EXPLANATORY MEMORANDUM TO

THE OCCUPATIONAL PENSION SCHEMES (COLLECTIVE MONEY PURCHASE SCHEMES) (EXTENSION TO UNCONNECTED MULTIPLE EMPLOYER SCHEMES AND MISCELLANEOUS PROVISIONS) REGULATIONS 2025

2025 No. [XXXX]

1. Introduction

1.1 This Explanatory Memorandum has been prepared by the Department for Work and Pensions and is laid before Parliament by Command of His Majesty.

1.2 This memorandum contains information for the Joint Committee on Statutory Instruments.

2. Declaration

2.1 Torsten Bell, Minister for Pensions at the Department for Work and Pensions and His Majesty's Treasury confirms that this Explanatory Memorandum meets the required standard.

2.2 Simon Boniwell, Deputy Director for Pensions Innovation and Guidance at the Department for Work and Pensions confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Thomas Rhodes at the Department for Work and Pensions, email: thomas.rhodes@dwp.gov.uk and tel: 0300 082 6086 can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 The Pension Schemes Act 2021[1] introduced the legislative framework for collective money purchase pension schemes. However, it limited them to single or connected employers. This instrument removes that exclusion to enable schemes that can be used by unconnected employers. It will put in place a new authorisation and supervision regime for them.

Where does the legislation extend to, and apply?

4.2 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is Great Britain.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is Great Britain.

[1] www.legislation.gov.uk/ukpga/2021/1/contents

5. Policy Context

What is being done and why?

5.1 Traditionally, the pensions market in the United Kingdom has been binary in nature. The only options broadly available to employers and employees have been either defined benefit schemes[2], where the employer is liable to fund the scheme so that it can pay the pension benefits due to members, or defined contribution schemes[3], where individual members bear all the investment and longevity risks and there are no employer guarantees regarding what the member might receive at retirement.

5.2 Collective money purchase schemes provide an alternative to defined benefit and defined contribution schemes. In collective money purchase schemes, the contributions of members and employers are pooled and invested with a view to delivering benefits at the level to which the scheme aspires. A key benefit is that the collective nature of these schemes means that investment and longevity risks are shared across the membership. They also offer potential benefits in economies of scale and the opportunity for greater investment in higher returning assets such as infrastructure than are usually associated with defined contribution pension schemes.

5.3 As collective money purchase schemes provide an income to pensioner members, there is no need for members to make complex financial decisions at the point of retirement. Income in retirement from collective money purchase schemes is subject to periodic adjustment, which is designed to achieve a balance between a scheme's assets and the amount required for the provision of benefits. This new type of pension provision is more sustainable for employers and has the potential to offer better outcomes for pension scheme members.

5.4 The Pension Schemes Act 2021 introduced this new type of pension provision and, together with the Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2022[4], implemented the new authorisation and supervisory regime for single or connected employer collective money purchase schemes. Single or connected schemes are those used by, or intended to be used by, a single employer, or two or more employers that are connected. Alongside those regulations, a new Code of Practice[5] was introduced by The Pensions Regulator. The Code of Practice helps those involved in collective money purchase schemes to understand how to satisfy the authorisation criteria and other matters by providing detailed practical guidance on the process for making an application for authorisation and what The Pensions Regulator expects to take into account in making its decision. The first single or connected employer collective money purchase scheme to be authorised in the UK began operating on 7 October 2024.

5.5 There has been growing demand from parliamentarians, including the Work and Pensions Committee, and the pensions industry to extend collective money purchase schemes to accommodate alternative models, such as unconnected multiple employer schemes.

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[2] A pension that guarantees a specific, predetermined income in retirement, calculated by a formula based on an employee's salary and length of service, rather than investment performance.

[3] A pension where contributions from the employee and the employer are invested in a fund, building up a 'pension pot'. The amount received at retirement depends on the total contributions and the investment performance. It is not a guaranteed amount, so the final pension pot can fluctuate in value.

[4] www.legislation.gov.uk/uksi/2022/255/contents

[5] www.thepensionsregulator.gov.uk/en/document-library/code-of-practice/collective-defined-contribution

5.6 An unconnected multiple employer collective money purchase scheme is a pension scheme where multiple, unrelated employers participate. Employers who operate independently can therefore all contribute to a single pooled fund within the scheme without needing to have significant ties to the other participating employers. Essentially, it allows companies from different industries to offer their employees a collective money purchase pension through a shared structure, despite not being directly connected to one another. To ensure member protection and market confidence, it is essential that only well-run collective money purchase schemes are allowed to operate.

5.7 This instrument enables unconnected employers to use collective money purchase schemes in order to expand the number of people who are able to access the potential benefits of collective money purchase provision. It also implements the authorisation and supervisory regime applicable to such schemes.

What was the previous policy, how is this different?

5.8 The previous policy was that the first legislation made under the provisions of the Pension Schemes Act 2021 enabled the launch of single or connected employer collective money purchase schemes exclusively. Establishing the regime in regulations allows it to be amended more rapidly in response to market innovation and development.

5.9 The Pension Schemes Act 2021 contains powers to make regulations to enable different models of collective money purchase provision to be introduced. Our policy now is to no longer limit authorisation to single or connected employer collective money purchase schemes, but instead to allow unconnected multiple employer schemes to apply for authorisation to operate. As was the case with single or connected employer collective money purchase schemes we intend that:

- only schemes that are well run and built on sound foundations are allowed to operate;
- schemes must have a clear strategy and resources to deal with any problems that may arise;
- schemes must have an effective framework for communicating with members;
- the interests of members continue to be protected throughout the life of the scheme; and
- the Pensions Regulator has appropriate powers to intervene when necessary.

5.10 We have made a number of additions to the existing authorisation regime set out in the Pension Schemes Act 2021 which are specific to the authorisation of unconnected multiple employer collective money purchase schemes. We have also made changes to allow for more flexibility in scheme design and ensure that the presence of multiple unconnected employers does not result in payments from one group of members unduly subsidising the benefits of another group of members, such as introducing the principle of actuarial equivalence. Actuarial equivalence is achieved when the expected ultimate cost of paying benefits accruing is equal to the contributions being paid to fund them.

5.11 The introduction of a scheme proprietor specifically for unconnected multiple employer collective money purchase schemes reflects the fact that there will be new entities involved in the operation and funding of these new types of schemes. Therefore, to protect members, it is imperative that legislation clearly establishes who is responsible for the scheme's business strategy and financial sustainability, and that

the business plan they produce is shared with The Pensions Regulator, both at authorisation and at appropriate times when the scheme is operating.

5.12 The new legislative framework to accommodate unconnected multiple employer collective money purchase schemes will permit schemes that intend to operate on a commercial basis. This will involve acquiring new business through the promotion or marketing of their scheme. To mitigate the risk of schemes overpromising to gain a commercial advantage or mis-selling, we are introducing new promotion or marketing authorisation criteria including that there are adequate systems and processes for securing that promotion or marketing is clear and not misleading. Any promotion or marketing that may have been carried out in relation to the scheme before the trustees applied for authorisation will be taken into account when deciding if these criteria are satisfied.

5.13 The government intends for trustees to have the option to operate an unconnected multiple employer collective money purchase scheme as a closed scheme[6], provided it meets the authorisation criteria. This is to help mitigate the potential risk of a commercial provider who opts to wind-up their collective money purchase scheme at some future point because they deem it to be unattractive commercially, even though this may not be in the best interests of the members.

5.14 As is the case with single or connected collective money purchase schemes, authorisation and ongoing supervision of an unconnected multiple employer scheme will be undertaken by The Pensions Regulator, who will produce detailed practical support for schemes through an updated Code of Practice. We expect this to be available when the legislation comes into force in summer 2026.

6. Legislative and Legal Context

How has the law changed?

6.1 Part 1 of the Pension Schemes Act 2021 provided the legislative framework for the authorisation of collective money purchase pension schemes to operate in Great Britain.

6.2 Section 47 of the Pension Schemes Act 2021 provides a power to extend the definition of qualifying schemes to expand the types of schemes that can be collective money purchase schemes. The instrument amends existing primary and secondary legislation, as well as making stand-alone provision in secondary legislation, to deliver the proposed regulatory framework for unconnected multiple employer schemes.

6.3 This instrument makes provision about what such schemes must do to become authorised, to operate effectively under regulatory oversight, and what happens if changes need to be made to these schemes, for example if the scheme has to be wound-up. The authorisation regime is designed to protect members and to build confidence in this new type of collective money purchase scheme by ensuring only soundly designed and well-run schemes can operate.

6.4 Part 2 of this instrument removes the exclusion in the Pension Schemes Act 2021, which limits the schemes that can be collective money purchase pension schemes to schemes used, or intended to be used, by single or connected employers, allowing for unconnected multiple employer schemes. Part 2 also amends the definition of a

[6] A closed scheme is a scheme that is closed to new members. Depending on the scheme rules, it may or may not be able to continue to accept further contributions. The trustees' role and duties continue for a closed scheme, until such time as it has been wound up.

qualifying scheme so that a broader range of organisations can open an unconnected multiple employer collective money purchase scheme. In particular, this is in line with our policy intention to enable commercial organisations to establish such schemes. Additionally, Part 2 amends the Pension Schemes Act 2021 to add to the existing authorisation criteria and thereby create authorisation criteria specifically for unconnected multiple employer collective money purchase schemes.

6.5 Part 3 of this instrument supplements the meaning of "connected" in Section 49(2) of the Pension Schemes Act 2021. This is for the purposes of determining whether a collective money purchase scheme is a "single and connected employer" scheme or an "unconnected multiple employer" scheme and therefore which of the two legislative frameworks applies to it.

6.6 Part 4 (including Schedules 1 to 6) of this instrument implements the new authorisation and supervisory regime for unconnected multiple employer collective money purchase schemes under Part 1 of the 2021 Act. It includes regulations on the application for authorisation, the authorisation regime, scheme design, financial sustainability, the valuation and adjustment process and the supervisory regime for unconnected multiple employer collective money purchase schemes, both at set up and on an ongoing basis.

6.7 Part 5 of this instrument contains amendments to the Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2022 to ensure certain aspects of the single or connected employer collective money purchase schemes regime are aligned with this new regime.

6.8 Part 6 (and Schedule 7) makes consequential amendments to other legislation. It amends provisions in other legislation that give meaning to the term "scheme rules" to reflect provisions in this instrument that override rules of unconnected multiple employer collective money purchase schemes. It amends the Pensions Act 2004[7] to include The Pensions Regulator's new power to issue a risk notice[8] to a scheme proprietor of an unconnected multiple employer collective money purchase scheme as one of its regulatory functions for the purposes of that Act. It amends the Pension Schemes Act 2017[9] relating to Master Trusts (another type of workplace pension scheme that allows multiple, unconnected employers to provide pensions through a single arrangement), so that the two multiple employer frameworks can operate in tandem and without duplicating authorisation requirements. Schedule 7 also amends other secondary legislation so that unconnected multiple employer collective money purchase schemes can operate as intended.

Why was this approach taken to change the law?

6.9 The power in section 47(1) of the Pension Schemes Act 2021 to expand the definition of qualifying schemes is to remove exclusions from section 3 of that Act and section 47(4) envisaged modification or amendment of Part 1 of that Act. Amendment was considered to be the clearest and most effective approach. The Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2022 could have been amended to accommodate unconnected multiple employer collective money purchase schemes, but a policy decision was taken for the provisions relating to unconnected multiple employer schemes to be in this, separate, instrument. This was to make clear

[7] www.legislation.gov.uk/ukpga/2004/35/contents

[8] A risk notice can be issued to trustees by the Pensions Regulator when it has concerns that a scheme is likely to breach its authorisation criteria. It can be used instead of – or in advance of – more serious powers, including de-authorisation.

[9] www.legislation.gov.uk/ukpga/2017/17/contents

to prospective multiple unconnected employer schemes which legislative framework applies. Amendments needed to be made to the Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2022 to ensure the legislation reflected the policy intention and legal requirements.

7. Consultation

Summary of consultation outcome and methodology

7.1 Following the introduction of the Pension Schemes Act 2021 and the legislative framework for single or connected collective money purchase schemes, further consultations were undertaken on collective money purchase schemes. The Department for Work and Pensions ran a public consultation on a policy framework for broadening collective money purchase provision beyond single or connected employer schemes between 30 January 2023 and 27 March 2023[10]. This consultation set out proposals for how the existing collective money purchase regulatory framework could be adapted to allow more employers of all sizes to either offer or join collective money purchase schemes, and to allow more flexibility in the design of such schemes. This involved assessing interest in specific designs and evaluating potential risks or challenges.

7.2 A total of 45 responses to the policy consultation were received from various stakeholders, including representatives from the pensions industry, Master Trust sponsors, trade unions, legal firms, asset managers, investment consultancy firms, a think tank, an insurer and actuaries.

7.3 Before, during and after the public consultation, the Department for Work and Pensions also conducted informal engagement with a range of industry stakeholders, The Pensions Regulator, and the Financial Conduct Authority. The proposals were well received by industry and there was near unanimous support for the expansion of collective money purchase provision. In the government's response of July 2023[11], it committed to consulting on draft regulations. The Department for Work and Pensions ran a public consultation on draft legislation needed to extend collective money purchase provision beyond single or connected schemes between 8 October 2024 and 19 November 2024[12].

7.4 A government response to the consultation on the Occupational Pension Schemes (Collective Money Purchase Schemes) (Extension to Unconnected Multiple Employer Schemes and Miscellaneous Provisions) Regulations 2025 will be published on 23 October 2025[13]. A total of 50 written responses were received from various stakeholders, including representatives from the pensions industry, trade unions, legal firms, asset managers, investment consultancy firms, UK charities, and actuaries. Respondents were broadly supportive of the approach we have taken, with most respondents raising questions about the policy approach, drafting, minor technical points and requests for clarification. In addition, direct engagement was undertaken

[10] www.gov.uk/government/consultations/extending-opportunities-for-collective-defined-contribution-pension-schemes
[11] www.gov.uk/government/consultations/extending-opportunities-for-collective-defined-contribution-pension-schemes/outcome/government-response-extending-opportunities-for-collective-defined-contribution-pension-schemes
[12] www.gov.uk/government/consultations/the-occupational-pension-schemes-collective-money-purchase-schemes-extension-to-unconnected-multiple-employer-schemes-and-miscellaneous-provisions/the-occupational-pension-schemes-collective-money-purchase-schemes-extension-to-unconnected-multiple-employer-schemes-and-miscellaneous-provisions
[13] www.gov.uk/government/consultations

with several industry stakeholders including employers, pension schemes, actuaries and legal firms. Having considered the points raised, which included aspects of the draft regulations that were consulted on where the drafting did not meet the stated policy intent or could be made clearer, some technical drafting changes have been made to reflect points raised during the consultation.

8. Applicable Guidance

8.1 As required by section 90(2)(jc) and (jd) of the Pensions Act 2004[14] the Pensions Regulator published a Code of Practice[15] in August 2022 for single or connected collective money purchase schemes. To support the provisions in this instrument for unconnected multiple employer schemes to apply for authorisation to operate a collective money purchase scheme, the Pensions Regulator also plans to consult on updates to the Code of Practice subsequent to this instrument being laid in draft. The updated Code will be brought into effect once the necessary procedures have been completed, including a requirement for a draft to be laid in Parliament. We expect the Code of Practice to be available when the legislation comes into force. In addition, the Financial Reporting Council will be providing guidance for actuaries in relation to unconnected multiple employer collective money purchase schemes.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full Impact Assessment is submitted with this memorandum and published alongside the Explanatory Memorandum on legislation.gov.uk website.

Impact on businesses, charities and voluntary bodies

9.2 The impact on business, charities or voluntary bodies is minimal.

9.3 The main impact will be on persons seeking to establish an unconnected multiple employer collective money purchase scheme, persons who choose to apply to The Pensions Regulator for authorisation of such a scheme, and persons who operate an unconnected multiple employer collective money purchase scheme.

9.4 The Equivalent Annual Net Direct Cost to Businesses of the package of measures contained in this instrument is £0.8m.

9.5 We have decided not to exempt small or micro businesses from the requirements of these regulations because we do not want to prevent small and micro pension schemes from accessing the potential benefits of this new type of pension provision.

9.6 There is no, or no significant, impact on the public sector because collective money purchase provision is restricted to private pension provision.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The approach to monitoring this legislation is that the Department for Work and Pensions will informally monitor these regulations to make sure that they operate as intended. This will involve engagement with The Pensions Regulator and any

[14] www.legislation.gov.uk/ukpga/2004/35/contents
[15] www.thepensionsregulator.gov.uk/en/document-library/code-of-practice/collective-defined-contribution

unconnected multiple employer collective money purchase schemes that are established.

10.2 The instrument does not include a statutory review clause and, in line with the requirements of the Small Business, Enterprise and Employment Act 2015, Torsten Bell MP, Minister for Pensions at the Department for Work and Pensions and His Majesty's Treasury, has made the following statement: "Having had regard to the Statutory Review Guidance for Departments published under section 31(3) of the Small Business, Enterprise and Employment Act 2015[16], in my view, it is not appropriate to make provision for review in the Occupational Pension Schemes (Collective Money Purchase Schemes) (Extension to Unconnected Multiple Employer Schemes and Miscellaneous Provisions) Regulations 2025."

[16] www.legislation.gov.uk/ukpga/2015/26/contents

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 This instrument contains both new and correcting provisions. The Department has consulted with the Statutory Instrument Registrar as to whether or not to provide free replacement copies and the Department has taken the decision to apply the procedure for free issue to all known recipients of the Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2022.

12. European Convention on Human Rights

12.1 Torsten Bell MP, Minister for Pensions at the Department for Work and Pensions and His Majesty's Treasury, has made the following statement regarding Human Rights: "In my view the provisions of the Occupational Pension Schemes (Collective Money Purchase Schemes) (Extension to Unconnected Multiple Employer Schemes and Miscellaneous Provisions) Regulations 2025 are compatible with the Convention rights."

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").