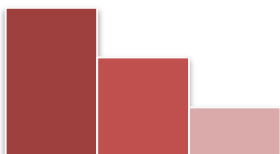




## KGC's Fifth Administration Fee Survey July 2014



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**KIM GUBLER CONSULTING LTD**

...independence, focus, clarity

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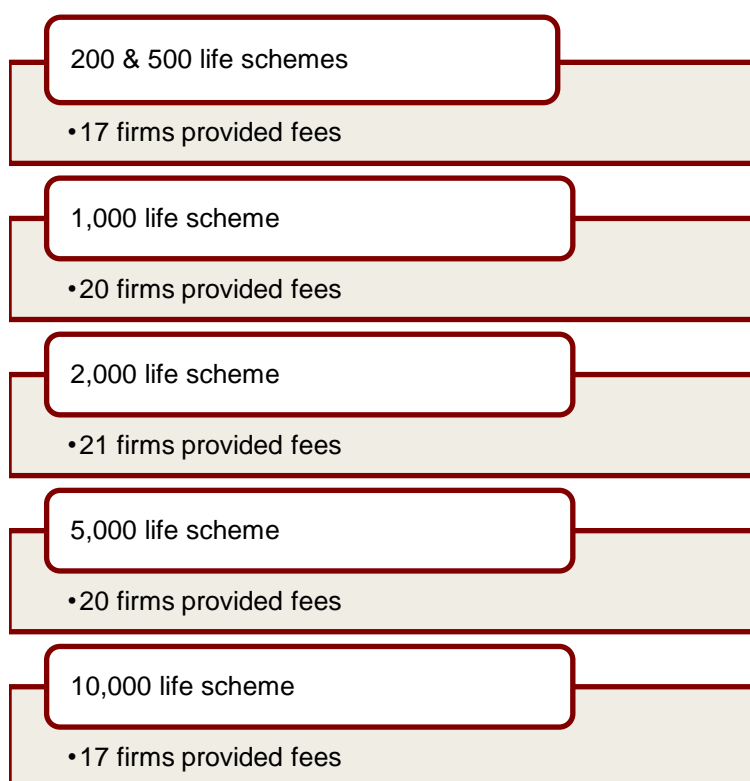
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## 1.0 Introduction

Earlier in 2014 KGC asked firms involved in the provision of pension administration services to participate in our Fifth Administration Fee Survey. 21 firms took the opportunity to provide us with an overview of their core administration and ancillary fees. The increased number of participants since our first survey in 2009 demonstrates the value placed on the survey by the industry, both in terms of providers and the schemes themselves.

The survey data was collected through Survey Monkey™ where each firm provided fees for implementing a new 'client scheme' and the on-going annual service. Last year many smaller schemes told us they valued the opportunity to compare their costs to their peers. We therefore maintained the inclusion of smaller schemes in the 2014 survey.



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

- Implementation of a 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 within their own core fee which would ordinarily be viewed as non-core and so result in additional costs. This was accommodated in the responses.

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

## Scenario Assumption

The 'client scheme' has the same characteristics within each scheme size and so firms all responded on a like for like basis. Each participating firm costs a specific scenario across the range of scheme sizes, this ensures the cost is as close as possible to a 'real life' situation.

The scenario is as follows:

- DB contracted out, closed to new entrants but not future accrual
- DC not contracted out and open to new entrants
- Data is in a 'normal' state i.e. no material issues and in line with The Pension Regulator's Record Keeping requirements
- Quarterly Stewardship reporting (including cashflow analysis)
- Pensioner Payroll
  - One payslip per annum, unless pension changes by more than £10
  - Increases paid as at a common date
- Treasury and preparation of Report and Accounts to audit
- DC Lifestyle – 5 year decumulation phase with three funds
- DC Fund Platform with access to 10 funds
- DC Open Market Option annuity purchase through broker

## 2.0 Fee Analysis Explanation

We have used the results to create five types of graphs illustrating scheme costs. All firms' fees are compared against the mean for 200, 500, 1,000, 2,000, 5,000 and 10,000. As in previous years, there have been one or more organisations whose fees were out of sync with their peers. This results in a skewing of the averages. However as all firms were given the opportunity to check their results, we have retained these fees within the analysis as they clearly represent an accurate position.

The fees included in the responses should 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.

### 3.0 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, DC active and deferred

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.

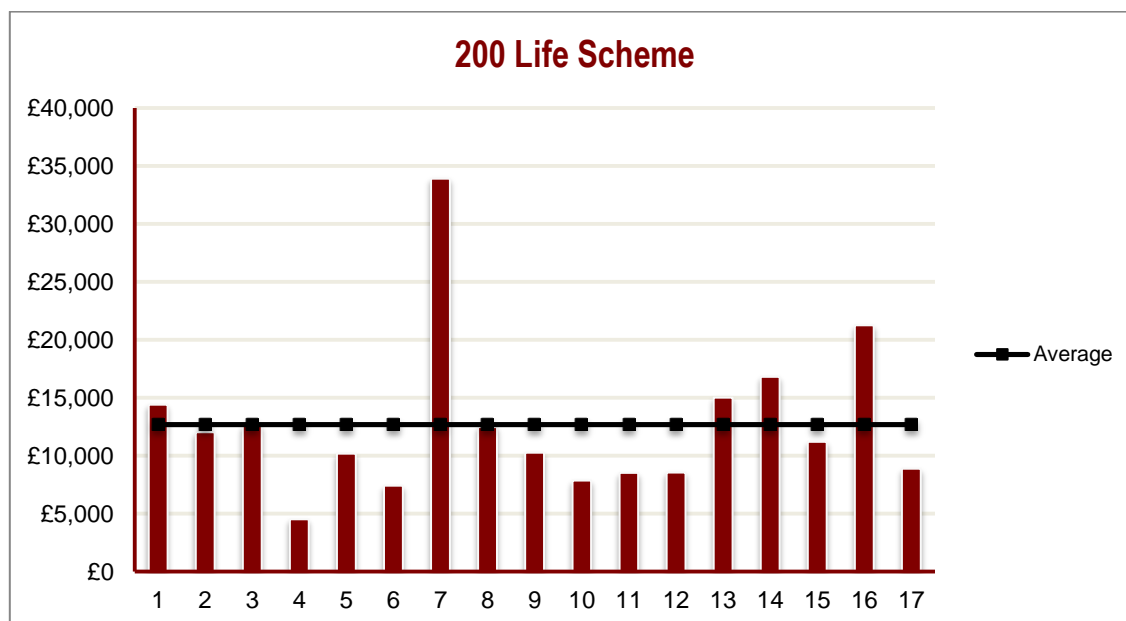
The fifth set of graphs shows the Total Year 1 Cost and includes:

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

### 3.1 Annual Administration Fee

#### Graph 1a

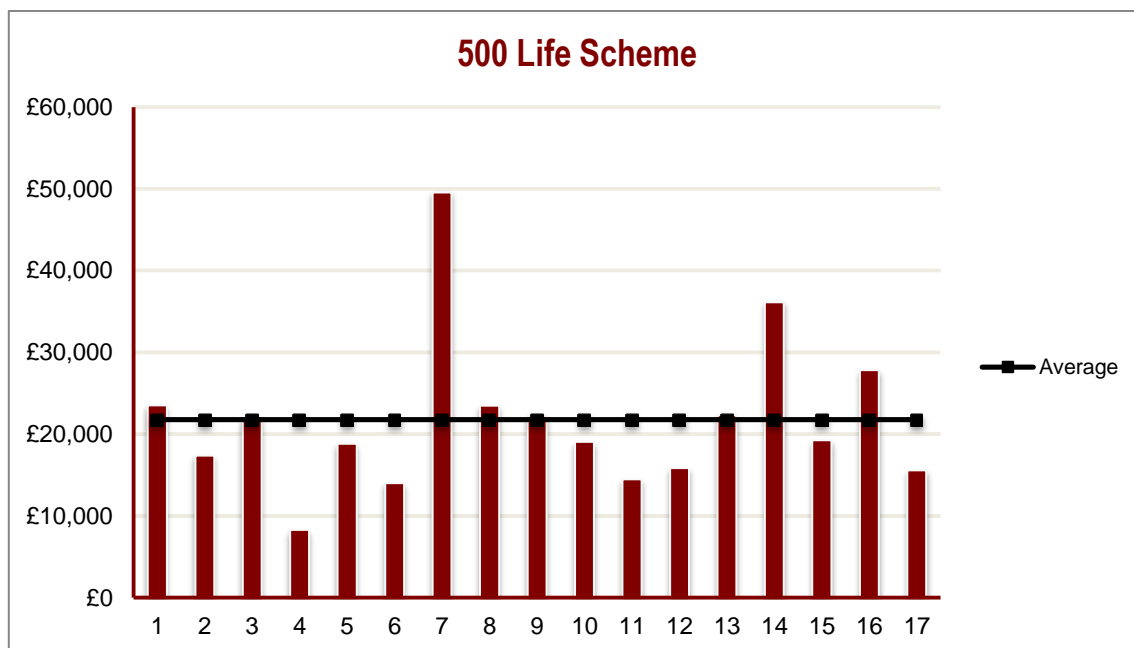
The difference between the most expensive and the lowest firm for basic administration is £29,400. The range between the lowest and second highest charging firm is less than half that at £16,700. Five firms charge more than the average, with the most expensive firm charging £21,200 more. 71% of firms charge less than the average cost, which itself is £8,200 more expensive than the lowest fee. Overall, nine firms charge less than a third of the most expensive firm.



#### Graph 1b

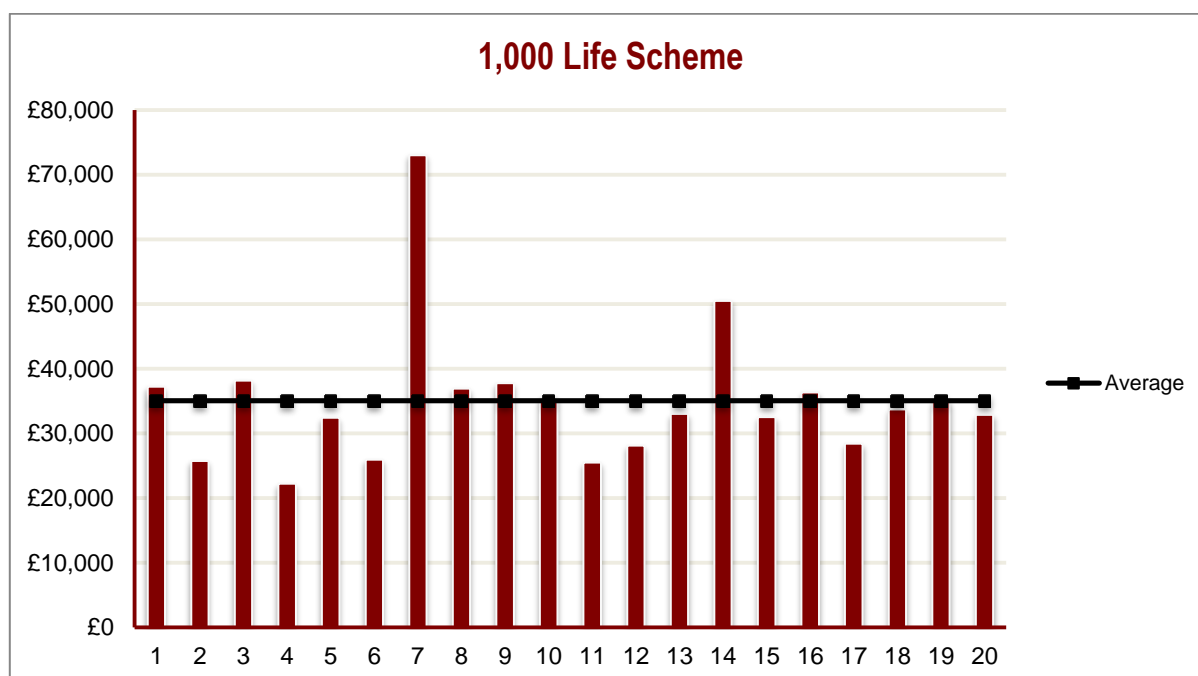
The most expensive firm charges £41,250 more than the lowest and £27,800 more than the average fee. The range between the lowest and second highest firm is £27,850. Nine firms charge less than the average

fee of £21,800, with eight firms charging more. The lowest charging firm is £13,500 less than the average. Only five firms are within a 10% plus or minus variance from the average.



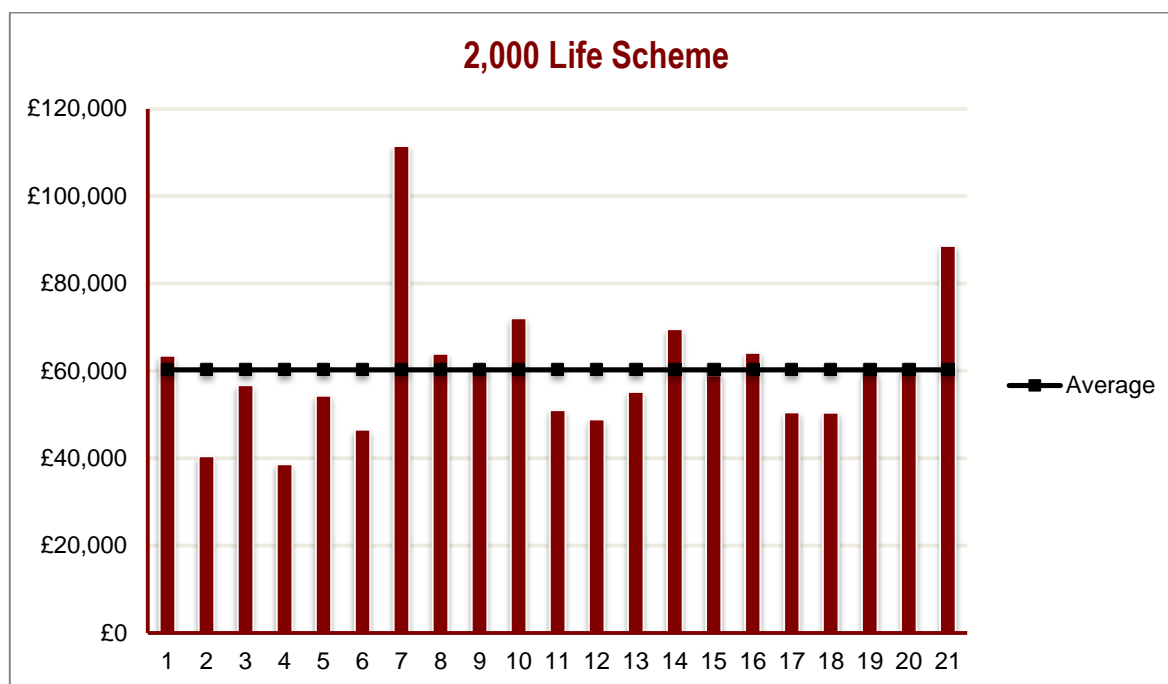
**Graph 1c**

The most expensive firm for this scheme size is £50,800 more than the lowest cost, it is also £38,000 more than the average fee. 40% of firms charge more than the average cost of £35,000 with 12 firms charging less. The lowest fee is £12,800 less than the average. The range between the lowest and second highest firm is £28,300.

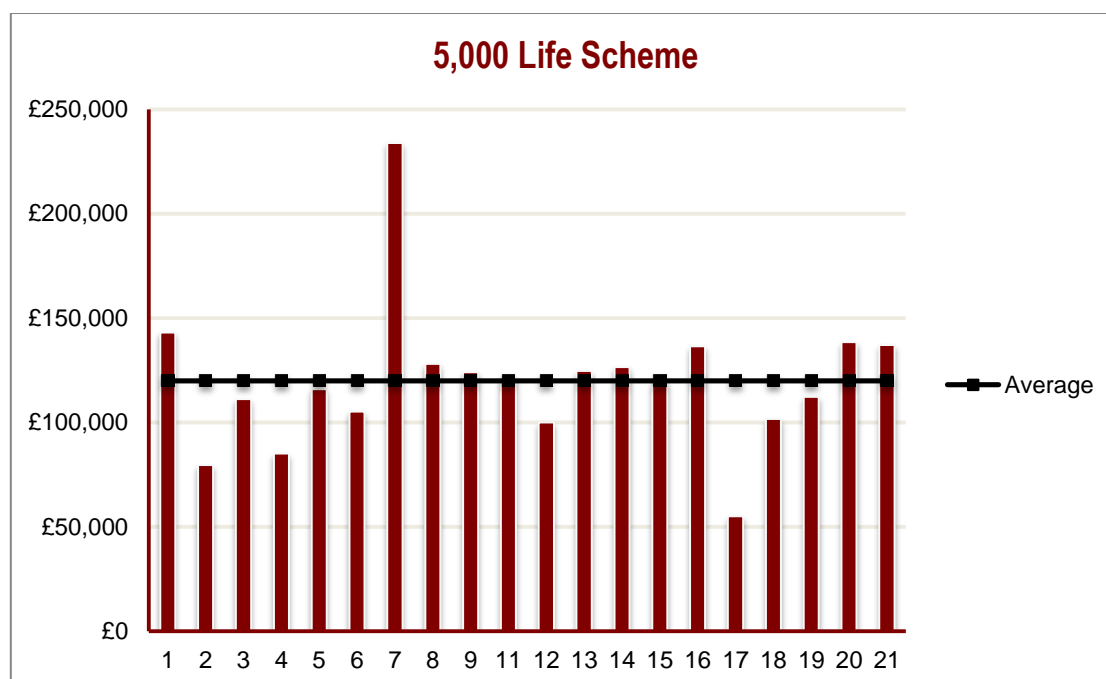


**Graph 1d**

The difference between the highest and lowest firm is £72,800. The average fee is £52,000 less than the most expensive, but £21,650 more than the least. Nine firms charge more than the average fee of £60,250. The range between the lowest and second highest firm is £50,000.

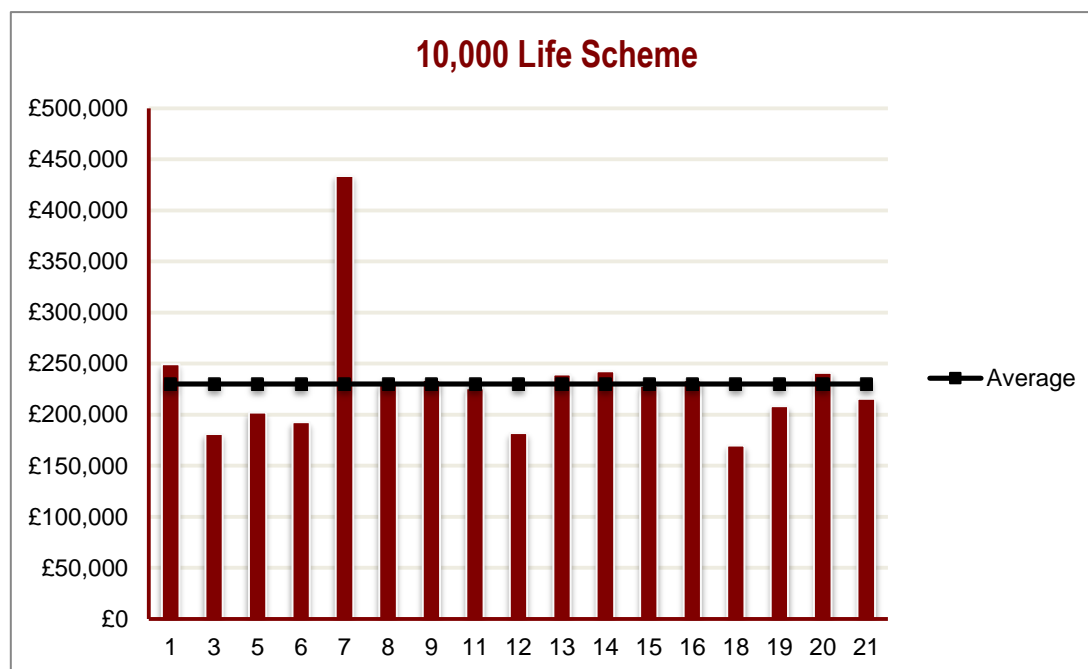
**Graph 1e**

The most expensive firm charges £154,300 more than its lowest charging peer and £111,200 more than the average fee. The least expensive firm charges £43,100 less than the average fee of £122,600 and nine of the firms charge more than the average. Like last year, the average fee for a 5,000 life scheme is twice as expensive as the average for a 2,000 life scheme and three and a half times more expensive than a 1,000 life scheme. The range between the lowest and second highest firm is £63,600.



**Graph 1f**

The difference between the highest and lowest firms is £263,900 and the most expensive firm is £203,800 more than the average fee of £229,900. This in turn is £60,100 higher than the lowest charging firm. The average cost has increased by 88% when compared to a 5,000 life scheme. Eight firms are more expensive than the average and nine firms charge less. The range between the lowest and second highest firm is £79,700.

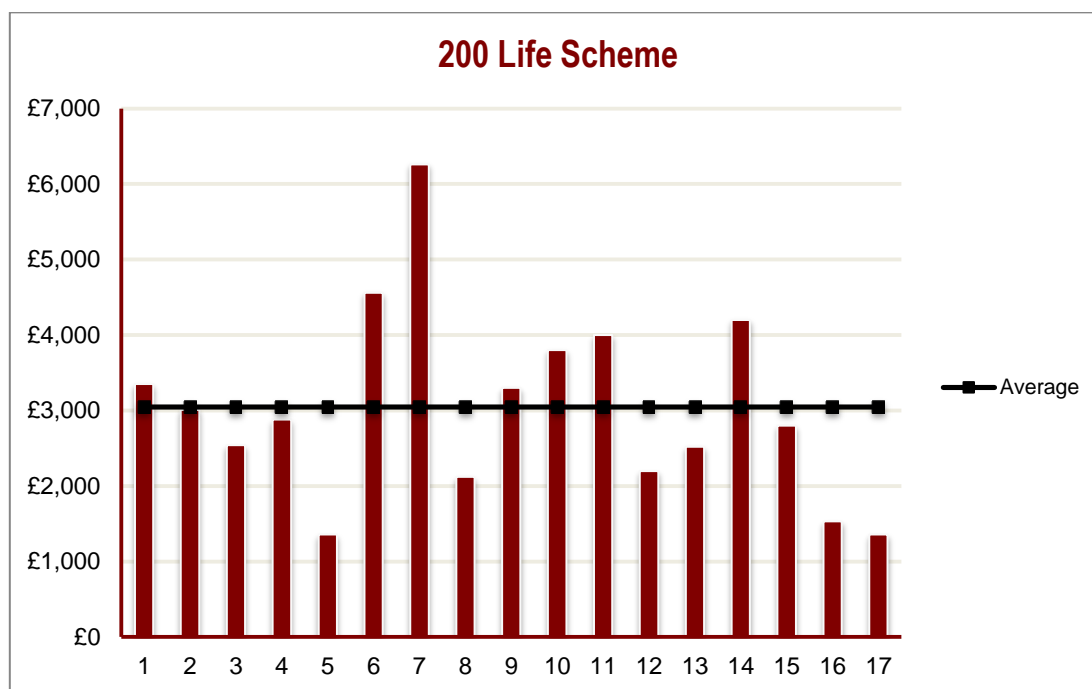




### 3.2 Pensioner Costs

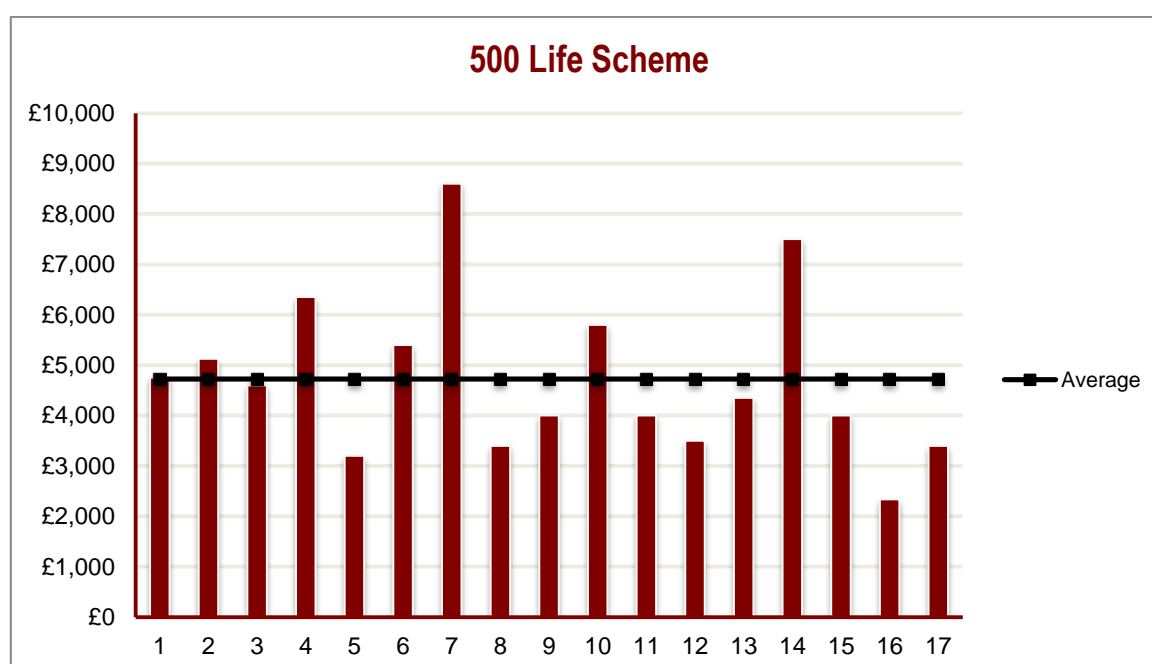
**Graph 2a**

The most expensive firm for pensioner costs charges £4,900 more than the lowest and is £3,200 more expensive than the average cost. 10 of the firms charge less than the average fee of £3,050. The least expensive firm charges £1,700 less than the average cost. 14 firms charge less than two thirds that of the most expensive firm, whilst three charge less than a third.



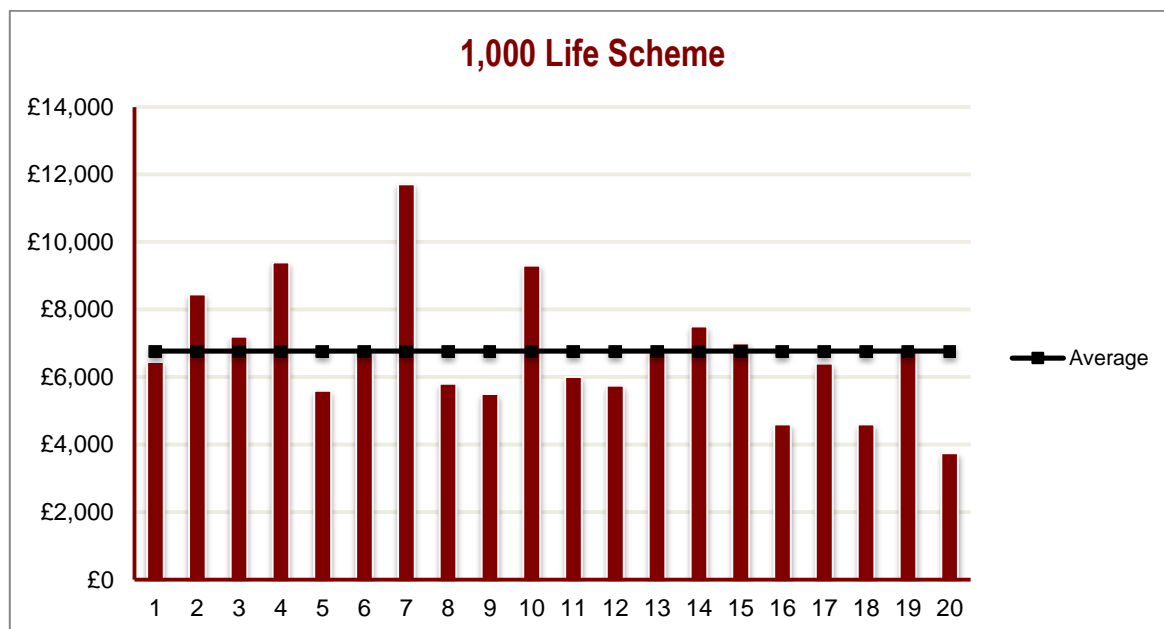
**Graph 2b**

The difference between the highest and lowest charging firms is £6,500, with the most expensive firm charging £4,000 more than the average fee of £4,700. 10 firms charge less than the average, whilst the mode is £4,000. The lowest firm charges £2,600 less than the average.

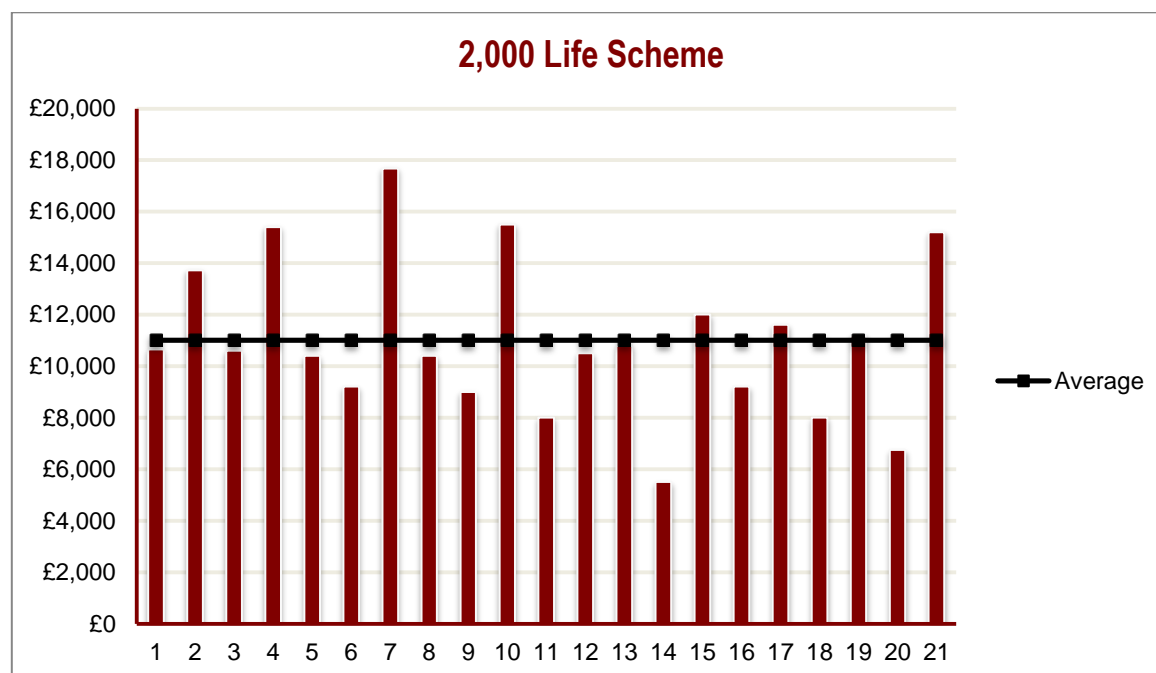


**Graph 2c**

The most expensive firm for this scheme size charges £8,000 more than the lowest. It also charges £4,900 more than the average cost of £6,800, half of the firms charge more than the average. The lowest charging firm charges £3,000 less than the average. 80% of the firms charge less than two thirds of the fees of the most expensive firm.

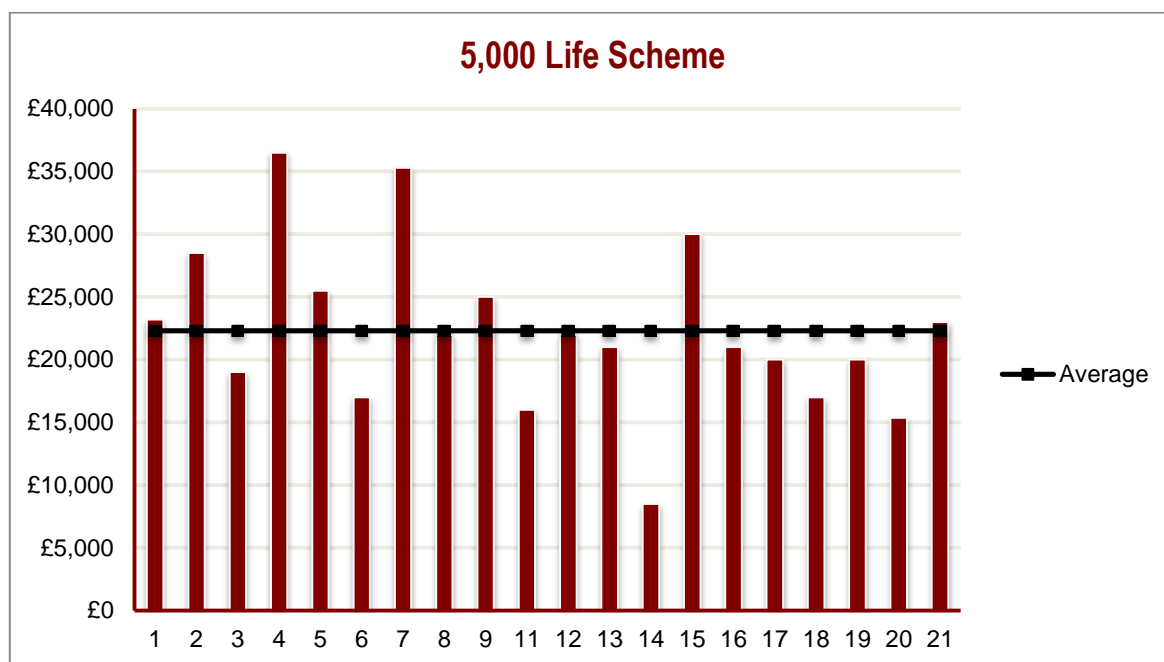
**Graph 2d**

The most expensive firm charges £12,200 more than the lowest charging firm and £6,700 more than the average. The lowest firm charges £5,500 less than the average. Eight firms charge more than the average cost of £11,000.

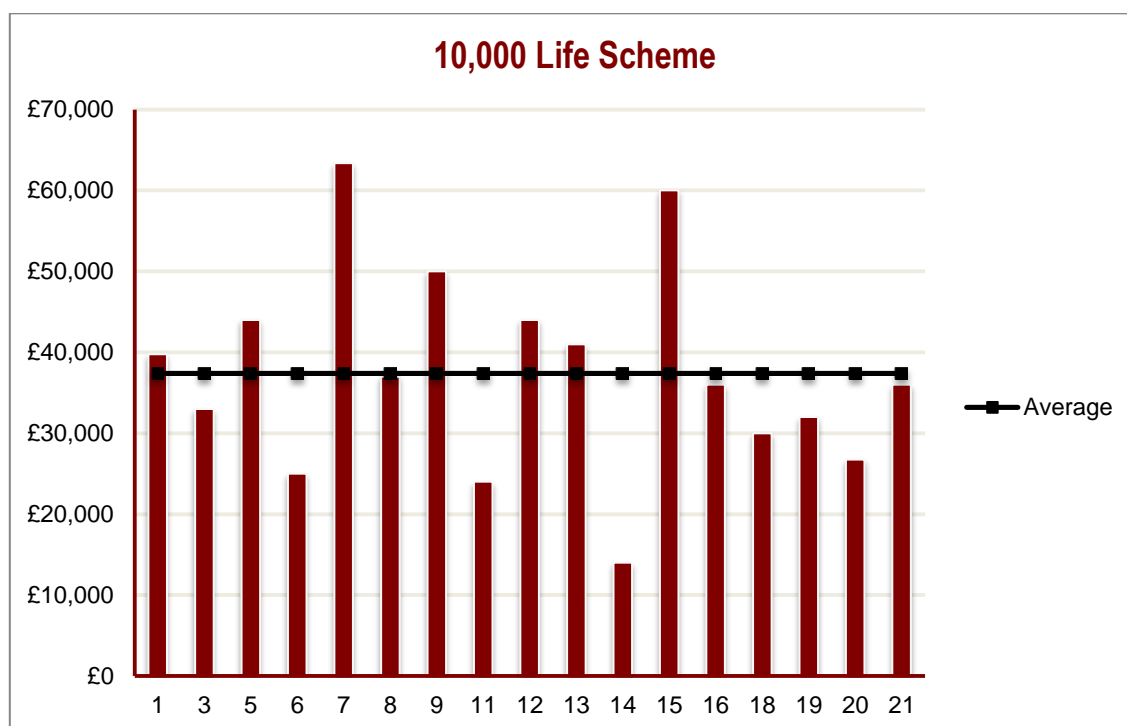


**Graph 2e**

The range between the most expensive and the lowest firm is £28,000, with the average cost being £14,200 less than the highest fee. Eight firms charge more than the average fee of £22,000. The average for this scheme size has doubled compared to a 2,000 life scheme.

**Graph 2f**

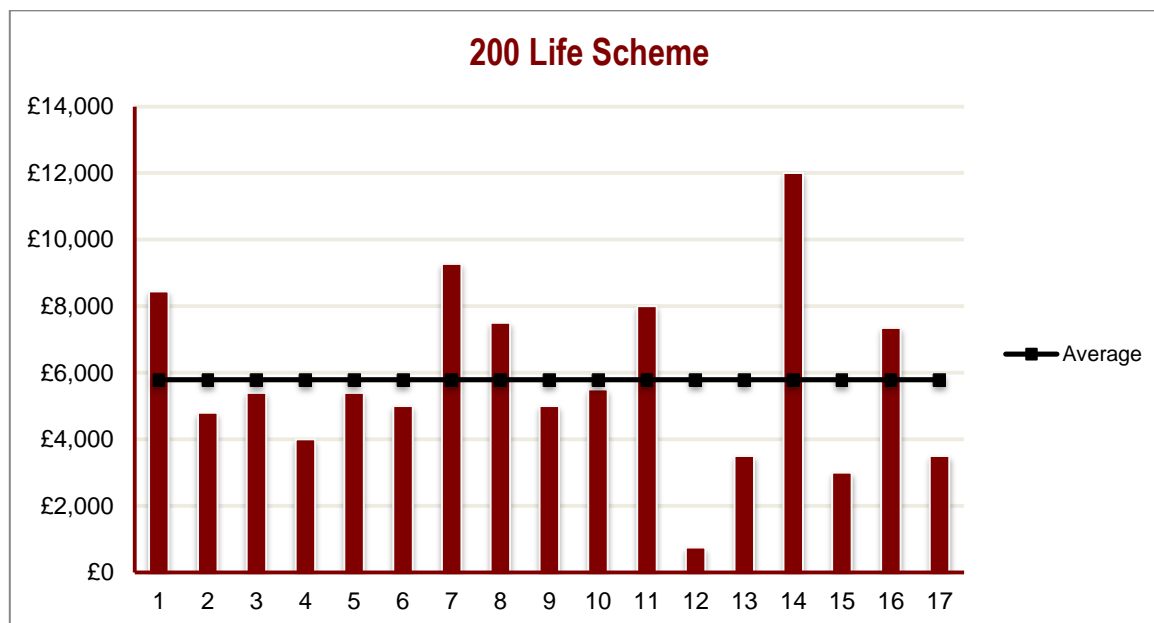
The most expensive firm charges £49,400 more than the lowest firm and £26,000 more than the average. The lowest firm charges £36,000 less than the average. Unlike last year when the firms were evenly split either side, there are more firms charging less than the average of £37,400 than there are charging more. The average fee is 67% higher when compared to a 5,000 life scheme.



### 3.3 Treasury & Accounting

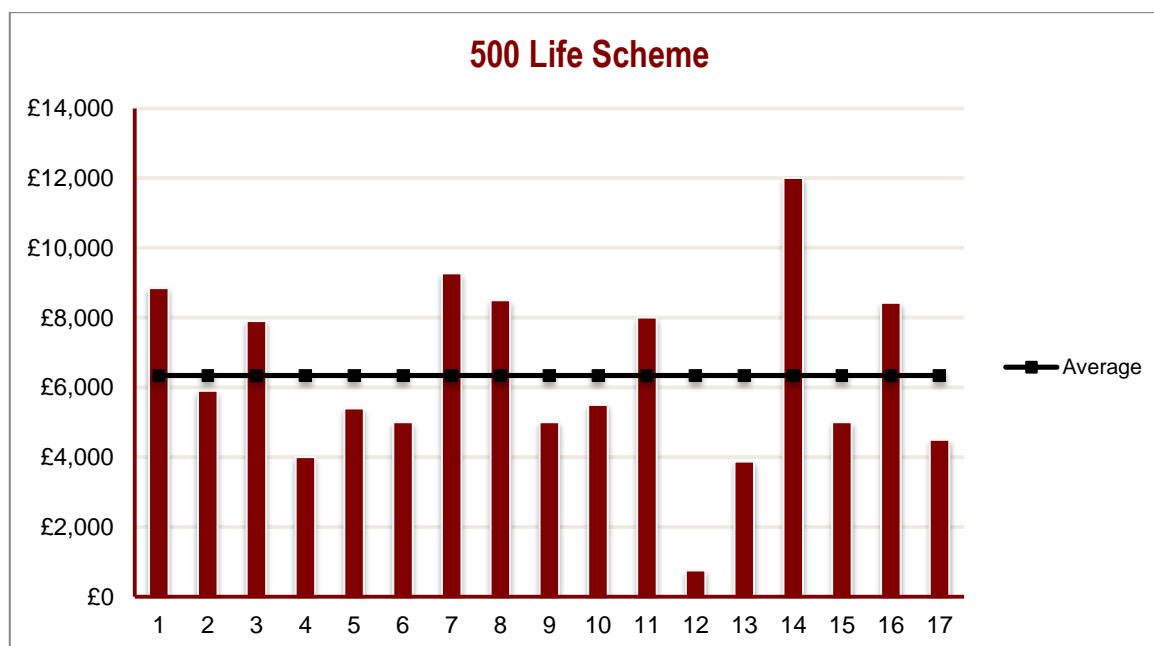
**Graph 3a**

When looking at Treasury and Accounting fees the most expensive firm charges £11,250 more than the lowest firm and £6,200 more than the average. Six of the 17 firms charge more than the average fee of £5,800. The lowest fee is £5,000 less than the average. Only four firms are within a 10% range of the average – all were below.



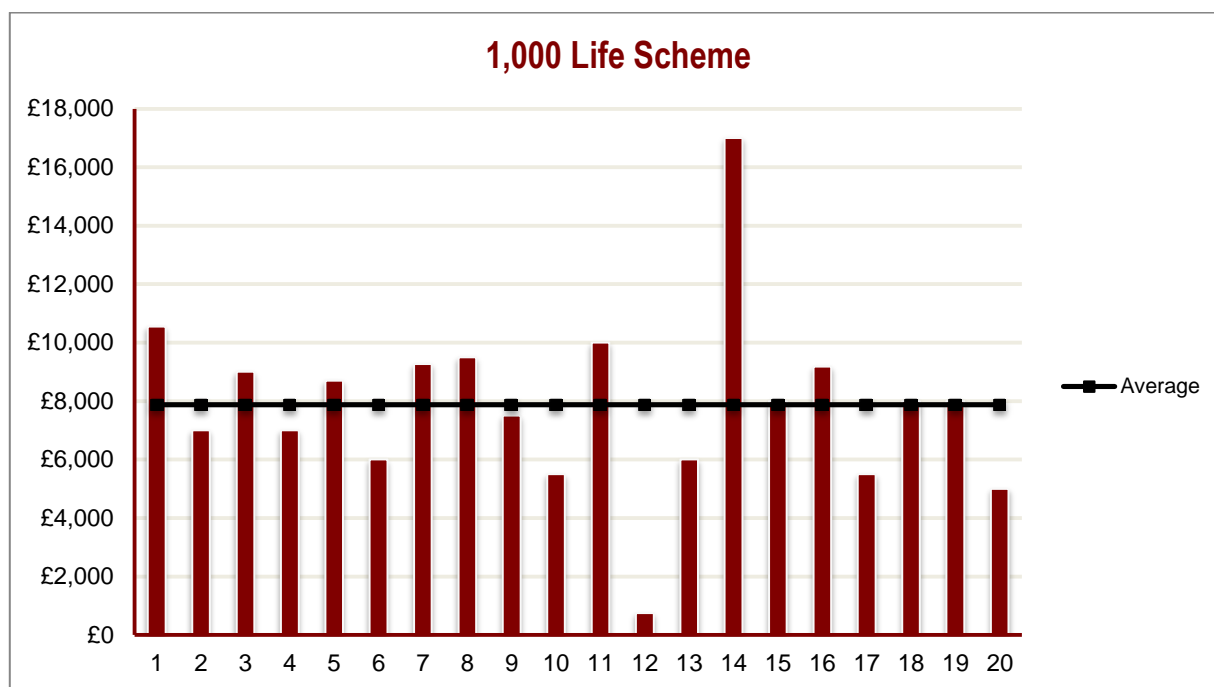
**Graph 3b**

Whilst the highest and lowest figure are the same for 200 life schemes and 500 life schemes, the range of responses between them differs greatly. The difference between the highest average cost is £5,660 and between the average and lowest is £5,600. Seven firms charge more than the average fee of £6,350 and ten firms charge less. 15 firms charge less than three quarters of the fees of the highest charging firm.

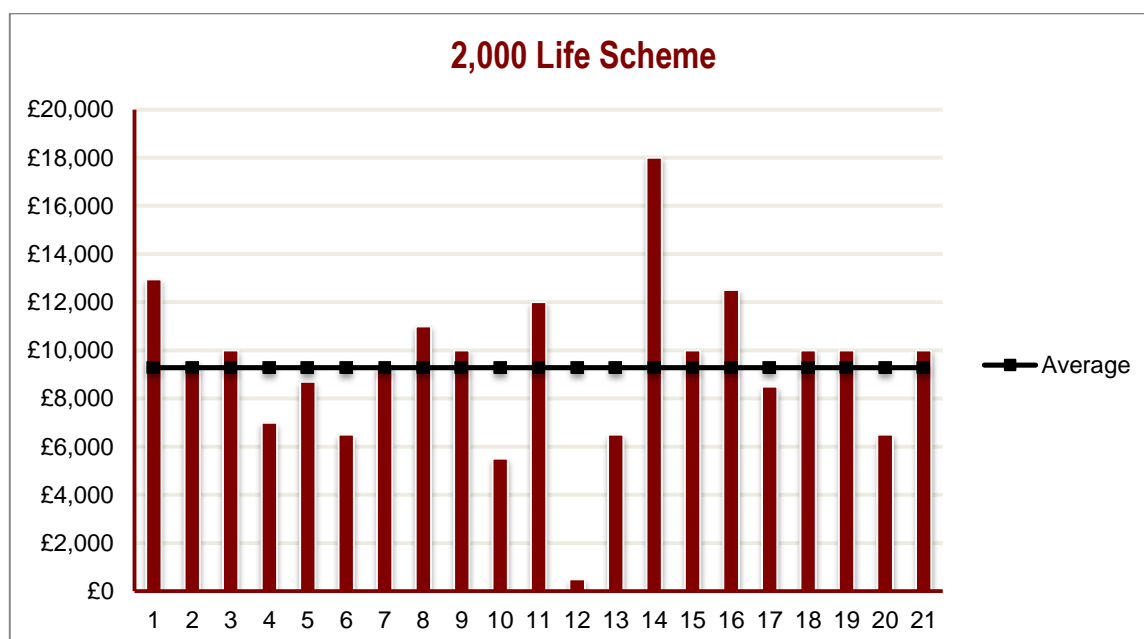


**Graph 3c**

The most expensive firm charges £16,250 more than the lowest and £9,100 more than the average fee of £7,900. The lowest firm charges £7,100 less than the average and 85% of firms charge between £5,000 and £10,000.

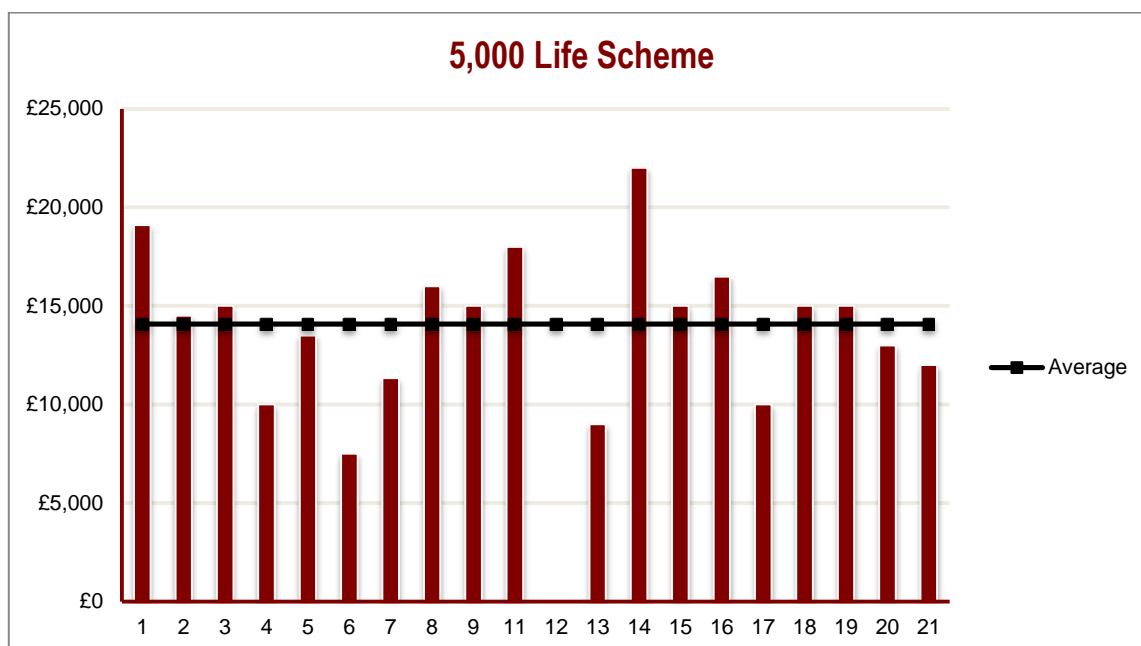
**Graph 3d**

The highest firm charges £17,500 more than the lowest; this difference is nearly an 8% increase when compared to a 1,000 life scheme. The average fee of £9,300 is £8,700 less than the highest and £8,800 more than the lowest. This average shows a 60% increase when compared to a 200 life scheme. 12 firms charge more than the average, whilst the mode is £10,000.

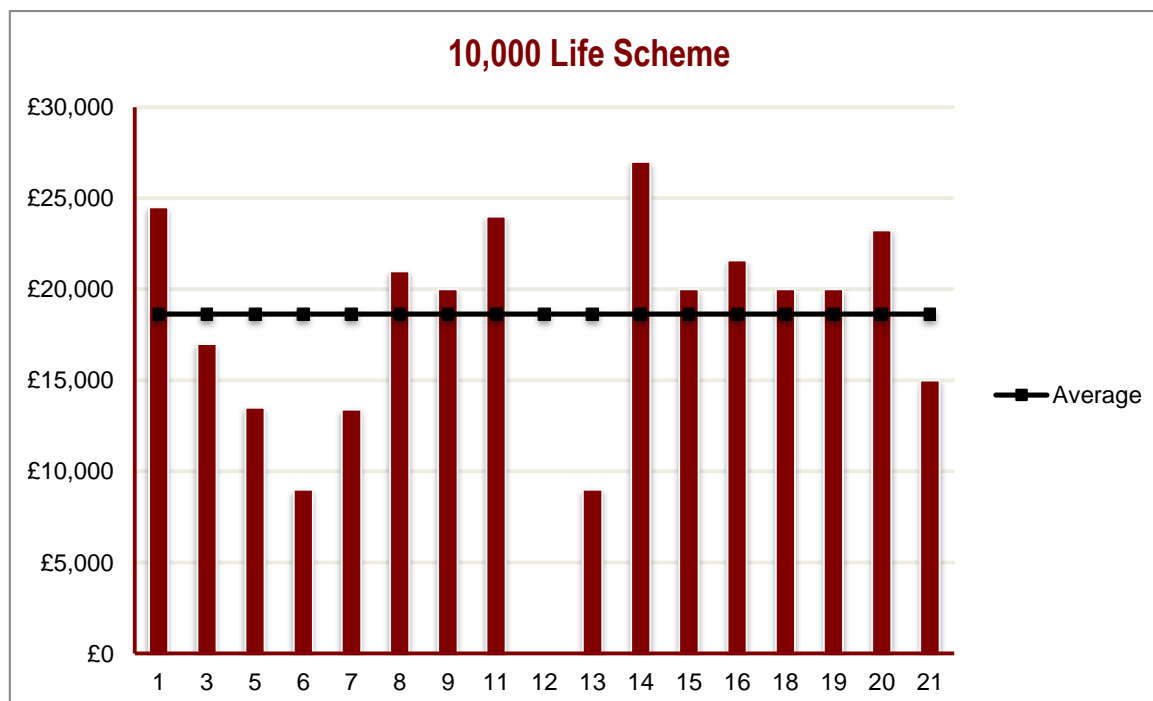


**Graph 3e**

The difference between the highest and lowest fee is £14,000. The highest charging firm is £7,900 more than the average of £14,000, which is £6,500 more than the lowest firm. Eight firms charge less than the average fee and the mode is now £15,000.

**Graph 3f**

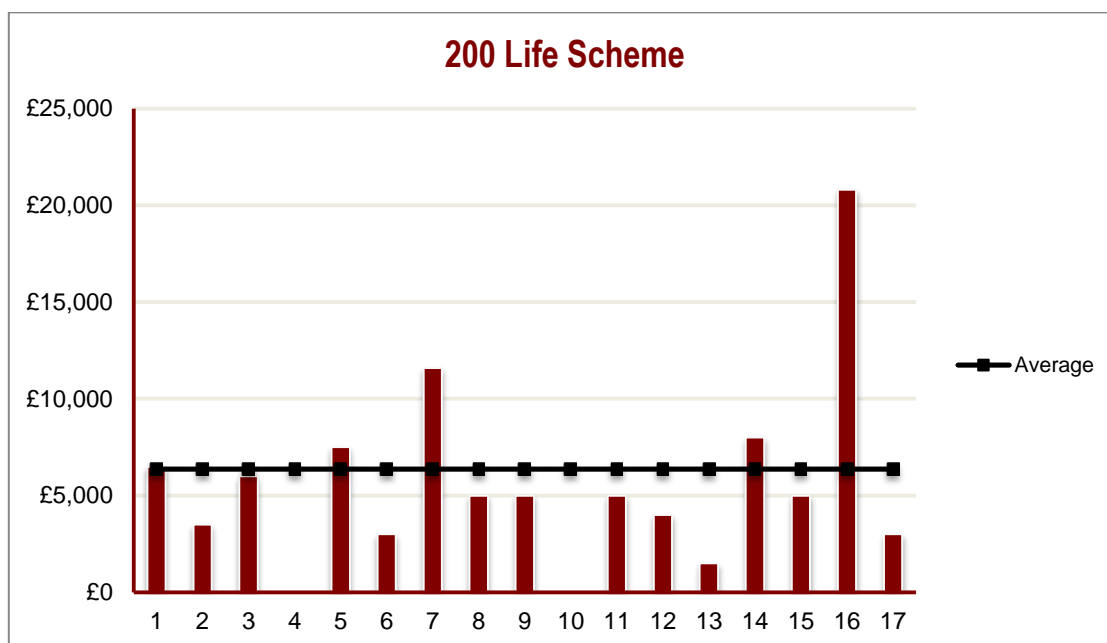
The most expensive firm is £18,000 more than the lowest charging firm and £8,400 more than the average fee of 18,600. The lowest firm is £9,600 less than the average and 10 firms charge more. This average fee has increased by nearly 33% when compared to a 5,000 life scheme.



### 3.4 Implementation Fee

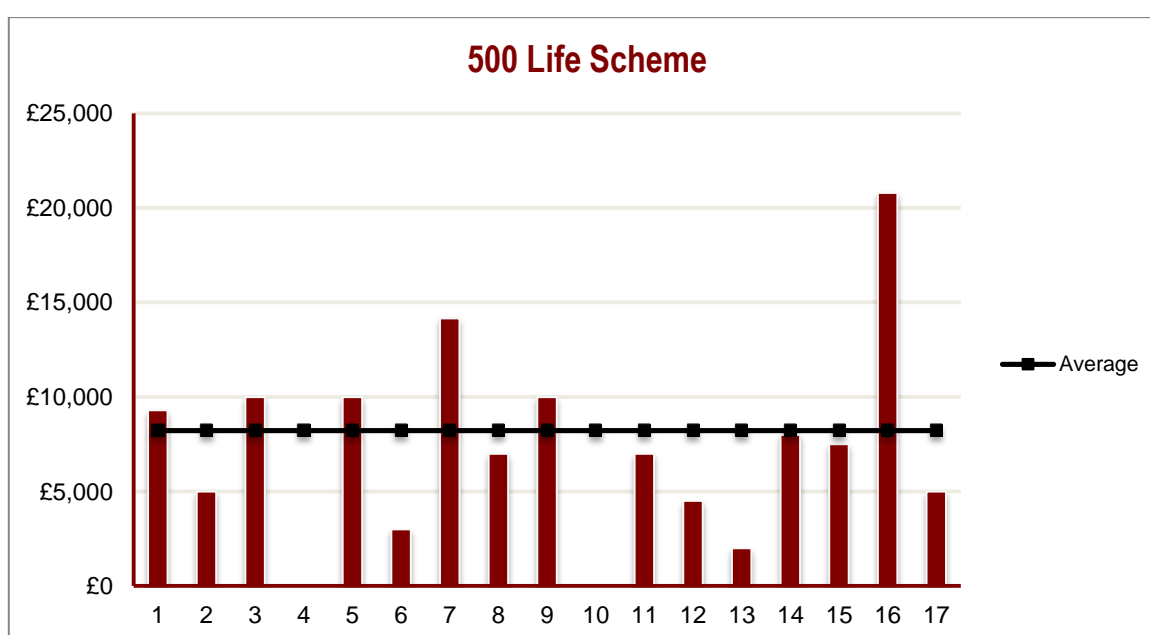
**Graph 4a**

Two firms do not charge an implementation fee for a scheme of this size. Of the firms that do charge fees, five are more expensive than the average fee of £6,400 and the most expensive firm is £14,400 more. The firm charging the lowest absolute fee is £4,900 less than the average and £19,300 less than the most expensive. All firms charge less than three quarters that of the most expensive firm.



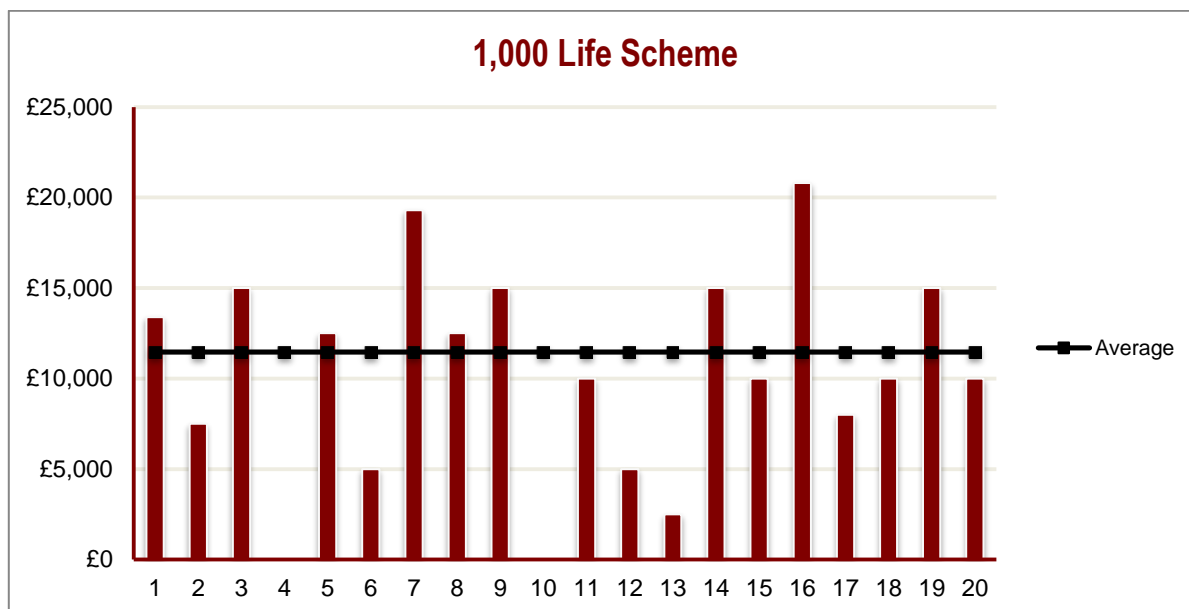
**Graph 4b**

Again two of the 17 firms do not charge an implementation fee for a 500 life scheme. The most expensive firm charges £12,600 more than the average cost of £8,200. Nine firms charge less than the average and the lowest charging firm is £6,200 less. The lowest cost is also £18,800 less than the most expensive firm's fee. Two thirds of firms charge between £5,000 and £10,000.

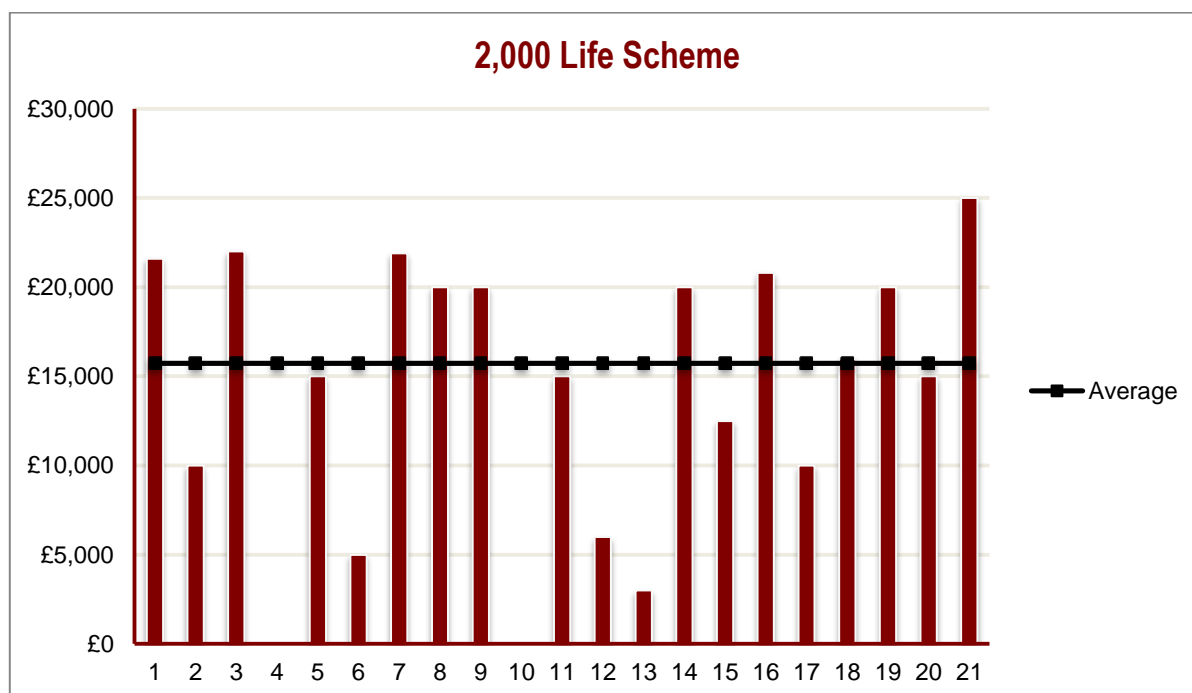


**Graph 4c**

The same two firms do not charge for implementation. Of those that do, the most expensive firm charges £9,300 more than the average fee of £11,400 and £18,300 more than the lowest charging firm. This in turn is £9,000 less than the average. Nine firms charge more than the average, whilst four firms each charge £15,000 and £10,000.

**Graph 4d**

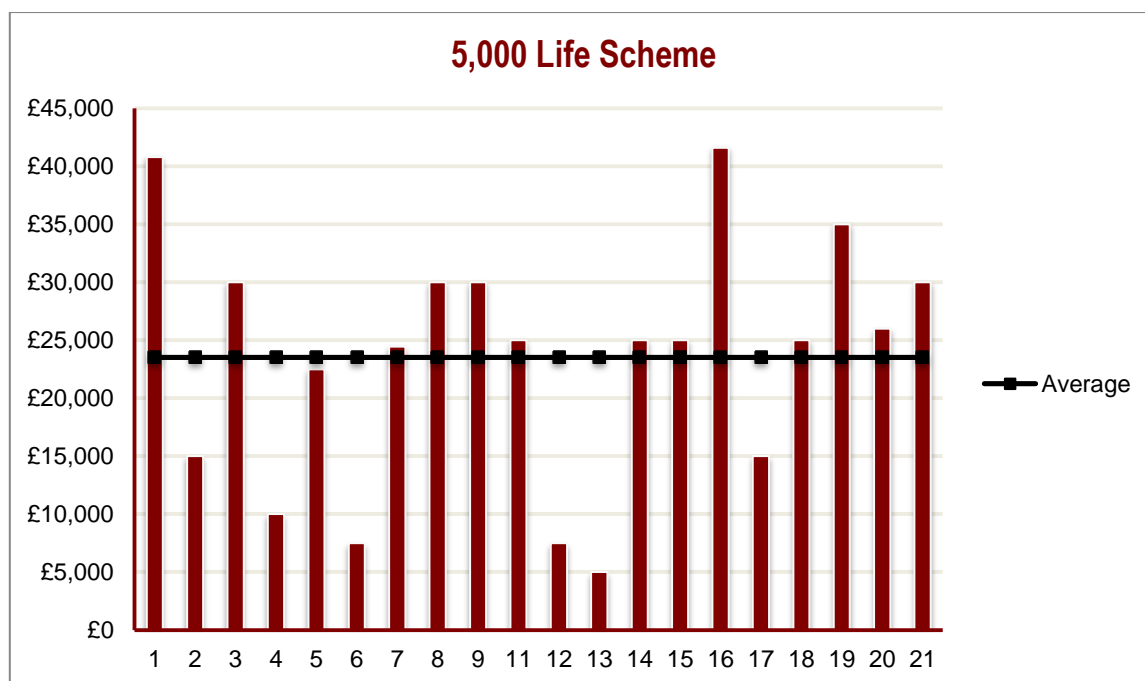
Two firms continue not to charge an implementation fee. Of those that do, the most expensive firm charges £9,300 more than the average fee of £15,700. The most expensive firm charges £22,000 more than the firm charging the lowest fee. 10 firms charge more than the average whilst a fee of £20,000 is the most popular with four occurrences.



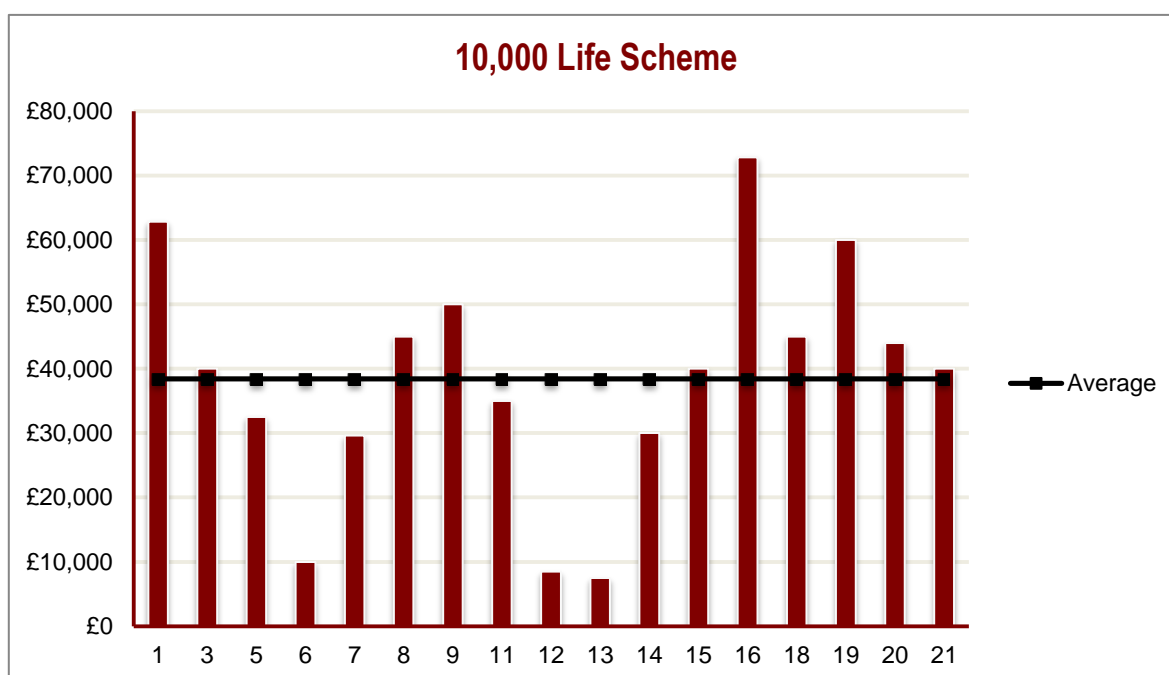


**Graph 4e**

All firms charge an implementation fee for this scheme size. The difference between the highest and lowest is surprisingly significant – £36,600. The most expensive firm is £18,100 more than the average and the lowest firm is £18,500 less than the average. This average fee of £23,500 shows an increase of 50% on the cost of implementing a 2,000 life scheme. Rates of £25,000 and £30,000 are the most commonly quoted fees, with four appearances each.

**Graph 4f**

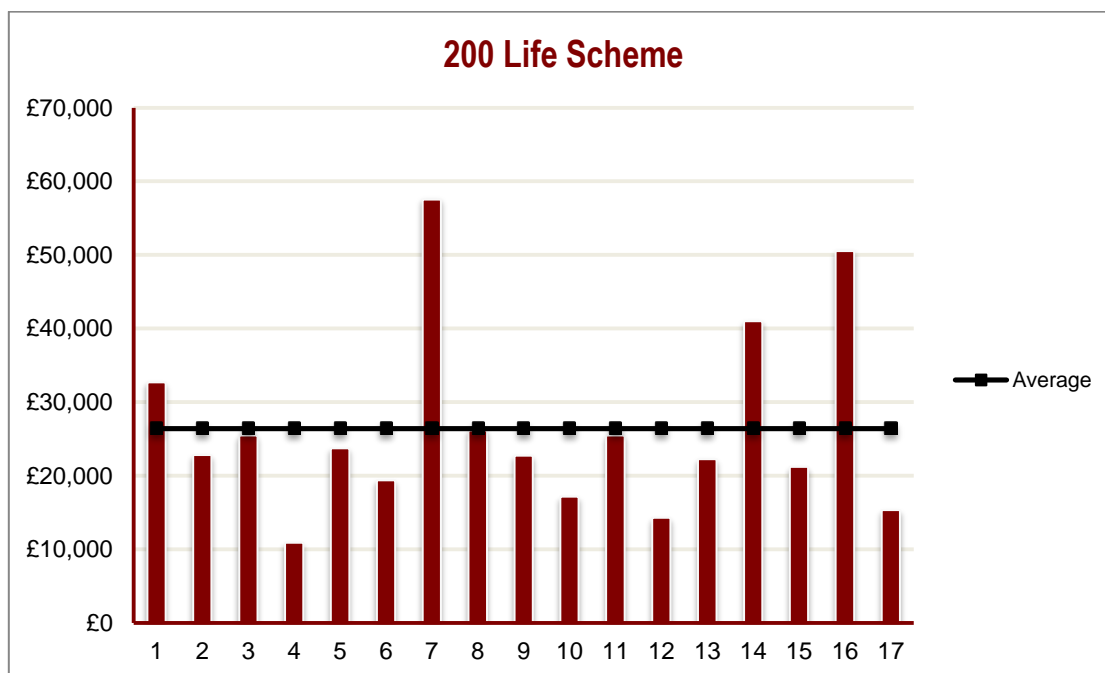
The difference between the most expensive and the lowest firm has risen substantially to £65,300. The average fee of £38,400 is more than half the highest, but £30,900 more than the lowest firm. 10 firms charge more than the average and 11 charge between £30,000 and £60,000. The average implementation fee has increased by nearly two thirds compared to a 5,000 life scheme.



### 3.5 Year One Cost

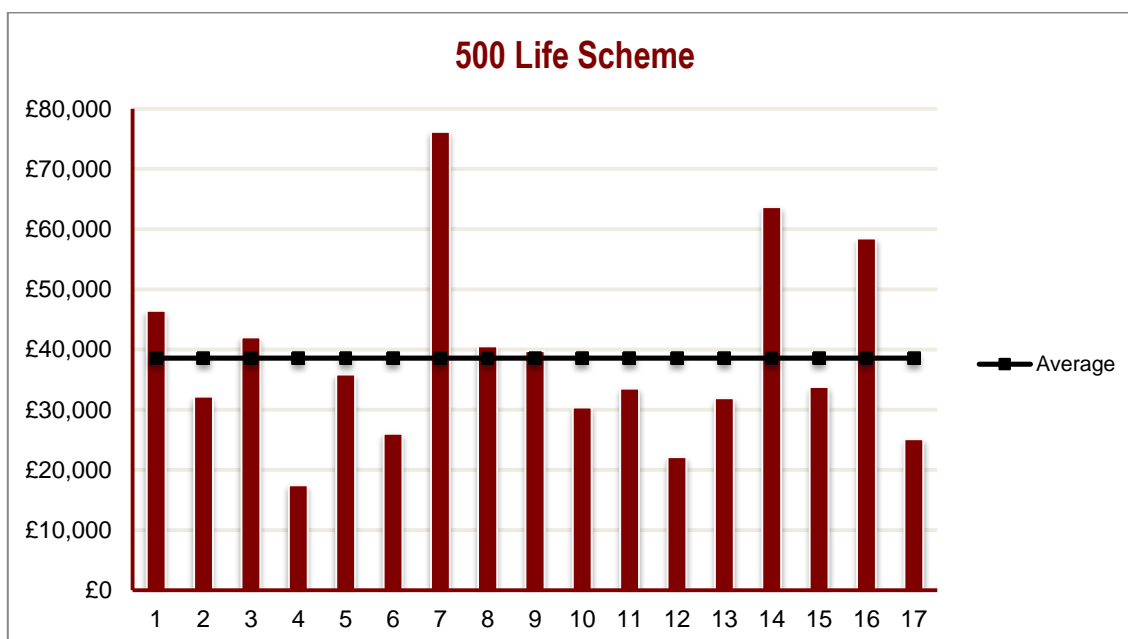
**Graph 5a**

The most expensive firm charges £46,600 more than the lowest and £31,100 more than the average. Only four firms charge more than the average cost of £26,400, which is £15,500 higher than the lowest charging firm. 14 of the 17 firms charge less than three quarters the cost of the most expensive firm, but even removing this response and comparing the lowest and second highest firm gives a significant difference of £39,600.



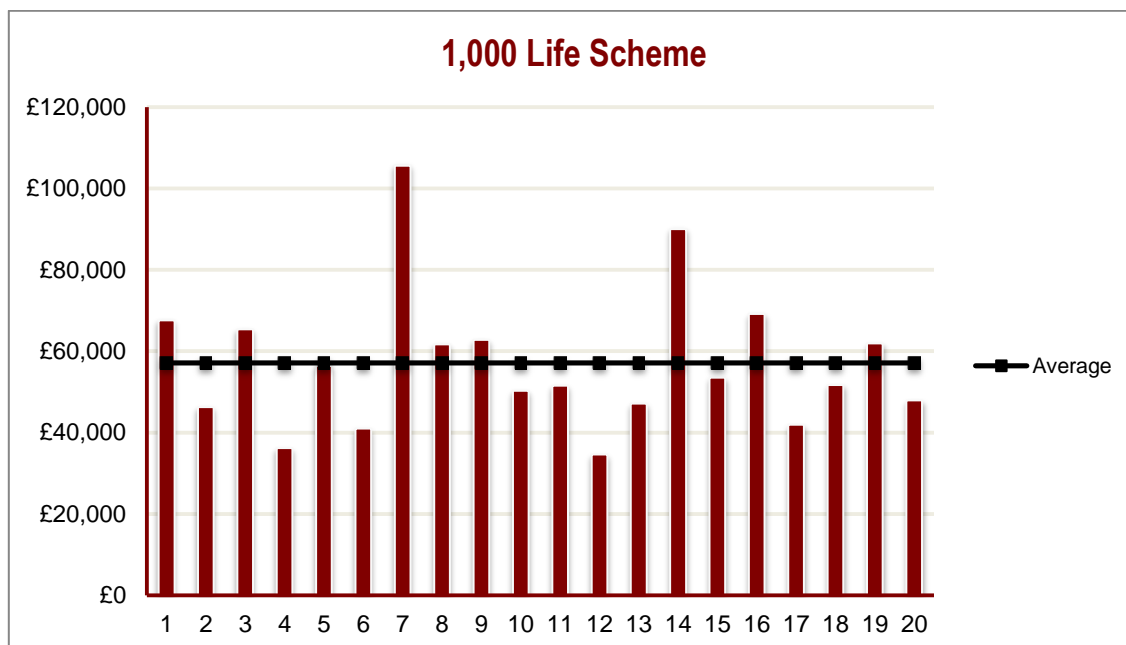
**Graph 5b**

The highest firm charges £58,700 more than the lowest and £37,600 more than the average fee. Seven firms charge more than the average cost of £38,500. The lowest firm is £21,050 less than the average fee, which is 46% higher than a 200 life scheme. The range between the lowest and second highest firm is £46,200.

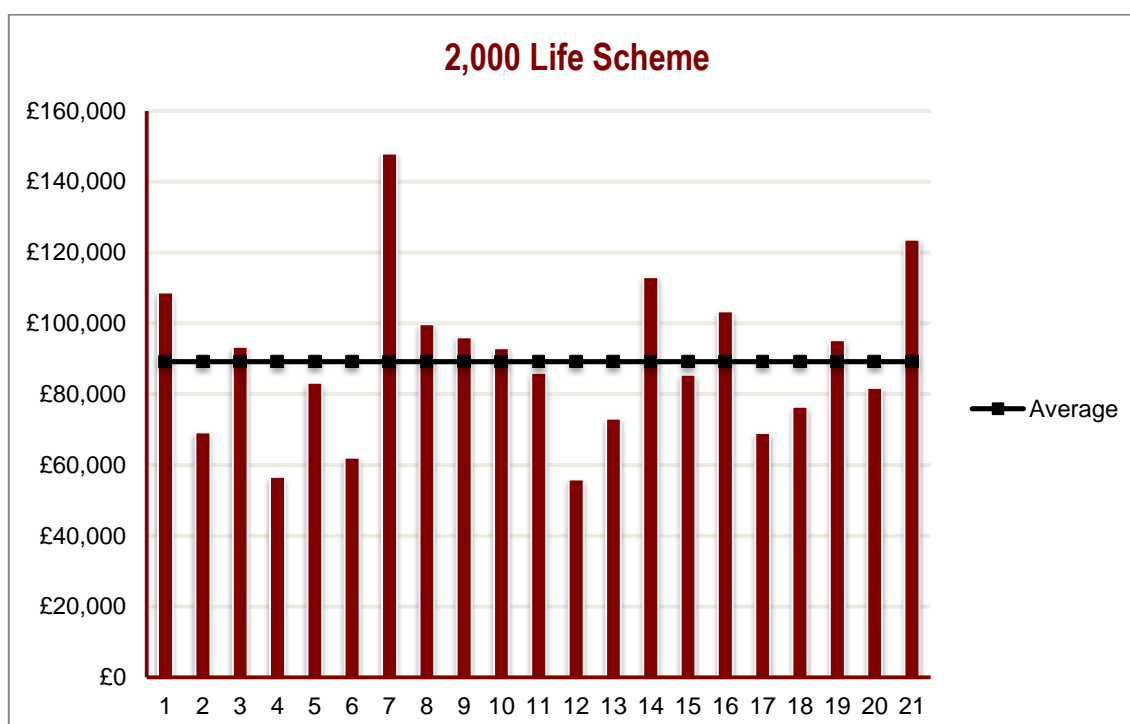


**Graph 5c**

The difference between the highest and lowest charging firms is £71,000. The most expensive firm charges £48,500 more than the average of £57,000 and the lowest firm charges £22,500 less. 12 firms charge below the average which, for this size scheme, has increased by 48% compared to a 500 life scheme. The range between the lowest and second highest firm is £55,400.

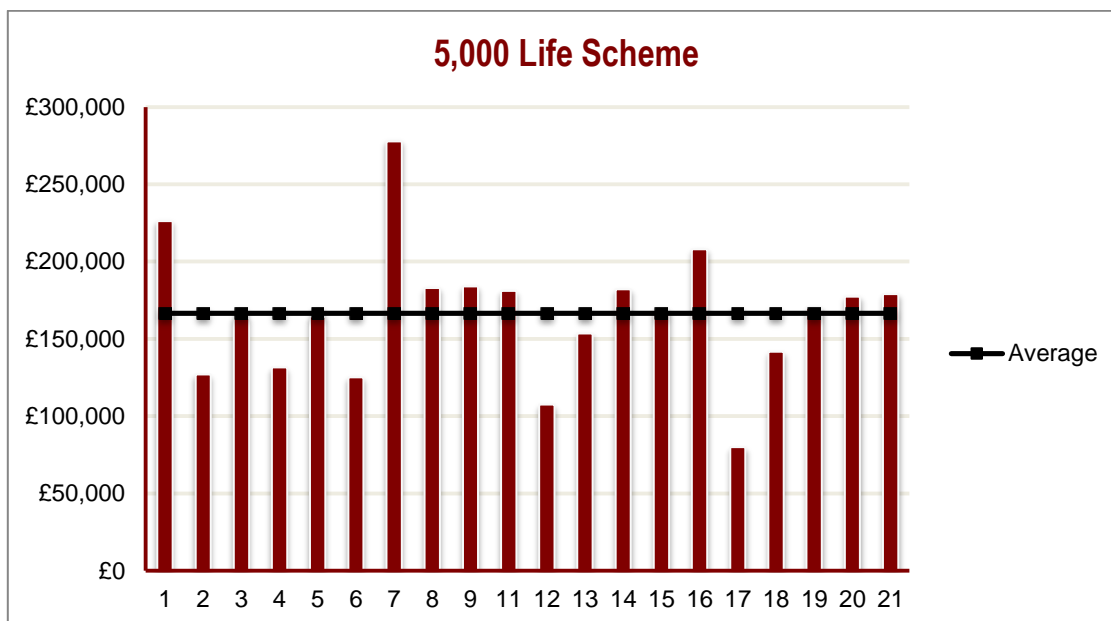
**Graph 5d**

There is a difference of £92,000 between the highest and lowest charging firms. 13 firms charge less than the average fee of £95,200. The most expensive firm is £52,700 more and the lowest firm is £39,300 less than the average, which is 67% higher compared to a 1,000 life scheme. The range between the lowest and second highest firm is £67,700.

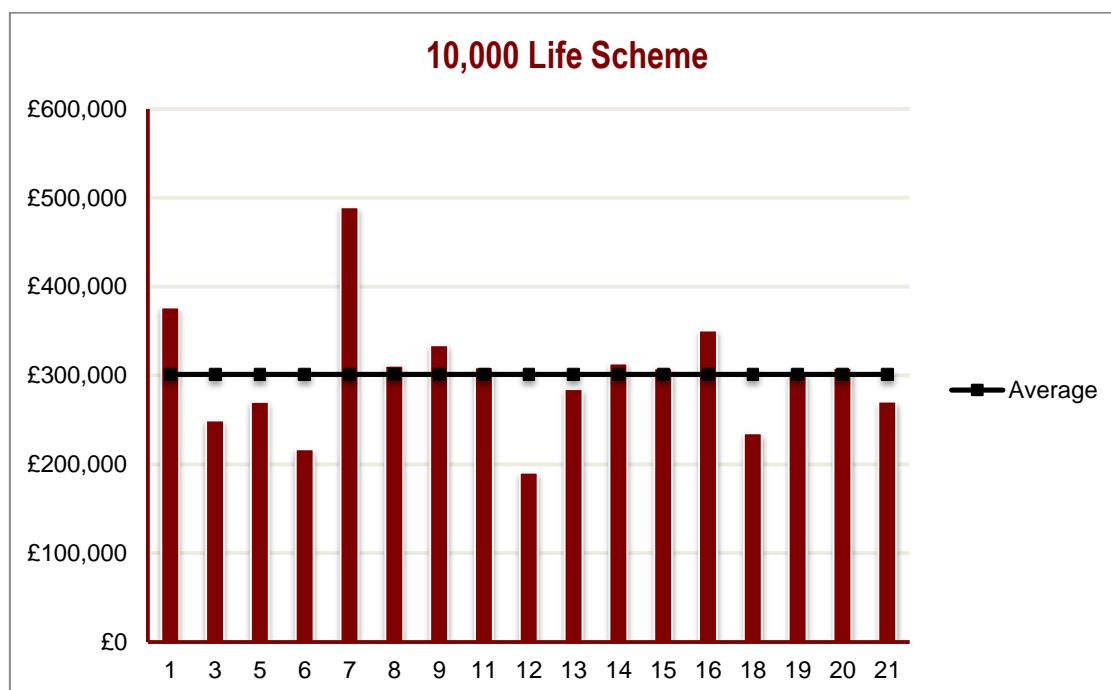


**Graph 5e**

The most expensive firm charges £170,300 more than the least expensive firm and £108,500 more than the average. This is £61,800 more than the lowest fee and half of the firms charge more than the average fee of £169,300. There is a 78% increase in the average fee compared to a 2,000 life scheme. The range between the lowest and second highest firm is £118,700.

**Graph 5f**

The difference between the highest and lowest firms is £298,550, with the most expensive firm charging £188,000 more than the average fee. The lowest firm charges £110,500 less than the average fee of £301,000, with nine charging more than the average. The increase in the average is again 78% compared to that of a 5,000 life scheme. The range between the lowest and second highest firm is £186,050.

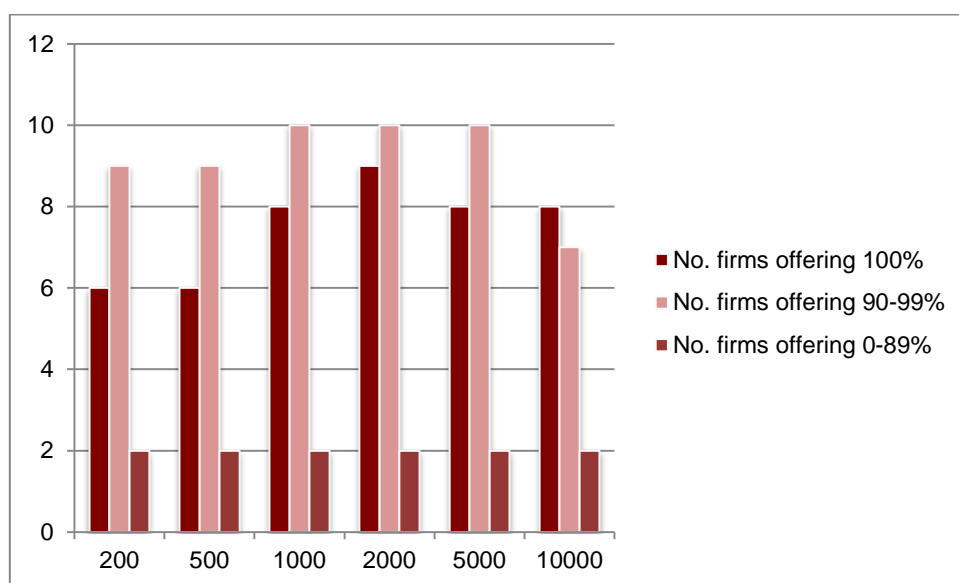


## 4.0 Core & Non-Core Tasks

We asked all firms to provide their fees based on tasks we would normally consider to be 'core'. A list of these tasks can be found in Appendix A.

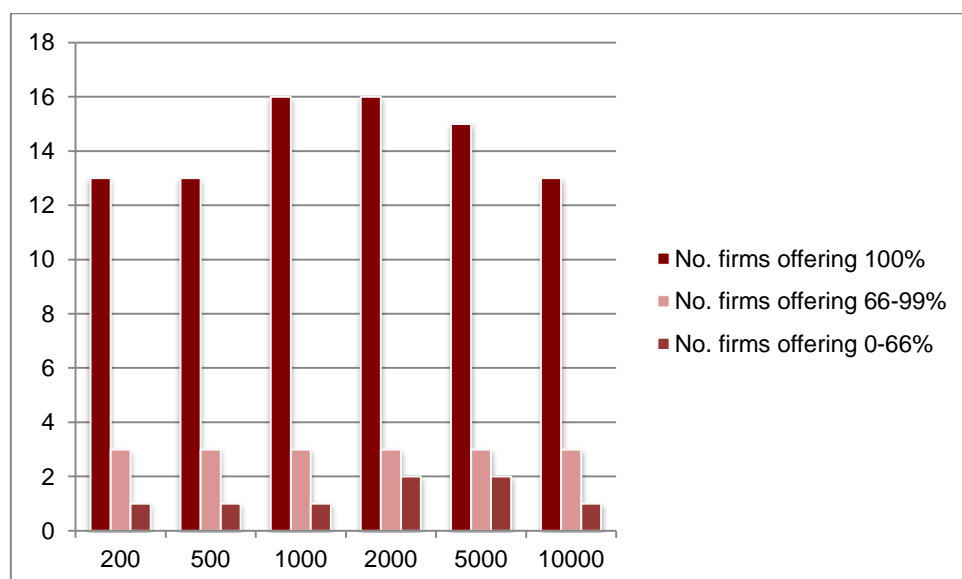
### Core Annual Tasks

This graph shows how many firms for each scheme size offered 100%, 90-99% and 0-89% of annual tasks. For all scheme sizes the majority of firms offer 90% or more of the core tasks. Where they differ is between the 100% and 90-99%. Interestingly it is the largest scheme size that has the highest percentage of firms providing 100% of the core tasks



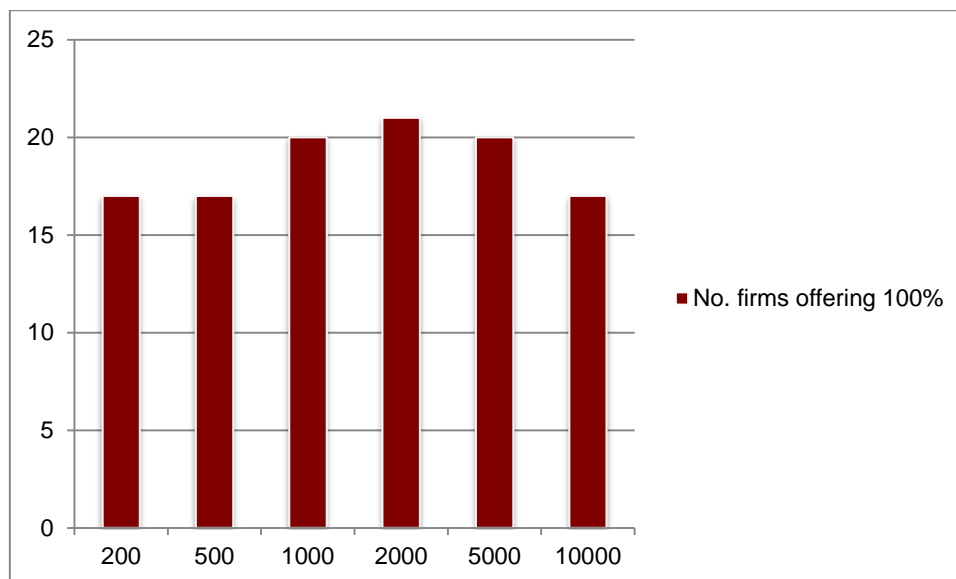
### Core Consulting Tasks

This graph shows how many firms offer 100%, 66-99% and 0-66% of the consulting tasks. The majority of firms across all scheme sizes offer 100% of these tasks and there is little difference between the scheme sizes.



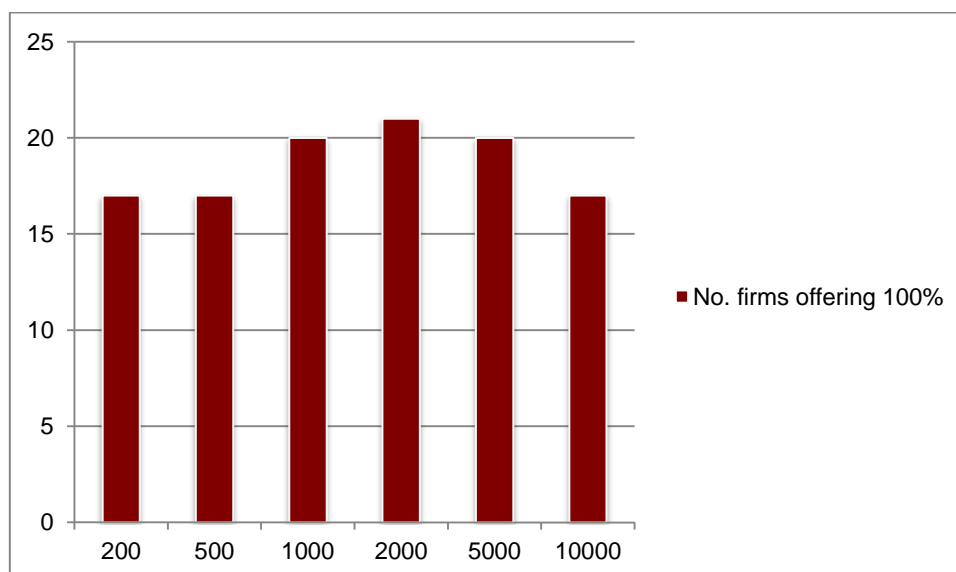
### Core Accounting Tasks

Unlike previous years, this year all firms offered 100% of these tasks across all scheme sizes.



### Core Payroll Tasks

All firms offer 100% of the payroll tasks across all scheme sizes.



### All Non-Core Tasks

We asked firms to state whether they included eight tasks within their core fees. However, many had difficulty in clearly articulating their stance on charging for services. A number stated the service was core, but then clarified that it comes at additional cost – which clearly a core service does not. The results have therefore required some interpretation and so this is a question which will need revision in future years.

The first two questions covered scheme secretariat – draft agendas, distributing papers, attendance at meetings, minute taking action points and follow up. The majority said this was not included, either because the service is delivered from another part of the business or because it is a true non-core service. Where firms gave an estimated combined cost, these ranged from £4,000 to £10,000 per meeting, but much depended on the scope of requirements.

Only a few firms stated they would attend additional trustee meetings when required at no extra cost, down from last year when nearly three quarters said they would. Fixed costs for attending additional trustee meetings remained unchanged year on year and ranged from £500 to £3,000 per meeting. The percentage of firms wishing to charge at time/cost has risen.

This year less than one third of firms said they would provide additional member data to other third parties at no cost and two firms said they would charge £500 per standard data extract, others stated the cost would be agreed individually with each client.

Nearly all the firms said liaising with trustees on scheme administration matters as and when required would be included within their core fee. Although there were caveats on complexity and frequency of the engagement required.

## 5.0 Online Capabilities

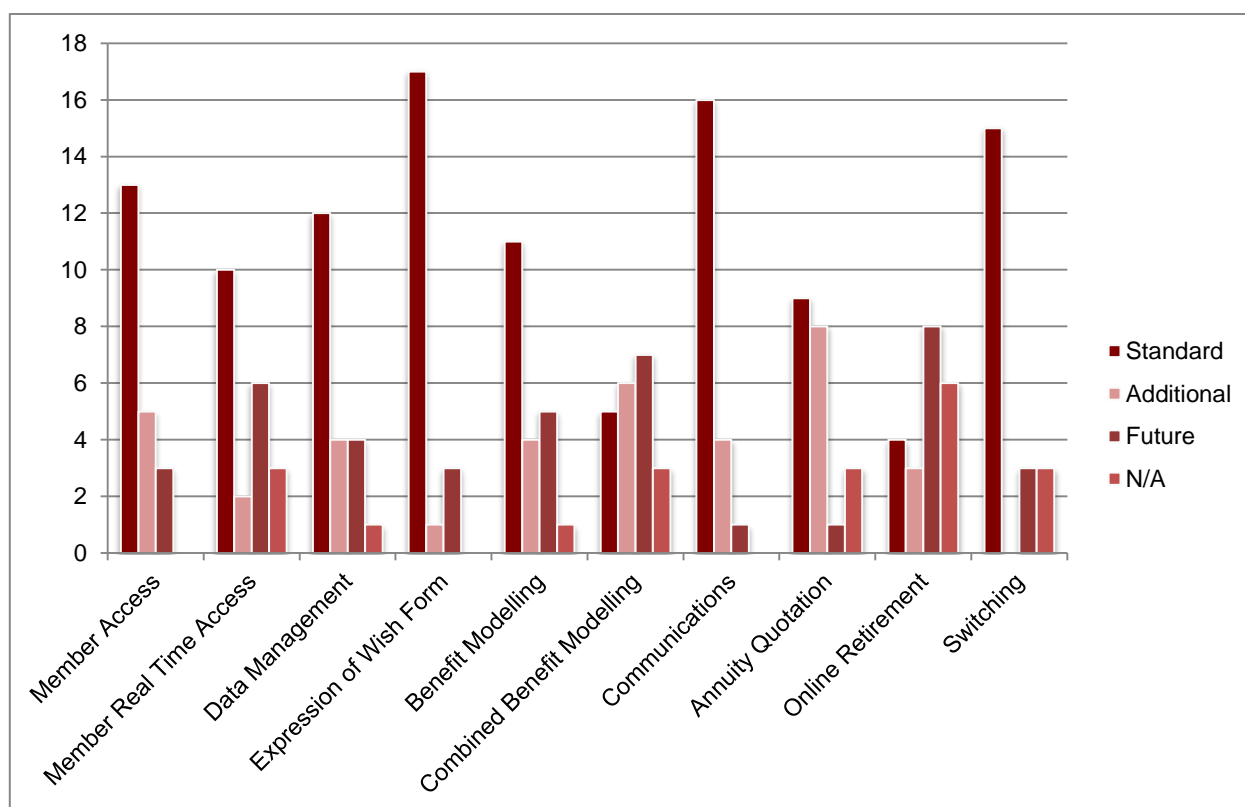
The Online Capabilities section was amended in the Fourth Administration Fee Survey to reflect its growing importance. This year we have not amended the section and maintained the four categories of core fee (Standard), available at additional cost to the clients (Additional), under development (Future) or if the service is unavailable and not underdevelopment (N/A)

We have grouped the services under two headings – **Member Online Services** and **Employer/Trustee Online Services** (this includes structural services such as branding)

### Member Online Services

It is pleasing to see that the provision of member web facilities is provided as part of the core fees by over 50% of the providers in most cases. Key areas such as Expression of Wish forms, Switching and Communications are the most likely to be included as Standard.

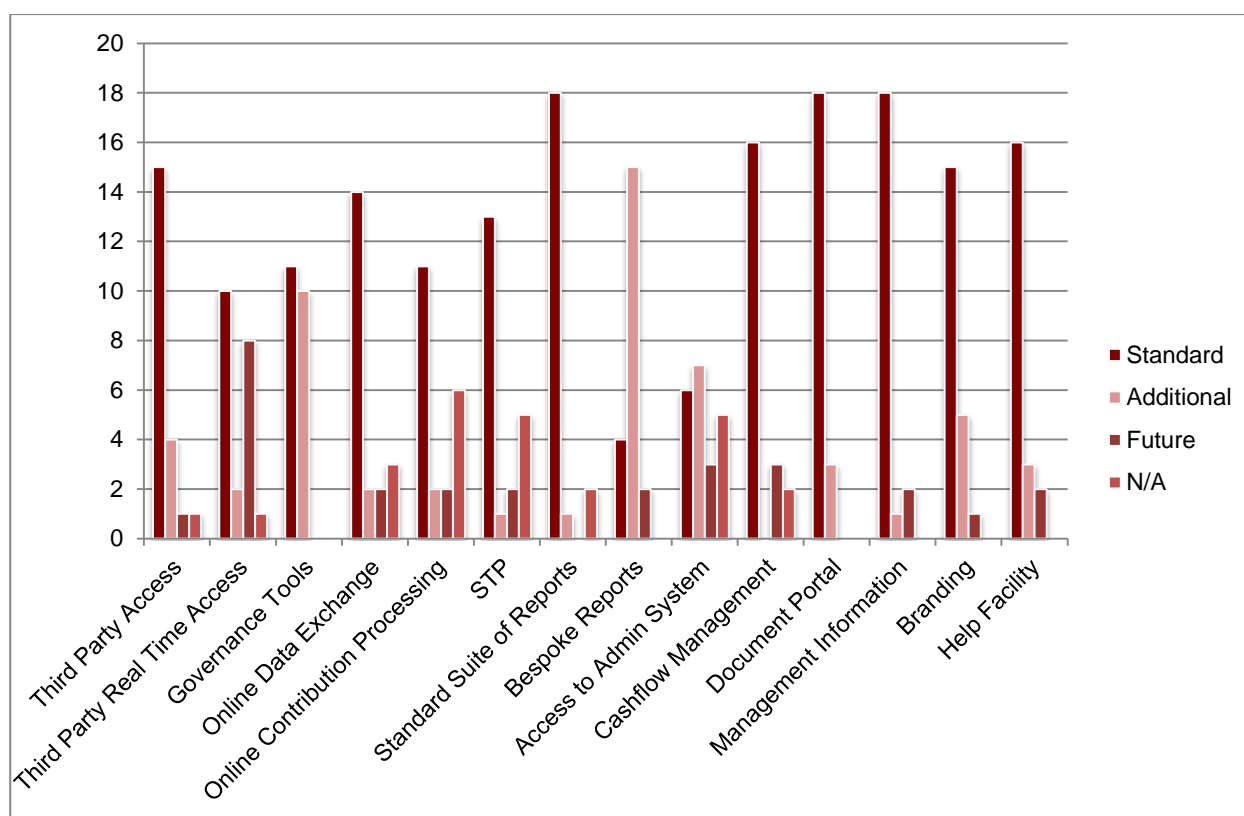
We expect to see further development in online retirement which is on the radar of most providers along with other communication tools not covered here.





## Employer/Trustee Online Services

Last year we suggested that Employer/Trustee access would be an area of development for most providers. With the exception of bespoke reporting and access to the administration platforms, most are including the expected features as standard and part of the core fees.



## Fees

The table below shows how many firms charge within a particular range of fees for the online capabilities they offer. As the size of the scheme increases, we see more firms offering an inclusive service.

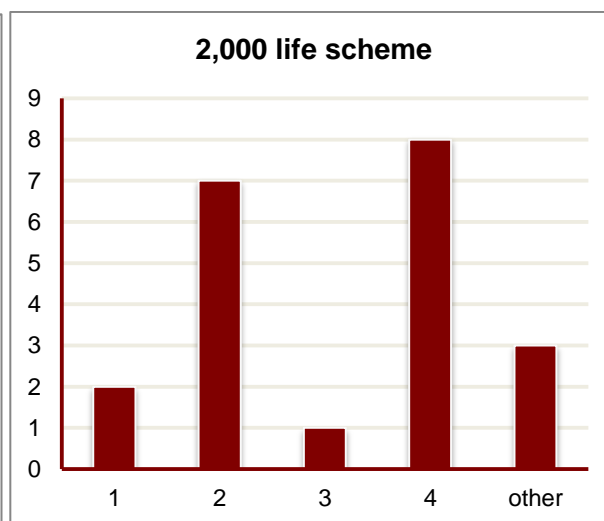
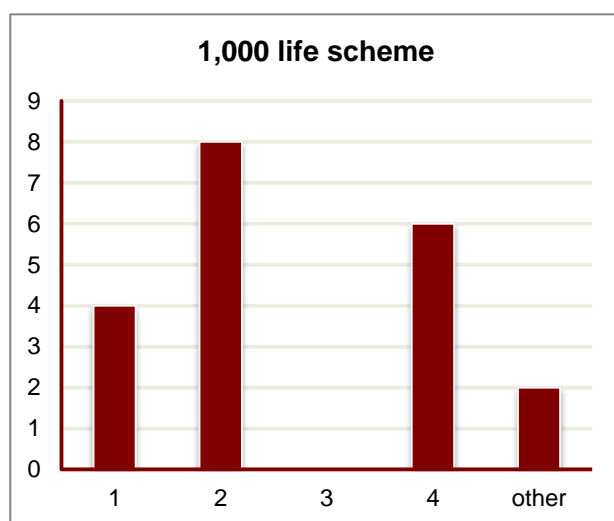
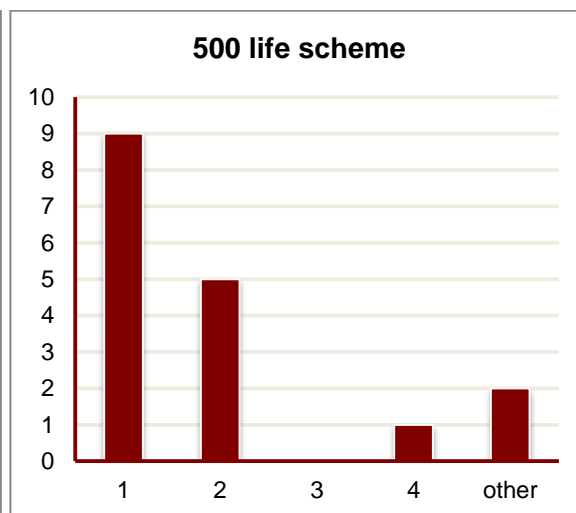
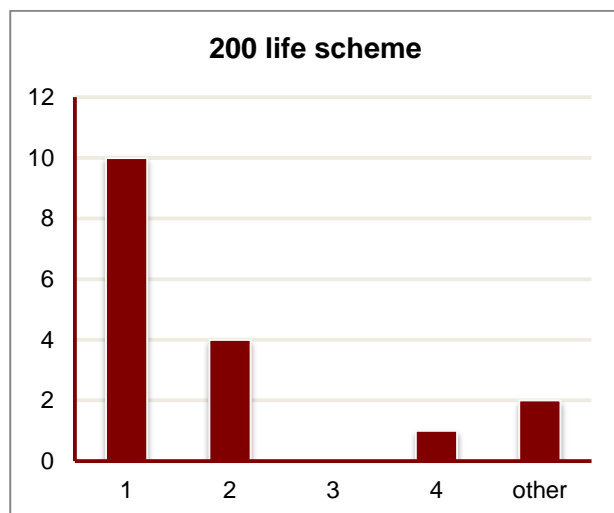
	200	500	1,000	2,000	5,000	10,000
<b>Do not charge</b>	13	13	14	14	14	11
<b>£1 - £1,000</b>	1	1	1	1	1	1
<b>£1,001 - £5,000</b>	2	2	4	4	3	2
<b>£5,001 - £10,000</b>	1	1	1	2	1	2
<b>£10,001 - £25,000</b>	0	0	0	0	1	1

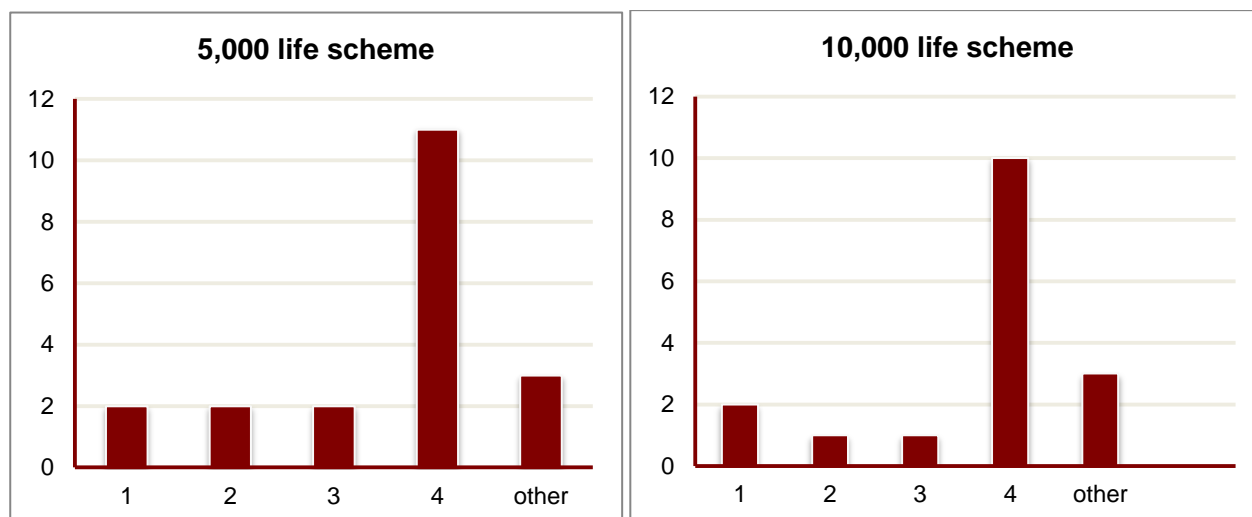
This may be a pre-cursor to a time when schemes expect a discount for using web services.

## 6.0 Additional

### Trustee Meetings

The graphs below show how many trustee meetings are included within the firms' fixed fees. It is not surprising that the larger the scheme size the more meetings are included in the core fees.





### Member Activity Assumptions

We asked firms what member transaction activity assumptions their fees were based on. The most commonly occurring activity assumption was 10% ranging from 45% of firms using it for a 10,000 life scheme through to 60% of firms using it for a 1,000 life scheme. Only two participating firms did not apply an activity cap across all scheme sizes. Interestingly there is more variety in the range of activity caps than in previous years.

We then asked firms what the cost would be for exceeding their stated activity assumption. The table below sets out the range and average cost for each scheme size.

<b>200 life scheme</b>	<ul style="list-style-type: none"> <li>Range £65- £250</li> <li>Average: £160</li> </ul>
<b>500 life scheme</b>	<ul style="list-style-type: none"> <li>Range: £65 - £250</li> <li>Average: £157</li> </ul>
<b>1,000 life scheme</b>	<ul style="list-style-type: none"> <li>Range: £65 - £250</li> <li>Average: £152</li> </ul>
<b>2,000 life scheme</b>	<ul style="list-style-type: none"> <li>Range: £65 - £250</li> <li>Average: £148</li> </ul>
<b>5,000 life scheme</b>	<ul style="list-style-type: none"> <li>Range: £65- £250</li> <li>Average: £147</li> </ul>
<b>10,000 life scheme</b>	<ul style="list-style-type: none"> <li>Range: £65 - £250</li> <li>Average: £143</li> </ul>

### **Annuity Purchase**

Firms were asked what their charges are for carrying out an annuity purchase process with a scheme using a preferred broker service. The fees ranged between £200 and £750 with an average cost of £400. The majority of firms charged between £350 and £550.

## 7.0 Summary

The KGC Fifth Administration Fee Survey provides an insight to the diverse range of fees available within the pension administration services markets. As with last year KGC has provided further analysis with regards to the additional fees that might be incurred, the online capabilities available and in development, plus the typical number of meetings trustees might expect to be included.

Overall, fees show a slight downward trajectory. Administration fees exhibit a price compaction, however that compaction is in the shape of an upward trend. This is contrary to other areas covered by the survey, notably implementation, which has a markedly downward trend. The consolidated figures demonstrated in Year One fees, whilst still downward, have a greater spread of results.

Ultimately when the services are combined, as they would generally be for a real scheme as demonstrated in the Year One results, the increase in Administration is offset by the decrease in all other services.

KGC would be very happy to discuss the survey results in more detail. Please feel free to contact us at [enquires@kingublerconsulting.co.uk](mailto:enquires@kingublerconsulting.co.uk).

## A. Services Provided

### Core Tasks

#### Annual Administration

Implement and maintain up to date membership records
Maintenance and security of members' information in accordance with Data Protection Act requirements, plus safe storage of scheme data (paper and electronic)
Calculate and advise benefits for leavers, retirements and deaths (active/deferred/pensioner)
Benefit and option quotes (leaver/retirement/death)
Regular check/update (if necessary) of benefit calculation routines
Dealing with transfers (in/out)
Advance notification of forthcoming retirements
Calculation of pension increases and notification to pensioners
Bespoke Administration Stewardship Report
Input to and production of Annual Benefit Statements
Annual membership schedule (renewal)
The Pension Regulator's reporting requirements
Liaison with Investment Manager/Consultants/Scheme Actuary/Risk Benefit Provider/AVC Providers when required
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
Production and safe keeping of members' 'Expression of Wish' forms
Member enquiries
Direct branded telephone/email for members
Levy payments as and when required
Monitor payment of contributions schedule
Provision of regular Management Information Statistics (MIS) to Trustees of scheme activity
Administration Guide
Periodic pensioner existence check (e.g. minimum of triennial)
Insured risk administration
Deal with DWP requirements
Provision of data for actuarial valuation at no cost
Attendance when required for trustee meetings

#### Administration Consulting

Educate the Trustees on pension administration matters, give general advice on scheme administration activities
Issue periodic communications to the Trustees on industry administration practice and developments
Dissemination of current views e.g. 'house' view of a particular piece of legislations

## Scheme Accounting

Management/operation of a Trustee bank account cash and benefit payments

Maintain investment transaction records

Transaction summary (quarterly – minimum)

Tax returns and payment to HRMC, acting as administrator

Production of draft Annual Report & Accounts

Arrange/facilitate annual audit

Pay/claim tax and deal with HMRC, calculations of tax, LTA charge, unauthorised payments, refund of contributions and commutation payments

Cashflow management – reconciliation of payments/receipts (monthly minimum)/obtain and check bank statements

## Pensioner Payroll

Periodic pensioner payment

Annual payslip production and periodic payslip if pension changes by more than £10

Annual P60

Provide LTA information to pensioners

Pensioner correspondence and liaison with administration

## Non-Core Tasks

Scheme Secretariat (includes attendance at meetings, minute taking/distribution, action dissemination/follow up)

Draft Trustee Meeting agendas, distribute Trustee papers in accordance with statutory timescales

Perform ad-hoc projects as requested by the Trustees, any projects should be agreed and budgeted prior

Attendance at extra Trustee Meetings when required at no extra cost

Enhanced Reporting

Provision of additional member data to other third parties

Liaise with Trustees on Scheme administration matters as and when required

Merger/sale/acquisition work