

## **PENSION FUND COMMITTEE – 11 SEPTEMBER 2020**

### **GMP RECTIFICATION REPORT**

#### **Report by the Director of Finance**

#### **RECOMMENDATIONS**

The Committee is **RECOMMENDED** to confirm:

- a) That no trivial threshold amount should be applied to any identified member records;
- b) That any underpayments identified should be paid to members as soon as possible on receipt of a final report from ITM, and interest paid in line with LGPS Regulations;
- c) There should be no recovery of any historic overpaid pension identified by this exercise, and that members should be given 3 months written notice before any reduction identified by this exercise is applied to their pension in payment.

#### **Introduction**

1. Since 2015 there has been a national exercise for pension funds to reconcile the guaranteed minimum pension (GMP) value held on member's records with the values held by HMRC. Whilst the majority of records held by both public and private sector matched to the data held by HMRC, there were a number of discrepancies resulting from incorrect or incomplete information being passed between scheme employers, pension funds and HMRC. With the ending of contracting out and the scaling down of the HMRC team, all Pension Funds were required to reconcile their data with HMRC and agree the correct records.
2. ITM Limited has been undertaking this exercise on behalf of the Oxfordshire Pension Fund. Following corrections to HMRC records identified as incorrect, ITM received the final data cut from HMRC in May and have produced a provisional results report for both LGPS and Fire Pension Scheme. It was the Officers intention to present these reports to the Committee today to support the decisions required on the way forward. Unfortunately, a number of discrepancies have been identified in the reports, and ITM have been asked to undertake further work to correct these and submit revised reports.

#### **Rectification Process and Issues**

3. At the start of the project, Officers, in line with their counterparts across the pension sector determined that any GMP amount within £2.00 a week of the value held by HMRC would not be included in the reconciliation project. It was also determined that no work would be undertaken on the pension records of deceased members, though the impact on survivor/dependent pensions would be part of the project.
4. For all records in scope, ITM completed analysis of the data held by HMRC and on the pension record to determine the correct level of GMP. The analysis has identified cases where pensions have been overpaid, and where pensions have been underpaid. It is also the case that due to the complex nature of the GMP calculations, there are individuals where different elements of the pension can have been both underpaid and overpaid.
5. ITM have been asked to provide a report which identifies both the level of over/under payment in pensions currently in payment, and the historic level of all under and over payments. These historic calculations would be based on the State Pension Age (SPA) for pensioner members and for dependent member records it would be from the date of death of the scheme member. No historic calculations would go back beyond April 1978, when GMP was introduced.
6. In order to move to the rectification process ITM are seeking members view on a number of questions. These are detailed below alongside comments from officers. Unfortunately, due to the discrepancies in the draft reports produced by ITM, it has not been possible at this point to quantify the financial impact of any of these decisions. As such, Members may wish to defer decisions to a future meeting, noting that deferral in itself will potentially have financial consequences as set out within the Officer comments below.

*Q – is it acceptable to operate a trivial threshold?*

The work completed to date has identified that for a number of the members impacted by error in their GMP figure, the total impact on their annual pension is below £10 per annum. ITM are therefore asking whether it is acceptable to define £10 as a trivial threshold and not make any adjustments in respect of these records.

The officers view is that given the £2.00 per week tolerance was applied to the GMP figure at the beginning of this process, it does not make sense to apply further thresholds when the whole purpose of this exercise is to ensure that the correct value of GMP is recorded and the correct pension payment is made.

At this point, we have no reliable data on which to assess the financial impact overall of the operation of a trivial threshold in terms of either the on-going pensions in payment or the historic over and underpayments.

*Q – is it acceptable to operate trivial threshold in respect of underpaid members?*

The officers view is no trivial thresholds should be applied. If scheme members have been underpaid pension because of an incorrect GMP then this should be corrected. Whilst we do not have an accurate figure of the cost of correcting the underpayment of pensions, Officers believe this decision should be made on the basis of principle rather than a potential saving at the expense of individual members.

*Q – whether and how underpaid pensions in payment will be corrected?*

It is the intention of Officers that once a final report and supporting data has been provided by ITM, we should write to all pensioners and dependents who have suffered an underpayment of pension, setting out the correct pension they should now be in receipt of, along with the historic underpayment. We would expect to correct the pension in payment and make payment of the historic payments owed as soon as practically possible. In line with LGPS Regulations, we would expect to pay interest on all underpaid amounts. Guidance from the Home Office has indicated they whilst it is not expected that interest would be added to underpayments, Fire Authorities are free to do so, funded from their operational budgets.

*Q – whether and how overpaid pensions in payment will be corrected?*

The Fund cannot knowingly make incorrect payments to any scheme member. Therefore, the pension in payment must be adjusted to the correct value. However, given the complexities around GMP it would be unfair to assume that the member could have had any knowledge or understanding that this resulted in their pension being overpaid. It is therefore the officer's recommendation that whilst the pension value is corrected, there will not be any recovery of overpaid amounts. Until we receive a corrected report from ITM, it is not possible to confirm the total level of historic overpayments that would need to be written off, but early drafts of the reports suggested the figure could be in the region of £300,000 spread over 200+ pensioners. The maximum historic overpayment identified to date is just under £19,000 to a pensioner member.

The draft reports received from ITM did not identify any Fire cases which require the record to be corrected, but work was still outstanding on a small number of cases. The Home Office guidance has confirmed that no attempt should be made to recover historic overpayments in the case of firefighters.

In many cases, the scheme member will have been in receipt of the overpaid pension for a number of years, and therefore Officers do not believe it is equitable to implement an immediate reduction in pension without providing prior notice. We would recommend a notice period of 3 months. On the assumption that the decision not to seek recovery of historic pension overpayments, the decision to delay correction to current payments will result in the writing off of further overpaid sums. Again, we require a final report from ITM to identify the total on-going monthly overpayment, but the initial draft reports suggested a figure in the region of £2,750.

*Q – whether historic overpayments will be clawed back and whether interest will be applied?*

See above.

**LORNA BAXTER**  
Director of Finance

Background papers: None  
Contact Officer: Sally Fox - Tel: 01865 323854

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