



Overview

The introduction of the new single tier State Pension on 6 April 2016 will also mark the end of contracting out for defined benefit (DB) pension schemes. Alongside this, HMRC is making changes that will make it difficult for a scheme to query contracted-out liabilities - including Guaranteed Minimum Pensions (GMPs) - after April 2018.

So, should pension trustees be asking their scheme administrator to undertake a reconciliation of GMPs now?

GMPs: to reconcile or not to reconcile? That is the question.

Why reconcile GMPs at all?

Experience has shown there is **nearly always a shocking mismatch** in the list of members HMRC thinks a scheme holds GMPs for and the list the scheme administrator has.

There are two principal reasons for this:

1. The scheme administrator failing to provide HMRC (or a relevant predecessor body) with the correct information at the time members transferred out.
2. HMRC failing to update their records when they did receive the correct information from the administrator.

Currently, HMRC offers a service whereby schemes can check their records against those held by HMRC and resolve any differences. From April 2018, HMRC will be significantly scaling back this service and no longer record where GMPs are held. **If schemes don't do some sort of reconciliation** when contracting out ends in April 2016, this means **they risk holding GMP liabilities for members who have transferred out.**

Schemes with a past history that includes a lot of bulk transfers may be particularly affected. HMRC may have a large batch of additional members still allocated to your scheme and, conversely, others who should be in your scheme may still be allocated to the previous arrangement. Although HMRC may require the administrator to resend the necessary forms for these members, it should be relatively straightforward to rectify this.

Currently, if a scheme has not reconciled contracted-out liabilities within two years of ceasing to contract out, **HMRC takes the stance that its records are the final, agreed position.** In this situation, a scheme could find itself holding liabilities for members it no longer has - or, indeed, possibly never had.

What is the GMP reconciliation process?

There are essentially **two stages** of reconciliation:

1. **Agree** with HMRC which **members** should have a GMP in the scheme.
2. **Match** the **details** on the HMRC record with those on the scheme record, which includes the amount of GMP.

To help with the process HMRC have introduced the Scheme Reconciliation Service, which trustees and administrators can use to check their membership and GMP data against HMRC records in the run up to the abolition of contracting out in April 2016. This may sound straightforward and simple, but really it isn't. Stage 2 is **where a trustee's dilemma really begins**.

On the one hand trustees naturally want to do the right thing and act in the best interests of members. On the other, there is **scope for administrators to run up enormous bills** as delving into old files from the seventies and eighties can be extremely time-consuming. Is the game worth the candle? In many cases company and scheme records from that far back are very poor, which means a scheme may end up having to accept HMRC's records anyway.

Surely someone's found a proportionate approach by now?

A few years ago, the Pension Protection Fund (PPF) concluded that the process of trying to match each GMP exactly was causing an unnecessary delay for schemes entering the PPF and adopted a **£2 a week tolerance level**. The Pensions Regulator (TPR) has subsequently endorsed this tolerance level for schemes that are winding up, stating "attempting to reconcile this 'to the penny' can be a disproportionately long and costly exercise".

Reading this, it may seem reasonable to assume they will take a similarly pragmatic view for schemes now preparing to reconcile GMPs when contracting out ends. However, the **advice** we see **from consultancies is quite varied**, with one proposing a tolerance of only 5p.

Even with a suitable, agreed tolerance level in place, trustees could still find the scheme exposed to the potential for significant fees.

- **Cases failing outside the tolerance level need to be investigated**. These discrepancies are often due to transfers-in, which are complicated to calculate and hence easy for the administrator and/or HMRC to get wrong. Working out the correct position could involve significant work, generally carried out on a time-cost basis.
- **When you come to buy out** your liabilities, even where a reconciliation has been carried out and all records fall within the tolerance, **providers currently expect scheme records to have been changed to match HMRC's**. This involves additional administration work, which could be magnified significantly if you then need to go back and review increases that have been applied to the different elements of a member's pension!

Our thoughts

Feedback on the Scheme Reconciliation Service has been good so far and it seems to be adequately resourced. However, some difficulties are being reported once you get to the Shared Workspace area where member data is shared with HMRC. As very few of the c 2,400 schemes that have registered for the Scheme Reconciliation Service have started the process in earnest, it seems **likely there will be a last minute rush** to reconcile after contracting out ends leading up to the final deadline in 2018. This is bound to put **significant pressure on people and systems** and increase the likelihood of the service 'falling over'.

A cynical view would be that if HMRC can't process the volume of scheme reconciliations in time, they might change the rules or extend tolerance levels. As professional trustees, we believe **pension trustees need to be proactive and should ensure that the membership reconciliation for their scheme is carried out soon**.

We think a pragmatic and proportionate approach is needed at the number crunching stage of the process and that **tolerance levels are a good idea**. Once you know the number of exceptions you need to deal with, we expect a sensible way forward can be found to handle them - **keep one eye firmly on the costs and benefits to avoid fees** unnecessarily spiraling out of control.

Find out more

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