

**CAMBRIDGESHIRE  
PENSION FUND**



**Local Pension Board**

**Date:** 27 October 2017

**Report by:** Head of Pensions

<b>Subject:</b>	<b>Data Quality</b>
<b>Purpose of the Report</b>	To present members of the Local Pension Board with information on how data quality will be assessed and rectified and the progress of data improvement projects already underway.
<b>Recommendations</b>	<b>That the Local Pension Board notes the content of the report.</b>
<b>Enquiries to:</b>	Name: Jo Walton – Governance and Regulations Manager Tel: 07342 065329 E-mail: <a href="mailto:jwalton@northamptonshire.gov.uk">jwalton@northamptonshire.gov.uk</a>

**1. Background**

1.1 It is an essential that data held on scheme members is accurate and regularly reviewed.

1.2 The following legislation and guidance provides the legal requirement for pension schemes to hold accurate data.

1.2.1 Pensions Act 2004 – section 249B (inserted by Schedule 4 of the Public Service Pensions Act 2013)

*(1) The scheme manager of a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed –*

*(a) in accordance with the scheme rules and*

*(b) in accordance with the requirements of the law*

1.2.2 Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014

*(4) Retention of records of member and beneficiary information*

1.2.3 Data Protection Act 1988 Schedule 1: The Data Protection Principles: Part I – The Principles

*(4) Personal data shall be accurate and, where necessary, kept up to date.*

1.2.4 The General Data Protection (GDPR) (Regulation (EU) 2016/679) Article 5: Principles relating to the processing of personal data

*1(d) Personal data shall be: accurate and, where necessary kept up to date; every reasonable step must be taken to ensure that personal data they are inaccurate, having regard to the purposes for which they are processed are erased or rectified without delay.*

- 1.2.5 The Pensions Regulator's code of practice: governance and administration of public service pension schemes – code 14 (April 2015)

*Record-keeping – Failing to maintain complete and accurate records can affect the ability of your public service pension scheme to carry out basic functions. Accurate record-keeping is crucial in ensuring that benefits are paid correctly.*

- 1.2.6 The Pensions Regulator's: Compliance and enforcement policy for public service pension schemes (June 2015) sets out who is responsible for ensuring accurate data (i.e. scheme managers, pension boards and administrators) and the consequences of failing to do so.

## **2. Importance of accurate data**

- 2.1 Besides the legislative requirements to hold accurate data, the quality of membership data is essential for efficient administration of the Fund.

- 2.2 Failure to hold accurate data could lead to a number of serious consequences. Members may have their benefits calculated incorrectly causing inconvenience, discontent and reputational damage. Overpayments may prove irrecoverable.

- 2.3 Poor quality data can also delay bulk activities, such as the production of annual benefit statements. A lack of confidence in the scheme data may also lead to the Fund actuary making more conservative assumptions which could mean additional costs for scheme employers.

- 2.4 Good quality data has a number of positive benefits for the scheme:

- Data can be better understood and relied upon
- Reduced exceptions (less manual calculations)
- Increased KPI performance
- Options for self-service more deliverable
- Data becomes more portable (easier to migrate to other systems)
- Reduced risk of fraud

- 2.5 In the Pensions Regulator's record keeping guidance, two sets of data are highlighted as priority to be accurate and regularly reviewed. These sets of data are known as common and conditional data.

- 2.6 Common data is defined as data that all types of pension scheme should hold, regardless of its benefit structure and design. Common data should be 100% accurate. These data items are as follows:

- National insurance number
- Name
- Address

- Gender
- Start of pensionable service
- Retirement date
- Membership status
- Last status event

2.7 Conditional data is defined as scheme specific data and in respect of the LGPS are as detailed below, but not limited to:

- Scheme employer
- Contributions
- Membership of 80ths / 60ths / 49ths schemes
- Pension sharing orders / earmarking orders
- Pensionable pay / pensionable pay history
- Transfer in details
- Deferred benefit details
- Additional Voluntary / Regular / Pension Contribution details
- Expression of wish details
- Annual and lifetime allowance

### **3. Data quality assessment**

- 3.1 In order to demonstrate compliance with the law in the area of data quality the Pensions Regulator will expect a data improvement plan to be produced based on an assessment of the quality of the existing data.
- 3.2 Regular checks of data quality are already undertaken by the fund most notably in year-end processes, the production of annual benefit statements and when benefits are calculated and put into payment.
- 3.3 A more holistic assessment of all data held by the Fund is required to ensure compliance with legislation and also to realise the benefits of accurate data as detailed in section 2.4 of this report.
- 3.4 In order to conduct such an assessment, LGSS Pensions are in the process of entering into a partnership with ITM Limited to produce a product that will perform an assessment of the data held on the pensions administration system and also the pensions payroll module.
- 3.5 ITM Limited are a data audit company who have considerable experience in conducting data audits within private sector pension schemes and are currently contracted to undertake stage two of the contracting out reconciliation in respect of this fund.
- 3.6 The assessment, undertaken by ITM Limited with data uploaded to a secure portal, will identify if common and/ or conditional data is missing, inaccurate or inconsistent.
- 3.7 In addition to common and conditional data, an assessment will be made on other relevant data that is critical to effective and accurate administration. A suite of reports will be produced to highlight areas requiring rectification and improvement from which a data improvement plan will be constructed.

- 3.8 The data improvement plan will contain areas of priority and target dates for completion. Progress against the plan will be reported to both the Pension Committee and Local Pension Board at each meeting.
- 3.9 It is intended that ITM Limited will be contracted to perform an analysis once every year for the next 3 years and the data improvement plan will be updated accordingly.

#### **4. Next steps**

- 4.1 As soon as the terms of the partnership arrangement have been agreed by both the County Council and ITM Limited work will begin to devise the specification for the data quality assessment product. This will be followed by the necessary testing to ensure the product is producing reliable output.
- 4.2 Once ITM Limited have carried out the assessment and provided officers with the findings a data improvement plan will be constructed and presented to the Local Pension Board for comments and then to the Pension Committee for approval.

#### **5. Data improvement projects in progress**

- 5.1 In the meantime it is important to note the LGSS Pensions are already undertaking two large scale data improvement projects. These projects are a detailed reconciliation of the pensioner payroll system against pension administration records and a reconciliation of the contracted-out membership data held by the scheme and that recorded by HMRC.
- 5.2 These projects are outlined in in section 6 and 7 of this report and will also feed into the final data improvement plan.

#### **6. Pensioner payroll reconciliation**

- 6.1 With effect from October last year, the pensioner payroll was moved away from the Council's Oracle payroll system to LGSS Pensions' Altair administration and payroll system. All pensioner members' payroll records were merged with their respective administration records.
- 6.2 Following on from this, it was considered necessary to ensure that the appropriate rate of pension is in payment and also to comply with the regulations in section 1 of this report on ensuring only accurate data is held.
- 6.3. An analysis of the pensioner administration system pension in payment compared with the pension physically in payment on the pensioner payroll was carried out with the potential variances greater than £100 per annum identified as detailed in the table below.

<b>Potential Over/Underpayments</b>	<b>Number to be investigated</b>
Underpayments £100+ pa	681
Overpayments £100+ pa	933
<b>Total potential over/underpayments</b>	<b>1,614 of 17,303 pensions in payment</b>

- 6.4 These variances are currently being investigated with progress as detailed in the table below. It is anticipated that the reconciliation stage of this project will complete by 31 December 2017 with the rectification stage commencing 1 January 2018.

Potential Over/Underpayments	Number investigated	Number of genuine over or under payments
Underpayments £100+ pa	493	184
Overpayments £100+ pa	324	80
<b>Total potential over/underpayments</b>	<b>817</b>	<b>264</b>

## 7. Contracting-out reconciliation

- 7.1 On 5 April 2016, the ability for defined benefit pension schemes to contract-out of the state second pension ceased upon the introduction of the new flat rate state pension with effect from 6 April 2016.
- 7.2 As such all UK pension schemes that were contracted out of the state second pension are advised to reconcile their individual member records with that held by HMRC by 31 December 2018 to ensure that schemes hold the correct period and amount of contracting-out liability.
- 7.3 Failure to ensure that the correct liability is held could expose schemes to a liability to pay a member, ex-member or their dependant, a pension that they aren't entitled or have previously extinguished (via a transfer of pension benefits to another scheme or a refund of contributions).
- 7.4 HMRC are operating a contracting-out reconciliation service that will run until 31 December 2018. After this date HMRC will no longer accept any amendments to their records and will write to all individuals and advise them of their period of contracted-out membership, its monetary value and which pension scheme is liable to pay pension benefits in respect of it.
- 7.5 An analysis of the extent to which data held by HMRC differs to that held by LGSS Pensions has been carried out by an external data audit company, ITM. The results of this analysis are detailed in the table below:

Scheme membership type	Number of cases to be reconciled	Number of cases reconciled	% of cases still to be reconciled
Active	31,567	21,052	33.4%
Deferred	30,778	13,509	56.2%
Pensioner	17,279	9,633	44.3%
<b>Total</b>	<b>79,624</b>	<b>44,194</b>	<b>44.5%</b>

- 7.6 It should also be noted that across the pensions industry most pension schemes are not planning to investigate a contracting-out liability that differs by less than £2 per week. This threshold has been applied to derive the numbers reported in section 7.5 of this report.

- 7.7 ITM are now progressing the reconciliation of data directly with HMRC. This stage of the project is due to complete by 31 December 2017. By this time ITM will have reconciled and agreed with HMRC the contracting-out period and the amount of liability in respect of this Fund.
- 7.8 The next stage will be for LGSS Pensions to calculate any over or underpayments that may be due in respect of previously holding an incorrect amount of contracting-out liability for scheme members whose pension is already in payment.
- 7.9 There will be a need to consider how overpayments are to be managed as a result of an incorrect amount of contracting-out liability previously being paid. LGSS Pensions will draft a revised overpayments of pensions policy, incorporating guidance issued by the Local Government Pensions Committee, to the Local Pension Board for comments and the Pension Committee for approval in December 2017.
- 7.10 The Local Pension Board will receive regular updates on how this reconciliation project is progressing via updates on the data improvement plan.

## **8. Finance & Resources Implications**

- 8.1 The cost of engaging external support in achieving accurate data will be met from the administration budget.

## **9. Risk Implications**

### **a) Risk(s) associated with the proposal**

<b>Risk</b>	<b>Mitigation</b>	<b>Residual Risk</b>
There are no risks associated with ensuring that records held on members are accurate	N/A	Green

### **b) Risk(s) associated with not undertaking the proposal**

<b>Risk</b>	<b>Risk Rating</b>
Failure to ensure the records held are accurate would be a breach in the legislation detailed in section 1 of this report and could result in inaccurate benefits being paid.	Amber

## **10. Communication Implications**

<b>Direct communications</b>	Members affected by an overpayment of pension will be managed in line with the Fund's policy on overpayments of pension.
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## **11. Legal Implications**

- 11.1 Failing to comply with the legislation detailed in section 1 of this report is a breach of the law, reportable to the Pensions Regulator.

## **12. Consultation with Key Advisers**

- 12.1 LGSS Law have reviewed the terms of the partnership agreement with ITM Limited.

**13. Alternative Options Considered**

- 13.1 Other suppliers of data quality assessments were considered but did not offer the same flexibility, result reporting and value for money.

**14. Background Papers**

- 14.1 Not applicable

<b>Checklist of Key Approvals</b>	
Has this report been cleared by Head of Pensions?	Mark Whitby – 26 September 2017