

## A CALL TO ACTION FOR TRUSTEES AND SCHEME ADMINISTRATORS

Defined benefit contracting-out will end with the introduction of the new single-tier State pension from 6 April 2016. Protections for scheme members' existing contracted-out rights will be maintained, but HMRC's scheme support services will be scaled down and eventually withdrawn.

That leaves current or formerly contracted-out schemes with a problem: data accuracy, specifically in relation to Guaranteed Minimum Pensions (GMPs).



**If your scheme has missing or inaccurate GMP data** – that is, scheme records differ from the data held by HMRC – then **benefit calculations and pension payments may be incorrect**. Errors in relation to revaluation and pension increases can compound over time, potentially resulting in major discrepancies.



In addition, **schemes need to reconcile their membership data with HMRC** – including members who joined after 5 April 1997 who do not have a GMP – to avoid unnecessary queries when HMRC sends out individual statements to members (due from December 2018).

### What is a GMP?

A GMP is the minimum benefit a UK occupational pension scheme must provide for a member (or a surviving spouse or civil partner following the death of a member) in relation to periods of service during which that member was in employment which was contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997.

The GMP was intended to be broadly equivalent to the additional State benefit the member would have received, had he or she not been in contracted-out employment. Different rules apply for pension increases on the GMP in relation to periods of service before and after 6 April 1988.

### What's the solution?

HMRC provides two separate reconciliation support services. **Shared Workspace** is a web-based service for schemes that have surrendered their contracting-out certificate. Schemes that have not yet surrendered their contracting-out certificate can use HMRC's **Scheme Reconciliation Service (SRS)**. Both are designed to help administrators and trustees reconcile the membership and GMP data held on scheme records with that on HMRC records. Note that requests for reconciliation data have to be made **by April 2016**.

HMRC will continue to respond to membership and GMP queries in relation to the data provided under SRS **until December 2018**. For active members, HMRC will close its records in December 2016 and schemes will again have **until December 2018** to agree or query membership data. **After December 2018**, HMRC will only provide support for individual member queries.

**Schemes are advised to begin the process as early as possible.**

**There is likely to be intense pressure on HMRC's resources in the period to the end of 2018. Schemes must allow adequate time for the necessary reconciliation work to be undertaken.**

## TEN REASONS TO RECONCILE MEMBERSHIP AND GMP DATA WITH HMRC

1.	Trustees have a duty to pay the right benefits to the right members at the right time. Accurate records are a fundamental requirement for fulfilling this duty.
2.	The Pensions Regulator regards good record-keeping as a fundamental part of good scheme governance, falling within the statutory duty to establish and operate adequate internal controls.
3.	Trustees are required, as data controllers, to ensure that scheme data is accurate and up to date.
4.	Inaccuracies in scheme data (for example, GMP amounts, revaluation rates or service history information) could lead to over- or understatement of scheme liabilities, with implications for scheme funding decisions, and could result in incorrect benefits/increases being paid, or even having to pay benefits to people who have never been members of your scheme.
5.	Significant discrepancies can lead to delay or higher premiums on future derisking or on winding up (because an insurer would effectively be taking on the risk of data inaccuracies).
6.	Reconciliation can't be put off until the scheme is undertaking GMP equalisation or conversion, or the scheme is being wound up. It is a necessary precursor to those processes and the opportunity to use SRS is time-limited.
7.	HMRC plans to start sending out individual member statements in December 2018 to members of previously contracted-out schemes. These statements will, as a minimum, confirm HMRC's position on where members' contracted-out benefits are held. If the information provided is inconsistent with scheme data, schemes risk receiving a significant level of time-consuming member queries at a stage when HMRC's services in this area have been significantly reduced. This may result in potential reputational risk and complaints having to be managed through your scheme's internal dispute resolution procedure and, ultimately, via the Pensions Ombudsman.
8.	HMRC data may record GMP liabilities in respect of members who have already transferred out their benefits, either individually or as part of an historic bulk transfer. Early feedback from HMRC is that its records of scheme membership numbers for a particular scheme may be up to 30% higher than those actually retained by the scheme. Schemes which fail to reconcile data may receive unnecessary queries from former members, and may risk gaining additional liabilities.
9.	In the event that no reconciliation is undertaken via SRS, it appears that HMRC's default position will be that the data held on its records should be deemed to be correct, particularly as there will be little or no ability to raise queries with HMRC after 2018. This could increase scheme liabilities due to differences in GMP amounts and membership, potentially affecting funding requirements.
10.	Reconciliation will be a time-consuming process. Taking action sooner rather than later will help schemes avoid a potential capacity crunch as administrators and HMRC struggle to meet the December 2018 deadline.

### What should you do next?

- Register with SRS (or, for schemes which have ceased to be contracted-out, contact HMRC regarding Shared Workspace) if you have not already done so
- Review the data received to make an initial assessment of the work required. For example, are overall membership numbers broadly right?
- Consider your approach to reconciling data. Do you have capacity in-house or do you need to engage external administrators to help with this task?
- Liaise with scheme employers about the reconciliation exercise and costs and support required

### What we will do next?

The goal of the PASA GMP working group is to provide impartial guidance to the pensions industry.

This guidance will initially focus on the following key issues:

- **Running the process** – in-house administrators or outsourced provider? A checklist of issues and questions to enable you to test and compare administrators and make the right choice for your scheme
- Comprehensive easily-read **guidance** for both Shared Workspace and the Scheme Reconciliation Service
- **Setting a tolerance:** Why set a tolerance and how do you apply it? What action do you take inside and outside this tolerance?
- **Benefit correction:** What are the technical challenges of trying to correct benefits when GMPs are incorrect? What is the legal position and how can schemes take a fair but proportionate approach across their membership?
- **Member communications:** What to tell your members and when

### Want to know more?

The government has published a series of factsheets for employers, trustees and pension scheme members on the new state pension and the end of contracting-out. Click [here](#) or go to [www.gov.uk](http://www.gov.uk) to find out more.