

Guaranteed Minimum Pension



WARWICKSHIRE

pension fund

Local Government Pension Scheme
(LGPS) in England and Wales

September 2012 Edition

How does being in receipt of the State Retirement Pension affect your Local Government Pension Scheme (LGPS) benefits?

What is Guaranteed Minimum Pension (GMP)

When in employment, all employees pay National Insurance contributions which go towards their State benefits. Part of your National Insurance contributions are linked to the amount that you earn between lower and upper earnings limits. This part goes towards the State Earnings Related Pension Scheme (SERPS) which was introduced in 1978. From 2002 SERPS was replaced by the State Second Pension (S2P). The LGPS was contracted-out of SERPS and as a consequence the earnings related National Insurance contribution of the LGPS members was reduced. Although this means that LGPS members did not earn a pension under SERPS, their LGPS pensions should be at least equal to their SERPS entitlement.

Between April 1978 and April 1997 members of contracted out pension schemes accrued a notional SERPS pension which is called the Guaranteed Minimum Pension (GMP). This GMP is paid from State retirement age, as part of your LGPS pension, not as an addition to it. However, if your LGPS pension is less than your GMP, we increase your LGPS pension to match it.

The statement which the HM Revenue & Customs (HMRC) send you when you claim your State retirement pension shows your 'additional pension'. This is your total SERPS entitlement, including any GMP earned in Local Government service or elsewhere. Your GMP, together with any post 1997 SERPS benefits you would otherwise have accrued are shown on the HMRC statement as a 'contracted-out deduction (COD)'. The HMRC describe these elements as the COD because they represent the earnings related pension that you did not accrue because you were contracted out of SERPS. They should send you a separate notification of your entitlement to a GMP. We are also notified of this amount, which is then applied to your pension payroll record.

How does GMP affect the annual pension increase

Your LGPS and State retirement pensions may be increased each April to protect them from the effects of inflation. The amount of increase is set by the Government, and is measured by the Consumer Price Index (CPI). This is known as Index Linking and would show on your April payslip as Pension Increase (PI).

Although your GMP is included in the pension paid by us, from State retirement age, the HMRC pay some, or all of the pensions increases on your GMP in with your State retirement pension. We therefore, deduct the GMP from your pension in payment prior to the pension increase date, before calculating the CPI percentage (there will be a message on your April payslip showing this calculation). The difference will be paid within your State pension.

Example

Mr A Jones reached State pension age on the 25th March 2012, we were informed that his GMP was for the amount of £1,000.00

Pension increase of 5.2% is due from the 9th April 2012.

Calculation

	£
Basic pension	6,000.00
Pension increase	1,200.00

	7,200.00
Less GMP	1,000.00

	£6,200.00 x 5.2% = 322.40

Pension benefits as at the 9th April 2012

	£
Basic pension	6,000.00
Pension increase	1,522.40 (£1,200 + £322.40)

Total pension	£7,522.40

Added Years

If your employer awarded you any compensatory added years on retirement, generally shown as 'pension added years' and 'added years increase' on your advice slip, the increases due on this part of your pension is not subject to a GMP adjustment.

Post 1988 GMP increase

When you reach your state retirement age the HMRC is responsible for paying the annual increase on the part of your GMP which you built up prior to 6 April 1988.

The Warwickshire County Council Pension Fund will increase your post 5 April 1988 GMP pension up to a maximum of 3% per annum and the HMRC will then increase this part of your pension if the annual increase is greater than 3%, by the difference between the annual increase and 3%.

Example:

If the annual increase is 2.5%, we would increase your post 5 April 1988 GMP pension but there will be no increase paid by the HMRC. If the annual increase is 5.2%, we would increase your post 5 April 1988 GMP pension by 3% and the HMRC will pay you the remainder increase of 2.2%.

If you have any queries or would like further information please contact our office:

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