

What to consider when transferring schemes

✓ With trustee workloads ever-increasing, Roy Porter looks at the growing trend for consolidation within the DC market

The UK occupational defined contribution (DC) market is one of the least consolidated in the developed world, but things are changing. Single-employer DC trusts are in the spotlight.

There are 2,180 pension schemes in the UK. That ranks it behind Australia, with just 233, and far behind Mexico, with only 11 occupational pension schemes.

The Pensions Regulator (TPR) and The Department for Work and Pensions (DWP) are encouraging consolidation in the UK DC landscape, promoting fewer, higher quality, better regulated schemes.

Single-employer DC trusts are being pushed along by a unique range of factors, including greater costs.

Short service refunds were abolished just over four years ago. This prompted a rise in membership and a proliferation of small pots for many active DC pension schemes. However, for the larger number of smaller pensions schemes who offered this option, it can be costly and complicated to administer.

In the same year we saw the new 0.75 per cent charge cap for default funds. Larger schemes, like The People's Pension, have used their scale to make sure high-quality investment options remain available below this rate. Smaller schemes may have difficulty achieving this and, if they want active investment options, the charge cap poses significant challenges.

Other pressures come from The

Pensions Regulator.

Its 2016 paper on 21st century trusteeship offered clarity on their expectations of pension scheme trustees. This includes their roles, board composition, risk management and a host of other issues.

This renewed focus makes it abundantly clear that the expected standard of governance is high.

The regulator has also pointed out to trustees its high expectations of both transparency, not least in the chair's annual statement, and good investment choices for members.

Moreover, DWP regulations have obliged trustees to strengthen their approach to environmental, social and governance (ESG) issues in their investment options.

Trustee boards are now required to consider ESG. And this means time and money spent on adopting new policies and working with investment managers to offer new options.

These are all material changes – requiring substantial amendments to working practices, policies, processes and the amount of time individual trustees spend on governing their schemes.

Trustees that signed up to the role with an expectation of a specific time commitment, will be interested that the regulator is now asking whether quarterly meetings are enough – and whether the board should meet every month instead?

This increased burden on trustee boards is laid bare by data from the regulator.

They have five key governance requirements – which range from independence to providing good value for members.

According to a May 2019 report, just 23 per cent of all pension schemes met two or more of these requirements.

This is perhaps unsurprising, given that the pensions market is one where the benefits of scale can be felt in governance, good value and the quality of investment options.

If the occupational DC pension market continues to consolidate it seems reasonable that trustee boards of single-employer DC schemes will look at master trusts as a possible consolidation option.

Master trusts operate under the same regulations and legislative regime as single-employer DC trusts, unlike contract based schemes, commonly referred to as group personal pensions. This means that the trustees have the same direct responsibility toward members' best interests.

Master trusts are just one of several available options, which is why we've created a 'key considerations guide', setting out what the journey could look like. You can get your copy from our website at www.thepeoplespension.co.uk/single-employer-trusts-PA.

If you're interested in learning more then why not get in touch? Contact us on 0333 230 1322 or at consolidation@thepeoplespension.co.uk.



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