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Direct: 07792424133
Email: Ruari.grant@plsa.co.uk

Napier House
Trafalgar Place
Brighton
BN1 4DW

Dear Vicky Holmes and CDC team

RE: CDC CODE CONSULTATION

I am writing with regard to the open consultation on the new code of practice for the authorisation and supervision of CDC pension schemes. The PLSA has been engaged throughout the development of this new scheme model over recent years, and having responded to DWP's call for evidence last year, we now welcome the publication of the draft code.

About us

The Pensions and Lifetime Savings Association is the voice of workplace pensions and savings. We represent pension schemes that together provide a retirement income to more than 30 million savers in the UK and invest more than £1.3 trillion in the UK and abroad. Our members also include asset managers, consultants, law firms, fintechs, and others who play an influential role in people's financial futures. We aim to help everyone achieve a better income in retirement.

PLSA view on the code

As the representative organisation for such a wide range of firms and schemes within the pensions industry, we have a number of members with a keen interest in how the CDC model will evolve. While this code undoubtedly represents a key step in the journey allowing employers to implement a CDC pension arrangement for their employees, we would however note at the outset that we expect the market for single employer CDC – which this code is for – to be relatively limited. Feedback from our members suggests that most employers considering CDC would opt for a multi-employer/Master Trust structure, so we encourage TPR to work closely with DWP on the next steps to create a regulatory footing for such schemes, as well as for decumulation-only CDC schemes.

Overall, our view is that this code will achieve the policy aims of creating a safe and secure regulatory environment for CDC schemes. Indeed, given it is based on the regime for DC Master Trusts, it sets the bar high for the authorisation and supervision of schemes, which we support so that only stable and sustainable schemes can operate. In order to build credibility in the model, it is vital that from the outset CDC schemes operate to a high standard and demonstrate robust governance. That said, there are some areas where the criteria could be more proportionate and slightly less prescriptive, given these rules only apply to single employer schemes.



24 Chiswell Street,
London,
EC1Y 4TY
Tel: +44 (0)20 7601 1700

www.plsa.co.uk

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Registered office: 24 Chiswell Street, London, EC1Y 4TY

Firstly, while it is clear how the authorisation fee will be applied for differently structured schemes, as we noted in our [DWP response](#), CDC schemes are going to be very costly to both set up and run. Capital reserves will need to be set aside from day one to cover two years' of running costs as well as the cost of winding up, so sponsoring employers will be financially stretched. Therefore, our view is that an entry fee as high as £77,000 may well discourage a large number of potential employers from pursuing the single employer CDC model, especially in view of the lower cost of a DC scheme – or even a potential CDC Master Trust in the future.

In terms of the **fitness and propriety** of those overseeing CDC schemes, we welcome the rigour required around trustee selection, including the fit and proper test and compliance with Trustee Knowledge and Understanding. CDC has complexities not present with Master Trusts, including the potential for intergenerational fairness issues and for saver misunderstanding of benefit levels and volatility; dealing with these challenges will require a certain level of trustee understanding, as outlined by your proposed selection criteria. There are however other areas of difference between DC and CDC, which may require clarification in the code. For instance, DC Master Trust boards do not comprise member nominated trustees (MNT), while CDC boards will do, so the code for CDC schemes will need to take account of both MNTs and professional trustees.

Regarding the requirements for **systems and processes** we consider the code to provide sufficient detail and to be clear, though the list of requirements schemes must satisfy here is somewhat long and prescriptive, especially for single employer CDC, and we would be wary of putting off potential sponsoring employers with a lack of flexibility. That said, we do not think any should pose particular challenges for the modern administration systems on which we would expect new occupational CDC schemes to be run. Within the processes section we do welcome the full list of triggering events provided as this will provide schemes with clarity over exactly which circumstances will require them to notify TPR.

The rules set out for **member communications** are similarly stringent, and we do, as above, agree that the bar needs to be set high here in terms of the understanding of benefits, i.e., that they may vary and are not guaranteed. Such understanding will be crucial to build trust in the CDC regime. However, for the purposes of single employer schemes, some areas could be relaxed. For instance, the report for trustees on member feedback should not need to be provided quarterly; DC Master Trusts are not subject to this rule, and members are in some ways at greater risk in those schemes, so in this context, this is too much of a burden for a CDC scheme.

As we noted in our response to DWP, there is an implied assumption made that annual benefits statements and notices of adjustments will be made at the same time. While notices of adjustment can helpfully feed into annual benefits statements, our members have flagged that producing these at the same time could lead to less effective communications. For instance it would be preferable for notices of adjustments to be issued when most relevant, rather than waiting for the annual benefits statements; conversely, if the benefits statement was due, schemes should not be rushed to make a decision about adjustments. Therefore we would prefer that the regulations decouple these two communications and allow schemes to produce them when they will have maximum benefit.

One other aspect which should be reflected in member communications is benefit valuations at the point of transfer. The wording needs to reflect that any valuation presented is not guaranteed and can change between calculation and the actual point of transfer. Therefore the valuation should be treated as per other money purchase benefits and not like a guaranteed DB transfer value.

We do not have substantive comments to make on the **continuity strategy** and **financial sustainability** sections, aside from the fact that they also set a high standard for authorisation, and potentially err on the side of too onerous for single employer schemes. Members have informed us that the fact that the code allows for reserving costs to be paid for in a number of ways, including via insurance is welcome, although the asset class table outlining the different levels of haircut by class is not as clear as it could be regarding the conversion of assets back to cash.

Finally, we are content that the **supervision and reporting** section will achieve its aims, but again there are instances where the code could be more pragmatic. It specifies that “significant events relating to the ability of the scheme to meet its running costs” must be reported to TPR within two days. We would suggest this be amended to ‘two working days’ to reflect more realistic timescales on the part of both schemes and TPR.

Required changes for multi-employer schemes

We acknowledge that this code only applies to single and connected employer schemes. However, assuming that it may be used as the basis for a code of practice in future for multi-employer and Master Trust CDC, various areas will require amendment. For instance, this code does not allow different contribution rates and benefit accruals from within a single section; this would need to change to facilitate a multi-employer structure, while certain triggering events may also need to be revisited. A code for multi-employer schemes will also need to allow for frequent changes within the scheme, such as employers joining and leaving, so a flexible approach will be required here.

Conclusion

Overall, we welcome this code, and support its aims to ensure only a high-quality CDC market develops. This will be crucial to generate both member trust and understanding, and to promote the model among employers, without whose buy-in, the regime will not get off the ground. There are some areas which we would encourage the regulator to revisit, in consultation with DWP, with a view to making authorisation more achievable for more suitable employers. Finally, we would welcome further guidance from tPR on how prospective employers should demonstrate compliance with the code as a whole. It is unclear whether the regulator will provide a template or if employers will be expected to establish their own evidential basis for compliance. Assuming this is addressed effectively, this code is a good starting point for a CDC market to begin emerging.

Yours sincerely

Ruari Grant
Policy lead, DC

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