Trusting in your membership records: data and benefits - the story so far

The Pensions Regulator introduced its record-keeping requirements to encourage trustees to measure the presence and quality of their membership data. The intention was that trustees introduce an internal control framework and carry out a risk analysis. On an ongoing basis trustees should be regularly testing the quality of the data either annually or when a major change takes place.

In its March 2014 review, the regulator identified good practices taking place on the whole. However, a number of issues gave it cause for concern. These included any lack of action until prompted by the regulator, a lack of focus on conditional data and measuring the presence of data rather than its accuracy. A third of the schemes in phase one of the review either missed the deadline for providing information to the regulator or only gave a partial response. In phase two this percentage increased to two-thirds.

In their March 2015 follow-up report, the regulator recognised that trustees improved their knowledge and understanding for the cases it followed up. However, it still feels that there is a lot of work to be done.

Why do more?

There are a number of key reasons for ensuring accurate data and benefits:

- to meet the essential trustee duty of paying members the right benefits at the right time
- to produce accurate valuation results
- to meet the new minimum governance standards for defined contribution schemes
- to be ready to take advantage of de-risking options such as buy-in or buy-out
- to prepare for winding-up

De-risking considerations

It is essential that the trustees and employer assess data and benefit quality ahead of obtaining insurer quotations and that they address any issues in advance. If data is not accurate they will not be ready to take advantage of market conditions or insurer pricing. Affordability of transactions can be volatile and poor data can impact the speed of the whole process. If the insurer is uncertain about the quality of the data they may make overly prudent assumptions and charge a larger premium to compensate them in the event that the data is ultimately found to be incorrect.

Steps that can be taken

Firstly, ensure the quality of the data is in line with the regulator's record-keeping requirements by carrying out a full data audit. Consider mortality screening for all preserved members and pensioners to ensure you hold the correct membership.

A benefit audit will test the accuracy of recorded benefits. It is essential to have a benefit specification in place first. This should be based on the scheme's legal documentation rather than administration practices. Consider having the specification reviewed and signed off by the scheme's solicitors. A sample of members can be tested initially across all membership statuses and categories and taking into account the largest liabilities and risk areas such as when calculations may have been done manually or a change in benefit structure took place.

A guaranteed minimum pension (GMP) reconciliation exercise is essential for contracted out defined benefit schemes. GMP issues could impact the member's overall total benefit. Trustees will need to consider what action they need to take to correct members' benefits.

Problems that may be encountered

If systematic errors are identified, for example incorrect interpretation of the rules, the relevant groups of members can usually be identified and their benefits corrected.

It may have to be accepted that, unless calculations are to be redone for every member, then one-off/individual errors may not be found.

Benefit calculations are only as good as the underlying data. If there is a lack of confidence about historic data, for example part-time histories, or historic documentation has been lost, the trustees may need to make a judgement call and accept the benefits as they stand, as they may never be in a position to replicate them.

In summary

The risks and costs of not holding accurate data are high and the regulator will be reinforcing its expectations of trustees over the next 12 months. Its approach will be to educate, enable and enforce, if necessary. Trustees and administrators need to be ready to respond within the regulator's timelines.

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