



In Touch technical update

DWP consults on extending opportunities for Collective Defined Contribution (CDC)

The DWP has [published](#) a consultation on “Extending Opportunities for Collective Defined Contribution Pension Schemes”

At a glance...

- Consultation on policy framework for multi-employer CDC schemes, including Master Trusts, extending the existing framework for single and connected employer CDC schemes;
- Exploration of the ways in which CDC might be used as a decumulation-only option.

Background

In August, Regulations came into force allowing single and connected employers to seek authorisation to operate their own CDC scheme.

The consultation notes that CDC received cross-party support. It also reiterates the advantages of CDC:

- The pooling of longevity and investment risks makes CDC schemes more resilient to market shocks;
- They provide employers with predictable costs;
- They can also provide, on average, better returns for members than traditional DC schemes.

The DWP is now considering broadening CDC provision beyond single and connected employer provision.

Extending opportunities

The consultation considers a policy framework for multi-employer CDC whole-life schemes, including Master Trusts, providing accumulation and decumulation on a collective basis in one package.

The DWP is also seeking views on the role of CDC in decumulation and particularly the potential for CDC decumulation-only products. It is seeking to establish if there is a significant appetite for decumulation-only CDC products – as an additional option for the existing DC decumulation market - and understand how some of the identified risks can be mitigated.

Why bring you this note?

The DWP is consulting on extending opportunities for CDC schemes.

Next steps

The consultation runs until 27 March.

Regulations would then be required to extend the existing CDC provisions.

Prepared for: Aon clients
Prepared by: Aon's In Touch Group
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Policy framework

The consultation covers the policy framework that would be required for multi-employer schemes, and discusses the changes that might be required to the existing framework for single and connected employers, under the following headings:

- Emerging CDC designs and providers
- Key principles for new types of CDC schemes
- Defining qualifying benefits and qualifying schemes
- Authorisation
- Applications
- Valuations and adjustments
- Ongoing supervision
- Continuity options
- Other policy considerations.

Decumulation-only arrangements

The consultation notes considerable interest in the potential for CDC decumulation-only arrangements and how these might help improve member choice and outcomes in the existing DC decumulation market.

Such arrangements could provide those approaching retirement with an income product that allows them to share investment and longevity risk. In addition, a CDC decumulation fund has the potential to provide, on average, better returns than the traditional options of annuities or drawdown, because longer term investment horizons mean they can invest more in higher return seeking assets for longer.

While the DWP recognises the potential benefits of decumulation-only CDC arrangements, it is keen to develop its understanding of how they might work in practice and their implications and risks. The consultation seeks views on the following key areas:

- Seed capital
- How will sufficient scale be achieved and maintained
- Pricing and the potential for mortality underwriting
- Member communications and marketing.

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