Department of Finance
www.finance-ni.gov.uk

A note on the operation of pensions increase legislation for public service pension schemes in Northern Ireland:

Contents

1 Introduction

1.1 This note is issued by the Department of Finance to give general information and guidance on the operation of the pensions increase legislation. It replicates, taking account of the separate Northern Ireland legislation, similar guidance produced by HM Treasury. Departments should note, however, that it does not provide a complete or authoritative statement of the law.

1.2 The reference to 'pensions' throughout this note are references to public service pensions which are 'official pensions' within the meaning of the Pensions (Increase) Act (Northern Ireland) 1971 (the 1971 Act). These pensions are increased under the powers in the 1971 Act and in Articles 69 and 69A of the Social Security Pensions (Northern Ireland) Order 1975 (SSPO 75). The legislative background is set out in more detail at Annex B.

1.3 There are also a number of other public service pensions, such as some non-departmental public bodies, where the increases are provided for under arrangements "by analogy" with those for "official pensions".

1.4 Public service pensions in payment, preserved pensions and preserved lump sums are increased (preserved pensions and lump sums are notionally increased until either transferred out of the scheme or brought into payment) to take account of increases in the cost of living so that they maintain their purchasing power. Increases to public service pensions are related to the percentage increase in prices applied to Additional State Pensions. Since April 2011 these have both been increased by reference to the general level of prices using the Consumer Prices Index (CPI). If the change in prices is measured to be zero or less, then historically zero increases are applied. Increases to public service pensions and State pensions are made on the same date.

1.5 Since 1987 increases have taken effect in April, from the first Monday of the tax year at the same time as the Department for Communities increases Additional State Pensions (earned under the State Earnings Related Pensions (SERPS)) under section 132 of the Social Security Administration (Northern Ireland) Act 1992.

2 Qualifying Conditions

2.1 Increases are normally paid only to pensioners who are aged 55 or over. They are paid to people who are below age 55 only if the person concerned receives:

1. a widow's, widower's or children's pension, or a special type of pension payable (eg as a result of allocation) where an individual was, or continues to remain, a dependant of a former public servant;
2. certain injury pensions;
3. an ill-health retirement pension on leaving active employment from the public service because of permanent ill-health;
4. early payment of preserved benefits and is permanently incapacitated from engaging in any regular full-time employment; or
5. a pension (for example as compensation for early severance) and has a certain type of dependant (in the case of a woman with dependent child, only a fraction of her pension earned by service before 1 January 1993 will be increased and in the case of a man only that fraction of his pension earned by service between 17 May 1990 and 31 December 1992).

3 Increases to pensions in payment

Methods of calculating Increase

3.1 Once the percentage increase for the Additional State Pension paid from the State Earnings Related Pension Scheme (SERPS), taken forward by the Department for Communities is known, the Department of Finance announces the increase in public service pensions. The Department of Finance then makes an annual Review Order which can be found at www.legislation.gov.uk. This provides for the increase for public service pensions which began before the date the previous Review Order took effect and proportionate increases for pensions which began later (each month between the beginning date of the pension and the operative date of the increase attracts one twelfth of the full increase).

3.2 Past methods of calculating pensions increase are described in Annex C.

4 The beginning date of a pension

4.1 The beginning date of a pension (and a pension lump sum) in most cases is the date from which pensions increase is applied to it.

4.2 There are some circumstances when the pension can begin earlier for the purposes of the 1971 Act:

1. if the best 12 months, used in the definition of final salary, does not coincide with the final year of employment, the beginning date for pensions increase is taken as the day after the end of the 12 month period used in the calculation rather than the end of service;
2. if a member allocates part of their pension in favour of a spouse or other dependant, the beginning date for the substituted pension is taken as the date from which the surrender of the original pension takes effect;
3. in circumstances where an employee may be entitled to an injury pension while still receiving pay (usually a reduced rate of pay) the date on which the less favourable pay terms came into effect counts as the beginning date for the injury pension rather than the last day of service; or

   if a pension credit is granted to a former spouse or civil partner, then the beginning date for pensions increase purposes is the effective date of the pension sharing order or provision.

5 Increases to preserved pensions and newly qualifying pensions

5.1 When a preserved pension comes into payment or when a pension in payment starts to satisfy a qualifying condition, the current rate of pension is increased to take account of all notional increases which the pension has attracted (but which have not been payable and are consequently notional) since the beginning date of the pension. Only the future rate is affected as arrears are not payable. Each year the Department of Finance circulates, to Public Service Pension Schemes in Northern Ireland, a ready reckoner for calculating such cumulative increases

5.2 The following example shows how pensions increase is calculated when there has been a considerable period of time between the date a pension began and the date the pensioner becomes eligible for pensions increase:

> *An annual pension of £10,000 began on 1 August 2011, pensioner became eligible for pensions increase on 20 April 2015, cumulative pension increases 1 August 2011 to 20 April 2015 were 9.9% (ready reckoner = 1.0990).*
>
> *Gross annual pension payable until 20 April 2015 = £10,000*
>
> *Gross annual pension payable from 20 April 2015 – 10 April 2016 £10,000 + 9.9% = £10,990.*

6 Increases in lump sums

6.1 When a preserved lump sum (or other lump sum whose payable date is at least 16 days after its beginning date) becomes payable, it receives the same percentage increase as the pension with the same beginning date.

6.2 After a preserved lump sum becomes payable, a further increase may be due when the next pensions increase takes effect. This increase should be calculated on the lump sum which was paid (including any previous increase). The increase is equal to:

> ***% increase in PI (Review) Order x (A/12)*** *where*
>
> ***A*** *is the number of months to the payable date from the beginning date, if the lump sum has not been increased previously, or from the date of the last increase, if it has been increased previously*

6.3 Under section 9(7) of the Pensions Increase Act (Northern Ireland) 1971, where a lump sum has a beginning date of 24 July 1990 or later and an additional amount of lump sum becomes payable, following a recalculation to take account of a retrospective pay award, additional service or correction of an error, the additional amount should not be increased for the period between the date on which the original lump sum was payable and the date on which the additional amount is paid.

7 Calculating a proportionate increase (1979 onwards)

Determining the number of months in a period

7.1 The period should be divided into calendar months counting from the beginning date of the pension to the date of the increase. If the remaining part of the month, at the end of a period, consists of at least 16 days it is rounded up. A period of less than 16 days should be ignored.

Example:	16 August (beginning date)	to	6 April = 8 months (date of increase)
Made up of:	16 August	to	15 March = 7 months
Plus:	16 March	to	6 April = 21 days, which is rounded up to one month.

7.2 The following simplified illustrations show how increases are calculated for individual pensions (NB no account is taken of the possible interaction with the State Pension regarding Guaranteed Minimum Pensions):

4 Member takes payment of an annual public service pension of £10,000 at age 60 payable from 1 April 2014. Increase in prices to be applied to pensions from April 2014 of 2.7%, April 2015 of 1.2% and April 2016 of 0% (the 30 September 2015 prices index was less than zero therefore the increase is zero):

a Annual pension payable from 7 April 2014 is £10,000 – no uprating made because pension only been in payment for seven days.

b Annual pension payable from 6 April 2015 is £10,000 + (£10,000 + 1.2%) = £10,322.40.

c Annual pension payable from 11 April 2016 is £10,322.40 + (£10,322.40 + 0%) = £10,322.40.

5 Member takes payment of an annual public service pension of £10,000 payable from 6 October 2014. Pensions increase factors as in (i). Only six months pensions increase payable on 7 April 2015.

a Annual pension payable from 7 April 2015 is £10,000 + (1.2%*6/12) = £10,060.

b Annual pension payable from 11 April 2016 is £10,060 + (£10,060 + 0%) = £10,060.

8 National Insurance modification

8.1 When the National Insurance system was introduced in the 1940s it was decided that public service employees should have their pensions reduced or “modified” to take account of the then new flat-rate State Retirement Pension. This was intended to prevent duplication of benefits between the public service schemes and the new State Retirement Pensions.

8.2 In many cases, individuals entering public service pensionable employment after June 1948 paid reduced pension contributions to their pension scheme to take account of the compulsory National Insurance contributions. However, regardless of whether there were such adjustments to pension contributions, the basic rate of public service pension was reduced by £1.70 per annum for each year of service between 1 July 1948 and 31 March 1980 when the arrangements ceased. Such reductions take effect from State Pension age and are subject to a statutory maximum.

8.3 The details of National Insurance modification vary between public service pension schemes. In some schemes new pension awards are no longer modified. Where modification still applies it is in respect of service, if any, before 1 April 1980.

8.4 Where National Insurance modification applies it takes effect from State Pension age whether or not the member decides to defer their State Retirement Pension. Where a member’s public service pension begins at State Pension age, National Insurance modification will be applied before the public service pension is brought into payment. Pension increases will subsequently apply to that modified pension. However, where the public service pension begins to be paid before State Pension age the pension increases are calculated at first on the basis of the actual initial pension. Once the member has reached State Pension age the pensions increases are normally calculated on the basis of the modified pension from the date the public service pension began (Chapter 4). Pension payments received before State Pension age are unaffected by the recalculation.

9 National Insurance graduated pension scheme

9.1 The National Insurance graduated pension scheme ran between 1961 and 1975. However, for those who were required to contribute to that scheme between 3 April 1961 and 5 April 1975 while they were in pensionable public service employment, their public service pensions are reduced from State Pension age to take account of the additional amount of Graduated Pension they receive as part of their State Pension.

10 Pension sharing on divorce

10.1 The Welfare Reform and Pensions (Northern Ireland) Order 1999 introduced pension sharing on divorce and amended the Pensions (Increase) Act (Northern Ireland) 1971 to allow for the indexation of pension credits once the former spouse of a public servant has attained age 55, although the notional increases will not apply in practice until the pension has come into payment. As noted in Chapter 4 above, the beginning date for pensions increase purposes of a pension credit granted to a former spouse or civil partner is the effective date of the pension sharing order or provision.

11 Guaranteed Minimum Pension (GMP)

11.1 The Social Security Pensions (Northern Ireland) Order 1975 (SSPO 75) allowed employers to contract their employees out of the State Earnings Related Pension Scheme (SERPS). This allowed for the payment of reduced National Insurance contribution rates by both the employer and employee by way of what was a National Insurance rebate. In return, between 6 April 1978 and 5 April 1997, the employers were required to provide occupational pensions of at least a guaranteed amount, called the Guaranteed Minimum Pension (GMP). This is a substitute for and broadly equivalent to the Additional State Pension (AP) which scheme members would have been paid if they had not been contracted-out. The member continues to be entitled to the Additional State Pension, but the Department for Communities (DfC) deducts the value of the GMP from the gross Additional State Pension (gross AP) when calculating the amount of Additional State Pension payable.

11.2 Public service schemes remained contracted-out up to and including 5 April 2016. However, from 6 April 1997 the links between contracted-out schemes and SERPS were broken and members of contracted-out schemes were not entitled to the Additional State Pension in respect of contracted-out periods. From that same date members of Contracted-Out Salary Related Schemes (including public service pension schemes) no longer accrued a GMP for future service, but members retained the right to any GMPs accrued before 6 April 1997. Instead of providing a GMP, between 6 April 1997 and 5 April 2016, contracted-out schemes had to satisfy a test of overall scheme quality (the reference scheme test).

11.3 From 6 April 2016 all Contracted-Out Salary Related Schemes (including public service pension schemes) ceased to be contracted-out. Accordingly, National Insurance rebates for both employers and employees ceased. Members continued to retain the right to any GMPs accrued before 6 April 1997.

11.4 The entitlement to the GMP begins when pensioners reach GMP age: 60 for women and 65 for men. These dates have not been harmonised with State Pension ages. In the case of a widow/er's and surviving civil partner's pension, entitlement may occur before then under certain circumstances. GMPs may be calculated by HMRC's GMP service and are treated differently for pensions increase purposes according to whether they are less than or greater than gross AP.

Individuals who reach State Pension age before 6 April 2016

11.5 For GMP entitlements earned before 6 April 1988, the occupational scheme is not required to uprate those GMPs when in payment under the legislation governing occupational pensions in general. However, for persons with such GMP entitlements who receive State pensions on the basis of the old (pre-6 April 2016) State pension system, the DfC calculates an AP and increases that gross AP by the percentage increase in prices as measured by the Consumer Prices Index (CPI). A Contracted-

Out Deduction, which is not increased and which broadly equates to the person's GMP, is set against this increased gross AP amount and any surplus amount is paid to the pensioner.

11.6 This helps to ensure that pensioners who were contracted-out before 6 April 1988 (when GMPs were not uprated) do not lose out on the uprating that is applied to the Additional State Pension and consequently receive inflation protection in respect of this period of contracted-out employment. In this document the gross AP/Contracted-Out Deduction calculation described here is called the "uprating difference calculation".

11.7 Occupational schemes are required to increase any GMP entitlements earned from 6 April 1988 to 5 April 1997 (after which date GMPs ceased to accrue) by the lower of the percentage increase in prices (now the percentage growth in prices in the UK as measured by the CPI) or 3 per cent.[1] On occasions where the percentage increase in prices is above 3%, the "uprating difference calculation" undertaken by the DfC provides for the increase above 3%, so the contracted-out pensioner also receives inflation protection in respect of the period of contracted-out employment.

11.8 To prevent double pensions increase on the GMP element, Article 69(5) of the SSPO 75 limited public service pensions increase to the part of the public service scheme pension which exceeds the GMP (which is either in effect uprated by the DfC, or, in respect of GMP earned between 6 April 1988 and 5 April 1997, wholly or partly uprated by the scheme under general occupation pensions legislation). Where the Additional State Pension paid by the DfC equals or exceeds the GMP element in payment in a public service pension, the GMP entitlement is deducted from the public service pension before any pensions increases are applied at the next annual uprating. Similar principles apply to widow/ers and surviving civil partner's pensions although the precise details are different.

11.9 Article 69(5) of the SSPO 75 requires a public service pension to be reduced by the amount of the GMP to which the public service pensioner is entitled before pensions increase is calculated. However, a pensioner may be entitled to a GMP from a public service pension scheme in circumstances in which an Additional State Pension is not payable, or the Additional State Pension may be less than the GMP. Consequently, the Department of Finance (DoF) was given power in Article 69A to override the requirements of Article 69(5). The DoF has given a direction under Article 69A that, in these circumstances, no reduction is to be made. Without the DoF's direction, the pensioner would not receive full pensions increase on their GMP.

11.10 The following simplified illustration shows how the DfC calculates the Additional State Pension payable and how this interacts with the payment of a public service pension where the DoF has not given direction under Article 69A that no reduction is to be made:

> A male pensioner reaches State pension age on 31 March 2015 with an annual public service pension of £10,000. The pension includes a GMP of £2,000, £1,000 of which was earned before 6 April 1988 and £1,000 between 6 April 1988 and 5 April 1997. The pensioner has SERPS entitlement of £2000 for the period 6 April 1988 and 5 April 1997.The increase in public service pensions and SERPS from April 2015 is assumed to be 4% for the purpose of this example only.

[1] This is required by section 105 of the Pension Schemes (Northern Ireland) Act 1993.

The public service scheme pays following increase:

(£10,000 - £2,000) (ie pension in excess of GMP, increased under the pensions increase legislation) = £8,000 x 4% = £320

£1,000 (GMP earned between 6/4/88 and 5/4/97) x 3% = £30 (the scheme pays the increase for this period, capped at 3%, under section 105 of the Pension Schemes (Northern Ireland) Act 1993)

£10,000 + £320 + £30 = **£10,350** – new rate of public service pension

The DfC would pay:

£2,000 (AP earned from 6/4/88-5/4/97) x 4% = £80 = £2,080

Less

£2,030 Contracted-Out Deduction (representing GMP of £2,000+£30 increase[1])

The DfC would pay **£50** a year (£,2080 **-** £2,030 = £50) as an Additional State Pension through the State Retirement Pension.

Individuals who reach State Pension age from 6 April 2016

11.11 For individuals who reach State Pension age on or after 6 April 2016 and before 6 December 2018 inclusive, public service pension schemes will fully price protect the GMP element of individual's public service pension.

Individuals who reach State Pension age from 6 April 2016

11.12 The government will consult on the treatment of the GMP of individuals who reach State Pension age on or after 6 December 2018.

11.13 For more information on the way HMRC calculate GMPs and the different scenarios in which GMP pensions increase calculations occur refer to Annex F and Annex G.

[1] This increase is applied to the GMPs accrued after 5 April 1988

12 Notification procedures

12.1 Where State Pension age is before 6 April 2016, HMRC have an automatic system for notifying public service pension payers when pensions increase for the GMP element of a public service pension should commence, cease or change. Notifications to payers by HMRC are on forms CA1629 or RD614 (or by their equivalent on magnetic tape or secure electronic transfer) and will include a note when the member has not yet retired. Where there is a qualifying widow and the date of death is before 6 April 2016, HMRC will issue form CA1633 (or it's magnetic media or electronic equivalent.) The great majority of notifications result from action by the DfC in connection with State Pension and widow/ers' or civil partners benefit claims. Annex H provides a summary of GMP notification procedures.

12.2 Where a pensioner is living in a country where the DfC does not uprate the Additional State Pension, the Overseas Branch of the Department for Work and Pensions (the International Pension Centre), which covers the whole of the UK and deals with enquiries about State Pension, will inform the pension payer where necessary using form POD SU 1131. Annex I provides a link to a list of the countries where the DfC does not uprate the Additional State Pension.

When a change in the uprating of a pension is needed

12.3 Where State Pension age is before 6 April 2016, HMRC will inform pension payers of changes to the AP/GMP relationship which determines when schemes should or should not include the GMP in indexing. An RD614 will be issued when AP was less than GMP but becomes greater than or equal to the GMP. An example would be where State Pension is deferred. The AP could be less than GMP on the date of deferment, however when the State Pension is claimed, the AP could become greater than the GMP.

12.4 An RD614 will also be issued when AP was greater than or equal to the GMP but becomes less than the GMP. For example, AP is no longer paid if an individual is imprisoned, making the AP less than the GMP.

12.5 The RD614 (and its magnetic media or electronic equivalent) use the following notification messages:

- c AP less than GMP from (due date);
- d AP equal to or greater than GMP from (due date); and
- e GMP applicable from (due date)

12.6 In certain circumstances it is possible for (a), (b) and (c) to appear on the same notification. (In other circumstances, it is possible (a), (b) and (c) to be notified by two RD614s issued on the same date. One will show (a) and (c) and the other (b) and (c). The action to be taken by pension payers is the same whether the information is provided on one or two notifications.) For example a State Pension is awarded at State Pension Age on 6 January 2012 to a woman who reached Age 60 on 2 March 2011. An RD614 is issued on 6 January 2012 advising AP less than GMP. On 15

October 2013, the State Pension is found to be incorrect and is adjusted which causes the AP to be equal to or greater than the GMP. A further RD614 is issued showing:

A AP less than GMP from 2 March 2011

B AP greater than or equal to GMP from 15 October 2013

C GMP applicable from 2 March 2011.

On receiving a notification

12.7 Pension payers should take the following action:

6 In the case of (a), the pension should be calculated from the beginning date of the GMP entitlement as if there had been no previous GMP deductions. This should be put into effect from the date recorded in (a).

7 In the cases of (b) and (c), either:

a **the dates will be the same** and the next annual increase (following that at the date shown in the automatic notification) should be calculated after deducting the GMP, or

b **the dates will differ**. The date at (c) – (the GMP at due date to apply) will never be later than the date at (b). In these cases the pension must be recalculated from the date at (c) – (the GMP due date) – taking into account any later pensions increase reviews and the GMP entitlement. This revised pension rate must be applied from the date at (b) – AP (equal to or greater than GMP) date.

12.8 Further information about notification procedures can be found in Annex H.

13 Enquiries

13.1 The respective roles and responsibilities of the DoF, the DfC, HMRC, The Pensions Regulator and schemes are summarised at Annex J.

13.2 Specific enquiries on notification procedures can be directed to HMRC, NI Process Team, email mailbox.niprocesscontracting-outqueries@hmrc.gsi.gov.uk

A Abbreviations and glossary

Abbreviations

AP (SERPS)	Additional State Pension element of State Pension
COSR	Contracted-out Salary Related pension scheme
CPI	Consumer Prices Index
DfC	Department for Communities
GMP	Guaranteed Minimum Pension
HMRC Ops	HMRC Operations dealing with contracted-out
MOCOP	Official Committee on Occupational Pensions for Major Pension Paying
NIPSPG	Northern Ireland Public Service Pensions Group
OCOP	Official Committee on Occupational Pensions
RP	Retirement Pension (in State Pension context)
RPI	Retail Prices Index
SERPS	State Earnings Related Pensions Scheme
SPA	State Pension Age
SSPO 75	Social Security Pensions (Northern Ireland) Order 1975
1971 Act	Pensions (Increase) Act (Northern Ireland) 1971
WB	Widow/ers Benefit
WGMP	Widow/ers Guaranteed Minimum Pension

Glossary

Additional State Pension

A.1 The earnings related part of the State Pension payable under SERPS (and, from 2002, Second State Pension) which is additional to the basic State Pension.

A.1.1 AP based on a deceased spouse/civil partner's National Insurance contributions may be paid as part of Widow's Pension, Widowed Mother's Allowance or Widowed Parent's Allowance or, for a widow/er or surviving civil partner who has reached State Pension age before 6 April 2016 and claimed State Pension, as part of a Category B State Pension (see State Pension for widow/ers and surviving civil partners, below).

A.1.2 AP will end at the end of the 2015/16 tax year (for those reaching State Pension age after 5 April 2016). In certain circumstances a survivor reaching State Pension age on or after 6 April 2016 will be entitled to a (new) State Pension based on pre-2016 AP (see under "State Pension" below). This inherited amount is not legally AP and is not indexed in the same way as pre-2016 AP.

Bereavement Benefits

A.2 State widow(er)'s benefits which replaced Widows' Benefits (Widow's Pension, Widowed Mother's Allowance and Widow's Payment) where bereavement was on or after 9 April 2001:

- Bereavement Allowance – weekly flat rate benefit (no SERPS) for widow/ers and surviving civil partners aged 45 and over with no dependent children, payable for up to one year
- Bereavement Payment – a lump sum of £2,000 payable regardless of age at date of bereavement
- Widowed Parent's Allowance –basic allowance plus SERPS/S2P, payable to widow/ers and surviving civil partners with one or more dependent children until dependency ends (maximum age 19)

A.2.1 NB Entitlement conditions for these bereavement benefits will be the same as for Widows' Benefits ie based on NI contribution record of the deceased spouse/civil partner.

Derivative pension

A.3 A pension neither payable in respect of the pensioner's own service nor attributable to a pension credit. The main category of pensions covered by this definition is dependants' pensions. This includes spouse's pensions and children's pensions.

Graduated Retirement Benefit ("grad")

A.4 A pension paid under an early form of state earnings related scheme in operation between April 1961 and April 1975.

Inherited SERPS

A.5 In 1986, the law was changed to come into effect in April 2000 to halve the amount of SERPS that widows (and some widowers) could inherit from their husband (or wife). However, following criticism that people had been given incorrect or misleading information about the change, the government implemented revised plans for phasing in the reduction. Under these revised plans 100% remains inheritable where the deceased either reached State Pension age or died before 6 October 2002. Where the death is on or after 6 October 2002, the inheritable percentage reduces in steps of 10% depending on when the deceased reached State Pension age, and is 50% where the deceased reaches State Pension age on or after 6 October 2010. Any queries should in the first instance be directed to the DfC contact in Annex J.

State Pension for widow/ers and surviving civil partners who reach State Pension age before 6 April 2016

A.6 Widows widowed under State Pension age before 9 April 2001:

- a woman still in receipt of Widow's Pension or Widowed Mother's Allowance when she reaches State Pension age becomes entitled to a Category B Retirement Pension (RP) payable at the same rate as her Widow's Benefit when she claims her State Pension. This is combined with any basic State Pension and AP she is entitled to based on her own National Insurance contributions up to a specified maximum and replaces the Widow's Benefit. She will also get any graduated pension she has earned, plus half of the graduated pension earned by her late husband. As Widow's Pension and Widowed Mother's Allowance may be payable beyond State Pension age those women have the option of remaining on WB instead of claiming their State Pension but they lose any extra state pension they would have otherwise received in that period

- note that as this applies only where widowhood was before 9 April 2001 this applies only to women whose husbands have died

A.6.1 Widow/ers and surviving civil partners widowed under State Pension age on or after 9 April 2001:

- still in receipt of Widowed Parent's Allowance on reaching State Pension age: entitled to Category B pension at the same rate as Widowed Parents' Allowance which can be combined with their own State Pension up to specified maximum. WPA stops at State Pension age
- were entitled to Bereavement Allowance, or to Widowed Parents' Allowance that stopped before State Pension age: provided they have not remarried/ formed a new civil partnership before State Pension age, entitled to Category B pension comprising AP only. An age-related reduction will apply if they were under age 55 when either they became entitled to Bereavement Allowance or the Widowed Parent's Allowance stopped

A.6.2 Widowed over State Pension age: deceased died over State Pension age:

- Widow/ers and surviving civil partners are entitled to Category B pension comprising basic pension and AP, combined with own State Pension up to specified maximum. Also entitled to half deceased's Graduated Retirement Benefit

A.6.3 Widowed over State Pension age: deceased died under State Pension age:

- Category B pension as for the preceding case, where the survivor reached State Pension age on or after 6 April 2010 or otherwise is a woman whose husband has died

A.6.4 Widow/er or surviving civil partner in old State Pension: deceased reaches State Pension age on or after 6 April 2016 or dies under State Pension age on or after that date:

- the survivor will be entitled to "old" basic pension and inherited AP as described above based on the deceased's National Insurance record to 5 April 2016, even though the deceased's own State Pension was (or would have been) determined under new State Pension rules

A.6.5 State Pension for widow/ers and surviving civil partners who reach State Pension age on or after 6 April 2016:

- a survivor whose deceased spouse/civil partner had reached State Pension age or died before 6 April 2016 may receive an inherited amount equivalent to the inherited AP and inherited Graduated Retirement Benefit they would have received under the pre-2016 State Pension system, provided that the marriage or civil partnership existed before 6 April 2016 and they meet the same conditions as would have applied under the pre-2016 rules

- a Contracted-Out Deduction in respect of the deceased member's earnings will be made as part of the calculation of the inherited amount. This calculation will be done only at the initial award stage. The resulting inherited amount will be uprated in line with new State Pension rules and no account will be taken of any subsequent changes to the rate of the survivor's inherited GMP
- If both members of the couple are in the new State Pension and the marriage/ civil partnership began before 6 April 2016 the survivor may inherit half of the amount (if any) by which the deceased's State Pension valued under the old system as at April 2016 exceeds the full rate of new State Pension

Substituted pension

A.7 A pension payable to a spouse or dependant following the surrender or allocation of part of a member's pension.

Widowed Mother's Allowance

A.8 State widow's benefit payable to women widowed before 9 April 2001 until Child Benefit ceases for youngest child. Basic allowance plus SERPS. Entitlement ceases on remarriage/ formation of civil partnership.

Widow's Pension

A.9 State widow's benefit payable to women widowed before 9 April 2001 who were aged 45 or over when widowed or when Widowed Mother's Allowance ceased. Payable until age 65 for women born before 6 December 1953; stops at State Pension age for women born on or after 6 December 1953. Entitlement ceased on remarriage/ formation of civil partnership. Basic allowance plus SERPS.

Widow's Age Related Pension

A.10 Reduced rate of Widow's Pension payable to women who became entitled to Widow's Pension when under age 55 (see above): reduction of 7% applies for each year up to maximum of 70% (no entitlement to widow's pension if aged under 45 when widowed without a dependent child or when WMA stopped).

B Legislative Background

B.1 Increases were first made to public service pensions to compensate for increases in the cost of living during World War 1. Between 1920 and 1971, there were 11 pieces of primary legislation increasing the pensions of public service pensioners. Rising inflation in the 1960s led to pressures to compensate pensioners, remove anomalies and institute a system of regular reviews which would not need primary legislation each time public service pensions were to be increased.

1971 to 5 April 1979

B.2 The original provisions, as contained in the 1971 Act, were almost immediately amended by the Superannuation (Northern Ireland) Order 1972 and further by the Pensions (Increase) (Northern Ireland) Order 1974.

B.2.1 Section 1 of the 1971 Act provided for annual rates of existing pensions to be increased by specified percentage rates from 1 September 1971. Thereafter section 2 provided for the DfC to review annually the rates of official pensions against any rise in the cost of living during the preceding year. The DfC was required to make an order to increase pensions where the cost of living had risen by two per cent or more. The last increase made through an Order under section 2 was paid with effect from 1 December 1978.

6 April 1979 onwards

B.3 The review mechanism was changed by Article 69 of the Social Security Pensions (Northern Ireland) Order 1975 (SSPO 75). This provision applies following a direction by the Department for Communities (DfC) under section 132 of the Social Security Administration (Northern Ireland) Act 1992 to uprate the Additional State Pensions derived from the State Earnings Related Pensions Scheme (SERPS), (hereafter referred to as Additional State Pension).

B.3.1 Article 69 provides that, where the DfC gives a direction to increase Additional State Pensions by a specified percentage, the Department of Finance must uprate official pensions by the same percentage (or by a proportion thereof for pensions beginning after the last but one direction).

B.3.2 Articles 69 (and 69A) have effect as if contained in the 1971 Act by virtue of Article 69(7). Article 69 enables official pensions to be uprated if a qualifying condition is satisfied or if the pension is a derivative, substituted or relevant injury pension. The references to “derivative, substituted or a relevant injury pension” were inserted by Article 3(7) of the Pensions (Miscellaneous Provisions) (Northern Ireland) Order 1990 and came into operation on 24 September 1990.

B.3.3 Additional State Pensions (paid in respect of those who reached State Pension age prior to 6 April 2016) are uprated by the DfC on the first Monday in the tax year (or on an earlier specified date in April) by the same percentage as the annual increase in prices to the previous September. Since 2011 the increase in the general level of prices obtaining in Great Britain has been estimated using the Consumer Prices Index (CPI)).[1]

B.3.4 In addition to the 1971 Act, the relevant statutory provisions are:

- Articles 69 and 69A of the SSPO 75;
- section 4 and Schedule 2, paragraph 14(19) of the Social Security (Consequential Provisions) (Northern Ireland) Act 1992 (which amended Article 69(1) of the SSPO 75);
- Article 3(7) of the Pensions (Miscellaneous Provisions) (Northern Ireland) Order 1990 (which amended Article 69(1) of the SSPO 75);
- section 132 of the Social Security Administration (Northern Ireland) Act 1992

6 April 2016 onwards (for those reaching State Pension Age on and after this date)

B.4 New State Pension rules were introduced to radically simplify State Pension provision on 6 April 2016. The relevant primary legislation is the Pensions Act (Northern Ireland) 2015. A consequence of the new State Pension is the abolition of the Additional State Pension and with it the end of contracting-out.

Qualifying conditions

B.5 The qualifying conditions for pensions increase are in section 3 of the 1971 Act, as amended. Article 3(1)-(4) of the Pensions (Miscellaneous Provisions) (Northern Ireland) Order 1990 amended section 3 of the 1971 Act to phase out, from 1 January 1993, the provisions which allowed women pensioners under the age of 55 to qualify for pensions increase if they had at least one dependant. This provision was amended by Article 163 of the Pensions (Northern Ireland) Order 1995 to apply to men also. This amendment applies to pensions commencing after 17th May 1990 and in relation to so much of any pension as is referable to service on or after that date.

B.6 The Departments Act (Northern Ireland) 2016 (c. 5) was commenced by The Departments (2016 Act) (Commencement) Order (Northern Ireland) 2016. The Order transfers certain functions of Northern Ireland departments to other Northern Ireland departments[2].

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[1] This approach was held to be lawful in *Staff Side of the Police Negotiating Board & Ors, R (on the application of) v Secretary of State for Work and Pensions & Anor* [2011] EWHC 3175 (Admin).

[2] 2016 No. 89 (C. 5)

C Past methods of calculating pensions increase

1972 to 1978: Historic Base

C.1 Increases took effect from December. The increase was calculated using the historic method: the increase was payable on the annual percentage increase in the Retail Prices Index (RPI) as at 30 June of that year. Annual Review Orders provided for increases in pensions which began on or before the first day of the review period (i.e. 1 July of the previous year). Pensions beginning during the review period attracted a proportionate increase according to whether the pension began in the period 2 July to 1 January or from 2 January to 1 July in the year of the increase.

1979 to 1982: Forecast Base

C.2 Pensions increase was first linked to the increase in the Additional State Pension (SERPS) in 1979. The amount of pensions increase payable from November in each of these years was based on the expected rise in RPI from one increase date to the next (i.e. November to November).

C.2.1 Pensions which began before the previous increase date attracted the full percentage increase and there were proportionate increases for pensions which began later.

1983 to 1985: Historic Base

C.3 The method for calculating the increase of pensions changed in 1983. This time the increase was payable on the percentage increase from May in the previous year to May in the year of increase. The corresponding percentage increases in pensions were still paid annually in November with proportionate increases for pensions beginning less than a year before the increase date.

1986 and 1987: Transition to current arrangements

C.4 During a transitional period from November 1985 to April 1987, there was:

- an interim increase in July 1986, based on the movement in the RPI between May 1985 and January 1986; and
- an April 1987 increase, based on the movement in the RPI between January 1986 and September 1986.

Summary of the months from which increases have been payable in the past:

1972-1978	December
1979-1985	November
1986	July
1987 onwards	April

2011 to date: Current Base

C.5 Increases to public service pensions are related to the percentage increase in prices applied to Additional State Pensions. Since 2011 these have both been increased by reference to the general level of prices obtaining in Great Britain estimated using the Consumer Prices Index (CPI).

D Increases in lump sums

Deferred lump sums which become payable on or after 6 April 2015

D.1 These are eligible for the same increase as pensions which begin on the same date as the lump sum begins.

Deferred lump sums which became payable in the period 7 April 2014 to 5 April 2015 inclusive

D.2 If the lump sum began before 7 April 2014, it may have been eligible for increases under the Pensions (Increase) Act (Northern Ireland) 1971. These should have been paid with the lump sum at the time it became payable. A further increase is payable on 6 April 2015 according to the table below.

D.2.1 If the lump sum began on or after 7 April 2014 an increase is payable on 6 April 2015 according to the table below.

D.2.2 In calculating the length of period, count complete months starting with the beginning date (or 7 April 2014 if later), and then count the remaining days, excluding the payable date itself–e.g. 25 May to 7 July is 1 month (25 May to 24 June) and 12 days (25 June to 6 July).

The Pensions Increase (Review) Order (Northern Ireland) 2015 No. 180			
Length of Period			**Percentage Increase**
16 days	to	1 month 15 days	0.1%
1 month 16 days	to	2 months 15 days	0.2%
2 months 16 days	to	3 months 15 days	0.3%
3 months 16 days	to	4 months 15 days	0.4%
4 months 16 days	to	5 months 15 days	0.5%
5 months 16 days	to	6 months 15 days	0.6%
6 months 16 days	to	7 months 15 days	0.7%
7 months 16 days	to	8 months 15 days	0.8%
8 months 16 days	to	9 months 15 days	0.9%
9 months 16 days	to	10 months 15 days	1.0%
10 months 16 days	to	11 months 15 days	

1.1% 11 months 16 days 1.2%	to	11 months	29 days	
It is not possible for the period to exceed 11 months 29 days if correctly calculated				

E

DoF Direction dated 12 May 2016

ARTICLE 69A OF THE SOCIAL SECURITY PENSIONS (NORTHERN IRELAND) ORDER 1975

DIRECTION BY THE DEPARTMENT OF FINANCE

The Department of Finance[1], in exercise of the powers conferred by Article 69A of the Social Security Pensions (Northern Ireland) Order 1975[2] and now vested in it[3], hereby makes the following direction.

1. In this direction, unless the context otherwise requires,

"the Administration Act" means the Social Security Administration (Northern Ireland) Act 1992[4];
"the Contributions and Benefits Act" means the Social Security Contributions and Benefits (Northern Ireland) Act 1992[5];
"the Pensions Order" means the Social Security Pensions (Northern Ireland) Order 1975[6];
"additional benefit" has the meaning given by regulation 5(2)(a) of the Social Security Benefit (Persons Abroad) Regulations (Northern Ireland) 1978[7];
"additional pension" means the sums which are the additional pensions in long-term benefits as defined in section 20(2) of the Administration Act;
"official pension" has the meaning given by section 5(1) of the Pensions (Increase) Act (Northern Ireland) 1971[8];
"pension authority" has the meaning given by section 7(1) of the Pensions (Increase) Act (Northern Ireland) 1971;
"pensioner" means a person to whom an official pension has become payable;
"Article 69 order" means an order made by the Department of Finance under Article

[1] The Department of Finance and Personnel was renamed the Department of Finance by section 1(4) of the Departments Act (Northern Ireland) 2016 (c.5).

[2] Article 69A was inserted by Article 10 of the Social Security (Northern Ireland) Order 1979 (N.I. 5). It was amended by Article 11(9) of the Social Security (Northern Ireland) Order 1986 (N.I. 18) and section 184, and Schedule 7, paragraph 15(2) to the Pension Schemes (Northern Ireland) Act 1993 (c.49).

[3] See the Departments (Northern Ireland) Order 1982 (N.I. 6)

[4] 1992 c. 8.

[5] 1992 c. 7.

[6] 1975 No. 1503(N.I 15).

[7] *S.R. 1978 No. 114*

[8] 1971 c.35

69 of the Pensions Order[1];

"section 105 order" means an order made by the Department of Finance under section 105 of the Pension Schemes (Northern Ireland) Act 1993[2];

"surviving civil partner's pension" means an official pension payable in respect of the services of the pensioner's deceased civil partner;

"surviving spouse's pension" means an official pension payable in respect of the services of the pensioner's deceased spouse;

and other expressions bear the same meaning as in the Administration Act and in the Contributions and Benefits Act.

2. Paragraphs 3 to 6 apply in the case of a pensioner who reaches pensionable age on or before 5th April 2016.

3. Where the Department of Finance makes an Article 69 order increasing official pensions and the amount by reference to which the increase in an official pension under that order is to be calculated would, but for this direction, be reduced under Article 69(5) of the Pensions Order by an amount equal to the rate of a guaranteed minimum pension, if at the time the Article 69 order comes into operation-

(a) the additional pension to which the pensioner is entitled is less than the amount equal to the weekly rate or aggregate weekly rates of the guaranteed minimum pension or pensions to which he or she is entitled; or
(b) the pensioner has not claimed his or her retirement pension and is not treated as having claimed it by virtue of Regulations made under Part I of the Administration Act; or
(c) the pensioner has made an election under regulation 2(1) of the Social Security (Widow's Benefit and Retirement Pensions) Regulations (Northern Ireland)1979[3]; or
(d) the application of regulation 5 of the Social Security Benefit (Persons Abroad) Regulations (Northern Ireland) 1978[4] is disqualifying the pensioner for the receipt of any additional benefit which would otherwise be payable to him or her by virtue of an order under section 132 of the Administration Act; or
(e) section 113(1)(b) of the Contributions and Benefits Act is disqualifying the pensioner for the receipt of any benefit and the pensioner requests the pension

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[1] Article 69 was amended by the Social Security (Northern Ireland) Order 1979 (No. 396), Article 10 by the Social Security (Northern Ireland Order 1986 (No. 1888), section 11(9), by the Pensions (Miscellaneous Provisions) (Northern Ireland) Order 1990 (No. 1509) (N.I. 13), Articles 3(7) and 7, by the Social Security (Consequential Provisions) (Northern Ireland) Act 1992 (c.9), Schedule 2, paragraph 19, by the Pension Schemes (Northern Ireland) Act 1993 (c. 49), sections 176 and 184, by the Pensions (No. 2) Act (Northern Ireland) 2008 (c. 13), section 110.

[2] 1993 c. 49. Section 105 was amended by article 55 of the Pensions (Northern Ireland) Order 1995 (N.I. 22) and by the Pensions Act (Northern Ireland) 2015 (c. 5), section 24(1) and Schedule 13, Part 1, paragraph 1.

[3] S.R. 1979/243. The relevant amending regulations are S.R. 1987 No. 404, S.R. 1989 Nos.193 and 373

[4] SR 1978 No. 114. Regulation 5 was amended by S.R. 1988 No. 77, S.R. 1989 No. 373, S.R. 1990 No. 123, S.R. 1992 No. 330, S.R. 1994 No. 269, S.R. 2001 No. 108, S.R. 2005 No.s 299 and 536 and S.R. 2010 No. 110.

authority in writing that the reduction under Article 69(5) of the Pensions Order should not be made; or

(f) in respect of a surviving spouse's or surviving civil partner's pension, the pensioner is not entitled to a Category A retirement pension by virtue of section 41 of the Contributions and Benefits Act[1], or a Category B retirement pension by virtue of section 48B[2] or section 51[3] of the that Act;

the amount of that reduction shall be equal to the amount by which the pensioner's guaranteed minimum pension has been increased by virtue of a section 105 order in the tax year in which the Article 69 order comes into operation, and, subject to paragraphs 5 and 6, in any such case the increase shall, in respect of any period after the order comes into operation, be calculated in accordance with this direction notwithstanding Article 69(5).

4. Where the condition specified in paragraph 3(a), (b), (c), (e), or (f) does not apply to a pensioner at the time an Article 69 order comes into operation but does apply to the pensioner at any time thereafter the rate of the official pension for any period following the application of the relevant condition shall be calculated as if that condition had applied to the pensioner since he or she first became entitled to a guaranteed minimum pension arising from the employment which gave rise to the official pension.

5. Where the condition specified in paragraph 3(b), (c), (d) or (e) has applied to a pensioner and ceases to apply to the pensioner at any time after the Article 69 order comes into operation the rate of his or her official pension for any period following the date on which the condition ceases to apply shall subject to paragraph 6 be calculated as if the direction in paragraph 3 had never applied in respect of that pension.

6. Where the condition specified in paragraph 3(d) becomes applicable to a pensioner at any time and the direction in paragraph 3 has previously applied to his or her official pension by reason of the same sub-paragraph (or its predecessor in an earlier direction) and this has ceased so to apply in accordance with paragraph 5, the rate of that pension shall be calculated as if the direction had been in operation at all times since the direction had first so applied, unless the pensioner has been ordinarily resident in Northern Ireland at any time after the direction first so applied.

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[1] Section 41 was substituted by the Social Security (Incapacity for Work) (Northern Ireland) Order 1994 (N.I.12), Article 13(1) and Schedule 1, Part I, paragraph 9. Section 41(5) confers entitlement to a Category A retirement pension on certain men whose wife died on or after 6 April 1979. Section 41 has been repealed by the Welfare Reform Act (Northern Ireland) 2007 (c. 2), Schedule 8, from a date to be appointed.

[2] Articles 48A, 48B and 48C were substituted for sections 49 and 50 by the Pensions (Northern Ireland) Order 1995 (N.I. 22), Article 123, Schedule 2, Part I. Section 48B(1), (1ZA), (1ZB), (1A) and (1B) were substituted by the Pensions Act (Northern Ireland) 2015 (c. 5), Schedule 12, Part 2, paragraphs 57 and 61 with effect from 6 April 2016. Section 48B confers a right to a category B retirement pension on certain persons whose spouse died while they were married or whose civil partner died while they were civil partners.

[3] Section 51 was substituted by the Pensions Act (Northern Ireland) 2015 (c. 5), Schedule 12, Part 2, paragraphs 46 and 56 with effect from 6 April 2016. Section 51 confers a right to a category B retirement pension on certain persons who attained pensionable age before 6 April 2010 and whose spouse died while they were married or whose civil partner died while they were civil partners.

7. Paragraph 8 applies in the case of a pensioner who reaches pensionable age in the period 6 April 2016 to 5 December 2018 inclusive.

8. Where the Department of Finance make an Article 69 order increasing official pensions and the amount by reference to which the increase in an official pension under that order is to be calculated would, but for this direction, be reduced under Article 69(5) of the Pensions Order by an amount equal to the rate of a guaranteed minimum pension, the amount of that reduction shall be equal to the amount by which the pensioner’s guaranteed minimum pension has been increased by virtue of a section 105 order in the tax year in which the Article 69 order comes into operation, and in any such case the increase shall, in respect of any period after the order comes into operation, be calculated in accordance with this direction notwithstanding Article 69(5).

9. This direction comes into operation on 12 May 2016.

10. All previous directions made by the Department of Finance and Personnel under Article 69A of the Pensions Order are hereby revoked.

Signed

Grace Nesbitt
12 May 2016 A senior officer of the Department of Finance

EXPLANATORY NOTE

(This note is not part of the Direction)

The Pensions (Increase) Act (Northern Ireland) 1971 makes provision for the increase of the occupational pensions, defined as official pensions, payable to or in respect of many former public servants. Where the Department for Social Development makes a direction by virtue of section 132 of the Social Security Administration (Northern Ireland) Act 1992 to the effect that certain social security benefits are to be increased by reference to the increase in prices over a specified period, Article 69 of the Social Security Pensions (Northern Ireland) Order 1975 requires the Department of Finance to make a parallel direction increasing official pensions.

For those reaching pensionable age on or before 5 April 2016, the state retirement pension consists of two elements, namely a basic pension payable at a weekly rate and an earnings related pension commonly known as SERPS (state earnings related pension scheme). As a condition of contracting out of SERPS, an occupational pension scheme must pay to pensioners a guaranteed minimum pension (GMP) in respect of pensionable service in the tax years from 1978-79 until 1996-97 inclusive. The GMP approximates to the SERPS pension which the pensioner would have earned during such service had his or her occupational scheme not been contracted out. Even where a scheme is contracted out, under directions given by virtue of section 132 of the Social Security Administration (Northern Ireland) Act 1992, the Department for Social Development (DSD) pays in addition to the basic pension an increase to the SERPS element, calculated by reference to the increase in prices. DSD indexes in full the earnings related element earned in respect of the tax years 1978-79 to 1987-88 inclusive. In respect of the tax years 1988-89 to 1996-7, DSD indexes it to the extent of any increase in prices above 3%.

To avoid the double indexation of the GMP element of official pensions, Article 69(5) of the Social Security Pensions (Northern Ireland) Order 1975 requires the pension paying authority, before increasing a pension which includes a GMP, to deduct the amount of the GMP from the amount to be increased. This direction makes an exception to this requirement in the circumstances specified.

Paragraphs 3 to 6 apply to pensioners who reach state pensionable age on or before 5 April 2016. (Paragraph 1 has the effect that in this direction "pensionable age" has the meaning given by section 122(1) of the Contributions and Benefits Act).

Paragraph 3(a) specifies the case where DSD is not in effect indexing the GMP element in full because the SERPS pension to which the pensioner would be entitled if the occupational scheme were not contracted out is less than his or her GMP.

Paragraph 3(b) specifies the case where the pensioner does not receive a state retirement pension because he or she has not yet claimed it because, for example, he or she is in receipt of incapacity benefit, or he or she is not treated as having claimed it.

Paragraph 3(c) specifies the case where the pensioner does not receive a state pension because he or she has elected to be treated as not having retired.

Paragraph 3(d) specifies the case where a state retirement pension is in payment but DSD are not increasing it because the pensioner is resident in a country with which the United Kingdom does not have reciprocal arrangements for uprating social security pensions.

Paragraph 3(e) specifies the case where the pensioner is disqualified for receiving a state retirement pension because he or she is in prison.

Paragraph 3(f) specifies the case of a GMP paid to a surviving spouse or civil partner, unless he or she is entitled to a Category A or Category B state retirement pension by virtue of his or her late spouse or civil partner's National Insurance contributions.

Paragraphs 4, 5 and 6 prescribe how pensions increase is to be calculated when the conditions in sub-paragraphs 2(a), (b), (c), (d), (e) and (f) variously begin or cease to apply

Paragraph 8 specifies all pensioners who reach state pensionable age after 5 April 2016 and before 6 December 2018.

Because section 105 of the Pension Schemes (Northern Ireland) Act 1993 requires the occupational scheme to index the GMP earned in the tax years from 1988-89 to 1996-97 inclusive up to a limit of 3%, paragraph 3 requires the occupational scheme to deduct the amount of any increase under a section 105 order in the same tax year before calculating the increase due under an order under Article 69.

The direction comes into operation on 12 May 2016 and revokes all previous directions made under 69A of the Pensions Order.

F Guaranteed Minimum Pension (GMP)

Members who reach state pension age after 5 April 2016 and prior to 6 December 2018

F.1 Paragraph 8 of the Department of Finance's (DoF) Direction applies to anyone to whom an official pension has become payable who reaches State Pension age in the period 6 April 2016 to 5 December 2018 inclusive. Where paragraph 8 applies the amount of any deduction of GMP should be equal to the amount by which the pensioner's GMP has been increased by virtue of an order made under section 105 of the Pension Schemes (Northern Ireland) Act 1993.

Members who reach State Pension age before 6 April 2016

F.2 The remainder of Annex E is only applicable to those members who reach State Pension age prior to 6 April 2016.

F.2.1 It should be noted that the Department for Communities (DfC) does not actually uprate the GMP (which is not State Pension). The process where Additional State Pension is uprated and a Contracted-Out Deduction (COD) (which represent the GMP) is made is called the uprating difference calculation and is described in paragraph 10.6. Additional State Pension ends on 5 April 2016 and the uprating difference calculation will no longer be possible for people who reach State Pension age after this date.

F.2.2 The uprating difference calculation concerns GMPs earned in a member's own right and is paid after State Pension age. However, for GMPs paid as survivors' benefits to qualifying widow/ers and surviving civil partners the uprating method will depend on whether any Additional State Pension is paid (see F.4 to F.6 below). Where no Additional State Pension is paid, occupational schemes are required to pay the whole of any increases.

F.2.3 The following section sets out the different types of scenarios in which calculations for pensions increase on GMPs may arise.

Uprating GMPs after State Pension age

F.3 The uprating difference calculation can mean that many people who have accrued GMPs up to 5 April 1988 have a degree of price protection in relation to this period through the uprating of the Additional State Pension. Similarly the same calculation covers price increases above 3% where a GMP is accrued between 6 April 1988 and 5 April 1997. Occupational pension schemes are required to pay price increases up to 3% and this is taken into account in calculating the COD, but if uprating of the Additional State Pension is more generous, members will also receive the difference from the DfC through the uprating of the Additional State Pension. Any increments to the GMP paid by the occupational scheme for deferred retirement are not uprated using the uprating difference calculation, the DfC simply pays full indexation for GMP increments accrued before 6 April 1988 and the difference in any increase where prices exceed 3%[1]. However, if the State Pension has been deferred but the GMP is in payment, the only increase that the member will receive will be from the occupational scheme because there is no Additional State Pension in payment.

F.4 To prevent double pensions increase on the GMP element, Article 69(5) of the Social Security Pensions (Northern Ireland) Order 1975 (SSPO 75) limited public service pensions increase to the part of the public service scheme pension which exceeds the GMP. Where the Additional State Pension paid by the DfC equals or exceeds the GMP element in a public service pension, the GMP entitlement is deducted from the public service pension before any pensions increases are applied at the next review. Similar principles apply to widow/ers' and civil partner pensions although the precise details are different.

Uprating WGMPs after State Pension age

F.5 The uprating difference calculation will apply where there is entitlement to a Category B State Retirement Pension. This excludes a man widowed under State Pension age before 9 April 2001 (when the new Bereavement Benefits were introduced) unless he was widowed under State Pension age but reached State Pension age on or after 6 April 2010 and would have been entitled to Widow's Pension had he been a women, or was entitled to Widowed Parent's Allowance from 9 April 2001 by virtue of responsibility for a dependent child or children as at that date.

F.5.1 It includes women previously entitled to Widowed Mother's Allowance or Widow's Pension, and men and women previously entitled to Widowed Parent's Allowance or Bereavement Allowance. It also includes men and women who are widowed when both they and their late spouse or civil partner are over State Pension age. Where bereavement is over State Pension age but the deceased died before State Pension age, it includes a woman whose husband has died (or whose wife had died, if she had legally changed gender from male to female during the marriage) and a widower or surviving civil partner who had reached State Pension age on or after 6 April 2010.

Uprating WGMPs before State Pension age

F.6 The uprating difference calculation will apply where the widow/er or surviving civil partner is entitled to Widowed Mother's Allowance, Widow's Pension or Widowed Parent's Allowance. However, if there is no entitlement to one of these benefits (or when entitlement ceases before State Pension age), the occupational scheme assumes responsibility for all WGMP increases until State Pension age, when the uprating difference calculation applies once more. This is because in the intervening period there is no calculation of notional Additional State Pension, because there would be no entitlement to Additional State Pension for someone in the State scheme.

Notional surviving spouses or civil partner's GMP rate

F.7 The pensions of surviving spouses and surviving civil partners are adjusted to prevent double pensions increase on the GMP element. The provisions are in Article 69(5ZA) of the SSPO 75. Surviving spouses and surviving civil partners are

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[1] Uprating of GMP increments by the DfC ceased for those reaching State Pension age on or after 6 April 2012.

treated as being entitled to a notional GMP from the same date as their deceased spouse or civil partner was entitled to a GMP, until the date of the spouse's death. Article 69(5ZB) makes provision about the rate of the GMP to which the surviving spouse or civil partner is treated as being entitled during that period. In the case of a pension payable to a woman in respect of the services of her deceased male spouse or her deceased female spouse in a relevant gender change case, the rate is half of the deceased spouse's GMP. In the case of a pension payable to any other surviving spouse or a surviving civil partner, the rate is half of so much of the deceased spouse's or civil partner's GMP is attributable to earnings factors for the tax years 1988–89 and following.

Incapacity Benefits (old cases)

F.8 When the pensioner moves from Incapacity Benefit on to State Pension the uprating difference calculation is engaged and the amount paid by the paying authority should be reduced accordingly. The reduction in the public service pension will not be matched by an increased payment from the DfC because the pensioner will already have been receiving all or part of the increase from the DfC with their Incapacity Benefit. (That is, there will have been an element of double indexation which is removed on moving to the State Pension.) In some old cases Incapacity/Invalidity Benefits can still be paid after State Pension age, if the take-up of State Retirement Pension and any SERPS entitlement is deferred. When this happens the scheme is required to index fully the scheme pension (including all of the GMP) although the GMP will be partly inflation-proofed through the Incapacity/Invalidity Benefit which is paid at State retirement rate.

Provisions for uprating the GMP where the Additional State Pension is less than the GMP

F.9 Article 69(5) of the SSPO 75 requires a public service pension to be reduced by the amount of the GMP to which the public service pensioner is entitled before pensions increase is calculated. However, a pensioner may be entitled to a GMP from a public service pension scheme in circumstances in which an Additional State Pension is not payable, or the Additional State Pension may be less than the GMP. Consequently, the DoF was given power in Article 69A to override the requirements of Article 69(5). The DoF has given a direction under Article 69A that, in these circumstances, no reduction is to be made. Without the DoF's direction, the pensioner would not receive full pensions increase on his GMP. A copy of the direction can be found at Annex E).

F.9.1 No GMP accrues during employment for which a married woman or widow was paying reduced rate National Insurance contributions.

Pensioners who are disqualified from receiving the Additional State Pension

F.10 Additional State Pension is not payable to people in prison nor to widow(er)s or surviving civil partners who are under State Pension age and living as a married couple or as civil partners. Most public service pensions continue in payment while a pensioner is in prison. In the case of cohabitation by someone receiving a public service widow(er)'s pension, the pension is normally stopped, although there are discretionary provisions for it to continue, or to be restored if cohabitation ceases. In circumstances when the DfC does not engage the uprating difference calculation but the public service pension continues, the scheme should increase the whole pension.

Where there is no Additional State Pension or GMP entitlement

F.11 There are certain circumstances when pensions increase should be applied to the whole of the pension (ie no deduction of the GMP). These are as follows:

8 if the pensioner is below State Pension Age and the pension is not a widow(er)'s or surviving civil partner's pension, or

9 if the pension is in respect of service which ceased before 6 April 1978, or was not contracted out, or

10 if the pensioner had reached State Pension age before 6 April 1979, and the pension is not a widow's pension, or

11 if the pensioner is female and opted to pay reduced rate National Insurance contributions.

Where there is GMP entitlement but DfC do not engage the uprating difference calculation

F.12 When an individual defers their State Pension; there may be certain circumstances in which the pensioner is entitled to a GMP, but the deduction of the GMP when calculating the increase on the pension would result in an individual not receiving inflation-proofing on the full pension.

F.12.1 Under the Automatic System, where State Pension age is before 6 April 2016, HMRC will notify the pension payer automatically that the pension falls into one of the categories covered by the Direction under Article 69A and the payer will be able to adjust the pension automatically.

Pensioner resident abroad

F.13 When a pensioner becomes permanently resident in a frozen-rate country, all increases in pensions which become effective during his residence abroad may be applied to the full pension with no adjustment made for the GMP. (Details of countries where there is a reciprocal agreement with the UK so that Additional State Pensions are uprated are provided in the following link:

https://www.gov.uk/government/publications/state-pensions-annual-increases-if-you-live-abroad/countries-where-we-pay-an-annual-increase-in-the-state-pension

Pensioners whose Additional State Pension entitlement is less than their GMP entitlement

F.14 Where an individual has retired and taken State Pension the Additional State Pension can be less than the GMP if the person has terminated contracted-out employment before reaching GMP pensionable age (60/65). Widow/ers and surviving civil partners whose inherited Additional State Pension is subject to an age-related reduction (see glossary) can also have an Additional State Pension entitlement which is less than their GMP (ie the Additional State Pension is age-related, but not the GMP). The operation of the "topping-up" provision (when a widow/er or surviving civil partner becomes simultaneously entitled to their own and to an inheritable Additional State Pension) which imposes a ceiling on the total payable Additional State Pension (but not the GMP) may also cause the Additional State Pension to be less than the GMP. In such a case, a surviving spouse/ civil partner is entitled to his/her deceased spouse's/civil partner's Additional State Pension from SERPS and S2P in addition to any AP that the survivor has accrued in his/her own right. Where the dual entitlement arises before 6 April 2016 the maximum payable additional State Pension is calculated by reference to the maximum additional State Pension that an individual could be entitled to if they reached State Pension age on that date. Where the surviving spouse/civil partner reached State Pension age before 6 April 2016 but is widowed on or after that date the maximum is specified in regulations at £165.60 (this rate will be increased in line with price inflation from April 2017).

F.14.1 Additional State Pensions may become less than the GMP after a period when it has exceeded it because, for example, the pensioner has acquired a further GMP entitlement (eg if a widow of a public servant reached age 60 and gained a GMP entitlement in respect of her own employment).

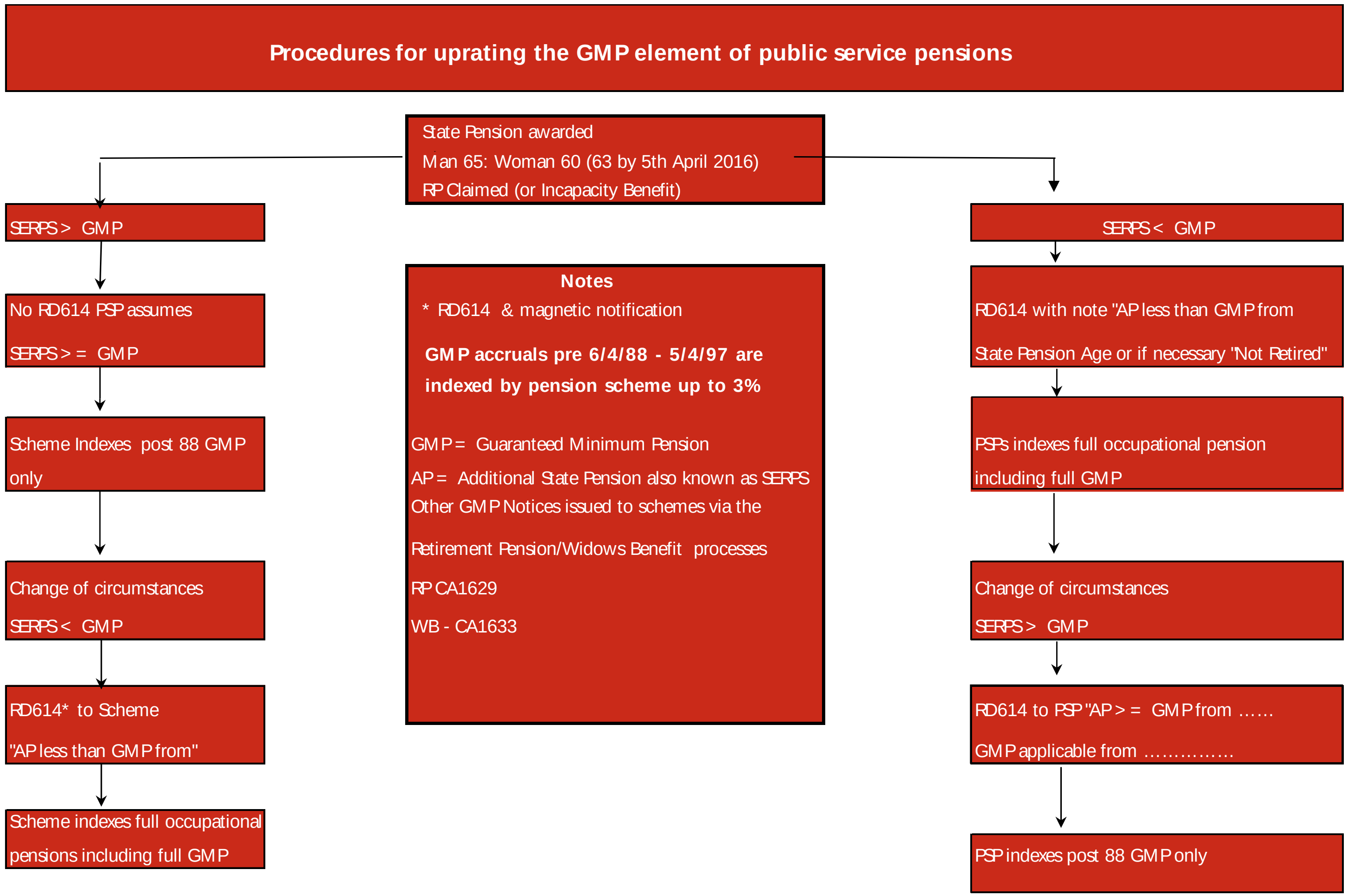
A public service pensioner who has not yet claimed their State Pension

F.15 The DfC only uprates the Additional State Pension so will not provide any uprating until a person claims and begins to be paid their State Pension. Until they do so the whole pension should be uprated by the pension scheme.

GMPs transferred into overseas arrangements

F.16 Regulations enable the transfer of GMPs accrued before 6 April 1997 to overseas arrangements if emigration is permanent.

Flowchart of DfC procedure relating to uprating of GMP element



H GMP notification procedures

H.1 On 6 April 2016 the government introduced the new State Pension to radically simplify State Pension provision. The new State Pension marked the end of the Additional State Pension, therefore notifications are only sent by HMRC when an individual reaches State Pension age prior to 6 April 2016.

H.1.1 Four months before a member reaches State Pension age they are identified by HMRC's National Insurance and PAYE System (NPS). NPS calculates what pension entitlement exists on the system and through an electronic interface notifies the DfC Pensions Computer System (PCS). At the same time, NPS sends a calculation to DfC's On Line Entitlement (OLE) system providing similar details. The OLE includes a facility for DfC's offices to complete and return final relevant year (FRY) earnings to NPS (this is referred in subsequent paragraphs as the 'fed-back').

H.1.2 PSC, on receiving its notification, creates a skeleton account for the member and invites the member to claim State Pension either by telephone or post.

H.1.3 On receipt of a claim, the DfC office will associate it with the OLE calculation. If an OLE calculation is not held, it will be requested from NPS.

H.1.4 The DfC office will make either an "initial award" which at a later date will be followed by the "final following initial award" or will make a "final award" from the outset. The awards will be entered onto PCS and payment commenced through this computer. PCS will notify NPS electronically that RP has been awarded. When an "initial award" or a "final award from the outset" is made, the DfC office will send the fed-back to NPS. NPS therefore gets notified twice of the member's award of RP – by PCS and by the fed-back.

H.1.5 When NPS receives the PCS notification it will wait 3 weeks to receive the fed-back from the DfC office. If it is not received the DfC office will be reminded that the fed-back has not been returned. It will be exclusively "final awards from the outset" that will generate reminder action. NPS will take no further action if the DfC office fails to respond to the reminder.

H.1.6 Once NPS has the fed-back notification and identifies that the member concerned has been a member of a contracted-out salary related pension scheme (COSR), and reaches state pension age before 6 April 2016 it will:

12 send the scheme a GMP notification on form CA1629 (previously RD655);

13 send the DfC office a GMP entitlement notice on form CA1627 for issue to the member; and

14 if the COSR scheme is a public service pension (PSP) scheme:

  a notify PCS so that a PSP indicator can be set on the account (this is to ensure that PCS notifies NIRS in the circumstances described in paragraph H1.7 below), and b send the scheme form RD614 showing “AP less than GMP from dd/mm/yy (date)” as well as CA1627, where the GMP rate is equal to or greater than the Additional State Pension/SERPS rate.

(NB the Paymaster and a few schemes receive their notifications by magnetic tape or secure electronic transfer rather than on paper.)

H.1.7 When RP is in payment and the rate changes, the DfC office notifies the PCS. If:

15 the PSP indicator is set as in para 6.iii.a), and

16 the change in rate results in a change to the GMP/SERPS relationship,

H.1.8 PCS will notify NIRS which in turn will send a further notification to the PSP scheme as in part 6.iii.b).

H.1.9 Where RP is not claimed following the issue of the invitation to claim:

17 If a claim has not been received within one month of the member’s $60^{th}/65^{th}$ birthday, the fed-back is returned to NPS showing “no claim made”. GMP notifications are not sent to schemes.

18 If the DfC office is told the address “DLO” (Dead letter office), NPS is notified on the fed-back that the address is out of date. GMP notifications are not sent to the schemes.

19 If the person chooses to continue receiving Incapacity Benefit rather than claim RP, NPS is notified on the fed-back. For a COSR scheme member who reaches State Pension age before 6 April 2016, NPS will send a GMP notice to the scheme and if it is a PSP scheme, it will also send a form RD614 to the scheme as in para 6.iii.b). This will be annotated “not retired” and will also show “AP less than GMP from dd/mm/yy (date)”. This will indicate to the PSP scheme that the DfC is not indexing the GMP so the scheme will need to index the whole PSP pension. When RP replaces Incapacity Benefit a further form RD614 will be sent to the scheme showing “AP equal to or greater than GMP from dd/mm/yy (date)” and “GMP as at dd/mm/yy (date) to apply”. This will indicate to the PSP scheme that DfC has started to index the GMP from the date shown.

H.1.10 The information in this Annex has been supplied by HMRC and relates to the procedures for State Pension. Any queries on this guidance should be addressed to mailto:mailbox.niprocesscontracting-outqueries@hmrc.gsi.gov.uk

Payment of pensions where pensioner resident is/was abroad

I.1 The Overseas Branch of the Department for Work and Pensions (the International Pension Centre), which covers the whole of the UK and deals with enquiries about State Pension, notifies the pension payer when a public service pensioner returns from abroad (or moves to a country listed at the link below) after a period when his State Pension has not been uprated by the DfC. His pension will be recalculated with effect from that date as if it had been uprated throughout the period when he was abroad (ie no arrears will be paid). Similarly, his public service pension should be recalculated for the whole period (but only with effect from that date).

I.1.1 If the pensioner subsequently returns to a frozen-rate country, the DfC notification explains how the pension should be recalculated:

20 If the pensioner has, since his return, established ordinary residence in the UK (or in a country listed at the link below), then his social security benefits will be frozen at the level they have reached when he goes abroad for the second time.

21 If he has not established ordinary residence in the UK (or a country listed below) his social security benefits will revert to the level at which they stood when he was last resident in the UK (or a country listed below).

22 If the return from a permanent absence in a frozen rate country is temporary and the end of the temporary period is known, then at the end of the temporary period the Overseas Branch of the Department for Work and Pensions (the International Pension Centre), which covers the whole of the UK and deals with enquiries about State Pension, will issue form POD SU 1131 to show the period when benefit is unfrozen and the upratings which apply.

Countries where UK State Pensions are uprated

I.2 The Social Security Benefit (Persons Abroad) Regulations (Northern Ireland) 1978 impose a general disqualification for the payment of annual pension increases to State Retirement pensioners living outside the UK, but enable increases to be payable in Sark.

I.2.1 The following link below shows the countries where annual pension increases may be paid by virtue of either the European Community Social Security Regulations or Bilateral Social Security Conventions, providing the relevant regulations are satisfied:

https://www.gov.uk/government/publications/state-pensions-annual-increases-if-you-live-abroad

J Pensions increase roles and responsibilities

Department of Finance, CHR, Public Service Pensions, Policy and Legislation Branch

J.1 The Public Service Pensions, Policy and Legislation Branch is responsible for legislation specifically concerned with uprating (inflation proofing) public service pensions, known as pensions increase, and for facilitating liaisons between HMT, HMRC and public service schemes in Northern Ireland. The Branch also coordinates and circulates guidance on issues affecting public service schemes (MOCOP/OCOP, NIPSPG network).

The Department for Communities

J.2 The Department for Communities (DfC) is responsible for policy and legislation on the uprating of the State Earnings Related Pension Scheme (SERPS) and occupational pensions generally, including Guaranteed Minimum Pensions (GMPs).

J.2.1 The DfC is also responsible for paying pensions increase on flat-rate State Pensions and SERPS and can answer questions from pension schemes on SERPS Additional State Pensions.

J.2.2 The DfC provides those shortly due to receive a State Pension with a forecast of their State Pension including Additional State Pension. Additional information is also provided including the position of an individual in receipt of Incapacity Benefit prior to State Pension age.

Social Security Local Offices

J.3 The DfC pension centres deal with initial queries from pensioners on State Pensions, such as:

- amount due;
- payment start date;
- methods of payment; and
- contribution conditions/record.

J.3.1 They are the first point of contact in the Decision Making and Appeals process, explaining decisions and subsequently preparing appeals on submission to the Appeals Service.

J.3.2 The DfC local offices deal with queries from pensioners once the State Pension is in payment on matters such as:

- an extended period abroad;

- a change of address; and
- the amount of any uprating.

J.3.3 The DfC pension centres do not deal with questions from pension schemes.

HM Revenue and Customs

J.4 HMRC provide information to schemes and bodies, such as Paymaster, which administer and pay pensions on schemes' behalf about when the State Pension is in payment and the level of any GMP (and therefore, in effect, also about cases where the beneficiary had decided not to retire for State Pension purposes). On the basis of information schemes decide whether pensions increase on the GMP element of the pension should commence, cease or change.

J.4.1 HMRC deals with queries from retirement pensioners on SERPS Additional State Pensions, flat-rate retirement pensions and other social security benefits, HMRC Operations. If the pensioner requests information about occupational pensions, the DfC will refer the pensioner to the occupational scheme.

J.4.2 HMRC also provide on line GMP calculations via www.gov.uk.

HM Revenue and Customs Operations

J.5 HMRC Operations maintains details of National Insurance records and provides information to the DfC which enables pensions increase to be calculated:

- National Insurance registration;
- notification of a member's commencement and termination and contracted-out employment;
- methods of preservation;
- notification of a scheme ceasing to be contracted-out; and
- scheme in the process of winding up.

J.5.1 NICO District Offices also deal with certain queries from pensioners (eg regarding National Insurance contribution records).

J.5.2 COEG answers questions about GMPs.

The Pensions Regulator

J.6 The Pensions Regulator (TPR) has a wide range of duties and carries out investigations following concerns raised by either pension scheme members or scheme auditors/actuaries (or schemes themselves) and will take action where schemes have not complied with pensions legislation.

Pension schemes

J.7 Pension schemes are responsible for paying public service pensions in accordance with the specific statutes and governing rules. Schemes provide information to pensioners regarding the scheme rules and benefits.

Pensions administration contractors

Third party administration contractors are responsible for administering and issuing payments of basic pensions and pensions increases for some public service schemes, and funds administered by local authorities.