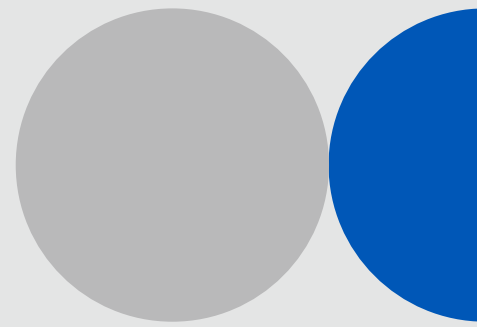


Is a DB master trust the solution for you?

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It's no secret that the cost of running a small defined benefit (DB) pension scheme can be disproportionately high, and that tightening regulations are forcing many UK companies to spend significant time and money managing what are often legacy schemes.

It can often feel as if the demands and costs of running these schemes will continue to increase year after year, and this raises the question – could DB master trusts be the solution?

What is a DB master trust?

A DB master trust is a multi-employer defined benefit pension scheme for non-associated employers. Each pension scheme is transferred into a segregated section of the master trust, pooling schemes together to benefit from economies of scale, whilst ring-fencing their assets and liabilities to avoid cross-subsidies with other schemes.

Importantly, there is no change in the benefits provided to members and, unlike some other forms of pension consolidation, the sponsoring employer's link to the scheme – and hence the sponsor covenant – is retained.

What does change is the operational model where a professional trustee and common advisers are used to streamline delivery. By combining services such as administration, actuarial and investment, schemes are able to benefit from efficient service provision with the aim of creating better outcomes for members while reducing the cost to the employer.

Why consider a DB master trust?

High profile corporate insolvencies and pension scams have led to an increase in regulation, typically designed around larger schemes who have significant resource to deal with pensions.

“By offering improved governance, cost efficiencies, and greater control over the journey to endgame, a DB master trust may provide a solution to the problems of many small to medium sized schemes.”

While tightening regulation is ultimately aimed at improving member outcomes, complying with it can be challenging, time-consuming and expensive for employers and trustees of small to medium sized pension schemes.

The increased governance burden comes at a time where, typically, the number of scheme members employed at the sponsoring company is falling, as many of those schemes closed decades ago. It is increasingly difficult to find trustees who are willing to do the job, let alone those with the ability to properly meet the fiduciary duties of a trustee.

Trustee retention problems can be solved with a professional trustee appointment, but a DB master trust can go one step further by providing many of the upsides of a £1bn plus pension scheme, specifically:

- Improved governance delivered efficiently – through a common adviser and common professional trusteeship working together across all sections of the master trust.
- Cost efficiency – through economies of scale as well as the opportunity cost savings from freeing up management time.
- Greater control over journey to endgame – using a master trust's standardised investment framework can help set a clear path to a low-risk target which ultimately reduces the sponsor's contribution burden.

In addition, although schemes have experienced funding level improvements at various times over the last couple of years, a full insurance buyout is still out of reach for many schemes due to the high price that can be associated with this method of consolidation. A DB master trust can help sponsors to move to a low-risk target over time, which then gives them the option of either running the scheme off within the master trust, or bridging to a full insurance buyout target when this becomes achievable in the future.



Conclusion

With the regulation facing legacy DB pension schemes arguably at an all-time high, it is no surprise that consolidation options are at the forefront of discussions. By offering improved governance, cost efficiencies, and greater control over the journey to endgame, a DB master trust may provide a solution to the problems faced by many small to medium sized schemes.

Contact us

If you would like to find out more to help decide whether transferring your defined benefit pension scheme to a master trust could help your business, please contact one of our pension solutions specialists at DBmastertrust@abrdn.com. Email is not a secure form of communication so please do not send any personal or sensitive information.



Leigh Sanderson
Solutions Manager – Pensions

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