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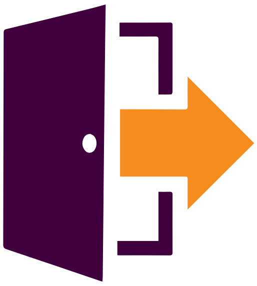
DC hot topic

October 2018

Exiting the DC master trust market



The arrival of the master trust authorisation regime has focused trustees' and employers' minds on the future of any DC non-associated multi-employer schemes that they run.

Where these schemes meet the definition of a master trust in the Pension Schemes Act 2017 – and the definition is drawn widely – trustees and employers are faced with a stark decision on whether to:

- make an application to TPR for the scheme to become authorised under the new regime (see our Hot Topic) or
- take steps to exit the master trust market and make arrangements for securing the benefits already built up in the master trust.

This is because, from 1 October 2018, existing master trust schemes will not be able to operate in the market without authorisation from TPR.

Initial steps and timing issues for schemes exiting the market

If a decision is taken to exit the master trust market rather than apply for authorisation, this will be a "**Triggering event**" for the master trust requiring notifications to be issued to TPR and scheme employers in a tight timescale – within seven days.

The process employers and trustees need to go through after a "triggering event" is different depending on whether the event happens before or after 1 October 2018. Generally, schemes suffering a triggering event before 1 October 2018 are able to wind up in line with their own scheme rules. Schemes triggering on 1 October 2018 or afterwards will need to follow the prescriptive process set out in legislation (which overrides a scheme's wind-up provisions).

Other issues

- Who has the power to terminate the scheme (both to new contributions and new members) and to initiate wind-up?
- How will consultation requirements apply in relation to the scheme and any proposed closure?
- What will be the destination vehicle for accrued member benefits in the master trust? Generally, those schemes suffering a triggering event prior to 1 October 2018 will have more flexibility over where to transfer benefits and the options that can be given to members. For wind-ups resulting from triggering events on or after 1 October 2018, the default position is that benefits need to be transferred to another authorised master trust. Master trust schemes are also required to engage with employers and members on the treatment of accrued member benefits where a triggering event happens on or after 1 October 2018.
- What advice – legal and investment – will be required through the process?
- Are there any rule amendments required to ensure a smooth wind-up?

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Exiting the DC master trust market cont.

There are also some practical issues trustees and employers should be thinking about:

1. **Is data on employers and members up to date so that the relevant notifications can be made?**
2. **Has the scheme opened up a dialogue with TPR?**
3. **Is there a project plan in place for a smooth wind-up?**

How can we help?

- By guiding employers and trustees through the process and legal issues involved in an exit from the DC master trust market.
- Advising the trustees of pension arrangements receiving member benefits as a result of a transfer from a master trust scheme exiting the market.
- Providing project management resource.

For further information, please speak to Helen Ball, Claire van Rees, Jacqui Reid or Ferdinand Lovett or your usual Sackers contact. You can also visit www.sackers.com/expertise/schemes/defined-contribution.

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