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Pensions Bulletin

Collective Defined Contribution Scheme Now Open

The first Collective Defined Contribution (CDC) scheme, the Royal Mail Collective Pension Plan, launched this week. CDCs are supported by the GMB.

The scheme will pay a retirement income for life to more than 100,000 Royal Mail employees along the lines of a Defined Benefit (DB) scheme but without the cost uncertainty for employers.

In comparison to DB schemes, the level of a CDC pension is not guaranteed and pensions can go down as well up. However, in comparison to Defined Contribution (DC) schemes, CDCs provide a pension, not a pot of money for you to buy a financial product, and they generate much greater returns than DC schemes

CDC schemes also mean that individuals do not need to make complicated financial investment decisions.

The Government announced its consultation on legislation to extend CDC to multiple unconnected employers which opens up the possibility of smaller employers being able to offer master-trust type CDC schemes to their employees. A welcome step for many GMB members.

Why does the GMB support CDCs?

CDCs give an income for life and offer a better solution (up to 50% better) than current DC arrangements, followed by buying an annuity.

Why do CDCs give a much better pension? If you have a DC pension and you want a lifetime income you need to buy an annuity. But the terms and conditions necessary to make annuities safe, combined with low interest rates, mean they are very expensive. An annuity typically invests in very safe, very low-interest bonds, the insurer has to set aside reserves in case its calculations are wrong (and it needs to make a profit) and so the saver gets a poorer pension (which often has no protection against inflation). And the cost of an annuity varies a lot over time, which makes it difficult to plan a retirement.

Why not use drawdown? Many people prefer to draw down from their pot of savings and invest it to create an income. If they do, and they have a low-cost fund manager, and they know they will die at average life expectancy, then they will have an income in retirement much higher than the annuity. However, people do not know when they will die so they don’t know how much they can draw down each year. Therefore, drawdown doesn’t provide an effective income for life. Although CDCs don’t know when any individual will die, they can estimate the average life span and pay benefits on that basis.

Are there other advantages?

CDCs provide a permanent pool of capital that could be used to provide the infrastructure investment—houses, railways, green energy - which the country needs.

What are the pitfalls?

One significant disadvantage is that pensions in payment may have to be reduced if there is a financial crisis. (In Holland, pensions were reduced on average by 2 per cent following the global financial crisis). So effective communication is vital as is good governance (including worker representation) and regulation.

Pensions Dashboards Programme update

The Minister for Pensions has restated the Government's commitment to launching pensions dashboards which will give savers access to all their pension information in one secure online location. The Minister announced that the state-provided MoneyHelper pensions dashboard will be made available before commercial dashboards as a test run.

The Minister continued that it is essential that the pensions industry continues to prepare for Dashboards in line with the timetable set out in DWP's guidance where the largest schemes are expected to begin connecting in April 2025, with staged deadlines by scheme size and type running thereafter, concluding by October 2026.

The Pensions Regulator Has Teeth

The Pensions Regulator (TPR) has announced that 17% of DC schemes that it has engaged with did not offer good value for money. And in cases where appropriate steps weren't taken following their assessment they issued penalties totalling over £30,000. TPR has also issued fines for non-compliance with climate change reporting requirements. The individual fines of £8,000 and £5,000 were for failures to publish climate change reports on a publicly available website, accessible free of charge within seven months of the scheme year end.

Additionally, TPR issued a contribution notice of more than £3m against 2 company directors who made a large cash payment from one of their subsidiary companies to an outside entity instead of using the monies to fund the pension scheme.

TPR stated: *Our action against two targets will reduce the pension scheme's deficit and …shows how we will pursue those who extract funds to the detriment of scheme members*.

Moral of the Story: Don't Mess with TPR

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