The past, present and future of master trusts in DC pension provision

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Contents

What is a master trust?

Pension Schemes designed for multiple employers under a single trust arrangement, with one trustee board.

Master trusts potentially give:

- Economies of scale
- Cost-effective and strong, independent governance
- Effective framework for communication with members
- Easy access to retirement flexibilities

In the beginning
Evolution of master trusts

[redacted]

[redacted]

[redacted]

[redacted]

A long time ago in a far, far away galaxy…

Episode IV

A NEW HOPE

It is a period of pension change.

Master Trusts, striking from an Auto-enrolment base, have won the first victory against the evil lack of pension provision.

During staging, MT providers managed to attract pension plans from the Employers' traditional weapon, the GPP, a pension market with enough presence to destroy an entire era of trust provision.

Types of master trust?

- Traditional
- Auto-enrolment
- Adviser-based

  – Independence levels
  – Target markets
  – Sophistication
  – Quality

Schemes reviewing their pension arrangements caused by a variety of drivers

- Companies changing how their employees are rewarded
- Pension tax changes
- Auto-enrolment
- Governance

Role of master trust?

- Auto-enrolment
- De-risking legacy arrangements
- Access to drawdown
- Outsourcing

Attacking the Death Star

Checklist

Trustees

- ✓ Do Rules permit changes proposed
- ✓ Take legal advice
- ✓ Actuarial certificate
  - ✓ Service credits
  - ✓ No worse off
- ✓ Investments
  - ✓ Expected returns
    - ✓ **Risk**
    - ✓ **Volatility**
    - ✓ **Cost**

Select your provider

- ✓ Asset transfer
- ✓ Transition process – data
- ✓ Range and price of investment funds offered
- ✓ Independence and quality

- ✓ **Auto-enrolment requirements met**

Process – what are the critical steps?

Feasibility stage
- Business case
- What needs to be done to get trustees on board?

Consultation
- Communication
- Consultation

Decisions
- Certification
- Contracts

Implementation
- Bulk asset transfer
- Data transfer
- Auto-enrolment
- First contribution
- Communication

Business as usual
- Reporting to the employer
- Trustee feedback loop

Can take
9 – ? months

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Can take 9 – ? months

Employer's troubled relationship with governance

- Mobile employees
- Pensions and reward
- Drawdown – length of membership
- Benefits of scale
- Skills, knowledge and expertise

Governance – who is responsible for what after the transfer to master trust?

What stays the same for the employer?

- Contribution amount design
- Communication of plan as a benefit to workforce
- Deduction of member contributions and payment of employer contributions
- Auto-enrolment compliance
- Maintaining and meeting costs of insured risk benefits
- Responding to legislative changes impacting employers

What will the master trust be responsible for?

- Appointment of Trustees
- Communication to members about their investments, outcomes and options
- Selection of default fund strategies and investment funds
- Administration of member accounts, help and support with queries
- Assistance with auto-enrolment compliance
- Regulatory compliance and legislative changes impacting the plan

Jedi or Sith?

Considerations when selecting master trusts

Where do master trusts fit in the range of DC vehicles?

Single-employer trust	Multi-employer master trust	Insured master trust	Contract plan

More ⟵⟶ Less

- Governance
- Employer control

- Tailoring
- Administration costs on employer

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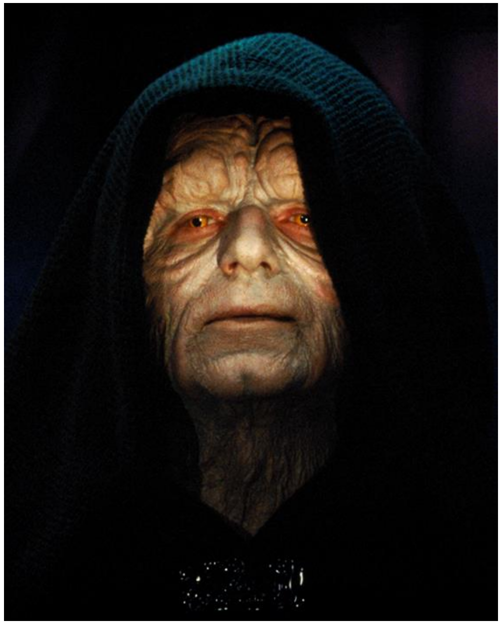

Where do master trusts fit in the range of DC vehicles?

Who’s using master trusts?

- Changing role for pensions in reward strategy
- Desire for strong governance
- Willingness to delegate running of pension scheme
- Desire for some personalisation/control
- Interested in a low cost option
- Ensured compliance with auto enrolment
- Appreciation of changing face of workforce

[redacted]

The future

[redacted]

[redacted]

[redacted]

Consider a world where….

Contract based schemes are dominant…

- *Market consolidation*
- *Insurers dominant*
- *Economies of scale*
- *Less choice for employers*
- *Less competition*

Lots of SETs encompass the bulk of the DC market…

- *Employer led governance*
- *Fewer economies of scale*
- *Less innovation in engagement*
- *Greater diversity*
- *Drawdown?*

Master trusts now dominate the market…

- *Market consolidation*
  - *AE specialists*
  - *Large employer focus*
- *Better member engagement*
- *Economies of scale*
- *Less choice for employers*
- *Better drawdown*

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