

Date: 20th June 2019

Classification: General Release

Title: GMP Reconciliation Update

Report of: Sarah Hay Pensions Officer

Financial Summary: £235K potential cost.

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1. Executive Summary

- 1.1 This report gives background on the current GMP reconciliation exercise and asks for approval to make pragmatic decisions on outstanding discrepancies to move the project to a conclusion.

2. GMP Reconciliation

- 2.1 Guaranteed Minimum Pension (GMP) notifications have been issued by the Government previously in respect of contracted out service up to 1997. The value of the GMP was the minimum level of pension that had to be paid to an individual in respect of any period they were contracted out of National Insurance. This was meant to be equivalent to the additional state pension the individual would have earned if they were contracted in. Most pensions in the LGPS exceeded the GMP but it's value does impact pension increase application.
- 2.2 HMRC has given notice that it is closing down the section that issues GMP notifications. As a result all bodies with GMP liabilities have had to undertake a GMP reconciliation exercise to match the outstanding liabilities the Government say are with them to the funds own records.
- 2.3 Over the last 10 months Surrey have been working with JLT to review and resolve where possible any GMP queries for the Westminster Fund. For Westminster 80% of the membership queries have been dealt with, which accounts for 16,211 queries. 96% of GMP values are matched which accounts for 17,044 queries.

- 2.4 We are now coming towards the end of the project and whilst there are some cases that are still being resolved the fund will need to make some practical decisions on remaining discrepancies. There are 5882 cases as at May to review.
- 2.5 There are three types of query. Firstly, the record sits on our administration system but the National Insurance Services to Pension Industry (NISPI) do not hold a record of this liability. The Recommendation is that the Fund accept that the administration records are correct. There are 133 records in May that match this type and could be caused by a number of issues including a transfer coming into the fund not being correctly recorded, updating that our fund has taken on the GMP. To make any other decision for these people would be to risk complaint that the fund was not making full payment to the member that our own administration records indicate and would risk regulator or ombudsman rebuke and possible penalty.
- 2.6 Secondly, NISPI have a GMP record with WCC and we have no matching administration record. There were 123 of those in May. This could be where the individual has transferred out to another provider and the liability moving has not been recorded correctly. It maybe the liability sits with the Teachers Pension fund and not the LGPS fund as this has been a common error in the past.
- 2.7 Third is where service dates between NISPI and the administration system do not match. There are 143 of these as at May. The recommendation is that we accept the administration records as accurate as this is what members have recorded in their annual benefit statements. Queries could be due to opt in and out of the scheme and backdated payroll processes or where people have had nil pay periods and brought service back afterwards. Again the recommendation is we accept the administration records as correct. Any other approach particularly if this reduced a pension entitlement would risk complaint and possible penalty.
- 2.8 Although the reconciliation is continuing when the HMRC closes down responses, the Fund will effectively be left with any liability that has not been reassigned. The worst case estimate is that this could mean the Fund picking up an additional £235,035.84 worth of GMP liabilities where we don't have a record on our system that matches.
- 2.9 Where we don't have an administration record the recommendation would be that we set up a dummy record just to record the GMP under a separate employer. When HMRC close down the NISPI system any GMP allocated to our fund will be available to members who search via the HMRC portal. Not everyone is likely to view the portal or contact us particularly if they know that they have pension with another provider like the Teachers Pension Scheme.
- 2.10 Where someone does contact us in the future we need to be in a position where we can review the members enquiry and match what they say against

our records. Where we just record a GMP liability as per the recommendation above the individual would be expected to provide additional information before any payment commenced to them including evidence of employment with a fund employer. After review in each case a final decision would have to be made on an individual entitlement to payment. It maybe that none of the individuals that we record a GMP for as a result of this exercise ever have a payment from the WCC fund. Recording the GMP on the system allows for the actuary to take into account the possibility of making payment in the future and will make dealing with any of these people quicker than it would be if we don't record the records or rely on a spreadsheet or other database.

3. GMP Under and Over Payments.

- 3.1 In addition to match GMP liabilities that have not yet been put into payment there has been work ongoing regarding GMP mismatches where there maybe an under or over payment. As indicated above, most LGPS pensions are at least equal to the GMP but the GMP can attract a different pension increase factor to the main pension. i.e. if the GMP was notified or input incorrectly it could lead to an under or overpayment. The Fund had already made the decision to ignore anything less than £2 a week in conjunction with other funds.
- 3.2 Where an underpayment has been identified, we are recommending that the pension is corrected and that any arrears are identified as due are paid. Where there is an overpayment it is recommended that the pension be corrected going forward but that the fund does not seek repayment of any sums due. This is in line with advice given by the Local Government Association (LGA). At the time of writing this report there is no known value for under or overpayments of GMP being notionally identified.

4. Recommendation

- 4.1 That where we have exhausted checks and reviews with HMRC on records up to the close down point, we will take the decision to rely on our own administration records. This is to reduce the risk of complaint and possible additional pension liability.
- 4.2 Where HMRC record that a liability sits with our Fund but we have no record we take steps to set up a dummy record for the GMP and review those records asking for evidence of entitlement at the time the member makes contact. Not recording the GMP in this way will cause the fund cost in dealing with queries over an extended period and could cause complaint. Hopefully we will not have any requests to pay a GMP where we hold no admin record but taking this action will prepare us if this does happen.
- 4.3 Where we identify an underpayment we take steps to correct the underpayment and pay arrears. Where we identify an overpayment we take steps to correct the pension but will not seek repayment of the overpayment.

If you have any questions about this report, or wish to inspect one of the background papers, please contact:
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