

# FYI<sup>®</sup> Alert

## For Your Information<sup>®</sup>

### **CDC schemes – finalising the Regulator’s draft code of practice**

The introduction of collective defined contribution (CDC) schemes in the UK offers an alternative to the traditional choice of defined benefit and defined contribution pension scheme designs. The Pension Schemes Act 2021 introduced the legislative framework for CDC schemes, with further detail provided by regulations, which are due to come into force on 1 August 2022.

As with master trusts, the provision of CDC schemes will also be subject to authorisation and ongoing supervision by The Pensions Regulator. A draft code of practice about the authorisation and supervision requirements has previously been consulted on and the Regulator has now published the [response](#) to that consultation.

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#### **Background**

CDC schemes require a fixed level of contributions like defined contribution schemes, but those contributions are not invested in individual member funds. Instead, the contributions are pooled in a similar way to defined benefit schemes.

A target pension based on contributions from the employer and members and investment returns is expected to be provided. The aim is that the pension is not fixed each year but that the amount should be adjusted each year in line with inflation.

Our FYI dated 4 February 2022 ([CDC schemes – an update](#)) provided details of the Regulator’s consultation, which comprised 27 questions about the authorisation and supervision of CDC schemes. Although it is being produced as a standalone code, it will eventually be incorporated into the new single code in a modular format.

#### **The Regulator’s response**

A number of changes have been made to the draft code, which are detailed in the response. In general, the feedback questioned the level of detail to be supplied and the requirements that trustees will have

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#### **Authors**

John Dunkley

Nikki Williams

to meet to obtain authorisation from the Regulator. This has been acknowledged by the Regulator, which has justified its approach in the response stating: “While we understand that the code may appear to be onerous, we also believe that this level of detail will be necessary and useful to any employer considering establishing a CDC scheme, and to the trustees of a CDC scheme applying for authorisation.”

The Regulator has also made it clear that the code does not introduce any new requirements for potential CDC schemes, it merely covers what is contained in the existing legislation.

## What’s next?

Legislation takes effect from 1 August 2022 for single or connected employer CDC schemes. The Regulator’s code of practice needs to take effect before the first applications for authorisation can be made. The Regulator’s codes must be laid before Parliament for 40 days before they come into effect. It is currently at this stage and is expected to come into force towards the end of July 2022.

The code is likely to undergo further evolution in the coming years, as the government’s plans for CDC schemes develop. Earlier this year, in the DWP’s response to the consultation on the draft regulations, Guy Opperman, Minister for Pensions and Financial Inclusion, stated: “Whilst our prime focus remains on ensuring CDC is available from [2022] for single or connected employer schemes, we have already begun engagement with interested parties to understand their proposals for multi-employer schemes and explore how CDC can best be used to help deliver good outcomes for more of tomorrow’s pensioners.”

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