

## Guaranteed Minimum Pension and Indexing

Until 5 April 2016, the LGPS is a contracted-out pension scheme Avon Pension Fund has incurred obligations as to certain pension provisions connected with the State Second Pension.

From 6 April 1978 to 5 April 1997 pensions paid had to cover the equivalent pension that the member would have accrued if they had been receiving the State Second Pension. This pension is known as the Guaranteed Minimum Pension [GMP].

If the pension calculated under LGPS regulations was less than the GMP amount Avon Pension Fund [APF] would be required to pay an additional amount to cover the shortfall.

As from the member's State Pension Age, the responsibility for increases on the GMP element was split between the Fund and the Government as follows:

Pension	Increases made by	
	Fund	Government
GMP element from 06/04/1978 to 06/04/1988	No	Yes all
GMP element post 5/4/1988	Yes first 3%	Yes excess over 3%
Excess pension over GMP	Yes	No

With the introduction of the Single State Pension in April 2016, contracted-out status will cease. HMRC will phase out its contracted-out section by April 2018.

Discussions are taking place between HM Treasury and Public Sector Pension Schemes as to how indexing of GMPs will be covered once contracting out ceases.

On Tuesday 1 March 2016, the government issued a [Press Notice](#), announcing that public service schemes would be required to pick up the cost of fully indexing GMPs in respect of members who reach State Pension Age from 6th April 2016 to 5th December 2018.

For members reaching State Pension Age from 6th December 2018, HM Treasury intends to consult later this year on a solution to the indexation issue and GMP equalisation for the public service schemes and their members.

## WHAT IS THE FINANCIAL IMPACT?

In January, it was commented that if full indexation had been implemented for all members who reached State Pension Age from 6 April 2016, the burden for the LGPS would have been additional liabilities of around £1 billion which equated to around 0.5% of the Scheme's total liabilities.

Based on this initial shorter window of pensioners, we estimate that the current impact on the LGPS will now be additional liabilities of the order of £225 million, which will have to be reflected in the forthcoming 2016 valuation: The impact will vary for individual employers, depending on their membership profile, and again this is something to be costed in the valuation.

**PRACTICAL IMPACT?**

From an administration/pensioner payroll perspective there will be a need to identify affected members and set up processes for them in order to apply the correct increases going forward when they reach State Pension Age with potentially different treatment again from 2018.

The first increase for these individuals will be due in April 2017

It remains to be seen how this will play out in the longer term. Some private sector companies who operate public sector style “mirror” schemes have been lobbying government to prevent the full requirement from being imposed on public service schemes and therefore their own as well. It is anticipated that they will respond strongly to the consultation on this.

Further updates will be made once the consultation details are published and will remain in close contact with HM Treasury in the meantime

**Members potentially included for GMP indexing protection**

	<b>Members</b>
<b>Pensioners</b>	<b>1270</b>
<b>Deferreds</b>	<b>156</b>
<b>Actives</b>	<b>302</b>
<b>Total</b>	<b>1728</b>