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THE EMERGING TREND OF PENSION SCHEME CONSOLIDATION

A STRATEGIC MOVE FOR FUTURE STABILITY AND SUSTAINABILITY



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INTRODUCTION

Consolidation of pension schemes in Africa is becoming an increasingly prominent strategy within the pension industry. In Kenya, schemes have been consolidated in to 'Umbrella Funds' which are basically funds that pool multiple small, medium or large schemes that are often of employers of the same line of business. The main aim of consolidating pensions schemes is to reduce administrative and investment costs, improve administrative efficiency and to enhance the overall stability and performance of schemes. This trend is redefining the scope of retirement savings amidst the evolution of the gig economy and changing work place environment.



UNDERSTANDING PENSION SCHEME CONSOLIDATION

Consolidating pensions schemes refers to pooling of different schemes together under the same management and administration. This is really important especially for employers with relatively few employees or with employees who are on contract or freelancers. In addition, employers are able to focus on their line of business while still ensuring that employees get the best retirement benefits. Consolidated pension schemes are highly regulated and employers ought to take deep consideration of the regulations within their jurisdictions they operate in. Employers therefore have to take into consideration the entity to which they are entrusting their employees' retirement benefits unto. Inasmuch as high returns is a key factor, getting an umbrella scheme operating in the same line of business as the employer is really crucial. For instance, a tertiary education institution seeking to offer retirement benefits to the staff and tutors can partner with similar tertiary institutions to form a multi-employer consolidated scheme.

DRIVERS OF PENSION SCHEME CONSOLIDATION



■ Cost Reduction and Efficiency

One of the main drivers of consolidation is the reduction of costs. Smaller pension schemes often face high per-member administrative costs and investment fees. By consolidating, these schemes can pool resources, negotiate better terms with service providers and streamline operations, resulting in significant cost savings.

■ Enhanced Governance and Risk Management

Larger consolidated schemes benefit from more robust governance structures. They have the resources to employ specialized staff and implement sophisticated risk management strategies. This improved oversight can lead to better decision making and reduced risk for members.

■ Investment Opportunities

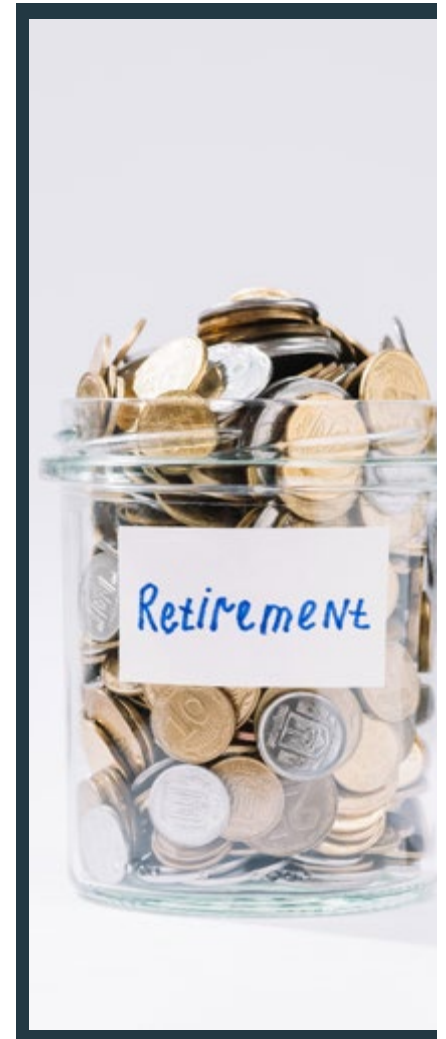
Consolidated pension schemes have access to a wider range of investment opportunities. With larger asset bases, these schemes can invest in diverse asset classes, including infrastructure and private equity, which may not be feasible for smaller schemes. This diversification can enhance returns and reduce risk.

■ Regulatory Pressure

Regulatory bodies are increasingly encouraging consolidation to ensure better protection for members. For example, the UK's Pension Regulator has supported consolidation through initiatives like the authorisation regime for master trusts, which sets high standards for governance and financial sustainability.

FORMS OF PENSION SCHEME CONSOLIDATION

- **Umbrella Schemes** – In Kenya, the constitution allows schemes to consolidate into umbrella schemes which are then centrally managed and investments are pooled together. These can be initiated by pension schemes or insurance companies. As at 2023, Kenya had a total of forty four umbrella schemes registered with the Retirement Benefits Authority (RBA) which is the body that regulates the pension industry in the country.
- **Master Trusts** -These are multi-employer pension schemes that allow unrelated employers to participate in a single trust structure. They offer shared governance and administration, leading to cost efficiencies and improved member outcomes. Master trusts have gained popularity in countries like the UK, where they provide a viable solution for smaller employers to offer high quality pension plans without bearing the full administrative burden.
- **Pooled Employer Plans (PEPs)** - In the United States, the introduction of PEPs under the Secure Act allows multiple employers to participate in a single plan managed by a pooled plan provider. This arrangement simplifies compliance and reduces administrative complexity, making it an attractive option for small and medium-sized businesses.
- **Build your investment portfolio**
Invest in different portfolios not only to retirement plans. This will ensure that you are financially stable during the retirement period.



CHALLENGES AND CONSIDERATIONS

While consolidating pension schemes brings numerous benefits, it is equally important to consider the challenges that might arise and plan for proper mitigation strategies for those challenges. This section looks at some of the challenges and considerations that schemes may consider before consolidating with other schemes.

■ Implementation Complexity

Merging different pension schemes involves significant legal, administrative and financial complexities. Trustees and sponsors must carefully navigate these challenges to ensure a smooth transition and integration.

■ Member Communication

Clear communication with members is essential during the consolidation process. Members need to understand how the consolidation will affect their benefits and any changes to the administration of their pension funds.

■ Regulatory Compliance

Consolidated schemes must comply with a complex regulatory framework. Ensuring ongoing compliance with these regulations is critical to maintaining the trust and confidence of members and regulators.

THE FUTURE OF PENSION SCHEME CONSOLIDATION

The trend towards pension scheme consolidation is expected to continue as the benefits of scale, efficiency and improved governance become increasingly apparent. Regulatory support and the evolving economic landscape will likely accelerate this movement, making consolidation a key strategy for ensuring the long-term sustainability and effectiveness of pension schemes.

In conclusion, pension scheme consolidation represents a strategic response to the challenges facing the pension industry today. By embracing consolidation, pension schemes can enhance their operational efficiency, provide better outcomes for members, and ensure their long-term viability in a rapidly changing environment.



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