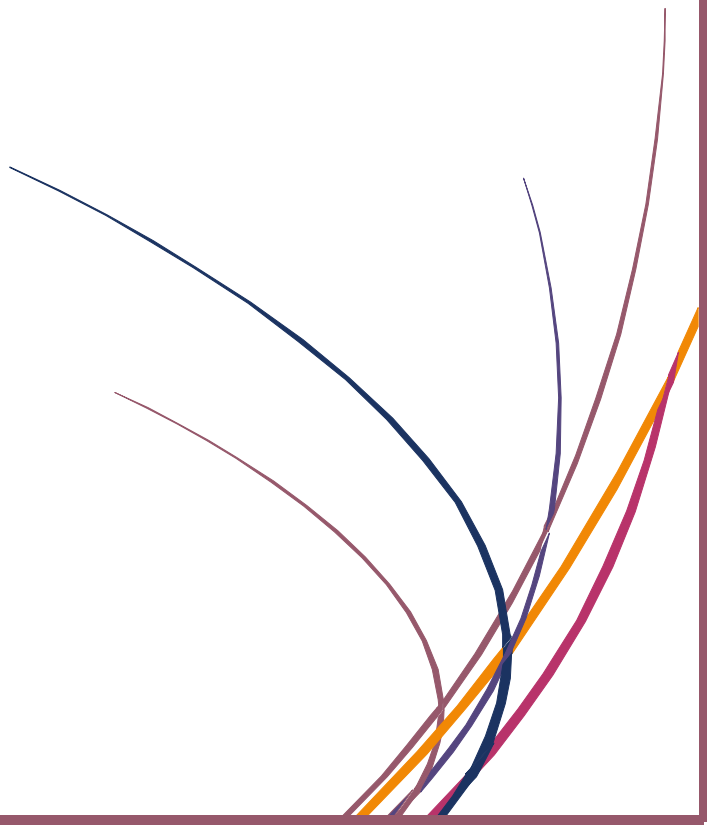
KGC associates

KGC's

11th Administration Survey

October 2021



Foreword

After taking a break to let administrators get to grips with the challenges of adapting to the impact of Covid 19, the Administration Survey is back!

During the last 18 months we've seen administrators tested to the limit – moving to new working practices while experiencing higher than normal demands from savers, and coping with their own resource constraints. How have administrators responded to these unprecedented times, and are they ready for the new wave of legislation and issues?

This report continues to benchmark services and costs, allowing trustees to make a high level judgement of whether they're receiving value for money for their schemes. So, if they're in doubt, they can investigate further. Administrators can check they're keeping up with industry trends in terms of what they provide – and at what cost.

Given all that's happened in the last year, perhaps the section covering industry views will be of more interest to you. We understand what's worrying administrators and where they see potential for issues in delivering their services.

The world may have moved on with remote and flexible working, but pension regulation and change keeps marching on. Read how the industry is embracing, or resisting, the challenge.

We'd like to thank all those who participated in our 11th Administration Survey, we hope you find it as interesting as we do.

Hayley Mudge, Report Author

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Introduction

Introduction

In Q2 2021, 16 administrators participated in our 11th Administration Survey. We should note here, the lower number of participants reflects the contracting supply side of the administration market. Each firm provided information on fees, services, engagement and the sector. We base the results on a set of core services we consider central to successfully administering a scheme (see Appendix A).

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 Year One Costs and how these compare on a Unit Cost per Member (UCM) basis. As always, the Year One section for each scheme size highlights the lowest, highest and average fees.

Next, we look at the core services administrators include and compare these to their 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 with DC membership. We analyse web functionality and the cost 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 sector view from the perspective of the administrators and provides an insight into what schemes are focusing on.

Scenario Assumptions

Firms cost for eight different scheme membership 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

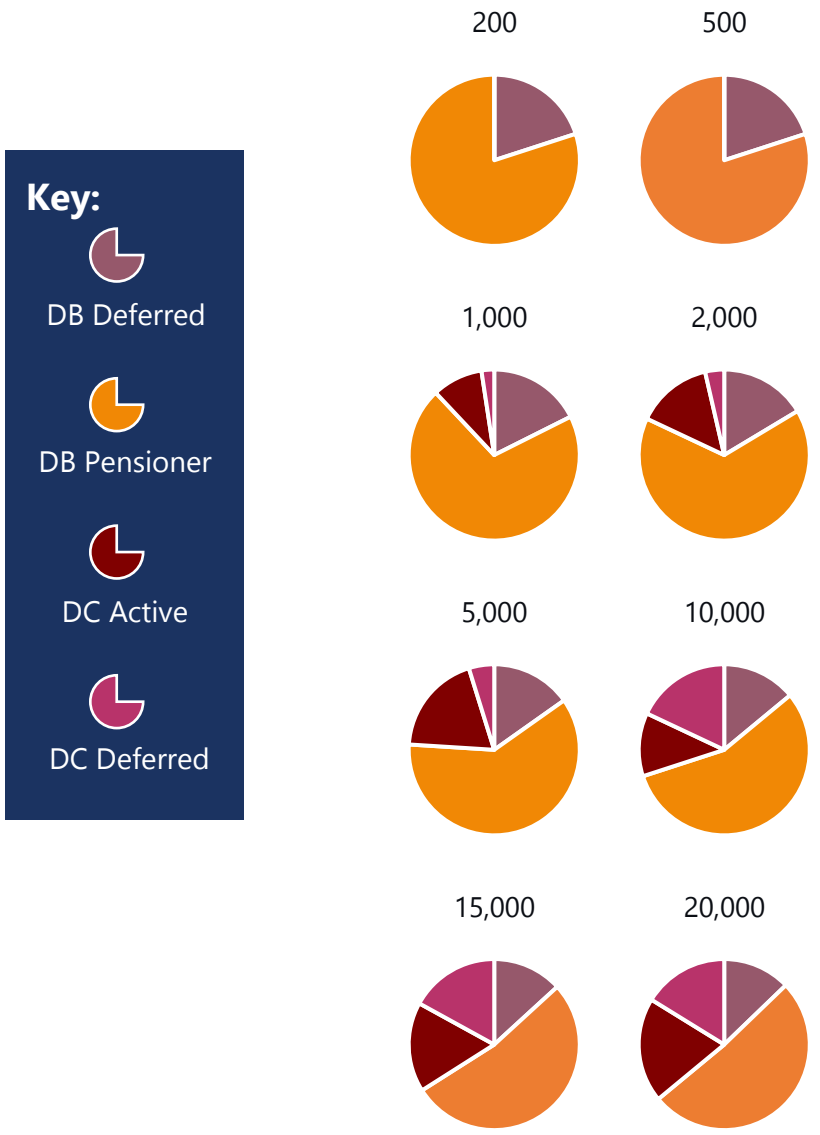
- Two bank accounts (virtual or physical) DB & DC for transparency purposes
- Preparation of Report & Accounts to audit

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:



Fee Analysis

Fees are segmented into five different categories for each scheme size, with the average fee highlighted. Administrators are asked to complete responses only where they deliver services for a particular scheme size. Fees are then 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

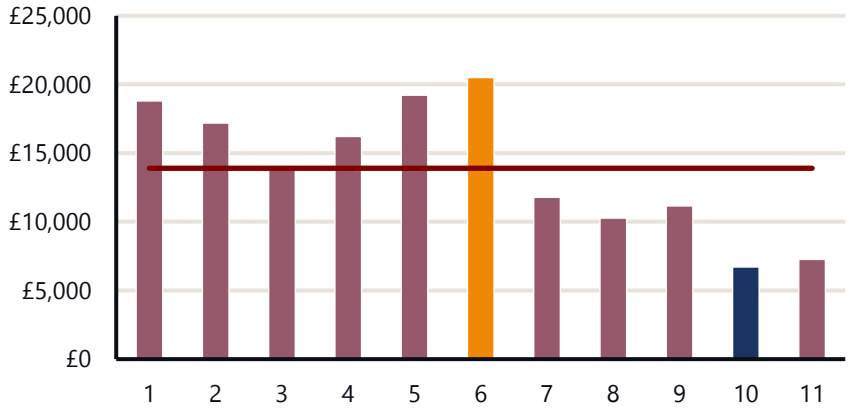
Unit Cost per Member

In the Year One Costs section we include a 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 **£119.76** and **£77.92** per member compared to the UCM of a 15,000 and 20,000 life scheme, where the average is **£27.78** and **£27.50** per member respectively. This is a significant difference!

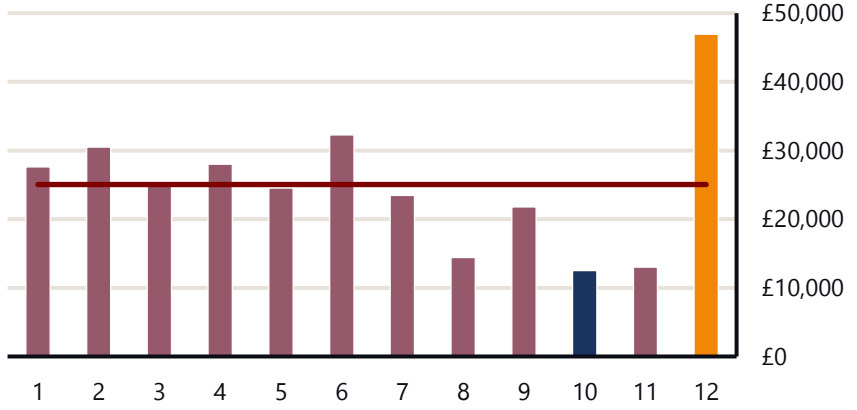
Administration Fee

200 life scheme



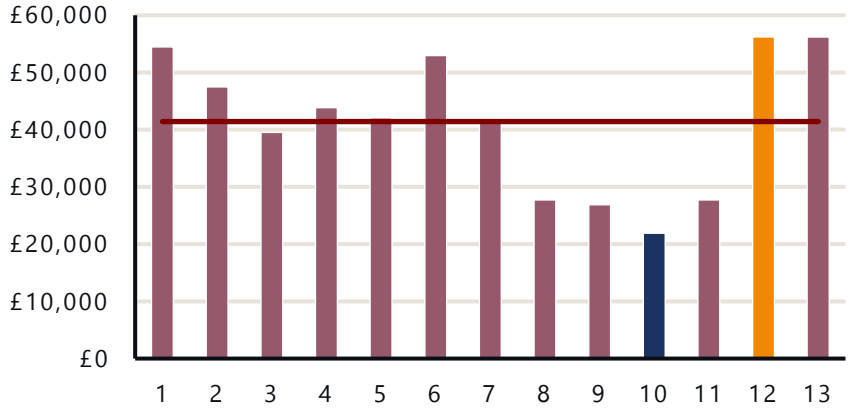
Highest Fee £20,501 | Average Fee £13,900 | Lowest Fee £6,707

500 life scheme



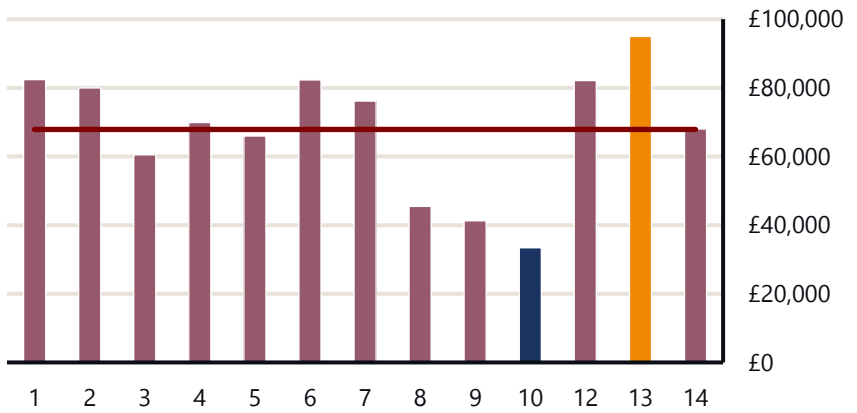
Highest Fee £46,930 | Average Fee £25,039 | Lowest Fee £12,509

1,000 life scheme



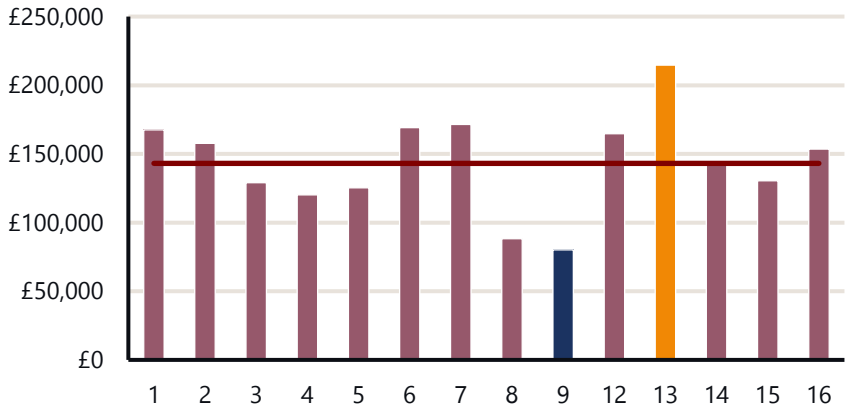
Highest Fee £56,205 | Average Fee £41,423 | Lowest Fee £21,901

2,000 life scheme



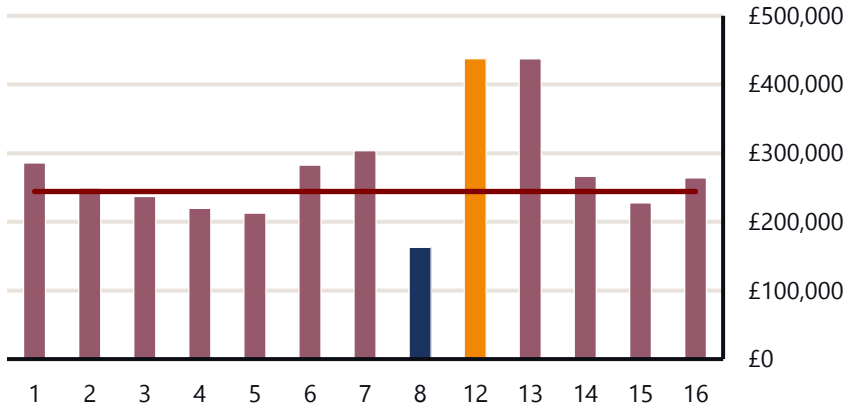
Highest Fee £94,966 | Average Fee £67,867 | Lowest Fee £33,397

5,000 life scheme



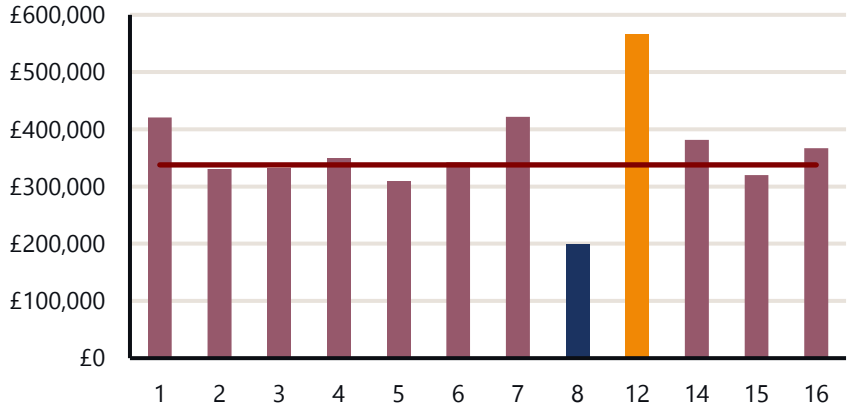
Highest Fee £214,633 | Average Fee £143,105 | Lowest Fee £80,120

10,000 life scheme



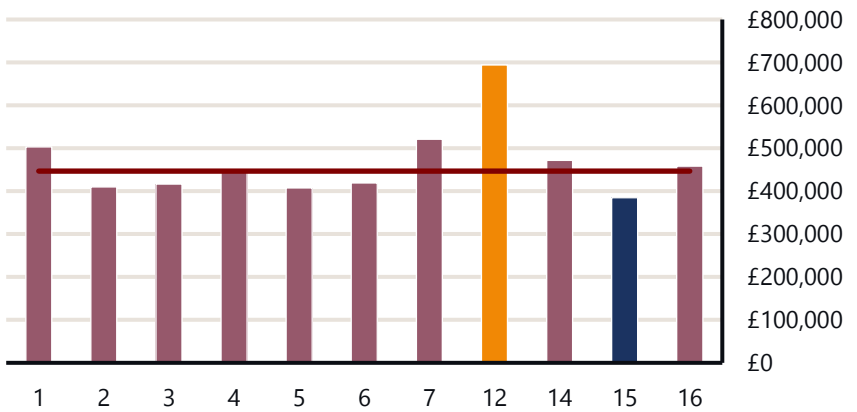
Highest Fee £437,520 | Average Fee £244,094 | Lowest Fee £162,800

15,000 life scheme



Highest Fee £565,776 | Average Fee £337,741 | Lowest Fee £198,180

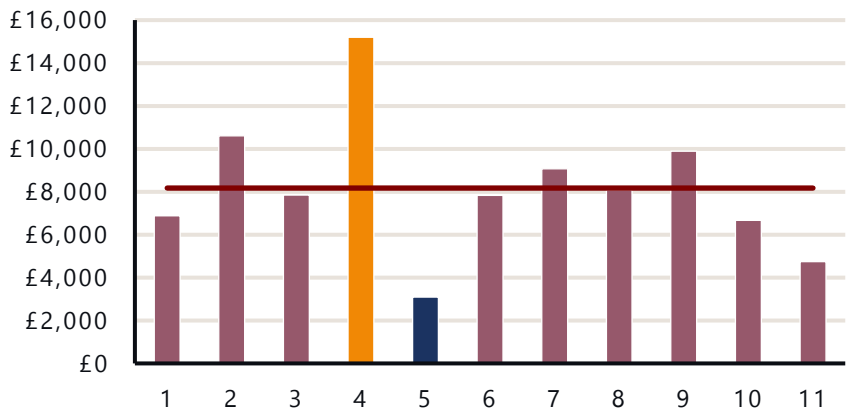
20,000 life scheme



Highest Fee £694,040 | Average Fee £446,758 | Lowest Fee £348,727

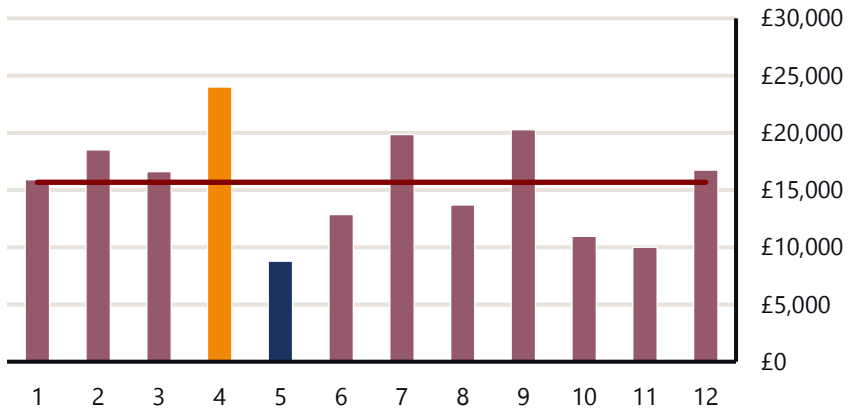
Pensioner Costs

200 life scheme



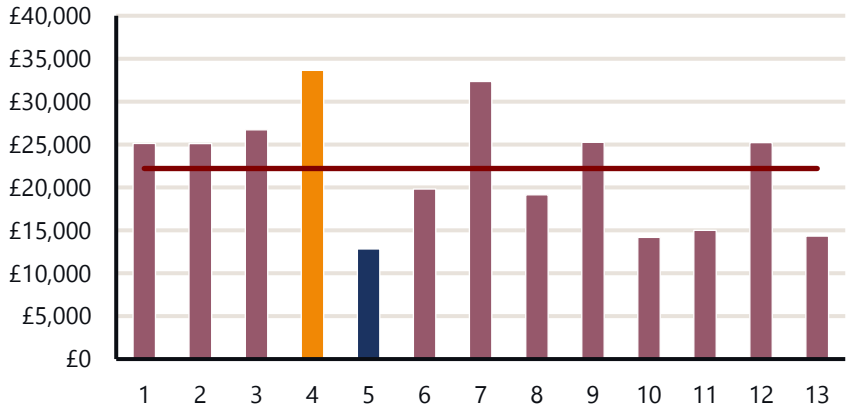
Highest Fee £15,200 | Average Fee £8,173 | Lowest Fee £3,091

500 life scheme



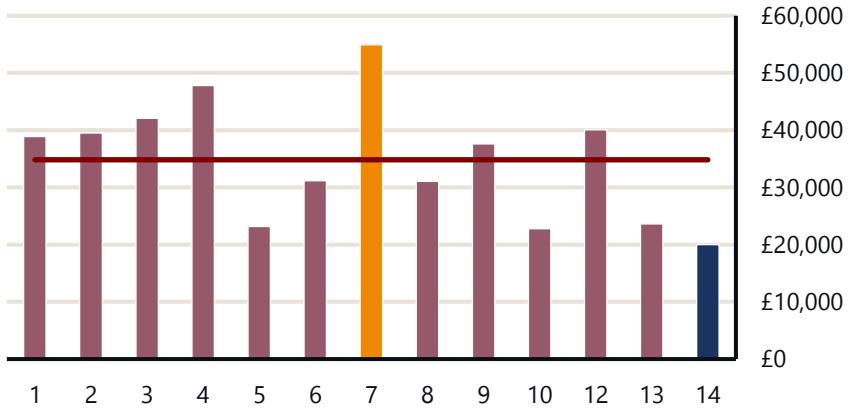
Highest Fee £24,000 | Average Fee £15,678 | Lowest Fee £8,781

1,000 life scheme



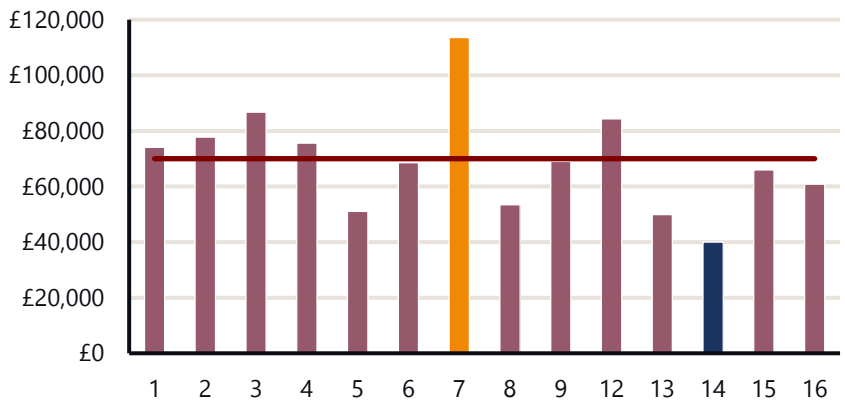
Highest Fee £33,640 | Average Fee £22,202 | Lowest Fee £12,828

2,000 life scheme



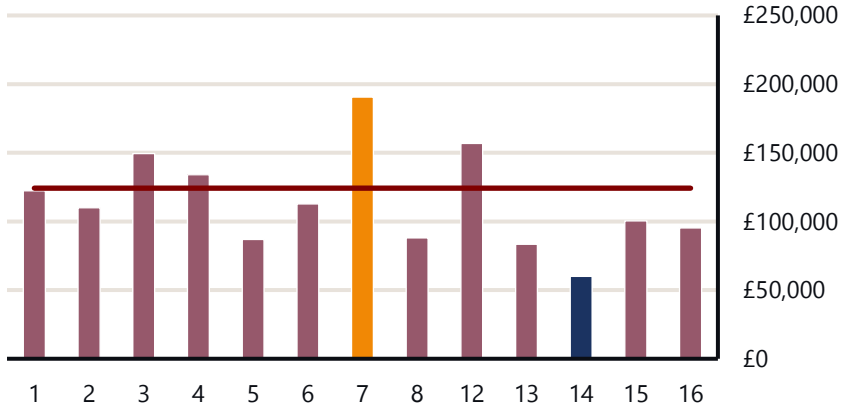
Highest Fee £54,926 | Average Fee £34,824 | Lowest Fee £20,000

5,000 life scheme



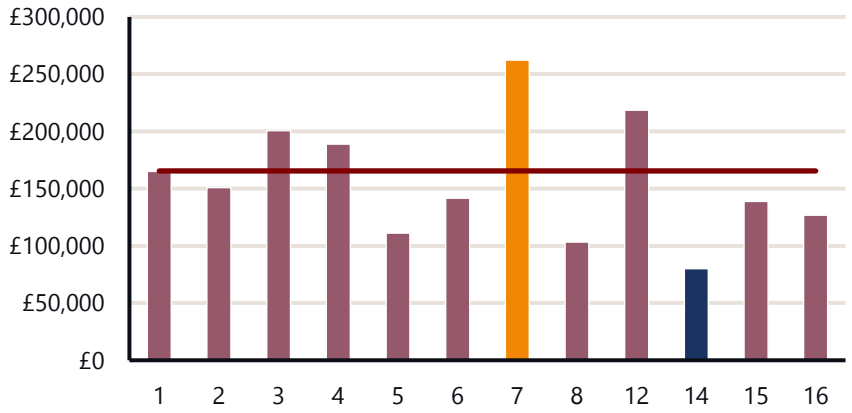
Highest Fee £113,580 | Average Fee £70,000 | Lowest Fee £40,000

10,000 life scheme



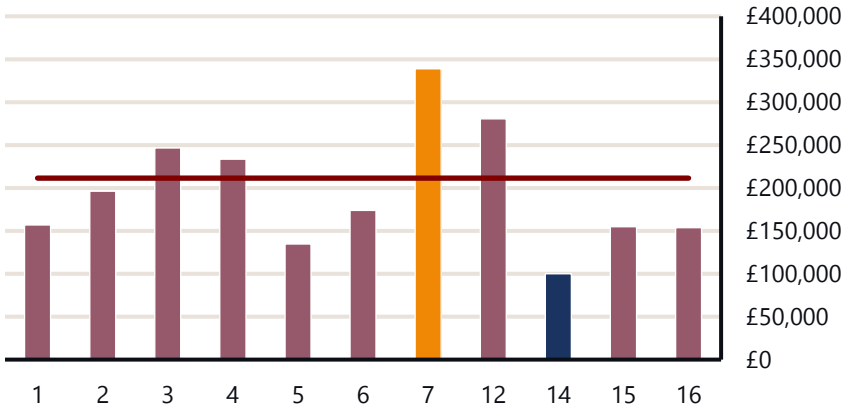
Highest Fee £190,530 | Average Fee £124,219 | Lowest Fee £60,000

15,000 life scheme



Highest Fee £262,257 | Average Fee £165,441 | Lowest Fee £80,000

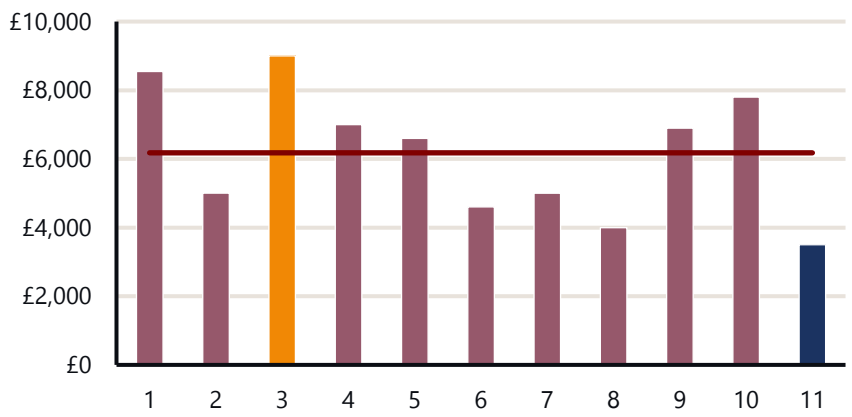
20,000 life scheme



Highest Fee £338,772 | Average Fee £211,414 | Lowest Fee £100,000

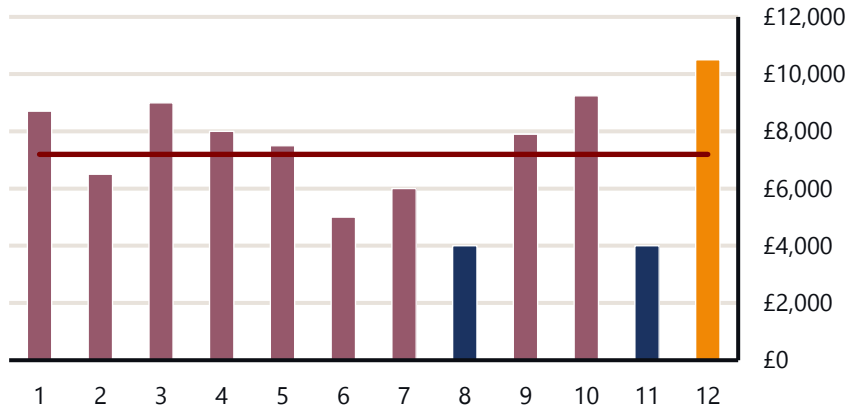
Treasury & Accounts

200 life scheme



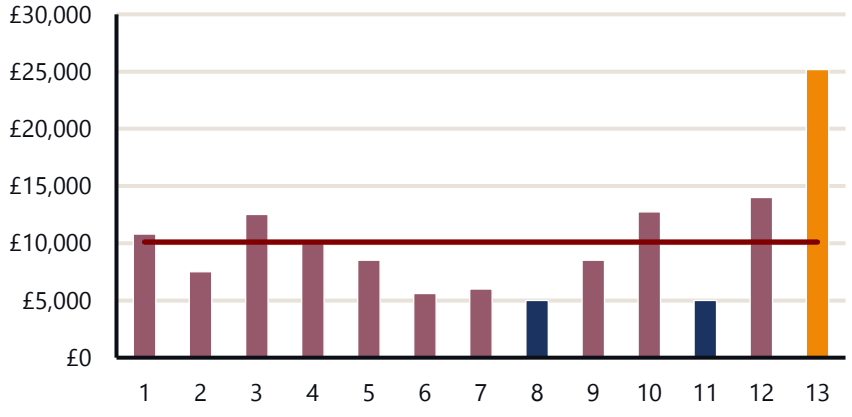
Highest Fee £9,000 | Average Fee £6,177 | Lowest Fee £3,500

500 life scheme



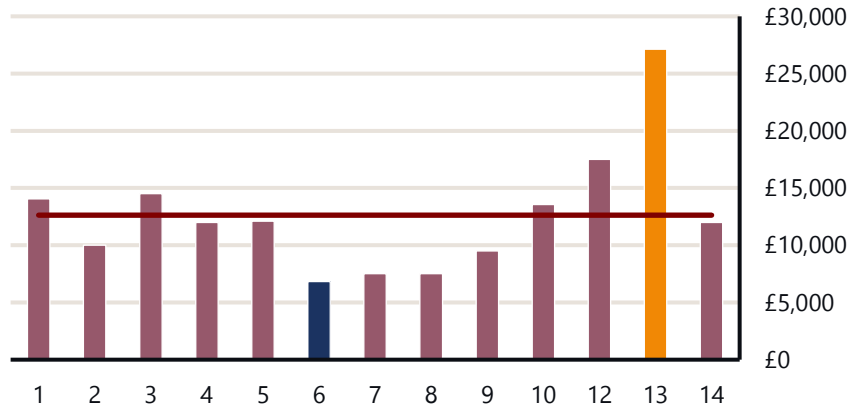
Highest Fee £10,500 | Average Fee £7,195 | Lowest Fee £4,000

1,000 life scheme



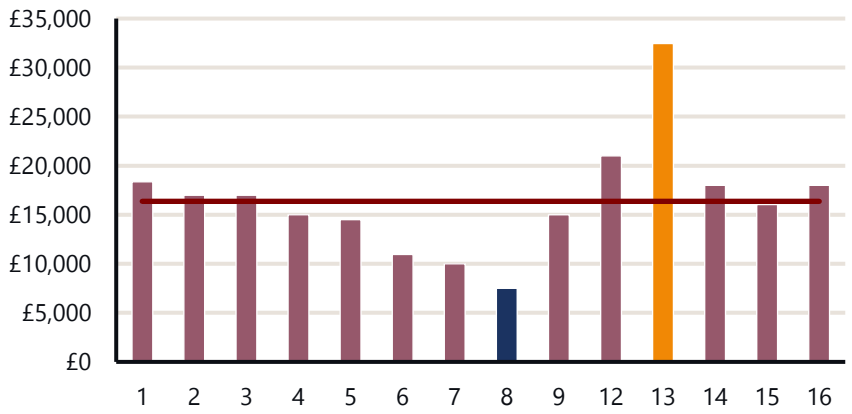
Highest Fee £25,176 | Average Fee £10,102 | Lowest Fee £5,000

2,000 life scheme



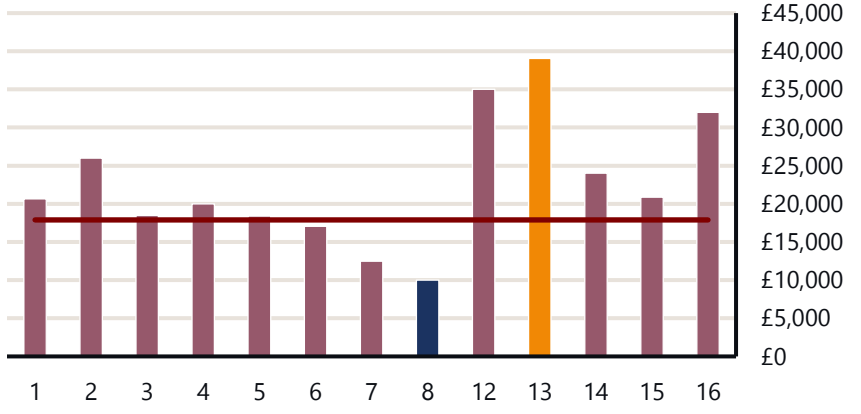
Highest Fee £27,127 | Average Fee £12,627 | Lowest Fee £6,826

5,000 life scheme



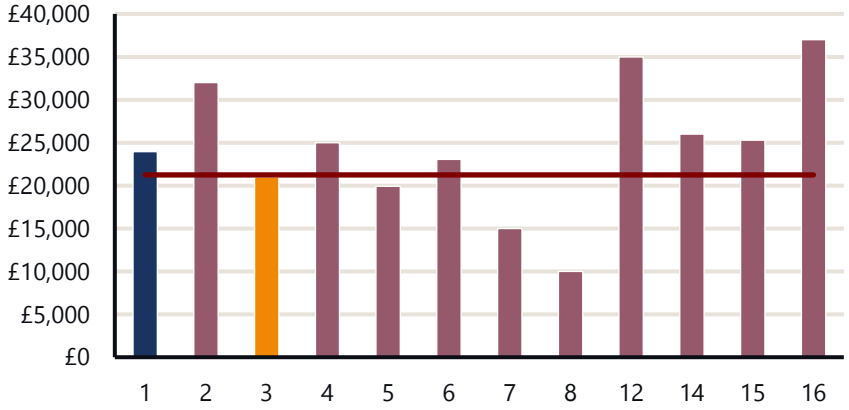
Highest Fee £32,456 | Average Fee £16,369 | Lowest Fee £7,500

10,000 life scheme



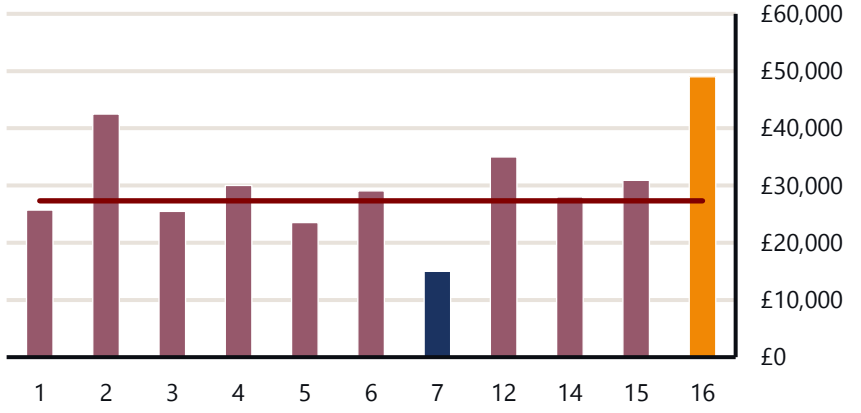
Highest Fee £39,056 | Average Fee £17,890 | Lowest Fee £10,000

15,000 life scheme



Highest Fee £37,000 | Average Fee £21,238 | Lowest Fee £10,000

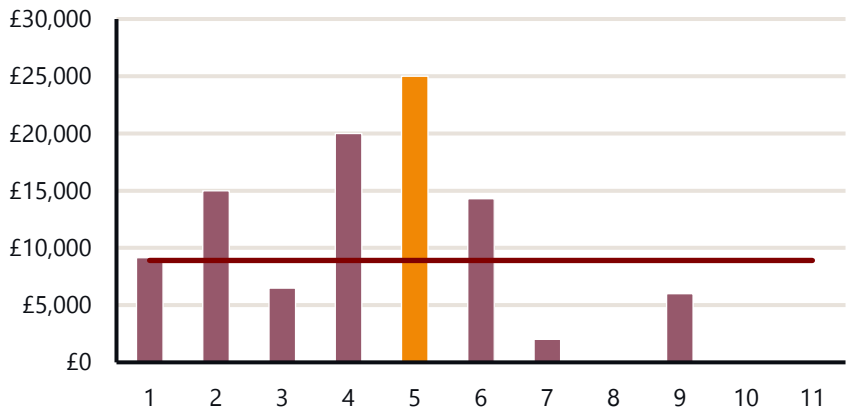
20,000 life scheme



Highest Fee £49,000 | Average Fee £27,320 | Lowest Fee £15,000

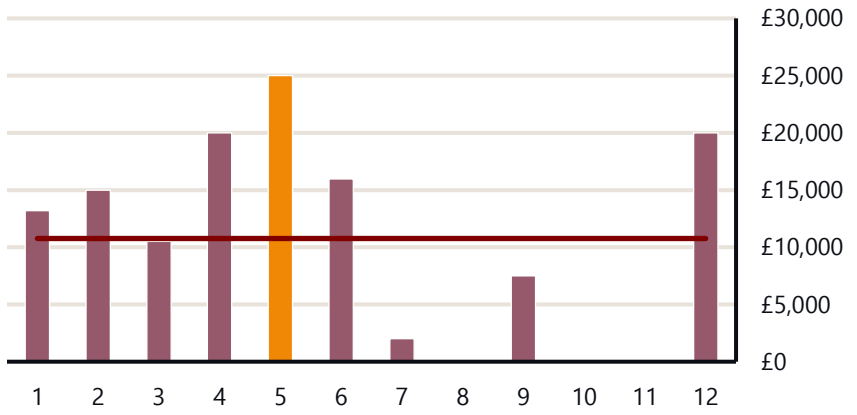
Implementation

200 life scheme



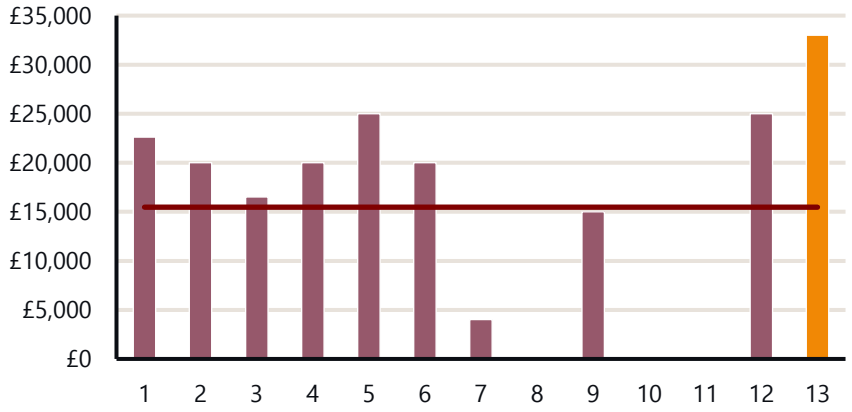
Highest Fee £25,000 | Average Fee £8,904 | Lowest Fee £0

500 life scheme



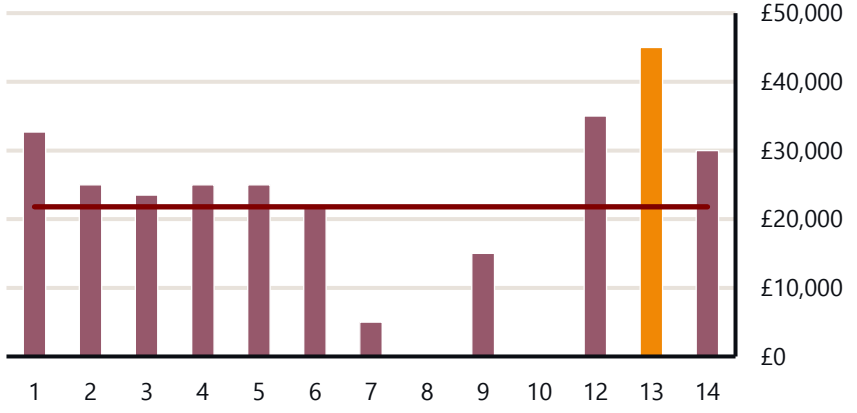
Highest Fee £25,000 | Average Fee £10,764 | Lowest Fee £0

1,000 life scheme



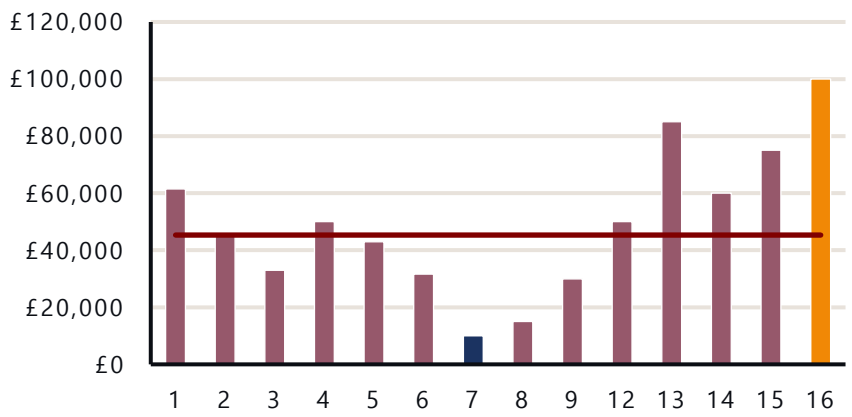
Highest Fee £33,000 | Average Fee £15,469 | Lowest Fee £0

2,000 life scheme



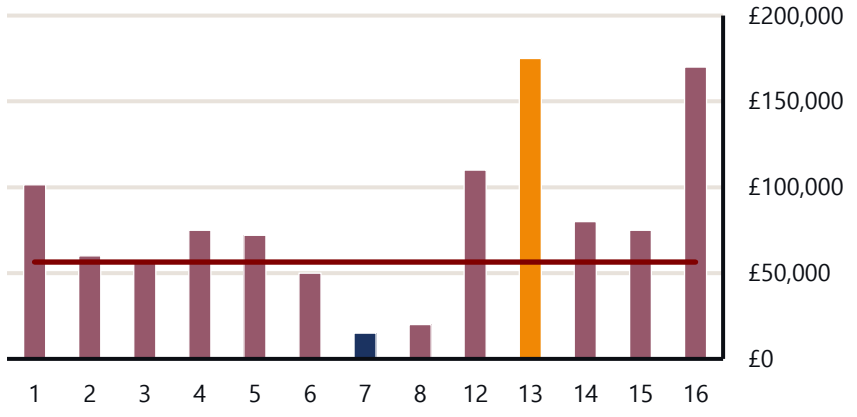
Highest Fee £45,000 | Average Fee £21,791 | Lowest Fee £0

5,000 life scheme



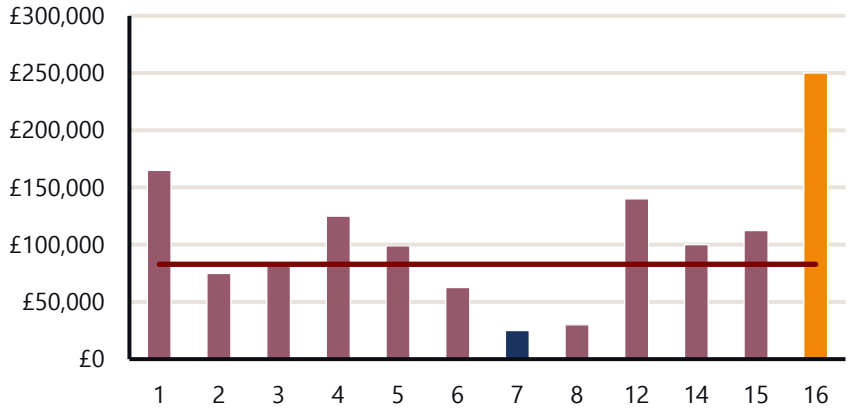
Highest Fee £100,000 | Average Fee £45,315 | Lowest Fee £10,000

10,000 life scheme



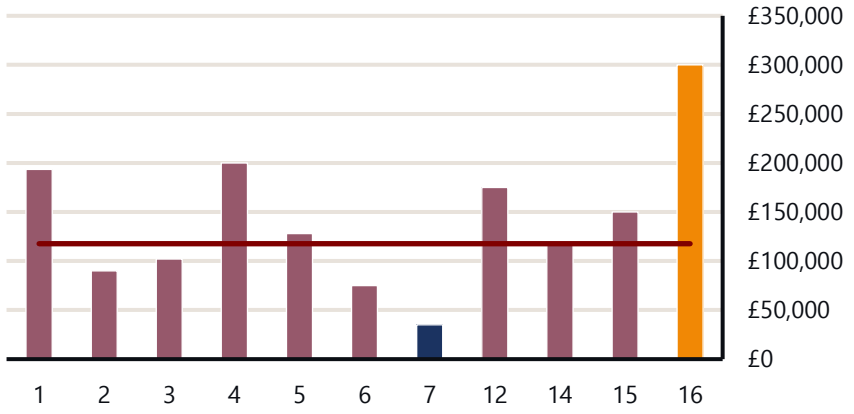
Highest Fee £175,000 | Average Fee £56,411 | Lowest Fee £15,000

15,000 life scheme



Highest Fee £250,000 | Average Fee £82,868 | Lowest Fee £25,000

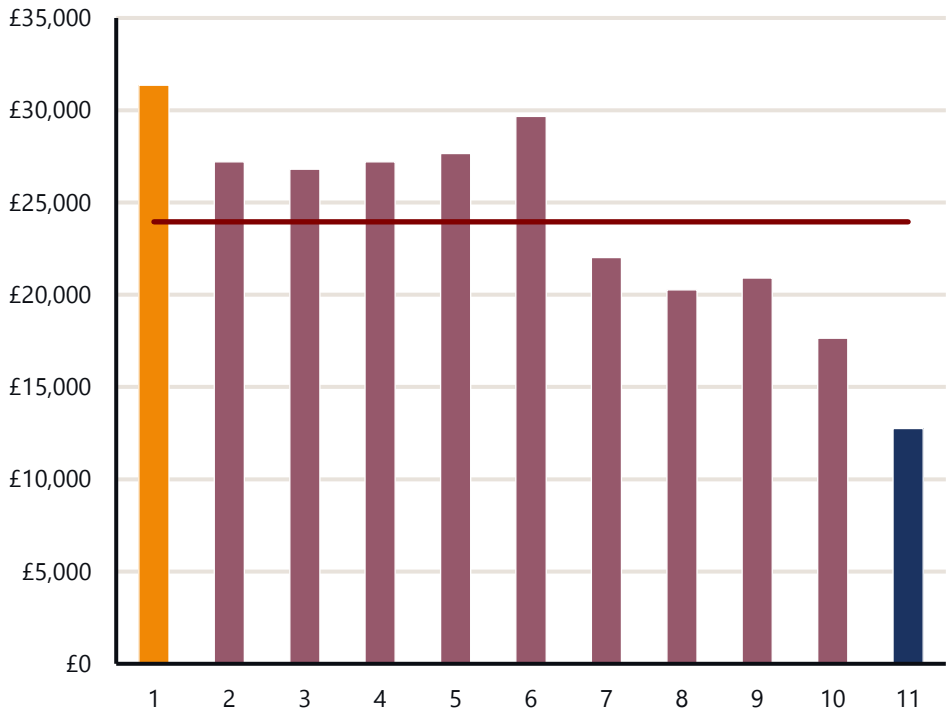
20,000 life scheme



Highest Fee £300,000 | Average Fee £117,648 | Lowest Fee £35,000

Year One

200 life scheme



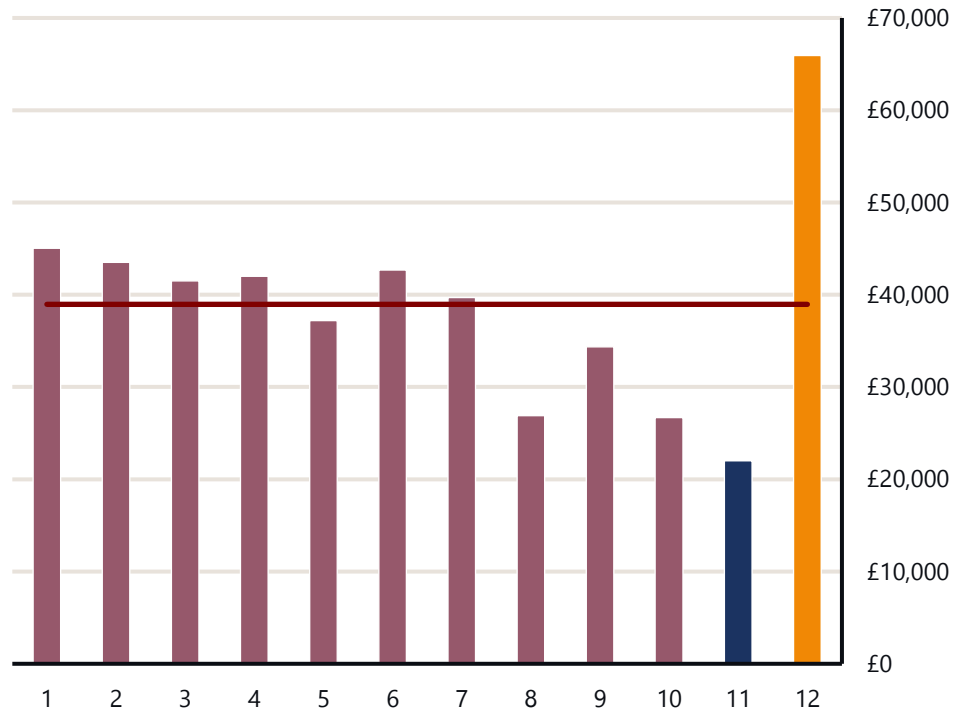
Highest Fee £31,355 | Average Fee £23,951 | Lowest Fee £12,750

Highest £156.78

Average £119.76

Lowest £63.75

500 life scheme



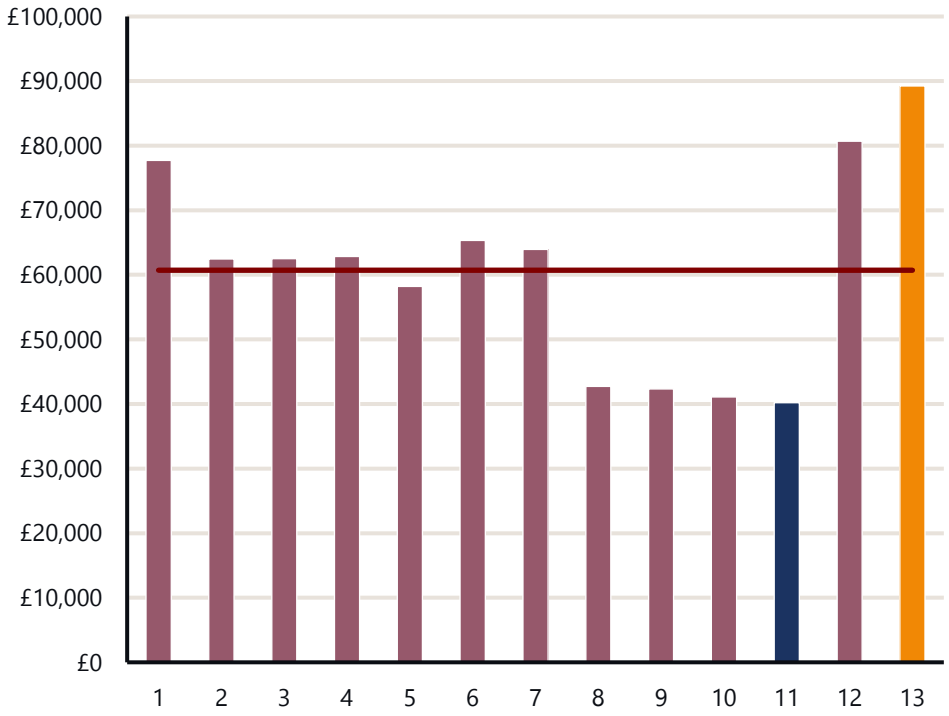
Highest Fee £65,930 | Average Fee £38,960 | Lowest Fee £22,000

Highest £131.86

Average £77.92

Lowest £44.00

1,000 life scheme



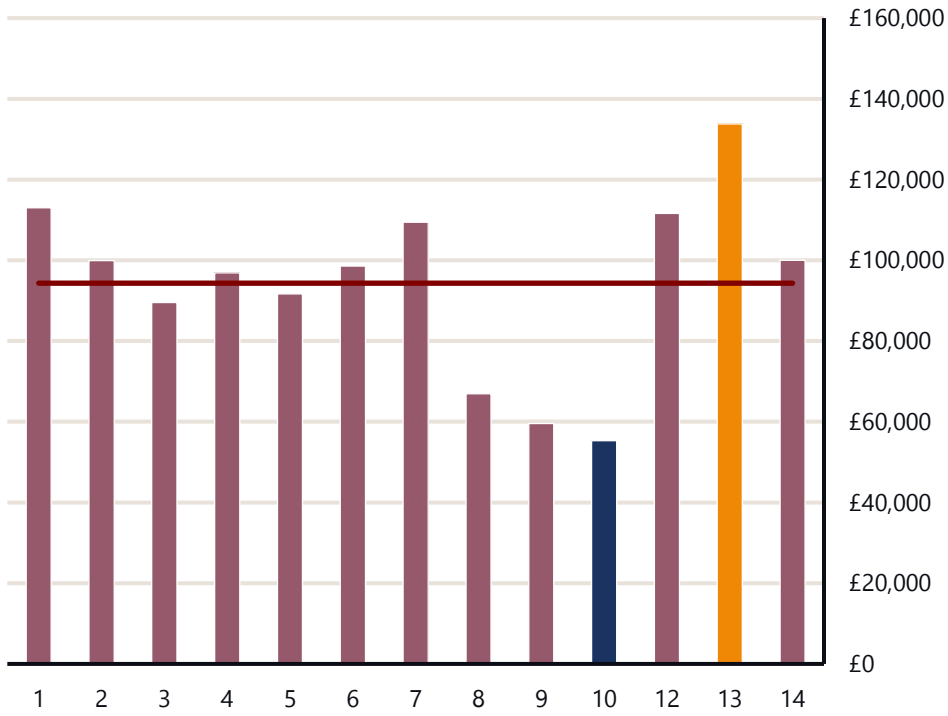
Highest Fee £89,240 | Average Fee £60,713 | Lowest Fee £40,197

Highest £89.24

Average £60.71

Lowest £40.20

2,000 life scheme



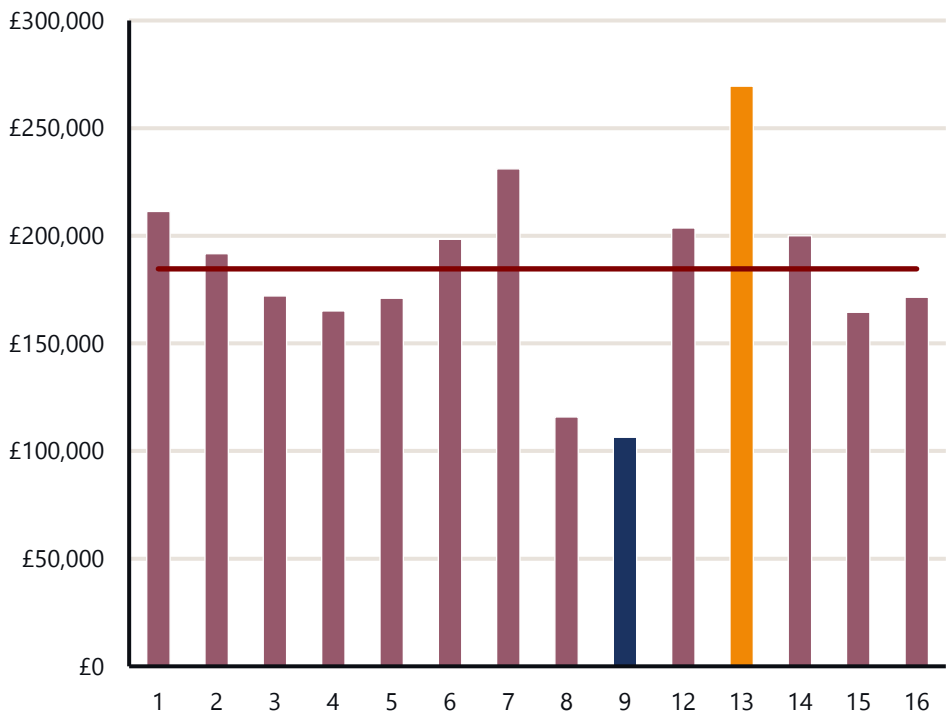
Highest Fee £133,786 | Average Fee £94,327 | Lowest Fee £55,306

Highest £66.89

Average £47.16

Lowest £27.65

5,000 life scheme



Highest Fee £269,487 | Average Fee £184,636 | Lowest Fee £106,390

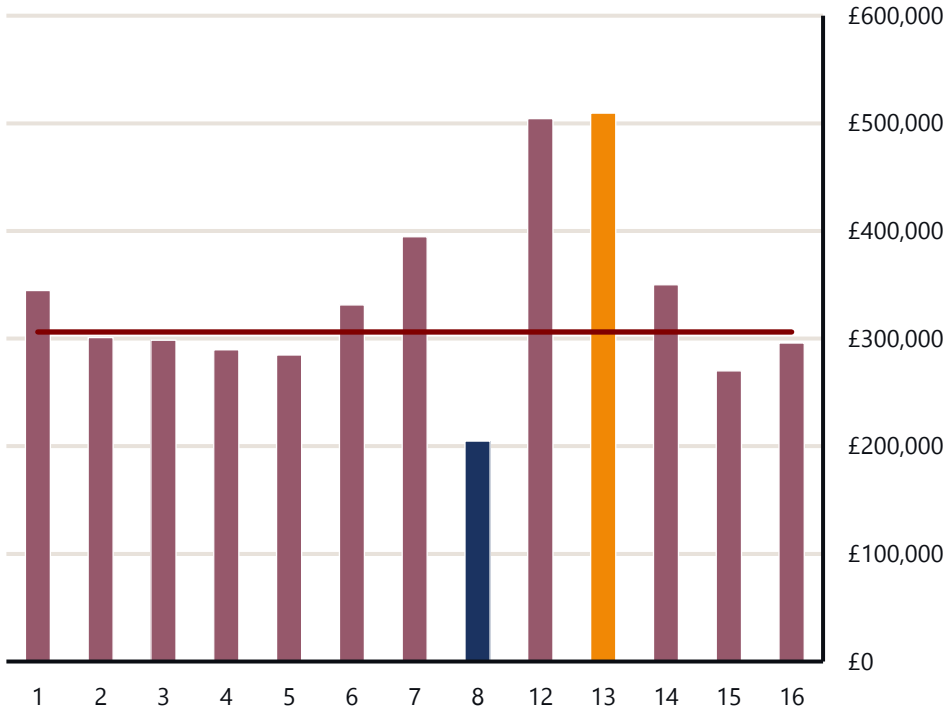
UCM

Highest £53.90

Average £36.93

Lowest £21.28

10,000 life scheme



Highest Fee £509,468 | Average Fee £306,157 | Lowest Fee £204,800

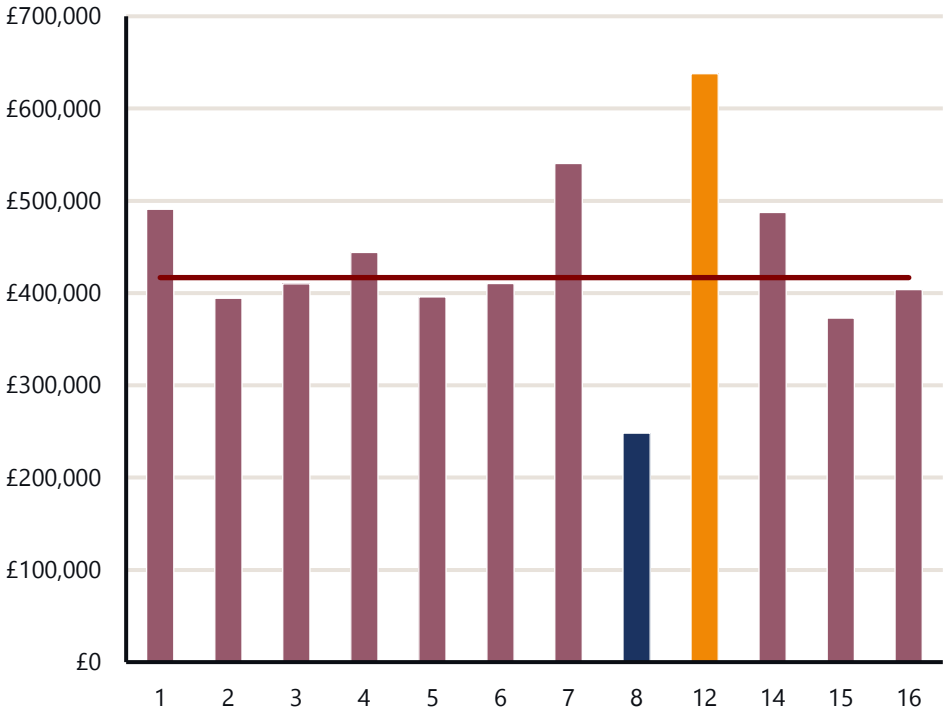
UCM

Highest £50.95

Average £30.62

Lowest £20.48

15,000 life scheme



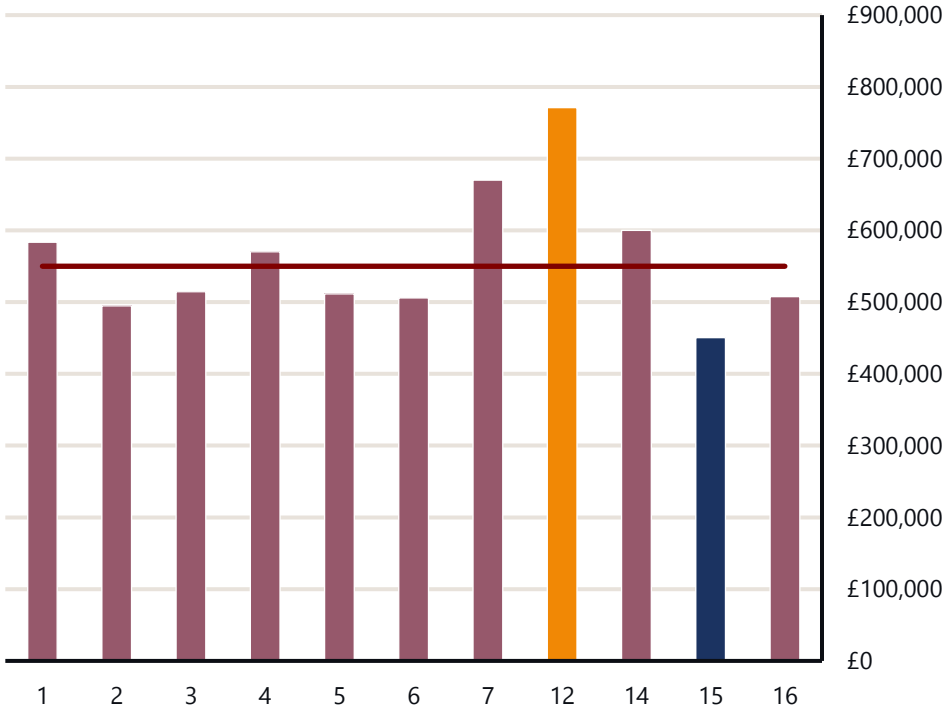
Highest Fee £637,776 | Average Fee £416,767 | Lowest Fee £248,180

Highest £42.52

Average £27.78

Lowest £16.55

20,000 life scheme

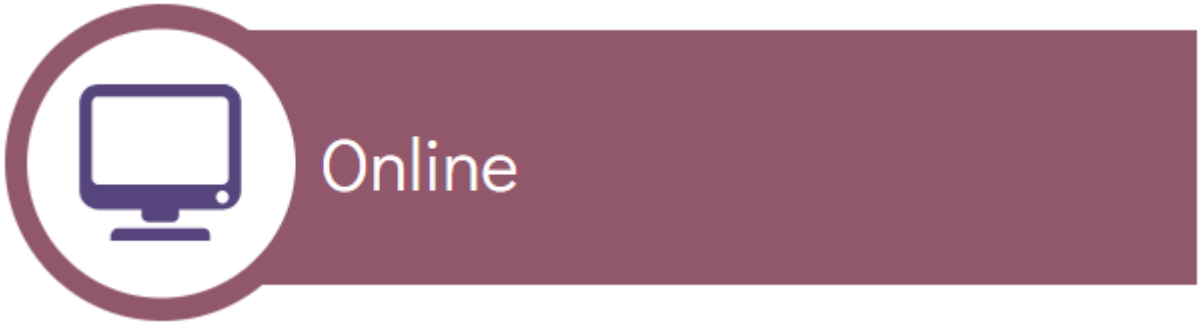


Highest Fee £771,040 | Average Fee £550,002 | Lowest Fee £450,516

Highest £38.55

Average £27.50

Lowest £22.53


Online

Web Services

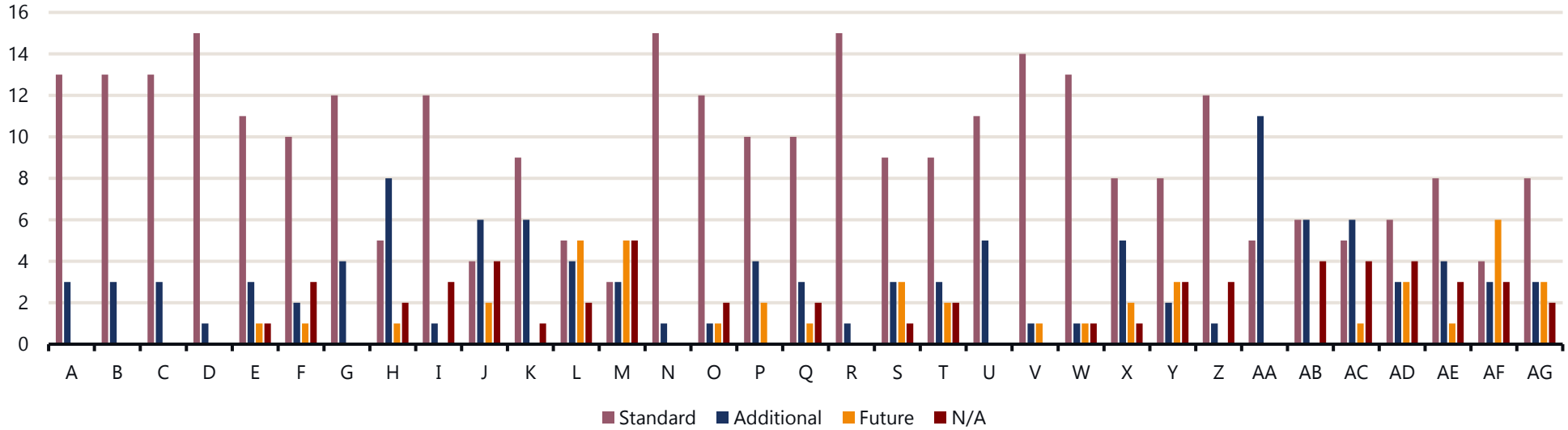
As many people moved to remote working, the impetus for accessing all things online has extended to pensions. However, trustees should work with their administrator to decide what functionality would suit their membership best. Just because an administrator can offer certain functionality doesn't always mean it'll be useful to members. Below are online services you can expect administrators to offer, some may offer all, and others may still be developing their web capabilities.

Column	Service
A	Member Access
B	Member Real Time Access
C	Personal Data Management for the 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 Transfer Quotes
L	Online Retirement – DB
M	Online Retirement – DC
N	Third Party Access e.g. Trustee & Employer
O	Online Data Exchange e.g. joiner, leaver etc.
P	Standard Suite of Reports e.g. age profiles, fund allocation
Q	Cashflow Management

Column	Service
R	Member Scheme Document Library (static data)
S	Online SLA Reporting
T	Online Stewardship Reporting
U	Branding
V	Help Facility
W	Third Party Real Time Access e.g. Trustee & Employer
X	Governance Tools e.g. Trustee minutes, dynamic risk register
Y	Online Contribution Processing
Z	STP – Investment
AA	Bespoke Reports – written specifically for the client
AB	Access to Administration System
AC	Administration Link to Online Liability Modellers
AD	Access to Workflow Systems
AE	Financial Modelling Tools
AF	Interactive Online Assistance
AG	Modern Communication Technologies – i.e. not paper based

Web Functionality

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

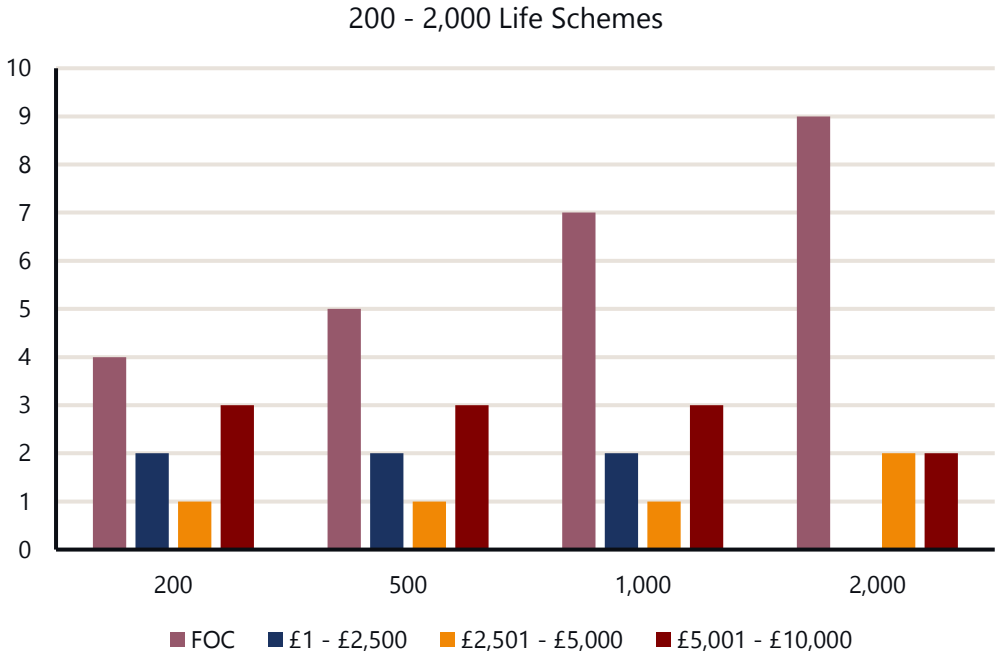


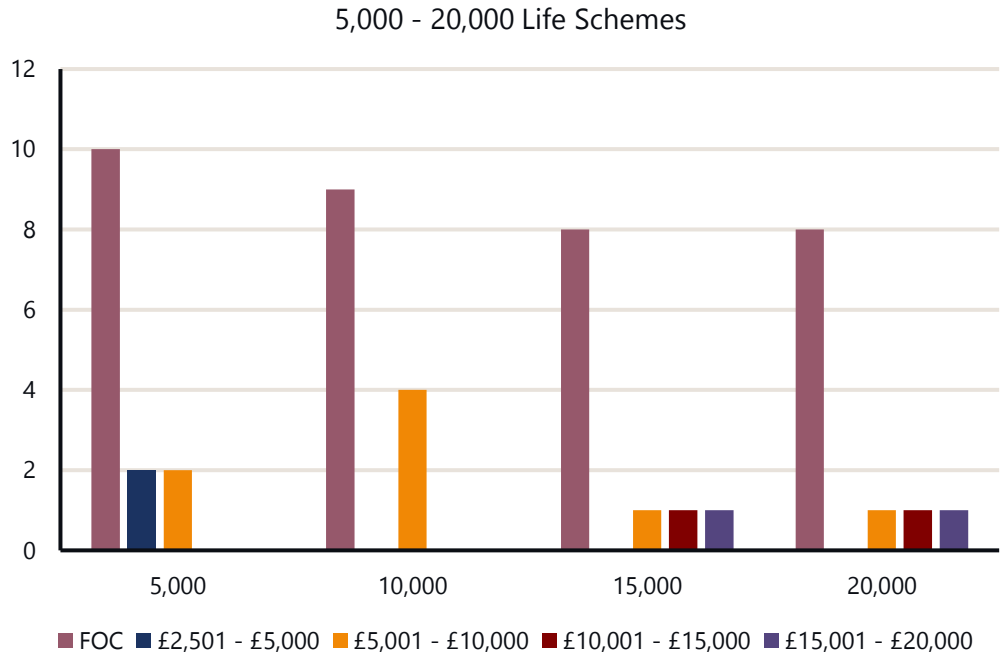
There's been no change in this year's survey for Expression of Wish Form (column D), this is offered as **standard** by 94% of firms. Third Party Access (Column N) and Member Scheme Document Library (static site) (column R) is also offered as **standard** by 94% of firms.

In our 11th Survey we've seen a shift, where every online service is offered as **standard** by three or more firms. This is a positive step forward and has likely been driven by more people wanting to access their information quickly and easily. Online Retirement for DC members (column M) was the most common service **not provided** this may reflect the complexity brought with DC freedoms and members needing more guidance, education or perhaps advice to decide what's best for them. The industry is still grappling with how best to provide this. Interactive Online Assistance (column AF) is the service most likely to be offered in **future** by 38% of firms, although 25% offer this as **standard** and 19% offer it for an **additional** fee.

Web Costs

Many administrators continue to offer their standard web functionality at no charge – or absorbed into the scheme cost. No administrators are charging more than £20,000 for their standard functionality, no change from last time. Over the years we've seen a swing between web facilities being an explicit cost to an implicit one. But given the drive by administrators to push member self-service online, to cope with increased demands for transfer values and retirement quotes, we believe it'll become a core service.





Trustee Engagement

Trustee Meetings

Administration is the shop window of any scheme, it's where members interact with their pension and where their relationship with their retirement savings can be made or broken. Trustees need to be engaged and work closely with their administrators to build and maintain their relationship with their members.

In addition to the normal day to day operational activities which need to be addressed and monitored, trustees should take account of the impact of their decisions (usually made with their lawyers and actuaries), on the administration of their scheme. It goes without saying, trustee meetings are vital for discussing and agreeing strategies and developments with everyone involved at an operational level.

2020 demonstrated the pivotal role administrators play in pensions, as they grappled with remote working and increased member activity. But next on the agenda is GMPE, pensions dashboards, McCloud and (for some) small pots. This will all need time and attention, and trustee meetings are still when most of the big decisions will be made to address these challenges. We therefore looked at how many meetings are included in administrators' core fees.

Like our 10th Survey, administrators are more likely to attend **1** or **2** meetings per annum for the smaller 200 and 500 life schemes. 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.

200 & 500 life scheme

1 or **2**

1,000 & 2,000 life scheme

2 or **4**

5,000 life scheme and above

4

Administration Meetings

While administration is much more holistic, data remains core to the success of day to day administration and the data dependent projects coming down the line – be it equalisation or de-risking. But, administration is also about setting communication strategies alongside these, it's discussing the timings of business as usual and scheme valuations, or it could be managing blackout periods as fund choices are changed.

All these activities benefit from discussions between the administrator and trustees, or a sub-committee representing the trustees. It's interesting to see whether administration only meetings are offered and how size affects this. We've seen quite a spread for the smaller sized schemes – 200 and 500, a third weren't offered any administration only meetings. Either **1** or **4** were the offered by half of the administrators.

For 1,000, 2,000 and 5,000 life schemes we see **2** or **4** administration meetings being offered. As to be expected for the larger schemes sizes – 10,000, 15,000 and 20,000 the most common number of administration meetings offered is **4**. Like our 10th Survey, one administrator will attend an administration meeting every month with the cost included in its core fees.

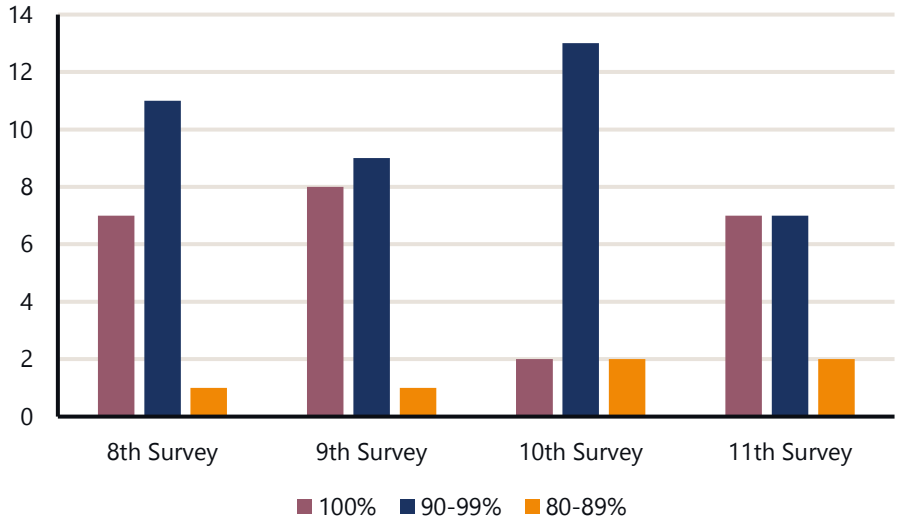
Given some of the comments from administrators in our industry view section, this is most definitely an area to watch. We wonder whether the impact of Covid 19 will see administrators offering more dedicated meetings (perhaps virtually) over the next couple of years?

Core vs Non-Core

Core

Trustees are required to demonstrate value for money. We often explain to both administrators and trustees, it's not just about fees – it's what you get for them. Running a pension scheme means administrators need to carry out key tasks, the list of these has grown over the years and will continue to do so.

A full list of the tasks we expect to be included as a minimum can be found in Appendix A. The current list has been in place for a few years, we expect to update it following the outcome of ongoing consultations. We compared how inclusive administrators were with the core tasks over the past four Surveys:



Most administrators provide between **90 and 99%** of the tasks. A dip in our 10th Survey seems to have been just that, with the trend returning to normal.

What tasks are being excluded from the core fees? Is there a common theme here? In previous years, pensioner existence checking and bespoke reporting are areas where we've seen administrators expecting an additional fee. This year, pensioner existence checking has moved firmly into the 'included' camp, with only one administrator seeing it as an explicit non-core task. Bespoke reporting remains the most common non core service but we also see caveats where if the reporting is set up during implementation it would be treated as standard.

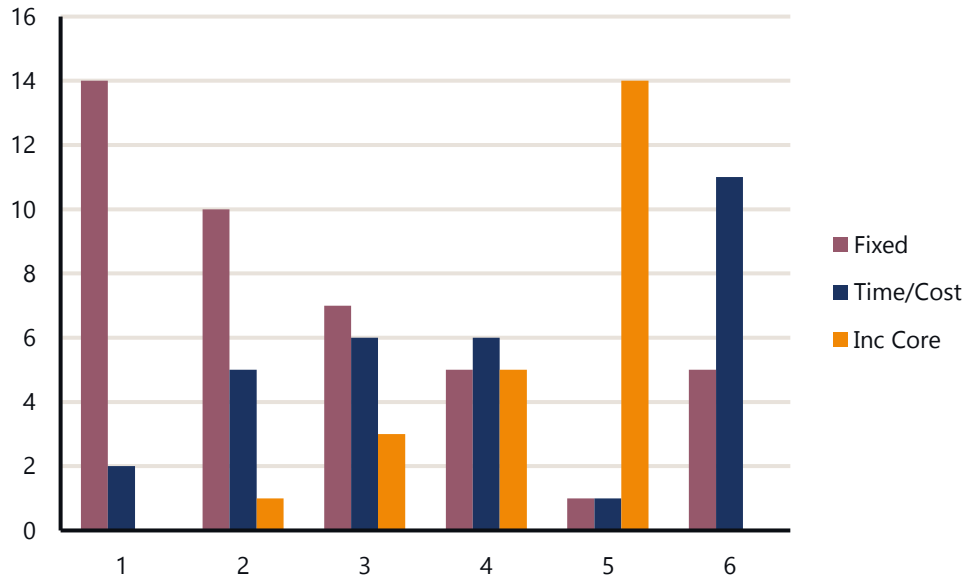
Interestingly the other tasks administrators exclude from their core offering are insured risk administration, acting as Scheme Practitioner, reporting to TPR and dealing with HMRC. We don't see this as a trend, simply several administrators excluding different tasks from their evolving core offerings.

Non-Core

During the year there may be circumstances where a scheme requires additional services, and these often come with a 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 administrators 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.

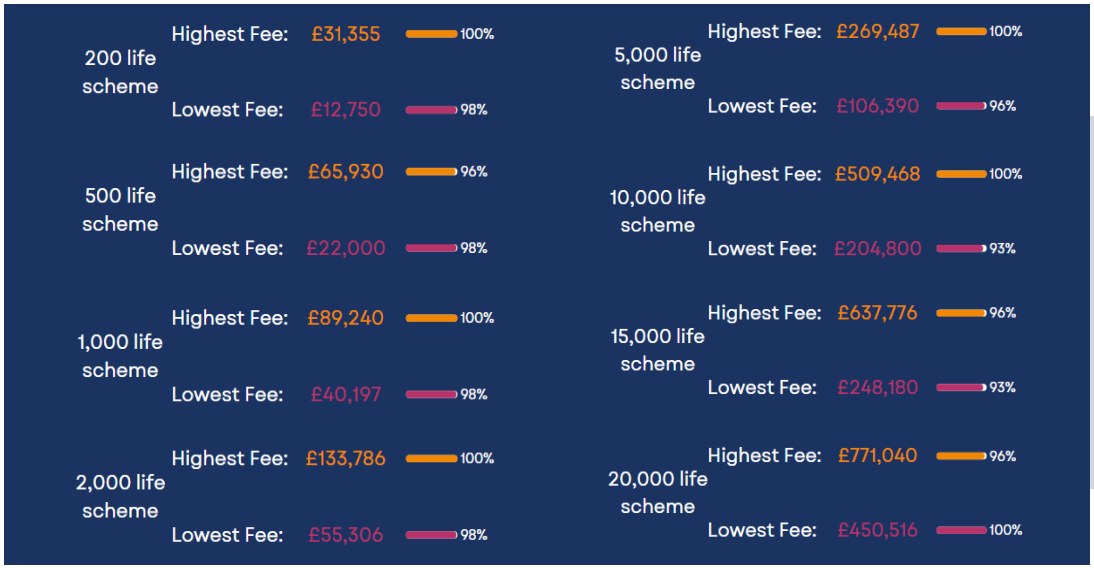
For most administrators, Task 1 (secretariat) would be provided for an additional fixed fee – this isn't surprising. This can also be said for Task 6 (M&A activity), many would provide this on a time/cost basis because the effort is completely unknown, although five administrators would carry this out for an additional fixed fee. Task 5 (liaising on administration matters) would be included in the core fee for most, this has changed from our previous Survey with one administrator now providing this as an additional fixed fee and another providing it on a time/cost basis. Could this be a product of how administrators are now operating in a post pandemic world?

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



What is value for money?

We feel this is a very important question trustees must always ask – what it means to them, their members and the sponsoring employer. There's been a lot of focus on value for money and it's something we agree should be reviewed regularly. We recommend comparing what you could pay against the services you're receiving as a starting point. The table below show the highest and lowest fees for each scheme size and their associated percentage of core tasks (listed in Appendix A). As you can see, just because you're paying more doesn't mean you're getting more. Let's looks at some examples.



We strongly advise trustees to look at fees and services together before making any decisions, as well as regularly reviewing their Administration Agreements and Scope of Services. Any changes to the scheme and/or services which aren't reflected could lead to the service being out of step with the Agreement and easily avoidable issues and misunderstandings arising.

At 20,000 lives, the administrator with the **lowest fee** includes **100%** of the core tasks for circa £300k less than the administrator with the **highest fee** – which only provides **96%** of the core fees. So effectively paying more and getting less…

At 200 lives, the administrator with the **lowest fee** offers **98%** of core tasks at £12k, while the administrator with the **highest fee** offers **100%** but charges £31k. Maybe the administrator with the lowest fee offers better value for money – is that 2% worth an additional £19k in fees?

Pricing Mechanisms

Member Activity Assumptions

Given the increased activity all administrators have experienced in the years since DC freedoms was introduced, activity assumptions have become increasingly important factor to consider. 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 it's around 10% of membership for each scenario scheme, however one administrator has a trigger of 30%.

In our 10th Survey, two participants didn't operate activity triggers and offered a fully inclusive service. Interestingly in this survey, only one offers a fully inclusive service. In our industry view section, we touch on activity, but we can't ignore the increased levels are generating additional fees for administrators and costs for schemes. This is why online functionality is rising in importance!

As we saw in our 10th Survey, the fee for breaching the trigger level varies significantly. Some charge the same amount across each scheme size, others charge bigger schemes less.

The most common fees for exceeding an activity assumption are:

£250

200 & 500 life schemes

£200/£250

1,000 & 2,000 life schemes

£200

5,000 life scheme

£150

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

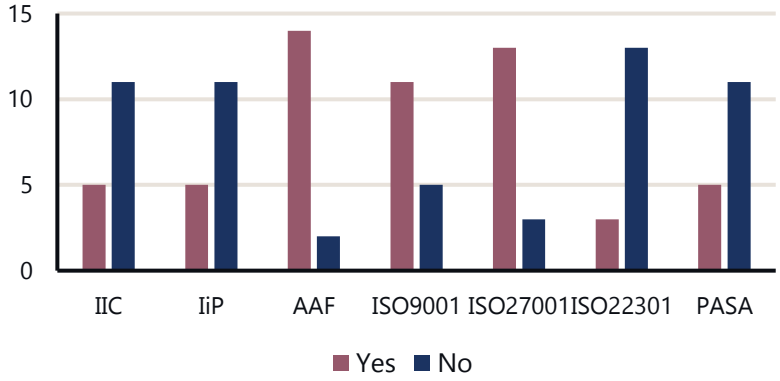
The Industry's Perspective

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. For many of the questions the responses are mixed, highlighting the diversity of opinion in participating administrators and their clients.

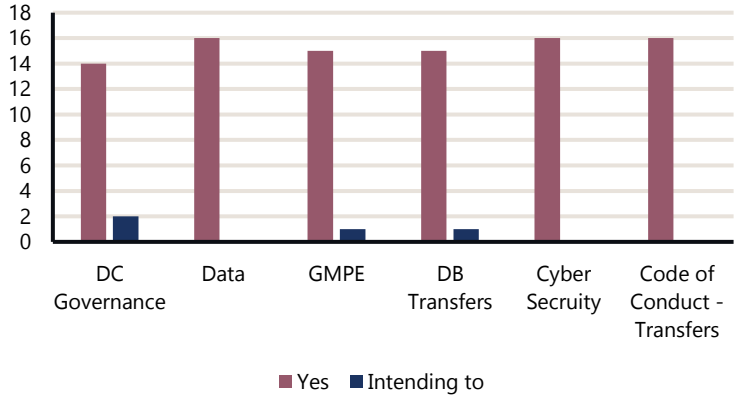
1 Which of the following membership of industry bodies/accreditations does your firm hold?

Surprisingly, two respondents state they don't produce an AAF report, however one of these is intending to in future. AAF reports are an important document detailing the internal controls of a service provider. We expect all administrators to carry out assurance reporting in today's world. It's encouraging to see most administrators hold the Information Security Management accreditation – ISO27001. Two are intending to apply and only one has no plans to achieve this accreditation



2 Which of the following PASA Guidance/Codes do you adhere to?

In Q1, a third of administrators said they obtained PASA accreditation (or reaccreditation), we drilled down further to see which of PASA's Guidance and Codes of Practice they adhere to. While these figures paint a positive picture and many provide resources to committees and working groups, it's disappointing so few are braving the accreditation process. Is it time for administrators to put their money where their mouth is and prove this adherence?



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

We gave participants six options:

1. Consolidating schemes under one trust & harmonising benefits going forward

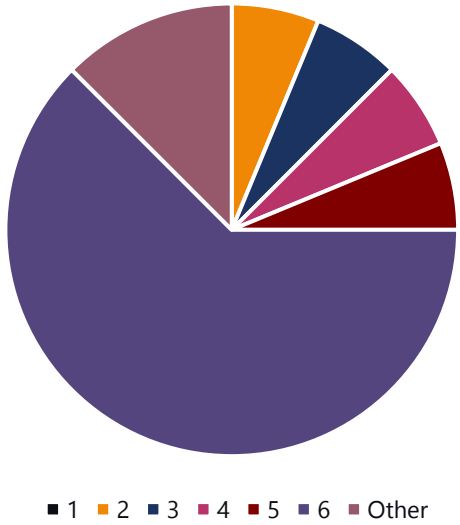
2. Bringing schemes under single trust, but retaining differentiation of benefits

3. Moving to common service providers for all related schemes

4. Investigating what a Super Consolidator could offer

5. No interest

6. Mixture of the above



The industry view reflects TPR's drive for consolidation being mindful of costs and value for money, but moving to a Super Consolidator isn't the chosen solution – yet!

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

We gave participants five options:

1. Covid impact on working practices

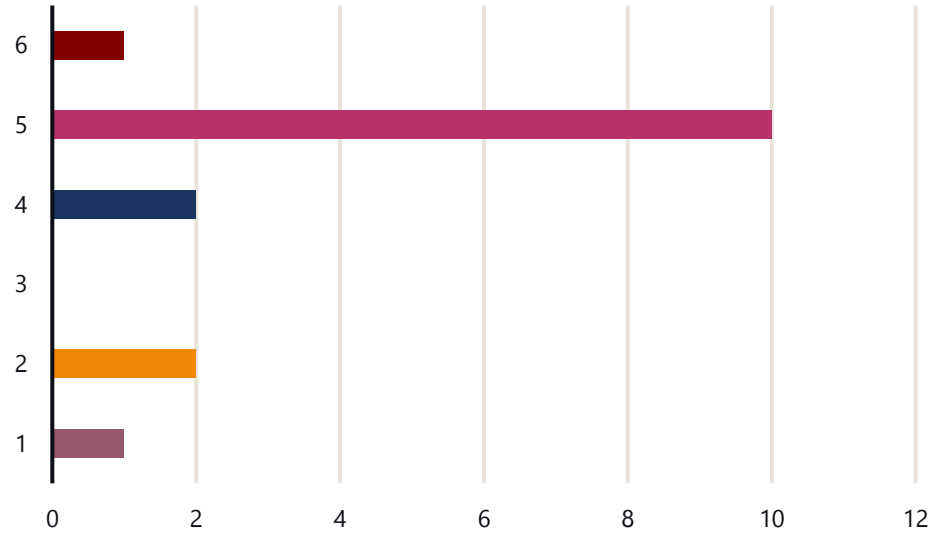
2. Pensions Dashboard

3. Cyber Security

4. Capacity Crunch

5. GMP Equalisation

6. Other

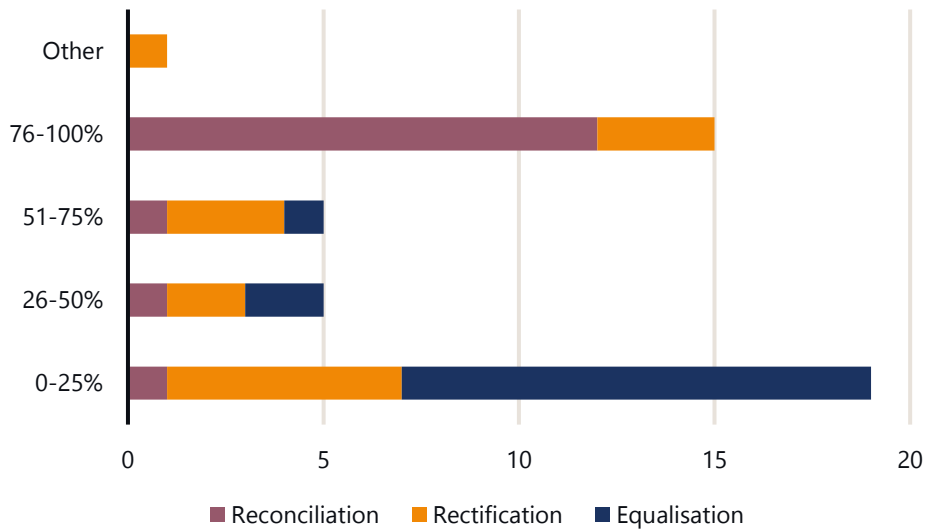


This graph says it all, GMPE is top of administrators' agenda for the next 12-18 months. Although there were notes of caution on GMPE, dashboards and the effects of Covid 19 on working practices leading to a capacity crunch. Should pension schemes be worried? Some comments included:

'Mix of the above for pension administration i.e. covid impact on future working practices, capacity crunch and GMP equalisation'

'From an administration perspective, I believe that GMP Equalisation will be taking up most of our time over the next 12-18 months although the methodology now is reasonably straight forward and the actual impact on members not that material. I think cyber security is a significant and growing risk that schemes need to be aware of. It will also be interesting to see how the industry reacts to the Government plans to require trustees and scheme managers to rubber stamp pension transfers'

5 What percentage of your schemes have completed (or almost completed) GMP reconciliation? What percentage of your schemes have completed GMP rectification? What percentage of your schemes have decided on GMP Equalisation methods?

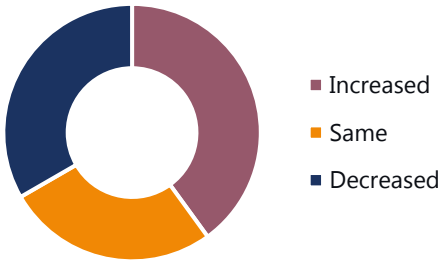


From the table we can see most of the administrators have clients across the line on reconciliation. Only one said all clients had rectification completed but caveated its response by stating this was its pre-2018 client base, newer clients weren't yet complete. Interestingly two administrators commented many of its clients were combining GMP rectification with equalisation.

Nearly all administrators stated less than 25% of their client base had decided on an equalisation method. This isn't surprising, given our experience and the complexity of these exercises.

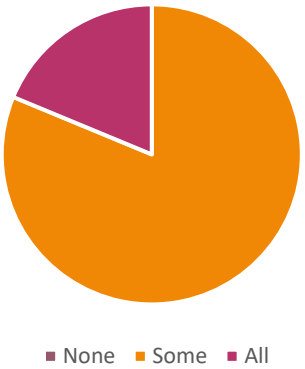
6 How has the volume of transfer value requests changed in the past 12 months?

The increase in the volume of transfer requests and settlements is often used by administrators to explain service delivery issues. During the last 12 months, increases in requests were expected for many reasons – members needing to access to funds, people having the time to review their financial affairs and some looking at early retirement options. Interestingly where decreases were experienced, administrators believed it was due to tighter FCA rules around advice and difficulties members may have experienced in obtaining appropriate advice. Not as many experienced increases in transfer requests as expected.



7 Will you be continuing to allow remote working in a post covid world?

81% of administrators expected to offer some degree of remote working for staff, with **19%** offering remote access to all staff, **0%** would insist on teams going back into the office full time. Comments included:



"We expect to adopt some form of hybrid working that while continuing to service clients' needs, takes account the benefits of team collaboration/working, colleague well-being needs and an appropriate work/life balance for colleagues"

"We believe that there are advantages in having our team in the office for our employees, clients and members. Although post covid, we are able to operate remotely and do allow more flexible working"

"This will be dependent on individual needs, but we expect most of our teams to spend 2-4 days a week working remotely with the remaining time spent collaborating with colleagues in one of our offices"

Pre the pandemic, the one job most people felt couldn't be performed remotely was pension administration. The first lockdown disproved that. Many administrators realised remote working gives them access to an untapped pool of resource which could help them address a capacity crunch. While everyone accepts the benefits of face to face collaboration, remote working also has its benefits for both employees and their administration employers. However, we're all new to this flexibility and we think it'll take a while before administrators land on the optimum working model which suits them, their employees and their clients.

8 Dashboards begin onboarding staging from 2023, what proportion of your schemes will be ready for this date?

Of those responding, the discrepancy between those confident in being ready and those more cautious was quite telling. 25% felt they would have all clients ready to launch, while the majority were more circumspect with comments such as 'it depends' 'too early to say' and 'difficult to quantify at this stage'. Encouragingly at least one referred to an increasing awareness being shown by schemes and the need to get ready for dashboards but, overall, a disappointing response on where administrators and their clients are.

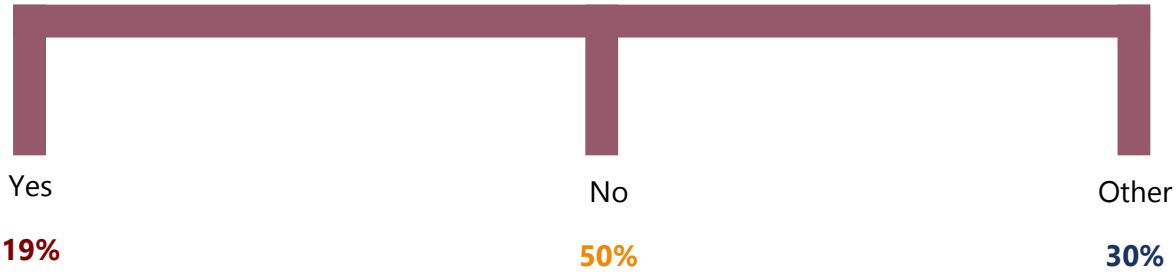
Whatever people think of dashboards, they are coming. It's imperative trustees look at their data through a dashboards lens. While the detail may not be 100% clear, action can still be taken. Trustees need to be thinking about the quality of their deferred data, whether it's digitised and accessible. They need to be talking to their administrators about how much work needs to be done – and when it can be scheduled.

Administrators need to be looking at their client base and identifying which schemes will be close to the front of the staging queue. They also need to be looking at their capacity if large sections of their client base needs data work. And they need to be thinking about how they'll connect to the dashboards ecosystem.

So, although the temptation may be to put everything off until every detail is known, 2023 is not very far away..!

9 Should administration be formally re-tendered every five years?

We believe administration should be reviewed periodically as part of good governance and to ensure the service is evolving to meet the changing needs of schemes, but what did administrators think? The most common response was **no** followed by **other** which means, there are some caveats coming from administrators. Many state the decision to retender shouldn't be a mandatory requirement but based on circumstances. Concerns were raised over needless overheads and the cost of running a tender process for both trustees and the administrators themselves.



It was felt appropriate to review regularly but:

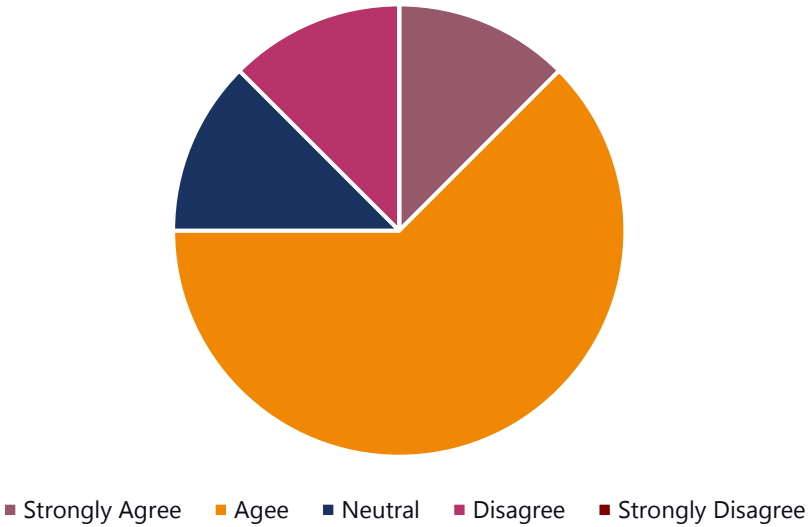
'This very much depends on the circumstances. If there is a material change in the scheme then it could be appropriate.'

'It would however be appropriate to ensure that such a decision is aligned to trustee long term objectives e.g. there would be an argument not to do so, if service performance was at a good level and the timeline to secure a buy-out was relatively short'

At KGC we believe in carrying out regular due diligence, unfortunately we're often called on when a relationship has broken down. If we were called in earlier, perhaps reviewing and assisting both parties to move forward. We often ask would it have prevented the relationship from faltering?

10 Do you think there will be a capacity crunch in the next 18 months?

Given the interesting combination of changes coming through from legislation and regulation, we wondered if administrators would be feeling the pinch…



75% **agreed** or **strongly agreed** there would be a capacity crunch over the next 18 months. There's a question over whether those who **disagreed** with the statement were optimistic.

Here's one telling comment:

'We do though recognise that the situation will need to be monitored closely in terms of: - member enquiry volumes, which have increased since the pandemic - the impact of industry level activity (e.g. GMP Equalisation and dashboard)'

There is one certainty, administrators will be tasked with supporting schemes comply with the surge of upcoming requirements. From dashboards, GMP rectification and equalisation, McCloud, simpler benefit statements, statement season – the list goes on. All of this will need operational resource – IT and people. The administration sector has been talking about a looming capacity crunch for years, but managed to 'get on by'. Technology is certainly picking up some of the strain, but administration is a people business and we'll all have to make sure it's a sector which can attract and retain good people to ensure nothing falls through the gap.

Any other thoughts?

The last question in our Survey gives participants the opportunity to add any other thoughts, ideas and/or observations. It can provide a snapshot into what else could soon be a cause for concern. But also give a different perspective on how they currently view the market and wider industry.

It would be impossible not to acknowledge the last 18 months and the effects of the pandemic on administrators and we asked some questions around this. However, comments here focused on what they've achieved during this period:

1. Work remotely
2. Work more flexibly
3. Work with trustees to adopt more innovative practices using technology more effectively, and
4. More member self service being used

All of which will form part of the new norm as they work out how to take this forward.

Not surprisingly the subject of GMPE was a recurring theme with a feeling the administrators are pushing schemes as opposed to trustees pushing them to get started. As well as GMPE, getting data ready for risk transfers and the dashboards is also a top priority for administrators. So it seems the administrators have the appetite to support schemes. Now it's for trustees to look away from investment and funding strategy for just a moment and bite the bullet by starting to talk about their operational readiness for dashboards, scheduling their GMP implementation.

In delivering administration, these businesses commented on how they're expected to highlight their carbon credentials and demonstrate how seriously they're taking their impact on the environment. Pressure to align corporate responsibility with those of their clients is likely to increase.

Summary

Final Thoughts . . .

Who thought back in July 2019 when we released our 10th Survey we would be where we are now? Not only has the whole world been on a learning journey, but it's also highlighted just what can be achieved when really needed.

Given administration was never hugely geared up towards flexible working, we think the sector can be proud of how it's delivered. We've come together and ensured members, trustees and companies have been supported in their pensions journeys..

From the facts and figures provided by the administrators, we can see not much has changed in terms of what's provided, nor how it's paid for. That said, the changing demands from schemes, members and regulation is a cause for concern. Take the increased activity of members seeking early retirement and transfer quotations, and an increase in divorce cases. Due to the continuation of the traditional fee model of activity levels, these are being consistently hit incurring additional unexpected fees for trustees.

It's right administrators should be paid for the work they carry out. But both administrators and trustees need to recognise how people's behaviour is changing and make sure contractual arrangements reflect this. It could be by increasing the core fee and activity cap, or by investing in further calculation automation to support member self-serve – obviously with a supporting communication strategy. Or most likely a combination of both.

What also never changes is change. Administrators should step out from the back office and engage with trustees more. More meetings, more connection, more conversations. They need to be in at the start of any project with an operational impact. This way schemes can plan to succeed. The potential capacity crunch is real, and technology can only alleviate the pressure to a certain degree. Pensions technical skill sets will be at a premium. Administrators and trustees need to start planning together in earnest - no trustee wants to be at the back of the queue.

The good news is administrators acknowledge the challenges and aren't shying away from them. They're building robustness into their delivery models and looking at how they can support their clients – and ensure their clients' members get the most out of their pension schemes.

Appendix A – 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 GDPR 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
- ✓ Provision of a scam service in line with PSIG's Code of Good Practice for Practitioners
- ✓ 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 place 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

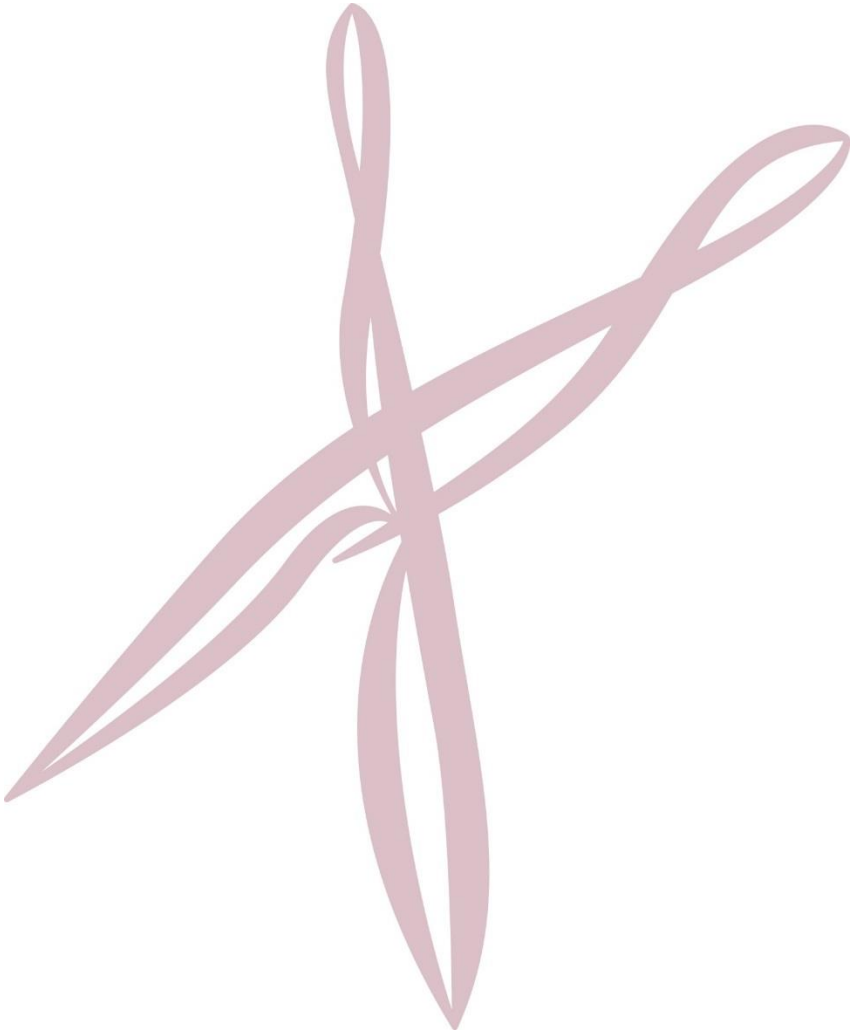
A balanced Trustee Board benefits from having a good mi of skills and experience. We support trustees in evaluating skills as a whole, identifying how individual attributes fit within Board dynamics. We detect gaps and highlight expertise to recommend improvements to support good governance. This enables 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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