

**PENSIONS COMMITTEE**  
**28 NOVEMBER 2018****ADMINISTERING AUTHORITY – ADMINISTRATION**  
**UPDATE**

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**Recommendation**

1. **The Head of Human Resources and Organisational Development recommends that:**
  - a) **Option 1 – Accept Admin Records for Dependants ineligible for GMP be supported;**
  - b) **the update on the Guaranteed Minimum Pension (GMP) Reconciliation exercise be noted; and**
  - c) **the general update from the Administering Authority be noted.**

**Guaranteed Minimum Pension (GMP) Reconciliation exercise – Project update****Project Update**

2. ITM have confirmed that all discrepancies have now been investigated and the remaining queries arising have been raised with HMRC. Please note that although the deadline for queries was 31 October a batch of queries had to be raised on 1 November as 'Shared Workspace' became unavailable for a short period. ITM have contacted HMRC about the downtime and assurance is awaited that all query files that do not meet the criteria for automated processing would be accepted. HMRC will be running automated processing for specific query types e.g On Admin/Not HMRC during November and December.
3. The Appendix provides the project dashboard update as at 5 November 2018.

**Dependants ineligible for GMP**

4. Committee are asked to review the options available with regard to dependant pensioners for whom the linked deceased member had contracted-out service but where HMRC's records state that there is no qualifying spouse.

**Background**

5. HMRC's criteria for the widow or widower of a deceased pension scheme member to be awarded contracted-out benefits, including entitlement to a widow's/widower's GMP, are as follows:

- They must have been legally married (this includes civil partnerships and same sex marriages). Unmarried partners do not qualify.
- The surviving spouse must qualify for state bereavement benefits. This would normally arise if the surviving spouse was aged 45 or over at date of death.
- The surviving spouse claims the state bereavement benefits.

6. A spouse's GMP liability would only arise where the deceased member had accrued a GMP liability and all three of these criteria are met. Spouse's GMP liabilities do not arise for child pensioners, adult dependants and other dependants who are not married, even where the scheme awards them pension benefits.

7. Where a widow's GMP liability arises this is half the GMP due to the deceased member at date of death. For widowers, civil partners and same sex marriages of either sex then widower's benefits arise. Where a widower's GMP liability arises, it is half the post-88 GMP due to the deceased member at date of death.

8. HMRC's responses to the 'On Admin, no record on HMRC' has highlighted initially 152 cases where HMRC records show that there is no qualifying spouse and therefore no contracted-out rights (including GMP entitlement) for the surviving spouse. The decision of the Committee would be used in respect of any other cases received back from HMRC.

9. It is possible that in these cases the deceased member and surviving spouse were not legally married but that a dependant's pension was put into payment. It is also possible that the dependant did not qualify for state bereavement benefits (e.g. if aged under 45 at date of death) or even that they did qualify for state bereavement benefits but chose not to claim these. An approach to reconcile these cases where HMRC records no widow(er)'s GMP liability, yet the administration data records a widow(er)'s liability, is required.

10. Although it is possible to undertake further file reviews – to assess for evidence that supports the dependant being legally married to the deceased (including being in a civil partnership or same sex marriage) and that the dependant was aged over 45 at date of death. It might also be possible to prove to HMRC that there was a qualifying spouse, however it would not be possible to prove whether or not state bereavement benefits were claimed. Discussions with HMRC confirm that for a query response of this type, their records show that state bereavement benefits were not claimed and, no matter what evidence is put forward, they will not change this position. As a result further file reviews to challenge HMRC are not recommended.

11. In light of this Committee are asked to either, accept the admin record (and keep the GMP in payment), or accept the HMRC record (and set the GMP to zero).

## 12. Options

### 1) Accept the Admin Record

The GMP value recorded on the admin pension in payment record is accepted as being correct. No amendment to the record is required and no change to the pension in payment would arise.

According to HMRC there is no GMP liability, therefore the scheme would effectively be recording a 'virtual' GMP for the purposes of calculating pension increases. Such a virtual GMP would be excess benefits that are treated as if they were GMP for pension increase purposes.

#### Points to note:

- This approach enables the Fund to maintain consistency in its application of the Regulations. (Under Option 2 we would only look at current dependant

pensions not deceased dependant pensioners)

- The Scheme Regulations do not say that the benefit payable under the scheme is impacted by whether a dependant pensioner, as an individual, has claimed state payments such as bereavement benefits.
- For most dependants affected this would result in less generous pension increases than would be awarded if the GMP was converted to pre-97 excess benefits. (In recent years - the post 88 GMP is on a par with PI)

## 2) Accept the HMRC record

HMRC records show that there is no GMP liability for these dependant pensioners as bereavement benefits were not claimed. If the HMRC position is accepted then the admin record should be updated to record a zero GMP for these pensioners. It follows that the dependant's benefits would require rectification which may involve correcting pension increases from date of death to the present date.

Correction of pension increases from date of death would, in almost all cases, result in a rectified dependant's pension that is higher than that currently in payment as increases to the excess pension tend to be more generous than statutory GMP increases. It may then also be necessary to make good any past underpayment.

Points to note:

- Administration resource implication to change records
- There has been no mechanism in place with HMRC to provide notification to pension schemes confirming whether a member has claimed state benefits
- HMRC have indicated that their bereavement records are not very good.
- There will be a cost to the scheme in respect of increased pension payments (for example conversion of pre-88 GMP which receives no increase from the scheme at all to pre-97 excess pension which receives full Pensions Increase), record updates and communication to affected members

### Data Quality

13. The Administering Authority has purchased software to enable our system provider to produce a detailed set of reports on quality of our 'common' data and 'specific' data which is bench marked against The Pensions Regulator guidelines. The report produced an Improvement Plan to enable us to review and amend any records where a data failure occurred which was provided to the last Committee.

14. The Administration Team are actively working towards the end of March 2019 to complete the Improvement Plan, however they have looked at the high priority cases, and working through each category, with only 3 cases where deferred benefits have had to be recalculated due to amendment to service details. No amendments have been required to pensions in payment. The majority of amendments related to how data has been recorded historically, with no effect on the benefits

15. A summary of the **scheme specific data** is as follows:

- **Member benefits:** The majority of these have been looked at and we have only found 3 cases where the deferred benefits have had to be recalculated – the

- pension was not in payment;
- **Care Benefits:** The majority have been corrected following year end postings. We will review any outstanding data failures;
- **Contracted Out Category** – these cases will be picked up in the GMP Reconciliation exercise;
- **HMRC Category** – not yet looked at;
- **Member details category** – We have looked at the category with the biggest fail, being contributions, and cleared 18,000 by doing a roll up of contributions and have been corrected by year end posting. We will review any outstanding data failures.

16. A summary of the **common data**:

The data errors recorded as high priority have been investigated, the majority are data view recording errors which when all corrected will remove these errors from future reports.

The overall percentage was 99%, biggest fail was addresses, so we are reviewing alternative ways of tracing members. This was raised at the last Administration Forum to encourage employers to notify the Fund of change of addresses and also to include a reminder in their acknowledgment letters for leavers to contact the Fund directly if they move house in the future.

We will also be contacting members directly where we have a temporary NI number

### **Funding Strategy Statement – Exit Credits**

17. The new Local Government Pension Scheme (LGPS) (Amendment) Regulations 2018 introduced changes to Regulation 64 which provides more flexibility for administering authorities to manage liabilities when scheme employers cease to have active members in their Fund. As a result of these changes there is a need to update the existing termination policy within the Funding Strategy Statement (FSS). Historically, the Regulations did not allow a surplus of assets over liabilities to be paid out of the Fund when an employer terminated (for example when the last active member leaves the Fund or the admission agreement comes to an end) whereas a payment would be required to cover any residual deficit or this deficit would be subsumed by another body in the Fund. The Regulation change means that if an employer exits the Fund and the resultant actuarial assessment shows a surplus, the cash amount can now be returned to the exiting employer.

18. We will be consulting with all employers during November/early December on an amendment to the FSS in the light of the above changes and a report on the outcome of the consultation and proposed changes to the termination policy within the FSS will be brought to the next Pensions Committee for approval. In addition wording in our Admission Agreements to reflect the exit credit changes will need to be updated and a review of our commercial contracts to ensure consistency of approach.

### **Future of Pension Scheme**

19. We understand that a review is planned to consider the future of the Pension Scheme and its management. A verbal update from the Local Government Association/Scheme Advisory Board has confirmed that it is not their intention (neither is it an option being considered) for the Scheme to move out of Local Government control.

20. Two options are going to be actively considered and we understand that an external company will be engaged to come out and speak to funds and key individuals about views on the future shape of LGPS Governance.

### **Administration Strategy**

21. The Engagement Manager is currently reviewing the Fund's Administration Strategy, in consultation with key employer stakeholders, and the Committee will be asked to review and approve the revised Strategy at their next meeting

### **Covenant Review**

22. Covenant is the measure of how certain the Fund can be that an employer will be able to support its liabilities and pay contributions due. The weaker the covenant means the higher the risk.

23. To enable to Fund to assess employers, initially we have split the Fund employers by body type (see Table 1)

Table 1:

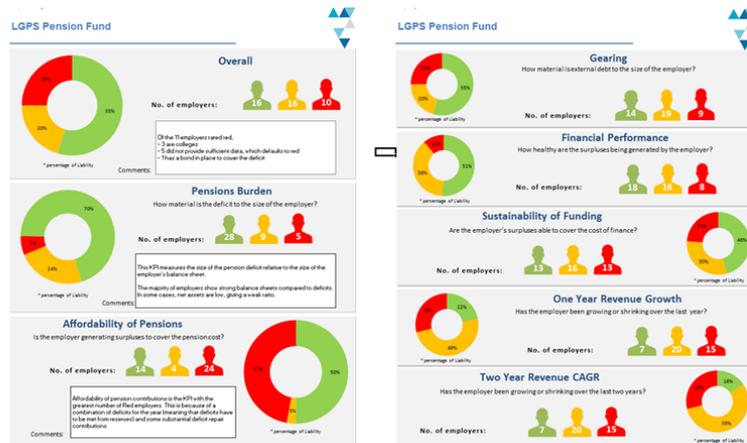
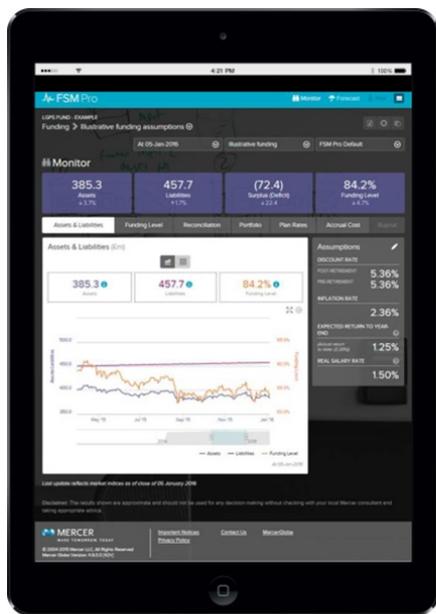
Body Type	Number
Councils	19
Colleges / Universities	9
Town and Parish Councils	25
Open Community Admitted Body Status (CAB)	8
Closed CABS	5
Open Transferred Admitted Body Status (TABS)	11
Closed TABS	24
Academies	78
Orphan	26

24. All employers were contacted over the summer 2018 to request details of their latest accounts data and to date we have received approx. 50% back. Employers were reminded at the last Administration Forum (22 October) of the importance of the review and to complete and return their details. For employers unable to attend the Forum a reminder was included in the slides which were sent out afterwards.

25. Responses received have been forwarded to the Actuary for analysis of the employers' financial strength, sustainability and ability to meet pension costs and a traffic light system will be used to identify/rate high risk (see example in Table 2).

Table 2

## MONITORING THE OUTPUTS



26. We will continue to follow up with those employers who have yet to respond.

27. The outputs of this exercise will be used to enter into/continue dialogue with the high risk employers and to tailor strategies for valuation, funding and investment. A report on the outcome of the covenant review will be brought to the March 2019 Committee.

### Contact Points

#### County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

#### Specific Contact Points for this report

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### Supporting Information

- Appendix – Project dashboard

### Background Papers

In the opinion of the proper officer (in this case the Director of Commercial and Change) there are no background papers relating to the subject matter of this report.