

## **PENSION FUND COMMITTEE – 3 JUNE 2011**

### **Guaranteed Minimum Pensions**

**Report by Assistant Chief Executive and Chief Financial Officer**

#### **Introduction**

1. In 1978, as a result of changes made in the 1975 Pensions Act, employers and scheme members of occupational pension schemes were allowed to “contract out” and therefore pay lower National Insurance Contributions. The other incentive to scheme employers was that the state took responsibility for inflation proofing the GMP element of the occupational pension.
2. Further changes were made in 1988 following a period of high inflation which resulted in the state retaining responsibility for the pension increase due on any pre 1988 GMP. The scheme became responsible for the payment of pension increase – to a maximum of 3% - on any post 1988 GMP. If the inflation rate is higher than 3% then the additional pension increase on post 1988 GMP is paid by the state.
3. The Pension Schemes Act 1993 gives all members of contracted-out pension schemes the right to a weekly guaranteed minimum pension (GMP), based on National Insurance Contributions. Where an individual is entitled to a GMP this amount is off set against the weekly state retirement pension that the individual receives.

#### **Current Situation**

4. In recent months having brought the work of Pension Services in to specification deadlines and taking the opportunity to review older files an issue with the receipt and recording of the GMP information has been identified
5. A total of 119 records have been identified as needing to be rechecked and these fall in to three categories:
6. Thirty five records where the GMP information has been received from HMRC but the information is either not shown on the pension system, or has been incorrectly recorded on the pension system.
7. Ten records where HMRC say that GMP information has been sent, but there is no record of Pension Services having received this.
8. Seventy four records where no information has been received from HMRC. This has now been requested.

9. It is the first two of these three categories which are of concern on the basis that the mistake has arisen from incorrect administrative procedures, or a situation where we are unable to prove non receipt of information, and is therefore the responsibility of Pension Services and that, as shown at Annex1, have resulted in and over payment to the pensioner (Annex 1 will follow).
10. The over payment is as a result of the pension increase being paid on the whole amount of the GMP (both pre and post 1988) rather than simply on the post 1988 GMP.
11. Pension Services will not be responsible for resolving errors which have arisen as a result of incorrect information from HMRC. These cases will be referred back to HMRC.

### **Action to Date**

12. Letters have been sent to all affected pensioners advising them of our error and confirming the correct payment amount. Individual payments have been adjusted to reflect these correct amounts, but no recovery has been made of any over payment.
13. The letter also invited pensioners to make comment, or submissions regarding these over payments. The comments received will follow (Annex 2).
14. Where information is outstanding from HMRC pensioners will be advised of the adjustment, if any, to benefits once all paperwork is received.
15. Additionally all procedures have been strengthened to ensure that this error will not reoccur in the future.

### **Conclusion**

16. This report concentrates on the application of pension increase to the GMP.
17. However, the calculation and notification of GMP is an extremely complex administrative task for both HMRC and LGPS staff and if, as in these cases, is not correctly administered then will lead to incorrect application of the pension increases.
18. Whilst the annual pension increase letter to pensioners sets out the percentage increase due and who has responsibility for making payment it is unlikely that the majority of pensioners understand what lies behind these calculations and the resulting effect on their pension payments.

### **RECOMMENDATION**

19. **The Committee is RECOMMENDED to determine whether these over payments should be recovered from pensioners.**

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Assistant Chief Executive and Chief Finance Officer

Background papers:  
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