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DB digest

Why good data matters

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Good defined benefit plan administration requires good data. The current standing and health of any defined benefit plan can only rely on the underlying data that is readily available and measurable. So what is "good data"? Why is it so necessary? And most importantly, how can we fix a data mess that we are already in?

What is good data?

Having good data does not mean that every data element is 100% pristine at all times. However, the main data building blocks that drive pension calculations and participant communication must be kept complete and up to date.

Depending on your plan's provisions, the most important plan data components can include:

- Employment status history
- Compensation and hours data
- Frozen accrued benefit data
- Current and past pension payment data
- Indicative data such as date of birth, marital status, and contact information

These key elements drive the ability to administer the right benefits to the right person at the right time.

With today's tools, file rooms full of old paper records (no matter how comprehensive) are not very helpful in determining pension calculations and plan liabilities. In all cases, the measurability of plan data relies on electronic formatting and good storage practices. Data that exists only as paper records is too difficult to include in large data analysis projects and should be immediately considered for conversion to electronic format. For long-lost data items that don't even exist on paper, research may be required with past administrators or even participants themselves.

Why is good data important?

You have probably heard the old adage "garbage in, garbage out" as it relates to data analytics. Bad data (garbage in) will produce unreliable results (garbage out), which can lead to misleading, inaccurate, and flat-out wrong decisions or conclusions. In contrast, good data helps establish results and conclusions that are valuable, accurate, and lead to good decision making by both plan sponsors and plan participants. It helps the financial health of your plan by more accurately forecasting funding levels and possible shortfalls. It helps the financial health of your firm by allowing the correct deductible contribution levels and associated tax deductions.

It is just as important to consider the effects of bad data on your plan participants. In today's connected world, participants expect to access their plan information in real time through a web interface and have any questions regarding their benefits answered instantly. In most cases, when data is incomplete for an individual participant, he does not get to experience the advantages

of real-time web services, including the ability to update plan records or model different calculation scenarios. Incomplete data also causes needless wait times for your participants when they have questions. Without accurate data, the recordkeeper must research data instead of being able to immediately answer the participant at the initial contact.

The cost of bad data

Each year, your plan's compliance with Internal Revenue Service and Department of Labor regulations also depends on the integrity of the plan's data. Incomplete or incorrect data can potentially cause noncompliance with many plan-disqualifying regulations, including disclosure requirements, minimum funding requirements, and minimum coverage, participation, and vesting requirements. It can also cause a serious financial burden to participants when excise taxes are imposed that are due to late payment of required minimum distributions.

Depending on when a participant terminates employment, many years could pass between the termination and when that participant is eligible to receive distributions of benefits. A couple of life changes can affect the correct payment of a benefit at the time it becomes payable. Participants can:

- Change addresses any number of times making them difficult to locate

- Have one or more marital events, causing normal forms of benefit to change

Failure to capture these changes and needing to force commencement of a benefit at a normal retirement date or required beginning date can cause an overpayment or underpayment from your plan.

Effective February 1, 2016, a standard Voluntary Correction Program (VCP) filing can carry fees of up to $15,000, which is in addition to the cost of actually correcting the mistakes.

What should you do to fix bad data?

A data cleanup project can make a significant impact to the ongoing administration of your plan by enhancing the individual participant experience, helping to ensure compliance with regulatory requirements, and keeping the plan agile and able to respond to an ever-changing financial and regulatory landscape.

The up-front cost of a data cleanup project is justified when care has been taken to identify the gaps that are easiest to close and will make the most impact. Milliman consultants have experience with this prudent analysis and can help determine which cleanup projects will produce the best return on investment.

An essential part of any data cleanup project is an evaluation of the ongoing periodic data files that provide the participants' statuses, compensation, hours, and any indicative data to the recordkeeper. Each payroll should undergo a validation check to make certain the expected population, expected totals, and expected statuses are loaded with each file. These checks, combined with a comprehensive analysis of the file produced by the plan sponsor, will catch most errors that could cause ongoing data issues.

Address and marital status should be solicited in preparation for large projects or with any required notices that are mailed by the plan. Each year, the Department of Labor requires that all participants, beneficiaries, and alternate payees who are currently covered by the plan receive the Annual Funding Notice. It is an opportune time to include an address change form and a note to the participant, beneficiary, or alternate payee stating that they should keep their records up to date.

An additional layer of data integrity research that should be considered is an address search with a reputable address search firm for any participants, beneficiaries, and alternate payees whose plan communications

are returned as undeliverable. An ongoing address search procedure gives the best chance to capture recent address changes and the opportunity for future disclosures to reach the intended recipients. It benefits both the plan sponsor and the participants to inform stakeholders of the status of the plan and all plan changes that may affect them. Being able to reach participants is essential to good plan administration.

In summary

Easing the administrative burden of the plan is one of the main reasons why plan sponsors choose to use a third-party recordkeeper in the first place. For this reason, it should remain a top priority to mitigate data issues and reduce the amount of time and money that you invest researching and responding to ongoing data issues.

Cleaning up data today ensures that you and your participants will save time and money well into the future.

How can Milliman help today?

- Analyze your plan data and provide an action plan for cleanup

- Prioritize data cleanup that affects your plan most severely

- Convert your hard copy documents to electronic format

- Provide project-specific data cleanup assistance (e.g., preparation for a lump sum de-risking project)

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