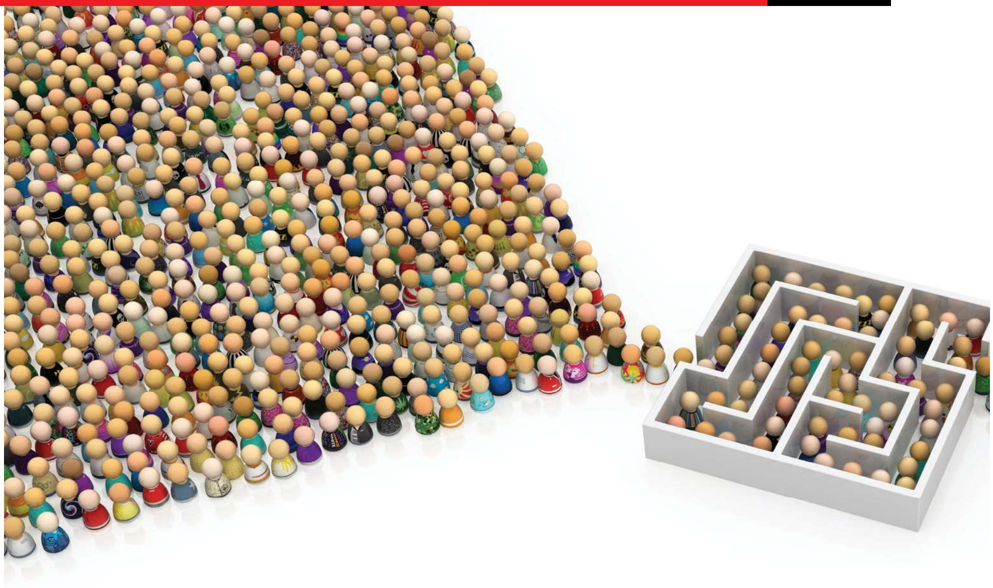


Summary

- The Covid-19 pandemic saw a pause in transfers to master trusts during March and April, but the market picked up again over the summer.
- Smaller-sized DC schemes and those from Covid-affected sectors are increasingly moving into master trusts. Partial transfers into master trusts of deferred members or only of those approaching retirement is also occurring.
- The increased use in technology because of the pandemic has helped speed up the process of transferring into a master trust.
- The number of transfers into master trusts is expected to rise over the coming years for both Covid and non-Covid reasons.

Pushing past the bottleneck

Laura Blows considers the effects of the Covid-19 pandemic on master trust transfers

Following the completion of the master trust authorisation process last year, 2020 was all set to see an influx of single-employer, trust-based DC scheme moves into master trusts. But then Covid-19 hit, blocking the process. Or did it?

Pressing pause?

River and Mercantile Solutions head of DC, Niall Alexander, stresses that it's probably a little early to say whether master trust transfer activity has increased or decreased because of Covid-19 at this point.

"In our experience, companies have been busy with the non-pension implications of Covid-19 and the future of pension provision has taken a back seat," he says.

Yet The People's Pension (TPP) saw no fall in demand in the first half of the year, its head of business development, Dave Lunt, states, with the completion of a number of single employer trusts and master trust consolidations.

For Hymans Robertson head of DC provider relations, Michael Ambery, Covid-19 also did not cause as much of a lull as expected. "The market maybe was not as busy as we expected *[pre-Covid-19]* but it was still busy," he explains.

According to BlackRock head of UK institutional DC, Alex Cave, "whilst Covid-19 did create a pause in appetite to move we no longer see this as a significant barrier", with there still being appetite for transfers into master trusts.

Whether Covid-19 is helping drive this appetite, Sackers partner, Georgina Jones, is not sure, as opposed to this drive being due to the pre-existing trends of employers looking for an appropriate DC vehicle for their employees, while reducing their pensions-related costs and management time.

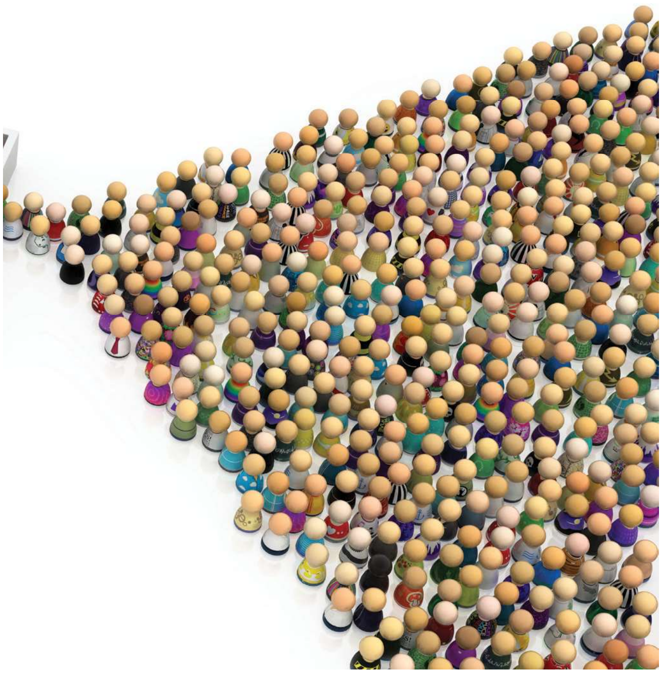
Premier Pensions head of employer services, Sue Pemberton, agrees that reducing costs is a factor for the move to master trusts, particularly with the increased regulatory focus on 'value for money' for small-sized DC schemes, but that this time of Covid-19 may have put even more focus on costs.

Lockdown volatility

Once the first lockdown occurred from March, "unless the transfer process was already in train", apart from maybe the large employers, many decided against implementing a move to a master trust until things were more "back to normal", Pensions Administration Standards Association (Pasa) chair, Kim Gubler, says, as people did not want to crystallise their losses during the subsequent investment market downfall.

This created a bottleneck, as several deals in the pipeline for March or April with prefunding agreements were delayed, reduced or stopped entirely, Pemberton says. And with the increasing number of master trust deals that had been occurring pre-Covid, the capacity to slot these deals in later in the year was limited, she adds.

As the master trust takes on the risk of a prefunding deal by buying 90-100 per cent of the ceding scheme's assets around the same time that the scheme sells them, they were concerned about the market volatility and their afford-



ability to do so – especially as they do not tend to charge for this service, Pemberton explains.

However, while market volatility from Covid-19 initially meant that transfers to master trusts were delayed, now *[the fallout from Covid-19]* has been going on for more time we are starting to see employers reverting to their original plans, Jones states.

"After a busy start to the year, we initially saw sponsors hit pause in March whilst they waited for things to return to normal. When things most certainly didn't, sponsors hit fast forward instead and over the summer we had a significant increase in requests for indicative pricing, requests for proposals and transfers," SEI Institutional Group director of DC solutions, David Snowdon, adds.

"We were expecting a surge after master trust authorisation for a variety of good reasons totally unrelated to the pandemic. However, the sheer volume of enquiries in recent months – and the speed with which many of these sponsors want to implement – has almost certainly been driven by increased, Covid-19-related financial pressures."

Marching forward

Gubler has noticed smaller-sized schemes moving into master trusts since April, as has Jones, along with DC sections of hybrid schemes being moved.

"The type of schemes moving to master trusts is highly varied," Snowdon says. "There has been some variation by industry sector, although those sectors currently under the most pressure tend to stand out more. We've seen a good mix of manufacturing, retail and financial services sponsors *[moving their schemes to master trusts]* in recent months.

"We have also seen technology firms who have expanded – partly due to the demands created by Covid-19 – make the move into a master trust."

An increasing number of single trust schemes are retaining their own DC schemes for employees only and using the master trust for their deferreds and/or retiring members needing flexible retirement options, Snowdon adds. "This may also be in part driven by an increase in early retirements and redundancies impacting members over the age of 55."

Even with this increase in volume, the pressure to find new transaction slots for those schemes put on pause at the beginning of the year has pretty much washed through, Pemberton says. However, nervousness around the second lockdown and market volatility may make some processes take longer, she warns, "especially as the master trust market itself will do nothing but increase in demand".

Help or hinder

But for those that did manage to implement a transfer to a master trust this year, after the initial scramble of switching to a 'work from home' environment, providers, administration and investment teams "did a phenomenal job of moving transitions through very quickly and efficiently", Ambery says.

This move to home working also accelerated the use of technology to facilitate transfers to master trusts.

"Practically, the reorganisation of companies to cope with Covid-19 has made this complex process easier to manage, as the shift to video conferencing means it's now more straightforward to bring people together from different organisations," Lunt explains.

Lessons can be taken from the pandemic for those that are wanting, but have yet, to transfer to a master trust. "The pandemic has led to operational procedures being tested, given the change in how we all worked, and this is an area worth testing with any potential master trust transfer," Cave advises.

Looking ahead

Some employers are waiting until after Covid-related staff redundancies have completed before then considering moving into a master trust, Ambery says.

According to Lunt, although some advisory firms are reporting delays to scheme review projects from their employer clients, he fully expects that "the financial fallout from the pandemic will lead to more companies having to make decisions about their pension schemes".

Particularly, many more schemes are expected to move across into a master trust in the first half of 2021 as a result of both the consolidation of small pots *[see page 36]* and Covid-19 creating cost and employee restructure pressures, Ambery says. "The question will be whether master trusts will be able to onboard schemes quickly enough."

While a lot of DC consolidation has already happened, Alexander adds, "with growing pressure from the regulator, and Covid-19 related market falls resulting in many companies evaluating their DC vehicle of choice, it may be possible we see an accelerated march to master trusts".

Written by Laura Blows