

# GMP Reconciliation Service – Stage 3

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**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-tranching 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.

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## 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:

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### 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.

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