

Improving pension scheme administration: how NISPI can help

The Pensions Regulator and National Insurance Services to the Pensions Industry (NISPI) are working together to improve pension scheme administration.

The Pensions Regulator (the regulator) and NISPI are collaborating more closely during 2011 to improve the administration of pension schemes and enable them to run more effectively.

NISPI is part of HM Revenue & Customs (HMRC) and deals with occupational pension schemes that are contracted out. It is vital to ensure that HMRC's data and member records held by the pension scheme match. This will make sure members receive the correct benefits when they draw a pension.

A data reconciliation process between a scheme's and HMRC's data needs to be carried out whenever a member leaves contracted out employment and when the scheme ceases to contract-out (eg when it enters wind-up).

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Improving the speed and efficiency of pension scheme wind-ups is a key focus for the regulator. We believe it is reasonable for trustees and/or the scheme administrators acting on their behalf to complete this process within 2 years.

The regulator and NISPI are also urging trustees and administrators to focus on their pension's housekeeping in 2011 to ensure they are ready for the end of contracting out on a defined contribution (DC) basis in 2012.

Roles and responsibilities

The implications of poor member data or records are widespread and often result in additional and unnecessary costs. This is due to inaccurate or incomplete data, understatement of member benefits or liabilities and missing policyholders. Poor records are also the primary cause for delay in scheme wind-ups.

Trustees are legally accountable for record-keeping and data reconciliation. Full trustee engagement, involvement and understanding the work of their scheme administrators is vital. This will ensure the right processes are in place to complete tasks (eg winding up) as quickly and efficiently as possible.

Administrators are responsible for keeping customer data safe and secure, as well as relaying certain information to HMRC/NISPI. In order for trustees to fulfil their accountabilities, they should require their administrators to work with NISPI to carry out the reconciliation process as quickly and efficiently as possible.

There are consequences to not complying with administrative responsibilities. In a recent case, the Financial Services Authority (FSA) issued a £2.8m fine against a major provider due to poor administrative procedures. Trustees can also be fined if they fail to take all the reasonable steps to ensure compliance with their statutory obligations concerning record-keeping.

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Shared Workspace

The regulator and NISPI believe the Shared Workspace tool can greatly speed up the reconciliation process when contracted-out schemes cease to contract out.

Statistics show that winding up a pension scheme and the reconciliation process can be carried out up to 30% (or 2 years) more quickly, as a result of administrators using Shared Workspace. The regulator urges scheme administrators to make use of this facility as soon as they commence wind-up.

Operational changes at NISPI

Contracting out is ending on a DC basis in 2012 and it is vital for trustees and administrators to focus on improving administration standards now to ensure they are ready for this important change.

To help deal with this event, NISPI has made some structural and process changes, and has written to scheme administrators to explain this to them. NISPI has put in place Customer Account Managers, who set out priorities and agree turnaround times for administrators. The Customer Account Manager and administrator working together will ensure both parties are aware of any upcoming changes that might affect workflow, help to reduce work timescales and also eliminate potential complaints.

NISPI's Business Update can be viewed on their website:
www.hmrc.gov.uk/nic/scheme-cessation-bus-update.pdf

We expect trustees and administrators to make use of NISPI's Shared Workspace tool to aid contracting out and winding up, and for administrators to contact their Customer Account Manager at NISPI who will be able to support them through the process.

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