

# Record-keeping thematic review

Follow-up report

March 2015

The Pensions  
Regulator

## Introduction

This is a follow-up to the **Thematic review of record-keeping report** we published in March 2014. It is for anyone involved in running workplace occupational pension schemes, in particular pension scheme trustees, managers, administrators and advisers.

The March 2014 report set out the main findings from the review and highlighted areas where we said we would provide further information – these are covered in this report.

## Background

Good record-keeping is central to effective pension scheme administration, and poor standards put members' benefits at risk.

We have been very active in our drive to improve the standards of pension scheme administration, including the quality of scheme data. We first published guidance on record-keeping in 2010, in which we identified the need for schemes to measure both the presence and the accuracy of common and conditional data items. For more information about these types of data, see our record-keeping guidance here: [www.tpr.gov.uk/guidance-record-keeping](http://www.tpr.gov.uk/guidance-record-keeping)

We have regularly monitored standards in our annual record-keeping survey and addressed record-keeping in the defined contribution (DC) and public service codes of practice, giving practical guidance and setting standards in relation to the legal requirements applicable to those schemes.<sup>1</sup>

We expect schemes to manage record-keeping as part of their internal controls framework, to understand the risks (including potential costs) associated with poor data quality, and to take action to address this issue.

<sup>1</sup>  
Code of practice no.14: Governance and administration of public service pension schemes comes into effect on 1 April 2015.

## Thematic review – update

Our 2013-2014 thematic review covered DC, hybrid and defined benefit (DB) pension schemes, but not public service schemes. The purpose of the review was to identify:

- ▶ whether schemes had met the targets we set for common data
- ▶ the actions that schemes were taking to manage and mitigate errors and gaps in scheme data
- ▶ how schemes were managing data as part of their internal controls framework, and
- ▶ what further steps we might need to take to mitigate record-keeping risks, including possible enforcement action where we found breaches of pensions legislation

We selected an initial sample of 237 schemes across DB, DC and hybrid structures and used a phased approach to conduct the review. The main findings were grouped under the following headings:

- ▶ how data is measured and reported
- ▶ the role of trustees and administrators
- ▶ the level of trustees' engagement with their scheme's record-keeping
- ▶ how record-keeping issues impact key events, such as a change of administrator or a scheme winding up, and
- ▶ wider record-keeping issues such as managing scheme information and disclosing information to us

We found evidence of good practice, but our report also highlighted some areas of concern<sup>2</sup>.

continued over...

2  
See page 15 of the  
Thematic review of  
record-keeping report,  
March 2014.

At the time we published the report we had opened seven cases to investigate how record-keeping standards and practices were being addressed by trustees.

We also asked trustees of other schemes that were part of the review to address our concerns and demonstrate to us that they had done so, but did not open a case at that time. After the report was published, we opened a further four cases because we were not satisfied that some of those trustees had taken adequate action, bringing the total number to 11.

The breakdown by scheme size and type was as follows:

	<b>DB</b>	<b>DC</b>	<b>Hybrid</b>	<b>Total</b>
Small (12 to 99 members)	2	5	0	<b>7</b>
Medium (100 to 999 members)	2	2	0	<b>4</b>
Large (1,000 members or more)	0	0	0	<b>0</b>
<b>Total</b>	<b>4</b>	<b>7</b>	<b>0</b>	<b>11</b>

The schemes into which we opened cases bear out the report’s findings: schemes with lower levels of engagement with their advisers (which tended to be small DC schemes) were less able to demonstrate they were meeting our standards for record-keeping.

In almost all cases there had been limited engagement from trustees and their advisers in the early part of the review, although some progress was made during the course of our cases.

Our approach is to **educate** and **enable** and, where necessary, to **enforce**. Following more intensive engagement with the trustees, ten of the eleven cases opened have been concluded without resorting to the use of enforcement powers. One case remains open.

## Case outcomes

Three cases were concluded after the trustees provided satisfactory evidence that the schemes were winding up.

Data must be complete and accurate in order to wind up a scheme, so record-keeping deficiencies in these cases resulted in additional work for the schemes' trustees and administrators.

- ▶ In two cases involving small DC schemes, wind-up was triggered after the trustees took advice regarding automatic enrolment and recognised the schemes were not suitable for that purpose. They therefore decided to pursue other arrangements and to wind up their legacy schemes. We were able to close our cases when these schemes provided us with a satisfactory plan. Some data cleansing work was required to establish member details before wind-up could be finalised.
- ▶ In the third case we discovered that the trustee of a medium sized scheme had decided to wind up their scheme some time before we contacted them about our review, though wind-up had not actually been triggered. Once the trustees had re-asserted the intention to wind up, the scheme's administrators had to embark on a thorough data cleansing exercise before any progress could be made.

Some schemes were able to demonstrate improvements to their standards of recording-keeping by working with their administrators to cleanse their data and improve processes. As we set out in our report, regular dialogue between trustees and administrators is vital to ensure that services provided to trustees are clearly stated and delivered.

- ▶ In two cases relating to schemes linked to the same employer, the trustees initiated a full data cleanse to address our specific concerns, including missing address and postcode information for deferred members. As part of this data cleansing process the trustees also identified that a number of deferred members had died and arranged for their benefits to be settled accordingly. We were able to close our cases after the trustees demonstrated significant improvements to their processes for tracing members on an ongoing basis rather than waiting until shortly before scheme members reach their normal retirement date.
- ▶ In another case, the trustees of a medium sized DC scheme carried out an internal data cleanse project and worked with their third-party administrator to cleanse their common data. Carrying out tracing exercises reduced the missing address data to single figures. The trustees also clarified for us their criteria for measuring conditional data.

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Case outcomes continued...

- ▶ In a further case, the trustees of a small DC scheme carried out a common data cleanse project, traced missing members and worked to identify options for the future of the scheme, including the appointment of an external administrator and seeking advice on whether to wind up the scheme.

We saw an improvement in trustee knowledge and understanding in the course of our cases.

- ▶ The trustee of one scheme addressed our concerns by telling us that record-keeping would be a regular agenda item of future trustee meetings, and that they would appoint a new administrator whose role was to carry out a full data cleanse. This demonstrated an improvement in the trustee's own knowledge and understanding of the importance of record-keeping.
- ▶ The board of trustees of one scheme took steps to replace a trustee who was unable to continue in the role. As well as addressing our specific concerns about record-keeping, they undertook to improve their general knowledge and understanding across the trustee board by completing our **Trustee toolkit**.
- ▶ The corporate trustee of a small DC scheme recognised that it had relied too heavily on its advisers in the past and, in the course of their engagement with us, took steps to reassess and redefine internal roles and the role of their advisers. This allowed the trustees to better understand their responsibilities for ensuring good record-keeping for the scheme, as well as the roles and responsibilities of their advisers and administrators.

## Conclusion and future developments

Our findings from the thematic review on record-keeping, together with subsequent cases and ongoing research findings from our annual survey, clearly show that there is still much to improve in order to protect members from the consequences of poor record-keeping.

Large schemes continue to outperform small schemes in the measurement of common data and, despite year-on-year improvements in the proportion of schemes with a conditional data score of over 90%, this generally has not translated into a significant fall in the proportion of schemes that have not measured their conditional data.

High standards of record-keeping continue to be the bedrock of good scheme administration, and remain key to ensuring that pension scheme members receive the right benefits at the right time. Trustees and scheme managers must improve their standards of record-keeping if they are to fully comply with their duties.

There are a number of reasons why good record-keeping must be a priority for trustees and scheme managers. These include:

- ▶ Minimum governance standards for DC schemes which come into force next month. These include a requirement to process core financial transactions promptly and accurately, which cannot be achieved if record-keeping standards are poor. Trustees will need to explain in an annual statement how they have complied with the new governance standards. Further information about these changes can be found on our website at: [www.tpr.gov.uk/dc-duties](http://www.tpr.gov.uk/dc-duties)
- ▶ The new pension flexibilities available to members with DC benefits. Vital decisions will be made by members based on the information provided to them, and members will need to be able to use that information to fully access and understand the guidance available from the government-backed Pension Wise guidance service. Inaccurate records will impact on the information provided to the member and consequently their understanding and application of the guidance and information available. In turn this may lead to the member choosing a retirement option that is not right for their circumstances and which could affect them and their dependants for the rest of their life. Further information about these changes can be found on our website at: [www.tpr.gov.uk/flexibilities](http://www.tpr.gov.uk/flexibilities)

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Conclusion and future developments continued...

- ▶ The government's plans to introduce a system of automatic transfers from autumn 2016. They will require some DC schemes to record information about members who leave with pension pots under £10,000 and transfer those pots to another pension with minimal input from the member. Failure to hold accurate records could have a significant impact on the members' pension benefits when they come to retire, and errors that are not identified until many years after the transfer has taken place may be difficult and costly to unravel. More information can be found at: <https://www.gov.uk/government/publications/automatic-pension-transfers>
- ▶ Specific record-keeping requirements for public service schemes coming into force in April 2015. Scheme managers must keep the records set out in the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014. Further information about these changes can be found on our website at: [www.tpr.gov.uk/ps-record-keeping](http://www.tpr.gov.uk/ps-record-keeping)
- ▶ The ending of contracting-out in DB schemes in April 2016. Contracted-out data is cited in our 2014 record-keeping survey as one of the main reasons for schemes failing to meet a conditional data score of 90% or more. HMRC has a service and tools in place for a limited period of time for schemes to reconcile their contracted-out data. In 2018 HMRC will write to all individuals with a GMP (guaranteed minimum pension) entitlement to tell them how much GMP they should receive according to their records. Schemes that have not reconciled and cleansed their data are likely to receive a large number of queries from members at this time. More information and guidance from HMRC can be found at: <https://www.gov.uk/nispi-pension-schemes-reconciliation-services>
- ▶ Failure to hold accurate records can result in inaccurate valuations in schemes with defined benefits which, along with putting the security of members' benefits at risk, can impact the financial demands of the scheme upon the sponsoring employer. This in turn will have an effect on their business plans. In the case of public service schemes this may ultimately affect tax payers.
- ▶ Effective scheme de-risking, particularly buy out, buy in, longevity swaps and other arrangements that involve a third party taking on the scheme risk, is dependent on complete and accurate data in order to avoid paying high premiums for inaccurate or incomplete data to be underwritten.

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Conclusion and future developments continued...

- ▶ Scheme wind-ups cannot be completed without complete and accurate data, and the cost of leaving data cleansing exercises until the point of a wind-up can have a significant impact on the benefits received by members in any type of scheme. It can also delay the wind-up process and increase cost if long standing errors have to be unravelled.

The new legislative standards for DC and public service pension schemes in particular highlight the importance that government and regulators place on good standards of administration and record-keeping.

Over the next 12 months we intend to reinforce our expectations in this area and continue to reflect them in the material we publish wherever relevant. This will take into account developments in government policy and legislation, including the various new duties for trustees of DC schemes<sup>3</sup> and managers of public service schemes<sup>4</sup>, which explicitly strengthen the requirement for good administration and record-keeping. Future developments in government policy and legislation will also be reflected where administration and record-keeping are relevant.

3  
The Occupational Pensions (Charges and Governance) Regulations 2015.

4  
The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 apply to public service pension schemes established under section 1 of the 2013 Act, new public body pension schemes and any connected statutory pension schemes.

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