INSIGHT

# In-house pensions management versus outsourced? How do you decide?

6 MINUTE READ

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**"Value for Money" is a common-sense concept that we are all familiar with; that link between the cost of something, and its quality – and we constantly make a judgement about how well those are aligned. In the world of pensions, VFM (Value for Money, or Members – it has been both) is in the process of being defined.**

When it comes to managing pensions, the decision to rely on an in-house pensions manager may seem like a practical, cost-effective solution. It absolutely can be! However, many organisations have unconsciously drifted into this position, without considering the financial and operational costs, implications and risks to their core business.

Some are actively undertaking succession planning, considering how outsourcing some or all of the pensions management responsibilities might play a part. With a tight recruitment market and a dwindling pool of pensions managers with all the skills required in today's pensions world, it's a challenge.

This article explores the key drivers and considerations for deciding whether to recruit in-house or outsource.

The drivers we see mentioned most frequently for outsourcing pensions management are to:

- Manage key person risk and limit future risk exposure
- Have a sustainable operational model to deliver ongoing expected levels of service and strategic plans
- Provide future flexibility of resource.

We think about these in more detail below, starting with the cost of managing the risk.

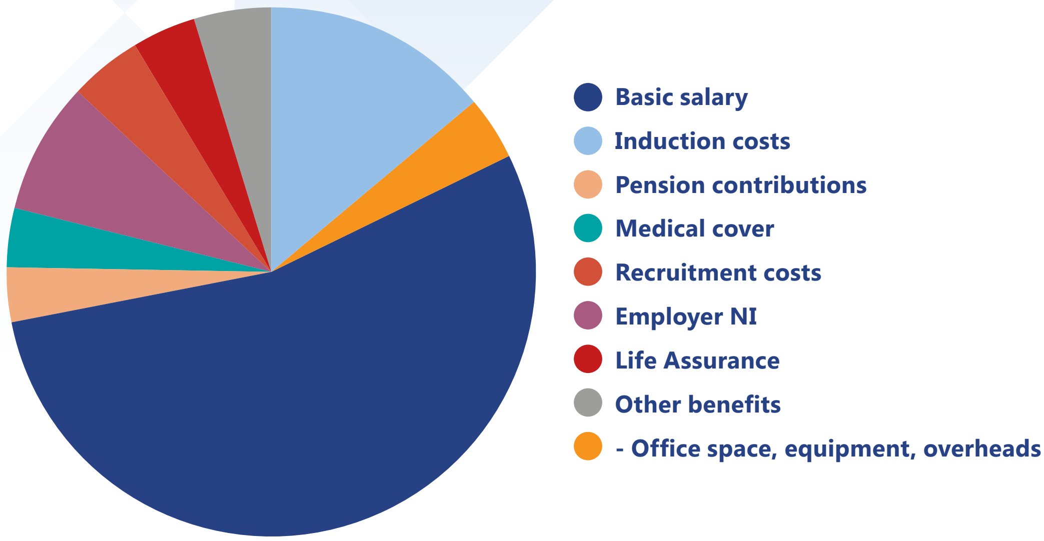
## Understanding the real cost

It's difficult to know what the cost of something not working well or going wrong is unless it does. When there's a significant event like a cyber attack, it becomes obvious where the weaknesses are and things can fall apart very quickly. However, things might become increasingly and silently dysfunctional over time reaching a point where things start going wrong with no easy or cheap fix.

How do you understand the risk vs reward to your core business of having an in-house pensions manager?

A helpful starting point is understanding the cost of the in-house pensions manager role. When taking the decision to stay in-house or outsource, especially if your pensions manager quickly exits, cost is an important consideration. Basic salary is the obvious visible cost. However, the real cost to a business includes other factors which can account for an additional 70%-100% of basic salary. These can include benefits, national insurance contributions and office overheads. We've highlighted an example of some of these costs overleaf, which exclude bonuses and costs associated with recruitment,

## True cost of a pensions manager




Source: Personio, 2025

training, holiday and sickness cover, which would be in addition.

The cost of outsourcing can seem high on the face of it. However, an outsourced model would typically be based on more than one person being involved to manage key person risk. A team-based approach means there is always someone available with the right knowledge and experience to do the work required, when it's needed. If the existing pensions manager wasn't around, or extra resource was needed, you'd likely pay advisers to fill the gap at their full hourly rates on a time cost basis, which would be expensive. Most roles have some level of additional advisory spend.

The true costs of an in-house role are more than just pay. Any decision taken on the optimal pensions management solution should be based on an understanding of total costs.

## Managing risk now and in the future

To manage risk most effectively, you'll want to know what the responsibilities of the pensions manager are, as well as their capability and capacity to perform the role now and in the future. Depending on the importance of pensions to your business (potentially as a financial impediment or valuable part of total remuneration) you'll have views on who should perform the role and where it should sit. These considerations will be specific to your circumstances. If we take a broad view, the risks we often see fall into the following categories:

- Key person/ resource - what would be the impact and cost of a sudden departure, illness, extended leave or simply through retirement? Do you have the appropriate knowledge captured, documented and a succession/ contingency plan in place?
- Missed objectives - what would be the impact and costs if the scheme were not able to meet its objectives within agreed timelines?
- Non-compliance - in the context of increasing complexity, evolving regulation, and governance requirements, what would be the cost and impact of non-compliance?
- Reputational damage - where key internal processes fail because of gaps, what is the reputational risk?
- Failure to manage a crisis - how well prepared are you for resourcing and managing crisis situations?
- Undocumented processes - what is the time cost and financial cost of undocumented processes and scheme management quirks, especially if things need to be resolved having been done incorrectly for a long time?

How reliant are you on the knowledge held within one person's or a few individuals' heads?

## Sustainability and flexibility

What does good pensions management look like for you? Depending on your decision to run on or buyout, or somewhere in between, sustainability might look different. Given current legislative and regulatory circumstances you might want to be flexible, if opportunities arise to do things differently.

To answer this question, you'll clearly want to assess and quantify the risks and cost to your business of keeping the scheme running so that you can decide what form you want the ongoing management and governance to take. Outsourcing can be a sensible way to mitigate risks in an increasingly complex environment, where the skills to run pension schemes are evolving.

If you think the risks are simply too great, an outsourced model may be a viable option. The cost then doesn't become a barrier to change when considered in the round. Most outsourced models work on the basis of a clear scope and set of services for an agreed cost. As certainty can be a key factor in decision making, firms like Muse work hard to ensure cost transparency.

What's important is that apples and apples are being compared when thinking about costs, to understand the true value of an outsourced relationship.

## Making the decision to outsource

Where we have become the outsourced pensions manager or run selection exercises, key to any decision (as well as cost) are:

- confidence in the provider's ability to provide the services required,
- operational efficiency,
- ongoing investment in the people providing the services, and
- the ability to dedicate the time to work with the trustees at the pace they set.

An outsourced model gives you access to an experienced team of people, who:

- bring a fresh viewpoint,
- offer a broad and diverse range of industry experience - not just pensions management - who leverage their knowledge, subject matter and project management expertise and experience of running schemes for your benefit,
- operate based on the right mix of skills and people to support you at the right time,
- can benchmark their running costs,
- undertake the heavy lifting when it comes to running your scheme, running it seamlessly,
- support your strategic oversight and direction of travel,
- simplify processes and keep them up to date, reducing internal administrative burden, and
- challenge the status quo to ensure the company and trustees are fully aware of the options available for the scheme.

Whatever decision you take to recruit in-house or outsource, it should be made based on all costs – visible and hidden, as well as the cost of not doing things well.

If you would like to discuss further the merits of outsourcing or retaining your in-house role, we'd love to talk to you.