

WILTSHIRE COUNCIL

WILTSHIRE LOCAL PENSION BOARD
11 October 2018

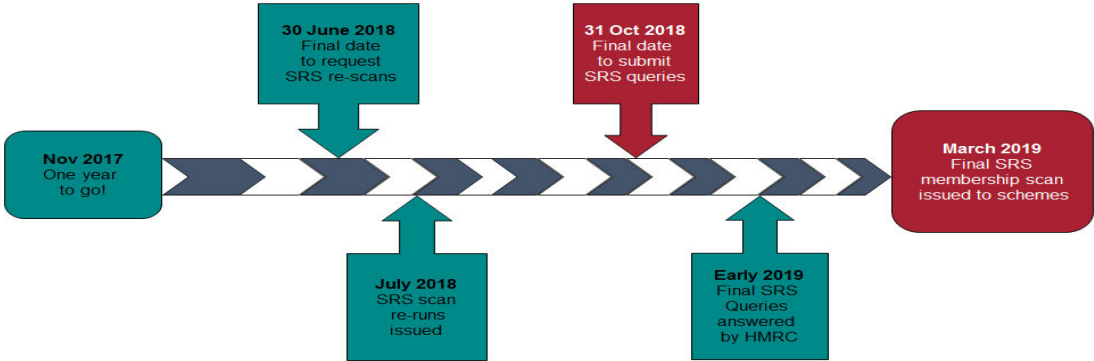
Guaranteed Minimum Pension (GMP) Project Update

Purpose of the Report

- 1. With the introduction of the Single State Pension and abolition of Contracting-out in 2016 a reconciliation of GMP records is taking place between HMRC and the Fund’s records. The purpose of this report is to provide a second annual update on the progress of the project.

Background

- 2. As mentioned in the October 2017 update, the LGPS was a contracted-out pension scheme & Wiltshire Pension Fund (WPF) had 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 GMP.
- 3. On payment of a pension the WPF becomes responsible for certain elements with regard to pension increases including the GMP after a member’s SPA. From April 1997 to April 2016 the nature of contracting out changed and the LGPS became required to meet an alternative test called the scheme reference test, which no longer involved a GMP value.
- 4. Due to the cessation of contracting out in April 2016 Schemes have consequently been advised to reconcile their GMP values and dates that they hold for their members with those calculated by HMRC, or they could face making overpayments of pensions to existing members and even accept a liability for individuals for whom they have no responsibility.
- 5. Until October 2018, schemes are able to challenge the information provided by HMRC where they believe discrepancies are the result of errors on HMRC’s part, after this date, no further challenges will be accepted. The table below illustrates HMRC’s timeline for reconciliation of this stage (Stage 2) to March 2019.



6. It should be noted that it was originally intended that HMRC would start to issue statements to individuals after December 2018 following the reconciliation process & HMRC and the Department for Work and Pensions (DWP) were considering whether this communication should include a Guaranteed Minimum Pension (GMP) calculation. However, it has now been agreed with the DWP that HMRC won't send any communications to individuals as previously planned. This change has been made because there have been developments in the provision of pension scheme information since HMRC first started the changes to end contracting-out.

Considerations for the Board

7. Over the last 12 months significant progress has been made on the WPF's project to reconcile their GMP's with HMRC which has been categorised into 4 key stages by the LGA. These stages are;
 - Stage 1 – Project assesment
 - Stage 2 – Review data inconsistencies, raise with HMRC & agree outcome
 - Stage 3 – “Rectification” whereby LGPS pensions will be reviewed & adjusted, as required
 - Stage 4 – Project completion

All WPF GMP information has been loaded, queries raised with HMRC & staff are reviewing the responses to those queries received from HMRC which include stalemate cases.

8. For the WPF two key areas now remain in Stage 2. The first is an internal exercise to increase the GMP values received from HMRC to their current day valuation. An exercise which can be performed using the Scheme's pension database automated calculation routines. The second being to continue to process any outstanding inconsistencies already identified between HMRC & the WPF.
9. It should be noted that although considerable progress has been made in reconciling & cleaning the contracting out data with HMRC a perfect data cleansing exercise is unlikely to be achieved. Key reasons for this include;
 - a) The acceptance of data in accordance with national agreed data tolerance standards
 - b) Stalemate cases, where neither party agree that responsibility should be theirs. An example of this being where a Scheme Employer has informed HMRC that a person was a member of the WPF, but informed the WPF that they weren't. Typically the Scheme Employer has assigned National Insurance information to the incorrect Scheme Contracting Out Number (SCON), due to it operating more than one contracted out pension scheme. The ability to unpick this error may not be practical if the payroll record have not been kept, or if the size of the liability makes correction not financially viable.
 - c) 2R cases where LGPS Schemes only hold the liability for a part period, due for example where a member has transferred from one LGPS to another during their Public Service employment. HMRC considers their Public Service employment as one employment.
10. Focus is now turning to the arrangements for Stage 3 – Rectification of the GMP values with the pension payroll. A South West Area Pension Officers Group (SWAPOG) meeting took place on 2nd October to consider the implications of this exercise. Areas of discussion included;

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). Where any post 1988 accrued GMP would only produce an overpayment where the increase was in excess of 3% any pre 1988 GMP would be on the total GMP figure.

Unauthorised payment tax charges – How this would need to be managed with HMRC

Treatment of Dependant benefits – Particulatly where a pensioner has died during the reconciliation process

Compensating pensioners – Developing a strategy that will treat all customer fairly

11. The intend outcome of the meeting was to reach an agreed approach amongst all South West LGPS' which will be referred onwards to a national level. It is hoped that other regional working Groups will be presenting similar recommendations to the LGA at a national level enabling the LGA to negotiate with bodies like HMRC & the DWP at the same level.
12. An agreed policy for amending and correcting pensions can then be implemented by the WPF, confident that its approach will be consistent with the decisions taken by other LGPS Funds. Officers will update both the Pension Committee & Board on any agreed policy that is communicated.

Environmental Impact of the Proposal

13. Not applicable.

Financial Considerations & Risk Assessment

14. 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.
15. The GMP exercise is highlighted as a risk on the Risk Register and the Fund has ensured adequate resources are allocated to this project.

Legal Implications

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

Safeguarding Considerations/Public Health Implications/Equalities Impact

17. There are no known implications at this time.

Reasons for Proposals

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

Proposals

19. 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