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The importance of good administration

In brief

The Regulator has produced a series of statements which highlight the importance of good administration and focus on:

- Trustee accountability
- The roles of administrators and auditors
- Record-keeping and member data validation
- How NISPI can help
- Improving administration standards - the Regulator's expectations

Next steps

Trustees should have processes in place to scrutinise their administrator. The Regulator suggests five simple steps to help:

- Identify the gaps and errors in your member data
- Agree the scope and standard of service delivery with your administrator
- Have regular contact with your administrator
- Set up an administration committee
- Agree the content and frequency of your administration reports

Earlier this year the Pensions Regulator launched its campaign aimed at trustees and administrators to highlight the importance of good scheme administration. Through a series of statements the Pensions Regulator is encouraging trustees to engage fully with their administrators and NISPI (HMRC's National Insurance Service to the Pensions Industry) in order to improve standards of data and record-keeping.

Background

The Pensions Regulator ('the Regulator') has identified that poor administration and record-keeping can have a significant impact on the benefits paid and the service delivered to scheme members. Improving scheme administration can also deliver wider benefits to trustees given the likelihood of wind up, buy out or de-risking exercises taking place. This initiative builds on last year's communication programme setting out the Regulator's expectations around record-keeping and data.

The series of statements are designed to help trustees and administrators understand their respective roles with regard to administration and data issues and the key messages from each of the statements are summarised below.

1. Importance of good scheme administration

The Regulator sets the scene by stating that "Getting the administration correct is central to any pension arrangement – members' benefits are placed at risk where records or data have not been properly maintained".

The Regulator reminds trustees that accountability for trust-based administration ultimately lies with them even though they may have delegated responsibility to an administrator. Similarly they cannot rely on their statutory auditors to identify scheme data issues.

Good administrators should be proactive in meeting their responsibilities and the Regulator cites a number of examples including the provision of common data scores, in line with its guidance on record-keeping. Administration reports are vital for trustees to monitor the completeness of scheme records including financial and member data.

2. Keeping member records up-to-date

In this statement the Regulator again reminds trustees that they have ultimate responsibility for the quality and accuracy of members' records and encourages them to work closely with their administrator to ensure that member records are as accurate as possible. Trustees should ask their administrator:

- for a contract or service level agreement which includes agreed standards for member record-keeping;
- to confirm that the scheme's data is complete, accurate and up-to-date or else provide a data audit report which highlights any potential issues;
- to confirm their processes for advising the trustees of any problems with member data and for dealing with someone leaving the scheme (including tracing lost members); and
- to attend trustee meetings at least once a year.

3. Member record-keeping: what trustees can expect from statutory auditors

In this statement the Regulator sets out to help trustees understand the extent and limitations of the auditor's work in a statutory scheme audit. It emphasises that trustees cannot rely on the statutory audit to inform them of the quality of their member data since there is no statutory obligation for auditors to consider controls and risks other than those associated with the financial transactions reported in the financial statements.

Trustees need to have their own risk assessment processes in place, part of which should consider the risks associated with member records. The Regulator suggests a number of steps that trustees should take which include:

- contacting their administrator to ensure they do assess the risk of poor data on their scheme;
- having a dialogue with both the administrator and the auditor on the extent of their internal controls tested;
- where controls over record-keeping haven't been tested, asking their administrator to report in accordance with the Regulator's record-keeping guidance; and
- ensuring that regular ongoing testing of their data is carried out and not relying on their annual audit for this.

4. Improving pension scheme administration: how NISPI can help

In this statement the Regulator reminds trustees that a data reconciliation process between a scheme's and HMRC's data should be carried out whenever a member leaves contracted-out service or a scheme ceases to contract-out.

NISPI has made available a shared workspace tool for administrators to access in order to speed up the reconciliation process when a scheme ceases to contract-out. It is vital that trustees engage fully with their scheme administrator and have a clear understanding of their work in this area.

5. Improving administration standards – the Regulator's expectations

Throughout this campaign the Regulator has stressed four key themes:

- good quality records are critical to many of the activities needed during the life of a scheme;
- trustees are accountable for their scheme records but administrators and auditors have a vital role to play in helping them to meet their duties to members;
- the use of NISPI can be a valuable resource to enable trustees to reconcile data in relation to Guaranteed Minimum Pension (GMP) entitlements once a scheme has ceased to contract out; and
- complete and accurate data will become even more important with the introduction of automatic enrolment.

Based on its most recent research and interaction with the pension industry the Regulator has cited some specific concerns which it expects trustees to consider and act upon as appropriate in order to mitigate risks to members. In summary:

- a significant proportion of schemes have not yet acted upon the Regulator's guidance on record-keeping;
- a general lack of engagement from trustees of smaller schemes around regulatory guidance;
- insufficient contact between administration providers and small defined contribution scheme; and
- over half of in-house administered schemes have yet to engage with the Regulator's guidance.

General comments

The Regulator has stepped up the drive to improve standards in administration. It has clearly stated that trustees are accountable for administration in trust based schemes and is very keen to encourage engagement and open dialogue between trustees and their administrators.

The last document of the series advocates 5 simple steps that trustees should follow in order to improve scheme administration. These are summarised on the previous page in the "Next Steps" box.

How can we help?

Punter Southall has a range of tools for measuring data quality in line with the Regulator's recommendations. We can also assist trustees in developing action plans which put the data issues identified into meaningful context alongside any future de-risking plans for the scheme.

Our administration reports have been designed to promote good scheme governance by enabling trustees to monitor the administration service they receive. We can help trustees to ensure the content of their reports facilitates an open dialogue with their administrator based around their key issues.

Both of these services are available for our third party administration clients and also in-house pension schemes.

We can also provide training and hands on administration guides tailored to meet the specific needs of in-house schemes. Training can help to raise awareness of the importance of data quality and promote good administration practice.

Where can I get further information?

For further information, please get in touch with Sarah Gwinnett on 020 7839 8600 or by email to sarah.gwinnett@puntersouthall.com. Alternatively, speak to your usual Punter Southall contact.

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