Defined contribution pension consolidation: is everyone a winner?

Consolidation is shaking up the defined contribution (DC) landscape, but who are the winners and (most importantly) how is it changing the experience for both members and retirees?

Richard Birkin

Increasing running costs, incomplete member journeys and an overdue change in the way schemes are governed are leading many trustees and employers to take a fresh look at their schemes and the companies who provide them. Some are deciding to consolidate in an effort to outsource governance, reduce costs, decrease risk and also improve member experience.

But what are the motivations of the different players and is it really worth it?

Providers

Let's start with the obvious winners. Providers are using consolidation to achieve scale and increase their competitiveness in the market, for example improvements to their technology and platforms. Combined with the growing numbers of employers using master trust as their primary DC vehicle, a smaller number of large players are emerging with rapidly increasing buying power.

In what then becomes a virtuous circle, the scale and improved product this gives providers, then improves their chances of winning further new business, which in turn gives them more scale ...and so on and so forth.

Trustees

With the increasing burden of governance on DC trustees and the need to demonstrate they are managing the scheme effectively, the trustee's role is now bigger, reporting duties greater and required knowledge wider. Some have reached the conclusion that members' interests may be better served if responsibility lies elsewhere – namely in a master trust.

Where trustees are considering a transition to a master trust, a robust and independent assessment of the potential providers is essential and far greater significance is now being placed on the strength of those receiving trustees. Ceding trustees and sponsoring employers should interrogate the skill sets, Trust Deed and Rules and experience of these groups to safeguard the benefits due to transferring members.

Sponsoring employers

Employers' motives are driven by factors including members' changing expectations, higher running costs to run their own trust, multiple legacy schemes and evolving default structures. Although still somewhat in its infancy, the increasing interest in offering access to wider workplace savings can also be a catalyst in kick starting a broader workplace reward review.

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The Pensions Regulator

The master trust authorisation process put underlying providers and trustees through their paces. The master trust Provider market reduced by roughly two thirds and further consolidation seems inevitable.

In addition, the Department of Work and Pensions has called on smaller schemes to consider consolidation where their members may receive better value in bigger schemes.

This regulatory involvement can help improve the sustainability of the DC master trust market, removing barriers for trustees who wish to pass over risk and governance to professional trustees and ultimately aim to improve member outcomes.

Members

All the factors we have already covered can, together, mean a better experience for members thanks to cleaner access to retirement options, improved engagement channels, evolving default structures and stronger governance.

Furthermore, consolidation exercises often prompt members to consolidate their own deferred pots. The development of the pensions dashboard should support this.

All plain sailing then?

If the larger providers get too big too soon it may hurt competition and that could be to the detriment of some of the 'smaller' providers who offer dynamic and – in some cases – more engaging structures.

While we broadly view the consolidation shake up as a good thing, it remains vital that employers and trustees review their own position and undertake detailed feasibility studies. Only then can they decide whether consolidation is right for them and their members with supporting audit trail.

As one of very few truly independent DC advisors in the UK, Isio helps its clients understand if consolidation is right for them. We often manage every aspect of the initial assessment and transition, addressing conflicts and working collaboratively with ceding trustees and sponsoring employers.

Contact

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