Campaign Overview

Earlier this year, we conducted a survey to assess how confident trustees and corporate sponsors felt about 10 fundamental areas of pensions risk. We focussed on areas not directly covered by the Integrated Risk Management Framework, and asked respondents to rank the risks in order of their "stay awake" factor. We have now produced a series of 10 factsheets, each one commenting on one of the survey risks. Our red risk flags highlight some key warning signs, and our mitigation tips are designed to supplement existing areas of risk mitigation. Each factsheet assumes there is an established risk management system on which additional measures can be built.

Risk 1: Errors in Scheme Administration or HR/Payroll Function

Survey Result

This was the highest-ranked risk in our survey and of particular concern to schemes with less than £1 billion of assets. Although this risk is common to all pension schemes, 10% of respondents told us that this does not feature on their risk register.

Comment

The potential for "human error" is always present with administrative tasks and cannot be eliminated completely. According to our analysis, administrative errors were instrumental in around half of the complaints that were upheld or partially upheld by The Pensions Ombudsman last year.

Accurate data management is a vital part of running a pension scheme. Poor data leads to inaccurate pensions statements and, ultimately, incorrect levels of benefit. It can also result in extra cost or delay at critical times in a scheme's life cycle, such as when a buyout of benefits is contemplated or in the event that the scheme enters a Pension Protection Fund assessment period.

Accurate benefit processing has been important for as long as pension schemes have existed, but it is clear that The Pensions Regulator (TPR) is about to further increase its focus on this area. In July 2019, TPR stated that, over the next two years, it is seeking to drive up standards of "record-keeping and prompt and accurate financial transactions". Can trustees do anything further to improve data standards and administration processes?

Red Risk Flags

- Are there any member complaints that stem directly from poor record-keeping?

- Are there a number of similar member complaints?

- Is there a heavy reliance on manual processes for benefit calculations?

- Is there a long-standing scheme administrator, possibly working under an old contract? Inaccuracies often come to light when trustees change their scheme administrators. Outdated contract terms may not adequately protect the trustees if things go wrong.

Mitigation Tips

- Consider an independent audit of a percentage of member records. Make sure that these represent the whole scheme.

- Review member queries and complaints to establish any patterns.

- Schedule a review of "old" contracts and allow time for a legal review where new contracts are being agreed.

- Review processes relating to the flow of information between the employer and the administrators.

- Consider checking that benefit practices match the requirements of scheme rules (see our next factsheet on Risk 2 for more on this).

A Word from The Pensions Regulator

"You can choose to delegate responsibility for administration (including to a third party) but you retain ultimate accountability and you need to ensure that what you've delegated is being delivered. You should have processes and structures in place to scrutinise your administrator. Equally, you cannot rely on the scheme auditors to identify data issues."

(From "A Quick Guide to Record-Keeping", March 2019)