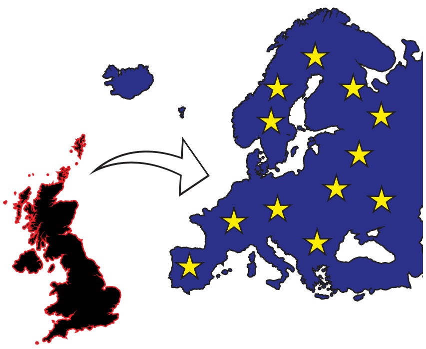
SCHEME DESIGN

Beyond the UK: Master trusts in Europe



As master trusts have risen from obscurity to become the DC vehicle of choice in the UK, David Adams asks where else in Europe this form of pension provision is – or could be – an attractive option for employers

WRITTEN BY DAVID ADAMS, A FREELANCE JOURNALIST

Perhaps the most dominant theme in UK pensions over the past five years has been the rise to prominence of the master trust. A concept originally created in the 1950s by insurance companies serving employers who could not run occupational schemes of their own, which has proved a very good fit for the needs of thousands of UK employers seeking a cost-effective way to meet auto-enrolment obligations. In 2012, the year that auto-enrolment was introduced, there were about 270,000 members of master trust pension schemes in the UK. Today the total is close to 10 million.

"The rise in the use of master trusts in the UK has been phenomenal, going from a relatively niche option to being the DC vehicle of choice," says Hymans Robertson partner, and chair of the actuarial consultancy network Abelica Global, Rob Harper.

Master trusts may also end up absorbing more members of legacy DB schemes in the UK in future, with scheme assets and liabilities transferred into a master trust to benefit from the economies of scale joining the trust can offer, but segregated from the rest of the trust and retaining the original scheme's member benefits and trustee oversight.

But a rush on the part of providers to benefit from the increased use of master trusts for auto-enrolment led to an unsustainable explosion in the number of providers crowding into the market; leading in turn to a tightening of the authorisation and regulatory regime governing master trusts. A new authorisation regime came into force at the start of October 2018, compelling providers to apply to the UK pensions regulator for authorisation and to meet new capital and operational standards. At the time of writing, 33 master trusts are expected to leave the market, adding momentum to a process of consolidation that has already been underway for at least two years.

Mercer UK DC and savings product leader Roger Breeden welcomes these developments. "I think it's a good *[authorisation]* process," he says. "It's challenging, but well thought through by the regulator."

Breeden believes the UK market is already competitive, but hopes the new regime will encourage further improvements. "There's been a bit of a race to the bottom on fees and not enough focus on the investment side," he states. He says he also wants to see more master trusts engaging more deeply with their members to encourage them to "take ownership of their retirement savings, as opposed to just being passive".

Criticisms of master trusts for DC pension provision include a suggestion that they weaken the link between members and the trustees and make it more difficult to tailor communications to specific groups of members. But Breeden argues that one benefit of joining a larger entity is that its superior resources will enable a technology-enabled focus on improved member communications.

Learning from the UK

Master trusts are also in use – and likely to be much more widely used in future – in Ireland. There is a historical precedent for multi-employer pension provision in the country, with a number of industry-wide multi-employer schemes having existed in the past, although only one, for workers in the construction industry, survives today. Mercer launched a DC master trust in Ireland a decade ago, but this failed to attract many members. Others have launched since, for example, Invesco has a master trust in Ireland that has 2,000 members, who work for around 20 employers and €100 million in scheme assets.

However, the Irish pensions landscape is set to become much more fertile for master trusts, in part because, as in the UK, governance requirements for pension schemes have become more exacting, encouraging employers to consider outsourcing pension provision particularly for the large number of very small schemes in the country – but above all because Ireland is set to introduce auto-enrolment from 2022.

While today master trusts in Ireland may account for only 1-2 per cent of total DC members or assets, that number will surely rise rapidly over the next decade. The Irish government and regulator, the Pensions Authority, continue to consult on the structure of a regulation and authorisation regime for master trusts, which is generally expected to share key characteristics with that seen in the UK.

"I think we'll see quite a strong growth in the use of master trusts in Ireland over the coming years," says Irish Association of Pension Funds (IAPF) CEO and PensionsEurope director Jerry Moriarty. "I think the regulator is also definitely keen to ensure greater consolidation.

"I think for a lot of employers, particularly smaller employers, where governance requirements for running a small scheme are getting more onerous, they would be happy to pass that on to someone else."

Master trusts might also be used more widely elsewhere in Europe, in countries where, while the master trust concept might be unfamiliar, multi-employer pension provision certainly is not.

"There are a number of different vehicles in European countries that share similar characteristics to UK master trusts, if you are talking about a vehicle in which multiple employers are able to participate, and where governance of that vehicle is outsourced to a third party," says Aon senior partner, and leader of Aon UK's international retirement and investment practice, Paul Bonser. "I think a common theme you can see across Europe is an understanding that members could benefit if they have access to economies of scale, leading to a better retirement outcome, certainly for DC."

Where DC grows, master trusts may follow

In the Netherlands, many second-pillar pension schemes are industry wide, with membership effectively compulsory in some industries. Many of the long-established schemes are DB, but two clear themes in pension provision are the growth of DC and a drive to consolidate smaller schemes. Willis Towers Watson's master trust, Lifesight, is active in the country, running a multi-employer vehicle.

Lifesight is also providing multi-employer pension provision in Belgium; as is Aon, through its United Pensions brand, which serves employers with employees in multiple countries.

Germany is one country where some observers see very little chance of master trusts ever becoming well-established. But Bonser points out that there is a tradition of multi-employer pension funds in Germany – and DC provision is growing, albeit from a very small base. "As the DC market continues to evolve I think we're going to see an increase in the number of master trust vehicles there," he says.

Lifesight global head of strategy and markets Alice Evans says Lifesight is also monitoring developments in Germany – and Switzerland.

"We're watching Germany and Switzerland with interest and seeing how their thinking around DC develops," she says.

"Because they've got large industry funds, they've already got their heads around the multi-employer concept – it's the DC concept that's less familiar. I don't see why they shouldn't move to an approach that offers economies of scale and all the other benefits."

Bonser suggests that over time more multinational employers across Europe may come to favour master trust-type structures offering provision in multiple countries, with tailored propositions for each country to comply with legislation and regulation.

"There are about 80 registered cross-border pension funds in Europe," he says. "Larger multinationals are using this as a way to improve their governance and improve the sustainability of DB and DC plans." At present, United Pensions has separate sections to serve employers active in Belgium, the Netherlands and Ireland. Bonser says it is seeking to develop propositions in a number of other countries.

In the longer term, it seems perfectly possible that we will see more master trusts – or similar vehicles – in use in countries where less comprehensive first pillar coverage, growing DC provision and/or a drive to consolidate existing schemes will create a need for the type of provision master trusts can offer.

True, there are some markets where it is very difficult to imagine master trusts being used for anything other than very niche purposes. Nonetheless, as Harper notes, if the rise of master trusts does spread further across Europe, "it will be interesting to see which of the major players in the UK seek to take their platforms global to capitalise on this trend". ■