

Master trust arrangements

The future of pensions in Ireland

Master trust pension arrangements are likely to play a significant role in the Irish market in the coming years.

BY BARRY McCALL

The Pensions Authority recently produced statistics that the number of live Defined Contribution (DC) plans exceeds 70,000. This is an extraordinarily high figure for a country the size of Ireland and it is little wonder that the Pensions Authority has expressed a desire to see a wide-scale rationalisation which would result in a reduction to about 150 schemes. Based on these figures and the Pensions Authority's objectives, a lot of consolidation is going to happen, says Shane Horgan, senior consultant and market development manager with Aon.

Under normal circumstances, the very notion of consolidation on such a scale would be fanciful. But the circumstances are far from normal. New governance standards and other requirements introduced by the Pensions Authority are placing a heavy burden on scheme trustees, while the pending introduction of the IORP II Directive will place much greater emphasis on the prudential management of scheme activities.

Under the terms of the Directive, trustees will be expected to have clear governance systems in place which ensure proper oversight of all aspects of a pension scheme. In addition, they

must understand the role of the trustee board, ensure that the composition of the trustee board is fit for purpose, that the trustees themselves have met fit and proper criteria, and that meetings are held regularly.

Undoubtedly, this is good news for scheme members and the pensions sector generally, but for many employer trustees, the new requirements will be very difficult, time-consuming and costly to fulfil.

Fortunately, an alternative structure is now available that will relieve hard-pressed trustees of this looming burden as well as meeting the Pensions Authority's objective for rationalisation – the master trust.

"A master trust is a defined contribution (DC) pension arrangement which incorporates multiple employers but is managed by a single, professional, corporate trustee," Horgan explains. "Within a master trust, every participating employer has their own section and is able to retain full control over decisions around benefit design, eligibility, contribution levels, and death-in-service benefits."

Meanwhile, the trustee of the master trust is responsible for the more sensitive, onerous and time-consuming activities

such as governance, investment strategy, administration, member communication and digital delivery.

"This, therefore, allows employers to migrate their existing schemes into a master trust in the knowledge that they can continue to retain control over the design of their specific section of the master trust,"



Shane Horgan

Horgan adds. "That allows them to think about the more strategic piece in terms of the pension scheme's role in their overall employee benefits offering."

Another key attraction of the master trust model is the economies of scale that can be achieved. These economies could never be achieved within the existing pension scheme framework, but the master trust solution offers a structure for participating employers to share the cost and benefit from group purchasing power.

"Master trusts will provide best in class investment strategies and outcomes for members at a very competitive rate," Horgan points out.

Member communication is another issue. "Schemes must be able to communicate with members at different stages in their careers, and as retirement approaches, ensure that members make informed decisions in relation to their pensions", Horgan explains.

"Defined contribution pensions place responsibility on the individual member when it comes to ensuring that their pension will adequately provide for their retirement," he continues. At retirement, individual DC pension pots will ultimately depend on the amount that has been actively saved by the member and the investment return on those savings. This means that members must be empowered and sufficiently well-informed to have a 'hands-on' approach to understanding and regularly engaging with their pension."

The make-up of the modern workforce presents a challenge in that regard. "The current workforce can now count four very different generations who are often engaging and communicating in different ways and across different channels. As a result, many employers and trustees are struggling to meet their new education and communication

needs. The traditional 'one size fits all' approach is no longer adequate."

Master trusts have the resources to meet this challenge and can communicate with members in multiple ways.

The master trust model is already hugely successful in the UK where it has grown from 220,000 members in 2012 to 13.4 million by the end of 2018. "We have offered a master trust solution in the UK for a number of years," says Horgan. "The model is particularly well-suited, both to the consolidation of existing schemes and to the auto-enrolment scheme, set to be introduced to Ireland in a few years' time. Statistics from the UK pensions regulator indicate that 80% of all new DC pension scheme enrolments in 2016 were to master trusts."

Horgan believes this trend is likely to be repeated in Ireland. "When you see how the UK market has transformed in the six or so years since the introduction of auto-enrolment, it is quite probable that we will see master trusts becoming an equally significant feature of the market here in Ireland. Over the next five-to-seven years, we expect to see a significant increase in the number of Irish employers offering pensions through master trust arrangements."

Aon launched its Irish master trust offering in October of 2017 and Horgan firmly believes the model represents the best option for many employers, schemes and their members. "From our perspective, it is about improving the quality and standard of pension provision for everyone. Some employers will opt to retain their existing structure, of course, but we believe the great majority will migrate to master trusts in the coming years. We have been able to leverage our experience in the UK to develop a truly robust arrangement here in Ireland that we expect will deliver great returns into the future."

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