Dear Mr Field,

**Master trust authorisation and supervision**

Thank you for your letters of 18 and 22 February regarding master trusts addressed to our former CEO, Lesley Titcomb. I am responding in her absence.

The Pension Schemes Act 2017 introduced authorisation for master trusts providing money purchase benefits to multiple and unconnected employers. As we have previously highlighted to the Committee, we pushed for these tougher laws, recognising the growing size of this market and that existing regulations were not sufficient to adequately protect members in these schemes.

By 31 March 2019 existing master trust schemes must either have applied to TPR for authorisation or begun a process of exiting from the market. New schemes may enter the market, subject to being authorised by us before they commence operations.

Our most recently published figures show that 13 master trusts have applied for authorisation, of which one has been granted so far. In the coming weeks we expect to receive applications from many of the 38 master trusts yet to apply for authorisation or exit the market. In addition, a total of 31 master trusts have officially notified us that they will wind up, and a further eight have completed an orderly exit from the market.

By the end of the year there will be a market of authorised master trusts and members will be better protected.

**Ensuring continuity for customers of master trusts which do not complete authorisation**

Master trusts which either decide not to apply for, or fail to obtain, authorisation have to exit the market. Our priority is to ensure members' benefits are protected.

The law enables us to monitor effectively how members are protected during a wind up and to take action where necessary. For example, trustees must notify us when they decide to close a master trust. They are also required to submit an implementation strategy to us outlining how the scheme will be wound up and assets and liabilities transferred to a suitable alternative master trust. This strategy must be approved by us and we analyse and challenge it where necessary. This may include directing the trustees to communicate clearly and regularly with members and employers, or making transfer payments.
We take a risk-based approach to overseeing the wind up of a master trust. The process has worked well to date, with any concerns that we have raised with exiting master trusts being resolved promptly, for example directing trustees to comply with the regulations.

Strong protections are in place to protect members’ savings. Since October 2016 master trusts have not been able to increase costs and charges to members to cover the cost of transferring members’ assets and liabilities and winding up a scheme.

We continue to see a healthy consolidation market from a wide range of master trusts actively taking on assets and liabilities from exiting schemes of all sizes. In our experience so far scheme exits have been orderly and members’ benefits have been protected.

Preventing and mitigating the impact of any master trust failure

The authorisation criteria are designed to provide strong protections for members including seeking to prevent the future failure of a master trust as well as mitigating the effect of any failure. For example, in order to remain authorised a master trust has to demonstrate that it has a sound business plan for the next three to five years which is updated annually. Master trusts must also demonstrate that they have adequate systems and processes and are run by people proven to be fit and proper.

Trustees are subject to two reporting requirements which provide us with an early indication of any issues that may affect whether a master trust continues to meet the authorisation standards, allowing us to manage and mitigate the impact of any problems:

- Significant events - matters which may indicate that a master trust no longer meets the authorisation criteria. When a significant event occurs, there are duties on a number of different parties to notify us. Our focus will be whether we remain satisfied that the master trust is able to meet the authorisation criteria. TPR’s level of intervention will be determined by a number of factors, including the impact of the significant event and how it is being managed. We may at any time decide to take further action, including exercising our powers and we may, ultimately, choose to de-authorise the scheme.

- Triggering events - events which present an immediate threat to the continued operation of the scheme. We must be notified within seven days and master trusts must continue to engage with us. The trustees must detail, to our satisfaction, how they plan to resolve the event for the continuation of the master trust or transfer members to a different master trust and wind up the scheme.

Authorised master trusts must have a continuity strategy setting out what will happen in the case of a triggering event. They must also hold sufficient financial reserves to cover the cost of either rectifying a triggering event whilst continuing to run the scheme, or to wind up the scheme, without impacting on members’ savings. These requirements are likely to significantly reduce the likelihood of a master trust failing and/or mitigate the impact if a master trust does close.

Once authorised, master trusts will be subject to regular and rigorous supervision by us. Trustees will need to satisfy us on an ongoing basis that their scheme continues to meet the authorisation criteria and other legislative requirements. Supervision will provide early identification and management of material risks and issues including the risk of a master trust failing.

We take a risk-based approach to supervision. The frequency and intensity of our interactions with master trusts will be driven by a range of factors including the number of members and amount of assets in a scheme, and other risks or issues that we are aware of, including from our previous dealings with a scheme.
Supporting master trust customers in the future

Once authorised, schemes may voluntarily withdraw from the market and we have the power to de-authorise master trusts.

The closure of any master trust in the future will be overseen by TPR, as set out above, to ensure members’ assets and liabilities are transferred to a suitable alternative master trust.

Trustees of the exiting scheme have a duty to communicate regularly and clearly with employers and members, detailing the closure of the scheme and the planned alternative arrangement which members’ assets and liabilities will be transferred into, as well as keep them up to date on progress. We check these communications to ensure they are clear, factual and give employers and pension scheme members the information they need to know. We also scrutinise the trustees’ decision to transfer assets and liabilities to the chosen scheme.

If they choose to do so, employers are also able to find their own alternative arrangement to transfer employees and their pensions into. We will ensure employers continue to comply with their automatic enrolment duties.

We consider that the master trust market has, and will continue to have, sufficient capacity to absorb members of schemes seeking to exit the market. This includes exiting master trusts and single employer DC schemes where trustees consider an authorised master trust will provide better value for members.

Acquisitions of master trusts

We have been talking to master trusts for several years regarding their intentions around authorisation, overseeing exits from the market and having in-depth conversations about consolidation and acquisitions.

As detailed above, we oversee transfers of members’ assets and liabilities. This includes us approving an exiting scheme’s implementation strategy which will include details of the intended receiving scheme. Trustees must carry out due diligence to ensure receiving schemes are appropriate and we also conduct our own analysis of the transferring and receiving schemes.

Any master trust taking on members’ assets and liabilities from an exiting scheme must be able to support any additional costs associated with acquiring the pension scheme, including taking on and maintaining the additional members and assets at the expected volumes resulting from any acquisition. Plans to take on members and assets should form part of the acquiring master trust’s business plan, which must be submitted as part of an authorisation application and reviewed on an ongoing basis once authorised.

Supervision of master trusts post authorisation allows for early discussions in respect of possible acquisitions, enabling us to regulate effectively. As has happened in the planned acquisition of NOW: Pensions, we would expect to have detailed discussions with all parties about our expectations and how a proposed deal might impact the scheme.

Depending on what impact an acquisition may have on the running of the scheme, the trustees may have to inform us of a significant or triggering event and put plans in place to ensure any changes still meet the authorisation criteria. For example, if the sale of the master trust also means a change of the funder supporting the scheme, then we will monitor the acquisition to ensure compliance with authorisation requirements and that members continue to be protected. An acquisition may also result in changes to the business plan or wider aspects of the master trust, such as the systems and processes being used or people involved in the running of a scheme,
which we would scrutinise and challenge to ensure the master trust continues to meet the authorisation standards.

Master trusts which are unable to satisfy us that any changes are adequate or appropriate are at risk of enforcement action and, ultimately, de-authorisation, if we are not satisfied that the authorisation criteria are being met by the master trust.

I hope this summary will help to inform the Committee about the work that we are doing to protect the benefits of members of master trusts including overseeing the exit of master trusts from the market and implementing the legislation for the authorisation and supervision of master trusts.

Yours sincerely,

Nicola Parish
Executive Director for Frontline Regulation