

## REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES

### Major Projects - GMP Rectification and McCloud

Pensions Board  
18 November 2020

Classification  
**PUBLIC**

Ward(s) affected

**ALL**

Enclosures

None

**AGENDA ITEM NO.  
9**

### 1. INTRODUCTION

- 1.1 This report provides the Board with an update on the Fund's major projects relating to the GMP rectification and McCloud remedy. Both are important projects being undertaken by the in-house Pensions Administration team alongside our third party administrators, Equiniti, our Governance & Benefits Consultants, Aon and our actuary, Hymans Robertson.

### 2. RECOMMENDATIONS

- 2.1 The Pensions Board is recommended to:
- Note the update and status of both projects

### 3. RELATED DECISIONS

- 3.1 Various Update reports re GMP/McCloud at Pensions Committee and Board, latest at Pensions Committee on 30 September 2020

### 4. COMMENTS OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES

- 4.1 As we have seen in the past, it is most important that member records are correct in order that they are able to receive both correct information regarding accrued pensions rights to date and also eventual release of correct pensions benefits as they become entitled.
- 4.2 Both of the projects that this report provides updates on are in respect of checks and changes to members records following actions by government departments and/or outcomes of court cases that potentially have an impact on the records of members.
- 4.3 The GMP exercise has been ongoing for a while and is now in its final stages, whilst McCloud Remedy Project is only just at the implementation stages. Both have or will incur significant cost to the Fund. However, if the projects were not undertaken and member records and entitlements not corrected, then it is likely that even more significant costs would be incurred by the Fund in the future.
- 4.4 There are however no direct financial implications arising from the contents of this report.

## 5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE SERVICES

- 5.1 The role of the Pension Board is prescribed by Section 106 of the LGPS Regulations 2013 and includes the following: securing compliance with the Local Government Pension Scheme Regulations 2013 and any other legislation relating to the governance and administration of the Scheme and any connected scheme, securing compliance with any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme, ensuring the effective and efficient governance and administration of the Scheme and any connected scheme.
- 5.2 Taking into account the role of the Pension Board as set out in the Regulations, reviewing the progress made on these two important administrative projects falls within the remit of the Pension Board.

## 6. BACKGROUND TO THE REPORT

### GMP Rectification

- 6.1 From 6<sup>th</sup> April 2016 the government introduced the new State Pension (nSP) designed to radically simplify pension provision 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 and it applies to all those who were contracted out between 6 April 1978 and 5 April 1997.
- 5.2 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 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.

#### McCloud Remedy

6.5 In 2014 and 2015 the Government introduced changes to public service pension schemes, including the LGPS, for future service, moving from final salary to career average revalued earnings (CARE) benefits and increasing the normal pension age to be in line with state pension age. The changes applied to existing members as well as new joiners, but older members were given protection against the changes. The Court of Appeal, in the McCloud case, has ruled that, in the Judges and Firefighters' Schemes, these changes were discriminatory against younger members and so the Government gave a commitment to make changes to all public service pension schemes, including the LGPS, to remove this discrimination.

6.6 MHCLG launched a consultation on the required changes to the LGPS in July 2020 and the key features of the proposed remedy include levelling up benefits for the younger members who suffered discrimination using a form of final salary underpin. Final regulations are expected to be effective from 1 April 2022 and will be retrospective back to 1 April 201

6.7 The proposed changes will present a significant administrative burden to LGPS funds. It is expected that the remedy work will be required for a significant number of the Fund's scheme members and it will likely continue for two or three years. Despite this, it is envisaged that only a small number will see an increase in their pension benefits as a result of the new underpin.

## **7. PROJECT STATUS UPDATE**

### The GMP Reconciliation

7.1 The GMP rectification exercise is now in its final stages and needs to be completed before the 1st April 2021 when pension increases are applied to benefits. This will avoid Equiniti having to redo their calculations.

7.2 The Hackney pensions team are working with Equiniti with a view to making the adjustments to pensions in February 2021, with all pensioners affected receiving two months' notice of the change. Further details will be provided at the March Pensions Committee and Board including the numbers of pensioners impacted and the financial implications.

## McCloud Remedy

- 7.3 At a fund level, the administering authority for the Hackney Pension Fund will need to:
- identify those in scope of the proposed extended underpin,
  - obtain from employers the data needed to calculate final salary benefits,
  - update all scheme member records,
  - recalculate benefits for leavers in scope back to 2014,
  - pay any underpayments and adjust pensions for those impacted,
  - communicate with members and employers and
  - make changes to systems and administrative processes to carry out ongoing administration under the new regime from the effective date.
- 7.4 In order to prepare the Hackney Pension Fund for these changes the administering authority has set up a Programme to implement the changes in the regulations. A Programme Charter sets out the structure of the Programme which will ensure appropriate governance through the lifetime of the Programme. This involves a number of officers from the Hackney pensions team in various roles, as well as assistance from Aon (including for programme management) and Hymans Robertson (for funding and accounting implications). The Programme will include various work streams covering areas such as communications, data and financial matters. Some initial meetings have already taken place including a meeting with Equiniti who will play a key role in successful delivery of the Programme objectives.
- 7.5 A further verbal update will be provided to the Board at this meeting by a consultant from Aon who are providing project management in respect of this project.

Ian Williams

**Group Director of Finance & Resources**

Report Originating Officer: Michael Honeysett (020 8356 3332)

Financial considerations: Jackie Moylan (020 8356 3020)

Legal comments: Angelie Walker (020 8356 6994)