Response by TISA to:

Extending Opportunities for Collective Defined Contribution Pension Schemes

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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 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 240-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 that influence policymakers** 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, Investments & Pensions**. This reflects TISA's commitment to open standards and independent governance.

Executive Summary

TISA welcomes the opportunity to respond to the DWP consultation - Extending Opportunities for Collective Defined Contribution Pension Schemes.

Whilst we welcome the expansion of CDC schemes within the UK pensions framework, the additional complexity and dependencies need to be closely scrutinised to ensure member protection and outcomes are not compromised. The importance of clear and non-misleading information is essential to ensure that employers and employees are aware how the scheme functions and the potential risks and benefits they are exposed to.

In order to restrict additional complexity and broadly align consumer outcomes and protections, existing regulations relating to Master Trusts and CDC should be adopted where appropriate.

With regards to the Decumulation only model, this appears to still be at an early stage of thinking. It would be beneficial for more work to be invested in this area, with real world scenario modelling undertaken to evidence the sort of member outcomes that could be derived and fundamental principles defined. This would address aspects such as whether individuals would be individually underwritten as the product would not be as appropriate for someone in ill health.

We would be pleased to discuss any aspects of our response with you and look forward to providing ongoing input as the proposals progress.

Question responses

Question 1: Do you agree with the key principles we have identified as necessary for the new types of CDC schemes and in particular whole-life multi-employer CDC models? If not, please set out why.

We agree with the key principles which have been identified and would also suggest including additional points to reflect:

- The scheme governance framework ensures that member protection is at least equal to the Master Trust regime
- Appropriate funding buffers will be in place to ensure that retirement income is not unduly impacted by market volatility and/or actuarial assumptions not being met. The level could be calculated using the same principles that DB schemes apply to determine current and future liabilities.

Question 2: Do you agree with our thoughts on what requirements might need amending to accommodate these new CDC designs? What new triggers for sectionalisation other than a change to the actuarial plan do you envisage might be appropriate in these new schemes?

We agree with the suggestions.

Question 3: Should the definition of "operates" at section 7(5) of the 2021 Act be amended for whole-life multi-employer CDC schemes? If you agree, please set out how.

As an over-arching principle, whole-life CDC scheme governance should align as closely as possible to the Master Trust authorisation regime and existing CDC regulations. This creates consistency and doesn't add excessive additional layers of regulation and complexity. With this in mind, it would seem appropriate for all set up and authorisation costs to be met by the scheme provider/funder before accepting contributions.

It would be inconsistent to expect early joining employers to contribute to these costs when employers joining after a scheme is well established wouldn't have this obligation. It would also create a disincentive for employers to join these schemes.

Question 4: How might legislation capture persons performing the functions listed at paragraph 39 in commercial and sectorial schemes so that they are within scope of the fit and proper persons test? Are there other persons that should be brought within scope of the fit and proper persons test for these new schemes?

We recommend that the existing Master Trust approach is adopted for whole-life CDC schemes.

Question 5: Do you agree that those marketing and promoting CDC schemes should be within scope of the fit and proper persons test where certain conditions apply, and if those conditions should be similar to those in Master Trust schemes?

We recommend the existing Master Trust approach is adopted for whole-life CDC schemes.

Question 6: Are any changes or additions needed to Schedule 1 of the 2022 Regulations in respect of matters to be taken into account by TPR, as part of the fit and proper test to reflect the new roles envisaged to exist in sectorial and commercial schemes?

Whist it falls outside the scope of this consultation, it is important that advisers and employee benefit consultants have a thorough understanding of CDC schemes before including these in their decision making. It would therefore be prudent for FCA to consider introducing a new permission to enable regulated advice to be provided in this area.

Question 7: Are the current scheme design requirements including the tests still appropriate for assessing soundness in the new whole-life multi-employer schemes? Are there any additional soundness considerations or tests needed in light of the new designs?

Standardised wording aimed at employers would be appropriate given the increased complexity associated with CDC to ensure they understand whether it is appropriate for their workforce.

Question 8: If a scheme funder equivalent is introduced for the new whole-life multi-employer CDC schemes including Master Trusts, should similar scheme funder requirements to those in the DC Master Trusts regime apply? Are there any changes needed to ensure there is a clear focal point for TPR's scrutiny and liability for meeting the relevant costs?

We recommend that the existing Master Trust approach is adopted for whole-life CDC schemes.

Question 9: Should business plan requirements, similar to those for Master Trusts, be introduced for commercial and sectorial CDC whole-life multi-employer schemes? What, if anything, should change? Who should be responsible for preparing the business plan?

We recommend that the existing Master Trust approach is adopted for whole-life CDC schemes.

It is important that some updates are made to reflect the role of CDC, the reliance on meeting actuarial requirements and how this would work in periods of underperformance and in the earlier years e.g. how the buffer would be accrued.

Question 10: Do you agree that the existing requirements should apply to new whole-life multi-employer schemes and are additional requirements needed to help ensure that communications used in promoting and marketing the scheme are not misleading? How might Schedule 4 of the 2022 Regulations be amended to achieve this?

Yes, we agree that existing regulation relating to communications should be adopted.

Question 11: Are any changes or additions needed to the requirements in Schedule 5 of the 2022 Regulations to reflect the new designs and relationships anticipated in the new whole-life multi-employer schemes?

We believe the existing requirements in Schedule 5 are sufficient.

Question 12: Do you agree that it is reasonable for the existing requirements in regulations 15 and 16 of the 2022 Regulations to apply to the new whole-life multi-employer CDC schemes, and that the continuity strategy should include an aspiration to operate the scheme as a closed scheme?

The continuity strategy becomes a complex area for whole-life CDC schemes. For instance, the ceasing of contributions or a transfer out from a large employer may increase the likelihood of benefit adjustments to remaining schemes. We believe there needs to be more work undertaken in this area to ensure that continuity strategies do not cause or increase the chances of any member detriment.

Question 13: Do you agree that most of the existing requirements can read across to the new whole-life multi-employer schemes? What changes including the one proposed above do you think should be made to the existing requirements and why?

We recommend that the existing Master Trust approach is adopted for whole-life CDC schemes. This could be extended to include that if previous valuations are consistently incorrect, the central estimate methodology should be called into question and reviewed.

Question 14: Do you think that the list of events in regulation 23 of the 2022 Regulations needs amending for the new whole-life multi-employer CDC schemes? If so, why? Are there new events that should be added or current events that should be removed?

We believe the list of events in regulation 23 are sufficient.

Question 15: Do you agree that the list of triggering events that apply to single or connected employer CDC schemes needs some revision to accommodate whole-life multi-employer CDC schemes? Are there new events that should be added or current events that should be removed?

The list of triggering events could also include details around the insolvency of a significant employer and the potential material impacts this has on actuarial assumptions.

Question 16: Is a similar approach to the wind-up commencement time (and the cessation of contributions/accruals) appropriate in respect of the new whole-life multi-employer schemes? If not, why not? Given AE obligations, how might participating employers be provided with sufficient opportunity to make alternative arrangements, before contributions are prohibited in the whole-life multi-employer CDC scheme being wound up, whilst managing risks to members?

An amnesty for employers which effectively and legitimately suspends contributions should be avoided at all costs. The same level of protections should be in place as it is for Master Trusts and should be adopted with employers provided with sufficient time to find alternative arrangements before the scheme stops accepting contributions and accrual. Buffering requirements should be sufficient to ensure protection of client money in the event of a wind up.

Question 17: Are the current default and alternative discharge options sufficient for the new whole-life multi-employer CDC schemes?

Yes, we believe the existing options are sufficient.

Question 18: Do you agree that the existing framework for the wind up of a CDC scheme can read across to the new whole-life multi-employer schemes? What changes, other than the ones mentioned above, do you consider should be made for these new schemes?

Yes, we agree with the proposals.

Question 19: Do you agree that the existing requirements, outlined in Chapter 10, which apply to single or connected employer schemes can be read across to the new whole-life multi-employer CDC schemes, other than where a modification has been highlighted?

Yes, we agree with the proposals.

Question 20: Who would be responsible for meeting the costs of establishing the arrangement and the short-medium term operating costs?

Question 21: How could such arrangements establish scale and what evidence is there to support this? In addition, until such schemes achieve and maintain scale do commercial providers envisage providing the funding needed to smooth volatility and deliver the aspired to pension benefits? How would the potential issue of small pots be addressed?

Question 22: What mechanism should be used to determine the price at which people might buy into a decumulation only CDC arrangement and what can be done to ensure individuals are treated fairly? In addition, should mortality underwriting be a feature of these arrangements, and how would this best be done?

Question 23: What steps can be taken to ensure communications to members help them understand how these new arrangements will work and how can consistent standards be achieved in the way commercial arrangements market their products to prevent over-promising?

Question 24: What other changes in addition to those set out in this document, do you think need to be made to ensure the effective and fair operation of decumulation only CDC arrangements?

We would suggest that more thought is provided to Decumulation only CDC schemes and the way in which these could effectively operate. This could potentially be undertaken through industry roundtables and once a framework has been drafted, this can be consulted on.

This work should involve scenario modelling and address fundamental principles such as whether entry should be subject to underwriting, the implications this has on cost/outcomes and the appetite for employers to effectively fund income for other employers within the scheme section through mortality cross subsidy.