



Department  
for Work &  
Pensions

# Guaranteed Minimum Pension Fixed Rate Revaluation

Public consultation

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23 September 2021

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# Introduction

This consultation seeks views on the proposed move from **3.5%pa to 3.25%pa** in the rate of revaluation applied to fixed rate revaluation of Guaranteed Minimum Pension (GMP) for early leavers. The proposed new rate, subject to consultation responses, would apply to contracted-out members who leave pensionable service in the period 6 April 2022 to 5 April 2027.

## About this consultation

### Who this consultation is aimed at

This consultation is mainly aimed at pension administrators and employers who sponsor formerly contracted-out defined benefit occupational pension schemes. However, the Government also welcomes comments from pension industry professionals, pension schemes, trustees, pension scheme members and member representative organisations and any other interested parties.

### Purpose of the consultation

The aim of this consultation is to draw interested parties' attention to and seek views on the proposed change to the rate of fixed rate revaluation for GMPs for early leavers. The change of rate is expected to come into force on 6 April 2022.

### Scope of consultation

This consultation applies to Great Britain.

Occupational pensions policy is a reserved matter for Great Britain and is a devolved matter for Northern Ireland. It is anticipated that Northern Ireland will make corresponding changes.

### Duration of the consultation

The consultation period begins on 23 September 2021 and runs until 18 November 2021. This represents an appropriate timespan due to the targeted nature of the questions being asked. Please ensure your response reaches us by that date as any replies received after that date may not be taken into account.

## How to respond to this consultation

Please send your consultation responses to:

[pensions.consultations@dwp.gov.uk](mailto:pensions.consultations@dwp.gov.uk)

During the pandemic, dealing with hard copies of responses is more difficult than normal as most of our staff are working from home. Where possible, please send responses to the email address above.

If you are unable to email and prefer to send your response by post, please address it to:

Defined Benefit: Fixed Rate Revaluation team

DWP Consultation Coordinator

1st Floor

Caxton House

Tothill Street

London

SW1H 9NA

## Government response

We will publish the government response to the consultation on the [GOV.UK](https://www.gov.uk) website. The report will summarise the responses and set out the Government's reasoning behind our final decision on the appropriate rate that should be applied. It will also include the draft regulations bringing the amended rate into effect.

## How we consult

### Consultation principles

This consultation is being conducted in line with the revised [Cabinet Office consultation principles](#) published in March 2018. These principles give clear guidance to government departments on conducting consultations.

## Feedback on the consultation process

We value your feedback on how well we consult. If you have any comments about the consultation process (as opposed to comments about the issues which are the subject of the consultation), including if you feel that the consultation does not adhere to the values expressed in the consultation principles or that the process could be improved, please address them to:

DWP Consultation Coordinator  
Legislative Strategy Team  
4<sup>th</sup> Floor, Caxton House  
Tothill Street  
London  
SW1H 9NA

Email: [caxtonhouse.legislation@dwp.gsi.gov.uk](mailto:caxtonhouse.legislation@dwp.gsi.gov.uk)

## Data Protection and Confidentiality

For this consultation, we will publish responses except for those where the respondent indicates that they are an individual acting in a private capacity (e.g. a member of the public). Responses from organisations and individuals responding in a professional capacity may be summarised and published. We will remove email addresses and telephone numbers from these responses; but apart from this, we will publish them as appropriate.

For more information about what we do with personal data, you can read DWP's [Personal Information Charter](#).

# Chapter 1: Review of Guaranteed Minimum Pension Fixed Rate Revaluation for early leavers

## Background

Between 6 April 1978 and 5 April 1997, employers sponsoring salary-related occupational pension schemes could 'contract out' their employees from the state additional pension through membership of the employer's scheme, provided the scheme took on the responsibility for paying a Guaranteed Minimum Pension, from age 60 for a woman or 65 for a man. On reaching this age, members would generally have built up a Guaranteed Minimum Pension of a broadly similar amount to the state additional pension to which they would otherwise have been entitled, had they stayed in the State system.

Where a member of a formerly contracted out pension scheme leaves the scheme before pensionable age (an "early leaver"), the scheme must revalue their GMP until it becomes payable at pensionable age. Where a scheme has chosen to revalue the GMPs of early leavers using the "fixed rate method", the GMP is revalued each year by the same percentage. The percentage is provided for in legislation<sup>1</sup> by the rate relevant to the time they left the scheme.

The revaluation rate is reviewed every 5 years and a new rate needs to be applied for those who leave pensionable service on or after 6 April 2022. DWP has always undertaken this review having taken the advice of the Government Actuary's Department (GAD) on the rate that should apply. GAD has prepared the report at Annex A.

## Chapter 2: Proposed Rate of Revaluation for Guaranteed Minimum Pensions with a Fixed Rate Revaluation

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<sup>1</sup> Regulation 24(2) of the Occupational Pension Schemes (Schemes that were Contracted-out) (No 2) Regulations 2015 (2015/1677) and regulation 62 of the Occupational Pensions Schemes (Contracting-out) Regulations 1996 (1996/1172) as saved by the Pensions Act 2014.

DWP are proposing to apply a new fixed rate of revaluation for early leavers of **3.25%pa** from 6 April 2022.

In their report, GAD recommend a rate ranged between 3%pa and 3.5%pa, based on a short to medium term view on earnings assumptions being applied, given that most individuals leaving pensionable service between 6 April 2022 and 5 April 2027 (when the next review takes place) will be less than 10 years from the age at which GMPs are payable.

The proposed rate does not include an additional premium of 0.5% pa for the certainty that employers get from revaluing in line with a fixed rate. The rationale for not including the premium is unchanged from the approach adopted to set the fixed revaluation rate in 2017 in that the nature of the relationship between schemes and the State has fundamentally changed since the introduction of the single-tier pension. Also given the shortened timescales there is less uncertainty around the increases in earnings for the members in question compared to looking over the longer term. We agree with GAD's analysis, and suggest that it would be appropriate to take the middle point of their proposed rate range.

The current fixed rate of revaluation for GMPs is **3.5%pa**. Our proposed new rate therefore represents a small reduction in the increases members will see on their GMPs if these are uprated according to the fixed rate. Conversely, schemes which revalue GMPs based on the fixed rate will see a slight decrease in projected GMP costs.

## Chapter 3: Consultation questions

1. Do you agree with a proposed rate of **3.25%pa**, to be applied from 6 April 2022?
  2. Do you agree that DWP should adopt a short to medium term view on inflation and real earnings growth?
  3. Do you agree that DWP should continue to exclude the additional premium for fixing the revaluation rate of 0.5% pa?
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**Annex A** - Government Actuary's Department report: Fixed Rate of Revaluation of Guaranteed Minimum Pensions is published on GOV.UK alongside this consultation document.