

## What can we learn from Master Trust Trustees?

With Master Trusts dominating the DC Market, Master Trust Trustees have a lot of power in shaping the future of the DC Market. But, with great power comes great responsibility. In our latest roundtable discussions, it was really interesting to hear from leading Master Trust Trustees on how they see the future of the DC pension market developing, the challenges they face in their role, and what we can learn from them.

Head over to the [Hymans' DC Master Trust Marketplace](#) to hear our panel share their thoughts on responsible investing, governance and overall value for members. We covered a number of questions, including:

- How do you develop a Responsible Investing (RI) policy which reflects the Trustees' views but might differ from the Master Trust provider's views? How do you justify or benchmark your RI approach?
- How do you assess your effectiveness as a trustee board? How do you independently benchmark your performance and monitor your board effectiveness? How do you fare on Diversity and Inclusion?
- How do you define value for members? What challenges do you face when assessing value for members and improving value for members?

We also received some interesting questions which unfortunately we didn't get around to asking the panel on the day. We really wanted to share these questions and answers with you, so, we've outlined them below:

### Future of Master Trust

#### **What are the drawbacks to a Master Trust in comparison to other pension arrangements?**

Master Trusts offer many benefits, such as a to-and-through member retirement journey, but the key drawback for a Master Trust can be flexibility in its investment fund range. Typically, Master Trusts offer an off-the-shelf default investment fund and a limited self-select fund range, some offer bespoke funds with additional governance requirements. This setup will suit many employers and pension savers, but for those who want access to thousands of funds (like in a Group Personal Pension or Group SIP scheme) then a Master Trust is not for them.

#### **With the increasing governance requirements for DC schemes, is a move from a single employer trust scheme to a Master Trust inevitable?**

Yes - the increasing governance requirements are putting cost pressures on employers, along with the encouragement to consolidate (particularly aimed at small schemes), makes it more and more difficult to justify that own trust schemes offer value for money in comparison to alternatives, such as a Master Trust.

#### **Is the growing number of deferred pension pots and the cost to administer these a threat to some Master Trusts?**

The number of deferred pension pots in the UK Defined Contribution master trust market is likely to rise from 8 million in 2020 to around 27 million in 2035. It's an important consideration for Master Trusts and a key assumption that is built into their pricing terms. But charging more is unlikely to solve the problem, it's better to encourage consolidation of deferred pots. The July 2020 PPI paper: 'Policy options for tackling the growing number of deferred members with small pots' goes into this further. This report investigates various large scale policy options, one of which is dashboards, allowing members to view all of their pension pots with different providers in one place and could (and I dare say should) facilitate more consolidation (and more easily). It is large scale policies, in combination with the other policies, such as pot follows members, that will help both members and the future viability of Master Trusts.

## Value for Members (VFM)

### What do you consider to be the key aspects in assessing value for members?

You can only assess value for members if you understand what it is that members value. Assessing the value of a pension arrangement for members is very subjective and there is no single right answer. The FCA consultation outcome is expected to put in place a statutory definition of value for money for Independent Governance Committees (IGCs) in the hope for consistency (and then extend/combine this to Master Trusts and DWP's consultation) with the requirement to include three key elements: charges and costs; investment performance; and services provided (including member communications). But the aim is to have a simple framework for the VFM assessment process rather than to be prescriptive.

### How do Master Trusts help members with their post-retirement flexible drawdown options?

To support members, Master Trusts offer retirement guidance, planning tools and independent financial advice (at a cost) for members approaching retirement. They're also working towards launching Investment Pathways in time for the FCA deadline of February 2021 to better support members opting for non-advised flexible drawdown. But making decisions about retirement will continue to be a challenge, and more so as the COVID crisis has changed retirement plans for many of the over 55-year olds. The PLSA in its decumulation framework is also a promising step in the right direction and highlights the need for development and innovation in the at-retirement space. We also believe that robo-guidance, tools, technology and advice offerings from the Master Trust providers is continuing to add value to members both in value and support.

## Investment arrangement of MT

### How do Master Trust Trustees develop an ESG friendly investment approaches and balance this with potential higher costs or lower returns associated with ESG funds?

The type of ESG approach will typically affect the cost: screening (removing non-ESG stocks); integrating (using ESG analysis as a building block); and sustainable (with ESG central to the portfolio construction).

Data and transparency continue to be the biggest challenge for ESG approaches, although this area of the market is developing rapidly, with political and social drive. There is the general expectation that returns are not compromised for an ESG friendly approach and with the market expected to grow rapidly, this will drive down costs.

### What are the Master Trust Trustees views on allowing bespoke default funds?

Master Trust Trustees recognise that it is difficult to conclude that a single default fund will be suitable for all. The employees at, say a Hospice are likely to have different values to the employees of a Hedge Fund Manager. With different levels of understanding on investment and potentially different beliefs in ESG, a Master Trust must allow for bespoke default funds to cater for these different needs, and many Master Trusts do currently permit bespoke funds.

## Governance of MT

### How can we measure the effectiveness of governance controls better than simply aiming for 100% achievement of SLA targets?

SLAs deliver good outcomes if they are relevant and appropriate. The PASA July 2018 DC Governance guide provides prudent controls, processes and reporting for the administration. However, there are many other aspects

to good governance, e.g. cyber security, asset security, scams prevention etc. The number of members that were prevented from falling victim of a scam would be a great comment on a Chair's Statement for good member outcomes. Benchmarking governance effectiveness against other schemes is another idea we expect further development.

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