

GMP Reconciliation final report

# and GMP Rectification approach

**Isle of Wight Council Pension Fund**  
11 January 2021

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# 1

## Introduction

The GMP reconciliation is now complete and there are no outstanding client decisions on reconciliation.

Once decisions on the approach to GMP rectification have been agreed, and the calculations performed, the results will be used to manage all the adjustments required to payroll records at a single point. The deferred members will also require adjustment.

While the GMP values have been reconciled during the reconciliation process, individual member records will require update or correction given values used in the calculation of benefits for some members will not be correct.

This document sets out the GMP rectification strategy detailing the “delta” approach undertaken (detailed below) and the results identified for all pensioners in payment.

- Uses a series of assumptions to roll back benefits and calculation without having to undertake significant file review or manual calculations.
- Takes the period in deferment into account.
- This method is consistent with the GMP Equalisation methodology.
- Allows a much more accurate calculation while managing costs and timescales.

## 2

# GMP Reconciliation and final results

In last report in 2020, we confirmed the final GMP reconciliation position and advised the next steps were as detailed below and this report provides an update on 1 & 2.

### 1. Analysis of HMRC final SRS data cut

The HMRC have produced a final data cut from their records, which we have reviewed and compared against our findings from the GMP Reconciliation work we have undertaken. We have produced the results below detailing the discrepancies identified in the data held by HMRC, and any decisions on this, which need to be made by the Fund.

### 2. Analysis of latest System data against the GMP Reconciliation findings

Having completed the above task, we then analysed our GMP Reconciliation results against the very latest administration fund data to take account of any data movements since the original extract was taken. For example, this will enable us to identify members who will have retired or left the scheme, and also any other member data updates that have taken place. The results are detailed below and we now have confirmation of the population of members requiring rectification.

Findings:

**Not on NISPI cases (NON)** – these are cases that are on the Administration data as having a GMP liability in the IOW funds but HMRC do not hold them against the IOW SCOs on their records.

There are no **new** members that were not identified as NON cases during the GMP reconciliation who have a GMP value.

There are however 49 members where we matched them against the original NISPI data provided by HMRC in 2016 and agreed the GMP liabilities, but they are now not appearing on their final data cut lists. 24 of these members have a GMP liability.

We do not have the opportunity to challenge this with HMRC, but as we have the audit trail to confirm that the liabilities had previously been provided by HMRC, then we just need the fund to confirm that they are happy with this decision.

## **NON decision required**

- A. There are an additional 49 cases that were previously 'matched' as the fund data agreeing with the HMRC data provided in 2016, but HMRC now do not hold them against the fund. These 49 cases still appear as having records on the administration database. Mercer require confirmation that the Trustee Decision on these cases is to accept the previously agreed GMP liabilities.

**Not on Administration cases (NOA)** – these are cases that are held by HMRC as a GMP liability with IOW but the fund do not have a record of the members or the members have no liability in the fund.

There are 186 new members that were not identified as NOA cases during the GMP reconciliation who now have a liability in the fund. 9 members have a GMP value. We do not have the opportunity to challenge this with HMRC so the fund will need to make a decision as to how to deal with these cases.

## **NOA decision required**

- C. The previous 'Trustee Decision' made for cases the same type of cases was to accept the fund data. Mercer require confirmation that this decision be applied to the 'new' 186 cases (note there is no record on the Administration database of any of the members).

**Please complete the Decision Checklist** and return to Mercer

**Other Data Discrepancies identified** – During the analysis we identified 112 members, 35 of which had changed status since the GMP reconciliation was completed and have moved to a deceased status. We have been unable to link the dependant record to the original member from the data provided, so we will need to refer these cases to the administration team to advise us of the member's date of death and the dependant member details. This will allow us to complete the rectification initial analysis and confirm if the correct GMP liability is in payment for the dependant. 31 members have moved status and will be resolved during the next rectification analysis. The remaining 46 members will require some further investigation, but may resolve themselves during the rectification phase.

### 3

# GMP Rectification and data assumption

## Different Records – Different Types of Adjustment

Type	CORRECTION
Deferred member	Benefits not yet in payment, GMP and excess rebalanced so future benefits are correctly calculated.
Pensioners	Benefits in payment may be under or overstated, for any period in deferment or in payment.
Spouses/ Dependants	As above but original pension may mean the initial spouse pension is higher or lower than it should be.
Children's pension	Usually no correction is required given GMP is unlikely to be in payment, however if the child's pension was calculated from a members' benefit where GMP difference could have resulted in an under or over payment then the child's level of benefit may require an adjustment.
Deaths and transfers out and trivial commutations	Usually not corrected and not the subject of this report.

## Approach to Rectification

Type	DESCRIPTION	ADVANTAGES / DISADVANTAGES
"delta" approach	<ul style="list-style-type: none"><li>- Deferred as above.</li><li>- For pensioners &amp; spouses, take the original date of leaving service into account</li></ul>	<ul style="list-style-type: none"><li>- uses a series of assumptions to roll back benefits and calculation without having to undertake significant file review or manual calculations.</li><li>- Takes the period in deferment into account.</li><li>- consistent with GMP equalisation methodology.</li><li>- Allows a much more accurate calculation while managing costs and timescales.</li></ul>

## Tolerances

There are a further set of decisions the Trustee will need to make to determine the population of members in scope for rectification. We have set out below the usual options considered.

Status	GMP Difference	Comment
Deferred	Greater than £0.01 per week	Rebalance.
Pensioner and spouses	Between £0.00 and £0.12 a week	<u>No correction required</u> , any difference will lead to very small under or over payments
Pensioner and spouses	£0.13 - £2.00 a week	<p>Either</p> <ul style="list-style-type: none"> <li>- As above, no correction required; or,</li> <li>- Rebalance records (no under or overpayment calculation) but corrects GMP increase going forwards; or,</li> <li>- Treat as group below and do a correction calculation (possibly agreeing a later de-minimus limit for corrections)</li> </ul> <p>In the main, these cases will only produce small under or overpayments so rebalancing stops significant number of small correction cases. However, this does mean that any under or overpayment is ignored</p>
Pensioner and spouses	Greater than £2.00	Rectification calculation

## Other Factors including Data Assumptions

ITEM	Comment
Pension increases / increase in deferment	<p>In deferment:</p> <ul style="list-style-type: none"> <li>- XS – increases applied using CPI, Max 5%.</li> <li>- Post 88 GMP receives increases at agreed rate (Statutory).</li> </ul> <p>In payment (once GMP come into payment):</p> <ul style="list-style-type: none"> <li>- Pre &amp; Post 97 Excess increases applied using RPI, Max 5%.</li> <li>- Post 88 GMP increases applied using Statutory increases. No Pre 88 increase applied.</li> </ul> <p>Where Agreed GMP and scheme record GMP differ:</p> <ul style="list-style-type: none"> <li>- Under or overpayments can occur during any period of deferment or when the pension is in payment.</li> <li>- For spouses pension the same consideration will apply but relates to the original member.</li> </ul>
Under and overpayments	<p>The main factors that impact the size of any under or overpayment are:</p> <ul style="list-style-type: none"> <li>- The difference in GMP;</li> <li>- How long the pension has been in payment;</li> <li>- How long any period in deferment was;</li> <li>- The relative difference between GMP and excess over GMP, revaluation or escalation rates.</li> </ul>
Record correction	<p>It is proposed that where member's benefits may need to be reduced consideration to the messaging and timing of the adjustment may be needed. Once the results of the rectification is known then this can be considered and an appropriate decision taken at that time</p>

ITEM	Comment
Key data assumptions	<p>In the available timescales full file review of records is not feasible. While at this stage we do not know the detail of the data assumptions required there are a number of high level assumptions that we have set out and we will require the Trustee to agree to.</p> <p>Further details of the assumptions will be provided as these become clear.</p> <p>In order to correctly roll back the date of leaving pre 97 benefits, we will need to ensure that there are splits for all members to cover the different equalisation periods. For some pensions in payment it is possible the excess pension over GMP may be held as a single element, so we may not know the actual split of benefits between pre and post 97 service. To calculate the splits for relevant sections in an efficient manner, if Pension splits are missing, we will need to make a number of key assumptions.</p> <p>In order to split the benefits at retirement for equalisation we will need to:</p> <ul style="list-style-type: none"> <li>- Assume all service accrued in a linear fashion, we would ignore any flexible accrual, temporary absence, maternity leave or transfers in, additional service or additional benefits, part time or other record.</li> <li>- Service splits based on earlier of date of joining, date commenced pensionable service, or if appropriate date transferred in service or bulk transfer in commenced.</li> <li>- Assume GMP accrued in a linear fashion.</li> </ul> <p>Contingent Spouses Pensions will be required for the next GMP Equalisation phase. If these are needed a separate calculation project will be required.</p> <p>Data on the payroll database is assumed to be correct (unless obviously incorrect).</p>

ITEM	Comment
Information on the “delta” approach	<p>The interaction of increases on GMP and Excess, both before and after retirement / GMP age, can mean that an underpayment calculated from GMP age becomes offset by an overpayment in the benefits calculated during the period in deferment (or vice versa).</p> <p>Where the calculation is undertaken from GMP age (or later date of retirement) and the period in deferment is not taken into account this can mean that:</p> <ul style="list-style-type: none"> <li>- An overpayment is overstated</li> <li>- An underpayment is overstated</li> </ul> <p>Resulting in an over adjustment either in favour or against the member.</p> <p>The “delta” approach allows for the period in deferment to be taken into account and uses a series of assumptions to enable calculations to be performed in bulk avoiding the need to undertake the expensive full rectification.</p> <p>Rather than reworking against what was actually paid [completing a full rectification] the “delta” approach uses the difference between the agreed GMP and scheme record GMP worked back to date of leaving to derive the cumulative and current under/overpayment.</p> <p>Early and late retirement factors in use at the time of the event will be used where easily available, otherwise current factors are used. The resulting figure will not be 100% accurate but it prevents the under and overpayment being exaggerated for the period in deferment.</p> <p>This method also avoids the need for significant member file reviews that need to be undertaken with full rectification.</p>

## Summary of Trustee Decisions Required

*Please see Appendix 1 for the detailed breakdown of members affected.*

ITEM	Comment
Determine Rectification Tolerance	<p>Deferred – correct all records with a weekly difference at or above £0.01 per week</p> <p>Pensioner and spouses:</p> <ul style="list-style-type: none"> <li>- Equal to less than £0.12 per week – no rectification.</li> <li>- £0.13 - £2.00 per week – no rectification, rebalance only or calculate as an over £2.00 per week, as below.</li> <li>- Over £2.00 per week – under and overpayment calculation using the method stated above.</li> </ul>

ITEM	Comment
Correction strategy	Correct now / combine with GMP equalisation and conversion

# 4

## Decision checklist

**Final GMP Reconciliation decision made to date (for information only)**

**Not on Admin – Members on HMRC records but not active on Fund records**

Background	Recommended Resolution	Fund decision (previous)
<p>Transfers out – members who according to the administration record have transferred out of the Fund. NISPI may not have received or not processed the CA form</p>	<p>Accept the Fund data as correct</p> <p>The fund will be passed details of the data gathering providing information where it is held on the Altair record. Where full information is not held on Altair (and is held on back files it would be prudent for the fund to source the information in case of any future claim)</p>	<p>Agree with the recommended resolution.</p>
<p>Unable to Trace – NISPI hold a record and in some cases a GMP liability but there is no trace on the Fund</p>	<p>Accept the Fund data as correct i.e. no liability; and hold information on these cases centrally for any future claims that may arise. Consideration should be given to GDPR requirements for holding this data.</p>	<p>Agree with the recommended resolution.</p>

**Not on NISPI – Members on the administration record but not on NISPI records**

Background	Recommended Resolution	Fund decision (previous)
<p>Cases where the Fund has a record for a member but NISPI has no record. Which can include:</p> <ul style="list-style-type: none"> <li>- Dependent’s pensions in payment that NISPI have been unable to link with the original member</li> <li>- NISPI believe the liability lies with another Fund but no evidence on the record to suggest this is correct (ie; Teachers)</li> <li>- Any member for whom the Fund has a service period but NISPI do not</li> <li>- GMP values differ and there is no evidence to agree the NISPI figure (possible transfers in).</li> </ul>	<p>Accept the Fund data as correct</p>	<p>Agree with the recommended resolution.</p>

**New Reconciliation decisions – Fund to complete column 3**

Type of case	Description	Trustee Decision
<p>Not on NISPI (NON) A.</p>	<p>The previous ‘Trustee Decision’ made for cases the same type of cases was to accept the fund data. Mercer require confirmation that this decision be applied to the ‘new’ cases</p>	<p>N/A</p>

<p>Not on NISPI (NON) B.</p>	<p>There are a further 49 cases that were previously 'matched' as the fund data agreeing HMRC data. These 49 cases still appear as having records on the administration database. Mercer require confirmation that the Trustee Decision on these cases is to accept the previously agreed data.</p>	
<p>Not on Admin (NOA) C.</p>	<p>C. The previous 'Trustee Decision' made for cases the same type of cases was to accept the fund data. Mercer require confirmation that this decision be applied to the 'new' 186 cases (not there is no record on the Administration database of any of the members).</p>	

**Rectification decisions**

**Tolerance Level:**

Default of £0.12 per week will apply **YES/NO** (delete as appropriate)

Other amount £.....per week (insert rate)

**Underpaid Members:**

Underpaid amounts to be paid: **YES/NO** (delete as appropriate)

Minimum amount (if applicable) £..... (insert amount)

Interest at Bank of England base rate + 1%? **YES/NO**

Other amount £.....(insert amount)

**Overpaid Members:**

Overpaid amount to be reclaimed **YES/NO**

Minimum amount to be reclaimed (if applicable) £.....(insert amount)

Maximum amount to be reclaimed (if applicable) £.....(insert amount)

Time period (months prior to retirement) .....(insert months)

### **Correction of Future**

Correct future pension installments? **YES/NO** (delete as appropriate)

### **Pensions:**

Review position if pension reduction is greater than £..... (insert amount)

Review position if net pension is reduced by ..... (insert number) % or more

### **Communication**

#### **Members:**

Pensioner members **YES/NO** (delete as appropriate)

Deferred members **YES/NO** (delete as appropriate)

Communication can be via statements, letters or global newsletter updates.

Style of final letters **STANDARD/SPECIALIST** (delete as appropriate)

On behalf of the Isle of Wight Council Pension Fund we confirm our agreement to the above decisions

Signed

Print name

Date

# Appendix A

# Supporting Information

## **LGA Guidance**

Attached is the latest guidance from Her Majesty's Treasury (HMT) and the Local Government Association (LGA), please note there has been no further guidance following this and Scheme Advisory Board (SAB) did not make any recommendations in addition to this guidance. Funds may wish to consider this guidance when determining their rectification policies.

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