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## Guidance

# How to calculate your scheme member's Guaranteed Minimum Pension

Use the revaluation of earnings factors to calculate your scheme member's GMP.

From:

[HM Revenue & Customs \(/government/organisations/hm-revenue-customs\)](#)

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Defined benefit pensions schemes that were Contracted-out Salary Related (COSR) schemes before contracting-out ended on 6 April 2016 need to provide a Guaranteed Minimum Pension (GMP) to members for contracted-out service between 6 April 1978 and 5 April 1997.

The GMP is payable at age 60 for a woman and at age 65 for a man.

## What a GMP is based on

For contracted-out National Insurance contributions (NICs) paid, up to and including 5 April 1987 (1986 to 1987 tax year) you need to:

- obtain the earnings factors from the employee's contracted-out NICs paid on earnings between the Lower and Upper Earnings Limits
- round up the contracted-out part of contributions paid before 6 April 1985, round up to the next multiple of 10 pence, unless it is already a multiple of 10 pence – any contributions paid in the 1985 to 1986 and 1986 to 1987 tax years are not rounded

- calculate the earnings factor by dividing the contribution by the contracted-out percentage for that year – since 6 October 1985, NICs are payable at differing percentage rates, depending on earnings, for the 1985 to 1986 and 1986 to 1987 tax years, earnings factors are calculated as if contributions had all been paid at the maximum rate
- round up the result to the nearest penny, with 0.5 pence rounded up
- round up the total earnings factor for each year to the nearest pound, with 50 pence rounded up

For contracted-out earnings from 6 April 1987, up to and including 5 April 1997, you need to obtain the earnings factors from the earnings on which the employee's contracted-out NICs have been paid between the Lower and Upper Earnings Limits.

## Working life

Work out the number of years in the working life, in this instance its between the periods:

- beginning with 6 April 1978 or, if later, the 6 April, on or immediately before the employee's 16th birthday
- ending with the 5 April before the date of the 60th birthday for women or 65th birthday for men

## Accrual rate

Use the accrual rate of:

- 25% for any GMP earned before 6 April 1988
- 20% for any GMP earned after 6 April 1988

## How to calculate a weekly GMP

You can either:

- use the [GMP checker](https://www.gov.uk/guidance/pension-administrators-check-a-members-gmp) (<https://www.gov.uk/guidance/pension-administrators-check-a-members-gmp>) to get a calculation for your members
- manually calculate using the [formula](#)

Convert the contracted-out NICs paid in tax years up to and including the 1986 to 1987 tax year to earnings factors using the following formula:

- contracted-out NICs paid multiplied by 100 divided by the contracted-out percentage in force for that year (from the 1987 to 1988 tax year use actual contracted-out earnings amounts)
- increase the earnings factors and earnings in line with the rise in national average earnings by using the appropriate [Social Security Revaluation of Earnings Factor Order](#) (<https://www.google.com/url?q=http://www.legislation.gov.uk/&sa=D&ust=1543846034710000&usg=AFQjCNHvtjPRAN5YNylPbhFpo3qoduzKIQ>)

- calculate GMP earned before 6 April 1988 by dividing the total pre 1988 revalued earnings factors by:
  - the total number of years in working life (from 6 April 1978 or, if later, 6 April before 16th birthday)
  - multiplied by 25%
  - divided by 52

Calculate GMP earned from 6 April 1988 by dividing the total post 1988 revalued earnings factors by:

- the total number of years in working life (from 6 April 1978 or 6 April following 16th birthday if later)
- multiplied by 20%
- divided by 52

The resulting amounts should be rounded separately, and then added together to give the total weekly GMP.

## **Revaluation of earnings factors**

Earnings factors must be revalued by using the yearly Social Security Revaluation of Earnings Factors Order (<https://www.google.com/url?q=http://www.legislation.gov.uk/&sa=D&ust=1543334499456000&usg=AFQjCNEblMy7rrRiBqGJUx3BLiKkMpl5qg>).

## **Early leavers**

For early leavers:

- use the order made in the tax year in which contracted-out employment or, for post 2016 leavers, pensionable service ends
- apply revaluation to the contracted-out earnings factors for all tax years before the tax year of leaving, the earnings factor for the tax year of leaving is not revalued
- for periods of contracted-out employment that end after 5 April 1997, the only contracted-out earnings that will be used to calculate the GMP are those up to and including the 1996 to 1997 tax year (any contracted-out earnings for the 1997 to 1998 or later tax years should be ignored)

If the member is still in service at GMP payable age or, if has died earlier:

- use the order made in the tax year before the tax year in which death occurred, or GMP payable age was reached
- apply revaluation to the contracted-out earnings factors for all tax years before the tax year in which the order was made – the earnings factor for the tax year in which the order was made is not revalued
- do not take into account the earnings factor for the tax year of death or the tax year in which GMP payable age is reached
- ignore any contracted-out earnings for the 1997 to 1998 or later tax years

## Revaluing GMPs

The GMP of early leavers must be revalued up to GMP payable age (age 60 for a woman or age 65 for a man), or death if earlier. A GMP can also be revalued to a current date if, for example, the GMP amount is needed to provide a transfer value (<https://www.gov.uk/guidance/transfer-your-scheme-members-contracted-out-pension-rights>) or pension sharing valuation.

GMPs can be revalued using section 148 orders (full) revaluation, fixed rate revaluation or, where the date of termination is before 6 April 1997, limited rate revaluation.

### Full revaluation

Where a section 148 revaluation is used, the earnings factor should be revalued using the section 148 order issued in the last complete tax year before the tax year in which GMP payable age is reached, or death if earlier.

### Early leaver GMP calculation example A

Male

Date of birth 29 December 1951

Contracting out period 6 April 1986 to 10 November 2002

Years in working life – 38 years

Earnings revalued by The Social Security Revaluation of Earnings Factors Order 2002

Tax year	Contracted-out contributions	Earnings factor	Revaluation rate (%)	Revalued earnings factor
1986/87	£544.66	£7,951	149.5	£19,838
1987/88	Earnings only	£11,024	132.3	£25,609
1988/89	Earnings only	£12,204	113.7	£26,080
1989/90	Earnings only	£10,586	92.9	£20,420
1990/91	Earnings only	£16,112	79.8	£28,969
1991/92	Earnings only	£17,407	63.3	£28,426
1992/93	Earnings only	£18,233	53.3	£27,951
1993/94	Earnings only	£18,985	53.3	£27,718
1994/95	Earnings only	£19,643	41.6	£27,814
1995/96	Earnings only	£20,329	35.7	£27,586
1996/97	Earnings only	£21,100	32	£27,852

Pre 1988 GMP = £45,447 ÷ 38 = £1,195.97 × 25% = £298.99 ÷ 52 = £5.75

Total GMP = £30.33

## **GMP payable age calculation example**

Where section 148 revaluation is used the GMP is recalculated at GMP payable age by revaluing the earnings factors by the section 148 order made in the last complete tax year prior to GMP payable age (65 for men and 60 for women).

Using the details at [example A](#), where the member will reach GMP payable age (65) on 29 December 2016, the last complete tax year before this is 2015 to 2016. The GMP is recalculated by revaluing the earnings using The Social Security Revaluation of Earnings Factors Order 2015. (By using this later Order, each year's earnings factor is revalued by a higher percentage, increasing the GMP amount to £43.14.)

## **Fixed rate revaluation**

Schemes that were CQSR schemes before Defined Benefit contracting-out abolition, can revalue a leaver's GMP rights by a fixed rate as an alternative to section 148 revaluation.

The GMP amount calculated at the date of leaving is revalued by a compound fixed percentage for each relevant tax year after the member has ceased to be an active member of the scheme, up to and including the tax year before GMP payable age, or death if earlier.

The amount of the fixed rate is:

<b>Compound for terminations occurring</b>	<b>Percentage</b>
From 6 April 2017	3.5%
Between 6 April 2012 and 5 April 2017	4.75%
Between 6 April 2007 and 5 April 2012	4%
Between 6 April 2002 and 5 April 2007	4.5%
Between 6 April 1997 and 5 April 2002	6.25%
Between 6 April 1993 and 5 April 1997	7%
Between 6 April 1988 and 5 April 1993	7.5%
Before 6 April 1988	8.5%

Future changes to the fixed rate percentages will be published in amendments to the [Occupational Pension Schemes \(Schemes that were Contracted-out\) \(No 2\) Regulations 2015 \(SI 2015/1677\)](#) (<http://www.legislation.gov.uk/uksi/2015/1677/introduction>).

Where a pension scheme uses this method of revaluation, it must be applied to all early leavers whose GMP rights are retained in the scheme from the point that the scheme opted to use fixed rate revaluation. However, different arrangements can apply to transferred-in GMP liabilities.

A relevant tax year is any tax year after the tax year of termination of CQSR employment or, if after 6 April 2016, leaving pensionable service.

If revaluation of a GMP is required before GMP payable age, for example, a transfer value has been requested or because of pension sharing on divorce, the GMP should be revalued:

- from the tax year following that in which contracted-out employment terminated or post 2016, pensionable service ended
- to the tax year in which the event occurs

For example, a member who left contracted-out employment on 25 October 2011 (the 2011 to 2012 tax year) requests a GMP value on 1 February 2018 (2017 to 2018 tax year) – the GMP amount calculated at date of leaving should be revalued for 6 years using a compound revaluation rate of 4.0%.

## Fixed rate revaluation – GMP payable age calculation example

Where fixed rate revaluation is used the GMP amount at date of leaving is revalued by the relevant compound fixed percentage for each following tax year up to the last complete tax year before the tax year in which GMP payable age is reached (65 for men and 60 for women).

Using the details at [example A](#), the member left contracted-out employment on 10 November 2002 and will reach GMP payable age (65) on 29 December 2016. The GMP amount at date of leaving (as calculated at example A) is revalued by 4.5% compound from 2003 to 2004 tax year to 2015 to 2016 tax year, that is 13 years:

- pre 1988 GMP = £5.75 multiplied by 77.2% = £10.19
- post 1988 GMP = £24.58 multiplied by 77.2% = £43.56

Total GMP = £53.75

## Limited rate revaluation

This option was withdrawn from 6 April 1997, however limited rate revaluation can remain for those members who left contracted-out employment before 6 April 1997.

Limited rate revaluation is 5% compound for each relevant tax year after the tax year in which the member's contracted-out employment terminated.

However, to calculate the GMP due at GMP payable age, or death if earlier, a comparison is made with section 148 revaluation. The GMP amount calculated at date of leaving should be increased by:

- 5% compound for each relevant tax year after the tax year that the member left contracted-out employment, up to and including the tax year before GMP payable age, or death if earlier
- the percentage relevant to the tax year of leaving as shown in the section 148 order issued in the last complete tax year before the tax year in which GMP payable age is reached, or death if earlier

The lower amount is the amount of GMP payable.

## Limited rate revaluation GMP calculation example B

Male

Date of birth 29 December 1951

Contracting out period 6 April 1986 to 5 April 1992

Years in working life – 38 years

Earnings revalued by The Social Security Revaluation of Earnings Factors Order 1991

### GMP calculation at date of leaving

Tax year	Contracted-out contributions	Earnings factor	Revaluation rate (%)	Revalued earnings factor
1986/87	£544.66	£7,951	52.3	£12,109
1987/88	Earnings only	£11,024	41.9	£15,643
1988/89	Earnings only	£12,204	30.4	£15,914
1989/90	Earnings only	£10,586	18.2	£12,513
1990/91	Earnings only	£16,112	10.1	£17,739
1991/92	Earnings only	£17,407	Nil	£17,407

Pre 1988 GMP = £27,752 divide by 38 = £730.32 × 25% = £182.58 divide by 52 = £3.51

Post 1988 GMP = £63,573 divide by 38 = £1,672.97 × 20% = £334.60 divide by 52 = £6.44

Total GMP at date of leaving = £9.95

### GMP calculation at GMP payable age

Using these details, the member left contracted-out employment on 5 April 1992 and will reach GMP payable age (65) on 29 December 2016. The GMP amount at date of leaving is revalued by:

- 5% compound for each relevant tax year after the tax year that the member left contracted-out employment, up to and including the tax year before GMP payable age, in this example 24 years:
  - pre 1988 GMP = £3.51 × 222.5% = £11.32
  - post 1988 GMP = £6.44 × 222.5% = £20.77
  - the total GMP will be £32.09
- the percentage relevant to the tax year of leaving as shown in the section 148 order issued in the last complete tax year before the tax year in which GMP payable age is reached, or death if earlier

In this example the percentage for 1991 to 1992 in the 2015 section 148 order is used, that is, 132.2%.

Pre 1988 GMP = £3.51 × 132.2% = £8.15

Post 1988 GMP = £6.44 × 132.2% = £14.95

Total GMP = £23.10

The lower amount is the GMP amount payable at age 65, in this case £23.10.

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- [Pension schemes: request GMP calculations by uploading CSV files \(/government/publications/pension-schemes-request-gmp-calculations-by-uploading-csv-files\)](#)
- [Transfer your scheme member's contracted-out pension rights \(/guidance/transfer-your-scheme-members-contracted-out-pension-rights\)](#)
- [Guaranteed Minimum Pension \(GMP\) conversion and equalisation \(/guidance/guaranteed-minimum-pension-gmp-conversion-and-equalisation\)](#)

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