



Government Actuary's Department

Principal Civil Service Pension Scheme

GMP tests for classic, classic plus, premium and nuvos

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1 Introduction

- 1.1 This note is addressed to The Pension Scheme Executive (TPSE) of the Cabinet Office as scheme manager of the Principal Civil Service Pension Scheme (PCSPS).
- 1.2 The purpose of the note is to provide TPSE with factors to be used in carrying out the Guaranteed Minimum Pension (GMP) tests required before permitting members to exercise certain options within the PCSPS, and accompanying guidance to demonstrate how these factors should be applied and in which circumstances.
- 1.3 The GMP tests are intended to minimise the risk that the relevant part of a member's benefits will be insufficient to cover the member's entitlement to a GMP and therefore, in line with contracting out legislation, require a top-up at GMP payment age (60 for females and 65 for males).
- 1.4 This guidance describes the tests required:
 - before accepting a Non-Club transfer into the PCSPS which includes accrued GMP;
 - at the retirement of a member under GMP payment age with accrued GMP who wishes to exercise an option to retire before NPA, to commute some of their pension for a cash lump sum, to allocate some of their pension to a dependant, or to take partial retirement.
- 1.5 The need to carry out a GMP test on the level of certain benefits against the GMP is set out in several places within the scheme rules. In some cases the test is the responsibility of the Minister, in others the Scheme Actuary. In some instances responsibility is unclear and here we have assumed the Minister is responsible. Details are set out in Table 1 below.
- 1.6 For the GMP tests at retirement we have set out how the GMP tests should be undertaken based on our understanding of the current administrative practises. There are a few areas where the existing guidance is unavailable or unclear and any cases where there is any uncertainty how to apply the tests should be referred to GAD.
- 1.7 The factors and guidance in this note were implemented from 1 April 2015, subject to a number of outstanding questions impacting upon the application of the tests on retirement before GMP payment age in respect of members of the nuvos section of the PCSPS. This final version of the guidance note clarifies the approach to take for these cases and should be implemented immediately.
- 1.8 The advice in this report is based on our email correspondence with Cabinet Office and MyCSP and in accordance with our note *Principal Civil Service Pension Scheme: Advice on actuarial calculation factors* dated 18 November 2014 as subsequently amended.



- 1.9 The factors provided in this note should only be used for the scenarios outlined in Table 1 for members of the PCSPS – ie classic, classic plus, premium and nuvos. Factors to be used for members of the Civil Service and Others Pension Scheme (or alpha scheme) are provided in a separate guidance finalised on 30 June 2015.
- 1.10 Some members may have a normal pension age between 60 and 65 years - ie, their 'personal pension age' (PPA). These cases should be referred to GAD.
- 1.11 Please contact Brian Allan (020 7211 2629) or Nick Horne (020 7211 2679) for further information on this note.

Table 1: Rules references and responsibilities for GMP tests

Test	Section	Reference	Responsibility
Transfer in	Classic	6.22(iv)	Minister
	Premium and Classic Plus	F.9(4)	Minister
	Nuvos	G.9(6b)	Minister
Early retirement	Classic	3.10a(ii)	Minister
	Premium and Classic Plus	D.3(5)	Scheme Actuary
	Nuvos	E.24(6)	Scheme Actuary
Commutation	Classic	3.50(iv)	Scheme Actuary
	Premium and Classic Plus	D.8(4)	Scheme Actuary
	Nuvos	E.16(5A)	Scheme Actuary
Allocation	Classic	5.6(ii)	Unclear – presume Minister
	Premium and Classic Plus	D.12(5)	Scheme Actuary
	Nuvos	E.20(6)	Scheme Actuary
Partial retirement	Classic	3.3b(x)	Unclear – presume Minister
	Premium and Classic Plus	D.1A(9)	Scheme Actuary
	Nuvos	E.24(6)	Scheme Actuary



2 Instructions

2.1 The GMP tests described in this guidance note are to be carried out in either of the following circumstances:

- a member wishes to bring a Non-Club transfer into the scheme, part of which is in respect of an amount of accrued GMP;
- a member aged under their GMP payment age with accrued GMP wishes to exercise an option to partially retire, retire early, commute some of their pension for a cash lump sum or allocate some of their pension.

GMP test before Non-Club transfer payment is made

2.2 To carry out the GMP test on transfer in, the amount of the transfer value in respect of service before 6 April 1997 (the pre 97 element) and the amount of any accrued GMP are required.

2.3 The annual total GMP should be revalued to the calculation date and multiplied by factors appropriate to the member's age last birthday.

2.4 The factors are:

Table 2: GMP test factors

Age last birthday (at the relevant date)	Factor
29 and under	17
30 – 39	17
40 – 49	17
50 and over	18

2.5 The transfer passes the test and may go ahead only if:

The pre 97 element of transfer value \geq [Annual GMP x factor]

GMP test at retirement

2.6 If a member aged under their GMP payment age at the calculation date with entitlement to GMP elects to:

- retire before NPA;
- commute some of their pension in return for a cash lump sum;
- allocate some of their pension to a dependant;
- take partial retirement;

then a GMP test is necessary.



- 2.7 To carry out the GMP test the total amount of the GMP is required, revalued to the calculation date (ie the retirement date). The amount of GMP to be tested needs to allow for the PI factor (ie GMP is divided by PI factor) that was used to uprate notionally the pensionable earnings in question when determining final pensionable earnings for calculating a member's retirement pension.¹
- 2.8 In order to test whether the option can be exercised the following two values are compared:
- > *Pension* = the amount of the pre 97 pension about to be brought into payment including any reduction for early payment but before any adjustment for commutation or allocation. This amount should include any transferred in pension but exclude any added years purchased. No PI should have been added to this pension.
 - > *Test Value* = the GMP as described in paragraph 2.7 increased by 3% (simple) for each year by which the member's last birthday was before their relevant birthday as set out below. This increase is subject to a maximum increase of 20%.

Section	Relevant birthday
Classic	Age 60
Premium & classic plus	Age 61
Nuvos	Age 61 for females and age 65 for males

- 2.9 In the case of early retirement, the retirement may proceed only if

$$Pension \geq Test Value$$

- 2.10 In the case of partial retirement the minimum percentage of the member's pension that may come into payment is given by:

$$\frac{Test Value}{Pension} \times 100\%$$

If this value is greater than 100% then partial retirement may not go ahead.

¹ Details of this are taken from the archived **APAC guidance notes on pension, compensation and injury benefit arrangements introduced on 1 October 2002 – Appendix to Part 8.**



- 2.11 In cases of commutation and allocation the maximum percentage of the member's pension that can be given up in total is given by (this may be further restricted by the rules relating to these options):

$$\frac{Pension - Test Value}{Pension} \times 100\%$$

If the *Test Value* is greater than the *Pension* then no option to commute or allocate pension can be exercised. If a member wishes to consider both options, then the GMP tests will need to be applied individually, with the second test allowing for the reduction in pension from the first option. The relevant section rules of the PCSPS should be consulted to determine the order in which tests should be applied.

Comparison at GMP payment age (or when GMP comes into payment if later)

- 2.12 Cabinet Office should ensure that the administration of the PCSPS complies with the contracting out legalisation. This would include ensuring that the relevant part of the pension in payment is sufficient to ensure that any GMP is exceeded.



3 Examples

Example 1: GMP test before transfer into PCSPS

> Sex	Male
> Normal Pension Age (NPA)	65 years
> Pre 97 element of transfer value	£4,000
> Annual GMP (revalued to calculation date)	£250
> Age last birthday at calculation date	41

The annual GMP is to be multiplied by the relevant factor from Table 2,

$$\text{ie } £250 \times 17 = £4,250.$$

This exceeds the pre 97 element of the transfer value so the GMP test is failed and the transfer in should not proceed.

Example 2: GMP test on early retirement with commutation

> Sex	Female
> Normal Pension Age (NPA)	60 years
> Section	Classic
> Annual GMP at calculation date	£350
> Age last birthday at calculation date	56
> Reduced pre-commutation pre 97 pension	£500

The member's last birthday was four years before her 60th, so the GMP is increased by 3% four times, ie $£350 \times [1 + (0.03 \times 4)] = £392.00$. The reduced pre-commutation pre 97 pension (£500) exceeds this amount so the GMP test is passed and the member can retire early.

The maximum percentage of pension that the member can commute is:

$$\frac{500 - 392.00}{500} \times 100\% = 21.6\%$$

The member can commute up to 21.6% of their pension and still pass the GMP test (assuming that no pension is allocated to a dependant). However this limit does not override any other restrictions which may limit the pension that can be commuted.



4 Limitations of this guidance

- 4.1 This note is intended for the use of the Cabinet Office and the scheme administrators for the purposes of demonstrating the application of the factors covered by this guidance only. The information and advice in this note should not be relied upon, or assumed to be appropriate, for any other purpose or by any other person. GAD does not accept any liability to third parties, whether or not GAD has agreed to the disclosure of its advice to the third party.
- 4.2 The factors contained in this note are subject to regular review. Administrators need to ensure that they are using the latest factors, as relevant, when processing cases.
- 4.3 Advice provided by GAD must be taken in context and is intended to be read and used as a whole, not in parts. GAD does not accept responsibility for advice that is altered or used selectively. Clarification should be sought if there is any doubt about the intention or scope of advice provided by GAD.
- 4.4 This note only covers the actuarial principles around the factors covered in this note. Any legal advice in this area should be sought from an appropriately qualified person or source. In no circumstances should this guidance take precedence over the scheme rules. If users of this guidance believe it to contain any inconsistencies with the scheme rules, they should bring this to the attention of Cabinet Office and GAD.

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