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Is Your Pension Plan Caught by the Master Trust Net?

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Trustees of pension plans offering an element of money purchase pension provision should be clear on whether their pension plan falls within the master trust regime. This does not just apply to commercial master trusts; it applies to a wide range of benefit structures.

Trustees are encouraged to check the status of their pension plan where there is any element of doubt and seek legal advice as appropriate.

Employers and trustees of affected pension plans may wish to consider responding to the Department for Work and Pensions (DWP) consultation, which closes on 12 January 2018.

Master Trust Schemes

The new authorisation and supervisory regime for "master trust schemes" is intended to come into force on 1 October 2018. This will bring fundamental changes to the way in which these pensions arrangements operate.

The definition of a master trust scheme in the Pension Schemes Act 2017 is deliberately wide in order to capture a variety of pension plan structures. The current consultation sets out in more detail the type of pension plan that is intended to fall within the definition.

In addition to commercial master trusts, the definition captures industry-wide pension plans (with limited exceptions) and certain pension plans within the not-for-profit sector. The DWP intends to bring other pension plans into the master trust regime where they believe that such plans pose similar risks.

A master trust scheme is a private sector occupational pension plan used by two or more employers who are not connected where the scheme provides money purchase benefits (either alone or alongside other types of benefit). The term "connected" is defined in legislation and expanded upon in the draft regulations.

It is proposed that the following pension plans are **excluded** (but specific criteria apply in each case):

- Defined benefit (DB) plans whose only money purchase benefits stem from additional voluntary contributions made by or on behalf of active members
- DB plans whose only money purchase benefits are those transferred in by active DB members
- Pension plans that temporarily include an unconnected employer due to corporate restructuring
- Pension plans originally established as DB and set up by statute as a result of the privatisation of a state-owned industry for those employed in the industry at that date
- Small self-administered schemes where the majority of trustees are members
- Pension plans intended to be used by a single member

It is proposed that the following pension plans are **included**:

- Cluster schemes. This describes a model in which multiple pension plans are set up so that they each only have a single or connected group of employers but are in reality subject to common rules or controlled in a common way.
- Parallel accumulation and decumulation schemes. This describes a model in which a pension plan is set up to provide retirement options for members of a master trust scheme with which it shares common rules or is under common control.

Some **modifications** apply for multi-employer plans offering both DB and money purchase benefits where the only scheme funders are the participating employers.

Operating a Master Trust

Master trust schemes will not be able to operate without authorisation from The Pensions Regulator, which will include assessment against the following criteria:

- The persons involved in the scheme are fit and proper
- The scheme is financially sustainable
- Each scheme funder meets specific requirements
- The systems and processes used in running the schemes are sufficient to ensure that it is run effectively
- The scheme has an adequate continuity strategy

Further Information

Please contact your usual member of the Pensions team if you require any further information.

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