

Report to: Pension Board

Date: 5 November 2018

By: Chief Operating Officer

Title: Guaranteed Minimum Pension (GMP) Reconciliation Project update

Purpose: Provide the Board with an update on the progress of this important project

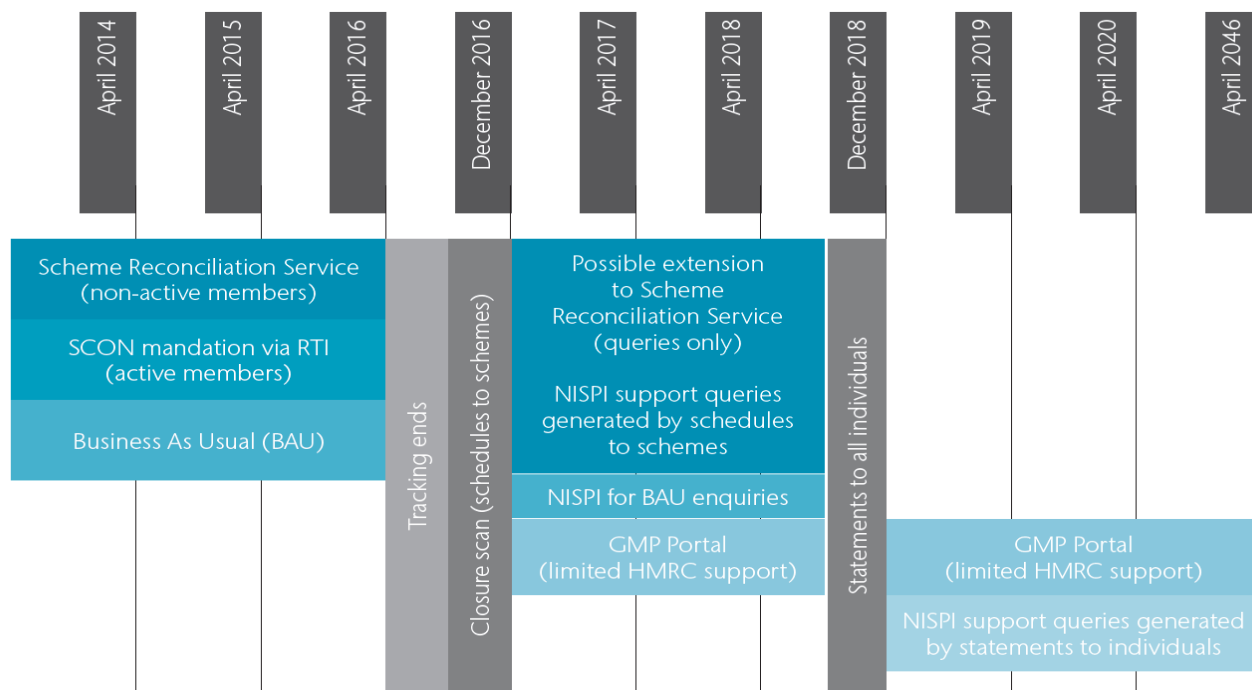
RECOMMENDATIONS

The Board is recommend to consider and comment on the report

1. Background

1.1. The abolition of contracting out for defined benefit (DB) schemes in April 2016 requires all pension schemes to reconcile their Guaranteed Minimum Pension (GMP) liabilities. A GMP reconciliation is a project to ensure that the GMP liability on the scheme records agrees with that held by HMRC. The GMP reconciliation involves comparing the scheme's GMPs information with that held by HMRC and investigating any discrepancies between the two sets of figures. The original end of contracting out timeline is shown below:-

Timeline: The ending of contracting out



2. Progress to Date

2.1. Phase 1 was completed as previously reported where 12,910 records were successfully reconciled following an accelerated project undertaken by data specialists ITM, with a further 6,513 cases referred back to HMRC.

2.2. Subsequent to phase 1 the Orbis Procurement and Business Operations teams completed a mini tender exercise and identified a preferred provider to deliver the remainder of the reconciliation exercise. Bids were received from four providers, JLT, ITM, KPMG and Equiniti, with JLT being appointed at a fixed price of £25,500 for the reconciliation exercise plus up to £15,000 to ensure an efficient and automated data exchange between the administration systems (Heywoods) and JLT. Worthy of note is that the contracted work required JLT **“to deliver a complete reconciliation exercise to meet statutory deadlines.”**

2.3. Instruction was given to the winning bidder on 26th April that we wished to proceed, however, contracts were not signed until the 3rd August 2018 to enable the work to commence as a result of extended GDPR contractual negotiations. The indicative project milestones are set out below:-

| No | Task | Start Date | End Date | Status |
|----|--|------------|------------|---------------------------|
| 1 | Initial Analysis - Phase 1 | 13/08/2018 | 20/09/2018 | Completed |
| 2 | Bulk Analysis & HMRC Responses Analysis - Part 1 | 22/09/2018 | 05/10/2018 | Completed |
| 3 | Bulk Analysis & HMRC Responses Analysis - Part 2 | 08/10/2018 | 12/10/2018 | In Progress |
| 4 | Data Gathering | 09/10/2018 | 30/10/2018 | In Progress |
| 5 | Queries to HMRC - Round 1 for non-queried cases | 08/10/2018 | 31/10/2018 | In Progress |
| 6 | Queries to HMRC - Round 2 for data gathering cases | 08/10/2018 | 31/10/2018 | In Progress |
| 7 | Referrals to Client (Guidance or decision making) | 30/10/2018 | 31/12/2018 | Not yet started |
| 8 | Responses from HMRC Due back | 01/11/2018 | 05/04/2019 | Not yet started |
| 9 | Analysis of responses | 01/11/2018 | 30/04/2019 | Not yet started |
| 10 | Referrals to Client (Guidance or decision making) | 18/01/2019 | 15/05/2019 | Not yet started |
| 11 | Updates to Master Control of Decisions made | 25/01/2019 | 20/05/2018 | Not yet started |
| 12 | Final SRS Data Cut from HMRC Closedown output | 01/06/2019 | 01/06/2019 | Not yet confirmed by HMRC |
| 13 | Final Analysis of Scheme Data v's HMRC | 10/06/2019 | 21/06/2019 | Dependent on above |
| 14 | Rectification of Records | tbc | tbc | Dependant on above |

2.4. The Board will note that it will be necessary for JLT to engage with the Pension Board and Committee outside of the normal cycle of meetings during November and December (previously October/ November) in order to secure decisions: Typically decisions will be required in the following areas:

- How to proceed with cases which cannot be resolved following the review of system data, external member files, and review with HMRC?
- When to pay cases where Contribution Equivalent Premium (CEP) payments can be made to extinguish any GMP liability discrepancies – for members with short service, and who are under GMP Age, it may be possible to clear the liability by payment of a CEP, if evidence of a previous CEP payment cannot be found?
- Whether to attempt to trace ‘Not on Admin’ members whose position cannot be resolved following a review of all records?
- How to deal with under or over payment calculations for Pensioners whose GMP values have changed. For example does the Fund want to look into all under and overpayments, does the Fund want to write off any overpayments or re-claim them from pensioners?

3. Current Status

3.1. Although the contract was signed later than hoped the automated submission to HMRC (NISPI) of the scheme data has commenced with the number of GMP discrepancies reducing. As at the 5th October 68,009 members have been identified as having a GMP to reconcile of which

51,075 have been matched at a scheme membership level with 16,934 needing further investigation.

3.2. Worthy of note is that HMRC are expecting a large number of queries to be registered with them from a wide range of schemes by the 31st October deadline set for queries to be with them. They as a consequence have allowed themselves a 3 to 4 month window in which to respond to those queries with further “toing and froing” issue resolution taking place through to April 2019.

3.3. JLT our supplier has a 12 strong team working on this project across all the Orbis administered funds until 31st December 2018 and we have been verbally reassured via conference calls on the 12th and 24th October of the progress being made and of the knowledge they have of GMPs and the positive relationship they have built up with HMRC.

3.4. At the time of writing this paper we anticipate a written progress update will be received from JLT on the 31st October for circulation to the Board that day that will reflect the latest position at the point of the HMRC deadline for submitting queries. Indeed, senior level verbal updates (see 3.3 above) with JLT have occurred in October to ensure good progress is being made and emphasising the importance of completing this work in line with statutory deadlines.

3.5. The financial implications of rectifying GMP liabilities is unknown at this point of time as the data gathering process and query resolution with HMRC is ongoing. It is anticipated that the financial implications will be better understood in Q1 2019 once HMRC have had a chance to responded to the queries raised with them up to the 31st October 2018 deadline.

3.6. As mentioned above JLT will require some decisions to be made by the scheme from the 30th October onwards on how to progress certain matters. We anticipate these questions will be presented in small batches with some notes on how other schemes have progressed similar issues/ queries.

3.7. In summary, the project is now being progressed by a knowledgeable team at JLT. As stated above we have emphasised the importance of this work to JLT, but realise they still have much to do between the time of writing this paper and the 31st October statutory deadline for submitting queries to HMRC. Indeed, we have offered to give as much support as they need to hit the significant 31st October deadline for submitting queries to HMRC.

4. Current Project Risks

4.1. The project team are cognisant of and managing the following project risks which should be noted:-

- A reliance on JLT to resource and conduct the exercise to statutory timescales under contract.
- Members may receive inaccurate GMP entitlement information from HMRC if the exercise is not completed on time.
- Some members may have been under or overpaid as a consequence of an incorrect GMP entitlement.
- Until the GMP reconciliation has been completed, there is a risk that the scheme is carrying GMP liabilities that have been transferred back to the State Pension Scheme, another provider or more worryingly, are not holding details of GMP liabilities that HMRC believe still sit with the scheme. Inaccurate GMPs can have an impact on overall scheme liabilities.
- Inaccurate GMPs can delay the use of automated calculations. Member events (retirement quotes etc.) can require GMP data to be confirmed with HMRC. This can delay the provision of information and settlement of benefits.
- It is anticipated that the Department of Work and Pensions (DWP) will publish legislation or guidance following the ending of contracting out, which will require schemes to equalise GMP benefits. It is important that these exercises are only undertaken using fully reconciled GMP data.

5. Next Steps

- 5.1. Obtain an up to date status report from JLT as at the 31st October at which time all queries need to have been submitted to HMRC. The status report will confirm exactly what has and has not been delivered for this major milestone.
- 5.2. Ensure we receive and actively manage the regular progress reports from JLT moving forward.
- 5.3. Be prepared and give guidance to JLT on GMP reconciliation matters that are not easily resolved or are at an impasse point with HMRC. We can prepare some principles in advance.
- 5.4. Have new internal administration resource dedicated to resolving issues as they arise and in partnership with JLT.
- 5.5. Review the JLT delivery plan as the reconciliation process using the latest HMRC processing dates will now continue through the first quarter of 2019 (see 2.3 above) rather than being completed by 31st December 2018 as originally planned.

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