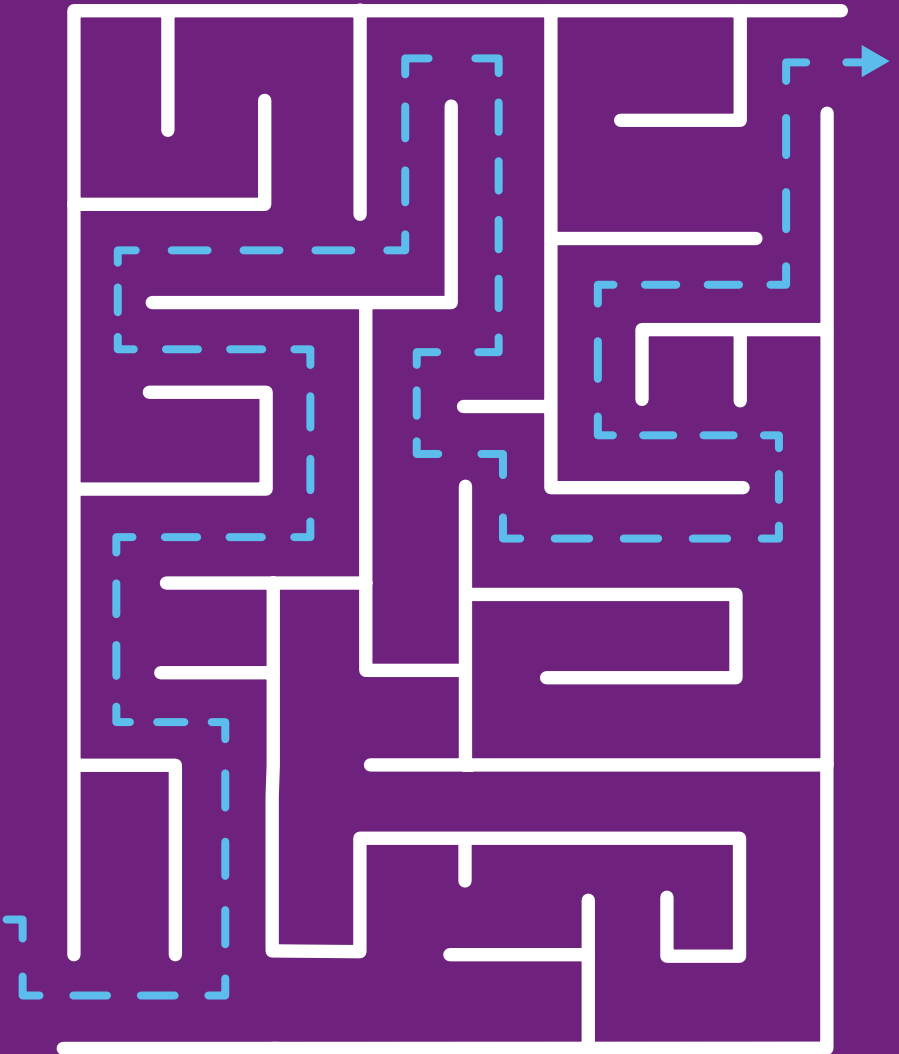


Today's 10 biggest pensions administration challenges – and ways to tackle them

The pensions environment is always changing. This evolving landscape creates challenges for scheme administration – some brought about by legislative requirements, some by new opportunities to derisk or improve scheme performance, and some by the need to embrace best practice in scheme management.

Here we look at the 10 biggest pensions administration challenges and ways schemes can address them.

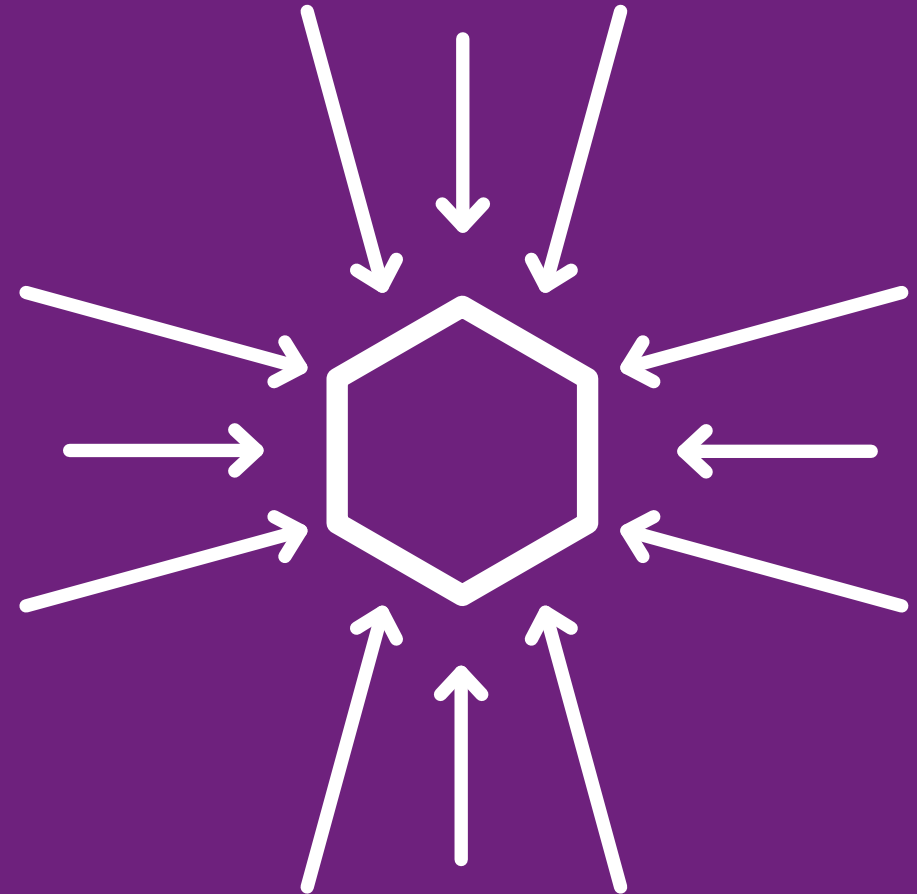


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Regulatory / external factors



Scheme management

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Regulatory/external factors

The need to carry out GMP reconciliations

In Aon's **2015 Pensions Administration Survey**, GMP reconciliations were — by a significant margin — the biggest administration issue for schemes and trustees. 22% cited GMP reconciliations as their priority.

- In December 2018, HMRC will write to all scheme members for whom they hold details of a GMP liability advising them of the amount, payment date and scheme responsible for payment.
- Schemes need to look at their GMPs in payment — as well as their deferred and active members' GMPs — and reconcile them to ensure they are paying the correct amounts.
- Reconciliations can have a number of positive outcomes for the scheme, including:
 - Minimising member enquiries and set accurate member expectations
 - Achieving more accurate scheme liabilities and actuarial valuations
 - Reducing data risk premium loading if considering a buyout
 - GMP data being ready for the inevitable GMP equalisation requirement
- But you need to have accurate data in order to carry out the exercise. Schemes should not underestimate the amount of preparation work needed before they can carry out a reconciliation.

Recommended action: if you have not already done a GMP reconciliation, make it a priority. Cleaning up your data is a vital first step.



If you want to know more about GMP reconciliations, our video, **'Reconciling GMPs: how to get it right'** is a good place to start
Or [click here](#) for further information on how Aon can help.

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Regulatory / external factors

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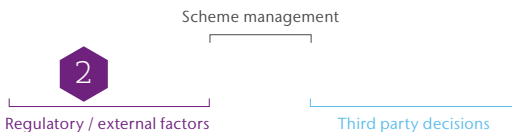
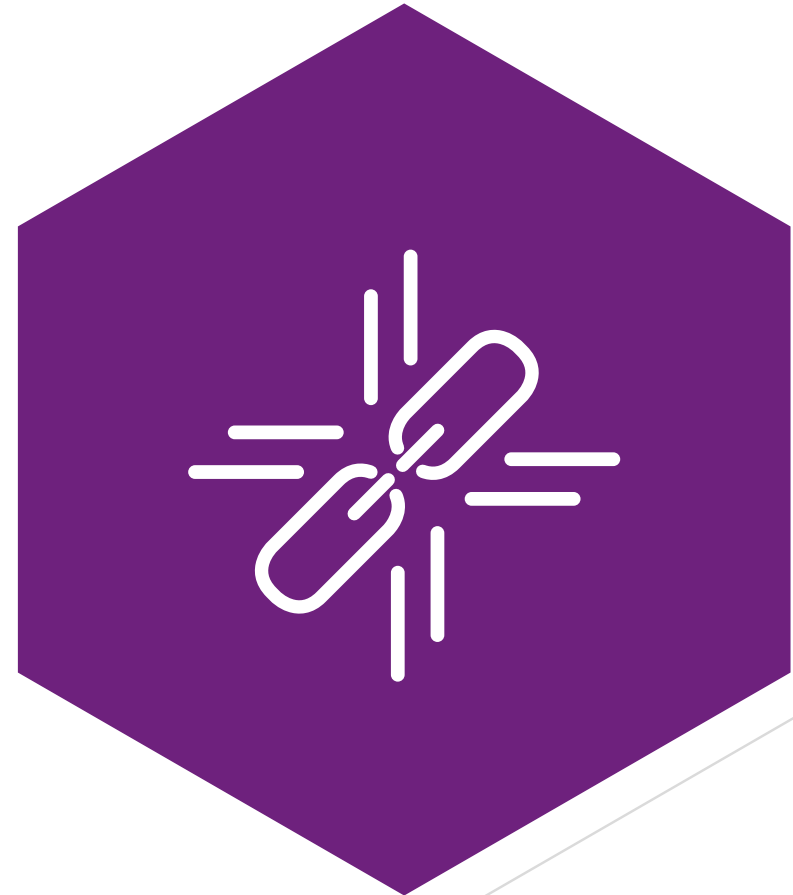
Regulatory/external factors

Responding to pensions freedom and choice

Pensions freedom and choice, introduced in the 2014 Budget, means that schemes need to give members choice over the way they take their benefits.

- Communicating with members in a clear, timely and targeted way is key if you want people to understand your messages and take the best course of action for their circumstances.
- But this is dependent on having data that enables you to segment your membership – for example, according to age or by time to retirement. Nearly a third of respondents to our **2015 survey** did not know how many members would be 55 in the next year.
- Segmenting member communications ensures they resonate with each member’s aspirations and priorities and deliver appropriate messages at each stage of their membership. This will be crucial to delivering what is needed around Pensions Freedoms, as well as more widely at every stage of an employee’s scheme membership.
- Making members’ options clear to them is essential. If they can model the impact of their choices, all the better. Some firms provide retirement modellers that make it easy to see how different options affect retirement income. If these are user-friendly and clear, they can make a big difference to member understanding. [Click here](#) to learn about the Aon Retirement Options Model.

Recommended action: ensure your scheme communications are good enough to allow members to make the most of the new freedom and choice opportunities. Investigate whether your administrator can provide you with a modeller that helps to make member decisions easier.



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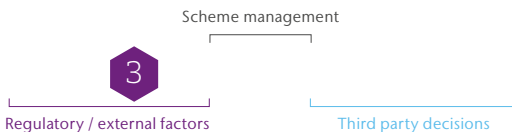
Regulatory/external factors

The need to meet new Standards of Recommended Practice (SORP) for pension scheme accounting

The implementation of the new **Standards of Recommended Practice (SORP)** for pension scheme accounting increases the complexity of scheme accounts.

- Although some of the changes might seem technical in nature, they have significant implications for trustees, pensions managers and those preparing scheme accounts.
- More information will be required in future from third parties, such as investment managers. This means that longer lead-in periods need to be built into the preparation of scheme accounts.
- The additional content required under SORP (2015) is expected to add significant volume and additional pages to the annual reports and financial statements of the average pension scheme.
- Check that your administrator is able to support you in meeting the new requirements. Do they have the specialist expertise required to deliver the data needed, without impacting on your core administration? They will need to have plans in place to liaise with the other scheme advisers.

Recommended action: make sure you understand the impact of SORP and your administrator's ability to deal with the requirements.



3

Regulatory/external factors

Ensuring your scheme administration supports your derisking plans

Our annual **Risk Settlement Market Review** shows that the risk settlement market continues to go from strength to strength. Longevity swaps and bulk annuity transactions are being used by an increasing number of companies to remove risk from their DB pension schemes.

- However, a lack of accurate data has the potential to thwart schemes' ability to maximise some of the opportunities available to them.
- Quality data underpins the success of almost every aspect of running a pension scheme, and derisking projects are one of the prime examples.
- If schemes are serious about their intention to derisk, they need to be able to take advantage of market conditions (such as favourable pricing) and be capable of acting when the occasion arises.
- It is also important that liabilities are accurately represented and that members can be contacted where necessary. Clean data is essential for this – and missed opportunities and unrealistic buyout quotes are the expensive long-term alternative.
- Good project management and governance are also essential – both in preparation for derisking exercises, and for administration efficiency in general.
- Your administrator should be able to support your derisking exercises, including projects on trivial commutation, enhanced transfer values, pension increase exchanges and bulk annuity purchases. Do they have a dedicated team to help you with this? Are their processes and technologies best practice?

Recommended action: ensure your administrator has the skills and capacity to support your derisking projects. Can they tap into complementary skills to help you derisk, or carry out other projects that depend on scheme data and quality administration processes?

The need to support derisking projects is just one of the reasons why schemes are looking for providers who can deliver an integrated offering, as we explain in [this video](#)
Or [click here](#) for further information on how Aon can help.



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Scheme management



Scheme management

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Scheme management

Ensuring the quality of scheme data

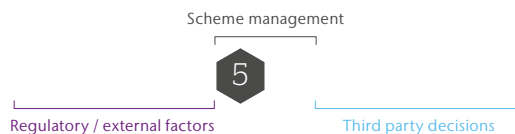
Scheme data underpins every communication or member project a scheme carries out. It is particularly important for a GMP reconciliation or derisking exercise.

- But often, the poor quality of this data impedes schemes' ability to use it effectively, adding to the cost and time of projects – or in the worst cases, rendering them impossible.
- To tackle this, we recommend that schemes carry out a data cleanse exercise every 12 months.
- This fits with the Pensions Regulator's guidance on data quality standards and record keeping. The Regulator recommends that data is regularly tested and maintained.
- A good administrator will work with you to assess your data, presenting findings and recommendations and providing innovative and value-added cleansing solutions.
- Once you have your data up to scratch, periodic or annual data assessments will ensure that it does not deteriorate.
- This will deliver clear benefits:
 - Avoid added costs or missed opportunities
 - Ensure that all members 'in scope' are identified and contactable
 - Improved valuation accuracy
 - Better transparency of the fund's details, allowing trustees, sponsors, members and regulators to make decisions based on more accurate information
 - Compliance with the Regulator's record-keeping guidance

Recommended action: if you have not undertaken a data cleanse in the last 12 months, you should do so. Ask your administrator how they can help you with this.



Find out how you can become a data-ready pension scheme in our [short video](#).
Or [click here](#) for more information on how Aon can help.



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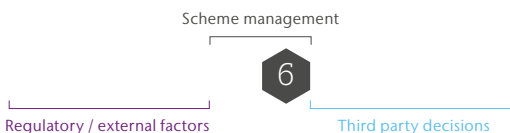
Getting communications right

As we have said, a segmented approach to communications is essential if schemes are to meet member expectations.

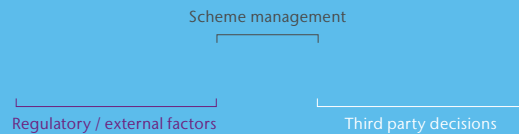
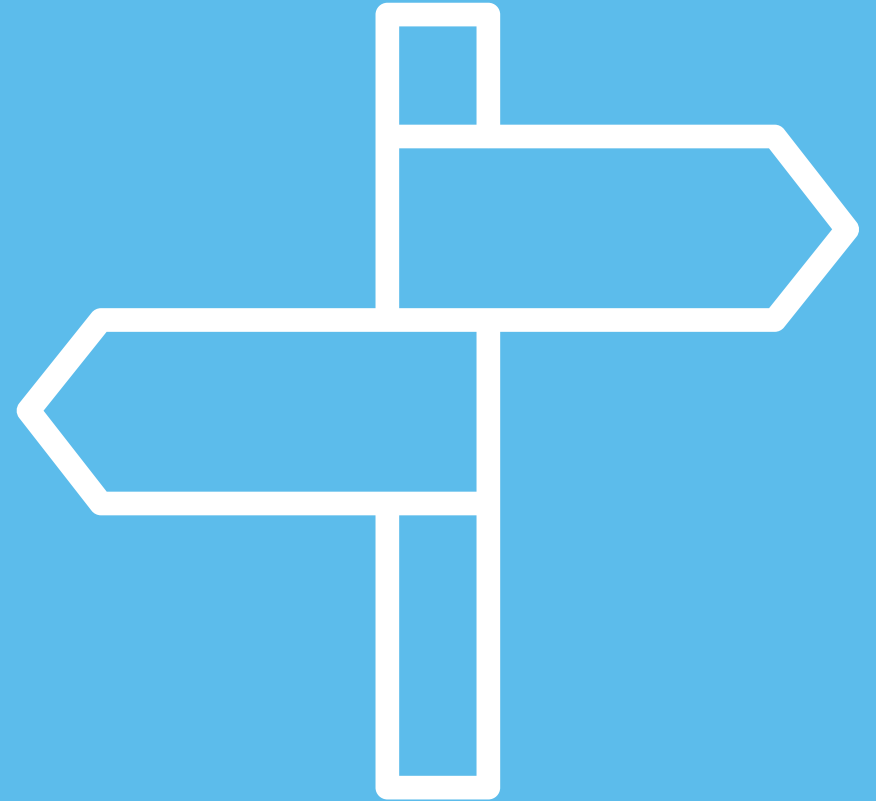
- In our **2015 survey**, we asked how employers and trustees would spend an unlimited administration budget. The vast majority said they would spend it on communications or projects to increase member and employee engagement.
- This is no less of a challenge in 2016 – probably more so, as the Pensions Freedoms become a reality and the complexity of pension provision and choice continues to grow.
- As we have outlined, data is the foundation of any communications project and clean data is essential if you want your communications to be relevant, noticed and acted upon.
- Once you've tackled the data, the way you communicate is essential. Segmentation, using techniques prevalent in consumer industries, has a huge impact on communication success.
- Getting a team of experts to manage this can help – they can provide the winning formula when it comes to effective pension communications. Outsourcing enables you to tap into specialists' broad experience and can show its real value by helping you to achieve the best results from your scheme communications.
- If you want to improve members' experience when they contact you, consider using a customer service centre. Particularly when members are facing change, having a dedicated service centre to take their calls can be invaluable.
- A professionally-run service centre defuses member concerns with a high level of first-time call resolution, minimising repeat calls, giving members reassurance and improving their experience.

Recommended action: audit your communications, identify what you can improve and consider making use of external experts to get you ready to start as soon as your data is clean. Make sure any external communications provider takes the time to understand your scheme strategy, your members and your communications goals.

Consider the option of a customer service centre, particularly if your scheme is undergoing substantial change. Or [click here](#) for further information on how Aon can help.



Third party administration decisions



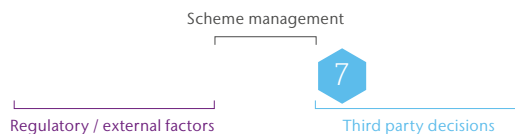
Third party administration decisions

Making sure your budget is in line with your expectations

Cost was the primary driver for outsourcing in our **2015 survey**. But schemes need to be realistic about the costs of outsourcing. A 'race to the bottom' on price does not help anyone, and schemes have sometimes been disappointed by what can be delivered for a set price.

- If something looks too good to be true, it usually is, and this is as true in pensions administration as elsewhere.
- Can a potential administration provider really deliver everything they are promising for the price quoted? It can be worth digging into the details of a proposal to ensure that everything will be delivered as you expect. And be wary of providers offering the earth for a very low fee.

Recommended action: whether you are quoting for a specific project or a change of administration provider, don't be afraid to ask for a clear breakdown of cost. Ensure you know how and when your service will be delivered, as well as any dependencies or service efficiency projects still in development; what is included in the core fee and what you will pay for as an 'added extra'.



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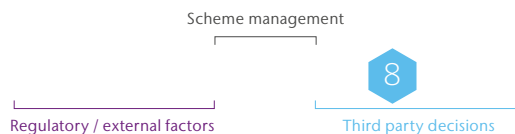
Third party administration decisions

Ensuring you do not skimp on quality of service

Obviously, member service is one of the most important considerations when outsourcing scheme administration.

- Service quality and price are usually related – yet despite 46% of our **2015 survey** respondents recognising this, 40% were not prepared to pay more for a better-quality service.
- If you are outsourcing for the first time, or looking to change provider, do not forget about the play-off between quality and price. Good-value administration is not the same as low-cost administration.

Recommended action: ensure any decisions you make recognise the link between quality and price. Lower-price is not necessarily bad – it can be the right choice for some schemes. You just need to make sure your expectations are in line with the fees you pay.



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Third party administration decisions

Ensuring you have the best delivery model for your needs

Getting the most appropriate delivery model is one of the keys to ensuring your administration is a good fit — price-wise and service-wise — for your scheme.

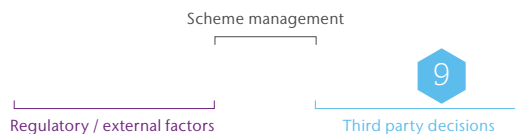
Reliable service at a reasonable price is quite possible in pensions administration — but schemes need to be open-minded about the way that service is delivered:

- Choosing standardised service delivery over bespoke options
- Being open to the advantages of offshoring
- Exploring the use of service centres or call centres
- Increasing the use of member self-service

All of these can enable schemes to benefit from economies of scale. As a result, you can achieve a high-quality service at a cost you find acceptable.

An administrator using a ‘centres of excellence’ approach can often deliver best practices developed for larger schemes at a reasonable cost for smaller schemes.

Recommended action: double-check your service delivery model. Is it right for you? If it is over-engineered or more bespoke than you need, revisit it to see if you could achieve better value. Be open to options like standardised service delivery – they can have a positive impact on cost.



Third party administration decisions

Getting the right offering from your provider

Many administration providers can deliver far more than just scheme administration. And in the **2015 survey**, 45% of respondents wanted a provider that could do administration as part of a wider, more integrated offering.

- Actuarial consultancy, investment advice, fiduciary management, communications, data support services – many providers can deliver an entire package of services.
- This can help schemes to achieve economies of scale – and therefore have a cost benefit – as well as ensuring providers have the full picture when it comes to a scheme's members, needs and preferences.
- Make sure your current or prospective provider can deliver what you need. Do they take the time to talk to you and understand your needs and aspirations for the scheme? Are you confident they have the capacity – both in terms of skills and bandwidth – to deliver what you need?

Recommended action: if you would like a wider service from your administration provider, look at what they can deliver. If they are not able to bundle up a number of services, identify providers that can and explore the options available.



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Our video on why schemes are increasingly looking for integrated offerings has more thoughts on how to go about this.

Scheme management

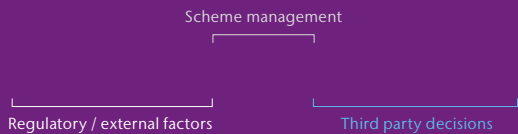
10

Regulatory / external factors

Third party decisions

We hope this has given you some food for thought about the challenges you face, and the ways you can tackle them. You can find out more and read our latest articles and whitepapers on [our website](#).

Alternatively, please contact us on 0800 279 5588 or at talktous@aon.com, or get in touch with your usual Aon contact.



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