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Submitted via email to: caxtonhouse.cdconsultation@dp.gov.uk

RE: Extending Opportunities for Collective Defined Contribution Pension Schemes

BlackRock¹ is pleased to have the opportunity to respond to the consultation on extending opportunities for Collective Defined Contribution (CDC) Pension Schemes, issued by the Department of Work and Pensions (the 'DWP').

BlackRock manages the pension savings of over 11 million people in the UK. Our investment approach is rooted in our fiduciary duty: we start with our client's objectives, we seek the best risk adjusted returns, and we underpin our work with research, data, and analytics.

We welcome the opportunity to comment on the issues raised by this consultation paper and will continue to contribute to the thinking of the DWP on this and other topics.

Overarching comments

BlackRock welcomes DWP's work to bring CDC to the UK. As the manager of pensions savings for over 11 million people in the UK, we support innovation and want to work with partners across the pensions ecosystem to ensure the best possible retirement outcomes for pension savers.

We believe our clients are best placed to make the decisions about what is most appropriate for them. Our clients choose their investment objectives, and they look to BlackRock to meet their needs. In line with this, we support the extension of the CDC framework to allow multi-employer schemes and Master Trusts to launch CDC schemes.

We also welcome the emphasis that the consultation places on providing retirement income within the decumulation phase. While policy focus to date has rightly been on accumulation, there is now a need for further focus on retirement income solutions for the DC market. In line with this, we believe that there is potential value in a decumulation only CDC product, particularly as part of a suite of other retirement income solutions.

However, as noted in our response to the DWP consultation on retirement income, we are supportive of the DWP **providing a framework for decumulation decisions in the trust-**

¹ BlackRock is a leading provider of investment, advisory and risk management solutions, and has been active in the UK for over 50 years. Our purpose is to help more and more people experience financial well-being.

based market, by considering options such as default retirement income pathways.² We are also supportive of the FCA's announcement that it will carry out a holistic review of the advice guidance boundary in 2023 **to provide greater certainty about the different types of investment support which can be provided to pension savers.**

Without these two crucial developments, decumulation in the DC market will remain incredibly difficult to navigate for most pension savers. The introduction of decumulation only CDC products should thus be seen as a secondary stage of this work and not a stand-alone solution to problems around decumulation.

Please see below for our thoughts on a number of issues raised in the consultation document.

Regulatory alignment

As an over-arching principle, we believe whole-life CDC scheme governance should align as closely as possible to the Master Trust authorisation regime and existing CDC regulations. This approach creates consistency of process without adding excessive additional layers of regulation and complexity.

Inflation

We note that CPI may not be the most appropriate inflation measure in the decumulation phase of CDC and that a more focused measure of elderly inflation would be more appropriate. To the extent that the typical consumption basket differs between age cohorts this could have a material impact on the lived experiences of a member. Providers offering decumulation solutions are therefore more likely to want to target an inflation index that better reflects prices increase in the basket of goods and services typically purchased by retirees.

We also urge the DWP to consider actuarial fairness when considering flat rate upgrades and downgrades in benefits, especially if there is a wide range of ages in the cohort. For example, if you had a spread of members in the decumulation phase, ranging from 100 years to 50 years, and a cut in benefits was necessary due to an increase in longevity, the cost may be disproportionately borne by the younger members. This seems misaligned with DWP's policy intent.

Charge Cap

We welcome the work that DWP has done to exempt well-designed performance-based fees from the list of charges covered in the charge cap. The charge cap continues to be an important and necessary accompaniment to auto-enrolment in workplace pensions – helping to engender trust in long-term savings and investments.

We hence support the overall cap being applied to the new whole-life multi-employer CDC schemes. However, the new flexibility around the charge cap will make a meaningful difference to pension schemes' ability to access new sources of investment return through investment in illiquids, if they so choose.

Member Communication

² Please see our response to *Helping Savers Understand their Pension Choices* here: <https://www.blackrock.com/corporate/literature/publication/blk-retirement-decisions-response-dwp-consultation-on-decumulation-for-the-trust-based-market-072922.pdf>

Member communication will likely represent a significant risk in the operation of a multi-employer CDC scheme given the complexity of the product and need for materials to help scheme sponsor readily explain the benefits to their employees. Whilst we agree that scrutinization of individual communications is unfeasible, we feel it would be advisable to publish principles on how CDC should be explained to clients.

Decumulation-only arrangements

BlackRock is supportive of a flexible approach to decumulation that allows for different products, which generate different types of income, at different times in an individual's lifetime, designed around their personal needs.³ In line with this, we believe that future CDC decumulation-only products could comprise an entire product or form one part of a hybrid pension, for example the element people draw on when they enter late old age.

However, while we support the ability of trust-based pension providers to launch new decumulation-only CDC products, as the consultation document sets out, there are a number of challenges around scale and demographic spread which this type of structure would face, which we believe are exacerbated the current regulatory environment.

For example, given the lack of default decumulation pathways, it would seem likely that a decumulation-only CDC product would be offered on advised only basis, limiting both the capital available and the demographic spread of participants.

This is an issue we have seen with the pan-European Personal Pension Product (PEPP), which includes a provision of mandatory individualised advice with a full suitability and means and needs test on the most appropriate investment option provided prior to the conclusion of a contract. Adding this type of provision adds to the complexity of distribution and ultimately impacts take up, whereas a more decision tree-style approach could be more appropriate, if this type of solution was built into some form of retirement income pathway.

Overall, we support innovation and believe that there is potential value in a decumulation-only CDC product, particularly as part of a suite of other retirement income solutions. However, we believe the introduction of a DWP framework for decumulation decisions, coupled with the review of the advice/guidance boundary are the necessary first steps to begin to solve the DC decumulation challenge, and hence should be addressed first.

Innovation in retirement income

We suggest that tackling these challenges could help stimulate further innovation in the retirement income market. Examples of the type of innovation that is happening in other countries include:

- In the US, BlackRock has sought to tackle the DC retirement income challenge as part of our [LifePath Paycheck](#) retirement solution. Like a traditional target date fund, LifePath Paycheck changes as participants age. Alongside this, it allocates a portion of members' investment to insurance products that are designed to give the option to purchase annuities (if certain criteria are met) from insurers selected by BlackRock. These annuities provide members with a lifetime income stream.
- Looking to Canada, the [Longevity Pension Fund](#) provides income for life through longevity pooling. The Fund includes two classes: an accumulation class for

³ In its [2022 paper on post-retirement products](#), the Institute and Faculty of Actuaries discussed a number of products such as annuities, equity release mortgages, drawdown, tontines, and their possible combinations. The paper also set out findings on how well products met customer needs and concluded that, for most people, a combination of products rather than a single product may better satisfy the changing needs of individuals in retirement.

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investors under 65 years old still saving for retirement, and a decumulation class for individuals 65 and over who are retired and seeking income.

We would be happy to have a more in-depth discussion regarding LifePath Paycheck, as well as other innovative retirement income solutions, that are offered in markets across the world.

Conclusion

We are supportive of DWP's work to bring CDC to the UK. We support innovation in the pensions ecosystem and believe our clients are best placed to decide what is appropriate for them and scheme members.

We welcome the opportunity to comment on the issues raised by this consultation paper and will continue to contribute to the thinking of the DWP on any issues that may assist in the final outcome. We welcome further discussion on any of the points that we have raised.

Yours faithfully,

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