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**Pension Schemes and Financial Guidance Bill:**  
**master trust authorisation**  
**Department for Work and Pensions**  
**RPC rating: fit for purpose**

### **Description of proposal**

Master trust pension schemes are a form of multi-employer defined contribution pension scheme that operates on a trust basis, is established by a founder who sets the trust deed and rules and appoints a board of trustees. The impact assessment (IA) states that, in recent years, there has been significant growth in the development and use of master trust structures as a vehicle to provide occupational pension schemes. The IA explains that there are several specific areas of risk arising in relation to master trusts compared to other types of occupational pensions and group personal pension schemes, in particular, the increased likelihood of members of master trust schemes suffering financial detriment because these schemes are not adequately covered by the existing regulatory framework. The development of master trust schemes, and evolution of the related business structures, have altered behavioural incentives between key stakeholders (members, employers, trustees and providers), encouraging some master trusts to seek a competitive advantage by weakening member protections or exploiting loopholes. The IA explains that there is a need for government intervention to address these weaknesses.

The proposal is for primary legislation to make provision for a compulsory master trust authorisation regime, which sets out a framework for four authorisation criteria based on competence and integrity, systems and processes, financial stability of the arrangement, and continuity of savings; and to provide the Pensions Regulator (TPR) with powers to authorise and regulate master trust pension schemes. In addition, trustees of master trusts would be prohibited from imposing new charges, increasing existing charges, or charging members for leaving when a master trust intends to leave the market. It is also proposed to prohibit the schemes from taking money to pay for additional costs in relation to winding up a scheme and exiting the market.

### **Impacts of proposal**

The IA identifies some one-off and ongoing costs to master trust pension schemes from having to meet the prescribed standards and requirements for authorisation, the details of which would be determined in secondary legislation.

The Department explains that it is not possible to monetise the impacts of the proposals at this stage because details of the specific criteria that will form the authorisation regime have not yet been decided; these will be set out in subsequent secondary legislation. The IA, nevertheless, provides indicative estimates of the possible scale of the impacts. The Department has committed to provide a full, updated IA at the secondary legislation stage, following further consultation with industry on how the framework should be designed and implemented.

### Master trusts

The IA states that all existing master trust pension schemes would need to become familiar with the requirements in the primary legislation. For each of the 84 master trusts, the Department estimates that it would take around four and a half hours of a trustee's time to read and understand around 40 pages of information. In addition, once the policy is implemented, all remaining master trusts would need a further four hours of familiarisation with the exact requirements of the secondary legislation. The Department uses TPR's estimate that 17 existing master trusts would exit the market due to natural consolidation prior to introduction of the authorisation regime. Assuming a wage of £25.34 per hour for a trustee, uplifted to take into account non-wage costs, the IA estimates total familiarisation costs of £16,400.

The IA explains that there would be costs to master trust pension schemes of assessing their own structure and performance against the standards of the authorisation regime. TPR assumes that introduction of the authorisation regime would lead to some further consolidation of master trust schemes. The Department assumes that the number of such schemes would decrease from 67 to 54. The IA explains that the costs would depend on the specific authorisation criteria set out in secondary legislation and, therefore, it is not possible to monetise these costs at this stage.

However, the Department assumes that the scope and scale of authorisation would go beyond the existing voluntary master trust assurance framework (MTAF) requirements and, therefore, that the costs associated with schemes assessing their structure and performance against the standards of the authorisation regime would exceed those for the MTAF. Industry sources suggest that achieving MTAF accreditation costs, at most, £100,000; on this basis the IA provides an indicative figure for total for one-off costs in the region of £6.7 million.

The IA notes that the prohibition measure would prevent schemes and corporate entities from taking money to pay for additional costs in relation to winding up a scheme, including those winding up due exclusively to the burdens of the proposals. However, the prohibition itself does not require schemes to wind up so it is reasonable to assume that those who choose to wind up would do so only if the benefits (including avoided costs of compliance) covered the costs of winding up; this would have zero impact in equivalent annual net direct cost to business (EANDCB) terms.

### The Pensions Regulator (TPR)

The IA explains that there would be an increased resource burden on TPR from the additional activity required to authorise and supervise master trust pension schemes. TPR estimates that the proposal would increase its expenditure by £9.1 - 9.5 million in the first five years. However, the IA states that this is highly speculative and depends on the level of market consolidation and the design and development of the authorisation regime.

In addition, there would be costs to TPR for managing the transfer of members from a master trust scheme leaving the market to another scheme. Based on estimates from TPR, the IA states that its additional costs would be in the region of £50,000 per case.

## **Quality of submission**

There are no direct impacts on business of the proposed primary legislation alone, and the Department has demonstrated why it is not possible, at this stage, to provide an EANDCB figure for the overall policy. In particular, this would depend upon decisions to be taken at the secondary legislation stage. The Department has, nevertheless, provided indicative costs of the potential impacts of the proposal. On this basis, the RPC verifies that, at this stage, an EANDCB of zero can be reported for business impact target purposes. The Department will need to submit a further IA for validation of an EANDCB figure at the secondary legislation stage.

Currently, the IA estimates that 13 schemes would exit the market as a result of introduction of the authorisation regime. The IA would benefit from an explanation of the logic behind this assumption and justification of the estimate used; and discussion of the impacts of reduced competition among master trust pension schemes.

In addition, the IA should explain why the Department, when estimating familiarisation costs, assumes the hourly wage of a trustee to be equivalent to that of a professional under ASHE data. The IA would also benefit from an explanation of the basis of, and reference for, TPR estimates used.

Once the details of the authorisation regime are known at the secondary legislation stage, the IA should estimate the costs, in the form of loss of profits, to master trusts that are no longer willing to stay in business. As these costs would be incurred as a result of the proposals, and are potentially significant, the IA should provide a robust estimate and discussion on whether or not the Department classifies these costs as having a direct impact on business.

### Small and micro business assessment

The IA explains that the number of small and micro businesses in this market is unknown, but including all master trust pension schemes regardless of their size is the only way to ensure equivalent protection for all scheme members. The Department commits to conducting a more detailed small and micro business assessment in the impact assessment at the secondary legislation stage. This should include a detailed assessment of the impact of exempting small businesses, or actions to mitigate burdens on them.

### **Departmental assessment**

| Classification   | Qualifying regulatory provision (IN) |
|--|--------------------------------------|
| Equivalent annual net direct cost to business (EANDCB) | Not quantified at this stage         |
| Business net present value                             | Not quantified at this stage         |
| Societal net present value                             | Not quantified at this stage         |

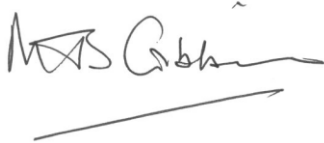
### **RPC assessment**

| Classification         | Qualifying regulatory provision (IN)   |
|------------------------|--|
| EANDCB – RPC validated | Zero at this stage<br>A further IA to be submitted at the secondary legislation stage for validation of an EANDCB figure |

Opinion: final stage IA  
Origin: domestic  
RPC reference number: RPC-3479(1)-DWP  
Date of implementation: 2018

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| Small and micro business assessment | Sufficient at this stage |
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**Michael Gibbons CBE, Chairman**