Master trust authorisation

Financial sustainability: basic method

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The Pensions Regulator

Financial sustainability: Basic method

A master trust's financial reserves are the amount held to meet the costs following a triggering event. Code of Practice 15: Authorisation and supervision of master trusts sets out[1] that there are two methods by which a scheme can calculate their financial reserves: the basic method and the detailed method. This guidance should be read in conjunction with the code.

The basic method requires a master trust to hold financial reserves based on membership and an amount per member that is set by us. The trustees of a master trust may choose to use this way of calculating their financial reserves instead of the detailed method. Trustees who wish to use a different basis of calculation or reserve a different amount per member should use the detailed method.

Calculation

Financial reserves under the basic method should be calculated as:

F = M x A

where:

- **F** is the amount of the financial reserves
- **M** is the master trust's projected membership not less than 12 months after the calculation date
- **A** is the amount per member, which is £75.

Minimum amount

Any master trust using the basic method must be able to demonstrate that it maintains a minimum level of financial reserves. This is because some costs of dealing with a triggering event are likely to be common to all master trusts, regardless of size. Examples of this include legal and accounting expenses.

The minimum amount will be calculated using the basic method, as if the value of M was 2,000 (eg = 2,000 x £75 = £150,000).

Statement

If trustees and strategists use the basic method, they should state in their business plan that they know of no reason why the actual value held in the financial reserves should be higher than what has been calculated on this basis.

1 Code of Practice 15, paragraph 222

Setting the amount per member

The amount per member is based on the average per member financial reserves held by a sample of master trusts using the detailed method. We have then added a margin of prudence to this figure. In considering whether future changes are appropriate we will also consider other factors such as any changes to legislation that may increase costs, the costs we see reported for service providers and recent supervisory experience.

The amount per member will usually increase annually by the Consumer Price Inflation (CPI) 12 month percentage rate published by the Office for National Statistics for the month of September. The amount of any increase will be in pounds sterling, rounded up to the nearest pound.

If market conditions undergo an exceptional change, we may choose to revise any element of the basic method. We may announce an exceptional change at any time, but do not expect to do so more than once in any twelve month period. Any notification of a change to the calculation of the basic method will be made through an update to this guidance and a special announcement.

We may choose to reduce the amount per member at any time, without notice.

Review and increase

Financial reserves calculated using the basic method should be reviewed at least quarterly. The requirement to report a shortfall in financial reserves as a significant event applies to reserves calculated using this method, meaning master trusts should review their calculation regularly. Master trusts will usually have six months from identifying a shortfall to meet any increase to financial reserves that the change requires.

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