



PASA Data Working Group

Produced in partnership with:

isio.

PASA Experts for Data

Data into Defined Benefits

August 2023

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Acknowledgments

PASA is grateful to the authors of the Guidance and members of the PASA Data Working Group (DataWG) and their employers.

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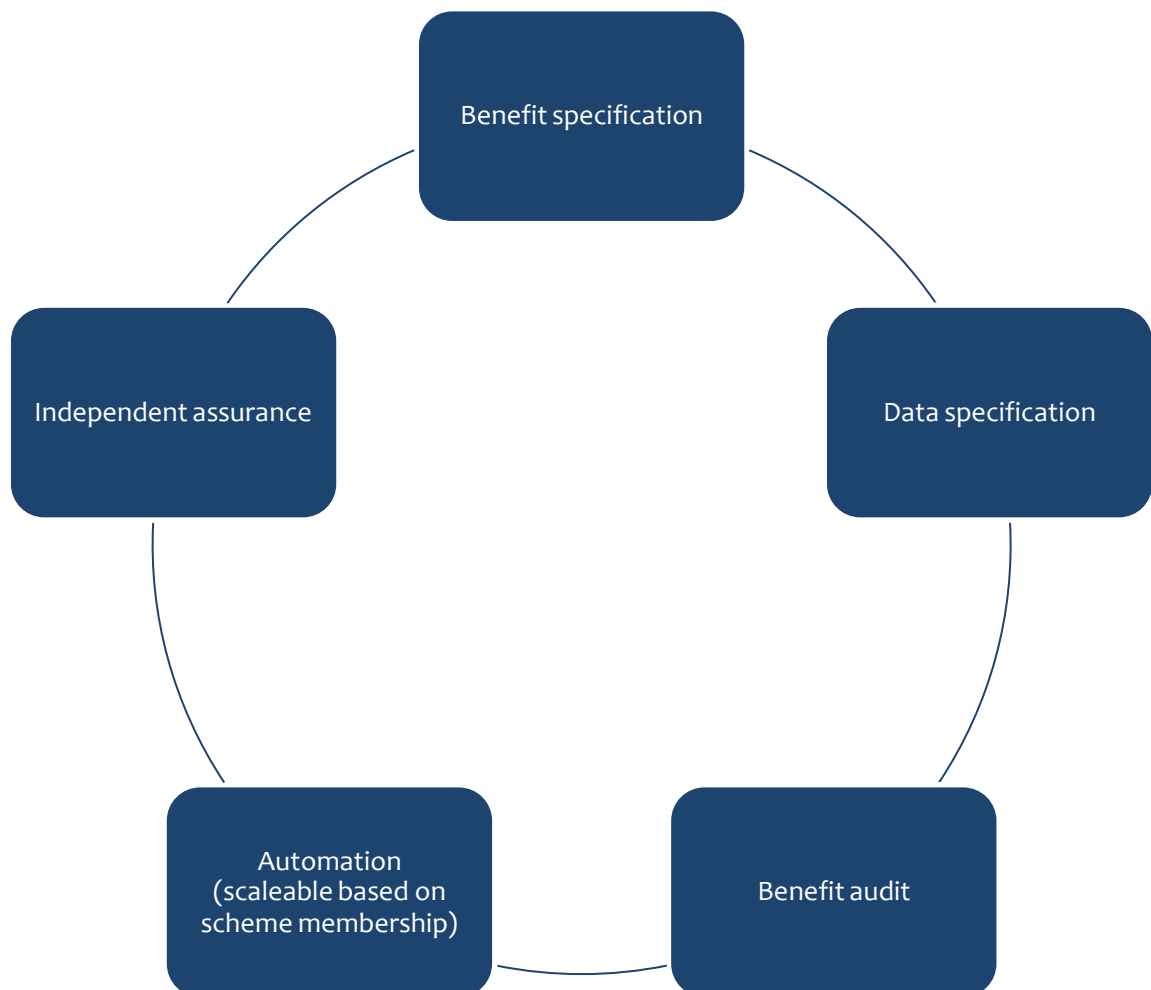
Steve Robinson **Equiniti**

1 Introduction

Trustees have a duty to ensure savers receive the pension benefits they're due. This isn't possible unless schemes hold complete and accurate data, maintain good record keeping and accurately undertake benefit calculations.

PASA has previously issued content focused on data management, such as a [webinar on Data Reviews](#) and [Guidance on Data Management Plans](#), but what about benefit accuracy?

Given the complexity of many DB schemes' trust deed and rules, together with legislative requirements and the variation of scheme design over the decades, making sure benefits paid to savers are correct isn't always a straightforward task. This Guidance has been prepared to support schemes in ensuring benefit accuracy. We've focused on five key areas:



2 Benefit specification

A benefit specification documents the basis for calculating all of a scheme's benefits. This has become a key requirement before undertaking de-risking projects, but is also vital for correct administration and calculation of scheme benefits.

Holding one document all stakeholders have approved and then subsequently use, significantly reduces the risk of benefits being calculated incorrectly. It also makes maintenance easier by having a single master document. As new requirements are introduced and decisions are made which alter an established practice, the master document is updated. The benefit specification should be reviewed by all scheme stakeholders, including the Scheme Actuary, legal advisers and the administrator. Any divergence from the legal requirements of the Scheme Rules and legislation stated in the benefit specification could directly result in incorrect benefits and costly rectification exercises in the future.

The benefit specification should detail the legal basis of the Scheme Rules in respect of benefit calculations. Documentation alongside the benefit specification should also contain agreed house practice methods which may not be explicitly outlined in the Rules but are used to calculate the scheme benefits.

Multiple benefit specifications may be required for some schemes. For example, where a scheme has different sections with sufficient benefit variance between those sections. The benefit specification should cover all relevant information required to calculate benefits at any given point in time, this includes but isn't limited to; date of leaving, date of retirement, date of death, GMP age and current date. It's important to have a clear link between the benefit structure, the data held on the administration system and the system processing.

Areas benefit specifications cover in relation to a deferred retirement pension include (but not limited to):

- category/section of membership
- ill-health eligibility and calculation basis
- early and late retirement basis
- pension commutation basis
- guarantees and underpins
- payment terms, including first pension increase method
- special agreements and trustee discretionary awards
- anti-franking requirements
- eligibility criteria for retirement
- revaluation method and rates
- pension commencement lump sum basis
- additional benefit funds (e.g. AVCs)
- pension age equalisation (Barber) method
- transfers-in benefits and calculation method
- contingent spouse pension

All parties should be trusted and empowered to make updates to the benefit specification and a sign-off (or change control) process should be agreed to ensure changes are correctly made. The document should be periodically reviewed to ensure it remains up to date. This can be documented as part of the scheme's Data Management Plan.

3 Data specification

TPR recommends trustees work with their administrator to assess their scheme and decide which scheme-specific data to maintain. The relevant data items required to construct any scheme benefit and how these should fit together must be given detailed consideration. This can vary based on Scheme Rules and design. How data is stored on the administration system to ensure this aligns with system functionality and reporting tools needs careful thought. TPR also recommends the administrator seeks input from their software expert or vendor to ensure data held is in line with the strategic requirements of the software, to aid future automation and change projects.

One way to keep a record of key data items is to maintain a data specification. This should list key data items along with supporting descriptions and where each data item is stored on the database along with database field names. Where data items are abbreviated, or a short code has been used, sufficient detail should be available to translate this information. The document should explain variations within the database fields.

The data specification should provide detailed information and visibility of key data items to ensure consistency when processing the data. The document should be accessible to all stakeholders using the data to provide services to the trustees. The data specification should align with the benefit specification (for example, post-Barber tranching data should include date information which links to the details of the benefit specification) and may refer to the software provider's own documentation or data dictionary. A Data Management Plan can include a data specification, or reference one held separately. To ensure accurate and consistent record keeping, having documented details of key data areas and information will assist in the accurate calculation of benefits.

A data specification should be reviewed and updated on a periodic basis to ensure it remains accurate and reflects developments in data requirements, for exercises such as GMP Equalisation and dashboards.

4 Benefit Audit

Undertaking a review of the accuracy of benefits put into payment is an important exercise for schemes to maintain year on year benefit accuracy. While automated calculation routines for benefit calculations are recommended, manual calculations will often be a necessity, particularly where more complex or infrequent calculations are required. A benefit matrix will help to ensure a sufficient cross-section of the membership is being included in the testing of calculation processes.

Schemes should consider the approach to be taken to benefit testing and how they will prioritise the analysis and any findings. For example, prioritising analysis of complex categories or high-volume calculations. Tolerance levels for focusing on material issues could also be considered, although benefit accuracy must be maintained.

Testing should involve recalculating benefits from first principles, cross referencing against the benefit and data specifications where available, and Scheme Rules and legislation. Errors or uncertainties should be analysed, and actions taken to rectify and improve future calculation processes.

Frequency

Benefit audits should form part of wider governance and quality procedures. Some level of benefit audit should be performed annually to check the current benefit calculation processes are operating effectively. A small benefit audit may be included as part of the annual scheme audit process and/or internal quality review procedures may include 'look back' spot checking of benefit calculations. By performing regular reviews, trustees are given a clear view of how their administrators are performing and reviews assist administration departments with improving systems and processes, as well as providing a good platform for straight-through-processing.

In-depth benefit audits should be performed periodically. This may be once a triennial valuation cycle, or less frequently if a high level of automation is in place.

Benefit audits are important when scheme events happen. For example, where there's a change in administrator, or where a scheme is working towards an insurer transaction. In these instances, an independent benefit audit should be performed, either via a third-party specialist or a separate specialist team to the day-to-day administration team (see below).

Measuring improvements

Regular scheduled audits allow performance to be tracked and measured on a periodic basis. If errors are identified, trustees should take swift and appropriate action to remedy these at a saver level and to understand the extent of the errors and whether they're systematic.

Recommendations should be followed up and acted on, then incorporated into the Data Management Plan.

5. Automation

Benefits can be difficult to calculate consistently unless they're supported by a clearly defined process and guidance notes. Often calculation proformas are used by administration teams to process benefit calculations.

Automated calculations help reduce the risk of data being used incorrectly to calculate scheme benefit entitlements or manual calculation errors. Schemes benefit from the efficiencies and risk management automation of calculations and processes bring, and automation should be a key objective and priority. Automation not only helps to manage risk, it will likely result in more efficient administration and potential cost savings over the longer term.

It's important automation is set up effectively and thorough building, testing and sign-off procedures are in place, with ongoing review and management activities to ensure it remains fit for purpose.

6. Independent assurance

Benefit and data audits should be performed independently, either via a third-party specialist or a separate specialist team to the day-to-day administration team. Some of the key considerations for this are:



where the day-to-day teams review benefit calculations, this is like marking your own homework and can have limited value-add and could result in errors going unnoticed



it's difficult to rethink how and why a calculation is undertaken to meet Scheme Rules when you're reviewing what you've always done



there can be conflicts of interest in undertaking the review which may be difficult to manage if the teams aren't independent



resource constraints within the administration team, or the impact on business as usual administration should be considered



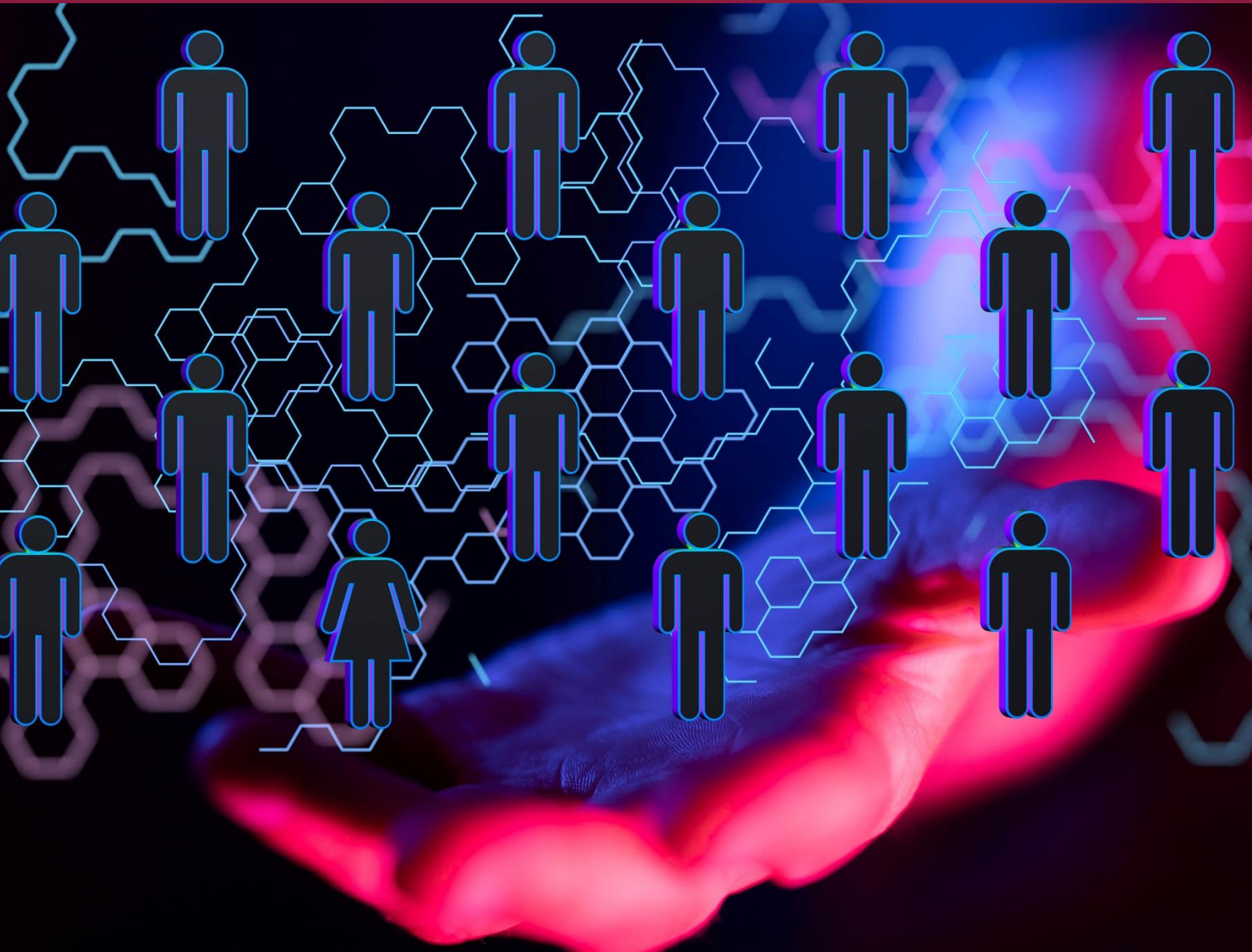
it can often be a cheaper exercise if a competitive proposal is sought in the market

7. Conclusion

When assessing scheme data for DB schemes, the benefits payable should be at the forefront of the evaluation to ensure they're currently accurate and remain accurate in the future. There are a number of areas which can assist trustees with ensuring benefits are accurate, including maintaining signed-off benefit and data specifications, having high levels of automation and following a benefit audit programme.

The investment to get benefits right is time and money well spent, not only for the outcome and experience for savers, but in comparison to the significant costs arising when things go wrong.

PASA



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