

MEMBER LEVEL RECONCILIATION

A key aspect of the first stage of a GMP reconciliation exercise is to reach agreement on the population of members who have an entitlement to a contracted-out benefit.

Although there is no GMP to reconcile for post-97 members, it is important to remember that the population which was contracted-out post-97 also forms part of the member level reconciliation exercise, as mentioned in guidance note 1, 'Reconciling contracted-out benefits: a framework for action'.

At the end of this exercise, HMRC's records will match the scheme's records in terms of entitlement (whether in relation to GMP, post-97 rights or both), but not necessarily in terms of amounts.

Comparing the data held on the administration system with the records held by HMRC will result in members falling into one of four categories as follows:

- Members in relation to whom all data is agreed.
- Members in relation to whom both HMRC and the administration database show entitlement to a contracted-out benefit (although at this stage there may still be a mismatch in GMP amounts or other data items).
- Members for whom HMRC believes an entitlement to a GMP exists but for whom there is no matching entitlement on the administration system. This is typically referred to as 'Not on Admin'.
- Members for whom the administration system shows there is an entitlement to a contracted-out benefit but who are not included in HMRC's membership listing. This is typically referred to as 'Not on NICO'.

As we look at the practical implications of resolving queries, either in terms of membership or at the later stage of reconciling GMP amounts, it is always important to consider the following points:

- Is there any aspect of the scheme's history which might be causing the discrepancy? For example, if a contracting-out certificate was not amended following a historic scheme merger or demerger, HMRC data may be incorrect.
- Has HMRC picked up the expected Scheme Contracted-Out Number(s) (SCONs) or could this be one of the reasons for a mismatch in numbers?
- Sampling a small proportion of an affected population may be a cost-effective way to identify a reason or trend causing the discrepancy.
- Where multiple records need to be changed or where the same action affects a reasonable number of members, it may be possible to adopt a bulk or automated solution to address the discrepancy cost-effectively.
- What is the cost of any particular approach versus the potential benefit to the scheme/member? The administration costs may need to be considered against the potential cost of taking on the liability.

Members shown as ‘Not on Admin’ or unexpectedly included on SRS data

The reconciliation may identify members as ‘Not on Admin’ for a variety of reasons. Some of the most common reasons are set out below with some suggested actions. The action to be taken will depend on individual scheme circumstances. Options should be fully explored by the trustee (working with the employer where the decisions will impact on the financial position of the scheme).

Possible reason for ‘Not on Admin’	Possible actions
Members may have totally commuted their benefits including any GMP entitlement.	Advise HMRC via Shared Workspace.
Members have died without any further benefits being due from the scheme and therefore a GMP liability no longer exists.	Advise HMRC via Shared Workspace.
In some scheme databases, where a member has died, there is no link between the member’s record and the spouse’s record.	Discuss with the administrator whether this may be affecting the membership reconciliation. The administrator should be able to identify any members affected and create the link.
On checking the administration system some members may appear to have no further liability as they transferred out of the scheme.	Further investigation may be required to confirm whether a transfer (including the contracted-out liability) took place. If so, then either HMRC did not receive the appropriate notification or it was never sent. Details of the receiving arrangement will need to be provided to HMRC. Note: Care is required to confirm whether the transfer included GMP liabilities or related only to benefits in excess of GMP.
	<p>If there are no records or the record of the transfer out is incomplete, possible courses of action include:</p> <ul style="list-style-type: none"> • Where there is insufficient information about the transfer to meet HMRC’s requirements, the missing details could be obtained from the receiving scheme. • Where no details are held, in theory the individual could be asked to provide details of the transfer – however, where there has been no contact for many years, address tracing might be required prior to any communication exercise. <p>If it is still not possible to prove to HMRC’s satisfaction that the transfer took place, the pragmatic course of action may be to accept the GMP liability for that member.</p>

Possible reason for 'Not on Admin'	Possible actions
<p>There may be members who have no liability because they received a refund of their contributions and a Contributions Equivalent Premium (CEP) has/should have been paid to reinstate them in the state scheme.</p>	<p>This presents two options, either:</p> <ul style="list-style-type: none"> ● to assume that a notification was never completed, advise HMRC that this was the case and pay the CEP; or ● to investigate each case to check whether a CEP was paid. <p>The course of action taken will depend on individual scheme circumstances and the volume of members involved. Some schemes may find it more cost effective to assume that a CEP is due and pay the relevant amount*, rather than investigating individual cases.</p> <p>It should be noted, however, that a CEP cannot be paid where the member is past SPA so, if it is not possible to evidence payment of the CEP, the scheme may have no practical option other than to accept the GMP liability in these cases.</p>
<p>In some schemes there has been a practice to merge records where members had more than one period of service. This means that there is a possibility that one record on the administration system will not be showing a GMP amount.</p>	<p>There may be value in asking the administrator what they know about the treatment of records for members who have had more than one period of service. Even if they may not always have been the administrator, they should have an understanding of historic data holding. Alternatively, sampling may help to identify an issue.</p>
<p>Mismatch of National Insurance (NI) number</p>	<p>Many administrators have software that can identify slight mismatches, e.g. where one or two digits have been transposed in an NI number, to help resolve this type of query.</p>

Cases not within the categories above

Having addressed members who fall into any of the above categories, there is likely to be a number of members still requiring investigation. As mentioned above, if the number is significant in relation to the size of the scheme there may be value in undertaking an initial sampling exercise as this may highlight a trend which could enable a more cost-effective solution to be found.

CEPs may be paid in relation to deferred members who leave employment below normal pension age and without the appropriate length of qualifying service. Payment of a CEP will remain possible, if appropriate conditions are met, up to 6 April 2019*. As noted above, CEPs may not be paid in relation to members above state pension age. Where a CEP can be paid the scheme may wish to look at the cost of paying the CEP and extinguishing the liability versus the cost of investigating the case. This has the potential of reducing this group, to include only those members where a CEP cannot be paid.

* Note that HMRC is considering the position on payment of CEPs where more than six months has elapsed since termination of employment. It has requested that schemes take no action for the moment in these cases – see Countdown Bulletin 12, December 2015

Members not found on system records

Every reconciliation exercise will reveal a number of cases where members recorded on HMRC data cannot be found anywhere on the current administration system. In this scenario, much can be learnt from the service date information HMRC has provided. If a member had service e.g. from 1978-1981, it is likely the member received a refund of contributions (as was common at the time). A longer service period, for example from 1978-1986, may suggest that the member may have transferred out, as a refund could not have been paid where the member had more than 5 years' service.

Every scheme will have a population of leavers that left before the scheme first transitioned from paper administration to a computer system. For many schemes, this took place in the early/mid 1990s; very few schemes would have loaded all past leavers as well as the current deferred/pensioner population to the new system. To resolve these cases, the administrator would need to search any available non-system data such as paper files, microfiche and any old data backups from previous systems. Many schemes accept that relevant members probably did take a refund and that the CEP may not have been applied by HMRC, or paid at the time.

Members shown as 'Not on NICO' or missing from SRS data

As above, set out below are some of the common reasons why the scheme administrator may believe a GMP liability exists, despite this not being shown on HMRC records. Again, these reasons are accompanied by some suggested actions.

Possible reason for 'Not on NICO'	Possible actions
It is possible that records are being held under a different SCON.	This is worth investigating if the number of members not on NICO is significant.
Mismatch of NI number.	Many administrators have software that can identify slight mismatches, e.g. where one or two digits have been transposed in an NI number, to help resolve this type of query.
A termination notice has not been submitted to HMRC.	Your administrator should be able to identify this type of query and it can be resolved by submitting the appropriate termination notice.
For a period from 6 April 1991, notional GMPs were calculated for female members who were paying the reduced rate of National Insurance (E rate). These may have been recorded as actual GMPs in error.	In these cases it will appear that the administrator is holding a liability for a GMP but there is no corresponding HMRC record. Typically this can be resolved by reviewing the member record and updating the system to show that there is no GMP liability.
There may be a mismatch where a member has died, if one set of records relates to the member and the other relates to the spouse.	These cases should be easily identified as part of the process of checking individual queries.

Guide to the output from the Scheme Reconciliation Service (SRS)

The output provided by HMRC will show:

Output designator	SCON	Member Type	NI NO	Surname
RP3408	200010H	1	AA013813C	QQTESTSURNAME

Initials	Start Date	End Date	Total GMP	Post 88 GMP	Rev Rate	ECON
Q,Q,	06/04/1992	05/04/1995	0000014.40	0000014.40	FIXED	E3526212F

The Member type designation is as follows:

Type 1	Early Leaver	GMP figures provided are as at the date each member's contracted-out membership ended.
Type 2	Pensioner	GMP figures provided are as at each member's State Pension Age (not GMP age).
Type 3	Widow	GMP figures provided are as at the date of death of the pensioner or the State Pension Age of the pensioner.
Type 4	Widower/ Surviving Civil Partner	As for widow
Type 5	Incomplete record – HMRC has been unable to provide full details for the member	No GMP data will be provided initially. HMRC will actively look at these records and where possible provide further information on a separate spreadsheet. Schemes should, however, use this data to reconcile their membership.

Having completed the reconciliation of scheme members who are entitled to a GMP (bearing in mind that, as a result of the work undertaken above, this may be a larger or smaller population than originally thought) the next step is to look at discrepancies in the data held by the administrator and HMRC, including (but not exclusively) the amount of the GMP.

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 January 2016 and will be revised and updated as information about further developments becomes available.