single “scheme proprietor” that is responsible for, among other things, financing the scheme where its administration charges are not enough to cover its costs and making business decisions relating to the commercial activities of the scheme
- ✓ be able to cater for employers with different contribution or accrual rates within the same section (subject to various conditions).

Can CDC schemes be used for decumulation-only? ?

The consultation does not cover decumulation-only CDC models and legislating for CDC decumulation-only products remains some way off. However, the DWP is “continuing to explore” with the pensions industry and regulators what would be needed to provide trust-based decumulation-only CDC options. The DWP is keen to ensure that appropriate controls are in place to protect members and is looking into certain areas in more detail, including achieving scale, promotion and marketing, and charging structures.

With the Government committed to introducing new duties for trustees to offer a retirement income solution (or range of solutions) in the Pension Schemes Bill, expected in 2025, it will be interesting to see whether a CDC decumulation-only product will be a reality in the near future.

What’s next for CDC?

The consultation closes on 19 November 2024 and the Government’s response is expected “sometime in 2025”, alongside the final regulations being laid. The legislation will be brought into force together with an updated CDC Code from TPR, which will then pave the way for unconnected multiple employer CDC schemes to apply to TPR for authorisation.

