BIG is Beautiful?

Date: 20 June 2014
Speaker: Richard Butcher,
Managing Director PTL

With the increase in governance requirements on DC schemes is the drive towards master trust inevitable? What advantages (and disadvantages) do such arrangements offer compared to own trust DC arrangements?

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Who are PTL?

- A leading firm of professional independent trustees
- DC, DB. Open, closed, in wind up, in transition
- 200+ clients inc. 60 single employer DC trusts, 15 employer GCs, 12 DCMT and two IGCs

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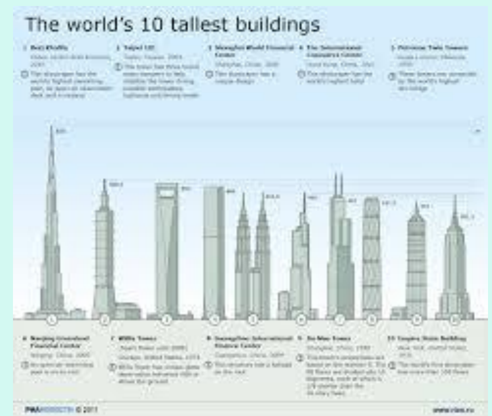

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What is a master trust?

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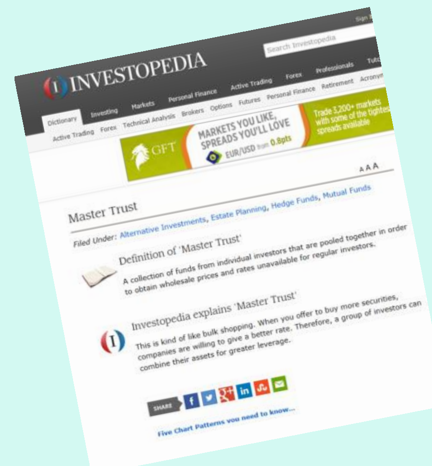

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TPR:

- A multi employer scheme for non associated employers

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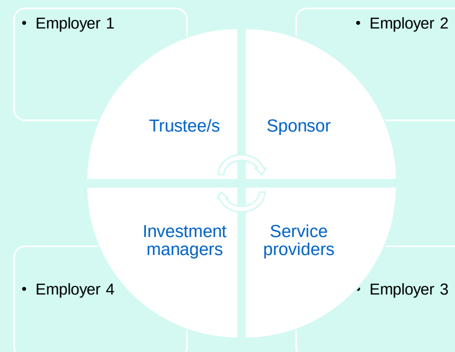

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Some players

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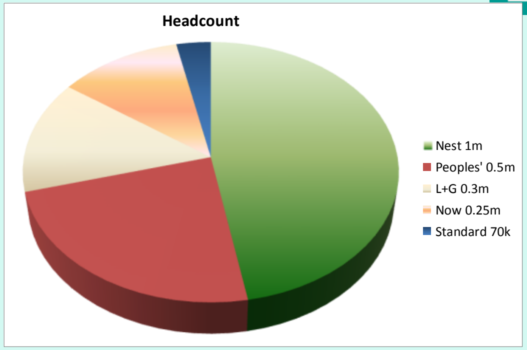

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What is the “increase in governance”?

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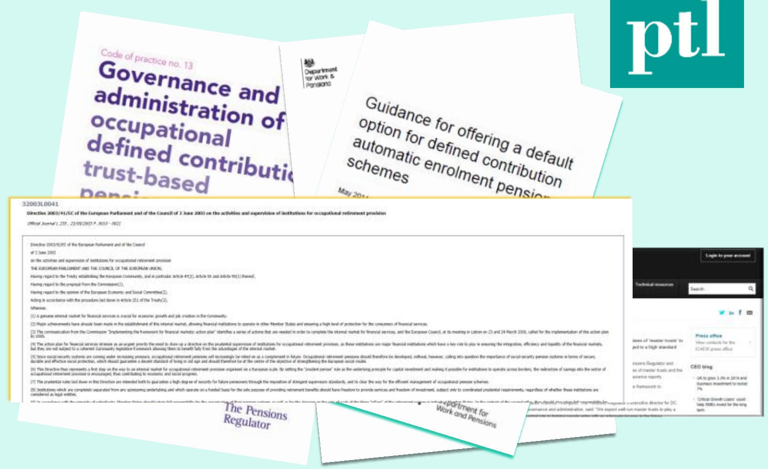

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What is the “drive”?

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IORP:
- Professional qualification
- “Depositories”

Quality Standards:
- Charge cap
- Default investments
- Cost disclosure

CoP 13:
- 6 x 6 = 31
- Comply and explain

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Principle 1: essential characteristics

Those running schemes will:

ensure that all members receive value for money

ensure that all costs and charges borne by members are transparent and communicated clearly at point of selection to the employer to enable value for money comparisons to be made and to assess the fairness to members of the costs and charges

understand and put arrangements in place to mitigate the impact to members of business and/or commercial risks

predominantly invest in assets admitted to trading on regulated markets: where unregulated investment options are offered, it must be demonstrable why it was appropriate to offer those investment options

understand the levels of financial protection available to members and carefully consider situations where compensation is not available

ensure that schemes offer flexible contribution structures that give members the option to pay more

ensure that a default strategy is provided which is suitable for the needs of the membership

ensure that the number and risk profile of investment options offered reflects the needs of the membership

ensure that investment objectives for each investment option are identified and documented in order for them to be regularly monitored

ensure that a process is provided which helps members to optimise their income at retirement.

Principle 2: establishing governance

Those running schemes will:

ensure that sufficient time and resources are identified and made available for maintaining the ongoing governance of the scheme

support employers in understanding their responsibilities for providing accurate information, on a timely basis, to scheme advisers and service providers

ensure that accountability and delegated responsibilities for all elements of running the scheme are identified, documented and understood by those involved

establish and maintain procedures and controls to ensure the effectiveness and performance of the services offered by scheme advisers and service providers (also under of interest.

Principle 4: ongoing governance and monitoring

Those running schemes will:

regularly review their skills and competencies to demonstrate they understand their duties and are fit and proper to carry them out

establish and maintain procedures and controls to ensure the effectiveness and performance of the services offered by scheme advisers and service providers (also under principle 2)

establish and maintain adequate internal controls which mitigate significant operational, financial, regulatory and compliance risks (also under principle 2)

take appropriate steps to monitor contributions and resolve contributions which have not been paid in accordance with the payment schedule in full on or before the due date

monitor the ongoing suitability of the default strategy for the membership

ensure that the performance of each investment option, including the default strategy, is regularly assessed against stated investment objectives.

Principle 5: administration

Those running schemes will:

ensure that member data across all membership categories is complete and accurate and is subject to regular data evaluation

ensure that core scheme financial transactions are processed promptly and accurately

ensure that administration systems are able to cope with scale and are underpinned by adequate business and disaster recovery arrangements.

Principle 6: communication to members

Those running schemes will:

ensure that all costs and charges borne by members are clearly disclosed to members

ensure that members are regularly informed that their level of contributions is a key factor in determining the overall size of their pension fund

ensure that scheme communication is accurate, clear, understandable and engaging and it addresses the needs of members from joining to retirement

ensure that members are regularly made aware of their current investment strategy and what this means for them

clearly communicate to members the options available at retirement in a way which supports them in choosing the option most appropriate to their circumstances.

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"…all members receive value for money…"

"…ensure sufficient time and resource…"

"…skills and competencies…"

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Other factors?

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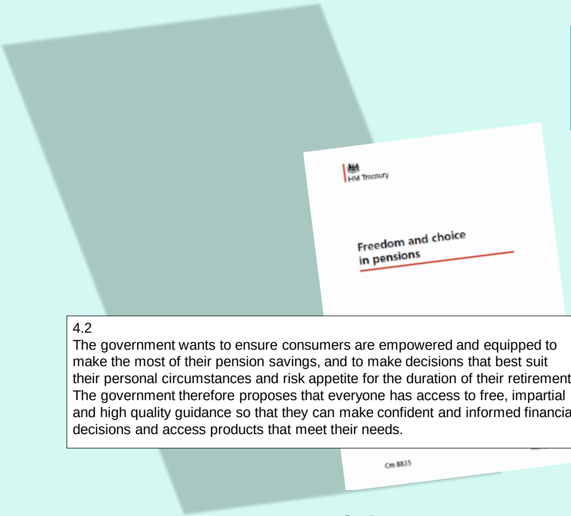

4.2
The government wants to ensure consumers are empowered and equipped to make the most of their pension savings, and to make decisions that best suit their personal circumstances and risk appetite for the duration of their retirement. The government therefore proposes that everyone has access to free, impartial and high quality guidance so that they can make confident and informed financial decisions and access products that meet their needs.

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“ ... but Warwick-Thompson has also expressed concerns in the past about the growth *(in master trusts),* claiming the 70 or so the regulator is aware of are “around 60 too many”.

(source: Plansponsor Europe)

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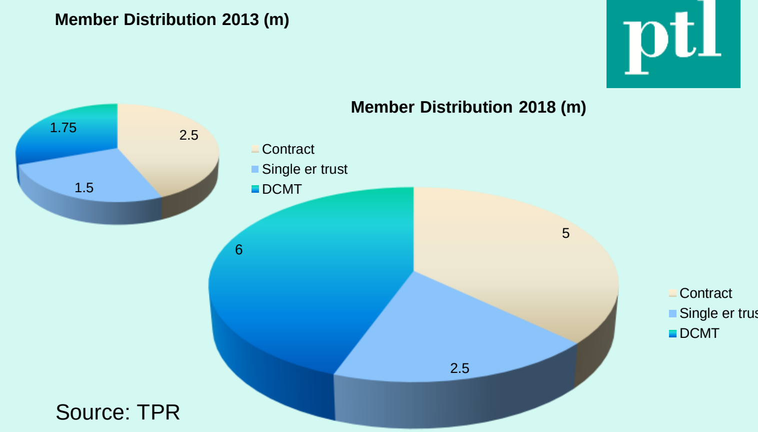

Source: TPR

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"The People's Pension head of policy Darren Philp said it received most of its business through advisers …"

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What are the "advantages"?

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Video: NAPF arguments for DC scale

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Video: PTL – Standard Life on DC scale

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"With ever increasing regulation (e.g. Code of Practice) and flexibility (e.g. Budget), many employers will want to choose an arrangement that "takes the pain away". The larger master trusts will be well governed and should be better placed to communicate and deliver more options to members in the ever changing area of investment and also in the new retirement options that will soon become available. Given the size of these arrangements, this should all be done at a fair cost."

Aiden Coloe and Philip Audaer, LCP

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"Achieving scale is absolutely key for long term investors like NEST. Firstly it enables broad exposure to a number of different asset classes at low cost, which is central to both NEST's commitment to diversification and providing value for members. Furthermore, the presence of scale allows NEST to pursue its chosen investment model of dynamically managed target date funds and to deliver this model at a cost of 30 basis points on assets under management."

Mark Fawcett, Chief Investment Officer, NEST

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"DC works best when implemented at scale. It is the combination of scale and effective governance that give the best chance of achieving good outcomes for members."

Darren Philp, Head of Policy, The Peoples' Pension

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"Durability must be an essential, enduring feature of the workplace pension landscape. In a charge conscious era, which necessarily translates to thinner margins, the only way to achieve durability is through scale. During the first half of 2014 we've witnessed an unprecedented demonstration of why scale is so important. Without it, how many providers will be able to implement well all of the change on the near regulatory and legislative horizon?"

Paul McBride, Head of Governance, Legal and General

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mallowstreet

"Lower admin fees, better communications, better access, potentially better governance, lower investment fees."

"… the ability and time to potentially push the development of solutions and best ideas and to help the market evolve. Such as now in the light of the budget changes."

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- Economy of scale
- Low effort (for employer)
- "Best of breed" service and governance
- Smarter investment solutions?
- Ability to be illiquid?
- Longevity cross sub during payment?
- Data and reference points
- Bigger pensions
- Ability to drive innovation

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What are the "disadvantages”?

Video: PTL Argues DC Scale

"Big is most certainly not best, indeed it is most likely to be vanilla in a time when Neapolitan ice cream (given the budget) should be the flavour of the month ...

I find the constant government rhetoric that small will fail is at best patronising and at worst totally unjust.

Paternal smaller companies put an inordinate amount of effort in to getting things right. They know and work with members .. Making their lives intolerable with layers of legislation and cost its not right.

I second guess those smaller schemes have higher contribution levels which will offset any poultry bps saving from the magical wand of economies of scale.

But the direction of travel is now in play big sadly is the only game in town..... And by the time we realise the error there will be no way back."

Damian Stancombe, Barnett Waddingham

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"Only significant disadvantage to scale that I can think of is that most active management strategies carry diseconomies of scale because the greater the market impact the larger the assets under management. So governance of active management needs to be carefully managed."

" … I guess one other potential downside, that we can see from the experience in banking is the hubris of the trustees or management if the funds become too big."

"An increase in governance time and requirements if a larger number of options provided to cater for a more diverse group of members with enough in each category to warrant new options."

" … the fees if they believe that as they are large they need to employ the so called top advisors. If plenty of expertise on the board there are good advisors in so called second tier players that can add significant value at a lower cost."

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- Current lack of scale
- Unregulated market and low barriers
- Concentration risk
- “Cannot allow to fail” risk?
- Governance distance
- Loss of control?
- Impact on industry and markets?
- Hubris risk

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Any Questions ….
please?

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