

New thinking

✔ **Pension schemes have probably never been more complicated to run and, if anything, this is going to become harder still. With so much on the horizon, the importance of making sure your pension scheme administration is robust and shipshape has never been greater. But without the right lifeboats and life jackets this could be sink or swim for many...**

Pension administration over the coming year will continue to be a challenging affair. In April 'Pensions Freedom Day' arrives. Last year's Budget may have paved the way to giving retirees greater flexibility on taking their benefits but it also left schemes with a very short timescale to ensure that their rules, administration systems and procedures were in place to cope.

Follow fast in the Budget's wake will come preparing scheme design and administration for the abolition of contracting out and the need for GMP reconciliation, as well as the requirement for all workplace schemes to have proper governance in place, for schemes to keep on top of pension liberation scams, the increasing need to maintain accurate data and the ongoing day-to-day business of meeting auto-enrolment requirements.

At the end of 2014 we surveyed 72 decision-makers of trust-based DB, DC and hybrid pension schemes. These decision-makers are responsible for schemes with over £4.5 billion in asset value and over 1.2 million members. They consisted of a mix of pension managers, trustees, benefits managers/directors and CEOs, finance directors and HR directors.

Pension administration in the spotlight

So once again in 2015 administration people, processes and software will come

under pressure to perform and our respondents identified what they expect will be their main challenges to be met (Table 1).

It is perhaps little surprise to see the implementation of scheme changes following Budget 2014 coming out on top, cited by nearly two-thirds (65.3%) of respondents.

Also high up on the list of pension managers and trustees is GMP reconciliation (51.4%) and the abolition of contracting out (31.9%).

In April 2016 the earnings-related state pension will switch to a single-tier pension and this will mean the end of contracting out for many pension schemes.

With the need to reconcile GMP, the importance of good quality data also unsurprisingly comes out high (31.9%).

Many trustees and pension managers have already started to think about this and it is crucial to give yourself as much time as possible. Getting organised and running schemes properly is essential and governance was also a major concern (30.6%).

The differing views of outsourcers and in-housers

With so much change and complexity on the horizon, 2015 is a significant year for those administering pensions – and many look to partner with a third party. This can be either through fully outsourcing the administration to a third party administrator (TPA), or through maintaining an internal team and utilising technology to provide support.

We asked respondents what they saw as the key benefits of outsourcing their administration and the most popular reasons were the better technology and workflow systems in place (61.6%) as well as the technical expertise (59.7%).

Both of these are essential to any TPA and can come about due to the increased economies of scale, where the TPA will apply the same technology and technical expertise across a number of pension schemes.

It's interesting to compare the con-

Table 1: What do you expect to be your main admin challenges in the next 12 months?

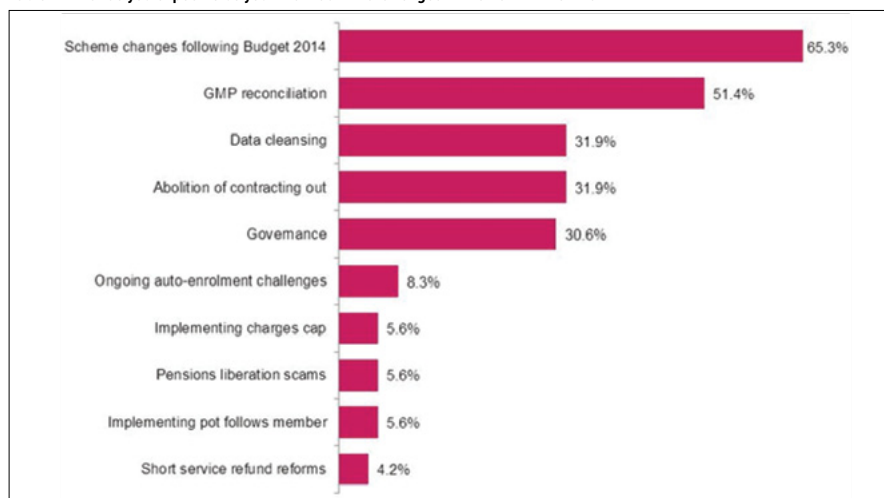
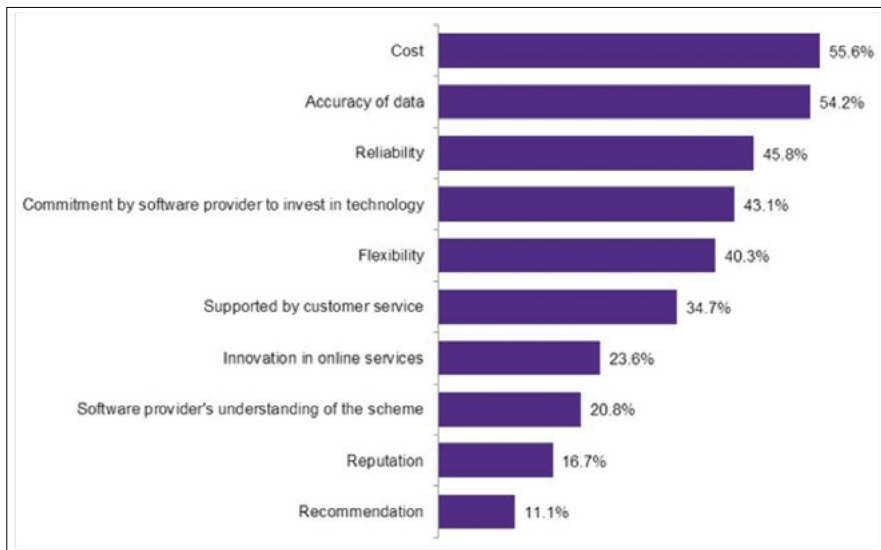


Table 2: What are the most important factors when deciding on pensions software?



trasting views of those respondents who outsource their administration and those who run it in-house. (For the purpose of this comparison we excluded respondents who have responsibility for schemes that are both administered internally and through outsourcing).

Perhaps the most notable and glaring difference is the issue of efficiency. A significant 42.6% of respondents who use a TPA felt that one of the benefits of outsourcing was the improved efficiency. This contrasts to just 8.3% of respondents with in-house arrangements.

Cost also came into it, with 31.9% of outsourcing respondents stating that it was cheaper to outsource: not one in-house respondent felt that it would be cheaper to use a TPA.

Providing good services for members is hugely important. But again, not one in-house respondent felt member outcomes were better from using a TPA, compared to 29.8% of outsourcing respondents.

Perhaps unsurprisingly, respondents saw the main benefits of administering a pension scheme in-house as being able to maintain control of the scheme (69.4%).

But whilst both outsourcing and in-housing respondents were in agreement that maintaining control of the scheme was a major benefit, there were significant differences in their views on

some of the other benefits.

The majority (83.3%) of in-housing respondents felt that administering a scheme in-house provided better services for members than the outsourcing respondents (40.4%).

Cost was another big factor and 75% of in-house respondents saw cost as a major benefit of keeping the administration in-house; this contrasted with just 10.6% of outsourcing respondents.

Interestingly, just 30.3% of respondents said they would consider a market review of TPAs in the next year, but not one respondent currently administering their pension scheme in-house would consider this.

It is important to highlight that whilst it is seen that technical expertise and better technology and workflow may be in place by outsourcing administration, in-house schemes are certainly not bereft of technology and support.

Decisions on pension software

Table 2 above highlights the main requirements that trustees and pension managers said they looked for when deciding upon pensions software.

Cost sits at the top of the list, selected by 55.6% of respondents. But accuracy of data is also rated highly, cited by 54.2% of respondents.

More practical elements such as

reliability (45.8%), a commitment for further investment (43.1%) and flexibility (40.3%) also rank high.

The technology has to be affordable as well as being accurate and reliable.

Administration reaches the board

Despite the pensions administration challenges ahead, cost will always need to be taken into account. Pension scheme administration has received board level attention for 50% of respondents and a further 11.1% believe this is imminent.

This means that broader questions may be asked about how to get real value from pension administration. This is going to be an issue faced by both schemes that in-house and those that outsource.

Call to action

It is always important to review your scheme administration on a regular basis. Now is the time to challenge your administrator, whether this is an in-house team or a TPA. What are they doing about GMP reconciliation and what is their experience? What developments are being made to software in the next few years? How will they support the changes required following Budget 2014? Will they simply notify you of what is coming up or will they deliver change management?

There are plenty of ways to navigate the storm (be it through a TPA or in-house team), but also plenty of ways to hit the rocks.

To find out more – as well as pre-ordering a copy of our upcoming pension scheme insight report – contact Capita Employee Benefits.



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