Hot Topic: CDC schemes – the future of pensions?

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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

2021

The Pension Schemes Act 2021 provided the legislative framework for single or connected employer CDC schemes to be introduced in the UK, including powers to extend CDC provisions further through regulations.

2022

Regulations came into force on 1 August 2022 setting out the authorisation and supervision regime for CDC schemes for single and connected employers. Alongside these regulations, a new Code of Practice was introduced describing TPR's expectations of the authorisation process.

2023

DWP first consulted on expanding the CDC framework to unconnected employers.

2024

The first CDC scheme authorised by TPR, the Royal Mail Collective Pension Plan, was launched in October 2024.

DWP published the consultation on extending the CDC framework to enable unconnected multiple employer CDC schemes.

2025

Final regulations for unconnected multiple employer CDC schemes are expected.

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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.

Sacker & Partners LLP
20 Gresham Street
London EC2V 7JE
T +44 20 7329 6699
E enquiries@sackers.com
www.sackers.com

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