

WILTSHIRE COUNCIL

WILTSHIRE LOCAL PENSION BOARD

18 October 2017

Guaranteed Minimum Pension Project Update

Purpose of the Report

1. With the introduction of the Single State Pension and abolition of Contracting-out in 2016 a reconciliation of Guaranteed Minimum Pension records is required between HMRC and the Fund's records. The purpose of this report is to provide an update on the progress of the project.

Background

2. With the introduction of the Single State Pension in April 2016, contracted-out status ceased and HMRC have informed pension schemes of its intention to phase out its contracted-out section by December 2018.
3. As the LGPS was a contracted-out pension scheme, Wiltshire Pension Fund (WPF) has obligations as to certain pension provisions connected with the State Second Pension. From April 1978 to April 1997 pensions paid by WPF had to cover the equivalent pension that the member would have accrued if they had been receiving the State Second Pension. This pension is known as the Guaranteed Minimum Pension (GMP).
4. WPF is responsible for certain elements with regards to pension increases on the GMP. The LGPS was required to meet a scheme reference test for members contracted out between April 1997 and April 2016 so a GMP wasn't required. Appendix 1 summarises how the GMP is paid and by whom.
5. Following the end of contracting out in April 2016, HMRC are proposing to send a statement to all individuals affected stating the amount of their GMP and who is responsible for paying the equivalent pension amount after December 2018.
6. Before this, schemes have been advised to reconcile the GMP values and dates they hold for their members with those calculated by HMRC or could face making overpayments to existing members and even accept a liability for individuals for whom they have no responsibility.
7. Until December 2018, schemes can challenge the figures where they believe discrepancies are the result of errors on HMRC's part, after this date, no further challenges will be accepted. There is therefore a limited window to make sure our own records tally with HMRC's.
8. WPF have registered with HMRC who have provided lists for both active members at 5/4/2016 (15,645) and non-active members (42,914 (30,603 original + 12,311 revalued file) and who they consider that WPF have a responsibility for a period of contracted-out membership. An extended comparison of these lists and our records has been carried out.
9. Errors in GMP values can lead to potentially significant pension overpayments. Based on findings from the National Audit Office's enquiry into five public sector schemes, it has

been estimated that the total overpayment on existing deferred and pensioner members within a small pension fund could be around £550,000.

Considerations for the Board

10. WPF have been proactive in resourcing this project and recruited two Data Quality Analysts in 2015 to specifically focus on the GMP reconciliation project.

11. The project will

- Identify the member records affected, including those records where the fund and HMRC differ over responsibility for the liability.
- Reconcile member data, including service, held by the fund to records provided by HMRC.
- Identify any GMP liability that is not currently held on the record, e.g. at date of death where spouse's pension applies.
- Accelerate the investigation process by indicating likely causes of any mismatches.
- Ultimately, adjust any pensions on payroll if GMP is currently incorrect

12. The attached Appendix 2 (actives) and Appendix 3 (non-actives) shows the progress of the reconciliation to date in terms of cases reviewed, checks completed, and referred to HMRC.

Areas already identified within process that need consideration

13. There are records that are on HMRC's list but not on WPF records. Reasons for mismatches are:

- National Insurance (NI) end letter differences & mismatches on NI Numbers
- Former Teachers (the Contracting out Employer reference number for LGPS and the Teacher's Scheme is the same) and some teachers have appeared on the HMRC lists for the WPF.
- HMRC contracting out dates are not exact and often refer to start of a relevant tax year, within a year's tolerance WPF will agree it.
- No GMP recorded on record type but document is on file, then returned to HMRC to agree
- No GMP details on some dependant records, WPF will update the members record
- The WPF has split records but HMRC don't combine records
- Members Service history lines missing, WPF will add to its members' record
- Basic errors on HMRC file (e.g. Surname shown as Mr John Sm instead of Smith)
- Multiple Records are provided by HMRC, WPF needs to identify which record is for which GMP and update
- Employers have used the wrong NI rate, WPF is highlighting this issue with them.

Future decisions to be made

14. The active and deferred members' records can be corrected. WPF is currently working with its pension software provided (Heywood's) to enable a bulk upload to its members record for the completed cases.
15. There are continuing discussions taking place nationally regarding certain tolerances for pension funds to be use. The current guidance states they need to decide their tolerance rates locally, although as a guide recommended levels are:
 - *GMP amounts:* Plus or minus £2 per week
 - *Contracted-out dates:* within a relevant tax year
16. This is the basis the WPF is currently using to correct its records.

Potential Adjustments to Pensions in payment

17. Rectification of any pensioners' benefits will be required due to the following:

Underpayments

These will occur where WPF are using a higher GMP figure than that held by HMRC resulting in member not receiving the correct pensions increase.

Overpayments

These will occur where GMP is lower than HMRC or where no GMP is recorded on the member record. This will result in members getting pension increase twice on the GMP element (from WPF and on State Pension). Whilst any post 1988 accrued GMP would only produce an overpayment where the increase was in excess of 3% any pre 1988 would be on the total GMP figure.

18. Any changes to pension benefits will require an amendment to the SAP Pension Payroll system and an agreed policy for the treatment and recovery of any over / under payments.
19. The problem with making the above adjustments is the extent and any over or underpayments cannot be ascertained without completing the reconciliation exercise and agreeing the tolerance levels to use.
20. Therefore, officers plan to update the Pension Committee once the reconciliation exercise is complete for its pensioners and agree the policy for amending and correcting pensions thus.

Environmental Impact of the Proposal

21. Not applicable.

Financial Considerations & Risk Assessment

22. There will be financial implications from the GMP reconciliation exercise, although this cannot be established until the completion of the project. The cost of the project is being funded from the operational costs of the Fund outlined in its budget.
23. The GMP exercise is highlighted as a risk on the Risk Register elsewhere on this agenda and the Fund has ensured adequate resources are allocated to this project.

Legal Implications

24. There are no material legal implications from this report at this stage.

Safeguarding Considerations/Public Health Implications/Equalities Impact

25. There are no known implications at this time.

Reasons for Proposals

26. To update the Board on the progress of the GMP reconciliation project.

Proposals

27. The Board is asked to note the progress of the GMP Project.

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Unpublished documents relied upon in the production of this report: NONE