

<p style="text-align: center;">Introduction of Single State Pension Abolition of Contracting-out in 2016 Guaranteed Minimum Pension Reconciliation</p>

With the introduction of the Single State Pension in April 2016, contracted-out status ceased and HMRC have informed pension schemes of its intention to phase out its contracted-out section by December 2018.

As the LGPS was a contracted-out pension scheme, Avon Pension Fund has incurred obligations as to certain pension provisions connected with the State Second Pension.

From April 1978 to April 1997 pensions paid by APF had to cover the equivalent pension that the member would have accrued if they had been receiving the State Second Pension. This pension is known as the Guaranteed Minimum Pension [GMP]. APF is responsible for certain elements with regards to pension increases on the GMP.

The LGPS was required to meet a scheme reference test for members contracted out between April 1997 and April 2016.

Following the end of contracting out in April 2016, HMRC are proposing to send a statement to all individuals affected stating the amount of their GMP and who is responsible for paying the equivalent pension amount. Before this, schemes have been advised to reconcile the GMP values and dates they hold for their members with those calculated by HMRC or could face making overpayments to existing members and even accept a liability for individuals for whom they have no responsibility.

Until December 2018, schemes can challenge the figures where they believe discrepancies are the result of errors on HMRC's part, after this date, no further challenges will be accepted. There is therefore a limited window to make sure our own records tally with HMRC's.

APF have registered with HMRC who have provided lists for both non-active members [42529] and active members at 5/4/2016 [Closure Scan] [31468] who they consider that APF have a responsibility for a period of contracted-out membership. An initial comparison of these lists and our records has been carried out [see appendix 2]

Errors in GMP values can lead to potentially significant pension overpayments. Based on findings from the National Audit Office's enquiry into five public sector schemes, it has been estimated that the total overpayment on existing deferred and pensioner members within a small pension fund could be around £550,000.

APF have set up a reconciliation project

The project will

- Identify the member records affected, including those records where the fund and HMRC differ over responsibility for the liability.
- Assess impact of varying the matching tolerance.
- Reconcile member data, including service, held by the fund to records provided by HMRC.

- Identify any GMP liability that is not currently held on the record, e.g. at date of death where spouse's pension applies.
- Accelerate the investigation process by indicating likely causes of any mismatches
- Adjust any pensions on payroll if GMP is currently incorrect

Areas already identified within process that need consideration

On HMRC list but not on APF records

Excluding mismatches because of

- NI end letter differences
- Mismatches on NI No

Ex Teachers [the Contracting out Employer reference number for LGPS and the Teacher's Scheme is the same and some teachers have appeared on the HMRC lists

HMRC c/o out dates are not exact and often refer to start of a relevant tax year

No GMP recorded on record type but document on file

No GMP details on some dependant records

Split records [HMRC not combining records]

Service history lines missing

Basic errors on HMRC file [eg Surname shown as Mr John Sm instead of Smith]

Multiple Records [Which record is for which GMP?]

Future decisions to be made

There will need to be decisions made with regard to tolerance levels. There are continuing discussions taking place centrally regarding this and the proposed levels are

GMP amounts: Plus or minus £2 per week

Contracted-out dates: within a relevant tax year

Potential Adjustments to Pensions in payment

Underpayments

These will occur where APF are using a higher GMP figure than that held by HMRC resulting in member not receiving the correct pensions increase.

Overpayments

This will occur where GMP is lower than HMRC or where no GMP is recorded on the APF record. This will result in members getting pension increase twice on the GMP element [from APF and on State Pension]. Whilst any post 88 accrued GMP would only produce an overpayment where the increase was in excess of 3% any pre 88 would be on the total GMP figure.

How Pension increase works when a GMP applies

Member has pension of £400 with a GMP of £200 of which £100 was before April 1988 and £100 after. The member also accrued pension of £100 before and after the GMP applied [pre 1978 and pre 1997]

A pension increase of 4% would be calculated as follows:

Period		Pension	Pensions Increase	
	Total	£400	4%	£16
Pension Increase Calculation				
	Paid by		APF	Government
Pre 78	All APF	£100	£ 4	£0
GMP 78 - 88	All Government	£100	£ 0	£4
GMP 88 – 97	3% APF Excess by Government	£100	£ 3	£1
Post 97	All APF	£100	£ 4	£0
			£11	£5
LGPS revised total		£411		