

Q&A: GMP overpayments arising from a scheme's reconciliation exercise

Q1: What is the issue?

A: Some scheme pensioners who reached state pension age before April 2016 may have received a larger than expected annual increase to their pensions. This is because where the member has a Guaranteed Minimum Pension (GMP) the responsibility for the GMP annual indexation is shared between their occupational scheme and the Department for Work and Pensions (DWP) who pay their State Pension.

In the affected cases, either where a GMP was not held or the GMP held was incorrect, part of the annual increases on the GMP will have been paid by both the scheme pension administrator and the DWP, resulting in an overpayment of pension.

Q2: What is a GMP?

A: A GMP is the minimum pension which an occupational pension scheme must provide. It applies to schemes which contracted-out of the State Earnings Related Pension Scheme from 1978 and entitlement accrued up to 1997. Contracted out employment ceased in April 2016 with the introduction of the new State Pension. All public service schemes, for example NHS, Teachers and Local Government, were contracted out.

People who were members of a contracted out pension scheme between 1978 and 1997 may be eligible for a GMP element within their occupational pension. It is a notional benefit which is only paid if the occupational pension is less than the GMP total and is not a separate benefit to be paid in addition to their occupational pension.

Q3: Does every pensioner have a GMP?

A: No. Only those in contracted-out employment between 1978 and 1997 and who paid the full national insurance contribution have a GMP. Various groups of pensioners will not have a GMP entitlement, for example those who were paying the reduced married women's rate of National Insurance.

Q4: How has this issue come to light?

A: As part of the end of contracting-out employment and the introduction of the new single tier State Pension from April 2016 pension schemes will take on the responsibility for maintaining scheme member's GMP records where responsibility currently sits with HMRC. Schemes are required to reconcile all of its GMP records with HMRC by December 2018. It is expected that the reconciliation exercise will identify cases where either no GMP is held by the scheme where one should be or the GMP held by the scheme is incorrect.

Q5: How many pensioners are affected and how much will they have been overpaid?

A: The full extent of any overpayments or underpayments will not be known until a scheme has completed its reconciliation exercise.

Q6: How will the overpayments have occurred?

A: The annual indexation on a GMP for a scheme pensioner who reached state pension age before April 2016 is paid either by DWP or by a combination of DWP and the occupational scheme. Where a scheme does not hold details of a member's GMP or does hold a GMP but the amount held is incorrect 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. The reconciliation exercise is expected to identify cases where a GMP is not held where it should be or where the GMP held is incorrect.

Q7: A similar problem happened in 2008 why has this happened again?

A: Attempts were made after 2008 to rectify the processes whereby schemes were notified of both a member's correct GMP entitlement and when they had claimed their State Pension. This involved a co-ordinated approach from the schemes, HMRC and DWP but regrettably due in part to the complexities involved a robust system was not implemented.

Q8: When will I know if I have been affected by this problem?

A: The deadline set by HMRC for pensions schemes to complete their reconciliation exercise is December 2018. When SPPA can identify any affected pensioners it will write to them explaining how their pension has been affected and what further action is necessary. The Local Government Pension Scheme (LGPS) reconciliation exercise is being undertaken by each of its separate 11 Funds. Affected pensioners will be contacted as the reconciliation exercise concludes in late 2018.

Q9: Should I contact SPPA to see if I am affected?

A: Until the reconciliation exercise has concluded SPPA will not know which members are affected. Once GMP details have been confirmed SPPA will then contact affected scheme members explaining the effect this has on their pension and what further action is necessary.

Q10:In 2008 the Scottish Government allowed affected LGPS, Police and Firefighter pensioners to retain their pensions at their current rate. Will the same be done for these GMP related overpayments?

A: As in 2008 Scottish Ministers strongly believe that affected pensioners should not be penalised for overpayments received in good faith, relating to a very complex issue where overpayments have been made through no fault of their own. Therefore going forward a similar approach will be taken for affected LGPS, Police and Firefighter pensioners which will allow the overpaid element of their pension to be converted to a pension entitlement from the scheme. A consultation of the regulations allowing this approach will be issued during 2018.

Q11:Why can't this be done for affected pensioners in the NHS and Teachers schemes?

A: To provide a similar approach requires HM Treasury consent to the necessary regulatory changes. The Scottish Government will have no option but to correct affected NHS and Teachers pensions going forward.

Q12:Other public service schemes across the UK are expected to correct affected pensions going forward. Why has the Scottish Government again adopted a different approach to the rest of the UK for affected LGPS, Police and Firefighter pensioners?

A: The Scottish Government recognises that the overpayments from the current reconciliation exercises will be for comparable reasons as in 2008. The view it took in 2008 was that no pensioner should have their pension adjusted in these particular circumstances and that remains its view for similar cases that arise as part of the reconciliation exercise.

Q13:This problem has happened before how can you assure me it won't happen in the future?

A: Since April 2016 schemes have been paying the full indexation for those members who reach State Pension Age so there will be no duplication of GMP indexation for these members. 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.

Q14:In 2008 all the accrued overpayments were written off. Will the same happen this time?

A: The full extent of any overpayments will not be known until a scheme has completed its reconciliation exercise. At that point the Accountable Officer for the scheme will decide what action is required taking into account all of the circumstances around why the overpayments have been made.