

CDC schemes must be financially robust and focus on protecting members

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The Institute and Faculty of Actuaries (IFoA) views Collective Defined Contribution (CDC) schemes as a positive development for those saving into a pension, potentially providing workers with greater security in retirement. However, in its consultation response to the Department of Work and Pensions (DWP) on Delivering CDC Pension Schemes, the IFoA cautions that the Government's next steps must be carefully considered to ensure the design of CDC schemes are financially sustainable and fair to members.

IFoA President-elect John Taylor said:

“Pension savers currently face a stark choice between Defined Benefit (DB) schemes which are in rapid decline and Defined Contribution (DC) schemes which place all the risk on the individual. For many years the search has been on for a viable third option. CDC may just be that option, by pooling investment and life expectancy risk between members and providing an adequate amount of income in retirement, while fixing costs for employers and members.”

“Actuaries are uniquely placed to help in the design and assessment of any new CDC arrangements. We have a rich history of pensions expertise, so our input will be critical to ensure that CDC schemes are fair and sustainable, both in the initial design of each scheme and then in the increases awarded each year.”

“We believe the provision of robust CDC schemes is in the public interest as there are clear benefits for employees, the self-employed and employers. But for CDC schemes to be successful, the government and pensions industry must work hard to create trust in the system.”

The IFoA consultation response lays out a series of specific recommendations for government and the regulators which it believes must be met to ensure the safe and successful implementation of CDC schemes in the UK:

- DWP must ensure the legislative framework is flexible enough to allow for a range of potential designs, to ensure that CDC schemes are made available to many more workers.
- Communication to scheme members will be critical to the success of CDC. Every effort must be made to ensure that members understand the risks and advantages of the scheme they are in. It should be clear that benefit levels are not guaranteed and pension increases could go up and down.
- The Pensions Regulator should be given relevant powers to apply appropriate scrutiny and intervene if it suspects the scheme has become unsustainable or there are issues with the governance of the scheme.
- The governance process for determining the valuation assumptions and pension increases needs to be well designed to ensure fair outcomes.

~ENDS~

Contact:

Sonia Sequeira, Media Relations Manager

Tel: 07525 592 198

Email: sonia.sequeira@actuaries.org.uk

Notes to Editor

1. Response from IFoA on DWP consultation on Delivering Collective Defined Contribution Schemes. 16 January 2018.
2. The IFoA has set up a new CDC working party of our members and other pensions professionals, chaired by Simon Eagle, to look at wider applications of CDC, and investigate and report on these other options in 2019.

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