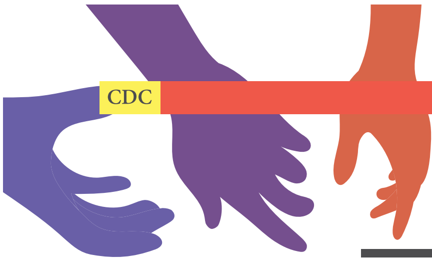

CDC: Within reach

While the recent Pension Schemes Act has brought CDC schemes one step closer to reality in the UK, there is still some way to go, writes Francesca Fabrizi

The Pension Schemes Bill has finally been granted Royal Assent to become the Pension Schemes Act 2021, bringing with it the promise of a better pensions regime across a number of key areas.

One such area relates to scheme design, with the act enabling the creation of collective defined contribution (CDC) schemes in the UK, which are effectively a variant of the DC and DB schemes currently on offer. This could, says Willis Towers Watson senior consulting actuary, Shriti Jadav, alter the future of the UK pensions scene by offering "a real alternative to traditional DB and individual DC schemes". New regulations due to be published later this year will provide further clarity on CDC as an option, she confirms.

These schemes, says AJ Bell senior analyst, Tom Selby, are designed to offer a "third way" between guaranteed DB pensions, where all risks are shouldered by the employer, and DC, where risks are shouldered by the member. "Under CDC, the employer and employee contribute to a collective fund from which the employee draws a retirement income. The funding risk is shared collectively, in a similar way to old-style with-profits pensions," says Selby.

CDC schemes, from a global perspective, are nothing new and are currently in operation in countries such as the Netherlands, Denmark and Canada. But for the UK, they offer a real opportunity argues Aon head of UK retirement policy, Matthew Arends. "This legislation brings CDC schemes into reality and with the increasing decline in the private sector of DB schemes, it offers the possibility for DC savers to achieve an income for life from their DC savings in both an efficient way and without having to make complex investment decisions."

The most ardent supporters, says Selby, "often paint a picture of retirement mecca, with CDC savers benefiting from bigger pensions and lower investment volatility". Others, he says, argue the schemes "risk becoming an albatross around the necks of the next generation, with sons and daughters asked to make bigger contributions to pay for their parents' pensions".

One clear supporter, though, is the Royal Mail, which has already committed to offering CDC to its members in place of its DB scheme. An agreement was reached between Royal Mail and the Communication Workers Union (CWU) in 2018, both believing that a CDC pension would meet their mutual objectives of providing sustainable, affordable and secure future retirement arrangements for employees.

In response to the Royal Assent declaration, Royal Mail confirmed it was keen to launch its Collective Pension Plan "in the second half of the next financial year". Additionally, Royal Mail acknowledged that, while the new act brings them "one step closer towards making CDC pension schemes a reality for Royal Mail and its people", there is still work to be done. It stated: "We will continue to work with the CWU and others on our new plan going forward. We look to work with government on the passage of the necessary secondary legislation, including tax changes, in a way that will allow our plan to begin accepting contributions. It will also require authorisation from The Pensions Regulator (TPR)."

A spokesperson for TPR agreed that there is still some way to go, stating: "It is early days and there is much still to be developed. We are working with government and other stakeholders to build an effective, clear and efficient authorisation and supervisory regime. In the coming months there will be a further consultation from the Department for Work and Pensions (DWP) on the regulations to support the regime, followed by a consultation on a code of practice."

All in all, despite the additional work that is needed, the new act could lead to real innovation in the UK, and while the new regulation opens up the opportunity to enable single employer CDC plans, it should not stop there, argues Arends.

"The path should now be open for government and the DWP to move ahead at pace with the second phase of enabling legislation. This would provide wider-reaching options, making CDC accessible in a variety of ways, potentially including CDC master trusts, decumulation-only CDC platforms, and industry-wide or multi-employer CDC plans."

Indeed, Willis Towers Watson has already seen interest from organisations in the UK looking to consider the feasibility of CDC for their employees, says Jadav. "Conversations have largely been with those in the utilities or industrials sector who wish to provide employees with a regular income in retirement, but at a fixed cost for the employer." For some of these, she adds, CDC may only be possible further down the line, in the event that multi-employer CDC schemes or master trusts are introduced. "CDC is still developing in the UK and it will be exciting to see how far it can go."

Written by Francesca Fabrizi