

FROM RECONCILIATION TO RECTIFICATION

Administrators will take varying approaches to the end of the reconciliation stage and proposals for any subsequent rectification work. The decision for the timing of any rectification work sits with the trustees and the scheme sponsor based on data from the administrator and support and advice from their other advisers such as the legal adviser and scheme actuary. Experience to date shows that some trustees and employers prefer to wait until the end of the reconciliation stage when they will consider a final report which includes proposals for rectification, whereas others will take a more iterative approach and request information on potential rectification work as the reconciliation work progresses. In deciding on a timescale, consideration needs to be given to the position on authorised payments as detailed in Guidance Note 5 ‘Rectifying discrepancies in contracted-out benefits: next steps following data reconciliation’.

Whichever approach is taken, at the end of the reconciliation the trustees should have all the information they need in order to make a decision about any potential rectification work.

This Guidance Note provides an overview of the information that trustees may wish to obtain from their administrators to satisfy themselves that the reconciliation exercise is complete and to make any subsequent decisions about rectification.

Completion of reconciliation

Third party administrators will each have their own template report which is provided on completion of the reconciliation exercise. The following information is typically included:

1. A restatement of the position after the initial analysis was completed, showing the number of members where:
 - both the administrator and HMRC had a record for an individual and the GMP for that member was the same or within an agreed tolerance;
 - both the administrator and HMRC had a GMP for the member but one or more data items did not reconcile. This would include the amount of the GMP but could also include such items as contracted-out service dates and national insurance number; or
 - the administrator was holding a liability for a member but HMRC had no record of that member, or vice versa.

This may be in the form of a table and may be split between different membership status categories, e.g. actives, deferreds and pensioners (including spouses).

2. A table in the same format but showing the information at the point the reconciliation is completed. It can also be helpful at this date to split the data between members who have not reached GMP payment age and those post-GMP payment age.
3. Any queries which remain outstanding – it is important that these are also captured in the report so that the trustees can monitor these through to completion.

4. Confirmation of the number of members whose benefits may require rectification, together with information which may be helpful in decision-making such as status, age, pension amounts and the date on which the pension commenced.

At this stage it is unlikely that the administrator will have quantified the impact of any rectification work on the members. Calculating the correct benefits is likely to give rise to a cost and therefore approval will be required prior to any work being done. This may be material if the number of members affected is large; the trustees or employer may need the information in order to discuss the impact on liabilities with the scheme actuary. In scheduling the timing of discussions and decisions on rectification work, trustees need to be mindful of the rules on unauthorised payments. It will be for the trustees, working with the employer, the scheme administrator and other advisers to decide on the budget for rectification work, the priorities for that work and when particular steps are undertaken.

Rectifying benefits

It is important that the trustees have an overview of the scope and associated costs for any rectification work before agreeing that it should be carried out, so any rectification work is normally preceded by a report from the administrator as described above. Administrators will typically quote a range of fees at this stage, but the costs can often be refined quite quickly after initial discussions have taken place.

Defining the scope of the rectification exercise

Data for deferred members who are in scope for rectification can normally be corrected as a bulk exercise, so it is important for trustees to understand the extent to which this may mitigate overall costs. Trustees should consider whether to communicate with deferred members to notify them of any change; this decision may be influenced by whether the deferred statement issued on leaving included a GMP figure.

For pensioner members who retired from deferred status and where the GMP was incorrect at the point the member left the scheme, revaluation during the period of deferment may also be incorrect. In this instance, the trustees will need to decide whether to recreate and therefore correct the benefit from the date of leaving rather than only from the date of retirement and are likely to require information to support them in this decision-making process – for example, as to whether the relevant data is available or would need to be actuarially derived (introducing further uncertainty into the calculation).

Are there any pensioner/dependant cases where guaranteed pension increases exceed the maximum increase that would be granted on any post-88 GMP? In these cases, where a member retired from active status, any changes to splits would not impact on the total pension in payment while the member is below GMP age, so this would be a data correction exercise only with no requirement to adjust benefits. The position may differ for members who retired from deferred status.

If the population for rectification includes any GMP-only pensioners, underpayments will need to be rectified. For other pensioners and for overpayment cases, please see Guidance Note 5, ‘Rectifying discrepancies in contracted-out benefits: next steps following data reconciliation’.

Trustees will also need to understand:

- whether the data held on the computer system is good enough to support the rectification exercise;
- whether a full pension increase history can be recreated for all categories of pensioner in the scheme;

- the extent to which any underpayments or overpayments can be calculated as a bulk exercise; and
- the role of the employer in relation to any decisions to augment benefits (for example, where it is found that a pension is being overpaid and it is planned to augment the pension to that higher level rather than reduce it to the correct level).

Automating rectification calculations

The process of automating rectification calculations can be cost-effective but will require initial resourcing. It typically involves the following steps:

- write bulk calculation specification including deferred revaluation/pension increase information, obtain trustee/employer/actuary sign-off if required;
- identify and agree data extract requirements (validation scripts may be run in advance to review the quality of the data before proceeding further);
- identify cases that will need to be calculated manually;
- develop, test and approve calculation tools in line with specifications; run members through calculation tools and carry out sample reviews;
- agree member communications and automate letter production; and
- where possible automate the write-back of the data to the database and the feed to pensioner payroll to make the adjustments to ongoing pension and pay any arrears due.

This guidance forms part of a series of notes offering guidance to UK pension schemes on principles for approaching the reconciliation of contracted-out benefits in a pragmatic and proportionate way.

This note is not a definitive guide to the issues involved, nor is it a substitute for legal advice on which any particular pension arrangement may rely. It is intended to assist those in the industry to establish appropriate approaches to dealing with the complexity of addressing reconciliation and rectification issues in relation to contracted-out benefits.

This note is based on current understanding and awareness of HMRC processes as at February 2016 and will be revised and updated as information about further developments becomes available.