

CAPITA HARTSHEAD



17th Annual Pension Scheme Administration Survey 2010

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May 2010

1.0 Introduction and Survey highlights

Welcome to the 17th Annual Pension Scheme Administration Survey.

This year's Survey has been completed by 414 public and private sector schemes, with a combined pension fund asset value of over £297 billion, and answering more questions than ever before, this year's Survey is our biggest yet. The results give a valuable insight into the business of pension administration.

The credit crunch has left a lasting impact, and although things in the world financial markets are starting to look up, it could be some time before we start to see a true recovery. As such, keeping costs down continues to be an important consideration for many schemes. With considerable cost savings to be had from outsourcing, particularly for larger schemes, the Survey shows a growing trend in the willingness of pension schemes to consider this option for the first time. With the possibility of auto-enrolment looming in the not too distant

future, the decision to outsource is again being reviewed by in-house teams.

Auto-enrolment and NEST are not the only challenges facing many pension schemes. Over the years a clear and steady shift to defined contribution schemes from defined benefit schemes has been obvious. This trend looks set to continue and many schemes acknowledge that the administration involved in handling defined contribution schemes can often be much more complex.

In previous Surveys we have seen that in most service areas, defined benefit scheme administration performs better against targets than defined contribution. However, this year, the Survey also shows an increase in both the quality of service and the perception of the quality of service received through outsourcing.

As with previous Surveys, we have included a statistical appendix, which contains all of the data used to compile the Survey, so that you can see the facts and figures for yourself.

Finally, I would like to thank all those schemes and individuals who took the time to complete the Survey. Your response has also supported the Capita Macmillan Cancer Support Kilimanjaro Climb which took place earlier this year. Capita Hartshead made a donation of £2000. And of course our thanks also go to Underline Marketing and Research for carrying out the Survey on our behalf.

I hope that you will find the results interesting and informative.



Mike Addenbrooke
Managing Director, Capita Hartshead
May 2010

Survey highlights...

Some key highlights of this 17th Annual Pension Scheme Administration Survey Report are as follows:

- **Administration inflation:** for most schemes, administration costs have increased by between 5 to 7% over the past year. However, most schemes continue to benefit in cost terms from third-party administration.
- **Swing to outsourcing in tough economic conditions:** a third of in-house administered pension schemes responding to the Survey have never considered using third-party administration. However, of these, two-thirds (up 35 points from a year ago) say they are likely to consider a change to third-party administration in the future.

Over a half of defined contribution schemes have reviewed their existing third-party arrangements in the last three years alone, with a quarter changing administrator following a review, indicating a high level of competition in the third-party administration market.

- **Pension trends in the year ahead:** many defined benefit schemes anticipate further one-off contributions and increases in regular employer contributions, as well as further scheme closures to new entrants and future accrual.

Amongst defined contribution schemes, half the schemes plan to introduce new investment funds and options. Many schemes of both types expect to introduce salary sacrifice arrangements in the year ahead.

- **Auto-enrolment and NEST:** given the move to auto-enrolment from 2012, some 51% of schemes (up 17 points from a year ago) now say they are likely to revise current scheme benefits to hold down costs.

22% of defined contribution schemes say they may opt some employees into NEST rather than auto-enrol these employees into their company scheme, and 10% may close their existing arrangements entirely in favour of NEST.

- **Challenge for trustees:** the ranking of scheme risks faced by schemes and the mitigating factors to address them is different between defined benefit and defined contribution schemes, highlighting the difficult and different challenges for trustees who are often responsible for managing both types of schemes with limited resources and time.

- **The Pension Quality Mark:** there has been an increase in the awareness and understanding of the Pension Quality Mark, showing that administrators are taking into account broader quality considerations.

The Survey supports this showing that good service standards and quality target deliveries have improved – 31% of services were rated as having delivered a service considered to be above expectations.

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2.0 Executive summary



2.0 Executive summary

This 17th Annual Pension Scheme Administration Survey, commissioned by Capita Hartshead and undertaken by Underline Marketing and Research, is based on the responses of 414 public and private sector defined benefit and defined contribution workplace schemes to a questionnaire issued in paper form and online in February 2010.

The schemes that responded manage pension fund assets exceeding £297 billion, with a total membership of 5.4 million lives. The sample represents schemes holding around one quarter of total pension fund assets, together with a number of public sector arrangements, representing a significant proportion of the members presently covered by UK occupational schemes.

As well as exploring pension scheme administration trends, this year's Survey also examines views on the Government's NEST (National Employment Savings Trust) reforms and auto-enrolment (both presently due in stages from 2012), as well as trusteeship and governance issues.

Survey sample

- This year's Survey found further evidence of defined benefit scheme closures to new entrants (and in some cases future accrual), with more expected in the year ahead – 76% of private sector schemes are closed to new entrants and 13% to future accrual.
- The Survey found that 71% of organisations in this sample have established defined contribution arrangements – a third of which have been opened in the last 5 years.
- 31% of employees are not members of any of the workplace pension arrangements that are offered (up 3 points from last year).
- Over the last five years, 74% of defined benefit schemes (as opposed to 34% of defined contribution schemes) say that the total cost of managing their pension scheme(s) has grown at a faster rate than other business overheads.

Administration cost inflation: most schemes in 5 to 7% band

- For most schemes, administration costs have increased by between 5 to 7% over the past year.
- For schemes with more than 2,000 members, third-party administration continues to provide cost savings (£3 to £6 per member per annum) in comparison with in-house arrangements.

Reliability of service remains top reason for continuing with current administration

- Overall, 'reliability of service' remains the most important reason given for continuing the current form of scheme administration (ranked first by both in-house and third-party administered schemes), with 'specialist staff' as their second most important reason.

Growing unison in reasons for choosing a third-party administrator

- Overall, 'experience of the organisation' is again ranked first by both third-party and in-house administered schemes as the most important factor when choosing a third-party administrator.
- Beyond this, there is a coming together in the factors viewed as the most important in the selection process. Both in-house and third-party administered schemes see 'specialist technical support' as the next most important factor, with the 'reputation of the company' and 'financial strength' both figuring in the top four of both lists.

Service standards showing marked improvement from a year ago

- Since the series began, many more schemes (now well over 90%) have moved to spell out turnaround times for key administrative tasks.
- Over nine out of ten schemes also now operate to set service standards that are incorporated into agreements with administrators and/or trustees.
- Two-thirds of schemes say their administration service includes the measurement of end-to-end processing times, with this (as with service agreements generally) more prevalent amongst third-party administered and defined benefit schemes.
- In the majority of service areas, there has been a considerable increase in service targets being exceeded by both in-house and third-party administered schemes, with service failures most apparent across all schemes in the area of 'reduced management time' devoted to pensions, as was the case last year.
- Across most service areas, defined benefit

scheme administration performs better against targets than administration in respect of defined contribution schemes. As a result of the TPRs guidance issued in January 2009, close to 7 out of 10 schemes say they have undertaken a formal exercise to improve the quality of data, with the aim to improve defined contribution scheme administration.

- This year, 97% of schemes achieved or exceeded their target for service in terms of overall member experience, with, encouragingly, more service measures moving into the 'exceeded' box compared to last year.

Communications: spending generally lower than last year

- Spending on scheme communications is generally down from a year ago, with six out of ten schemes spending under £20,000 per annum.

- The majority of schemes continue to use paper-based documents to communicate pension information to members, supplemented by web-based communications, where shortened annual reports, newsletters, summary funding statements and scheme booklets were the most popular documents in this medium.
- Reflecting the growing trend in web communication, 73% of schemes (up 12 points from a year ago) now have a website, with over a half offering interactive features and a third offering comment or feedback options.
- Over half the schemes with web access say this has improved the overall member experience, but on average just 22% of members actively use the facility.
- Just over one in four schemes provide web-enabled access to members' individual records.
- Reversing the situation of a year ago, two-thirds of schemes say their current level of communication with members is 'good' or 'excellent' (as opposed to just one-third a year ago).

In-house administered schemes: resistance to outsourcing falls away

- A third of in-house administered schemes responding to the survey have never considered using third-party administration. However, of these, two-thirds (up 35 points from a year ago) say they are likely to consider a change to third-party administration in the future.
- A third of in-house schemes say they are considering a review of their system provider in the near future, considerably up compared to last year.

Third-party administered schemes: frequent reviews keep sector on its toes

- The principal third-party providers continue to be specialist administrators or consultants/actuaries offering administration as part of a wider spread of services. This situation is less accentuated for defined contribution schemes where just over half of these schemes are administered either in-house or by third party providers.
- 51% of third-party administered schemes (up from 39% two years ago) say they outsource because it is the wider business strategy of the sponsoring company to outsource non-core activities.
- Only one in ten schemes presently use offshoring for any part of their pension administration. A minority prepared to consider more offshoring in the future, primarily in back-office/payroll areas rather than where direct member contact is required.

- Over a half of defined contribution schemes have reviewed their existing third-party arrangements in the last three years alone, with a quarter changing administrator following a review, indicating there is a high level of competition in the market.
- Almost all third-party administered schemes now have a formal contract for administration, with the most common contract periods being rolling contracts or for periods of between three and five years.
- The Survey continued to find a very wide variation in the methods of charging for outsourced administration. 'Per capita and annual management charge only' and 'fixed price only' are the leading charging methods, presently used in over half of all contracts, but with 'per capita and annual management plus transaction charges' becoming more common.
- A half of third-party administration contracts have penalties for poor performance, but with fewer schemes using them compared to a year ago. Only a few contracts include incentives for exceptional service, but numbers have doubled compared to a year ago.

Pension changes: attrition of defined benefit schemes continues as defined contribution schemes look to new investment options

- The continuing trend over the last 12 months amongst defined benefit schemes has been the decision by sponsoring companies to make special one-off employer contributions to reduce funding deficits (27% of schemes, but down 7 points from a year ago) and to implement salary sacrifice (11%).
- The year ahead shows these trends continuing, with many defined benefit schemes anticipating further one-off contributions and increases in regular employer contributions, as well as further scheme closures to new entrants and future accrual and more opting for salary sacrifice arrangements.
- Amongst defined contribution schemes, the main change reported over the last year was, again, the introduction of new investment funds and options for scheme members. In the year ahead, half the schemes intend to introduce new investment funds and options and over a third intend to introduce salary sacrifice arrangements.

Auto-enrolment and NEST: leveling down threat soars

- Ahead of 2012 (the current date for the initial rolling out of NEST and auto-enrolment) some 16% of schemes say they are likely to decide to auto-enrol all employees into their existing company schemes (a sharp reduction of 27 points from a year ago).
- Given the move to auto-enrolment from 2012, some 51% (up 17 points from a year ago) of schemes now say they are likely to revise current scheme benefits to hold down costs.
- 22% of defined contribution schemes say they may opt some employees into NEST rather than auto-enrol these employees into their company scheme, and 10% may close their existing arrangements entirely in favour of NEST.
- Schemes expect 25% of employees to opt out from NEST or qualifying schemes, rising to 40% where the qualifying scheme offered is a defined contribution arrangement.

Trusteeship and governance: data quality issues being addressed, but are risk challenges?

- Eight out of ten schemes hold between three and six trustee meetings each year, with seven out of ten reviewing administration performance at each meeting. Stewardship reports from administrators are increasingly required for each trustee meeting and a quarter of trustee boards now have a specific administration sub-committee.
- Nine out of ten schemes regularly review their advisers, with investment managers subject to the highest incidence of review over the last five years.
- 'Investment strategy', the 'employer's ability to fund the scheme' and 'non-compliance with legislation' are seen as the top three risks impacting on scheme management. However, the ranking of those risks to be addressed by trustees is quite different between defined benefit and defined contribution schemes.

- The ranking of mitigating factors to address the risks faced by schemes is also different between defined benefit and defined contribution schemes, highlighting the difficult and different challenges for trustees who are often responsible for managing both types of schemes at one and the same time.
- Close to seven out of ten schemes say they have undertaken a formal exercise to improve the quality of their data, as recommended by the Pensions Regulator. Over two-thirds of schemes say they will review data quality annually or more often.
- Scheme funding issues have prompted the greatest number of communications with the Pensions Regulator over the last year, with an increase in notifiable events and a reduction in clearance references.

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3.0 Survey sample



3.0 Survey sample

This 17th Annual Pension Scheme Administration Survey of trends and practices in the administration of workplace pension schemes was conducted via responses to printed and online questionnaires issued in February 2010.

The Survey was undertaken at a time when economic conditions remain uncertain – some might even say perilous. Whilst there are signs that the economy may have turned the corner, still many defined benefit schemes are heavily in deficit, causing sponsoring employers to review such arrangements and the benefits offered. At the same time, it would appear from our Survey that an increasing number of sponsors have begun to focus on how any defined contribution scheme that is offered stacks up against the emerging National Employment Savings Trust (NEST) scheme. The Survey results suggest that it is by no means clear that a significant tranche of existing schemes (with presently modest contribution levels) will be continued come 2012 and beyond.

This year's Survey drew responses from 414 workplace schemes run by some 280 organisations, with combined assets of almost £297 billion and a total membership of some 5.4 million lives. The sample covers both public and private sector schemes, holding around a quarter of total UK pension fund assets, as well as several major unfunded public sector arrangements (see Tables 1 and 2).

The size of schemes covered by the Survey stretches from those with fewer than 500 members through to major private and public sector schemes with hundreds of thousands of members. As well as many large schemes, this year's survey again attracted a high number of smaller defined contribution schemes which are in many cases, for private sector employees, replacing the pension provision previously offered via defined benefit schemes (see Table 3).

Table 1: Total assets of schemes covered by the Survey (£ bn)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
All Schemes	297.3	220.5	222.7	169.2	153.4	125.6	131.4	142.6	183.9	176.4	158.5	110.5	92.2	65.9	56.8	38.9	36.6
Final Salary	254.3	186.7	184.5	131.6	122.4	111.8	121.9	134.7	173.6	169							
Career Average	5.7	4.1	4.2	4.5	3.5	2.5											
Hybrid - DB/DC	27.7	22.6	23.4	19.1	0.8	1.2	0.8	0.6	0.8	0.4							
Occupational DC	8.2	7.1	10.6	10.8	10.6	9.3	7.5	6.7	9	6.6							
GPP/Personal Pensions*	1.4	NA	NA	NA	NA	NA	NA	NA	NA	0.2							
Stakeholder*	1.4	NA	NA	0.4	0.3	0.1	0.1	0.1	NA								
Other	1.4	NA	NA	2.8	15.8	0.7	1.2	0.5	0.5	0.3							

(Note: Most respondents reporting on GPP/Personal Pensions/Stakeholders do not indicate total scheme assets)

Table 2: Total membership of Schemes covered by Survey

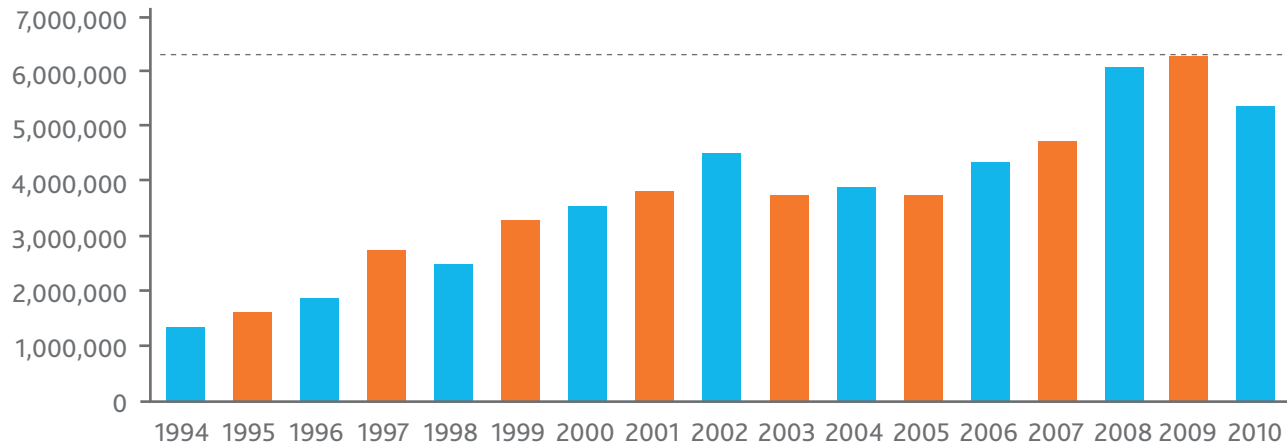
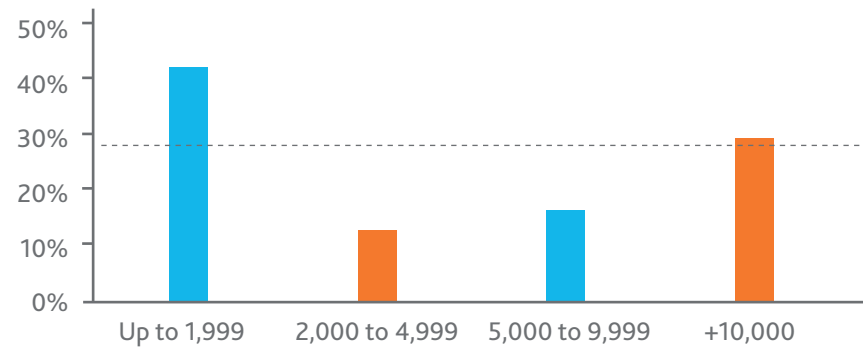


Table 3: Size of schemes in Survey (by membership - all categories)



Defined benefit scheme closures mount

The majority of the defined benefit schemes covered by the Survey are final salary arrangements. Unsurprisingly, this year's survey again reported further evidence of final salary scheme closures to new entrants and future accrual, with an increased number of members covered by career average and hybrid arrangements – schemes offering both defined benefit and defined contribution elements or, more typically, sections (see Table 4).

Overall, 31% of employees are not members of any of the schemes offered by their employers (disappointingly, an increase of just 3 points from the figure a year ago). This ongoing trend is alarming and it is to be hoped auto-enrolment in the years ahead will check the leakage from quality pensions. However, this is probably only a possibility if quality schemes remain open. For this to happen, many such schemes must become more affordable for sponsoring employers (which may require some significant regulatory easing).

76% of private sector final salary schemes covered by the Survey are closed to new entrants (up 5 points from a year ago and 9 points compared to two years ago), with 13% of schemes also closed to future accrual for current employees. These closures are, however, almost entirely confined to private sector employers, albeit there is some evidence that public sector schemes are beginning to be reviewed in terms of moving towards career average rather than final salary based accrual, with in some sectors new options for employees to opt for defined contribution accrual.

The growing maturity of many private sector defined benefit schemes is reflected in the fact that the majority of members covered by schemes in the sample are no longer active members of their scheme. Active members form only 29% of members, with deferred members forming 34% and pensioners 37% of the membership of private sector schemes.

However, the survey gives a different picture for public sector schemes. Here, where schemes in the main remain open to new entrants, and where there has been a marked increase in membership over recent years, active members make up 36% of members.

The pattern of private sector scheme closures means that the declining percentage of active members will continue. There may be some reversal of this situation when compulsory auto-enrolment is introduced gradually from 2012, although it could be argued that these reforms may also herald – evidenced by results elsewhere in this Survey – the final chapter of defined benefit scheme closures as companies seek to limit the potential for significant pension cost increases arising from this requirement.

Table 4: Make up of membership and status of Schemes

	Actives	Deferred	Pensioners	Schemes closed to new entrants	Schemes closed to future accrual
Final Salary (private sector)	29% (25%)	34% (37%)	37% (38%)	76% (71%)	13% (13%)
Final Salary (public sector)	36% (37%)	31% (27%)	33% (36%)	6% (3%)	
Career Average	39% (51%)	43% (30%)	18% (19%)	5% (6%)	(6%)
Hybrid: DB/DC	35% (32%)	46% (46%)	19% (22%)	30% (10%)	
Occupational Money Purchase	60% (68%)	36% (30%)	4% (2%)	6% (8%)	
Group Personal Pensions	77% (84%)	22% (15%)	1% (1%)		
Stakeholder	89% (93%)	11% (7%)			
Total all schemes	34%	34%	32%		

(Note: 31% (28% in 2009) of employees do not join schemes made available to them)

Defined contribution schemes: more, but operation is unclear!

In contrast, defined contribution schemes reporting to the Survey are made up predominantly of active and deferred members, with very few pensioner members. This is indicative of the relative immaturity of the mass defined contribution market, but also the fact that many defined contribution pensioners simply use their pension savings to purchase an annuity on the open market, and are therefore no longer included in scheme membership statistics.

The trend in the defined contribution sector for more sponsors to move over to contract-based as opposed to trust-based arrangements, in the anticipation that this change will ease regulatory and administrative burdens, may be the cause of some concern in terms of the governance of such schemes – certainly sponsors may have a less clear view of how well such schemes are operating on a day-to-day basis.

This year's Survey found that 71% of organisations in this sample have established defined contribution arrangements, with a higher number offering contract-based (as opposed to trust-based) schemes to new entrants (see Table 5). The more obscure nature of contract-based schemes means a number of respondents have not reported detailed information about such schemes to the Survey.

A third of the defined contribution arrangements have been established in the last five years as organisations have closed defined benefit schemes in the face of sharply rising costs and concerns regarding the rising liabilities associated with increasing longevity. Reflecting this trend, close to a half of the defined contribution schemes are in fact sections of an original defined benefit scheme, where the latter is in many cases now closed to new entrants and/or future accrual.

Contribution levels: no change

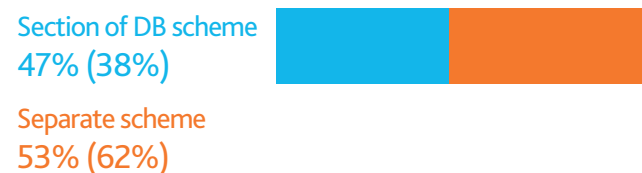
Average employer contributions (7%) and employee contributions (4%) make up the average 11% of employee earnings going into defined contribution schemes – the same as for the last two years. Whilst contributions on average at these levels comfortably exceed the Government's NEST and qualifying scheme levels (8% of band earnings between approximately £5,000 and £33,500 per annum at 2006/07 levels), the reality remains that this level of pension saving, if not supplemented by other savings, is likely to deliver only modest pensions for many, particularly for those with shorter savings histories.

And, of course, there are many defined contribution schemes reporting to the Survey with employer and employee contributions below the average.

Table 5: Do you offer defined contribution (DC) arrangements?



Is the DC scheme a section of an old DB scheme or is it a separate scheme?



What is the average employer and employee contribution into your DC scheme?

	% of total earnings	
Employer	7%	(7%)
Range	2 - 20%	(3% > 18%)
Employee	4%	(4%)
Range	0 - 8%	(0 > 6%)

Is there a matching contribution element?



When did you establish your DC arrangements?

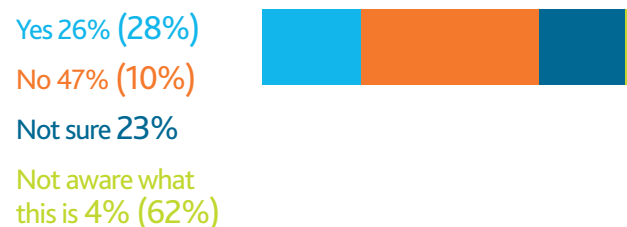
In last year	In last 2 years	In last 5 years	5 - 10 years ago	+10 years ago
5% (6%)	9% (10%)	20% (29%)	43% (30%)	23% (25%)

Quality Mark awareness takes off

Awareness of the NAPF's Pension Quality Mark¹ (see Table 6) has increased markedly over the last year. Twelve months ago, six out of ten schemes were unaware of the proposal. Under this award, defined contribution schemes with combined employer and employee contributions exceeding 10% of earnings (with at least 6% from employers) are now eligible to apply for a Pension Quality Mark provided they also meet certain governance and communications criteria. At the time of writing, some 42 schemes have achieved the award.

Whilst only a small number of schemes have to date sought the award, close to one in five responding to the Survey are considering such an approach. This would seem a sensible HR and PR approach in an era when members are seeking assurances about the quality of the scheme for their pension savings.

Table 6: NAPF Quality Mark Does your DC scheme qualify for the NAPF Pension Quality Mark?



Are you considering applying for the Award over next 12 months?



Cost of managing defined benefit pensions outpaces increases in other business overheads

This year, 60% of schemes responding to the Survey say that the total cost of managing their pension scheme(s) has grown at a faster rate than other business overheads.

There is a marked contrast between defined benefit schemes, where, unsurprisingly, three-quarters (74%) report costs outpacing other business overheads, whereas only a third (34%) of defined contribution schemes voice this view.

The main reasons given for increasing costs are listed as fund performance, professional fees, changes in long-term assumptions and increased regulatory costs (see Table 7).

¹For further information, contact www.pensionqualitymark.org.uk

Table 7: Over the last 5 years, have the total costs of managing your pension scheme(s) grown more than your other business overheads?

Yes 60% (64%)

No 40% (13%)

Same rate
0% (23%)



If 'yes', what are the main reasons?

	2010 all schemes	2009 all schemes
Fund performance	1	4=
Professional fees	2	3
Changes in long-term assumptions	3	2
PPF and TPR costs	4	1
Costs of compliance	5	4=
Accounting costs	6	6
Changes in pension provision	7	7
Scheme improvements	8	9
More employees joining schemes	9	8

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4.0 All schemes: administration issues



4.0 All Schemes: administration issues

This year's Survey is based on responses from both in-house and third-party administered schemes, with the former making up just short of four out of ten schemes in the sample (see Table 8). Half of the respondents provide both in-house and third-party administered schemes. For example, they may run a defined benefit scheme in-house and a defined contribution one on a third-party basis.

Administration cost inflation: most schemes in 5 to 7% band

In the last year, increases in scheme administration costs varied across scheme sizes. Increases range from 2% to 8% depending largely on scheme size. Generally, increases were highest in smaller schemes, where overhead cost increases due to increased regulatory requirements over the last year are spread over fewer members. Most schemes fall into bands where increases in costs have ranged between 5 to 7% per annum (see Tables 9 and 10).

For schemes with more than 2,000 members, third-party administration continues to provide cost savings (£3 to £6 per member per annum) in comparison with in-house arrangements, but generally the cost gap between third-party and in-house administered schemes has narrowed in recent years.

Put into cash terms, a scheme with 6,000 members on average costs over £30,000 per annum more to run in-house, and a scheme with 30,000 members costs around £180,000 more.

Costs do, however, vary across a very broad spectrum. Schemes with more than 50,000 members typically report per member costs of between £10 and £30, whereas for schemes with fewer than 1,000 members, costs can often exceed £200 per head.

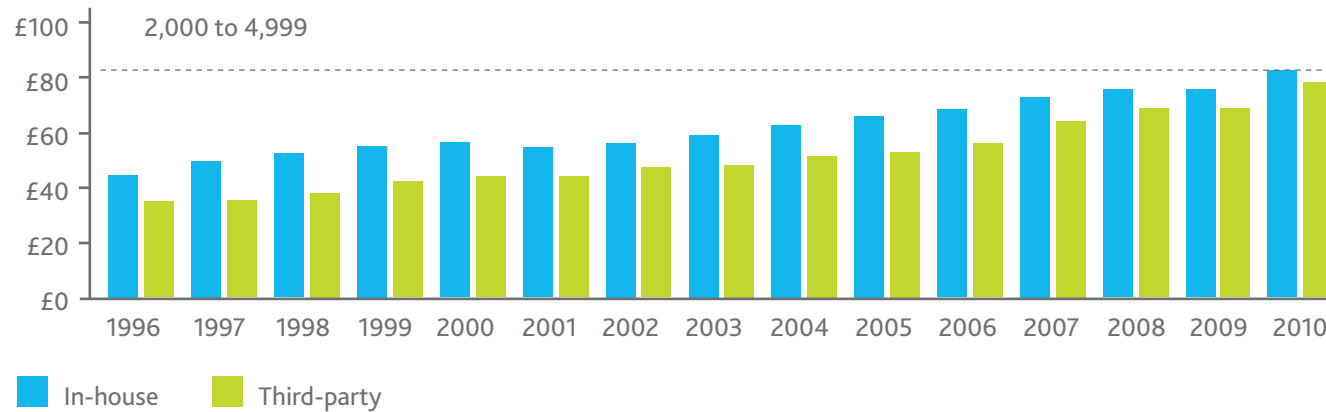
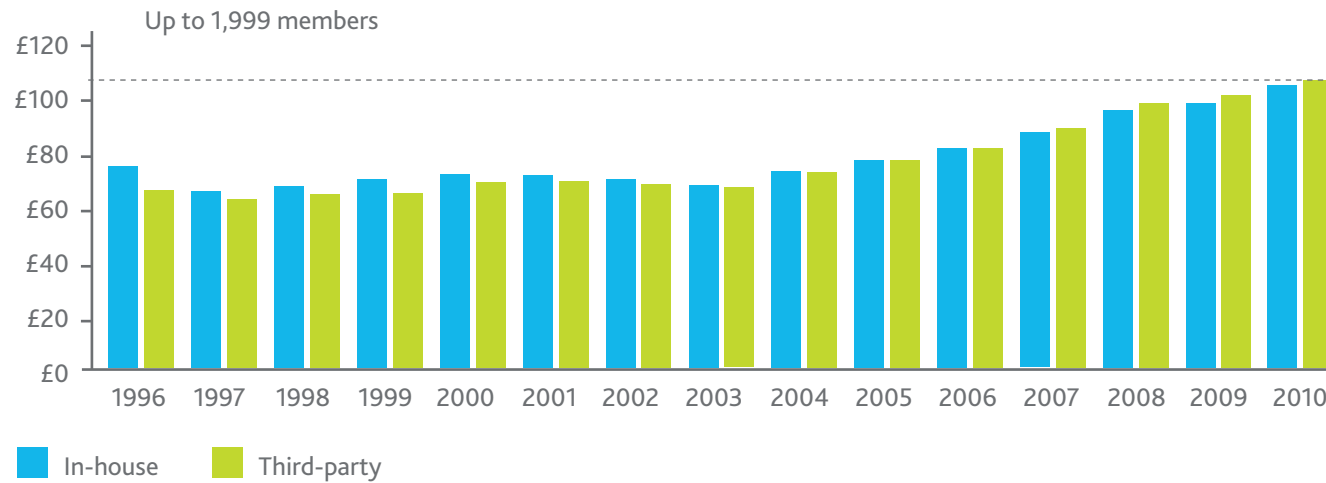
Table 8: All schemes – pension scheme administration sample

In-house administered
36% (41%)

Third-party administered
64% (59%)



Table 9: All schemes – comparison of in-house and third-party administration costs since 1996 (to nearest £)



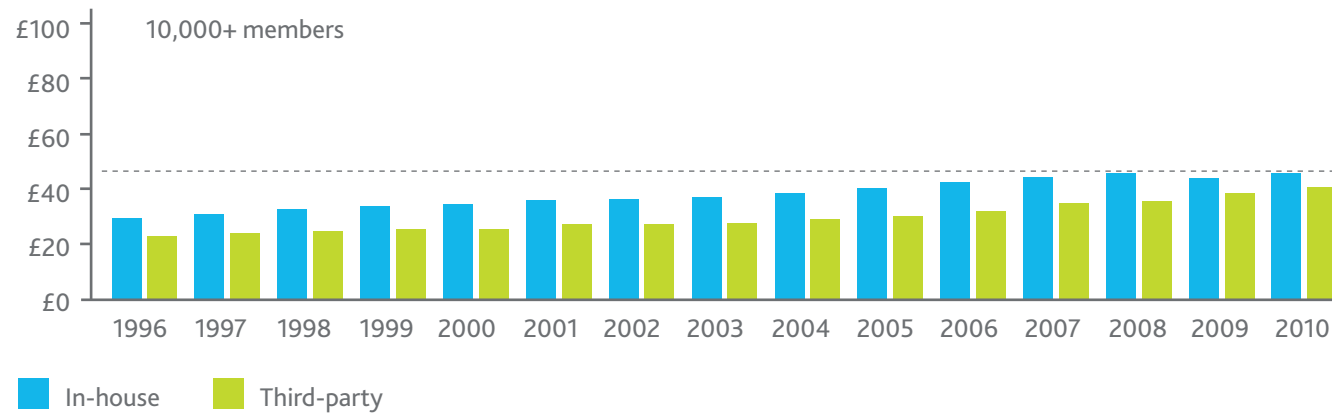
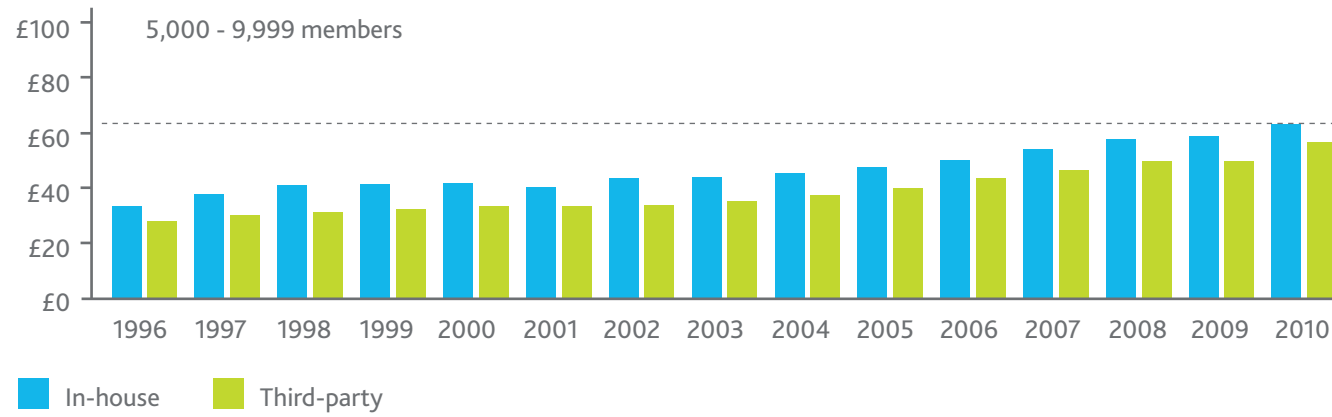


Table 10: All schemes – Cost difference between in-house and third-party administered schemes

Average costs per Member, to nearest £	In-house	Third-party	Increase in last 12 months	Cost gap per capita
Up to 1,999 members	£105 (£97)	£107 (£101)	8% 6%	£2
2,000 - 4,999	£82 (£77)	£79 (£74)	6% 7%	£3
5,000 - 9,999	£64 (£60)	£59 (£55)	7% 7%	£5
10,000+	£47 (£46)	£41 (£39)	2% 5%	£6

Table 11: PPF Levy – Costs

Per head average	2010
PPF Scheme-based Levy	£14.00
PPF Risk-based Levy	£46.00
Total	£60.00

Very few schemes separately identify the cost of administering their defined contribution schemes from that of their defined benefit schemes. Just under half of defined contribution schemes are sections of the 'old' defined benefit scheme, where costs may not be separately identified. Also, a high percentage of new defined contribution arrangements are contract-based plans run by insurers, where administrative costs may be difficult to pin down or may be unavailable.

Without doubt, whilst investment in new technologies and computer software over recent years has had a beneficial impact on processing times and costs and in the features available to members, increases in regulatory costs have more than overtaken these savings when allied with extra funding costs for defined benefit schemes arising from lower investment returns, increased compliance costs and changes in longevity assumptions.

Reliability of service remains the top reason for continuing with current administration

Overall, 'reliability of service' remains the most important reason given for continuing the current form of scheme administration (ranked first by both in-house and third-party administered schemes), with 'specialist staff' as their second most important reason (see Table 12).

'Established working relationships' and 'improved control of administration' were generally ranked more highly this year by third-party administered schemes (ranked fourth and seventh respectively by in-house administered schemes), with, on the other hand, 'faster response times' ranked third by in-house schemes as against ninth by third-party schemes.

'Lower cost' remains a low-level factor in the decision to continue either in-house or third-party administration.

Growing unison in reasons for choosing a third-party administrator

We asked all schemes what are or would be the most important factors if they were choosing a third-party administrator, whether they have actually done so or not.

Overall, 'experience of the organisation' was again ranked first by both third-party and in-house administered schemes as the most important factor when choosing a third-party administrator.

Beyond this, there is a coming together in the factors viewed as the most important in the selection process. In-house and third-party administered schemes (and defined benefit and defined contribution schemes) see 'specialist technical support' as the next most important factor, with the 'reputation of the company' and 'financial strength' both figuring in the top four of all lists (see Table 13).

Table 12: All schemes – Main reasons for continuing current administration arrangement

	All Schemes	In-house	Third-party
Reliability of service	1 (1)	1 (1)	1 (2)
Specialist staff	2 (2)	2 (5)	2 (1)
Established working relationships	3 (6)	4 (7)	3 (5)
Greater efficiency	4 (4)	5 (3)	5 (4)
Improved control of administration	5 (3)	7 (2)	4 (7)
IT systems	6 (12)	8 (12)	5 (12)
Faster response times	7 (7)	3 (4)	9 (11)
Complexity of legislation	8 (5)	12 (9)	8 (3)
Improved cost control	9 (10)	6 (6)	10 (9)
Reduced management time	10 (9)	11 (11)	7 (6)
Lower cost	11 (8)	9 (8)	11 (8)
Improved communication	12 (11)	10 (10)	12 (10)

Last year, a 'robust governance framework' moved up to be ranked the third most important factor by both in-house and third-party administered schemes, and second overall. This year, perhaps surprisingly, robust governance has moved down the priority list of all schemes to a mid-table position.

Similarly, 'cost' was again judged only a mid-table factor in the decision-making process.

Table 13: All schemes – When choosing a third-party administration company what do you see as the most important factors?

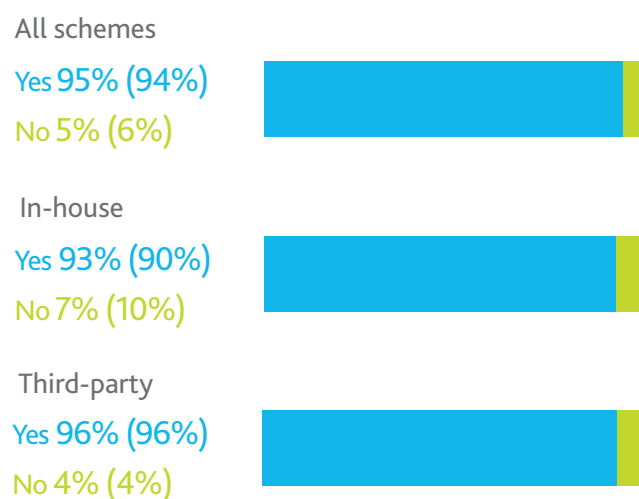
	All Schemes	In-house	Third-party
Experience of organisation	1 (1)	1 (1)	1 (1)
Specialist technical support	2 (3)	2 (4)	2 (3)
Reputation of company	3 (4)	4 (7)	4 (2)
Financial strength	4 (6)	3 (5)	3 (4)
Cost	5 (5)	7 (6)	5 (6)
Robust governance framework	6 (2)	5 (3)	6 (5)
Tailored service	7 (7)	6 (2)	7 (9)
Recommendation by pension advisor/actuary/procurement	8 (12=)	8 (10)	8 (7)
Size of operation	9 (11)	10 (12)	10 (8)
Recommended by other scheme	10 (10)	9 (9)	9 (10)
Quality accreditations	11 (8)	11 (8)	11 (11)
Provision of packaged service	12 (12=)	12 (13)	12 (12)
Web offering	13 (14)	13 (14)	13 (13)

More schemes set target turnaround times with service standards showing big improvements on a year ago

Since the series began, more third-party administered schemes (now 96%) and in-house administered schemes (now 93%) have spelt out their turnaround times for key administrative tasks (see Tables 14 and 15). A decade ago, fewer than eight out of ten schemes covered by the survey set these down. These days, close to a half of the schemes review these targets continually or over an annual cycle.

Over nine out of ten schemes also operate to set service standards that are incorporated into agreements with administrators and/or trustees (up 6 points on a year ago). Two-thirds say their administration service includes the measurement of end-to-end processing times, with this (as with service agreements generally) more prevalent amongst third-party administered and defined benefit schemes.

Table 14: All schemes – Is your administration delivered to target turnaround times for certain tasks?



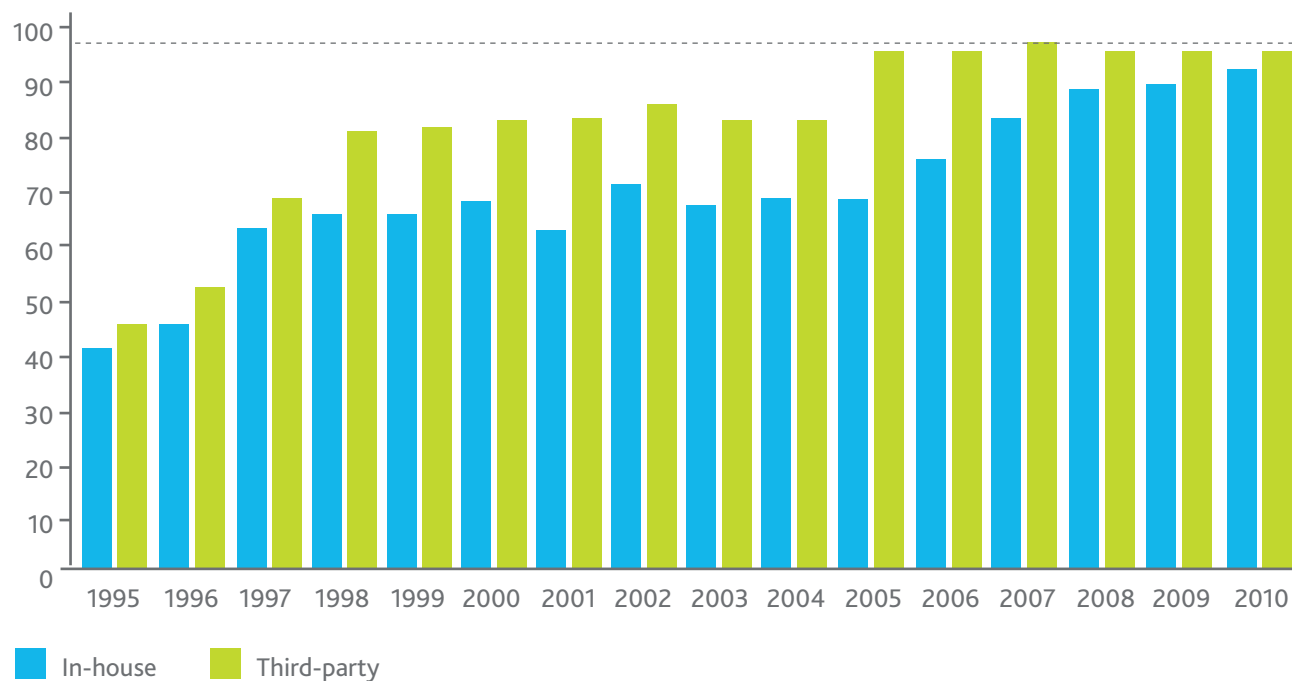
Whilst still fewer in-house schemes measure service standards, in-house administered schemes continue to report that service levels exceed expectations more frequently than do those where third-party administration applies. Despite this, 31% of third party administrators are shown as raising the bar against these higher expectations – table 17 shows a variety of service standards and quality target deliveries for third-party administrators.

In the majority of key service areas, there has been a considerable increase in service targets being exceeded by both in-house and third-party administered schemes, with service failures most pronounced across all schemes in the area of 'reduced management time' devoted to pensions, as was the case last year. Again, this inability to reduce management time spent on pensions is likely to reflect the ongoing and additional regulatory and financial challenges workplace pensions present to businesses.

If 'yes', when were these last reviewed?

	Continually assessed		Last year		1-3 years ago		3-5 years ago		+5 years ago
All schemes	31%	(51%)	16%	(19%)	38%	(19%)	15%	(5%)	(6%)
In-house	32%	(55%)	34%	(22%)	27%	(17%)	8%	(6%)	
Third-party	31%	(49%)	6%	(18%)	43%	(21%)	20%	(5%)	(7%)

Table 15: All schemes – Sixteen year comparison of number of in-house schemes and third-party schemes with target turnaround times for certain tasks



Across most service areas, defined benefit scheme administration performed better against targets than administration in respect of defined contribution schemes. We comment elsewhere that this may reflect the historic preoccupation of trustees with defined benefit arrangements and with some defined contribution schemes where the administration is more complex.

On the plus side, as with last year, 97% of schemes achieved or exceeded their target for service in terms of the overall member experience, with, encouragingly, more moving into the 'exceeded' box compared to last year.

That said, administrators cannot rest on their laurels. The survey found an expectation from a third of respondents that service standards should continue to make advances on current levels.

Table 16: All schemes - Are service standards formalised into any agreement with the administrators and/or trustees?



Does your administration include the measurement of end-to-end processing times (i.e. Total elapsed time from beginning to end of process)?



Table 17: All schemes – Has your administration service met targets expected in terms of those below:

	Exceeded		Achieved		Failed		Compared to a year ago, have your expectations of the administration service changed?
Meeting service standards							
All schemes	32%	(16%)	65%	(79%)	3%	(5%)	Increased 34% (18%)
In-house	49%	(26%)	50%	(74%)	1%		
Third-party	22%	(12%)	75%	(81%)	3%	(7%)	
Cost							
All schemes	17%	(10%)	76%	(80%)	7%	(10%)	Decreased 1% (0%)
In-house	22%	(27%)	71%	(73%)	7%		
Third-party	14%	(3%)	79%	(83%)	7%	(14%)	
Reduced management time							
All schemes	9%	(3%)	82%	(84%)	9%	(13%)	Stayed the same 65% (82%)
In-house	12%	(5%)	73%	(79%)	15%	(16%)	
Third-party	6%	(2%)	89%	(86%)	5%	(12%)	
Quality of output							
All schemes	15%	(3%)	82%	(89%)	3%	(8%)	
In-house	33%	(5%)	65%	(95%)	2%		
Third-party	4%	(2%)	92%	(86%)	4%	(12%)	
Accuracy of output							
All schemes	14%	(2%)	81%	(92%)	5%	(6%)	
In-house	32%	(5%)	63%	(95%)	7%		
Third-party	4%		91%	(90%)	5%	(10%)	
Overall member experience							
All schemes	13%	(7%)	84%	(90%)	3%	(3%)	
In-house	25%	(6%)	75%	(94%)			
Third-party	6%	(7%)	90%	(88%)	4%	(5%)	

Communications: spending generally lower than in 2009

A majority of schemes continue to use paper-based documents to communicate pension information to members, supplemented by web-based communications, where shortened annual reports, newsletters, summary funding statements and scheme booklets were the most popular documents in this medium (see Table 18).

Scheme communications remain predominantly the preserve of in-house teams, but with third-party communications specialists increasingly playing a part alongside independent communications and benefits consultants (see Table 19). The survey found that third-party administered schemes and defined contribution schemes are both less likely to have scheme communications run in-house.

Overall, the financial resources devoted to scheme communication remain modest, with six out of ten schemes in the sample spending £20,000 or less per annum (see Table 20), somewhat down on a year ago.

Of these, under half plan their spend for the year ahead, with the balance favouring 'ad hoc' spend ahead of a 'project by project' basis. Reductions in budgets are likely to have reflected the widespread poor economic and financial conditions over the last 12 months.

Three-quarters of trustee boards do not have a dedicated sub-committee with the responsibility for communications.

Web communication advances, but members' use still disappoints

Reflecting the growing trend in web communication, 73% of schemes (up 12 points on a year ago) now have a website, with over half offering interactive features and a third either comment or feedback options (see Table 21).

Trustees are more likely to provide the websites for in-house and defined benefit schemes, with, unsurprisingly, third-party administrators more likely to provide a site for third-party administered schemes.

Just over one in four schemes provide web-enabled access to members' individual records, with a third of those who 'do not' remaining unsure as to whether they will ever do so (see Table 22). In contrast, over half the schemes offering web access say this has improved the overall member experience. That said, it is perhaps disappointing that on average just 22% of members actively use the web access facility, albeit this is up 7 points on a year ago.

Where web-enabled access is provided to members, there has again been an increase in the proportion of schemes offering access to all members rather than just current employees, from 31% three years ago to 71% now.

Half of schemes say web access is reducing the number of queries received, although under a third believe web-enabled access is providing value for money 5 points down on the situation a year ago.

The survey again examined the use of newer communication media, such as CD/DVD and podcasts. These are still not widely used, but with a slightly higher expectation that their use will be extended in the year ahead (see Table 23).

Table 18: All schemes – Have you or your third-party administrator produced any of the following documents for circulation to members?

	In the last 18 months		Plan to in next 12 months					
	Paper-based	Web-based	Paper-based	Web-based	Paper-based	Web-based		
Shortened Annual Report and Accounts – for members	71%	(76%)	33%	(34%)	52%	(54%)	21%	(32%)
Newsletters (other than Reports and Accounts Newsletter)	59%	(61%)	32%	(24%)	38%	(40%)	20%	(29%)
Pensioner only newsletters	20%	(18%)	4%	(6%)	13%	(16%)	4%	(6%)
Briefing on legislative changes	32%	(38%)	20%	(16%)	16%	(11%)	18%	(9%)
Total Reward Statements	13%	(38%)	9%	(13%)	9%	(17%)	7%	(10%)
Summary funding statements (DB only)	96%	(90%)	30%	(24%)	92%	(60%)	17%	(21%)
Member financial education material	25%	(48%)	18%	(11%)	12%	(25%)	11%	(12%)
New scheme booklet	35%	(46%)	29%	(17%)	23%	(29%)	19%	(20%)
Investment communication regarding market	27%	(36%)	12%	(13%)	19%	(17%)	13%	(12%)

Table 19: All schemes - Who provides your scheme communication?

	%	
In-house pensions team	46%	(43%)
Third-party administrator with comms function	25%	(20%)
Independent communications provider	18%	(19%)
Benefits consultancy with communications function	10%	(9%)
In-house HR/benefits communications team	8%	(17%)
Other	1%	(2%)

(Note: more than one answer possible)

Table 20: All schemes - What is your approximate annual spend on scheme communication?

	%	
More than £50,000	19%	(24%)
£20,000 - £50,000	22%	(31%)
£10,000 - £20,000	32%	(22%)
£5,000 - £10,000	17%	(14%)
Less than £5,000	10%	(9%)

How would you describe the trustees approach to allocating budget for communication?



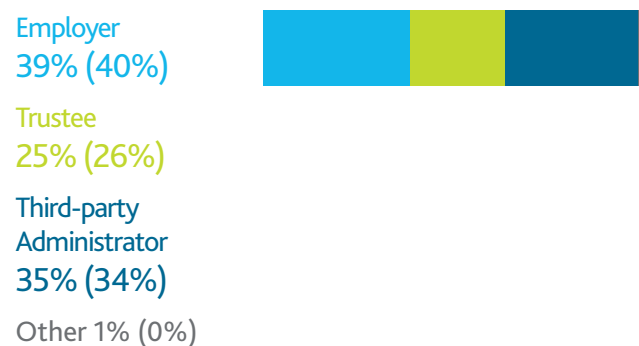
Do your trustees have a dedicated sub-committee with the assigned responsibility for communication?



Table 21: Does your scheme have a website for members to access?



If 'yes' who provides it?



Does the site contain areas that are devoted to:

	Yes	
Purely static information	100%	(100%)
Comment/Feed-back from members	39%	(38%)
Interactive member enquiries	54%	(58%)

Table 22: All schemes - Do you or your third-party administrator provide members with web-enabled access to their individual scheme records?



If 'yes', is it:

View Only	View and Update	What if? projections
46% (52%)	54% (48%)	73% (69%)
Open to all members	Open to active members only	Reducing number of member queries
71% (59%)	29% (41%)	44% (48%)
Increasing number of member queries	Improving member experience	Providing value for money
2% (4%)	54% (48%)	24% (33%)

What level of usage is there?

% of members registered	% of members actively using facility
57% (70%)	22% (15%)

If 'no', when will you provide web-enabled access?

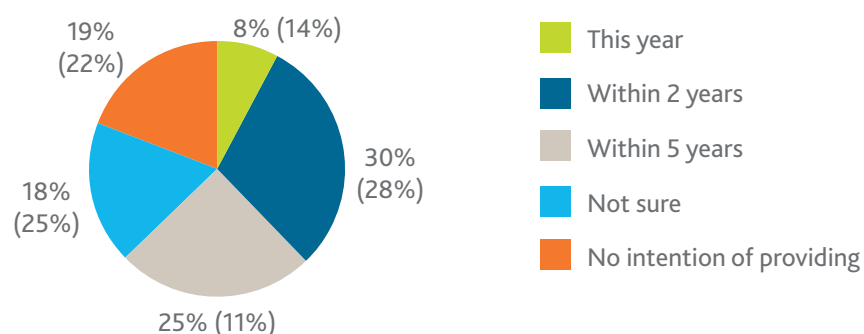


Table 23: All schemes - Which of the following new media are you using for scheme communication?

	Already use	Intend to use in next 12 months
CD/DVD presentation	14% (9%)	4% (8%)
Online automated presentation	6% (2%)	1% (3%)
Podcasts	1% (1%)	5% (3%)
SMS (text messaging)	1% (1%)	8% (2%)

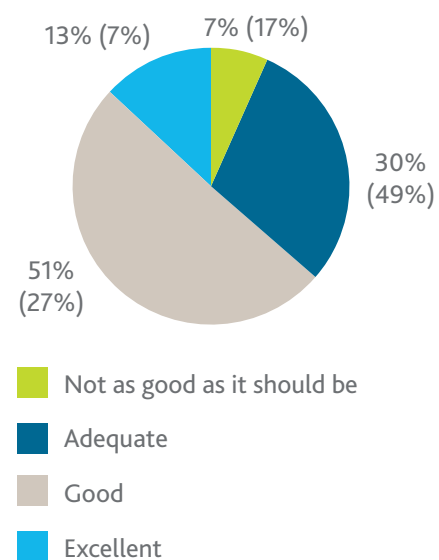
Pension message is getting across say schemes

Reversing the situation of a year ago, two-thirds of schemes said that their current level of communication with members is 'good' or 'excellent' as opposed to just one-third a year ago (see Table 24).

Why there has been such a change in assessments is difficult to gauge, but maybe the stabilisation in the economic environment (and concerns about the impact of volatility on pensions of all types) has eased members and trustees concerns.

However, somewhat confusingly, as we report above, whilst fewer schemes appear to have spent higher sums on pension communication in the past year, more schemes say they have increased spending as opposed to reducing it!

Table 24: All schemes - Do you think your scheme's current level of communication with members is:



How has your level of investment in member communication changed over the last 12 months?

Increased	Decreased	No change
31% (45%)	13% (1%)	56% (54%)

Do you plan to review the quality of your communication with members over the next 12 months?

Yes	No
54% (68%)	46% (32%)

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5.0 In-house administered schemes



5.0 In-house administered schemes

Resistance to outsourcing falls away

A third of in-house administered schemes in this survey have never considered using third-party administration (see Table 25). However, of these, two-thirds (up 35 points on a year ago) now say they are likely to consider using third-party administration in the future.

This is a very sizeable turnaround over the last 12 months (and for many years prior), in all probability reflecting the economic and financial pressures on both sponsors and trustees over the last two years. In relative terms, more defined contribution schemes that are presently run in-house are warming to the outsourcing option.

Of those schemes who have already considered using a third-party administrator, a fifth did so in the last year.

System providers: a consolidated, but fluid market

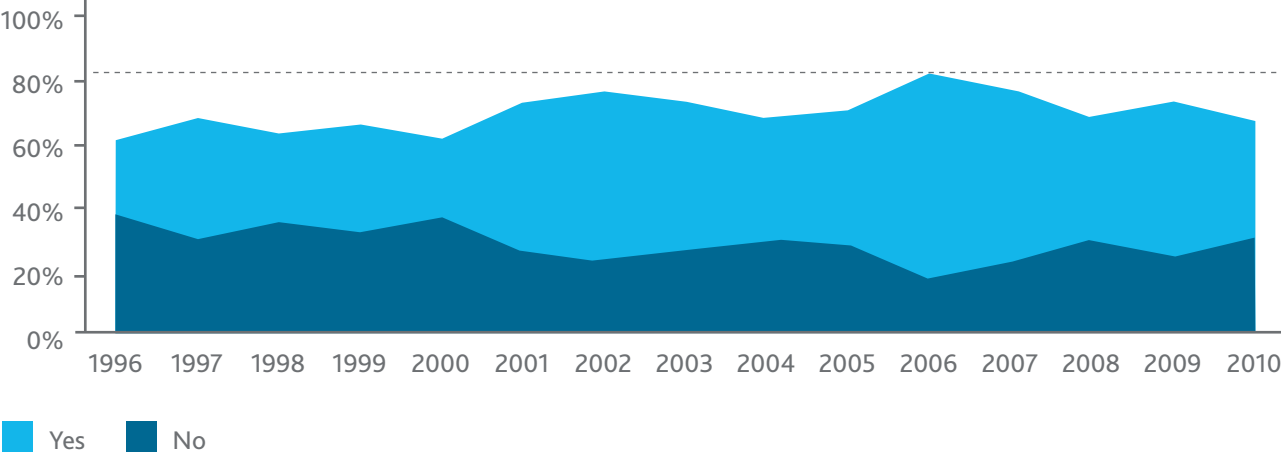
The top administration system providers to schemes have remained much the same over the years, although there has been a narrowing in the number of system providers over the years since the survey series began, not least because of mergers and acquisitions (see Table 26).

Over half of schemes have reviewed their system provider in the last three years, with a surprising 30% saying they changed provider on review. A third of these schemes say they are considering a review of their provider in the near future, considerably up on the situation a year ago, suggesting the market will remain very fluid in the year ahead.

The run up to 2012 and auto-enrolment may be one factor driving these changes, as may be the ongoing shift in pension arrangements towards a greater emphasis on defined contribution arrangements. Aspirations to reduce costs and/or to extend current functionality may also be driving provider changes.

Two-thirds of schemes have software that provides automated calculations and quotations, electronic document management and integrated workflow/case management (see Table 27). Where this is not yet offered, the most sought after developments in the year ahead are 'member access on-line', 'web browser access', 'integrated finance/cashbook functions', 'integrated telephony' and 'straight through investment processing'.

Table 25: In-house administered schemes - Have you ever considered using a third-party administrator?



If 'yes', when was this last considered?

In last year	In last 5 years	Over 5 years ago
20% (25%)	61% (55%)	19% (20%)

If 'no', are you likely to consider using third-party administrators in the future?

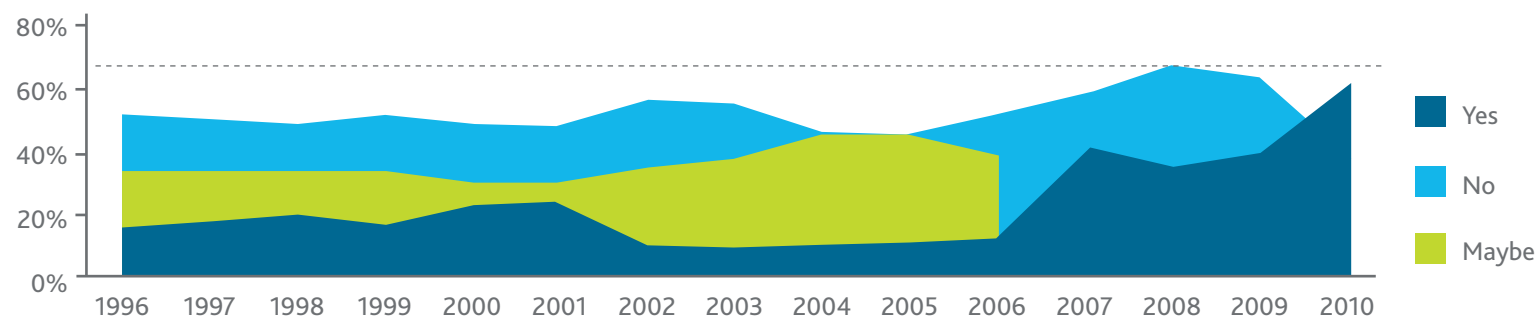


Table 26: In-house administered schemes - Top administration system providers

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Axise/Aquila/Heywood	1	1	2	1	2	2	2	2	2	2	2	2
Profund	2	2	1	2	1	1	1	1	1	1	1	1
Compendia	3	6	5									
Northgate	4	5										
Procentia	5	7										

When did you last review your software?

In last year	In last 3 years	In last 5 years	Over 5 years ago
9% (21%)	47% (39%)	13% (21%)	31% (19%)

Did you change provider?



Are you planning a review in the near future?



Table 27: In-house administered schemes - What does your software presently provide and what would you like to develop as a priority in the next 12 months?

	Software currently provides	Additional priority development for next 12 months
Automated pensions calculations	81%	6%
Electronic document management	77% (70%)	9% (15%)
Automated letter/quote generation	73%	7%
Integrated workflow/case mgt	71% (69%)	7% (7%)
End user reporting	51%	7%
On-line member access	39% (36%)	23% (18%)
Web browser access for users	30% (19%)	17% (14%)
Straight through investment processing	26% (30%)	11% (12%)
Integrated finance/cashbook functions	22% (26%)	11% (11%)
Integrated telephony - call logging	17% (11%)	11% (5%)
Integrated SMS/email generation	11%	7%

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6.0 Third-party administered schemes



6.0 Third-party administered schemes

Frequent reviews keep sector on its toes

The principal third-party providers continue to be specialist administrators or consultants /actuaries offering administration as part of a wider spread of services (see Table 28). This situation is less accentuated for defined contribution schemes where just over half of these schemes are administered either in-house or by third-party providers.

Many of the schemes use other services provided by their administrator, most notably communication and pension consulting services. Additionally, annuity procurement is a service used heavily by defined contribution schemes, whereas the use of administrators' actuarial services is sought by many defined benefit schemes.

Schemes that currently take advantage of a 'bundled service', i.e. take their actuarial, consultancy and administration services from the same provider, accounted for 16% of respondents, and a further 12% of schemes would consider doing so. Whilst some larger schemes may see some benefit in using specialists for each function, e.g. investment consultancy, and may prefer a spread of

providers, for small to medium-sized schemes, the potential economies in terms of both cost and efficiency of utilising more than one service from a given provider may well be an attraction.

This year, 51% of third-party administered schemes (up from 39% two years ago) say they outsource as this is now the wider business strategy of their sponsoring company (see Table 29). This trend-line is likely to be reflective of the financial pressures brought on by present economic conditions, with businesses focusing on core activities and overall efficiencies. In part, this will be a cost issue – our survey continues to report lower administration costs for most sizes of scheme run on a third-party basis. However, it is noteworthy that elsewhere amongst in-house administered schemes (see Tables 12 and 13) 'specialist staff/specialist technical support' have moved up in the ranking of factors as most important in continuing current administration and choosing a third-party administrator.

In an increasingly complex pensions scene, where these specialist skills are a scarce commodity, it may be that more companies are appreciating that these skills are difficult to retain in-house compared to the resources available to third-

party providers, where the skill set available also has greater breadth and depth. This trend is understandably being reflected in the higher number of schemes saying they are now more likely to consider third-party pension scheme administration, also reported elsewhere in this survey.

Muted interest in offshoring

Whilst outsourcing may be growing in popularity at the moment, only one in ten schemes presently use offshoring for any part of their pension administration. For the future, a minority (around 10% of schemes) are prepared to consider more offshoring, primarily in back-office/payroll areas, rather than for where direct member contact is required.

Table 28: Third-party administered schemes: who provides outsourced services?

	1995	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Specialist third-party administrator	32%	32%	49%	53%	63%	59%	62%	61%	56%	47%	45%	41%	49%
Pension consultant/actuary offering an administration service	53%	66%	51%	47%	34%	36%	32%	33%	32%	37%	41%	42%	31%
Insurance company	15%	2%	-	-	3%	5%	5%	4%	6%	9%	6%	7%	9%
Insured scheme including administration	-	-	-	-	-	-	1%	2%	6%	7%	8%	10%	11%

Which of the following additional services does your administrator provide to you?

Member communication	Annuity procurement	Pension consulting	Investment consulting
42% (28%)	32% (12%)	27% (30%)	19% (17%)
Risk benefit services	Actuarial	Scheme secretarial	Management consulting
14% (9%)	14% (24%)	6%	3% (5%)

Would you consider one 'bundled' provider to consolidate costs?

Yes 12% (16%)

No 72% (84%)

Already bundled 16%



Table 29: Third-party administered schemes: is the use of a third-party administrator part of a wider business strategy to outsource non-core activities?



Do you already allow the offshoring of any part or all of your pension administration function?



Do you offshore any of the functions below or would you consider in the future:

	Already offshore	Would consider in future
Back-office function	6%	6%
Pensioner payroll	4% (4%)	9% (9%)
Drafting scheme accounts	2% (3%)	5% (10%)
Member contact	1% (2%)	2%

Table 30: Third-party administered schemes: when did you first move to third-party administration of the scheme?

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
In last year	8%	12%	14%	9%	14%	4%	9%	5%	4%	5%	2%	4%	5%
In last 2 years	18%	19%	19%	13%	17%	12%	8%	4%	7%	9%	5%	4%	5%
In last 5 years	22%	21%	21%	26%	23%	21%	31%	19%	16%	14%	9%	8%	13%
Between 5 and 10 years ago	52%	48%	46%	52%	46%	63%	52%	72%	18%	21%	32%	36%	34%
Over 10 years ago									55%	51%	52%	48%	43%

When was your last provider review carried out?

In last year	In last 3 years	In last 5 years	Over 5 years ago
20% (31%)	30% (19%)	22% (22%)	28% (28%)

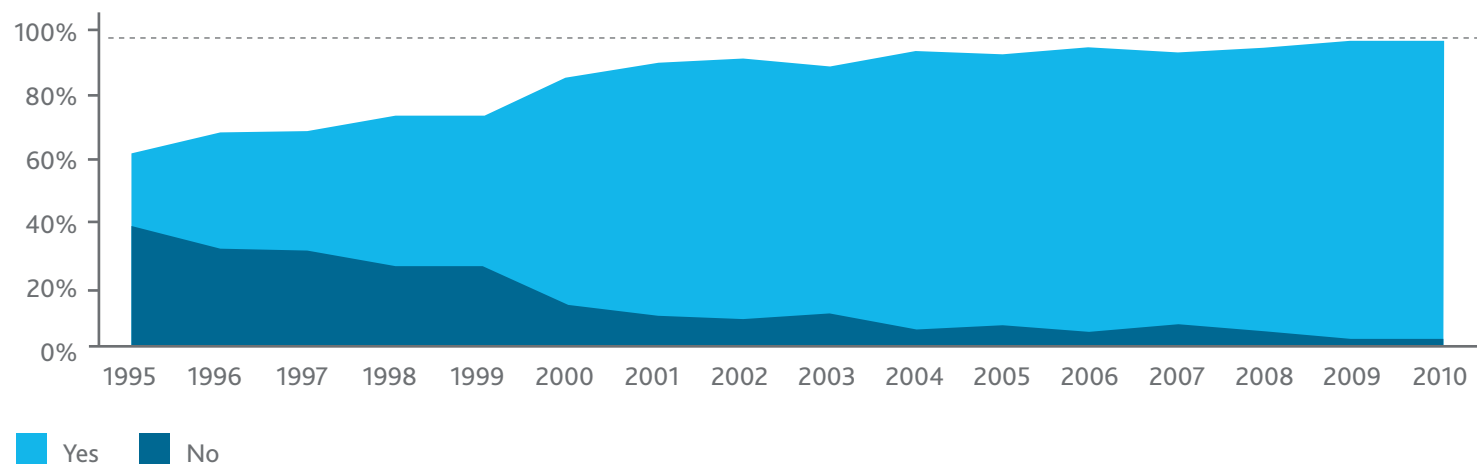
Did you change your provider as a result?



Did you use a consultant in the review?



Table 31: Third-party administered schemes: do you have a formal contract in place for scheme administration?



If 'yes', how long is the contract for?

Rolling	Less than 3 years	Between 3 and 5 years	Over 5 years
45% (41%)	18% (13%)	34% (42%)	3% (4%)

Over 20% of schemes first moved to third-party administration in the last five years – the most recent wave being amongst defined contribution schemes (see Table 30).

Over half of defined contribution schemes have reviewed their existing third-party arrangements in the last three years alone, with a quarter changing administrator on review. Set alongside this, fewer defined benefit schemes have been subject to review of the administrator in the last three years, but a higher percentage – 30% – have moved provider on review.

All of this confirms last year's findings that there is fierce competition between third-party providers.

Across all schemes, close to half have used a consultant in their provider review.

Almost all third-party administered schemes now have a formal contract for administration, with the most common contract periods being rolling contracts or for periods of between three and five years (see Table 31).

Contract charges

The survey continued to find very wide variation in the methods of charging for outsourced administration (see Table 32).

It can be seen that half of third-party administration contracts have penalties for poor performance, but with fewer schemes seemingly using them compared to a year ago, perhaps reflecting the generally higher level of service standards reported elsewhere in the survey.

Only a few contracts include incentives for exceptional service, although the number has doubled to 10% in the last year (see Tables 33 and 34), with three-quarters of providers benefiting from such incentives, where they apply, in the last year. Table 33 also suggests that less scheme administrators are incurring service credits or penalties, pointing to an improvement in service.

Some 56% of the schemes administered by third-party providers have access to member records on their providers' computers. Of these, well over half are offering access via the internet (see Table 35). Generally, defined contribution schemes are ahead in the race to provide access by this means.

Table 32: Third-party administered schemes: what are your contract charges predominantly based on?

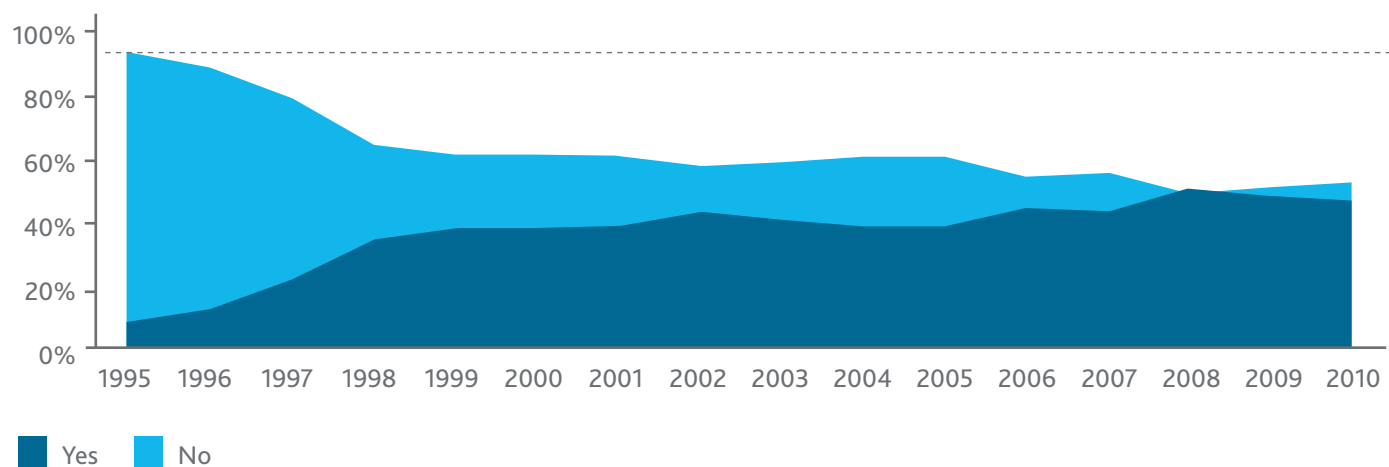
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Per capita and AMC	14%	14%	25%	16%	14%	12%	16%	22%	11%	24%	22%	27%	25%
Fixed price only	31%	30%	32%	21%	46%	29%	32%	34%	34%	21%	28%	31%	28%
Per capita and AMC plus transactions													12%
Transaction based										9%	5%	4%	9%
Time charges only											3%	2%	9%
Per capita/time								2%	5%	5%	5%	6%	6%
Other													11%

What would your contract preference be?

Fixed price only	44%	(52%)
Per capita and AMC	27%	(42%)
Transaction based	21%	(10%)
Time charges only	8%	(4%)

(Note: more than one answer possible)

Table 33: Third-party administered schemes - Does your third-party contract include penalties or a reduction in charges in the event of poor performance?



If 'yes', have you used them?

Yes	5%	(18%)
If 'yes', in last 12 months?	66% of DB only	(41%)

Table 34: Third-party administered schemes: does your third-party contract include incentives for exceptional service?

Yes 10% (5%)
No 90% (95%)



If 'yes', have you used them?

Yes	77% (50%)
If 'yes', in last 12 months?	75% (50%)

Table 35: Third-party administered schemes: do you have access to your members' records on your administrator's computer systems?

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Yes	22%	26%	48%	45%	47%	49%	51%	46%	48%	44%					
Yes, via admin software											24%	14%	20%	24%	20%
Yes, via the Internet											23%	31%	33%	36%	36%
No	78%	74%	52%	55%	53%	51%	49%	54%	52%	56%	53%	55%	47%	40%	44%

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7.0 Pension changes



7.0 Pension changes

Attrition of defined benefit schemes continues as defined contribution schemes look to new investment options.

The continuing trend over the last 12 months amongst **defined benefit schemes** has been the decision by sponsoring companies to make special one-off employer contributions to reduce funding deficits (27% of schemes, but down 7 points on a year ago), to implement scheme salary sacrifice (11%) and to move towards more flexible retirement regimes (see Table 36).

The year ahead shows these trends continuing, with many defined benefit schemes anticipating further one-off contributions (13%) and increases in regular employer contributions (14%), as well as further scheme closures to new entrants (9%) and to future accrual (15%) and with more opting for salary sacrifice arrangements (14%).

The closure to future accrual, where a further fifth of schemes are 'undecided' is particularly concerning for members, as inevitably this trend must mean more and more existing employees will see their future pension benefits relying on arrangements where levels of contributions are generally lower and pension outcomes more uncertain. This emphasizes the ongoing need for Government to consider ways it can help more, to allow sponsors to cap and ideally reduce the cost of future accrual in defined benefit arrangements. For instance, removing the obligation to index both deferred and members' benefits irrespective of economic conditions might be one option.

Future trends for **defined contribution schemes** highlight a big rise in schemes looking at introducing new investment options 51% (from 41%) and particularly introducing salary sacrifice 36% (compared to 9% in 2009) alongside a further 14% likely to go contract based in the next 12 months.

Over one in ten schemes are also trailing switches to contract-based and master trust arrangements, suggesting economies in regulation, simplification and cost are of ongoing interest, perhaps with an eye on 2012 reforms and beyond.

Table 36: Defined Benefit Schemes only: have any of the following been implemented or are likely to be implemented in the next 12 months?

	Yes		In next 12 months No		Undecided		In last 12 months Yes		Over 12 months ago Yes	
Closing scheme to new entrants	9%	(10%)	86%	(70%)	5%	(20%)	7%	(10%)	69%	(61%)
Closing scheme for all future accrual	15%	(12%)	69%	(66%)	16%	(22%)	3%	(7%)	10%	(6%)
Reducing future DB accrual	5%	(8%)	83%	(82%)	12%	(10%)	6%	(5%)	2%	(6%)
Switching to career average	6%	(7%)	83%	(73%)	11%	(20%)	4%	(3%)	3%	(2%)
Increasing regular employer contributions	14%	(16%)	77%	(68%)	9%	(16%)	7%	(8%)	13%	(22%)
Making special one-off contributions	13%	(46%)	76%	(44%)	11%	(10%)	27%	(34%)	22%	(36%)
Increasing employee contributions	6%	(13%)	79%	(69%)	15%	(18%)	8%	(6%)	9%	(12%)
Scheme salary sacrifice	14%	(16%)	72%	(73%)	14%	(11%)	11%	(8%)	14%	(6%)
Partial buy-out or buy-in	6%	(4%)	78%	(74%)	16%	(22%)	1%	(2%)	-	(-)
Auto-enrolment	3%	(5%)	87%	(88%)	10%	(7%)	2%	(2%)	9%	(5%)
Enhanced transfer values	7%	(3%)	74%	(95%)	19%	(2%)	3%	(3%)	3%	(2%)
Flexible retirement	9%	(7%)	82%	(81%)	9%	(12%)	11%	(5%)	12%	(13%)

Table 37: Defined Contribution Schemes only: have any of the following been implemented or are likely to be implemented in the next 12 months?

	Yes		In next 12 months No		Undecided		In last 12 months Yes		Over 12 months ago Yes	
Increasing employee contributions	9%	(4%)	81%	(78%)	10%	(18%)	5%	(6%)	2%	(4%)
Increasing employer contributions	6%	(8%)	88%	(75%)	6%	(17%)	5%	(7%)	6%	(7%)
Reducing employer contributions	4%	(-)	92%	(93%)	4%	(7%)	-	(-)	-	(-)
Changing from fixed rate to matched contributions	5%	(-)	89%	(85%)	6%	(15%)	-	(8%)	8%	(7%)
Introducing new investment funds/options	51%	(41%)	36%	(39%)	13%	(20%)	24%	(25%)	31%	(7%)
Scheme salary sacrifice	36%	(9%)	54%	(78%)	10%	(13%)	11%	(12%)	14%	(18%)
Switching to contract-based or master trust admin	14%	(8%)	79%	(75%)	7%	(17%)	8%	(-)	9%	(-)
Option of income drawdown	5%	(8%)	89%	(75%)	6%	(17%)	3%	-	4%	(3%)
Integration with flexible benefits package	4%	(8%)	91%	(79%)	5%	(13%)	4%	(-)	6%	(8%)
Auto-enrolment	6%	(4%)	87%	(83%)	7%	(13%)	1%	(5%)	3%	(3%)

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8.0 Auto-enrolment and NEST



8.0 Auto-enrolment and NEST

At the time of writing, gradually from 2012 most employees earning between around £5,000 and £33,500 per annum (to be updated from these 2006/7 levels to probably between around £6,000 to £44,000) will be automatically enrolled into either the National Employment Savings Trust (NEST) scheme or an employer-sponsored 'qualifying' pension scheme that is equivalent or better. The intention is for employees, to eventually contribute, after phasing, a minimum of 4% of band earnings to NEST or a 'qualifying scheme', matched by a minimum 3% employer contribution and 1% tax relief.

Employees will have the right to opt out of both NEST and qualifying schemes and the regime will be phased in over a five year period.

Levelling down threat soars as sponsors and schemes wake up to possible cost increases

Ahead of 2012, some 16% of schemes are likely to decide to auto-enrol all employees into their existing qualifying company schemes - a sharp reduction of 27 points on a year ago (see Table 38).

As auto-enrolment is likely to add to scheme costs with more employees participating in existing qualifying schemes, 51% of schemes (up 17 points on a year ago) now say they are likely to revise current scheme benefits to hold down costs.

Come 2012, 22% of defined contribution schemes say they may opt some employees into NEST rather than auto-enrol into their company scheme, and 10% say they may close their existing arrangements entirely.

Close to half the schemes felt NEST and the implementation of employer duties would have no effect on them. However, particularly among defined contribution schemes, three-quarters recognise that their costs will increase as the number of scheme members rises in the wake of auto-enrolment.

Rightly or wrongly, only just over half of the defined contribution schemes felt the benefits presently offered by their schemes are superior to NEST, allowing them to pass the qualifying test.

Three-quarters of schemes said the one month window to effect automatic enrolment into schemes under the then published draft regulations was unrealistic (see Table 39).

Opt out estimates of 40% from defined contribution schemes

Schemes expect 25% of employees to opt out from NEST or qualifying schemes, with this rising to 40% where the qualifying scheme offered is a defined contribution arrangement. In reality, the eventual level of opt outs is likely to be driven by the economic conditions at the time of launch and the effectiveness of the marketing campaign in the run up to 2012 and beyond.

Table 38: All schemes: are you likely to decide to auto-enrol all employees into your company scheme(s) ahead of 2012?



Given more employees may be auto-enrolled in your company scheme in 2012, are you likely to review your pension arrangements and revise the benefits offered under your company scheme?



Might you close your company scheme(s) and opt to put some or all employees into NEST from 2012?

	Yes	
Some employees	12%	(15%)
All employees	4%	(4%)

Table 39: All schemes: how do you think the implementation of the employer duties and NEST will affect your existing pension scheme?

No effect	47%	(45%)
Increased costs	39%	(15%)
More new members	36%	(25%)
Fewer new members	2%	(6%)

(Note: more than one answer possible)

Currently, does your company pension scheme(s) meet the qualifying test and provide better benefits than NEST?



The published regulations provide for a maximum one month window to effect automatic enrolment. Do you think this is a realistic timescale to provide employees with the enrolment information and to achieve active membership?



Based on experience, once auto-enrolment is in place, how many employees (as a percentage of your workforce) do you estimate would then opt out of either your qualifying scheme or NEST?

Average: 25% (31%) Range: 0 - 98% (0 - 90%)

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9.0 Trusteeship and governance



9.0 Trusteeship and governance

Training and data quality issues are being addressed, but are the risk challenges?

Training by third-party advisers, training via the online Trustee Toolkit and regular attendance at seminars are again the three leading ways in which trustees are complying with the Pensions Regulator's trustee knowledge and understanding requirements (see Table 40).

Supporting this training picture, eight out of ten schemes hold between three and six trustee meetings each year, with seven out of ten reviewing administration performance at each meeting.

Stewardship reports from administrators are required for each meeting by close to nine out of ten schemes, with a marked advance in this requirement compared to a year ago.

A quarter of schemes now have a specific administration sub-committee (up 5 points on last year).

Trustees keep advisers on their toes

Nine out of ten schemes regularly review their advisers, with investment managers subject to the highest incidence of reviews over the last five years, being reviewed by 86% of schemes, followed by scheme administration providers and investment consultants (see Table 41).

Legal advisers and auditors have experienced the lowest rate of reviews over the last five years.

Are scheme risks being addressed in the round?

'Investment strategy', 'employer's ability to fund scheme' and 'non-compliance with legislation' are seen as the top three risks impacting on the management of schemes (see Table 42).

However, the ranking in the list of risks is noticeably different between defined benefit and defined contribution schemes. In the latter case, for instance, trustees rank 'contributions paid in line with schedule' and 'administration errors' higher than in the case of defined benefit schemes, where the 'employer's ability to fund the scheme' and 'non compliance with

legislation' figure more strongly.

Mirroring this, the priority of mitigating factors and controls to address the risks faced by schemes is also different between defined benefit and defined contribution schemes. For defined benefit schemes, 'regular employer covenant reviews' are a top priority, whereas 'monitoring investment performance' is the top priority for defined contribution schemes. These responses highlight the difficult and different challenges for those trustees who are responsible for managing both types of schemes at one and the same time, with inevitably limited resources and restricted time availability (see Table 43).

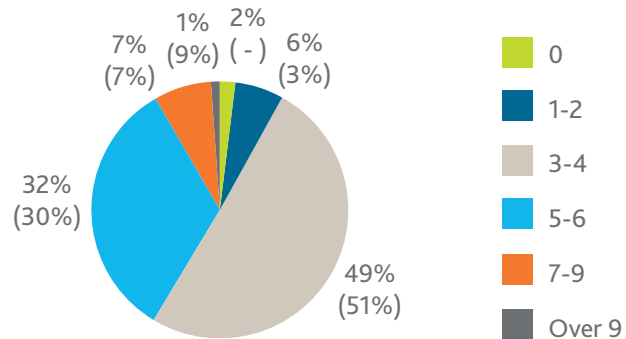
The question must be asked: where trustees are increasingly responsible for two different types of scheme, are these being managed in an equally rigorous manner, or does one of the schemes, because of a more rigorous regulatory regime, take a higher priority in terms of agenda time and overall attention?

Table 40: All schemes: what training options do the trustees use to comply with TKU legislation?

Training by third-party advisers	90% (92%)
Completion of online Trustee Toolkit	80% (80%)
Regular attendance at seminars	67% (65%)
Self-assessment of knowledge gaps	60% (77%)
Training by in-house pensions department	58% (44%)

(Note: more than one answer possible)

What is the frequency of trustee meetings in a 12 month period?



Is administration performance reviewed at each trustee meeting?



If 'yes', does the administrator provide a stewardship report on the scheme?



Do the trustees have a specific administration sub-committee?



Table 41: All schemes: do the trustees regularly review their scheme advisers?



Please state the last time your advisers were formally reviewed

	In the last 5 years
Investment managers	86%
Administrator	72%
Investment consultant	48%
Pensions consultant	41%
Legal adviser	33%
Actuary	32%
Auditor	31%

Table 42: All schemes: legislation requires trustees to implement adequate internal controls to identify and mitigate risks to their schemes. Which are the biggest risks impacting on the management of your schemes?

Ranked Order		
1	Investment strategy	(1)
2	Employer's ability to fund scheme	(2)
3	Non-compliance with legislation	(3)
4	Non-compliance with scheme rules	(5)
5	Contributions paid in line with schedule	(4)
6	Performance of scheme advisers	(7)
7	Security/accuracy of data	(6)
8	Administration errors	(8)
9	Conflicts of interest	(9)
10	Fraudulent claims	(10)

Table 43: All schemes: what mitigating factors and controls do the trustees have in place to minimise risk?

Ranked Order		
Monitor performance of investments	1	(3)
Hold regular trustee meetings	2	(1)
Regular employer covenant review	3	(2)
Regular review of Statement of Investment Principles	4	(4)
Record risks and controls on register	5	(6)
Trustee training	6	(5)
Compliance audits and reports for third parties	7	(8)
Regular review of scheme rules	8	(10)
System recovery plans/back up procedures	9	(9)
Regular review of scheme advisers	10	(7)
Undertake data cleansing exercise	11	(11)
Undertake a key personnel risk review	12	

Schemes accept data quality challenge

Close to seven out of ten schemes say they have undertaken a formal exercise to assess the quality of their data, as recommended by the Pensions Regulator (TPR) (see Table 44).

On the whole, this has been conducted by in-house teams and third-party administrators. Over two-thirds of schemes say they will review the quality of data annually or more often. Given the TPR's latest statement on a tougher approach to poor record-keeping, it is clear that this is not a matter where schemes can expect a casual approach to data records being viewed to be acceptable. Whilst schemes may have reviewed the quality of their data, it seems clear from the TPR's recent statements that the outcomes are at present falling below expectations².

Where a review of records has not yet commenced, two-thirds of schemes say they will start such an exercise within the next year.

Contact with the Pensions Regulator

Scheme funding issues have prompted the greatest number of scheme communications with TPR over the last year with approaches by close to one in five schemes. In all probability, this is a considerable underestimate of the overall contact that will have taken place between schemes' actuarial advisers and the TPR, particularly where schemes are in deficit or requests are being made to extend deficit recovery periods.

This year, there has been a marginal increase in the reporting of 'notifiable events' by schemes reporting to the survey, balanced by a reduction in clearance references, the latter presumably being due to generally lower volumes of company acquisitions and sales due to present economic and financial conditions (see Table 45).

²See TPR press release dated 2 February 2010, 'Tougher approach on poor record-keeping'

Table 44: All schemes: in light of TPR's guidance on record-keeping, have trustees undertaken a formal exercise to assess the quality of scheme data?



If 'yes', who did you commission to do the work?

In-house pensions administration team	55%
Third-party administrator	37%
Specialist data management provider	20%
Software provider	8%
Scheme actuary	16%

(Note: more than one answer given)

If 'no', please state when this exercise will commence?



Will trustees formally review their data quality on a regular basis?



If 'yes', over what period?

More regularly than annually	29%
Annually	43%
Over 1 - 3 years	26%
4 years or more	2%

Table 45: All schemes: have the trustees/sponsoring employer communicated with TPR over the last 12 months with any of the following issues?

Reporting a breach of the law	1%	(3%)
Notifiable events	12%	(8%)
Clearance	4%	(8%)
Scheme funding issues	16%	(18%)

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10.0 Statistical tables and data



10.0 Statistical tables and data

Table 1: Total assets of schemes covered by the Survey (£ bn)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
All schemes	297.3	220.5	222.7	169.2	153.4	125.6	131.4	142.6	183.9	176.4	158.5	110.5	92.2	65.9	56.8	38.9	36.6
Final Salary	254.3	186.7	184.5	131.6	122.4	111.8	121.9	134.7	173.6	169							
Career Average	5.7	4.1	4.2	4.5	3.5	2.5											
Hybrid - DB/DC	27.7	22.6	23.4	19.1	0.8	1.2	0.8	0.6	0.8	0.4							
Occupational DC	8.2	7.1	10.6	10.8	10.6	9.3	7.5	6.7	9	6.6							
GPP/Personal Pensions*	1.4	NA	NA	NA	NA	NA	NA	NA	NA	0.2							
Stakeholder*	1.4	NA	NA	0.4	0.3	0.1	0.1	0.1	NA								
Other	1.4	NA	NA	2.8	15.8	0.7	1.2	0.5	0.5	0.3							

(Note: Most respondents reporting on GPP/Personal Pensions/Stakeholders do not indicate total scheme assets)

Table 2: Total membership of schemes covered by Survey

1994	1995	1996	1997	1998	1999	2000	2001	2002
1,271,078	1,537,806	1,839,694	2,731,502	2,449,296	3,268,231	3,509,088	3,836,438	4,469,553
2003	2004	2005	2006	2007	2008	2009	2010	
3,826,675	3,911,040	3,865,282	4,389,360	4,779,450	6,077,720	6,310,053	5,399,474	

Table 3: Size of schemes in Survey (by membership - all categories)

Up to 1,999	2,000 - 4,999	5,000 - 9,999	10,000+
42% (24%)	12% (26%)	16% (22%)	30% (28%)

Table 4: Make up of membership and status of schemes

	Actives	Deferred	Pensioners	Schemes closed to new entrants	Schemes closed to future accruals
Final Salary (private sector)	29% (25%)	34% (37%)	37% (38%)	76% (71%)	13% (13%)
Final Salary (public sector)	36% (37%)	31% (27%)	33% (36%)	6% (3%)	
Career Average	39% (51%)	43% (30%)	18% (19%)	5% (6%)	(6%)
Hybrid: DB/DC	35% (32%)	46% (46%)	19% (22%)	30% (10%)	
Occupational Money Purchase	60% (68%)	36% (30%)	4% (2%)	6% (8%)	
Group Personal Pensions	77% (84%)	22% (15%)	1% (1%)		
Stakeholder	89% (93%)	11% (7%)			
Total all schemes	34%	34%	32%		

(Note: 31% (28% in 2009) of employees do not join schemes made available to them)

Table 5: Do you offer defined contribution (DC) arrangements?

To new employees	To all employees
55% (33%)	46% (47%)

Is the DC scheme a section of an old DB scheme or is it a separate scheme?

Section of DB scheme	Separate scheme
47% (38%)	53% (62%)

What is the average employer and employee contribution into your DC scheme?

% of total earnings		
Employer	7%	(7%)
Range	2 - 20%	(3% > 18%)
Employee	4%	(4%)
Range	0 - 8%	(0 > 6%)

Is there a matching contribution element?

Yes	No
61% (61%)	39% (39%)

When did you establish your DC arrangements?

In last year	In last 2 years	In last 5 years	5 - 10 years ago	+10 years ago
5% (6%)	9% (10%)	20% (29%)	43% (30%)	23% (25%)

Table 6: NAPF Quality Mark

Does your DC scheme qualify for the NAPF Pension Quality Mark?

Yes	No	Not sure	Not aware what this is
26% (28%)	47% (10%)	23% (-)	4% (62%)

Are you considering applying for the Award over next 12 months?

Yes	No	We already have
18%	80%	2%

Table 7: Over the last 5 years, have the total costs of managing your pension scheme(s) grown more than your other business overheads?

Yes	No	Same rate
60% (64%)	40% (13%)	0% (23%)

If 'yes', what are the main reasons?

	2010 all schemes	2009 all schemes
Fund performance	1	4 =
Professional fees	2	3
Changes in long-term assumptions	3	2
PPF and TPR costs	4	1
Costs of compliance	5	4 =
Accounting costs	6	6
Changes in pension provision	7	7
Scheme improvements	8	9
More employees joining schemes	9	8

Table 8: All schemes: pension scheme administration sample

In-house administered	Third-party administered
36% (41%)	64% (69%)

Table 9: All Schemes: comparison of in-house and third-party administration costs since 1996 (to nearest £)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Up to 1,999 members															
In-house	£73	£64	£66	£69	£72	£71	£69	£68	£72	£76	£80	£87	£94	£97	£105
Third-party	£64	£62	£63	£64	£67	£67	£67	£67	£71	£76	£80	£89	£97	£101	£107
2,000 - 4,999 members															
In-house	£45	£50	£53	£54	£57	£55	£57	£59	£61	£64	£67	£71	£77	£77	£82
Third-party	£37	£38	£39	£43	£45	£45	£48	£49	£51	£53	£56	£62	£67	£74	£79
5,000 - 9,999 members															
In-house	£36	£39	£41	£42	£43	£41	£44	£46	£47	£49	£52	£56	£59	£60	£64
Third-party	£30	£32	£33	£34	£35	£35	£36	£38	£39	£41	£44	£48	£51	£55	£59
10,000+ members															
In-house	£30	£32	£33	£34	£35	£36	£37	£38	£39	£41	£43	£46	£47	£46	£47
Third-party	£22	£23	£24	£26	£26	£27	£28	£29	£30	£31	£33	£36	£37	£39	£41

Table 10: All schemes: cost difference between in-house and third-party administered schemes

Average costs per Member, to nearest £	In-house	Third-party	Increase in last 12 months	Cost gap per capita
Up to 1,999 members	£105 (£97)	£107 (£101)	8% 6%	£2
2,000 - 4,999	£82 (£77)	£79 (£74)	6% 7%	£3
5,000 - 9,999	£64 (£60)	£59 (£55)	7% 7%	£5
10,000+	£47 (£46)	£41 (£39)	2% 5%	£6

Table 11: PPF Levy – Costs

Per head average	2010
PPF Scheme-based Levy	£14.00
PPF Risk-based Levy	£46.00
Total	£60.00

Table 12: All schemes: main reasons for continuing current administration arrangement

	All schemes	In-house	Third-party
Reliability of service	1 (1)	1 (1)	1 (2)
Specialist staff	2 (2)	2 (5)	2 (1)
Established working relationships	3 (6)	4 (7)	3 (5)
Greater efficiency	4 (4)	5 (3)	5 (4)
Improved control of administration	5 (3)	7 (2)	4 (7)
IT systems	6 (12)	8 (12)	5 (12)
Faster response times	7 (7)	3 (4)	9 (11)
Complexity of legislation	8 (5)	12 (9)	8 (3)
Improved cost control	9 (10)	6 (6)	10 (9)
Reduced management time	10 (9)	11 (11)	7 (6)
Lower cost	11 (8)	9 (8)	11 (8)
Improved communication	12 (11)	10 (10)	12 (10)

Table 13: All schemes: when choosing a third-party administration company what do you see as the most important factors?

	All schemes	In-house	Third-party
Experience of organisation	1 (1)	1 (1)	1 (1)
Specialist technical support	2 (3)	2 (4)	2 (3)
Reputation of company	3 (4)	4 (7)	4 (2)
Financial strength	4 (6)	3 (5)	3 (4)
Cost	5 (5)	7 (6)	5 (6)
Robust governance framework	6 (2)	5 (3)	6 (5)
Tailored service	7 (7)	6 (2)	7 (9)
Recommendation by pension advisor/actuary/procurement	8 (12 =)	8 (10)	8 (7)
Size of operation	9 (11)	10 (12)	10 (8)
Recommended by other scheme	10 (10)	9 (9)	9 (10)
Quality accreditations	11 (8)	11 (8)	11 (11)
Provision of packaged service	12 (12 =)	12 (13)	12 (12)
Web offering	13 (14)	13 (14)	13 (13)

Table 14: All schemes: is your administration delivered to target turnaround times for certain tasks?

	Yes		No	
All schemes	95%	(94%)	5%	(6%)
In-house	93%	(90%)	7%	(10%)
Third-party	96%	(96%)	4%	(4%)

If 'yes', when were these last reviewed?

	Continually assessed		Last year		1-3 years ago		3-5 years ago		+5 years ago
All schemes	31%	(51%)	16%	(19%)	38%	(19%)	15%	(5%)	(6%)
In-house	32%	(55%)	34%	(22%)	27%	(17%)	8%	(6%)	
Third-party	31%	(49%)	6%	(18%)	43%	(21%)	20%	(5%)	(7%)

Table 15: All schemes: sixteen year comparison of number of in-house schemes and third-party schemes with target turnaround times for certain tasks

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
In-house	42%	46%	64%	66%	66%	68%	64%	71%	67%	68%	67%	76%	84%	89%	90%	93%
Third-party	46%	53%	69%	81%	82%	84%	83%	86%	83%	84%	96%	96%	97%	96%	96%	96%

Table 16: All schemes: are service standards formalised into any agreement with the administrators and/or trustees?

	Yes	No
All schemes	93% (87%)	7% (13%)
In-house	87% (79%)	13% (21%)
Third-party	95% (92%)	5% (8%)

Does your administration include the measurement of end-to-end processing times (i.e. Total elapsed time from beginning to end of process)?

	Yes	No
All schemes	69% (64%)	31% (36%)
In-house	66% (58%)	34% (42%)
Third-party	71% (66%)	29% (34%)

Table 17: All schemes: has your administration service met targets expected in terms of those below:

	Exceeded		Achieved		Failed	
Meeting service standards						
All schemes	32%	(16%)	65%	(79%)	3%	(5%)
In-house	49%	(26%)	50%	(74%)	1%	
Third-party	22%	(12%)	75%	(81%)	3%	(7%)
Cost						
All schemes	17%	(10%)	76%	(80%)	7%	(10%)
In-house	22%	(27%)	71%	(73%)	7%	
Third-party	14%	(3%)	79%	(83%)	7%	(14%)
Reduced management time						
All schemes	9%	(3%)	82%	(84%)	9%	(13%)
In-house	12%	(5%)	73%	(79%)	15%	(16%)
Third-party	6%	(2%)	89%	(86%)	5%	(12%)
Quality of output						
All schemes	15%	(3%)	82%	(89%)	3%	(8%)
In-house	33%	(5%)	65%	(95%)	2%	
Third-party	4%	(2%)	92%	(86%)	4%	(12%)
Accuracy of output						
All schemes	14%	(2%)	81%	(92%)	5%	(6%)
In-house	32%	(5%)	63%	(95%)	7%	
Third-party	4%		91%	(90%)	5%	(10%)
Overall member experience						
All schemes	13%	(7%)	84%	(90%)	3%	(3%)
In-house	25%	(6%)	75%	(94%)		
Third-party	6%	(7%)	90%	(88%)	4%	(5%)

Compared to a year ago, have your expectations of the administration service changed?

Increased	Decreased	Stayed the same
34% (18%)	1% (0%)	65% (82%)

Table 18: All Schemes: have you or your third-party administrator produced any of the following documents for circulation to members?

	In the last 18 months		Plan to in next 12 months			
	Paper-based	Web-based	Web-based	Paper-based	Paper-based	Web-based
Shortened Annual Report and Accounts – for members	71% (76%)	33% (34%)	52% (54%)	21% (32%)		
Newsletters (other than Reports and Accounts Newsletter)	59% (61%)	32% (24%)	38% (40%)	20% (29%)		
Pensioner only newsletters	20% (18%)	4% (6%)	13% (16%)	4% (6%)		
Briefing on legislative changes	32% (38%)	20% (16%)	16% (11%)	18% (9%)		
Total Reward Statements	13% (38%)	9% (13%)	9% (17%)	7% (10%)		
Summary funding statements (DB only)	96% (90%)	30% (24%)	92% (60%)	17% (21%)		
Member financial education material	25% (48%)	18% (11%)	12% (25%)	11% (12%)		
New scheme booklet	35% (46%)	29% (17%)	23% (29%)	19% (20%)		
Investment communication regarding market	27% (36%)	12% (13%)	19% (17%)	13% (12%)		

Table 19: All schemes: who provides your scheme communication?

	%
In-house pensions team	46% (43%)
Third-party administrator with comms function	25% (20%)
Independent communications provider	18% (19%)
Benefits consultancy with communications function	10% (9%)
In-house HR/benefits communications team	8% (17%)
Other	1% (2%)

(Note: more than one answer possible)

Table 20: All schemes: what is your approximate annual spend on scheme communication?

	%
More than £50,000	19% (24%)
£20,000 - £50,000	22% (31%)
£10,000 - £20,000	32% (22%)
£5,000 - £10,000	17% (14%)
Less than £5,000	10% (9%)

How would you describe the trustees approach to allocating budget for communication?

	%
At the start of each scheme year for the whole year ahead	43%
On a project by project basis throughout the year	24%
On an ad hoc basis when the need arises	33%

Do your trustees have a dedicated sub-committee with the assigned responsibility for communication?

	%
Yes	27%
No, but we are considering this	9%
No, we have never considered this	64%

Table 21: Does your scheme have a website for members to access?

Yes	No
73% (61%)	27% (39%)

If 'yes' who provides it?

Employer	Trustee	Third-party Administrator
39% (40%)	25% (26%)	35% (34%)

Does the site contain areas that are devoted to:

	Yes
Purely static information	100% (100%)
Comment/Feed-back from members	39% (38%)
Interactive member enquiries	54% (58%)

Table 22: All schemes: do you or your third-party administrator provide members with web-enabled access to their individual scheme records?

Yes	No
29% (27%)	71% (73%)

If 'yes', is it:

View Only	View and Update	What if? projections
46% (52%)	54% (48%)	73% (69%)
Open to all members	Open to active members only	Reducing number of member queries
71% (59%)	29% (41%)	44% (48%)
Increasing number of member queries	Improving member experience	Providing value for money
2% (4%)	54% (48%)	24% (33%)

What level of useage is there?

% of members registered	% of members actively using facility
57% (70%)	22% (15%)

If 'no', when will you provide web-enabled access?

This year	Within 2 years	Within 5 years	Not sure	No intention of providing
8% (14%)	30% (28%)	25% (11%)	18% (25%)	19% (22%)

Table 23: All schemes: which of the following new media are you using for scheme communication?

	Already use	Intend to use in next 12 months
CD/DVD presentation	14% (9%)	4% (8%)
Online automated presentation	6% (2%)	1% (3%)
Podcasts	1% (1%)	5% (3%)
SMS (text messaging)	1% (1%)	8% (2%)

Table 24: All schemes: do you think your scheme's current level of communication with members is:

Not as good as it should be	Adequate	Good	Excellent
7% (17%)	30% (49%)	51% (27%)	13% (7%)

How has your level of investment in member communication changed over the last 12 months?

Increased	Decreased	No change
31% (45%)	13% (1%)	56% (54%)

Do you plan to review the quality of your communication with members over the next 12 months?

Yes	No
54% (68%)	46% (32%)

Table 25: In-house administered schemes: have you ever considered using a third-party administrator?

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Yes	62%	68%	64%	66%	62%	74%	76%	73%	69%	71%	82%	76%	69%	74%	68%
No	38%	32%	36%	34%	38%	26%	24%	27%	31%	29%	18%	24%	31%	26%	32%

If 'yes', when was this last considered?

In last year	In last 5 years	Over 5 years ago
20% (25%)	61% (55%)	19% (20%)

If 'no', are you likely to consider using third-party administrators in the future?

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Yes	15%	17%	19%	16%	22%	23%	9%	8%	9%	10%	11%	41%	35%	38%	63%
Maybe	33%	33%	33%	33%	30%	30%	35%	37%	45%	45%	38%				
No	52%	50%	48%	51%	48%	47%	56%	55%	46%	45%	51%	59%	65%	62%	37%

Table 26: In-house administered schemes: top administration system providers

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Axise/Aquila/Heywood	1	1	2	1	2	2	2	2	2	2	2	2
Profund	2	2	1	2	1	1	1	1	1	1	1	1
Compendia	3	6	5									
Northgate	4	5										
Procentia	5	7										

When did you last review your software?

In last year	In last 3 years	In last 5 years	Over 5 years ago
9% (21%)	47% (39%)	13% (21%)	31% (19%)

Did you change provider?

Yes	No
30% (14%)	70% (86%)

Are you planning a review in the near future?

Yes	No
35% (17%)	65% (83%)

Table 27: In-house administered schemes: what does your software presently provide and what would you like to develop as a priority in the next 12 months?

	Software currently provides	Additional priority development for next 12 months
Automated pensions calculations	81%	6%
Electronic document management	77% (70%)	9% (15%)
Automated letter/quote generation	73%	7%
Integrated workflow/case mgt	71% (69%)	7% (7%)
End user reporting	51%	7%
On-line member access	39% (36%)	23% (18%)
Web browser access for users	30% (19%)	17% (14%)
Straight through investment processing	26% (30%)	11% (12%)
Integrated finance/cashbook functions	22% (26%)	11% (11%)
Integrated telephony - call logging	17% (11%)	11% (5%)
Integrated SMS/email generation	11%	7%

Table 28: Third-party administered schemes: who provides outsourced services?

	1995	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Specialist third-party administrator	32%	32%	49%	53%	63%	59%	62%	61%	56%	47%	45%	41%	49%
Pension consultant/actuary offering an administration service	53%	66%	51%	47%	34%	36%	32%	33%	32%	37%	41%	42%	31%
Insurance company	15%	2%	-	-	3%	5%	5%	4%	6%	9%	6%	7%	9%
Insured scheme including administration	-	-	-	-	-	-	1%	2%	6%	7%	8%	10%	11%

Which of the following additional services does your administrator provide to you?

Member communication	Annuity procurement	Pension consulting	Investment consulting
42% (28%)	32% (12%)	27% (30%)	19% (17%)
Risk benefit services	Actuarial	Scheme secretarial	Management consulting
14% (9%)	14% (24%)	6%	3% (5%)

Would you consider one 'bundled' provider to consolidate costs?

Yes	No	Already bundled
12% (16%)	72% (84%)	16% (0%)

Table 29: Third-party administered schemes: is the use of a third-party administrator part of a wider business strategy to outsource non core activities?

Yes	No
51% (46%)	49% (54%)

Do you already allow the offshoring of any part or all of your pension administration function?

Yes	No
11% (9%)	89% (91%)

Do you offshore any of the functions below or would you consider in the future?

	Already offshore	Would consider in future
Back-office function	6%	6%
Pensioner payroll	4% (4%)	9% (9%)
Drafting scheme accounts	2% (3%)	5% (10%)
Member contact	1% (2%)	2%

Table 30: Third-party administered schemes: when did you first move to third-party administration of the scheme?

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
In last year	8%	12%	14%	9%	14%	4%	9%	5%	4%	5%	2%	4%	5%
In last 2 years	18%	19%	19%	13%	17%	12%	8%	4%	7%	9%	5%	4%	5%
In last 5 years	22%	21%	21%	26%	23%	21%	31%	19%	16%	14%	9%	8%	13%
Between 5 and 10 years ago	52%	48%	46%	52%	46%	63%	52%	72%	18%	21%	32%	36%	34%
Over 10 years ago									55%	51%	52%	48%	43%

When was your last provider review carried out?

In last year	In last 3 years	In last 5 years	Over 5 years ago
20% (31%)	30% (19%)	22% (22%)	28% (28%)

Did you change your provider as a result?

Yes	No
28% (24%)	72% (76%)

Did you use a consultant in the review?

Yes	No
43% (44%)	57% (56%)

Table 31: Third-party administered schemes: do you have a formal contract in place for scheme administration?

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Yes	62%	68%	69%	74%	74%	86%	90%	92%	89%	94%	93%	95%	93%	95%	98%	98%
No	38%	32%	31%	26%	26%	14%	10%	8%	11%	6%	7%	5%	7%	5%	2%	2%

If 'yes', how long is the contract for?

Rolling	Less than 3 years	Between 3 and 5 years	Over 5 years
45% (41%)	18% (13%)	34% (42%)	3% (4%)

Table 32: Third-party administered schemes: what are your contract charges predominantly based on?

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Per capita and AMC	14%	14%	25%	16%	14%	12%	16%	22%	11%	24%	22%	27%	25%
Fixed price only	31%	30%	32%	21%	46%	29%	32%	34%	34%	21%	28%	31%	28%
Per capita and AMC plus transactions													12%
Transaction based										9%	5%	4%	9%
Time charges only											3%	2%	9%
Per capita/time								2%	5%	5%	5%	6%	6%
Other													11%

What would your contract preference be?

Fixed price only	44%	(52%)
Per capita and AMC	27%	(42%)
Transaction based	21%	(10%)
Time charges only	8%	(4%)

(Note: more than one answer possible)

Table 33: Third-party administered schemes: does your third-party contract include penalties or a reduction in charges in the event of poor performance?

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Yes	7%	13%	23%	35%	38%	38%	39%	43%	41%	39%	39%	45%	44%	51%	49%
No	93%	87%	77%	65%	62%	62%	61%	57%	59%	61%	61%	55%	56%	49%	51%

If 'yes', have you used them?

Yes	5%	(18%)
If 'yes', in last 12 months?	66% of DB only	(41%)

Table 34: Third-party administered schemes: does your third-party contract include incentives for exceptional service?

Yes	No
10% (5%)	90% (95%)

If 'yes', have you used them?

Yes	77% (50%)
If 'yes', in last 12 months?	75% (50%)

Table 35: Third-party administered schemes: do you have access to your members' records on your administrator's computer systems?

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Yes	22%	26%	48%	45%	47%	49%	51%	46%	48%	44%					
Yes, via admin software											24%	14%	20%	24%	20%
Yes, via the Internet											23%	31%	33%	36%	36%
No	78%	74%	52%	55%	53%	51%	49%	54%	52%	56%	53%	55%	47%	40%	44%

Table 36: Defined Benefit Schemes only: have any of the following been implemented or are likely to be implemented in the next 12 months?

	Yes		In next 12 months No		Undecided		In last 12 months Yes		Over 12 months ago Yes	
Closing scheme to new entrants	9%	(10%)	86%	(70%)	5%	(20%)	7%	(10%)	69%	(61%)
Closing scheme for all future accrual	15%	(12%)	69%	(66%)	16%	(22%)	3%	(7%)	10%	(6%)
Reducing future DB accrual	5%	(8%)	83%	(82%)	12%	(10%)	6%	(5%)	2%	(6%)
Switching to career average	6%	(7%)	83%	(73%)	11%	(20%)	4%	(3%)	3%	(2%)
Increasing regular employer contributions	14%	(16%)	77%	(68%)	9%	(16%)	7%	(8%)	13%	(22%)
Making special one-off contributions	13%	(46%)	76%	(44%)	11%	(10%)	27%	(34%)	22%	(36%)
Increasing employee contributions	6%	(13%)	79%	(69%)	15%	(18%)	8%	(6%)	9%	(12%)
Scheme salary sacrifice	14%	(16%)	72%	(73%)	14%	(11%)	11%	(8%)	14%	(6%)
Partial buy-out or buy-in	6%	(4%)	78%	(74%)	16%	(22%)	1%	(2%)	-	(-)
Auto-enrolment	3%	(5%)	87%	(88%)	10%	(7%)	2%	(2%)	9%	(5%)
Enhanced transfer values	7%	(3%)	74%	(95%)	19%	(2%)	3%	(3%)	3%	(2%)
Flexible retirement	9%	(7%)	82%	(81%)	9%	(12%)	11%	(5%)	12%	(13%)

Table 37: Defined Contribution Schemes only: have any of the following been implemented or are likely to be implemented in the next 12 months?

	Yes		In next 12 months No		Undecided		In last 12 months Yes		Over 12 months ago Yes	
Increasing employee contributions	9%	(4%)	81%	(78%)	10%	(18%)	5%	(6%)	2%	(4%)
Increasing employer contributions	6%	(8%)	88%	(75%)	6%	(17%)	5%	(7%)	6%	(7%)
Reducing employer contributions	4%	(-)	92%	(93%)	4%	(7%)	-	(-)	-	(-)
Changing from fixed rate to matched contributions	5%	(-)	89%	(85%)	6%	(15%)	-	(8%)	8%	(7%)
Introducing new investment funds/options	51%	(41%)	36%	(39%)	13%	(20%)	24%	(25%)	31%	(7%)
Scheme salary sacrifice	36%	(9%)	54%	(78%)	10%	(13%)	11%	(12%)	14%	(18%)
Switching to contract-based or master trust admin	14%	(8%)	79%	(75%)	7%	(17%)	8%	(-)	9%	(-)
Option of income drawdown	5%	(8%)	89%	(75%)	6%	(17%)	3%	-	4%	(3%)
Integration with flexible benefits package	4%	(8%)	91%	(79%)	5%	(13%)	4%	(-)	6%	(8%)
Auto-enrolment	6%	(4%)	87%	(83%)	7%	(13%)	1%	(5%)	3%	(3%)

Table 38: All schemes: are you likely to decide to auto-enrol all employees into your company scheme(s) ahead of 2012?

Yes	No
16% (43%)	84% (57%)

Given more employees may be auto-enrolled in your company scheme in 2012, are you likely to review your pension arrangements and revise the benefits offered under your company scheme?

Yes	No
51% (34%)	49% (66%)

Might you close your company scheme(s) and opt to put some or all employees into NEST from 2012?

	Yes
Some employees	12% (15%)
All employees	4% (4%)

Table 39: All schemes: how do you think the implementation of the employer duties and NEST will affect your existing pension scheme?

No effect	47%	(45%)
Increased costs	39%	(15%)
More new members	36%	(25%)
Fewer new members	2%	(6%)

(Note: more than one answer possible)

Currently, does your company pension scheme(s) meet the qualifying test and provide better benefits than NEST?

Yes	No	Don't Know
82%	4%	14%

The published regulations provide for a maximum one month window to effect automatic enrolment. Do you think this is a realistic timescale to provide employees with the enrolment information and to achieve active membership?

Yes	No
25%	75%

Based on experience, once auto-enrolment is in place, how many employees (as a percentage of your workforce) do you estimate would then opt out of either your qualifying scheme or NEST?

Average: 25% (31%) Range: 0 - 98% (0 - 90%)

Table 40: All schemes: what training options do the trustees use to comply with TKU legislation?

Training by third-party advisers	90% (92%)
Completion of online Trustee Toolkit	80% (80%)
Regular attendance at seminars	67% (65%)
Self-assessment of knowledge gaps	60% (77%)
Training by in-house pensions department	58% (44%)

(Note: more than one answer possible)

What is the frequency of trustee meetings in a 12 month period?

	%	
0	2%	(-)
1-2	6%	(3%)
3-4	49%	(51%)
5-6	32%	(30%)
7-9	7%	(7%)
Over 9	1%	(9%)

Is administration performance reviewed at each trustee meeting?

Yes	No
74% (81%)	26% (19%)

If 'yes', does the administrator provide a stewardship report on the scheme?

Yes	No
86% (66%)	14% (34%)

Do the trustees have a specific administration sub-committee?

Yes	No
25% (20%)	75% (80%)

Table 41: All schemes: do the trustees regularly review their scheme advisers?

Yes	No
90% (91%)	10% (9%)

Please state the last time your advisers were formally reviewed

	In the last 5 years
Investment managers	86%
Administrator	72%
Investment consultant	48%
Pensions consultant	41%
Legal adviser	33%
Actuary	32%
Auditor	31%

Table 42: All schemes: legislation requires trustees to implement adequate internal controls to identify and mitigate risks to their schemes. Which are the biggest risks impacting on the management of your schemes?

Ranked Order		
Investment strategy	1	(1)
Employer's ability to fund scheme	2	(2)
Non-compliance with legislation	3	(3)
Non-compliance with scheme rules	4	(5)
Contributions paid in line with schedule	5	(4)
Performance of scheme advisers	6	(7)
Security/accuracy of data	7	(6)
Administration errors	8	(8)
Conflicts of interest	9	(9)
Fraudulent claims	10	(10)

Table 43: All schemes: what mitigating factors and controls do the trustees have in place to minimise risk?

Ranked Order		
Monitor performance of investments	1	(3)
Hold regular trustee meetings	2	(1)
Regular employer covenant review	3	(2)
Regular review of Statement of Investment Principles	4	(4)
Record risks and controls on register	5	(6)
Trustee training	6	(5)
Compliance audits and reports for third parties	7	(8)
Regular review of scheme rules	8	(10)
System recovery plans/back up procedures	9	(9)
Regular review of scheme advisers	10	(7)
Undertake data cleansing exercise	11	(11)
Undertake a key personnel risk review	12	

Table 44: All schemes: in light of TPR’s guidance on record-keeping, have trustees undertaken a formal exercise to assess the quality of scheme data?

Yes	No
69% (45%)	31% (55%)

If 'yes', who did you commission to do the work?

In-house pensions administration team	55%
Third-party administrator	37%
Specialist data management provider	20%
Software provider	8%
Scheme actuary	16%

(Note: more than one answer given)

If 'no', please state when this exercise will commence?

In the next 12 months	More than 12 months
69%	31%

Will trustees formally review their data quality on a regular basis?

Yes	No
89% (86%)	11% (14%)

If 'yes', over what period?

More regularly than annually	29%
Annually	43%
Over 1 - 3 years	26%
4 years or more	2%

Table 45: All schemes: have the trustees/sponsoring employer communicated with TPR over the last 12 months with any of the following issues?

Reporting a breach of the law	1%	(3%)
Notifiable events	12%	(8%)
Clearance	4%	(8%)
Scheme funding issues	16%	(18%)

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