



Administrator's Voice

Edition 1, December 09

A practical guide to pension scheme administration



Lost in postcodes

Tony Brown, Head of Specialist Operations at MNPA looks at one of the crucial components of data and why it is so important when administering pension schemes: the humble postcode.

'I don't think we're in Kansas anymore Toto'.



This classic line from The Wizard of Oz is a useful expression to describe a situation or a time when we have lost our bearings. If only Dorothy knew her postcode (or zip code as she was in Kansas) she could have used a SatNav to navigate her way back home. Today, postcodes are an important part of our lives and impact on us in more ways than we might initially think.

Postcodes enable letters to be delivered quickly to friends and family, allow business post to be sent cost effectively and help you navigate to a destination.

In fact, postcodes are used constantly in everything we do and can have a significant impact not only on your wallet but also on your life, affecting the level of your insurance premiums, access to the schools your children can attend, the medicines you qualify for on the NHS, etc.



The history of postcodes and pension schemes

Pension schemes haven't always stored postcodes. For a long time, following their formal introduction in 1974, postcodes were seen either as unnecessary or merely a nice to have. They were new and their usefulness, outside post office sorting centres, was unknown. And this was reinforced by the cost of data fields – adding extra data fields to systems was expensive and time consuming. Ten years later, they were still seen as just another line in the member's address. It wasn't until the late eighties that it became standard to have separate data fields for postcodes.

Director's Comment



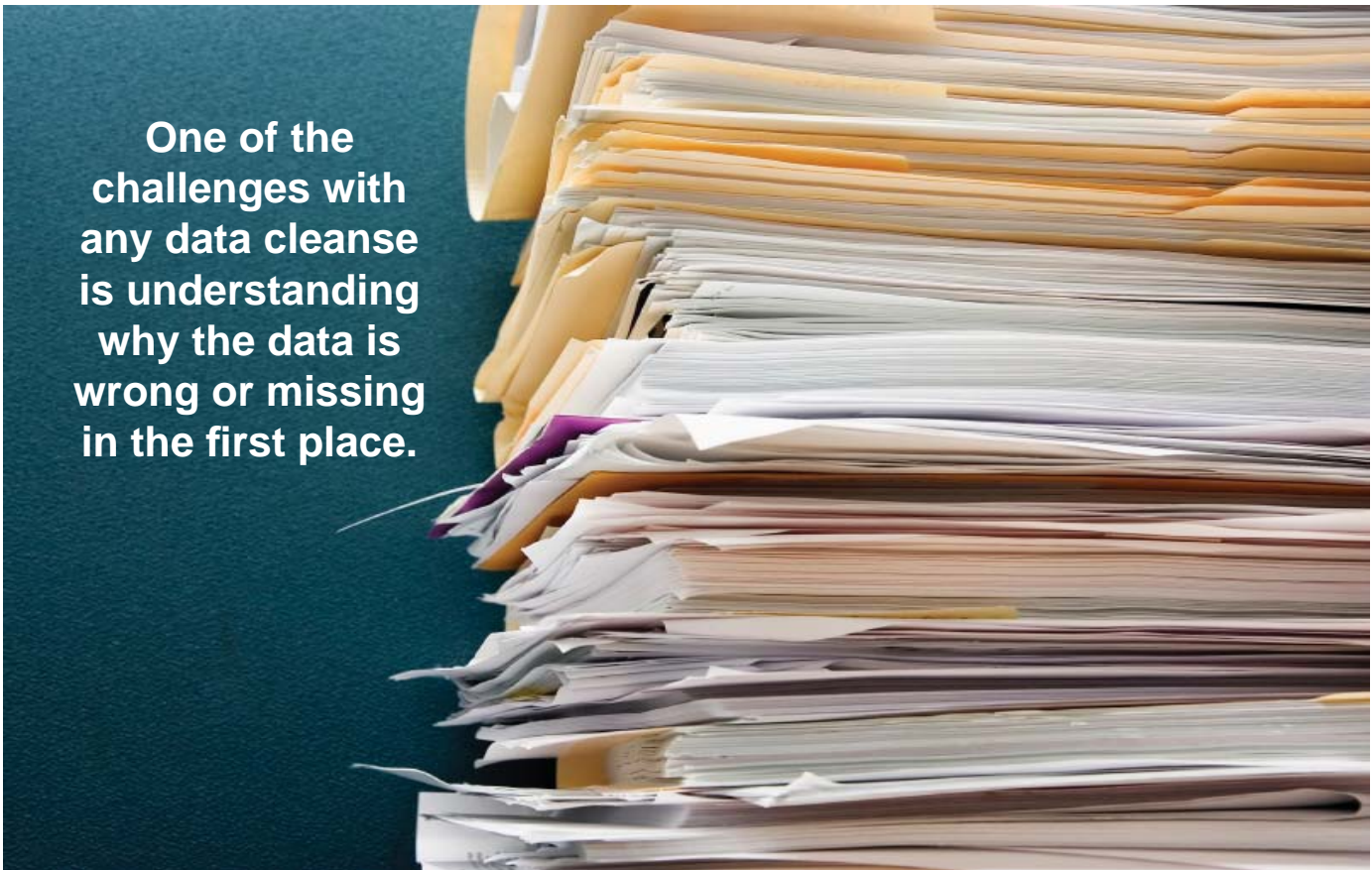
Sue Applegarth
Managing
Director, MNPA

Hello and welcome to the first edition of MNPA's industry newsletter.

Administrator's Voice, written by our team of in-house experts will provide you with practical guidance on a range of topics relating to pension scheme administration.

Each issue will focus on a different theme and will explore some of the industry's hottest topics. Our first edition takes data as its central theme and explores the importance of postcodes - yes, holding them correctly really can impact on the cost of your scheme – both from a funding and a service-delivery stance.

We hope you find the newsletter interesting and would welcome any thoughts or feedback you'd like to share.



One of the challenges with any data cleanse is understanding why the data is wrong or missing in the first place.

Postcodes have gradually become a more important piece of data and are now critical in supporting a number of processes and strategies in the life of a pension scheme. For example, schemes regularly issue statements, mail shots and information to members. Having a postcode present can ensure that correspondence is delivered to the right address, at reduced cost, if the Royal Mail mailsort and walksort methods are used.

Strategic impact

Research shows that where a member lives can have an impact on life expectancy; we've all heard the stories of people in affluent areas in the southeast living longer than those in some parts of Glasgow. More tangibly, the cost of purchasing an annuity at retirement can differ significantly depending on your address.

So, postcodes can have a significant impact on the cost of benefits and therefore on funding assumptions. Actuaries now scrutinise mortality rates for different parts of the country as part of their scheme valuation process. And this scrutiny is expected to become more intense as techniques and software become more sophisticated with experience, and the data it generates, grows.

But it's not just ongoing valuations that can be affected by the use of postcode data; the costs of buy-outs, buy-ins and wind-ups can be significantly affected

by postcode data and the knock-on assumptions for mortality. So here too, having postcodes for all members can affect the cost of such exercises and therefore the trustee's strategy for the scheme.

Actions to take

As part of the data management plan, trustees need to consider the practical implications of the postcode data they hold on the member's main, electronic record. The first action is to ask your administrator where postcodes are stored. The answer may come as a surprise.

Some older schemes:

- won't have any postcodes
- won't have them for some member categories e.g. old paid-up sections
- may hold them on paper records e.g. member application forms, and many will be out of date anyway
- may hold them on microfiche or film e.g. old early-leavers' records, and again, many of them will be out of date.

Younger schemes will have postcode records for most of their members but they may just be part of the address field and not in a separate data field which makes it difficult to report on members by postcode.

Discussions with your administrator will give you the information you need to develop a plan to fill the gaps and update the records. And the plan will vary depending on whether or not there is a postcode and where it is held.

If there isn't a postcode, or you feel the postcode is likely to be incorrect, you can obtain it. One way is to use a data services company with access to the Royal Mail's Postal Address File (PAF). By providing them with the addresses you hold, Royal Mail can identify the matching postcodes, fill in the gaps and provide an updated file of postcodes back into the system. This will also help you to update your records to reflect changes to postcodes as the Royal Mail changes up to 11% of postcodes each year.

If you have postcodes but they're not held on the member's main electronic record or in a separate data field, you may want to take a different approach.

If you think members' addresses are likely to be up to date, you can either use the existing record and manually insert the postcode into a separate data field, deleting any postcodes held in a shared data field, or use a data service company.

Whatever you do, you need to be confident that 'correcting' the member's record doesn't create problems for members. The real life case study below looks at what can happen if the right controls are not in place when you update records.

And back to the yellow brick road

Dorothy didn't find it easy, but she kept on going through the obstacles and hurdles and came out at the end with integrity intact, a bright new future and a way home.

Tony Brown, Head of Specialist Operations, MNPA

Detail – a case study

The new AVC member, the AVC provider and the postcode shortcut that led to a major complaint!



A new AVC member filled out a paper application form and dutifully returned it to an insurance company. The insurance company input the data and shortly afterwards sent out two sets of documents to the member's home address. One set contained login details to the secure member web facility, and the other contained password details as they were rightly taking precautions to minimise fraud.

5 points to the insurance company.

However, instead of using the address and postcode provided by the member on the application form, an electronic address-matching system was used. As a result, both documents were sent to another address on the same road opening up the possibility of identity theft and fraud, let alone frustration and time in having to correct the error.

10 points away from the insurance company.

The moral of this story is that it is vital to have the right controls in place even for straight-forward activities, such as updating a member's address. To avoid the type of mistake described above, trustees should ask detailed and penetrating questions about the management of their data, what processes and controls are in place, how updates are applied and how data is maintained. Think about data security issues, scheme reputation and remedial costs when you speak to your administrator and, together, agree your data management plan.

Data management

by **Mike Clark**
Senior Client Manager, MNPA



Data is at the heart of pension scheme administration – scheme records drive everything, so they have to be complete and accurate. Good data is the key to efficient and cost effective administration so the right benefits are paid to the right members at the right time and the PPF levy is calculated at the right rate.

In these cash-conscious times, good data also provides a reliable foundation for strategic decisions: from the management of future liabilities and funding levels to the future of the scheme. If those decisions involve considering a buy-in or buy-out, a merger or indeed an acquisition, having accurate information enables realistic and reliable costings to be provided. If a scheme winds up or enters the PPF, then accurate data is vital.

Here are our three steps to make sure you stay ahead:

Step 1. Know where your data is

Find out and understand how your scheme records are stored:

- Electronically in their own data fields or in a back file
- On fiche or film
- On paper
- On spreadsheets
- A mix of the above

If your data is stored in more than one place, ensure that all records are automatically updated when new information is received.

Step 2. Know what data you have

Carry out an audit of your core data to find out how complete and accurate it is. Core data for each member should include:

- National Insurance number
- Surname
- Forename or initials
- Address
- Postcode
- Gender
- Date of birth
- Date pensionable service/ policy/contributions started
- Expected retirement/maturity date
- Membership status
- Last status event

Your scheme will hold more data than this, most of which will be scheme specific, reflecting the history and the detail of its benefit bases. You will need to check it all in time – but you need to start somewhere. Refer to the Pensions Regulator's list of Common Data for more information.

Step 3. Decide how you are going to manage your data effectively in the future

Understand the results of the audit

- Identify what is:
 - Missing
 - Incorrect
 - Needs further clarification
- Find out what your administrator advises to enhance your data management

Create and agree a data management plan that will improve and maintain the quality of your data.

The Data Management Plan

Once you've completed your data audit, you can begin work on your data management plan. Data management is a continuous process. It is vital to update existing records, maintain data on an on-going basis, and build procedures to ensure your data is complete, consistent and concise moving forward.

Existing records

Once you have cleansed your data, it is worthwhile spending the time to understand how and why it was incorrect. The reasons will vary and could include the following:

History

- Old records lacking information - e.g. postcodes
- Incomplete records being passed to a new administrator
- Records being held away from the main database system

Data updates

- Members not updating their addresses and changes of name
- HR not providing updates in relation to hours, salary or service dates

Incomplete new data

- Incomplete part-time worker histories
- Early leavers aren't notified
- Inconsistencies between payroll providers used at different employer locations
- Poor communication between HR and payroll



On-going cleansing

Data will change so you need to consider on-going cleansing. This doesn't mean performing data cleansing every few weeks or months, although of course you could but it may be costly, but instead having the appropriate mechanisms in place to ensure good data is captured at source.

Follow best practices for future data provision

The data management plan needs to address a number of questions, including what data to correct and what controls to put in place to prevent future errors and gaps. This may mean refining your data interfaces, introducing additional controls to ensure correct data is loaded, or changing working methods at the company to name but a few.

Regular reporting & review

The plan should include regular and detailed reporting to track any issues around data. Early indication of potential issues will allow corrective action to be taken in a timely manner.

When you consider your scheme, its history, size and complexity, it may be difficult to decide where to begin. But like any journey, you have to start somewhere and our guide will help you on the road to having good quality data.

Ask the Expert

Rachel Low
Head of Technical, MNPA



Whilst you're looking at scheme records to maximise administrative efficiency and cost effectiveness, now might be the time to look at options for very small pensions paid from the scheme. Rachel Low, Head of Technical, MNPA, looks at recent relaxations in the law that give trustees more options for paying very small benefits.

Q The scheme has lots of pensioners with very small pensions. Can I commute them?

A From December, you may be able to. The law was changed by the Authorised Payments Regulations 2009 (2009/1171) so schemes can commute small benefits, in a number of situations. However, these relaxations are separate from the trivial commutation provisions already in place and the law is very specific about when they can be used in each situation.

Q What do I need to do?

A Trustees need to check with their legal advisers whether the scheme rules permit these relaxations to be used. If they don't, you'll need to change the rules before you can commute these small benefits.

Additionally, the trustees should be aware that these relaxations were introduced by HMRC. The DWP is still changing its contracting-out legislation. Currently, if the benefits include GMPs and other contracted-out benefits, the trustees wouldn't be able to commute the benefits.

Q What are the conditions for commuting small pensions we're already paying and avoiding them in the future?

A In summary, the main conditions are:

- the cash lump sum paid is £2,000 or less and extinguishes the member's right to benefits in the scheme
- the member
 - is aged 60, but under age 75
 - isn't a controlling director, and
 - hasn't had any transfers during the last few years.

However, the origins of the small benefits and the members' situations must be looked at, in detail, to determine whether and how the relaxations may be used.

MNPA in the industry

Professional Pensions SHOW 2009

**18 & 19 November 2009 -
Professional Pensions Show 2009**

As the current holder of the Professional Pensions Administrator of the Year Award for 2009, we were delighted to exhibit at the 2009 Professional Pensions Show on 18 & 19 November at Excel, London Docklands.

Sue Applegarth, MNPA's Managing Director spoke on the second day of the conference. The subject of her presentation was 'Are Service Level Agreements (SLA's) in isolation the best method of ensuring excellent service levels, or is there more to it than that?'. The presentation was extremely well received by an appreciative audience.

Over the two days a constant flow of delegates visited the stand which was probably in part due to the offer of a relaxing head / back massage from a complementary therapist.

We also held a random draw over the two days with the prize being a spa day for two. This year's winner was Alan Lakin Assistant Pensions Manager of Philips Electronics. Well done Alan!

