

Press release: New pension scheme “could deliver improved returns for millions”

Millions of workers could eventually benefit from better retirement savings when a new type of pension scheme is introduced to the market, under pioneering proposals rubber-stamped by the Work and Pensions Secretary today.

Amber Rudd backed plans for the first Collective Defined Contribution (CDC) scheme in the UK after the pensions industry, insurers and other bodies welcomed the move proposed by Royal Mail and the Communication Workers Union (CWU).

Work and Pensions Secretary Amber Rudd said:

Introducing a completely new pension scheme to the market is yet another revolutionary reform in this government’s quest to transform the retirement saving culture in this country.

These pioneering proposals should deliver improved investment returns for workers and savers while cutting costs and red tape for British job creators.

The new type of pension is currently used in Denmark and the Netherlands – 2 countries widely recognised as having among the best pension systems in the world.

Any steps that result in better saving returns for workers are something to celebrate and I look forward to working with industry to enhance the prospects of millions of workers.

The benefits of CDCs are clear. Members get more certainty in their retirement, with regular pay-outs from their scheme. And unlike traditional final salary pension schemes, those pay-outs aren’t affected if your employer goes under.

CDC pension schemes offer a regular retirement income by allowing group contributions to be pooled together and invested to give members of the scheme a higher final benefit level.

It also means much better long-term protections for members because risk is shared.

The new schemes are expected to appeal to companies who want to offer strong pensions provisions to employees without having to hang on to enormous pension liabilities.

The government has worked closely with Royal Mail and the Communication Workers Union (CWU) to develop the proposals which went out to consultation in November.

Jon Millidge, Chief Risk and Governance Officer, Royal Mail, said:

This is very welcome progress. Royal Mail and CWU have been campaigning together to bring about this legislation, building a cross-party alliance of supporters in both Houses of Parliament as well as working with government.

We now look ahead to the next stage, and ultimately, delivering the UK's first CDC pension.

Terry Pullinger, CWU Deputy General Secretary Postal, said:

The response to the consultation on these proposals, and the degree of support from many key players, confirms our belief that the pensions industry is in genuine need of scheme innovation.

We are very proud and ready to be at the forefront of this historic moment which we believe will make a major contribution to offering future dignity and security in retirement for decent working people.

Many of the more than 70 contributors to the consultation on CDCs urged the government to make the new type of scheme widely available, including through multi-employer pensions and those run by commercial Master Trusts – potentially reaching millions of retirement savers.

The government has worked closely with Royal Mail and the Communication Workers Union to develop the proposals which went out to consultation in November.

The consultation response, due to be published today (Monday 18 March), confirms primary legislation will be brought forward to introduce CDCs as soon as parliamentary time allows.

Protections will be built into the system to ensure fairness for both younger and older CDC pension scheme members, the consultation response asserts. Trustees of CDCs will be required to spell out the potential for fluctuations in pay-outs – depending on investment performance – to members at the outset.

The latest innovation builds on the success of automatic enrolment, which has brought more than 10 million people into workplace pensions since 2012, and the government's backing of industry to deliver pensions dashboards – capturing all someone's retirement savings information in one place.

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