Cummins UK Pension Plan

Guaranteed Minimum Pension Equalisation
Backdated payments and tax

Will the backdated GMP payment affect the income tax I pay this year?

You're going to get a one-off additional payment to your pension because the GMP element of your pension has been underpaid, as outlined in the enclosed letter. This additional payment will be paid to you as a single lump sum. However, depending on your other income for this tax year, the additional payment might push you into a higher tax bracket and increase the amount of tax you'll need to pay.

What can I do about this?

As this is a backdated payment for pension that wasn't earned in the year that you're receiving it, you can ask for the payment to be split across tax years. Simply get in touch with Isio, the Plan administrator, who will provide you with all the information you need to let HM Revenue and Customs (HMRC) know about the additional payment and arrange for it to be split.

Is the backdated payment going to push your income for the year above the threshold for your current income tax rate?

NO

You don't need to do anything.

We'll pay your backdated payment into your account along with your revised pension amount as shown in your letter.

YES

1. Get in touch with Isio on **0800 122 3266** or email **cummins.helpdesk@isio.com**
2. Ask for the information you need to get HMRC to split your additional payment across tax years
3. Contact HMRC and send them the information provided by Isio.

As a reminder, the parts of your annual income that fall within the following ranges are taxed at different rates:

Tax rate	2024/25
Personal allowance: no tax on this income	£0 - £12,570
Basic rate income tax bracket: 20% tax	£12,571 - £50,270
Higher rate income tax bracket: 40% tax	£50,271 - £125,140
Additional rate income tax: 45% tax	£125,141 or more

How is tax charged on the interest element of the backdated payment?

While that part of your back payment representing past arrears of pension will be taxed through PAYE, in accordance with HMRC guidance, if you live in the UK, the interest payable on your arrears will not be paid through PAYE. Instead, the interest part of your backdated payment will be paid gross and not have tax deducted.

Please note, however, that interest payments are subject to income tax at your usual rate, unless they fall within your tax-free Personal Savings Allowance. You may therefore need to report these interest payments to HMRC in your Self-Assessment at the end of the tax year to ensure the correct amount of tax is paid.

What if I am not a UK resident?

If you are not UK resident, the position is slightly different and the interest payable on your arrears will be paid to you after deducting tax at your nominal rate. You may need to consider whether you need to report this income to HMRC in your Self-Assessment at the end of the tax year to ensure the correct amount of tax is paid.

As the interest payable on your arrears will be paid to you subject to deduction of basic rate income tax only, and not taking account of any tax-free Personal Savings Allowance you may have, you may need to report this income to HMRC in your Self-Assessment at the end of the tax year to ensure the correct amount of tax is paid.

Could this affect my Lifetime Allowance (LTA)?

The LTA is the maximum amount of pension savings that an individual can benefit from over the course of their lifetime (across all registered pension arrangements) before a tax charge known as the lifetime allowance charge (LTA charge) applies. Most individuals are subject to the standard LTA. However, when the LTA was introduced, and each time it has been reduced, protections have been offered to safeguard individuals who had already built-up significant pension savings on the expectation of a certain level of LTA. LTA protections can be lost in certain circumstances.

The Government abolished LTA tax charges from 6 April 2023, with benefits over the LTA taxed as pension going forward (and therefore LTA charges are not currently expected to arise in relation to tax years after this date). However, in assessing the effect of any changes to your benefits it is the tax rules in force at your retirement date that apply.

The abolition of LTA tax charges will not change the rules applicable for assessing tax that might be due for events taking place in tax years before 6 April 2023. Following GMP equalisation, in rare cases, an increase to a member's starting pension could result in a new or increased LTA charge (in respect of a previous tax year).

If you were close to or over the LTA when you retired (considering all your pension savings but excluding the State Pension), please contact the Scheme administrators for more information and as soon as possible.

Guaranteed Minimum Pension Equalisation Questions and Answers

What is Guaranteed Minimum Pension (GMP)?

Your GMP is the minimum pension that an employer had to provide through an occupational pension scheme if they wanted to 'contract out' of the Additional State Pension (also known as State Earnings-related Pension Scheme (SERPS)) before 6 April 1997.

Broadly speaking, the GMP is a similar amount to the Additional State Pension you would have received had the Additional State Pension continued in operation. However, it is paid by the Plan, instead of by the Government.

You may be receiving a pension from the Plan as a spouse or partner of a late member of the Plan. If this is the case, the GMP you receive is based on your late spouse or partner's GMP.

The GMP is paid as part of the pension you receive from the Plan. For benefits earned before 6 April 1997, your pension payable from the Plan must be at least equal to the GMP from GMP Payment Age (age 65 for men and age 60 for women).

Because of the way the rules for GMP work, even when the Plan provides a higher benefit overall than the GMP, the GMP must be accounted for separately from the rest of your pension in the Plan. One reason for this is because once a member reaches GMP Payment Age, different annual pension increases might be applied to the GMP and the rest of the pension.

What is GMP Payment Age?

Historically, State Pension payments started at different ages for men (65) and women (60). As the GMP element was broadly equal to what the Additional State Pension/SERPS would have provided, a pension scheme has to calculate benefits for this part of a member's pension assuming different starting ages for males and females. Therefore, the age at which GMP becomes payable is 65 for men and 60 for women, even though men and women now have the same State Pension Age (currently 66 but rising to 67 by 2028). GMP to a spouse after a member's death is payable immediately.

What is the clarification that means this is being reviewed now?

In 2018, the High Court ruled that the inherent sex-based inequalities in GMP built up between 17 May 1990 and 5 April 1997 were unlawful. Consequently, all UK pension schemes must, by law, 'equalise' benefits to eliminate the inequalities caused by GMPs so that they do not cause anyone's pension to be lower as a result of their sex. This is the legal clarification that means we have had to review your pension.

Is everyone affected by GMP equalisation?

No. There are two reasons why your benefits might not be affected:

Your pension benefits don't contain any GMP built up in the period 17 May 1990 to 5 April 1997 – for example due to not being in pensionable service during this time.

The GMP benefits you are receiving are already higher than they would have been if they had originally been calculated in line with the opposite sex – therefore nothing is needed in addition to equalise the position.

What about my benefits built up before 17 May 1990?

The court judgments concerning equalisation do not require the equalisation of any benefits built up before 17 May 1990.

Will my dependant's pension(s) change?

Any dependant's pension payable on your death will be based on your (correct) pension after GMP equalisation and/or rectification.

How will I know that the pension is correct after this exercise and that there won't be any future changes?

Every effort has been made to ensure that your pension benefits are correct. The Plan Trustee is responsible for paying your correct benefits and if a further change is required to your pension, the Trustee will write to you at the time.