

31 August 2021

Dear Collective Money Purchase Consultation team,

**RE: THE OCCUPATIONAL PENSION SCHEMES (COLLECTIVE MONEY PURCHASE SCHEMES) REGULATIONS
2021**

The PLSA welcomes the creation of an authorisation regime for Collective Money Purchase (CMP) Schemes and the accompanying regulations. It is important to have a robust authorisation regime for collective money purchase schemes that will engender trust with members. We also want to see a balance struck with learning lessons from master trust authorisation, that will allow others to follow Royal Mail's example in creating collective money purchase schemes of their own.

In our response we offer comment on each of the chapters in the consultation.

We look forward to continuing to engage with Government and regulators both on the future Code relating to CMP schemes as envisaged here as well as forthcoming consultations on approaches to legislating for unconnected multi-employer and decumulation-only CDC.

About us

We're the Pensions and Lifetime Savings Association; we bring together the pensions industry and other parties to raise standards, share best practice, and support our members. We represent over 1,300 pension schemes with 20 million members and £1 trillion in assets, across master trusts and defined benefit, defined contribution, and local government schemes. Our members also include some 400 businesses which provide essential services and advice to UK pensions providers. Our mission is to help everyone to achieve a better income in retirement. We work to get more people and money into retirement savings, to get more value out of those savings, and to build the confidence and understanding of savers.

Scope and application

Overall our members believe that the transition from DB to DC has largely happened where schemes and Employers want to do so. CMP is, however, a potentially innovative solution that might be helpful for sharing the transition risks into retirement across the scheme rather than placing it on individuals.

The PLSA notes that the current scope of the regulations includes single employers and connected employers. We have previously commented that it is not clear that there is demand from employers to provide such schemes, particularly as many have already invested heavily in high quality individual DC provision.

Some of our master trust and multi-employer scheme members are keen to see the next phase of collective money purchase regulations, which the minister has indicated will cover industry wide schemes, multi-employer schemes for unconnected employers and the development of collective money purchase schemes for decumulation purposes only. We support this intention.

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The regulations are sensible in taking into account the possibility of future tranches of collective money purchase benefits yet to be created that could accrue benefits at different rates, and we welcome this forward thinking.

Application Process and CMP Definition

The PLSA is comfortable with the proposed application procedure generally but have had feedback from members that the maximum application fees are twice the expected level. To encourage the creation of more collective money purchase schemes it may be worth reducing the maximum application fee to a more reasonable level (Question 3). This is particularly important as CDC schemes are likely to be costly to run, due to the regulatory and supervisory regime envisaged here, and the approach to investment they are likely to pursue.

It is also worth noting that we have heard concerns about the definition to qualify as a CMP scheme appears at first glance to be quite loose, and would need careful and attentive authorisation review. For example, some DB schemes have scheme rules that enable them to reduce benefits when the scheme is in deficit and an unscrupulous sponsoring employer may be tempted to do so by self-declaring their pension to be a CMP scheme. If the scheme was no longer receiving contributions, technically authorisation might not be required. Thus a “back door” could be opened to avoidance of section 75, TPR moral hazard powers and the reduction of member benefits without recourse.

Criteria for Authorisation

The PLSA welcomes the robust approach to authorisation as set out in the regulations. It is clear that the authorisation regime will mirror that already in use for master trusts. We are keen that lessons are learnt from the master trust authorisation process, particularly the prominence that understanding the business model of applicant schemes receives and how reasonable levels of financial reserves are assessed (Question 7).

The concept of soundness, in respect of the scheme design, needs to be more clearly defined as currently it is open to interpretation. This is also true and follows for the supervisory regime (Question 5). We comment on the supervisory approach further below.

We welcome the fit and proper test and competence of trustees being criteria for authorisation, but the application may need to be adjusted from master trust authorisation to take account of both member nominated trustees and professional trustees being included on the trustee boards of CMP schemes. (Question 4) Given the potential of CMP schemes to result in saver misunderstanding of benefit levels and the real danger of the development of intergenerational issues, it is important that trustees of CMP schemes are fully compliant with their TKU requirements and operate at the highest level of capability. TPR should take account of the higher and somewhat DB-like governance on levels of competency when drafting guidance.

We are pleased that the Government has acknowledged the importance of communication and would continue to emphasise how critical member comprehension and understanding will be for the success of CMPs (Question 8).

Valuation and Benefits Adjustment

The PLSA welcomes the regulations that enable collective money purchase schemes to adjust benefits, by disapplying Section 67, under the conditions as set out. (Question 10)

Ongoing Supervision

The PLSA agrees with collective money purchase schemes paying the same rate of General Levy as other money purchase schemes, and reviewing this in future years. There needs to be communication between DWP and HMRC about the treatment of benefits during the winding up process to ensure that both departments are fully aligned, as there will be fiscal impact on the proposals as set out. It is our understanding that HMRC are considering treating collective money purchase benefits as collective until transferred out, whilst these regulations incorporate a phase of de-collectivising benefits as part of the winding up process.

It will be important that an appropriate list of trigger and notifiable events will be drawn up for CDC schemes so that TPR can be made aware as soon as possible of any potential need to pursue a winding up process.

We continue to call for a full review of the General Levy, not just limited to assessing any current or future levy rate bands for CMP schemes but also across all relevant schemes. (Question 13).

Publication and Disclosure of Information

As above we support specific and tailored disclosure requirements given the nature of CMP schemes and the importance of member communications in this context.

There is an implied assumption made in the drafting that annual benefits statements and notices of adjustments will be made at the same time, which may not be helpful. There are benefits in so far as notices of adjustment can feed into annual benefits statements, though the combination of these to the same timing may create difficulties for reasons of dependency. On balance the PLSA would prefer to see the regulations redrafted in order to leave schemes the opportunity to decouple annual benefits statements and notices of adjustments.

Protecting Members and Transfers

The PLSA supports the measures set out on retaining charge caps after relevant transfers (Question 19) and 'carrying over' other protections for Individual Defined Contribution (IDC) schemes on de minimis and performance fees. Due care should, however, be taken to absorb the current and future work reviewing the impact of the charge cap on the capacity and ability for schemes to invest in illiquid assets. Furthermore, some assessment should be made of likely administration costs for CDC schemes and accounted for in the setting of any charge cap.

We also firmly agree with proposals with regard to protecting members from pension scams and designating CMP schemes as not needing further protections under section 125 of the 2021 Act.

On transfers, the wording should be such that the valuation calculated is not guaranteed and can go up or down by the time the transfer occurs. This valuation given should be treated in the same way as other money purchase benefits and not like a Defined Benefits transfer value.

Consequential changes

We note the consultation explains that HMRC will make the 'necessary' changes to tax legislation. As we have previously raised (see [here](#)) there are important implications for the purpose of taxation that need to be considered prior to the establishment of CDC schemes. Care will also be needed to ensure that the consequential changes, including changes to tax legislation continue to work during the winding-up phase.

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Yours sincerely

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Encl.
