



Department  
for Work &  
Pensions

# Collective Defined Contribution Regulatory Issues

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# What Regulation is Appropriate For Collective Benefits?

Key Features of any pensions regime –

- Members should have confidence that any scheme they are members of is subject to a regime that protects their interests.
- Those that want to set up a scheme are clear about the regime under which it will operate.
- Those administering a scheme, are clear about the requirements that the regime will place upon them.

What does that look like for Collective Schemes?

# Pension Schemes Act 2015

This Act set out to create a new legal framework for risk sharing schemes (Defined Ambition).

This consisted of 30 sections, and included a range of powers to ensure appropriate regulation.

New definitions –

Defined Benefit – A promise

Defined Contribution – No promise

Defined Ambition – risk sharing between member and employer/insurer.

Collective Benefits were to be a building block that could be used as part of a Defined Ambition or Defined Contribution scheme.

Collective Defined Contribution, because there is no promise, fits into the Defined Contribution space.

## **But – Since then ...**

### **Things changed in 2015**

- The 2015 election resulted in Defined Ambition dropping down the Government's priorities.
- Until late last year no parties had approached Government to commence the legislation and produce the detailed regulations.
- Now we have a large employer who are working with their workforce to try and create a Collective Defined Contribution scheme.
- The structure of the 2015 Act means we can't use that just for CDC.

**So – we are now looking at a new framework for CDC**

# What does Collective Scheme Regulation look like?

**Transparency** – Members should know in advance how the scheme will operate, how benefits are accrued, and what will happen to target benefits if there is under or over funding.

**Good Governance** – Collective Schemes require that whoever is running the scheme is applying the highest possible standards. Difficult decisions need to be made, and complex judgements and data need to be understood.

**Fairness** – It is important that things like intergenerational fairness are understood and mitigated.

**Compliance** – There needs to be a body of guidance. And there needs to be some form of enforcement.

# Collective Benefits Legislation

## Some key areas we would expect to see legislation -

- Clarity about target benefit levels, and how those benefits are accrued
- Clear policies for dealing with under- and over-funding
- Compliance with a valuation regime
- Requirements around transfers into and out of a collective fund
- Information and communication requirements
- Role of the regulator

# Delivering Regulation

## Very much work in progress

Looking at what can be done through powers in existing legislation.

But a new Act may be needed.

Timescales still uncertain.