PENSIONSAge

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Administration focus:

Handling the pressure

Mark Adamson, director, JLT Employee Benefits

The short sprint to freedom!

How are administrators coping?

When the Chancellor of the Exchequer rose on 19 March 2014 and announced what he called "the most far-reaching reform to the taxation of pensions since the regime was introduced in 1921", in essence what we now call pension freedoms, he set off a train of events that continues to roll down the track at ever-gathering pace.

The instant impact, just a few working days later (thank you Chancellor, from all pensions administrators!), was in relation to small pots and trivial commutation. A year later, complete flexibility arrived and members were empowered as never before to use their pensions savings as they choose to.

And they have used that power. For example, as figure 1's statistics demonstrate, the proportion of DB members taking a transfer at age 55 or later has tripled in the last two years.

Of course, with great power comes great responsibility – for the members themselves, for their IFAs – if they have one – and, perhaps most of all, for the pensions administrators who have been looking after their pension plans.

Why administrators most of all? Because in most cases it is the administrator, whether in-house or a third-party provider, who is the gatekeeper and who (accurately and speedily) must:

- Provide the member with the (often many) quotes they ask for
- Ensure the member understands their options
- Help to fend off scammers
- Fulfil the member's ultimate decision

Why is the administrator the gatekeeper? Quite simply because no-one else is in a position to play that role of guide and guardian. Why accurately and speedily? Well, 'accurately' probably speaks for itself – members have a right to expect this and it is certainly in nobody's interests to provide members with information that isn't correct. As for 'speedily', there is an interesting dichotomy here: on the one hand trustees, rightly, place much higher emphasis on accuracy than pace; members on the other hand tend to want it now, particularly where they wish to gain access to the funds they have been building up for decades.

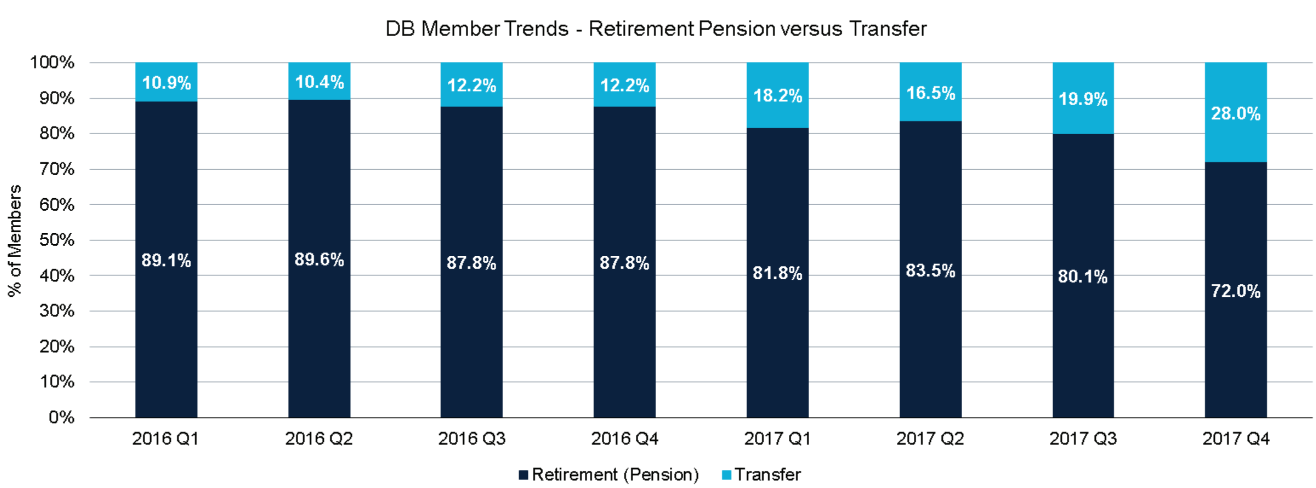
The administrator wants to meet both needs, of course. Accuracy comes from:

- Ensuring that base data is complete and accurate (no mean feat in itself)
- Effective deployment of system automation – to ensure that calculations and output to members are completed consistently every time
- Recognising when data isn't quite right and a part-manual solution is needed

Speed is the trickier bit, simply because of volumes. Freedoms have brought huge increases in member requests for retirement and transfer quotes. This has challenged administrators everywhere as the 'new normal' is so different from what normal used to be. Deployment of greater levels of automation in the everyday administration processes help, of course, but that alone isn't enough.

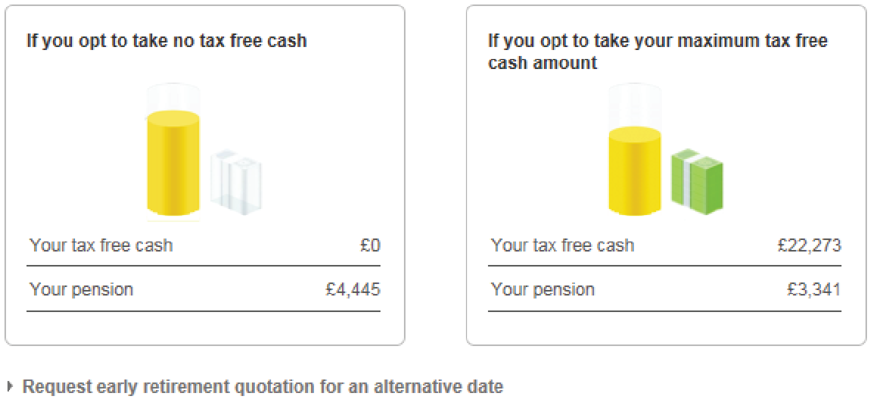
So, what else can be done? Well, at last, after many years of under-deployment in the pensions sector, particularly in the DB world where many

Figure 1



Source: JLT Employee Benefits 2018

Figure 2



couldn't see its value, the web is playing a major role. What better way to reduce the increased demand on administrators than by giving members simple tools to do the work for themselves? By running transfer value and retirement benefits calculations for every member on, say, a weekly basis, storing those results on the administration system and displaying them to the member on the web, we:

- Deal with the extra demand
- Free up administrators to work on the cases that really need their attention and, most importantly
- Enable the member to see their quotes whenever they want to, just by logging on

We can go well beyond that too, giving the member the power to run their own calculations online (see figure 2). Just by tapping in a different retirement date, for example, they can see how their options change – and they can do that as many times as they like, whenever they like. They can save those calculations and print them off for their records and they can request a formal quote by pressing a button which kicks off a workflow process back at the 'administration ranch'.

Of course, not all members want to use the web. Instead they can phone in (see figure 3) and, having used online data verification to confirm that the caller is who they say they are, the administrator can use the same web technology to provide the member with results over the phone. The administrator can then produce a formal quote if the member wants it.

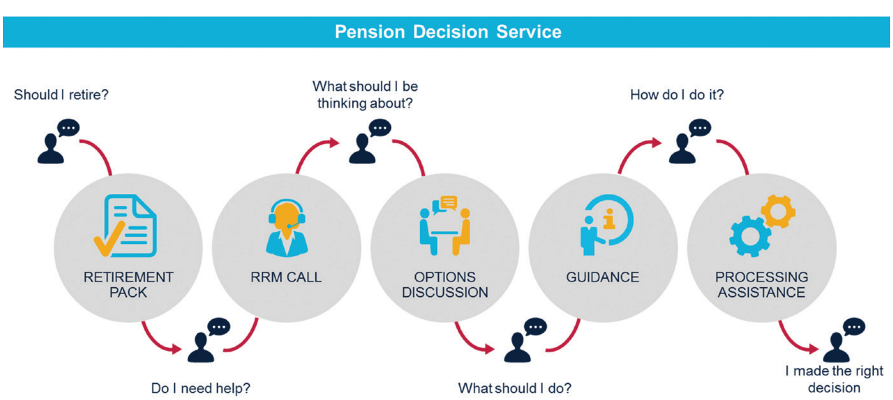
Well, that's how to provide the member with the information they want, but how do we ensure they understand it? At JLT, we offer the member a guidance call with a retirement relationship manager (RRM), an experienced pensions person.

On this call, the RRM helps the member to understand their options and consider their financial needs in retirement taking in to account all the pensions arrangements they have, not just those JLT looks after. The objective is to help the member to come to the conclusion for themselves as to what options are right for them. Of course, some members will benefit from advice, so we help the member to come to that conclusion and explain how they can source advice – their own IFA or unbiased.co.uk are first ports of call.

Once the member has decided what they want to do, the RRM helps them to complete the forms they need to and oversees payment of the benefits that JLT look after. For the typical member who doesn't really understand pensions, this guidance process is a huge help to them. Importantly, it doesn't cost them or the trustees a penny because it is cost neutral for us to manage the retirement this way rather than deal with several separate and disparate enquiries from the member, which can be very time consuming. So successful is it that we now offer it as a standalone service to companies (with a modest cost attached!), not just to our administration clients.

So, freedoms have brought their challenges as well as their opportunities, and administration providers have responded in different ways to these challenges. Some have been innovative and handled them well, others haven't, but ultimately all providers, whether in-house teams or third-party providers, are here for just one thing – to make sure members get the service they want, when they want it. Simple? Simple!

Figure 3



Written by Mark Adamson, director, JLT Employee Benefits

In association with JLT

Summary
• The introduction of pension freedoms nearly three years ago is one of several developments to have pushed up scheme administration workloads.
• While fees often haven't increased in line, this October's GMP reconciliation deadline has created chargeable project work for administrators.
• Robotics and AI could help remove some of the pressure, but the jury's out on whether productivity improvements will be that significant.

Shouldering the burden

As scheme administrators face heavier workloads in the new post-pension freedom era, how are they coping with the pressure?

Workloads incurred by pension scheme administrators have grown steadily in recent years, persuading most DB schemes to outsource to a specialist firm for cost savings and greater efficiency.

The pressures were summarised in 2015 by Accenture Pension Services MD Neil Duncan: "We are seeing unprecedented legislative change, increased financial burden on sponsoring employers, further regulatory requirements for trustees and a shift in public perceptions, employee attitudes and member expectations."

He was commenting as Accenture, administrator for BT's scheme for 15 years, extended the contract to 2023. So eyebrows raised in December when the telecom giant announced it was cancelling mid-term and taking the work in-house rather than transfer it to an alternative third-party administrator (TPA).

While it's not an unprecedented move – in 2004 energy giant BP similarly opted to return its scheme admin in-house – most employers have seen outsourcing as the more cost-effective option. BT's action will likely prove a one-off, predicts of PS Administration managing director David Watkins.

"BP and BT are both very large arrangements with specific corporate drivers not commonly found within the wider market – the scale and funding these employers bring is not the market norm and perhaps create options that wouldn't otherwise be commercially viable," he notes. "Even with that, the decisions they reached may not prove to be the right ones in the fullness of time.

"Outsourcing continues to mitigate long-term issues such as succession planning, the importance of investing in technology, people and process and indeed, future challenges to be presented by legislative change – as well the changes we have already experienced and are collectively resolving."

However, BT isn't the only group pulling the plug early on a long-term contract. Last month M&G Prudential announced its 15-year deal with Capita, which administers its UK life and assurance business including group and individual pensions, will end this July, five years ahead of schedule. However M&G Prudential is opting for an alternative TPA; transferring the contract to Tata Consultancy Services and its Diligenta subsidiary.

A lengthier 'to do' list

Whether in-house or outsourced, the task of scheme administration has grown in complexity. JLT Employee Benefits director Mark Adamson,cites the following factors:

• The introduction of pension freedoms in April 2015.
• The reduction in the lifetime allowance (LTA) the following year.
• The trend of amalgamating smaller providers and resulting competition between decreasing numbers of large admin companies.
• Changes to the annual allowance, which has triggered a need for financial advice from many more people.
• The October 2018 Guaranteed Minimum Pension (GMP) reconciliation deadline. This has created much chargeable project work for administrators, but also uncovered a number of historic data issues needing rectification. Also, delays with HM Revenue & Customs have prevented projects from being completed.

Freedom and choice has required pension administrators to continually adapt process and communications, add Barnett Waddingham partners Paul Latimer and Andy Greig; for example to assist trustees meet their due diligence responsibilities, ensure appropriate regulated advice has been received and in response to evolving pension scam-related activities.

Increased workloads from high levels of transfer quotes requested by members keen to see what the freedoms could mean for them can lead to transaction turnover clauses being triggered, creating unexpected costs for scheme trustees, adds Adamson. "For those clients, when new contracts are negotiated, the clauses have to be changed to take into account the new 'normal' work levels and potentially increasing fees so that trustees can budget their costs.

"On the flip side, some admin providers have been adversely affected where the transaction clauses in contracts related to status changes, as opposed to quotation and query numbers – the number of members asking for quotations has far outweighed the number of members actually transferring – so in these cases administrators have been left with high work volumes, but been unable to increase their fees.

"Increased workloads also dictate new automation, where admin providers try to create efficiencies and so reduce costs – such as automated transfer value in retirement quotes, to prevent the extra work needed when members ask for the two pieces of work separately."

Short-term demand for GMP reconciliation work, the fulfilment of liability reduction exercises (as a consequence of a matured DB market) and increased membership activity post freedom and choice have all contributed to a capacity crunch, reports Trafalgar House client director Daniel Taylor.

Pension freedoms is an interesting area, given the spike in transfers, says Pension Administration Standards Association (PASA) director and Premier Pensions Management head of pension administration Girish Menezes. "In some cases, TPAs haven't charged for the resulting additional transactions but there have also been instances of fees rising by 50 per cent or even doubling to reflect the actuarial work undertaken."

A further outcome of heavier workloads has been some administrators' performance falling short of service level agreement (SLA) targets, says Menezes. "They should hit 96 per cent, but in some cases they're only achieving 80-85 per cent so trustees must decide whether they still regard that as an acceptable level of service," he reports.

Transfer troubles

Pension schemes burdened with a large funding deficit pose TPAs with a dilemma. The risk of a buy in, buyout, or the scheme moving to the Pension Protection Fund (PPF) all threaten the administrator's long-term income. "Trustees also may not have the budget to spend on other services, so with limited opportunity for penetration income and a potential short scheme lifespan administrators may not be able to offer them the lower fees they desire without investing heavily in process re-engineering and greater automation," says Adamson.

"On the other hand, there may well be project work or additional ongoing work which the trustees need the admin provider to carry out as they move to and through de-risking, which may help the provider to balance the commercial challenge."

Recent reports have also highlighted potential risks arising when a scheme changes its TPA – problems in transition can come from either the ceding provider or the receiving provider. Many of the potential issues can be prevented if requirements and timelines are clarified at the outset by the receiving provider and a relationship built at the start of the transition project, says Adamson. "It's rare for ceding providers to act unprofessionally in these situations."

When issues do arise from transition they typically centre on:

- The quality and completeness of data.
- Absence of a data dictionary, which may lead to a lack of clarity over what some data items represent.
- A poorly-documented scheme history.

Such issues means the receiving provider needs to ask the ceding provider questions to provide clarity. This may delay the transition process and can affect the ability of the ceding provider to perform its business-as-usual (BAU) work for the client. Often it's the BAU staff at the ceding provider who are able to answer the questions.

"This can, in turn, lead to backlogs handed across to the receiving provider; making it harder for them to get off to a good start at go-live with the client," says Adamson. "Ideally trustees should work to improve their data and scheme documentation all the time rather than addressing these points during transition, but there's generally a cost attached that they may not be easily able to fund."

Robotics to the rescue?

With admin workloads increasing, could relief be at hand in the form of artificial intelligence and automation? Adamson says the group has already effectively deployed robotics – 300 per cent quicker than a human and able to work 24/7 – to carry out selected processes in large DC schemes.

However, it's not appropriate for all processes, he adds. "Used unwisely, robotics could compromise trustees' desire for a personal bespoke service leading to enhanced member experience. Tasks can be automated, and therefore become quicker, lower risk and cheaper, without removing the people contact aspects that trustees and members value so highly. It is that personal touch that makes all the difference to the member."

Taylor is less optimistic though. "All forms of automation, self-learning and AI have the potential to unlock radical process efficiencies," he suggests. "But in an industry that still struggles to meet the basic demands of members and trustees, this future seems a distant aspiration.

"The DB occupational pensions market is still struggling today with a legacy of benefit calculation inaccuracies and missing data. Only a small number of pension schemes have a website; even fewer drive members to self-service or perform full end-to-end membership management.

"In an industry where today's technology is not being deployed to improve service, it's hard to envisage a future where AI or robotics will be adopted to drive significant productivity improvements."

Written by Graham Buck, a freelance journalist

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