

North Yorkshire County Council**Pension Fund Committee****14 SEPTEMBER 2017****Cessation of Contracting Out - GMP Reconciliation****1.0 Purpose of Report**

- 1.1 Approval is requested to fund a comprehensive project to reconcile Guaranteed Minimum Pension (GMP) values held on the Pension Scheme administration system, Altair, with the values held for our scheme members on Her Majesty's Revenue and Customs (HMRC) records.

2.0 Background

- 2.1 The Local Government Pension Scheme (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, then each qualifying member would have accrued an additional pension up to 6 April 1997 under the SERPS arrangements, funded by their National Insurance contributions. A condition of this contracted out status was that the pension scheme maintains a record of an individual member's accruing GMP. This value is designed to be broadly equivalent to the SERPS benefit that the member would have accrued, had they not been contracted out.
- 2.2 There are complex regulations regarding annual inflationary increases to the GMP pension element and the dates at which it becomes payable to the scheme member. The Government decided that with effect from 6th April 2016 contracting out would be abolished, coinciding with the introduction of the new Single Tier State 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 will cease in December 2018 after 5 years of operation.
- 2.3 It is essential therefore to reconcile the GMP element recorded on Altair with that held on the HMRC system, to ensure that qualifying pensions coming into payment, together with qualifying pensions already in payment, are paid at the correct amount in line with the Statutory Regulations governing the administration of the LGPS. This will ensure the liabilities of the scheme, so far as GMP values are concerned, are represented accurately at each future valuation.

3.0 Potential Outcome of the Project

- 3.1 GMP values have been maintained on the two operating systems (HMRC & Altair) since SERPS was first introduced in 1978. Experience to date shows that when reconciling the values of GMPs on an individual basis there will be large numbers of discrepancies present in the administration data. The reasons for this are varied and numerous.
- 3.2 A detailed report by the National Audit Office conducted in July 2009 examining the records of 5 Public Service Pension Schemes (PSPS) excluding the LGPS, reached the conclusion that the administration arrangements for GMPs, involving five Government Departments and all contracted out schemes, was systemically failing. There was little cooperation between the various interested bodies, GMP notifications were not being issued, were being sent to the incorrect schemes or were for incorrect amounts. Where a person reached State Pension Age (SPA) the pension scheme may well have had no record of a GMP entitlement. The report contained estimates of the likely levels of over and under payments resulting from the failings of the GMP administration arrangements. Approximately 95,000 pensioners were being overpaid to the sum of £126m, whilst just under 5,000 were being underpaid to the sum of £191k.
- 3.3 It is clear from this report and experience of administering authorities more recently that the outcome of the proposed reconciliation project is likely to identify significantly larger numbers of overpayments compared to the number of underpayments. It is for this reason that it is important to undertake the reconciliation project, in order to adjust both over and under payments going forward.
- 3.4 Alongside the issue of paying pensions incorrectly there is also the issue where the scheme and HMRC do not agree on which members actually have a GMP. HMRC will have records attached to the scheme which we have no record of or which are no liability, and the scheme will have records the HMRC does not have.
- 3.5 The reconciliation will ensure that the scheme is paying the correct level of benefit at the correct time, and that the liabilities of the scheme are correctly reported at each valuation.

4.0 Extent of Work

- 4.1 The first stage of such a project is to extract a complete report of all GMP values on Altair and compare that to a full extract of the HMRC records to identify the level of inconsistencies in the two databases. The next step is to investigate the

discrepancies and categorise them into those cases that warrant further investigation and those that can be ignored.

4.2 We have been able to source a free initial analysis of our data and headline figures from that initial stage are shown below.

Circa 77,000 Altair records have been compared to HMRC records:

Issue	Approximate Numbers Affected
Complete match – No further action	20,000
On Altair not on HMRC	15,500
On HMRC not on Altair	10,000
Single discrepancies relating to dates	12,300
Single discrepancies relating to amounts	1,100
Multiple discrepancies	12,000
Total Discrepancies	50,900

4.3 The work involved in the initial comparison, research of appropriate cases, rectification of errors and communicating with members is significant and time consuming. The complex nature and size of the issue means that many administering authorities have decided that undertaking the exercise in-house is not achievable. Indicative resource requirements from within the pensions industry are shown below:

- Private sector scheme with 120,000 members – 4 people for 3 years
- Public sector scheme with 110,000 members – 5 people for 2 years

4.4 As we are unable to realistically resource this in house and now have insufficient time left before HMRC closes its GMP enquiries and support function we will need to engage a 3rd party who has expertise and experience of undertaking this work for other pension schemes. Appointing a specialist to deliver the reconciliation project allows the in-house Pension Team to concentrate on the ever increasing levels of work on a day to day basis.

5.0 Financial Justification of Outsourcing the Project

5.1 The nature of the project means that suppliers specialising in the cleansing, extraction, comparison and classification of data offer services to assist administering authorities. A number of these companies were vetted and compared for the provision of administration support services, following which a number were selected by Norfolk County Council Framework to offer to undertake these projects on behalf of LGPS administering authorities. Their solutions are consistent with the process proposed by HM Treasury.

- 5.2 Based on experience to date of GMP Reconciliations for LGPS funds it is likely that the project will uncover past overpayments to the extent of £250k per 10,000 pensioner and dependant members of the Scheme. Given the fund currently has approximately 8,000 pensioner and dependant members, it is likely that the project will identify past overpayments in excess of £200k to date – a sum which will naturally increase at a significant rate should the necessary corrections not be applied.
- 5.3 There will also be a number of cases with underpayments which will offset the overall impact of the overpayments, however, based on experience to date, the numbers will be consistently much lower than the overpayments.
- 5.4 Alongside this the initial stage has identified circa 10,000 members who HMRC believe have a GMP liability in the scheme. If we are unable to identify these records or provide evidence of no membership there is the potential that the scheme will be required to accept the liability and create a GMP only membership. Indicative pension amounts for this category is currently £1.7 million per annum.
- 5.5 By using a specialist data analysis and management provider the scheme can benefit from the use of automated systems which have been developed and refined over the course of the past 4 years, reducing the timescales and costs as well as the burden placed on the in-house pension team. We can also benefit from an automated and fully audited data load back into both Altair and Resourcelink to correct member records.
- 5.6 Powys County Council completed their reconciliation in February 2017 and shared their key figures with the CLASS group as follows:
- 77% of discrepancies resolved automatically without Powys involvement
 - 15% of discrepancies awaiting response from HMRC and will require minimal input from Powys
 - Only 8% of discrepancies requiring administrator review

6.0 Cost of Outsourcing the Project

- 6.1 Based on the results of the initial data analysis we have received a quote of £230k for completion of the end to end project. This includes automated analysis and correction of the data, direct liaison with HMRC, full project management and detailed financial impact of rectification. In addition we have appointed a temporary pensions officer to undertake liaison with the 3rd party appointed and undertake any manual file investigation or information gathering that is required.
- 6.2 It is anticipated the project will last for 12 months.

- 6.3 The identification of the potential levels of overpayments and the potential GMP only liabilities justifies the cost of completing this exercise and commencement needs to be as soon as possible to enable completion within the remaining timeframe available.
- 6.4 In summary the one off cost of £230k of the project is outweighed by the potential savings of approximately £1.9 million which are on an ongoing basis and would increase each year in line with annual pension increases.
- 7.0 **Recommendations**
- 7.1 Members are asked to approve the expenditure required to complete this project.

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