

For professional clients only

Aon's Master Trust Market Update

April 2021

This report provides a brief summary of UK DC market activity and master trust solutions and developments.

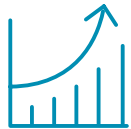
In summary



Master trust assets are expected to continue to grow by 29% p.a. whilst own trust assets reduce¹

The Government intends to accelerate the consolidation trend, expecting schemes with less than £100m assets to wind up if their members would achieve better value from a larger arrangement².

For more information on asset flow, see page two.



Focus on Investment

- Investment design has surpassed cost as a key criteria in provider selection processes.¹
- There are growing calls for ESG options.

For more information on trends in investment solutions, see page three.



Wellness and Engagement

- Engagement remains the biggest challenge for schemes.³
- Many master trusts have embraced technology to address this, offering apps and video benefit statements as standard.
- Some providers support wider financial wellness.

For more information on trends in engagement solutions, see page four.



Retirement income solutions under the spotlight

- There is a general need for more developed solutions for advice and drawdown investments.
- The PLSA's recommendations for a new regulatory framework supporting members towards good drawdown options will increase the consolidation trend.⁴

For more information on trends in retirement support solutions, see page five.



Asset flows and a shift in focus

- Master trusts represent the fastest growing segment of the DC accumulation market.
- The government published a consultation that proposes schemes under £100m wind up if they do not offer sufficient value to members. Schemes will have to assess how they provide value including comparisons with larger arrangements and report this in their scheme return. Further detail is awaited through draft regulations.²

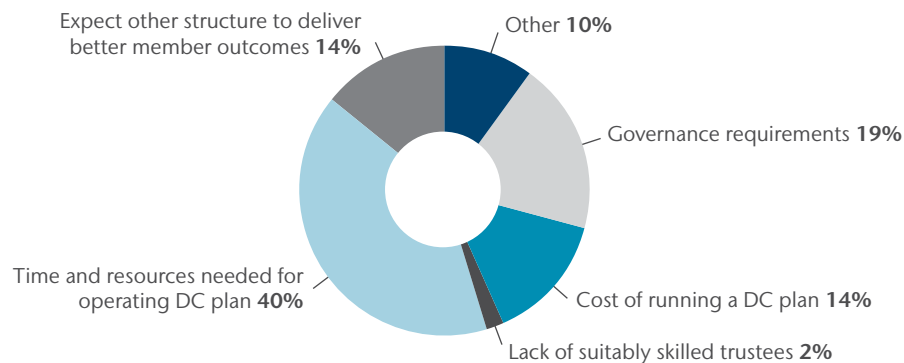
Plan to move to master trust over next five years³



Why master trust?

- DC master trusts offer a well governed, trust based, multi employer arrangement, with access to developed support for members. Limited employer input is required and costs are typically passed to the membership.
- A concern for some employers has been that master trust offers a standardised solution but the market has developed and better providers support tailored solutions for clients.

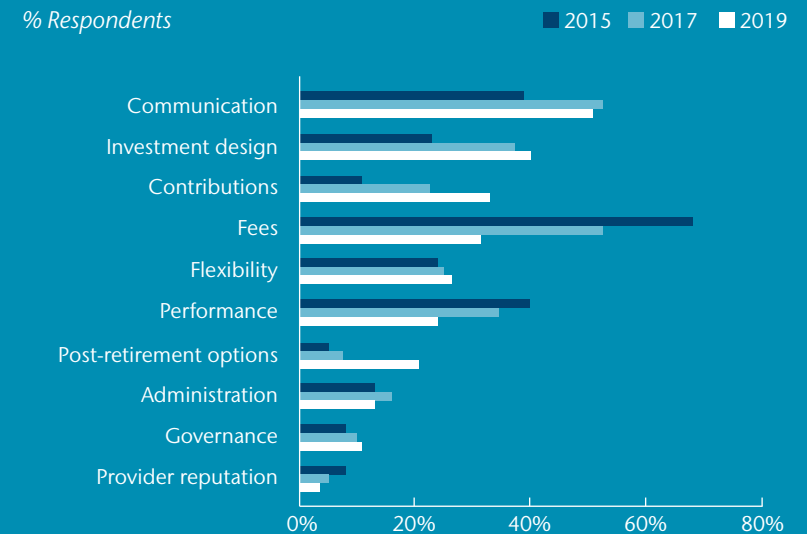
Why employers with trust based schemes are moving to master trust³



Selecting a provider

- Some clients still focus on price but innovation from the better providers is leading to greater attention on quality.
- Investment design has increased in importance as awareness grows of the impact on returns.
- Focus on retirement flexibilities has increased as schemes mature.
- Master trusts are well placed to respond to the engagement challenge as their scale provides funding for advanced technology solutions.

What do you consider the most important features of a good DC scheme?¹

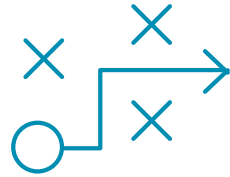




Focus on investment

The headlines

- Increased focus on investment design is validated by significant performance differentials between providers
- There is a growing appreciation for the advantages of target date
- New regulations, COVID-19 and recent world events have all led to an increased focus on ESG
- Drawdown investment solutions are the next key area of market focus (see page 5)



Strategy drives performance

- Providers' performance is mainly driven by strategic allocation. It is crucial we get this right to support good outcomes.
- For younger members, short term volatility has no impact on retirement outcomes, so we can focus on returns without concern about risk in these early years.
- A link to a recent independent survey of provider performance is included here: [2020 DC Default Review – When you walk through a storm...](#)



Target date funds make it easy

- Benefits of target date include the flexibility to change approach when this benefits members without disruption to their funds.
- The market is waking up to these benefits, with 19% of DC assets predicted to be invested in target date by 2028¹ and a number of additional providers moving in this direction⁵.
- Providers currently offering target date funds include Aon and NEST; both own the target date strategy but implement using external managers.



Sustainability and ESG

- Most providers now incorporate some form of 'ESG screen' in their default strategy, however this term is used to cover many different approaches.
- It is important that the strategy passes the 'so what' test to avoid 'green washed' solutions – what does the approach mean for members?
- Aon's low carbon approach to passive equity investment, used in our default strategy, reduces carbon emissions by around 60%.
- For members wanting to go further and 'do good' with their money it can be difficult to find solutions but the market is developing fast. Aon launched its Global Impact Fund in 2020 to fill this gap with a fantastic response from members.

The fund invests to make a positive impact on people and the planet whilst also generating healthy returns. For more information see [Aon Global Impact Fund](#).



Wellness and engagement

The headlines

- Engagement remains the biggest challenge for schemes.³
- Many master trusts have embraced technology to address this, offering apps and video benefit statements as standard.
- Some providers support wider financial wellness.

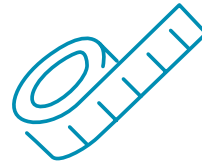
“Aon’s Well One Money can change employees’ behaviour... Aon is one of very few firms achieving this and one of the few genuine leaders in this field.”

Ian McKenna, Corporate Adviser,
July 2020



Is technology the answer?

- It’s a big part of it. Developed solutions include video benefit statements, apps and webchat. Not all members will engage this way though so a multi media approach is crucial.
- A good app can revolutionise member engagement giving easy access to a personalised portal without requiring log in details.
- Apps also support 'nudging' – the use of data driven bite size messages to prompt review and encourage action.



Tailoring – the key to good engagement

Tailoring ensures messages are relevant and can be heard amongst the noise of day to day life.

Good providers offer personalised online support and will overlay it with relevant messaging through nudges, presentations and written material to ensure members and the company get the best from their scheme.



What is financial wellness?

Good question! Financial wellness is the ability to manage your finances no matter what life throws at you. Aon believe members need a broad package of support to identify and manage all financial priorities not just their pension.

Aon’s Well One Money support, accessed through our member online portal, gives members a holistic picture of their net worth and income and helps them plan in this broader context. Well One Money also actively encourages members to plan for long-term saving through highly engaging tools and prompts including spending analysis and budgeting tools. Members can also save through ISAs or an Investment Account alongside their pension.

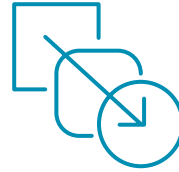




The retirement support gap

The headlines

- Drawdown assets, £160bn in 2019, grew by 20% in 2018.
- Less than 1% of current drawdown assets have been accessed through in scheme drawdown, leaving a natural disconnect at retirement.
- Most members do not take advice, in particular those with smaller pots.
- The PLSA has recommended that all schemes offer or signpost drawdown support with supporting communications⁴.



Supporting a smooth transition to retirement

- Providing support towards drawdown is one of the key drivers of the market shift from own-trust to master trust. However some providers require a transfer at retirement to a different product or funds incurring transition cost and risk.
- For companies with own-trust schemes, master trusts can offer a pre-vetted solution to which members can be signposted. Ideally there would be consistency between the pre and post retirement schemes including a consistent investment approach.



Investing retirement funds

- Members need guided investment solutions after retirement too — some default funds derisk to the point of retirement and members are then left to fend for themselves.
- Some providers have developed a ‘multi pot’ solution focussing on various objectives, e.g. ‘taking flexible income’ or ‘saving for a rainy day’.
- Target date funds, as used by Aon, uniquely support a streamlined journey to and through retirement, requiring no member decisions or investment / product shift at retirement.



Advice or guidance?

Members need both! Whilst pots are growing rapidly, which may result in more members seeking advice, a range of solutions is needed:

- Easy access to good advice for those who want it and can afford to pay.
- Comprehensive and engaging guidance for members who don't.
- Support throughout retirement including annuity broking.

In reality, given advice is typically expensive, this still leaves a gap for those wanting low cost support beyond guidance. Aon are piloting robo advice to address this and, in time, we expect other providers to follow.

Contact

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Source Information

¹ Broadridge Navigator UK DC and Retirement Income report 2019

² Improving outcomes for members of DC pension schemes, DWP, September 2020

³ Aon DC Survey 2020

⁴ Evolving the Pensions Freedoms - Final Recommendations, PLSA, October 2020

⁵ Growing pains – Master trusts beyond auto-enrolment, DCIF, November 2020



About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

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