

REPORT OF THE CORPORATE DIRECTOR OF FINANCE AND RESOURCES

GMP Reconciliations

Pensions Board - 26th January 2016

Classification
PUBLIC

Ward(s) affected

ALL

Enclosures

None

AGENDA ITEM NO.

10

1. INTRODUCTION

- 1.1 This report introduces provides the Pensions Board with an introductory training session and background to GMP reconciliations (Guaranteed Minimum Pensions), which the Fund is required to undertake to ensure that scheme member records for the periods that they were contracted out of the second state pension are properly accounted for.

2. RECOMMENDATIONS

- 2.1 **The Pensions Board is recommended to note the report**

3. RELATED DECISIONS

- Pensions Committee 21st September 2015 – Pensions Update

4. COMMENTS OF THE CORPORATE DIRECTOR OF FINANCE & RESOURCES

- 4.1 The report being presented to Pensions Committee on the GMP reconciliation process sets out the issues faced by the Fund as it tries to reconcile historical data for its scheme members for periods that they were contracted out of the second state pension.
- 4.2 At this time it is difficult to quantify the full financial impact of the GMP data reconciliation exercise, but the Fund has commenced initial phases, using the Fund's external administrators to match the data held on the pension administration system and that held by HMRC. The cost of the initial work has amounted to around £20,000.
- 4.3 The LGA in a letter to administering authorities provided an indication of the level of costs across LGPS for the GMP reconciliation exercise which suggested that total costs could be somewhere between £30m to £100m.

5. COMMENTS OF THE COPORATE DIRECTOR OF LEGAL, HR AND REGULATORY SERVICES

- 5.1 Under the Public Service Pensions Act 2013 by sections 5 (1) and (2) the role of the Pension Board is to assist Hackney Council as Scheme Manager of the London Borough of Hackney Pension Fund and under the Board's terms of reference, the Board is there:
- a) to secure compliance with the Local Government Pension Scheme (LGPS) Regulations and any other legislation relating to the governance and administration of the Scheme, and any requirements imposed in relation to the LGPS by the Pensions Regulator
 - b) to ensure the effective and efficient governance and administration of the London Borough of Hackney Pension Fund"
- 5.2 The report before the Board concerning the GMP reconciliation process is in line with the Board meeting its responsibilities under the regulations and its terms of reference.
- 5.3 There are no immediate legal implications arising from this report.

6. BACKGROUND/TEXT OF THE REPORT

- 6.1 Pension schemes are required to undertake GMP reconciliations to ensure that scheme member records for the periods that they were contracted out are properly accounted for. The LGPS guarantees to pay a pension that is at least as high as the scheme member would have been earned had the scheme member not been contracted out of the State Earnings Related Pension Scheme at any time between 6 April 1978 and 5 April 1997, this is referred to as the GMP.
- 6.2 When contracting out ends in April 2016, HMRC will no longer track contracted out rights information. In 2018, HMRC plans to write to all scheme members where their records state they have a GMP liability, with details of the amount they are due, and the scheme responsible for the payment. For schemes where the GMP data has not been reconciled, there is a risk of former and active members being given incorrect expectations around a GMP entitlement.
- 6.3 A GMP reconciliation exercise lists all the members who have a GMP under a scheme and compares this against a list of all the members who HMRC believes hold a GMP under that same scheme. The lists are rarely fully aligned at the start of the process however, with discrepancies usually occurring both in terms of membership and/or GMP amounts. Where there is a discrepancy then this should be investigated and a decision taken on whether to accept the HMRC record as correct and adjust individual's pension entitlements accordingly.
- 6.4 The reconciliation of GMP values is not a mandatory regulatory requirement; however the Fund faces significant risks if it is decided not to reconcile values. These include:
- Incorrect calculation of GMPs by HMRC increasing the fund's liability
 - Liability for GMPs that are not the Fund's responsibilities
 - Breach of The Pensions Regulator's (TPR) code of practice regarding Record Keeping
 - Over and underpayment of pension benefits to individual scheme members benefits

- Queries following HMRC notifications to scheme members in 2018
- Reputational issues

- 6.5 Officers have been working with the pension administrators, Equiniti and the Fund's benefits consultant, AON on a project to investigate and match the Fund's data with that held on the HMRC database highlighting that this, along with the majority of other LGPS funds are likely to have to undertake a significant data cleansing exercise over the new 2-3 years in respect of GMP data. Guidance is being sought from LGA who are liaising with HMRC and Treasury on behalf of LGPS employers to agree tolerance levels for reconciliations, the ability to write off overpayments and also who is picking up future pension increases on GMP payments after April 2016.
- 6.6 The initial work undertaken to match records with HMRC data has established the need to undertake a further programme to reconcile the Fund's data with HMRC and officers are currently looking at options for undertaking the reconciliation process and the resources that this will require both financial and in terms of management time.
- 6.7 The Pension Board will receive a further briefing on GMP from the Fund's benefits advisers, AON, at the meeting as well as an update on the progress of the project.

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Background papers: None