GMP Equalisation

Where we are and what we should do next?

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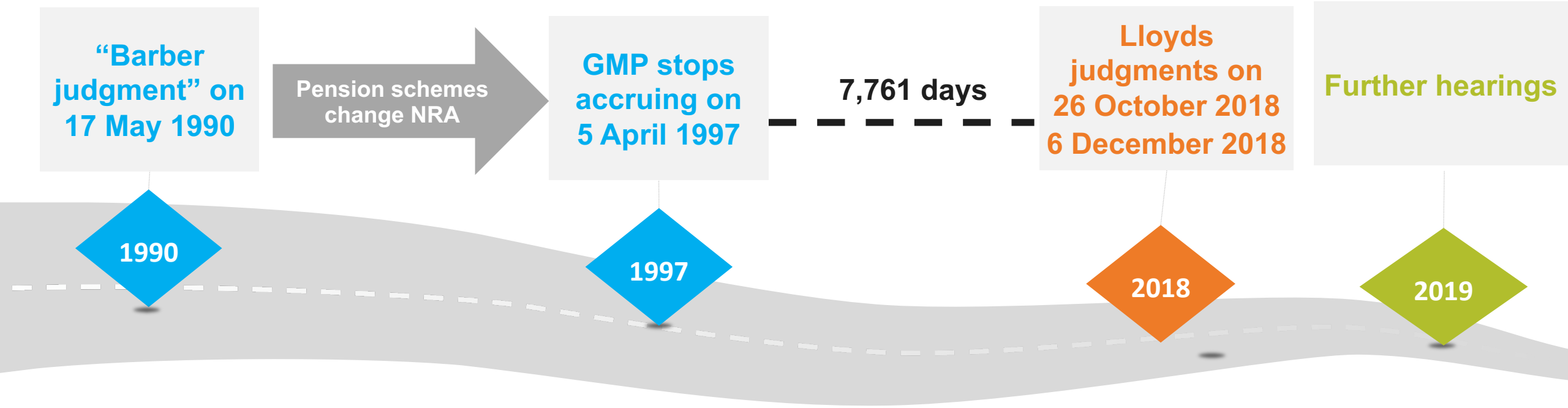
The long road to GMP equalisation…



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Agenda

- GMPs why are they unequal?
- Lloyds Banking Group Case
- GMP equalisation in practice
- GMP conversion
- What should we do next?

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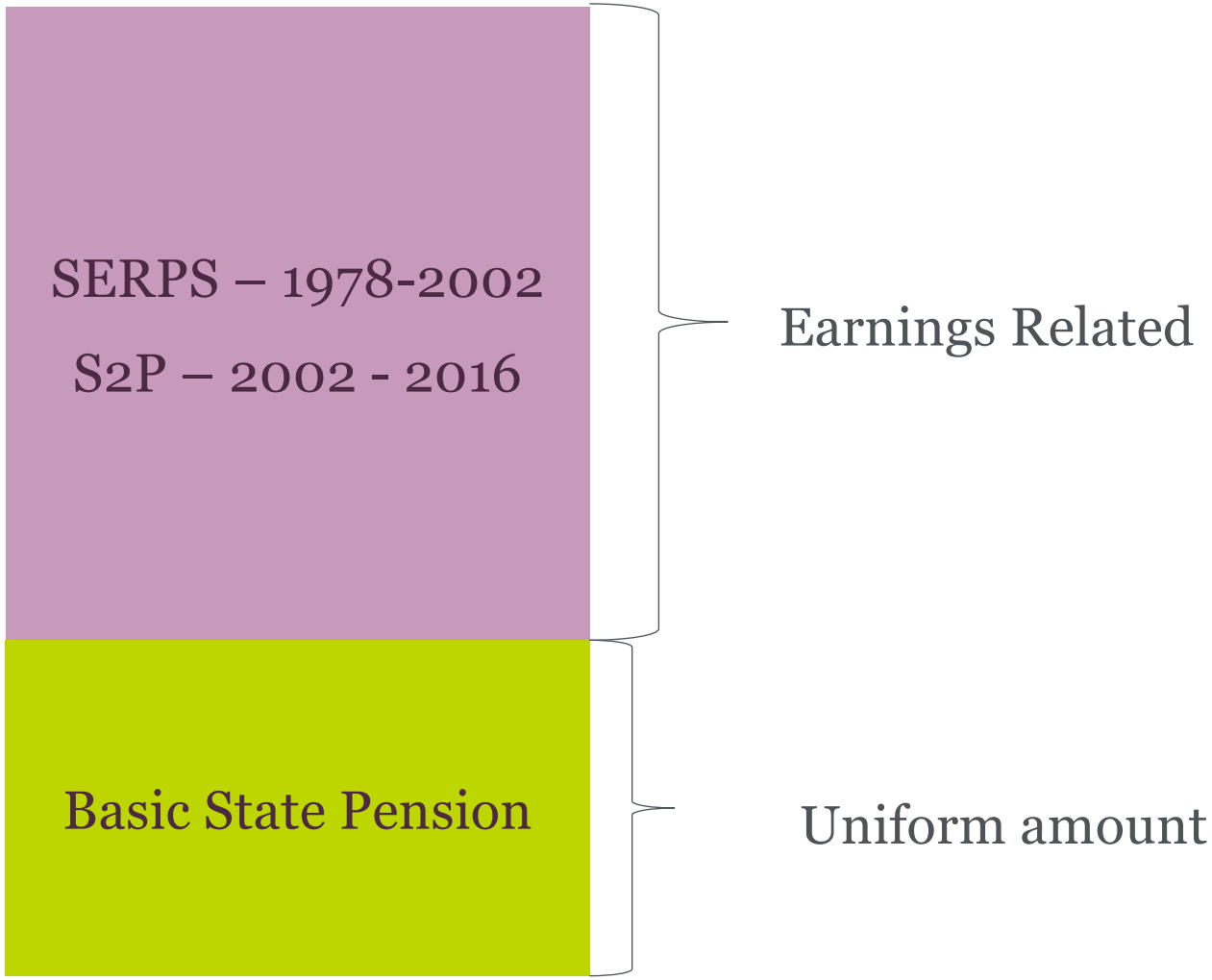
GMPs why are they unequal?

Duncan Buchanan

State pension 1978 - 2016



Contracting-out

- Not possible to opt-out of Basic State Pension
- Possible to opt-out of SERPS/S2P:

- GMPs operate as a "replacement" for the SERPS a member would have earned
- The State reduces the SERPS element by the GMP payable by the scheme

GMPs

- Accrued between 1978 and 1997 under contracted out schemes (COSRs)
- Part of member’s overall scheme benefit – "guaranteed minimum" amount
- Operates like an underpin – so from GMP age scheme must provide as a minimum the member's GMP
- BUT GMP has particular characteristics . . .

Reasons GMPs are unequal

Accrual rate higher for women – women's GMP larger than man's

Payable at 60 for women and 65 for men

Revaluation different for GMP and Excess

Increases different for GMP and Excess

Anti-franking legislation . . .

Theresa v Jeremy – the Westminster Pension Scheme

- Both in the scheme from 1978-1997
- Same scheme accrual rate for men and women
- NRA of 60 for both men and women
- Contracted-out so GMPs earned between 1978 and 1997
- Revaluation in deferment:
  - GMP – fixed rate
  - Excess – statutory minimum
- Increases in payment only on the GMP

Theresa v Jeremy – at age 60 (NRA)

Theresa's pension

- Scheme pension = £1,500 payable now
- GMP = £480 payable now

Jeremy's pension

- Scheme pension = £1,500 payable now
- GMP = £425 not payable yet

Theresa v Jeremy – at age 61

Theresa's pension

Pension = £1,515

Part of the GMP is increased in payment.

Jeremy's pension

- Pension = £1,500

The GMP is not yet in payment so no increases.

Theresa v Jeremy – at age 65

Theresa's pension

Pension = £1,571

The extra £71 has come from the increases in payment on part of the GMP.

Jeremy's pension

Pension = £1,662

The extra £162 has come from revaluation on the GMP in deferment between age 60 and 65 (which is only payable at age 65 and has to be added on top because of the anti-franking legislation).

Lloyds Banking Group court case

Wendy Handcock

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Questions asked of the Court

- Is the Trustee obliged to increase benefits in excess of GMP to give equal treatment in the overall pension?
- Is there a single correct method of equalising or a choice of acceptable methods? If there is a choice, which one should the Trustee adopt?
- Any limitation period on back-payments?
- Should interest be paid on back-payments?

Lloyds Banking Group: Methods

Method		Judgment	Employer consent	Approach
A	Equalise each unequal aspect of the benefit separately.	×		
B	Carry out an annual comparison of the male/ female pension and pay the higher amount.	✓	✓	Dual
C1	Pay the annual pension that would result in the accumulated pension paid to date being equal to the higher of the accumulated pension payable to either an unequalised male or female. Where the higher amount switches from one sex to another over time, this approach allows for offsetting.	✓	✓	Dual and Accumulated
C2	As per C1, but allows for interest on accumulated gains, reducing the overall cost.	✓	×	Dual and Accumulated with interest
D1	A one-off calculation determining the actuarial equivalence of cashflows generated by one of the above methods and then provide a higher benefit to provide benefits of equal value.	×		
D2	As per D1, but as part of the process, use GMP conversion to convert all GMP to non GMP for future payments.	✓	✓	One off calculation

COST

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GMP equalisation in practice

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Dual Record approach: Method B

Age	Theresa's pension	Jeremy's pension	Equalised pension	Top up for Theresa	Top up for Jeremy
60	1500	1500	1500	0	0
61	1515	1500	1515	0	15
62	1530	1500	1530	0	30
63	1545	1500	1545	0	45
64	1560	1500	1560	0	60
65	1571	1662	1662	91	0
66	1588	1680	1680	92	0
67	1605	1698	1698	93	0

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Dual Record approach: Method C1

Age	Theresa's pension	Jeremy's pension	Accumulated Theresa	Accumulated Jeremy	Equalised pension	Theresa gets top up	Jeremy gets top up
60	1500	1500	1500	1500	1500	0	0
61	1515	1500	3015	3000	1515	0	15
62	1530	1500	4545	4500	1530	0	30
63	1545	1500	6090	6000	1545	0	45
64	1560	1500	7650	7500	1560	0	60
65	1571	1662	9221	9162	1571	0	(91)
66	1588	1680	10809	10842	1621	33	(59)
67	1605	1698	12414	12540	1698	93	0

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Which members need to be considered?

GMP Equalisation Window

Members who left pensionable service before 17 May 1990

Members with pensionable service over part of or all of the period 17 May 1990 to 5 April 1997

Members who joined after 5 April 1997

Active
Deferred
Pensioner
Survivor pension
Pension Credit

Transferred in
Post 90 GMP

Transferred out? No further liability?

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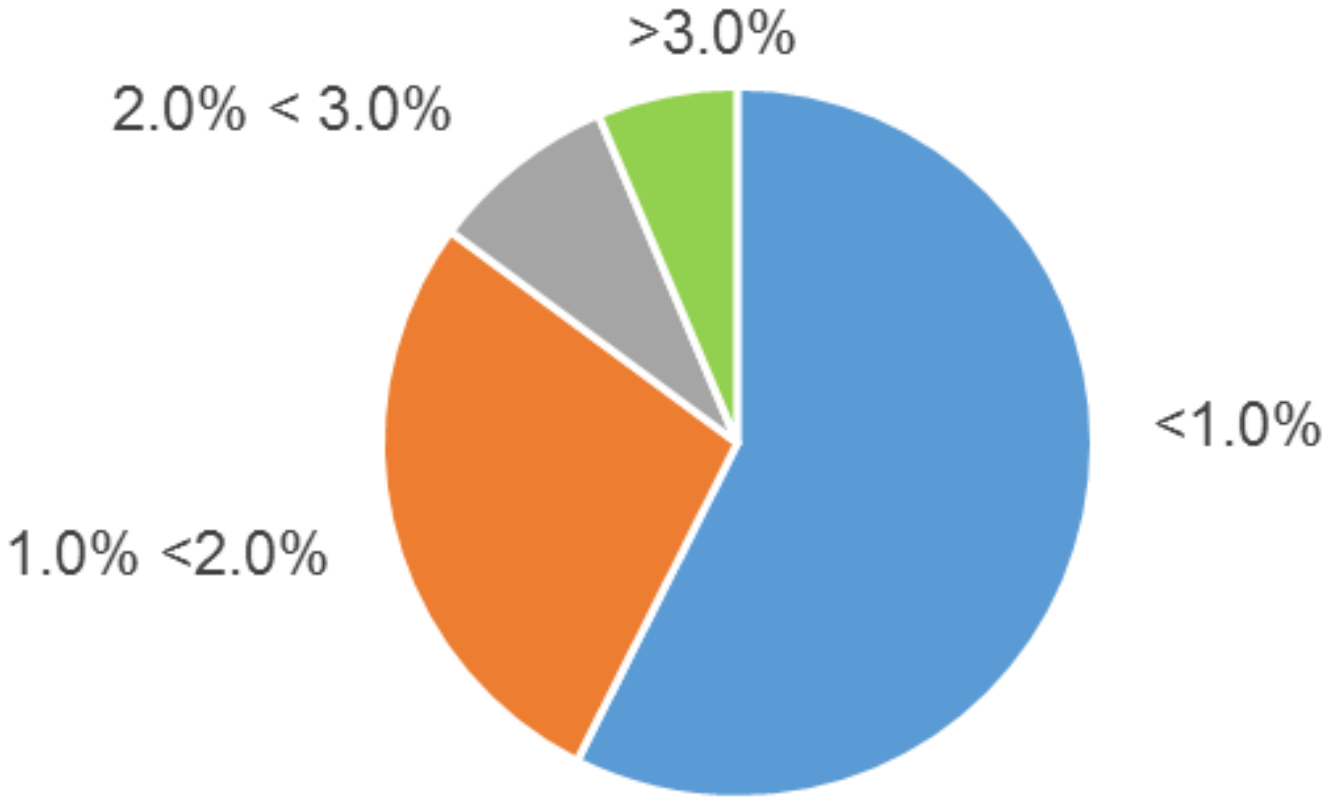
Proportion of our schemes: GMP equalisation reserve/liabilities



Who is likely to receive a higher uplift?

Females:

NRA 60

Increases on XS > Increases on GMP

Males:

NRA 65

Increases on XS < Increases on GMP

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Back-payments

- Decide equalisation method (B, C1, C2)
- Recalculate benefits
  - Go back to the point benefits were equal
    - Leaving pensionable service
  - Determine comparator record
  - Track member and comparator record forward
  - Determine if any back-payments due
  - Add interest at bank base rate + 1%

- Will the data be available to support this work?
  - What assumptions can we make?

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Rectification and Equalisation

Equalisation	No effect			Top up benefit Back-payments due		
Rectification	No effect	Underpaid Back-payments	Overpaid Recover	No effect	Underpaid Back-payments	Overpaid Recover

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Seems a lot of work (and potential cost) for very little benefit to the member? Do we really have to do this?

'Trustees may wish to take advice in relation to members for whom the estimated cost of calculating and implementing equalisation is the same as or greater than the projected additional benefits to which the member would be entitled as a result of equalisation'

DWP Guidance on GMP conversion, April 2019

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GMP conversion

Brief Recap

- 2012 DWP consultation with suggested method (Method B)
- 2013 Consultation withdrawn and DWP set up industry working group
- 2016 DWP consultation on using GMP conversion to achieve equality (Method D2)
- 2018 Lloyds Bank case – Judge approved Methods B and D2 (and C1/2)
- 18 April 2019 – DWP publishes version 1 of Conversion Guidance

GMP conversion legislation

- Pensions Act 2007 introduced sections 24A- 24H PSA1993
- Regulations 27 and 27A of Schemes that were contracted out Regulations
- Little used in practice (what was the point?)
- However, by converting GMPs schemes can stop future inequalities that are inherent in and required by the GMP legislation
- Equality in actuarial value (not necessarily quantum) can be achieved as part of a GMP conversion process
- Supported by DWP industry working group and responses to consultation
- A once and done approach – rather than a dual pension payroll approach
- Schemes still need to address past unequal payment of benefits

A 10 Step Process – per DWP Guidance

1. Trustees reach agreement with employer
2. Select members to be converted and "shape" of converted benefit
3. Decide on effective date of conversion
4. Consult with members to be converted
5. Actuarial valuation of benefits pre and post conversion
6. Equalisation adjustment if necessary
7. Conversion of adjusted benefits
8. Actuarial certificate
9. Amend rules/benefits
10. Notify members of converted benefits

Step 6 Equalisation Adjustment – Valuing benefit

Male deferred member – dob 5 April 1955 Pensionable service– 6 April 1973 to 5 April 2010

Benefit segment	1 (pre 6/4/78)	2 (6/4/78 to 5/4/88	3 (6/4/88 to 16/5/90)	4 (17/5/90 to 30/6/94	5 (1/7/94 to 5/4/97	6 (post 5/4/97)	Total
Deferred pension at date of leaving	1,500.00	3,000.00	625.00	1,225.00	850.00	3,900.00	11,100.00
Member GMP at date of leaving		690.56	126.36	250.12	170.04		1,237.08
Opposite sex GMP at date of leaving				284.44	193.96		
Actuarial value	**£33873**	**£62340**	**£13797**	**£35722**	**£20754**	**£97098**	**£263584**
Actuarial value	**£33873**	**£62340**	**£13797**	**£35299**	**£21316**	**£97098**	**£263724**

Step 7 Conversion of adjusted benefits

Start Point

Specimen Member

- Male, deferred – age 58
- Projected pension at NRA - **£13,736**
- GMP at NRA = £1,760
- Actuarial value = **£263,584**

Equalisation Phase

"Amount A" - Male

Actuarial value (78-97) = £132,613

"Amount B" – Female 1990-97

Actuarial value of (78-90)"male" (1990-1997) "female" = £132,753

Amount B > Amount A - difference = **£140**

"Equalised" Value = **£263,724**

Conversion Phase

£263,724 "Equalised" value

£10,726

Increasing at:
5%LPI on post 78
0% on pre 78

£17,014
No escalation on pre 97

£13,736
(start point)

Increase in Scheme liabilities:
£140 (plus expenses)

Step 9 – Amend Rules – Section 24G

…(3) Where a scheme is amended to effect GMP conversion the trustees may **include other amendments which they think are necessary or desirable as a consequence of, or to facilitate, the GMP conversion**."

- To what extent is a "universal PIE" necessary or desirable
- Restrictions in the Scheme's power of amendment may mean need to use the resolution route

What should we do next?

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Still to come….

- HMRC guidance (industry working party first meeting in April)
- Consequentials hearing on Lloyds Bank case
- Industry working group (not PASA) producing practical guidance
- Pensions Bill 2019 to tweak existing conversion legislation
- Further versions of DWP Guidance

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