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Dear Louise

Record-keeping: Consultation response

PricewaterhouseCoopers are pleased to see the Regulator taking a firm interest in pension scheme administration. Our view is that administration has been seen as a low priority service and is not always given the attention and management it deserves or requires by trustees and employers.

We have found it very difficult to engage trustees to perform data audits even though we have a standard offering which is very cost effective. Historically there has been much downward pressure on administration fees and increased focus on speed of delivery. These dynamics are highly likely to have resulted in the introduction of pragmatic solutions which keep case work flowing, but at the price of reduced quality of service, the impact of which is not visible to the trustees or employer.

We support the need for guidance, but we have concerns with the existing draft. This letter sets out our general comments. Our answers to specific questions posed are provided in the Appendix.

- The consultation paper does not include any guidance relating to the ownership of pension scheme data. This is despite acknowledging that good administration requires quality data, and that this is important for the discharge of fiduciary duties. We would like the final guidance to specify that trustees own the data and are ultimately responsible for it.
- Bold statements are made about the poor quality data and record-keeping seen by the Regulator. Some examples of where poor data arises (such as entry to the PPF or FAS and on buy-out) relate to circumstances which are not relevant for ongoing schemes. It is important to ensure that there is no regulatory creep being introduced. While we recognise the PPF's difficulties where data required has not been available, this does not mean that there has been poor record-keeping. There are no requirements on schemes to hold this data, and it would be costly in many cases.
- It is important to be clear that presence of data does not mean there is quality of data. We are concerned that there is a risk that the guidance could result in an increase of data, but little or no corresponding increase in the quality. This message needs to be emphasised in the guidance.
- We believe in regular diagnostic reviews of the data, which should require further work by trustees, employers and administrators where necessary. However, there is a risk that too much focus is given to an annual check on the presence of data, and this would be at the expense of understanding and addressing why data has become incorrect. It would be more helpful to draw a fixed line under existing legacy data for each scheme and have a separate

approach for this. This could be along the lines suggested in the consultation. Data created after this date should not be (or become) incorrect. Managing this process would be best done through the internal controls mechanisms. Such data may include the results of calculations or recent changes to information for existing members. Testing this new data year-on-year to determine if it has disappeared does not seem appropriate or helpful.

- Chapter 4 of the consultation paper discusses Knowledge and Understanding and states that the guidance will form part of the TKU (Trustee Knowledge and Understanding) requirements for trustees. It would be more helpful if all information for the TKU requirements were either available in one place or it was made clear where to find all related documents. Currently the TKU requirements are contained in many documents, leading trustees to often miss key guidance buried in larger documents. There is a risk that trustees who are confident about their record-keeping requirements may not read this guidance and so not realise it is part of TKU.
- The requirements for record-keeping following the introduction of the new employer duties/Personal Accounts regime in 2012 should be considered once details are known. We do not foresee that these new reforms will change the requirements or importance of good record-keeping and administration. We envisage that the most significant change in record-keeping requirements, being those in relation to auto-enrolment records, will be the employers' responsibility. Pension schemes very rarely hold records of non-members.

We would be very happy to discuss any of the points above. I can be contacted on 020 7212 4165.

Yours sincerely

Peter Sparshott
Director
Pensions Management Consultancy

Appendix - Responses to the consultation questions

Question 1 – Do you agree that record-keeping is central to all aspects of the administration of a pension scheme?

Yes. There is a risk that as this consultation focuses on presence of data, that quality record-keeping which is accurate, transparent and readily useable by multiple parties is not achieved. It is important for trustees and employers to appreciate that high standards of administration are important and understand how pressure on other service standards and fees impact this.

Question 2 – Have we correctly identified the cost of poor record-keeping and the benefit of good record-keeping?

Partly. The consultation has only looked at the cost on buy-out. It is the effect of the hidden operational activities which drive up costs and reduce efficiency. For example, some administrators manage the risk of poor quality records by checking and cleaning a record before processing a member transaction.

Question 3 – Do you agree that more standardised ways of providing and transferring data could help with record-keeping?

No. Standardisation is helpful where data requirements are the same, and to the extent that they are, there is already a good degree of standardisation. Schemes have vastly different data needs and there is a significant risk that standardisation would overly complicate requirements making it easier for errors to occur. There is a lack of clarity around who is responsible for the quality of data sent and received. When we help clients to establish interfaces, we always try to introduce the principle of the originator being responsible for the data being accurate, with the receiver responsible for checking the quality and reporting errors. This is not always possible, for example in relation to the DC investment cycle, and this illustrates the heightened need for robust processes to manage data transfer to ensure that quality is maintained.

Question 4 – Do you agree that, while there are schemes and providers that achieve high standards, there is also evidence of problems with record-keeping?

We believe that there are problems with record-keeping and it is significantly more widespread than realised. Administrators may have internal processes to mitigate this on an individual case-by-case basis. We are aware that due to constraints with pension administration systems, many administrators may use data fields as a “best fit” rather than actual fit. This is most likely to arise following significant legislative change. For example the Tax Simplification changes resulted in a need for new data items to be stored. The lead-in times for systems to be amended can make this the most attractive, if imperfect, solution.

Almost without exception, every project we have worked on has revealed data problems – even where the client believed their data was accurate.

Question 5 – Do you agree that record-keeping problems, where they exist, are greatest with legacy data?

Yes, but consideration should be given to ring-fencing existing legacy issues to ensure that ongoing problems are not too easily put into this category. Legacy issues will arise as some data requirements were not required at the time the data was created, and issues are now arising due to new requirements having some retrospective impact. Administrators and trustees should be encouraged to focus on addressing data problems in a realistic manner, and ensure that data cannot be compromised for the future.

Question 6 – What are your views of the proposed definition of core data?

The definition of both core and additional data should be carefully reviewed. There are several anomalies in the proposed lists. Looking at the core data list, it does not recognise that there is no need for contributions for DB active members where a scheme is non-contributory. Conversely, contributions are needed for deferred members to enable correct calculation of transfer values and death benefits, but this is not in the core list. The core tests should be set in the right context, and final guidance should include this contextual information.

We are not convinced of the need to have core and additional data as separate measures. Administrators should hold, or have access to, all the data required to properly administer the scheme. This should include an appropriate means of storing data following calculations and other updates to records. There is a risk that by focussing on core data, more important items will not be addressed with the required urgency.

Question 7 – What are your views of the proposal that every item of core data should be present in all schemes?

We disagree with this suggestion. The data required should reflect the scheme design. Trustees should not be required to hold data that is not relevant to their scheme. Some data may be held in HR records, for example addresses for active members, which is reasonable as long as trustees have access to the data when they need it.

Question 8 – Do you agree that the list of additional data is illustrative of the sort of information required for effective administration?

It is illustrative, and we hope that this will prompt robust consideration of the data-keeping requirements by trustees and employers with their administrators. Trustees and employers should seek to understand how the data is held and managed by their administrator, and what controls are in place to ensure that the quality, rather than simply the presence, of that data is maintained.

Question 9 – Do you agree that it is reasonable to recommend that providers and trustees measure the presence of additional data required for effective administration?

The presence of data will not enhance the quality of the administration if it contains errors. There is a risk that the wrong behaviours are encouraged if too much focus is given to this reporting alone. We agree that reporting about the quality of data is important, and that this should drive a plan to (a) correct errors and (b) enhance internal controls and risk management.

Question 10 – Is it appropriate to set a timescale for when the presence of additional data should, if necessary, be improved? If so, what would suggest?

The timeframe should be proportionate to the risks and in the context of the size of the problems. Trustees should understand what the data issues are and agree a realistic plan. Where issues have arisen due to weaknesses in internal controls, the plan should include addressing this and not focus solely on historic data. Interim solutions should be agreed while data issues are being rectified.

Question 11 - What are your views on the possibility of the Regulator providing benchmarks, for different sorts of scheme, of additional data?

We do not see this as the Regulator's role, as every scheme will have different data requirements. It should be for the trustees to determine, together with their administrator, what the right requirements are for their scheme. We do not believe that this would be possible for the Regulator to do given the enormous variation in schemes and scheme design.

If the Regulator has particular concerns, then we would welcome these being shared, and the appropriate action taken. In our experience, problems arise due to the way data is stored, and not just in the data itself.

Question 12 – Do you agree that the following events give rise to an immediate requirement for data cleansing?

- **Wind-up**
- **Entry to PPF assessment period**
- **Buy-out**

Each of these events drives a data requirement. However, the requirements are not always the same, although all involve detailed scrutiny of the data. The PPF requirement is driven by its own agenda and the issue lies in that the PPF requires data which historically schemes have had no reason to keep.

The buy-out and wind-up processes can be significantly shortened if there are fewer data issues to manage. Some legacy issues will always have a significant impact and be hard or impossible to resolve, while other issues could be avoided if trustees have suitable controls in place.

There are other events which are impacted by the quality of data:

- Scheme merger
- Scheme design changes
- Legislative changes
- Change of administrator

Question 13 – Do you agree with the proposal to report numerical information about membership records at the same time as the presence of core and additional data is measured?

Reporting should be relevant. We are not convinced that trustees would gain much, if any, value in reporting the types of items proposed, as they are unlikely to be able to validate it.

We feel strongly that trustees should consider all the management information provided by the administrator. This will allow them to be given sufficient contextual background to understand the implications of why it is being provided, and allow them to make good decisions based on it. Trustees should be encouraged to have robust discussions with their administrators to understand the content of reports provided and agree improvements and additional explanations where needed.

Question 14 – Do you agree that this is an appropriate aim for the Regulator? (To ensure that the records of every work-based scheme are such that the benefits due to each member at any point in time and in any circumstances can be calculated correctly?)

It is a reasonable expectation that records in a scheme will allow members to receive their correct benefits. Furthermore, it is appropriate that the quality of scheme data allows the scheme actuary and other users to formulate sound opinions and make good decisions.

To require schemes to hold data for any future circumstances is a disproportionate burden, as there are many possibilities to be considered, including ones which have not yet emerged.

Question 15 – Should an annual statement by trustees about key risks and internal controls be included in the code of practice on internal controls?

Trustees are already required to comply with the internal controls requirements. Our view is that record-keeping and data quality is an activity already subject to those controls. There is a risk that by focussing a statement on data, other important areas are not given due attention. If the Regulator believes there are widespread and significant weaknesses, we suggest this would be better managed by being more direct in encouraging compliance in those specific areas. If it is decided that a statement concerning the quality of data is required, it may be appropriate for this to be part of the audit opinion in the pension scheme accounts.

Question 16 – Do you think that education and enabling will be effective in improving standards of record-keeping?

Education needs to assist trustees to understand that they own the data, and to appreciate why they must understand their data and how it is held and managed by their administrator. Trustees also need to understand the impact of holding and managing data in different ways. However, decisions about data are often made in the context of fees and available budget, and where there is flexibility of approach trustees will only be able to select the best in this context. For example, on the transfer of data to a new administrator it is often significantly cheaper to mitigate deferred pensions with only modest supporting data, rather than full data to be able to re-perform the deferred benefit calculations.

Question 17 – Do you agree with the assessment that, although measuring and improving data may lead to additional cost, it is a question of timing rather than of the cost not otherwise arising, and that good records can save costs?

Good records can save ongoing administration cost and also improve efficiency and reduce risk. However, not all schemes end in the same way. Therefore, paying for data not currently needed will often be an inappropriate prioritisation of spend and use of resources. Trustees and employers should ensure that they understand the quality and completeness of their data and take action according to the risks.