

TEACHERS' PENSION SCHEMES
01/2018

WHO SHOULD READ: Members, Chief Executives, Directors of Education, Directors of Finance, HR and Payroll Managers, Teachers' Unions and representatives

ACTION: For Information

SUBJECT: Guaranteed Minimum Pension (GMP) Reconciliation Exercise

The purpose of this circular is to:

- Inform the service how overpayments resulting from the Guaranteed Minimum Pension (GMP) reconciliation exercise will be managed.

Background:

Following the end of contracting out in April 2016 a reconciliation of GMP data from April 2009 is currently being undertaken between schemes and HMRC which is scheduled to conclude no later than December 2018. The reconciliation exercise is looking at cases where members reached state pension age after April 2009 as a similar check on GMP data was undertaken during 2008/09 across the UK wide public service schemes.

GMPs accrued for contracted-out service between April 1978 and April 1997. They reflect the level of earnings related state pension a member would have received had they not been contracted out. Contracted-out employment was abolished from April 2016 with the introduction of the new single tier State Pension.

The annual indexation of GMPs is a complex issue. For those who reached state pension age before April 2016 the annual indexation of a GMP is shared between the Department for Work and Pensions (DWP) and the scheme. For any GMP accrued between April 1978 and April 1988 DWP pays the full indexation. For any GMP accrued between April 1988 and April 1997 the scheme pays any annual increase up to the value of 3% with any remainder paid by DWP.

In cases where either no GMP details are held or the GMP data is incorrect, the result can be indexation being applied incorrectly by both the scheme and DWP to the member. This creates an overpayment of scheme pension which is compounded year on year by further incorrect indexation being applied.

Indexation of GMPs for those reaching state pension age after April 2016 is fully paid by the

scheme so similar overpayments will not arise going forward from that date. The UK Government introduced an interim solution to indexation of GMPs post April 2016. It consulted on a permanent solution to be applied from December 2018 and recently announced an extension of the interim policy to April 2021.

Current GMP reconciliation exercise

SPPA are undertaking the GMP reconciliation exercise for the NHS, Teachers', Police and Firefighter schemes and expect this to conclude in late 2018. In common with public service schemes across the UK a number of overpayments are expected to be identified where current GMP data held by schemes is incorrect. This will have resulted in schemes paying too much annual indexation to affected pensioners where all or part of the GMP indexation was also paid by DWP.

On conclusion of the reconciliation exercise those cases where the incorrect GMP data has been applied will be identified. Those affected Teachers' pensioners where the incorrect GMP data has led to an overpayment will have their pensions adjusted going forward. A decision on how any accrued overpayments will be managed will be decided by the scheme's Accountable Officer as soon as the total number and level of overpayments is known. There may also be a small number of cases where the incorrect GMP data has led to an underpayment of pension. In these cases the affected pension will be corrected going forward with any arrears being paid to the pensioner.

As mentioned above there was a similar exercise undertaken in 2008/09 where schemes were found to be holding incorrect GMP data. Scottish Ministers have devolved powers for the NHS, Teachers', Police, Firefighters' and Local Government (LGPS) pension schemes. However for the NHS and Teachers' schemes any changes to the scheme regulations requires the consent of HM Treasury.

In 2008/09 for GMP related overpayments Scottish Ministers chose to allow the pension in payment to remain unadjusted going forward for affected pensioners in the LGPS, Police and Firefighter schemes. This was achieved by introducing legislation that provided for a new scheme award known as an Increased Pension Entitlement (IPE) which reflected the GMP related overpayment. It was not possible to introduce an IPE for either the NHS or Teacher's scheme as this would have required HM Treasury consent which was not given. Hence NHS and Teachers' affected pensioners saw their pension in payment adjusted to reflect the GMP related overpayment.

Scottish Ministers have decided that a similar approach should be taken for GMP related overpayments that arise from the current reconciliation exercise. As in 2008/09 it will not be possible to apply an IPE to affected NHS and Teachers' pensioners as to provide a similar approach requires HM Treasury consent for the necessary legislative changes. Once identified affected NHS and Teachers' pensions will be adjusted to the correct level of entitlement.



Communications

SPPA will not be able to identify which pensioners are affected until the reconciliation exercise concludes in late 2018 so cannot communicate directly with affected pensioners at this time. This will be done at the conclusion of the reconciliation along with a decision on how accrued GMP related overpayments will be managed. In the meantime SPPA has issued a general circular to each service explaining the current position and has provided a [brief update and Q&A](#) on its website.

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Contact information

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