Selecting a master trust

20 May 2019

Despite the ongoing rationalisation in the master trust market, there is still a considerable amount of choice available. This article explores the process of selecting a master trust, and highlights the importance of understanding the drivers for change and defining objectives for the new arrangement. Only then will it be possible to conduct an effective market comparison.

Putting the market trust market in context

A range of pension vehicles are available to employers wishing to provide defined contribution (DC) benefits. They include contract-based arrangements such as group personal pensions; stand-alone trust arrangements; and master trusts. A master trust is a is a multi-employer occupational pension scheme that has a single independent trustee board.

The master trust authorisation process by TPR is well underway. Of the 90 or so master trusts in existence at the start of the process, 38 have submitted applications (with 6 of those now authorised). Further consolidation is considered likely, with some market observers suggesting that the final number of offerings may be about 20. Master trusts are offered by employee benefit consultants, insurance companies and some are government sponsored or run on a 'not for profit' basis.

Setting your objectives

Before commencing a selection process, it's important to be clear on the drivers for considering a master trust. Unless you take the time to do this, there's a risk of making a sub-optimal choice, or not being able to subsequently measure the effectiveness of your chosen trust. Examples of objectives that often trigger consideration of a master trust include:

- The need for a vehicle to ensure compliance with auto-enrolment requirements.
- A requirement for an arrangement that can accept DC assets from one or more trusts that the employer wishes to wind up.
- A desire to provide employees with a pensions solution that can access all the flexibilities now available from age 55 – for example, 'flexible drawdown'.
- A requirement to reduce the pensions governance 'burden' and enable senior management to focus on the business.
- A recognition that master trusts will benefit from economies of scale and provide members with a level of support that may be unachievable for many other forms of pension provision.

Assessing potential market trusts

Once your objectives are clear, the next stage will be to compare a range of potential providers and arrive at a shortlist. Examples of features that would typically be assessed include:

- The quality of the investment offering, including the use of lifestyling/ target date funds and the range of default and alternative options. It's also important to understand the use of diversification and the extent to which there may be a trade-off between reduced volatility and returns. Use of newer investment ideas such as factor investing or patient capital should also be considered. And of course, the range of investment options available at retirement will also be important.

- Costs also matter – not just investment charges, but also any deductions in respect of administration and communications. When undertaking this comparison, it's important not to confuse low cost with value, and to take the particular needs of your membership into account.
- The quality of administration should also be assessed, and we recommend a holistic approach that considers not just transaction turnaround times, but also accuracy, compliance and member satisfaction.
- Communications support will also be a key consideration. For example, the use of personalised rather than standard communications, and ideally a lifecycle approach that recognises the different forms of support members may need at various stages of their savings and decumulation journey. The effective use of technology may also be a differentiator, and for some employers, the ability to integrate the pensions offering with other forms of savings and protection benefits.
- The quality of a trust's governance arrangements should also be evaluated. For example, it's important to understand the process used to appoint trustees, and whether they are truly independent, and act as such.
- A provider's financial security and commitment to the market is also relevant. The new authorisation regime will clearly provide considerable assurance on this, but employers may still want to probe for evidence of ongoing commitment and longevity.
- Where the trust is to be used as an auto-enrolment vehicle, you should receive confirmation that it will accept all employees. The compatibility of the master trust's systems and processes with the employer's payroll software should be investigated.
- Under a master trust arrangement, the trustees decide on investment choices, retirement choices, communications and so on. However, many providers run employer forums, which provide an opportunity to provide feedback and influence key decisions, and for some employers this will be an important consideration.

Engage with your existing trustees as early as possible

If you intend to transfer assets from a standalone trust arrangement, then the transferring trustees will want to be sure that the transfer is in members' best interests, even if they meet the criteria for a bulk transfer without member consent as they are transferring funds to an authorised master trust.

For example, they may need assurance that member outcomes and value for money will be at least as good in the new arrangement. It therefore makes sense to engage your 'outgoing' trustees at an early stage in the process to ensure no unexpected concerns emerge at the last moment. Legal advice should also be sought to identify and manage any potential barriers to a bulk transfer.

Conclusion

The choice of master trust will be one of the most important factors determining retirement outcomes for members. A broad range of master trusts is available, and it's essential to take the time to clarify your objectives and conduct a robust market comparison. Most employers will find it useful to seek support from an independent evaluator that is familiar with the master trust market. It will also be important to engage the existing trustees as early as possible if a bulk transfer of assets, without obtaining member consent, is an intended outcome.