

# New research on the challenges of running a pension scheme

▣ **Ian Terry and Fraser Stewart consider the emerging themes from Capita Employee Solutions' latest report on pension administration**

Running a pension scheme is far from a straightforward task for trustees. There is significant reform in the regulatory and legislative landscape as well as increased expectations from members – and all at a time when the cost of running a pension scheme has come under the scrutiny of scheme sponsors.

Gone are the days when pension scheme administration was simply expected to run silently and efficiently at all times! So much more is now expected, from tasks as diverse as trying to increase member engagement, to keeping on top of regulatory and legislative change. It is a tightrope act and trustees must keep a watchful eye not only on how the scheme is run today, but also in the future.

We are putting the final touches on our *Pension Scheme Insight Report*. In conjunction with *Pensions Age*, Capita Employee Solutions surveyed 105 decision-makers of trust-based defined benefit, defined contribution and hybrid pension schemes earlier this year. The report highlights their attitudes and what they see as their key challenges.

*The Pension Scheme Insight Report*

2018 is aimed at those responsible for trust-based pensions, with a particular focus on pension scheme administration – you can request a copy of the report here: <https://www.capitaemployeesolutions.co.uk/news-and-views/research-and-insights/pension-scheme-insight-report-2018/>

Here are some of the key themes emerging from the report's content:

## Member engagement

Pensions tend not to be things people spend their days thinking about. For many people, retirement is still something they believe they can put off until tomorrow, and whilst most people recognise the need to save towards retirement, they also need to balance this with living for today.

Trustees recognise the issue. The biggest challenge that trustees say they face in the next 12 months is to improve member education and engagement, as cited by three in every five (58%) respondents.

This may previously have been seen as more of a DC issue, but not anymore – the pension freedoms and the increased

requests for CETVs have put education and engagement firmly in the spotlight for DB schemes too.

Many members will also have a number of pension pots and should not look at each individual pension in isolation – they are all part of their pensions saving pot. Trustees need to recognise this and the role they can play in helping people to connect to a normally intangible subject.

Auto-enrolment helped get more people saving into a pension, but this is really only half the battle. It is not just about members saving – it is about saving enough for the kind of retirement they hope to enjoy.

## Data is more than just good housekeeping

Data is, rightly so, a hot topic in 2018 with the introduction of the General Data Protection Regulation (GDPR) as well as the fallout from the Cambridge Analytica enquiry. From a pensions perspective, trustees will need to ensure their scheme adheres to the new GDPR legislation, where data processors will be responsible for areas of compliance.

Pension schemes are dependent on having good quality data, but over the last few years a number of legislative and scheme level exercises including the GMP reconciliation have shone a light on the inaccuracy of data in schemes.

With the December 2018 deadline looming in which to query GMP amounts with HMRC, it is perhaps no surprise to see work related to the GMP reconciliation and rectification second on the list of challenges for schemes in the next year, as agreed by nearly half (47%) of those who fed into the report.

Maintaining quality data should be an ongoing commitment. Maintaining data to a good enough standard takes focus and a clear strategy, but is an investment that helps the smooth running of the scheme in the future. The cold reality is that after any one-off data cleanse project is complete, your data immediately

begins to decay.

Having good data will also put any scheme looking at de-risking activities in a stronger position, able to respond quickly when conditions become favourable. In fact, 40% of respondents in our research said that they would be working towards a DB de-risking exercise in the next 12 months; holding good quality data should be essential for this population.

**Scheme administration costs are still in focus**

Pension schemes can be expensive; something that trustees and pension managers are well aware. Administration costs, whether administrated via third party or in-house, are well and truly under board scrutiny, so increasing efficiency without compromising quality is a key challenge for schemes.

Pension scheme administration has received board level attention for nearly two thirds (64%) of respondents, with a further one in eight (13%) stating that this is imminent. That is more than three-quarters (77%) of trustees and pension managers who say that scheme running costs are under scrutiny, or that this is imminent. This is a big increase on our 2016 survey where 65% of respondents stated this.

**The important role of the administrator**

Pension administration is the bedrock of the pension scheme. The administrator's role is crucial in ensuring that the scheme is well run, carrying out the many functions required in the day-to-day operation of the pension scheme.

Pension scheme administration goes way beyond taking contributions and then paying a pension out: a good administrator not only has to successfully

on-board a new pension scheme, they need to adapt processes and systems to ensure that tasks can be automated, scalable and are robust. This means having the right inputs in order to deliver the right outputs and an example here could be providing members with an online platform in order to better understand their pension benefits.

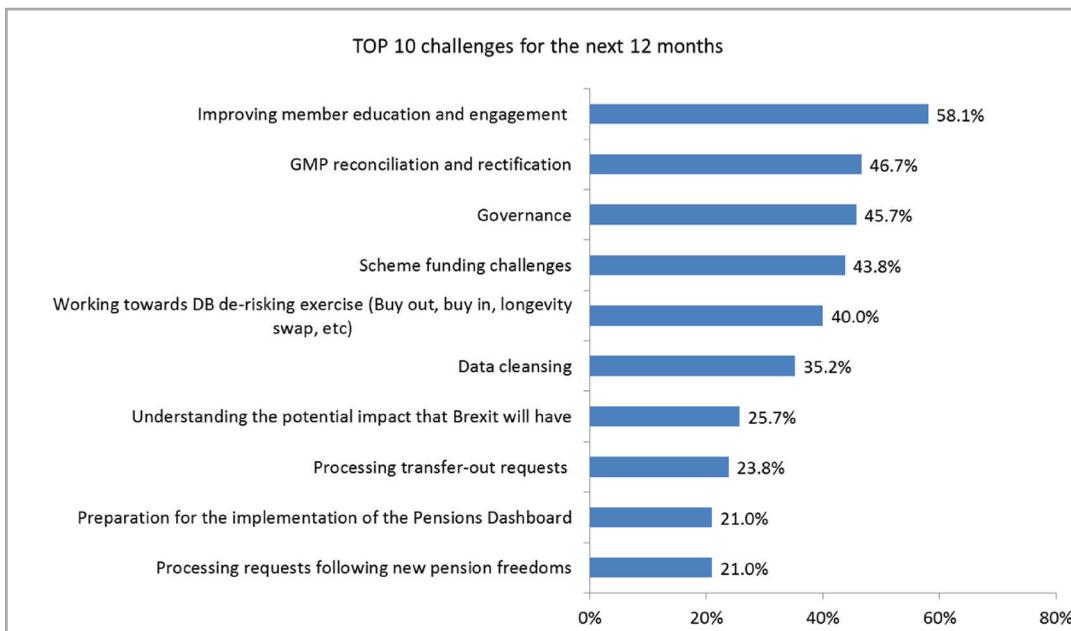
Pension schemes can be administered in-house, outsourced through a third party administrator (TPA), or run with some combination of both. The majority of respondents were happy to consider using a TPA and highlighted the features they most valued and sought. It was interesting to observe that the experience of the administrator was the most commonly cited factor in deciding who to use, selected by over four fifths (81%) of respondents.

Experience is clearly important. It is not just about today, but where the administrator came from and, crucially, how they are preparing for the future. It is not just about getting the basics right for today – it is also about building something that is sustainable tomorrow as well. It is crucial to build for tomorrow, creating a sustainable platform that can

improve operational efficiency, to ensure the scheme is well set for whatever comes next.

We have also recently produced a paper *The most common DB Administration challenges for large or complex schemes and how to tackle them*, which can be downloaded for FREE via our website at:

<https://www.capitaemployeesolutions.co.uk/news-and-views/research-and-insights/db-administration-challenges-guide/>



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