

I'm a small DC scheme... get me out of here

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Does your DC scheme have less than £10m in assets or fewer than 1,000 members? If so, you may have to consolidate into another arrangement – or explain why you should not. The encouragement of DC consolidation is one of the proposals in the DWP's consultation "[Investment Innovation and Future Consolidation](#)", which runs until 1 April 2019.

The consultation focuses on two objectives for trust-based DC schemes in the UK: (1) enabling them to choose to include more illiquid investments in their portfolios and (2) improving scheme governance. The proposed method for both is greater concentration of assets through consolidation.

According to the consultation, there are around 3,000 trust-based pure DC schemes, 93% of whose assets are concentrated in only 7% of those schemes (being the largest schemes, i.e. with over 1,000 members). The DWP's proposals are designed to accelerate consolidation of assets and the following methods are put forward:

- **Consolidation assessment (smaller schemes):** requires schemes with less than £10m of assets or fewer than 1,000 members to publish an assessment of whether it might be in members' interests to be transferred to another scheme, such as a master trust. This would be supported by active supervision and a penalty regime for failure to comply.
- **Consolidation assessment (schemes with other indicators):** involves the selection of schemes on grounds other than size, such as the composition and knowledge of the trustee board, to explain their assessment of why the scheme should not consolidate. This approach would acknowledge that some smaller DC schemes may well have appropriate governance and sophistication (i.e. to enable access to illiquid investment opportunities).
- **Consolidate or explain (schemes meeting specific criteria):** *requires* certain schemes (the example given being closed schemes, below a certain size with a high proportion of members under age 50) to consolidate. This would be subject to the ability for a scheme to explain why consolidation would not be appropriate. The vast majority of the schemes which are being targeted by this part of the DWP's consultation are on the small or very small end of the spectrum. With more governance and potentially compulsion to consolidate on the table, sponsors and trustees of those scheme will be looking for a way through – and out – of the regulatory jungle.

Keep tuned to this blog for more on the DWP's proposals for illiquid investments.

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