# Master Trusts – the future

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**Background**

Over the last 12 months, the Pensions Authority, particularly in its reform and simplification consultation[1], has stated its desire to reduce the number of occupational pension schemes in Ireland. The Authority envisages that as a result of its reform proposals, master trusts are likely to become a much more common means of pension provision[2].

The Pensions Authority has also increased its focus on trustee governance and master trusts will provide an opportunity for small schemes to benefit from the expertise of a professional trustee at a relatively low cost and thus relieve the many voluntary trustees from the very onerous obligations of this role. Master trusts will also be able to exploit economies of scale, thus reducing financial and regulatory costs and thereby enhancing their efficiency and effectiveness.

**Regulation**

There are a small number of master trusts currently operating in Ireland but there is no specific authorisation process other than the current regulatory regime. There is no statutory definition of a master trust and no specific regulation relating to such trusts in this jurisdiction. The Pensions Authority appears to welcome the advent of master trusts in the Irish market but has identified additional qualifications that may apply to master trusts[3] effective from September 2018[4]. These include requirements for the trustee to be a designated activity company with a prescribed minimum capital and for the company directors to have minimum qualifications and experience. Independent trustee directors may also have to be appointed.

The Pensions Authority and the Irish government may also draw on the provisions of the recently published UK Pension Schemes Bill which will provide for the authorisation and regulation of master trusts in the UK and is expected to become effective in October 2018.

Under the UK Bill, a master trust operating in the UK will need to be authorised by the UK Pensions Regulator who must be satisfied that the persons involved in operating the trust are fit and proper; that the scheme is financially sustainable; that each scheme funder meets specified requirements and the scheme has an adequate continuity strategy. The Regulator will also examine a master trust's processes and systems to ensure they are sufficient and will consider specific matters set out in regulations which may include: the IT systems supporting the administration of the scheme; standards concerning the quality and security of data; records management; investment decisions; risk management; and the appointment of advisers.

**Pension provision**

Master trusts are likely to become more common if and when a Universal Retirement Savings Scheme (or auto-enrolment) comes into effect. Master trust arrangements are suitable vehicles as they are occupational pension schemes of which contributing members may be employees of unrelated employers.

Certainly, auto-enrolment in the UK has seen considerable growth in the number of master trusts with over half of employers choosing to avail of a master trust to provide pension arrangements for their employees. There are now approximately 100 defined contribution master trusts operating in the UK.

There are, of course, challenges to overcome with master trusts and many of these have already been identified by the Pensions Authority. For example, and not inconsistent with other trust based occupational pension schemes, conflicts of interest may arise where a company operating a master trust is also providing other services to the trustees. The Pensions Authority, as part of its proposed authorisation process, will expect a master trust to have procedures in place for dealing with these conflicts[5].

There may also be risks that when employers are not the sponsors of master trusts, employers and their employees may become detached from the scheme and the benefits available to members and fail to become engaged participants. The Pensions Authority is therefore proposing, as a pre-condition of authorisation, that the administrator of the master trust must make arrangements for member and employer participation through communications, meetings or a consultative forum[6].

Finally, there are potential issues around the remuneration of both the sponsor and service providers and ensuring that any charging structures are transparent. In this regard the Pensions Authority has indicated that master trusts may be required to have a policy in place to control charges and remuneration.

**Conclusion**

Master trusts have the ability through economies of scale, to greatly improve pension coverage (especially in the context of auto-enrolment), reduce costs and provide a better pensions outcome for members. Invesco established the Invesco Master Trust in June 2016.

*For information about the Invesco Master Trust contact*

1 *Pensions Authority - Reform and simplification of supplementary funded private pensions consultation document 18 July 2016*
2 *Ibid, p.13,*
3 *Ibid.p31,*
4 *Ibid. p.35,*
5 *Ibid p.31,*
6 *Ibid.p.31*