

Armed Forces Pensions Scheme - Adjustments to Pensions Due to Guaranteed Minimum Pension (GMP) – November 2020

Overview

Guaranteed Minimum Pension (GMP) is the minimum pension any pension scheme must provide as a result of being contracted out of the State Earnings Related Pension Scheme (SERPS). Historically Her Majesty's Revenue and Customs (HMRC) were responsible for recording contracted out data but individual pension schemes took over responsibility for this from 6 April 2016.

The Armed Forces Pension Scheme (AFPS), along with many other pension schemes, recently took part in an exercise with HMRC to review and match pension data held by our organisations. This is referred to as the GMP Reconciliation exercise.

The GMP Reconciliation exercise allowed schemes to confirm that data held (including Guaranteed Minimum Pension amounts and contracted out data) agreed with the data held by HMRC and the National Insurance Contribution Office. The comparison between HMRC and pension scheme records covers the entire contracting out period (6 April 1978 to 5 April 2016).

In some cases, the comparison of AFPS records and HMRC records identified under or overpayments made to AFPS scheme members.

More Information on GMP

GMP is the minimum amount of pension we must provide for Armed Forces Pension Scheme (AFPS) members who contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997. GMP is not a separate benefit paid in addition to your Armed Forces pension, it is paid as part of your Armed Forces pension.

In 1997, GMP was replaced by the "reference scheme" test. This test was to show that the pension benefits provided was equal to or better than if the member had not been contracted-out. As a result, there was no longer a need to record GMP values.

As a member of AFPS, individuals were "contracted out" of SERPS. On the 6 April 2016, the Government introduced a Single Tier State Pension referred to as the new State Pension and contracting-out under SERPS ended.

GMP and the annual Pensions Increase (PI)

PI is the annual increase applied to an Armed Forces pension and State Pension to reflect changes in the cost of living, for AFPS, pensions are increased in line with the Consumer Prices Index (CPI). The amount of GMP individuals have affects the PI applied to a pension.

The annual indexation on a GMP for a member who reached State Pension age before April 2016 is paid either by the Government or by a combination of the Government and AFPS. If incorrect GMP information is held for a member, then there will be an error on the annual indexation applied in the first year the GMP is applied which will then be compounded by each and every annual indexation.

AFPS Pension Adjustments

AFPS must ensure that members receive the correct benefit/pension they are entitled to. Where the GMP Reconciliation Exercise identified that the information held about a person's GMP or contracted out data by HMRC or AFPS was incorrect, then AFPS must take steps to correct this. The following approach to correct pensions is being used:

- If an overpayment is identified because incorrect GMP or contracted out data was held, AFPS will not ask for any money to be re-paid, but future pension payments must be adjusted to the correct value.
- If an underpayment is identified because incorrect GMP or contracted out data was held, AFPS will pay any arrears due to individuals as a lump sum.