Spanner in the works:

UK pension scheme automation derailed by poor data

Contents

Acknowledgments

PASA is grateful to the analysts, authors and reviewers of the
white paper and their employers.

Introduction

The Pensions Administration Standards Association (PASA), has initiated a working group aimed at helping schemes understand where they are on their journey to 'eAdmin'.

eAdmin is a term used to signify more advanced levels of automated administration needed to keep up with the increasing demands of scheme members.

The eAdmin Working Group launched a survey to understand the levels of automation and electronic processing being undertaken in UK schemes.

As a result of this research, it's abundantly clear data quality remains the greatest hurdle to the respondents when it comes to the application of better electronic processes systems to manage their schemes.

Our research indicates that demand for new technology to improve the governance of scheme administration, speed up services, reduce errors and enable easy access to pensions is impeded by exposure to poor data quality.

Executive summary

The research conducted by PASA showed a confusing picture, perhaps driven by a lack of clear planning around data, or perhaps a lack of recognition the changes planned rely heavily on data quality.

For example, there was a considerable appetite among respondents for new technology. The primary benefits of which, to be to improve member experience and governance standards, simplify administration and reduce costs. And yet, the survey results show only just more than a third agree technology is a) good for members and b) will reduce administration costs.

Many schemes have begun projects to drive up data quality, but among the rest, the survey found considerable gaps in both knowledge and execution. Technology can't run efficiently without good data and high quality data is the foundation of good pension scheme governance. Without it, any tech implementations will fail to deliver the anticipated results. As a result, some of the ambitious plans shared by these schemes amount to little more than wishful thinking, as they are doomed to failure unless the matter of data quality is resolved.

The importance of pension scheme data has been a bone of contention for decades, but little practical work has been done to improve its quality in recent years. Perhaps here too, there's a lack of understanding. Half of DB schemes and three quarters of hybrid schemes claim to be running ongoing projects to improve data, yet only 10% of those schemes consider their data to be excellent. Worryingly, fewer than a third of DC schemes felt their data 'acceptable'.

Data cleanse projects are often seen as high cost/low value, as they are largely executed on a reactive basis for large projects such as GMP reconciliation. However, data cleanse exercises can deliver considerable benefits for schemes building up towards derisking exercises.

We believe managing data on an ongoing basis will prove to be better value for schemes, enable the implementation of advanced technology and greatly improve scheme governance. The Pensions Regulator (TPR) also expects trustees to regularly review the presence and quality of their data to inform their ongoing plans for improvement.

Despite obvious gaps in knowledge and, by the schemes' own admission, data, there's an interesting anomaly apparent in the research. There's a high demand for technology, but low – or lower – interest in high quality data. The other interesting point to note is despite heading for the exit, it's the defined benefit (DB) schemes still showing higher expectations about technology.

In an environment where regulators are increasing their demands for high levels of governance and consumer protection, schemes must up their game if they wish to demonstrate to TPR they're investing in their schemes and focusing on member outcomes.

Beyond these minima, there's considerable management data to be gathered that could contribute to increased efficiencies in governance, as well as investment strategies and member engagement.

This requires a new approach for schemes to adopt – in partnership with their advisers and providers – to leverage the available technology and achieve better governance levels for the good of all their members.

Half of DB schemes and three quarters of hybrid schemes claim to be running ongoing projects to improve data, yet only 10% of those schemes consider their data to be excellent.

Key findings

DC

Though DC schemes have different data requirements focused on quick and accurate investment cycles, fewer than one third consider their data to be "acceptable"

While DB and hybrid schemes favour the application of new solutions, there is an apparent lack of understanding of the contribution they would make to the scheme, or that they are reliant upon high data quality

DB **56**   **DC** **18**   **Hybrid** **72**
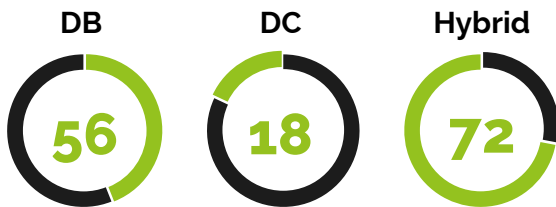
% of schemes aware of their common data score

There is a lack of awareness about schemes' relative data quality against their peers, but also of their own data score issued to TPR. Ignorance of these scores is greatest among DC schemes

50% of respondents have or would like to offer members access to accumulation and decumulation modelers within three years

60%

60% of respondents believe they will have pension dashboard functionality within three years (almost 90% within five years)

50% of respondents would like to offer biometric IDs within three to five, while more than a third would like to offer robo advice within that timeframe

And only one in 10 (12%) have actually engaged with members to understand how they believe technology would prove beneficial

Chapter 1

Bad data makes for bad governance

Good data is the foundation of all good governance. It is said a 1,000 mile journey begins with a single step. However, if you don't know where you're starting from, it's very difficult to plot a course or determine your progress.

Defined contribution (DC) and hybrid arrangements have very clearly defined data requirements. Contributions must be invested as soon as possible in order to avoid any opportunity cost to the member.

DB schemes have not demonstrated the same urgency in the past, but a number of factors have changed this dynamic in recent years.

Buttoned up, but not secured

Fewer schemes are open than has been seen in the past. The last 12 years has seen the number of schemes eligible to enter the Pension Protection Fund (PPF) fall by more than **30%** to 5,450. This is a useful benchmark, as they pay a levy as insurance in case the sponsor should fail.

Of those schemes, almost nine out of 10 **(88%)** are no longer taking on new members. Almost half **(41%)** are no longer accruing member benefits. Only half **(46%)** of those are closed to new members, are accruing benefits.

Money worries

Schemes closed to both members and accrual are not receiving fresh injections of capital from employee contributions. They're therefore more reliant upon existing investment strategies. If these strategies don't provide the necessary returns to close the funding gap, the scheme must rely on the ability of the employer to make up any shortfall.

Some of these schemes are fairly well funded, but most are not. The funding level on a buyout basis – replacing each member's benefit with an insurance policy – is **73%**. For most schemes, it'll be a very long time before it is able to afford an insurance company buyout.

Perhaps as a result, the vast majority (73%) of schemes are to be run as an ongoing arrangement, with only 22% focusing on wind up or buyout. Data cleansing is considered a necessary precursor to any derisking exercise to avoid a data premium levied at around 30% or more. This allows for any data gaps that increase risks to the insurer. Data cleansing is not entered into lightly, as the expense is seen as excessive unless the benefit is immediately visible in an improved premium from the insurer.

All these pressures place considerable strain on businesses, which must fund these liabilities before investing in themselves. This makes them a less appealing corporate partner or acquisition target, and further undermines the employer's covenant.

More than **80%** of DC schemes disclosed they are being run on an ongoing basis, but **50%** of them believed their current data was acceptable. We believe future surveys will show an increased demand for better quality data.
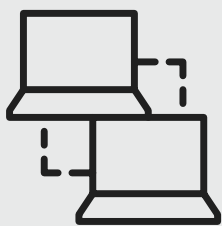
The GMP conundrum

A lack of focus on data has been compounded by the ongoing confusion surrounding guaranteed minimum pensions (GMPs). GMPs are a legacy from the day's pension schemes could opt out of the now defunct government income related pension, SERPs. It sets a guaranteed minimum pension to be achieved. However, the calculations are exacting and they rely on accurate information.

Given this 'contracting out' period began in the 1980s, much of the information is fragmentary or simply doesn't exist. There are excellent reasons for schemes to have cleaned their data to be sure theirs matches that held by HMRC and they will pay the correct benefits to Members.

Though schemes have been aware of the problem for many years, relatively few have taken a final decision about their response. However, data cleansing has been undertaken by many to try and drive up the quality of the data for these benefits.

Every pension scheme process is driven by data, and their long term nature has shaped an attitude towards it that have been unhelpful.

There's been an unscientific and rather forlorn hope that what seems like a difficult and expensive process now, may be easier in the future. Failing that, the government agency or regulator in charge will mandate a process removing the need for a scheme to have set its own course. As a result, few schemes are well placed for the changes affecting them over the coming years.

DC: The new world order

Contributions to DC have now overtaken those made into DB schemes, yet there was a paucity of data beyond the immediate focus DC schemes have for data requirements.

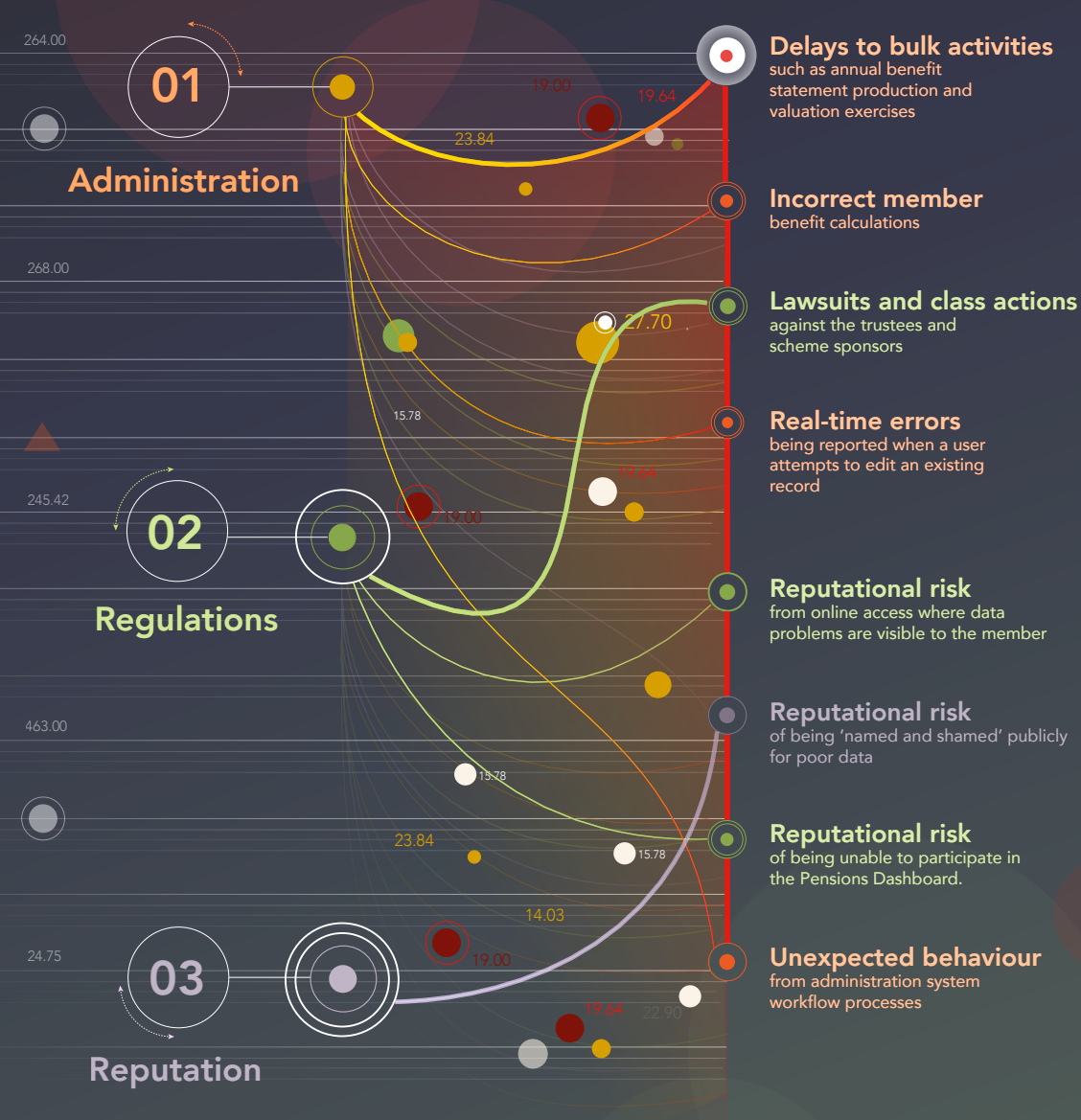More than 80% of DC schemes disclosed they are being run on an ongoing basis, but 50% of them believed their current data was acceptable. We believe future surveys will show an increased demand for better quality data.

This will be driven in part by TPR requirements to demonstrate schemes are providing value for money for their members. It's also likely employers will seek to consolidate legacy DC arrangements into newer structures.

EQUINITI

The Risks Of Poor Quality Data

01

Administration

02

Regulations

03

Reputation

264.00

268.00

245.42

463.00

24.75

19.00   19.64

23.84

27.70

15.78

19.00

15.78

23.84   15.78

14.03

19.00

19.64   22.90

Delays to bulk activities
such as annual benefit
statement production and
valuation exercises

Incorrect member
benefit calculations

Lawsuits and class actions
against the trustees and
scheme sponsors

Real-time errors
being reported when a user
attempts to edit an existing
record

Reputational risk
from online access where data
problems are visible to the member

Reputational risk
of being 'named and shamed' publicly
for poor data

Reputational risk
of being unable to participate in
the Pensions Dashboard.

Unexpected behaviour
from administration system
workflow processes

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The current scheme position

The PASA survey, shows a worrying mismatch between the quality of data in schemes and the trustees' understanding of their data with reference to other schemes.

Table 1
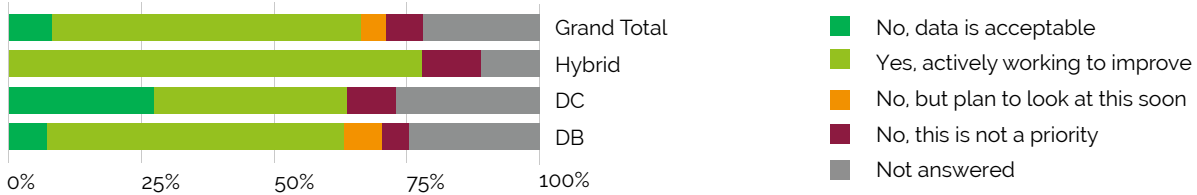
The survey suggests that in more than 50% of DB and 75% of hybrid schemes, there's an ongoing project to improve data **(TABLE 1)**. Yet, the same groups show around 20% and 30% respectively as having anything other than good or excellent data.

More than half (56%) of DB schemes are actively working to improve their schemes' data, while almost half as many again (77.8%) of hybrids have similar work underway **(TABLE 1)** This is clearly a major concern for these schemes in all but 7% (DB) and 11% (hybrid) of schemes.

It's interesting to note while quality drops among smaller schemes, they're also doing the least to actively improve their data. When broken down by size, we see the majority of schemes working to improve their data are in the largest two bands of 1,000 to 10,000 members and 10,000+. Almost two thirds of both these groups **(TABLE 2)** are actively working on improving their data.

Table 2
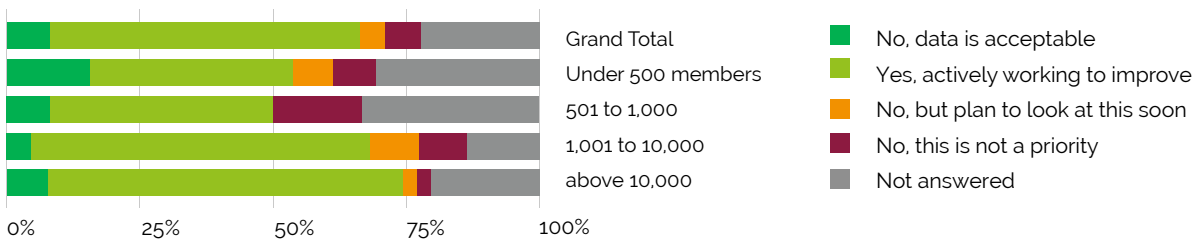
Smaller schemes are more satisfied with their data, with only 41.6% (500 to 1,000 members) and 38.4% (fewer than 500 members) undertaking data improvement projects.

It's impossible to say whether these smaller schemes have better quality data, but it's possible!.

But it's possible:

1 They have lower levels of complexity in their scheme

2 They're further from being able to derisk with a buy-in or buyout and therefore see data cleansing as an unnecessary cost; or

3 They're being over-optimistic in their assessment of their situation compared with other, larger schemes.

DC schemes may have a different attitude towards data, yet even here, only 27% have data they consider to be "acceptable". This lends weight to argument that data quality is generally poor and a great deal more work needs to be done in almost every scheme. In the case of DC, more than a third are actively working on improving the quality of their data.

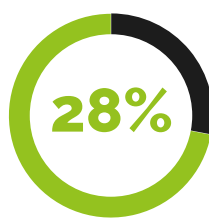# Schemes want technology, but do they know why?

There's a high demand for technology to be deployed, with the greatest demand from DB schemes. This is focused largely on systems to support general administration, covering:
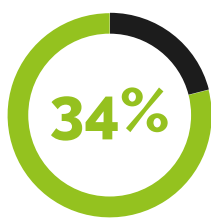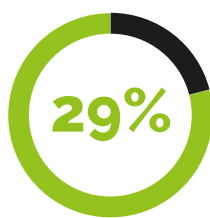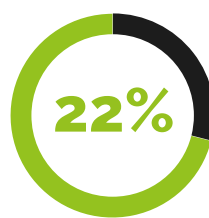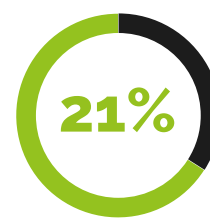
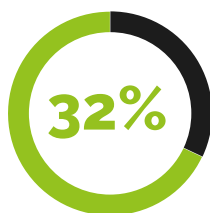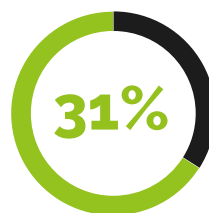| **34%**	**29%**	**28%**	**22%**	**21%**
Self-service calculations	Benefit statements	Payslips	Pensions dashboard	Educational content

They see the greatest impact upon the pension function coming from:
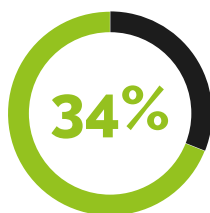
34%	**32%**	**31%**
Improved member experience	Reduction in administration costs	Increase in member engagement

Hybrid and DC schemes scored the benefits of these technology solutions far lower than DB, suggesting technology for DB schemes is used under sufferance. Or where practical, as per the question, rather than as a core response to processing data. Of course, the nightmare of legacy data may be the reason for such a response. This may be the very reason the majority are trying to improve their data.

Most of the solutions favoured by the most enthusiastic group – the DB schemes – would seem to reduce the admin burden and remove as much human interaction and paperwork from the process as possible. However, the assertions it would improve both member engagement and experience are fanciful at best.

There's a lack of awareness of what these innovations would actually deliver to a scheme – and its members. Even among schemes that know their data is not good, it is either a) not a priority or b) there isn't any budget for it at the moment.

Few schemes have any concept of what would improve these for their members as nine out of 10 have never asked their members what technology they would like to see.

Many don't know what they don't know

This lack of awareness is compounded by a high level of ignorance among schemes of their common and scheme specific data scores – benchmark data TPR uses to assess the quality of scheme data. Only 56% of DB schemes are aware of their common data and 38% their scheme specific scores.

Awareness is higher among hybrid schemes, but not by much, with 72% knowing their common and 44% their scheme specific data scores.

However, it's among DC schemes there is a worrying knowledge gap, with 18% and 9% awareness of common and scheme specific data scores respectively. Those which did know had an average of 99% across both scores, but it would be dangerous to assume all DC schemes were in the same position.

The analysis

There's a clear willingness on the part of many schemes to improve the quality of their data. Those wishing to improve their data see technology as the source of improved processes. However, willingness is not enough. It takes time for schemes to integrate the technology some have on their wish lists.

Data lies at the heart of all the solutions schemes would like to see implemented. Yet, implementing new technology will also do nothing to improve scheme data scores. Technology such as self-service calculations, biometrics and better modellers rely on good quality data. Data must therefore be improved before technology can be implemented with any hope of achieving its objective.

Engagement important for schemes that do not engage

Many schemes have an outdated perception of their membership and pensioners in general, which deviate considerably from the profile provided by agencies such as the Office for National Statistics. Schemes seem to rely on preconceptions of their members' wishes and IT capabilities. Though many (in particular, DB) schemes believe technology will improve member experience and engagement, only one in 10 (12%) have actually polled their members to understand how members believe technology would prove beneficial to them.

Interacting with members is not only useful to understand how a scheme might improve its processes, but essential if seeking to introduce innovations that can greatly improve the running of the scheme.

Data projects based on wishful thinking

It's extremely positive schemes want to improve their data quality and see that technology can assist them in their efforts. However, this research suggests many schemes simply aren't in a position to be able to reap the benefits of new technology and automated processes.

There's a considerable data quality gap existing in UK pension schemes which is being ignored – or tolerated – because it's been considered 'too difficult', 'too expensive'. Or if it's ignored, it might go away. because it has been considered 'too difficult', 'too expensive', or that if ignored, it might go away.

Too much focus on cost, too little on value

Some of the perception around cost is likely due to the high number of projects

undertaken in schemes in response to ongoing regulatory requirements. In the case of a derisking exercise, a hefty bill for data cleansing can be justified against the potential punitive premium levied by the insurer.

There are no definitive figures for the data premium that may be levied against a scheme with incomplete or suspect data. Anecdotal evidence suggests this could lead to a surcharge of anything between 5% and 15% – and possibly more – during a buyout process.

The authors of this report assisted a client whose original premium quote was increased by nearly £10 million, simply due to poor data quality.

It's therefore, easy to understand how one-off projects are more readily adopted by schemes, because specific benefit can be attributed to the charge. However, those costs will be considerably higher than had the data been cleansed and managed on an ongoing basis.

Processes, not projects

Many schemes understand the importance of managing data on an ongoing basis, but few place any real value on it unless there is a specific aim. Projects are often derailed for a fear of a lack of data, because the scheme doesn't understand its value and deems the cost of acquiring it too high.

Another, equally damaging scenario, is if the scheme goes ahead with the project and fails to get the return on its investment. In these cases, the poor data prevents the automation from working consistently, or will only work across a small cross section of members, such as most recent joiners.

TPR's demands on all schemes to report on data scores, as well as chairs' statements and the aspects these must cover, will only increase pressure for more and better quality evidence.

Conclusions

The PASA survey data shows a significant mismatch between pension schemes' understanding of their position on scheme data and their efforts to improve its quality.

It also shows many have unrealistic expectations of technology and its ability to resolve their process problems, which are generally grounded in poor data quality.

Data is the lifeblood of every scheme and cannot be managed in short term, quick fix projects while attempting to resolve other issues. Good Data is – and should be – seen as a long term commitment to maintain core processes which cannot be run efficiently without it..

Continuing to invest in sub optimal technology requires greater ongoing maintenance and correction in the long term and the human intervention required can lead to additional errors.

All financial functions are undergoing revolutionary change, mostly driven by regulation. Open banking and making tax digital, are just two examples of industry changing to meet a changing society with tech savvy consumers who increasingly demand information.

Added to that is the increased pressure from financial regulators to ensure consumers are protected and the imminent demands to provide accurate data on member benefits for pension dashboards.

Increases in consumer protection and the demand for sharing information are one-way processes. These requirements will be soon be imposed. Schemes must therefore take control of their data now.

PASA has produced a **paper** offering schemes, their advisers and employers guidance on how to better understand the quality of their current data and how they might implement an improvement plan. It offers an excellent starting point for any project to examine data quality.

Better data is not only about member satisfaction or TPR metrics, but is a central tenet of governance and therefore a core element of long term cost and risk management. Without significant improvement in the area of data management and processing, schemes will find themselves slow – or unable – to respond to the next wave of changes that will, inevitably, be issued by TPR.

Appendix: Research methodology

This eAdmin survey followed a standard quantitative methodology. The study approached a random sample of respondents, with a skew toward stakeholders with responsibility for administration within the pensions industry.

The questionnaire was extended to all members of the Pensions Administration Standards Association, supported via Pensions Expert, an FT publication, and promoted via social media.

1

60% of the respondents were pension managers, trustees and sponsors

28% were pension administrators

12% were classed as others (including actuaries, consultants and lawyers)

2

More than **60%** of respondents represented defined benefit (DB) arrangements

25% hybrid

11% defined contribution (DC)

3

Almost **50%** of the respondents represented schemes with over **10,000** members

38% with between **500** and **9,999** members

15% with a sub **500** membership

4

The sample was not designed or intended to cover the broader non-trust based insurance sector

The research and preparation of this paper was overseen by the PASA eAdmin group

About Us

About the eAdmin Working Group (EAWG)

The purpose of the EAWG is to create intellectual property, guidance, case studies and other material to help schemes, trustees, regulators, governmental bodies and administration providers understand the prime considerations to support the use of technology to improve pension administration solutions, resulting in a positive impact for members, trustees, employers and employees of pension administration firms.

The EAWG will not limit its consideration to any one type of scheme or delivery vehicle. The EAWG will act as an oversight and thought leadership group and will create such sub working groups as are appropriate to consider the specific aspects pertinent to DB and DC in relation to e-administration.

About the Pensions Administration Standards Association (PASA)

The Pensions Administration Standards Association (PASA) was created to provide an independent infrastructure which will set, develop, guide and assess administration standards.

PASA will act as a focal point and engage with industry and government to create protocols for understanding good administration - but also appreciates there is no one size that fits all.

PASA will develop evidential accreditation practices which will allow benchmarking across and between the industry regardless of how the administration is being delivered.

As well as raising the profile of pension administration generally, PASA will focus on three core activities:

1) Defining good standards of pensions administration relevant to all providers, whether in-house, third party or insurers;

2) Publishing guidance to support those standards; and

3) Being an independent accreditation body, assessing the achievement of good standards by schemes (regardless of provider).

There is no organisation providing these services across schemes, yet there is a demand for evidence of service quality from scheme trustees, sponsors, administrators, insurers, scheme members and regulators.

Get in touch:

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