Response by TISA to the DWP consultation:

The Occupational Pension Schemes (Collective Money Purchase Schemes) (Extension to Unconnected Multiple Employer Schemes and Miscellaneous Provisions) Regulations 2025

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TISA

About TISA

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

Supporting the financial journey through life

Our ambition is to improve the financial wellbeing of all UK consumers by working collectively with the financial services industry to deliver solutions and champion innovation, for the benefit of people, our industry, and the nation.

We do this by working with our member firms to deliver practical solutions and devise innovative, evidence-based strategic proposals for government, policy makers and regulators that address major consumer issues.

TISA is a **not-for-profit membership organisation** and a trusted partner of key industry stakeholders in helping shape the future of the UK financial services and the environment in which we operate. **We have over 270 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, FinTechs, financial consultants, financial advisers, industry infrastructure providers and stockbrokers.

Our work, your influence

With a focus on three strategic pillars of work to best support the consumer and UK financial services, TISA has become a major industry delivery organisation for consumer focused and digital industry infrastructure initiatives. Our three pillars of work remain at the forefront of everything we do:

- **STRATEGIC**
  Build **Strategic policy initiatives that influence policy makers** 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.

- **TECHNICAL**
  Provide **expert technical support 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 ISAs, Consumer Duty, client assets, responsible & sustainable investing, operational resilience, vulnerable customers, governance, conduct & culture, plus a range of other areas.

- **DIGITAL**:
  To transform our industry architecture by building **digital transformation initiatives** that are driving ground-breaking innovation. TISA has become a major industry delivery organisation for consumer focused, digital industry infrastructure initiatives, with projects including **Digital ID** and **Open Savings, Investments & Pensions (OSIP)**. This reflects TISA's commitment to open standards and independent governance.

More here**:** **https://www.tisa.uk.com/about-tisa/**

Executive Summary

TISA welcomes the opportunity to respond to the DWP consultation - The Occupational Pension Schemes (Collective Money Purchase Schemes) (Extension to Unconnected Multiple Employer Schemes and Miscellaneous Provisions) Regulations 2025.

Whilst the response is very technical in nature and will benefit from those with a specialist CDC knowledge, we have highlighted several areas where the proposals do not seem to make sense and/or are at odds with what happens with individual DC regulation.

We are moving to a more principles based regulatory regime, which is focused on empowering members to make informed decisions and to help firms help their customers avoid foreseeable harm. Schemes must be able to evidence that potential and existing employers/members have a solid understanding of the potential benefits and risks that they are exposed to through effective communication. Given the complexity of multi-employer CDC over and above IDC, this is a crucial aspect which needs to be addressed to ensure that the targeted benefits for life do not create a false sense of security and that members/employers are aware of their available options, such as when approaching retirement. We recommend this is called out specifically in the proposed scheme governance requirements.

With Value for Money progressing for individual DC, we believe it is beneficial for this to be embedded with CDC from its inception, so would recommend this is baked into the proposals at an early stage.

Extending to multi-employers raises real issues around the pooling of mortality risk. Employees of different employers will have different life expectancies for a variety of reasons. It would be very unfair to employees of an employer in a cohort likely to have lower life expectancy to be subsidising those with much longer life expectancies. For this reason, the legislation should require the scheme actuary to take into account material differences in likely life expectancies at employer cohort level when converting contributions into target benefits at employer level.

The aspect of 'materiality' when considering the sectionalising of a scheme needs further definition to remove subjectivity and ensure consistency across schemes. Additionally, the approach to benefit adjustment at scheme level appears to disregard the differing risk profiles where more than one section exists and needs further clarity.

More generally, whilst we understand what CDC is looking to achieve and agree with some of the principles, it appears that considerable work is still needed to create a regulatory regime which provides appropriate governance and member protection, along with the opportunities to drive forward fair and good consumer outcomes.

We would be pleased to discuss any aspects of this response with you and are also very interested in contributing to discussions on the CDC Decumulation-only model.

TISA

Question responses:

Question 1: Do you think draft regulation 25 delivers the policy intent for the opening of a new section for unconnected multiple employer CDC schemes?

We believe more detail is required on what would necessitate the opening of a new section to ensure it is consistency and fairly applied to all unconnected multiple employer CDC schemes.

Currently, the proposals state it would only be triggered where 'material differences' to the rates and amounts are created through changes to the Investment Strategy. This is subjective and what one scheme deems material may not be by another.

Question 2: Do you think the definition of connected in draft regulation 22 can work effectively to establish whether a scheme is a single or connected employer CDC scheme or an unconnected multiple employer CDC scheme?

Yes.

Question 3: Do you have any comments on the draft regulations on the fit and proper person requirements?

No comments specifically but we agree with the principles of building on existing regulations to facilitate the governance of unconnected multiple employer CDC schemes.

Question 4: Do you agree with the functions we have identified for the role of the Chief Investment Officer?

Yes.

Question 5: Does the drafting of the scheme design tests deliver the policy intention of providing a sensible measure of whether a scheme's design is sound, at initial application and on an ongoing basis?

For individual DC, we would expect accrued pot sizes to be at least equal to the contributions paid in by the employee and the employer.

Paragraph 53 states the second gateway test states "the expected value of the rights to benefits of each active member expected to accrue under the scheme over a prescribed period is at least equal to the contributions expected to be paid to the scheme by or on behalf of the member in that period (not including contributions made by or on behalf of employers other than those made as a result of salary sacrifice)."

However, in paragraph 58 the Actuarial Equivalence Test requires the actuary to compare individual benefit rights to the amount of contributions paid into scheme by or on behalf of the member – so this implies it would include employee and employer contributions.

Given the confusion this has created with our members, we recommend further detail is provided to ensure a consistent level of understanding can be achieved across industry.

This highlights some of the complexity associated with CDC and the challenges that will exist in ensuring potential and existing members and employers have a solid understanding of the product they are in and the benefits and risks that they are exposed to.

Question 6: Do you have any comments on the drafting of the actuarial equivalence test? Is it clear that the scheme actuary must use the methods and assumptions used in the most recently completed valuation to satisfy the test?

Other than our queries raised in Q5, we would ask for more detail on why the scheme actuary can choose to undertake the test at member or employer level.

Question 7: Do you have any comments on the draft regulations on financial sustainability?

No comment.

Question 8: Do you have any comments on the draft regulations on promotion or marketing?

Given the considerable complexities associated with CDC, it is essential that communications clearly demonstrate the potential benefits, restrictions and risks. This goes significantly beyond individual DC, where the structure is much more transparent and decisions and associated risks are placed on the individual. There is a danger that having the decisions made on your behalf creates a false sense of security for employers and members – this must be addressed through communication.

Furthermore, FCA regulated firms providing these schemes mean that the members will fall under the remit of the Consumer Duty. Consideration needs to be given as to how firms can demonstrate member understanding for these schemes.

The consultation seems to be light on the need for clear and fair communications and the responsibilities placed on schemes for ensuring they can evidence member and employer understanding of the benefits and risks involved.

Trustees should not be prevented from providing factual information about the scheme to existing and potential employers.

Question 9: Are the draft regulations clear that a trustee's ability to pursue continuity option 3 must not be unduly constrained or fettered and how this would be evidenced to the Regulator?

We see a significant shift in what is proposed under Value for Money under individual DC and what is proposed here. With VfM, schemes will be forced to wind up and consolidate where they are underperforming, however for CDC it appears almost the opposite is proposed.

Aside from the obvious conflict this creates, it raises a wider question of how will unconnected multi-employer CDC schemes demonstrate VfM against their peers and will VfM be embedded within this proposed model during the construct?

Question 10: Are the draft regulations clear on how valuation and benefit adjustments should happen?

The consultation states "it is currently a key feature of CDC schemes that any adjustment of benefits must apply to all members without variation. We want to retain this principle for unconnected multiple employer CDC schemes."

However, the rules propose different sections where different investment strategies create a material difference on the rates and amounts used to provide the qualifying benefits – which makes sense if different investment strategies are to be allowed within a single scheme. We do not, therefore, understand why a benefit adjustment would apply at scheme level. This removes the need for sectioning and means schemes could be subject to significant changes as a result of other sections, which may be more or less risky. Surely adjustments would be made at a section level, which aligns to the reason for introducing a sectionalised approach?

Extending to multi-employers raises real issues around the pooling of mortality risk. Employees of different employers will have different life expectancies for a variety of reasons. It would be very unfair to employees of an employer in a cohort likely to have lower life expectancy to be subsidising those with much longer life expectancies. For this reason, the legislation should require the scheme actuary to take into account material differences in likely life expectancies at employer cohort level when converting contributions into target benefits at employer level.

Given our concerns, we recommend further detail is provided as to how this would work in practice with worked examples.

Question 11: Do you think that the significant events listed in draft regulation 44 will provide the information the Regulator needs or are there other significant events that should be added?

Yes.

Question 12: Do you have any comments on the draft regulations that provide for ongoing supervision of unconnected multiple employer CDC schemes?

No comment.

Question 13: Do you agree with the changes in Part 6 of the draft regulations?

Yes.

Question 14: Do you agree with the changes in the Miscellaneous Amendment CDC Regulations 2025?

Yes.

Question 15: What are the financial costs required to establish and run an unconnected multiple employer CDC pension scheme? Please outline any one-off and ongoing costs.

No comment.

Question 16: 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.

No comment

Question 17: How many members do you consider to be a viable minimum in an unconnected multiple employer CDC scheme? Please also include any information you have on target scheme size and source of members.

No comment.

Question 18: Considering potential numbers of schemes, employers and members, do you have any information on the likely size and shape of the unconnected multiple employer market once established?

No comment

Question 19: Do you have:

a) any comments on the impact of our draft regulations on protected groups and/or how any negative effects may be mitigated? b) any other comments about any of our draft regulations

No comment