

Report to: Pension Committee

Date of meeting: 17 July 2017

By: Chief Operating Officer

Title: Guaranteed Minimum Pensions (GMPs) Reconciliation - Update

Purpose: To provide background and a progress update on the reconciliation of GMPs between HM Revenue & Customs and the East Sussex County Council Pension Fund

RECOMMENDATIONS

The Committee is recommended to note the progress on the reconciliation of Guaranteed Minimum Pensions (GMPs) between HM Revenue & Customs records and the East Sussex Pension Fund

1 Background

1.1 This report is intended primarily to update the Committee on the background as to the reasons why Guaranteed Minimum Pensions (GMP) reconciliation is required and the progress of the reconciliation project.

1.2 The Local Government Pension Scheme (LGPS) is a defined benefit scheme which was contracted out of the State Earnings Related Pension Scheme (SERPS). Had the scheme not been contracted out, then each qualifying member would have accrued an additional pension up to 6 April 1997 under the SERPS arrangements, funded by their National Insurance contributions. A condition of this contracted out status, was that the pension scheme maintain a record of an individual member's accruing GMP. This value is designed to be broadly equivalent to the SERPS benefit that the member would have accrued, had they not been contracted out.

1.3 There are complex regulations regarding annual inflationary increases to the GMP element of an individual's pension and the dates at which it becomes payable to the Scheme member. The Government decided that with effect from 6 April 2016 contracting-out would be abolished, coinciding with the introduction of the new Single Tier State Pension, and as a result HMRC are providing a one-off service to enable Schemes to reconcile the GMP figures they hold with those held by HMRC – this service will cease in December 2018.

1.4 It is important to reconcile the GMP element recorded on the East Sussex County Council pension fund administration system with that held on the HM Revenue & Customs' (HMRC) system, to ensure that pensions coming in to payment, together with those already in payment, are paid at the correct amount and the liabilities of the pension scheme, so far as GMP values are concerned, are represented accurately at each future valuation.

2 Reconciliation Process

2.1 Although there are multiple possible approaches to the reconciliation process, simplistically it falls into 3 stages:-

- Stage 1 – Initial analysis and data matching
- Stage 2 – Reconciliation – data reconciliation, manual reviews and query liaison with HMRC

- Stage 3 – Rectification – calculations of under/overpayments, communication with members

2.2 The Committee may recall that a specialist data analyst, ITM Ltd, were previously engaged to perform Stage 1 and identified significant mismatches between HMRC and ESCC fund records. The level of queries was however consistent with the results of analysis undertaken by other local authority funds and was in line with expectations based on known issues with Government GMP records.

2.3 Business Operations had previously anticipated that the recently launched Norfolk framework for LGPS pensions administration support services would provide a structured pricing catalogue from which a provider could be selected to conduct Stage 2 and/or Stage 3 on behalf of the ESCC pension fund. Unfortunately, given the complexity of the process and the variety of possible approaches across the 10 providers on the framework, the decision was taken by the framework team to remove the pricing catalogue.

2.4 There was an option to enter a ‘mini-competition’ tender at this stage but this would take a number of months to complete and would potentially commit the ESCC fund to excessive costs because any submissions for reconciliation and rectification at this stage would be based on estimated reconciliation volumes.

2.5 Although the majority of LGPS funds have not yet commenced their reconciliations, we are aware that response times from HMRC in relation to reconciliation queries are between 3 to 6 months at present and, although HMRC are committed to further resourcing at their end, it is possible these response times may extend once the majority of LGPS funds start to submit reconciliation queries.

3 Modular Approach to Reconciliation

3.1 Given the potential time pressures involved, Business Operations has been exploring possible options to progress the reconciliation and, in consultation with the ESCC Chief Finance Officer and procurement colleagues, has agreed with ITM a ‘fast tracked’ modular approach for the next stage of the process. This is a two-month project which will allow full utilisation of the analytical tools available to ITM as well as recent technology introduced by HMRC and will initiate significant volumes of queries to be submitted into HMRC workstreams. The details of the work to be carried out by ITM under this phase are included in **Appendix 1**.

3.2 This two month project will have the following advantages:-

- Allow the ESCC fund to make use of the latest smart technology and analytical tools available to ITM and their existing working relationship with the HMRC reconciliation team
- Will ensure that a significant proportion of reconciliation queries are either resolved or placed in the HMRC workstream ahead of other funds due to commence work
- Will allow Business Operations to commence file reviews on ‘known’ discrepancies (e.g. where HMRC have a GMP liability but ESCC have no record) whilst we await HMRC responses on other query types
- ITM will provide a member level breakdown of processing on completion so that a different provider could pick up the benefits of the work done so far, if required. ITM would also provide a clear report setting out the queries resolved and outstanding so that this could be used as part of a “mini competition” tender specification under the Norfolk framework for subsequent Stage 2 and Stage 3 work.

3.3 This project is a multi-fund agreement with ITM to provide best value and the proportional cost to the ESCC fund, based on membership numbers. The cost of the agreement is commercially sensitive and is included in a separate report on this agenda (item 14). The price is competitive and ITM has agreed to include reconciliation for active members as well as the deferred and pensioner members which were part of the original Stage 1 analysis. At the time of the initial analysis, HMRC had only released GMP for deferred and pensioner members.

3.4 The attached timeline (**Appendix 2**) sets out how the reconciliation process is expected to develop over the next 12 months, though progress will be impacted in the main by response times from HMRC. Business Operations will continue to report progress to the Committee as the project continues.

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