LCP Ireland Master Trust Survey 2024

May 2024

Welcome to LCP's 2024 Master Trust ('MT') survey

ABOUT THE SURVEY

Market covered:
Corporate pensions

Providers participating:
6 out of 9

Assets they held at the end of 2023:
€16bn

Martin Haugh
Partner

Kathy Keating
Head of Defined Contribution Consulting

The Master Trust (MT) market in Ireland has grown considerably following the implementation of IORP II, so much so that there was €22bn in MTs at the end of 2023.

The advantages of the MT structure are clear, freeing up valuable time and money for employers while ensuring an attractive benefit for all employees. Initially having been seen as a solution for small or medium sized employers, it is now clear that no matter how large, all employers can benefit from a MT. The question for all employers has changed from "Why" a master trust to "Why not"!

With MTs now the go-to product for employers providing pensions and with Auto Enrolment (AE) on the horizon, LCP has surveyed the major MT providers. Our survey is focused on the MTs servicing the corporate pension market and does not cover those aimed at the retail or AVC markets. 6 of the 9 providers in this market have participated, covering 8 trusts which in total have €16bn in assets at the end of 2023 (approx. 70% of €22bn quoted).

Over the last few years LCP have been helping employers review, choose or change MT provider. In the course of this we have seen the market evolve (for the better!). While some of this change has been regulator led, the majority has been driven by greater competition between providers who have pushed each other to develop, innovate and drive down costs.

The most obvious changes, all to the benefit of members, have occurred in the;

- Transparency and robustness of governance structures,
- Quality and delivery of member communications,
- Design and cost of investment solutions.

Our survey not only considers data on the participating trusts and how they have evolved to the end of 2023 but also seeks the MT providers' views on the market and how they think this will develop over the course of 2024 and beyond.

The MT market will clearly develop further, AE will drive some of this and so too will the demands of employers and continuing regulatory oversight. While likely to be further down the road, the potential for "in-scheme drawdown" while likely to require legislative change would have a major positive impact on members.

It is important that employers have the ability to source independent advice on the MT market when considering or reviewing their provider. LCP do not operate a MT, administer or manage scheme money. We are therefore ideally placed to help employers with their MT considerations.

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MTs can offer significant value to employers, freeing up time and cost while ensuring a valuable benefit for employees.

Overview of participating MTs
As of 31 December 2023

The MT market has evolved and grown significantly in 2023.
While growth is expected to slow somewhat in 2024, we expect many employers who previously adopted a "wait-and-see" approach to reassess their position and consider a MT in 2024. Many of these are likely to have large schemes.

€16 billion
Assets under management

316,000
Members (both active and deferred)

3,300
Participating employers

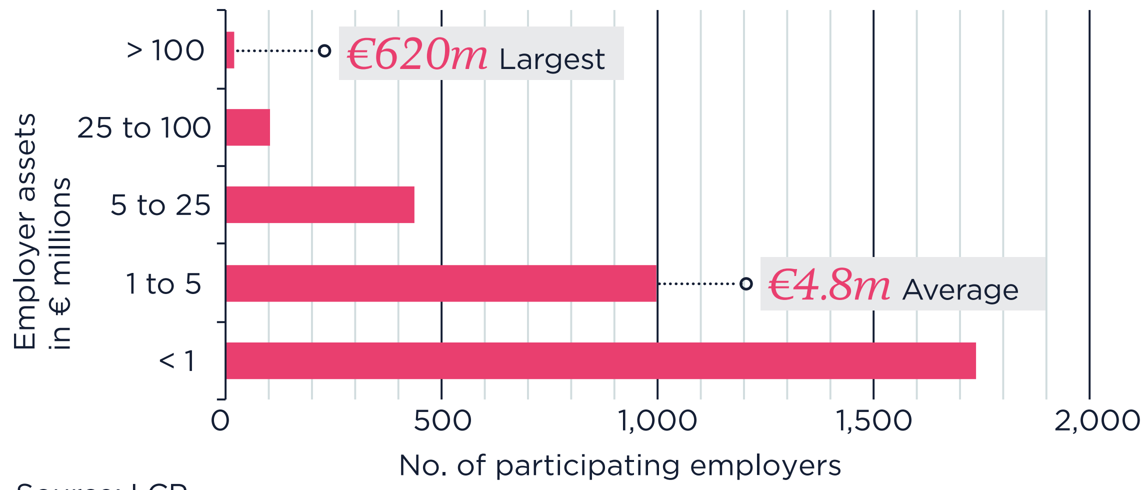
	At 31 Dec 22	At 31 Dec 23	Projected at 31 Dec 24
Assets	€5.9 bn	€ 16.1 bn	€20.9 bn
Employers	1,325	3,344	4,234
Members	160,500	315,600	378,800

Over 2,000
Employers moved to MT in 2023

20%
Of employers transitioned to a new provider when moving to MT in 2023

€10 billion+
Growth in assets

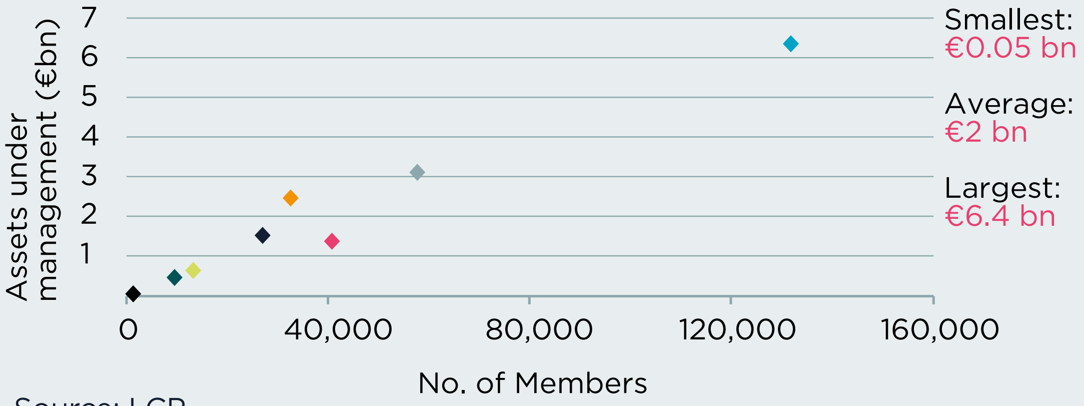
Split of participating employers by size



Source: LCP

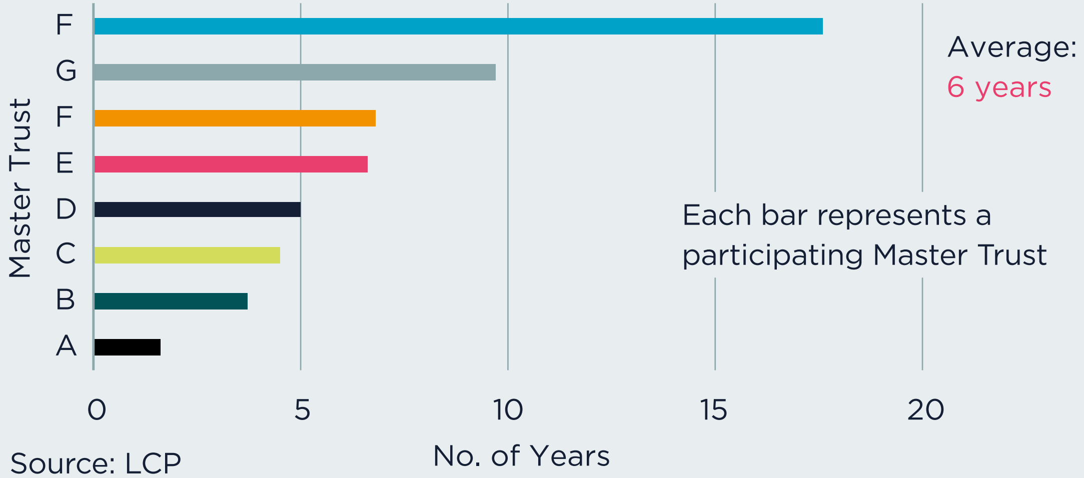
Overview of participating MTs

MTs come in all shapes and sizes



Source: LCP

Years in operation



Source: LCP

LCP asked participants...

What do you believe distinguishes your MT from competitors?

Size of font indicates frequency of usage

LCP Viewpoint

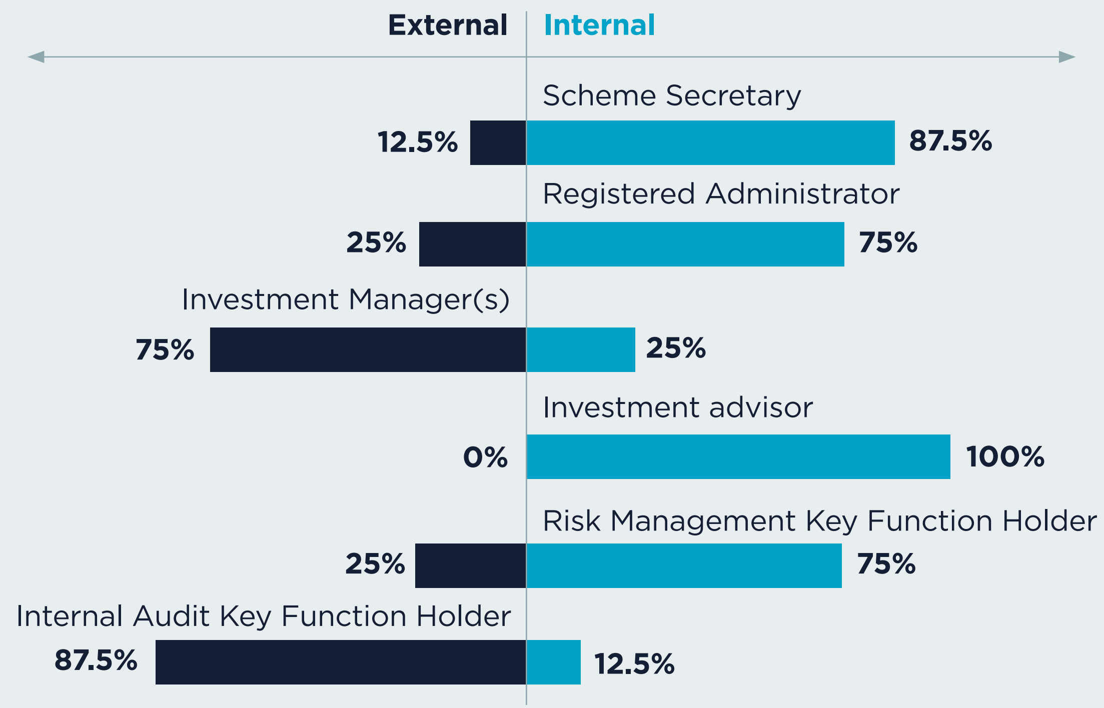
From our experience, the needs and wants of each employer differ. Understanding the relative strengths of each MT is crucial to selecting the most suitable one.

Overview of participating MTs

The trusteeship, administration, investment platform and other MT services **sit under one umbrella** overseen by the MT and the MT trustees. The suite of service providers and advisers (such as Key Function Holders) are appointed by the MT. Some of these advisers are internal to the MT and some are outsourced (independent of the MT).

Employers, particularly larger entities, are likely to appoint a MT consultant or a **Pension Liaison Committee** to help oversee the MT and advocate for the employer.

What services are outsourced under the MT?



MT oversight

Each MT is overseen by a professional trustee company. This is a requirement as per the Pensions Authority. On average, 3 Directors are appointed to the MT Trustee DAC, of whom 2 are independent of the MT founder, subsidiaries or affiliates.

In the Pensions Authority engagement and audit findings report for 2023 they stated:

> *The Authority is satisfied that all 17 MTs [in the market] meet the core requirements of the legislation and the Code but this should not be seen as an endorsement of the MTs involved and the Authority will apply a more in-depth focus on MTs as part of the supervisory review process (SRP) programme which will start in 2024. Further, the Authority expects that MT's will approach compliance in a more proactive way, rather than relying on sustained engagement and prompting from the Authority.*

Key facts

- **All** MTs use an internal investment adviser and **75%** use an independent investment manager.
- Most MT pension administration and scheme secretarial services are kept inhouse.
- The majority use independent internal audit and legal advisory functions.

The trend in the market is shifting from standalone DC schemes towards MTs, largely propelled by regulatory shifts. Initially the employers moving to MT might have been considered "small or medium". However, there is a noticeable rise in the size of entity now opting for MTs as confidence in this market grows and the benefits are more obvious.

MT providers' view

LCP asked participants...

In your experience, what are the most important factors for employers choosing a MT?

1	**Member Engagement** Ensuring members understand the value of their pension.
2	**Costs** Advisor and service provider costs and investment management fees
3	**Technology** Interaction and flexibility for scheme members
4	**Investment** Performance and breadth of investment options

LCP Viewpoint

According to the MTs, member engagement is the most important factor for employers. Demystifying pension investment options and expected retirement benefits proves invaluable to companies and staff. This links with technology where provision of online pension platforms provides important clarity and information access for scheme members.

The costs and fees charged by the MTs are an obvious comparison point for employers seeking to maximise value for their scheme. In our experience, moving to MT can deliver significant cost reductions for employers when compared with standalone schemes.

Surprisingly, investment performance ranks lower. This may garner higher importance if market volatility picks up in the short to medium term.

MT providers' view

LCP asked participants...

What are the most significant challenges facing MTs?

1. Potential impact of Auto Enrolment
2. Transfer of legacy benefits
3. Delivering on investment performance expectations
4. Satisfying regulatory requirements
5. Managing post-retirement requirements

LCP asked participants...

In your opinion what are the greatest barriers for Employers moving to MT?

1. Resistance from trustees
2. Scheme advisors unsupportive
3. Resistance from employer
4. Transferring legacy benefits
5. Lack of knowledge on MT
6. Concerns about future security

LCP Viewpoint

The new AE system is expected to commence in January 2025. Master Trusts are a good option for employers who wish to maintain control of their pension arrangements for staff. This will give rise to challenges for MTs who will need to manage employers expectations and also manage an increase in new joiner enrolments before the impending AE commencement date.

LCP Viewpoint

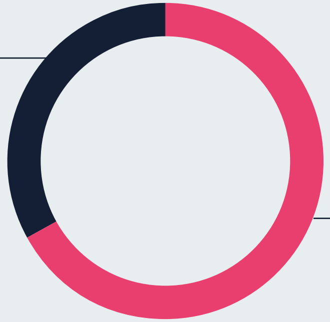
Given the rapid development of MTs, many employers have been reluctant to be early movers. As propositions have become more bedded down and confidence in MTs grow, we expect to see this resistance reducing.

MT providers' view

LCP asked participants...

Are there enough MTs in the market?

33%
believe there are too many MTs in the market.

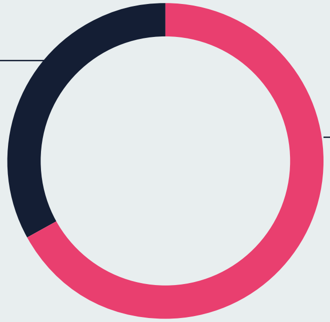


17
MTs available in the market, of which 11 are targetting the corporate market.

67%
MTs hold the view that the number of MTs operating in the Irish market is sufficient

Do you expect consolidation of MT in the future?

33%
No



67%
Yes - expect consolidation of the existing MT in the future

LCP asked participants...

What are the priorities for 2024?

1	Member engagement
2	Financial advice more accessible to members
3	Improving Technology
4	Financial Wellbeing
5	Working with the Pensions Authority
6	ESG

LCP Viewpoint

Member engagement is difficult amidst information overload and competing demands. Transferring legacy benefits adds complexity. MTs must balance preserving member entitlements, navigating regulatory requirements and ensuring transparency.

Member communications

Communication is key

Half reported members have accessed the online portal more than once in 2023

All MTs agreed that the member online website portal stands out as the **most effective** means of communication and engagement for members.

Various other communication methods are also noted, such as annual presentations, phone applications, and retirement forecast tools. It's crucial for employers to be aware of the array of communication tools accessible and ensure utilisation by coordinating with their MT consultant.

Retirement Planning

All MTs surveyed provide retirement planning support with their standard MT services. Retirement planning support includes; member consultations, 1:1 financial advice, webinars, retirement calculation tools, educational resources, targeted communications to members approaching retirement.

LCP Viewpoint

Supporting employees in planning for retirement is really important because it helps them feel financially secure and less worried about the future. When employees know they have this support, it makes them happier with their jobs and helps them feel better about their money situation overall. So, by helping employees figure out their retirement plans, companies are not just offering a benefit—they're also helping their employees live better lives even after they stop working.

That's where having a Pension Liaison Committee can be very beneficial. This committee acts as a bridge between the MT provider, the trustees overseeing the plan, the employer, and the employees themselves. With this committee in place, everyone can work together to make sure employees get the information and support they need to plan for retirement effectively.

Pricing considerations

We see MTs facilitating different types of pricing structures, where:

- all costs are included in the annual management charge (AMC) and paid via deduction from the members' funds; or
- the employer shares the cost and pays an annual fee to the MT with the members paying the balance.

LCP asked participants...

What do MTs consider important when pricing new business?

1	Scheme Size
2	Membership profile
3	Future contribution roll
4	Competitive pressures
5	Post-retirement revenue

MT Providers View

Employer pricing

All MTs will facilitate flexible charging structures for employers rather than a uniform charging structure. They feel having various charging structures in place for employers is sustainable in the long term.

Product pricing

Only 1 MT offers reduced rates on post retirement MT products. However, the other MTs say that this is something that they would consider.

LCP Viewpoint

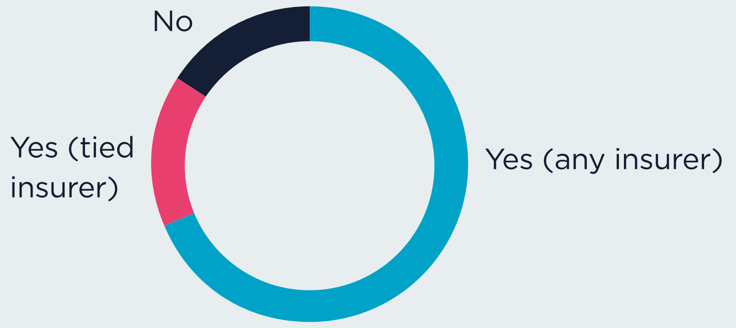
The current DC/MT market in Ireland is very competitive in terms of fees. As expected, the scheme assets size and expected future growth are top 3 factors considered by MTs in their pricing.

Risk benefits

It is important that employers consider how risk benefits are provided when moving to MT.

LCP asked participants...

Is life cover available under MT?



Of the 6 MT providers, **5 provide for Life Cover** under the MT (1 MT requires that the life cover is put in place with a tied insurance company).

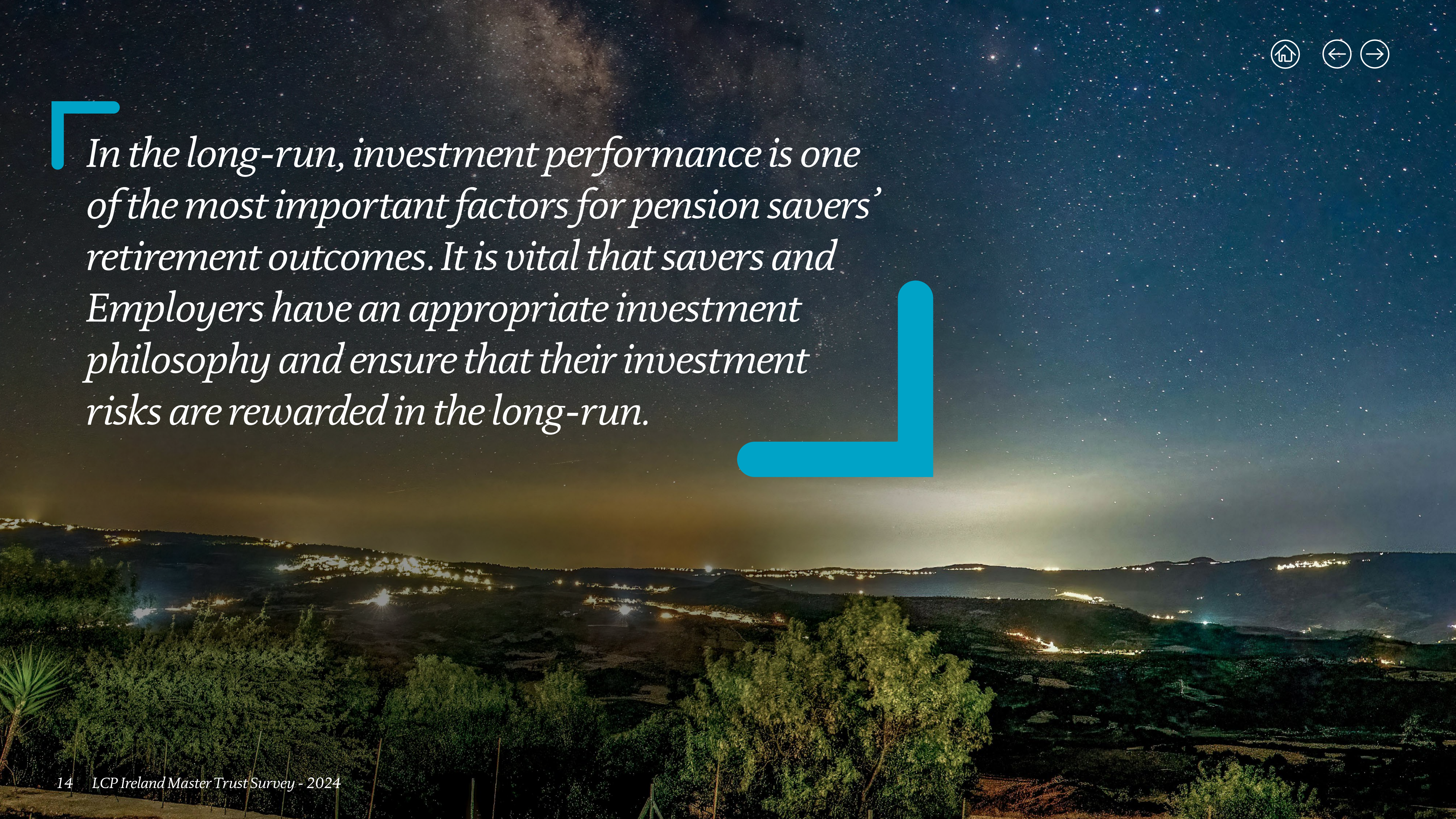
1 MT does not facilitate the provision of Life Cover under their MT product; therefore, the risk benefits would need to be set up under a standalone policy.

LCP Viewpoint

Employers transitioning from a standalone DC structure to a MT, must consider their risk benefit scheme and how this will be provided for going forward. Employers can consider a standalone risk policy or transferring the risk benefits to the MT.

Increasingly, employers opt to separate their pension and risk benefits by establishing a standalone risk policy. They must also decide whether to act as trustees themselves or appoint a professional trustee to oversee the risk policy.

The primary motivation behind establishing a separate standalone risk policy is to ensure independence during market reviews and help with the processing of claims.



In the long-run, investment performance is one of the most important factors for pension savers' retirement outcomes. It is vital that savers and Employers have an appropriate investment philosophy and ensure that their investment risks are rewarded in the long-run.

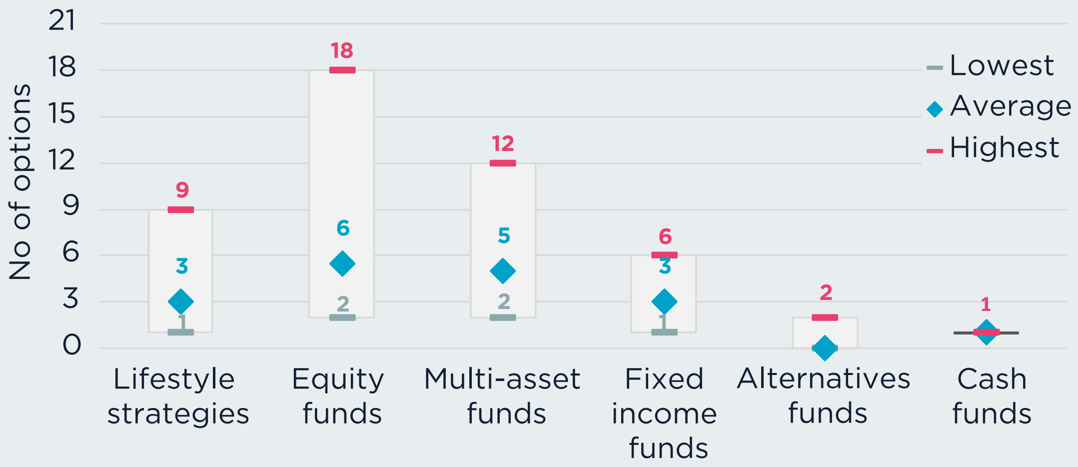
Investment fund range

The range of investment choices vary significantly by MT...

4 of 6

MTs say they plan to introduce new investment options in the next 12 months.

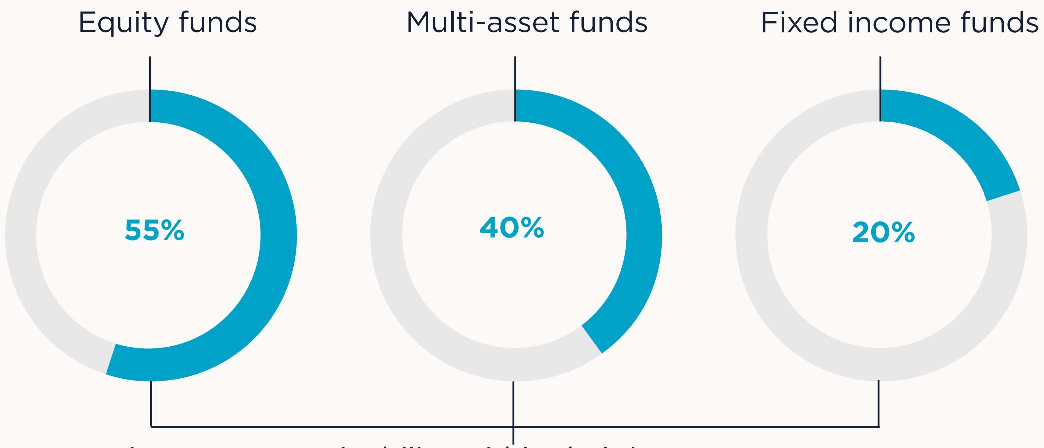
Range of options across MTs



Source: LCP

All MTs provide a fund range to meet basic investment needs with certain MTs offering more granular choice around equity and multi-asset fund options.

... with sustainability being integrated in a measured fashion



integrate sustainability within their investment process (i.e. so-called "Article 8" funds)

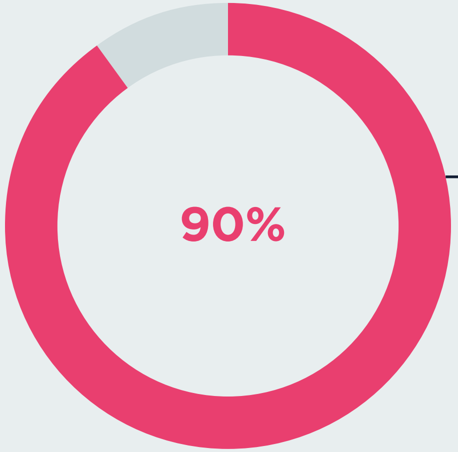
No MT offers funds with a sustainable investment objective (i.e. so-called "Article 9" funds).

1 MT has plans to increase the integration of environmental, social and governance factors within their investments in the next 12 months.

Sustainability considerations are increasingly important for pension savers, particularly younger members. MTs are being cautious in introducing sustainable investment options, seeking to balance sustainability risk management with the duty to deliver returns.

Default investment options & investment fund range

The default investment option is crucial



of members are invested in a default investment option

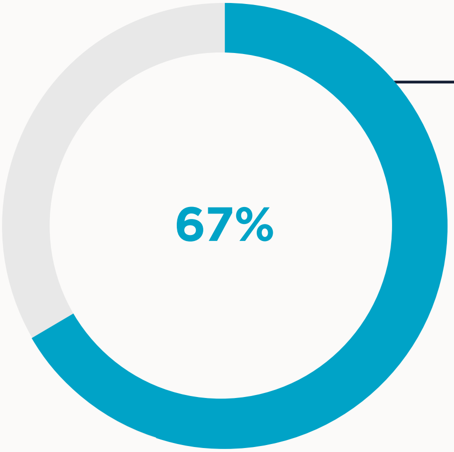
Of the **6 MTs** surveyed:

3
have a default investment option that integrates sustainability to "Article 8" standards under SFDR.
No strategy has exposure to "Article 9" strategies.

2
have some exposure to "illiquid assets" in the form of direct property.

1
is considering increasing illiquid asset exposure in the next 12 months.

... very few employers choose to tailor the default option for their members



4 out of 6 MTs (representing 90% of surveyed assets) allow employers to customise the default investment option for their members

Less than 2%
of Participating Employers are choosing to tailor the default investment option for their members

LCP Viewpoint

The default investment option is the most important investment decision an employer will make on joining a MT and should be considered carefully by employers during the provider selection process.

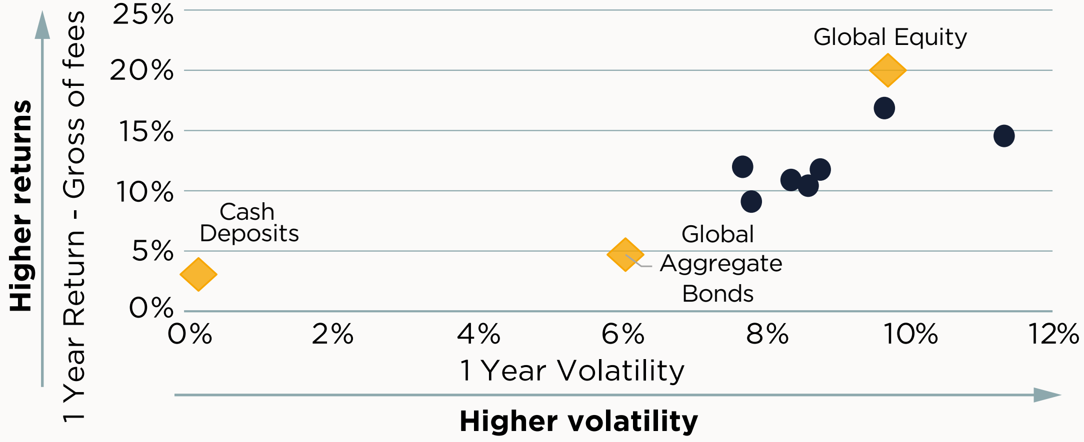
Default investment option performance

Far from retirement portfolios (20+ years to go)

In a year where the magnificent seven dominated the performance of many equity indices, growth phase strategies with significant equity diversification (in areas such as low volatility or emerging markets) underperformed the broader market-cap index.

12% average MT return

8% difference between highest and lowest return



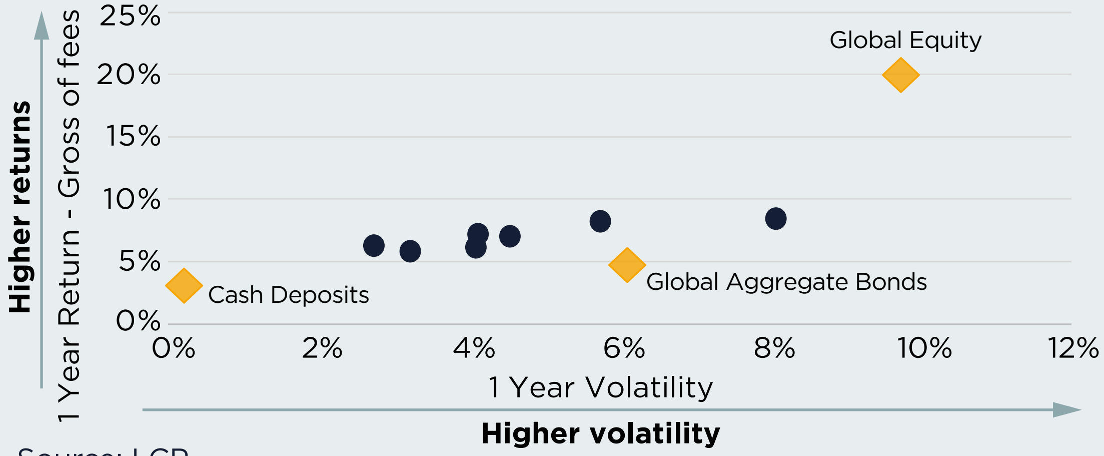
Source: LCP

At retirement portfolios (1 year to go, assuming ARF endpoint)

Members approaching retirement saw their savings increase in value over the year with much lower volatility than their younger colleagues. This shows the effectiveness of MTs' de-risking strategies, although it is noteworthy how the risk profile at retirement differs significantly across MTs.

7% average MT return

3% difference between highest and lowest return



Source: LCP

*each black circle represents the performance of a particular provider's default investment strategy

LCP Viewpoint

The risk profile and investment philosophy varies significantly across MTs in relation to their default investment strategies. On the whole, additional investment risk has been rewarded through additional investment returns.

What are the key takeaways?

The key takeaways from our report are:

1	The Irish MT market grew significantly over 2023 and further growth is expected in 2024.
2	MTs can offer significant value to employers, freeing up time and cost while ensuring a valuable benefit for employees.
3	Different MT providers have distinct strengths and weaknesses in their offering.
4	The investment offerings vary greatly across providers, but most members end up in the standard default investment options.
5	Providers' default investment options deliver significantly different investment outcomes as the risk-return philosophies and investment strategies differ across providers.

LCP Viewpoint

There is a lot of competition among providers and a well-run procurement exercise can deliver significant value for money.

LCP's services to Employers

LCP is a truly independent partner for Employers looking to select or review their pension offerings. As we do not operate a master trust, administer or manage scheme money, you can be assured that our advice will be unconflicted and tailored to your needs.

We can help Employers through:

- Our **deep knowledge** of all MTs operating in the market and strong working relationship with all MTs.
- Our **market leading insight** and analysis on all aspects of MTs (member engagement, technology, investment).
- Carrying out **MT fees and costs** analysis and benchmarking of your costs.
- Providing an **independent perspective** on your members' **investment** performance versus appropriate peers and comparators.
- Help Employers to establish and run a **MT Pension Committee** to oversee and get the most from their MT provider over time.

Thank you to all participating MTs! We would like to extend our thanks to the following Master Trust Providers that contributed to this survey

AON

UNIO EMPLOYEE BENEFITS

MERCER

NEW IRELAND ASSURANCE

Irish Life

LifeSight Willis Towers Watson

Jargon buster

+ Pensions

Master Trust ('MT')	A Master Trust is a pension scheme that incorporates multiple employers under one Trust structure. The Scheme is run by one Trustee on behalf of all Participating Employers. Master Trusts allow for better economies of scale and lower operating costs than a "single-trust" Scheme set up by one Employer.
Group Pension MT	A Master Trust aimed at Employers who wish to provide a retirement saving Scheme for their employees. Also described as a "Corporate MT".
Retail MT	A Master Trust aimed at individuals wishing to save for retirement in a tax-efficient manner.
Trustee	The individual or corporate entity legally responsible for overseeing and managing the Scheme in line with the Pensions Act 1990, as amended.
Participating Employer	The term typically used to describe Employers that join a Master Trust. Also referred to as "Adhering Employer".
Tender process / procurement exercise	A competitive process in which an Employer selects the most suitable Master Trust for its needs. Often supported by a pensions consultancy such as LCP.

Pension Liaison Committee	A group established by an Employer after the transition to a Master Trust to oversee the Employer's retirement savings and engage with the Master Trust provider as needed.
Approved Retirement Fund (ARF)	A personal investment vehicle from which a retirement income is drawn.
Annuity	A contract with a life insurance company that pays an agreed amount each year to a retiree for the remainder of their life.
Tax Free Cash	Under current Revenue rules, pension scheme members can access some of their retirement savings in the form of a lump sum that is free of income tax, PRSI or USC.

Jargon buster

Investments

Default investment option	The investment fund or strategy that members are invested in when they opt not to make an investment decision.
Self-select fund range	The range of investment fund and options available for members to "self-select".
Lifestyle strategy / target-date funds	An investment approach designed to automatically adjust the asset allocation of a retirement portfolio as the investor approaches retirement age. This will usually see more volatile asset classes such as equity reduced with allocations to bonds and cash increased.
Equity	Investing in the publicly traded shares of a company, e.g. Microsoft or Apple. Produces returns over time from the payment of dividends and increase in share price.
Fixed Income	Also known as bonds. Investments that provide a regular stream of income in the form of fixed interest payments over a specified period of time. Tend to be lower risk than Equity investments, but also expected to provider lower more predictable returns.
Alternatives	Investment assets or strategies that fall outside of traditional asset classes like stocks, bonds, and cash. Common examples include infrastructure, commodities or absolute return funds.
Cash (asset class)	Refers to cash on deposit that typically returns in line with short-term interest rates.
Illiquid investment	An asset that cannot be quickly and easily sold or converted into cash, for example a property. Illiquid assets can offer higher returns for long-term investors.
Sustainable Finance Disclosure Regulations (SFDR)	A European Union regulation that aims to promote sustainability in the financial sector by requiring financial market participants and financial advisers to disclose information on the environmental, social, and governance (ESG) aspects of their investment products and services.
Article 8	Financial products that promote environmental or social characteristics or have sustainable investment objectives, but do not necessarily have sustainable investment as their primary objective. These products are often labelled as "ESG" or "sustainable" products.
Article 9	Financial products that have sustainable investment as their primary objective. These products are often labelled as "impact" or "green" products.
Environmental, Social and Governance	A set of criteria used to evaluate the sustainability and ethical impact of a company or investment.

Contact us

Martin Haugh, Partner

Martin.haugh@lcp.com

Roma Burke, Head of Governance and Pension Management Consulting

Roma.burke@lcp.com

Oliver Kelly, Head of Investment Consulting Ireland

Oliver.kelly@lcp.com

Kathy Keating, Head of Defined Contribution Consulting

Kathy.keating@lcp.com

At LCP, our experts help to power possibility by navigating you through complexity to make decisions that matter to your business and to our wider society. We are powered by our desire to solve important problems to shape a more positive future. We have market leading capabilities across pensions and financial services, insurance, energy, health and analytics.

Lane Clark & Peacock LLP
London, UK
Tel: +44 (0)20 7439 2266
enquiries@lcp.uk.com

Lane Clark & Peacock LLP
Winchester, UK
Tel: +44 (0)1962 870060
enquiries@lcp.uk.com

Lane Clark & Peacock Ireland Limited
Dublin, Ireland
Tel: +353 (0)1 614 43 93