Master Trusts Unpacked

Evolving propositions in a time of change

February 2025

Welcome

Welcome to our new report, which is part of the Master Trusts Unpacked series. This report builds upon our existing annual report on default investment strategies, the fourth of which is due out next month.

This report takes a step back, looking at the master trust market and what their key areas of focus are outside of investments, striving to be one step ahead of their peers in an increasingly competitive market.

For employers and trustees alike, who are reviewing or looking to make the move to a master trust, this report aims to home in on other important areas that have both an impact on the DC savers' experience and ultimate outcomes.

This includes a look back at service performance over the last two years, with some big gulfs between the best and worst master trusts, predominantly caused by the success of retention and recruitment, and the knock-on impact to capacity planning. The mystery of the key to successful engagement remains, albeit with some examples of best practice coming through. Finally, innovation in the post-retirement space has started, although in its infancy relative to other parts of the proposition. This is a vital nut to crack if members are to get the much needed support required when making one of the most important decisions in their lifetime.

And overlaying all this is how can AI help and improve a DC savers' experience.

In line with our sister report, we have decided against naming the individual master trusts when assessing performance against service levels and analysing key engagement results.

Both are important but there is a need to assess the overall value of the propositions versus your specific objectives, all of which work towards enhancing member outcomes.

Looking forward to 2025, we expect continued enhancements to these areas and more, especially in the post-retirement space which, 13 years after auto enrolment was introduced, is now starting to get the focus it needs to make sure members are adequately supported at this vital time.

Given LCP's in-depth independent research across all these areas and more, do speak to your LCP Consultant (or one of our experts on page 8) if you are already in a master trust or thinking of moving to one, and want to explore any of these areas further. We'd love to help.

We hope you enjoy reading the report.

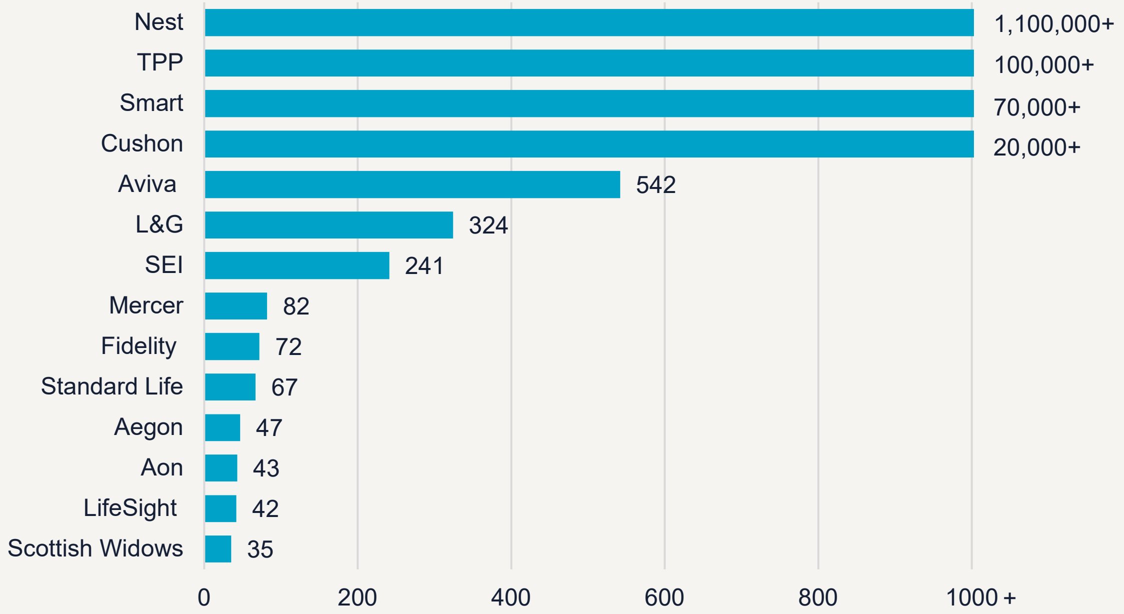
Market development

The workplace pension landscape is evolving

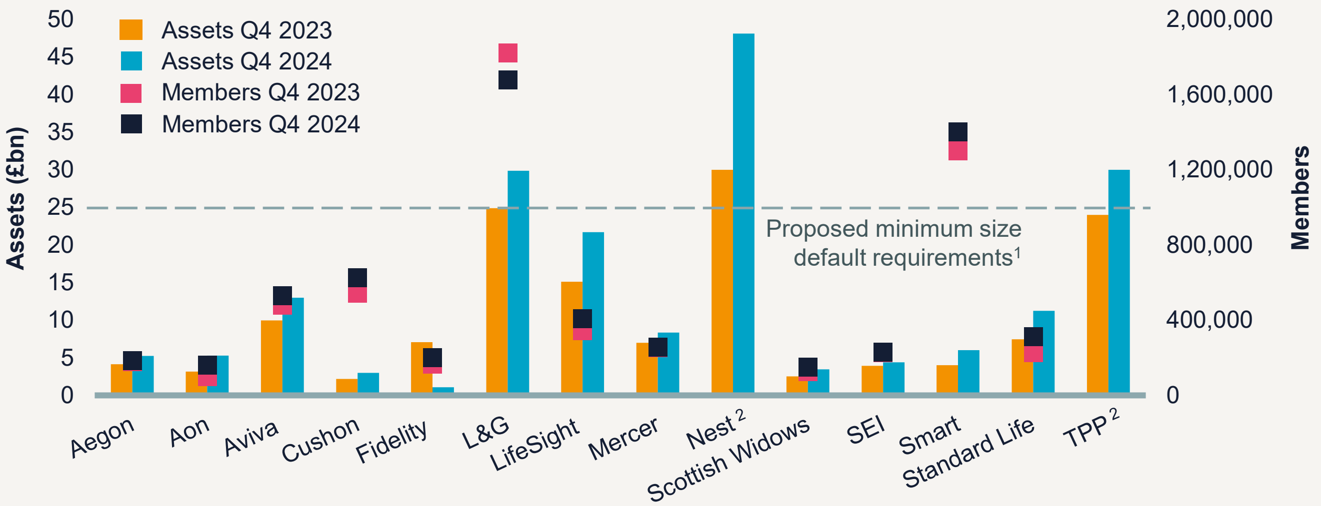
Despite pressure to consolidate, there remains a very diverse range of master trust providers operating in the UK market (see both charts). Traditional insurance businesses are well represented, but investment led consultant offerings and challenger providers are also competing strongly for new appointments. Alongside these, other master trusts continue to primarily service the automatic enrolment market, but they also aspire for business with higher contributions and average pots.

The market remains a highly competitive one, with a clear strategy and a track record of proposition development contributing to success. There is also an increasing cross over in terms of suppliers, sitting beneath many propositions. In the context of the Government's recent Mansion House proposals, the ability to develop scale will be fundamental to the ongoing viability of providers' offerings. Before taking the plunge, those thinking about selecting a master trust will need to consider which providers are best-placed to succeed in this environment over the medium-term.

Number of participating employers in master trusts



Master trust assets and member numbers



For simplicity, total assets in the master trusts are shown rather than the amounts in each provider's default. Many of the providers shown also have significant default assets in GPP books of business which could potentially count towards any overall minimum default size.

[1]The Government's consultation, published in November 2024, suggests that the benefits of scale start to arise at £25bn - £50bn. It has proposed minimum asset requirements for default arrangements (by 2030) in a bid to encourage scale and consolidation in the DC market. We responded to the consultation, expressing our view that this could undermine high quality but "smaller" arrangements which are already investing in line with the government's priorities.
[2]TPP's membership has grown from 6.7m to 6.8m, whilst Nest's membership has grown from 12.5m to 13.7m.

What are key focus areas for master trust providers?

Improving service standards

Member engagement

Financial wellbeing

Post-retirement

Providers are working hard in a whole range of areas to ensure that their propositions remain competitive.

We're seeing particular activity in front end, member-facing services. The focus on these areas reflects both the increasing attention from regulators and rising expectations from members.

In this report, we set out at a high level our experience of different providers in these areas and consider their importance in the rapidly changing DC landscape.

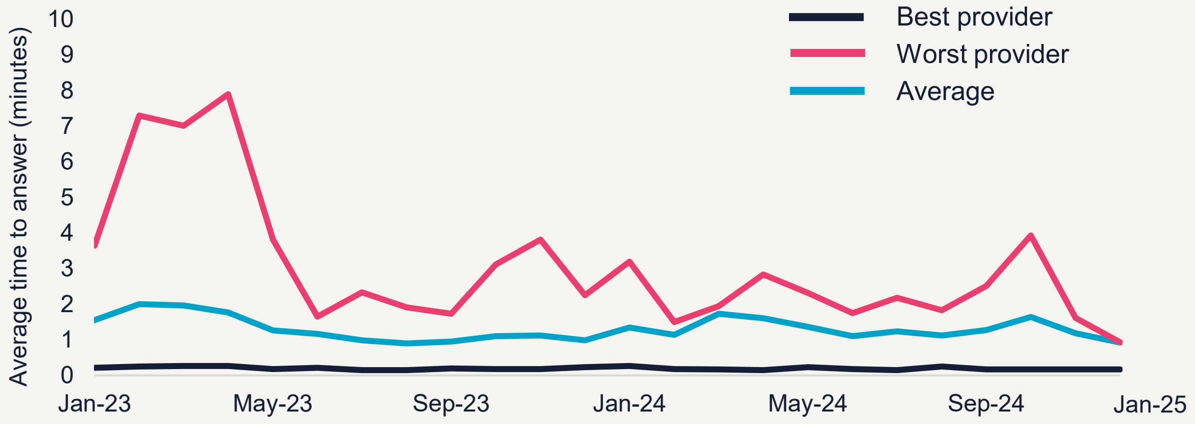
Improving service standards

Are providers delivering service excellence?

Administration services are the 'front door' to providers and a good or bad member experience can have a lasting impression. There is also a backdrop of increasing pot consolidation activity and an ongoing demand from financial advisers / paraplanners for details of their clients' workplace pensions. The significance of administration to proposition value has been recognised by the Government and Regulator's recent proposals for a new value for money framework, so this is an area anyone thinking about moving pension provision to a master trust should consider carefully.

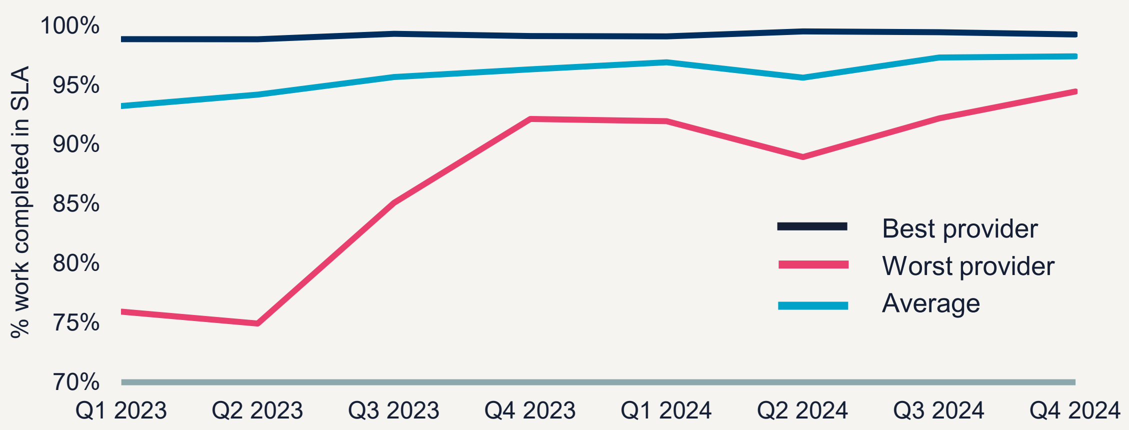
Key metrics that act as indicators of administration performance are helpline answer times and performance against agreed service standards for the completion of a range of tasks, such as cash payments. We see some significant variation in performance against these metrics and a whole range of others in our experience of master trusts.

Average answer times on member helplines



Helplines have improved recently, but we continue to see outliers (periods of poor performance) for individual providers. It is a similar position in respect of SLA targets for key tasks. This begs the question about how robust some providers are in coping with any shocks and sudden increases in demand. Providers are evolving their solutions, potentially giving extra capacity, for example adopting webchat as a way of giving choice and in some cases offering enhanced response times. AI is also being adopted, for example with call handlers having access to AI generated databases of common questions and answers for efficiency.

Performance against Service Level Agreements (SLA)



What do members have to say?

The Workplace pension industry still has some way to go to meet the expectations of many of its users. Trustpilot ratings range from 1.2 to 4.7 stars and, on average, look weaker compared to some commercial providers.

★★★☆☆ **Average major workplace provider Trustpilot rating**

"Excellent service! I wish all customer services operated this way."

Pensions might not be at the top of peoples' minds for a large part of their life, but, when they need to make changes or access their savings, the service they receive is crucial.

"They make trying to communicate with them as difficult as possible."

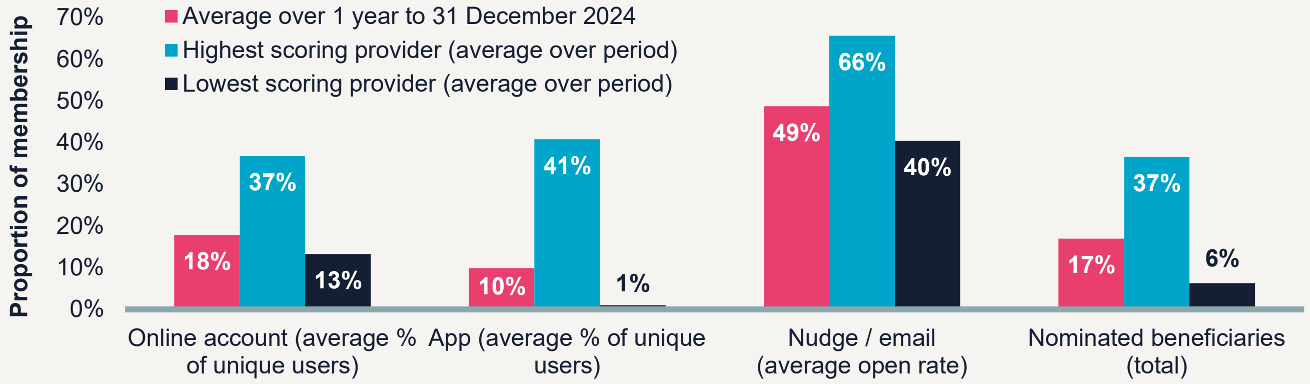
Most master trust providers have their own processes for getting real feedback from their members, which may be more scientific, but they should not lose sight of simple feedback existing in the public domain.

"Lengthy delays at every step."

Member engagement and financial education

A riddle wrapped in a mystery inside an enigma!

Engagement is key to unlocking better member outcomes. Member interaction with their savings remains sporadic and relatively low throughout their lifetime. Pension providers have developed increasingly sophisticated communications and engagement propositions to encourage members to review key elements of their pension (eg investment strategy) and complete important tasks (eg nomination of beneficiary forms). No one has quite cracked it yet, but there are examples of best practice in the market that it is worth taking account of in your selection process.



Smartphone pension apps are now overtaking accessing details via online accounts. Whilst all providers are focused on developing their apps, there is a variance in their approach, with some providers developing native in-app functionality, whilst others remain focused on developing mobile friendly versions of their online account web pages.

Members are looking for a more personalised experience

Personalisation remains the holy grail from an engagement perspective, but this is a real challenge for providers offering a mass market proposition that caters for a range of different types of member circumstances, many of which the provider will be unaware of. One way in which providers are looking to address this challenge is through the implementation of AI tools to produce personalised insights. A key element of this is context, which is why providers have developed a suite of financial wellbeing tools that, in future, will enable them to offer more informed – perhaps more tailored – guidance services.

In July 2024 we launched our fifth Financial Wellbeing report.

Head of Financial Wellbeing at LCP, Heidi Allen, says that “by being transparent, offering good benefits and **supporting financial knowledge and understanding**, employers can boost morale, **engagement** and trust”.

Examining the data from our survey of 10,000 employees, we discovered:

Almost half
do not feel confident dealing with their everyday finances

1 in 3
self-identify as having additional or diverse needs in the workplace

2 in 5
are looking for a second job to help make ends meet

We asked providers what they offer to help improve financial education

83% Face to face sessions

94% Online resources

83% Personal finance tools or calculators

One third
of providers have partnered with financial education experts to extend their services

There are currently limitations on the financial guidance providers can give to members. **The FCA has recently consulted on the Advice/Guidance Boundary Review which closed earlier this month. We hope this will eventually enable firms to provide more targeted support for members.**

How are post-retirement offerings evolving?

The nastiest, hardest problem in all of finance

Decumulation is widely acknowledged to be the most challenging issue in the DC pension landscape, as future retirees have less or no guaranteed income from defined benefits. It's one that it's essential the industry finds solutions for if members are to achieve good outcomes over the course of retirement.

Everyone's circumstances are different and their plans for their retirement and use of savings can vary widely, making it a massive challenge. Cognitive decline highlights the need for clear post-retirement solutions, to provide peace of mind that retirement income is secured for later in life. This was the rationale for the widely adopted Investment Pathways (mandated by the Financial Conduct Authority for the contract-based market), which targeted four time-bound outcomes (annuity, cash, drawdown and no withdrawal).

Beyond the Pathways, we've seen little innovation, though this is starting to change. The market has now come to a broad consensus, under some government pressure, that the purpose of a DC pension is to provide a sustainable income in retirement and that a default or soft default should be available to members.

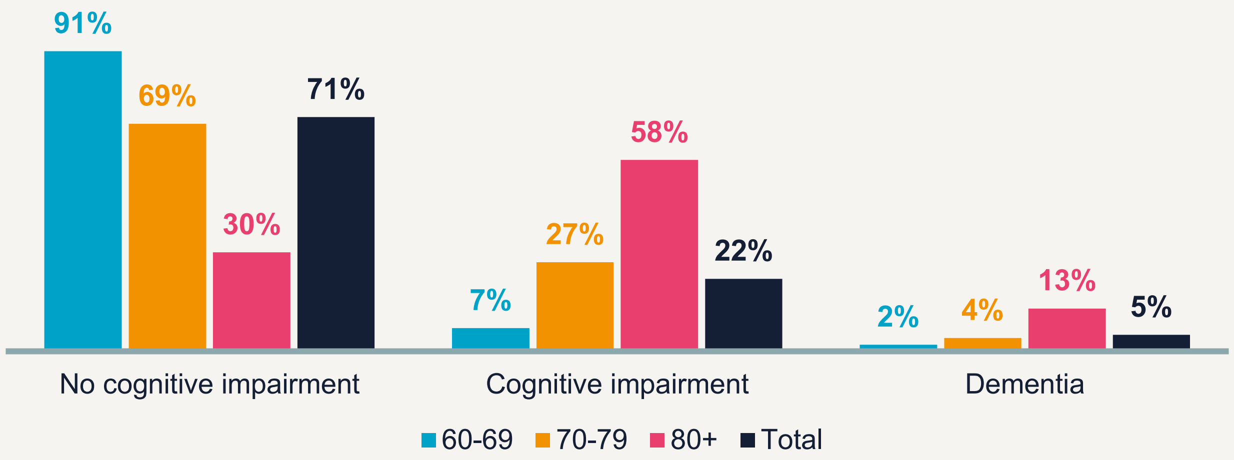
> *DWP will at the earliest opportunity place duties on Trustees...to offer a range of different decumulation products and services to members.*
>
> **DWP consultation November 2023**

> *trustees...[should] offer a retirement income solution or range of solutions, including default investment options, to their members.*
>
> **King's Speech July 2024**

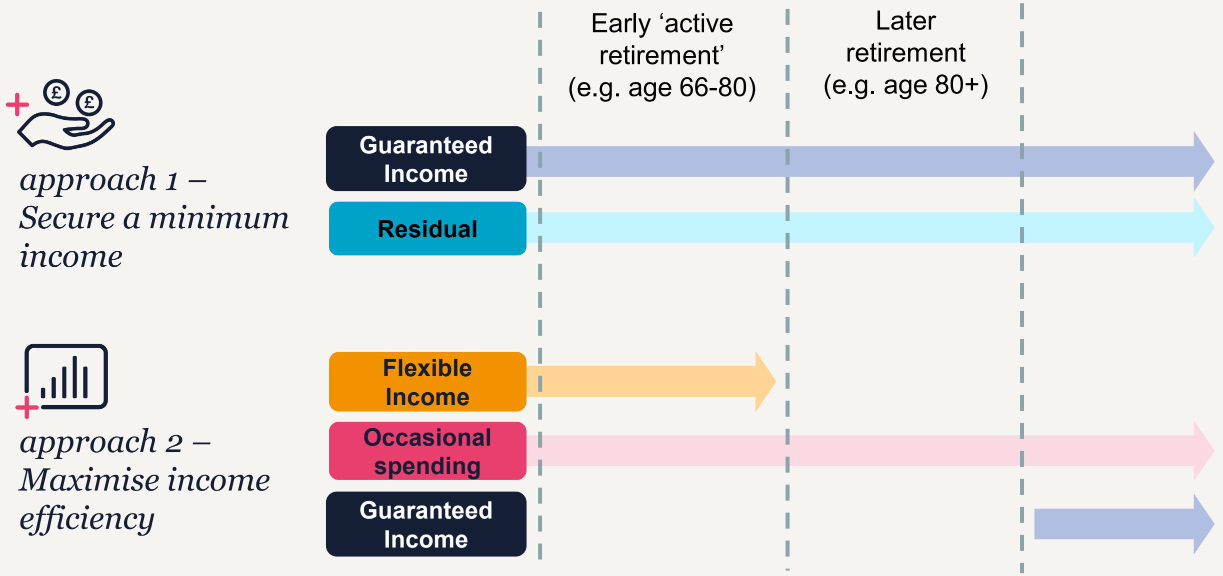
Proposition development is taking time

Now the direction of travel is clear in the post-retirement space, providers are in the midst of developing their offerings. Two common planned approaches are: one that targets at least a 'minimum' income for members (often defined by the PLSA's Minimum Retirement Living Standard) throughout retirement, with flexibility for any savings above this provision and another that seeks to balance the desire for flexible income in early retirement and guaranteed income in later retirement. As part of any selection process, this area should be a key focus, as it is the fastest developing area.

Cognitive decline: members need clear post-retirement support



There are currently two broad market approaches



What are the key takeaways?

The key takeaways from this year's report are:

- The provider landscape is changing and master trusts are constantly updating their propositions under competitive pressure from others in the market.
- If they go ahead, the potential reforms announced as part of the Chancellor's Mansion House speech could result in further consolidation of the master trust market, so understanding how the provider is reacting to Mansion House is an increasingly important consideration.
- The quality of service delivery and the extent to which providers are responsive to member engagement vary across the market. This will become an increasing focus when the Government's new value for money framework comes into effect.
- Engagement in DC schemes remains a challenge, but some providers are having success in getting DC savers to engage with key tasks or via certain channels (eg apps). Understanding best practice in this area will help you assess the solution that's best for your members.
- Decumulation options are evolving into broader service-based solutions rather than simply investment propositions. This was the most notable area of development over the last year and one in which a range of providers are set to bring solutions to market over the next 12 months.

This report has highlighted how important key features of proposition design are to deliver good outcomes for members and how in-depth research and analysis is required to select and carry out ongoing oversight of a master trust solution. Proposition development is set to continue apace over the next 12 months, underpinned by rising expectations from the Government and regulators, clients and, most importantly, DC savers. If you are considering a move to a master trust, it's essential you stay on top of these developments to ensure you select a provider that's able to deliver a solution that meets your members' needs.

LCP can help you remain up to date with the evolving provider landscape and ensure that you are fully informed as your scheme takes its next step. Our market-leading research and expertise can help you understand which master trusts are well-placed to thrive in the highly competitive provider landscape. If you need support in an upcoming project, we have the tools to help you get to the right outcome.

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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.

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