

Record-keeping

Consultation report

December 2008

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1 Introduction

On 23 July 2008 we issued a consultation document which outlined the importance of good record-keeping and explained a proposal to measure the presence of some of the most important items of member data and report on the results.

The consultation consisted of two documents entitled:

- *Record-keeping: A consultation document*
- *Record-keeping: Supplementary details*

The consultation period ended on 15 October and we received 60 responses from a broad cross-section of interested parties including third party and in-house administrators, insurers, trustees, legal organisations and industry bodies. We are delighted with the high response rate, which is one of the largest responses to one of our consultations ever received. A list of respondents is attached at Annex B and we are grateful to all respondents for their input.

We are pleased to report that the majority of respondents supported the principles of our approach, recognising that the standard of record-keeping is an issue that needs to be addressed across the industry. We have made some modifications to the proposals contained in the consultation document, to take account of feedback we have received, and further details of these changes are shown below. A summary of the responses received can be found in Annex A.

In particular, our final guidance (www.thepensionsregulator.gov.uk/guidance/recordKeeping/index.aspx) recommends testing and measuring the presence of member data in three categories:

- **common data** – applicable to all schemes;
- **conditional data** – dependent on scheme type, structure and system design; and
- **numerical data** – to aid understanding of the results.

2 What the consultation said

The consultation document, published on 23 July 2008, was aimed at those who are responsible for member record-keeping and those who administer pension arrangements. In it, we explained the importance of good record-keeping and identified problems that we and others had found as a result of poor record-keeping practices. We recognised that, while many trustees, providers and administrators demonstrate good practice in their record-keeping, there is a good deal of evidence to suggest that this is not always the case, and that legacy data in particular is often a problem area.

Our proposal for measuring data consisted of a series of relatively simple tests on member data to give an indication of the completeness of that data. The proposals outlined in the consultation document set out three tranches of data to be tested and measured:

- 'core' data – nineteen data items fundamental to the proper administration of all schemes, all of which should be present for each member;
- 'additional' data – required to administer a pension scheme effectively, although the specific items would vary from scheme to scheme, depending upon scheme design and structure; and
- 'numerical' data – information regarding membership records to enable employers and trustees to consider whether the numbers reported are broadly consistent with their knowledge of the scheme.

The proposed measurements are intended to provide an indication of the completeness of member records but will not in themselves establish the accuracy of the data, the cause of any data problems, or how problems can be rectified. Therefore, the consultation document proposed that results of the tests should be reported back to trustees and, where appropriate, employers and management committees, and that plans should be put in place to improve the quality of the data where weaknesses were identified.

We asked a series of questions in the consultation, details of which can be found in Annex A. The questions asked for feedback on our general assessment of the situation and the proposals that we had set out. The full consultation document and supplementary paper can be found at:
www.thepensionsregulator.gov.uk/onlinePublications/policy.aspx.

3 Our approach

A summary of the responses to each question within the consultation paper can be found at Annex A.

Data items

Having listened to the feedback and concerns of the industry we have modified the structure of the data tables and have moved away from the concept of 'core' and 'additional' data. This is partly to address the issues raised regarding the relevance of the data items, but also to avoid the perception that the 'core' data items are of greater significance than the 'additional' data items.

In our final guidance we are proposing a set of '**common**' data, which is applicable to every member of any type of scheme, and a set of '**conditional**' data, which is illustrative of the type of data that administrators should hold, dependent on the type of scheme, scheme design and system design. It is for the trustees, providers and administrators to decide which conditional data items are relevant to their scheme.

We have also focused on the importance of robust, auditable processes and good governance in defined contribution record-keeping, and this is set out in our final guidance. In particular we will be recommending that in trust-based schemes there is a need for administrators to:

- help trustees gain an understanding of the risks that are inherent in defined contribution processing; and
- ensure that trustees are aware of the processes and controls adopted by the scheme's administrators to ensure the integrity of member records and to minimise risk.

Providers of contract-based schemes should satisfy themselves that their processes and controls provide them with sufficient assurance of the integrity of their members' records and that risks are minimised.

This aligns with the requirements under s249a of the Pensions Act 2004, which require trustees and providers to establish and operate internal controls that are adequate to ensure that the scheme is administered and managed in line with the scheme rules and the requirements of law.

Several additional data items were suggested for inclusion in the tests. We recognise that these are all valid in some circumstances, and encourage inclusion where appropriate, but we have maintained a deliberately modest approach in order to avoid over-complication.

Timescales

Wide-ranging views were conveyed regarding whether or not it is appropriate for the regulator to set timescales for the improvement of pension scheme data. We do not intend to set a timescale for data to be improved, but would expect trustees, providers and administrators to assess the quality of their data as soon as practicable, and then to decide on a timescale for improving it, taking account of the risks posed by any gaps in their data.

Numerical reporting

There was also divergence of opinion in respect of the appropriateness of numerical reporting to trustees, clients and management committees by their administrators and providers. We remain of the view that dialogue between trustees and their administrators, and providers and their clients, is essential. Numerical reporting, as described in the consultation document, provides context and rationale for the results of the data analysis, and is a useful tool to prompt discussion. It will also enable trustees and providers to consider whether the results of the tests and the numerical information regarding membership records are consistent with their knowledge of the scheme. Therefore the regulator recommends in the final guidance document that this type of numerical reporting takes place, although there have been some minor changes to the items that we consider it appropriate to include in such a report.

Benchmarks

We do not intend to introduce industry benchmarks at this stage. In January 2009 we will publish our approach for measuring progress within the industry.

Annual statement on risk and internal controls

This is an area that is under consideration within the current review of the code of practice on internal controls, and we will consult further on this with key industry stakeholders. We hope to analyse the results of this review in Spring 2009 and aim to complete the review during 2009. Paragraph 33 of the code of practice on internal controls
(www.thepensionsregulator.gov.uk/codesOfPractice/internalControls/index.aspx) continues to apply.

Data standardisation

The regulator does not intend to prescribe a data standard for member records. We believe that the industry is making moves towards standardisation in some areas, for example with straight through processing, and that industry initiatives may evolve without regulatory involvement.

4 The way forward

The final guidance accompanies this document, and the intention is that it should be viewed as good practice guidance. The final guidance document can be found at www.thepensionsregulator.gov.uk/guidance/recordKeeping/index.aspx.

During 2009 we will continue to engage with trustees, providers, administrators and other industry bodies to encourage take-up within the industry, and to receive feedback on any particular issues identified. We will promote awareness of the issues through various means, including publicity, visits to administrators and providers, and telephone campaigns.

We will produce educational material to assist trustees, providers, administrators and employers in understanding the issues, and as part of this we may run some workshops across the country for these parties to attend. The trustee knowledge and understanding requirements code of practice and scope guidance are under review and are the subject of a current consultation. Administration and record-keeping have been given more prominence in the revised scope.

During 2009 we will assess whether we have fulfilled our original objective of working with trustees, providers, administrators and advisers to raise awareness of, measure and, where necessary, improve standards of record-keeping, or whether an enforcement approach is needed in particular areas.

5 Summary

The feedback received has been constructive, and working with the industry has enhanced and clarified our approach.

The final guidance (www.thepensionsregulator.gov.uk/guidance/recordKeeping/index.aspx) details our modified approach in respect of the data items to be tested:

- **common data** – applicable to all schemes;
- **conditional data** – dependent on scheme type, structure and system design; and
- **numerical data** – to aid understanding of the results.

Our intention is to focus on educating and enabling those responsible for member record-keeping and those who administer pension arrangements, with the objective of improving the standard of record-keeping across the industry.

During 2009 we will review the progress made and publish the results.

Annex A: Summary of responses

The table below shows a summary of the responses received for each of the questions posed in our consultation document.

Response to questions raised in consultation	
Question raised	Summary of responses
Do you agree that record-keeping is central to all aspects of administration of a pension scheme?	The overwhelming majority of respondents agreed that this is certainly the case, although many commented that the mere presence of data does not ensure its accuracy. This is not a point that the regulator disputes and our view on this will be clarified in the final guidance.
Do you agree that, while there are schemes and providers that achieve high standards, there is also evidence of problems with record-keeping?	<p>The vast majority of respondents agreed with this assessment, and felt that this particularly comes to light when the transfer of data takes place, for example, when a change of administrator takes place, a change of IT system, or a transfer to the PPF.</p> <p>Many felt it important to comment that issues with record-keeping are not necessarily as a result of poor administrative practice; both members and employers also have a responsibility in terms of the quality of data that they provide to trustees, providers and administrators, and lack of clarity around the data requirements following legislative changes can also contribute to problems.</p>
Do you agree that record-keeping problems, where they exist, are greatest with legacy data?	<p>The majority of respondents agreed that the greatest problems can occur with legacy data, although again, many commented that these problems are not necessarily as a result of poor administrative practices.</p> <p>Respondents considered that issues such as paper-based records, older IT systems, and changes in administrator contributed to this, as well as many changes in legislation. It was felt that one of the main issues with legacy data is that where problems are found, they are often more difficult to rectify.</p>
Have we correctly identified the costs of poor record-keeping and the benefits of good record-keeping?	<p>The majority of respondents agreed that the costs and benefits had been correctly identified, although some felt that there was a slight bias towards defined benefit schemes in the examples given, and further examples of the costs and benefits for defined contribution schemes would be welcome. This is an area that the regulator intends to address within the educational material to follow in the coming months.</p> <p>Many felt that reputational risk was also an important cost of poor record-keeping.</p> <p>Several respondents commented that the costs involved in carrying out data cleansing exercises may offset the savings in ongoing administration costs, particularly for smaller schemes.</p>

Response to questions raised in consultation

Question raised	Summary of responses
Do you agree that the following events give rise to an immediate requirement for data cleansing? (wind-up, buy-out, PPF assessment)	The majority of respondents agreed with this assessment, although it was widely agreed that schemes should not wait for one of these events to occur for gaps in their data to be noticed. Other events were also identified by some respondents, for example, change in administrator, annual benefit statements and bulk transfer exercises.
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?	The majority of respondents agreed with this assessment, but pointed out that it may be a difficult argument to sell to sponsoring employers in the current economic climate.
Do you agree that more standardised ways of providing and transferring data could help with record-keeping?	<p>Although the majority of respondents agreed with the premise of this question, and felt that standardisation of data transfer methods would no doubt help with record-keeping, most also felt that standardisation would be difficult to implement and, in practice, was an unrealistic expectation.</p> <p>There were various reasons given for this opinion, for example, the wide variety of IT systems, the fact that some schemes still use paper records and the significant cost involved in developing and implementing an industry-wide standard.</p> <p>Some felt that the introduction of standardised validation tests would be a more realistic expectation.</p>
What are your views of the proposed definition of core data?	<p>Although the majority of respondents agreed with the principle of the regulator's proposals in this regard, there was some divergence of opinion surrounding the specific data items that had been identified.</p> <p>Some of the 'core' data items identified would only be present on a member's record if a particular event had occurred, for example an active member would not have a deferred record. Some respondents felt that there should be more items included in the 'core' data set, as the items identified were not sufficient to calculate a member's benefits. Some respondents also felt that there was a risk of the 'core' data list being viewed as a 'ceiling', and that focus on many of the equally important data items in the 'additional' data list would be lost, causing wider issues to be missed.</p> <p>A number of respondents felt that it would be beneficial for the data items to be broken down into those required for defined benefit and defined contribution schemes, and trust-based and contract-based schemes.</p> <p><i>We have modified our approach in relation to the data fields within the final guidance document.</i></p>

Response to questions raised in consultation	
Question raised	Summary of responses
What are your views of the proposal that every item of core data should be present in all schemes?	<p>Many respondents felt that this would be an unrealistic expectation, with the core data items defined in the consultation document, particularly given the 'conditional' nature of some of the data items, and the difficulties anticipated for legacy schemes.</p> <p><i>We have modified our approach in relation to the data fields within the final guidance document.</i></p>
Do you agree that the list of additional data is illustrative of the sort of information required for effective administration?	<p>All respondents agreed that the list of additional data items was illustrative, although not exhaustive of the information that would be required.</p> <p>Many respondents felt that trustees and their administrators would need to discuss and agree which data items were relevant and required in order to effectively administer their particular scheme.</p> <p><i>We have modified our approach in relation to the data fields within the final guidance document.</i></p>
Do you agree that it is reasonable to recommend that providers and trustees measure the presence of the additional data required for effective administration?	<p>The majority of respondents agreed that this would be a reasonable requirement where records are held electronically, although some commented that the accuracy of the data should be analysed as well as its presence.</p> <p><i>We have modified our approach in relation to the data fields within the final guidance document.</i></p>
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?	<p>There was an almost 50:50 split of opinion regarding timescales. The majority of respondents who felt timescales would be appropriate thought that they should still be scheme specific, and something that trustees, employers and management committees (where appropriate) should discuss and agree with their administrators or providers.</p>
What are your views on the possibility of the regulator providing benchmarks, for different sorts of scheme, of additional data?	<p>The majority agreed that benchmarks would be helpful, and would provide motivation to resolve the issues and assist administrators and providers in streamlining their processes. However, further clarification would be required regarding the details and it may be difficult to identify the 'different sorts of scheme' for which different benchmarks may apply.</p>
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?	<p>There was an almost 50:50 split of opinion in response to this question. Those who disagreed gave reasons such as cost, and that the data outlined is generally already included in the annual report and accounts.</p>

Response to questions raised in consultation

Question raised	Summary of responses
Should an annual statement by trustees about key risks and internal controls be included in the code of practice on internal controls?	This was another area where there was an almost 50:50 split of opinion. Many felt that, although it would be good practice to include such a statement, perhaps in the annual report and accounts, it should not be formalised as part of the code of practice.
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.)	The majority of respondents agreed that this was an appropriate aim for the regulator, and is in line with our statutory objectives. Some felt that it may take a considerable length of time and may not be achievable for every scheme member.
Do you think that education and enabling will be effective in improving standards of record-keeping?	<p>The vast majority of respondents agreed that this is an appropriate approach, which has been successful in other areas where the regulator has issued guidance, for example, scheme specific funding.</p> <p>However, some respondents felt that trustees and employers may be reluctant to pay for something which is not mandatory, and that any educational material must be aimed at members and employers, as well as trustees, providers and administrators, in order for it to be effective.</p>

Annex B: List of respondents

Below is a list of the organisations and individuals who submitted responses to our consultation.

Respondents

1. Association of British Insurers
2. AEGON
3. Alexander Forbes
4. Aon Consulting
5. Association of Consulting Actuaries
6. AXA Sun Life / Winterthur Life
7. Barclays Pensions Administration in consultation with Barclays Pension Funds Trustees Ltd
8. Barnett Waddingham LLP
9. Buck Consultants
10. Capita Hartshead
11. Cartwright Consulting
12. Co-operative Group
13. Daily Mail and General Trust
14. Electricity Supply Pension Scheme
15. Eshare
16. Friends Provident
17. Go Pensions
18. HBOS Final Salary Pension
19. HBOS Group Money Purchase Scheme
20. HBOS Information Risk
21. Hewitts
22. Hymans Robertson's
23. Institute of Chartered Accountants in England and Wales
24. Institute of Chartered Accountants in Scotland
25. Institute of Directors
26. Institute of Payroll Professionals
27. Independent Pension Trustee Group
28. ITM Ltd
29. KPMG
30. Lane Clark & Peacock

31. Legal & General Assurance Society Limited
32. Louise Simmons
33. Mercer Limited
34. Mr. Keith Jewell
35. National Association of Pension Funds
36. National Grid
37. NorthgateArinso UK Limited
38. Norwich Union
39. Occupational Pensions Defence Union
40. PensionDCisions
41. Pitmans Trustees Ltd
42. Pensions Management Institute
43. Pension Protection Fund
44. Premier Pensions Management
45. PricewaterhouseCoopers
46. Profund and Jardine Lloyd Thompson (combined response)
47. Prudential
48. Raising Standards of Pensions Administration
49. RBS Group Pension Services
50. Richard Thomas
51. Royal Mail Pension Plan
52. rpm Limited
53. Sacker and Partners
54. SAUL Trustee Company
55. SBJ Benefit Consultants
56. Scottish Widows
57. Society of Pension Consultants
58. Standard Life
59. Watson Wyatt
60. Xafinity Paymaster