

GMP comparison report for Shropshire County Pension Fund

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1 Executive summary

1.1 Overview

This report summarises the results of the independent Guaranteed Minimum Pension (GMP) comparison undertaken by ITM Limited (ITM) for Shropshire County Pension Fund (the Fund) on behalf of Shropshire County Council (the Client). A separate report has been provided for the Firefighter's Pension Scheme.

A GMP reconciliation can be thought of as a 2 stage process, although these stages can be actioned simultaneously. The first stage comprises a population reconciliation in order to compare the membership data provided by Her Majesty's Revenue and Customs (HMRC) with that held on the Fund records. Frequently this comparison leads to a number of members who are either held on HMRC's records but not on the administration system or vice versa. These membership issues can be more important than the GMP reconciliation in terms of the finances of the Fund and until these issues are addressed the GMPs cannot be fully reconciled.

The second part of the process is the GMP value reconciliation itself. Initially GMPs can only be compared for members held on both HMRC's records and the administration system, but following the membership reconciliation further GMP differences may be identified.

The summary of ITM's findings, along with our recommendations for future activity, is given in this Executive Summary. Further detailed analysis on the reconciliation is supplied in the remainder of the report.



1.2 Population reconciliation

The following table provides a summary of the population analysis that ITM has conducted on the data provided. This reconciles the Fund population recorded by the administrator with the data held by HMRC.

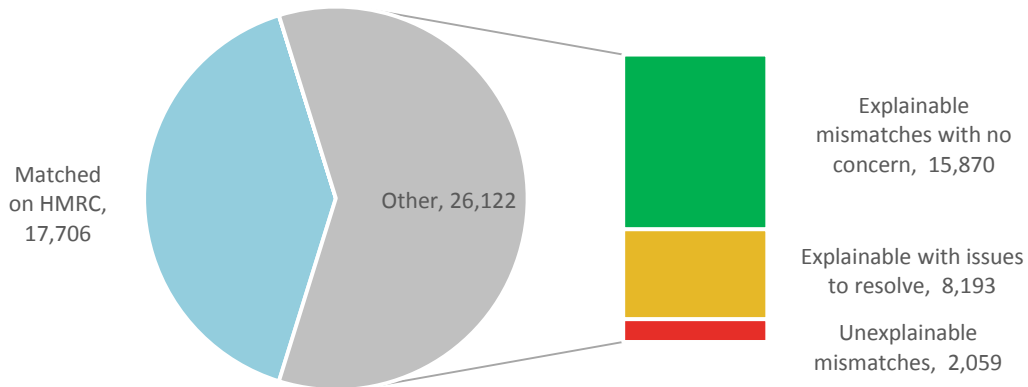
	Active	Below GMP age		Above GMP age		Widow(er)*	Unknown	Total
		Deferred	Pensioner	Deferred	Pensioner			
Total admin system population	17,433	15,042	1,409	701	8,016	1,227	0	43,828
- On admin system but no HMRC record	16,708	5,950	255	413	2,295	501	0	26,122
= On both admin and HMRC records	725	9,092	1,154	288	5,721	726	0	17,706
+ On HMRC records but not admin system	0	2,254		1,291		105	124	3,774
= Total HMRC records population	725	12,500		7,300		831	124	21,480

Note that the HMRC status is based on whether the member is over or under GMP age. As a result the deferred members under GMP age and pensioners under GMP age are both recorded as deferred members on HMRC data. Likewise deferred members over GMP age and pensioners over GMP age are both recorded as pensioners on HMRC data. Also note that HMRC's Scheme Reconciliation Service (SRS) data is not intended to include active members still in contracted-out employment. To obtain data on these members HMRC's Contracted-Out Contributions/Earnings Information Service (COCIS) data should be requested in addition to SRS data. Of those that do nevertheless appear, the majority are likely to be previously deferred members for whom HMRC either have not been informed that their deferment has ceased, or did not update their records correctly when they were.

The discrepancies between the administration and HMRC records can be caused by a wide range of factors, many of which can be easily explained. ITM has analysed these discrepancies and identified cases where there is the greatest cause for concern.

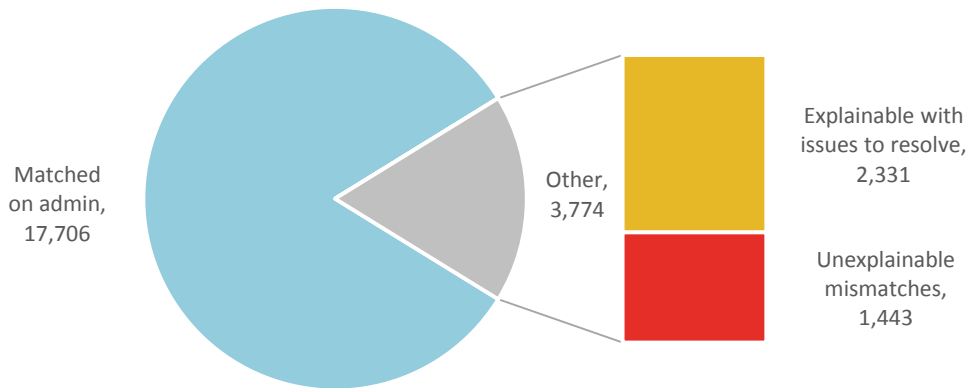
This analysis is summarised by the following charts.

Administration records



This shows that of the 26,122 administration records where there is no direct match on the HMRC data, our analysis provides a probable explanation for 24,063 records. Of these, 15,870 are of no concern because they are in respect of active records without a transferred in GMP or other special GMP liability.

HMRC records



Here, it can be seen that 1,443 of the 3,774 HMRC records that could not initially be matched to administration data require much more extensive investigation.

1.3 GMP reconciliation

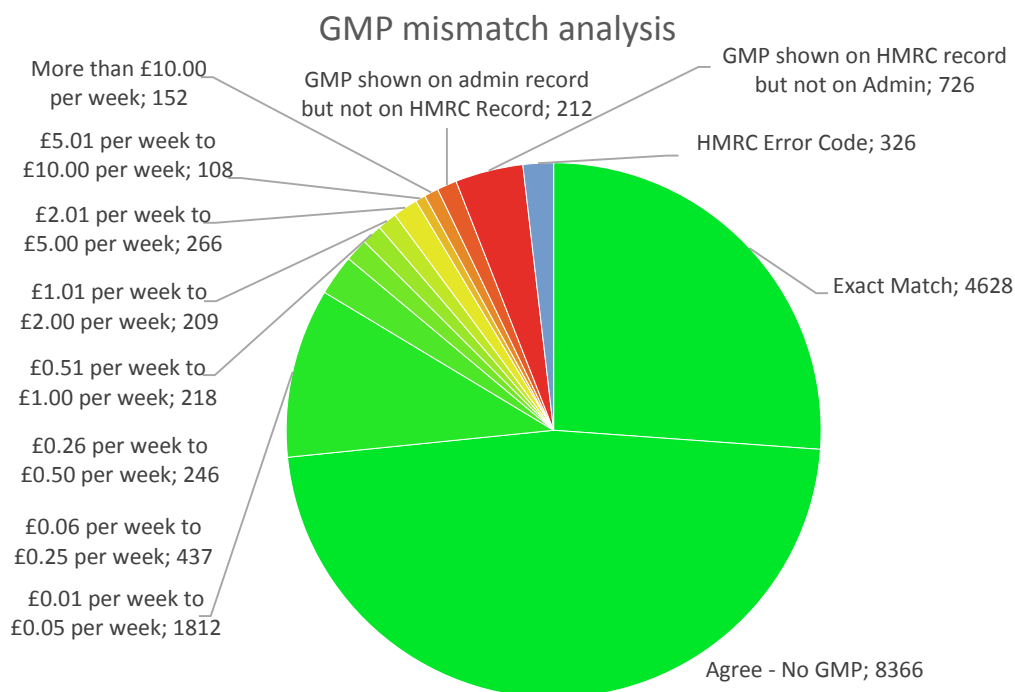
For the Fund population, GMP values have been compared with figures supplied by HMRC. The results of this comparison are summarised below.

GMP match tolerance	Active	Below GMP age		Above GMP age		Widow(er)	Total
		Deferred	Pensioner	Deferred	Pensioner		
Exact match on GMP	35	1,924	732	53	1,813	71	4,628
Agrees, no GMP *	420	6,520	275	182	932	37	8,366
£0.01 to £0.05 per week	6	82	5	24	1,677	18	1,812
£0.06 to £0.25 per week	3	39	4	10	357	24	437
£0.26 to £0.50 per week	2	17	0	3	208	16	246
£0.51 to £1.00 per week	2	21	4	0	157	34	218
£1.01 to £2.00 per week	4	37	2	0	117	49	209
£2.01 to £5.00 per week	2	41	6	0	119	98	266
£5.01 to £10.00 per week	1	21	4	1	60	21	108
More than £10.00 per week	3	7	12	0	112	18	152
No GMP recorded on HMRC list **	2	130	30	0	48	2	212
No GMP recorded on Admin list **	245	253	80	15	80	53	726
HMRC error code	0	0	0	0	41	285	326
Total records on admin and HMRC	725	9,092	1,154	288	5,721	726	17,706

* Members where GMP is zero on both administration and HMRC records.

** Members who are on both the admin and HMRC lists but only have a GMP value on one of them. 34 of the 80 pensioners are females who are over GMP age but under SPA, and not a concern. This includes some members who have inconsistently held data on admin that could not be used in the GMP comparison process for this report.

This analysis is summarised in the following chart.



1.4 Conclusions and recommendations

The key findings of this report are:

- Initially our analysis showed that 26,122 of the 43,828 admin system population have no HMRC record. However, many of these can be quite easily explained. A likely explanation for 24,063 cases has been identified. The remaining 2,059 members would need more extensive investigative work. Our comments and suggestions are detailed in Section 3.2.1 below.
- Initially our analysis also showed that HMRC hold records for 3,774 members who are not held on the admin system. However, we have been able to identify potential reasons for the mismatches in 2,331 cases, leaving a further 1,443 members who would require more extensive investigation. This includes 946 records for people under State Pension Age who will be written to by HMRC between now and December 2018 to advise that they had contracted-out service in the Fund, and hence may contact the Fund at that point to make this claim. Further commentary is provided in Section 3.2.2 below.

- In addition, HMRC records 450 members contained an error code meaning that HMRC's own records were insufficient to produce a reconciled GMP figure. 326 of these error code HMRC records could be matched to an administration record. These will all need to be queried with HMRC however.
- There are 291 pensioners and 137 widow(er)s currently in receipt of GMPs that differ from the HMRC recorded amounts by more than the commonly accepted £2 per week tolerance. These cases will need to be investigated by a number of methods using approaches that will be proposed by ITM. If it is determined that the Fund's GMP is incorrect, then a plan to correct pensions will need to be considered.
- A further 22 pensioners under GMP age and 70 deferred pensioners have a GMP recorded that differs from the HMRC values by more than £2 per week. Again these cases will need to be investigated by a number of methods, and ITM will suggest approaches when we meet to review this report. If it is determined that the Fund's GMP is incorrect then a plan to correct pensions will need to be considered.
- There are 2,922 members where GMPs mismatch but by less than £2 per week. This discrepancy is within the commonly accepted tolerance level with HMRC so the HMRC figures will probably be accepted. A decision still needs to be taken on how to then correct administration records, and particularly pensions in payment.
- There are 11 dependant pensioners where there is no clear link back to the deceased member's record. These should all be investigated and linkages established wherever possible. Further GMP discrepancies may arise with dependants once matching has been completed.

The recommended actions following this report will be discussed in more detail at the meeting, the date of which will be confirmed shortly. These will cover two main areas of activity:

- Resolving population discrepancies:
 - On HMRC records but not on administration system
 - On administration system but not on HMRC records.
- Resolving GMP comparison discrepancies:
 - GMP mismatches over £2 per week
 - GMP is zero on administration system but non-zero on HMRC
 - GMP is zero on HMRC records but non-zero on administration system.

ITM will provide further details of our recommended approaches when we meet to discuss this report, and then look forward to being able to produce a formal proposal to further assist the Client with the GMP reconciliation.

2 Reconciliation approach

2.1 Methodology used

We have undertaken an automated reconciliation of the available data sources for the Fund's GMP records. This was done using our Data Analysis and Reporting Tool (eDAaRT). eDAaRT imports data from any pension administration system and uses SQL based queries to analyse the data held.

The findings of the automated reconciliation are validated by our team of analysts and, where appropriate, by reference to the Fund administrators.

All of the data, processes followed and outputs from this reconciliation are captured for audit purposes and can be used as reference for any future work that may be required to update or correct GMP records.

2.2 Data sources

Data used in this reconciliation has been supplied from the following sources.

Source	Contents
Administration system	<ul style="list-style-type: none">- Basic member data- Contracted out history- GMP benefit information
HMRC GMP data provided as a SRS file from HMRC systems	<ul style="list-style-type: none">- Basic member data- Contracting out dates- GMP benefit information

Within the administration system there are a number of different sources of GMP data, typically having been calculated at different dates. Part of the purpose of a GMP reconciliation is to ensure that members are being or will be paid their correct benefit entitlement. Accordingly we have derived the GMP data at 10th June 2015 from what we believe is the most appropriate source of GMP data as follows.

- For pensioners over GMP age we have taken the current GMP in payment and discounted back to state pension age (SPA).
- For widows and widowers in payment we have taken the current GMP in payment and discounted back to date of death (DOD). Where the member died after 10/06/2015 we have taken account of this and derived the member's GMP at date of exit (DOE).
- For deferred members and pensioners under GMP age we have taken the GMP values at date of leaving (DOL).

3 Analysis of GMP data

The following sections give the detailed findings of our analysis of the GMP data sources provided. Supplementary listings are available showing the members identified in each section.

3.1 ECON/SCON details

HMRC record contracted out details for individuals against two separate contracting out numbers.

ECON (Employer Contracting Out Number) – Payroll record submissions made by employers showing contracted out earnings for individuals in each tax year are recorded against the ECON. These records are made available to the Fund administrators via HMRC. It is common for there to be multiple ECONs that are applicable for members of a pension scheme resulting from mergers and acquisitions. ECONs that have been used in this analysis shown below.

ECON	Employer name
E3900002R	Public Sector Employers

SCON (Scheme Contracting Out Number) – When a member ceases active service in a scheme, the administrator notifies HMRC of this via submission of the appropriate CA form. HMRC then associates the period of contracted out service that has just ended with the SCON and calculates the GMP for this period using the contracted out earnings recorded under the separate ECON. As with ECONs, it is not unusual to find multiple SCONs associated with one current scheme. SCONs that have been used in this analysis are shown below.

SCON	Scheme
S2700166X	Shropshire County Pension Fund

The findings of our population analysis suggest there remain 9,414 members of the Fund where no HMRC record has been identified and most of whom should have contracted out service. It is therefore possible that further ECON / SCON information may enable these cases to be reconciled.

3.2 Population analysis

3.2.1 Members on administration system but not on HMRC records

Administration records for these members have been further analysed to determine the likely reasons for them not being identified by HMRC. This has resulted in the population groups shown in the table below. The suggested actions shown for each group should be considered.

Id	Reason for mismatch	Active	Below GMP age		Above GMP age		Widow(er)	Total
			Deferred	Pensioner	Deferred	Pensioner		
1	Unlinked dependant records	0	0	0	0	0	11	11

Suggested actions:

Carry out analysis of available data sources to establish as many links as possible. For the remaining links that cannot be established, member details should be submitted to HMRC for resolution.

2	Temporary or invalid NI numbers	6	66	0	10	0	3	85
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Suggested actions:

Note, the Widow(er) members relate to the NI numbers recorded for the original member. HMRC does not use temporary NI numbers in their records so it is not possible to match any of these members to the HMRC data. A combination of tracing and file review is suggested to identify the correct NI details for these members.

3	No period of GMP accrual within the Fund	15,250	5,334	164	265	1,017	109	22,139
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Suggested actions:

Member service is entirely pre 78 or post 97. Inform HMRC of post 97 joiners with contracted out service.

4	Active employees	16,708						16,708
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Suggested actions:

SRS files do not contain HMRC GMP data for members still in contracted-out service. It is recommended that COCIS data is requested. This will include contracting-out earnings/contributions data for these members, enabling their HMRC data to be matched to their administration record.

5	Multiple admin records	2,812	2,645	92	102	870	24	6,545
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Suggested actions:

These members have been identified because they have two administration records which cannot be uniquely matched to HMRC records. The data should be further analysed to resolve as many of these cases as possible.

The analysis above provides an explanation for 24,063 members in the administration data that cannot be linked to HMRC data. However, some of these members may be reported under multiple headings and so the total of the members in the table above may be higher.

This leaves the following population where there is no immediate identifiable reason for the members not to be present on HMRC records:

Status	Population
Active	0
Deferred (< GMP age)	474
Pensioner (< GMP age)	75
Deferred (> GMP age)	133
Pensioner (> GMP age)	1,014
Widow(er)	363
Total	2,059

It is conceivable that these members are recorded under a different SCON by HMRC. We would suggest that in the first instance termination notices are issued to HMRC for these members. In parallel with this, we suggest that Fund records are reviewed to check for the possibility of a different SCON having been used incorrectly in the past, or not transferred across as applicable.

3.2.2 Members on HMRC records but not on administration system

These records are normally expected to be for members who have no further liability within the Fund but HMRC records have not been updated to reflect this. This may also mean there is no HMRC record of a Contributions Equivalent Premium (CEP) being paid, or alternatively HMRC having been notified of a transfer out from the Fund or the full commutation of a member's benefit on the grounds of triviality.

Having analysed this population, the potential causes are given in the table below.

Id	Reason for mismatch	Deferred (< GMP age)	Pensioner (> GMP age)	Widow(er)	Unknown	Total
1	HMRC record links to a deceased member but not a dependant	2	50	90	62	204
Suggested actions:						
Carry out analysis of available data sources to establish as many links as possible. For the remaining links that cannot be established, member details should be submitted to HMRC for resolution. Others may be confirmed as cases where there was no dependant entitled to a pension, in which case HMRC should be informed.						
2	Transferred out and members still linked to SCON by HMRC	423	57	7	1	488
Suggested actions:						
Details of the transfer out should be supplied to HMRC for these members if this information can be obtained from the member files. In some cases this information may not be available and it will be necessary to consider contacting and writing to the members concerned.						
3	Refund of contributions and members still linked to SCON by HMRC	85	61	2	0	148
Suggested actions:						

Id	Reason for mismatch	Deferred (< GMP age)	Pensioner (> GMP age)	Widow(er)	Unknown	Total
	Confirm CEPs have been paid in order to remove Fund liability.					
4	HMRC record links to a full commutation admin record	54	196	6	7	263
	Suggested actions: These members may have taken full commutation on the grounds of triviality, in which case HMRC should be informed.					
5	Multiple records on HMRC	630	448	24	36	1,138
	Suggested actions: HMRC records indicate two separate periods of contracted out service for these members. This may indicate a transferred-in benefit or could be an error on HMRC records. The cases should be investigated.					
6	All other cases where HMRC record links to an unexpected or partial admin record	114	18	1	0	133
	Suggested actions: Analyse the administration records further and attempt to assign to explainable categories shown above, then carry out the relevant actions.					

The analysis above provides an explanation for 2,331 members in the HMRC data that cannot be linked to administration data. However, some of these members may be reported under multiple headings and so the total of the members in the table above may be higher.

This leaves the following population where there is no immediately identifiable explanation for why HMRC records are recorded against the Fund's SCOP. To consider the impact of this, a breakdown of these members together with their annualised GMP is given in the table below:

No record on administration system	Number of records	Total annual GMP (nearest £1,000)	Total annual GMP figures point of valuation
Members under State Pension Age	946	158,000	Date of Exit
Members over State Pension Age	461	415,000	State Pension Date
Widow(er)s	14	3,000	Date Pension Commenced
HMRC Error Code 5 records	22	N/A	N/A

The first row has been highlighted in Red to reflect the fact that most of the members in this group will be written to by HMRC in December 2018, with statements that will identify the Fund as a scheme in which they have had contracted-out service.

The other two groups are already in receipt of GMP, and it is understood that they will not be written to by HMRC in December 2018. In many cases it is likely that the members concerned are indeed receiving a pension, that includes this GMP liability, from another scheme, however there may be members where this is not the case – for example members whose GMP liability was intended to be extinguished in the past but the necessary payments were not processed correctly.

For all the members above the relevant “not in scheme” queries will be raised with HMRC. Further analysis will also be carried out to attempt to establish evidence that identifies the correct schemes that these members should be held under at HMRC, which will include requesting any further information or data sets available from the company, the Administrator, or any other parties. If no such useful evidence comes to light then recommendations will be made on a practical basis, taking account of the likelihood and materiality of potential future additional liabilities arising should members come forward.

3.3 GMP mismatch analysis

The table below provides analysis and recommendations where the Fund’s GMPs do not match HMRC records or fall within The Pensions Regulator’s recommended tolerance of £2 per week, or contracted out dates do not match.

Id	Reason for mismatch	Active	Below GMP age		Above GMP age		Widow(er)	Total
			Deferred	Pensioner	Deferred	Pensioner		
1	GMP matches but contracted out start and/or end dates do not match	16	651	247	21	660	17	1,612
Suggested actions:								
No immediate action for GMP values is required. However contracting out dates should be reviewed and corrected as necessary.								
2	GMP does not match exactly, is within tolerance and contracted out dates match	3	80	4	29	1,013	79	1,208
Suggested actions:								
If an initial tolerance level of £2 per week is accepted, then HMRC figures can be accepted for these members. A decision still needs to be taken on how to then correct administration records, and particularly pensions in payment.								
3	GMP does not match exactly, is within tolerance but contracted out dates do not match	14	116	11	8	1,503	62	1,714

Id	Reason for mismatch	Active	Below GMP age		Above GMP age		Widow(er)	Total
			Deferred	Pensioner	Deferred	Pensioner		

Suggested actions:

If an initial tolerance level of £2 per week is accepted, then HMRC figures can be accepted for these members, however contracting out dates should be reviewed and corrected as necessary. A decision still needs to be taken on how to then correct administration records, and particularly pensions in payment.

4	GMP outside tolerance and contracted out dates match	0	29	11	0	125	63	228
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Suggested actions:

These cases need investigation and correction as required. The correction may involve adjustment to pension in payment records. ITM recommend an approach that takes account of the materiality of the discrepancy on member benefits.

5	GMP outside tolerance and contracted out dates do not match	6	40	11	1	166	74	298
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Suggested actions:

These cases need investigation and correction as required. The correction may involve adjustment to pension in payment records. ITM recommend an approach that takes account of the materiality of the discrepancy on member benefits.

6	GMP outside tolerance and members have a transfer-in	0	132	19	1	782	34	968
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Suggested actions:

A GMP cleanse project should be carried out to further investigate, agree and rectify GMPs and associated data.

7	No record of original member's death on admin system						9	9
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Suggested actions:

These records should be reviewed. It is likely that they may be recent deaths that have not been updated on the administration records.