

**CYNGOR SIR POWYS COUNTY COUNCIL**

**Pension Board  
8<sup>th</sup> November 2019**

**REPORT BY: Board Secretary**

**SUBJECT: Cessation of Contracting Out / GMP Reconciliation Project**

**REPORT FOR: Information**

**1. Introduction**

1.1 As requested by Board at the September 2019 meeting, this report provides an update on the progress of the Guaranteed Minimum Pension Reconciliation project.

**2. Background**

- 2.1 This exercise is a national requirement initiated by HMRC, which will impact all Public and Private sector Pensions Funds who were contracted out of the additional state pension (also known as the State Earnings-Related Pension (SERPS) or State Second Pension (S2P)).
- 2.2 Up until April 2016, contributing members of the Local Government Pension Scheme (LGPS) paid lower rate, Category D National Insurance contributions, as they were “contracted out” of the additional state pension. LGPS employers also paid reduced rate National Insurance contributions in respect of their employees who were members of the LGPS. Contracting out ended from 6 April 2016 as part of the Government’s introduction of a single tier basic state pension.
- 2.3 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.
- 2.4 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. 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.
- 2.5 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.

### **3. Reasons to carry out a GMP Reconciliation**

3.1 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 significant.

3.2 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

3.3 There are also significant risks to the Pension Fund if reconciliation activity is not carried out, which 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

### **4. The Reconciliation Process**

4.1 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 investigations have discovered) 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.

4.2 In order to progress the reconciliation exercise and for the Pension Fund to understand the impact of the reconciliation process the Fund has engaged ITM, a data specialist to help with the three stages of the process.

#### **4.3 Stage 1 – Data Comparison**

This stage involves a comparison of the GMP data held on the Fund's administration system, to that which HMRC holds.

Status – Completed

#### **4.4 Stage 2 – Reconciliation**

This Stage involves reconciling the GMP data with HMRC and agreeing application of GMP.

Status – Completed

#### 4.5 Stage 3 - Rectification

This is the stage where pensions are rectified where required in respect of the GMP corrections. This will involve testing data, correcting benefits and communicating with members.

Status – Ongoing. Currently in the data testing stage. This is expected to last until the end of January 2020, after which we will enter the live phase with a view to completing the project by the end of June 2020.

#### 5. Recommendation

Note the content of the report.