GO PENSIONS
ADMINISTRATION CONSULTANTS

DC MASTER TRUST REPORT

A YEAR IN REVIEW

2024

GO PENSIONS

Go Pensions is a leading provider of independent pensions evaluation consultancy services.

Welcome to Go Pensions 2024 DC Master Trust Report.

We share this report in the first year of a new Government. A landmark pensions review is on the cards, which we know will consider member outcomes, value for money and consolidation and scale. Themes that have been at the forefront of our recent reports. We look forward to seeing how things might change for our 2025 report!

Findings are compiled from our annual survey of the master trust providers. The survey complements our ongoing research and interactions with the commercial DC master trust providers.

This annual report provides unique and holistic insight into the master trust propositions, developments and member experience. For 2024, new themes are explored such as Trustee Board policies and ‘second-generation’ master trust opportunities.

We have captured a wealth of rich data in carrying out our survey. More than we can share in this short report. If you are interested in hearing more, we will be very happy to hear from you.

Thank you to the 16 commercial master trusts that continue to participate in our annual surveys. A summary of the 2024 participants can be viewed on page 19 of this report.

Our DC master trust league table is published online twice a year on our website under Insights: Latest Insights – Go Pensions (go-group.co.uk)

Information collated in this report is correct at the time of publication and may change in the future.

December 2024

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MARKET INSIGHTS ~ 2024

Our detailed research into the master trust market over time demonstrates that there has been a slowdown in the number of employers moving into master trust since around mid 2022. This isn't surprising. Since 2012, the number of non-micro DC schemes has declined by **67%**. There are now **84%** of DC / hybrid schemes in a master trust.* This shrinking market brings a specific set of challenges for the master trust market. Throughout this report we discuss how the master trusts are rising to the challenges.

Master Trusts tell us that the biggest perceived **barrier to small scheme consolidation** into master trusts is now 'market confusion' (see page 7). Many of the remaining single employer DC schemes likely carry some level of complexity (e.g. GMP underpins, guarantees). Whilst some master trusts already have solutions for these issues, they are typically the master trusts that target larger DC schemes. Until more solutions are readily available to solve these complexities, we are likely to see the remaining schemes confused about how they can make the move to master trust.

With a shrinking market of prospective clients, master trusts are reacting by **innovating** and reconsidering their target markets (see page 13). There are certainly more opportunities available for small schemes looking to move into master trust. And for new employers entering the master trust market. Where options were once limited, many value-add extras are now available, at reasonable price points. 2023 saw Mercer and Smart Pension collaborate on a proposition specifically targeting SMEs. We are also seeing evidence of a growing **secondary master trust** market.

Member self-service has been an area of development (see page 11). All respondents to our survey now either provide an app to their members, or plan to do so within a few months. With the gap closing between the 'haves' and the 'have nots' when it comes to member tech, it will be more difficult for trustees and sponsors to differentiate when selecting a master trust. Independent expertise into the market will become even more valuable.

Consolidation of the master trust market itself has continued. Since our last report we have seen SEI acquire the NPT master trust, Smart Pension acquire Evolve Pensions, including the Crystal Master Trust. More recently Mercer has reached an agreement to acquire Cardano (and the NOW Pensions master trust) and Smart Pension is to acquire the Options master trust. This consolidation is in line with our prediction, and we still believe that the market of 'commercial' master trusts will likely settle at around 10-15.

With this level of activity in the market, it is important that sponsors or trustees have access to current and whole of market insight.

Tina will be happy to hear from you if you would like to discuss any of the themes in this report:
tina.oversby@go-group.co.uk

* Source: TPR's Research and analysis: Pensions research and analysis | The Pensions Regulator

VFM ASSESSMENTS ~ SMALL SCHEMES

We asked master trusts about the VFM enquiries they were receiving from small schemes

The new Government has committed to conduct a review of the pensions landscape, including what steps are needed to improve member outcomes. Reforms to ensure workplace pension schemes take advantage of consolidation and scale are also expected.

On the face of it, this appears to continue the themes we have seen since 2021. Specific VFM reporting requirements already exist for small schemes, where failure to demonstrate value for members will lead to forced wind up.

Our survey tells us that the volumes of VFM enquiries being made by small schemes to meet these reporting requirements remains low, and in fact master trusts are now expecting an even lower numbers of requests.

2023 saw the TPR, DWP and FCA continue steps towards a consistent regulatory framework for Value for Money assessments to support trustees with their VFM assessments. Whilst a consistent framework on metrics, standards and disclosures is welcomed, is this enough to ensure schemes at the smaller end of the market are being well-governed and can provide member outcomes equivalent to those available from larger schemes?

75% of master trusts received less than 50 VFM enquiries from small schemes in the last 12 months (same as 2023)

Almost **40%** of master trusts received fewer than 10 VFM assessment enquiries from small schemes in the last 12 months (25% in 2023)

63% of master trusts said this was "about the same" volume as expected (44% in 2023)

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Sanctions for schemes failing to carry out their VFM assessments appropriately need to be strengthened to ensure action is taken.

Read our article on VFM assessments for small DC schemes here

VFM ASSESSMENTS ~ SMALL SCHEMES

Master trusts feel that there is still too much focus on costs and charges

There is once again a common theme running through our survey, and our wider engagement with the master trust market.

Despite TPR calling for consideration of **‘holistic’ value rather than absolute costs and charges**, some trustees and sponsors remain overly focussed on fees. Ceding trustees and sponsors need to ensure that they are acting in the best interests of their members and employees. This means asking themselves if they are seeking lower costs at the expense of achieving higher investment returns.

80% of master trusts tell us they see too much focus on costs and charges, or that the “value aspects” provided by master trusts are often under-valued (up from **75%** in 2023).

We hope that we will start to see a shift soon, where master trusts feel that their “value aspects” are getting more recognition and appropriate focus is given to member outcomes rather than absolute charges alone.

GO Insights

Trustees of schemes under £100m in assets, should be looking at the master trust market now!

Only **6%** of master trusts believe trustees of small schemes consider the value of the full master trust proposition when conducting their VFM assessments

VFM Assessment

30% of master trusts believe there is still too much focus on costs and charges

Costs and Charges

50% of master trusts consider the value aspects that they offer are often under-valued

Value Aspects

SMALL SCHEME CONSOLIDATION

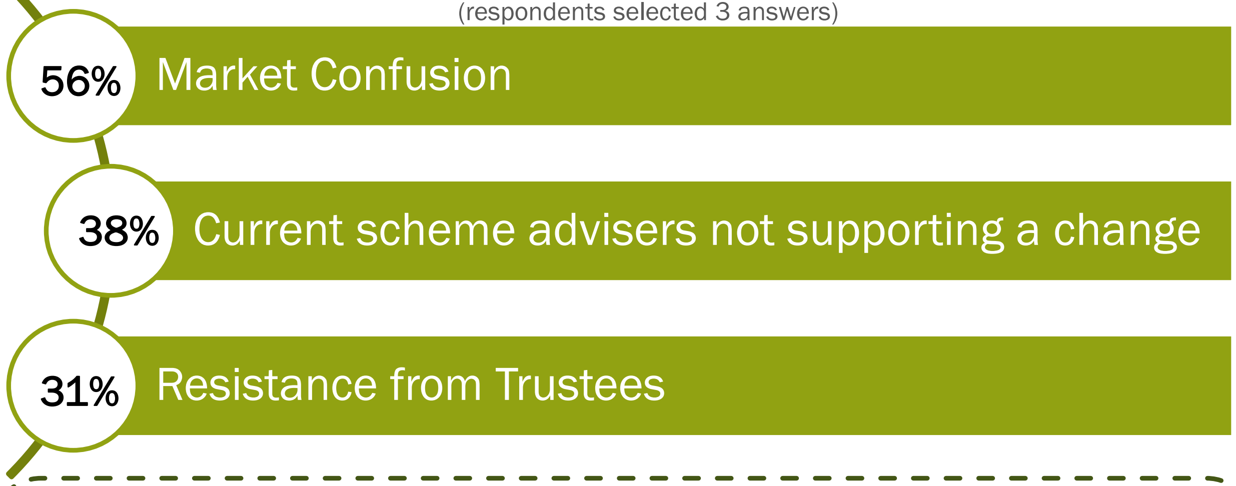
We asked master trusts what they felt were the top three barriers to small scheme consolidation

With the new Government committed to driving consolidation and scale, opportunities for small schemes to access master trusts will become more important. The number of master trusts able to admit small schemes has significantly increased over the last 3 years (in 2024, **56%** of master trusts would consider taking on a scheme with assets under £10m, compared to **35%** in 2021).

More interesting are the perceived barriers to small schemes consolidating into master trusts. Last year (2023), most master trusts (**69%**) felt the biggest barrier to consolidation was resistance from ceding trustees.

This year only **31%** of master trusts believe ceding trustees are a barrier. Market confusion has become the top perceived barrier for small schemes consolidating into master trusts. Not surprising given the declining number of single employer DC schemes. Many of those that remain likely have some complexity, for example GMP underpins.

What, in your opinion, is currently the biggest barrier to small scheme consolidation into a master trust? (respondents selected 3 answers)



GO Insights

The market needs more readily available solutions to solve complexities such as GMP underpins. Otherwise, we will continue to see schemes confused about how they can make the move to master trust.

BULK TRANSFERS OF ASSETS

We asked master trusts about their approaches to asset transitions

- Almost all master trusts are open to considering **100%** pre-funding for bulk transfers (up from **81% in 2023**).
- The master trust market is working hard to find **efficiencies** and mitigate against out of market risk for members during the bulk transfer process.
- There is flexibility in how **buy / sell transaction costs** can be met – including allowing the sponsor or ceding scheme to meet some, or all, of the transaction costs. This could provide some relief where there is concern about costs being incurred by members on the move to a master trust.

Our experience is that asset transitions are typically well planned, well-resourced and well executed from the master trust side.

GO Insights

Ceding trustees and sponsors must also consider the role of the incumbent administrator and investment manager(s) in any asset transition – their activities take careful planning.

More master trusts are using 100% pre-funding

More master trusts are using re-registration and in-specie transfers

More master trusts tell us they will meet the buy / sell transaction costs at no commercial impact to the member

INVESTMENT STRATEGY

We were keen to understand if needs are generally being met by ‘off-the-shelf’ default investment strategies

For most schemes, the benefit of moving to a master trust comes from the **efficiencies gained from standardisation**. In particular, adopting the standard investment strategy and removing the burden of ongoing investment governance.

For clients who do want to have a say in the default investment strategy, **alternative options are available** in the market.

Our experience is that most of the master trusts are open to some level of tailoring if desired. The extent that they are prepared to deviate from their off-the-shelf offering varies. As does the requirement for the sponsor to take on-going investment advice.

Although this is available, unsurprisingly take up is low (see page 10). If you are considering a move to master trust and have a desire to influence the investment strategy for your employees, we’d be happy to have a chat about what we are seeing in the market.

GO Insights

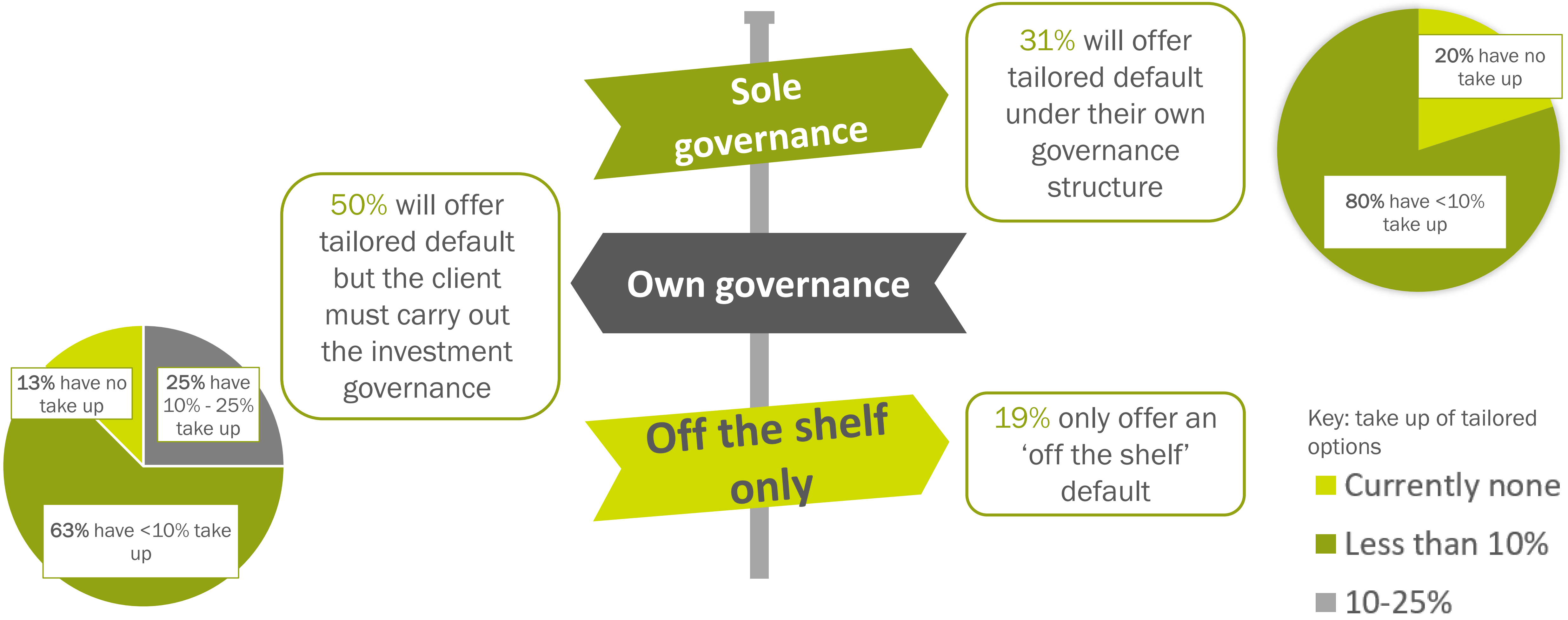
Last year, seven of the commercial master trusts signed up to the Mansion House compact, pledging to allocate at least 5% of assets held in their default funds to unlisted equities by 2030.

Notably some of the largest master trusts decided not to sign up to the Compact. These providers generally show some optimism about private markets, but do not wish to be constrained by the Compact’s narrow focus. There are also some concerns about the impact this type of investment may have on pricing.

The new Government looks set to make further moves to increase UK pension schemes’ investment in UK markets. For trustees and sponsors, this is certainly a space to watch – both from the point of view of changing requirements for their own schemes, as well as how this might develop in the master trust market.

DEFAULT INVESTMENT STRATEGIES

How many master trusts offer bespoke or tailored default investment strategies and what is the take up?



MEMBER SELF-SERVICE

How have digital offerings developed over time?

Mobile Apps

75% of master trusts make an app available to members.
25% expect to within the next 12 months

Portal usage

81% report an increase in usage of member portals / apps. Only 19% report usage remaining static

Registrations

38% of master trusts have over 50% of members registered for member portals / apps *

Repeat usage

19% of master trusts report 70-100% of registered users have used member portals / apps more than once in the last 12 months. (Up from 13% in 2023)

* 2 master trusts auto-register all members for their digital services, hence they both reported 100% registration rates. Both report strong ongoing and repeat usage rates

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When it comes to member technology, the gap is closing. There used to be clear differences in what was available to members of different master trusts.

As this becomes less of a differentiator, sponsors and trustees need to be able to assess the quality of the digital offering, and the **'hows'**:

- **How** is the master trust engaging the membership through digital?
- **How** is the master trust measuring and monitoring the success of the digital communications strategy?
- **How** is the master trust using the data from digital engagement to improve outcomes?

MEMBER SELF-SERVICE

What self-service functionality is available to master trust members?

Almost all master trusts have been making changes to their member self-service tools. This perhaps accounts for the inconsistencies noted in the trend data for this question. From our on-going research, it is evident that providers are not standing still and remain committed to making appropriate information readily available to members.

31% of master trusts allow members to transact on-line with no intervention from the administration team (straight through processing – ID validation controls in place)

88% of master trusts provide access to generic scheme information (without a log-in)

94% of master trusts allow members to update their personal details on-line (behind a secure log-in)

94% of master trusts allow members to make an investment switch on-line (behind a secure log-in)

Most providers intend to make improvements to their member technology over the next 12 months. Generally, the themes are around app user experience. Some providers already provide features such as video benefit statements and wider financial wellbeing tools. Others are making strides in that direction. We will continue to monitor progress in this area.

PROPOSITION DEVELOPMENT

Where have master trusts made developments in direct response to market demands in the last 12 months?

69%

Improved member facing technology

13%

Started to accept deferred member only schemes

19%

Developed standalone drawdown option for single employer trust schemes

13%

Changed their target market criteria

GO Insights

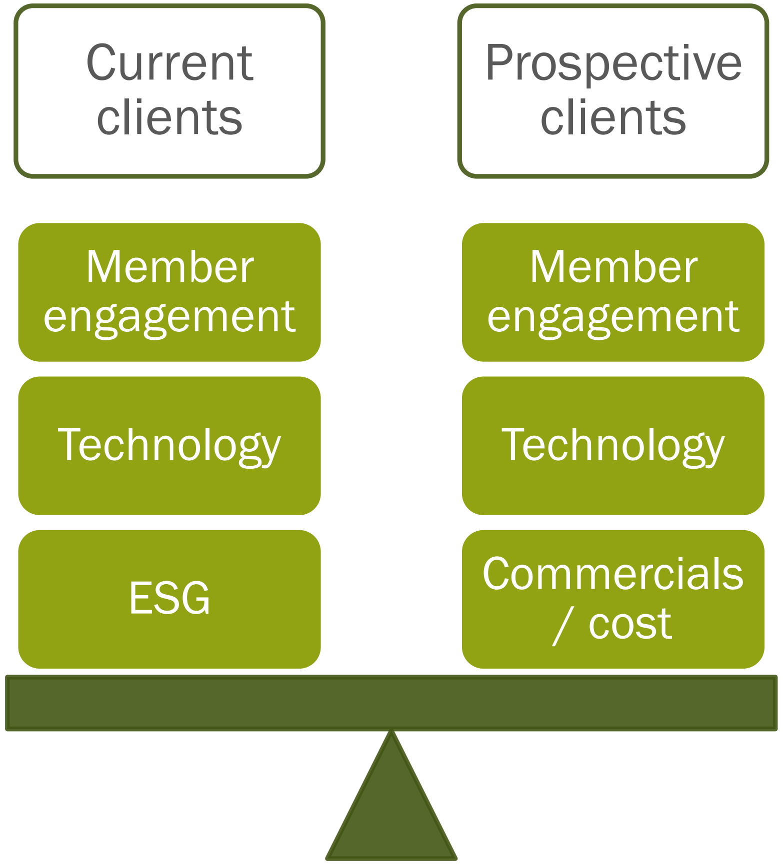
Drilling down into the responses is revealing:

- Some of the master trusts that have not made developments are already very well developed and were front runners in the market (13%)
- Other master trusts are closing the gap with the front runners

Although not covered in this survey, the next wave of innovation taking place is ‘to and through retirement investment strategy’ and guided drawdown. Watch out for the 2025 report for more focus on this.

MARKET PRIORITIES

What are master trusts seeing as the top 3 priorities from their customers?



Over the years that we have been carrying out this survey we have seen year-on-year variations in the features that master trusts' clients and prospective clients prioritise.

Perhaps surprisingly, this year governance has slipped down to the lowest consideration as a priority for both current clients and prospective clients. This may be a sign of growing confidence in master trusts.

Member engagement has been a constant in the top 3 priorities for both cohorts. It's pleasing to see master trusts acting on this with the developments they are making (see page 13).

MASTER TRUST TRUSTEE BOARDS’ DIVERSITY POLICIES

We wanted to learn more about master trust trustee boards’ diversity policies

The Pensions Regulator (TPR) has published diversity guidance for pension schemes governing bodies. Our survey tells us that master trusts generally believe that a diverse board is fundamental to effective decision making. However, there are mixed views as to whether this will become a key selection criteria for employers or trustees selecting a new master trust.

Some master trusts impose restrictions on their trustees sitting as trustees for other pension schemes: 31% do not permit their trustees to serve as a trustee on another master trust – in order to avoid potential conflicts of interest. 6% do not allow their trustees to sit on any other pension scheme trustee board.

81% of master trusts impose limits on the period of a trustee’s tenure. We view this positively to continually bring new perspectives to decision making.

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We support TPR’s drive to improve diversity on trustee boards. We truly believe it supports diverse views and helps offset group-think. When a board is more representative of its membership, it can only improve member experience and engagement. We are not yet regularly seeing sponsors and trustees define diversity as a key selection criteria. However, an obvious lack of diversity is certainly noted and can incite some challenging questions.

Master Trust Trustee Diversity Policies

100%
Have a diversity policy in place for their trustee board

81%
Align their diversity policy to TPR guidance

69%
Believe trustee diversity will become a key criteria for master trust selection

RISKS TO THE MASTER TRUST MARKET

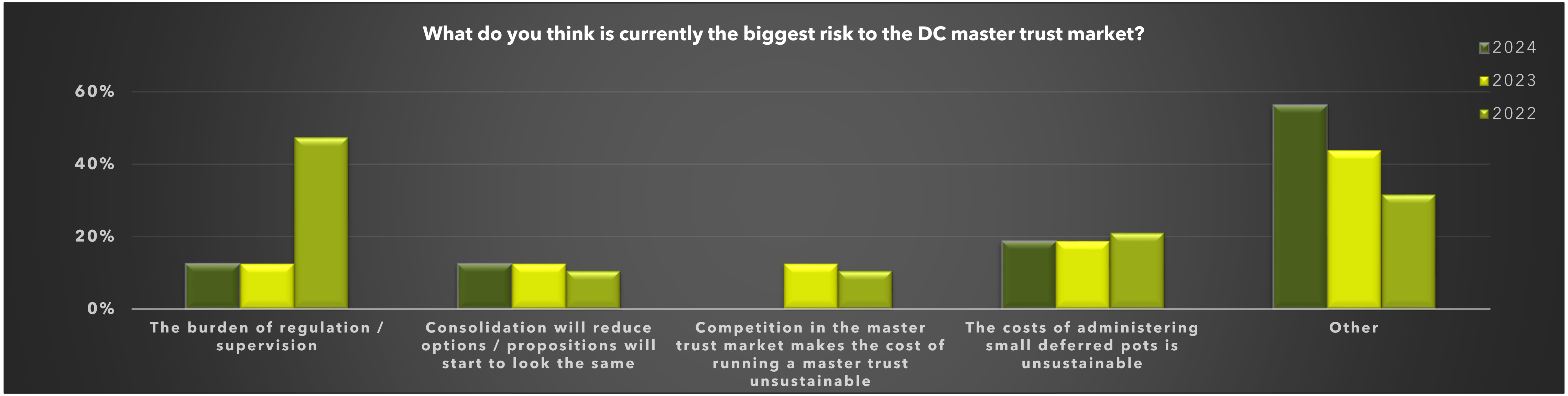
We asked master trusts what they feel is the biggest risk to the master trust market

In recent years, responses to this question have remained very consistent. It's still all about cost!

Master trusts tell us that there is too much focus on charges and that is inhibiting the opportunity to innovate. They also feel that the pace of regulatory change reduces the opportunity for schemes to plan new change initiatives. Although the trend data tells us that the burden of regulation is not as much of a concern as it was in 2022.

On page 6 we discussed the focus on costs and charges in the context of value for money. However, there is a clear concern that the focus on charges over investment returns and the quality of proposition risks negatively impacting member outcomes in master trusts by restricting innovation, developments and ultimately returns.

We are certainly seeing more recognition of value over cost, and a greater consideration of how investments are managed to optimise returns. It is important that this trend continues so that master trusts can focus their propositions on delivering the best member outcomes.



"The master trust market is a cornerstone of UK pension provision. Differentiating between master trusts to source the best fit for your employees and members is becoming more difficult. Understanding the whole market and the detail of the propositions available has never been more important, nor more complex."

Tina Oversby, Head of master trust and consolidation consulting

As the market evolves, stay on the front foot by following go-group.co.uk/insights

HELP IS ON HAND

If you are considering a step towards a DC master trust and require **independent expertise**, we're here to help.

We are seeing more demand from trustees and sponsors for **independent, expert insight** into the market. We are also seeing an increase in demand for **independent oversight** of all parties involved in the asset transition.

Go Pensions offer a range of project support options from overall project management to SME project oversight. We also offer a unique Quality Assurance service.

We'd be delighted to have an initial chat to understand your situation.

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WITH THANKS TO THE PARTICIPANTS IN OUR 2024 DC MASTER TRUST SURVEY:

Aegon Master Trust

The Aon Master Trust

Aviva Master Trust

The Cushon Master Trust

The Fidelity Master Trust

Legal & General Worksave Mastertrust

LifeSight

The Mercer Master Trust

Nest

Now: Pensions Trust

The Peoples Pension

Scottish Widows Master Trust

SEI Master Trust

Smart Pension Master Trust

Standard Life DC Master Trust

TPT Retirement Solutions