

### GMP rectification – the elephant in the eRoom

We are long-term advocates of the 4R's approach to Guaranteed Minimum Pension (GMP) reconciliation, i.e.

- **requesting** – getting data from HM Revenue & Customs (HMRC)
- **resourcing** – ensuring your administrator can cope with the extra workload
- **reconciling** – agreeing the GMP figures with HMRC
- **rectifying** – having plans in place to rectify incorrect records

The first three R's should all be works in progress now. However, the fourth and final R is proving to be the 'elephant in the eRoom'. It seems that so much focus has been put on the first 3 R's and establishing costs for the upfront reconciliation piece, that rectification and the work that it will entail is not being fully understood.

There are obvious reasons for this as the focus is on progressing the reconciliation phase while HMRC are still officially engaged. The need to consider rectification seems a long way off, especially as reconciliation progress is currently very slow due to disappointing turnaround times from HMRC. It is a source of great concern that this issue will only get worse as more and more schemes begin to draw on HMRC's already stretched resources.

Trustees should by now have decided on a 'tolerance level' appropriate for their scheme, below which they will simply accept HMRC's GMP information without further investigation. This tolerance level can range from a few pence to a couple of pounds per week depending on what trustees feel comfortable accepting for their scheme. 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 member's benefits. During the reconciliation piece, focussing on outside tolerance GMP records makes perfect sense. However, these cases cannot be forgotten and will need to be included when the rectification phase is reached. The scale of rectification projects means that guidance needs to be given to trustees to help them understand the potential scope of the rectification phase. In our experience trustees are assuming that this forms part of the reconciliation project, which it inherently does, but it seems that the additional costs are not being fully appreciated.

The most important consideration for the trustees will be what they plan to do in relation to implementing and communicating benefit corrections. The benefit recalculation aspect should be relatively straightforward, though potentially contentious, for deferred members where benefits are not yet in payment can be reworked in bulk to correct GMP discrepancies. Even for deferreds though, the communications aspect is likely to be both sensitive and protracted since there will be many deferreds whose projected benefits could change significantly under this exercise.

Even more important though is how pensions in payment are treated since there may have been many years of incorrect benefit payments and pension increases, resulting in significant under or over payments.

Benefit correction exercises are extremely time-consuming and trustees should adopt a practical and proportionate approach in seeking to recover overpayments. Trustees will need to be aware of the significant administrative costs in reshaping benefits and communicating changes. It is important to remember that those within tolerance cases, which were untouched in the reconciliation phase, will need to be re-evaluated in the corrective period.

Some practical considerations for trustees could be setting de-minimis corrective levels and leaving records alone under this level. Whilst there may be conflicting opinion on whether this is allowable, it would be wonderful to think that our industry could take the opportunity to work together and produce collective rectification standards for trustees to follow.

There must be some keen gardeners around this summer as someone appears to have been cutting the long grass into which GMP equalisation was kicked several years ago. If and when any firm plans arise it is hoped that common sense will prevail and the communication to members is considered. We must consider the reputation of our industry before we set out on a path that could lead to pensioners having adjustments made to their pensions, not once but twice, for reasons that the vast majority will simply not understand. I challenge any mere mortal to put a Plain English spin on those communications.

Now, did I mention GMP conversion?

On reflection, it seems that there isn't just one elephant in the eRoom, there's a herd. 🐘



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