

Guaranteed Minimum Pension Reconciliations

The abolition of contracting out for defined benefit (DB) schemes in April 2016 will require all schemes to reconcile their Guaranteed Minimum Pension (GMP) liabilities. Trustees should act now to ensure they are able to meet this requirement, as HM Revenue & Customs (HMRC) are likely to be dealing with an increasingly large number of queries leading up to and in the years following the end of contracting-out.

What is a GMP reconciliation?

GMP reconciliation is a project to ensure that the GMP liability on the scheme records agrees with that held by HMRC. The GMP reconciliation involves comparing the scheme's GMPs information with that held by HMRC and investigating any discrepancies between the two sets of figures.

When should GMPs be reconciled?

In an ongoing pension scheme, GMPs are reconciled on an individual basis when a member retires, dies or transfers out.

In addition, a requirement to reconcile GMPs for all members triggers when a scheme ceases to be contracted out which may be as a result of:

- closure to future accrual;
- the scheme winding-up;
- the scheme entering a PPF assessment period; and
- mergers or acquisitions.

However, due to the impending cessation of contracting-out, HMRC have announced a new scheme reconciliation service to assist DB schemes with the extra work that will be required. This service will be available from April 2014 and will help schemes to reconcile their records for all non-active members, so even schemes that are open to future accrual can begin the process of reconciling GMPs.

Why should we reconcile GMPs now?

There are many reasons:

- for compliance with The Pensions Regulator's (TPR) data quality guidance;
- to ensure members' benefits are accurate;
- to provide for more accurate actuarial valuations;
- as a first step in the data cleansing required to wind-up a pension scheme, and to allow more favourable terms to be secured with an insurance company;
- to ensure that scheme liabilities are correctly recorded; and
- to increase administrative efficiency.

In addition, the equalisation of GMP benefits between men and women (on which we expect legislation to be introduced in the near future) will require accurate GMP records. Trustees should understand that once the requirements to equalise GMPs have been confirmed and the end of contracting-out in 2016 approaches HMRC are likely to be inundated with requests for assistance with GMP reconciliations, and the process could become more time consuming as a result.

Contracting out

Employers with good quality pension schemes were able to 'contract-out' of the State Second Pension when it was introduced in 1978. This meant that they and their employees paid lower National Insurance contributions, although the scheme had to meet certain quality requirements. Prior to 6 April 1997, this meant that contracted-out pension schemes had to provide a minimum level of pension – the GMP. From 6 April 1997 onwards, the GMP was replaced with a new test on the overall quality of the scheme's benefits but GMP liabilities that accrued before 6 April 1997 remain.

How long does it take to complete?

A GMP reconciliation project can be complex and take a significant amount of time to complete, typically in excess of 12 months.

What does the process entail?

Barnett Waddingham will request the information from HMRC who offer a variety of tools for accessing members' National Insurance contributions and earnings.

This initial exercise will identify the following key areas of difference between Barnett Waddingham's records and HMRC's:

- members on Barnett Waddingham's records but not HMRC's;
- members on HMRC's records but not Barnett Waddingham's;
- members with different GMP amounts between the two data sources; and
- mismatched data items (such as names, dates of birth etc).

Once this initial stage is complete, we then need to investigate each discrepancy to identify and resolve any differences.

Trustees also need to take an active role to set the agreed tolerance level, i.e. the minimum difference in GMP amount that will require further investigation. TPR's guidance on winding up schemes quotes £2 per week as an acceptable tolerance level, which has gained wide support.

How much work is involved?

The work required for a GMP reconciliation is difficult to predict as it depends on the nature and quantity of any discrepancies (which will depend in part on the tolerance level that is agreed). A better idea of the work involved can be ascertained once an analysis of the initial information from HMRC is undertaken.

Where the resolution of a discrepancy results in the GMP records for a member being altered, it may be necessary to recalculate benefits for that member and correct any under or overpayments, some of which may be significant.

Next steps

There are several elements in successfully reconciling GMPs and the work involved can be significant. As HMRC will effectively stop tracking pension rights after April 2016, and plan to write to all members in December 2018 to tell them their final GMP figures, we would encourage trustees to begin this process early to ensure it is completed in good time.



Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively contact us via the following:

@ info@barnett-waddingham.co.uk

+44 (0) 20 7776 2200

© Barnett Waddingham



MARCH 2014
3232534

Barnett Waddingham LLP is a body corporate with members to whom we refer as "partners". A list of members can be inspected at the registered office. Barnett Waddingham LLP (OC307678), BW SIPP LLP (OC322417), and Barnett Waddingham Actuaries and Consultants Limited (06498431) are registered in England and Wales with their registered office at Cheapside House, 138 Cheapside, London EC2V 6BW. Barnett Waddingham LLP is authorised and regulated by the Financial Conduct Authority and is licensed by the Institute and Faculty of Actuaries for a range of investment business activities. BW SIPP LLP is authorised and regulated by the Financial Conduct Authority. Barnett Waddingham Actuaries and Consultants Limited is licensed by the Institute and Faculty of Actuaries in respect of a range of investment business activities.

Amersham | Bromsgrove | Cheltenham | Glasgow | Leeds | Liverpool | London

www.barnett-waddingham.co.uk