

Views of Dr Ros Altmann (the new Pensions Minister) previously expressed on Collective Defined Contribution Schemes

A. INTRODUCTION

1. Dr. Ros Altmann was appointed Minister of State for Pensions on 11th May, 2015¹.
2. This note summarises what Dr Altmann has said in the past in relation to collective defined contribution (“CDC”) schemes.
3. From April 2012, Dr. Altmann has consistently positioned herself as in favour of legislating to permit CDC schemes.

pensions cannot be relied on to be exactly as predicted many decades ago, due to changes in demographics and markets. If members are not led to believe that their pension income can only rise and if they are clearly told that there may be times when their pension income could have to reduce, then they may accept the principles, but it is important that they understand.”

“CDC is likely to deliver more reliable outcomes for most people than pure DC, but this is not guaranteed. Pure DC is probably the most risky form of pension saving for individual workers.”

B. INITIAL VIEWS ON CDC SCHEMES FOLLOWING PUBLIC CONSULTATION

1. On 7th November, 2013, the Government opened a consultation on a new regulatory framework for future pension provision², including a chapter on CDC schemes.
2. In December 2013, Dr. Altmann published an open response to this consultation³ in which she said:

“CDC schemes have the ‘potential’ to provide more stable outcomes on average. That does not, however, mean they will definitely do so. CDC does mitigate risks, especially in the nearer term, rather than being fully exposed immediately to mark-to-market risks”.

“We need to reduce the idea of ‘guarantees’ in pensions and help people understand that

C. VIEWS ON CDC SCHEMES FOLLOWING THE 2014 BUDGET

1. On 19th March, 2014, the Chancellor of the Exchequer announced a policy for “Greater freedom and choice at retirement” in his 2014 Budget⁴. This policy proposed to introduce new flexibilities for defined contribution scheme members when accessing their pension savings, with effect from 6th April, 2015.
2. On 1st June, 2014, Dr. Altmann published a briefing⁵ outlining the possible advantages and disadvantages of CDC schemes.

She stated:

“it is absolutely right that the Government should legislate to permit CDC schemes... [but] it is important not to over-hype the potential benefits... They can, indeed, offer better pension

¹ ‘Minister of State for Pensions: Dr Ros Altmann CBE’

² ‘Reshaping workplace pensions for future generations (CM 8710)’ by the Department for Work and Pensions (7 November 2013)

³ ‘Response to DWP Consultation “Reshaping workplace pensions for future generations” – Defined Ambition pensions’ by Ros Altmann (December 2013)

⁴ ‘Budget 2014 (HC 1104)’ by HM Treasury (19 March 2014)

⁵ ‘CDC New Style Pensions – What does it all mean?’ by Ros Altmann (1 June 2014)

outcomes than pure DC and also are much more likely to be acceptable to employers than traditional DB, however with the new pension freedoms introduced in the recent Budget, many people may prefer to have their own pension arrangement. The challenge, then, is to ensure pension providers can offer individuals a much more cost-effective investment solution to accumulating their own pension fund than has hitherto been the case. Being part of large collective asset pools, with lower management fees and a broader spread of investments, should generate larger pension funds."

3. On 26th June, 2014, the Pension Schemes Bill was introduced in the House of Commons. This legislated to permit CDC schemes.
4. On 23rd October, 2014, Dr. Altmann gave evidence to the Public Bill Committee on the Pension Schemes Bill⁶ stating:

"the new pension freedoms do take away some of the attraction of a kind of hybrid scheme... because the individual may at the end of the day decide they want to take their pot; and most CDC schemes, and certainly the collective defined contribution schemes, which still have an element of risk-sharing, tend to rely on the money staying in rather than disappearing at the point of retirement."

But she continued:

"maybe one could look at what I have called, to distinguish it from collective DC, pooled DC, which is a collective arrangement but only so far as the assets are pooled... Having a bigger pool of assets that can really be invested for the long run I think still has merit, even if we then allow people access to a pot at retirement..."

5. On 3rd November, 2014, Dr. Altmann commented:

"CDC requires a large pool of assets retained for many decades to provide investment returns

*as well as pension payments over time... but if members can cash in their pension fund at retirement the scheme cannot rely on assets remaining in place, making long-term scheme pension payments less feasible... The principle of pooling assets in order to reduce running costs and increase asset exposure is sound, but CDC may be a step too far for most firms."*⁷

D. WHAT HAPPENS NEXT

1. The Pension Schemes Act 2015 received Royal Assent on 3rd March, 2015.
2. It sets out the legal framework for CDC schemes (or, to use the terminology of the Pensions Act 2015, schemes which provide "collective benefits").
3. It is hoped that Dr. Altmann, in her capacity as Pensions Minister, will be proactive in facilitating the circulation of draft Regulations for consultation with a view to the draft Regulations being in place in good time ahead of 6th April, 2016 – when the abolition of defined benefit contracting-out will take place.
4. Those employers who currently have contracted out defined benefit schemes will be looking at whether to take steps to mitigate the additional costs which will flow from the loss of the employer national insurance rebate.
5. Some employers will wish to consider whether, as part of the benefit redesign considerations for their schemes, a collective benefits scheme (or collective benefits section of an existing scheme) may be a useful alternative to providing future service benefits after 5th April, 2016 on a defined contribution basis.

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⁶ 'Hansard: Public Bill Committee: Thursday 23 October 2014: Pension Schemes Bill'

⁷ 'Shared-risk schemes: Greater flexibility will work against shared risk' by Ros Altmann in Pensions Expert (3 November 2014)