

## **Guaranteed Minimum Pension (GMP) - Error In Calculation**

The Service Personnel and Veterans Agency (SPVA) is sorry to have to inform Veteran Customers that an error has been identified in respect of a small proportion of Armed Forces Pension Scheme 75 (AFPS 75) pension payments. This error is in respect of the application of the Guaranteed Minimum Pension (GMP) element of the pensions of some 6,000 members of AFPS 75.

The error only affects 2% of the AFPS 75 pensioner community. Armed Forces Compensation Scheme (AFCS), AFPS 05 and War Pensions Scheme payments are not affected.

Usually, under Government Accounting rules, SPVA would seek repayment of any amount overpaid in an occupational pension scheme such as AFPS. However, in this case, SPVA are happy to inform you that GMP overpayments relating to this issue will not be recovered.

This error affects pensions administered by a number of government departments. The vast bulk of AFPS monthly payments, some 360,000, are unaffected. The error came to light some months ago and a full audit has since been undertaken to identify the scheme members involved along with the cause and effect. The issue affects pensions paid by a number of government departments including the Ministry of Defence. The process for ensuring that pension records include the necessary National Insurance contribution information has not worked effectively in all cases.

### **Detailed information for those affected**

#### **What is a GMP?**

A GMP is the minimum pension which an occupational scheme such as the Armed Forces Pension Scheme (AFPS) must provide as one of the conditions of contracting out. The AFPS is contracted out of the Second State pension, previously known as State Earnings Related Pension Scheme (SERPS). If you or your deceased spouse were employed in the Services and a member of AFPS 75 between 6 April 1978 and 5 April 1997 you will have earned a GMP.

GMP is not a separate benefit paid in addition to your AFPS pension but the pension we pay you must equal or exceed the GMP.

HM Revenue and Customs work out the level of your GMP. Your GMP comes into force normally when you ask for your State pension to be paid to you. (There are circumstances when the GMP comes into force at a later date but the effect on your AFPS pension is the same).

#### **What is pensions increase?**

The Pensions (Increase) Act 1971 governs the cost of living increases that apply to public service pensions. Xafinity Paymaster is the organisation that pays your pension under contract to the SPVA, who are the AFPS Administrators. Xafinity Paymaster increases your pension each year to reflect rises in the cost of living as centrally directed. The annual increase in public service pension is the same

percentage as that applied to additional State retirement pensions and other Social Security benefits.

### **How is the pensions increase applied to my GMP?**

Xafinity Paymaster applies the pension increase to the whole of your AFPS pension, including the GMP element, until your GMP comes into force. At this point your AFPS pension is paid as follows:

- for service up to 5 April 1988

The Government will pay the pensions increase relating to the GMP you earned up to this date with your State pension.

- for service between 6 April 1988 and 5 April 1997

Xafinity Paymaster will pay increases on the GMP you earned in this period up to 3%. In years when the increase is more than 3% the Government will pay the balance with your State pension.

### **What effect does this have on the pension you pay me?**

When your GMP comes into force the National Insurance Contribution Office (NICO) tell Xafinity Paymaster the amount of your GMP. Paymaster then adjust their records to reflect the fact that the Government now pays some of the annual pensions increase on the GMP element of your Armed Forces pension with your State pension. The overall increase in your pension will however be the same.

### **So why have I been overpaid?**

Unfortunately we learned that the transfer of data to Xafinity Paymaster was not always successful. This meant that Xafinity Paymaster was not able to take the necessary action to adjust the pension increase they applied to your GMP to reflect that an element of the pensions increase was now being paid with your State pension.

As a result you have received increases twice; once from the AFPS scheme and again with your State pension element of your pension. This means that we may be paying you too much pension. Once we know of an error in a person's pension SPVA is obliged to adjust the pension to reflect their true entitlement from the scheme.

### **Why must you reduce my pension?**

The AFPS pension and GMP arrangements are statutory. We can only pay you the amount of pension that you are entitled to under the scheme rules, increased each year under the Pensions (Increase) Act 1971 and Social Security legislation.

Where we find that we are paying someone more than they are entitled to, we must put the correct level of pension into payment. You were paid more than you were entitled to because Xafinity Paymaster had not been instructed to adjust the pension increase applied to your GMP, as explained earlier in this leaflet.

### **Next Steps**

Whilst SPVA does not wish to cause unnecessary alarm, we are required to inform you that we have identified this error and also wanted to assure you that work remains ongoing to identify the exact extent of the error relating to affected pensions. SPVA, as administrators of the AFPS, is required under the relevant regulations, and as agreed by the Government departments involved, to correct affected pensions from April 09. However, work continues to calculate the exact amount involved. It is likely that those identified will see a small reduction in their pension, but at this stage SPVA cannot tell affected individuals exactly how much that will be.

Usually, under Government Accounting rules, SPVA would be required to seek repayment of any amount overpaid in an occupational pension such as AFPS. However, in this case, SPVA is happy to inform you that GMP overpayments relating to this issue, will not be recovered.