

**REPORT OF SERVICE DIRECTOR – CUSTOMERS, GOVERNANCE AND  
EMPLOYEES****LOCAL GOVERNMENT PENSION SCHEME - GUARANTEED MINIMUM  
PENSION (GMP) RECONCILIATION EXERCISE WITH HMRC****Purpose of the Report**

1. The purpose of the report is to update the Pension Committee of the progress of the GMP Reconciliation Project.
2. That members consider whether there are any actions they require in relation to the issues contained within the report.

**Information****Background**

3. Members will remember the decision in relation to the development and implementation of a project in order to ensure that the Pension Fund is able to complete its requirement to reconcile Pension Fund Data with HMRC Data. This is a national requirement initiated by HMRC, which will affect all Public and Private sector Pensions Funds who were contracted out of the additional state pension.
4. 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.
5. 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.

6. 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.
7. 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.
8. 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**

9. 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.
10. To clarify the main reasons funds are required to carry out the GMP reconciliation are to ensure that GMP benefits are accurate, and that liabilities are correctly recorded, along with compliance with the Pension regulator's data quality checking guidance, as well as provide for more accurate actuarial valuations.
11. There are 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)

### **Update on Project Activities**

12. Following the agreement of a project budget at the 8 March, Pensions Committee a project Manager was appointed in April 2018 to coordinate the work of Civica and the Fund in undertaking the reconciliation of pension member's data with HMRC. A Project Board has been established and a project plan has been drawn up and agreed.
13. In order to monitor progress of the project plan the project team have a bi weekly telephone conference with the CIVICA Project Manager where he updates the project team on progress

of the activities. The meeting also reviews the risks and issues that have been identified over the previous weeks and what actions have been taken to mitigate the risks identified.

14. In terms of actual progress, the reconciliation of the data is well underway, with data having been submitted to HMRC for 97% (49327) members who have initially been identified as requiring their data to be queried with HMRC.
15. The reconciliation activity has been undertaken using the HMRC automation schedules, which have been allocated to pension funds for particular dates up until October, using this methodology HMRC, are automating the matching of data as much as possible.
16. Civica have reported positive response rates to the data submitted to HMRC.
17. The manual investigation into member records where issues with data have been identified as potential queries has commenced. The methodology being employed is that a sample 15% of cases are being reviewed initially per data category. The project team will then need to make a decision based on appetite for risk and on a cost benefit analysis on the total numbers within each category to investigate.
18. Given the activities currently undertaken and the responses received from HMRC at present, the Project is on target to meet the HMRC deadline of 31 October for the submission of all queries with HMRC.

### **Next Steps**

19. Following a project Board meeting with Civica to discuss the outcome of the initial 15% investigations, the project Board have accepted the recommendation to undertake a further 991 investigations in order to prove the Pension Fund does not hold the liability for these members.
20. It was also agreed that a sample of 141 investigations be completed to determine that the members do not have a GMP with the fund.
21. Once the Project Board have the results of the 141 investigations consideration will need to be given on a cost benefit analysis of increasing the sample to obtain more confidence if felt necessary in the expected results.
22. Once HMRC have responded to all the data already provided to them, further analysis will be carried out by Civica to determine whether a further query is necessary with HMRC, if not required the agreed GMP liability will be loaded onto the pension fund administration system. This will then enable the necessary calculations to be undertaken to determine the correct GMP is in payment, and whether any over or under payments have occurred.

### **Other Options considered**

23. Other options were considered as part of the Committee Report of 8 March Pensions Committee, and this is an update report on the progress of the GMP reconciliation Project.

### **Reasons for Recommendation**

24. That the project is currently on track to complete the data investigation stage of the project by 31 October 2018.

## **Statutory and Policy Implications**

25. 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**

26. 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**

27. The estimated costs for the second stage of the project are currently as follows:

- The indicative cost for Civica to undertake reconciling and resolving HMRC data with Fund data will be £310 K. This is based on the discrepancies identified in the delivery phase and cost estimate provided by Civica.
- The current spend to date is within budget.

## **RECOMMENDATION**

It is recommended that the Committee:

- 1) That the Pension Fund Committee members consider whether there are any actions they require in relation to the issues contained in the report.
- 2) Agree to receive a further update at the October committee meeting.

**Marjorie Toward**

**Service Director – Customers, Governance and Employees**

**For any enquiries about this report please contact:**

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**Constitutional Comments (KK 26.06.2018)**

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

**Financial Comments (KP 04.07.2018)**

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

**Background Papers and Published Documents**

None

**Electoral Division(s) and Member(s) Affected**

All