

# Pension Fund Committee

<b>Date:</b>	<b>29<sup>th</sup> November 2023</b>
<b>Classification:</b>	<b>GENERAL</b>
<b>Title:</b>	<b>LGPS Projects – GMP Project Update</b>
<b>Report of:</b>	<b>Diana McDonnell-Pascoe</b> Pension Project and Governance Lead, People Services
<b>Wards Involved:</b>	<b>All</b>
<b>Policy Context:</b>	<b>Service Delivery</b>
<b>Financial Summary:</b>	<b>None</b>

## 1. Introduction

The purpose of this paper is to update the Pension Committee on the Guaranteed Minimum Pension Project with respect to the rectification calculation results, the financial impacts of rectification on the Fund and pension recipients as well as to provide options for consideration and to ask the Committee for their recommendations.

In order to effect the changes to our members, we not only need to understand how our members and the Fund are both individually and generally affected by the changes; we also need to be aware of the wider national picture (this is a statutory project affecting all LGPS schemes in England and Wales), how other Funds may decide to effect the changes, the potential impact of decisions with LGPS Scotland and requests for guidance and appeal to the Department for Levelling Up, Housing and Communities (DLUHC) and how our decisions may be received by the Pensions

Ombudsman as well as the Media should there be widespread coverage of the project and negative impacts to members in receipt of their pension.

Therefore, I have set out this paper into sections explaining the data, how it is presented, what our initial findings through analysis are, what we know and don't know, what we consider are the options to proceed and what we want the Committee to discuss.

## **2. Guaranteed Minimum Pension Project**

### **2.1. End of Mercer Rectification Calculations**

I am pleased to tell the Committee that we have received the rectification data from Mercer Ltd and Hampshire Pension Services (HPS) have commenced their data validation exercise. I am also pleased to tell the Committee that Mercer have praised the Project Board format and have agreed that having a structured project was to the benefit of all.

As per my previous paper, I would like to highlight to the Committee that there are still rectification calculations to be completed on circa 400 member records that need manual review due to inconsistencies in and/or missing administration data. These records were descoped with agreement between Westminster, HPS and Mercer. I will be presenting a paper with costs on this at the Q4 Committee Meeting as we intend to review these in the next financial year after April 2024 pension increases.

#### **Note on calculations**

It is important to note that what is being rectified is only **one element** of the affected members' pensions i.e., the guaranteed minimum pension (GMP) element. What this means is that any changes to the GMP element may or may not result in an overall increase or decrease to pensions in payment.

Additionally, the changes will not be one common single value or percentage (e.g., they all receive a 10% increase or decrease) as each member will have an increase or decrease calculated on their specific record.

Therefore, to understand the impacts of this rectification exercise, we need to present the data (and the member records) in groupings so that we can make decisions depending on the significance of the changes.

## 2.2. How the Calculations are presented

As per their protocol, HPS have organised the data into groups by creating seven bands of changes.

We are aiming, where possible, to align our approaches with HPS and their methodology for their Fund scheme and the other Fund schemes they administrate for. The reasoning for this is twofold; we want to follow best practice where possible and eliminate the need for bespoke management of cases which could make administration more complex, and therefore costly, in the future.

<b>Group</b>	<b>Group Description</b>	<b># Members</b>
Group 1a	No change	365
Group 1	Decrease of £1 or less	4
Group 2	Decrease between £1.01 and £5	32
Group 3	Increase	45
Group 4	Decrease between £5.01 and £15	45
Group 5	Decrease between £15.01 and £50	58
Group 6	Decrease of more than £50	60
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The purpose of these groupings is to easily identify members who will have ...

**a) no change to their records (i.e., their pension payments won't change).**

➤ **Group 1a**

For Group 1a, there will be no changes applied to the members' pension payments and the group will be exempt from further work although the member records will be updated show they were part of the rectification exercise.

**b) been *underpaid* (i.e., the Fund owes them money) and will receive an increase in their pension payments as well as a single arrears payment.**

➤ **Group 3**

Group 3 will have their member records adjusted to the new value and will receive their increased pension payment and arrears payment with Pensions Increases (PI) in April 2024.

**c) been *overpaid* (i.e., they owe the Fund money) and will receive a decrease in their pension payments to a lesser or greater degree.**

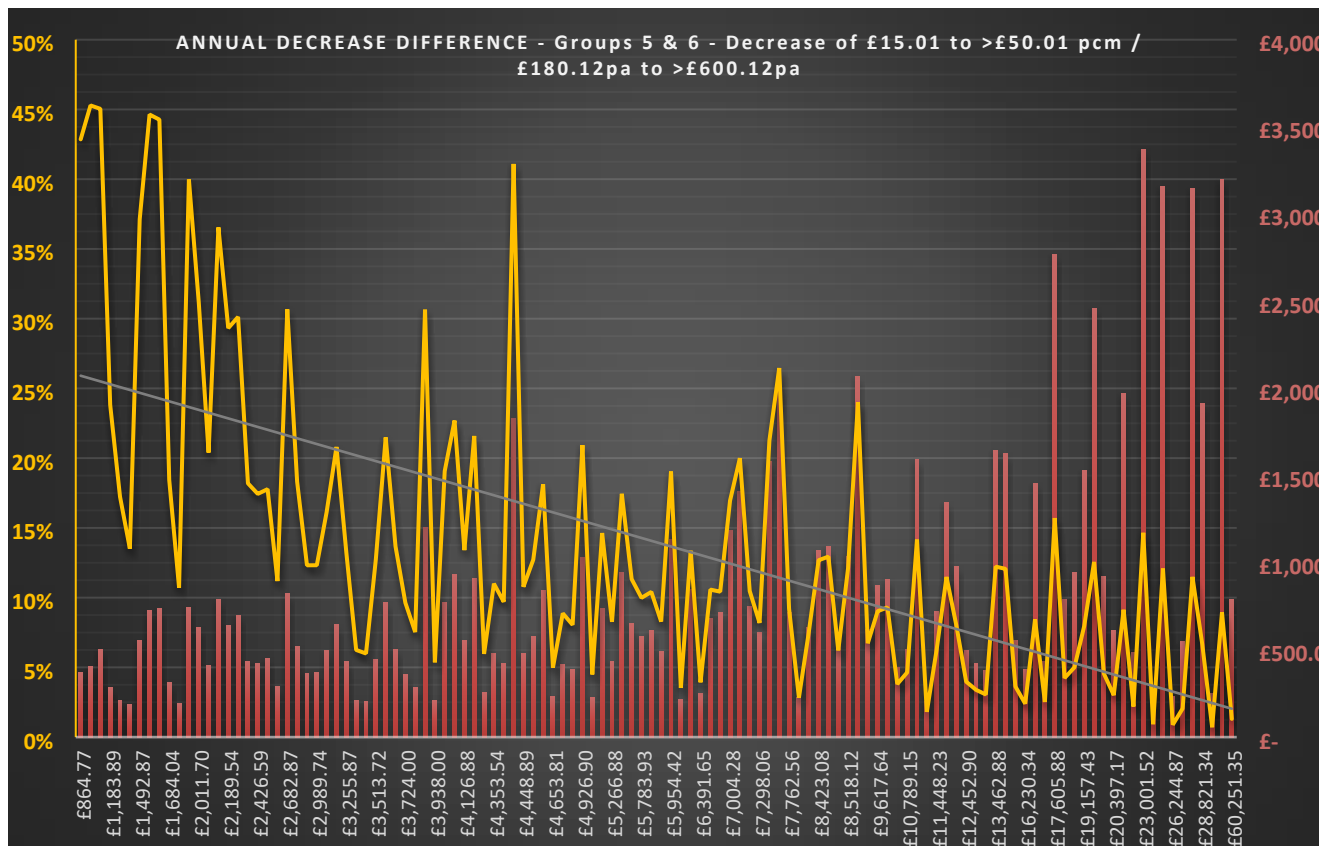
➤ **Groups 1, 2, 4, 5 & 6**

We have taken the position that we will not ask members who have been overpaid for reimbursement of historic overpayments. This is because any GMP errors are an administrative error dating back many years, not a member error, and the member could have not known they were being overpaid their pension. This position also mitigates the fact that in some cases, the decrease in the pension in payment is approx. 45%.

### 2.3. Initial Analysis of Rectification Calculations

Initial analysis of the rectification shows that, in the groups with the biggest monthly decreases, the greatest proportional reduction is in the pensions of the members with the smallest pensions in payment, i.e., a member with an annual pension of £ 889.36 has the greatest reduction proportion of 45.29% compared to a member with an annual pension of £ 60,251.35 who has a proportional reduction of 1.31%.

However, **this is a trend** and not a linear decrease (e.g., there are two members with a pension of approx. £30k (midway between the smallest pension and the biggest pension) each receiving a decrease of less than 10% and not 20% or more as you would expect if the decrease was linear).



### 2.3.1. Impact on Members in Receipt of Pension

To better understand the impact on our members, the financial and proportional impacts on the various groups are presented in the following tables. Please note that Groups 1a and 3 are effectively excluded from the tables because Group 1a are the group with no change to their pension payments and Group 3 are recipients of an increase not a decrease as shown.

Please also note that the financial and percentage figures are independent of each other e.g., the max annual financial figure in Group 6 – £3,369.91 does not represent the decrease of 46% in the percentage table.

While I accept that this is confusing, there has been little time since receipt of the initial analysis to conduct and write up a detailed scrutiny ahead of writing this paper. I will verbally update the Committee with more analysis on the impact to members.

Nevertheless, while perhaps the percentage table better informs us of the impact on the member in receipt of their pension, the financial table informs us of the sums involved which relates to the overall cost to the Fund in the next section.

Group	Decreases in Pensions £			
	Min Monthly £	Average Monthly £	Max Monthly £	Max Annual £
Group 1a	£ -	£ -	£ -	£ -
Group 1	£ -	£ 0.01	£ 0.85	£ 10.25
Group 2	£ 1.25	£ 2.42	£ 4.58	£ 55.01
Group 3	£ -	£ -	£ -	£ -
Group 4	£ 5.95	£ 9.42	£ 14.21	£ 170.49
Group 5	£ 15.67	£ 32.01	£ 49.80	£ 597.59
Group 6	£ 50.89	£ 102.62	£ 280.83	£ 3,369.91

Group	Decreases in Pensions %			
	Min Monthly %	Average Monthly %	Max Monthly %	Max Annual %
Group 1a	-	-	-	-
Group 1	<0.5%	<0.5%	<1%	<1%
Group 2	<0.5%	<1.5%	<13%	<13%
Group 3	-	-	-	-
Group 4	<0.5%	<6%	<30%	<30%
Group 5	<1%	<12%	<46%	<46%
Group 6	<1.5%	<17%	<46%	<46%

### 2.3.2. Financial Impact on Fund

Based on the figures received, I have created two tables. The first table gives monthly and annual costs to the Fund (without calculations for Pensions Increase which would increase the figures for the next Financial Year and beyond) should we continue paying the overpayments to the members whose rectification requires a decrease in their GMP element. As per the other tables, Groups 1a and 3 are not shown as they either represent no change or an increase in pension payments.

Group	Cost to the Fund (Overpayments) if pension not decreased		Comment
	Total Monthly Cost	Total Annual Cost	
Group 1a	£ -	£ -	No Cost
Group 1	£ 2.22	£ 26.61	
Group 2	£ 77.28	£ 927.36	
Group 3	£ -	£ -	See table below
Group 4	£ 423.79	£ 5,085.50	
Group 5	£ 1,856.63	£ 22,279.54	
Group 6	£ 6,157.39	£ 73,888.70	
	<b>£ * 8,517.31</b>	<b>£ * 102,207.71</b>	

*\*This figure is subject to pensions increases (PI) annually and would increase annually.*

The second table is solely on Group 3 – the group that have been underpaid and require an increase in their pension payment and arrears due to their underpayment.

The arrears payment is a single payment to the members that will be paid once in the next financial year.

Group	Cost to the Fund (Underpayments) for pensions increased		Comment
	Total Monthly Cost	Total Annual Cost	
Group 3	£ *2,009.99	£ * 24,119.83	This is a one-off
		£ ** 275,279.78	
	<b>£ 2,009.99</b>	<b>£ 299,399.61</b>	

\* This figure is subject to pensions increases (PI) annually and will increase annually.

\*\*This is the total combined one-off arrears (underpayment) payment to members.

### 2.3.3. Considerations

The purpose of the GMP project was to rectify erroneous GMP elements on members' records and ensure members received their correct pension payments for their retirements. It was always understood that some members' records would not change meaning their pension payments would remain the same, some members would be due an increase plus underpayment arrears and the remaining members would receive a reduced pension payment because they had been overpaid to date and that we would not claim overpayments arrears as a gesture of goodwill.

Having conducted the initial analysis on the rectification calculations, it is evident that the overpayments are costing the Fund a large sum of money each year. Equally, this is a statutory project to correct data quality in pension records and as such we must make the rectifications. However, and just as importantly, it is also right to acknowledge that the reductions required will, in general, significantly impact members in receipt of smaller pensions and greatly reduce their income which may in turn substantially reduce their circumstances.



With that in mind, some points for consideration include:

1. Depending on their circumstances, a large decrease in pension could push some of our members into poverty. However, without speaking individually to each member, we cannot confirm that this would happen as all member finances are personal to them and they may have other income from elsewhere.
2. We cannot assume all members are or have been Westminster residents. We know that some will have been and may still be, but this will not be true of all members. We can check addresses where required.
3. LGPS Scotland are requiring Funds to make a balancing shortfall payment to pensioners who have had a decrease after GMP rectification to ensure their overall pension payments don't change and they receive PI as normal.
4. One or more Funds are in the process of writing or have written to DLUHC for clarification and guidance on balancing payments for LGPS England and Wales. It may be that DLUHC legislate the same as LGPS Scotland.
5. Funds may receive complaints which could go on to the Ombudsman who may make recommendations for all LGPS Funds.
6. It is possible that the project in general will become newsworthy, particularly if there are large numbers of complaints to the Ombudsman from various Fund schemes and/or the media and consequently our Fund and Fund decisions may receive enhanced scrutiny.

There may be other considerations that will develop as we conduct further analysis but any more would be further speculation at this point.

#### 2.3.4. Options

As per our discussions with HPS, we are proposing some options for consideration.

1. **Do not make any changes to the member records and knowingly pay incorrect pensions.** We do not advise this course of action.
2. **Correct the member records but put in place a balancing shortfall payment which will ensure the member continues receiving their payments as if nothing has changed.** This course of action will perpetuate the cost of overpayments to the Fund for each member until the member deceases. The cost will increase each year with Pension Increases. With this course of action, we would need to do further investigation as to the longer-term costs to the Fund and discuss with the Actuary how this would impact the Fund with respect to longevity and mortality and if it would affect Valuation.
3. **Correct the member records but keep the current pension amount in payment. Calculate Pensions Increases (PI) each year as normal but retain the PI amount until the shortfall is made up.** This course of action will cease any future overpayment and ensures the member does not receive a decrease in their pension payment immediately thereby not impacting their circumstances negatively. Although the current overpayment is retained, we recoup monies owed by retaining their PI each year until their account “breaks even” (i.e., until the total PI retained equals the overpayment) at which point we cease withholding PI, and it is added as normal and the pension in payment increases. This is our preferred course of action; however, we would need to investigate further to ensure it is lawful and practicable. Additionally, we would need to work out an estimate of the costs involved.

4. **Correct the member records and reduce the pension in payment.** This is the straightforward outcome from the results of the rectification calculations but doesn't mitigate any significant reductions to the member.

#### **2.4. Next Steps**

We have completed our contract with Mercer Ltd, subject to Hampshire Pension Services (HPS) signing the milestone achievement to say that they are satisfied with the data provided. We will conclude our business with Mercer on 12<sup>th</sup> December 2023 at the November GMP Project Board (held in December to accommodate annual leave at Mercer Ltd).

We will conduct further analysis with HPS on the calculation data and the impact that will have on our members, particularly those members with significant reductions in their pension payment which may make them vulnerable. I would like to highlight to the Committee that although we will be able to get some extra data such as date of birth, address etc., we will only be able to create sets of data with potential indicators of vulnerability due to the fact that we will not know our members' finances in detail, and we will not be able to say categorically who will be pushed into poverty if their pension payment is decreased substantially.

The GMP Project Boards will continue monthly from December with particular emphasis on our Communications and Media strategy and detailed focus on how we will be communicating with members with changes. We will also be creating a timeline of payments so that we ensure we give sufficient notice to groups before we make any changes to their pensions in payment. We have invited Comms and Media teams from Westminster City Council (internal Comms, External Comms, Strategic Comms and the Press and Media office) and Hampshire Pension Service to join the Project Board so that we can craft and evaluate our communications appropriately.

Subject to the Committee's agreement on which option we pursue, we intend to push forward with contacting groups 1, 2, 3 and 4, in either December or January to let them know that their pension payments will be changed and why and then the changes will be put into effect on their records during the February 2024 payroll run so that the correct Pensions Increases (PI) can be calculated for April 2024.

For groups 5 and 6, we will pause any changes until after April 2024 PI so that we can give either give enough time to members to prepare for their decreases (if we just implement the reductions) and/or give enough time to HPS to conduct any calculations for either retaining PI going forward or making a balancing shortfall payment. Either way, these two groups will require specific monitoring and we need to implement any changes carefully.

In summary, this project will continue into next year, but we can finally make decisions with clean data, move forward with the rectifications, and correct our member records. This is a very positive move for the scheme, and we look forward to putting the solutions in place.