



LOCAL PENSION BOARD

16 JUNE 2016

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION INCREASE AND GUARANTEED MINIMUM PENSIONS

Purpose of the Report

1. To inform the Board of changes to the payment of pension increase and the national Guaranteed Minimum Pension reconciliation exercise.

Background

2. Prior to April 2016 when a pensioner reached State Pension Age (SPA) the pensions increase (PI) the pensioner was due on their Local Government Pension was split between the Pension Fund and the State. The split of PI is from the element of the pension known as the guaranteed minimum pension (GMP).

Because of changes to the state pension from April 2016 PI will now be paid in full by the Fund from April 2016 for pensioners and their spouse reaching SPA, up to December 2018. At this stage no decision has been made for pensioners and their spouses who reach SPA from December 2018.

For retirements before April 2016, in order for the PI to be paid correctly HMRC require Pension Funds to reconcile their GMP data to the state GMP data. This is a national exercise that will continue until December 2018.

Failure to have reconciled GMP data correctly could result in either over or under paid pensions.

Given the complexity and size of this exercise nationally a working group has been set up to look at this. Following the working groups recommendation HM Treasury have written to Department for Communities and Local Government allowing minor discrepancies between HMRC GMP data and Pension Fund data. This includes a £2 per week tolerance in the GMP amounts.

Split of PI on the GMP

3. Prior to April 2016 PI would have been paid as follows;

If a member retired before their state pension age (SPA) they received full PI on their pension from the LGPS.

4. When they reached SPA the GMP then “comes into effect” and PI would then be split between the Fund and the State.

5. The GMP is split into two values by HMRC;

GMP between 6/4/1978 and 5/4/1988 (known as the Pre 88 GMP)

GMP between 6/4/1988 and 5/4/1997 (known as the Post 88 GMP)

6. After SPA the LGPS does not pay PI on the Pre 88 GMP (this is paid by the state) so the member’s future LG pension paid by the LGPS increases at a reduced rate.

The LGPS only pays PI up to 3% on the Post 88 GMP (any excess over 3% is paid by the state). In times of low inflation, as currently when inflation is lower than 3%, PI does not change on the member’s LG pension on the Post 88 GMP element. In previous years (e.g. when PI was 5.2%) the pension scheme paid PI up to 3% on the Post 88 GMP and the state paid 2.2%.

7. However, for pensioners who reach their SPA from April 2016 the Fund pays the full PI.

8. Example where a member reaches their state pension age before April 2016;

a. Members original pension £10,000 at retirement

PI (20%) = 1.20

£10,000 x 1.20 = **£12,000** current value of pension paid by the LGPS

b. After state pension age before April 2016

GMP received from DWP = £52 per week

£52 x 52 weeks = £2,704 GMP per year (the pre and post 88 GMP figures are the same in this example)

Pre 88 GMP per year £1,352

Post 88 GMP per year £1,352

£12,000 - £2,704 = £9,296 (excess over GMP increases with full PI)

Pre 88 GMP = £1,352 (no PI paid by the scheme)

Post 88 GMP = £1,352 (only increases up to 3% paid by the scheme)

Total = **£12,000** value of pension paid by the LGPS

Therefore future PI paid by the LGPS is reduced by elements of the GMP.

9. Example where a member reaches their state pension age after April 2016;

a. Members original pension £10,000 at retirement
 PI (20%) = 1.20
 $£10,000 \times 1.20 = \mathbf{£12,000}$ current value of pension paid by the LGPS

b. At state pension age after April 2016
 PI (20%) = 1.20
 $£10,000 \times 1.20 = \mathbf{£12,000}$ value of pension paid by the LGPS remains with full PI paid on all elements of the GMP.

10. Reconciliation

Following national guidance changes above the £2 per week tolerance will be implemented and the pensions amended. Should pensions have been underpaid arrears will be calculated and paid. Given the complexity of the calculation and the amounts involved, it's extremely unlikely pensioners will have any knowledge their pension may have been incorrectly paid so it is unlikely overpayments will be collected.

HMRC have provided 46,681 member records for the Leicestershire Fund.

The Leicestershire Fund has an exact match on 34,038 records.

The remaining 12,643 records require investigation by the Pension Section to see how many of these are within the £2 per week tolerance limit. Any remaining cases will then require further investigation.

11. It is intended that from July 2016 one member of the Pension Team will be working 3 days per week on the GMP reconciliation exercise supported part time by another colleague.

12. Recommendation

The Board is asked to note this report.

13. Equal Opportunities Implications

None specific

14. Financial Implications

From April 2016 to December 2018 scheme members who reach state pension age and their spouse will have pension increase paid in full by the Pension Fund.

15. Appendix

None

Officers to Contact

Ian Howe – Pensions Manager - telephone (0116) 305 6945

Chris Tambini – Director of Finance - telephone (0116) 305 6199