



# **PASA Consultation Response**

**DWP Consultation:  
The Occupational Pension Schemes (Collective Money Purchase Schemes)  
Regulations 2021**

**August 2021**

# Acknowledgments

This response was drafted by the PASA Industry Policy Committee. We're grateful to the authors of the response and their employers.

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## About PASA

The Pensions Administration Standards Association (PASA) was created to provide an independent infrastructure to set, develop, guide and assess administration standards and raise the profile, development and perceived value of pensions administration, a previously undervalued sector of the pensions industry.

PASA acts as a focal point and engages with the industry and government to create protocols for understanding good administration - but also appreciates there's no one size fits all. PASA develops evidential accreditation practices which allows benchmarking across and between the industry regardless of how the administration is being delivered.

As well as raising the standard and profile of pension administration generally, PASA focuses on three core activities.

1. **Defining good standards of pensions administration relevant to all providers, whether in-house, third party or insurers**
2. **Publishing Guidance to support those standards**
3. **Being an independent accreditation body, assessing the achievement of good standards by schemes (regardless of provider)**

PASA is the only organisation providing such services across schemes, yet there's a demand for evidence of service quality from scheme trustees, sponsors, administrators, insurers, scheme members and regulators.

## About PASA Accreditation

PASA Accreditation is open to all corporate members of PASA providing administration services (DB, DC, trust-based and contract-based schemes).

PASA Accreditation is granted following an independent evaluation and assessment process, which includes on-site visits and the review of documentation to evidence controls, procedures, process, staff development and contractual positions with clients.

Full details on PASA can be found by visiting [www.pasa-uk.com](http://www.pasa-uk.com)

## **Introduction**

We're pleased to provide our response to this Consultation focusing on legislation enabling the establishment of Collective Defined Contribution (or Collective Money Purchase) pension schemes.

It's clear the legislation has been drafted based on the proposed CDC arrangement put forward by Royal Mail. Accordingly, a lot of detail has been included which fits with the proposed structure of this scheme. We anticipate other schemes will take different approaches when they're established so the legislation will need to be broad enough or sufficiently flexible to allow for those variations in approach.

Ongoing supervision of the schemes will be an additional responsibility for an already under-resourced Regulator. We assume engagement has happened with the Regulator to determine likely resource commitments based on expected number of CDC schemes to be set-up, ensuring issues can be swiftly and appropriately dealt with.

The biggest hurdle to successful adoption of CDC schemes and appropriate education of (actual and potential) members is likely to be intergenerational issues and ensuring schemes achieve longevity. There needs to be fairness between benefits being accrued and paid out now alongside what's expected to happen in the future, which comes with significant uncertainty. Introducing the ability to reduce benefits in payment will be ground-breaking in a pensions context; especially with the decision coming at scheme, rather than member level. Attempts have been made in the regulations to remove unintentional bias through the use of a 'best estimate' basis for calculation adjustments and allowing for consistent application of adjustments across all members in a scheme, but only time will tell how the regulations play out in practice and how benefit adjustments will be received by members.

On the subject of benefit adjustments, pensions are a long term vehicle so the potential for short term volatility – during accrual and once benefits are drawn – needs to be carefully managed. A well run CDC scheme should be able to create a smoothing ability so short term variations don't lead to material changes. Without this, CDC schemes might become unattractive to consumers. Accordingly, some thought should be given to legislation imposing limits on the frequency and/or size of adjustments which are allowed to be made to benefits.

In the event things don't work out, is there a plan for how to wind-up CDC schemes? Has there been any indication from the insurance industry they might have an appetite to engage with these schemes or is it anticipated the benefits would move into more conventional buy out DC vehicles? It would seem prudent to have an eye on exit strategy as part of drawing up the legislation which will govern these schemes.

We would be pleased to discuss with you any of the issues raised in this response and or to provide more detail in relation to the answers.

**Industry Policy Committee**

**On behalf of the Pensions Administration Standards Association**

## Chapter 1: Scope and Applications

### 1. Regulation 3: Connected employers

**Q. Do the draft regulations make it clear to employers whether they are considered to be connected for the purpose of the legislation?**

A. Yes, the regulations make it clear.

However, in the event industry wide CMP schemes are to be established, some further thought should be given to the participation, authorisation, cost and governance implications of the Connect Employer regulations.

### 2. Regulations 4 and 5: qualifying schemes and CMP schemes divided into sections

**Q. Are there any other characteristics that should be added to those that are already listed at regulation 4(1)?**

A. None.

However, this assumes sections within CMP schemes can be administered and governed independently from a membership, benefits and costs perspective. Establishing a new section within an existing CMP scheme shouldn't put other established sections at risk or be used tactically to avoid regulatory issues.

## Chapter 2: The Application Process

### 3. Regulation 7: application fee

**Q. Do you agree with the proposed fee structure, taking into account schemes containing multiple CMP sections?**

A. One flat fee for authorisation for all schemes seems reasonable given complexities involved for authorisation, actuarial and investment advisory input. It seems appropriate for the fee to be higher than those applying to Master Trust authorisations due to the complex nature of CMP schemes and expected longevity.

There could, however, be more certainty over ‘cost recovery’ for authorising a new section of a qualifying scheme. This is currently set at Regulator discretion on a case-by-case basis with a maximum (yet to be determined) and based on costs to the Regulator of completing the approval process. How might this vary over time and could there be some standardisation once the process has been completed a number of times?

## Chapter 3: The Criteria for Authorisation

### 4. Conduct and Integrity

**Q. Are there any significant practical barriers to schemes meeting these requirements?**

A. No, although we note these are new schemes and there'll be limited experience of them in the early years.

### 5. Matters in relation to the viability report and certificate (1)

**Q. Do the proposed gateway and ongoing tests provide a sensible measure of whether a scheme's design is sound, at initial application and going forward?**

A. The gateway test appears sensible. We can foresee potential issues with the ongoing tests causing sections to cease accrual when market conditions change during 'business as usual'. Closing sections and setting up new sections will be an administrative burden and require additional member communications which reference multiple sections' benefits and incur additional costs.

### 6. Matters in relation to the viability report and certificate (2)

**Q. What back-stop should be provided in regulations which would require a CMP scheme to wind up rather than close to further accruals? What might constitute suitable evidence to support this decision?**

A. Running on the scheme as long as possible would likely be in the financial interests of the members. The back-stop should be before the scheme can no longer afford the ongoing costs to operate the closed section with a sufficient reserve to wind-up the scheme.

### 7. Regulation 12 and Schedule 3: financial sustainability requirement

**Q. Do you think the regulations cover the appropriate matters that must be taken into account?**

A. Yes, where it's a single or connected employer CMP scheme. Sharing full financial information and splitting costs between multi-employers, perhaps with small membership numbers, could be impractical.

### 8. Regulation 13 and Schedule 4: communication requirement

**Q. What are the financial costs required to set up the necessary systems and processes required to meet the communications criterion? Please outline any one-off and ongoing costs. This may include set up of IT platforms, data management or postal costs.**

A. We assume communications will be supplemented by educational material provided by DWP, MaPS and other Governmental agencies.

There'll be an initial cost to explain the new structure to employers and members and ensure everyone understands what it means for them. Given time, advisers and consultancies are likely to come up with a bank of communication material to be used when setting up CMP schemes under various scenarios, but we would expect costs would be higher for earlier schemes.

Clear communication is essential as members need to understand the new concept of CMP and their benefits can go down. As well as the launch communications, collecting ongoing member feedback and queries would be helpful in this journey.

Digital channels should be used where possible to increase engagement and reduce postage costs. The costs will be depend on the communication campaign, size and profile of the membership.

Many traditional DB and DC schemes have communication systems and processes in place which can be tailored for CMP schemes. As such, we wouldn't expect the costs of ongoing communications for CMP schemes to be markedly different.

#### **9. Regulation 16: administration charges and the continuity strategy**

**Q. 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. This may include the cost of setting up IT platforms and infrastructure, actuarial support or additional staffing required to support the creation of scheme design and the planning of financial sustainability or triggering events. Please outline if there would be any significant difference between DB and DC schemes.**

A. We await details of the regulations for cross industry schemes which will be particularly relevant to the third-party administration market. IT systems will be broadly comparable to existing DB schemes (especially those designed to administer Cash Balance benefits) with some tailoring needed to meet the CMP structure and benefit design but will be simpler than many legacy DB schemes.

The additional work needed will be around closing sections when the ongoing tests cause cessation of accrual - this will require additional administration and communications (see answer to section 5 above).



## Chapter 4: Valuation and Benefit Adjustment

### 10. Valuation and Benefit Adjustment

**Q. Are the regulations clear about how valuation and benefit adjustment is to take place?**

A. Yes, although we note the regulations are tailored towards the way Royal Mail intends to adjust members' benefits and alternative adjustments may be appropriate in other cases.

The potential for benefits to change once in payment will be a new situation for UK pensions. Considerable thought should be given to the parameters within which adjustments can be made, including whether maximum adjustments, restrictions on frequency of adjustments or guarantees following adjustments are required.

## Chapter 5: Ongoing supervision framework

### 11. Regulation 23: Significant events

**Q. Do you think that the events listed in draft regulation 23 will provide the information the Regulator needs or are there other events that should be added?**

A. Yes, they will provide TPR with the information they require. Regulation 23 (Significant events) is very prescriptive in nature and sets out exactly what should be provided to TPR.

Whilst there aren't any other events which should be added, one area of concern is 23(3) states the information should be provided to TPR "as soon as reasonably practicable", which always leaves wide room for interpretation.

### 12. Regulation 29: discharge of liabilities and winding-up a scheme under continuity option 1

**Q. Do you think that draft regulation 29 and schedule 6 meets the policy intent or providing a clear framework in which CMP schemes can be wound up and the interests of members protected?**

A. Yes, it does. Schedule 6 is very prescriptive in nature, and clearly sets out what's required to ensure the interests of members are protected.

### 13. General levy for CMP schemes (1)

**Q. What are the potential ongoing financial costs associated with ensuring the scheme continues to meet the ongoing supervision requirements? This may include the cost of ongoing actuarial support, communication costs and IT platforms.**

A. It's difficult to say at this point in time. Schemes will need to have an array of advisers in place to help them monitor supervision requirements – including an actuary (to value liabilities and assess risk), a legal adviser, a secretary/pensions manager role and an administrator. Costs will vary by scheme size, type and complexity but a part of all advisers fees will be in relation to ongoing supervision.

Additionally, it's likely administration systems and communications will need to be updated to account for CDC schemes, which will invariably mean additional costs for trustees.

### 14. General levy for CMP schemes (2)

**Q. What steps to you intend to carry out in order to monitor equality impacts on members over time?**

A. No response provided.

## Chapter 6: Publication and Disclosure of Information

### 15. Amendments to disclosure regulations (1)

**Q. Do you agree with the amendments made to the Disclosure Regulations for CMP schemes?**

A. Yes, the amendments seem reasonable. From an administrators' perspective, it does mean more work in understanding how these new requirements either align or differ with the requirements for other arrangements (primarily DB and DC).

### 16. Amendments to disclosure regulations (2)

**Q. Are there any other areas within the Disclosure Regulations that you feel should be amended to take account of the unique collective design of CMP schemes?**

A. No. However, the regulations need to clarify what's meant by "value of the member's accrued rights.", as this can have several meanings to administrators. For example, it could mean the cash equivalent value or just the actual amount.

### 17. New regulation 29B and Schedule 11 (1)

**Q. Do you agree with the new publication requirements for CMP schemes?**

A. Yes. The requirement to publish key information about CDC schemes is a step in the right direction. Transparency provides an important layer of protection for members of all schemes (including CDC schemes), and this will help achieve this.

### 18. New regulation 29B and Schedule 11 (2)

**Q. Outside the statutory communications outlined in the draft regulations, are there any regular communications you expect to send out to members? Please consider deferred members and those in decumulation in your response.**

A. No, as it's reasonable to assume all members should receive broadly the same communications (for example, annual benefit statements).

## Chapter 7: Member Protection and Transfers

### 19. Charge Cap

**Q. Do the think the changes we are making to the Occupational Pension Schemes (Charges and Governance) Regulation 2015 (see provisions in Annex A) will implement the charge cap in CMP schemes and protect members in the way we intend?**

A. We understand the approach being taken and what it's designed to do and have nothing to add. The extension of the protections and how they're documented for CMP should protect members if the aim is to achieve consistency with DC arrangements (and ensuring removal of legacy issues/items like payments to advisers which applied post 2016). As with DC arrangements the cap may make it difficult for schemes to participate in real asset, private markets and infrastructure asset classes, when in many ways these schemes should be ideal vehicles to take advantage of such opportunities.

## Chapter 8: Consequential Changes

### 20. Are there any other amendments to existing legislation we should consider?

#### Q. Are there any significant practical barriers to schemes meeting these requirements?

A. There may not be enough detail in schedule 5 regulation 14 in the draft regulations to enable a scheme to be established and would appreciate some more prescription in this area, especially as the Regulator will determine whether they're appropriate to ensure effective running of a scheme. This is especially true in relation to data and communication requirements when dealing with member benefits and accurate administration.



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