

## Report of the Section 151 Officer

Pension Fund Committee – 14 September 2017

### Guaranteed Minimum Pension Reconciliation Exercise

<b>Purpose:</b>	To report on the Fund's current position with regard to GMP reconciliation and approve the procedure required to complete the GMP Reconciliation exercise within the timescale available
<b>Policy Framework</b>	N/A
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Recommendation(s):</b>	It is recommended that: 1) Approval is given to outsource the GMP Reconciliation exercise to a third party, specialist pensions data analysis and data management provider 2) The organisation selected via the National LGPS Framework be appointed to complete the GMP Reconciliation exercise
<b>Report Author:</b>	Lynne Miller
<b>Finance Officer:</b>	Jeff Dong
<b>Legal Officer:</b>	Debbie Smith
<b>Access to Services Officer:</b>	N/A

#### 1.0 Introduction

- 1.1 A briefing report was provided at the last meeting on 13 July 2017 to update the Committee on the current position regarding the GMP Reconciliation exercise. The report is included at Appendix A. The original report to the Committee on 12 March 2015 is also included at Appendix B.
- 1.2 This report requests approval for the conclusions reached as a result of a review of the current position and the consideration of the different options available for successful completion of the exercise within the timescale available.

## **2.0 Exercise objective**

- 2.1 With the introduction of the Single State Pension from 6 April 2016, the contracted-out status, afforded to the City and County of Swansea Pension Fund, in respect of the second tier of the State Pension, ceased.
- 2.2 Under its contracted-out status, the Fund had to guarantee payment of the equivalent pension that the member would have accrued, if they had not been contracted-out of the second tier of the State Pension. This pension is known as the Guaranteed Minimum Pension (GMP). The Fund is also liable for an element of pensions increase on the GMP for many of its members.
- 2.3 In 2019, HMRC propose to notify all individuals of their GMP and which Fund is responsible for paying the equivalent amount. Nationwide experience has proved that historic administration arrangements for GMPs has systematically failed and Funds have therefore been advised to reconcile the GMP values held with HMRC to ensure that only the relevant and correct liabilities are held, otherwise incorrect payments may be made or the Fund may have to accept liability for former members for whom they no longer have responsibility.
- 2.4 Where they believe there are discrepancies between their records and those held by HMRC, Funds may challenge HMRC up until December 2018. This is known as the GMP Reconciliation exercise. In reality, discrepancies will need to be identified and reported to HMRC approximately six months before this date to allow HMRC time to investigate.
- 2.5 There are four stages to the exercise
- Stage 1 – Initiate exercise, carrying out data collection and analysis.
  - Stage 2 – Initial reconciliation, resolving bulk issues (e.g. members who are incorrectly included in HMRC records and vice versa).
  - Stage 3 – Individual reconciliations - including identifying any cases that may have been underpaid and overpaid, and ensuring that all records are certified with the correct GMP and contracted out information.
  - Stage 4 - Rectification – benefit correction and communication with members affected.
- 2.6 It is also considered that the exercise assists with the Fund's obligations under the Pensions Act 2004, the Public Services Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 and the Public Service Pensions Act 2013 to maintain accurate records in terms of member data.

### **3.0 Current position of the City and County of Swansea Pension Fund**

3.1 At its meeting of 12 March 2015, the Committee approved the purchase of bespoke software from Aquila Heywood, the pension administration system supplier, to assist with the reconciliation. At the same time, approval was also provided to appoint an additional Grade 6 Pension Officer from the existing Pension Section staff and backfill the vacant position. The appointment was on a temporary basis and due to be reviewed in March 2018.

3.2 Although it was recognised that the exercise was resource intensive, at that time, it was considered that outsourcing the exercise to a Third Party administrator would be cost prohibitive.

3.3 The exercise commenced in June 2015 in respect of the Fund's Pensioner and Deferred members and to date the cost to the Fund is:

Appointment of Grade 6 Pension Officer	£51,300
Software costs	£28,913

Plus Scoping Exercise consultation costs

3.4 Work has progressed well through the initial stage of the exercise; however the complexity of the task was recognised at Stage 2 which has proven to be extremely resource intensive.

3.5 Resourcing issues within the Section has meant that there has been no work undertaken on the exercise since March 2017. In addition, due to the exercise proving to be extremely resource intensive and the complex nature and size of the issues, the conclusion had been drawn that completing the exercise in-house is not achievable by the December 2018 deadline.

3.6 In order to review the progress made and consider options available, a scoping exercise was commissioned in June 2017 to assess the Fund's position.

3.7 It was reported that the Fund has completed Stage 1 with 42,187 Pensioner and Deferred records identified as mismatched and has completed just over 25% of Stage 2.

3.8 The 42,187 mismatched records appears to be extremely high when compared with other Funds' mismatched data and includes records for which the Fund believes it no longer holds liability. To try to identify and rectify this number of mismatches in-house would require increased resources and further complex reconciliation, without the benefit of the software used by specialist pensions data analysis and data management providers, to avoid huge financial implications on the Fund.

3.9 For completeness, the Fund has also requested the Active member data from HMRC as well as an updated report regarding the Pensioner and Deferred members.

#### **4.0 Options to complete the exercise within the timescale available**

4.1 The scoping exercise report confirmed that there is little chance of completion in-house within the required timescale utilising current resourcing levels. If the Fund were to continue the exercise in-house, an additional eight FTE staff would be required to ensure success of completion to Stage 3. It is also recognised that recruitment would need to be effective immediately, unless existing Section staff could be utilised.

4.2 If the in-house approach were to continue, Staff would need to be employed at a suitable grade to take into account the complex and technical nature of the work involved and therefore if this option were to be considered, it is proposed that seven Grade 7 and one Grade 8 staff would need to be appointed at a cost of approximately £275,000 (including on-costs). This cost excludes the cost of training, recruitment, licenses for pension software and office space and hardware to complete the exercise.

It also excludes the cost of delivering the final stage 4 of the project, which is highly technical and involves the calculation of over and under paid pensions (and recovery amounts) spanning decades. Stage 4 is a 3 to 4 month project, which will also require additional internal resource.

4.3 The in-house approach is not considered an option as, due to ongoing workload constraints and staff resourcing issues, re-allocating existing staff to assist in this exercise would have an extreme detrimental impact on service delivery and performance. In addition, due to the complex nature of the exercise and level of knowledge and expertise that would be required, it would not be prudent to appoint additional staff who do not have a pension administration background. Previous experience has proven that day-to-day pension administration is a difficult area for recruitment.

4.4 It is therefore concluded that the most beneficial method of ensuring successful completion of this exercise is to outsource the exercise to a specialist pensions data analysis and data management provider which would allow the Fund to:

- Benefit from the use of automated systems which have been developed and refined prior to and over the course of the reconciliation exercise
- Reduce the timescales of completing the project
- Reduce the burden placed on the in-house pension team to complete the necessary work

## **5.0 National LGPS Framework**

5.1 In order to assess the administration services available, the Fund signed up to the National LGPS Framework, which is fully compliant with the Public Contracts Regulations 2015. The Framework has been set up to support pensions' administration and reduce the time and costs associated with the procurement process by offering, in this case, Third Party administration services which have already been competitively procured.

5.2 The Framework contains suppliers who have specialist tools and methods that can shorten the effort and give assurance of completion of the exercise.

5.3 To complete the exercise, it will be necessary to call off the Framework by

- Using Direct Award
- Undertaking a mini-competition exercise, or
- Undertaking a full procurement exercise

Under Direct Award approach, a Third Party Administrator could be contracted within a few days, whereas a formal mini-competition could be completed within 4 – 6 weeks and a full procurement exercise 6 – 9 months.

5.4 The entire project including the final rectification needs to be completed in an extremely tight timescale of 15 months (but in reality there is only 11 months to submit the Fund's queries to HMRC, to allow them time to respond). Either the mini-competition or full procurement exercise would put completion of the project at high risk, in addition, officers would also require time to prepare for the procurement and implement the exercise once completed.

5.5 It was therefore considered that Direct Award should be recommended as the best approach.

## **6.0 Equality and Engagement Implications**

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

## **7.0 Financial Implications**

7.1 See exempt report

## **8.0 Legal Implications**

8.1 See exempt report

### **Background Papers:**

### **Appendices:**

Appendix A – Briefing Report – 13<sup>th</sup> July 2017

Appendix B – Original Report – 12<sup>th</sup> March 2015

**Report of the Section 1.5.1. Officer  
Pension Fund Committee – 13 July 2017**

**CONSIDERATION OF OPTIONS TO COMPLETE THE GMP RECONCILIATION  
EXERCISE WITHIN TIMESCALES AVAILABLE**

Purpose: To inform the Pensions Committee that an exercise is being undertaken to consider the options available to complete the GMP reconciliation exercise within the required timescales

Report Author: Lynne Miller – Principal Pensions Manager

Finance Officer: Jeff Dong - Chief Treasury & Technical Officer

Legal Officer: Stephanie Williams – Principal Lawyer

Access to Services Officer: N/A

**FOR INFORMATION**

**1. Background**

1.1 At the Pension Fund Committee meeting on 12<sup>th</sup> March 2015, the Committee approved funding to purchase software and appoint a temporary member of staff to achieve Guaranteed Minimum Pension (GMP) reconciliation between Fund and HMRC records to address discrepancies in respect of the GMP values held for members and identify those for which the Fund holds no liability.

1.2 The facility is available until December 2018, after which HMRC will accept no further challenges. Failure to complete the exercise provides a potential additional liability risk to the Fund.

**2.**

2.1 The reconciliation exercise has proven to be resource intensive.

2.2 The exercise consists of four stages:

- Stage 1 – Initiate exercise, carrying out data collection and analysis.
- Stage 2 – Initial reconciliation, resolving bulk issues (e.g. members who are incorrectly included in HMRC records and vice versa).
- Stage 3 – Individual reconciliations - including identifying any cases that may have been underpaid and overpaid, and ensuring that all records are certified with the correct GMP and contracted out information.

- Stage 4 - Rectification – benefit correction
- 2.3 The Fund has completed Stage 1 with more than 42,000 records identified as mismatched (this includes records for which the Fund believes it no longer holds liability) and has completed just over 25% of Stage 2.
- 2.4 There is concern that the reconciliation exercise cannot be completed in the timescales demanded without additional resource. A consultation to review the Fund's position has recently been undertaken and has identified that an additional 8 FTE staff would be required to ensure success.
- 2.5 Due to ongoing workload constraints, re-allocating existing staff to assist in this exercise would have an extreme detrimental impact on service delivery and performance. In addition, due to the complex nature of the exercise and level of knowledge and experience that would be required it would not be prudent to appoint additional staff who do not have a pension administration background.
- 2.6 The Fund has therefore signed up to the National LGPS Framework to obtain information about the options available, which include consultancy support and the procurement of the services of a field expert, to complete the exercise within the limited timescale remaining.
- 2.7 The consideration of the options is ongoing and a further report for approval will be presented to Committee at the earliest opportunity.

### **3. Equality and Engagement Implications**

- 3.1 None

### **4. Legal Implications**

- 4.1 Proper procurement processes will need to be undertaken to procure the necessary support.

### **5. Financial Implications**

- 5.1 Failure to complete the exercise provides a potential additional liability risk to the Fund.

## **FOR INFORMATION**

**Background papers:** None

**Appendices:** None



Report of the Section 1.5.1 Officer

Pension Fund Committee – 12 March 2015

**CESSATION OF CONTRACTING OUT/RECONCILIATION OF  
GUARANTEED MINIMUM PENSIONS**

<b>Purpose:</b>	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.
<b>Reason for Decision:</b>	To mitigate the risk of potentially significant pension overpayments
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Recommendation(s):</b>	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.
<b>Report Author:</b>	Lynne Miller
<b>Finance Officer:</b>	Jeffrey Dong
<b>Legal Officer:</b>	Nigel Havard
<b>Access to Services Officer:</b>	

**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 31<sup>st</sup> 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