

AGENDA ITEM 7

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
Major Projects Update	Classification PUBLIC	Enclosures None
	Ward(s) affected ALL	AGENDA ITEM NO.
Pensions Board 11 October 2021		

1. INTRODUCTION

- 1.1 This report provides the Board with an update on the Fund's major projects relating to the GMP rectification, McCloud remedy and the development of an automated interface from payroll to the Pensions system (Pensions Data Service). All 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. The Pensions Data Service also includes representation from the Council's payroll departments and the third party payroll software providers, Midland ITrent.

2. RECOMMENDATIONS

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

3 RELATED DECISIONS

- 2.2 Various Update reports re GMP, McCloud and the Pensions Data Service at Pensions Committee and Board, the latest being at Pensions Committee on 30 September 2021.

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 The McCloud and GMP projects 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 the McCloud Remedy Project is at the data collection stage. Both have or will incur

significant costs 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 The work to develop a reliable interface between the Council's payroll system and the Pensions system has been ongoing in various forms for a number of years. This latest project, the Pensions Data Service, is the responsibility of the employer but due to the importance of the impact on Pensions data, the in-house Pensions Team and thyroid party administrator are taking a lead role. I am pleased to report that this project is now reaching its final stages with transfer to business as usual imminent

4.5 There are 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 three important administrative projects falls within the remit of the Pension Board.

6. BACKGROUND TO THE REPORT

GMP Rectification

6.1 From 6th 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 2014
- 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 As explained in the last report, a project has been ongoing to reconcile the Fund's GMP data with that held by HMRC, following the change to contracted-out pension rules in April 2016. This has led to the identification of a number of scheme members who have had benefits either overpaid or underpaid, in some cases for a number of years.
- 7.2 It had been hoped that following on from the implementation of Pension Increase the adjustments of benefits would be recalculated and finalised with the underpaid having their benefits corrected (and the arrears paid) in the August pensioner payroll, and the overpayment cases will see their pension decrease in the September pensioner payroll.
- 7.3 However, during the recalculation work questions were raised in relation to survivor benefit rectifications, as survivor GMP is calculated differently depending whether the original member retired before or after 24 July 1990. Additional investigations and checks are being undertaken with this group to ensure accuracy of the original survivor calculations. Therefore it has been decided that in order to minimise further delays in the wider project circa 200 survivor cases are being reviewed separately.
- 7.4 Around 380 members are also being reviewed as a separate exercise, and any amendments needed to their benefits will be actioned on an individual basis. These are members who became entitled to their GMP before reaching their State Pension Age (SPA) and required more complicated calculations and checks.
- 7.5 Therefore, the remaining pensioner benefits have now been recalculated and finalised with the underpaid having their benefits corrected (and the arrears paid) in the October pensioner payroll, and the overpayment cases will see their pension decrease in the November pensioner payroll. This will allow for members to receive adequate notice of the amendments to their benefits.
- 7.6 As previously requested by the Pensions Committee, the member communications have been shared and agreed with the Chair.
- 7.7 Once all the recalculations have been done a final report on the numbers affected will be provided to the committee and Board.

McCloud Remedy

- 7.8 All workstreams are now in progress (Data; Communications, Finance, Ongoing Administration and Benefits Rectification), with the workstreams including key officers from Hackney pensions, team members from Equiniti and consultants from

Aon (providing Programme management and technical assurance) and Hymans Robertson (Fund actuaries), as set out in the Programme Charter.

- 7.9 We continue to await confirmation of the regulatory changes although the Written Ministerial Statement (13 May 2021) provided clarity in some areas. The Public Service Pensions and Judicial Offices Bill was introduced on 19 July 2021. This is enabling legislation that will allow the MHCLG to make McCloud regulations for the LGPS. Draft LGPS regulations are expected by the end of the year.
- 7.10 The Programme has been focusing on priority areas as follows:
- The agreed data validation is in progress for those employers who have submitted the data required to implement the expected benefit changes, with queries issued to some employers. Data held by Hackney Council has now been received and is with Equiniti to review and validate.
 - Officers continue to chase outstanding data returns and are making efforts to speak to employers before considering what action may be taken if there are continued delays.
 - Delivering an alternative approach to sourcing pre July 2017 data for Hackney Council following difficulties with the initial preferred approaches resulting from the cyber-attack. The current expectation is that this alternative approach will provide the majority of the information required within a reasonable timescale, but this is subject to final verification checks which are underway. There is a period (April 2014 – October 2014) where data may not be available using this approach and further consideration is being given to this.
 - Officers have updated communications to provide an update for members and employers following the Ministerial Statement and an initial review of governance and administration policy documents has been undertaken to identify where updates are required.
 - Additional planning for the next priority areas for the Programme, including areas such as data upload; benefit rectification; ongoing administration and specialist cases, noting some key areas of uncertainty remain pending the detailed consultation response expected from MHCLG later this year.
- 7.11 Work is slightly behind the original plan as a result of delays in obtaining data for some employers (notably relating to Hackney Council as a result of issues outlined above) and continued regulatory uncertainty which is impacting on detailed planning for some workstreams. With final regulations now not expected to be in force until 1 April 2023 the Fund is making good progress, but planning by Equiniti for changes to ongoing administration and benefits rectification is becoming all the more pressing.
- 7.12 Risks continue to be monitored within the Programme governance structure, including oversight from the Programme Management Group. These risks are actively managed and the overall Programme risk is included in the Fund risk register.

Pensions Data Service

- 7.13 The Pensions Data Service is now reaching the final stages of development, with detailed testing and reconciliation of the latest payroll files being undertaken. It is hoped that the October files will form the basis of go-live monthly interface from the Council's payroll system to the Pensions system.
- 7.14 An important element of this will be the development and adherence to procedures and processes and consistent processing of information by the Council's payroll in order that rejections are minimised.
- 7.15 However, it is recognised that there will be some rejections on a monthly basis as individuals' non-standard circumstances are processed through payroll. It will be vital to ensure that such rejections are dealt with quickly by the payroll team in order that data is properly maintained.

Ian Williams

Group Director of Finance & Resources

Report Originating Officer: Michael Honeysett (020 8356 3332)

Financial considerations: Michael Honeysett (020 8356 3332)

Legal comments: Angelie Walker (020 8356 6994)