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The rise of the DC Master Trust

The last few years have seen a remarkable growth in the demand for DC Master Trusts. But what's all the fuss about? Here we look back in time to see where the Master Trust came from and the various factors which have led to their recent rise in popularity.

1970s, 80s & 90s

The emergence of the Master Trust.

The early Master Trusts were mainly used by smaller employers and executives attracted to the fact that they allowed for much higher funding rates than standard pension arrangements.

2006

Are Master Trusts consigned to the pension history books?

Pension tax simplification legislation simplified scheme funding, bringing all pension arrangements under one funding regime. The new rules spelt the end for Master Trusts as their USP evaporated.

2012

The Master Trust is resurrected.

In response to automatic enrolment requirements, Marks & Spencer (M&S) went in search for a large employer solution that suits their needs better than a Group Personal Pension (GPP). Working with them we revisited the benefits of a multi-employer trust based scheme, and the pension providers responded with a new, more attractive version of the Master Trust, with L&G becoming M&S's provider of choice – the Master Trust is resurrected.

2012 – 2018

The rise of the Master Trust.

Many more providers enter the market, in response to the demand from employers, quickly accounting for 35% of the workplace pensions market.

2018 – 2019

The year of authorisation.

Master Trusts had to apply to The Pensions Regulator (TPR) for authorisation and demonstrate they met the strict new criteria. This tough authorisation process led to a large proportion of Master Trusts exiting the market, reducing the number of providers from 90 to 37.

2020 – 2021

The hype around Master Trust continues to grow.

The regulatory focus on Master Trusts continues with the ongoing supervisory regime and the drive to consolidate schemes to improve member outcomes. The market is flooded with employers wanting to make the move, with demand overtaking supply, and Master Trust providers becoming selective about who they let into their Master Trust. Rivalry continues between the largest Master Trusts as they compete for scale – this continues to drive further innovation in the market and lead to a continued downward pressure on pricing.

The future of Master Trust

Master Trusts now account for a significant portion of the workplace pensions market. The assets of over 18 million UK DC savers are now invested in these vehicles. By 2026, their share of the workplace pensions market is expected to grow from £80bn today to £400bn. Consolidation of the DC market is expected to reduce the number of Master Trusts from 37 down to around 15 to 20.

What's all the fuss about?

The popularity of Master Trusts is due to the attractiveness of fully outsourcing DC delivery but, at the same time, retaining some of the attractive features of occupational pension schemes. Coupled with economies of scale and the significant downward pressure on pricing, it's easy to see why they have appeal.

If you have any questions about selecting the right Master Trust, moving from your employer trust based scheme to a Master Trust, or even whether a Master Trust is right for your organisation, please get in touch:

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