

Valuation Data Quality for Main Fund

The scheme actuary (Mercer) provided North East Scotland Pension Fund (NESPF) with a Data Quality Report for the 2017 Valuation and included an analysis tool that measured the quality of data provided using RAG¹ flags. The report analyses Common data items prescribed by The Pension Regulator (TPR) as well as Detailed data tests for active, deferred and pensioner members.

NESPF carefully examined the results provided by the tool to identify further measures that could improve the quality of our data and the valuation process, this report summarises work undertaken as a result of flags raised in the analysis.

1. Common Data

All of the 9 common data tests raised green flags against the standard tolerance used for valuation however TPR guidance for record keeping suggests that postcodes must be present if an address is not identifiable as being overseas, further investigation of missing postcodes revealed:

- 2 members with current record status of active, both now resolved
- 196 members with current record status of deferred, some overseas but majority gone away
- 16 members with current record status of dependant, all overseas
- 142 members with current record status of pensioner, majority living abroad
- 25 have current record status of undecided, mixture of overseas and gone away.

Member data is obtained from employers through an online tool or via a secure file upload facility. The systems used require data to be processed in a valid, prescribed format and therefore all common data will remain of a high standard going forward.

¹ Red, amber and green flags set to standard (Mercer) or user defined (NESPF) tolerance levels

2. Detailed Data Tests – Red Flags

NESPF investigated all red flags raised against the standard tolerances used for valuation.

2.1 Post 15 Pension inconsistent with Actual Pay (82.1%)

Further investigation revealed that more than 99% had a revalued pension output value that was within 1% of total CARE pay divided by accrual rate. A sample check of members showed differences of more than 1% were due to aggregation or transfer in values included in the revalued pension. Mercer advised that a calculation in the test used 3 years which applied to England and Wales rather than 2 which applied to Scotland and recalculation has reduced percentage from 82.1% to 16.3% and changed flag to amber.

2.2 Current pension inconsistent with amount at leaving (56.8%) and Pre 15 pension inconsistent with pay and service (55.4%)

Both these flags are as a result of an error with the valuation extract program which was highlighted by Mercer and raised by NESPF. The report commented that *“this appears to be largely due to incorrect historical service figures, rather than the current pension figures themselves being correct”*. PRB005294 is a confirmed system problem where 60th service is incorrectly output for pre 2009 leavers and no 80th service is output for pre 2009 joiners. A sample check of members confirmed that the pension values extracted from the system were correct.

2.3 Inconsistent retirement age (21.2%)

This flag is a result of an error with the valuation extract program where qualifying service provided was blank for some deferred members (Pre 09 leavers and 2016/17 leavers). Mercer confirmed that the Critical Retirement Date as supplied was used so the valuation calculations will not have been affected.

2.4 Spouses pension outside 30% - 50% of members (29.3%)

As expected because of:

- Female members with service prior to 6 April 1988
- Members where GMP only is currently in payment
- Members where pension has been reduced because of re-employment.

2.5 No GMP – some expected based on service dates (11%)

As expected and will be resolved on completion of guaranteed minimum pension reconciliation with HMRC.

3. Detailed Data Tests – Amber Flags

Although Mercer stated in their report they would not be materially significant NESPF investigated all the amber flags raised against the standard tolerances used for valuation.

3.1 Actual pay inconsistent with FT pay and part time hours (16.1%)

Since the introduction of the CARE scheme some employers have struggled to provide accurate FTE pays however the actual pays are checked every month by the Employer Relationship Team. How we have historically recorded casual workers will have an impact on this test as the part time hours held will be 0.01, further investigation identified 1,340 members in the active extract. There are also valid scenarios that will fail such as members who joined in March but did not get paid until April, further investigation identified 43 part time members in the active extract with a FTE pay but no actual pay. The FTE recorded on the system is for a full year so it is likely that members who became part time during the year could fail this test as there does not appear to be anything in the active extract to indicate when part time hours take effect from.

3.2 No GMP – some expected based on service dates (14%)

As expected and will be resolved on completion of guaranteed minimum pension reconciliation with HMRC.

3.3 Inconsistency between member status and exit data (6.4%)

Further investigation revealed that majority of 1,500 members with current record status code of non-active and no exit mode output were undecided leavers. A number of members were identified as having a current record status code of active and an exit mode output however a sample check revealed that majority were members who left on 31/03/2017 and the exit mode output reflects their status from 01/04/2017. PRB005054 is a confirmed system problem where no exit mode is set in the extract for aggregated employments.

3.4 No spouse's pension (17.4%)

As expected because the marital status held on system will determine whether a spouse's pension is calculated. Further investigation of pensioners with no spouse's pension revealed more than 2,800 have a status of single, divorced or widow and 440 have a status of married or partnership albeit at the time their benefits were calculated their status would have been different.

4. Improvements

Mercer acknowledged the quality of data provided by NESPF for the 2017 Valuation was "*very good*" however all of the following will further improve data quality and the valuation process:

4.1 Problem Fixes

Software release 8.1 contains 11 problem fixes for the valuation extract program and will be delivered early in 2018.

4.2 Address Tracing

Address tracing exercise to reduce amount of gone away addresses held on the system to comply with TPR requirements.

4.3 GMP Reconciliation

Ongoing reconciliation of GMP's with HMRC which has to be completed by December 2018.

4.4 Undecided leavers

Given the amount of undecided leavers present on the extract files NESPF will look at ways to better manage and reduce the amount of status 2 records on the system.

4.5 Data Improvement Plan

To coincide with the greater emphasis being put on to data quality from the TPR and to minimise the risk posed by inaccurate data on the triennial valuation results the NESPF will develop and follow a data improvement plan from 1 April 2018.

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