EXPLANATORY MEMORANDUM TO

THE GUARANTEED MINIMUM PENSIONS INCREASE ORDER 2026

2026 No. XXXX

1. Introduction

1.1 This Explanatory Memorandum has been prepared by the Department for Work and Pensions and is laid before Parliament by Command of His Majesty.

2. Declaration

2.1 Torsten Bell, Minister for Pensions at the Department for Work and Pensions confirms that this Explanatory Memorandum meets the required standard.

2.2 Sam Hainsworth, Deputy Director for Defined Benefit Pensions Policy, at the Department for Work and Pensions confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Anna Smith-Spark at the Department for Work and Pensions can be contacted by email at the following address with any queries regarding the instrument: anna.smith-spark@dwp.gov.uk.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 The legislation sets the annual increase (indexation) to be applied to the Guaranteed Minimum Pension (GMP) element of an individual's formerly contracted out occupational pension from April each year. This increase applies to the GMP entitlement built up between April 1988 and April 1997.

Where does the legislation extend to, and apply?

4.2 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is England, Wales, and Scotland.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is England, Wales, and Scotland.

4.4 The Department for Communities in Northern Ireland will produce its own legislation replicating the effect of this Order for Northern Ireland.

5. Policy Context

What is being done and why?

5.1 The State Pension used to be made up of two parts: the flat rate basic State Pension and the earnings-related additional State Pension.

5.2 However, many employees were already members of pension schemes provided by their employer; therefore, between 6 April 1978 and 5 April 1997 defined benefit occupational pension schemes could contract out of the earnings-related element of the State Pension (the "additional State Pension"). To do so, the scheme had to guarantee to provide a minimum level of pension known as the GMP. This was

intended to provide a pension broadly equivalent to the amount of additional State Pension a member would otherwise have been entitled to had they remained in the State system.

5.3 A Guaranteed Minimum Pension (GMP) is payable for life at age 60 for a woman or age 65 for a man, reflecting the State Pension ages in place at the time GMPs were introduced. GMPs also include survivor benefits which may be paid to a widow, widower or surviving civil partner of the member. Although contracting out continued until 6 April 2016, GMPs ceased to build up after 5 April 1997.

5.4 This is a yearly statutory Order which specifies the amount by which the GMP element of formerly contracted out occupational pensions, built up from 6 April 1988 to 5 April 1997, which are in payment, must be increased with effect from April each year. GMPs are increased to help ensure the value of a member's pension has some protection against the effects of inflation.

5.5 This amount is the percentage increase in the general level of prices or 3 per cent, whichever is less. The Secretary of State is required annually to review the general level of prices in Great Britain.

5.6 Where there has been an increase in the level of prices since the last review, legislation requires the Secretary of State to lay a draft Order specifying the percentage by which there is to be an increase of the rate of that part of GMPs which is attributable to earnings factors for the tax years in the relevant period. The relevant period is the period beginning with the tax year 1988-89 and ending with the tax year 1996-97. There is no statutory requirement to increase GMPs built up before 6 April 1988.

5.7 The Secretary of State measures the increase in the general level of prices for the appropriate period (for this Order it is 1 October 2024 to 30 September 2025) using the Consumer Price Index (CPI)[1].

5.8 The CPI figure for this period was 3.8 per cent. As this rate of inflation is higher than the cap, the minimum rate GMPs built up between 1988 and 1997 will increase by is 3 per cent.

What was the previous policy, how is this different?

5.9 The policy is unchanged. This Order fulfils the Secretary of State's statutory annual obligations as described in paragraph 6.1.

6. Legislative and Legal Context

6.1 The Secretary of State is required by the 1993 Act to lay a draft Order each year, which sets out the minimum level of indexation by which the GMP element accrued between 1988 to 1997 of an individual's contracted out occupational pensions should be increased. The Order does not alter the legal requirement that GMPs must be increased once in payment. The Order sets the percentage increase to be applied from April 2026.

How has the law changed?

6.2 The GMP element of an individual's formerly contracted out occupational pension, built up between 6 April 1988 and 5 April 1997, which is in payment, will be increased by 3 percent from 6 April 2026.

[1] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/september2025

Why was this approach taken to change the law?

6.3 This Order fulfils the Secretary of State's statutory annual obligations described in paragraph 6.1.

7. Consultation

Summary of consultation outcome and methodology

7.1 There is no statutory duty on the Secretary of State to consult on this Order. The Department for Work and Pensions does not consider that an informal consultation is appropriate as this is a technical Order that gives effect to a statutory requirement.

8. Applicable Guidance

8.1 Trustees and scheme administrators of formerly contracted out schemes will be aware of the requirement to increase the Guaranteed Minimum Pension (GMP) in accordance with this instrument; no guidance is therefore necessary.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full Impact Assessment has not been prepared for this instrument because there is no new impact on pension schemes in the private sector, as businesses are already required by law to provide a measure of protection against inflation.

Impact on businesses, charities and voluntary bodies

9.2 There is no, or no significant, impact on businesses, charities or voluntary bodies because there is no new impact on pension schemes in the private sector. Existing occupational pension schemes are already required by law to provide a measure of protection against inflation.

9.3 There is no, or no significant, impact on small or micro businesses.

9.4 No specific action is proposed to minimise regulatory burdens on small businesses (employing up to 50 people) from the original requirement to uprate GMPs in line with general prices.

9.5 Removing small businesses (i.e. small schemes) from this requirement would adversely affect relevant pension scheme members because the relevant part of their pensions would not receive protection against the effects of inflation.

9.6 There is no, or no significant, impact on the public sector because this impacts pension schemes in the private sector.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 There is a statutory requirement to annually review the general level of prices in Great Britain and where prices have increased, to lay a draft Order before Parliament.

10.2 This instrument does not include a statutory review clause because it does not make or amend regulatory provision in relation to any qualifying acts.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

12. European Convention on Human Rights

12.1 Torsten Bell, Minister for Pensions has made the following statement regarding Human Rights:
"In my view the provisions of The Guaranteed Minimum Pensions Increase Order 2026 are compatible with the Convention rights."

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").