

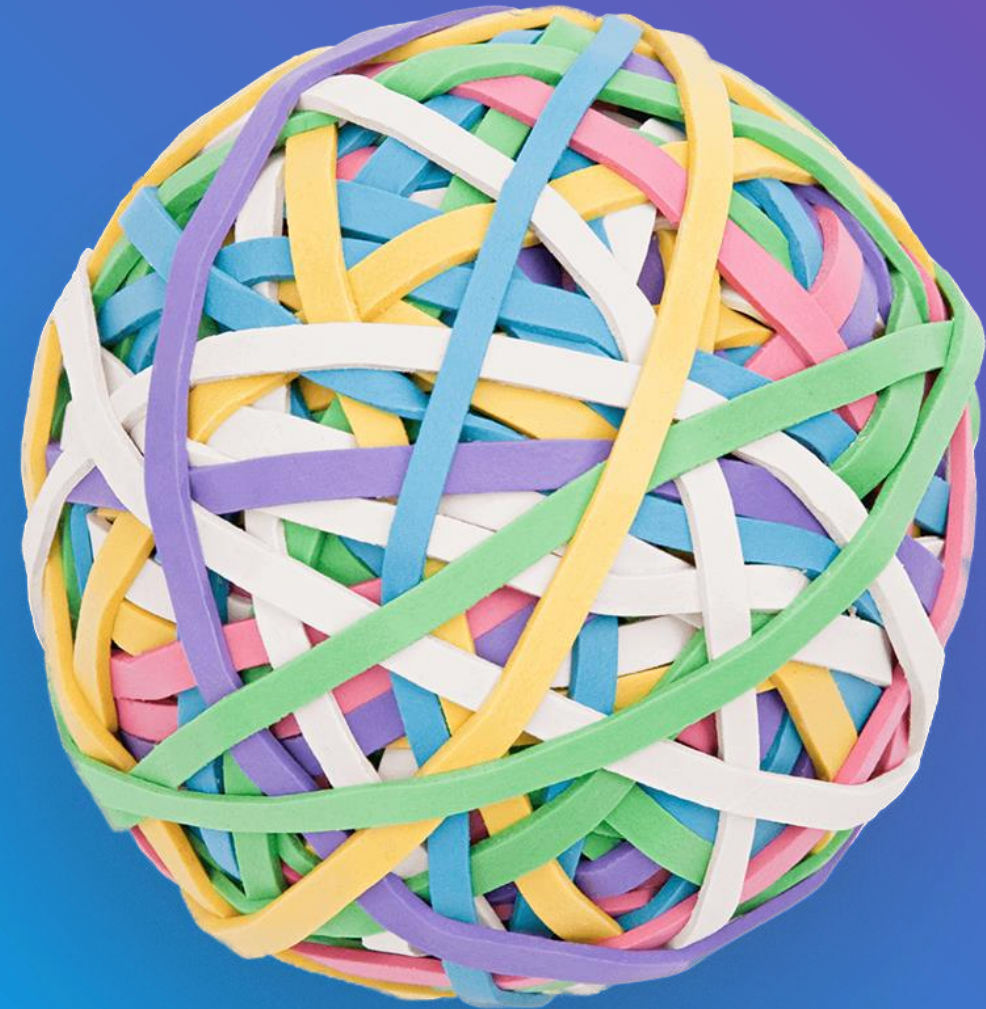


Isle of Wight

Initial analysis and calculation approach

November 2023

welcome to brighter



Executive Summary

This report sets out the proposed approach to rectify GMP on the [Isle of Wight](#) (the “Scheme”) following reconciliation with HMRC’s records (“rectification”).

Our key recommendations are as follows:

1. The delta approach is adopted for rectification where benefits are already in payment.
2. Non-pensioner benefits will be rebalanced in all cases where there was not an exact match with HMRC.
3. The primary HMRC data source used for rectification will be the online GMP checker service
4. Rectification will only be carried out for pensioner members with a difference between the accepted GMP and the administration record of more than £2.00 per week and members in scope for rectification have been identified using the process set out on page [7].
5. Interest on any past underpayments arising from rectification is calculated consistently with the rate required for GMP equalisation (i.e. the Bank of England base rate + 1% p.a.)

Approach to calculations

Overview - For information only – Delta Approach agreed

Where a pension is already in payment, there are broadly three options available to Trustees to allow for the correction of differences in GMP:

A light touch approach

- The light touch approach simply re-balances the pension in payment so the correct amount of GMP is paid going forward.
- It is the quickest option, but is very approximate. Historically and prior to the Lloyd's judgment, it was the only real alternative to full rectification, but it is not consistent with the approach that needs to be followed to equalise the past position for GMP inequalities and therefore we would not recommend schemes use a light touch approach for rectification.

Full rectification

- A full rectification approach would require manual calculations to replicate the pension at the point of leaving, adjusted for the updated GMP and the calculations re-worked to the current date.
- Data is unlikely to be available to support this approach for all members. The costs and timescales to undertake full rectification are likely to be excessive relative to the amounts of under and over payments for the majority of members.

The delta approach

- The delta approach uses a series of assumptions to roll back benefits to the date the member left active service and calculate the impact without having to undertake significant file review or manual calculations.

Approach to calculations

Recommendation

Broadly, the delta approach:

- Takes into account the period of deferment from leaving service until retirement which often accounts for the largest impact of differences in GMP.
- Allows the same method to be used for rectification following reconciliation with HMRC records and the equalisation of GMP.
- Allows a reasonably accurate calculation while also managing timescales and costs. For the majority of members, the delta approach will provide the same result as a full recalculation.



Recommendation (already agreed)

- We recommend that the Trustees use the delta approach for rectification and equalisation as this avoids the need to incur additional costs in carrying out an extensive review of historic files where the outcome is unlikely to have a material impact on a member's benefits.
- For deferreds and pensioners, any member with a GMP difference of less than or equal to **£2.00** per week is considered within reasonable tolerance and no changes are recommended. For any members over this tolerance we recommend that preliminary calculations are completed using the delta approach.
- The following section of the paper sets out the initial analysis of the members in scope for rectification.

HMRC reconciliation

The GMP reconciliation data has been reviewed for all members in the Scheme who were included in the GMP Reconciliation exercise. The original reconciliation with HMRC records categorised members as follows:

Category A:	Category B:	Category C:	Category D:	Category E:
GMP 'determined'	GMP 'undetermined'	Not on NISPI	Not on Administration records	No Liability (initially Category C or D)
<p>Members where both the Scheme and HMRC records show that there is a contracted-out liability and any difference was either:</p> <ul style="list-style-type: none"> • within the agreed reconciliation tolerance or • outside the tolerance but accepted by the Scheme following manual review. <p>Note this means the “correct” GMP figure has been accepted, but this could still be different to the GMP being paid from the Scheme and therefore rectification may still be necessary for members in this category.</p>	<p>Members where both the Scheme and HMRC records show that there is a liability but this liability differs in some respect. This means the “correct” GMP figure has not yet been agreed.</p>	<p>Members where there is a Scheme record but no corresponding HMRC record.</p>	<p>Members where there is an HMRC record but no corresponding Scheme record.</p>	<p>Members where it has been agreed with HMRC that no further liability exists. This category includes members where the liability in the Scheme has been extinguished for example, by a transfer payment or a trivial commutation of benefits. For these members no further investigation or updates are required.</p>

HMRC data sources and categorisation for rectification

- There are three different sources of HMRC GMP data and it should be noted that in some cases there are differences in the amounts of GMP. The sources of HMRC data are:
 - The final HMRC reconciliation schedules
 - The schedules obtained from either HMRC's shared workspace for schemes that ceased contracting out prior to 2016 or the scheme reconciliation service following cessation of contracting out in 2016.
 - HMRC's GMP checker service (this is the data source that members are able to access if they wanted to check their GMP entitlement with HMRC).
- We are aware that HMRC have notified a number of schemes that the data included in the final reconciliation schedules were incorrect and that the pensions industry has accepted that these amounts are generally not to be relied upon.
- Rather than undertake additional work to identify any differences in amounts, the reconciliation results have been used to support identification of the population in scope.
- Mercer has then used the HMRC GMP checker service as the primary data source for GMP amounts used in this initial analysis, and proposes to do so for rectification.
- However, a detailed analysis has not been carried out on any differences between the GMP checker and the HMRC reconciliation schedules, however cases where there would clearly be a change in reconciliation category are identified in this paper. The Trustees may wish to investigate these cases further.
- The use of the HMRC GMP checker also provides the current GMP amounts for pensioners over GMP age, which reduces the need to manipulate / roll forward the data from an earlier date that is often required when using one of the other sources.
- However, we would note that the position is less straightforward for dependant members as HMRC only provide GMP data at the date of death of the original member.
- The principles that are used to categorise members ahead of rectification are set out on the following slide and more details on the process that is followed are included in the appendix.
- The results of the initial analysis for GMP rectification are then set out on pages [8] to [13].

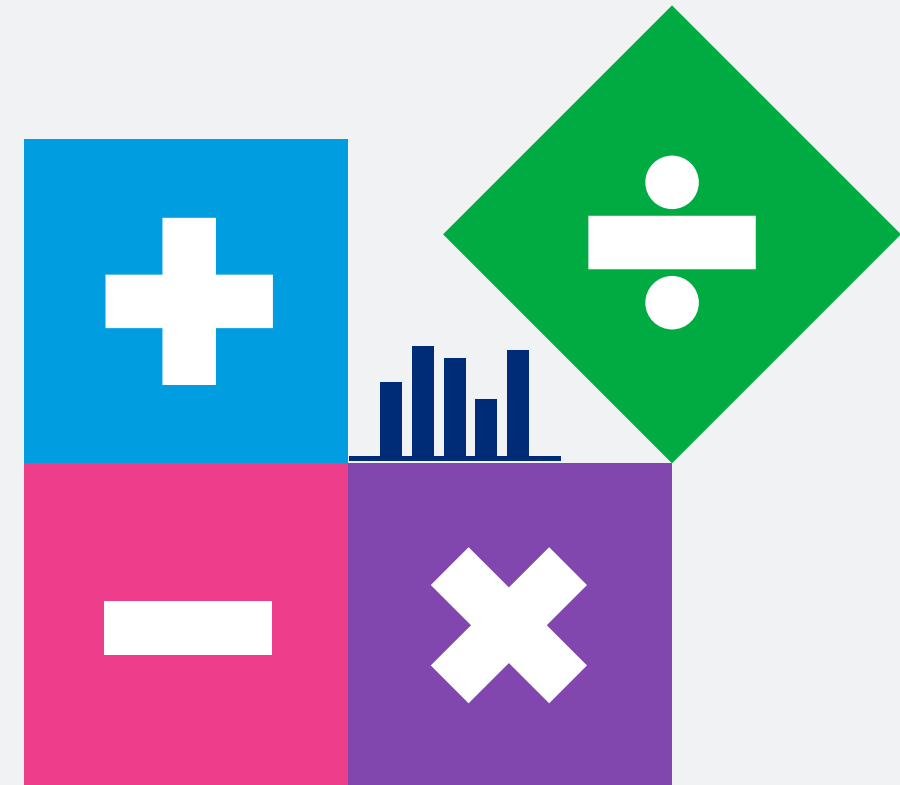
Member categorisation

Category	Description	Notes
No action required	Members where scheme and HMRC GMP records are consistent.	As agreed, members will be treated as "No action required" whenever the difference from HMRC and Admin weekly GMP is below £2.00. We also propose that for any members where scheme and HMRC records agreed at GMP age, but the member retired after GMP age are also categorised as "No action required" provided that the scheme GMP is at least equal to the HMRC GMP, adjusted by the statutory late retirement factor.
Rectification required	Members where scheme and HMRC GMP records differ in amount at the date of cessation of contracting out.	The approach used to rectify the benefits for both non-pensioner and pensioner/dependant members will be as set out on page 4. The members in this category will be members where the difference in GMP arises at the date of cessation of contracting-out and where the difference in current GMP is more than 5p per week for pensioners and dependants and where there is found to be any difference for non-pensioners.
Exception	Any cases identified where the HMRC checker data is inconsistent with the original reconciliation work, or another inconsistency between HMRC and scheme records is identified.	This could include any cases where HMRC hold a different date of cessation of contracting out, or there is a difference in the revaluation type. Further information the exception cases identified and included on page 12 and the Trustees may need to take legal advice on the approach that should be used in these cases.
Rebalance	Pensioner members where there is a difference in current GMP on the scheme records compared to HMRC, but they are believed to be consistent at GMP age.	It is possible that variation in administrative practices and timing differences in pension increases could lead to a small differences in GMP that are not true rectification cases and the difference is greater than the agreed tolerance of £2.00 applied to determine the "no action required" category. Our proposal for these cases is that they are re-balanced to ensure the HMRC GMP is used going forward for future increases in payment. We recommend this approach is used for any cases where the scheme and HMRC records agreed at GMP age, but the difference in current GMP between scheme and HMRC records is above £2.00, but less than 5%.
Query	Pensioner members where further investigation is required to understand the difference in GMP between scheme records and HMRC.	Any differences that do not fall into one of the above categories cannot be rectified without further information on the reason for the differences. Any cases identified will be temporarily removed from the project and referred to the administration team for investigation.

Initial analysis for GMP rectification

Deferred members

- These are straightforward to correct, as the benefits have not come into payment. This involves updating the GMP record and rebalancing the pre 97 non-GMP elements so the total preserved pension remains unchanged. In some instances, an increase in GMP may result in an uplift of overall pension, as there is insufficient non-GMP to offset the increase. It was assumed a weekly tolerance of £2.00.
 - A total of 6,437 deferred records have been investigated.
 - 101 records do not agree exactly with HMRC, and these will be rebalanced as described above.
 - 6,266 records agreed exactly, therefore no further action is needed in respect of these records.
 - 51 records marked as “exceptions”, more details on slide 12.
 - 19 records marked as “query”, more details on slide 12.



Initial analysis for GMP rectification

Pensioner members

- In total 5,470 pensioner records have been reviewed as part of the initial analysis.
- Of these 294 show rectification is required based on a £2.00 tolerance and a further break down is shown in the table below.
- 4,881 cases were found to require no further action.
- 295 cases require further investigation, with further details provided in the Queries and exceptions section on the following pages.

Dependant members

- In total 671 dependant records have been reviewed as part of the initial analysis.
- Of these 76 show £2.00 tolerance and a further break down is shown in the table below.
- 595 cases were found to require no further action.

Category	Number	Proposed action
Members under GMPA		
Retired from active status	16	No deferment period and no GMP currently in payment so no immediate impact on benefit currently in payment. Records will be amended to reflect the updated GMP from GMP age.
Retired from deferred status	20	Calculate impact using delta approach.
Members over GMPA and dependants		
Members	258	Calculate impact using delta approach.
Dependants	76	Calculate impact using delta approach.

Queries and exceptions

xxx cases have been identified as requiring further action ahead of inclusion within the rectification exercise. Further details and proposed next steps are set out below.

	Deferreds	Pensioners	Dependants	Next Action
Trustee approval required	51	92	0	These cases cover non-standard issues and require the Trustee to approve the recommended rectification approach. Once the Trustees have agreed how these cases should be treated they will be included in the rectification calculations as necessary. See Appendix A for details of the specific cases.
Referred to Administration Team	19	203	0	These require further review by the Administration team. Where necessary, rectification calculations will be completed for these members once the Administration Team's review is complete.
Excluded	0	0	28	These cover dependants for whom no record is held of the original member. As such, they will be excluded from the exercise and continue to receive their pension with no adjustment for rectification.
Total	70	295	28	



Stalemate cases

- Members falling into categories B, C and D of the original HMRC reconciliation (details on slide 5) are considered as “stalemate cases”.
- Where a decision has not already been made, in order to support the Trustee in progressing these cases, members falling into these categories will be identified as part of the preliminary rectification calculations and the action agreed once the potential impact on member benefits is known.

Query cases

Refer to administration team

Query	Deferred members	UGMPA members	OGMPA members	Next action:
GMP amount matches at date of leaving and GMP age, but scheme GMP in payment is less than HMRC GMP	0	0	100	Suggested sample review to confirm if DOR pension is correct and if it's only the GMP split put into payment that is incorrect, if this is the case the members can be rectified using the standard process, if not they need to be removed for further investigation.
GMP amount matches at date of leaving, but does not match at GMP age	0	0	17	Investigate inconsistency in GMP revaluation from DOL to GMPA on admin records – is it incorrect and do we accept HMRC figures
HMRC records indicate member is deceased	19	2	84	These members need to be referred to the Admin team to investigate if members show as deceased in Admin records and if there is any further liability.
Total	19	2	201	

Exception cases

Trustee decision required (suggested actions on page 13)

Exception	Deferred members	UGMPA members	OGMPA members
1 - HMRC suggests no liability, but plan records suggest GMP is present	2	0	3
2 - Plan and HMRC service dates are inconsistent	9	18	49
3 - Plan and HMRC service dates are inconsistent, but GMP agrees at date of leaving	35	5	0
4 - Plan suggests no liability, but HMRC records suggest GMP is present	5	0	0
5 - Members with multiple records where further information is needed to understand the difference	0	0	17
Total	51	23	69

Exception cases – Next action

Exception	Next action:
HMRC suggests no liability, but plan records suggest GMP is present (5 members)	Without evidence to confirm member should have no GMP we would recommend to retain Admin record.
Plan and HMRC service dates are inconsistent (76 members)	Admin to confirm if service dates are correct and if we should retain Admin record
Plan and HMRC service dates are inconsistent, but GMP agrees at date of leaving (40 members)	Admin to confirm if service dates are correct and if we should retain Admin record (GMP matches HMRC)
Plan suggests no liability, but HMRC records suggest GMP is present (5 members)	Trustee decision was previously made to accept scheme records as correct on these type of cases – assume this remains the same and no action required
Members with multiple records where further information is needed to understand the difference (9 members)	Trustees to confirm if we should retain Admin records or if these cases should be referred to Admin team for further investigation, these could include members where Admin holds one period of service that amalgamates two periods from HMRC (or vice versa) and a direct comparison is not possible.

Summary and next steps



Decisions required (already made and noted below)

- Confirm agreement to use of the delta approach for the rectification and equalisation calculations and standard approach as set out in the GMP Guide (already agreed)
- Confirm tolerances for GMP rectification calculations of £2 per week for cases where the benefits are already in payment (already agreed)
- Confirm tolerances for rebalance of pensioner member benefits where GMP agreed at GMP age, but a difference in current GMP has been identified of less than 5% but above £2 per week (already agreed as above £2 per week)
- Confirm deferred member benefits will be re-balanced where there the difference in GMP is above £2 per week.



Next steps

- Final calculations (preliminary calculations will not be provided) will be completed to determine the historic impact of rectification using the agreed approach.
- The results will be available by [date].

Appendix

Member categorisation

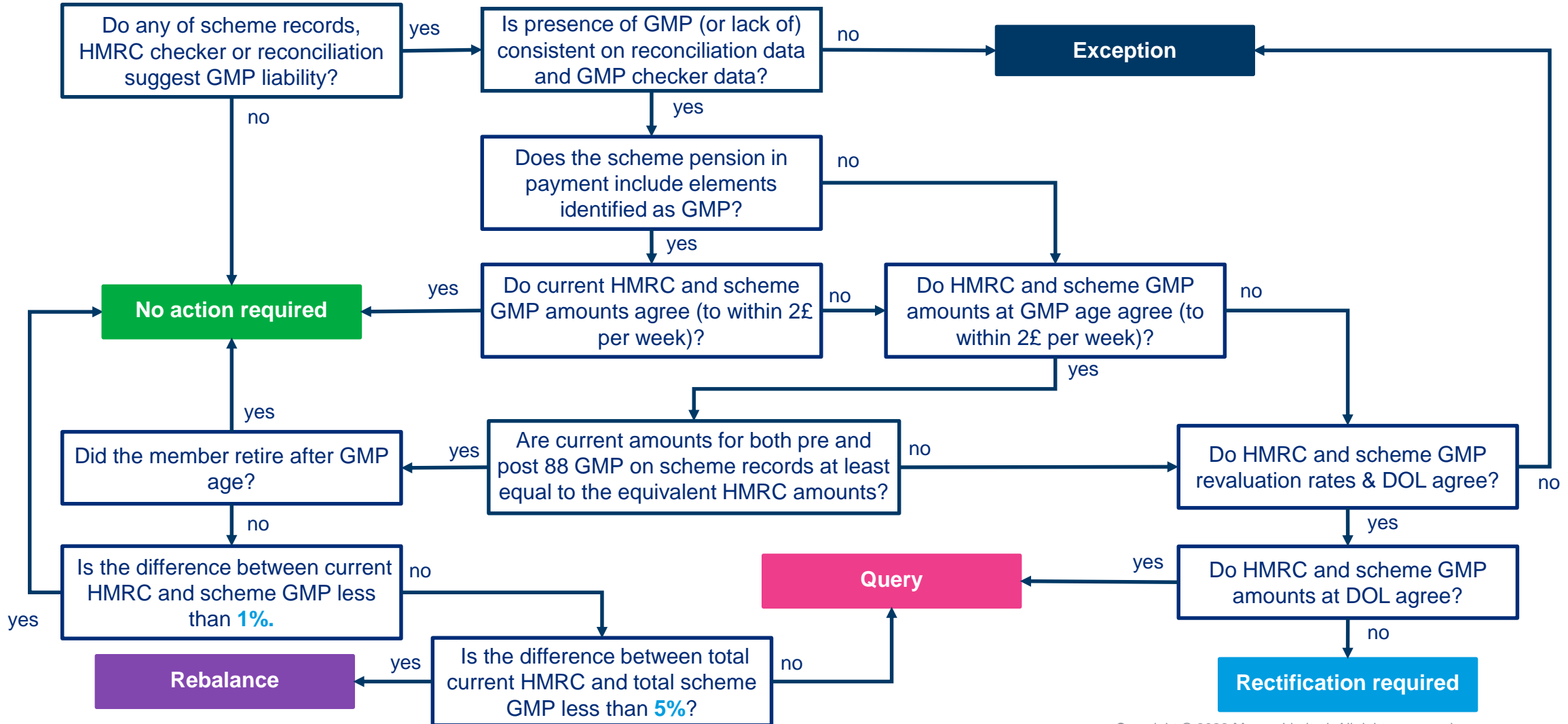
Comparing HMRC and scheme records

- In most cases, differences between scheme and HMRC GMP arise at the date of cessation of contracting out. However, for current pensioners and dependants, this data is not always available and generally the most reliable data source will be the GMP currently in payment.
- For this reason, and to reflect the fact that the HMRC checker data for pensioners members with benefits in payment that are over GMP Age is readily available, the initial check is the current GMP in payment. Where this does not match, we then check the GMP from each source at GMP age (where available) and then finally the GMP at the date of cessation of contracting-out.
- Pensioner members are then allocated into one of five categories as described on page [7] and a high level flow chart of the process followed is included on page [17].
- A similar approach is used for dependant members and a high level flow chart of the process followed is included on page [18].

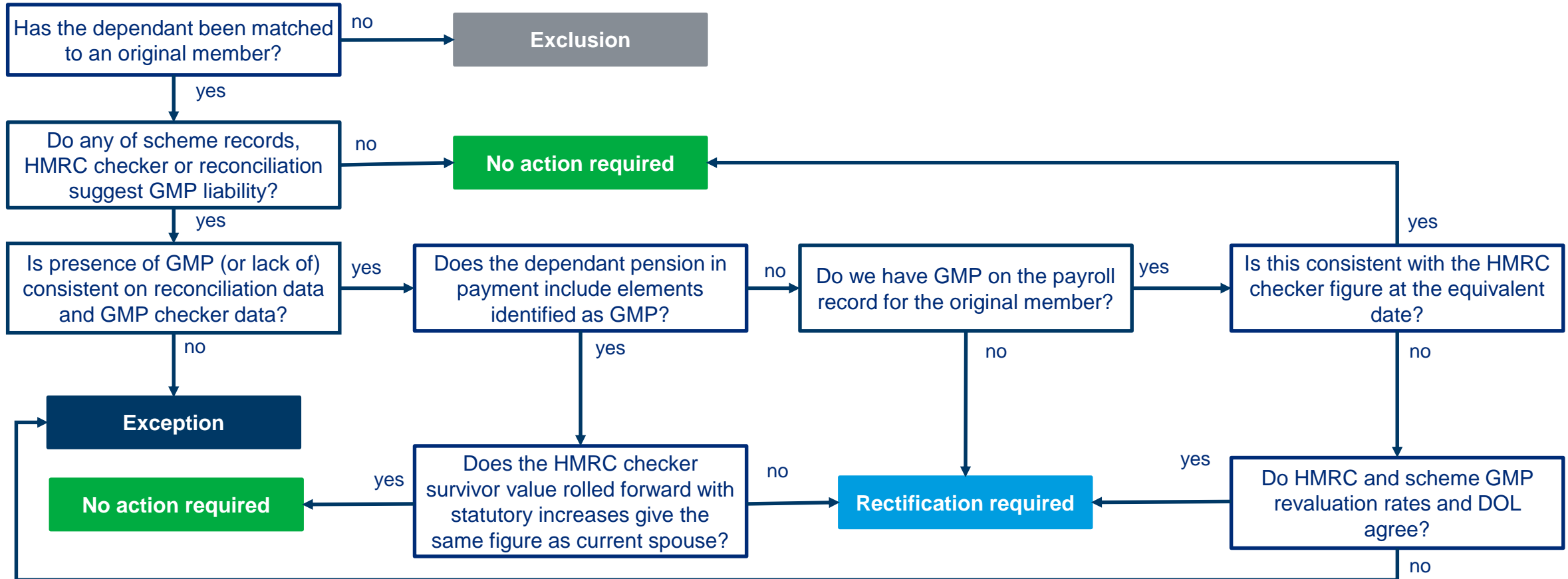
Members who retired after GMP age

- Where GMP is put into payment after GMP age, schemes are required to apply a statutory late retirement factor.
- However, as HMRC have no knowledge of whether a member retires after GMP age, they only hold the GMP amounts that would have been paid had the member retired at GMP age (i.e. they make no allowance for the statutory late retirement factor).
- Administrative practice of how benefits are increased on late retirement or after GMP age vary from scheme to scheme and are often updated over time. It is therefore not straightforward to compare the scheme GMP with HMRC GMP where a member retired after GMP age.
- Where a member retired after GMP age, we believe it is reasonable that where scheme and HMRC GMP agree at GMP age, we categorise a member as “no action required” provided that the scheme GMP is no less than the HMRC GMP at GMP age, increased by the statutory late retirement factor that would have applied on retirement.
- This treatment of members who retired after GMP age is also included on the following slide.

In scope population: pensioner members over GMP age



In scope population: dependant members



Important notes

- This paper is addressed to the Trustees of the [Isle of Wight](#) for purpose of providing an overview of the proposed approach to rectification and historic equalisation of the GMP of the members of the Isle of Wight (“the purpose”) as set out in the Engagement Letter dated [\[date\]](#).
- This report has been prepared in accordance with Technical Actuarial Standards TAS 100: Principles for Technical Actuarial Work as issued by the Financial Reporting Council.
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