



REPORT OF SERVICE DIRECTOR - CUSTOMERS AND HUMAN RESOURCES

LOCAL GOVERNMENT PENSION SCHEME - GUARANTEED MINIMUM PENSION RECONCILIATION EXERCISE WITH HMRC

Purpose of the Report

1. The purpose of the report is to inform the Pension Committee of the national requirement which is impacting all Public and Private sector Pension Funds to carry out an exercise to reconcile its records with those held by HM Revenue and Customs (HMRC), and seek approval for expenditure to complete the reconciliation.

Information

Background

2. This is a national requirement initiated by HMRC which will impact all Public and Private sector Pensions Funds who were contracted out of additional state pension.
3. Up until April 2016 contributing members of the Local Government Pension Scheme (LGPS) paid lower rate National Insurance contributions as they were “contracted out” of the Additional State Pension which has previously been known as S2P, the state second pension or the State Earnings-Related Pension (SERPS). LGPS employers also paid reduced rate National Insurance contributions in respect of their employees who were in the LGPS. Contracting out ended from 6 April 2016 as part of the Government’s introduction of a single-tier basic state pension.
4. Between 1978 and 1997 contracting out of the Additional State Pension was undertaken on a Guaranteed Minimum Pension (GMP) basis. This required contracted out pension schemes to offer pension benefits for the period of contracting out that were worth at least as much as the benefits the additional state pension would have provided. Contracted out pension schemes had to record the relevant contracted out earnings for that period and supply HMRC with details of these. HMRC retained a record of contracted out earnings and GMP entitlement for each individual and then advised pension schemes of GMP entitlements when the individuals reach state pension age.
5. 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 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 is due to cease in December 2018.

6. It is important to reconcile the GMP element recorded on the pension fund administration system with that held on the HMRC system, to ensure that pensions coming into payment, together with those already in payment, are paid at the correct amount, and that the liabilities of the pension scheme, so far as GMP values are concerned, are represented accurately at each future valuation.
7. HMRC has made data available to all pension schemes from February 2017 for reconciling GMP information for active members. HMRC will also be writing to all individuals with a GMP liability after December 2018 informing them which pension scheme holds their liability.

Reason to carry out a Guaranteed Minimum Pension reconciliation

8. The application of incorrect GMP's have an impact on pensions in payment and future pension payments along with having an impact on the liabilities of the Pension Fund. The financial implications of failing to undertake this exercise can therefore be extremely significant.
9. To clarify, the main reasons funds are required to carry out the GMP reconciliation are:
 - To ensure GMP benefits are accurate
 - To ensure that scheme liabilities are correctly recorded
 - Compliance with the Pensions Regulator's data quality checking guidance
 - To provide for more accurate actuarial valuations
10. There are also significant risks to the Pension Fund if reconciliation activity is not carried out, these include:
 - The GMP amounts held by HMRC will automatically apply and this could have material implications on the Pension Fund's liabilities
 - Individuals for which the Fund does not hold a record, may request their GMP entitlement after 2018
 - GMP amounts the Fund is unaware of will lead to incorrect valuations of the Fund's scheme liabilities
 - Incorrect pension amounts being paid to members (including under and over payments)
 - Member complaints and reputation risk.

The Reconciliation Process

11. GMP reconciliation is the process of comparing the Pension Fund's GMP information with that held by HMRC. It investigates any discrepancies between the two sets of figures so that the Fund and HMRC end up with consistent GMP data and benefit records. HMRC's starting position is usually that its data is automatically correct (although this is not always the case as we have found) unless the pension fund can prove otherwise. This puts the investigative responsibility and costs fully onto the pension fund. The reconciliation will involve investigative work, reviewing data and benefit accrual.
12. As part of the process Nottinghamshire Pension Fund has registered with HMRC's scheme reconciliation service and has received a data file which lists all active, deferred, and pensioner members totalling 102,632 records.

13. In order to progress the reconciliation exercise and for the Pension Fund to understand the impact of the reconciliation process the Fund has engaged Civica, the Fund's pension administration system provider, to undertake an evaluation exercise of the Fund's data, called the "Discovery Phase" and this has now been completed.

Discovery Phase

Stage 1

14. Civica have run a number of reports to enable them to conduct a comparison with the HMRC file and the data held on Civica, the pension administration system. This process has provided some headline figures and an early indication of the potential size of the reconciliation issues. This has been used to undertake a baseline reconciliation followed by a more detailed reconciliation/comparison of the results. Early analysis has produced high level results based on data within the Civica pension administration system and data provided by HMRC as indicated below.

Matching Categories	Volumes of Data
Members with both a Pension Record and HMRC record	85,626
Members on the HMRC file but no Notts Pension record found	4,699
Members not on the HMRC file, where our Pension records indicate that there is a contracted out liability	75,388
Total records	165,713
Members who are excluded from the matching process	2,093

Stage 2

15. This has taken 4 weeks utilising Civica resources. More in-depth analysis of the reports produced in stage 1 has now been completed involving the analysis of the Nottinghamshire Pension Fund's data quality with the outputs being:

- Identification of false mismatches – reducing the number of queries to be raised with HMRC to save time and money
- Identification of discrepancies which should be queried with HMRC
- Identification of discrepancies where all necessary data is readily available to facilitate a query with HMRC.

Description of data Types	Volume of Data
Accept HMRC Values	60,415
No evidence of contracted out liability	46,230
Discrepancies to be queried with HMRC	50,873
Data for further investigation and potential query with HMRC	6,102
Total	163,620

17. It is not expected that all variances will need to be investigated. Guidance has been issued by a working group set up by HM Treasury on the general approach that LGPS Funds should take in GMP Reconciliation. It recommends that the following members' data should be reconciled:

- Scheme members who have not yet reached state pension age and who have any service between 6 April 1978 and 5 April 1997
- Non-members who the Pension scheme believe it has already discharged its liability (through, for example, transferring out their benefits to another pension scheme or receiving a refund of contributions).

18. The HM Treasury working group also provided the following recommendations on how any discrepancies identified through reconciliation process should be dealt with:

- Pensioners that have been underpaid should receive their pension arrears in full, with interest in accordance with scheme rules.
- Cases where pensioners have been overpaid should be considered in the context of the overall extent of any overpayments, and a view taken over whether there will be value for money recouping overpayments
- Where discrepancies are small, for example if a service period discrepancy is less than a year, or if the discrepancy in weekly GMP amount is no more than £2, schemes should use the data provided by HMRC in respect of any individuals who have not reached state pension age, or the data held by the scheme in respect of any individuals who have reached state pension age.

19. The Local Government Pension Committee (LGPC) has recommended the following approach

to post 5 April 1997 contracted out data:

- Where contracted-out records appear on HMRC records but no corresponding LGPS pension records exist within its fund, LGPS Administering Authorities should investigate all cases
- Where dates of contracted-out service differ, each LGPS Administering Authority should only investigate those cases where in its view there is a significant risk to LGPS benefits or process
- Where contracted out records do not appear on HMRC records but an LGPS pension record exists within the fund, each LGPS Administering Authority should notify HMRC of the discrepancy but only investigate those cases where in its view there is a significant risk to LGPS benefits or process.

20. The LGPS views this approach as representing a cost effective means of minimising risk of incorrect benefits while avoiding unnecessary and costly duplication of the work already undertaken to ensure records are accurate.
21. For individual case investigations, the recommended methodology will be for a sample of 15% of cases to be reviewed initially per category. The fund will make a decision based on appetite for risk and on a cost benefit analysis on the total amount of each category to investigate.

Delivery Phase

22. Now that a more detailed analysis has been undertaken and the discrepancies have been identified, the next steps will be to begin the delivery phase of the reconciliation project. The delivery phase is broken down into 5 areas of work, and on completion of the work this will provide the Nottinghamshire Pension fund with data reconciled with HMRC that will identify the Fund's liabilities.

Stage 3 - Queries issued to HMRC

Stage 4 - HMRC query returns analysed and distributed into specific categories

Stage 5 - Individual investigation

Stage 6 – In-depth analysis and bulk resolution

Stage 7 - Individual investigation

23. Once the liabilities have been identified there will need to be a reconciliation of the Pension Payroll, this will require the adjustment of pensions in payment. The different strands of work are identified in Appendix A.
24. It is recommended that a further report is brought back to Pension Committee prior to the conclusion of this phase of work so that the Committee can be updated and reassured as to progress and make any decisions required in relation to the approach to be followed before beginning the final phase of the project.

Completion Phase

25. The completion phase will include the rectification of pensions in payment, including over and underpayments and will involve:

Stage 8 - Case conclusion

Stage 9 - Concluded cases up loaded into Civica, the pension administration system.

26. As part of this final phase of the project, a communication strategy will need to be developed to ensure that communication is clear to individual pensioners affected by the reconciliation exercise, and where a pension in payment needs to be adjusted, to enable them to understand the potential impact of any adjustment. The proposed approach will form part of the update report to Pension Committee described in paragraph 23.
27. Update reports will be presented at Committee as the project progresses, which will identify progress, and any issues arising. As part of the reporting process it will be necessary to inform the Committee of the Pension Fund liabilities as they are calculated within the completion phase of the project.

Resources Requirements

28. The work undertaken with Civica has now enabled the pension administration team to understand the amount and scope of work to be undertaken throughout the totality of the project to meet the December 2018 deadline. It has also enabled identification of the level of resources required, potential cost, and for consideration to be given to the best way to resource this to minimise cost to the Fund to complete the next stage of the reconciliation work (the delivery phases) and the completion phases of the project.
29. A blended approach is being proposed using Civica to work with pension administration team to complete the HMRC reconciliation part of the Discovery Phase. Civica understand the Nottinghamshire pension administration system and data issues; work extensively with HMRC and are already working with other Pension Funds on their reconciliation projects so have a breadth of experience and knowledge from elsewhere to bring to the project. The existing support contract which is in place can be used to provide this activity. Using the work undertaken so far, Civica have estimated the cost of the delivery phase of work as £310,000. Supplementing pension administration team resources with Civica resources will provide external assurance of the approach and will enable the pension administration team to focus on the other aspects of the project whilst continuing the day to day activity of administering the scheme.
30. As well as undertaking the reconciliation of HMRC data, additional work will be required to be undertaken reconciling pension payroll data with the pension administration system. To ensure this work and data reconciliation and rectification which cannot be undertaken by Civica can be completed against the HMRC time frame, a number of dedicated resources will be required. It is intended to undertake some of the work using existing resources within the Business Support Centre (BSC) and the pension administration team to keep the cost to a minimum.
31. It is estimated that the project will run for a 12 month period up until March 2019 to enable all phases of the project to be completed, and managed using project management methodology. A temporary Project Manager post will be required to undertake the day to day project coordination, project planning, reporting and management to ensure that the reconciliation work and completion phases are completed to the agreed project plan, working in collaboration with the Civica Project Team and the in-house resources.
32. The cost of a temporary post of Project Manager Band B will be up to £35228 up until 31 March 2019; or less if the project is able to finish ahead of schedule.
33. A separate report has been presented to Personnel Committee seeking approval for the establishment of a temporary Project Manager post subject to the budget approval by Pension Committee.
34. The Council's Audit section will also be involved in a quality assurance role to check and sign off the activity undertaken. This will be provided from existing resources as part of the planned audit programme for 2018/19.
35. The diagram shown in Appendix A illustrates the project activities and two strands of work and proposed resourcing approach.

Other options considered

36. Information from other LGPS Pension Funds across the country is that some have engaged external providers to manage the project in totality at significantly greater costs. Some are relying on internal resources with consequently larger internal project teams. The Nottinghamshire LGPS has concluded that a blended approach provides the best balance of expertise, cost and the ability to complete the project within HMRC's timeframe and take any necessary rectification actions.

Reasons for Recommendation

37. In order to complete the project within the time frame it has been important to engage the support of Civica to assist in the identification of issues between the Fund data and HMRC data. The next stage is to engage Civica to support the Fund in agreeing the Fund liabilities with HMRC, using their methodology, and in adjusting and resending data to HMRC.

38. Civica has extensive experience of working with HMRC and will ensure that the format of data queries is in line with HMRC requirements. Given the scale and volume of data, Civica has automated tools for submitting and tracing queries including resolution of how updates of data will be applied to the Civica pension administration system. This part of the project will end with an update to members' pension records along with an audit trail of how the member's record has changed.

39. It is also important that concurrent work is undertaken to reconcile the payroll and pension records in order that the recalculation of pension benefits can take place within the time frame required. The resources to complete this work will be provided from the Pensions Administration team and from across the BSC to ensure that there is minimal disruption to the day to day activity within the administration team.

Statutory and Policy Implications

40. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Data Protection and Information Governance

41. The project, by its very nature, involves the reconciliation, sharing and processing of personal and sensitive data. This is covered by existing arrangements and agreements with HMRC and Civica, the software provider. However, a separate Data Protection Impact Assessment is being undertaken for the project overall to reflect this and ensure mitigation of any risks arising directly from the project activity itself.

Financial Implications

42. It is estimated that the cost of the second stage of the project will cost the following:

- The indicative cost for Civica to undertake reconciling and resolving HMRC data with Fund data will be £310,000. This is based on the discrepancies identified in the delivery phase and cost estimate provided by Civica.
- The budget requirement for the cost of a Project Manager at Band B will be a maximum of £35228 if the project continues until the end of March 2019. If all of the work is completed earlier this will be reduced.

RECOMMENDATION

It is recommended that the Committee:

- 1) Approve the creation of the GMP Reconciliation Project and the allocation of the required resources as set out in the body of the report to ensure the Fund is able to meet its statutory requirements and the HMRC deadline for GMP data reconciliation.
- 2) Agree to receive regular update reports as set out in the body of the report.

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Constitutional Comments (KK 12/02/2018)

43. The proposal in this report are within the remit of the Nottinghamshire Pension Fund Committee.

Financial Comments (KP 13/02/2018)

44. The financial implications are set out in the report.

HR Comments (GE 27/2/18)

45. The requirements for additional internal staffing resources are set out in the report to Personnel Committee.

Background Papers and Published Documents

- National Audit Office Report – Report of errors in Guaranteed Minimum Pension Payments 16 July 2009. <https://www.nao.org.uk/wp-content/uploads/2009/07/0809878.pdf>

Electoral Division(s) and Member(s) Affected

- All