Sowing the seeds

Natalie Tuck speaks to agricultural equipment manufacturer AGCO's pensions manager Debbie Spiby on why the company transferred its DC scheme to a master trust and the benefits of the move

Can you tell us a bit about AGCO's pension arrangements?
We have a closed defined benefit scheme (March 1998), but it is open to future accrual, run by a corporate trustee with appointed directors, and outsourced administration today. The defined contribution scheme is for new joiners (from April 1998), and mid-2015, we moved into the BlackRock Master Trust. As of 30 September 2016, the defined benefit scheme's assets were worth £444.8 million. In the year its assets grew by £62.2 million. Its members total 5,400, consisting of 92 actives, 1,329 deferred and 3,983 pensioners.

The defined contribution scheme was introduced in 1998, and was originally governed by an in-house corporate trustee, with appointed directors and initially in-house administration. The scheme had a default lifestyle investment strategy. However, at some point we moved to bundled administration and investment services with BlackRock. All members were transferred into a master trust arrangement with BlackRock in July 2015. The defined contribution scheme has 750 members, with 374 active and 376 deferred. It has an asset value of £23.3 million and 94 per cent of our active members are in the default Lifepath investment strategy (BlackRock's version of target-dated funds).

In terms of your DC scheme, what contribution rates does the company offer for its DC scheme? What investment options do you have for DC members? Have you had low AE opt-out rates?
Members are enrolled at the minimum rate into the scheme's default Lifepath option, which targets drawdown. The minimum total amount is 7.5 per cent, made up by an employee contribution of 2.5 per cent and an employer contribution of 5 per cent. We operate a sliding scale, which for every additional half per cent contributed by the employee, we will contribute an additional half per cent. The maximum contribution AGCO contributes is 8 per cent, where a contribution of at least 5.5 per cent is needed from the employee. Opt-out rates have been low since we staged in January 2014, which were initially 1 per cent but currently are at 3 per cent.

You made the decision to move your DC scheme to a master trust in 2015 from an in-house trustee board. Why was this? How has this transition been and what have you gained from the move?
Broadly it was about how best to manage the ever-increasing legal and regulatory challenges faced in providing DC pensions, and where the trustees and the company were both of the view that a master trust represented a better structure for managing pension provision going forward. It offered a professional trustee and administrator and had the advantage of economies of scale and professional know-how not available to the plan. It also came in the context of pending retirements from two experienced trustees on the then in-house board of directors, but where interest in attracting employees into trustee roles was becoming more and more challenging.

The trustee and company were at the same time happy with the service and support received from the service provider, BlackRock, and so discussions commenced to consider transferring to their master trust arrangement. This would mean that no immediate changes would be necessary to members' investments and limited amendments would be required to the plan's documentation in the event that the transition proceeded. It was the in-house trustees' intention to minimise any changes experienced by members as a result of the transfer.

When the decision had been made, the company and trustee worked in collaboration with the administrator. A project group was formed with these key stakeholders, with a BlackRock project lead. AGCO parties were guided and advised by the AGCO pension scheme's lawyers, where no conflict of interest was identified. The transition period took place over six to seven months in all. Member presentations, formal notice and written communications were used to explain the process taking place. The objectives of the company and the in-house trustee then have brought about significant time management reduction and cost savings, without compromising on changes to members' benefits.

The main advisers were the scheme lawyers (Mayer Brown) and the scheme investment adviser (WTW). An actuary was also required to sign off that members were on a 'no worse off' basis. A new Life Assurance Trust was also set up, which was required to preserve life assurance benefits previously offered via pension scheme membership.

From our experience so far, there is no hesitation in changing to the master trust (with BlackRock), freeing up time at no extra cost. BlackRock were able to accommodate the more bespoke service so we could move into their master trust with our existing investment strategy but retaining our own investment adviser. This obviously changed when we moved into the generic fund range towards the end of last year. BlackRock lay on a forum for its master trust clients, which also provides the opportunity to speak to other participating employers and usually a trustee of the master trust.

What responsibilities does AGCO still face with regards to its pension scheme now that it has moved to a master trust?

It is first important to note that the move into the master trust was with the scheme's existing default lifestyle fund strategy, which had been reviewed and updated in advance of the company's staging date in January 2014. However, from November 2016, the scheme arrangements evolved further when the master trust trustee's default target date fund called LifePath was adopted. These changes were made to align with the introduction of the pension flexibilities. The previous lifestyle options catered best for members wanting to purchase an annuity, whereas the new LifePath Fund range provides members with the opportunity to select a LifePath Fund that automatically manages its investments on approaching a member's target retirement date, in a way that is more aligned to how defined contribution savings will be accessed.

The default glidepath is drawdown, but members can select a target-date fund appropriate for how they want to take their retirement savings, be it cash or annuity, or a mix of all three. This does mean that AGCO's responsibilities have been cut back further so that investment matters have also been handed over to the provider. But we valued and so gave the delegation to the experts where there is a future-proofed place in structure, and we do believe that these new funds will be in members' best interests in the long term. There is a strong desire from the company to focus more on adding value, not about carrying on as a trustee board with legal responsibility.

Certain responsibilities of the company remain as before, to ensure compliance with legal obligations and the employer obligations in relation to the plan with BlackRock, including the designation of eligibility criteria and contributions levels, and ensuring compliance with auto-enrolment requirements. Efficient administrative responsibilities includes reliable, coordinated communication, contribution deduction and payment and the notification and processing of leavers, joiners, deaths, retirements, re-enrolment and other changes. In addition, AGCO has formed an Internal Governance Committee responsible for defined contribution pension provision, which takes account of the regulator's pensions management committee guidance document.

The committee provides recommendations to the company based on its key responsibilities, which are: monitoring the quality of the scheme and all administration processes; monitoring and reviewing service providers and advisers from all sources and monitoring and reviewing that all members receive value for money. It is also responsbile for monitoring and reviewing communications; monitoring the effectiveness of presentations to scheme members or potential members; receiving and reviewing plan management information reports; receiving and considering advice and information concerning legislative changes and good modern practice. It also considers any member suggestions or complaints regarding the scheme; makes proposals regarding the running of the scheme to the company; monitors the investment performance of the default fund and other investment choices.

How does the relationship between the master trust and the company work?

We have a client relationship manager and a client services manager appointed by the sponsoring employer of the master trust, who are experienced and knowledgeable professionals. We meet twice a year for formal meetings. We have a collaborative style of working, which has been positive. At the outset, we were unsure about the lack of direct contact between ourselves as a participating employer with the trustees, but the CRM/CSM structure has proved to work well.

What advice would you give to other schemes considering switching to a master trust?

Keep a close eye on what is not being provided, both during the transition and post implementation. Oversight by the lawyers is essential, and building in due diligence into the transition for members and employer. Think about what the company's role will be after switching, to stay in touch with your scheme. Can the previous governance budget be diverted to areas where you can add value, where the emphasis is more on current employees as the active membership, eg enhancing communications; providing more at-retirement support in the new era of a more complex set of choices faced by members? Whilst our Master Trust Target Dated Fund delivers the flexibility we wanted for our members, there is a sense that you are locking more into one provider. Costs need to remain competitive and monitoring the risk and returns of LifePath, including comparisons with other provider defaults, will remain an important role of the committee.

Written by Natalie Tuck