



Summary

- In-house operations are vulnerable to staffing issues, but does offer trustees control.
- Outsourcing can leave trustees feeling they have a lack of control, but provides a dedicated team focused on admin regulations and technology.
- Scheme administration is likely to remain in the spotlight ahead of advances in digitisation and regulation of pension schemes.

The big outsourcing question

➤ Duncan Ferris looks at scheme administration, examining why some like to keep things in house and others favour calling in a third party

Good pension scheme administration is essential for interfacing with members, adapting to regulatory changes, keeping on top of data and much more besides. But how do trustees pick between handling administration in house and calling in a third party to manage things?

Figures from The Pensions Regulator (TPR) indicate that third-party administrators (TPAs) are very much in vogue. Defined contribution (DC) schemes are increasingly likely to use TPAs, with the proportion rising from 41 per cent to 53 per cent between 2012 and 2018.

Over the same time period, the proportion of defined benefit (DB) and hybrid schemes opting for TPAs remained high and consistent, sitting

pretty at around 84 per cent and 88 per cent respectively. While these trends point towards the growing popularity of TPAs, managing the day-to-day running of schemes in house can offer some perks to trustees and members.

In house

The major advantage of keeping things in house is that trustees can exert more control over operations. Service level agreements (SLAs), which outline targets for TPAs, are not needed and communication between trustees and administrators can be slicker if they are all under one roof.

Outlining this, Premier Pensions head of administration, Girish Menezes, says the use of an in-house team affords a trustee board increased freedom, such as the choice between running “a

minimal service run on spreadsheets and paper files” or investing in platforms, automation and staffing.

However, complications can easily arise for in-house operations when it comes to the issue of manpower. Scheme administration is often the responsibility of a small number of individuals, sometimes even a single person, meaning that periods of absence or key employees leaving can cause major disruption.

This places smaller schemes at particular risk, while larger schemes with dozens of administrative staff are more likely to be able to cope.

The in-house strategy can also rack up significant costs, from investing in software and technology updates, to keeping on top of member data or complying with changing regulations. Menezes states that while some trustees will “invest significantly on a one-off basis to fully automate their pension administration”, long-term costs can quickly exceed budget expectations.

Third parties

So, what are the motivating factors behind handing over the reins of administration to an outside workforce? Muse Advisory chief executive, Ian McQuade, says schemes shopping for a TPA are looking for a firm that can get the basics right, focus on members' experiences, offer high levels of automation and commit to "innovation and continually developing what they do". However, he cautions that clients should remain engaged even after outsourcing administration.

"The administrator should be a strategic partner – they are a critical part of the end journey for DB schemes, and central to the delivery to members in DC schemes – so it is important that the client and trustee also invest in the relationship and think about how they work with their administrator, manage them and monitor their performance," he says.

When it comes to the benefits that TPAs can offer, Equiniti EQ Paymaster chief executive, Duncan Watson, argues they give schemes access to a "consistently expert resource pool" that minimises the potential risks posed by key staff moving on.

He also points out that TPAs are better equipped to deal with "peaks and troughs of demand" and can allow schemes to keep up to date by offering access to "supported technology systems and innovation".

"TPAs are also a specialist resource that schemes are able to call upon at times of need. For example, administrators can help schemes with their data cleansing, GMP rectification and GMP equalisation requirements, while also bringing an expert knowledge of technical and legislative requirements that can prove crucial in day-to-day scheme management," adds Watson.

While these benefits have proved attractive, and seen some schemes flock to TPAs, some still favour the internal approach.

Making the leap

The BT Pension Scheme, which is worth more than £50 billion, began to transition from a partnership with Accenture to providing its own administration services in May 2018, bringing its contract with its TPA to an end five years early.

BT Pension Scheme chief administration officer, Simon Langworthy, says the change was made following feedback from members, adding that the trustees "felt constrained" by the outsourced model.

Langworthy explains: "Taking the administration in house enabled us to move away from a traditional time-based SLA model that most TPAs contracts use, giving us the freedom to develop our own KPIs [*key performance indicators*] that are based more around quality and member experience and drive the 'member first' behaviours we want from our administration team.

"In our view, an incorrect quote, written in a language that a member cannot understand, which is sent quickly, is not as good as a correct quote, written in a clear and understandable way, that takes a bit longer to arrive. Better still, a quote that's available on demand via whichever channel the member wants, supported by a call centre staffed with knowledgeable, helpful people."

But when trustees decide to switch from one method of administration to another, it's inevitable that complications can arise. When making the leap to a TPA there might be teething problems with communication. On the other hand, bringing scheme administration in house is likely to require recruitment of qualified individuals and investment in new technology.

In the case of the BT Pension Scheme, Langworthy says the scheme inherited a "largely temporary" workforce from Accenture and hired more than 50 permanent staff in the first year after transition.

"We've had to fully integrate this new team overhauling management,

structures, staffing, training and service protocols into our operation. We still have work to do but we've made huge steps forward," he adds.

The future

Scheme administration has come under increased focus in recent years, what with the introduction of GDPR and the growing scrutiny for accurate data. This attention appears unlikely to relent as the arrival of the dashboard remains hotly anticipated and GMP equalisation guidance is expected to be released by HMRC later this year.

Watson says he expects that the emergence of the dashboard, coupled with "greater use of digitisation" and cost pressures, will lead to an increase in the number of schemes that opt to use TPAs.

However, he adds: "It is likely that administration firms will have to recognise that there is a growing trend for pension assets to move away from pension 'schemes' and into master trusts and other pension or drawdown products offered by providers, and so the nature of the vehicle being administered will change."

Menezes comments that the market is facing pressure from the attentions of The Pensions Administration Standards Association and TPR, stating that the former is doing a "sterling job" in raising the profile of pension administration and the latter is focused on the "systems, processes and quality of data that are in place today".

"My expectation is that in the future there will continue to be very large schemes, where they may find that even if they do not have the economies of scale, they are large enough to make the premium investments to make their pension administration work. For the rest, most schemes will either wind up or move to an outsourced arrangement," concludes Menezes.

 **Written by Duncan Ferris**