EXPLANATORY MEMORANDUM TO

THE OCCUPATIONAL PENSION SCHEMES (COLLECTIVE MONEY PURCHASE SCHEMES) (EXTENSION TO UNCONNECTED MULTIPLE EMPLOYER SCHEMES AND MISCELLANEOUS PROVISIONS) REGULATIONS (NORTHERN IRELAND) 2026

S.R. 2026 No. 151

1. Introduction

1.1 This Explanatory Memorandum has been prepared by the Department for Communities to accompany the Statutory Rule (details above) which is laid before the Northern Ireland Assembly.

1.2 The Statutory Rule is made under sections 54(8), 56(2), 59(4), 62(2)(e) and (3)(a), 63(2)(b), 64(3), 65(3), 66(4)(a), 67(2), 68(5), 69(4), 70(2) and (3), 71(5), 73(3)(b), 74(3)(c), 78(2), 79(3) and (4), 80(10), 84(4)(b), 87(1)(c), (2)(b) and (c), (5) and (6), 88(3)(b), 89(3), 90(1)(b), 91(4) and (6), 94(2) and (4)(b) and (c), 96(3), 98, 100(2)(b) and 102(2) and (3) of the Pension Schemes Act 2021 and is subject to the confirmatory procedure.

2. Purpose

2.1 The Pension Schemes Act 2021 introduced the legislative framework for collective money purchase pension schemes. However, it limited them to single or connected employers. These Regulations remove 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.

3. Background

3.1 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, where the employer is liable to fund the scheme so that it can pay the pension benefits due to members, or defined contribution schemes, where individual members bear all the investment and longevity risks and there are no employer guarantees regarding what the member might receive at retirement.

3.2 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.

3.3 As collective money purchase schemes provide an income to pensioner members, this reduces the 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.

3.4 The Pension Schemes Act 2021 introduced this new type of pension provision and, together with the Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations (Northern Ireland) 2022[1], 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. A new Code of Practice was also 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.

3.5 There has been growing demand from the Westminster Parliament, 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.

3.6 An unconnected multiple employer collective money purchase scheme is a pension scheme where multiple, unrelated employers can 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.

3.7 These Regulations enable 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. They also introduce the authorisation and supervisory regime applicable to such schemes. The Regulations make 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.

3.8 Part 2 of these Regulations removes the exclusion in the Pension Schemes Act 2021, which limits the schemes that can operate as collective money purchase pension schemes to schemes used, or intended

[1] The provision in this S.R. was replaced by S.R. 2023 No. 7, S.R. 2023 No. 117 and S.R. 2024 No. 15.

to be used, by single or connected employers, allowing for unconnected multiple employer schemes. Part 2 also amends the definition of a 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 the 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.

3.9 Part 3 of these Regulations supplements the meaning of "connected" in Section 100(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.

3.10 Part 4 (including Schedules 1 to 6) of these Regulations implement the new authorisation and supervisory regime for unconnected multiple employer collective money purchase schemes under Part 2 of the Pension Schemes Act 2021. 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.

3.11 Part 5 of these Regulations contains amendments to the Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations (Northern Ireland) 2024 to ensure certain aspects of the single or connected employer collective money purchase schemes regime are aligned with this new regime.

3.12 Part 6 (and Schedule 7) of these Regulations make consequential amendments to other legislation. They amend provisions in other legislation that give meaning to the term "scheme rules" to reflect provisions in these Regulations that override rules of unconnected multiple employer collective money purchase schemes. They amend the Pensions (Northern Ireland) Order 2005 to include The Pensions Regulator's new power to issue a risk notice to a scheme proprietor of an unconnected multiple employer collective money purchase scheme as one of its regulatory functions for the purposes of that Order. They amend the Pension Schemes Act (Northern Ireland) 2021 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.

4. Consultation

4.1 There is no requirement to consult on these Regulations as they make, in relation to Northern Ireland, only provision corresponding to provision

contained in regulations made by the Secretary of State for Work and Pensions in relation to Great Britain.

5. Equality Impact

5.1 In accordance with its duty under section 75 of the Northern Ireland Act 1998, the Department has conducted a screening exercise on the legislative proposals for these Regulations and concluded that they do not have any significant implications for equality of opportunity or good relations. In light of this, the Department considers that an Equality Impact Assessment is not necessary.

6. Regulatory Impact

6.1 A Regulatory Impact Assessment is attached in the Annex to this Explanatory Memorandum.

7. Financial Implications

7.1 There is no, or no significant, impact on the public sector because collective money purchase provision is restricted to private pension provision. Impacts on business etc are set out in the Regulatory Impact Assessment in the Annex.

8. Section 24 of the Northern Ireland Act 1998

8.1 The Department is content that these Regulations comply with section 24 of the Northern Ireland Act 1998 (Convention rights, etc.).

9. EU Implications

9.1 Not applicable.

10. Parity or Replicatory Measure

10.1 The corresponding Great Britain Instrument is the Occupational Pension Schemes (Collective Money Purchase Schemes) (Extension to Unconnected Multiple Employer Schemes and Miscellaneous Provisions) Regulations 2025 (S.I. 2025/1313) which comes into force on 31 July 2026.

10.2 Parity of timing and substance is an integral part of the maintenance of single systems of social security, child support and pensions in line with section 87 of the Northern Ireland Act 1998.

REGULATORY IMPACT ASSESSMENT

THE OCCUPATIONAL PENSION SCHEMES (COLLECTIVE MONEY PURCHASE SCHEMES) (EXTENSION TO UNCONNECTED MULTIPLE EMPLOYER SCHEMES AND MISCELLANEOUS PROVISIONS) REGULATIONS (NORTHERN IRELAND) 2026

The costs and savings outlined in this Regulatory Impact Assessment (RIA) are calculated on a UK-wide basis.

Summary Intervention and Options

What is the problem under consideration? Why is government intervention necessary? Collective Money Purchase Schemes, more commonly known as Collective Defined Contribution (CDC) schemes are an emerging type of pension scheme based on risk sharing between pension savers. CDC schemes aim to move the risk away from the individual (as is the case under Defined Contribution (DC) schemes) and not place any liabilities on the employer (as is the case under Defined Benefit (DB) schemes). Single or connected employer CDC schemes have high start-up costs and are therefore largely only accessible for very large employers. There is strong industry support for broadening CDC provision beyond single or connected employer schemes. Making provision for unconnected multiple employer CDC schemes will make them accessible to a wider range of employers, including smaller businesses. Intervention is important to tackle several market failures/challenges including asymmetric information where providers know CDCs could be beneficial through providing higher pension incomes, but employers are unaware.
What are the policy objectives and the intended effects? The unconnected multiple employer CDC framework would be inclusive of small businesses (currently they are largely excluded) and could deliver stronger member benefits, improving retirement income adequacy. CDC schemes will be more accessible for a wider range of firms, particularly Small and Medium sized Enterprises (SMEs), and Master Trusts will be able to establish their own CDC schemes and offer these to employers. CDCs aim to deliver higher and more stable income in retirement, compared to DC, and avoids the need for individuals to make complex financial decisions at retirement as it is designed to provide a pension income in retirement.
What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base) Policy option 0: Do nothing. Policy option 1: Guidance around authorisation and scheme design Policy option 2: Amend the current legislative framework for single or connected employer CDC pension schemes[2] to allow for unconnected multiple employer CDC schemes. (preferred option)

Will the policy be reviewed? It will be reviewed.	**If applicable, set review date:** 10/2030

[2] https://www.legislation.gov.uk/nisr/2024/15/contents

Policy background

1. The workplace pensions market is split into three markets:

    a) **Defined Benefit (DB)** – This is a type of pension which pays a retirement income based on earnings, accrual rate, and length of service rather than the amount of money an individual has contributed to the pension. Of which, the market is further split into:

        - **Public sector DB**, where the main funded scheme in the UK is the Local Government Pension Scheme in England and Wales (LGPS) which is made up of 86 Administering Authorities which operate 87 individual funds in 2023/24[3].

        - **Private sector DB**, where there were 4,974 pension schemes in 2024[4].

    b) **Defined Contribution (DC)** – This is a type of pension whereby pension contributions are made by employees/employers and are invested to create a pension pot at retirement. The DC market is further split into:

        - **Trust-based market** – A pension scheme governed by a board of trustees who have a fiduciary duty towards scheme members. The board of trustees manage investments on the members' behalf. This is regulated by The Pensions Regulator (TPR). In 2024, there were 920 pension schemes with 12 or more members.

        - **Contract-based market** – A pension scheme governed by a provider and an independent governance committee (IGC) where a contract exists between the individual scheme member and the provider. This is regulated by the Financial Conduct Authority (FCA). In 2024, there were estimated to be around 30 firms with an authorised DC workplace pension business[5].

    c) **Collective Defined Contribution (CDC)** – CDC schemes (known legislatively as Collective Money Purchase schemes) are an emerging type of pension scheme based on risk sharing between pension savers. CDCs aim to move the risk away from the individual (as is the case under DC schemes) and not place liabilities on the employer (as is the case under DB schemes). The only CDC arrangement in the UK so far is a single or connected employer scheme established by Royal Mail.

2. CDC schemes were introduced by the Pension Schemes Act 2021[6] and restricted to single or connected employers. In single or connected employer CDC schemes, such as Royal Mail, employers and employees pay a fixed rate of contributions like DC schemes. Benefits are paid with a target in mind, similar to DB schemes, but with the potential for variation. Benefits may fluctuate in line with inflation or investment performance. Multiple employer CDC schemes might accommodate employers with different contribution rates which may also vary over time.

[3] https://www.gov.uk/government/statistics/local-government-pension-scheme-funds-for-england-and-wales-2023-to-2024/local-government-pension-scheme-funds-for-england-and-wales-2023-to-2024

[4] https://www.ppf.co.uk/Purple-Book

[5] https://www.fca.org.uk/publications/consultation-papers/cp24-16-value-for-money-framework

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

3. DB and DC models place all the risks and associated costs – economic, financial, and longevity – with either the sponsoring employer (DB) or the individual member (DC). CDCs are different and allow pooled pension arrangements to share the investment and longevity risk across all members.

4. A high-level comparison of CDC against the existing forms of occupational pensions – DB and DC – is presented in Table 1 below.

Table 1: Differences between DB, DC and CDC schemes

	DB	**DC**	**CDC**
Longevity Risk	With the employer	With the members, individually	With the members, shared collectively
Investment Risk	With the employer	With the members, individually	With the members, shared collectively
Pension Level	Promised level	A function of individual pot and decumulation strategy	Target level

5. Royal Mail and the Communication Workers Union approached the UK Government in 2017 asking for a legislative framework to enable them to introduce a CDC scheme. The Pension Schemes Act 2021 introduced the legislative framework for single or connected employer CDC and regulations implementing an authorisation and supervision framework for these schemes came into force in August 2022[7,8]. In April 2023, the Regulator authorised Royal Mail to operate their single or connected employer CDC scheme[9] and it began operating in October 2024[10]. CDC schemes allow risk to be shared amongst members and are designed to offer a higher and more predictable income in retirement than DC pensions. Following a consultation[11] on expanding the opportunities presented by CDCs, a framework was proposed that accommodated unconnected multiple employer schemes including Master Trusts.

6. Unconnected multiple employer schemes are networks of businesses without a formal connection; they are not part of the same organisation or parent company. The trust-based DC market has significantly developed in this format with the rise of Master Trusts. There are 33 Master Trusts in operation which hold around 91% of all DC memberships, 90% of active memberships and 81% of total DC assets in the trust-based DC market[12]. The proposed framework would allow trust-based schemes to establish and operate unconnected multiple employer CDC schemes (contract-based schemes would be unable to).

7. In CDC, the risks are placed with the members; however, unlike in DC, they are pooled and shared among the members. Although benefits in CDC schemes are not guaranteed, they are designed so that experience is smoothed across both current pensioners and future pensioners. This means any adjustment for market volatility will be spread across many decades. Modelling[13,14] suggests that in any year annual adjustments up or down are

[7] https://www.legislation.gov.uk/uksi/2022/255/contents

[8] https://www.legislation.gov.uk/nisr/2022/191/contents - The provision in this S.R. was replaced by S.R. 2023 No. 7, S.R. 2023 No. 117 and S.R. 2024 No. 15

[9] https://webarchive.nationalarchives.gov.uk/ukgwa/20230905061940/https:/www.thepensionsregulator.gov.uk/en/media-hub/press-releases/2023-press-releases/tpr-authorises-the-uks-first-cdc-pension-scheme

[10] https://commonslibrary.parliament.uk/research-briefings/cbp-8674/

[11] https://www.gov.uk/government/consultations/extending-opportunities-for-collective-defined-contribution-pension-schemes

[12] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024

[13] https://www.aon.com/getmedia/7e8cec1d-c215-4ce3-a77c-03f9b1fadef1/Aon-Collective-DC-in-adverse-markets.aspx

expected to be small. It also means that whilst the pensions paid to members will not always keep pace with inflation, in times of strong performance they will increase above inflation, and it is expected to be very uncommon that benefits in payment are cut.

8. Unlike traditional DC schemes, CDC does not create an individual "pension pot" for members to manage at retirement. Instead, CDCs pay out a regular retirement income from the collective fund. There will be an opportunity for members to transfer out their share of the fund before they start drawing a target pension, but unlike in DC schemes individuals will not have to transfer out their savings when they retire. This means CDC schemes reduce the need for complex decision making in retirement planning. Members who make no active decision will stay in the scheme and can rely on a regular, if variable, income throughout retirement.

9. There has been sustained interest from the pensions industry in new types of CDCs for the last few years – with Department for Work and Pensions (DWP) consultations finding there is an "appetite amongst stakeholders for CDC designs which differ from those permitted by the current legislation"[15]. The consultations built on previous discussions between DWP and interested parties including Master Trusts, unions, insurance companies, consultancy firms, academics and pension providers. These conversations indicated that there is "strong interest in whole-life CDC schemes catering for multiple employer schemes"[16]. TPT Retirement Solutions held several roundtable discussions with businesses interested in potentially joining a multiple employer collective defined contribution scheme. Eighteen business stakeholders attended those events [17].

10. DWP also sought views on CDC decumulation-only products and are currently exploring how these products could work in the best interests of members. Therefore, this Impact Assessment (IA) only focuses on extending CDCs to whole-life unconnected multiple employer schemes, including Master Trusts.

Rationale for Intervention and Intended Effects

11. The current framework only allows for single or connected employer CDCs; however, these schemes can be costly to establish and are therefore largely only suitable for large employers. Establishing a robust regulatory framework that will allow the pensions industry to provide for new types of CDC schemes, including, multiple employer CDC pension schemes should allow significantly more employers (and employees) to access a CDC scheme. The framework would seek to allow new types of CDC schemes to be established whilst still providing adequate governance and safeguards for members. This will be accomplished by adapting, where needed, the existing authorisation and ongoing supervision provisions currently used for single or connected employer schemes to accommodate the new types of CDC schemes.

Market failures

12. There are key reasons to intervene in the market due to a number of market failures, including:
    - **Asymmetric information** – This exists as providers are aware of the potential benefits, but employers and employees may not be. Research completed by DWP with employers showed that only a few employers were aware of CDC schemes.

[14] https://www.abi.org.uk/globalassets/files/publications/public/lts/2023/abi-collective-defined-contribution-modelling-pension.pdf

[15] https://www.gov.uk/government/consultations/extending-opportunities-for-collective-defined-contribution-pension-schemes/extending-opportunities-for-collective-defined-contribution-pension-schemes

[16] https://www.gov.uk/government/consultations/extending-opportunities-for-collective-defined-contribution-pension-schemes/extending-opportunities-for-collective-defined-contribution-pension-schemes

[17] https://www.tpt.co.uk/news-insights/tpt-hosts-cdc-roundtables-with-interested-employers/

Those who were aware were 'mainly larger employers from professional sectors'.[18] This limited awareness of CDCs suggests it is currently unlikely smaller businesses will choose to set up a CDC scheme. This means it is important to create the framework for unconnected multiple employer schemes, that Master Trusts may take-up, which employers are more likely to be familiar with and could join.

- **Positive externalities** – CDCs are intended to be large schemes, that share investment and longevity risks across all members. Consequently, these schemes would have greater capability to invest in more illiquid and productive assets, including infrastructure and other private market assets. These investments are more likely to be UK-based when compared to other asset classes, such as listed equities. As a result, pension funds that increase their allocations to these assets may generate spillover and positive externalities to the UK economy. These benefits include crowding in further investment, supporting start-up businesses to scale up, improving key infrastructure services and helping capital markets function more efficiently[19].

- **Member benefits** – There are a range of potential benefits (discussed in more detail below) which can arise through unconnected multiple employer CDC schemes. Government interventions to ensure multiple employer CDCs can operate may result in members having higher pension outcomes, improving retirement income adequacy.

- **Barrier to entry** – Single employer CDC schemes have high start-up costs and therefore are largely only accessible for very large employers. This means smaller businesses are essentially excluded from the current regime. Broadening CDC provision, to allow the creation of unconnected multiple employer schemes will enable small businesses to participate in CDC schemes. For example, Master Trusts could offer CDC schemes to employers which may help deliver better member outcomes through economies of scale.

Potential benefits of unconnected multiple employer CDCs

13. Creating an option for the pensions industry to offer unconnected multiple employer CDC pension schemes could be beneficial to sponsoring businesses, individuals and Master Trusts. The aim is to introduce greater flexibility and innovation in occupational pension provision, which has benefits such as:

    - It could be more sustainable for sponsoring businesses than a DB scheme. CDC schemes are attractive to employers by allowing them to offer employees a pension scheme, with an income in retirement, but without the ongoing risk that the employer will need to provide additional funds if the scheme is unable to pay a promised benefit.

    - Give members the offer of retirement in a single package. Members of CDC schemes can both build up a pension (accumulation) and receive a pension (decumulation) in the same scheme. This is similar to DB schemes, although the income is not guaranteed. This feature of CDC schemes frees members from making complex financial decisions when approaching retirement, which some may not be well-equipped to do. The Planning and Preparing for Later Life survey[20] asked those who had at least one DC pot which they had not accessed if

[18] https://www.gov.uk/government/publications/workplace-pensions-and-automatic-enrolment-employers-perspectives-2022

[19] https://www.gov.uk/government/publications/pension-fund-investment-and-the-uk-economy/pension-fund-investment-and-the-uk-economy

[20] https://www.gov.uk/government/publications/planning-and-preparing-for-later-life

they had a clear plan about what they would do with their pension once they accessed it. 16% of respondents reported they did not know they needed to make a choice about their pension whilst 60% said they knew they had to make a choice but did not yet have a plan for doing so.

- Has the potential to give a more predictable income in retirement than is currently available to members of DC schemes who do not wish to purchase an annuity. In the last 4 years, of all UK adults who decumulated a DC pension only 19% bought an annuity.[21] As CDC schemes do not guarantee an income, there is not an additional cost to savers or employers of securing that guarantee.

- Has the potential to provide higher income in retirement than is currently available to members of DC schemes. Modelling produced by different organisations has generally found higher outcomes, which is explored further in the costs and benefits section. Government Actuary's Department (GAD) modelling[22] for DWP suggested CDC offering retirement outcomes around 39% higher than DC across a lifetime. Similarly, modelling by The Pensions Policy Institute (PPI) found a replacement rate between 27-30% for CDC compared to around 12-21% for DC.[23] Willis Towers Watson (WTW) found that a whole-life CDC could deliver retirement outcomes that are 55% better than individual DC with annuity purchase.[24]

- Unconnected multiple employer schemes would allow multiple employers to share set-up costs, and Master Trusts may consider developing their own schemes which employers could join. The creation of large, multiple employer CDC schemes would lower average costs for schemes through economies of scale.

Changes to the pension landscape

14. The CDC market may develop from both the DB and DC markets. Whilst it is not possible to know what employers will choose to do in the future in relation to their scheme choice for occupational pensions, there are reasons that both DB and DC schemes may choose to join a CDC scheme. DB schemes may be encouraged as CDCs have a lower risk to employers compared to DB, as well as being likely to have lower costs. DC schemes may be encouraged given the enhanced benefits members may receive for the same level of contributions.

15. There are uncertainties as to whether DB employers would switch to DC in the absence of expanded CDC legislation. The number of DB schemes open to contributions in the private sector is falling, and there has been a steady decline in the number of Pension Protection Fund (PPF) eligible schemes. The number of active members in private sector DB schemes fell from 3.6m members in around 7,800 schemes in 2006[25] to 0.7m members in 4,974 schemes in 2024[26], and is likely to continue falling. There are very few DB schemes that remain open to new members as seen in the tables below.

Table 2: Distribution of private sector DB schemes by scheme status (including

[21] https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fwww.fca.org.uk%2Fpublication%2Ffinancial-lives%2Ffinancial-lives-survey-2024-tables-volume-13-pension-decumulation.xlsx&wdOrigin=BROWSELINK Table 36

[22] https://webarchive.nationalarchives.gov.uk/ukgwa/20100612090708/http:/www.dwp.gov.uk/docs/modelling-collective-defined-contribution-schemes-dec09.pdf

[23] https://www.pensionspolicyinstitute.org.uk/media/2o0n2xuj/20151105-modelling-cdc-schemes.pdf

[24] https://www.wtwco.com/en-gb/insights/2024/10/reimagining-pensions-in-the-uk

[25] https://www.ppf.co.uk/-/media/PPF-Website/Public/Files/file-2018-11/P/purple_book_2007_0.pdf

[26] https://www.ppf.co.uk/-/media/PPF-Website/Public/Purple-Book-Data-2024/PPF-The-Purple-Book-2024.pdf

hybrid schemes)[27][28]

Year	Total number of schemes	Open	Closed to New Members (CTNM)	Closed to Future Accruals (CTFA)	Winding Up
2012	6,316	14%	57%	26%	2%
2024	4,974	4%	19%	74%	3%

Table 3: Distribution of DC schemes by scheme status (including hybrid schemes)[29]

Year	Total number of schemes	Open to new joiners and future service	Closed to new joiners and open to future service	Closed to new joiners and future service	Winding Up
2012	3,240	52%	23%	19%	7%
2024	920	37%	27%	29%	7%

16. Table 3 shows the number of DC schemes has also fallen, although by a smaller number, the fall has occurred at a faster rate. Changes on the DC market side are less about a decline of the market. For DC schemes, the declining numbers is down to market consolidation as more single employer trusts move to Master Trusts. The number of trust-based DC schemes has fallen by two-thirds in the last ten years to 920 schemes in 2024[30]. Despite high numbers of schemes remaining in the market, the majority of active members (around 91% of all trust-based DC memberships in 2024[31]) and assets are held by the 33 Master Trusts in operation. Allowing Master Trusts to establish and offer multiple employer CDC schemes to employers could reduce the costs of individual employers having to run their own scheme. It would also give more members the opportunity to access the benefits associated with CDC schemes. Master Trusts offering CDC schemes may also encourage further market consolidation as smaller schemes may be unable to create sufficient scale to operate and thus exit the market.

Rationale and evidence to justify the level of analysis used in the RIA (proportionality approach)

17. The only CDC arrangement so far is a scheme by Royal Mail which only began operating in October 2024. As such, there is no UK empirical evidence available to estimate the potential costs and benefits. In addition, there is insufficient data to fully understand the effects and costs of unconnected multiple employer CDCs as they do not currently exist.

18. There is evidence of expanding interest in multiple employer CDC schemes, and support for regulation to be introduced to facilitate these types of schemes. In 2018 PPI found that over half of Pensions Management Institute (PMI) members surveyed agreed there was some appetite among employers for CDC schemes to be introduced. 53% of those spoken to felt it should be developed in addition to existing scheme designs or as a long-term replacement for other scheme designs.[32] The DWP consultations on CDCs[33,34], found an

[27] https://www.ppf.co.uk/-/media/PPF-Website/Public/Files/file-2018-11/P/purple_book_2012.pdf

[28] https://www.ppf.co.uk/-/media/PPF-Website/Public/Purple-Book-Data-2024/PPF-The-Purple-Book-2024.pdf

[29] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024

[30] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024

[31] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024

[32] https://www.pensionspolicyinstitute.org.uk/media/0uoccrfx/20181129-what-is-cdc-and-how-might-it-work-in-the-uk-report.pdf

[33] https://www.gov.uk/government/consultations/extending-opportunities-for-collective-defined-contribution-pension-schemes/extending-opportunities-for-collective-defined-contribution-pension-schemes

appetite for multiple employer CDC schemes among respondents.

19. Whilst there is no UK empirical evidence available, a wide range of sources has been used to inform the IA costs and evidence, including:

- Previous CDC impact assessments including the 'Pension Schemes Act 2021 Enactment Impact Assessment',[35] and 'The Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2022'[36].
- Consultation responses from the 'Extending Opportunities for CDC pension schemes' consultation of 2023[37] and The Occupational Pension Schemes (Collective Money Purchase Schemes) (Extension to Unconnected Multiple Employer Schemes and Miscellaneous Provisions) Regulations 2025 consultations.[38]
- Research across providers and industry such as Aon[39], PPI[40] and WTW[41].
- Industry engagement via roundtables[42,43], discussions and consultations.
- TPR[44] and PPF[45] data on scheme numbers to evidence the current DB and DC markets.

Description of options considered

20. The Pension Schemes Act 2021 alongside the Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2022 in GB and the Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations (Northern Ireland) 2022 in NI principally only accommodated very large single or connected employers, such as Royal Mail. Any future changes to CDC schemes, such as the introduction of unconnected whole-life multiple employer type schemes, would need further legislation as such schemes cannot be established under the existing legislation.

21. Therefore, whilst a non-regulatory option is considered, the only viable option is to extend the current legislative framework. This is because without the full legislative framework, employers and potential members are unlikely to commit to CDC due to legal uncertainty in the face of challenge.

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[34] https://www.gov.uk/government/consultations/the-occupational-pension-schemes-collective-money-purchase-schemes-extension-to-unconnected-multiple-employer-schemes-and-miscellaneous-provisions

[35] https://www.legislation.gov.uk/ukpga/2021/1/pdfs/ukpgaod_20210001_en_001.pdf

[36] https://www.gov.uk/government/consultations/the-occupational-pension-schemes-collective-money-purchase-schemes-regulations-2021/outcome/impact-assessment-the-occupational-pension-schemes-collective-money-purchase-schemes-regulations-2022

[37] https://www.gov.uk/government/consultations/extending-opportunities-for-collective-defined-contribution-pension-schemes

[38] https://www.gov.uk/government/consultations/the-occupational-pension-schemes-collective-money-purchase-schemes-extension-to-unconnected-multiple-employer-schemes-and-miscellaneous-provisions

[39] https://www.aon.com/getmedia/a745af28-9106-4e25-a09a-bdf4f5ead150/The-Case-for-CollectiveDC_update_2020.aspx

[40] https://www.pensionspolicyinstitute.org.uk/media/2o0n2xuj/20151105-modelling-cdc-schemes.pdf

[41] https://www.wtwco.com/en-gb/insights/2024/10/reimagining-pensions-in-the-uk

[42] https://www.tpt.co.uk/news-insights/tpt-hosts-cdc-roundtables-with-interested-employers/

[43] https://www.pensionspolicyinstitute.org.uk/media/qo4mwrs4/20241119-cdc-roundtable-write-up.pdf

[44] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024

[45] https://www.ppf.co.uk/-/media/PPF-Website/Public/Purple-Book-Data-2024/PPF-The-Purple-Book-2024.pdf

Policy Option 0 - Do Nothing

22. Although recent legislation accommodates the creation of single employer CDC schemes, it does not allow for unconnected multiple employer CDC schemes. Single employer CDC schemes have high start-up costs, which only make them accessible to large firms. The only CDC arrangement set up to date is a scheme by Royal Mail. Failing to allow for unconnected whole-life multiple employer CDC schemes makes CDCs less accessible for many firms and savers. Doing nothing would limit the options pension providers have to establish CDC schemes, such as preventing Master Trusts offering CDCs to employers. Not allowing multiple employer CDC schemes would render CDCs available only to large businesses able to absorb the set-up costs. This would mean less choice and flexibility for both employers and workers.

Policy option 1: Guidance around authorisation and scheme design

23. This is a non-regulatory policy option and involves issuing guidance to businesses and CDC trustees about member protections and ongoing supervision. This would encourage trustees to consider the risks of scheme design and financial sustainability whilst outlining how best to safeguard members and their savings. However, this option provides no regulatory protection for members and their savings. This could put them at risk of being enrolled in a poorly designed pension scheme. Without regulation, trustees are unlikely to fully consider the wide-ranging impacts that CDCs may incur that may negatively impact the interests of members. Without the full legislative framework, employers and potential members are unlikely to commit to CDC due to legal uncertainty in the face of challenge. Within current legislation unconnected multiple employer CDC schemes cannot be implemented and within the current automatic enrolment provisions trustees would be limited in what actions they could take.

Policy Option 2: Expand legislative framework to allow for unconnected multiple employer CDC pension schemes (preferred option)

24. The other option is to introduce a legislative framework to allow for unconnected wholelife multiple employer CDC schemes. This would expand the opportunity of CDCs to a greater number of a schemes, employers and members. It would remove the barrier of large start-up costs currently needed by single employer CDC schemes and facilitate Master Trusts opening CDC schemes to employers. It would also facilitate the establishment of sectoral CDC schemes. These schemes could be established by unconnected employers who work within the same industry. Expansion of the legislative framework would also assist single and connected employers for whom the existing framework is too restrictive.

Policy objective

25. The policy objective is to enable many more pension savers, employers and firms to access the potential benefits of CDC. These schemes have the potential to boost incomes for savers whilst providing employers with predictable costs. They offer members an income for life in retirement without having to make complex financial decisions about how their pension should be invested. By pooling longevity and investment risk across the membership, CDC schemes can also shield savers from much of the uncertainty faced by members of DC schemes. This also allows the CDC schemes to invest in illiquid and more productive investments over the long term, including in UK businesses. This can help savers benefit from higher returns and wider economic growth.

26. Creating a robust legislative framework that accommodates unconnected multiple employer CDCs, not currently provided for in legislation, will help ensure these schemes operate in

the best interests of members. It will also help create a wider choice of CDC options going forward. For example, this approach would facilitate Master Trusts being able to establish CDC schemes and offer them to employers under automatic enrolment obligations.

27. The Pensions Act 2021 and the Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations (Northern Ireland) 2022[46] set out detailed authorisation and supervision requirements for single or connected employer CDC schemes. The intention is to largely carry this forward to the new whole-life multiple employer CDC schemes. To build confidence across the industry, employers and employees, it is essential only well-designed and well-run schemes operate. The intention therefore is to introduce alternative or additional authorisation criteria, where appropriate, to ensure new types of CDCs are regulated effectively.

Preferred Option

28. Introducing a new legislative framework which would expand CDC provision to accommodate unconnected multiple employer CDC pension schemes. This legislation will:

    a) amend parts of the Pension Schemes Act 2021;

        i. to remove the restriction for CDC schemes to be used by single or connected employers alone, enabling unconnected multiple employers to use CDC schemes;

        ii. to define the features of unconnected multiple employer CDC schemes;

        iii. change existing authorisation criteria and add additional criteria where necessary;

    b) provide powers to specify the requirements of the new regime, for example, how multiple employer schemes with pooled benefits should undertake valuations of their assets and liabilities;

    c) provide powers to apply (with necessary modifications) existing pensions legislation to enable TPR to authorise and maintain supervisory oversight over the new types of CDC schemes.

[46] The provision in this S.R. was replaced by S.R. 2023 No. 7, S.R. 2023 No. 117 and S.R. 2024 No. 15.

Monetised and non-monetised costs and benefits

Summary of Costs and Benefits

Table 4: Summary of the total discounted costs to business

Cost/Benefit Type	Total over 10-year period (£) (rounded)
Total Costs	**£27,700,000**
Direct Costs	**£6,500,000**
Familiarisation costs	£6,500,000
Indirect Costs	**£21,200,000**
Transitional costs	**£9,200,000**
Authorisation fee	£400,000
Establishment costs	£8,800,000
Ongoing costs	**£12,000,000**
CDC running costs	£12,000,000

29. Costs and benefits are modelled over the standard Green Book 10-year appraisal period. Although pension schemes work to long-term horizons, policy uncertainty and the uncertainty over scheme behaviour supports the use of a 10-year appraisal as opposed to any longer periods.

30. It is assumed all costs (aside from initial familiarisation costs) would be indirect costs. This is because introducing a CDC scheme would be optional for pension schemes and employers. These regulations do not mandate schemes to open a CDC scheme and therefore these costs/benefits are avoidable. Given trustees are bound by Trust Law and have a fiduciary duty to work in the best interests for their beneficiaries, it is expected trustees of all schemes would undertake familiarisation and therefore familiarisation costs are identified as a direct cost. This is reflected in the Equivalent Annual Net Direct Cost to Business (EANDCB) calculations supplied throughout this assessment.

31. Benefits are not monetised for the expansion of CDC provision to include unconnected multiple employer schemes. Whilst not monetised, there are a number of potential benefits that could arise such as improved outcomes for members currently in a DC scheme and employers who move from a DB scheme facing lower costs. However, there is limited data available, and the benefits are dependent on a wide range of factors. These include take-up of CDCs, investment returns and counterfactual returns. In addition, any benefits would be indirect as it would still rely on employers choosing to take-up a CDC scheme. For this reason, the benefits have not been monetised.

Costs to businesses

Direct Costs

Familiarisation costs

32. Any Direct Costs are associated with familiarisation with the policy. This is because trustees are bound by Trust Law and their fiduciary duty, meaning that they will have to familiarise themselves with the new policy.

Table 5: Summary of direct cost and benefits and EANDCB

Cost/Benefit Type	Total (£)
Direct Costs	
Familiarisation Costs (total over 10-year period)	**£6,456,000**
EANDCB	**£750,000**

33. It is expected trustees of all schemes would have to undertake familiarisation with the new legislation and to understand the implications for their scheme and members. It is assumed that this will be a one-off cost occurring in the first year following implementation of the policy, estimated to be around £1,100 per scheme, totalling £6.5m across the whole occupational pension scheme sector.

This assumes:

- There are 5,894 schemes in scope (4,974[47] private sector DB schemes and 920[48] DC schemes). This assumption is excluding micro-DC schemes (further details in the risks and assumptions section).
- On average each scheme has around 3 trustees[49].
- It is estimated it will take trustees around 10 hours of work to read and understand the policy change. This is based on the reading speed of 3 minutes per page[50], for around 200 pages of information (which is the approximate length of the regulation and guidance documents).
- An hourly wage rate of £36.51 for trustees, based on the median wage for corporate managers and directors (£28.75) in the Annual Survey of Hours and Earnings (ASHE) dataset[51] uprated by 27% to account for non-wage costs.

34. Familiarisation costs are estimated by multiplying the above (£36.51 per hour * 10 hours * 3 trustees * 5,894 schemes – giving a total of £6.5m).

35. Table 5 details the specific costs that impact the £750,000 EANDCB figure. The EANDCB is a £750,000 annual direct cost to business. This is because only the familiarisation costs are direct, whilst all other costs/benefits are indirect.

Indirect costs

36. To estimate the indirect costs an assumption is needed on the number of multiple employer CDC schemes that would be introduced over the 10-year appraisal period. With new legislation creating multi-employer DC scheme 'Megafunds', it is anticipated that the number of Master Trusts will fall to around 15 to 20 over the next 10 years. It is unlikely all providers will create a CDC scheme given it may not be appropriate for all parts of the labour market and there are considerable costs involved. Therefore, it is assumed that

47 https://www.ppf.co.uk/-/media/PPF-Website/Public/Purple-Book-Data-2024/PPF-The-Purple-Book-2024.pdf

48 https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024

49 Trustee Landscape Quantitative Research 2015- Estimate based on Figure 3.2.1 Number of trustees on boards, page 13. https://webarchive.nationalarchives.gov.uk/ukgwa/20170902125028/http://www.thepensionsregulator.gov.uk/downloads/trustee-landscape-quantitative-research-2015.pdf

50 https://www.fca.org.uk/publication/consultation/cp19-05.pdf

51 Office for National Statistics. 'Annual Survey of Hours and Earnings 2024. Table 2.5a. 2024. Available at: https://www.ons.gov.uk/surveys/informationforbusinesses/businesssurveys/annualsurveyofhoursandearningsashe

around 1 in 4 providers may establish a CDC scheme, leading to an estimate of 5 CDC schemes being created over the next 10 years.

37. This assumption is backed up by the broad number of providers that have expressed interest in establishing a CDC scheme through industry engagement. This is an assumption, not a forecast and this may not be an accurate representation of the number of CDC schemes that enter the market as there could be significantly greater interest. It is used purely to support the RIA.

Authorisation fee

38. It is expected that several schemes will introduce a CDC scheme following the introduction of the policy change. As a result of the authorisation regime, a CDC seeking to enter the market will be required to gain authorisation from TPR in order to operate. This process of authorisation would impose costs on TPR relative to the counterfactual due to the resource required to assess whether the CDC meets the authorisation criteria. CDCs that enter the market will be required to pay a one-off authorisation fee that is intended to cover TPR's costs associated with processing an application for authorisation.

39. The one-off authorisation fee will be £77,000[52] for a multiple employer CDC scheme, the same fee charged to a single connected CDC scheme entering the market.

40. Given this would be undertaken voluntarily by schemes, the authorisation fee has been identified as an indirect cost. However, creating a CDC is a business decision and so if a firm decides to enter the CDC market it is because they deem it potentially profitable to do so, and as such must view it to be beneficial for them, even after paying the authorisation fee.

41. Legislation would require that the authorisation fee must be paid to TPR in full upon application for authorisation. Therefore, it has been estimated that the authorisation costs will occur in year 1, assuming that schemes will apply for authorisation as soon as the legislation allows them to.

42. It is assumed this will be a one-off cost occurring in the first year following implementation of the policy, estimated to be £77,000 per scheme, totalling £385,000 across the whole occupational pension scheme sector.

43. Total authorisation costs are estimated by multiplying the above (£77,000 TPR fee * 5 schemes – giving a total of £385,000).

Establishment costs

44. Those who introduce a CDC scheme will face establishment costs. Given this would be undertaken voluntarily by schemes, these have been identified as indirect costs.

45. It is very difficult to estimate the costs of establishing a CDC scheme. Given CDCs have only recently been introduced, and Royal Mail are the only employer to set one up to date, it is not possible to calculate with accuracy the potential costs for unconnected multiple employer CDCs from empirical evidence and this is likely to differ scheme-to-scheme.

[52] https://www.thepensionsregulator.gov.uk/en/document-library/scheme-management-detailed-guidance/collective-defined-contribution-schemes/how-the-authorisation-fee-will-be-set

46. Responses to the October 2024 consultation[53] provided an estimated cost of between £1m and £4m to establish a CDC. Using an average of the estimates provided, the costs are expected to be around £1.8m per scheme.

47. A CDC scheme that is granted authorisation will have 24 months from the date on which TPR receives the application to begin operating or authorisation will be automatically withdrawn, unless TPR is satisfied the trustees have a good reason for needing an extension of up to six weeks. This means a CDC establishment must take place no later than 2 years and 6 weeks after authorisation. It is possible that if an extension of 6 weeks is granted, that establishment costs may occur in year 3. As this is unlikely in most cases, in this RIA it is assumed that the establishment costs will be split equally across years 1 and 2 whilst the CDC scheme is being created.

48. It is assumed this will be a one-off cost spread over 2 years, estimated to be around £1.8m per scheme, totalling £9m across the whole occupational pension scheme sector (£8.8m Net Present Value (NPV)) – as shown in Table 6.

49. Total establishment costs are estimated by multiplying the above (£1,800,000 establishment cost * 5 schemes – giving a total of £9m).

Table 6: Establishment costs

Year	Discounted CDC scheme establishment costs (rounded)
1	£5m
2	£4m
3	£0m
4	£0m
5	£0m
6	£0m
7	£0m
8	£0m
9	£0m
10	£0m
Total cost	**£9m**

[53] https://www.gov.uk/government/consultations/the-occupational-pension-schemes-collective-money-purchase-schemes-extension-to-unconnected-multiple-employer-schemes-and-miscellaneous-provisions

50. However, it is expected that businesses will only choose to establish a CDC scheme if, on balance, they believe it is beneficial to do so– i.e. the benefits outweigh the costs when compared against the counterfactual.

CDC running costs

51. Newly created CDCs will have to pay annual running costs. It is very difficult to estimate the running costs of a CDC scheme given CDCs have only recently been introduced, and Royal Mail are the only employer to set one up to date.

52. Responses from the latest CDC consultation[54], alongside the estimated running costs calculated for the Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations (Northern Ireland) 2022 Regulatory Impact Assessment[55] have been used to estimate running costs for CDC schemes.

53. Many of the respondents to the consultation stated that they expected running costs to fall over time. This was a consistent point made by industry, but no suggestions were made on the rate at which costs would fall. Therefore, it is assumed that due to economies of scale, the annual cost of running a CDC scheme will fall 10% each year.

54. A CDC scheme that is granted authorisation will have 24 months from the date on which TPR receives the application to begin operating or authorisation will be automatically withdrawn, unless TPR is satisfied the trustees have a good reason for needing an extension of up to six weeks. Consequently, CDC scheme running costs begin no later than 2 years and 6 weeks after applying for authorisation. Therefore, it is assumed that running costs begin in year 3.

55. It is estimated in the first year of running costs (year 3) each CDC scheme will have a running cost of £500,000 per year (£470,000 NPV). This could significantly vary dependent on scheme size and membership. Over the ten-year period, assuming scheme running costs fall 10% per year as schemes achieve scale and applying the Green Book discounting rate of 3.5% from year 1 onwards, it is estimated that scheme running costs per CDC scheme would be approximately £2.8m (£2.4m NPV). Across the whole occupational pension scheme sector, assuming that 5 CDC schemes are likely to be established, the scheme running costs for CDCs would total approximately £14.2m (£12m NPV) - as shown in Table 7.

[54] https://www.gov.uk/government/consultations/the-occupational-pension-schemes-collective-money-purchase-schemes-extension-to-unconnected-multiple-employer-schemes-and-miscellaneous-provisions

[55] https://www.legislation.gov.uk/nisr/2022/191/pdfs/nisrem_20220191_en.pdf

Table 7: CDC Scheme Running Costs

Year	Discounted CDC scheme running costs (rounded)
1	£0m
2	£0m
3	£2m
4	£2m
5	£2m
6	£2m
7	£1m
8	£1m
9	£1m
10	£1m
Total cost	**£12m**

56. Creating a CDC is a business decision and so if a firm decides to enter the CDC market it is because they deem it potentially profitable to do so, even after taking into consideration annual running costs. In most cases, the charge revenue collected by providers will offset the running costs of the scheme.

Benefits

57. It is difficult to monetise the benefits of CDCs as Royal Mail is the only business to have implemented a CDC pension scheme and therefore data on its effects is limited. For this reason, benefits have not been monetised for this policy change.

Benefits to businesses

Benefits to pension providers

58. It is difficult to estimate the benefits to businesses who may choose to engage with a multiple employer CDC model. However, creating a CDC is a business decision and so if a pension provider decides to enter the CDC market it is because they deem it potentially profitable to do so, and as such must view it to be beneficial for them. CDCs may generate greater benefits and economies of scale, which in turn could generate additional revenues.

59. Allowing pension schemes like Master Trusts to establish unconnected multiple employer CDC schemes will widen the number and type of funds they are able to offer to employers. This wider product offering allows for innovation in the market. This could help attract more employers to their business.

60. This may lead to displacement as the CDC market grows as it may reduce activity in the DC and DB markets. An increase in CDC membership is likely to mean a reduction in DC and DB membership, dependent on where the activity comes from.

Benefits to employers

61. The benefit to employers depends on the counterfactual. The DB counterfactual is whether in the absence of an unconnected multiple employer CDC scheme the employer would remain as a DB scheme. The DC counterfactual is whether in the absence of an unconnected multiple employer CDC scheme the employer would otherwise move to or remain as a DC scheme. The single employer CDC counterfactual is whether in the absence of unconnected multiple employer CDC schemes an employer would be able to create a single employer CDC scheme or remain as a DB or DC scheme.

Table 8: Counterfactuals vs CDC

	DB Counterfactual	**DC Counterfactual**	**Single-employer CDC**
Costs	DB likely to have higher costs to employers than CDCs	DC likely to have similar direct costs to multiple employer CDCs CDCs may have some additional costs compared to DC schemes e.g., actuarial costs	Higher start-up costs than multiple employer CDCs
		Currently unknown costs for schemes run by Master Trusts Costs to employers would be fixed in both types of schemes	
Risks	DB represents a higher risk to employers than all CDCs DB represents less risk to members with a 'guaranteed income' as opposed to a 'target income' for CDCs	Similar risk to members as with CDCs	Similar risk to multiple employer CDCs
Outcomes	DB is likely to provide better retirement outcomes than CDCs	CDCs may provide better retirement outcomes than a conventional DC scheme	Should provide similar outcomes to multiple employer CDCs

62. Where the alternative is a DB scheme, employers may be able to lower their costs by transferring to an unconnected multiple employer CDC scheme. This is possible if running a DB scheme becomes financially untenable, but members do not wish to move to a DC scheme. There is a financial incentive for DB sponsoring businesses to switch to CDC schemes and allowing for unconnected multiple employer CDC schemes will make this

transition more accessible. However, there are less than 200 open DB schemes remaining[56] so it is unlikely that large numbers will transition to CDC schemes.

63. Where the alternative is a DC scheme, employers may benefit from improved employee retention and morale when moving from a DC scheme to a CDC scheme. There is evidence that CDC schemes will help deliver better member outcomes which may result in increased satisfaction among employees and potentially better staff retention. As CDCs have similar direct costs to DC schemes for employers, whilst potentially providing better outcomes, this could be of benefit to employers.

64. Where the alternative is a single employer CDC scheme, allowing for unconnected multiple employer CDC schemes will reduce cost for participating businesses. The scheme proprietor has liability to provide the necessary funding to meet the costs of setting up the scheme and applying for authorisation and the costs of running the scheme if those costs are not met through administration charges. Although the legislation does not prevent employers from contributing to the set-up or running costs these will predominantly be met by the scheme proprietor, reducing the high costs in comparison to those faced by employers in single employer CDC schemes. The cost and potential charges employers would face if they chose to participate in a multiple employer CDC scheme run by a Master Trust is unclear. It is expected this cost would be much lower than the cost of establishing a single employer scheme.

Outcomes of members

65. Whilst there is no empirical evidence on CDC scheme outcomes for members, there are a large number of external studies and research around potential outcomes for CDCs in the UK. Findings from the studies are listed in Table 9.

Summary table of outcomes to members

66. Table 9 summarises the potential outcomes of CDCs as found by external studies and research.

Table 9: Summarising external evidence on the outcomes of CDC schemes

Year of publication	External researcher	Findings
2025	**Pensions Policy Institute (PPI)[57]**	This report recognises the benefits of pooling longevity risk but also highlights potential issues with CDC schemes and suggests other alternative models.
2024	**Willis Towers Watson (WTW)[58]**	A whole-of-life CDC could deliver retirement outcomes that are 55% better than individual DC with annuity purchase

[56] https://www.ppf.co.uk/-/media/PPF-Website/Public/Purple-Book-Data-2024/PPF-The-Purple-Book-2024.pdf

[57] https://www.pensionspolicyinstitute.org.uk/media/or3e0wh0/20250515-bn-141-cdc-design-in-the-uk-final.pdf

[58] https://www.wtwco.com/en-gb/insights/2024/10/reimagining-pensions-in-the-uk

2023	**Association of British Insurers (ABI)[59]**	ABI's modelling shows a range of outcomes, some favouring CDCs and others favouring individual defined contribution schemes (IDCs). The differences in outcomes depend on the investment return scenario but in most cases replacement rates for decumulation-only CDCs are similar to IDC followed by other decumulation products (or higher in the older ages).
2015	**Pensions Policy Institute (PPI)[60]**	Replacement rate between 27%-30% vs 12%- 21% for a DC scheme
2013	**Aon Hewitt**[6162]	Over 30% higher outcomes in retirement compared to DC. The replacement rate of CDCs is 33%, as opposed to between 12% and 24% for individual DC schemes dependent on pre-annuitisation investment strategy.
2012	**The Royal Society for Arts, Manufacturers and Commerce (RSA)**[63]	37% higher income over the lifetime of a pension than a DC scheme
2009	**Government Actuary's Department (GAD)**[64]	CDC is expected to produce a pension pot around 25% higher than DC which on average could deliver 39% higher retirement income than DC across a lifetime.

Benefits to members

67. It is difficult to estimate the benefits to members who may engage with a multiple employer CDC model. Therefore, the potential benefits to members have not been monetised. This is because there is limited data available, and the benefits are dependent on a wide range of factors. These include take-up of CDCs, investment returns and counterfactual returns. In addition, any benefits would be indirect as it would still rely on employers choosing to take-up a CDC scheme. There are some potential benefits identified by external studies and research listed above and discussed in further detail below.

[59] https://www.abi.org.uk/globalassets/files/publications/public/lts/2023/abi-collective-defined-contribution-modelling-pension.pdf

[60] https://www.pensionspolicyinstitute.org.uk/media/2o0n2xuj/20151105-modelling-cdc-schemes.pdf

[61] https://www.aon.com/getmedia/a745af28-9106-4e25-a09a-bdf4f5ead150/The-Case-for-CollectiveDC_update_2020.aspx

[62] https://www.aon.com/unitedkingdom/corporatepensions/collective-defined-contributions-why-consider

[63] https://www.thersa.org/wp-content/uploads/2025/02/cdc-consultation-response.pdf

[64] https://webarchive.nationalarchives.gov.uk/ukgwa/20100612090708/http:/www.dwp.gov.uk/docs/modelling-collective-defined-contribution-schemes-dec09.pdf

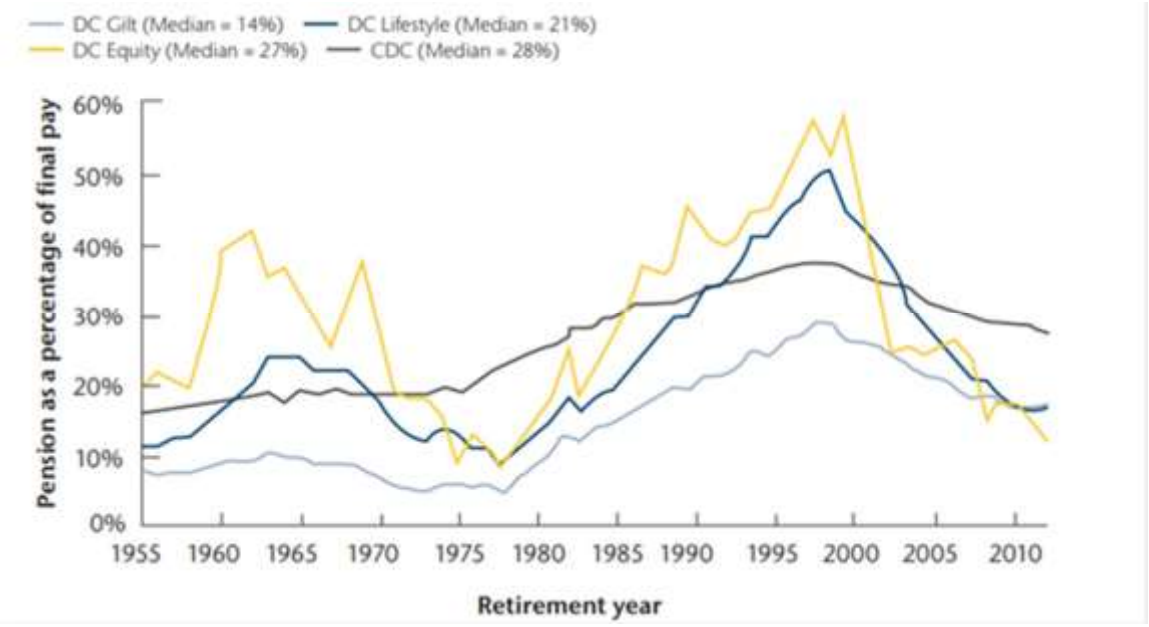
Potentially higher replacement rates

68. CDC schemes could produce higher replacement rates, particularly as schemes mature. Replacement rates show retirement income compared with working life income.

    - Research by PPI found that a mature and stable CDC scheme can produce a replacement rate between 27% and 30%.[65]

    - In contrast, a replacement rate for an individual DC scheme is likely to be between 12 and 21%.[66,67]

69. This is also shown in modelling by AoN Hewitt[68] who looked at how a CDC scheme would have compared to DC schemes between 1930 and 2012. As can be seen in the chart below there are times when DC Lifestyle and Equity would outperform CDCs. However, the findings suggest that CDC would offer more stable pensions and overall, a higher median result.



70. Individuals who save in a CDC scheme could have greater benefits from the money they invest compared to those in an individual DC scheme. Some studies have argued that a DC scheme with the same investment strategy as modelled for CDC schemes would generate similar outcomes at least until the decumulation phase.[69] This is the case in the accumulation phase where DC schemes could invest the same way as CDC schemes. However, in the 5 or 10 years before retirement DC pension schemes tend to choose lower risk investments with likely lower gains than CDC schemes.

71. The outcomes from CDC schemes compared to those of individual DC schemes tend to be less volatile. Since the risks and benefits are shared between a group of people, the extremes can be more easily balanced, and outcomes are perhaps a little more predictable.

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[65] https://www.pensionspolicyinstitute.org.uk/media/2o0n2xuj/20151105-modelling-cdc-schemes.pdf

[66] https://www.pensionspolicyinstitute.org.uk/media/2o0n2xuj/20151105-modelling-cdc-schemes.pdf

[67] https://www.cambridge.org/core/journals/journal-of-social-policy/article/abs/an-analysis-of-the-dutchstyle-pensionplans-proposed-by-uk-policymakers/2E1ADE644FF0DFE13B6F08782CA7FB11 page 339

[68] https://www.aon.com/getmedia/a745af28-9106-4e25-a09a-bdf4f5ead150/The-Case-for-CollectiveDC_update_2020.aspx, p. 30

[69] https://www.pensions-institute.org/IRRIChapter6.pdf

Potentially higher pensions overall

72. Research suggests that CDC schemes can provide an income-for-life pension which can be much higher than individual DC schemes. Reporting by the RSA[70] suggests an increase of 37% over the lifetime of a pension. Similarly, GAD's modelling[71] suggested CDC offering retirement outcomes around 39% higher than DC across a lifetime. They suggest this was largely from the decumulation phase because CDC schemes can remain invested in equities when DC schemes de-risk[72]. A CASS Business School report[73] suggests a 20-25% increase in the decumulation period from the growth of assets in decumulation and better value annuities in later life. Although they also note many of the gains could be achieved by a high performing DC scheme. WTW found that a whole-of-life CDC could deliver retirement outcomes that are 55% better than individual DC with annuity purchase[74].

73. Although these studies suggest that there would likely be a higher income under CDCs than individual DC schemes, this would not necessarily be the same for everyone. In each of these cases the modelling was dependent on certain assumptions on the design of the CDC. Since there is currently only one CDC scheme authorised in the UK much of the modelling was based on theory or international evidence. That means it is difficult to accurately predict how larger CDC schemes will work in the UK.

Regular income without the cost of an annuity or risk of running out of money with drawdown

74. In CDC schemes, a lifetime stream of target level pensions would be provided without the need to buy an annuity. CDCs enable members to achieve positive retirement outcomes without having to make complex decisions about how to access their savings.[75] Research suggests that many people want a regular income in retirement. For example, the Financial Lives Survey found that 29% of people asked wanted their pension to provide them with a guaranteed income for life.[76] Despite this, in the last 4 years only 19% of those who decumulated a DC pension bought an annuity.[77] Other research, including a small-scale survey by Canada Life found that around a fifth of those asked didn't think annuities offered good value, 44% felt they were inflexible and 45% felt they were risky.[78] Research conducted by the DWP on pension freedoms with the public suggested that some did not like annuities because they are based on calculations of life expectancy[79]. CDCs could provide people with a retirement income for life, without the need to buy an annuity.

75. DC members can use some or all their pension to buy an annuity and have a guaranteed income source for life. Some annuities come with additional costs such as advisor fees or commissions which would not be present in lifetime CDC schemes so buying an annuity

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70 https://www.thersa.org/wp-content/uploads/2025/02/cdc-consultation-response.pdf

71 https://webarchive.nationalarchives.gov.uk/ukgwa/20100612090708/http:/www.dwp.gov.uk/docs/modelling-collective-defined-contribution-schemes-dec09.pdf

72 https://webarchive.nationalarchives.gov.uk/ukgwa/20100612090708/http:/www.dwp.gov.uk/docs/modellingcollective-defined-contribution-schemes-dec09.pdf

73 http://www.pensions-institute.org/IRRIReport.pdf

74 https://www.wtwco.com/en-gb/insights/2024/10/reimagining-pensions-in-the-uk

75 https://www.pensionspolicyinstitute.org.uk/media/ceyauk4c/20240515-bn-137-how-might-cdc-develop-in-the-uk-final.pdf

76 https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fwww.fca.org.uk%2Fpublication%2Ffinancial-lives%2Ffinancial-lives-survey-2024-tables-volume-13-pension-decumulation.xlsx&wdOrigin=BROWSELINK, table 54

77 https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fwww.fca.org.uk%2Fpublication%2Ffinancial-lives%2Ffinancial-lives-survey-2024-tables-volume-13-pension-decumulation.xlsx&wdOrigin=BROWSELINK, table 32

78 https://www.canadalife.co.uk/news/annuity-confusion-as-common-misconceptions-revealed/

79 https://www.gov.uk/government/publications/pension-freedoms-a-qualitative-research-study-of-individuals-decumulation-journeys/pension-freedoms-a-qualitative-research-study-of-individuals-decumulation-journeys#factors-affecting-decumulation-decisions

can be expensive. Exact rates of annuities vary depending on the type of annuity and individuals' personal health. Longevitas estimate an insurer will charge around 5% more than it expects the annuity to cost[80].

76. Members could also get a regular income through drawdown. Although drawdown can provide a regular income, there is the potential for members to run out of money too quickly. Recent findings from the Financial Conduct Authority show that many are withdrawing at high rates which are likely to be unsustainable.[81]

77. DWP research into Pensions Freedoms found participants might postpone "accessing their pots in the hope of not using up their savings or choose drawdown products over annuities to enable their children to inherit a lump sum."[82] This concern may not be alleviated by CDC schemes, so should be considered further in CDC development stages.

78. One advantage CDCs may have in this area is that participants would not have to make potentially difficult decisions when they retire. Qualitative research conducted by DWP with the public on their employer pension scheme found that participants had very low confidence in their knowledge about pensions and were worried about making a mistake.[83] Potentially those who feel so uncertain about their pension may prefer an easy default option in retirement.

Challenges to outcomes for members

79. Whilst there are many potential benefits to CDC schemes, it is important to note these benefits will not be the same for everyone. When modelling the benefits of a CDC scheme, what you compare a CDC to makes a difference. The external pieces of evidence presented above use a range of counterfactuals in their modelling, as well as each using a different set of assumptions. Comparing a CDC scheme to an annuity, drawdown or a DB scheme will all show different outcomes. In some cases, a CDC may produce better retirement outcomes but in other scenarios the alternative option may do so. Some external researchers are more sceptical of the benefits that CDCs might provide, such as ABI whose modelling shows a range of outcomes, some favouring CDC's and others favouring individual defined contribution schemes (IDCs) followed by various decumulation products[84]. The results suggest that the higher potential income from CDCs is dependent on the investment return scenario but those who live longest (90+) are likely to benefit from the highest replacement rates.

80. One group that may receive a poor outcome from CDCs is those who die young. Members who die at a young age will effectively subsidise the pensions of those who live longer. This is the case in all pooled schemes including DB and annuities. When being developed, CDC schemes can be designed with ways to counter this. For example, the Royal Mail scheme pays 50% of what you've built up as income for life to an eligible dependent[85].

81. Some consider intergenerational fairness to also be an issue with CDC schemes. PPI highlight two main implications for intergenerational cross-subsidy in a flat accrual scheme[86]. First being that those who are only active members early on in their career may

[80] https://www.longevitas.co.uk/information-matrix-page/are-annuities-expensive-enough

[81] https://www.fca.org.uk/data/retirement-income-market-data-2024-25

[82] https://www.gov.uk/government/publications/pension-freedoms-a-qualitative-research-study-of-individuals-decumulation-journeys/pension-freedoms-a-qualitative-research-study-of-individuals-decumulation-journeys#factors-affecting-decumulation-decisions

[83] https://www.gov.uk/government/publications/understanding-member-engagement-with-workplace-pensions/understanding-member-engagement-with-workplace-pensions

not get good value for money as they make similar investment returns whilst subsidising members. Secondly, those who join the scheme early on and are close to retirement will be subsidised which will be paid by later generations. This is discussed further in the intergenerational fairness section below.

82. Modelling often suggests CDC retirement outcomes would be better than DC retirement outcomes. This is largely due to CDC schemes avoiding lifestyling, where savings are moved into less risky assets ahead of retirement as done in DC schemes. Theoretically it is possible for DC schemes to not lifestyle investments and if this was the case, it is likely that both CDC and DC schemes would produce similar retirement outcomes. However, the level of risk to an individual in a DC scheme would be higher than in a CDC scheme where members are part of a collective fund.

Risks and assumptions

83. Key risks and assumptions have been covered throughout the IA. The main areas of risk are listed below.

84. **The number of CDC schemes introduced:** To calculate indirect costs to the whole occupational pension scheme sector, an assumption was needed on the number of CDC schemes likely to be introduced over the 10-year appraisal period. With new legislation creating multi-employer DC scheme 'Megafunds', it is anticipated that the number of Master Trusts will fall to around 15 to 20. It is unlikely that all providers will create a CDC scheme given it may not be appropriate for all parts of the labour market and there are considerable costs involved. Therefore, it is assumed that around 1 in 4 providers may establish a CDC scheme, leading to an estimate of 5 multiple employer CDC schemes being created over the next 10 years.

85. This assumption is backed up by the number of providers that have expressed interest in establishing a CDC scheme through industry engagement. This is a reasonable assumption, not a forecast and it may not be an accurate representation of the number of CDC schemes that enter the market.

86. This is a risk, as the modelled indirect costs could be higher or lower, depending on the actual number of CDC schemes that are introduced across the appraisal period. Although there has been engagement with industry, the behavioural response is highly uncertain and cannot be known in advance. However, indirect costs only apply to providers that choose to enter the market, rather than a direct business cost, minimising the impact.

87. **CDC running costs:** To calculate the scheme running costs, consultation responses have been utilised. Many respondents to the consultation noted that they expected running costs to fall over time. This was a consistent point made by industry, but no suggestions were made on the rate at which costs would fall.

88. Therefore, it is assumed that due to economies of scale, the annual cost of running a CDC scheme will fall by 10% each year. It is reasonable to assume that there would be a significant fall in costs within the appraisal period as schemes begin to achieve scale. The rate of 10% is an arbitrary figure, albeit based on the rationale discussed above.

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[84] https://www.abi.org.uk/globalassets/files/publications/public/lts/2023/abi-collective-defined-contribution-modelling-pension.pdf

[85] https://rmcollectiveplan.com/when-i-die

[86] https://www.pensionspolicyinstitute.org.uk/media/or3e0wh0/20250515-bn-141-cdc-design-in-the-uk-final.pdf

89. This means that annual running costs, and therefore overall indirect costs, could be higher or lower, depending on the rate at which costs fall.

90. **Familiarisation costs**: Direct costs, which all relate to familiarisation, are calculated using a range of assumptions. Each of these assumptions, pose a risk including:

    - Trustee wages.
    - The number of trustees per scheme.
    - The amount of time taken to read and understand the policy change.
    - The number of schemes in scope.

91. Trustee hourly wage rate (£36.51) is based on the median hourly wage for corporate managers and directors (£28.75) in the Annual Survey of Hours and Earnings (ASHE) dataset[87] uprated by 27% to account for non-wage costs. Whilst the cost calculations utilise this assumption of trustee wage, for individual schemes the trustee wage rate will vary.

92. TPR conducted research found the mean number of trustees per board was 3[88]. The familiarisation calculations use this assumption but as some schemes will have a higher or lower number of trustees, their costs will differ.

93. It is estimated it will take trustees around 10 hours of work to read and understand the policy change. This is based on a reading speed of 3 minutes per page[89], for around 200 pages of information (which is the approximate length of the regulations and guidance documents). The reading speed of 3 minutes per page is an assumption based off an FCA report that stated it would take 2 hours to read 40 pages of policy documentation (which works out at 3 minutes per page). As the reading speed of trustees is likely to vary this means costs may be higher or lower for each scheme.

94. As familiarisation costs are a direct cost, they are applicable to the whole occupational pension scheme sector (excluding micro-DC schemes). This means there are 5,894 schemes in scope (4,974[90] private sector DB schemes and 920[91]DC schemes). Whilst this assumes all schemes will familiarise themselves with the regulations, there is a risk that some schemes will be aware of the legislation but will not invest time in reading the full regulations as they know a CDC scheme is not viable for them. This means there is a risk that estimated costs to business may be too high.

95. Within the familiarisation costs, micro-DC schemes have been excluded from the total number of schemes (5,894). There are 24,680 micro-DC schemes with between 2 to 11 members[92]. Whilst these schemes are not exempt from the policy measure, it is very unlikely that these schemes will start a CDC scheme and therefore it is possible they will not fully familiarise themselves with the new legislation. If micro-DC schemes did familiarise themselves with the regulations, this could increase the costs to business.

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87 Office for National Statistics. 'Annual Survey of Hours and Earnings 2024. Table 2.5a. 2024. Available at: https://www.ons.gov.uk/surveys/informationforbusinesses/businesssurveys/annualsurveyofhoursandearningsashe

88 https://webarchive.nationalarchives.gov.uk/ukgwa/20180103170253/http://www.thepensionsregulator.gov.uk/docs/trustee-landscape-quantitative-research-2015.pdf

89 https://www.fca.org.uk/publication/consultation/cp19-05.pdf

90 https://www.ppf.co.uk/-/media/PPF-Website/Public/Purple-Book-Data-2024/PPF-The-Purple-Book-2024.pdf

91 https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024

92 https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024/occupational-defined-contribution-landscape-2024-annex

Impact on small and micro businesses

Context

96. Some small pension schemes could be considered smaller businesses and to be consistent with the Pensions Dashboard Regulatory Impact Assessment[93], as well as with Pension Schemes Act measures[94], Small and Micro businesses are defined as schemes having fewer than 1,000 members. This is not a perfect definition of a small/micro business as scheme size and employer size do not always perfectly correlate, but best attempts to estimate the impact on smaller schemes. It is expected that, on average, scheme size is a sufficiently good proxy for business size for these purposes.

97. There are 4,650 schemes with less than 1,000 members within the DB and DC landscape. Using this definition, 4,000 schemes in the DB universe are classed as small/micro[95]. In the DC landscape, excluding micro schemes, there are 650 small schemes falling into scope of the legislation[96]

98. The cost impact on small and micro-businesses has been calculated based on this number of small schemes and applying the same methodology and assumptions as set out in the earlier costs and benefits section.

Exemptions

99. Within the costs and benefits section, micro-DC schemes have been excluded from the total number of schemes (5,894). There are 24,680 micro-DC schemes with between 2 to 11 members[97]. Whilst these schemes are not exempt from the policy measure, it is very unlikely that these schemes will start a CDC scheme and therefore it is possible they will not fully familiarise themselves with the new legislation. For this reason, micro-DC schemes have not been included in the cost calculations.

Proportionality

100. It is expected that all schemes within scope (5,894 schemes) would need to undertake an initial amount of familiarisation with the policy. This is because trustees are bound by Trust Law and their fiduciary duty, meaning that they will have to familiarise themselves with the new policy. However, it is anticipated that the proposed changes would not lead to any disproportionate costs on small and micro businesses (4,650 schemes).

101. Whilst all trustees are bound by Trust Law and their fiduciary duty, small schemes may be less likely to spend multiple hours familiarising themselves with the full regulations. It is plausible that some of the schemes where introducing a CDC scheme would be unfeasible, will keep up with the latest regulations provided by TPR but not invest the same amount of time reading and understanding all the regulation and guidance documents.

Costs

102. All small schemes within scope are expected to face one-off familiarisation costs of around £1,095 per scheme in the first year**.** This amounts to around £5.1m for all 4,650 schemes.

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93 https://www.legislation.gov.uk/ukia/2022/81/pdfs/ukia_20220081_en.pdf

94 https://www.legislation.gov.uk/ukpga/2026/22/contents

95 https://www.ppf.co.uk/-/media/PPF-Website/Public/Purple-Book-Data-2024/PPF-The-Purple-Book-2024.pdf

96 https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024/occupational-defined-contribution-landscape-2024-annex

97 https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024/occupational-defined-contribution-landscape-2024-annex

103. Of the 4,650 schemes, it is assumed no schemes would introduce a CDC scheme. Any decision to introduce a CDC scheme would be voluntary and therefore is considered an indirect cost. In this case, it is not anticipated that any small businesses will start a CDC scheme and therefore face any indirect costs. This means that familiarisation costs would be the only costs faced by the small schemes.

104. Using the same direct cost approach as outlined in Table 5, a SAMBA (Small and Micro Business Assessment) specific EANDCB (Equivalent Annual Net Direct Cost to Business) calculation can be outlined below in Table 10. The equivalent annualised net direct cost to (small) businesses is expected to be around £0.6m. The only direct costs are the initial familiarisation costs.

Table 10: Summary of direct cost and benefits and EANDCB on small schemes

Cost/Benefit Type	Total (£)
Direct Costs	
Familiarisation Costs (total over 10-year period)	**£5,093,000**
EANDCB	**£592,000**

Mitigations

105. Importantly, introducing a CDC scheme is voluntary. Creating a CDC is a business decision and so if a firm decides to enter the CDC market it is because they deem it potentially profitable to do so, and as such must view it to be beneficial for them. Whilst the Department does not expect small businesses to start a CDC scheme, if they were to do so it would be assumed the benefit of introducing a CDC scheme must be equal or greater than the counterfactual.

106. Research completed with employers showed that only a few employers were aware of CDC schemes. Those who were aware were "mainly larger employers from professional sectors".[98] This limited awareness of CDCs suggests it is currently unlikely smaller businesses will choose to set up a CDC scheme. This research also found that smaller employers often see pensions as 'costly in time and/or resource'[99]. This makes it very unlikely that they would get involved in a CDC scheme unless it was simple or more cost effective for them to do so. Similarly, research with small and micro employers found that the choice for a new workplace pension scheme tended to be chosen following external advice (36%) or simplicity (26%)[100].This further backs up the idea that small or micro businesses would only get involved in a CDC scheme if it was of benefit to them. To back this up further, research completed with newborn employers (those who took in their first eligible workers soon after Automatic Enrolment was introduced) agreed[101]. This tendency for smaller employers to choose the easiest option suggests that even multiple employer CDCs would only be taken up by smaller businesses if it was in their benefit.

107. The view is that the policy will be a benefit to small and micro businesses who will have the opportunity to offer a CDC to their employees without facing the high start-up costs that they would face by setting up their own scheme. The idea of multiple employer CDC

[98] https://www.gov.uk/government/publications/workplace-pensions-and-automatic-enrolment-employers-perspectives-2022/workplace-pensions-and-automatic-enrolment-employers-perspectives-2022

[99] https://www.gov.uk/government/publications/workplace-pensions-and-automatic-enrolment-employers-perspectives-2022/workplace-pensions-and-automatic-enrolment-employers-perspectives-2022

[100] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/717423/automatic-enrolment-quantitative-research-with-small-and-micro-employers.pdf

[101] https://www.gov.uk/government/publications/automatic-enrolment-qualitative-research-with-new-employers/final-report-automatic-enrolment-qualitative-research-with-newborn-employers

schemes is to open up the opportunity to small employers, particularly SMEs, where single employer CDC schemes are not a viable option. Therefore, it is appropriate to ensure that all employers are able to access a CDC scheme should they wish.

Wider impacts (consider the impacts of your proposals)

Economy-wide impacts

108. CDC schemes could bring some advantages to the wider economy. CDCs are likely to invest a greater proportion, and for longer, in growth-seeking assets compared to DB and DC schemes. This could include investment in longer-term illiquid investments and alternative asset classes such as venture capital and private equity. This could mean strategically important sectors of the UK economy such as innovative firms, housing, infrastructure and green infrastructure receive more investment flows than before. This could have wide-ranging impacts across society.

109. CDCs work best at scale. If there is increased demand for CDCs, there is likely to be fewer pension schemes in the market. This is because you need a large and diverse membership to spread risk. This would mean there is a greater concentration of the market in a smaller number of firms.

110. It is difficult to determine the exact impact on the economy of widening CDCs since there is only one CDC scheme currently operating. Therefore, all assumptions are based on either modelling or lessons from other countries.

More uncertainty than DB

111. Costs to members are largely dependent on the counterfactual used. If the counterfactual is DB, then under a CDC scheme members will face more uncertainty about their retirement outcomes. Under a CDC scheme the risks and costs will be faced collectively by the individuals rather than their employers.

Potential for better outcomes under DC schemes in strong economic conditions

112. If the counterfactual is a DC scheme, one of the main challenges that could face individual members is that they could experience a worse outcome overall. If someone with a DC scheme retires during 'strong' economic conditions, they could get a higher income by purchasing an annuity than a CDC scheme would provide. The risk for this is on the individual member, and as research above shows, it is as likely that they will retire during an economic downturn.

Who may not benefit from a CDC

113. Members who die at a young age who will effectively subsidise the pensions of those who live longer. This is the case in all pooled schemes including DB and annuities. When being developed, CDC schemes can be designed with ways to counter this. For example, when modelling CDCs, AoN included a measure to "attach spouse's pension payable at a 50% rate if member dies after retirement"[102]. Something similar to this is an option for CDC schemes to help reduce costs for members and unfairness for those who die earlier.

114. If a company defaulted to a CDC scheme, there might be problems for those who are more favourable towards risk and would like to have more input into their pension fund.

[102] https://www.aon.com/getmedia/a745af28-9106-4e25-a09a-bdf4f5ead150/The-Case-for-CollectiveDC_update_2020.aspx p. 47

This could be countered by individuals having an option to opt-out of a CDC scheme. The option for this would perhaps be more likely in a multiple employer CDC scheme than a single employer CDC scheme.

115. There may be some people who do not benefit from a CDC scheme. This is the same for all types of pension schemes, as all pension schemes have pros and cons, which will affect everyone differently.

Intergenerational fairness

116. CDC design involves risk sharing which is likely to occur between the members of the same age and different ages, but risks can be minimised as argued by both Aon[103] and PPI[104]. The Intergenerational Commission convened by the Resolution Foundation found CDCs could increase intergenerational fairness by reducing individual and employer risk[105]. However, a recent publication by PPI also discusses the intergenerational cross-subsidy effect, which they note can be particularly pronounced in some CDC designs meaning less fairness compared to DB[106]. PPI highlight two main implications of intergenerational cross subsidy in a flat accrual scheme. First, those who are only active members early on in their career may not get good value for money as they make similar investment returns whilst subsidising members. Secondly, those who join the scheme early on and are close to retirement will be subsidised which will be paid by later generations.

117. Current CDC legislation requires schemes to have "adequate systems and processes" for communicating with members. TPR will only authorise those with adequate systems and processes for providing information about the scheme and ensure it is correct and not misleading[107]. Any expansion to the scheme will keep this measure in place ensuring that members will understand how their benefit levels could be adjusted. It is likely that any new schemes would make use of multiple communication methods including social media to ensure all members can easily access the information.

118. Similarly, current CDC scheme design requirements ensure the avoidance of large cross subsidies between benefits accrued in the past and the future. This is to prevent intergenerational unfairness between either new joiners or those who have been members for a long time.

119. Royal Mail provides an example of this in practice. They ensure that: (a) adjustments to benefits are not perfectly smoothed, (b) that adjustments to benefits required by under or over funding take place frequently (e.g. annually), and (c) that all cohorts of members are treated the same when adjustments are made. This will prevent the need for funding buffers (as used in the Netherlands) or additional funding from younger members. Although members would see slightly more volatility each year than they would in the Dutch system, initial analysis from Royal Mail suggests that in almost all years' pensions in payment and target, could increase by inflation plus or minus 1 or 2%[108].

Monitoring and Evaluation

120. DWP and this Department recognise the significant impact this intervention may have on the pension landscape and, therefore, the importance of monitoring and evaluation.

[103] https://www.aon.com/unitedkingdom/attachments/aon_hewitt/dc/Aon_Hewitt_The_Case_for_Collective_DC_Nov13.pdf

[104] https://www.pensionspolicyinstitute.org.uk/media/ceyauk4c/20240515-bn-137-how-might-cdc-develop-in-the-uk-final.pdf

[105] https://www.resolutionfoundation.org/app/uploads/2018/05/A-New-Generational-Contract-Full-PDF.pdf

[106] https://www.pensionspolicyinstitute.org.uk/media/or3e0wh0/20250515-bn-141-cdc-design-in-the-uk-final.pdf

[107] https://www.legislation.gov.uk/ukpga/2021/1/section/66/enacted

[108] Based on internal debate and material provided by Royal Mail. Indicative and for illustrative purposes only

Although details will be developed as the policy is finalised, there are clear plans to closely monitor and evaluate CDC trends and impacts. This includes:

- **Monitoring scheme viability reports**: The current legislation on CDCs requires trustees to publish information about the scheme including a viability report which must be updated yearly to ensure the scheme is still viable.[109] The changes to the current legislative framework provide transparency about the operation and effectiveness of CDC schemes. The legislation already requires the publication of certain scheme information, and TPR will collect and monitor data on CDC schemes. The collection of information, monitoring and evaluation of schemes will apply to all future schemes.

- **Industry engagement**: DWP will actively engage with employers, workforce representatives and schemes to identify any issues they are having with CDC schemes, as well as seeking views of Royal Mail as a current CDC provider, and any future providers on the effectiveness of the authorisation framework.

- **Qualitative or Quantitative research –** DWP is considering the potential to commission or conduct research to explore views across stakeholders, this could include views from schemes, members and employers. Research could draw on the experiences from across schemes and members and explore attitudes towards CDCs.

121. DWP will continue to consider further ways it could monitor and evaluate CDCs, engaging with relevant stakeholders. The Department will liaise with DWP in relation to this monitoring and evaluation work.

[109] https://www.legislation.gov.uk/ukpga/2021/1/section/64/enacted

Other Impacts

Equality

122. In accordance with its duty under section 75 of the Northern Ireland Act 1998, the Department has conducted a screening exercise on these legislative proposals and has concluded that they would not have significant implications for equality of opportunity or good relations and considers that an Equality Impact Assessment is not necessary.

Environmental

123. There are no implications.

Rural proofing

124. There are no implications.

Health

125. There are no implications.

Human rights

126. The Department is content that these Regulations comply with section 24 of the Northern Ireland Act 1998 (Convention rights, etc.).

Competition

127. There are no implications.

Approved by:	David Tarr	**Date:**	29.07.26

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