

GMP Rectification – The role of the Trustees

As schemes approach the end of reconciliation, there is a need to focus on the process for correcting GMP information on administration scheme databases and undertaking any rectification work required as a consequence.

The number of schemes that have undertaken rectification to date appears to be relatively small, however we expect to see this becoming more commonplace as reconciliation exercises come closer to completion. Where this exercise has been undertaken it is evident that it cannot be completed by the administrator in isolation. It requires decisions from the Trustees and most likely, the employer, and also support from other advisers to the scheme such as the scheme actuary and legal adviser.

To help support Trustees and administrators through this process, PASA has designed a checklist covering the issues that may need to be considered and the questions that will need to be answered in order to complete the rectification process.

The checklist looks quite long but it is important to note that not all questions will be relevant to all schemes.

This checklist should be reviewed and completed with reference to the existing PASA GMP Guidance which can be found here: <http://www.pasa-uk.com/content/gmp-guidance>.

To make this document easier to work with we have split the points to be considered into separate sections and included a short introductory paragraph at the start of each section.

Whilst every rectification exercise is different, there are some key stages that will apply to all schemes as follows:

- Due diligence – this will include:
 - Confirming the in scope population
 - Reviewing quality of data for the in scope population
 - Capturing important scheme information

- Agreeing the proposed approach and methodology for the rectification project
- Data cleanse – if the plan is to apply an automated solution to any rectification work then it will be important to understand, at the outset, if the scheme data will support this and, if not, to have a plan in place to correct that data prior to any calculation work being undertaken
- Rectification calculations – the steps to be taken as part of this phase include the following:
 - Undertaking the calculations for the pensioner and dependant members
 - Updating the records for deferred members
 - Providing a summary of results to support the decision making process
- Implementation – The key decisions will need to have been made prior to implementation. This does not preclude making any changes on a phased approach and this may actually be necessary or desirable. The following steps will form part of the implementation process:
 - Issuing communications
 - Providing support in the event of queries from pensioners or deferred members
 - Making changes to payroll records
 - Updating the administration database

The above represents a very high level approach and the needs of each scheme will depend on the benefits being provided, the governance structure, the number of members in scope and the decisions made. Schemes where there are a large number of members in scope for rectification may potentially find value in having a project manager or consultant to provide support.

We hope that you find this checklist useful and would be grateful for any feedback and comments.

RECTIFYING DISCREPANCIES IN CONTRACTED-OUT BENEFITS TRUSTEE DECISION CHECKLIST

1. WHICH GROUPS OF MEMBERS SHOULD BE EXCLUDED FROM THE RECTIFICATION?

Agreeing which members are in scope is an important first step. In our experience, it is normal to start by assuming that all deferred and pensioner members (including dependants), where it has been identified that the GMP held on the administration platform is incorrect, are in scope even where the difference is within the reconciliation tolerance. A separate (and potentially different) rectification tolerance can be applied as outlined in our previous guidance as part of the rectification project. It is however helpful to consider upfront the categories of members where a different decision might be made.

Decision required	Current position	Date last updated
Should any of the following groups be excluded from the rectification exercise? <ul style="list-style-type: none"> • “No liability” members (e.g. members who have transferred out, taken refunds or totally commuted their benefits) • Deceased members, including where the dependant member is in receipt of a pension (the dependant member would be included in rectification) 		

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<ul style="list-style-type: none"> • Members identified during the reconciliation as having suspect HMRC data that cannot be successfully challenged • Members for which any change to their GMP might relate purely to the rounding of pension increases and therefore may not actually constitute a change. <p>Where GMP records have been deemed as “within tolerance” to HMRC records should scheme records be amended and members included in the rectification exercise or should scheme records remain unchanged (as per HM Treasury guidance for pensioners in public sector schemes with GMP in payment)?</p>		
<p>Should a cut-off point be used when assessing any of the above (for example, very recent deaths may be included?)</p>		

2. ARE THERE ANY DATA ISSUES?

Understanding any data issues as part of the due diligence phase will help to ensure that the project runs to time and budget. The questions below are designed to help you think about any data issues that might impact on the project. The list is not intended to be exhaustive but will provide a useful starting point for discussions with your scheme administrator.

Decision required	Current position	Date last updated
Are there any known data issues which mean that it would be difficult to roll forward benefits from say date of leaving, retirement or death to now e.g. pension increase underpins and previously applied rectification calculations?		
Have there been any past de-risking exercises which might impact on the ability to recreate the pension increase history e.g. Pension Increase Exchange exercise?		
Are there any aspects of the benefit structure that might impact on the ability to recreate the pension in payment e.g. bridging pensions, temporary pensions, complex pension increase formulae such as those found in “grandfathering” benefit structures?		

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<p>Is a full history of pension increases (including discretionary increases) available to enable the pension adjustments to be rolled forward? If not, what assumption should be made for missing pension increases?</p>		
<p>If pension commencement lump sums are subject to correction or if A-day limits are to be re-checked following rectification then is a full history of commutation factors available? If not, what assumption should be made for missing commutation factors?</p>		
<p>Is there a full history of deferred revaluation (including discretionary increases), early and late retirement factors available for each benefit category to enable the current pension to be recalculated? If not, what assumption should be made?</p>		
<p>Are full details of retirement benefit calculations both now and in the past available? Examples of common complexities include Barber equalisation, franking of GMP revaluation against excess, acquired members whose retirement benefits were processed prior to acquisition, benefit underpins and treatment of late retirements. What assumptions should be made where there are gaps in the understanding of how benefits were processed in the past?</p>		

3. HOW OPERATIONALLY SHOULD RECTIFICATION BE PERFORMED?

Your administrator should talk to you about the methodology to be applied to the calculations and the extent to which the end to end process is automated. This is likely to now be a tried and tested approach so deviating from the standard has the potential to increase both risk and cost. This does however highlight the importance to trustees of understanding this process upfront so that they can be sure it adequately meets the needs of all stakeholders to the project. Some points to consider are set out in this section.

Decision required	Current position	Date last updated
<p>GMP rectification for pensioner members sets out, as a minimum, to correct</p> <ul style="list-style-type: none"> • the impact that incorrect GMP has on pension increases • the minimum pension level due to the member from GMP age or date of retirement if later. <p>In addition to this, should the impact of incorrect GMP on the calculation of a member’s initial retirement pension also be addressed</p>		
<p>If the impact of incorrect GMP on the calculation of a member’s initial retirement pension is to be addressed, then how is reliable data to be obtained on the GMP that was actually used in the retirement pension, and is this available on the administration system or only in member document files?</p>		

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<p>To what extent will rectification be automated?</p>		
<p>GMP rectification for dependant pensioner members typically sets out to correct the impact that incorrect GMP has on pension increases, and also as a minimum pension level due to the dependant at commencement of the dependant’s pension. Is it acceptable to limit rectification to this, and to not assess whether the deceased member’s pension also required rectification, which could have impacted the dependant member’s initial pension calculation?</p>		
<p>Will comprehensive validation checks be run as part of the process, including review of cases with extreme outcomes, with the purpose of capturing any issues with the automated process or with the data being provided from the GMP reconciliation stage of the exercise?</p>		
<p>Do the trustees want to take a phased approach to the rectification work - are there any particular priorities?</p>		
<p>Have the trustees sought legal advice should they wish to defer GMP rectification for one or more group of members?</p>		

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<p>In general, what data items are needed for each rectification method and from where should these data items be sourced e.g. administration system, member's document file?</p>		
<p>How should pension sharing orders be treated i.e. both ex-spouses with pension credits within the scheme and members with pension debits</p>		
<p>Where the pension at retirement is to be adjusted then will the pension commencement lump sum also be revisited? Should the lifetime allowance (or Inland Revenue Limits for retirements prior to A-day) be checked as part of rectification processing?</p>		
<p>Should members who have died recently (e.g. during the rectification project) have rectification calculations processed so that appropriate action can be taken with the members' estates or should these be considered alongside other no liability cases?</p>		

4. HOW SHOULD UNDERPAYMENTS AND OVERPAYMENTS BE TREATED?

(Refer to PASA Guidance Note 5 for guidance on the below issues)

In some respects, a decision as to how to treat over and underpayments can sometimes be made once the calculations themselves have been completed. Understanding the quantum of changes to pensions in payment and past over or under payments can also contribute to setting a rectification tolerance. For example, a small difference in GMP amount at date of retirement can still result in a relatively large difference in the current pension amount. Sharing the corrected pension figures with the Scheme Actuary can be an important input in understanding the impact on the liability position which is, in itself, can help drive the under/over payment strategy.

We have divided this section of the checklist into three categories as follows:

- General points that apply to both under and over payments
- Issues specific to underpayments
- Issues specific to overpayments

GENERAL POINTS

Decision required	Current position	Date last updated
How have over or under payments been treated in the past and does this create a precedent?		
Have you discussed the funding implications of the rectification work with the scheme actuary?		

PENSIONS CURRENTLY BEING UNDERPAID

Decision required	Current position	Date last updated
Should all underpaid pensions be increased to the correct level or should a materiality threshold be used and at what level should the threshold be set e.g. where the difference is arguably “spurious” due to different rounding methodologies?		
When will underpaid members receive their first corrected pension payment?		

PAST UNDERPAYMENTS

Decision required	Current position	Date last updated
Will all members be reimbursed in respect of historic underpayments or should a materiality threshold be used and at what level should the threshold be set e.g. where the difference is arguably “spurious” due to different rounding methodologies?		
Will this reimbursement be via a single payment?		
Can payments be spread out, at the member’s request, to avoid tax or state benefit complications?		
Alternatively will the scheme offer members a tax year breakdown of past underpayments to assist in requests to HMRC to re-calculate the tax arising on any historic underpayment? In what circumstances will this breakdown be made available?		
Will interest be applied to underpayments and at what rate e.g. Bank of England base rate, or possibly a rate specified in the trust deed and rules?		

PENSIONS CURRENTLY BEING OVERPAID

Decision required	Current position	Date last updated
<p>What action will be taken in respect of pensions currently being overpaid – which of these three options best captures your approach?</p> <ul style="list-style-type: none"> • reduce the pension to the correct level for all future payments • freeze the pension at the current level until such time as future pension increases mean that the member is now entitled to at least their current pension level • maintain the pension at the current pension level and grant future increases 		
<p>Do you wish to see the preliminary results of the rectification before making these decisions?</p>		
<p>Do you want your scheme actuary to produce costs and funding impact analysis based on preliminary results to facilitate you taking these decisions?</p>		

GMP Trustee Decision Checklist

<p>If you decide to reduce the pension to the correct level:</p> <ul style="list-style-type: none"> • Should all pensions currently being overpaid be reduced to the correct level? • Should a materiality threshold be used and at what level should the threshold be set? • Where the pension is being overpaid by a small amount then what changes (if any) should be made to the member’s record? For instance, should the GMP and excess elements be re-tranched to reflect the HMRC GMP record? <ul style="list-style-type: none"> • From what date should pensions be reduced? 		
<p>If you decide to freeze the pension at the current level:</p> <ul style="list-style-type: none"> • Have you discussed with your administrator how the pension freeze requirements will be implemented within the pension increase process? • Will the implementation of pension freeze by your administrator be an automated process, or a manual process to apply at pension increase time? 		

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<ul style="list-style-type: none"> • What approach will be taken to any attaching death benefits e.g. spouse's pensions or lump sums such as the balance of a five-year guarantee during the period of the freeze? • If the trustees wish to consider augmenting benefits to freeze benefits at their current, overstated level, has this been discussed with the employer? • How will the necessary augmentation of benefits be documented by your scheme lawyers? 		
<p>If you decide to maintain the pension at the current level and grant future increases:</p> <ul style="list-style-type: none"> • Should the augmented pension amount be recorded as a separate pension element? • Should future pension increases be awarded to the whole pension in the same way they would have been prior to identifying the pension as being overpaid, or should the augmented pension be treated differently? • What approach will be taken to any attaching death benefits e.g. spouse's pensions or lump sums such as the balance of a five-year guarantee? 		

GMP Trustee Decision Checklist

<ul style="list-style-type: none"> • If the trustees wish to consider augmenting benefits to maintain benefits at their current, overstated level, has this been discussed with the employer? • How will the necessary augmentation of benefits be documented by your scheme lawyers? 		
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HISTORIC OVERPAYMENTS

Decision required	Current position	Date last updated
Will the trustees attempt to recoup past overpayments from the member?		
Should a materiality threshold be used and at what level should the threshold be set?		
How does the Limitation Act 1980 affect what monies can be recovered?		

GMP Trustee Decision Checklist

<p>If past overpayments are to be written off then should these be recorded and offset against any underpayment arising from any other pension correction exercises conducted in the future?</p>		
<p>If past overpayments are to be written off then have your legal advisers confirmed that the overpayments made do not become unauthorised payments for tax purposes?</p>		
<p>Does any aspect of the strategy for members being overpaid in relation to past payments require an employer decision?</p>		
<p>If you decide to recoup at least some past overpayments</p> <ul style="list-style-type: none"> • Will the past overpayment be reclaimed in instalments and, if so, over what period? • Is member consent required for the trustees to reclaim past overpayments direct from a member's pension payments? • Will interest be applied to overpayments and at what rate e.g. Bank of England base rate or other rate specified in trust deed and rules? 		

5. COMMUNICATIONS

GMPs are a complicated subject for those of us that work in the pensions industry and, in communicating a situation where a pension has been rectified as a result of GMP reconciliation; we are asking a member who typically will have no pensions knowledge to understand what has changed, why it has changed and why it impacts them. Ensuring that the communications are right, legally correct and issued in a timely manner is key to the success of the project as is ensuring that, when members impacted do have queries, it is easy for them to find details of the right person to contact and, when they do so, to be able to speak to someone who is knowledgeable about the changes.

The points below represent some of the things which, based on our experience, you need to think about when preparing your communication strategy.

Decision required	Current position	Date last updated
How much notice should members be given regarding any change in level of benefits and demands for overpayments?		
Is there any other data cleanse activity in progress which might result in further changes to members benefits and hence be a reason to delay communication?		
For members whose benefits are not yet in payment (e.g. deferred members) where it is only the split of the benefits that has changed, should this change be notified to members?		

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<p>For pensioners, particularly those who have not yet reached GMP pension age, where it is only the split of the benefits that has changed, should this change be notified to members?</p>		
<p>Will special letters be prepared for members with unusual outcomes, for example it is possible for members with past underpayments to require a reduction in pension going forward?</p>		
<p>Should a “Frequently Asked Questions” document be included in all member communications to reduce the number of queries directed to the administrator?</p>		
<p>Should a call handling script be created to assist in handling queries from members?</p>		
<p>Will the full rectification results be available on a member-by-member basis and presented in an understandable manner, so that a more detailed member query on rectification method could be addressed if needed?</p>		

GMP Trustee Decision Checklist

<p>Does the scheme have the correct address on file for all members and have existence checks been performed to ensure that deceased members are not inadvertently sent a GMP rectification communication? Deferred members are the most likely to be impacted by this.</p>		
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6. WHEN IS RECTIFICATION TO BE PERFORMED?

There will be a number of factors that will potentially influence the timing of a project of this nature, not least the need to provide members with enough time to allow for any changes in the amount of their pension. But there are other activities that need to be considered in deciding on the timing of any changes. Resource to deliver the project is an obvious one but consideration also needs to be given to the points below.

Decision required	Current position	Date last updated
With effect from what date should rectified pensions be calculated and paid?		
Are you considering coinciding rectification with a pension increase exercise so that overpaid members who would otherwise receive a small pension reduction will have that cancelled out by the increase?		
Are any of the following exercises in progress or coming up which may impact on the timing of the rectification exercise? <ul style="list-style-type: none"> • Actuarial funding valuation • De-risking exercise <ul style="list-style-type: none"> • Data cleanse • Pension increase exercise • Member communication (e.g. newsletter) • Other planned project work 		

GMP Trustee Decision Checklist

<p>Should you wait until the GMP reconciliation is complete before starting the rectification or alternatively carry out the rectification in batches?</p>		
<p>Are there any other factors that would drive the timescale for the rectification exercise?</p>		