MASTER TRUSTS:

THE GOOD, THE BAD & THE UGLY

22 September 2017

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AGENDA

1. The rise (and fall?) of the master trust
2. Is master trust the problem?
3. How do we ensure value for members?
4. The saving of the DB legacy?

THE RISE OF THE MASTER TRUST

DC MASTER TRUSTS PROLIFERATE

- Master trusts are not new
- Auto enrolment increased demand for solutions

UK	DB	DC
Schemes	6,000	35,000
Members	11 Million	14 Million
Assets	1.3 Trillion	34 Billion

- DC master trusts – c80?
- Pension freedoms – DB to DC transfers
- Few barriers to entry
- Cost, control, competition – sub-scale and sub-standard solutions
- What happens when the music stops?

THE FALL OF THE MASTER TRUST

FEAR OF FAILURE

- Challenge to make money through efficiency
- Lack of employer influence
- Concern about scheme wind up
- Quality of trusteeship
- Wind up dangers
  - Many trusts backed by small firms
  - No discontinuance plans
  - Short term outlook?

ENSURING VALUE FOR MEMBERS

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- 21st Century Trusteeship
  - Focus on professional trustees
  - Higher expectations
  - Sanctions?
- Authorisation of master trusts
  - The 5 tests
  - Timescales 6 + 6months
  - Guidance expected
- Accreditation/quality marks
  - MAF
  - PQM
  - PASA
  - ISO
  - Compulsion?

ENSURING VALUE FOR MEMBERS

- Engaging employers
  - Limited
  - Want to trust others to make it successful
  - Some very paternalistic
- Engaging members
  - Freedom and (real) choice
  - Combating scams
  - Pensions dashboard

CONSOLIDATION

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COLLABORATION

- Encouragement
  - Shared services
  - Investment pooling
- Limited gains
- Compulsion?
  - Conditions apply?

MERGER

- Encourage consolidation through bulk transfer
- Limited gains
- Compulsion?
  - Conditions apply?

MEMBERS VOTING WITH THEIR FEET?

- Dashboard could lead to voluntary consolidation
- Lack of planning
- Follow the value for money?
- Guidance?

SAVING A LEGACY?

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DB NEEDS A HERO

- 6,000 DB schemes, 5,700 with less than 1,000 members
- Running costs vary hugely, often not recognised
    - Administration
    - Investment management
    - Consulting
    - Governance
    - Employer management
- Affordability/sustainability of DB
- JAMs and basket cases?

SAVING A LEGACY?

DB MASTER TRUST?

- 6,000 DB schemes, of which 5,700 < 1,000 members
  - >3800 are closed to new members and new accrual
  - Deficits have widened despite increased funding
  - Running costs have increased >35%
  - Distraction from core business
- DB master trust solution
  - Federated or single provider model?
  - Efficiency of scale
  - Benefit standardisation, not haircuts
  - Maximum alignment with scheme objectives – fewer conflicts
  - Employer on the hook – no cross subsidy
  - Government support?

Questions?

CONTACT

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