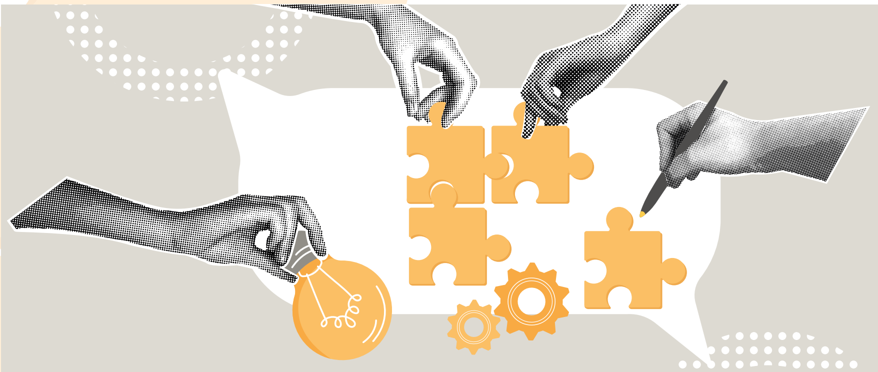

Multi-employer CDC in practice – from drawing board to delivery

After years of planning, the first multi-employer CDC pension schemes could be launched as early as 2027, with regulators set to publish rules this autumn

Summary
- The DWP is due to publish draft CDC regulations in autumn 2025, with the first multi-employer scheme expected to launch in 2027.
- The new rules are expected to be complex, with regulators focusing on balancing risks across cohorts.
- Trustees must aim for achieving scale, establishing robust governance structures, and communicating clearly and effectively with members.
- Regulators should prioritise reducing unnecessary complexity and consider the sequence of pension reforms.

This autumn is a huge moment for multi-employer collective defined contribution (CDC) schemes, as the Department for Work and Pensions (DWP) prepares to publish its draft regulations. Building on the single-employer Royal Mail scheme, the introduction of multi-employer schemes could expand CDC coverage to employees across the UK.

However, addressing issues such as risk-sharing and intergenerational fairness through strong governance frameworks and scheme design will remain critical to the model's future success.

TPT Retirement Solutions has positioned itself as an early mover, announcing plans to seek authorisation by the end of 2026 and launching a multi-employer CDC scheme shortly afterwards, subject to regulatory approval.

TPT chief client strategy officer, Andy O'Regan, comments that: "CDC brings the best of both DB and DC schemes. It brings up target annual income for the member, yet doesn't have that open-ended guarantee for the employer. We're excited about how we can get going quickly in the market and bring already interested employers into the scheme."

Complexity for pension schemes

But with detailed regulations still in the pipeline, it's a time of complexity and uncertainty for the industry, notes Squire Patton Boggs partner and pensions lawyer, Kate Bailey. "No-one can set up a multi-employer scheme, yet; the legislation is not in place. We have draft regulations but not the final form. And even when we have the regulations, we will need to see what The Pensions Regulator (TPR) will require in its Code of Practice. We are working on the basis of what is known so far, but all plans will need to be reviewed against the final regulatory framework, when we know what it is," she says.

Bailey adds: "Complexity is unfortunately a common feature of UK pensions legislation, so pensions professionals are used to working through layers of legislation and sometimes subtle but significant differences between the application to one form of pension and another. But the need to fit a new type of arrangement into legislative structures designed for other formats can present practical problems. A good example is the charge capping rules – the principle is simple but the operation in a CDC structure is not."

Risks and intergenerational fairness

For both policymakers and trustees, there are many challenges ahead, particularly when it comes to risk-sharing and intergenerational fairness.

How to balance risk across different cohorts has, quite rightly, been at the forefront of DWP's mind when developing the regulations for multi-employer schemes, says Zedra Governance managing director, Kim Nash. "The requirement to base the target annual income on age as well as contributions will largely prevent younger members cross-subsidising older members (as, for example, they do in a DB scheme). Using 'best estimate' assumptions is designed to prevent prudence buffers building up that transfer value from early joiners to those who join later. Trustees need to recognise that fairness across cohorts is a key responsibility when agreeing assumptions and factors."

Determining an appropriate long-term investment strategy is also key for schemes, explains O'Regan. Balancing growth and risk is crucial because volatile investment growth could lead to more significant annual adjustments for members and a lack of predictability of future benefit levels.

Strong governance framework

Establishing a strong governance structure with clarity on roles and responsibilities is also crucial for trustees, says Nash. "Ensuring there is clarity on who is the decision-maker and who needs to be consulted for decisions will help ensure efficiency.

"Decision-making in a CDC scheme directly impacts member benefits as it will determine the applicable increases and, in some years, whether benefits would be reduced. There is a risk that decisions become too emotive, and the trustee becomes frozen and unable to progress forward. To overcome this, the trustee should run several scenario tests to role-play decision-making around reducing future pension increases or benefits, so they have a broad decision tree about the steps that would be followed to take the emotion out of decision-making should reductions be needed."

Communicating with members

In addition to establishing effective scheme design and governance framework, producing clear and informative communications is vital for securing member buy-in.

O'Regan explains that TPT is already drafting communication now for a 2027 launch. "When you go into the arrangement, you get a target pension, and it'll be adjusted each year based on the performance of the scheme. So, we'll be talking about pension adjustments, for example, as opposed to pension increases, just to get that terminology and expectation right."

Squire Patton Boggs partner and pensions lawyer, Wendy Hunter, agrees that it is vital for schemes to communicate clearly with members so they understand "what CDC schemes are and that their benefits may be adjusted up or down depending on the outcome of the annual funding check".

However, Nash believes disclosure rules need to strike a balance between simplicity and clarity. "CDC benefits should be simple for the member to understand. You get a lifelong income, which is your target income. If things go according to plan, it will increase. If the scheme has a bad year, it won't increase as much. In very bad years, it might go down. It's important that the disclosure rules explain how the plan works and the risks involved in a simple and clear way, without getting into unnecessary details for the members. The technicalities of balancing investment and longevity pooling risks should be for the provider and the trustees, not the membership."

"For both policymakers and trustees, there are many challenges ahead, particularly when it comes to risk-sharing and intergenerational fairness"

The scale challenge

Another early challenge for CDC trustees is achieving sufficient scale to ensure economic viability and to allow schemes to balance risks across age cohorts. Nash explains that reaching scale will be crucial for new schemes. "It is important that providers have a realistic plan to achieve scale and are prepared to make the necessary investment in the scheme, so that start-up costs do not fall unfairly on early joiners."

Addressing this issue at a recent conference, Pensions Minister, Torsten Bell, confirmed that CDC schemes will be exempt from the scale requirements in the Pension Schemes Bill. Arguing that their pooled nature already mitigates the risk of smaller schemes, he said: "The nature of CDC schemes is they will only exist if they get to scale – no one sensible would be running a small CDC scheme."

Potential policy pitfalls

With regulations still in development, several challenges remain for policymakers.

Regulators need to work on minimising complexity, to ensure schemes are commercially viable, says Hunter. "For example, multi-employer providers need to be able to operate commercially attractive pricing models, and current draft legislation is complex to navigate. For multi-employer schemes, the design of the charging structure is key, as the scheme must be commercially viable whilst complying with statutory requirements and offering employers choice and flexibility to offer benefits which suit their workforce."

Another key area of focus is the annual assessment, says O'Regan, which will determine any adjustments for members. "TPR is going to have to work out how to monitor the way in which schemes are undertaking those calculations and monitor the annual adjustments that are being applied."

Finally, Nash argues that there's a broader issue with the sequence of pension reforms, with the possibility that decumulation DC defaults gain traction while decumulation-only CDC schemes are still in the development phase.

Nash says: "I strongly urge the DWP to address the sequencing issue between default DC retirement options and regulations for decumulation-only CDC so that this option can gain traction as quickly as possible."

Written by Alice Guy, a freelance journalist