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DC/master trust roundtable

CHAIR

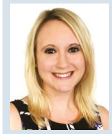
Andy Cheseldine, Professional Trustee, Capital Cranfield

Andy joined Capital Cranfield in 2017 after a career as an adviser to trustees and employers at Watson Wyatt, Hewitt Bacon & Woodrow and latterly as a partner at LCP. Using his experience of over 30 years in consulting on both DC and DB pensions and liaising with regulators, he is able to use his wide knowledge for the practical benefit of trustee boards. He has served on the PLSA DC Council since 2013 and has a successful record of advising on regulatory, governance, change management, investment, provider selection and communication issues.

PARTICIPANTS

Mark Baker, Partner, Pinsent Masons

Mark heads the London pensions team at Pinsent Masons. He is one of the UK's leading legal advisers to master trusts and has gained recognition for his innovative market-leading approach. Mark leads the team which has advised 24 of the 35 authorised DC master trusts in the market with a combined asset value of over £100 billion. He sits on a range of pensions industry committees and working groups. He is widely recognised as a leading figure in the DC master trust sector, not just an outstanding lawyer but one of the thought leaders in the industry.

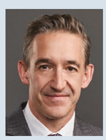


Laura Blows, Editor, Pensions Age

Laura has been editor of *Pensions Age* for 14 years, during which time the title has cemented its place as the leading resource for those working in the institutional retirement sector. She is passionate about the pensions industry, gaining her PMI Retirement Provision Certificate in 2011. Laura is a multi-award winning journalist, specialising in writing in-depth features that shine a light on under-reported industry issues. She has also been a Headline Money Awards judge for many years and regularly hosts awards, conferences and roundtables.

Jit Parekh, Partner, Aon

Jit joined Aon as an investment partner in the DC team in 2023. He advises on all aspects of DC investment strategy. Prior to joining Aon, Jit led the DC investment team at Schroders Solutions, where he was responsible for a number of key advisory and fiduciary clients. His role also involved wider proposition development across DB and DC, focusing on developing solutions in consolidating markets. He is a keen advocate of improving financial literacy in the UK, and looking at wider innovative solutions to solve the DC retirement savings and advice gap.



Matthew Swynnerton, Partner, DLA Piper

Matthew is a partner at DLA Piper where he heads the London employment and pensions team. He advises on all aspects of pensions law, including the pensions aspects of corporate transactions, The Pensions Regulator risk issues and moral hazard powers, reorganisations and restructuring. Recent notable work includes, as a member of the Pension Scams Industry Group, drafting key legal sections of the Combatting Pension Scams Code of Practice. Matthew is also chair of the Association of Pension Lawyers.

Geoff Winn, Client Director, Vidett

Geoff joined the Vidett team in January 2023, bringing with him an extensive knowledge of secretarial support and corporate pension matters, such as pension reviews. Geoff advocates pensions governance should be at the forefront of great pension management. With a career in pensions spanning over 30 years experience, Geoff is an expert when it comes to managing DB and DC arrangements. Prior to joining Vidett, Geoff worked for the Bank of England Pension Fund for 11 years as its pension manager.

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Two steps forward, one step back

From reflections on the Budget, to considerations for future scheme design, our panel of experts reflects on the DC and master trust world of today and into the future

Chair: What are the panel's reflections on the Budget? What was in, what was missing, in relation to DC schemes and master trusts?

Matthew Swynnerton: In terms of what was missing, the obvious one is the lack of any kind of flat rate or other limit on tax relief, which keeps getting mentioned and is risky as it's confusing to members who might make potentially quite hasty decisions about withdrawing their pension benefits without proper consideration due to the rumours that circulate each year.

In terms of what was in, the plans to charge National Insurance on salary sacrifice pensions above £2,000 seems potentially to be introducing a fair amount of complexity for employers and members. This constant tinkering makes it challenging for members to make sense of the environment, so targeted support, some might argue, can't come soon enough. But it's quite a long lead-in – 2029 is a long time in politics and we can possibly expect further tinkering, or a possible U-turn, either from this government or from a subsequent one within that timescale.

Geoff Winn: The most significant thing for me in relation to the Budget is the big question on tax-free cash. It gets raised every time there is a Budget, but then goes back into the ether. It would be helpful to have some signposting there about direction of travel – if there is going to be more of a limitation, what kind of figures are we talking about? It's one of those things that rears its head every year, but we still don't move forwards with it.

In relation to salary sacrifice, there's an awful lot of complexity in that for many individuals. If you mention 'salary sacrifice', it means nothing to them in the first place. So, there's an educational piece needed there as much as anything else.

And I agree with your point, Matthew *[Swynnerton]*, about the gap between the Budget announcements and when these things are being brought in – an awful lot can and will happen in four years. So we'll have to wait and see.

Swynnerton: And there's a big impact

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on employers as well.

Jit Parekh: Going into the Budget, there was some fear as to what might come out of it. Everybody found out an hour before it was officially announced, which was also interesting! But ultimately, I think the timescale of some of these changes is probably the most unexpected item. People knew something would come in and there'd be a bit of time, potentially until 2027, to feed it through. But 2029 feels like a big runway, which may potentially appease some employers, even though it then does provide a bit of a headache.

It's going to be interesting also to see what happens from a government perspective over the next year, because there is a lot on the agenda. My worry is, are we going to continue to take what feels like two steps forward, one step back? There are lots of ideas around scale, and what the government is trying to do is get more assets into pension schemes because they want to unlock UK PLC, and some of the actions that have been delivered through the Budget make it feel like they're thinking about things in too much of a siloed way. If you look at the salary sacrifice piece, for example, if those changes disincentivise anybody from putting more into their pensions, then this whole argument around getting people to save more – and by saving more, potentially investing more in the UK – is then being lost.

It is frustrating for us in the industry. Adequacy is a big issue, and we want to make sure that policy is encouraging people to save more, but one of the takeaways for me from the Budget was that some of these policies are acting as disrupters to saving rather than incentives.

Winn: There are times when it feels more like one step forwards, two steps back even, because none of this is helping the layman understand and have some level of certainty. People will invest or save money for that longer term when they have security, when they have predictability. When you throw too many things at people all at once and you give them all that uncertainty, naturally they will sit on their hands, they will sit on their cash and they won't invest that money; they won't use it in the way that we would hope. So it's counterproductive.

Mark Baker: I totally agree. Before the Budget, a number of people took their money out of pension schemes because they were worried about the announcement. That shows the challenge, doesn't it? For a lot of people, that's not the best thing to do, to take all of your tax-free cash in one go – it might be better to leave it invested and get the tax break, which you think would help with what the Chancellor wants to do as well. And trying to send that message to people, giving them the understanding, the predictability, ought to be a focus.

On salary sacrifice, compared to where we were before the Budget, it's probably good in that they've said it will only take effect from 2029. It means that employers can plan in one go rather than having to re-adjust first and then come up with a proper plan afterwards, which is good for employers, good for business. It will be interesting to see exactly how they define what counts as a salary sacrifice, so that it can be notified to HMRC – we know that some employers might switch to non-contributory structures, for example. So they will have to write the rules carefully to cater for cases where employers give people a pension contribution that they can flex to receive as pay if they would prefer to. And that's something where the industry should stay engaged with government as they do.

Chair: It does strike me that a lot of what the Chancellor is doing is counter-intuitive – I'm not certain that it's going to help achieve the objectives that they're aiming for.

Parekh: On salary sacrifice, some employers have been offering salary sacrifice from a paternalistic perspective, wanting to pass some of these savings back on to members; and, as it's not happening until 2029, some employers might wait to see if there is a change in government before doing anything about it, in case something is reversed.

Others, however, might get things in motion and then, if further down the line, things are actually reversed, they might feel it's not worth the hassle of changing back again, so they will just leave it. So the members will lose out. That's the issue. It's the more paternalistic employers, those that are trying to do more to encourage saving and share some of that with members, that may be more impacted.

Pension Schemes Bill

Chair: What do you view as the most significant parts of the Pension Schemes

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Bill (PSB) in relation to the DC/master trust world?

Swynnerton: I would argue mandation, and an interesting debate is how it interacts with fiduciary duties. I am not sure how big an issue that is in reality. I'm not sure also that the fiduciary duty argument against mandation stacks up, although there has been a lot of focus on this point in the industry. There's always been legislation that interacts and interferes with fiduciary duties and, arguably, this would be just another constraint.

There is a practical angle as well – how far will the government actually go with this? Any kind of mandation can have knock-on effects and distort the market. And whilst there will be winners, there will be losers too, both in the business world but also at member level.

The other interesting angle, from a legal perspective, is material financial detriment – there's an exemption that can be applied for where asset allocation requirements would result in financial detriment to savers. But there's very little detail about what that looks like and I've not seen any kind of explanation as to how that would work. So that's an interesting one for us lawyers.

Parekh: Does mandation satisfy fiduciary duty? One viewpoint is potentially yes, because if the underlying beneficiaries are members of a UK pension scheme, and they're investing in UK assets, then somewhere down the line they're benefiting from that said asset.

In my opinion, though, the fiduciary duty lies with trustees to determine the best and most appropriate way to invest those scheme assets, therefore it doesn't make sense to be limiting your opportunity set. If the investment perspective stacks up and it makes sense to invest more in the UK, then absolutely. So it feels like government is taking a stick approach to try and get more investment into the UK.

Part of the argument here is that even Canadian and Australian pension schemes are investing in the UK, so why aren't we, but they do that as part of diversifying away from some of the investments they have already made within their own regions.

In the UK, we have also been quicker than other markets in wanting to provide more diversification, more global diversification, and a wider opportunity set to pension schemes. If you go back 15 years, the UK had 50/50 funds in equity, where you basically had a 50 per cent equity bias in the UK. A lot of schemes then moved away from that because they recognised the UK only makes up less than 5 per cent of the global market cap, so it was seen as an opportunity to reduce that concentration risk.

The big question that was always asked of trustees was, do we feel that the UK is going to outperform other markets over the next 10-15 years, because this is a long-term investment play? And if the answer was no, greater global diversification was appropriate. This is why we've ended up here, so to try and reverse some of that, we need to be comfortable that it's based on the expected outcomes.

Winn: There has to be some paternalistic virtue to entice investors – not just pension funds – but investors in the UK to want to invest in the UK. High quality, reputable names, and names that resonate with them. That has been an ethic for a long time but it has eroded because many of the home-branded names that we have today are no longer UK-owned entities.

On mandation, my biggest concern is that some small-to-medium sized schemes who are getting good returns on their current portfolios are nervous about being forced to redeem some of those investments, to go into entities that have very little track record when you look at performance.

Baker: Mandation is unpopular among some in industry and, if the government is going to try to make the case that it's the right thing to do for everyone, part of the challenge is that trustees can't be confident that investing more in the UK leads to a better financial outcome all round. Partly because we are living through a generation where there aren't so many success stories.

Also, in this discussion about mandation, there is a danger that sometimes the discussion about investing in the UK gets elided with the discussion about climate investing, where it is perhaps easier for people to reach the conclusion that investing that way gives a better long-term outcome for everyone. When it comes to UK investment, that's the challenge. That you can't make that choice with as much confidence.

Chair: I suspect the main reason the government doesn't want to do anything

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overt, is they don't want their fingerprints on it in case it goes wrong. If they thought that it was a slam dunk easy win, they'd mandate it in a heartbeat.

I'm also concerned about mission creep. The clause in the PSB that talks about requiring investments in private equity, private debt, also says 'or any other asset'. So, it's not difficult to see how, in 12 months' time, when the government's short of cash, they might include gilts there too. And we'll have a requirement, for example, that all pension schemes have to invest 10 per cent in UK debt. Once you've crossed that rubicon, there's no limit to how far you can go.

There's also confusion about what is a UK stock. In the FTSE100, 70 per cent of the dividend profits are deemed to come from outside the UK because they're global investors. So we're already in a global investment market. Why try and limit it to the UK? Again, it seems counter-intuitive.

Swynnerton: I agree that there is a lack of clarity. Part of it is drafting-related where they've listed things in a non-exhaustive way, prefixing lists with 'for example', which is too vague. It needs tightening.

Default scale requirements

Chair: What are the panel's thoughts on the default scale requirements?

Baker: There are various questions around the detail of how the scale requirement will work and the practicalities of it. But if the basic requirement is written into the Act as things move forward over the next couple of years, then it will achieve what it's designed to do, at which point the exact details and the practicalities become less important.

There are some details it would be helpful for the government to clarify – it will be interesting to see exactly what they mean by 'common investment strategy'. Does that allow any variation between investment strategies within the same DC book? I think it should, because if you're a provider with big employers in your book, and one employer asks for something slightly different from the others because it thinks that's right for its workforce, there is a danger that some providers would be able to say yes to that under the scale requirements, and some would have to say no. That introduces a market arbitrage. So it would be good if they could allow some variation within the common investment strategy definition, albeit with the same building blocks, so that each provider is doing roughly what the government is looking for.

Parekh: There are two themes here – one is forced acceleration. Consolidation is already happening in the market, so my issue is around the forced acceleration, which is then going to cause unintended consequences. If we are trying to push that through faster, there are question marks over what is being captured, and what's not being captured. Then, are we doing the right thing for underlying beneficiaries or schemes in total, or are we shoehorning them into strategies that don't make sense for them because we need to make sure we're meeting these default requirements?

So, while there are potential benefits to consolidation, if we push things through at speed, then it might cause unintended consequences.

It's the same with mandation, specifically private markets. Trustees are just getting to grips with private markets, trying to understand and educate themselves and make sure they can make the right decisions around private market investing. And nowhere have I heard anybody say that private market investing is not the right thing for the right schemes. But ultimately there's not a right amount that they should be investing – for some schemes, it might be 0 per cent investment, for other schemes, it might be 25 per cent. The issue with this forced acceleration is you're getting people to rush into these asset classes, and you're getting people to rush to try and buy the scale, which is not going to deliver better outcomes in the long run.

Also, going back to the earlier point, again it feels like we are taking two steps forward and one step back. The UK DC market has master trusts that are large and mass market, for example Nest, so let's park them to the side for one second. You also have a number of large commercial master trusts, which are all vying and fighting to make sure that they get market share. When you start to put scale and certain requirements that you need to meet, and then also say you need to be investing in high quality or certain asset classes, how do these commercial master trusts balance the two? On one side, the industry has just been racing to the bottom in terms of fees because of the commercial reasons. Now, most of them are now looking to diversify and

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introduce these asset classes that could potentially move the dial. But then they are being told, actually, sorry, whilst you're doing that good work, you also need to make sure you're at £30 billion in size. So surely this then puts the pressure back on these commercial master trusts to keep fees low, or lower fees to continue to win mandates to meet the scale requirements, or worse still, invest in sub-optimal assets because they are driven by pricing pressure. And this is my issue. It's a siloed way of thinking, which then doesn't achieve what anybody wants.

Baker: There's also a tension that forced acceleration is happening right at the time that providers are competing for big mandates, which are competitive in terms of what employers demand as well as cost.

Winn: For master trusts in particular, it isn't a huge world – there are approximately 24/25 in total. And if we were to take out the master trusts which are non-commercial, you're still only left with 16/17. At the moment, is competition good for members, if it's done in the right way? In my view, yes. Not all master trusts are huge, some are much smaller. And if you were to look at the ultimate, in my view, value for members/value for money, it isn't just about fees, it isn't just about quality of the administration, it's also about the performance of that master trust over the past one, three and five years; and two of the largest master trusts, commercial and non-commercial, have not performed at all well for members when it comes to their investment returns. Yet ultimately, it's the investment return that is going to grow their pots much more than the marginal rates on fees on administration costs.

So, I'm not ultimately sure why there is this drive to copy the Australian market. I can understand the notion of scale and fees. But, ultimately, is that going to produce better outcomes for members? I'm not so sure.

Also, pushing schemes into doing something that may not be right for them, for their members – that's a step too far. I'd like to also think that schemes, trustees and companies that sit behind these schemes know what they're doing – we have been doing this for a lot longer than Australia, and it would be nice to be able to get on with it rather than have to be forced to mandate or be forced into corners that may not actually lead to the right outcome.

Swynnerton: I think consolidation is already happening, irrespective of what comes through in the Bill, with WTW potentially acquiring Cushon, for example. It feels like the horse has bolted already.

Value for money/value for member (VFM)

Chair: I would like to move to VFM – what are the panel's thoughts?

Parekh: On VFM, we strongly advocate that value over cost is important. One issue though is that some of that value is perceived value rather than tangible value, and that's part of the problem with DC, where cost is seen as what you can take now. Hence, people base their decisions on that.

This is going to become more difficult with the introduction of private markets, because now you're bringing in even another degree of subjectivity, in that not all private markets are built the same. I'm not saying all equity investments are built the same either, but if you're investing in the UK versus overseas, or you're investing in global market cap, there's a general consensus on how you might expect that market to be delivering for you on a future expected return perspective. How do you then do that with private markets? It's difficult.

Also, a lot of people talk in the market about potential supply issues. I don't think it's a supply issue. It's a quality issue. That's going to be the single biggest issue we have around making sure people are choosing the right managers with the right quality to go into these. And depending on that, you're going to have a massive dispersion around what that future expected return is.

What is the answer from TPR or the DWP on this? Is it to have a set standard assumption to say, on an expected return, these are your set of assumptions? But actually, they can vary wildly depending on how much you hold of each of those, especially if you have a quality asset versus one which is not a quality asset. So it will be interesting to see how this moves forward.

Winn: On VFM, we know as an industry that people need to put more contributions in, whether that's more from the company or more from the individuals, because that's a key driver. Yes, it is important to keep the fees as low

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as possible so it adds value, but ultimately it also comes down to the returns that the member is going to get. That is even more important if people are not – then they're even more reliant on higher performance. Because, at the end of the day, that's the biggest driver to get their pots to be the size that they need them to be. That also lends into small pots and the consolidation of small pots as well. I think that's an important part of scale and fees and costs. But again, value for money is more so at the investment end for growth from the member's pot than the small, negotiable amounts of fees and costs.

Swynnerton: Inevitably, VFM will just put more pressure on value, as suppliers are put under pressure by employers to review their providers even when they don't ultimately change. There'll be more competitive pressure in the market and that will inevitably lead to more consolidation. There's still also, in this area, quite a bit of detail that's not there in relation to trust-based schemes and that we need to see in the regulations. Also, potential disparity between the FCA regime for contract-based schemes and occupational schemes needs to be resolved.

Baker: On VFM, I'm keen that they keep the bands broad so that VFM is essentially a kite mark, although I realise others have different views. The sequencing is crucial, that it takes effect at the right time alongside the other changes in the Bill, although the government seems to have a handle on that. Finally, I think when GPPs are consolidated, it's important to be clear within the industry that consolidating GPPs for scale is not the same thing as saying one GPP fails VFM and another one passes it. I guess there will be many GPPs that tick the box on VFM. But they will still be consolidated as part of the wider market.

Chair: I'm hoping that the government, when looking at quality tests under VFM, does so over a proper timescale. It doesn't look at one year performance or even five years' performance, but takes the journey, as it were, as opposed to a snapshot. But we'll see how that works.

Retirement and guided retirement solutions

Chair: How should the approach to retirement income defaults differ from accumulation defaults? Should schemes default people into products they are locked into?

Parekh: I don't think the thought process around what the default looks like should be any different when you start to think about through retirement. Ultimately, the journey for the member is to-and-through-pensions. Particularly going forward, retirement will not be the cliff edge for a lot of people when they approach that point.

So, my view on this more widely is to look at accumulation and decumulation in the same light when trying to think about the right investment approaches, and try to remove that point of crystallisation, or almost have the smoothest bridge when you're moving from pre-retirement to post-retirement.

The move to master trust has really helped in this regard because people are invested past the point of retirement. And we're now starting to see the right types of ideas and solutions coming through from a lot of master trusts. For example, fix and flex, trying to understand and give members all of the right options. So all of that's great.

What it probably does mean is just making sure we are looking at the accumulation phase in the right light, because what I'd argue is that people historically have probably de-risked way too soon. The bigger issue is they are de-risking people too early and then re-risking them post-retirement when they do come into some of these decumulation defaults.

So that's the challenge, making sure there is a link between what's happening pre in the accumulation phase and post.

Education is going to have to play a big part in this – making sure people are being communicated to in the lead-up to retirement, and even way before then, just to make sure they're making the right decisions. But in terms of guided retirement within the trust-based environment, and the targeted support within contract-based schemes, I'm not 100 per cent sure whether that's going to look the same or it's going to look different. The FCA looks after one part of that process, whereas the other part is looked after more by the DWP and TPR. And while they seem to be working a little bit more closely, it would make sense for all of this just to sit under one

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body so there's some consistency.

The other thing we know is that people do have different pots in different places. So they're going to have lots of decisions to make. On one side, they're going to have these guided retirement options on potentially a master trust arrangement and, through their contract-based arrangement, if they have a different pot, they're going to have these pathways that they need to be thinking about, which might look different, although the strategies may be similar. And it starts to bring a lot of confusion for members. So, no matter what's put in place, the education piece, and making that decision-making framework for members close to retirement needs a lot of work. There's a lot of people getting there who are still super confused because they have so many decisions to make.

Winn: There has been quite a steep change in the master trust accumulation to decumulation journey for members. That's important.

I agree that a lot of people today still have a mishmash of pensions, whether they be contract based, workplace, some DB legacy, DC going forwards. So there's an awful lot of different entities that need quite considerable consideration. For a trustee of these schemes, particularly for DC or master trust, it is about education, but it's also massively about getting people to come on the journey with you. As we've seen with DC, there has been and still is a high degree of apathy – a lot of people are defaulting in choice, they're defaulting on this and that, and they're still not taking any ownership or vested interest in what is going to be a huge outcome for them, or an outcome which is actually going to impact how long they still have to continue working for.

The other interesting hot topic is around collective defined contribution (CDC) schemes, and for CDC to really work, the first and foremost part of that will be decumulation. That is the obvious first stage of really adding value for members. But again, there has to be a very owned consensus for any CDC, whether it be for life or whether it be just for decumulation, that all parties that are going to join a CDC, they have to openly and honestly accept that there are going to be winners and losers. There is going to be some cross-pollination.

Also, for CDC to work, ideally it needs to be left alone. It needs to be set in stone, it needs to be closely monitored and managed, but we don't need it to be tinkered with for it to work in any shape or form going forwards.

Swynnerton: Guided retirement seems to be a big focus for providers, many of whom are rushing to announce their solutions. We are operating within a new framework, but what I've seen relatively little of – to link back to the earlier discussion – is the interplay between this and fiduciary duties. Trustees are now operating in a new world with the potential for there to be some bad outcomes for members and complaints that fiduciary duties haven't been adhered to, so we do need some guidance here.

On targeted support, again this seems quite exciting for providers and, perhaps more so than other areas, you can see a role for AI. The developments are so quick that it's conceivable we could be seeing targeted support generated or assisted by AI in the relatively near future. That then brings up a whole new world of possible regulation in an area that is very difficult already from a legal perspective and will bring into sharp relief the importance of data management. But on the whole, it should be seen as positive. Members will hopefully wake up and take more active management in relation to their pensions, which is something that we've been talking about for years and is so important.

Baker: I agree, trustees are moving into a new world, and that's right. It should be seen that way. If you're a trustee of a DC scheme or a trustee of a master trust, you should see this as a significant step forward. I think this is the most important part of the Bill within DC. One important thing for trustees to do in the next couple of years is to map out which parts of the Bill are responsibilities that they, as trustees, will have to meet and which lines in the Bill are ones that they should be asking their provider to deliver on. It's quite fiddly, but that's a useful exercise.

As mentioned, data is crucial here, and there is potentially a role for AI. I think the Bill would work better if trustees were allowed to delegate more of

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environment, are generally quite quiet on all of this is because of the risk of writing something in your rules that then conflicts with either guidance or subsequent case law, and how

the responsibilities to a provider, because it feels to me like these activities are ones that sit more naturally within the operation of a commercial provider who would be the experts in managing data. Most trustees do not have that much day-to-day experience of monitoring really large scale data in this way. So, in the same way that trustees can delegate their investment responsibilities to a regulated provider under the 1995 Act, I would be keen for them to be able to do the same with some of the responsibilities here.

I also think, if you're running a master trust or a big DC occupational scheme, it might be right to look at the wording of your Trust Deed and add in extra wording to articulate the trustees' duties around retirement. That's because most DC scheme Trust Deeds, including most master trusts, don't say much about what the trustees' duties around retirement are at the moment, and this is acknowledging that trustees are responsible for the money and for people's outcomes for another 30/40/50 years. And with the danger that things could go wrong, with the danger that problems might emerge in a short space of time, it would help if we can articulate more clearly in Trust Deeds what trustees' duties are

Swynnerton: I think the reason why scheme rules, both in the DC and DB

you then resolve that. It is quite tricky, and especially tricky to do when this is at such an embryonic stage. Maybe there will be drafting solutions that we will share within our professional association.

Winn: On targeted support, I foresee that becoming much more of an issue for IGCs and GAAs because, when you look at a very large scale master trust – if that's the direction of travel we're going to end up with, half a dozen huge master trusts – you might have some massive differences in the types of companies and people and size of pots in there; and the trustees of the master trusts are quite disassociated from the individual members and the individual employers of which there may be 100 or so.

So what it might come back to is the role and remit of the GAAs and IGCs in working closely with the individual employers who've chosen that master trust to then say, 'who is our workforce, what do they want to achieve by it?' Because you might be looking at a financial organisation in that master trust of 250 people, all relatively highly paid, all with pretty large pots, versus a large supermarket, where they've got hundreds of thousands of employees, a massive amount of turnover, a lot of people part-time, low wages, very small pots. And having one targeted support across those two entities, for example, won't fit.

Parekh: It comes back to the default as well, in relation to accumulation or even to-and-through retirement, if you have to now decide what the default is for everybody, that's going to be challenging. This then comes back to the very first conversation we had around default scale requirements, because, what is it we're trying to achieve here? There are going to be different answers for different cohorts, potentially within organisations, but also across organisations, then if a scale requirement says, 'we all need to be invested in the same thing because we need to hit a magic number', then it starts to very easily unwind as being sensible.

Chair: So the legislation or regulation needs to be sensible to not force you into just one default.

Inheritance tax

Chair: What are the panel's views if this does materialise and what would be the real life impact to families dealing with an estate/family member death?

Winn: First off, I think it's tragic that somebody's died, particularly at a young age, they have put money into a pension and they've not received that pension. Then, for that money to not be disbursed tax-free to beneficiaries or the people that they wanted the money to go to, but to actually be subject to inheritance tax is very sad, as it is just another matter that has to be dealt with by the family members who are already grieving the loss of a family member or loved one.

Is it an easy target? Unfortunately, yes. Yet it's something that is going to happen. But for the families and the people dealing with the estate, it does leave a bit of a sour taste.

Swynnerton: There's clearly a lot of complexity and hassle that will come from it in terms of the impact on administrators, and particularly on families at a difficult time. People will now start looking at revising wills; they will be looking at withdrawing pensions; changing how they might have dealt with lifetime gifting.

Saying that, just to play devil's advocate, from a policy perspective, the point of a pension is to provide an income in retirement, first and foremost. It's not really an inheritance tax-saving vehicle. So I can see the logic from a policy perspective. But tactically, it does feel as if it's just going to cause a lot of immediate hassle to people in a difficult time.

Baker: Another big problem is that for younger unmarried couples, it's impossible to plan. That's the reason why it's a bad idea. Most people understand roughly the value of their house, but probably don't roughly understand the value of their pension and how that might change over the coming years. It also doesn't help with the gender pensions gap. The Pensions Equity Group recently published a note aiming to enable employers to understand the issue so that if employees ask them about it, they can explain how it works. But it's really hard. For some people, the best answer might be to get married.

Parekh: When you add more barriers and make things more difficult, it starts to disincentivise people. It makes people start thinking about whether pensions is the right vehicle for them to do a bit of their estate planning, and that is to the detriment of the purpose of what those vehicles are used for.

CDC

Chair: CDC is becoming a more prominent conversation – what are the panel's thoughts on multi-employer CDC and/or retirement CDC?

Baker: CDC in retirement seems likely to play a role, and it's really interesting and important that the government is giving the steer that they would like to see that done within existing master trusts – starting with a simple approach. I expect that whole-of-life CDC will take off. The interesting question is exactly how quickly. I wonder whether the announcements about salary sacrifice changing in 2029 might mean that employers who are keen on CDC will plan only to do it at that point, or slightly after, this remains to be seen.

Parekh: I agree there is definitely a place for it in the market. Timing is key, as is regulation. There are employers out there talking about it, but whether employers actually go and band together to buy into something, that remains to be seen. I appreciate Royal Mail's done it and part of what they've done has served a purpose for their population. So it's not necessarily that that exact model is going to be the right model for a number of other employers that may want to do something.

And on decumulation, I think it helps to answer that question by going back to pensions being pensions, and this is something that members can potentially understand. I think from an investment perspective, it has elements which stack up around investing for the long term, not having to worry about liquidity, being able to invest in private markets, unlocking future growth, all of that stuff. My big concern in general in terms of it taking off is going to be policy and regulation, and whether that derails the timings of it actually coming through. But I see it as a positive.

Winn: I agree. I think for it to work in any shape or form, scale is key – for it to be feasible, workable. I can see some entities where it would work well, where they've got a huge crossover – water companies, for instance. If you look at water companies, they may be different sizes, but when you look at the jobs and the roles that people do within those organisations, there is a lot of commonality.

Similarly, you could look at financial organisations, when you look at the workforce and what people want from their pensions as well, there's commonality there. So where we could see it being more prominent or most prominent are industry-wide sectors all joining forces. It might be rail companies, bus companies or transport companies, for example. That comes back to the whole thing about having that commonality of workforce, so it is palatable for the employers.

And ultimately, as I said before, we just need things to be managed and not tinkered with and left alone for a prominent period for them to bed in properly.

Baker: It's a truly long-term policy.

Swynnerton: I think it's a positive, and retirement CDC should, in particular, have a role to play in relation to guided retirement defaults. The timing doesn't quite work, however, because the authorisation is only possible a year after the guided retirement comes in, but overall it should be positive.