Summary
• So far nine schemes have exited the market, with a further 35 wind ups currently ongoing.
• Continuity strategies have been put in place by all schemes, as part of the authorisation process, in the event they are forced to wind up.
• TPR will oversee the whole event and schemes will be assigned a named contact at the regulator to ensure a smooth process.
• As of yet, the regulator has not encountered any issues with the overall process.

Pack it up, pack it in, let the wind up begin

With much of the media attention focused on the master trusts that have applied for or received authorisation, little attention has been paid to the schemes that are exiting the market. So for schemes that are being forced to exit the market, what is the process, what do they have to consider and has it been plain sailing so far? Theo Andrew investigates

With much of the attention focused on who is going to achieve master trust authorisation over the next few months, there has been a distinct lack of column inches devoted to what is happening on the other side.

As schemes wait with bated breath to see if they will be allowed to continue to operate in the market as a fully authorised master trust, what about those that have already decided to jump ship? And what about the schemes for whom authorisation might just fall by the wayside?

Unlike many of us, this is an issue The Pensions Regulator (TPR) has not been neglecting.

According to figures from the regulator, of the 14 million savers who are in a master trust, 98 per cent have been granted or have applied for authorisation, meaning in terms of exits, the regulator will be managing less than 2 per cent. But, when it comes to member security, every single one is just as important as the next.

At the time of writing, TPR is managing 35 ongoing exits from the master trust market, having already overseen nine exits, meaning that the number of schemes that could now potentially be authorised has more than halved throughout the process.

Tasked with overseeing a good proportion of these exits is the regulator's senior case manager, Peter Pearce, who says TPR is happy so far with the consolidation that has taken place in the market.

"We are still comfortable that we are seeing a healthy consolidation of the market. We've seen schemes of all sizes finding new arrangements and we have not had any evidence of master trusts or exiting master trusts struggling, or any difficulty finding a new provider," he says.

So for those who are being forced to wind up, or have decided to exit the market voluntarily, what is required of them?

The continuity strategy

As part of the authorisation process, schemes have been required to put in place a continuity strategy, outlining what they would do in various 'triggering events'; scenarios in which the scheme is forced to act to protect members, with the ultimate event being scheme wind up.

Aegon head of master trust, Kate Smith, says: "Each master trust should have a plan, such as setting up an emergency trustee committee, as well as informing members, employers and TPR what happened.

"They will have a default process about what actions need to be taken in order to find a new home for the assets, as when they are winding up they obviously have to transfer to another master trust, so there will be a default arrangement where you have to find one."

Once a triggering event has occurred, trustees of the scheme have 28 days to submit their implementation strategy to the regulator for it to review. The strategy must include how they are going to maintain contributions throughout the period, as well as how it will fund the administration of the scheme. Exiting schemes are then assigned a named contact at TPR.

Pearce says: "We will then do analysis, take the strategy, review it, challenge the trustees on elements of that strategy and ultimately make amendments to it until we are happy to approve it, and we must approve that strategy before the trustees can get down into the nitty gritty.

"Once we have the approval and we are comfortable with the direction of travel trustees have set out, it will result in protection for members and ultimately an orderly exit from the market. We then monitor and work with the trustees through the process and really hold them to it."

A plan in action

After the strategy has been approved by the regulator, the trustees of the exiting scheme will have 14 days to write to the employers and members, providing specific details on what is happening, notifying them of the continuity strategy and what the process is going to look like.

According to Smith, employers and members will then have a choice about whether they are happy with the provider selected in the strategy.

"Employers can choose their own provider, they don't have to go with the default. It will be part of the communication plan, 'this is what the trustees think is good, but you can go somewhere else,'" she says.

"A lot of it is about communication to make sure that people know what their rights and options are."

Of schemes that have wound up and consolidated, very few of them are happy to publically talk about the process.

In April 2018 however, The People's Pension (TPP) completed a master trust merger with Your Workplace Pension (YWP), passing over around 8,800 new members along with £20 million in funds under management.

Helping oversee the process was JLT Employee Benefits head of discontinuance, Tom Pook, who said at the time: "Winding up the YWP master trust offered some significant challenges, but through focused project management and co-operation

with each of the two trustee boards, we were able to achieve a smooth transition for members and employers.

"The government has mandated that all authorised master trust schemes will need a plan in place to deal with potential winding up, without increasing cost to members, and our experience has demonstrated the value of high-quality advice and upfront planning."

This pays credence to TPR's plan in ensuring that all master trusts have a plan in place in the first instance, but also highlights the difficulties that some schemes may be facing.

One of the biggest challenges the regulator spotted early on was data.

Pearce says: "When we looked at what problems could arise, we were very clear from early on, in our communications and guidance, we wanted to make sure that data was good for all schemes and we have encouraged all schemes as early on as possible to ensure it is up to date and clear for the receiving schemes.

"The majority of schemes have shown that they have good data. In instances where it has not been quite up to scratch, we have challenged trustees on that. Trustees of transferring schemes are working with trustees of receiving schemes to create solutions to those problems."

He adds that the regulator has had a particular focus on smaller schemes, but as they have progressed, it hasn't "seen any problems".

Another element that schemes must be prepared for is the cost of winding up.

In July 2018, TPR raised the minimum amount master trusts must hold to £150,000, after responses to a consultation on the authorisation and supervision of master trusts suggested the initial £75,000 funding requirement was too low.

The Department for Work and Pensions estimated that it could cost individual master trusts between £89,000 and £196,900 to exit the market. It is an area TPR is monitoring closely.

"The legislation is quite clear on costs, and the fact that scheme costs should be covered by the scheme funder. Any situation where we have had a triggering event, we are engaging directly with the scheme and the scheme funders for any concerns, ensuring they are monitoring the costs and making sure that they have the appropriate level of reserves to ensure that the wind up takes place as it should," Pearce says.

"One of the requirements of the strategy is that they provide detail on how costs will be paid for, as well as details on any reserves."

A firm grip

The regulator is confident that it currently has a firm grip on the winding-up process, and is happy that everybody is on the same page when it comes to exiting the market.

Of the 35 that are currently exiting the market, TPR has said that it does not foresee any issues on the horizon.

Pearce states: "Trustees and scheme funders must be very clear on the requirements and should be seeking their own advice. There is a lot of information on the website and just engaging with us as early as possible to start the relationship will ensure that we are all working towards the ultimate goal."

Written by Theo Andrew