Information for those running public service pension schemes

Public service pension schemes

An essential guide to issuing annual benefit statements

November 2018

The Pensions Regulator

Introduction

Annual benefit statements (ABS) are critical in enabling members to effectively plan or make decisions about retirement.

They provide members with information about their pension benefits, based on the data the scheme currently holds.

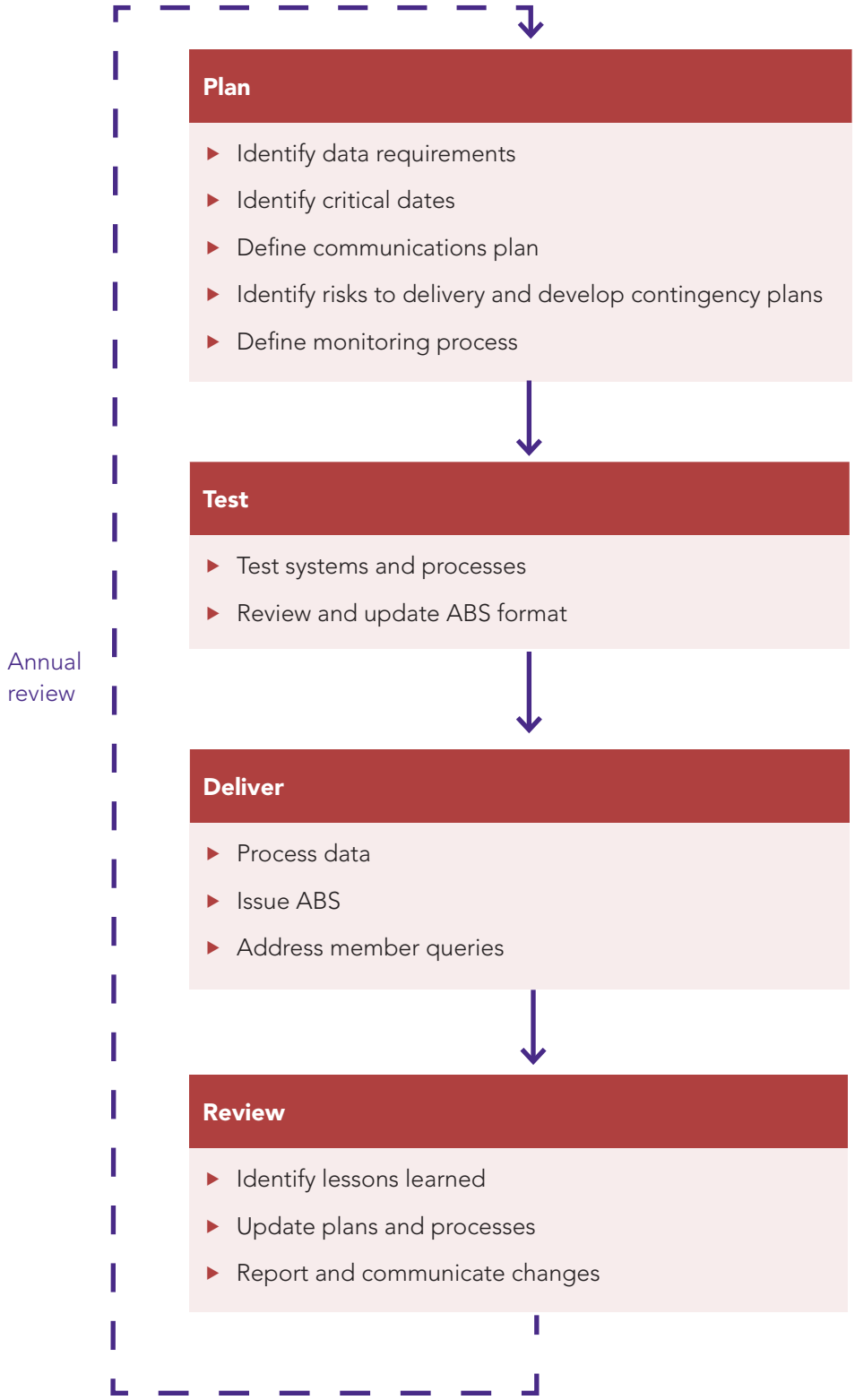
Through our engagement with public service schemes, we have identified a number of key points they may wish to consider when preparing to issue an ABS, the process for which we set out on the next page. We have also created a checklist for schemes to use which is available at **www.tpr.gov.uk/ps-comms**.

This guide is aimed at administrators,scheme managers and others involved in the running of PS schemes. This guide does not intend to set out comprehensively all the steps or actions schemes should take, and should be considered alongside the relevant legislation[1], and the practical guidance and standards set out in our code of practice, which can be viewed at **www.tpr.gov.uk/code14**.

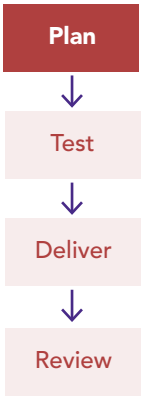
In addition, we have updated this guide to reflect a number of case studies that highlight some of the specific issues that we identified, and the outcomes of our engagement during TPR's Annual Benefit Statements 2017 Project.

1 Including scheme regulations, the Public Service Pension Schemes Act 2013 (PSPA13), the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (SI 2013/2734), **HM Treasury directions** and corresponding legislation in Northern Ireland.

The ABS process



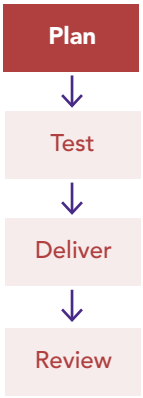
The importance of planning



As you plan for your scheme's year-end activity, you should consider what information you require and the steps you need to take to deliver an ABS in a timely and accurate manner. You should ensure early on that all stakeholders are clear on their roles and responsibilities, and what is required of them.

> "We didn't anticipate the extent of the impact the new data requirements would have on employers' ability to provide accurate data in time. We had to reallocate resources to chasing employers and resolving data issues and we couldn't meet the timetable." Scheme administrator
>
> "We communicated with all employers on the changes to the scheme and the change in our requirements regarding scheme member data. We did this through bulletins, information on our website, employer forums and specific training events." Pensions manager

Areas to consider



Identify data requirements

You'll need to identify the information your scheme administrator needs to enable them to produce an ABS. For example:

- What data is required as a result of PSPA13, scheme regulations, disclosure requirements or Treasury directions? Have there been any changes to these legal requirements you need to consider? Are there any gaps which need resolving eg outstanding joining details?
- Are any additional data items required by the scheme actuary for scheme valuation?
- Is any other information required?

You'll also need to consider who needs to provide this data, for example employers, payroll, HR or external payroll providers. Check when the data is needed by and in what format.

Find out what the process is for data quality assurance. For example:

- Process and ownership of data testing
- Process and ownership for resolution of data errors
- Resourcing required to deliver

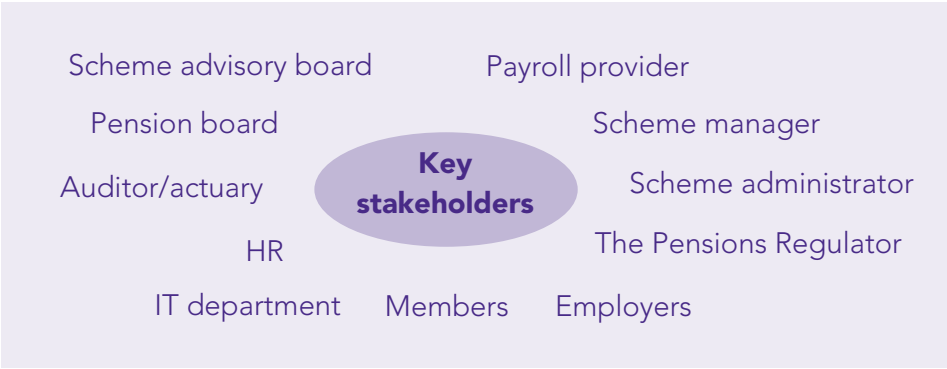
Identify critical dates

What are the critical dates which need to be met? Consider:

- Deadline for identifying and setting out data requirements
- Deadline for receipt of data from employers or payroll providers
- Data quality assurance process
- IT scheduling (eg testing)
- Internal or external governance deadlines
- Printing or publishing lead times
- Order in which ABS will be issued
- Deadline for issuing ABS in order to meet the legislative requirements

Communications

Identify your key stakeholders.



Are roles and responsibilities clearly defined? Have you clearly communicated the timelines?

Have you made sure that all stakeholders (in particular employers) are aware of what you need, in what format, and when you expect it by? Do you need to run through requirements with them to test their understanding?

Do you need to provide training? This may include training employers on data requirements, or training for the scheme administrator on answering queries from employers and members.

Consider additional engagement with new stakeholders, eg new scheme employers.

Keep employers, pension boards, and others informed on progress and issues in a timely manner.

Is a process in place for member queries once the ABS has been issued? Has ownership been defined, volumes estimated, targets set and resources assigned?

Identify risks to delivery and develop contingency plans

What are the potential risks to delivery?

- What action can you take to prevent the risk materialising?
- What actions are available to you if the risk does materialise?
- What are your points of contact and escalation routes?

Do you need to build in time for contingency into the plan?

Are your processes for identifying, assessing and reporting breaches of the law to us in place and fit for purpose? Are all relevant parties aware of these? See **www.tpr.gov.uk/ps-breaches** for more information.

Define the monitoring process

Now the requirements, timelines, stakeholders and risks have been identified, who is responsible for monitoring the progress of delivery? How will it be reported and to whom?

The planning process in summary

1. Identify data requirements
2. Identify critical dates
3. Define communications plan
4. Identify key risks to delivery and develop contingency plans
5. Define monitoring process

Test to pre-empt issues

Plan
↓
Test
↓
Deliver
↓
Review

Inappropriate systems and processes pose a major risk to schemes being able to issue timely and accurate benefit statements. It is important that you put appropriate systems in place and test them ahead of time.

> "The main cause of delays was software conflicts with the administration system provider. These took a long time to fix, and after the data we also had to test the printing."
> Pensions manager
>
> "Our employers can choose to provide an 'early' year-end file. This allows employers to ensure the reports are working correctly and allows us to start looking for data queries."
> Pensions manager

Areas to consider

Test systems and processes

Are the systems and processes fit for purpose? For example:

- Data receipt process – testing the employer interface, testing of data file format.
- Are the administration software and payroll software compatible – if not, can these incompatibilities be resolved or are workarounds required?
- Are your security protocols fit for purpose? Eg information handling protocols, encryption and password protection, process for resetting passwords.

Do your benefit calculation formulas need updating? Have there been changes to the benefit design (eg final salary to career average) or have new schemes been established?

If providing online statements – are any updates to the system required before ABS can be uploaded?

Review and update ABS format

Do you need to review the format of your ABS? For example:

- Does it meet the disclosure requirements?
- Is it easy to understand?
- Should you include a glossary or a frequently asked questions section as an appendix, or a guide to understanding the statement?
- Are appropriate processes in place for providing statements to members who require alternative formats for reasons of accessibility?
- Who needs to sign off the format of your ABS?

Is there any other information you should be including alongside the statements (eg on cessation of contracting out, death benefits nominations, new governance arrangements, update on the pension board's work)?

Plan
↓
Test
↓
Deliver
↓
Review

The testing process in summary

1. Test systems and processes
2. Review and update ABS format

Managing delivery

Plan → Test → **Deliver** → Review

Careful management of the delivery phase of the ABS process will help you swiftly identify and resolve issues, as well as inform the planning for following years.

> "We tested the data but there were a number of 'gone-away' members in the data file so it was another month before the printers got the clean data file. There was then a delay in the enveloping of the statements." Pensions manager
>
> "We accept monthly returns from employers so we can check and reconcile data on a more regular basis." Pension services manager

Areas to consider

Data processing

When processing data, there are a number of issues to consider:

- Have you checked the data against all member categories you are issuing statements to?
- Have you allowed for iterative quality assurance processes? For example load and test received data, resolve queries with employers and payroll providers, receive updated file, load and test updated file, resolve outstanding queries?
- Have you kept a log of any systemic issues for which you may have had to develop workarounds, so that these can be resolved before the next cycle?
- Have you tested the output of your calculations?
- Who will sign-off on the 'clean data' for submission to the printers or publishers?

Issuing the ABS

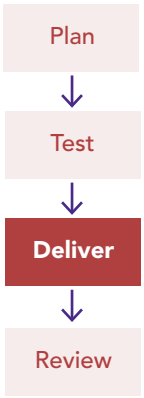
- Have you done a test run of the ABS print and preparation for postage? Are there any issues to resolve?
- If providing electronic copies, have you done a test run of the electronic file format?
- Is a process in place for returns ('not known' at address or email invalid)? Ensure these are logged and followed up on.

Member queries

Are you monitoring delivery? Ensuring appropriate records are being kept of member queries, processing times, and outcomes can inform your planning and resourcing in the following year.

The use of targets and key performance indicators (KPIs) can help you measure performance and identify where resources need to be deployed.

Capturing issues and trends helps you to understand training needs, but also where you may need to consider a more systemic fix to a problem.



The delivery process in summary

1. Process data
2. Issue ABS
3. Address member queries

Reviewing and refining

Plan → Test → Deliver → **Review**

The end of the ABS process provides an opportunity to learn and to inform the following year's plans. This is particularly important when new requirements are introduced. You should use this opportunity to proactively address issues and minimise the risk of issues arising again.

> "Our administrator experienced technical problems and the ABS were delayed. They conducted a review of lessons learned to avoid the situation recurring and they discussed it with the scheme manager. We submitted a breach of law report to the regulator as there was a delay of three weeks, which affected thousands of members." Chief technical officer
>
> "Following consultation with the largest employers in the scheme, we agreed a timetable for next year, taking into account all the issues we encountered this year. We set this timetable out in an all-employer bulletin to clearly set expectations for next year." Pensions manager
>
> "We have conducted a survey of employers to try and identify what improvements can be made, with the aim of making next year's process less troublesome." Scheme administrator

Areas to consider

Identify lessons learned

In addition to an internal lessons learned exercise, consider seeking feedback from other stakeholders including payroll providers, employers, printers and members, for example:

- What issues arose?
- How were these resolved?
- What could be done to prevent the issue from recurring?
- Are there any other areas that could be improved?

Update plans and processes

- Update your scheme year end and ABS processes to reflect lessons learnt.
- Where issues could not be resolved and workarounds had to be used, ensure that remedial work is scheduled in time for completion before the next year end cycle.

Report and communicate changes

Consider any other reporting or communications which may be required, for example:

- Reporting to the pension board, employers, members and other stakeholders on lessons learned, any changes to the process and any additional action required to prevent issues from recurring.
- Individual feedback to stakeholders on issues, eg feedback to each employer on their end of year return.
- Reporting in line with the governance arrangements for the scheme, eg capture issues on the scheme's risk register.
- Where issues resulted in a failure to comply with legal duties (eg a failure to produce the ABS) and this is likely to be of material significance to us, you should submit a breach of law report. This includes where the failure occurs as a result of a third party's actions (eg employer failure to provide data or outsourced administrator failure). This should be done as soon as reasonably practicable and not only once the issue has been resolved.

Further information can be found on our website at:
www.tpr.gov.uk/ps-breaches

The review process in summary

1. Identify lessons learned
2. Update plans and processes
3. Report and communicate changes

Case Outcomes

TPR undertook the Annual Benefit Statements 2017 Project after the statutory deadline for providing that year's ABSs to relevant members had passed. This involved engaging with schemes, on both a proactive and case investigation basis, to determine the extent to which they had met their legal requirement to provide ABSs to members by 31 August 2017.

As part of our engagement, a number of scheme managers informed us that they had been unable to meet (in full) the statutory deadline. Several other schemes provided us with breach of law reports, details of the challenges they had encountered during the process and copies of their plans for resolution of these issues in a timely manner. These plans generally reflected an overall lack of complete and/or accurate data. We engaged further with these schemes to establish a greater understanding of the underlying issues, and determined that this was due to a variety of different reasons.

It was evident in a number of instances that scheme managers were not governing their schemes appropriately in terms of managing relationships with employers, and the provision of data by them. Some scheme managers were clearly not communicating sufficiently with employers, and there was also a lack of formal policies and processes to cater for situations where employers were non-compliant in providing complete, accurate and timely data. Where scheme managers have specific powers available to tackle these issues, this may also have indicated that they had a poor understanding of those powers. This allowed poor behaviours on the part of employers to continue unaddressed.

Equally we found that, on the part of employers, there was also a lack of understanding of their role and their obligations to engage appropriately with schemes and provide timely, complete and accurate data to scheme managers.

In one specific case, we were advised by the scheme manager that they would only be able to issue around 75% of ABSs to the active membership before the statutory deadline. The scheme had in excess of 400 participating employers, and the key issue was that their existing process for reconciling contribution returns operated on an annual basis. This did not allow adequate time to rectify any issues with the data prior to the statutory deadline.

We engaged with the scheme manager and obtained further information about their rectification plan. This detailed their intention to resolve issues in relation to the outstanding ABSs before issuing on a weekly basis. The entire process was expected to be completed within a reasonable timeframe.

The scheme manager recognised that, in order to address poor performance and lack of engagement by participating employers, they should better communicate that they had the ability to issue penalties to employers for non-compliance with their obligation to provide timely and accurate data. This was incorporated in the scheme's administration strategy to ensure that the process was formally documented. The implementation of this approach proved highly successful, with 94% of employers providing their annual returns on time compared to 52% the year before.

Going forward the scheme has also identified a way to improve its performance in processing and reconciling contributions. This will involve moving from an annual to a monthly reconciliation basis, allowing earlier detection of data errors, and helping to ensure member records are updated on a more regular basis rather than waiting until the year end. The scheme manager was confident that, once implemented, future ABSs would all be provided in advance of the annual statutory deadline.

In another case the scheme manager advised TPR of longer-standing issues, including difficulties engaging with employers and issues arising from the migration to a new administration system. TPR engaged with the scheme manager, had sight of their plan and provided the appropriate challenge which led to a more robust process being adopted. This included ensuring the scheme manager developed internal controls to help improve the level of employer engagement and record keeping for the scheme. We also discussed the importance of educating employers about their duties to the scheme.

Following on from our engagement, the scheme manager secured additional resource and strengthened its approach to dealing with employers - including working closely with them to increase their understanding of their obligations in relation to the scheme. The scheme manager was subsequently able to obtain accurate member data and validate it more quickly. Members were then contacted by the scheme with information about their benefit entitlements. This engagement also strengthened the position of the scheme manager in relation to future compliance. Following our engagement they are developing a new administration strategy document, which explains the roles and responsibilities of both the scheme and employers, including the consequences of not complying with the various duties.

We concluded that - based on the improvements implemented, the proactive engagement with the affected members, and the progress made in issuing the remaining ABSs within a reasonable timeframe - no further action would be taken by TPR.

In other cases we have seen issues which have arisen with outsourced administration providers. In one particular case all ABSs were provided to active members by the statutory deadline. However, it emerged shortly afterwards that there were significant errors in the statements, which affected approximately 10% of the active membership of the scheme. TPR received a very clear and detailed breach of law report shortly after the scheme manager was alerted to the issue. Members had identified errors in their statements, which included incorrect dates of birth, names, service history, and benefit calculations. There were clearly fundamental issues in respect of the quality of the scheme's member data that were causing the volume of errors in this case.

Generally throughout the period of their contract with the administrator, the scheme manager had experienced poor delivery of accurate performance reports, which were due under the terms of their service level agreement. This had resulted in the scheme having to use its own resources in order to respond to member queries, in addition to carrying out their own compliance reviews. The scheme manager therefore found it necessary to escalate to the administrator's senior management.

Once the issues had been identified, the scheme manager engaged with all relevant stakeholders at an early stage, including the pension board and its independent chair. In addition, a communication was promptly issued to all members advising them of the situation, and confirming that action was being taken to determine the scale of the problem. Online content for both the scheme and the administrator was updated, providing members with contact details for the team within the administrator that was co-ordinating and responding to queries. Additional resource was also allocated to deal with any queries as quickly as possible, while a formal rectification plan was being produced. This process allowed the administrator to quickly identify the cause of the problem and rectify it accordingly.

The administrator provided assurances that the core data on the scheme's pension administration system was not compromised in any way. The problem was identified as being the result of errors in the manual process. TPR were advised that this was not indicative of a wider systematic problem and there was not any form of data breach. Most importantly, we were also assured that none of the scheme members had suffered any financial detriment as a result of the issue. In addition, when a member identified an error and advised the administrator accordingly, they were able to reissue a replacement statement immediately.

The administrator acknowledged that the manual errors represented a quality assurance issue. Their processes were therefore amended to include additional quality checks on the accuracy of the data held before statements were issued.

This case illustrates the fact that when scheme managers outsource services to a provider, it is essential to establish clear, robust performance measures, and incorporate measurable key performance indicators (KPIs) in any contract or service level agreement. These must then be monitored to allow the scheme manager to review performance, and take action if necessary to ensure that the contractual obligations on the provider to submit certain information and reports in a timely manner are adhered to. This is essential given that scheme managers continue to be ultimately accountable for any activities delegated to an outsourced provider. It may therefore be necessary for scheme managers to seek their own assistance from their own legal advisers, and also refer to TPR's guidance:

www.tpr.gov.uk/6-advisers-providers.aspx

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