

Appendix 2 - Guaranteed Minimum Pension (GMP) reconciliation and rectification

Following the end of contracting out in April 2016, HMRC will be sending a statement to all individuals affected, stating who is responsible for paying their Guaranteed Minimum Pension (GMP).

A GMP is the minimum amount of pension that we have to provide to a pension scheme member who was contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997. A GMP is not a separate benefit paid in addition to a scheme member's pension, but it is paid as part of their pension, and pensions increases on it are calculated separately.

Lambeth Pension Fund therefore needed to reconcile the GMP values it holds for members with those calculated by HMRC or face making overpayments to existing members and even individuals for whom the Fund believes it has no liability.

Errors in GMP values can lead to potentially significant pension overpayments. The reconciliation of GMP values was not a mandatory regulatory requirement, however we would have faced significant risks if we chose not to reconcile values. These include: incorrect calculation of GMPs by HMRC which would increase the fund's liability; liability for GMP's that are not Lambeth's responsibility; and breach of The Pensions Regulator's (TPR) code of practice regarding record keeping.

In September 2017 Lambeth Pensions arranged for ITM Ltd to carry out Stage 1 of the reconciliation project which involved matching our GMP records with those held by HMRC. Their analysis found discrepancies between Lambeth's Altair pensions system and HMRC, with no direct match for 7,879 records which equates to 34% of the membership, this figure was similar to other pension funds.

In June 2018, using National LGPS Frameworks, a contract was awarded to ITM Ltd to deal with Stages 2 and 3 of the project. Stage 2 involved dealing with mismatches between Lambeth's data and that held by HMRC.

The Stage 2 work has almost been completed and there is some overlap with Stage 3. Since October 2019 ITM have been completing the GMP comparison using HMRC's final data extract, and working on test cases for rectifying GMP details in respect of pensioners and dependents. A meeting will be held in January 2020 to go through and agree test cases for over and under payments. It is anticipated that the Stage 2 work will be finalised in the next few weeks.

The Stage 3 process will involve the rectification of Lambeth's GMP and pensions data in conjunction with Heywood Ltd (the pensions administration system supplier) who will supply Altair tools. There will also be a review of the pension correction methods and approach, such as proposals to simplify treatment of trivial cases, proposals for administering under/over payments, and confirmation that methods are fit for purpose. This review will be carried out in consultation with Lambeth Legal Services, Hymans Robertson and the Pension Committee. The Stage 3 work is estimated to be completed by 31 May 2020.