

GMP Reconciliation Service – Stage 3

Who should read this? All defined benefit schemes in the process of reconciling their GMP records with those held by HMRC.

Overview

There are slightly different approaches for the correction of scheme records depending on whether the affected member has retired or not.

For deferred members it can be a simple case of re-tranching the deferred benefit from date of leaving. In most cases this should not mean any change to the total pension; however, there will be circumstances where the increase or decrease in GMP values will change the overall entitlement.

For pensions in payment there are three possible approaches. In order of increasing complexity, accuracy and cost of implementation these are:

Simple – The most straightforward option is to simply re-tranche benefits so the correct GMP is recorded in the ongoing benefits. This approach will not result in an amendment to the amount of pension in payment, so past under/overpayments do not arise. It does ensure that future increases are applied to the correct elements of benefit but takes no account of errors in the past.

Intermediate – This approach involves re-tranching the benefits from the later of actual retirement date and GMP Age so under/overpayments will arise in respect of the period from GMP Age to the implementation date, to reflect the differences between the pension increases on the GMP and non-GMP pension elements. It will not result in an amendment to the amount of pension paid between retirement date and GMP Age for members who retire prior to GMP Age.

In the case of dependants, this approach involves re-tranching the benefits from the date of the member's death, which corresponds to the date the dependant's GMP came into payment.

Full – This is the most accurate but complex approach. The benefits are re-tranched from date of leaving so under/overpayments will arise in respect of the period from the date of retirement to implementation date, reflecting differences in deferred revaluation and pension increases in payment between the GMP and non-GMP elements.

Aon has a standard methodology for Stage 3 work and has developed a tool to implement this methodology across all clients.

Approach

Our approach uses a de-minimis level, based on the size of the reported GMP discrepancies to be corrected, to determine if corrective action is necessary.

Pensioners and dependants

Differences of up to £0.05 per week:

- Do not amend scheme records

Differences above £0.05 per week:

- For pensioners, correct scheme records using the Full Approach, unless there is evidence to show that the discrepancy was introduced from GMP Age, when the Intermediate Approach should be used.
- For dependants, correct scheme records using the Intermediate Approach.

In all circumstances, trustees should seek legal advice on the approach most suitable for their scheme.

We're here to
empower results

Contact:

Nick Harper
+44 (0)121 262 5032
nick.harper@aon.com

Deferreds

For deferreds, we will use the Full Approach since there is no complication with under/overpayments and pension splits at date of leaving should be readily available. However, differences of £0.05 per week or less will be ignored.

Potential limitations

Standardising the calculations – Ideally benefits would be recreated from first principles, but this is time-consuming and costly. It is also difficult to recreate benefits in a standard way without ending up in benefit audit territory.

It should be noted that the calculation methodology applies to the correction of GMPs only and is applied on the basis that the overall benefit is otherwise correct.

Missing data – It is possible that missing data may be an issue for some schemes. To apply the Full Approach, accurate historic data is required. Examples of what may be missing are:

- Historic pension increases
- Historic early and late retirement factors and methodology
- Pensions split into the required tranches (eg, tranches arising from benefit equalisation)
- Data to link dependants back to original scheme members

Assumptions to 'fill in' the missing data may not be appropriate, particularly where the result would be a benefit reduction. It may, therefore, be necessary to take a more pragmatic view for cases with a significant amount of data missing.

Increasing or reducing pension

Under the Intermediate and Full Approaches, some pensions may go up and some may go down. Trustees will need to decide on their approach, which should include both legal and actuarial advice. Some of the questions to be considered are:

- Will a *de minimis* level (below which no changes are made) be set?
- How will past over/underpayments be dealt with?
- Will interest be added to past underpayments? If so, at what rate?

Costs

The Simple Approach is the cheapest to implement, while the Full Approach is the most expensive. Aon will undertake the approach in accordance with trustee instructions.

Where the preferred approach fails (for example due to insufficient data), the calculation will revert to the next available solution. Costs will be applied at the rate originally requested by the trustees.

Summary

Trustees should begin to consider how they wish to implement Stage 3 well in advance of Stage 2 completion. There is much to consider and some trustees may feel uncomfortable. However, trustees are under a duty to administer their scheme in accordance with the governing documentation and overriding legislation and should, as an overarching principle, ensure that the scheme pays the right benefits, at the right time, to the right person.

The Pensions Regulator has not published any guidance on the approach trustees should use to correct GMPs following a GMP reconciliation exercise. OASA has issued guidance on rectification which sets out the complexities of rectifying pensioners and dependants. It suggests that a scheme-specific approach should be considered by the trustees and scheme sponsor, having taken actuarial and legal advice. At Aon, our solution has been developed along these lines.

What are the next steps?

For more information on our services or to arrange your GMP reconciliation, get in touch with your usual Aon contact or alternatively:

Nick Harper

+44 (0)121 262 5032

nick.harper@aon.com

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

This document and any enclosures or attachments are prepared on the understanding that it is solely for the benefit of the addressee(s). Unless we provide express prior written consent, no part of this document should be reproduced, distributed or communicated to anyone else and, in providing this document, we do not accept or assume any responsibility for any other purpose or to anyone other than the addressee(s) of this document.

Notwithstanding the level of skill and care used in conducting due diligence into any organisation that is the subject of a rating in this document, it is not always possible to detect the negligence, fraud, or other misconduct of the organisation being assessed or any weaknesses in that organisation's systems and controls or operations.

This document and any due diligence conducted is based upon information available to us at the date of this document and takes no account of subsequent developments. In preparing this document we may have relied upon data supplied to us by third parties (including those that are the subject of due diligence) and therefore no warranty or guarantee of accuracy or completeness is provided. We cannot be held accountable for any error, omission or misrepresentation of any data provided to us by third parties (including those that are the subject of due diligence).

This document is not intended by us to form a basis of any decision by any third party to do or omit to do anything.

Any opinions or assumptions in this document have been derived by us through a blend of economic theory, historical analysis and/or other sources. Any opinion or assumption may contain elements of subjective judgement and are not intended to imply, nor should be interpreted as conveying, any form of guarantee or assurance by us of any future performance. Views are derived from our research process and it should be noted in particular that we can not research legal, regulatory, administrative or accounting procedures and accordingly make no warranty and accept no responsibility for consequences arising from relying on this document in this regard.

Calculations may be derived from our proprietary models in use at that time. Models may be based on historical analysis of data and other methodologies and we may have incorporated their subjective judgement to complement such data as is available. It should be noted that models may change over time and they should not be relied upon to capture future uncertainty or events.

To protect the confidential and proprietary information included in this material, it may not be disclosed or provided to any third parties without the prior written consent of Aon.

Aon does not accept or assume any responsibility for any consequences arising from any person, other than the intended recipient, using or relying on this material.

Copyright © 2020. Aon Solutions UK Limited. All rights reserved.

Aon Solutions UK Limited Registered in England and Wales No. 4396810 Registered office: The Aon Centre, 122 Leadenhall Street, London, EC3V 4AN.

Aon Solutions UK Limited is authorised and regulated by the Financial Conduct Authority.

Aon Solutions UK Limited's Delegated Consulting Services (DCS) in the UK are managed by Aon Investments Limited, a wholly owned subsidiary, which is authorised and regulated by the Financial Conduct Authority.