

Summary

- Pension schemes' data issues are usually due to historical issues.
- The impact of bad data can affect member payments, scheme funding and future plans, such as buyouts.
- The awareness and desire to improve data issues is increasing.
- New technologies are helping ensure new data is accurate.

An inside attack

Laura Blows considers the consequences of bad data infiltrating good schemes

Data is vital to the accurate running of a pension scheme and usually the more information provided to assist with this the better. But if the data is inaccurate, this gift can be somewhat of a Trojan Horse – once infiltrated into the scheme the 'bad' information causes carnage, and is difficult to clean up.

Unlike the Greeks bearing gifts however, this unleashing of incorrect data into the pensions scheme is rarely intentional. Instead, historic issues account for a significant amount of the data problems facing data schemes today.

Legacy issues

In the past, manual operations could result in the mis-keying of personal member information or errors in calculations, and, combined with a lack of paper files, made verification of information difficult.

The emerging use of computers failed to eradicate the issue. "When computerisation arrived, the first databases had masses of data inputted manually, which created even more opportunity for error and omission. So, it is not hard to understand why most well-established pension schemes have historical data issues," PMI vice president Lorraine Harper says.

Over the years, various corporate activity and multiple changes in pensions legislation and scheme benefit structures



added complexity and compounded any data problems. "Corporate activity resulted in bulk transfers of data, changes in pensions administrator, new payroll interfaces and HR systems; tracking data issues back in time is often a hopeless task," Harper explains.

Deliberate choices, as well as human error, also accounts for poor quality data. For example, an administrator in the past may have decided at a point in time not to record all data items. In the administration's defence, they also may not have been informed of a change in member's circumstances, such as moving house or a surname change.

ITM senior technical consultant Nathan Jones considers bad data to be a "legacy issue" but new problems can still arise. The data doesn't even have to be 'bad' at all to cause challenges; it could be just not there as its future requirement was not realised. Equiniti propositions and solutions director Chris Connelly gives the example of not having a mobile phone number for a member having the potential to cause future problems.

"There isn't one single cause of bad

data. If there were, it would be a lot easier to address the root cause and fix it," Trafalgar House client director Daniel Taylor summarises.

Which is a shame, as the impact of inaccurate data, once spotted hiding with the scheme, can be significant.

Impact

"Not all data is equal," Connelly says. "Different types of data have a different impact. For instance, if someone's salary information is wrong, that can be annoying, but you can fix that. But if the member's date of birth is wrong, you can end up paying the wrong amounts at the wrong time."

Taylor attributes these type of problems as 'personal' ones. But bad data also has a financial impact, he says, where if the underlying data is wrong, then sponsors could be funding their scheme on an unrealistic basis.

Finally, Taylor says, the impact can be a block to future strategic plans. Buyouts, liability management plans and scheme changes can all be slowed or derailed by data not being of sufficient quality. Large-scale problems can also be a reputational risk if the news is picked up by the media, there could be a chance of lawsuits, and poor data could also be a factor regarding cybersecurity and fraud.

"We were involved with one scheme where pension increases had been processed incorrectly for a number of years leading to a huge proportion of members being over or underpaid. The rectification process was incredibly costly," Muse Advisory director Ian McQuade states. "Most data issues won't have a significant impact on the overall funding for a large DB scheme, but in extreme cases where data has been wrong for a long time, the impact can run into many millions of pounds. And if transfer values have been paid out on the incorrect data...!"

On the DC side, the impact of wrong data can be inaccurate processing rules

and contributions not being invested in line with members' lifestyle matrix or investment rules, member event processing with insufficient safeguards resulting in pensions being set up inaccurately or issues with the interface of data from HR/payroll resulting in contributions being invested late. "Unravelling and correcting misplaced units is both exorbitantly complex and costly to achieve," Jones warns.

It can also be difficult for schemes to know the extent of data problems, as they "have traditionally had a nasty habit of being uncovered much later down the line", Taylor states. A recent example of this is in May the British Medical Association's General Practitioners Committee found "significant issues" with the accuracy of GP's pension records dating back to 2014.

The same month also saw The Pensions Regulator (TPR)'s revelation that the number of public sector pension schemes holding accurate data had actually fallen by 4 per cent, from 89 per cent in 2016 to 85 per cent in 2017.

Many schemes are still paying little attention to the data (DB in particular) until they come to settle a member's individual benefits. For these schemes, there is then a lot of work to check the data and calculate the entitlement, McQuade says.

"Actuaries were less concerned with individual member records as they historically tended to look at membership in tranches and make a lot of assumptions about dependants, life expectancy, etc. so scheme sponsors have been reluctant to take on data cleansing owing to the high cost and perceived low value," Harper explains.

According to Harper, DC has its own problems, usually driven by mismatches in employer data causing issues with reconciliation, "but these could not be ignored because DC data anomalies ignored become compounded and have an immediate and material effect on benefit values". However, DC schemes

for a long time were in the minority so lacked significant attention or supervision, she adds.

Growing focus

Yet the old approach of "we'll deal with it when the member retires, dies or transfers" is now being replaced by an understanding that legacy data issues need to be resolved and that processes need to be improved so that data is maintained in a good state, Jones says.

Driving this awareness is that it is no longer appropriate to hold unreliable data, Harper says.

A variety of factors have made this the case, including TPR requiring trustees to report data integrity scores in their annual returns, along with its long-term drive for 'common' and 'conditional' scheme data improvement, GDPR adding focus onto data, the forthcoming IORP II requirement for deferred member benefit statements, the need for 'clean' data for de-risking activities such as buyouts – plus the drawing to a close of GMP reconciliation enabling schemes to focus their energies on de-risking – the growth of online self-service for members and preparation for the upcoming pensions dashboard.

In law, the responsibility lies with the scheme trustees for the holding of correct data. To practice though everyone has a role in this, as trustees are reliant on the sponsor, administrator and even members to ensure accurate data.

Along with running checks in common and scheme-specific data, PASA board member Geraldine Brassett recommends asking the scheme administrator what data issues they have.

"No one knows this data like the scheme administrator but sometimes administrators are guilty of living with poor data or there isn't an open forum where they feel confident raising data issues. There is also the issue of fault i.e. why is the data bad and sometimes that can be a barrier to the right conversations taking place," she explains.



New data should be validated quickly when provided and ideally with responsibility for that validation sitting with the provider of the data, typically the employer, Brassett adds, with the checks made by the administrator as part of the interface of data a safety net.

The growing use of automation through the administration process increases the likelihood of data accuracy. Also, technologies, such as the use of QR codes on forms, online member and address verification, and the digital storage of member records, all help with holding good quality data.

Implementing these tips and tools does not mean that data quality can then be considered 'done'. "You can't assume your data is right just because you got it right once," Connelly states. Instead a behavioural change is required to continually monitor data accuracy, "realising that it is the heartbeat of a scheme", he adds.

Trustees' heartbeats can then run steady when they receive the 'gift' of data, without the fear of what problems might be lurking within.

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