The Costs and Risks of Poor Data Quality

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Is your pension scheme trying to wake the dead?

It is estimated that over £200 million per annum is being paid by UK pension funds to members who are already deceased. How confident are you that your pension fund is not making its own contribution to this figure? It is becoming increasingly difficult to keep track of deferred and pensionable members given factors such as increased labour mobility between jobs, increased residential mobility of pensioners (often on an international basis) and increased incidence and sophistication of fraud. However, new techniques are emerging to tackle the need for accurate, timely and verified data that will reduce the amount of money paid incorrectly in this manner and all but eliminate the difficulties associated with 'clawing back' payments from relatives of the deceased. This paper explores the issues and factors surrounding this area in more detail and looks at the potential remedies.

Why is my data incorrect in the first place?

The last forty years has seen a number of trends in the UK labour market but most notable amongst them has been the substantial increase in the mobility of employees between companies and the large numbers of companies that have changed status as a result of mergers, acquisitions, failures and emerging industries. As a result, unlike the first part of the century where movement between jobs was rarer, UK pension funds have many deferred members with whom they have had no employment contact for thirty years or more. Many of those same pension funds have at the same time seen their original sponsors taken over, merge, or disappear completely so that a typical large pension fund is now comprised of a number of 'source' pension funds that have merged together – often in an inefficient and haphazard manner. On top of all this, the 21st century pensioner is more geographically mobile and living much longer than ever before, further increasing the complexity of the task faced by the funds.

Is it any wonder then that the underlying data has been incredibly difficult to maintain to the standards necessary and that the funds have lost effective control and knowledge of the status of their pensioners? How many of those deferred members or pensioners would think to notify a pension fund of their change of address – especially in the case of pensioners if their payments are still being made into an existing bank account? The Royal Mail estimates that up to 10% of correspondence fails to reach its intended destination but the natural decay and degradation of this data increases exponentially over time, making the task for the pension fund of keeping up to date even more difficult.

Isn’t it up to the member to keep us updated?

Clearly it is in the interest of members to notify their pension fund when their status changes (although the exception is when they are perpetrating fraudulent activity and exploiting a change of status to their own benefit). But given the above factors, many have effectively lost track of their historic pensions and it is not sufficiently high on their radar when they are moving house, getting married, or burying a loved one for them to remember everyone they need to inform. You might say that if they don’t have the knowledge or records to claim a pension then that is their loss. However, the Pensions Act of 2004 requires trustees and providers to ensure that their members receive the benefits they are entitled to and their internal controls are set up accordingly. This was re-emphasised by the Pensions Regulator’s guidance notes of January 2009. Therefore inaccurate data causing pensions not to be paid is just as much an issue and liability for the trustee as the loss caused by overpayments.

In the year since the Regulator’s guidance (the full report is available via the following link http://www.thepensionsregulator.gov.uk/guidance/guidance-record-keeping.aspx), schemes have not been doing well enough to address their data issues and therefore in addition to legal obligation, the Regulator is now going to impose data quality checking. The Regulator stated in June 2010; “We now intend to supplement this by strengthening our regulatory approach. We will take enforcement action where the evidence we gather indicates a breach of pensions legislation. Where record-keeping problems are so severe as to indicate a failure to maintain adequate internal controls, resulting in a failure to administer the scheme in accordance with the scheme rules and the broader requirements of the law, these schemes will be prime candidates for investigation.”

The legal and Regulator’s obligations will increase the costs of administration, but this is likely to be small when compared to the financial loss to the pension fund of incorrect payments. Whilst payment to the deceased is a big factor here, incorrect payment amounts due to incorrect data is another factor that can cause further financial loss. But deferred mortalities can remain undetected for many years causing an ongoing issue for the funds in question.

Other indirect costs arise too. The costs of uncertainty are being borne by the pension schemes. There are reports from many Actuaries that they may be adding contingency of between 5-10% on the value of the liabilities at scheme valuation. Hardly what you want to hear when schemes are struggling to retain solvent funding levels. Other consultancies also report the increased costs of data audit arising from uncertain data quality.

It is easy to see how the benefits of investing in data quality can quickly repay the costs – reduced overpayments, reduced risk of fraud, reduced corrections, reduced audit costs and less contingency added to the scheme’s liabilities at valuation.

What strategies are being used to counteract this?

The Regulator's guidance and plans for enforcement cover a number of aspects of data quality, but many of those measures deal with the existence of data. Some of those measures do not address the accuracy of data. Modern administration platforms generally do an effective job of ensuring data, when it is present, makes sense and fits known business validations. Workflow processing adds to the security and accuracy of data by minimising manual intervention and automating calculation and verification.

Whilst there is no doubt that the most important factor here is to get the data right in the first place via efficient and accurate administration systems, a pension administration system cannot detect when members move or die.

In addition to the confidence added by your rigorous processes, your data needs to be validated not just against itself, but against other, trusted sources of data. There are a growing number of services on the market that allow you to detect house movers, be informed of bereavements and can validate genuine occupiers at the addresses you hold.

Quality should be habit-forming

It is important that these checks are not just a one-off exercise. Quality is a constant vigilance, a habit if you like. The rate of decay of data is fast and this is increasingly true in later life where changing health, family or personal circumstances often cause changes in data.

Regular mortality screening is available through comparing to trusted independent databases such as the General Register Office's (GRO) Disclosure of Death Registration Information (DDRI). Addresses can be regularly checked against Royal Mail standards and also other independent services that record home movers.

If the current data quality situation can be compared to searching for a needle in a haystack, or a field of haystacks (in that there are huge numbers of records to trawl through to find any inaccuracies), then services like ATMOS can be like having a very powerful magnet to isolate the records where there may be issues and devote directed effort to their verification or otherwise.

Data security is important too

There have been several high profile cases in the pensions press recently where personal data has been lost or misappropriated by third party data processors. Just as trustees are responsible for data quality and the accuracy of benefits, they are also responsible for data protection. It is a salient lesson from one of the cases in 2009 that a laptop was stolen from the secure computer room at a software supplier, yet it was the trustee of the scheme that was fined.

What are the conclusions?

The issues and associated costs of poor data quality are only going to get worse as labour mobility increases still further and pensioners live ever longer. The administration systems for your pension fund must be carefully audited to ensure that everything possible is being done to maintain the integrity of the data. But the good news is that where the internal systems hit the limits to which they can reach, there are now technological advances. This means that trustees and providers can do a lot more to ensure that their members are able to get what they are entitled to – and to make certain that those that aren't, stop getting what they shouldn't be receiving!

aquilaheywood
aquila house, 35 london road, redhill, surrey, RH1 1NJ

www.aquilauk.co.uk
www.heywood.co.uk
www.atmosdataservices.co.uk