

Consulting



# DC Pensions — What is the point?

## Executive summary

The role of DC pensions in the modern workplace and the rise of the Master Trust

# BUCK



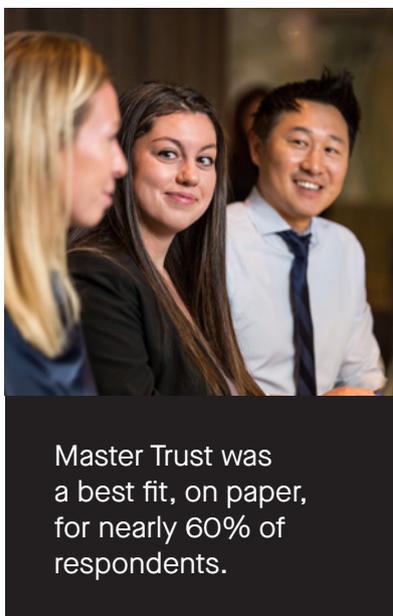
## Executive summary

The concept of a job for life in the private sector is history and employers and employees are adapting to a more flexible future. Employers no longer expect their employees to be with them forever, but this does not mean that they do not feel some responsibility for the welfare of their employees.

More and more employers are revisiting the social contract they have with their employees and ensuring their culture and environment are ones which enable employees to thrive. They want to attract good quality employees and if they do leave they want them to be advocates of their business, and potentially come back later in their careers with new experiences and skills. Within this context, what is the point of workplace DC pensions? Is it just a compliance obligation or should a workplace pension provide meaningful retirement benefits?

Against the backdrop of pensions being compulsory under automatic enrolment legislation, and the changing dynamic of the workplace, we are keen to understand what employers actually want from their pension. We asked 55 employers a series of questions to determine their opinions and objectives across a wide range of pension related topics. The employers covered different sizes and sectors, and have over 500,000 UK employees between them.

The answers provide insight on the current role of DC pensions in the modern workplace.



We also analysed the responses to identify what type of DC pension scheme might be most suitable for each of these companies based on their answers. We identified that a Master Trust was a best fit, on paper, for nearly 60% of respondents. This is consistent with the rapid growth of the Master Trust market, which now includes millions of members and £billions under management, despite the majority of these schemes being only just over 5 years old.

Our findings showed:

- that employers are concerned about the long term impact on their business if employees cannot afford to stop working,
- the growing interest in wider workplace savings, whether for high earners impacted by pension tax limits or as part of a wider approach to financial wellbeing
- The importance of providing members with education and support, and
- the tension that many employers face between wanting to have the ability to make improvements to their pension scheme whilst also wanting to delegate formal responsibility for governance of the scheme to external specialists.

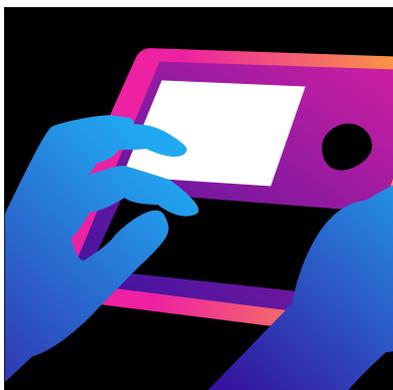
Our research on the major Master Trust providers shows big variances in how different Master Trusts support these objectives.

One size doesn't fit all when it comes to scheme design and if employers want a DC scheme which is a best fit for their own needs we recommend the following 3 step approach:

- Have clear objectives about what you want your pension scheme to do for your employees and your organisation
- Identify the best fit type of dc scheme, and provider, for your objectives – one size doesn't fit all
- Have an effective review (governance) process to:
  - monitor scheme performance
  - monitor whether members are on track for the outcomes you want, and
  - identify priority areas for improvement or focus

The end of the automatic enrolment rollout represents the beginning of a new era for workplace pensions in the UK. With millions of employees' futures now depending on their DC pensions, the stakes are high for all involved.

## Conclusions



DC pensions have an important role to play in the modern workplace.

Employers are concerned about the long term impact on their business if employees cannot afford to stop working, although most schemes do not currently have default contributions at an adequate level to achieve this.

For an increasing minority of employers workplace saving is not just about pension and there is a growing interest in wider workplace savings, whether for high earners impacted by pension tax limits or as part of a wider approach to financial wellbeing.

Employers face a tension between wanting to have the ability to make improvements to their pension scheme whilst also wanting to delegate formal responsibility for governance of the scheme to external specialists. This has been a factor in the incredible growth of Master Trusts over the last 6 years.

But our analysis shows that one size doesn't fit all when it comes to scheme design and if employers want a DC scheme which is a best fit for their own needs we recommend the following three-step approach for employers:

- Have clear objectives about what you want your pension scheme to do for your employees and your organisation
- Identify the best fit type of DC scheme, and provider, for your objectives – one size doesn't fit all
- Have an effective review (governance) process to:
  - monitor scheme performance
  - monitor whether members are on track for the outcomes you want, and
  - identify priority areas for improvement or focus

The end of the automatic enrolment rollout represents the beginning of a new era for workplace pensions in the UK. With millions of employees' futures now depending on their DC pensions, the stakes are high for all involved.

### Contact us

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