

Currently legislation provides, in relation to early leavers, that a scheme may provide that fixed rate revaluation of the GMP is triggered at the time the member leaves contracted-out service. In response to pension industry concern that when contracting out ends on 6 April 2016, fixed rate revaluation would be automatically triggered simply because members will have left contracted out service, DWP amended section 16 of the Pension Schemes Act 1993¹ (“PSA 1993”).

From 6 April 2016, section 16 PSA 1993 will provide that in deciding how to revalue GMP for early leavers from 6 April 2016 schemes would have to choose:

- (a) to operate fixed rate revaluation (but calculated from *the date when pensionable service ends*, not from the date contracting-out ends), or
- (b) to calculate earnings revaluation by reference to earnings in the final tax year of the earner's working life i.e. by reference to increase orders under Section 148 in force.

So, essentially, to take account of contracting out ending, fixed rate revaluation would be triggered, after 6 April 2016, not by when contracted out service ends, but *from when pensionable service ends*. Schemes will have to choose to amend their scheme rules to carry out fixed rate revaluation from the end of pensionable service even if they had chosen fixed rate previously as the preferred method.

DWP have been told that many schemes will not be able to exercise this choice because their scheme amendment rules are limited and would not enable them to make the necessary changes. As a result, the option to choose fixed rate for such schemes will fall away when contracting out ends.

We want schemes to be able to modify their scheme rules in order to take advantage of fixed rate revaluation from when pensionable service ends after 6 April 2016 which is why intend to provide in legislation for a statutory modification power. The modification power would have retrospective effect to allow changes to take effect from 6 April 2016. We intend to make this legislation in the next few months.

¹ Paragraph 16 of Schedule 13 to the Pension Act 2014 amends section 16 of the PSA 1993 to provide that schemes may choose to amend their rules to revalue GMP by fixed rate when pensionable service ends rather than, as currently, when contracted employment ceases.