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## DC/master trust roundtable

### CHAIR



**Andy Cheseldine, Professional Trustee, Capital Cranfield**

Andy joined Capital Cranfield in 2017 after a career as an adviser to trustees and employers at Watson Wyatt, Hewitt Bacon & Woodrow and latterly as a partner at LCP. Using his experience of over 30 years in consulting on both DC and DB pensions and liaising with regulators, he is able to use his wide knowledge for the practical benefit of trustee boards. He has served on the Pensions UK DC Council since 2013 and has a successful record of advising on regulatory, governance, change management, investment, provider selection and communication issues.

### PARTICIPANTS



**Michael Ambery, Retirement and Savings Director, Standard Life**

Having joined Standard Life at the end of February 2024, Mike

is retirement and savings director across the group business. He is responsible for the broader platform of thought leadership, taking learnings from a global perspective to help shape the development of pension service and proposition. A seasoned commentator, Mike frequently speaks on pension industry issues and has a particular interest in developing understanding of productive capital in the UK's retirement system.



**Mike Birch, Client Director, Vidett**

Mike is a professional trustee with a spread of DB and DC pension schemes including membership

of the Scottish Widows Master Trust trustee board. He joined Vidett in 2024 from The Pensions Regulator (TPR), where his position as director of supervision gave him responsibility for all of TPR's engagement with schemes of all types other than formal enforcement. Prior to TPR, Mike's career was in banking. He is accredited as a professional trustee by the APPT and is a member of the APPT legislation and regulation sub-committee.



**Philip Brown, Head of DC, Master Trusts and Lifetime Savings, Pensions UK**

Philip joined Pensions UK in

February 2026. With over 38 years of experience in financial services, most in pensions and retirement income products, he has held various roles, including independent consulting, director of policy and external affairs at Nest and People's Partnership, head of policy at LV=, and senior policy associate at the FSA. He also managed the vesting process for a large pension and life product portfolio and won The Public Affairs Awards 'Corporate Campaign of the Year' 2016.



**Geoff Marchment, Head of Master Trust Development, Aviva**

Geoff is accountable for the sustainable growth of the Aviva

Master Trust, now the UK's third largest commercial multi-employer scheme, supporting over 600,000 members and £19bn in assets. Geoff leads the Aviva team on the member experience and communications committee, shaping strategy to improve engagement and long-term member outcomes. He has helped deliver major workplace pension change programmes across both contract and trust-based schemes.



**Jacqui Reid, Partner, Sackers**

Jacqui is a specialist pensions lawyer with many years' experience advising trustees and companies

on all aspects of UK pensions law, regulation and industry best practice. Her clients include trustees/providers of master trusts, DC and DB occupational pension schemes, personal pension providers, IGCs, and international/FTSE 100 and 250 companies. She is passionate about eliminating the gender and ethnicity pensions gap and also chairs and coordinates cross-industry initiatives on VFM, aimed at improving member outcomes.



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**C**hair: There is so much happening in the DC/master trust space, but let's start with an important evolution – default retirement solutions. With legislation on default retirement solutions still to be brought forward, how are DC/master trust providers preparing their propositions now to ensure they can genuinely support good member outcomes particularly for disengaged members?

**Michael Ambrey:** It's a key issue as many pension savers in the UK aren't actively engaged with their pensions, opting for the default provided by their employer's scheme. With low engagement, it can be difficult to know what individuals' expectations are at the point of retirement. Are they looking to achieve the Pensions UK Retirement Living Standards? I suspect the majority are purely of the mindset that their pension is going to deliver something at a point in time, and probably won't have a reference as to whether this income is good or bad, but will have an expectation that the pension provider will produce a good outcome.

So, as providers we need to make sure that we look at the asset components, at the growth phase and the income phase, across the entire lifecycle of that strategy, while being mindful of delivering good outcomes. By considering two things in terms of the value for money (VFM) framework – around what is past performance, and what's a future projection, and then how we balance the required asset classes based on need, we can achieve these good outcomes.

We are also looking forward to more data being available. The more data we have, the more personalised we can make the customer journey. Saying that, it is



## Creating value while navigating change

▶ **With so much change on the DC/master trust agenda, our panel of experts explores topics including default retirement solutions, private markets, targeted support and more**

difficult for an industry to personalise everything. You need to have a 'one-size-fits-all' objective until we have enough data available.

We're also in the midst of a lot of regulatory change. How do we balance that regulatory change to personalise things?

Finally, people's income needs vary, with some more reliant on DC than others. While a one-size-fits-all approach works generically, there's an advantage to it being personalised and we are evolving our propositions to deliver that.

**Jacqui Reid:** With default retirement solutions, I was pleased to see that the requirement is around 'one or more' default solutions, not just one, for that very reason – because retirement is individual and, therefore, providing a one-size-fits-all solution isn't appropriate.

Also, you can only do so much, with the best will in the world, with pots. Adequacy and encouraging contributions in is the way to make the retirement

solutions piece work even better. I'm a big supporter of doing more for members to and through retirement, there's very little that's been done to date there, but, again, it's not a one-size-fits-all solution.

Finally, the word 'default' doesn't reflect the nature of what is being proposed, because it's actually a 'help me do it' solution. Members have to make decisions at some point so the solution can't be a true default, whether that be how much tax-free cash they want to take, what their bank account details are – basic things. It must go glove in hand with support, so the targeted support piece is important.

**Philip Brown:** This is a challenging subject. Having a one-size-fits-all default in retirement sounds like it introduces interesting challenges to the market. But, as has been said, the DWP legislation refers to multiple. So, they're thinking, how do you cohort up your book into slightly different solutions for different people that have similar characteristics?

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And we're on a journey of getting access to the data to do that kind of work. So, it's important that we remember it's not about a single soft default.

But there are still lots of challenges that we don't have answers to now. We've got a framework in the new Pensions Schemes Act 2026, and we are expecting a lot of secondary legislation over the rest of this year.

The other area that we need to get a grip on is how this interacts with targeted support and how it will interact with simplified advice when that comes through in the fullness of time, because that's being consulted on. We keep layering pieces of legislation without necessarily looking back and asking how it interacts with existing pieces of legislation. So, we really need to see the secondary legislation before we can get into the detail.

**Mike Birch:** Key to this is understanding your membership – that's a varied group and it's one that's changing. The big change also that's coming is that greater reliance on DC pots rather than it being an additional part of what's underpinned by DB. So, it's key to understand your members, but those members are quite varied, and you only see a small part of their pensions provision – therefore getting the trust and the communication for them to share with you more is important.

Also, it's important to do more earlier because, by the time you get to your retirement decisions, it's too late to make sure you've got a basis for a good

retirement. And it's really important that, if there are defaults, they are at the end of a good communication journey where you've built understanding, you've built trust and people can make an informed decision on what's right for them, particularly if your default is – as it's going to be for some master trusts – something like collective defined contribution (CDC), which is a final decision. It's like buying an annuity and you don't want that to just be something people fall into; you want them to have made that decision and have enough communication around that.

Finally, getting the ability to have no or low-cost advice is going to be important. Artificial intelligence (AI) will help, but it's going to be important to have that because, whilst what to do at retirement is a very big decision for people, they don't want to pay for advice, other than those with large amounts. So doing something that ideally is no cost, or very low cost, is going to be important so that you can look holistically at what people have and what's appropriate for them, and talk to them in their own terms about what they are trying to achieve rather than in financial terms.

**Geoff Marchment:** Aviva is in the strong position of having a solution, Aviva Guided Retirement, which we can offer to members within our master trust ahead of the default, and it's really for Aviva to then have the interactions with the Aviva Master Trust Trustee and understand whether that is going to be something that will play a role within a default retirement solution. We think it absolutely will.

On the data point, we've got information already on our membership, built up over the duration of their time with us. We will likely need to ask members at the point of retirement some simple questions and that immediately

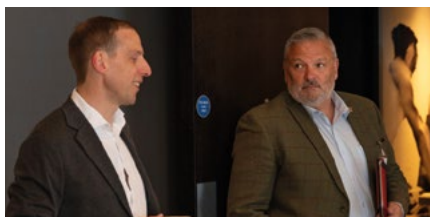
takes it out of the true default space.

Then we'll be looking at how you cohort that membership – again aiming to keep those cohorts relatively simple. We're not expecting 12 different cohorts. We are hoping it will be three or four. There's likely to be a de minimus level, where perhaps it might be a return of fund, through to those with very large pots who may need to take full financial advice. A default retirement solution is really supporting those members in that middle space.

In terms of outcomes for those members, this is not about the best possible outcome – it's about ensuring they achieve a better outcome than doing nothing. Because, ultimately, what we're here to do as providers is get people into a better place, and also to help them avoid making bad choices at retirement. Catastrophic decisions at retirement, such as moving into something that is entirely unsuitable or placing their whole of life retirement savings with an unsuitable provider, may not be reversible.

**Chair:** People around this table mostly represent schemes that have the full range of members. But if you look at some of the other master trusts, the average pot sizes are smaller, so they're in a very different position.

**Marchment:** That's true. Right now, even at Aviva, we do see members retiring with small pots and just taking full cash. Though that is quickly changing and, even those on relatively modest salaries, with modest contributions coming in – auto-enrolment minimums – in their 40s, we're projecting that in 20 years' time, they'll be coming up to retirement with pots close to £150,000 to £200,000. This is going to be a sum of money that potentially these individuals will never have seen in one place – it's almost a windfall at that point. So, the





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time is right for a default retirement solution to be coming through.

**Chair:** We have talked about the positives here – what are the potholes?

**Reid:** With some structures, the risk is that the member runs out of money before their annuity is payable at 80 – even where you have guardrails in place.

In other structures, you might get a complaint from members that the annuity at 65, for example, is expensive and that they've been ripped off, even though it does provide an income from the beginning of their retirement.

If you're an own trust scheme, you are more likely to partner with a master trust to provide this default retirement solution. For those own trust schemes, it's unclear where the liability for that member's benefit stops and passes to the master trust, noting the new requirement 'look through' to the member's needs and characteristics.

Finally, one of the most important things will be the questions you ask at retirement, for example: Is there someone else in your family that brings in income? Do you have a mortgage or are you a renter? It's not just about pot size; those questions are important and, ideally, will dictate the investment solution that your members might put in.

Also, my personal view is that to make solutions more effective for members, these questions need to be asked not only at retirement but earlier, although I appreciate the complexities with that.

**Birch:** For regulators, this is going to be tricky to get right, and easy to ruin! Default solutions need to be good, but they don't need to be perfect, because you're dealing with big groups of people. Also, for targeted support, the regulators are going to need to give enough leeway for these to actually work, and for

providers to get involved and use them actively without putting pages of legal get-outs on everything that stops people reading anything. If it's going to work, it's got to be about communicating clearly in a way that people understand and engage with, and that can leave you open to lots of hindsight and, in five/ten years' time, big penalties from regulators.

If there's any expectation of that, then the response and the protection against that will kill a lot that's good within all of what we're developing at the moment, because it has to work as a suite; but it has to be based on a bit of trust that the regulators will be practical and realistic in terms of it being good enough – better than not doing anything, but not perfect.

**Brown:** I completely agree that the challenge is a communication one, but the current wording which deals with guided retirement solutions doesn't deal with communication. Communication has been carved out for a separate piece of activity. That might mean it's challenging at first, because we don't know how quickly that will come. Then, how will that interplay with all the things that the FCA is consulting on?

So, I could look at targeted support and say, there's a continuum from information through guidance to holistic advice and, at the moment, targeted support is sat on the other side of the advice boundary with basically a safe harbour.

Logically, though, surely it should go: information, guidance, targeted support, then an advice boundary which brings you into simplified advice, and then a further boundary which brings you into holistic advice? But they have made it more complicated than it needs to be.

**Ambery:** On the data side, it boils down to what our roles and responsibilities are within the industry



– the role of an employer, a provider, an individual. That's been changing within the UK over the past 40 years. The paternalism offered by employers has rapidly changed towards individuals having to look after themselves.

I also agree that there are certain pieces of customer data required to build a picture, such as: What are you going to get from the state system? How much do you need at the point of retirement? What are your spending levels? With this information, then a range of solutions can be offered based upon that data.

We also have other issues to solve. For example, fragmentation with people having ranges of pots from multiple employments.

We also have the issue of financial literacy. Whilst everyone in this room is trying to educate people, we have financial literacy that is secondary school level at best, and addressing that is part of what we must do as an industry.

There's a member engagement problem as well, and that is solved by advice and, to some extent, is solved by guidance, and is solved by some media, (whether it's trusted or not, because there's still a lot of non-trusted opinions that are becoming more prevalent). AI will also play a part in that, but AI also sadly opens the door for scammers.

### The role of private markets

**Chair:** How important a role should private markets play in DC schemes/master trusts? What approaches are

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available in the market for incorporating private markets within default funds?

**Marchmont:** Aviva launched My Future Vision, our private markets default, in Q3 last year. It has a 25 per cent allocation to private markets – so a high conviction, multi-manager approach – and early signs are that it's outperforming our standard default, My Future Focus.

I think private markets are likely to play an essential role within master trusts and the DC landscape going forwards. One question for this room, and the industry as a whole, is how the government legislation intersects with member outcomes. There is a clear direction being set under Mansion House and providers are responding to that by delivering solutions including increasing allocations to private markets.

We have had a concentration of private markets within our standard default for many years – 10 per cent in UK commercial property, which is now being diversified into other asset classes. So that's already within our standard default, but we are also pleased to be introducing a new solution with a higher allocation to our clients.

The question we'll need to consider over the next few years is how those multiple default solutions, where providers have more than one, potentially amalgamate into a single best default.

**Birch:** There's big potential for private markets to help underpin better long-term returns, which ultimately is going to

drive better pensions. It's an area towards which the market generally is moving and that's positive, but I have always had my concerns about mandation which I know has been addressed in the new Pension Schemes Act.

So, it's a good area for government to encourage (but not force), and a good area for trustees and providers to develop. It's also seen a lot of enthusiasm from ECBs, which will also drive providers to look at it. So, it is all focusing in the right direction to make a more sophisticated offering for members.

**Brown:** It's an interesting subject. There are a number of schemes that have been on this journey for some time. There are lots of other schemes that are on that journey now. And you can see from the schemes that have been in this market for a long time with private market holdings, that they've produced returns which can be above general market returns.

If we look at other jurisdictions, it is interesting what you find (although you've got to be careful when comparing the UK with Australia or Canada, because you have different tax situations). In private holdings in pensions in Australia, it's not unusual to have 30 per cent in private markets. But you've got to factor in there the maturity of the scheme, the age profile of the members, know what risks you're taking on behalf of members.

As an organisation, we're supportive of it, and this is a big underpin for the government's push for scale; and if you want to get to a place in private markets where you have a diverse range of access points to private markets, scale's the thing you need if you want to have direct holdings.

**Reid:** I'm supportive of investment strategies which incorporate allocations to private markets if it's in the interests of the members and the trustees have

fiduciary control over that investment strategy. My worry is that mandating an investment allocation does not always have members' interests front and centre.

I think care needs to be taken with private markets in the context of own-trust DC if the agenda is to consolidate, because these are long-term investments. I suspect the providers could take some private market investments in specie on a DC transfer, but I think it becomes problematic because they're longer-term investments. So, something for own-trust trustees to think about.

I have also observed that the Pensions Schemes Act has a number of policy objectives in it, some of which don't necessarily fully align on the face of the drafting. An example of this is how private markets play into the VFM framework. I know there's some forward-looking metrics in there, but the VFM framework is predominantly backward-looking – one/three/five years, and investment performance is key. However, private markets is forward-looking, longer term and more expensive. So, you've got that slight juxtaposition in the Pension Schemes Act with noble policy objectives but there's not always an alignment.

**Ambery:** At Standard Life, we've also launched a premium default with conviction to around 20-25 per cent in private markets. I agree there is no need for mandation, especially if the incentives are there for investment. I believe an aligned strategy between government and industry can give the incentives that are required.

I could go through a whole range of things that the UK needs – infrastructure, energy, housing, food transition – these are things that the UK needs for better outcomes; and better outcomes isn't always about financial performance. I know other regulation



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will come through over the course of the year to say 'what does it mean in terms of net zero transition, what does it mean in terms of climate' and so on, these are all factors of where money should be invested and be trusted to be invested. So, our default solutions have different factors of that percentage of private market investment.

What I'd encourage any government to do is to say what are the incentives to be able to deliver those, particularly within the UK. Part of our commitment, our delivery, is two LTAFs. One is UK based as part of Future Growth Capital with Schroders, the other is overseas.

Coming back to Australia, I do believe they deliver better returns because they've got the conviction, but it's also incentivised. There's an 'Australia first' principle. Similarly, if you go to Canada, there's VC conviction and rebates given. So, we need to work out what that looks like for the UK. There have been decisions made to decrease investment in the UK. We're not incentivised to invest in public markets within the UK as much as we were. Should we? How do we facilitate that? How do we grow the UK market? Because the vast proportion of customers for us are retiring in the UK and want to have a sustainable world to live for in the UK.

### VFM

**Chair:** We have already touched a little on the proposed VFM framework, but what are the panel's thoughts on how it will work in practice?

**Brown:** VFM in principle is the right thing – thinking about the value of the product rather than the cost of the product makes sense. We've been through three consultations now and we're waiting for a rules consultation later this year.

There are still several areas of the consultation that are challenging. We haven't answered the question of data standards, for example, making sure we're all comparing apples with apples. You can look at the Pound for Pound (£4£) initiative that ran last year – that had significant challenges in data standards between different providers. So, we've got lessons that this isn't an easy thing to do.

I would go further and say that we welcome the increased granularity in the proposed framework, going from three traffic lights to four. But, at Pensions UK, we still have real concerns about the amber rating and how they have proposed it for the UK.

In the Australian version of VFM, if you become amber, you have to build a plan for a route back to green, and you've got to tell your members what you're doing and why you're doing it. If you're amber again in a second test a year later, then you start stopping schemes taking additional new employers and contributions.

In the UK, we've defined it as that happens immediately. So, I question how a scheme that is given an amber rating can recover? If you're rated amber, you're basically on a slope towards red and it's very difficult to go in the opposite direction. So, that needs to be challenged.

**Reid:** I agree the amber rating is commercially very damaging. Whilst I appreciate they are a starting point, I also have concerns that the ratings are too basic, and that we are going to herd towards different shades of green. In practice, I think it will be difficult for master trust trustees or IGCs to rate their provider as anything other than a shade of green.

In addition, because of the way that the default has been defined, the contract-based industry is going to

have to put information into the TPR database about a large number of defaults because they will have many more bespoke arrangements for their employer clients. This is different from the trust-based market and will result in a huge number of data points potentially being submitted to TPR's database. It will be really important to understand the way in which data which is submitted will be verified – will that be by TPR or publicly available and therefore able to be scrutinised by the industry?

So, with this in mind, I am keen that regulators consider introducing this on a phased basis. I know that delivery is extremely important to the regulators and they're in a difficult position as well, but I'm a big advocate of a phased basis, maybe just starting with the main defaults, for example, and seeing how that goes.

I'd love to see a dry run and, actually, if you have that dry run and contractual override comes in, and you've got people looking towards consolidating their main scale defaults and so on, that means that less data goes into that database, and you have more chance of the data being more accurate leading to more meaningful comparisons.

I know others in the industry are lobbying for these kinds of changes, and I think they are really important, because the consequences of an amber rating are so severe so the industry needs to have confidence in the database.

**Brown:** We've echoed that in our



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response – we think it should be a light touch in the first year without necessarily publishing the outcomes, so we can learn from all the data that goes in. Dry runs would be fantastic.

**Ambery:** We are largely supportive of VFM, but what's the purpose of it? It should be about delivering better outcomes for members, full stop. It achieves other things too, consolidation being one of those. The industry is doing well. Scale tests and otherwise could be methods of achieving consolidation.

Why was it introduced in Australia? Two reasons. Performance ratings i.e. measuring levels of investment performance; and that's what comes through for me from VFM – what's your level of investment performance relative to others within the market? Because that sets what colour code you are. The other things are less important. If you don't achieve the colour code on investment, it doesn't really matter what your member engagement, or quality of services are. That's the problem of what we have there.

In Australia, other than that, it was around consolidation.

With the traffic light system, red and amber are warning signs. What do we do with it? What do we say to the members? How do you communicate that? That's a massive issue in Australia to be able to do that. So how do we get consolidation in the right way?

The major aspect for me then is on investment performance. Is it purely about metrics? If you're purely about

investment performance, it's about the returns. It's not about other factors that we consider – sustainability, net zero, or otherwise. Is it just about what's the maximum amount of return? And then how do we judge it?

Also, we are looking back over one/three/five years, how do we start to introduce private market solutions that haven't existed or have existed in different fields over a period of time and bring those in?

So, I do believe certain objectives are great around this. How it's delivered, how it's performed, is the true factor, because I think we're going to look to the VFM that actually looks at investment performance.

**Marchment:** We do have the opportunity under the Pension Schemes Act around non-consent transfers, potentially for providers to use that legislation to tidy up some of the challenges that VFM is aiming to address. So we, along with other providers, will have, certainly in the consent world, a significant volume of defaults operating on a range of schemes from the very small to the very large. And there's an opportunity under non-consent transfers to look at that ideally ahead of VFM, but timing again is going to be a challenge.

So, the intersection of policy with ambition, with when we're actually going to get the legislation brought forward and for IGCs to be able to take that kind of action that would be needed, is going to be an area to keep an eye on.

But Jackie [Reid] highlighted another problem – there are essentially thousands of defaults within the provider space, so this is a massive exercise for contract-based providers.

One final point, when we've looked at assessing VFM across multiple providers, we all have different terminology, we all have different underlying administration

systems, and being able to have consistent definitions that work across the industry is going to be challenging, though I hope not impossible.

**Birch:** Typically for regulators and legislators, once a powerful instrument is thought of, it gets lots of potential uses and there are a multitude of things that are trying to be done with VFM.

So, at its simplest, it's about value, not cost – which is great. It's about driving value in the market – great. Then you have to adjust it to what you want to happen in terms of change in that market. Private markets is the obvious one, and that drives you to have future looking metrics which give you the risk of manipulation. That becomes difficult but probably necessary because it's a blunt instrument that could damage the development of the market.

But the key one for me is it's looking at sole trusts and master trusts and, for sole trusts, TPR very much has a view (and I think at a high level this is right) that master trusts or GPPs offer a much more sophisticated offering in terms of communication, investment and governance than most sole trust schemes. And this is a blunt instrument to drive that consolidation in a way that the previous VFM regimes haven't.

So, it's looking to drive consolidation, but that same stick will also be used to hit the master trust and GPPs. That's where it's going to get tricky and where you'll have the problem of very blunt outcomes – moving between green and amber is pretty terminal for the fund that's being measured. EBC ratings, in comparison, are much more nuanced and can take into account forward-looking metrics as well as backward looking metrics, and do so in a more nuanced way. So, it's created a complicated thing for TPR.

**Chair:** As a trustee, could you see





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an environment where those cliff-edges between green and amber, or certainly into red, are so important that there's a lot of pressure brought to bear?

**Birch:** That could be a risk, but on most things where you could take a subjective view it won't influence the outcome. The one area where it could be a risk is expectations of future return, where there could be pressure to take optimistic views. Everything else is second order because, if you've got a bad investment approach, you fail and, however fantastic everything else is in terms of governance and communications and so on, it won't change that. So, I don't think those bits which are subjective will create pressure. But there could be pressure on the forward-looking parts.

In my role, we have a very strong relationship between trustee and provider where we can have those conversations and we can take the right decisions. But I can see that across the industry there will be that pressure particularly on the forward-looking metrics.

That puts a lot of onus on the regulators to have a way of policing that and making sure that the assumptions people make about the future are reasonable.

**Reid:** There's been a lot of debate about the backward-looking metrics and whether or not they reflect the member experience. There's been quite a lot of challenge that the revised proposals are a kind of academic, theoretical assessment of value. I know not everyone subscribes to that view, but there is that challenge; and putting the forward-looking metrics in that initial step one of the assessment has also been questioned by some.

So, there's a lot of work to do on the investment metrics to get them right, and the difference between previous

consultations is that there's so much more importance on the investment metrics.

**Targeted support**

**Chair:** The FCA's targeted support regime came into effect on 6 April. Will this be a successful way to bridge the gap between advice and guidance, and what are the challenges?

**Birch:** It does come down to having that trust that there's not going to be a backward-looking benefit of hindsight, where providers suffer for having provided reasonable guidance at the time but which turns out not to have been optimal. Because I do think this has a real potential to be useful, albeit as part of a bigger picture. I don't think it does anything on its own, but as part of a bigger picture, these useful nudges can be effective in getting people who are disengaged to do things that are useful for them.

**Marchment:** We have wholehearted support for the ambition. From a master trust perspective, however, the dual regulation of FCA and TPR, with targeted support being a purely FCA initiative, means that we are left with a question mark about what's the equivalent in the TPR-governed section of the industry? So, for an organisation such as Aviva where we have a contract book and have a trust-based book, we have dual regulation, and there's an opportunity there to have some read across.

But in terms of the actual ambition, we highly support any initiative that's going to help the member to make a choice. So, we see lots of positives here, but it's just about how in the implementation we can see that work in a master trust environment.

**Ambery:** Does it bridge the gaps? We've still got an advice gap – only one in



ten consumers in the UK will take advice. So, we support something being targeted – support is the right way of giving indicative ways.

Saying that, are we able to be sure that people understand that? When they need advice, whether it's simplified advice or a full version of advice, those are still the issues, and what's the cost challenge around that at the right point in time. So, I believe it solves an issue that brings a broader population to understand what's their opportunities, what's their choices at the point of retirement, but it doesn't solve some of the issues that have built up over 20, 30, 40 years for individuals, no matter what we do in the industry.

**Reid:** I think it's a great start. It's a shame it was directed at the FCA contract-based piece when the government's drive is for everything to go to master trust. There is this grey area as to what master trust trustees can do, but I think trustees can provide elements of targeted support as things stand, but they can't provide targeted support. So, then we're going to get into nuances: Is it targeted support? Is it trustee support?

Also, it comes down to what type of targeted support you're looking at, because there are some parts of targeted support that are quite straightforward, that trustees can do already in the form of trustee support and it's not targeted support because it sits within the scheme wrapper – nudges around contribution support, for example; perhaps it's taking it a bit step further. But when you're looking

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at a blended form of retirement solution, for example the 'flex and fix' solutions in the market that combine drawdown and annuity, it becomes more difficult because elements of those solutions cannot form part of targeted support.

**Brown:** I agree. There are several challenges here that we regularly stick in that bucket we call 'regulatory arbitrage' because we've got two different sets of rules, and I would love to see an environment where you have read across in the rules. But I don't see how that's possible when targeted support is built on the other side of the advice line. You need to be FCA regulated to give advice to then get the carve out, which gives you a safe harbour, so there's a kind of discrepancy in how it's been defined. I come back to that point I made earlier, that we should be looking at the continuum between information and advice and putting the other solutions in between information and advice, not on the other side of the advice line. That's creating several challenges.

Also, if you look beyond targeted support, that's simplified advice – you can give what we used to call 'focused advice', but it still carries all the same liabilities as if it was full advice. Again, that doesn't feel right. So, we've got a number of regulatory challenges to work through there. I'm not sure what the answer to that is because the regulators are working together on several things, but on this one, it's definitely FCA-led.

Finally, I would point to the research

document that comes with targeted support – according to the document, when it was tested with consumers, the tester said it made no discernible difference to the outcome of whether that consumer would do something different to what they were going to do before they'd had the targeted support. Then I'd go a step further back and say, if you look at investment pathways, the original behavioural insights report that came with it could be summarised as 'don't do this, it doesn't work'. So why do we do behavioural testing and then ignore it?

**Ambery:** I don't think behavioural science is easy to look at. Part of the decision at the point of retirement comes with the fact that (a) there's a big change in life – you're going from saving to actually spending, depleting your pot and depleting an income; and (b) you're stopping working – you might go back to work, which one in seven do, maybe because they've run out of funds, maybe because they're missing the interaction with people.

There's also behavioural sense of what do you need to provide as well for yourself, your family, others, future generation of wealth and otherwise.

So, 'behavioural' probably gets put in a box because it's too difficult in the same way that we don't get much engagement from 20-year-olds in relation to pensions because they don't want to think further than what's on Netflix that evening, never mind what they're doing in 40 years! So, the behavioural point is a key issue which I don't think we've really explored in a non-advised community or intermediated sense.

**Marchment:** We did some work with Age UK last year looking at financial confidence in retirement, and it showed only two in five mid-retirees feel confident in their financial position.

From a gender perspective, that drops to one in five for females.

So, we've got a real challenge as an industry to build that confidence so that people do feel in retirement more financially secure. That's what we're aiming to address.

Also, when we're looking at couples in retirement in particular, typically there is one person who has taken a financial lead. There then tends to be an unequal yoke in that financial confidence. And what happens when one or other of those people die? It matters the order in which they die, because if it's the person who isn't taking those financial decisions, where are they then going to get that support from? Everyone's financial and family circumstances are different. We're aiming to try and solve these challenges holistically and for everybody all at once.

### CDC

**Chair:** What are the panel's views on the suitability of CDC as a default decumulation approach within DC schemes/master trusts?

**Reid:** The government is pushing CDC quite hard. For me, the jury is out on whether whole of life CDC is the right thing for members, but I am open to being persuaded and I can see it absolutely has a place in retirement.

Saying that, I've seen very little appetite from some of the big providers that I work with to put in retirement CDC now, because it is arguably for a very specific type of populace.

Also, there is so much else going on now – the government wants us to look at VFM, targeted support, default retirement solutions. The industry is having to prioritise for the short term. But I can absolutely see a market for CDC in the future. So we are watching this space with interest.



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Finally, the messaging around CDC is critical as it is extremely difficult to explain.

**Brown:** I agree with the comments on CDC as a 'whole of life' product. One can see, if DB is no longer the right solution, why you might move down to a CDC. It's quite a difficult decision though to take individual DC up to a CDC.

But with retirement-only CDC, you can see an application for it. However, we're still awaiting regs, so it's difficult to make that decision right now without knowing exactly what that legislation will say when it comes through. The Pension Schemes Act is quite skeletal in its makeup, and all the flesh is coming in secondary.

The challenges, I agree, are around the communication, and if you refer back to the days when we had the Financial Services Authority in play, they were looking at research done on their high/medium/low illustrations, and the one thing that kept coming back in that research was that the only number consumers remembered was the high number, because human beings are generally quite optimistic. They want the good outcome. So, they had a real challenge with that. That's my concern with CDC – that, what is explained to you as an ambition or an estimated income is something you remember as an income, and when it doesn't happen or it needs to change, it becomes a very different conversation.

**Birch:** I like a lot about CDC, but I think where it meets the real world, there are some issues. Whole of life CDC has some advantages if you've got the right membership, but there are not that many schemes where you've got a stable enough membership that's going to be in it for life or at least for a big part of it.

Decumulation-only CDC has

benefits in that it offers some certainty that members are not going to run out of money, certainty that they know what they can spend, and that they can spend enough but not too much; and also having a basis to invest to and through retirement. But you can do those things in other ways – 'flex and fix' type approaches do that in terms of allowing you to invest to and through.

Also, having CDC as a default can have challenges because, by definition, the people who go into a default are going to be people who haven't made a decision; and ending up in something that's irreversible is not necessarily a good thing when you haven't had the engagement to know whether it's the right thing.

**Marchment:** We've just got to focus on the member outcomes. Focus on what is good for the members. Once the regs are here, providers will be looking at the opportunity that retirement CDC will bring.

It feels as though the table here today is generally leaning towards retirement CDC being possible, but 'whole of life' being slightly more challenging, and I agree with the challenges raised.

Also, to build on one of the opportunities that you have with a 'flex and fix' model, you can, in your mid-60s, set your overall retirement direction without entirely setting it in stone. So as your circumstances/your family can change, your outcomes can change around it.

What we're finding with our research is that members value being able to educate their family about the outcomes that they have in mind at an early point. If we think about our own families, just knowing our parents plan to go into a 'flex then fix' model and are intending to take an annuity at age 80 is helpful for

family to understand, so that they can start preparing for that.

**Ambery:** I don't think it's a good thing as a default decumulation approach. It's one approach that can be offered and it's got to be suitable. It comes really to me about what are the roles and responsibilities for us as an industry and whose roles and responsibilities are they. Ownership of a DC scheme is predominantly with the individual. We've already explored why an individual may not be engaged enough, may not be financially literate enough to make that decision. I don't agree with some of the outcomes that are provided for individuals through modelling what a CDC solution actually gives. I think they're over inflated. I think they're also based on historic assumptions some years ago.

It important we remember this should be about outcomes – it's about giving security and it's about giving protection. There's a 'fix and flex' positioning in there that can be flexible and to enable people to make the decisions that suit their personalised decisions at certain points in life.

I also think it's introducing complexity where we've got a lot going on already – we've got a Pensions Commission, we've got a review of the state pension, we've got a review of adequacy, and targeted support. Those are way more important than introducing a further factor that breeds more complexity.

