

## Industry Update

### A farewell to contracting-out – tying up the loose ends

This Update is of special interest to Employers and Trustees of Defined Benefit schemes which are or have been contracted-out.

We all know that contracting-out for Defined Benefit schemes ceases at 6 April 2016. What remains to be done to tidy up the loose ends of contracting-out will differ depending on whether a scheme has members accruing contracted-out benefits at 6th April or not. As would be expected, those schemes currently open to future accrual have the most to consider, however, even those schemes that are not accruing benefit or which ceased to contract-out in the past may still have some ends to tie.

**All Schemes, including those which have already closed to accrual.**

#### HMRC Scheme Reconciliation Service (SRS)

Schemes not already using the GMP reconciliation service (see later) should by now be registered for the HMRC Scheme Reconciliation Service (SRS) to enable them to start comparing their non-active GMP amounts (e.g. for deferred and pensioner members) with HMRC records. (For anyone not already registered, registration will be open until 5 April 2016.) Trustees who do not register will miss the opportunity to raise questions with HMRC over the reconciliation as it is intended to withdraw this time limited service.

#### GMP Equalisation

GMP equalisation is still looming on the horizon to be tackled if it has not already been undertaken.

#### Scheme Benefits and Provisions within the rules – action required

Some scheme terms or benefit provisions only make sense while there is a two tier state pension: for example some offsets or State integrations are calculated using the Basic State Pension. There will be no Basic State Pension from April and to make a straight substitution for the new state scheme could result in an unfairly high offset. On the other hand removing the offset altogether could increase employer costs and liabilities within the scheme. The impact will be specific to each scheme depending on how its rules are written and needs to be carefully managed.

**Urgent legal advice should be sought to ascertain whether Scheme rule amendments are needed.**

**Those Schemes currently open to future accrual – which cease contracting-out at 6 April 2016.**

### Increased National Insurance Contributions (NICs)

Employer and employee NICs will increase when a scheme ceases to contract-out. The impact of the increase may need to be managed. Notice must be served on members if increased employer NICs are to be offset against scheme benefits or member contributions. Increased NICs and any changes to scheme contributions or benefits must be explained to members and no doubt rule amendments will be required.

### Contracting-out Certificates

Contracting-out certificates will be cancelled automatically – but make sure any notification that a certificate has been cancelled is retained.

### GMP reconciliation and GMP Equalisation

The National Insurance Contributions Office (NICO) of HMRC maintains a record of GMPs held under each scheme. The GMP amount they hold is used to calculate the 'contracted-out deduction' they make from the current Additional State Pension; it is important this figure is correct and agrees with the amount the scheme holds. The GMP Reconciliation service applies as Schemes cease to contract out and is accessed by electronic submission to a workspace shared by the administrator and HMRC.

GMP reconciliation will probably be required before GMPs can be equalised.

### What happens to GMPs remaining in the Scheme?

Earnings on which GMPs are based will be increased by an earnings factor from 6 April 2016 until the date the member leaves Pensionable Service (and GMPs will from then on revalue at scheme rate).

### Is your Scheme Used for Auto-enrolment? - action required

Contracted out Defined Benefit schemes did not need to be certified for auto-enrolment. From 6 April 2016 Defined Benefit schemes continuing to accrue benefits will need to be tested against either the 'test scheme standard' or the alternative quality tests in order to be qualifying schemes for auto-enrolment.

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