



## The Pensions Regulator's revised guidance on record-keeping standards

The Pensions Regulator ('the regulator') has published revised guidance on good record-keeping. This guidance incorporates the proposals made in the consultation issued in February 2010. The regulator is disappointed with the adoption of the January 2009 record-keeping guidance by trustees and employers and is therefore taking a strengthened approach to the regulation of standards for member data.

### Recap on the 2009 guidance

Following extensive consultation, the regulator published 'good practice' guidance in January 2009 for measuring the presence of member data items which are important in the administration of a pension scheme. This guidance set out a methodology for the measurement and reporting of 'common' and 'conditional' data and recommended improvement plans where gaps or inconsistencies exist.

The regulator defines 'common data' as 'a set of data which is necessary and applicable to all members of all schemes'. It includes identifiers such as name and national insurance number, sex, date of birth, address, expected retirement date and membership status.

Conditional data is additional, more detailed, data required for the proper administration of a pension scheme. The data required will differ from scheme to scheme but will enable the calculation of scheme benefits.

The January 2009 guidance recommended that trustees should carry out tests to ensure the presence of the common and conditional data items and then put in place appropriate actions to fill the gaps. The results of the data measurement tests should be formally reported, perhaps as part of the standard administration report. This report should include numerical data about membership records to put the other results in context. The report should also indicate the possible next steps, for example timescales for data cleansing actions.

The revised 2010 guidance retains the above ideas but adds a strengthened regulatory approach for ensuring that schemes follow the guidance.

### Take-up of the original guidance

The regulator carried out research during 2009 into the take-up and implementation of the record-keeping guidance.

#### In brief

- The Pensions Regulator has published revised guidance on record-keeping setting.
- Evidence of poor record-keeping could lead the regulator to take enforcement action unless specific action plans are in place to rectify the problems.

#### Next steps

- Trustees should carry out an exercise to measure the presence of common and conditional data for their pension scheme if they have not already done so.
- Trustees should also consider a data cleansing exercise to improve the quality of their data.

The findings indicated that:

- there is no evidence of marked improvement in administration practices since the guidance was issued;
- the majority of administrators/insurers have the means to carry out data measurement tests but there has not been significant demand from trustees/employers for such tools.

The regulator is concerned with this progress and stresses the importance of good governance and in particular good record-keeping in the current climate. Uncertainty about data quality can add significant costs and delays to de-risking exercises such as closures to future accrual or buy-outs. Rectifying data gaps or errors can be expensive but can lead to considerable savings in the longer term. The regulator cites a number of case studies to illustrate this point. A good example is an exercise conducted by an administrator to populate spouse details as the records were incomplete. The exercise cost £2,500 but the more accurate data resulted in a reduction in valuation liabilities of £19 million.

The regulator also flags up the step change expected from 2012 when the employer duties regime comes into force.

This will hugely increase the volume of pension scheme data and also introduce new legal obligations for existing schemes. The regulator therefore sees a window of opportunity to raise record-keeping standards and resolve any legacy data issues by the end of 2012.

## The regulator's objectives

The basic objective is to raise awareness of, measure and, where necessary, improve standards of record-keeping. The regulator believes that the highest standards should be applied to common data.

The table below sets out the expected standards for common data, split into new data created after June 2010 and legacy data:

Common data	Expected controls and systems	Target for proportion of member records with all the key data items
New data	New data created from June 2010 onwards should be recorded accurately	100%
Legacy data	Schemes should test for data quality using the guidance as a minimum level of reassurance	95%

For conditional data, the composition and importance of data items will be scheme-specific, but the regulator expects trustees to set targets which are challenging but realistic.

While the guidance only considers measuring the presence or absence of data, the regulator expects trustees and administrators to reassure themselves as to the accuracy of the data. The regulator recognises that there may be legitimate reasons why not all data may be 100% accurate, but it expects trustees to use all reasonable endeavours to rectify the situation as far as possible.

## How will the regulator achieve its objectives?

The regulator feels that the approach to record-keeping needs to be strengthened but does not want to go as far as a full compliance-based approach at this stage. Instead the following actions will be taken:

- a review of risk parameters to ensure that reports (e.g. the scheme return) consider whether there are underlying record-keeping problems which merit further investigation;
- increased awareness and understanding of the guidance and the risks involved via the recent governance campaign and enhanced online material;
- discussions with the audit profession to ensure that the implications of poor data are factored into certification of scheme accounts and internal control reviews; and
- sampling of a number of schemes based on pre-defined risk criteria, and requiring them to give further data to the regulator for scrutiny.

Evidence of poor record-keeping will lead to the regulator taking enforcement action unless agreed specific action plans are in place to rectify the problems by the end of 2012. Enforcement might include

directions to carry out specific tasks, penalties and, in extreme cases, a change of trustee. Any enforcement would follow a risk-based approach whereby any decision to take action would focus on areas of higher risk to members and the Pension Protection Fund. This is in accordance with existing powers under pensions legislation.

As a result, a sample of schemes could be asked to demonstrate compliance with the record-keeping guidance. Such schemes might have to provide specified member records to the regulator or alternative evidence of compliance such as an independent data integrity report.

The regulator feels that the costs involved in keeping accurate data and measuring and recovering missing data are not additional regulatory costs, as they are part of the normal process of administering a pension scheme. The regulator will continue to monitor industry progress and publish an update in 2011.

## How can we help?

Regular reviews of data integrity are a key part of a scheme's risk management and can help to avoid significant costs further down the line, for example from error correction, member claims or if a buy-out is undertaken. We offer a number of tools to help trustees in this area.

Our administration systems have sophisticated tools for measuring and reporting on the presence of historical data and for validating electronic updates of new data. We have agreed an approach with ITM (the independent pensions data management specialist who provide development and support services for our pension administration software) for the provision of data reports for our clients which is in line with the regulator's recommendations. We can produce a tailored report giving an overall rating of a scheme's data quality and providing details of the presence of common and conditional data. We strongly recommend that, as a minimum, all trustees measure the presence of common data within their scheme and we are equally well placed to do this for our clients.

Our experienced administration teams can then use this information to help trustees formulate a plan to fill any data gaps identified. We make regular use of the DWP tracing service and other specialist tracing companies as part of the drive for better records generally and also where one-off exercises such as de-risking will benefit from more accurate data.

We can also provide independent data audits to schemes we do not administer where trustees want to have reassurance on the presence and quality of data in their pension scheme.

## Where can I get further information?

For specific advice, please get in touch with Gillian Graham on 01483 540300 or by email to [gillian.graham@puntersouthall.com](mailto:gillian.graham@puntersouthall.com) or discuss with your usual Punter Southall contact.

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