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# *Pension Correction Following GMP Changes - Specification*

GMP rectification specification for the  
Kent County Council

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# 1 Introduction

This document sets out the parameters and other criteria that will be used to implement the GMP rectification as described in the “Pension Correction Approach Following GMP Changes” document previously issued to Kent County Council (the “Approach Paper”). Section 2.3 of the Approach Paper sets out the rectification method to be used to correct the pension in payment for pensioner and dependant pensioner members of the Kent Pension Fund (the Fund). This document should be read in conjunction with the Approach Paper.

The parameters that defined the rectification method breakdown as follows:

- ▶ Scope – Which members will not be subject to pension correction and which will be subject to pension correction? For those members subject to pension correction which correction approach will be required?
- ▶ Pension elements – Details of the pension elements recorded on Altair and how these will be mapped to the GMP rectification calculation
- ▶ Pension increase rates applicable to both GMP and excess pension
- ▶ Additional pension increases – When do these apply and how they are applied?
- ▶ Pro-rating of pension increases where an increase arises within a calendar year of retirement (or pension commencement for dependant pensioners)
- ▶ Rounding of pension elements following a pension increase
- ▶ The calculation of contingent spouse’s pension following pension correction
- ▶ Augmentation of pension benefits for members of the Fund where the corrected pension benefits are lower than those currently in payment
- ▶ Outputs – The information to be provided to Kent following the completion of the pension correction exercise
- ▶ Data Validations – specific data validations required to ensure that all data inputs are appropriate for the pension correction calculation

The purpose of this document is, in conjunction with the Approach Paper, to describe the rectification calculation sufficiently that our rectification solution can be developed and that test cases can be produced for review by Kent. The GMP rectification Date (the date from which corrected benefits are paid) is to be confirmed. It may be necessary to set different dates for underpaid members and overpaid members. A number of aspects of the pension correction calculation method are yet to be determined. These are outlined on the decisions document.

The following points have been confirmed:

- ▶ No liability members are to be excluded from the rectification population.
- ▶ Members who were identified at Stage 2 as having suspect HMRC data that cannot be successfully challenged are to be excluded from the rectification population.
- ▶ Pensioners with a GMP difference of less than £2 per week at GMP Age are to be excluded from the rectification population.
- ▶ Dependants with a GMP difference of less than £2 per week at original member’s data of death are to be excluded from the rectification population.
- ▶ The impact of incorrect GMP on a deceased member’s pension and hence on the dependant’s initial pension level, will not be taken account of during rectification.
- ▶ Where the deceased member died in retirement after GMP date then ITM will correct pension increases from date of death for all dependant pensioners. Only the dependant’s GMP will be

corrected, that is no attempt will be made to assess if the deceased member's pension was impacted by incorrect GMP.

- ▶ Interest will be added to underpayments on the basis set out in the Regulations for the Scheme. Interest will be calculated from the month in which the payment is due (the "due date") to the rectification date using Bank of England Base Rates (the "base rate") plus 1%, compounded over periods of three months.
- ▶ Deferred or pensioner members who are Pre GMP age are to be excluded from the rectification population however ITM will provide an output to load the HMRC GMP at date of exit for cases outside tolerance.

## 2 Glossary

Pension correction refers to the following dates:

- ▶ GPD – Guaranteed Minimum Pension (GMP) payment date. For females this is their 60th birthday, for males this is their 65th birthday. For pensioners from GPD onwards the pension paid to the member must be at least equal to the GMP.
- ▶ SPD – State Pension Date. For pensioners from SPD onwards the pension will be split into pre-88 GMP, post-88 GMP and excess tranches with different increases applied to each tranche.
- ▶ Rectify from Date. For pensioners this is the later of GPD and date of retirement. For dependant pensioners this is the corresponding deceased member's date of death.
- ▶ Admin Extract Date. The last day of the payroll period in which the administration extract was taken. For example if an extract was taken at the end of April but the data reflects the situation for the May payroll then the Admin Extract Date would be 31<sup>st</sup> May. The Admin Extract Date will be different for test cases and live processing as these will be based on different cuts of administration data.
- ▶ GMP Rectification Date. The last day of the payroll period directly prior to the correction of elements. Therefore if the October payroll month was to be the first in which benefits were to be paid at their corrected level then the GMP Rectification Date should be 30<sup>th</sup> September. Different GMP Rectification Dates may need to be stipulated for members on a monthly payroll, quarterly payroll or annual payroll. In addition a different GMP Rectification Date may be needed for underpaid members (whose benefits are increased following pension correction) and overpaid members should their benefits be reduced following pension correction.
- ▶ Test Cases. ITM will arrange to provide test cases for review by Kent. These are detailed calculations which have been run and can be examined to ensure the client agrees with the outcome.

The following terms are also used throughout this document:

- ▶ GMP rectification – Pension correction activities that follow GMP reconciliation. Also referred to as "GMP reconciliation – stage 3".
- ▶ Band 1 rectification – Members for whom no change is required to their pension record
- ▶ Band 2 rectification – Members for whom no change will be made to their total pension because the differences between the Scheme record and HMRC's record is within the £2 per week tolerance level.
- ▶ Band 3 rectification – For pensioners and dependants in Band 3 it should be noted that no change is made to the overall total pension level in payment, instead the GMP and excess pension elements are simply re-split ready to be used in the next annual pension increase.
- ▶ Band 4 rectification – Members for whom corrections are required, corrections from GMP Age, or Date of Member's Death ("DOD) for a dependant, where the previous pension increases awarded on the incorrect GMP are unwound back to GMP age or, for a dependant, back to Date of member's Death ("DOD"), and then the correct increases are applied using the reconciled HMRC GMP figures. Any step up required at GMP age would also be corrected to use the reconciled GMP figures. Any period after SPA for which the member was flagged as 'Additional pension<GMP' is also considered as the member would have received full indexation on GMP during that period.
- ▶ Historic underpayment – Applies for members whose corrected pension is higher than that currently in payment. This is the difference between the actual pension payments between Rectify from Date and GMP Rectification Date and the correct pension payment over the same period. It is common for interest to be added to these amounts and the shortcoming made good to members as a single payment.

- ▶ Historic overpayment - Applies for members whose corrected pension is lower than that currently in payment. This is the difference between the actual pension payments between Rectify from Date and GMP Rectification Date and the correct pension payment over the same period.
- ▶ Triviality Threshold – In order to determine which members should be in Band 3 and Band 4 the change to the current pension arising from pension correction is compared to a Trivial Threshold. Where the change is less than the Trivial Threshold then the correction is deemed to be trivial and the member is assigned to Band 3. Where the change is equal to or greater than the Trivial Threshold then the correction is deemed to be non-trivial and the member is assigned to Band 4.
- ▶ Additional Pension less than GMP (AP<GMP) – Members whose state pension increase is insufficient to make up the difference between their increases to GMP and the pension increase that would apply to an equal amount of excess pension. For these members the total pension should be increased as if it were entirely excess pension.
- ▶ AP Flags – Flags provided by the Department for Work and Pensions highlighting which members are subject to the Additional Pension rules in any given tax year. These flags are recorded on Altair for the scheme. There are other reasons why the GMP value might be set to zero so such cases would need to be confirmed as Additional Pension cases by Kent.
- ▶ Deemed Date – A date used to determine whether a pension increase should be subject to pro-rata or not. If a pension increase occurs within twelve months of the Deemed Date then the increase will be subject to pro-rata. Depending on the salary definition used the Deemed Date may be the member's date of retirement, date of exit or may even be earlier. For dependant pensioners the deemed date is the corresponding member's deemed date.

## 3 Scope

Whether pensioners or dependant pensioners are in scope for pension correction following GMP reconciliation and the type of pension correction that is to be applied is assessed as follows:

### 3.1 Pensioners

- ▶ If GPD is after GMP Rectification Date – Pension correction is not required. Reconciled GMP will be passed to Kent for upload to the administration system.
- ▶ If GPD is after Admin Extract Date but is equal to or prior to GMP Rectification Date – Reconciled GMP will be passed to Kent. Any cases requiring an uplift to their pension will need to be processed through BAU.
- ▶ If GPD is prior to or equal to Admin Extract Date – member is in-scope for pension correction.

### 3.2 Dependant Pensioners

- ▶ Dependant pensioner records set up after Admin Extract Date are out of scope. Kent will need to identify such cases from the rectification output and resolve any changes to dependant pensioner benefits through BAU.
- ▶ If date of death is prior or equal to Admin Extract date – member is in-scope for pension correction.

### 3.3 Further Analysis

Further analysis will then be performed on pensioners and dependants that are in-scope for pension correction:

- ▶ Members where the GMP reconciliation has confirmed that the GMP held on Scheme records is correct, or so close to being correct that there is no need to apply rectification (Band 1 in the approach paper).
- ▶ Members where the GMP in payment is within a £2pw tolerance of the HMRC GMP will not require pension correction (Band 2 in the Approach paper).
- ▶ Members where the impact of pension correction is less than the Trivial Threshold will be subject to re-tranching but will not have their total pension changed (Band 3 in the Approach paper). The Trivial Threshold will be recorded in the decisions log.
- ▶ The remaining members will be subject to a standard pension correction calculation (Band 4 in the Approach paper).

In all circumstances the correction of GMP payment will be from the later of GMP date and date of retirement for pensioners and from date of death for dependant pensioners. The correction of pension increases will be from the later of SPD and date of retirement for pensioners and from date of death for dependant pensioners.

## 4 Pension Elements

The current pension elements for pensioners in the Fund will be derived from the MEMBER\_PENSION\_DETAILS\_LIST and MEMBER\_GMP\_DETAILS tables on Altair.

The current pension elements for dependants in the Fund will be derived from the MEMBER\_DEPENDANT\_DETAILS\_LIST and MEMBER\_DEPENDANT\_DETAILS tables on Altair.

The current payroll elements for both pensioners and dependants in the Fund will be derived from the MEMBER\_PAYROLL\_ELEMENT\_DETAILS table on Altair.

### 4.1 Altair Pension Elements

For pensioners the total annual pension payable will be derived from the CURRENT\_PENSION value on the MEMBER\_PENSION\_DETAILS\_LIST table for the entry where PENSION\_TYPE equals PEN. For dependants the total annual pension payable will be derived from the CURRENT\_PENSION value on the MEMBER\_DEPENDANT\_DETAILS\_LIST table for the entry where PENSION\_TYPE equals PEN.

The current annual total GMP will be derived from the CURRENT\_GMP value on the MEMBER\_GMP\_DETAILS table for pensioners (or from the MEMBER\_DEPENDANT\_DETAILS table for dependants).

The current annual post-88 GMP will be derived from the POST\_88\_CURRENT\_GMP value on the MEMBER\_GMP\_DETAILS table for pensioners (or from the MEMBER\_DEPENDANT\_DETAILS table for dependants).

Pre-88 GMP = Total GMP – Post-88 GMP

Excess pension = total pension – total GMP

The following pension elements are present on the MEMBER\_PENSION\_DETAILS\_LIST table and the MEMBER\_DEPENDANTS\_DETAILS\_LIST table:

Pension Element Code	Pension Element Description	Impacted by Pension Correction?
ACTR	Actuarial Reduction	No
ADDN	Compensatory Added Years	No
APB	Additional Pension Benefit	No
AUGP	Augmentation	No
C5I	Care 50:50 Pensions increase	No
CARE	CARE pension	No
CLWR	Clawback Regarding a Redundancy Payment	No
CMI	CARE Main Pensions Increase	No
CMWI	CARE Main Spouse Increase	No
COMM	Lump Sum provided by commutation	No
CP50	Commutated 50:50 Section Pension	No



Pension Element Code	Pension Element Description	Impacted by Pension Correction?
CRCM	Commuted CARE Pension	No
EPB	Equivalent Pension Benefit	No
FSCM	Final Salary Pension Commuted	No
GA	Addition in anti-franking tests	No
GMP	GMP only	Yes
GRAT	Gratuity	No
IAVC	In-House AVC Annuity	No
INJ	Injury Allowance	No
LAPD		
LCOM	Pension from Commuted Lump Sum	No
MODF	NI Modification (Funded)	No
MODU	NI Modification (Unfunded)	No
P88I	Increases on post-88 GMP (GMP only pension)	Yes
PCOM	Pension commuted for lump sum	No
PEN	Basic Funded Pension	Yes
PIP	Total Pension Increase	Yes
PIPA	ADDN Pensions Increase	No
PIPS	Pensions Increase on short term pension	No
PN60	1/60th Scheme Pension	No
PROT	Protected Ill Health Enhancement	No
PYRV	Part-Year Revaluation on CARE Pension	No
RA	Lump Sum Retiring Allowance	No
RAI	Pensions Increase on Lump Sum	No
RECH		
SECC		
SICI	Serious ill-health commutation deduction	No
SPIA		
STPA	Short Term Pension (Additional)	No
STPF	Short Term Pension (Funded)	No
STPG		
STPP	Short Term Pension (Protected)	No
STPU	Short Term Pension (Unfunded)	No
SURF		
TEMP	Temporary Adjustment	No

Table 1 – Breakdown of Altair pension elements for Kent Pension Fund.

For the above elements pensioners and dependants have the following pension values recorded:

- ▶ INITIAL\_PENSION - the member's pension at DATE\_COMM\_DUE (which is normally the member's date of retirement)
- ▶ CURRENT\_PENSION - the member's current pension
- ▶ INITIAL\_WID\_PENSION - the contingent spouse's pension at DATE\_COMM\_DUE
- ▶ CURRENT\_CONT\_WID\_PENSION – the current contingent spouse's pension

The PIP pension element (Total pension increase) is the change to PEN (Basic funded pension) since the INITIAL\_PENSION value was set. Where pension correction results in a change to the PEN value then an equal change would be made to PIP value as well. Therefore if the CURRENT\_PENSION value of the PEN element increases by £12pa then the CURRENT\_PENSION value of the PIP element would also be increased by £12pa.

Where the member has been overpaid then both PEN and PIP would be reduced. This revision is to be applied to member pensions in payment and dependant pensions in payment. However, it is not to be applied to contingent spouse's benefits.

As there will be no pension increases processed between Admin Extract Date and GMP Rectification Date none of the other pension elements will be impacted by the pension correction exercise.

All Kent Pension Fund pensioners and dependant pensioners are paid on a monthly payroll cycle.

## 4.2 Altair Payroll Elements

The following pension elements are available for use in the MEMBER\_PAYROLL\_ELEMENT DETAILS table:

Payroll Element Code	Payroll Element Description	Pension Element Category	Impacted by Pension Correction?
20	xxx	xxx	xxx
21	xxx	xxx	xxx
22	xxx	xxx	xxx
23	xxx	xxx	xxx
26	xxx	xxx	xxx
30	xxx	xxx	xxx
32	xxx	xxx	xxx
34	xxx	xxx	xxx
36	xxx	xxx	xxx
38	xxx	xxx	xxx
52	xxx	xxx	xxx
54	xxx	xxx	xxx
56	xxx	xxx	xxx
57	xxx	xxx	xxx
58	xxx	xxx	xxx
59	xxx	xxx	xxx

Payroll Element Code	Payroll Element Description	Pension Element Category	Impacted by Pension Correction?
60	xxx	xxx	xxx
61	xxx	xxx	xxx
62	xxx	xxx	xxx
64	xxx	xxx	xxx
65	xxx	xxx	xxx
70	xxx	xxx	xxx
71	xxx	xxx	xxx
72	xxx	xxx	xxx
89	xxx	xxx	xxx
109	xxx	xxx	xxx
300	xxx	xxx	xxx
301	xxx	xxx	xxx
302	xxx	xxx	xxx
303	xxx	xxx	xxx
304	xxx	xxx	xxx
305	xxx	xxx	xxx
306	xxx	xxx	xxx
307	xxx	xxx	xxx
308	xxx	xxx	xxx
310	xxx	xxx	xxx
314	xxx	xxx	xxx
318	xxx	xxx	xxx
320	xxx	xxx	xxx
321	xxx	xxx	xxx

Table 2 – Breakdown of Altair payroll elements for the Kent Pension Fund.

#### 4.2.1 Arrears payroll element

The payroll element to use for the arrears payment will need to be confirmed. The standard Altair tool from Heywood only allows for one arrears element to be added per member via the interface. If the net arrears and interest are to be loaded to separate elements, then the interest element will need to be loaded manually, or via another payroll interface Kent may have access to.

## 4.4 Late GMP Increments

Where a member retires seven weeks or more after their GMP date then late payment GMP increments apply at a rate of  $\frac{1}{7^{\text{th}}}$  of 1% for each week that retirement occurs after GMP date.

In addition, where retirement is after GMP date and there are any 6<sup>th</sup> Aprils after GMP date but before or on date of retirement then the statutory post-88 GMP increases occur even when retirement was less than 49 days after GMP date.

Such late GMP increments are not recorded separately for the Scheme and are included in the main GMP elements.

# 5 Pension increase Rates

## 5.1 Pension Increase Rates

The following pension increase rates will be used when calculating the pension correction following GMP reconciliation for all four schemes.

Year of Increase	Statutory Post-88 GMP Increases	Excess Pension Increases
1978		7.40%
1979		16.00%
1980		16.50%
1981		9.06%
1982		11.00%
1983		3.70%
1984		5.10%
1985		7.00%
1986		1.10%
1987		2.10%
1988		4.20%
1989	0.00%	5.90%
1990	3.00%	7.60%
1991	3.00%	10.90%
1992	3.00%	4.10%
1993	3.00%	3.60%
1994	1.80%	1.80%
1995	2.20%	2.20%
1996	3.00%	3.90%
1997	2.10%	2.10%
1998	3.00%	3.60%
1999	3.00%	3.20%
2000	1.10%	1.10%
2001	3.00%	3.30%
2002	1.70%	1.70%
2003	1.70%	1.70%
2004	2.80%	2.80%
2005	3.00%	3.10%

Year of Increase	Statutory Post-88 GMP Increases	Excess Pension Increases
2006	2.70%	2.70%
2007	3.00%	3.60%
2008	3.00%	3.90%
2009	3.00%	5.00%
2010	0.00%	0.00%
2011	3.00%	3.10%
2012	3.00%	5.20%
2013	2.20%	2.20%
2014	2.70%	2.70%
2015	1.20%	1.20%
2016	0.00%	0.00%
2017	1.00%	1.00%
2018	3.00%	3.00%
2019	2.40%	2.40%
2020	1.70%	1.70%
2021	0.50%	0.50%
2022	3.00%	3.10%
2023	3.00%	10.10%*

Table 3 – Pension increase rates for use in pension correction

\*to be confirmed

- ▶ Pre-88 GMP receives zero increases from state pension age onwards.
- ▶ Post-88 GMP increases occur on the 6th April of each year from state pension age onwards.
- ▶ Excess increases occur on the first Monday that is on or after the 6th April of each year.

## 5.2 Additional Pension

Individual members may be flagged that an “Additional Pension” increase applies for any pension increase (“AP Flags”). For pension increases where an AP Flag is set for a particular member then:

- ▶ The GMP elements would be updated as normal (no increase for pre-88 GMP, statutory increases for post-88 GMP).
- ▶ However the excess pension would be increased such that the excess increase rate applies to the entire pension.

The pension increases where the AP Flag is set can be derived from the Altair data table MEMBER\_GMP\_DETAILS\_DATE. The DATE\_GMP\_EXCLUDED field records the start date for Additional Pension increases while the DATE\_GMP\_RESTORED field records the end date for Additional Pension increases.

AP Flags are recorded on Altair for LGPS members. A list of the cases impacted will be passed to Kent for confirmation.

The pension correction calculations will incorporate Additional Pension increases where these are recorded in the administration data or where Kent confirm which members are subject to an Additional Pension increase and the tax years in which the Additional Pension increases apply.

## 5.3 Pro-rating Increases

Excess increases will be pro-rated in the following circumstances:

- ▶ For pensioners the first increases after retirement will be pro-rated where the increase occurs within a year of the member's deemed date.
- ▶ For dependant pensioners the first increase will be pro-rated where the increase occurs within a year of the deceased member's deemed date.

For Kent the Deemed Date is derived from the DATE\_FOR\_PI field from the MEMBER\_PENSION\_DETAILS table on Altair.

The period from the 1st of the month equal to or following the Deemed Date to the date of the pension increase is calculated in months (inclusive of the Deemed Date but excluding the pension increase date).

Where this period is twelve months or more then the increase is not subject to pro-rata.

Where this period is less than twelve months then the increase rate will be subject to pro-rata by a factor derived from the table below:

Period from Deemed Date to first pension increase		Pro-rata
	Up to 15 days	Nil
16 days to	1 month and 15 days	1/12
1 month and 16 days to	2 months and 15 days	2/12
2 months and 16 days to	3 months and 15 days	3/12
3 months and 16 days to	4 months and 15 days	4/12
4 months and 16 days to	5 months and 15 days	5/12
5 months and 16 days to	6 months and 15 days	6/12
6 months and 16 days to	7 months and 15 days	7/12
7 months and 16 days to	8 months and 15 days	8/12
8 months and 16 days to	9 months and 15 days	9/12
9 months and 16 days to	10 months and 15 days	10/12
10 months and 16 days to	11 months and 15 days	11/12
11 months and 16 days or greater		Full increase applied

Table 4 – Pro-rata of pension increases

Post-88 GMP increases are always applied in full and are never subject to pro-rata.

## 5.4 Rounding

Increases to Post-88 GMP elements will be rounded to the nearest multiple of £0.52pa.

Increases to the excess pension will be rounded to the nearest penny for all schemes.

No adjustment will be made to the total pension. Where the total pension is not a multiple of £0.12pa then existing payroll systems and procedures will deal with any difficulties arising.

## 5.5 Contingent Spouse's Pensions

The re-calculation of contingent spouse's benefits for Kent pensioners is not in scope as part of the GMP stage 3 project.



# 6 *Other Parameters*

## 6.1 Interest on underpayments

Interest will be added to underpayments on the basis set out in legislation for the Kent Pension Fund.

Interest will be calculated from the month in which the payment is due (the “due date”) to the rectification date using Bank of England Base Rates (the “base rate”) plus 1%, compounded over periods of three months.

# 7 Outputs

The following outputs will be provided to Kent following pension correction:

- ▶ Files for loading to Altair to amend GMP, pension and payroll elements
- ▶ ITM standard GMP rectification output to show results for each member
  - *Key dates used in pension correction*
  - *Pension correction band*
  - *HMRC records used for pension correction*
  - *Original pension amounts*
  - *Corrected pension amounts*
  - *Change to current pension (both monetary change and percentage change)*
  - *Past underpayment (both with and without interest)*
- ▶ GMP rectification audit trail
- ▶ Merge fields for communications
- ▶ Details of any members requiring action under BAU
- ▶ Report that summarises results

## 8 *Version control*

Date Created	Version	Classification	By Whom	Reason
13/02/2023	0.1	Draft	Victoria Franklin	Initial Draft