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Outsourcing: Solving problems for smaller schemes

✓ Paul Enderby and Tim Dougall explain how outsourcing can be beneficial for resource-stretched small DB and DC schemes

When it comes to managing and administering DB or DC pension schemes, employers and trustees have limited budgets and limited time for governance. Increasingly, they want to spend both of these more effectively. This is particularly relevant for smaller schemes, where resources are limited and operational challenges are a burden.

DC – the problems of governance and administration

As the investment landscape has become more sophisticated, delivering new asset classes and complex strategies to DC members has likewise become more difficult for resource-constrained trustees and employers. They now need to be assured they are discharging their duties effectively.

The ability to pursue other initiatives, especially improving member communications on key levers such as contributions and at-retirement choice, is also being compromised as the challenges of day-to-day compliance, governance and administration take centre stage.

Those who administer schemes have to comply with an increasingly onerous set of duties from the regulator. This combination of pressures means that we are increasingly coming across employers and trustee boards for whom the complexities of managing and governing DC schemes are becoming more and more difficult.

Whilst some trustees and employers

have budget for high quality DC advice, and have time and resource to monitor and change investments, the vast majority don't.

One solution is delegating the management, administration and governance of the scheme. This type of arrangement is often the optimal solution for trustees who no longer have the resources or expertise to act in the best interests of their DC members, and for employers who want to ensure the best outcome for their employees.

Outsourcing in DC – the master trust

A master trust allows employers to fully outsource the investment, governance and administration of their DC pension scheme. Each employer has a discrete and distinct section of the master trust, and operates its own contribution structure. The governance, investment and administration of the scheme and its assets are overseen by an independent, experienced trustee board, ensuring that members are being well supported throughout their savings journey and that risks are being managed effectively.

The investments are designed and managed by experts, and the whole delivery of retirement savings is entrusted to those whose expertise and resources are focused on ensuring the best experience for members and employers.

Over 66 of some of the UK's most prestigious employers have followed this outsourcing journey and entrusted Legal & General's Mastertrust to manage and

deliver over £3.7 billion of retirement savings for more than 637,000 members.

DB – a difficult environment for trustees and scheme sponsors

In DB, trustees also face a difficult environment. There is more pressure than ever to control DB pension scheme costs and to put in place a plan for delivering member pensions in full, while complex regulation and volatile markets ensure that this is no small task.

Trustees are increasingly coming up against the challenge of effectively constructing, managing and monitoring complex portfolios against the long-term objectives of their scheme. Often we find that trustees want to free themselves from the burden of making day-to-day investment decisions, while still retaining control of their scheme's overall strategy and objectives.

Fiduciary management

Fiduciary management is a governance model that helps overcome these challenges. A fiduciary manager works with trustees and sponsors to help define their objectives, and takes responsibility for delivering against those objectives through the day-to-day management of a scheme's assets.

At LGIM, we use our scale and expertise the UK's largest pension fund manager to help schemes of all sizes increase portfolio efficiency, avoid unnecessary costs, de-risk over time and target a route to self-sufficiency or buyout through our fiduciary management service.



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