



Pensions Board

2 July 2015

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| Report title | Data Quality and the Cessation of Contracting Out – GMP Reconciliation | |
| Originating service | Pension Services | |
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Recommendations for noting:

The Pensions Board is asked to note:

1. The importance of holding clean data and steps taken by the Fund to improve data quality.
2. The activity underway to scope and understand the work involved in the reconciliation of GMP records held by HMRC and the associated risks of not completing this project.

1.0 Purpose

1.1 The Fund is implementing procedures to ensure optimum data quality is embedded with its administration system and associated records. This is so as to improve efficiency and comply with the Pension Regulator's (tPR) closer scrutiny in this area applied with effect from April 2015. One such element of this process and a significant one, is the end of contracting-out and in particular the requirement to undertake a Guaranteed Minimum Pension (GMP) reconciliation which will require significant work and resourcing from the Fund with implications if it is not carried out.

2.0 Background

2.1 Data Quality

The Fund has always placed the retention of good quality data high on its list of priorities, however renewed emphasis has been placed upon this area with the publishing of tPR's code of practice 14 "Governance and administration of public service pension schemes" in April 2015. This document outlines the closer scrutiny which will be placed on the data held by public sector pension schemes by tPR and states:

"Scheme managers for all pension schemes should establish and operate internal controls that regularly assess the effectiveness of data management and record-keeping"

2.1.2 TPR considers administrative data held by public sector schemes into two sub-sectors as follows:

| Data item | Purpose | Recommendation | Method |
|-------------------------|---|--|---|
| Common data | To uniquely identify a member. | All data fields should be populated. | Measurement. The data and the tests are specified by tPR |
| Conditional data | To provide a view of the data required for the effective administration of the scheme, and to allow providers or trustees to measure changes in the data over time. | The presence of the conditional data required to administer a scheme is known. Where necessary, action plans are put in place to improve conditional data. | Scheme-specific measurement. The methodology is recommended by tPR but the actual data and the tests are specified by the trustees/provider. |

2.1.3 As outlined above, the tests for common data held by the Fund is set by tPR. The targets for the standard of common data recommended by tPR is as follows:

- For new data created after June 2010 – 100%
- For legacy data (created before June 2010) – 95%; this lower level is in recognition that many schemes will have greater difficulties with older data.

2.1.4 Failure to comply with tPR's standards is classed as a breach and could result in a fine being imposed where no action is taken. In order to comply with the tPR's standards the Fund has set itself a target of 100% for common data, where possible.

2.1.5 The retention of good quality data is more than simply about complying with tPR standards, with a number of benefits being associated as follows:

- More accurate valuation and accounting standards results, which in turn affect employer contribution rates and liabilities.
- Reduction in the number of queries employers have to address from the Fund when the annual end of year return is processed
- More efficient processing of members' benefits at key points, such as retirement
- Members have the opportunity to make a more informed choice on what is best for them if the options presented to them are based on good quality data
- Increase in the number of Active and Deferred Benefit Statements which can be issued.

2.2 **GMP Reconciliation**

Contracting out of the state second pension (formerly SERPS) on a Guaranteed Minimum Pension (GMP) basis operated between 1978 and 1997. However, in April 2016 the Government is replacing the earnings-related state pension arrangements with a single-tier State Pension.

2.2.1 The introduction of the single-tier state pension from April 2016 will bring about the end of contracting out for defined benefit (DB) schemes and has triggered a requirement for schemes to reconcile their contracted out membership and GMP records with those held by HM Revenue & Customs (HMRC).

2.2.2 GMP reconciliation allows administrators to check their contracted out records against those held by HMRC, resolving any differences between the two sets of records. HMRC have set up a Scheme Reconciliation Service (SRS) to assist pension scheme administrators to reconcile their records for all non-active members (which includes; Early leaver, Pensioner, Widow, Widower/Civil Partner, Incomplete record) against HMRC records in advance of the ending of contracting-out in April 2016.

2.2.3 Following the RTI submission in April 2016 for all active members, HMRC will update their records and issue data schedules to all Funds/pension schemes in January 2017 for reconciliation.

2.2.4 HMRC will be writing to all individuals with a GMP liability in December 2018 informing them of which Fund or pension scheme holds their liability.

2.2.5 There are serious risks to the Fund if reconciliation activity is not undertaken these include:

- the GMP amounts held by HMRC records will be enforced which could have material implications on the Fund's liabilities

- If we do not correct our records where appropriate the Fund will have GMP liabilities that will need to be paid
- Individuals unknown to the Fund will request their GMP entitlement (Post 2018)
- If we have GMP amounts we are unaware of it will lead to incorrect valuations of the Funds scheme liabilities
- Incorrect pension amounts being paid to members
- This could also result in member complaints and loss of reputation.

3.0 Progress

3.1 Data Quality

The Fund has implemented a number of steps to ensure the accuracy of data within its administration system as follows:

- Awareness of the importance of clean data was raised with employers at the Employer Annual General Meeting (AGM) in December 2014.
- Reports were provided to the Chief Executive Officers at each of the seven district councils detailing the work within specified data sets which remained outstanding and requiring action from these employers.
- Bulk Data Input (BDI) functionality has now been implemented which allows the bulk upload of joiners via an employer's CSV file. The BDI functionality is being expanded into other processes with a view to maximizing electronic working methods where possible.
- Alongside the development of BDI functionality the Fund has also developed a number of forms on the web portal to enable employers to submit individual data sets electronically. These forms have been developed to complete initial data validation checks on the data before the form is submitted to the Fund for processing. This reduces the number of errors and potential missing data received. Forms have currently been developed to manage joiners, member changes (i.e. change of address, hours) retirements and early leavers.
- Fund representatives have met with certain employers to agree internal targets of a 25% resolution, per quarter, of the deferred records requiring employer resolution. In addition, a 10 day target has been agreed for employers to respond to or resolve any issues that have arisen as part of current processing of member records.
- Outside of the data processed through BDI and web forms, all data inputted or amended on the administration system is subject to a validation process by an independent officer, which should ensure that any input errors are identified and corrected.
- The issue of annual benefit statements to Fund members provides the opportunity for individuals to verify and query the data on which projected benefit calculations have been calculated. Annual benefit statements will only be issued electronically to all

active and deferred members for the first time in 2015/16, unless they have requested otherwise.

- 3.1.1 In addition, the Fund published a revised Pensions Administration Strategy (PAS) with effect from 1 April 2015, which sets out the responsibilities of both the Fund and participating employers. All employers were consulted upon this document during March of 2015, with their comments valuable in publishing the final version. Within the scope of this document are a number of responsibilities geared towards the improvement of data quality. Where steps are not taken to improve data quality, having been raised by the Fund through dialogue, the PAS outlines the ability of the Fund to levy a fine in line with the Regulations.
- 3.1.2 Both the annual returns and the triennial actuarial valuation will provide the Fund with a valuable method to assess on-going data quality with a view to further steps for its improvement.
- 3.1.3 Appendix A details the current position for the Fund's conditional data sets as at 1 June 2015, with the column on the right showing the general improvements that have been made since December 2014 (green indicates an improvement, with red signalling a decrease in quality).
- 3.2 **GMP Reconciliation**
The Fund have registered with HMRC's scheme reconciliation service and have received a data file which contains a list of contracted-out periods and GMP data for members who have left contracted-out employment. This file contained 151,000 data entries.
- 3.2.1 Initial analysis of this data is underway with the HMRC data file and the Fund's pension administration system (UPM). Some preliminary discrepancies between the data have been identified, and these include:
- 24,303 mismatches on contracted out dates
 - 7,937 HMRC data entries where there is no match to a record on UPM
 - 2,517 data entries from HMRC match to a record on UPM where the member has transferred out.
- 3.2.2 This work will be managed under formal project management rules and has been divided into 3 key stages:
- Stage 1: Scoping and Pilot reconciliation (December – April 2015)
 - Stage 2: GMP reconciliation cycle (April 15 - April 2016)
 - Stage 3: Active member reconciliation (January 2017 – December 2018)
- 3.2.3 The Fund has completed the initial scoping phase of the project. The key objective of this stage was to determine the scale of the work that needs to be done, agree the tolerances that we will be working to and understand the resourcing requirements to complete the work. This stage required some pilot investigation into the initial data discrepancies.
- 3.2.4 The initial scoping and pilot reconciliation was managed by the Fund's Project Officer and resourced internally covering the following:

- 2,121 records reviewed, of which:
 - Pensioner records with date mismatch – 374
 - Deferred records with date mismatch – 116
 - Match to transfer-out record – 1,550
 - Match to refund record – 81
- A file of c7,000 records was returned to HMRC where the Fund was unable to find a matching record.
- 2 Files with c2,000 records were returned to the Fund with a response from HMRC requiring further analysis.

3.2.5 The next stage in this project will be for further analysis to be completed to enable the development of the plan for the next stage

4.0 Financial implications

- 4.1 The importance of data quality has financial implications for all participating employers in that it could have a material effect on the assessment of their liabilities at each triennial actuarial valuation.
- 4.2 To manage the first stage of the GMP Reconciliation project, two additional roles were identified to complete the initial data investigative work and commence the liaison with HMRC. These roles were implemented for 2 days a week, for a maximum of 7 weeks and were sourced from within the existing resources at the Fund.
- 4.3 To mitigate the impact the loss of these resources on the workload, overtime was offered to staff within the teams affected at a cost of £3,160.
- 4.4 Additional resourcing costs for the main reconciliation activity will be incurred. This will be determined in due course.

5.0 Legal implications

- 5.1 The report contains no direct legal implications for the Council, however pension benefits based upon incorrect data could be subject to legal challenge.

6.0 Equalities implications

- 6.1 This report has no implications for the Council's equal opportunities policies.

7.0 Environmental implications

- 7.1 This report contains no direct implications for the Council's environmental policies.

8.0 Human resources implications

- 8.1 Additional resources to complete the remaining stages of the GMP project will be required. It is anticipated that these will be a combination of internal resources on secondment and external agency staff. Any internal resources seconded to the project, will require their existing posts to be backfilled.