

Contracted-out reconciliation

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Agenda

- What is contracted-out reconciliation?
 - ‘State Pension Reform’ – Why?
 - New state pension – 6 April 2016
 - Government assurances
 - Indexation of public service pension & payment of state pension before 6 April 2016
 - Indexation of public service pension & payment of state pension after 5 April 2016
 - Why reconcile?
 - The Law
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 - Summary
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What is contracted-out reconciliation?

- Data match of HMRC and pension Scheme records
 - Approximately 16 million contracted-out individuals in the UK (aggregate of active, deferred and pensioner members)
 - Typically matching the following records:
 - Name
 - NI Number
 - Contracted-out start date
 - Contracted-out end date
 - Type (active – deferred – pensioner – frozen refund)
 - Value of Guaranteed Minimum Pension (GMP)
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‘State Pension Reform’ – Why?

- Over-complex system built up over last 40-50 years
 - Basic State Pension
 - Graduated benefit
 - SERPS / Additional Pension (AP) & State 2nd Pension (S2P)
 - Contracting-out, contracting- out deductions
 - Remove complexity to allow individuals to know what pension to expect & how much extra they need to save
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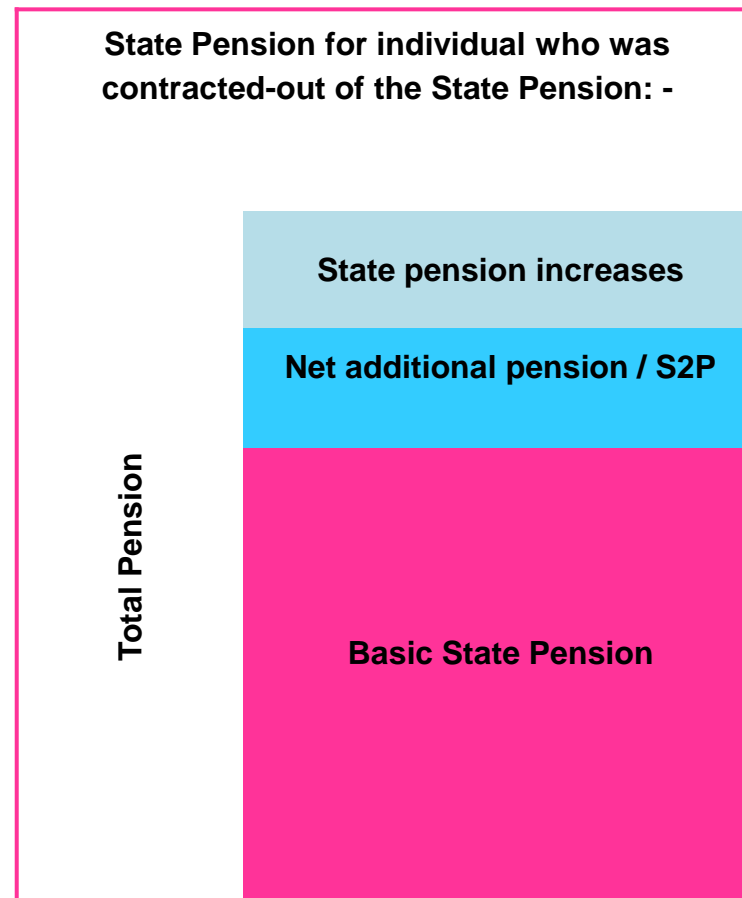
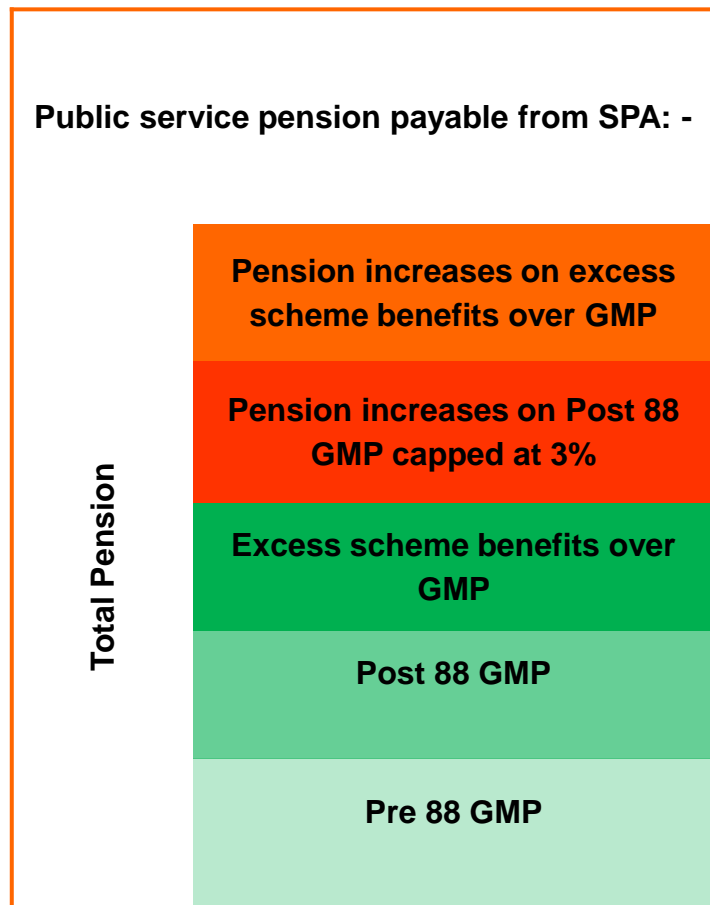
New State Pension (nSP)

- New State Pension (nSP) introduced – applies to individuals who reach SPA after 5 April 2016
 - Flat rate pension (no additional pension)
 - Previous contributions recognised
 - Weekly rate of old and new system and ‘better of’ = “Foundation Amount”
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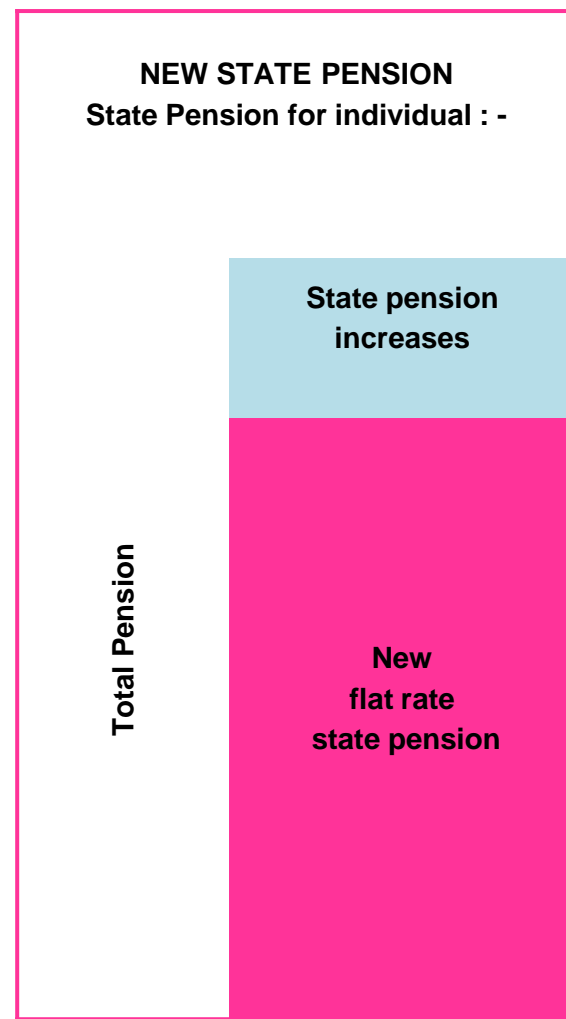
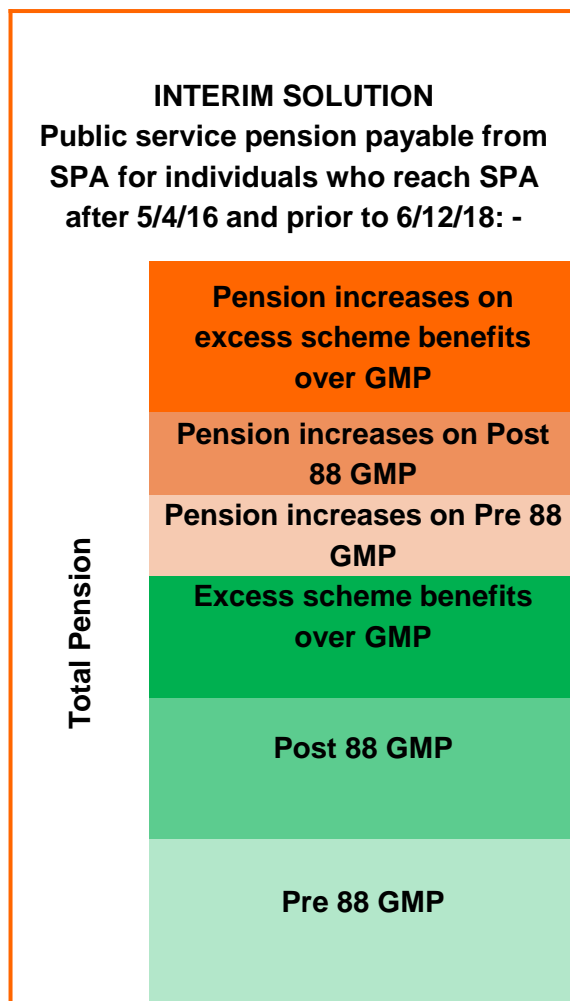
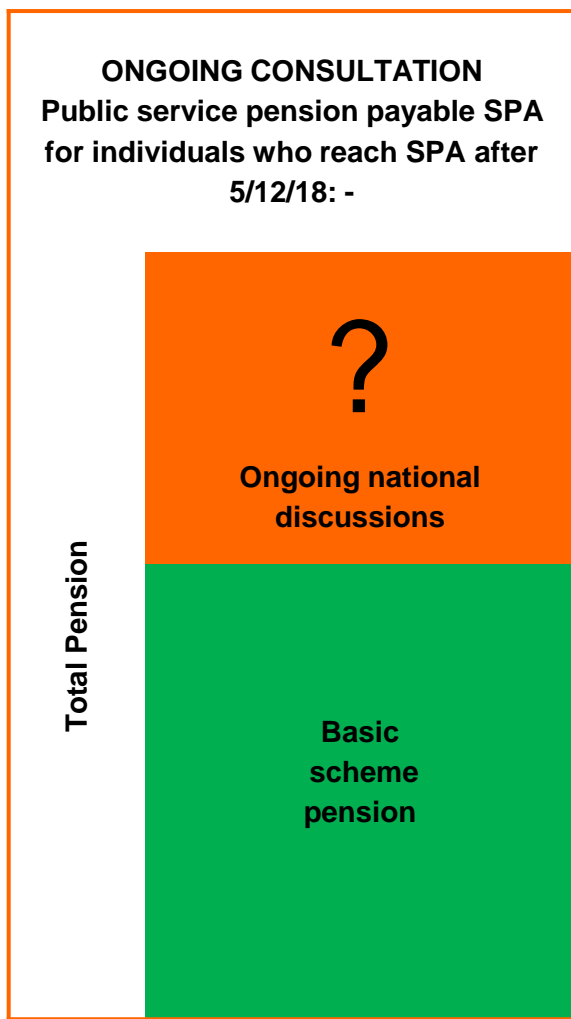
Government Assurances

- 20 May 1975, Mr Alec Jones (Minister for Social Security) gave assurances to the House of Commons that the GMP of public service schemes will receive price increases:
 - will nevertheless provide a guaranteed minimum pension which will receive the cost of living increases under the bill.
 - 14 December 1978, Mr Eric Deakins, (Minister in the Department for Health and Social Security) spoke of the Social Security Pensions Act 1975:
 - the intention in 1975, at the time of the passage of the Pensions Act, was in no way to depart from the principle that all official pensions are to be fully price-protected
 - So how was this achieved?
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Indexation of public service pension & payment of state pension before 6 April 2016



Indexation of public service pension & payment of state pension after 5 April 2016?



Why reconcile?

- Foundation amount of nSP based on contracted out service and contributions
 - Experience of HMRC data is proving to show scheme liability is not correct
 - Letter to contracted out members December 2018
 - Legal obligation?
 - *No but by virtue of the Law are you duty bound to reconcile? Lets discuss.....*
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The Law

Pensions Act 2004 – section 249B

Inserted by Schedule 4 of Public Service Pensions Act 2013

Requirement for internal controls: public service pension schemes - to support record keeping requirements

“(1)The scheme manager of a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed-

(a)in accordance with the scheme rules, and

(b)in accordance with the requirements of the law”.

The Law

Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014

Retention of records of member and beneficiary information

- *the name of each member and of each beneficiary*
 - *the date of birth of each member and of each beneficiary*
 - *the gender of each member and of each beneficiary*
 - *the last known postal address of each member and of each beneficiary*
 - *each member's identification number in respect of the scheme;*
 - *the national insurance number of each member who has been allocated such a number*
 - *in respect of each active, deferred and pensioner member:*
 - *the dates on which such member joins and leaves the scheme;*
 - *details of such member's employment with any employer participating in the scheme including*
 - *the period of pensionable service in that employment; and*
 - *the amount of pensionable earnings in each year of that employment.*
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The Law

Data Protection Act 1998 Schedule 1: The Data Protection Principles: Part I – The Principles

“(4) Personal data shall be accurate and, where necessary, kept up to date”.

The Law

Pensions Act 2004 – section 90A

Inserted by Schedule 4 of Public Service Pensions Act 2013

Codes of practice: public service pension schemes

“(1)The Regulator may, in relation to public service pension schemes, issue codes of practice-

(a)containing practical guidance in relation to the exercise of functions under relevant pensions legislation, and

*(5)A **code of practice issued under this section is admissible in evidence in any legal proceedings** (within the meaning of section 90) and, if any provision of such a code appears to the court or tribunal concerned to be relevant to any question arising in the proceedings, it must be taken into account in determining that question.”*

The Pensions Regulator

Governance and administration of public service pension schemes – Code 14 – April 2015

Internal controls and managing risks

Public service pension schemes need to have good internal controls. They are a key characteristic of a well-run scheme and will enable risks to the scheme to be managed effectively.

Record-keeping

Failing to maintain complete and accurate records can affect the ability of your public service pension scheme to carry out basic functions. Accurate record-keeping is crucial in ensuring that benefits are paid correctly.

The Pensions Regulator

Extract from ‘A quick guide to record-keeping’

“Public service scheme managers must keep records as specified in legislation including on transactions and pension board meetings and decisions”

“From 2017, some schemes will need to report their record-keeping score to us via the scheme return. We will use these scores to target schemes that are failing their duties, so its now more important than ever for schemes to get their records in order ”

The Pensions Regulator

Compliance and enforcement policy for public service pension schemes – June 2015

Relevant to anyone who has legal requirements or responsibilities relating to the management or administration of a public service pension scheme, or where those responsibilities have been delegated or outsourced – for example scheme managers, pension boards and administrators.

The Pensions Regulator

Compliance and enforcement policy for public service pension schemes – June 2015

“We expect those involved in the governance and administration of public service schemes to comply with the law and strive to deliver good outcomes for members, recognising that governance and administration standards and practices impact upon the overall service provided to members and other beneficiaries throughout their membership, including the payment of the correct benefits to the right people at the right time.

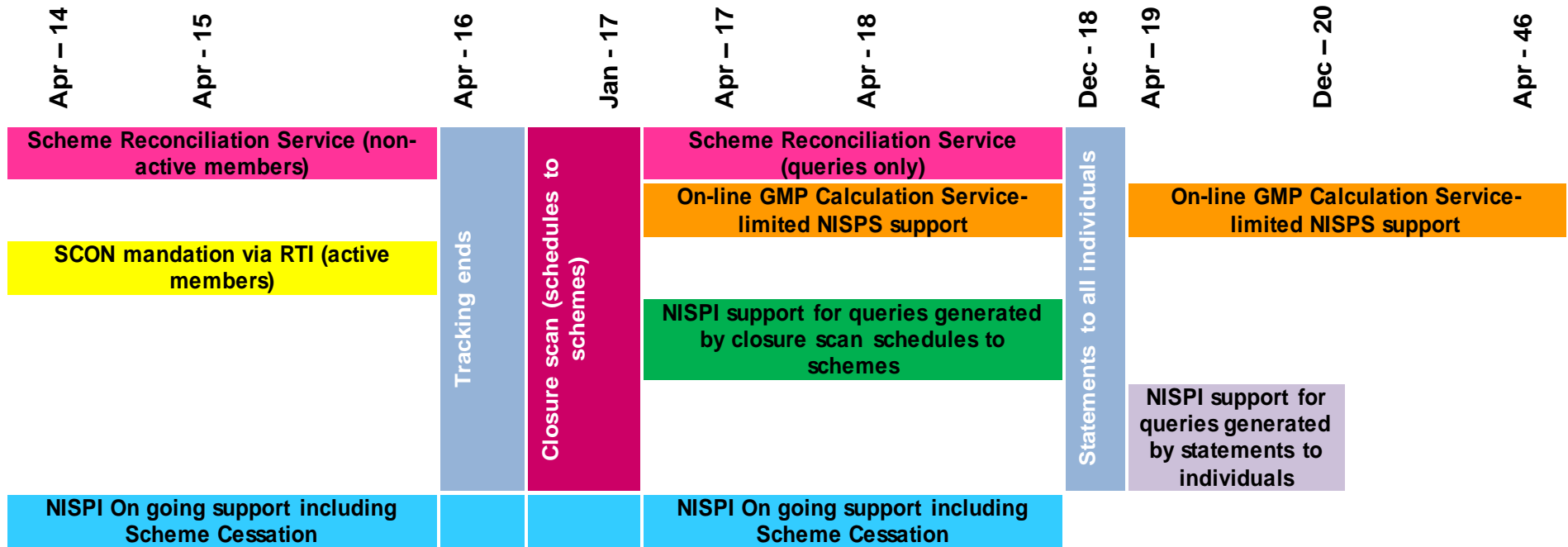
*However, we are aware that there may be situations where some schemes do not fulfil their responsibilities. **We regard failures to address poor standards and non-compliance with the law as unacceptable.** Should a scheme manager or pension board member (or other person responsible for complying with legal requirements) fail to comply with their legal requirements under pensions legislation, we may select from one or more of our enforcement options. These range from statutory compliance notices and monetary penalties, to criminal prosecution”.*

Duty bound to reconcile?

Key steps to reconciliation

1. Obtain Scheme data from HMRC
 2. Compare HMRC data with Scheme data
 3. Reconcile
 4. Update Scheme & HMRC data with outcome
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HMRC reconciliation timetable



Timeline based on current plans and assumptions, subject to change

Fire Brigade Statistics (as at 24/01/17)

Fire Brigade Scheme contracted -out numbers			Output	Queried
English	Avon	S2700000C	Yes	No
English	Bedfordshire (LPFA)	S2700001E	Yes	Yes
English	Berkshire (West Yorks PF)	S2700002H	Yes	No
English	Buckinghamshire (West Yorks PF)	S2700003K	Yes	No
English	Cambridgeshire (LGSS)	S2700004M	Yes	Yes
English	Cheshire (Mouchel)	S2700005P	Yes	No
English	Cleveland (Mouchel)	S2700006R	Yes	No
English	Cornwall	S2700008Y	Yes	No
English	Cumbria (Your Pens Service)	S2700009B	Yes	Yes
English	Derbyshire	S2700010F	Yes	Yes
English	Devon (Peninsula Pens)	S2700011J	Yes	No
English	Dorset	S2700012L	Yes	No
English	Durham	S2700013N	Yes	No
English	East Sussex	S2700045F	Yes	No
English	Essex	S2700015T	Yes	Yes
English	Gloucestershire	S2700019E	Yes	No
English	Greater London (LPFA)	S2700031Q	Yes	No
English	Greater Manchester	S2700020K	Yes	No
English	Hampshire	S2700023R	Yes	Yes
English	Hereford and Worcester	S2700024W	Yes	No
English	Hertfordshire (LPFA)	S2700025Y	Yes	No
English	Humberside (West Yorks PF)	S2700026B	Yes	No
English	Isles of Scilly	S2700040R	Yes	No
English	Isle of Wight	S2700050X	Yes	No
English	Kent	S2700027D	Yes	No

Fire Brigade Statistics (as at 24/01/17)

English	Lancashire (Your Pens Service)	S2700028F	Yes	No
English	Leicestershire	S2700029J	Yes	Yes
English	Lincolnshire	S2700030N	Yes	No
English	Merseyside (Your Pens Service)	S2700032T	Yes	Yes
English	Norfolk	S2700033X	Yes	Yes
English	North Yorkshire (West Yorks PF)	S2700052C	Yes	No
English	Northamptonshire (LGSS)	S2700034A	Yes	Yes
English	Northumberland	S2700035C	Yes	No
English	Nottinghamshire (Leics CC)	S2700036E	Yes	Yes
English	Oxfordshire	S2700037H	Yes	No
English	Somerset (Peninsula Pens)	S2700041W	Yes	No
English	South Yorkshire (West Yorks PF)	S2700053E	Yes	No
English	Staffordshire	S2700042Y	Yes	No
English	Suffolk	S2700043B	Yes	No
English	Surrey	S2700044D	Yes	No
English	Tyne & Wear (Sunderland CC)	S2700047L	Yes	No
English	Warwickshire	S2700048N	Yes	No
English	West Midlands	S2700049Q	Yes	No
English	West Sussex (Capita)	S2700046J	Yes	No
English	West Yorkshire	S2700054H	Yes	No
English	Wiltshire	S2700051A	Yes	Yes

Summary

- Plan well and commence reconciliation
 - Secure IT solution for initial analysis
 - Secure resource for reconciliation
 - Secure resource for update of Scheme data
 - **Secure budget**
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