

NHS Pensions - Guaranteed Minimum Pension

From 6 April 1978 the State retirement pension was made up of two parts:

- The basic pension – often referred to as the “old age pension”
- The State Second Pension – previously known as the State Earnings Related Pension Scheme or SERPS

The State Pension Scheme changed to a single tier system from 6 April 2016 and the facility to contract out of the State Second Pension was removed by the Department of Work and Pensions (DWP) for all registered pension schemes from this date. Although no longer contracted out from this date, pension benefits payable from the NHS Pension Scheme must meet the minimum level where a member has membership prior to 6 April 1997.

The basic pension was based on the member’s record of NI contributions and paid by the Department of Work and Pensions (DWP).

The State Second Pension (S2P) was an additional state pension based on the record of NI contributions together with the level of earnings as an employee. It may also be paid by DWP but public service pension schemes like the NHS Pension Scheme (NHSPS) contracted their membership out of the S2P and took on the responsibility for paying that pension. In return the member paid NI contributions at a lower rate than would normally have applied.

As a former contracted out scheme NHS Pensions must continue to ensure that for most scheme members, the occupational pension paid is at least the amount which would otherwise have been paid under the S2P for employment between 6 April 1978 and 5 April 1997. This minimum level of pension is called the Guaranteed Minimum Pension (GMP).

The GMP is normally paid with the State Pension and is part of the NHS Pension, **not an extra pension**. In the vast majority of cases the value of the scheme pension is far greater than the GMP.

Although the GMP ceased to accumulate from 6 April 1997, it continues to be re-valued on an annual basis. The NHS Pension Scheme must ensure that the pension payable in

respect of contracted out employment before that date is at least equivalent to the re-valued GMP.

If the member does have a Guaranteed Minimum Pension up to 5 April 1997 the Department of Work and Pensions will write to the member at State Pension Age to confirm how much it is. The member can check if their NHS Pension is at least as much as the GMP.

To ensure compliance with the previous requirements for contracting-out of the State Second Pension, the NHS Pension Scheme must complete a test when a member requests one or both of the following:

- Early retirement with actuarial reduction of their NHS Pension benefits;
- Asks to give up part of their NHS pension to provide a bigger retirement lump sum.

The purpose of this test is to ensure that if the request is approved, the NHS pension that would remain in payment at State Pension Age would be at least as much as the member would have received had they not been contracted out of the State Second Pension. The minimum pension that must remain must be at least equal to the GMP.

If the GMP test is not met we cannot allow the member to:

- Receive early payment of benefits or
- Give up the amount of pension requested to provide additional lump sum, but they may be able to give up a smaller part of their pension

The following are not subject to the GMP test:

- Married women who have paid E rate National Insurance contributions; do not accrue rights to the State Second Pension or
- Members who joined the scheme on or after the 6 April 1997 and those who have not transferred contracted out pension rights for an earlier period into the NHS Pension Scheme. This is because the GMP ceased to accrue from 6 April 1997

Important note

When an employee is planning to take early retirement with actuarially reduced benefits, it is very important to request a GMP Test before the member is committed to retirement as a GMP Test will not automatically be carried out with an Actuarially Reduced Early

Retirement (ARER) estimate. If this is not performed the member could have potentially already resigned from their post and should the GMP Test fail, they could be left with no income. NHS Pensions has no discretion to pay the pension early when the GMP test is not satisfied.

If the GMP test fails when a member has asked to give up some pension in exchange for a lump sum, we may pay the maximum permitted lump sum in excess of the revalued GMP, but we cannot exceed that amount; please be aware that in some circumstances a member may not be entitled to an additional lump sum. Members should not commit to expenditure on any additional lump sum until it is confirmed.