

# Seven Principles for Effective Administration Agreements

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We were delighted to collaborate recently with CMS on behalf of the Pensions Management Institute, to produce a guide to the key principles of administration agreements.

The last five years have seen a lot of change in contract content driven by a range of concerns including data quality and exit arrangements. The guide, which is designed to be used by both pensions managers and pension scheme trustees, seeks to provide the essential generic knowledge and guidance necessary to secure an agreement that will underpin a mutually rewarding long-term appointment.

The changes have largely been informed by:

- Client experience from recent outsourcing projects;
- The increased focus on member outcomes and the drive to protect member interests;
- Learnings from outsourcing in other industries. and
- A desire to establish a framework for a successful long-term partnership.

Outsourcing of administration is not an abdication of responsibility, but a partnership to deliver a service to members. We have put together a high-level overview of some of the key issues to think about when creating an administration agreement. Whether you are first-time outsourcing or reviewing an outdated administration agreement, these issues are of primary importance.

## The Seven Principles of Effective Administration Agreements

### 1 Don't let anything fall between the cracks

Before embarking on any negotiation, make sure you know both what you want to include and what needs to be included. The services to be outsourced need to be comprehensively captured in the contract. Have you identified everything? This is particularly crucial for a first-time outsourcing where a comprehensive schedule of services may need to be created from scratch. This isn't always easy as the people closest to the service aren't always best placed to articulate what exactly the service is; it is often hard to see the wood for

*"Investing time up-front prevents headaches later!"*

the trees. Make sure that everything of significance is captured and responsibility for it is formally allocated, either with the TPA or an in-house/ external adviser. Experience has clearly demonstrated that investing time in up-front work, to identify easily overlooked areas, can prevent headaches later. Prevention is always better than cure!

Outsourcing does not bring change to an end; your needs and services will continue to evolve. Ensure that subsequent changes are formally documented. When updating a contract, consider whether records of change might have been misplaced.

## 2 Involve the Sponsor from the beginning

Administration agreements are increasingly tripartite. It is common sense to involve the Sponsor alongside any other key stakeholders and appropriately reflect their interests in the contract.

The Sponsor and the Trustee should both be seeking a similar outcome: efficient, cost-effective administration. Take the time early-on to agree the process for developing and agreeing the contract. Discuss any key contractual terms where there could be a difference of opinion between Trustee and Sponsor. You may not agree on everything, but different perspectives can usefully open unexplored avenues. Lastly, take time to discuss and agree how future administration governance is to operate.

*“Different perspectives can help open unexplored avenues”*

## 3 Look to the future

Your administration agreement needs to represent the services required now, but be flexible enough to recognise that things change. Your agreement needs to be fit for purpose five or even ten years hence.

Your requirements will develop over time, but will your changing needs be met? What happens if the services don't match your requirements? Or service quality falls short of your expectations? How will errors be remedied?

Not all relationships last the distance. Part of looking to the future is, therefore, to ensure you have an effective exit plan in place within the contract.

## 4 Seek value for money, not just low cost

Low cost and value for money are not the same thing. Be sure you know what services you want, need and expect and then find the right balance between a good price and areas such as service levels, liability limits and contract flexibility. If you want broader termination rights, expect this to impact the price you pay. You should be clear about what factors will cause the price to vary either up or down.

*“Low cost and value for money are not the same thing”*

Aim for simple pricing and incentive structures and have them set out in one of the Schedules to the contract. The more complex these arrangements are, the more time and resource it takes to manage them. If you include complex financial incentives, that nobody really understands, the chances are they'll just be ignored.

Be realistic; for any relationship to stand the test of time the pricing needs to work for all parties.

## 5 Clearly set out relationship and governance arrangements

Who is responsible for overseeing your relationship with the TPA? Does your in-house team have the skills to manage the TPA? Or does the responsibility for oversight sit with a third party? In which case, is that clear and can it be monitored appropriately?

*“Whilst the contract exists at law, the relationship will depend on the people”*

Administration relationships can and do fail because of poor contract management or governance on one, or both, sides. When negotiating your agreement, be clear about what responsibilities sit where and with whom. Be clear about the channels of communication, how information will flow, the frequency of review meetings and who will attend them.

The governance arrangements should be summarised in a schedule to the contract.

## 6 Clean data; and don't blame the past

It is wise to clean the data during transition. Then make sure that there are controls and processes in place (and contractually agreed) to keep the data spotlessly clean. Not only that, but make sure that adequate reporting on data quality is provided to the Trustee. Remember that having clean data now can make life considerably easier in the future.

*“Clean data now can make life considerably easier in the future”*

By doing this you can avoid hearing the ‘inherited data defence’ from your TPA. This shouldn't be accepted; your administrator should be taking responsibility for managing data quality.

## 7 Make the transition plan a part of the contract

Getting the transition right is a crucial step in building a robust and sustainable service. Therefore, it needs to be planned properly with agreed milestones, targets and measurable success criteria that are contractually committed.

Transitions can be complex. To ensure success the right skills will be needed and they will be needed from the start. Consider whether the project needs a dedicated project manager. If it does, who has the skills to fill that role?

The same can be said for transformation projects. If you are working with your administrator to transform current services, think of it as a transition; a fresh start.

The Key Principles of Administration Agreements can be found on the PMI website by [clicking here](#).