Overload

Stephanie Hawthorne shows how pension administrators are handling ever-increasing workloads

Ever since the introduction of the new freedoms in 2015, a huge bow wave of pension transfer requests from defined benefit schemes has place enormous pressure on pension scheme administrators.

Indeed, alongside other freedom and choice costs, transfer value activity is adding between 10-20 per cent to scheme administration costs over previous years, according to the Association of Consulting Actuaries (ACA). One of the problems is there is no standard process for requesting a cash equivalent transfer value (CETV).

ACA chairman Bob Scott says: "Where IFAs are providing transfer advice, the questions they pose during the transfer process are varied and time consuming. The quantum of enquiries and differences in approaches is posing difficulties for administrators and pushing up administration costs. Standardisation in the questions asked would seem to be a sensible step and this may be an area where the FCA could act swiftly to help all concerned."

PASA executive director Fergus Clarke agrees: "We are definitely seeing an increase in volumes. While the focus has been on DB, in our experience we are also seeing an increase in DC."

Some trustees are being more proactive in terms of routinely providing CETV figures, either at retirement or on annual deferred benefits statements or online. Clarke explains: "This brings its own challenges as, typically, actuaries provide CETV modellers so these are often not fully automated solutions and therefore can be costly and time consuming to implement. Administrators and actuaries need to find a way to better work together to solve this issue."

The actual amount of extra work varies from scheme to scheme, but as Dalriada Trustees trustee representative Chris Roberts points out: "The average age is increasing in closed *[DB]* schemes (which are now the vast majority of schemes). This means more members will be engaging with the administrator and the scheme will be reaching peak cashflow. But following peak cashflow, the demand should calm as the balance shifts from deferred to pensioner. The administration team (in particular, in-house) must consider this evolution and be staffed accordingly."

There is also more activity arising from scamming checks, governance, GMP reconciliations, de-risking exercises and pension sharing on divorce.

Digitisation of data

Clarke says: "There are things the industry can do to help themselves, for example data quality and the digitisation of data. If data is in a digital and clean format it increases the opportunity for automation and for members to self-serve. Trustees will need to invest in cleansing data but the results will be an improved service for members, increased accuracy and greater timeliness."

Willis Towers Watson head of business development, technology and administration solutions, Clive Witherington, says his firm tackled the problem of the bulging workflow by rapidly "expanding all resources in frontline roles working with dealing with members' queries. Since 2015 a number of more considered initiatives have been deployed, including online transfer quotations to aid self-service, better communications and educational material to help members make better choices and occasionally agreeing with trustees a temporary relaxation or extension to non-urgent SLAs to enable resources to focus on benefit quotations and settlements."

Other administrators are also investing in technology, as Hymans Robertson senior technical consultant Stuart Reid explains, with one option being to upgrade. He recommends web portals to allow members to obtain benefit projections and estimated transfer values through a self-service route.

Roberts adds: "The automation of calculations should speed up the processing of most member movements. We also find administration teams in larger firms can flex resource from other teams to cope with peak demand."

He concludes: "There is no real excuse for bottlenecks and backlogs of member enquiries. The majority of administrative spikes will follow the issue of communications, or as part of targeted exercises. These spikes can be planned, with communications issued at appropriate times of the year and appropriate staffing considered. With a well-planned communication structure and properly resourced team, the administrative calendar can be actively managed."

Written by Stephanie Hawthorne, a freelance journalist

At your service

Stephanie Hawthorne advises trustees on implementing SLAs with their administrators

Many pension schemes use third-party administrators and have in place service level agreements (SLAs). The Pensions and Administartion Standards Association (PASA) provides templates and standards for these.

"The key is that the agreement clearly states who will do what and when, how much they will be paid, how performance will be measured and what happens if things go wrong," says Dalriada Trustees' trustee representative Greig McGuinness.

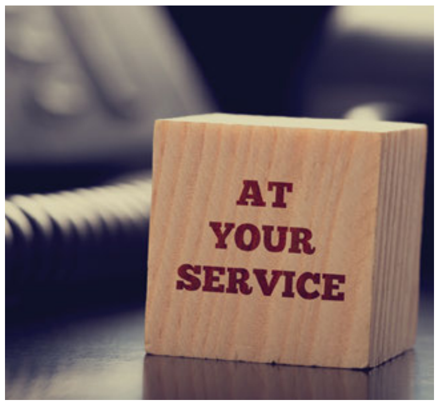
KPMG's head of administration consulting Samantha Coombes has seen very poor examples of contractual SLAs on both sides, which can push an administrator to try to deliver the impossible, or TPAs effectively abdicating responsibility for delivery. She says: "Being honest and open about client expectations and the art of the possible upfront are crucial to getting the right outcome."

The critical factors

SLAs should ideally be focused on the desired outcomes for the trustees, what is critical for them to have done correctly and without error. What are they trying to measure and why? PASA executive director Fergus Clarke explains: "If in a mature DB scheme, the payment of regular pensions is the most critical issue then this should be a prime focus of the measures."

He adds: "Similarly, for a DC scheme the investment of contributions and reconciliation of all investment movements might be considered to be a critical issue, so this should be measured and reported upon."

Willis Towers Watson head of



business development, technology and administration solutions, Clive Witherington, says: "The majority of SLAs are time based and expressed as completion of a particular activity or transaction within a specified number of working days – typically five working days for most member-related activities. SLAs probably should also reflect some measurement of accuracy and quality but equally the members' understanding of the information being provided but these 'softer' criteria are very difficult to define as a contractual undertaking."

Barnett Waddingham associate Julie Walker agrees: "Turnover of cases is easy to measure but we need to make sure we pay attention to the experience as well as the statistics."

The only measurement of success that really matters is whether members' (reasonable) expectations were managed and met and whether the communications from the trustees and administrator provide a full explanation to aid members' understanding of their choices. Witherington explains: "SLAs are a tool but if the ultimate customer is not getting the service and information needed, it is academic whether the activity was completed 'in time.'"

Regular reviews

Taking a different tack, Trafalgar House client relationship manager Karla Bradstock, advises: "There should never be a single measure of the success of an administration SLA. The requirements of service delivery vary significantly between one scheme and the next. Trying to adopt a universal standard or range of measures for every scheme simply won't work."

She adds: "Don't wait until things fall apart or a critical event causes you to review the SLA. Many SLAs do not get reviewed for years, even though service standards and member requirements evolve. Do it regularly and often."

Keeping the members at the forefront of everything is recommended. Trustees and administrators can become fixated on reducing the SLA working days targets but Witherington says: "In reality members' are generally 'happy' as long as they know when and what is going to be delivered and that 'promise' is met."

Care should be taken that an emphasis on meeting target timescales doesn't drive down the quality of the work being produced, as Hymans Robertson senior technical consultant Stuart Reid explains: "Trustees and scheme managers should consider whether it's more important to them that everything is done to an agreed timescale or that the administrator is able to spend 15 minutes talking a member through the retirement quote they have been issued and helping them to understand the options available and the decisions they have to make."

McGuinness concludes: "The key to a successful agreement is that you know what to expect; you receive the services that you need, want and are paying for and don't pay for things you don't need or want."

Written by Stephanie Hawthorne, a freelance journalist

A switch in time

Changing administrators is far from easy, says Stephanie Hawthorne

Switching third-party administrators is a daunting task as the process involves much work for the new and outgoing administrators, as well as for the trustees and participating employers.

Day-to-day administration doesn't stop just because a scheme is getting ready to transfer – throughout the transfer process the scheme still needs to be administered, pensions still need to be paid, members will still be joining, leaving, transferring and retiring.

"The key to making the switch as smooth and easy as possible lies in the project planning and management of the switch," Hymans Robertson senior technical consultant Stuart Reid suggests.

Trafalgar House client project manager, Gillian Hickey, advises trustees and sponsors to "make sure they have a seat at the table on the project steering group to remain fully informed on progress".

There is also PASA Code of conduct that acts as a guide to good practice.

Exit agreements

Willis Towers Watson head of business development, technology and administration solutions Clive Witherington advises: "Always ensure as trustees you have a very clear exit agreement in place with your current administrator so that if you wish to terminate the service it is crystal clear what the trustees can expect by way of hard deliverables, timescale and support. Many transitions are delayed or disrupted because the trustees only begin the dialogue on exit arrangements at the point they have elected to move administration to a new supplier."

He adds: "Commission analysis of

the members' data, to share with any new supplier, before you bake in transition timescales and expectations, as going into the transition without a clear and mutual understanding of the quality of members' data is a fundamental mistake."

Barnett Waddingham associate Juliette Walker says: "Most typically, trustees set out a pathway to administration transfer assuming they're going into the exercise with all the leverage and goodwill they're used to having. Depending on where the outgoing administrator sits on the scale of 'we are or are not about to hold your scheme to ransom', the outgoing administrator then comes up with a scale of exit charges that pushes the trustees to such extremes of outrage that the first two months of a three month transition are hijacked by a conversation that's totally focused on costs."

Typical timescales for transition can range from three to nine months, depending on the complexity of the scheme being transitioned and the volume of any issues identified during the handover process.

Some areas can be problematic if they're not managed effectively during the transition project, says Xafinity Punter Southall Administration senior consultant Damian Magee. "The knowledge of the existing administration team needs to be captured and documented," he explains. "A thorough scheme manual and process guide must be developed during the transition project. Other issues revolve around the inherited backlog, which can increase workload for new administration team. Payroll deadlines are important – ensuring that there isn't a disruption to the payment of pensioners and clear communications."

It is also recommended trustees take the opportunity to revisit the quality of scheme data, understand the benefit calculations and ensure that the appropriate governance around administration is in place.

KPMG head of administration consulting Samantha Coombes says: "Capturing historic practices and practical application of the scheme's rules (for example: commutation order, rounding, equalisation methodology and practical use of retirement factors) are typical issues that often present problems during a transition period, as well as poor quality historic recordkeeping."

In conclusion, Magee has five tips for making switching third-party administrators easy:

- Engage with a specialist administration provider with a proven track record.
- Take references from their clients – recent transitions and long-standing clients.
- Value for money is more important than the lowest price.
- Participation on project boards, effective communication with the administrator.
- Choose an administrator with a robust, tested transition process and experience and expertise of transitioning schemes similar to yours.

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