



Pensions Committee

18 March 2015

Report title	Ending of Contracting Out – Guaranteed Minimum Pension Reconciliation	
Originating service	Pension Services	
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Recommendations for noting:

The Committee is asked to note:

1. The activity underway to scope and understand the work involved in the reconciliation of Guaranteed Minimum Pension (GMP) records held by HMRC and the associated risks of not completing this project.

1.0 Purpose

- 1.1 The purpose of this report is to detail 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

2.0 Background

- 2.1 Members of the Local Government Pension Scheme (LGPS) pay a lower rate NI contribution as they are contracted out of the State Second Pension. Contracting out of the state second pension (formerly SERPS) on a Guaranteed Minimum Pension (GMP) basis operated between 1978 and 1997. In April 2016 the Government is replacing the earnings-related state pension arrangements with a single-tier State Pension.
- 2.2 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).
- 2.3 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.
- 2.4 Following the Real Time Information (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.
- 2.5 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.
- 2.6 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 reputation risk.

3.0 Progress

- 3.1 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 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.
- 3.3 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 2014 – April 2015)
 - Stage 2: GMP reconciliation cycle (April 2015 - April 2016)
 - Stage 3: Active member reconciliation (January 2017 – December 2018)
- 3.4 The Fund is currently initiating the first stage of the project. The key objective of this stage is 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 requires some pilot investigation into the initial data discrepancies.

4.0 Financial implications

- 4.1 To manage the first stage of the project, two additional roles have been identified to complete the initial data investigative work and commence the liaison with HMRC. These roles will be required for 2 days a week, for a maximum of 7 weeks and have been sourced from within the existing resources at the Fund.
- 4.2 To mitigate the impact the loss of these resources will have on the workload, overtime will be offered to staff within the teams affected. An estimated cost of £3,160 for completion of this overtime has been estimated.
- 4.3 Additional resourcing costs for the main reconciliation activity will be incurred. This will be determined as part of the completion of Stage 1.

5.0 Legal implications

- 5.1 The report contains no direct legal implications for the Council, however if

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 project will be required, these will be determined as part of Stage 1. 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.

9.0 Corporate landlord implications

9.1 This report contains no corporate landlord implications for the Council.

10.0 Schedule of background papers

10.1 There are no background papers for this report.