

SOUTH YORKSHIRE PENSIONS AUTHORITY

LOCAL PENSION BOARD

4 October 2018

GUARANTEED MINIMUM PENSION (GMP) RECONCILIATION

1) Purpose of the Report

To update members on the progress of the exercise to reconcile GMP records between SYPA and HM Revenue and Customs (HMRC).

2) Recommendations

Members are recommended to note the progress made to date and the potential implications for certain members once the reconciliation exercise is complete.

3) Background Information

3.1 Members may be aware of the existence of this exercise which has been ongoing for 'contracted-out' pension schemes for some time but the following serves as background information to provide context as to the purpose of the reconciliation process.

3.2 The 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, each qualifying member would have accrued an additional state pension up to 6 April 1997 under the SERPS arrangements, funded by National Insurance contributions. A condition of this contracted out status was that the pension scheme maintain a record of an individual member's accruing guaranteed minimum pension (GMP).

3.3 This GMP value is designed to be broadly equivalent to the SERPS benefit that the member would have accrued, had they not been contracted out. The GMP value is usually included as part of, and not an addition to, the member's overall LGPS pension. However, the value of the GMP becomes relevant once a member reaches state pension age and their LGPS pension is in payment because responsibility for paying any annual (inflationary) increases on the GMP element is shared between the pension scheme and the Government. Any GMP increases due from the Government are paid as part of the member's state pension.

3.4 Contracting out was abolished from 6 April 2016, coinciding with the introduction of the new Single Tier State Pension. As a result of this pension schemes will no longer be provided with notification of GMP entitlement which would previously have come from HMRC. HMRC are providing a one-off service to enable Schemes to reconcile the GMP figures they hold with those held by HMRC; this is called the Scheme Reconciliation Service (SRS) and is currently scheduled by HMRC to cease in December 2018.

4) The Reconciliation Process

4.1 The reconciliation process, broadly, has three 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

5) Current SYPA Progress

5.1 In common with many LGPS funds, SYPA previously appointed a specialist data analyst, ITM Ltd, to work with the Fund and handle the majority of Stages 1 and 2 of the reconciliation process.

5.2 The Stage 1 analysis revealed significant mismatches between HMRC and SYPA 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.

5.3 The work on Stage 2 of the Reconciliation is continuing and there are significant numbers of queries ITM have raised with HMRC on behalf of SYPA which remain outstanding. The number is approximately 25,000 in total, though many will be resolved by bulk resolution in time. This is a common experience amongst LGPS funds and, although HMRC have made efforts to increase resourcing in this area, it is difficult to envisage that they will have resolved all outstanding queries by 31 December 2018. The assumption is that this deadline may need to be extended.

6. Impact on scheme members

6.1 Working with ITM, SYPA prioritised the reconciliation work for pensioners who had already reached state pensions age because these are the members whose pensions in payment will potentially be directly impacted by any mismatch between SYPA and HMRC records in terms of an underpayment or overpayment of pension.

- 6.2 A significant number of pensioners GMP queries are still outstanding as a result of queries raised with HMRC but the table provides an indicative summary of the likely 'known' cases to date which are expected to be taken forwarded to Stage 3 (rectification).

Summary of Identified Cases to Date

Total members with past UNDERPAYMENT	105
Total estimated past UNDERPAYMENT	£66,433
*Top 12 members account for 81% of total past underpayment	
Total members with past OVERPAYMENT	260
Total estimated past OVERPAYMENT	£210,500
*Top 31 members account for 74% of total past overpayment	

- 6.3 It should be noted that the estimates shown above are only a 'point in time' summary pending the further results expected from Stage 2 and are based on the assumption suggested by HM Treasury that only GMP values where the difference between SYPA and HMRC figures is more than £2 per week will be subject to rectification.

- 6.4 HM Treasury have also indicated that funds should seek to repay any underpayments to pensioners but should not seek to recover past overpayments. Rather, that they should seek only to pay the correct reduced pension going forward. This will be a decision for the full Authority once Stage 2 of the reconciliation process is complete. It is likely that the outcome of the reconciliation process will not be known until Spring of 2019 at the earliest, based on HMRC response times to date.

7. Next Steps

- 7.1 ITM are continuing to work with SYPA to manage the remainder of Stage 2 of the reconciliation process which includes completing the reconciliation for active members as well as handling responses from HMRC in respect of queries previously raised for deferred and pensioner members.
- 7.2 Progress of the significant numbers of outstanding queries will continue to be monitored and reported to the Board until such time as the Stage 2 reconciliation is complete.
- 7.3 Stage 3 of the reconciliation (rectification) involves a series of complex calculations where the pension amounts have to be 'wound back' to State Pension Age in order to identify the true under/overpayment and these can be impacted by any periods when the GMP was not applied for differing reasons (e.g. if the member had delayed payment of their

state pension for example). SYPA will analyse whether further external support is required to assist with the rectification process once Stage 2 is complete.

8) Implications and risks

- Financial – There are potential implications for members and the SYPA Fund but these cannot be quantified until Stage 2 of the reconciliation process is complete.
- Legal – None at this stage. Most LGPS funds have not yet initiated Stage 3 of the reconciliation process (rectification) but it may be possible that any legal challenge to rectification from scheme members will impact the wider LGPS sector.
- Diversity – There are no diversity implications.
- Risk – The completion of the GMP reconciliation exercise remains on the SYPA Risk Register as failure to complete the process could result in an inappropriate GMP liability being retained by SYPA.

Officer Responsible: Jason Bailey
Post: Head of Pensions Administration

01226 772954
jbailey@sypa.org.uk

Background papers used in the preparation of this report are available for inspection at the offices of the Authority in Barnsley.