

The end of defined benefit (DB) contracting-out and GMP reconciliations

The option to contract-out of the State Second Pension (S2P) will come to an end in 2016 when the Single State Pension is introduced. Currently it is only possible to contract-out of S2P (previously SERPS) for schemes providing 'defined benefits' above a certain minimum level. Prior to April 1997 the minimum level of benefit the DB scheme had to provide was known as a Guaranteed Minimum Pension (or GMP), which still forms part of many members' benefits.

When contracting-out ends in April 2016, HM Revenue and Customs (HMRC) will no longer track contracted-out rights and will issue closure schedules to schemes so they can compare these against GMP amounts held on scheme records. This is known as a GMP reconciliation.

Following this, from December 2018 HMRC is planning to send individuals information about their contracting-out history.

As a result of the above, all schemes will need to reconcile their GMPs with those held on HMRC's records by December 2018.

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We are able to help our existing clients as well as schemes with in-house administration teams who are looking for professional support in a specialist area.

What can Barnett Waddingham do to help you?

We have significant experience in helping trustees with GMP reconciliation exercises. We are able to help our existing clients as well as schemes with in-house administration teams who are looking for professional support in a specialist area. This document sets out our approach to GMP reconciliations and gives some guidance to trustees on issues they should be considering as well as providing background to the changes being introduced.

If you would like to talk to someone about this service please call 020 7776 2200, visit www.barnett-waddingham.co.uk, or e-mail us at pensionadministration@barnett-waddingham.co.uk

Background information

What is a GMP reconciliation exercise?

The National Insurance Contributions Office (NICO) of HMRC maintains a record of GMPs held under each scheme. The GMP amount they hold is used to calculate the 'contracted-out deduction' they make from Additional State Pension so it is important this figure is correct and agrees with the amount the scheme holds. Over time a number of factors may mean the payroll data supplied to HMRC and the scheme administrator differs or perhaps there has been a merger of schemes resulting in GMPs being transferred from one scheme to another but not updated on HMRC's records.

A GMP reconciliation exercise lists all the members who have a GMP under a scheme and compares this against a list of all the members who HMRC believes hold a GMP under that same scheme.

The lists are rarely fully aligned at the start of the process however, with discrepancies usually occurring both in terms of membership and/or GMP amounts. Where there is a discrepancy then this should be investigated and a decision taken whether to accept the HMRC record as being correct.

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The data supplied by SRS can be imported onto a scheme's pension administration system in order that the scheme administrator can help trustees understand how their GMP records stack up against those held by HMRC.

What are the benefits of a GMP reconciliation exercise?

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

Furthermore, with GMP equalisation on the horizon, the reconciliation will be required before equalisation can be applied to accurate records.

How closely matched do the records need to be?

It can be counterproductive to spend lots of time investigating cases where the difference in GMP is small and will not have a material effect on a member's benefits. Schemes can decide a 'tolerance level' below which they will simply accept HMRC's information without further investigation. This tolerance level can range from a few pence per week to a couple of pounds per week depending on what trustees feel comfortable accepting for their scheme.

What is the HMRC Scheme Reconciliation Service?

Recognising the tight timescales involved HMRC has launched a Scheme Reconciliation Service (SRS) to enable schemes to start comparing their non-active GMP amounts (e.g. for deferred and pensioner members) in advance of the scheme ceasing to contract-out in April 2016.

We can import the data supplied by SRS onto a scheme's pension administration system in order that the scheme administrator can help trustees understand how their GMP records stack up against those held by HMRC. This can help determine a suitable tolerance level, plan next steps in the reconciliation project and assist greatly with setting appropriate fee budgets. Having HMRC and scheme data separately identifiable during the process along with 'agreed' data will allow flexible reporting throughout and following a GMP reconciliation process. It also allows 'point in time' analysis to take place in the event of future queries from members.

How does this differ from Shared Workspace?

Shared Workspace (SWS) is an electronic reconciliation service – or 'eRoom' – offered by HMRC to trustees of schemes whose contracting-out certificate has already been surrendered, i.e. those which no longer have active contracted-out members. Schemes using SWS have a forum for submitting and receiving queries direct with HMRC but, while data is provided through a similar eRoom for SRS cases, queries for this type of reconciliation have to be submitted manually to HMRC.

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We have sophisticated and robust systems and procedures in place to enable us to efficiently interrogate data and raise queries with HMRC at the same time as reporting progress to trustees, which enables us to keep costs at a manageable level.

What is involved in the GMP reconciliation process?

The likely steps involved in a GMP reconciliation process can be summarised as follows:

Task	Description	Timescale
Initial data reviews NB. for schemes using SWS only	Initial review of HMRC data and 'quick win checks' before loading to SWS	2 months
'State of Play' report	Liaise with HMRC regarding provision of data and carry out quick initial analysis	2 months
Work through queries and update records	In-depth review of HMRC data and investigation into any discrepancies with scheme data. Amend benefits where scheme data is incorrect. Completion of HMRC's forms to amend HMRC's incorrect records.	Dependent on scheme size, typically 1-2 years for a 1,000 member scheme
Reporting and Project Management	Production of progress reports for trustees Project supervision and liaison with HMRC regarding priority cases	Ongoing

What will it cost?

This will vary significantly from scheme to scheme. Barnett Waddingham will work with trustees to establish their scheme's starting position for any reconciliation via a 'State of Play' report. Using this information we will help trustees identify the amount of work required to undertake the reconciliation taking into consideration their attitude towards cost and risk along with their tolerance for accepting variances in scheme and HMRC's records. We have sophisticated and robust systems and procedures in place to enable us to efficiently interrogate data and raise queries with HMRC at the same time as reporting progress to trustees, which enables us to keep costs at a manageable level.

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

✉ pensionadministration@barnett-waddingham.co.uk

☎ 020 7776 2200

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Our primary objective is the delivery of an efficient, cost-effective and high quality service.

Why choose Barnett Waddingham

Barnett Waddingham is an independent limited liability partnership wholly owned and managed by its Partners. Barnett Waddingham Partners take personal responsibility for their clients and play an active and hands-on role in providing advice to each client.

Barnett Waddingham employs over 680 people including 62 partners. Our current turnover is in excess of £57 million. Our core business is the provision of administration, actuarial, investment and consultancy services to medium sized pension schemes.

Our primary objective is the delivery of an efficient, cost-effective and high quality service. We achieve this through a combination of our people and our systems – experienced professional staff backed by leading edge IT systems.

Our size, structure, efficiency and use of technology enables us to offer services and training which represent excellent value for money.

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All partners are directly involved in providing services and advice to all of our clients. Each client is looked after by a team of people working in one of our seven offices. Each office provides the full range of services to pension scheme trustees and employers from that location. We provide administration, actuarial and investment consultancy services to approximately 600 UK occupational pension schemes.

Our main practice areas are as follows:

- Trustee Consulting
- Pension Administration
- Investment Consulting
- Corporate Consulting
- Public Sector Consulting
- Insurance Consulting
- Workplace Health and Health
- Private Clients (SIPP, SSAS, Investment and Executive Pensions)
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