



Surrey Local Pension Board 27 July 2017

Guaranteed Minimum Pension reconciliation

Recommendations:

The Board is asked to **note** the content of this report.

Detail:

1. The LGPS is a defined benefit scheme which was contracted out of the State Earnings Related Pension Scheme (SERPS). Had the scheme not been contracted out, then each qualifying member would have accrued an additional pension up to 6 April 1997 under the SERPS arrangements, funded by their National Insurance contributions. A condition of this contracted out status, was that the pension scheme maintain a record of an individual member's accruing guaranteed minimum pension (GMP). This value is designed to be broadly equivalent to the SERPS benefit that the member would have accrued, had they not been contracted out.
2. Contracting out was abolished from 6th April 2016, coinciding with the introduction of the new Single Tier State Pension. As a result of this pension schemes will no longer be provided with notification of entitlement Her Majesty's Revenue and Customs (HMRC) are providing a one-off service to enable Schemes to reconcile the GMP figures they hold with those held by HMRC; this is called the Scheme Reconciliation Service (SRS). SRS will cease in December 2018.
3. It is important to reconcile the GMP element recorded on the Surrey Pension Fund (SPF) administration system with that held on the HMRC system, to ensure that pensions coming in to payment, together with those already in payment, are paid at the correct amount and the liabilities of the pension scheme, so far as GMP values are concerned, are represented accurately at each future valuation.

The reconciliation process

4. The reconciliation process, broadly, has three stages:

- Stage 1 – Initial analysis and data matching
- Stage 2 – Reconciliation – data reconciliation, manual reviews and query liaison with HMRC
- Stage 3 – Rectification – calculations of under/overpayments, communication with members

Progress of the Surrey Pension Fund in GMP reconciliation

5. A specialist data analyst, ITM Ltd, were previously engaged to perform a Stage 1 reconciliation and identified significant mismatches between HMRC and SPF records. The level of queries was however consistent with the results of analysis undertaken by other local authority funds and was in line with expectations based on known issues with Government GMP records.
6. Although the majority of LGPS funds have not yet commenced their reconciliations, the SPF is aware that response times from HMRC in relation to reconciliation queries is currently between three to six months. It is possible these response times may extend once the majority of LGPS funds start to submit reconciliation queries.
7. Given the potential time pressures involved, Business Operations have been exploring possible options to progress the reconciliation and have agreed with ITM a 'fast tracked' modular approach for the Stage 2 of the process for the SPF and East Sussex Pension Funds.
8. This is a two-month project which will allow full utilisation of the analytical tools available to ITM as well as recent technology introduced by HMRC and will initiate significant volumes of queries to be submitted into HMRC work streams. The details of the work to be carried out by ITM under this phase have been circulated as a background paper.
9. This two month project will have the following advantages:-
 - Allow the SCC fund to make use of the latest smart technology and analytical tools available to ITM and their existing working relationship with the HMRC reconciliation team
 - Will ensure that a significant proportion of reconciliation queries are either resolved or placed in the HMRC work stream ahead of other funds due to commence work
 - Will allow Business Operations to commence file reviews on 'known' discrepancies (e.g. where HMRC have a GMP liability but SCC have no record) whilst we await HMRC responses on other query types
 - ITM will provide a member level breakdown of processing on completion so that a different provider could pick up the benefits of the work done so far, if required. ITM would also provide a clear report setting out the queries resolved and outstanding so that this could be used as part of a tender specification for subsequent Stage 2 and Stage 3 work.

Next steps

10. The draft timeline, shown as Annex 1, sets out how the reconciliation process is expected to develop over the next 12 months, though progress will be impacted in the main by response times from HMRC.

11. Progress will continue to be reported to the Pension Committee and Board as the project continues.

Report contact: Neil Mason, Senior Advisor Pension Fund

Contact details: T: 020 8213 2739 E: neil.mason@surreycc.gov.uk

Sources/background papers:

Annex 1: GMP project timeline

Background paper - ITM, GMP reconciliation approach

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