

## **Report of the Director, West Yorkshire Pension Fund, to the meeting of West Yorkshire Pension Fund Pension Board to be held on 26 March 2019**

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**Subject: Update on the Guaranteed Minimum Pension (GMP)  
Reconciliation Exercise**

### **Summary statement:**

This report gives an update on the current position regarding the GMP reconciliation exercise

### **Recommendation**

That the Board note the update in this report and acknowledge the potential additional workloads anticipated from this exercise.

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## **1. Background**

- 1.1 An exercise is taking place across the pension industry to reconcile pension information held by all private and public sector pension schemes and Her Majesty's Revenue & Customs (HMRC).
- 1.2 The aim of the GMP Reconciliation Exercise is to ensure that pension schemes hold the correct information regarding members' contracted-out service.
- 1.3 It is important to reconcile the GMP element recorded on our system with that held on the HMRC system, to ensure that pensions coming into payment, together with those already in payment, are paid at the correct amount, and that the liabilities of the pension scheme, so far as GMP values are concerned, are represented accurately at each future valuation.

## **2.0 The Reconciliation Process**

- 2.1 HMRC's starting position is usually that its data is automatically correct (although this is not always the case as we have found) unless the pension fund can prove otherwise. This puts the investigative responsibility and costs fully onto the pension fund. The reconciliation will involve investigative work, reviewing data and benefit accrual.
- 2.2 As part of the process WYPF has registered with HMRC's scheme reconciliation service and has received a data file which lists all active, deferred, and pensioner members totalling 229,144 records.
- 2.3 Unlike some other Funds, WYPF is looking to undertake the exercise fully in house, thereby making substantial savings on costs that are being charged in the market place.

## **3. Stage 1**

- 3.1 We have run a number of reports to enable us to conduct a comparison with the HMRC file and the data held on our pension administration system. This process has provided some headline figures and an early indication of the potential size of the reconciliation issues. This has been used to undertake a baseline reconciliation followed by a more detailed reconciliation/comparison of the results. Early analysis has produced high level results based on data within the Civica pension administration system and data provided by HMRC as indicated below:

Matching Categories	Volumes of Data
Total records received from HMRC	229,144
Members with both a Pension Record and HMRC record but require further investigation	26,793
Members on the HMRC file but no WYPF Pension record found	7,386
Members not on the HMRC file but where our Pension records indicate that there is a contracted out liability	13,219

#### 4. Stage 2

4.1 Information from WYPF system has been uploaded onto the HMRC Workspace area for HMRC to respond to.

4.2 Responses have been received for:

- Members on the HMRC file but no WYPF Pension record found (Not in Scheme)
- Members not on the HMRC file but where our Pension records indicate that there is a contracted out liability (In Scheme - where there is a transfer in – 2056 records)

4.3 It is not expected that all variances will need to be investigated. Guidance has been issued by a working group set up by HM Treasury on the general approach that LGPS Funds should take in GMP Reconciliation. It recommends that the following member data should be reconciled:

- Scheme members who have not yet reached state pension age and who have any service between 6 April 1978 and 5 April 1997
- Non-members who the Pension scheme believe it has already discharged its liability (through, for example, transferring out their benefits to another pension scheme or payment of a refund of contributions).

4.4 The HM Treasury working group also provided the following recommendations on how any discrepancies identified through the reconciliation process should be dealt with:

- Pensioners that have been underpaid should receive their pension arrears in full, with interest in accordance with scheme rules.

- Cases where pensioners have been overpaid should be considered in the context of the overall extent of any overpayments, and a view taken over whether there will be value for money recouping overpayments
- Where discrepancies are small, for example if a service period discrepancy is less than a year, or if the discrepancy in weekly GMP amount is no more than £2, schemes should use the data provided by HMRC in respect of any individuals who have not reached state pension age, or the data held by the scheme in respect of any individuals who have reached state pension age.

4.5 The Local Government Association (LGA) has recommended the following approach to post 5 April 1997 contracted out data:

- Where contracted-out records appear on HMRC records but no corresponding LGPS pension records exist within its fund, LGPS Administering Authorities should investigate all cases
- Where dates of contracted-out service differ, each LGPS Administering Authority should only investigate those cases where in its view there is a significant risk to LGPS benefits or process
- Where contracted out records do not appear on HMRC records but an LGPS pension record exists within the fund, each LGPS Administering Authority should notify HMRC of the discrepancy but only investigate those cases where in its view there is a significant risk to LGPS benefits or process.

## **5. Stage 3**

- 6.1 Once the liabilities have been identified there will need to be a reconciliation of the Pension Payroll, this will require the adjustment of pensions in payment.
- 6.2 As part of this final phase of the project, a communication strategy will need to be developed to ensure that communication is clear to individual pensioners affected by the reconciliation exercise, and where a pension in payment needs to be adjusted, to enable them to understand the potential impact of any adjustment.

## **6. Shared Service Clients**

- 6.1 WYPF is also undertaking the reconciliation work for Lincolnshire Pension Fund, Hounslow Pension Fund (at stage 3) and eleven of the fourteen Fire Authorities.

## **7. Resource Requirements**

- 7.1 Currently the project is being managed within the IT team, mainly because of the exchange of bulk information with HMRC. However, staff with pensions and pensions payroll knowledge will soon need to get involved with the project, particularly at the recalculation of pensions stage.
- 7.2 The information contained in this report relates to WYPF members. The same work is being undertaken for Lincolnshire Pension Fund and a number of the Fire Authorities we provide administration for.

## **7.0 Conclusion**

- 7.1 The GMP Reconciliation project has placed additional burden and pressures on the Fund but once records are reconciled it will mean that members are getting the correct benefits resulting from the GMP paid from WYPF and the State pension and also the correct liabilities are taken into account at valuation.