

Part Three: Pensions Systems and Administration

Introduction

Welcome to the latest phase of our #PensionsTensions campaign, exploring the current challenges faced by trustees and sponsoring employers of occupational pension schemes. Effective risk management is undoubtedly the key to running a pension scheme well and is the dominant theme in The Pensions Regulator's (TPR's) draft single code of practice. Each factsheet in this series sets out our top "red risks", as well as some mitigation tips and a #PressureMeasure that shows whether we think the pressure on trustees and sponsoring employers is increasing or decreasing. Each factsheet assumes that there is an established risk management system on which additional measures can be built. Do not forget to check our timesaving tip!

In this factsheet, we examine (some of) the risks associated with pensions systems and administration.

Comment

It is easy to view the systems and administration processes required to ensure the smooth operation of a pension scheme as a burden with little immediate benefit. However, systems that do not work as they should lead to failures and errors that can cost schemes significant amounts of time and money to address.

Systems/Administration Issues

Many business functions have adapted to a new way of working since "lockdown 1" in March 2020, including pensions administration. For most schemes, the transition to a more remote way of working was seen as a success from an administration perspective. However, more recently, some administration processes have started to show strains and there is less patience with delays and missed deadlines than at the start of the pandemic. These strains may show further as work towards becoming "dashboard ready" commences in earnest. In addition, looming on the DC horizon is the consolidation of small pension pots and increased expectations from members to be able to draw benefits flexibly. There may be capacity issues.

Data Protection and Cybersecurity

Pension schemes hold a wide range of personal data that is held for significant lengths of time in order to administer benefits. Consequently, data protection is an ongoing concern and has become more complicated following the end of the Brexit withdrawal period if personal data is processed outside of the UK.

Trustees and employers made significant efforts to update systems in order to comply with the GDPR in 2018. However, data protection should not be considered as a "tick box" exercise that has now been completed. It is important to keep data maps, systems and agreements under review, particularly as scheme administration itself is updated (e.g. new service providers or new websites).

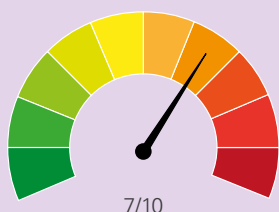
Cybersecurity is a particular concern for pension schemes, and TPR's draft single code of practice will require trustees to ensure that cybersecurity measures and procedures are in place and functioning. This is likely to mean more work for many schemes, but "proportionality" is key when trustees are formulating their approach. Consideration of the administrator's AAF report should be a good start point. Probe testing or auditing may be appropriate for larger schemes, or where security concerns arise.

Administration Errors

Member complaints can have any number of different causes, but it is clear that administration errors are a flashpoint. Complaints can take up a significant amount of trustee time, particularly where they escalate to The Pensions Ombudsman. When administration errors occur, they can have a material impact. It is important to take legal advice at an early stage to assess options for remedies and redress – including assessment of service provider contracts and insurance contracts.

Regular spot-checking of administration is important to identify errors as early as possible and analysing mistakes can help to prevent those errors spreading too widely within a scheme's population. Where new service providers are appointed (or reviewed), trustees should check contractual provisions to ensure that there are appropriate mechanisms to drive change where systemic administration issues are identified (and to compensate schemes for the cost of correcting errors).

#PressureMeasure: Pensions Systems and Administration







Administration processes and operational systems seem to have weathered the storm, but there are still strong headwinds. Prepare for turbulence.

GMP Equalisation



Finally, let us consider the elephant in the room. GMP equalisation has been on the horizon for more than 30 years and is now at the top of many trustee agendas. Balancing their strict legal obligation to pay the correct benefits with the time and cost of a complex and significant exercise that is likely to result in either no, or a very small, adjustment to member benefits will be challenging. Good project management will be critical.

The “right” solution is likely to vary according to individual scheme circumstances. Factors such as data quality, benefit design, historic transfer rates and whether/when the scheme is targeting buyout will influence timescales and how pragmatic trustees can (or need to) be. There is a significant amount of helpful industry guidance available and the court has given a clear indication as to trustees’ duties – inaction is not an option. However, some questions remain unanswered (particularly for trustees wishing to convert GMP into non-GMP benefits) and equalisation projects will need to fit into busy trustee agendas.

Adviser capacity constraints are likely to have an increased impact as time goes by, with so many schemes looking to undertake GMP equalisation in similar timescales. In the absence of external factors dictating timing (such as a buy-in or winding-up, when benefits need to be calculated with certainty), trustees may prefer to remain in the pack, but this could lead to enforced delays in project plans later down the line. At the very least, putting in some preparatory work (e.g. on data quality) now is unlikely to be wasted effort when projects kick off in earnest.

	<p>Red Risk Flags</p> <ul style="list-style-type: none"> • Do trustees receive reports from administrators showing how well agreed service levels have been met (and, if so, have they been met since March 2020)? • Are trustees aware of a high number of data breaches or cybersecurity breaches? • Do administrators have processes in place for “spot-checking” for calculation or payment errors? Does the scheme’s audit include such checks? • Are adviser quotes for dealing with GMP equalisation eye-watering?
	<p>Mitigation Tips</p> <ul style="list-style-type: none"> • Review administrator service levels and, if service levels are not being met, request additional administrator resources. • Ensure trustees and employers maintain data maps so potential breaches risks can be identified and addressed. • Test cybersecurity breach response plans to help identify potential issues and to ensure that any breaches are addressed swiftly. • Discuss GMP equalisation project plans with advisers to avoid duplication and ensure the project is run as efficiently and proportionately as possible.
	<p>What the Regulator Says</p> <p>“Any scheme depends on the timely and accurate processing of multiple transactions. These range from investing contributions in the scheme, to paying benefits when a member begins to access their retirement funds. A breakdown in any transaction can lead to member losses, and costs to the scheme and employer to put any errors right.” (TPR, draft single code of practice)</p>
	<p>Time-saving Tip</p> <p>A stitch in time saves nine. The time, effort and cost of dealing with something that goes wrong can vastly outweigh the time and effort of putting efficient processes in place. Regular testing of processes and systems should identify potential problems, meaning that trustees spend less time and money fighting fires and more time meeting their strategic objectives.</p>

Key Contacts

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