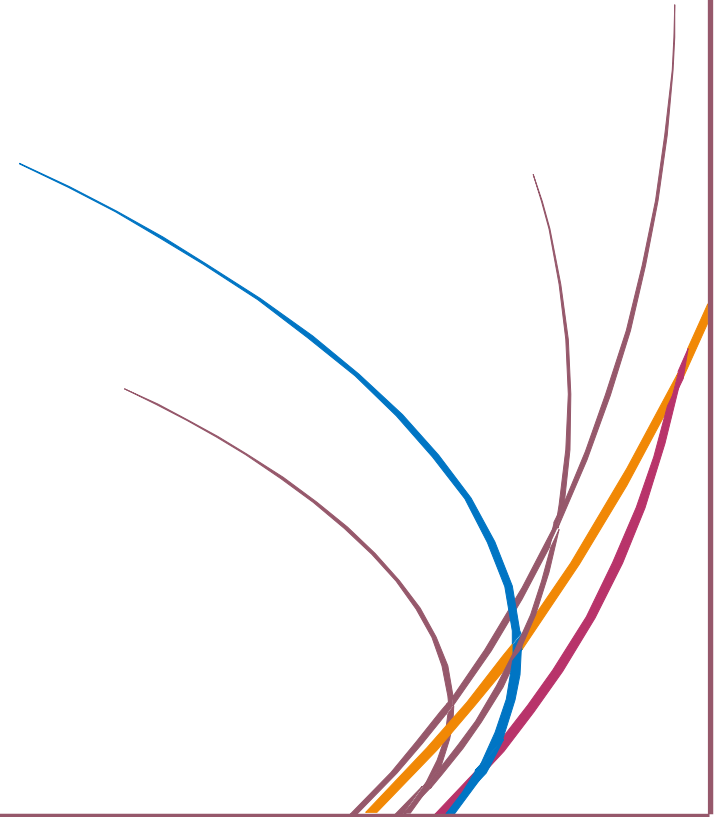




KGC associates

KGC's 9th Administration Survey

July 2018



Foreword

Pension administration is a key part of our industry and without it, the whole system would fall apart. Whilst it's been valued less as a service than actuarial and investment, this perspective is gradually changing, particularly with The Pension Regulator's reinvigorated interest.

Initially the survey was very much about fees and the service schemes could expect to receive for the price they pay. Whilst we ask these questions, our analysis focuses on value for money rather than pressurising administrators to drive down fees. It's a platform for administrators to showcase what they can offer in an anonymous environment and compare themselves to their peers.

Over the last five years, we've given the providers an opportunity to articulate how topical issues are affecting their service, what's causing them headaches and how projects are progressing. This year we've had more responses than ever to this section but we also opened up some questions to the wider industry. We asked pension managers and trustees two of the questions we posed to the administration providers to see if their worries were the same and gave them an opportunity to comment on the market.

The race will begin for Regulation of Master Trusts in October 2018, so we thought it would be interesting to hear what these providers have to say about their sector. The views make for interesting reading.

Administration is a complex market to be in at the moment. There are internal pressures to drive down operational costs, but still deliver a high quality service. In some cases this has impacted on clients' service, in others, firms are becoming more selective when considering new clients. At the same time, the pool of administrators is becoming smaller and the market more competitive.

We would like to thank all the firms who participate for the time and effort they put into it. We hope you find the results interesting to read and a useful tool.

Hayley Mudge
Report Author



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Introduction

Introduction

Earlier in 2018, 18 administrators accepted our invitation to participate in the 9th KGC Administration Survey. Firms were asked to provide a fee for specific scenarios with a set of core services required to administer a scheme (see Appendix A).

Administration providers have always been under pressure to reduce costs, and for a long time they did. However, in recent years the focus has shifted away from low fees and centred on value for money. Whilst cost is still an important factor, administration providers are now having to ensure their service delivery, data quality management and relationships are meeting client expectations.

This report illustrates fees for the four main components: administration, pensioner costs, treasury and accounts as well as implementation.

We compare services providers include as part of their core offering and how they charge for other tasks we would normally consider to be outside of core.

We analyse web functionality and the associated costs.

The report looks at trustee engagement and how often administrators are interacting with trustees and the pricing mechanisms they use when clients exceed activity limits.

Finally, the industry perspective section gives administrators, pension managers, trustees and Master Trusts a platform to express their thoughts and views.

Scenario Assumptions

To reflect the market, we asked the firms to cost for eight different scheme sizes covering 200, 500, 1,000, 2,000, 5,000, 10,000, 15,000 and 20,000 lives. No account was made for the asset size of each scheme.

200 & 500 scheme sizes

- Purely DB and closed to new entrants & future accrual

1,000 - 20,000 scheme sizes

- Dual sectioned - DB closed to new members & future accrual, DC open to new members who are either annuitised or transferred out to take advantage of DC freedoms. No DC freedoms available within the scheme

DB Section

- One pensioner payroll
- One payslip per annum, unless pension changes by more than £10
- Increases paid as at a common date

DC

- Lifestyle - three choices
- DC fund platform with access to 10 funds
- DC OMO annuity purchase through broker (included in core fee)

Treasury

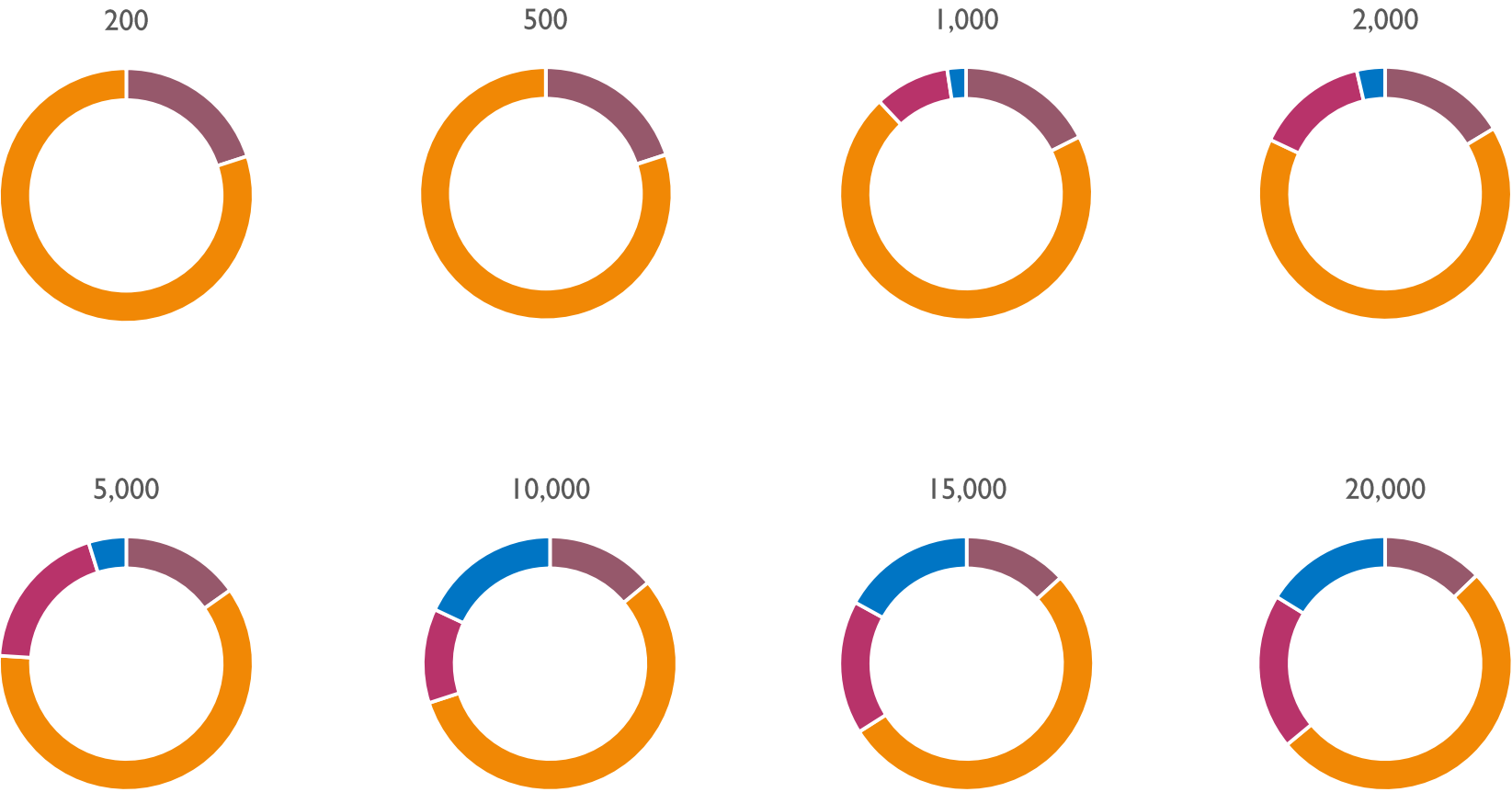
- Two bank accounts (DB & DC) for transparency purposes

Data

- In a normal state i.e. the usual odd missing fields here and there

Membership Statistics

Key:



Fee Analysis

We segment the fees into five different categories for each scheme size and highlight the average fee. Firms are asked to complete responses only where they deliver services for a particular scheme size. This results in some graphs having fewer firms than the whole sample.

The fees are broken down into the following five sections:

1	Administration Fee – includes: <ul style="list-style-type: none"> - Scheme cost - Total cost per capita for DB deferred & pensioners, DC active & deferred (where appropriate)
2	Pensioner Costs – includes: <ul style="list-style-type: none"> - Total cost per capita for DB pensioner - Pensioner payroll
3	Treasury & Accounts
4	Implementation Fee
5	Year One Cost – includes: <ul style="list-style-type: none"> - Administration fee - Pensioner payroll - Treasury & Accounts

Unit Cost per Member

In the Year One Cost section we include a Unit Cost per Member (UCM) for the highest, average and lowest fee. This is derived by dividing the total cost by the total number of members.



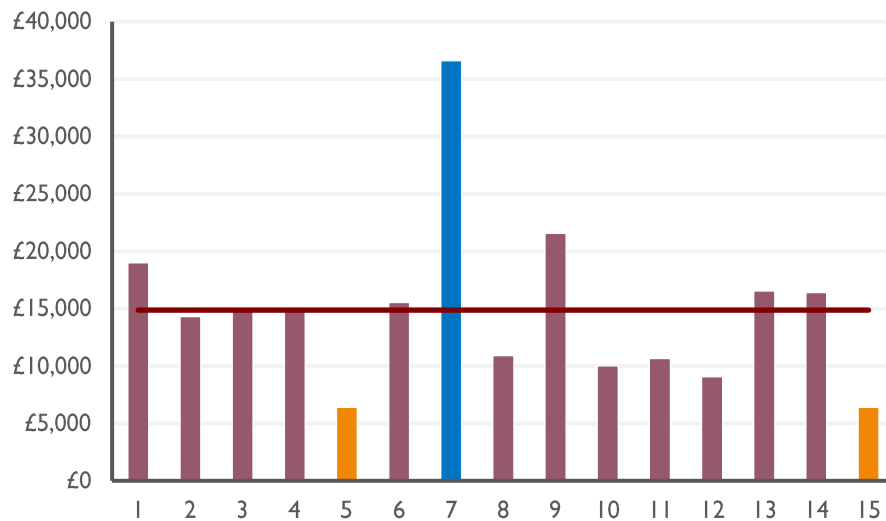
It is quite interesting to see the range in UCM's across the scheme sizes. Smaller schemes of 200 and 500 lives will pay on average £124.26 and £67.67 per member compared to the UCM of a 15,000 and 20,000 life scheme where the average is £24.05 and £22.41 per member respectively.



Administration Fee

200 Life Scheme

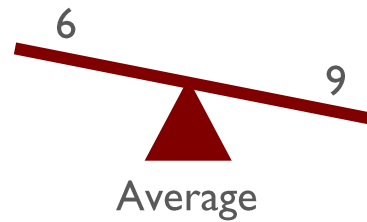
Administration Fee



Highest Fee £36,600

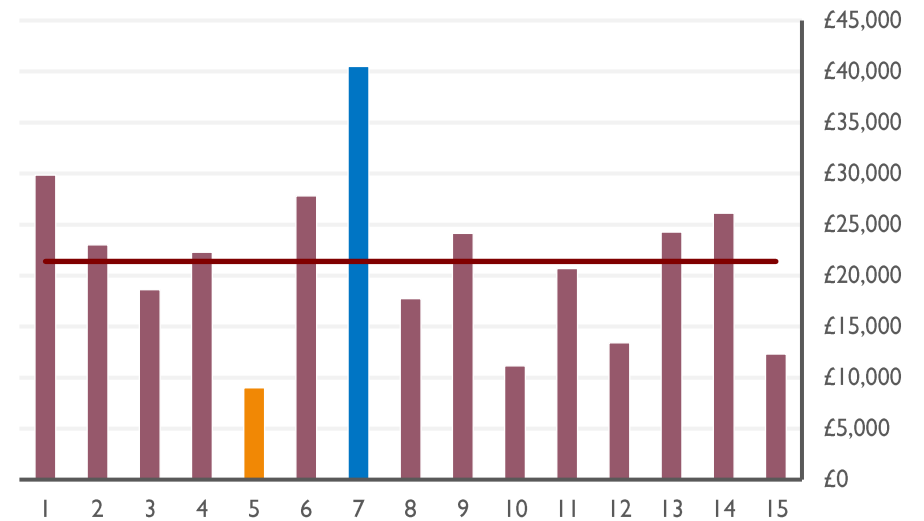
Average Fee £14,871

Lowest Fee £6,400



500 Life Scheme

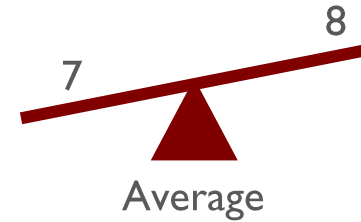
Administration Fee



Highest Fee £40,500

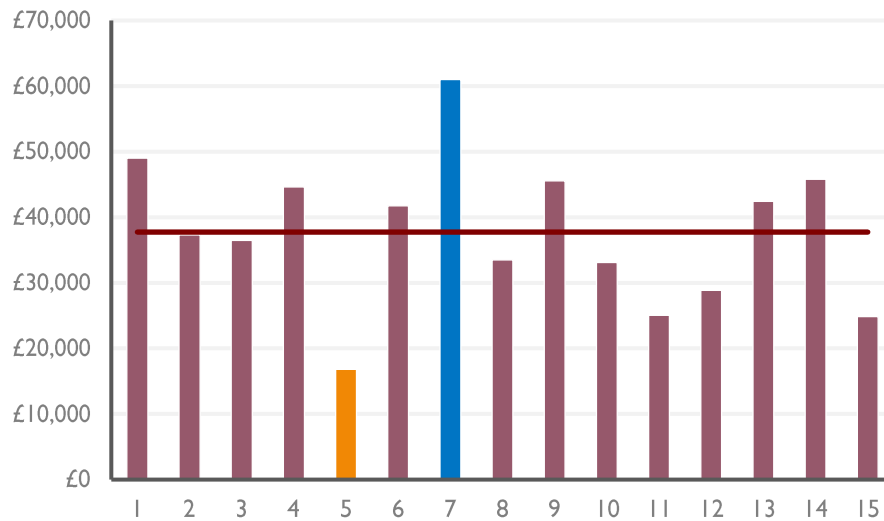
Average Fee £21,388

Lowest Fee £9,000



1,000 Life Scheme

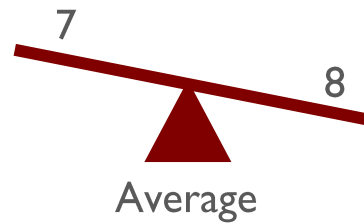
Administration Fee



Highest Fee **£61,000**

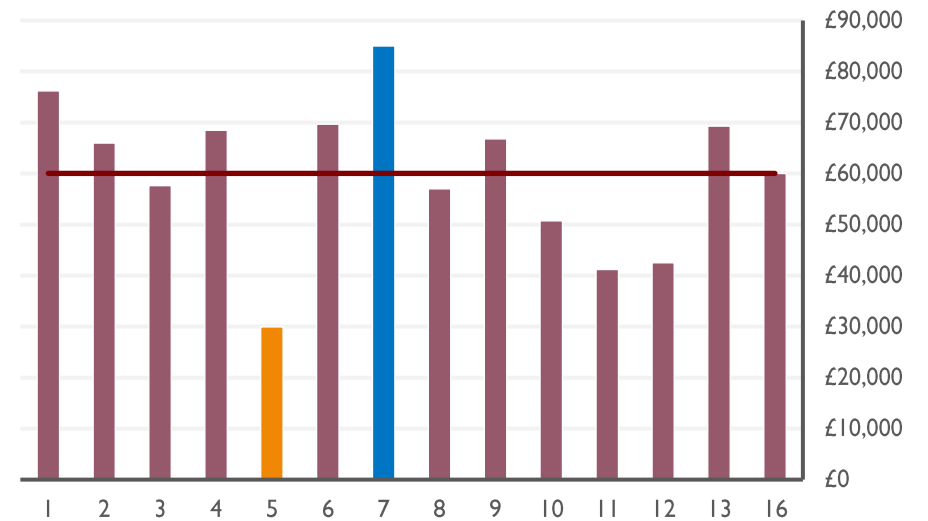
Average Fee **£37,737**

Lowest Fee **£16,812**



2,000 Life Scheme

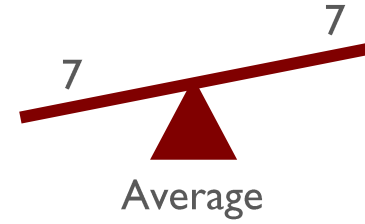
Adminstration Fee



Highest Fee **£85,000**

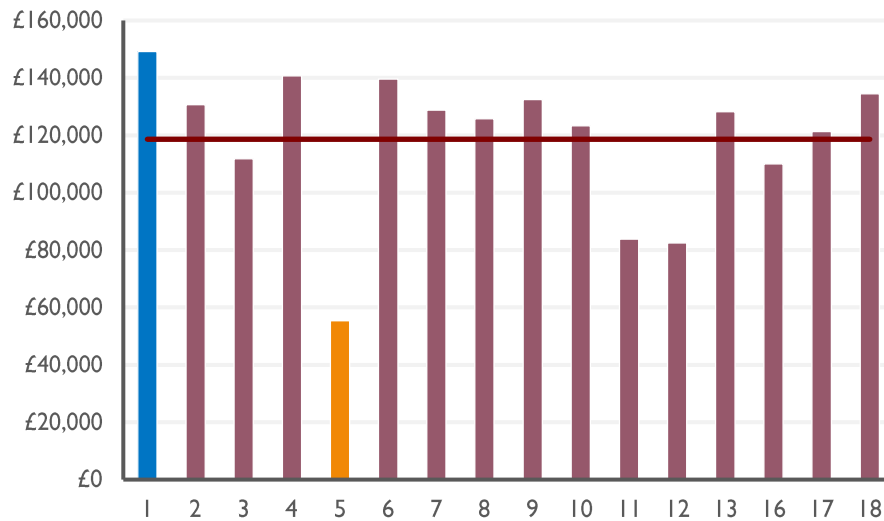
Average Fee **£60,029**

Lowest Fee **£29,936**



5,000 Life Scheme

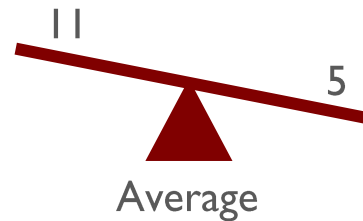
Administration Fee



Highest Fee £149,186

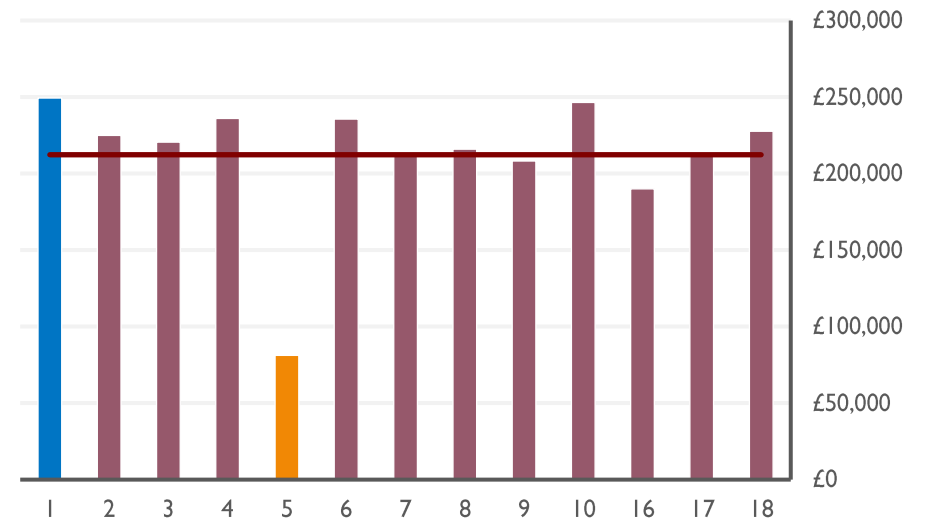
Average Fee £118,605

Lowest Fee £55,360



10,000 Life Scheme

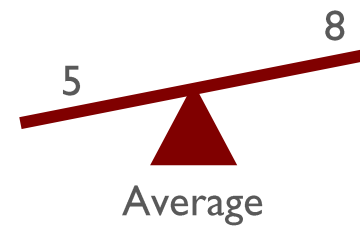
Administration Fee



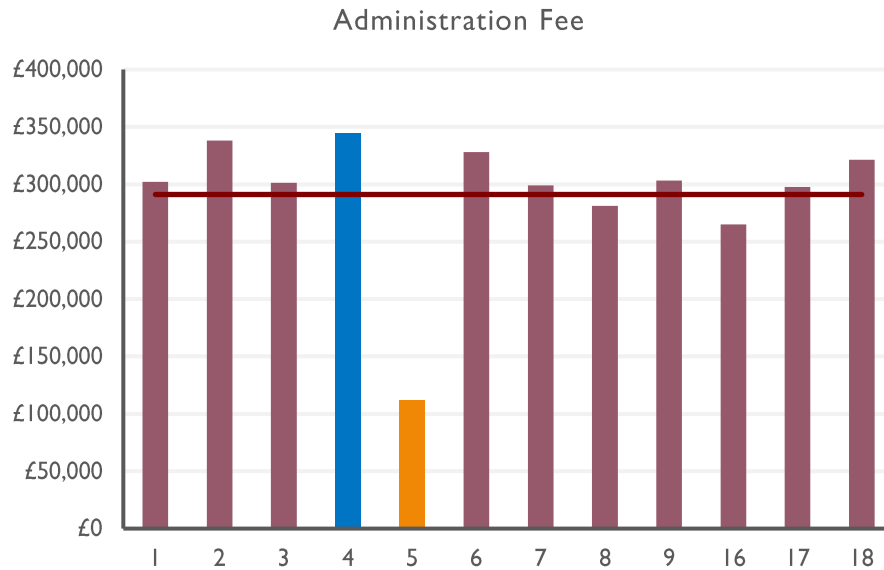
Highest Fee £249,344

Average Fee £212,281

Lowest Fee £81,200



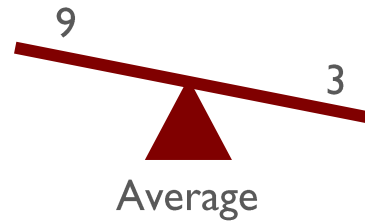
15,000 Life Scheme



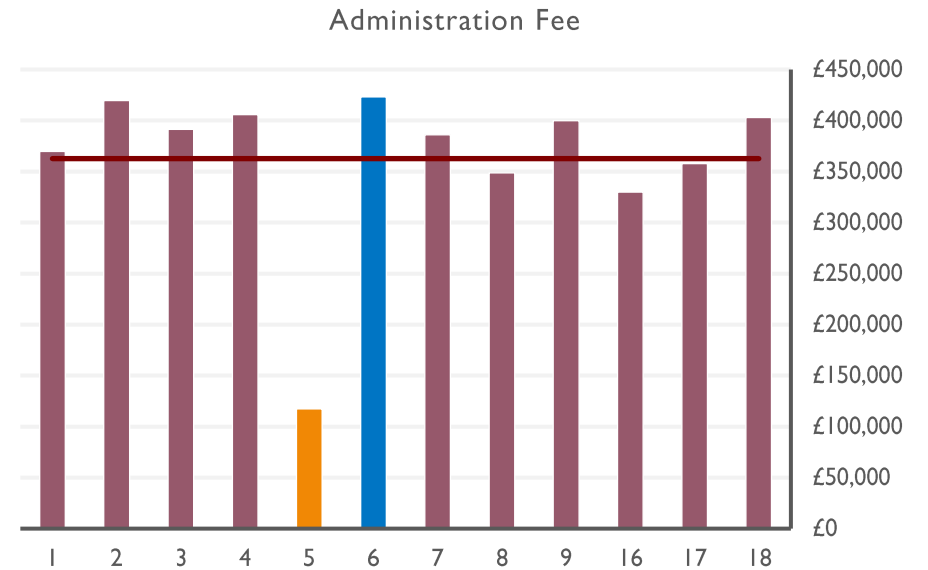
Highest Fee **£344,190**

Average Fee **£291,078**

Lowest Fee **£111,800**



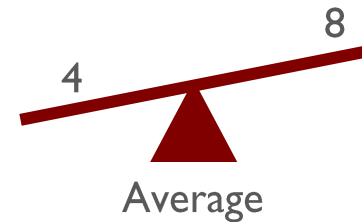
20,000 Life Scheme



Highest Fee **£423,160**

Average Fee **£362,672**

Lowest Fee **£117,360**

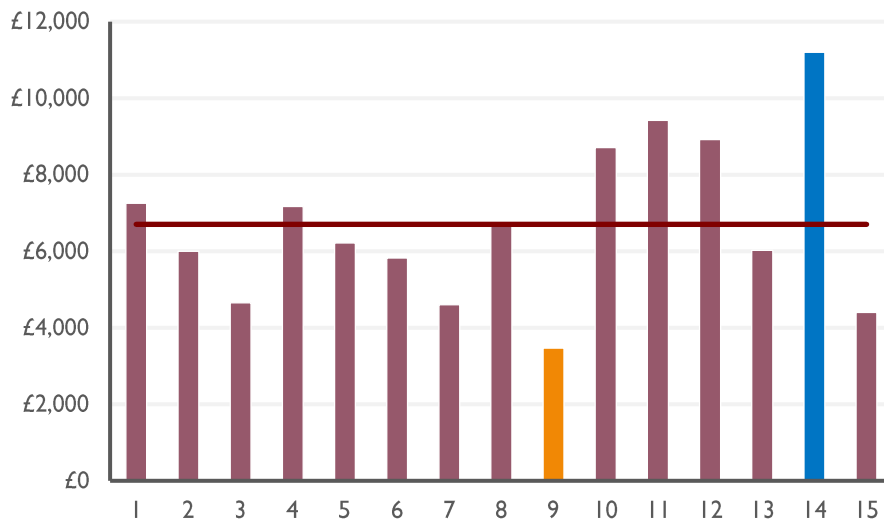




Pensioner Costs

200 Life Scheme

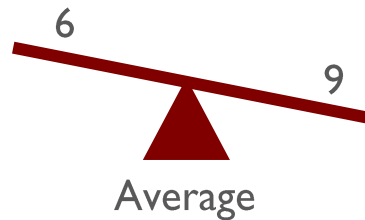
Pensioner Costs



Highest Fee £11,200

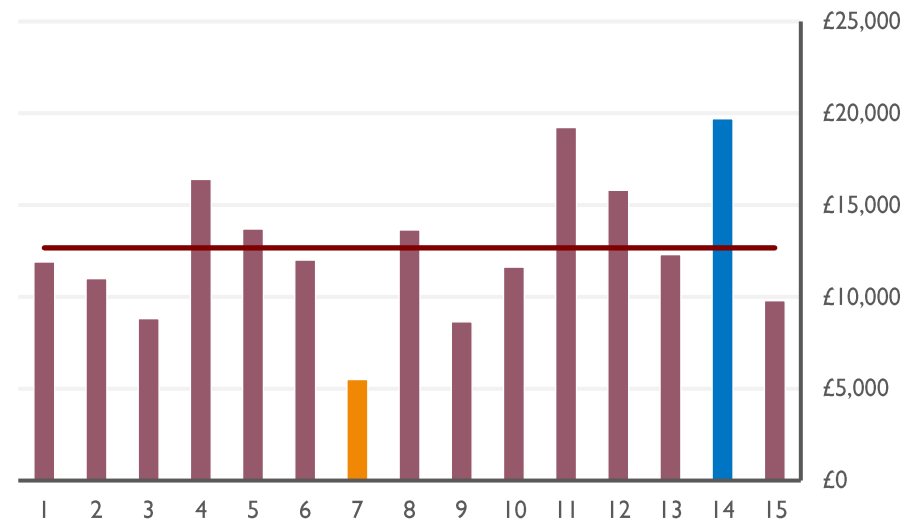
Average Fee £6,703

Lowest Fee £3,467



500 Life Scheme

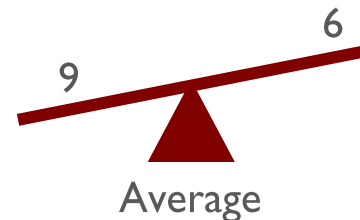
Pensioner Costs



Highest Fee £19,700

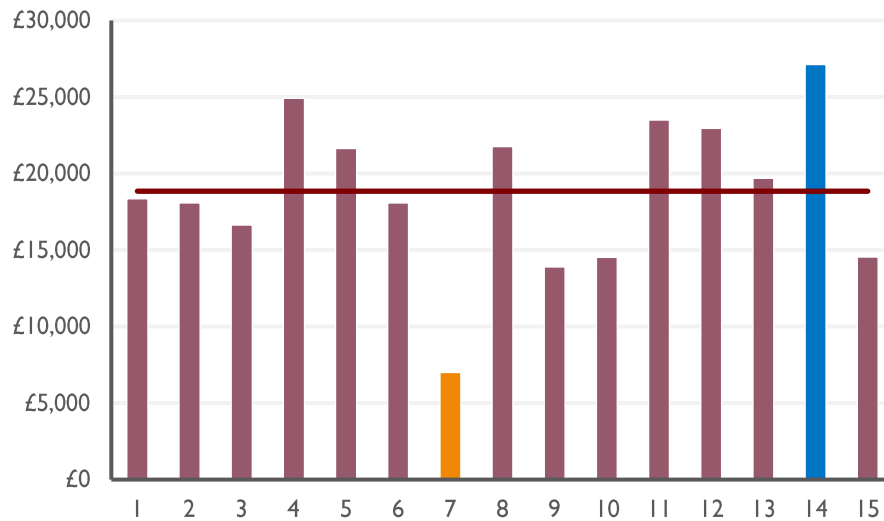
Average Fee £12,670

Lowest Fee £5,500



1,000 Life Scheme

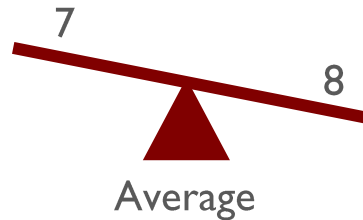
Pensioner Costs



Highest Fee **£27,120**

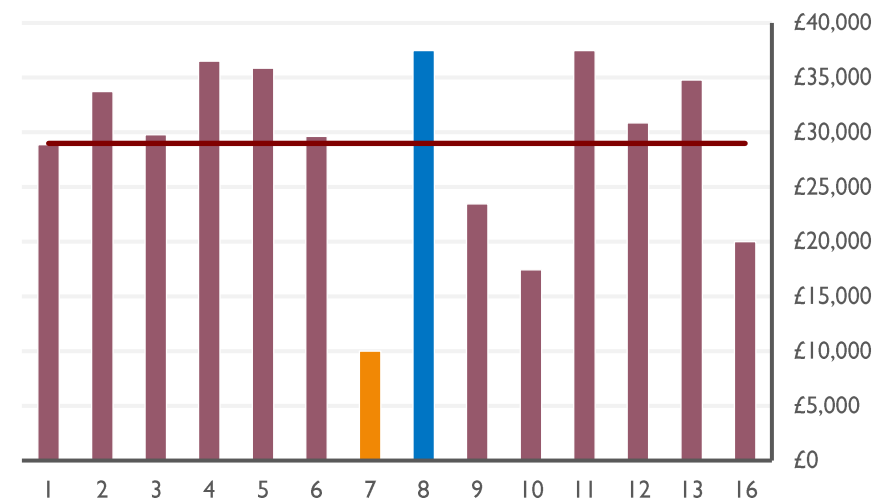
Average Fee **£18,844**

Lowest Fee **£7,000**



2,000 Life Scheme

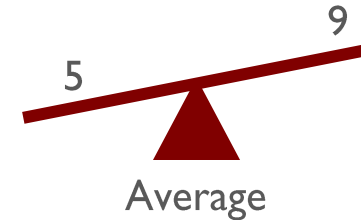
Pensioner Costs



Highest Fee **£37,474**

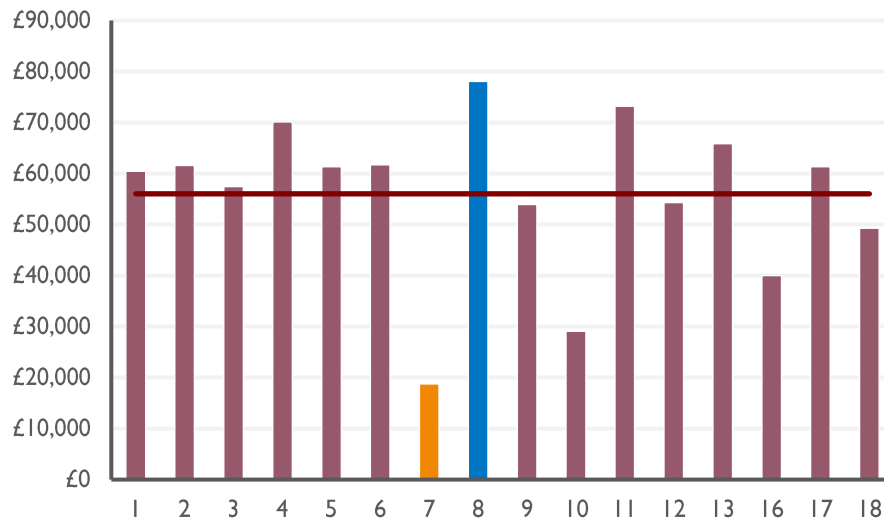
Average Fee **£28,989**

Lowest Fee **£10,000**



5,000 Life Scheme

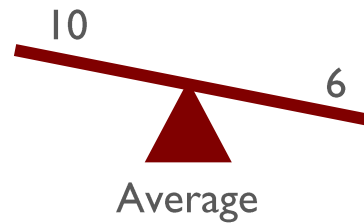
Pensioner Costs



Highest Fee **£78,050**

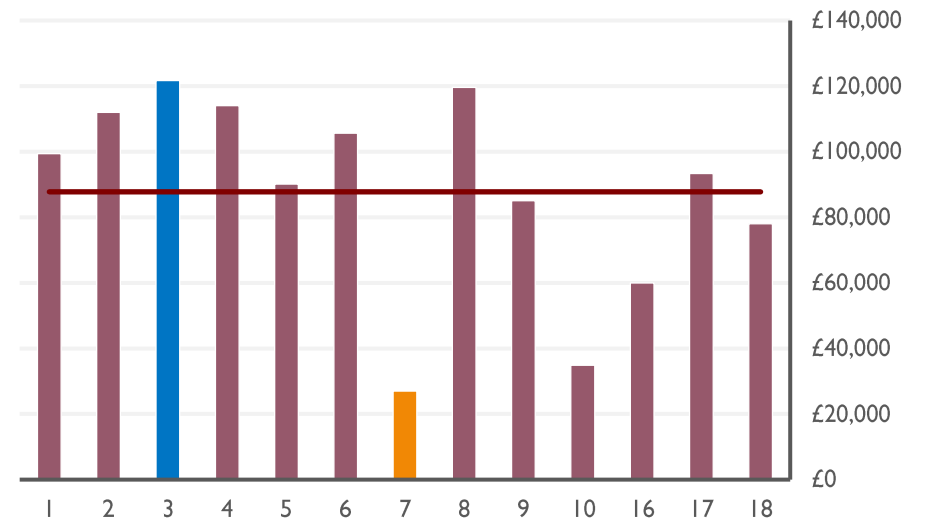
Average Fee **£56,018**

Lowest Fee **£18,750**



10,000 Life Scheme

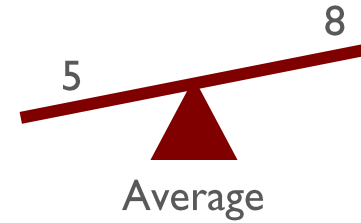
Pensioner Costs



Highest Fee **£121,699**

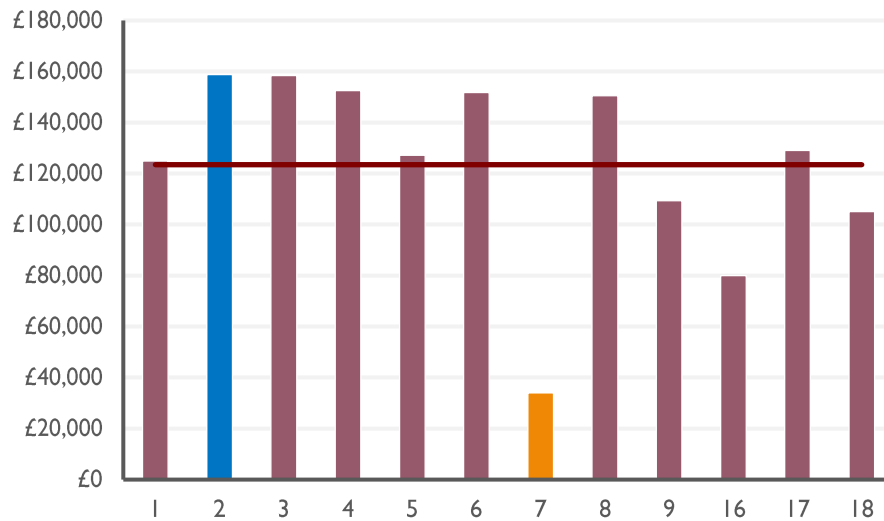
Average Fee **£87,756**

Lowest Fee **£27,000**



15,000 Life Scheme

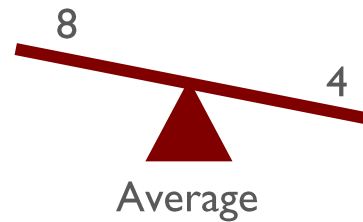
Pensioner Costs



Highest Fee £158,800

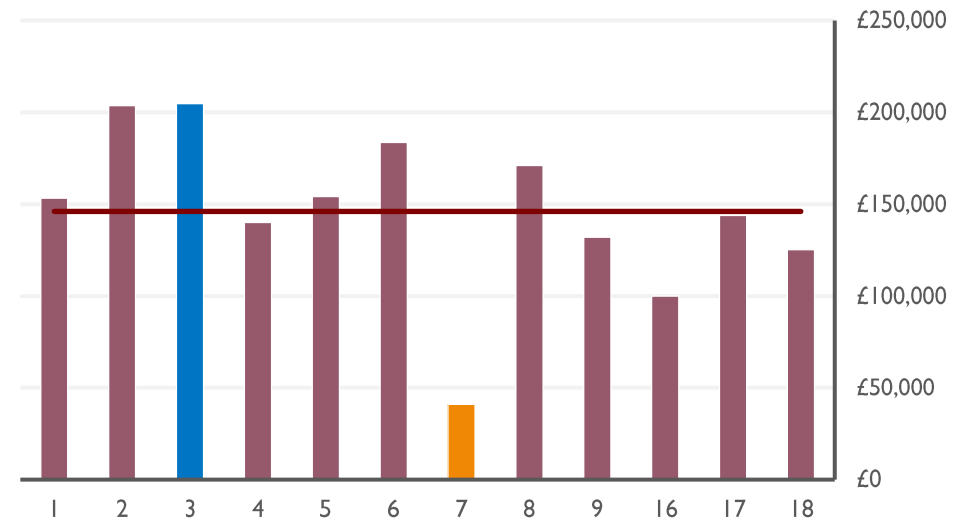
Average Fee £123,457

Lowest Fee £34,000



20,000 Life Scheme

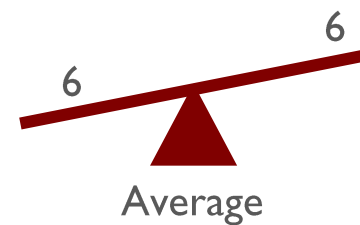
Pensioner Costs



Highest Fee £204,739

Average Fee £146,031

Lowest Fee £41,000

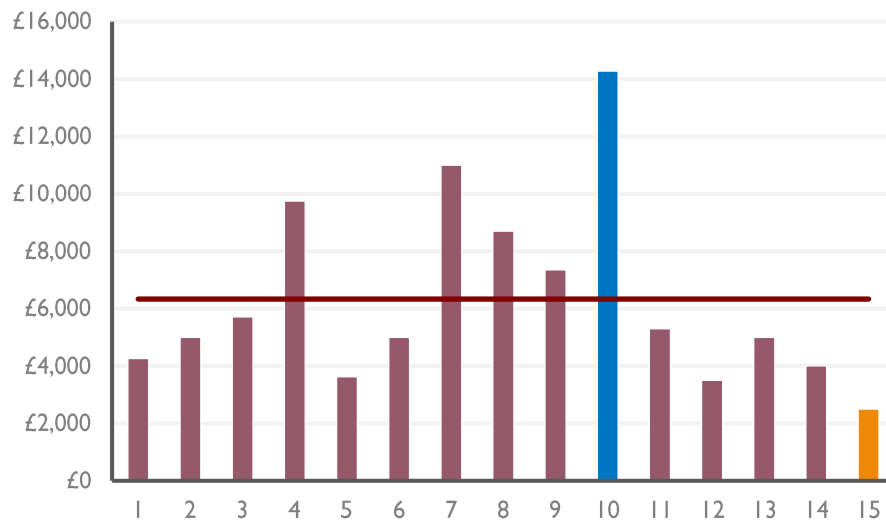




Treasury & Accounts

200 Life Scheme

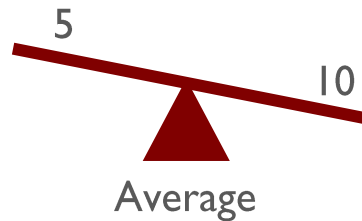
Treasury & Accounts



Highest Fee **£14,278**

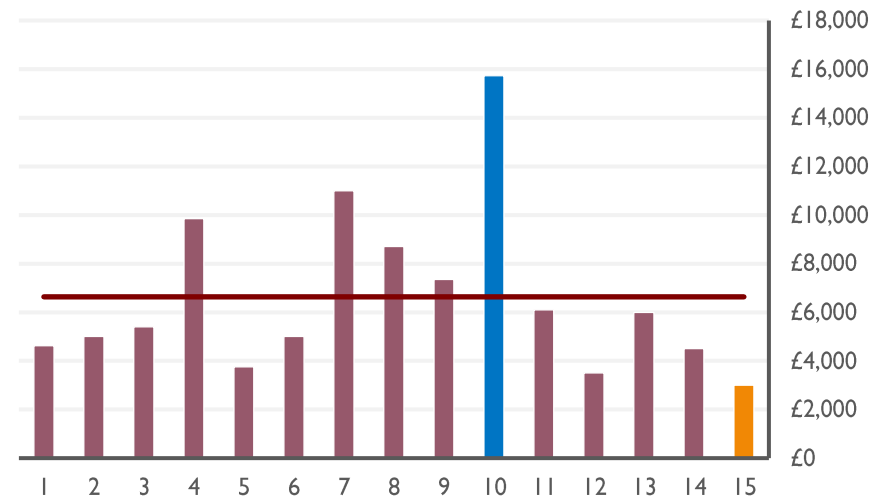
Average Fee **£6,332**

Lowest Fee **£2,500**



500 Life Scheme

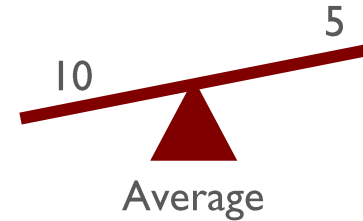
Treasury & Accounts



Highest Fee **£15,730**

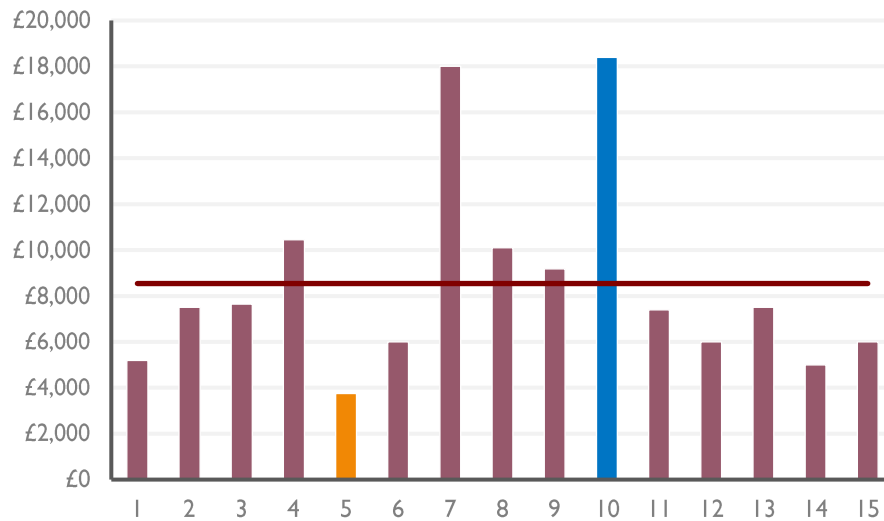
Average Fee **£6,635**

Lowest Fee **£3,000**



1,000 Life Scheme

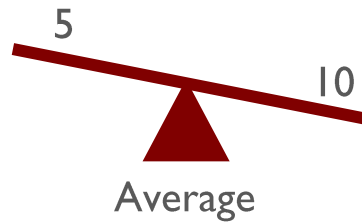
Treasury & Accounts



Highest Fee £18,392

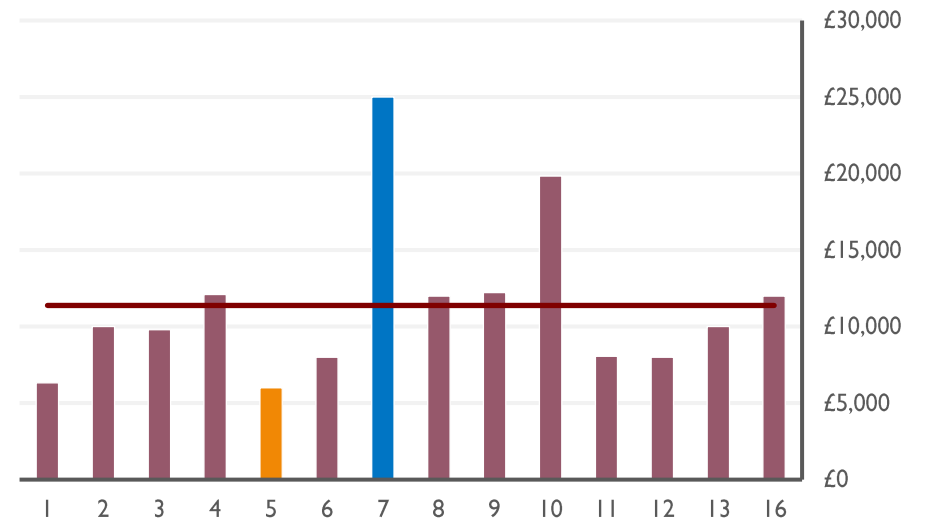
Average Fee £8,540

Lowest Fee £3,750



2,000 Life Scheme

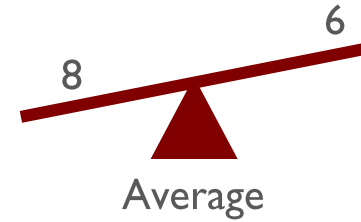
Treasury & Accounts



Highest Fee £25,000

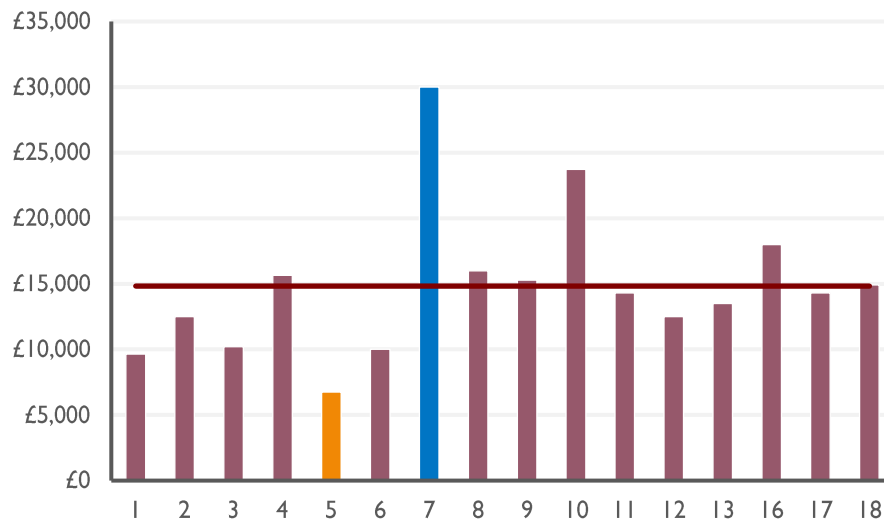
Average Fee £11,381

Lowest Fee £6,000



5,000 Life Scheme

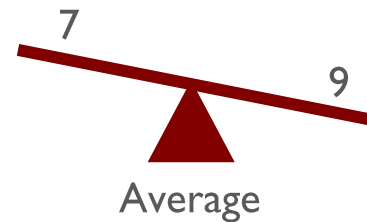
Treasury & Accounts



Highest Fee **£30,000**

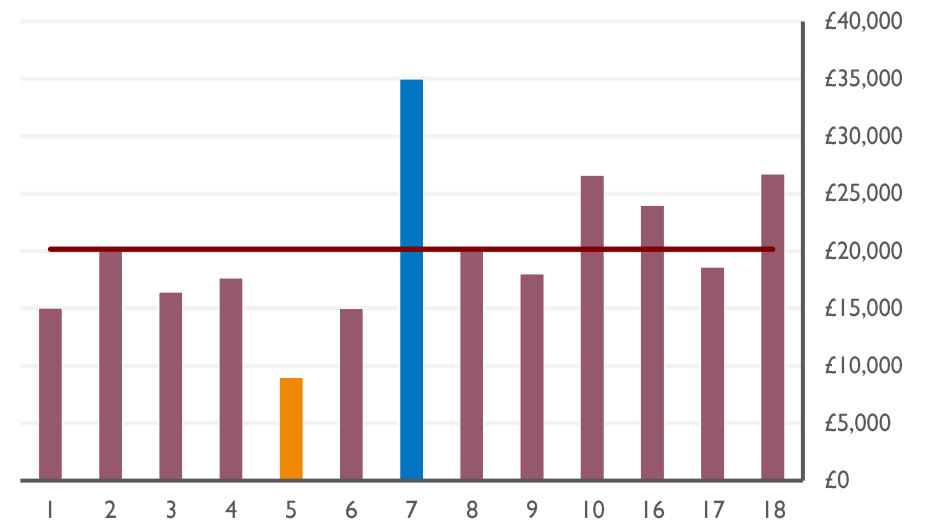
Average Fee **£14,829**

Lowest Fee **£6,750**



10,000 Life Scheme

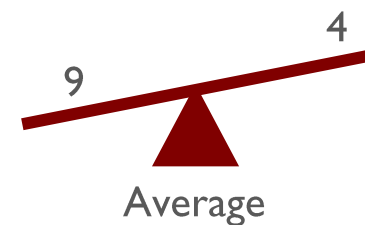
Treasury & Accounts



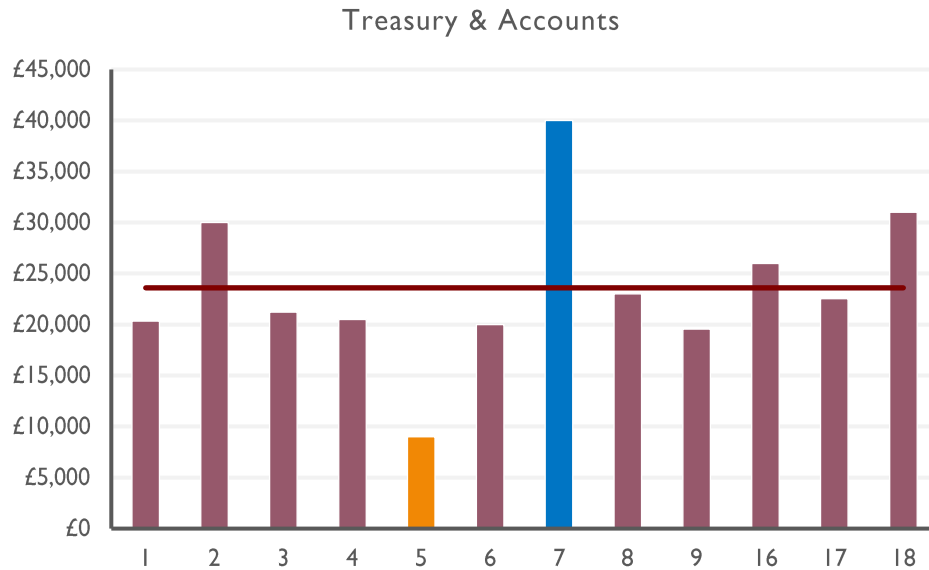
Highest Fee **£35,000**

Average Fee **£20,162**

Lowest Fee **£9,000**



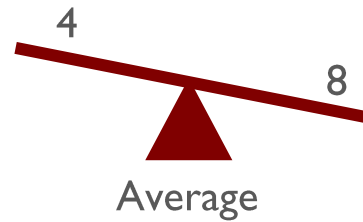
15,000 Life Scheme



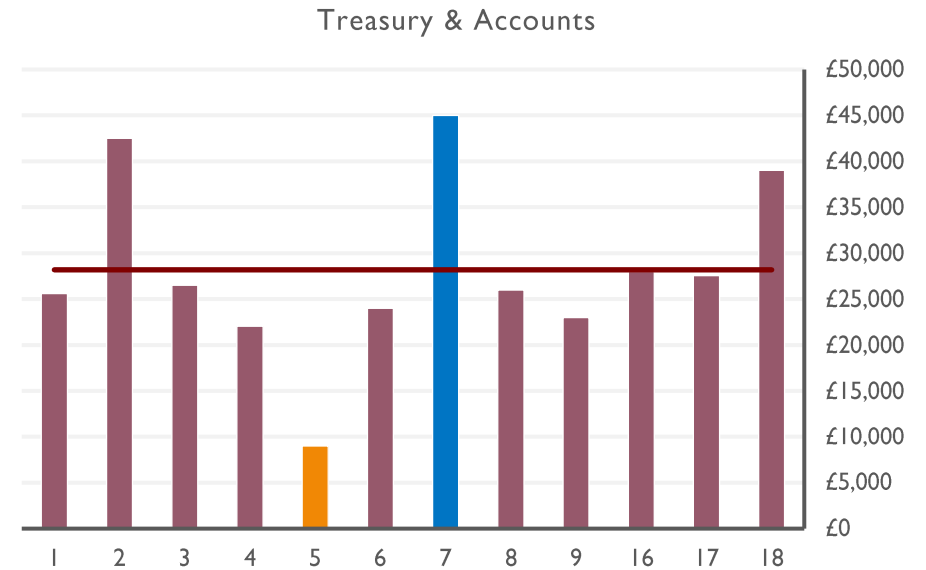
Highest Fee **£40,000**

Average Fee **£23,595**

Lowest Fee **£9,000**



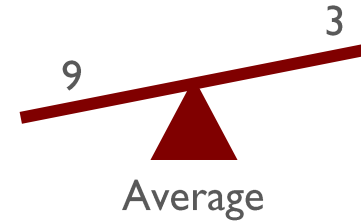
20,000 Life Scheme



Highest Fee **£45,000**

Average Fee **£28,186**

Lowest Fee **£9,000**

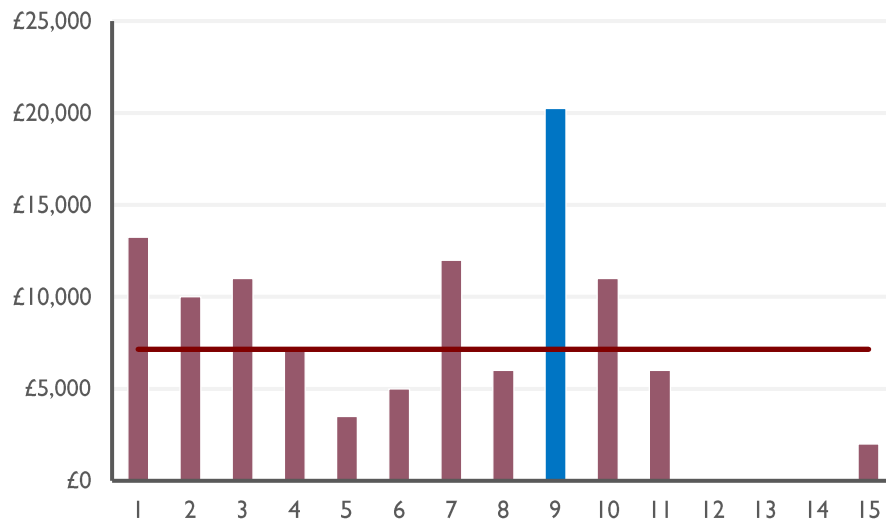




Implementation

200 Life Scheme

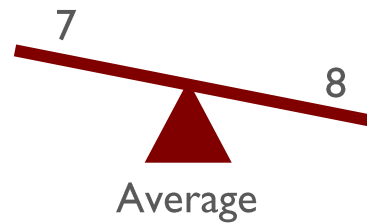
Implementation Fee



Highest Fee £20,249

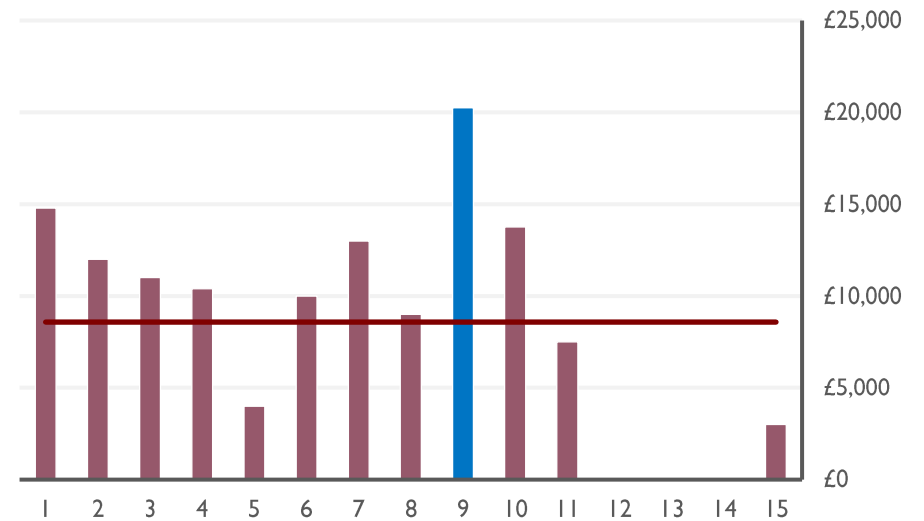
Average Fee £7,149

Lowest Fee £0



500 Life Scheme

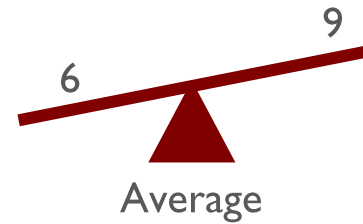
Implementation Fee



Highest Fee £20,249

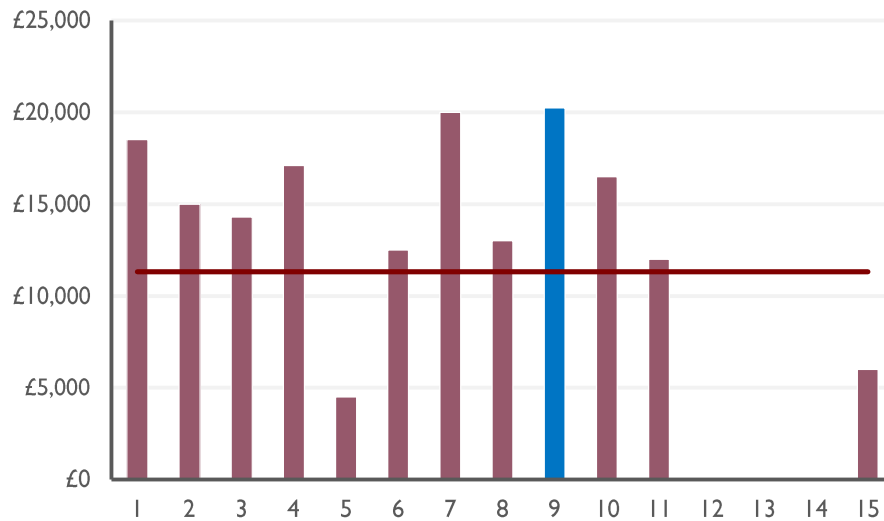
Average Fee £8,579

Lowest Fee £0



1,000 Life Scheme

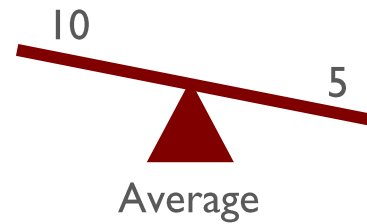
Implementation Fee



Highest Fee **£20,249**

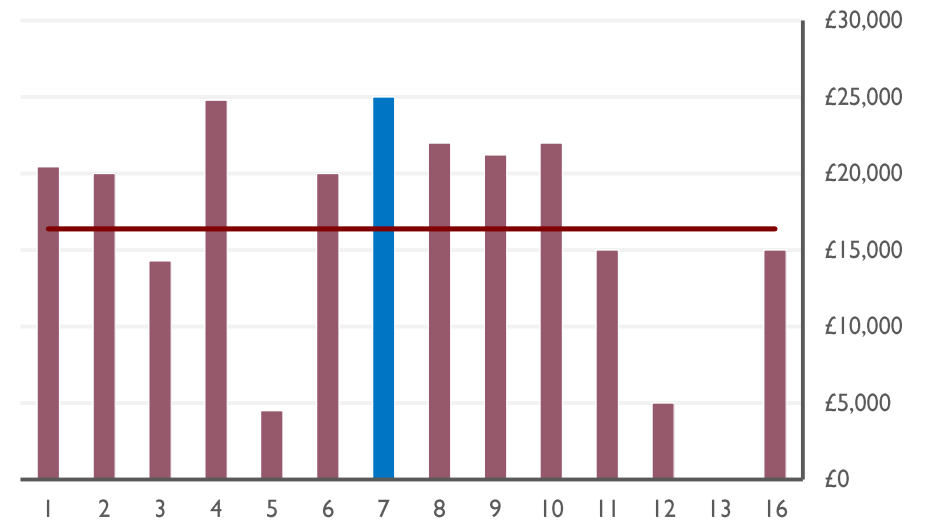
Average Fee **£11,311**

Lowest Fee **£0**



2,000 Life Scheme

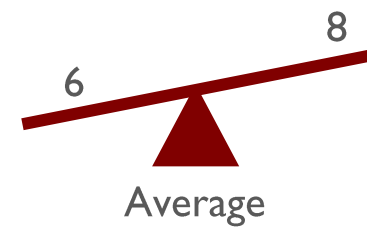
Implementation Fee



Highest Fee **£25,000**

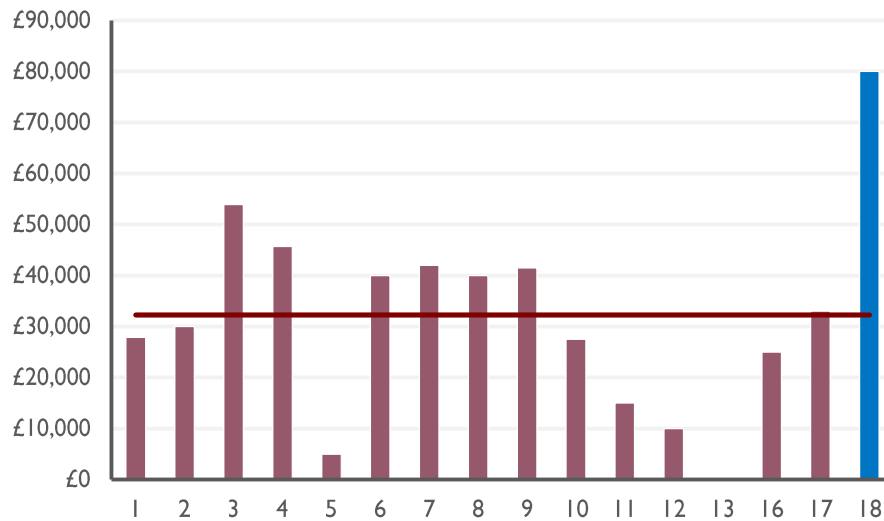
Average Fee **£16,376**

Lowest Fee **£0**



5,000 Life Scheme

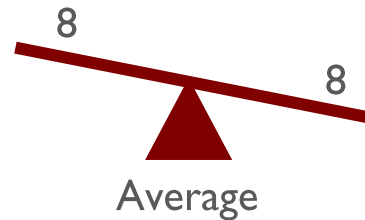
Implementation Fee



Highest Fee **£80,000**

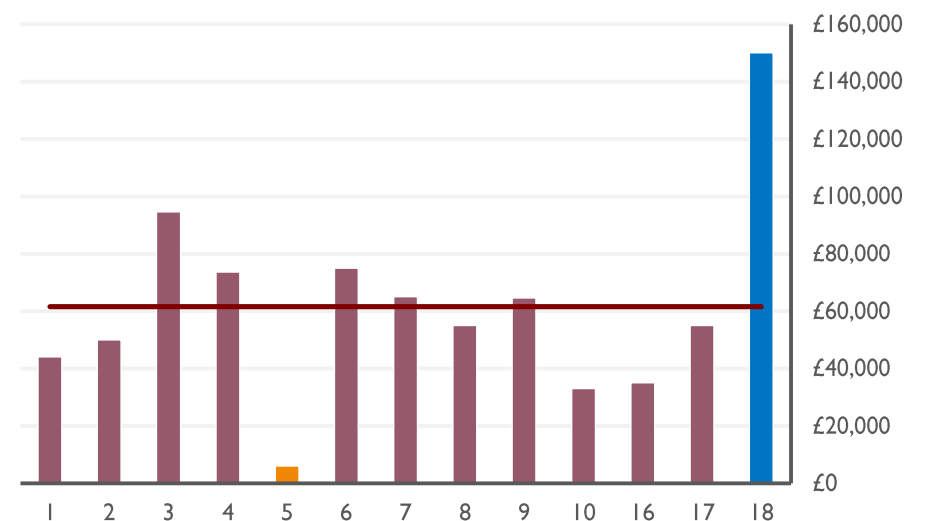
Average Fee **£32,277**

Lowest Fee **£0**



10,000 Life Scheme

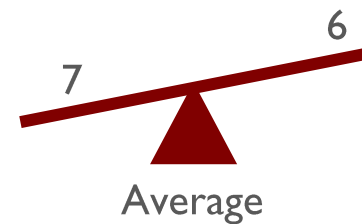
Implementation Fee



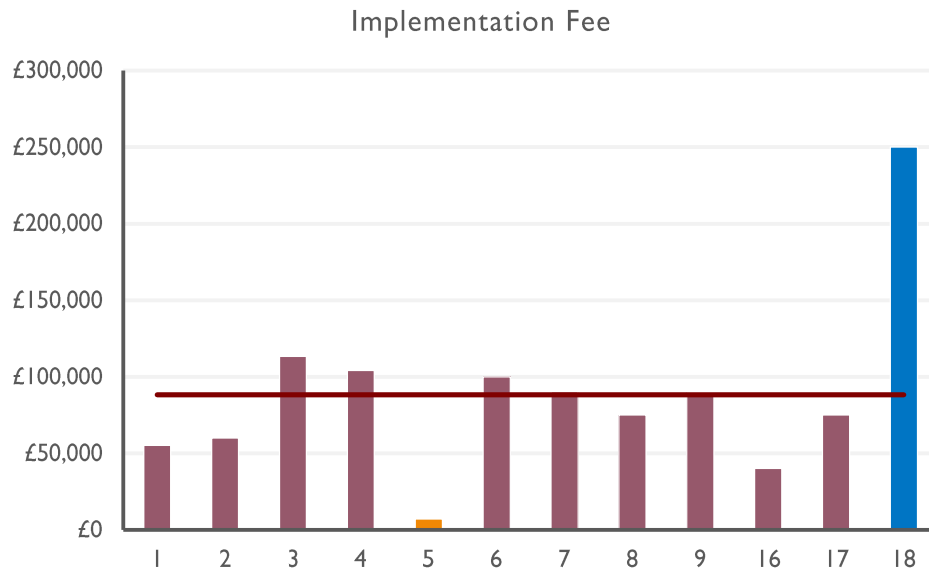
Highest Fee **£150,000**

Average Fee **£61,603**

Lowest Fee **£6,000**



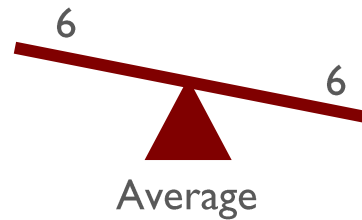
15,000 Life Scheme



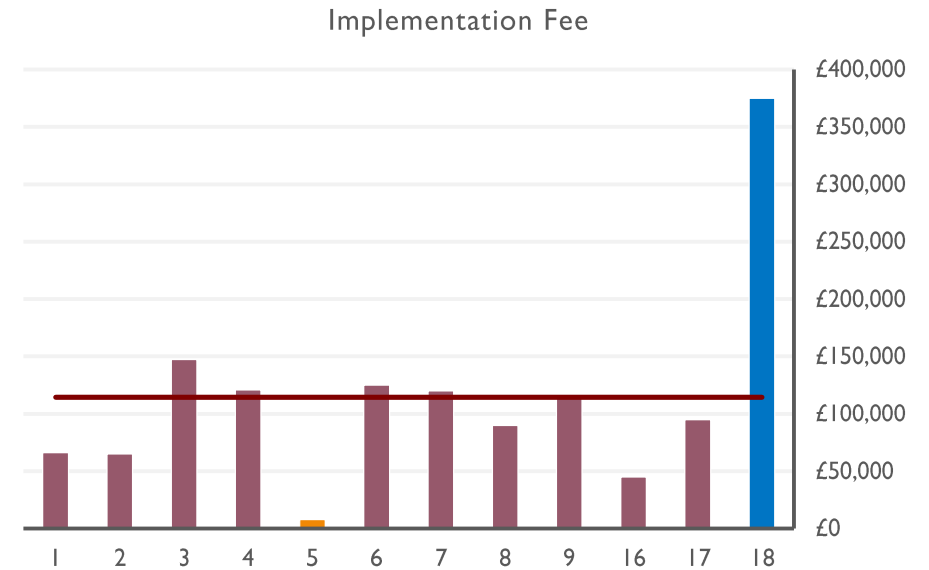
Highest Fee **£250,000**

Average Fee **£88,266**

Lowest Fee **£7,000**



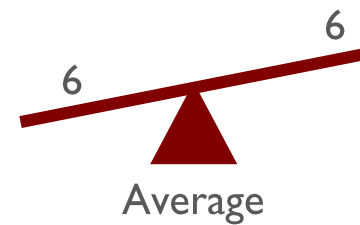
20,000 Life Scheme



Highest Fee **£375,000**

Average Fee **£114,427**

Lowest Fee **£8,000**

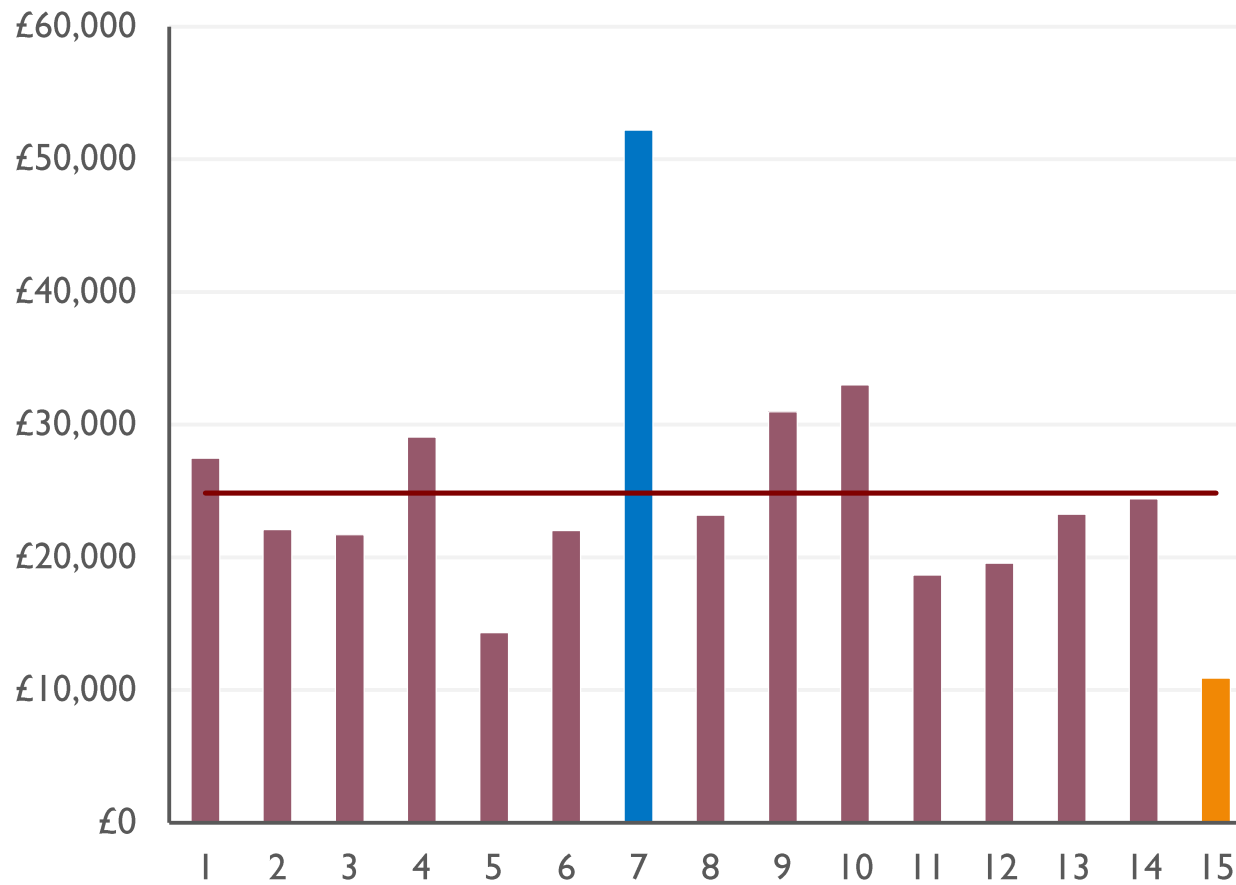




Year One

200 Life Scheme

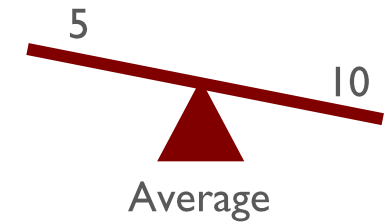
Year One



Highest Fee **£52,200**

Average Fee **£24,852**

Lowest Fee **£10,900**



Highest £261.00



Average £124.26

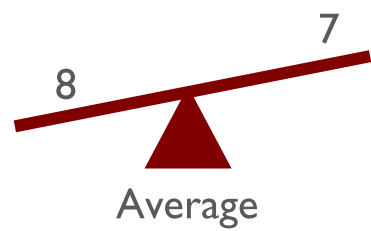
Lowest £54.50

500 Life Scheme

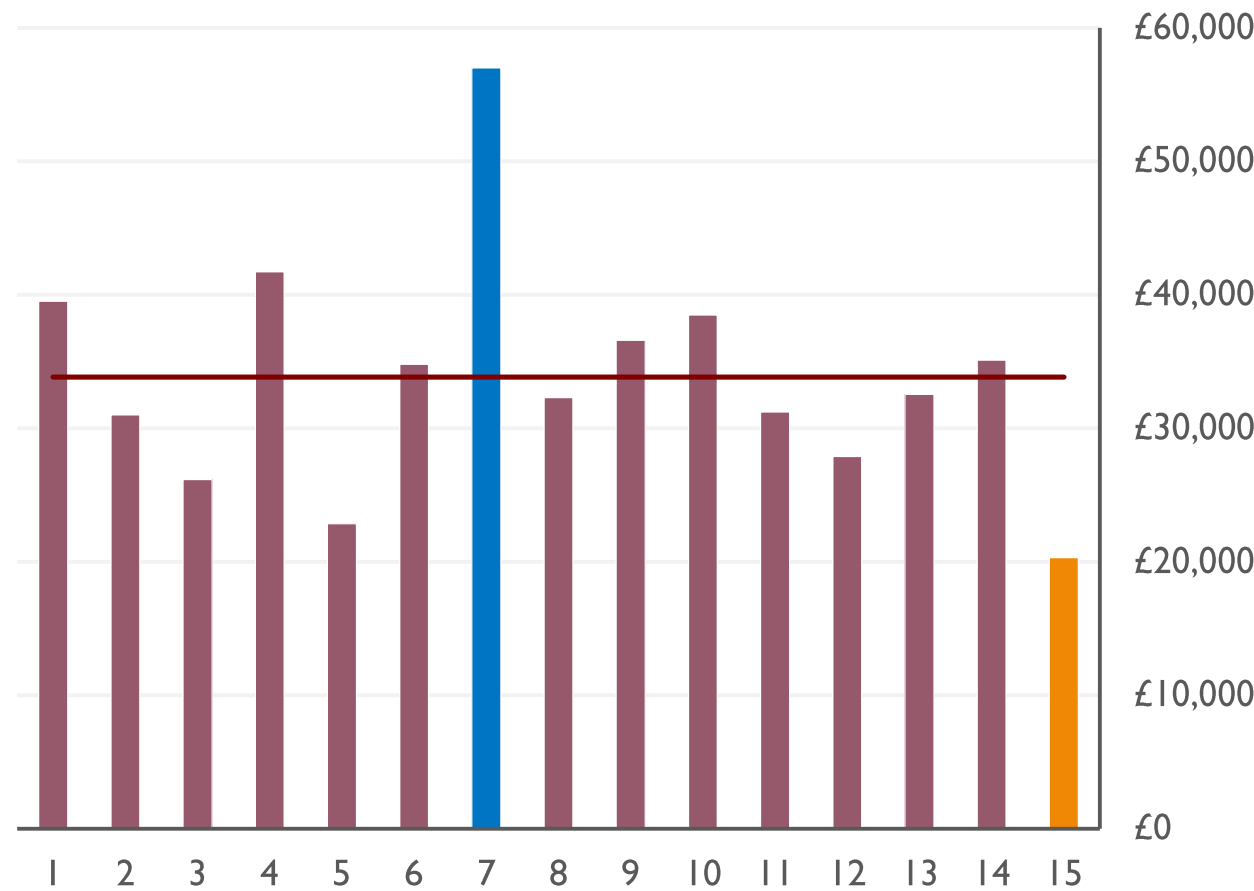
Highest Fee £57,000


Average Fee £33,836

Lowest Fee £20,300



Year One





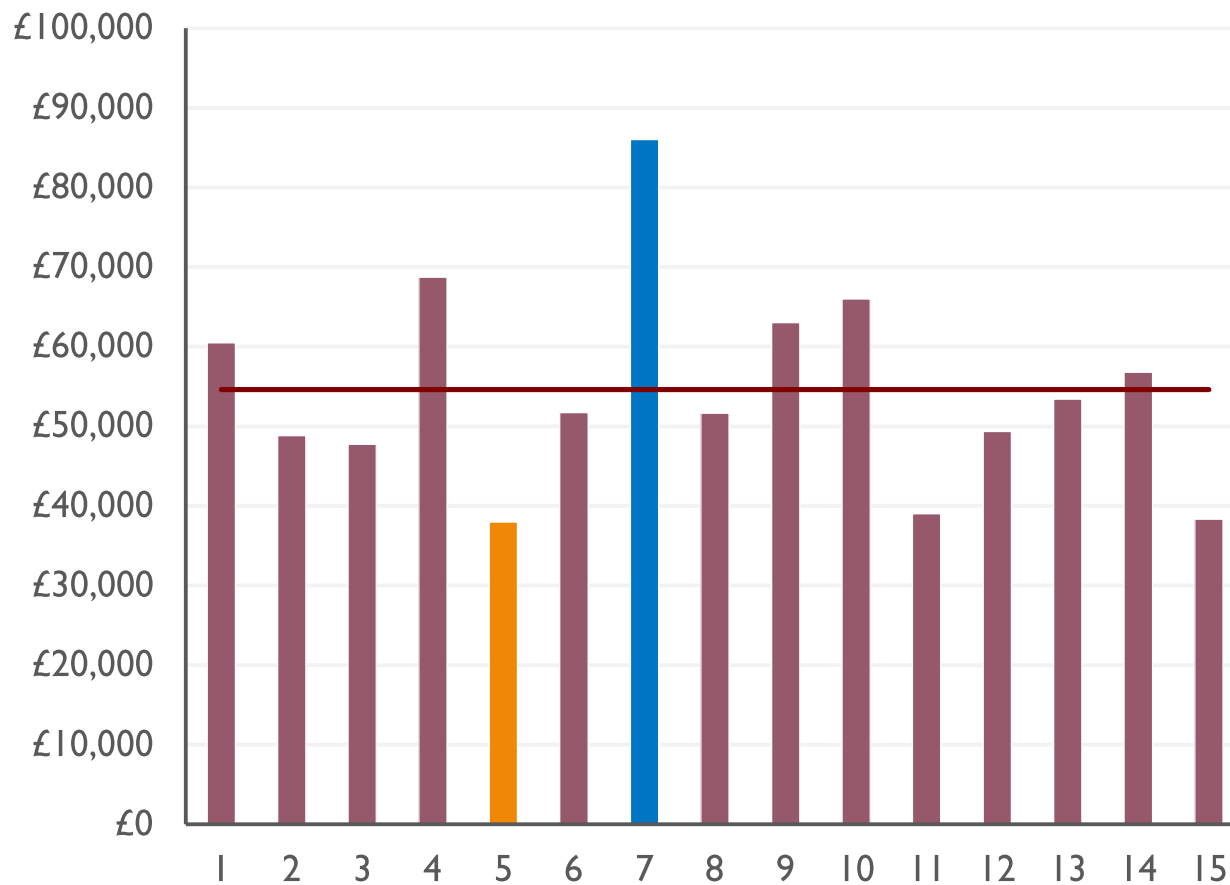
Highest £114.00

Average £67.67

Lowest £40.60

1,000 Life Scheme

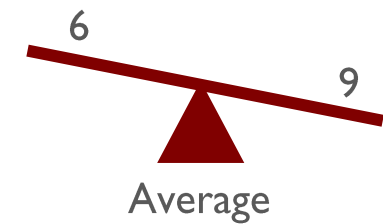
Year One



Highest Fee **£86,000**

Average Fee **£54,602**

Lowest Fee **£37,962**



Highest £86.00



Average £54.60

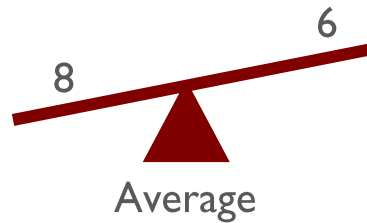
Lowest £37.96

2,000 Life Scheme

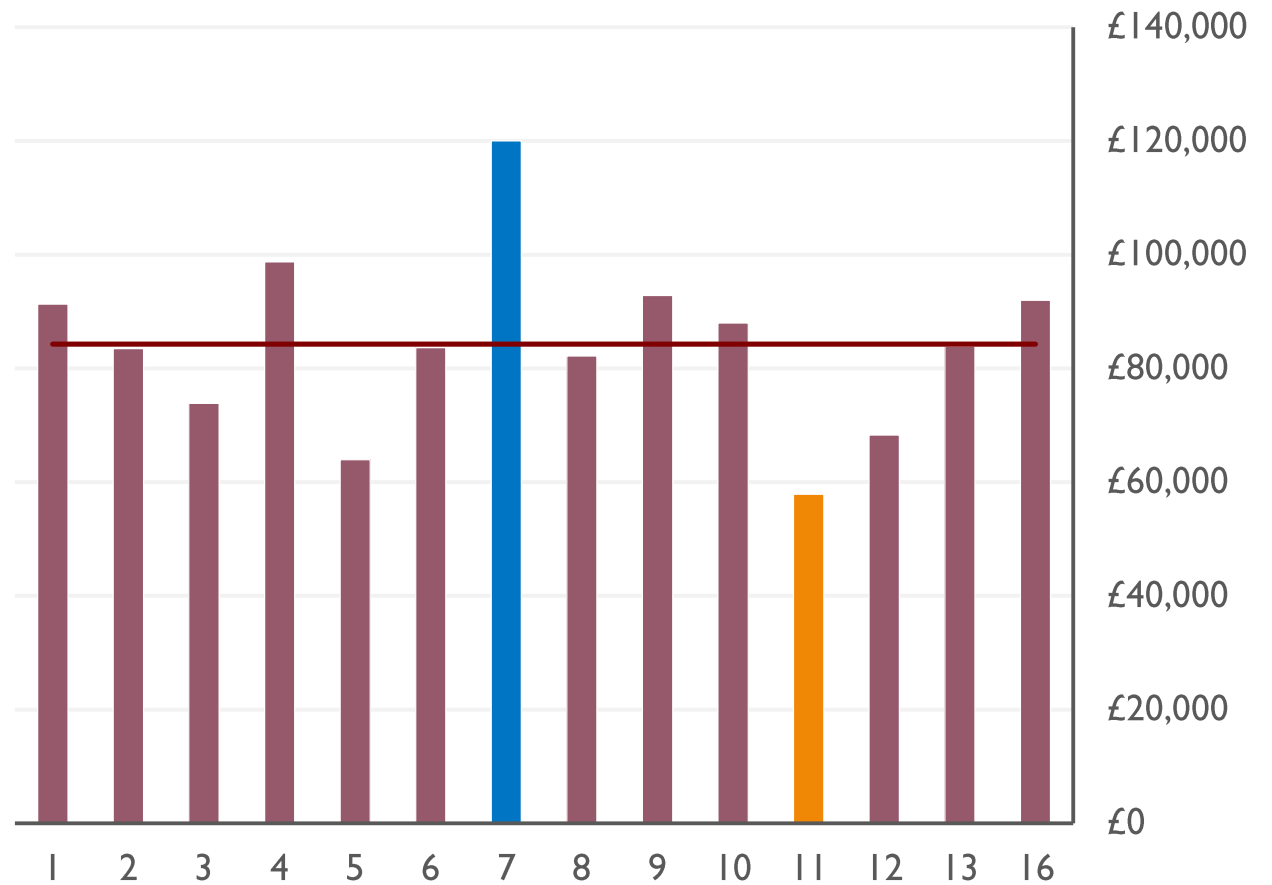
Highest Fee £120,000

Average Fee £84,285

Lowest Fee £57,854



Year One



Highest £60.00

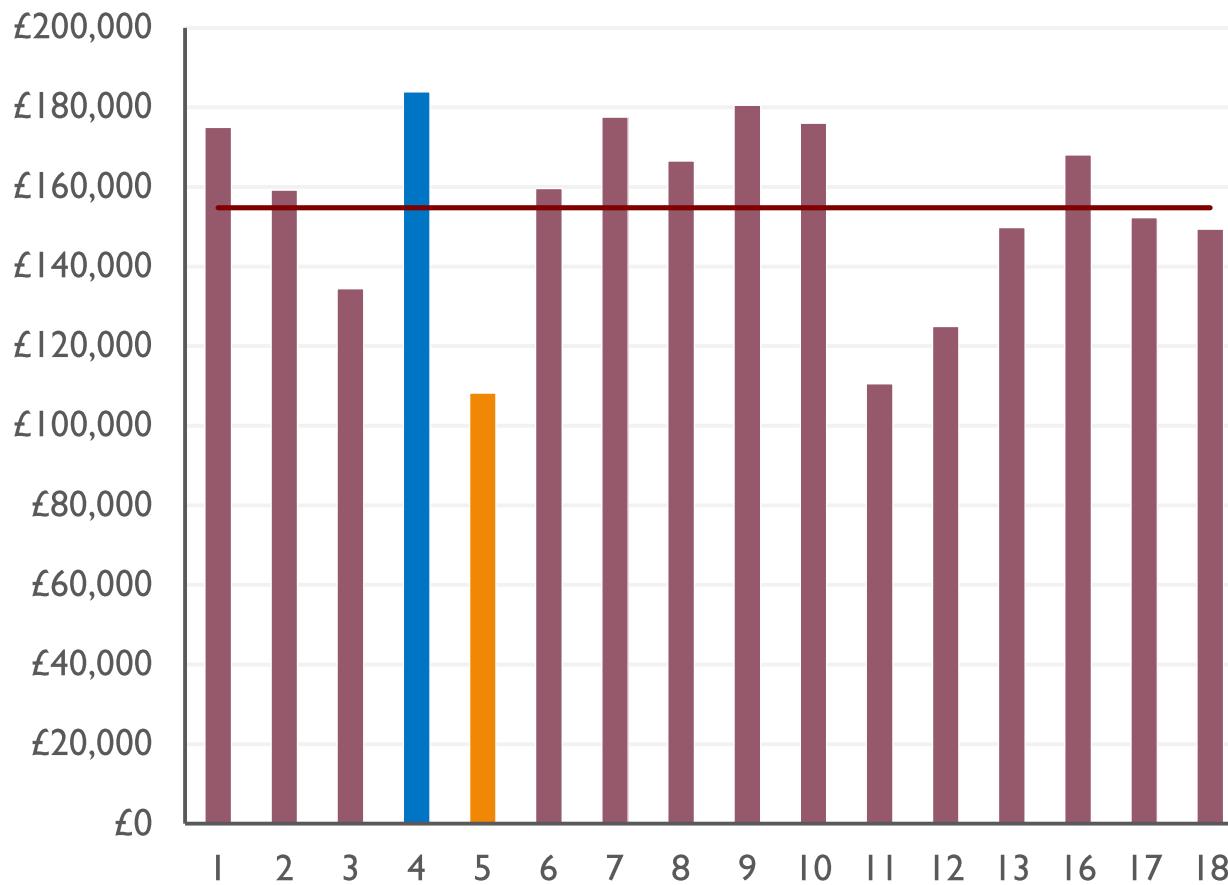


Average £42.14

Lowest £28.93

5,000 Life Scheme

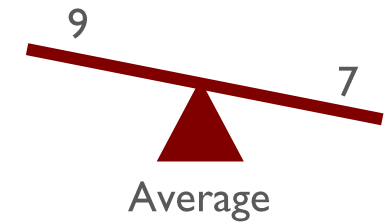
Year One



Highest Fee £183,920

Average Fee £154,735

Lowest Fee £108,210



Highest £36.78



Average £30.95

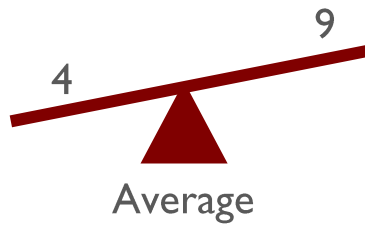
Lowest £21.64

10,000 Life Scheme

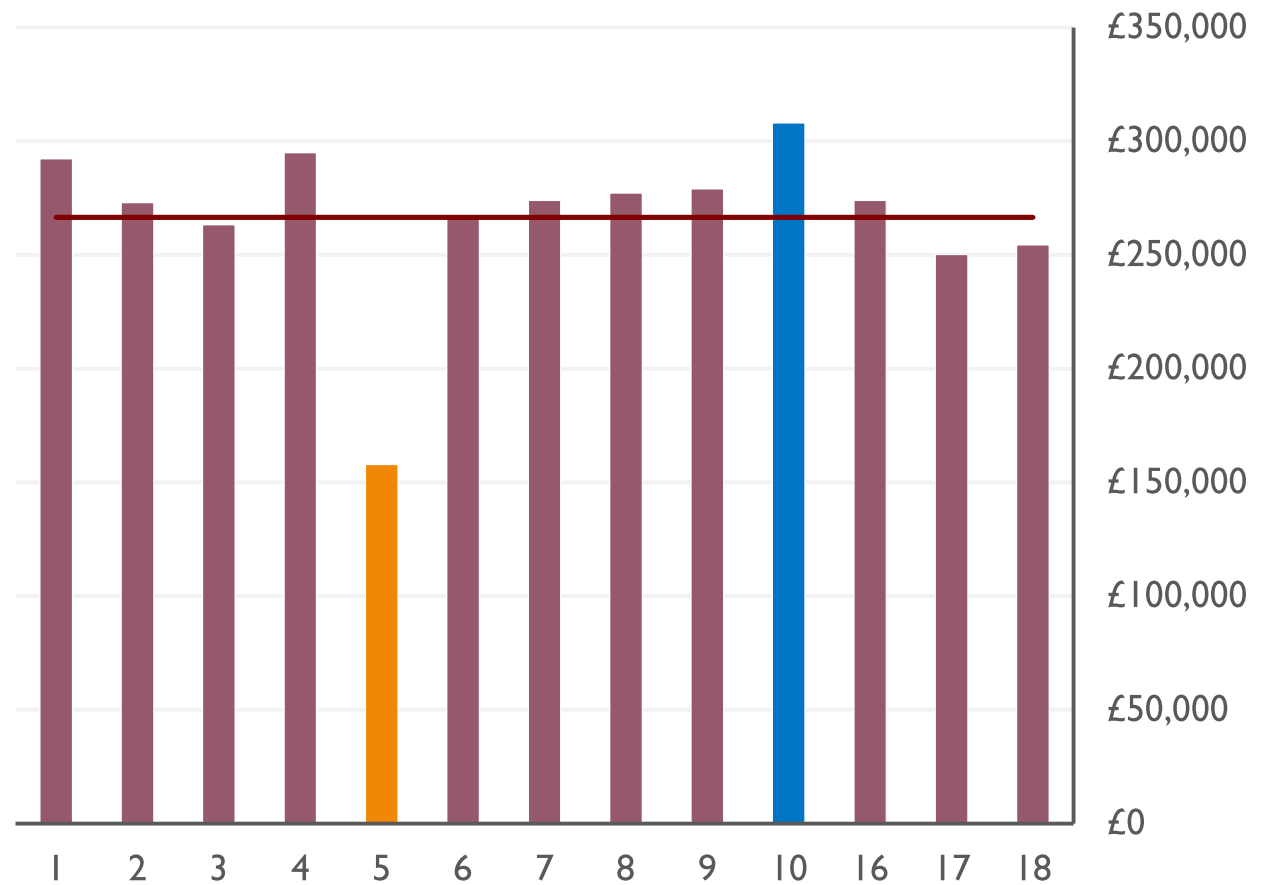
Highest Fee £308,000

Average Fee £266,516

Lowest Fee £157,900



Year One



Highest £30.80

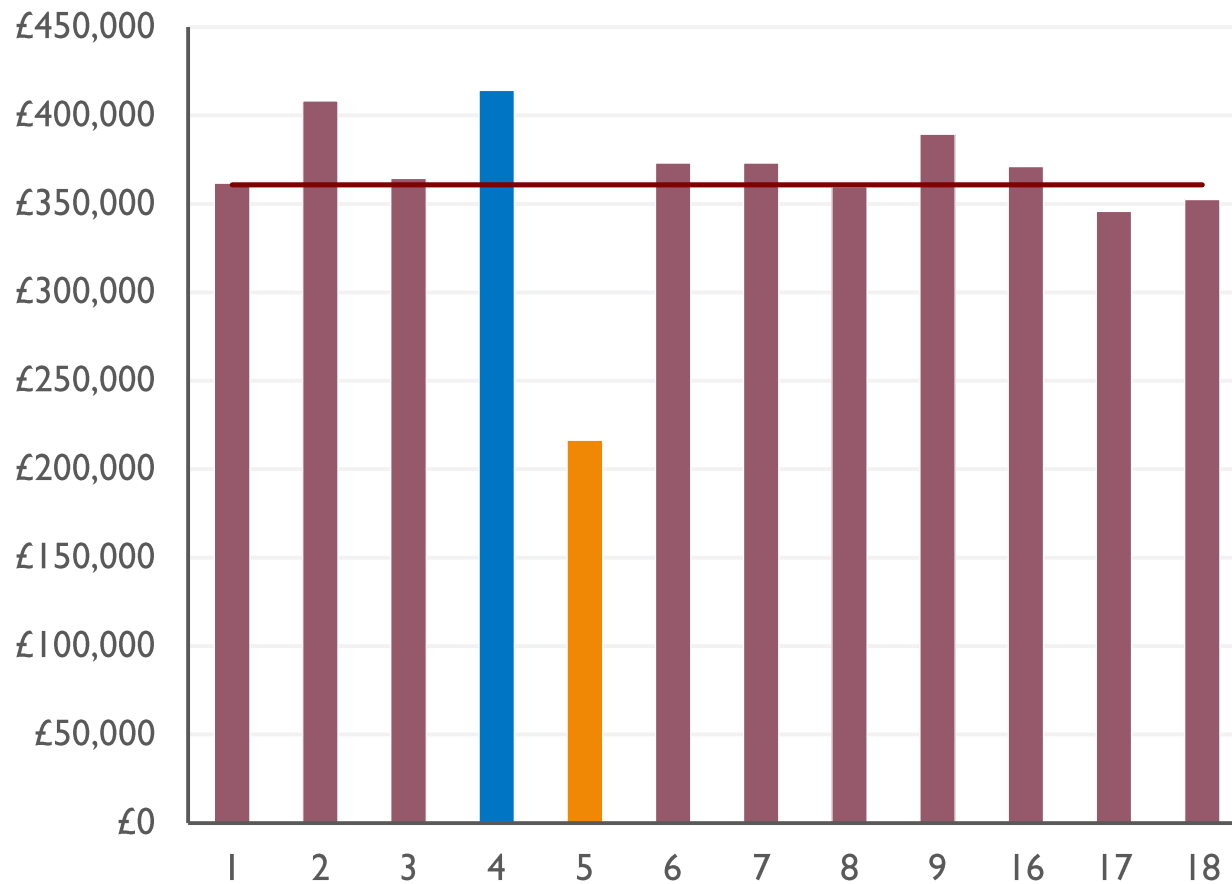


Average £26.65

Lowest £15.79

15,000 Life Scheme

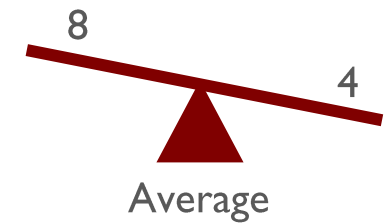
Year One



Highest Fee £414,240

Average Fee £360,765

Lowest Fee £216,300



Highest £27.62

Average £24.05

Lowest £14.42

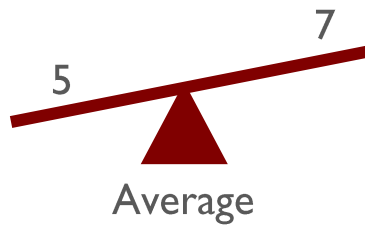


20,000 Life Scheme

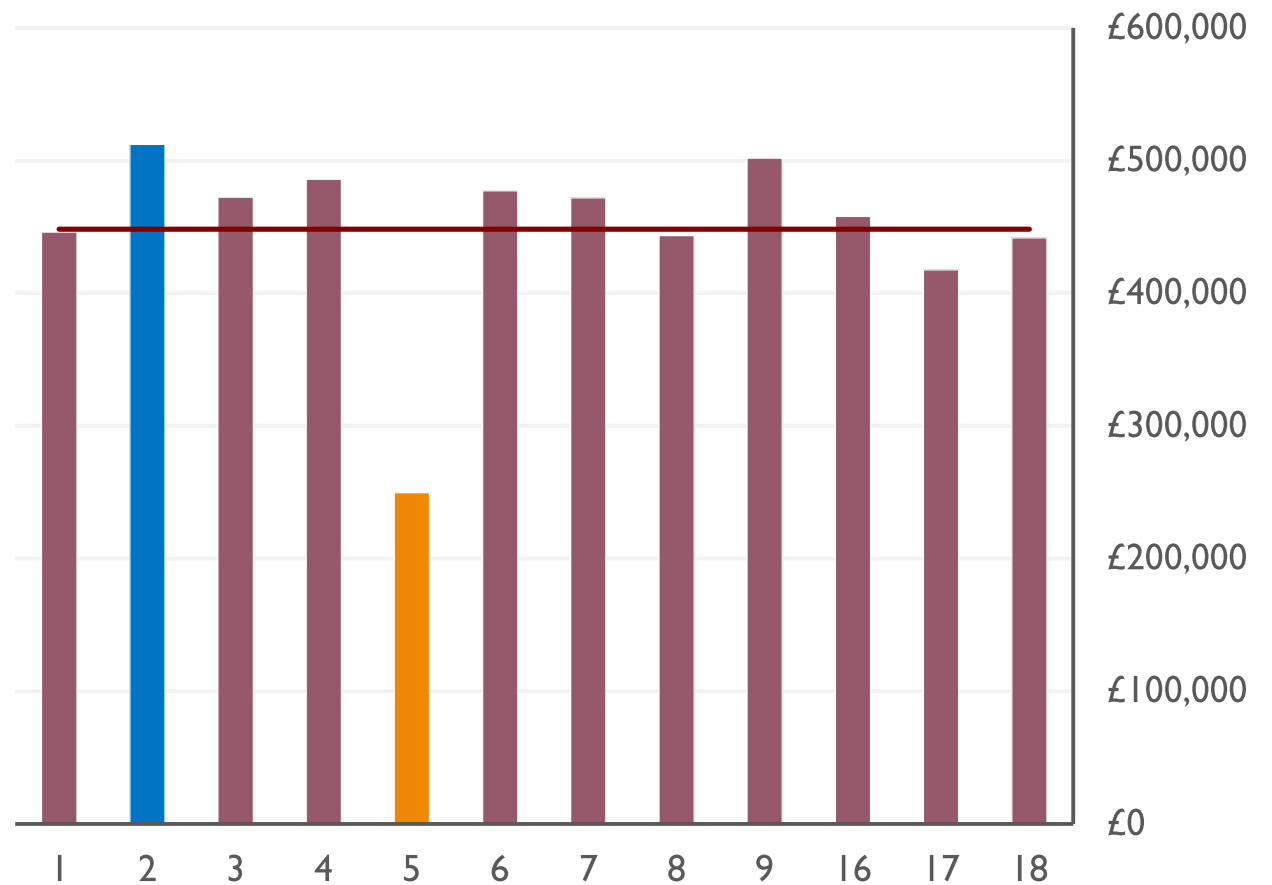
Highest Fee £512,100

Average Fee £448,160

Lowest Fee £249,760



Year One



Highest £25.6l



Average £22.4l

Lowest £12.49



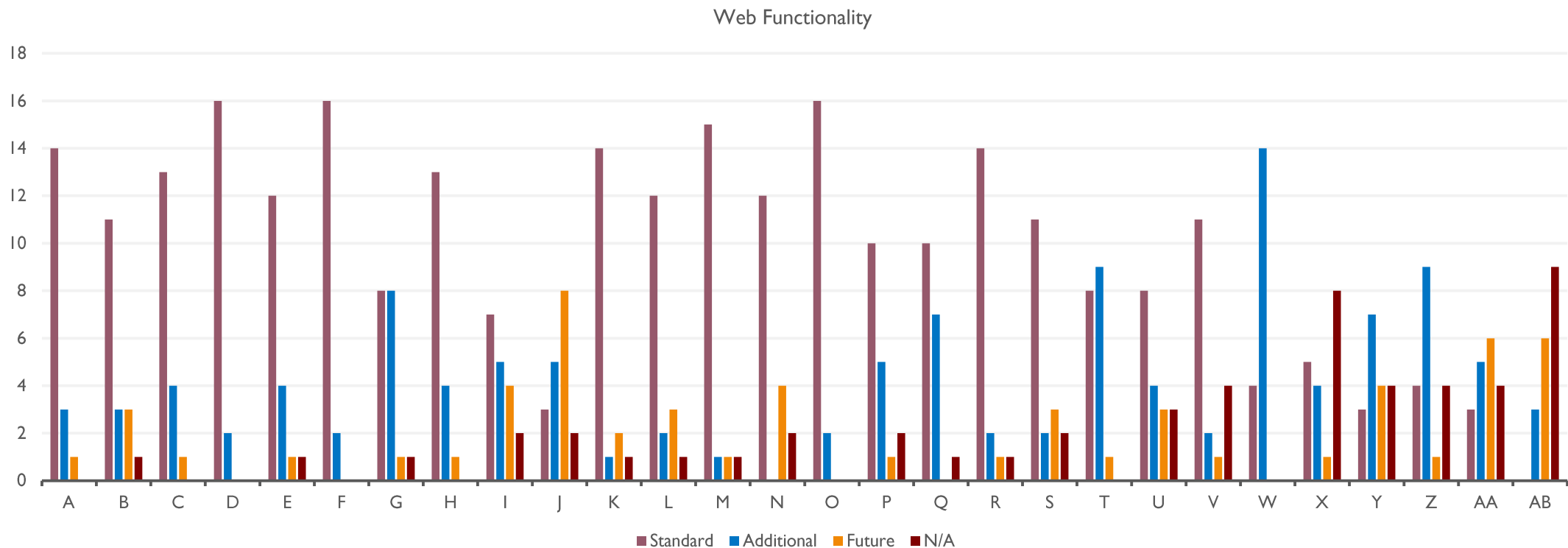
Online

Web Functionality

Firms are asked to state which online facilities they include in their fees as standard, what is available but for an additional fee, what is in development and what they are not currently considering offering to clients at any time.

In reviewing the responses, we found:

- Expression of Wish (Column D), Member Communication (Column F) and Document Portal (Column O) were provided as either **standard** or **additional**, with the majority of providers including it as **standard**
- Online Retirement (Column J) was seen as a **future** functionality by the majority, however five providers offered it for an **additional** fee and three included it as **standard**
- Access to Administration System (Column X) was seen by a number of providers as something they were **not currently considering offering to clients**, although five provide it as **standard** and seven charge an **additional** fee.



Web Services

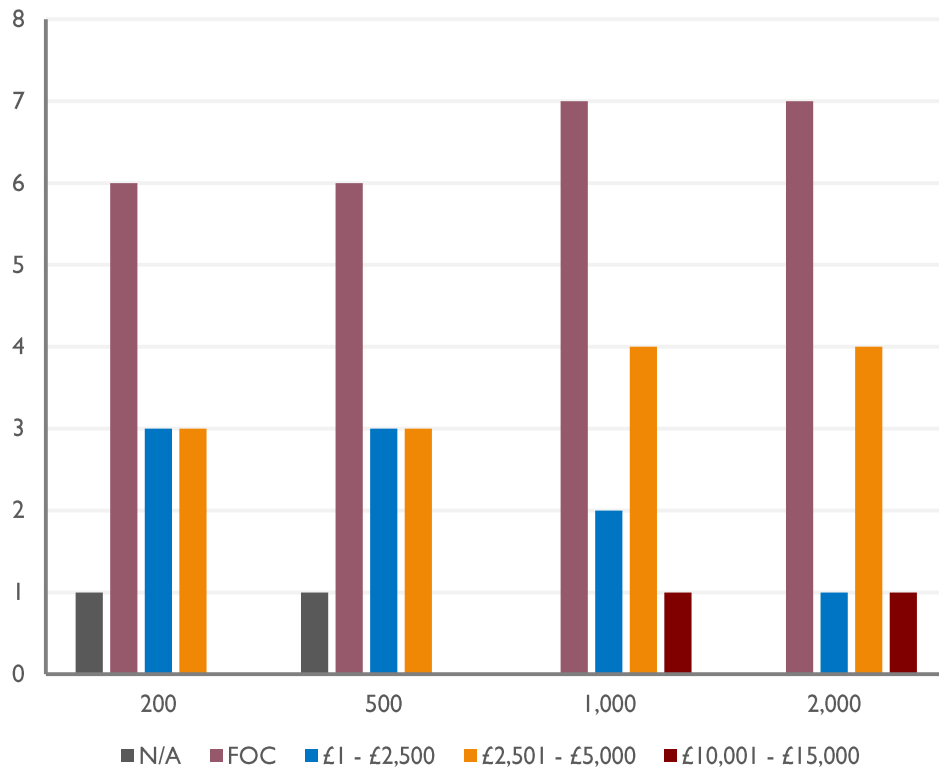
The table below shows the web services referenced in the graphs above.

Column	Service
A	Member Access
B	Member Real Time Access
C	Personal Data Management for Member
D	Expression of Wish Form
E	Benefit Modelling
F	Member Communication
G	Annuity Quotation
H	Switching
I	Combined Benefit Modelling
J	Online Retirement
K	Third Party Access
L	Online Data Exchange
M	Standard Suite of Reports
N	Cashflow Management
O	Document Portal/Library
P	Online Stewardship Reporting
Q	Branding
R	Help Facility
S	Third Party Real Time Access
T	Governance Tools
U	Online Contribution Processing
V	STP - Investment
W	Bespoke Reports
X	Access to Administration System
Y	Interfaces with Online Liability Modellers
Z	Financial Modelling Tools
AA	Interactive Online Assistance
AB	Modern Communication Technologies based on Gaming Principles

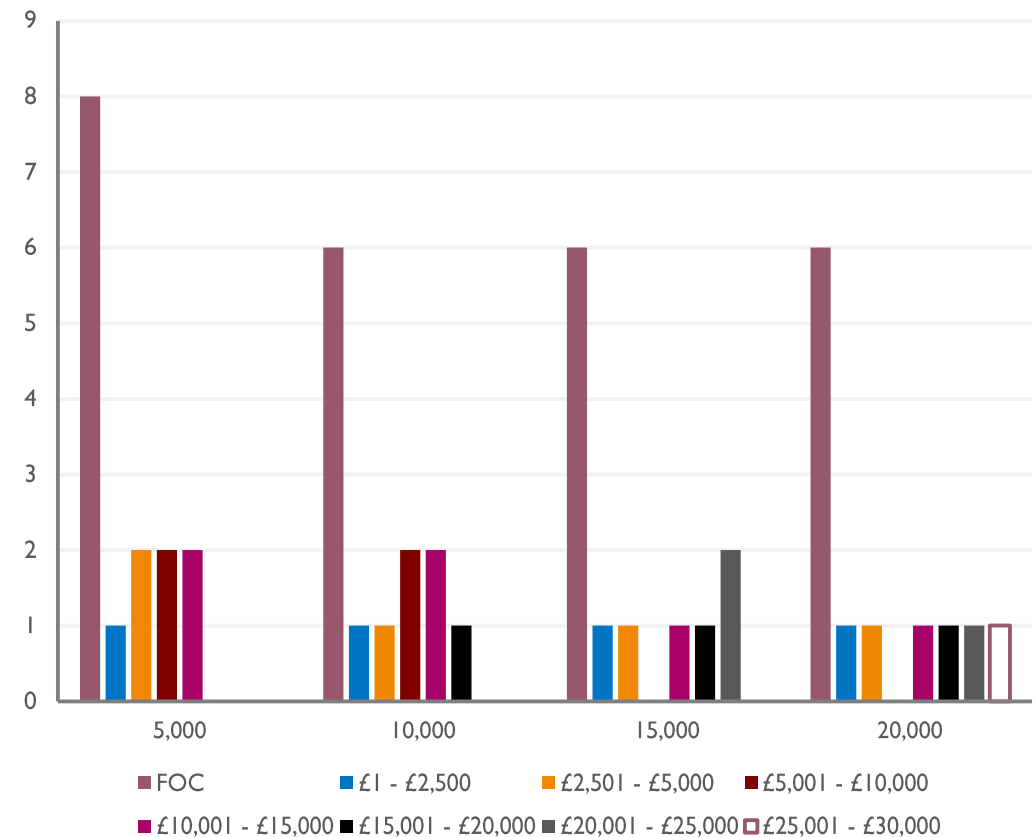
Web Costs

We asked providers how they charged for their standard web functionality. The responses were varied between being provided free of charge/within the core fee or for an explicit cost. The graphs below set out the number of firms within each category and the range of fees. It is obvious to see the majority of providers offer their standard web functionality Free of Charge (FOC). For the smaller schemes – 2,000 lives and below, the majority of providers which have an explicit fee, charge between £2,501 and £5,000. However, for the larger schemes – 5,000 lives and above, the explicit fees become more varied.

200 - 2,000 Life Schemes



5,000 - 20,000 Life Schemes





Trustee Engagement

Trustee Meetings

For a Trustee Board to be effective it should have trustees with a mixture of skill sets and experience who complement one another. But most importantly, it needs to meet on a regular basis. We strongly believe open communication and face to face meetings with scheme advisors is crucial in delivering a quality service to members.

The following shows the most commonly offered number of trustee meetings for the scenario schemes within their core fees.

200 – 1,000 life scheme	2,000 – 20,000 life scheme
2	4

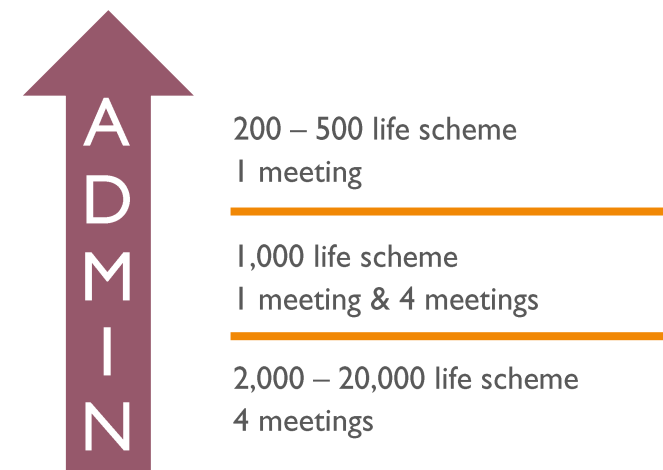


We are not surprised the smaller schemes have fewer meetings, with the majority of firms only offering two. Providers believe smaller schemes have less activity and fewer projects therefore require a care and maintenance approach. For a 2,000 life scheme and above the majority of participants offer four meetings per annum, this is in line with our expectations.

Administration Meetings

Whilst trustee meetings are important and cover all areas, administration is often at the bottom of the agenda. Firms tend to offer schemes additional meetings focusing purely on administration to cover the day to day administration aspects. Meetings tend to be with a trustee sub-committee or the pensions manager/team.

We asked how many pure administration meetings were offered within core fees. Below highlights the most common number of administration meetings for each scheme size.



This year we have seen more firms offering administration meetings, which is a positive improvement and likely a reflection of administration's growing prominence. For the smaller schemes only one administration meeting is offered, for a 1,000 life scheme almost a third offered either one or four meetings. For a 5,000 life scheme and above, two firms offered 12 administration meetings in addition to their trustee meetings.



Core vs Non-Core

Core

In our role as a third party evaluator, we have seen administration service provision change to keep in line with the industry and reflect what schemes and/or employers expect for the money they pay. All schemes need basic tasks performing to serve their members, some of these include:

- Implementation and maintenance of membership records
- Calculating and advising benefits for leavers, at retirement and deaths
- Advance notification of forthcoming retirements
- TPR reporting requirements
- Production of draft Annual Report & Accounts
- Periodic pensioner payment

We asked all firms to provide their fees based on the tasks we consider to be essential or core to the administration service. A list of these 46 key tasks can be found in the Appendix. The average percentage of tasks offered is 97%, 12 firms offer more and six offer less. Of the 18 firms we found:



Gauging Value for Money

Trustees are required to demonstrate their scheme is receiving value for money. Whilst the tables below could never show the whole picture, they can act as a good starting point for trustee due diligence. The tables show the percentage of core services included by the firms, with the highest and lowest fee.

		Fees £	% of Tasks
200	Highest	52,200	100
	Lowest	10,900	96
500	Highest	57,000	100
	Lowest	20,300	96
1,000	Highest	86,000	100
	Lowest	37,962	89
2,000	Highest	120,000	100
	Lowest	57,854	100

		Fees £	% of Tasks
5,000	Highest	183,920	100
	Lowest	108,210	89
10,000	Highest	308,000	93
	Lowest	157,900	89
15,000	Highest	414,240	100
	Lowest	216,300	89
20,000	Highest	512,100	100
	Lowest	249,760	89

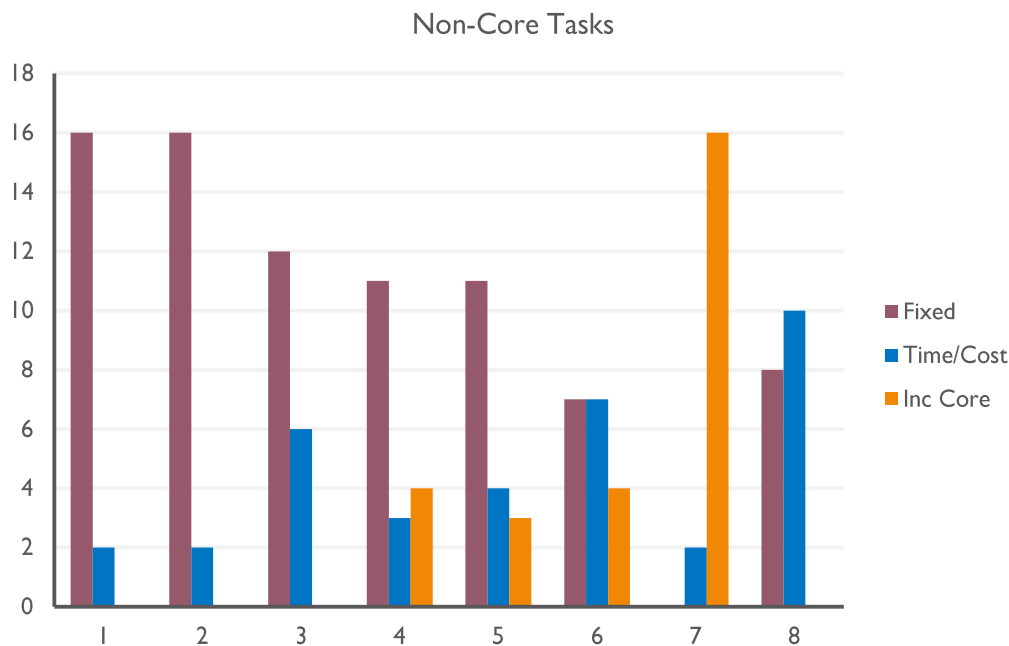
It is important to consider what tasks are not included and whether they are important to the trustees. For example, bespoke administration stewardship reports were the most commonly excluded task within core fees. Clients need to weigh up the costs versus the benefits of services when comparing service providers.

Please note the providers may offer non-core services within their standard fees and this should be considered.

Non-Core

All schemes are individual and many require additional tasks over and above the administrator's core offering. We asked firms how they charged for eight of the most popular non-core tasks. Some include these tasks in their core fees. Others charged extra – either fixed fee or time cost.

The number of firms for each charging basis for the non-core tasks is:



Task	Description
1	Scheme Secretariat (includes attendance at meetings, minute taking/distribution, action dissemination/follow up)
2	Draft Trustee Meeting agendas, distribute Trustee papers in accordance with statutory timescales
3	Perform ad hoc projects as requested by the Trustees, any projects should be agreed and budgeted prior
4	Attendance at extra Trustee meetings when required at no extra cost
5	Enhanced reporting
6	Provision of additional member data to other third parties
7	Liaise with Trustees on scheme administration matters as and when required
8	Merger/sale/acquisition work

The majority of non-core tasks are covered by an additional fixed fee or provided on a time cost basis. Task 7 is once again included within the core fees by c90% of providers. This area has remained static for a number of years but we still recommend both providers and clients review their schedule of services regularly to ensure developments in expectations, scheme design and legislation are all covered.



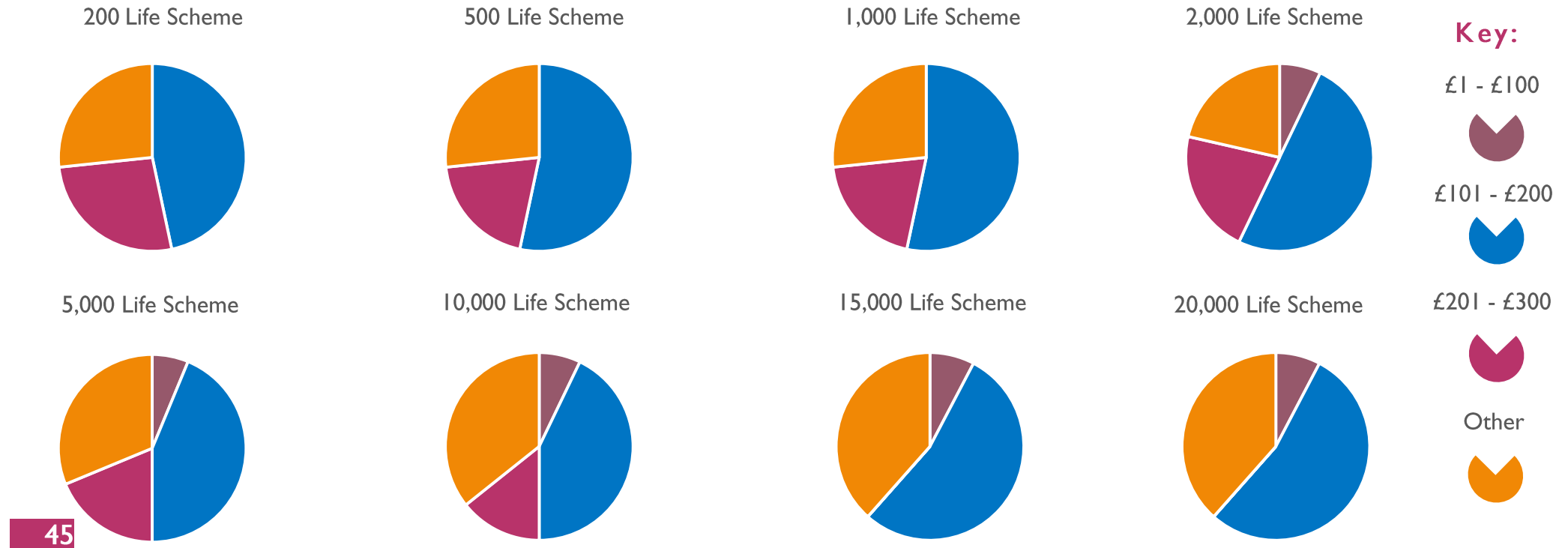
Pricing Mechanisms

Member Activity Assumptions

The majority of providers continue to price using the safety mechanism of an activity trigger. The actual mechanism by which this is calculated differs from administrator to administrator, it may be based on overall membership or just certain sections but its aim is to provide comfort to them if they underestimate the amount of work a scheme may create.

With the introduction of DB to DC transfers in 2015, our experience shows schemes are hitting their triggers and seeing increases in additional fees. Only four of the providers in our survey state they offer a fully inclusive service and do not operate any activity triggers. The other firms do, but what this trigger is can vary from 7% to 15%. Half of providers have a trigger of 10%. Automation of transfer calculations may become more common as a result of the increase in these triggers being activated due to increased transfer quotation and payment volumes. The business case may finally be moving in automation's favour.

The charge per transaction for work undertaken once activity triggers have been hit varies and some providers have a sliding scale depending on the scheme size. Others did not give an explicit fee and stated it would be agreed with the client. Below we compare how the firms charge across the scheme sizes, the most common charge is £150 per transaction across all scheme sizes.





The Industry's Perspective

The Administrator's Voice

We asked participants a series of questions to explore what is happening in the administration market. The questions covered various topics from project work, pensions dashboard through to data. As well as any areas causing concerns for administrators – and more importantly their clients.

1. Thinking of your organisation, what is the average number of client administration projects carried out each year?

The responses varied from one or two per client each year, 100-200 projects per annum and 10 – 20% of clients. These projects range from:



3. As a provider are you interested in providing services either as a super consolidator or as a back office?

Despite the lack of interest shown by clients (see Q2.) 60% of providers would consider being either of the above, whilst three providers stated they were either a super consolidator and/or back office already. However, two providers state it was not of interest nor is it included in their strategic plans.

2. Have your clients shown any interest in scheme consolidation and to what degree?

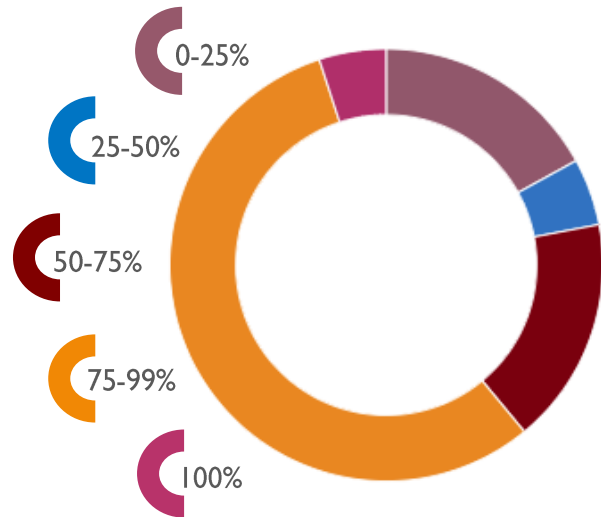
- A. Consolidating schemes under one trust and harmonising benefits going forward
- B. Bringing schemes under single trust, but retaining differentiation of benefit
- C. Just moving to common service providers for all related schemes
- D. Investigating what a Super Consolidator could offer
- E. No interest
- F. Other

The most common response from firms was employers are tending to move their schemes to common service providers for all related schemes. Or bringing schemes under single trust but retaining differentiation of benefits. The idea of a super consolidator does not appear to be of interest.

4. The pensions dashboard continues on its development path, how aware are your clients of the dashboard?

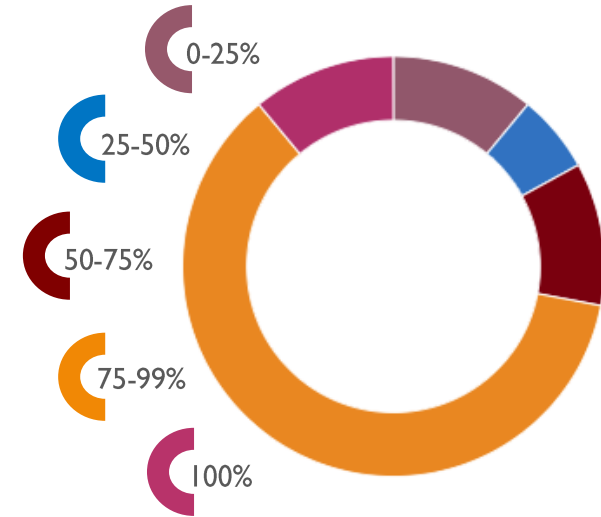
Virtually all providers felt their clients were aware of the pensions dashboard. Mainly this was due to them providing technical updates to clients. There was a consensus that generally clients were not interested, nor saw it as a high priority currently.

5. What percentage of clients are working through GMP rectification?



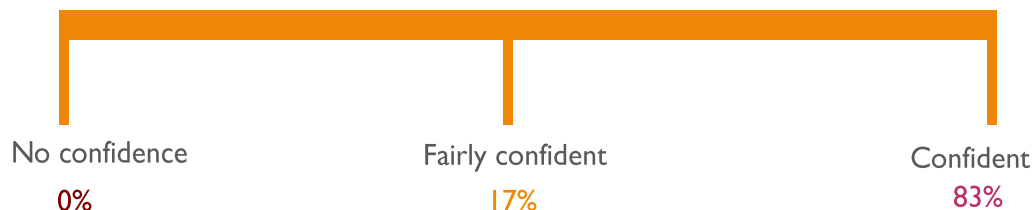
The majority of providers have **75-99%** of clients working through GMP rectification and one provider has **100%** working their way through, this is positive to see.

6. What percentage of clients are ready to report on Scheme Specific data on their Scheme Returns?



Again, the majority of providers have **75-99%** of clients ready to report on Scheme Specific data on their Scheme Returns, two providers have **100%** of clients working their way through. We hope those providers at the lower end of the scale will be encouraging their clients to make this a priority. Particularly for those entering a valuation year and so could fall under TPR's microscope.

7. The rise in DB to DC transfers is well documented as is the rise in scammers. How confident are you, you have the processes and procedures in place to prevent scammers?



It is great to see the majority of administrators in our survey are **confident** they have processes and procedures in place to prevent scammers. We hope the **fairly confident** providers look to improve their standards to protect their clients' membership. On page 51, we asked the same question to pension managers and trustees. Do they have a similar impression?

8. A lot is happening in the next 12 – 18 months, what do you think will have the biggest impact on your clients?



DC freedoms & potential standardisation of DB to DC transfers
17% of respondents chose this

The Pensions Regulator

TPR's increased powers
11% of respondents chose this



Brexit & the affect on the economy
11% of respondents chose this



Data quality & cyber security
56% of respondents chose this



Other
5% chose this and stated 'IORP II requirement for all DB schemes to issue annual benefit statements to deferred members'

Data quality and cyber security are the top concerns for administrators over the next 12 – 18 months, followed by DC freedoms & potential standardisation of DB to DC transfers. Both Brexit & the affect on the economy and TPR's increased powers did not appear to be that big a worry. On page 51, we investigate whether pension managers and trustees' concerns are the same as the administrators.

9. Any other thoughts . . . ?

We give providers the opportunity to voice their thoughts about the future, what trends they are seeing and any concerns they may have. Resource and fees remain at the top of the list with technology and Regulation & Legislation joining them.

Resource

Administration capacity remains a major concern with a number of providers going through re-organisation and restructuring. It has led to disruption within the market place. Capacity is also stretched following DC freedom and choice, not only in benefit administration but the softer aspects of member engagement and managing member expectations.

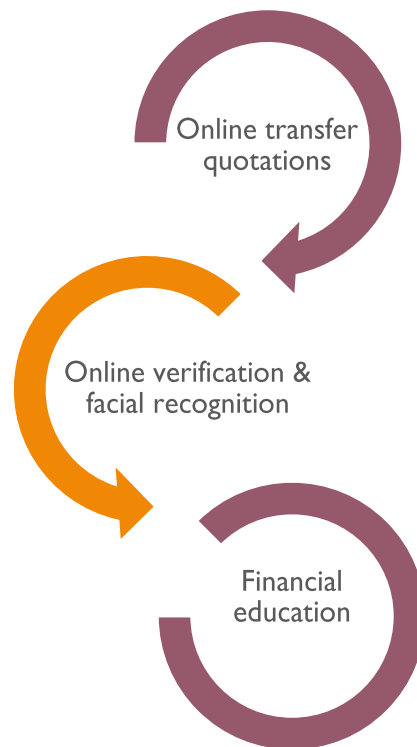
One provider commented:



Capacity in the administration market is a worry. Some TPAs have pulled out of admin-only, others look to be struggling and are closing offices and schemes are moving around...schemes could be looking for a new administrator and administrators are looking for new jobs

Technology

GDPR has focused attention on the security of technology but so has the need for keeping costs down whilst delivering an improved service and member experience. Providers are developing their technology in the following areas:



Costs

This year cost transparency has been highlighted alongside the pressure on keeping costs down. It may be a hangover from the focus on transparency of investment costs or the need to demonstrate value for money for DC schemes. However, providers stated the focus on fees is leading them to review operations, processes and ways of working to improve efficiencies.

One provider though felt economies of scale could be achieved for larger schemes, whilst smaller schemes would need to move to a 'one stop shop' model:



One approach (to saving money) has been a one stop shop where a scheme hopes to make savings where one provider offers a bundled solution

Regulation & Legislation

The pension landscape continues to evolve and providers must keep pace. However administrators feel the introduction of new legislation causes greater cost and upheaval which, when added to shorten timescales, is difficult.

Short timeframes make life challenging and changes without a suitable consultation period puts the industry in the back foot from the start



The Other Side of the Fence...

We asked pension managers and trustees for their views. Questions 1 and 2 were the same as the firms' questions and the final question was open to thoughts and opinions.

1. A lot is happening over the next 12-18 months, what do you think will have the biggest impact on your scheme(s)?

DB → DC

DC freedoms & potential standardisation of DB to DC transfers

31% of respondents chose this

The Pensions Regulator

TPR's increased powers

15% of respondents chose this



Other

15% chose this and stated 'Continuation of fluctuations in the global economy and UK interest rates and their impact on liability and asset values'



Brexit & the affect on the economy

15% of respondents chose this



Data quality & cyber security

23% of respondents chose this

'Quantitative easing (QE) moving to quantitative tapering (QT), the QE unwind and realisation of a decade of political expediency of cushioning excessive debt'

Interestingly the pension managers and trustees administrators do not agree on the same impact as the administrators, here DC freedoms came out top with data second.

2. The rise in DB to DC transfers is well documented, as is the rise in scammers. How confident are you, you (and/or your administrator) have the processes and procedures in place to prevent scammers?



Again, it is great to see the pension managers and trustees are fairly confident or confident they and/or their administrators have processes and procedures in place to prevent scammers. We would reiterate to those who are only fairly confident to look to improve standards to protect their members.

3. In your experience, how are administration providers coping with increased pressures caused by changing legislation and economic pressures?

Comments in this section fell under two categories – Service Delivery and Resources. Whilst some of the comments were negative, they were not aimed directly at the administrators but at the industry in general and acknowledged administrators were usually at the front of the firing line. Some comments were actually verging on positive!

Surprisingly well – especially after the burdens of GDPR, equalisation, documentation hiccups, GMP reconciliations and data quality generally. Big variations however and most problems rarely appreciated before a change in administrator!



So far so good, no real problems



I think the three administrators that I have dealt with of late are coping well enough but for each one there are other problems

Widespread experience – they will all get there eventually



Service Delivery

Over the last 18 months, we have seen a lot of change in the administration market. With firms closing the door on new business and others reopening for business. There have been mergers as well as individual firms restructuring their operating models – but not always implementing them successfully. According to those surveyed, changes to legislation and pricing pressures are the main culprits affecting service delivery.

Standards fall, provision of information is delayed and the quality of information is reduced. The additional burdens caused by the constantly changing legislation also does nothing to improve standards. I think it must be very difficult to make a profit and provide an excellent service, whilst offering this at a reasonable cost to the schemes, due to the complications caused by changing legislation and the expectations of members who want everything instantly



Economic pressures are prompting changes in operating models to drive efficiency and these are not always implemented smoothly leading to service delivery problems. Legislative change is adding to the pressure on staff, systems and processes creating further tension. These twin forces are delaying improvements in customer service that consumers are increasingly demanding from their pension provider. The gaping chasm between the level of customer service delivered by occupational pension schemes and that which is rightly expected based on the wider consumer experience continues to grow

Administration Providers seem to be playing constant catch up – the changes in legislation, flexibility at retirement, increase in CETV quote requests due to DB to DC transfers, increase in public awareness of pensions have all led to greater demand on service from the administrators

They are struggling- both in terms of volume of enquiries and having appropriate IT and infrastructure to support the demands of members

I think the admin world is struggling under what is increasingly an unfair burden. Pricing pressure over the years has thinned out margins (and resources) and then data issues are now throwing up compensation actions

Not very well, these pressures add to a number of other problems they are having

Resources

Providers are facing resourcing issues. In particular DB expertise is becoming increasingly difficult to find. DC freedoms has placed pressure on workloads and administrators were not fully prepared for this.

I think it is difficult for providers. Schemes and employers want a world class administration service at a very low cost, they are happy to pay large fees to the actuaries and lawyers, but when it comes to the administration, they want it for next to nothing. This causes problems for the providers in relation to the calibre of administrators they are able to employ and the numbers of members and schemes for which each is responsible

Our administrators were not well prepared to deal with the increased workload from pension freedoms (both our DB and DC administrators suffered a degradation in meeting service standards). A year ago it was poor but I can see that they have increased resources and improved staff training so it is now close to standard

Workloads are increasing and the calculations get evermore complex. Yet still lay clients think admin is easy and should be push button. At least it looks like the bosses of admin businesses are accepting that DB admin will never be push button and that experienced admin staff, who understand the complex web of lunacy that is a DB benefit calculation, are still critical to the process. But are there enough of them to serve the needs of the industry? I'm not sure there are. And do the regulatory and governmental powers realise how darned difficult this all is?

I think many of the administration providers are struggling with resourcing the higher demands

Resources are stretched across the whole industry (not just pensions admin) and it is becoming more difficult to find experienced DB administrators

In a nutshell, resourcing is causing issues and in particular access to experienced DB administrators. Service delivery models are not being successfully implemented and legislation is complicated, making it difficult to automate due to the inevitable complexities of most older DB schemes.

Fate of the Master Trust

Until recently Master Trusts have pretty much been left to their own devices. Post Auto-Enrolment this has all changed. TPR realised Master Trusts were likely to be the default pensions savings vehicle for a significant cohort of people – who, if things stayed as they were, would be exposed to risk of provider failure. Solvency II's risk-based capital regime means insurers must assess their risks and hold sufficient capital against them. Ultimately, if all else fails, the Financial Services Compensation Scheme provides some protection for failed regulated financial services firms. Members of traditional trust based schemes rely on the strength of the employer covenant and failing that – are covered by the Pension Protection Fund.

But what of Master Trusts? A collection of (generally) small employers, with no 'skin in the game', the sponsoring employer sitting behind the Master Trust could have little or no capital. No experience was necessary to set one up and there were growing numbers being registered. Something had to be done. TPR switched its interest to this area and increased scrutiny and pressure has now been placed on providers. We believe it is for the greater good. Master Trusts should have better governance. Those hundreds/thousand/millions of members who fall under this structure will have their benefits safeguarded and protected by people who know a thing or two about pensions, with the right processes and procedures in place for running a successful scheme and the money to protect it if things go wrong.

We asked Master Trust providers their thoughts on authorisation, consolidation and where the Master Trust market will be in a year's time:

1.

Has your MT been approached with a view to acting as a consolidator?



75% said yes



25% said no

2.

When do you expect to have collected the evidence for authorisation?



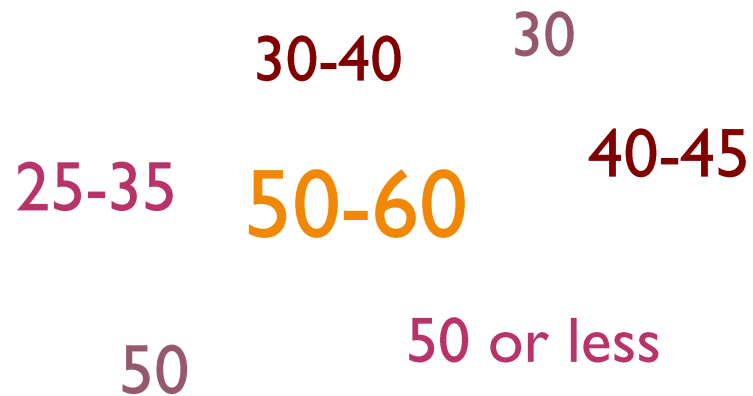
By 30 Nov

By 31 Jan

By 31 March

All Master Trust providers said they would have collected the evidence for authorisation by 30 November 2018 and a third said they would expect to do it earlier.

3. How many MT's do you think will be operating by Summer 2019?



Half of Master Trust providers we asked thought there would only be around 50 or so Master Trusts in operation by Summer 2019. The remainder think there will be even less. One provider thought there would be around 15 – 20 Master Trusts eventually and another provider thought there would be as few as – around six. The Master Trust Authorisation Regime begins in October and affects all schemes. It is designed to protect around 10,000,000 people who were members of Master Trusts as at January 2018.

TPR's announcement earlier in July stated Master Trusts with less than 2,000 members must hold at least £150,000 in capital. This doubling of the 'basic' calculation first proposed will mean smaller Master Trusts will need to demonstrate real financial stability and commitment to the market.

With only three months to go before Authorisation begins, will we see the number of expected Master Trusts fall even further by Summer 2019?

This is an interesting area, and one we will be watching closely as it develops.



Summary

Final Thoughts. . .

So what have we learnt from our 9th Administration Survey?

Administration providers are becoming more inclusive, both in terms of core tasks and trustee engagement.

Interestingly DC freedoms & potential standardisation of DB to DC transfers came out as the most prominent issue over the next 12-18 months for pension managers and trustees. But for the administrators, data quality & cyber security topping the list. In our opinion, both are important areas needing to be well managed and focused on. After all good data underpins everything an administrator needs to do. Maybe the focus on cyber security by administrators is driven by knowledge of the harm a breach could do?

By this time next year, we may have lost more than 30 of the Master Trusts in operation last January. But with TPR's strengthening of capital requirements, will more decide it just isn't worth the risk?

Administration is beginning to climb the ranks of importance and is taking its place amongst schemes' key service partners. For many, it's no longer viewed as being subordinate. Investment and funding ensures there are the means to pay the benefits, whereas the administrator calculates and delivers the benefit. With TPR's focus on the need for good administration, many Trustees are turning their attention to their administration partners for demonstrable evidence of this.

It will be interesting to see what happens over the next 12 months and whether the administration world as we know it will remain the same. We're hoping it continues to grow in importance and is given the airtime it deserves. Ensuring members receive the service they expect from a financial product/service, which for many will be the cornerstone of their financial future.

As always our message remains the same, it is not about fees in isolation, it is what you get for what you pay and whether this is value for money for you, your scheme and your members. We hope the survey provides a good starting point for your due diligence process.

Hayley Mudge
Research Analyst



Appendix

Services Provided

The chart below sets out the tasks we consider should be included in the core service types.

Implement and maintain up to date membership records	Administration Guide
Maintenance and security of members' information in accordance with Data Protection Act requirements plus safe storage of scheme data (paper and electronic)	Periodic pensioner existence check (e.g. minimum of triennial)
Calculate and advise benefits for DB leavers, retirements and deaths (deferred/pensioner)	Insured risk administration
Calculate and advise benefits for DC at retirement and leavers	Provision of data for actuarial valuation at no cost
Benefit and option quotes (leaver/retirement/death)	Attendance when required for regular trustee meetings
Complying with requirements for DB to DC transfers	Educate the Trustees on pension administration matters, give general advice on scheme administration activities
Regular check/update (if necessary) of benefit calculation routines	Issue periodic communications to Trustees on industry administration practice and developments
Dealing with transfers (in/out)	Dissemination of current views e.g. 'house' view of a particular piece of legislation
Advance notification of forthcoming retirements	Act as Scheme Practitioner
Calculation of pension increases and notification to pensioners	Complete HMRC returns and DWP requirements
Bespoke Administration Stewardship Report	Management/operation of a Trustee bank account cash and benefit payments
Input to and production of Annual Benefit Statements (SMPI)	Maintain investment transaction records
Annual membership schedule (renewal)	Transaction summary (quarterly minimum)
The Pensions Regulator reporting requirements	Tax returns and payments to HMRC, acting as Administrator
Liaison with Investment Manager/Consultants/Scheme Actuary/Risk Benefit Provider/AVC Providers when required	Production of draft Annual Report & Accounts
Monthly DC contribution cycle (Money Purchase and AVCs)	Arrange/facilitate annual audit
Administration of AVC arrangements including acting as lead Administrator to AVC providers	Pay/claim tax and deal with HMRC, calculations of tax, LTA charge, unauthorised payments, refund of contributions and commutation payments
Coordination and distribution of annual AVC statements	Cashflow management reconciliation of payments/receipts (monthly minimum)/obtain and check bank statements
Production and safe keeping of members' 'Expression of Wish' forms	Periodic pensioner payment
Member enquiries	Annual payslip production and periodic payslip if pension changes by more than £10
Direct branded telephone/email for members	Annual P60
Monitor payment of contributions schedule	Provide LTA information to pensioners
Provision of regular Management Information Statistics (MIS) to Trustees of scheme activity	Pensioner correspondence and liaison with administration

KGC Services



Benchmarking & Market Reviews

Our in-depth market knowledge and experience means KGC is well placed to guide you through a review process. We ensure you can demonstrate good governance and due diligence through our detailed Benchmarking & Market Reviews of service providers: administration, actuarial, investment consulting, fiduciary management, secretarial services and independent trustees.



Process & Relationship Management

TPR's 21st Century Trustee needs to provide the good governance necessary for a well-run scheme. The risk of overlaps, disconnects and gaps all hinder its operation. As part of a KGC Scheme MOT, we review scheme operations across service providers, re-designing processes, recommending improvements and redefining roles, ensuring value for money across all service providers.



Fiduciary Management Governance

Fiduciary Management is coming to the forefront of investment solutions for today's pension schemes. The KGC FM Framework© assesses whether the service delivered is in line with your expectations and good practice, ensuring due diligence is evidenced. As regulatory oversight on Fiduciary Managers increases, we can track their responses to these pressures.



Trustee Effectiveness

A balanced Trustee Board benefits from having a good mix of skills and experience. We support trustees in evaluating skill as a whole, identifying how individual attributes fit within the Board dynamics. We detect gaps and highlight expertise to recommend improvements to support good governance. This enables the whole Board to have greater focus on scheme strategy.



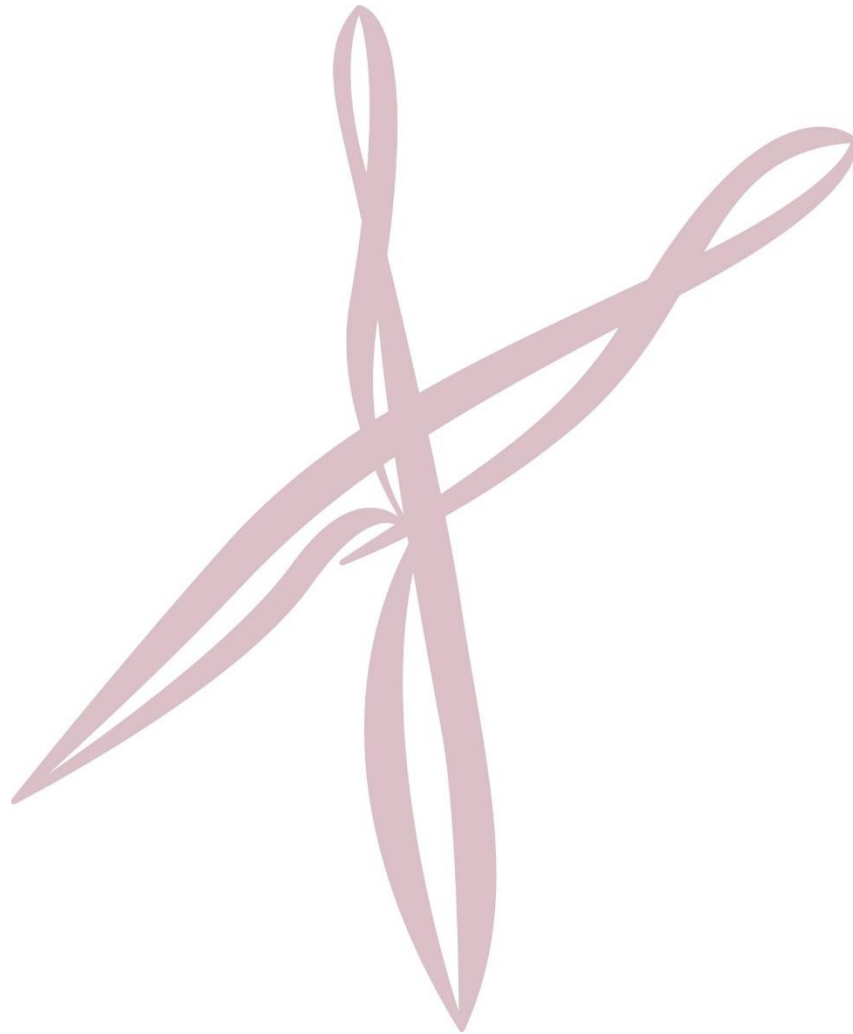
DC Consulting

In the DC world it is important trustees and employers understand and meet their regulatory responsibilities. An expert with a long-standing DC heritage we provide practical, operational or strategic support helping demonstrate a high degree of due diligence and regulatory compliance. We work with schemes and Master Trusts to either simply remain compliant, or prepare for assurance audit. We also provide real life practical experience to IGCs.



Management Consulting

As an independent management consultancy, we can provide an external objective market view to aid market understanding and help strategic development. This is complementary to our governance services. Our pool of market research enables us to combine insights, create value and communicate practical and suitable solutions, as well as improving business performance.



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