



PASA Data WG

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Data readiness for buy-in and buyout Guidance

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1. Introduction

Data underpins every aspect of the management and delivery of pension benefits. It's crucial trustees and pension managers always maintain the highest standards of data quality. This principle applies not only for the purposes of ongoing administration and reporting to The Pensions Regulator (TPR), it also enables smooth, efficient and preferential pricing terms when pursuing de-risking projects with insurers, such as buy-ins and buyouts.

The objective of 'data-readiness' is to ensure data is complete, accurate and held in a consistent electronic format ready for proceeding with an insurer transaction.

2. The consequences of holding incomplete and poor-quality data

Poor-quality and incomplete data is viewed unfavourably in all aspects of pension scheme management and this is no different for insurers. Inadequate data equals higher transaction costs, delays and uncertainty.

Showing evidence a one-off data cleansing exercise is in progress is good, but a commitment to regular cleansing and monitoring is preferred and demonstrates the scheme is well managed and preparing to transact.

Aside from the obvious outcome of members receiving incorrect benefits, insurers may, in a worst-case scenario, refuse to price for new business if they deem data quality to be so inadequate they can't determine the liabilities involved with certainty. Insurers will also prioritise a well-prepared scheme over those without a data cleansing plan in place.

Insurers will expect trustees to undertake all essential data-cleansing activities to ensure beneficiaries have their correct benefit entitlements established, particularly in the period between a buy-in and buyout. This process can run for multiple years and the data cleansing requirements are extensive. The duration of this process should be shorter for well-prepared schemes. The process will conclude with a data verification exercise led by the insurer determining the final premium payable. It's therefore preferable to approach the insurance market with high-quality data already in place. To avoid any nasty surprises when the balancing (or 'true-up'/'Premium Adjustment') premium is determined. If significant changes are required to the data, a material adjustment could be made to the contract, ultimately changing the pricing methodology.

In the absence of complete and accurate data in the initial data set, insurers will make assumptions when determining the premium necessary to insure members' benefits. Often these will be on a prudent basis with margins for uncertainty. Even something as simple to obtain as common data can significantly affect the cost of insuring members' benefits – trustees can and should, proactively address data quality to ensure they obtain the best insurance terms possible.

3. What are the key data-items which should be held for all members?

Most of the data items required by insurers for the purpose of buy-in and buyout are required for day to day administration. Schemes proactive in managing and improving data quality on an ongoing basis will be in much better shape in undertaking data cleansing as part of the journey to buy-in/buyout. However, for some schemes data is often missing from electronic records. Although data can be sourced from backing files when administration teams are dealing with individual cases, it must be easily extractable and confirmed as accurate for insurer transactions. Additional data requirements beyond the data held for ongoing administration may also be required.

The list below summarises the data items most commonly requested by insurers:

- A definitive list of all members who the scheme retains a liability for and their current membership status e.g. deferred, pensioner. For any members where no liability remains, details should be held as to the reason for, and date of, their exit e.g. deaths and transfers-out
- Where there's a dependant pension in payment, a link to the original member. Trustees also need to ensure there are no missing beneficiaries
- Identification data, such as full name, date of birth and National Insurance number
- Contact details, e.g. current verified address, postcode, telephone number and email
- Marital and dependency status data, e.g. spouse or civil partner's gender, date of birth and date of marriage and confirmation when and how these details were last obtained and verified
- Confirmation of any transfers in resulting from pension sharing or earmarking orders
- For deferred members - date of leaving, total deferred pension at date of leaving, split into all benefit tranches necessary under the scheme rules, with revaluation rates
- For pensioners - date of retirement, total pension in payment, split to enable the correct increases to be applied each year, with pension increase dates. Amount of pension commuted together with pre-commuted pension split into the relevant tranches, step ups and underpins. Temporary pension information
- GMP figures which have been fully reconciled with HMRC

The benefits of completing data cleanse activity in advance of a buy-in are clear; a streamlined transaction process, more certainty and better market engagement. However, if a data cleanse can't be completed in advance, a buy-in with a plan for data issues to be dealt with in the data cleanse phase and captured in the true up at a later date may be possible.

4. What actions can trustees take in advance of buy-in/out to demonstrate good governance?

There are several ways in which trustees can demonstrate their data is being kept up to date and is accurate, all of which will be looked upon favourably by insurers. Examples include:

- Evidencing data is being tested and scored on an annual basis, in accordance with TPR's and PASA's Guidance. We recommend trustees implement a Data Strategy and undertake a Data Review in the early stages of an insurer transaction project. PASA delivered a [webinar on Data Strategies and Reviews in September 2022](#), and will be releasing formal Guidance on this in early 2023
- Demonstrating comprehensive data management policies and approaches. We recommend pension schemes have a Data Management Policy in place with a proactive approach to managing data quality. [PASA's Ongoing Data Management & Controls Guidance](#) can support with this
- Demonstrating data rectification exercises have been undertaken, or are being undertaken, to improve data quality where needed
- Explaining why key data items are missing, e.g. unsuccessful member tracing exercises
- Displaying knowledge of benefits payable by maintaining a comprehensive benefit specification and demonstrating data consistency
- Undertaking regular mortality screening exercises – ideally monthly and for all deferred and pensioner members (including those residing overseas)
- Carrying out regular member tracing exercises, to reconnect with members with whom contact has been lost
- Completion of GMP reconciliation and rectification exercises, demonstrating well defined processes and good governance for decision making
- Collating 'Experience data' e.g. relating to deaths, commutation, retirements through ill-health and transfers-out
- Understanding, and mitigating, where risks in the data may occur such as previous bulk transfers-in from acquisitions or mergers
- For any prior or ongoing de-risking projects, such as pension increase exchange, a winding-up lump sum exercise or enhanced transfer value exercises, full details should be held about the members involved and the terms offered
- Digitising data onto electronic records. Insurers will want easily accessible electronic data, not paper files. Notes fields should be checked for key information

5. Quick Wins

Common data:

Insurers will look favourably on a scheme with complete and accurate common data which is periodically reviewed and managed. This includes address information which has been recently checked, is formatted correctly and with verified postcodes. Address and postcode checking - verifying an address on record is still current and if not, seeing to verify members' current whereabouts - will show the insurer data is complete and up to date. Obtaining additional information such as email addresses and telephone numbers can also be advantageous.

Complete and consistent data:

Having complete and consistent information, for example a full forename and not just initials, is essential. The price for completing these simple data-checks is usually many times saved in the terms offered by an insurer.

Marital screening:

Awareness of any future pension payments, such as the contingent spouse's pension which would be payable to a spouse, civil partner or eligible cohabiting partner after a member's death is also highly valuable information when costing a liability. Marital screening can establish where future scheme liability may occur, as it can identify a spouse, provide their name and date of birth, as well as identify members who are single or widowed. This information can be sought through a member communication exercise, or through tracing agencies. It may be more effective to write to members as part of a wider data-verification exercise. These options can also be combined to complement one another.

Mortality screening:

A mortality screening can identify deaths within a population. This is worthwhile for deferred members who may not be subject to a scheme's routine mortality screening process which is often in place for pensioners and it will avoid unnecessary premiums being levied by insurers.

6. Other important data-related considerations

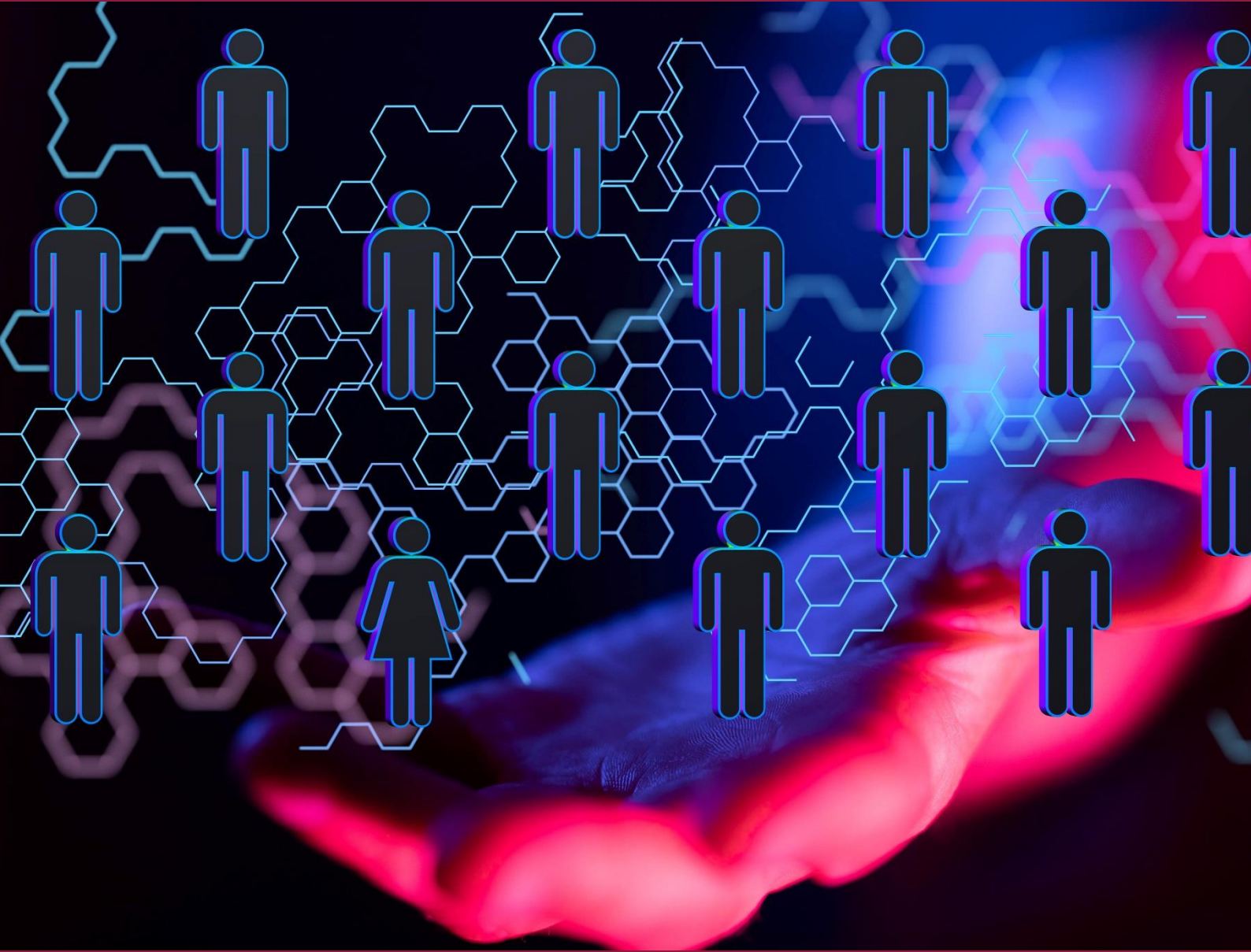
A key part of the buyout process is the preparation of a benefit specification, which notes in detail all the benefit provisions relevant to the population being insured. An initial draft can be prepared by one of several parties (e.g. the scheme administrators, the scheme's legal advisers, the Scheme Actuary or more usually, a combination). It's not uncommon for the benefit specification to flush-out data issues which haven't previously come to light during day to day administration processes. By this point, however, the impact of any new data issues on insurer pricing will be minimised if data has previously been tested and cleansed where necessary. Fundamental flaws or gaps in member data are unlikely to be identified after the benefit specification is written. Insurers will look for legal confirmation of the benefit specification being in-line with the Trust Deed and Rules and past administration practice.

High quality data will also help ensure other important aspects of the buyout process can be achieved with maximum efficiency:

- It will be simpler and faster to extract data from administration systems if it's correctly labelled, accurate and complete
- The trustee discretions policy will be simpler to evidence and apply if the necessary data is held to support its future application
- Where required, it can help reduce the amount of run-off and/or residual risk insurance cover

7. Conclusion

Good planning and preparation before commencing an insurer transaction helps improve data quality leading to more certain and preferential overall costs. An overall data strategy which encompasses transaction preparation alongside GMP Equalisation and pensions dashboards is our recommended approach.



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