HYMANS ROBERTSON

Sole trusteeship: what does the future hold?

February 2025

Summary

In October 2024, we published our fourth annual report on the sole trustee landscape. Our market survey concluded that professional trustees represent just under half of all (around 5,000) DB pension schemes.

There were six new professional corporate sole trustee appointments to £1bn+ schemes in the last year, but we saw the slowest year of growth in professional corporate sole trustee appointments since 2017.

> With broadly half the market now represented by professional trustees, and with growing numbers of sole trustee appointments to larger schemes, we reflect on whether this slowdown is the new norm and set out our expectations for the future. In this report, we consider:

Where are we now?

On pages 3 to 4, we look at which schemes are using the sole trustee model and the firms providing these services.

How certain is the future?

On pages 8 to 9 we explore alternative market scenarios from today's status quo to understand the uncertainty in future growth rates.

Is there a slowdown in sole trustee appointments?

On pages 5 to 7, we analyse what professional trustees told us was the driver of the recent slowdown and whether this is likely to trump past drivers of demand.

What does the future hold?

On page 10, we conclude by considering factors that may impact professional trustee firms' ability to recruit and resource a growing number of schemes, sharing our expectations for the future.

We hope you find our reflections in this report informative. We'd love to hear your outlook for the future too. If you have any comments on our report findings, please don't hesitate to get in touch with Shani McKenzie, or with one of the sole trustee team on page 10.

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Where are we now?

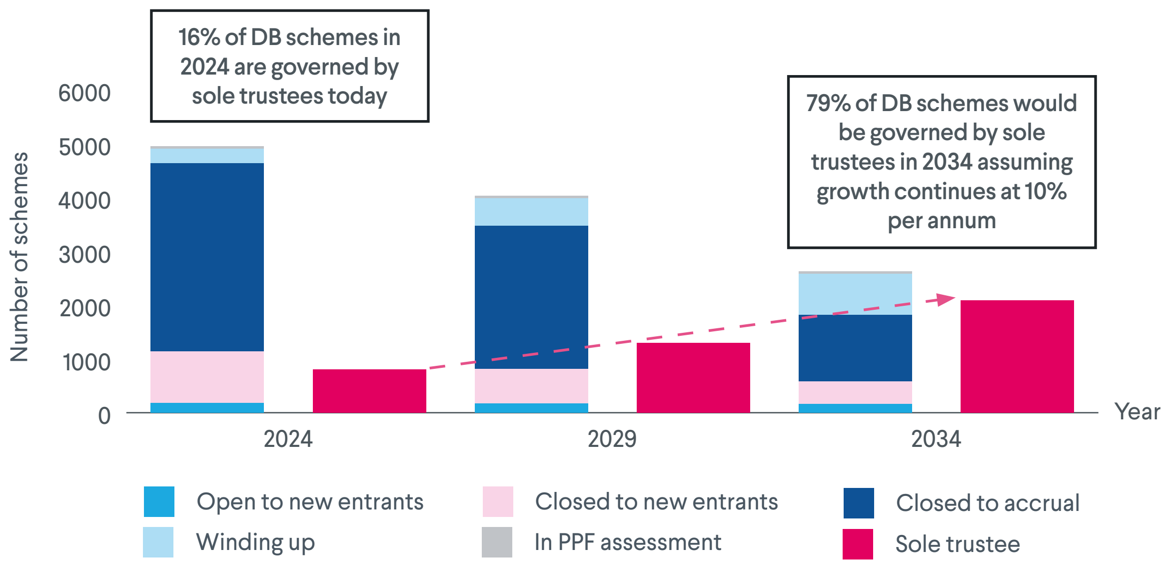
Over the past two decades, we've seen a trend of schemes closing and a decline in the DB market as pension schemes have eventually wound up. Professional trustee firms have grown in dominance, driven in part by the consolidation of firms over time. Timescales from buying-in pension scheme liabilities to wind-up are shortening. And we expect to see further decline in DB pension schemes over the next 10 years. At the same time, we anticipate a rise in the use of professional trustees, particularly professional corporate sole trustees ('sole trustees'). We start by taking a look at which schemes are using the sole trustee model today and the firms providing these services.

Sole trustee schemes in context

In our 2024 annual sole trustee survey, we found that sole trustee schemes governed by the 11 firms we surveyed accounted for 16%* of DB schemes. We estimated other roles carried out by these professional trustee firms, and firms not covered from our survey, represent around a further 30% of schemes.

With the total number of DB schemes expected to decline over time as schemes wind up, do we anticipate growth to continue at historic rates of 10%+ per annum? Or will the number of schemes governed by sole trustees remain a stable proportion of the overall DB universe?

How the DB universe might evolve in the next 10 years



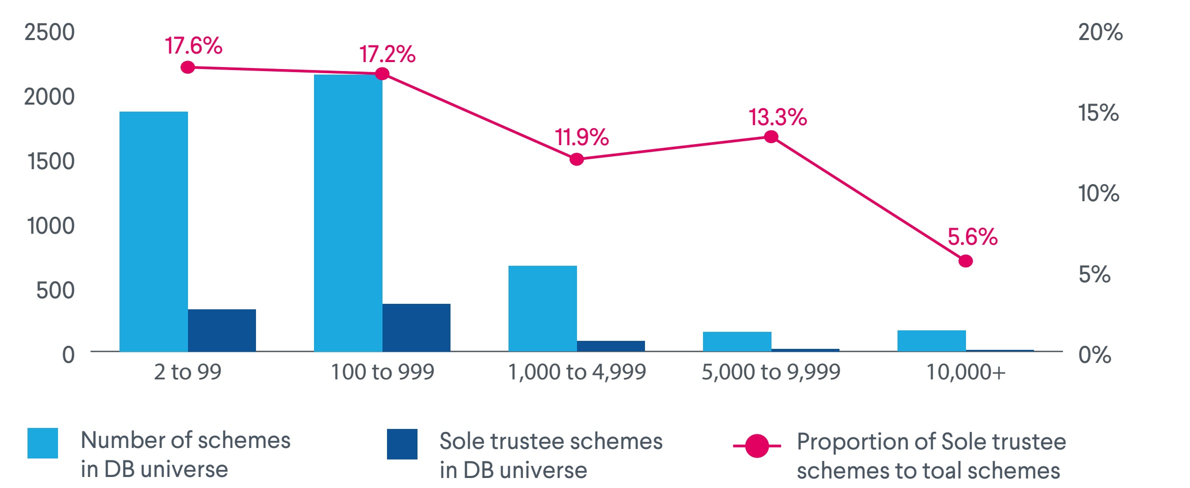
Click here to view our vision of how the DB universe might evolve in the next 10 years

*Note this has been amended from 17% to 16% to reflect the Purple Book data issued in December 2024.

Where is sole trusteeship used today?

We've segmented the market to see where sole trustees are most commonly used today. Sole trustees are currently concentrated in governing schemes with less than 1,000 members. And only around 6% of schemes with 10,000 or more members are governed by sole trustees. However, there is scope for notable growth among larger schemes.

DB schemes and sole trustee schemes by membership

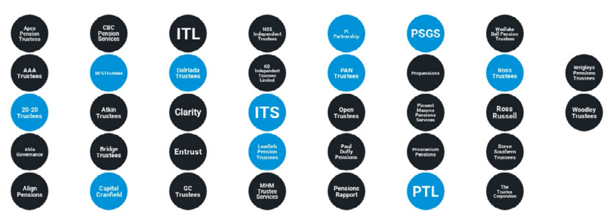


Source: PPF's 2024 Purple Book and Hymans Robertson's 2024 sole trustee survey.

Sole trustee providers

Our 2024 annual survey collated data from 11 professional trustee firms providing sole trustee services. However, there are at least another 25 firms (with at least two trustees) providing professional trustee services. Not all of these firms will provide sole trustee services, which is typical for smaller firms. Looking back over the last five years, we've seen a series of mergers and acquisitions in addition to the establishment of new firms, such as ndapt, HS Trustees and, most recently, Aretas Trustees. These firms typically enter the market with a clear USP or differentiator and careful recruitments that ensure alignment to those core values.

As at December 2024, we understand there are 9 firms with greater than 50 professional trustee appointments; 5 firms with between 20 and 50 appointments; and at least another 15 firms with fewer than 20 appointments. Three of these firms (Dalriada, IGG and Entrust) also offer operational consolidator vehicles, streamlined sole trustee governance approaches to reduce cost and drive further efficiencies.



2020: Biggest sole trustee firms

Click here to to see how the landscape changed over this time

2025 starts with 9 firms with over 50 DB appointments

Slowdown in sole trustee appointments?

While we saw a notable slowdown in the growth of sole trustee appointments in the year to 31 March 2024, the market still has potential for significant growth. The historic drivers of demand and the number of schemes choosing sole trustees' services will still be prevalent for schemes of all sizes. We expect that the recent slowdown from scheme wind-ups will turn out to be an anomaly, as long as professional trustees are able to continue to resource an increasing number of schemes.

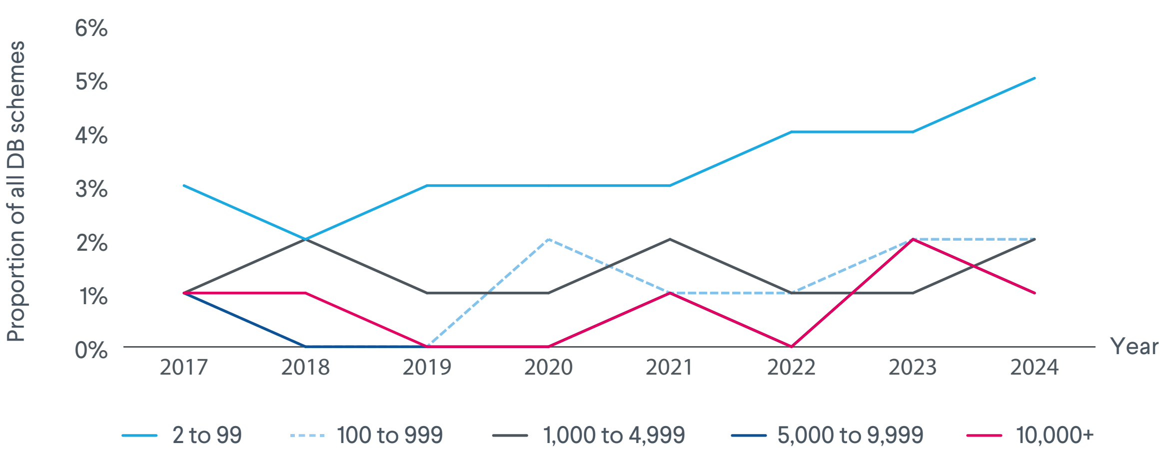
Are scheme wind-ups reducing sole trustee growth?

After a number of years of double-digit growth per annum, our October 2024 survey noted a slowdown in the net growth of sole trusteeship (by number of appointments). Respondents to our survey attributed this slowdown to an increasing number of wind-ups of sole trustee schemes in the year to 31 March 2024, among other factors. Wind-up rates across all DB schemes made it difficult to see this as a material driving factor: a different picture emerges when we look past the headline number.

Data collated by the Pension Protection Fund (PPF) in the Purple Book shows a 0.4% increase in the proportion of DB schemes that have wound up in the year to 31 March 2024 (for example, as a result of buying out scheme liabilities, transferring into the PPF or merging with other schemes). That said, the proportion of schemes winding up was not too dissimilar at the headline level, compared to the last six years.

However, the proportion of DB schemes with fewer than 100 members in wind-up has increased over the last six years. There is less of a clear trend for DB schemes with 100 to 999 members that are in wind-up, based on the available (rounded) data. Together, these membership groups cover 87% of sole trustee appointments.

Schemes in wind-up as a proportion of all DB schemes



Source: Hymans analysis based on underlying PPF Purple Book data.

Smaller schemes are winding up at an increased rate. That shortens the appointment periods of professional trustees, meaning new appointments need to exceed wind-ups to maintain revenue levels. Although the proportion of small schemes in wind-up has increased, there are still almost 4,000 DB schemes with fewer than 1,000 members, and over 80% of these not currently governed by a sole trustee.

This vast pool of small schemes means there's potential to break through the equilibrium of appointments, as long as there's demand. Consequently, wind-up is unlikely to be a persistent reason for reduced growth of sole trusteeship.

Where is the potential for future growth?

Key questions are whether there's still demand (and budget) among these schemes to appoint professional trustees, and whether professional trustee firms have the resource to take on more appointments. In answer to the first question, our 2023 survey found that 50% of sponsors to schemes with less than £250m thought they would move to sole trusteeship in the next five years**.

Demand for sole trusteeship has been attributed to:

1. The inability to recruit member-nominated trustees. This is particularly relevant as non-sole trustee structures need to have at least one-third of trustees nominated by scheme members.
2. A drive for more cost control/cost savings and reduced company management time.
3. A need for more efficient decision-making, improved governance and professionalisation of trustee boards.
4. Changes in risk profile or scheme funding progress driving a review of the scheme governance approach or skills and expertise needed.

Many small schemes have been affected by the last point in our list. Having seen significant funding level increases over the last two years, many are looking to buy out and wind up. Over the first half of 2024, most risk transfer transactions (measured by the number of transactions rather than volume) involved schemes below £100m.

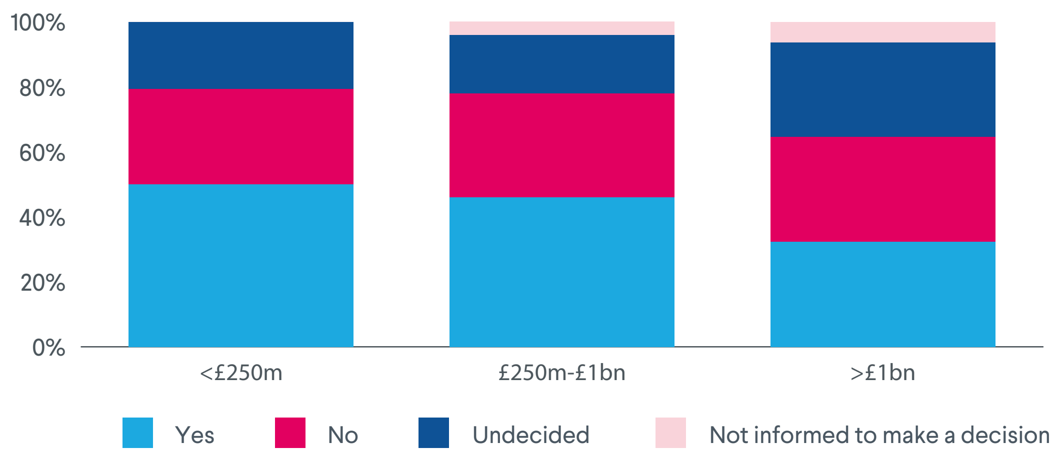
Therefore, in practice, there was higher demand for sole trustee expertise to support buy-out transactions and wind-up. But alongside this, we saw a faster pace of small scheme wind-ups and loss of appointments.

Breaking through the equilibrium of appointments for smaller schemes, then, comes down to professional trustee firms' ability to support more schemes.

**Source: Hymans Roberston's 2023 survey of more than 200 senior managers and CFOs.

Larger schemes currently make less use of sole trustees than smaller schemes. However, the use of sole trusteeship in larger schemes has been increasing. Further, our 2023 survey found that around 30% of sponsors of schemes with greater than £1bn of assets thought they would move to sole trusteeship in the next five years.

Do sponsors expect to adopt sole trusteeship in the next five years?



In addition, around 45% of sponsors of schemes with assets between £250m and £1bn thought they would make the move to sole trusteeship over the same period.

There are various reasons why more sponsors of large schemes may opt for sole trusteeship. Over time, we might expect to see increased demand in two scenarios:

1. Continued closure of larger schemes and ageing populations leading to a decline in the pool of member-nominated trustees.

2. If running on for surplus distribution takes off, those schemes that chose to run on might seek professional trustee expertise in relation to surplus distribution.

The focus on running on may also represent an increasingly attractive opportunity for professional trustees.

How certain is the future?

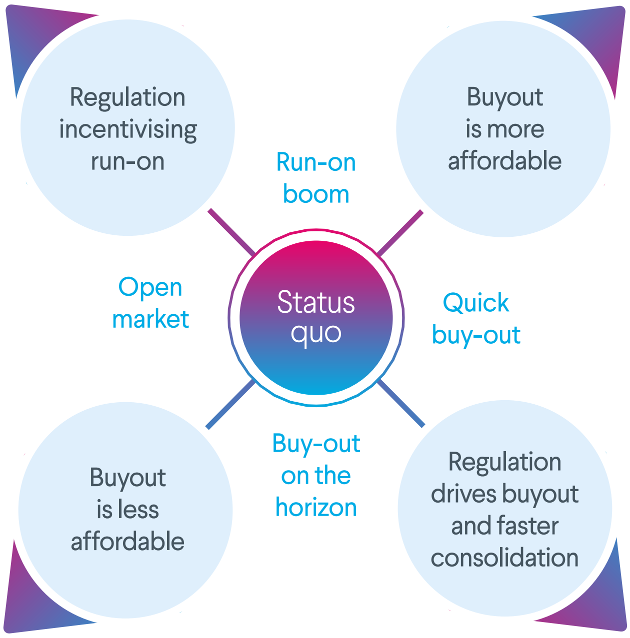
We've looked at different market scenarios. Under most, we expect sole trustee appointments to grow for at least the next five years alongside the use of sole trustee consolidators. In the majority of scenarios, we anticipate no decline in the number of professional trustee firms that provide sole trustee services. There could be more acquisitions of smaller firms, but we expect new firms to continue to enter the market.

Predicting what the sole trustee landscape will look like in five years' time is difficult. But we've explored how the following might evolve:

- sole trustee growth rates
- the number of market players
- sole trustee consolidation vehicles

We looked at a range of outcomes if two key factors were to change: if buy-out becomes more or less affordable and if regulation incentivising run-on materialises. The four scenarios that we explored were:

- Buy-out on the horizon
- Open market
- Run-on boom
- Quick buy-out



Buy-out on the horizon

In this scenario, we assume the regulation to support run-on for value generation doesn't materialise, and schemes are focused on buy-out in a timescale that is affordable. We also assume that we've experienced a market event that makes buy-out less affordable than it is today, and timescales are extended.

If this scenario came to pass, efficient decision-making and cost control will be key to employers, creating demand for sole trustee services from schemes seeking an efficient path back to buy-out funding. Commercial and operational consolidators become an attractive alternative governance option for smaller schemes, due to extended timescales. Greater use of consolidators could affect the growth of standalone sole trustee appointments under this scenario.

We surveyed 145 professional trustees to understand their perspectives on how likely employers are to appoint a sole trustee when a scheme is 10 years from buy-out. Two thirds of professional trustee responses agreed that an employer is likely or very likely to appoint a sole trustee when a scheme is 10 years from buy-out. However, broadly three quarters thought a sole trustee's experience and expertise were more likely to be sought for a scheme close to buy-out.

Open market

As in the previous scenario, we've experienced a market event that makes buy-out less affordable, and timescales are extended. In addition, we assume the regulation to support run-on for value generation materialises in the short term and a number of large schemes chose to run on.

Employers looking to run on could use sole trustee governance solutions to establish surplus-distribution mechanisms, or for longevity and efficiency in running on the scheme. Operational and commercial consolidators help schemes of all sizes to achieve their endgames, which may fuel demand for sole trustee consolidator options for small schemes. Apart from schemes running on, the landscape could look pretty similar to buy-out on the horizon.

Run-on boom

In this scenario, we assume the regulation to support run-on for value generation materialises in the short term. We also assume that we've experienced a market event that makes buy-out more affordable, with most schemes' funding position exceeding the funded level at buy-out.

In terms of scheme endgames, this scenario is similar to the open market. The key differences are scheme funding levels and the speed of being able to achieve buy-out. Our survey of professional trustees noted that 77% thought a sole trustee's experience and expertise were more likely to be sought for a scheme close to buy-out. Therefore, the use of sole trustees may increase under this scenario.

Quick buy-out

As described in the run-on boom scenario, we've assumed a market event that makes buy-out more affordable. But in this case, the regulation to support run-on for value generation doesn't materialise and schemes are focused on buy-out, potentially creating a shorter life span for DB pensions.

We envisage increased demand for sole trustee appointments under this scenario, as professional trustees' experience and expertise for buy-out exercises are sought.

Our survey of professional trustees also found that the vast majority (89%) thought employers were likely or very likely to appoint a sole trustee close to buy-out.

Capacity in the insurance market (ie the ability to transact quickly) and the ability of professional trustee firms to scale up to meet demand will determine pension scheme time horizons and the growth of sole trustee appointments. There's also potential for consolidation of professional trustee firms and fewer business start-ups due to the limited time horizon, which could result in fewer professional trustee firms providing sole trustee services.

What does the future hold?

Under the status quo, we expect the drivers behind historic growth to be pertinent for schemes of all sizes, as long as professional trustees can continue to resource an increasing number of schemes.

As we've seen, several factors make the outlook uncertain over the next five years. In a quick buy-out, we might see a short-term boom followed by a diminished need for sole trustees' services. But in all other market scenarios that we explored, sole trusteeship and sole trustee consolidators look set to continue to grow. That long-term scope for demand under most scenarios will encourage the entry of new firms, offsetting future mergers and acquisitions.

Is there infinite resource for growth?

The recruitment and appointment of professional trustees has grown significantly in recent years to accommodate the 16% of schemes that are under a sole trustee governance model and the further 30% of schemes in other capacities. Successful recruitment could continue, giving professional trustee firms scope to increase their sole trustee appointments for some years to come. Looking further into the future, it's worth considering two factors that might impact the increase in appointments:

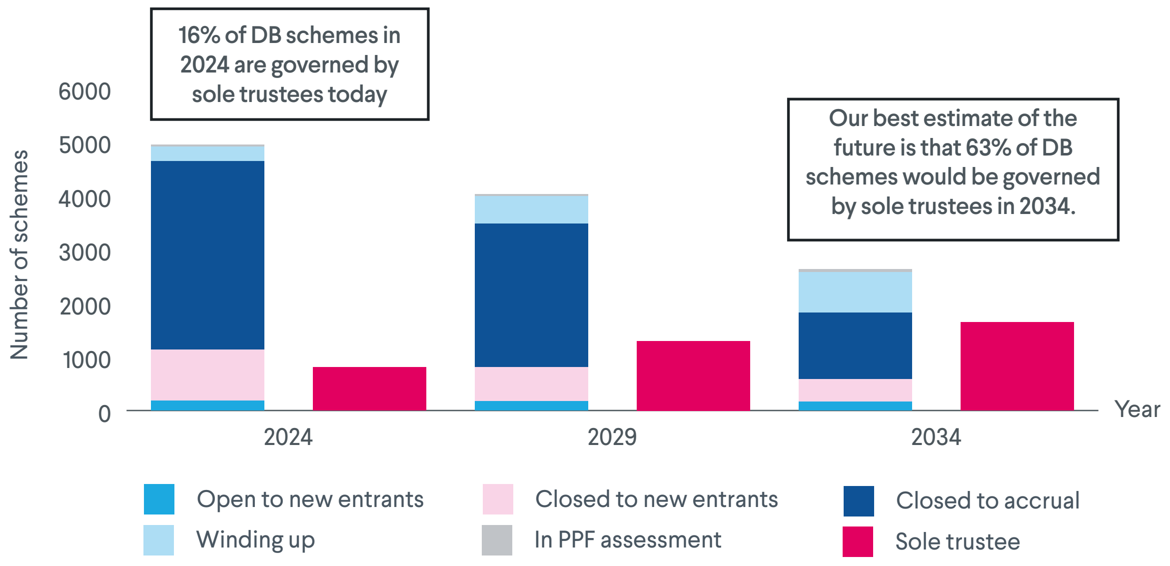
1 If appointments to trustee boards convert to sole trusteeship, this becomes more resource intensive for the professional trustee firms, due to the team-based approach. Each professional trustee firm takes a different approach to managing sole trustee resourcing. There are differing degrees of resource intensity depending on the number of employees involved. However, in each case, we'd expect more resource to be required than when a professional trustee is appointed to a trustee board.

We believe, over the longer term, we're likely to see increasing conversions of trustee board appointments to sole trusteeship. Consequently, the growth of sole trustee appointments would slow down.

2 A secondary factor affecting growth might be the balance of ongoing appointments versus appointments for schemes in wind-up within a firm's portfolio. The resource needed for these appointments will differ, but this might result in year-on-year fluctuations rather than directional trends in future growth.

In aggregate, our best estimate is that there is potential to see a flattening in the number of sole trustee appointments beyond five years.

Our projection of sole trustee growth



We hope you've found our report illuminating and informative. If you'd like to discuss any of our findings, please get in touch with a member of our sole trustee team.

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