Summary

- Data management is quickly rising up pension schemes' agendas.
- Errors in data can be considerably costly and time consuming.
- Data must be tracked and maintained, both when a scheme is undergoing major changes and on a daily basis.
- The upcoming pensions dashboard and TPR's record-keeping reports will impact the importance of data management.

Getting to know your data

Talya Misiri considers the importance of good data management, ways of taking action and what to expect in the future

Record keeping and data management is crucial throughout a pension scheme's lifecycle.

With the development of the government's auto-enrolment policy, the pension freedoms and the impending pensions dashboard, data management has become an increasingly important topic for pension schemes and trustees.

Within a pension scheme, there are two main types of data that must be maintained to a high standard. The first type is common data, which is universally applicable to all schemes, comprising of information used to identify members such as name, address and national insurance number.

The second type is conditional data, which is more scheme-specific and is needed to calculate member benefits, including pensionable salary and contributions. Certain components of this data can vary across schemes depending on the scheme type and its design.

It is the responsibility of the trustee, administrator and members to ensure that both common and conditional data is correct and kept up to date. Where data is kept to a poor standard, the scheme may face significant additional costs in a number of areas, including administration, error correction, claims from members, buyouts and wind-ups.

Keeping track

A key objective of the pension scheme trustee is to ensure that they are paying the right benefits to the right people at the right time. Where data is incorrect or incomplete, this may not be possible.

While it is advised that the upkeep of good data and improvement is continually maintained, there are particular cases in a scheme's lifecycle that necessitate active data management exercises. The most common of these include a scheme entering an assessment period with the Pension Protection Fund, a change of administrator or administrative system, a scheme closing to future accrual or winding down, the withdrawal of the employer or a change of payroll practices.

When a scheme changes administrators, it is likely that the quality of data can be impacted. Transferred information from one administrator to another can result in data being lost, misunderstood or re-entered incorrectly.

Barnett Waddingham partner Paul Latimer notes that: "The administration service may have passed hands several times over the years. As part of this, data may have been transferred from paper to computer at some stage in the past, then moved from one provider to another, and each stage can lead to data degradation."

Also, the decision to partake in a scheme buyout can also be particularly costly if scheme data is incomplete or incorrect. It is crucial to carry out data checks and a cleanse before attempting to de-risk a scheme.

It is also important to recognise the potential saving benefits of good data management. For poorly-managed data, schemes are likely to face considerably higher costs when opting for de-risking solutions such as a buyout or longevity swap. It has been found that in some instances badly maintained data can inflate buyout premiums by as much as 5 per cent.

With this, the regulator has become increasingly keen to raise awareness of possible consequences linked to poor data management. These include higher administration costs, increased funding costs as a result of from actuarial data assumptions and higher trustee insurance premiums.

ITM director Maurice Titley says: "Buyout and buy-in providers expect 2017 to be a 'bumper year', which will create challenges for scheme administrators to complete data cleanse projects. Complete and accurate data can greatly reduce premiums and enable schemes to capitalise on favourable market conditions by transacting quickly and efficiently, as well as avoiding the prospect that an opportunity to secure a buy-in or buyout is missed."

Although detecting errors when taking part in de-risking projects or changing administrators can be costly, mistakes in pension scheme data aren't always something to complain about. Some schemes could benefit from finding small but important errors in scheme data that could lead to pension overpayments. Correcting this could, therefore, recover some of the scheme's liabilities.

Taking action

Once errors are detected, the relevant steps must be taken. The 2009 data guidance published by The Pensions Regulator, later strengthened in 2010, has played a significant role in cementing data on pensions schemes' agenda.

However, Trafalgar House director Daniel Taylor argues that "many administrators are still not addressing one of the most important steps in assuring that future data updates are accurate – automating calculations".

Taylor highlights that while the best way to improve data accuracy and de-risk scheme operations is through automation, many administrators are still not investing enough time and effort in fully automating calculation routines, meaning errors and inconsistencies are still creeping into member data.

"Many trustees think that data can be permanently improved by completing data analysis and benefit rectification projects and whilst this is true for fixing historic issues, it does nothing to prevent future errors creeping in if no work has been done to automate calculations," he explains.

Online tracing can also assist in tracking members' information quickly and efficiently at a relatively low cost for the scheme.

Data management processes like these can help with scheme closures and the reduction of future costs, and give trustees peace of mind that they are managing the scheme correctly.

"Administrators who deal with this head-on sleep the soundest at night, knowing they are taking every opportunity to maximise the quality of their data," observes Delta Financial Systems business development director Claire Court.

It is not enough, however, to stop there. After cleansing has been carried out, it is recommended that data is reviewed annually to prevent errors building up and to keep costs low.

Barnett Waddingham partner Paul Latimer recommends running The Pensions Regulator's common and conditional data checks to look for gaps in the data. "Data and benefit audits can be undertaken at periodic intervals to ensure that data is being processed correctly and records updated with the correct figures," he adds.

On top of this, it is inevitable that the maintenance of data will infiltrate into administrators' daily tasks. Therefore, schemes cannot afford to track data only at these times, as management must be upheld almost daily. As Sackers partner Helen Baker says: "Keeping up to date *[with data]* is something of a Forth Bridge exercise."

This essentially highlights the fact that "as soon as addresses are traced and existence is confirmed, there will be house moves and deaths that the scheme isn't told about, and the data verification cycle begins again", she adds.

Future planning

Looking to the future, trustees must ensure that data management methods are carried out sooner rather than later if they are not already doing so.

"The new General Data Protection Regulation (GDPR) is now only 16 months away from applying. Amongst many other requirements, this will make pension scheme administrators directly liable for data protection matters," Titley says.

Therefore it is crucial that all involved in a scheme, from the trustee to the member, ensure data is fully complete and accurate.

Barnett Waddingham partner Paul Latimer explains that accurate data maintenance is the responsibility of the employer, the administrator, HMRC and also the member.

"The administrator has to trust that each supplier has provided the information in accordance with legislation and the scheme rules and this has been recorded correctly. A good administrator will update member records using robust processes and modern systems. This is to ensure that all updates to records are checked, verified and auditable," he explains.

With the dashboard prototype deadline fast approaching for March this year, it is likely that the good governance of data will rise take high precedence on schemes' agenda.

"Whatever the final requirements are for the dashboard, data quality and format will be crucial, and that will impact scheme administrators who may need to cleanse data and will certainly need to maintain it," Titley says.

Along with the dashboard, TPR's decision to add record-keeping reports to year-end scheme returns will impact the importance of data management. "Full details of what will be required on returns, probably from January 2018, is not yet available but will provide a renewed focus on all areas of data quality and security," Titley concludes.

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