Smooth Moves: Guidance on Master Trusts moves for Employers and Trustees published

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The pensions landscape has seen radical change over the last 18 months with a deluge of employers choosing to wind-up their standalone DC schemes and move to a Master Trust vehicle.

For those who have not yet pulled the trigger but are considering it, new guidance from the Pensions Council has been published setting out some practical steps for employers and trustees when transitioning to a master trust arrangement. In this briefing, we highlight the main considerations during the process, and the key responsibilities that should be undertaken by each party.

Background

Following the implementation of the European Union (Occupational Pension Schemes) Regulations 2021 ("**IORP II**"), and increased supervision by the Pensions Authority, a large number of defined contribution pension schemes have opted to consolidate and transfer to master trust arrangements. At present, there are approximately 17 master trust providers in the Irish market, with a combined €22 billion of defined contribution assets having transferred to these arrangements between 2021 and 2023.

The Pensions Council identify that the market dynamic of moving to a master trust reflects its benefits, including:

(a) the consolidation of pension arrangements will allow benefits of scale to be realised,

(b) employers have the ability to outsource regulatory compliance, allowing them to focus on member communications and education supports,

(c) master trusts can react more efficiently to investment volatility, market events, regulatory changes, and

(d) higher standards of pension governance and oversight can be achieved.

Guidance for Transferring to a Master Trust

The guidance of the Pensions Council notes that the decision to move to a master trust is 'employer-led', and that employers engaging in the process should select the appropriate vehicle, manage the transition for future contributions, ensure documentation is fit for purpose and meet all costs associated with the transfer. The guidance also notes the fiduciary duties of trustees, and need for trustees to satisfy themselves that a transfer to master trust would be in the overall best interests of members. For both employers and trustees, this requires a comprehensive due diligence of the master trust provider, and key factors for consideration are set out.

The Pensions Council identify varying standards across master trust providers, and note that the following areas may require close attention during the due diligence process:

(a) **Documentation:** all documentation must be legally and technically correct,

(b) **Investment switching:** providers have different approaches to the investment strategy of the receiving master trust, and this should be reviewed to ensure that the impact on scheme members is understood,

(c) **Transition process:** an 'out of market' exposure might arise when assets are transferring, or a pre-funding agreement can be entered into,

(d) **Transition of existing scheme details:** all arrangements under the existing scheme need to be reviewed to ensure they are dealt with as part of the transition, including benefit structures and Pension Adjustment Orders,

(e) **Death in service benefits:** employers must consider whether these will be set up under the master trust or as a standalone trust,

(f) **Treatment of deferred members:** in future transfers away from master trust, it is likely that deferred members will not move, and key considerations relating to deferred members are set out,

(g) **Post transition:** employers should consider how they wish to oversee the operation of the pension arrangement into the future.

Conclusion

Following the initial rush to establish master trust vehicles, and for schemes to transfer to ensure compliance with IORP II, a lot of issues remain. These include issues identified by The Pensions Council with death in service benefits, the implementation of Pension Adjustment Orders, transfers between different master trusts and the provision of discretionary benefits on transfer. The Pensions Council guidance will go some way to assist employers and trustees navigating a transfer to ensure that proper due diligence is conducted and to identify any issues impacting scheme members.

McCann FitzGerald LLP provides expert advice on scheme wind-ups and transitions to master trust arrangements. Please contact the team below or your usual McCann FitzGerald LLP contact for further information.

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