

The Pensions Regulator
Napier House
Trafalgar Place
Brighton
BN1 4DW

Dear Sir/Madam,

NEW DRAFT DC CODE OF PRACTICE CONSULTATION

The Pensions and Lifetime Savings Association welcomes this opportunity to respond to the consultation on the draft DC code. The Association's responses are contained in the attached form. We would also like to thank the Pension Regulator for engaging with the sector so thoroughly in the previous six months.

The consultation on the code also provides an opportunity to raise related matters. There is a need to address gaps in the regulatory framework for master trusts and to do so promptly. Master trusts are playing an essential role in automatic enrolment. They offer considerable benefits of scale, institutional pricing and high quality governance, which would otherwise be unavailable to a large segment of the working population. However, the regulatory framework developed to regulate occupational DB and DC schemes, set up and supported by a single employer is now in need of review to take account of the new risks posed by master trusts.

DC master trusts are frequently linked to commercial undertakings - for example an asset manager, a life company or an employee benefit consultancy - that fund the establishment of the master trust and support its need for on-going funding. Furthermore, some may not have any organisation backing them financially.

The main risks not addressed by regulation are:

- ▶ That a master trust may fail either operationally or financially;
- ▶ And/or its commercial sponsor may fail, leading to a withdrawal of financial support.

If a master trust does not attract sufficient business, or the right mix of business, it may not cover its costs over the long term and, without financial support from a sponsor, it may have to exit the market. If it does this in an orderly manner and is able to transfer its members to an alternative scheme then it is possible that no member detriment may result from this. If, on the other hand, a master trust fails in a disorderly manner then serious member stress and detriment may result. Members may be unable to access their funds, of particular concern if the master trust operates drawdown or for those approaching retirement wishing to transfer funds.



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Pensions and Lifetime Savings Association is the trading name of the National Association of Pension Funds Ltd, a company registered in England and Wales with company number 1130269.

Registered office: Cheapside House, 138 Cheapside, London, EC2V 6AE

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

The Association feels that the time is right to address these issues. There are two questions here:

- 1) How can member detriment be minimised or eliminated in the event that a master trust becomes financially unsustainable?
- 2) How can master trust governance be improved across the sector such that trustees can confidently manage the commercial risks inherent in running a master trust?

Of course, regulation will impose additional cost on the sector. This needs to be balanced against the mitigation of the risks to the member outlined above. The Association is committed to finding a proportionate response to this set of issues and looks forward to a productive dialogue with the Pension Regulator, with the DWP and with others in the sector.

Yours faithfully,

Tim Gosling
DC Policy Lead

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