

IIPM Seminar

Master Trusts – A Pension Panacea?

5th December 2018

Agenda

How the Australian market has developed

How the UK MT market has developed

The key parties involved in a Master Trust

The new UK Master Trust Regulatory Framework

What's proposed for Master Trusts in Ireland

***The views expressed in this presentation are
those of the presenter and not necessarily
Willis Towers Watson or The Society of
Actuaries in Ireland***

How the Australian market has developed

How the UK MT market has developed

The key parties involved in a Master Trust

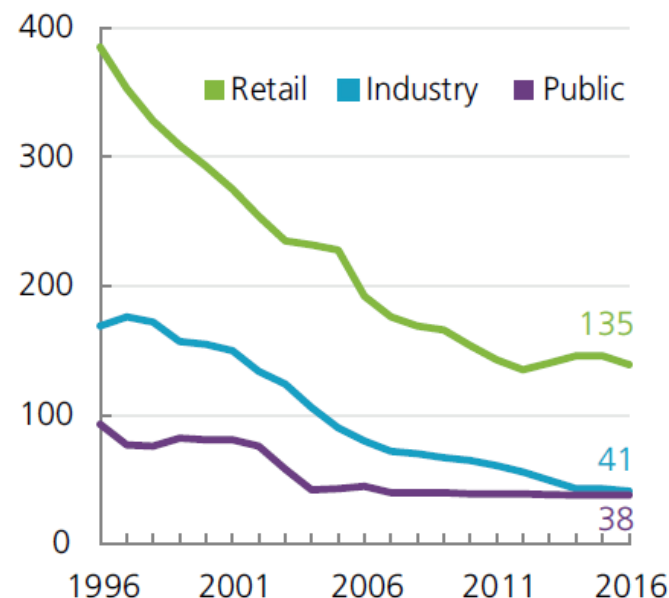
The new UK Master Trust Regulatory Framework

What's proposed for Master Trusts in Ireland

Development of Pension Scheme Market in Australia

Source: asfa report 2017

Charts 3 and 4: Number of institutional fund entities*



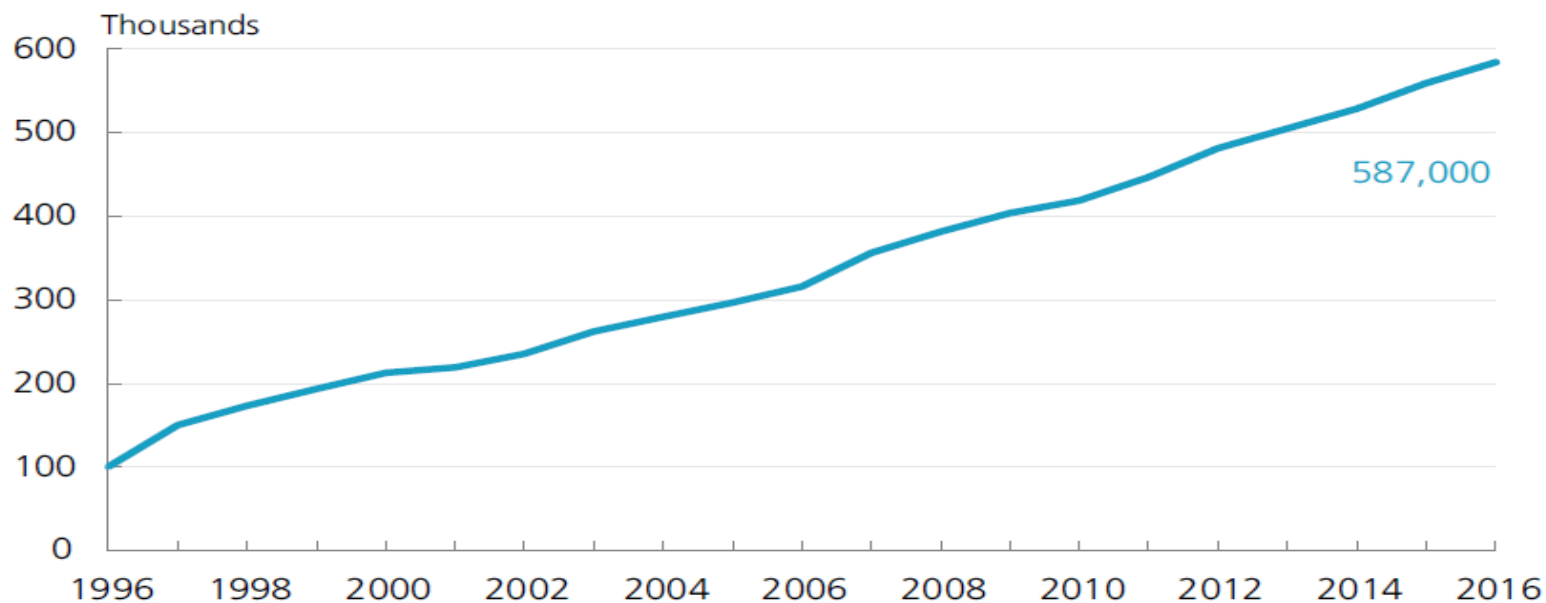
Source: APRA Quarterly Superannuation Performance, December 2016, APRA Annual Superannuation Bulletin, June 2016 and other APRA data.

* Figures in the charts refer to the number of funds as at the end of the December quarter 2016.

Number of Small Schemes in Australia

Source: asfa report 2017

Chart 5: Number of small funds*



Source: APRA Quarterly Superannuation Performance, December 2016, APRA Annual Superannuation Bulletin, June 2016 and other APRA data.

* Figure in the chart refers to the number of funds as at the end of the December quarter 2016.

How the Australian market has developed

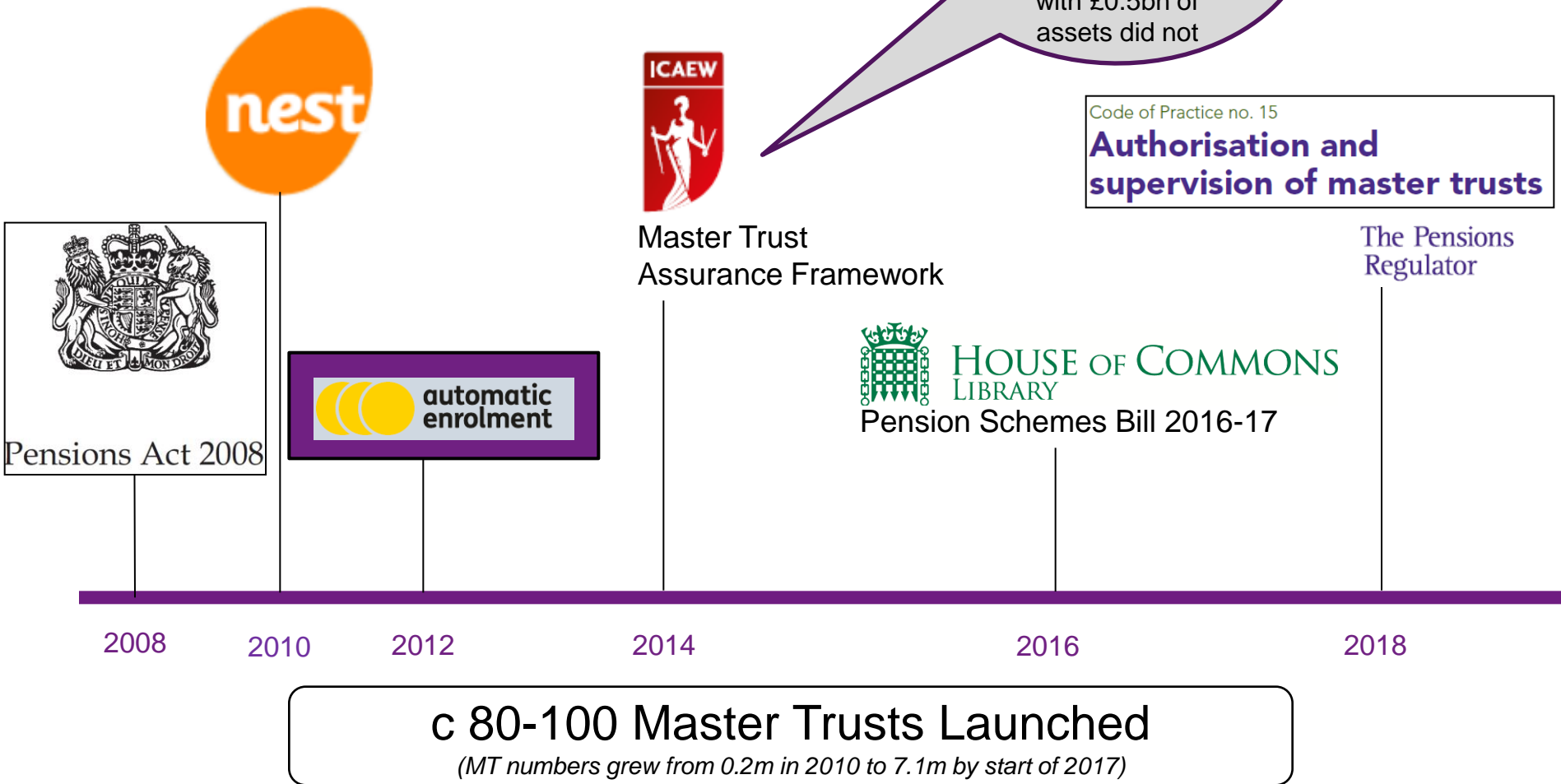
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Development of Master Trusts in the UK



Where to From Here?



No. of Master Trusts

- Time will tell with new authorisation from April 2019
- Pensions Regulator has already confirmed 27 not seeking authorisation and 3 have wound up
- Number is fluctuating and further consolidation expected



Market Size

- Some projections that assets in DC Master Trusts could exceed £300bn by 2026
- Pensions Policy Institute projects that DC assets will exceed £550bn by 2030, and Master Trusts will have over 50% of this amount

AE expected to add:

- 10m newly saving or saving more
- £17bn in annual contributions

What Has Driven Change in the UK

- **Concerns about the weaker regulation of Master Trusts**
- **Have created a significant alteration of the relationships between key players**
- **Operate at an unprecedented scale in occupational pensions**
- **Master Trusts are run on a profit basis. Introducing the profit motive into the realm of trust-based occupational pensions, changes the dynamic**
- **Extra complexities in serving multiple employers**
- **Weaker regulation regime than applies to other financial products, such as contract based workplace pensions**



*“Gaps in pension law and regulation have allowed **potentially unstable Master Trusts** onto the market. Should one of these trusts collapse, there is a very real danger that ordinary scheme members could lose retirement savings. There is also a risk that faith in auto-enrolment as a whole will be undermined”*

Pensions Select Committee
Report

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Noteworthy Elements of the New UK Legislation



Defines what is a Master Trust



Requires schemes within the definition to be authorised



Introduces two new roles which sit alongside the trustees

Scheme Funder

Must be a body corporate or partnership

Responsible for paying the costs of the scheme if not covered by member charges

Entitled to receive profits from the scheme

Scheme Strategist

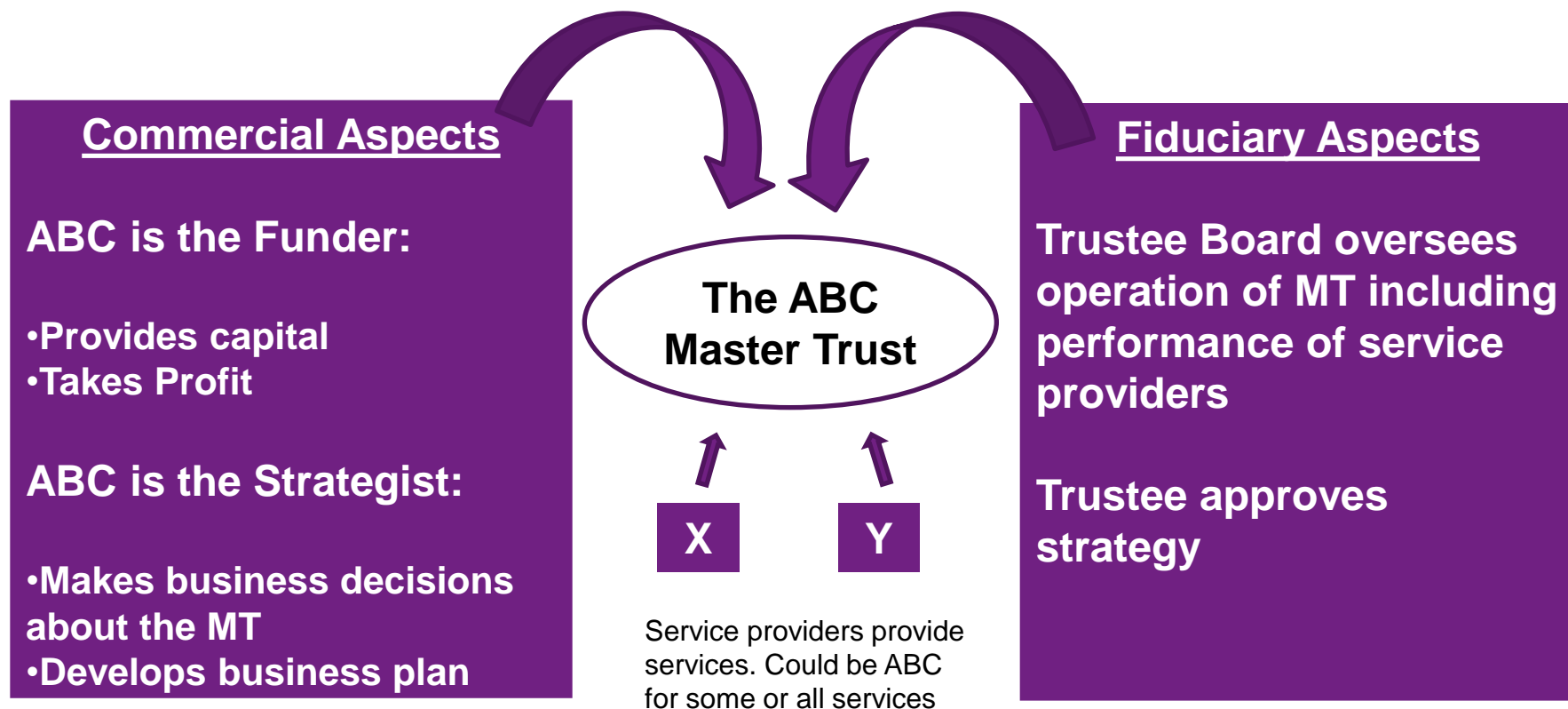
Could be one or more individuals or a legal entity or a mix working collectively

Makes business decisions about the Master Trust's commercial activities

Accountable for producing and maintaining a business plan and a continuity strategy

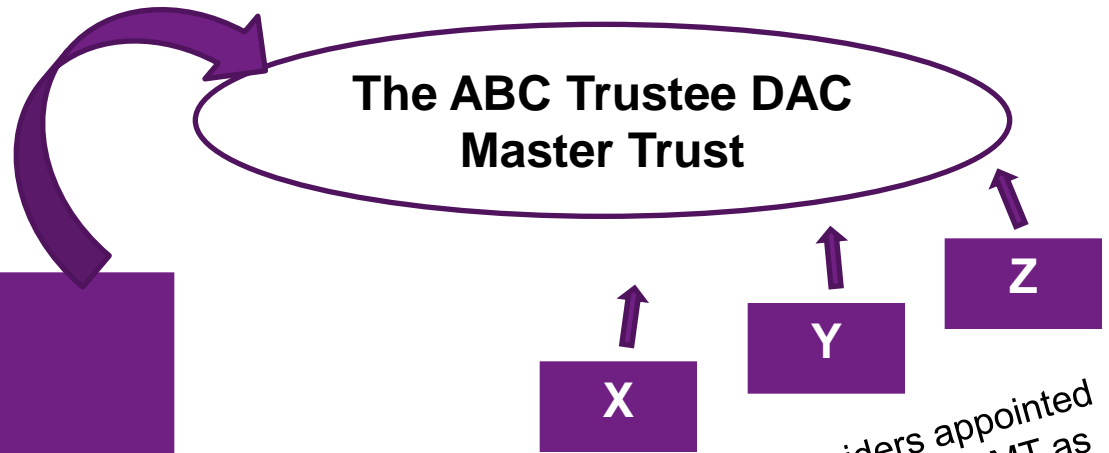
Typical Master Trust Set Up in the UK?

Regulatory Framework recognises most schemes will be commercially run



Irish Structure Envisaged in Pensions Authority Consultation?

Seems to Blend Commercial and Fiduciary Aspects



ABC Trustee DAC:

- establishes the MT
- must hold sufficient capital
- responsible for developing MT business plan
- appoints and reviews service providers
- must have majority of independent directors

Service Providers appointed to deliver services to MT as required.

Contractually binding contract with Trustee DAC prohibited!

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The UK Code of Authorisation and Supervision of Master Trusts

(The Pensions Regulator - July 2018)



5 Key Criteria

- ✓ **Fit and proper**
- ✓ **Systems and processes**
- ✓ **Continuity strategy**
- ✓ **Scheme funder**
- ✓ **Financial sustainability**

The UK Authorisation Criteria – 1. Fit and Proper

“All individuals being assessed must be able to satisfy us that they are fit and proper because they meet the standard of honesty, integrity and knowledge appropriate to their role”

Code sets out:

- Who is subject to the Fit and Proper Test:
 - includes those in defined roles e.g. trustees, funder and strategist.
 - may include those who established the trust, persons who can appoint or remove trustees, anyone who can vary the terms of the trust and the promoter or marketer;
- Different thresholds for different roles;
- Requirements to assess honesty, integrity and financial soundness;
- Requirements relating to minimum competence
 - for trustees, includes need for individual basic level of knowledge and expectations for collective, well spread level of knowledge and,
 - For strategist, professional qualification and level of experience
- Requirements in relation to minimum conduct

The UK Authorisation Criteria – 2. Systems and Processes

“Master trusts must have sufficient IT systems and processes in place to run efficiently and have robust systems and processes to effectively govern the scheme and comply with all the relevant requirements”

Code sets out:

- Requirement to have sufficient systems (including IT systems) and processes;
- Expectations that key parties will work together to ensure effective governance;
- Requirements relating to system payments, records, transactions, data protection and reconciliations;
- Provisions relating to trustee recruitment and standards and trustee governance – includes aspects involving interaction with funder and strategist;
- Requirements in relation to managing service providers;
- Risk management requirements including maintenance of a risk register – involves funder, strategist and trustees and
- Provisions relating to communicating with members including ensuring a communication plan is in place.

The UK Authorisation Criteria – 3. Continuity Strategy

“Sufficient contingency planning is crucial to the effective running of a master trust and we’ll be looking for a credible strategy as to how members will be protected if there is a triggering event and how a master trust may be closed down or how the triggering event will be resolved”.

Code sets out:

- Requirement to have an adequate continuity strategy setting out how members’ interests will be protected if a “triggering event” occurs;
- Requirement that continuity strategy is developed by strategist and approved by funder and trustees;
- Two continuity options may apply i.e.
 - scheme wind up or
 - continue to operate and resolve triggering event.
- Should outline what happens in both scenarios as well as how the trustees will decide on which approach to take;
- Requirement to include main actions, decisions and their owners if a triggering event occurs;
- Need for continuity strategy to set out levels of charges. Costs and charges must be set out in the continuity strategy and reflected in the business plan and financial sustainability calculations

The UK Authorisation Criteria – 4. Scheme Funder

“Any scheme funder must be a body corporate or partnership and only carry out activities relating directly to master trusts (unless exempt). We will be looking for clear evidence in relation to its business activities that it is able to financially support the master trust”.

Code sets out:

- Requirement that funder be a corporate body or a partnership;
- Requirement that funder only carries out activities directly related to the Master Trust unless specifically exempted;
- Requirement that funder must provide a copy of their audited accounts

The UK Authorisation Criteria – 5. Financial Sustainability

“The master trust needs to have enough financial support to ensure it can set up and operate on a day-to-day basis and to cover the costs subsequent to a triggering event without increasing the costs to members. A key part of demonstrating that the authorisation criteria are met is by having a business plan in place setting out the expected activities and growth of the master trust and how they will be funded. This plan will be critical in our assessment of whether a master trust meets the authorisation criteria”.

Code sets out:

- Requirement for MT to demonstrate access to sufficient capital to continue to operate;
- A split of financial sustainability requirements between running costs and financial reserves;
- Concept of “sustainable break even”;
- Requirement to hold financial reserves calculated using a basic method or a more detailed method;
- Requirement to develop a Costs, Assets and Liquidity Plan (CALP) relating to system payments, records, transactions, data protection and reconciliations;
- Detailed requirements relating to development of a business plan. Will include aspects such as MT’s objectives and target market;
- Scheme strategist must prepare, review and revise the business plan. Trustees and scheme funder must consider the business plan and sign that it gives a true and fair representation.

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Pensions Authority Consultation on Master Trusts in Ireland

Introduction & Risks



1. Pensions Authority consultation on the Regulation of DC Master Trusts - closed October 2018.
2. Authority is considering additional obligations to reflect the particular risks that should apply in comparison to traditional single employer schemes.
3. Consultation recognises “*the central role master trusts will play in the consolidation of DC pension schemes*”
4. Risks particular to master trusts identified as:
 - Master trusts are likely to be bigger;
 - Administration is more complicated because multi-employers involved;
 - Master trusts are in effect third party financial institutions which may be run for profit or have close connections with for profit entities. This may create conflicts of interest that do not arise with single employer schemes
 - Employers much less involved which removes level of informal oversight and an important channel of communication between members and trustees

Pensions Authority Consultation on Master Trusts Requirements - Trustee

(1/6)



1. To enable capitalisation of master trust, trustee should be structured as a designated activity company (DAC) with sole objective of carrying on the business of being a trustee of only one named master trust;
2. Recognising that DC master trust may be run on a commercial basis:
 - Chair and a majority of the directors of the DAC must be independent;
 - Directors must satisfy requirements for a qualified trustee or an experienced trustee with a minimum of one of each;
 - Authority must be notified in advance of the appointment of a new director and within 21 days of the resignation of a director;
 - Authority will expect trustee directors to have an appropriate mix of skills/expertise fitting for the management of the master trust scheme

Independent director defined as someone with no interest in the assets of the scheme other than as a trustee and is not connected or associated with the shareholder of the trustee company or the service providers to the scheme other than in their capacity as trustee

Pensions Authority Consultation on Master Trusts Business Plans

(2/6)



1. Purpose is to demonstrate viability of the master trust;
2. Business plan must cover 3 year period and set out projections for income and expenditure;
3. Must be sufficiently robust and comprehensive. Authority will pay particular attention over time to differences between forecasted projections and actual outcomes;
4. Plan must:
 - Show projections on at least 3 distinct bases;
 - Set out in detail basis for the assumptions;
 - Demonstrate scheme has a reasonable prospect of being viable under all scenarios;

Pensions Authority Consultation on Master Trusts

Capitalisation

(3/6)



1. Aim is to ensure a scheme can cover running costs for a period and wind up costs to enable transfer of members to another provider/scheme without suffering additional costs;
2. Must have enough capital or access to capital to sustain the scheme for two years and must be based on maximum needed under the business plan scenarios;
3. Must be able to demonstrate proof of capital resources and
4. Must be compliant on an ongoing basis and must satisfy the Authority annually that they are so

Pensions Authority Consultation on Master Trusts

(4/6)



Risk Assessment & Conflict of Interest

1. Risk Assessment:

- Must undertake an Own Risk Assessment annually and must take account of risks specific to a large multi-employer scheme;

2. Requirements relating to conflicts of interest should be as follows:

- *“Irrespective of the sponsor or funder, the master trust must be unambiguously run in the best interest of its members;*
- *Trustees must have a written policy on conflicts of interest that sets out how they will identify, monitor or manage conflicts. There must be documented evidence of compliance with the procedures in that policy;*
- ***Any contractual conditions binding the master trust to particular service providers would be prohibited;***
- *Trustees must ensure the segregation of assets between master trust and the scheme or member and that there are robust financial controls in place”*

Pensions Authority Consultation on Master Trusts

(5/6)



Other Requirements

1. Member/Employer Communications:

- Trustees must have a written policy for engagement with members and employers, covering format and frequency and commitment to active engagement;
- Trustees must have arrangements to facilitate access to trustees for employers and members including holding an annual general meeting.

2. Charges Transparency:

- Trustees must have written policy specifying how charges are transparently disclosed, provide 12 months notice of increases in charges and ensure members can transfer in or out without charge.

3. Marketing of the Scheme:

- Trustees may not have responsibility for marketing of the scheme;
- Trustees consent to marketing material is required, however, and trustees must be reasonably satisfied that content is not misleading

4. New Members:

- Trustees are responsible for preparing a business plan which will outline how scheme can be expected to grow. Trustees must be satisfied scheme can provide for new members and must consent to their enrolment.

Pensions Authority Consultation on Master Trusts

(6/6)



Other Requirements

1. Wind-Up Procedure:

- Trustees must demonstrate they have an appropriate written wind-up procedure in place;
- These procedures must ensure benefits are transferred efficiently, in a timely manner and without cost to members and beneficiaries;
- Must keep the procedures up to date.

2. Reporting to the Pensions Authority:

- Master Trusts will be in a high risk category for supervision and specific reporting requirements will be in place;
- Trustees will have to notify Pensions Authority of specific events such as decision to wind-up or change of control of the trustee company.

Are Master Trusts a Pension Panacea?

In theory..... they can be

In practice..... depends

Thank You