Appendix 2

Pension Administration Benchmarking

Background

CEM has been benchmarking pensions administration for over 10 years, primarily in the US, Canada, and the Netherlands. In the UK, participants include some of the other public sector pension schemes and other large company pension Schemes. In 2019, Lothian Pension Fund was invited to join a group of other Local Government Pension Scheme (LGPS) funds taking part in the survey for the first time in 2019.

CEM Pensions Administration benchmarking

The Fund's benchmarking peer group within CEM is made up some UK private sector schemes, as well as other LGPS funds. In 2023, the peer group includes an increased number of LGPS funds, allowing a more meaningful comparison. The other funds in the peer group, both private and public, are generally of a significantly larger size than Lothian Pension Fund.

The CEM survey poses question about cost, covering the following areas:

- Business as usual costs;

- Project costs; and

- Governance costs.

Additional questions focus on delivery of service, particularly on the channels used to communicate with customers and how different customer groups are served. A scoring system is then used to derive a service score. CEM note: 'Many UK pension schemes focus too narrowly on performance against designated services standards (timescales for performing certain activities). SLAs {Service Level Agreements} are important but are a very limited measure of the members' service experience in their own right. Our scoring system reflects the rounded experience, seen from the members' perspective.'

CEM also carry out complete regular research on topics of interest which helps to refresh their model and reflect new practices.

Results from the 2023 survey show that cost per member of £30.49 is lower than the adjusted average of £35.42 (£26.30 and £39.94 respectively in 2022). Results are adjusted to take into account differences in the number of members within the peer group. As noted above, changes have been made to the peer group in 2023. LPF's third-party fees and other direct costs, which include accommodation, were lower than the peer group average.

CEM believes that looking at cost in isolation is unhelpful, and, to provide context and measure value for money, a service score is also calculated. Service is defined from a member's perspective and higher service means more channels, faster turnaround times, more availability, more choice, better content, and higher quality. This score is calculated by weighting the service scores for three customer groups (active members, deferred members, and pensioners) based on the membership mix. The results show a service score

of 74 out of 100, which is higher than the peer median of 67. The 2022 score is above the score of 69 for 2021 (the peer median for 2021 was 64). Reasons for the higher score compared to the peer group include:

- paying retirement lump sums more quickly – for both active and deferred members;
- a higher percentage of both active and deferred members use our secure online portal, (59.6% and 58.4% respectively, compared to 49.3% (active) and 31.1% for the peer group average);
- our telephone service has returned to pre-pandemic experience for members; and
- carrying out targeted campaigns including encouragement to update beneficiary information.

The full CEM pensions administration benchmarking report is available on request.

Participation in the CEM benchmarking pensions administration survey also allows access to additional research and workshops to meet with the peer group and other pension funds to identify areas of best practice which could be adopted for future service delivery.

Fund officers recently attended CEM's UK Pension Administration Workshop. This event included presentations from one of CEM's Canadian clients, providing insight into their processes and a site visit to Brightwell, administrators of the BT Pension Scheme which included a demonstration of their online retirement process and a session on how their operating model has been developed to provide an improved customer journey. Officers also contributed to a discussion on developing the survey for 2024.

The benchmarking information provides a useful snapshot of costs compared with funds that are prepared to share their data, but care should be taken in interpreting the information as the output relies on the accuracy of the data supplied by participants.