

Pension payments and Guaranteed Minimum Pension

This note explains how pension increases are applied to a person's Guaranteed Minimum Pension (**GMP**).

What is a GMP?

A GMP is the minimum pension which an occupational scheme must provide as one of the conditions of contracting out for service before 1997. The Firefighters' Pension Scheme 1992 (FPS) is contracted out of the Second State pension, previously known as State Earnings Related Pension Scheme (SERPS). Any person who was employed by a fire and rescue authority and was a member of the

FPS between 6 April 1978 and 5 April 1997 will have earned a GMP.

GMP is not a separate benefit paid in addition to their FPS pension but the pension which the Scheme pays must equal or exceed the member's GMP.

HM Revenue and Customs work out the level of a GMP. The GMP comes into force normally when a person asks for their State pension to be paid. (There are circumstances when the GMP comes into force at a later date but the effect on an FPS pension is the same).

What is pensions increase?

The Pensions (Increase) Act 1971 governs the cost of living increases that apply to public service pensions. Those administering the FPS for a fire and rescue authority increase pensions each year to reflect rises in the cost of living. The annual increase in public service pension is the same percentage as that applied to additional State retirement pensions and other Social Security benefits.

How is pensions increase applied to a GMP?

Pensions administrators apply pensions increase to the whole of a person's FPS pension, including the GMP element until the GMP comes into force. At this point the FPS pension is paid as follows:

- for service up to 5 April 1988

The Government will pay the pensions increase relating to the GMP earned up to this date with the person's State pension.

- for service between 6 April 1988 and 5 April 1997

The fire and rescue authority will pay increases on the GMP earned in this period up to 3%. In years when the increase is more than 3% the Government will pay the balance with the State pension.

What effect does this have on the pension paid?

When a GMP comes into force HMRC tell the pensions administrator the amount of the GMP. The administrator

then adjust their records to reflect the fact that the Government now pays some of the annual pensions increase on the GMP element of the FPS pension with the person's State pension. The overall increase in the pension will however be the same.

So why have pensions been overpaid?

For some public service schemes, the transfer of data has not always been successful. This has meant that pensions administrators with these schemes have not always been able to take the necessary action to adjust the pension increase applied to a person's GMP to reflect the element of the pensions increase which was being paid with the State pension.

As a result, in such cases, the person will have received increases twice; once from the public service scheme and again with the State pension.

Why has there been no problem with FPS pensions?

Arrangements exist for necessary checks to be made with HMRC before the person reaches State pension age. On occasions, if the necessary information is not available immediately, errors may occur in pension payments but these should be corrected promptly and adjustments made so that no person receives other than the amount to which they are entitled.