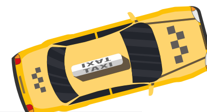


The direction of travel

The rise in DC schemes moving into master trusts has been incredible in recent years. But what is driving that push and what should these schemes be looking at when preparing to move over?

Summary
- The number of scheme members in master trusts has rocketed in recent years.
- Many schemes are moving because of burdensome regulation, with cost also a factor.
- Moving to a master trust is a great time to improve engagement with members.

The volume of DC schemes moving into master trusts has risen from a trickle into a torrent. Figures from Aviva say that in 2010, 200,000 people were saving for retirement in a master trust. But last year, says The Pensions Regulator (TPR), that figure was 20.7 million.

It is a trend set to continue. Varying figures abound, but predictions from Aviva and Smart Pension posit that the market will grow between 20 per cent and 25 per cent each year for the next half decade, with research from Broadridge indicating that assets held under master trusts will reach £461 billion by 2029.

The change has been a conscious choice from regulators, says Scottish Widows master trust lead, Sharon Bellingham.

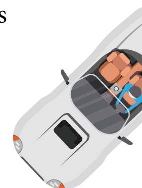
"In recent years," she says, "we have seen a clear and stated ambition from TPR to encourage the smaller and less well-governed schemes to consider if they demonstrate best value for members. The new TPR tone of voice has been backed up by regulatory activity and continuously evolving disclosure requirements. As a result, trustees and employers are now seeing a growing call on time, effort, and cost; the smaller, employer-sponsored, single-trust schemes cannot always afford the significant budgets that larger schemes may be able to resource more readily."

It is a view echoed by Aon head of DC solutions for the EMEA region, Tony Pugh, who points to the expense of compliance and the administration now required of schemes.

"If you are a large employer running a large scheme yourself," he says, "there's a lot of resources and costs there. You're also going to be paying multiple fees, which gets very expensive. There's also a lot of risk because of the regulatory burden and the focus being put on DC schemes."

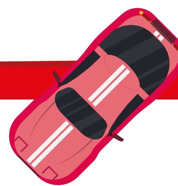
The moves have also pushed DC to the top of the agenda, says Eversheds Sutherland legal director, Amanda Small. "The regulations around share statements and value for money reports were the catalyst for smaller schemes to look at what they were doing, bringing DC schemes to the top of the agenda."

Pugh reckons another element is at play. "There's also an element of employers looking at DC schemes after they've closed off their DB liabilities. Quite often, a large employer will have a DB section and a DC section in their pension arrangements. After they've sorted out the massive risk that comes with their DB sections, that becomes a trigger for them to look at their DC schemes."



The impact of new regulation

The past six years has seen multiple new



laws and regulation come into force, from the Pension Schemes Act 2017, through The Occupational Pension Schemes (Master Trusts) Regulations of 2018, the Pension Schemes Act 2021, and The Occupational Pensions Schemes (Collective Money Purchase Schemes) Regulations 2022, all of which have pushed the move for DC schemes into master trusts.

Eversheds Sutherland principal associate, Helen Tabiner, says that the regulations have been made to support and buttress a conscious direction of travel.

She says: "There's a long-standing industry feeling that smaller schemes are being pushed into master trusts to give members a better experience. The regulatory environment is quite thinly stretched at times so it's helpful from that perspective because it means that there are fewer schemes to keep an eye on."

But those speaking to *Pensions Age* say that the one with most impact had been the value for money assessments, which came into force in October 2021.

Under that legislation, schemes with less than £100 million in assets, in operation for under three years, with a year-end that fell after the end of 2021, are required to assess their schemes against three others in terms of costs and charges, net investment returns, and administration and governance, and present their findings in their annual chair's statement.

Says The People's Pension: "If an assessment reveals members are receiving poor value for money, trustees are required to take steps to rectify this. This could include winding up the current scheme and consolidating members' assets with a different scheme if current arrangements can't be improved."

The impact of the value for members reports has been keenly felt, adding a heavy burden onto trustees.

"These things run up to 50 pages," says Pugh, "and they never get read by members. They're also expensive to produce. That's a lot of well-intended, but tick-box regulation. There were many who have been shamed for having small, immaterial technical inconsistencies in their statements, so we've ended up with a lot of people asking why they would do this when they could just transfer to a master trust."

Where this leaves the sector

The upshot from all this movement is that the pension sector will be left with smaller schemes, with the landscape dominated by the larger players. The question is: What will come next?

Bellingham lays out a particular scenario. She says: "Whilst the number of single-employer trust arrangements will continue to fall, some will remain. A handful of 'mega' schemes will remain – those with significant scale and a robust operating model that can support good member outcomes. It is likely that these schemes will be supervised by TPR more closely. We may even see the current master trust supervisory regime being extended to cover the remaining single employer trust arrangements."

There has also been a groundswell of bigger schemes moving into master trusts, says Pugh, who says that schemes with assets of up to £1 billion are looking at the sector.

Bellingham takes up this point. "It's not just the small, poorly governed schemes that are attracted to the fully outsourced master trust model," she says. "Even the larger well-governed schemes find that master trusts offer a compelling solution, with some master trusts providing considerable flexibility and tailored solutions."

She points to the TPR's latest *DC Trust* survey findings that show bigger schemes consolidating at the greatest pace.

She adds: "The total number of non-micro schemes, including hybrid schemes, has declined by 11 per cent. The survey also shows that the number of non-micro schemes, including hybrid schemes, has fallen by 67 per cent since the introduction of auto-enrolment in 2012. Given the consolidation activity, most master trusts aren't relying on acquisition for growth in the short term."

What DC schemes should be doing

For DC schemes looking to make the move, there are still barriers, particularly around the smaller and older schemes. There will be legacy complexities that needs addressing around schemes still having valuable guarantees promised decades ago that are significantly higher than they are now. These are also likely to be expensive for employees and trustees to resolve.

Ultimately, the approaches taken when transferring to a master trust will differ from scheme to scheme.

"When we get a proposal to present terms," says Pugh, "some employers have had bad admin and are looking for something better. Some have unengaged members and want to improve on that. And a lot of it is about cost. We had a scheme a year ago that was paying £1 million a year in costs. They found they could save on that by moving. Another factor is that everyone wants ESG, which is something that needs to be developed but which people don't want to pay for."

Preparation is key, says Standard Life Investment head of master trusts, Donna Walsh. "Schemes need to scope out the transition. They need to agree a plan and see what their advisers can bring. They also need to make sure there's enough time for the move. Data is important. They need to see what shape it's in."

But most important, she says, is communicating it to the members. "That's critical. You need to bring them on the journey with you. Moving to a master trust is a fantastic opportunity to increase engagement. But it must be done all the way through, not just at the point of transition."

Written by Pete Carvill, a freelance journalist