

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES

GMP Reconciliation - Update Pensions Committee 10th September 2019	Classification PUBLIC	Enclosures Three (Exempt)
	Ward(s) affected ALL	

1. INTRODUCTION

- 1.1 This report provides the Pensions Committee with an update on the Fund's GMP reconciliation (Guaranteed Minimum Pensions) exercise, which is being undertaken to ensure that scheme member records for periods spent contracted out of the second state pension are properly accounted for. The report provides an update on the progress of Phase 2 of the reconciliation exercise and outlines factors for considering and agreeing to begin the next phase of Phase 3c – Pilot Phase.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to:

- **Approve additional budget of £15k to allow Phase 3c – Pilot Phase to commence**

3. RELATED DECISIONS

- Pension Committee 20th March 2019 – GMP reconciliation exercise
- Pension Committee 21st March 2018 – GMP reconciliation exercise
- Pension Committee 29th March 2017 – GMP reconciliation exercise
- Pension Board 20th March 2017 – GMP Reconciliations
- Pension Board 26th January 2016 – GMP Reconciliations – Update and Training

4.1 COMMENTS OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

- 4.1 This report sets out for the Pensions Committee the issues faced by the Fund as it tries to reconcile historical data for its scheme members for periods during which they were contracted out of the second state pension.

- 4.2 Whilst the cost of undertaking a GMP reconciliation exercise is significant, failure to undertake this work would result in the Fund being made responsible for the payment of any GMP liability that HMRC deems to be associated with it. Indications are that the differences between the Fund's administration data and HMRCs records are considerable, exposing the Fund to significant risk if no reconciliation exercise is undertaken.

- 4.3 The Pensions Committee is requested to approve spend of approximately £15k, which is necessary to ensure the next Phase can be completed of the project.

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

- 5.1 The reconciliation of GMP values is not a mandatory requirement under the Local Government Pension Scheme Regulations 2013. However, conducting a reconciliation exercise can help to reduce the risks to the Fund associated with unreconciled GMP liabilities, such as breaches of the Pensions Regulator's (TPR) code of practice regarding record keeping
- 5.2 Paragraph 7 of Pensions Committee's Terms of Reference state that it is responsible for monitoring liabilities and undertaking any asset/liability and other relevant studies as required. The Committee is also responsible for monitoring the Pension Fund Budget.
- 5.3 As GMP reconciliation helps to properly measure and control the Fund's liabilities, consideration of such an exercise and its associated costs would appear to fall within the remit of Pensions Committee

6. GMP RECONCILIATION - BACKGROUND

- 6.1 From 6th April 2016 the government introduced the new State Pension (nSP). This was designed to radically simplify pension provision, removing layers of complexity whilst ensuring security in retirement. Amongst the provisions removed was the Additional State Pension (AP), an earnings-related element of the old system. Members of defined benefit occupational schemes such as the LGPS were able to 'contract out' of this element, permitting both employee and employer to pay lower National Insurance contributions as a result. In exchange, schemes guaranteed to provide members with a pension at least as high as they would have received had they not been contracted out. This guaranteed amount is the GMP; it applies to all those who were contracted out between 6 April 1978 and 5 April 1997.
- 6.2 HMRC offered a service whereby schemes can check their GMP records against those held by HMRC and resolve any differences. However, HMRC withdrew the Scheme Reconciliation Service (SRS) at the end of October 2018 and no further support is offered for GMP queries. Pension schemes already undertaking a GMP reconciliation when the support service was withdrawn, can continue to have their GMP queries rectified. Where schemes have not undertaken a reconciliation of their contracted out liabilities, HMRC takes the stance that its own calculations are final; schemes will become responsible for any GMP liabilities which HMRC believe they hold
- 6.3 The reconciliation of GMP values is not a mandatory regulatory requirement; however the Fund faces significant risks if its GMP liabilities are not reconciled. These include:
- Incorrect calculation of GMPs by HMRC, potentially increasing the fund's overall liabilities
 - Assumed liability for GMPs if HMRC holds records for a fund that are not the fund's responsibility
 - Unexpected increase in liabilities if the Fund does not hold records of all the liabilities it is responsible for

- Breach of The Pensions Regulator's (TPR) code of practice regarding record keeping
- Over and underpayment of pension benefits to individual scheme members
- Queries following HMRC notifications to scheme members in 2018
- Reputational issues

6.4 Officers have been working with the pension administrators, Equiniti, on a phased reconciliation project. The project is being undertaken by a specialist team within Equiniti's discontinuance department, and is separate from the main administration service provided to the Fund. It is run on a phased basis, with the scope and estimate costings being agreed for each phase prior to approval.

7. PHASE 2 UPDATE

7.1 As at the end of July 2019, the Funds records were 97%, see Appendix A for the latest position and progress report, and the spend so far on Phase 2 of the project is £339k, with c£20k remaining in the agreed budget. Indications are that the remaining budget should be sufficient to complete this Phase, however close monitoring of the budget tracker will continue to allow this Phase to be completed on the remaining pensioner and deferred members, and those active members with pre-1997 service.

8. PHASE 3 UPDATE & PROPOSAL

8.1 Phase 3 of the project is the Certification and Rectification of the Fund's administration data and benefits and the Pensions Committee agreed at its meeting on 20 March 2019 to provide additional budget of £60k in order to commence Phase 3. This is split into the following sub-phases:

- **Phase 3a – Initiation**

Comparison of pension & GMP values, provides high level view of cases that can be rectified using an agreed automated method, or are more complex and need to be rectified manually

- **Phase 3b – Certification**

Indicator added to member records confirming a reconciliation has been undertaken – several cycles of this will need to be done as records are agreed/matched/cleared

- **Phase 3c – Pilot Phase**

Enhanced comparison of complex data from Phase 3a – to reduce number of cases needing manual rectification

- **Phase 3d – Rectification casework**

Physical amendments to the admin system and necessary corrections to benefits in payment

8.2 Phase 3 has commenced and to date the Initiation work (Phase 3a) has been completed and the 'Certification' of records (Phase 3b) has also commenced, with 2 cycles of 10,755 cases having taken place, followed by the verifying and '*stamping*' of member GMP records as accurate. Work will continue to approve cases that require a change on the administration system and analysis will be done all outstanding cases. Budget remaining to complete Phase 3a & 3b of the project is £9K and the expectation is that this should be sufficient, however this is based on current information and decisions, which may be subject to change.

8.3 It was made clear to the Committee in March, that until that Phase 3a to 3c were completed it would not be possible to provide a detailed timescale and budget

estimate for the Rectification work required in Phase 3d. However in order to provide some indication of the number of GMP cases that will require Rectification, the tolerances the Rectification will operate under, and the potential change in the Fund's cash-flow, work on Phase 3c – Pilot Phase needs to commence.

- 8.4 The Pilot Phase is difficult to put a precise timescale or cost on, as the work undertaken during this exercise is complex and will involve a number of decisions to be made by the Fund as each stage of the Pilot Phase is progressed. However, because of the challenges in this next Phase, it is proposed a minimum number of hours 'notification cap' be put in place that will allow sufficient effort to be exercised to get the Pilot well established and underway.
- 8.5 The work on the Pilot Phase will be charged on a time-cost basis at an hourly rate of £96, with a notification cap of 150 hours (excluding project management costs), this will equate to an additional cost of c£15,000, however, investing in this exercise will, without a doubt, reduce both costs and effort in the longer term. Therefore Pension Committee are required to approve commencement of Phase 3c - Pilot and the additional cost of £15,000.
- 8.6 A copy of the Phase 3c Pilot proposal is attached as Appendix B, and as Phase 3 progresses, any decisions and policies required during this process will be brought back to the Committee and Board as necessary.

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Appendices

Appendix 1 – EXEMPT – Progress Report

Appendix 2 – EXEMPT – Data Snapshot

Appendix 3 – EXEMPT – Phase 3 – Pilot Proposal