



DB master trusts

Summary

- With the consolidation of the DB pension scheme market, master trusts are one of the options.
- DB master trusts provide benefits through economies of scale – but are the benefits attractive enough to drive significant growth?
- There are government measures in the pipeline to provide clarity to scheme sponsors about the role DB master trusts can play within DB consolidation.
- Web technology is being utilised to further improve the member experience of DB master trusts.

of managing their own assets. We are optimistic we will continue to see high levels of growth.”

Of course, any DBMT provider is likely to accentuate the positives of both the rate of consolidation of DB pension schemes into master trusts in general, and their own success in the market specifically. Is that positivity reflected by others in the pensions sector though?

A question of trust

Defined benefit master trusts (DBMTs) have existed for a number of years and are one of the options for consolidation in the market. But, asks Andy Knaggs, how can they communicate their offerings and benefits amidst the hype of the new superfunds and the fixation with buyouts?

The platform for the Deloitte Pension Master Plan defined benefit master trust (DBMT) holds a billion pounds’ worth of assets for a membership approaching 10,000 individuals. A major blue-chip UK company has recently selected it as its preferred option for consolidating its smaller DB pension schemes.

It’s a level of market penetration that Deloitte senior manager Jeff Cunningham is bullish about, professing that the company views growth prospects

with optimism.

“The industry has been a little slow to go to DBMTs because it feels new and complex, but the market is certainly talking openly about consolidation now in a way it was not three or four years ago,” he says.

“Over the past year we have seen a huge increase in interest in consolidation, and our clients are approaching us because they are realising that we are the only suitable vehicle that allows them to retain the trustee board and keep control

Tools of the trade

Many in the professional trustee community see it as ‘another tool in the toolbox’ – a potentially useful one, but one with what has seemed a narrow window of attraction thus far for those who will ultimately push the process of DB pension scheme consolidation – the employers.

BESTrustees director Zahir Fazal comments: “The direction of travel is that there will be greater consolidation and, as part of that, it’s reasonable to expect that a number of schemes will move to master trusts. It’s one way of consolidating. At BEST we have not seen any significant move in our schemes to go into master trusts. I expect we will though.”

“Master trusts are just another tool in the toolbox towards the end objective, which is to protect members’ interests,” says Capital Cranfield managing director, Neil McPherson. “So, it has to be viewed

through that prism, with a spectrum from buyout at one end through to self-sufficiency at the other.

“We’ve not had a great deal of activity with them. We act as trustees on a few DB master trusts, but there’s more activity on the DC side. They are playing an important but niche role in the market, and it would generally be the smaller schemes end of the market, where schemes might be struggling to provide the governance required.”

PTL managing director Richard Butcher describes the DBMT sector as “not particularly buoyant”, and offers some thoughts on the reasons for this.

“In the main, the savings that can be generated are relatively small and there’s a process cost in going into a consolidation, and quite often those are not trivial costs – there are quite a lot of hoops to jump through and you have to pay someone to do that – so employers might see the process risk outweighs the savings that can be made.”

PLSA policy lead on DB Tiffany Tsang feels this is a valid point to make, but adds that consultation and a resulting white paper from the Department for Work and Pensions (DWP) suggested that many schemes and sponsor employers did not know enough about the different DBMT offerings available, and the possible savings they could realise for DB schemes.

“The word on the street is that DB master trusts might be helpful, but in terms of matching them to needs, that alignment has not been made smooth yet,” says Tsang.

This is not for the want of trying though. A workgroup was set up, with which the PLSA is involved, to look at ways that awareness can be increased. Through this initiative, an attempt has been made to develop a template in which DBMT providers provide short narratives on their features and benefits, so that schemes and their sponsors can gain simple reference material on which of the master trusts would be best suited to their needs. It would, therefore, greatly assist providers in communicating

the benefits and the relative costs of consolidating with their master trust.

The problem right now is that the development of the template, seems currently to be lost in a political landscape where Brexit overshadows all. “Everything is up in the air with Brexit,” says Tsang. “The DWP said they wanted the template finished as soon as possible, but there’s no news on that yet.”

Members’ interests

From the professional trustees’ perspective, there are open minds about the use of DBMTs as a vehicle for consolidation. They stress that the members’ interests are at the top of their considerations. If a sponsoring employer came to them with the idea of consolidating a DB scheme into a master trust, they say they would, as Butcher puts it, “deal with it in good faith”, keeping their members’ interests front and centre.

There is a recognition that there are potential economies of scale, and administration and actuarial cost savings possible by the pooling of resources that consolidating into a master trust delivers. There is also a recognition that not all DBMTs are the same – that some might be more suited to particular sectors, for instance.

Like everyone else, the trustees are looking for greater clarity on the regulatory environment that the so-called superfunds will operate in, although these have a different proposition compared to the traditional master trusts, in that the superfunds will also take on the employer covenant, which generally (though not necessarily always) remains in place with DBMTs.

There is also a consensus that there will be an ongoing move towards consolidation of DB pensions in general, even if it is only a gradual one. “A lot of people are talking about it, but that talk is not necessarily converting into action,” says Butcher.

What will make DBMTs more attractive to employers? “The most obvious answer is them being clear

in their offering and potential cost savings,” says Tsang. “Employers will be looking for a crystal-clear understanding of what they would be getting from consolidation; a very clear understanding of the potential cost savings. The template is supposed to aid in that process.”

Cunningham accepts that DBMTs have had issues in the past with sections not being properly segregated within their structure, leaving employers to pick up ‘orphan liabilities’. He says that the company’s Pension Master Plan had been structured specifically to avoid such problems, adding that “we think Master Plan is helping to change the perception of UK DB master trusts”.

Technology investment has been another aspect that Deloitte has looked to lead on – a way to deliver a better, more modern administration and actuarial service to its members.

“Our web-enabled technology is really bringing pensions admin into the 21st century,” Cunningham explains. “Members can access their own benefits and make requests for quotes. On the actuarial side, we’re able to be much more fleet-footed on investment levels and daily valuations. We’re aiming to drive up the member experience but drive down the cost.”

Because of its technology investments, Deloitte is not constrained by systems that are 30 to 40 years old, “that we have to keep putting sticking plasters on”, he adds.

“The important thing for us is that Master Plan is designed to accommodate new schemes and has had significant growth to date. We expect to see more as conversations around consolidation develop. We hope that people will view it as the optimal choice,” Cunningham concludes.

Written by Andy Knaggs, a freelance journalist

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