September 2020

Guide to Transferring to a Master Trust

corporate adviser INTELLIGENCE

IN ASSOCIATION WITH

SCOTTISH WIDOWS

Introduction

The consolidation of defined contribution pension schemes into master trusts is a process that has been ongoing for a considerable time. But this journey is far from over.

Today the number of single-employer DC trust schemes in existence is already less than half that of a decade ago.

Figures from The Pensions Regulator show £32.8bn of the £71.3bn held within the occupational DC schemes it surveyed at 31.12.19 remains outside authorised master trusts. £32.8bn is a huge figure, yet it does not include single-employer DC schemes that are part of a hybrid DB/DC arrangement, because the regulator does not currently gather data on scheme size for hybrids. The opportunity for employers with single-employer trust schemes to switch to lower-cost yet in many cases better-run master trusts is vast.

A switch to a master trust may not be suitable for all employers – some larger schemes may prefer to retain the identity of their own scheme. Others who do switch may find a move to a group personal pension (GPP) may be more attractive. But for those who do choose a master trust the advantages are considerable.

Cost savings can be huge, and the regulatory and administrative burden taken from employers' shoulders is significant. Members benefit from access to high quality, lower cost assets overseen by highly experienced investment professionals. The governance wrapped around these fast-growing schemes has, since authorisation, been enhanced.
And employers that move to a master trust with a clear digital strategy can future-proof their scheme against technological obsolesce.

Corporate Adviser editor
John Greenwood
john.greenwood@
definitearticlemedia.com

Contents

The Pensions Regulator's perspective

While regulators have been taking steps to calm individual transfers from defined benefit schemes to personal arrangements, the reverse is true when it comes to workplace schemes. For many years TPR has been requiring higher standards from those running occupational schemes, and is vocal in its belief that consolidation into bigger, better-run schemes will improve member outcomes.

TPR policy manager Louise Sivyer

Why is The Pensions Regulator (TPR) encouraging scheme consolidation?

Our focus is on ensuring all DC savers are in a scheme that is well governed and provides value for money. Over time, this means having fewer, better-run schemes.

We know some scheme trustees are unable or unwilling to meet standards set out in our codes and guidance or to have conversations with the employer about whether to transfer savers to a well-run alternative and wind-up. Research has shown smaller DC schemes consistently struggle to meet key governance standards. In contrast larger schemes, including master trusts, consistently demonstrate they are much more likely to meet these standards. Thanks to their economies of scale, they are also more likely to provide good value for money.

What consolidation activity are you seeing?

We know increasingly employers are choosing to switch to a master trust arrangement and we anticipate the single DC trust market will continue to contract, but there remains a long tail of very small DC schemes which we want to encourage to consolidate into a larger scheme structure, such as a master trust.

Are there specific regulations to ensure member interests are protected as part of a workplace pension transfer?

Trustees have a duty to act in the best interests of their scheme members, and there are requirements for savers to be kept informed throughout the process of a bulk transfer and scheme wind up. In some circumstances, trustees are also required to get members' consent before they undertake a bulk transfer.

However, to simplify the process and make it easier for schemes to consolidate, and improve member outcomes, regulations were changed in 2018 to help facilitate bulk transfers without member consent, where trustees are transferring to an authorised master trust — or another scheme where the principal employers are of the same group, subject to appropriate advice being taken.

What are the main regulatory obligations employers and their advisers need to be aware of when switching schemes?

Trustees need to make sure they wind up the scheme properly and have all the correct documentation in place. They should also be cautious where the existing scheme offers valuable guarantees, which might not be available in another scheme – but they shouldn't assume those guarantees can't be protected, so should still explore consolidation. They need good data in place to ensure good communications with members and that benefit entitlements are accurate. Employers are likely to need to comply with consultation requirements and take advice on employee contracts. They must also ensure they maintain compliance with auto-enrolment requirements.

Are there prescribed time scales that must be followed?

We expect schemes to complete winding up within two years of triggering, but in practice, particularly for DC schemes, it should be possible for it to be done much faster than this.

Size of the market

More than £32bn in assets remains in single-employer DC trusts, excluding hybrid DB/DC schemes and sub-12 member schemes. TPR has not collected data for hybrid schemes, but these represent some of the biggest non-master trust occupational DC schemes in the sector.

62%

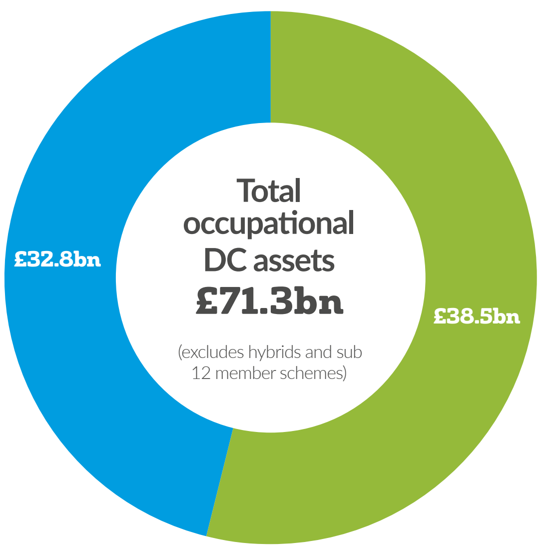
Percentage decline in number of DC schemes since 2010, from 4,560 to 1,740

53%

Percentage of occupational DC schemes that use a default investment strategy

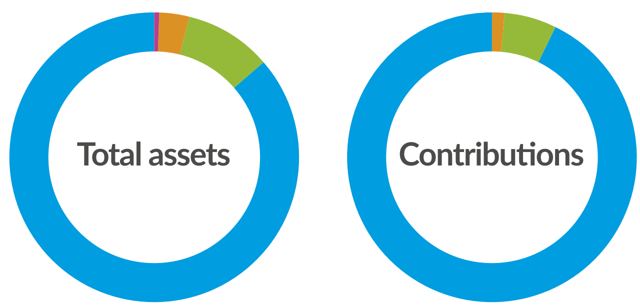
95%

Percentage of members of DC schemes invested in the default strategy



■ DC assets outside master trusts
■ DC assets in authorised master trusts

Scheme assets (Number of members)



■ 12-99 ■ 100-999 ■ 1,000-4,999 ■ 5,000+

Scheme status

Winding up	£1.1bn
Closed to new joiners and future service	£523m
Closed to new joiners, open to future service	£1.6bn
Open to new joiners and future service	£68bn

The overwhelming majority of DC assets not held within master trusts are in schemes that are both open to new joiners and future service. Not surprisingly, the biggest schemes, those with in excess of 5,000 members, contain the lion's share of both assets and ongoing contributions.

UK pensions: a top-down view

	Defined benefit	Hybrid: mixed benefit	Hybrid: dual- section	DC trust (incl micro schemes)	DC workplace contract
Schemes	4,920	180	760	28,810	2,030
Open schemes	680	20	350	24,100	1,630
Total members	6,684,000	963,000	4,788,000	18,171,000	-
Total active members	631,000	235,000	1,038,000	9,275,000	5,347,000

Source: TPR

Why switch?

1 Employers with big schemes could save in excess of £500,000 a year by switching to a master trust

Cost

Single-employer trust costs for trustees, investment and pension advice, indemnity insurance, data cleansing and other administrative charges can be eradicated

2 Master trusts have the scale to access top quality investment expertise and diverse asset classes at low cost

Investment

Keeping up to speed with changing investment markets, regulatory changes, ESG and responsible investment obligations demands considerable resource from a standalone scheme

3 Moving a single-employer trust to a master trust relieves an employer of a significant administrative burden and legal liability

Regulation

Regulatory obligations on schemes are already onerous. TPR has made clear regulatory standards will be raised even further to drive consolidation of all but the largest schemes

Master trust

Governance

Master trusts are required to meet stringent regulatory standards and have highly-experienced boards of trustees with a legal obligation to protect members' interests

4 Authorised master trust schemes must have robust governance frameworks to ensure members receive good value

Engagement

Digital technology, mobile platforms, online tools, Big Data and provider service teams can all improve member understanding and engagement, improving member outcomes

5 Multi-channel member engagement and communication techniques lead to better member outcomes

Why switch – cost savings

Reducing ongoing costs and putting the funding of a pension scheme on a more sustainable level remains one of the prime reasons for switching to a master trust

In recent years the associated costs of running a pension scheme have increased for a number of reasons:

- **Increased regulation and higher governance standards**

- **Higher administrative charges: the removal of the short service refund in 2015 means many schemes now have seen a rise in membership and a proliferation of smaller pots, which has been compounded by auto-enrolment. The recent economic downturn is expected to lead to lower earnings and higher unemployment potentially affecting contribution levels and opt-out rates.**

- **Annual management charge cap: in 2015 this imposed a maximum charge of 0.75 per cent on qualifying schemes. There is a consultation to review the charge cap, which could result in a further downward pressure on fees.**

While these changes affect all workplace pension schemes, smaller single-trust employer schemes that lack scale will be disproportionately impacted.

Big master trusts, running across a range of companies or whole industries can centralise core functions, from governance and investment management to administration and compliance, sharing costs across multiple employers.

Cost savings

The cost of running a pension scheme will vary between providers. Explicit costs met by a single-trust scheme include:

- adviser costs
- governance costs
- investment management costs
- indemnity insurance
- data cleanse costs
- other administration charges

Industry estimates suggest a large single trust scheme could save between £500,000 to £1m a year by closing their current arrangement and moving employees into a third party master trust structure. These costs are typically made up of administration costs of around £400,000 a year for large schemes, plus consultancy audits, legal fees, investment advisory, trustee and governance costs.

Smaller single-trust schemes will see smaller, but still significant savings.

Transfer costs

There will be upfront costs in transferring the pension scheme, which in some cases could cost in the region of £30,000. This may include adviser and consultancy fees, as well as administration costs. The cost of selling assets and buying new ones is not included in this figure, and can vary depending on the way the transfer is conducted. These transfer costs will in some circumstances be paid by the receiving provider, although they may ultimately be passed on to the member, as they will often be priced into the annual management charge offered by the receiving provider.

Why switch — investment expertise

There has been a renewed focus on default investment strategies, with pension schemes now required to evidence how they deliver both value for money and better outcomes for members

Trustees need to be able to access appropriate investment expertise, to ensure that their default investment strategies are delivering for members at both the accumulation and decumulation stages.

A whole raft of regulation now requires trustees to review the performance and cost of their default strategies - and to repeat this every three years. Further regulation is expected in the coming years.

Regulators have focused on three specific aspects of a scheme's investment strategy – charges disclosure, ESG and post-retirement strategies — all of which are likely to require external specialist support for smaller schemes, adding further costs and responsibilities for trustees and scheme managers.

Charges disclosure

From April 2018 trustees have been required to disclose the level of charges and transaction costs for all their investment funds, including the default option. This information needs to be publicly available and be included within the chair's statement. This information is used to help determine whether the scheme is providing value for money for members.

ESG focus

A raft of recent regulation has put the spotlight firmly on pension schemes' governance and stewardship duties. Trustees are required to set out how they, and their asset managers, take account of financially-material environmental, social and governance (ESG) factors when devising investment strategies.

Those that do not implement ESG strategies will have to explain why factors such as climate change will not have a long-term impact on investment returns for members. Big schemes will be required to publish details of their strategy around climate risk in line with international standards.

Experts says these requirements will mean trustees will have to set aside significant amounts of time to ensure they are adhering to these new regulations correctly.

Post-retirement strategies

Since the introduction of pension freedoms there has been renewed focus on investment strategies for members in the years before and after retirement.

Default strategies that have previously targeted annuity purchase at the age of 65 may now need to reflect a more complex reality, with many more people opting for drawdown options.

The FCA is requiring providers to set four simple 'default investment pathways' for contract-based DC schemes in a bid to improve members outcomes and help those moving into income drawdown options without advice. Similar rules are also expected from the DWP for trust-based schemes.

Although this initiative has been temporarily put on hold, due to the Covid pandemic, it is likely that occupational schemes will be required to do more to support members through the decumulation stage in future.

Why switch – increased regulatory burdens

Increased regulation and a drive to improve member outcomes have increased the regulatory burden for anyone running a workplace pension scheme

In recent years there has been a concerted effort by regulators to improve the quality of workplace pensions. The Pensions Regulator has responded to evidence of low standards of governance and trustee capability amongst some small occupational DC schemes by raising obligations on schemes to drive consolidation.

This has led to a raft of new measures across a range of areas, including better governance, improved investment options and enhanced disclosure on whether schemes deliver value for money and good member outcomes. The ever-growing list of regulatory obligations on occupational schemes means the costs to employers and the risks to trustees have been steadily increasing for many years.

More change ahead

There are a number of further changes expected, all of which will serve to further increase the regulatory burden of those running workplace pension schemes. Future initiatives are likely to include:

- introduction of FCA proposals around drawdown pathways. These may be mapped across to the DC occupational regulatory regime
- Pension Schemes Bill requirement in relation to introduction of pensions dashboard
- TPR to consult on Trustee Knowledge and Understanding (TKU) changes following Future of Trusteeship and Governance consultation
- DC Code to be amalgamated into single code by TPR

Challenges for smaller schemes

Evidence suggests many smaller schemes are failing to meet key regulatory guidelines that have been introduced in recent years. A report by The Pensions Regulator (May 2019) found:

- larger DC pension schemes were able to meet 84 per cent of its five key governance requirements
- micro and smaller DC pension schemes only met 12 to 15 per cent of these requirements

TPR's research found the more members in a pension scheme, the more of its Key Governance Requirements (KGRs) were met.

Recent regulatory changes

The main regulatory changes introduced in the past five years:

APRIL 2015

- New governance standards for all DC workplace schemes: includes chair's statements, value for money assessment, core financial transaction requirements
- New charge cap on default funds introduced
- New disclosure requirements for DB and DC schemes in respect of transfers and new DC flexibilities
- New requirement for statements of investment principles (SIP) in relation to default arrangements

APRIL 2016

- Requirement to include new retirement risk warnings

JULY 2016

- TPR's revised DC Code comes into force

APRIL 2018

- New requirements to disclose of costs and charges

APRIL 2019

- New measures introduced relating to disclosure of information on a scheme's pooled funds

OCTOBER 2019

- First set of new Statement of Investment Principles comes into force, includes requirement for schemes to state ESG policy

OCTOBER 2020

- Second set of SIP requirements, includes requirement for more information on stewardship and stated policy on ESG regarding asset managers. In addition there is a requirement for DC 'implementation statements' to come into force

JUNE 2020

- DWP announces consultation on review of default charge cap and encouraging cost disclosures in line with Cost Transparency Initiative templates

Why switch – governance

Maintaining regular oversight of the quality, suitability and value of all components of a pension scheme is a time-consuming and challenging task. Master trust boards are typically made up of professional independent trustees and other experienced industry professionals

Master trust boards have significant powers, being responsible for overseeing the scheme's investments and selecting and appointing advisers. They also have the power to remove advisers and service providers. The exercise of these powers can have a significant impact on investment performance and member outcomes.

The depth and breadth of experience and expertise of the master trust board can make a significant contribution to the ongoing performance of the scheme. Recent high-profile appointments to the trustee boards of master trusts suggest governance has become an area of competition and differentiation between providers.

TPR has indicated that obligations on trustees will become more onerous in future, increasing the importance of the quality of the trustee board.

A strong board chair

The chair of a trustee board is expected to assume similar governance responsibilities to that of any corporate entity. While many single trust schemes have excellent chairs, leading master trust providers have invested in chairs with outstanding levels of industry experience and expertise. As well as deep industry insights, an effective chair needs to have strong leadership and communication skills and the strength of personality to stand up to the scheme funder to protect members' interests.

Breadth of expertise

Scheme governance functions are established to ensure all components of the master trust are designed to achieve optimal member outcomes. The master trust board will provide oversight of key functions including the investments of the default arrangement and its governance, the processing of core financial transactions, disclosure of costs and charges and the regular assessment of value for members.

Master trust board diversity

Look for a master trust board with a diverse range of senior executive experience and expertise across a wide range of areas, including regulation; risk management; trustee obligations; governance; administration; data protection; business strategy; digital communications and engagement; technology; and risk management.
As well as diversity across the types of trustee on the board – including independent professional and provider representative trustees – diversity can also be enhanced by considering societal demographics such as race, sex, age, disability and orientation.

Why switch — engagement

Effective communication strategies and increased use of digital engagement techniques can encourage members to save more and help deliver better outcomes

Gone are the days when a pension scheme's communication strategy was sending out a paper annual statement once a year.

Employers and regulators expect frequent contact with members, using a variety of online and offline channels, to encourage greater understanding of and engagement with retirement savings.

Better use of technology

Modern schemes increasingly offer members access to up-to-date fund values, via a range of technology platforms. Increasingly these are moving away from employers' in-house portals, to mobile platforms, which offer member convenience, but need to have the same high levels of security as members would expect from any banking or financial product.

Government plans to develop the pensions dashboard will put further pressure on all schemes to be able to interface with modern technology solutions.

Robust technology can be expensive to set up but it can help deliver far more effective engagement strategies. As well as giving members more access to scheme data, be it performance, choice of investments, contribution levels, or tax savings made — it also give trustees and scheme sponsors access to valuable insights into member behaviour.

Smarter communications

Technology can drive better communication strategies, enabling schemes to target communication at specific member groups, be it based on age, salary, gender, contribution level or other factors.

Master trusts are required — as part of their authorisation process — to demonstrate they offer enhanced communication tools in order to boost engagement levels. This can include online calculators, webinars, education tools, access to guidance and advice options - both online and face-to-face.

Higher levels of engagement are widely seen as being an important factor in delivering better outcomes for pension members.

The transfer process

Once the employer has decided that it wishes to transfer its pension arrangements to a master trust it can take several months to understand what it wants from its pension provider, confer with unions and employee representatives, assess all legal implications and, with the help of an adviser or consultant, select the new provider. From the point of triggering the transfer process it can take several more months to complete the exercise and wind up the ceding trust arrangement.

It is essential to do everything possible to avoid extraordinary market activity at the time of the transfer as this can lead to out-of-market losses when assets are transferred from one provider to another. Members can also become anxious if they are unable to access fund valuations during blackouts. Periods of predicted market volatility should therefore be avoided.

Phasing

Transfers to a master trust can either be done on a phased basis, for example by transferring deferred members first, or all in a single transaction.

Data cleansing

Ensuring the data records of the ceding scheme are accurate is essential to a successful transfer. This process can be time-consuming and should start several months before the planned transfer date.

Blackouts

The transfer process requires two blackout periods when members will not be able to see their valuations or access certain information about their scheme benefits. The first blackout is the administration blackout, which can last around four to six weeks. The administration blackout gives time for the ceding administrator to resolve all incoming administration requests from members ahead of the transfer date.

The transition blackout, when assets are actually being transferred to the new scheme, usually takes around two weeks.

Transferring the assets

The way assets are transferred will depend on the platforms of the receiving and ceding schemes and the extent to which re-registration, in specie transfers and crossing are possible. Generally speaking, the bigger the funds being transferred, the more likely these cost saving solutions will be available.

Where assets are sold and re-bought, costs can be high, potentially reflecting spreads, stamp duty and other transaction costs.

Receiving providers may be prepared to pre-fund the transfer and meet some or all of the cost of doing so.

To avoid the process having to be paused and the cost and administrative problems this can cause, it is essential to ensure that all time scales are realistic.

Employers and trustees will however want to avoid the process taking too long as entering another financial year can lead to increased costs, regulatory and accounting obligations

Consultant's perspective: How Covid has impacted transfers

Premier Pensions head of employer services Sue Pemberton

Whilst the general move away from own trust DC arrangements towards master trusts is gaining pace, there have been a number of Covid-shaped hurdles to overcome over recent months.

Initially, when the country was put into lockdown and offices closed, the markets took a tumble and confidence was shaken. The immediate reaction was to postpone the transition of members' assets until stability had returned. In addition, for those transitions still planned, where pre-funding agreements were offered, these were in some cases pulled or the level of pre-funding offered reduced. This all created a delay and a backlog of transition dates emerged.

As the country gradually started to adjust to the new 'normal', transition dates were rescheduled and pre-funding agreements reinstated. However, I have noticed a number of subtle changes to the current market.

Firstly, some master trust providers have limited capacity for transition dates – the backlog has been clearing but with the pace of new projects increasing, the availability for dates can therefore be reduced.

Secondly, and this is just my experience, it feels like lawyers, trustees and employers are a little more cautious, the delays and market volatility has shaken confidence. The legal wording in pre-funding agreements and deeds of transfer is challenged more rigorously and this creates a longer lead in time before the paperwork can be completed and signed.

The result of this is that transition dates are put under pressure. If the paperwork cannot be completed in time, the transition date is lost and due to the limited availability of alternative slots, transitions are in danger of being delayed, potentially by months.

A delay of this magnitude puts trustees and employers under pressure if they are working to deadlines, with potential additional costs incurred, when the scheme moves into a new scheme year.

The move to master trusts is as popular as ever, and Covid has reinforced the reasons for these schemes to be moved, but I would urge caution around a timetable that does not build in sufficient time for these new challenges to be addressed.

Types of transfer

Scheme transfers come in various shapes and sizes. It is important to weigh up the different options available to see which best suits the type, size and member profile of the moving scheme

Much of the transfer activity in recent years has been from single-trust schemes switching to master trusts, and this trend is expected to continue. But other transfer options are available. Single-trust schemes might also want to consider a move to contract-based (GPP) schemes, as well as trustee buyout plans, for some or all of their members.

Other types of pension transfer include:

- **GPP to master trust**
- **Master trust to master trust**
- **Employer scheme harmonisation, where multiple schemes, accrued through M&A, are brought together in a single entity**

Full or partial transfers

In most cases the transfer will involve the closure of one or more existing schemes and assets being transferred wholesale to the new pension vehicle.

However there may be occasions when partials transfers are considered, for example, of deferred members only into a new vehicle. This might be from an existing Section 32 scheme into a master trust.

Bespoke or off-the-peg solutions

Master trusts offer a range of options, depending on the size of ceding scheme, the needs of the workforce and the underlying reasons for this transfer.

For schemes looking to outsource regulatory and governance risk, but retain some control and oversight of the underlying investments, more bespoke options may be appropriate. This can include schemes with a very young cohort of employees who want an approach where funds are fully invested in equities and other high-risk, high-return assets.

Bespoke solutions may also work for companies where there is a sizeable proportion of the workforce on lower pay levels with smaller funds. Investment strategies may include targeting an annuity purchase or cash at retirement.

Smaller schemes, and those looking to control costs will want to look at off-the-peg solutions with a robust default strategy. Employers can often start the process wanting a bespoke solution but opt for the full master trust solution at the end of the process.

These vanilla schemes will offer a default investment option, designed to meet the needs of a diverse workforce. However investment strategies will vary between master trust providers when it comes to risk/ return and how glidepaths to retirement are constructed.

Certain master trust providers will specialise in offering default options suited to particular segments of the market, in terms of risk and return, size of workforce and salary range.

Alternatives to master trusts

Contract-based scheme

Contract-based schemes are typically group personal pensions (GPPs), which are available from insurance providers and set up a series of individual contracts for each member. They are overseen by the Financial Conduct Authority (FCA).

A GPP does not have a trustee board, but has an Independent Governance Committee (IGC) instead, which holds an advisory, rather than fiduciary role.
In recent years there has been a trend towards levelling the regulatory playing field between trust-based and contract-based arrangements, with moves to boost the oversight provided by IGCs.

GPPs operate on a relief-at-source basis, which means tax relief is even payable to members whose earnings are below the income tax threshold. A disadvantage of a GPP structure is that scheme sponsors are unable to mandate the move of assets in the pension scheme without written consent from each member.

Advisers and consultants will typically source quotes for both master trust and GPP schemes to see which provider can offer the best terms and suite of services for the employer in question.

Trustee buyout plan

Also known as Section 32 policies, these are effectively deferred annuity contracts.

These buyout policies effectively assisted employers and trustees with discharging their liability on the winding-up of a company pension scheme, and removing groups of members from a DB or DC arrangement without their consent.

These schemes do not allow ongoing contributions, so are not a complete transfer solution and need to be used alongside other arrangements. Members cannot consolidate other pension pots into these plans.

Members with complex benefits

For many scheme members, a scheme transfer that involves switching from one unit-linked DC default fund to another is relatively straightforward and offers little opportunity for detriment. But ceding trustees, employers and their advisers will need to ensure that members with more complex asset holdings or protected tax and pension age arrangements are given the opportunity to protect them as the transfer takes place.

Members with special situations

Members with guarantees

Some scheme members may have with-profits funds or other products that offer guaranteed annuity rates, growth rates or bonus rates. These members could benefit from having their policy assigned directly to them. However there may be circumstances where this will not be in their interest, for example where the guarantee is at a low rate, or if, in the case of guaranteed annuity rates, they are unlikely to want to buy an annuity. These members need to be directed towards financial advice to given them the opportunity to consider the options open to them.

Protected tax-free cash and protected retirement age

Where members have pension commencement allowances in excess of the standard 25 per cent, accrued prior to 2006, or protected retirement ages below age 55, steps should be taken to consider how this can be protected on transfer. Where DC schemes are set up as part of a hybrid scheme alongside a defined benefit (DB) scheme, for example where this is closed to new members or future accrual, members are often allowed to withdraw the pension commencement lump sum from the DC section, rather than have to commute DB pension at an unfavourable commutation factor.

The Finance Act 2004 introduced provisions to protect existing entitlements in excess of 25 per cent or retirement ages lower than 55, where the transfer is a 'block transfer'. A block transfer must relate to the entirety of a member's benefits under the scheme, including any DB and DC benefits, and must include at least two members' benefits. So where a member has both DB and DC benefits but only the DC benefits are to be transferred, a block transfer is not possible and tax-free cash above 25 per cent, or a protected retirement age will be lost on transfer. Legal advice will be needed.

If members have both DB and DC benefits with these protected benefits there are three alternatives:

- proceed with the transfer but leave all protected members in the scheme. This will result in ongoing costs and governance responsibilities for the employer
- proceed with the transfer of all members, on the basis that the benefits of the transfer outweigh the loss to any protected members, potentially compensating them
- Not proceed with the transfer

Members with self-select funds

Consideration should be given to the treatment of members who have invested in self-select options rather than in the default fund of the ceding scheme. Where the ceding scheme has a large number of self-select members, the self-select fund range offered by the new scheme provider should be a factor in the selection process. If a significantly narrower fund range is to be offered, communication to self-select members explaining the options open to them will be needed.

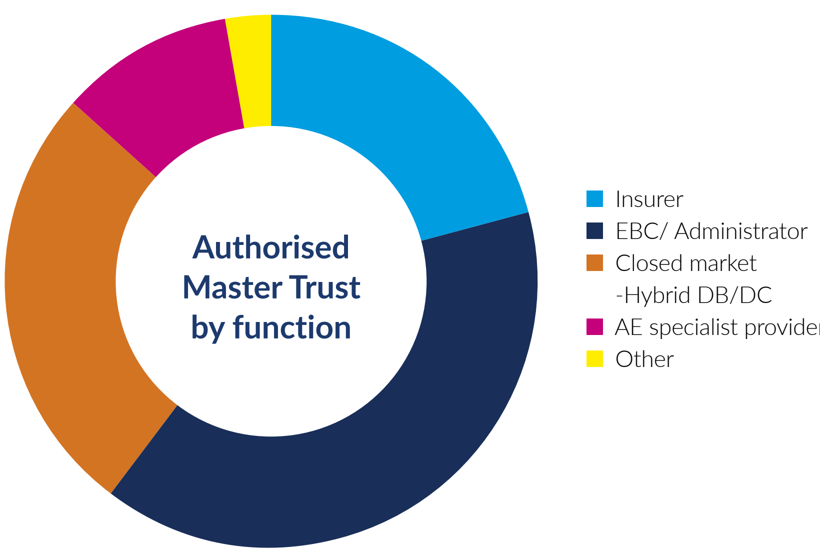
Choosing a new master trust - factors

Which type of master trust?

There are 38 authorised master trusts currently operating in the market. They can be grouped into five different types:

- Life insurer
- Employee benefit consultancy/ administrator
- Closed market – hybrid DB/DC
- Auto-enrolment specialist provider
- Other (eg religion-based)

Life insurer and EBC/administrator master trusts typically underwrite terms on a per-scheme basis. Charges are normally structured on a percentage fee basis. Closed market providers are schemes that have fallen under the definition of master trust because they serve multiple employers under an occupational scheme, but are not open to all employers. Most auto-enrolment specialist providers operate on a combination charge basis, combining fund-based annual management charges with contribution charges and administration charges on members and/or employers.



Checklist for selecting a new master trust provider:

Longevity

Does the provider look like it has a growth strategy that means it will be a winner in the battle for market share? Is it investing across all areas of its operations for the long term?

Financial strength and governance

Is the provider secure? What member protections does the provider offer? Does the scheme's board of trustees inspire confidence?

Tax relief basis

Does the provider offer tax relief on the basis most beneficial to the employer's workforce?

Technology, communications and engagement

Does the provider offer cutting edge digital communication and engagement functionality? Is it investing in the technology of tomorrow? What tools are offered and how effective are they? Can the provider evidence its engagement capabilities? How does the provider gain member insights and reflect these in the management of the scheme?

Investment strategy

Does the provider have a well-run investment proposition? Is it investing in a broad range of asset classes? Does the investment approach match the profile of the workforce? Does the provider's approach to environmental, social and governance (ESG) and responsible investment considerations match that of the sponsoring employer?

Non-default investment options

Does the provider offer a sufficiently broad range of alternative investment options to the default fund that will match the expectations, principles and beliefs of the scheme membership?

Administration and service

How does the provider evidence its administration and service capabilities? What is the ratio of call centre operatives per scheme member? Did the provider manage to maintain continuity of service through the peak of the Covid-19 lockdown?

At-retirement options

Does the provider offer in-scheme drawdown? What at-retirement services does it offer? How does it deal with non-advised customers?

Cost and ease of transfer

Is the new provider on an investment platform that will make transferring cheap and straightforward?

Conflicts of interest

Do you have any concerns that the way the master trust is structured presents a risk of conflicts of interest?

Advisers

Does the scheme facilitate adviser charging?

Exit strategy

How hard is it to leave the provider in the event that expectations are not met?

Master trust or group personal pension?

Master trusts aren't the only option available to employers looking to rationalise their workplace pension arrangements. Group personal pensions (GPP), run by FCA-regulated life insurance companies, offer many of the features that master trusts do, although there are some differences.

	Master trust	GPP
Tax relief basis	Typically net pay, though some offer both net pay and relief at source	Relief at source
Regulator	The Pensions Regulator (some master trust providers are also FCA-regulated entities)	Financial Conduct Authority (FCA)
Governance	Board of trustees with fiduciary duty to act in members' best interests. Makes key decisions in management of master trust	Independent governance committee which scrutinises value for money and raises concerns with board. Can report provider to FCA

Consultants advising trustees and employers may decide that, having seen all deals available on the market and the services being offered, that the best terms on offer are for a group personal pension (GPP) rather than a master trust.

Trustee's perspective: What to look for in a new master trust provider

Capital Cranfield professional trustee Andy Cheseldine

Ensuring any new arrangement is suited to the needs of members is a top priority for a ceding trustee.

There are a number of key factors to bear in mind when selecting a provider:

- How active is the investment management of the default fund? Schemes that have default funds with significant elements of active management may wish to switch to a master trust that takes a similar approach.

- Will the master trust let you leave if things go wrong? Some trustees and employers want the comfort of knowing that the membership can be removed from the receiving master trust in the future, in the event that it fails to deliver.

- Is the receiving master trust likely to be around for the long term? There are 38 authorised master trusts in the market at present. Further consolidation is inevitable, and if your chosen master trust exits the market, the provider that takes it over may not offer the same terms and services. Look for a master trust with a business model that suggests it is in the market for the long haul.

- How expensive will the transfer be? Re-registration of assets without cost will be possible if the master trust you are moving to is on the same platform as the ceding scheme. Is the receiving provider prepared and able to reduce transfer costs through crossing of assets or in specie transfers? Or if assets must be bought and sold to transfer, is the receiving provider prepared to meet the costs of this?

- How similar is the new scheme's charging structure to that of the ceding scheme?

- Does the receiving scheme have future-proofed technology that can deliver modern app-based solutions and adapt with the employer's benefits strategy goals? For example, can it integrate with the employer's flex benefits programme?

- Does the master trust provider share the employer's culture and ethos? Some master trust providers are aggressively commercial, while others have a softer 'do the right thing' culture.

Communicating the transfer

Clear communications – before, during and after transfer – will ease member concerns about changes to their pension, boost engagement levels and support the team managing the process by reducing unnecessary queries

When devising a communication strategy focus on the audience it is targeting, the best media for communicating with them, the messages that need to be conveyed and the outcomes sought.

There will be a number of objectives in any communications plan:

- **Ensure members have adequate notification of proposed changes, and that these meet all legal requirements**
- **Ensure members are fully informed about these change**
- **Ensure members respond to any calls to action**

Focus on key issues

Members will often be concerned about any changes to their pension schemes. These concerns may be increased by a lack of understanding about pensions in general, and workplace pensions in particular.

As a result all member communications should be clear, concise and focused on the key questions employees are likely to ask about a pension transfer.

This should include:

- what is changing — and what will stay the same
- when this will happen
- why these changes are being made
- how members will benefit from this change
- what members need to do now

Members may also need information about retirement options, access to tax-free cash, and details on what might happen if they move jobs.

Tone is important — communication should be reassuring and informative with clear signposts where members can go for more information. Avoid unnecessary pension jargon.

Segmented communications

Rather than issue blanket communications to employees it can be beneficial to identify key segments and target communications accordingly. This can ensure members get the information that is most relevant to them at the appropriate time.

Boosting engagement levels

Many single-trust employer schemes have limited communications with members, and engagement can be low.

Transferring to a master trust with modern communications tools can be an opportunity to address this and improve awareness on a range of issues, such as:

- Reviewing underlying funds to ensure appropriate strategy
- Completing or updating expression of wish forms
- Setting or reviewing target retirement date
- Registration for online communications / scheme website
- Reviewing contribution levels

However it is important not to bombard members with too much information and risk muddling the core messages around the pension transfer.

Utilising master trust resources

Utilise resources of the receiving master trust - most of which offer online calculators, member portals, education tools, and access to webinars and educational tools. Some offer personalised video statements. Master trusts will typically have communication packs ready to send out to new members.

Measuring outcomes

Measure the effectiveness of the communications plan. This can include employee polls, web analytics and checks on how many people are responding to key communications - whether by email or letter.

In summary:

- Focus on key messaging: what is changing, why is this happening, what does this mean for members' pension?
- Make sure all communication is clear, concise and properly targeted
- Highlight potential benefits — but be frank about potential drawbacks, such as higher charges
- Define desired outcomes, and measure the effectiveness of communications campaigns

Legal perspective: processes and pitfalls

Sackers partner
Claire van Rees

“

Closure to DC contribution

As a first step, the employer should check whether the DC scheme or section can be closed without trustee consent under the scheme rules. If trustee consent is required, the employer should consider how best to get the trustees comfortable with the decision to provide future DC pension provision through a master trust.

The employer will also need to carry out an employee consultation. Trustees need to be satisfied this is undertaken in accordance with legislative requirements.

Consideration should also be given to any death-in-service cover provided through the existing DC scheme/ section, and how that will be provided in future.

Where the trustees need to consent to the closure, their key considerations will be the benefit options provided by the master trust compared with their scheme. This might include the investment options, charges and other aspects of the master trust offering such as engagement tools.

Participation in the master trust by the employer

The employer needs to sign up to various documents – usually a deed of participation, and often a separate contractual agreement governing any services provided to the employer or any agreed terms around charges or similar.

There may also be a data sharing agreement if the employer wants access to the master trust data for its own purposes.

The employer should seek legal advice on these and the balance of powers in the master trust.

Are there particular provisions in the rules that would cause the employer issues, and if so is the master trust willing to adjust them for the employer's section? For example, the master trust sponsor or trustees may be able to end the employer's participation on very short notice for no reason, so the employer may want to require more notice.

Bulk transfer of existing DC assets

Before agreeing to transfer existing DC assets to the master trust, the transferring trustees will need to be satisfied that they have power to do so and that they should exercise that power to do so.

Do they have power to transfer?

Transferring trustees' advisers will need to check the power under the rules to make bulk transfers without consent. Sometimes it is necessary to amend this provision before the transfer can happen. They will also need to make sure that legislative conditions are met for a transfer without member consent, as this can only happen in certain circumstances. DC transfers to an authorised master trust is one of these circumstances. Members must also be given at least a month's notice of the transfer, with specified information included.

Should they agree to transfer?

The transferring trustees will need to be satisfied that it is proper for them to make the transfer.

The DWP has produced non-statutory guidance on DC bulk transfers without consent. Relevant factors include investment options, costs and charges, services, security of assets, governance framework, quality of administration and communications.

The legalities of scheme transfers

Transfers to DC master trusts from an occupational pension scheme typically involve four key legal stages:

1. **Closure of the existing scheme to future DC contributions**
2. **Participation in the master trust by the employer**
3. **Bulk transfer of existing DC assets**
4. **Winding up the transferring DC scheme**

Indemnity and insurance for trustees

Trustees can be held personally liable for losses caused by a breach of trust and may wish insurance against a claim to be taken out to protect them.

Potential problems

Particular issues can arise in relation to tax. Where members have protected pension ages or protected tax-free cash amounts in the transferring scheme, the transfer needs to meet the tax legislation definition of a "block transfer" for these to be retained.

Problems can arise where the transfer is from a hybrid scheme where some transferring members also have DB benefits, as to be a block transfer, all of a member's benefits must transfer.

Another common issue that can arise on hybrid schemes is where members with DB benefits can use their DC funds as the first source of tax-free cash. Many master trusts will offer a "transfer back" facility at retirement so that members can still do this.

Legal advice will also be needed on the bulk transfer deed, which should be checked with attention paid to indemnities, warranties and whether any bespoke terms are needed for the transfer.

Transfer timeline

A successful transfer to a master trust requires careful planning and buy-in from a wide range of stakeholders. Below is a general guide to the timelines that different parties to the transfer may need to follow. However, specific timelines may vary significantly. Establishing a clear project management process, with clearly defined roles apportioned to named individuals will facilitate a smoother transfer. Phasing a transfer can be easier, although it can be more time consuming.

	2-6 months	M1	M2	M3
	Preparation	Implementation	Implementation	Implementation
Ceding trustees	May participate in decision to transfer to master trust, including agreeing who should support selection process Decide on new provider and agree default to be used. Consider mapping of existing investments, with support from adviser			Set cut off point for no further contributions into ceding scheme. Notify members of transfer and options available to them
Administrator	Undertake reconciliation and data cleansing work	Establish a project plan for the transition and closure of the scheme		Conclude data cleansing work. Process final payments into ceding trust
Employer	Consider decision to transfer and select adviser to support process. Consider impact on employees, what employer wants from a new master trust, type of transfer. Confer with unions, employee representatives Decide on new provider and agree default to be used		Agree start date for master trust and ensure appropriate HR and payroll extracts are set up to support it	Collaborate with ceding trustee in member communications
Adviser	Support employer in initial decision whether to move to master trust Write brief, obtain quotes, set up beauty parade, support on selection of new provider and default. Support ceding trustee in consideration of mapping of investments			Support communication activities
Receiving provider	Participate in selection process	Establish transition plan, covering establishment of new records, and the existing asset transition (assuming that is agreed)		Consider suitability of investment mapping requests (if any) Set up new section of master trust and make member sites and communications available
Lawyers	Check all contracts and trust deeds to identify obstacles to transfer, check cancellation policy on administration contracts, arrange trustee indemnity insurance, consider obligations to consult with staff		Review all master trust documentation and supporting the employer and trustees to establish the participation in the master trust	

This timeline is for guidance only.

For detailed information on the transfer process, see: The Pensions Regulator's Continuity Options Flowchart. This sets out a suggested timeline for master trust to master trust transfers, but also provides a useful framework for single employer trust to master trust transfers.

	M4	M5	M6	M7	M8
	Implementation	Implementation	Implementation	Implementation	Implementation
			Subject to no evidence of extraordinary market activity, commence transfer Notify members of their benefits	Conclude reconciliation	
	Identify final list of active members Admin blackout starts	Admin blackout ends	Commence transfer Transition blackout – c. 2 weeks	Conclude reconciliation	
	Ensure payroll set up to pay contributions to new master trust. Test new extracts for HR and payroll, to ensure entrants, leavers, changes and contributions can be communicated Arrange for future contributions to be paid to new provider	Commence payment of contributions to new provider			Review progress against KPIs and consider extra engagement activities
			Engage with members on transferring other pots		Review progress against KPIs and consider extra engagement activities
	Set up member records and issue welcome communications to members	Start receiving contributions	Commence transfer process	Transfer concluded. Communications sent to members Conclude reconciliation	
					Wind up the ceding scheme

Also see The Pensions Administration Standards Association's Master Trust Transition Guidance 2019
https://www.pasa-uk.com/wp-content/uploads/2019/11/PASA-Master-Trust-Transition-Guidance-VFinal-1.pdf

The unexpected benefits of transferring to a master trust

Stuart Reid, head of business development, workplace savings, Scottish Widows

Now that we are several years into the mass conversion of DC schemes to a master trust, it feels like a sensible time to review whether or not employers are getting what they expected from the change.

Much of the commentary on this phenomenon has already highlighted the obvious advantages awaiting employers, such as removing risk from the company balance sheet, lowering DC pension running costs, and accessing a lower charge product that employees can benefit from. But given how many schemes have moved or are in the process, what else might an employer benefit from were they to transfer to a master trust?

1. The power of change

I vividly recall the first major project I worked on to help an employer move to a master trust. The employer's workforce was large and diverse in terms of age, geography within the UK, earnings, accumulated wealth, other financial assets, and general financial awareness.

Having a high profile scheme change became a rallying call for a number of advantages. Members were once again engaged with pensions - never a bad thing in my opinion - they assessed self-select investment decisions and learned more about annual and lifetime allowances and carry forward opportunities.

The employer received great feedback from the workforce for invoking this initiative, and at the same time launched a more tailored and fitting benefit structure to meet the requirements of tapered annual allowances, thereby maximising their spend on employee benefits.

The employer also saw data benefits - expression of wish mandates improved, personal data was corrected and personal email addresses captured. The last of these points allowed for personalised communications across pension and other benefits.

It was a simple example of how far-reaching a pension change project can be.

2. Wider benefits from the provider

Advisers rightly ask employers and ceding trustee boards to take time and consideration when selecting the most appropriate provider. There are, of course, a multitude of factors to be scored against,

Members were once again engaged with pensions - never a bad thing in my opinion - they assessed self-select investment decisions and learned more about annual and lifetime allowances and carry forward opportunities

some of which are easy to define, such as what will the charges be, is the investment range broad enough, does the receiving master trust have built-in retirement solutions? But there are wider benefits being realised through careful selection of the right provider.

Two good examples for employers to be aware of are holistic financial well-being and broader B2B benefits. Concepts such as Mercer Money were not available until recently, but for some employers this fulfils a beautiful role in an overall financial wellbeing offering - an area that has been very important for years and magnified under the current pandemic. With regards to broader benefits, these too are ever-changing. Within our own offering, we can see the way in which Lloyds Banking Group considers a company pension scheme alongside other corporate banking, giving finance directors significant added benefits if the pension scheme sits with Scottish Widows.

3. Bring other benefits to life

Employers have, for years, sought to tailor benefit packages to the needs of their workforce, and specific cohorts within. Transferring to a master trust offering has presented opportunities to take this one step further by marrying the pension scheme to other financial products. This has opened the door for employees to tailored personalised savings styles. Some employees will be able to divert contributions across these modern master trust offerings into general investment accounts and Isas. For employers with specific needs within their workforce, this flexibility has assisted with recruitment, retention and staff satisfaction with the overall benefit offering.

There will of course be ongoing debate as to what the DC market will look like in the UK over the next few years. Will master trusts continue to grow at the current rates, or will we see any counter challenge from contract-based solutions, or the desire to remain in own trust? Whatever the outcome of those debates, one thing is clear, employers are currently getting real benefits from transferring to a master trust, and advisers are increasingly seeing ways to broaden those benefits. ■

Master trusts — building back better

Moving to a master trust means better investments, stronger governance and the chance to take part in the open finance revolution says **Graeme Bold**, director of workplace pensions, Scottish Widows

What impact will the Covid-19 epidemic have on growth in the master trust sector?

Master trusts were already growing fast. We expect the financial pressure on UK PLC caused by Covid-19 to accelerate this trend, driving growth in the master trust sector of over 20 per cent annually for the next five years.

Covid-19 will make employers look for ways to simplify their business model and reduce costs. For employers with their own trust-based defined contribution (DC) pension scheme, a switch to a master trust can lead to cost savings of hundreds of thousands of pounds. The sophistication of today's master trusts means switching can be a genuine positive, as members can benefit from a richer range of services, better technology and an expertly run investment proposition.

Will technology disrupt the master trust sector?

We think so. We already have web-based services for the master trust and will be launching a master trust app later this year.

Group personal pension customers that are also Lloyds Banking Group customers already benefit from a single customer view that shows pension valuations within the banking app. So far around 300,000 scheme members have notched up 50 million pension valuation views, a level of engagement that is virtually impossible through pension alone.

But we want to bring all members on this digital journey and will bring single customer view to our master trust too.

We have also engaged with a project with Massachusetts Institute of Technology (MIT) to merge banking data with pension data. We are passionate about getting people to save more, but you have to target people at the right time. For people who are really struggling financially, a nudge to pay more into their pension is a really bad message. But there are lots of people who do have money to spare right now, because their expenditure has been reduced.

This is part of our plan to front run open finance. Moving from a single employer trust to a master trust gives members the opportunity to play a part in the open finance revolution.

How can DC schemes ensure their investment strategy remains fit for purpose?

The fast-moving market and regulatory environment mean maintaining the highest possible standard of investment management demands a significant level of resource.

Big master trusts are well-positioned to deliver this through scale, ensuring they invest in a truly diverse range of assets and embrace the latest investment thinking, backed up with deep interactions between trustees, in house experts and external investment advisers. With 3.3 million workplace pension customers, Scottish Widows can access economies of scale effectively.

In recent months we have introduced Reits, emerging market sovereign debt and currency hedging, as well as establishing a new responsible investment and stewardship framework. Work is also ongoing with integrating environmental, social and governance factors into investment processes.

Ceding trustees, scheme sponsors and members should be confident that members transferring to a master trust are moving to a quality solution.

What about the investment experiences of retiring members?

Concerns in this area have been the driving force behind the Financial Conduct Authority's (FCA) investment pathways initiative. While The Pensions Regulator (TPR) is yet to introduce a similar requirement in the trust-based world, trustees will want to ensure that retiring members are heading towards good outcomes. We already have integrated drawdown and are implementing investment pathways for our contract-based customers. We are now in discussions with our trustees about how we implement something similar for master trust scheme members.

What has the Covid lockdown taught us about the robustness of master trust providers?

Lockdown has tested pension providers' strength in the face of adversity. Ceding trustees will want to find out how a master trust performed through the early days of the crisis in terms of responding to calls and maintaining time-critical processes.

But Covid will continue to have an impact as smaller, weaker master trusts see their business model hit as furlough is withdrawn, unemployment increases and pay rises falter. Going forward, schemes will benefit where they invest in a broader range of trustees from a diverse range of disciplines.

How disruptive is the transition process for members?

While the transfer of a single employer trust to a master trust can take between six and 12 months, the actual impact on members can be minimal. Asset transition costs are typically covered by the receiving master trust and today's pre-funding and re-registration techniques are more sophisticated than they were in the past, meaning out of market risk is minimised.

Welcome letters and joining packs are standard on a transfer, but we have been working hard to improve the digital sign-up process, meaning engagement can be increased significantly. ■

SCOTTISH WIDOWS