Choosing a master trust

Tony Pugh of Aon discusses the criteria employers should consider when picking a master trust and the areas that affect member outcomes

Since the introduction of Master Trust Authorisation (MTA) earlier this year, every master trust will have proven standards of governance. While schemes must now meet a consistent, minimum set of standards, there are still significant differences in the types of services on offer from providers.

There is plenty of choice for employers looking to choose a master trust for the first time, or to move between schemes, or to transfer a single-employer scheme to a master trust.

Depending on the circumstances, employers will have different criteria when comparing master trusts. Accurate, efficient administration services should underpin any buying decision. There are also three core areas that directly affect member outcomes: communications, investment strategy and financial wellbeing.

Communications: Employees have different lifestyles, personal commitments and attitudes towards saving that will affect how and when they engage with their pension. Messages that are personal and relevant to them, delivered in an easy-to-use format, are essential.

Any potential master trust provider should be able to demonstrate the quality of the 'member experience' – what employees' communications look like and how information will be personalised.

Support for targeted campaigns, such as encouraging members to review their level of contributions, is also an important factor when considering the long-term relationship between an employer and a master trust. The scheme's future plans for member engagement, including ongoing investment in 'consumer grade' digital tools, should also be explored.

Investment strategy: Recent research by *Corporate Adviser* magazine analysed the annualised returns for 32 master trust default funds over a three-year period for an individual 30 years from state retirement age. The performance varied between 7.19% and 13.52% – a difference of 6.33% ,which would make a sizeable difference to the final value of a member's pot[1].

1 Corporate Adviser (2019, June) Master Trust & GPP Defaults Report. London

The difference reflects the choice of funds and asset classes held by the master trust, as well as the expertise and oversight applied by its investment managers. For example, Aon's master trust benefits from the skills of our fiduciary global fund management team. This allows us to manage investment strategies on a day-to-day as well as a long-term basis, gives us access to a wide range of high-quality investment options and also enables us to closely monitor risk and return.

Flexibility is also important. Very few employees will know how they want to use their pension savings until they are close to retirement. Master trust investment strategies need to be flexible enough to allow members to change their mind about when they want to retire, as well as whether they want to buy an annuity, enter drawdown or take cash beyond the age of 55. Default options that support any, or a combination of all three, of these options enable members to exercise true 'freedom and choice'.

Some employers will be choosing a master trust as a replacement for an in-house defined contribution scheme so will need to understand how easily the closing scheme's assets can be 'lifted and dropped' into the master trust's own investment structure, and at what cost to members.

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Financial wellbeing: While pension pots are the bedrock of many employees' retirement wealth, they may also have additional sources of finance, such as other savings, income from property and the state pension. Pensions can no longer sit in isolation from other money matters if employees are to see the full picture of what they can expect to live on in retirement. Choosing a master trust that supports integration with other savings products, such as Lifetime ISAs, and which provides clear at-a-glance information about an employee's savings, is a critical part of good financial wellbeing at retirement.

While authorisation has narrowed the number of options in the master trust market, employers must still take the time to set appropriate criteria and assess which scheme will deliver higher engagement and the best member outcomes for their workforce, now and in the future.

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