GMP reconciliations: act now

Schemes need to take action immediately to meet HM Revenue & Customs’ deadlines and take advantage of derisking opportunities.

With contracting out ceasing in 2016, defined benefit pension schemes are under pressure to reconcile their guaranteed minimum pension data now. In 2018, HMRC plans to write to all scheme members where their records state they have a GMP liability, with details of the amount they are due, and the scheme responsible for the payment.

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A complete picture of the scheme’s liabilities is essential in quantifying the risk faced; inaccurate data can slow down any derisking activity considerably. Derisking opportunities often present themselves at short notice, with schemes deciding to act and wishing to transact within a very short timeframe. Inaccurate data can see schemes missing opportunities – the opportunity to buy out at an attractive price, for example.

In addition, schemes unable to give evidence of the accuracy of their GMP data are typically penalised by buyout providers via an increased premium, which can represent up to 2 per cent of the overall transaction. Schemes wanting to derisk in a timely and cost-effective way need to ensure their GMP data is accurate as a first, key step.

There are, then, financial, regulatory and member service imperatives for carrying out a GMP reconciliation exercise. Schemes often realise that this is something they should do, but put it off, due to a lack of in-house resource and expertise. With 2016 not far off, and schemes’ ability to undertake derisking projects hampered by inaccurate GMP data, it is something schemes now accept they cannot put off any longer.

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