

DWP pensions consultations – Autumn 2018

The Department for Work and Pensions (DWP) have recently published 3 consultations on various pensions issues:

- [Delivering collective defined contribution \(CDC\) pension schemes](#) – this consultation sets out proposals about how such schemes might work in the UK. CDC schemes can be considered as being halfway between a defined benefit (DB) and a defined contribution (DC) scheme. Contributions are fixed (like DC schemes), but there is a target benefit level for members.
- [Pensions dashboards](#) – this consultation sets out the government's recommendations for pensions dashboards. These are an online service which would show information about multiple pensions all in one place.
- [Consolidation of defined benefit pension schemes](#) – this consultation seeks views on proposals to support the consolidation of DB pension schemes, in particular regarding a new legislative framework for authorising and regulating DB "superfund" consolidation vehicles.

GAD have been supporting the DWP private pensions policy team in its development of these consultations as part of our ongoing advice role to the department. This bulletin summarises the proposals set out in these consultations.

Delivering CDC pension schemes

Collective defined contribution (CDC) schemes

A CDC pension scheme is one where employers and employees pay a set amount of contributions (much like a traditional DC scheme) with the aim of achieving a target level of member benefits – but the risks that arise in the scheme are shared collectively among the scheme's members. This means that if scheme experience (such as investment returns) are favourable then benefits can be higher than the target level, but if experience is unfavourable then benefits can be lower.

This consultation follows on from the government's response to an [ongoing inquiry](#) by the House of Commons Work and Pensions Committee on CDC schemes. Royal Mail is working to establish a CDC scheme and has approached the government to facilitate its proposed approach in legislation. The consultation states that the Royal Mail initiative could be a model for other employers and workforces to launch their own CDC schemes. The government is therefore consulting on a framework which reflects this type of scheme design, as well as exploring the policy and regulatory issues that CDC schemes raise. The government has concluded that fresh primary and secondary legislation will be needed to deliver an appropriate legislative and regulatory framework for CDC schemes.

The government's proposals for CDC pension schemes include requiring the appointment of a Scheme Actuary, requiring an independent actuary to peer review the underlying actuarial assumptions prior to a scheme seeking authorisation by the Pensions Regulator (TPR), requiring annual actuarial valuations in order to determine whether benefit adjustments are required and to test overall sustainability, and making CDC pension schemes subject to the same charge cap that applies to automatic enrolment DC schemes (an annual cap of 0.75% of total fund value).

Pensions dashboards

This consultation sets out the findings of a feasibility study which examined how government can help the pensions industry to create pensions dashboards. It proposes convening an industry-led group to implement delivery.

The government's key objectives for dashboards are to ensure personal data is secure, accurate and simple to understand, and that a complete picture is provided. To achieve this, it has stated an intention to legislate to compel pension schemes to provide data to dashboards. The government will work with the delivery group to integrate state pension benefits, noting this will form a significant part of retirement income for many.

Pensions dashboards

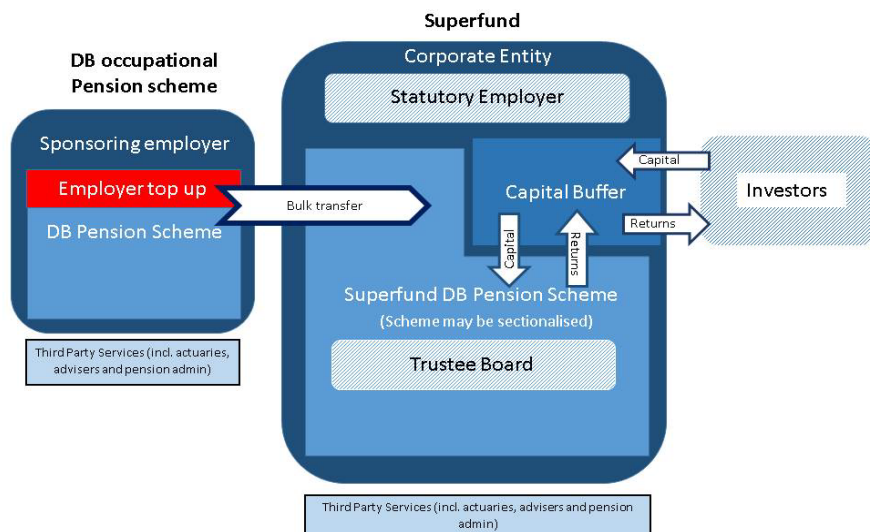
The widely shared aim of pensions dashboards is to enable people to securely access their pensions information online all in one place and at a time of their choosing, to support better planning for retirement.

The government states that while it expects the industry should be able to begin supplying data to a dashboard on a voluntary basis from 2019, it may be 3 to 4 years before the majority of schemes will be on board. The final timeline for implementation will need to be agreed by industry through the delivery group.

Consolidation of DB pension schemes

This consultation follows on from the proposals in chapter 3 of DWP's White Paper on "[Protecting Defined Benefit Pension Schemes](#)" which was published in March 2018 (see [GAD Technical Bulletin](#)).

Superfunds
A DB superfund is an occupational pension scheme set up for the specific purposes of consolidating other DB pension scheme liabilities. A transferring scheme's link to a ceding employer would be severed on transfer to a superfund, and the employer covenant would be replaced by a capital buffer provided through external investors in the superfund. In return for providing this capital, such investors would expect a return on their investment.



The government considers that the current legislative framework does not prevent DB superfunds being set up, but intends to legislate for an effective regulatory regime to maximise the benefit from the potential offered by consolidation. Superfunds would continue to be classed as occupational pension schemes and would be subject to the legislation and regulation appropriate to such schemes, but with a more robust regulatory framework in place.

Authorisation and supervision

The consultation sets out proposals for a new authorisation regime for superfunds. Before authorisation, TPR would have to be satisfied that a superfund meets certain criteria, including provisions around financial sustainability, governance, investment and supervision. Superfunds would either be required to demonstrate a high probability (over 99%) of being able to pay members' benefits in full, demonstrated using a stochastic modelling approach with potentially further safeguards in place, or they will be subject to an insurance-like "annual balance sheet" approach based on buying out benefits. A corresponding test of failure (less than 1%) is also proposed, as well as a series of underpinning trigger points if funding levels fall below certain limits. These would range from a trigger where profits cannot be distributed, to a trigger where a wind-up process would be automatically started.

The proposed new regulatory regime would allow TPR to supervise superfunds by way of a new Code of Practice. Superfunds would be required to submit annual valuations, produce quarterly funding updates, notify TPR if the funding position is likely to have breached any of the funding triggers, and to report certain "significant events" to TPR when they arise. Additional reporting requirements would also be placed on the superfund's corporate entity.

Superfund transactions

To support trustees in the process of deciding whether to transfer schemes into superfunds the consultation proposes introducing a regulatory gateway to ensure this decision is in the best interest of scheme members. This superfund gateway will require trustees to take various factors into consideration before agreeing to transfer, including evidence that members' benefits are better protected in the superfund than they would be by remaining in the sponsoring employer's scheme, with an increased likelihood of members receiving full benefits. The gateway would prevent schemes from entering superfunds where there is a realistic prospect of buying out scheme benefits in the insurance market within the next 5 years, noting that superfunds should not be seen as cheaper alternatives to buy-out.

Other issues

The consolidation consultation paper also briefly discusses a number of other current pensions issues, including section 75 employer debts, PPF levies, DB Master Trusts and Guaranteed Minimum Pension (GMP) equalisation.

Next steps

All three of these consultations close in early 2019, following which the government is keen to bring forward legislation to cover the various issues raised as soon as Parliamentary time allows.

If you would like to discuss any of these issues in more detail or have any questions please get in touch with your usual GAD contact.

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For details of our management team and office address please visit: www.gov.uk/gad

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