HEALTH WEALTH CAREER

MASTER TRUST

MANAGING COST, RISK, AND TIME: DELIVERING QUALITY DC

MAKE TOMORROW, TODAY

MERCER

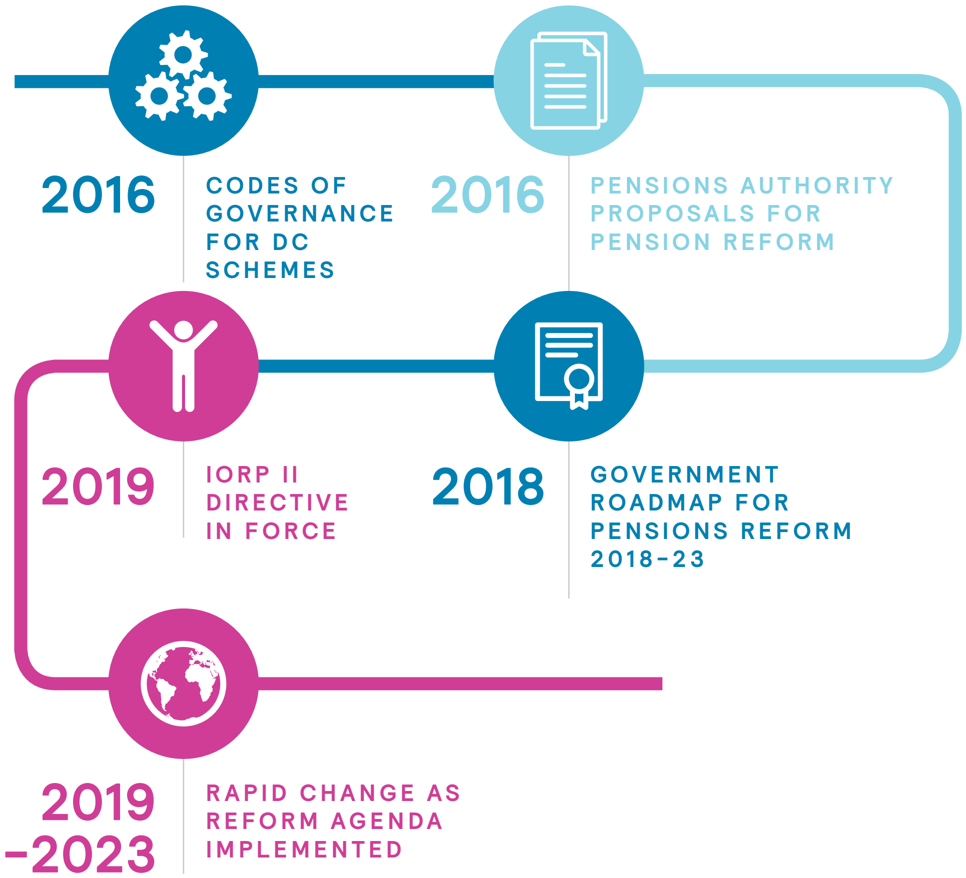
FOREWORD

Retirement savings provision in Ireland is set for an unprecedented period of change and consolidation.

Political and regulatory reforms such as the IORPS II Directive and the coming introduction of auto-enrolment will radically reshape the Irish pensions landscape. The increasing regulatory and governmental focus on improving standards of trusteeship and rationalising the number of trusts and trustees is forcing the governance burden ever upwards.

Society is changing, and people are living longer. Enforced retirement at a pre-determined age is likely to become a thing of the past – employees will increasingly defer retirement and continue to work either through choice or necessity.

Timeline of regulatory changes:



DC HAS TO COME OF AGE, AND MASTER TRUSTS ARE LIKELY TO BE A KEY PART OF THAT

Almost all new pension plans set up in Ireland are defined contribution plans. There are now tens of thousands of these in existence - which makes it difficult to maintain high standards.

By 2018 there were

400,000

members of over

70,000

Irish DC Plans

The number of DC Plan members will explode when auto-enrolment is introduced in the early 2020s.

The government intends on taking steps to reduce the large number of pension schemes in operation... by means of membership of large multi-employer structures or through pension contracts.*

INTERNATIONALLY, MASTER TRUSTS HAVE BEEN THE MAIN MEANS OF CONSOLIDATING PENSION TRUSTS ACROSS DIFFERENT EMPLOYERS.

* A Roadmap for Pensions Reform 2018-23.

WHAT IS A MASTER TRUST? AND HOW DOES IT WORK?

A master trust is an occupational pension scheme for multiple non-associated employers, in which each employer is included in a separate section of the master trust arrangement. Although governance and regulatory responsibilities sit with a Master Trust Trustee, participating employers retain the ability to make decisions about contributions.

A master trust offers employers the advantage of a strong governance capability, but with generally lower operating costs and greater simplicity than a single-employer scheme, which requires its own trust deed, rules, and trustees.

WHY ARE EMPLOYERS TURNING TO MASTER TRUSTS?

Three simple reasons -

reduce cost

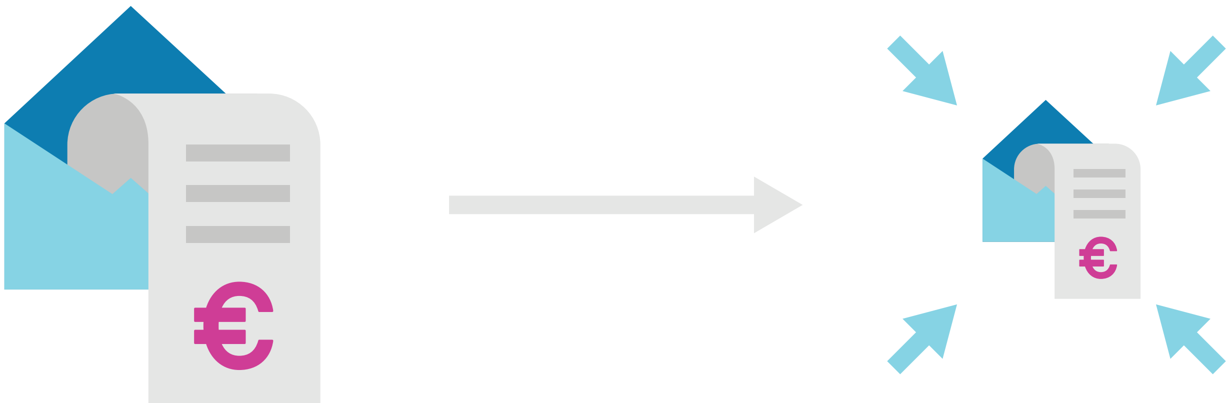
mitigate risk

maintain or improve quality

REDUCE COST

"We need a well-managed plan at a reasonable price."

CLIENTS ARE ASKING ...	THE ISSUE	HOW A MASTER TRUST CAN HELP
How can we reduce administration costs for members who no longer work for us?	The administration costs for ex employees can be large. Over time deferred (departed) members will come to account for most of the scheme membership in a stand-alone trust, giving rise to costs for the employer that they don't want to have to bear.	A master trust can, if structured correctly, provide a straightforward and effective way of addressing the deferred member issue. Deferred members can (optionally) be placed in a section of the MT separate from the employer's plan – removing the associated costs.
How can we reduce the costs associated with the time burden of trusteeship?	Increasing regulation has meant increasing demands on trustees. This in turn means that relatively senior employees are needed for the trustee role, and the demands on their time inevitably have an effect on their other work. A professional trustee could be hired, but this too is costly.	A Master Trust will be presided over by a professional trustee, who will ensure that the Master Trust as a whole meets regulatory requirements. There is no burden on the time of employees. The costs associated with the Master Trust trustee are effectively spread between multiple employees, radically reducing the cost.



MITIGATE RISK

“We need a solution that works in our business’s - and our employees’ - best interest.”

WHAT WE’RE HEARING ...	THE ISSUE	HOW A MASTER TRUST CAN HELP
We need to better manage DC risks, but with increasing regulation and new compliance standards, it’s becoming more challenging.	The Pensions Authority wants trustees to comply with 11 detailed Codes of Governance to achieve better pension outcomes. Trustees are also required to undertake training and requirements for formal qualifications are under consideration. With IORPS II coming into force in January 2019, and with new minimum requirements expected with the introduction of auto-enrolment, the trend towards increasing regulation and complexity is set to continue.	Moving to a master trust eases the burden of governance and compliance for your DC scheme by passing complete regulatory responsibility to the Master Trust Trustee. Both employers and members can rest assured knowing they have a trustee with a legal responsibility to act in their best interest.
We don’t feel fully in control of our DC benefit and reward programme – and we aren’t confident it’s addressing the needs of our business and employees.	Some employers have left many aspects of their DC plan to the trustees. Although trustees ensure compliance, they may not challenge the status quo when needed or, conversely, may try to drive too much change. DC is also getting harder to govern as the amount and volume of regulation requires an increased focus and time commitment. However, business leaders are now taking more of an interest in their DC plans and are asking, “Is our DC plan equitable? Is it meeting our business needs? Is it aligned with our reward strategy? What does ‘success’ mean to us? And do our trustees share and support our view of success?”	A master trust can help employers regain control. Although cost and risk are shared within the trust, each employer can set contribution rates, design benefits, and, in a few cases, customise investments that are best suited to their business and employees. Communications and messaging can be customised as well. Remember: **It’s your scheme**. The master trust trustee is there to provide quality governance and oversight to support the goals of your reward programme – not undermine them.
How can we make sure our people can retire when they want to?	Whether your employees can afford to retire when they would like to depends, in large part, on your DC scheme design. This is also becoming a significant issue for workforce planning. To assess how well your DC design supports flexible retirement, ask: Are the current trustees aligned with our business’s approach to retirement? Does the scheme deliver “adequacy” to enable employees to retire when expected? Do we have sufficient control over the scheme structure to facilitate changes, and do we want to focus our resource on this? If the answer to these questions is no, a master trust may be the best option.	Moving to a master trust gives back time to think, act, and control. By outsourcing all of the governance, compliance, and investment “heavy lifting”, you can spend your time and budget on the things that matter: contributions and communications. A master trust allows you to align this significant employee benefit with your workforce planning and retirement strategies.

MAINTAIN OR IMPROVE QUALITY

"We want the best for our people, but we also need to focus on our business."

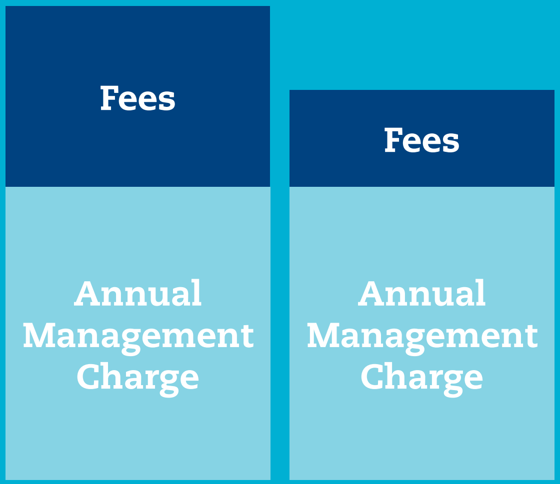
CLIENTS ARE SAYING ...	THE ISSUE	HOW A MASTER TRUST CAN HELP
We looked at a contract based PRSA option but this seems even more onerous – formal advice is needed for each member enrolling.'	Establishment of PRSAs is regarded as the setup of an individual policy, even where the employer is paying contributions. Accordingly formal advice, including a factfind and statement of suitability, is required from a Qualified Financial Adviser before each and every individual PRSA is set up.	Master Trusts bring many of the advantages of the contract based route – in particular, the removal of the burden of providing trusteeship from employers – without creating the onerous enrolment process that goes with the PRSA route.
When we want to make changes to improve our pension plan for the better, it's really difficult for us to do so.	Making changes to a stand alone trust can be cumbersome. Changes to the investment funds on offer, for example, can involve a process of advice taking followed by fund selection for the trustees, after which withdrawal of one fund and replacement with another typically involves a communication process with members.	A good Master Trust will seek to implement evolving best practice across the board to all of its constituent plans together. The heavy lifting of research and implementation can be done for all plans together. Many master trusts – though not all – increase their nimbleness by using white labelling of funds, under which investment managers can be hired, monitored and if necessary replaced on a continuous basis without disruption to members.
We're spending plenty of time and money on running our scheme, but we're worried it isn't providing the value our people deserve.	The Pensions Authority is concerned about how smaller trust-based DC schemes deliver positive member outcomes. Employers and members may be better served by winding up smaller schemes and outsourcing DC delivery to a master trust. The time and costs of running a trust might be better invested in the business – and selecting the right master trust can actually result in a higher quality DC plan.	Choosing the right master trust means outsourcing without sacrificing quality. A professional trustee is well equipped to deal with increasing regulation and statutory guidance. Members also benefit from the reassurance that comes with trust-based arrangements, without your business having to pick up the costs.

THE BUSINESS CASE FOR USING A MASTER TRUST

A master trust can provide a substantial level of cost savings, along with a reduced need for internal resource on scheme governance.

Examples

We have worked with clients who have reduced their total fees by over 50%, and the member Annual Management Charge (AMC) has remained constant.



Clients have moved from third party administration to a master trust and paid a per capita fee and lower AMC.

Other clients have chosen not to pay the per capita fee to maximise their savings and offer a choice of passive investment or diversified growth funds to members with different AMCs.

Checklist of things to consider:

- ✔ Cost certainty
- ✔ Fee savings
- ✔ Cost and resource savings
- ✔ Quality
- ✔ Future-proofing
- ✔ Flexible retirement options

TO LEARN MORE ABOUT MASTER TRUSTS AND IF THEY ARE SUITABLE FOR YOU

Choosing the right master trust allows employers to reduce costs, manage risk, and, at the same time, provide a high-quality DC plan that their employees value. If you would like to find out more about the advantages of a master trust and how to choose the best one for your needs, please contact your usual Mercer consultant or marketing.ireland@mercer.com.

www.mercer.ie

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