

## **1 THE ISSUE**

1.1 The purpose of this report is to update the Committee on the latest position concerning the reconciliation exercise being carried out between Avon Pension Fund and HMRC as a result of the cessation of Contracting out of the State Second pension.

1.2 The project is now at an advanced stage and a number of decisions by the Committee are required on what action needs to be taken regarding tolerance levels and pension overpayments.

## **2 RECOMENDATIONS**

**That the Committee:**

**2.1 Notes the current position regarding the reconciliation between Avon Pension Fund and HMRC**

**2.2 Resolves the following course of action**

**2.3 For Category B cases**

- (a)** Where member has not yet attained SPA, the HMRC GMP should be applied as part of BAU. No further rectification will be required.
- (b)** HM Treasury tolerance of +/- £2p/w is accepted, and no further action is required.
- (c)** Where an underpayment is confirmed, the member will have their pension increased to the correct level with arrears and interest calculated.
- (d)** Where an overpayment is confirmed: -
  - (i)** to agree that where an increased pension is being made that the pension is frozen at that level and no further increases applied until the correct level is attained.
  - (ii)** Agree historic overpayments will not be recovered, in line with APF policy and as applied by other public sector bodies.

**2.4 For Category C cases**

- (e)** Recommend that the Fund record is accepted as accurate.

**2.5 For Category D cases**

- (f)** Recommend that the fund records are deemed to be correct.

### **3 BACKGROUND**

3.1 In April 1978, the Government introduced a new state pension system. It provided for a flat rate state pension, which was available for everyone regardless of his or her employment history, plus an additional amount based on a person's national insurance contributions. This additional pension element was called the state earnings related pension scheme (SERPS).

3.2 Pensions schemes, including the LGPS, were able to opt-out of SERPS. This was known as 'contracting out'. However, to do this a scheme had to guarantee to pay a benefit to a member that was equal to or better than that which they would have built up if they had been a member of SERPS. This amount is called a guaranteed minimum pension (GMP).

3.3 The Government removed the ability to build up an entitlement to GMP on 6<sup>th</sup> April 1997. Therefore, only those who were members between 6<sup>th</sup> April 1978 and 5<sup>th</sup> April 1997 will have a GMP.

3.4 HMRC holds details of all member's individual GMP entitlement based on their national insurance contribution records.

3.5 The rules that were introduced in 1978 when the new state scheme was brought in meant that any inflation increases to a GMP were to be paid to a person by the State as part of their state pension benefits.

3.6 On 6<sup>th</sup> April 1988, the rules were changed so that in most cases the contracted-out pension scheme became the body responsible for the increases of any GMP built up after 6<sup>th</sup> April 1988, up to a maximum limit of 3%. Any increases above 3% were paid by the state along with the state pension.

3.7 Historically, employers and pension schemes were required to notify HMRC of various member events as part of administering a contracted-out scheme. HMRC would be notified when a member joined a pension scheme, transferred benefits in or out, left or retired, in order to maintain accurate GMP entitlement details.

3.8 When the new State Single pension was introduced in April 2016, this ended the 'contracted-out' status of pension schemes.

3.9 The end of contracting-out in April 2016 meant that HMRC no longer had to track a person's GMP entitlement. Therefore, HMRC decided to embark on a reconciliation project with all schemes. Their intention was to issue closure schedules containing contracted-out and GMP entitlements to each scheme and for schemes to carry out a reconciliation exercise, comparing data provided by HMRC against their own records.

3.1.1 There is no specific legal requirement for a pension scheme to carry out a GMP reconciliation exercise. However, in light of other legislation such as the Data Protection act that relate to ensuring all data kept is accurate and up to date it is good practise for pension schemes to undertake reconciliation work.

## 4 APF GMP CLOSURE SCHEDULE ANALYSIS

4.1 APF commissioned Mercer to conduct a reconciliation of their GMP liabilities of HMRC v APF Fund Records (held on Altair)

4.2 Altair data as at Q1 2023 and HMRC records as of 2016.

4.3 A summary of the reconciliation is as follows:

Category	Membership Numbers at October 2023
A. Members where the record held by HMRC agrees with the Fund record.	32,858
B. Members where the record held by HMRC disagrees with the Fund record	6,468
C. Members with Fund record but no corresponding HMRC record.	1,026
D. Members with HMRC record but with no corresponding Fund record	5,271
E. Members now cleared from the exercise	45,746
Total	91,369

The numbers in red (categories B,C&D) represent 'stalemate cases' and impacts 12,765 records out of 91,369 records

4.4 Stalemate cases represent those cases where it has not been possible to agree the GMP data held by HMRC with administration records. While in some cases it may be possible and reasonable to treat these as a 'life event' query in the future (if any suitable evidence exists), in practice it is expected that for the majority of cases a decision to either accept either HMRC or the administration record position as correct is required.

4.5 The Fund has carried out a series of reasonableness checks against the above stalemate cases in categories B, C and D above:

Category	APF Actions
B. Members where the GMP record held by HMRC disagrees with the Fund record	See separate table for Category B cases below.
C. Members with Fund record but no corresponding HMRC record.	Sample review of 30 cases completed. Evidence of GMP held on member record following previous transfer in
D. Members with HMRC record but with no corresponding Fund record	Reports run to establish liability. Either no record held on system, or member recorded as status 3 Exit. (i.e. transfer out or refund) Sample review of 100 cases completed.

#### Further analysis of Category B cases

<b>Membership Numbers at October 2023</b>	<b>6,468</b>	<b>APF Follow Up Action</b>
Members/Pensioners State Pension Age not met as at November 2024	4,740	GMP value to be input/corrected
SPA met; potential overpayment within HM Treasury tolerance (£2 pw)	635	No action
SPA met; potential overpayment in excess of HM Treasury tolerance	816	Decision required to correct/recover
SPA met, potential underpayment	277	Rectification of all underpayment cases identified

4.6 4,740 of the 6,468 cases identified are under SPA. HMRC data can be accepted, and records updated as part of BAU. Since the GMP is not yet in effect, full rectification is not applicable

4.7 635 cases were identified where scheme and HMRC GMP at GMP payment date is within the £2 per week tolerance level advised by HM Treasury in its easement guidance for public sector pension schemes. No further rectification required.

4.8 Where SPA has been met and HMRC GMP at GMP payment date exceeds the £2 p/w tolerance; 816 potential cases have been identified as overpayments whilst similarly, a potential 277 underpayment cases have been identified.

4.9 The table below show the total estimated values by population of pensioners broken down into age bandings:

Age Banding	Underpaid Cases	Total Additional Value £	Overpaid Cases	Total Reduced Value £
Under 60	0	0	0	0
60 - 64	0	0	0	0
65 - 69	108	26,162	366	302,506
70 - 74	74	25,553	229	233,796
75 - 79	39	10,286	80	68,209
80 - 84	28	12,164	69	59,636
85 - 89	15	5,976	49	40,499
Over 90	13	4,275	23	28,621
	<b>277</b>	<b>84,416</b>	<b>816</b>	<b>733,267</b>

4.1.1 Average underpayment = £304 pa.

4.1.2 Average Overpayment = £898 pa . Highest value = £3,179 pa.

5 Further individual interrogation and analysis against Category B (under and overpayment) cases identified will be required to establish final and absolute totals.

5.1 Updates on progress against cases identified will continue to be brought to the Pension Board and Pension Committee for review in future reports.