

Report of the Director West Yorkshire Pension Fund to the meeting of Pension Board to be held on 16 March 2016.

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Subject: Guaranteed Minimum Pension (GMP) Reconciliation Exercise

Summary statement:

This exercise is to wind up the contracted out element link between the LGPS (Local Government Pension Scheme) and the SERP's (State Earnings Related Pension Scheme) which affected members with service between 6 April 1978 and 5 April 1997.

The reconciliation process is designed to allocate all GMP liabilities to the correct Fund before the deadline in 2018, after which, the relevant Fund that holds the record will be liable for pension inflation increases.

The amount of the GMP will contribute towards the calculation of the members' benefits in the New State Pension system which will begin on 6 April 2016.

Recommendations:

That this report is noted and the potential additional workloads anticipated from this exercise are acknowledged.

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Overview & Scrutiny Area: n/a

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1. Background

- 1.1 In April 1978, a state pension was introduced which provided for:
- A flat rate state pension available for everyone regardless of their employment history – PLUS
 - An additional amount of pension - the state earnings related pension scheme (SERPS) – based on a members national insurance contributions.
- 1.2 When a member joined the LGPS, they were ‘contracted out’ of the SERPS part of the state scheme and as a consequence, paid a lower rate of national insurance contributions. This part, or portion, of the state pension was therefore included within their LGPS benefits, as opposed to being paid with their state pension. This portion is called the Guaranteed Minimum Pension (GMP).
- 1.3 Only members with service from 6 April 1978 to 5 April 1997 will have accrued a GMP.
- 1.4 A condition imposed on the LGPS regarding the contracted out portion, is that it must pay the member an equal or greater amount of pension than they would have received in the SERPS scheme had they not contracted out. Hence the name, Guaranteed Minimum Pension.
- 1.5 Her Majesty’s Revenue and Customs (HMRC) notify all schemes of each member’s individual GMP entitlement based on their own records of the member’s national insurance contributions.
- 1.6 In the vast majority of cases, the pension paid by the LGPS is higher than the additional element that the member would have earned in the SERPS scheme, and as such, their GMP has already been incorporated within their LGPS pension.

2. Recording of the GMP and application of pension increases

- 2.1 The LGPS is legally required to record the GMP amounts. This is required by the Department of Work and Pensions (DWP) statutory instruments which cover the annual pension increase.
- 2.2 There is an agreement between the state pension service (under the DWP) and the LGPS concerning who pays the annual inflation increases on the GMP element of the members’ pension which stipulates that any inflation increases on the GMP relating to service pre 5 April 1988 (pre 88 GMP) are paid by the state. Any increases on the GMP relating to service post 6 April 1988 (post 88 GMP) are paid by the LGPS up to a maximum of 3%. Increases above 3% on the post 88 GMP are paid by the state scheme. It is a complex arrangement.

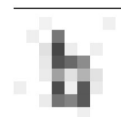


3. Requirements for Reconciliation

- 3.1 The ability to contract out of the additional state pension is ending from 6 April 2016 when the new single tier State Pension is introduced. HMRC and the DWP have therefore decided to tidy up the GMP part of state benefits and incorporate it into the new State Pension.
- 3.2 A calculation will be used to establish a value for the old scheme contributions, and this will be the starting amount of pension, for the member, in the new scheme. It will represent the amount that a member would have built up had they not been contracted out. The member will then continue to accrue a further amount of pension to add to this.
- 3.3 If we do not dispute GMP data which seems incorrect, or disown GMP's which we do not believe belong to our scheme members, the LGPS we will be left with the GMP liability when the reconciliation deadline passes. All GMP's left with us are a financial liability as we will be paying the annual increases on them.
- 3.4 The ultimate purpose of the exercise is to ensure that records held by the LGPS and HMRC, in relation to periods of contracted-out employment, are correct. This in turn will ensure that the data is up to date and correct prior to being used in calculation of the individuals new State Pension starting amount.

4. Workload

- 4.1 We have registered with HMRC in order to access the appropriate records which they hold, and which will be compared with our records. We have also done this for Lincolnshire Pension Fund.
- 4.2 This work is scheduled to begin May / June 2016, to continue into August and perhaps September 2016. This depends on the extent of the mis-match numbers within the reports from the data matching. We are aiming to automate as much of the follow-on work as we can to minimise the impact on the service centre staff workloads.
- 4.3 However, there are still working groups within HM Treasury who are reviewing the exercise and issuing recommendations on the approaches which pension funds may wish to take. For example, they are recommending the priority in which cases should be matched, beginning with current active members and members who have a deferred pension entitlement. They are also recommending options to simplify the reconciliation by building in a tolerance level for minor discrepancies between the two sets of data, for example accepting a weekly GMP difference of £2 between the two records.



- 4.4 We may also have to make a decision on an approach to any resulting over or underpayments for pensioner members, who are already in receipt of benefits. Until we have numbers and values to assess this a decision cannot be made.
- 4.5 It may save unnecessary work if the exercise is deferred until the HMRC working groups publish their conclusions on the approach pension schemes should be taking.
- 4.6 The Local Government Association (LGA) would like to be informed as to the approach to the current recommendations WYPF intend to take. This will be easier to determine after the initial data matching, as the scale of the differences will be known, and the additional workload assessed.

