

The Pensions Regulator's Guidance and Review

Record-keeping – good practice in measuring member data

In February 2010 the Pensions Regulator (tPR) issued a review of the initial take-up of their guidance published in January 2009 outlining the importance of good record keeping. In June 2010 tPR issued a paper summarising the responses they received from the pensions industry to the review. It was noted that progress on both take-up and results within the industry over 2009 was limited and tPR has set a strengthened approach to regulating this area of pension administration.

Approach to regulation from 2010

The regulatory approach is to be strengthened in order to encourage a much broader take-up of the guidance. The measures will go further than the previous stance of educating and enabling trustees to now add enforcement. The measures will include:

- A campaign to promote the guidance with enhancement of education material on tPR website
- The possibility that reports to tPR for other purposes may trigger a request for a data measurement report
- Continued discussion with the audit profession to ensure that internal controls include the risk of poor record keeping.

Specific targets have been introduced for standards of common data and schemes must set their own high targets for conditional data. A number of sample schemes will be selected by tPR so they can review test results and plans.

Evidence of poor record keeping will lead to tPR taking enforcement action unless specific action plans are in place to rectify data issues. Enforcement action could include:

- Directions to carry out certain tasks such as rectify gaps or errors under the Pensions Act 2004
- Fines for failure to comply
- In extreme cases prohibition and replacement of trustees
- Publishing the details of the action taken

Surveys will be undertaken to review progress and tPR will report again in 2011.

The regulations behind the introduction of the National Employment Savings Trust (NEST) in 2012 include specific legal provisions around record keeping and tPR sees this as a window of opportunity to raise standards, as well as being a deadline by which many data problems will have been expected to have been fully addressed. A deadline of December 2012 has been set for the resolution of outstanding data issues.

The original guidance explained

The aim of the guidance is to encourage good practice in the use of member record-keeping. Accurate data is a core requirement for the administration of a pension scheme.

The risks associated with inadequate or incorrect data include claims from members for incorrectly paid benefits, buy-out costs being inflated, wind-ups taking longer and actuarial valuations needing to be more conservatively costed. These risks all lead to potential costs for pension schemes.

tPR's guidance has been influenced by feedback from the Pension Protection Fund (PPF). The PPF has now been in existence for a few years and they have experience of reviewing schemes in the assessment period.

As part of the review process for entering the PPF, it is in a position to comment on the quality of the data, the time it has taken to receive the data and the number of data cuts which have been required before all the queries have been assessed. The aim is to encourage trustees to have their data issues addressed sooner rather than later, whether ongoing or otherwise.

Various regulations of the Pensions Act 2004 are referred to including:

- Trustees Knowledge and Understanding (TKU), the trustees of pension schemes having a fuller knowledge of the quality of the membership data held in respect of their pension schemes;
- Internal Controls, as there are a number of potential risks of holding incorrect or incomplete data and as such these need to be addressed within the internal controls framework;
- The promotion of good pension administration practices.

The following paragraphs look in more detail at what the guidance said.

Measuring scheme data

The initial stage of the process is to gauge the quality of the data.

The potential costs for amending membership data to the quality required could be high and therefore it is difficult for tPR to insist on this up front. Instead it suggests a framework for measuring data quality and identifying areas of concern.

Common data

This is data which, as the name suggests, is common and indeed necessary to all pension schemes. Examples of common data include national insurance number, surname, forename or initials, sex, address and postcode.

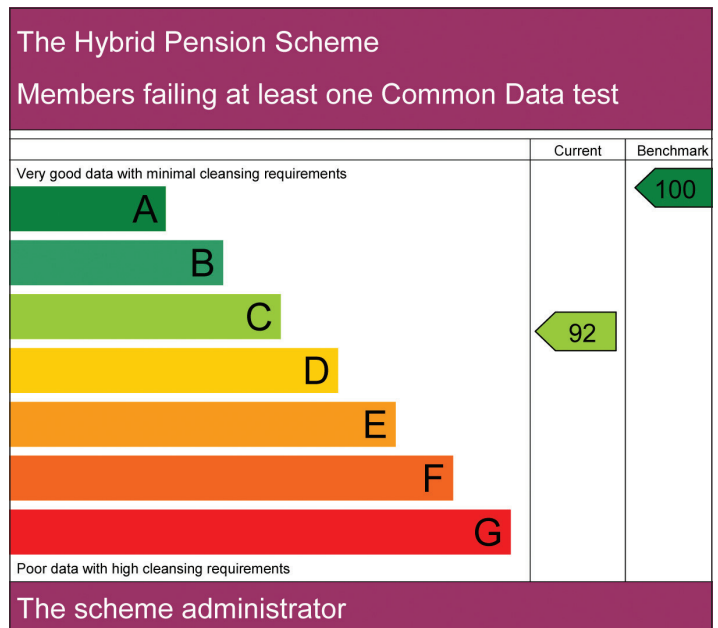
Care needs to be taken when a member has had more than one period of membership within the same pension scheme. For instance when the member's National Insurance (NI) number is used as the unique identifier, computer systems can mis-interpret data fields for each period of service.

The practical issue here is that a lot of NI numbers inherited from old legacy systems may be temporary numbers which are not unique. HMRC encouraged administrators to rectify this a few years ago but with limited success. Other issues surround changes of name either by marriage, divorce or by deed poll.

A system which has a genuine unique identifier for each membership of the scheme is more appropriate, as is the case with Barnett Waddingham's own pension administration system, Penstream.

The issue of addresses is of particular concern to the PPF as when they are trying to advise people of what is happening

Data Item	Maximum Population	Fails
NI Number	2970	4
Surname	2970	0
Forename/initials	2970	1
Sex	2970	0
Date of birth	2970	0
Date started pensionable service/ policy/contributions	2970	0
Expected retirement/maturity/ target retirement date	2970	0
Membership status	2970	0
Last status event	2970	2
Address	2970	246
Postcode	2970	250
Total		503



Source: Pensions Regulator

to their benefits they are keen to contact everyone. However, from a realistic point of view, many members do move address without informing the pension scheme administrators.

The warning from tPR was that in the event of any of the common data being incomplete or wrong then this could result in the administrators not being able to correctly identify the member.

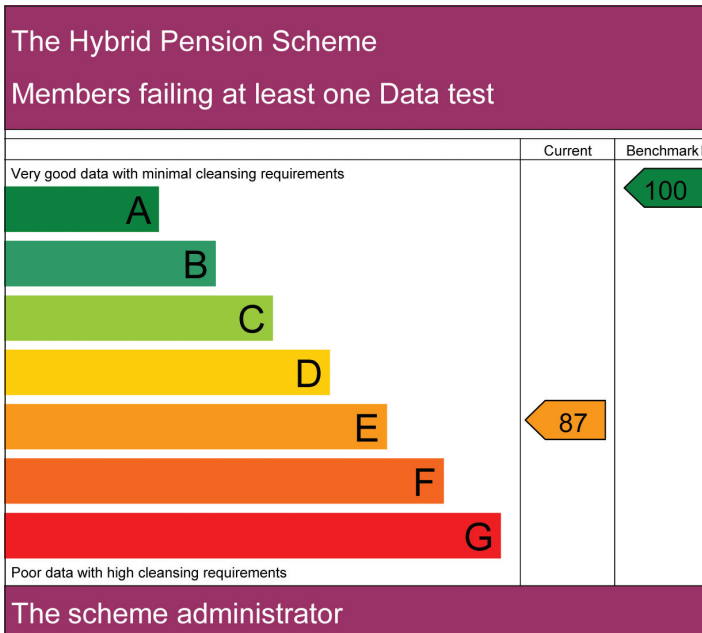
In the new consultation tPR has stated that for common data the standards achievable should be 100% accuracy for new data recorded from June 2010 onwards and 95% for legacy data.

Conditional data

This is additional data which depends upon the type of scheme and its design and tPR has issued a table of sample data items that could be included. Some of the items may be relevant for most schemes, but tPR is advocating that trustees, providers and pension administrators are best placed to understand what needs to be reported for their own schemes.

Examples include (for all schemes):

- sponsoring company
- date joined scheme
- date of leaving for deferreds and pensioners
- salary history
- transfer in details
- divorce details
- contracted-out details (where appropriate) – contracted-out earnings/contributions



Source: Pensions Regulator

For defined benefit (DB) schemes:

- Deferred and current pensioner details.

For defined contribution (DC) schemes:

- DC transactions, lifestyling, investment splits and units purchased/sold.

CARE schemes:

- Accrued benefits and revaluation details.

HMRC data requirements:

- Transitional protection, funds at A-day and lifetime allowance used.

The reasons for gaps in data can arise from a number of reasons:

- Change of administration system from one where splits of pension amounts between different elements had not been done correctly. With the introduction of deferred pension revaluation in 1986, typical splits of benefits include pre and post 1997, post 2009, pre and post 1988 GMP and ultimately splits of most of these to take account of a Barber equalisation window and differing normal retirement ages. Not all systems have been designed with appropriate sophistication to cope with multiple tranches of benefits.
- As pension administrators change, deferred and pensioner members may not have had data such as salaries transferred. HMRC has a requirement for companies to store salary data for only 6 complete tax years after the year of event. This can become an issue where a query is raised by a member when a benefit is being claimed.

- Reconciliation of contracted-out benefits, e.g. Guaranteed Minimum Pension (GMP), can raise problems where there are gaps in the contracted out contributions and earnings history. This becomes apparent particularly in cases of wind-up, PPF transfer or buy-out of benefits. More often than not trustees merely end up in accepting the GMPs held by HMRC as they cannot prove their accuracy either way.

In the new consultation tPR has stated that trustees should assess the conditional data needed to run their scheme, set their own measurement targets accordingly and put plans in place to improve the data. High standards are expected.

Test group	Maximum Population	Number of members who failed one or more tests
Common data	2970	252
Basic information	2970	8
Deferred member data	2846	88
DC fund data	630	4
Transfer in data	2970	41
Pensioner data	122	16
HMRC data	2970	17
Contracted-out data	2970	48
Total		474

Numerical data

This data looks at the membership of the scheme as a whole and is designed to put the common data and the conditional data into perspective. This should help trustees identify the magnitude of issues. This is the sort of data which is already included in trustee stewardship reports on a regular basis. Bearing this in mind the trustees should already be aware of much of this information. For example:

- number of benefit categories
- membership statistics (number of actives, deferreds, pensioners)
- pensioners split by type (including spouse dependents, children)
- number of part-timers
- numbers of members with transfers in
- number of members with pension divorce orders

1. Membership statistics	
Number of benefit categories with separate benefit structure	4
Total active members	2
Total deferred members	2846
Total pension in payment members	122
Member pensioners	111
Spouse/dependant/civil partner pensioners	10
Child pensioners	1

2. Additional data statistics	
Number of active members with part-time service	2
Number of DC active and deferred lifestyle members	127
Number of active and deferred members with AVCs	208
Number of active members with a transfer in record	116
Number of active and deferred members with a pension sharing order	3
Number of active and deferred members with an earmarking order	1
Number of active and deferred members with Primary Protection	1
Number of active and deferred members with Enhanced Protection	0

Reporting

The starting point under tPR's guidance is to run detailed reports across each membership database to assess the quality of the data. The results need to be clearly reported to the trustees. Such reports may show a large amount of omissions within the data for a number of reasons as mentioned earlier.

Examples of the types of statistical and diagrammatic reporting that tPR has recommended can be found in the previous sections.

Practical implications

Pension administrators are used to working with limited data on an 'as and when' basis. When a deferred member comes to retire they would seek to replicate the benefits before revaluing them up to retirement. If there are gaps they would look on a member by member basis. Options are to look at archived paper files if there are any, maybe go back to the company to see if they had any archived files or perhaps ask the member if they have any paperwork. From a cost point of view this may be manageable for smaller schemes, but where larger numbers are involved this kind of exercise can be expensive and time-consuming as has been seen in wind-up situations or transfer to the PPF.

Until now data cleansing exercises have tended to take place out of necessity during wind-up, buy out or PPF transfer.

Previously, this has been the point at which a discussion starts between the pension administrator and the trustees as to what to do going forward. Now tPR wants these issues addressed sooner.

The cost of undertaking a full data cleanse can be high. As with the majority of the guidance notes and Codes of Practice, tPR states that this should not mean unreasonable costs to the trustees.

In conclusion

tPR is adopting a strengthened approach in order to encourage a much broader take-up of the guidance and may take enforcement action where there is evidence of poor record-keeping. Trustees have a responsibility to their members to ensure that they pay the correct benefits and good record-keeping is paramount to this aim.

For both TKU and risk control purposes trustees need to be aware of the quality of their data. The first stage is for pension administrators to report the data quality to trustees. The trustees then need to engage in a discussion with their advisers as to how to address data issues.

A plan of what to do going forward should be drawn up. The periodic stewardship report should include a regular review of data quality and what has been resolved since the last report. The trustees need to be ready to answer any questions raised by tPR.

Barnett Waddingham has incorporated tPR's guidance and reporting into its pension administration system, Penstream. This is for the benefit of our existing clients to enhance their ongoing pension administration service. It has been designed to link in with new client implementation procedures to produce a data quality report at outset. It can also be used to provide a standalone data cleansing service for any pension scheme.

For further information please contact your usual Barnett Waddingham consultant.

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