



A cog in the machine

Administration oils the wheels of the pensions machine, making it possible for savers to put money into their pension scheme and eventually take it out. But if an administrator makes even a minor transgression, the machine can be upended.

Administrators have undeniably got busier in recent years. Yet this all-important field does not always get the attention it deserves. In The Pensions Regulator's 2016 record-keeping survey, a quarter of administrators (23 per cent) felt that trustees treated record-keeping and administration as a low to middling priority.

The result is unhappy members. Two of the three top causes of complaints received by public sector schemes are founded in poor administration and record keeping, from disputes about the value of pensions to slow communications, according to The

Summary

- Administrators have got more and more stretched in recent years, thanks to a perfect storm of auto-enrolment, freedom and choice, regulation and technological advances.
- Costs in administration are often the first to get squeezed, despite the extra workload, making investing in automation trickier.
- The Pensions Regulator has warned pension schemes that they must improve standards of administration. Industry experts think that matters are likely to improve as recent seismic changes bed in, but that improving the sector's reputation is vital in order to attract new talent.

► Louise Farrand explores how administrators' increasing workload is making it more challenging to keep 'the pensions machine' running smoothly

Pensions Regulator's public sector governance and administration survey, which was published in May 2018.

"Improving standards of administration in pension schemes is vital to deliver the outcomes that members deserve," said a spokesperson from The Pensions Regulator.

"Administration has featured consistently in our guidance and messaging. We are being far clearer about our expectations and that we will act if standards are not met."

With that warning in mind, what are the issues that are keeping schemes and administrators busy right now?

As McQuade says: “It is a bit of a vicious circle in terms of extra work, pressure to drive down costs, lack of automation, and pressure that is put onto staff because if there isn’t the automation then administrators have to pick up the slack. If you put more people under more and more pressure, they make more and more mistakes.”

Teething problems

The fast-growing master trust sector has had its fair share of high-profile administration problems in recent months. In June 2018, The Pensions Regulator fined autoenrolment.co.uk £15,000 for omitting to report that £900,000 of contributions had not been paid by employers and that members were not advised of the issue. NOW: Pensions has also been fined several times for administration errors, most recently in January 2018.

Many master trusts were launched from scratch in response to employer demand for simple and effective auto-enrolment solutions. Yet that inexperience can show.

As Baker says: “If you had a good automated system, [*things like member benefits statements*] would fall into place but if you were processing any of that manually, that would hurt. I am sure that some of the smaller master trusts that didn’t have good existing underpinning technology and the wherewithal to invest in top-end technology would have found that quite difficult.”

McQuade summarises: “If you haven’t got controls in place from day one in DC, once you have made a mistake, everything just compounds and compounds going forward. There is a lot of argument that DC is just like running a bank account. But that means you have to have the right data, the right processes, the right checks and controls in place from day one. If you make mistakes on day one, the correction process can be an absolute nightmare.”

The master trusts that were prescriptive from the start are likely to be more successful, says McQuade. “The master trusts that were firm from day one in saying, we are happy to be your provider but if you come to us the data has to come in this format, and be submitted through this portal and if the data you send us isn’t validated we will reject it – all of these things put an onus back on the employer to get things right. Once it’s right, there should not be any human intervention. It should be straight-through processing.”

Master trusts could face more challenges in the future, says KGC Associates’ founder and director Kim Gubler, who is also deputy chair of the Pensions Administration Standards Association (PASA). If master trust consolidation happens, large amounts of data will be moved across the industry, creating challenges for third party administrators.

Transfer requests

DB scheme administrators have experienced a sharp increase in DB to DC transfer value requests because of freedom and choice. KGC Associates asked administrators what areas were most impacted by freedom and choice. Transfer quotes were at the top of the list, with 76

All the pain, little gain

Auto-enrolment has presented administrators with a plethora of challenges. “A big challenge of auto-enrolment is finding ways to double administration services without doubling the cost,” says Aquila Heywood’s market evangelist, Chris Baker. “Most of our clients were targeting no more than a 10 per cent increase in cost. The only way you can do that is through automation and technology.”

Yet administrators have not always had the capacity to make the investment. “Over the years, costs have been squeezed,” says Muse Advisory director Ian McQuade. “Administration has always been a very visible expense. You pay an awful lot more to fund managers than administrators. But [*investment management*] is wrapped up in an annual management charge and historically that hasn’t been looked at with the same rigour. Administration is a pound cost and if you can save 5 per cent then that’s a great result for a scheme.”

Despite rapid advances in technology, for some administrators, automation has dropped. As new legislation has put in place, if the necessary information isn’t automated into standard member communications, administrators can find themselves manually dropping in extra paragraphs, adding time and effort to the process.

per cent of respondents to KGC's 2017 Administration Survey citing it in their top three.

"Transfers are becoming massive ... they are the area that concern trustees the most when we sit down and talk about it," says Broadstone's technical director, David Brooks. Administrators need to have systems in place for the transfer requests they are receiving, he adds.

Just how many transfers are happening? DB schemes reported approximately 72,200 transfers out, with approximately £14.3 billion being moved, between 1 April 2017 and 31 March 2018. The Pensions Regulator divulged in response to a Freedom of

scheme returns. The data score is calculated as the percentage of scheme members that have present and accurate common and scheme-specific data. Common data is basic information about a member, like their name and national insurance number. Scheme-specific data varies from scheme to scheme but may (for instance) include a history of pension contributions, and the value of the member's pension.

The requirements are strict. Even if just one data field is missing, that member is marked as a fail. Again, the bulk of this work is likely to fall on administrators.

Admin in the 21st century

These days, people are used to instant digital gratification, but pensions have been slow to catch up. "This changing demand creates a need for systems to potentially support required processes such as online identity verification, compliance checks and payments. And conceptually, this will not stop at web-related activity.

"In fact, providers are already considering how to answer the question 'Alexa – how much is my 'X' pension worth today?', highlighting that pension administrators are considering

how to meet member expectations that transactions should happen instantly," says Capita Employee Solutions' client relationship director, Geraldine Brassett.

Creating these solutions comes with challenges, says Smart Pension's chief operating officer, Jamie Fiveash. "Administrators will only remain competitive if they can deliver automation and digital solutions for customers at scale. There will also be increased focus going forward on greater member engagement and integration with other digital platforms. However, re-platforming and scheme consolidation exercises, especially where data

migration is involved, always comes with significant risk. In addition, the importance and regulation surrounding data security and protection will only increase."

Admin solutions

How do you solve a problem like administration?

It's important to keep the DC growing pains we have seen in perspective, said one industry expert. "We haven't had vast numbers of horror stories about administration. Service has been good – there have been a few outliers and a few issues. But you think about the number of people who have been taken on, it has been relatively hassle free."

Another part of the solution is in administrators making sure they are sufficiently resourced, says Gubler. The field might need to shed its less-than-glamorous image to attract the best talent, especially in a competitive environment, she adds. "I was speaking to a chap last week who left university to be a pensions administrator – amazing!"

Gubler adds: "I hate the word 'administration' because it conveys a very low level, low intellect, bureaucratic department with people with quill pens. Modern administration is very different, and it should be perceived as the profession it actually is. If the industry wants to attract really good people into administration, it is going to have to make it an attractive career."

Written by Louise Farrand, a freelance journalist

Information request. The regulator estimated that the real number may be more like 100,000 transfers. These figures just report actual transfers; the number of requests for transfer values is likely to be substantially higher, placing a huge burden on administrators.

Data minefield

Whether DB or DC, schemes have had to tackle new regulation like the General Data Protection Regulation (GDPR), which The Pensions Regulator pinpoints as a particular challenge for administrators.

The regulator also highlights the fact that from 2018 onwards, schemes must report their common and scheme-specific data scores in their annual