Sackers

Master trust briefing

January 2020

Highlighting key issues and developments for the sponsors and trustees of master trusts

Introduction

The burden of uncertainty is over. Going into 2020 we now have a list of master trusts that have cleared the regulatory hurdle and have received their authorisation badge.

However, authorisation is just the beginning. There will be plenty of activity to keep master trusts busy over the coming months, including taking steps to meet the necessary governance requirements as part of TPR's continuing supervision.

In this special briefing, we focus on the current "knowns" and, more importantly, the "unknowns" of the master trust universe.

The "knowns"

Supervision – next steps for TPR

TPR has confirmed that it intends to group master trusts into three categories of supervision, based on its scheme-specific assessment of each trust's risk level. This assessment will take into account:

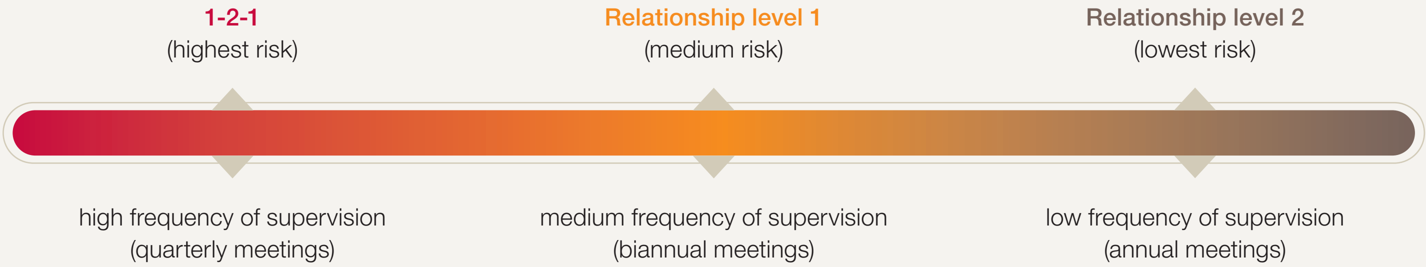
- size of membership
- levels of projected growth
- issues during authorisation
- any planned changes.

The three levels are shown below and it will be possible for master trusts to move between them.

For future years, TPR's assessment of each master trust's risk profile will reflect other elements such as:

- member experience
- collaboration and openness
- market developments
- each master trust's track record.

Importantly, due to the commercial sensitivity of the information, a master trust's risk profile will not be publicly disclosed.



The "knowns" cont.

Preparing for the supervisory return

There will be a brief period of respite on the paperwork front – TPR has confirmed that the supervisory return process will start at the end of October 2020 (later than originally expected), with trusts required to file their first return within three months of their next scheme year end. For example, a trust with a scheme year end of 31 December 2020 will be required to file its supervisory return by 31 March 2021.

TPR has flexibility around the information it requests, but has published the questions it expects to ask on its website. These cover matters such as:

- whether all "significant events" have been reported over the previous 12 months
- how the scheme has continued to ensure that all relevant individuals are "fit and proper" (both individually and collectively)
- the risk register and how it has changed
- how systems and processes have been monitored
- details of member / employer complaints
- other matters relevant to continued authorisation.

Key actions on supervision

Master trusts should ensure that they:

- are taking the ongoing actions necessary to feed into the supervisory return questions
- have appropriate systems in place to identify, assess and report significant events (which range from matters TPR would want to be aware of to serious problems with the master trust) and triggering events (which may indicate that the scheme cannot continue to operate)
- are operating in accordance with their systems, processes and policies, particularly if anything was newly documented as part of the authorisation process
- identify if there are any areas where the scheme's authorisation application did not meet TPR's guidance and the extent to which they should now be addressed
- aim to foster good relations with TPR as part of their supervisory engagement.

Master trust assurance framework

Now that supervision is upon us, a new master trust assurance framework will also be needed. Informal consultation is expected to begin shortly, and to include a proposal for revised control objectives aligned with supervision requirements.

The “unknowns”

Shifts in the marketplace

Master trusts and their sponsors are bracing themselves for new regulatory and commercial challenges over the coming months. Not only will there be new supervision processes to get up and running, but also business plans to action, market expectations to meet and customers (old and new) to keep happy.

This phase of the new master trust landscape is unchartered territory where we could see some existing players exit or change shape, at the same time as new ones arrive. But when and how that will happen remains to be seen.

Commercial factors such as pricing and service standards are bound to influence employers choosing who their providers should be, but regulatory changes, such as the proposal to encourage consolidation of smaller schemes into master trusts, may also influence the market. We are currently waiting for the Government’s response to the consultation on consolidation, which is due early in 2020 and could have an impact here.

The role of professional trustees

As some initial terms of office start to expire, it is likely that there will be some changes in master trust trustees and also individuals who sit on independent governance committees (IGCs), as these roles often overlap. As existing trustees leave and new faces arrive, at the same time as the introduction of new professional trustee standards, it could lead to a ripple effect in the professional trustee market.

When looking at new appointments, sponsors might think about:

- what sort of skills are needed for this particular trust or IGC?
- can a single individual sit comfortably on more than one master trust or IGC?
- how much time will it take (particularly given the proposed extension of IGC activity in the contract-based pensions arena)?
- are the terms of reference for the original appointments still fit for purpose, or do they need updating?

These are all considerations that we would expect to be on the radar of trustees and IGCs over the next few months.

Where and upon whom could TPR’s spotlight fall?

With the scale and influence that master trusts hold over the effectiveness of pensions policy on automatic enrolment, TPR is expected to keep them (as a group, not just at an individual level) under close review. Potential target areas include:

- an increased focus on default investment strategy, particularly in terms of the current market interest in ESG developments and also the relative performance of the different master trust default arrangements. Will benchmarking in this context take off perhaps?
- the review of the scope of automatic enrolment which is due to take place in 2020. Could this lead to new products and services for those who have so far been left out of the picture, such as the self-employed?
- the costs and charges debate, which continues to rumble on, with the potential for the charge cap on default arrangements to reduce (down from 0.75% to something rather lower). Could this, coupled with the above, lead to pressures on investment decision making and/or trade-offs with administration costs? If so, could potentially difficult conversations between trustees and the master trust providers lie ahead?

Thinking ahead to the kind of challenges that may face master trusts in the future will be relevant to any reassessment of business planning and the level of financial security that is needed to support the trust. This should, therefore, be something that all trusts make time for on their agenda for 2020.

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Contact

Sackers is the UK's leading specialist law firm for pension scheme trustees, employers, providers and corporate investors. Over 60 lawyers focus on pensions and retirement savings, including our DC experts who provide practical and specialist help on all aspects of DC arrangements.

We advise master trust trustees and their providers on all aspects of running an authorised master trust. Our recent work includes providing support on projects such as the authorisation and supervision processes, as well as bespoke trustee training and steering trustees through changes to scheme policy. We have also helped with the more regular aspects of running a master trust, for example, providing guidance on technical legal queries and advice on significant administrative changes.

We are recognised as thought leaders on master trusts and their close cousins, IGCs, working to bring regulatory bodies and industry specialists together in various discussion forums and groups. Our insight is used to help clients have a better understanding of the market and its direction.

If you have any questions or would like to discuss how we could help you, please do contact us for further information.

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