

**POLICE PENSION SCHEMES  
2018/01**

**WHO SHOULD READ:** The Chief Constable of Police Scotland  
Pension scheme Administrators

**ACTION:** For Information

**SUBJECT:** Guaranteed Minimum Pension reconciliation exercise

**The purpose of this circular is to:**

- inform the Service of how overpayments resulting from the Guaranteed Minimum Pension (GMP) reconciliation exercise will be managed.

### Background

Following the end of contracting-out in April 2016 a reconciliation of GMP data from April 2009 is currently being undertaken between schemes and HMRC which is scheduled to conclude no later than December 2018. The reconciliation exercise is looking at cases where members reached state pension age after April 2009 as a similar check on GMP data was undertaken during 2008/09 across the UK wide public service schemes.

GMPs accrued for contracted-out service between April 1978 and April 1997. They reflect the level of earnings related state pension a member would have received had they not been contracted out. Contracted-out employment was abolished from April 2016 with the introduction of the new single tier State Pension.

The annual indexation of GMPs is a complex issue. For those who reached state pension age before April 2016 the annual indexation of a GMP is shared between the Department for Work and Pensions (DWP) and the scheme. For any GMP accrued between April 1978 and April 1988 DWP pays the full indexation. For any GMP accrued between April 1988 and April 1997 the scheme pays any annual increase up to the value of 3% with any remainder paid by DWP.

In cases where either no GMP details are held or the GMP data is incorrect, the result can be indexation being applied incorrectly by both the scheme and DWP. This creates an overpayment of scheme pension which is compounded year-on-year by further incorrect indexation being applied.

Indexation of GMPs for those reaching state pension age after April 2016 is fully paid by the scheme so similar overpayments will not arise going forward from that date. 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.

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## Current GMP reconciliation exercise

SPPA are undertaking the GMP reconciliation exercise for the NHS, Teachers', Police and Firefighters' schemes and expect this to conclude in late 2018. In common with public service schemes across the UK a number of overpayments are expected to be identified where current GMP data held by schemes is incorrect. This will have resulted in schemes paying too much annual indexation to affected pensioners where all or part of the GMP indexation has also been paid by DWP.

As mentioned above there was a similar exercise undertaken in 2008/09 where schemes were found to be holding incorrect GMP data. Scottish Ministers chose to allow the pension in payment to remain unadjusted going forward for affected pensioners in the LGPS, Police and Firefighter schemes. This was achieved by introducing legislation that provided for a new scheme award known as an Increased Pension Entitlement (IPE) which reflected the GMP-related overpayment. It was not possible to introduce an IPE for either the Teachers' or the NHS scheme as this would have required HM Treasury consent, which was not given.

Scottish Ministers have decided that a similar approach should be taken for GMP-related overpayments that arise from the current reconciliation exercise. Again this means that affected pensions in the LGPS, Police and Firefighters' schemes will see their existing level of pension maintained by the award of an IPE and regulations to provide for this award will be consulted on during 2018. However as in 2008/09 it will not be possible to apply an IPE to affected Teachers' and NHS pensioners as to provide a similar approach requires HM Treasury consent for the necessary legislative changes.

On conclusion of the reconciliation exercise those cases where the incorrect GMP data has been applied will be identified. Those affected Police pensioners where the incorrect GMP data has led to an overpayment will have an award of IPE applied to maintain their level of pension in payment going forward. A decision on how any accrued overpayments will be handled will be decided by the scheme's Accountable Officer as soon as the total number and amount of overpayments are known.

There may also be a small number of cases where the incorrect GMP data has led to an underpayment of pension. In these cases the affected pension will be corrected going forward with any arrears being paid to the pensioner.

## Communications

SPPA will not be able to identify which pensioners are affected until the reconciliation exercise concludes in late 2018, so cannot communicate directly with affected members at this time. This will be done at the conclusion of the reconciliation along with a decision on how accrued GMP-related overpayments will be managed.

In the meantime SPPA has provided a [short update and Q&A](#) on its website.

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**Contact information**

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