



Department
for Work &
Pensions

Extending Opportunities for Collective Defined Contribution Pension Schemes

Government Response to the consultation on a policy
framework for broadening Collective Defined
Contribution provision beyond single or connected
employer Collective Defined Contribution schemes

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Ministerial Foreword

In January this year I published a consultation on a proposed way forward to extend the legislative and regulatory framework for single or connected employer Collective Defined Contribution (CDC) pension schemes. Our intention is that the framework should accommodate schemes providing benefits to unconnected multi-employer schemes and Master Trusts, and to explore how best to provide for schemes offering CDC decumulation products.

I believe CDC has huge potential to benefit pension savers. At a fixed cost to employers they can have the assurance of an affordable regular income in retirement by sharing risk, smoothing the impacts of market movements and other factors which otherwise would drive volatility and deliver wildly unpredictable outcomes. By reducing and mitigating the risks faced by members these schemes can take advantage of the ability to invest in more productive assets. This enables CDCs to play a key role in driving investment towards the vital infrastructure that the UK needs. Hard-working savers can benefit not just from higher pensions returns, but also through the rewards of wider economic growth.

That is why it is important to get CDC right. It is not without challenges because members cannot rely on any guarantees, so CDC schemes need to be well designed, well run, and deliver good outcomes. I and my officials are therefore very grateful for the generous and constructive input both at seminars and roundtables during the consultation period and the thoughtful written responses to the consultation. These demonstrate the increasing interest and appetite across the pensions industry for delivering these schemes.

This response builds on those responses and sets out our proposed way forward which will be realised through secondary legislation which we will publish in draft later this year.

The DWP has published a number of documents today, all designed to drive better outcomes for pension savers. These are all part of a wider government agenda to improve opportunity for investment in alternative assets including in high growth businesses and improve saver outcomes. We believe that a higher-allocation to high-growth businesses, as part of a balanced portfolio, can increase overall returns for pensions savers leading to better outcomes in retirement. In addition, we want to ensure that our high-growth businesses of tomorrow can access the capital they need to start up, scale up and list in the UK. DWP have been working closely with HMT on this wider package which was set out by the Chancellor in his Mansion House speech.

Laura Trott MP, Minister for Pensions

Chapter 1: Intro/Overview

About the Government Response

1. This document forms the government's response to the public policy consultation¹ that was launched on 30 January 2023 and ran for 8 weeks. It sought views on:
 - policy proposals for broadening Collective Defined Contribution (CDC)² provision beyond single or connected employer schemes to accommodate multi-employer schemes including Master Trusts; and
 - the role of CDC in decumulation and particularly the potential for CDC decumulation-only trust-based schemes and products, including how these might work in practice with appropriate oversight by the Pensions Regulator ("the Regulator").

Responses to the consultation

2. We received 45 responses to the consultation itself. These were made up of 9 from membership bodies; 6 from dedicated consultancy firms, 2 from dedicated master trust sponsors and 3 that do both; 5 from law firms; 4 from trade associations; 3 from corporate occupational pension schemes; 3 from asset managers; 3 from Trade Unions; 3 from financial services companies; 2 from individual respondents and 1 each from a think tank and an insurer.
3. Before, during and after the public consultation, we also conducted informal engagement with a range of industry stakeholders, the Regulator, and the Financial Conduct Authority ("the FCA").
4. This document highlights the key issues raised in response to the consultation questions (which are repeated at the start of each chapter) and the government's response but is not an exhaustive commentary on every response received.
5. This policy applies to Great Britain. It is envisaged Northern Ireland will make corresponding regulations to ensure a common approach across the United Kingdom.

¹ [Extending Opportunities for Collective Defined Contribution Pension Schemes - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/collective-defined-contribution-pension-schemes)

² The Pension Schemes Act 2021 ("the 2021 Act"), provides the legislative framework to establish and operate CDC schemes, but to ensure they sit clearly within the Money Purchase provisions of existing legislation, the 2021 Act refers to them as Collective Money Purchase (CMP) schemes. The terms CDC and CMP are synonymous.

Chapter 2: Key principles for new types of CDC schemes

Question 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.

Summary of Responses

6. There were 36 respondents to this question. All the respondents broadly agreed with the key principles set out in Chapter 3 of the consultation though 25 of these either disagreed with some of the principles or thought they needed some modification.
7. Three respondents were concerned with the second principle that CDC benefits should only be offered in a trust-based environment for the time being. One disagreed and suggested that we should work with the FCA and the Prudential Regulatory Authority (“PRA”) to develop a regulatory framework that would accommodate both trust-based and contract-based schemes.
8. Another said we should not be establishing trust-based decumulation only CDC schemes as they resembled retail products and as such should be regulated by FCA. The third respondent requested that we consider accommodating longevity pooling arrangements without having to commit to annuities in the contract-based space.
9. Three respondents raised points regarding Value for Money. One suggested that the proposed Value for Money framework should also cover CDC arrangements. The other two believed that the focus should be on Value for Money and not cost though this view as also expressed in the context of the charge cap.
10. Two respondents suggested that we should align the framework for multi-employer CDC schemes with that of the Master Trust regime. One of these said it made sense to extend CDC provision to whole-life multi-employer schemes first and then extend to decumulation only vehicles later.
11. Several respondents queried the principle of ensuring that any adjustments made to benefits must be without variation across the membership. We will cover these points in Chapter 5. Similarly, concerns raised about the 0.75% CDC charge cap will be covered under the charge cap section of Chapter 8.

Government Response

12. We are pleased that the respondents largely agreed with the key principles we intend taking forward for multi-employer CDC schemes including Master Trusts.
13. On the question of whether we should be extending CDC provision to trust-based occupational pension schemes only, and not also cover contract-based schemes, we consider that it is appropriate to focus on trust-based arrangements. Having engaged with a number of stakeholders we know there is an appetite for trust-based multi-employer CDC schemes.
14. The robust authorisation and supervisory regime overseen by the Regulator has driven high standards in Master Trusts and seen them become the scheme of choice for 95% of active savers in the trust market, delivering solid member outcomes for millions. Increasing scheme asset and organisational scale has created opportunities for trust-based schemes to be more innovative and invest in productive finance, a benefit which can be accentuated by the design characteristics of CDC schemes.
15. We are however working closely with the FCA to understand if there is potential to establish CDC type arrangements in the contract-based space and to benefit from their experience of regulating decumulation products. We will cover decumulation only issues in Chapter 9 and both we and the FCA are open to engaging with organisations that have proposals for how a CDC-type arrangement might operate in the contract-based space.
16. We agree that Value for Money should be a focus for trustees of occupational pension schemes and are working closely with the policy team progressing this work with a view to ensuring that CDC schemes also benefit from the new framework. The new framework will help ensure that trustees do not overlook the importance of positive investment returns in driving value for money for members rather than just focussing on reducing costs. We also consider that there is no reason the CDC charge cap, an important protection from members, should not operate effectively alongside the new Value for Money Framework.
17. In developing the legislative framework for single or connected CDC schemes, we examined closely the existing Master Trust legislation. This is also true in our consideration of a potential framework for multi-employer CDC schemes including Master Trusts. We agree that consistency between the Master Trust regime and CDC authorisation and supervision regimes is desirable but there will inevitably be differences given the differing nature of CDC schemes and Defined Contribution (DC) schemes.

Chapter 3: Defining qualifying benefits and qualifying schemes

Question 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?

Summary of Responses

18. There were 29 respondents to this question. All the respondents broadly agreed with our proposed approach to accommodate whole-life multi-employer schemes, but some respondents raised points for our consideration.
19. There was consensus that qualifying benefits and non-qualifying benefits should be in separate sections. Most respondents were of the view that the new framework should accommodate varying factors such as accrual and contribution rates, given the nature of schemes with multiple unconnected employers, as long as actuarial consistency was maintained. One respondent explicitly stated that regulation 4(1) of the Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2022 (“the CDC Regulations 2022”) should not apply to multi-employer CDC schemes.
20. Two respondents were concerned that the existing CDC legislation did not permit the payment of, for example, serious ill-health commutation lump sums, trivial commutation lump sums and trivial commutation lump sum death benefits. These types of commutation payments can be provided for in scheme rules and are authorised payments under tax rules.
21. There was acknowledgement that sectionalisation might be appropriate in certain circumstances to ensure fairness. Four respondents that agreed with this also warned that excessive sectionalisation of CDC schemes could reduce the impact of risk pooling, that numerous sections with smaller memberships may become unviable sooner and result in increased costs.
22. Two respondents suggested a change in the investment or benefit adjustment principles might be a trigger to open a new section. This would ensure that members were treated fairly. One of these respondents also questioned whether a change in the charging structure should lead to the creation of a new scheme.

23. One respondent was unclear what was meant by 'actuarial plan' and introduced the concept of actuarial cost neutrality. Three respondents suggested that a change in actuarial conversion factors or 'actuarial plan' should be a trigger for opening a new section. One respondent suggested that the important point is that the accrual of new benefits for all members of a CDC section is done on the same actuarial terms, so that for all members in a pool, there is the same relationship between contributions payable and benefits accruing. Where this is not the case, a new section would be appropriate to ensure members are treated fairly and in a consistent manner.

Government Response

24. We welcome the responses to this question and are pleased that there was consensus around the need to separate qualifying benefits and non-qualifying benefits. We agree that it would not be appropriate for the benefit characteristics prescribed in regulation 4(1) to apply to multi-employer CDC schemes. This is because these schemes will typically have multiple employers whose work forces may have different accrual, contribution and even potentially retirement ages.
25. We also agree that it will be essential for members in the same multi-employer CDC scheme or section to be treated in a way that is actuarially fair and consistent. We acknowledge that the assumptions underpinning the actuarial treatment of these members may change over time, for example due to changes in mortality assumptions, but we want to avoid excessive cross subsidy and will consider how this might be best achieved.
26. With regards to the concern raised that the existing CDC legislation prevents commutation payments, we can confirm that our policy intention has always been that these types of payment should be permitted if they are provided for in scheme rules. We can also confirm that we do not consider that the CDC legislation as currently drafted prevents these payments from being made. This includes full commutation where that is permitted by the tax rules.
27. We agree that schemes should be able to open new sections where it is appropriate to do so and in the interests of members. We will consider the suggestions raised regarding potential triggers for sectionalisation including a change in investment or benefit adjustment principles and a change in the fundamental actuarial terms used to determine the benefits that a member might receive. We want to strike the right balance between appropriate triggers for sectionalisation and avoiding excessive sectionalisation, which could damage the viability of the scheme and the interests of members.

Chapter 4: Authorisation

The prohibition on operating a CDC scheme until it is authorised

Question 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.

Summary of Responses

28. There were 30 responses to question 3. We asked broader questions regarding what was acceptable for commercial and sectoral providers in terms of contributing towards start-up costs and authorisation fees. The responses were evenly mixed on as to who should bear the responsibility for this funding.
29. Twelve respondents felt that it was reasonable that the scheme provider, particularly if operating for profit, should be required to cover any start-up costs, and there were suggestions that we align with the Master Trust regime for consistency, pointing to section 3(5)(a) of the Pension Schemes Act 2017 (“PSA17”) as an example.
30. One respondent felt there were risks in allowing a prospective scheme provider to collate financial contributions during an ‘unregulated period,’ with little intention of setting up a scheme.

Some respondents felt that whilst it is not unreasonable to expect a commercial provider to cover all start-up costs; that the expectation was perhaps also unpractical. They argued that extensive collaboration between prospective providers and employers would likely be required in order to establish a CDC scheme.

31. Thirteen respondents felt that we should not be preventing employers from providing seed funding and thought the legislation should not prohibit them from contributing if they so wished. For sectoral schemes, some argued they are likely to be set up via a trust, or a providing organisation e.g., a trade union or an employer umbrella organisation, and tend to lack access to capital, hence they would likely be sourcing funding costs from potential employers.
32. One respondent further suggested that willingness on the part of the employer to contribute to costs, could potentially help encourage innovation should a commercial provider be asked to set up a CDC scheme for an industry wide sector.

33. There were some strong views that no argument had been made either way to prevent either a commercial provider meeting the costs or allowing employers to contribute if they were willing.
34. Overall, it was seen as a commercial decision between the provider and employer if they wanted to assist and how much, and concerns were raised about regulations being too onerous that could inhibit the start-up and development of CDC.
35. Two respondents further highlighted that the current wording of the legislation as it stands, does not prohibit funding from third parties i.e., someone who is neither an employer nor member.
36. For pre-agreements, very few respondents thought that they should be prohibited. Instead, many providers strongly argued against a ban suggesting there was value in pre-agreements: they offered transparency and employer protections in terms of outcomes if authorisation was granted or not.

Furthermore, many also thought that pre-agreements could potentially help prospective schemes establish scale.

Government Response

37. Regarding our position that contributions made by either a prospective member, or a prospective employer, should not be received in relation to the scheme in advance of authorisation, there were no consultation views contrary to this position, and we are maintaining our position that this will apply to multi-employer schemes and Master Trusts.
38. We acknowledge that it is desirable that the scheme provider can satisfy the Regulator during authorisation, that they can cover costs without recourse to other sources. However, we accept that a degree of flexibility may be required to encourage innovation so that providers and employers have the confidence to start CDC provision.
39. Based on the feedback received, we agree that there is merit in allowing employers to contribute towards costs if they so wish. On this point, we also see value in allowing pre-agreements, particularly if they could offer employer protections during an unregulated period, and potentially help schemes establish scale, which is crucial to allow CDC to grow.

Fit and proper persons requirement

Question 4: How might legislation capture persons performing the functions listed at paragraph 39 in commercial and sectoral 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?

Question 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?

Question 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 sectoral and commercial schemes?

Summary of Responses

40. There were 30 responses to question 4, supporting our view that the dynamics between players within sectoral and commercial schemes would be different and consider how to incorporate these new types of roles, which would be more relevant for a multi-employer environment, into the current CDC framework.
41. Many respondents broadly agreed that extending the current regime to include the type of persons as set out in the consultation would be appropriate, and 21 respondents thought that the fit and proper approach in DC Master Trusts was a logical place to start, although there were some nuances to this approach.
42. The majority agreed that the definitions of 'scheme strategist' and 'scheme funder' could read across into multi-employer CDC schemes, although some thought that those roles would be more suitable for commercial schemes.
43. One respondent believed that no extension of the current fit and proper assessment was needed for schemes operating on a non-profit basis as the commercial drivers were not there, whilst another thought there was no need to extend the current scope of the fit and proper assessment at all, as the ultimate responsibility for ensuring the suitability of those involved with the scheme should lie with the trustees or those in equivalent Master Trust positions of funder or strategist.
44. One respondent noted that although some schemes would be like single employer schemes i.e., schemes set up by paternalistic employers rather than an entity operating for profit, they thought drawing a legislative distinction between commercial and sectoral multi-employer schemes would be difficult.

45. Other respondents pointed out that sectoral schemes would most likely be established by a specific body i.e., a pension board that runs Defined Benefit (DB) / DC schemes already within the same sector. Here the Regulator assesses the relevant senior individuals but not the corporate entity itself, which the respondent believed would be sufficient for those types of schemes.
46. A concern was raised regarding the potential for a participating employer, to be captured in the definition of scheme funder because they had contributed to the costs of running the scheme, and that any fit and proper persons assessment requirements should either be reduced or removed entirely in this scenario.
47. Two providers raised further concerns about the definition of those 'profiting from such schemes being defined too broadly. For example, scheme advisors could inadvertently fall into scope of fit and proper persons requirements if the definition were not carefully outlined.
48. Ten providers addressed the potential for other types of roles to be brought into scope for fit and proper assessment. Of these, 4 respondents believed that those responsible for marketing and promotions to prospective employers and members should be assessed, although one thought that a distinction would need to be made between those promoting a CDC scheme to sectoral employers, and promoters of commercial CDC schemes, with only the latter needing to be subject to assessment.
49. Five respondents thought that those responsible for signing off actuarial calculations should be subject to the fit and proper persons test, although one provider did not think this would be necessary due to the regulations already in place within the professional bodies of those advisors. One provider also raised the issue of how the governance of investment advice would be approached and those offering investment advice and management of CDC schemes could come within scope of fit and proper persons assessment, although they acknowledged that FCA requirements may already apply.
50. There were 30 responses to question 5. Of these, 21 respondents unanimously agreed that persons responsible for marketing and promotions should be within scope of the fit and proper person test, and those conditions should be like those that apply to Master Trust schemes, which many observed would be a good comparator.
51. Four respondents thought that those responsible for marketing and promotions for commercial schemes should be in scope for assessment, under the same conditions for Master Trusts. Two of these respondents highlighted that distinctions between sectoral and commercial schemes could be made; for commercial schemes,

alignment with Master Trust conditions would be suitable, but sectoral schemes that do not share the same commercial drivers, assessment could be treated differently.

52. Other providers had varying views on how the financial promoter role could be assessed. Some agreed that we should align fit and proper test conditions with those applied to promoters of Master Trusts, but only for commercial schemes, whilst others thought we should extend the current Master Trust regime to include CDCs, rather than introduce a new authorisation regime.
53. The Occupational Pension Schemes (Master Trusts) Regulations 2018 (“the Master Trusts Regulations 2018”) give the Regulator the discretion to assess any persons responsible for marketing and promotions. Two providers suggested that this should be made mandatory for CDCs schemes because risks of over promising and apprehensions around member protections meant it would be preferable for all persons holding marketing and promotion roles to be assessed.
54. There were some concerns raised regarding the potential that employers promoting a scheme to their employees might be invertedly captured in the regulations for assessment. One provider thought that the discretionary approach of the Master Trusts Regulations 2018 would offer flexibility and help to ensure that employers would not be caught in the assessment simply for promoting the scheme to their employees. Another provider however, felt that the assessment of marketers and promoters should be a mandatory requirement for CDCs.
55. There were 27 responses to question 6. There was broad agreement with the current requirements already in place, and 8 respondents did not think any more changes were necessary.
56. Two respondents raised concerns that requirements for trustees of CDCs would eclipse those required for other types of pension scheme, potentially creating a risk that member-nominated trustees (MNTs) could be excluded from the process of being selected as a trustee. Many responses correctly noted that Schedule 1 to the CDC Regulations 2022, was written primarily with just trustees of single and connected employer CDCs in mind.
57. There were several recommendations suggesting how Schedule 1 to the Master Trusts Regulations 2018 could be used as a blueprint, in order to account for the new roles and relationships that would be more prevalent in a multi-employer CDC scheme.

Government Response

58. We welcome all responses regarding the fit and proper requirement. The fit and proper assessment is an integral part of the authorisation regime and crucial in ensuring that CDC schemes are well managed and stable, offering the best outcomes for their members.
59. The current list of key persons as set out in section 11(2) of the PSA 2021 for single and connected employers will also roll forward for non-connected multi-employer CDC schemes and Master Trusts. It is our policy intention that any new persons acting in any capacity of influence or decision making for a CDC scheme will also need to be assessed by the Regulator as meeting the required standards of conduct and integrity.
60. In relation to how we can appropriately align with the Master Trusts Regulations 2018, and where we must reasonably diverge, it is encouraging that many respondents are in broad agreement with our approach that persons responsible for marketing and promotions should be brought into scope for fit and proper assessment. It is also not our policy intention that any employers should be inadvertently brought into scope simply for promoting a CDC scheme to their employees.
61. We note that for Master Trusts the Regulator has discretion as to whether they assess the scheme marketer or promoter, however we want to remove any ambiguity that may exist around who is or is not classed as a marketer and promoter. As such, we think that the fit and proper assessment for marketing and promotions should be a mandatory requirement. We intend to ensure that the definitions for these roles are clearly defined, leaving no uncertainty for schemes or the Regulator as to who is in scope for assessment.
62. We agree on the points that some providers raised that there may be difficulties in drawing legislative distinctions between commercial and sectoral schemes, and we intend to explore all options so that there is a viable CDC model in place, regardless of whether they operate for profit or not.
63. Concerns have been raised in this consultation regarding the prevalent risks inherent in commercial environments e.g., overpromising CDC benefits to gain a competitive advantage. We acknowledge these concerns and are working closely with the Regulator and the FCA to ensure that the measures we put in place are both proportionate and fair, allowing CDC schemes to grow whilst offering the right level of protections that will encourage confidence in CDC for both industry and members alike.
64. We also welcome the suggestions on how Schedule 1 to the Master Trusts Regulations 2018 could be expanded to apply in new CDC models and we agree, changes can be made to Schedule 1 to the CDC Regulations 2022, to capture the

new roles and key persons that we envisage will be required for multi-employer CDCs.

65. We recognise that MNTs play an important role in representing the member experience and we fully encourage any scheme that wishes to appoint a diverse trustee board to do so. For single and connected employer CDCs, the requirement to select MNTs applies, and this is reasonable as a single employer sponsored scheme can easily draw upon a pool of members who all share the same interests (and employer).
66. Given the nature of multi-employer pension schemes, there are practical considerations to take into account when seeking to apply MNT requirements, such as how MNTs can be effectively selected from the workforces of multiple participating employers and, in turn, how those MNTs can fairly represent the need and interests of members from other participating employers. In particular, for CDCs, any MNT will still be required to meet the fit and proper person requirements; failure to meet the appropriate standards could risk deauthorising the scheme.
67. For Master Trusts, which vary not only in structure but also in the relationships they have with employers, there is an exemption in the requirement to have MNTs, and we intend to consider carefully whether diverging from the requirement to have an MNT in single and connected employer CDCs is appropriate for multi-employer CDCs.

Scheme Design requirement

Question 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?

Summary of Responses

68. There were 28 responses to this question. 15 respondents explicitly agreed that the scheme design requirements remained appropriate for whole-life multi-employer CDC schemes, two of which noted that there are no arguments as to why the design requirements should be any less onerous than those applicable to single employer schemes.
69. 15 respondents also agreed that accuracy of communications to employers and potential employers should be encompassed within the scheme design requirements for multi-employer CDC schemes.

70. Four respondents argued that standardised wording aimed at employers would be appropriate given the increased complexity associated with CDC to ensure they understand whether it is suitable for their employees, and to ensure the scheme is not misrepresented. However, one respondent requested clarity on how this wording would be agreed, and two respondents cautioned against being too prescriptive, instead favouring a key communications principles approach.
71. Linked to this, one respondent suggested that illustrations from all providers could be based on similar agreed methodologies for determining assumptions to remove the potential for mis-selling the scheme for commercial benefit.
72. Two respondents suggested extending the requirement that increases of at least Consumer Prices Index (CPI) so that it should be expected both on initial application for authorisation and for all new entrants to the scheme. This would essentially make the first gateway test a live-running test.
73. One respondent also sought clarity on whether the statement “at initial authorisation, the contributions paid to the scheme are expected to be sufficient to provide benefits which increase each year at least in line with CPI” means, in practice, whether the increase is expected on average over the life of the scheme, or on a year-by-year basis.
74. Two respondents argued that there should be some margin around the tests – i.e. “pension increases *broadly* in line with CPI” - to account for variations due to prevailing market conditions. They argued that without this relaxation in wording, the regulations will inadvertently require schemes to target increases above CPI, in order to build a buffer to ensure that the first gateway test is passed.
75. Four respondents said that it should be considered whether the gateway tests should be re-run periodically, especially if there is a material change to the size of the membership. Two respondents highlighted that it will be difficult for schemes operating commercially to accurately guarantee the number of active members they will have at the outset when trying to satisfy the gateway tests.
76. One respondent suggested that additional tests could be introduced to ensure the design does not lead to excessive cross-subsidies between groups selecting different contribution rates and/or accrual rates, especially in the case of unconnected employers.

Government Response

77. We are pleased that most respondents recognise the need for accurate communication of scheme design to prospective employers. In a commercial market it is likely that employers will have to consider two or more schemes competing for their business, and so will need to be able to assess the benefit levels and associated levels of risk.
78. We think that for either regulations or the Regulator to prescribe standardised wording would be difficult and probably produce sub-optimal outcomes. Instead, we favour setting out the key principles which any communications must include. This would still deliver a necessary level of consistency and ensure participating employers receive the same level of information and ensure that the design of the scheme is not misrepresented.
79. These key principles would form part of the new financial promotion authorisation criterion we propose to legislate for, which itself in combination with the published “statement of scheme design” would ensure that communicating the scheme design is done effectively and transparently. As is currently the case, we would envisage that the scheme actuary will have to sign off any communications that relate to scheme design to ensure they are accurately reflected.
80. Linked to limiting the risk of mis-selling the scheme is the suggestion illustrations from all providers could be based on similar agreed methodologies for determining assumptions used in actuarial valuations. We do not intend to require multi-employer CDC schemes to produce illustrations on a basis prescribed in regulations.
81. We do not intend to require multi-employer CDC schemes to produce materials used for marketing of the schemes on a basis prescribed in regulations. Instead, we are exploring with the Financial Reporting Council (FRC) how its Technical Actuarial Standards would play a role in ensuring that appropriate assumptions are used in the actuarial work in relation to marketing of multi-employer CDC schemes.
82. We are also exploring with the Financial Reporting Council (FRC) what actuarial standards could be put in place with regards to the actuarial assumptions which must be used in providing illustrations for multi-employer CDC schemes.
83. We welcome the proposed changes to the existing scheme design tests, and potential new tests suggested. We will need to give further consideration to the ideas suggested by respondents and are committed to collaborating with relevant stakeholders to ensure the existing tests remain appropriate and suitably robust for the multi-employer CDC legislative framework.
84. Finally, to provide clarity on the point around the meaning of the first gateway test, it is not an annual test, and thus there is no requirement to provide increases of at least CPI on a year-by-year basis. The test is aimed at ensuring that at the outset the

scheme is designed to be able, on average, maintain the purchasing power of benefits and which helps eliminate the potential bias against younger members if the scheme design anticipated that inflation would erode their benefits.

Financial Sustainability requirement

Question 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?

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

Summary of Responses

85. There were 29 responses to question 8. 23 respondents agreed that a clear focal point responsible for funding the scheme and meeting any relevant costs was necessary. No respondents expressed any direct objection to the existing wind-up framework.
86. Most of the respondents that agreed with this approach indicated that similar or the same requirements as in the DC Master Trust regime should apply. However, four respondents questioned whether for sectoral multi-employer CDC schemes, a single "funder" is practicable. One respondent argued that in practice, the liability for paying additional administration charges would likely be shared between all the participating employers rather than falling on a single employer.
87. Two respondents argued that the Master Trust scheme funder model of the funder being a single entity does not serve any purpose, as in most cases the Regulator waives this. They suggested that instead it that it would be better and more appropriate that a level of flexibility is retained in regulating scheme funders.
88. One respondent did not agree with having a single entity being responsible for funding the scheme, suggesting instead inspiration is taken from Local Government Pension Scheme (LGPS) arrangements where responsibility for meeting such costs is spread across the employer members of individual funds.

89. Three respondents also flagged that they felt it was important to ensure participating employers are excluded from the definition of scheme funder and, as a result, from the fit and proper person assessment.
90. There were 30 responses to question 8 and all respondents were unanimous in their support for the business plan requirement.
91. With regards to both the content of the business plan and responsibility for producing it, a significant number of respondents suggested that broad alignment with the Master Trust business plan requirement would be sensible. Whilst most respondents felt that as with the DC Master Trust regime, it is appropriate for the business plan to be co-approved by Funder, Trustee and Strategist, two respondents felt this may depend on whether the CDC scheme is sectoral or provided via a third-party.
92. On the content of the plans specifically, three respondents argued that the business plan should also set out whether there are any cross-subsidies between groups and how those (if any) will be managed, and one respondent said it should communicate policies on how they will minimise the likelihood of new members undermining the interests of existing members.
93. Three respondents also argued the requirements for whole-life multi-employer CDC schemes need to consider the role of actuaries, especially with regards to building up any buffer in early years. Two respondents said the business plan should show how the funder expects to recoup initial expenses over the long term and two respondents expressed the need for a requirement to explain how any commercial provider will obtain a profit from operating the scheme.

Government Response

94. We favour financial sustainability requirements falling on a single legal entity which broadly captures the responsibilities of both the 'scheme funder' and 'scheme strategist' as set out in the Master Trusts Regulations 2018. The working title for this entity is a 'scheme proprietor.' This approach allows us, in collaboration with the Regulator, to shape the role and set a clear level of expectations.
95. As the whole-life multi-employer CDC market does not currently exist we have the regulatory opportunity to shape the market from the outset in a manner we consider appropriate. As is the case with the rest of the proposed legislative framework, we do not intend to have separate regulatory requirements for commercial and non-profit sectoral whole-life multi-employer CDC schemes.

96. We intend to explicitly legislate against the scheme proprietor being the same as the Trustee or Trustee Company. The Trustee and entity responsible for the financial sustainability of the scheme being the same entity creates a clear conflict of interests. We want trustees to focus entirely on the membership and have complete operational independence to do so.
97. We agree that employers who may have to contribute to scheme costs should not fall into the definition of a scheme proprietor. We will therefore look to make this position more explicit in regulations for multi-employer CDC schemes to avoid this issue and maintain a clear distinction between multiple contributing employers who may pay fees to the scheme proprietor and the scheme proprietor itself, thus avoiding them being subject to fit and proper persons assessments.
98. We welcome the unanimous support for the introduction of a business plan requirement. Any financing to meet relevant costs would need to be credible and realisable to ensure it is available at the point of need. This will therefore require assessment by the Regulator of the relevant new entity's ability to deliver that financing at initial authorisation and on an ongoing basis.
99. We propose that the scheme proprietor of a multi-employer CDC scheme must prepare, review and revise the business plan. This reflects the fact that the scheme proprietor would be responsible for making business decisions relating to the commercial activities of the scheme. However, we agree that the business plan should be approved by the trustee(s) before being submitted to the Regulator.
100. In terms of the business plan contents, for multi-employer whole-life CDC schemes, we will largely replicate the framework set out by Regulation 7 ('The Business Plan') of the Master Trusts Regulations 2018. The need for this content to be in the business plan would be captured by the broader key factors the Regulator must take into account such as 'objectives and strategy for meeting them' in the Regulations, with the detailed requirements on the specific content which would cover issues such as policies on cross-subsidies, or how they intend to make a profit, being transferred to the CDC Code of Practice.
101. Our existing legislation for single-or connected employer CDC schemes prohibits buffers by not seeking to protect pensioners in bad years by holding back assets in good years, but instead requiring that outcomes be smoothed across time. We will retain this regulatory approach for multi-employer CDC schemes and, therefore, reference to buffers in the business plan would not be applicable.

Systems and processes to support effective member communications

Question 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?

Summary of Responses

102. There were 32 responses to this question. 31 respondents agreed that the existing member communication requirements should apply to whole-life multi-employer schemes. Of these, 20 respondents suggested some changes or highlighted risks that might be needed.
103. 12 respondents raised concerns regarding communications relating to the promotion and marketing of schemes to prospective employers and the risk of over-promising that might arise. This issue is likely to be more of a concern for commercial multi-employer schemes than sectoral schemes. One respondent highlighted the importance in this context of paragraph 4(5)(b) of Schedule 4 “for ensuring that the information contained in scheme communications is accurate and is not misleading”.
104. Two respondents stated that marketing and promotional materials must be strictly controlled to mitigate the scope for schemes to overestimate their offering to prospective employers for the sake of profit. One suggested that any potential illustrations provided to prospective employers should be based on agreed central assumptions of future performance.
105. Two respondents suggested looking at the way the FCA regulates the financial promotion of contract-based schemes, and another said the member communication requirements should be expanded along the lines of the FCA’s principle of communicating “in a way which is clear, fair and not misleading.”
106. Four respondents explicitly suggested that we should consider amending Schedule 4 to the CDC Regulations 2022 to take into account communications the scheme sends to employers and prospective employers of whole-life multi-employer schemes.
107. Two respondents suggested that schemes should be transparent and publish the assumptions they have used relating to pooled risk including mortality and investment. This would enable the basis of their offer to prospective employers to be tested and challenged.
108. One respondent suggested that the actuarial policy schemes used for setting benefits, and which would be determined by trustees on the basis of advice from the

scheme actuary should be made available to the Regulator and published. They considered that this level of scrutiny and transparency would reduce the scope for over-promising as the information they were using would be verifiable.

Government Response

109. We welcomed the responses to this question and agree that communications both in relation to members as well as employers and prospective employers must be clear and not misleading. This is vital as inaccurate information could have significant consequences for members, their employers and CDC schemes.
110. We also agree that communications to employers and prospective employers must be subject to a proportionate but robust set of controls. This will be particularly important for promotional and marketing materials. We will be engaging with the FCA regarding the approach they have taken to financial promotion and will consider how we can incorporate some of their key principles. We will analyse Schedule 4 to see if it can be broadened to include employer communications as well as new rules to mitigate the risk of over-promising. If this is not feasible, we will consider how else our aims can be achieved.
111. We agree that schemes should be transparent about the actuarial policy that is used to determine benefits (including explaining to members how contributions are actuarially converted into benefits as well as the assumptions used in relation to investment returns and mortality risks). We currently require single or connected employer CDC schemes to publish a summary of the scheme's design and their Statement of Investment Principles. We will consider whether these publication requirements should be expanded.
112. Clear and accurate communications both to members and employers or prospective employers is essential if confidence in whole-life multi-employer schemes is to be achieved. Transparency and mitigation of the risk of overpromising are key aspects of this. We also agree that the Regulator should have appropriate oversight of this and will consider how best to develop an appropriate framework around the financial promotion of these new schemes.

Systems and processes to support well run schemes

<p>Question 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?</p>

Summary of Responses

113. There were 26 respondents to this question. 23 respondents agreed that the requirements in Schedule 5 should be carried forward to whole-life multi-employer schemes. Of these, 12 respondents suggested changes that might need to be made to accommodate CDC schemes with multiple employers. Only one respondent disagreed but did not explain why they thought these requirements would not be needed for whole-life multi-employer schemes.
114. Seven respondents thought that the member records requirement in paragraph 5 of Schedule 5 to the CDC Regulations 2022 might need to be adapted. Respondents suggested that in whole-life multi-employer schemes it will be important for the scheme's IT systems and processes to be able to match members with their employers and keep an accurate record of employer contributions. Another respondent suggested as CDC schemes become more commonplace that the IT systems will need to be able to accommodate employers or members who may wish to transfer to another scheme.
115. Four respondents suggested introducing an equivalent provision to the member engagement section at paragraph 14 of Schedule 5 for employers. Two respondents suggested that paragraph 6, which deals with trustees and others, should be expanded to include entities that contribute to the funding of the scheme and the trustees or 'scheme strategist's' determination on the suitability of the funding. Another respondent wondered whether additional requirements were needed to accommodate, in a consistent and effective way, the flow of information or data from multiple participating employers and their members.

Government Response

116. We agree that effective IT systems and processes are essential to the effective operation of pension scheme including the whole-life multi-employer CDC schemes we will be legislating for. We agree that the requirements in Schedule 5 might need adapting to take into account schemes that have multiple employers and workforces. The IT systems will need to be able to accurately track member records, match members to employers and employer contributions.
117. We will also explore the scope for introducing an equivalent to the member engagement requirements for employers and consider whether any additional requirements around multiple data sources in whole-life multi-employer schemes are needed. We will also consider the suggestion to amend paragraph 6 of Schedule 5.

The continuity strategy

Question 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?

Summary of Responses

118. There were 31 responses to question 12. Of these, 21 respondents agreed that the existing requirements for regulations 15 and 16 of the CDC Regulations 2022 should apply to whole life multi-employer schemes.
119. Sixteen respondents thought that the continuity strategy should include an aspiration to operate as a closed scheme, with some citing concerns around the potential for commercial providers to exit the market simply because they wished to do so.
120. Two respondents agreed on both points of the question in principle but thought there would be challenges around the practicalities of a commercial provider running a closed scheme i.e., potential for shareholder pressures should losses occur.
121. Another noted that a long-term plan and provisions would be required in order to make a closed scheme actuarially viable, and thereby to be in the interests of the members.
122. Several respondents did not agree that there should be a requirement at all. There were general concerns that it may not be in the best interests of the members, potentially leading to unintended consequences i.e., the expectation of ongoing funding from the scheme funder, or the requirement for long term reserves could potentially deter CDC schemes from being set up.
123. Others noted that for a closed scheme to be viable, only a scheme that had reached maturity would be a realistic and affordable alternative, as running a loss-making scheme would run the risk of deterring potential commercial providers in setting up CDC schemes.
124. One suggested that a minimum commitment period from the funder could be required as part of the authorisation criteria, helping mitigate risks of commercial providers winding up the scheme before they had achieved realistic scale.
125. Some respondents thought that it was reasonable for commercial schemes to run as closed schemes, but for single and connected employers, and sectoral employers

there should be no additional requirements to include an aspiration to operate as a closed scheme.

126. Another respondent thought that the strategy should include the requirement, but this should not be mandatory.

127. Several responses broadly referenced the potential for a default CDC provider; one which they thought would have several benefits i.e., act as a consolidator for CDC schemes entering wind up, offer potential access to smaller employers, and overall, in terms of a continuity strategy, the transfer to another CDC scheme that is equivalent to, or better would be the best outcome. On the latter suggestion, 2 providers suggested paragraph 2(1) of schedule 6 to the CDC Regulations 2022 should be amended to reflect this option.

Government Response

128. We are grateful for the responses received on this question, and as such we are content for the existing requirements covering the contents of the continuity strategy and administration charges set out under regulation 15 and 16 of the CDC Regulations 2022, to largely roll forward.

129. Regarding the question of whether the continuity strategy should include an aspiration to operate the scheme as a closed scheme, we agree that running a CDC as a closed scheme should always be an option where it is actuarially viable to do so. It is not our position that it should be a default option, or necessarily favoured above any other option. At all times, we expect the trustees to take the most suitable course of action, considering the specific circumstances of the triggering event, and which would be in the best interests of the members.

130. The current regulations do not prevent schemes from offering this option if they wish to do so, and if they do, then they must act, as per the requirements laid down in section 38(5) of the PSA 2021, and in accordance with the scheme rules. We do not intend to be prescriptive about what schemes should put in their rules beyond providing for the closed scheme option and overall, allowing schemes and the trustees to decide what is best for their members is a more balanced approach to take.

131. We acknowledge there is growing interest in the benefits of CDC, and we want more savers to access the potential benefits it offers. This is why we are extending CDC provision beyond single or connected employer schemes. CDC is a new market and has yet to grow. It would be desirable for trustees to have the option to secure alternative CDC provision into which future contributions can be directed. We can see the benefits of a "default" CDC provider, but equally it presents several

challenges, most notably around competitive balance, which needs further consideration.

Chapter 5: Valuations and adjustments

Question 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?

Summary of Responses

132. There were 29 respondents to this question. 28 respondents broadly agreed that the valuation and adjustments requirements for single or connected employers should be carried forward for whole-life multi-employer schemes. A number of these respondents suggested that some aspects of the requirements might need to be changed to accommodate the nature of CDC schemes with multiple unconnected employers.
133. 19 respondents agreed with the valuation and adjustments principles set out in paragraph 81 of the consultation, which included:
- valuations to be undertaken annually using a central estimate methodology that does not seek to be overly optimistic or to build in prudence; and
 - any adjustment of benefits to apply to all members without variation
134. One respondent stated that schemes should operate in a way that did not unfairly favour any particular group or cohorts of members. They considered that the principle of applying adjustments without variation should be central to the requirements we introduce for whole-life multi-employer schemes.
135. Seven respondents, however, believed that this principle should be more flexible for multi-employer schemes. It was suggested that greater flexibility in schemes with multiple employers was needed as the pension adjustment otherwise expected for an employer who joins some years after the scheme commenced may have moved significantly away from CPI. Another of these respondents suggested that the principle should state that adjustments should be applied fairly rather than without variation.
136. 13 respondents agreed with the proposal that the approach of only applying an increase if there are sufficient assets to fund that increase on accrued benefits every year over the life of the membership, should be subject to a limit, for example CPI + 2% per annum. These respondents agreed with the level of this limit and that any surplus would be applied as a one-off increase to members, agreeing that CPI + 2%

was an appropriate limit and that would help maintain a balance between the available assets and the amount required to pay benefits.

137. Eight respondents agreed with the proposal but thought that it should be left to the discretion of schemes to decide if they wish to apply the proposal and what the level of the limit should be. Four respondents disagreed with the proposal, suggesting that a fundamental concept of CDC is the principle of maintaining a flexible relationship between funding levels and the rates of benefits. They considered that the proposal would compromise this principle and was effectively a reduction in smoothing.
138. When an annual valuation shows that a decrease to benefits needs to be made, for example due to a fall in the value of the collective funds, schemes can smooth the impact of the reduction on members through the multi-annual reduction (MAR) process. Seven respondents suggested that it would be beneficial to members to change the current MAR process. They proposed that if during a MAR a subsequent annual valuation indicated that an increase can be supported, for example due to a bounce back in investment performance, that increase should be offset against the planned reductions.

Government Response

139. We welcome the responses to these questions. We consider that the principle of applying adjustments to benefits is a core principle of CDC and an important mechanism in helping ensure fairness.
140. We will consider carefully the points raised by those respondents who believe that the principle of applying adjustments to benefits without variation would need some modification in order to operate effectively in schemes with multiple employers.
141. Given the positive response to our proposed approach of providing for one-off increases to be made where appropriate, we will consider what changes to the regulations will need to be made to facilitate this and will consult on draft regulations later this year.
142. Similarly, we agree with the proposed change to the current multi-annual reduction process and will consider how the existing regulations should be amended to incorporate this proposal. The amended regulations will also be part of the planned consultation on draft regulations later this year.

Chapter 6: The ongoing supervision of CDC schemes

Significant events

Question 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?

Summary of Responses

143. There were 27 responses to this question. Generally, there was consensus that the existing list of significant events in regulation 23 needed amending for whole-life multi-employer CDC schemes. Three respondents, however, thought that the existing list was sufficient for the new schemes, but 23 respondents helpfully provided a range of suggested changes or additions and some of those are summarised below.
144. Five respondents suggested that an employer joining or exiting the scheme, or if there is an impact on the employer which could have a material effect on the soundness of the scheme design, should be events that are notified to the Regulator as a significant event. Five respondents considered that a change in scheme funder, strategist or in the ownership of the scheme should also be significant events.
145. Another three respondents considered that a change to the business plan if a key milestone was missed or if the scheme was unable or unlikely to meet the level of assets or liquidity agreed with the Regulator and which was set out in the business plan should also be significant events. One respondent thought that a change in the principles underlying any actuarial conversion including any mortality underwriting process might also be events that should be notified to the Regulator.

Government Response

146. Significant events are events which may affect the ability of an authorised CDC scheme to continue to meet the authorisation criteria. They are, therefore, an important aspect of the Regulator's ongoing supervision of authorised CDC schemes.

147. The significant event requirements help to protect members by ensuring that the Regulator is aware of such events and can engage with the scheme as necessary to obtain additional information or require action to be taken.

148. We welcome the helpful and well thought out suggestions provided by respondents and will take them into consideration as we develop the legislative framework to accommodate whole-life multi-employer schemes, which will include any changes or additions to regulation 23 of the CDC Regulations 2022.

Triggering events

Question 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?

Summary of Responses

149. There were 30 responses to question 15. All responses were near unanimous in their overall assessment that the current list applied, but that further revisions would be required.

150. 17 respondents agreed that the repercussions of employer insolvency would have less significance in a multi-employer scheme, than for a single or connected employer scheme. Many agreed that if concepts such as scheme funders were introduced, then the list of events would need to reflect the insolvency as a triggering event i.e., scheme funder insolvency

151. There were some diverging views. For example, one respondent thought that the list of events could include the insolvency of an employer and the impacts this might have on actuarial assumptions. Another respondent suggested that only the insolvency event of a significant employer (or number of employers) should be a triggering event. Significance could be distinguished by the percentage of active members the employer has in the scheme.

152. Some respondents agreed in principle that the insolvency of a single employer might not have the same impact in a multi-employer scheme but thought that perhaps this might still be relevant if it were a sectoral CDC which could still potentially be impacted by this type of event.

153. One respondent felt that the notification of events that would normally be required in a single or connected scheme, would not be required to the same extent in a multi-

employer scheme i.e., only employees in that employer's section would need to be notified, unless the event posed a significant impact on the schemes funding position potentially affecting other members' benefits.

154. Another respondent suggested that including insolvency of an employer (or former employer) as a triggering event was excessive in a multi-employer scheme. They suggested that instead a notification requirement could be put in place for current employers. They suggested a threshold could be considered in relation to the notifications i.e., trigger a notification if the employer represented a specified percentage of the scheme membership.

155. No respondents disagreed with our position that we include a decision by the trustees to pursue a continuity option (as they consider the scheme is at risk of failure) as a triggering event.

Government Response

156. We are grateful for all responses to this question, and we are encouraged that there is broad support for the potential changes we have suggested.

157. We anticipate that many of the current list of triggering events for single and connected employers will also apply in multi-employer CDC schemes, although as we suggested there will be some changes.

158. As outlined in our response to question 9, we are in favour of a single legal entity model which encompasses the roles of scheme funder and scheme strategist in the single legal entity - the 'scheme proprietor'. The scheme proprietor will be the key focal point of accountability, and we intend to capture an insolvency event that occurs in relation to the scheme proprietor rather than an employer, as they will be the primary scheme funder and responsible for making key strategic business decisions.

159. There were good points made about prospects for retaining the insolvency of an employer, and we still intend to capture the entry/exit of an employer and consider in more detail what constitutes a 'significant employer.' As set out above in question 14, we intend to consider what legislative changes can be made to regulation 23 of the CDC Regulations 2022 to accommodate the new CDC framework for multi-employer schemes, which may include employer insolvency.

160. As outlined in the consultation, we also intend to introduce a new triggering event designed to give the trustees more leverage, particularly in circumstances where the scheme is at risk of failure. This will ensure that in a new environment where the

links between the employer and the scheme are less prominent, that the members interests are maintained.

161. We will also consider any new triggering events we feel are appropriate to accommodate multi-employers and Master Trust CDCs.

Chapter 7: Continuity options

Continuity option 1 - discharge of liabilities and winding up

Question 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?

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

Question 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?

Summary of Responses

162. There were 28 responses to question 16. Of these, 15 respondents explicitly agreed that a similar approach to wind-up commencement time was appropriate for whole-life multi-employer CDC schemes. No respondents expressed any direct objection to the existing wind-up framework.
163. Nevertheless, several respondents suggested some form of “grace period” to permit employers (and employees) to delay paying AE contributions for a permitted period, giving them time to find a new scheme to pay them into, may be helpful. However, two respondents warned against such an approach, and another argued that that automatic enrolment rules already allow sufficient time for employers to establish alternative arrangements for members.
164. Several respondents also suggested that a multi-employer CDC scheme could establish an (AE compliant) separate DC section which AE contributions could be temporarily funnelled into and held in during the wind-up period before being bulk transferred to a CDC scheme. Similarly, some respondents suggested this could also be achieved by arranging for an alternative provider, such as a DC Master Trust, to temporarily hold contributions.

165. Two respondents said they would have no concerns if a brief period of continued accrual was allowed after winding-up commences, to assist participating employers in finding alternative arrangements in order to satisfy their AE obligations.
166. There were 24 responses to question 17. Of these, 23 respondents thought that the current default and alternative discharge options were sufficient for the new whole-life multi-employer CDC schemes.
167. Four respondents suggested that trustees should be given flexibility to transfer different subsets of the membership to different pension arrangements. One of these respondents argued that members should be offered the option of a transfer to a scheme of their choice as an alternative to the trustee option.
168. Four respondents also pointed out that Paragraph 2(1)(a) of Schedule 6 to the CDC Regulations 2022 requires the benefits of employees to be transferred to a receiving scheme in which their employer (or a connected employer) participates and that we may wish to consider whether the Regulations should prioritise continuity of CDC provision over keeping the employer relationship.
169. Linked to this, one respondent said that the current discharge options are insufficient – at least until it becomes possible to wind up a CDC scheme by bulk transfer to another CDC scheme - and said the continuity of CDC provision could be addressed by the creation of a “default” CDC provider. Four other respondents also called for the creation of a default CDC provider.
170. There were 27 responses to question 18. Of these, 22 respondents agreed that the existing framework for the wind up of a CDC scheme can read across to the new whole-life multi-employer schemes. However, two respondents suggested that the legislation should be applied on a section-by-section basis, so that it would be possible to wind up one section but keep other ones in operation, where appropriate.
171. Another respondent also noted that the notification requirements will need to be adjusted to ensure that they cover the various additional parties which may have an interest in a multi-employer scheme.
172. Four respondents disagreed that the existing framework should be maintained on the basis that it is unnecessarily onerous. They argued that a simplified approach based upon members’ benefits being de-collectivised at the point that wind-up commences, which would also have a significant impact on the reserves required to be held at inception, should be explored.

Government Response

173. We are grateful for the feedback on the questions relating to continuity option 1. As is currently the case for single or connected employer CDC schemes, we are content to leave it to the scheme's rules to prescribe when contributions to an authorised multi-employer CDC scheme should cease.
174. However, whilst no respondents expressed any direct objection to the existing wind-up framework, we remain mindful that active employers using a multi-employer CDC scheme that has decided to wind-up will continue to have ongoing AE obligations and will, therefore, need to ensure necessary arrangements are in place so that pension saving for their staff is uninterrupted.
175. Ultimately, the onus is on the employer to ensure that this need is anticipated in the lead up to wind-up being formally triggered, so that it continues to meet its AE obligations. The new dynamics at play in a multi-employer CDC scheme will require us to amend the existing wind-up framework, but as is currently the case we intend to draft the requirements, so they happen in sequence in a way that facilitates the transferring out of active members before the scheme is formally wound-up. This will allow employers to continue to meet their AE obligations and prevent any pauses in member savings.
176. It is for that reason we do not intend to pursue the suggested option of legislating for an AE "grace period." We also do not intend to require that a multi-employer CDC scheme could establish some form of temporary DC arrangement (either internally or externally). As two respondents acknowledged, this would be difficult to administer, and in any case, we do not think it is necessary.
177. We agree that trustees should be given flexibility to transfer different subsets of the membership to different pension arrangements and we intend for our draft regulations to reflect this. We also agree that Paragraph 2(1)(a) of Schedule 6 to the CDC Regulations 2022 would no longer be solely applicable in a legislative framework for multi-employer CDC provision due to its limitation to an employer relationship and intend for our draft regulations to reflect that.
178. We recognise that as a CDC market has yet to establish it may be difficult for trustees to secure alternative CDC provision into which future contributions can be directed. With that in mind we can see the benefits of a "default" CDC provider, but equally it presents several challenges, most notably around competitive balance, which need further consideration.
179. We agree with most respondents that, in the main, the existing framework for the wind up of a CDC scheme can read across to the new whole-life multi-employer schemes. However, we do intend to make some tweaks to the framework in

recognition of the new dynamics at play in a multi-employer CDC scheme. As correctly identified by one respondent, notification requirements are one area of the framework we intend to amend.

180. To be clear, there is nothing in our existing CDC legislation that prevents wind-up being applied on a section-by-section basis, and we do not intend to change this in the legislative framework for multi-employer CDC schemes.

181. We also do not intend to simplify the winding-up process. The wind-up of a multi-employer CDC scheme must be done in a structured way that maintains the same level of member protections and oversight from the Regulator.

Chapter 8: Other policy considerations

Transfers, CDC Charge cap and other charge control measures, Scams, Subsisting rights provisions, Disclosure and publication requirements

Question 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?

Summary of Responses

182. There were 31 responses to question 19. The vast majority agreed that existing requirements, outlined in Chapter 10 (and listed at the start of this chapter), which apply to single or connected employer schemes can be read across to the new whole-life multi-employer CDC schemes.
183. There were eight responses regarding transfers. Most agreed with our approach that transfer values should be calculated in a way that is actuarially fair to the individual and existing members of the scheme.
184. Two respondents noted that unless restrictions were placed upon schemes in accepting transfers in, there was a risk of someone establishing a whole-life multi-employer CDC scheme with the express intention of turning it into a decumulation only CDC scheme that would actively seek to attract individuals retiring soon. A concern was also raised regarding the complexity of transfers and the risks to members if transfers to and from CDC were allowed without advice.
185. 30 respondents provided views on the CDC charge cap measure. 26 respondents agreed that the charge cap that currently applies to single or connected employer schemes should also apply to the new whole-life multi-employer schemes though a few sought confirmation that it would apply exactly in the same way. The two areas on which they sought clarity were performance fees and combination charges.
186. Four respondents did not agree that the charge cap should apply to whole-life multi-employer schemes. They suggested that a charge cap would stifle innovation and reduce the scope to invest in high return seeking assets. It was also suggested that if a Master Trust were offering both DC and CDC benefits in different sections that the CDC charge cap should not apply to the CDC section since the default arrangement of the DC section would already be covered by the individual DC (IDC) charge cap.

They also considered that pensioner members should not be covered by the charge cap though they acknowledged this would be difficult to administer.

187. Two respondents to this question explicitly supported the application of existing subsisting rights protections in the new legislative framework.
188. Only one respondent made specific comment with regards to the disclosure and publication requirements, highlighting that it is important that communications sent to members and information made available to members (especially concerning charges) for single-employer CDC schemes, also apply to whole-life multi-employer schemes.
189. Six respondents suggested that the AE quality test for whole-life multi-employer schemes should be the test that currently applies to DC schemes rather than the cost of accrual test that applies to single or connected employer schemes.

Government Response

190. We acknowledge that there is a risk the whole-life multi-employer CDC framework might be exploited in order to open a decumulation only CDC scheme by the backdoor. This framework is not being designed to accommodate decumulation only CDC schemes so such an action would put savers at risk as they would not have appropriate measures in place to protect them.
191. We want to ensure that savers are protected from this risk, but we also want to ensure that accrued rights can be transferred into a whole-life multi-employer scheme in which there is a link to a participating employer. We will explore how an appropriate balance can be struck between mitigating the risk identified and allowing appropriate transfers into the scheme.
192. The current provisions that allow for a 3-week cooling off period will roll forward, and we will actively monitor CDC schemes whilst the regulations continue to embed and scheme funds grow significantly with regards to the concern regarding an advice requirement, our position remains that CDC is a new market, and we will continue to monitor it as it grows. If it becomes apparent the introduction of an advice requirement is needed, we will take steps to introduce one.
193. The charge cap is an important protection for members and has helped drive down member borne costs. We are pleased that most respondents agree with us and that it should extend to whole-life multi-employer schemes. We therefore plan to ensure that whole-life multi-employer schemes will be subject to an annual charge cap set at 0.75% of the value of the whole CDC fund, or an equivalent combination charge. The cap would have the same scope as the CDC cap for single or connected employers.

194. We do not agree that the CDC charge cap will prevent the new schemes from investing in higher return seeking assets and for longer, particularly because the performance fee easements will also apply to the new schemes. We think it is appropriate for the charge cap to apply to the multi-employer schemes in the same way the cap applies to single or connected employer schemes.
195. Pensioner members are part of the same collective fund as active or deferred members and should enjoy equal protection. The CDC charge cap is designed to protect members of a CDC fund and we do not believe that protection should be removed just because members in the default arrangement of a DC Master Trust, which also offers a CDC section, are protected by the IDC cap.
196. We agree that the that communications sent to members and information made available to members are important and have no intention to dilute our publication and disclosure requirements for whole-life multi-employer schemes. Likewise, we intend to retain subsisting rights protections in the new legislative framework.
197. We will consider the suggestion that the existing AE quality test for DC schemes should also apply to the new whole-life multi-employer schemes.

Chapter 9: Decumulation-only arrangements

198. We welcome the responses to the questions we asked in the consultation about decumulation only CDC schemes. The responses we received will help build our understanding of the key challenges and risks in creating a legislative framework to accommodate trust-based decumulation only CDC arrangements.
199. The government recognises the potential benefits that CDC provision can bring to savers and believes that it should be established as an option for savers alongside existing decumulation products such as income drawdown. It is widely recognised that many savers would prefer to receive an income in retirement rather than having to make complex financial decisions about how they should fund their retirement.
200. Most respondents acknowledged the challenges we face particularly as decumulation products have historically been offered in the contract-based space, which is regulated by the FCA, who have a comprehensive framework in place for financial promotions, as well as strong protection measures for consumers.
201. Several stakeholders we have talked to and respondents to this consultation have highlighted the need for us to work with the FCA and develop a similar framework for the trust-based decumulation only arrangements we want to implement. We are committed to continue working with interested parties and the Regulator and the FCA to help us develop an appropriate legislative framework for decumulation only pension schemes.

Seed capital

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

Summary of Responses

202. There were 26 respondents to this question. Most respondents considered that decumulation only CDC arrangements were most likely to be established by commercial providers. Consequently, 13 respondents thought that providers should be responsible for providing the seed capital needed to establish such schemes.
203. Two respondents thought large employers or industry bodies might be willing to establish these schemes and if they did it would be the sponsoring employers responsible for the seed capital. Nine respondents thought that it might either be a

commercial entity or an employer that might seek to establish these schemes and in which case it would be the establishing entity that would be responsible for providing the seed capital.

204. One respondent did not think that CDC was the right approach and instead suggested that Master Trusts should be permitted to invest collectively without having to pool investment risks but instead just pool longevity risks. Some respondents suggested that decumulation only CDC products should be offered through contract-based schemes and that we should not limit decumulation only CDC provision to trust-based schemes.
205. Two respondents stated that the key principles outlined in paragraph 135 of the consultation document should be extended to decumulation only CDC arrangements. The need to strike the right balance between facilitating a commercial market and protecting members was also highlighted with three respondents explicitly stating that set up and running costs, as well as the costs of dealing with triggering events such as scheme wind up, should not be passed to members.
206. Other respondents suggested that commercial entities might need to be required to hold capital to meet these costs including the costs of operating the scheme in the short term whilst administration charges were insufficient to meet these costs. Alternatively, some respondents suggested that if some of the costs could not be shared with members it might prove to be less attractive to commercial providers particularly if a cap on member borne charges was introduced as well.

Government Response

207. We welcome the responses to this question and agree that whoever is responsible for seeking to establish the decumulation only arrangement should be principally responsible for the start-up costs. As with single or connected employers, we believe that it would be appropriate for any shortfall in the short term between the running costs and administration charges, as well as the costs of dealing with any triggering events, to be met by the establishing entity, whether it be a commercial provider or sponsoring employer.
208. We, however, do acknowledge the points raised about striking an appropriate balance between safeguarding members and facilitating a competitive market where commercial providers will need to be confident that profits can be realised over a relatively short period. The Solvency II prudential regime for insurance and reinsurance undertakings does not apply to the operation of trust based occupational pension schemes. We will, therefore, liaise with the FCA and PRA to consider what if any capital requirements might need to be placed on those establishing trust based decumulation only schemes. It will be important to have an effective regulatory

framework in place for these schemes if we are to build and maintain confidence in this new provision and protect the interests of members.

209. In addition, if an annuity provider goes under then their customers' policies will either be moved to another annuity provider or receive one hundred per cent compensation from the Financial Services Compensation Scheme (FSCS) of the value of their policy at the time the annuity provider was unable to pay them. This provides an important layer of security for pensioners purchasing decumulation products in the open market. CDC schemes would not have access to either the Pensions Protection Fund (PPF) or the FSCS.
210. The principal protection members of CDC schemes have in the event of scheme failure is that there will be a comprehensive framework in which the scheme will be wound up and trustees of the scheme will seek to identify the most appropriate discharge option for members i.e. where their accrued rights will be best transferred to. We will consider this point further and what additional member protections may be needed.
211. We will work closely with the FCA to ensure a joined-up approach is taken to decumulation-only CDC trust-based arrangements. The government welcomes innovation and would encourage any commercial providers interested in adopting a risk pooling arrangement other than CDC, potentially in the contract-based space, to engage with us and the FCA to explore how that might be taken forward.

How will sufficient scale be achieved and maintained

<p>Question 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?</p>

Summary of Responses

212. There were 24 responses to this question. All the respondents provided comments on how decumulation only CDC arrangements could achieve and maintain scale. There was consensus that scale was a key issue in whether or not decumulation only CDC arrangements would be viable in the long term, or even commercially attractive.
213. A few respondents were concerned that there is currently limited evidence around the appetite for decumulation only CDC arrangements. Other respondents pointed to

the fact that various forms of CDC provision including decumulation only arrangements had been successfully implemented in other countries such as the Netherlands, Canada and Australia. One respondent pointed out that there were millions of DC savers in the UK for whom CDC might be an attractive option.

214. Five respondents suggested that it might be easier for Master Trusts to achieve scale if they could draw on their existing DC customer base. It was acknowledged by several respondents that unless such customers were defaulted into the Master Trust decumulation only CDC arrangement it would be difficult to predict whether the appropriate scale could be achieved if it were left to member choice as there would not be a guaranteed onflow.

215. Four respondents suggested that defaulting members into decumulation only CDC arrangements could help schemes achieve scale and one respondent suggested that it would be beneficial to kick start this new market if NEST was involved in these arrangements.

216. Three respondents suggested that the business plan would need to clearly demonstrate to the Regulator as to how scale would be achieved. It was also suggested that decumulation only CDC arrangements should be open to transfers in from individuals at the point of retirement but again this raises the same issues where it is left to member choice because of market competition.

217. One respondent suggested that the provider should be responsible for smoothing investment volatility, but another said that commercial providers would be unwilling to provide additional funding to smooth volatility and deliver benefits as this would effectively require them to underwrite investment risk for CDC benefits, which by their nature are not guaranteed.

218. This respondent also suggested that it might be better to deliver these arrangements in the contract-based space where providers could market this product directly to consumers or through independent financial advisers under FCA rules.

219. Six respondents stated that schemes should be able to set limits on the size of the pension pot they would allow to be transferred into their decumulation only arrangement.

Government Response

220. We want to ensure that only well designed and well-governed decumulation only CDC arrangements are allowed to operate. We therefore intend to extend the authorisation and supervision principles applied to whole-life CDC schemes to these new arrangements. We want to ensure that such arrangements are sustainable over

the longer term and are well positioned to deliver their aspired to benefits to members. Ensuring that these arrangements have sufficient scale is vital if these objectives are to be achieved.

221. We agree with respondents that developing an approach that gets this right is essential but, as yet, no clear-cut, simple answers have emerged, and further work needs to be done. Scale will be a key part of the Regulator's assessment of the soundness of the scheme design, and they will need to be satisfied that this key authorisation criteria has been met.

222. We recognise that Master Trusts could try and seek to attract their existing DC customer base to their CDC decumulation only offering but that scale cannot be guaranteed if this is left to member choice. Conversely, we also recognise the potential benefits that enables such customers to be defaulted into these arrangements but that raises concerns about the financial sustainability of the scheme, reduced choice and control, and whether the CDC option is the most suitable option for these customers.

223. It is important to note that there are situations where some members may prefer to choose drawdown arrangements for their flexibility and because they may have access to other pensions or financial resources.

224. Nevertheless, we acknowledge the benefits of having a default provider in terms of providing ready access to CDC provision, both to a wide range of members as well as helping kick-start the decumulation market. We will, however, need to consider carefully what the potential implication of such an approach might have on a competitive market amongst other things.

225. CDC has the potential to deliver better outcomes for members than traditional DC pension arrangements, but it does not contain a guarantee. This is why there are no requirements on providers or employers to underwrite investment or longevity risks. A benefit of CDC is that these risks are shared across the membership and are not borne by members individually as is the case in DC schemes. We consider that if the scheme is well designed it should be well placed to deliver good outcomes for members.

226. We do not want to implement a legislative framework that might put off potential commercial providers by being disproportionately burdensome. Instead, we will seek to develop an appropriate legislative framework for decumulation only CDC arrangements that will attract commercial providers whilst protecting the interests of members.

227. Both we and the FCA welcome engagement with organisations that have proposals for how a CDC type arrangement might operate in the contract-based space while

we continue to develop our understanding of what a trust based decumulation only CDC arrangement looks like.

228. We will carefully consider the suggestion that schemes should have the flexibility to set limits on the pot sizes that they will accept into their schemes. We will also need to work through how this might operate in practice and take into consideration the work being done regarding the management of small pots.

Pricing and the potential for mortality underwriting

Question 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?

Summary of Responses

229. There were 25 responses to this question. 12 respondents provided views on the question of what mechanism should be used to determine the entry price of decumulation only arrangements. While no detailed pricing mechanism proposals were provided by respondents it was generally acknowledged that careful consideration was needed on this to avoid bias against any cohort and that the price should be relatively stable against market movement.
230. One respondent also suggested that steps should be taken to limit the risk of overpromising regarding the price, for example, by promising an overly ambitious target.
231. Seven respondents considered that there should be consistency between the pricing assumptions and the central estimate assumptions used in annual valuations and that both should be reviewed alongside each other annually. It was also suggested, on this basis, that the approach to pricing should form part of the scheme design and so be subject to scrutiny by the Regulator. Two respondents suggested that the pricing approach should be published for transparency.
232. Four respondents suggested that pricing should be done on an actuarial basis to ensure actuarial cost neutrality and the aim would be to ensure that the approach taken does not lead to an increased chance of benefit cuts and that planned increases are preserved as far as possible.
233. 15 respondents thought that some degree of mortality underwriting should be permitted as it would help address excessive self-selection risk. A few respondents

noted that allowing underwriting seemed to be at odds with the benefits of mortality risk pooling, but they acknowledged that not permitting it might lead to unfairness and excessive cross-subsidy between new and existing members.

234. Respondents queried whether the same factors as used by annuity providers should be used for decumulation only CDC arrangements though it was acknowledged that use of the full range of factors and in particular medical underwriting would be very expensive and likely to drive up overall costs. Three respondents noted that underwriting should be gender neutral. It was generally thought that underwriting should be regulated and aligned as far as possible with best practices in the annuity market.

235. Some respondents thought that legislation should provide for the use of underwriting by trustees, but it should be left to their discretion. Two respondents suggested that the approach taken by schemes to underwriting should be integral to the scheme design, which would be subject to scrutiny by the Regulator at authorisation and on an ongoing basis as well as published to provide greater transparency. Three respondents did not agree with underwriting and considered it to be at odds with the nature of CDC provision.

236. One respondent said this was one of the trickiest aspects of decumulation only CDC arrangements and in particular working out a consistent way for consumers to choose between two providers who may legitimately have different investment strategies and risk profiles resulting in different prices e.g. one might offer greater benefits as they have invested more in higher return seeking assets than the other but accordingly the consumer needs to understand the approach involves greater risks.

Government Response

237. We agree that it will be vital to get the pricing mechanism approach right and that there are issues to be carefully worked through to ensure the interests of member are protected.

238. We also agree that it would be sensible for there to be consistency between the central estimate assumptions used in the valuation process. It also seems appropriate for the pricing approach to be reviewed alongside annual valuations to ensure the cost of benefits is reflective of the situation at that time and that it should form an integral part of the scheme's design. As such it should be subject to scrutiny by the Regulator at authorisation and on an ongoing basis.

239. Consequently, the approach taken to underwriting, which underpins the pricing mechanism, should be subject to the same scrutiny by the Regulator. It also seems

sensible for these two elements to be included in the scheme design summary that is published to provide greater transparency. We are also attracted to the suggestion that the approach taken to underwriting should be left to the discretion of trustees.

240. We will engage with the FCA to better understand the approach taken to underwriting in the annuity market. This includes how underwriting is regulated, what best practices exist that we should consider adopting and what, if any, impact the introduction of trust-based decumulation only arrangements might have on the annuity market.

241. We will keep these suggestions under consideration as we seek to refine our thinking about decumulation only CDC arrangements going forward. We agree that the approach we take here should be fair to members and should not lead to excessive cross-subsidy between new and existing members. We want the framework we introduce to strike the right balance between flexibility and security for members.

242. We agree that one of the key challenges will be how we should help members understand the risks and rewards associated with different offers from providers. Equally, we will also want to implement a framework that appropriately regulates financial promotion to mitigate the risk of overpromising and mis-selling. This is explored further in the next question.

243. We will also assess what consumer protections exist in the contract-based space in looking at how might ensure appropriate protections for members of trust-based decumulation only CDC arrangements. This will involve trying to ensure that the Regulator has appropriate regulatory grip over this new market as well as the powers to address inappropriate behaviour.

Member communications and marketing

Question 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?

Question 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?

Summary of Responses

244. There were 26 responses to question 23. 16 respondents highlighted the importance of addressing the risk of overpromising in commercial environments and offered some insights into how this might be tackled. One respondent suggested looking at how the FCA approached mitigating the risk of overpromising.
245. Three respondents thought that full transparency was key and that information such as pricing assumptions, valuation modelling methodology and investment aims should be published. Similarly, a few respondents thought schemes should publish their actuarial policy for converting contributions into accrued benefits would help as it meant the information schemes provided could be verified.
246. One respondent suggested setting out the target alongside the expected returns and expected volatility and presenting them as central (the target) and optimistic and pessimistic scenarios. This would mean that schemes promising high returns would equally have to set out lower pessimistic scenarios to balance things out.
247. Other respondents thought that the existing requirements should be carried forward and that benefit projections should be done on a central estimate basis. Another respondent thought that schemes should be required to provide a standard set of statistics alongside their annual management charges.
248. Seven respondents provided views on communications to members. There was consensus that getting this right was vital and that the right balance had to be struck between providing consumers with important information to aid decision making and undermining one of the key benefits of CDC in that it does not require members to make complex financial decisions about how to fund their retirement.
249. Respondents thought it was vital that before a member decided to transfer into a scheme that the risk versus reward of the offers of different providers needed to be explained clearly and in a simple way e.g. where provider offers a higher benefit because they are more heavily invested in higher return seeking assets the downside risks of such an approach must be explained to the member.
250. Five respondents thought that the safest option for members seeking to transfer into a decumulation only arrangement was to seek regulated advice before doing so. One respondent said that it would not be appropriate to seek regulated advice.
251. There were 22 responses to question 24. There were a wide range of suggestions from respondents as well as some reiteration of points already raised earlier in this chapter. A summary of some of these points are outlined below:
- three respondents repeated that there should not be a charge cap in decumulation.

- two respondents suggested that transfers out of decumulation only CDC arrangements should be prohibited.
- another wondered if members of such schemes should be given a statutory right to transfer out in case of mis-selling or members misunderstanding the CDC products they have chosen.
- one respondent suggested that members of these new arrangements should be provided with a cooling-off period.
- one respondent wondered if members of these arrangements would have access to member protections like the Financial Services Compensation Scheme.
- the potential benefits of a default CDC provider such as NEST were raised again by a respondent. They suggested that such a scheme could inspire public confidence, set high standards against which commercial schemes could benchmark themselves, provide a default for consumers who do not want to shop around and could provide a home for any failing Decumulation CDC scheme that is winding up following a Triggering Event³.
- another respondent suggested prescribing that the scheme's investment strategy covering the split between growth and low risk assets should be set out in scheme rules.
- one respondent suggested that the Value for Money proposals should apply to CDC arrangements.

Government Response

252. We welcome and will consider carefully the views provided by respondents. On the risk of overpromising, we agree that we should continue to engage with the FCA to understand what steps they have taken in relation to the products they regulate regarding this issue.

253. We also agree that there should be transparency concerning information such as pricing assumptions, actuarial approaches used to determine entry price and benefit accrual and investment aims. Information like this are key aspects of a scheme's design and as such should be subject to appropriate scrutiny by the Regulator and published to aid transparency.

254. We agree that projections should be undertaken on a central estimate basis and will consider carefully the suggestions provided on how information might be presented to members of decumulation only CDC arrangements as well as the scope for having a standardised approach. A key challenge for these arrangements will be ensuring that members understand that there are no guarantees with CDC and that target benefits can fluctuate.

³ An event that could pose a serious threat to the future of the scheme and the interests of members.

255. Equally, a simple and clear way must be found to help members understand the concept of risk versus reward. Members must be able to understand that if one CDC provider is offering higher benefits than another this may be because the first provider is investing more in higher return seeking assets than the other and that there may be greater risks with this approach. Members need to understand this, and how this could impact their retirement income before they make a choice. Likewise, members would need to be aware of and understand the consequences of scheme failure or the provider deciding to withdraw from the market.
256. We will also consider the points raised concerning regulated financial advice. This is an area we are already monitoring and have been clear that if it becomes apparent that it is needed, we will take appropriate action.
257. We will consider the points raised about transfers into and out of decumulation only CDC arrangements and have already said that we will work with the FCA to ensure we take a consistent approach on this with them. We will also engage with them to understand what member protections apply to members of contract-based schemes with a view to ensuring appropriate protections for members in decumulation only CDC arrangements, as well as to understand how annuity products work including the concept of a cooling-off period.
258. As previously mentioned, we will explore the feasibility and scope for default CDC providers but will also need to work through the potential implications including the impact of this on a competitive market. This could involve the option for existing Master Trusts to default their existing DC customers into their CDC arrangement or having a single CDC default provider as suggested. This option would also impact member choice and control which is something we will also need to consider carefully.
259. Finally, we are working closely with the Value for Money policy team to ensure that CDC schemes can also benefit from the new framework.

Chapter 10: Next Steps

260. We continue to believe that CDC will have an integral role in the future of pensions in this country and want to ensure as many savers as possible can take advantage of the benefits of CDC. The wider economy can also benefit from CDC by combining investment and longevity risk which allows trustees to remain invested in growth-seeking assets such as public and private equities for longer, without a sudden need to divest to generate cash for retirement income. This can lead to greater investment in vital UK infrastructure and technologies of the future such as renewable energy in a way which is sustainable.
261. We therefore intend to consult on draft regulations to extend CDC provision to whole-life multi-employer schemes including Master Trusts in the Autumn of this year.
262. Whilst we did not ask a specific question about this in the policy consultation, some respondents suggested that a change to the existing valuation and adjustment process was needed. This would apply to both single or connected employer schemes as well as whole-life multi-employer schemes. Having considered this, we agree that an amendment is needed to clarify our policy intention in the scenario where a multi-annual reduction (where the impact of the benefit reduction is smoothed over three years) is initiated following poor investment performance and there is a subsequent positive bounce back in investment. This amendment will be included in the draft regulations we consult on later this year to ensure the regulations work in the way we intend and to avoid any inadvertent consequences for members.
263. We can also confirm our intention is to amend the relevant regulations to make clear that, during the wind-up of a CDC scheme, the accrued rights of the dependants and survivors of members or survivors of dependents can be transferred to a flexi-access drawdown arrangement. These amendments will also be included in the consultation later this year.
264. Finally, we are committed to moving forward with creating provision for CDC decumulation only products. Our view is that pension schemes should provide a solution, or set of solutions, that aims to deliver what the member wants to achieve from their later life income. We recognise that CDC decumulation could help provide members of traditional individual DC schemes with the option to turn their pension pot into an income in a more cost-effective way and which, on average, should provide a better outcome.

265. We recognise that personal circumstances and our continued support for an open market mean that member choice remains an important element. However, specific inclusion of CDC decumulation-only arrangements within that framework is a result of feedback from the Government's call for evidence⁴ on decumulation options for savers and external research, which suggests there is a proportion of individuals who are looking for a regular income from their pension pot which CDC could provide.
266. Building on the responses to this consultation, and continued industry engagement, we will explore how these products could operate in the best interests of members, and without unwarranted impacts on other aspects of the pensions framework. Work on this important innovation will progress alongside the production of the legislative framework for whole-life multi-employer CDC schemes.

⁴ [Call for evidence launched to help people make the most of their pensions - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/calls-for-evidence/call-for-evidence-to-help-people-make-the-most-of-their-pensions)

Annex: List of Respondents

Adrian Boulding
Aegon
Aon
Association of British Insurers (ABI)
Association of Consulting Actuaries (ACA)
Association of Member Nominated Trustees (AMNT)
Association of Pension Lawyers (APL)
Association of Real Estate Funds (AREF)
Aviva
Barnett Waddingham
Blackrock
Church of England
CMS
EQ Retirement Solutions
Eversheds Sutherland
Federation of Small Businesses
First Actuarial
Gowling
Institute and Faculty of Actuaries (IFoA)
Intergenerational Foundation
Isio Group Ltd.
Just Group
Lane Clark & Peacock
Legal & General
Mercer
Now: Pensions
Pensions and Lifetime Savings Association (PLSA)
Pensions Management Institute (PMI)
Philip Bennett
Phoenix Group
Reddington
Royal Mail
Royal Society of Arts (RSA)
SACKERS
The Investing and Saving Alliance (TISA)
The Pensions Administration
Standards Association (PASA)
The Society of Pension Professionals (SPP)

Squire Patton Boggs
TPT Retirement Solutions
Trades Union Congress (TUC)
Unison
Unite
Universities Superannuation Scheme
Vialto Partners
Willis Towers Watson