Value for money – employers matter too

atlas

The considered choice of master trust

Stand by your brand

Choosing the right master trust is vital to optimise member outcomes. But selecting the best provider with whom to partner also has the potential to create value for employers and unlock compelling employer brand benefits. Generating a positive return on investment from pension schemes is now within reach for employers.

NB: Unless otherwise stated, all statistics quoted in this paper are sourced from the original research conducted by Capita for the Future Face of Retirement Survey 2019.

It is now almost 350 years since the world's first ever occupational retirement pension scheme was set up for the benefit of retiring Royal Navy officers, when the average life expectancy was 48.

The Navy is proud of its traditions and with this far-sighted pension innovation, it established a new one and also a precedent: since 1672, the focus of workplace pensions has rightly been on improving outcomes for members. This tradition continues in the present day with auto-enrolment, enhanced governance, default strategies, better communication and the growth of master trusts.

However, as the legendary Madison Avenue advertising pioneer David Ogilvy famously observed in the 1960s heyday of Mad Men, every audience will ask one key question about any proposition put to them: What's in it for me?

In the last two decades of pensions change and reform, that question has been asked repeatedly on behalf of the members of workplace defined contribution (DC) schemes. The constant iteration of responses to this fundamental question has shaped the rapid evolution of scheme structures over recent years.

From group personal pensions, stakeholder pensions, master trusts and the introduction of The Pensions Regulator (TPR) to auto-enrolment and pensions freedoms, the member has been front and centre. This has been particularly evident since 2012, when employers were compelled by law to enrol all eligible workers in a workplace pension.

But what of the employer? Any brief perusal of the current pension debates and discussions reveals that the topics are inevitably framed around employers' obligations. There is seldom any reference to the benefits for employers. In this paper, against the backdrop of the latest convulsion to shake the industry in the shape of consolidation, we ask a single, fundamental question: What does a good outcome look like for employers, the sponsors of DC schemes, and how do they achieve it?

While regulation is the driver behind workplace pension provision, most employers are nevertheless committed to enhancing their employees' pension savings from an altruistic sense of duty, a belief that it is the right thing to do, and, increasingly, from a risk management perspective.

However, enlightened self-interest would dictate that their munificence bring some reward too, in providing solutions to the predicaments that many employers currently face. We examine the major challenges overleaf and evaluate how a considered pension strategy can play a significant role in addressing them.

WE ASK A SINGLE, FUNDAMENTAL QUESTION: WHAT DOES A GOOD OUTCOME LOOK LIKE FOR EMPLOYERS, THE SPONSORS OF DC SCHEMES, AND HOW DO THEY ACHIEVE IT?

What do employers want?

Beyond dealing with the extraordinary times in which we are living, companies currently face a plethora of challenges with their pension provision: the pressure of keeping abreast of regulatory change; coping with a challenging investment environment; the ongoing migration from defined benefit to defined contribution and the constant exhortations to improve measurement, reporting, review procedures and risk analytics.

On top of that is the need to enhance member engagement and improve governance which, for single employer schemes, necessitates the recruitment of skilled and motivated trustees.

According to original research carried out by Capita for its in-depth Future Face Retirement Survey 2019, 93% of large employers the UK are keen to modernise their pension provision while 91% are determined to derive more positive outcomes from their pension provision for the benefit of their business and employer brand.

With this objective in mind, the vast majority (88%) reported that they had either reviewed their pensions strategy or planned to do so within 12 months in the light of changing workforce dynamics and an ageing workforce. We explore the implications of these twin market dynamics...

KEY INSIGHT

83% of employers said that their older employees are delaying their retirement beyond the age of 65.

Driver 1

Tightening labour market

Nothwithstanding the economic shock of the Coronavirus pandemic in 2020, UK employment levels had reached an all-time high. The consequent tightening in the labour market has seen the war for talent, and competition to retain key skills and knowledge, intensify. Employee benefits have once again become a key differentiator for employer brands, with pensions at the centre.

Nearly two-thirds of UK employers (64%) reported that they were having difficulty filling vacancies within their organisation[i]. At the same time, the Bank of England reported that the number of people in employment at the end of 2019 had reached a record high of 32.9 million while unemployment remained at a 45-year low of just 3.8%.

Moreover, the impact of Brexit is further squeezing the labour market. The figures for the three months to September 2019, revealed an unprecedented fall in the number of European Union nationals working in Britain.

Around 131,000 EU nationals left the UK labour market during this period, the biggest fall since the Office for National Statistics (ONS) began collecting records 21 years ago. This drop outweighed an extra 125,000 Britons who entered employment.

The increasingly fierce nature of the competition to hire key staff is underlined in the CIPD's Labour Market Outlook Autumn 2019 report, which found that 59% of private sector employers reported raising salaries to help offset their recruitment difficulties.

In the war for talent, it has become received wisdom within the human resources and broader management disciplines that offering employee benefits packages, built around a compelling pension proposition, constitutes a core element of any competitive retention and recruitment programme.

Such measures not only address hiring difficulties in the short term but make their organisations more attractive as an employer in the long run.

KEY INSIGHT

86% of employers said candidates and new entrants are now focusing more on the importance of pension provision.

Driver 2

Can't retire, won't retire

While older workers have a wealth of experience that is welcome, their continuing presence has consequences for the organisation in the form of promotion blockages, frustrated ambitions among younger colleagues, increased staff costs and negative effects on productivity. Older workers are also less likely to participate in workplace learning and training than younger colleagues.

There is no longer a legal retirement age in the UK, so employers can't force their employees to retire at a particular age. Employers used to be able to compel workers to retire at 65 (known as the default retirement age), but this law was scrapped in April 2011.

The decision on when to stop working is now down to the individual which means that they can keep working beyond 65 if they want to. However, for many, it is more a case of needing to.

More than two-thirds (70%) of UK workers, some 23 million employees, expect to be working beyond the age of 65 with the vast majority claiming this is because they will not have enough money to give up work, according to new research[ii].

Recent studies revealed that half (49%) of UK employees aged 45-plus are already considering working for longer or are already working beyond the state pension age. Indeed, there were more than 10 million people over the age of 50 in work - another record high[iii].

Against this background of financially straitened circumstances in the older working population, employers who can offer a compelling retirement proposition, in the form of master trust, and engage employees with tailored and achievable pension savings strategies, will gain a competitive edge in the marketplace.

Workplace pensions: the secret weapon that must be targeted

AN EFFECTIVE SCHEME WILL ALSO ADD VALUE BY ENSURING THAT EMPLOYEES ARE CAPABLE OF EXITING THE WORKFORCE AT THE TIME OF THEIR CHOOSING

After salary, the workplace pension is the second biggest investment an employer makes in employees. It is increasingly asked about as part of an employee's assessment of the company in terms of the classic trinity of reward, recruitment and retention. Beyond this it should help differentiate their employer brand and reputation and allow them to stand out from competitors.

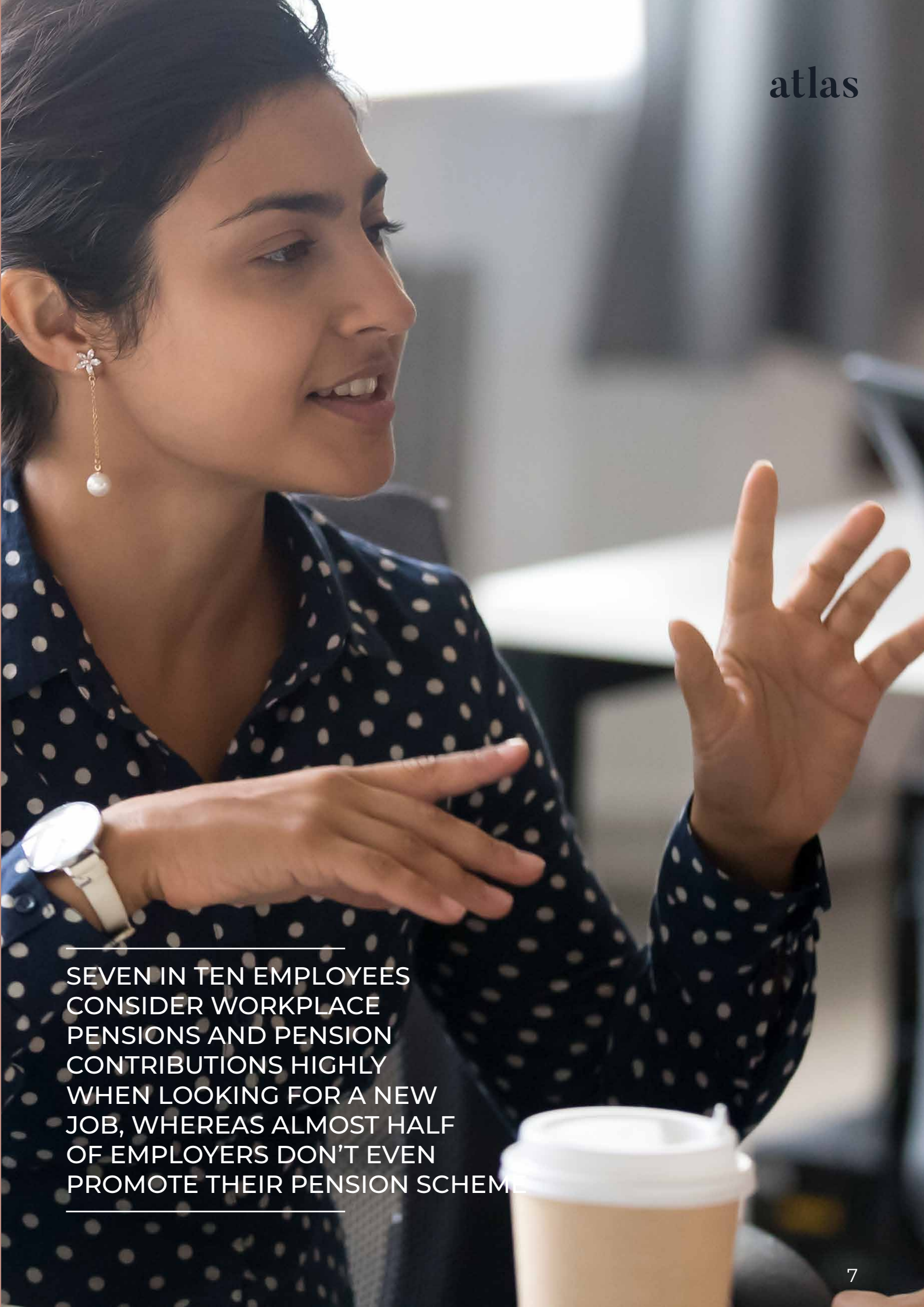
An effective scheme will also add value by ensuring that employees are capable of exiting the workforce at the time of their choosing, thus facilitating succession planning objectives. A constant transfusion of new talent, energy and skills is necessary for any organisation. Clear career trajectories matter.

A medium-sized company will typically spend several hundred thousand pounds a year on its pension provision but are they generating a return on that investment in terms of enhanced employer brand?

Research indicates that seven in ten employees consider workplace pensions and pension contributions highly when looking for a new job (69%), whereas almost half of employers (46%) don't even promote their pension scheme as an employee benefit when recruiting, suggesting a big disconnect between the two groups.

In fact, 57% of employers think that the amount they contribute to the pension scheme doesn't make a difference to employee recruitment. So, are employers missing a trick?

Pension contributions from their current employer are highly valued by a significant proportion of employees. This suggests that employers have an opportunity to use workplace pension contributions as a useful tool to help retain valued employees. When looking at the range of benefits currently offered by employers to how much employees value them, while 85% of employees surveyed value their holiday entitlement, their employer's pension contributions came a close second at 83%.



SEVEN IN TEN EMPLOYEES CONSIDER WORKPLACE PENSIONS AND PENSION CONTRIBUTIONS HIGHLY WHEN LOOKING FOR A NEW JOB, WHEREAS ALMOST HALF OF EMPLOYERS DON'T EVEN PROMOTE THEIR PENSION SCHEME

The consolations of change

With auto-enrolment now fully rolled out and operational, significant numbers of employers are in the process of revisiting their choice of workplace pension scheme. Initial decisions may have been quickly made to meet statutory requirements but after several years of engagement with their providers, many employers are reviewing the performance, delivery, governance and engagement achieved by their scheme. Employers may then decide to opt for an alternative provider who can deliver better outcomes.

Naturally they have several core criteria: the scheme must be well run, be accessible to members, provide value for money, and deliver a sufficient quality of service.

The UK market for occupational DC schemes is on the brink of a huge period of transition and consolidation since it currently ranks among the most crowded markets in the developed world. At the end of 2019, there were a total of 2,010 DC pension schemes with 12 members or more in the UK down from 4,560 a decade earlier[iv].

KEY INSIGHT

Membership of master trusts has increased from 270,000 to over 16 million

However, that must be seen in the perspective of Australia, home of Aussie Super, with just 233, Denmark with 75, and Mexico with only 11 occupational pension schemes despite a larger population[v].

Membership of master trusts has increased from 270,000 at the beginning of 2012, to just over 16 million with £38.5 billion under management[vi].

Transition to master trust is also a key driver of change in the industry. However, ensuring that this trend benefits the employers as well as the employees is crucial.

The business case for master trusts from an employer perspective is unarguably compelling. They offer access to a simplified yet powerful trust arrangement with a single expert trustee board taking responsibility for governance, substantially reduced operating costs thanks to the economies of scale and, in the case of more sophisticated master trusts, access to investment innovations.

The offering is flexible and scalable, well able to adapt to the differing needs of both smaller and larger clients. Master trust removes the pain points of risk, cost and compliance burden from the employer. There is a trade-off in terms of employers relinquishing a degree of control, but the majority of employers see this as a positive solution rather than a drawback, allowing them to focus on running and growing the business.

FUTURE FACE OF RETIREMENT REPORT CONFIRMED THAT EMPLOYERS ANTICIPATED AND REALISED SEVERAL IMPORTANT BENEFITS BY MOVING TO MASTER TRUST AND AWAY FROM SINGLE SCHEME DC PROVISION

The research for the Future Face of Retirement report confirmed that employers anticipated and realised several important benefits by moving to master trust and away from single scheme DC provision. The most commonly cited benefits were:

- Reduced pension scheme costs
- Economies of scale through shared systems, processes and investment platforms
- Greater flexibility for members (drawdown options)
- Professional governance – removing burden of governance from company and providing the comfort of skilled, experienced and professional trustees

Given the potential benefits in moving to a master trust, choosing the best provider is a major consideration for companies that currently run their own schemes.

Considered choice of master trust: some are more equal than others

There are currently 38 DC master trusts in the UK that have been authorised by The Pensions Regulator (TPR). Even allowing for the 44 schemes which decided to exit the market, that still leaves a bewildering range from which to choose – albeit each master trust is designed to cater for, and will be explicitly targeting, only a certain segment of the market (for example, small employers or large employers).

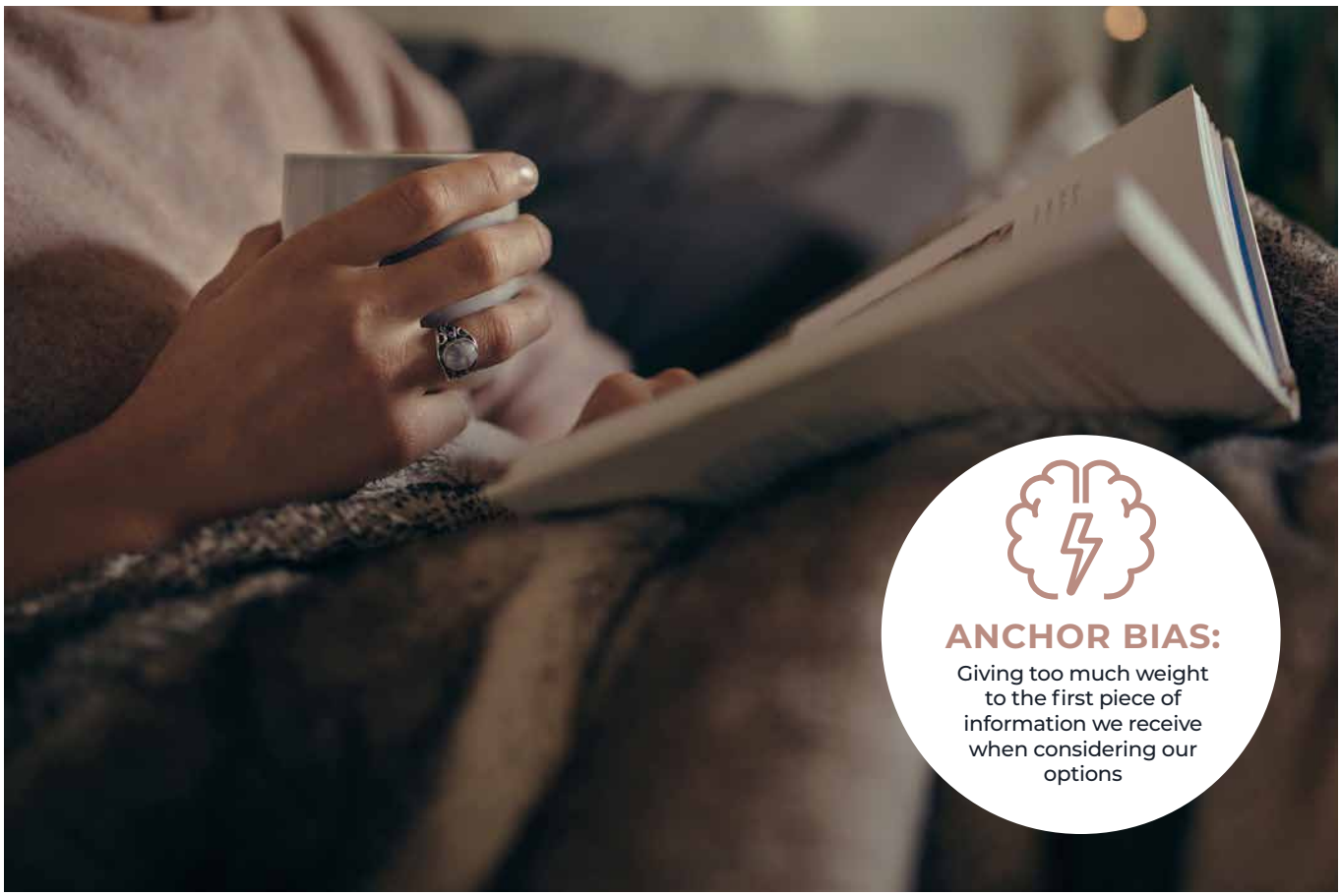
Master trusts themselves are as varied as the companies that use them. The main distinction is between the auto-enrolment providers, those that are backed by insurance companies, and the more specialist master trusts.

They are run by a diverse array of providers that includes: the government-backed NEST (National Employment Savings Trust); large insurance groups; employee benefit consultants; and former sector-specific pension schemes (the construction industry, for example).

Some favour small and micro employers while others target medium and large enterprises. That in itself indicates the disparity in cultures and experience on offer from the providers and illustrates that the schemes are far from being generic and homogenous.

For instance, one of the largest UK master trusts, run by a major insurer, controls £7.4 billion in assets on behalf of just 109 participating employers[vii]. By contrast, NEST (National Employment Savings Trust) manages £10 billion in assets on behalf of 8.6 million members, equating to an average pension pot size of under £1200[viii]. However, in the search to identify a provider who can deliver for employees but can also achieve an optimum outcome for the employer, it is essential to keep sight of the value of your pension scheme as an employer asset. That requires a carefully calibrated procurement process.

IT IS ESSENTIAL TO KEEP SIGHT OF THE VALUE OF YOUR PENSION SCHEME AS AN EMPLOYER ASSET



Tricks of the mind: behavioural bias in selection

The range of master trusts available complicates the decision-making process for selecting the most appropriate provider and can result in choice being affected by certain cognitive biases that are common in financial services.

The science of behavioural economics has identified such traits which are very relevant and influential in the context of the process of selecting a pension provider. Awareness of these biases can improve your decision-making. They include:

Anchoring: Giving too much weight to the first piece of information we receive when considering our options.

Bandwagon effect: Believing something to be right because we perceive that many other people think this way. This can be compounded by the Herding effect which is a tendency to unquestioningly follow the actions of a larger group.

Confirmation bias: the subconscious tendency to start with a conclusion and then search for information that backs up our existing preconception. Rather than keeping an open mind and discovering evidence that could change our view, we ignore facts that could lead us to a different and better decision. Having recognised the bias, it is possible to mitigate its effects in the decision-making process. However, the ultimate decision to select a particular master trust should be a positive one. The selection process can be optimised by giving due consideration.

The selection process can be optimised by giving due consideration to the criteria listed overleaf.

The tao of master trust: 15 paths to enlightenment in provider selection

DEFINE YOUR OBJECTIVES
Agree your criteria upfront with the participation of all key stakeholders in the organisation from human resources and finance to pension managers, employee/member representatives and existing trustees. It's vital from the outset, as part of protecting and enhancing your employer brand, that master trust adoption is seen as a process that is 'done with and for' your people and not merely an imposition that is 'done to' them. Put a project team together and task it with thinking about what success should look like in terms of your new master trust arrangement. Crucially, choosing a master trust provider should not be seen as a procurement-led exercise; the company is not buying laptops or sourcing water coolers.

TAKE YOUR TIME
Master trust should be a considered choice, not an impulse purchase. Don't create unnecessary pressures with artificial deadlines and squeezed timescales. Heed the advice in the time-honoured British Army adage: proper planning and preparation prevents poor performance. Outsourcing your occupational pension scheme will have a significant impact on your business and employer brand. Shopping around and doing your homework is vital whether you're buying home insurance from a comparison website or planning to transfer millions in pension assets to a new provider.

GET INDEPENDENT ADVICE
For many, this is the first time you and your team have participated in a wholesale pension scheme transfer to a supplier, so it makes sense to get advice from those who have been down this path before so that you understand the positives and the pitfalls.

The use of independent third-party advisers is crucial to ensure that the right choice of master trust is made. However, independent is the key word in this regard. Watch out for latent bias. The decision to transfer the scheme to a particular master trust must not be influenced by your adviser's own bias.

DON'T GET TRAMPLED BY THE HERD
All master trusts are different. While the vast majority of members may opt for the default option in a scheme, employers do not have that luxury when choosing their provider. Consider how a potential provider can add value to your employer brand while also examining whether they are the most effective and appropriate provider for a scheme of your size.

It's often very tempting to do what everyone else is doing (see bandwagon effect and herding effect in the section above) but such groupthink is no substitute for a clear, dispassionate analysis of the benefits and drawbacks of each provider on their own merits. Don't sleepwalk into it. If you do not have all the facts, then collect market intelligence through an RFI or RFP to the candidates you consider most fit-for-purpose. Outsource your pension scheme by all means, but don't outsource your thinking.

DEMAND QUALITY GOVERNANCE AND TRUSTEES
Consideration should be given to who is in charge: the trustee or the commercial provider. Effective, proactive and relevant governance is fundamental to achieving the improved retirement outcomes that master trust is designed to deliver. The new industry standard focuses on enhancing, rather than simply protecting, member outcomes. The best master trust governance models go beyond process, box

ticking and compliance and are instead characterised by a culture of continuous improvement and value enhancement. Trustees must function as a dynamic team and should be active and independent drivers of value creation in the best interests of members. Challenge your master trust candidates to demonstrate that their board of trustees has expertise and understanding of their role, suitable qualifications and relevant experience, and a diverse but complementary base of knowledge and skills. The calibre of trustees, and their ability to run the master trust, is an integral part of building your employer brand. For this reason, it is vital that the trustees remain accessible to the employer, and willing to share relevant performance metrics, while still retaining their essential independence.

LOOK FOR EXPERIENCE

A key aspect in choosing a master trust is the provider's track record in handling similar scheme transfers in a smooth fashion. You want confidence that the transition of your data and assets will be safe, secure and accurate. Getting either of these wrong can severely undermine the value of members' funds and interfere with the members receiving the correct information and benefits at the right time.

DON'T CONFUSE BIGGER WITH BETTER

Sometimes it is better to be a bigger fish in smaller pond rather than a minnow in the shark tank. Give careful consideration to your expectations around service levels, supplier relationships and responsiveness. Understand what your place would be in the context of a provider's current client portfolio.

Being client number 1,000 in terms of size and importance may mean that the economies of scale that master trust confers do not actually work in your favour. If larger clients are always prioritised when it comes to receiving updates, support and personal attention then you may wonder if you've made the right choice. You must consider your own relative importance as a client in that context.

However, size does matter to an extent. As part of your discovery process and due diligence you should pay attention to who ultimately owns the master trust and their commitment to the market.

DEMAND INVESTMENT EXCELLENCE

Research has highlighted a quantifiable gap in the investment quality offered by some master trusts. Employers should look closely at the diversity of investment options offered.

Your scheme may be based on a set of investment beliefs that require tailored portfolios. It's important to ensure that the master trust has the capability, resource and expertise to fulfil this. The master trust's investment strategy is important. You need to consider investment performance and you'll want a suitable fund range for your members that covers default and self-select, active and passive management, environmental, social and governance (ESG) 'friendly' funds.

Corporate Adviser's Master Trust Defaults Report shows that the investment performance of individual master trusts varies significantly, both in outright and risk-adjusted terms. There is a 30% difference between the best- and worst-performing master trust defaults over three years.

EMBRACE ESG

Employers and their advisers should scrutinise master trusts to establish which are genuinely embracing ESG integration and those who are merely greenwashing.

Research conducted into a representative group of 20 master trusts has highlighted that, while there is growing interest in ESG investing among master trusts, many are lagging the market in this regard[ix].

Only a quarter of respondents invested in funds that used ESG screening processes and those were largely confined to the self-select fund ranges. While regulatory pressure will drive increased ESG investment activity in future, schemes may wish to consider giving preference to those trusts that already use robust ESG and ethical investment techniques.

TAKE AWAY PAIN

Migrating to master trust isn't merely a question of replicating your old single employer scheme in a multi-employer model with better governance. You should use the opportunity to remove the biggest frustrations with your current pension arrangements. These are typically: resolving the tension between the reporting and accountability pressures on the HR, payroll and finance functions; addressing the lack of alignment to core business strategy; and shifting the focus of pension provision from administrative competence to strategic benefit.

CONSOLIDATION IS A PROCESS, NOT AN OUTCOME

If you are a large enterprise saddled with Byzantine, complex, multi-scheme pension arrangements then consolidation

can seem like a get-out-of-jail free card. Choosing the right master trust not only allows you to reduce the time, cost and risk involved in managing multiple schemes but it can help to harmonise the benefits and take care of the increasing governance burden.

But achieving the best outcome depends on carefully selecting a master trust that can tailor a client-centric offer to the particular needs of the members. Avoid those providers that seek to shoehorn your members into a one-size-fits-all, off-the-peg approach whether in investment, communications or drawdown strategies.

FOCUS ON VALUE, NOT COST

As the legendary investor Warren Buffet put it: "Price is what you pay, value is what you get." Saving money by purchasing an inferior product is not good business sense and represents a guaranteed way to undermine your employer brand and reputation over time.

The average annual management charge (AMC) across the master trust universe is between 0.4% and 0.5% - considerably below the 0.75% fee cap imposed by TPR[x]. The largest master trusts will offer AMCs as low as 0.2% using predominantly passive investing strategies in a default fund.

However, as Mr Buffet would doubtless confirm, value for members is the most important criteria and cheaper rarely correlates to better. Consider what is really in the members' best interests and, by extension, what is the best employer brand outcome: a bargain basement scheme with restricted fund options, minimal governance standards and adequate communications or a more expensive one with greater choice of funds, a communications strategy and effective independent trustee-led governance?

ENERGISE ENGAGEMENT

A good master trust is about a lot more than removing the administration headache and running the investment strategy. It should strengthen your employer brand by maximising the perceived value of the pension among the members.

This requires clear, helpful, regular and effective communication with employees to ensure that they understand and appreciate the value of what they are receiving. Clearly optimised communication strategies are an integral and vital consideration in selecting the best provider. Challenge your prospective master trust providers to demonstrate that they deliver engagement in an innovative and stimulating manner, using digital media and online tools, according to the five golden rules of member communication: proactive, understandable, focused, accessible and relevant.

RETIREMENT OPTIONS

Naturally, the primary focus in selecting a master trust is on ensuring the most appropriate fund accumulation options for the current workforce. However, it is important to give consideration to the at-retirement options that each master trust provides for scheme members. Poor member choices, insufficient advice, lack of flexible drawdown options or draconian charges at retirement can undermine the employer brand benefit. Some master trusts offer a very limited range of retirement options with several not facilitating drawdown.

COMMUNICATING WITH YOU

It's not just about communications with scheme members. Your preferred master trust must keep you up-to-speed and in the loop about performance, and developments with the scheme. Even though you have outsourced the administration of the scheme, you need to receive regular reports about how well it is functioning. Does the master trust have the required reporting and reviewing processes to enable you to know exactly what is going on with your employees' pensions?

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Conclusion

Employers face a business-critical challenge when seeking to select the most suitable and effective pension arrangements for their employees and themselves. Opting for master trust is the first important step in that process. Choosing the right master trust from the wide range of authorised providers available is equally crucial.

Ultimately, employers must have confidence that the master trust they appoint will add value to their pensions proposition, providing positive outcomes for their members and, in turn, protecting and enhancing their employer brand at a time of turbulence and uncertainty in the economy, the markets and the workplace.

The provision of world-class pension provision, through a respected, innovative and governance-driven master trust, should confer significant benefits in terms of your employer brand. It will differentiate you from competitors, showcase you as an employee-centric organisation and enable you to attract, retain and motivate the best talent in your particular marketplace. By any benchmark, that must be considered a positive return on investment in pension provision and a good outcome for employers.

atlas

The considered choice of master trust

Atlas is the trustee-led Master Trust representing the considered choice for employers who want their people to have the financial futures they choose.

Atlas' core belief is that no member should be surprised by their outcome, giving people control of their financial future. It gives them the reassurance that their best interests, and hard-earned money, are being proactively looked after by a board of independent trustees.

Atlas' open structure drives quality, supported by people-experts Capita, daily administrators of British life, and the investment expertise of Schroders.

Together, we create financial futures from working lives so our members are the masters of the life they choose.

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