



ADMINISTRATION

The contracting-out countdown – tick, tock...

Few in the pensions industry expected HM Revenue and Customs (HMRC) to be able to deliver on contracting-out cessation. Our own industry research showed that 75% thought defined benefit (DB) schemes were unprepared for cessation and 51% thought that HMRC capacity would be the most significant issue. Contrary to industry expectations, HMRC are stepping up to the plate on contracting-out cessation, ploughing massive resource into the countdown to 2018.

SRS – the statistics so far

By comparison, the industry response on this so far makes fairly depressing reading. HMRC report that 2,336 schemes have registered for the Scheme Reconciliation Service (SRS) to date, and 1,649 of those have been provided with data scheme covering more than 9.5 million members. Despite issuing data to 70% of their registered schemes, HMRC has received a disappointingly low response - only 100 schemes have responded to date. Why is this?

The general consensus is that administrators and consultants are busy presenting to trustees on the cold hard 'facts, figures and fees' involved in reconciling almost four decades worth of accumulated Guaranteed Minimum Pension (GMP) data. Inevitably, the most resistance comes on the third 'F', with fees cited as one of the key obstacles in securing trustee buy-in.

As the level of queries returned is significantly lower than HMRC had anticipated, there are now real concerns about HMRC's future planning and resources if schemes drag their heels on the reconciliation process.

HMRC help available

HMRC will be launching an online service where schemes can obtain GMP information (including contracted-out contributions and earnings information), on an individual or bulk basis, however this will not be launched until April 2016.

Schemes which are still open to future accrual and have therefore not yet cancelled their contracting-out certificate can make use of the HMRC SRS for preserved and pensioner members, letting schemes get a head start on GMP queries.

SRS – an outline of the process

Administrators can request SRS data for their DB

schemes where contracted-out rights are preserved within the scheme by completing the online SRS Request form. This is a simple form that requires the administrator's contact details, the full scheme name and SCOP, membership numbers and a brief tick box section regarding the history of the scheme.

Upon receipt of the SRS data, sent via Shared Workspace, HMRC's powerful interactive online reconciliation tool, administrators are required to compare this data against the scheme records and subsequently complete a Scheme Rec Query Template spreadsheet for any bulk member queries. This template is submitted to HMRC (again via the Data Transfer eRoom) who will then provide a series of responses to the queries using the same template.

Engaging the trustees in SRS and GMP reconciliations

Planning and transparency are key – administrators must provide an accurate breakdown of the overall timescales and costs of the GMP reconciliation project and help keep trustees focused on the issues through regular and accessible reporting. Categories and groupings of members should be prioritised, based on materiality or urgency, and the overall plan must consider any forthcoming events such as pension increases or trivial commutation exercises, all of which need to be aligned with the GMP reconciliation project. Giving trustees clear detail regarding these points will help them make informed decisions throughout.

HMRC summarised the detrimental effects on pension schemes, HMRC and Individuals of not reconciling GMP's in their Countdown Bulletin, issue 4. It is also worth bearing in mind that when HMRC run their Closure Scan in December 2016 (to close the open periods of contracted-out employment for active individuals on HMRC records), listings of the closed members will be sent to all schemes to check. If schemes don't take action now, this could be a far bigger exercise than anticipated, with a fresh wave of unexpected member queries to investigate.

At the higher level, GMP reconciliation sounds like a simple process but it's one that relies heavily on administrators submitting their queries in an efficient and timely manner, allowing HMRC to allocate the appropriate levels of resource and planning during what's sure to be a hectic couple of years for schemes and HMRC alike. ■



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