An Chomhairle Pinsean
The Pensions Council

Master Trusts

A practical guide for Employers and Trustees

The purpose of this documents is to set out some of the practical steps and considerations for Employers and Trustees when working through a move to a Master Trust.

A move to a Master Trust affords Employers an opportunity to reassess pension provision including the terms available to pension savers, member communications, servicing supports (including how technology is used) and the contractual terms governing such arrangements.

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1. What is a Master Trust?

A Master Trust is a multi-employer, defined contribution pension scheme established under trust. It is not defined in Irish law and there is no Revenue definition, no Taxes Consolidation Acts definition, no Pensions Act definition, no IORP II definition, no Code of Practice definition.

Notwithstanding this lack of definition, there is a significant move to Master Trusts in the Irish market, with c. €22 billion (out of c. €60 billion in total) of defined contribution assets having moved to Master Trust arrangements, the majority of which has moved in the 2021 – 2023 period[1].

This market dynamic reflects the benefits of moving to Master Trust including:

- **Consolidation**: the consolidation of pension arrangements across unconnected employers should lead to the benefits of scale being realised;
- **Compliance**: Employers can outsource regulatory compliance and focus on aspects that add value, such as member communications and education supports;
- **Better outcomes**: a Master Trust should be able to react more quickly to investment volatility, wider market events and to regulatory or taxation changes;
- **Governance**: higher standards of pension governance and oversight can be achieved than by the generality of standalone trusts.

2. Decision to move to a Master Trust

The decision to move to a Master Trust is "employer-led". Key roles of the Employer and the Trustee are as set out below.

1. Employer

    a. to select an appropriate pension vehicle for future service, having undertaken a level of due diligence and market analysis;

    b. to manage the transition in respect of future contributions for existing employees (to include updated employment documentation, including Payment of Wages consents, contractual provisions);

    c. to ensure the documentation enabling participation in the selected Master Trust is fit for purpose; and

    d. to meet all costs associated with the transfer.

[1] Driven by regulatory and compliance deadlines

2. Trustees

a. to consent to the winding-up of the existing pension scheme;

b. to agree to a bulk transfer[2] of member accounts into the Master Trust selected (while other methods of transferring member benefits can be considered, a bulk transfer is generally most efficient);

c. to manage the transition and ensure 100% of member accounts transfer to the Master Trust; and

d. to communicate with members in accordance with statutory requirements (Bulk Transfer Regulations / Disclosure Regulations).

Trustees have fiduciary duties to pension scheme members and must act in their best interests which is generally taken to mean best financial interests. In consenting to transfer to a Master Trust, trustees must be able to satisfy themselves that the move is in the best overall interests of members.

By undertaking an appropriate level of due diligence and market analysis (as set out at (a) above), an Employer should be able to address the reasonable concerns of Trustees in this regard.

3. Master Trust due diligence

In consenting to wind up the existing pension scheme and to bulk transfer member accounts to a Master Trust, Trustees (can be anticipated to) / will seek an understanding of:

- the commercial and legal terms governing the Master Trust generally, and the Employer's section of the Master Trust in particular, including the benefit structure;
- the range of funds available;
- the charging structure (including exit charges if applicable);
- how death in service benefits will be provided;
- future flexibility, including transfer out mechanisms, etc; and
- the transition process.

Reflecting on these expectations, the areas that Employers will generally consider as part of their due diligence and market analysis will include:

1. **Documentation:** the documentation needed to (a) wind up the existing scheme, (b) bulk transfer the assets and liabilities to the Master Trust and (c) become a participant in the Master Trust.

[2] Trustees must have a trust power to effect a bulk transfer of assets and liabilities under the terms of their governing trust documentation. Where this power is not drafted widely enough to facilitate a bulk transfer on wind-up, the scheme may need to be amended in advance of it being wound up.

2. **Compliance Standards**: Master Trust trustees must satisfy the required "fit and proper" standard, the provider must meet the capitalisation expectations of the Pensions Authority, and ensure that required conflicts of interest policies are in place[3].

3. **Charging Structure:** Understand the charging structure within the Master Trust by assessing whether:

   a. it is competitive relative to existing arrangements and other market providers (to whom it is feasible to move);

   b. it can be unilaterally changed by the provider after transition by notice to the Employer; and

   c. exit charges are payable and if so, by whom (sponsor, member?).

4. **Investment:** that investment and default investment options are appropriate

5. **Indemnity:** that the indemnity and exoneration provisions in the underlying legal documentation in favour of the Master Trust provider and Master Trust Trustee are appropriate.

6. **Member Communications:** That member communications are clear and accurate. Consideration to be given to the

   a. frequency of the communications; and

   b. delivery mechanism - electronic / hard copy / virtual / in person

7. **Ongoing Management:** Management of Master Trust Section after transition, to address issues such as

   a. expression of wishes exercise;

   b. member communications and ongoing engagement;

   c. employer committee liaison;

   d. management of death claims / insured death benefit rebroking; and

   e. investment reporting.

[3] In the first half of 2023, the Pensions Authority concentrated on ensuring that all Master Trusts met basic compliance standards around trustee structure and director appointments, trustee fit and proper requirements, trustee decision-making and conflicts of interest, capitalisation, key policies and procedures, and key functions (risk and internal audit).

4. Additional considerations on transition to a Master Trust

Standards can vary across Master Trust providers and while this is an area which is developing and improving, the following areas currently require very close attention.

4.1 Documentation

Documents must be legally and technically correct to wind up the existing scheme, bulk transfer the assets and liabilities to the Master Trust and for the Employer to become a participant in the Master Trust. The approach to transition and consequently the transition documentation for each provider is currently different and so transition documentation should be reviewed, preferably legally reviewed, to ensure the legal and commercial terms governing the transition to and ongoing participation in the Master Trust are effective, fully understood and accepted.

4.2 Investment switching

Certain providers in the Irish market will transfer all assets into the default investment strategy of the receiving Master Trust (irrespective of the fund split in the legacy fund), whereas other providers will transfer assets into a fund that offers the most appropriate match for the existing member fund choices.

It is important that the impact of the different approaches is understood, and that the communications issued to members are tailored for each circumstance.

4.3 Transition process

Different processes apply across the Irish market.

There can be an "out of market" exposure when assets are transferring, or alternatively a pre-funding agreement can be entered into. The objective of a pre-funding agreement is that at the point where the assets are being sold by Provider A, equivalent assets are purchased by Provider B, which means that there is no out of market exposure while the assets are transferred across. There are costs and indemnifications involved in pre-funding, which should be considered – for example, is the shortfall risk borne by members? There is no correct answer and in certain circumstances pre-funding may not be feasible or appropriate.

4.4 Transition of existing scheme details

Prior to transition, all arrangements under the existing scheme need to be reviewed, to ensure they are dealt with as part of the transition, including:

- Benefit structures in place for members and whether there are different categories of members and different benefit structures for each category.
- Pension Adjustment Orders – treatment on transition and whether such arrangements will be honoured post transition.

- Expression of Wishes forms (existing) and whether new forms are necessary.

4.5 Death in Service benefits

It can be the case that death in service benefits are set up under the Master Trust, however this may create constraints on where risk benefits can be placed.

As such, many employers will set up a standalone trust, either with the Employer or an independent trustee acting in the trustee role. Where an Employer acts as Trustee and where a death claim is payable, the Employer can have a knowledge of the deceased individual's personal circumstances which an Independent Trustee may not have.

4.6 Treatment of deferred members

The assumption is generally that deferred members will be treated consistently to active members and will be bulk transferred to a Master Trust along with active members where the decision to bulk transfer benefits has been made.

In any future transfer away from the Master Trust, it is likely that deferred members would not move - and that they would remain as members of the Master Trust. Under current pensions legislation deferred members with preserved benefits cannot be transferred out without consent unless on wind-up and therefore deferred members cannot be bulked transferred out of a Master Trust if an employer decides to move away from that Master Trust. Individual deferred members can elect to transfer out in accordance with the provisions of the Pensions Act.

In considering deferred members, there are a number of points to note:

- Disclosure regulations now require regular communications with deferred members.
- Deferred members can transfer their benefits to a new employer's scheme at any point.
- Trustees of Master Trusts will retain a responsibility for appropriate governance of the arrangements they oversee - which extends to deferred members.

4.7 Post transition

In moving to Master Trust, Employers should consider how it wishes to oversee the operation of the pension arrangement into the future. While there will be Trustees at the Master Trust level, there will be value in having focused local oversight and engagement, particularly where the pension benefits are a key part of that Employer's reward proposition.

There is regulatory support for engagement at the individual employer level: under the Pensions Authority Code of Practice[4] a formal communication policy needs to be in place between Master Trust trustees and each participating employer.

"For master trusts, the written policy on engagement must include engagement with employers as well as members. The policy must set out in detail the format and frequency of engagement. The policy must also contain a commitment to actively engage with members and employers. This might include holding an annual meeting to which members and adhering employers are invited. There must be documented evidence that the policy is being implemented."

The 2023 Pensions Authority review[5] of Master Trust practices around engagement with employers found varying standards in place. Some Master Trust trustee boards had not actively engaged with employer participants, one trustee board advised that its founder held an employer conference and another board advised that an employer newsletter was issued during 2023 outlining how the MT had grown in the last year, IORP II compliance and the Master Trust's risk governance framework.

Having this oversight ensures that pension engagement, communications, service standards and overall performance are as expected by an Employer who is participating in a Master Trust, and this would increasingly be seen as best practice.

5. Final points

The purpose of this note is to provide general guidance where employers are moving from a standalone occupational pension arrangement to a Master Trust. It is not intended as professional advice; it is not exhaustive and is subject to change as the position on Master Trust develops. Getting this right should ensure better terms for pension savers, appropriate legal documentation, and protections on transition and beyond, and ultimately result in greater confidence in the pension arrangements that are being put in place.

[4] https://pensionsauthority.ie/wp-content/uploads/2023/06/code_of_practice_for_trustees.pdf
[5] https://pensionsauthority.ie/wp-content/uploads/2023/12/20231218-Engagement-and-audit-findings-report-2023.pdf