PO-24299

Ombudsman's Determination

Applicant	Mr Y
Scheme	Agfa UK Group Pension Plan (**the Plan**)
Respondents	Mercer Limited (**Mercer**) Agfa UK Group Pension Plan Trustee Limited (**the Trustee**)

Outcome

1. I do not uphold Mr Y's complaint and no further action is required by Mercer or the Trustee.

Complaint summary

2. Mr Y has complained that Mercer incorrectly sent him a retirement benefit statement (**the RBS**) in response to an information request he made in May 2015. He says the RBS did not answer his questions and argues that this led him to retire earlier than planned, based on incorrect information, causing financial detriment as well as distress and inconvenience.

3. Mr Y has also questioned whether his benefits have been calculated correctly and asked if the Guaranteed Minimum Pension (**GMP**) element of his pension has been protected in accordance with anti-franking legislation.

Background information, including submissions from the parties

4. Franking has historically been used by some pension plan trustees as a way of offsetting annual increases on one element of a member's pension against increases due on another element in order to avoid having to pay larger benefits. The Government introduced anti-franking legislation with effect from 1 January 1985 to prohibit this practice.

5. The Pensions Act 2014, included changes effective from 6 April 2016, that ended contracting-out, which had previously allowed members and their employers to pay reduced National Insurance contributions in return for GMP entitlements at state pension age. Despite the legislation changes in 2016 pension plans were required to continue providing the same GMP entitlements to qualifying members.

6. Extracts from the Agfa UK Group Pension Plan Second Definitive Deed and Rules (**the Plan Rules**), dated 6 April 2006, are set out in Appendix 1.

7. On 18 February 2014, Mercer wrote to Mr Y and said that his Plan benefits included a GMP element.

8. On 6 May 2015, Mr Y emailed Mercer and said that he was considering taking a lump sum at age 65 on 19 February 2020. Mr Y also said:-

    - He had been unemployed since the end of March 2014 as a consequence of health issues.
    - He did not intend to claim any benefits from the GMP element of his pension.
    - If possible, any retirement lump sum should be taken from his excess fund over the GMP element.
    - If that was not possible, he would consider a lower lump sum percentage.
    - He would like a quotation of the value of his pension, in excess of the GMP, as at age 65.

9. On 15 May 2015, Mercer sent Mr Y the RBS in response. An explanation of why it was sent to Mr Y was included and alternative options were provided. In summary the RBS stated:-

> "Please note that you are not able to commence retirement on part of your benefits whilst leaving other benefits in the Plan. Therefore, we have provided you with a full retirement quotation consisting of all your benefits under the Plan.
>
> A full pension of £8,354 a year
> Paid in monthly instalments of £696.20
>
> Or
>
> A maximum cash sum of £41,239
>
> Plus
>
> A reduced pension of £6,186 a year assuming maximum cash is taken.
> Paid in monthly instalments of £515
> The first instalment is due on 1 June 2015
>
> Yearly rate of increase: 3% - 5% on £6,186 from 1 April 2016
>
> General Notes
>
> Before making a final decision about which benefit options to select, particularly if you are considering cash commutation, you may wish to contact an Independent Financial Advisor (IFA)…"

10. The RBS assumed retirement at the Scheme's normal retirement age of 60 but included no option for Mr Y to retire at age 65.

11. Mr Y selected the maximum lump sum option and his pension, including arrears, was put into payment on 1 August 2015.

12. On 1 April 2016, Mercer wrote to Mr Y to confirm his annual pension increases. Mercer did not include information about any increases to his GMP, because Mr Y did not qualify to receive this until age 65.

13. Between January 2017 and March 2017 Mr Y and Mercer exchanged correspondence regarding Mr Y's benefits, which are summarised as follows.

14. Mr Y said:-

- He believed his benefits included a GMP element of £2,618.82, as stated in Mercer's letter of 18 February 2014. But as his pension had gone into payment early, he was unsure if this was still the case.

- Mercer's letter of 1 April 2016 led him to believe that there was no longer a GMP element. If he was correct, and there was no longer a GMP element, were the GMP benefits included in the lump sum he had received?

- The RBS stated that if he took a lump sum of £41,239.97, he would receive a reduced pension of £6,186 a year with annual increases from 1 April 2016 of 3% to 5%. It did not include any details about changes that may apply at age 65 or refer to a GMP.

- The 3% to 5% annual pension increases quoted in the RBS are impossible to achieve because the GMP would be subject to lower annual increases. This means that in the event of his death, the spouse's pension will be lower than expected.

- No reference was made in the RBS to legislation changes from 1 April 2016 regarding GMPs, which would have an impact on his benefits.

15. In response Mercer said:

- Mr Y's benefits included a GMP element that would not become payable until he reached age 65. Before that his Pre-97 pension, in excess of GMP, would cover the GMP entitlement between his retirement date and age 65.

- At age 65, Mr Y's GMP would increase by the lesser of 3% and the increase in the Consumer Prices Index (**CPI**) over the 12 months to the previous September. However, at 65 his Pre-97 benefits, in excess of GMP, would reduce by a corresponding amount.

- The GMP currently amounted to £2,915.12 a year and before age 65 would be revalued at 7% per year up to age 65.

- Future increases to Mr Y's GMP are statutory increases over which the Trustee has no control.

- There have been no recent legislative changes on how GMPs are calculated or how they increase. So, increases to Mr Y's GMP in deferment are fixed at 7% and are held as a notional value up to age 65.

16. On 23 March 2018, Mr Y complained to Mercer about the service he had received. In summary he said:-

    - The information requested in his email of 6 May 2015 had not been received. Instead, Mercer took advantage of the health issues he had been experiencing at the time by sending the RBS.

    - The RBS stated that if he took a lump sum of £41,239.97, he would receive a reduced pension of £6,186 a year with annual increases from 1 April 2016 of 3% to 5%. It did not include any details about changes that may apply at age 65 or refer to GMPs. No reference was made to legislation changes from 1 April 2016 regarding GMPs, which would have an impact on his benefits, including the spouse's pension.

    - The quoted 3% to 5% annual pension increases are impossible to achieve, meaning that in the event of his death, the spouse's pension will be lower than expected. In addition, the RBS quoted out of date figures.

    - It was incorrect to state that the RBS was factually correct because it omitted key information and so was misleading.

    - He was confused by the statement "You should note that there have been no recent legislative changes to how GMP elements are calculated or how they increase in payment." He questioned whether the Pensions Act 2014 altered his entitlement from 6 April 2016?

    - Are his benefits protected by the anti-franking legislation? TPAS had informed him that this legislation required statutory inflationary increases to be applied to his GMP in addition to any amount by which the Pre-97 element exceeded the GMP.

    - The statutory minimum revaluation does not override the Plan Rules. So, if the Plan Rules state that the revaluation is at RPI then the Trustee cannot change this to CPI after 2012.

    - He has no post-97 benefits because he left in 1996.

    - Does the £3,229.44 GMP figure include the non-revaluing segment of his pension? If so, how will this be split relating to the GMP Pre 5 April 1988 and Post 5 April 1988 GMP?

- The Plan Handbook states that “the excess over 3% will be paid in your state pension.” It also states that, “Once in payment, your GMP will be increased each year in line with inflation.” At the time of receiving the RBS, new legislation under the Pensions Act 2014 was due to change this within a year.

- Even if there was confusion over the government’s intentions under the Pension Schemes Act 2014, he should have been warned by Mercer or the Trustee, due to the decisions that he was about to make regarding his pension. They have a duty of care in this regard.

- He would like a copy of the calculation used to establish the spouse’s pension his wife would receive in the event of his death.

- He did not understand why HMRC was required to confirm the GMP.

- He would like an illustration of benefits at age 65, split by GMP Pre-5 April 1988, post GMP and excess over GMP taking into account the anti-franking legislation.

- He has made irreversible decisions through retiring early, meaning that opportunities were lost. In July 2015, he was in a better position to find a suitable job. In turn that would have increased his National Insurance contributions and improved his state pension.

17. On 28 March 2018, Mercer responded saying that it is not permitted to provide financial advice. The RBS prompted Mr Y to seek financial advice, before making a decision about which option to take regarding his benefits and said:-

    - The RBS correctly detailed Mr Y’s options calculated according to the Plan Rules and the benefits have been paid in accordance with the option chosen. This cannot be retrospectively reversed.

    - A full response to the issues raised by Mr Y would be issued within 10 working days.

18. On 11 April 2018, Mercer wrote to Mr Y in response to his complaint of 23 March 2018 and said:-

    - Although Mr Y did not request the RBS in May 2015, it was not Mercer’s intention to mislead him by providing it.

    - The RBS was sent to inform Mr Y that partial retirement was not permitted and to confirm the level of benefits that would be available if he chose to retire in 2015.

    - No reference was made in the RBS regarding pension increases from age 65 but this information was included in the Plan booklet. Mr Y’s pension will rise in line with the RPI subject to a minimum of 3% and a 5% maximum on 1 April each year up to age 65.

- Whilst Mr Y was an active member of the Plan, he had been contracted-out. Consequently, both he and his employer would have paid lower national insurance contributions. In return, the Plan has provided Mr Y with a guaranteed minimum level of pension, known as the GMP from age 65.

- After age 65, Mr Y's GMP will increase by the lesser of 3% and the increase in the CPI over the 12 months to the previous September. This is in line with pensions legislation and is confirmed in the Plan Booklet and Rules.

- The pension in excess of the GMP at age 65 will continue to increase according to the RPI over the previous calendar year, subject to a 3% minimum and 5% maximum.

- When Mr Y left on 30 March 1996, his pension was £3,003.59 a year consisting of £774.80 GMP accrued from 6 April 1988, and £2,228.79 excess pension over the GMP. Mr Y was also entitled to benefits of £3,513.20 a year from the pension transferred into the Scheme, which is also payable at age 65.

- The GMP is revalued at 7% a year between the date of leaving and Mr Y's normal retirement date. The excess pension over GMP is revalued at 5% or the rise in CPI if lower, between the date of leaving and normal retirement date.

- In 2011 there was a change in the statutory index for revaluation in deferment from RPI to CPI. Unless pension scheme rules specified the RPI index was to be used, the change to CPI indexation was implemented. The Plan Rules do not refer to any index, so the CPI index was adopted.

- Consequently, "any part of the deferred pension which exceeds GMP shall be increased at the member's normal retirement date by the appropriate revaluation percentage specified in accordance with the revaluation requirements, corresponding to the number of complete years between the member's date of leaving pensionable service and his normal retirement date."

- Under the Plan Rules, when a member retires early, an early retirement factor is applied to the total benefits revalued to their normal retirement age. This is how Mr Y's benefits were calculated.

- HMRC has confirmed that Mr Y's GMP at age 65 is £3,312.40 a year. Consequently, his pension at age 65 will be split into 2 elements: GMP and excess over GMP for pension increase purposes.

- On the 1 April after Mr Y's 65th birthday, the GMP element will increase by 3% or CPI if lower, and the excess element will increase by the rise in RPI, subject to a minimum of 3% and maximum of 5%.

- On the assumption that Mr Y's current pension in payment increases by the minimum of 3% a year, his pension would be £7,023.84 a year at age 65. This would be split for future increases so on 1 April 2021 his pension would be:

"£3,312.36 Post 88 GMP – increases by 3% or CPI if lower
£3,711.48 Pension in Excess of GMP which increases by 5% or RPI if lower, subject to a minimum of 3% and a maximum of 5%. This is only an estimate so the pension received may be lower or higher."

19. Mr Y was unhappy with the responses he had received from Mercer and complained under the Plan's internal dispute resolution procedure (**IDRP**). He added to his complaint of 23 March 2018, as follows:-

- Mercer's letter of 11 April 2018 had not addressed all the points raised in his letter of 23 March 2018.
- He had been unemployed since April 2014, following some minor operations that required a lengthy recovery period. This left him with ongoing health issues that limited his ability to find employment.
- From November 2015 he decided to review his finances, including his pensions, to see if he could generate income before the state pension age to enable him to retire early.
- The fact that his pension would have annual inflationary increases included was a key part of his decision-making process.
- He would not have taken early retirement on 19 February 2016 and would have made different decisions relating to other "investments" if he had not received the RBS.

20. In response, the Trustee said:

- Mr Y did not request a RBS in his email of 6 May 2015, but having received one, he was not obliged to take his benefits early.
- The notes at the end of the RBS prompted Mr Y to contact an IFA and he ought to have done so before claiming payment of his pension.
- If Mr Y was dissatisfied with the RBS, he could have contacted Mercer to ask for the exact information he had requested.

21. Mr Y remained unhappy with the response and requested that his complaint be reconsidered under stage 2 of the IDRP.

22. The Trustee replied as follows:-

- When a member ceases to be contracted-out more than one complete tax year before their GMP payment date (age 65 for men or 60 for women), the GMP has to be revalued up to the date it comes into payment. The Plan Rules reflect the relevant legislation.
- A RBS should include the following statement, which was omitted by Mercer in error:

"When you reach age 65, the increases to your pension will change. You will receive details of the revised increases shortly before the date on which the increases apply."

- Mercer is not authorised to provide financial advice and pensions are complicated. Consequently, members are prompted to contact an Independent Financial Advisor (**IFA**). This is not so that Mercer may neglect its responsibilities.

- As the pension increase rates for 1 April 2019 are known, these are accurate figures.

The Trustee's and Mercer's position

23. The Trustee and Mercer say:-

- Section 109 of the 1993 Pensions Act, provides an element of inflation proofing on GMPs in payment. Accordingly, after a member reaches age 65 and the GMP comes into payment, their Pre-97 benefits reduce by the equivalent amount, and annual increases are limited to price indexation capped at 3%.

- The fixed rate revaluation of 7% for leavers between 1993 and 1997 was applied to Mr Y's GMP (all of which is Post 1988 GMP) whilst he was a deferred member, in accordance with Rule 6 and the Occupational Pensions Scheme Regulations.

- Mr Y's early retirement benefits have been calculated in accordance with the Plan Rules and pensions legislation, so he is receiving his correct entitlement.

- Mr Y's Pre-97 benefits have been protected in accordance with anti-franking legislation. His GMP revaluation was not offset against his pension in excess of the GMP. Calculations have been completed that show this is the case (See Appendix 2).

- Mr Y cannot reasonably make a claim for change of position.

- Mercer's letter of 1 April 2016, confirmed that Mr Y's pension did not include the GMP at that time, as he had not reached age 65, when it became payable.

- Mr Y's date of leaving was 30 March 1996. His 65th birthday was 19 February 2020, so the number of years revaluation applied to his GMP was 23, because it is measured in complete tax years. The same method would have been applied if he had retired after 2016.

- A note regarding the changes to increases in the GMP element of Mr Y's pension at age 65 was missing from the RBS, so Mercer awarded £500 to Mr Y in recognition of the distress and inconvenience this omission had caused him. Mr Y did not accept the offer.

Adjudicator's Opinion

24. Mr Y's complaint was considered by one of our Adjudicators who concluded that no further action was required by Mercer or the Trustee. The Adjudicator's findings are summarised below:-

- The Trustee has acknowledged that Mr Y did not request the RBS but said that Mercer sent it to inform Mr Y that partial retirement would not be allowed. The Trustee and Mercer also recognise that the RBS should have included a note stating, "When you reach age 65, the increases to your pension will change. You will receive details of the revised increases shortly before the date on which the increases apply." The Trustee and Mercer said that this information was omitted in error. The Adjudicator took the view that Mercer's failure to include the relevant note amounted to maladministration.

- However, the RBS did explain that partial retirement was not an option and that a full retirement quotation had been provided instead. Consequently, the Adjudicator considered that Mr Y ought to have been aware of the reason why the RBS was sent, and he could have contacted Mercer at the time, if he believed the response to be inappropriate. Further, the RBS set out a number of options that were available to Mr Y and prompted him to seek financial advice before making his final decision.

- Pensions are complex and had Mr Y sought financial advice, he would likely have been in a better position to fully understand the implications of retiring early. The Adjudicator took the view that the Trustee and Mercer cannot be held responsible for Mr Y choosing not to seek financial advice.

- Mr Y has also said that he was experiencing health issues, which limited his ability to work. The Adjudicator felt that Mr Y's health was a major factor in his decision to retire early rather than the provision of the RBS alone.

- The Trustee and Mercer have explained that Mr Y's date of leaving was 30 March 1996 and that his 65th birthday was on 19 February 2020, so the number of years revaluation applied to his GMP was 23, because it is measured in complete tax years. The same method would also have been followed by Mercer, even had Mr Y retired after April 2016.

- On reaching age 65, Mr Y's GMP will increase by the lesser of 3% and the increase in the CPI over the 12 months to the previous September. The pension, in excess of the GMP at age 65, then continues to increase according to the RPI over the previous calendar year, subject to a 3% minimum and 5% maximum, so, Mr Y would not have benefitted from larger annual increases to the GMP element before age 65, because the pension in excess of GMP generates larger guaranteed increases. That element then decreases as a proportion of Mr Y's total pension by an amount corresponding to the value of the GMP.

- Consequently, the Adjudicator considered that there is no evidence that Mr Y would have been better off financially in respect of the GMP by retiring later than 2016. The fact that the RBS did not include any details about changes that would apply at age 65 in relation to his GMP has caused no financial detriment to Mr Y.

- The Pensions Act 2014, would not have affected Mr Y's benefits. There was also no requirement for Mercer to specify the implications of future legislation when the RBS was sent to Mr Y.

- The Trustee has confirmed that Mr Y's benefits have been protected in accordance with anti-franking legislation because his GMP revaluations were not offset against revaluation of the pension in excess of the GMP, see Appendix 2. Mr Y has not provided any information which casts doubt on whether his benefits have been calculated correctly. The Adjudicator considered it was reasonable to conclude, on the balance of probability, that Mr Y's benefits in the Plan have been calculated correctly.

- Mercer has offered £500 to Mr Y, which the Adjudicator considered sufficient to recognise the significant distress and inconvenience caused by Mercer's failure to add a note in the RBS on the changes to annual increases at age 65.

25. Mr Y did not accept the Adjudicator's Opinion and the complaint was passed to me to consider. Mr Y provided his further comments which do not change the outcome. I agree with the Adjudicator's Opinion and note the additional points raised by Mr Y.

Mr Y's additional comments

26. He had medical conditions that required surgery in April 2014 and July 2014, followed by further health issues in the same year. It had still been his intention to return to work after recovering but this took longer than anticipated and it was not until June 2015 that he felt able to start job hunting.

27. In May 2015, he had a £44,000 mortgage, which did not have to paid off until his 65th birthday and bank balances worth a total of £17,500. He and his wife also had access to investments worth £25,000, and he had other pensions and Additional Voluntary Contribution (**AVC**) funds worth £100,000. So, he still had sufficient other funds available and so was not reliant on claiming his benefits in the Plan earlier than planned.

28. His email to Mercer on 6 May 2015, was to make clear that he was considering taking a 25% lump sum when retiring at age 65 in order to pay off his mortgage. He had not been looking to claim partial retirement but was confused in thinking that he could choose which element of his pension could be used to provide a lump sum.

29. Mercer could have contacted him, if his intentions were unclear in his email of 6 May 2015. Instead, Mercer sent him the RBS which did not mention the GMP despite the reduction from 7% annual revaluations to increases of 3% or the rate of CPI if he

retired early. This affected the pension in excess of the GMP of his pension and his spouse’s pension.

30. There was no note in the RBS about to the changes that would occur at age 65, so he did not check the Members’ Handbook. But had he done so and ascertained that the GMP element would only increase by the lower of 3% and the CPI index, he would not have retired early.

31. The Members’ Handbook states that, “The GMP part of your pension (if any) at the date you leave the Plan will be increased at a rate set by the Government for each year up to the state pension age.” This suggests that he would continue to receive 7% annual increases on the GMP element up to the state pension age, whether he retired early or not.

32. The Members’ Handbook is unclear on annual GMP increases following early retirement. While the RBS refers to annual increases of between 3% and 5%, which does not equate to the yearly increases of either 7% or the rate of CPI. This caused uncertainty and he would not have retired early, had he known that the GMP element could only receive CPI increases up to the state pension age.

33. Had he not received the RBS, in May 2015, he would have been more proactive in trying to find new employment and his chances of finding another paid job would have been better. Instead, he had taken voluntary work and delayed finding suitable paid employment for 12 months, due to receiving the RBS.

34. The RBS makes reference to seeking financial advice, but the emphasis was placed on doing so only in relation to transferring out or claiming a lump sum. He would only have sought financial advice if he had been considering a transfer.

35. Mercer should provide more information regarding the changes to annual pension increases earlier than shortly before age 65.

Ombudsman’s decision

36. Mr Y has complained that being provided with the RBS in May 2015 led him to retire earlier than planned. He contends that the provision of the RBS was not an appropriate response to his email of 6 May 2015.

37. Having considered Mr Y’s email, I do not find it unreasonable for Mercer to have assumed that Mr Y was asking for a partial retirement quotation at age 65, which was not possible as all benefits must be taken together. Instead, Mercer provided the RBS assuming a retirement date of 19 May 2015. Further, the RBS said “Please note that you are not able to commence retirement on part of your benefits whilst leaving other benefits in the Plan. Therefore, we have provided you with a full retirement quotation consisting of all your benefits under the Plan.” If this was unclear to Mr Y he could have clarified his request with Mercer before making his decision to retire.

38. Having received the RBS Mr Y was not obligated to retire earlier than planned and he ought to have been aware of this. I recognise that Mr Y had health issues at the time of receiving the RBS, but he could have sought financial advice or made further enquiries if he was unsure of how to proceed. The RBS prompted Mr Y to do so by stating, “Before making a final decision about which benefit options to select, particularly if you are considering cash commutation, you may wish to contact an Independent Financial Advisor (IFA).” I consider that was appropriate guidance and was applicable to any of the options available to Mr Y regarding his benefits in the Plan.

39. Further, had Mr Y sought financial advice, consulted the Member Handbook, or made further enquiries with Mercer, it is also likely that he would have been made aware that the GMP would be subject to a different level of increase after age 65. It was a personal decision that Mr Y chose to take his retirement benefits when he did and neither Mercer nor the Trustee can reasonably be held responsible for him making that decision.

40. Mr Y has complained that the Member Handbook was unclear regarding the annual revaluation on GMPs, which led him to believe that the GMP would continue to be revalued whether he retired earlier than planned or not. Mercer has applied the 7% annual revaluation rate to Mr Y’s GMP covering 23 years from his date of leaving to age 65. The same process would have been followed, even if Mr Y had not retired early. His GMP at age 65 would have been the same regardless of his actual date of retirement.

41. Mr Y has also said that he would have been more proactive in finding suitable paid employment had he not received the RBS. Instead he concentrated on voluntary work and lost the opportunity to search for paid employment for more than 12 months.

42. It was for Mr Y to decide on the level of urgency that he put into finding suitable paid employment. Greater proactivity in that regard provided no guarantee of success whether that was on receipt of the RBS or a year later. Neither Mercer nor the Trustee can reasonably be held responsible for the choices Mr Y made regarding his job search or for any implications as a result of those choices.

43. According to the evidence provided by the Trustee, set out in Appendix 2, Mr Y’s annual GMP at age 65 was £2,710.65. The difference between annual increases of 3% and 5% and the lower of 3% and the CPI index on that sum are relatively small and that difference will apply to less than half of Mr Y’s overall pension. I am not persuaded that the annual increases to Mr Y’s GMP would have been a major factor in his decision to retire early .

44. Mercer has offered Mr Y £500 in recognition of its failure to include a note in the RBS on changes that would apply to his pension increases at age 65. I find this reasonable and so I make no direction. Mr Y should contact Mercer directly if he wishes to accept its offer.

45. I do not uphold Mr Y’s complaint

Anthony Arter

Pensions Ombudsman
1 March 2021

Appendix 1

46. The Plan Rules include the following:-

“5.4 Early leaving – member with two or more years’ qualifying service: preserved pension

Deferred pension at normal retirement date. If an active member at any time before normal retirement date:
…

(ii) ceases to be in service, voluntarily leaves the Plan, ceases to satisfy the eligibility criteria…; and

(iii) no immediate pension is payable to the member under Rule 5.2,

the member shall be entitled to a deferred pension under the Plan payable from normal retirement date. The deferred pension shall be of an annual amount equal to the scale pension calculated on his pensionable service completed and on his final pensionable salary at his date of leaving pensionable service, increased during the period of deferment in accordance with Rule 8.2.

Early payment option

Election for early payment

…A deferred pensioner who has ceased to be in pensionable service and has attained age 50 or is at any time from suffering incapacity, but has not in either case reached normal retirement date may (subject to the consent of the Principal Employer and the Trustee) elect to receive an immediate annual pension under the Plan instead of a deferred pension…

(ii) Amount of pension. The immediate pension shall be of an annual amount equal to the deferred pension under Rule 5.4(a) reduced by an amount which the Trustee shall determine, after considering actuarial advice to take into account the earlier date when the pension comes into payment…

6. Revaluation of GMPs

6.1 Revaluation before state pensionable age.

Where a member or former member ceases to be in contracted-out employment before state pensionable age, the member or former member’s GMP at state pensionable age…will be calculated by increasing the accrued rights to GMP at cessation to Contracted-Out options under (a) or (b) below…

(b) Fixed Rate Revaluation

The increase shall be by such rate as regulations made under the 1993 Act specify as being relevant at the date Contracted-Out employment ceases for each completed tax year after the tax year containing that date up to and including the last complete tax year before the member or former member reaches state pensionable age…

7.2 Increase after state pensionable age…

Any GMP to which a member or former member's widow or widower is entitled under provision 5 above shall in so far as it is attributable to earnings in the tax years from and including 1988/89 be increased in accordance with the requirements of section 109 of the 1993 Act."

Appendix 2

47. In relation to [Mr Y's] suggestion that his benefits have not been correctly calculated to reflect the Plan Rules and pensions legislation, the Trustee has said that the following calculations are evidence that this is not the case.

Benefit at date of leaving pensionable service

In broad terms Mr Y's benefits at the date of leaving the Plan were calculated as:

$$\frac{\text{Pensionable Service x Final Pensionable Salary (\textbf{FPS})}}{60}$$

Plus a transferred-in pension of £3,513.20 per annum payable from age 65

Pensionable Service in the Plan was from 1 September 1990 to 30 March 1996 (5 years and 6 months). Mr Y's FPS at 30 March 1996 was £32,766.43. Service is based on full years and proportionate months.

So, [Mr Y's] benefit at the date of leaving was calculated as £3,003.59.

Early retirement calculation

The Plan benefit was then increased from the date of leaving the Plan to the normal retirement age (**NRA**) and an early retirement factor would have been applied to both the increased amount plus the transferred-in pension to account for the fact that the benefit was put into payment 4 years and 9 months prior to NRA and would therefore be paid for longer.

Each element of benefit is revalued to age 65 and an early retirement factor applied.

a) The scale pension on leaving amounted to £3,003.59 of which £774.80 represented the GMP and £2,228.79 represented the excess benefit. In addition, there is a transfer in of £3,513.20 payable at age 65.

b) Mr Y retired 4 years and 9 months early. The appropriate early retirement factor was 0.738 (early retirement factors are set by the Trustees on the advice of the Plan Actuary).

c) The statutory revaluation factor in 2015 for 19 years revaluation, in respect of the excess benefit, was 1.648. The statutory revaluation factors are standard figures published by the Government; up to 6 April 2011 revaluation was RPI capped at 5% after this date revaluation is CPI capped at 5% (provided scheme rules allow) as per the Pensions Act 2011

d) The assumed revaluation factor between [Mr Y's] date of retirement in 2015 and age 65 was 3% pa on the excess benefit. 4 years revaluation was required (revaluation is only applied to full years).

e) GMP was revalued by 7% for 23 years i.e. between the date of leaving the Plan up to SPA

Pension Calculation

- Excess benefit £2,228.79 x 1.648 x 1.03^4 x 0.738 = £3,050.93
- GMP benefit £774.80 x 1.07^23 x 0.738= £2,710.65
- Transfer in £3,513.20 x 0.738=£2,592.74

Full early retirement pension = £3,050.93+ £2,710.65 + £2,592.74 = £8,354.32 per year