An tÚdarás Pinsean
The Pensions Authority

Regulation of defined contribution master trusts

Consultation document issued by the Pensions Authority

26 July 2018

1. Introduction

Ireland is required to transpose the IORP II Directive[1] by 13 January 2019. This Directive will place additional obligations on trustees of occupational pension schemes including increased governance requirements and fitness and probity standards for trustees. These increased requirements may lead some employers and trustees to seek alternative arrangements for future pension provision.

Related to this is the Pensions Authority's view that there are far too many pension schemes which are delivering poor outcomes for members. The Authority would like to see a smaller number of larger schemes to provide for future saving.

Taken together this is likely to lead to an increase in the number of master trust[2] arrangements and their membership and the Authority is considering what additional obligations should be placed on such schemes to reflect the particular risks that apply in comparison to traditional single employer schemes.

This consultation document considers only defined contribution (DC) master trusts. The Authority recognises consolidation is only practical for defined contribution (DC) schemes and does not expect to see consolidation in defined benefit (DB) schemes. The Authority will address the issues raised by DB master trusts in a future document.

The Department of Employment Affairs and Social Protection are continuing to work on transposing IORP II into domestic legislation. In advance of the completion of this work and given the central role master trusts will play in the consolidation of DC pension schemes the Authority is launching this consultation on the regulation of master trusts.

This document sets out the Authority's view of obligations appropriate for DC master trusts, over and above those that will apply to traditional single employer schemes under IORP II. The Authority is now seeking views on these proposed obligations which will inform our approach to the regulation of master trusts and also any subsequent advice to the Department in relation to legislative changes required.

The remainder of this paper is structured as follows: section 2 considers risks that are particular to master trusts, sections 3 to 13 outlines proposed obligations to be placed on master trusts, and section 14 details how to respond to the consultation.

[1] Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision

[2] A master trust is a funded scheme, the members of which are persons who are employed or were previously employed by unrelated employers.

2. Risks particular to master trusts

It is the Authority's view that the following features of master trusts create additional risks to good member outcomes:

- Master trusts are likely to be bigger than traditional single employer occupational pension schemes, and therefore any problems that arise in a master trust will affect more people.

- Because master trusts are multi-employer, the administration is more complicated by virtue of the need to collect contributions and data from multiple sources.

- Master trusts are in effect third party financial institutions which may be run for profit or have close connections with for profit entities. This may create conflicts of interest that do not arise with single employer schemes. For instance in some cases the master trust may have been set up by an existing service provider of pension schemes.

- Employers are much less involved in master trusts than they would be in single employer schemes. This removes both a level of informal oversight of the scheme and an important channel of communication between members and trustees.

3. Master trust requirements – trustee

The Authority believes that DC master trusts must be capitalised to provide security for members (see section 5). To make this possible, the trustee should be structured as a designated activity company. In addition, recognising that DC master trusts may be run on a commercial basis, the majority of the directors of the trustee company must be independent. It is also important that directors have appropriate knowledge to act for members of a potentially large and complex scheme.

It is the Authority's view that requirements related to the trustee of a DC master trust should be:

- The trustee must be incorporated as a designated activity company with the sole object of carrying on the business of being a trustee of one, and only one named master trust.

- There must be a minimum of two directors of the trustee company. The chair and a majority of the directors must be independent directors. An independent director is defined as a director of the trust who has no interest in the assets of the scheme other than as trustee and is not connected or associated with the shareholder of the trustee company or the service providers to the scheme other than in their capacity as trustee.

- All directors must satisfy the requirements for a qualified trustee or an experienced trustee, subject to there being a minimum of one of each. All directors must be proper.

    - A qualified trustee is one that has completed a course listed on the Authority's website as meeting the requirements.

    - An experienced trustee is one that has been a trustee for at least two of the previous four years.

    - Proper means being of good repute and integrity.

- The Authority must be notified in advance of the appointment of a director to the trustee company. The Authority must be notified of the resignation of a director of the trustee company within 21 days of the resignation.

- The Authority will expect that trustee directors will have an appropriate mix of skills/expertise fitting for the management of the master trust scheme.

4. Master trust requirements – business plans

The Pensions Authority need to be satisfied about the long-term ability of the master trust to manage the pension savings of members. The purpose of the business plan is to demonstrate the viability of the master trust scheme to the Pensions Authority.

It is the Authority's view that requirements related to business plans for DC master trusts should be:

- Trustees must submit to the Authority a business plan covering a three year period which sets out projections for income and expenditure.

- The business plan must:

    - show projections on at least three distinct bases

    - set out in detail the basis for assumptions used in projections, and

    - demonstrate that the scheme has a reasonable prospect of being viable under all scenarios.

- The business plan provided to the Authority must be sufficiently detailed and comprehensive for the Authority to understand and be satisfied as to its reasonableness and robustness. The Authority will over time pay particular attention to differences between forecasted projections and actual outcomes.

- The trustees must revise and update the business plan every year. The updated business plan must be submitted to the Authority with explanations of the changes made.

5. Master trust requirements – capitalisation

Given their particular nature, it is appropriate that master trusts be required to demonstrate that they have sufficient capital to cover running costs for a period of time and any wind-up costs that might arise. This is to ensure that in the event of the scheme having to wind-up, members can be transferred to another provider/other provision without suffering additional costs.

It is the Authority's view that requirements related to capitalisation for DC master trusts should be:

- The trustee company must be sufficiently capitalised and have access to sufficient additional capital to meet the costs of sustaining the scheme for two years without requiring further capital injection.

- Capitalisation must be based on the maximum needed under the business plan scenarios.

- The trustee must be able to demonstrate proof of capital resources including any conditions attached to those resources. The trustee must satisfy the Pensions Authority that they have access to funds which must be readily accessible and from a credible source.

- The trustee must ensure on an ongoing basis that they continue to be compliant with the capital requirement. Where trustees are in breach of the capital requirement, they must make an immediate report to the Authority.

- The trustee must also satisfy the Authority annually that they continue to be compliant with the capital requirement.

6. Master trust requirements – risk assessment

Under IORP II, all schemes will be required to undertake an Own Risk Assessment. It is the Authority's view that the risk assessment for DC master trusts must be prepared annually and must take account of risks that are specific to the running of a potentially large multi-employer scheme.

7. Master trust requirements – conflict of interest

Master trusts might be run for profit or could have close connections with for profit entities which gives rise to conflicts of interest that are not seen to the same degree in single employer schemes.

It is the Authority's view that the requirements related to conflicts of interest in DC master trusts should be as follows:

- Irrespective of the sponsor or funder, the master trust must be unambiguously run in the best interest of its members.
- Trustees must have a written policy on conflicts of interest that sets out how they will identify, monitor and manage conflicts. There must be documented evidence of compliance with the procedures in that policy.
- Any contractual conditions binding the master trust to particular service providers would be prohibited.
- Trustees must ensure the segregation of assets between the master trust and the scheme or member and that there are robust financial controls in place.

8. Master trust requirements – member/employer communications

In traditional single employer schemes, the employer is often an important channel of communication between members and trustees. Furthermore, in a master trust, the role of the employer is different than in a traditional scheme and so they will likely have less direct involvement with the trustees.

It is the Authority's view that requirements related to member/employer communications in DC master trusts should be:

- Trustees must have a written policy for engagement with members and employers. The policy must set out in detail the format and frequency of engagement with members and employers. The policy must also contain a commitment to active engagement with members and employers. There must be documented evidence that the policy is being implemented.

- Trustees of master trusts must have arrangements in place to facilitate access to trustees for adhering employers and members. This must include holding an annual meeting to which members and employers should be invited.

9. Master trust requirements – charges transparency

It is particularly important that members and adhering employers can understand the master trust charges and are able to move to another provider if they are not satisfied that they are receiving value for money.

It is the Authority's view that requirements related to charges transparency in DC master trusts should be:

- Trustees must have a written policy specifying:

  - how charges are transparently disclosed,

  - that increases in charges will only be made by giving 12 months' notice to members to allow them or the sponsoring employer to transfer should they so wish before the increase is implemented,

  - that members or prospective members can transfer assets in and out without charge.

- Trustees must maintain documented evidence that the policy is being implemented.

10. Master trust requirements – marketing of the scheme

Trustees of master trusts may not have responsibility for the marketing of the scheme. However, the Authority believe that it is important that they have consented to the materials used which will include information about their scheme.

It is the Authority's view that requirements related to marketing of a DC master trust should be:

- Trustees consent is required for marketing material in relation to the master trust scheme.

- When deciding on whether to give consent trustees should ensure that they are reasonably satisfied that content is not misleading to the reader.

11. Master trust requirements – new members

Trustees will have responsibility for preparing a business plan which will outline how the scheme can be expected to grow. With this in mind, it is important that trustees are aware of potential new members and are satisfied that the scheme can provide for them.

It is the Authority's view that trustees must be required to give consent to the enrolment of new members into the DC master trust scheme.

12. Master trust requirements – wind-up procedure

Given their potential scale, the wind-up of a master trust could be a significant process.

The Authority considers that the trustees of a master trust must be able to demonstrate that they have an appropriate wind-up procedure in place that protects the interests of members.

It is the Authority's view that requirements related to wind-up procedures in DC master trusts should be:

- Trustees must have written procedures that they will implement in the event of wind-up.

- These procedures must be designed to ensure that benefits are transferred efficiently, in a timely manner and without cost to members and beneficiaries.

- Trustees will be expected to ensure that these procedures are kept up to date.

13. Master trust requirements – reporting to the Pensions Authority

Given their potential scale and inherent complexity, the Authority will consider master trusts to be in the highest risk category for supervision and specific reporting requirements will be in place.

The Pensions Authority will define a series of notifiable events. On the occurrence of any of these events, trustees will be required to notify the Authority and provide relevant further information. For example, notifiable events might include:

- a decision to wind-up the master trust, or

- a change of control of the trustee company.

14. How to respond

The Authority would welcome views on the issues set out in this paper. In particular views are sought as to whether you agree or disagree with the direction for regulation of DC master trusts or if there are areas that you feel have not been covered.

Please send submissions by Friday 5 October 2018 by email to development@pensionsauthority.ie or by post to:

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Updates on the consultation process will be given on the Authority's website www.pensionsauthority.ie.