
Introduction

The following brief provides a short summary of the House of Commons Work and Pensions Committee report on Collective Defined Contribution (CDC) Pensions. The report, published on 16th July, follows the Committee’s inquiry into CDC pensions which was launched in November 2017.

The CWU made a written submission to the inquiry in January 2018 calling for the Government to enact the regulations needed to facilitate shared risk schemes, which are necessary to establish the CDC pension scheme agreed by the CWU and Royal Mail. The CWU and Royal Mail also wrote jointly to the inquiry to underline our shared commitment to delivering the scheme.

Royal Mail and CWU deal

The Work and Pensions Committee report begins by congratulating Royal Mail and the CWU on the ‘ground-breaking’ agreement to pursue the creation of a CDC pension scheme. It states that the agreement opens the door for CDC to move from abstract idea to practical reality and that this could transform the UK private pensions landscape.

The report goes on to reference the CWU’s agreement with Royal Mail throughout, and includes an entire chapter setting out the background and detail of the agreement. It concludes by saying:

‘Royal Mail Group and the Communication Workers Union are to be congratulated for their remarkable unity of purpose in pursuing a CDC scheme for all the company’s employees. As well as a model of constructive industrial relations, Royal Mail could act as a model for new collective pension schemes. The Government is rightly seeking to support the Royal Mail agreement and to future proof its legislation to enable the introduction of CDC schemes at other companies.’

Potential benefits to employers and savers

The Committee notes that Defined Benefit (DB) pension schemes are in decline, and that Defined Contribution (DC) schemes require individuals to shoulder the burden of investment risk. It
states that CDC pensions are prominent features of highly successful pension systems in Denmark and the Netherlands and offer advantages in the middle ground between DB and DC.

These advantages include the pooling of risk between scheme members, which ‘may provide more generous pensions on average than standard DC saving’. The report also says that ‘CDC may well appeal to companies who want to offer good pensions to their staff without the risk of large long-term pension liabilities in their balance sheets...CDC would therefore be a good choice for some employers and some savers. To offer more good choices is entirely consistent with both pension freedoms and promoting retirement saving.’

**Legislating for CDC**

The Committee welcomes the Government’s indication that it will seek to enable CDC for Royal Mail in a way which will allow other companies to follow suit, and recommends that the Government does so using its existing powers under the Pensions Act.

It further recommends the Government consults on the technical regulations necessary to create a CDC system to a swift timetable. CDC schemes should be governed by a board of trustees and both authorised and supervised by a proactive Pensions Regulator.

**The future of CDC**

The Committee states that ‘the initial impetus for CDC has come from a large employer and a major trade union seeking an alternative pension model. But establishing CDC schemes opens the possibility of more diverse and ambitious provision of collective pensions, across industries and professions and to self-employed and gig economy workers. We recommend that the regulations governing CDC should accommodate mutual, multi-employer and standalone schemes. The Government should seek to encourage such innovation, and its great potential gains, in establishing a framework for a new wave of collective pensions in the UK.’

**Support and opposition for CDC schemes**

The Committee received 42 written submissions to its inquiry and took oral evidence from a number of witnesses, including the CWU, Royal Mail, Hargreaves Lansdown, Slaughter and May, the London Business School and First Actuarial.

It is welcome to note that the CWU’s agreement with Royal Mail is mentioned throughout the Committee’s report, and that the union’s written submission to the inquiry is quoted several times in the report. Our joint letter with Royal Mail is also referenced along with two CWU press releases.

The report and its recommendations indicate that overall, there were more and stronger arguments from stakeholders in favour of CDC than against. However, it is worth noting where the opposition is from and the main issues being raised by opponents.
Opponents included the Association of British Insurers (ABI)\(^1\), the Association of Consulting Actuaries (ACA)\(^2\), KPMG, NOW:Pensions\(^3\), Hargreaves Lansdown\(^4\) and the Confederation of British Industry (CBI).

The ABI argued that CDC may be seen as a ‘backward step’ by savers who value the flexibility of DC’. They also said that CDC would create more complexity in an already complex market.

However, the Committee referenced numerous other organisations who challenged these ideas in their submissions, including the CWU, Aon\(^5\), the Royal Society of Arts, and the Association of Member-Nominated Trustees. It was suggested by the Association of Member-Nominated Trustees that arguments against CDC due to its complexity may come ‘from people who are well served by providing the status quo’.

KPMG, the Association of Consulting Actuaries and NOW:Pensions all cautioned that there is no tradition of risk sharing between pension scheme members in the UK and that the UK culture favours personal choice over social provision.

However, the Committee set out a number of arguments to challenge this, including from B&CE Ltd and Royal Mail Group who said that CDC may be particularly attractive to large employers.

The CBI argued that whilst the potential benefits of CDC pensions are evident, so too are the potential risks and there is not yet a clear picture of appetite amongst employers to offer such schemes.

However, the RSA and the Society of Pension Professionals both challenged this view, stating that large employers were interested in CDC and had lobbied for change behind the scenes.

The following table sets out a number of organisations referenced in the Committee’s report who were in favour (other than CWU and Royal Mail) and those expressing opposition or concerns about the introduction of CDC schemes in the UK.

<table>
<thead>
<tr>
<th>Type of organisation</th>
<th>Opposed/expressing concerns about CDC</th>
<th>Type of organisation</th>
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</thead>
<tbody>
<tr>
<td>Trade union</td>
<td>Association of British Insurers (ABI)</td>
<td>Industry body that represents annuity and drawdown providers</td>
</tr>
<tr>
<td>Trade union</td>
<td>Association of consulting actuaries (ACA)</td>
<td>Representative body for UK consulting actuaries</td>
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\(^1\) Industry body that represents annuity and drawdown providers  
\(^2\) Representative body for UK consulting actuaries  
\(^3\) DC pension provider in the UK whose Danish parent company, ATP, provides CDC pensions to nearly 5 million Danes.  
\(^4\) UK’s largest direct-to-investor provider of investment services.  
\(^5\) A global professional services firm in based in London that provides risk, retirement and health consulting.
<table>
<thead>
<tr>
<th>In favour of CDC</th>
<th>Type of organisation</th>
<th>Opposed/expressing concerns about CDC</th>
<th>Type of organisation</th>
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<tbody>
<tr>
<td>Aon</td>
<td>Professional service company risk, retirement and health consulting</td>
<td>KMPG</td>
<td>Professional service company providing audit, tax and advisory services</td>
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<tr>
<td>Pensions Policy Institute (PPI)</td>
<td>Independent research organisation</td>
<td>Confederation of British Industry (CBI)</td>
<td>UK business organisation</td>
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<tr>
<td>APG Group</td>
<td>Major pensions administrator and fund manager in the Netherlands</td>
<td>NOW:Pensions</td>
<td>DC pension provider in the UK</td>
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<tr>
<td>Association of Member Nominated Trustees</td>
<td>Non profit group organising employee representatives</td>
<td>Hargreaves Lansdown</td>
<td>UK’s largest direct-to-investor provider of investment services</td>
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<tr>
<td>Royal Society of Arts (RSA)</td>
<td>Charity</td>
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<tr>
<td>Pensions and Lifetime Savings Association (PLSA)</td>
<td>Trade association</td>
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<tr>
<td>B&amp;CE Ltd</td>
<td>Not for profit organisation providing workplace pensions</td>
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<td>First Actuarial</td>
<td>Partnership of consulting actuaries and administrators</td>
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CWU Research
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