

# Scheme Advisory Board

## Agenda item 7 – Paper E

### Guaranteed Minimum Pension (GMP) reconciliation and equalisation

#### Summary

1. The need for LGPS funds to reconcile their 5 million member records with those of HMRC is estimated to cost around £100m and may result in significant alterations to pensions going forward and the discovery of considerable over/under payments.
2. Subject to legal advice currently being taken by HMT LGPS funds may also have to cover additional pension increases estimated at £60m per annum.
3. In addition, the requirement to equalise GMPs for men and women could result in a significant complication to the calculation of pension increase on an annual basis.

#### GMP reconciliation

4. Although GMPs have not accrued since 1997 any member of a contracted out scheme (such as the LGPS) with service between 1978 and then should have a GMP. Normally this is notified to the scheme at SPA or earlier if required for benefit calculations.
5. The ending of contracting out in 2016 will see the winding down of HMRCs benefit enquiry service by the end of 2018. From that point on HMRC will no longer retain the ability to calculate GMPs for those reaching State Retirement Age (SPA). LGPS funds will therefore need to ensure that the GMPs they hold are correct and relevant to the scheme.
6. As the LGPS does not pay Pensions Increase (PI) on all or part of the GMP failure to reconcile GMP amounts could result in incorrect amounts of pension being paid. Furthermore failure to contest non relevant GMPs where HMRC holds a GMP record for an LGPS that has in fact moved elsewhere or been extinguished may result in the fund having to pay the GMP to the member.
7. Reconciliation consists of four stages. Requesting of HMRC data, comparison of the two sets of data, resolving queries on mismatches and finally recalculating pensions where the amounts differ. The LGPS will need to reconcile up to 5 million records at an estimated cost of £100m.
8. Early indications are that there will be significant mismatches of up to 25% of records. One LGPS fund has queried 8,000 records where HMRC are allocating a GMP to that fund in respect of NI Numbers the fund has absolutely no record of. After waiting three months they have received 1,000

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responses and HMRC are continuing to insist that 816 of those 1,000 GMPs are theirs.

9. The final stage of recalculation will result in pensions having to change going forward and raises the potential of significant past over/under payment of PI together with the increased workload and communication challenge that would bring. For example if the GMP on the LGPS record was missing or too low then too much PI will have been paid, alternatively if the GMP was too high then too little PI will have been paid. The former is far more likely given that the most common issue will be missing GMPs.
10. In the past the lack of PI on the GMP was offset by increases in the basic state pension. However since the advent of the triple lock mechanism for increases to state pensions this has become questionable - DWP argue that PI on GMP is caught up in the triple lock but not a distinct element of it. Legal opinion currently being sought by HM Treasury could result in there being a reasonable expectation of explicitly full increases on GMPs which will have to be met by schemes. The cost of such increases is estimated by GAD at 0.2% of pensionable payroll or £60m per annum.

## **GMP equalisation**

11. Since the 1990 ruling of the European Court of Justice in Barber v GLE, occupational schemes are considered a form of deferred pay, and differences in benefits paid from pension schemes for men and women are unlawful. Although the benefits paid from most schemes exceed the GMP and have been equalised as a result of Barber, small differences in the benefits paid to men and women remain because GMPs are re-valued prior to the GMP pension age and uprated after that age differently, due to the different pension ages required for GMPs by law.
12. Government are now asking public service pension schemes to implement full equalisation of GMPs and have been considering a number of options. A working party consisting of representatives of the schemes is looking at the potential impact of those options.
13. The options have now been reduced to two. The first is for schemes to hold both the male and female GMP amounts, calculate using both and pay the greater each year. This option ensures equality to the penny but adds significant complexity and both administration and scheme costs. The second is for GMPs to be converted to scheme benefits, a much simpler solution but one which places the full cost of PI onto schemes.
14. DWP currently favour the first option however that may be subject to the potential outcome of the legal advice in paragraph 10.

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Local Government Pension Scheme

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## Decisions required

15. Board are asked to note the contents of the report.

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1<sup>st</sup> July 2015

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