MAY 2019
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ROUNDTABLE

MASTER TRUSTS:
IMPROVING ENGAGEMENT

TO ENGAGE AND EDUCATE:
DUTY OF CARE

THE ENGAGEMENT PREMIUM:
IMPROVING OUTCOMES

IN ASSOCIATION WITH
AEGON

OUR ROUNDTABLE PANEL

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INSIDE

OPPORTUNITY TO EDUCATE

Master trusts have a big opportunity to engage and educate

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Being sold a pension is, for the vast majority of pension scheme members, a positive thing. Yet since the removal of commission following the introduction of the Retail Distribution Review, sales of pensions to the increasing number of middle-income people who will be expected to rely on DC have fallen drastically.

Auto-enrolment has of course taken up much of the slack, and increased coverage drastically. But we all know that the auto-enrolment minimums are insufficient for most – low-earners with high replacement rates aside. Particularly challenged are those middle-earners over age 45 without DB, who face a reduced state pension – especially those who were contracted-in – and who do not have enough time for auto-enrolment pots to grow to sufficient size to replace anything near the amount they are bringing home, and spending, today.

Not everyone can afford to pay more in, but for many, upping their contributions is a way to a better retirement. So trustees should have an eye to the ability of their provider to get members to understand their own personal situation, and take appropriate actions to address their specific challenges.

The pensions industry has done very well out of disengaged customers in recent years – the current low levels of opt out are testament to that. What's more, there has been a relatively relaxed approach to the impact of pension freedoms on individuals' long-term savings, because the majority of today's retirees have a DB underpin to fall back on.

But engagement in two key areas – contribution levels and at-retirement choices – needs to increase significantly in the coming decade if the industry is to deliver the retirement outcomes that the nation's workers will expect.

It is often said that people don't need to understand how an engine works if they buy a car. Similarly, you don't need to be Warren Buffett to own a DC pension. But compared to our Australian and US counterparts, UK savers still need to go on a journey to understand what their investments mean for them. They carry virtually all the risks now, and need to be equipped to address them as best they can.

We are not going to educate the nation's workers in the ways of the stockmarket any time soon. Better to use the precious attention we get from them engaging them with relevant, timely and useful interactions that will lead to positive outcomes. But we should not forget the bigger picture – that by reducing state pension and nudging our population into the stockmarket we are creating a nation of investors that need a better understanding of the instruments they are investing in and the options open to them. Master trusts have a clear opportunity here.

MASTER TRUSTS: IMPROVING ENGAGEMENT

PRESSURE TO ENGAGE

The move to DC has put a host of new risks and responsibilities onto workers with low levels of financial education. The onus on master trusts to engage with members has never been greater, hears Emma Simon

Millions of novice DC investors face a myriad of risks as they save for their retirement. Investment strategy, longevity, interest rates, currency, adequacy and the potential of drifting into inefficient or unsuitable decumulation products are all risks placed on the shoulders of the auto-enrolment population. The nudge approach of auto-enrolment has to date thrived on members not engaging with their pensions. But as reliance on DB recedes and the phasing of contributions passes into history, master trusts need to up their game when it comes to engaging with their members.

Such was the view of delegates at a recent roundtable event, hosted by Corporate Adviser. Asked how well master trusts currently know their members, a majority of delegates at the event agreed that currently, the answer is 'not very'.

Engagement gap

Hymans Robertson partner and senior consultant Rona Train says: "Much depends on the individual master trust. The master trusts that have fewer clients, but have larger companies among their client base have the best opportunity to know a more about their members and use this information to improve levels of engagement."

She added that the situation was much more difficult for the "take-all providers" who have thousands of different employers within the master trust structure.

Premier Pensions head of employer services Sue Pemberton agreed that there is a clear distinction between different

types of master trust provider, adding that this can result in very different levels of engagement. Larger mass market master trusts will struggle to have detailed information on members and may only do the bare minimum when it comes to engagement, she said.

This, she said, doesn't just apply to master trusts covering lots of small businesses with only a handful of employees. It may also apply to larger corporates who may have one pension scheme for higher paid managers, and a separate scheme to meet AE compliance regulations for lower paid staff. It is on these "second tier" pension arrangement that levels of engagement tend to be lower, she says.

Barnett Waddingham partner Paul Leandro said that in many cases he has come across there "are a plethora of things" that master trust providers do not know about their members. He says: "When you look at what information they do have, very often this is just date of birth, contributions amount, gender and address," but added that often schemes do not even know the member's salary.

He questioned what kind of useful insight can be gathered from this basic information.

Regulatory pressure

Aegon head of master trusts Kate Smith said that increased regulation is shaping change, and ensuring master trusts providers have a more comprehensive picture of their members. Trustees of all trust-based arrangements are charged with utilising this information to drive better member outcomes, she says.

"It is now a regulatory requirement, in Code 13 that we evidence this information. This kind of information is included in the Chair's Statement. Regulators want to know how you are talking to members - is it via panels or focus group, emails or face-to-face workshops? This is quite a move from where the Pensions Regulator was five years ago."

Despite this increased regulatory burden, Lane Clark & Peacock principal Philip Audaer argued that at present most master trust providers don't know much at all about their members.

He said, given the rapid growth of master trusts in the AE environment, most providers are prioritising getting assets under management and ensuring the product they offer is fit for purpose. Issues such as administration services, sales and investment strategies are more likely to be a priority he said.

He says: "At the moment, the information they know about members is more akin to speed dating. They are just focusing on the basics of what they need to know."

Audaer predicted that once the market is more established the next stage will be look at the membership process in more detail. This has to be a more sophisticated approach, he said, rather than a one-size fits all approach.

Adequacy challenge

A key challenge facing all pension providers, master trust and otherwise, is how to increase employee engagement and ensure that workplace pensions provide adequate levels of retirement income.

A cultural change is needed, said delegates, from today's world where trustees are taking something of a laissez-faire approach to DC pots because most people have some core DB foundation, to a completely different world where DC is increasingly the only private pension workers have.

First Actuarial DC consultant Antonia Balaam says: "Presently we still have people retiring who may have a portion of their savings in DB schemes. But this will move ▶

quickly to a corporate environment where pension provision is almost entirely DC."

As Balaam points out under more paternalistic DB arrangements, there has never been the same requirement for such active engagement from members, either at the accumulation stage, or when it comes to taking benefits. This attitude remains with respect to DC where retirees have a DB underpin.

A key questions was how to encourage members to take a more active interest in their company pension, when this is an area which has historically endured relatively low levels of customer engagement.

Smith said: "There is the danger that members see auto-enrolment as a government led initiative, and assume that because they are in it, then these minimum contribution levels will provide an adequate level of retirement savings."

The industry meanwhile is all too aware that contribution levels of 8 per cent of band earnings are not going to provide a significant retirement fund.

Know your number

Some delegates thought it was important to be upfront with members about the need to save more.

Balaam said: "To put this in some kind of context we can point out to members they if they saved 16 per cent of their salary for 40 years they should be on track to retire with an income of around 50 per cent of their salary."

She accepted that many employees are not going to be in a position to make these kinds of savings from day one, but said understanding the scale of the challenge can help reinforce the message of how it is important to maximise contributions and increase them as people progress their career.

But others around the panel though that this approach can potentially backfire with people being discouraged by the sums involved. Audaer says: "Most people cannot afford anywhere near these sums, and there is the danger that they simply switch off when such figures are bandied around."

Pemberton argued these figures can be a useful starting point. She says that there are "smart ways" of trying to introduce these ideas and nudge, or encourage people to save more.

Some master trust propositions might offer the option of auto-escalation, for example, where people's contributions are increased by 1 per cent a year. "This can be a useful way to boost contributions levels painlessly for members."

There are a number of tools that can help with this engagement process, and get people thinking about what they might need in terms of a retirement income.

"Most people have no idea," Pemberton says: "So it can be useful to go back to basics and start looking at what people might spend on day to day bills, holidays etc. If they know what they are aiming for, then this can encourage them to save more."

Aegon commercial director of workplace investing Linda Whorlow said this approach fits into Aegon's "know your score" campaign, which aims to encourage members to build an individual retirement goal, and a plan to reach it.

Audaer remained sceptical that this will encourage the majority of those in auto-enrolment to save more. Many providers underestimate the "phenonemal" levels of financial illiteracy in the workplace, he said, on top of shockingly high levels of debt.

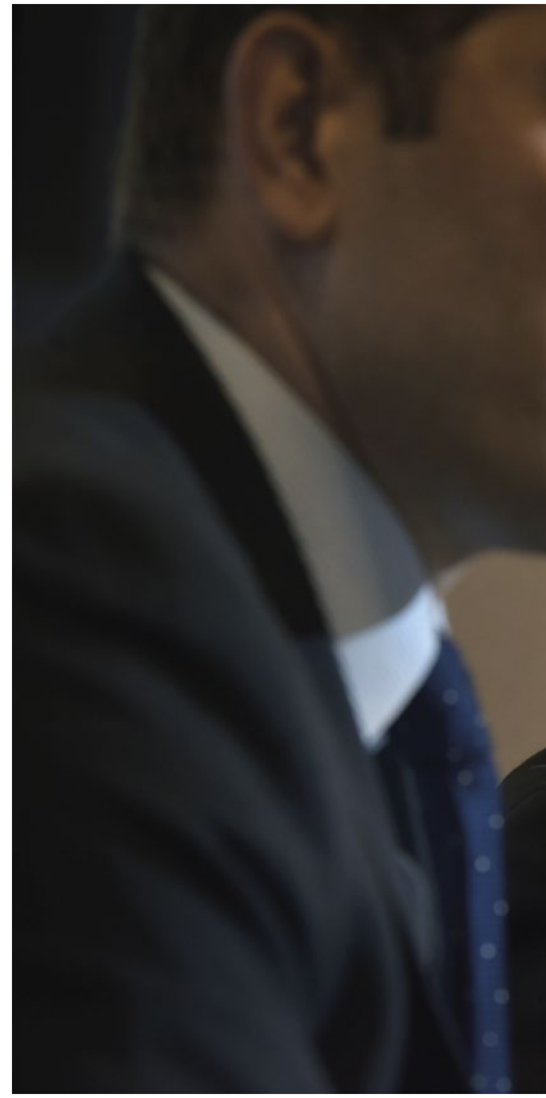
Audaer predicted we will see smarter ways to engage people on pensions in future, but this will involve master trusts evolving into large financial hubs that offer a range of financial products and financial wellness and capability strategies, with products ranging from savings, banking, debt management tools or general insurance.

"You need to take a step back and go back-to-basics, get people to engage with debt and look at where they can make savings, before they are going to be able to engage meaningfully with company pensions," he said. "You need to connect with the pysche rather than simply bandying a number around."

Replacement rates

Delegates agreed that as the saving population becomes increasingly less reliant on DB, the inadequacy of auto-enrolment minimum contributions will become an increasingly important issue. Hymans Robertson partner and senior consultant Rona Train said there is often a reluctance from employers to project forward what auto-enrolment contributions might be worth. "There is the assumption this could lead to opt-outs and disengagement. It is often companies with a high proportion of employees on the very lowest salaries that are most concerned."

But she pointed to modelling done by her firm indicating that those on lower salaries tend to be less affected by a low level of savings, as state pension is able to replace a proportionately larger portion of their overall income. It is those on middle-tier incomes that tend to see the biggest gaps between their salary and projected



retirement incomes, and that is where the biggest focus is needed, she argued.

"It is this group that engagement strategies should be focusing on to try and push them into making higher contributions," she said.

Investment performance

Delegates debated whether more information about the investment process could help support engagement programmes. Those attending the roundtable debate discussed whether lessons can be learned from the US, where there is a keener interest in day-to-day investment portfolios and the performance of the ubiquitous 401k.

Since the start of the AE programme the investment climate has been largely benign, and this has benefited many of those who have been enrolled into these workplace pensions. The Corporate Adviser Pensions Average (capa-data.com) of 30 biggest multi-employer workplace defaults shows

the average growth-phase pot has seen investment returns of 8.93 per cent a year over the last five years, a compound return of over 53 per cent that is arguably something positive for the pensions industry to shout about.

The debate considered whether the positive impact of long-term investment returns should be highlighted to members with the aim of increasing engagement – potentially a first step towards educating members that such returns are by no means guaranteed in future.

Most at the round table felt that this was not the best way to engage members, and could have very negative consequences if and when markets turn negative.

Balaam said: "There is the danger that people try to plan future contributions based on investment returns. But with such a variance of future outcomes these figures can seem fairly meaningless to most people."

Train contended that it should be time-weighted returns, rather than money-weighted returns that should be key in such future projections.

Lessons from Australia

Meanwhile, Leandro pointed to the example of Australia, where there is already a mature workplace DC pensions market.

He said that Australia has much better levels of engagement, both at the accumulation and at-retirement stages, than the UK. "Income drawdown is the norm there," he says, although he pointed out that technicalities in the way means-testing operates makes this more of an attractive proposition than it is here.

But he added that there are some dangers in this higher level of engagement, as sometimes member responses to communications do not lead to better outcomes. He cited the situation following the global financial crisis when around 30 per cent of members opted out of Australia's various 'super funds' and chose to self-manage their funds instead, only to find years later that they could have been better off staying put.

He added that Australia has gone much further down the route of hammering home performance statistics, with providers becoming obsessive about crowing their stats when they appear in the top three over a given time frame.

"There is a lot more information, and comparative statistics about investment performance. It is individuals rather than employers who select the pension plan so they tend to focus on how each of these pension funds are performing," he said, adding that he was not confident this competitive, return-driven approach was that helpful.

The issue highlights the broader challenge the UK faces – our workforce has very low levels of financial understanding, yet bears a colossal amount of investment risk. Engaging at the most useful points in their lives is the most effective way to make a difference. ■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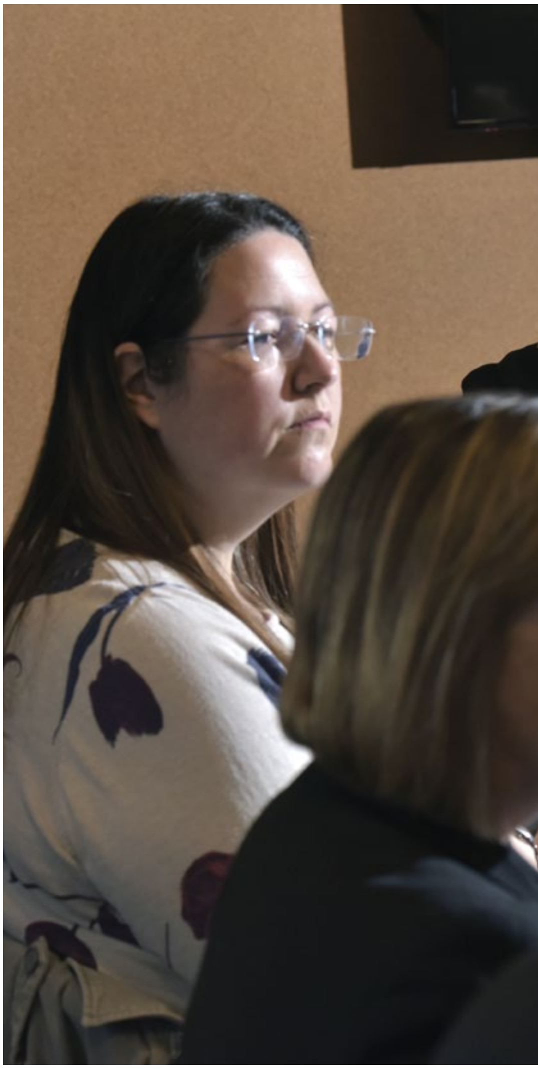
MASTER TRUSTS: IMPROVING ENGAGEMENT

THE ENGAGEMENT PREMIUM

Not all engagement leads to good outcomes. Master trust providers need to engage with members at the right time, in the right way, hears **Emma Simon**



The master trust sector is set for a seismic shift, with consolidation predicted to surge once the dust settles on the post-authorisation landscape as employers find new homes for their workplace pensions.

This anticipated consolidation comes at a time when the amount of money flowing into corporate pensions is increasing exponentially thanks to increased minimum contributions and the continued shift to DC.

As corporate advisers consider the options for their clients, engagement looks set to be one of the key differentiators for schemes, said delegates at a Corporate Adviser roundtable, Master Trusts: Improving Engagement, in London last month.

With little separating providers in many areas, a majority of delegates at the event agreed that a provider's ability to engage with members in a way that would lead them to take actions that would benefit them, from increasing contributions to understanding at-retirement options, would be a significant differentiator in terms of achieving better member outcomes.

At the roundtable, Aegon head of master trust Kate Smith set out the challenge ahead. "Auto-enrolment has undoubtedly been a force for good and has helped boost the numbers saving into a workplace pension.

"But it is clear this is not everything. One of the challenges is to engage members and encourage them to boost contributions levels to ensure they have adequate levels of retirement savings."

Engagement objectives

Barnett Waddingham partner Paul Leandro pointed out that the tripartite structure of master trusts can, in some cases, be a hindrance to attempts to improve engagement levels, when compared to single-trust arrangements, so extra care is needed to ensure engagement is maintained when employers move scheme.

"It depends on who the master trust is, and the relationship they have with both the employer and employee. If the master trust is removed from the employer and doesn't understand what they are trying to achieve, this could lead to disengagement," he warned.

He said advisers needed to have an eye to ensuring alignment between the interests and objectives of employers and that of master trust providers. "It is important for providers to understand what the employers objective are," he says. "For example, are they simply looking to ensure they comply with current regulations, or do they want to ensure employees have adequate pension provision to address issues such as enabling an ageing workforce to be able to afford to retire?"

Understanding the employer's objective was seen by delegates as a key driver of achieving more successful engagement strategies, delegates agreed.

Aligned interests

Premier Pensions head of employer services Sue Pemberton said the interests and objectives of commercial or insurance-based master trusts, with decades of experience of nudging customers to paying more in, are aligned with members, because both provider and member benefit from increasing the volume of assets, in the accumulation phase at least.

"These master trusts are looking to gather assets under management and boost contribution levels. This will benefit the member too as it results in larger retirement savings," she said.

The right medium

Technology was seen by delegates as another key way to engage this millennial generation. However, most of the panel agreed that digital services alone are not the only solutions. Face-to-face guidance, call centres and regular onsite events and workshops, can all help with engagement programmes.

Delegates discussed the engagement strategies of larger mass market master trust providers who rely almost entirely on digital platforms and online communication channels.

While the panel agreed that digital solutions can help boost employee engagement levels there was disagreement about whether a digital-only service optimises this. Lane, Clarke and Peacock principal Philip Audaer said that given the demographic of master trust providers with employer numbers running into the tens of thousands and even millions, this can provide an effective means of communicating with members.

However, he added that take up rates for online pension services can be typically in single figures, so the engagement impact of an online-only approach should not be overestimated.

Multi-channel approach

Many of the panel agreed a multi-channel approach can be the most effective way to improve overall levels of engagement – and achieving engagement at times and in ways that actually matter, such as at key life turning points. This should include call centres, plus the option for more face-to-

video and virtual reality services, as well as those able to link pension services to other financial products through banking apps.

Some delegates supported the idea that every time members log on to their bank account they get a snapshot of what their pension is worth. But others pointed out that there was the danger that this could have the opposite effect, particularly among those who are less financially sophisticated, an impact that would be particularly intense during prolonged periods of poor market returns.

First Actuarial DC consultant Antonia Balaam said: "There is the danger that people will panic if they see the value of their pension has gone down. People need to check their bank balance frequently as they will be making regular transactions, want to check their salary has gone in and so on. But on a longer-term investment plan I don't know whether this is as helpful."

Staff panels

Whorlow explained how Aegon is using staff panels, currently with 9,000 members, to provide more detailed information and to help corporates and trustees understand what is important to members, and how they can target and communicate specific cohorts.

"We have recently made available for our larger employer clients the ability to create their own branded staff panel. So the members have a voice in the pension scheme. The company can create a community in their scheme, and have a say in how their scheme is designed." ▶

face guidance and hand-holding, particularly as members approach retirement.

Leandro said he had seen evidence that providers were better at measuring the engagement they achieve through call centres these days – measuring service levels on the basis of the quality of the outcomes achieved rather than the number of calls an individual operative completes within a given time.

Learning from GPPs

Aegon commercial director of workplace investing Linda Whorlow argued that master trust providers could learn from the decades of experience in selling pensions that life insurance providers had.

She said: "GPP providers have over many years spent hundreds of millions of pounds developing the infrastructure, capabilities and solutions to engage with customers – innovations such as being able to facilitate saving to and through retirement seamlessly. These capabilities are there to be learnt from and applied to well-run master trusts.

She also argued that big commercial providers could use their insights from their existing and historic client banks to better understand the real needs of the members within the master trust.

"At Aegon for example, 1.5 million of our 3 million savers are workplace customers, giving tremendous behavioural insights into how they want to interact, what is important to them and how we best engage – in a way that will lead to better outcomes. It means we can use data analytics to look at the Big Data we hold to identify trends and cohorts of members, so we can communicate with members in a segmented way the right messages for them in a targeted way - the right message, to the right member, at the right time."

Innovation

Whatever platform is used, the panel agreed that innovation is key, with intermediaries backing innovations in

It all adds up

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Delegates thought initiatives of this sort had the potential to deliver added value and to increase engagement levels, both in terms of insight and also by creating champions for the scheme inside organisations.

Most agreed that segmentation will be key to driving this engagement, not least in improving communication sent to different members, at different times. Most also agreed that information gleaned from staff panels should be able to help with this process.

Balaam said: "This kind of information can be very useful. It's easy for corporates – and for providers – to assume they know what employees want and value from any benefit programme. But they often can be surprised by the results."

Audaer added: "As these forums start to be developed it should help generate a lot of sector specific information which has the potential to be of interest."

He said this provided the potential for more effective benchmarking, across the industry, which would have a kick-back value to employers in terms of what their peers are doing.

Pre-retirement challenge

The panel agreed that one of the key issues was engaging with members ahead of retirement, and whether the industry should create default pathways into retirement to allow members to avoid making a personal decision, or whether they should be forced to face up to the options ahead of them and make an active choice. With many retirees still having DB savings, this issue has not come to a head yet. But as the shift from DB to DC takes place, some argued this decision will become more pressing for retirees. Several on the panel argue that without any other form of income, members will be forced to take some responsibility and make a decision on how they are going to use these workplace pensions to generate a retirement income.

But Balaam said there is a danger of "paralysis" with people being unable to fully understand their options and make a decision. She called for master trust providers to include one or more drawdown default options - perhaps kicking in at the age of 70 - for those in this situation.

To date there is reluctance from trustees and providers to do this, and a question over who would be responsible if funds are depleted more quickly than anticipated.

Pemberton could not see how such a default strategy could work. She wanted the industry to do more to "encourage people to take responsibility" for these retirement decisions. A default fund inevitably takes

more of a one-size-fits-all approach, which she said is unlikely to be suitable for many.

Smith pointed out that this is an areas the FCA is looking at, through its retirement pathways projects. It is likely in future that providers will offer a number of "default" options for non-advised members, which will require members to make some basic choices about their retirement options, but gives them a managed portfolio aligned to certain risk preferences.

Balaam concluded: "No-one is saying this is an easy issue to resolve. But on principle it is an issue that the master trust sector needs to address, if we want to deliver the best outcomes for all members."

Towards sophisticated investors?

While master trust defaults typically have more than 95 per cent of members invested in them, some in the industry argue there is a role for educating individuals to a level where they can choose something more suitable for their needs.

Delegates at the event were concerned that such a strategy involved a form of engagement that could backfire. Leandro pointed to evidence from Australia that suggests that those who self-manage their funds tend to underperform the larger "super trusts". He says this trend has started to reverse, with many of those approaching retirement now opting into the larger professionally-managed portfolios as they come to take benefits.

ESG opportunity

Many of the panel though that rather than solely focusing on fund performance, there are other aspects of the investment process that could help stimulate engagement with pensions.

One key way to do this is by implementing and communicating a clear ESG strategy, and drawing rich narratives about the positive investment decisions being made on behalf of scheme members that would engage with at least a proportion of them on an emotional level.

Hymans Robertson partner and senior consultant Rona Train said: "We definitely see a lot more engagement and interest around ESG and climate issues, particularly with millennials. People want to know how their money is being invested, particularly in relation to issues like climate change, or executive pay.

"We need to explain better how they money invested through workplace pensions can influence companies to make positive changes. For example we see LGIM talking about how their engagement with Shell has led to executive pay being linked to its track record on pollution and carbon emissions."

Pemberton agreed, and she says amongst this younger generation there is also now far less stigma attached to pensions, replaced with a more positive and considerably less jaundiced view of retirement saving. "This generation doesn't remember the Maxwell or pension mis-selling scandals. They have a more positive starting point which should mean they are more receptive to providers' attempts to engage."

Striking matches

Pemberton said one of the key ways to get employees to increase contributions is to encourage employers to boost matching arrangements. "Engagement has to work with employers too. It is engagement from clients that can make a substantial difference. It is important for them to look at pensions as a tool for recruitment and retention, not just a compliance issues."

She said that a progressive matching contribution approach can be an effective way to addressing the increasingly prevalent issue of employers faced with an ageing workforce that does not have sufficient pension assets to retire. This blockage of staff turnover can lead to productivity issues and a lack of innovation and renewal in the workplace, she said.

As the master trust market matures, engagement looks set to become an increasingly important differentiator between providers – the basic challenge facing DC is that people need more pension, and pensions need to be sold. ■

It all adds up

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OPINION

HOW WELL DO MASTER TRUSTS KNOW THEIR MEMBERS?

» **Kate Smith** Head of Master Trust, Aegon

Master trusts are the future for many UK pension savers. Assets held by master trusts are expected to grow from £12 billion in 2016 to £306 billion in 2026, accounting for 61% of the trust-based market[1]. The pressure is on master trusts to get it right by providing support and encouragement to members by helping them to save and make active informed decisions. This means continual investment, and for trustees and providers to get to know their members better, understand their needs and drive better outcomes.

The Pensions Regulator has raised the bar for master trusts – and it's not just about authorisation. Code 13 (Governance and administration of occupational trust-based schemes providing money purchase benefits) makes it absolutely clear that the regulator expects trustees to not only get to know their members, but to actively engage and get their views, then act on them. Trustees need to report how they are doing this in the annual Chair's statement. As Chair's statements now have to be published on a publically available website, all eyes will be on master trust's member engagement strategies.

At an industry level it's probably fair to say that master trusts don't know their members well enough. But some master trusts are making great strides to change this. Aegon is a great believer in using member insights to understand and get closer to members. Using member insights can identify concerns, trends and be useful to put together workplace campaigns at employer level. They can also help the development of personalised communications and generally improving the member experience. Combining insights with behavioural finance techniques can create a stronger member experience and lead to a conversation between trustees and members.

Simple techniques such as the trustees listening in to members' telephone conversations will give valuable insight, much moreso than simply monitoring email open rates or how long members stay on a web page. Enabling trustees to hear first-hand about members' concerns and how they want to be communicated with is a powerful tool.

We're passionate about giving members a voice. We have a customer online panel of 9,000 customers and are about to set up a panel specifically for master trust members.

> The message we're hearing loud and clear is that members want communications to be simple, personalised and relevant and they want to speak to someone for reassurance when making decisions

Insights gained will be used to develop the master trust proposition and engagement strategy, for example, by testing communication material with members. Panels are run by our insight team lead by Dr Tom Mather, an expert in behavioural economics / science. Dr Tom comments:

"We use online panels to get a rich understanding of who our customers are, what they need and value. Feedback gathered through our customer panels informs decision making at all levels of strategy, proposition and communications development."

Online panels and focus groups are powerful ways to get to know members and give them the opportunity to be involved in the development of the master trust. The message we're hearing loud and clear is that members want communications to be simple, personalised and relevant and they want to speak to someone for reassurance when making decisions. Above all, members want a rewarding experience.

This is an exciting time for master trusts and they have to prove their worth. Members are relying on them to provide support and help them achieve their desired income in retirement. Combining member insights and behavioural finance has the potential to not only recognise members' needs and views better but ultimately win the prized goal of better engagement and member outcomes. ■

[1] 1 UK defined contribution and retirement income, **Broadridge** Market intelligence report 2017

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