Chapter 1: Executive summary

1.1 The Pensions Regulator (‘the regulator’) wishes to work on scheme record-keeping with those involved with it. In preparing some proposals we have engaged with Raising Standards of Pensions Administration, the Society of Pension Consultants and the Pensions Management Institute.

1.2 In addition, as part of informal consultation prior to the issue of this document, the regulator has held workshops for trustees, administrators, providers and employers to explain the benefits of good record-keeping and to consider some proposals for measuring and improving record-keeping. Information has been provided to us by administrators, insurers, buy-out providers, the Pension Protection Fund and others working in administration. We are grateful to all the individuals and bodies concerned.

1.3 This document is aimed at two principal groups. First, those who are responsible for scheme record-keeping. These are usually trustees or providers of contract-based arrangements. Second, those who administer pension schemes. These are usually insurers, third party administrators, or in-house administration service providers.

1.4 The document will also be of interest to others such as employers and independent financial advisers (IFAs).

1.5 The quality of record-keeping has a huge impact on all aspects of running pension schemes. The providers (typically insurance companies), members, administrators, trustees, actuaries, auditors, advisers and employers all have an interest in scheme records.

1.6 In the regulator's view, it is also a fundamental requirement of good administration that members can be told the value of their pension rights. This is dependent on accurate records being maintained.

1.7 While the need for good records is present in all financial services, a number of factors make good pension scheme records particularly important, including the length of time for which pension scheme records need to be kept and the number of transactions recorded (especially in DC schemes).

1.8 Poor record-keeping may lead to significant additional costs in a number of areas such as administration, claims from disgruntled members, buy-outs, wind-ups and, potentially, in more conservative actuarial valuations.

1.9 Good record-keeping confers a number of benefits on members, providers, employers and trustees. For example, sponsoring employers will have a more precise assessment of their financial liabilities and a more accurate balance sheet. Investment decisions, for example those associated with lifestyling, may depend on accurate member records.
1.10 Although many schemes have high standards of record-keeping there is also evidence of problems. The problems are, in general, greatest with legacy data. There may be many reasons for this, such as changes of system, administrator or method of storage, or because the member has not advised the scheme of changes in their circumstances.

The main problem areas we have found are:

- poor quality legacy data - particularly for deferred members;
- no common standards - eg what is good or poor data;
- lack of appreciation of the importance of administration - by both sponsors and trustees;
- data transferred is often not of acceptable quality;
- in DC schemes the complexity, volume and speed of processing are of a higher order than in traditional DB schemes, with associated risks which can be expensive to correct;
- the level of professional skills is a concern in a sector of considerable complexity.

The problems often crystallise at events such as wind-up, assessment for entry into the Pension Protection Fund and buy-out. In the last of these, poor data can add 5 per cent to the cost of buy-out.

1.11 The proposals in this consultation document should be seen in the context of a rapidly changing pensions’ world. The DB to DC and trust-based to contract-based trends of recent years, the changes in the outsourcing market and the introduction of Personal Accounts all suggest that the regulator needs to focus more on administration in the future.

1.12 The proposed approach to the regulation of scheme record-keeping is to educate, enable and, if necessary at a later stage, to enforce. Among the developments we propose are to supplement the existing guidance in the trustee toolkit (www.trusteetoolkit.com) on the importance of data, record-keeping and checking data integrity; and to consider including administration in its own right in the scope of the syllabus for trustee knowledge and understanding.

1.13 We also wish to consult about some specific steps, to be implemented by providers and trustees, which we recommend as good practice:

- a benchmark for the presence of core information about every member of work-based pension schemes;
- whether trustees or providers should
  - identify and measure additional information required to administer their particular scheme; and
  - if necessary, develop a plan which will obtain this additional information;
- whether the regulator should consider, at a later date, benchmarks for the presence of additional information.

1.14 We believe the principles of good record-keeping apply to all work based schemes. Both the Financial Services Authority (‘the FSA’) and the
Pensions Regulator have a regulatory role in relation to work-place contract-based pensions. We generally refer to them as GPPs in this document to cover all types of these arrangements (including stakeholder pensions). In the event of the maladministration of a pension scheme, the FSA and the regulator will seek to work closely to establish where the source of the problem lies. Where appropriate, we will take responsibility for administration where it relates predominantly to GPPs, and the FSA for administration problems which indicate difficulties within an FSA authorised firm more widely. Guidance\(^1\) describes the respective roles of the two regulators (www.thepensionsregulator.gov.uk/pdf/TPR_FSAguideOnRegulationOfC\(B\)schemes.pdf) and both organisations are happy that these proposals are consistent with the guidance.

1.15 In respect of these proposals, we will take a lead as the issue is common to both trust and contract-based schemes; in some areas the services are provided by administrators serving both communities; and legislation gives us a statutory objective in relation to pensions administration. This does not lead to competing regulation.

1.16 We have constructed this consultation in two documents. The first is a description of the issues and of our approach; the second is a more technical description of our proposed method for reporting on data.

1.17 We welcome responses to this consultation. Some questions for respondents are set throughout this document, and are repeated in chapter 7. Should you wish to comment, please send your responses to:

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by Wednesday 15 October 2008.

\(^1\) A guide on the regulation of work place contract-based pensions (published jointly in November 2007 by the FSA and the Pensions Regulator).
Chapter 2: The importance of record-keeping

Summary

• Members should be entitled to accurate information about their pension rights.
• Members may not receive the correct benefits if records are incorrect.
• Poor quality record-keeping leads to additional costs.
• Good record-keeping supports better decision-making – by members, trustees, and employers on, for example, valuations and funding.
• Better member understanding is the most desirable means of encouraging better record-keeping. We support initiatives such as web access that improve members’ access to, and understanding of, their pension rights.
• Buy-outs are likely to be more expensive where there is doubt over the quality of records in a DB scheme.

The importance of record-keeping

2.1 The quality of record-keeping has a huge impact on all aspects of the administration of pension schemes. The providers, members, administrators, trustees, actuaries, auditors, advisers and employers all have an interest in scheme records.

2.2 Leaving aside legal obligations, in the regulator’s view it is a fundamental requirement of good administration that members can be told the value of their pension rights. This is dependent on accurate records being maintained.

2.3 While the need for good records is present in all financial services, a number of factors make good pension scheme records particularly important, including:

• the length of time for which pension scheme records need to be kept: benefits from pension schemes are usually not received until many years after the payment of the first contribution;
• the number of transactions recorded (especially in DC and GPP schemes);
• changes to the scheme’s rules;
• legislative changes affecting the nature of the benefits ultimately payable;
• members’ failure to advise scheme administrators of changes in personal circumstances (e.g., change of name or address).
Question 1: Do you agree that record-keeping is central to all aspects of administration of a pension scheme?

2.4 Poor record-keeping may lead to significant additional costs in a number of areas:
- more expensive administration;
- more claims and complaints from disgruntled members;
- higher costs in wind-ups;
- increased funding costs due to more conservative actuarial assumptions about the data;
- inaccurate FRS17 liability;
- more data-checking and queries by actuaries;
- higher trustee insurance premiums.

Benefits of good record-keeping

Providers and trustees

2.5 Holding good data is a prerequisite to providers and trustees discharging their fiduciary and statutory obligations to administer a scheme properly.

2.6 Providers and trustees will be better able to make appropriate investment and management decisions if they are based on more accurate valuation results.

2.7 When setting premiums, firms providing trustee liability insurance may take account of the state of members' records and whether or not the records have been analysed and cleansed.

Sponsoring employers

2.8 For DB schemes accurate data will enable the actuary to achieve greater precision in determining the scheme’s liabilities. It will also mean that better information is available for assessing Pension Protection Fund levies.

2.9 Sponsoring employers will have a more precise assessment of their financial liability and in turn a more accurate balance sheet.

2.10 Accurate records are likely to lead to lower ongoing administration costs than would otherwise be the case.

2.11 Failure to maintain good records only defers cost, it does not eliminate it, as records will have to be cleansed at some time. It is likely to be cheaper to achieve clean records while there is still a current employer. Effective data cleansing may not be possible at some future date, when employers' records may have disappeared and old manual pension scheme records may also be untraceable.

2.12 In respect of GPPs we have recently issued guidance to employers on monitoring the running of schemes which refers to administration and record-keeping matters.
Many employers have already put in place voluntary governance arrangements for GPPs as they see them as beneficial for both themselves and members. Examples of positive impacts include early identification of any administrative problems in the running of the scheme.

**Trend towards buy-out**

2.13 Quotes for buying out members’ benefits reflect information about the scheme’s membership. Key data, including postcode information, are used to determine the level of longevity risk. Accordingly, data may have a direct impact on the price. The cost is likely to be significantly reduced if member data has been well maintained and thoroughly cleansed.

2.14 Moreover, if they judge the records to be sufficiently poor, providers may well decline to quote for the business at all, or they may refuse to take any data risk, accepting liability solely on the basis of the data that has been provided to them.

In Professional Pensions' *Trustee Guide to Pensions February 2008*, Margaret Snowden, operations director of Lucida, said "All schemes have data problems - older schemes just have more of them. There is no hiding place. It’s a sobering thought, but poor data can add 5 per cent to your liabilities."

Putting this in perspective, for a fund of £200 million, a risk premium of 5 per cent would amount to £10 million, which would pay for a lot of data cleansing. This cost of poor record-keeping will rise in the context of a rapidly growing market: according to AON Consulting the value of buy-outs in Q1 2008 alone was £2.2 billion.

One leading buy-out provider told us that up to 30 per cent of the member records provided to them contained errors and that their assessment of data quality could suggest that the scheme's liabilities may have been underestimated by as much as 5 per cent.

**Members**

2.15 Members are likely to get the correct benefits, and have them paid on time, which will give them more confidence in their pension scheme; and key service level agreements are more likely to be met. Accurate records are likely to lead to lower ongoing administration costs than would otherwise be the case.

2.16 The time taken to process a scheme into the Pension Protection Fund may be reduced if the scheme has accurate data. As a result, costs will also be reduced and member satisfaction increased.
2.17 The Pensions Advisory Service reports that in its experience poor administration is a major concern for members, and good record-keeping is essential if this situation is to improve.

**Question 2: Have we correctly identified the costs of poor record-keeping and the benefits of good record-keeping?**

**Record-keeping requirements of different scheme types**

2.18 A typical DC scheme (and GPP or AVC arrangements) requires at least 12 administrative transactions a year for each active scheme member, while a typical DB scheme may only require one or two. The scope for record-keeping errors in DC schemes is therefore greatly increased.

2.19 As well as recording and reconciling contributions and investments at member level, it is essential that there is a regular reconciliation of the number of units held by the investment manager against the number of units held by each member and the trustees. Ideally this should be performed following each investment or disinvestment transaction.

2.20 Data for many DB schemes, on the other hand, is normally collected annually, at the scheme's renewal date, when it will be loaded to the members' records. Some schemes may, however, collect and record this information more frequently.

**Provision of pension scheme administration**

2.21 Our Governance Survey 2008 indicated that approximately four fifths (79 per cent) of trust-based schemes rely on a third party administrator (TPA) as their main provider of administration services and this has increased from two thirds (66 per cent) since 2006 as indicated in the following table:

![Chart 1 Administration arrangements of trust-based pension schemes 2006 -2008](image)

2.22 Data on contract-based arrangements is more difficult to obtain. However, a 2007 estimate by a leading insurance company suggested that about two thirds of the members of contract-based schemes are in ‘bundled’ arrangements, although the administration of those schemes may have been outsourced by the insurer.
Impact of personal accounts

2.23 The introduction of personal accounts will inevitably require major changes in the way in which some pension schemes’ data is collected and transmitted. There will be additional data requirements including the need to record auto-enrolment activity.

2.24 We met the personal accounts delivery authority during the development of this consultation document. It fully supports steps to improve the quality of record-keeping and will aim to take account of the regulator’s expectations in the specification it sets for the administration of Personal Accounts in a manner that is consistent with its statutory principles.

Technological advances in pensions administration

Web access for members

2.25 An increasing number of DC schemes and GPPs are providing members with web access to their records, giving members instant access to up-to-date fund values, benefit projections and scheme information. Many schemes also provide a facility for members to switch investments online.

2.26 While there has been less enthusiasm to provide web access to members of DB schemes, there is evidence that more DB schemes are now seeking to do so.

2.27 It is moreover generally agreed that accurate records are a prerequisite to providing web access, and that provision of web access drives better record-keeping.

2.28 Better member understanding is the most desirable way of improving scheme records. The regulator supports initiatives that improve members’ access to and understanding of their pension rights.

Straight-through processing

2.29 In response to the need of administrators and fund managers to streamline processing, a number of companies (under the guidance of Idea Group and SWIFT) collaborated to define a market practice for order processing data exchange, known as the ViaNova standard. This standard facilitates the development of electronic straight-through-processing (STP) solutions between pension administrators and investment managers. The aim is to reduce manual intervention in investment transactions which is intended to lead to a better and quicker flow of information between the different parties in the investment process, giving greater efficiency and improved risk control. The ViaNova standard has now been accepted by the Securities Market Practice Group who will oversee its further evolution.
2.30 Other products are available or being developed, which provide ‘front-end’ validation of data before transfer between, for example, employers and providers, and automated transfer of data from payroll to investment managers via pension scheme administrators.

2.31 Insurance companies have also started to introduce this type of validation within their own systems.

Question 3: Do you agree that more standardised ways of providing and transferring data could help with record-keeping?
Chapter 3: Evaluating the evidence of poor record-keeping

Summary

- There is evidence of problems with record-keeping.
- It comes from a number of sources including:
  - what administrators and others have told us;
  - experience during wind-up of independent trustees, the Pension Protection Fund and the Financial Assistance Scheme;
  - from the Pensions Advisory Service and similar bodies
- Legacy data is a particular problem, although problems with current data are also seen.

Is there a problem?

3.1 The regulator acknowledges that there are schemes and providers which achieve high standards.

3.2 Unfortunately this is not universal. Information provided to us by administrators, buy-out providers, independent trustees, the Pensions Advisory Service, the Pension Protection Fund and others confirms that there is a problem, and that it extends to all sorts of scheme, irrespective of size and type.

3.3 The effect is that membership, liabilities, entitlements and payment of pensions all contain errors. A brief summary of some of the most common data problems is given below.

3.4 For active members:

- missing contracted out earnings information;
- inadequate records relating to transfers in;
- incomplete records of part-time service;
- inadequate records of pension sharing and earmarking orders.

3.5 For deferred pensioners in DB schemes:

- no split of deferred pension between elements that have different attaching benefits (for example contingent pensions on death, escalation in retirement);
- post April 1997 part of deferred pension not recorded;
- incorrect or incomplete GMP details;
- no record of maximum cash entitlement under the scheme rules;
- no record of pre A-Day HMRC maximum cash entitlement.

3.6 For pensioners:
• inadequate records of GMPs;
• inadequate recording of elements of pension that have different attaching benefits (for example contingent pensions on death, escalation);
• incorrect records of contingent pensions on death;
• inadequate recording of pension cessation/change dates (for example children's pensions, pension elements that increase or reduce at a particular date).

3.7 For DC schemes:
• unreconciled contributions;
• inadequate records of investment switches;
• unreconciled investment records.

3.8 The number and nature of the complaints received by the Pensions Advisory Service, as reported in their Review of Activities 2007/08, provides some evidence of levels of service as perceived by members. As noted by our qualitative survey on DC risks undertaken in October 2007, complaints are usually related to the level of interest and understanding of the membership base. The fact that a scheme does not receive any complaints does not necessarily mean that there are no problems. It could, instead, mean that the members have insufficient knowledge to identify the problems with record-keeping.

3.9 Information that we have received from both the Financial Assistance Scheme and the Pension Protection Fund tells us that there are frequently significant problems with member data, for example verifying member existence and entitlements, validating benefits paid from the records held, reconciling GMPs etc. This leads to delays in all aspects of administering the scheme and in providing benefits to beneficiaries, as well as incurring considerable costs in correcting and completing the records.

Examples of problems with record-keeping

The Pension Protection Fund sampled 32 schemes and found that there were problems with key items of data; examples being:

- 40 per cent of the schemes had missing, incorrect or temporary national insurance numbers;
- 59 per cent had missing or incorrect key dates such as dates of birth, joining or leaving the scheme, and commencing pension;
- 90 per cent had missing address or postcode information.

The National Fraud Initiative (www.audit-commission.gov.uk/nfi/) checks data for participating pension schemes against the DWP Deceased Persons list. The 2004/05 data match submitted 4.75 million records for checking, and identified 2,497 cases of deceased pensions who were still being paid. The total over-payment relating to these cases amounted to £6.6 million.

A firm that has considerable experience of data checking has provided us with a number of illustrations of poor data. On GMPs, they said:

“In our experience the underlying data upon which GMPs are calculated is often unreliable. The proportion of members where the GMP calculated from the underlying record differs from the stored GMP is nearly 50 per cent among preserved members and 30 per cent among retired members. A significant proportion of these discrepancies are material.”

An administrator conducted an exercise to completely populate spouse details, for which records had been incomplete. The exercise cost £2,500 but the more accurate data resulted in a reduction in valuation liabilities of £19 million.

A data audit compared the payroll records of a scheme with the administration records. This 2,000-member scheme had 200 extra records. There was no alignment, and no annual reconciliations had been made between the scheme and the separate employer data. In another case a data audit revealed scheme over-payments. The total cost saved by the scheme paid for the audit.

In their Review of Activities 2006/07, the Pensions Advisory Service said “poor administration is once again by far the greatest source of complaints, accounting for 31 per cent of the total and the most intractable ….. if the industry does not voluntarily tackle this problem, we would look at the regulatory authorities to intervene on behalf of consumers, who are often unable to extricate themselves from their policy except at great financial cost.”

In 2007/08 the Pensions Advisory Service reported similar concerns with a rise of 16 per cent in complaints about the administration of occupational schemes.

The Financial Assistance Scheme told of one scheme where at least one of the sponsoring employer’s customers had been recorded incorrectly as a member of the pension scheme. They also reported schemes where the only details received for some apparent scheme members were their name, address, and National Insurance number.

Poor record-keeping and member reconciliation was the cause of a recent determination by the Pensions Ombudsman. Had the member’s name not disappeared from the membership records, the member’s record would have been amongst those whose benefits were bought out on the winding up of the plan and the member would also have
had the option of a transfer to an alternative arrangement, based on the value of the preserved benefits in the plan. The Ombudsman concluded that the member should be put in the position he would have been had he been part of the bulk buy-out. This was after a lengthy and costly investigation.

**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?**

**Where are the problems greatest?**

**(i) Legacy data**

3.10 There is general consensus among pension scheme administrators that historical data is of poorer quality than new data, particularly in respect of deferred members, transfers-in, transfers-out (including partial transfers), and information in respect of special benefits following scheme mergers and rule changes. Where poor quality data exists, the problem may have been made worse each time there has been a change in administrators and/or record-keeping systems.

3.11 There are many possible reasons why legacy data may not be complete or accurate. These include:

- **storage** eg data was recorded and stored in a haphazard way before computer databases became commonplace or there were limitations in the systems;
- **change to the scheme** eg data required following the change may not have been correctly identified, calculated, or recorded at the time of the change;
- **administrator or system change** eg data has been moved from one record-keeping system to another, and some data may have been lost or corrupted at the time of the move. This may have occurred more than once in the lifetime of the scheme;
- **legislative changes** over many years have also added to the complexity and need for different types of data covering different periods, not all of which may have been fully appreciated at the time of the change;
- **scheme mergers**: data stored for one scheme may have been inadequately or incorrectly stored, or misinterpreted, when the schemes merged;
- **members** have not advised administrators of changes in their personal circumstances.

3.12 We have heard frequent references to errors in GMP data. While there are many possible reasons for such errors, a solution is now available to administrators, as HMRC will undertake a GMP check for individual members, or for a whole scheme, if requested to do so.
Question 5: Do you agree that record-keeping problems, where they exist, are greatest with legacy data?

(ii) New data

3.13 There is a general belief that current data (ie data being received periodically in respect of active members, and calculated in respect of scheme members and beneficiaries) is complete and accurate. While we believe that the understanding of the importance of data requirements is greater now than at any time in the past, we do not believe that there should be any complacency in this area.

We are aware of a large DC scheme where an error in unit allocation spanned a period of about two years. The administrative costs of correcting the errors, including recalculating benefits for members who had retired, died, transferred out, taken a refund of contributions, or been involved in pension sharing, was in excess of £100,000. This error would have been detected much sooner if there had been more effective internal controls.
Chapter 4: Knowledge and understanding of administration, data and record-keeping

Summary
- Many trustees do not monitor administration performance effectively.
- Fewer than 15 per cent of those employed by third party administrators have a relevant qualification.

Training for administrators

4.1 The main qualifications for staff engaged in the administration of trust-based pension schemes are:
- the Qualification in Pensions Administration (QPA);
- the Qualification in Public Sector Pensions Administration (QPSPA);
- the Diploma in Pension Calculations (DPC); and
- the Retirement Provision Certificate (RPC).

All of these are administered by the Pensions Management Institute.

4.2 There are qualifications aimed specifically at those involved in the administration of contract-based schemes, including the examinations of the Chartered Insurance Institute (CII), amongst which are the Certificate in Financial Planning, the Diploma in Financial Planning and a qualification in pensions administration.

4.3 There are no figures available for the total number of people directly involved in administering work-based pension schemes. However, the Pensions World Third Party Admin Survey (August 2007) gives the following figures for the numbers employed by TPAs:
- the survey covered 26 TPAs;
- they employ about 6,130 administrators;
- about 400 of these administrators have obtained the QPA, QPSPA or DPC qualification;
- about 340 have the APMI or FPPI qualification (some of whom may also have QPA, QPSPA or DPC).

We are aware that some administrators have the Certificate and/or Diploma in Financial Planning awarded by the CII.

4.4 Taking into account the fact that some people have more than one of the relevant qualifications, it appears that fewer than 15 per cent of administrators employed by TPAs have a relevant formal qualification.
4.5 QPA and DPC share the same examinations. The number of candidates taking these examinations fell from 967 in May 2000 to 564 in November 2007.

4.6 While some third party administrators offer substantial in-house training, the level of professional skills among administrators remains a concern in a sector dealing with considerable complexity.

**Raising Standards of Pensions Administration**

4.7 The Raising Standards of Pensions Administration ('RSPA') project began in January 2002 as a voluntary initiative by those involved with pensions. The objective of the initiative is the advancement of knowledge and learning in respect of pensions administration, in particular through the creation and maintenance of a collection of guidance notes, case studies, tools and checklists, with the aim of improving the standard of service delivered to members of pension arrangements in the UK.

4.8 RSPA has prepared a General Statement of Administration Standards (GSAS) in order that trustees (or those in a similar role) and scheme administrators may have a statement of the standards by which they are expected to conduct business. It applies to the administration of trust-based occupational pension schemes and the public sector equivalents and generally focuses on the key relationship between trustees (or their equivalent) and scheme administrators. However RSPA believe that most of the items listed in the GSAS will also apply to other suppliers and RSPA would envisage all suppliers using the standard where it applies to them.

4.9 Currently, over 20 third party administrators have signed up to the General Statement of Administration Standards.

4.10 We regard the initiatives taken by RSPA as a positive move to raise not only the standards of administration, but also trustees' awareness of the importance of administration.

4.11 We have worked with members of RSPA, the Society of Pension Consultants, the Pensions Management Institute and others in the preparation of our proposals.

**Trustee awareness**

4.12 Many trustees do not monitor administration performance effectively. Only 64 per cent of schemes' trustee boards ‘always’ include administration as an agenda item; the figure is much lower for smaller schemes, and those administered by their insurer³. Even when it is included it is frequently low on the trustees' agenda, after investment, actuarial/funding and legal matters and discussion on this topic is likely to be curtailed if the trustees’ meeting is running late.

³ The Pension Regulator’s 2007 governance survey, page 41.
4.13 There are numerous reasons for this:

- trustees lack technical knowledge of data requirements and do not usually have independent specialist advice in this area;
- there may be a perception of data issues being low risk, as they impact 'only' individuals rather than at scheme level;
- in DB schemes, specifically, any problems are perceived as being resolved at retirement, death or transfer;
- in DC schemes, the knowledge that contributions are being received by the administrators, and invested, affords a (possibly false) sense of security that all must be well.

4.14 Even if an administration report is presented to the trustees, data integrity is only likely to feature in the report if a specific problem has arisen and even then any generic data problems may still not be properly addressed.
Chapter 5: Proposals for measuring and improving record-keeping

Summary

We propose to:

• work with providers, administrators, advisers and trustees to raise awareness of, measure, and where necessary improve standards of record-keeping

• in particular we are consulting on:
  
  o a proposed benchmark for the presence of core information about every member of work-based pension schemes;
  
  o whether trustees or providers should identify and measure some additional information required to administer their particular scheme; and
  
  o if necessary, develop a plan which will obtain this additional information.

5.1 We wish to work with providers, administrators, advisers and trustees to raise awareness of the importance of record-keeping in both trust-based and contract-based schemes. The specific steps proposed for trustees and providers which are being consulted on are in this chapter; the next chapter sets out our proposed approach to record-keeping: to educate, enable and, if necessary at a later stage, to enforce.

Proposal to measure core data

5.2 Although pensions are often complex, and there are many different types of scheme, we consider it possible to measure common aspects of member records.

5.3 In particular, in the regulator’s view, there is a core set of data that is completely fundamental to the proper administration of all schemes. An error in any of these core data items is highly likely to render the member’s record unusable.

5.4 The proposed definition of core data comprises a maximum of 19 items, depending on the type of scheme and the status of the member. It includes name, sex, date of birth, date joined pension scheme, member status, and salary. A full list of core data, and the basis for inclusion of each item, is contained in Appendix 1 of this paper, and in the technical summary Record-keeping: supplementary details that accompanies this paper.

Question 6: What are your views of the proposed definition of core data?
The standard of core data

5.5 The proposed measure of core data is concerned with the presence of the records required to calculate and settle benefits, rather than the calculations themselves. Given that the proposed core is fundamental to proper administration and is the first building block required to calculate members' benefits, we recommend that every item of core data should be present in all schemes.

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

Proposals for measurement of additional data

5.6 There is usually additional, more detailed data required for effective administration of a pension scheme. This data will vary depending on many factors including:

- the design of the scheme;
- changes to the scheme;
- the nature of any predecessor schemes;
- the administration system used;
- whether records were historically held on one or more different systems (including manual systems), and the way in which member data has been migrated between systems;
- whether the scheme's administrators have changed.

5.7 The components of additional data, and the extent to which all items need to be present, will be specific to each scheme. Providers, administrators and trustees are therefore best placed to decide the constituents of the additional data required for effective administration, based on their understanding of the requirements of their own scheme and administration system.

5.8 An illustrative list of additional data is contained in the technical summary Record-keeping: supplementary details (http://www.thepensionsregulator.gov.uk/onlinePublications/policy.aspx). The list includes items such as part-time hours, National Insurance history, DC fund value at A-Day, and pre and post April 1988 GMPs.

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

The standard of additional data

5.9 The regulator is recommending that trustees and providers measure the presence of the additional data required for effective administration; and that, where necessary, trustees and providers develop a plan for improving it.
Question 9: Do you agree that it is reasonable to recommend that providers and trustees measure the presence of the additional data required for effective administration?

5.10 The regulator is seeking views on whether there should be a time period within which progress on improving the presence of additional data should, if necessary, be made. The benefit of doing so is to provide reassurance that, where record-keeping problems exist, there is a timetable for their resolution.

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 you suggest?

5.11 The measurement of additional data should take account of the ability of the scheme's administrator or provider to undertake the checking, as well as other priorities.

5.12 When DB scheme valuations are undertaken, the actuary may include comment on the quality of the data presented. Trustees of DB schemes may find it convenient to start their data review to coincide with their next valuation. Poor data can result in additional actuarial work and cost.

5.13 DC schemes, GPPs and AVCs do not have this cycle and, moreover, the complexity, volume and speed of processing of such schemes suggest that, where necessary, such schemes will need earlier attention.

5.14 As part of our continuing dialogue with administrators and others, we expect to collect information about the components of additional data and to publish this as appropriate.

5.15 One possibility would be to use this information to identify benchmarks in respect of additional data. We would consult before setting any further benchmarks.

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

Events which cause changes to a scheme

5.16 During the life cycle of a pension scheme, events occur which cause significant change to the scheme itself, or to the members' benefits. These events may present additional risk of data errors occurring, or increase the need for data accuracy. A list of the events that we have identified is in Appendix 2.

5.17 Some of the events listed in Appendix 2 give rise to an immediate requirement for data cleansing, eg entry into a Pension Protection Fund assessment period. Other events that are listed, while not requiring immediate action, present the providers, administrators and/or trustees with a good opportunity to review record-keeping. Appendix 2 differentiates between these types of event.
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

Proposal to report numerical information

5.18 As well as the core and additional data there is numerical information regarding membership records that will help employers (where appropriate) and trustees. It will enable them to consider whether the number of such records is broadly consistent with their knowledge of the scheme.

5.19 It is suggested, therefore, that the number of members whose records indicate that they have:

- transferred in benefits;
- part-time history;
- additional voluntary contributions;
- an earmarking order;
- a pension sharing order; or
- elected a lifestyle investment strategy (applicable only to DC schemes)

should also be reported regularly, at the same time as data is being checked. Depending on the type of scheme, these reports may be available as appropriate to sponsors, trustees and the regulator.

The technical summary Record-keeping: supplementary details (http://www.thepensionsregulator.gov.uk/onlinePublications/policy.aspx) includes the items that we recommend should be reported at the same time as data is validated.

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?

Method for measurement of data

5.20 Following consultation with representatives of those involved with scheme record-keeping, we are suggesting a methodology for checking the presence of records. The tests are designed to check the presence of individual member data.

5.21 This testing methodology will specify any data errors found for individual members and, by combining the members' results, will provide an overall evaluation of the population of the required data fields, which can be shown separately for active members, deferred members and pensioners as appropriate. This will enable providers and trustees to
start assessing the quality of the scheme’s data objectively, and assign a
measure to it.

5.22 The proposed measurements can be regarded as analogous to a
medical health check. It will provide an indication of the quality of
records but it does not establish the cause of any data problems, nor
how they can be fixed.

5.23 The technical appendix also shows some examples of simple ways that
results can be illustrated. The diagram here is one illustration. It was
taken from a medium-sized trust-based DC scheme.

<table>
<thead>
<tr>
<th>Scheme Core Data Quality Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
</tr>
<tr>
<td>Very good data with minimal cleansing requirements</td>
</tr>
<tr>
<td>A</td>
</tr>
<tr>
<td>B</td>
</tr>
<tr>
<td>C</td>
</tr>
<tr>
<td>D</td>
</tr>
<tr>
<td>E</td>
</tr>
<tr>
<td>F</td>
</tr>
<tr>
<td>G</td>
</tr>
<tr>
<td>Poor data with high cleansing requirements</td>
</tr>
</tbody>
</table>

Summary of proposals

5.24 The proposals for measuring and improving scheme records are
illustrated in the following table.
<table>
<thead>
<tr>
<th>Report item</th>
<th>Purpose</th>
<th>What is recommended</th>
<th>Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core data</td>
<td>To measure the data that is completely fundamental to the proper administration of all schemes.</td>
<td>All data fields should be populated.</td>
<td>Measurement. The data and the tests are specified by the regulator in consultation with those involved with scheme record-keeping.</td>
</tr>
<tr>
<td>Additional data</td>
<td>To provide a view of the data required for effective administration of the scheme, and to allow providers or trustees to measure the change over time.</td>
<td>That the presence of additional data required to administer a scheme is known. That, where necessary, action plans are put in place to improve additional data. Such plans could involve improvement within a specified timeframe.</td>
<td>Scheme-specific measurement. The methodology is recommended by the regulator, but the actual data and the tests are specified by the trustees/provider. The regulator will collate information for possible future benchmarking.</td>
</tr>
<tr>
<td>Numerical information</td>
<td>To enable consideration by the trustees, providers and others of whether the core and additional data reflect their knowledge of the scheme.</td>
<td></td>
<td>Report.</td>
</tr>
</tbody>
</table>

**Checking calculation results**

5.25 Even when a member's data is complete and consistent it does not guarantee that any benefits recorded for that member have been calculated correctly. The proposals are concerned with the presence of the records required to calculate and settle benefits, rather than the calculations themselves. Nevertheless, benefit calculations are also self-evidently crucial, and we expect that providers and trustees will aspire to reassure themselves about the integrity of their data by implementing checks of these calculations.
Chapter 6: The regulatory approach to record-keeping

Summary

• Our proposed regulatory approach to record-keeping is to educate, enable and, if necessary at a later stage, to enforce.
• Alternatives to the regulator’s proposals are possible but in the regulator’s view a relatively specific approach which focuses on outcomes is preferable.

Responsibility for record-keeping

6.1 Legal responsibility for ensuring the accuracy of data rests with the scheme’s providers and trustees.

6.2 In a trust-based scheme, the trustees will depend on the scheme’s administrators or providers to perform the necessary testing and analyse the results, and they in turn will need to work with the trustees and, possibly, the participating employer to correct any data problems that are identified. The administrators or providers will be expected to give the trustees the test results, as well as proposing actions to deal with any data problems that have been identified.

6.3 In a contract-based scheme, the provider has the responsibility and will rely on employers and members for accurate data.

The basis for regulation

6.4 Section 5 of the Pensions Act 2004 specifies that the regulator’s objectives are to protect the benefits of members of work-based pension schemes, to reduce the risk of situations arising which may lead to calls on the Pension Protection Fund and to promote and to improve understanding of the good administration of work-based pension schemes.

6.5 Steps by the regulator to measure and improve the standard of record-keeping are clearly consistent with our administration objective, as well as with our other statutory objectives.

6.6 Our aim for record-keeping is 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 accurately.

Question 14: Do you agree that this an appropriate aim for the regulator?
What is the regulator’s proposed approach?

6.7 The regulator proposes to adopt the approach of educate, enable and, if necessary at a later stage, to enforce.

Education

Raising awareness of the importance of record-keeping

6.8 As part of informal consultation, prior to the issue of this document the regulator has held workshops for trustees, administrators, providers, employers, and IFAs to explain the benefits of good record-keeping and to consider our proposals for measuring and improving record-keeping.

6.9 In addition the regulator will conduct visits to providers, administrators and advisers in order to support them in understanding the importance we attach to record-keeping and to understand issues that are being encountered.

6.10 Other steps proposed are to supplement the existing guidance in the trustee toolkit (www.trusteetoolkit.com) on the importance of data, record-keeping and checking data integrity; and to consider including administration in its own right in the scope of the syllabus for trustee knowledge and understanding.

6.11 In respect of GPPs, the regulator’s recently issued guidance to employers on voluntary monitoring of the running of schemes refers to administration and record-keeping matters. (http://www.thepensionsregulator.gov.uk/employers/engagement/index.aspx) We will continue to review educational needs in this area, working with the FSA where appropriate.

Enabling

6.12 The regulator has suggested a methodology to measure the presence of data in scheme records.

6.13 We will enable trustees, administrators, providers and others to measure and improve record-keeping by engaging with the following:

- with software suppliers. Our expectation is they will find it reasonably straightforward to produce programs to perform the checks necessary to assess the presence of data in accordance with our proposed approach. We will discuss this with software suppliers as part of our consultation;

- with the Institute of Payroll Professionals in their endeavours to engage with payroll providers and others to facilitate the production of guidelines for payroll data produced in respect of pensions.

6.14 We will also engage with the audit profession to consider whether it is appropriate to incorporate standards for record-keeping into their
professional guidance on engagement with those involved with pensions in the following areas:

- Assurance Reports on Internal Controls of Service Organisations made available to third parties (AAF 01/06). In particular, the controls specified for authorising and processing transactions and maintaining financial and other records are relevant to measuring and improving scheme records;

- the assessment of risk and the attention given to internal controls. These are important features of good governance and in both the corporate and not-for-profit sectors include a requirement for a statement in annual reports. We suggest that similar requirements should apply to pension schemes and that trustees should report on the key risks and effectiveness of controls that they have ensured are in place. When we review the internal controls code we will consider strengthening our approach on reporting from being good practice to something which should be reported on in the trustees’ annual report, and which would therefore fall within the general review of auditors. The controls over record-keeping would form an essential part of such reports.

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

Enforcement

6.15 Our regulatory approach will emphasise education and enabling. Hence the proposals to measure and improve scheme records are recommended as good practice. The regulator will not take enforcement action against schemes which do not take up the regulator’s proposals. The regulator will assess the position in 2009, in the light of further dialogue and information gathering, with trustees, providers, administrators and others.

6.16 In the meantime the regulator will consider the inclusion of data, our proposed benchmark, reporting by trustees, and other administration issues when we review our code of practice on internal controls.

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

6.17 There is a considerable body of legislation that explicitly or implicitly requires trustees to maintain good records. Details of the most significant items of relevant legislation are contained in:

- Pensions Act 1995
- The Occupational Pension Schemes (Scheme Administration) Regulations 1996
- Common Law
- Data Protection Act 1998
- The Occupational Pension Schemes (Disclosure of Information) Regulations 1996
- The Occupational Pension Schemes (Internal Controls) Regulations 2005
- Pensions Act 2004
- EU Directive on the activities of institutions for occupational retirement provision

Details are contained in Appendix 3.

6.18 Whilst the specifics of our proposals are recommended as good practice, we continue to reserve the right to take action where it is appropriate to do so against those connected with schemes who do not address record-keeping, or fail to take action on known serious record-keeping problems, in contravention of their existing legal obligations.

6.19 Examples of our enforcement powers include, in cases of non-compliance with legislation, third party or improvement notices. We have powers to publish reports of cases.

6.20 In addition, where data is clearly wrong and a risk to members' benefits then we will refer matters to the Information Commissioner for consideration under the Data Protection Act.

6.21 The operation of personal pension schemes is an FSA-regulated activity, as is assisting in the administration and performance of a contract of insurance (article 39A of the Regulated Activities Order) and safeguarding and administering investments or arranging safeguarding and administration of assets (article 40 of the Regulated Activities Order).

Possible alternatives to the regulator’s proposals

6.22 It is understood that alternative approaches to scheme record-keeping could be taken by the regulator, for example a less specific approach, which set out an expectation of good record-keeping, but did not identify particular data fields. Alternatively, emphasis could have been put on the processes by which data are managed rather than on the outcomes of those processes ie the presence of scheme data.
6.23 The regulator suggests that it is right to take a relatively specific approach and to focus on outcomes. First, the presence of scheme data is an area where such an approach is possible. Second, under a specific approach, those responsible for data will focus in more detail on its condition compared with more general requirements. Finally, processes, while vital, are not always sufficient on their own for the good administration of a scheme. Focusing solely on process can risk gaps in crucial information such as date of birth of members or information about deferred members not being picked up promptly.

6.24 It is emphasised, however, that the regulator’s proposals must not be seen in isolation. In particular, its proposals are not intended to bring about four related behaviours:

- *ignoring processes*: indeed the regulator suggests, above, that in trust-based schemes, trustees should report on the key risks and effectiveness of controls in a similar way to what is required in the corporate and not-for-profit sectors;
- *‘teaching to the test’*: focusing only on the presence of data, especially core data, and not on the other components of good administration;
- *the test driving the presence of data rather than vice versa*: for example, discarding partial data because it leads to a low score;
- *‘false complacency’*: the assumption, without supporting evidence, that if core data is present then the scheme is administered well.

**Cost**

6.25 Ascertaining the presence of core and additional data may lead to some providers, trustees, administrators and employers incurring additional cost compared with their current practice. The regulator would, however, suggest bearing the following points in mind:

- any additional cost is for the purpose of meeting obligations to members and others;
- it is not, therefore, a cost of regulation in that it is an activity which has to be carried out;
- the cost is one which will arise at some point: member records have to be correct before activities such as payment of benefits occurs;
- the proposed approach could lead to significant cost savings. It is easier and cheaper to update member records when there is, for example, a solvent employer, than doing so during the winding up of a scheme whose employer is insolvent and whose records may not be accessible;
- moreover, a scheme whose records are up-to-date will be cheaper to administer on an ongoing basis;
- a fixed timetable is not suggested for measuring the presence of additional data. This can be done at a suitable time, for example as part of the scheme valuation.
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?
Chapter 7: The consultation process

Questions for consultation

7.1 We welcome responses to this consultation paper.

7.2 The questions for consultation are contained in the different chapters of this paper, but are also set out below for ease of reference.

Questions for consultation

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

Question 2: Have we correctly identified the costs of poor record-keeping and the benefits of good record-keeping?

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

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?

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

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

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

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

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

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 you suggest?

Question 11: What are your views on the possibility of the regulator providing benchmarks, for different sorts of scheme, of additional data?
Question 12: Do you agree that the following events give rise to an immediate requirement for data cleansing?

- Wind-up
- Entry to Pension Protection Fund assessment period
- Buy-out

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?

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 accurately)

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

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

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?

7.3 The regulator is committed to a public consultation process. The consultation period will run from Wednesday 23 July 2008 to Wednesday 15 October 2008. We hope to receive responses from all stakeholders in the pensions arena, including

- pensions practitioners;
- the financial services industry;
- other UK regulators;
- employers’ representative organisations;
- pensions trade and educational bodies;
- administrators;
- software providers;
- payroll providers.

7.4 We would also welcome comments and views either from individuals or collectively from other organisations. If you are responding on behalf of a representative group or organisation, it would be helpful if you could make this clear in your response.
**Sending us your consultation response**

7.5 To make it easier for you to respond, a pro forma has been provided which includes a list of the consultation questions. This is available on our website at:

http://www.thepensionsregulator.gov.uk/onlinePublications/policy.aspx

We would like you to use the pro forma for your response, if at all possible, and to send it to us by email to:
rkcondoc@thepensionsregulator.gsi.gov.uk

by Wednesday 15 October 2008.

Alternatively, if you are sending your response by post, the contact and address is:

Louise Robinson  
Pensions Administration and Governance Practice  
The Pensions Regulator  
Napier House  
Trafalgar Place  
Brighton BN1 4DW

Fax: 01273 627248

**Using information**

7.6 We may need to share the information you send us within our own organisation or with other governmental bodies. We may also publish this information as part of our consultation response.
### Appendix 1: Core data

A list of the core data items, together with the tests that we propose should be carried out, is given below.

**Core data tests**

<table>
<thead>
<tr>
<th>Test</th>
<th>Test Type/applicability</th>
<th>Brief test description eg</th>
<th>Reason for test</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unique ID</td>
<td>Status validation</td>
<td>Check that a Unique ID is present for each member and return duplicates</td>
<td>Ensuring a valid status exists for each individual. Where more than one record exists, that this is for a valid reason and each is unique to a period of membership.</td>
</tr>
<tr>
<td>Status</td>
<td>Status validation</td>
<td>Check that the system holds a current status for each member</td>
<td></td>
</tr>
<tr>
<td>Active record</td>
<td>Status validation</td>
<td>Check that an active member has an active record only</td>
<td></td>
</tr>
<tr>
<td>Deferred record</td>
<td>Status validation</td>
<td>Check that a deferred member has a deferred record and active record only</td>
<td></td>
</tr>
<tr>
<td>Pensioner record</td>
<td>Status validation</td>
<td>Check that a pensioner member has a pension record and pension has not ceased</td>
<td></td>
</tr>
<tr>
<td>Surname</td>
<td>Basic details</td>
<td>Check that a surname field has been populated</td>
<td>Ensuring member identity and basic details are held.</td>
</tr>
<tr>
<td>National Insurance number</td>
<td>Basic details</td>
<td>NINO is 9 characters in a standard format or is a valid temporary NINO consistent with sex</td>
<td></td>
</tr>
<tr>
<td>Test</td>
<td>Test Type/applicability</td>
<td>Brief test description eg and DOB</td>
<td>Reason for test</td>
</tr>
<tr>
<td>----------------------</td>
<td>-------------------------</td>
<td>-----------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Sex</td>
<td>Basic details</td>
<td>Check that a sex is present (and is consistent with the title)</td>
<td></td>
</tr>
<tr>
<td>Date joined scheme (DJS)</td>
<td>Basic details</td>
<td>Check that the DJS is present and consistent (&gt;DOB, &lt;DJC), or is a recognised false date</td>
<td></td>
</tr>
<tr>
<td>Date of birth</td>
<td>Basic details</td>
<td>Check that DOB is present and consistent (&lt;DJS, DJC,DOR,DOL), or is a recognised false date.</td>
<td></td>
</tr>
<tr>
<td>Salary history</td>
<td>Active details</td>
<td>Check that there is at least one salary within the last 12 months</td>
<td>For actives, checking that contributions are being posted to members’ records.</td>
</tr>
<tr>
<td>Contributions (DB)</td>
<td>Active details</td>
<td>Check that a total-to-date contribution (either derived or explicit) is present</td>
<td>Evidence that contributions are being posted and investments made for appropriate periods.</td>
</tr>
<tr>
<td>Contributions (DC)</td>
<td>DC fund details</td>
<td>Check that a contribution exists for each period in the current scheme year</td>
<td></td>
</tr>
<tr>
<td>Transactions</td>
<td>DC fund details</td>
<td>Check that there is an equivalent transaction for each contribution</td>
<td></td>
</tr>
<tr>
<td>Switches</td>
<td>DC fund details</td>
<td>Check that switch sells and buys balance (eg to within £1)</td>
<td>Checking for gaps/inconsistencies which</td>
</tr>
<tr>
<td>Date of leaving (DOL)</td>
<td>Deferred details</td>
<td>Check that a DOL has been populated and is after DJS</td>
<td></td>
</tr>
<tr>
<td>Test</td>
<td>Test Type/applicability</td>
<td>Brief test description eg</td>
<td>Reason for test</td>
</tr>
<tr>
<td>---------------------</td>
<td>------------------------</td>
<td>-------------------------------------------------------------------------------------------</td>
<td>------------------------------------------</td>
</tr>
<tr>
<td>Total pension – basic</td>
<td>DB deferred details</td>
<td>Check that a total deferred pension is present (either derived or explicit)</td>
<td>can lead to error.</td>
</tr>
<tr>
<td>Date of retirement (DOR)</td>
<td>Pensioner details</td>
<td>Check that a DOR has been populated and is after DJS</td>
<td></td>
</tr>
<tr>
<td>Total pension - basic</td>
<td>Pensioner details</td>
<td>Check that a total pension is present (either derived or explicit)</td>
<td></td>
</tr>
</tbody>
</table>
Appendix 2: Scheme change events

The following events are those that we consider give rise to an urgent need to review record-keeping irrespective of any longer term plans. When one of these events occurs we will expect providers and trustees to give high priority to reviewing and cleansing the scheme’s data.

<table>
<thead>
<tr>
<th>Circumstances</th>
<th>Scheme type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wind-up</td>
<td>All occupational</td>
</tr>
<tr>
<td>Entry to the Pension Protection Fund assessment period Buy-out</td>
<td>DB</td>
</tr>
</tbody>
</table>

We believe that the following events offer providers and trustees a convenient opportunity to review record-keeping. We believe they increase the risks of errors arising if data are incorrect. Some of them also present a risk that the event itself will give rise to a deterioration in data quality.

<table>
<thead>
<tr>
<th>Circumstances</th>
<th>Scheme type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuations</td>
<td>DB</td>
</tr>
<tr>
<td>Scheme closure to future accrual etc</td>
<td>DB</td>
</tr>
<tr>
<td>Change of administrator</td>
<td>All work-based</td>
</tr>
<tr>
<td>Ceasing to contract out</td>
<td>All work-based</td>
</tr>
<tr>
<td>Scheme rationalisation</td>
<td>All work-based</td>
</tr>
<tr>
<td>Merger &amp; acquisition</td>
<td>All work-based</td>
</tr>
<tr>
<td>System change by employer, administrator or investment manager</td>
<td>All work-based</td>
</tr>
<tr>
<td>Change in investment manager</td>
<td>All work-based DC</td>
</tr>
<tr>
<td>Insurance products closed to new business</td>
<td>Contract-based</td>
</tr>
</tbody>
</table>
Appendix 3: The legal background

Pensions Act 1995

Section 49 of the Pensions Act 1995 places an express obligation on trustees to keep records of their meetings and books and records relating to any prescribed transactions as set out in the regulations.

The Occupational Pension Schemes (Scheme Administration) Regulations 1996

Regulation 12 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 requires trustees to keep records in relation to certain transactions including records of:

- any amount received in respect of any contribution payable for an active member of the scheme;
- the date on which a member joins the scheme;
- payments of pensions and benefits;
- payments made by or on behalf of the trustees to any person including a professional adviser and such records to include the name and address of the person to whom payment was made and the reason for the payment…(Note that this is not an exhaustive list)\(^4\)

There are also specific requirements to keep records in respect of:

- movement or transfer of assets;
- transfer of members in or out;
- appropriate insurance policies;
- payments to leavers, employees, and other payments or withdrawals from a scheme.

Data Protection Act 1998

The Common Law requirement is codified in the Data Protection Act 1998 which came into force on 1 March 2000, classing trustees as 'data controllers', and those working for trustees (eg. administrators and insurers) as 'data processors'. This Act makes many demands of data users. There are eight Data Protection Principles, which (amongst other things) include requirements that personal data:

- shall be adequate, relevant, and not excessive in relation to the purpose or purposes for which it is processed;

\(^4\) Regulation 12 of the Occupational Pension Schemes (Scheme Administration) regulations 1996.
shall be accurate, and, where necessary, kept up to date;
• processed for any purpose or purposes shall not be kept for longer than is necessary for that purpose or purposes;

This Act also requires that appropriate technical and organisational measures shall be taken against unauthorised or unlawful processing of personal data and against accidental loss or destruction of, or damage to, personal data.

**The Occupational Pension Schemes (Disclosure of Information Regulations) 1996**

The Occupational Pension Schemes (Disclosure of Information) Regulations 1996 specify the type of information to be provided to various interested parties, including members and potential members of pension schemes, either automatically or on request, together with the timescales within which the information must be provided.

Clearly, if the relevant administration records are incorrect, the required data may not be provided at all, or, if it is provided, it may be inaccurate or its provision may be outside the required timescale.

**The Occupational Pension Schemes (Internal Controls) Regulations 2005**

The trustees or providers of occupational pension schemes are required by Section 249A of the Pensions Act 2004 to "establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed:

(a) in accordance with the scheme rules, and
(b) in accordance with the requirements of the law."

**Pensions Act 2004**

Section 70 (1) and (2) of the Pensions Act 2004 imposes a reporting requirement on:

• a trustee or manager of an occupational or personal pension scheme;
• a person who is otherwise involved in the administration of such a scheme;
• the employer in relation to an occupational pension scheme;
• a professional adviser in relation to such a scheme;
• a person who is otherwise involved in advising the trustees or providers of an occupational or personal pension scheme in relation to such a scheme

where the person has reasonable cause to believe that
“(a) a duty which is relevant to the administration of the scheme in question, and is imposed by or by virtue of an enactment or rule of law, has not been or is not being complied with, and
(b) the failure to comply is likely to be of material significance to the regulator in the exercise of any of its functions”
he must give a written report of the matter to the regulator as soon as reasonably practicable.

**EU Directive (IORP Directive)**

The EU Directive on the activities and supervision of institutions for occupational retirement provision (IORP directive) formalises the need for trustees to put in place suitable measures to ensure that beneficiaries receive the correct benefits to which they are entitled.

**Common law requirements**

Trustees have a fiduciary responsibility under common law based upon basic trust law principles to hold accurate and up-to-date information in relation to all members.