Local Government Pension Scheme

State Scheme Reconciliation

Generally, up to 6 April 2016, employees built up benefits to both the Basic State Pension and to the Additional State Pension. The Additional State Pension was formerly known as SERPS and the State Second Pension and was introduced on 6 April 1978. However, from 6 April 2016, the government introduced a single-tier state pension for people reaching State Pension Age from that date.

The Local Government Pension Scheme (LGPS) was contracted out of the Additional State Pension. This meant that, whilst a member paid into the LGPS, the member paid lower National Insurance Contributions and did not build up Additional State Pension. Instead, the member built up benefits in the LGPS.

The government set certain conditions to be met by contracted out pension schemes. One such condition is that the LGPS guaranteed to pay pensions that are at least as high as that which would have been received by members had they not been contracted out at any time between 6 April 1978 and 5 April 1997. This is called the Guaranteed Minimum Pension (GMP). This is paid as part of a LGPS pension (not in addition to it).

GMPs stopped building up from 6 April 1997. From this date schemes like the LGPS, instead of guaranteeing to pay a minimum amount of pension, had to provide scheme benefits that are broadly equivalent to or are better than a set of criteria set by the government.

From State Pension Age, the GMP has an impact on the annual inflation proofing applied to LGPS benefits. This is because the government shares the cost of inflation proofing the GMP part of LGPS benefits. Inflation increases up to 3% are paid by the LGPS on GMPs built up between 6 April 1988 and 5 April 1997. The government, as part of the State Pension, pays the rest of the inflation increases on GMPs. The following example illustrates this point:

An LGPS Pensioner is receiving an annual pension of £2,000 at State Pension age. In this example, inflation proofing of 4% is applied from April. The example below shows what the Scheme would pay the pensioner. The government pays the rest of the inflation increases that are due on the GMP via the person's State Pension.

Total Pension	= £2,000 per year		
Pre 6 April 1988 GMP	= £500 per year	X 0% increase	= £500 pa
Post 5 April 1988 GMP	= £500 per year	X 3% increase	= £515 pa
Remaining LGPS Pension	= £1,000 per year	X 4% increase	= £1,040 pa
		New Total Pension	**= £2,055 pa**

Data Matching Exercise

Along with other contracted-out pension schemes, LGPS Funds nationally have been undertaking a data matching exercise with HM Revenue & Customs. This is so that Funds can reconcile LGPS members records with the records held by HMRC in respect of individual State Pensions.

Possible Impact on Benefits

Checking the GMP data held by LGPS Funds with the data held by HMRC may highlight discrepancies and as a result it is possible that individual member benefits may have been paid at an incorrect rate. Discrepancies can result in the underpayment or overpayment of pension benefits depending on the nature of the anomaly.

LGPS Funds are legally required to pay the correct amount of benefits to which members are entitled. In other words, LGPS Funds cannot continue to pay benefits that are known to be incorrect. This means that adjustments to benefits will need to be made as the results of the exercise become known. Generally LGPS Funds will correct any underpayments that have occurred and pay arrears to the individual member accordingly. However, in respect of overpayments, most LGPS Funds have decided not to reclaim any overpayments until the result of the national data matching exercise is known and guidance on the treatment of overpayments becomes available.

Unfortunately no further information is available at this stage of the national data matching exercise.

This website will be updated as further information becomes available.