

Briefing

Accidental Master Trusts

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The new Master Trust Authorisation regime will increase the standards master trust schemes need to meet, in order to continue operating. A consequence of this is the impact it will have on schemes that inadvertently fall under its remit.

There will be multi-employer schemes in existence that either do not appreciate they are a master trust and will have to comply with the new standards, or are aware of it but unsure of how to proceed. This briefing looks at what trustees and employers can do if affected by this issue.

Background

The increased use of DC pension arrangements, accelerated as a result of the auto-enrolment requirements, has led to increased regulatory focus. The providers of group personal pensions were already subject to authorisation by the Financial Conduct Authority (FCA). Now, master trusts are subject to a new authorisation regime run by The Pensions Regulator (TPR), intended to increase protection for members in the event of the master trust failing. From 1 October 2018, existing master trusts have six months to apply for authorisation in order to continue operating, and this process contains detailed and complex requirements covering the below:

- Fit and proper; all the people who have a significant role in running the scheme can demonstrate that they meet a standard of honesty, integrity and knowledge appropriate to their role.
- Systems and processes; IT systems enable the scheme to run properly and there are robust processes to administer and govern the scheme.

- Continuity strategy; there is a plan in place to protect members if something happens that may threaten the existence of the scheme, including how a master trust will be wound up.
- Scheme funder; any scheme funder supporting the scheme is a company (or other legal person) and only carries out master trust business.
- Financial sustainability, including business plan; the scheme has the financial resources to cover running costs and also the cost of winding up the scheme if it fails, without impacting on members.

In addition there is a fee of £41,000 payable for schemes in existence prior to 1 October 2018 before authorisation can be applied for.

Find out more [here](#).

Why is this an issue?

This legislation was primarily aimed at master trusts being promoted for large-scale commercial use. There will, however, be schemes that do not realise they are a master trust and need to comply. Examples include:

- Schemes where participating employers may have links or similarities but are not legally connected within the same corporate group; i.e. non-associated multi-employer (NAME) schemes. Charities and Not-For-Profit organisations can often use such arrangements.
- Historic schemes where sponsoring employers have been subject to corporate activity, including where an organisation is acquired and its pension scheme merged with that of the purchaser without a direct link being established.

If a master trust is not authorised, it cannot operate and will be required to wind up and transfer any members it may have. Although TPR may work cooperatively with trustees on this issue, ultimately these schemes will not be allowed to continue to operate.

Trustees identifying that their schemes are accidental master trusts, i.e. are not run on a large-scale, commercial basis, are very unlikely to find that complying with the new authorisation regime is a practical approach.

In addition, a secondary set of concerns that impact employers will arise from April 2019 when some master trusts will make the decision to, or be required to, cease operating. This will include some master trusts that have been marketed commercially; TPR report that some 30+ recognised master trusts have already indicated that they do not intend to apply for authorisation. We suspect that others may have underestimated the authorisation standards and will not be successful.

Employers using such schemes will need an immediate replacement for future pension provision due to auto-enrolment duties and are likely to want to choose their own alternatives, even if the ceasing master trust proposes a default alternative.

What can trustees do about this?

The first thing for trustees of a multi-employer scheme to do is check whether their scheme does classify as a master trust. This can be done using TPR's guidance [here](#).

If it does, the trustees and participating employers should urgently consider their strategic approach. This could include using an alternative arrangement for non-connected employers, or potentially securing all benefits under an alternative scheme and winding up the existing scheme. There are multiple solutions that could be used in this regard.

Trustees looking to identify an alternative master trust to secure existing scheme benefits, and also employers choosing an alternative master trust for future service provision, will want to take care to ensure the alternative itself is likely to meet the authorisation regime and continue to do so.

We have already helped trustees and employers deal with this issue, including advice on replacement scheme structure, scheme provider and communicating with members.

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively get in touch via the following:

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