Business Case for i-Connect

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1   Executive summary

Good quality data is the bedrock to a well-run pension scheme. Not only do the accuracy of benefits paid depend it, but the effects of data quality impact all aspects of pensions administration.

Almost every process relies on data in some way. Where data is unreliable or incorrect, the additional governance and corrective action required consumes effort every time that process is carried out. Poor data costs time, can lead to fines and other measures being taken against the scheme, impedes innovation and reduces confidence in the scheme.

The current data interface process is very labour-intensive and has the following issues:

- Operational efficiency – the cost of:
    - Manipulating and uploading data
    - Correcting errors and chasing employers
- Operational risk and governance:
    - Loss of an audit trail as a consequence of manipulating interface data
    - Difficulties in tracking employers who have supplied or failed to provide data
- Financial management / risk – unable to:
    - Reconcile employee / employer contributions until end of year
    - Determine whether employees / employers are paying correct contributions

i-Connect improves scheme administration by managing the flow of data between employers and the fund. As the processing of data becomes more efficient the need to validate existing data and gather fresh data will reduce as the data flows from the employers' monthly submissions.

Data management is becoming the foundation of running schemes both efficiently and cost effectively.

i-Connect will:

- Wherever possible, ensure data is valid at the time of upload by the employer, rather than placing the responsibility and effort on the fund.
- Automatically verify that employers have made the appropriate file submissions.

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- Eliminate the need to amend input files, thereby improving the audit trail.

- Automate submission for employers and improve customer satisfaction.

- Reduce the need for IT skills within Bromley Pension Fund, increasing the focus on core pension activities.

- Improve the overall quality and availability of data, reducing downstream pension administration costs.

- Provide management information.

- Improve regulatory and legal compliance.

- Increase productivity and efficiency (electronic versus manual).

- Provide increasingly accurate and valuable data relating to key performance indicators, which will allow managers to manage their resources more effectively.

2   Drivers for electronic submissions

The **Public Services Pension Act 2013** and the **Workplace Pension Reform 2012** are key catalysts to moving toward a model of electronic data submission to the advantage of administering authorities and employers, whose duties under CARE and auto-enrolment require them to ensure they make accurate and timely submissions of data.

Employers have a responsibility under pensions legislation to provide timely and accurate data to any pension scheme in which their employees participate. The Pensions Act provides for fines to be levied when information is not processed in a timely manner. The submission of data to the pension scheme places an administrative burden on the employer.

The last few years have seen this burden increase and the public services pension reform has only seen the load on employers increase yet again:

- 2011 – Finance Act – reduction in the annual allowance to £50,000

- 2012 - Workplace pension reform – commonly called auto-enrolment

- 2013 – Finance Act – reduction in the annual allowance to £40,000

- 2014 – The Public Services Pension Act 2013 – CARE schemes from 2014/2015

- 2015 – The Pensions Regulator (TPR) has an expanded role to cover:

  - Maximise employer compliance with employer duties

  - Data quality

  - Codes of practice

i-Connect has been specifically designed to improve the flow of information securely between employers and the authority administering the LGPS.
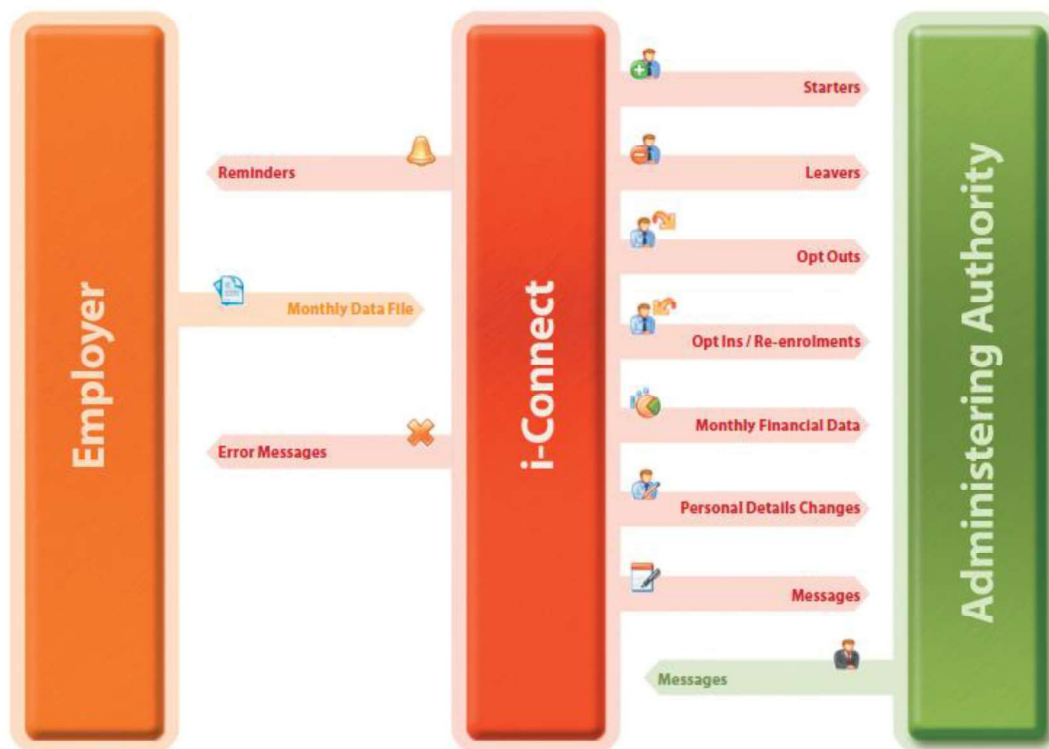
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In terms of **reduced costs**, processing data becomes more efficient, as the need to validate existing data and potentially gather fresh data is diminished through the provision of an automatic and accurate monthly data stream from each employer's payroll.

Electronic data submission is an effective tool in **minimising risks**. Significantly for employers, **i-Connect** evaluates the workforce each payroll period, submitting new starters to the Pension Fund and minimising the risk of a fine from TPR.

The use of a secure portal for data transmission assists employers and the administering authority in addressing data protection requirements.

For the administering authority, having regular and accurate submissions addresses TPR's guidance regarding data quality and the requirement to record those who opt out of the fund.

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3 Current state

3.1 Submission process

Bromley Pension Fund invests a significant amount of time and resource in capturing data from employers and uploading it to Altair. Data team staff will spend all year processing data supplied by the fund's 121 employers.

Employers submit information using different processes depending on their size. Returns are a mixture of electronic and paper. Employers must generate their own interface files; the method relies on employers identifying the changes that must be notified to Bromley Pension Fund. All employers must also submit end-of-year files, which are used in the reconciliation process. Due to the large number of errors contained in these files and the poor quality of the submissions throughout the year, the end-of-year process runs from April to October.

3.2 Issues with the current process

The management of the existing interfaces mainly involve very labour-intensive processes. A significant amount of data input and output is provided in a variety of formats, including email and a number of electronic file formats (such as CSV, Excel, or plain or fixed-format text).

One of the consequences of this manually intensive activity is the inability to obtain a timely resolution when requesting missing data or data corrections from employers. Simple queries from employers and members are directed to pensions administrators via telephone calls and letters. Responding to these queries diverts the administrators from more productive tasks.

3.3 Challenges to employers

The current process forces employers to identify changes in their workforce and submit these to Bromley Pension Fund. Most payroll systems provide the capability to extract data, but they are not designed to easily identify changes over a given period. A high number of smaller employers have to track this information using spreadsheets outside of their HR/payroll systems. This presents an additional overhead to the employers.

The current process also forces employers to invest a significant effort at year end, which is also their busiest time of the year, resulting in resource issues and often leading to submissions being delayed.

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4 Risk and governance

The processing method presents a number of challenges to Bromley Pension Fund.

4.1 Operational efficiency

The current approach to interfacing places a large burden on Bromley Pension Fund in terms of increased workload and the additional costs incurred through having to manipulate and upload employer data.

Consideration also must be given to the cost implications of chasing employers and the knock-on effect to overall operational efficiency, through data not being available when member-related processes are performed.

4.2 Operational risk and governance

There is a significant audit risk created by Bromley Pension Fund staff having to amend interface file data. Should an employer or member come back and question why, for example, their salary information is not up to date or missing, it is difficult to ascertain where the original fault lies.

Employers not supplying data within the required timescales leads to backlogs of processing and delays in the production of Annual Benefits and Annual Allowance Statements. This puts Bromley Pension Fund at risk of failing in their regulatory obligations, risking fines imposed by TPR.

4.3 Financial management

The process of reconciling all information at the end of the year and identifying and recording accurate membership data for a large number of employers presents two challenges to Bromley Pension Fund.

Bromley Pension Fund is unable to reconcile contributions until end of year and unable to determine whether employers are paying appropriate contribution levels. This can lead to significant contribution debts being generated for employers, leading to budgetary challenges.

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5 Future state

5.1 i-Connect for Bromley Pension Fund

Maintaining up-to-date accurate data for pension scheme members takes up a huge amount of pension department resource. i-Connect dramatically reduces this cost by bringing employers and pension departments closer together.

i-Connect intelligently manages the data flow from employer to administrator. For the fund, i-Connect provides substantial improvements in data quality and timeliness, automating the data-gathering and validation processes to bring real cost savings. i-Connect integrates fully with Altair to create seamless business processing.

i-Connect also provides benefits to the administering authority. In terms of reduced costs, processing data becomes more efficient as the need to validate existing data and gather potentially fresh data is diminished through the provision of an automatic and accurate monthly data stream from each employer's payroll.

In total i-Connect will save **Bromley Pension Fund £30,000** each year through the automation of data submission in support of auto-enrolment requirements, reduction in errors and efficiencies realised in the existing annual reconciliation process.

Benefit	Annual Saving
Electronic submission of data	£3,200
Reduction in errors and missing data	£1,600
Improvement to Annual Reconciliation	£25,200

'Historically, making sure that members' records are up to date and accurate has been a challenge.'

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6 Benefits for the administering authority

6.1 Savings realised on member data change and update processes

With auto-enrolment increasing the volume and frequency of data changes, the provision of data via electronic interfacing, rather than through manual submission, provides considerable efficiency gains. Receiving updates and changes in paper format carries a significant overhead compared to electronic submissions. Documents are often scanned before being entered into the administration system. With manually-entered data, it is likely that, as part of a quality assurance process, a percentage of cases will be sent to another team member or supervisor for peer review.

Electronic submission direct from a payroll extract provides substantial benefits. A significant saving is in the elimination of time taken keying data into the pension administration system.

> **For Bromley Pension Fund, we estimate that using i-Connect will save £3,200 per year, compared to entering the data manually.**

One of the key obstacles to the successful deployment of electronic submissions has been the need for employers to build complex business rules into their HR/payroll systems to identify what information should be submitted to the pension fund, and the effort necessary to produce that data in the required electronic data exchange format. i-Connect addresses these key issues by simplifying the format of the interface file and providing the logic required to determine what pension data is sent to the administering authority.

6.2 Savings due to reduction in errors and receiving data in a timely fashion

The most obvious risks associated with manual processing are the incorrect keying of data and oversights made by employers in identifying which records should be passed to the administering authority.

Errors made in data entry cause significant overheads in terms of additional effort. Typically, errors are identified during investigation into a query raised by a member, employer or other party. Often errors are identified only long after the original submission of data, making the investigation and remedy of issues a costly exercise. In terms of measuring the cost of errors, standard quality theory defines the cost of correcting an error that has occurred 10-100 times to be as expensive as taking the preventative action to stop the event.

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i-Connect takes a feed direct from the payroll system, similar to the approach HMRC is taking with its Real Time Information (RTI) initiative, eliminates the probability of human error in deciding which records should be selected and processed and removes the likelihood of costly mistakes in entering information.

Performing processes efficiently relies on having the data in place at the outset. The first step of any member related process involves validating any existing data and subsequently having to chase employers for data the administering authority should have received previously.

i-Connect ensures data is up to date by providing employers with an easy-to-use method for submitting data to the administering authorities.

> **For Bromley Pension Fund, the saving generated from having accurate and up-to-date data is estimated to be £1,600 per annum.**

6.3 Efficiencies made to the annual reconciliation process

Most administering authorities perform reconciliation between member data and contributions paid on an annual basis. During this process, it is common to discover inconsistencies between the data held on the administration system and the contributions paid, for example, employee contributions deducted for members for whom the administering authority has not received starter data.

Even administering authorities who perform more frequent reconciliation exercises throughout the year find that, due to the poor quality of the data received from employers, the final end-of-year reconciliation is still very resource-intensive, with some dedicating 10% of their annual administration effort to complete the process.

Through the deployment of i-Connect, administering authorities receive up-to-date information from all their employers throughout the year, **significantly reducing the effort required for the annual reconciliation process**. Furthermore, as data is being received monthly, administering authorities can move to a monthly reconciliation cycle process, providing an enhanced level of financial auditing, something that regulators are demanding going forward.

> **For Bromley Pension Fund, i-Connect will reduce the effort involved in the annual reconciliation process by 45%.**

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7 Benefits to employers

i-Connect simplifies the process of submitting data to pension funds, reducing costs and risks for employers. i-Connect is a highly automated service, designed specifically for employers in the public sector.

i-Connect simplifies employer duties. A feed of data is taken from the payroll system by i-Connect, which then automatically identifies and processes new joiners, leavers and other changes that need to be notified to Bromley Pension Fund.

i-Connect:

- Reduces effort and costs in supporting the pension scheme.

- Automatically identifies changes to the workforce.

- Provides a straight-through process for submitting data.

- Improves governance regarding contribution reconciliation.

- Provides secure transfer of data to the pension fund.

- Removes the annual end of year return.

- Is equipped for CARE schemes.

Providing the pension scheme with accurate data in a timely fashion has numerous direct and indirect benefits for the employer.

7.1 Reduced effort due to the utilisation of a highly automated solution

The auto-enrolment and LGPS CARE regulations have resulted in an additional level of operational expenditure for employers. Each month, employers must evaluate their workforce and then submit details of any new starters to the administering authority, and provide a statement of pay and contributions for each employment. i-Connect automates this processing and, furthermore, eliminates the need for providing additional data, by identifying and submitting leavers, changes and salary and contribution events, all from a single extract.

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i-Connect provides a highly automated solution that reduces the burden placed upon employers, by automating decision making and supporting employers in meeting the bulk of their obligations under the new regulations. i-Connect automatically passes information to the administering authority without the need for the employer to enter additional data.

7.2 Reduced effort at year end due to eliminating the need to provide annual data return

There is usually a significant number of queries generated for your team with the end-of-year return, regarding when employees joined the scheme, left employment or made changes to their working hours over the year. i-Connect addresses this issue by providing administering authorities with regular accurate updates throughout the year. This improves overall data quality and enables reconciliation on a month-by-month basis. This reduces the overall demand on your staff and, more significantly, spreads the effort throughout the year, rather than focusing it all during the financial year end.

7.3 Reduced risk of being fined due to failed compliance

Employers who fail to comply with the Work Force Pension Reform or HMRC regulations can incur large penalties.

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8   Benefits for the workforce

For members, this will be realised through the provision of accurate benefits statements and annual allowance assessments. Employees' estimates will be produced faster and more accurately. Accurate data will also assist in the identification of members who have lost touch with their pension entitlement and lead to:

- Improved mortality assumptions for actuarial valuations

- Prevention of delays in paying benefits

- Improved member communication

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9 Reduce risks and costs

An element of the employer's contribution paid to the fund depends on how efficient the fund is; this, in turn, relies on the quality of the data provided. Actuaries faced with incomplete data sets will make conservative assumptions regarding the potential liabilities for an employer. Providing accurate data improves the ability of the actuary to forecast liabilities, improving transparency and reducing risk and costs.

A recent annual Local Government Pension fund report states that accurate, good-quality data can reduce the employer contribution rate by as much as 1-2%.

The table below illustrates the potential savings:
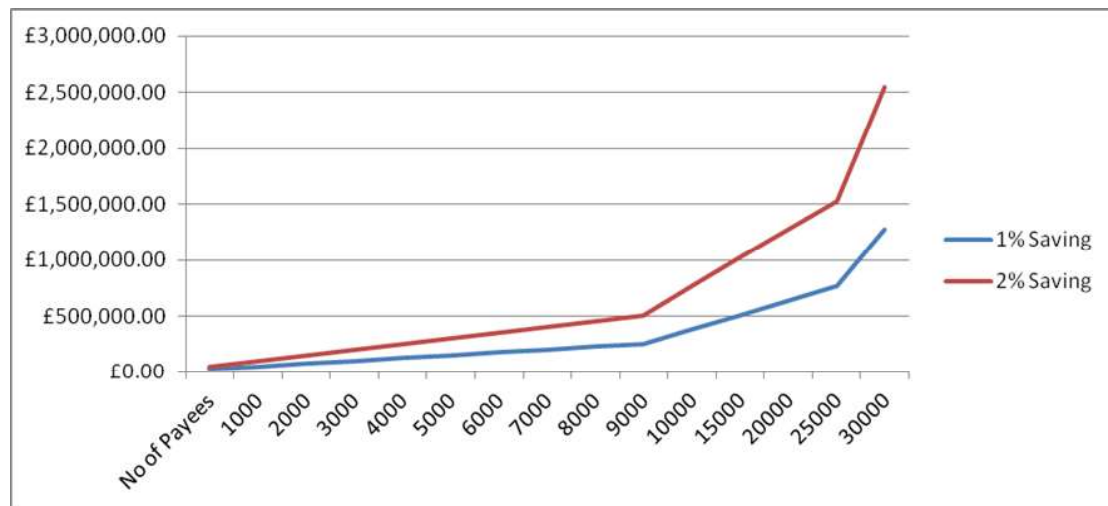
The figures are based on an average salary of £17,000 per annum and an employer contribution rate of 15%

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