XPS Pensions Group

XPS Insights
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Pension Schemes Act 2021 Series

Collective money purchase schemes

What you **need to know**

- The Pension Schemes Act 2021 introduced the legislative framework for collective money purchase (CMP) schemes (also referred to as 'collective defined contribution' schemes).
- In CMP schemes, risks are shared collectively between members. This compares to traditional money purchase (MP) schemes, where the members individually bear the bulk of the risks, such as investment performance and longevity risks, and defined benefit (DB) schemes, where the employer normally takes on all the risks.
- CMP schemes are being introduced in response to a request from Royal Mail for a change in the law to enable it to set up such a scheme. These schemes will be subject to authorisation and supervision by The Pensions Regulator (TPR).
- Following a consultation in 2021 by the Department for Work and Pensions (DWP), Parliament has made regulations giving further details on the operation of CMP schemes and their authorisation and ongoing supervision by TPR. These regulations will come into force on 1 August 2022.
- For at least the near future, CMP schemes will only be an option for large, well-resourced employers. However, in February 2022, in a statement to Parliament, Guy Opperman, the Pensions Minister, said that the Government 'will move to multi-employer CMPs in the latter part of this year, going into next year…'. The DWP has subsequently announced that, later this year, it intends to consult 'on a package of prospective design principles and approaches to accommodate new types of [CMP] schemes'.

Actions you can take

- **Assess** whether a CMP scheme might now be another option for your members if you are considering benefit design.
- If so, **investigate** further to see whether it might be appropriate to proceed, bearing in mind that applying for authorisation appears to be a long, drawn-out and potentially expensive process.
- If CMP does not appear to be an option at the current time, in light of the comments by the Pensions Minister/DWP, **review its viability again in the future** if it does become available for non-associated multi-employer schemes.

Brief comparison between MP, CMP and DB schemes

Risk	MP	CMP	DB
Investment risk borne by?	Individual members	Shared between membership	Employer
Longevity risk borne by?	Individual members	Shared between membership	Employer
Actuarial valuations required?	No	Yes, every year	Yes, every 3 years
Potentially eligible for PPF?	No	No	Yes
Subject to authorisation regime?	No	Yes	No

The finer detail: collective money purchase schemes

Scheme design	CMP schemes are MP schemes, with fixed contribution rates for both the employer and members. However, unlike a standard MP scheme, a CMP scheme has a ‘target’ level of benefits set out in the scheme rules, which can be adjusted periodically depending on the amount of scheme assets available. For example, the proposed Royal Mail CMP scheme has a target benefit of 1/80th of pensionable pay for each year of service. Where non-CMP benefits are also provided (e.g. an accrued cash lump sum on retirement), assets and liabilities relating to these benefits would have to be kept separate.
Authorisation regime	Trustees wishing to operate a CMP scheme must apply to TPR for authorisation. TPR must then assess whether a number of criteria are met, including that: • persons involved in the scheme pass a ‘fit and proper persons’ test; • the design of the scheme is sound and the scheme is financially stable; • the scheme has adequate systems and processes for communicating with members and to ensure that it is run effectively; and • the scheme has an adequate continuity strategy. TPR must maintain and publish a list of authorised CMP schemes. Following a consultation earlier in 2022, TPR has laid before Parliament a new code of practice for the authorisation and supervision of CMP schemes. The timing of this will enable trustees to apply for authorisation to operate a CMP scheme from 1 August 2022.
Scheme actuary and actuarial valuations	Trustees of CMP schemes must appoint a scheme actuary, who must carry out an annual valuation of the scheme’s assets and target benefits (and certify that the calculations are in line with the scheme rules). This valuation should determine whether an adjustment to the target benefits is required, and, if so, by how much. Where an adjustment to scheme benefits is not made in line with the scheme rules, this must be reported to TPR.
Availability	As the legislation is currently written, only single or associated employers may use CMP schemes, which means that master trusts may not be CMP schemes. However, the Pensions Minister has stated that the Government will move to non-associated multi-employer schemes in the latter part of 2022, going into 2023. The DWP has subsequently announced that, later this year, it intends to consult ‘on a package of prospective design principles and approaches to accommodate new types of [CMP] schemes’.
Taxation	The pensions taxation regime will be amended to cater for CMP schemes. Broadly speaking, they will be valued in a similar manner to DB pensions for the purposes of both the annual and lifetime allowances.
Transfers	Members of CMP schemes will have a statutory right to transfer out (as they will need to be able to transfer out in order to take advantage of the pension freedoms).
Possible benefits and drawbacks	CMP schemes may be able to invest at lower cost through benefits of scale, and also have an investment allocation skewed towards higher return assets over the members’ lifetime than is typical in existing MP schemes. They may also be able to avoid the cost of accessing the insurance market through the pooling of longevity risks between members. On the other hand, there is uncertainty around the benefits that will ultimately be provided, so care with member communications will be required. It may also be difficult to achieve inter-generational fairness for members. Finally, at least initially, it is likely that CMP schemes will only be an option for large, well-resourced employers.

For further information, please get in touch with **William Fitchew** or speak to your usual XPS Pensions contact.

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