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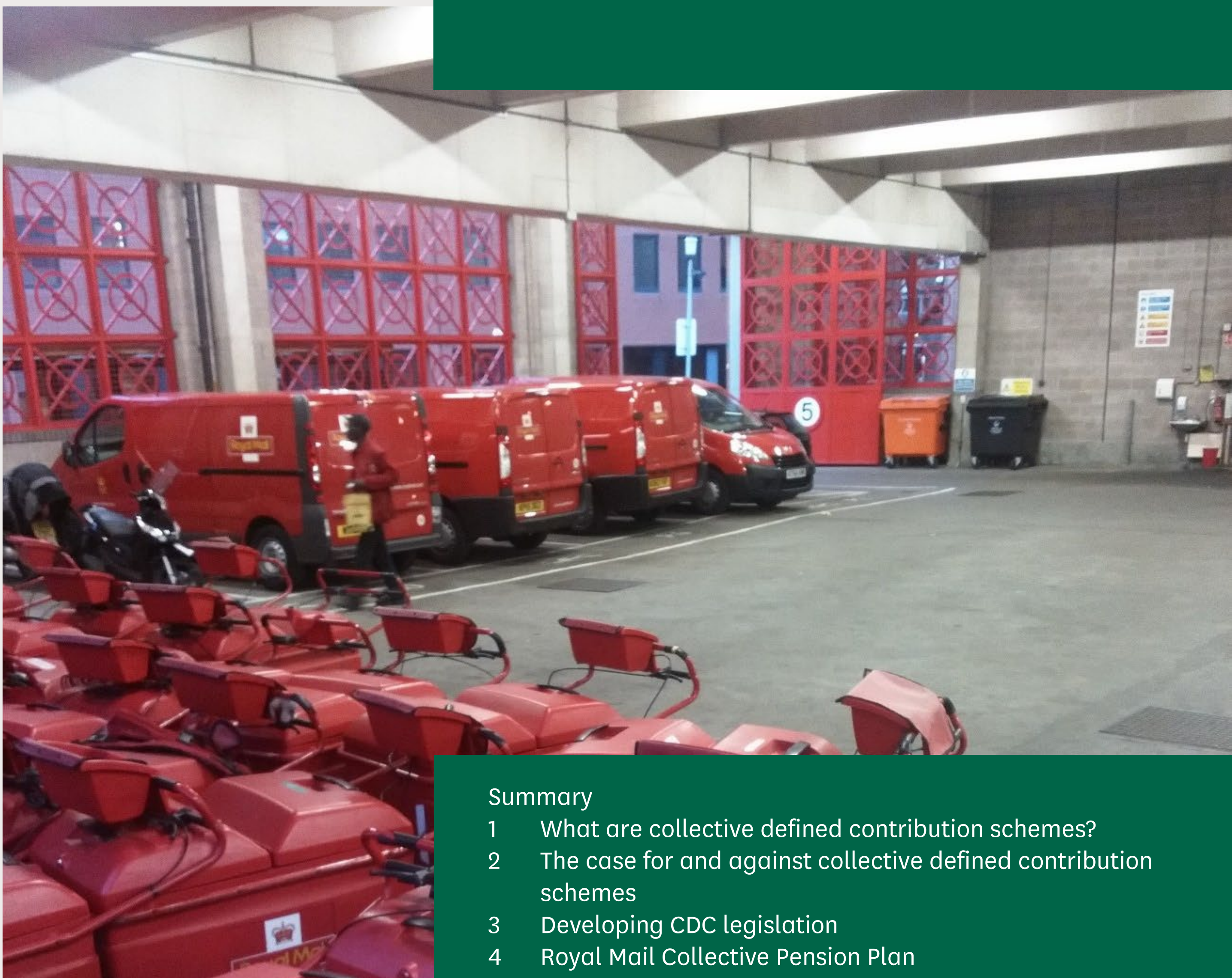
By James Mirza-Davies

Pensions: Collective Defined Contribution (CDC) schemes



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The Royal Mail Collective Pension Plan is the only CDC scheme currently authorised by the Pensions Regulator. It is expected to launch in 2024.

What types of pension exist in the UK?

There are two main types of pension scheme in the UK:

- Defined benefit schemes pay a promised pension which is based on factors such as salary and length of service. A sponsor, which is usually an employer, guarantees the promised benefits are paid. The pension provides an income for life and may also include a retirement lump sum.
- Defined contribution schemes do not provide a guaranteed pension and instead provide people with a pot of money they can use in retirement. The value of the pension pot can increase or decrease depending on factors, including investment returns and contributions made.

How are CDC schemes different?

In a CDC scheme, both the employer and employee contribute to a collective fund. Like a defined benefit scheme, the collective fund pays scheme members an income in retirement. However, unlike in a defined benefit scheme, the employer does not guarantee the pensions paid by the scheme.

CDC schemes provide a target pension and the fund is managed collectively, unlike in defined contribution schemes where people build up their own pension pots. If the scheme is under (or over) funded, then the pensions it pays to all members can be decreased (or increased) accordingly.

Future policy development

Currently CDC schemes are only available to single employers. The Government has consulted on proposals to extend the CDC market including multi-employer CDC schemes.

What are the advantages of CDC schemes?

The main advantages of CDC schemes are seen as:

- Retirement in a single package: Like in defined benefit schemes, members of CDC scheme both build up (accumulation) and receive a pension (decumulation) in the same scheme.
- An income without a risk premium: As CDC schemes do not guarantee an income, they do not have the additional cost of securing that guarantee.
- Longevity risk sharing: People managing their own pension pots risk underspending (dying with unused funds) or overspending (running out of money). CDC schemes reduce these risks by paying pensions based on average life expectancy across the scheme's members.
- Investment strategy: It is argued that CDC schemes can take a longer-term investment strategy than defined contribution schemes because they have a mix of members – some still contributing and building up their pensions and other receiving a pension income from the scheme.
- No continuing liability for employers: CDC schemes allow employers to offer a pension scheme, that provides an income in retirement like a defined benefit scheme, without needing to further fund the scheme if it does not have enough assets to pay the pensions it has promised.

What are the disadvantages of CDC schemes?

The main disadvantages of CDC schemes are seen as:

- Falling incomes: Pensions in CDC schemes are not guaranteed which means that the pensions paid to members can fall.
- Communications: CDC schemes are more difficult to explain than defined benefit schemes (which pay a promised benefit) or defined contribution schemes (where a saver builds up a pension pot).
- Intergenerational fairness: If funds contributed by an earlier generation are used to pay higher pensions to a later one or if a later generation needs to replenish funds used by an earlier one intergenerational unfairness may occur. This is seen as less of an issue for CDC schemes in the UK due to the way schemes are required to be designed.
- Some members will be worse off: A consequence of longevity risk is that those who die younger effectively subsidise the pensions of those who live longer. This means that some members may be worse off than if they were in a defined contribution scheme with their own pension pot.

1 What are collective defined contribution schemes?

Collective defined contribution (CDC) schemes are a new type of pension scheme in the UK. Sometimes also referred to as Collective Money Purchase Schemes, CDCs were introduced by the Pension Schemes Act 2021.[1]

The Royal Mail Collective Pension Plan is the only CDC scheme authorised to operate by the Pensions Regulator.[2] It is expected to launch in early 2024.[3]

What types of pension exist in the UK?

There are two main types of pension scheme in the UK:

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- Defined contribution schemes do not provide a guaranteed pension and instead provide a pot of money which can be used in retirement. The value of the pension pot can increase or decrease depending on factors, including investment returns and contributions made.

Further information is available in the Commons Library briefing Pension FAQs: Occupational and personal pensions.

How are CDC schemes different?

In CDC schemes, both the employer and employee contribute to a collective fund. Like defined benefit schemes, CDC schemes pay members an income in retirement. However, unlike defined benefit schemes the employer does not need to guarantee the pension incomes paid by the scheme. Instead, CDC schemes provide a target pension, if the scheme is under (or over) funded then the pensions it pays can be decreased (or increased) accordingly.

1 Pension Schemes Act 2021
2 The Pensions Regulator, Applying for authorisation, 1 August 2022
3 Royal Mail Pension Plan, The Trustee agrees to early release of the RMPP escrow, 17 June 2023

2 The case for and against collective defined contribution schemes

2.1 Advantages of collective defined contribution schemes

Retirement in a single package

Members of CDC scheme can both build up a pension (accumulation) and receive a pension (decumulation) in the same scheme. This is also the case in defined benefit schemes, although the income in a CDC scheme is not guaranteed.

In 2018, the Government said that CDC schemes can "Provide a savings and income in retirement option within one package that is potentially attractive to those people uncomfortable making complex financial decisions at the point of retirement".[6]

1 The pension freedoms

The pension freedoms gave people aged 55 and over more flexibility about when and how they accessed their defined contribution pension savings.[4]

Before the pension freedoms were introduced in April 2015, most people with defined contribution pensions had to use their pension pot to buy an annuity. An annuity is a product which provides a guaranteed income in retirement.

Following the pension freedoms, as well as purchasing an annuity, people can also enter drawdown arrangements (from which they can make withdrawals while leaving the rest invested) or to draw cash lump sums from their pension pot.[5]

More information on the pension freedoms is available in the Library Briefing Paper CBP 6891 Pension flexibilities: the freedom and choice reforms

4 Taxation of Pensions Act 2014

5 For more information, see Commons Library briefing (CBP 6891) Pension flexibilities: the freedom and choice reforms (section 4.5).

6 Department for Work and Pensions, Delivering Collective Defined Contribution Pension Schemes, November 2018, para 2

An income without a risk premium

People with defined contribution schemes can receive a guaranteed income by purchasing an annuity, which will provide a guaranteed income for life in retirement. Because an annuity is guaranteed, the cost of purchasing one includes a risk premium in case the cost to the provider is higher than expected, as well as a profit margin. The Government said in 2018 that “an insurer in the UK will typically charge around 5% more than it expects the annuity to cost”.[7]

Since the introduction of the pension freedoms (see box 1 above) in April 2015, there has been a marked decline in the number of people buying annuities.[8]

Mitigating longevity risk

In defined contribution schemes members manage their own pension pots. Because they cannot accurately predict how long they will live there is a risk that people underspend (dying with unused funds) or overspend (running out of money). By managing the fund collectively, CDC schemes can pay a pension based on average life-expectancy across its members. The “longevity risk” is mitigated by the average longevity of members across a scheme being more predictable than the longevity of any individual member.[9]

Employers

CDC schemes allow employers to offer a pension scheme, that provides an income in retirement. However unlike in a defined benefit scheme, the employer would not need to provide further funding to the scheme if the scheme’s assets are not enough to pay the pensions it has promised.

In a July 2021, the Minister for Pensions and Financial Inclusion said that CDC schemes “give employers predictable costs for their pension schemes”.[10] In a January 2022 report on accessing pension savings, the Work and Pensions Committee similarly said that CDC schemes allow employers to offer a pension scheme “without the risk that the employer will need to continue to fund the scheme with an uncertain cost indefinitely into the future.”[11]

7 Department for Work and Pensions, Impact assessment: Delivering collective defined contribution pension schemes, 6 November 2018, p10

8 Department for Work and Pensions, Consultation outcome: Helping savers understand their pension choices, 22 November 2023

9 Work and Pensions Committee, Collective defined contribution pensions, 11 July 2018, HC 580 2017-19, para 10

10 Department for Work and Pensions, Consultation Outcome: The Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2021, 17 January 2022, Foreword

11 Work and Pensions Committee, Protecting pension savers—five years on from the Pension Freedoms: Accessing pension savings, 12 January 2022, 2021-22, HC 237, para 38

Economies of scale

By investing collectively. CDC schemes may achieve greater economies of scale and invest at a lower cost than schemes whose assets are not managed collectively.

In 2018, the Government said that there is a general consensus that scale is important for CDC schemes.[12] Insufficient scale would mean the scheme may not be able to manage intergenerational risks and have higher administration costs.[13] The Government said that it did not anticipate small employers setting up CDC schemes and it was convinced by the "argument that a minimum size will arise as a result of scheme design and actuarial assessment".[14]

Investment strategy

It has been argued that CDC schemes will be able to seek higher returns for longer than in a conventional defined contribution scheme.[15]

In defined contribution schemes, as someone moves closer to retirement assets are typically moved from higher returning less liquid (accessible) assets to lower returning more liquid assets. This both makes it easier for the scheme to provide an income in retirement and provides the saver greater certainty about their level of pension savings in retirement, as lower returning assets tend to be less volatile.

CDC schemes may be able to achieve higher returns by investing collectively, as its membership is likely to consist of people at different ages and stages of accumulation or decumulation.[16]

An assessment conducted by the last Labour Government in 2009, before the pension freedoms, found that CDC schemes could produce higher pensions and greater stability in outcomes for individuals.[17]

In 2018, the Government said that CDC schemes may allow a higher proportion of investments in higher returning assets over a lifetime, but acknowledged that the pension freedoms meant defined contribution schemes may "follow a similar path over time."[18]

12 Department for Work and Pensions, Government Response to the Consultation: Delivering Collective Defined Contribution Pension Schemes, March 2019, para 69
13 As above
14 Department for Work and Pensions, Government Response to the Consultation: Delivering Collective Defined Contribution Pension Schemes, March 2019, para 75
15 For example, Work and Pensions Committee, Collective defined contribution pensions, 11 July 2018, HC 580 2017-19, para 10
16 As above
17 As above, p12
18 Department for Work and Pensions, Delivering Collective Defined Contribution Pension Schemes, November 2018, para 2

2.2 Disadvantages of collective defined contribution schemes

Falling incomes and economic downturns

Unlike in defined benefit schemes, incomes in CDC schemes are not guaranteed. The incomes that the scheme provides may fall. For example, if the scheme assets fall in value or the cost of providing pensions increases (for example due to an increase in life expectancy).

It is possible that members may be unwilling to accept a fall in their income, particularly if they believed it was a guarantee or have fixed costs that they can no longer meet. The Financial Inclusion Commission, an independent body championing financial inclusion, told the Work and Pensions Committee this had been an issue in the Netherlands, where schemes similar to the UK's CDC proposals already existed, when the incomes provided by CDC schemes were reduced.[19]

The Government has also recognised this risk, but said in July 2021 that it expected reducing payments from CDC schemes to be rare events.[20]

Communication

CDC schemes are more difficult to explain than defined benefit schemes (which pay a promised benefit) or defined contribution schemes (where a saver builds up a pension pot).[21]

The Government has introduced minimum communication requirements for CDC schemes which are regulated by the Pensions Regulator.[22]

Transfers out

People who want to transfer out of a CDC scheme will receive a share of the collective fund.[23]

The Work and Pensions Committee said in January 2022 that this meant there "is a risk that if members with lower life expectancy transfer out of a scheme, but are able to transfer out at full value, this will reduce the payments to

19 Work and Pensions Committee, Protecting pension savers—five years on from the Pension Freedoms: Accessing pension savings, 12 January 2022, 2021-22, HC 237, Ev 22

20 Department for Work and Pensions, Consultation Outcome: The Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2021, 17 January 2022, para 100

21 Work and Pensions Committee, Protecting pension savers—five years on from the Pension Freedoms: Accessing pension savings, 12 January 2022, 2021-22, HC 237, para 40

22 The Pensions Regulator, Collective defined contribution, systems and processes, 1 August 2022

23 Pension Schemes Act 2015, ss 25 and 76

other members and the advantages CDC schemes have in longevity pooling over DC schemes."[24]

Intergenerational risks

If funds contributed by an earlier generation are used to pay higher pensions to a later one or if a later generation needs to replenish funds used by an earlier one intergenerational unfairness may occur.

Where CDC schemes have been used outside of the UK some have included capital buffers. A capital buffer is made up of assets held in reserve and used to protect the incomes provided by CDC schemes from sudden changes.[25] If CDC members are protected from fluctuations in income by capital buffers then it is possible that the contributions and benefits might not be equal across generations of members. For example, an earlier generation may provide a capital buffer which is used to prevent a fall in incomes by a later generation, or a later generation may need to replenish a capital buffer used to prevent a fall in incomes by an earlier one.

Capital buffers will not be a feature of CDC schemes in the UK.[26]

Some members will be worse off

A consequence of longevity risk is that those who die younger effectively subsidise the pensions of those who live longer. This means that some members may be worse off than if they were in a defined contribution scheme with their own pension pot.

In an impact assessment, the Government explained that this is already the case for members of defined benefit schemes and people who purchase an annuity.[27]

24 Work and Pensions Committee, Protecting pension savers—five years on from the Pension Freedoms: Accessing pension savings, 12 January 2022, 2021-22, HC 237, para 40

25 Department for Work and Pensions, Government Response to the Consultation: Delivering Collective Defined Contribution Pension Schemes, paras 32 to 34

26 Work and Pensions Committee, Protecting pension savers—five years on from the Pension Freedoms: Accessing pension savings, 12 January 2022, 2021-22, HC 237, para 40

27 Department for Work and Pensions, Impact assessment: Delivering collective defined contribution pension schemes, 6 November 2018, p11

3 Developing CDC legislation

CDC schemes are legislated for under the Pension Schemes Act 2021.[28] In the Act CDC schemes are described as collective money purchase schemes. They are a subset of money purchase schemes – the term which is used in legislation to refer to defined contribution schemes.[29]

3.1 Pension Schemes Act 2015

The Coalition Government legislated for a new category of 'Defined Ambition' pensions to "complement the [defined benefit] and [defined contribution] structures that dominate the market."[30] The aim was to encourage greater risk sharing between parties.[31]

The provisions for these schemes in the Pension Schemes Act 2015 never came into force and were removed by the Pension Schemes Act 2021.[32]

More information is available in the Commons Library briefings:

- Defined ambition pension schemes
- Pension Schemes Bill 2014/15 – House of Commons stages
- Pension Schemes Bill 2014/15 – House of Lords stages

3.2 2018 consultations

Defined benefit White Paper March 2018

The Government set out its proposals to improve confidence in defined benefit schemes in its March 2018 Defined Benefit Pension Schemes White Paper.[33] It said that, while not directly related to defined benefit schemes, there had

28 Pension Schemes Act 2021, pts 1 and 2
29 Pension Schemes Act 2021, pts 1 and 2
30 Department for Work and Pensions, Reinvigorating Workplace Pensions, Cm 8478, November 2012, p29
31 As above
32 Pension Schemes Act 2021, s128
33 HCWS 19 March 2018 c3WS, Department for Work and Pensions, Protecting defined benefit pension schemes, Cm 9591, March 2018

been calls for it to legislate for CDC provision, to "provide members with fresh options to provide for themselves in later life."[34]

Delivering Collective Defined Contribution Pension Schemes, November 2018

The Government set out its thinking on CDCs in a November 2018 consultation.[35] In March 2019, the then Work and Pensions Secretary, Amber Rudd, said the Government would legislate for CDC schemes.[36]

In the consultation, the Government said that because of the administrative and communication challenges associated with CDC, it had decided that CDC schemes should undergo pre-scrutiny as part of an authorisation process overseen by the Pensions Regulator.[37]

In its response to the consultation, the Government said that it would "provide for a bespoke authorisation regime for CDC schemes" which would resemble many elements of the authorisation regime for Master Trusts.[38]

3.3 Pension Schemes Act 2021

CDC schemes are legislated for under the Pension Schemes Act 2021.[39]

Detailed information on the passage of the Pension Schemes Act 2021 can be found in the Commons Library briefing, Pension Schemes Bill 2019-21 (CBP 8693)

Authorisation of CDC schemes

The requirements of the CDC authorisation regime set out in the Act require that schemes must be authorised by the Pensions Regulator.[40]

The Pensions Regulator is required to make a decision, within six months of receiving an application, whether a scheme meets the authorisation criteria.[41]

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34 Department for Work and Pensions, Protecting defined benefit pension schemes, Cm 9591, March 2018, p9

35 Department for Work and Pensions, Delivering Collective Defined Contribution Pension Schemes, November 2018

36 HCWS 1422 18 March 2019

37 Department for Work and Pensions, Delivering Collective Defined Contribution Pension Schemes, November 2018, para 133

38 Department for Work and Pensions, Government Response to the Consultation: Delivering Collective Defined Contribution Pension Schemes, March 2019, para 172

39 Pension Schemes Act 2021, pts 1 and 2

40 Pension Schemes Act 2021, ss 7 and 58

41 Pension Schemes Act 2021, ss 9 and 60

The Act also sets out the criteria for CDC schemes to be authorised, including:

- A Fit and proper persons requirement.[42]
- Requirements that the scheme design is sound, viable and financially sustainable.[43]
- That there are adequate systems and processes for communicating with members and others.[44]

Further detail is set out in the Pensions Regulators authorisation criteria.

Valuation and benefits adjustment

The Act requires that the method for calculating the rate or amount of benefits must be set out in the scheme's rules, including how the scheme assets are valued, how the amount expected to be required for providing benefits is determined, and how benefits are to be adjusted.[45]

Triggering events and continuity options

The Act also sets out "triggering events" where trustees are required to resolve or to close or wind up the scheme.[46]

Triggering events include insolvency of an employer and certain warnings from the Pensions Regulator.[47]

3.4 The Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2022

The first regulations for CDC schemes under the Pension Schemes Act 2021 came into force on 1 August 2022.[48] These regulations cover single or connected multi-employer CDC schemes.[49]

The Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2022 were made on 8 March 2022 and came into force on 1

42 Pension Schemes Act 2021, ss 11 and 62
43 Pension Schemes Act 2021, ss 12, 13, 14, 63, 64 and 65
44 Pension Schemes Act 2021, ss 15 and 66
45 Pension Schemes Act 2021, ss 18 to 23 and 69 to 74
46 Pension Schemes Act 2021, ss 31 to 45 and 82 to 96
47 Pension Schemes Act 2021, ss 31 and 82
48 The Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2022, SI 2022/255 cover Great Britain. In Northern Ireland the authorisation and supervisory regime for CDC schemes is implemented by The Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations (NI) 2022 and The Occupational Pension Schemes (Collective Money Purchase Schemes) (Modifications and Consequential and Miscellaneous Amendments) Regulations 2022.
49 As above

August 2022.[50] The regulations implement the authorisation and supervisory regime for CDC schemes in Great Britain.

In January 2022, the Minister for Pensions and Financial Inclusion, Guy Opperman, said that the priority was single employer and connected multi-employer CDC schemes, but added that the department would turn its attention to other types of CDC schemes after this step.[51] The consultation said that "Many want to see non-connected multi-employer CDC schemes, Master Trusts and decumulation only CDC schemes."[52]

3.5 The Pensions Regulator Code of Practice

The Pensions Regulator's code of practice sets out how CDC schemes apply for authorisation, how applications are assessed and how approved schemes are supervised.[53]

The code of practice for CDC schemes came into force on 1 August 2022.[54] Unlike the regulations, the code of practice is not a statement of law (although parts of the code are set out in legislation and therefore must be complied with).[55]

50 As above
51 Department for Work and Pensions, Consultation Outcome: The Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2021, 17 January 2022, Foreword
52 As above
53 The Pensions Regulator, Collective defined contribution schemes [accessed on 1 August 2022]
54 The Pensions Regulator, Collective defined contribution schemes [accessed on 1 August 2022]
55 As above

4 Royal Mail Collective Pension Plan

The Royal Mail Collective Pension Plan is the only CDC scheme authorised to operate by the Pensions Regulator.[56] It is expected to launch in early 2024.[57]

4.1 Development

In February 2018, The Royal Mail and the Communication Workers Union agreed to introduce a CDC scheme following a decision to close the Royal Mail's defined benefit scheme.[58]

In its July 2018 report on CDCs, the Work and Pensions Committee noted that the profile of CDC had been "raised significantly in February 2018 by a pioneering agreement between the Royal Mail and the Communication Worker's Union (CWU) to pursue the creation of a CDC scheme for all employees of the company."[59] It had been devised as a way of resolving a dispute over the future of pension provision in the company.[60]

In March 2019, the Government said that its priority would be to legislate to enable Royal Mail to establish a scheme, but to do so in a way that could quickly accommodate other models of CDC if appropriate in the future.[61]

4.2 Features

Both employees and the Royal Mail as the employer will contribute to the plan. The plan has a target income of 1/80 of pensionable pay each year which it aims to increase by inflation.[62] The plan also provides a lump-sum, ill-health benefits and an income to dependants should the member die.[63]

56 The Pensions Regulator, Applying for authorisation, 1 August 2022
57 Royal Mail Pension Plan, The Trustee agrees to early release of the RMPP escrow, 17 June 2023
58 CWU, Agreement between Royal Mail Group and the Communication Workers Union Regarding Guiding Principles of Employment Security and a Mutual Interest Approach to Future Challenges and Opportunities (PDF), 1 February 2018, p9
59 Work and Pensions Committee, Collective defined contribution pensions, 11 July 2018, HC 580 2017-19, para 34
60 As above
61 Department for Work and Pensions, Government Response to the Consultation: Delivering Collective Defined Contribution Pension Schemes, March 2019, para 76
62 Myroyalmail, The Royal Mail Collective Pension Plan [accessed 15 March 2024]
63 As above

5 Possible future policy development

5.1 Multi-employer schemes and master trusts

The first set of regulations for CDC schemes cover single or connected multi-employer CDC schemes.[64] The Government intends to expand the regulations to cover other types of schemes.[65]

A master trust is an occupational defined contribution pension scheme which is intended to be used by two or more unconnected employers.[66] Master trusts are often used by employers without their own pension schemes to meet their auto-enrolment duties.[67] A master trust CDC scheme would allow smaller employers to offer CDC pensions to their employees without having to set up their own scheme.

The Government said that the response to its July 2021 consultation showed “considerable interest in extending CDC provision more widely to unconnected multi-employer schemes such as sector wide schemes and master trusts” and that it was holding discussions with interested parties.[68]

It set out more detailed proposals and consulted on how the existing regime should be extended to accommodate multi-employer CDC schemes and master trusts in an early 2023 consultation.[69]

The Government has announced that regulations for unconnected multi-employer CDC schemes are expected in 2024.[70]

64 The Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2022, SI 2022/255

65 Department for Work and Pensions, Consultation Outcome: The Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2021, 17 January 2022, Foreword

66 The Pensions Regulator, Authorisation and supervision of master trusts, 18 October 2018

67 MoneyHelper, Master trust pension schemes [accessed 1 August 2022]

68 Department for Work and Pensions, Government response to the consultation on draft regulations to support Part 1 of the Pension Schemes Act 2021 and associated consequential changes, 17 January 2022

69 Department for Work and Pensions, Extending opportunities for collective defined contribution pension schemes, January 2023

70 Department for Work and Pensions, Looking to the future: greater member security and rebalancing risk, 22 November 2023, para 154

5.2 Decumulation only

Defined contribution schemes provide a pot of money which can be used in retirement. The broad options available to a person accessing their defined contribution pension for the first time are:

- An annuity which provides a regular income for life or a set period. The income from an annuity will depend on a number of factors
- Pension drawdown which can provide a regular income by reinvesting it in funds designed for this purpose. The income is not guaranteed and varies depending on the fund's performance.
- Cash withdrawals which can be taken straight from a defined contribution pension pot after age 55 with the remainder left untouched. Normally the first 25% of a fund withdrawn is tax free and the remainder is treated as taxable income.

A decumulation-only CDC scheme would be made up only of members receiving an income from their pension savings. DWP have estimated that CDC decumulation is likely to produce a 20% higher income than an annuities.[71] It did however acknowledge that pension savers would not be eligible for compensation in the way they are through the Financial Services Compensation Scheme should their annuity provider goes under or the Pension Protection Fund if their defined benefit scheme's sponsoring employer became insolvent. [72]

In its January 2022 report on accessing pension savings the Work and Pensions Committee said that "It has been suggested that CDC schemes could become a default decumulation product for people with defined contribution pensions."[73] The Government has said that schemes could consider this and that it intends "to continue to work with the pensions industry to explore how to establish a CDC decumulation model that works in the UK."[74]

71 Department for Work and Pensions, Helping savers understand their pension choices: supporting individuals at the point of access: consultation response, 22 November 2023

72 As above

73 Work and Pensions Committee, Protecting pension savers—five years on from the Pension Freedoms: Accessing pension savings, 12 January 2022, 2021-22, HC 237, para 47

74 Department for Work and Pensions, Helping savers understand their pension choices: supporting individuals at the point of access: consultation response, 22 November 2023

5.3 Auto-enrolment

Auto-enrolment requires employers to enrol eligible employees into a workplace pension scheme. Unless they opt-out, employees will build up a private pension through their contributions and those of their employer.

The Government has said it would like to explore encouraging the use of CDCs for auto-enrolment. [75] It said it would need to consider a range of issues, including protecting the pension freedoms (Box 1), before considering whether to require schemes to offer CDCs.

Further information on auto-enrolment is available in the Commons Library briefing Pensions: Automatic enrolment - current issues.

5.4 Lifetime provider

In the current auto-enrolment system, each time someone moves job to a new employer they are likely to join a new pension scheme. The Government says this is an average of 10 pension pots over someone's working lifetime.[76] It has consulted on the idea of a lifetime provider model – where someone's pension pot follows them to a new employer should they move job.

The Government said that there are potential synergies of using CDC schemes as part of a move to a lifetime provider model, in a November 2023 consultation. It said this "would lead to the outcome of an individual's pension savings being in one place and providing a target income for life unless the individual chose to make an active alternative decision."[77]

5.5 Contract-based schemes

The Pension Schemes Act 2021 provides that CDC schemes are authorised and regulated by the Pensions Regulator. The Pensions Regulator is responsible for regulating, trust-based pension schemes – schemes overseen by a board of trustees. Contract based schemes, where someone has a contract with the provider of a pension, are regulated by the Financial Conduct Authority (FCA).

In its January 2022 report on accessing pension savings, the Work and Pensions Committee recommended that the FCA, which regulated contract-based schemes, considers whether there is a case for developing contract-

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75 Department for Work and Pensions, Looking to the future: greater member security and rebalancing risk, 22 November 2023

76 As above

77 As above

based CDC schemes.[78] In response to the Committee's report the FCA said in the early stages of CDC schemes it did not know the level of demand for contract-based CDC schemes.[79]

In July 2023, the Government said that it was focussed on trust-based schemes but was working with the FCA to understand the potential for contract-based CDC schemes for decumulation products.[80]

78 Work and Pensions Committee, Protecting pension savers—five years on from the Pension Freedoms: Accessing pension savings, 12 January 2022, 2021-22, HC 237, para 53

79 Work and Pensions Committee, Protecting pension savers–five years on from the pension freedoms: Accessing pension savings: Government and the Financial Conduct Authority Responses to the Committee's Fifth Report, 27 April 2022, 2021-22, HC 1270

80 Department for Work and Pensions, Extending opportunities for collective defined contribution pension schemes, 11 July 2023

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