
GMP Comparison Report for East Sussex County Council Pension Fund

Gavin Penney
11th November 2015



Contents

1	<i>Executive summary</i>	3
1.1	Overview	3
1.2	Population reconciliation	3
1.3	GMP reconciliation	5
1.4	Conclusions and recommendations	6
2	<i>Reconciliation approach</i>	8
2.1	Methodology used	8
2.2	Data sources	8
3	<i>Analysis of GMP data</i>	9
3.1	ECON/SCON details	9
3.2	Population analysis	9
3.2.1	Members on administration system but not on HMRC records	9
3.2.2	Members on HMRC records but not on administration system	11
3.3	GMP mismatch analysis	12

1 Executive summary

1.1 Overview

This report summarises the results of the independent Guaranteed Minimum Pension (GMP) comparison undertaken by ITM Limited (ITM) for East Sussex County Council Pension Fund (the Fund) on behalf of East Sussex County Council (the Client). A separate report has been provided for the Firefighter's Pension Scheme.

A GMP reconciliation can be thought of as a 2 stage process, although these stages can be actioned simultaneously. The first stage comprises a population reconciliation in order to compare the membership data provided by Her Majesty's Revenue and Customs (HMRC) with that held on the Fund records. Frequently this comparison leads to a number of members who are either held on HMRC's records but not on the administration system or vice versa. These membership issues can be more important than the GMP reconciliation in terms of the finances of the Fund and until these issues are addressed the GMPs cannot be fully reconciled.

The second part of the process is the GMP value reconciliation itself. Initially GMPs can only be compared for members held on both HMRC's records and the administration system, but following the membership reconciliation further GMP differences may be identified.

The summary of ITM's findings, along with our recommendations for future activity, is given in this Executive Summary. Further detailed analysis on the reconciliation is supplied in the remainder of the report.

1.2 Population reconciliation

The following table provides a summary of the population analysis that ITM has conducted on the data provided. This reconciles the Fund population recorded by the administrator with the data held by HMRC.

	Active	Below GMP age		Above GMP age		Widow(er)	Unknown	Total
		Deferred	Pensioner	Deferred	Pensioner			
Total admin system population	23,527	27,116	2,000	1,148	13,201	2,288	0	69,280
- On admin system but no HMRC record	22,160	10,847	373	716	3,181	1,017	0	38,294
= On both admin and HMRC records	1,367	16,269	1,627	432	10,020	1,271	0	30,986
+ On HMRC records but not admin system	0	4,305		2,357		357	218	7,237
= Total HMRC records population	1,367	22,201		12,809		1,628	218	38,223

The discrepancies between the administration and HMRC records are illustrated in the charts below and further detail is provided in section 3.2.

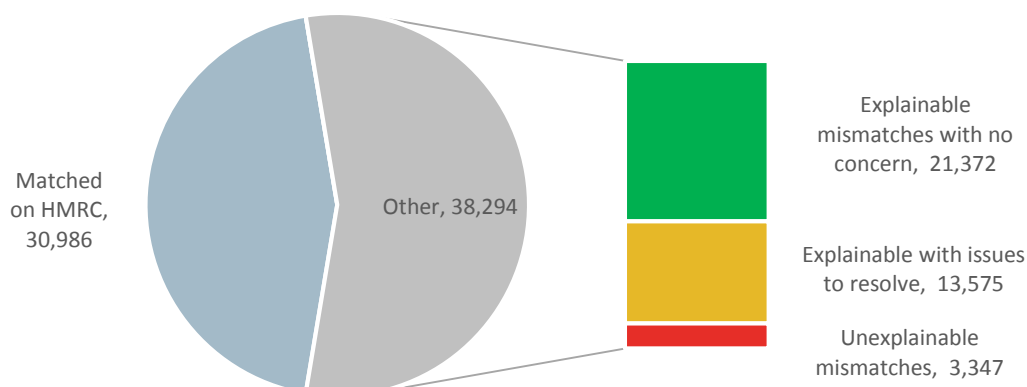
Note that the HMRC status is based on whether the member is over or under GMP age. As a result the deferred members under GMP age and pensioners under GMP age are both recorded as deferred members

on HMRC data. Likewise deferred members over GMP age and pensioners over GMP age are both recorded as pensioners on HMRC data. Also note that HMRC's Scheme Reconciliation Service (SRS) data is not intended to include active members still in contracted-out employment. HMRC data on these members will be made available as part of the Scheme 'closure scan', which will be completed by HMRC shortly after contracting out ceases in April 2016.

The discrepancies between the administration and HMRC records can be caused by a wide range of factors, many of which can be easily explained. ITM has analysed these discrepancies and identified cases where there is the greatest cause for concern.

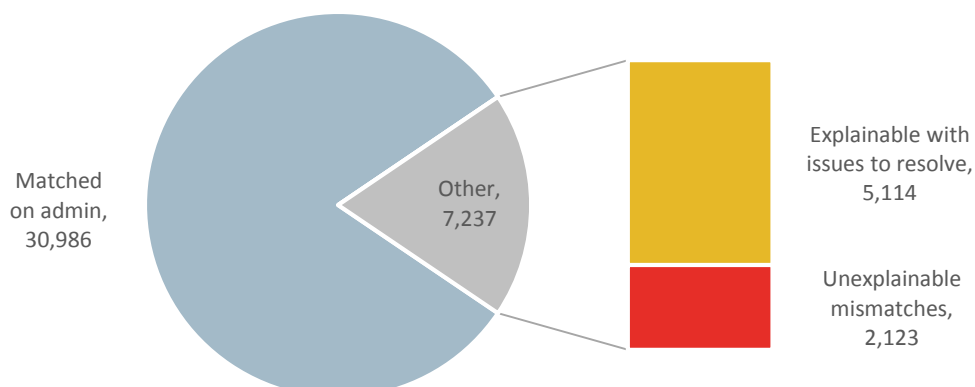
This analysis is summarised by the following charts.

Administration records



This shows that of the 38,294 administration records where there is no direct match on the HMRC data, our analysis provides a probable explanation for 34,947 records. Of these, 21,372 are of no concern because they are in respect of active records without a transferred in GMP or other special GMP liability.

HMRC records



Here, it can be seen that 2,123 of the 7,237 HMRC records that could not initially be matched to administration data require much more extensive investigation.

1.3 GMP reconciliation

For the Fund population, GMP values have been compared with figures supplied by HMRC. The results of this comparison are summarised below.

GMP match tolerance	Active	Below GMP age		Above GMP age		Widow(er)	Total
		Deferred	Pensioner	Deferred	Pensioner		
Exact match on GMP	124	2,781	709	66	3,138	79	6,897
Agrees, no GMP *	813	11,608	376	276	1,485	67	14,625
£0.01 to £0.05 per week	9	199	63	24	1,467	246	2,008
£0.06 to £0.25 per week	8	89	18	12	1,824	223	2,174
£0.26 to £0.50 per week	3	97	9	3	534	66	712
£0.51 to £1.00 per week	3	89	19	8	356	90	565
£1.01 to £2.00 per week	6	114	24	2	288	119	553
£2.01 to £5.00 per week	8	210	60	2	237	144	661
£5.01 to £10.00 per week	0	73	27	3	132	63	298
More than £10.00 per week	1	30	41	2	206	58	338
No GMP recorded on HMRC list **	9	96	22	3	87	4	221
No GMP recorded on Admin list **	383	880	259	31	196	62	1,811
HMRC error code ***	0	3	0	0	70	50	123
Total records on admin and HMRC	1,367	16,269	1,627	432	10,020	1,271	30,986

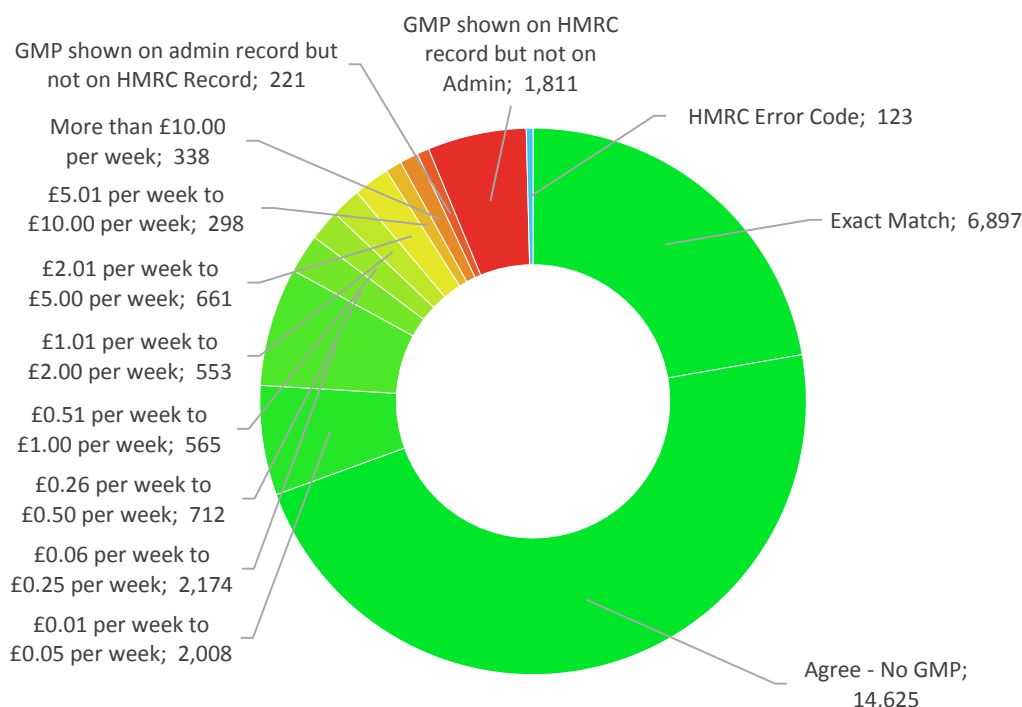
* Members where GMP is zero on both administration and HMRC records.

** Members who are on both the admin and HMRC lists but only have a GMP value on one of them. This includes some members who have inconsistently held data on admin that could not be used in the GMP comparison process for this report. Further, 100 of the 196 pensioners are females who are over GMP age but under SPA, and not a concern.

*** Members where HMRC records are incomplete and subject to further investigation by HMRC before GMP details can be reconciled.

This analysis is summarised in the following chart.

GMP mismatch analysis



1.4 Conclusions and recommendations

The key findings of this report are:

- ▶ Initially our analysis showed that 38,294 of the 69,280 admin system population have no HMRC record. However, many of these can be quite easily explained. A likely explanation for 34,947 cases has been identified. The remaining 3,347 members would need more extensive investigative work. Our comments and suggestions are detailed in Section 3.2.1 below.
- ▶ Initially our analysis also showed that HMRC hold records for 7,237 members who are not held on the admin system. However, we have been able to identify potential reasons for the mismatches in 5,114 cases, leaving a further 2,123 members who would require more extensive investigation. This includes 1,333 records for people under State Pension Age who will be written to by HMRC between now and December 2018 to advise that they had contracted-out service in the Fund, and hence may contact the Fund at that point to make this claim. Further commentary is provided in Section 3.2.2 below.
- ▶ In addition, HMRC records contained 341 members with an error code meaning that HMRC's own records were insufficient to produce a reconciled GMP figure. 123 of these error code HMRC records could be matched to an administration record. These will all need to be queried with HMRC.
- ▶ There are 575 pensioners and 265 widow(er)s currently in receipt of GMPs that differ from the HMRC recorded amounts by more than the commonly accepted £2 per week tolerance. These cases will need to be investigated by a number of methods using approaches that will be proposed by ITM. If it is determined that the Fund's GMP is incorrect, then a plan to correct pensions will need to be considered.
- ▶ A further 128 pensioners under GMP age and 320 deferred pensioners have a GMP recorded that differs from the HMRC values by more than £2 per week. Again these cases will need to be investigated by a number of methods, and ITM will suggest approaches when we meet to review this

report. If it is determined that the Fund's GMP is incorrect then a plan to correct pensions will need to be considered.

- ▶ There are 6,012 members where GMPs mismatch but by less than £2 per week. This discrepancy is within the commonly accepted tolerance level so the HMRC figures may be accepted, subject to administering authority agreement. A decision still needs to be taken on how to then correct administration records, and particularly pensions in payment.
- ▶ There are 239 dependant pensioners where there is no clear link back to the deceased member's record. These should all be investigated and linkages established wherever possible. Further GMP discrepancies may arise with dependants once matching has been completed.
- ▶ The recommended actions following this report will be discussed in more detail at the forthcoming meeting, the date of which will be confirmed shortly. These will cover two main areas of activity:
 - *Resolving population discrepancies:*
 - (i) *On HMRC records but not on administration system*
 - (ii) *On administration system but not on HMRC records.*
 - *Resolving GMP comparison discrepancies:*
 - (i) *GMP mismatches over £2 per week*
 - (ii) *GMP is zero on administration system but non-zero on HMRC*
 - (iii) *GMP is zero on HMRC records but non-zero on administration system.*

ITM will provide further details of our recommended approaches when we meet to discuss this report, and then look forward to being able to produce a formal proposal to further assist the Client with the GMP reconciliation.

2 Reconciliation approach

2.1 Methodology used

We have undertaken an automated reconciliation of the available data sources for the Fund's GMP records. This was done using our Data Analysis and Reporting Tool (eDAaRT). eDAaRT imports data from any pension administration system and uses SQL based queries to analyse the data held.

The findings of the automated reconciliation are validated by our team of analysts and, where appropriate, by reference to the Fund administrators.

All of the data, processes followed and outputs from this reconciliation are captured for audit purposes and can be used as reference for any future work that may be required to update or correct GMP records.

2.2 Data sources

Data used in this reconciliation has been supplied from the following sources.

Source	Contents
Administration system	Basic member data Contracted out history GMP benefit information
HMRC GMP data provided as a Scheme Reconciliation Service (SRS) file from HMRC systems	Basic member data Contracting out dates GMP benefit information

Within the administration system there are a number of different sources of GMP data, typically having been calculated at different dates. Part of the purpose of a GMP reconciliation is to ensure that members are being or will be paid their correct benefit entitlement. Accordingly we have derived the GMP data at 18 November 2014 from what we believe is the most appropriate source of GMP data as follows.

- ▶ For pensioners over GMP age we have taken the current GMP in payment and discounted back to state pension age (SPA).
- ▶ For widows and widowers in payment we have taken the current GMP in payment and discounted back to date of death (DOD). Where the member died after 18/11/2014 we have taken account of this and derived the member's GMP at date of exit (DOE). In the case of dependants who appear on the leaver type 5 correction files however, GMP values compared were the 'at SPA' values from the first life record. This is because HMRC provided GMP values on a different basis compared to the main SRS data.
- ▶ For deferred members and pensioners under GMP age we have taken the GMP values at date of leaving (DOL).

3 Analysis of GMP data

The following sections give the detailed findings of our analysis of the GMP data sources provided. Supplementary listings are available showing the members identified in each section.

3.1 ECON/SCON details

HMRC record contracted out details for individuals against two separate contracting out numbers.

ECON (Employer Contracting Out Number) – Payroll record submissions made by employers showing contracted out earnings for individuals in each tax year are recorded against the ECON. These records are made available to the Fund administrators via HMRC. It is common for there to be multiple ECONs that are applicable for members of a pension scheme resulting from mergers and acquisitions. ECONs that have been used in this analysis shown below.

ECON	Employer name
E3900002R	Public Sector Employers

SCON (Scheme Contracting Out Number) – When a member ceases active service in a scheme, the administrator notifies HMRC of this via submission of the appropriate CA form. HMRC then associates the period of contracted out service that has just ended with the SCON and calculates the GMP for this period using the contracted out earnings recorded under the separate ECON. As with ECONs, it is not unusual to find multiple SCONs associated with one current scheme. SCONs that have been used in this analysis are shown below.

SCON	Scheme
S2700148T	East Sussex County Council Pension Fund

The findings of our population analysis suggest there remain 16,134 members of the Fund where no HMRC record has been identified and most of whom should have contracted out service. It is therefore possible that further ECON / SCON information may enable these cases to be reconciled.

3.2 Population analysis

3.2.1 Members on administration system but not on HMRC records

Administration records for these members have been further analysed to determine the likely reasons for them not being identified by HMRC. This has resulted in the population groups shown in the table below. The suggested actions shown for each group should be considered.

Id	Reason for mismatch	Active	Below GMP age		Above GMP age		Widow(er)	Total
			Deferred	Pensioner	Deferred	Pensioner		
1	Unlinked dependant records	0	0	0	0	0	239	239

Suggested actions:

Carry out analysis of available data sources to establish as many links as possible. For the remaining links that cannot be established, member details should be submitted to HMRC for resolution.

2	Temporary or invalid NI numbers	13	213	0	32	0	2	260
---	---------------------------------	----	-----	---	----	---	---	-----

Suggested actions:

Note, the Widow(er) members relate to the NI numbers recorded for the original member. HMRC does not use temporary NI numbers in their records so it is not possible to match any of these members to the HMRC data. A combination of tracing and file review is suggested to identify the correct NI details for these members.

3	No period of GMP accrual within the Fund	20,271	9,594	214	410	1,322	151	31,962
---	--	--------	-------	-----	-----	-------	-----	--------

Suggested actions:

Member service is entirely pre 78 or post 97. Inform HMRC of post 97 joiners with contracted out service.

4	Active employees	22,160						22,160
---	------------------	--------	--	--	--	--	--	--------

Suggested actions:

SRS files do not contain HMRC GMP data for members still in contracted-out service. It is recommended that COCIS data is requested. This will include contracting-out earnings/contributions data for these members, enabling their HMRC data to be matched to their administration record.

5	Multiple admin records	4,050	4,021	130	116	1,043	64	9,424
---	------------------------	-------	-------	-----	-----	-------	----	-------

Suggested actions:

These members have been identified because they have two administration records which cannot be uniquely matched to HMRC records. The data should be further analysed to resolve as many of these cases as possible.

The analysis above provides an explanation for 34,947 members in the administration data that cannot be linked to HMRC data. However, some of these members may be reported under multiple headings and so the total of the members in the table above may be higher.

This leaves the following population where there is no immediate identifiable reason for the members not to be present on HMRC records:

Status	Population
Active	0
Deferred (< GMP age)	937
Pensioner (< GMP age)	112
Deferred (> GMP age)	263
Pensioner (> GMP age)	1,446

Status	Population
Widow(er)	589
Total	3,347

It is conceivable that these members are recorded under a different SCON by HMRC. We would suggest that in the first instance termination notices are issued to HMRC for these members. In parallel with this, we suggest that Fund records are reviewed to check for the possibility of a different SCON having been used incorrectly in the past, or not transferred across as applicable.

3.2.2 Members on HMRC records but not on administration system

These records are normally expected to be for members who have no further liability within the Fund but HMRC records have not been updated to reflect this. This may also mean there is no HMRC record of a Contributions Equivalent Premium (CEP) being paid, or alternatively HMRC having been notified of a transfer out from the Fund or the full commutation of a member's benefit on the grounds of triviality.

Having analysed this population, the potential causes are given in the table below.

Id	Reason for mismatch	Deferred (< GMP age)	Pensioner (> GMP age)	Widow(er)	Unknown	Total
1	HMRC record links to a deceased member but not a dependant	12	106	239	52	409

Suggested actions:

Carry out analysis of available data sources to establish as many links as possible. For the remaining links that cannot be established, member details should be submitted to HMRC for resolution. Others may be confirmed as cases where there was no dependant entitled to a pension, in which case HMRC should be informed.

2	Transferred out and members still linked to SCON by HMRC	1,208	173	4	0	1,385
---	--	-------	-----	---	---	-------

Suggested actions:

Details of the transfer out should be supplied to HMRC for these members if this information can be obtained from the member files. In some cases this information may not be available and it will be necessary to consider contacting and writing to the members concerned.

3	Refund of contributions and members still linked to SCON by HMRC	248	144	7	3	402
---	--	-----	-----	---	---	-----

Suggested actions:

Confirm CEPs have been paid in order to remove Fund liability.

4	HMRC record links to a full commutation admin record	107	330	10	4	451
---	--	-----	-----	----	---	-----

Suggested actions:

These members may have taken full commutation on the grounds of triviality, in which case HMRC should be informed.

5	Multiple records on HMRC	991	824	60	13	1,888
---	--------------------------	-----	-----	----	----	-------

Suggested actions:

HMRC records indicate two separate periods of contracted out service for these members. This may indicate a transferred-in benefit or could be an error on HMRC records. The cases should be investigated.

Id	Reason for mismatch	Deferred (< GMP age)	Pensioner (> GMP age)	Widow(er)	Unknown	Total
6	All other cases where HMRC record links to an unexpected or partial admin record	408	179	3	2	592

Suggested actions:

Analyse the administration records further and attempt to assign to explainable categories shown above, then carry out the relevant actions.

The analysis above provides an explanation for 5,114 members in the HMRC data that cannot be linked to administration data. However, some of these members may be reported under multiple headings and so the total of the members in the table above may be higher.

This leaves the following population where there is no immediately identifiable explanation for why HMRC records are recorded against the Fund's SCIN. To consider the impact of this, a breakdown of these members together with their annualised GMP is given in the table below:

No record on administration system	Number of records	Total annual GMP (nearest £1,000)	Total annual GMP figures point of valuation
Members under State Pension Age	1,333	396,000	Date of Exit
Members over State Pension Age	601	558,000	State Pension Date
Widow(er)s	45	18,000	Date Pension Commenced
HMRC Error Code 5 records	144	N/A	N/A

The first row has been highlighted in Red to reflect the fact that most of the members in this group will be written to by HMRC in December 2018, with statements that will identify the Fund as a scheme in which they have had contracted-out service.

The other two groups are already in receipt of GMP, and it is understood that they will not be written to by HMRC in December 2018. In many cases it is likely that the members concerned are indeed receiving a pension, that includes this GMP liability, from another scheme, however there may be members where this is not the case – for example members whose GMP liability was intended to be extinguished in the past but the necessary payments were not processed correctly.

For all the members above the relevant “not in scheme” queries will be raised with HMRC. Further analysis will also be carried out to attempt to establish evidence that identifies the correct schemes that these members should be held under at HMRC, which will include requesting any further information or data sets available from the company, the Administrator, or any other parties. If no such useful evidence comes to light then recommendations will be made on a practical basis, taking account of the likelihood and materiality of potential future additional liabilities arising should members come forward.

3.3 GMP mismatch analysis

The table below provides analysis and recommendations where the Fund's GMPs do not match HMRC records or fall within The Pensions Regulator's recommended tolerance of £2 per week, or contracted out dates do not match.

Id	Reason for mismatch	Active	Below GMP age		Above GMP age		Widow(er)	Total
			Deferred	Pensioner	Deferred	Pensioner		
1	GMP matches but contracted out start and/or end dates do not match	80	779	188	20	1,138	41	2,246
Suggested actions: No immediate action for GMP values is required. However contracting out dates should be reviewed and corrected as necessary.								
2	GMP does not match exactly, is within tolerance and contracted out dates match	10	306	80	34	2,009	417	2,856
Suggested actions: If an initial tolerance level of £2 per week is accepted, then HMRC figures can be accepted for these members. A decision still needs to be taken on how to then correct administration records, and particularly pensions in payment.								
3	GMP does not match exactly, is within tolerance but contracted out dates do not match	19	282	53	15	2,460	327	3,156
Suggested actions: If an initial tolerance level of £2 per week is accepted, then HMRC figures can be accepted for these members, however contracting out dates should be reviewed and corrected as necessary. A decision still needs to be taken on how to then correct administration records, and particularly pensions in payment.								
4	GMP outside tolerance and contracted out dates match	3	168	78	4	203	152	608
Suggested actions: These cases need investigation and correction as required. The correction may involve adjustment to pension in payment records. ITM recommend an approach that takes account of the materiality of the discrepancy on member benefits.								
5	GMP outside tolerance and contracted out dates do not match	6	145	50	3	372	113	689
Suggested actions: These cases need investigation and correction as required. The correction may involve adjustment to pension in payment records. ITM recommend an approach that takes account of the materiality of the discrepancy on member benefits.								
6	GMP outside tolerance and members have a transfer-in	0	263	75	4	1,697	197	2,236
Suggested actions: A GMP cleanse project should be carried out to further investigate, agree and rectify GMPs and associated data.								
7	No record of original member's death on admin system						19	19
Suggested actions: These records should be reviewed. It is likely that they may be recent deaths that have not been updated on the administration records.								