

The Local Government Pension Scheme



Guaranteed Minimum Pension

A guide to the effect of the State Pension on the
Local Government Pension Scheme



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Introduction

This leaflet explains how your State Retirement Pension can affect the Local Government Pension Scheme (LGPS) pension you receive from us. Both are protected against increases in the cost of living, but part of the yearly increases applied to your LGPS pension may, from State Retirement age, be paid with your State Pension and not by us. There is a glossary of terms and abbreviations at the end of this booklet.

Further Information

Our address, email address, telephone and fax numbers and details of how to obtain further information are shown at the end of this guide.

The Local Government Pension Scheme and the State Earnings Related Pension Schemes

All employees pay National Insurance contributions, which go toward State benefits. Part of your National Insurance contributions is linked to the amount that you earn between lower and upper earnings limits. This part goes toward the State Earnings Related Pension Scheme (SERPS), which was introduced in 1978. From April 2002 SERPS was replaced by the State Second Pension (S2P).

The LGPS was contracted-out of SERPS and as a consequence the earnings related National Insurance contributions of LGPS members were reduced.

Although this means that LGPS members did not earn an additional pension under SERPS or S2P, their LGPS pensions should be at least as great as their earnings related entitlement would otherwise have been.

Between April 1978 and April 1997 members of contracted out pension schemes accrued an notional SERPS pension which is called the Guaranteed Minimum Pension (GMP). This GMP is payable, from age 60 for a woman and age 65 for a man, known as Pensionable age, as part of your LGPS pension, not as an addition to it.

However, if your LGPS pension is less than your GMP, from pensionable age we increase your LGPS pension to match it.

From April 1997 members of contracted out pension schemes ceased to accrue a GMP. However, contracted out schemes had to conform to the requirements of a model scheme, the benefits of which should normally equal or exceed those that would have been accumulated through membership of SERPS.

Widows and widowers and bereaved Civil Partners of LGPS members inherit half of their late spouses' GMP, but in the case of widowers and bereaved Civil Partners only the GMP in respect of contracted out service since April 1988.

The statement which the Department for Work and Pensions (DWP, formerly the DSS) sends you when you claim your State Retirement Pension, or State bereavement benefits, shows your 'Additional Pension'. This is your total earnings related entitlement, including any GMP earned in Local Government service or elsewhere.

Your GMP, together with any post 1997 earnings related rights you or your deceased spouse would otherwise have accrued are shown on the DSS statement as a 'Contracted-out deduction' (COD).

The DWP describe these elements as the COD because they represent the earnings related pension that you did not accrue due to being contracted out of SERPS/S2P. They should also send you a separate notification of your entitlement to a GMP.

Pensions Increase (PI)

Your LGPS and State Retirement pensions are increased each April to protect them from the effects of inflation.

The amount of the increase is set by the Government to keep pace with increases in the cost of living.

This is known as Index Linking and shows on your payslip as Pensions Increase (PI).

Although your GMP is included in the pension paid by us, the DWP pay some or all of the Pensions Increases on your GMP in with your survivor's pension, or from State Retirement age in with your State Pension.

We therefore, deduct the Pensions Increase due from the DWP before paying your pension. Your LGPS pension may therefore not show the full index linking that you would expect, but any balance due is paid in with your State Pension.





Deferred Retirement and GMP Increments

If you continue working in Local Government for more than 7 weeks beyond Pensionable Age, you earn GMP Increments. These are added to your GMP and are calculated as $\frac{1}{7}$ th of 1% of your GMP for each complete week that retirement is deferred. This protects the value of your GMP while it is not in payment.

Working past Pensionable Age

Normally we must pay you your GMP, plus GMP Increments, from age 60 if you are a woman or age 65 if you are a man, but payment may be deferred if you are in LGPS employment or for retirees after 31st March 2008 if you are in employment.

Example: Pensions Increase calculation where the last day of service was before 6th April 1988

Mr Jones retired in April 1987 with a LGPS pension of £150.00 per month. By the time he reached Pensionable Age in November 2000 we were paying his pension at the rate of £205.82 per month made up as follows:

Original LGPS pension: £150.00
Pensions Increase: £ 55.82
Total: £205.82

At State Retirement Age, Mr Jones' GMP was £50.00 per month, so the increase due in April 2001 of 3.3% was calculated as:

Total LGPS pension: £205.82
Less GMP: £ 50.00
Pension to be increased: £155.82

$£155.82 \times 3.3\% = £5.14$, so his LGPS pension was increased by £5.14 to £210.96 per month made up as follows:

Original LGPS pension: £150.00
Pensions Increase: £60.96
(£55.82 + £5.14)
Total: £210.96

The DWP started to pay PI of £1.65, i.e. $£50.00 \times 3.3\%$, on Mr Jones' GMP from April 2001 so that his total pension in respect of her Local Government service was increased by 3.3%. This can be checked as follows:

Total increase due: $£205.82 \times 3.3\% = £6.79$
Increase paid by us: £5.14
Increase paid by the DWP: £1.65
($£50.00 \times 3.3\%$)
Total increase paid: £6.79

Example: Pensions Increase calculation where the last day of service was after 5th April 1988

Mr Smith retired in 2000 at the age of 65. His LGPS pension was £200.00 per month. This included a GMP of £90.00 per month, of which £25.00 was earned after 5th April 1988. The increase due in April 2001 was calculated as:

Original LGPS pension: £200.00
Less GMP earned after 5th April 1988:
£ 25.00
Less GMP earned before 6th April 1988:
£ 65.00
Pension to be increased: £110.00

$(£110.00 \times 3.3\%) + (£25.00 \text{ post-88 GMP} \times 3\%)$

$£3.63 + £0.75 = £4.38$

Therefore Mr Smith's LGPS pension went up by £4.38 to £204.38 per month made up as follows:

Original LGPS pension: £200.00
Pensions Increase: £4.38
Total: £204.38

The balance of the 3.3% PI award on his GMP earned after 5th April 1988 was paid by the DWP, along with the full PI award on his GMP earned before 6th April 1988. So Mr Smith's total pension in respect of his Local Government service was increased by 3.3%. This can be checked as follows:

Total increase due: $£200.00 \times 3.3\%$
 $= £6.60$

Increase paid by us: £4.38
Increase paid by the DWP: £2.22
 $(£65 \times 3.3\%) + (25 \times 0.3\%)$
Total increase paid: £6.60

Revision of Pensions Increase (PI)

Sometimes the DWP is unable to pay the PI on your GMP and we pay it instead. This happens if your State Pension is not being paid, for example if you have a period of long term hospitalisation.

The DWP notifies us if your State Pension is not being paid, and the effective date, but does not tell us the reason. We then pay the PI on your whole LGPS pension including your GMP, until we receive notification from the DSS that they are able to pay it again.

If the DWP is late telling us to pay the entire PI on your GMP, your LGPS pension may be underpaid. As soon as the DWP does tell us, we calculate and pay you the arrears and inform you of your new rate of pension.





If the DWP are late telling us that they can again pay the PI on your GMP, your LGPS pension may be overpaid. As soon as the DWP tells us, we calculate and inform you of your new rate of pension, the amount of the overpayment and the arrangements for recovery, which will be dealt with as sympathetically as possible.

Sometimes the DWP do not tell us of these changes until some years after they happen and this can result in quite large adjustments having to be made to the pension we pay you.

Occasionally, the DWP do not inform us of your GMP amount by the time you achieve Pensionable Age and we have to estimate it. If this happens in your case, we will calculate and adjust your LGPS pension when we are told what the GMP figure is by the DWP and inform you immediately.

Abbreviations

COD:	Contracted-out Deduction
DWP:	Department for Work and Pensions (Formerly DSS)
GMP:	Guaranteed Minimum Pension
LGPS:	Local Government Pension Scheme
PI:	Pensions Increase
SERPS:	State Earnings Related Pension Scheme
SRA:	State Retirement Age
S2P:	State Second Pension Scheme

Glossary

Additional Pension

This is your total entitlement under SERPS/S2P, and includes any GMP entitlement earned whilst in Local Government employment.

Contracted-out Deduction (COD)

How your GMP entitlement is described in your State Pension statement or booklet. It represents a reduction to your Additional Pension as paid by the DWP.

Department for Work and Pensions (DWP)

The Government Department responsible for State benefits (formerly the Department of Social Security).

Guaranteed Minimum Pension (GMP)

The minimum pension we can pay to you. It is calculated by reference to the SERPS entitlement that you would have earned, between April 1978 and April 1997, had you not been in the LGPS.

It is paid as part of your LGPS pension, not as an addition to it. PI on this part of your LGPS pension may be partly or wholly paid by the DWP from State Retirement Age.

Local Government Pension Scheme (LGPS)

This is the pension scheme for Local Government (and certain other) employees. It is a statutory scheme with regulations laid down by Parliament.

National Insurance

National Insurance contributions paid while you are working give entitlement to State Pension benefits.

Pensions Increase

Under the Pensions (Increase) Act 1971 your benefits are reviewed and increased in accordance with Orders made under the Act, currently on an annual basis. This protects the value of all your benefits against the effects of inflation whilst they remain preserved in the Local Government Pension Scheme and the annual pension once it is in payment.

Post-88 GMP

GMP earned in respect of National Insurance contributions paid between 06/04/1988 and 05/04/1997. It is treated differently for Pensions Increase purposes.

Pensionable Age

In relation to entitlement to a a GMP is age 60 for a woman and age 65 for a man, the same as State Retirement Age. From April 2010, State Retirement Age starts to increase for women born after 6 April 1950.

State Earnings-Related Pensions Scheme (SERPS)

The State benefit earned between 06/04/1978 and 05/04/2002 in addition to the flat rate State Retirement Pension. It is calculated from National Insurance contributions between the lower and upper earnings limits.

State Retirement Age (SRA)

Currently age 60 for women and 65 for men, this is the age at which the State Retirement pension may be collected and from which your GMP is effective. From April 2010, State Retirement Age starts to increase for women born after 6 April 1950.

State Second Pension (S2P)

The State earnings related pension which replaced SERPS from 6th April 2002.





Further Information

If you would like further information, including information specific to your own circumstances, or if you have any comments or queries about this guide please do not hesitate to contact us. You can write to, telephone, fax or Email us, or visit our offices with or without an appointment.

The postal address, telephone and fax numbers, Email address and office opening times are shown at the end of this guide. An answer phone is available out of office hours and calls are returned the next working day.

When calling please quote the name of your employer, so that your enquiry may be passed to the member of staff best able to help you.

This guide does not confer any statutory rights. It aims to explain the pension available to you as a member of the LGPS and cannot override the Local Government Pension Scheme Regulations or other relevant legislation.

The information given in this guide is also available in large type and on audio cassette.

It may be possible to reproduce it in other ways or another language and we would be pleased to consider any such request.

Details are correct at the time of publication but cannot take into account the effects of subsequent changes in legislation. This guide is only valid to April 2011. If this date has passed DO NOT make any decisions based on the information contained in this guide, please contact us for the latest information.

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