

Challenging times

✔ **Now more than ever, pensions administrators have a lot to manage. Adam Cadle asks administrators what they think the biggest challenges are for 2017**

The UK pensions admin space is one of continual change. As member demands accelerate and intensify, the admin sphere is having to evolve to keep pace with these developments. Ensuring pension scheme members receive the correct benefit payments is absolutely crucial, and effective administration is firmly at the heart of this process. With so many challenges to tackle, what do the administrators themselves think are the biggest issues they have to face over the coming year and beyond?

Volume of work

“GMP reconciliation projects, a growth in trustees’ demands for de-risking and data projects and an increase in membership activity following freedom and choice have increased the demand for pension administrators. In certain parts of the market, this has led to a capacity crunch, resulting in falling standards and extended project delivery timescales. Whilst the market will ultimately correct itself when GMP reconciliations end, there is immediate pressure in the market as providers struggle to meet the increased demand.

“Whilst new regulations have been relatively light in recent years, the requirements to implement more stringent checks and controls on high-risk administration transactions, counter the threat of liberation, and operate within the more complex pension tax framework significantly increase the complexity of and time necessary for many processes.”

Trafalgar House director Dan Taylor

LISA

“The introduction of the lifetime ISA in April could have an impact on administrators, with younger people effectively being given a straight choice between a pension and a LISA. Whilst employers must contribute to pensions on behalf of their employees, there are no rules currently in place to allow them to do the same with a LISA. Employees may now be aware that they will lose their employer contribution if they cancel their pension and set up an ISA. Younger people risk making potentially poor decisions on their savings without the appropriate information in place, and administrators can play a key role in improving their understanding of pensions through tailored engagement.”

Capita Employee Benefits director Stuart Heatley

GMP equalisation

“It looks increasingly likely that pension scheme administrators will have to grapple with GMP equalisation without a definitive answer as to what it really means. There continue to be problems with GMP reconciliation. Technology is undoubtedly part of the answer but as anybody involved with running a pension scheme (employer, trustee, professional adviser) will tell you, technology cannot plug the information gaps of the past – and GMPs stopped being accrued 20 years ago now. So data plays a key part here. As anybody with experience of GMP reconciliation will tell you, HMRC will often come up with scheme members who their records show should have a GMP in the scheme



but where the scheme records show no liability. This can be for a variety of reasons – refunds of contributions where the scheme almost certainly paid a CEP, transfer to another scheme, etc. – but after all this time the ‘evidence’ may not be there – so you may have more liabilities (albeit mostly small) than you think.”

Blake Morgan legal director Adrian Lamb

Integration

“One of the biggest challenges facing administrators is being able to integrate pensions with other elements of remuneration. Members increasingly want a single view of their pension and benefits on an easily accessible platform. Without the necessary technology know-how, administrators risk being left behind.”

Capita Employee Benefits director Stuart Heatley

Data

“We hold an immense amount of personal information about people for the trustees, and it’s important to be mindful of how this is stored and to whom it is communicated.”

Spence & Partners senior pensions administrator Louise Cunningham

“For many pension schemes data is a low priority for trustees, only becoming an issue when de-risking exercises are being considered or start to be



undertaken. In too many cases this leads to urgent data cleansing exercises being undertaken or, in the worst-case scenario, benefit rectification exercises after finding as part of a legal review of the rules that benefits have been calculated incorrectly. Data quality is on TPR's radar, especially with work now starting on the pensions dashboard.

Administrators are ideally placed to help trustees to understand their data and work with them to resolve data issues and draft benefits specifications and carry out benefit audits to ensure benefits are and have been calculated correctly. Trustees should act now while this work is seen as good practice rather than compulsory.” *LCP pensions administration team partner Justine Joy*

“I have often detected a reluctance from clients to spend time (and money) on getting the data in order. However this can lead to problems down the line with delays in transactions and, in the worst cases, an inability to complete a transaction. As more and more schemes edge towards buyout of some or all of their liabilities, pricing will continue to reflect the quality of the data. Therefore it is in everybody's interests to ensure that the data is good as it can be.” *Blake Morgan legal director Adrian Lamb*

Communications

“There is a need to personalise member communications and the shift from DB to DC makes this even more important. Because the inherent risk with DC schemes is with the member rather than the scheme, it is crucial for individuals to properly engage with pensions and retirement. Our most recent employee insight report suggests administrators have work to do in this area – almost half of employees find

pensions-related terminology to be complicated, confusing and a barrier to plan effectively for retirement. Members also want communications to be more personalised, so administrators need to be able to segment the membership before considering the best means of communicating and how they can deliver more tailored messages.”

Capita Employee Benefits director Stuart Heatley

Technology

“From software robots to blockchain, pensions administration is not immune to the technology zeitgeist, and nor should it be. Harnessing technology to complete the automatable repetitive tasks, freeing up people to add the value and the experienced personal touch, can only be a good thing. Administration is very much a ‘people’ business, and investment in our technology is matched by our investment in our people. There will always be new and ‘shiny’ tech for us to consider – picking the best tools for the job is part of the job, for an administrator.”

Mercer partner Alison Coulson

Taxation

“Changes to income tax rate thresholds for Scottish taxpayers from April 2017. We are also monitoring any further changes to pensions tax relief over and above those already in place, such as the annual allowance taper, and the different forms of lifetime allowance protection available.”

Barnett Waddingham partner Paul Latimer

Transfers

“From those who insist that a transfer of benefits shouldn't take more than a couple of days, to those who feel aggrieved that their ‘Pension Scams R Us’ policy is under question as to its legitimacy, expectations run high that this is a ‘simple’ task.

“And indeed it might be, if you have

a DC pot in a couple of funds that both trade daily. Add a property fund (for example), though, and there may be liquidity issues, or they may only trade once a month and you've just missed it... Layer on the receiving scheme being overseas or non-mainstream and needing investigation to ensure it has HMRC approval, and those ‘couple of days’ can realistically stretch to weeks. Administrators are often under pressure to complete the transfer in an unrealistic timeframe but often they are simply doing their best to protect the member or working within the trading timescales, over which they have no control.

“A DB transfer has its own issues, as well. Factors such as the requirement for transfer values over a certain amount to be either calculated or checked (or both) by the scheme actuary, AVCs with an external provider requiring disinvestment, the need to prove financial advice has been taken (if relevant), the need to disinvest funds to settle the transfer, plus all the pensions liberation checks and, occasionally, changing whole calculation methodologies or even just the factors that can create delays while programming and testing takes place, and ‘a couple of days’ simply isn't possible every time.”

Mercer partner Alison Coulson

Crime

“Due to pension freedom legislation, we have noticed that there has been an increase in the number of requests for transfer values. However, we must always be aware of the pension scam risks, so it is more important than ever to ensure that members are informed of the dangers of scams and as administrators, to carry out and be aware of the appropriate due diligence.”

Spence & Partners senior pensions administrator Louise Cunningham

➤ **Written by Adam Cadle**