Data risks

Nathan Jones examines the data challenges currently facing pension schemes

Pensions will be the main source of income in retirement for the majority of UK population. The accuracy and completeness of the data held by pension providers will have a direct impact on outcomes for both members, in terms of the service levels they receive, and for pension schemes, in terms of their control over funding.

With this in mind ITM has surveyed a cross section of 94 pension schemes to gain a snapshot of current concerns with pensions data. The survey encompasses final salary (60%), money purchase (14%), CARE (2%) and hybrid (24%) schemes. Opinions were sought from schemes of all sizes: small schemes (less than 2,000 members) - 39%, medium schemes (2,000 to 10,000 members) - 24% and large schemes (more than 10,000 members) - 37%. A variety of administration approaches were surveyed with the majority using a third-party administrator.

Guaranteed Minimum Pension (GMP)

Thirty-eight per cent of respondents cited GMP reconciliation as being the biggest challenge currently facing pensions professionals. This is not surprising as contracting-out will cease in 2016, at which point HMRC will cease accepting GMP reconciliation requests.

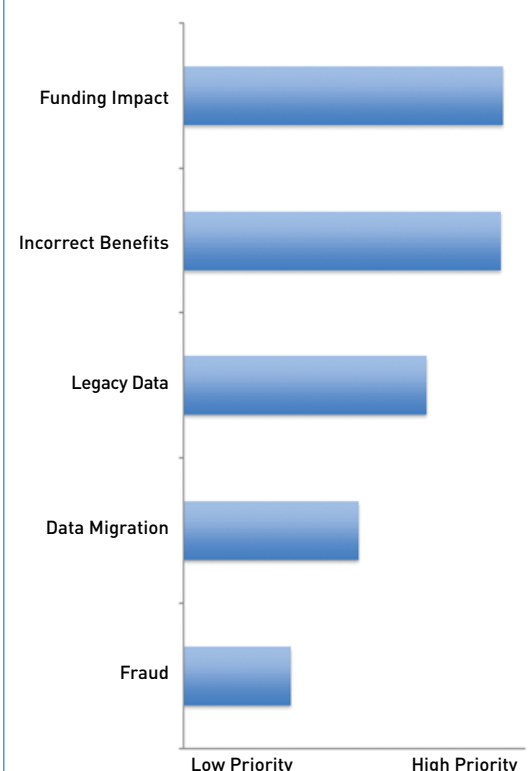
The majority of schemes impacted by GMP feel they are well prepared, with GMP reconciliation either complete or in progress. However, there are a minority who clearly have much work to do. For instance, 23% of respondents were not sure of their GMP data quality as they had not yet undertaken the necessary analysis. These were entirely small and medium-sized schemes, suggesting that there is a risk that smaller schemes could get passed by in the race to complete GMP reconciliation.

Other findings of the survey were that 57% of schemes are not yet aware how consistent their GMP figures are with HMRC figures, most likely as GMP reconciliation projects are still in progress. Thirty-five per cent of respondents are not intending to start a GMP reconciliation project in the next 12 months and a similar percentage have not engaged with the HMRC new Scheme Reconciliation Service, presenting a tight timescale for these schemes to meet the 2016 deadline. However, the greatest concern was the 29% of respondents who are not intending to complete GMP reconciliation prior to HMRC corresponding with all contracted-out members in December 2018.

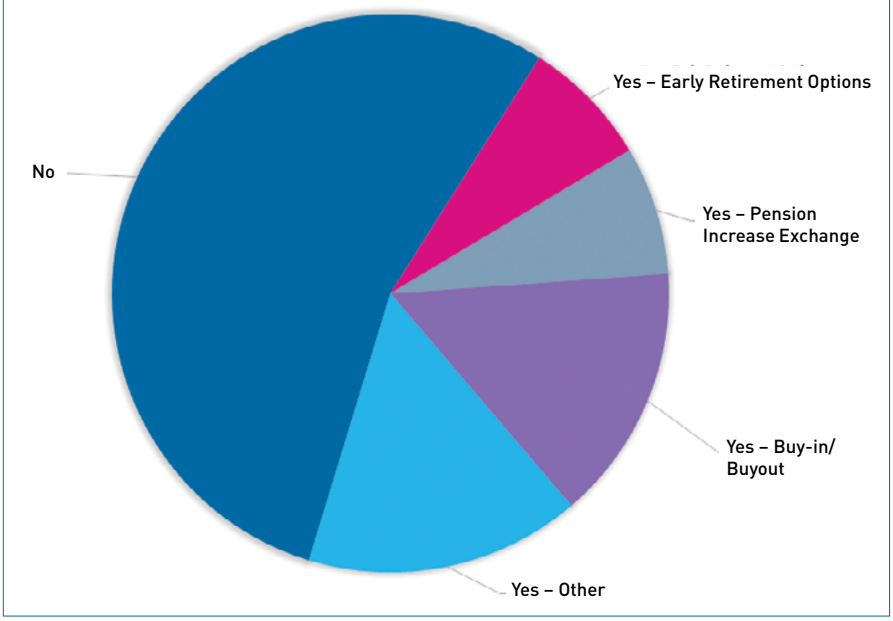
Pension scheme data

The Pensions Regulator's requirement that all pension schemes measure and take steps to improve their data quality has resulted in a high level of awareness of data completeness, with only 4% of respondents not knowing whether their pension records were complete. Of those that

Data risks ranked by priority to pension schemes



Are you considering a de-risking exercise in the next 12 months?



knew the level of their data quality the vast majority (81%) were satisfied that their records were complete.

However, an emerging concern is the accessibility of this data, with 39% of respondents expressing concerns that it could take time to find certain information. One reason for this is that data may be held on multiple systems. Twenty-three per cent of respondents noted that some data was stored as either scanned images or legacy data sources such as paper files or fiche. ITM's experience is that schemes that fail to consolidate data in a single data source and do not take advantage of emerging data digitising techniques pose serious risks to member benefit integrity.

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Data risks ranked by priority to pension schemes

The survey asked respondents to rank five data risks in order of priority. The impact that data can have on funding and longevity risks was the highest priority with the risk of incorrect benefits being paid coming a close second. Both of these risks could result in significant costs to the scheme with incorrect benefit payment potentially causing reputational damage as well. The risks associated with legacy data sources (e.g. dependency on fiche and paper records) also scored highly followed by risks associated with data migration.

ITM's experience is that although schemes can see the correlation of data errors and funding accuracy, many choose not to rectify benefit data errors with the cost of data cleansing often being perceived as prohibitive. This is arguably a flawed view as the cost of data cleansing can pale into insignificance relative to funding savings. In one example we have seen, a scheme undertook a reconstruction of spouses' benefits, with fees totalling around £10,000 resulting in a funding saving of several million pounds.

It is of interest that fraud was the lowest priority risk. While the reputational threat to pension schemes from fraud is undoubtedly real, arguably the likelihood of such a threat is perceived to be low.

De-risking

Forty-six per cent of respondents said that their pension schemes were considering some form of de-risking exercise over the next 12 months with buy-ins/ buyouts being the most popular.

The importance of data quality in relation to de-risking exercises is well documented and it was not surprising that the majority of schemes considering risk reduction exercises are well advanced with their data cleanse work. Seventy-four per cent of schemes planning risk reduction believed that their data was already good enough to undertake the liability reduction project.

However, there are a significant number of schemes that will need to prioritise data cleanse activity in the next few months if they are to meet their risk reduction targets. ITM's experience is that data cleansing for de-risking exercises is often begun too late for the necessary degree of rigour to be applied to ensure member benefits are secured at the correctly verified amounts and at premiums that offer best value.

Good quality data has always been central to the successful management of any scheme. The findings of this survey underline this and indicate that over the next few years data will become an increasingly important consideration for those responsible for the running of pension schemes.

Written by Nathan Jones, senior consultant, ITM

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