# Another option for DB consolidation

**TPT head of direct distribution Adrian Cooper highlights the benefits of DB master trusts for those schemes considering consolidation**

**Why has DB consolidation become such a hot industry topic in recent years?**
I think a lot of it stemmed from the work of the DB Taskforce, supported by the PLSA. Then, in conjunction with the Department for Work and Pensions (DWP), The Pensions Regulator had a look at how schemes could be better managed and how they could take advantage of some of the economies of scale that consolidation could give them. Which, all other things being equal, should mean that member outcomes are improved. So then the next step is how to achieve consolidation. That's where we come in, as a DB master trust. It is important to note that there are DB master trusts, as many people automatically link master trusts to DC.

**For people who aren't necessarily aware, what exactly is a DB master trust?**
A DB master trust is essentially a one-stop shop. We provide all the actuarial services and manage the investments. We also provide the legal services and covenant review, manage the administration and handle the scheme communications. We do all that in an integrated way under one roof.

Underneath the DB master trust umbrella is a single trustee board, which in our case is chaired by Joanna Matthews. The trustee board delegates responsibilities to an executive team within TPT. Having our own board of professional and experienced trustees is a major advantage of this model, as a lot of schemes are struggling to retain trustees and have succession planning problems.

When DB schemes consolidate into a DB master trust, their assets are held in their own ring-fenced sections, instead of being pooled into one fund. So it will have its own bespoke funding and investment plan, depending on what's right for that scheme and what the end game for that scheme is.

The other thing to point out is that with some other consolidation models, they only focus on closed schemes. With us, we're focused on both open and closed schemes.

**DB consolidation has been greatly discussed in recent years, and there's been new entrants to the market offering consolidation services. Trustees may be nervous to make the leap to a new consolidation model. In contrast, I believe TPT has been running for many years?**
We've been around since 1946. Originally we were for multi-employer schemes, providing pensions and retirement benefits for social workers. Since that time we built up a strong reputation in social housing, in the charity space and the not-for-profit sector. But now we're very much a business across all sectors. Schemes that are consolidating into us are coming from financial services, from manufacturing, from different sectors generally. We've got a fantastic heritage; around 70 years or so. We know how to consolidate schemes.

**What are the benefits of moving into a DB master trust?**
First of all, schemes are often paying for many different sets of advisers, actuaries, administration, investment services, legal advisers. The prices aren't going down. Plus there's any number of project costs over the past two or three years, such as resolving GMPs. So, the sheer amount of costs that schemes are having to pay is very often disproportionate to the scheme. Because all our services are done under one roof, we tend to be able to bring down the operating costs by an average of about 30 per cent per year without sacrificing quality. We are able to offer a very significant cost saving in no small measure because of our not-for-profit status with any surplus used to enhance services to members.

On the investment side, we have £9 billion of DB assets under management, providing us with a lot of buying power so we can negotiate our charges down. Our size means we are able to access investment classes like private debt, private equity and infrastructure that standalone schemes just wouldn't be able to access. The combination of reinvesting cost savings with potentially better return means scheme objectives and improved member security can be reached more quickly. We can also offer our 44 schemes access to sophisticated tools and techniques to minimise risk and volatility, with LDI as standard.

DB is increasingly a legacy issue, but sponsors are still finding they have to spend an awful lot of time managing the scheme. But by being with us the sponsor just has one point of contact, instead of multiple advisers for example, therefore reducing the amount of time spent on the scheme.

Under the master trust umbrella, you have a single set of trustees, so schemes no longer need their own trustee board anymore and many will benefit from the robust governance DB master trusts offer.

The other thing is that under the DB master trust umbrella, the link with the sponsor remains unbroken. That differs from so-called superfunds, where the scheme's link with the sponsor is broken. There is still an uncertain regulatory framework with superfunds as we await the consultation results, so in many respects, it's an easier decision for trustees and sponsors to make, to consolidate to a DB master trust, rather than a superfund.

**On the flip side to that, though, what have been the main reasons when trustees' and sponsors' have been reluctant to enter a DB master trust? And how would you counter them?**
It is a big step, so it's not to be taken lightly. They should research all options and take the decision with eyes thoroughly open. Sometimes trustees are reluctant to let go of the reins. To ameliorate any concerns, we do offer an oversight option where they (either the entire trustee board), or more likely selected trustee nominees, can provide oversight of the transition to TPT and the period beyond – eg one or two years – and then once they are totally comfortable and have total peace of mind, they let go entirely.

But a lot of the heads of pensions I speak to actually welcome consolidation, because it means they can focus on DC, and focus on engagement with their current employees, rather than having to spend a lot of time and money on managing the DB scheme,whose members, in many cases, have moved on to competitors.

**Do you feel there is enough awareness of DB master trusts as a consolidation option?**
The short answer is no. There are a number of DB master trust players in the market. TPT is the largest, and probably the most well-known. But it's only in comparatively recent times, the past two or three years, that we've taken a conscious decision to communicate what we can do more loudly.

There's a lot of talk about DB consolidation currently, and a lot of talk about commercial consolidators coming into the market, which is exciting a lot of people. Rightfully so; they pose some very interesting issues. But it's our view that the target market for some superfunds is actually quite small and their ability to help funds is in many cases quite limited. Whereas we think we can help an awful lot more schemes. We tend to focus on schemes anywhere between £25 million to £750 million. That's where we think we can deliver some significant advantages for those schemes.

**The DB consolidation market seem to be in a state of flux. How do you think it will change over the next few years?**
The first thing I'd say is I think the trend is unstoppable. If you have a look at the drivers for consolidation, I don't think you'll see that consolidation is going to stop. For an increasing number of sponsors, DB is a legacy issue. Finance directors and sponsors simply want to minimise their time on it and manage risk better. Consolidation presents good answers to some of their problems.

Whatever the results of the consolidation consultation, any changes will take a while to bed in. So, I can't see any legislation being enacted before 2020 at the earliest. But no matter what, the DWP and the regulator have said very specifically that there are significant advantages to be had by consolidating schemes. So, the direction of travel is pretty clear to me and I suspect consolidation will happen more quickly than many people think.