

<b>Subject</b>	<b>Guaranteed Minimum Pension Rectification Policies</b>	<b>Status</b>	For Publication
<b>Report to</b>	Authority	<b>Date</b>	9 <sup>th</sup> December 2021
<b>Report of</b>	Director and Head of Pensions Administration		
<b>Equality Impact Assessment</b>	Not Required	Attached	No
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## 1 Purpose of the Report

- 1.1 To secure approval for policies to be followed in implementing the rectification of Guaranteed Minimum Pensions (GMP's) in payment following completion of the reconciliation exercise.
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## 2 Recommendations

- 2.1 Members are recommended to:
- a. **Note the position that has been reached in the GMP reconciliation exercise as set out in this report.**
  - b. **Approve the implementation of the policies outlined in paragraph 5.5 in relation to the rectification of GMP's already in payment.**
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## 3 Link to Corporate Objectives

- 3.1 This report links to the delivery of the following corporate objectives:

### **Customer Focus**

To design our services around the needs of our customers (whether scheme members or employers).

### **Effective and Transparent Governance**

To uphold effective governance showing prudence and propriety at all times.

## 4 Implications for the Corporate Risk Register

The GMP reconciliation process remains an identified corporate risk. The agreement of the policies outlined in this report allows the completion of the rectification exercise which will complete this element of the work required in relation to GMP's and allow

the current risk to be removed from the risk register. There are other potential risks around GMP's in terms of potential gender equality issues but it is not clear how and when they will be dealt with in terms of the scheme regulations so for the moment these are not identified as risks as the scale of the issues involved and potential solutions cannot effectively be quantified. Clearly there are also reputational issues which remain where pensions in payment are being reduced and while the Authority will seek to communicate as clearly as possible to scheme members around these issues actioning these changes is a regulatory requirement and this is a risk that cannot be mitigated further.

## **5 Background and Options**

- 5.1 The Coalition Government made reforms of the state pension system to introduce what is termed the "Single Tier State Pension". This replaced the basic pensions and the State Second Pension (S2P or SERPS). Members of occupational pension schemes such as LGPS were opted out of the State Second Pension as a result of which their National Insurance Contributions were adjusted. However, in order to ensure that members of occupational schemes were treated no less well than members of the state scheme there was a requirement for individuals to receive a Guaranteed Minimum Pension (GMP) as part of their benefits. The main impact for scheme members historically is that responsibility for annual index-linking on the GMP element was in certain circumstances split between the fund and HMRC . The creation of the new single tier state pension resulted in the abolition of "opting out" for members of occupational pension schemes and therefore it became necessary to reconcile the records held by HMRC with those held by pension funds to ensure that individuals were receiving the correct GMP benefit and then address any anomalies.
- 5.2 It is fair to say that this has been a long and tortuous process for all concerned made more complicated by the challenges presented by the timescale over which the reconciliation exercise needed to take place.
- 5.3 SYPA commissioned ITM, an experienced data management provider, in 2017 to undertake this work, recognising both the specialist nature of the task and the lack of spare capacity within its own staffing resources to carry out such a large and specialist one off task. ITM have now reached the stage where they are in a position to make amendments to both benefits in payment and the benefit entitlements of individuals who have yet to retire. The table below summarises the position.
- 5.4 It should be emphasised that the cases of historic under and over payments identified are the result of the complexities of the regulations combined with differences between SYPA and HMRC records and not as a result of anything done by individual scheme members.
- 5.5 The Authority needs to determine its policy in relation to adjusting benefits already in payment. The proposed policies are set out below and reflect practice adopted by other administering authorities and supported by the LGA.
1. For cases where the scheme member will benefit from an increase in the amount in payment the increase should be paid together with arrears from the date at which

the pension went into payment [plus interest calculated in line with the arrangements set out in the LGPS regulations]

2. For cases where the scheme member will see a reduction in the amount in payment the reduction will be applied after notice has been given, and no attempt will be made to recover any historic overpayment on the grounds that this is likely to be impractical and disproportionate given the relatively small amounts generally involved.
3. For cases where the difference between the fund's GMP amount and HMRC records is less than £2 per week, no adjustment to be made. This is in line with advice from HM Treasury issued to all public service pension schemes in 2016.

5.6 To ensure appropriate transparency once ITM have completed the work of implementing the rectification exercise the Authority will be asked to approve the write off of the amounts not to be recovered from scheme members who had previously been overpaid as a single block amount. This may include individual cases where it might not be appropriate for economical or circumstantial reasons to reduce the existing pension. This will have no impact on the accounts as the sum will not have been raised as a debtor but does ensure a clear audit trail for the process.

5.7 The intention is to complete this rectification exercise by July 2022 in order to provide as clean as set of data as possible for the valuation and also ahead of the McCloud rectification process as it is highly desirable that the two processes do not become intertwined.

## 6 **Implications**

6.1 The proposals outlined in this report have the following implications:

Financial	The costs of the reconciliation exercise have amounted to £162k with the rectification process planned to cost a further £92k. These sums have been met within the overall operating budget since 2017. It is estimated that the arrears to be paid amount to £71k plus accrued interest with an ongoing annual increase to benefits in payment of £10k. This is offset by a reduction in benefits in payment of £172k per annum and an estimated write off of £378k in irrecoverable overpayments.
Human Resources	None
ICT	None
Legal	The Authority is legally obliged to apply the results of the reconciliation once it has been carried out.
Procurement	ITM were appointed using the LGPS National Procurement Framework for Third Party Administration Services

**George Graham**

**Jason Bailey**

**Director**

**Head of Pensions Administration**

<b>Background Papers</b>	
<b>Document</b>	<b>Place of Inspection</b>