2001

eighth annual pension scheme *administration survey* | commissioned by

CAPITA
HARTSHEAD

Part of The Capita Group Plc

Contents

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Introduction

This is the *Eighth Annual Pension Scheme Administration Survey* we have commissioned, examining issues in a market worth well over £1 billion in value. At a time when Stakeholder Pensions are being launched, and there are further changes on the horizon through the acceptance of the Myners Report recommendations by the Government, this survey provides useful insights into the developing trends in scheme administration and practices, and reactions to the Government's reforms.

As an established survey, we are also fortunate that many of the country's largest in-house run and outsourced schemes contribute data and views on the future. This year, schemes with combined assets of £176 billion and over a third of all occupational scheme members responded to the survey questionnaire. This makes the results all the more significant.

In this year's survey, again conducted again by Underline Marketing & Research, we have continued to monitor trends in costs, turnaround times for key tasks and perceptions of service standards to members. Additionally, we have continued to look at topical pension issues, most notably the impact on occupational arrangements of Stakeholder Pensions from April 2001. We asked for schemes' responses on some of the key areas and the results are included in this report. We have also looked at topics like changing scheme structures, pension scheme costs, actions taken in response to pension sharing and more flexibility in AVCs.

Our survey results suggest many organisations will be required to offer access to Stakeholder schemes, with many others considering scheme structure changes to existing occupational scheme rules to avoid the complexity of a further arrangement having to be offered. Whilst the vast majority of schemes have considered the implications of Stakeholder Pensions on their existing arrangements, only just over one-third have decided to extend occupational arrangements to all Stakeholder eligible employees, whilst over one-third have definitely decided not to do so. It is interesting to see that over 80 per cent of employers have decided not to contribute any employer's contribution to a Stakeholder Pension. It will be interesting to see whether this stance will last (and whether the Government will introduce a degree of compulsion if take up of Stakeholder pensions is low)?

Despite the move in many companies to concentrate on core activities, the results of this year's survey point to continuing reluctance amongst a rump of in-house run schemes to even investigate pension administration costs, never mind the pros and cons of outsourcing. We believe schemes should conduct 'health checks' regularly, say every 3 or 5 years, whether they are in-house or third-party run.

Whilst overall service standards of third-party providers are satisfying three-quarters of schemes, these are down, reversing the improvement seen a year ago. I am, of course, worried for the sector when I see the concerns expressed by schemes about service standards. More worrying are the declines in quality and cost saving performance against target. Third-party providers look after upwards of 20 per cent of private sector and 15 per cent of public sector schemes, with growth rates running at over 20 per cent per annum. Standards will need to be improved to maintain this growth.

As would be expected, there is every evidence of schemes moving towards web enabled administration solutions to speed up and improve member communications within both defined benefit and defined contribution schemes. These developments are likely to give a further spur to outsourcing as schemes wrestle with the IT issues involved, but there is evidence from the survey that the outsourced sector must respond with vigour to the new challenges this represents. There is also a growing trend towards the greater use, by both in-house schemes and third-party administrators, of bespoke in-house software, in order to meet the challenge of more efficient service delivery.

Administration cost inflation across schemes has reduced over the last few years after a period of, in many cases, running ahead of other cost increases. Whilst it is as yet uncertain quite when and how some of the Myners' proposals will be introduced, it is clear some could have a considerable impact on costs, notably in the areas of trustee training and the day-to-day management of a more onerous scheme management code. No doubt this will be something we will be looking at next year.

Again this year, for those who want all the facts and figures, we have included the statistical data behind the graphs and charts as a separate statistical appendix.

Finally, I would like to thank all those schemes who assist in providing information for this survey. I am sure you will find the results of great interest.

Mike Addenbrooke
Business Services Director
Capita Hartshead   May 2001

Executive Summary

This *Eighth Annual Pension Scheme Administration Survey* Report, commissioned by Capita Hartshead and undertaken by Underline Marketing and Research, is based on the responses made by 209 occupational schemes to a questionnaire issued in January 2001.

The schemes that responded are, in the main, amongst the larger UK schemes, managing pension fund assets exceeding £176 billion together with several unfunded schemes, with a total membership of 3.8 million lives. The sample represents public and private sector schemes holding around one quarter of total pension fund assets and over one third of members presently covered by UK occupational schemes.

As well as pension scheme administration trends, this year's Survey also examines views on Stakeholder Pensions and other topical issues.

Survey Sample

• The majority of pension schemes covered by this survey are final salary, but increasingly more members are covered by mixed final salary / money purchase arrangements. As a result, some 70 per cent of employees are covered by final salary schemes, around 10 per cent by money purchase, and 20 per cent are not covered by any pension arrangement at all.

• In the sample, significantly fewer part-time employees are covered by pension arrangements than full-timers. Active members form less than 40 per cent of the members covered by schemes in scope to the survey.

Stakeholder Pensions

• Well over 40 per cent of schemes said that under the Government's rules they will be required to offer access to a Stakeholder for groups of employees and individuals in their employ.

• Whilst the vast majority of schemes have considered the implications of Stakeholder Pensions on their existing arrangements, only 36 per cent have decided to extend occupational arrangements to all Stakeholder eligible employees. A further 37 per cent have definitely decided not to do so, with the remainder undecided.

• Where Stakeholder Pension arrangements are being set up, 74 per cent of organisations favour non-trustee based arrangements run by financial services companies.

• Over 81 per cent employers have decided not to contribute any employer's contribution to a Stakeholder Pension. Those that have will, in the main, contribute around 4% of individual earnings.

• The biggest impact of Stakeholder Pensions on existing schemes will be to cause them to be modified to gain exemptions from Stakeholder requirements; followed by schemes offering access to Stakeholders to pay AVCs in lieu of schemes' existing arrangements

Pension costs and scheme changes

• 45 per cent of schemes say their total pension scheme costs (administration and contributions) have grown at a faster rate than other business overheads, with actuarial and funding costs the main culprits, followed by the costs of compliance.

• In the last 5 years, 22 per cent of organisations have either set up a money purchase scheme or have moved mostly new employees into such schemes. 14 per cent of organisations have moved towards flexible benefits packages, and a similar number have placed one or more schemes into wind-up.

• A clear majority of schemes, despite being given greater flexibility, have made no changes to their AVC arrangements. Of those that have, the most favoured change has been to allow members to defer receipt of their AVC Fund until after retirement.

Pension sharing

• 74 per cent of schemes have decided to charge members in cases of pension splitting on divorce, with 82 per cent of these following the NAPF's recommendations. Some 65 per cent of schemes will charge up-front.

• 73 per cent of schemes say they are requiring ex-spouses to transfer their pension rights to another pension arrangement.

Scheme administration and costs

• The majority of schemes responding to the survey are administered in-house, with 34 per cent still not monitoring the cost of their pension administration. The principal reasons for retaining administration in-house have not changed over the last year, with 'better administrative control' still heading the list, followed by 'greater speed and response' and 'greater efficiency'.

• The number of schemes that have considered outsourcing has increased by 12 points in the last year and by 20 points over the last 7 years to just under three-quarters of all in-house administered schemes responding to the survey. Increased pensions legislation and regulations are making it more likely that administration will be outsourced (up 8 points on a year ago and 17 points on 3 years ago).

• Schemes with outsourced administration say 'reduced administration' is the principal advantage (up from 2nd place last year). The ability of outsourced administrators to keep up with legislative changes and to keep efficient records is 2nd on the list, followed by access to 'specialist staff'. The cost advantage of outsourcing has remained down the listing in 8th place.

• Over the last 12 months, the annual cost of in-house administered schemes has, on average, ranged between decreases of 2 per cent through to increases of 1 per cent. The cost of outsourced administration has ranged between decreases of 1 per cent through to increases of 3 per cent. The costs of outsourced schemes are, on average, still some 14 per cent less than in-house administered schemes.

Computer software

• During the last 2 years, 38 per cent of schemes have reviewed their computer software. This may in part have been due to concerns over year 2000 problems inherent in some software packages. That said, a further 21 per cent are reviewing in the year ahead. Web/internet access seems to be a key driver of this, with many schemes saying they want this as part of additional functionality. 56 per cent of schemes are looking to introduce web-enabled administration, allowing staff greater and easier access to personal records.

• The *Top Five Software Providers* was again comfortably headed by Profund, followed by CPX, Pensions Office, bespoke in-house software and PMS 6000. The Survey appears to indicate a growing trend towards bespoke in-house software.

• There is evidence of a marked increase in the use of the intranet for scheme information (up 21 points on a year ago) and also use of Electronic Document Management (up 11 points), Workflow Management (up 8 points) and Financial Modelling systems (up 4 points).

Performance standards

• The 'experience of third-party providers' again topped the list as the most important factor in selecting a provider. 'Quality standards' and 'Technical skills' retain their 2nd and 3rd positions of last year. 'Cost', 'recommendation of a pensions adviser' and 'one-stop shop' have all moved up the listing.

• There remains little to choose between the turnaround times for performing key administrative tasks between in-house and third-party administered schemes, although some 19 per cent more outsourced schemes monitor their work in this way. Generally, the median turnaround times have improved over the last year.

• Concerns about third-party providers' service standards have grown over the last 12 months. Overall service standards, whilst satisfying 76 per cent of schemes, are down 7 points, reversing a gain of the same amount made last year. More worrying is the 13 point decline in quality performance against target and the 10 point decline in cost saving performance against target. Over 40 per cent of schemes are not meeting their cost saving target, which must represent a worry to the sector, albeit that this may be due in part to scheme changes and the demands of clients.

• One surprising finding is that only one-quarter of outsourced schemes are looking to extend information to members by way of web enabled administration, a figure which is 32 points lower than in-house administered schemes.

The future

• Over the last eight years, 'increased complexity of administration' and 'increased levels of administration' have headed the Top Ten issues most likely to affect pensions administration in the next decade list. This year 'changes in scheme structure' has held its 3rd place. 'Greater trustee involvement' has moved up the list to 4th from 8th place, and 'retirement ages/equality' up to 5th from 9th. 'Reduced company involvement in pensions' has moved down to 8th position from its position a year ago, and, encouragingly, 'competition from Stakeholder Pensions' has fallen away to 10th from 5th place in the last two years.

Survey Sample

Eighth Pension Scheme Administration Survey

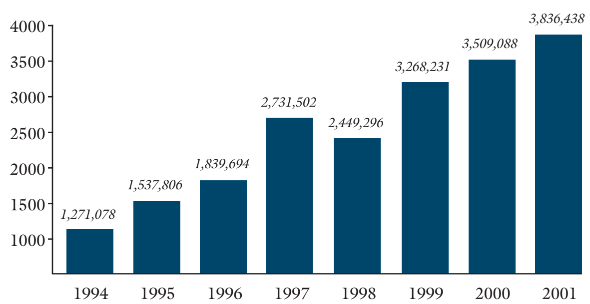
This Eighth Annual Survey of trends and practices in the administration of occupational pension schemes was conducted in January and February 2001 following the announcements of the final details of the workings of Stakeholder Pensions and the commencement of the Government's campaign to publicise them. It therefore provided an ideal opportunity for schemes to comment on how businesses feel these new arrangements may affect their business and the workings of existing occupational arrangements.

This year's Survey drew responses from 209 occupational schemes with combined assets of over £176 billion (up 11 per cent on last year) and with a total membership of over 3.8 million members (up 9 per cent). The sample represents public and private sector schemes holding around one quarter of total pension fund assets, as well as several major unfunded arrangements, and over one third of members covered by UK occupational schemes (see Tables 1 and 2).

Table 1 *All schemes: Total assets of schemes covered by survey*

£bn	1994	1995	1996	1997	1998	1999	2000	2001
All	*36.6*	*38.9*	*56.79*	*65.9*	*92.24*	*110.53*	*158.46*	*176.45*
Final Salary								*168.96*
Occupational MP								*6.59*
GPP								*0.21*
Combined								*0.36*
Industry wide								*0.33*

Table 2. *All schemes: Total membership of schemes covered by survey*



The Survey results represent a very significant sample of, particularly, the UK's largest 2000 schemes and, as such, give a good indication of both current practices and trends apparent in the sector.

Whilst the majority of the larger schemes covered by this Survey are defined benefit/final salary arrangements, this year's Survey found further evidence of more mixed/hybrid and defined contribution schemes being introduced, often as secondary arrangements. Some 69 per cent of employees covered by the Survey are in final salary schemes, over 11 per cent by money purchase and mixed arrangements, with 19 per cent not covered by pension arrangements at all (see Table 3). The predominance of defined benefit arrangements as the principal schemes in the sample is likely to persist, but there is a clear forward trend showing the steady introduction of defined contribution in many companies.

Table 3. *All schemes: Percentage of employees in sample covered by types of scheme*

	Percentage	*Percentage of schemes contracted-out*
Final Salary	*69*	*91*
Occupational Money Purchase	*6*	*22*
Group Personal Pensions	*1*	-
Industry-wide	*1*	-
Mixture of FS / Money Purchase	*4*	*51*
Not covered by scheme	*19*	-

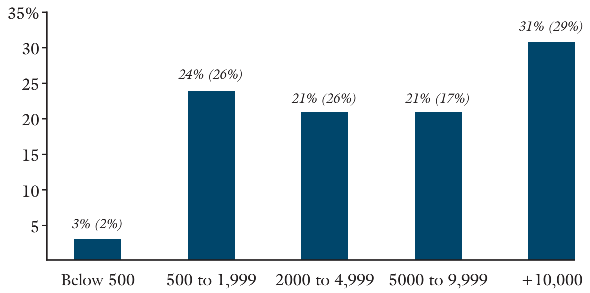
In the sample, significantly fewer part-time employees are covered by pension arrangements than full-timers. This poorer take-up cuts across both final salary and money purchase arrangements (see Table 4).

Table 4. *All schemes: Percentage of eligible full-time and part-time employees who are members of organisation's principal schemes*

	Full-time	*Part-time*
Final Salary	*76*	*56*
Occupational Money Purchase	*6*	*4*
Group Personal Pensions	*1*	*1*
Combination (hybrid)	*3*	*2*
Industry-wide	*1*	*1*
All Schemes	*87*	*64*

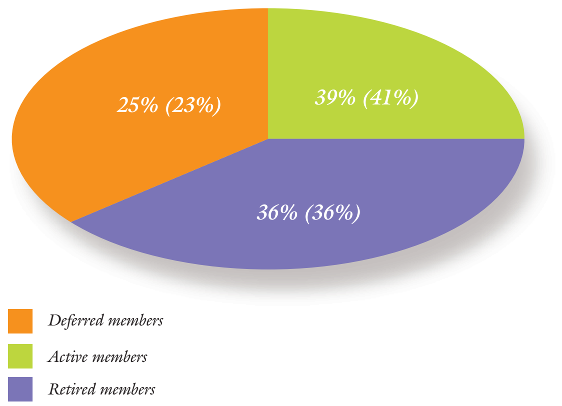
This year's Survey sample included a good spread of schemes of all sizes, particularly those with more than 500 members.
The coverage of schemes with over 5,000 members increased by 6 points (see Table 5).

Table 5. *All schemes: Size of schemes (by membership - all categories)*



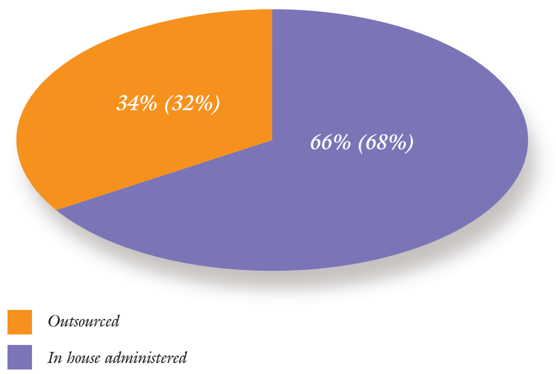
The maturity of many UK schemes is reflected in the fact that the majority of members covered by these schemes are no longer active members of their scheme (see Table 6). Active members form less than 40 per cent of the members covered by schemes in scope to the survey. Some 36 per cent of schemes in the sample have more pensioners than active members and 58 per cent have fewer actives than the combined membership of pensioners and deferreds. This growing maturity has underscored the additional costs placed on many schemes and their active members by way of new regulatory requirements and is inevitably leading to companies reviewing their pension arrangements.

Table 6. *All schemes: Membership of Schemes by categories covered by survey*



The sample showed a slightly higher proportion of outsourced administered schemes than a year ago (see Table 7).

Table 7. *All schemes: Pension scheme administration sample*



Views on Topical Issues

This year's survey was undertaken against the run-up to the launch of Stakeholder Pensions from April 2001. This is the principal reform, aside from the removal of ACT credit, that has emerged over the current Government's period in office. The introduction of low-cost Stakeholder Pensions is principally aimed at the 5 million employees of working age who, at present, have no private second pension. Whilst initially it seemed the target was primarily the lower paid, this has moved to higher income groups, not least because of concurrency being permitted for those earning below £30,000 per annum, but also because of the introduction of an earnings linked minimum guarantee for pensioners that makes Stakeholder saving for the lower paid difficult to justify.

Stakeholder Pensions

Many individual companies and the pensions industry have warned the Government about the delicacy of the interface between Stakeholders and existing occupational provision as the details about the new structure have emerged. We looked at this in last year's survey when the danger was plain to see. Since then, the Government has eased the situation somewhat by allowing partial concurrency, whereby those earning below £30,000 can contribute to both an occupational and Stakeholder arrangement.

Stakeholder Pensions will be available to the public from April 2001, with all employers who have to set up arrangements doing so by 8 October 2001. Stakeholder schemes will have a minimum level of contribution from members of £20 per month and will levy a maximum charge of 1% of each member's fund. This will cover all costs (but not employers' costs) associated with initial recruitment of members and continuing costs of running the scheme. Any additional charges will only be allowed for extra services offered to scheme members as an option.

All employers with five or more employees must offer access to a Stakeholder scheme to employees not eligible to join any occupational scheme. They must also offer access, for example, where an employee is eligible to join an occupational scheme, but has to wait more than a year to join.

Employers who offer a Group Personal Pension (with no exit charges and a number of other specified minimum requirements) and who contribute at least 3% of their employees' earnings to the GPP are also exempted from offering access to a Stakeholder scheme. Schemes will be able to be run by a board of trustees or an FSA-authorised Stakeholder Scheme Manager. Stakeholder Pensions will present a considerable challenge to many employers, so we begin this year's survey analysis, as we did last year, with organisations' views on a number of key issues.

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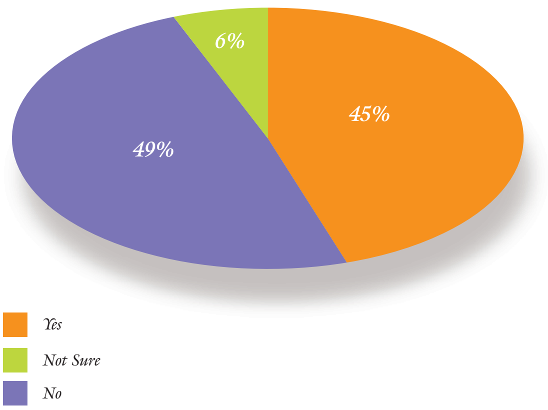
Stakeholders and existing arrangements

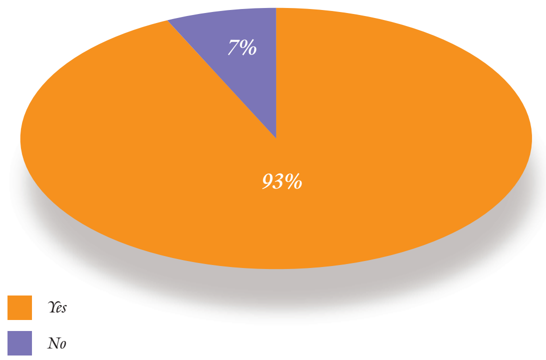
Our survey found 45 per cent of organisations said that under the Government's rules they will have to offer access to a Stakeholder for at least some groups of employees and individuals in their employ (see Table 8). Taking into account 'not sure' replies, the figure rises to just over half of all organisations covered by the survey. This shows the degree to which existing occupational provision is not geared to covering all employees, irrespective of their working group category, length of service etc. It confirms the figures we found last year that some 16 per cent of employees of organisations covered by our survey will have to be offered access to Stakeholders.

Table 8. *All schemes: Will you be required to offer access to a Stakeholder Pension to at least some employees?*

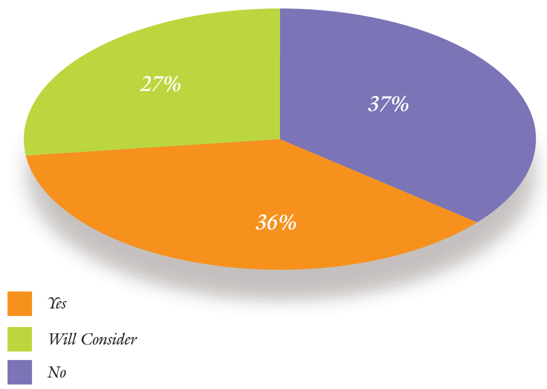


Well over 90 per cent of organisations have by now considered the implications of Stakeholders, although it should be remembered that the organisations in this sample are larger businesses (See Table 9). It is unlikely smaller organisations are so well advanced.

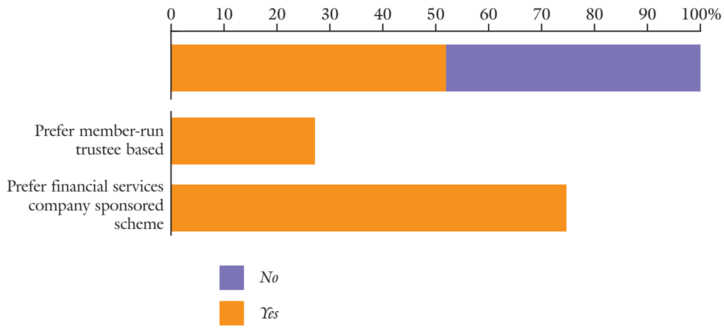
Table 9. *All schemes: Have you considered the implications of Stakeholder Pensions on your existing pension arrangements?*



If 'yes', have you decided to extend occupational arrangements to all Stakeholder eligible employees?



If 'yes', have you given any thought to a preferred Stakeholder provider or type of arrangement?

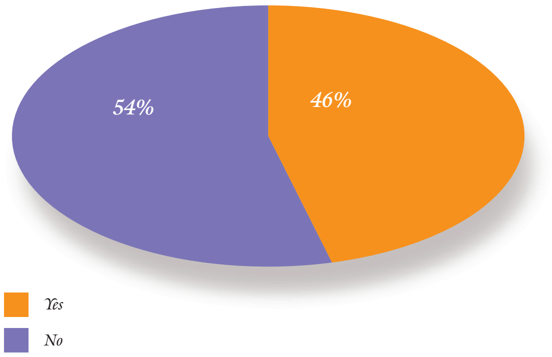


Only 36 per cent of organisations have decided to extend occupational arrangements to all Stakeholder eligible employees. As many as 37 per cent have definitely decided not so, with still a surprisingly large number not having finalised their decision.

At the time of our survey – January and February 2001 - only slightly over half of organisations had given thought to a preferred provider, with 74 per cent favouring a scheme run by a financial services company, rather than a member-run trustee based scheme (see Table 9).

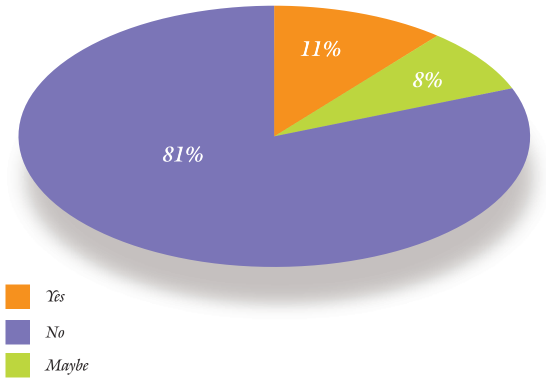
Again, at this time only just under a half of organisations had been approached by a provider concerning their Stakeholder needs (see Table 10).

Table 10. *All schemes: Have you been approached by a Stakeholder or likely Stakeholder provider about your company's Stakeholder needs?*



Over 80 per cent of employees have decided not to make any employer's contribution to their Stakeholder Pension. Undoubtedly, this reflects a conscious desire not to undermine existing pensions arrangements favoured by the employer. Of the minority prepared to contribute, the median employer's contribution proposed is 4 per cent of total earnings, with answers ranging between 3 and 10 per cent (see Table 11).

Table 11. *All schemes: Will you make an employer contribution into any Stakeholder scheme you set up?*

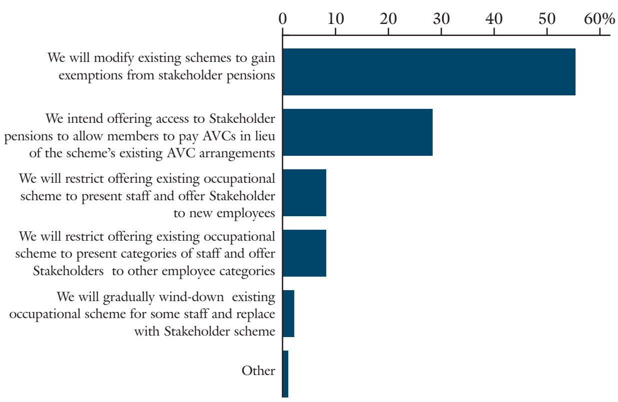


If 'yes' or 'maybe', what percentage of an individual's total earnings might be considered as an employer contribution?

Median	Range
4%	3-10%

Over half of the schemes covered by the survey said that the biggest impact of the introduction of Stakeholder Pensions on existing arrangements will be to force modifications on schemes, principally via changes to eligibility conditions, that will exempt organisations from Stakeholder requirements. The second most important impact is to allow members to pay AVCs in lieu of schemes' existing AVC arrangements. Some 14 per cent of organisations will restrict offering existing occupational arrangements to present staff or categories of staff and intend to offer Stakeholders to new or selected categories. Only a small number of organisations are considering gradually winding down their occupational arrangements in favour of Stakeholders (see Table 12).

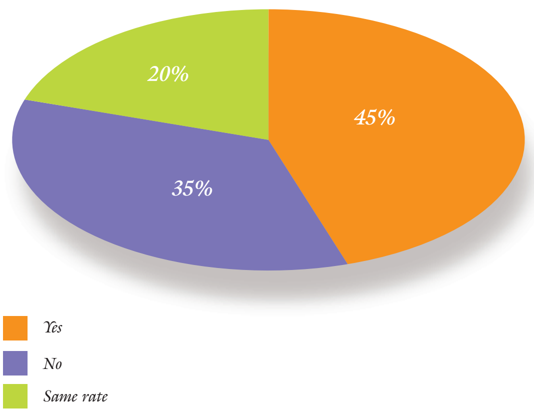
Table 12. *All schemes: Has or will the introduction of stakeholder pensions cause you to re-consider the occupational schemes you presently offer?*



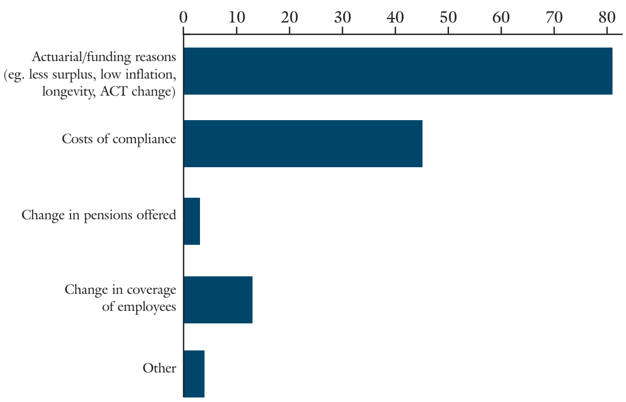
Pension costs and scheme structure changes

Over 40 per cent of schemes say that their total pension scheme costs (administration and contributions) have grown at a faster rate than other business overheads in the last five years, with actuarial and funding costs seen as the main culprits, followed by the costs of compliance with additional legislation and regulation (see Table 13).

Table 13. *All schemes:*
Over the last 5 years, would you say your total pension scheme costs (Administration and contributions) have grown at a faster rate than your other business overheads have generally grown?



If 'yes', to what would you attribute this?

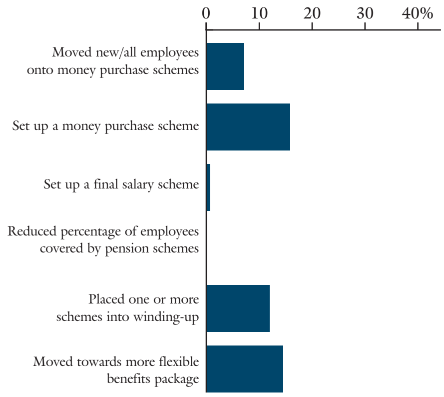


In recent years, there has been considerable comment on the impact of extra regulation, notably on defined benefit / final salary schemes, and that the result of this has been a switch to defined contribution. Surveys of smaller company arrangements have shown a marked move in this direction, albeit that provision in that sector has always been dominated by money purchase arrangements. Evidence of a consistent trend amongst larger schemes has rested on a number of high profile companies announcing moves into defined contribution with hybrid arrangements, more flexible benefit packages or closure of the defined benefit option for new starters.

This year's survey examined the evidence of switching and found that amongst this sample of generally larger schemes no less than 15 per cent have introduced money purchase arrangements for employees over the past five years. A further 7 per cent have moved predominantly new employees into money purchase. This move to money purchase arrangements has often triggered trustees into considering outsourcing, as existing in-house staff often have little or no experience of running this type of arrangement.

A surprisingly high number, 12 per cent, have placed one or more schemes into wind-up. More flexible benefit packages have been introduced in 14 per cent of organisations (see Table 14).

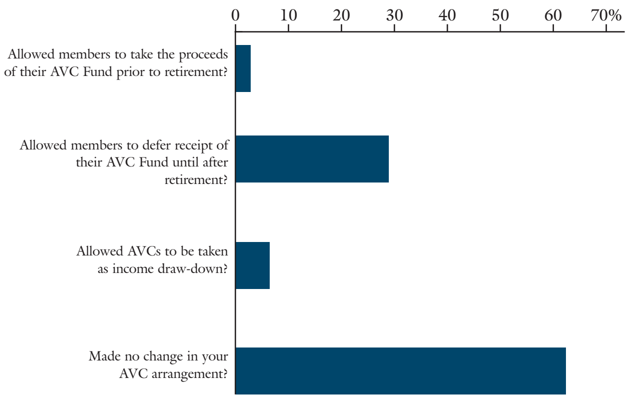
Table 14. *All schemes:*
Over the last 5 years, has your company done any of the following?



Cumulatively, these changes reflect a major change in the balance of provision as each year goes by. What is clear is that this larger organisation sector is not one of ‘no change’. Societal, economic and Government inspired changes are having a marked effect on occupational pension provision in all sizes of businesses.

Despite being given greater flexibility during the last year, a clear majority of schemes (62 per cent) have made no changes to their Additional Voluntary Contributions (AVC) arrangements. Of those that have, the most favoured change has been to allow members to defer receipt of their AVC fund until after retirement (see Table 15).

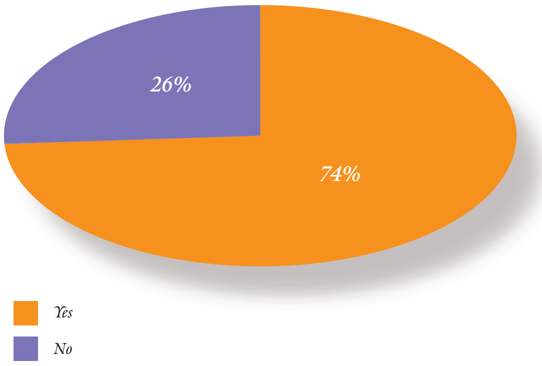
Table 15. *All schemes:*
Schemes now have the option of introducing greater flexibility in their AVC arrangements. Have you:



Pension sharing

Pension sharing applies to divorces petitioned after 1 December 2000. Following on from the implementation of this legislation, 74 per cent of schemes have decided to charge members in cases of pension splitting on divorce, with 82 per cent following the National Association of Pension Funds’ recommendations on scale charges. Some 65 per cent of schemes will make this charge up-front, with the balance charging as and when costs are incurred (see Table 16).

Table 16. *All schemes:*
Pension sharing applies to divorces petitioned after December 1st 2000. Has your scheme resolved what it will charge members in cases of pension splitting on divorce?

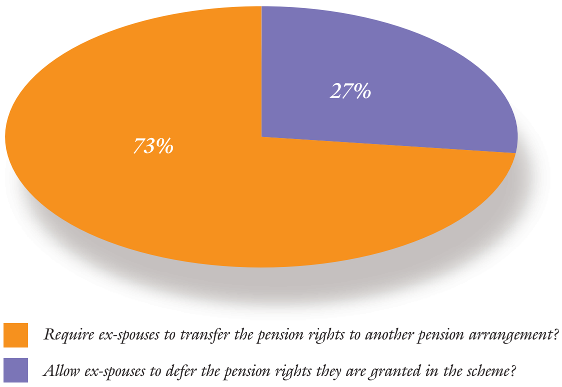


If ‘yes’,

	Yes		No
Is it in line with the NAPF recommendations?	*82%*		*18%*
Are costs charged up-front?		*65%*	
Are costs charged as and when incurred?		*35%*	

Three-quarters of schemes say they are requiring ex-spouses to transfer their pension rights to another pension arrangement (see Table 17).

Table 17. *All schemes:*
Has your scheme decided to:



12

In-house Administered Schemes

Since this series of Surveys began in 1994, there has been no improvement in the number of in-house administered schemes measuring the cost of their pensions administration. It is disturbing that, whilst so many schemes have complained bitterly at the extra costs being placed upon them by Government through added regulation, 34 per cent of companies who retain their administration in-house are still neglecting even to cost their own administration services (see Table 18). Hence, it is not surprising that only 39 per cent of schemes know what their per head costs for administration and management are (see Table 19).

Table 18. *In-house administered schemes: Has the total cost of pension administration and management been costed?*

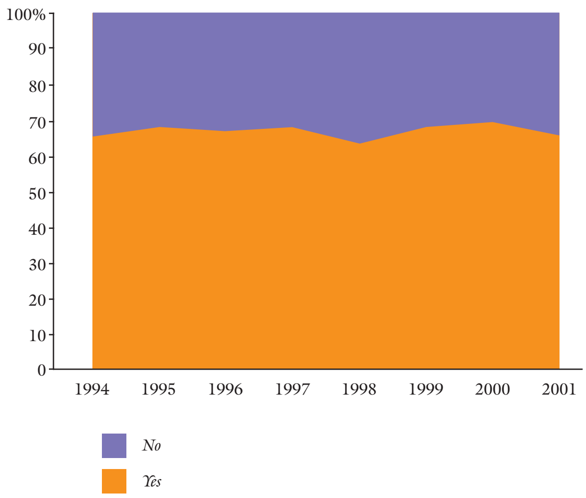
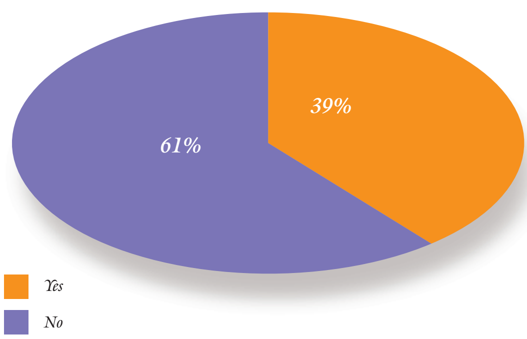


Table 19. *In-house administered schemes: Do you know what your pension scheme costs per member are for administration and membership?*



Where this is the case, it is likely that both productivity and economies of scale are being neglected which, in many cases, could save tens and even hundreds of thousands of pounds, offsetting cost increases brought about by this additional legislation and regulation. It is all the more surprising that this situation persists when many more organisations are reviewing their arrangements and are looking to concentrate on core activities. Scheme 'health checks', whether a scheme is in-house or outsourced, should be conducted on a regular basis, say every 3 or 5 years, to see that all is well. These should encompass issues like quality and speed of service, the calculation and payment of benefits, data accuracy, compliance, security and treasury controls.

Responsible company directors, trustees and shareholders should be seriously alarmed at the situation this series of surveys has found. They should ask the question, particularly where benefit changes may be being considered to reduce costs, whether some of the pressure might be removed if there was a closer examination of administrative costs to identify where savings might be made.

'Better administrative control' continues to be seen as prime reason to retain in-house control

In seven of our eight annual surveys, the principal reason why companies said they retained pension scheme administration in-house was that they believed this gave them 'better administrative control' of their scheme, followed by 'greater speed/response'. Better 'employee relations' has slipped down the table again (see Table 20).

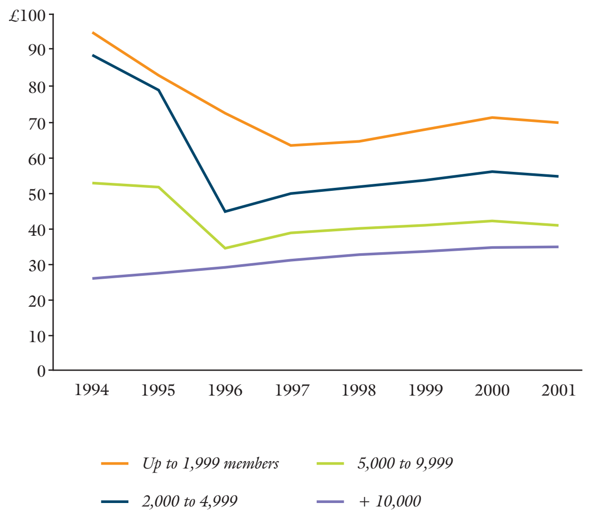
Table 20. *In-house administered schemes: 'Top 6' reasons for retaining administration in-house. In ranked order.*

	1994	1995	1996	1997	1998	1999	2000	2001
Better administrative control	1	1	2	1	1	1	1	1
Greater speed / response	2	2	1	2	3	5	2	2
Greater efficiency	3	3	3	3	2	2	3	3
Better communications	6	5	4	5	6	4	5	4=
Better cost controls	4	6	6	6	5	6	6	4=
Employee relations	5	4	5	4	3	3	4	6

In-house administration costs

For the eighth successive year, the Survey investigated that cost of in-house pensions administration services. Last year, the average cost increases ranged between 2.6 to 4.4 per cent for mid-sized schemes with fewer than 2,000 members. This year, cost changes range from a 3 per cent reduction for mid-sized schemes through to a 1 per cent increase for large schemes (see Table 21).

Table 21. *In-house administered schemes: Range in annual cost of administration (per member)*

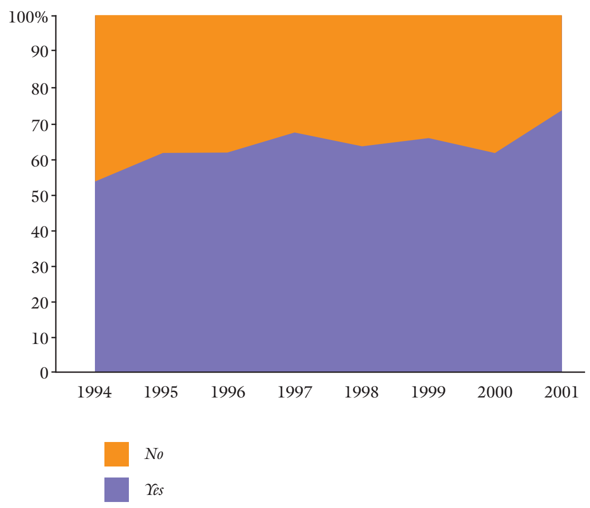


Average in-house administration costs have increased by between 6 and 11 per cent over the last four years. The reduction in the rate of increase in costs in this last year may be attributable to a number of reasons. One is clearly the generally low level of inflation over the period, and another may result from the investment in new computer software over the last few years that has had a beneficial impact on processing costs. There are real worries that cost increases will rise over the next year as schemes revise their rules to adjust for Stakeholder Pensions, alongside changes to contracting-out and the State Second Pension.

The third-party option reviewed

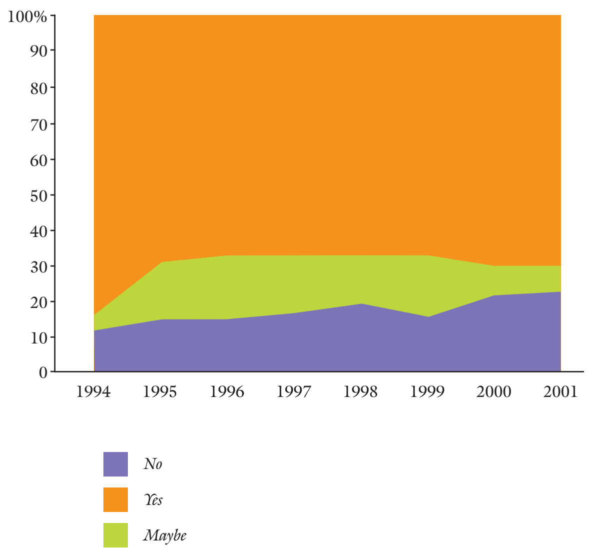
One of the most worrying features we have found throughout this series of surveys is the persistent reluctance of a rump of in-house schemes to even consider using third-party administration (see Table 22). It is welcome this year to see a 12 point reduction in this grouping to just 26 per cent of in-house schemes, after a long period of little change. The view of this quarter of schemes is presumably taken irrespective of what the comparable service and costs might be. In this day and age, it is difficult to see how any business can afford not to even consider a means of conducting its affairs that "might" improve on both its efficiency and reduce costs.

Table 22. *In-house administered schemes: Have you ever considered using a third-party administrator?*



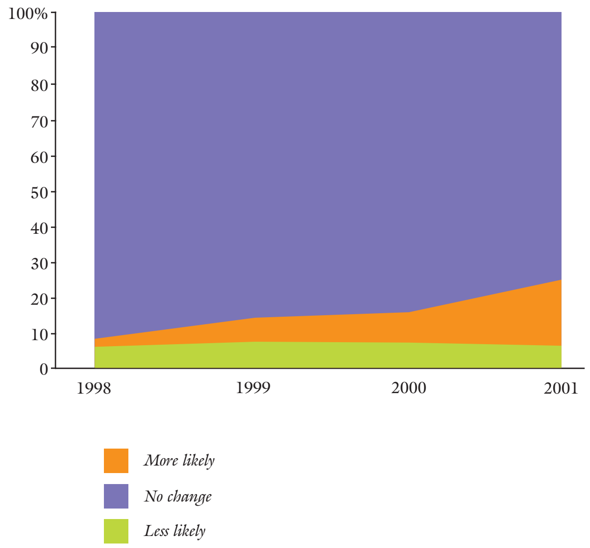
A very high level of activity amongst third-party providers in terms of requests for quotations and proposals has been evident over the last few years, endorsing the trends found within the survey. Market growth is conservatively estimated at 20 per cent. Compared to seven years ago, 24 per cent more firms now indicate that they "might" or "will" consider outsourcing their pension scheme administration (see Table 23). It is also clear from the Survey results over the years that a hard-core of in-house administered schemes sampled seem to take the view that outsourcing is not likely to be an option they will ever take up, even though some of this grouping may from time to time undertake a market testing exercise unless, of course, they are using the opportunity to get quotations as a means of benchmarking the in-house costs.

Table 23. *In-house administered schemes: Are you likely to consider outsourcing in the future?*



It might have been felt that the onerous extra administrative obligations, brought about by extra legislation and regulation, would have caused many more in-house schemes to think again about a simpler life through a move to third-party administration. It might be expected too that trustees would reduce the risk of failing to meet their obligations by outsourcing. This year, our Survey found mounting evidence that this is the case (see Table 24). Compared to a year ago there is an 8 point increase in schemes saying extra burdens are making it more likely they will outsource (and an increase of 17 points on 3 years ago).

Table 24. *In-house administered schemes: Has increased pensions legislation and regulations made you more or less likely to consider using a third-party administrator?*



Quality standards and efficiency

Within schemes of all types, quality of service issues have become increasingly important, not only because of the specific requirements of the Pensions Act, but also growing pressure from members for improved services. Compared to six years ago, when we first looked at quality standards, 22 per cent more schemes operate to set in-house quality standards, although improvements have slowed in recent years and, in this year's results, have seen a slight reversal (see Table 25). Overall, this is a positive trend that is to be welcomed in terms of the services received by members and lends considerable support to the on-going success of occupational arrangements. Nevertheless, only 44 per cent of in-house run schemes enshrine these in an agreement between the trustees and administrators (see Table 26).

Table 25. *In-house administered schemes: Do you operate to set in-house quality standards and turnaround times?*

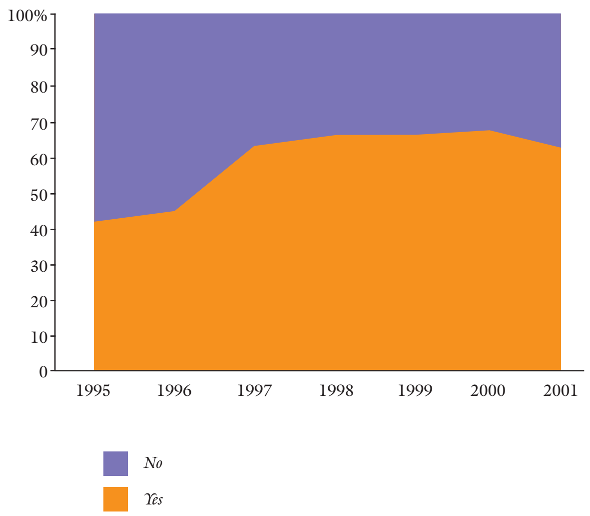
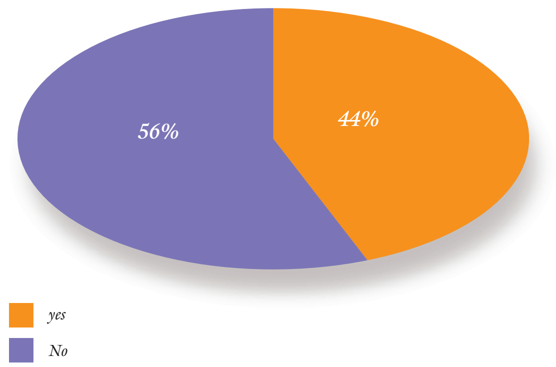


Table 26. *In-house administered schemes: Are the service standards incorporated in any agreement between the administrators and the trustees?*



The pattern in median turnaround times for a range of tasks has improved on a year ago (see Table 27). Response times have fallen back in just one task, and improved in seven, against a year ago. This is excellent news for members. It is therefore encouraging that many schemes appear to have improved in this area over the last year, particularly given the poorer results recorded in the previous year.

Table 27. *In-house administered schemes: What is the average turnround time for the following?*

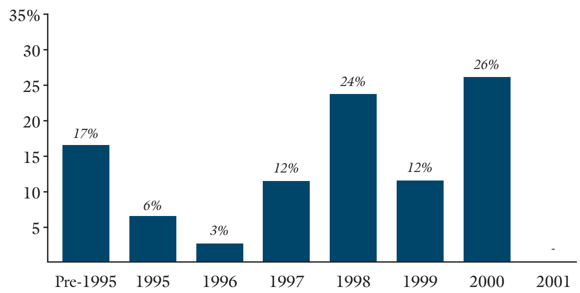
days	Target Time Range	2001 Median	2000 Median
AVC Enquiries	3-30	8	10
Annual Update	5-90	30	30
Issue of Annual Benefit Statement	5-180	25	30
Data extract for Actuarial Valuation	5-120	30	35
Issue of Early Leaver Certificate of Benefit	3-60	10	12
Calculation and Payment of:			
Death-in-Service Benefit	2-60	7	10
Death-in-Retirement Ben'	2-30	7	10
Death-in-Deferment Ben'	2-30	6	6
Retirement Benefits	1-30	7	10
Transfer in	5-90	10	15
Transfer out	5-90	10	15

What is more disturbing is that too many schemes still operate to turnaround times that are considerably in excess of the median figures identified in this Survey and across most of the tasks involved. In many cases, these poorer results are not counted in days but months.

Computer software

During 2001 there was a marked increase in the number of schemes reviewing their computer software (up 14 points) compared to last year, and this is ongoing into this year, with 21 per cent undertaking reviews (up 7 points on a year ago) (see Table 28). This rising trend is likely to be a response to greater demands for web enabled administration, which may in part explain the rise in major problems experienced in the last year (see Table 29).

Table 28. *In-house administered schemes: When did you last review your computer software?*



Are you planning to review in the near future?

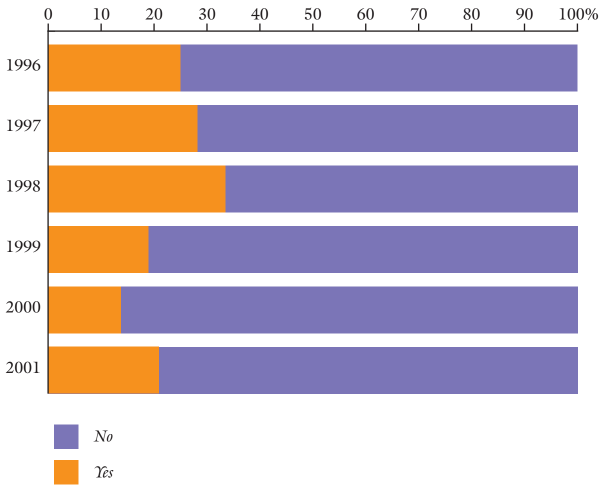
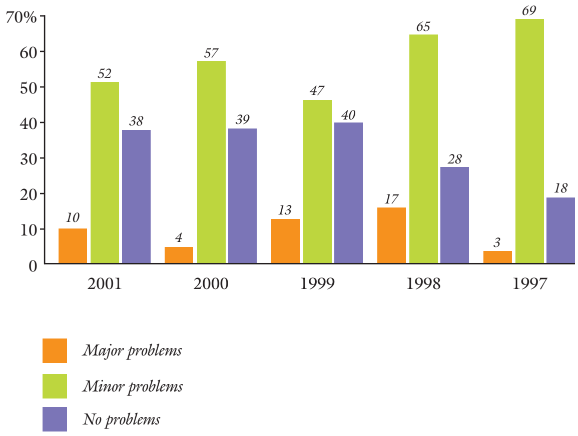


Table 29. *In-house administered schemes: Problems experienced with computer software*



The ranked order of software in most common use has not changed markedly from 2000, with Profund continuing to retain a very comfortable lead over other providers (see Table 30). CPX/Lynx Heywood has retained its 2nd place in the listing, as has Pensions Office in 3rd. Perhaps due to the increasing use of bespoke web enabled software, in-house packages have moved up to 4th place ahead of PMS 6000 (see Table 30).

Table 30. *In-house administered schemes: 'Top 5' software providers. In ranked order.*

2001	2000	1999	1998
1. Profund	1	1	1
2. CPX / Lynx Heywood	2	2	3
3. Pensions Office / Edis	3	-	-
4. In-house	5	5	4
5. PMS 6000	4	-	-

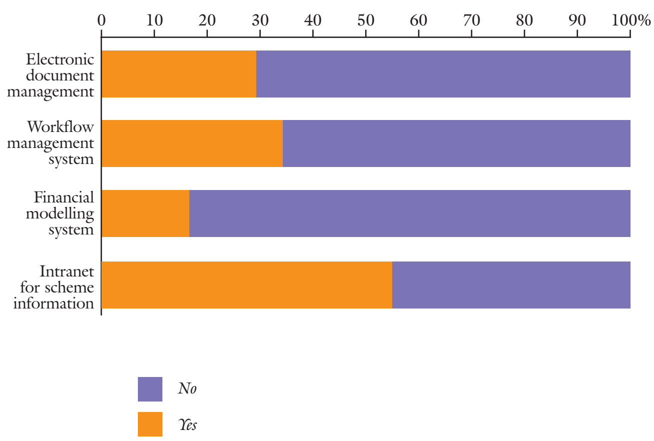
The most common areas where additional functionality in pensions administration software is sought are linked to greater use of the Web and Internet and greater inter-activity to supply scheme members with timely information (see Table 31). On-going requests seen in previous years are for easier report writing, improved integration with other software and more flexible management reporting tools.

Table 31. *In-house administered schemes: What additional functionality do you want in pension administration software?*

Web / internet access
Inter-active with members
Easier report writing facility
Improved integration with other software packages
Flexible management reporting tools
Workflow / DIP

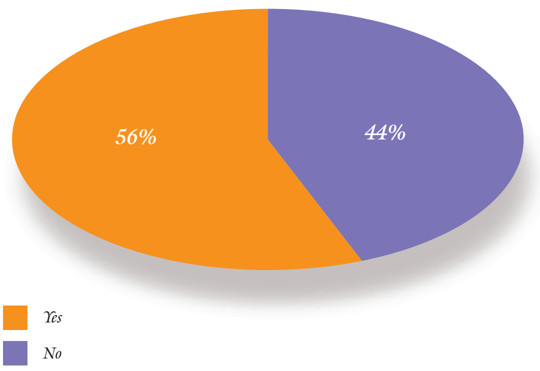
Over half the schemes now utilise the intranet for scheme information (up 21 points on a year ago) and a growing number of schemes are using electronic documentation management systems into their scheme (up 11 points on a year ago). Use of workflow management systems has also increased by 8 points on a year ago, with the use of financial modelling systems also up by a more modest 4 points on a years ago (see Table 32).

Table 32. *In-house administered schemes: Do you utilise one or more of the following?*



Well over half of schemes (56 per cent) are actively looking at ways to extend the access members have to scheme information by way of Web-enabled administration (see Table 33), which many view to be the 'big challenge and opportunity' for scheme administration in the period ahead.

Table 33. *In-house administered schemes: Do you plan to extend the access members have to scheme information by way of web enabled administration?*

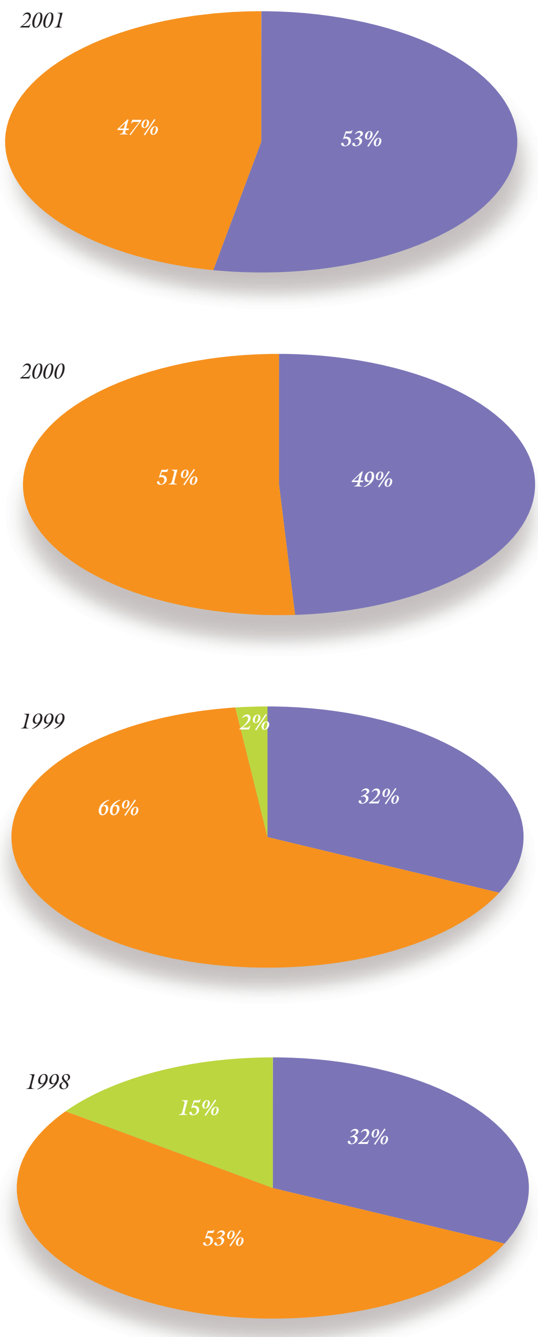


Third-party Administered Schemes

The provision of outsourced administration services is being confined increasingly to pension consultants, actuaries and specialist third-party administrators. Over the last seven years, there has been a dramatic reduction in the number of schemes reporting the use of insurers in this role to zero amongst our sample for the second year running. This mirrors an evident trend over the period amongst pension offices to sub-contract and offload this work to third-party providers (see Table 34). It will be interesting to see whether or not this trend persists with the advent of Stakeholder Pension arrangements, particularly given the results of this survey indicating support for Stakeholders being provided by Financial Services Companies.

Table 34. Third-party administered schemes: Who provides outsourced services?

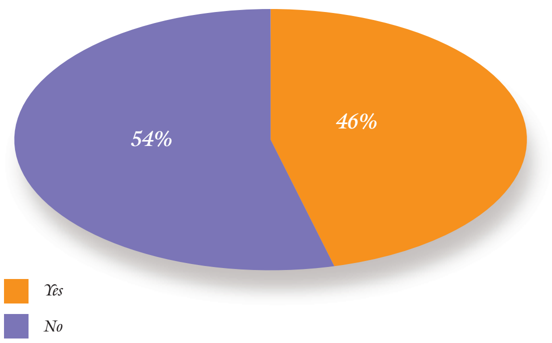
Pension Consultant/Actuary with Admin. Services
Third-party Administrator
Insurer



This year's sample again included schemes where broadly half were administered by specialist third-party administrators as opposed to mixed pension consultancy/actuarial firms offering administration services (the so-called 'one-stop shop' approach).

It is interesting to see that 46 per cent are outsourced because it is the general policy of the company to outsource non-core activities (see Table 35). It has been widely assumed that this is one of the driving forces behind the trend, and, whilst it is, it is also clear that a range of other factors are at play in the outsourcing decision.

Table 35. Third-party administered schemes: If you outsource your pension scheme administration, is this part of a general policy in your company to outsource non-core activities?



Administration costs compared

There is a high level of competition in the third-party administration market and contracts often include limits on cost increases as well as expectations of productivity improvements as contracts develop over a period of time.

In the last year, third-party administration costs have ranged between reductions of 1.1 per cent through to increases of 3.3 per cent, somewhat higher than those found amongst in-house administered schemes, where the range was between reductions of 3.2 per cent through to increases of 1 per cent (see Tables 36 and 37).

Across the range of schemes, third-party administration costs are on average some 14 per cent lower than in-house run schemes. This translates into savings ranging from £3.66 per member per year through to £10.20 across schemes. Put into cash terms, a 3,000 member scheme on average costs over £30,000 more to run in-house, and a 30,000 member scheme over £250,000 more.

Table 36. Third-party and in-house administered schemes: Cost difference between in-house and third-party administered schemes.

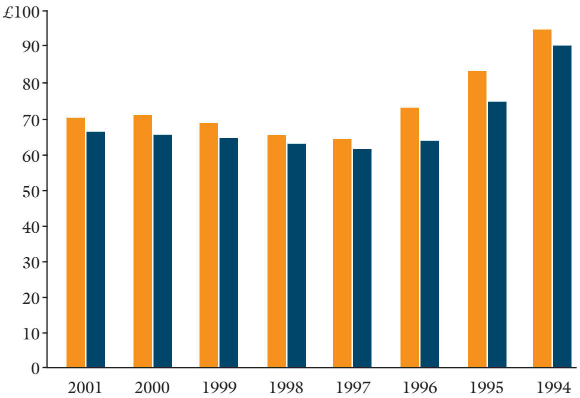
Average costs per member	*In-house*	*Third-party*	*Increase in last 12 months*	*Cost Gap*
Up to 1,999 Members	*£70.67*	*£67.01*	*-1.6%* *0.0%*	*+£3.66*
2,000 to 4,999	*£55.45*	*£45.25*	*-2.0%* *+1.0%*	*+£10.20*
5,000 to 9,999	*£41.40*	*£34.95*	*- 3.2%* *-1.1%*	*+£6.45*
+ 10,000	*£35.60*	*£27.20*	*+1.0%* *+3.3%*	*+£8.40*

Table 37. *Third-party and in-house administered schemes: Seven year comparison range in annual cost of administration (per head)*

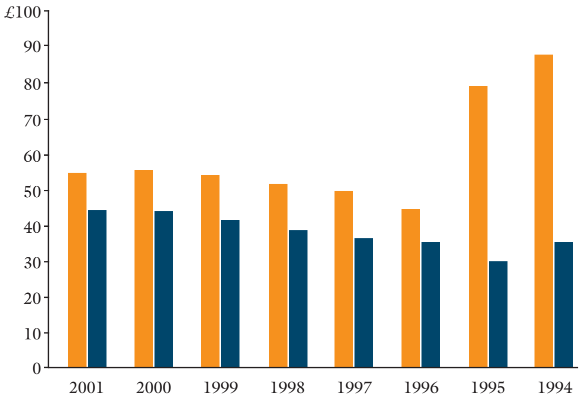
In-house costs per head

Third-party costs per head

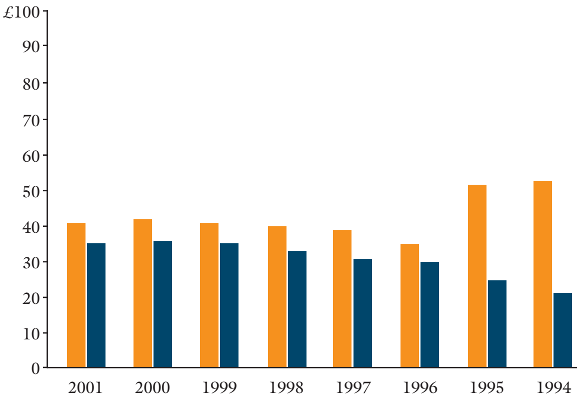
Up to 1,999 members



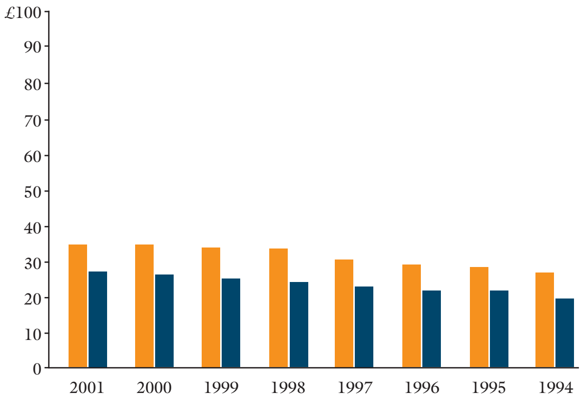
2,000 to 4,999 members



5,000 to 9,999 members



+10,000 members



Principal reason for outsourcing changes

Schemes with outsourced administration continue to see this as beneficial in providing access to 'specialist staff' and 'to keep up with legislative changes'. This year, however, top listing goes to 'reduced administration', which moves up from 3rd position (see Table 38).

Table 38. *Third-party administered schemes: What are the advantages of outsourcing in order of importance? Ranked in order.*

	2001	2000	1999	1998	1997	1996	1995	1994
Reduced administration	1	2	2	2	1	4	3	3
Understand legislation	2	3	3	7	3	2	2	2
Specialist staff	3	1	1	1	2	1	1	1
Reliability of service	4	6	6	3	4	3	5	4
Reduced management time	5	5	5	5	6	5	4	6
Efficient record keeping	6	4	7	4	5	6	6	8
Faster response times	7	7	8	8	8	7	9	5
Lower costs	8	8	4	6	7	8	7	7
Impartiality	9	9	9	9	9	9	8	9

This year, 'reliability of service' moved up the list to 4th place (from 6th). 'Lower costs', whilst remaining a driver for change within the financial function, has remained 8th in this year's survey.

Experience of third-party provider tops selection process

The 'experience of the third-party provider' has held 'quality standards' off the top of the list for the second year as the factor most important in selecting an administrator. 'Quality standards' retains its position as the second most important factor, with 'technical skills' in 3rd. 'Cost', the 'recommendation of a pensions adviser' and a 'one stop shop' service have all moved up the list from a year ago.

'Independence', a 'large firm' and 'flexibility' have all moved down the listing (see Table 39).

Some 9 per cent of schemes in the sample first moved to third-party administration last year, and close to two-thirds of outsourced schemes have reviewed their arrangements in the last 3 years (see Tables 40 and 41). As we have commented in recent surveys, in such an environment of change and re-assessment, weaknesses in existing providers' services and 'wish lists' for improvements over current services are likely to remain prevalent.

Table 39. *Third-party administration schemes: What are the most important factors in selecting a third-party pensions administration company? Ranked in order.*

	2001	2000	1999	1998	1997	1996	1995	1994
Experience of company	1	1	3	3	3	3	2	1
Quality standards	2	2	1	1	1	2	4	9
Technical skills	3	3	4	2	2	1	1	2
Cost	4	5	5	5	4	4	3	7
Recommended by pensions adviser	5	7	2	6	6	10	7	6
One-stop shop	6	9	6	10	8	8	10	8
Recommended by other business	7	6	10	7	10	9	8	3
Independence	8	10	9	8	7	6	6	5
Large firm	9	8	7	9	8	7	9	10
Flexibility	10	4	8	4	5	5	5	4

Table 40. *Third-party administered schemes: When did the scheme first move to third-party administration?*

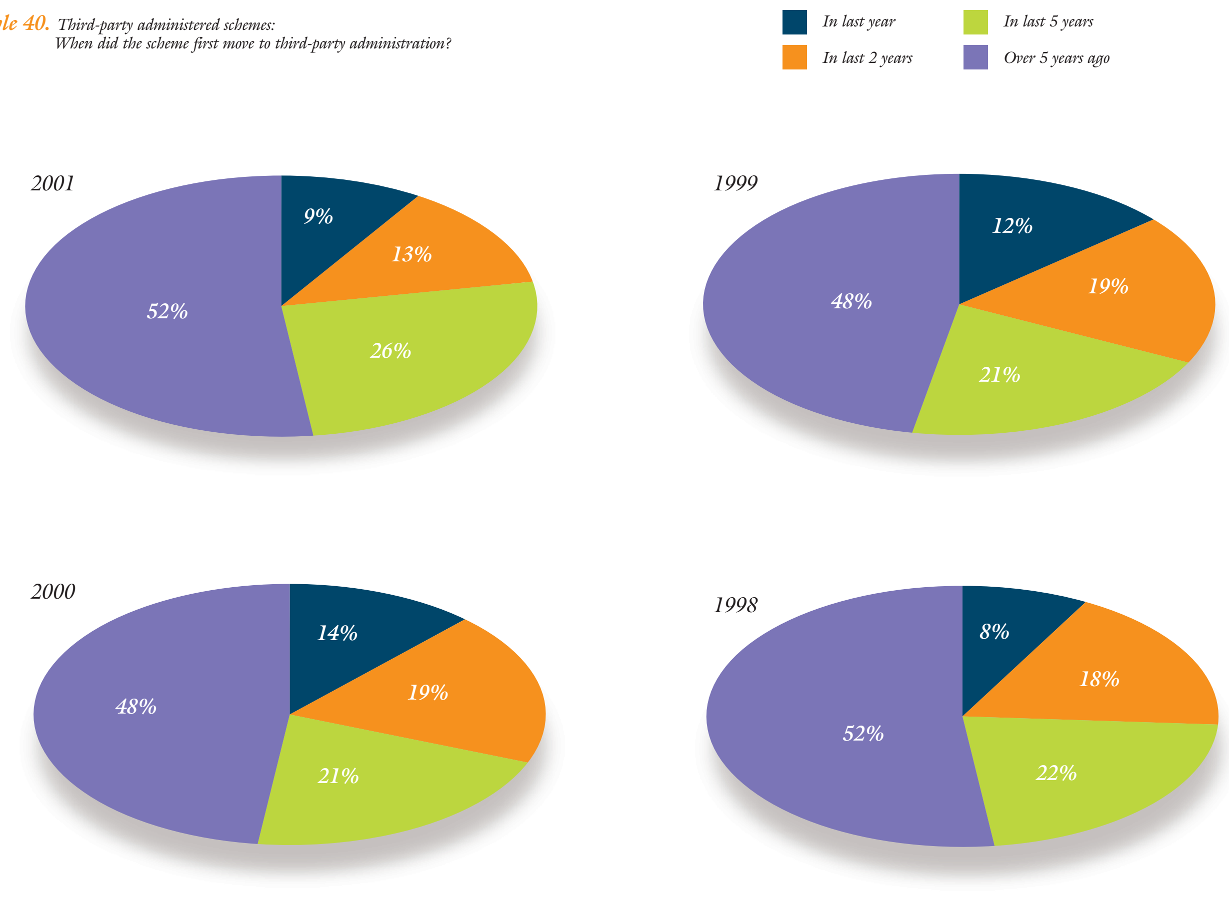
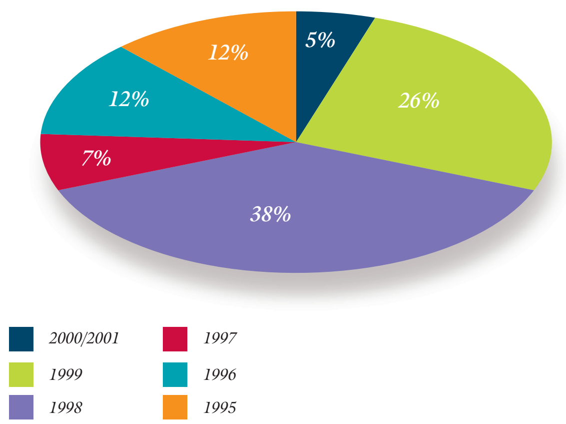


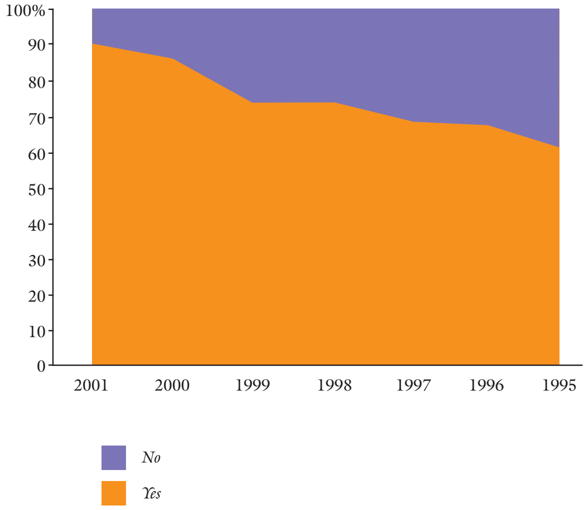
Table 41. *Third-party administered schemes: When was service last reviewed?*



Contracts and achievements

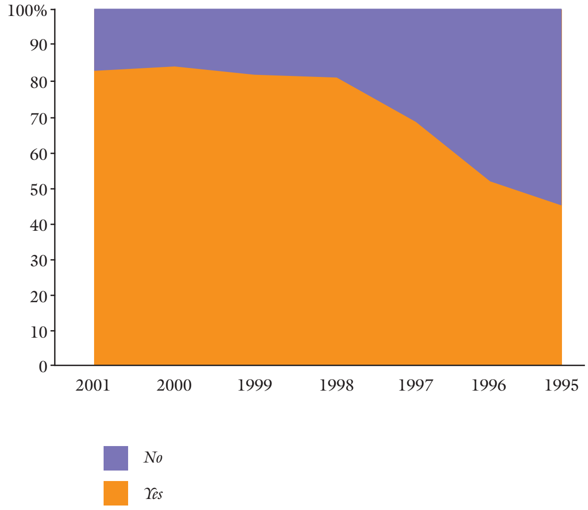
The growth in outsourcing and the fact that it is becoming well established amongst schemes has led to greater formalisation in arrangements. Some 90 per cent of schemes now have a formal contract of administration, up 16 points on the position two years ago, and up 28 points on six years ago (see Table 42). Service level agreements (SLAs) put trustees and managers in control of performance, and are welcomed by most administrators.

Table 42. *Third-party administered schemes: Do you have a formal contract for administration?*



Compared to six years ago, far more third-party run schemes (83 per cent) and in-house run schemes (64 per cent) now spell out turnaround times to which they work to for key administrative tasks. Six years ago, under half of the schemes covered by the survey set these down. The incidence has increased by some 37 points over the period, reflecting the importance of improving on standards, and a desire to formalise these over the period. This pressure has come from the regulations flowing from the *Pension Act*, but probably more so from members requiring improved service levels (see Table 43).

Table 43. *Third-party administered schemes: Does your administration contract include turnround times for certain tasks?*



As we have found over the last few years, there is on average little to choose between the average turnaround times for performing key tasks between in-house and third-party administered schemes. The range of turnaround times is generally narrower across third-party administered schemes, often reflecting specified contractual levels (see Table 44). In seven of the tasks measured, median turnaround times taken by third-party administrators are marginally quicker, and in two in-house median turnaround times are better.

Table 44. *Third-party and in-house administered schemes: What is the average turnaround time for the following?*

days	*THIRD-PARTY ADMINISTERED 2001 Target Time Range*	*2001 Median*	*2000 Median*	*IN-HOUSE ADMIN'D 2001 Target Time Range*	*2001 Median*
AVC Enquiries	3-15	7	9	3-30	8
Annual Update	10-90	30	30	5-90	30
Issue of Annual Benefit Statement	30-100	28	30	5-180	25
Data extract for Actuarial Valuation	30-60	25	35	5-120	30
Issue of Early Leaver Certificate of Benefit	5-60	8	8	3-60	10
Calculation and Payment of:					
Death-in-Service Benefit	1-20	5	5	2-60	7
Death-in-Retirement Ben'	1-14	5	5	2-30	7
Death-in-Deferment Ben'	1-21	5	5	2-30	6
Retirement Benefits	2-14	5	7	1-30	7
Transfer in	5-90	10	10	5-90	10
Transfer out	5-90	14	15	5-90	10

Contract charges

The Survey continued to find a very wide variation in the methods of charging for outsourced administration. Turning away from the results over the last two years, where over half of the schemes had narrowed down their charging structure to one basis, we are now seeing a rising trend in schemes using two charging bases. Whilst 'fixed only' and 'per capita only' remain the most prevalent charging structure, they have fallen back with 'fixed and transaction' based charging making the biggest advance (see Table 45).

No single method of charging is evident in more than 21 per cent of contracts.

Table 45. Third-party administered schemes: Most common Method/Mix of charges.

	2001	2000	1999	1998	1997	1996
Fixed only	21%	32%	30%	31%	19%	27%
Per Capita only	16%	25%	14%	14%	6%	11%
Fixed Transaction	15%	7%	-	-	-	-
Per Capita Fixed	14%	24%	8%	22%	14%	13%
Per Capita Transaction	8%	6%	7%	14%	6%	11%

Number of charging bases in contracts:

	2001	2000	1999	1998
One basis of charging	46%	56%	54%	53%
Two bases	42%	30%	29%	43%
Three or more bases	12%	14%	17%	4%

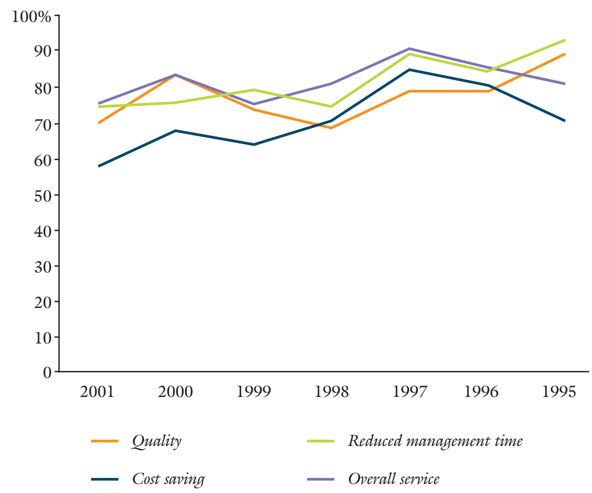
Decline in service satisfaction

Prior to last year, we reported that there had been a 14 point reduction over a two year period representing a dangerous trend and growing lack of confidence across the market. Last year, however, overall satisfaction improved by 7 points (to 83 per cent), but to a level lower than that achieved in 1997. Also, the achievement of 'quality' targets was up 9 points and 'cost saving' up 4 points.

Concerns about third-party providers' service standards have grown over the last 12 months. 'Overall service' standards, whilst satisfying 76 per cent of schemes, are down 7 points, reversing the gain of the same amount made last year. More worrying is the 13 point decline in 'quality' performance against target and the 10 point decline in 'cost saving' performance against target.

Over 40 per cent of schemes are not meeting their cost saving target, which must represent a worry to the sector. However, in part this may be due to scheme changes and extra requests from trustees. Only 'reduced management time' has held at last year's figure, but, again, targets are falling well short of those reported five years ago (see Table 46).

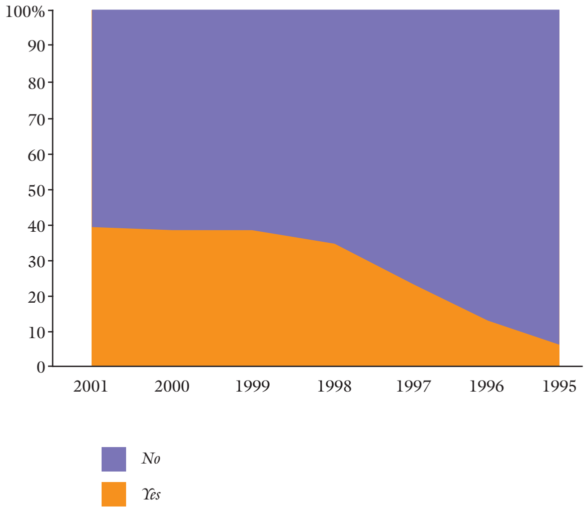
Table 46. Third-party administered schemes: Has your third-party administration service met the targets expected in terms of the following?



We reiterate points made in previous surveys that disappointing levels of achievement are a powerful reminder to third-party administrators that they must not become complacent and expect schemes to accept standards that are below par merely because current management theory favours the increased outsourcing of non-core activities. Poor achievement of targets will lead to schemes reviewing arrangements with particular providers and, in some cases, switching to alternative firms or to considering bringing services back in-house.

In such an environment, more schemes are likely look to penalties or reductions in charges in the event of poor performance, a trend that is evident with close to forty per cent of outsourced schemes now including this within contracts, an increase of 32 points on seven years ago (see Table 47).

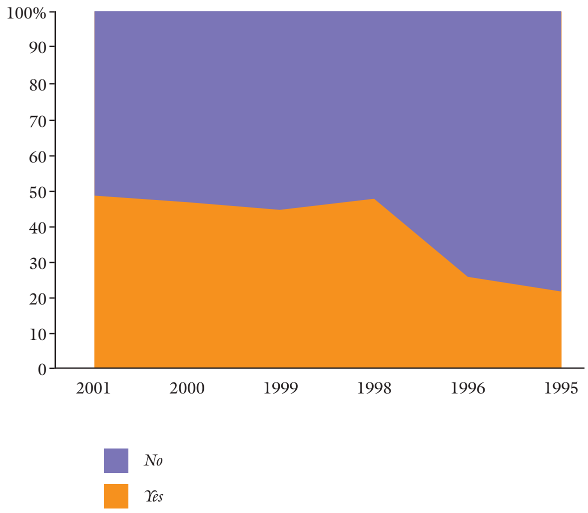
Table 47. *Third-party administered schemes: Does your third-party contract include penalties or reductions in charges in the event of poor performance?*



Access to member records

This year's Survey found that 49 per cent of outsourced schemes now provide access to member records on the administrator's computer system, up 27 points on the position seven years ago (see Table 48).

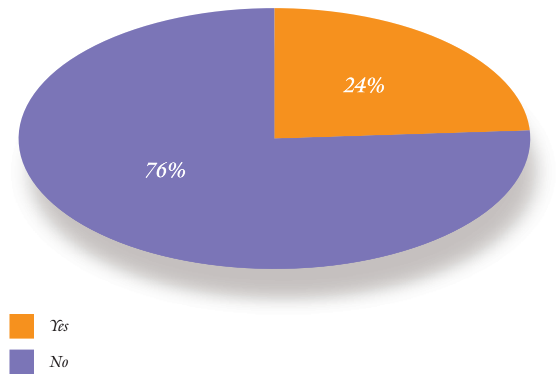
Table 48. *Third-party administered schemes: Do you have access to member records on your administrator's computer system?*



As we reported under the developments in pensions software section, making pension schemes more accessible to scheme members is one of the most significant applications of technology to pensions; all part of a developing move towards a more customer/service-led approach to benefit provision. This is a trend that will continue apace, placing challenges upon administrators to develop enhanced IT services that will deliver inter-active solutions, where scheme members can quickly review their pension and wider benefit entitlements from their work-station in the office or at home.

One surprising finding is that only 24 per cent of outsourced schemes are looking to extend information to members by way of web enabled administration, which is 32 points lower than in-house administered schemes. It cannot be wise for the outsourced market to fall behind what must be a developing trend (see Table 49)

Table 49. *Third-party administered schemes: Do you have plans (with your Administrator) to extend the access members have to scheme information by way of web enabled administration?*

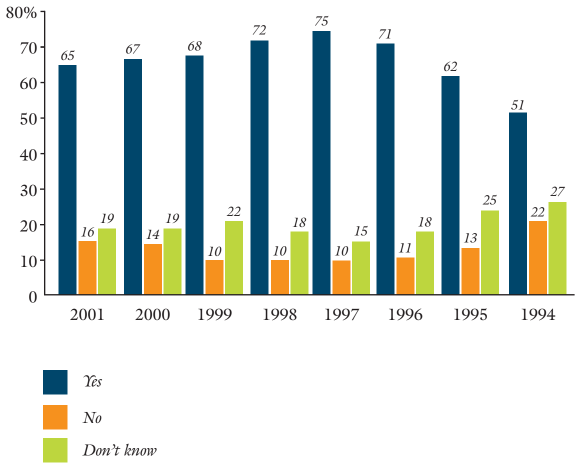


All Schemes: the Future

Third-party trends

Some 65 per cent of all schemes we surveyed think there will be a continued move in favour of third-party administration in the years ahead, up 14 points on the level first recorded eight years ago (see Table 50), but again down below seventy per cent for the third successive year.

Table 50. *All schemes:*
Do you think there will be an increase in the use of third-party administration as a result of general trends and additional legislation?



Pensions administration issues and concerns

For the last eight years 'increased complexity of administration' and 'increased levels of administration' have headed the *Top Ten issues most likely to affect pensions administration in the next decade* list. This year, 'changes in scheme structure' has held its 3rd place. 'Greater trustee involvement' has moved up the list to 4th from 8th place, and 'retirement ages/equality' up to 5th from 9th. 'Reduced company involvement in pensions' has moved down to 8th position from its position a year ago, and, encouragingly, 'competition from Stakeholder Pensions' has fallen away to 10th from 5th place in the last two years (see Table 51).

Table 51. *All schemes:*
What are the 'Top 10' pensions issues most likely to affect Pensions Administration in the next decade? In ranked order.

	2001	2000	1999	1998	1997	1996	1995
Reduced complexity of administration	1	1	1	1	1	1	1
Increased levels of administration	2	2	2	2	2	2	2
Changes in scheme structures	3	3	4	4	5	4	4
Greater trustee involvement	4	8	6	8	4	3	3
Retirement ages / equality	5	9	10	6	7	9	6
Pensions for divorced spouses	6	6	3	10	3	6	-
Compulsory contributions for all staff	7	7	7=	5	9	10	-
Reduced company involvement in pensions	8=	4	-	-	-	-	-
Transfer issues	8=	10	9	9	6	8	5
Competition from Stakeholder	10	5	5	7	-	-	-

Statistical Results

Note: where figures appear in brackets they are 2000 figures

Table 1 *All schemes: Total assets of schemes covered by survey*

£bn	1994	1995	1996	1997	1998	1999	2000	2001
All	36.6	38.9	56.79	65.9	92.24	110.53	158.46	176.45
Final Salary								168.96
Occupational MP								6.59
GPP								0.21
Combined								0.36
Industry wide								0.33

Table 2. *All schemes: Total membership of schemes covered by survey*

1994	1995	1996	1997
1,271,078	1,537,806	1,839,694	2,731,502
1998	1999	2000	2001
2,449,296	3,268,231	3,509,088	3,836,438

Table 3. *All schemes: Percentage of employees in sample covered by types of scheme*

	Percentage	Percentage of schemes contracted-out
Final Salary	69	91
Occupational Money Purchase	6	22
Group Personal Pensions	1	-
Industry-wide	1	-
Mixture of FS / Money Purchase	4	51
Not covered by scheme	19	-

Table 4. *All schemes: Percentage of eligible full-time and part-time employees who are members of organisation's principal schemes*

	Full-time	Part-time
Final Salary	76	56
Occupational Money Purchase	6	4
Group Personal Pensions	1	1
Combination (hybrid)	3	2
Industry-wide	1	1
All Schemes	87	64

Table 5. *All schemes: Size of schemes (by membership - all categories)*

Below 500	500-1,999	2,000 - 4,999	5,000 - 9,999	+ 10,000
3% (2%)	24% (26%)	21% (26%)	21% (17%)	31% (29%)

Table 6. *All schemes: Membership of Schemes by categories covered by survey*

Deferred members	Active members	Retired members
25% (23%)	39% (41%)	36% (36%)

Table 7. *All schemes: Pension scheme administration sample*

In house administered	Outsourced
66% (68%)	34% (32%)

Table 8. *All schemes: Will you be required to offer access to a Stakeholder Pension to at least some employees?*

Yes	No	Not sure
45%	49%	6%

Table 9. *All schemes. Have you considered the implications of Stakeholder Pensions on your existing pension arrangements?*

Yes	No
93%	7%

If 'yes', have you decided to extend occupational arrangements to all Stakeholder eligible employees?

Yes	No	Will consider
36%	37%	27%

If 'yes', have you given any thought to a preferred Stakeholder provider or type of arrangement?

	Yes	No
	52%	48%
Prefer member-run trustee based	26%	
Prefer financial services company sponsored scheme	74%	

Table 10. *All schemes: Have you been approached by a Stakeholder or likely Stakeholder provider about your company's Stakeholder needs?*

Yes	No
46%	54%

Table 11. *All schemes: Will you make an employer contribution into any Stakeholder scheme you set up?*

Yes	Maybe	No
11%	8%	81%

If 'yes' or 'maybe', what percentage of an individual's total earnings might be considered as an employer contribution?

Median	Range
4%	3-10%

Table 12. *All schemes: Has or will the introduction of stakeholder pensions cause you to re-consider the occupational schemes you presently offer?*

We will modify existing schemes to gain exemptions from Stakeholder requirements	55%
We intend offering access to Stakeholder pensions to allow members to pay AVCs in lieu of the scheme's existing AVC arrangements	28%
We will restrict offering existing occupational scheme to present staff and offer Stakeholder to new employees	7%
We will restrict offering existing occupational scheme to present categories of staff and offer Stakeholders to other employee categories	7%
We will gradually wind-down existing occupational scheme for some staff and replace with Stakeholder scheme	2%
Other	1%

Table 13. *All schemes: Over the last 5 years, would you say your total pension scheme costs (Administration and contributions) have grown at a faster rate than your other business overheads have generally grown?*

Yes	No	Same rate
45%	35%	20%

If 'yes', what would you attribute this to?

Actuarial / funding reasons (eg. less surplus, low inflation, Longevity, ACT change)	81%
Costs of compliance	45%
Change in pensions offered	3%
Change in coverage of employees	13%
Other	4%

Table 14. *All schemes: Over the last 5 years, has your company done any of the following?*

Moved new / all employees onto money purchase schemes	7%
Set up a money purchase scheme	15%
Set up a final salary scheme	> 1%
Reduced percentage of employees covered by pension schemes	-
Placed one or more schemes into winding-up	12%
Moved towards more flexible benefits package	14%

Table 15. *All schemes: Schemes now have the option of introducing greater flexibility in their AVC arrangements. Have you:*

Allowed members to take the proceeds of their AVC Fund prior to retirement?	3%
Allowed members to defer receipt of their AVC Fund until after retirement?	29%
Allowed AVCs to be taken as income draw-down?	6%
Made no change in your AVC arrangement?	62%

Table 16. *All schemes: Pension sharing applies to divorces petitioned after Dec 1st 2000. Has your scheme resolved what it will charge members in cases of pension splitting on divorce?*

Yes	No
74%	26%

If 'yes',

	Yes		No
Is it in line with the NAPF recommendations?	82%		18%
Are costs charged up-front?		65%	
Are costs charged as and when incurred?		35%	

Table 17. *All schemes: Has your scheme decided to:*

Allow ex-spouses to defer the pension rights they are granted in the scheme?	27%
Require ex-spouses to transfer the pension rights to another pension arrangement?	73%

Table 18. *In-house administered schemes: Has the total cost of pension administration and management been costed?*

£bn	1994	1995	1996	1997	1998	1999	2000	2001
Yes	66%	69%	68%	69%	64%	69%	70%	66%
No	34%	31%	32%	31%	36%	31%	30%	34%

Table 19. *In-house administered schemes: Do you know what your pension scheme costs per member are for administration and membership?*

Yes	No
39%	61%

Table 20. *In-house administered schemes: 'Top 6' reasons for retaining administration in-house. In ranked order.*

	1994	1995	1996	1997	1998	1999	2000	2001
Better administrative control	1	1	2	1	1	1	1	1
Greater speed/ response	2	2	1	2	3	5	2	2
Greater efficiency	3	3	3	3	2	2	3	3
Better communications	6	5	4	5	6	4	5	4=
Better cost controls	4	6	6	6	5	6	6	4=
Employee relations	5	4	5	4	3	3	4	6

Table 21. *In-house administered schemes: Range in annual cost of administration (per member)*

	1994	1995	1996	1997	1998	1999	2000	2001
Up to 1,999 members	£95.17	£83.40	£73.31	£64.38	£65.60	£68.95	£71.84	£70.67
2,000 to 4,999	£88.10	£79.45	£45.49	£50.09	£52.70	£54.20	£56.58	£55.45
5,000 to 9,999	£53.50	£52.65	£35.83	£39.06	£40.78	£41.70	£42.78	£41.40
+ 10,000	£27.28	£28.15	£29.57	£31.98	£33.32	£34.11	£35.24	£35.60

Table 22. *In-house administered schemes: Have you ever considered using a third-party administrator?*

	1994	1995	1996	1997	1998	1999	2000	2001
Yes	54%	62%	62%	68%	64%	66%	62%	74%
No	46%	38%	38%	32%	36%	34%	38%	26%

Table 23. *In-house administered schemes: Are you likely to consider outsourcing in the future?*

	1994	1995	1996	1997	1998	1999	2000	2001
Yes	12%	15%	15%	17%	19%	16%	22%	23%
Maybe	17%	31%	33%	33%	33%	33%	30%	30%
No	71%	54%	52%	50%	48%	51%	48%	47%

Table 24. *In-house administered schemes: Has increased pensions legislation and regulations made you more or less likely to consider using a third-party administrator?*

	1998	1999	2000	2001
More likely	8%	14%	17%	25%
No change	86%	79%	78%	69%
Less likely	6%	7%	5%	6%

Table 25. *In-house administered schemes: Do you operate to set in-house quality standards and turnaround times?*

	1995	1996	1997	1998	1999	2000	2001
Yes	42%	46%	64%	66%	66%	68%	64%
No	58%	54%	36%	34%	34%	32%	36%

Table 26. *In-house administered schemes: Are the service standards incorporated in any agreement between the administrators and the trustees?*

Yes	No
44%	56%

Table 27. *In-house administered schemes: what is the average turnaround time for the following?*

days	Target Time Range	2001 Median	2000 Median
AVC Enquiries	3-30	8	10
Annual Update	5-90	30	30
Issue of Annual Benefit Statement	5-180	25	30
Data extract for Actuarial Valuation	5-120	30	35
Issue of Early Leaver Certificate of Benefit	3-60	10	12
Calculation and Payment of:			
Death-in-Service Benefit	2-60	7	10
Death-in-Retirement Ben'	2-30	7	10
Death-in-Deferment Ben'	2-30	6	6
Retirement Benefits	1-30	7	10
Transfer in	5-90	10	15
Transfer out	5-90	10	15

Table 28. *In-house administered schemes: When did you last review your computer software?*

Pre-1995	1995	1996	1997	1998	1999	2000	2001
17%	6%	3%	12%	24%	12%	26%	-

Are you planning to review in the near future?

	1996	1997	1998	1999	2000	2001
Yes	25%	27%	33%	19%	14%	21%
No	75%	73%	67%	81%	86%	79%

Table 29. *In-house administered schemes: Problems experienced with computer software*

	2001	2000	1999	1998	1997
Major Problems	10%	4%	13%	17%	3%
Minor Problems	52%	57%	47%	65%	69%
No Problems	38%	39%	40%	28%	18%

Table 30. *In-house administered schemes: 'Top 5' software providers. In ranked order.*

2001	2000	1999	1998
1. Profund	1	1	1
2. CPX / Lynx Heywood	2	2	3
3. Pensions Office / Edis	3	-	-
4. In-house	5	5	4
5. PMS 6000	4	-	-

Table 31. *In-house administered schemes: What additional functionality do you want in pension administration software?*

Web / internet access	Improved integration with other software packages
Inter-active with members	Flexible management reporting tools
Easier report writing facility	Workflow / DIP

Table 32. *In-house administered schemes: Do you utilise one or more of the following?*

	Yes	No
Electronic Document Management	29% (18%)	71% (82%)
Workflow Management System	34% (26%)	66% (74%)
Financial Modelling System	17% (13%)	83% (87%)
Intranet for Scheme Information	55% (34%)	45% (66%)

Table 33. *In-house administered schemes: Do you plan to extend the access members have to scheme information by way of web enabled administration?*

Yes	No
56%	44%

Table 34. *Third-party administered schemes: Who provides outsourced services?*

	2001	2000	1999	1995
Third-Party Administrator	53%	49%	32%	32%
Pension Consultant / Actuary with admin services	47%	51%	66%	53%
Insurer	-	-	2%	15%

Table 35. *Third-party administered schemes: If you outsource your pension scheme administration, is this part of a general policy in your company to outsource non-core activities?*

Yes	No
46%	54%

Table 36. *Third-party and in-house administered schemes: Cost difference between in-house and third-party administered schemes.*

Average costs per member	In-house	Third-party	Increase in last 12 months	Cost Gap
Up to 1,999 Members	£70.67	£67.01	-1.6% / 0.0%	+£3.66
2,000 to 4,999	£55.45	£45.25	-2.0% / +1.0%	+£10.20
5,000 to 9,999	£41.40	£34.95	- 3.2% / -1.1%	+£6.45
+ 10,000	£35.60	£27.20	+1.0% / +3.3%	+£8.40

Table 37. *Third-party and in-house administered schemes: Seven year comparison range in annual cost of administration (per head)*

	2001	2000	1999	1998	1997	1996	1995	1994
Up to 1,999 members								
In-house	£70.67	£71.84	£68.95	£65.60	£64.38	£73.31	£83.40	£95.17
3rd-party	£67.01	£66.97	£64.46	£63.05	£62.25	£64.44	£75.22	£90.24
2,000 to 4,999 members								
In-house	£55.45	£56.58	£54.20	£52.70	£50.09	£45.49	£79.45	£88.10
3rd-party	£45.25	£44.85	£42.80	£39.45	£37.88	£36.60	£30.81	£36.60
5,000 to 9,999 members								
In-house	£41.40	£42.78	£41.70	£40.78	£39.06	£35.83	£52.65	£53.50
3rd-party	£34.95	£35.33	£34.47	£33.48	£31.56	£30.35	£25.11	£21.77
Over 10,000 members								
In-house	£35.60	£35.24	£34.11	£33.32	£31.98	£29.57	£28.15	£27.28
3rd-party	£27.20	£26.37	£25.58	£24.20	£23.01	££22.45	£22.71	£20.85

Table 38. *Third-party administered schemes: What are the advantages of outsourcing in order of importance? Ranked in order.*

	2001	2000	1999	1998	1997	1996	1995	1994
Reduced administration	1	2	2	2	1	4	3	3
Understand legislation	2	3	3	7	3	2	2	2
Specialist staff	3	1	1	1	2	1	1	1
Reliability of service	4	6	6	3	4	3	5	4
Reduced management time	5	5	5	5	6	5	4	6
Efficient record keeping	6	4	7	4	5	6	6	8
Faster response times	7	7	8	8	8	7	9	5
Lower costs	8	8	4	6	7	8	7	7
Impartiality	9	9	9	9	9	9	8	9

Table 39. *Third-party administration schemes: What are the most important factors in selecting a third-party pensions administration company? Ranked in order.*

	2001	2000	1999	1998	1997	1996	1995	1994
Experience of company	1	1	3	3	3	3	2	1
Quality standards	2	2	1	1	1	2	4	9
Technical skills	3	3	4	2	2	1	1	2
Cost	4	5	5	5	4	4	3	7
Recommended by pensions adviser	5	7	2	6	6	10	7	6
One-stop shop	6	9	6	10	8	8	10	8
Recommended by other business	7	6	10	7	10	9	8	3
Independence	8	10	9	8	7	6	6	5
Large firm	9	8	7	9	8	7	9	10
Flexibility	10	4	8	4	5	5	5	4

Table 40. *Third-party administered schemes: When did the scheme first move to third-party administration?*

	2001	2000	1999	1998
In last year	9%	14%	12%	8%
In last 2 years	13%	19%	19%	18%
In last 5 years	26%	21%	21%	22%
Over 5 years ago	52%	48%	48%	52%

Table 41. *Third-party administered schemes: When was service last reviewed?*

2001/2000	1999	1998	1997	1996	1995	Pre 1995
5%	26%	38%	7%	12%	12%	-

Table 42. *Third-party administered schemes: Do you have a formal contract for administration?*

	2001	2000	1999	1998	1997	1996	1995
Yes	90%	86%	74%	74%	69%	68%	62%
No	10%	14%	26%	26%	31%	32%	38%

Table 43. *Third-party administered schemes: Does your administration contract include turnaround times for certain tasks?*

	2001	2000	1999	1998	1997	1996	1995
Yes	83%	84%	82%	81%	69%	53%	46%
No	17%	16%	18%	19%	31%	47%	54%

Table 44. *Third-party and in-house administered schemes: What is the average turnaround time for the following?*

	THIRD-PARTY ADMINISTERED			IN-HOUSE ADMIN'D	
days	2001 Target Time Range	2001 Median	2000 Median	2001 Target Time Range	2001 Median
AVC Enquiries	3-15	7	9	3-30	8
Annual Update	10-90	30	30	5-90	30
Issue of Annual Benefit Statement	30-100	28	30	5-180	25
Data extract for Actuarial Valuation	30-60	25	35	5-120	30
Issue of Early Leaver Certificate of Benefit	5-60	8	8	3-60	10
Calculation and Payment of:					
Death-in-Service Benefit	1-20	5	5	2-60	7
Death-in-Retirement Ben'	1-14	5	5	2-30	7
Death-in-Deferment Ben'	1-21	5	5	2-30	6
Retirement Benefits	2-14	5	7	1-30	7
Transfer in	5-90	10	10	5-90	10
Transfer out	5-90	14	15	5-90	10

Table 45. *Third-party administered schemes: Most common Method/Mix of charges.*

	2001	2000	1999	1998	1997	1996
Fixed only	21%	32%	30%	31%	19%	27%
Per Capita only	16%	25%	14%	14%	6%	11%
Fixed Transaction	15%	7%	-	-	-	-
Per Capita Fixed	14%	24%	8%	22%	14%	13%
Per Capita Transaction	8%	6%	7%	14%	6%	11%

Number of charging bases in contracts:

	2001	2000	1999	1998
One basis of charging	46%	56%	54%	53%
Two bases	42%	30%	29%	43%
Three or more bases	12%	14%	17%	4%

Table 46. *Third-party administered schemes: Has your third-party administration service met the targets expected in terms of:*

Percentage saying 'yes'	2001	2000	1999	1998	1997	1996	1995
Quality?	70%	83%	74%	69%	79%	79%	89%
Cost saving?	58%	68%	64%	71%	85%	82%	71%
Reduced management time?	75%	76%	79%	75%	89%	84%	93%
Overall service?	76%	83%	76%	81%	90%	86%	81%

Table 47. *Third-party administered schemes: Does your third-party contract include penalties or reductions in charges in the event of poor performance?*

	2001	2000	1999	1998	1997	1996	1995
Yes	39%	38%	38%	35%	23%	13%	7%
No	61%	62%	62%	65%	77%	87%	93%

Table 48. *Third-party administered schemes: Do you have access to member records on your administrator's computer system?*

	2001	2000	1999	1998	1997	1996
Yes	49%	47%	45%	48%	26%	22%
No	51%	53%	55%	52%	74%	78%

Table 49. *Third-party administered schemes: Do you have plans (with your Administrator) to extend the access members have to scheme information by way of web enabled administration?*

Yes	No
24%	76%

Table 50. *All schemes: Do you think there will be an increase in the use of third-party administration as a result of general trends and additional legislation?*

	2001	2000	1999	1998	1997	1996	1995	1994
Yes	65%	67%	68%	72%	75%	71%	62%	51%
No	16%	14%	10%	10%	10%	11%	13%	22%
Don't know	19%	19%	22%	18%	15%	18%	25%	27%

Table 51. *All schemes: What are the 'Top 10' pensions issues most likely to affect Pensions Administration in the next decade? In ranked order.*

	2001	2000	1999	1998	1997	1996	1995
Reduced complexity of administration	1	1	1	1	1	1	1
Increased levels of administration	2	2	2	2	2	2	2
Changes in scheme structures	3	3	4	4	5	4	4
Greater trustee involvement	4	8	6	8	4	3	3
Retirement ages / equality	5	9	10	6	7	9	6
Pensions for divorced spouses	6	6	3	10	3	6	-
Compulsory contributions for all staff	7	7	7=	5	9	10	-
Reduced company involvement in pensions	8=	4	-	-	-	-	-
Transfer issues	8=	10	9	9	6	8	5
Competition from Stakeholder	10	5	5	7	-	-	-

About Capita Hartshead

As the largest specialist pension administration organisation in the UK, Capita Hartshead manages over 2 million lives and handles in excess of £2 billion in contributions every year. Our service excellence is based on strong customer relationships, and we regard outsourcing of pensions administration as a close working partnership.

Capita Hartshead provides an individually tailored pension scheme management and administration service with a range of options including:

- Comprehensive third-party administration
- Scheme accounting
- Fund and investment accounting and monitoring
- Online access to scheme records
- Scheme communications
- Benefits payments and payroll
- Consultancy services
- Trustee training
- Company secretarial duties

We believe in making life as simple as possible for you by designing a service strategy that exactly matches your needs and assembling the right management team to deliver it.

Capita Hartshead is a member of the NAPF and Society of Pension Consultants.

Human resource management is moving up the corporate agenda as organisations seek specialist partners to improve business performance.

Capita Human Resource Services provides creative and integrated solutions across the entire employee lifecycle from Recruitment and Assessment, through Payroll Services and Pensions Administration, to Outplacement, Career Management, Employee Assistance Programmes and Outsourced HR.

The Capita Group Plc focuses on assisting organisations to transform their business in the five key areas of Human Resource Services, Customer Services, Software and Strategic Services, Property Services and Commercial Services. Our long-term outlook means that we will continue to support our customers as their organisations develop – combining the best of both public and private sector experience to deliver real value in the services we provide.

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