

Institute and Faculty of Actuaries

Noting report

Subject	DB consolidation / superfunds and Collective Defined Contribution Pension Schemes
Regulation Board meeting	2 February 2021
Author	IFoA Executive
International Issues Considered	Yes – UK specific matter
Purpose	Noting

A: Objective

1. To note an update on changes to the UK pensions landscape, including DB superfunds and Collective Defined Contribution (CDC) funds.
2. This paper was previously prepared for the Board's November meeting by former Policy Manager Catherine Burtle. Section C has been extended to provide an update and more detail on the topic of CDC funds.
3. Simon Eagle, Senior Director at Willis Towers Watson, Chair of the CDC Working Party and member of the CDC Regulatory Working Party will be attending the meeting to talk to the subject of CDC schemes.

B: DB consolidation / superfunds

4. DB superfunds offer a way for employers to consolidate existing DB schemes, by replacing the sponsoring employer with a capital-backed vehicle, creating a large retirement savings fund which includes different company schemes. This means participating employers are no longer liable for member benefits.
5. Participating in a DB superfund will be a new option for schemes that have no clear way of securing members' benefits via an insurance company buyout. Crucially the capital requirements for DB superfunds will, for now at least, be less stringent than those required under Solvency II, and thus a potentially cheaper option than a traditional buyout. This may of course change after the UK leaves the EU.
6. It is expected that several billions of pension assets will transfer to superfunds during 2021 and 2022, initially relating to pension schemes whose employers are in distress or already insolvent. In these cases, the capital buffer offered by the superfunds is expected to offer a clear improvement to the likelihood of members receiving their benefits in full, and thus not falling into the PPF. PwC research suggests up to one million pension scheme members and £170bn of assets could take this route over the next decade.
7. TPR launched its interim regime for superfunds in June, ahead of proposed government legislation. The regulator last month published new guidance for trustees

and employers. The guidance outlines a series of 'gateway principles' for trustees and sponsoring employers considering a transfer to a superfund.

8. **IFoA position:** Coming to a consensus 'IFoA line' on this issue has proved complicated, because of the differing viewpoints of actuaries working for pension schemes and those working for life insurers. A cross-practice IFoA working party is exploring the topic in more detail and expecting to agree a consensus position ahead of further consultation on the future legislation.

C: CDC Schemes

9. The UK Government is currently legislating for the introduction of collective money purchase, or collective defined contribution (CDC) schemes to become part of the pensions landscape. The Pensions Schemes Bill has now passed through Parliament and will receive Royal Assent shortly, becoming the Pension Schemes Act 2021.
10. Part 1 of the Bill sets out how a scheme qualifies as a CDC Pension Scheme or a "Collective Money Purchase Benefit" pension scheme to use the Bill's terminology. The Bill, when read in conjunction with secondary legislation, requires the appointment of a Scheme Actuary to every CDC scheme, with the actuary being a Fellow of the IFoA.
11. DB and DC models place all the risks and associated costs – economic, financial, and longevity – with either the sponsoring employer (DB) or the individual member (DC). The Government believes creating a third option in the form of CDC schemes – where risks would be entirely with the members but shared between them collectively – could be beneficial to both sponsoring businesses and individuals.
12. Willis Towers Watson estimates that CDC pensions would be expected to average 70% higher than either individual DC insured annuities, or 40% higher than pensions provided on average in DB schemes. A 2013 study by AON also estimated that CDC schemes would have delivered a steady 28 per cent of salary over the past 50 years, whereas DC schemes varied between 17 per cent and 61 per cent.
13. As well as the expected public interest benefits of CDC schemes, they could also be an important growth area for actuarial work, particularly as DB schemes continue to close and more closed schemes begin to wind up.
14. More information on the workings and potential benefits of CDC schemes is available in the following articles published by Willis Towers Watson:

[United Kingdom: Government to move forward with legislation to allow collective defined contribution plans](#)

03 June 2019

[Reinventing UK pensions: the Royal Mail CDC case study](#)

By Shriti Jadav, Simon Eagle and Douglas Hamilton, 31 May 2019

[What exactly is a collective defined contributed pension?](#)

Simon Eagle and Shriti Jadav, 7 November 2018

15. At present Royal Mail is the only employer currently committed to introducing a CDC scheme. Royal Mail's scheme design is being seen as the blueprint for future CDC

schemes, but there are a number of different ways the scheme could be designed that are currently being explored. It is unclear what employer appetite will look like once CDC schemes have been legislated for, particularly in the immediate-term economic situation.

16. **IFoA position:** The IFoA has been broadly supportive of the introduction of CDC schemes. In our responses to Government consultations and inquiries, we have said that CDC schemes could be a valuable addition to the UK pension landscape. We stressed however that CDC schemes should be considered as a way of 'levelling up' the offering for those in DC arrangements, not as a way of employers with open DB schemes reducing their contributions.
17. The IFoA is working closely with DWP and TPR as they develop the regulations that will sit behind CDC schemes, both in terms of how schemes operate and more specifically how actuarial work will be defined and regulated as they develop. Formal consultation on the regulations is expected in spring 2021.
18. The IFoA Policy team continues to engage with stakeholders on the topic. In particular, IFoA has recently joined a "CDC centre" consortium with the Royal Society of Arts (RSA) to collaborate on evidence building and policy influencing on development of CDCs in the UK.
19. The Actuarial Research Centre has commissioned a research programme restarting in March focusing on CDC schemes and tontines as part of its ongoing research project entitled 'Optimising Future Pension Plans'.
20. The regulatory working party have met to consider the regulation and guidance required for actuaries that will work on the CDC Schemes.
21. The working party is in agreement that some form of practising certificate will be desirable for CDC scheme actuaries and is likely to make such recommendations to the Board for approval once the regulations are in place. The working party recognises that, certainly initially, there will be few potential candidates for a CDC Scheme Actuary role that will have experience of that type of scheme. .
22. However, this has already been taken into account in the wider PC Review (discussed under **Agenda item 6**) and the proposed direction of travel (which focuses on identifying a competency/skill framework to be used to assess suitability rather than on a requirement for reserved role experience) would seem to work with a requirement for a PC when there is likely to be little or no experience of the particular type of Scheme Actuary role.
23. The working party are keen also to explore methods by which knowledge on CDC schemes might be shared. For example, through CPD events or published materials. This might also be tied into work on developing specialist materials for PC Holders under the PC review, including the work being carried out on the new UK Practice Modules that will be required for PC Holders.
24. The working party is also looking to engage with the Financial Reporting Council to help shape the likely minor changes required to the Technical Actuarial Standards to cover CDC schemes.

D: Recommendation

25. The Regulation Board is asked to note this update.