

Report To: **GMPF LOCAL PENSION BOARD**

Date: 14 December 2017

Reporting Officer: Sandra Stewart - Director of Pensions
Emma Mayall - Pensions Policy Manager

Subject : **GUARANTEED MINIMUM PENSION RECONCILIATION**

Report Summary: This report provides the Local Board with background information about GMP Reconciliation together with an update on the progress made by GMPF on this project.

Recommendation(s): It is recommended that the Local Board note the information provided in the report.

**Financial Implications:
(Authorised by the Section 151
Officer)** There are no direct financial implications arising from this report. However, reconciling data will result in pension overpayments and underpayments being uncovered. This will be monitored and reported to future meetings.


**Legal Implications:
(Authorised by the Solicitor to
the Fund)** There is no direct legal obligation to carry out this reconciliation exercise. However, the fourth data principle under the Data Protection Act requires that '*personal data shall be accurate and, where necessary, kept up to date*'. Section 249B of the Pension Schemes Act 2004 requires that '*...a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules and with the requirements of the law*'. Regulation 4 of the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 also requires schemes to keep accurate member data.


Risk Management: Failure to reconcile data may result in overpayments being made to future retirees or dependants, or being continued to be made to existing pensioners. In addition, there is a risk that HMRC may enforce schemes to be responsible for liabilities that they are not actually responsible where HMRC have not been notified by the fund of the error.

ACCESS TO INFORMATION: **NON-CONFIDENTIAL**

This report does not contain information that warrants its consideration in the absence of the Press or members of the public.

Background Papers: The background papers relating to this report can be inspected by contacting Emma Mayall, Greater Manchester Pension Fund, Guardsman Tony Downes House, 5 Manchester Road, Droylsden

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1. INTRODUCTION

- 1.1 In April 2017, the Fund began work on a project to reconcile guaranteed minimum pension information held by Her Majesty's Revenue and Customs against the data held on its own records.
- 1.2 This report provides the Local Board with background information about guaranteed minimum pensions and about the reconciliation process.
- 1.3 It also confirms how the project is being managed and resourced and details the work carried out to date.

2. BACKGROUND INFORMATION ABOUT GUARANTEED MINIMUM PENSIONS

- 2.1 In April 1978, the Government of that time introduced a new state pension system. It provided for a flat rate state pension, which was available for everyone regardless of his or her employment history, plus an additional amount of pension based on a person's national insurance contributions. This additional pension element was called the state earnings related pension scheme (SERPS).
- 2.2 Pension schemes, including the LGPS, were able to opt-out of SERPS. This was known as 'contracting out'. However, to do this a scheme had to guarantee to pay a benefit to a member that was equal to or better than that which they would have built up if they had been a member of SERPS. This amount is called a guaranteed minimum pension (GMP).
- 2.3 The Government removed the ability to build up an entitlement to a GMP on 6 April 1997. Therefore, only those who were members between 6 April 1978 and 5 April 1997 will have a GMP.
- 2.4 Her Majesty's Revenue and Customs (HMRC) holds details of a member's individual GMP entitlement based on their national insurance contribution records.
- 2.5 The rules that were introduced in 1978 when the new state scheme was brought in meant that any inflation increases to a GMP were to be paid to a person by the State as part of their state pension benefits.
- 2.6 On 6 April 1988, the rules were changed so that in most cases the contracted-out pension scheme became the body responsible for the increases on any GMP built up after 6 April 1988, up to a maximum limit of 3%. Any increases above 3% were paid by the State along with the state pension.
- 2.7 Employers and pension schemes were required to notify HMRC of various member events as part of administering a contracted-out scheme. HMRC would be notified when a member joined a pension scheme, transferred benefits in or out, left or retired, in order to maintain correct GMP entitlement details.
- 2.8 When the new State Single Pension was introduced in April 2016, this ended the 'contracted out' status of pension schemes.
- 2.9 HMRC used to send paper notifications of GMP entitlements to pension schemes up until April 2016 each time a member left, reached state pension age or if details were requested by the scheme. Since April 2016, schemes have been able to access information using an on-line system.

3. BACKGROUND INFORMATION ABOUT GMP RECONCILIATION

- 3.1 The end of contracting-out in April 2016 meant that HMRC no longer had to track a person's GMP entitlement. Therefore, HMRC decided to embark on a reconciliation project with all schemes. Their intention was to issue closure schedules containing contracted-out and GMP entitlements to each scheme and for schemes to carry out a reconciliation exercise, comparing the data provided by HMRC against their own records.
- 3.2 The deadline that has been set by HMRC for completion of the reconciliation project with all pension schemes is December 2018. HMRC originally intended to issue a notice to those individuals who have not yet reached state pension age to provide them with details of their contracted-out history. They have recently confirmed that they will no longer do so and instead will make this information available to individuals through the Pensions Dashboard system that is under development.
- 3.3 There is no specific legal requirement to carry out a GMP reconciliation exercise. However, in light of other legislation such as the Data Protection Act that relate to ensuring all data kept is accurate and up-to-date it is good practice for pension schemes to undertake reconciliation work.
- 3.4 HMRC decided to issue the GMP data they hold to funds in two separate files. The first file was available from 2015 and contained GMP and contracting-out details for members that HMRC had recorded as leavers (either with deferred benefits or being in receipt of a pension). The second file is for those who are still paying into the scheme. This file was originally due to be issued in 2016 but actually only became available in summer 2017.
- 3.5 On 2 February 2016, HMRC wrote to the Department for Communities and Local Government (DCLG) regarding the GMP reconciliation exercise. Within the letter were a number of suggestions for criteria that HMRC wished all public service sector pension schemes to adopt. DCLG issued this letter for consultation to all LGPS funds and it was agreed the criteria outlined would be adopted by the LGPS. A copy of this letter can be found at **Appendix 1**. On 2 February 2017, the Local Government Association sent out a follow-up communication confirming their proposed approach for reconciling post April 1997 data. A copy of this correspondence can be found at **Appendix 2**.

4. DECISIONS TAKEN BEFORE EMBARKING ON THE PROJECT

- 4.1 In 2015, Fund officers explored the various options available to tackle the reconciliation exercise. A number of companies were offering a reconciliation service to help funds tackle the project. Aquila Heywood had also developed a product to help mismatch HMRC data against fund records.
- 4.2 GMPF took the decision to tackle the work in-house and bought the Aquila Heywood product to assist with this. The first file available from HMRC containing information for leavers was obtained and an initial mismatch exercise was carried out early in 2016. Work began on tackling some of the basic errors identified through this. However, work was then put on hold. This was primarily for two reasons. The first being that year-end and valuation work took priority as the 2016 triennial valuation got underway. Secondly, it became apparent that the second reconciliation file for active members was needed in order to reconcile the data correctly, and this was not being made available by HMRC until Easter 2017.
- 4.3 Some LGPS funds have taken the decision to tackle the project in-house and others have chosen to outsource some or all of the work. Information has been shared by funds and therefore there has been, and still is, the opportunity to learn from peers when completing this project.

5. PROGRESS MADE SINCE APRIL 2017

- 5.1 A core project team was established to manage the project in April 2017 and carried out a number of initial tasks in order to establish a project plan. These included testing the Aquila Heywood mismatch tool, reviewing existing procedures and calculations linked to GMPs and speaking to HMRC to clarify information and check the proposed approach.
- 5.2 A project milestone plan was then formed, together with a risk log and a decisions log. The current versions of these documents can be found at **appendices 3, 4 and 5**.
- 5.3 In addition, an approach document was drawn up. The basis of this was linked to the priority levels allocated to each query type that could potentially be generated by the data analysis. Queries were categorised initially into two categories, being those needing further analysis or those that 'matched' or could be ignored. Those needing further analysis were then categorised into 'high', 'medium' or 'low' priority groups. The priority criteria was then compared with that set by another LGPS fund to provide comfort that the Fund's approach to determining priority levels was reasonable.
- 5.4 At this stage, assurance from Internal Audit was sought and received on both the proposed creation method for baseline files and the reconciliation approach.
- 5.5 The actual data analysis was then carried out on the two reconciliation files. The baseline files from which all reconciliation work would be done were created and this then enabled a resource plan to be finalised.
- 5.6 A GMP Reconciliation team was then formed to assist with completing the reconciliation work. The team started to investigate mismatches and raise queries with HMRC in mid-August and this work continues.
- 5.7 Project update meetings are currently taking place once a fortnight in order to monitor the progress made and to determine whether work is being completed in line with expectations.
- 5.8 In August, members of the GMPF project team met with colleagues at Merseyside Pension Fund to discuss GMP reconciliation work and identify learning points.

6. RECONCILIATION STATISTICS

- 6.1 Graphs showing both the initial and current numbers of matches, mismatches and queries can be found at **Appendix 6**. The current statistics are those as at mid-November.
- 6.2 Progress reports have been provided each quarter to the Pensions Administration Working Group. It is intended to continue to produce quarterly reports until the end of the project in December 2018.
- 6.3 The resource needed to ensure tasks are completed in time will continue to be monitored on a fortnightly basis for the near future. The intention is to vary the resource on team depending on the tasks being undertaken at each stage of the project. A number of fixed term appointments have been, or are in the process of being made, in order to provide cover for those working on the GMP Reconciliation team.

7. COMMUNICATION FROM HMRC

- 7.1 HMRC have issued regular bulletins to assist pension schemes since the requirement for GMP Reconciliation was made. This has helped when creating procedures and setting priorities for the different query types.

- 7.2 However, understandably with a project of this size and complexity, HMRC have amended their approach or changed their requirements as the project has progressed and as other developments in the wider pension landscape have been made. Therefore, the Fund's view on the priority value attached to certain queries, or the requirement for completion of a particular task may change as HMRC guidance changes. This has been included as a risk within the project risk log.

8. SUMMARY AND CONCLUSIONS

- 8.1 GMP Reconciliation is a large-scale and reasonably long-term project. Work is underway and tasks are being completed in-line with the target dates set.
- 8.2 There are a number of risks and issues to be managed as part of carrying out this project. These include addressing the underpayments and overpayments that will be uncovered.
- 8.3 The project team are aware of the possibility for HMRC to change their guidance around GMP Reconciliation and this could affect decisions already taken or potentially cause the Fund to revise its approach going forward.
- 8.4 Progress updates will continue to be taken to future Pension Administration Working Group meetings until the project is completed in December 2018.

9. RECOMMENDATIONS

- 9.1 As set out at the front of the report.