HYMANS ROBERTSON

Mastering Master Trusts

April 2018

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Nobody would argue with the fact that the rise in the use of Master Trusts over the past 5 years has been significant. We've watched them shift from being a relatively niche option serving the needs of smaller employers, to today where they are increasingly seen as the DC vehicle of choice.

Buoyed by the introduction of auto enrolment in 2012, Master Trusts now account for over 35% of the workplace pensions market[1]. The assets of over 7 million UK DC savers are now invested in these arrangements[2].

Workplace pension provision is a dynamic market and the other factor that has contributed to the growth of the Master Trust has been the move away from employer's own trust-based schemes, the pace of which has noticeably quickened over the last 24 months.

The popularity of Master Trusts is due to the attractiveness of fully outsourcing DC delivery but, at the same time, retaining some of the attractive features of occupational pension schemes. Coupled with economies of scale and the significant downward pressure on pricing, it's easy to see why they have appeal and why their share of the workplace market is expected to grow from around £20bn today to over £300bn by 2026[3].

As part of a recent survey, we asked over 200 pension trustees, pensions managers and employers about their views of Master Trusts and whether they currently use them. 87% of employers in our sample currently use a Master Trust arrangement and all of those who don't currently would consider doing so at some point in the future.

With this strong endorsement of Master Trusts and the inevitable growth that will result, energies will increasingly turn to navigating the huge number of Master Trust options in order to ensure you have the right one for your business. But how do you go about evaluating which is the right Master Trust for you?

This paper will look at how the Master Trust market has developed to its current position and the likely direction of travel. Having worked with a large number of employers and trustees to support them in the move to Master Trusts, we have gathered a wealth of experience and set out in this paper are our 'top-tips' for selecting a Master Trust.

If you have any questions about selecting the right Master Trust, moving from your employer trust based scheme to a Master Trust, or about Master Trusts more generally, please get in contact.

Lee Hollingworth
Head of DC Consulting

The Growth of Master Trusts

Today: 35% of workplace market;
Assets of over 7m UK DC savers
£20bn assets today; rising to £300bn by 2026
100% of employers would consider using a MT

[1]The Pensions Regulator 2016
[2]The Pensions Regulator 2016
[3]Hymans Robertson Research 2017

A brief history of the Master Trust

1970s, 1980s and early 1990s

Master Trusts mainly used by smaller employers and executives attracted to fact that they allowed for much higher funding rates than standard pension arrangements.

Pension tax simplification 2006

Pension tax simplification legislation in 2006 simplified scheme funding, bringing all pension arrangements under one funding regime. The new rules spelt the end for Master Trusts as their USP evaporated. Master Trusts appear to be consigned to pension history books.

Pensions Act 2008

Plans for automatic enrolment outlined. Employees must be enrolled into a workplace scheme by law over 6 year period from 2012 (starting with the biggest employers). In response to the Pensions Act, demand for pension arrangements which allow for the bigger scales that auto-enrolment brings begins to build.

NEST launched

The National Employment Savings Trust (NEST) is launched, mainly catering for smaller employers who will now have to enrol all staff into a pension over coming years.

Hymans Robertson and M&S resuscitate the Master Trust

In response to auto-enrolment requirements, M&S search for larger employer solution that better suits their needs than a group personal pension. Working with Hymans Robertson, the benefits of a multi-employer scheme are revisited and providers respond with a new version of the Master Trust. L&G becomes M&S's provider.

2010 - 2017 more Master Trusts enter the market

Master Trusts now account for 35% of the workplace pensions market.

Mercer are the first of the 'Big 3' consultants to launch their own Master Trust.

Willis Towers Watson and Aon Hewitt launch Master Trusts in 2015.

Master Trust assurance framework launched

Pension Schemes Bill introduced

Draft regulations for the authorisation and supervisory regime for Master Trust schemes

Authorisation regulations come into force

The future of Master Trusts

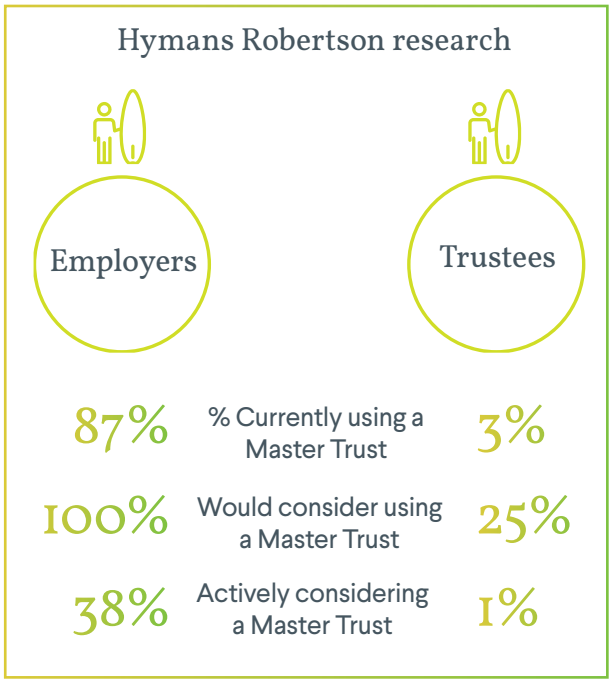
The Master Trust market has grown significantly since 2010. Improved regulation and the introduction of the Master Trust Assurance Framework (MAF) have all helped to improve the image of the market too.

The forthcoming authorisation and supervision regime will impose a reporting regime on providers to allow the Regulator to monitor their sustainability and if necessary, take action to protect the interests of members.

The growth in demand for Master Trusts has led to a steep increase not only in the number of providers offering their own Master Trusts, but we've also seen a number of consultancy-run Master Trusts enter the market. Notwithstanding the conflicts of interest question, a number of the consultancy-run propositions have compelling propositions and are gaining traction.

Overwhelming enthusiasm

We recently conducted a survey of over 200 pension trustees, pension managers and employers, asking them about Master Trusts. Employers demonstrated an overwhelming enthusiasm for the use of Master Trusts, with 87% of those surveyed currently using a Master Trust, and all of those who don't stating that they would consider using them in the future.



Trustees, perhaps unsurprisingly, showed less enthusiasm. 57% would not consider using a Master Trust arrangement. The main reason they wouldn't, cited by almost two thirds, was a reluctance to cede control.

So what next?

So with overwhelming support for the use of Master Trusts suggesting that their growth will continue to be strong, what else could influence the Master Trust market and what impact might it have?

Regulation

The Master Trust scheme authorisation and supervision regime is intended to introduce a higher benchmark in terms of regulatory standards – managing the risk of market failure and putting in place a process that in this event the interest of affected members are protected.

In addition, the fact that a scheme currently meets the Master Trust Assurance Framework ('MAF') requirements will not mean that it is authorised. This means that all current Master Trusts will need to go through the process of seeking authorisation and it is not guaranteed that they will make the cut.

The Regulator will assess each Master Trust scheme against five criteria. These are:

- The persons involved in the scheme are fit and proper persons;
- The scheme is financially sustainable;
- Each scheme funder meets specific requirements;
- The systems and processes used in running the scheme are sufficient to ensure that it is run effectively; and
- The scheme has an adequate continuity strategy.

Schemes that fall within the definition of a Master Trust scheme, that do not apply for authorisation or do not meet the authorisation criteria, and, therefore are not authorised, will be required to transfer their members to another scheme and wind up.

The supervisory regime will ensure that, once authorised, Master Trust schemes continue to meet the authorisation criteria. Those at risk of falling below the standard will be required to address those areas of concern, or to transfer their scheme's members to another scheme and wind up.

Imposing greater requirements on the Master Trust, but also the organisation behind it, will be likely to lead to some organisations thinking again about whether this type of product is right for them.

Consolidation in the market

3 things you need to know about consolidation in the Master Trust market

1. Less activity than anticipated to date
2. Pockets of consolidation behind the scenes among smaller Master Trusts
3. Could see more post April 2018 as transfer rules are relaxed

When we first heard about The Pension Regulator's (TPR) plans to tighten Master Trust regulation it was very welcome news. Many suggested that market consolidation and market exits would ensue, but we've yet to see these expectations play out on a large scale. On the surface, very little appears to be happening. But behind the scenes there have been pockets of consolidation amongst the smaller Master Trusts. These may have failed to make significant inroads and gain traction in a highly competitive market, or may simply not have the appetite to comply with the tighter tPR regulations. We've not yet seen any loud market exits, it's been controlled and measured, although there is an expectation of increased activity as October 2018 (deadline for authorisation) draws closer.

The long awaited changes in the way DC to DC bulk transfers are approached were recently announced and will see the requirement for actuarial certification fall away from the end of April 2018. The approach will be simplified, with the Regulator issuing guidance on the approach which should be taken and the things that trustees will need to consider. We would expect to see further market fluidity as a consequence of unshackling and removing some of the hurdles and barriers that the current regime sometimes creates. However, we would encourage trustees to take their time in considering the transfer as responsibility and risk is fully on them without the comfort of the actuarial certificate. This will apply in equal measure to market consolidation and inflows to Master Trusts themselves.

We agree with those we surveyed that there are currently too many providers. 2018 could be an interesting year when we expect to see consolidation finally gather pace.

It's vital that employers and trustees considering entering a Master Trust carefully assess and select the provider that will best serve their needs. Getting the right support and advice is paramount to success and good member outcomes. It's becoming ever more critical that the advice is truly independent and without conflict, that it considers the whole of the market and is backed by a track record of experience and expertise. Check out our top-tips for a good starting point.

Master Trusts – a suitable vehicle for decumulation?

3 things you need to know about Master Trusts being used for decumulation:

1. The market is crying out for product innovation in decumulation
2. Despite the ease of transition, Master Trusts should not be the 'go to' for everyone
3. Many members would benefit from advice on their options at retirement

Being able to utilise flexible access drawdown within the Master Trust itself is being offered by an increasing number of providers. The argument for this is that the Master Trust can offer ongoing Trustee stewardship and oversight. As such, individuals don't just benefit from economies of scale, but they can be seamlessly transitioned from accumulation into decumulation. The slide into decumulation often takes place on a non-advised basis and offers an attractive path of least resistance. This is an easy solution for individuals who know what they want to do, are comfortable doing it themselves and don't have particularly complex needs or circumstances.

But we would caution against this as a solution for everyone. Whilst some scheme members are happy to fly solo, some aren't. And there are many who would benefit from advice and a different approach.

There was a time, pre the dawn of freedom and choice, when everyone considered drawdown as tricky and agreed that everyone should take advice if going down this route. Pension providers were reluctant to let anyone go it alone, without advice. Not anymore.

While the landscape may have changed, the same principles and complexities exist - the same "risk of ruin" issues prevail, as does the question of recognising and managing reduced cognition. Then there's the fact that we're all living longer than we expect, albeit not always in the best of health. From what we've seen when assessing propositions, compromises are needed and they offer a less sophisticated solution in comparison to some individual drawdown counterparts.

It's for these reasons that we are not wholly convinced that, at the moment, Master Trusts always offer the best decumulation solution for those who are looking to "drawdown" in the truest sense.

The market is crying out for product innovation in decumulation and the same sort of directive investment strategies as we see in accumulation. We need retirement default pathways which will offer a clearer journey through retirement. For example, the right mix of high yield and low volatility, with a link to prospective longevity, targeting an optimal "annuitisation age" and with consideration of cognitive decline.

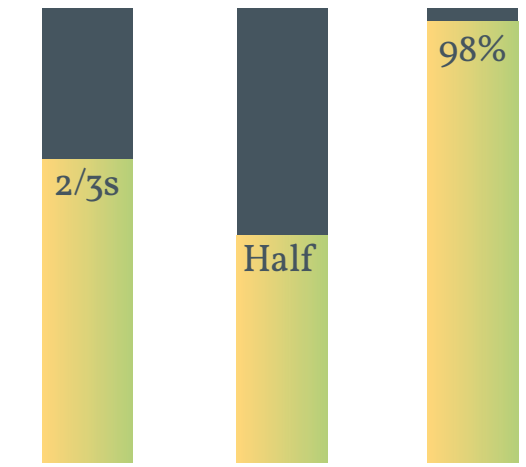
Almost three years on from the introduction of freedom and choice, very few would argue with the fact that there is a great deal to be done in the post-retirement market to ensure individuals are being served well. We must remember the market is very much in its infancy, and that adapting to freedom and choice was a huge undertaking for providers. In that context, lack of innovation to date is hardly surprising. We're confident things will change over time, as the prevalence of DB diminishes, demand for better options increases and the shape of retirement changes.

How to pick a provider

There appears to be a whole range of factors accounting for the popularity of Master Trusts among employers.

The main one is improving member experience. Almost half use Master Trusts simply for that reason, perhaps hoping for the care and assurance that come with a trust-based structure but with less corporate risk. Other highly rated reasons included reducing costs, providing value for members and reducing the regulatory burden. Interestingly, of those not currently using Master Trusts, half would consider a Master Trust vehicle to facilitate decumulation.

When selecting a provider, experience and investment strategy were the most important factors. Added to that, almost all employers (98%) believe it's important to receive independent advice through the selection process. With the vast number of providers in the market, it can be bewildering and a huge undertaking to make an informed selection decision. Supporting that view, two thirds of employers believe there are too many providers in the market. Given the volume of providers, it's unsurprising that half of employers would like to see more benchmarking of Master Trusts.



2/3s employers say there are too many Master Trusts

Half would like more benchmarking

98% believe it's important to receive independent advice when selecting a Master Trust

3 most important factors when selecting a Master Trust:

Employers

1. Experience of provider
2. Financial strength
3. Quality of communications

Trustees

1. Charges
2. Experience of provider
3. Investment strategy

Five steps to selecting a Master Trust

Hymans Robertson was involved in the creation of one of the first Master Trusts of the modern era in 2012 and since then we have undertaken over 50 DC transformation exercises. As such, we understand what works and what doesn't when moving to a Master Trust and in particular how to avoid some of the major pitfalls. Here we set out five steps to selecting and implementing a Master Trust.

1

Assessment and objectives

It is important that you are clear on what you are aiming to achieve by moving to a Master Trust and why. Whether it is cost saving, an improved member experience, a reduction in your burden or even future-proofing your pension arrangement this will help to focus the attention on what matters the most.

Top tip

Watch out for any clauses in the trust deed and rules which prevent transfer out, trigger a debt on any DB section or means that members lose a benefit on transfer out – e.g. enhanced tax-free cash.

2

Key criteria and priorities

Prior to selecting a provider, it is important to discuss and agree a set of key criteria on which you will not only assess the Master Trusts in the market but will also lead you to narrowing down the 100 or so Master Trusts to those that will actually meet your requirements. Agreeing these key criteria with the trustees of the existing scheme will also ensure that they are bought into the process and is likely to mean smoother sailing later on.

Top tip

By bringing together representatives from the Company and the trustees in a joint working group decisions can be made collaboratively, faster and without conflict ensuring a smoother project.

3

Procurement

The process to select and appoint a provider is vital to ensure that you get the best deal for the Company and members. By choosing the providers that will meet your key criteria you can focus your efforts on a smaller number of providers rather than trying to manage a process of assessing 10's of proposals.

Top tip

During the procurement process, be sure to leverage any existing relationships the trustees or the company may have with the providers, e.g. other insurances, asset management, etc as this can result in better terms.

4

Project Management

Once you have selected a provider it will be essential to manage all the parties involved in order to make sure that implementation is smooth and within the timescales that you desire. Implementation can be complex and often means managing a number of different parties – trustees, company, providers, asset managers, administrators, advisers, lawyers, etc – so at this point having strong project management will mean there is someone with that overall view of the project ensuring it remains on track.

Top tip

Don't tell everyone everything, only those things that are relevant to that party and require them to take action or make decisions. This avoids complicating the project and stops duplication and conflicting views.

5

Communication

Ensuring that the key stakeholders are communicated with in an effective manner and are engaged from the beginning avoids any objection to what is going on. Often engaging members/employees early helps to provide comfort, particularly if your population has a tendency to be vocal with regards to their benefits.

Top tip

Get your Master Trust provider to produce their member information – guides, investment information, etc – earlier as this can help you explain the new arrangement to individuals.

Whilst it is possible to change Master Trust providers, we would encourage you to select your provider on the basis of a long-term relationship and therefore ensuring that the Master Trust fits the needs of your employees/members now and in the future. This will be a key aspect of any project.

Jesal Mistry
Head of Scheme Design and Provider Evaluation

Master Trust default fund performance research

Investment research

3 things you need to know about Master Trust investment:

1. There are three distinct phases of a DC retirement savings journey which require different investment approaches (growth, consoldiation and pre-retirement)

2. Too many providers are carrying too much investment risk as members approach retirement

3. At the other end, the focus on volatility reduction by some providers is costing members through lower long term net returns in the growth phase.

The approach to investment within the Master Trusts varies significantly across providers. Given its direct influence on the outcomes achieved by members we were keen to compare the investment performance across the biggest providers' default funds (accounting for 94% of the market). This is shown in more detail within our separate insights report *Improving visibility of relative value in the Master Trust market*, a summary is included below.

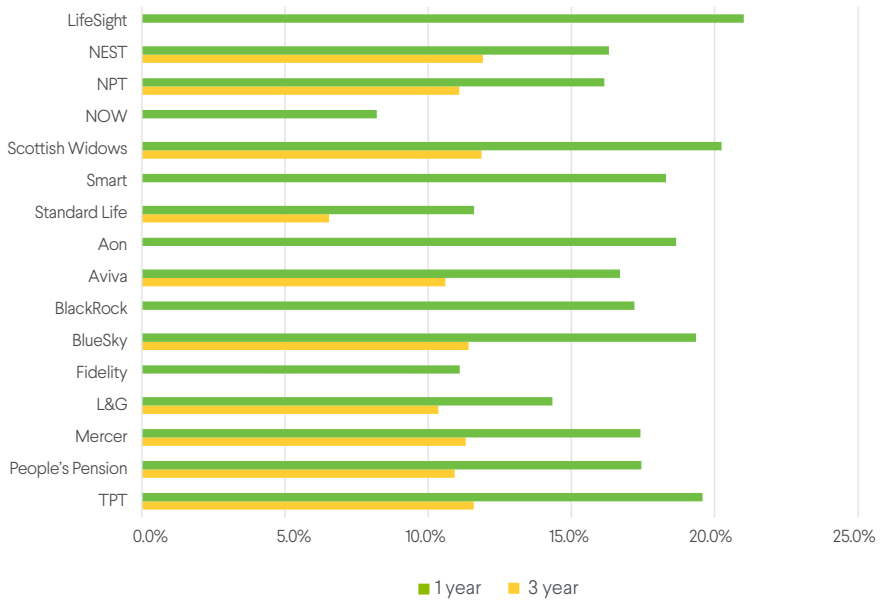
We recognised three distinct phases of the retirement savings journey - the Growth phase, the Consolidation phase and the Rre-retirement phase. Each of these stages has different objectives and require a different approach. In our comparison we looked at performance of each of these distinct phases.

As most Master Trusts are relatively new, we're only really able to analyse performance data from a 1 year and 3 year period (often the longest period available). All performance data highlighted in this report is to 30 June 2017.

LifeSight	LifeSight
NEST	National Employee Savings Trust
NPT	National Pension Trust
NOW	NOW: Pensions
Scottish Widows	Scottish Widows Master Trust
Smart	Smart Pension Master Trust
Standard Life	Standard Life DC Master Trust (SLDCMT) and StanPlan
Aon	The Aon Master Trust
Aviva	The Aviva Master Trust
BlackRock	The BlackRock Master Trust
BlueSky	The BlueSky Pension Scheme and The Crystal Trust
Fidelity	The Fidelity Master Trust
L&G	The Legal & General WorkSave Master Trust and RAS Master Trust
Mercer	The Mercer Master Trust
People's Pension	The People's Pension
TPT	TPT Retirement Solutions

Growth Phase

30 years from retirement - 1 year and 3 year performance



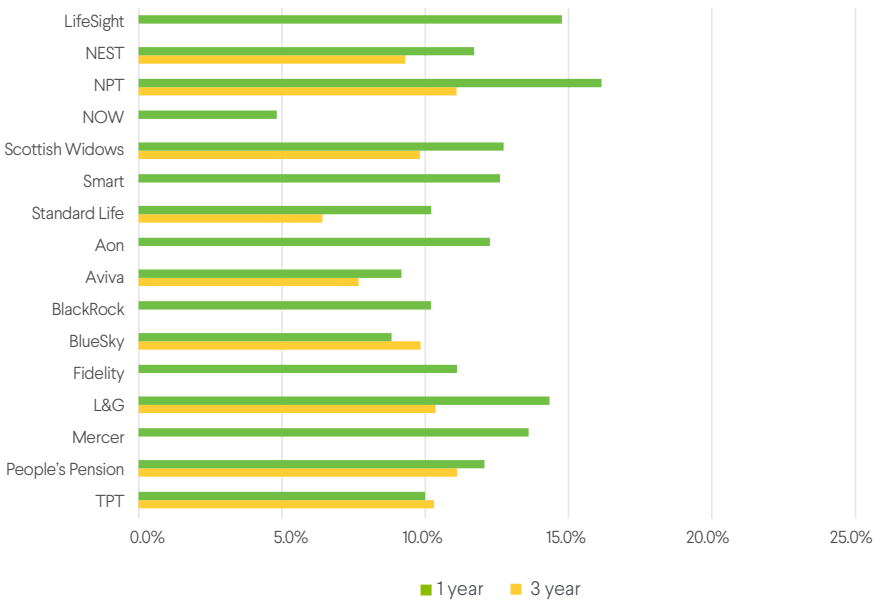
Objective in the growth phase

Take risk to maximise returns

Although returns across the board have been relatively strong, there are substantial differences between providers, in some cases a difference of over 5% p.a. for the last 3 years. The focus on volatility reduction is often the contributing factor to this underperformance. In these cases this is likely to result in poorer member outcomes. Those strategies that have embraced higher risk asset classes (Scottish Widows, TPT Retirement Solutions and BlueSky) have outperformed the strategies that have a heavy focus on risk mitigation (NOW: Pensions, Fidelity and Standard Life).

Consolidation Phase

5 years from retirement - 1 year and 3 year performance



Objective in the consolidation phase

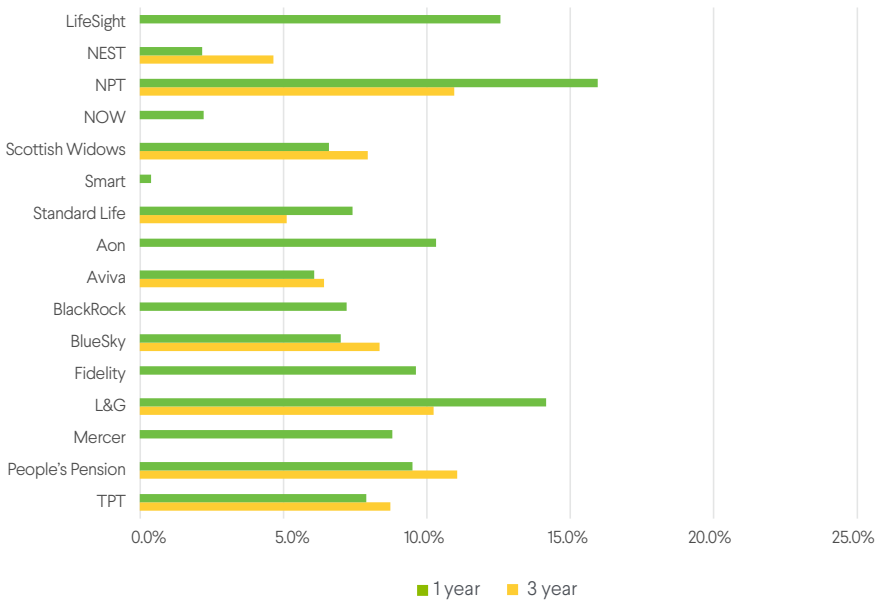
Capital preservation, solid returns and risk reduction

In many cases, Master Trust strategies do not have a Consolidation phase, which often results in the risk members are taking as they approach retirement (when their savings are large) being too high or even too low. We have picked a time five years from retirement to understand the experience of members.

The picture is mixed. The data shows that L&G, TPT Retirement Solutions and NEST have all delivered strong performance with commendably low levels of risk. Aviva and Standard Life have delivered lower risk but at the cost of lower (but still relatively strong) return. Scottish Widows have delivered strong returns (c. 10% p.a.) but with high levels of risk.

Pre-retirement phase

1 year from retirement - 1 year and 3 year performance



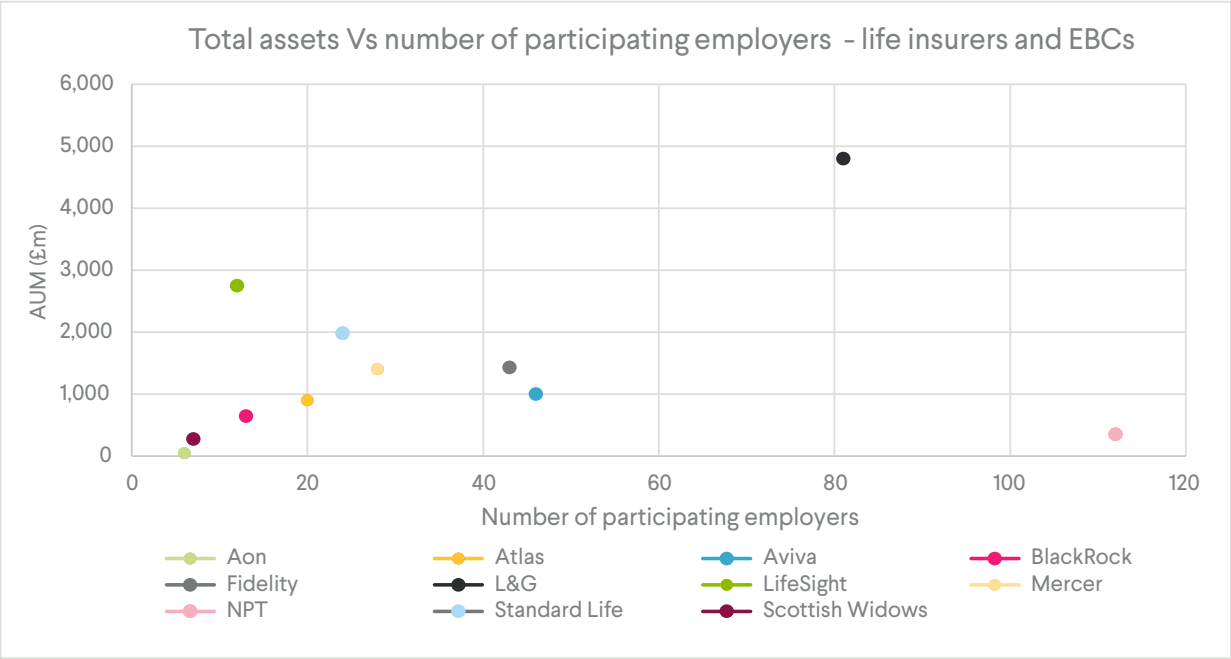
Sensible risk reduction is present in a number of providers' strategies. This naturally leads to lower returns. Overall the market has delivered very strong returns for members close to retirement, but on balance our view is that the majority of providers have carried too much risk in this phase.

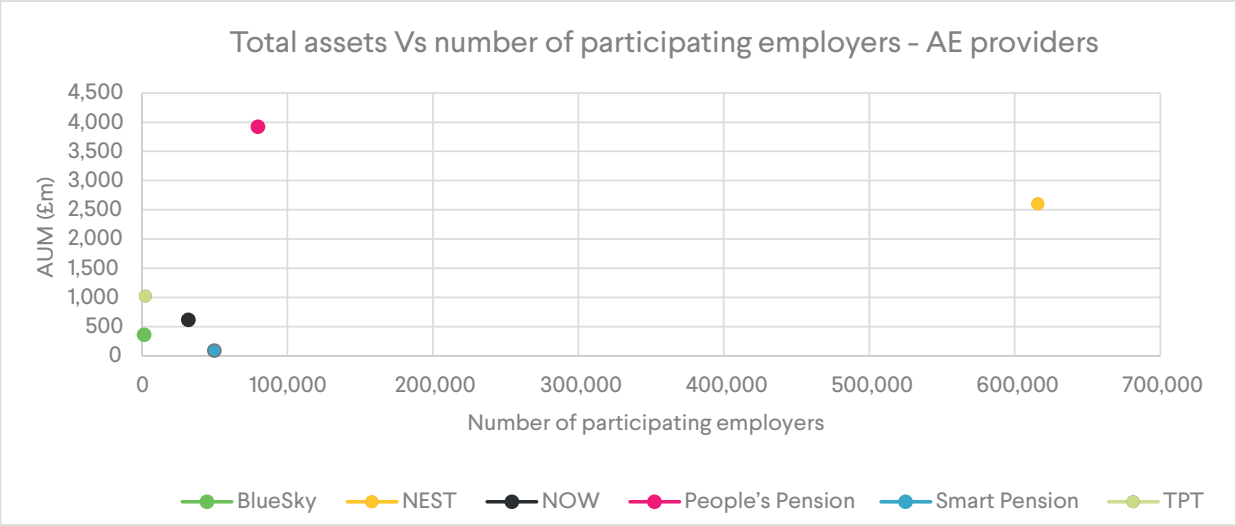
Objective in pre-retirement phase

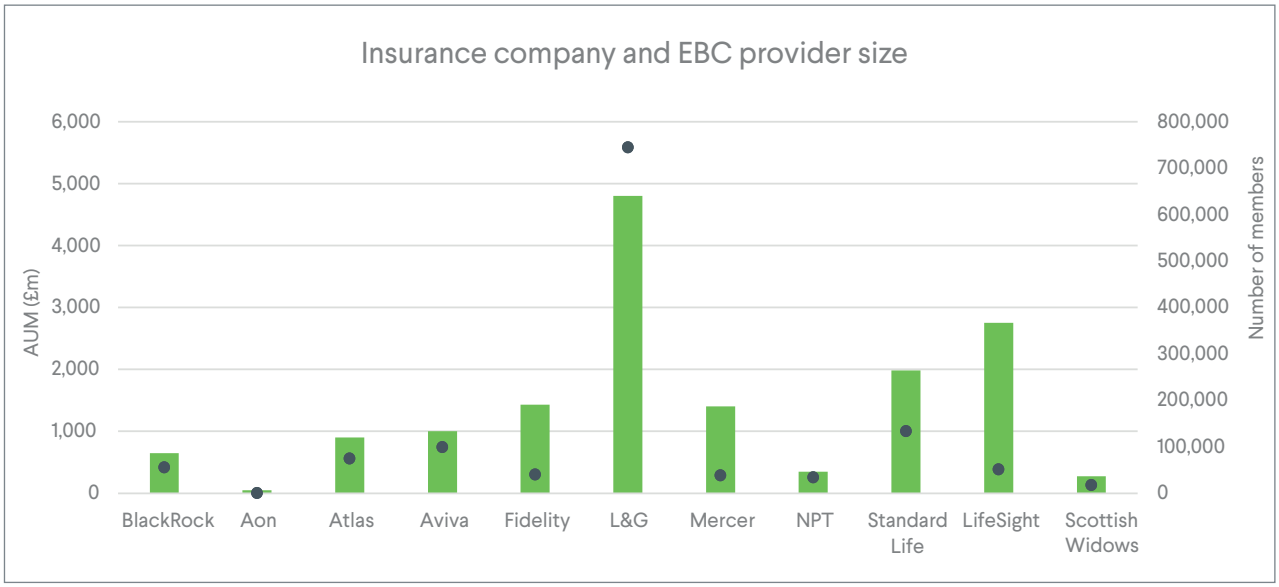
Investment strategy should be aligned to members' likely decisions at retirement. Dialling down risk should be the norm, particularly as most people currently withdraw their DC pot as cash.

Overview of major providers

We've compiled an overview of key facts on seventeen of the UK's biggest Master Trust providers. The graphs below (which have been split into insurer/employee benefit consultant (EBC) master trust providers and auto-enrolment master trust providers) show key facts including assets under management (AUM), number of participating employers and total number of members.



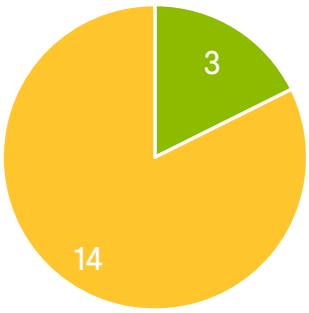




Atlas	Atlas Master Trust	BlackRock	The BlackRock Master Trust
LifeSight	LifeSight	BlueSky	The BlueSky Pension Scheme and The Crystal Trust
NEST	National Employee Savings Trust	Fidelity	The Fidelity Master Trust
NPT	National Pension Trust	L&G	The Legal & General WorkSave Master Trust and RAS Master Trust
NOW	NOW: Pensions	Mercer	The Mercer Master Trust
Scottish Widows	Scottish Widows Master Trust	People's Pension	The People's Pension
Smart	Smart Pension Master Trust	TPT	TPT Retirement Solutions
Standard Life	Standard Life DC Master Trust (SLDCMT) and StanPlan		
Aon	The Aon Master Trust		
Aviva	The Aviva Master Trust		

In the chart below we look at whether or not each provider offers tax relief at source.

Does the Master Trust offer tax relief at source?



Provider	Relief at source
Atlas	✗
LifeSight	✗
NEST	✓
NPT	✗
NOW	*✗
Scottish Widows	✗
Smart	✗
Standard life	✗
Aon	✗
Aviva	✗
BlackRock	✗
BlueSky	✗
Fidelity	✗
L&G	✓
Mercer	✗
People's Pension	✓
TPT	✗

* NOW does not offer tax relief at source, however it does make up any short fall in lost tax relief for members.

Interestingly of the 17 Master Trusts we analysed, only three offer tax relief at source. This is not just surprising, but a major concern as it means literally hundreds of thousands of individuals auto-enrolled are not receiving the tax relief they were promised. This impacts those with incomes high enough to exceed the auto-enrolment threshold, but lower than the point at which income starts to be taxed.

The following chart list the accreditations for each of the seventeen Master Trusts, looking specifically at the Master Trust Assurance Framework (MAF), Pension Quality Mark (PQM) and Retirement Quality Mark (RQM).

	Accreditation		
Provider	MAF	PQM	RQM
Atlas	✓	✓	✗
LifeSight	✓	✓	✓
NEST	✓	✓	✗
NPT	✓	✓	✓
NOW	*✓	✗	✗
Scottish Widows	✓	✗	✗
Smart	✓	✗	✗
Standard life	✓	✗	✗
Aon	✓	✓	✗
Aviva	✓	✓	✗
BlackRock	✓	✗	✗
BlueSky	✓	✗	✗
Fidelity	✓	✗	✗
L&G	✓	✓	✓
Mercer	✓	✗	✗
People's Pension	✓	✓	✗
TPT	✓	✓	✗

* NOW have accreditation but have subsequently requested to be removed from the MAF list.

More information

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