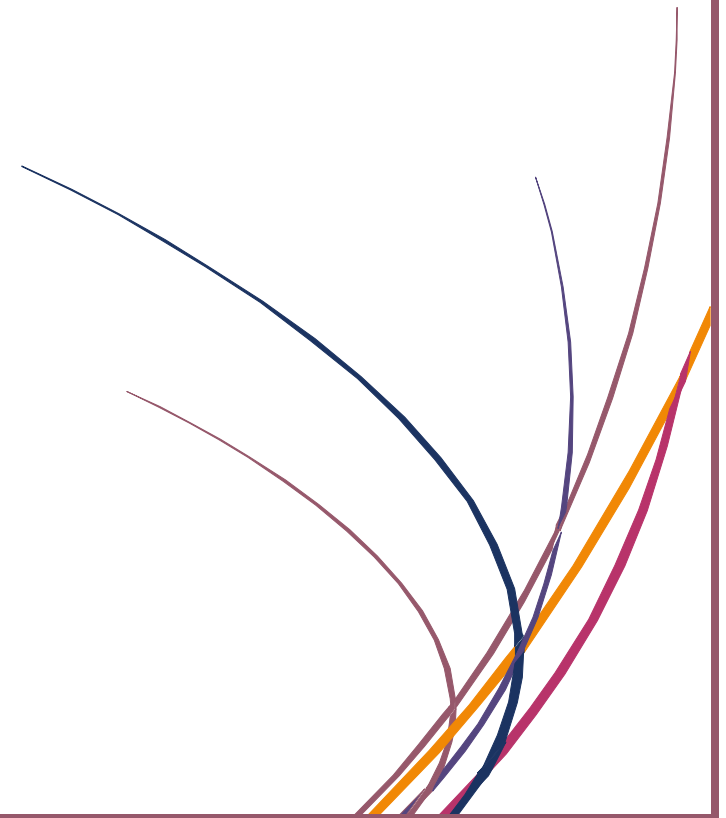




KGC associates

KGC's 10th Administration Survey

July 2019



Foreword

The past 12 months have been very busy for the pensions industry. There's been further consolidation in the market, 11 Master Trusts authorised and a further 28 applying for authorisation¹, a promised but delayed Pensions Bill and of course, Brexit – or no Brexit!

Administration is now firmly on trustees' agendas. Expectations of administration standards have never been higher and we see this continuing. Trustees are no longer willing to accept a less than average service. We've seen a shift in the mind-set of administration being too difficult to move. If the service is unacceptable, trustees will go to market.

Last year we opened our industry section of the survey to pension managers and trustees. Their thoughts and views were

insightful, and it'll be interesting to see how their views compare to the service providers this year.

The administration market is certainly an interesting place to be right now, there's so much going on – GMP equalisation, market consolidation and an emphasis on good technology.

There's reinvigorated interest from The Pensions Regulator (TPR) on administration focusing on quality of service, data and value for money. The recent flurry of merger activity hasn't gone unnoticed.

We'd like to thank all those who participated in our 10th Administration Survey, we hope you find it as interesting as we do.



Hayley Mudge, Report Author

Introduction	1
Administration Fee	5
Pensioner Costs	8
Treasury & Accounts	11
Implementation	14
Year One	17
Online	22
Trustee Engagement	26
Core vs Non-Core	28
Pricing Mechanisms	32
The Industry's Perspective	34
Summary	52
Appendix	54

¹ As at 09 July 2019



Introduction

Introduction

In March 2019 17 administrators participated in our 10th Administration Survey. We asked firms to provide information on fees, services, engagement and the industry. We used a set of services we consider core to administering a scheme (see Appendix A) on which firms based their response.

When looking at fees we consider four main components:



Administration



Pensioner Costs



Treasury & Accounts



Implementation

For each of these components we highlight the lowest, highest and average fees across each scheme size.

Our attention is then focused on the Year One cost and how these compare on a Unit Cost per Member basis. Again, the Year One section for each scheme size highlights the lowest, highest and average fees.

Next, we look at the core services included and compare these to the associated costs – raising the important question of value for money. We explore different types of non-core tasks and how these are billed.

Technology plays a big part in service provision to members, particularly those who have DC membership. We analyse web functionality and the associated costs for each scheme size.

We look at how often administrators are engaging with trustees, activity triggers and the pricing mechanisms used when these activity limits are exceeded.

Our final section gives a wider industry view from the perspective of administrators, trustees and pension managers and provides an insight into what schemes are focusing on.

Scenario Assumptions

Firms cost for eight different scheme sizes; no account is made for asset size.

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 £5
- 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 (virtual or physical) DB & DC for transparency purposes
- Preparation of Report & Accounts to audit

Data

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

Membership

The membership of each scheme is broken down by:

Key:



DB Deferred



DB Pensioner

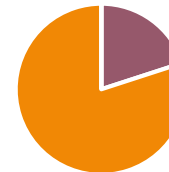


DC Active

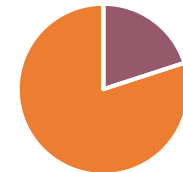


DC Deferred

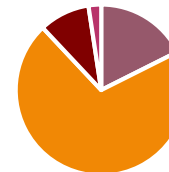
200



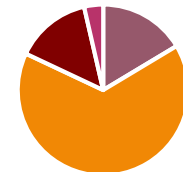
500



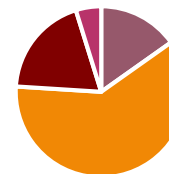
1,000



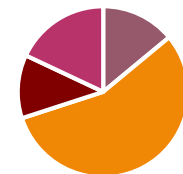
2,000



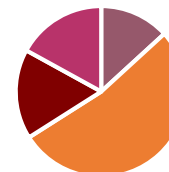
5,000



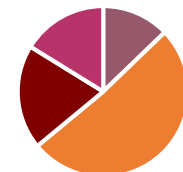
10,000



15,000



20,000



Fee Analysis

Fees are segmented into five different categories for each scheme size and the average fee highlighted. Firms are asked to complete responses only where they deliver services for a scheme size. The fees are broken down into the following five sections:

- 1 Administration Fee – includes:
 - Scheme cost
 - Total cost per capita for DB deferred & pensioners, DC active & deferred
- 2 Pensioner Costs – includes:
 - Total cost per capita for DB pensioner
 - Pensioner payroll
- 3 Treasury & Accounts
- 4 Implementation Fee
- 5 Year One Cost – includes:
 - 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.

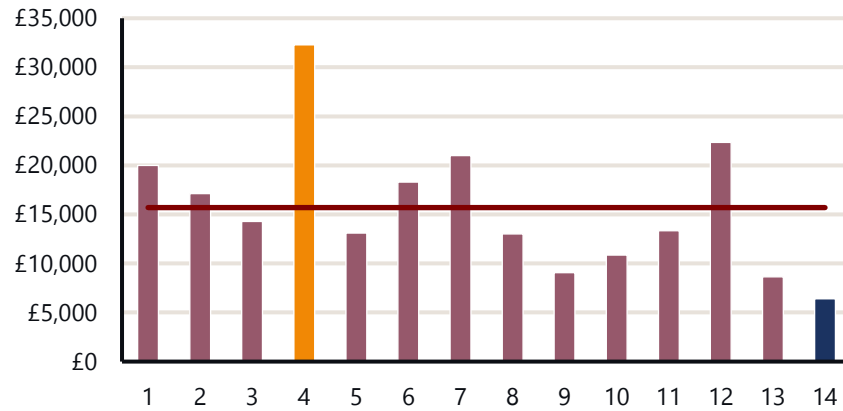


It's quite interesting to see the range in UCM's across the scheme sizes. Smaller schemes of 200 and 500 lives will pay on average £132.52 and £79.15 per member compared to the UCM of a 15,000 and 20,000 life scheme where the average is £29.53 and £27.05 per member respectively.



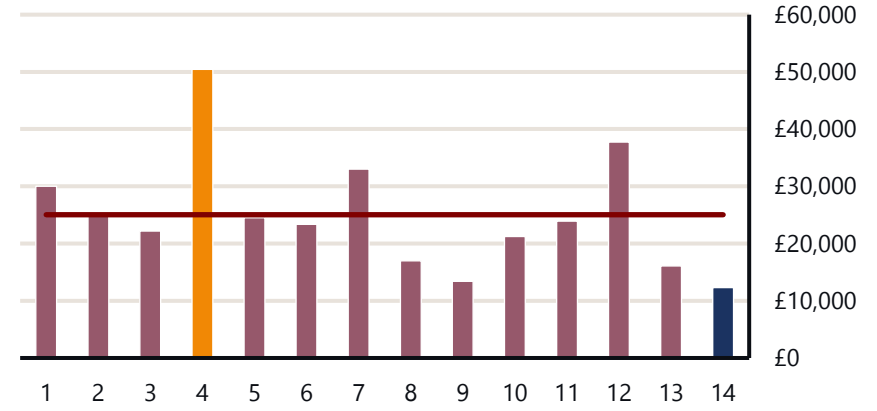
Administration Fee

200 life scheme



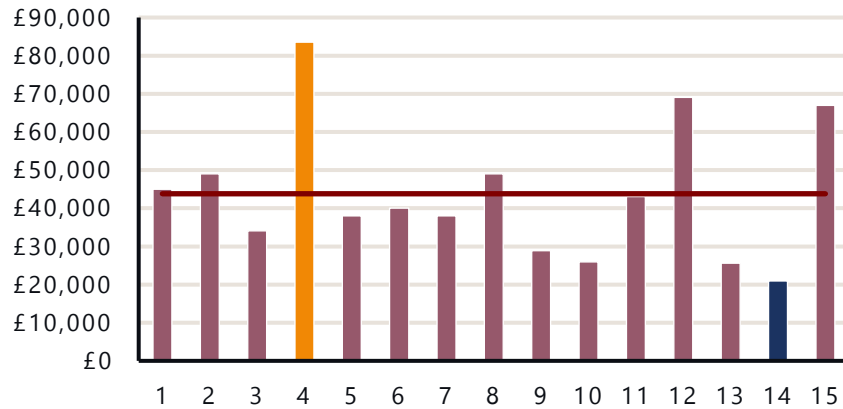
Highest Fee £32,289 | Average Fee £15,697 | Lowest Fee £6,400

500 life scheme



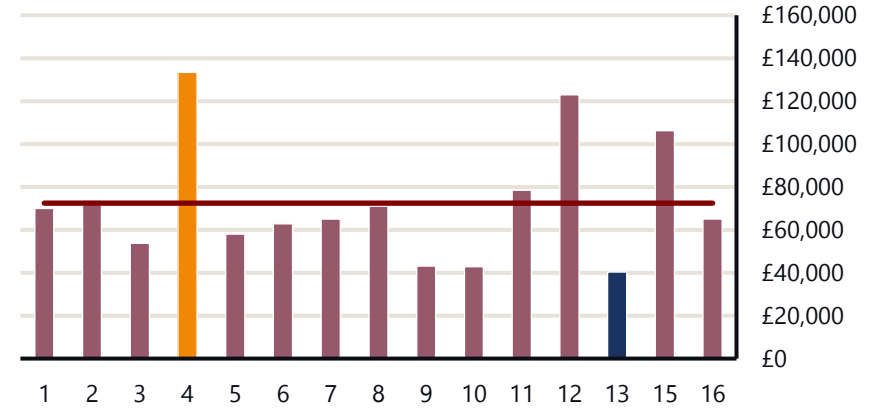
Highest Fee £50,439 | Average Fee £25,033 | Lowest Fee £12,300

1,000 life scheme



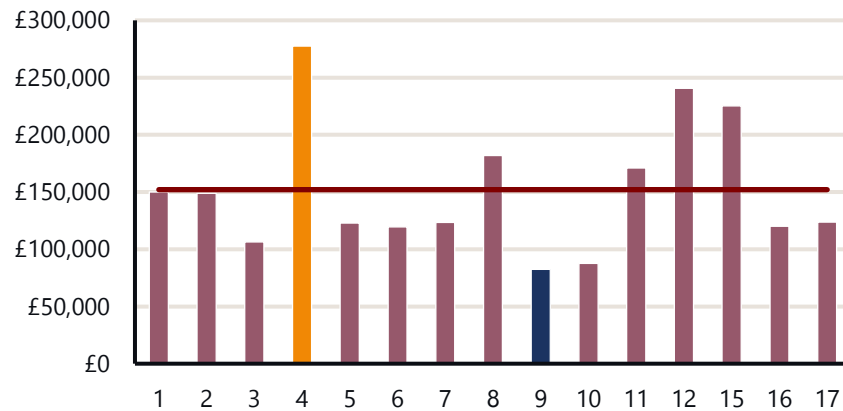
Highest Fee £83,532 | Average Fee £43,804 | Lowest Fee £20,937

2,000 life scheme



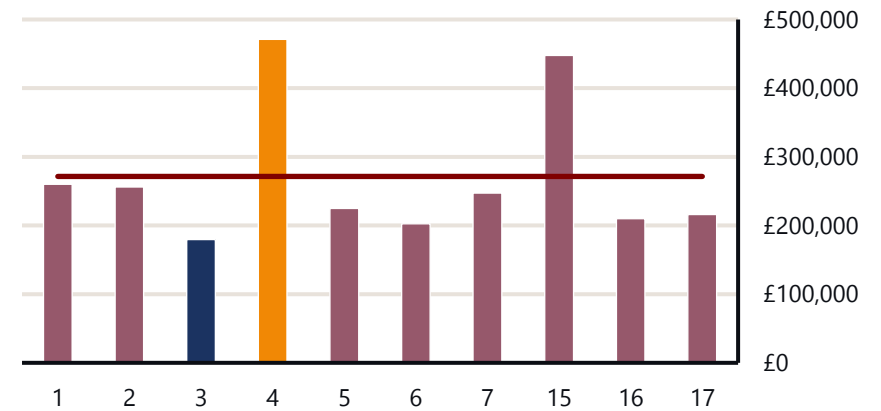
Highest Fee £133,416 | Average Fee £72,438 | Lowest Fee £40,331

5,000 life scheme



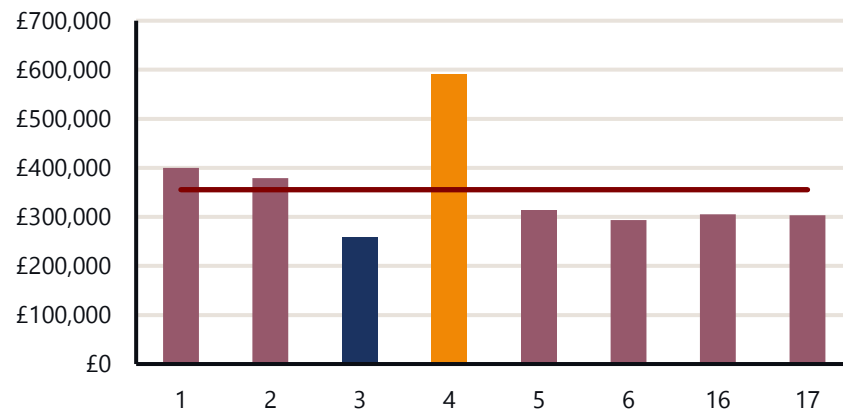
Highest Fee £277,524 | Average Fee £152,072 | Lowest Fee £82,440

10,000 life scheme



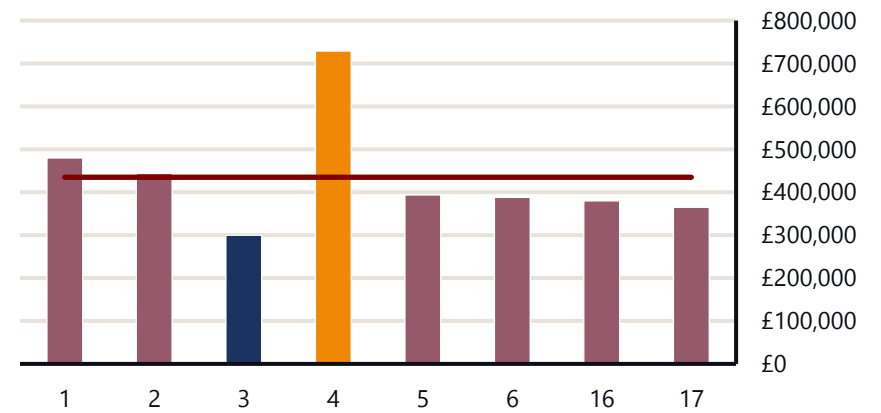
Highest Fee £471,084 | Average Fee £271,456 | Lowest Fee £179,500

15,000 life scheme



Highest Fee £590,380 | Average Fee £355,427 | Lowest Fee £258,200

20,000 life scheme

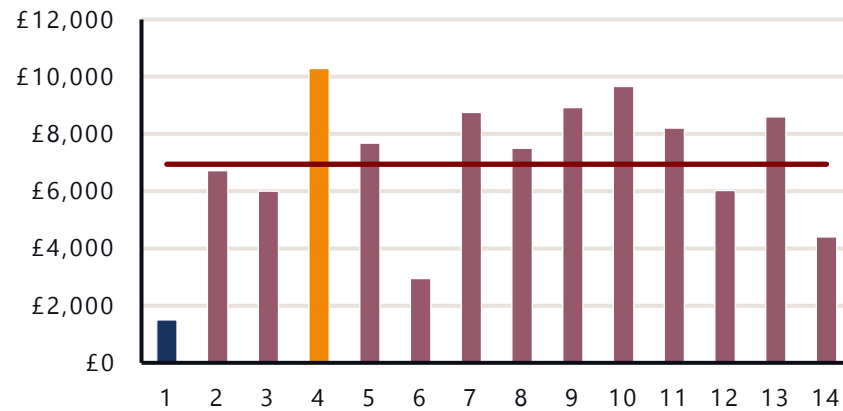


Highest Fee £729,004 | Average Fee £434,926 | Lowest Fee £299,800



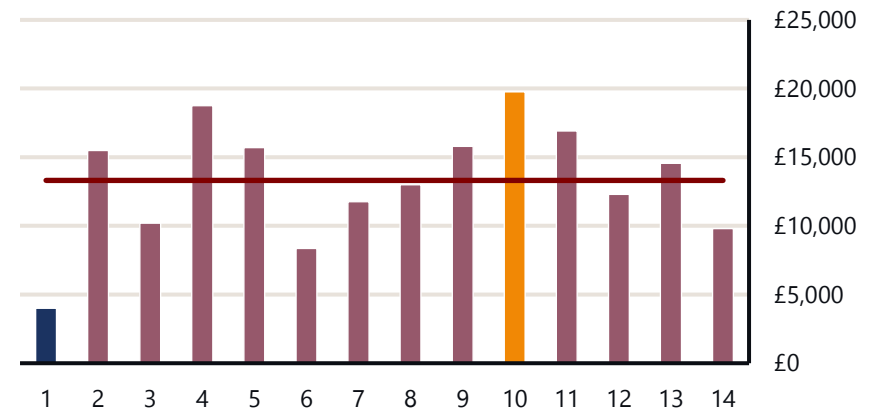
Pensioner Costs

200 life scheme



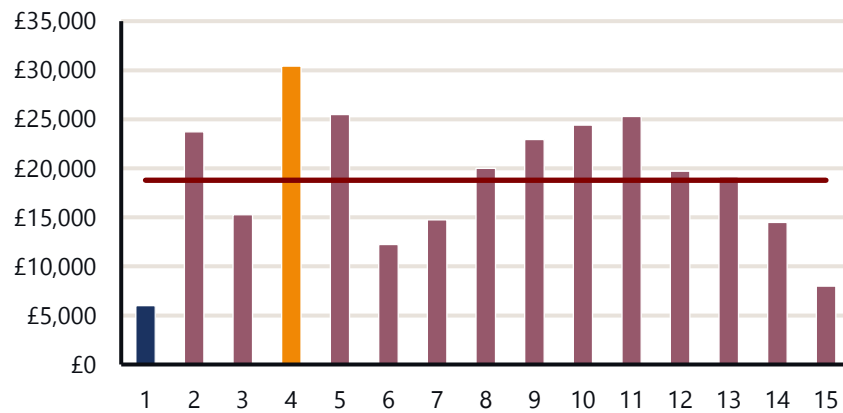
Highest Fee £10,287 | Average Fee £6,941 | Lowest Fee £1,500

500 life scheme



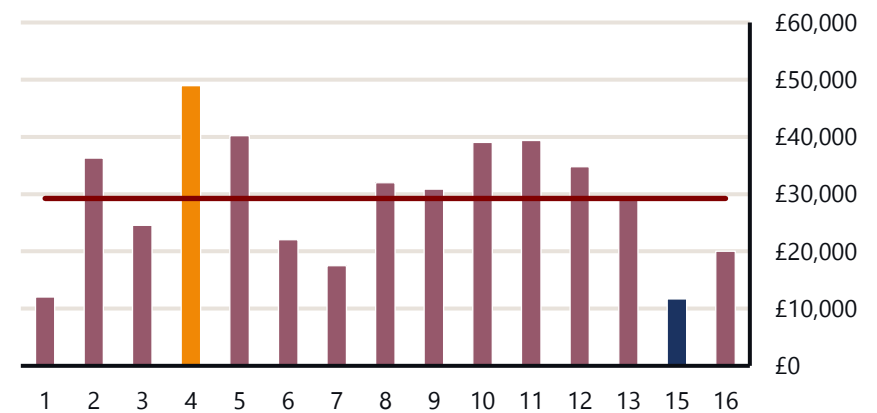
Highest Fee £19,760 | Average Fee £13,312 | Lowest Fee £4,000

1,000 life scheme



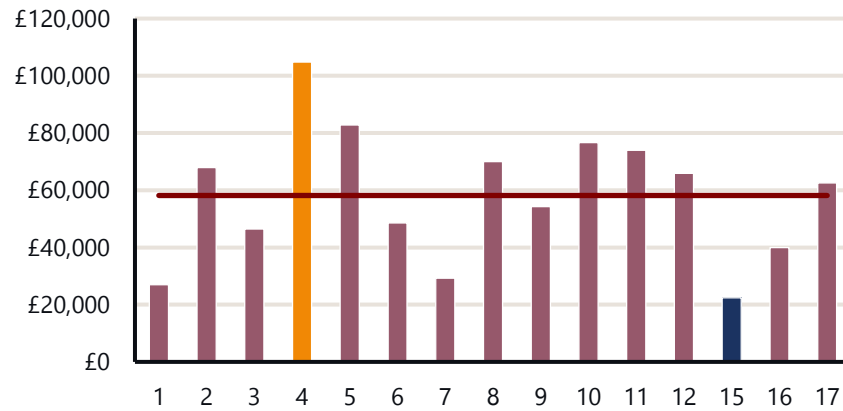
Highest Fee £30,416 | Average Fee £18,784 | Lowest Fee £6,000

2,000 life scheme



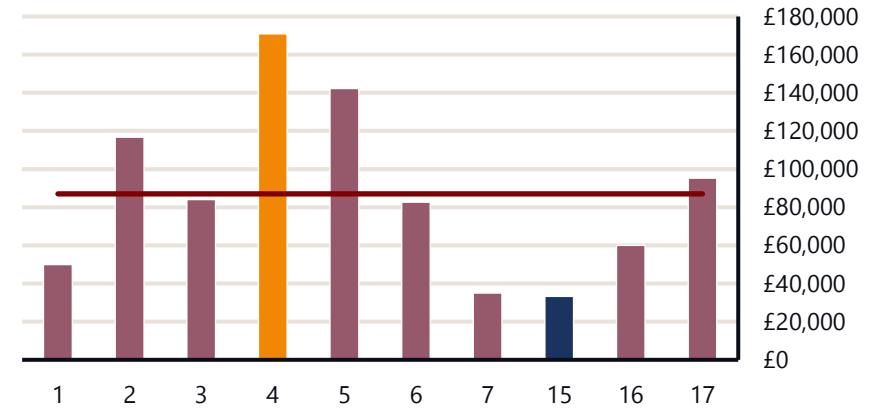
Highest Fee £48,964 | Average Fee £29,248 | Lowest Fee £11,693

5,000 life scheme



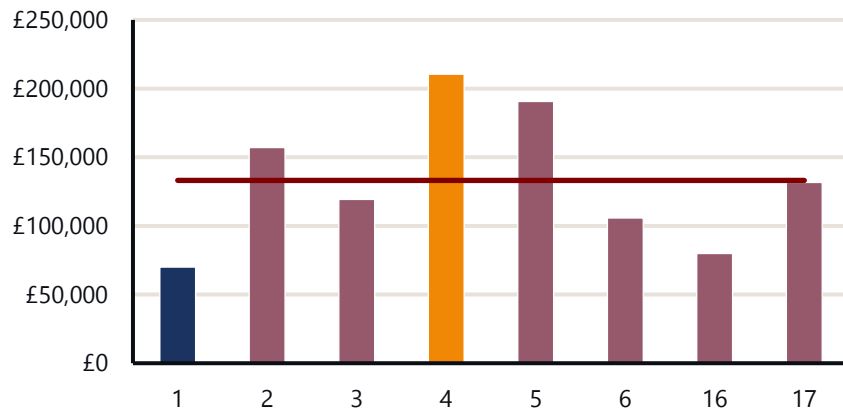
Highest Fee £104,799 | Average Fee £58,163 | Lowest Fee £22,398

10,000 life scheme



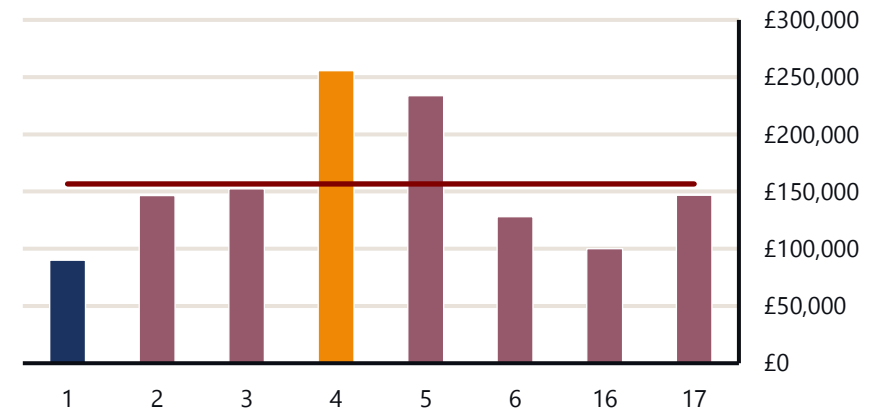
Highest Fee £170,896 | Average Fee £87,007 | Lowest Fee £33,256

15,000 life scheme



Highest Fee £210,435 | Average Fee £133,107 | Lowest Fee £70,000

20,000 life scheme

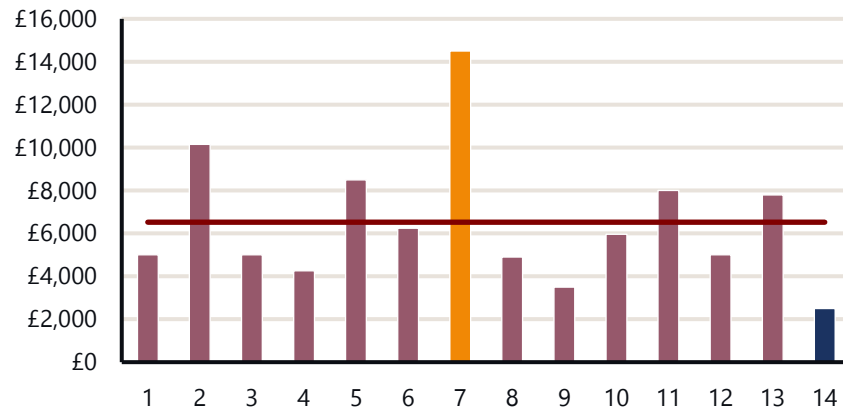


Highest Fee £255,623 | Average Fee £156,654 | Lowest Fee £90,000



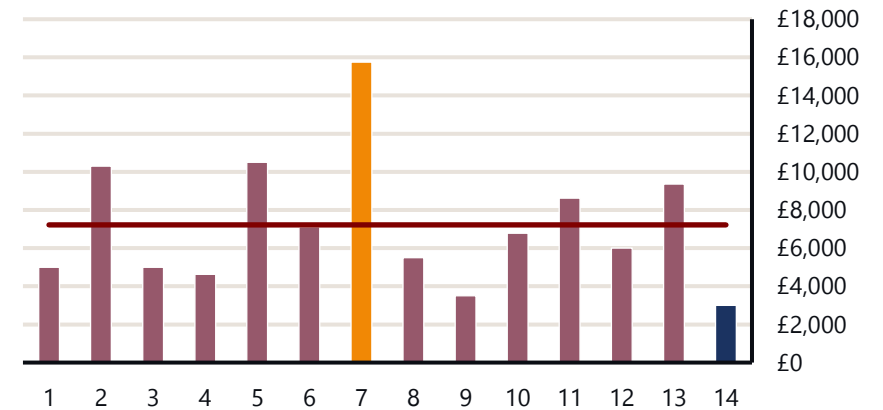
Treasury & Accounts

200 life scheme



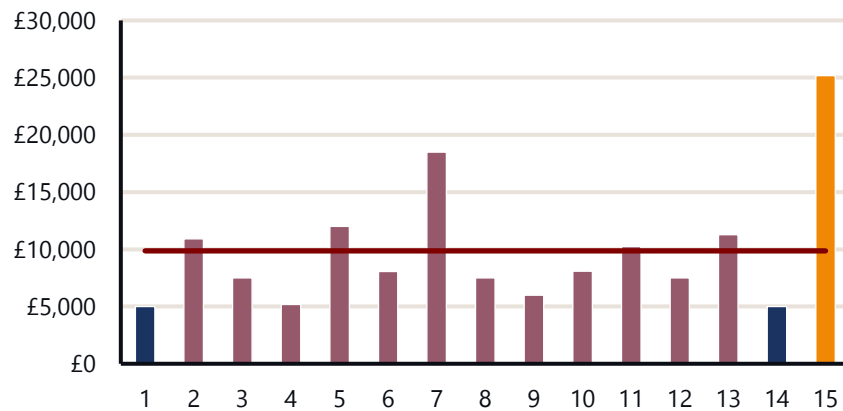
Highest Fee £14,500 | Average Fee £6,522 | Lowest Fee £2,500

500 life scheme



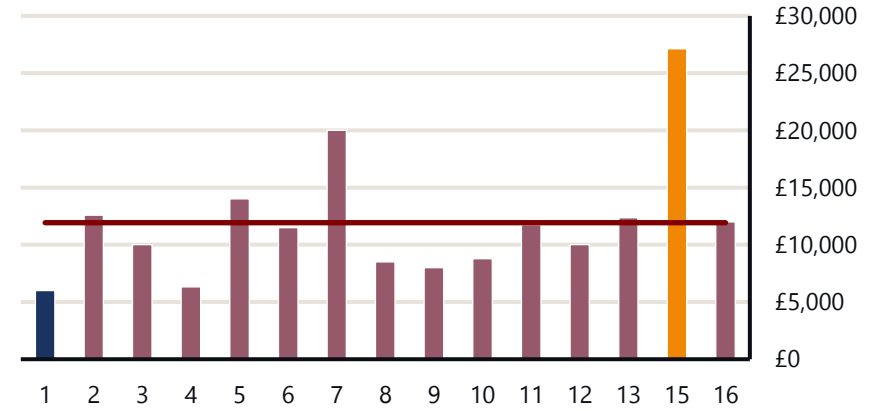
Highest Fee £15,750 | Average Fee £7,218 | Lowest Fee £3,000

1,000 life scheme



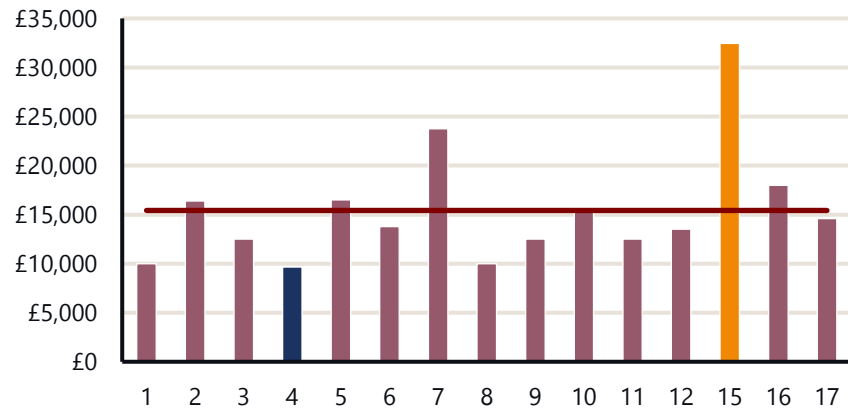
Highest Fee £25,176 | Average Fee £9,864 | Lowest Fee £5,000

2,000 life scheme



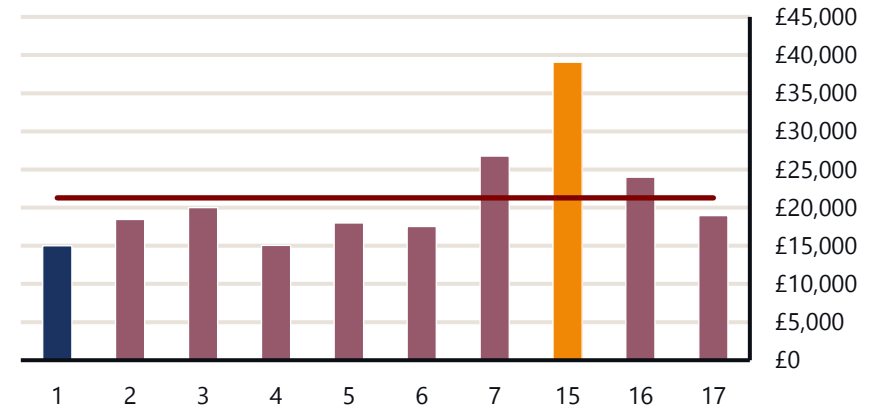
Highest Fee £27,127 | Average Fee £11,930 | Lowest Fee £6,000

5,000 life scheme



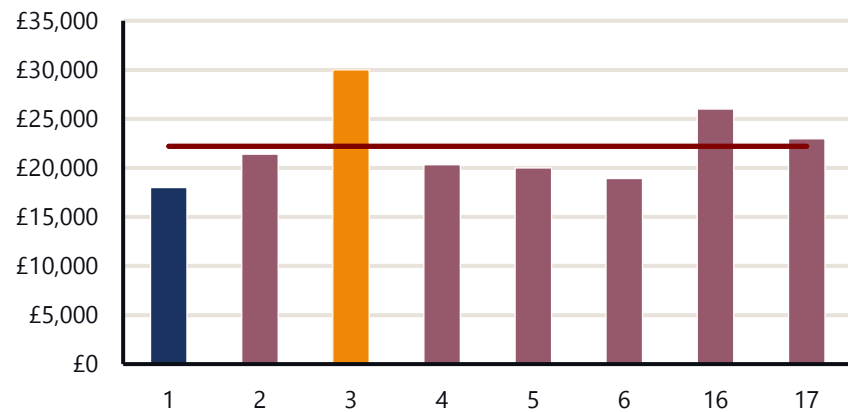
Highest Fee £32,456 | Average Fee £15,424 | Lowest Fee £9,656

10,000 life scheme



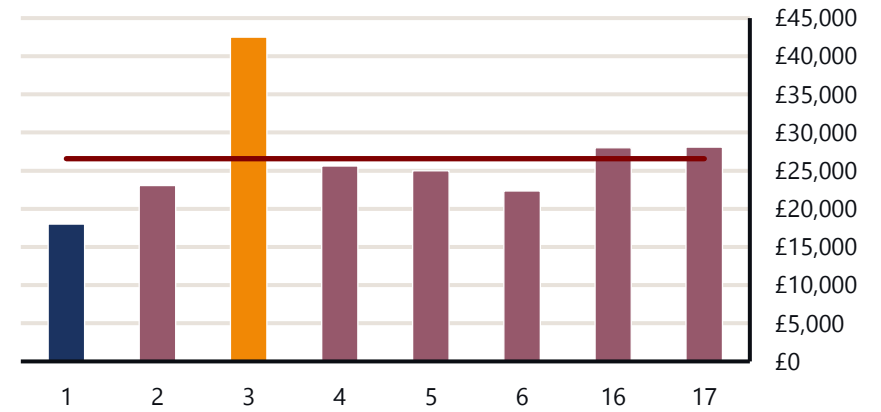
Highest Fee £39,056 | Average Fee £21,279 | Lowest Fee £15,000

15,000 life scheme



Highest Fee £30,000 | Average Fee £22,205 | Lowest Fee £18,000

20,000 life scheme

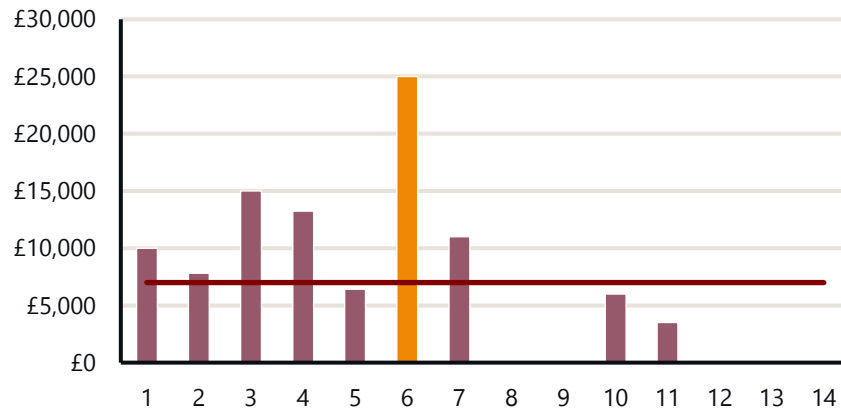


Highest Fee £42,500 | Average Fee £26,572 | Lowest Fee £18,000



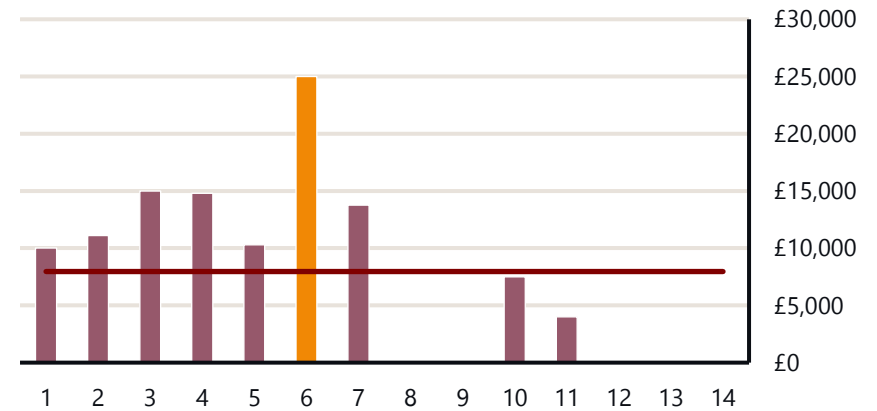
Implementation

200 life scheme



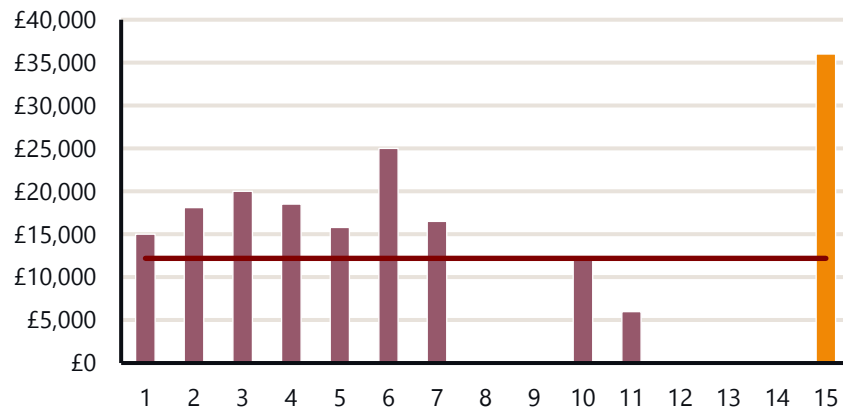
Highest Fee £25,000 | Average Fee £6,996 | Lowest Fee £0

500 life scheme



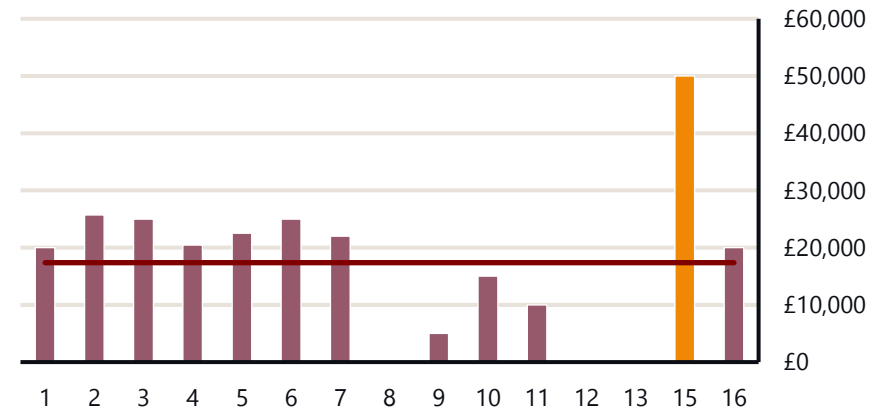
Highest Fee £25,000 | Average Fee £7,960 | Lowest Fee £0

1,000 life scheme



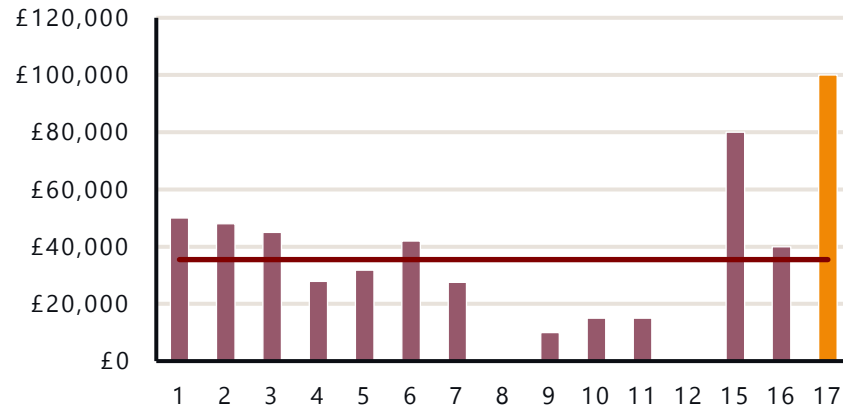
Highest Fee £36,000 | Average Fee £12,194 | Lowest Fee £0

2,000 life scheme



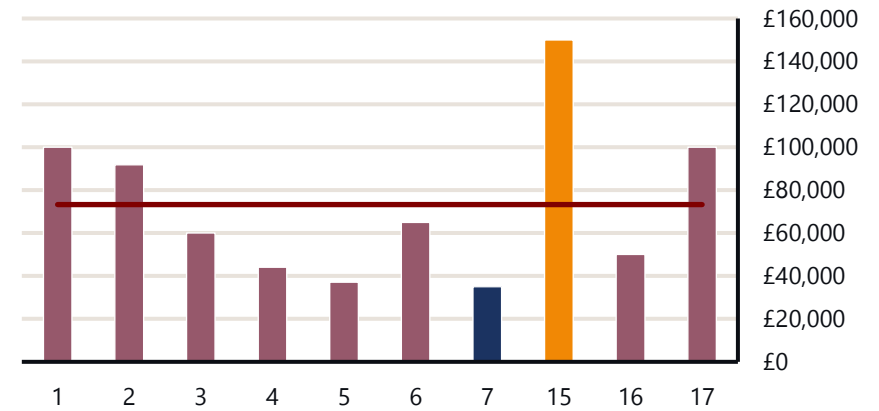
Highest Fee £50,000 | Average Fee £17,377 | Lowest Fee £0

5,000 life scheme



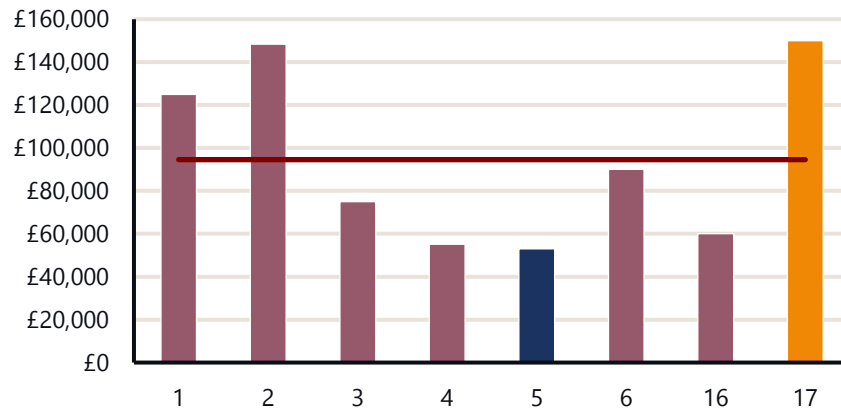
Highest Fee £100,000 | Average Fee £35,478 | Lowest Fee £0

10,000 life scheme



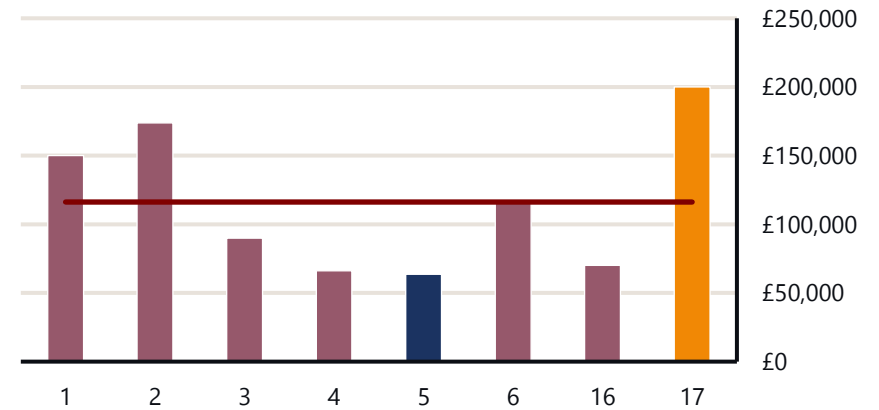
Highest Fee £150,000 | Average Fee £73,288 | Lowest Fee £35,000

15,000 life scheme



Highest Fee £150,000 | Average Fee £94,565 | Lowest Fee £53,000

20,000 life scheme

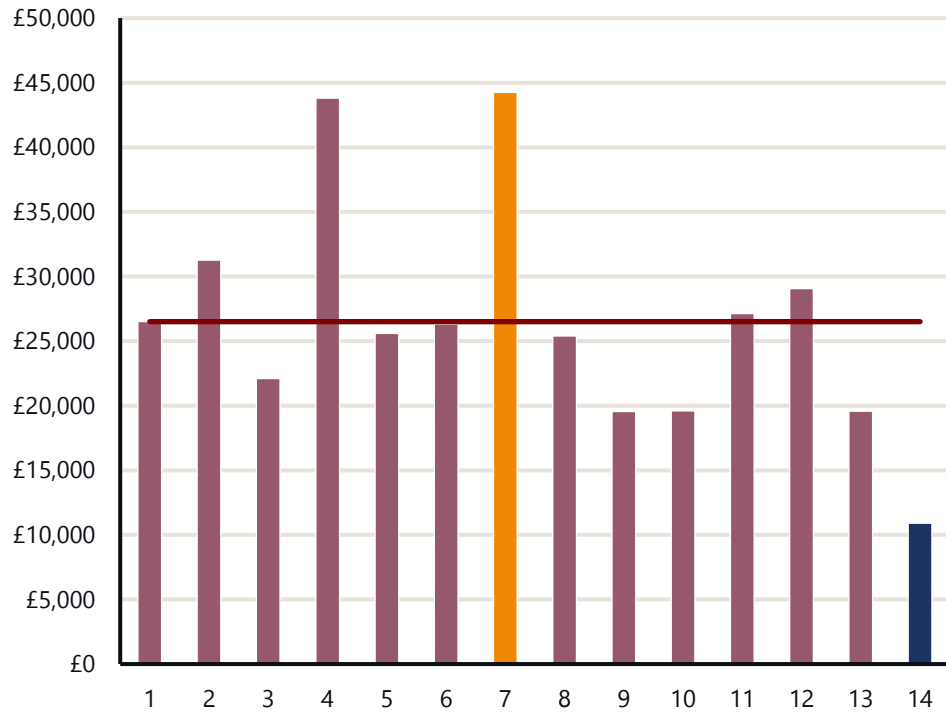


Highest Fee £200,000 | Average Fee £116,208 | Lowest Fee £63,600



Year One

200 life scheme



Highest Fee £44,250 | Average Fee £26,503 | Lowest Fee £10,900

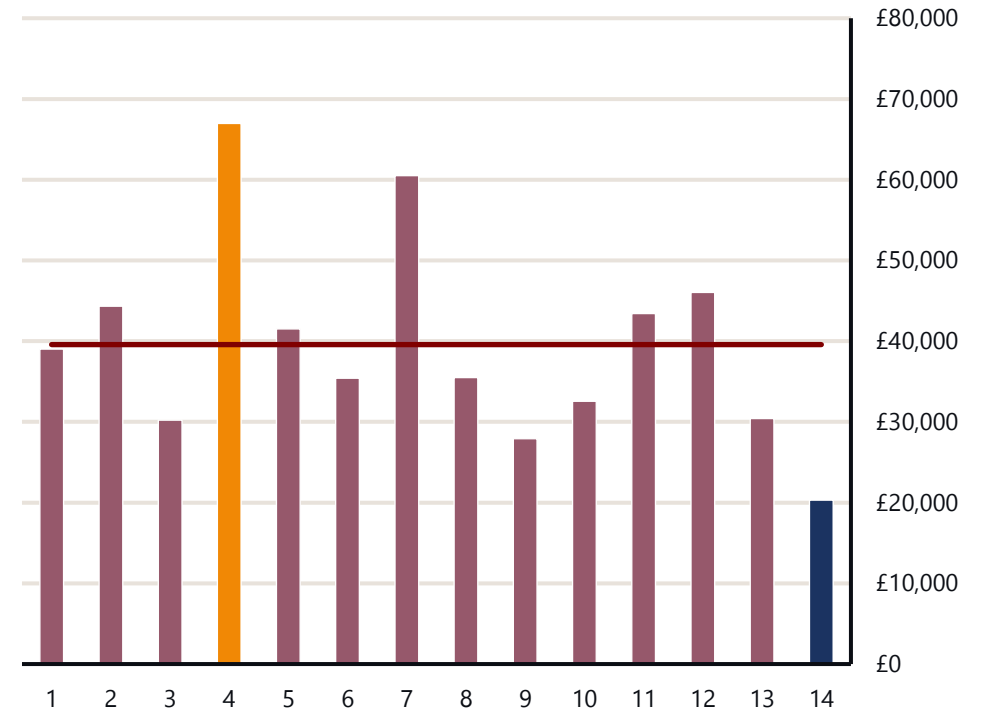


Highest £221.25

Average £132.52

Lowest £54.50

500 life scheme



Highest Fee £66,964 | Average Fee £39,573 | Lowest Fee £20,300

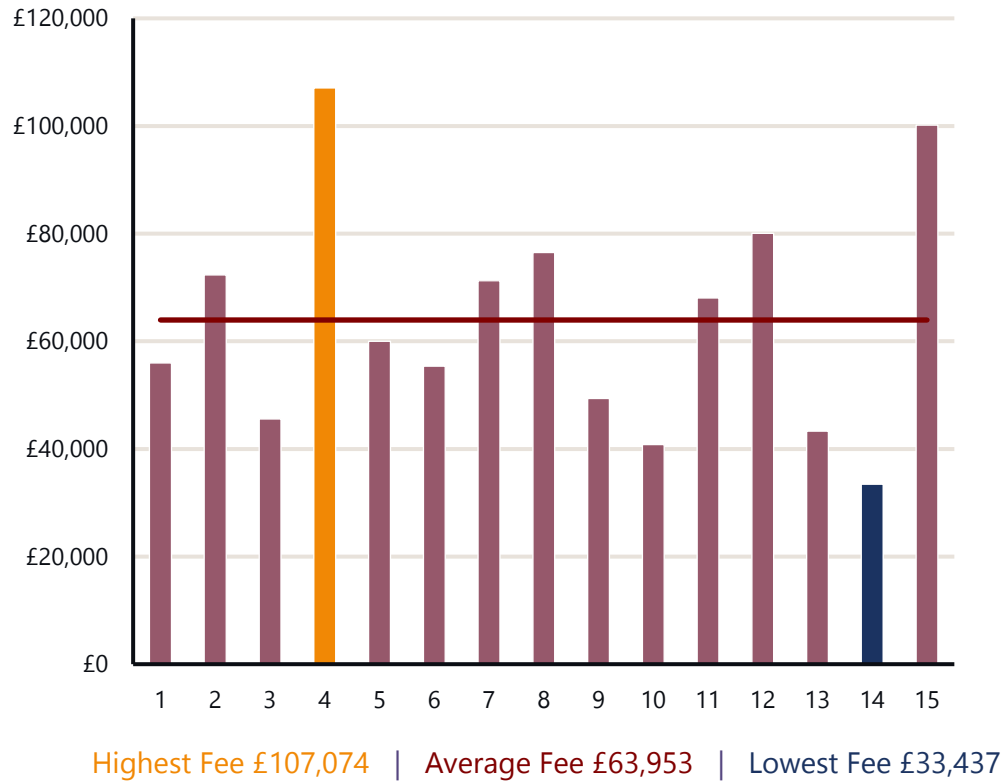


Highest £133.93

Average £79.15

Lowest £40.60

1,000 life scheme

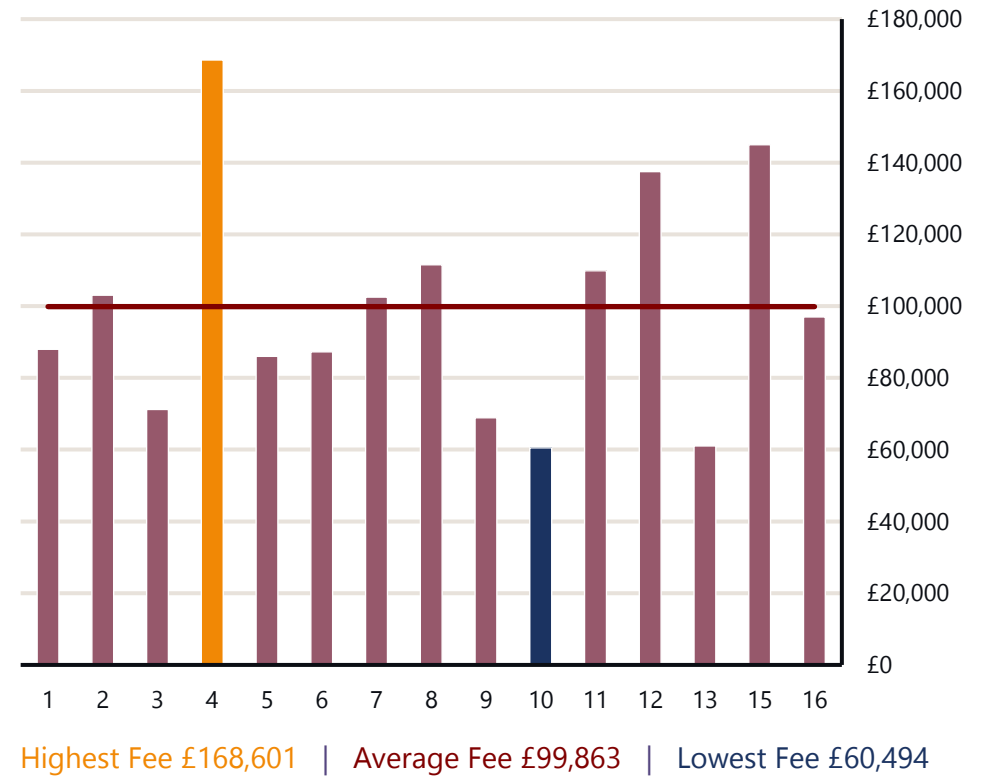


Highest £107.07

Average £63.95

Lowest £33.44

2,000 life scheme

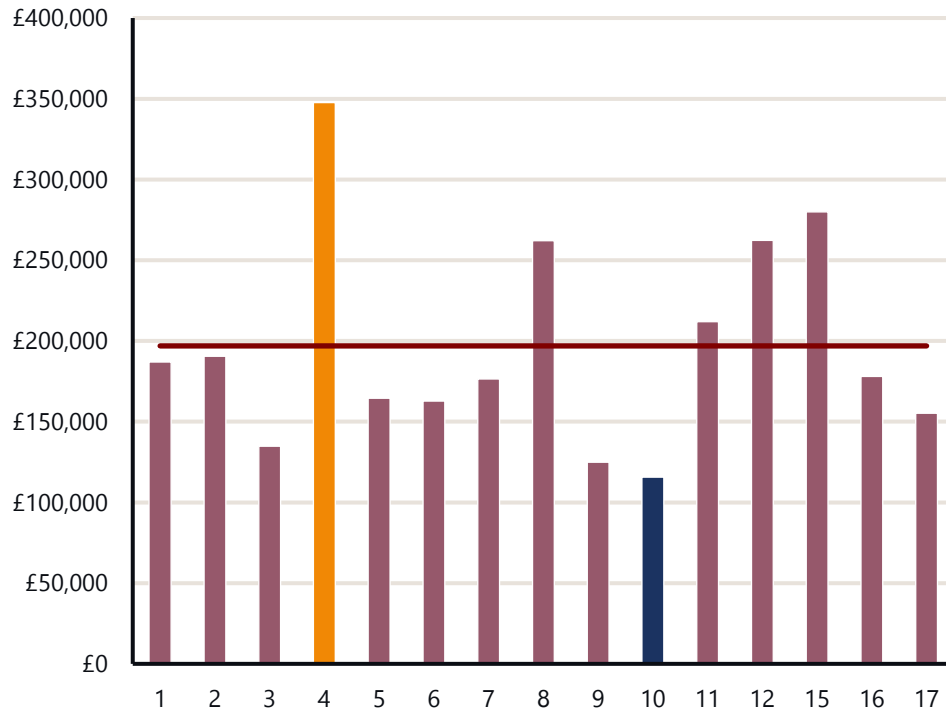


Highest £84.30

Average £49.93

Lowest £30.25

5,000 life scheme



Highest Fee £347,625 | Average Fee £196,921 | Lowest Fee £115,620

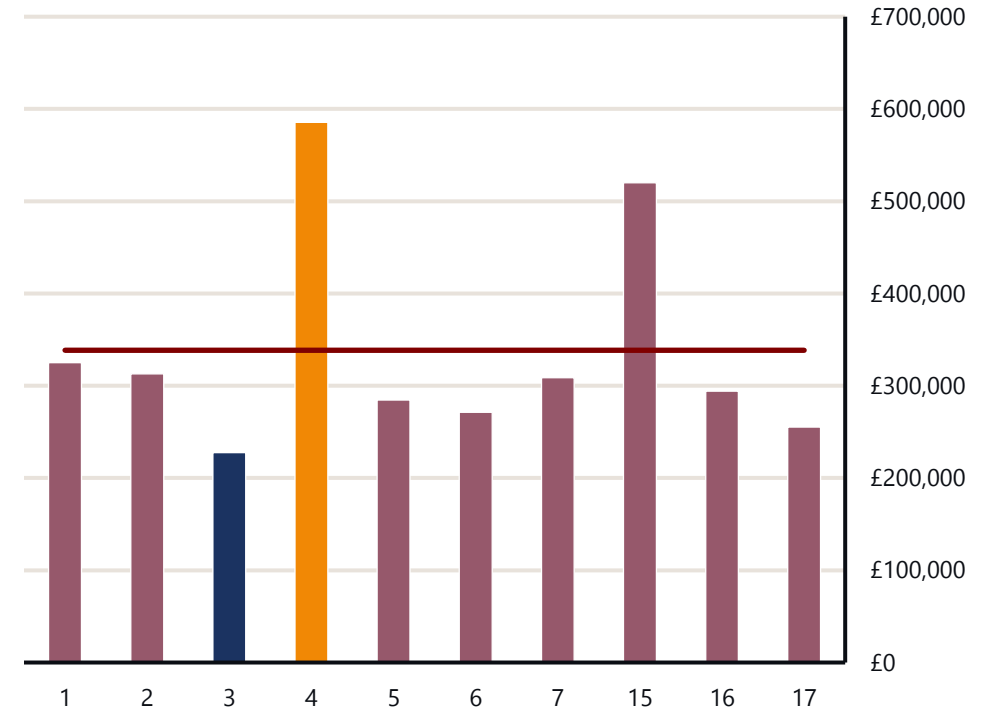


Highest £69.53

Average £39.38

Lowest £23.12

10,000 life scheme



Highest Fee £585,521 | Average Fee £338,448 | Lowest Fee £227,500

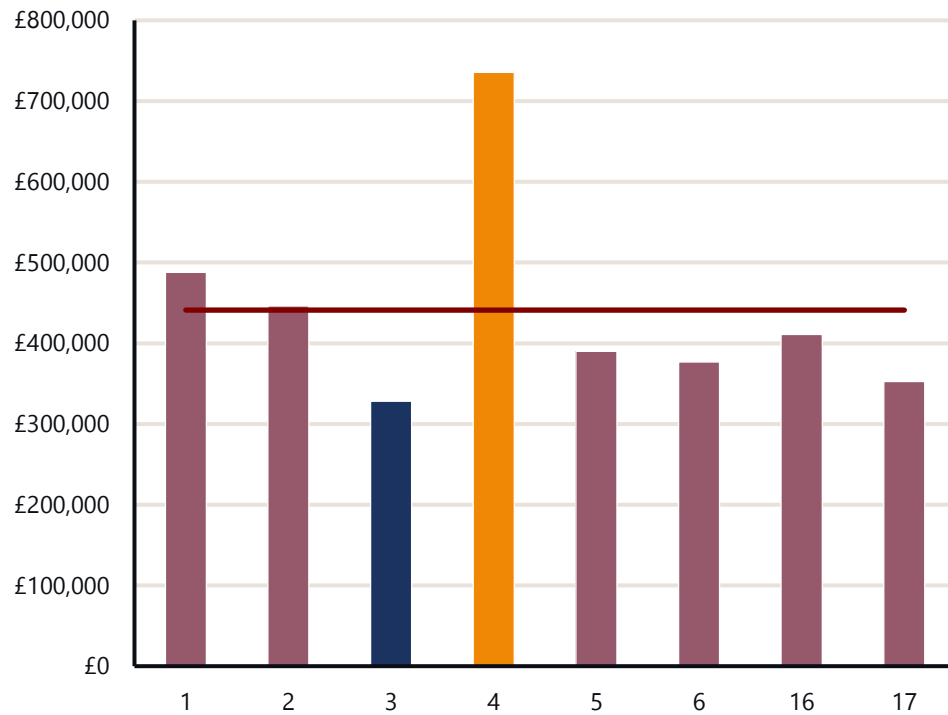


Highest £58.55

Average £33.84

Lowest £22.75

15,000 life scheme



Highest Fee £735,609 | Average Fee £441,091 | Lowest Fee £328,200

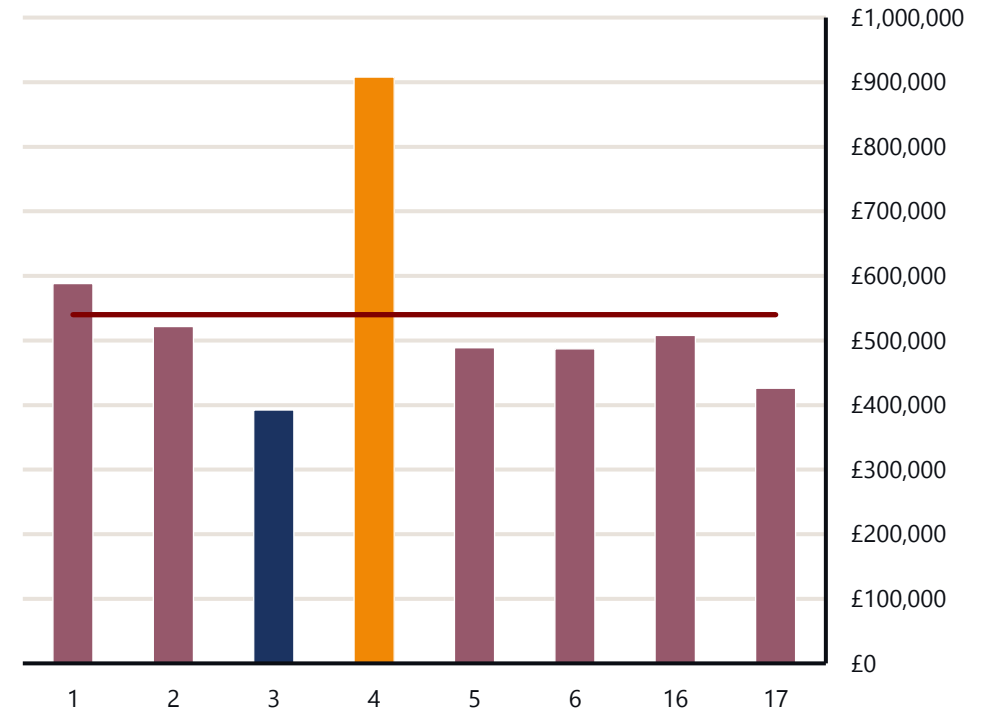
Highest £49.04



Average £29.41

Lowest £21.88

20,000 life scheme



Highest Fee £907,834 | Average Fee £539,919 | Lowest Fee £392,300

Highest £45.39



Average £27.00

Lowest £19.62



Web Services

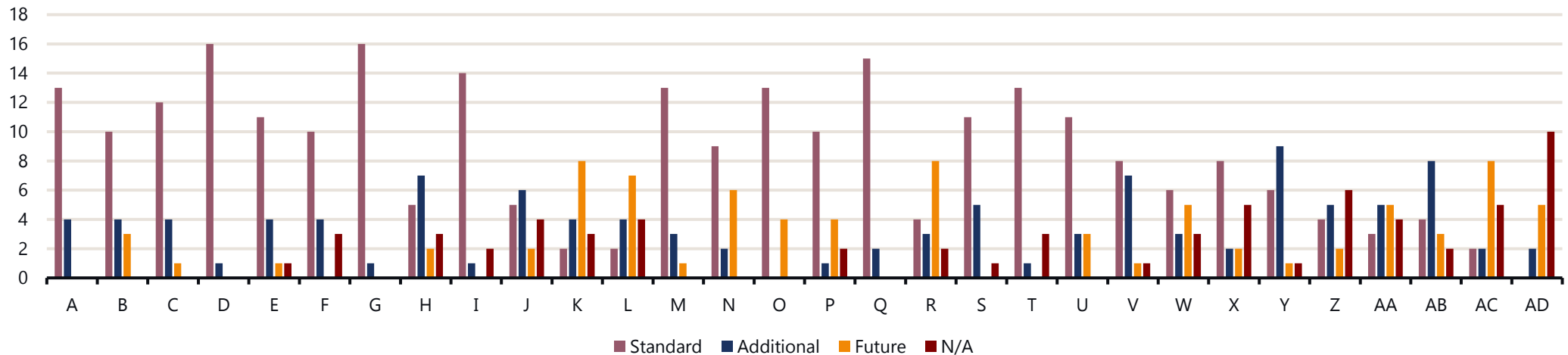
The services listed below could be included in online functionality, some are relatively new and not every administrator will be able to offer them. However, just because something is available doesn't necessarily mean it will be of value. Trustees should decide what functionality would suit their membership and work with their administrator to deliver an online offering which is suitable and cost effective.

Column	Service
A	Member Access
B	Member Real Time Access
C	Personal Data Management for Member
D	Expression of Wish Form
E	Benefit Modelling – DB
F	Benefit Modelling – DC
G	Member Communications e.g. reminders, announcements & FAQs
H	Annuity Quotation
I	Switching
J	Combined Benefit Modelling
K	Online Retirement – DB
L	Online Retirement – DC
M	Third Party Access e.g. Trustee & Employer
N	Online Data Exchange e.g. joiner, leaver etc.
O	Standard Suite of Reports e.g. age profiles, fund allocation

Column	Service
P	Cashflow Management
Q	Document Portal/Library
R	Online Stewardship Reporting
S	Branding
T	Help Facility
U	Third Party Real Time Access e.g. Trustee & Employer
V	Governance Tools e.g. Trustee minutes, dynamic risk register
W	Online Contribution Processing
X	STP – Investment
Y	Bespoke Reports – written specifically for the client
Z	Access to Administration System
AA	Administration Link to Online Liability Modellers
AB	Financial Modelling Tools
AC	Interactive Online Assistance
AD	Modern Communication Technologies based on Gaming Principles

Web Functionality

The graph below shows whether the participating firms offer the above functionality as **standard**, **additional**, **future** or **not currently considering offering to clients**.



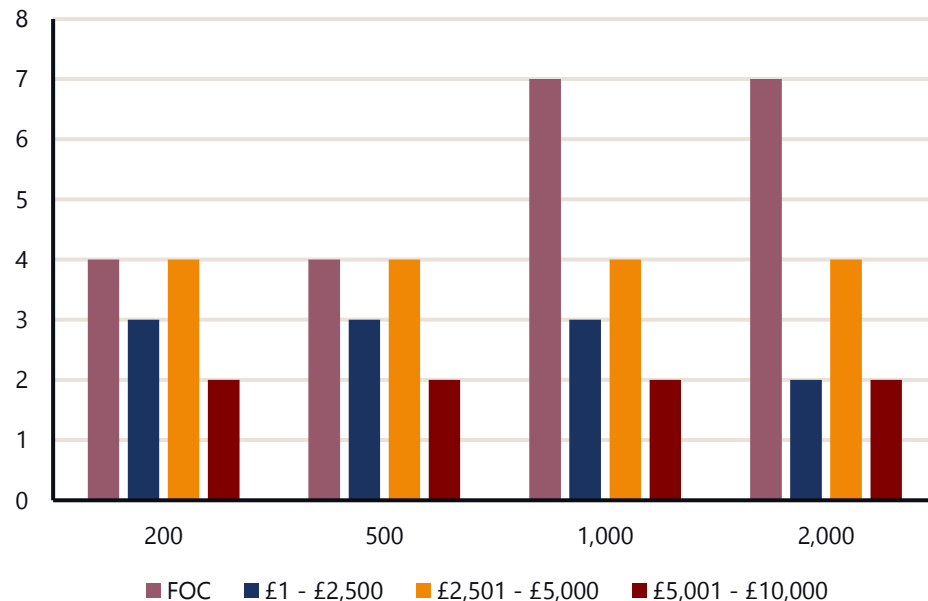
Expression of Wish Form (column D) is offered as **standard** by 94% of firms, this is logical as its far easier to keep these important documents safe online than in a locked cabinet. Member Communications (column G) is also offered as **standard** by 94% of firms. As both workforces and pensioners are becoming more tech savvy, it's a sensible option to have communications available online, where members can view them at any time without having to trawl through mountains of paperwork.

Modern communication technologies (column AD) isn't provided as **standard** by any firm, although 41% of firms provide it as an **additional** option or are considering offering it in the **future**. This technology is still relatively modern, so not surprising over half of respondents are **not currently considering offering it to clients**. Perhaps before we can see a positive benefit for this technology, we need to drive up engagement from members and get them interested in their financial future and taking appropriate action. It will be exciting to see how this type of technology develops, and perhaps in 10 years' time it could be one of the tools at the forefront of retirement planning...but then again perhaps not!

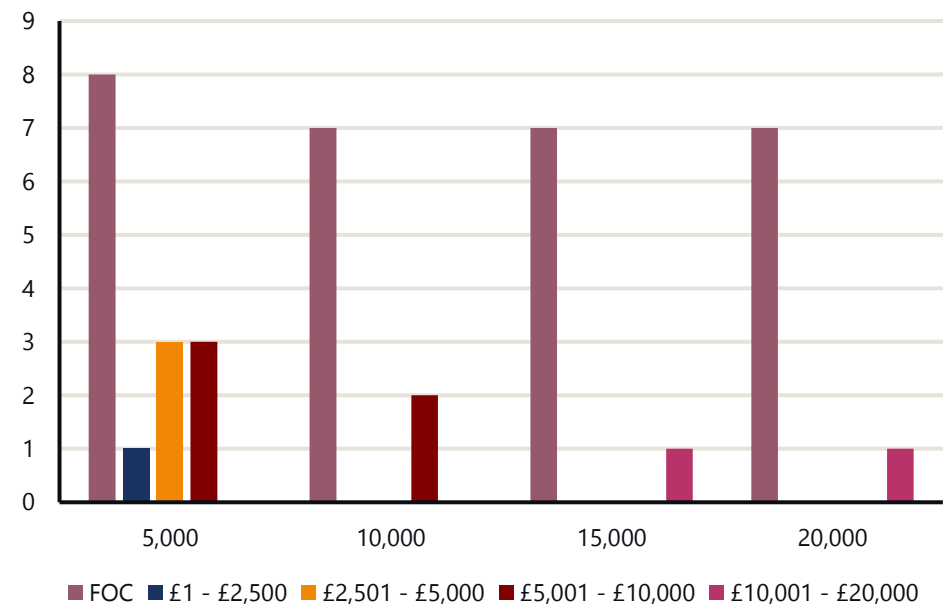
Web Costs

Interestingly, this year we've seen more firms offer their standard web functionality at no charge – or absorbed into the scheme cost. We have also seen a marked difference in pricing – no firms are charging more than £20,000 for their standard functionality. Could this be down to technology in the industry catching up? Or perhaps it's a case of membership and usage statistics dictating what functionality is used and offered, allowing administrators to reduce fees? As mentioned above, web functionality shouldn't necessarily be implemented if it isn't going to benefit the membership. Trustees should consider what could be value for money here.

200 - 2,000 Life Schemes



5,000 - 20,000 Life Schemes





Trustee Engagement

Trustee Meetings

For any scheme to operate successfully, it needs an engaged Trustee Board working in harmony with its advisors.

Trustee meetings are vital for discussing issues both at a scheme and industry level. Its important meetings are chaired well and action points followed up. Good administration and clean data are the driving forces behind a scheme. Without these, actuaries wouldn't be able to deliver accurate on demand valuations enabling more effective work towards improving funding levels.

For the smaller 200 and 500 life schemes, firms are more likely to attend **1** or **2** meetings per annum. As membership increases to 1,000 or 2,000 lives, administrators are likely to attend **2** or **4** meetings per annum. For a 5,000 life scheme and above, most administrators will offer **4** meetings per annum.



Administration Meetings

With constant pressure on schemes to boost funding, in the past we've seen actuarial and investment issues taking precedence and administration often left behind.

As the importance of administration and data grows and rises high on the agenda for TPR, administration should be taken seriously by the industry. Trustees need to regularly engage with their administrator. Many boards delegate this to a sub-committee to take the pressure off the whole Trustee Board.

For the smaller scheme sizes (200 – 2,000), an administrator is likely to offer only **1** pure administration meeting per annum. As membership increases, **2** or **4** meetings would be offered for 5,000 and 10,000 life schemes. For the largest scheme sizes, **4** administration meetings would be offered.

One administrator goes as far to offer an administration meeting every month for 5,000 – 20,000 life schemes!



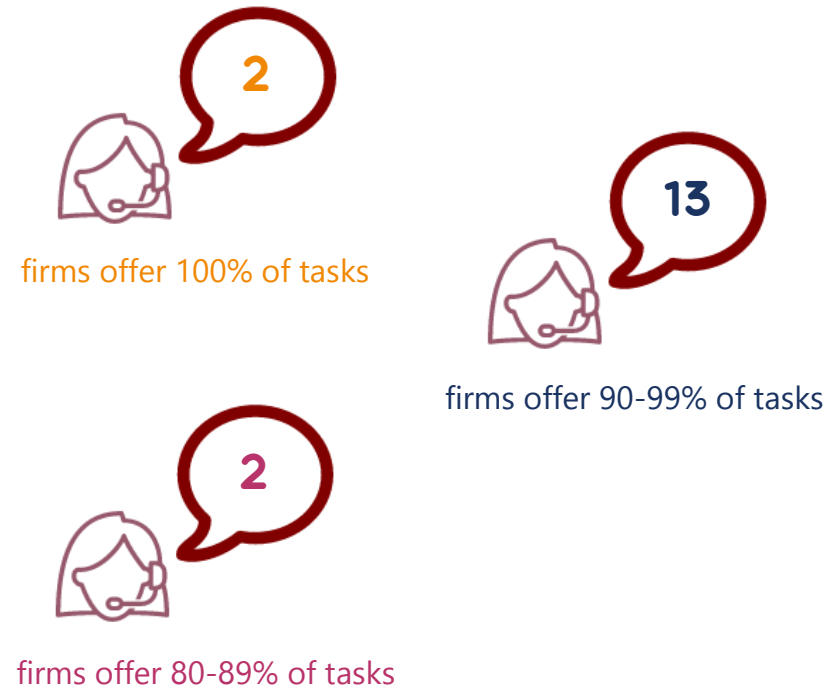


Core vs Non-Core

Core

What does it take to administer a pension scheme from a process point of view? Well, membership records need to be maintained, benefits need to be calculated for different categories of members – leavers/retirements/deaths, pension increases calculated and pensioners notified, TPR's reporting requirements need to be met and member enquiries dealt with, to name but a few. A full list can be found in Appendix A.

For the first time since we carried out analysis on this section, only **two participants are offering 100% of core services**. This is a turn up for the books! We reviewed the list of core services and reduced it from 46 to 45, but this shouldn't trigger such a swing in the statistics. Why are administrators offering less? Is it because administration prices have been driven down so far, the only way it can now be profitable is to remove tasks from the core offering and charge extra for them? Or could it be administrators are adopting a more standardised approach to their service, so they become more effective but at the same time reduce risk?



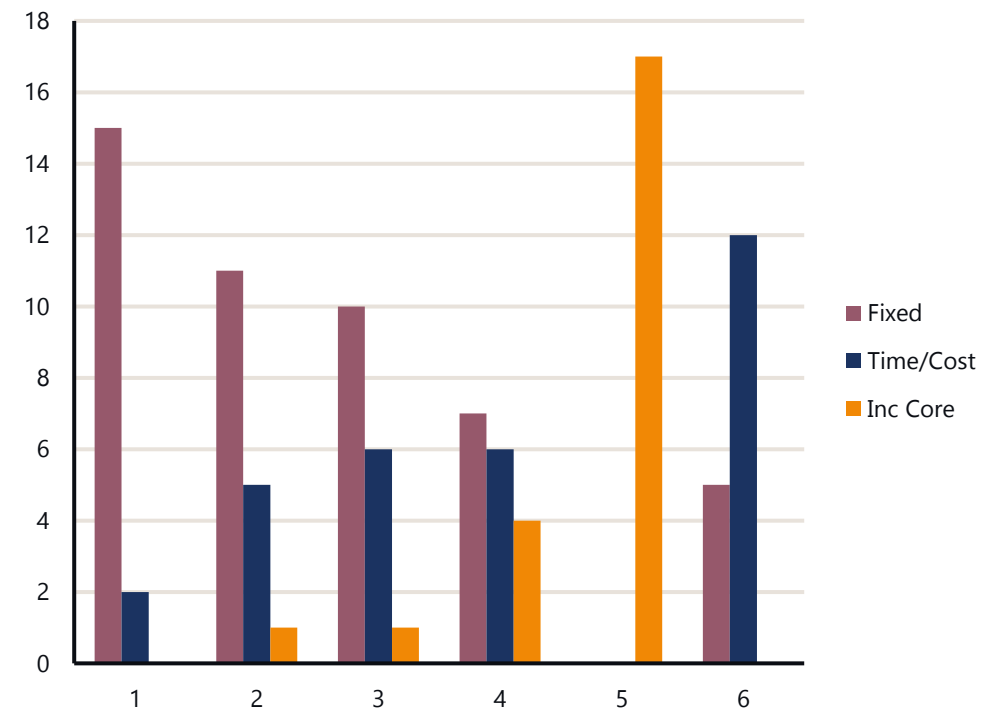
We drilled down further into the statistics and noted both bespoke administration stewardship reports and automatic existence checking for pensioners are not included by 53% and 41% of firms respectively. It isn't surprising a bespoke report would attract an additional fee because of its very nature. Automatic existence checking for pensioners may be included as core by some firms as they have the integrated technology to carry out checks, those who don't provided it as core are more likely to use a commercial partner where they pay for the service and recharge it to their clients.

Non-Core

At times a scheme will require additional services from their administrator, but these often come with an additional price tag. Below we've listed some tasks we consider to be non-core (outside of what you can expect an administrator to provide as standard). We asked the firms to state whether these six tasks would be **included in the core fee**, provided with an **additional fixed fee** or provided on a **time/cost basis**.









For most firms, Task 1 (secretariat) would be provided for an **additional fixed fee** – this isn't surprising. This can also be said for Task 6 (M&A activity), many firms would provide this on a **time/cost basis** because the effort is completely unknown, although five firms would carry this out for an **additional fixed fee**. Task 5 would be **included in the core fee** for all firms, this is the first time we have seen this, and its great administrators are not charging extra to liaise with Trustees.









Task	Description
1	Scheme Secretariat (includes attendance at meetings, minute taking/distribution, action dissemination/follow up)
2	Attendance at extra Trustee meetings when required
3	Enhanced reporting i.e. over and above stewardship reporting
4	Provision of additional member data to other third parties
5	Liaise with Trustees on Scheme administration matters as and when required
6	Merger/sale/acquisition work



How do you gauge value for money?

A rather tricky point to prove! However, by comparing what you could pay against the service you're receiving is a great starting point. The tables below show the highest and lowest fees for each scheme size and their associated percentage of core tasks (listed in Appendix A). Unlike last year neither the firm with the highest or lowest fees offered 100%. Across all scenarios the lowest fee offered more in its core service than the highest fee. As always, Trustees should determine what service their membership needs and negotiate a price based on this. The statistics show just because something is more expensive, it doesn't mean you're getting anything more for the extra cost.

		£	% core tasks
200 life scheme	Highest	44,250	 84%
	Lowest	10,900	 96%
500 life scheme	Highest	66,964	 93%
	Lowest	20,300	 96%
1,000 life scheme	Highest	107,074	 93%
	Lowest	33,437	 96%
2,000 life scheme	Highest	168,601	 93%
	Lowest	60,494	 96%

		£	% core tasks
5,000 life scheme	Highest	347,625	 93%
	Lowest	115,620	 96%
10,000 life scheme	Highest	585,521	 93%
	Lowest	227,500	 98%
15,000 life scheme	Highest	735,609	 93%
	Lowest	328,200	 98%
20,000 life scheme	Highest	907,834	 93%
	Lowest	392,300	 98%



Pricing Mechanisms

Member Activity Assumptions

Activity assumptions are just like fashion, some years they're in favour other years they're out. Some administrators don't use them but for those which do, the trigger level can vary. Most participants in our survey use them and on average its around 10% of membership for each scenario scheme. One administrator has a trigger of 7% whilst another has 28%.

In our 9th survey, four participants didn't operate activity triggers and offered a fully inclusive service. Interestingly in this survey it's dropped to two. Perhaps this is the continuing fall out from Pensions Freedoms introduced back in 2015, with more scheme activity happening such as DB to DC transfers. Trustees should be mindful of the activity triggers for their membership, can you automate as much as possible to avoid hitting these triggers, is there an online solution your administrator could offer instead?

So, what's the cost if a trigger level is breached? This depends on the administrator as the fee varies wildly. Some administrators charge the same amount across each scheme size, others charge bigger schemes less. The most common fees for exceeding an activity assumption are:



200, 500, 2,000 and 5,000 life schemes



1,000, 5,000, 10,000, 15,000 and 20,000 life schemes



The Industry's Perspective

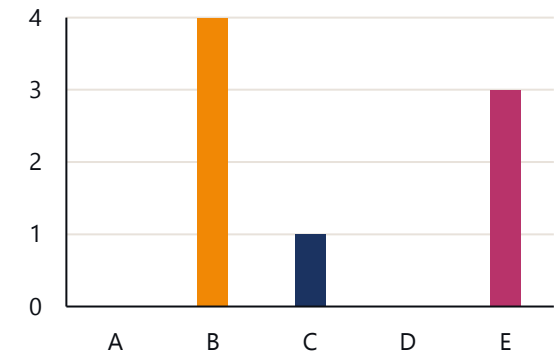
What do administrators have to say?

We asked administrators questions around the wider industry, what's impacting on them and how they're dealing with topical issues. As you'll see for many of the questions the responses are mixed, highlighting the diversity of opinion in participating firms and their clients.

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

We gave participants five options:

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



Of those who have shown interest, its mainly been in **Option B**, this matches the opinion from our 9th Survey. **Option D** remains an unpopular choice. Some participants stated their clients were looking at a choice of options with **Option A**, **Option B** and **Option C**, rather than just one.

Comments from participants include:

 **1** stated its clients were looking at harmonisation of advisers & administrators for one sponsoring employer with multiple schemes, or multiple advisers/administrators within one scheme.



3 stated its clients were waiting on the new Super Consolidators, but didn't want to be first adopters.

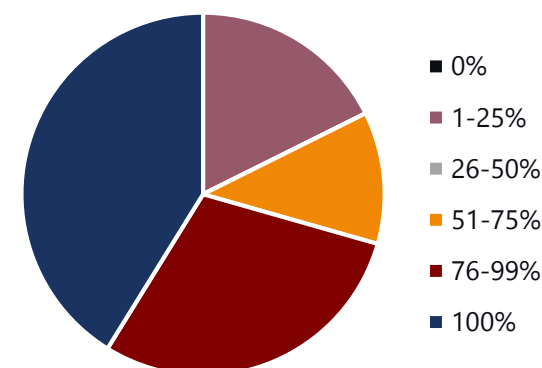
2

What percentage of clients are ready to report on Scheme Specific Data on their Scheme Returns?

In June 2010, TPR released its first set of guidance on Record Keeping² and schemes were expected to measure both their Common and Conditional Data. Fast forward nine years and TPR is still beating the same drum – Conditional Data is now referred to as Scheme Specific Data³ and Trustees are required to include information on the Scheme Specific Data on their Scheme Returns. Accurate data is crucial for each scheme and the market has been actively driving up standards.

We asked administrators how many of their clients were ready to report on their Scheme Specific Data.

It's great to see all 17 participants have some, if not all their clients ready to report on Scheme Specific Data. Seven have **100%** of clients ready to report on this, which is a huge difference to our 9th Survey, where only two firms had 100% of clients ready. We hope those who have **25% of clients or less**, really press this issue with the Trustees and/or Pensions Managers responsible for these schemes to ensure data is at the top of their priority list. One thing to remember is, being ready to report doesn't mean the data is clean, but it's a start.



² <https://www.thepensionsregulator.gov.uk/en/document-library/regulatory-guidance/record-keeping>

³ <https://www.tpr.gov.uk/-/media/thepensionsregulator/files/import/Pdf/record-keeping-quick-guide.ashx>

3

What do you see having the biggest impact on pensions over next 12-18 months?

We find this question produces some interesting insights. In our 9th Survey we saw 'Data Quality & Cyber Security' at the top of the list. So, let's see how this has changed in this survey.



53% stated GMP Equalisation would have the biggest impact



29% said Brexit and the effect on the economy was at the top of their list



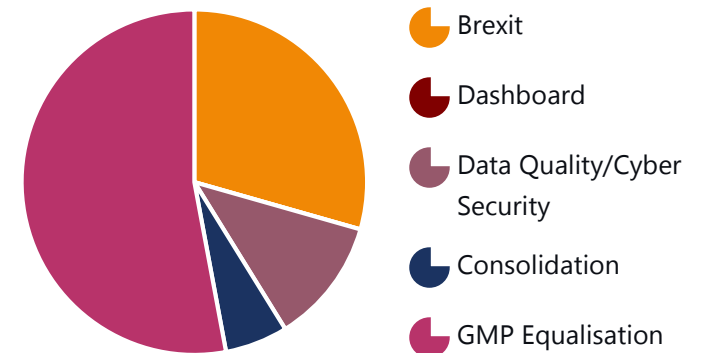
12% thought Data Quality/Cyber Security would have the biggest impact



6% said further consolidation of the market was at the top of their list



0% considered Pensions Dashboard to have the biggest impact

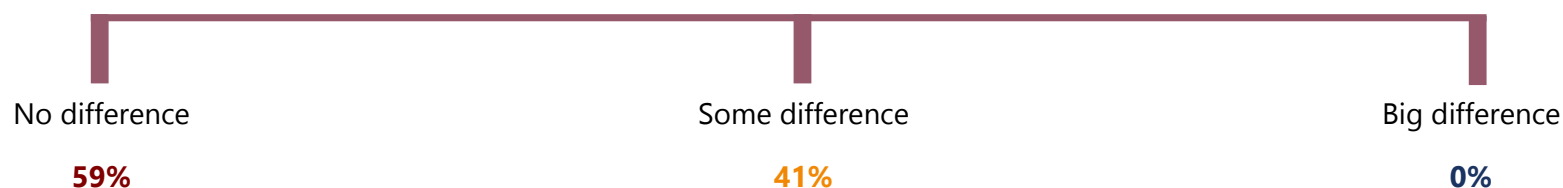


This year only **12%** thought **Data Quality & Cyber Security** would have the biggest impact, in our previous survey this was 56%! Do providers and schemes feel it's now done and dusted? **GMP equalisation** seems to be a running theme for most administrators in their thoughts and comments this year, will this continue in our 11th Survey? Or will it be **Brexit**, **Dashboard** or something totally new?

4

Has the cold calling ban made a difference to the number of TVS requests being received?

On the 09 January 2019, the Pension Cold Calling Ban came into effect. Firms making unwanted, unsolicited phone calls to people regarding their pension may face enforcement action, including fines of up to £500,000. According to the FCA⁴, in 2017 scammers stole on average £91,000 per victim! Let's see if this ban has made a difference:



Comments from participants indicate there's a slowing down of transfer requests, but believe it's happening irrespective of the ban:



'We are increasingly automating the transfer value estimates and making them available on-line, and therefore minimizing the effect'



'We have, arguably, had less 'suspicious transfers' although ... we have seen a drop following a reduction in the number of IFAs who are prepared to advise on pension transfers'



'Some decline, didn't have huge volumes instigated by cold-calling previously'



'It's easy to link the introduction of the cold-calling ban with a reduction in transfer requests. However, in our view, the slowdown in the number of transfer requests is unrelated to the cold-calling ban and is a simple consequence of critical mass having been reached with the majority of DB members interested in investigating a transfer having now done so. We expect to see a continued slowdown followed by a natural levelling-off, but the peak has definitely now passed'

⁴ <https://www.fca.org.uk/news/press-releases/regulators-warn-public-pension-scammer-tactics-victims-report-losing-average-91000-2017>

5

Following recent mergers in the admin market, how do you see the shrinking market affecting you?

As to be expected the recent wave of merger and acquisition activity has led to some thought-provoking comments. There's a belief opportunity for growth will be prevalent, particularly for the small and mid-sized providers, whilst others caution the effects it may have on quality if the market overheats. One provider believes it'll lead to price increases.

Opportunity for Growth



'Less choice likely to have a positive impact on our business as more likely to be invited onto ITT shortlists. On other hand we need to be alert to competition from firms who are 'aggressively' targeting growth'



'We believe we are well positioned to leverage our combined size and strength'



'We are receiving more opportunities to take part in administration tenders as a result of recent mergers'



'Consolidation in the market means that more schemes are taking the opportunity to review their admin provider. If service has been poor and their provider merges or is acquired, then we're seeing this as the catalyst for the scheme to undertake a review'



'We are investing in the administration market for the long term and see recent mergers resulting in more opportunities for us'



'We believe the shrinking market is positive for us as administration is very much core to strategy and the fact the pension scheme market believes we are committed to pension administration (which we are) put us in a strong position. In a shrinking provider market, those providers that have the range of services to meet different client requirements will be successful, we believe we are in that category'

Market Positioning



'Larger schemes are now considering providers from the mid-tier as a genuine alternative – this is a trend that we see continuing for the foreseeable future'



'There will be more opportunities for smaller TPAs'



'We believe it will have a positive effect for us. We offer an excellent service to small and medium schemes. Our commitment to providing a high-quality service to clients by recruiting and retaining talented and dedicated staff means that we can offer an attractive and value-for-money alternative to the larger pension consultancies'

Quality/Issues



'Trustees have less choice of administrators. A larger factor is the failure of certain administrators to provide a good standard of services'



'Good opportunities for differentiating ourselves from competitors though quality of service and capacity to react to change quickly'



'There are still a lot of pension administration tenders out there, and a number of large projects to come. With less providers there is a mounting problem'



'We're noticing that the market is incredibly busy – there is only a small number of providers currently deemed credible. For us, we're seeing a steady flow of new clients – we are being careful to manage our business responsibly during this busy period'



'We believe our focus on quality and stability of service, with a realistic price to match this, is suited to the direction of the market'



'We see this is an opportunity as smaller schemes may end up with larger providers who are not set up to provide them with a personal service at a reasonable cost. I believe some of the schemes which are locking into contracts as part of some of the mergers will end up being dissatisfied (particularly if there is significant project work such as GMP equalisation charged at their usual rates)'

6

With the Pensions Dashboard Launch imminent, when do you think it will be market ready?

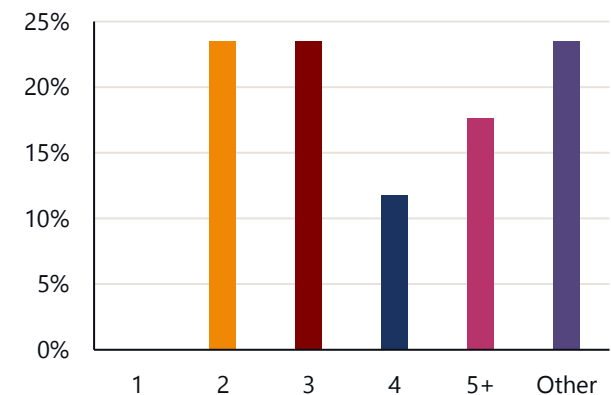
The idea of a Pensions Dashboard has been floating around for some time and after government consultation, the results were published on 03 December 2018 and stated:

'Industry told us that they stand ready to develop and test dashboards – which would demonstrate how information can be presented to consumers in a way that aids understanding – in 2019⁵

April 2019 saw the dashboard given the green light, but to a mixed reaction due to the length of implementation. So, let's see how the industry feels about how long it should take:



It appears the industry can only agree on one thing and that is Pensions Dashboard not being ready in **1 year**! The results show a real mixed bag on when administrators think it'll be ready. For those who said **other**, they suggested it may be quicker for DC than DB, **1 year** for early adopters and probably **2 years** for mass participation and finally what it will look like will dictate timelines – a fully inclusive dashboard with DC, state benefits and all DB is probably at least **four years** from being a reality and probably longer.



⁵ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/792303/government-response-pensions-dashboards.pdf

7

Do you think administration should be formally reviewed/tendered every five years like the CMA's recommendation for Fiduciary Managers?

On 12 December 2018, the CMA concluded its investigation into the supply and acquisition of investment consultancy services and fiduciary management services to and by institutional investors and employers in the UK. On 10 June 2019, The Investment Consultancy and Fiduciary Management Market Investigation Order 2019⁶ was introduced. We asked if administrators thought administration should come under the same level of scrutiny:



18% said yes
53% said no

29% didn't respond but provided commentary for a good practice benchmarking instead:



'It depends on many factors including scheme size, member & trustee satisfaction levels, perceived quality of service, perceived level of value for money service, accuracy levels. If a client is happy with service, then a fee benchmarking exercise might be a satisfactory alternative to a full tendering exercise, given the demands on trustees' time'



'Good trustee boards will keep their service providers under constant review and will ensure that regular benchmarking takes place as part of good scheme governance. Providing a trustee board and scheme members are broadly happy, a forced, formal tender every five years could be an unnecessary drain on scheme resources'



'Trustees should review all their providers on an ongoing basis, whether for administration this should be a full tender should depend on quality of services the Trustees believe they are receiving'



'There is arguably less competition in the administration market'



'Not a requirement but would be good practice. Is the biggest headache to transfer. A fee benchmark might make sense'

The 53% figure isn't surprising. Administration is seen as a trickier service to potentially transition elsewhere, particularly with the inaccuracy of data, different systems and the lengthy history of a scheme. But it isn't as difficult as some think. At KGC we've helped several schemes transition to a new provider over the last 12 months and have been relatively painless. Implementation services continue to become more professional and the use of automation for data transfer has seen significant improvement over the years. Trustees still need strong project management throughout and ensure all parties are fully engaged and understand their roles and responsibilities, communication is key!

⁶ https://assets.publishing.service.gov.uk/media/5cfdfa86e5274a090f9eef8e/Order_investment_consultants.pdf

8

If you could change one thing in administration, what would it be and why?

This question provoked some interesting comments from providers, many of them said the desire for administration to be given the attention and respect it deserves in terms of time, effort and remuneration. Others suggested they would improve the quality of administration and move away from the mindset of administration being the poor relation. Some providers would change the complexity of administration as there's a concern over the loss of DB skill sets and leaving few people with the skills to administer these complex arrangements.

There is much to consider in the participants' responses.

Importance of Administration

- ! 'Trustees investing in quality of data and administration'
- ! 'An increased understanding of the value of efficient pensions administration resulting in fair fees and terms'
- ! 'We would like to see more Trustees with administration experience sitting on Trustee Boards. Professional Trustees tend to come from an investment background. We understand that investment and liability management experience is of great importance to the scheme, however with scheme members expecting greater and more immediate access and enhanced tools to better inform their decisions, greater understanding of pension administration is becoming more important'
- ! 'The level of importance/significance that administration gets from clients and trustees as it the member facing element of pension scheme management'
- ! 'A wider acceptance that quality and stability of service and member experience should be a universal focus with a realism of price that should attach to this'
- ! 'Pension administration fees are too low. Trustees should appreciate the service they are getting from the quality administrators and pay accordingly. Low fees have been one of the reasons why there has been too many TPAs pulling out of admin-only, they can't make a profit'
- ! 'The perception that admin is purely a commoditised service'

Quality



'SLAs – they do not provide any indication of quality or member experience/satisfaction. No-one has ever said they would like 95% of their queries answered in 5 days'



'Trustees putting up with a persistently-poor administration service due a perceived lack of choice and/or the notion that changing providers will be more hassle than it's worth. This is not the case at all and sticking with a malfunctioning service and unproductive relationship will do more harm than good in the long-term'



'Focus on quality and clarity of information provided to members'



'Trustees to vigorously test claims their administration calculations are automated. Lack of automation is the biggest risk to quality and accuracy and yet far too many schemes rely on manual calculations'

Complexity



'DB schemes (open) with unnecessarily complex design and structure, of which we administer several'



'Defined Benefits Pensions are becoming more complex to administer - the skills sets of the younger generation are mainly DC based. DB experience becoming hard to recruit'



'Reduce the number of statutory documents required, particularly those that add little or no value to scheme members'



'More freedom to make pragmatic assumptions and approximations that affect benefits where poor or incomplete electronic data exists - without the requirement to undertake detailed review of historic non-electronic records'

Others



'Treatment of smaller schemes and response times should not depend on size'

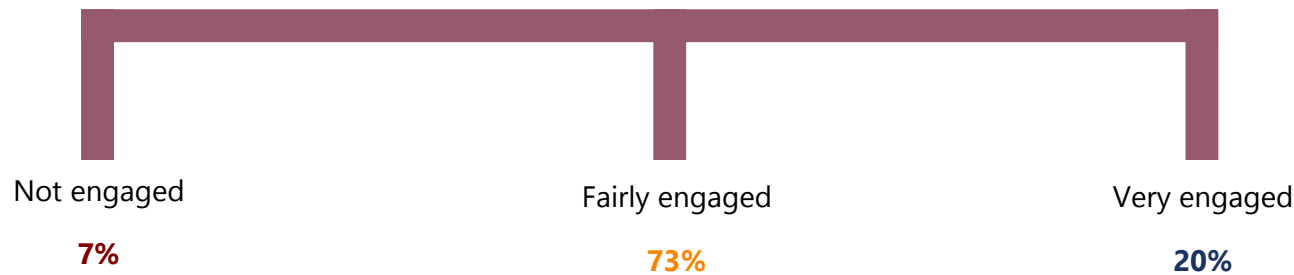


A little too late but the industry should have a single administration system - too much time is spent dealing with data issues rather than concentrating on service delivery and improvements...more straightforward to deal with transitioning from one TPA to another. Transition fees should be capped to a maximum £10k or regulated in some way. Some of the transition fees we have seen are scandalous'

9

People are starting to think more about their pensions, how engaged have your clients' membership been over the previous 12 months?


Since the introduction of Automatic Enrolment (AE) in 2012, we've seen more than 10 million people being enrolled into a company pension scheme. As a result, the perception of pensions is gradually changing, more people are showing signs of engaging in their financial future at earlier points in their life. We asked administrators whether they've noticed if their clients' membership has been more engaged over the last 12 months. Although the results show people are seemingly more engaged with their financial future, which is a positive – it still needs to move more to the right!




Any other thoughts?

We asked administrators if they had any other comments to add, these fell into four categories:


Technology



'Exciting times ahead, as the industry embraces technology and focuses on delivering the best, most integrated member experience that helps and guides members through ever-more-complex decisions'




'Engagement with members remains an issue for Trustees. The vast majority of members show little interest in their pension until they are close to retirement and this is regardless of the website options that may be available to them'




'Further technology driven solutions. Acceleration of soft consolidation e.g. own scheme mergers, sole trusteeships, master trusts. Large number of buy ins/out (employers who can afford to exit will do). Possible increase in distressed employers/PPF entry'

GMP




'From GMP reconciliation and rectification to GMP equalisation! Who would have thought back in 1978 when GMPs started accruing, that they would generate such volumes of complex work 40 years later and beyond'



'As noted earlier very worried about pension administration resource in the industry, especially given the GMP reconciliation projects to finish, GMP rectification and GMP equalisation to come'

Consolidators



'First Superfund transfers likely. Increased turnover of schemes between suppliers (more tenders), more trustees willing to make a change, more aggressive attempts to increase market share'

Quality & Price



'The fees we can charge need to be increased for the quality providers. Seems to be a dawning realisation from a number of trustees of this given recent pension publication articles'



'The merger activity we have seen in the market will potentially continue. We believe our focus on quality and stability of service, with a realistic price to match is suited to the direction of travel of the market'

Summed Up



'This is an interesting time for the pensions industry, with factors including providers either merging or withdrawing from the pensions administration market, GMP equalisation, consolidation and the pensions dashboard. All of this fuels the increased interest in pensions driven by Freedom and Choice at a time when those coming up to retirement are increasingly technology literate. We are embracing this with a significant strategic and financial investment over the next two years to develop our service for the long term'

Do Pension Managers & Trustees agree?

We asked trustees and pensions managers four of the questions we asked administrators to see if their opinions differed:

- 1 Do you think administration should be formally reviewed/tendered every five years like the CMA's recommendation for Fiduciary Managers?

Responses were divided right down the middle on this question with comments reflecting their different stances:

For	Against
<p>'I think it is good to review services on a regular basis and five or seven years is a good timescale. Some administrators become complacent and fail to make improvements or changes. A regular review will keep them honest'</p> <p>'Particularly if it is an active scheme so that you get the best service and value for money'</p>	<p>'Admin not the same as fiduciary management but a regular review of admin quality is essential, as is an understanding of the point at which an administrator should be changed'</p> <p>'Relationships develop over time, 5 years may be the right time to review/tender, however I don't think this should be prescriptive. A 'benchmarking' exercise every five years may be more applicable</p>

Those who were against a formal review still believed a benchmarking exercise or less formal review was a sensible alternative.

KGC always recommends benchmarking services regularly, not just administration. Every five years seems sensible, this ensures the service you receive is the service you need and the fee is in line with both that of service scope and market practice.

2

If you could change one thing in administration, what would it be and why?

Pensions managers and trustees weren't afraid to give their views and their responses to this question came as no surprise. The desire for greater automation, administration to be recognised as an important part of pensions and schemes to be prepared to pay a fair price for a quality service. Comments include:

Automation



'Automation – should be easier to achieve than it is'



'Full automation to be error free and reduced costs'



'Speed up the introduction of automated quotation processes within the final salary/defined benefit area. The time taken in calculating and issuing retirement quotations and CETV values is a prime source of complaint from members'

The Importance of Administration



'Elevate the importance of good administration. It has long been a bit of a poor relation'



'The name! I think there is a misconception that Pensions Administration is document production, sending and receiving letters/forms only. However, there is such a need for people with calculations experience (for DB) and an understanding of key legislation that I think the word Administration does it a disservice'



'Everyone needs to recognise how important administration is and be prepared to pay for a well-staffed organisation which is not constantly looking to make short cuts and has 'thinking' time to consider the quality of the responses and service offered'



'Its name! Because 'administration' implies paper-pushing and pension administrators are highly trained, highly skilled individuals and that should be recognised as such'

Valuing Administration



'I think not always looking to cut costs is the change I would like to see. Most employers and trustees are happy to pay very large sums to actuaries and lawyers, yet they try to reduce the cost of the administration and then complain when the service is not as good as it should be'

And Finally...



'I have 3 things!! Listed in order of importance to me:

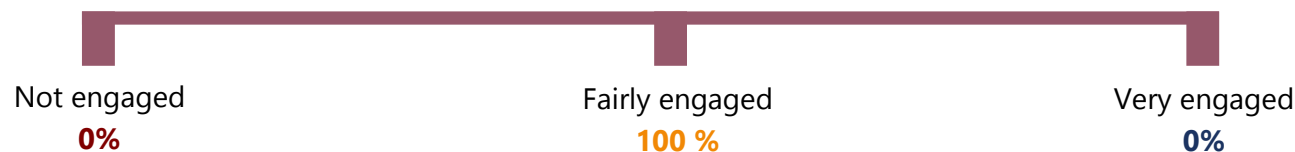
1. I would love TPAs to be proactive in their thinking – not just bring me a problem but also provide a possible solution for consideration. When a deadline for delivering a report/paper/project costing is given to the TPA
2. I would love them to exceed my expectation rather than delivering that report/paper etc at 6pm on the day of the deadline.
3. I would also like TPAs to consider the timing of passing work/queries/problems to me – Friday afternoon is not the best time!'



More proactivity from the administrators e.g. if they come across an issue that has been seen before, make some constructive suggestions to the trustees to avoid starting from scratch every time and also to ensure some constancy in member treatment.

3

People are starting to think more about their pensions, how engaged have your membership been over the previous 12 months?



Membership engagement isn't at a high level according to pensions managers and trustees. Members are only showing interest near retirement, following announcements of changes to the scheme or a de-risking exercise. There's a lack of interest on an ongoing basis particularly with DC members.

4

What do you see having the biggest impact on pensions over next 12-18 months?

Let's see whether trustees and pension managers agreed with the administrators over what would impact on pensions the most in the next 12-18 months:



50 % stated GMP Equalisation would have the biggest impact



38 % said Brexit and the effect on the economy was at the top of their list



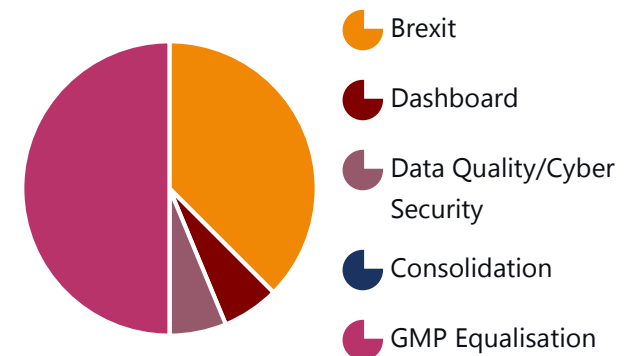
6% considered Pensions Dashboard to have the biggest impact



6% thought Data Quality/Cyber Security would have the biggest impact



0% said further consolidation of the market was at the top of their list




GMP equalisation is also top of the list for pensions managers and trustees but not without a degree of cynicism:

'Bigger tick for GMP equalisation – nice work for actuaries and lawyers'

'The GMP equalisation is going to be expensive for very little gain for our membership, given the level of pensions in payment and the size of the GMPs for the period in question'

Brexit follows in second place as trustees and pension managers are concerned over its economic impact along with **Data Quality/Cyber Security**. And one commented ESG would be a big item for this October and next, with a DB SIP having to be added to a publicly available website from October 2020.



Summary

Final Thoughts . . .

What has 2019 taught us so far?

Administrators are becoming less inclusive, but is this a product of our time? Nothing in life is free and with administration fees being driven down so far in the past, it's not surprising firms are finding ways to increase their small profit margins.

Small schemes are still paying far more than larger schemes on a per member basis. Economy of scale is still an issue for smaller schemes. Trustees should consider a cost/benefit analysis and review how their scheme operates to see if it can be more streamlined in other areas to avoid extra costs.

Online access for members is becoming increasingly important as people are more interested in their financial future. But just because a tool is available, it doesn't necessarily mean it's useful and therefore worth paying extra for. Trustees should engage with their membership and find out what they'd like to be able to do online. Trustees should collaborate with administrators to explore what online options could be used to avoid exceeding activity limits and therefore being hit with extra charges. We believe over the next few years, schemes should invest in communicating with their members, driving up engagement and making people see just how important saving for retirement really is.

For administrators, GMP equalisation is their biggest concern for the next 12-18 months, and trustees and pension managers agreed. But it seems not because it'll have the biggest impact on members – more because of the expense and resources needed to get it done.

Market consolidation is having a wider impact, administrators are seeing more schemes looking at their options. The mid-tier Employee Benefit Consultancies are seeing larger schemes considering them as potential partners. Those responsible for schemes are standing up to poor service and if they're not getting what they expect, they will consider transitioning elsewhere.

Administration isn't standing still anymore, and many providers have upped their game. Technology is a huge focus and we're seeing administrators investing heavily in their systems to improve service, member engagement and productivity.

What can we expect to see before our 11th Survey...perhaps Brexit will have finally happened? Administrators will probably still be working their way through GMP equalisation, and maybe we'll see further consolidation of the administration market?!



Appendix

Services Provided

Below are the tasks we consider should be included in the core service types.

- ✓ Implement & maintain up to date membership records
- ✓ Maintenance & security of members' information in accordance with current Data Protection Act requirements
- ✓ Calculate & advise benefits for DB leavers, retirements & deaths (deferred/pensioner)
- ✓ Calculate & advise benefits for DC at retirement & leavers
- ✓ Benefit & option quotes (leaver/retirement/death)
- ✓ Complying with requirements for DB to DC transfers
- ✓ Regular check/update (if necessary) of benefit calculation routines
- ✓ Dealing with DC transfers (in/out)
- ✓ Advance notification of forthcoming retirements
- ✓ Calculation of pension increases & notification to pensioners
- ✓ Bespoke administration stewardship report
- ✓ Input to & production of Annual Benefit Statements (SMPI)
- ✓ Annual membership schedule (renewal DC active membership)
- ✓ The Pensions Regulator reporting requirements
- ✓ Liaison with Investment Manager/Consultants/Scheme Actuary/Risk Benefit Provider/AVC Providers when required
- ✓ Monthly DC contribution cycle (Money Purchase & AVCs)
- ✓ Administration of AVC arrangements including acting as lead Administrator to AVC providers
- ✓ Co-ordination & distribution of annual AVC statements
- ✓ Production & safe keeping of members' Expression of Wish forms
- ✓ Member enquiries
- ✓ Direct branded telephone/email for members
- ✓ Monitor payment of contributions schedule
- ✓ Provision of regular Management Information Statistics to Trustees of scheme activity
- ✓ Administration guide
- ✓ Automatic existence checking for pensioners (minimum monthly)
- ✓ Insured risk administration
- ✓ Provision of data for actuarial valuation
- ✓ Attendance at Trustee Meetings
- ✓ Educate Trustees on pension administration matters, give general advice on scheme administration activities
- ✓ Issue periodic communications to Trustees on industry administration practice & developments
- ✓ Dissemination of current views e.g. 'house view' of particular piece of legislation
- ✓ Act as Scheme Practitioner
- ✓ Complete Tax Returns and deal with any payments to HMRC
- ✓ Management/operation of Trustee bank accounts cash & benefit payments
- ✓ Maintain investment transaction records
- ✓ Transaction summary (minimum quarterly)
- ✓ Production of draft Annual Report & Accounts
- ✓ Arrange/facilitate annual audit
- ✓ Pay/claim tax & deal with HMRC, calculations of tax, LTA charge, unauthorised payments, refund of contributions & commutation payments
- ✓ Cashflow management – reconciliation of payments/receipts (minimum monthly)/obtain & check bank statements
- ✓ Periodic pensioner payment
- ✓ Annual payslip production & periodic payslip if pension changes by more than £5
- ✓ Annual P60
- ✓ Provide LATA information to pensioners
- ✓ Pensioner correspondence & 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, legal 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[®] assess 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 skills as a whole, identifying how individual attributes fit within 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

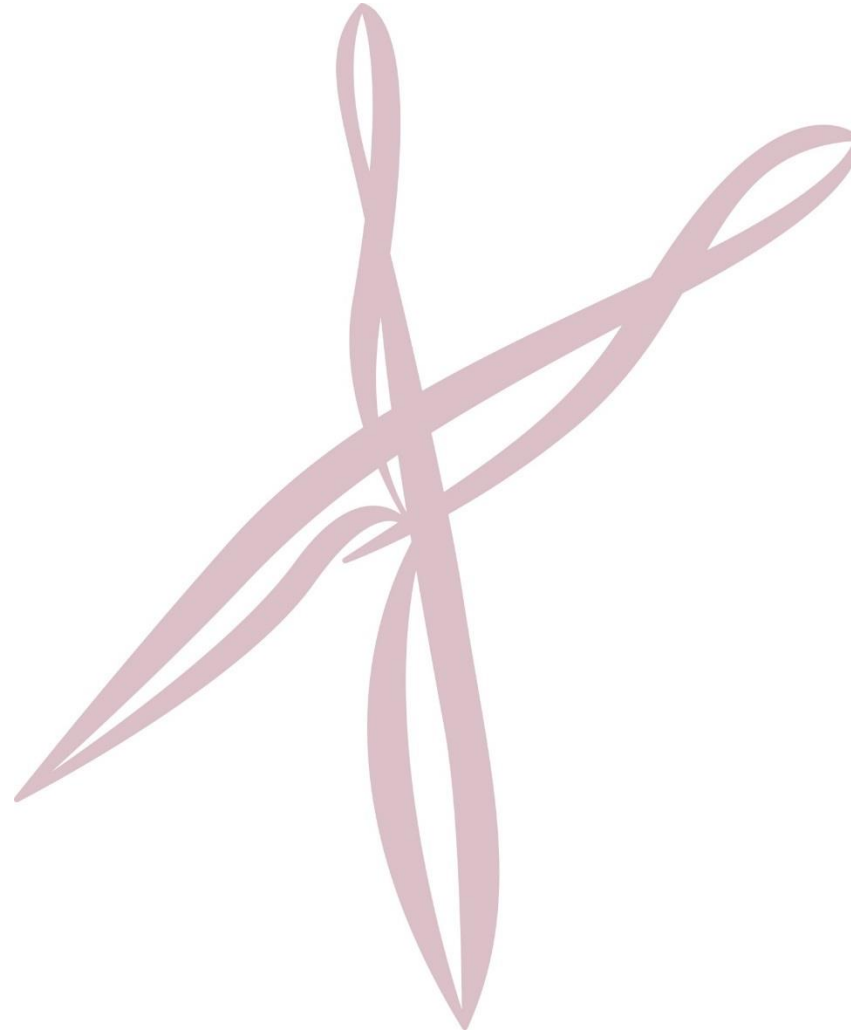


In the DC world it is important trustees and employers understand and meet their regulatory responsibilities. An expert with a long-standing DC heritage, we provide practical, operational or strategic support helping demonstrate a high degree of due diligence and regulatory compliance. We work with schemes 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 review 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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