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DWP consults on GMP revaluation

The fixed rate of guaranteed minimum pension (GMP) revaluation is generally reviewed every five years.

Following the most recent review by the Government Actuary's Department (GAD), the DWP is consulting on reducing the fixed rate to 3.25% per annum for members who leave pensionable service from 6 April 2022.

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Background

It is for sponsors to decide how the GMP for deferred members is revalued until the benefit comes into payment. There are two options for revaluing deferred GMP: By reference to average earnings or a fixed rate (which provides more certainty of costs). The fixed rate changes over time, with the applicable rate depending on when members leave pensionable service.

Since 2017, the fixed rate of GMP revaluation has been set at 3.5% per annum. The government is proposing to continue the historic trend of reducing the rate, following the GAD review, for members who leave pensionable service from 6 April 2022.

The consultation runs until 18 November 2021.

The DWP's proposals

The GAD has recommended a fixed rate of between 3% and 3.5% per annum, based on a short to medium term view on earnings assumptions being applied, given that most individuals leaving pensionable service between 6 April 2022 and 5 April 2027 (when the next review is scheduled to take place) will be less than 10 years from the age at which GMPs are payable.

The proposed rate does not include an additional premium of 0.5% per annum for the certainty that employers get from revaluing in line with a fixed rate. This uses the same rationale as for the last change in 2017, as the nature of the relationship between private pension schemes and the State has fundamentally changed since the introduction of the single-tier pension. In addition, given the shortened

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timescales there is less uncertainty around the increases in earnings for the members in question compared to looking over the longer term.

While the proposals will lead to a reduction in the increases applied to deferred members' GMP entitlement, it will also mean that schemes using the fixed rate will see a slight decrease in projected GMP costs.

Previous levels of fixed rate GMP revaluation

Period when member left pensionable service	Rate
6 April 2017 – 5 April 2022	3.5%
6 April 2012 – 5 April 2017	4.75%
6 April 2007 – 5 April 2012	4%
6 April 2002 – 5 April 2007	4.5%
6 April 1997 – 5 April 2002	6.25%
6 April 1993 – 5 April 1997	7%
6 April 1988 – 5 April 1993	7.5%
Pre-6 April 1988	8.5%

Buck comment

Some consultations are truly designed to seek feedback on proposals, while others merely act as advance warning of future changes. This consultation seems to fall very much in the latter category and gives trustees of schemes that revalue GMP on a fixed rate, notice of the increases to apply to the GMP of members leaving pensionable service from April 2022.

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