Surfing the rising tide of consolidation

Steven Ord explores the many factors encouraging DC scheme consolidation into master trusts and how best to prepare for the move

Pension freedoms, tightening governance demands and higher charges have all driven further consolidation of master trusts and employer-sponsored trust schemes, as many decide it's too costly to run and meet the requirements and needs of its members.

The government has proposed changes, subject to consultation, aimed at encouraging DC occupational pension schemes that have been operating for more than three years with less than £100 million in assets, to regularly consider value and consolidation. If introduced, these proposals would be effective from 5 October 2021. And there's no doubt that some schemes will find the additional standards of governance too much, accelerating further consolidation in the market.

So far in this financial year, The People's Pension has welcomed six bulk transfers from trust-based schemes that have chosen to wind up and find a secure new home for their members' pension savings.

It's a complex and evolving marketplace with legal and administrative hurdles to overcome and the consolidation process takes time. Around 12–18 months is a good rule of thumb, but each case is unique. After years of experience in the transfer market, we've learnt some key things that impact on the success of consolidating a pension scheme.

One of the most challenging aspects is to bring all the parties together – it's sensible to have a clear project plan for a seamless transition of assets. Due diligence should be carried out by both sides to ensure that the scheme is right for them. Many schemes don't have advisers to guide them and welcome the personal touch of a provider supporting them through the implementation process from start to finish.

In our experience, thorough preparation helps avoid legal delays and obstacles, and lawyers must be involved early on to scrutinise documentation. Do scheme rules permit the transfer of the assets? Do the trustees have rights to make transfers on behalf of members or is member consent required? Trustees need to consider, among other things, whether consultation with active members is required, and ensure that no guarantees or promises are built into their existing benefit structure and that no valuable member tax benefits are lost. Be realistic about timescales, there are many stakeholders involved. These exercises don't happen overnight, and often formal trustee meetings are, at best, quarterly.

Trustees must strategically review their scheme and be satisfied that the transfer is in the members' best interests. They need to conduct a market review, comparing current provision with alternatives and decide whether the current offer is still fit for purpose. This involves checking charging structures and whether members might benefit from greater investment choice and retirement options.

After review, an alternative arrangement may be considered such as a contract-based GPP, trustee buyout plan or master trust. Our experience has shown that master trusts are often favoured as a destination as they operate under the same legislative regime and governance oversight as the ceding scheme. One example we see in the market is where sections of deferred members are transferred to another provider to focus on current employees and reduce administration complexity and cost.

Professional advisers would add value at this stage, as they'd be on hand to explain and provide reassurance on the effects of charges and investment and retirement options.

Another key takeaway is the importance of receiving cleaned-up and accurate member data ahead of the transition. This enables effective member communications and confidence that data is in the right shape to go to the new provider. Despite crackdowns by The Pensions Regulator on schemes' poor record keeping, insufficient personal or scheme-specific information is still supplied, especially in respect of deferred members.

As members aren't usually making an active choice to transfer, clear and upfront communication is vital so that they know what's happening, when and why. There should be a set process and plan required for member engagement and communication.

Understanding the processes and requirements are crucial – so we've generated a roadmap with a questionnaire to highlight the information we think trustees and sponsors need, including well-tested standard deeds and communication templates.

You can find out more about consolidation on our website at www.thepeoplespension.co.uk/single-employer-trusts. To contact us, email RRM@bandce.co.uk or phone 0333 230 1310.

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*Source: DC Trust: Presentation of scheme return data 2019-2020