PASA Data Working Group

Contingent Spouse Pension (CSP) Construction – Managing Data Quality

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1. Introduction

This Guidance outlines the key considerations for assessing and calculating Contingent Spouse Pension (CSP) values, with a primary focus on data quality. The Guidance sets out where CSP values may need to be calculated and how the calculation approach is dependent on the availability and reliability of underlying data.

The CSP is a pension payable under scheme rules to a surviving spouse, civil partner or other qualifying dependent upon the death of a DB scheme member, whether in active service, deferment, or retirement. This Guidance focuses on pensioner members, due to the increased complexity of the CSP calculations for this category.

This Guidance doesn't prescribe a single calculation methodology. Instead, it explores the range of approaches available and highlights the data requirements, risks and governance considerations schemes should assess when determining how CSP values are calculated, validated and maintained.

Accurate CSP data is critical not only for insurer transactions but also for effective ongoing administration, actuarial valuation, regulatory readiness and, most importantly, ensuring dependants receive the correct benefits at the appropriate time.

2. Key considerations for holding and maintaining CSP values

Complete and reliable CSP values may not always be held electronically for all pensioner members. In practice, bulk CSP calculation exercises are often triggered by insurer requirements during buy-in or buy-out transactions. However, the benefits of holding accurate CSP values extend beyond insurer transactions and should be considered as part of a scheme's wider data management and governance framework.

Before undertaking a CSP exercise, trustees should be clear about the intended purpose of the calculation and the level of precision required. There's an inherent trade-off between accuracy, cost and timescale. The appropriate balance will depend on how the CSP values will be used and the quality of the underlying data. For example, where CSP values are required to support initial feasibility or pricing discussions for a potential buy-in, a pragmatic approach using proportionate assumptions may be appropriate. However, if the CSP values are intended to enable more efficient administrative calculation or a buy-out transaction a higher degree of accuracy and supporting audit trail will be required.

The principal reasons for calculating and retaining CSP values are set out below:

- **Insurer transaction (pricing-only)**
  It's important to liaise with each insurer to establish the requirements. While estimates are often acceptable for initial pricing, accurate CSP values support more precise quotations and are likely to be required later
- **Insurer transaction (buy-out)**
  To complete an insurer transaction, trustees and insurers will require accurate CSP values to ensure surviving dependants receive the correct benefits under the policy terms
- **Business as usual administration**
  Storing and maintaining CSP value reduces the time and operational risk associated with calculating spouse benefits on a case-by-case basis. However, values must be supported by reliable underlying data and appropriate maintenance processes if they're to be relied upon
- **Actuarial valuation**
  Improved CSP data enhances the precision of liability modelling and funding assessments undertaken by the Scheme Actuary
- **Pensions Dashboard readiness**
  Dashboard data standards require schemes to indicate whether accrued and projected benefits include survivor benefits. While detailed CSP values may not currently be mandatory in all cases, schemes may wish to consider how contingent benefit information is identified, stored and evidenced dashboard requirements evolve
- **TPR data requirements**
  It's expected CSP values will become part of scheme-specific data expectations under TPR guidance
- **Member Experience**
  Providing clear and accurate regarding contingent benefits supports informed financial planning. Reliable CSP data can offer reassurance to members and their families regarding the financial position of surviving dependents

3. Data considerations when undertaking a bulk CSP calculation exercise – An Overview

It's important to understand the data requirements for any CSP exercise, as these will be directly linked to the level of accuracy the scheme seeks to achieve. Several calculation methods are available, each involving different trade-offs between precision, cost and operational effort. Later sections of this Guidance explore these methods in more detail.

This section considers how schemes can assess whether sufficient data is available to calculate CSP values accurately, the types of data required and practical steps to improve data quality where gaps are identified.

Before undertaking CSP calculations, schemes should: • Validate retirement data for completeness and consistency • Identify gaps in commutation amounts, pension tranches and other key data items (set out in more detail below) • Agree fallback assumptions or processes for incomplete records • Establish a plan for maintaining CSP values, including the application of pension increases	To streamline calculations, members may be triaged to identify differing levels of complexity and data quality. For example: • Group savers by data completeness and benefit category • Identify candidates suitable for bulk calculation • Flag exceptions requiring manual review • Exclude single-life elements (e.g., AVCs, severance pensions, bridging pensions) from spouse pension calculations

Data validation checks should always be undertaken to assess accuracy and completeness. While validation can't guarantee accuracy, it can identify anomalies and outliers, allowing targeted investigation and remediation.

Where data gaps are identified, schemes may consider deriving missing information from other reliable data fields, reviewing digital member records or extracting information from scanned file documentation where available.

Trustees should agree and document fall-back assumptions for cases where only partial data is available. Establishing a clear governance framework, potentially through a working group or formal decision making process, will help ensure consistency, transparency and auditability of decisions.

4. Areas to consider when assessing data accuracy for CSP calculations

In some cases, a relatively simple calculation may be sufficient to produce an accurate CSP value, particularly where scheme rules are well suited to straightforward methodologies. Examples include:

Members who didn't elect a Pension Commencement Lump Sum (PCLS)

In these cases, no pension has been exchanged for cash at retirement and the pension in payment may be used as the basis for the CSP calculation (subject to any single-life benefit elements)

Schemes where the CSP is explicitly based on post commuted pension

Where the spouse's pension fraction is 50%.

As the statutory GMP survivor pension is typically based on a 50% spouse's pension, schemes adopting a 50% spouse's pension may reduce the need for rebalancing across pension tranches

Simple tranche structures

If a member has one pension tranche before and after electing PCLS, it may be easier to obtain the CSP amount as no consideration needs to be given in terms of pension commutation order or approach.

Cases should be triaged into groups, with simpler cases suitable for bulk calculation and more complex cases flagged for manual review. In some instances, additional data gathering or bespoke assessment may be required. Schemes should document the rationale for any grouping and the criteria used to determine whether cases are suitable for bulk calculation.

5. Additional consideration is required in the following areas

GMP Treatment:

A surviving widower or civil partner normally only receives a pension of 50% of the part of the saver's GMP built up after 5 April 1988. This could be problematic to consider the calculation of the CSP at retirement date for a female saver who retires before GMP Age. The timing of the calculation of CSP (date of retirement, GMP age, date of death) will also impact the considerations for GMP

Commutation:

Full or partial commutation of pension, where a portion of the pension is exchanged for a lump sum, the commutation may not include the spouse's pension

Single life elements:

Single-life elements must be identified and excluded from the CSP calculation where appropriate. These may include:

- AVC pensions
- Severance pensions
- Augmentations
- Equivalent Pension Benefit (EPB)
- Cash as of right converted to pension
- Bridging pensions (or equivalent)

AVC benefits:

The treatment of AVC benefits should be clearly understood. Depending on scheme design, AVC benefits may or may not provide contingent spouse benefits

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Pension correction exercises:

Where historical corrections have been applied to pension amounts, it's important to confirm the electronic administration record reflects the revised starting pension and tranche data. Reliance on outdated values may result in incorrect CSP calculations

GMP reconciliation/rectification:

Adjustments arising from GMP reconciliation or rectification exercises may alter pension amounts post-retirement. Schemes should ensure any such adjustments are fully reflected in the data used for CSP calculations

Pension Increase Exchange (PIE) exercises:

These can change the CSP make-up between date of retirement and date of death especially when effective post-retirement date. Trustees should identify whether Is the data available to identify the change

Pension Sharing Orders (PSO):

Divorce proceedings often allow for a portion of the spouse's pension to be transferred as part of a financial settlement. It's essential this data is clearly recorded.

GMP equalisation requirements:

Trustees should understand whether own and opposite sex tranches required for the CSP values

Data improvement

Where data is incomplete or inconsistent, records may require review and correction. This may involve developing bulk solutions to derive missing data or undertaking individual member file reviews, either through automated extraction tools or manual inspection.

Where members elect to take a PCLS, additional work may be required to determine pre-commutation pension, pension tranches and confirm the elements subject to commutation. The extent of this work will depend on the calculation approach adopted and the quality of the data held.

6. CSP calculation approaches

This Guidance doesn't seek to promote a single methodology for calculating a CSP. Instead, it outlines a range of approaches and highlights the factors schemes should consider when calculating CSP values across different member groups and benefit structures.

For active and deferred members, the calculation of the CSP is often straightforward, typically a percentage of the deferred pension recorded on the administration system.

For pensioner members, there are often more considerations to the calculation than simply applying a percentage factor. Calculation complexity, combined with incomplete or unreliable retirement data stored electronically, means historical file review may sometimes be required. The electronic retirement data can't always be relied upon for business-as-usual administration and individual calculations may be undertaken when dependant benefits become due.

Where a scheme holds CSP data, it may be maintained through annual pension increases, although this requires additional coding and data storage.

There are several methods available to calculate the CSP for a pensioner with corresponding tranches. Each has advantages and limitations depending on data quality, purpose and scheme design. Examples of common approaches are set out below:

APPROACH 1

First Principles	
When to use: When detailed data (salary, accrual, service, retirement factors, post-retirement pension variations) is available, or when member-specific accuracy is essential	
Advantages:	**Limitations**
• Most accurate • Highlights other data inconsistencies • Works where date of leaving data is strong but retirement data is poor	• Time-consuming • Costly for large groups • Significant manual input required

Under this approach, the CSP is calculated on first principles using underlying benefit data. In more complex cases this may require reference to final pensionable salary, accrual rate, pensionable service, revaluation, early/late retirement factors and the impact of any rectification exercises (e.g. GMP adjustments). This information can be used to recalculate the member's pension at date of leaving and derive the pension payable at retirement.

Scheme annual pension increases would then need to be applied from the retirement date, alongside any adjustments arising from any post-retirement events (e.g. PIE), to establish the current CSP value. This method may require reference to paper files/electronic member prints and historic scheme documentation where available. File scanning and search technologies can support such an exercise.

This approach involves recreating the member's pension and tranche structure at retirement. It may be particularly effective where the date of leaving is reliable, but retirement data is incomplete or inconsistent.

Under this method, each member is typically reviewed on a case-by-case basis. It's most used when the administration team needs to establish CSP values at the point of a first-life death and CSP values aren't held electronically.

Consistency checks should be performed to validate the reasonableness of the reconstructed pension and tranche data. Administering checks on the first life pension can highlight other areas of concern within the record, therefore this method can be time-consuming to perform and likely to require significant manual input.

APPROACH 2

CSP calculated at retirement	
When to use: When CSP values can be calculated at retirement and maintained electronically with annual increases	
Advantages: • Provides accurate, up-to-date CSP in most circumstances • Straightforward for ongoing administration	**Limitations** • Pension increase skew risk in certain cases • Requires ongoing data maintenance • Still requires supporting data for a bulk exercise

Under this approach, the CSP and pension tranches are calculated at retirement date using the retirement data. CSP values are held electronically at retirement date and can be tracked each year by applying the scheme's annual increases. If a member dies leaving an eligible dependant, the amounts can be employed to arrange the dependant's pension.

This approach has limitations. In certain circumstances, a pension increase distortion may arise, resulting in an inaccurate CSP value at the current date. This can occur where the CSP is calculated prior to the saver's death, particularly if different pension increase rates apply to the member and the spouse, or where the spouse's pension doesn't equate to 50% of each pension tranche.

APPROACH 3

Pre-Commuted Pension recorded	
When to use: When pre-commuted pension and tranches are available at retirement and maintained electronically with annual increases	
Advantages: • Enables calculation of accurate, up-to-date CSP in most circumstances • Straightforward for ongoing administration	**Limitations** • Requires ongoing data maintenance • Still requires supporting data for a bulk exercise

This approach requires the pre-commutation pension at retirement, together with the associated pension tranches. These amounts may not always be held for historic retirements, a backfile review or first principles approach may be required to derive missing information.

The pension tranches are updated annually by applying the scheme's annual increases. On the death of a pensioner, the spouse's pension percentage is applied to the total pre-commuted pension at current date. A hierarchy may be required to determine the allocation across tranches, with one tranche typically acting as a balancing item. Annual calculations are required to re-balance the pension tranches to prevent pension increase skew between tranches.

APPROACH 4

Commuted Pension	
When to use: When commuted pension tranches at retirement are available and can be tracked annually	
Advantages: • Builds directly from retirement data • Enables calculation of accurate, up-to-date CSP in most circumstances • Straightforward for ongoing administration	**Limitations** • Requires exclusion of single-life elements • Complexity in rebalancing excess • Still requires supporting data for a bulk exercise

Under this method, the commuted pension tranches are recorded at date of retirement and tracked annually by applying the scheme's annual increases.

In the event of death after retirement the following steps are taken:

- Obtain the pre-commutated pension at date of death by combining the commuted element (increased to date of death) with the residual pension at that date
- Apply the spouse's pension percentage
- Re-balance excess if required

The data required includes residual pension tranches, commuted pension tranches and the spouse's pension percentage. The residual pension must be adjusted to exclude any single-life elements.

APPROACH 5

Ratio Method	
When to use: When data is limited or timescales are short (e.g. initial feasibility or pricing)	
Advantages: • Quick and pragmatic • Useful for bulk estimates	**Limitations** • Only approximate • Assumptions (e.g. PCLS at 25%) may distort results • Fails where escalation or GMP complexities apply

This simplified approach applies a ratio derived from the total pre-commutation pension and total residual pension at retirement to the current pension in payment to estimate the CSP. It may be appropriate where data is limited or where time constraints require a pragmatic estimate (e.g. at early feasibility or pricing stages).

Where data is incomplete, assumptions may be required regarding the level of PCLS taken at retirement (e.g. assuming 25%). However, this method has limitations. Variations in commutation bases across tranches, differing escalation rates, GMP coverage or anti-franking adjustments, and gender-specific GMP treatment (particularly in respect of pre-88 GMP) may reduce accuracy unless further adjustments are applied.

Considerations:

Where larger scale CSP projects are being considered, often a combination of calculation approaches will be necessary to obtain the best outcome for the scheme.

Other scheme specific factors, such as application of early retirement factors, temporary pensions or young spouse reductions can impact the approach, alongside legislative requirements and restrictions.

7. Conclusion

It's highly beneficial for schemes to hold and maintain sufficient data to enable CSP values to be calculated or verified without delay. A structured data review and calculation exercise can help ensure consistency while identifying areas requiring remediation.

The duration and cost of CSP projects will depend primarily on data quality and availability. Scheme benefit complexity and membership size are key influencing factors.

Careful consideration should be given to the CSP calculation method, recognising each approach carries limitations and certain member groups may require bespoke treatment.

When processing new retirements, it's good practice to populate the electronic record with sufficient data to support future CSP calculations and ongoing maintenance.

Trustees are encouraged to embed CSP considerations into their wider data management strategy. This proactive approach supports efficient administration and aligns with PASA's Data Quality Principles. It also helps schemes prepare for insurer transactions and pensions dashboards, provides members with clear information to support financial planning, and ensures dependants receive the correct benefits at the appropriate time.

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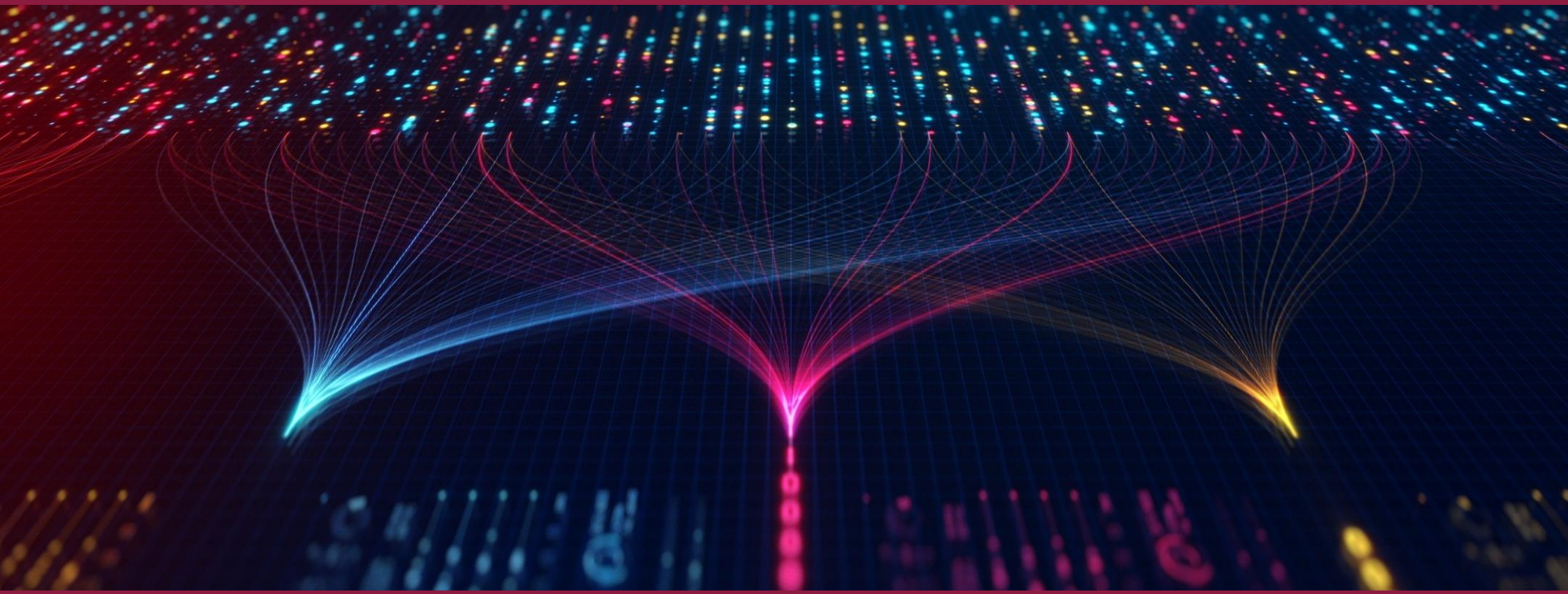

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