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representing pension savers



# The Future of DC – New Journeys, New Destinations

Thursday 14 June 2018

# DC Governance - an ever increasing burden?



**Caroline Rowan**  
Senior Consultant  
Aon



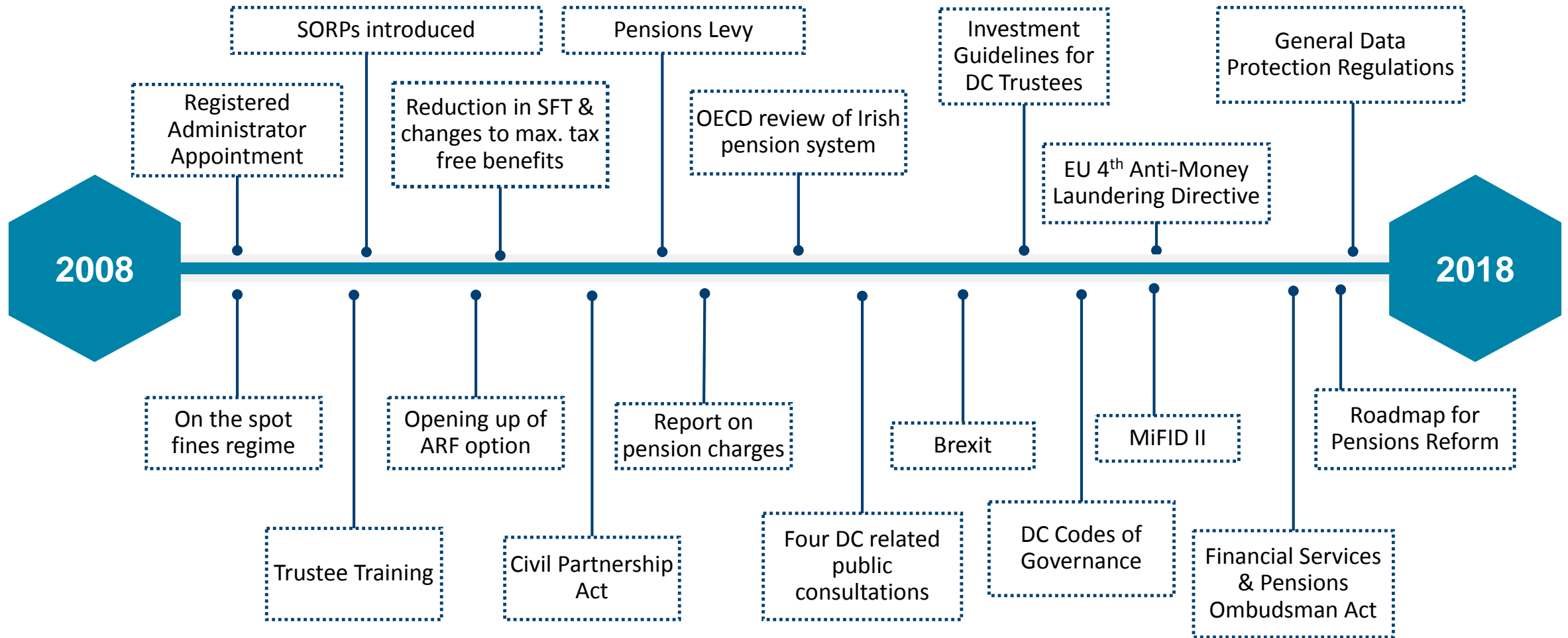
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# A Busy Decade



# But more to come.....



## GDPR

- Not going away
- Trustees must be able to demonstrate compliance
- Cyber risk is now becoming a concern for trustees



## Roadmap

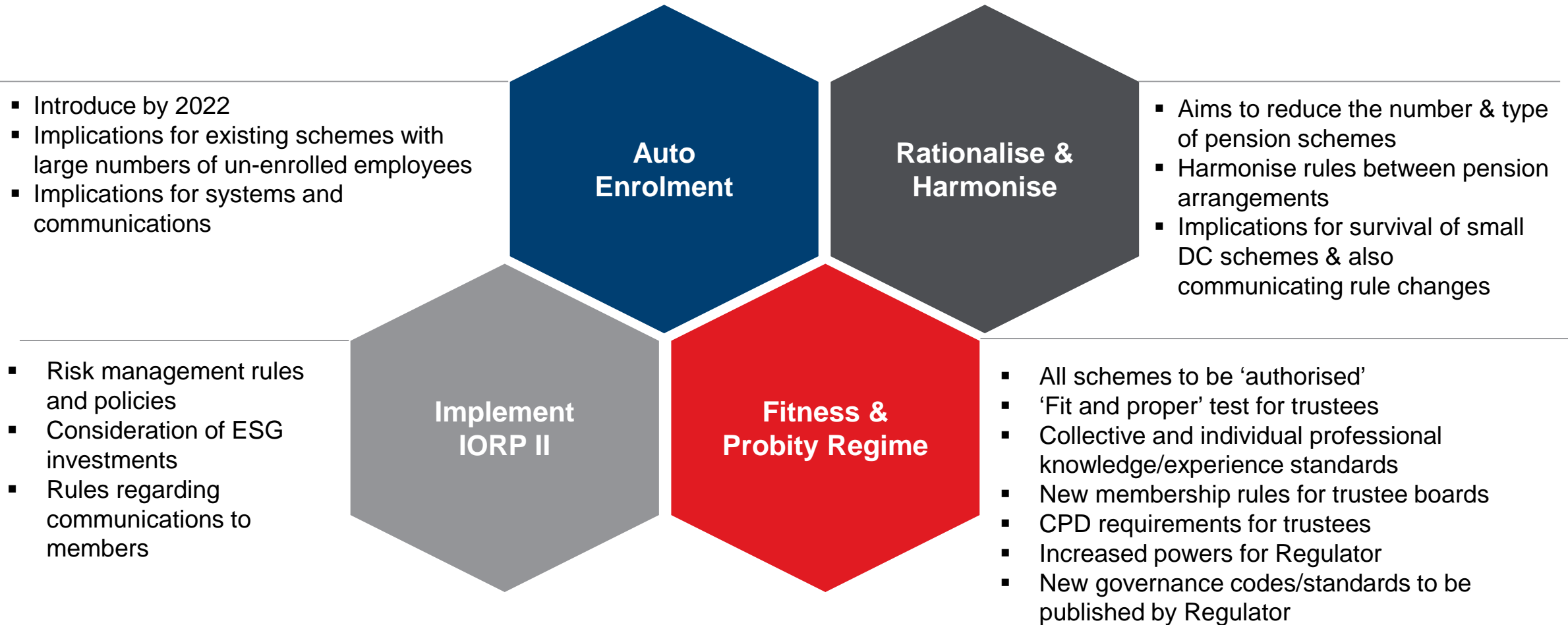
- Roadmap for Pensions Reform, 2018-2023 launched 28<sup>th</sup> February
- Six strands but two of particular relevance to DC trustees:
  - Strand 2 – Auto Enrolment
  - Strand 3 – Improving Governance & Regulation



## IORP II Directive

- Must be transposed into Irish law by 13<sup>th</sup> January 2019
- Legislation expected by end Q3 2018
- Included in Strand 3 of the Roadmap

# Roadmap for Pensions Reform – Focus on Strands 2 & 3



# Educating Master Trusts



**Shane Horgan**  
Senior Consultant & Market  
Development Manager  
Aon



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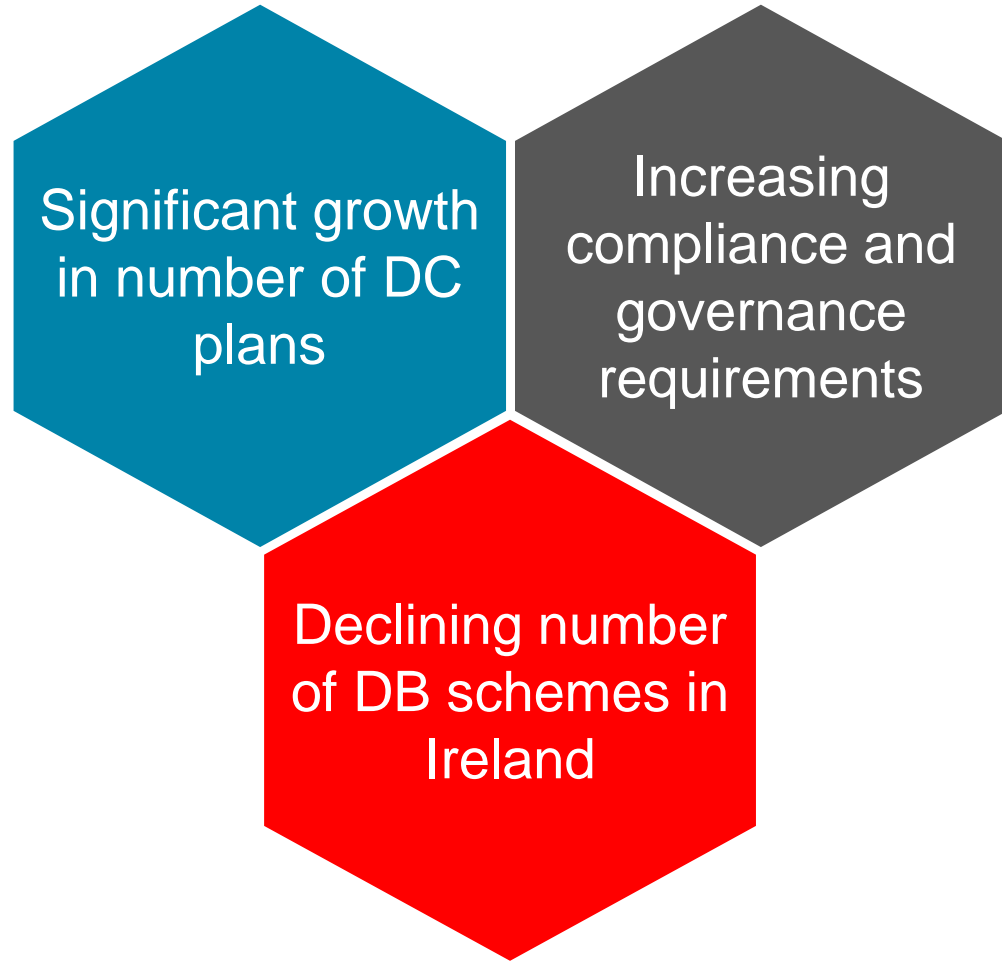
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# Background

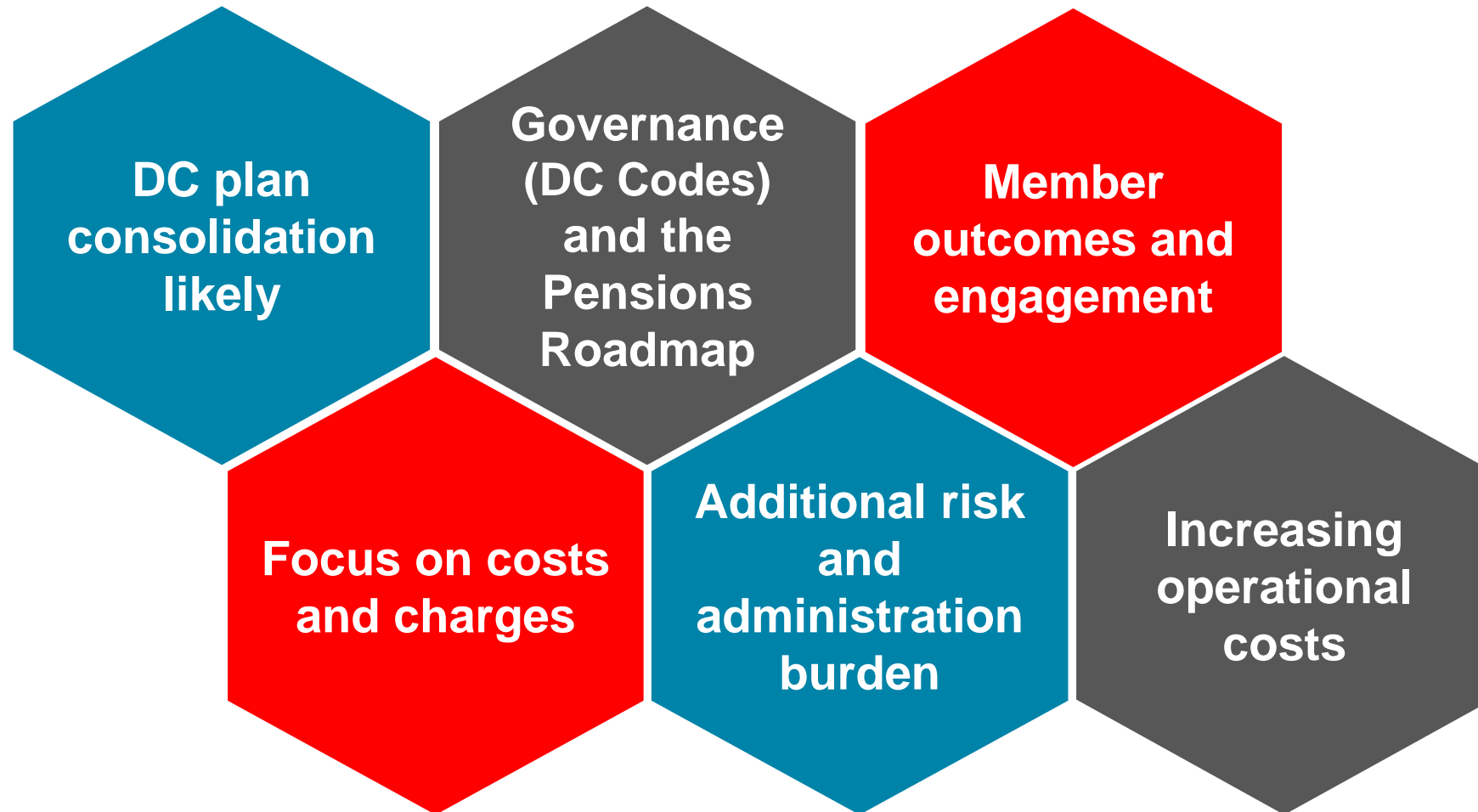


So ..... what does the future hold?

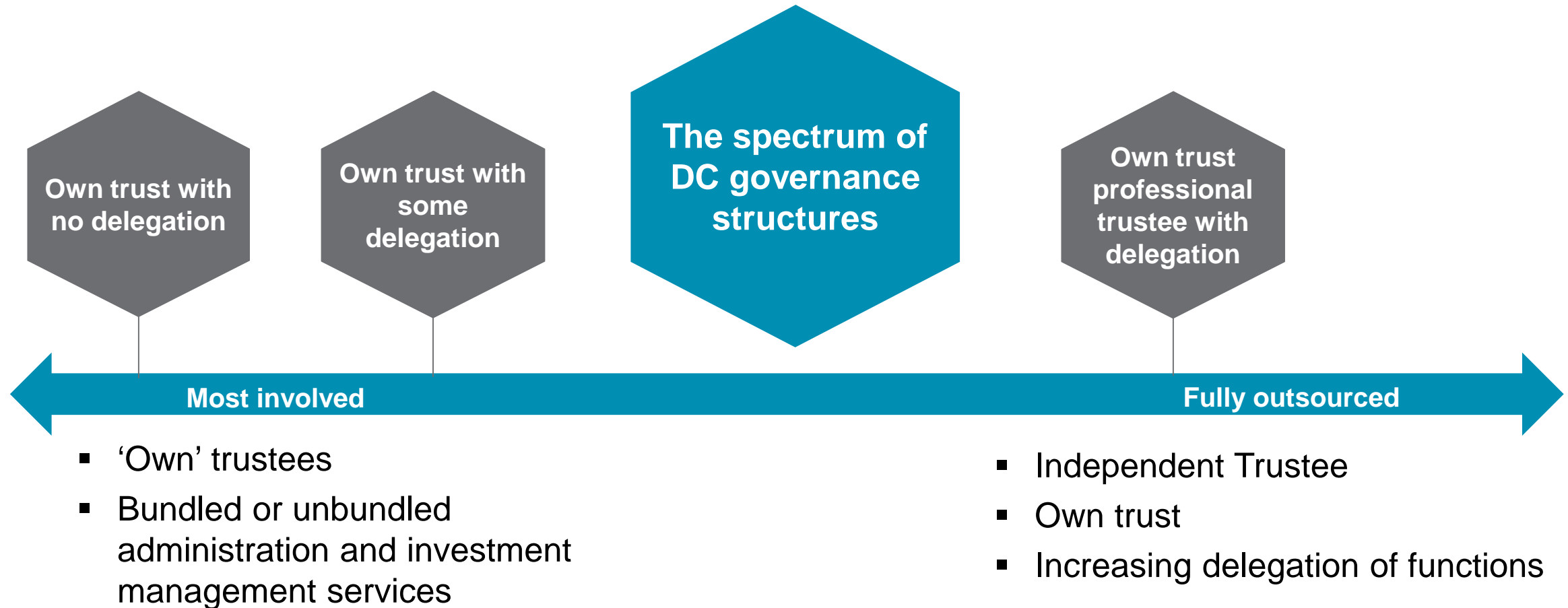




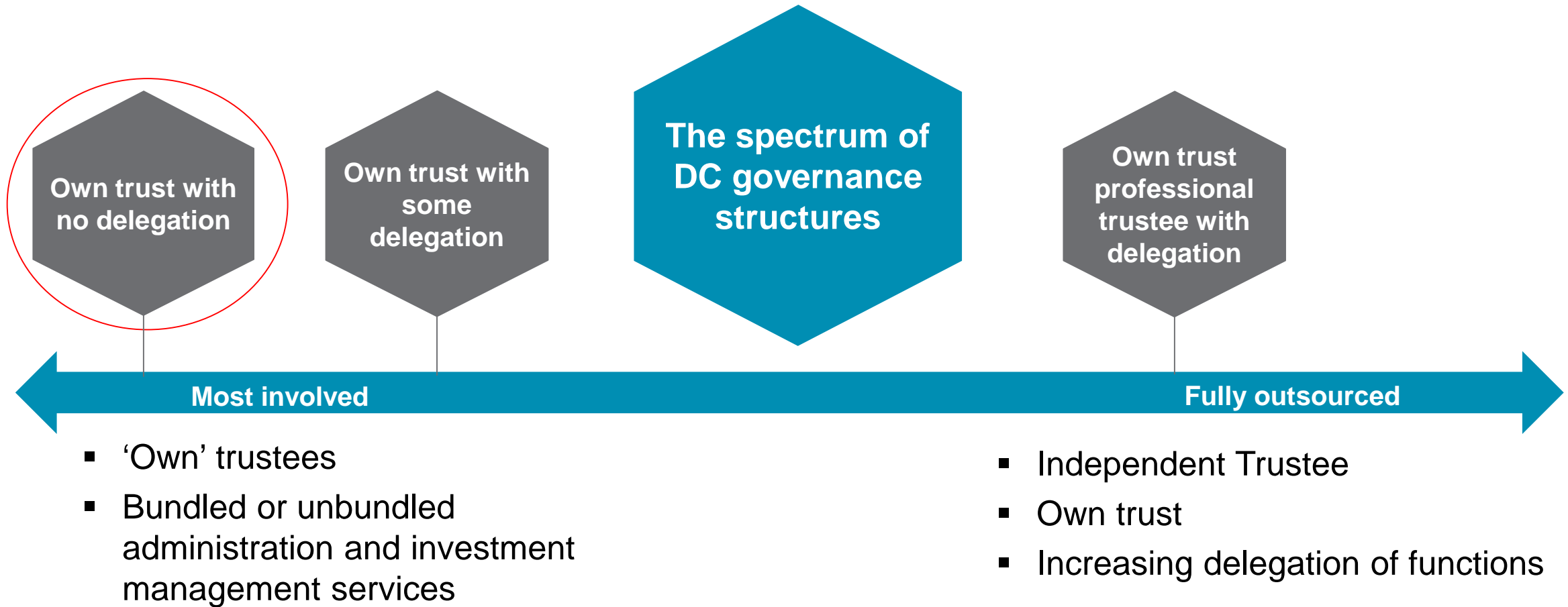
# Trends in the Irish DC pensions market



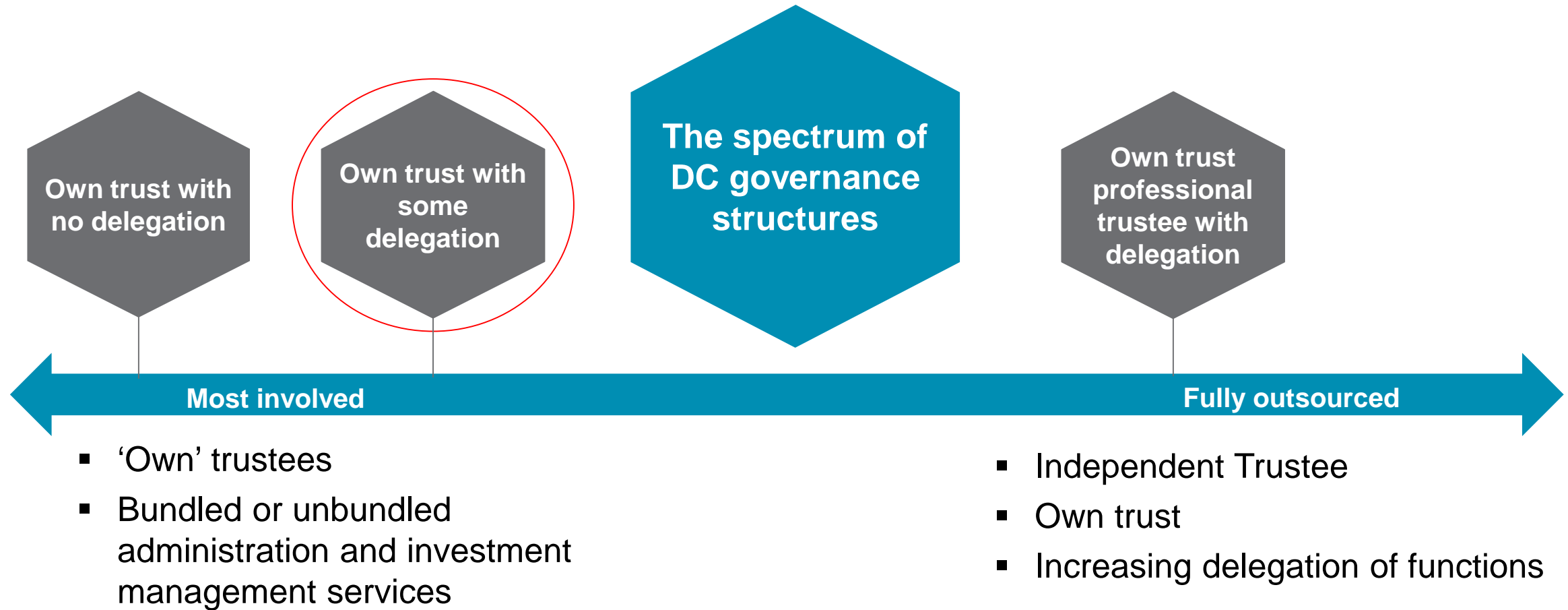
# Approaches to DC governance structures in Ireland



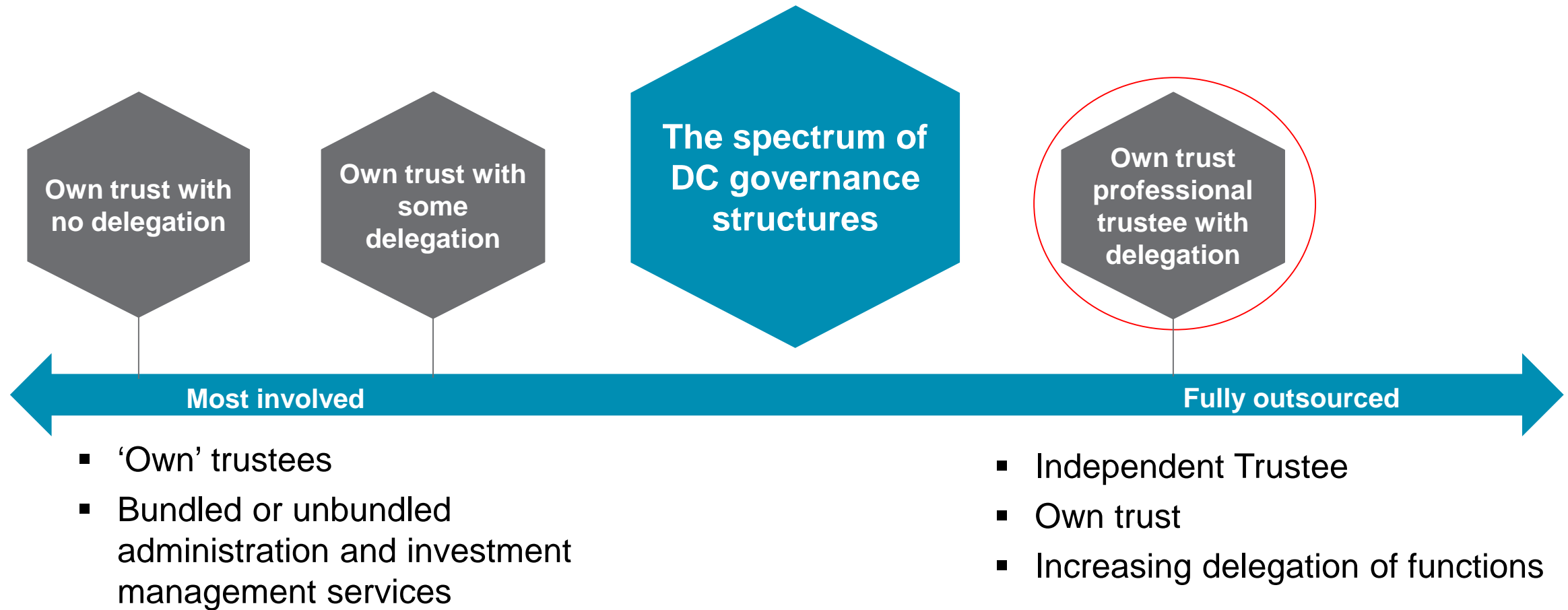
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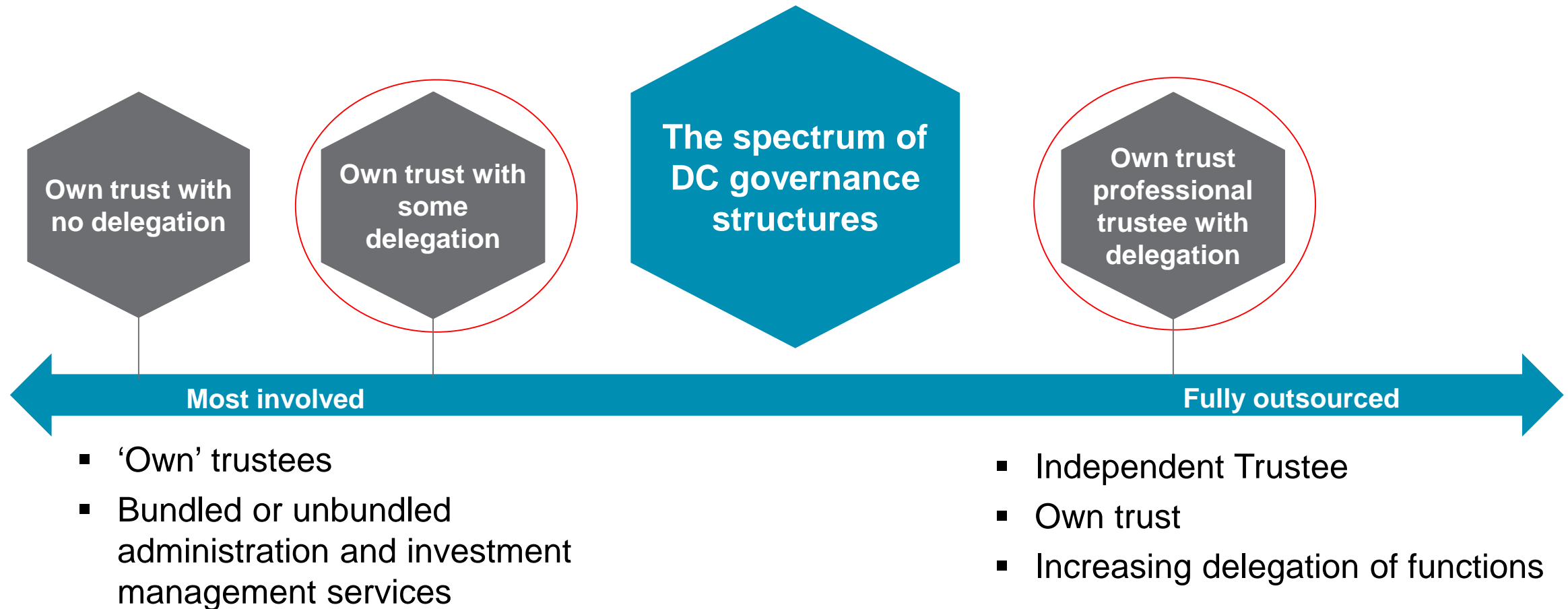
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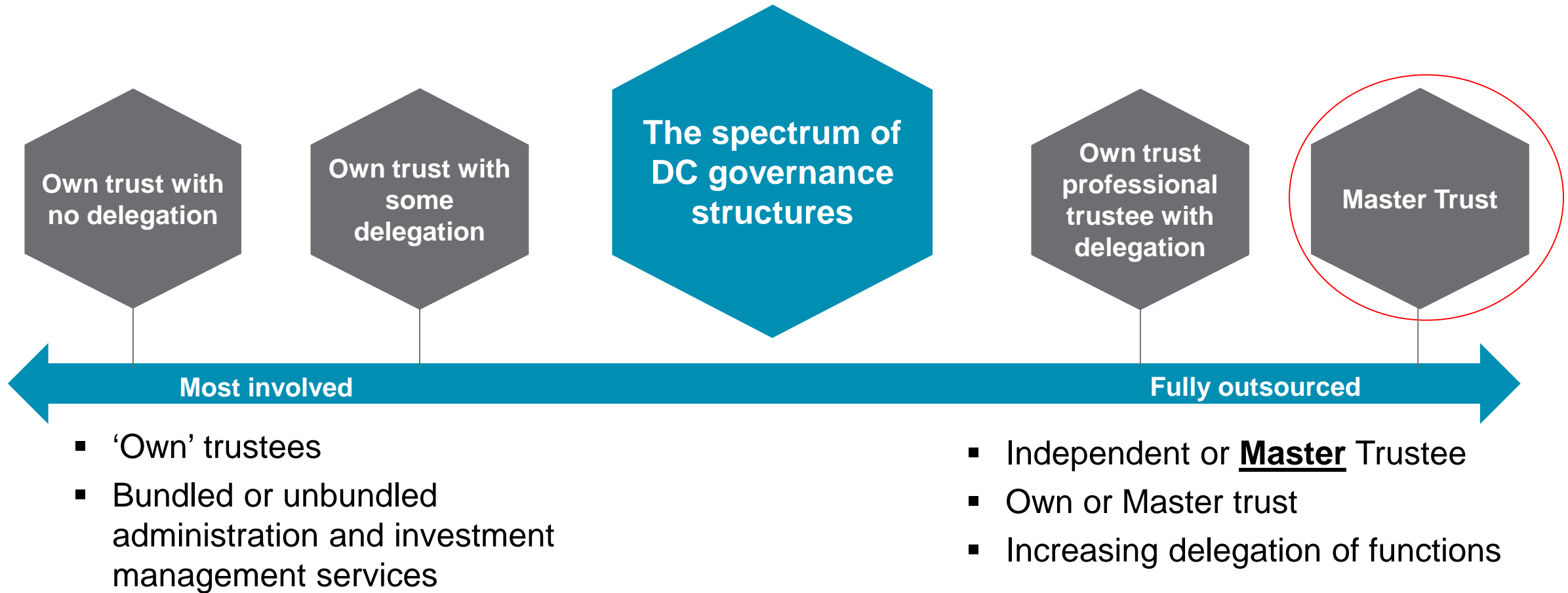
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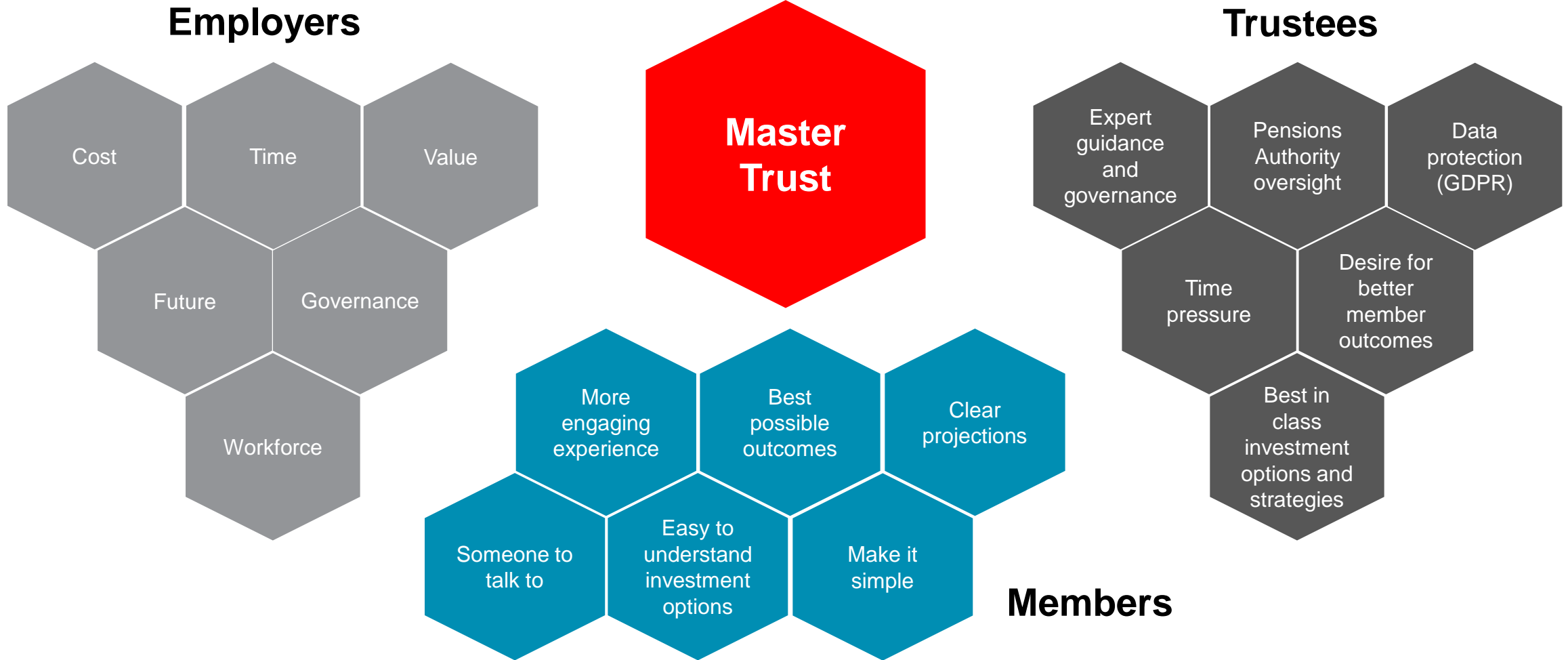


# Approaches to DC governance structures in Ireland



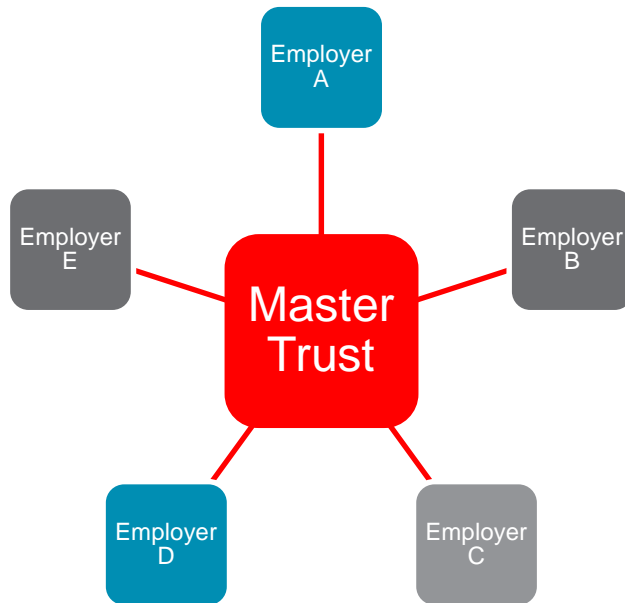


# Key priorities that we're hearing!



# So what is a master trust?

- A Master Trust is a **multi-employer** Defined Contribution (DC) scheme
- Each employer has its **own section**
- Single **professional, corporate** trustee



## How does it work?

Employer  
decides

- Benefit design
- Eligibility
- Contribution levels
- Death in service benefits

Trustee  
manages

- Governance
- Investment strategy
- Fund selection
- Management of default investment strategy
- Administration
- Member communication
- Trustee Annual Report
- Web platform

# Advantages for employers & members

## Employers



Governance



Time commitment



Management information

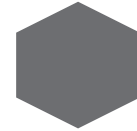


Cost

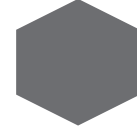


Strategic

## Members



Member experience



Communication and Engagement



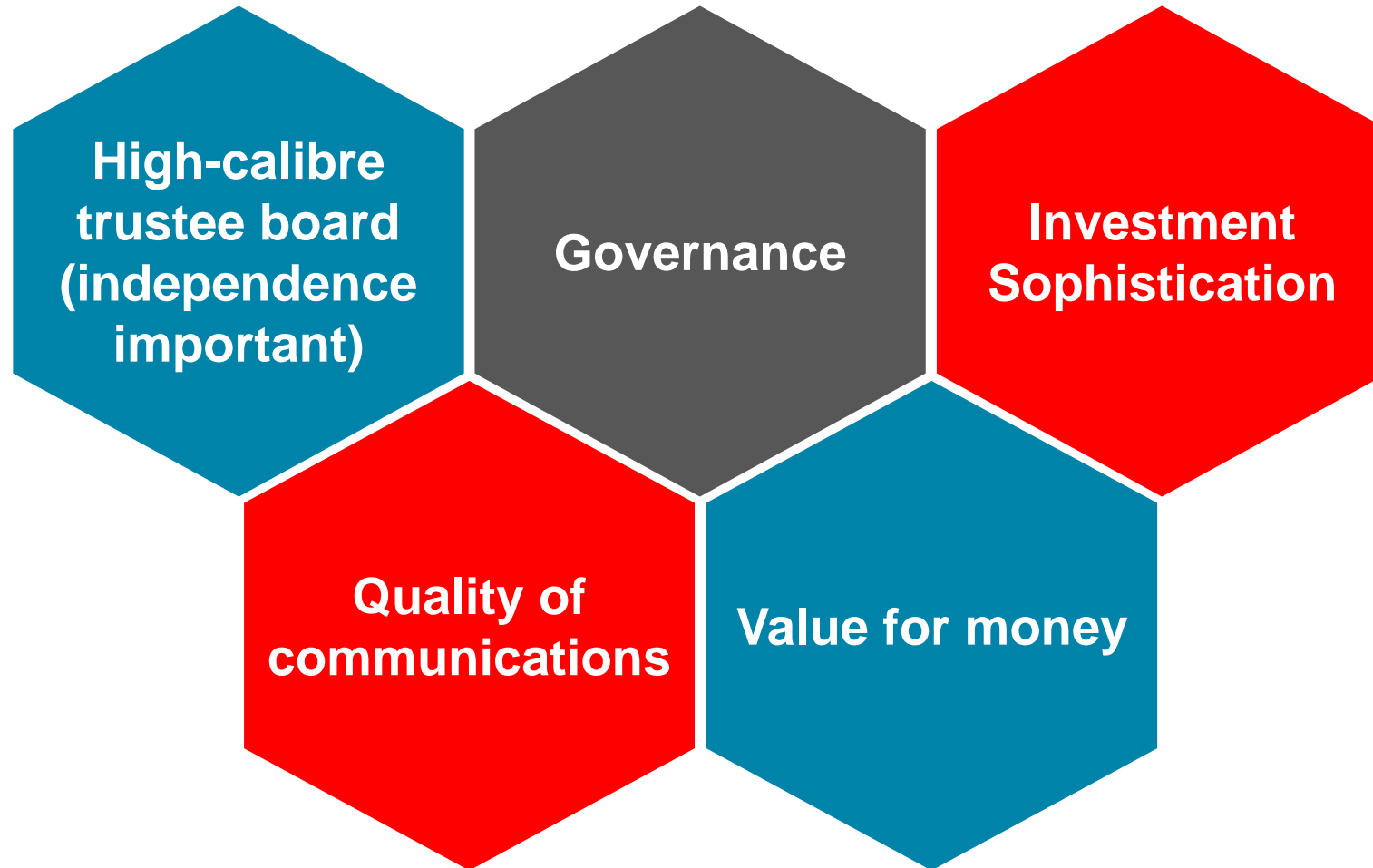
Investment



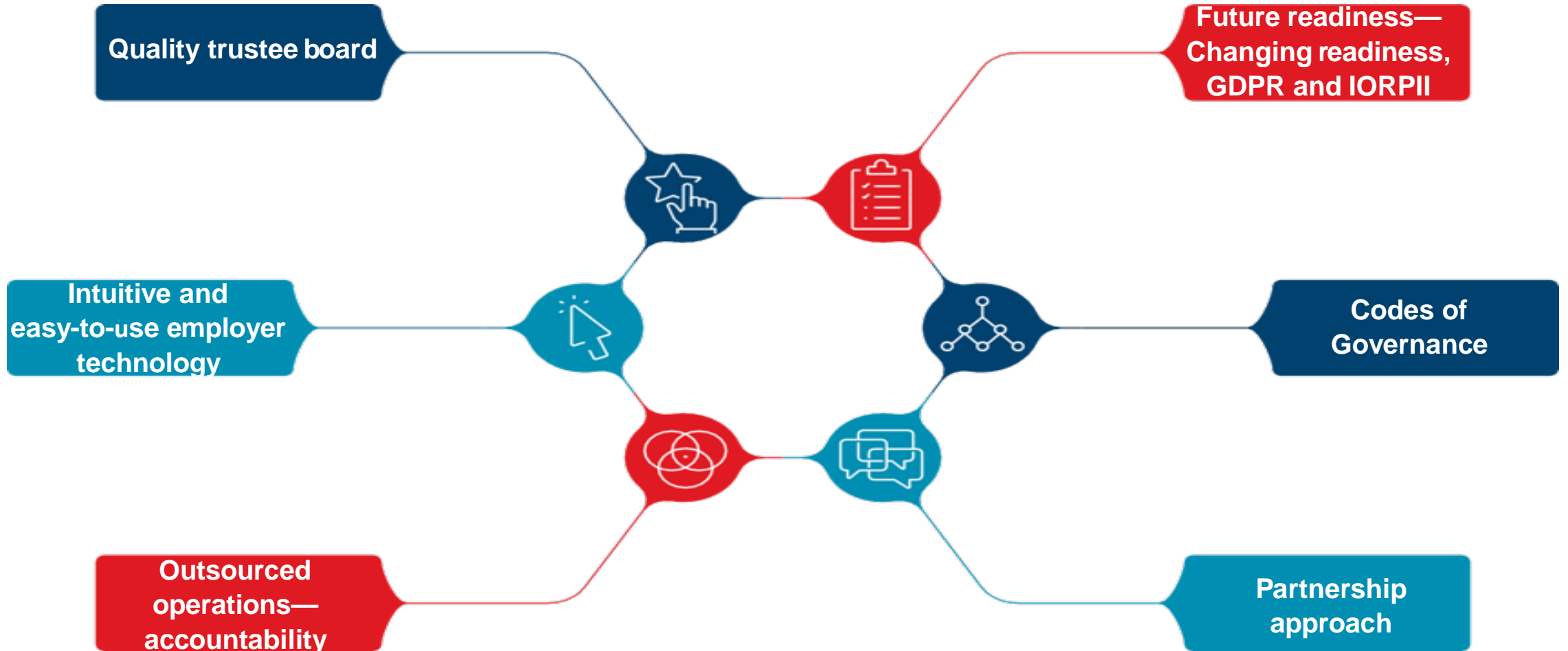
Cost

Aiming to provide better member outcomes

# The search for the right Master Trust



# Strong governance and risk management



# A final slide from me!



# DC and Master Trusts

## Lessons learned from the UK experience



**Neil McPherson**

Managing Director  
Capital Cranfield



# AE drove MTs in the UK

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- MTs are now an established and growing part of UK DC.
- 2012 introduction of AE initiated Klondike Gold Rush of MTs.
- Scheme of choice for AE (> 10m new savers).
- Knock-on effect on established trust based DC switching to MT. Large employers prefer trust to contract.

# However ...

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- Rapid increase in distributor MTs: 2013/14.
- Available MTs grew to over 100.
- Three broad types of MT emerged:
  - New AE members (eg Nest, Now, Peoples Pensions, Smart)
  - Workplace Pensions (eg Aon, Mercer, SL, L&G etc.)
  - Niche providers (linked to IFAs, fund managers etc.)
- Many MTs unsustainable as they would never reach critical mass.
- Leading to potential member loss on closure.



# The Regulator becomes interested

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- Unlike DB, no PPF for DC.
- AE cannot be seen to fail.
- MTs account for over 10m AE members (big five account for vast majority).
- Risk of market failure with over capacity.
- Regulator intervention needed to protect members in smaller, 'riskier' schemes.

# The Regulator takes action ...

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- tPR focuses on driving Darwinian consolidation in MT sector:
  - Steps to raise the governance bar
  - Mandatory three independent/professional trustees
  - Fit and Proper Tests for ITs
  - Empirical approach to governance requirements
  - Only schemes with MAF (Master trust assurance framework) appear on tPR website
  - Direct dialogue with all MTs
  - Actively encourages market consolidation
- This leads to...

# Master Trust authorisation

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- All MT schemes have to apply for authorisation from 1 October 2018.
- One shot. Miss and you're out.
- Expected to reduce number of MTs to under 50.
- Consolidation already underway.
- Requirements are extremely challenging to providers.



# What does authorisation cover?

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- Key roles
- Fitness and propriety
- Systems and processes
- Continuity strategy
- Scheme founder
- Sustainability
- Business plan

# What will authorisation achieve?

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- A sustainable market backed by providers with assets to cover any wind-up.
- Better governance (fitness and propriety).
- Objective evidence of operational capabilities.
- Security for members.





# Capital Cranfield experience

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- As provider of ITs for MTs:
  - Regulations require three ITs per MT – company or individual.
  - Comprehensive DC Chair Statements area of particular focus.
  - Strict application across all governance requirements.
  - Problems with hybrid schemes/AVCs.
- As a user of MTs:
  - Small company – 16 staff.
  - Legacy stakeholder scheme.
  - AE requirements led to MT choice.
  - Wide choice, but not all providers were interested or suitable.



# Implications for Trustees

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- End of Trust based DC exaggerated – corporate culture remains important  
...*but*
- UK experience is one way, towards a consolidating MT market.
- MTs *do* shift member into a **commercial** arrangement (but with independent governance).
- Many advantages accrue from scale and professional approach of the right MT:
  - VFM
  - Transparency and transaction costs
  - Default strategy
  - Buying power
  - Member communications and engagement
  - Millennials and generation Z work style / expectations
  - Administration and use of technology (financial planning tools etc.)
  - Independent oversight and governance
  - Post-retirement: ‘Freedom and Choice’ now a key part of MT offering

Thank you

