

KGC Administration Fee Survey of 2011 – Headline Results

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1. Introduction

In Autumn 2011 KGC asked 20 firms involved in the provision of pension administration services to participate in its third Administration Fee Survey. 17 firms took the opportunity to provide KGC with an overview of their core administration and ancillary fees.

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 components¹ 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 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:

- 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 the Pensions Regulator Record Keeping requirements
- 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 five 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.

¹ "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, 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:

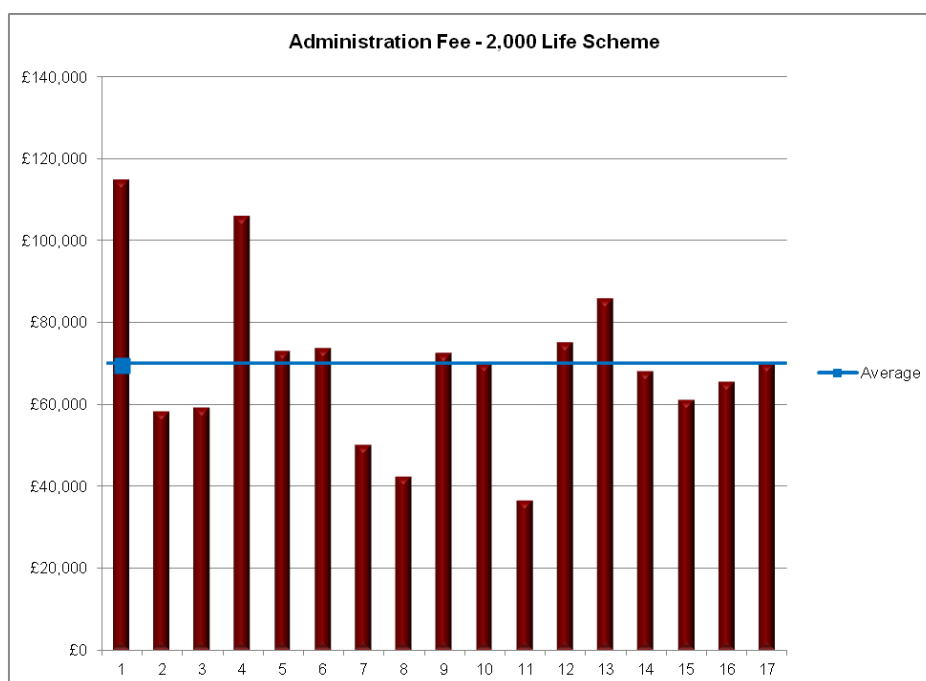
- Annual Administration Fee
- Pensioner Payroll
- Treasury and Accounts Fee
- Implementation Fee

3.1. Graph Set 1

Graph 1a

Annual Administration Fee – 2,000 life scheme

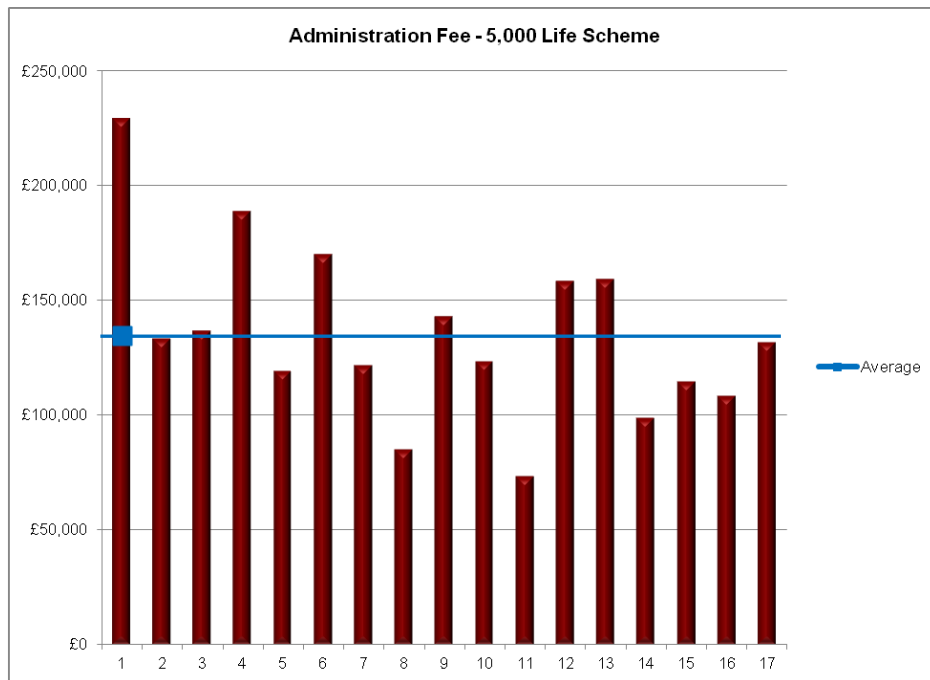
The difference between the highest and lowest fee for basic administration services across all firms is £78,400. Nine firms charge more than the average, four being TPAs and five EBCs. Eight firms sit below the average fee consisting of three TPAs and five EBCs. The most expensive firm charges 65% more than the average, whereas the least expensive firm charges half the cost. The majority of firms charge less than they did in KGC's 2010 Administration Fee Survey resulting in a slight reduction in the average fee.



Graph 1b

Annual Administration Fee – 5,000 life scheme

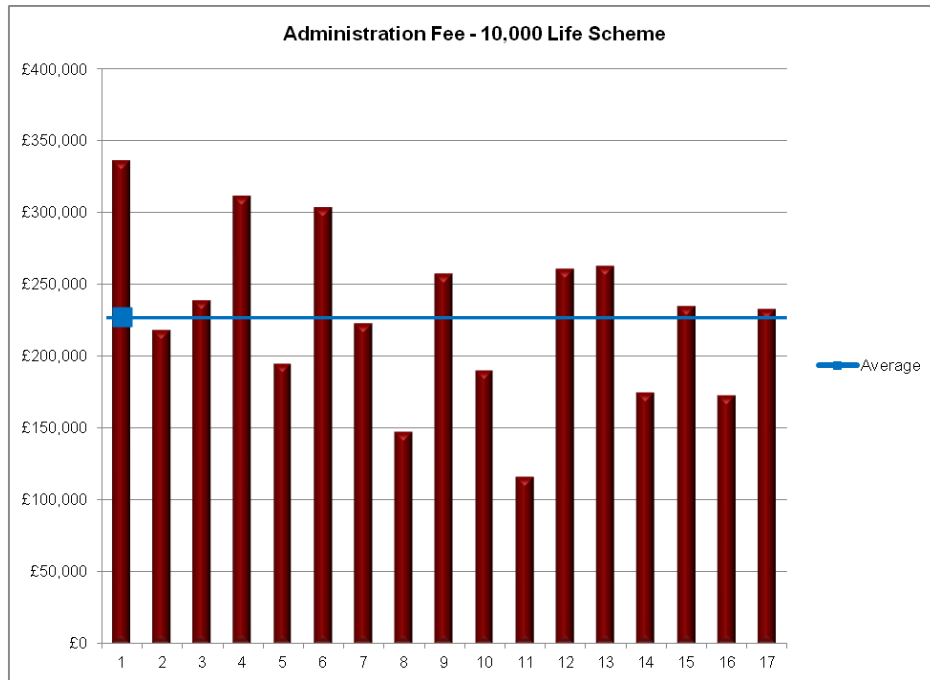
At £156,100, the range between the highest and lowest charging firm is double the difference at 2,000 lives. The firm with the highest cost is 70% more expensive than the average whereas the lowest firm charges 46%. Interestingly more than half of the firms charge less than the average with most being EBCs, seven firms are more expensive than the average – four TPAs and three EBCs. Again the majority of firms charge less in comparison to last year’s survey resulting in a small reduction in the average fee.



Graph 1c

Annual Administration Fee – 10,000 life scheme

At 10,000 lives the range broadens between the highest and lowest firms to £220,300. Similarly to a 2,000 life scheme, nine firms charge more than the average with the same split of TPAs and EBCs. The most expensive firm is 48% more than the average and the lowest firm's fee is half the cost of the average. The average fee is down by around 10% year on year.

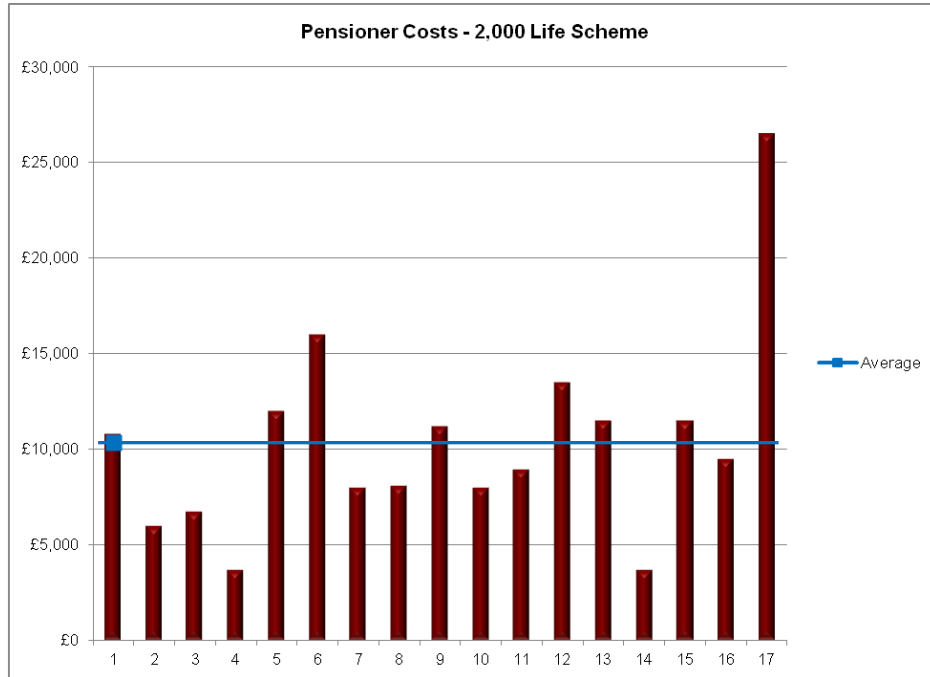


3.2 Graph Set 2

Graph 2a

Pensioner Costs - 2,000 life scheme

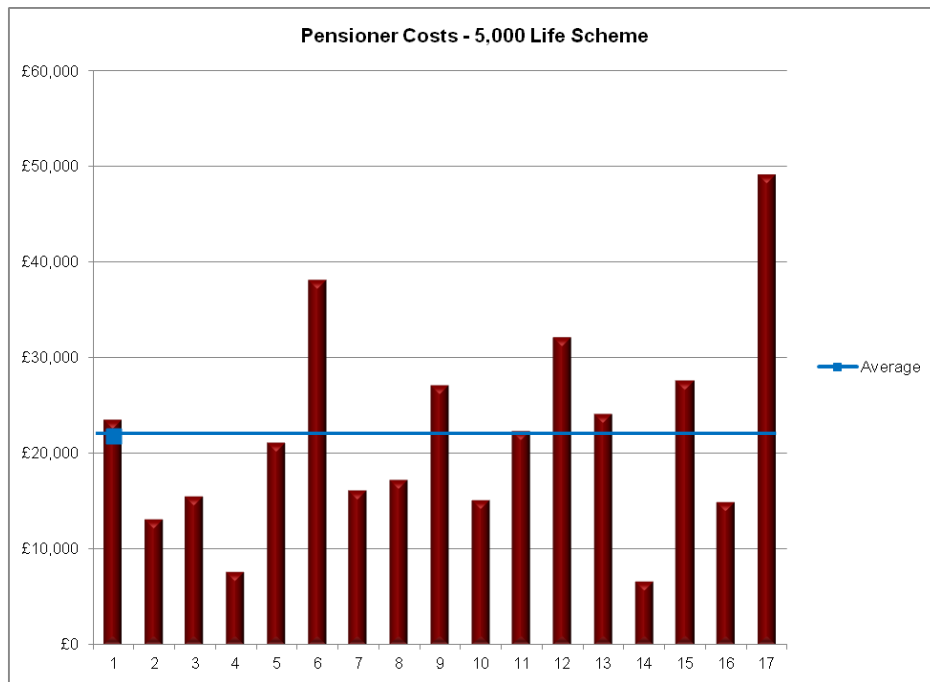
The range between the highest and lowest firm totals is nearly £23,000, only slightly less than last year. As in 2010 eight firms charge more than the average comprising three TPAs and five EBCs. The most expensive firm is over two and a half times more expensive than the average cost. But the least expensive firm charges only a third of the average. The 2011 survey results show a slight reduction in the average compared to 2010, however four firms' fees have remained static.



Graph 2b

Pensioner Costs - 5,000 life scheme

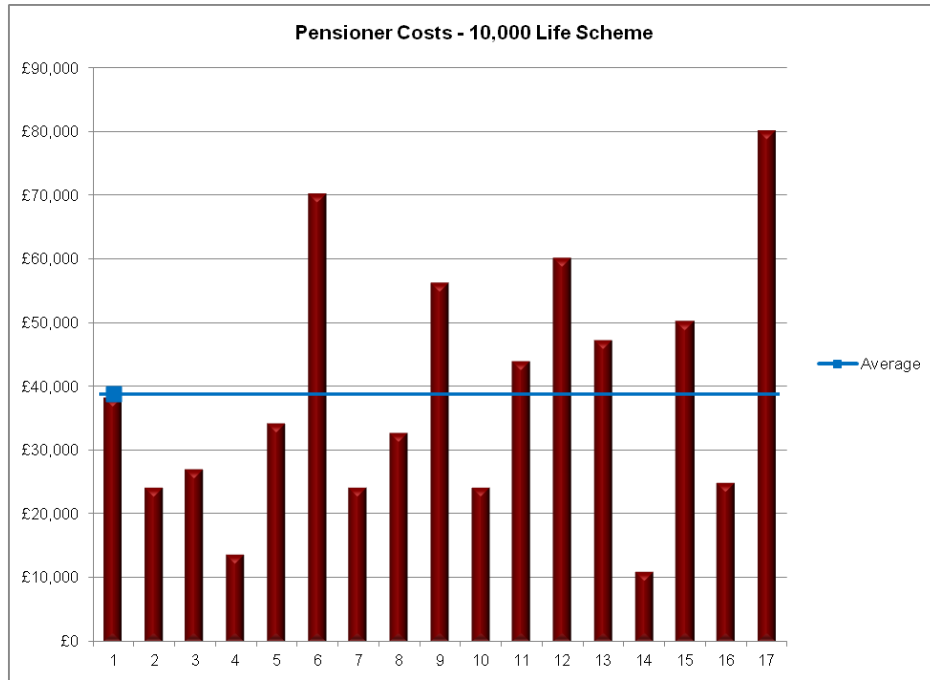
The 2011 range has increased at 5,000 lives to £42,600. This is a reduction of 17% on 2010 results compared to a 9% reduction for 2,000 lives. The same number of firms are above the average fee as for a 2,000 life scheme with the TPAs showing they are slightly more cost competitive. Only three firms charge the same as last year with the majority charging less. The highest firm is more than twice as expensive as the average compared to the lowest firm which is 71% less than the average.



Graph 2c

Pensioner Costs – 10,000 life scheme

The range broadens again at 10,000 lives to £69,200. The highest firm is more than twice the average and the lowest firm is more than three times less. The TPAs were most cost competitive with the majority charging less than the average. Year on year averages have reduced by 25%.

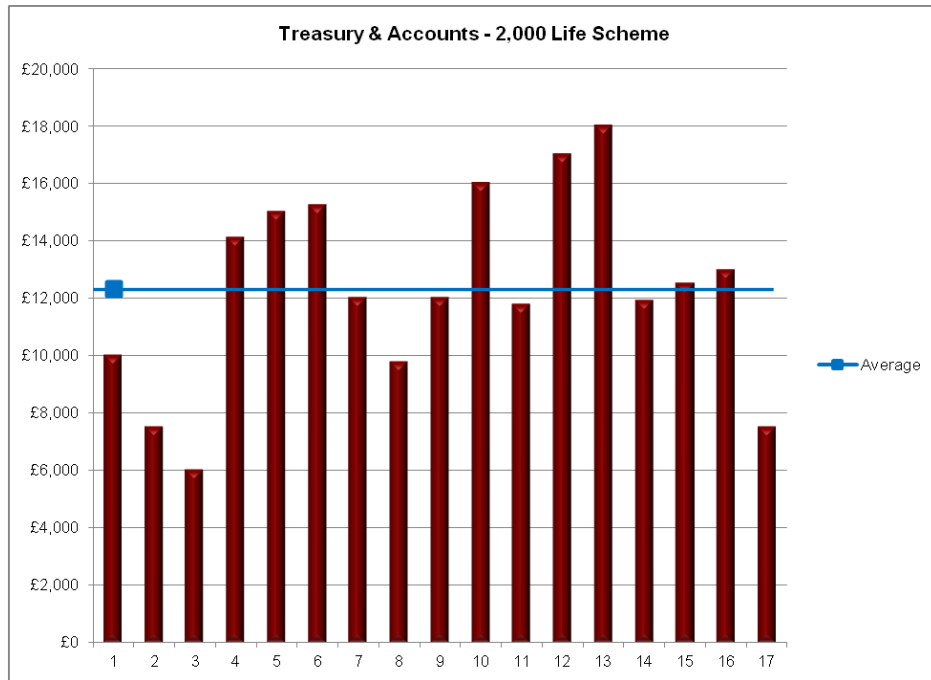


3.3 Graph Set 3

Graph 3a

Treasury & Accounts – 2,000 life scheme.

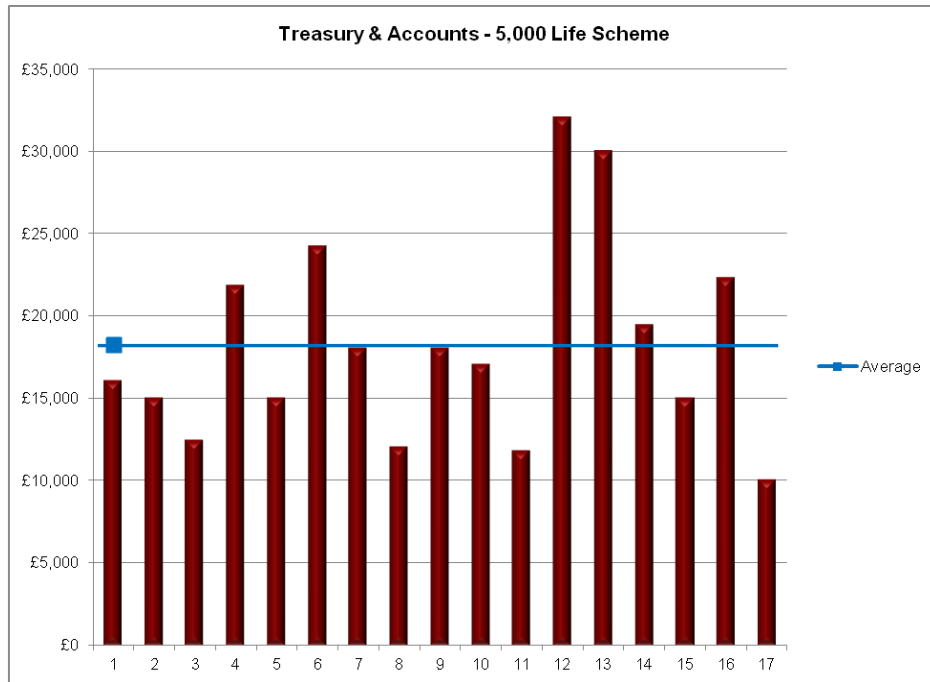
The range is tighter than other services surveyed so far, with only a £12,000 difference between the highest and lowest fee. The average has also only reduced by £800 compared to 2010 with more than half charging the same as did the previous year. The highest firm charges 46% more than the average whilst the lowest firm's fee is less than half the average. The same number of EBCs are above as below the average.



Graph 3b

Treasury & Accounts – 5,000 life scheme

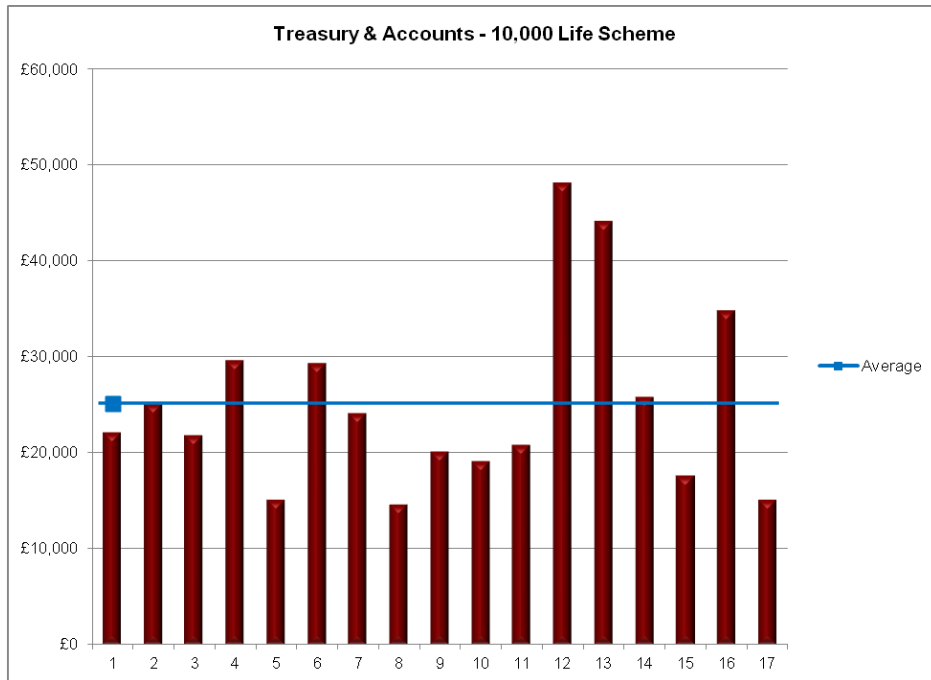
11 of the 17 firms charge less than the average – five being TPAs and six EBCs. The most expensive firm charges 75% more than the average fee, whilst the lowest firm charges 45% less. The range has almost doubled compared to a 2,000 life scheme with only a slight reduction compared to last year. Interestingly five firms charge more than they did 2010 and four have not revised their fees the same.



Graph 3c

Treasury & Accounts – 10,000 life scheme

The range has increased by £11,500 compared to a 5,000 life scheme to £33,500. Again the majority of firms charge less than average fee, but two TPAs and four EBCs are more expensive. Five firms have not revised their fees and for this scenario five have increased their fees. The highest firm is nearly twice as expensive as the average whilst the lowest firm charges almost half.

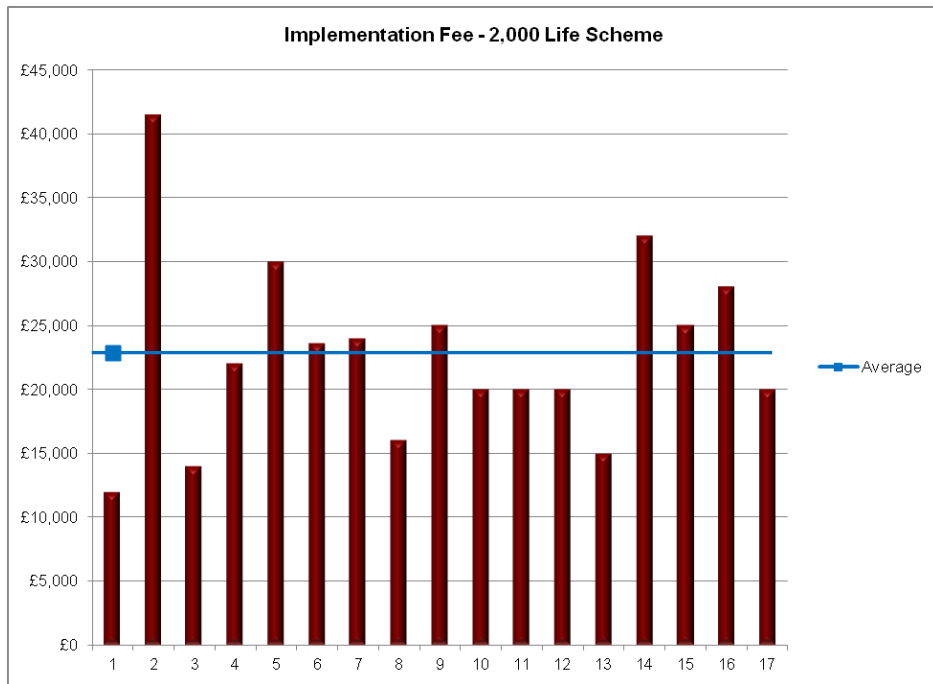


3.4. Graph Set 4

Graph 4a

Implementation Fee – 2,000 life scheme

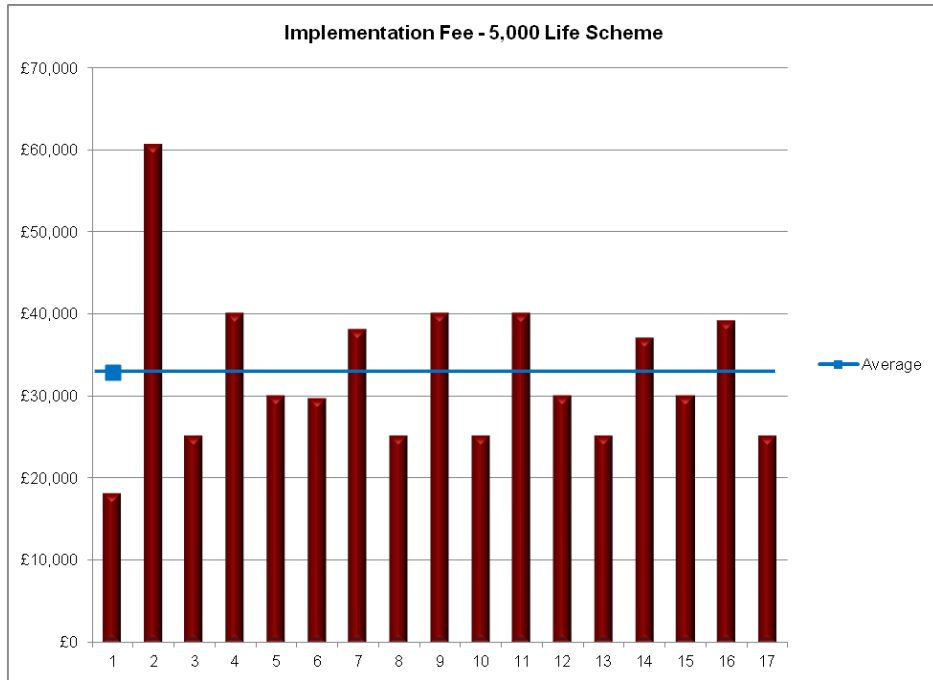
Nearly £30,000 separates the most expensive from the lowest implementation fee. More firms charge the same or less than they did in 2010, the majority being EBCs. The most expensive firm charges 82% more than the average and the lowest charges 47% less. There has been a slight reduction in the average fee compared to 2010.



Graph 4b

Implementation Fee – 5,000 life scheme

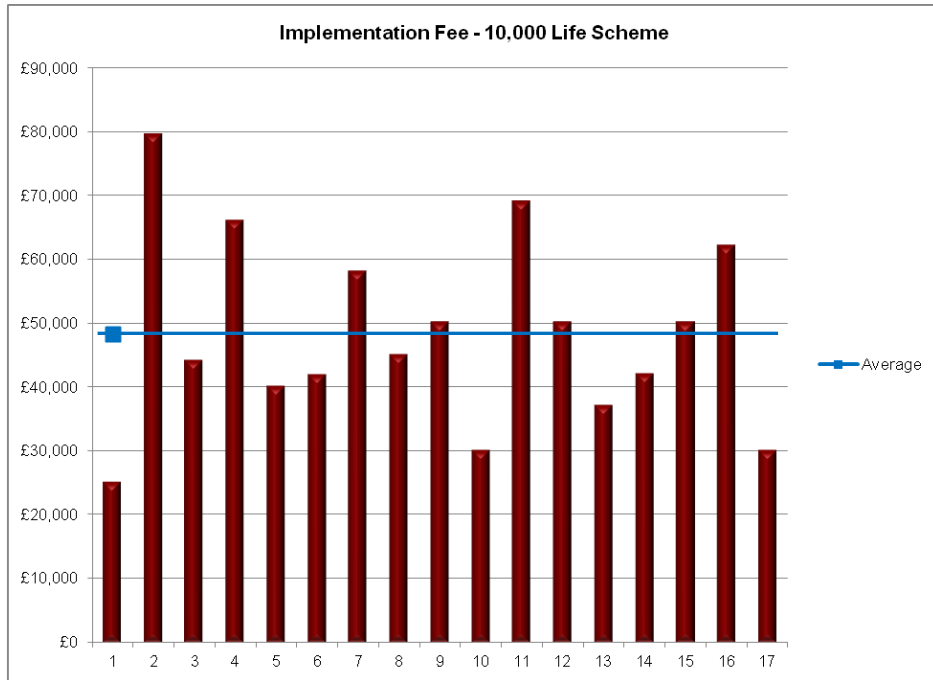
The range between the most expensive and least expensive fee has increased to £42,500. The highest cost is 85% more than the average with the lowest being just over half. Of the ten of the firms charging less than the average four are TPAs and six EBCs. There is a small reduction compared to 2010.



Graph 4c

Implementation Fee – 10,000 life scheme

The difference between the highest and lowest fee is £54,500. The majority of firms' fee is less than 2010. Over half of the firms charge more than the average for implementing including six EBCs and three TPAs. The most expensive fee is 65% more expensive than the average with the lowest being 48% less.

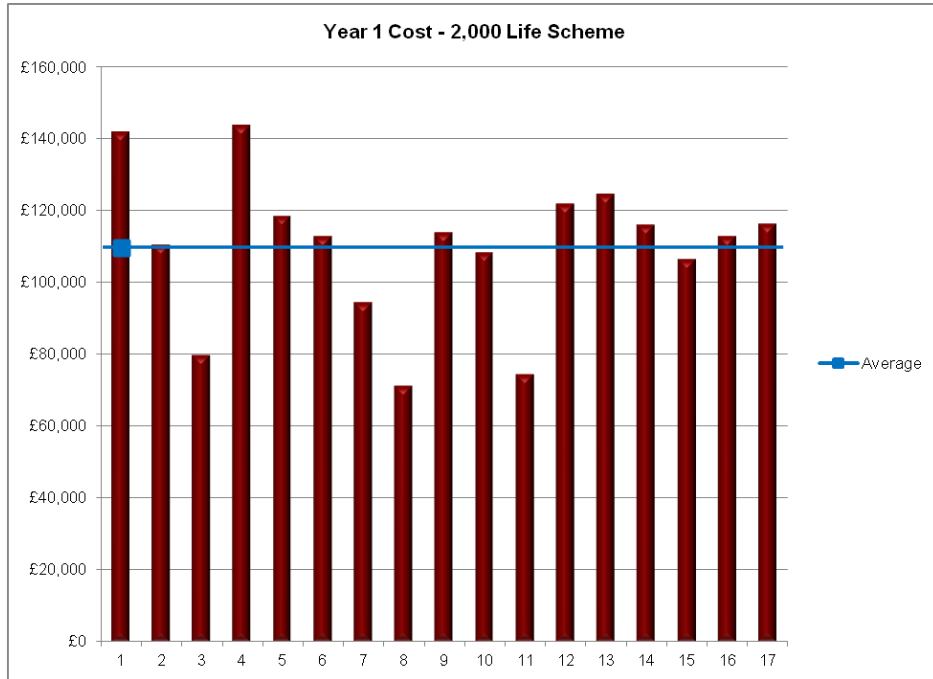


3.5 Graph Set 5

Graph 5a

Total Year One Cost – 2,000 life scheme

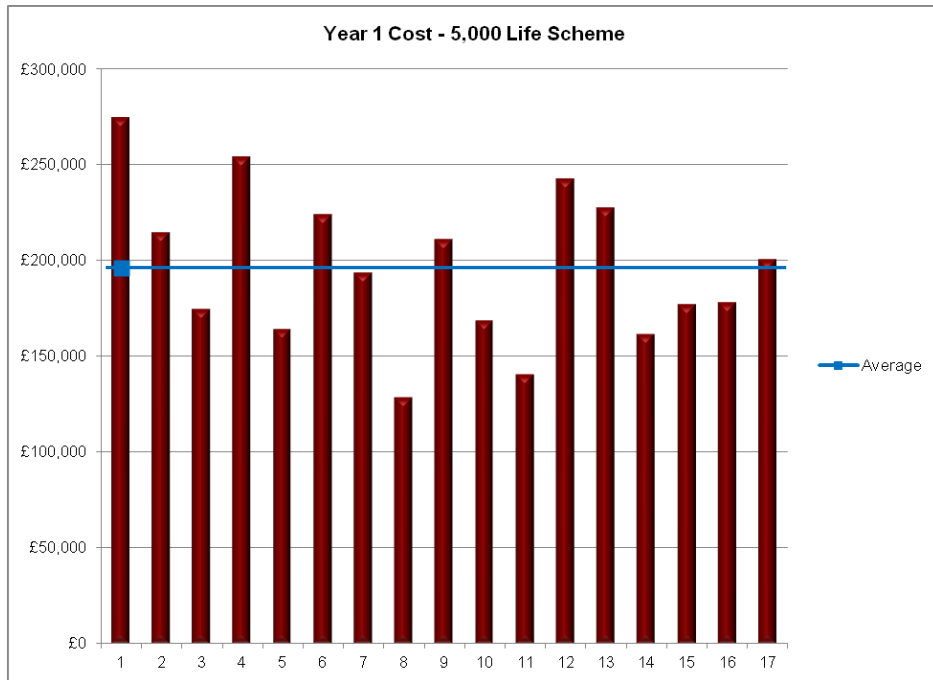
In year one there could be a difference of £72,600 in overall fees between two pension schemes depending on which administrator, with the most expensive firm being a third more than the average and the cheapest firm being more than a third less. The extent of the range hides the fact that the majority of firms' fees are above average, this includes five TPAs and 6 EBCs.



Graph 5b

Total Year One Cost – 5,000 life scheme

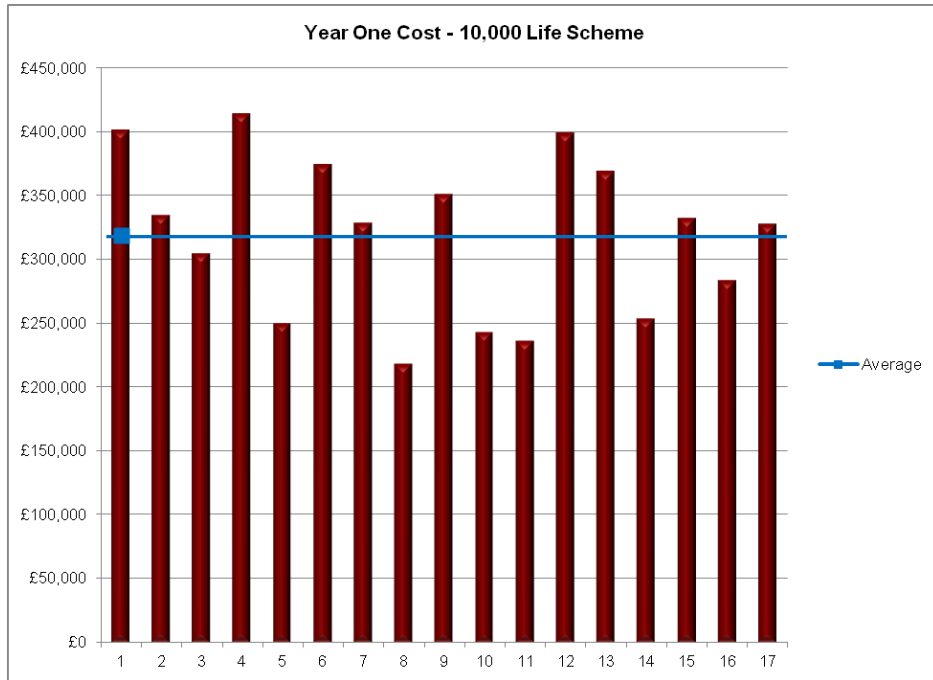
As the scheme size increases so too does the difference in overall fees, which has increased to £146,400. This is almost double that of a 2,000 life scheme. Nine firms are below the average fee – four TPAs and four EBCs and eight are above – three TPAs and six EBCs. The most expensive firm is 40% above the average and the lowest is 35% less.



Graph 5c

Total Year One Cost – 10,000 life scheme

At 10,000 lives two pension schemes could experience nearly £200,000 difference in fees if they choose one administrator over another. The lowest overall fee is £100,000 less than the average whilst the most expensive firm is 30% greater. Ten firms charge above the average, split equally between EBCs and TPAs.



4. Online Capabilities

This year KGC decided to explore the participating firms' online capabilities in greater depth in 2011. One of the survey questions asked each respondent to state how much it charges for standard web facilities and what this includes:

- Online capability
- Branding
- Member access
- Trustee/Employer access
- Real time access
- Member changes
- Member communications
- Routine reminders/announcements
- FAQ's

Ten firms offer 100% of the tasks. Five firms do not charge any extra for standard web facilities for a 2,000 life scheme, this increases to six for 5,000 and 10,000 life schemes. The standard web costs ranged from £2,000 - £17,500 for a 2,000 life scheme, £3,500 - £18,250 for a 5,000 life scheme and £3,500 - £19,500 for a 10,000 life scheme.

KGC also asked firms to state whether they included what would normally be considered non-core items to their web offering within their fee:

- Information Management – must include 'What If' functionality
- Full online member communication (with email alert)
- Document Portal/Library
- Benefit Statements
- Annuity quotation
- Reporting
- Web usage statistics
- Trustee meeting packs
- Access to Administration system
- Administration manual
- State Pension details

Only three firms offer 100% of these additional features with nine firms offering 50% or more.

5. Proportion of Core Tasks

There is an argument that comparison of fees alone will not give a complete picture because some firms offer more than others. Within KGC's core services there are 44 tasks for survey purposes (see table in 6. below). This enables close to a like for like comparison and allowed KGC to test the value relative to cost of the firm's propositions. The percentage of tasks offered for each core service showed how many firms offer 100% of tasks for the quoted fee. Most firms offer 90% or more of tasks and so KGC is comfortable a near like for like comparison is possible.

- annual administration services – eight firms offer 100% of tasks, two firms offer less than 90% - one firm being at the high end of the scale and the other being at the low end.
- administration consulting services – 12 firms offer 100%, two firms do not offer any of the services and three firms offer all but one.
- pensioner payroll services – all firms offer 100%
- total services – seven out of the 17 firms offer 100% of all services KGC considers to be core with only one firm offering less than 90%.

6. 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
Annual Administration		
Implement and maintain up to date membership records		
Maintenance and security of members' info in accordance with Data Protection Act requirements, plus safe storage of scheme data (paper and electronic)		
Calculate and advise benefits for leavers, retirements, 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 Pensions Regulator reporting requirements		
Liaison with Investment Manager/Consultants/Scheme Actuaries/Risk Benefit Providers/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 safekeeping 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 on scheme activity		
Administration Guide		
Periodic pensioner existence check (e.g. minimum of triennial)		
Insured risk admin		
Deal with DWP requirements		
Provision of data for actuarial valuation		
Attendance when required for trustee meetings		
Consulting (General)		
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 e.g. 'house' view of a particular piece of legislation		

Core Services cont.	Y/N	Notes
Scheme Accounting		
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		
Production of 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		
Pensioner Payroll		
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 (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 trustees, any projects should be agreed and budgeted prior		
Attend at extra Trustee Meetings when required at no extra cost		
Enhanced reporting		
Provision of additional data		
Liaise with Trustees on Scheme matters as and when required		
Advanced online capabilities		
Merger/sale/acquisition - related work		