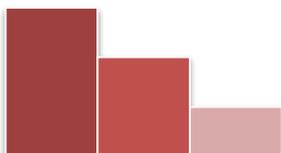


KGC's Fourth Administration Fee Survey  
June 2013



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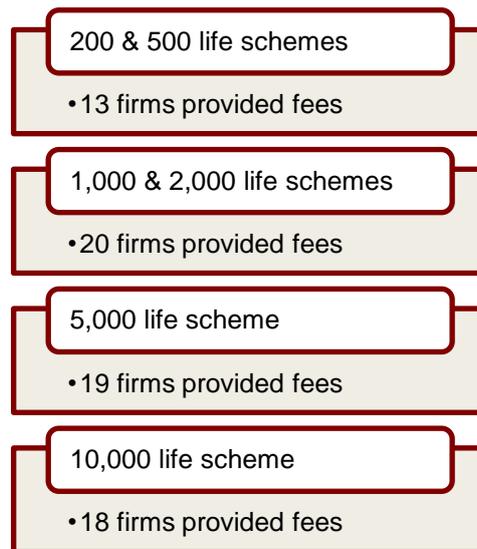
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## 1.0 Introduction

Earlier in 2013 **KGC** asked firms involved in the provision of pension administration services to participate in our fourth 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 in terms of providers and the schemes themselves.

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. This year we decided to give the opportunity to provide fees for smaller sized schemes therefore enabling firms which operate in the smaller end of the market to participate.



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

- Implementation of 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 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.

### Scenario Assumption

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

The scenario was as follows:

- DB being contracted out and 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 TPRs Record Keeping requirements
- Quarterly Stewardship reporting (including cashflow analysis)
- Pensioner Payroll
  - One payslip per annum, unless pension changes by more than £10

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

- 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.

Since our third Administration Fee Survey, we have seen further consolidation in the market. More firms are now offering a full service proposition as opposed to a standalone service, whether this is through partnering with a complementary firm or through developing their own service.

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.

## **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.

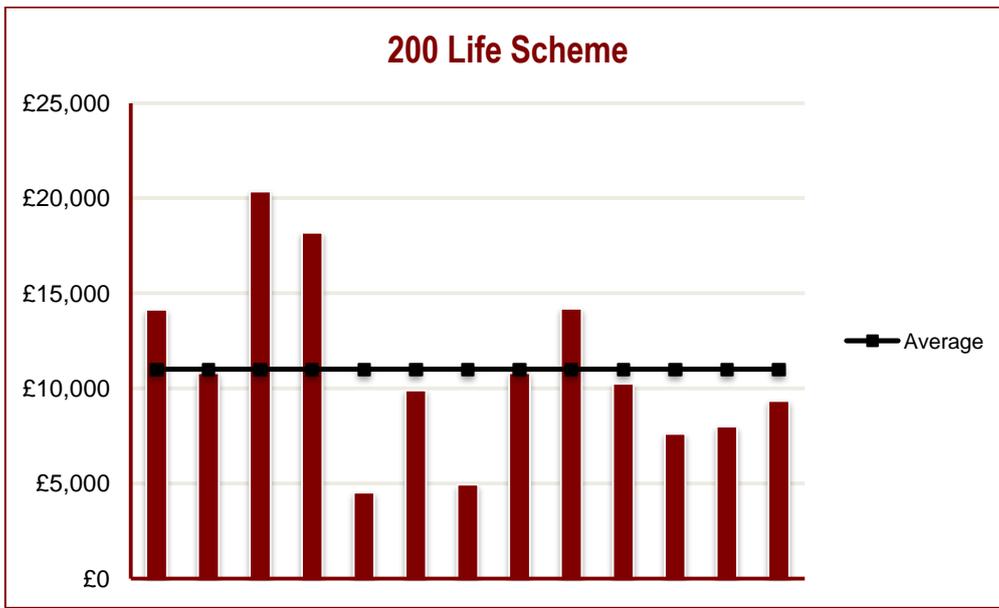
The fifth set of graphs shows the Total Year 1 Cost and includes:

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

### 3.1 Annual Administration Fee

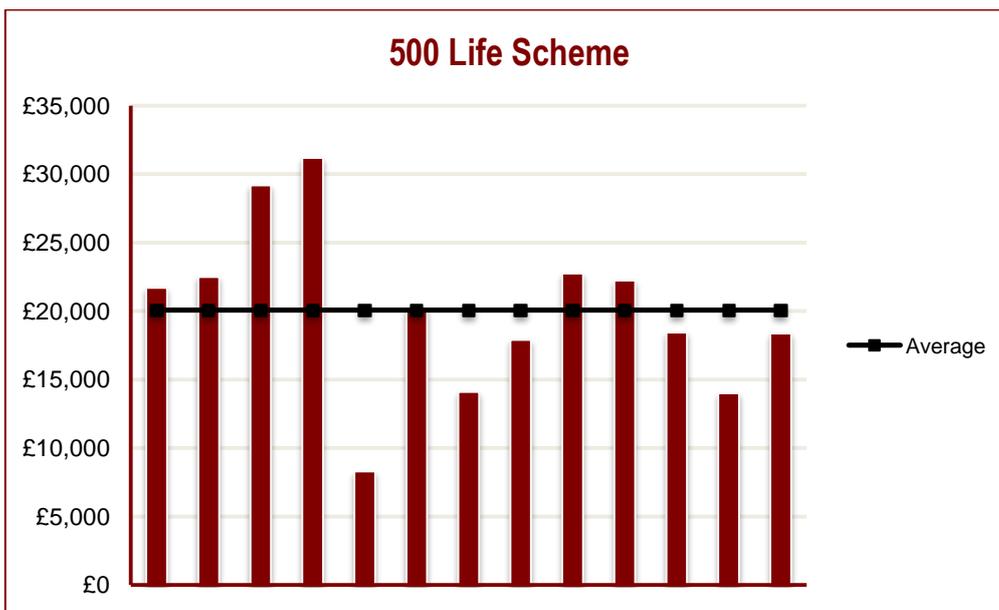
**Graph 1a**

The difference between the most expensive firm and the lowest firm for basic administration is £15,840. Four firms charge more than the average with the most expensive firm charging £9,353 more than the average cost. 70% of firms charge less than the average cost of £11,007, which itself is £6,487 more than the lowest firm. More than half of firms charge between £7,500 and £11,000.



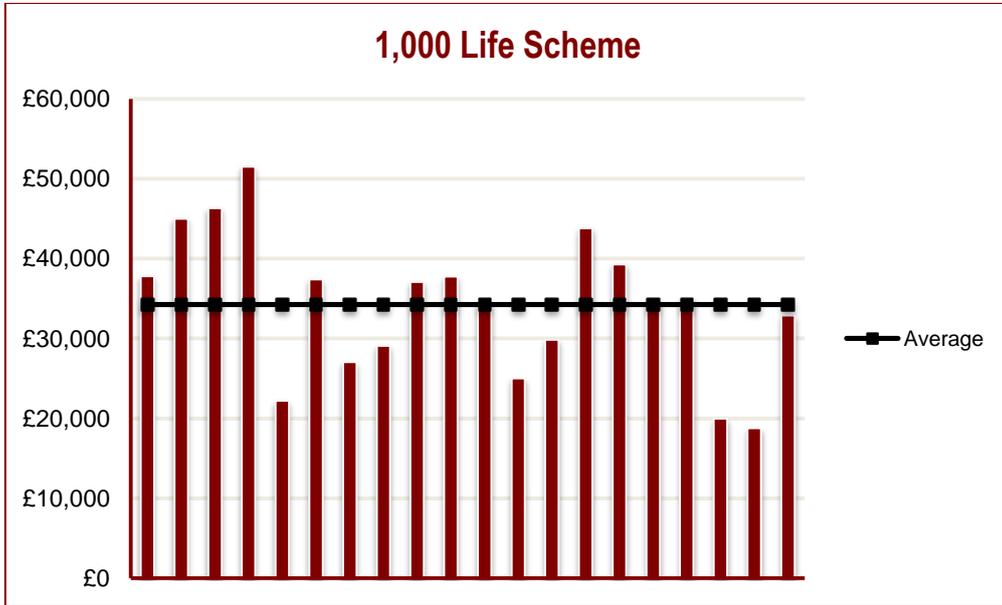
**Graph 1b**

The most expensive firm is £22,900 more than the lowest firm and £11,135 more than the average fee. Six firms charge less than the average fee of £20,065, with seven firms charging more. The lowest charging firm is £11,765 less than the average fee. Over half of the firms charge between £17,500 and £23,000.



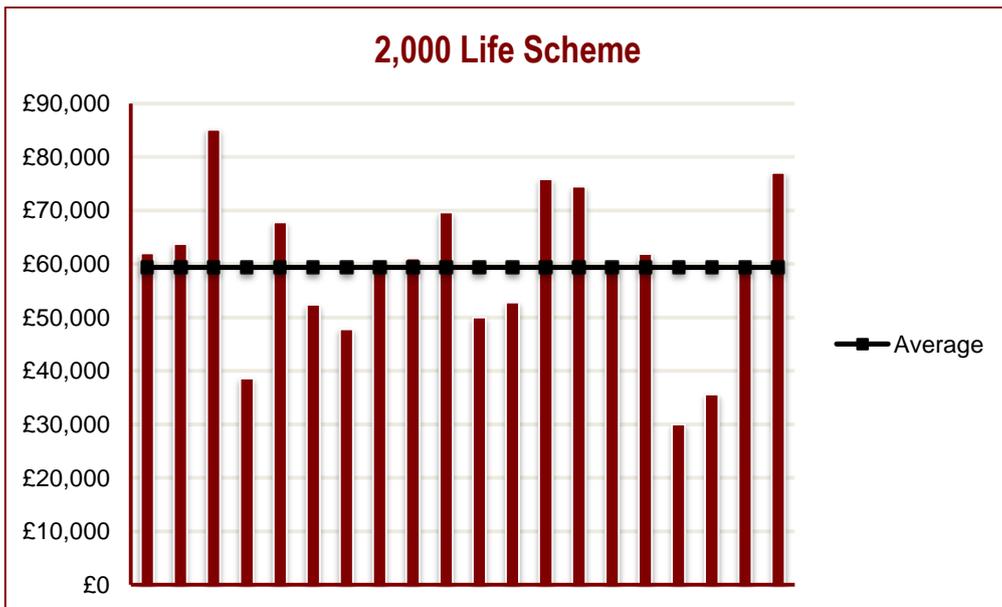
**Graph 1c**

The most expensive firm for this scheme size is £32,703 more than the lowest cost, it is also £17,256 more than the average fee. 60% of firms charge more than the average cost of £34,247 with eight firms charging less. The lowest fee is £15,447 less than the average. The majority of firms charge between £25,000 and £40,000.



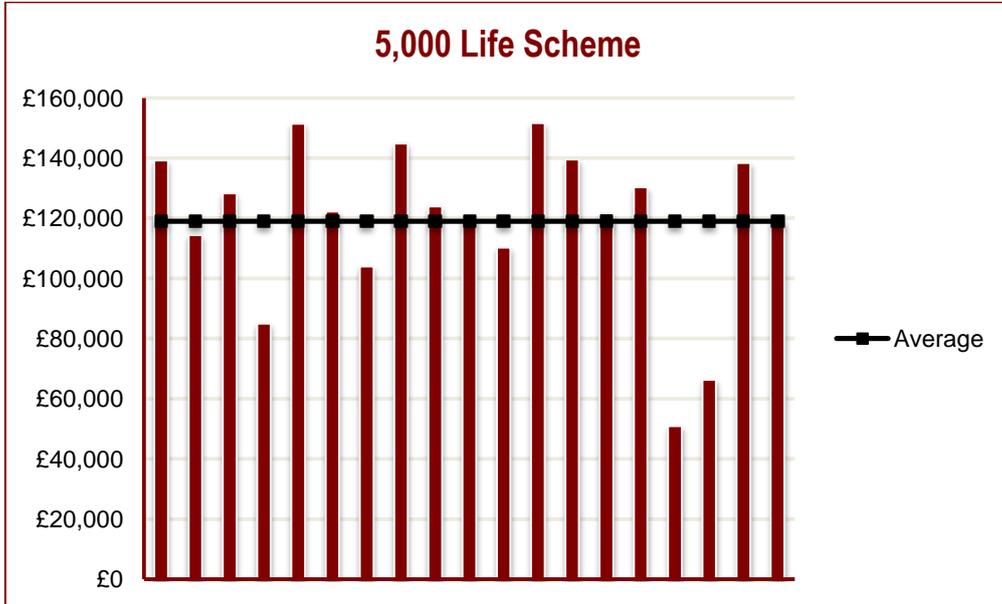
**Graph 1d**

The difference between the highest and lowest firms is £55,104. The average fee is £25,782 less than the most expensive but £29,322 more than the least. 65% of firms charge more than the average fee of £59,322 and 60% of firms charge between £40,000 and £70,000.



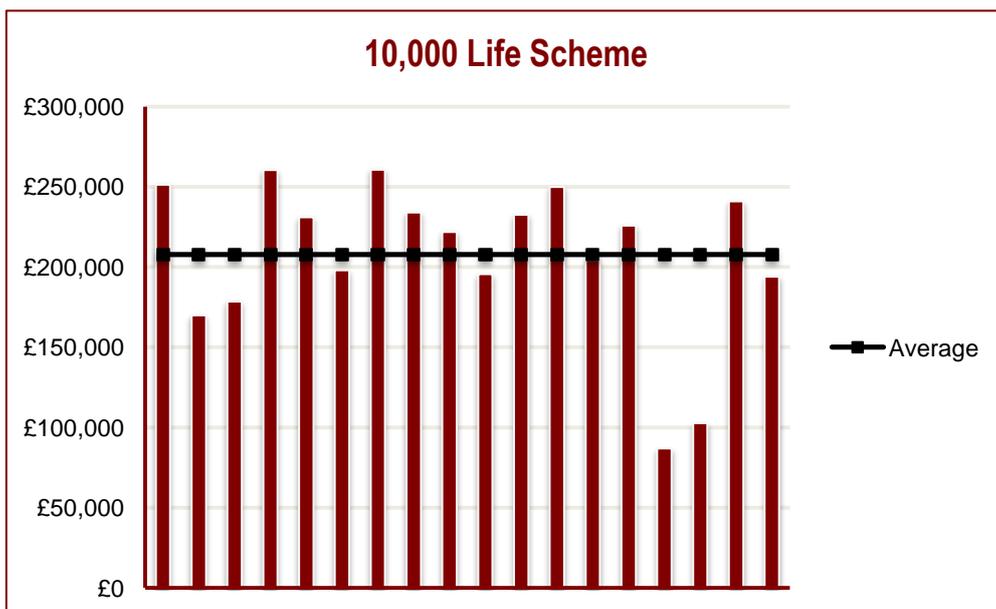
**Graph 1e**

The most expensive firm charges £100,630 more than the lowest firm and £32,609 more than the average fee. The lowest charging firm is £68,021 less than the average fee. 12 firms charge more than the average fee of £119,021. 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. More than half of the firms charge between £120,000 and £145,000.



**Graph 1f**

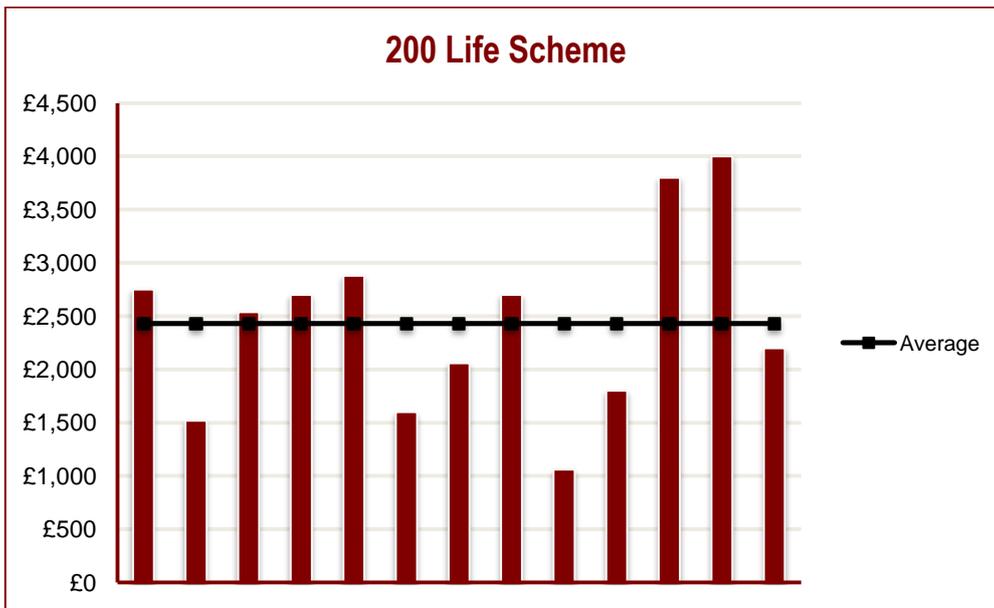
The difference between the highest and lowest firms is £173,800 and the most expensive firm is £53,056 more than the average. The average fee of £207,744 is £120,744 more than the lowest firm. The average cost has increased by 75% when compared to a 5,000 life scheme. 10 firms are more expensive than the average and eight firms charge less.



### 3.2 Pensioner Costs

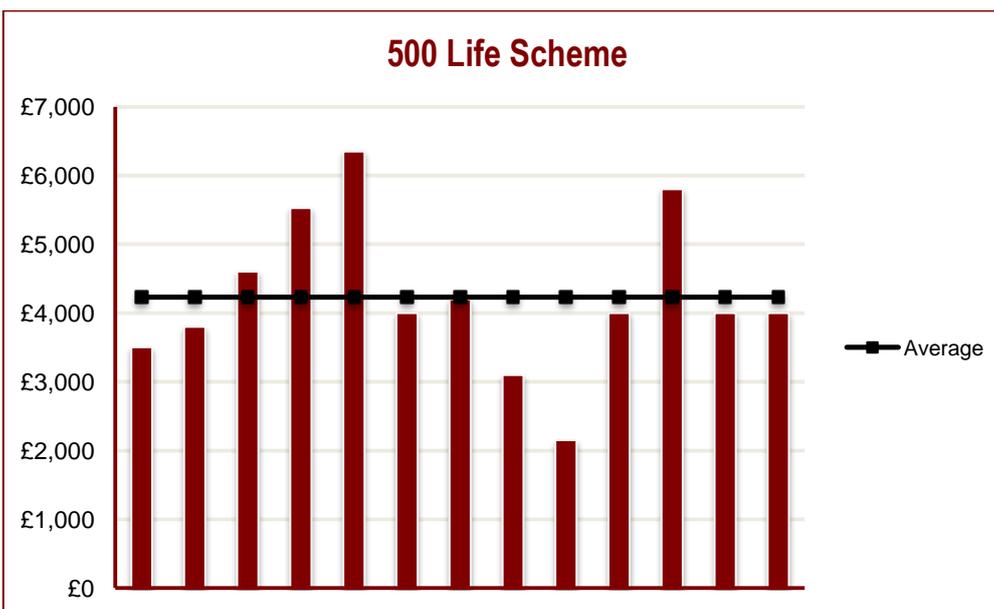
**Graph 2a**

The most expensive firm for pensioner costs charges £2,940 more than the lowest firm and is £1,568 more expensive than the average cost. Over half of the firms charge more than the average fee of £2,432. The lowest charging firm is £1,372 less than the average cost. 10 of the firms charge between £1,500 and £3,000.



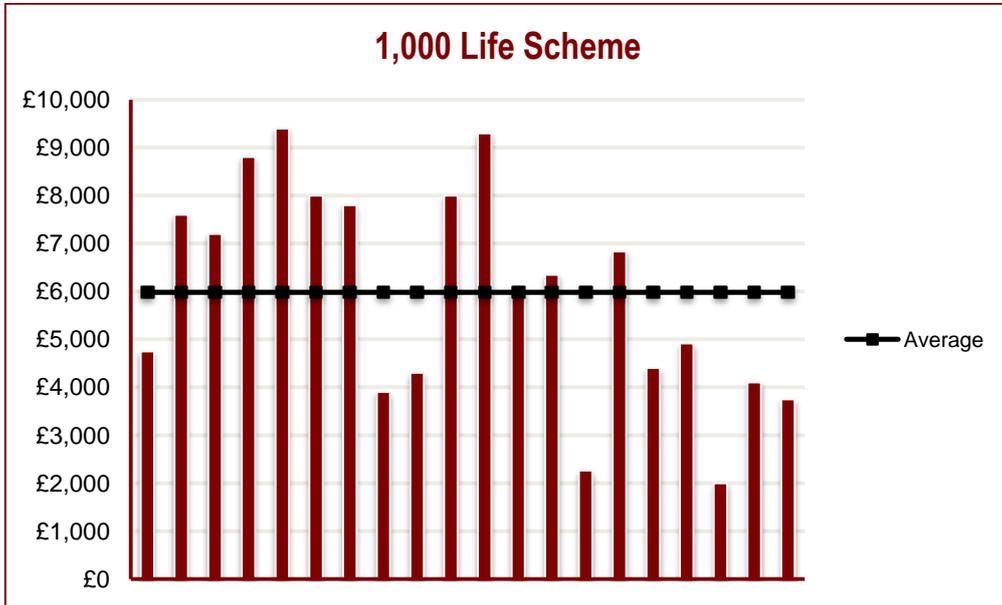
**Graph 2b**

The difference between the highest and lowest charging firms is £4,200 with the highest firm charging £2,177 more than the average fee. 70% of firms charge less than the average fee of £4,233 and the majority of firms charge between £3,000 and £5,000. The lowest firm charges £2,083 less than the average.



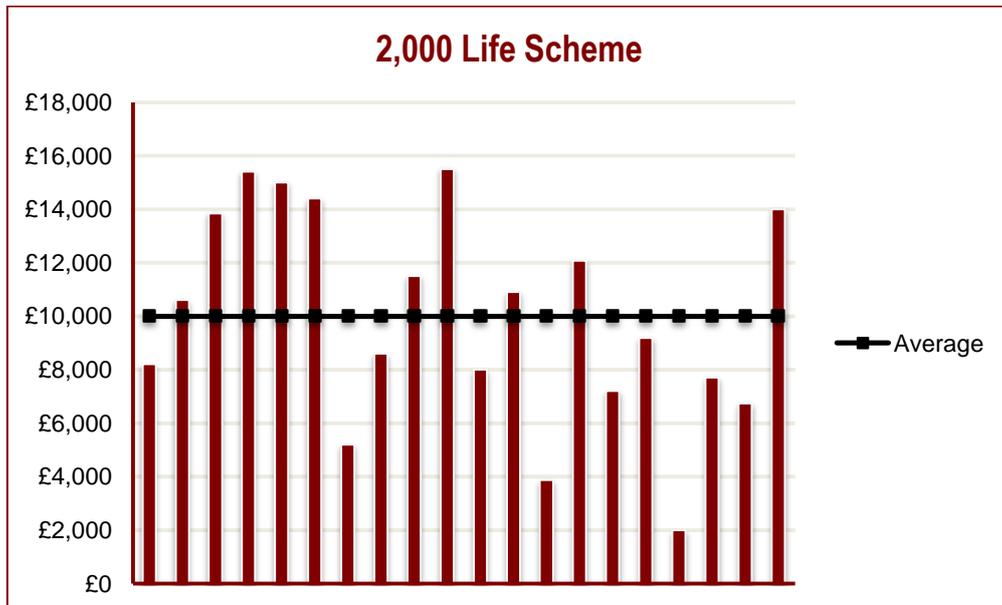
**Graph 2c**

The most expensive firm for this scheme size charges £7,400 more than the lowest. It also charges £3,417 more than the average cost. Over half of the firms charge more than the average cost of £5,983. The lowest charging firm is £3,983 less than the average. 13 of the 20 firms charge between £4,000 and £8,000.



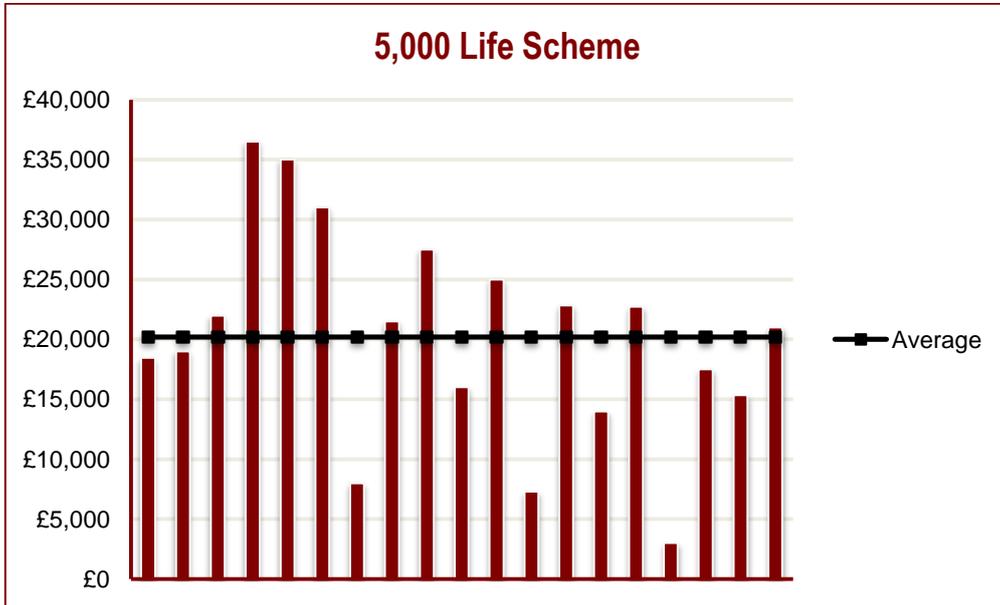
**Graph 2d**

The most expensive firm charges £13,500 more than the lowest firm and £5,505 more than the average. The lowest firm charges £7,995 less than the average. Half of the firms charge more than the average cost of £9,995.



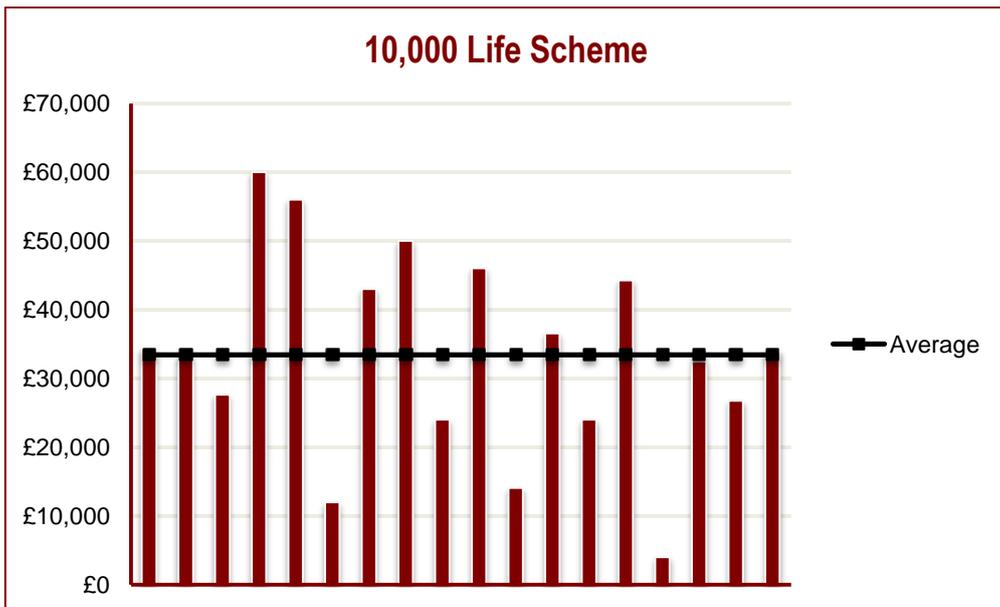
**Graph 2e**

The range between the most expensive and the lowest firm is £33,500, with the average cost being £16,310 less than the highest fee. 10 firms charge more than the average fee of £20,190 and nine firms charge less. The average fee for this scheme size has doubled when compared to a 2,000 life scheme.



**Graph 2f**

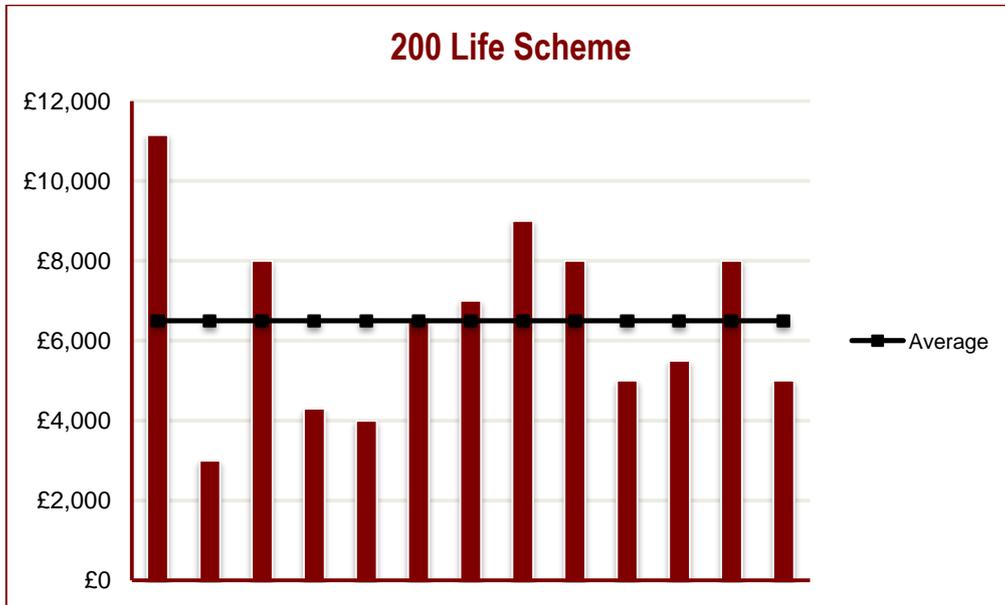
The most expensive firm charges £56,000 more than the lowest firm and £26,542 more than the average fee. The lowest firm charges £29,458 less than the average fee. The firms are split equally with nine charging more and nine charging less than the average fee of £33,458. The average fee is 66% higher when compared to a 5,000 life scheme.



### 3.3 Treasury & Accounting

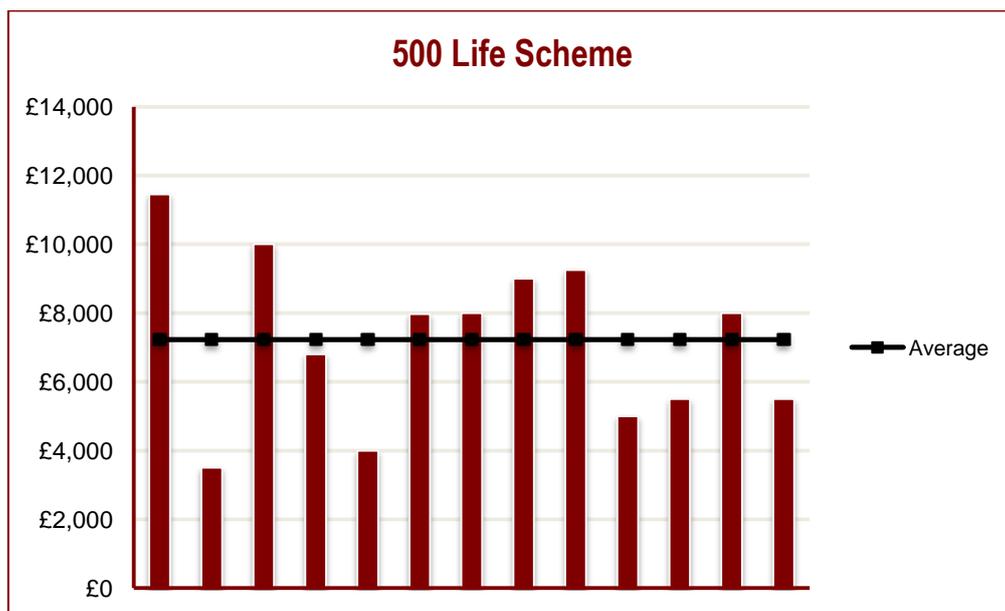
**Graph 3a**

When looking at Treasury and Accounting fees the most expensive firm is £8,150 more than the lowest firm and £4,656 more than the average. Six of the 13 firms charge more than the average fee of £6,494. The lowest fee is £3,494 less than the average. Eight firms charge between £5,000 and £8,000.



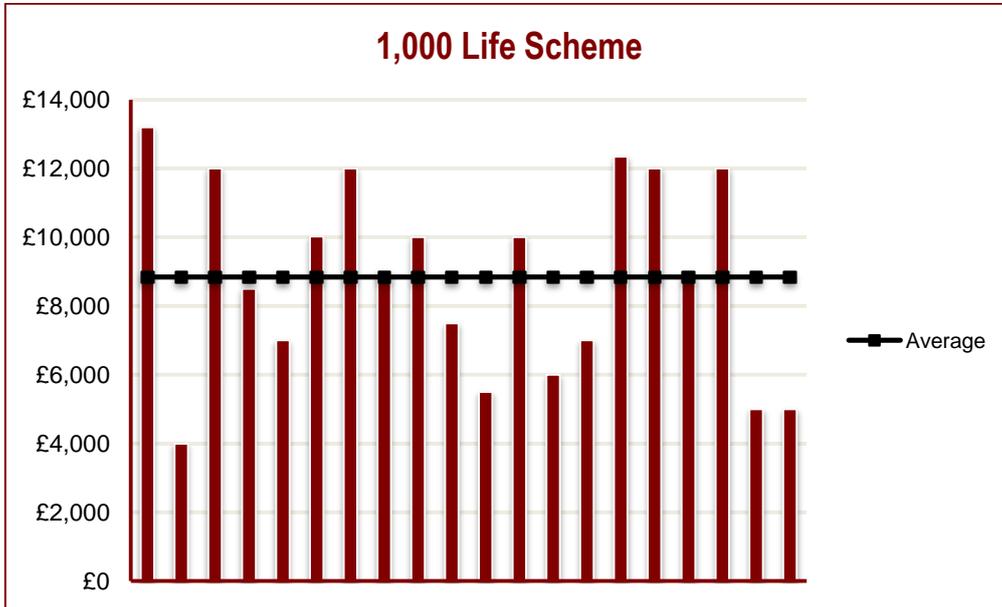
**Graph 3b**

The difference between the highest and lowest firm is £7,950, with the highest firm being £4,222 more than the average cost. Seven firms charge more than the average fee of £7,228 and six firms charge less. The lowest charging firm is £3,728 less than the average fee. Eight of the 13 firms charge between £5,000 and £9,500.



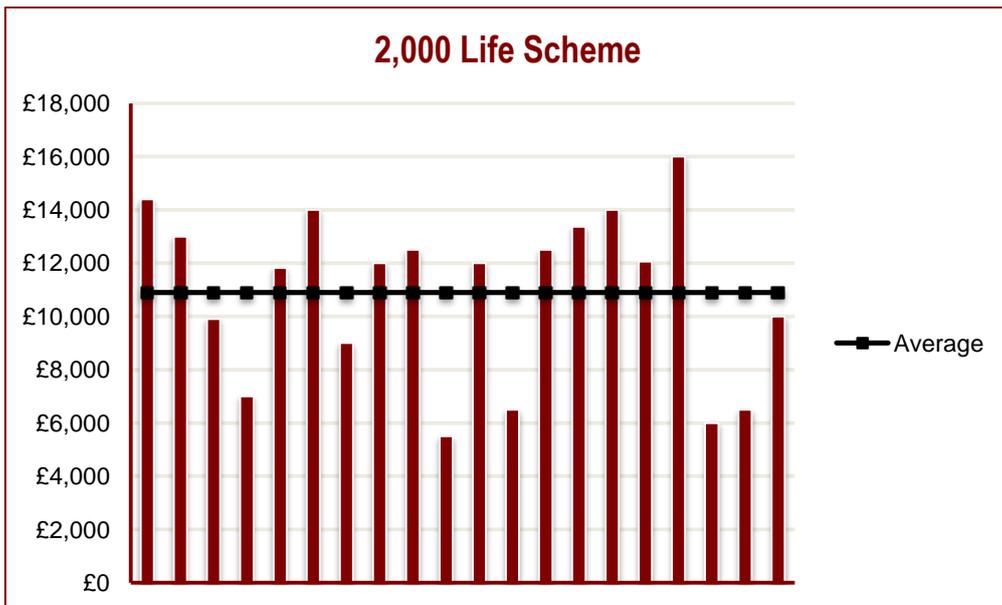
**Graph 3c**

The most expensive firm charges £9,200 more than the lowest and £4,355 more than the average fee. The lowest firm charges £4,845 less than the average fee of £8,845. 60% of firms charge between £5,000 and £10,000.



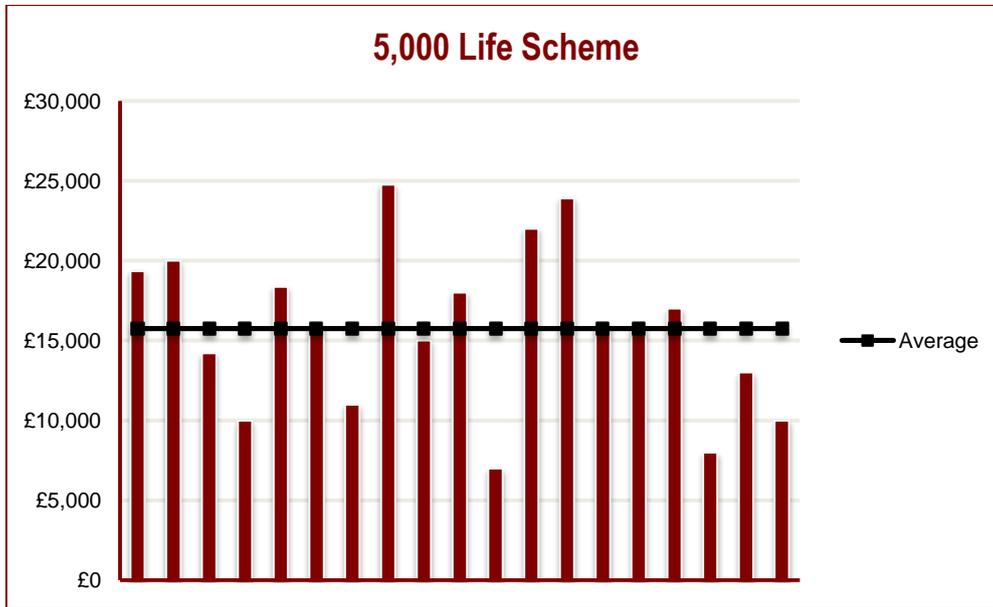
**Graph 3d**

The highest firm is £10,500 more than the lowest; this is a 28% increase when compared to a 200 life scheme. The average fee is £5,100 less than the highest and £5,402 more than the lowest fee. The average fee shows a 68% increase when compared to a 200 life scheme and 12 firms charge more than the average fee of £10,902.



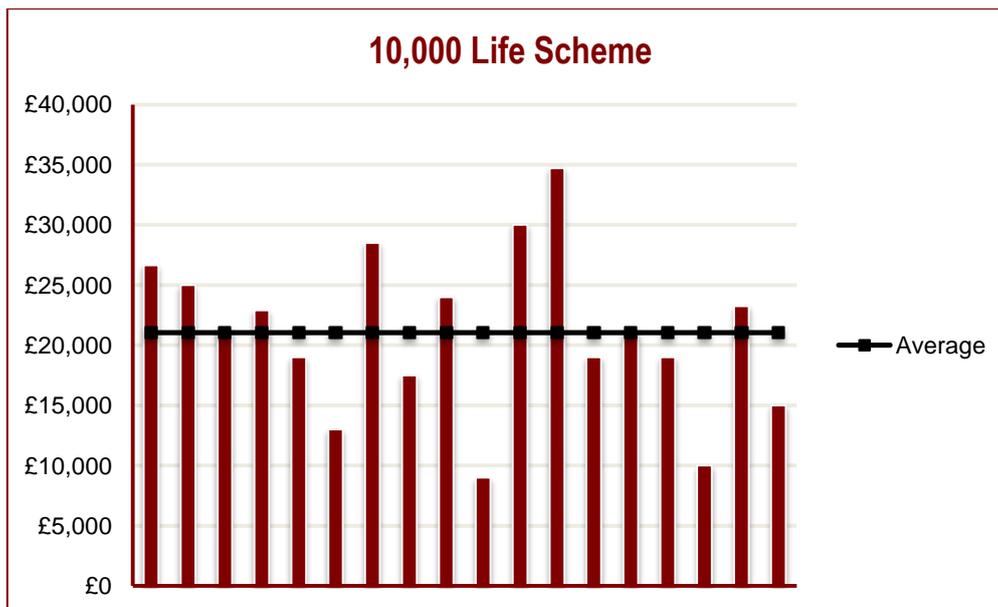
**Graph 3e**

The difference between the highest and lowest fee has increased to £17,750 when compared to a 2,000 life scheme. The highest charging firm is £8,997 more than the average and £8,753 more than the lowest firm. Nine firms charge less than the average fee of £15,753. The average fee for a 2,000 life scheme has increased by 45% when compared to a 2,000 life scheme.



**Graph 3f**

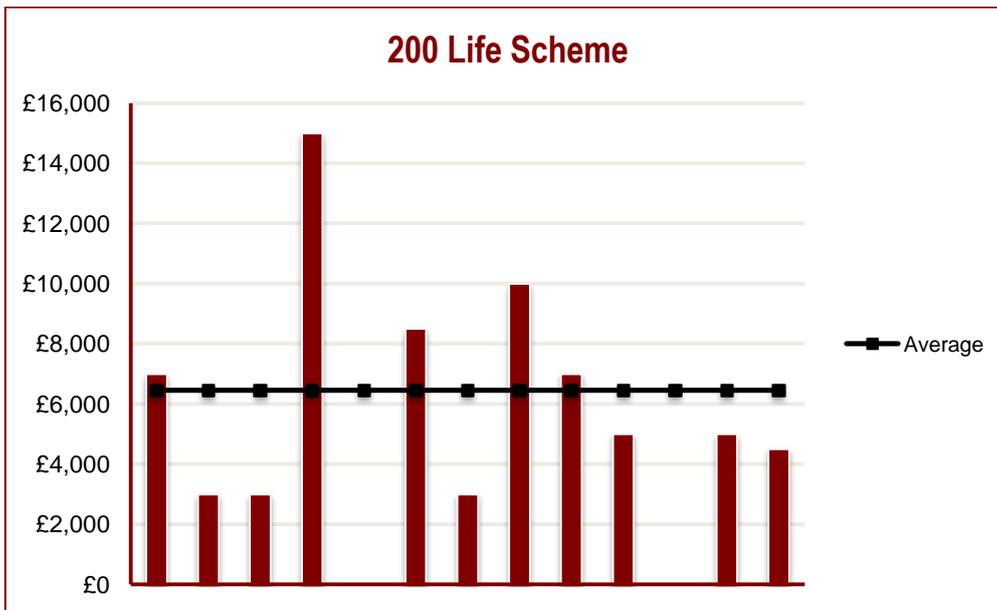
The most expensive firm charges £25,699 more than the lowest firm and £3,655 more than the average fee. The lowest firm is £12,044 less than the average fee. Nine firms charge more than the average fee of £21,044. The average fee has increased by 34% when compared to a 5,000 life scheme. Over 60% of firms charge between £24,000 and £45,000.



### 3.4 Implementation Fee

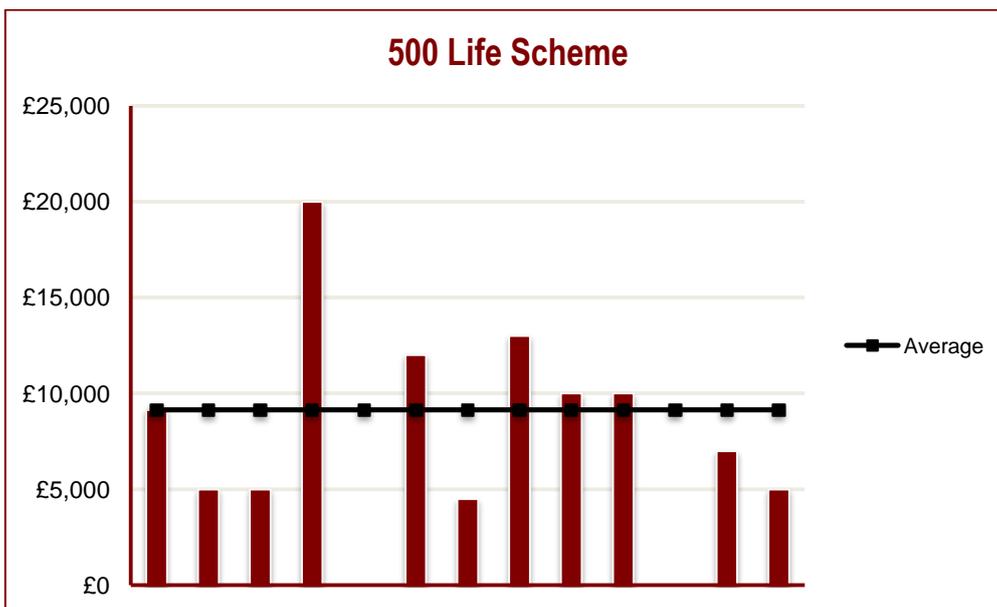
Graph 4a

Two firms do not charge an implementation fee for a scheme of this size. Of the firms that do charge fees, five are more than the average fee of £6,455 and the most expensive firm is £8,545 more than the average. The firms charging the lowest fees are £3,455 less than the average and £12,000 less than the most expensive. Over half of the firms which charge an implementation fee charge between £4,500 and £8,500.



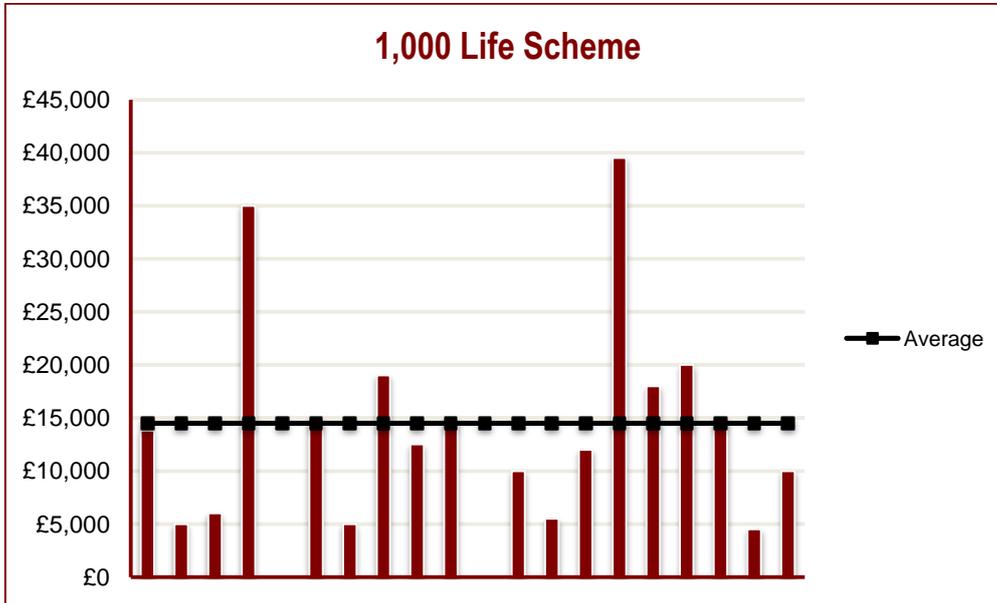
Graph 4b

Again two of the 13 firms do not charge an implementation fee for a 500 life scheme. The most expensive firm charges £10,850 more than the average cost of £9,150. 75% of the firms charge less than the average fee and the lowest charging firm is £4,650 less than the average. The lowest cost is also £15,500 less than the most expensive fee. The majority of firms charge between £5,000 and £10,000.



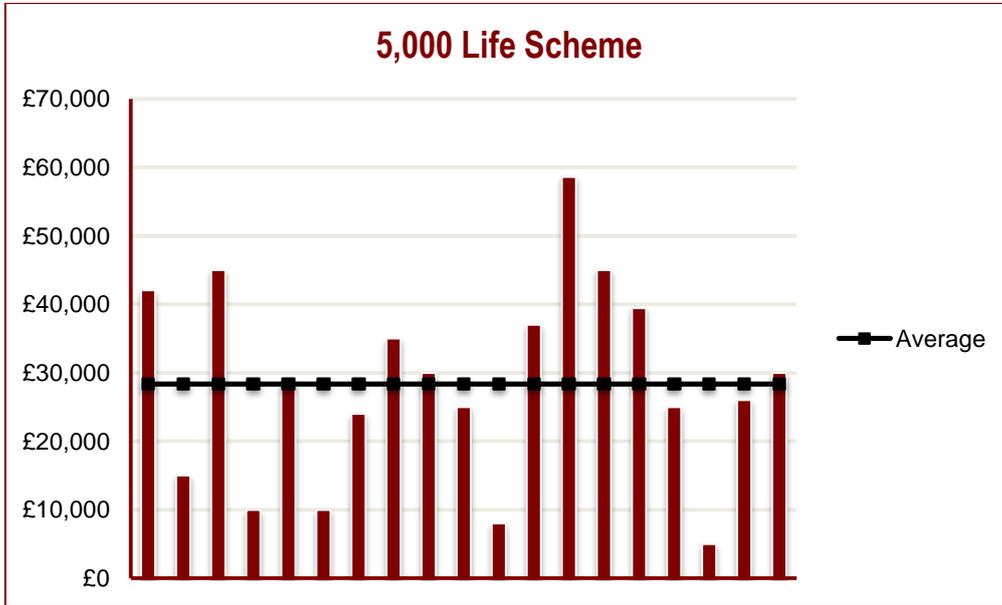
**Graph 4c**

The most expensive firm charges £25,021 more than the average fee and £35,011 more than the lowest charging firm, this is £9,990 less than the average. Half of the firms charge between £5,500 and £15,000 and eight firms charge more than the average fee.



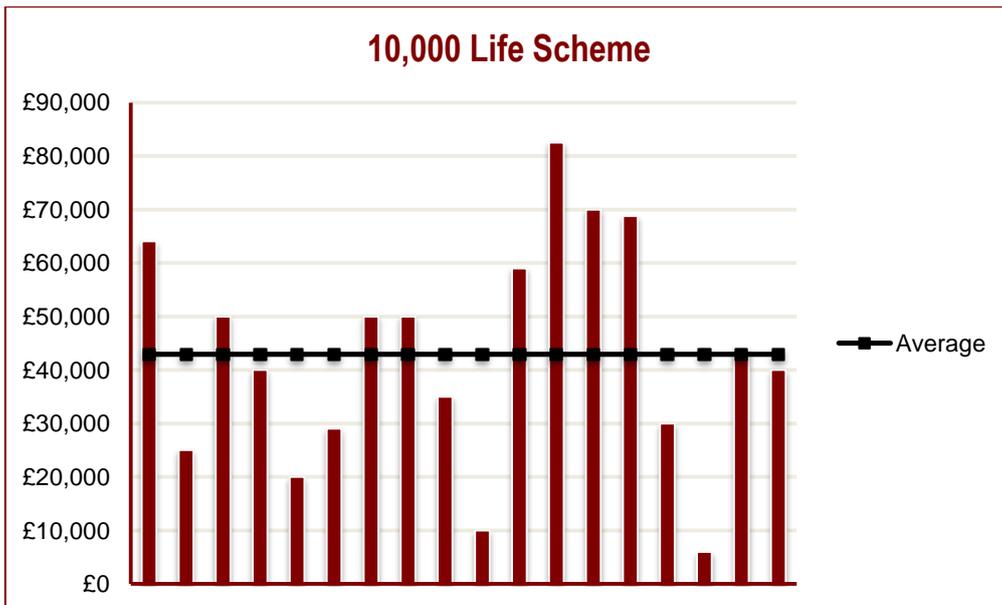
**Graph 4e**

All firms charge an implementation fee for this scheme size. The difference between the highest and lowest is quite significant – £53,617. The most expensive firm is £30,269 more than the average and the lowest firm is £23,348 less than the average. The average fee of £28,348 shows an increase of 45% when compared to a 2,000 life scheme.



**Graph 4f**

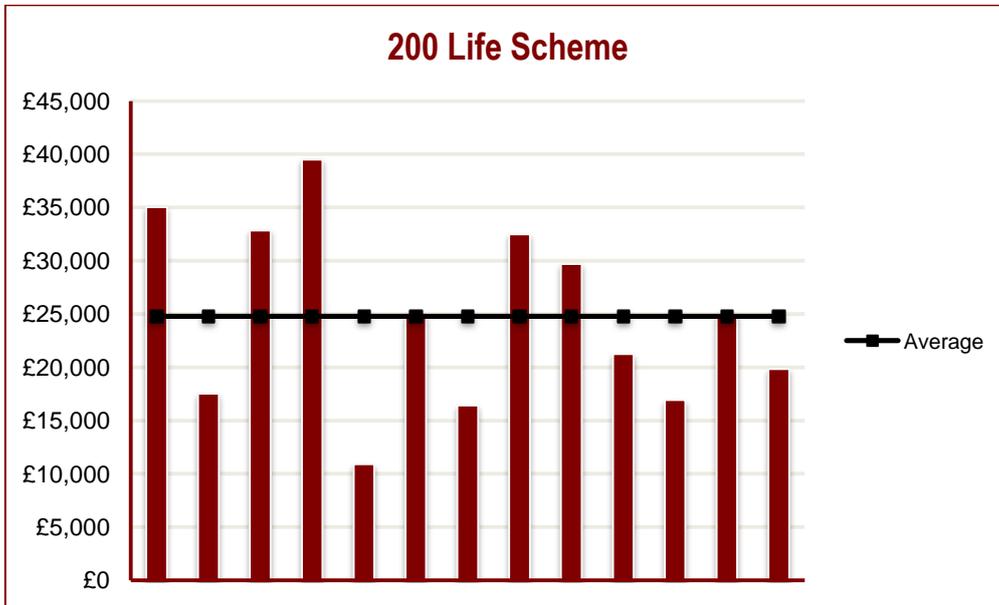
The difference between the most expensive firm and the lowest firm has risen to £76,500. The average fee is £39,537 less than the highest, but £36,963 more than the lowest firm. Nine firms charge more than the average fee of £42,963. Half of the firms charge between £30,000 and £60,000. The average implementation fee has increased by 52% when compared to a 5,000 life scheme.



### 3.5 Year One Cost

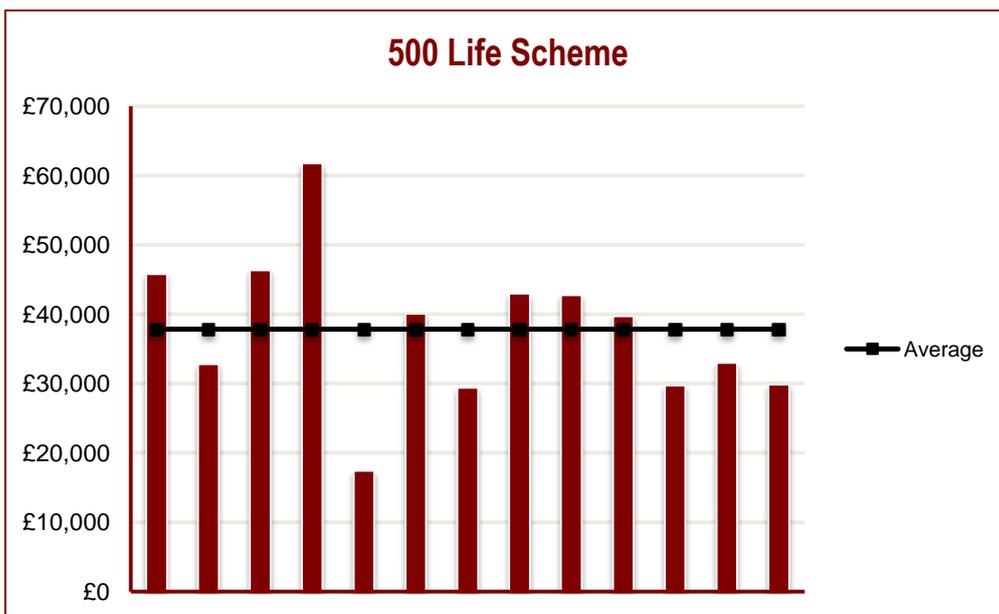
Graph 5a

The most expensive firm charges £28,580 more than the lowest and £14,702 more than the average. Seven firms charge more than the average cost of £24,798. The average fee is £13,878 higher than the lowest firm.



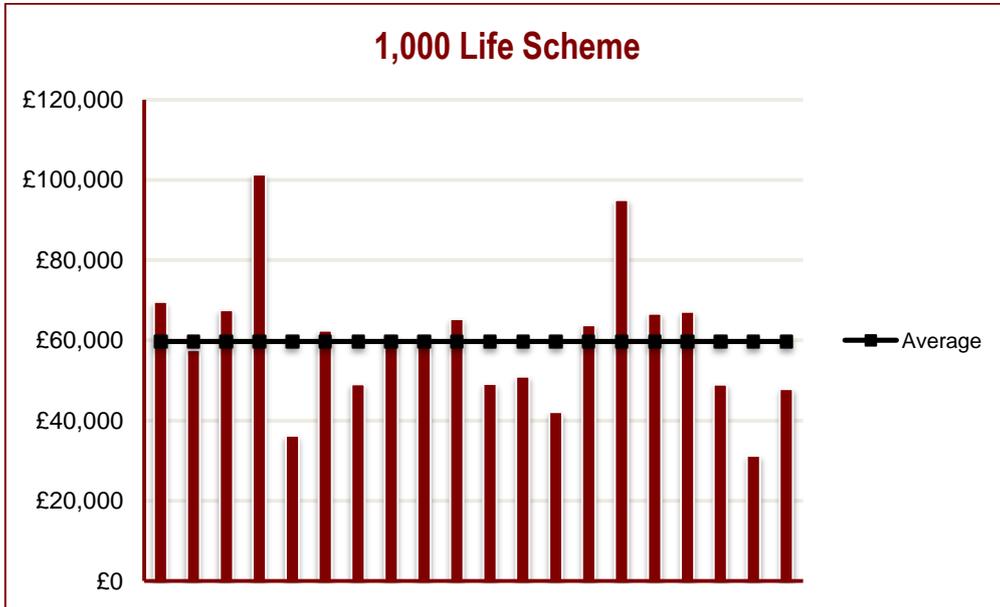
Graph 5b

The highest firm charges £44,350 more than the lowest and £23,965 more than the average fee. Seven firms charge more than the average cost of £37,835. The lowest firm is £20,385 less than the average fee.



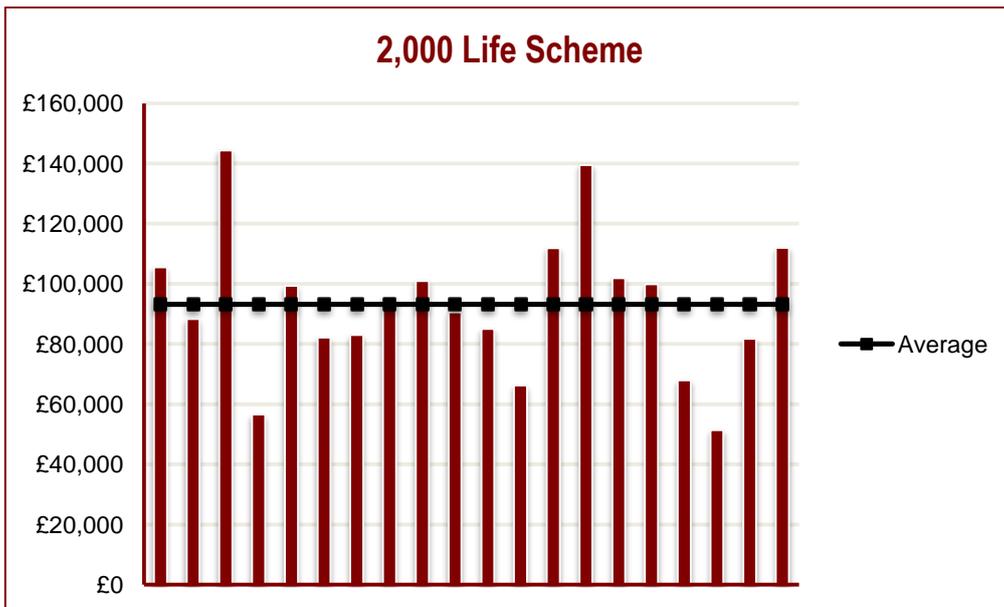
**Graph 5c**

The difference between the highest and lowest charging firms is £70,103. The most expensive firm charges £41,618 more than the average and the lowest firm charges £28,485 less. 11 firms charge more than the average.



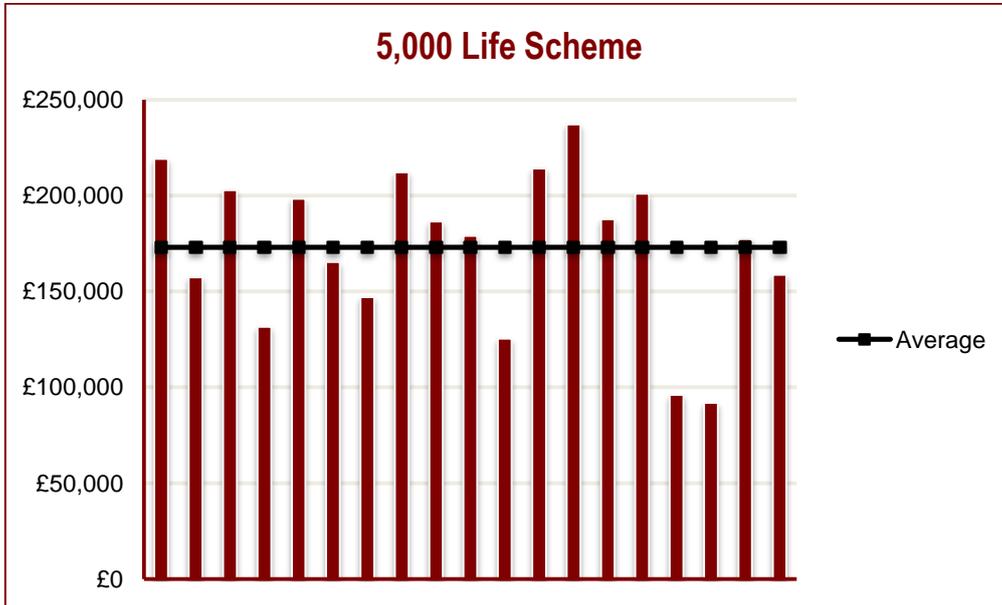
**Graph 5d**

There is a difference of £92,904 between the highest and lowest charging firms. The most expensive firm is £51,095 more than the average and the lowest firm is £41,809 less than the average. 10 firms charge more than the average fee of £93,209. The average fee is more than two and a half times higher when compared to a 200 life scheme and 56% higher when compared to a 1,000 life scheme.



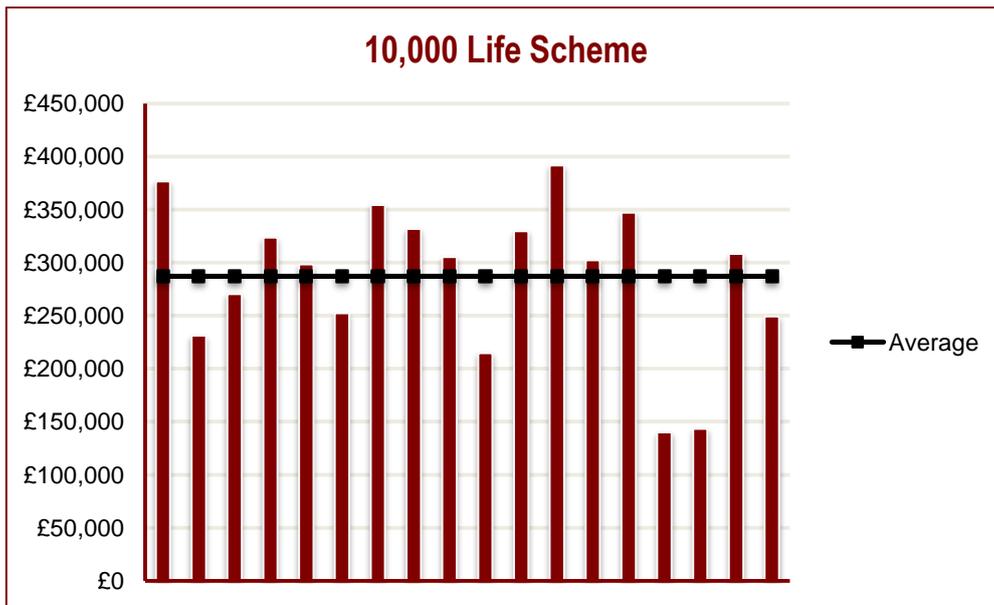
**Graph 5e**

The most expensive firm charges £145,213 more than the least expensive firm and £64,052 more than the average. The average fee is £81,161 more than the lowest fee and 12 firms charge more than the average fee of £173,061. There is an 86% increase in the average fee when compared to a 2,000 life scheme.



**Graph 5f**

The difference between the highest and lowest firms is £251,393, with the most expensive firm charging £104,317 more than the average fee. The lowest firm charges £147,076 less than the average fee. 10 firms charge more than the average fee of £287,076. The average fee has increased by 66% when compared to a 5,000 life scheme.

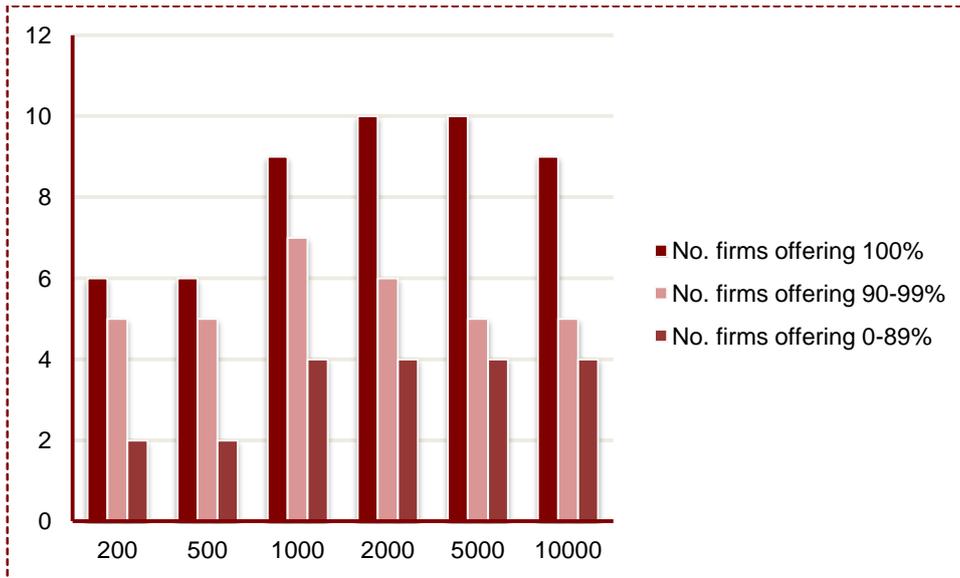


## 4.0 Core Tasks

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.

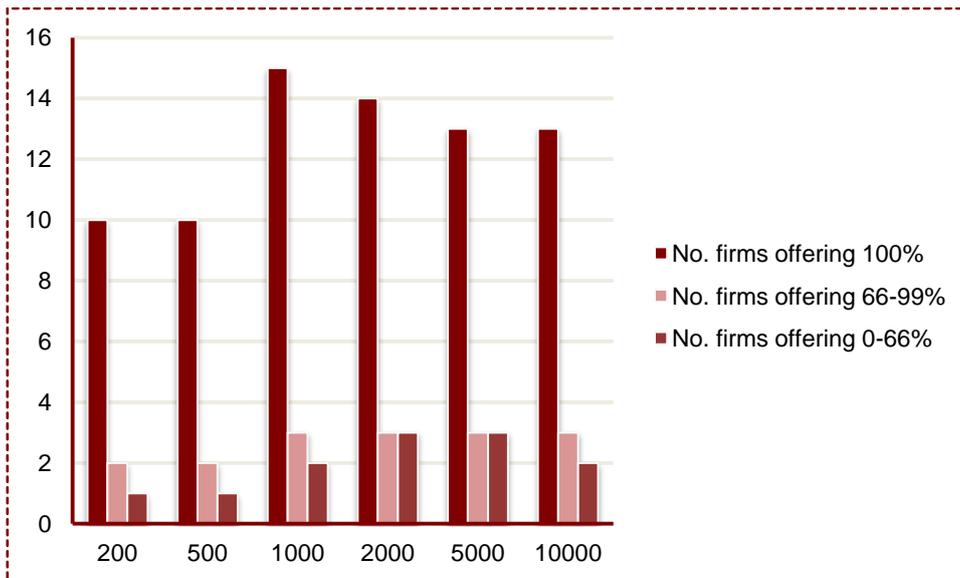
### Annual Tasks

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.



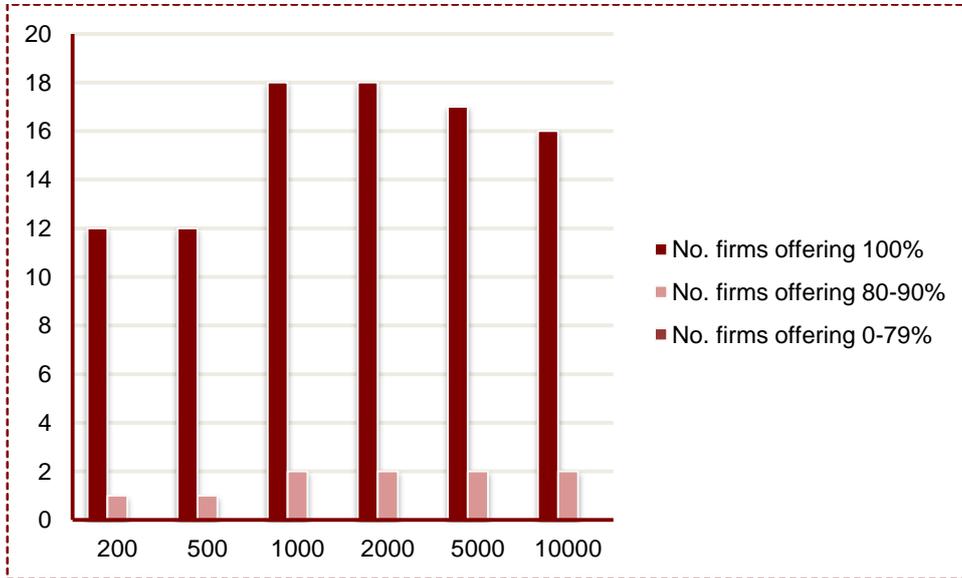
### Consulting Tasks

This graph shows how many firms offer 100%, 66-99% and 0-66% of the consulting tasks. It is pleasing to see the majority of firms across all scheme sizes offer 100% of these tasks.



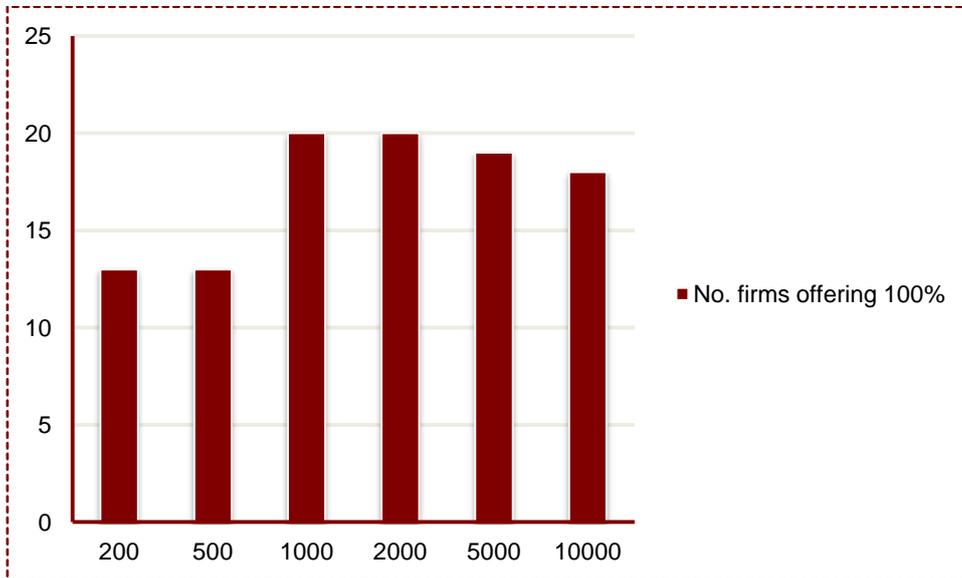
**Accounting Tasks**

This graph shows how many firms offer 100%, 80-90% and 0-79% of Accounting Tasks. All firms offered 80% or more of these tasks across all scheme sizes.



**Payroll Tasks**

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



**Non-Core**

We asked firms to state whether they included eight tasks within their core fees.

The first two questions covered scheme secretariat – draft agendas, distributing papers, attendance at meetings, minute taking action points and follow up. One firm stated this would be included within their core fee. Over 70% said it was not included but gave an estimated per meeting cost, these ranged from £1,000 to £5,800 per meeting.

Firms were asked whether they would attend additional trustee meetings when required at no extra cost, nearly three quarters said they would. Seven firms charged for attending additional trustee meetings and the costs ranged from £500 to £1,500 per meeting.

Nearly 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.

18 out of the 21 firms said liaising with trustees on scheme administration matters as and when required would be included within their core fee.

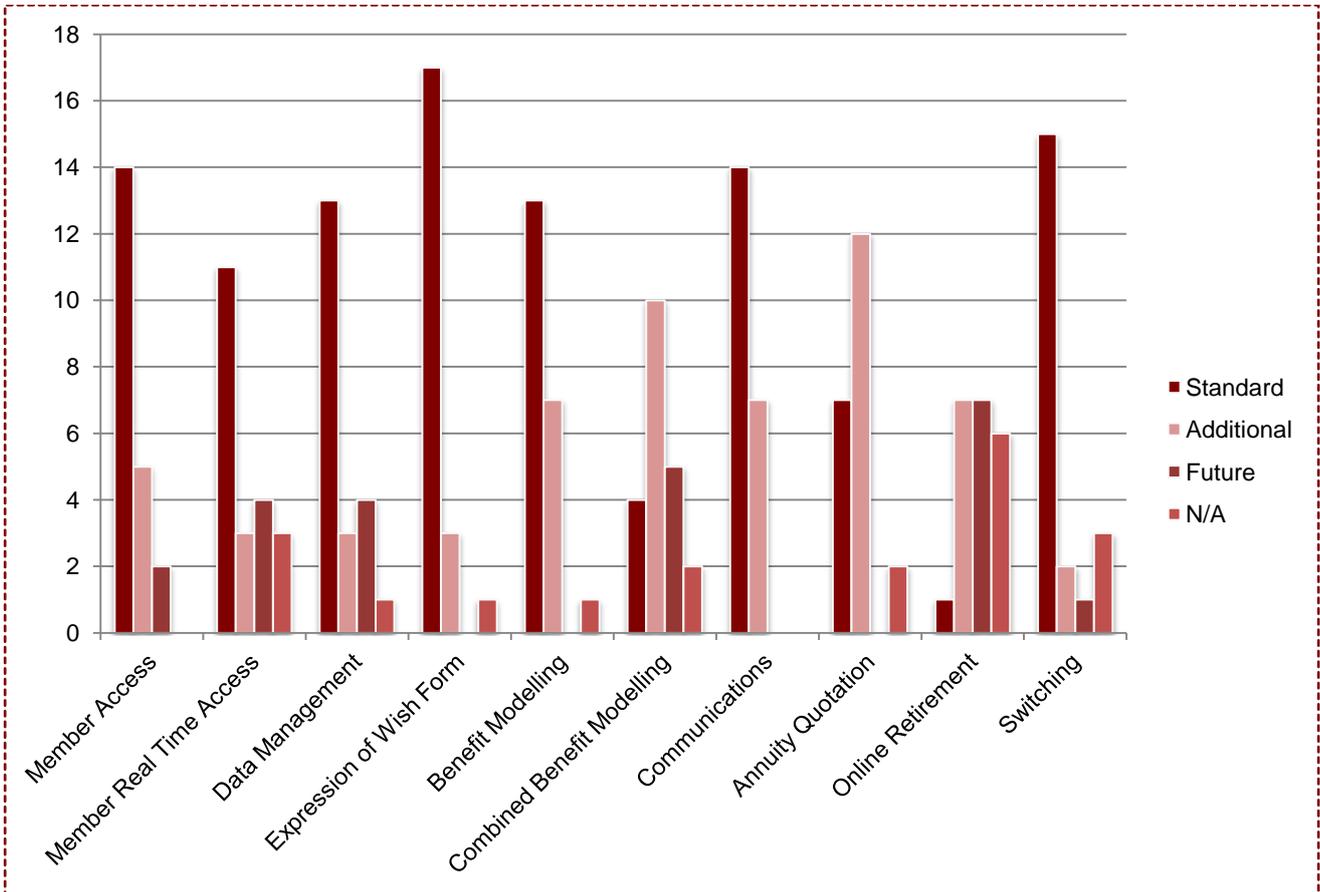
## **5.0 Online Capabilities**

As the importance of member and trustee engagement/experience is becoming a significant sales differentiator, we felt it was appropriate to explore this area more. Therefore this year we have expanded the survey to include the online functionality firms offer clients. We asked them to state whether services were included within the core fee (Standard), available to clients at an additional cost (Additional), under development (Future) or if the service is unavailable or not under development (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**

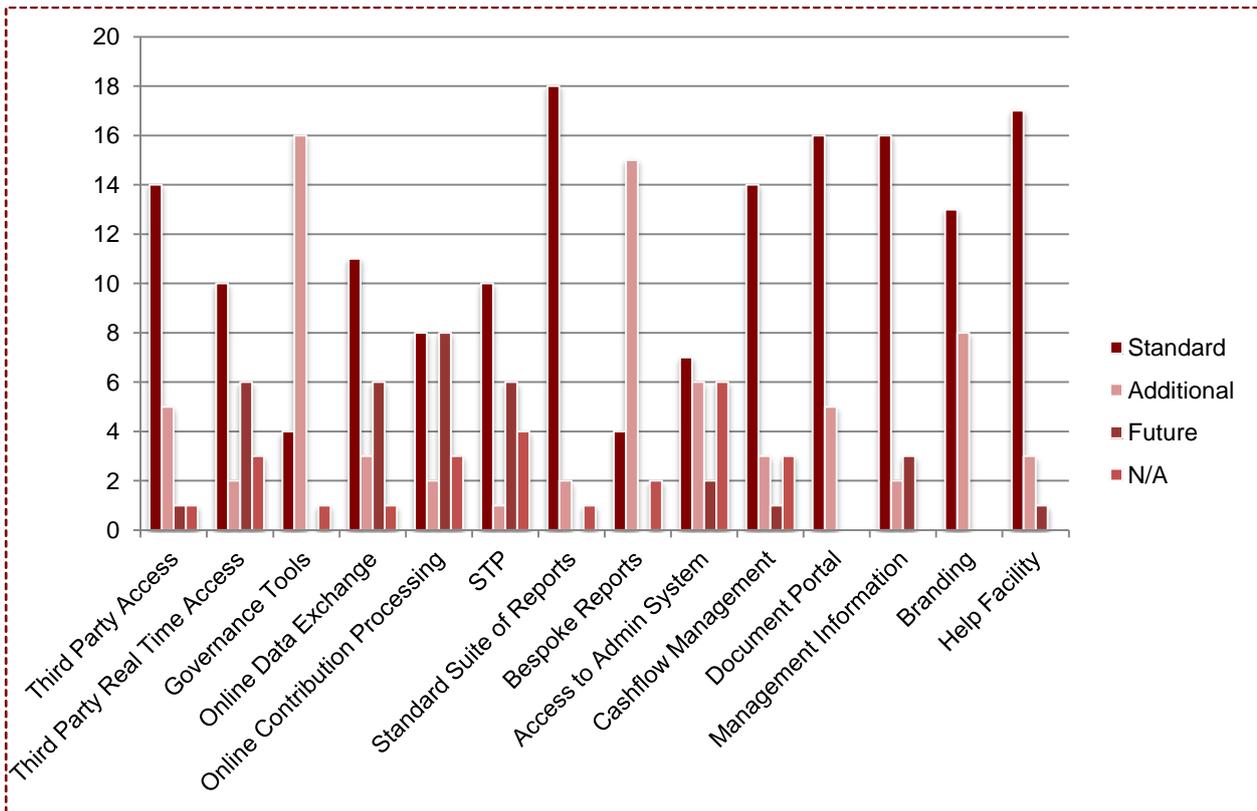
The provision of web functionality and member self-service is widely available from many providers. However we felt it would be interesting to gauge what actually is available and at what cost. The needs of pension schemes are changing with regards to member communication. For example the ability to use the web to engage with DC members is seen as vital, whereas for a closed DB scheme it may not be as relevant.



**Employer/Trustee Online Services**

The use of the web for trustees and employers is the area where we expect to see more focus, particularly in terms of scheme governance. Not all providers included the common features we would expect to see within their standard fees. However it is comforting to see access, Management Information, standard reporting suites, document library, branding and help facilities available within the standards fees.

The advent of AE will see the use of the web for data exchange become vital to day to day administration processing and the push by administrators for employers to self-serve.



**Fees**

From the above graphs it is apparent that there is a diverse range of online services available for members and employers/trustees. A number of firms provide a range of services included within their administration fees only charging for more advanced online tools, whilst others charge for all parts of their service.

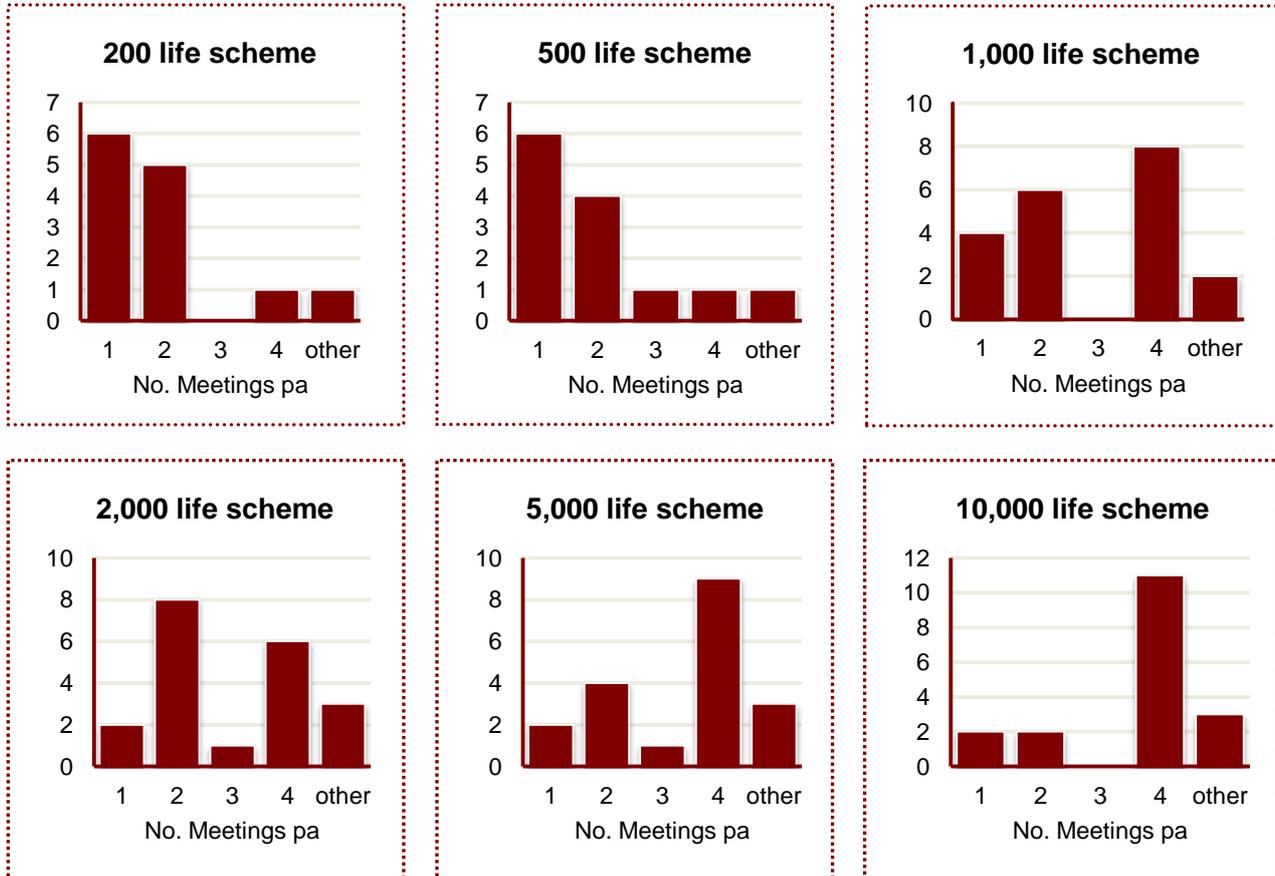
The table below shows how many firms charge within a particular range of fees for the online capabilities they offer. As the size of the scheme increases, we see more firms offering an inclusive service.

	200	500	1,000	2,000	5,000	10,000
Do not charge	5	5	11	11	12	11
£1 - £1,000	2	2	1	0	0	0
£1,001 - £5,000	3	3	4	5	3	2
£5,001 - £10,000	3	3	3	3	2	2
£10,001 - £15,000	0	0	1	1	2	3

## 6.0 Additional

### Trustee Meetings

The graphs below show how many trustee meetings are included within the firms' fixed fees.

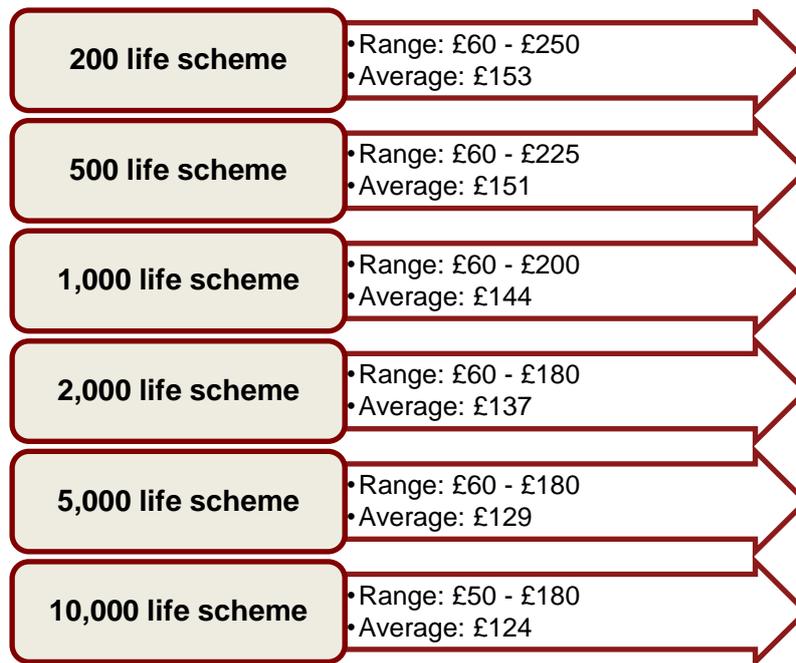


### Member Activity Assumptions

We asked firms what member transaction activity assumptions their fees were based on. The majority of firms apply a 10% assumption, although 15% of firms do not apply any transaction activity assumption for a 200 and 500 life scheme. This increases to circa 20% of firms for 1,000, 2,000, 5,000 and 10,000 life schemes.

Despite the propagated view that fixed fees are the most prevalent pricing model, in recent months we have seen the reintroduction of activity caps and transactional fees. This move is borne out by the response to the survey. Is this a result of scheme closure and Auto-Enrolment activity?

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.



If firms did not use activity assumptions we asked what their thoughts are on the use of activity caps, in particular for both closed schemes and Auto-Enrolment vehicles.

‘We do not base our fees on transactional activity, we make assumptions on the likely workloads involved and accept the risk these may not reflect actual experience. We suggest per capita pricing models are well suited to both closed schemes and AE vehicles as they ensure fees fluctuate in line with underlying membership levels – either upwards or downwards’

‘Our fixed administration fees remain fixed provided activity is limited to the tasks defined within the SLA schedule and that those activities do not relate to ‘Special Projects’ or bulk events. This approach is designed to ensure that unless anything out of the ordinary happens then clients will only pay the fixed fees agreed in advance at the start of the contract’

‘Our preference is to work to a fixed fee for all standard services included in the contract’

‘We use activity assumptions as we feel it provides an effective way of managing costs, particularly where a member website exists. If more activities are completed online by members this would directly result in a reduced activity assumption and therefore a reduced fee’

### 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 £150 and £750 with an average cost of £428. The majority of firms charged between £300 and £500. A couple of firms work on a commission basis.

## **7.0 Summary**

The KGC Fourth Administration Fee Survey provides an insight to the diverse range of fees available within the pension administration services markets. This 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.

The common theme arising from the survey is the desire to provide clients with certainty of cost and the continuation of the fixed fee all-inclusive service.

We expanded our survey to include commentary from the providers on the issues they are facing and the effects of Auto-Enrolment on their services, fees and clients. KGC will be releasing this information, as well as year-on-year trends shortly.

## 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