

# Roundtable: Effective Pensions Administration



## Effective pensions administration in the future

The purpose behind our Pensions Leaders dinners is to share knowledge, ideas and wisdom with each other. Our latest dinner brought together a mix of professional trustees, Heads of Pensions and representatives from administration providers to explore what effective pensions administration should look like in the 2030s – or, put another way, what pensions administration “utopia” could be.

*“I’m still not sure we’re mature enough as an industry to actually understand enough about our members, what they want and what good means to them.”*

The group agreed that the core goal would be to deliver outstanding member experience.

Much of the discussion focused on two key areas – engagement and communication and brought to light some key areas that require attention. As one participant commented mid-way through, “our focus so far for this whole conversation is engagement and communication and we very rarely talk about that to the same degree as other key topics in the industry.”

## Proactive engagement remains just as critical, even post dashboards

The introduction of dashboards is really important and the consensus around the table is that we're likely to see an instant spike in engagement. An inevitable consequence of dashboards is engagement with the hitherto disengaged. However, having grabbed that moment of attention, what happens next?

What's clear is that post dashboards, there is still a critical need for engagement to be ongoing and meaningful. People's understanding of personal finance is nowhere near where it needs to be so the right choices can be made. This is a big problem.

Furthermore, engagement happens at different levels. It was recognised that levels of paternalism differs by industry between employers and members. This leads to different levels of engagement.

*'As an industry, we need to think beyond the cohort of population that are engaged and think about the cohort that are disengaged...there's potentially room for us to do more and then we will build trust.'*

Dashboards could also create additional risks – for example, driving more people to want to transfer their DB benefits to DC because they have visibility of their cash transfer value. Staying on dashboards, member's DB benefits are going to be sitting alongside their DC benefits – this marriage of DB and DC will inevitably create further questions for administrators. 'We know that working in DC, you become acutely conscious of the huge number of choices that individuals have to make.' Adding to the complexity is the need to consider 'how this fits with other financial decisions outside of pensions?'

Another view shared is the critical importance of maximising the opportunities engagement presents to drive good member decision making during key engagement trigger points, when they actually need or want to engage - for example, on retirement.

However, during the discussion it was highlighted that just because members don't necessarily want to engage now, efforts to drive proactive engagement remain key so they can make a sensible decision earlier in their life and don't have a 'regret' moment on retirement. Ongoing engagement beyond dashboards is what we should be trying to engineer - quality, consistency and treating everyone as individuals.

The key to building strong engagement is communication.

*"We're looking to appoint a financial wellbeing supplier for our employees, especially for those entering the work environment."*

It was agreed that initiatives like this will help educate people about the importance of pensions at the earliest opportunity, alongside other important areas that make up financial wellbeing.

## Communication

Confusion and disengagement - this was the general consensus around the table when it comes to member communications across the industry – *'I think the industry has such a long way to go despite the number of communication specialists and communication arms of other businesses.'* There is a big gap between what the industry thinks people understand about pensions and what they actually know. The best leveller you can get is to talk to people about their understanding of pensions which might well lead you to re-evaluate the entire communications experience.

A good example of the communications complexity is retirement packs – 'multi-page retirement packs are distributed to members, which means we don't make it simple for people to retire'. The lack of simplicity complicates the decision-making process for members to the point that there is a cohort of people who simply don't take their benefits because they feel the process is just too difficult. It's one example where the industry needs to come together, remove barriers and make it easier for members by improving the clarity of information and communication. Some dinner participants had introduced the ability to make choices online.

A common question expressed at the roundtable is how the industry can come together and navigate some of these communication challenges. It was cited that there isn't enough collaboration or genuine cross-industry initiatives around the topic of communication and engagement, especially with pension administrators.

It's not a one-size fits all approach - the diversity across members is also important:

***"some of our oldest members require a lot of handholding: the younger members, not quite so much."***

If we take dashboards as an example, member questions will be met with different responses from their employer, administrators and future commercial dashboard providers – *'they will get a different flavour and interpretation of the question'*. Issues like this don't help to elevate trust and engagement – *'the industry needs a common language in the way it talks to members and to use a consistent way to describe the jobs we do.'*

There is a void in this area and no drive for a voluntary charter that the industry can agree and get behind when it comes to plain English communication – *'The public don't understand what we talk about – they understand basic, entry level-language and we don't all sign up to that.'* We need to accept that the reading age of many of the UK workforce is below 10 and make much better allowance for this. It was recognised that there had been attempts in the industry in the past, that hadn't been adopted - but perhaps with dashboard looming, the time is now, and the need is even more pressing.

## **Administration is evolving – maintaining human-centricity is key**

The industry has evolved, which has created a growing gap between employers and their employees when it comes to pensions. The gap that has evolved over the past 10-20 years, as the cost and uncertainty of DB schemes along with the increasing number of rectification projects and governance expectations, mixed with employees changing jobs more frequently, has disengaged sponsors from pensions being a strategic part of the reward package.

And previously, when there was more in-house pensions presence, there was a stronger connection with members - in-house administration teams knew the company, knew the people and helped explain complex situations.

*'With outsourcing, the industry has moved away from more face-to-face contact that perhaps existed 10, 15, 20 years ago and moving more towards online and self-service engagement.'* This 'will suit some members' however it makes it challenging for members that don't understand what they are trying to find out in the first place.

Administrators are also facing resourcing challenges. It's important to keep turnover in administration providers low, so that employee wisdom and experience is built up over time. *'For those of us who have been involved in DB over a long time, we can remember that experience was actually fundamental and we just took it for granted'*. Member experience was mentioned several times during the discussion – *'the best thing you can do for a member is to put them in touch with somebody who has the right expertise to answer the question.'*

The race to self-service is amplifying the focus on AI within administrators, which can help address capacity issues. Against this backdrop, AI governance is crucial. *'It's important to emphasise that there is a human element here. It's a people's business.'* – the growing complexity in pensions cannot be dealt with by introducing more AI alone. Humans will remain important to delivering a great member service.

*'The level of expertise aligned to understanding individual needs is important, which is missing when relying on prompted AI.'* When AI chatbots are used in member servicing, guardrails and frameworks should be put in place to identify if more expertise is required to answer questions properly. AI triage will emerge, where people answering phones will focus on more complex issues – AI-assisted contact rather than AI on its own. Either way, it's important that member queries get channelled to someone with the right expertise.

The group discussed however that fending off influencers and retail providers who arguably communicate more effectively poses enormous challenge to workplace pension schemes and providers.

Achieving successful levels of engagement also becomes more critical during this period of social media growth. Many unregulated commentators are on platforms such as TikTok and YouTube providing guidance and advice that members will be susceptible to.

***“One of the things the industry can do – and that’s employers and the industry – is maintain safe places for members to access information and build a reputation for those places as accessible and safe.”***

## The role of government

The group agreed that the plethora of government initiatives and interventions over many years had made the role of the administrator much more challenging than it needed to have been. Future IHT-related changes was just one example the group cited which pose more pressure on administrators. The group also recognised that some government initiatives were hugely beneficial to savers, including Auto Enrolment, although all of them create additional complexities or projects to be implemented.

The group went on to discuss the importance of industry bodies such as Pensions UK, PMI, PASA, SPP and others to push back on some of the government’s plans.

## When friction is good

Another interesting point of discussion is the potential unintended consequences of making everything too easy for members. If we go down the path of too much self-service, will members speed through the process without weighing all the facts and so end up making the wrong decision? There have to be the right balance and nudges in the right place to ensure individuals step back and assess if they need help in making decisions – and then for the support to be there.

## Data

Not unsurprisingly, the age-old issue of data was discussed. It was acknowledged that previously, pensions administration has been the ‘Cinderella’ of the industry - under-appreciated with an expectation that administration would be handled as cheaply as possible.

That view is beginning to change, especially with the growing levels of complexity and the drive to buy-in and buyout, which can’t be done with the mindset of ‘lowest cost possible’. The industry is now beginning to recognise that better quality administration and improved member engagement can deliver substantial savings over time, quite apart from the fact that delivering a great ‘customer experience’ is the right thing to do in any case. Consequently, the importance of administration is now becoming recognised.

Data was always considered important, especially with dashboards and record keeping guidance from TPR. However, the industry is moving on from ‘just good enough data’ to a clearer focus on robust data governance. The importance of data has really been elevated, especially as schemes move to buyout, when data quality is paramount.

*‘Data should be viewed as a strategic asset and not part of a discrete project – it’s part of a scheme’s DNA.’* Data is not static and always changes over time. As a result, part of one’s data governance strategy should be to determine current and future data needs, and aligning these to scheme strategy.

## What is utopia?

The discussion led to some ambitious takeaways on the collective vision from the roundtable participants on what effective administration should look like:

- **A clear understanding of member expectations across different cohorts and what is good for them. We need to move away from the collective term ‘members’ to individuals**
- **Engagement is as strong as it can be across different cohorts**
- **Creating the right balance between AI and human connection**
- **Communication that is effective and clear, encouraging people to feel more confident about pensions**
- **A recognition that data is a strategic asset.**