

## DC hot topic

September 2018

### Transferring to a DC master trust – key issues



With the increased focus on governance of DC benefits, it can be expensive and time consuming to meet all the regulatory expectations in an employer's own occupational DC scheme or DC section of a hybrid DB/DC scheme. We have seen a sharp increase in employers looking at moving their DC pension provision from their existing occupational DC schemes into a master trust, both for future contributions and past DC funds. Employers and trustees should not underestimate the scale of the work involved.

This hot topic highlights some key considerations for employers looking to make the change, and trustees who are asked to transfer existing DC funds to a master trust.

#### Employers

For employers, the goal is generally to find an appropriate vehicle for pension provision for existing employees, as well as looking to reduce the costs and management time of their occupational DC scheme/section by transferring the DC assets for all members into a master trust. Issues to consider include:

- What kind of master trust is best suited to the employer's needs? Different master trusts provide very different offerings, from basic auto-enrolment compliance with limited ability for employers to tailor the offerings, to more sophisticated options where the employer can have a much higher level of involvement in tailoring what is on offer to employees.
- Has the master trust got master trust authorisation yet and does it have demonstrably good governance, and as well as commitment from the founder such that employers can be comfortable it will be around for the long-term?
- Will all the expenses fall on members, or will the employer subsidise eg administration costs? This may depend on how the costs compare with the current offering.
- How easy will it be to leave the master trust and transfer employees' funds on to a new vehicle if the employer wishes to do so in future?
- Does the legal documentation match up with what the employer has been told about how the master trust operates? Legal input will be needed to check the scheme rules and other participation documentation.
- When is the right point to involve the trustees of the existing scheme? It can be helpful to involve some trustees in a joint working group to assess the master trust options available.
- Who will be tasked with oversight of whether the master trust is meeting expectations for employees?
- What employee consultation requirements apply as part of the exercise eg on closing future contributions to the existing DC scheme?

## Transferring to a DC master trust – key issues cont.

### Trustees

Trustees may be asked by the sponsoring employer for agreement to close the DC scheme or section they are responsible for, and to transfer the DC assets already built up for members into a master trust.

Key questions for the trustees from a legal perspective are:

- 1 Do they have legal powers to do what they are asked?
- 2 If so, is it proper to use the powers in the way requested?

This involves considering whether the master trust is likely to be at least as good/better overall for members. Considerations include:

- Investment options in the master trust, including charges and how investment mapping of existing funds will be done – investment advice will be needed.
- Benefit options in the master trust.
- Security of assets within the master trust.
- Balance of powers between trustees and sponsor in the master trust.
- Any issues around member tax protections that might be lost on a transfer.
- Will the transfer involve separating members' DC funds from their DB funds if they normally use their DC funds to provide tax-free cash?
- Are the terms of the bulk transfer agreement acceptable? Adequate trustee protection is important.
- How will the transfer of assets be managed to minimise out-of-market exposure?

### How can we help?

We have experience advising both employers and trustees on the issues involved in moving to a master trust.

We can assist with the core legal aspects such as:

- reviewing legal documentation and communications
- resolving the tricky technical issues that can arise
- advising trustees whether they can agree to transfer DC funds already built up.

In addition, we can advise on the best ways to manage the project, to make the process as smooth as possible.



For further information, please speak to *Helen Ball*, *Claire van Rees* or *Jacqui Reid* or your usual Sackers contact.  
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