

DC master trust expert series

Issue 1: Growing up - a focus on trustee boards

November 2020



DC master trust expert series

Our master trust expert series for DC scheme sponsors and trustees will review in detail key aspects of master trusts. This issue focuses on master trust trustee boards.

Growing up - a focus on trustee boards

As DC master trusts continue to grow, the number of savers whose financial futures are dependent on how well these schemes perform is rising significantly. The responsibility for the success of these arrangements, covering millions of savers, falls to a small number of trustee boards. We ask the question, just how well are these boards structured?

According to the Pensions Regulator, during authorisation in 2019 nearly 14m people were already saving in master trusts. The industry has estimated that assets in master trusts could grow to between £250bn and £350bn in the next 5 to 10 years, up from £45bn. The Department of Work and Pensions (DWP) is now actively encouraging single employer DC schemes it deems as 'small' to consider their position and benchmark themselves against master trusts. Further consolidation is expected, particularly in the sub £100m DC scheme sector, but also in master trusts themselves, and ultimately, we expect there may be a relatively small number of mega master trust schemes in the future.

Currently master trusts come in all shapes and sizes and so the term actually covers a wide range of schemes. There are historic multi-employer sponsored schemes not seeking new employers (sometimes referred to as 'accidental' master trusts), not-for-profit schemes and sector specialist schemes. Some focus on auto-enrolment compliance business; at the other end of the scale some schemes have been very selective about which employers can participate in their master trust. Within this, there are also the 'advised' sections of master trusts which offer hybrid governance options, deferred member vehicles and post-retirement focused solutions. To date, master trusts have been focused on workplace solutions, but as they gain scale, some may use their buying power to offer others, for example in the retail post-retirement market. All this will lead to widely varying profiles of membership and propositions, with potentially very different objectives and challenges for each master trust trustee board.

In our own research of the master trust market, LCP focuses on arrangements with combined member savings in excess of £45bn and over 15 million individual savings pots.



John Reid
Senior Consultant

In issue 1 of our master trust expert series, we review the master trust market and the developments that need to happen as it grows. If you're an employer or trustee looking at master trusts, take a look at our top tips for the ultimate trustee board.

As master trusts grow, the focus on how they operate and the trustee boards who oversee them must evolve and develop. The stakes will continue to rise as the risk associated with getting something wrong could, in some cases impact literally millions of savers.

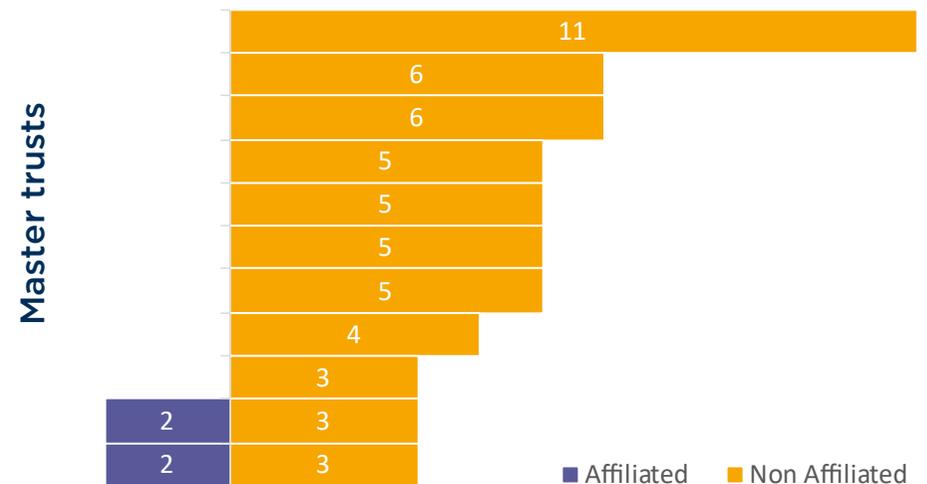
Currently master trust trustee boards can comprise both affiliated and non-affiliated trustees (often simply referenced as independent) provided the majority are non-affiliated, including the chair. Non-affiliated broadly means they have not worked for a company that provides services to the master trust in the last five years. Our view is that there is a clear preference for a board that is 100% independent of the provider. Some providers (and trustees) argue that having the provider represented on the trustee board allows quicker interaction between the board and the provider, speeding up decision making and development of the proposition in response to trustee requests. However, we don't see these 'internal' trustee appointments continuing, with many now favouring fully independent trustees.

As schemes become larger and more complex, there has been a growth in the size of boards, for example to allow for sub-committees and /or a broader spectrum of expertise across the trusteeship, although this will depend on the overall structure and level of delegations within the board, which is a separate topic in itself. The best boards we have seen now comprise experts from across different industries with a wide range of backgrounds including investment, communications, audit, legal, customer services and consumer champions. Those with individuals from outside of the pensions industry offer a real sense of diversity of thinking which can be refreshing and present helpful challenges.

At the same time, some schemes have sought to increase their profile, by recruiting industry heavyweights to give them credibility and gravitas, both externally but also importantly, internally in their negotiations with their providers. Chairs and other high profile trustees are increasingly being asked to take on business development and client relationship roles, as well as their day job of looking after members. There are arguments for them to do this, as a master trust that does not grow, will struggle to compete and offer its members the very best value.

In the charts below, we show the make-up of the boards from our sample of 11 major master trust schemes.

Number of trustees and independence

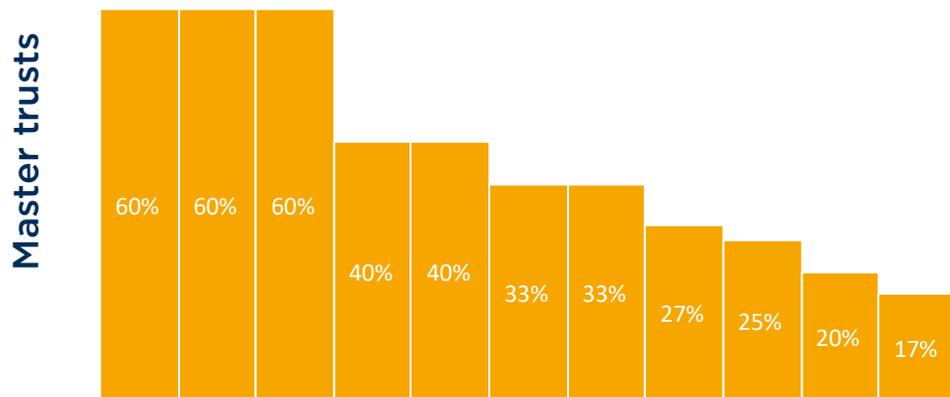


Source: LCP research of 11 major master trusts - July 2020



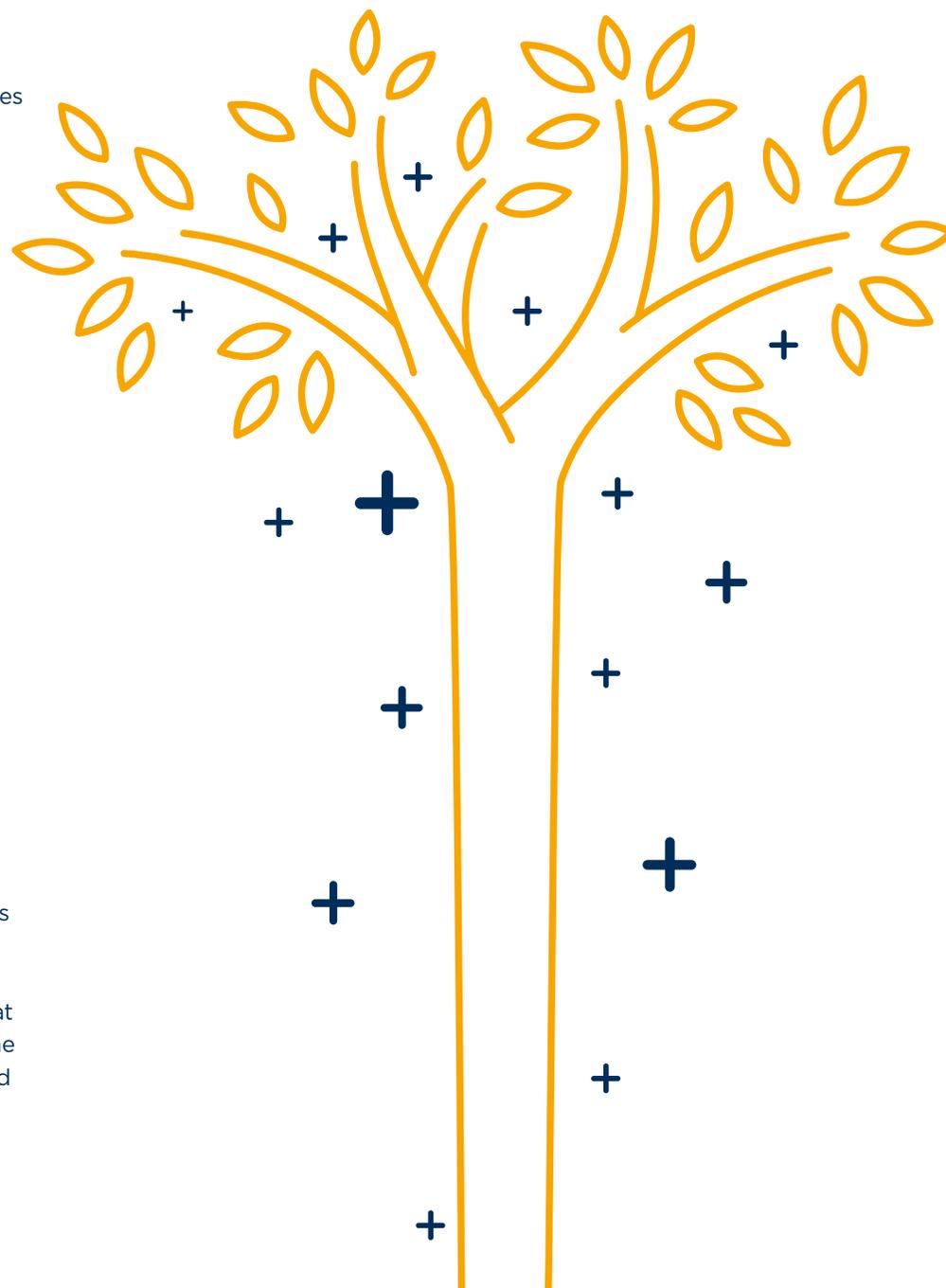
Some master trusts have also sought to follow company board best practice, for example by being more gender diverse. The gender profile of boards on many schemes has changed significantly in the last couple of years, although it still has some way to go. It will be interesting to see how much more diverse boards can become in the future, for example in terms of age and ethnicity.

Percentage of females on the board



Source: LCP research of 11 major master trusts - July 2020

A significant part of many boards (but not all) is made up of professional trustees, which will raise standards and levels of expertise as the Pension Regulator's Standards for professional trustees of occupational pension schemes applies. It is worth noting that there is some overlap of trustee firms providing professional trustees to master trusts, with a number of firms represented on multiple schemes. This should mean that best practice is shared across master trusts which is a good thing, but where this is the case, there also needs to be strong controls in place, as there will be sensitivity around business plans and market strategies.



Some master trusts have tried to source a more diverse trustee base from within industry, recruiting a mix from professional trustee firms along with professional individuals, not associated with any firm. We see the benefit of recruiting from both camps. The chart below show the professional trustees represented from our sample of 11 major master trust schemes.

It is also worth noting the adviser's role to the trustees is critically important, in helping the trustees to fulfil their role and they should not be seen as an adviser to the master trust provider. With the fairly recent Competition and Markets Authority requirements coming into play for all investment consultants, we see this as a positive first step in helping to assess the quality of adviser's - for the ultimate benefit of members.

Professional trustee representation

								Non associated trustee
Master trusts	✓	✓						✓
		✓	✓	✓				✓
		✓						✓
	✓	✓			✓			✓
								✓
								✓
				✓		✓		✓
			✓		✓			✓
		✓		✓	✓			✓
		✓					✓	✓

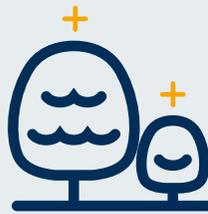
Source: LCP research of 11 major master trusts - July 2020

Conclusion

We see the quality of the trustee board of a master trust as a one of the most important aspects for its future success – and hence, member outcomes. Diversity in thinking, particularly from outside of the industry, is critical to the success of such important roles. Master trusts need to be governed to the highest of standards considering their impact across so many savers and therefore should rightly expect more scrutiny in the future, as their assets and member numbers grow. The Pensions Regulator is also likely to continue to want to raise standards as master trusts continue to grow.

If you're an employer or trustee board looking at master trusts here's our top tips for the ultimate master trust board:

1. *No internally appointed trustees; the conflict issue is too great.*



2. *Consider different types of professional trustees – a professional firm is a different appointment to a professional individual but both have their benefits.*



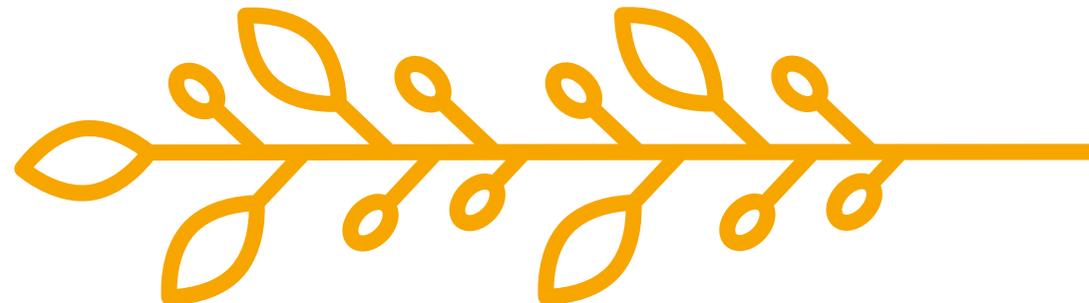
3. *Pick trustees from outside of the industry to reduce 'industry bias'.*



4. *Trustees should set clear objectives for all of their advisers, not just their investment consultants and should be mindful of conflicts in their adviser's role.*



5. *Ultimately, think carefully about diversity of thinking.*



Contact us

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