



Guaranteed Minimum Pension Equalisation

Questions and Answers

What is Guaranteed Minimum Pension (GMP)?

GMP is the minimum pension that an employer had to provide through an occupational pension scheme if they wanted to 'contract out' of the Additional State Pension (also known as State Earnings-related Pension Scheme (SERPS)) before 6 April 1997.

Broadly speaking, the GMP is a similar amount to the Additional State Pension an employee would have received had the Additional State Pension continued in operation. However, it is paid through the employer's pension scheme (by the trustees of the scheme), instead of by the Government.

If a member of the scheme has died, there may be a GMP payable to the spouse and this will be based on the member's GMP.

The GMP is paid as part of the pension you receive from the pension scheme. For benefits earned before 6 April 1997, a member's pension payable from the scheme must be at least equal to the GMP from GMP Payment Age (age 65 for men and age 60 for women).

Because of the way the rules for GMP work, even when the pension scheme provides a higher benefit overall than the GMP, the GMP must be accounted for separately from the rest of a member's pension in the scheme. One reason for this is because once a member reaches GMP Payment Age, different annual pension increases might be applied to the GMP and the rest of the pension.

What is GMP Payment Age?

Historically, State Pension payments started at different ages for men (65) and women (60). As the GMP element was broadly equal to what the Additional State Pension/SERPS would have provided, the Scheme has to calculate benefits for this part of a member's pension assuming different starting ages for males and females. Therefore, the age at which GMP becomes payable is 65 for men and 60 for women, even though men and women now have the same State Pension Age (currently 66 but rising to 67 by 2028). GMP to a spouse after a member's death is payable immediately.

What is the clarification that means this is being reviewed now?

In 2018, the High Court ruled that the inherent sex-based inequalities in GMP built up between 17 May 1990 and 5 April 1997 were unlawful. Consequently, all UK pension schemes must, by law, 'equalise' benefits to eliminate the inequalities caused by GMPs so that they do not cause anyone's pension to be lower as a result of their sex. This is the legal clarification that means we have had to review your pension.

Is everyone affected by GMP equalisation?

No. There are two reasons why a member's benefits might not be affected:

Pension benefits don't contain any GMP built up in the period 17 May 1990 to 5 April 1997 – for example due to an employee not being in pensionable service during this time.

The GMP benefits a member receives are already higher than they would have been if they had originally been calculated in line with the opposite sex – therefore nothing is needed in addition to equalise the position.

Is the rest of my current pension already equalised?

The court judgments concerning equalisation do not require the equalisation of any benefits built up before 17 May 1990. All non-GMP benefits built up in the Scheme on and after 17 May 1990 have been equalised.

What is GMP reconciliation?

HMRC recommended that all occupational pension schemes (including the Scheme) should check their GMP data against the records held by HMRC. If this showed that a pension scheme's GMP data in respect of a member did not match the data held by HMRC, the pension scheme is required to update their records and correct (rectify) the member's pension. This is a separate issue to GMP equalisation.

Will a dependant's pension(s) change?

Any dependant's pension payable on a member's death will be based on the member's (correct) pension after GMP equalisation and/or rectification.

Are there any tax limitations I should be aware of?

The Government had previously set limits on the pension savings that a member can have without losing tax relief. The relevant limit in the context of GMP equalisation is the Lifetime Allowance (LTA). As GMP equalisation may result in a small increase in pension, a member may have a higher pension amount to be measured against the LTA.

The LTA has now been abolished. This was done with effect from the 2024/25 tax year. Under current tax rules, there should therefore be no impact on a member's LTA.

Tax matters are complex. If a member has concerns about how the tax limitations may affect them, they should seek financial advice.

Taxation of back-payment and interest

Back-payments representing past arrears of pension and the additional interest are subject to income tax. Both will be taxed through PAYE. Whilst unlikely, it is possible this may result in higher income tax than would have been paid had the correct pension amounts been paid since the pension came into payment. Where a higher tax liability has arisen because of the underpayment of a pension, HMRC can spread the one-off repayment (excluding interest) over past tax years and recalculate an individual's tax liability. Please note, in this event the interest would remain taxable in the current tax year and this income may need to be reported to HMRC in an individual's Self-Assessment at the end of the tax year to ensure the correct amount of tax is paid.

How will I know that the pension is correct after this exercise and that there won't be any future changes?

Every effort will have been made to check pension benefits are correct. Pension scheme trustees are responsible for paying a member's and dependent's correct benefits and if a further change is required, the trustees will write to the member and/or dependent at the time.