EXPLANATORY MEMORANDUM TO

THE OCCUPATIONAL PENSION SCHEMES (COLLECTIVE MONEY PURCHASE SCHEMES) REGULATIONS (NORTHERN IRELAND) 2024

S.R. 2024 No. 15

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 28 and 113(2) of the Pensions (No. 2) Act (Northern Ireland) 2008, sections 42 and 51(6) of, and paragraphs 1 and 2 of Schedule 18 to, the Pensions Act (Northern Ireland) 2015 and sections 54(8), 56(2), 59(4)(a) and (b), 62(2)(e) and (3)(a), 63(2)(b), 64(3), 65(3), 66(4)(a), 67(2), 68(4), (5) and (8), 69(4), 70(2), 71(5), 73(3)(b), 74(3)(c), 78(2), 79(3) and (4), 80(7)(a) and (10)(a) and (b), 84(4)(b) and (10), 87(1)(c), (2)(b) and (c), (5), (6) and (10), 88(3)(b), 89(3), 90(1)(b), 91(4) and (6), 92(2), 94(2) and (4)(b) and (c), 96(3) and (6), 100(2)(b) and (4) and 102(2) and (3) of, and paragraph 1(6) of Schedule 5 to, the Pension Schemes Act 2021 and is subject to the confirmatory procedure.

2. Purpose

2.1 These Regulations revoke and re-enact the Occupational Pension Schemes (Collective Money Purchase Schemes) (No. 2) Regulations (Northern Ireland) 2023 which would otherwise cease to have effect by virtue of section 112(3)(b) of the Pensions (No. 2) Act (Northern Ireland) 2008, section 51(3)(b) of the Pensions Act (Northern Ireland) 2015 and section 102(5)(b) of the Pension Schemes Act 2021 ("the Act"). The Regulations set out the authorisation and supervisory regime for collective money purchase pension schemes under the provisions of Part 2 of the Act.

3. Background

3.1 These Regulations along with the Occupational Pension Schemes (Collective Money Purchase Schemes) (Modifications and Consequential and Miscellaneous Amendments) Regulations (Northern Ireland) 2022, will enable single or connected employer collective money purchase schemes to apply to the Pensions Regulator ("the Regulator") for authorisation.

3.2 Currently, there are two primary types of pension schemes – defined benefit and defined contribution. Broadly, the only options available to employers and employees have been defined benefit schemes where the employer underwrites the pension benefits paid to employees and 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.

3.3 Collective money purchase schemes provide an alternative in which the contributions of members and employers are pooled and invested with a view to delivering benefits at the level to which the scheme aspires. They offer potential benefits in economies of scale and the opportunity for greater investment in higher returning assets than are usually associated with defined contribution occupational pension schemes. Another benefit is the collective nature of these schemes, which means that investment and longevity risks are shared across the membership. As these schemes provide an income to pensioner members there is no need for

members to make complex financial decisions at the point of retirement. Income in retirement from collective money purchase schemes is subject to periodic adjustment, which is designed to achieve a balance between a scheme's assets and the amount required for the provision of benefits.

3.4 Collective money purchase schemes are believed to be more sustainable for employers and employees alike and have the potential to offer better outcomes for pension scheme members. To build confidence in these new schemes, it is considered essential that only well run schemes are allowed to operate.

3.5 The Regulations set out detailed requirements for the process for applying to the Regulator for authorisation, as well as details regarding the authorisation criteria that need to be met in order for collective money purchase schemes to operate. These include criteria to ensure only fit and proper persons are involved in key capacities relating to these schemes, that the design of the scheme is sound and complies with the legislative requirements, and that the scheme has sufficient financial resources to meet the costs of setting up and running the scheme and to take the necessary steps if things go wrong.

3.6 The Regulations set the fee the Regulator will charge for processing an application for authorisation at £77,000 (subject to certain exceptions specified in the Regulations, where the Regulator may be able to charge a lower fee). The fee has been calculated on a cost recovery basis and reflects the complexity involved in reviewing an application for collective money purchase scheme authorisation including the actuarial input that will be needed.

3.7 The Regulations:

- provide details of the valuation and benefit adjustment process which is a key part of the operation of a collective money purchase scheme and which must be carried out each year;

- provide details of requirements relating to the Regulator's supervisory role and sets out matters to which the Regulator must have regard in deciding whether the authorisation criterion are met;

- set out the actions trustees must take if the scheme experiences a triggering event (as listed in section 82 of the Act), which can pose a threat to the future of the scheme and the interests of members and can lead to a scheme being wound up; and the process which trustees must comply with when winding up a collective money purchase scheme. This is designed to protect the interests of the members of the scheme.

3.8 The Regulations also amend the Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations (Northern Ireland) 2010 to make provision for an alternative automatic enrolment quality test for collective money purchase schemes so that such schemes can demonstrate that they meet the minimum scheme quality requirements to be used as a workplace pension for the purposes of the Pensions (No. 2) Act (Northern Ireland) 2008. They also amend the Occupational Pension Schemes (Charges and Governance) Regulations (Northern Ireland) 2015 to make provision about charges in relation to members of collective money purchase schemes; and make consequential amendments to the Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997.

4. Consultation

4.1 There is no requirement to consult on these Regulations. 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 The Act which made provision for collective money purchase schemes was subject to an Impact Assessment. 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. The Department has concluded that they would not have significant implications for equality of opportunity and considers that an Equality Impact Assessment is not necessary.

6. Regulatory Impact

6.1 A Regulatory Impact Assessment which accompanied the Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations (Northern Ireland) 2022 is attached as an Annex to this Explanatory Memorandum.

7. Financial Implications

7.1 None for the Department.

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 Great Britain Regulations are the Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2022 (S.I. 2022/255) which came into force on 1st August 2022.

10.2 These Regulations were made, and brought into operation on 26th January 2024. They revoke and re-enact the Occupational Pension Schemes (Collective Money Purchase Schemes) (No. 2) Regulations (Northern Ireland) 2023 which came into operation on 28th July 2023, and which would otherwise cease to have effect by virtue of section 112(3)(b) of the Pensions (No. 2) Act (Northern Ireland) 2008, section 51(3)(b) of the Pensions Act (Northern Ireland) 2015 and section 102(5)(b) of the Act. Under those sections, regulations cease to have effect unless approved by resolution of the Assembly within six months of coming into operation. It was therefore necessary to make the Regulations during the period of interregnum.

Annex

REGULATORY IMPACT ASSESSMENT

THE OCCUPATIONAL PENSION SCHEMES (COLLECTIVE MONEY PURCHASE SCHEMES) REGULATIONS (NORTHERN IRELAND) 2022

THE OCCUPATIONAL PENSION SCHEMES (COLLECTIVE MONEY PURCHASE SCHEMES) (MODIFICATIONS AND CONSEQUENTIAL AND MISCELLANEOUS AMENDMENTS) REGULATIONS (NORTHERN IRELAND) 2022

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

Evidence Base

1. The policy background

2. Until the Pension Schemes Act 2021[1], the UK's workplace pensions legislative framework was, broadly speaking, binary in nature with employers enabled to offer only Defined Benefit (DB) or Defined Contribution (DC) occupational pension schemes.

3. DB schemes offer greater certainty and predictability of income in retirement for employees but place significant risks and costs on the sponsoring employer because of the guarantee to members involved with such schemes. Conversely, DC schemes place the majority of the risks and costs on the individual scheme member. Collective Defined Contribution schemes (CDC) provide an alternative where the contributions of employers and employees are pooled and invested with a view to delivering benefits at the level to which the scheme aspires. Note that the legislative term for CDCs is Collective Money Purchase (CMP).

Table 1: High level comparison of DB, DC, and CDC key principles

	Defined Benefit (DB)	Defined Contribution (DC)	Collective Defined Contribution (CDC)
Longevity Risk	With the employer	With the members, individually	With the members, shared collectively
Investment Risk		With the members, individually	With the members, shared collectively
Pension Level	Promised Level[2]	A function of individual pot and decumulation strategy	Aspired to level[3]

4. The rationale for the introduction of CDCs is to create more flexibility in occupational pension provision, so there is a new type of scheme that is:

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1 https://www.legislation.gov.uk/ukpga/2021/1/contents/enacted/data.htm
2 Depends on salary and years of contribution only; does not depend on longevity outcomes and investment returns.
3 Not a promise, actual pensions can be higher or lower depending on investment and longevity outcomes and will be adjusted by a formula in the scheme rules so that liabilities match assets.

- more sustainable for sponsoring employers than a DB scheme because it does not place any unpredictable future liabilities on them;
- and has the potential to give an income in retirement to members without the high cost of guarantees and is more predictable than is currently available to members of DC schemes who do not wish to purchase an annuity.

5. Secondary legislation will establish a secure regulatory framework within which single or connected employers can create CDC type pension schemes with adequate governance and safeguards in place for members and for employers. This sets out what CDC schemes must do to become authorised, to operate effectively in the market under regulatory oversight, and what happens if changes need to be made to schemes.

6. Collective Defined Contribution schemes

7. In a CDC scheme, the contributions of employers and employees are invested in a collective fund. When the member retires, they are paid a pension based on their share of that collective fund. The value of this pension will be based on the total value of the collective fund and will increase or decrease according to changes in investment performance or other risk factors.

8. CDC schemes will have an aspired to pensions level it will aim to pay members based on their share of the collective fund. Unlike DB schemes, that aspired level of pension income is not a promise and can increase or decrease depending on social and economic outcomes (mainly investment returns and longevity).

9. Evidence[4] shows that although the DB sector generally remains sustainable, the associated costs are high and higher than what was expected at the time the DB schemes were introduced. Currently, only 11% of all DB schemes (including hybrid schemes) are open to new members, down from 43% in 2006[5]. DB pensions are gradually being replaced with DC, where the risk is concentrated with each individual member, making them more sustainable for the sponsoring employers but riskier and more uncertain for the scheme members.

10. Description of options considered

11. Option 0 - Do Nothing

12. Option 0 is treated as the counterfactual where Primary legislation was not enacted. Therefore, employers would still have to enrol eligible employees into either a DB or DC workplace pension scheme.

13. Doing nothing would mean there would be no additional cost to businesses or employers beyond running their current pension scheme. However, no business would be able to create a CDC scheme. Therefore, it would mean less opportunity, choice, and flexibility for both employers and workers. Not providing the option of CDC would prevent employers and workforces from being able to select a pension arrangement that may better suit their circumstances and would present an opportunity cost.

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4 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/693655/protecting-defined-benefit-pension-schemes.pdf

5 https://www.ppf.co.uk/sites/default/files/2020-12/PPF_Purple_Book_20.pdf

14. A well-designed CDC has the potential to offer a more predictable income in retirement for scheme members than for DC members who do not wish to purchase an annuity whilst being more sustainable to sponsoring employers than DB.

15. **Option 1 - Guidance around authorisation and scheme design**

16. This is a non-regulatory policy option and involves issuing guidance to employers and CDC trustees about member protections and ongoing supervision. This would encourage trustees to consider the risks about scheme design, financial sustainability and how best to safeguard members and their savings.

17. The main costs of this option are:

- One-off familiarisation for trustees to read the guidance.

18. However, this option provides no regulatory protection for members and their savings which could put them at risk of being enrolled in a poorly designed scheme. Without regulation, trustees are unlikely to fully consider the risks and benefits to members of CDCs. It also gives businesses significant freedom to design a CDC in any way without considering the relevant risks. This option could result in the creation of very large schemes which pose a high risk to members or to particular cohorts of members. Without the necessary protection these schemes may be unsustainable and more likely fail, thus incurring greater costs to members and employers in the long term. This option risks damaging confidence in CDC and its potential to offer an attractive alternative to existing pension saving options.

19. **Option 2 – Introducing secondary legislation to outline the authorisation and supervision regime**

20. Option 2 is the preferred option. These regulations set up the framework for authorisation and supervision of CDC schemes (as well as the relevant consequential amendments) which includes:

a) a requirement on CDC schemes to be authorised before they can operate – i.e., before the scheme can start to receive contributions.

b) a system for CDC schemes to apply, be assessed for and be granted authorisation by the Pensions Regulator[6] ('the Regulator'), and for the withdrawal of authorisation if the Regulator decides a scheme is no longer meeting the authorisation criteria on an ongoing basis.

c) provision for appeals if a CDC scheme is not content with the Regulator's decisions.

d) the six criteria that schemes must meet in order for the Regulator to be satisfied that they can be and remain authorised:

i. that the persons involved in the scheme are fit and proper persons

ii. that the design of the scheme is sound

iii. that the scheme is financially sustainable

iv. that the scheme has adequate systems and processes for communicating with members and others

6 The Pensions Regulator is the public body that protects workplace pensions in the UK. https://www.thepensionsregulator.gov.uk/en

v. that the systems and processes used in running the scheme are sufficient to ensure that it is run effectively, and;

vi. that the scheme has an adequate continuity strategy

21. **Authorisation Criteria**

22. The 2021 Act did not specify the detailed standards for each authorisation criteria. Setting out the details in secondary legislation is more appropriate and can provide the flexibility needed for the implementation of a proportionate regime - for example, providing a route to respond to a changing market in the future.

Costs and benefits to businesses

23. **Counterfactuals**

24. The counterfactual is the 'do nothing' option. As stated, whilst this regulatory framework is a marginal additional cost incurred over and above the costs which firms choose when opting to set up a CDC. For completeness, as no estimates were made of costs, the counterfactual assumes there could be no CDC without this change. Therefore, this is where a business must enrol eligible employees into either a DB or DC workplace pension scheme in order to fulfil their automatic enrolment duties. Depending on whether a business offers a DB or DC scheme there may be different costs and benefits as discussed below. Regardless of the counterfactual, it is only anticipated these direct costs will be incurred if the business expects the benefits to outweigh the costs.

25. **DB Counterfactual**

26. Where the counterfactual is DB, savings to sponsoring businesses may be substantial. New private sector DB schemes are no longer being created in practice and where DB promises already exist employers cannot break them. However, they may choose to close their schemes to new members and/or future accruals.

27. DB sponsoring businesses may also incur indirect costs associated with the natural uncertainties arising from their commitment to sponsor a DB scheme. For example, any changes in life expectancy and/or investment return forecasts would alter their estimated DB pension liabilities and thus their balance sheets, making them more uncertain and volatile, and in turn potentially making their business less attractive to potential investors or creditors.

28. There is a strong financial incentive for DB sponsoring businesses to switch to a CDC scheme, but it is not possible to know how many of these would have switched to DC if there was no CDC option.

29. **DC Counterfactual**

30. Where the counterfactual is DC, there may be some differences in direct costs to sponsoring businesses. CDC schemes are likely to incur greater costs in the running and set up of the scheme in comparison to a conventional DC scheme. For example, employers who decide to use Nest or another Master Trust to fulfil their automatic enrolment duties have minimal costs. Larger employers who run their own DC scheme may see more comparable costs with CDC schemes although it is acknowledged that there may be some differences such as the actuarial input needed in CDC schemes. For

example, CDC schemes are required to undertake an annual valuation of the collective funds, which may result in some differences in scheme running costs, when compared against DC.

31. Where the counterfactual is DC, it is not envisaged that there would be fundamental differences in direct costs to sponsoring businesses so there are no anticipated savings to business in terms of lower pension scheme costs. It is possible that moving from DC to CDC would result in benefits to employers in terms of improved employee retention, but there is no robust evidence to estimate this.

32. **Expected level of business impacts**

33. These regulations do not mandate CDCs but provide a framework if an employer wants to set up a CDC scheme. It is only expected that businesses would incur any gross costs if it were beneficial to do so compared to their next best alternative. Therefore, it is assumed that businesses will only incur costs if the benefits are greater than the costs.

34. The costs and benefits depend on the counterfactual (whether a firm's employees would in future be enrolled in a DB scheme, a DC scheme, or a hybrid DB/DC scheme) which is not possible to predict. Particularly for DB employers, there are uncertainties as to whether they would switch to DC in the absence of CDC legislation. In any counterfactual all employers with eligible employees will be required to set up a workplace pension and automatically enrol eligible employees. There is data on how many employers currently offer DB, DC, and hybrid schemes, but it is not known what employers will choose to do in the future in relation to their scheme choice for occupational pensions.

35. The potential take-up of CDCs from employers is currently an unknown with the Royal Mail Group the only employer to commit to establishing a CDC scheme for its employees. Therefore, on the grounds of commercial sensitivity, it is not possible to quantify any potential net direct cost to business.

36. Some impacts will depend on specific features of the CDC schemes applying for authorisation, of which there may be a wide variety, which creates some uncertainty about the costs.

37. All businesses who choose to set up a CDC scheme will incur costs associated with:

- One-off familiarisation for trustees to read the relevant legislation and guidance.
- One-off costs associated with meeting the criteria to be authorised.
- Ongoing costs associated with meeting the supervisory regime.

38. Depending on the scheme design some employers may also incur additional ongoing scheme running costs compared to their counterfactual.

39. Many of the regulations specify clear minimum standards that must be met by CDCs in order to gain authorisation but are not overly prescriptive on how the CDCs should meet them. This adds to the uncertainty around any estimates of the costs of this policy. Some detail about how schemes can demonstrate that they meet these requirements are in the Regulator's Code of Practice (the 'Regulator's code').

40. If a business decided to set up a CDC scheme as soon as the relevant legislation was laid, the 10-year appraisal is outlined in Table 2. As more schemes are established, the timings

and costs associated with the creation of a CDC scheme may be reduced as lessons are learnt and shared across the industry.

Table 2: 10-year appraisal period for activities and costs associated with adopting a CDC scheme

Year	2021/2022	2022/2023	2023/2024	2024/25-2030/31
Appraisal period year	**1**	**2**	**3**	**4-10**
Event	Pension Schemes Act 2021 passed Feb 2021	The Regulator's code and guidance is published Authorisation comes into force August 2022 First CDC schemes can apply for authorisation	CDC schemes can apply for authorisation First CDC schemes begin operating	Steady market state Authorised schemes begin operating Other businesses may set up CDCs
Activity	Familiarisation with primary legislation Familiarisation with secondary legislation	Familiarisation with Regulator's code and guidance Initial scoping work Application fee Fit and proper persons Financial sustainability Scheme design Communication requirement Systems and processes Continuity strategy	Valuation and Benefit Adjustment Supervisory return	Valuation and Benefit Adjustment Supervisory return

41. **Familiarisation**

42. Businesses who decide to set up a CDC scheme will be required to familiarise themselves with:

- the primary legislation;
- the secondary legislation[7]; and
- the Regulator's code and guidance.

43. Assuming two senior managers and eight trustees are required to familiarise, based on the average reading speed of around six minutes per page[8], the total cost of familiarisation is

7 Including affirmative and negative packages of legislation
8 Based on assumptions used in previous pensions-related RIAs.

estimated to be £37,800[9] per business with £15,400 in the 1st year of the appraisal period and £22,500 in the 2nd year of the appraisal period. Regardless of whether a business has an existing DB or DC scheme, if they transition to a CDC, they will incur this additional cost. It is assumed that they will only incur this cost if the benefits outweigh it.

44. The initial assumptions for these costs are outlined below[10]:

Familiarisation with primary legislation (entire Act)

(199 pages x 6 minutes reading time per page) x 2 senior managers x £28.87 hourly wage = £1,100
(199 pages x 6 minutes reading time per page) x 8 trustees x £100.78 hourly wage = £16,000

Familiarisation with primary legislation (only CDC regulations)

(102 pages x 6 minutes reading time per page) x 2 senior managers x £28.87 hourly wage = £600
(102 pages x 6 minutes reading time per page) x 8 trustee x £100.78 hourly wage = £8,200

Familiarisation with secondary legislation

(76 pages x 6 minutes reading time per page) x 2 senior managers x £28.87 hourly wage = £400
(76 pages x 6 minutes reading time per page) x 8 trustee x £100.78 hourly wage = £6,100

Familiarisation with the Regulator's code and guidance[11]

(260 pages x 6 minutes reading time per page) x 2 senior managers x £28.87 hourly wage = £1,500
(260 pages x 6 minutes reading time per page) x 8 trustee x £100.78 hourly wage = £21,000

45. **Scoping**

46. The regulations have flexibility for businesses to adapt and design a CDC scheme that suits their needs and desired outcomes. Businesses may decide to take time determining the type of scheme they want to offer members. This may include the scoping and testing of scheme designs, investment strategies, contribution rates and accrual rates.

47. These activities may incur costs such as actuarial, legal and investment advice depending on whether they want to develop a scheme within the parameters of the regulations, a bespoke scheme or something beyond the regulations. However, it is at the discretion of the employer how much time, money, and resource they spend, and it is not considered an additional cost to business.

9 Assuming familiarisation CDC specific sections of Act rather than the whole Act.
10 Costs may not add up due to rounding.
11 Based on Master Trust authorisation guidance as a proxy.

48. **Preparing an application**

49. Until an employer's CDC is authorised by the Regulator, they cannot start to receive any contributions. When an employer makes an application for authorisation, they will have to:

    a) prepare and submit the relevant products and information to support their application which will be considered by the Regulator (discussed in more detailed later); and

    b) pay an application fee to the Regulator to cover the cost of assessing and processing the application.

50. It is estimated that the maximum level of the fee will be £77,000 per scheme from the second year of the appraisal period. Regardless of whether a business has an existing DB or DC scheme, if they transition to a CDC, they will incur this additional cost. It is assumed that they will only incur this cost if the benefits outweigh it.

51. **Sectionalisation**

52. Should a business operating a CDC scheme wish to offer, for example, new employees a different contribution rate the regulations require that they can only do this by opening a new section for those employees. The new section will need to be authorised by the Regulator before it can begin operating. The level of the application fee for authorisation of the new section, which cannot exceed the maximum level, will be determined by the Regulator who will take into account factors such as the degree to which the original scheme and the new section share IT systems, trustees etc. It is at the discretion of the employer if they decide to open a new section and it is not considered an additional cost to business.

53. **Fit and Proper**

54. As a part of their application for authorisation by the Regulator, persons undertaking key functions[12] in the CDC scheme will have to meet the fit and proper persons requirement. This is intended to protect members by ensuring that persons who establish and make key decisions in respect of a CDC scheme demonstrate appropriate standards of integrity and understanding to act in the capacity specified in the 2021 Act.

55. It is expected that in the first tranche of schemes, the persons acting in relation to the scheme in the capacities mentioned will be either the employer, the trustees, or a combination of both. The relevant persons will have to supply their information to the Regulator to meet the requirements.

56. This requirement consists of three matters:

    a) Conduct

    b) Integrity

    c) Competence

57. The Regulator will outline what is expected, in the Regulator's code, in terms of the knowledge and experience deemed sufficient for individual trustees and for the board as a

12 The roles included in the need to complete a fit and proper person test may include; a person who establishes the scheme, a trustee, any person who has the power to appoint or remove a trustee, a person who has the power to vary the terms of the trust under which the scheme is established, a person who has the power to vary the scheme, and anyone else specified in the regulations.

whole. However for the purposes of this RIA the existing Master Trust fit and proper authorisation criteria has been used as a proxy.

58. **Conduct and Integrity**

59. The matters to be considered by the Regulator are similar to those it considers when authorising Master Trusts. These include:

    a) bankruptcy

    b) unspent criminal convictions

    c) settlements and findings in civil proceedings

    d) disqualification of directors

    e) prohibition of trustees

    f) contravention of the rules of any other regulatory authority

60. The Master Trust authorisation RIA estimated that sixteen people at each Master Trust would have to complete the integrity and conduct tests[13]. Given that CDCs do not have scheme strategist or funders it is assumed that half the number of people will need to carry out the tests for CDC authorisation.

61. The FCA has a fit and proper test for those carrying out a 'senior managers' function within the scope of their authorisation regime. In the cost benefit analysis[14] for this change, they estimated that each individual that would need to be checked would spend 45 minutes preparing their information. For Master Trust authorisation because there were fewer elements than the FCA's tests, it was assumed that for the Regulator's tests individuals will spend 30 minutes collecting the required information.

62. It is assumed that for the Regulator's tests individuals will spend 30 minutes collecting the required information.

Cost of conduct and integrity tests

8 people in each CDC scheme x 0.5 hours to collect information x £100.78 hourly wage rate = £400

63. **Competence tests**

64. Given the additional complexity of CDC schemes, the trustees must have appropriate experience, knowledge and understanding to properly discharge their duties. The Regulator will outline what is expected, in the Code, in terms of the knowledge and experience deemed sufficient for individual trustees and for the board as a whole.

65. It is expected a board of trustees will be competent as a whole to carry out the functions required of it at the point of application, and on an ongoing basis, and to show how they will meet and continue to meet those requirements.

13 https://www.communities-ni.gov.uk/publications/pension-schemes-bill-regulatory-impact-assessments-rias
14 https://www.fca.org.uk/publication/research/cba-extension-senior-managers-certification-regime.pdf

66. The Master Trust authorisation RIA estimated that six people at each Master Trust would have to complete the competency tests. It is estimated that six people in a CDC scheme that apply will have to complete this test.

67. One way of demonstrating compliance could be completing the Trustee Knowledge and Understanding[15] (TKU) through the Regulator's Trustee Toolkit[16]. Under CDC it is envisaged that trustees will need to have sufficient knowledge upon application. What this means for individual trustees and how this is balanced with the knowledge and understanding expected across the trustee board is set out in the Regulator's code.

68. The Regulator's 2016 governance survey of schemes found that 75% of trustees of Master Trust schemes had adequate levels of knowledge and understanding[17]. It is assumed that 75% of trustees will be able to complete the competency test with no extra work, and that 25% will need to spend time studying to pass the test.

69. It is assumed that 75% (4) of these people will not need any further preparation, and 25% (2) of them will need to do a large amount. Each of the 6 people will also need to spend time completing the tests; the TKU suggests that the tests will take 165 minutes to complete, so it is assumed at this stage that the competence tests will take the same amount of time, in the absence of any evidence to suggest that the tests will be materially different at this stage.

Competence test (prepared)

4 people completing tests x 2.75 hours taken to complete tests x £100.78 hourly wage = £1,100

Competence test (unprepared)

2 people completing tests x 20.75 hours prepare for / complete tests x £100.78 hourly wage = £4,200

70. The Regulator will consider the evidence provided when deciding whether an individual meets the fit and proper requirement. It is possible that someone might not meet this requirement and will need to be replaced. Evidence suggests, however, that few people fail the FCA's Approved Persons Regime[18]. It is not felt that there will be a significant failure rate for the Regulator's fit and proper tests, given the relatively low number of people that will be checked in this policy option compared to under FCA's regime. In addition, the Regulator's Code will make clear what checks will take place.

71. Competency tests will be a one-off cost to business in the second year of the appraisal period which it is estimated will be £5,300.

72. The total cost of meeting the 'fit and proper' requirements for authorisation is estimated to be £5,700 in the 2nd year of the appraisal period. Regardless of whether a business has an existing DB or DC scheme, if they transition to a CDC, they will incur this additional cost. It is believed that they will only incur this cost if the benefits outweigh it.

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15 https://www.thepensionsregulator.gov.uk/en/document-library/regulatory-guidance/trustee-knowledge-and-understanding
16 https://trusteetoolkit.thepensionsregulator.gov.uk/
17 https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis#1effbc8a66414f2c87bf4cdfcd224f84
18 http://uk.reuters.com/article/uk-fca-appointments-idUKBRE93B06P20130412

73. **Scheme Design**

74. This authorisation criterion aims to protect members from being enrolled in ill-considered and poorly designed CDC schemes, which are unlikely to remain viable over the long-term. It requires the Regulator to be satisfied that the design of a CDC scheme is sound.

75. The regulations seek to set out sensible parameters to weed out applications in respect of poorly designed schemes whose members may be better off saving for retirement elsewhere, or to highlight emerging threats in live schemes, such as an increasing risk of intergenerational unfairness, which suggest it should close to new accruals.

76. A viability report and viability certificate produced by the scheme's trustees and scheme actuary respectively must be submitted to the Regulator on application for authorisation. These products must be kept under review by the scheme actuary and trustees over the course of the scheme's lifetime to ensure it remains sound.

77. It is difficult to estimate the exact timings and cost of the creation of the scheme design, viability report and certificate. It is likely some of the work undertaken in the scoping activities could be adapted to support this authorisation criterion and therefore schemes may off-set or pre-empt some of the costs in preparing the initial application. The annual valuation process will also help to inform the annual review and certification of soundness by the scheme actuary.

78. Due to an absence of other evidence, the typical actuarial costs associated with running a DB scheme have been used as a proxy for the cost of actuarial input required for the scheme design criterion and assumed this would cover the actuarial input required for the creation of viability report and signing off of the viability report. The Regulator collected data on the typical yearly running costs, excluding triennial valuation, of DB schemes[19], shown below in Table 3:

Table 3: Typical yearly actuarial costs for the scheme and per member excluding triennial valuation costs, by scheme size

	Small scheme (12-99 members)	Medium scheme (100-999 members)	Large scheme (1000 - 4999 members)	Very large scheme (5000+ members)
Scheme cost (median)	£5,000	£26,608	£71,801	£260,502
Scheme cost (mean)	£8,759	£37,703	£83,890	£287,730

79. If it is assumed that only larger employers will open a CDC scheme, then the very large scheme estimate may be the most suitable although this is likely to be an overestimate. This information was collected in 2012 so this has been uprated to 2021 prices using data from the Office of National Statistics[20], the cost in 2020/21 prices is therefore £303,300.

80. The Regulator suggests there may be some work undertaken at this stage accounting for the valuation of the scheme. In the absence of other evidence, the triennial valuation of DB schemes has been used as a proxy. The Regulator collected data on the cost of triennial valuation, of DB schemes[21], shown below in Table 4:

19 https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/db-scheme-costs-research-2014.ashx
20 https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/d7bt/mm23
21 https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/db-scheme-costs-research-2014.ashx

Table 4: Cost of triennial valuation, by scheme size

	Small scheme (12-99 members)	Medium scheme (100-999 members)	Large scheme (1000 - 4999 members)	Very large scheme (5000+ members)
Scheme cost (median)	£15,000	£32,440	£62,248	£286,986
Scheme cost (mean)	£16,694	£39,556	£102,860	£240,858

81. If it is assumed that only larger employers will open a CDC scheme, then the very large scheme estimate may be the most suitable. This information was collected in 2012 so this has been uprated to 2021 using data from the Office of National Statistics[22], the cost in 2021 prices is therefore £337,700.

82. Where trustees have a role in this criterion, it is likely they will be very reliant on advice and input from their actuary. Therefore, it is assumed that it may take two trustees around two weeks to write and clear the viability report.

Writing, clearing, and submitting the viability report and certificate

2 trustees x (37.5 hours a week x 2 weeks) x £100.78 wage rate = £15,100

83. It is therefore assumed that the cost will be £656,100 in the 3rd year of the appraisal period. Regardless of whether a business has an existing DB or DC scheme, if they transition to a CDC, they will incur this additional cost. It is assumed that they will only incur this cost if the benefit outweighs it.

84. **Financial Sustainability**

85. This authorisation criterion aims to ensure CDC schemes have sufficient financial resources and well considered strategies to meet the costs of setting up and running a CDC scheme, as well as costs associated with the occurrence of a triggering event.

86. The Regulator will require evidence to enable it to decide whether it is satisfied that a CDC scheme is financially sustainable, including:

- the estimated costs of setting up and running the scheme
- details of the scheme's sources of income, and
- the trustees' strategy for meeting any shortfall between its income and costs including the cost of resolving any triggering event (discussed below)

22 https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/d7bt/mm23

87. A CDC scheme will need to have key elements in place before it can be authorised and begin to operate. In deciding whether it is satisfied about a scheme's financial sustainability, the Regulator must take into account various matters in making its decision.

88. The Regulator provides more practical guidance to trustees seeking to evidence this requirement in its code. However, the approach set out is similar to that taken in the authorisation of master trusts and therefore the costs and requirements associated with Master Trust authorisation will be used as a proxy.

89. **Financial resources**

90. Each CDC scheme will have to hold or be able to access a different amount of money for the financial sustainability requirement, which will be heavily dependent on a variety of factors, including scale, but the baseline is that trustees should have access to sufficient funds to meet the relevant costs at the point they are needed. Schemes will have to spend time assessing and reviewing the initial and on-going cost of running the scheme and the estimated cost of resolving potential triggering events, such as the need to wind up the scheme. The CDC regime does provide flexibility to accommodate a range of financing arrangements. The Regulator's code will provide further information on these and other matters.

91. If a scheme is unable to meet relevant costs from member-borne charges, then the establishing employer may need to help out. It is important that any guarantee from an employer to meet relevant costs is credible and realisable. This does require assessment based on detailed information about the employer. Once again, the Regulator's code will provide further information on these matters.

92. These estimates carry with them a significant degree of uncertainty, as the running costs of a scheme depend heavily on a number of different factors, such as whether the scheme uses a third-party administrator, or does the work in-house, and scale. Much of this is commercially sensitive so it is assumed it may take two trustees around eight hours to gather the relevant evidence required for this criterion.

Collecting information for financial resources

2 trustees x 8 hours taken to gather financial information x £100.78 wage rate = £1,600

93. The former Department for Business, Innovation and Skills estimated the cost to business of an audit to be £7,700.48. This has been uprated to 2020/21 using data from the Office of National Statistics[23], the cost in 2020/21 prices is therefore £8,600. The business would also have a professional spend approximately two hours preparing the accounts, at an hourly rate of £100.87.

Auditing accounts

£8,600 cost of audited accounts+(2 hours preparing accounts x £100.78 hourly wage) = £8,800

94. The impact of providing such information will depend heavily on how much of this information is available, and what will need to be created separately. It is estimated that the total cost of meeting the 'financial sustainability' authorisation criteria will be £10,400 in the 2nd year of the appraisal period. Regardless of whether a business has an existing DB or DC scheme, if they transition to a CDC, they will incur this additional cost. It is believed that they will only incur this cost if the benefits outweigh it.

23 https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/l522/mm23

95. **Communication requirement**

96. This authorisation criterion aims to ensure effective scheme communications are delivered to relevant persons in relation to the scheme. The Regulator is expected to take the following into account when deciding whether a scheme meets the communication requirement:

- the necessary functionality (capability and capacity) and maintenance of IT systems for delivering scheme communications;
- the systems and processes for ensuring there are sufficient human resources, with relevant skills, qualifications, and capacity for delivering scheme communications;
- quality assurance systems and processes – whether there are systems and processes for assessing and improving the effectiveness of scheme communications, ensuring they are accurate and not misleading and reviewed by appropriate persons within the scheme;
- member engagement – systems and processes for gathering member feedback, taking it into consideration in designing scheme communications and for reporting to trustees and members as to how feedback has been taken into account in the design of scheme communications.

97. There will be an initial cost to businesses as they explain the new pension structure to members and clearly state the differences between CDCs and other forms of pension provision. This cost is likely to be higher for early adopters, as over time it is expected that a bank of communication materials would be built up by existing scheme consultants.

98. A CDC scheme will have a host of disclosure requirements to follow; the majority of which will be similar to DC requirements but with some tweaks. However, CDCs will also have additional publication requirements which will need the development of some documents such as the scheme design statement, benefit statement, and valuation and benefit adjustment statement.

99. It is assumed that it would take around one year to design new member communications; including any testing and time for sign off. The main cost would be for marketing colleagues to draft new communications materials and then getting these signed off by the relevant trustee:

Drafting new communications (low estimate)

1 marketing colleague x (35.7 hours a week x 26 weeks) x £22.26 hourly wage = £20,700
1 trustee x 2 hours to clear new communications x £100.78 hourly wage = £200

Drafting new communications (best estimate)

1 marketing colleague x (35.7 hours a week x 52 weeks) x £22.26 hourly wage = £41,300
1 trustee x 2 hours to clear new communications x £100.78 hourly wage = £200

Drafting new communications (high estimate)

1 marketing colleague x (35.7 hours a week x 104 weeks) x £22.26 hourly wage = £82,700
1 trustee x 2 hours to clear new communications x £100.78 hourly wage = £200

100. Therefore, it is expected that the cost of drafting new communications will be £41,500 in the second year of the appraisal period.

101. Given that CDC schemes will be established by single connected employers with existing communication systems, it is assumed that communications will likely be done by email and therefore incur negligible costs. If businesses choose to send out communications via alternative methods, such as by post, this would incur an additional cost. However, this is at the discretion of the business, and it is accounted for in the estimates.

102. Alongside the new communications, CDC schemes will be expected to evidence to the Regulator they have the relevant systems in place for communication clearly and effectively with their members. Many existing pension schemes and businesses will already have communication systems and processes in place which can be adapted for the requirements of CDC schemes. As such, it is expected that ongoing communication costs will be comparable to those experienced by any large pension scheme after the creation and drafting of new communications to members.

103. If businesses, choose to send additional communications outside those outlined in the regulations or use alternative methods of contact with members this would incur an additional cost. This is at the discretion of each business, and it is not accounted for in the estimates.

104. At this stage it is unclear how this might be evidenced to the Regulator. Therefore, it is assumed it would take two trustees around eight hours to collect the evidence and information required to satisfy the Regulator:

Collecting information for communications requirement

2 trustees x 8 hours taken to gather financial information x £100.78 wage rate = £1,600

105. It is therefore estimated that the cost of meeting the communications criterion will be £43,100 in the 2nd year of the appraisal period. Regardless of whether a business has an existing DB or DC scheme, if they transition to a CDC, they will incur additional costs to draft new communications and satisfy the Regulator's requirements. It is believed they will only incur this cost if the benefits outweigh it.

106. **Systems and processes requirement**

107. This authorisation criterion aims to identify whether the systems and processes used in running a CDC scheme are sufficient to ensure that it is run effectively. Schemes will be expected to have the appropriate systems and processes to enable them to maintain a good standard of administration and governance so that there is adequate security for members' savings and their data.

108. Matters which the Regulator may take into account include whether:

- the IT systems have the capacity and capability to process financial transactions securely, accurately and by automated means;
- there are specified systems and processes to support the annual valuation and benefit adjustment process;
- there are systems and processes for investing contributions in accordance with the scheme's investment policy, and for recording investment decisions and for recording, managing, and reviewing the risks associated with investment decisions;

- systems and processes ensure that adequate member records will be kept and regularly reviewed and cleansed if required, particularly those relating to each member's pensionable service and their accrued rights within the scheme;
- there are systems and processes for ensuring that there are sufficient human resources with the skills, qualifications, and capacity necessary to run a CMP scheme in accordance with Part 2 of the 2021 Act;
- the systems and processes ensure that, for each financial year, in respect of each scheme member in decumulation, records are maintained including the amount of pension or other benefits received; and
- there are systems and processes for:
    - engaging with and managing service providers;
    - effectively managing governance of the scheme;
    - identifying, managing, and monitoring risks – operational, financial, regulatory and compliance; and
    - facilitating member engagement, bringing member's views of the scheme to the attention of trustees, and directing any member complaints to the correct channel for resolution.

109. These regulations do not mandate the use of certain IT systems and are about minimum standards rather than gold-plating. The expectation is that schemes will have the right systems and processes in place to deliver what is set out in their business plan.

110. It is estimated that the cost of creating a distributed ledger technology, smart contract-based system capable of single or multi-employer application is between £0.75 million and £1.25 million. In instances where the creation of new systems is necessary, the mid-point (£1 million) would be a reasonable estimate at this stage.

Cost of creating new systems (high estimate)

((£1,000,000 cost of creating new systems and processes) + (27 hours taken to demonstrate that the CDC meets the requirements x £100.78 wage rate)) = £1,002,700

111. However, given the similarities in the administration and running of DB and CDC schemes, it is expected that the new administration software would not need to be produced. Instead initial adjustments to existing software would be required to incorporate the relevant CDC components.

112. Costs are difficult to estimate at this stage but amendments to existing systems and infrastructure could be done at 'relatively modest cost.' It is assumed that this would be 10% of the quoted cost of creating the systems from scratch, in line with the adjustment costs for Master Trusts system and processes. Ongoing costs are thought to be similar, if not less, than comparable DB schemes.

113. In addition to this it is estimated that one person in each scheme will have to spend 27 hours collecting this evidence and showing that the scheme meets the requirements. This is largely in line with the estimates used for the Master Trust authorisation impact assessment. The overall cost to business is therefore calculated as:

Cost of minor adaptations to existing systems (best estimate)

(£100,000 cost of adjusting existing systems and processes) + (27 hours taken to demonstrate that the CDC meets the requirements x £100.78 wage rate) = £102,700

114. It is therefore estimated that the cost of meeting the system and processes criterion will be £102,700 in the 2nd year of the appraisal period. Regardless of whether a business has an existing DB or DC scheme, if they transition to a CDC, they will incur an additional cost of meeting the Regulator. It is believed that they will only incur this cost if the benefits outweigh it.

115. **Continuity Strategy**

116. This authorisation criterion requires trustees of a CDC scheme to prepare a continuity strategy document which sets out how the interests of the scheme members will be protected if the scheme experiences a triggering event. Triggering events can pose a serious risk to the future of the scheme and the interests of members.

117. The strategy is envisaged to be a high-level but wide ranging and flexible document which provides a framework for identifying key actions, decisions, and owners of actions required to deal with a triggering event period. The continuity strategy must also set out the timescales within which the scheme will resolve the triggering event and how the costs of continuing to operate the scheme and resolve the event will be funded.

118. The aim of the continuity strategy requirement is to demonstrate that trustees have considered and anticipated risks that may arise in future. The strategy should explain what plans trustees have put in place so that the consequences of these events can be managed in an orderly fashion, and that scheme members will be adequately protected during this process.

119. The approach taken is similar to that taken in the Master Trust authorisation regime. The Master Trust authorisation estimated that it would take two people around 18 hours each to prepare the continuity strategy. However, it is assumed that schemes applying for CDC authorisation will take longer to prepare their continuity strategy given that, compared to Master Trusts, CDC schemes have an extra continuity option which they will need to account for.

Draft Continuity Strategy (low estimate)

(2 trustees x 18 hours taken) x £ 100.78 = £3,600

Draft Continuity Strategy (best estimate)

(2 trustees x 36 hours taken) x £ 100.78 = £7,300

120. It is therefore estimated that the cost of meeting the continuity strategy criterion will be £7,300 in the 2nd year of the appraisal period. Regardless of whether a business has an existing DB or DC scheme, if they transition to a CDC, they will incur an additional cost of meeting the Regulator's requirements.

121. **Valuation and Benefit Adjustment**

122. Each year after authorisation, CDC schemes are required to run an actuarial valuation and benefit adjustment process. Benefits can be adjusted every year in order to keep the value of assets held and the projected costs of benefits in balance, so the schemes are financially sound. The regulations outline strict rules for CDC schemes to follow around benefit adjustment, which ensure that all members are subject to the same adjustments.

123. CDC schemes must operate in ways that avoid bias in favour of any group or cohort of members by requiring:

- valuations to be undertaken using a central estimate methodology that does not seek to be overly optimistic or to build in prudence;
- any adjustment of benefits to apply to all members without variation; and
- any increases in benefits resulting from the valuation to be sustainable.

124. It is felt that for a well-designed CDC scheme, cutting the rate of benefit in payment should be a rare event. But it is acknowledged that in some extreme scenarios cuts in benefit of several percentage points might be needed. This will be mitigated by the multi-annual reduction mechanism, which is designed to help smooth the impact of reductions, included in the regulations.

125. This is a potential cost that is very difficult to predict. The valuation and benefit adjustment process is likely to involve significant actuarial and administrative input. In the absence of other evidence, the triennial valuation of DB schemes have been used as a proxy. The Regulator collected data on the cost of triennial valuation, of DB schemes[24], is shown below in Table 5:

Table 5: Cost of triennial valuation, by scheme size

	Small scheme (12-99 members)	Medium scheme (100-999 members)	Large scheme (1000 - 4999 members)	Very large scheme (5000+ members)
Scheme cost (median)	£15,000	£32,440	£62,248	£286,986
Scheme cost (mean)	£16,694	£39,556	£102,860	£240,858

126. It is assumed that only larger employers will open a CDC scheme, therefore the very large scheme estimate may be the most suitable. This information was collected in 2012 so this has been uprated to 2021 using data from the Office of National Statistics[25], the cost in 2021 prices is therefore £334,200.

127. Therefore, the cost of the annual valuation and benefit adjustment is £334,200, each year after authorisation. If a business has an existing DC scheme and they transition to a CDC they will incur an additional cost in the yearly valuation of the scheme. Existing DB schemes currently run triennial valuations and it is expected that the cost of these would be higher than the annual valuation required for CDCs, however, it is not known by how much at this stage so an estimate of the potential savings cannot be made.

128. **Ongoing Supervision**

129. Once a CDC scheme receives authorisation, it will still be required to be able to demonstrate to the Regulator that it continues to meet the authorisation criteria on an ongoing basis.

130. The potential ongoing financial costs associated with ensuring the scheme continues to meet the ongoing supervision requirements will be broadly similar to the costs under an existing closed DB or hybrid pension scheme of similar size, although the spread of costs may be different.

24 https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/db-scheme-costs-research-2014.ashx
25 https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/d7bt/mm23

131. The biggest annual cost is likely to be the annual actuarial process (discussed above), though this will likely be offset by cheaper costs of administration and communications.

132. It is likely that the actuarial, communications and IT costs required for a CDC scheme would not differ significantly from a DB scheme although there will be additional costs associated with ongoing requirements to report to the Regulator.

133. At this time, the Regulator's exact ongoing supervisory requirements on CDC schemes are unknown but it is assumed that it will broadly include the supervisory return plus engaging in pro-active regular meetings and quarterly discussions with the Regulator.

134. **Supervisory return**

135. The supervisory return will be used by the Regulator to inform its ongoing risk assessment of schemes and enables the Regulator to place a minimum reporting requirement on schemes to maintain at least annual contact with the Regulator. This will complement the close collaborative engagement that the Regulator envisages developing with CDC schemes on an ongoing basis.

136. The supervisory return is an important tool for supervising CDC schemes and ensuring they continue to maintain the high levels of compliance expected from them. Its contents will, alongside the viability report and continuity strategy, inform the Regulator's ongoing assessment of the scheme against the six authorisation criteria.

137. The Regulator will determine the exact form of the supervisory return including the precise details of what it should cover. However, the expectation is that the supervisory return will only ask for information that the provider should already be collecting and therefore should not incur additional cost or effort beyond collating in the return. It is assumed it would take two trustees around eight hours to collect the evidence and information required to satisfy the Regulator:

Collecting information for supervisory return

2 trustees x 8 hours taken to gather information x £100.78 wage rate = £1,600

138. **Significant event**

139. Significant events are events that may affect the ability of an authorised CDC scheme to continue to meet the authorisation criteria. For example, if a scheme has a change of trustee this is a significant event because the fitness and propriety of a trustee is linked to the authorisation criteria. The Regulator must be notified in writing, as soon as reasonably practicable, if a significant event has occurred to an authorised CDC scheme.

140. These requirements are designed to protect members by ensuring that the Regulator is made aware of such events and can engage with the scheme as necessary to obtain additional information or require action to be taken. Significant events are not expected to be a common occurrence as CDC schemes should be authorised and subject to ongoing supervision.

141. The Master Trust authorisation impact assessment assumed one member of staff would spend 30 minutes drafting and sending the relevant information to the Regulator. It is estimated that CDCs are likely to have to report changes to at least 1 or 2 'fit and proper' people each year, plus reporting more infrequent significant events such as change or

failure of systems and processes around once every five years. From the 3rd year of the appraisal period, it is assumed that there will be two significant events per year that they are required to notify the Regulator of.

Cost of notifying the Regulator about a significant event

2 significant events per year x 1 trustee x 0.5 hours to notify the Regulator x £100.78 hourly wage rate = £100

142. **Risk Notices**

143. Risk notices are a supervisory tool that allows the Regulator to issue a notice to the trustees of a CDC scheme if it considers there is an issue of concern in relation to the scheme and that the scheme will breach the authorisation criteria, or is likely to breach them, if the issue is not resolved.

144. This mechanism enables the Regulator to require action from the trustees on a structured basis in order to resolve its concerns before the situation deteriorates any further. It will help mitigate the risk of the Regulator having to decide to withdraw a scheme's authorisation, which may not be in the best interests of members.

145. The risk notice requires trustees to set out how the issue will be resolved by submitting a resolution plan to the Regulator. Penalties apply for non-compliance, which reflects the seriousness of the issues and that further regulatory action is likely if they are not resolved. The trustees are also required to provide progress reports to the Regulator so that it can monitor progress and ensure that the appropriate action is being taken.

146. Resolution plans and progress reports must be provided in a manner and form specified by the Regulator. This may depend on a case-by-case basis and require more or less work depending on the issue of concern. Therefore, it is assumed that one trustee may take around 5 hours to submit the initial resolution plan, but subsequent progress reports should take less time. Depending on the success of the resolution plan, trustees may have to submit one or more progress reports.

Cost of submitting a resolution plan to the Regulator

1 trustee x 5 hours to notify the Regulator x £100.78 hourly wage rate = £500

Cost of submitting a progress report to the Regulator

1 trustee x 2.5 hours to notify the Regulator x £100.78 hourly wage rate = £300

147. **Triggering event**

148. The 2021 Act places certain requirements on CDC schemes including the need for the Regulator to be notified if the scheme experiences a triggering event, which can pose a significant threat to the future of the scheme and the interests of members. It is assumed that it would be very unlikely that there will be any triggering events during the appraisal period, it is therefore felt it would be disproportionate to assess all the likely costs given their scale.

149. Over the life of a CDC scheme, events may occur which impact the security and strength of the financing arrangements which supported the Regulator's initial authorisation of the scheme. It is expected that trustees will in any event keep the Regulator up to date about

any planned or emerging significant events because of the collaborative supervisory relationship that is envisaged developing between CDC schemes and the Regulator.

150. There would be a cost to notifying the Regulator as in the case of a significant event above.

Cost of notifying the Regulator about a triggering event

1 trustee x 0.5 hours to notify the Regulator x £100.78 hourly wage rate = £300

151. **Implementation strategy**

152. An implementation strategy is a document setting out how the interests of members are to be protected following the occurrence of the triggering event. The document must detail the decisions and actions that will need to be taken in order to resolve the triggering event, identifying the person responsible for taking them and the timescales for taking them.

153. It must also contain a communications plan setting out what information will be provided to employers and members including which continuity option is being pursued. This approach is consistent with that taken with the master trust authorisation regime.

154. The implementation strategy will need to be prepared by schemes that have a triggering event and will be specific to the continuity option that they have chosen or are required to take due to Regulator action.

155. Consistent with the assumptions used in the Master Trust Impact Assessment, it is believed that a scheme would have three trustees spend at least 27 hours writing the implementation strategy, should a triggering event occur.

Implementation strategy

3 trustees involved in creating the implementation strategy x 27 hours taken to create the implementation strategy x £100.78 wage rate = £2,100

156. **Continuity option 1**

157. This option will arise where the trustees of the CDC scheme are required by the Regulator, or themselves choose, to wind up the scheme following a triggering event. Triggering events are not common within pension schemes, and have much greater consequences than significant events, which can happen as a part of regular business.

158. It is unlikely that a scheme will be required to go through this winding-up process and leave the market during the appraisal period, given the amount of investment that has gone into developing the regime.

159. There would be a cost to the scheme in carrying out the responsibilities required during a triggering event period. These include:

a) notifying the Regulator that there has been a triggering event;

b) creating an implementation strategy, and having it approved by the Regulator;

c) notifying all employers that the scheme has experienced a triggering event, and how they plan to transfer members out and wind up the scheme;

d) notifying all members of the choices available to them; and

e) periodically reporting to the Regulator about the scheme's progress in addressing the triggering event.

160. A scheme following option 1 will have to notify the Regulator of the occurrence of a triggering event and spend time writing and clearing documents to send to members, employers, and the Regulator.

161. The implementation strategy would have to set out how members' interests will be protected while the scheme winds up and must also set out the levels of administration charges faced by members, in order to ensure compliance with the prohibition measure.

162. The implementation strategy would also have to include details of the scheme to which they propose to transfer existing members of the scheme to (when known), and detail when they expect to transfer existing members from the scheme.

163. There will be more information in the Regulator's code, but it is seen as disproportionate to update these costs given the unlikelihood of the occurrence and the scale of costs.

164. **Continuity option 2**

165. Continuity option 2 provides for the resolution of a triggering event. The aim of continuity option 2 is to allow some flexibility for trustees where the triggering event does not warrant the winding up or closure of the scheme.

166. It is assumed that, if a CDC scheme experiences a triggering event within the appraisal period they will choose, wherever possible, continuity option 2 and resolve the triggering event rather than winding up the scheme and exiting the market.

167. Where the trustees decide to pursue continuity option 2, they must notify the Regulator when they consider that the triggering event has been resolved.

168. No triggering events are expected over the ten years. This is due to only one expected scheme and the authorisation and supervisory regime mitigating some of the causes of triggering events.

169. In the case where a triggering event occurs, schemes would not have to communicate with members as in the continuity option 1 scenario above, so would not incur the cost of communication with members. The cost would therefore broadly be similar as for a scheme following continuity option 1 but without the additional cost of member communications.

170. There will be more information in the Regulator's Code but it is seen as disproportionate to update these costs given the unlikelihood and scale of costs.

171. **Continuity option 3**

172. Following a triggering event, continuity option 3 provides for a decision to be taken to convert the scheme to a closed scheme. In relation to a CMP scheme, this means closed to new contributions or new members (or both).

173. This is intended to address a scenario where, for example, an employer with power under the scheme to close the scheme chooses to do so in order to deliver an income stream to

members in retirement through the scheme but for the scheme not to have any active members going forward. A scheme may only operate on a closed basis if this is provided for in the scheme rules and the trustees have received a notification from the Regulator that it is satisfied that the preparations for conversion to a closed scheme are complete and will resolve the triggering event.

174. It is difficult to accurately assess the counterfactual in this situation, as it is not expected that a CMP will experience an event that would cause it to close. The loss of revenue compared to the baseline would depend on the number of members that expected to join but who now could not.

175. These are expected to be used only in exceptional circumstances. The financial sustainability requirement should ensure that the scheme has the capital in order to resolve the issue at hand or wind-up the scheme appropriately.

176. **Automatic enrolment quality requirement**

177. For schemes used by employers to fulfil their automatic enrolment (AE) duties, there must be a quality test to ensure the scheme is compliant with the relevant AE tests. Existing regulations did not make provisions for CDC schemes to ensure they are AE compliant. This change will require trustees of CDC schemes to certify that their CDC scheme provides at least as good an outcome as the AE DC minimum for all (or nearly all) scheme members.

178. Given that employers and trustees would have been required to fulfil this test for the workplace pension scheme they offer, regardless of whether the counterfactual if a DC or DB scheme, it is assumed that this is a net zero cost to business.

Benefits

179. **Running costs**

180. Where the counterfactual is DB, savings to sponsoring businesses may be substantial. New private sector DB schemes are no longer being created in practice. And where DB promises already exist employers cannot break them; however, they may choose to close their schemes to new members and/or future accruals. The introduction of CDCs will not alter this. However, in practice pension provision may be subject to negotiations between the employer and its workforce / labour union, and there may be situations where DC is not an acceptable alternative to DB for future accruals and / or new members but a CDC is.

181. Evidence shows that although the DB sector as a whole remains sustainable, the associated costs are high and higher than what was expected at the time the DB schemes were introduced, with longevity growing faster than expected and investment returns staying low for a sustained period of time[26].

182. According to the latest data from the ONS[27], over the calendar year 2018, sponsoring businesses of DB schemes paid normal contributions worth around £17.6 billion, and special contributions worth around £8.7 billion, in total. Over the same time period, DC scheme sponsoring businesses paid about £11.7 billion of normal contributions, and about £0.31 billion of special contributions.

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26 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/693655/protecting-defined-benefit-pension-schemes.pdf

27 https://www.ons.gov.uk/economy/investmentspensionsandtrusts/datasets/mq5investmentbyinsurancecompaniespensionfundsandtrusts

183. DB sponsoring businesses may also incur indirect costs associated with the natural uncertainties arising from their commitment to sponsor a DB scheme. For example, any changes in life expectancy and/or investment return forecasts would alter their estimated DB pension liabilities and thus their balance sheets, making them more uncertain and volatile, and in turn potentially making their business less attractive to potential investors or creditors. Replacing DB with CDC would result in a saving in this sense as well. There is a strong financial incentive for DB sponsoring businesses to switch to CDC, but it is not possible to know how many of these would have switched to DC in the counterfactual scenario with no CDC option.

184. Given the vast uncertainty around how a business may set up their CDC scheme and that CDCs are a permissive measure, it is not possible to quantify the potential benefits to business.

185. **Costs and benefits to other affected parties**

186. **Costs to members**

187. On an individual basis some members may incur costs associated with the introduction of CDCs. Given the uncertainty around scheme design and future adoption of CDCs these are discussed qualitatively but it is not possible to quantify the potential costs to members.

188. Where the counterfactual is DB, all members are expected to face greater uncertainty in their pension income under CDC given that all the risks and associated costs under CDC are with them rather than their employer. Where the counterfactual is DC, members may be worse off for the following reasons:

189. **Not all members will gain from CDCs**

190. Any collective scheme will smooth, to a certain extent, outcomes between members and outcomes over time. So, whilst overall members might benefit, some may experience a worse outcome than under an individual DC. One reason for this is that a member could be due to retire in ‘strong’ economic conditions and potentially may have received a higher income from annuitizing than under the smoothed CDC benefits. However, the risk of the member retiring in ‘strong’ economic conditions is placed solely on the member.

191. A further reason is that the member may die at a young age. This is an inevitable consequence of pooling risk and happens in both DB schemes and annuities where those that die young subsidise the pensions of those that live longer.

192. **Foregone opportunity**

193. An individual’s preference between an individual and collective pension depends on objective expected outcomes, such as income level and risk / volatility, and their subjective preferences around risk aversion and, more generally, their lifetime utility function.

194. For example, some members may choose for their pension to be invested in higher risk investment strategies or prefer Environmental, Social and Governance (ESG) funds. However, if an employer who currently offers a DC scheme chooses to offer a CDC scheme, there may be individuals that prefer a DC scheme and the flexible investment choice. Under a CDC they would no longer have the option to choose where their fund is invested.

195. In this case members would either have the option to potentially move jobs to an employer that offers a DC scheme, transfer out of the CDC scheme itself or negotiate with their employer to contribute to a separate scheme, as is currently the case for members of occupational schemes that are not happy with their current pension arrangements. An example where this could occur is in a situation where, from the individual's point of view, there are undesirable transfers and subsidies, for example, from young to old or from poor to rich.

196. Although 96% of memberships in non-micro DC schemes are invested in the scheme's default investment strategy[28], members rarely exercise their ability to choose investments in DC schemes. Moreover, members in DB schemes are unable to choose where their pension fund might be invested so the cost of foregone opportunity is likely to be low.

197. **Benefits to members**

198. The assessment is that a CDC that is sufficiently well designed, run, and regulated can provide a more stable outcome for members at a lower cost than individual DC. There are several reasons for this:

199. **Ability to smooth out shocks from the investment market to provide more stable pensions**

200. This is an inherent feature of CDC. The expectation is also supported by existing modelling-based evidence. For example, a study from the Netherlands, 'Benefits of Collective Risk Sharing in Defined Contribution Pension Systems'[29], suggested up to 15 per cent higher pension payments in 'bad' economic scenarios than the individual contract.

201. This is also supported by modelling from Willis Towers Watson[30] which looked at the effect of the pandemic on CDC pensions under the design published by Royal Mail. They found that, for a CDC member about to retire, the Q1 market shock would have little effect on their initial retirement income, but potentially a modest reduction in long-term future pension increases depending on how markets develop. As intended, Q1 market falls would have been smoothed out and the member could retire as planned without the need to face a difficult retirement decision. By contrast, a member about to retire with a DC pension would be facing an 8% reduction in their pension due to unlucky timing.

202. However, the ability to smooth out shocks in 'bad' economic scenarios also means smoothing out in 'strong' economic scenarios too.

203. **Ability for members to share their individual longevity risk with other members, so that they avoid the risks of either outliving their savings or being unnecessarily frugal with their savings**

204. This potential benefit arises from the concept of longevity pooling. Individuals cannot accurately predict how long they will live. Those who turn out to underestimate their life expectancy risk outliving their savings by withdrawing too much or too quickly from their pot, and those who overestimate may end up underusing their pensions pot. However, pooling means that those who would otherwise be outliving their savings and those being unnecessarily frugal with their savings balance each other out, at least to some extent.

205. **Potentially higher pensions overall (but not for all)**

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28 https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/dc-trust-scheme-return-data-2020-2021

29 By Marcel Lever and Thomas Michielsen, Sept 2014. Available at: https://www.netspar.nl/assets/uploads/P20161100_occ009_Lever_Michielsen.pdf

30 https://www.wtwco.com/en-GB/Insights/2020/05/how-would-recent-market-falls-have-affected-members-approaching-retirement-in-a-cdc-scheme Willis Towers Watson

206. The primary underlying theoretical reason for the potentially superior performance of CDC schemes (compared against DC) is that CDC schemes can invest a high proportion in growth assets (e.g., equities) throughout their whole lifetime, whereas typical DC schemes tend to move into safer, lower-returning assets as the member approaches retirement. Also, de-risking in DC may mean purchasing annuities during 'adverse' times, e.g., when gilt yields are low; whereas in CDC, annuities are not necessary to provide a lifetime stream of pensions income.

207. AoN Hewitt have modelled the historic behaviour of an illustrative CDC plan compared with DC schemes over the period from 1930 to 2012. The outcomes of their modelling suggest that over the period CDC reaches a better outcome than DC[31].

208. Based on a different set of assumptions and approach, Cass Business School's modelling[32] suggested that a CDC scheme can generate a pension that is 30% higher, and volatility per unit of return in the CDC scheme is just 16% of that in the individual DC scheme. An additional study from the Royal Society of Arts' study in 2012[33] showed an improvement of 37% in pension outcomes from a move to collective pension provisions.

209. Moreover, a study[34] by the Pensions Policy Institute (PPI), which compared a CDC scheme like that modelled by AoN with various individual DC alternatives, found that CDCs outperformed individual DCs in terms of the average income replacement rate in almost all the modelled scenarios.

210. The modelling outcomes depend on several assumptions, among them those associated with the design of the CDC plan. Also, investment behaviours are driven by a complex set of factors and given that CDCs do not exist in the UK, the underlying modelling assumptions are theoretical and / or based on international evidence. It is not possible to accurately predict outcomes for future UK CDC schemes, but the available modelling evidence suggests that CDC, if well-designed, has the potential to deliver a higher level of overall pensions than individual DC.

211. **Converting DC pots into an income stream for members without the high costs of guaranteeing income through an annuity**

212. Annuities are insurance policies which pay an annual income for life in exchange for a lump sum. DC members can use their pension pot (or part of it) to buy an annuity and have a guaranteed stream of income for their whole lifetime. But buying an annuity may be costly as the price has to cover not only the insurer's costs of providing it but also the insurer's premium and other fees. For example, Longevitas[35] say that 'an insurer in the UK will typically charge around 5% more than it expects the annuity to cost'. In CDC, a lifetime stream of 'target' level pensions could be provided without the need for the member to buy an annuity, so CDC represents a potential efficiency saving.

213. **"Hands off" access to a professionally managed investment strategy**

214. DC members have more discretion and responsibility for managing their pension strategies. Depending on individual preferences, some may consider this to be in their best interest, but some may prefer "hands off" access to a professionally managed investment strategy, which CDC type schemes can offer. For example, the UK section of the 2013 AoN Hewitt Global Pension Risk survey received 241 responses, of which 46% mentioned

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31 https://www.aon.com/unitedkingdom/attachments/aon_hewitt/dc/Aon_Hewitt_The_Case_for_Collective_DC_Nov13.pdf
32 Independent Review of Retirement Income: Report, David Blake, March 2016. http://www.pensions-institute.org/IRRIReport.pdf
33 https://www.thersa.org/discover/publications-and-articles/reports/collective-pensions-in-the-uk#
34 Modelling Collective Defined Contribution Schemes, PPI, 2015. http://www.pensionspolicyinstitute.org.uk/publications/reports/modelling-collective-defined-contribution-schemes
35 https://www.longevitas.co.uk/site/informationmatrix/areannuitiesexpensiveenough.html

'members don't need to be involved in investment' when asked 'What do you see as the biggest positives of Defined Ambition plans?'[36].

215. **Costs to the Regulator**

216. The Regulator may experience reduced costs as a result of pro-active on-going supervision of CDCs. This could mean that the Regulator has to direct less resource towards CDC supervision in the event of an unexpected failure. As this is difficult to calculate it has not been monetised at this stage.

217. The total cost to the Regulator will count as a direct cost to business, as the majority of this will be paid for by CDC's application fees which have already been counted as a direct cost to business, however, the cost in this section is calculated as the difference between the cost to the Regulator and the amount recovered through application fees.

218. In each subsequent year, the amount to be paid to the Regulator will be recovered through the general levy, minus any application fees already costed as a direct cost to business in that year.

219. **Wider economic and societal impacts**

220. CDCs could bring investment benefits to the wider economy. As mentioned above, CDC schemes are expected to be able to invest (over their lifetimes) a greater proportion in a cyclical, long-term returning assets than DC. These might include, for example, investing in illiquid assets such as infrastructure projects. However, investment choices and their impacts on wider economy are always complex and hard to assess / predict.

221. Additionally, the introduction of CDCs could allow for improved industrial relations between employers and their workforce and labour unions, particularly in the case of negotiations regarding pension provision, across the relevant workforces. In the case of Royal Mail specifically, this extends to improving industrial relations with up to 140,000 employees. As such, there is the potential for improved economic output to the wider economy – this is especially the case given the nature of postal services provided by Royal Mail. However, estimating the extent of this is beyond the scope of this RIA given its complexity.

222. **Intergenerational fairness**

223. In principle, CDC plan design involves risk sharing, which is likely to occur both between the members of the same cohort and between different cohorts. Critics of CDCs often claim that they are inherently unfair towards younger generations as older people may have first call on the pooled fund to pay their pensions, and workers may have to make up any shortfall with increased contributions. The main lesson to be learned from abroad is the Dutch experience. The Dutch regulatory system for CDCs requires a very high level of certainty that target benefits and inflation increases can be paid by prescribing large funding buffers. Slow growth in asset values means that when the buffers were expended in the financial crisis, they could only be restored through increased contributions from younger workers[37].

224. A possible CDC scheme model to mitigate these risks is that presented by Royal Mail, which involves ensuring 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.,

36 https://www.aon.com/unitedkingdom/attachments/aon_hewitt/dc/Aon_Hewitt_The_Case_for_Collective_DC_Nov13.pdf
37 https://publications.parliament.uk/pa/cm201719/cmselect/cmworpen/580/580.pdf

annually), and (c) that all cohorts of members are treated the same when adjustments are made. This means no funding buffers, and no need for additional funding from younger members to pay out pensions to older workers. In that case it is highly likely that members would see more volatility year on year than in the Dutch system, but an initial analysis and advice provided to us by Royal Mail suggest that in almost all years pensions in payment, and target pensions for those yet to retire, could increase by inflation plus or minus 1 or 2%, per year.

225. Some other views from the pensions industry also seem to suggest the risk of intergenerational fairness is solvable. AoN Hewitt, for example, mention that dealing with these issues of smoothing requires very careful communication to members and good actuarial processes.

226. CDC schemes will be required to have processes in place to ensure their members can understand that benefit levels might be regularly adjusted accordingly. It is anticipated that CDC schemes will make use of modern methods of communication, including social media and video to help ensure members can access the information they need to do this in the most appropriate way for them.

227. **Small and Micro Business Assessment (SaMBA)**

228. There is no evidence of any disproportionate cost on small and micro businesses for this legislative change. This proposal creates the option for employers to enrol their employees into a CDC pension scheme. Therefore, businesses will only undertake the associated costs of enrolling their employees into a CDC scheme if they believe it to be beneficial for them to do so relative to the next best alternative.

229. Moreover, although all businesses will have the option to do this, it is expected that large employers will be more likely to undertake this option due to the advantages of economies of scale, the pooling of risk among a larger group of members and the greater ability to undertake more long-term investment strategies.

230. **Monitoring and Evaluation**

231. The legislative framework aims to provide transparency about the operation and effectiveness of CDC schemes and requires the publication of certain scheme information. In addition, the Regulator plans to collect and monitor data on CDC schemes in the same way as they currently do for occupational DB and DC schemes, looking at schemes, members, and assets.

232. The authorisation and supervision process will require schemes to set out and report on their on-going viability informed by their annual valuations and taking account of any guidance produced by the Institute and Faculty of Actuaries. This will allow an assessment of these schemes to provide the level of income they aspire to, to be made on an on-going basis.

233. Investment and providing pension income is a long-term proposition and as such monitoring will be on-going.

234. **Key assumptions/sensitivities/risks**

235. **Scope of RIA**

236. This RIA only seeks to cost the additional marginal cost of these regulations. There are costs associated with establishing a CDC scheme which are outside of the scope of this impact assessment, such as scoping of scheme design before application. These costs are optional, and it is assumed that they will only be incurred if the benefits are judged to outweigh them.

237. **Unknown counterfactual**

238. The costs and benefits are highly dependent on the counterfactual (whether a firm's employees would in future be enrolled in a DB scheme, a DC scheme, or a hybrid DB/DC scheme) which is not possible to predict. Particularly for DB employers, there are uncertainties as to whether they would switch to DC in the absence of CDC legislation. **In any counterfactual all employers with eligible employees will be required to set up a workplace pension and automatically enrol eligible employees.** Therefore, there are some costs that businesses would still incur regardless of whether they adopted a CDC scheme. For these costs it is estimated that there is a net zero cost because businesses would have had to undertake them under any counterfactual.

239. There is data on how many employers currently offer DB, DC, and hybrid schemes, but it is not known what employers will choose to do in the future in relation to their scheme choice for occupational pensions.

240. **Demand for CDC schemes**

241. At this stage there is awareness of only one employer, Royal Mail Group, who has a clear plan to deliver a CDC scheme. For this employer, they have undertaken extensive additional scoping and implementation work which other schemes would be unlikely to incur. The Royal Mail Group CDC scheme is highly specific and to extrapolate costs or benefits for this employer to wide businesses would be highly commercially sensitive and speculative. Give no other businesses are currently developing plans to adopt a CDC it is not possible to present aggregate costs or benefits. The Institute and Faculty of Actuaries CDC Pension Scheme Regulatory Working Party suggests that it is unlikely another CDC scheme will open within a year of the Royal Mail Group, and that there are unlikely to be more than ten CDC schemes by 2025[38].

242. Moreover, at this stage it is only expected that larger businesses would be able to offer CDC schemes. The legislation only allows for single or connected employers and therefore, an employer must be large enough to sustain the contributions required for a CDC scheme over the long term. It is highly unlikely smaller or medium sized employers would be able to afford the costs of setting up a new scheme and maintain the long-term employee contributions required for a successful CDC scheme.

243. Once CDC regulations are laid and more schemes are set up, the process and costs associated with setting up should be lower. This is because businesses will have clear regulations and guidance to follow, and they can learn from the schemes set up earlier.

244. **Bespoke scheme design**

245. The regulations for CDC schemes are designed to give businesses the ability to design the scheme around their needs and business. There is significant scope for bespoke scheme design. Whilst the Royal Mail Group are designing a CDC scheme that suits their business

38 https://www.actuaries.org.uk/system/files/field/document/RB%20May%202021%20CDC%20Working%20Party%20Paper.pdf

needs, this design may be unsuitable for another larger employer. Therefore, the current regulations outline the minimum standards for CDC schemes, but businesses may choose to do additional work, which may incur higher costs, depending on how they decide to set up and run their scheme.

246. It is not certain what other models, outside the Royal Mail Group, might look like. Scheme design is heavily choice driven. For example, some businesses may opt for higher benefit rates or contribution rates. There may be circumstances where businesses create a scheme with more regular communications with members than the statutory requirements. Therefore, it is not possible to estimate the exact costs of all potential CDC scheme designs. There may be circumstances where businesses incur higher or lower costs depending on their bespoke scheme design.

247. **Uncertainty of costs**

248. CDC schemes are an entirely new addition to the pension system and there are no schemes operating or authorised.

249. **Average hourly wages**

250. For average hourly wages the ONS' Annual Survey of Hours and Earning (ASHE) has been used. This provides annual estimates of paid hours worked, weekly, hourly, and annual earnings for UK employees by four-digit Standard Occupation Classification 2010.

251. The median hourly gross pay for each profession has been used where relevant. This is then uplifted by 27% for overheads from the previous version of the Green Book (no updated estimate is available).

Table 6: Annual and hourly gross pay in the UK for the main occupations involved in the set-up and running of a CDC scheme, 2020

Description	Annual pay - Gross (£) - UK 2020		Hourly pay - Gross (£) - UK 2020	
	Median	Mean	Median	Mean
Corporate managers and directors	44,500	59,693	22.73	28.56
Information technology and telecommunications professionals	43,592	47,128	22.44	24.11
Legal professionals	47,342	61,375	26.35	32.14
Management consultants and business analysts	40,268	45,123	21.47	23.77
Business and financial project management professionals	49,142	55,276	24.63	27.35
Actuaries, economists, and statisticians	45,057	68,853	22.93	27.87
Finance and investment analysts and advisers	35,555	43,998	18.69	21.59
Sales, marketing, and related associate professionals	38,390	45,271	17.53	21.14

Source: ASHE Table 15[39]

39 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/regionbyoccupation4digitsoc2010ashetable15

252. **Trustees**

253. The Regulator's data on 'Number of Trustees – by scheme size' estimates three Trustees per Scheme[40]. However, research has indicated 8 trustees per scheme and also included increasing the average trustee wage from £22.73 (not including overheads) to £100.87 (including overheads) to allow for a more representative size, structure, and wage profile of a board of trustees.

254. **Other Impacts**

255. **Equality**

256. 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 and considers that an Equality Impact Assessment is not necessary.

257. **Environmental**

258. There are no implications.

259. **Rural proofing**

260. There are no implications.

261. **Health**

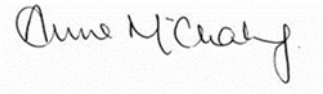
262. There are no implications.

263. **Human rights**

264. The Department considers that the regulations are compliant with the Human Rights Act 1998.

265. **Competition**

266. There are no implications.

Approved by:	 Anne McCleary Director of Social Security Policy, Legislation and Decision Making Services	**Date:**	29 April 2022

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40 https://webarchive.nationalarchives.gov.uk/20170712122409/http:/www.thepensionsregulator.gov.uk/docs/trustee-landscape-quantitative-research-2015.pdf