TECHNICAL NEWS

# Top five predictions for 2023 for the fastest growing pensions market segment: master trusts

Smart Pension

## Stuart Reid, Director of Workplace Pensions at Smart Pension, talks about how master trusts are forecast to become the fastest-growing market segment over the next decade – and reveals his top five predictions for 2023.

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### Pension regulations and changes continue to mount up

The last few years have seen huge changes in the workplace pension marketplace. Single employer own trust pension schemes are moving to master trusts at the highest rates ever seen, a move that is being partially driven by the legislation affecting pension schemes with assets under £100m.

The value for money (VFM) requirement for occupational schemes with assets of less than £100m requires them to compare costs, charges and investment returns against three other schemes. This is driving change in the market because it serves to highlight to scheme sponsors the economies of scale that master trusts can provide.

At the same time, 2023 will most likely see the details start to emerge of how auto enrolment will evolve. Expect to hear about the entry age dropping to 18, and the removal of lower thresholds. Employers need to start thinking about this increase to pension budgets.

## The master trust sector is forecast to become the fastest-growing market segment over the next decade

Master trusts have enjoyed rapid growth in recent years as an increasing number of employers use them as a way to reduce risk and costs, improve oversight and upgrade the investment options available to their employees.

According to Broadridge, the Defined Contribution (DC) pension market is expected to grow by about 8.3% annually by 2029[1]. However, the same study suggests that over that period, master trusts are expected to grow by 20.8% per annum and to reach £461bn in assets.

Master trusts' strong governance and their use of trustees to reduce the administrative burden on employers, as well as their ability to upgrade their investment strategy and retirement offering, all form part of their appeal. With around 35 master trusts currently available and competition intensifying, employers thinking about switching to a master trust may wonder how to choose the right one.

It's clear that the winners will be the most technologically enhanced, allowing them to provide employers and employees with value for money and an easily-accessible interface. They will also offer the opportunity to invest responsibly while providing strong governance, thereby reducing the burden on employers.

# £461bn

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[1]https://datacrunchaugust10.pensions-expert.com/

# Top five predictions in 2023 for master trusts

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## **Prediction 1** – New investment ideas will spread like wildfire

At Smart Pension, we believe that retirement savings are powerful. If invested wisely, they can grow as well as helping to solve major global issues. However, there's no one-size-fits-all with sustainable investing – pension savings need to provide members with more options to reflect their personal preferences. One person might be more interested in excluding tobacco from their investments, for example, while another might have a stronger preference for leaving fossil fuels out of their portfolio. With our digital platform, we are moving away from a very traditional risk-rated approach to one that is beliefs-orientated and gives members more flexibility. We are doing this because our members are asking for it, and the typical strategy of asking them to make a decision based on their risk appetite has not seen much traction.

Our default growth fund is entirely invested in funds that promote good Environmental, Social and Governance (ESG) practices. All of the underlying investment funds that now make up our default growth fund are rated as Article 8 or 9 investment funds by the EU's Sustainable Finance Disclosure Regulation[2], including an allocation to private credit, green bonds and a biodiversity fund. We therefore want to give members sustainability by default, and not just provide them with a sustainable self-select option. This puts the Smart Pension Master Trust at the forefront of the industry from a sustainability perspective.

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[2]https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2088&from=EN

# **Prediction 2** – 2023 will see increasing industry demand for master trust acquisitions to be completed with full consolidation

In just one recent example of consolidation at scale in the sector, the Ensign Master Trust, with £158m in assets, will be consolidated into the Smart Pension Master Trust in order to deliver increased efficiencies and improved experience for employers and members. The integration of Ensign is the latest in Smart Pension's consolidation strategy, which now includes eight former master trusts including the Welplan Master Trust, the Corpad Master Trust and Corporate Pensions Trust. The integration and its benefits are enabled by Keystone, Smart's cloud-based global technology platform, bringing true 21st century technology to the retirement savings sector.

## How does consolidation of master trusts help members?

The Ensign Master Trust currently has dozens of employers and thousands of members. The consolidation results in large savings for employers in fees, and savings for every member in terms of charges, allowing relatively higher savings by the time they retire in comparison to the prior charging model.

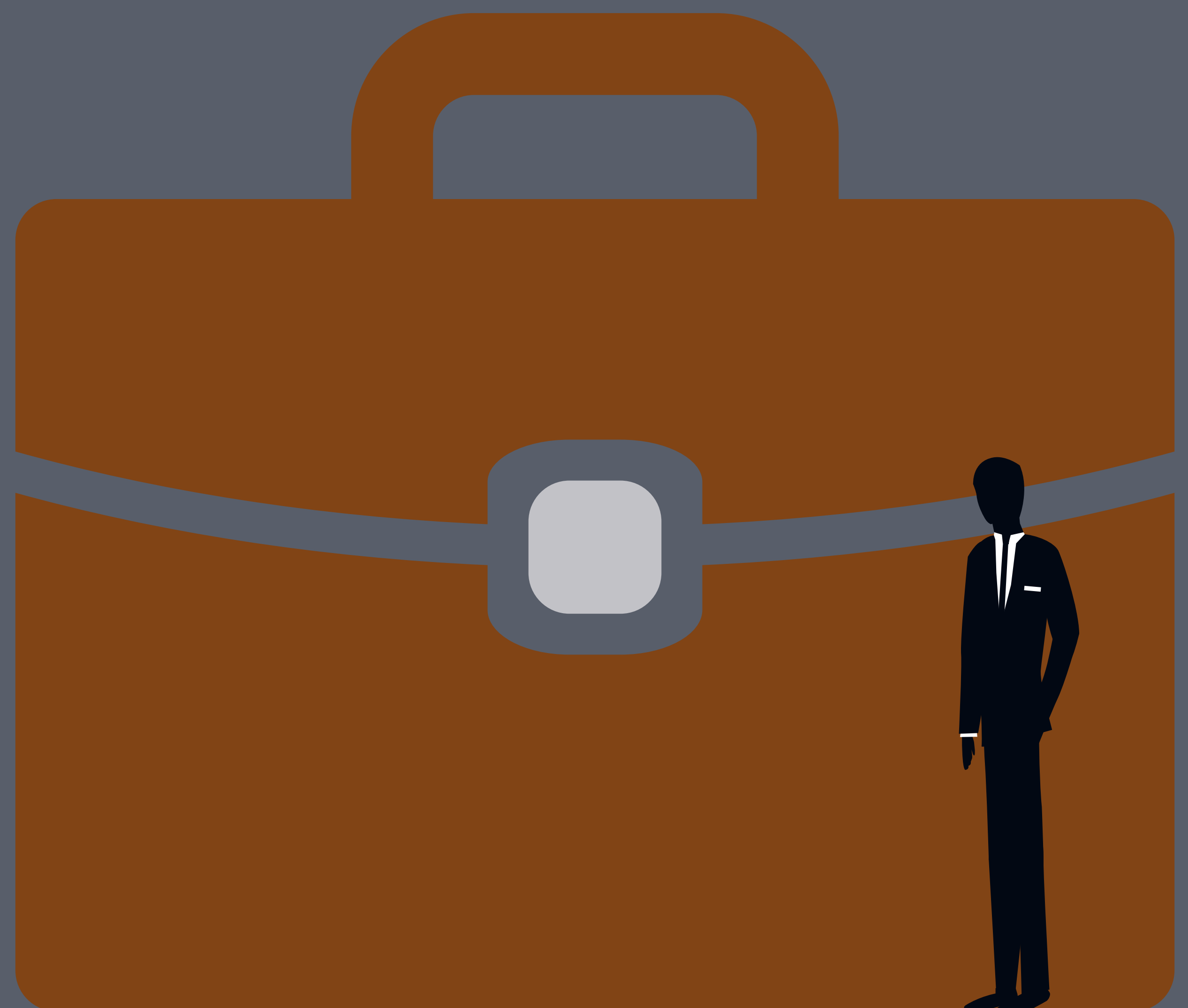
"For some time now, consolidation has been the watchword in the pension industry," says Jamie Fiveash, CEO of Smart UK. "People know that it's the key to providing value for members. All too often, though, we see schemes continue to run separately with duplicate governance and customers stuck on old legacy platforms with the same proposition. However, this deal is an example of real consolidation – delivering better value for Ensign's members and a better outcome for Ensign's employers."

Rory Murphy, Chair of Ensign, takes a similar view. "In joining with Smart Pension, we are now reducing costs even further and offering greater digital efficiency and financial sustainability, all whilst retaining a strong and accountable governance structure," he says.

# **Prediction 3** – There will be some significant acquisitions within advisory firms who support master trusts

In 2023, I don't think that consolidation will be limited to just master trust providers – it will be a theme for advisory firms, too. I am not sure whether we will see a merger between employee benefit consultants who offer the market a master trust, but that would not seem impossible.

The advisory industry has always seen acquisition, so this is not necessarily a ground-breaking prediction, but I think there will be very significant moves in this space in 2023.



# **Prediction 4** – 2023 has to be the year we see better use of technology from master trusts

It is clear that ‘winning’ in this market means delivering better value for savers. Size and efficiency are important for that, but additionally - and crucially - a leap forward in technology is also needed. Much of the industry is still underpinned by clunky twentieth-century IT systems - amplifying risk, and frustrating opportunities to create value for employers and members.

The introduction of the government’s new pension dashboard is quickly coming up on the horizon - allowing pension savers to see all their pension savings, including their state pension, in one place. Pension schemes will have no choice and will be forced to look at their technology and data to enable the pension dashboard for members.

2023 may also be the year that some pension providers’ technology breaks or is exposed to cyber security threats or data breaches. Demand for enhanced cyber security is one clear example where newer platforms may be more nimble than many legacy services, and offer better protection.

# **Prediction 5** – New ideas and innovation will serve the mass market of those reaching retirement

All too often, savers say they are bewildered by the options available to them at retirement, and there is often a lack of guidance or advice to help them through this process. Without an effective 'at-retirement' strategy there is an increased risk of value erosion, through members making either the wrong decisions or simply no decision at all. Financial advice is the usual go-to, especially for people with larger pensions, but is seen as prohibitively expensive for the majority of savers. We expect more new ideas to come through to solve this problem.

Everywhere you look in financial services, technology is making it easier and cheaper for individuals to manage their money. That's why we offer Smart Retire, an innovative digital retirement proposition which helps people to think about their pension in the same way they think about their savings and income during their working life.

Rather than force our members to take out a range of different plans when they want to access their pension savings, such as annuities or drawdown, they have a single account with Smart Retire. At its most basic, there is a flexible income pot, to manage their transition from work to retirement, and a later life pot, which is essentially putting aside some savings to provide an income from a later date – reducing complexity for our members. There are also inheritance and rainy day pots for those who would like to use them.

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Please note: Smart Retire is one of a number of options available to members of the Smart Pension Master Trust when they reach 55 years of age. Learn more about Smart Retire.

## Discover more

We have been disrupting the pension marketplace since 2015, bringing modern thinking and global technology learnings into a traditional industry. The Smart Pension Master Trust now looks after approximately £2.5 billion in retirement savings for over a million people. We've achieved all of this in a short seven years, which makes us one of the fastest-growing companies in the UK retirement savings market.

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