OPINION

OPENING THE RIGHT TRANSFER DOOR

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Just 10 years ago the UK had 4,570 occupational defined contribution (DC) pension schemes with 12 or more members. That number has since halved, as costs and regulation weigh heavily.

Scheme sponsors and trustee boards of single-employer defined contribution trusts might want to continue shouldering that burden. Or they might want to review their scheme, mindful of what else is out there in a changing pensions landscape.

They may consider removing certain groups of members or bringing these schemes to an end and searching for an alternative arrangement.

One of these alternatives is to maintain the type and status of the scheme and switch to another provider. Given the regulatory, cost and other pressures on such schemes, we think this unlikely.

In fact, when sponsors, trustee boards and their advisers weigh up the options, there are 3 doors in front of them.

The first is labelled Group Personal Pensions (GPP)

This is where insurance companies sell pension products made up of individual contracts for each member.

A GPP puts responsibility in the hands of the member but it also means changes to the scheme can be difficult to make. For example, an action to move the remaining assets in the pension scheme requires express written consent from each member. It can be hard, and costly, to track everyone down and encourage them to respond.

For a single-employer DC trust a GPP brings a new governance structure that features Independent Governance Committees (IGCs) instead of trustee boards.

IGCs have more of an advisory role than specific legal responsibilities. So, if a GPP is no longer acting in members' best interests, the IGC doesn't have the power to change the underlying investment provider and administrator. They can only raise concerns with the provider's board, who are required to take 'reasonable steps' to address the IGC's concerns.

The second door is marked trustee buyout plan

These are provided by traditional providers and advisers, you may also know them as Section 32 policies – referring to the part of the Finance Act 1981 covering deferred annuity contracts.

Buyout policies help both employers and trustees who've decided to end a company pension scheme and remove members without needing their consent. But, given they can't accept ongoing contributions, they wouldn't work as a complete solution for open pension schemes – or for members who want to transfer in other pension pots.

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The third is labelled master trusts

They operate under the same rules and laws as single-employer DC trusts – meaning the trustee has identical responsibilities towards their members.

But the rules go further. Master trust schemes that have achieved authorisation from The Pensions Regulator are clearly marked for their good governance, financial and operational stability, and focus on member outcomes.

Master trusts, in common with Section 32 policies, also allow trustees to discharge their liability when winding-up or removing members from a DC pension scheme without member consent.

Master trusts can also accept ongoing contributions from both the employer and member together with deferred benefits in one arrangement. This includes flexibility to use the master trust scheme to consolidate additional pension pots or as a retirement savings vehicle for the member in the future.

Looking back to the pensions market in 2009, it's interesting to note the regulator counted just 80 'very large' schemes (with 5,000 or more members).

Since then, that number has almost doubled – in part because auto-enrolment has propelled large, well-governed master trusts towards centre stage.

Transferring members and/or winding up a scheme is a big undertaking, whether it's conducted as a one-off or as an evolving programme of short and longer-term changes.

So that's why we created a simple but comprehensive guide laying out all the options and their implications. It's available on our website at www.thepeoplespension.co.uk/single-employer-trusts-CA or through the contact details below. ■

If you're interested in discussing this further, we'd love to hear from you. Please get in touch on 0333 230 1322 or consolidation@thepeoplespension.co.uk

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