

Report of the Section 151 Officer

Pension Fund Committee – 12 March 2015

CESSATION OF CONTRACTING OUT / RECONCILIATION OF GUARANTEED MINIMUM PENSIONS

Purpose:	To approve the purchase of software to assist with the reconciliation of Guaranteed Minimum Pensions (GMPs) against those held by HMRC, the parameters of the GMP reconciliation and appointment of a temporary Grade 4 Assistant Pensions Officer.
Reason for Decision:	To mitigate the risk of potentially significant pension overpayments
Consultation:	Legal, Finance and Access to Services.
Recommendation(s):	It is recommended that: 1) The purchase of GMP Reconciliation software is approved 2) A tolerance level of £2.00 per week difference in the GMP is used where there is a discrepancy 3) Where overpayments to pensioners are identified, the pensions are corrected but not recovered 4) An existing Grade 4 is re-graded to Grade 6 and an additional Grade 4 appointed for the duration of the exercise.
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1.0 Introduction

- 1.1 The Pension Scheme is contracted-out of the second tier of the State Pension Scheme (S2P) and therefore allows both employees and employers to pay a lower rate of national insurance contributions.

- 1.2 A requirement of contracting-out is that at a member's State Pension Age, the Scheme must ensure that the pension in payment is at least equal to the pension the member would have received if they had not been contracted-out. The amount of pension, notified by HMRC, is known as the Guaranteed Minimum Pension (GMP),
- 1.3 Once a member has reached their State Pension Age, the Scheme is no longer fully liable for pensions increases on the GMP element of their pension as it is then paid by HMRC along with the State Pension.
- 1.4 The Government have confirmed that contracting-out will cease with effect from April 2016 and require all pension schemes to reconcile their GMP liabilities by December 2018.

2.0 Main Body of Report

- 2.1 Following the end of contracting-out in April 2016, HMRC will be notifying all individuals affected of the amount of their GMP and which pension scheme has the responsibility for paying it.
- 2.2 There is potential that a significant pension overpayment could result, where the GMP value is incorrect or the liability is incorrectly placed with a pension scheme. Findings from a National Audit Office's enquiry into five public sector scheme show that a total overpayment on existing deferred and pensioner members within a small pension fund is estimated at around £550,000.
- 2.3 To try to mitigate this, HMRC have provided the facility for pension schemes to reconcile the GMP values held for their members and identify those for which they believe they have no liability. This facility will be available until December 2018, after which they will accept no further challenges. The schemes with current contracting-out certificates, such as the City and County of Swansea Pension Fund, can access deferred and pensioner records immediately to allow as much time as possible for reconciliation.
- 2.4 It is proposed that for the reconciliation exercise, there is a £2.00 per week tolerance, where there is a discrepancy, as recommended by the Pensions Regulator. This will reduce the amount of time spent investigating cases where financial impact will be minimal.

Where it is calculated that an underpayment has been made, the pension in payment will need to be recalculated and arrears paid. If there has been an overpayment of pension, because it something that is outside the member's control and it would be impossible for the member to realise they are being overpaid, it is proposed that the pension is corrected but no recovery of the overpayment is made.

- 2.5 The reconciliation process is anticipated to be resource intensive as schemes initially have to match their records against those held by HMRC before being able to investigate the records that do not reconcile, as well as correcting pensions that are already in payment, where necessary. It is anticipated that the exercise could take up to three years to complete, allowing for other constraints on the Scheme e.g. the triennial valuation due 31st March 2016.
- 2.6 There are a number of companies, such as Capita and ITM, prepared to undertake the reconciliation process on behalf of pension schemes, but this approach is anticipated to be cost prohibitive. An article concerning GMP reconciliation in Professional Pensions (July, 2010) recommended that schemes should budget for £20 per member for the reconciliation exercise. The total of deferred and pensioner members in the City and County of Swansea Pension Fund currently stands at 20,500. If the exercise was outsourced to an external facilitator, based on £20 per member this would cost the Fund £410,000.
- 2.7 Heywood, the supplier of the Pension Administration System used by the City and County of Swansea Pension Fund, is offering add-on software to enable the Pension Section to perform the reconciliation process in-house. If purchased, the additional software will integrate with the Pension Administration database over the reconciliation period only.
- 2.8 In addition to the software, staff resources would need to be allocated.
- It has been stressed by the Local Government Pensions Committee of the Local Government Association that it is imperative to ensure that sufficient resource is allocated to the reconciliation exercise due to the potential of high overpayments that could result if the exercise cannot be completed within the restrictive timescale.
- 2.9 The level of work requires expertise and experience, therefore, it is proposed to utilise one Pensions Officer (Grade 6) full time in the reconciliation exercise. The interaction of the GMP with a member's benefits is part of the day-to-day work of the Pensioner Officer grade and therefore it is considered that this grade is best suited to undertake the reconciliation process. The Section's Technical Officer will provide the technical support.
- 2.10 In order to ensure that delivery of the day-to-day administration service remains effective, it is proposed that one Assistant Pensions Officer (Grade 4) is upgraded on a temporary basis to a Grade 6 and a temporary Grade 4 is appointed for the duration of the reconciliation exercise.
- 2.11 If purchased, the software will allow the reconciliation process to be undertaken within the current pension administration system thus:

- Supporting the complexity of reconciling employees with multiple employments
- Identifying the member records affected, including those where the Fund and HMRC differ over responsibility
- Reconciling the member data held against that held by HMRC
- Calculating any GMP liability that is not currently held on a member's record
- Updating any records that match or are within a given tolerance
- Reducing the possibility of a data protection breach
- Accelerating the investigation process by indicating the likely cause of any mismatch

2.12 The software would be charged per annum of use, based on the number of deferred and pensioner members in the Fund. Based on the current 20,500 deferred and pensioner members, the cost would be £9,225 (£0.45 per member) per annum.

2.13 It is also anticipated that the software will also support the reconciliation of active members which will be available from HMRC from 2017. Heywood's have confirmed that the same per member charge will apply.

3.0 General Issues

3.1 There are no general issues.

4.0 Equality and Engagement Implications

There are no equality or engagement implications associated with this report.

5.0 Financial Implications

5.1 If the GMP held on the pension administration system does not reconcile with that held by HMRC there is the potential of significant pension overpayments.

5.2 The software solution is an add-on to existing software at a cost of £9,225 per annum for the duration of the exercise. If approved, an Initiation request form will be forwarded to the Procurement Section.

5.3 A Grade 4 existing member of staff receives temporary higher grade duties and an additional member of staff at Grade 4 be appointed to assist in the reconciliation exercise.

6.0 Legal Implications

6.1 There are no legal implications

Background Papers: None

Appendices: None