

Pensions consolidation – what is it and why is it beneficial?

✦ Having spent the past six years working for two of the leading consolidators in the pension trustee market, Tom Neale, chief operating officer of Entrust, Gateley's pension trustee company, is uniquely placed to offer valuable insights into this rapidly developing market

As the expectations on trustees increase and governance standards for defined benefit (DB) pension schemes become more stringent, pension consolidation is becoming more attractive. So, what is pensions consolidation and what benefits will it bring to scheme members and sponsors?

Pensions consolidation is the process for managing DB pension schemes in a collective manner to realise efficiencies and cost savings. By appointing the same professional trustee and pension service provider to a number of schemes, tasks and projects can be undertaken across the portfolio as a whole with each scheme only meeting its proportion of the overall costs. This is especially beneficial for small schemes, which can access big scheme solutions for a small scheme price.

Consolidator models also increase governance standards for schemes. By way of an example, under The Pensions Regulator's new General Code of Practice, each DB pension scheme with 100 or more members has to undertake an own risk assessment (ORA). By undertaking one ORA across a whole portfolio, schemes with fewer than 100 members also benefit from the findings and output of the ORA. This might involve implementing process refinements

and governance improvements, which would not have been identified if the scheme was operated on a standalone basis, as an ORA would not have been undertaken. Schemes with over 100 members also benefit – as a matter arising on one scheme in the portfolio, which leads to risk mitigation processes being implemented, are picked up across the portfolio. In addition, the costs of completing the ORA are shared more widely.

From a sponsor perspective, the consolidator model also outsources the burden of day-to-day management of the scheme to the consolidator, allowing management to focus on the running of the business without having to grapple with legacy pension matters. The consolidator model offers flexibility, allowing sponsors to be involved as little or as much as they would like. At the lower end of the involvement spectrum, the sponsor need not concern itself with any matters outside the funding and investment strategy as part of the three-year valuation cycle.

Not everything is done on a collective basis though, and schemes still retain individuality which is vitally important when it comes to funding and investment strategy. Each scheme (via the trustee) and its individual sponsor will collaborate to set a bespoke funding and



investment strategy, long term funding objective and journey plans which align with the sponsor's corporate goals.

There are a number of consolidator models in the market, from 'master trusts' where all schemes merge into the same legal structure and the balance of powers in the master trust deed and rules is favoured towards the trustee, to operational platforms such as the Enplan Pension Platform (Enplan), where each scheme retains its own distinct legal identity and powers are more equally balanced between trustee and sponsor.

Platforms such as Enplan can help significantly reduce costs for individual schemes through the process of consolidation and running schemes collectively, allowing schemes to benefit from investment in innovative technological solutions that would not, in the normal course of business, be available, accessible or affordable for small- to medium-sized schemes.

Though a number of different models are available, the common theme is driving down management costs, increasing governance standards and taking the burden of pension scheme management away from the sponsors so they can focus on business success.

As pension schemes become more complex to manage and governance expectations increase, the argument for pensions consolidation becomes even more compelling. The more schemes that consolidate, the more benefits that materialise.



✦ Written by Entrust chief operating officer, Tom Neale

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