

Pensions briefing

New guidance on rectification of GMPs

April 2020

As HMRC's reconciliation process for guaranteed minimum pensions draws to a close, new guidance gives a useful snapshot of the issues UK pension scheme trustees and administrators need to tackle if they discovered over- or underpayments of pension as a result.

In the past schemes have been encouraged to try to sort out those small adjustments to pension as part of a wider GMP equalisation exercise so as not to confuse members with multiple adjustments. However delays in clarifying equalisation requirements have led PASA's GMP equalisation working group (GMP EWG) to suggest now splitting the two exercises where practicable. That said, schemes could and should use the GMP rectification process to set themselves up properly for the next stage of equalisation so the guidance gives a road map on how to do this.

There are four stages to the road map proposed by the GMP EWG in March 2020:

Understand the data

Understand the nature of the task

Consider the impact on members of any delay

Consider and document other factors influencing the timing of GMP rectification

Understanding the data

This is where GMP rectification and GMP equalisation projects sit most closely together.

The first step is finishing off the reconciliation process with HMRC if you haven't already done so. That means sorting out any stalemate cases and dealing with all outstanding queries.

The next steps are working out how the populations for GMP rectification and GMP equalisation overlap and then planning the data cleanse so that you get all the right information for each population at the same time.

When you don't have the data, and can't get it, any assumptions to fill in the gaps should be common to the two exercises, rather than having two distinct projects. If you have a number of members with only pre-17 May 1990 service, GMP equalisation isn't relevant unless you also plan to convert the whole GMP into alternative benefits.

Equally just updating the GMP on your system may be enough for rectification but your equalisation plan may need a full National Insurance earnings history, so get all the information in one go.

Understanding the nature of the task

The guidance identifies three ways of rectifying benefits for pensioners and their dependants:

Reconstructing the full administration calculations

A differences approach where the GMP at leaving date is adjusted and then rolled forward to the present day or

Reflecting the correct GMP in the current pension split, so the constituent parts (GMP and excess) are changed but the overall pension remains the same

If only the payroll GMP is adjusted, the necessary data may not be there for GMP equalisation purposes, for example if it came from a transfer-in where pre- and post-17 May 1990 GMP needs to be broken out

Consider the impact on members of delay

The first priority is to get new pensions in payment and transfers out dealt with first to avoid making the problem worse. The second priority is to deal with existing pensioners in payment. The longer overpayments are left to grow, the harder it becomes to seek repayment.

We would add that the Pensions Ombudsman has also shown some preference for schemes to recover overpayments over a similar period to the one the problem lasted for. That inevitably means some pensioners will die before full recovery has been made, so the sooner recovery starts, the better.

Equally pensioners are entitled to receive their full benefit, and trustees will remain in breach of trust until they have made up the shortfall to the extent required.

Any members without post-17 May 1990 service (or transferred in service) can and should be dealt with straight away, before picking up the more tricky pool of members with a combination of rectification and equalisation issues. Again, the rectification process should be done with the equalisation process firmly in mind – if someone has been overpaid, but they will also be entitled to a small uplift for equalisation, recovery should in practice be limited to the net overpayment, so may need to wait until the equalisation calculations have been completed.

Consider and document other factors influencing the timing of GMP rectification

The guidance also lists the other drivers that trustees will need to take into account, such as:

The duty to pay the right benefit to the right member at the right time – so benefits should be rectified at the earliest opportunity, and any recovery of payments done appropriately

The need to complete the calculations before taking a final decision on how to deliver rectification – where will equalisation complicate the process, and where can benefits be fixed now?

Planning ahead with advisers and administrators so that rectification and equalisation work does go hand in hand and the resources are available, and that data is held somewhere accessible if administration systems aren't to be updated immediately, to make sure that benefits coming into payment in the interim are correct.

Fitting rectification and equalisation into existing project timelines e.g. for a buy-in or buy-out, as well as business-as-usual milestones like valuations and annual pension increases.

Make sure your overall policy remains clear and coherent – if the trustees are minded to forgive and forget overpayments for GMP rectification

because it will cost too much to sort out, does that have a knock-on effect on the costs of equalisation? The same applies to things like paying interest on late payments and invoking forfeiture rules to limit back payments. You need to keep clear records of what is being adjusted, what should be and isn't and why, so that later rectification for GMP equalisation does not compound the issue or leave something out of consideration.

Comment

The guidance is short on detail – schemes can't use it as a blueprint to getting rectification done, but it is a useful overview of the issues that trustees should be balancing up, and a reminder of how much can and should be progressed now before any GMP equalisation project fully kicks off.

Other places to look

The GMP EWG guidance can be found [here](#). It also contains links to [other PASA guidance](#) that may be relevant to GMP rectification.

Contacts

Lesley Browning
Partner

Tel +44 20 7444 2448
lesley.browning@nortonrosefulbright.com

Peter Ford
Partner

Tel +44 20 7444 2711
peter.ford@nortonrosefulbright.com

Shane O'Reilly
Partner

Tel +44 20 7444 3895
shane.o'reilly@nortonrosefulbright.com

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