Response by TISA to:
The Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2021

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About TISA

The Investing and Saving Alliance (TISA) is a unique, rapidly growing membership organisation for UK financial services.

Our ambition is to improve the financial wellbeing of all UK consumers. We do this by focusing the convening the power of our broad industry membership base around the key issues to deliver practical solutions and devise innovative, evidence-based strategic proposals for government, policy makers and regulators that address major consumer issues.

TISA membership is representative of **all sectors of the financial services industry.** We have **over 200-member firms involved in the supply and distribution of savings, investment products and associated services**, including the UK's major investment managers, retail banks, online platforms, insurance companies, pension providers, distributors, building societies, wealth managers, third party administrators, Fintech businesses, financial consultants, financial advisers, industry infrastructure providers and stockbrokers.

As consumers, the financial services industry and the economy react to and recover from the effects of the pandemic, the importance of the three key pillars of work that TISA prioritises has never been more apparent:

- **Strategic policy initiatives** regarding the financial wellbeing of UK consumers & thereby enhancing the environment within which the industry operates in the key areas of **consumer guidance, retirement planning, later lifetime lending, vulnerable customers, financial education, savings and investments**.
- TISA is recognised for the **expert technical support provided to members** on a range of operational and regulatory issues targeted at improving infrastructure and processes, establishing standards of good practice and the interpretation and implementation of new rules and regulations covering **MiFID II, CASS, ESG/RSI, operational resilience, Cyber Risk, SM&CR** and a range of other areas.
- **Digital transformation initiatives** that are driving ground-breaking innovation and the development of industry infrastructure for greater operational effectiveness and revenue promoting opportunity for firms. TISA has become a major industry delivery organisation for consumer focused, digital industry infrastructure initiatives – **TISAtech** (a digital marketplace that brings together financial institutions and FinTechs for greater collaboration and innovation) and **TURN** (TISA Universal Reporting Network – a digital platform providing a secure data exchange for financial services using blockchain technology) – alongside projects **Digital ID** and **Open Savings & Investment**. This reflects TISA's commitment to open standards and independent governance.

Executive Summary

TISA welcomes the opportunity to respond to the DWP consultation – The Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2021.

We welcome the introduction of Collective Money Purchase (CMP) as a new addition to the UK pension landscape. However, we need to be mindful of the risks that are involved with this type of scheme structure.

They are seen as a half-way house between Defined Benefit (DB) and Individual Defined Contribution (IDC). But when you consider the differences and risks, it is not a true halfway house.

DB – employer carries all the risks and the employer covenant provides the strong promise/guarantees

CMP – employee carries all the risks as there is only an expectation provided of the benefits a scheme will provide in retirement. This is subject to changes (up and down) however the way the benefits are conveyed may mean an employee likens this to a DB type arrangement

The combination of the potential lack of transparency (due to complex scheme structure and assumptions) combined with the lack of any guarantees means that the governance of these schemes is crucial. Furthermore, the quality of communications need to ensure that scheme members are aware of the potential benefits and risks they are exposed to.

Where similarities between IDC and CMP arise, then all the associated protections and opportunities should be applied across both scheme types This includes the governance around value for money and the nudge towards pensions guidance and regulated advice as retirement approaches. Members of CMP schemes should be provided with the same retirement opportunities that members of IDC receive and specific information relating to pension freedoms should form part of the consumer journey.

It will take time to see how CMP schemes take off in the UK. We have seen both success and intergenerational issues in European CMP models, however these tend to operate at an industry sector level where economies of scale lends itself more to a pooled fund structure, where it is easier to smooth returns in poorly performing years.

We would be happy to discuss any aspects of our response with you.

Question responses

Chapter 1: Scope and Applications

Question 1
Do the draft regulations make it clear to employers whether they are considered to be connected for the purpose of the legislation?

Yes

Question 2
Are there any other characteristics that should be added to those that are already listed at regulation 4(1)?

- Proposed pension in payment increases
- How any financial buffers which are used to smooth returns in poorly performing years are allocated
- General scheme characteristics such as allowance for ill health claims

More generally, should scheme rules define the characteristics of the separate sections a scheme may have?

Chapter 2: The Application Process

Question 3
Do you agree with the proposed fee structure, taking into account schemes containing multiple CMP sections?

Yes this seems a fair approach. Whilst we understand the complexity associated with CMP scheme stuctures need to be factored into associated authorisation costs, there needs to be an awareness and understanding of the impact this might have on deterring schemes who are considering starting a CMP from doing so.

Chapter 3: The Criteria for Authorisation

Question 4
Are there any significant practical barriers to schemes meeting these requirements?

The increased complexity and newness of CMP to the UK means there are significant learning gaps for Trustees and The Regulator in ensuring effective governance for the benefit of scheme members.

It is essential these gaps are not under-estimated and appropriate measures are put in place to ensure responsibilities can be carried out and member outcomes are properly protected.

It seems sensible to align the process as far as possible to Master Trusts and then make changes as appropriate to align to the differences in scheme structure and benefits provided.

Question 5
Do the proposed gateway and ongoing tests provide a sensible measure of whether a scheme's design is sound, at initial application and going forward?

Although the running test does not trigger an automatc wind-up if not met, the running tests should be communicated to impacted members if not met and should prompt wind-up if not met consistently for a 3 year period.

Question 6
What back-stop should be provided in regulations which would require a CMP scheme to wind up rather than close to further accruals? What might constitute suitable evidence to support this decision?

Potential wind-up events could include:

Where the Value for Money test fails for 3 consecutive years or where scheme benefits are downgraded for 3 consecutive years.

Where the amount of 'money in' is underperforming assumptions by 50% or more for 3 consecutive years.

Where 'money out' exceeds assumptions by 50% or more for 3 consecutive years.

Question 7
Do you think the regulations cover the appropriate matters that must be taken into account?

Yes – it is essential that Trustees can evidence their understanding of these regulations and the impacts that certain events can have on member outcomes and ongoing scheme viability.

Question 8
What are the financial costs required to set up the necessary systems and processes required to meet the communications criterion? Please outline any one-off and ongoing costs. This may include set up of IT platforms, data management or postal costs.

This will be for individual schemes to determine but will be a challenging exercise to carry out with any degree of accuracy.

Question 9
Considering the draft regulations and criteria for authorisation, could you estimate the costs of preparing the information required for authorisation? Please outline the extent and cost of external contractors where they may be required. This may include the cost of setting up IT platforms and infrastructure, actuarial support or additional staffing required to support the creation of scheme design and the planning of financial sustainability or triggering events. Please outline if there would there be any significant differences between DB and DC schemes.

This will be for individual schemes to determine but will be a challenging exercise to carry out with any degree of accuracy.

Chapter 4: Valuation and Benefit Adjustment

Question 10
Are the regulations clear about how valuation and benefit adjustment is to take place?

Yes this seems clear, however it is equally important that these are clearly communicated to scheme members.

Chapter 5: On-going Supervision Framework

Question 11
Do you think that the events listed in draft regulation 23 will provide the information the Regulator needs or are there other events that should be added?

Yes

Question 12
Do you think that draft regulation 29 and schedule 6 meets the policy intent of providing a clear framework in which CMP schemes can be wound up and the interests of members protected?

Yes

Question 13
What are the potential ongoing financial costs associated with ensuring the scheme continues to meet the ongoing supervision requirements? This may include the cost of ongoing actuarial support, communication costs and IT platforms.

This will be for individual schemes to determine but will be a challenging exercise to carry out with any degree of accuracy.

Question 14
What steps do you intend to carry out in order to monitor equality impacts on members over time?

This will be for individual schemes to determine but Trustee guidance will be crucial in this area.

Chapter 6: Publication and Disclosure of Information

Question 15
Do you agree with the amendments made to the Disclosure Regulations for CMP schemes?

Yes - transparency covering the scheme structure and assumptions conveyed in a clear an unambiguous manner to scheme members is crucial.

Question 16
Are there any other areas within the Disclosure Regulations that you feel should be amended to take account of the unique collective design of CMP schemes?

Before a person is defaulted into the CMP retirement vehicle, they should be made aware that they can transfer to access flexible benefits. It cannot be assumed that this will be understood from a statement placed in an Annual Statement as research shows these are rarely read in full. A standalone communication is required to ensure members are aware of the full range of retirement benefits that are available to them.

There is also a strong government focus on nudging towards MaPS guidance. MaPS needs to create guidance for members of CDC who are considering retirement and a nudge is required as it is for other MP schemes.

Question 17
Do you agree with the new publication requirements for CMP schemes?

Yes

Question 18
Outside of the statutory communications outlined in the draft regulations, are there any regular communications you expect to send out to members? Please consider deferred members and those in decumulation in your response.

Yes – when retirement is considered then a nudge to new MaPS guidance is required for members of a CMP scheme. They should be made aware that they can benefit from pension freedoms should they choose before starting the default retirement option. It is not enough to only include this in the annual statement.

Chapter 7: Member Protection and Transfers

Question 19
Do you think the changes we are making to the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (see provisions in Annex A) will implement the charge cap in CMP schemes and protect members in the way we intend?

Yes we agree with a charge cap, however unlike IDC schemes, if a cap become restrictive the scheme may need to reduce benefits. An IDC does not have this option available to them, so there needs to be consideration given to the correlation between a charge cap and the proposed scheme benefits.

Chapter 8: Consequential Changes

Question 20
Are there any other amendments to existing legislation we should consider?

We do not agree with the proposed 3 week cooling off period for a transfer out request. This does not apply to IDC schemes, so this creates inconsistency and may be perceived by scheme members and other industry schemes as a way in which CMP schemes can keep hold of funds for longer.