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GMP reconciliations: act now

Schemes need to take action immediately to meet HM Revenue & Customs' deadlines and take advantage of derisking opportunities

With contracting out ceasing in 2016, defined benefit pension schemes are under pressure to reconcile their guaranteed minimum pension data now. In 2018, HMRC plans to write to all scheme members where their records state they have a GMP liability, with details of the amount they are due, and the scheme responsible for the payment.

For schemes where the GMP data have not been reconciled, there is a risk of former and active members being given incorrect expectations around a GMP entitlement. Our estimates show that up to 25 per cent of members could be affected, potentially creating a significant impact on scheme liabilities and pressure on administration teams.

Aon Hewitt's 2014 Pensions Administration Survey shows that schemes are alive to the need for action on GMP reconciliations. The survey looked at all aspects of administration and focused particularly on schemes' current priorities and challenges.

When asked about their priority projects for the next year, the largest percentage (29 per cent) saw GMP reconciliations as their main priority.

Schemes are right to be thinking about this now. A full GMP reconciliation can be time-consuming (typically taking from 9-18 months for an average scheme), and we expect to see a peak in demand – and consequent capacity issues – closer to 2016.

Every scheme will have members whose GMP data are wrong, and whose benefits are also therefore wrong. Our experience shows that in nine out of 10 cases, this results in an overpayment.

There are other risks that might be exposed in 2018 and will be difficult to correct retrospectively; for example, the scheme facing GMP liabilities for members who transferred their benefits elsewhere, or were contracted back into the scheme following a short service period. Schemes will want to correct the positon for deferred members before any GMP numbers become visible to them in order to avoid unrealistic expectations.

Schemes should also be verifying the accuracy of pensions in payment and taking informed decisions on corrective actions.

Schemes therefore have a strong imperative to carry out a reconciliation exercise and ensure that member benefits are not being, or could be, overpaid. The majority of pension priorities identified in the survey focused on derisking. Accurate data are the crux of any derisking activity – from pension increase exchange exercises (a priority for 15 per cent of respondents), to full buyout.

A complete picture of the scheme's liabilities is essential in quantifying the risk faced; inaccurate data can slow down any derisking activity considerably. Derisking opportunities often present themselves at short notice, with schemes deciding to act and wishing to transact within a very short timeframe. Inaccurate data can see schemes missing opportunities – the opportunity to buy out at an attractive price, for example.

In addition, schemes unable to give evidence of the accuracy of their GMP data are typically penalised by buyout providers via an increased premium, which can represent up to 2 per cent of the overall transaction. Schemes wanting to derisk in a timely and cost-effective way need to ensure their GMP data is accurate as a first, key step.

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There are, then, financial, regulatory and member service imperatives for carrying out a GMP reconciliation exercise. Schemes often realise that this is something they should do, but put it off, due to a lack of in-house resource and expertise. With 2016 not far off, and schemes' ability to undertake derisking projects hampered by inaccurate GMP data, it is something schemes now accept they cannot put off any longer.

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To download a free copy of Aon Hewitt's 2014 Pensions Administration Survey, visit aonhewitt.co.uk/administration, email enquiries@aonhewitt.com or call 0800 279 5588