What's next for your defined benefit scheme?

For DB schemes considering consolidation it can be challenging to establish which solution is the best fit for your scheme. Jonathan Jackaman explores the options now available, for wherever you are on your endgame journey

In recent years, the UK government and The Pensions Regulator have made it clear that, for many defined benefit (DB) pension schemes, consolidation may now be the aim of the game. However, consolidation means different things to different people. Since the Department for Work and Pensions (DWP) published its white paper on 'protecting defined benefit pension schemes' back in 2018, a variety of new products and services have been developed across the industry – all designed to help trustees and sponsors embrace consolidation.

That means there are now a myriad of options available, ranging from a complete severing of all ties with your scheme to simply consolidating certain services, and everything in between. Some of these options, such as superfunds, are brand new and yet to be used. Others, such as master trusts, have been around for decades but are now more sophisticated than ever – and becoming more prominent as the focus on consolidation increases. However, all are subject to rigorous regulatory scrutiny and standards to help protect members' benefits.

So, should you be considering consolidation options for your DB scheme? What are the benefits of consolidation? And how do you decide which approach is right for you and your members? This article provides a brief summary of the options available to you and highlights some of the key points to consider when reviewing your scheme's strategy.

Still got time for your day job?

Running a DB pension scheme is an ever-more complicated process, with a constant stream of new rules and regulations for trustees and sponsoring employers to understand and adhere to. DB Funding Code of Practice, Pension Schemes Act 2021, GMP (guaranteed minimum pension) equalisation, TCFD (taskforce on climate-related financial disclosures) reporting – to name just a few recent examples. And there are, of course, many more. On top of the perpetual steep learning curve for trustees, each new piece of legislation or updated regulation typically means new fees to be paid.

Consolidating some or all elements of managing your scheme can create significant time and cost savings, while improving quality and reducing (or, in some cases, removing entirely) the burden on your trustees.

Lessons from the DC world

Outside of the public sector, the vast majority of UK employers now offer defined contribution (DC) schemes for current employees. Consolidated DC arrangements are very much 'the norm' for newer schemes. And over the past decade, many previously 'unbundled' own-trust DC schemes have also moved to a consolidated model.

However, despite the fact that many DB members are no longer employed by their scheme's sponsor, trustees may have been slow to adopt consolidation in the DB world. The increased costs and complexity involved with DB schemes, along with issues such as legacy data problems, no doubt explain some of the hesitancy. But the success of consolidation in DC is likely to be a key driver in getting trustees and sponsors to consider how they can benefit from similar efficiencies and economies of scale on the DB side. And, with the plethora of options now available for DB schemes, there is likely to be a consolidation approach that could benefit your scheme, wherever you are on your journey.

Your DB consolidation options: In summary

As mentioned at the start, consolidation means different things to different people. For some, it may conjure the idea of a major, irreversible decision such as the scheme transferring to a superfund. Even where this appeals as a long-term objective, much like buyouts, this route may be simply unachievable – or unaffordable – in the short term.

At the other end of the scale, many consider the appointment of a professional independent trustee to be a form of consolidation – or, at least, the first step towards it.

Between these two extremes are numerous options for trustees to consider.

Harnessing the benefits of consolidation for specific areas of scheme management has been widespread for some time – for example, with the use of third-party administrators. Consolidating the investment piece has seen growing popularity in recent years – either through use of a platform, or going a step further and outsourcing entirely with the appointment of a fiduciary manager. However, even where full fiduciary management is used, this still leaves trustees with the responsibility for everything else – actuarial, legal, governance, administration, covenant –

not to mention member communications and support. A contributing factor to the slowdown in fiduciary appointments over the past few years could be down to the consolidation of investment not being enough on its own.

This is where master trusts and fully integrated service offerings have a crucial role to play. These work in a similar way and offer many of the same benefits. The big difference, and deciding factor, between the two being whether or not you wish to keep your own trust and trustee board.

Master trusts: The best of both worlds?
For sponsors who are keen to maintain a link with their scheme, but would like to move away from the responsibilities, costs and burden associated with trusteeship, a master trust could be the answer. Likewise, master trusts can be a natural next step where a scheme is looking to consolidate as much as possible, but buyout or transfer to a superfund is not currently feasible (either from a financial or data/asset perspective).

There are many benefits to using a master trust for consolidation:

• all aspects of scheme management are handled for you
• a professional trustee board provides oversight and governance
• your scheme is ring-fenced with its own funding and investment strategy, and no responsibility for other scheme's liabilities
• access to sophisticated risk management and investment strategies that might otherwise be unavailable to smaller schemes
• significant cost and time savings
• can be used as a stepping stone to the ultimate end game for the sponsor

For example, schemes transferring to our DB Complete full-service master trust solution typically see significant savings in scheme running costs, while also improving quality with our award-winning administration and member communications. And members have comfort in knowing their scheme remains linked to the sponsor.

Move to a single provider, but maintain control
Where retaining decision-making control and your own trustee board is an important driver, but full consolidation is otherwise appealing, moving to a fully integrated service could help you significantly streamline and simplify your scheme management. This can materially lighten the load on your trustees – although they maintain overall responsibility.

Using an integrated solution with specialist in-house teams for each service area can deliver similar cost and time-saving benefits as a master trust, removing any friction and fee-overlap between different advisers.

Crucially, with both our DB Complete master trust solution and new DB Connect service for trustees, you can choose to evolve from one to the other, or simply move away at any time without penalty.

Your endgame journey
Each consolidation option offers different benefits. As with most things, it all comes down to finding the right approach for your scheme, sponsor and members. In many cases, you may find it beneficial to use different consolidation options as you progress through your end-game journey. For example, moving to a single provider for all services to resolve both data and illiquid asset issues, then to a master trust, before finally securing members' benefits through buyout.

TPT: Making pension schemes perform better for everyone

Schemes using our DB services benefit from:
• significantly reduced running costs
• known, predictable fee structures
• full fiduciary management, with investment solutions tailored to your requirements
• responsible investment (RI) 'as standard', with full integration of our comprehensive RI framework and net zero commitment
• sophisticated funding and risk management strategies
• our award-winning administration, innovation and member communications
• streamlined, efficient scheme management with user-friendly reporting
• our experienced, approachable and client-focused team

Crucially, you can choose whether or not to keep your own trustees.

Written by TPT Head of Business Development, Jonathan Jackaman

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