

Pension Scheme Consolidation



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Pension Scheme Consolidation: Do employers still have the necessary compliance oversight of their Company Pension Scheme?

The Pensions Authority launched a pensions consolidation agenda over 2 years ago now where they have been looking to dramatically reduce the number of occupational pension schemes in Ireland. The drivers to bring about this change are the impact of the requirements of the IORP II Directive which became law in Ireland in April 2021, and the Pensions Authority's Code of Practice which was published in November of the same year. The result has seen significantly greater governance and compliance requirements with added costs.

What impact has this had?

In 2022 it was estimated that some 9,000 multi-member occupational pension schemes were in force. This number is reported to have halved to date with some 4,500 of these multi-member schemes having transitioned to a Master Trust or Group PRSA arrangement. There are currently 17 approved Master Trusts in Ireland with assets under management of circa €25bn hosting some 25,000 employers.

Employer engagement and compliance oversight under the Master Trust

In June this year the Pensions Council published a paper on Master Trusts and as part of this they considered what an employer should be doing after their company pension scheme has transitioned to a Master Trust, they commented:

“ In moving to Master Trust, Employers should consider how it wishes to oversee the

operation of the pension arrangement into the future. While there will be Trustees at the Master Trust level, there will be value in having focused local oversight and engagement, particularly where the pension benefits are a key part of that Employer's reward proposition.”

In December last year the Pensions Authority published a report of its findings of its engagement and audit activity in 2023 of Master Trusts as well as defined contribution and defined benefit pension schemes. They reviewed Master Trust practices on the topic of engagement with employers and found very different standards in place. These can be summarised as:

- Three trustee boards had not actively engaged with employer participants in 2023
- One trustee board advised that its founder held an employer conference in 2023 but that in general the communications had not been with existing employers who participated in the Master Trust
- Another trustee board advised that an employer newsletter was issued during 2023 outlining some governance and compliance standards
- Other boards informed the Authority that engagement is carried out via the founder's consultants who manage the relationship with employers but who provide feedback to the trustee board



All in all, this would suggest improvements are needed with the trustees of Master Trusts taking greater ownership of employer communications.

What action should employers be taking when their company pension scheme transitioned to a Master Trust?

As trustees of group occupational pension schemes over many years, we see the level of engagement the employer as sponsor to the scheme has in both attending, having a voice and being very active in trustee meetings held throughout the scheme year. Where regular engagement by the employer and / or member representatives with the trustees and other key stakeholders was the norm prior to transferring to a Master Trust why would this end after the move.

Where the transition takes place to a Master Trust, this tap is often turned off completely where we now see very little or no engagement with the employer. This is borne out from what the Pensions Authority evidenced in 2023. We therefore feel that employers need to take some level of control back and ensure they have good oversight of the performance and operation of the Master Trust with a particular focus on compliance, service, communications, engagement with members, and value for money in the new operating model.

Employers could achieve this aim by forming an oversight or governance committee. The committee

could be comprised of members of the scheme and employer representatives and be led by a skilled and experienced pensions trustee professional. This would provide challenge to the trustees of the Master Trust with the sole aim of ensuring the Master Trust continues to deliver for the employer and for members.

In summing up

With a big shift towards Master Trusts in the pensions industry, we see the importance of employers establishing an independent oversight committee to ensure good governance. The key focus areas of such a committee should be ensuring value for money, addressing any potential conflicts of interest, overseeing compliance with the monitoring of administration and investment performance, reviewing the default fund and ESG policies, and having good oversight of communications and the member engagement program of the Master Trust. The committee should provide annual reports on their activities and findings and communicate with the members about the oversight process they undertake.

There is clear value in an employer ensuring this added compliance oversight is in place especially when you consider that pension benefits are a key part of the employer's reward proposition.