

MEETING	Pensions Committee
DATE	16 June 2015
TITLE	Reconciling members' Guaranteed Minimum Pensions (GMP)
PURPOSE FOR THE REPORT	To inform members of the need to reconcile scheme members' GMP before April 2018.
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RECOMMENDATION	For Information

1. Background

- 1.1 The Local Government Pension Scheme (LGPS) is currently contracted out of the State Second Pension Scheme (S2P), formerly called SERPS, and has been since its introduction in April 1978.
- 1.2 To qualify for a 'contracted out' certificate schemes were required to guarantee that the level of benefits provided by the scheme were at least equivalent to what would have been provided in SERPS. In obtaining the certificate contributing members and employers paid national insurance at the lower 'D' rate table.
- 1.3 The guarantee was in the form of a Guaranteed Minimum Pension (GMP) administered and calculated by the then Department of Social Security (DSS). The GMP was payable from state pension age as part of the main scheme pension, but if the GMP was higher the higher amount would be payable from that date.
- 1.4 From the first pensions increase date following state pension age the increases on GMP's become the responsibility of the DSS and paid with the individual's state benefits. From April 1988 this was further complicated by the introduction of a different level of GMP requiring a separate indexation to the original GMP. In order to differentiate between the two rates they were referred to as GMP78 and GMP88.
- 1.5 Accrual of GMP was based on national insurance contributions paid between the lower and higher earnings limits. This system ended from April 1997 to be replaced by a scheme reference test carried out on the level of benefits provided by the scheme as a whole. All public sector schemes passed this test and remained contracted out schemes.
- 1.6 As GMP accrual ended in 1997, the 19 years from 1978 saw a considerable number of scheme members remain subject to GMP assessment for both pensions increase calculations and to be part of any transfer calculations.

2. State Single Tier Pension

- 2.1 The Pensions Act 2014 introduced a simplified 'single-tier pension' to replace the S2P. It's intended to provide a basic state pension of around £150 per week without the need for means testing for topping up any income below the guarantee required for pension credit. It is also intended that the value keeps pace with the minimum income guarantee.

- 2.2 The single tier scheme commences from 6th April 2016 and will result in the ending of contracting out. Although intended to simplify the state scheme this will create a number of consequences not least the changes to employee and employers' national insurance rates by abolishing lower rate Table 'D' mentioned in para (1.2) and placing everyone in the higher Table 'A' rate.
- 2.2 Another consequence is that HMRC, who now administer contracting out, has stated it intends to write to all scheme members in 2018 informing them of their GMP amounts, and scheme responsible for payment.
- 2.3 In the meantime all contracted out schemes have been advised to carry out a GMP reconciliation exercise to ensure that the GMP they carry for all members corresponds with GMP recorded on HMRC records. If this is not completed by April 2018 schemes will be burdened with GMP's that are not their responsibility but be obliged to pay.
- 2.4 National surveys have shown that the levels of errors are high. This might be as a result of DSS suffering computer problems in the 1990's and employers / pension schemes not registering correct reference numbers on their annual and event driven returns.

3. Reconciling the GMP's

- 3.1 Gwynedd Pension Fund, similar to other contracted out pension schemes needs to complete this time consuming and complicated work by April 2018, when HMRC is scheduled to write to members.
- 3.2 Current assessment suggests the work will involve three phases, firstly an initial comparison exercise, followed by strategic planning and ending in reconciliation and system updating. On completing the 'Initial comparison' stage it will be possible to clearer determine the intensity of the strategic and planning and corrective stages.
- 3.3 Having determined the level of errors and the likely intensity of the work involved, including the effect on over and underpayments, strategic planning needs to take into consideration error tolerance levels, write off limits and the likely resources required to complete the exercise.
- 3.4 To assist in the initial comparison exercise specialist software is essential. Gwynedd Pension Fund has signed with Heywood, who provides the scheme administration software, for a compatible solution costing approximately £8,300 per whole or part year whilst in use. This service will assist greatly in the initial comparison stage and will be supported by their consultants in their usual way.

4. Recommendation

- 4.1 Members are asked to take note of the GMP reconciliation process, its likely cost and effect on the pension unit's staff resources
- 4.2 To retrospectively approve funding for the additional software of approximately £8,300 per whole or part year.
- 4.3 To note that update reports on the ongoing work will be submitted to the Committee from time to time and that may include funding for additional temporary staff and a request for decisions on error tolerances and write off levels.