

How poor administration can lead to mistakes

It sounds obvious: get the administration right and there will be no mistakes or fraud. But it isn't quite as simple because pensions are primarily about people and people are unpredictable, make mistakes and on occasion can be downright dishonest. Not only that, but the pensions environment is in a state of constant flux, as are the industries and organisations sponsoring pension schemes.

So, can we deduce that pensions administration is being carried out in an environment of constant change by and on behalf of unpredictable error-prone sometime fraudsters.

No. Poor administration is rarely the fault of administrators, but more usually the result of inadequate systems, processes or management. Most members are also honest, if often confused. So what is 'poor administration' and how can it lead to mistakes and fraud. Let's look at some examples.

Mistakes and fraud

Too much responsibility - Jane is an administrator, but also runs the pensioner payroll. There is little overall control and she often thought it would be easy to set up a fictitious member, retire them and have the pension paid into her bank account. She's basically honest, but her husband has just lost his job and her child needs private medical care.

Sloppy procedures - Mark used the last retirement letter he sent as a template for the next one. But he forgot to change the lump sum figure and the checker missed it. Bill, the retiring member was so pleased he ordered nice big caravan in expectation of his massive windfall.

Order of magnitude - Dorothy was delighted when her pension increased from £5,000 to £12,500. She thought the company must have done extremely well this year. Nine months later when the error was discovered, she was horrified to discover she owed over £5,000 in overpayments.

A testing time - It was a simple change to the payroll system, so the programmer only carried out cursory tests. But when the payroll was run, every pensioner got paid the pension belonging to the pensioner with the next payroll number. It took a lot of sorting out, but the worst bit was the bad publicity and damage to the company's reputation.

Knock on effects - It was only a minor change to the HR system, but no one thought about the impact on the interface with the pension system. For three months the wrong contributions were passed across in the monthly interface and then used to buy units in the defined contribution scheme.

Getting her own back – Since George left her, Pat decided she was entitled to his pension. So she forged his signature on correspondence and used a copy of his birth certificate as proof of age to take his deferred pension early. She wasn't found out until four years later when George called to ask about his pension.

We could go on. Of course, the reason for focusing on poor administration is to learn lessons and create good administration. There are some tried and tested principles that should underpin administration and, if applied correctly, significantly mitigate the risks of mistakes and fraud. Let's look at how the cases above could have turned out.

How it could have been

Too much responsibility – Jane the administrator has no access to the pension payments system, which is run by James. James will not accept a new pensioner onto his payroll without sight of appropriate paperwork, including an original birth certificate. When Jane has family and financial problems, her employer sponsors a charity event.

Sloppy procedures - Mark always uses a standard pro forma letter and statement when he has to produce a manual quotation, which is a rare event because routine calculations are automated. His main job is to check member data and computer output for errors. Bill has a nice second-hand caravan that he's very happy with.

Order of magnitude – Dorothy's pension administrator has built an order of magnitude check into the pension increase program. Any pensions increasing by more than a specified percentage are flagged for checking. Dorothy is quite happy receiving the pension she had always expected.

A testing time – Even small changes to the payroll program have to go through a strict series of regression tests to ensure there are no unplanned outcomes. Also, spot checks are carried out in each pay run in case unpredictable events have occurred.

Knock on effects – The pensions department communicates regularly with all the employee payrolls on matters affecting both systems. It also provides training for new payroll administrators.

Getting her own back – When Pat tried to claim her husband's pension, the administrators insisted on seeing original certificates. Pat gave up.

So, good administration is about getting a whole mix of things right including:

- sound financial procedures
- clear and bounded responsibilities
- high levels of automation backed by sound IT procedures
- accurate data
- proper communication with, and management of, external stakeholders
- use of standardised procedures wherever possible
- well trained administrators with experienced supervisors.

Even so, keeping it this way through constant change is quite a challenge. In addition to sound administration principles, there is no substitute for random spot checks, common sense and an enquiring mind to guard against unforeseen problems, or those with ill intent.

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