



Department
for Work &
Pensions

From the Permanent Secretary

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Rt. Hon Stephen Timms MP
Chair, Work and Pensions Committee
House of Commons
London
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28 May 2021

Dear Stephen

GMP Indexation

Thank you for your letter of 19 May regarding the Parliamentary and Health Service Ombudsman case on GMP indexation. In your letter you asked for responses to a series of questions which I provide below.

Question 1 How will DWP comply with the PHSO's recommendations?

PHSO made five recommendations regarding the two complainants:

- a) Within one month of this report, (30 September 2019) apologise for the injustice (frustration and inconvenience) their actions have caused;
- b) Within one month of this report the DWP should pay the complainants £500 and £750 respectively in recognition of the injustice suffered;
- c) Within three months of this report, review and report back on to us on the learning from this investigation, including action being taken to ensure that affected individuals receive appropriate communication from the DWP about their state pensions. In particular, the DWP should ensure that their literature clearly and appropriately references that some individuals, who have large GMPs and reach State Pension Age in the early years of the new State Pension, may be negatively affected by the changes. The DWP should advise individuals to check their circumstances, and should provide instructions for how to do this;
- d) Within three months of this review and report back about how other individuals who believe they have suffered an injustice as a result of the

maladministration we have found can raise any concerns with the DWP and have them considered; and

- e) Consider, and report back to us, whether this report and their response to our recommendations should be communicated to other interested parties such as the Chair of the Work and Pensions Select Committee.

The Department has apologised (28 October 2019), paid the complainants and notified the PHSO of this, as required under recommendations (a) and (b).

The Department's intention is to publish a factsheet to meet recommendations (c) and (d).

The PHSO report was sent to the Committee (28 August 2020) to meet recommendation (e).

PHSO provided deadlines for the Department to report back to them on the development of this work. These deadlines have either been met, or have, by agreement, been re-set when the Department has been unable to comply on timings. PHSO wrote to the Department on 9 November 2020 closing compliance on this case subject to some text amendments to the factsheet and that the factsheet is User Tested and the results of this sent to the Committee.

Question 2 A previous Work and Pensions committee said that the "Government should not rely on general awareness campaigns or happenchance" in promoting understanding. Will your actions meet this recommendation?

It is not feasible for the Department (and indeed Government more generally) to advise members of the public about how changes to the law affect their own particular individual circumstances. That falls to independent professional pensions advisors with the benefit of their knowledge of the individual's circumstances together with information provided by Government in general awareness campaigns. Hence the factsheet, to meet recommendations (c) and (d), is designed to advise people of the specific issue of the impact of the new State Pension on GMP indexation and to meet the Ombudsman's request that the Department:

"Should ensure that their literature clearly and appropriately references that some individuals, who have large GMPs and reach State Pension Age in the early years of the new State Pension, may be negatively affected by the changes".

It also provides a point of contact with the Department.

Question 3 Will you provide an updated copy of the fact sheet and a timetable for updating the committee on the results of the user testing you plan to do?

The fact sheet and the User Testing report will be sent to the Committee shortly.

Question 4 When the Committee asked about the extent to which the Department was aware of the negative impact on individuals, you said that it was clear from the

publication of the Government's 2013 White Paper. Why didn't the White Paper refer to any groups which would lose out from the changes?

As I said in my letter of 28 August 2020 about the 2013 White Paper:

"It was an intrinsic feature of the new State Pension that the old regime of additional State Pension and contracting out, along with its various forms over the years, would be replaced by a new, simpler single-tier system. It was a fundamental feature of the changes that the withdrawal of additional State Pension meant also the withdrawal of GMP indexation".

At the heart of this is the judgments that were made at the time about the level of information being communicated to the public on highly complex issues and how those issues might affect them. Questions about the impact on people individually remain highly dependent on individual circumstances, including private pension data, and how those circumstances are affected by other ameliorating measures, such as the triple lock. Difficult judgments had to be made about the level of information being provided to the general public and how to keep the information accessible. The Ombudsman, as we know, has examined these same issues in detail and the Department has accepted his recommendations in full.

Question 5 You told the Committee that a detailed account of the change was provided in response to a PQ on 6 January 2014. That PQ does not explicitly state that some individuals will lose out. Even if an affected member of the public had found the PQ answer it would not have helped them understand the impact on their own pension. Why do you think this is an acceptable level of communication? Would you expect to communicate changes in this way in future?

This question, too, looks at what judgments were made at the time about the level of communication of highly technical and complex information and I refer you to my previous answer. Again, the Ombudsman has examined these same questions in detail and my department cooperated with his investigation fully. We have accepted his recommendations in full and I can assure the Committee that we seek to learn lessons for the future.

Question 6 When asked about the scrutiny of the impact of the policy and its communication, why did you say it was examined by this Committee and the NAO, when both of those events took place after the legislation had been passed? Why were the findings of the Committee and NAO not acted on?

On the first part of the question, my letter of 28 August referenced the 2013 White Paper and the 2014 PQ. I then went on to say:

"More generally, the policy, and how it was communicated, was examined by the Work and Pensions Select Committee in its investigation into *Understanding the new State Pension* in 2016. In addition, the NAO reported on the policy in the same year."

Regarding the second part of your question, as part of the Department's evidence to the 2016 investigation it provided evidence to the Committee in December 2015

which described in detail the Department's communications strategy. The Select Committee's report was published in March 2016. At around the same time the NAO reported on the impact of the change in GMP indexation and noted, amongst other things, that there had been a lack of clear information for people with GMPs. The Select Committee recommended that the Government write to people with GMPs accrued between 1978/79 and 1987/88 to advise them of the indexation position. In response (June 2016), Ministers responded to the Select Committee as follows:

"24. Guaranteed Minimum Pensions (GMPs). The majority of those who built up a GMP during the period 1978 to 1988 will not be disadvantaged by the changes, because of the interaction with other parts of pension reforms. Evidence from our latest impact assessment is that by 2020, 75% of people with a pre-1988 GMP will gain from the new State Pension (with an average gain of £4 a week) and around 25% of people will lose (with an average loss of £2 a week).

25. Given the current evidence on the ineffectiveness of direct mail as a communications tool, we believe our strategy should continue to direct people to the detailed information on GOV.UK and Check your State Pension service. The Check your State Pension service allows people to see a forecast of their new State Pension at State Pension age – assuming future qualifying years count towards an Individual's new State Pension. The service also shows information on any gap years, where the individual may be able to pay voluntary National Insurance contributions to improve their new State Pension position."

I hope you find these responses useful.

*Yours sincerely
Peter Schofield*

Peter Schofield



Work and Pensions Committee

House of Commons, London SW1A 0AA

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From the Chair

Peter Schofield CB
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19 May 2021

Dear Peter,

Guaranteed Minimum Pension (GMP) Indexation

Thank you for writing to me last year about the Parliamentary and Health Service Ombudsman investigation into group claims about how the Department communicated information about GMP indexation. I understand the PHSO has closed its compliance case and expects any further updates from DWP to be given to the Committee.

Please would you write to the committee on the questions below:

1. How will DWP comply with the PHSO's recommendations?
2. A previous Work and Pensions committee said that the "Government should not rely on general awareness campaigns or happenchance" in promoting understanding. Will your actions meet this recommendation?
3. Will you provide an updated copy of the fact sheet and a timetable for updating the committee on the results of the user testing you plan to do?
4. When the Committee asked about the extent to which the Department was aware of the negative impact on individuals, you said that it was clear from the publication of the Government's 2013 White Paper. Why didn't the White Paper refer to any groups which would lose out from the changes?
5. You told the Committee that a detailed account of the change was provided in response to a PQ on 6 January 2014. That PQ does not explicitly state that some individuals will lose out. Even if an affected member of the public had found the PQ answer it would not have helped them understand the impact on their own pension. Why do you think this is an acceptable level of

communication? Would you expect to communicate changes in this way in future?

6. When asked about the scrutiny of the impact of the policy and its communication, why did you say it was examined by this Committee and the NAO, when both of those events took place after the legislation had been passed? Why were the findings of the Committee and NAO not acted on?

Yours sincerely,

A handwritten signature in black ink, appearing to read "Stephen Timms". The signature is written in a cursive, slightly slanted style.

Rt Hon Stephen Timms MP
Chair, Work and Pensions Committee



Department
for Work &
Pensions

From the Permanent Secretary

Peter Schofield CB
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Rt Hon Stephen Timms MP
Chair
Work and Pensions Select Committee
House of Commons
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SW1A 0AA

28 August 2020

Dear Stephen

Guaranteed Minimum Pension (GMP) Indexation

Thank you for your letter of 11 August regarding the investigation by the Parliamentary and Health Service Ombudsman (PHSO) into complaints by two individuals into how the Department communicated information to them regarding changes to the policy on GMP indexation. You asked for an update on the work the Department has undertaken in light of the PHSO's findings.

By way of background, the PHSO partially upheld the complaints and the Department has apologised to the complainants and paid them compensation of £500 and £750, as recommended by the PHSO.

As part of its decision, PHSO also recommended that we provide clearer information about how people could suffer notional losses through the change, and that we invite others who believe they have suffered a similar injustice as the two individuals to come forward to have their cases considered.

We propose to respond to these recommendations by publishing a factsheet on GOV.UK and I attach a draft. We are currently awaiting the PHSO's comments on this.

In addition, the PHSO recommended that their reports into the matter were shared with the Select Committee and we have sent your office copies of these documents today.

You asked us to outline the extent to which the Department was aware of the negative impact of the policy on individuals, and how this was communicated to Parliament and others involved in the policy decision making.

As was clear from publication of the Government's White Paper in January 2013, it was an intrinsic feature of the new State Pension that the old regime of additional State Pension and contracting out, along with its various forms over the years, would be replaced by a new, simpler single-tier system. It was a fundamental feature of the changes that the withdrawal of additional State Pension meant also the withdrawal of

GMP indexation. A detailed account of the change was provided in a response to a PQ on 6 January 2014 and is attached for reference at Annex A.

More generally, the policy, and how it was communicated, was examined by the Work and Pensions Select Committee in its investigation into *Understanding the new State Pension* in 2016. In addition, the NAO reported on the policy in the same year.

Handwritten signature in black ink, appearing to read 'Peter Schofield'.

Peter Schofield CB

Annex A

GMP Indexation PQ 6 January 2014

Guaranteed Minimum Pensions

Teresa Pearce: To ask the Secretary of State for Work and Pensions (1) what estimate his Department has made of the number of people affected by ending the payment of guaranteed minimum pension increases; [181793]

(2) what impact assessment his Department has conducted of ending the payment of guaranteed minimum pension increases; [181794]

(3) what estimate he has made of the average loss to persons affected by ending the payment of guaranteed minimum pension increases; [181795]

(4) what estimate his Department has made of the total saving to the public purse as a result of ending the payment of guaranteed minimum pension increases. [181860]

Steve Webb: The Department for Work and Pensions does not pay increases on guaranteed minimum pensions (GMPs). GMPs are occupational pension scheme benefits

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which were accrued between 1978 and 1997. Pension schemes are liable for any statutory indexation of GMPs, and this liability will not change as a result of the single tier reforms. The Department for Work and Pensions pays state pension benefits and their indexation, including additional state pension (SERPS and S2P) and basic state pension.

Additional state pension and GMPs are linked in that when a person reaches pensionable age, the total amount of GMP is subtracted from the total amount of additional state pension built up between 1978 and 1997, and any net amount is paid. This subtraction of the total GMP amount is called a ‘contracted-out deduction’, and reflects that reduced national insurance was paid during the period of contracting out in return for meeting legislative requirements. This calculation is performed each year that the pension is payable.

There is no statutory obligation on schemes to pay increases on GMPs accrued between 1978 and 1988. However, additional state pension built up during that period is subject to increases. When the contracted-out deduction is subtracted from the additional state pension, the remaining additional state pension includes an increase linked to prices. In this way, an amount broadly equivalent to the GMP, but which is in fact additional state pension, is subject to an increase. Schemes are under an obligation to pay increases on GMPs accrued between 1988 and 1997, subject to a cap of 3%.

With the introduction of single tier, the additional state pension will close, as will the facility to contract out. For those reaching state pension age from April 2016, we will value their national insurance record to that point. We will compare what state pension the single-tier rules would give them with what they have built up as at April 2016 under the current system. The higher of these two valuations will become the individual’s ‘foundation amount’.

As set out in the White Paper, the design of the transition will benefit many people with a history of contracting out. In effect, these individuals may be able to offset their contracted-

out deduction with further qualifying years until they reach the full amount of single tier. This means that many individuals who have previously been contracted-out may receive more state pension than they would have under the current system.

The Department estimates that over 2 million people will reach state pension age in the five years after the introduction of single tier, of whom around 40% to 45% will have been contracted out of private and public sector defined benefit schemes between 1978 and 1988. From 1988 onwards, the facility to contract out was extended to people in defined contribution schemes. By the mid 2030s over 80% of people reaching state pension age will have had a deduction for being contracted out factored into their transitional calculations and many will be able to benefit from the transition described above, as well as from the indexation arrangements for single tier compared to the current arrangements for additional pension and basic state pension.

The single tier reforms will cost no more than the existing system, and expenditure is projected to be within 1% of current spending until the late 2030s. The impacts of the single tier reforms have been captured in the impact assessment for single tier, which is published

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online. We estimate that those who hold GMPs are no more likely to have a lower outcome as a result of the reforms overall than the rest of the population.



Work and Pensions Committee

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From the Chair

11 August 2020

Dear Peter

Last year it was reported that the Government was found guilty by the Parliamentary and Health Service Ombudsman of maladministration over the impact of state pension reforms on those with a Guaranteed Minimum Pension (GMP). I understand that the Department is considering how it informs individuals how they may have been negatively affected by changes in policy on GMP indexation. Might you please provide the Committee with an update on this work?

Please could you also outline the extent to which the Department was aware of the negative impact of the policy on individuals, and how this was communicated to Parliament and others involved in the policy decision making?

With best wishes,

Rt Hon Stephen Timms MP
Chair, Work and Pensions Committee