

## **Professional Pensions**

KGC Administration Fee Survey of 2010 – Headline Results

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**CONFIDENTIAL**

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## 1. Introduction

In Autumn 2010 KGC asked 24 firms involved in the provision of pension administration services to participate in its second Administration Fee Survey. Four firms were the target of some form of corporate activity and either withdrew from the market, or were subsumed by competitors. 19 further firms took the opportunity to provide KGC with an overview of their core administration and ancillary fees. Despite the extent of corporate activity which took place in 2010, KGC was pleased with the scale of the sample population.

The survey data was collected through Survey Monkey™ where each firm was asked to provide fees for implementing a new client and the on-going annual service. Providers were asked to cost for three different scheme sizes – 2,000, 5,000 and 10,000 lives.

KGC divided the main components<sup>1</sup> of administration and ancillary services for:

- Implementation the new client
- Administering the Scheme
- Managing the Treasury and Accounts process
- Administering pensioner records and paying pensions

KGC also gave firms the opportunity to state if they include any other services in their core fee which would normally be viewed as non-core and result in additional costs. This was accommodated in the responses.

### 1.1. Scenario Assumption

Each contact at the participating firm was asked to cost specific scenarios across the range of scheme sizes. This ensured the cost was close as possible to a 'real life' situation and enabled like for like comparison.

The scenario was as follows:

- Membership broken down - 20% active DB, 20% active DC, 40% deferred DB and 20% pensioners.
- DB being contracted out and closed to new entrants but not future accrual.
- DC not contracted out and open to new members.
- Data is in a 'normal' state i.e. no material issues, just the normal missing data field here and there.
- Quarterly Stewardship reporting.
- Treasury and preparation of Report and Accounts to audit.
- Pensioner Payroll to include:
  - One payslip per annum, unless pension changes by more than £10.
  - Increases paid as at a common date

## 2. Fee Analysis Explanation

Firms were categorised as being 'administration' driven e.g. they are primarily Third Party Administrators (TPAs), or as being 'consulting' driven e.g. they are primarily Employee Benefit Consultants (EBCs) but with TPA capabilities. The number of pure TPAs is reducing year on year as firms seek to increase market opportunities by expanding services.

Fees included in the responses would generally be considered pre-negotiation and so take no account of the attractiveness (or otherwise) of a client. This is an aspect that can be a considerable cost influencer.

KGC used the results to create three types of graphs illustrating scheme costs. All providers' fees are compared against the mean fee for 2,000, 5,000 and 10,000 life schemes. All fees are rounded to the nearest hundred for simplicity.

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<sup>1</sup> "based on experience derived from procurement and benchmarking exercises"

### 3. Graphs

The first set of graphs shows the Annual Administration Fee and includes:

- Scheme Cost
- Total Cost per Capita for DB active and deferred, DB pensioner and DC active

The second set of graphs shows the Pensioner Costs and includes:

- Total Cost per Capita for DB pensioner
- Pensioner Payroll

The third set of graphs shows the Treasury and Accounts Fee.

The fourth set of graphs shows the Implementation Fee.

The fifth set of graphs shows the Total Year 1 Cost and includes:

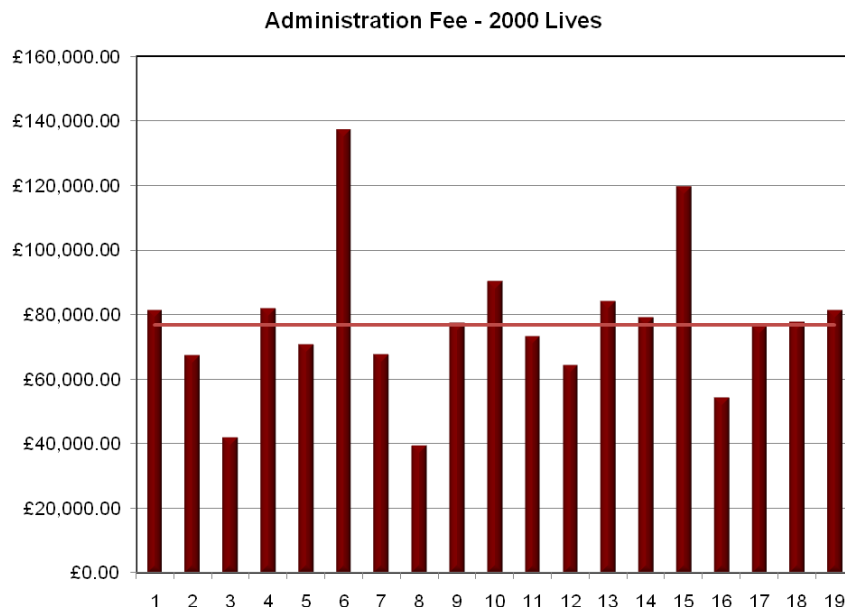
- Annual Administration Fee
- Pensioner Costs
- Treasury and Accounts Fee
- Implementation Fee

#### 3.1. Graph Set 1

##### Graph 1a

##### **Annual Administration Fee – 2,000 life scheme**

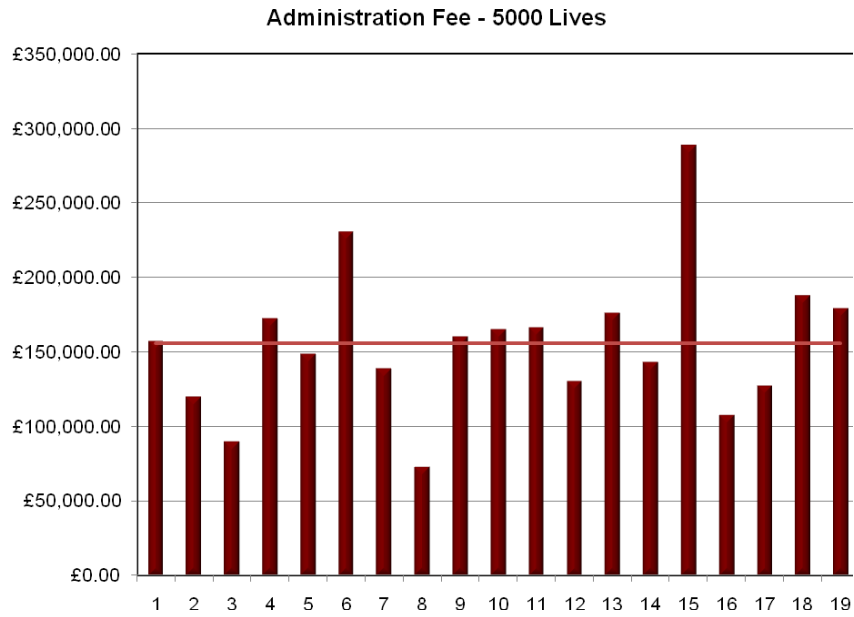
The difference between the highest and lowest fee for basic administration services across all firms is not far short of £100,000, with the firms at either extreme being EBCs. Given the scenario scheme has not been designed to demonstrated any significant issues, this differential is extreme. The highest cost firm is nearly 80% more than the average and more than three times more expensive than the lowest cost firm. A group of firms are clustered at a similar fee. The remaining few exhibit either very high or very low fees, practically countering the impact of the other on the average.



**Graph 1b**

**Annual Administration Fee – 5,000 life scheme**

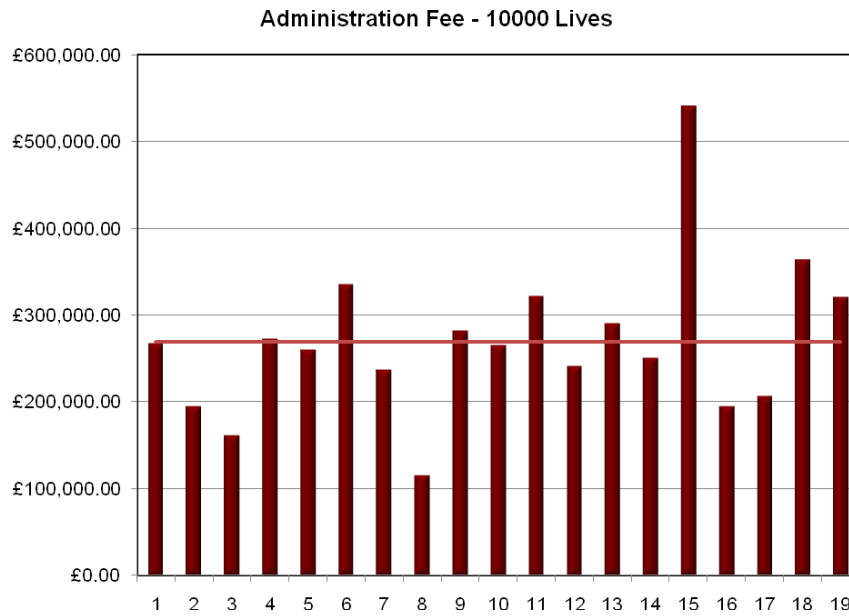
At £216,000, the range between the highest and lowest charging firm is more than double the difference at 2,000 lives. The highest charging firm is surprisingly a TPA. Some very high pricing is reflected in the average which has also more than doubled. The same fee clustering is exhibited at 5,000 lives as was seen at 2,000 lives. This time at £80,000 cheaper than the average, the lowest charging firm is an EBC.



**Graph 1c**

**Annual Administration Fee – 10,000 life scheme**

At 10,000 lives the range broadens between the highest and lowest firms to £425,600. Again the most expensive firm is more than twice the average and is a TPA. The lowest cost firm is an EBC and is more than twice as 'cheap' than the average.



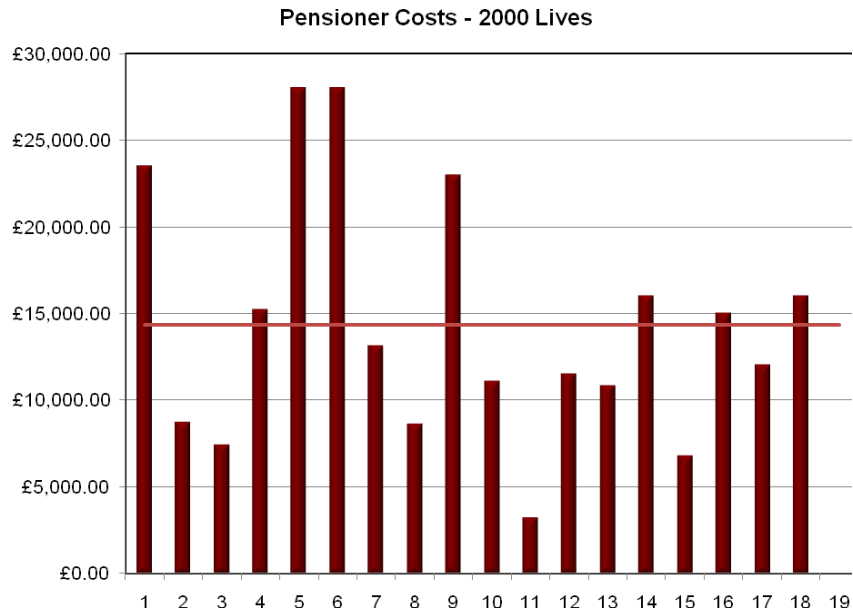
There are some wide variations across all scenarios, with ranges increasing considerably with scheme size.

### 3.2 Graph Set 2

#### Graph 2a

##### **Pensioner Costs - 2,000 life scheme**

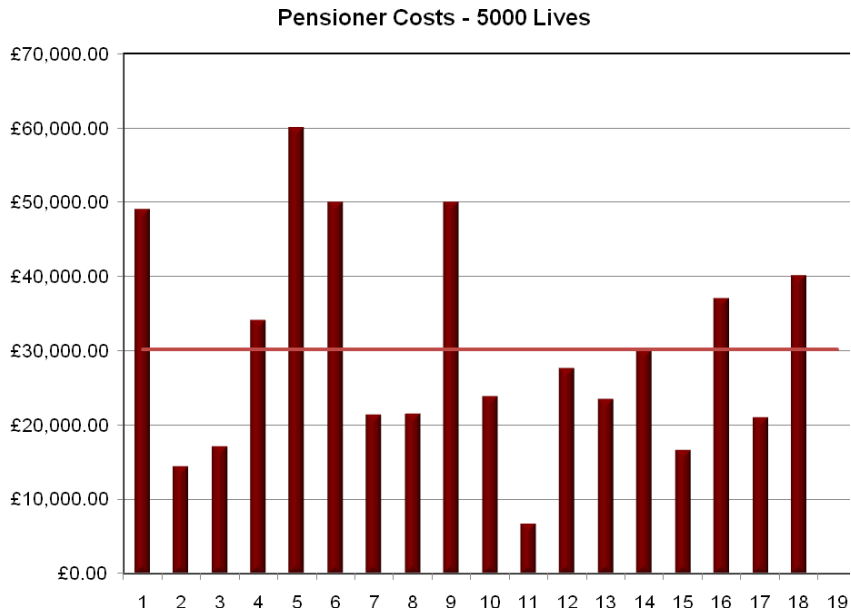
One TPA firm is wholly inclusive and makes no additional charge outside of basic administration. Given the lower contribution to overall administration costs, the range between highest and lowest is significant at more than £25,000. Eight firms charged more than the average and EBCs were represented at both extremes.



**Graph 2b**

**Pensioner Costs - 5,000 life scheme**

The range is more than £50,000 between the highest and lowest firm, both again being EBCs, but many firms still charge below the average.

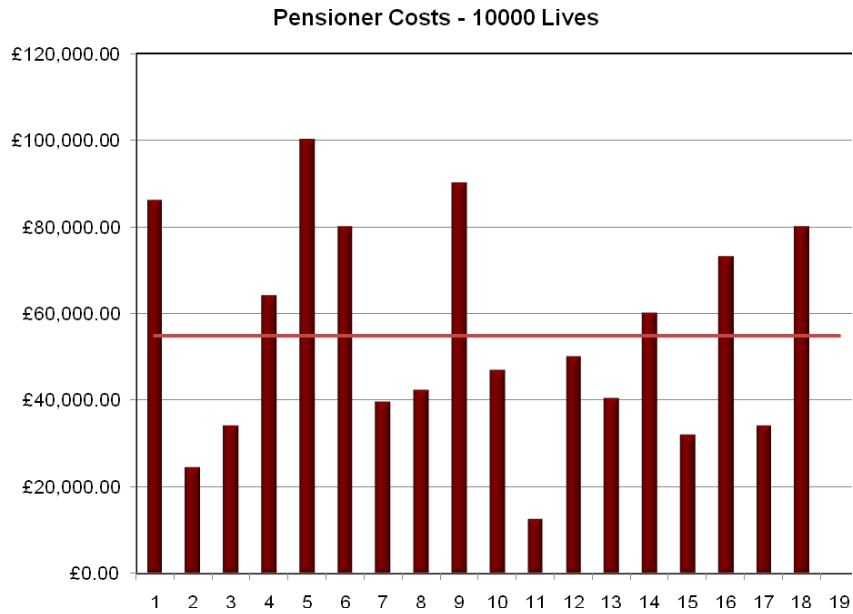




**Graph 2c**

**Pensioner Costs – 10,000 life scheme**

The range broadens at 10,000 lives to nearly £90,000 and there is no change between the type of firms representing the extremes – they are both EBCs.



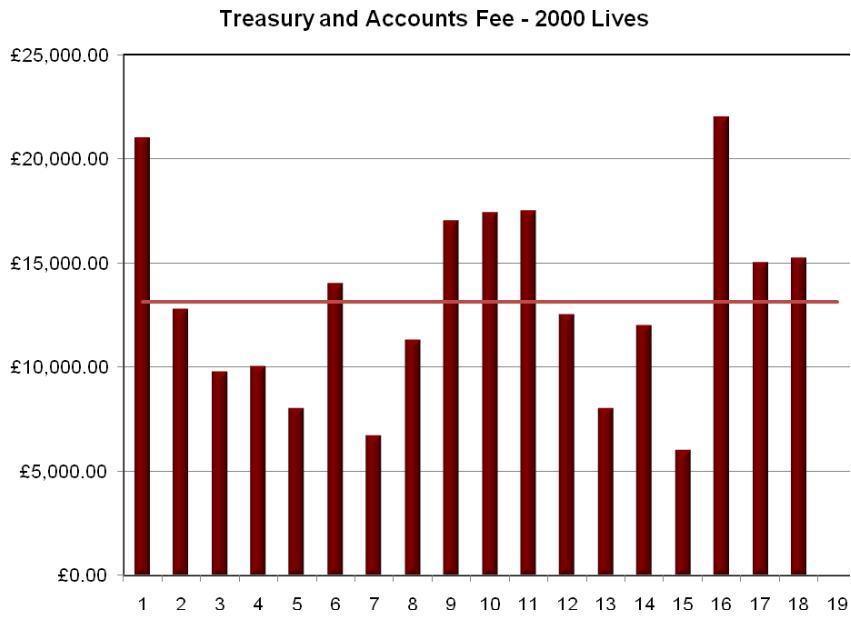
The variability and range in pension costs increases with scheme size. Given greater maturity of so many pension schemes this gives rise to concern.

### 3.3 Graph Set 3

#### Graph 3a

#### Treasury & Accounts – 2,000 life scheme.

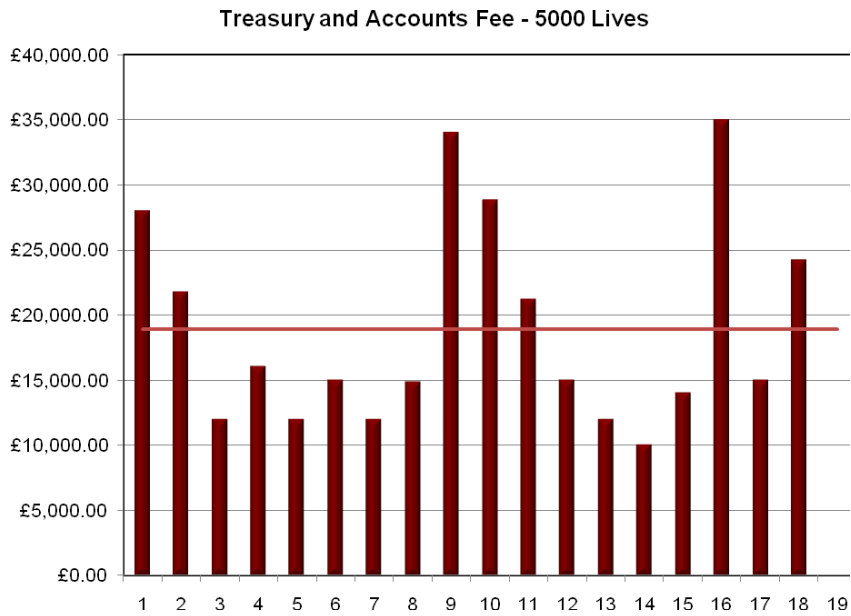
11 of the 19 firms charge less than the average with one firm making no explicit charge at all. The range is tighter than other services surveyed so far, but both the most expensive and the lowest charging firms are TPAs.



**Graph 3b**

**Treasury & Accounts – 5,000 life scheme**

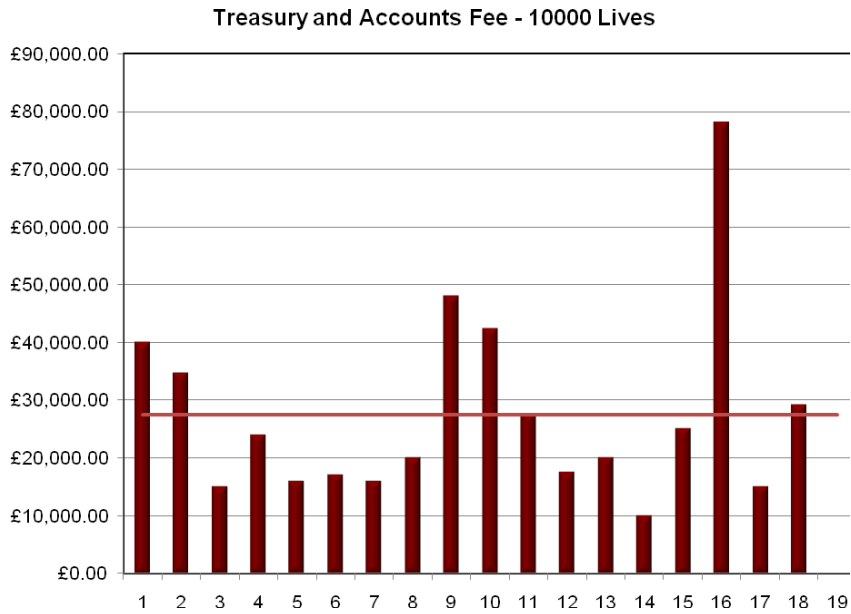
12 of the 19 firms charge less than the average, again with the one firm making no charge. The most expensive firm is a once again a TPA and charges more than £16,000 above the average. The range is beginning to stretch, but again the cheapest firm is a TPA.



**Graph 3c**

**Treasury & Accounts – 10,000 life scheme**

There is a definite stretch of range observed of nearly £70,000. Still many firms charge less than the average, but again both the most expensive and the cheapest are TPAs.



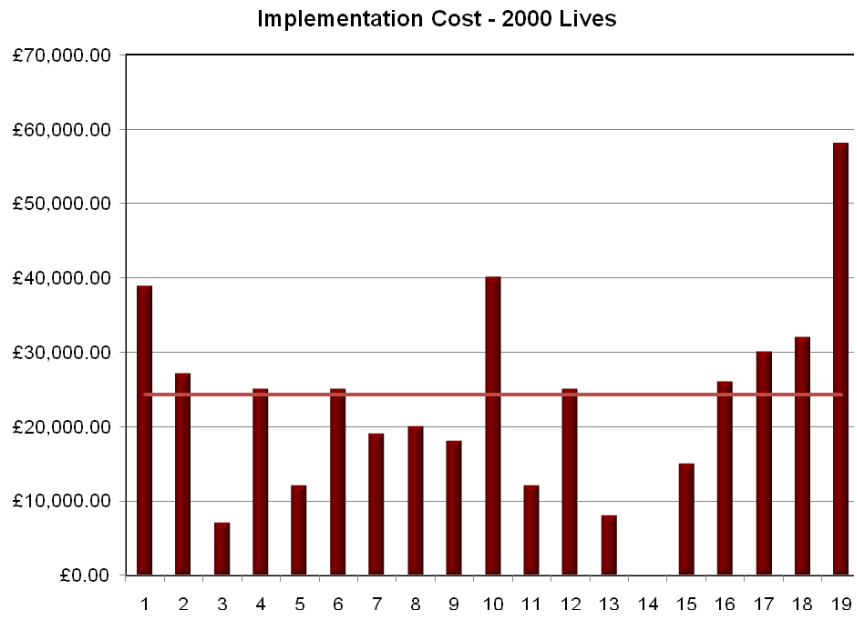
There is more consistency in the treatment of charging for Treasury and Accounts across all scheme sizes for most firms.

### 3.4. Graph Set 4

#### Graph 4a

##### Implementation Fee – 2,000 life scheme

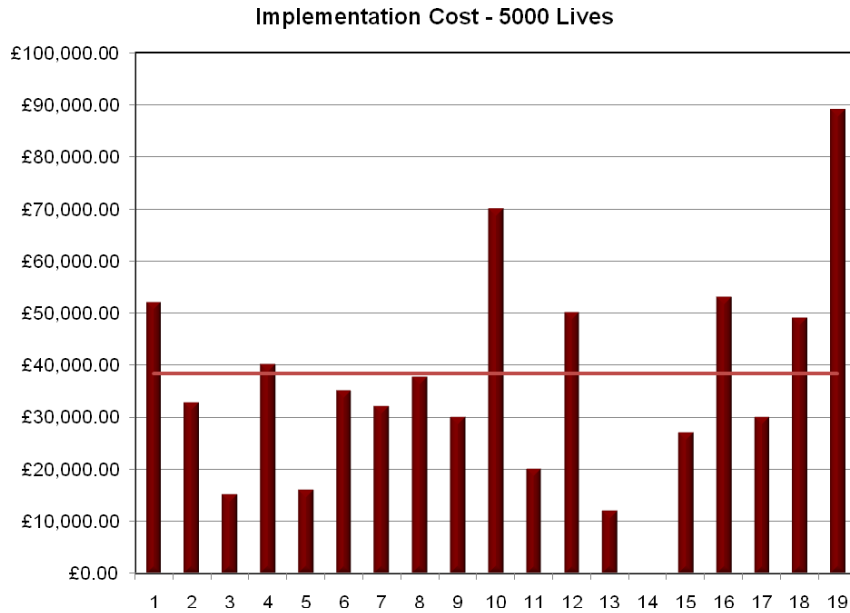
More than £50,000 separates the most expensive firm, a TPA, from the lowest charging firm, an EBC. Charges at these both extremes practically cancel each other out within the average.



### Graph 4b

#### Implementation Fee – 5,000 life scheme

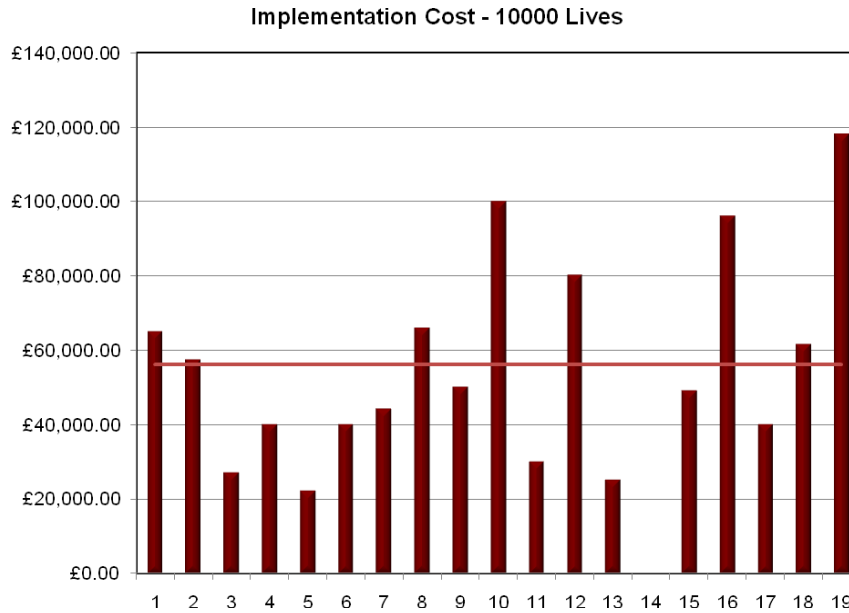
The range between the most expensive and least expensive firm (both TPAs) is nearly £80,000. Here there are some much higher implementation fees, but the majority display only a steady increase. The highest provider is more than £50,000 more expensive than the average with the lowest provider less expensive than the average by £26,000.



### Graph 4c

#### Implementation Fee – 10,000 life scheme

There is nearly £100,000 between the highest and lowest fee. This time the lowest spot is taken by an EBC firm with a TPA remaining the most expensive. This TPA's fees are over £60,000 above the average, with that average being more than double the cost of the lowest charging firm.



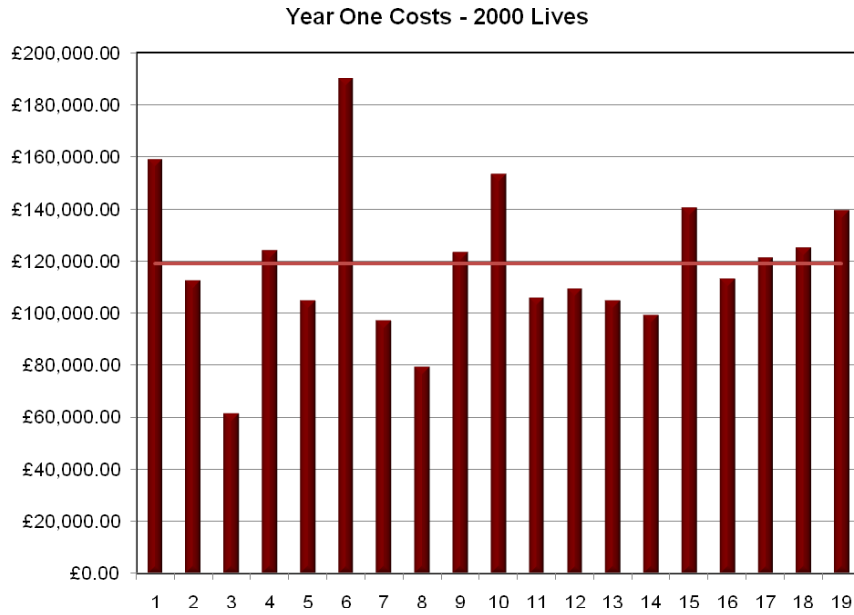
Firm's approaches to implementation fees vary significantly with no real trend in strategy for either EBCs or TPAs. One firm makes no charge for implementation at any size of scheme.

### 3.5 Graph Set 5

#### Graph 5a

##### **Total Year One Cost – 2,000 life scheme**

In year one there could be a difference of nearly £130,000 in fees between two pension schemes depending on which administrator they choose. No one firm is more expensive across all services and no one firm is the least expensive across all services. EBCs take both the highest and lowest spot.

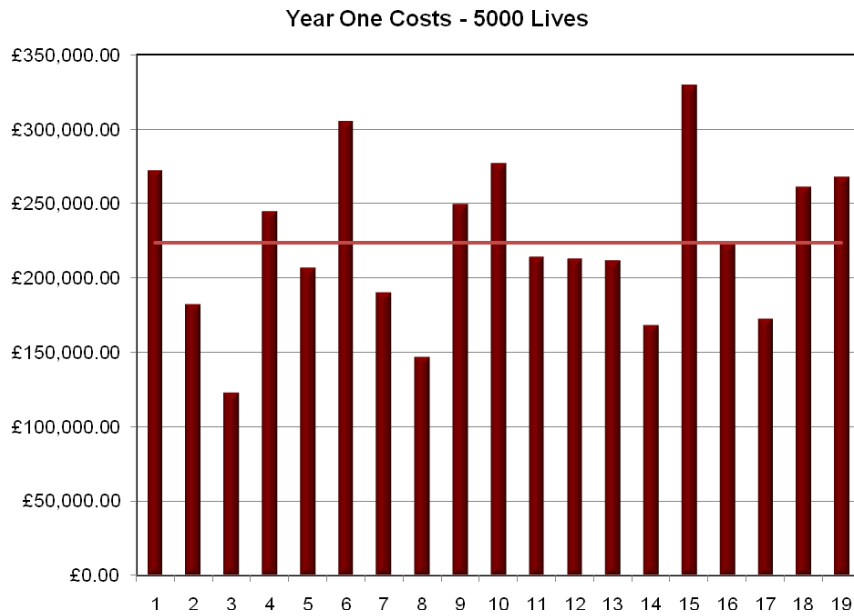




### Graph 5b

#### **Total Year One Cost – 5,000 life scheme**

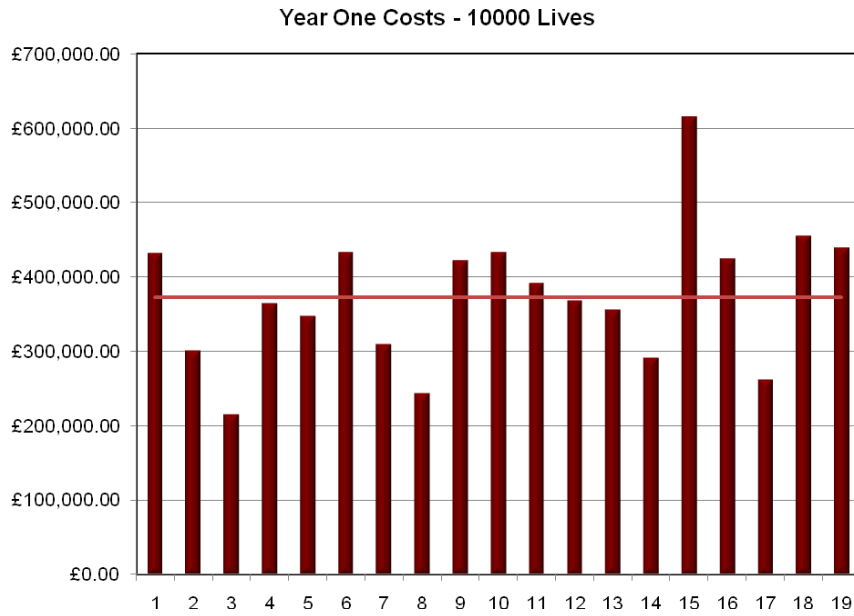
In year one the difference between two pension schemes reduces somewhat but it is still more than £100,000. Here a TPA takes over the top slot for the most expensive provider.



### Graph 5c

#### **Total Year One Cost – 10,000 life scheme**

At 10,000 lives two pension schemes could experience nearly £¼m difference in fees in choosing one administrator over another. At 10,000 lives the EBCs appear more cost competitive than the TPAs.



#### 4. Services Provided

The chart below sets out what services KGC considers being core and each provider was asked to state whether it provides the services or not.

Core Services	Y/N	Notes
<b>Annual Administration</b>		
Levy payments as and when required		
Monitor payment of contributions schedule		
Calculate and advise benefits for leavers, retirements, deaths (active/deferred/pensioner)		
Implement and maintain up to date membership records		
Regular update of benefit calculation routines		
Monthly DC contribution cycle (Money Purchase and AVCs)		
Administration of AVC arrangements including acting as lead Administrator to AVC providers		
Co-ordination and distribution of annual AVC statement		
Liaison with Investment Manager/Consultants/Scheme Actuaries/Risk Benefit Providers/AVC providers when required		
The Pensions Regulator reporting requirements		
Advance notification of forthcoming retirements		
Input to and production of Annual Benefit Statements		
Annual m'ship schedule (renewal)		
Benefit and option quotes (leaver/retirement/death)		
Dealing with transfers (in/out)		
Maintenance and security of members' info in accordance with Data Protection Act requirements, plus safe storage of scheme data (paper and electronic)		
Production and safekeeping of members' 'Expression of Wish' forms		
Calculation of pension increases and notification to pensioners		
Direct branded telephone/email for members		
Bespoke Admin Report		
Provision of regular MIS to Trustees on scheme activity		
Attendance when required for trustee meetings		
Administration Guide		
Periodic pensioner existence check		
Risk admin		
Deal with DWP requirements		
Member enquiries		
Provision of data for actuarial valuation		
<b>Consulting (General)</b>		
Educate the trustees on pension admin matters, give general advice on Scheme admin activities		
Issue periodic general communications to trustees on industry admin practice and developments		
Disseminate current views		

<b>Core Services cont.</b>	<b>Y/N</b>	<b>Notes</b>
<b>Scheme Accounting</b>		
Management/operation of trustee bank account and benefit payments		
Maintain transaction records		
Transaction Summary (quarterly - minimum)		
Tax returns and payments to HMRC acting as Administrator		
Draft Annual Report and Accounts		
Arrange/facilitate Scheme Accounts Audit		
Pay/claim tax and deal with HMRC, calculations of Tax, LTA charge, unauthorised payments, refund contributions and commutation payments.		
Cash flow management/Reconciliation of payments/receipts (monthly - minimum)/ Obtain and check bank statements		
<b>Pensioner Payroll</b>		
Periodic pensioner payment		
Annual payslip production and periodic payslips if pension changes		
Annual P60		
Provide LTA information to pensioners		
Pensioner correspondence and liaison with administration		

The chart below sets out tasks that are normally considered to be non-core and asked each provider if it provided any of the tasks in its core offering.

Non-Core Services	Y/N	Notes
Scheme Secretariat		
Perform ad hoc projects as requested by trustees, any projects should be agreed and budgeted prior		
Draft Trustee Meeting agendas, distribute Trustee papers in accordance with statutory timescales		
Attend four regular and additional Trustee Meetings, take and distribute minutes in a timely manner.		
Admin consultancy		
Enhanced reporting		
Provision of additional data		
Liaise with Trustees on Scheme matters as and when required		
Advanced online capabilities, info management - must include 'what if' functionality, full online member communication (with email alert) and document library		
Merger/sale/acquisition - related work		