Master trusts face tighter regulation in the UK

By Editorial Staff *Fri, Oct 5, 2018*

Britain's experience with 'master trusts' could help inform US policymakers who are on the brink of allowing plan providers to set up similar types of plans in this country.

As Congress moves closer to approving a change in US pension law that would allow the creation of open multiple employer defined contribution plans (OMEPs) in this country, UK pension officials are tightening regulation of these provider-sponsored plans, called “master trusts” in the UK.

IPE.com reported this week that 30 “master trusts” in the UK have stopped or are preparing to stop offering services because they can’t comply with stringent new government regulations, the Pensions Regulator (TPR) announced this week.

Another 58 providers—including well-known retirement plans offered by NEST (the government-sponsored National Employees Savings Trust), the People’s Pension and NOW: Pensions—have six-months in which to prove to the government that they have “fit and proper” staff, sufficient financial reserves and “robust” systems, processes and protections.

Here in the US, the House of Representatives recently passed The Family Savings Act of 2018. It includes a provision to allow unrelated employers to join defined contribution plans, known as OMEPs or Pooled Employer Plans (PEPs), that private retirement plan service providers would create and operate.

‘Too small to be viable’

OMEPs represent a deregulation of the 401(k) industry, and similar deregulation in the UK has raised concerns.

“The success of automatic enrolment has led to rapid growth in master trusts. Authorization and supervision is vital to ensure 10 million savers can have confidence that their retirement savings are safe,” said Nicola Parish, executive director for frontline regulation at TPR.

"Some master trusts are too small to be economically viable, while in other cases there have been claims of malpractice," said Malcolm McLean, senior consultant at Barnett Waddingham. "We should welcome, therefore, a new regime which seeks to stabilize a market that may be dangerously out of control and hope and expect TPR will be able to weed out all schemes that fall short of the minimum standards required."

Joel Eytle, pensions legal director at DLA Piper, said the new regulations would place "a much more active and onerous obligation" on TPR to oversee master trusts and ensure ongoing compliance with the new law.

"The concerns are whether the regulator will have sufficient resources to effectively police the regime, and whether the obligations on master trusts will prove too onerous and deter entrants to the market," Eytle said.

"It will also be important for traditional multi-employer schemes with participating employers who are not in the same corporate group to take legal advice on whether they would be classified as a master trust, as this would mean that they would now need to be authorized under the new legislation."

Consolidation expected

Sharon Bellingham, senior consultant at Hymans Robertson, said the authorization regime would drive consolidation among DC master trusts.

"It doesn't take much crystal ball gazing to see that the consolidation already happening will gain pace," she said. "Looking ahead, it's pretty interesting to think about [how] the market might look like 12 months from now – survival of the fittest and most committed, who might ship out ahead of the new authorization regime and who might try but not make it."

In April, the People's Pension – one of the UK's biggest master trusts with more than 4m members – acquired Your Workplace Pension, a £20m (€22.5m) DC fund. The same month, the Salvus Master Trust acquired the smaller Complete Master Trust, boosting its assets above £100m.