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Our guide to the basics of **GMP equalisation**

Does your scheme have GMP?

If your scheme contracted out of the State Earnings Related Pension Scheme (SERPS), then it will have a Guaranteed Minimum Pension (GMP). GMPs were set up to make sure that schemes provided a minimum level of benefit broadly equivalent to that of SERPS.

Why did some employers contract out of SERPS?

Contracting out of SERPS made it possible to provide higher scheme benefits at a lower cost, because both members and employers paid lower National Insurance contributions.

When did GMP build up?

GMP built up between 6 April 1978 and 5 April 1997. It is split into two parts, depending on whether the GMP built up before or after 6 April 1988.

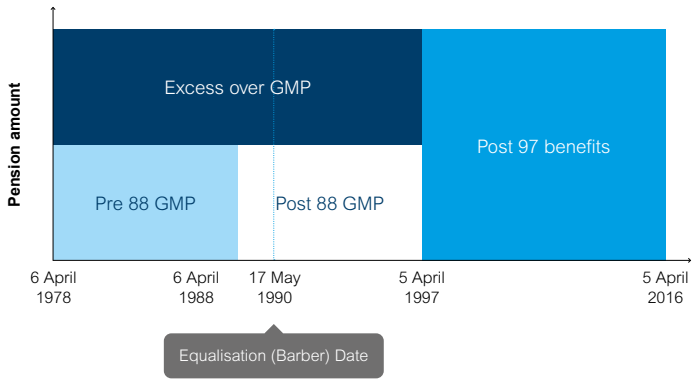
Why is equalisation needed?

Both SERPS and GMPs targeted the same benefit as a proportion of earnings by the GMP age of 60 for women and 65 for men. Women generally built up GMP more quickly than men with the same earnings and service history, because the intention was to provide the same pension for women at 60 as for men at 65.

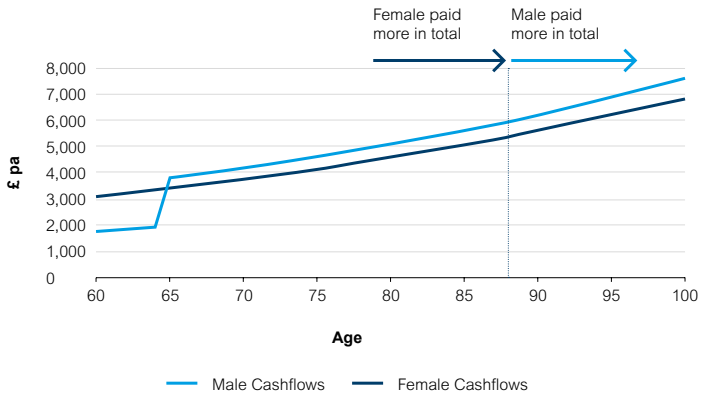
This means that although women and men with the same earnings and service history accumulate the same amount of scheme pension in any year, the split of the pension built up between GMP and non-GMP will differ for men and women.

GMP and non-GMP elements may increase at different rates in the period between leaving the scheme and retirement, depending on the scheme rules and members' leaving dates. Once in payment, GMP and non-GMP elements may also increase differently, depending on the scheme rules and the period during which GMP was built up. All of this means that women and men can end up with very different pensions. It's even possible for women to start out with higher pensions but end up with lower pensions later.

When did GMP build up?



Retirement at 60

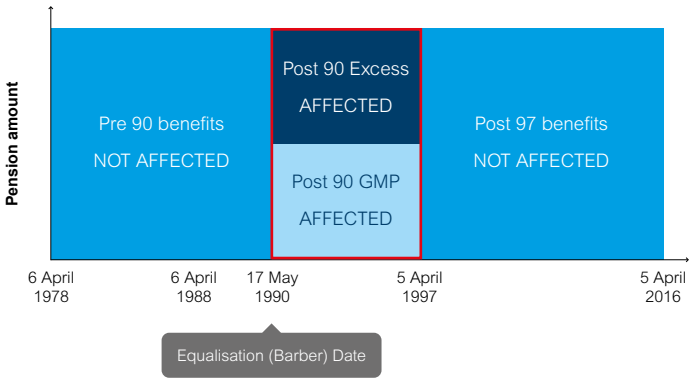


What does the law require?

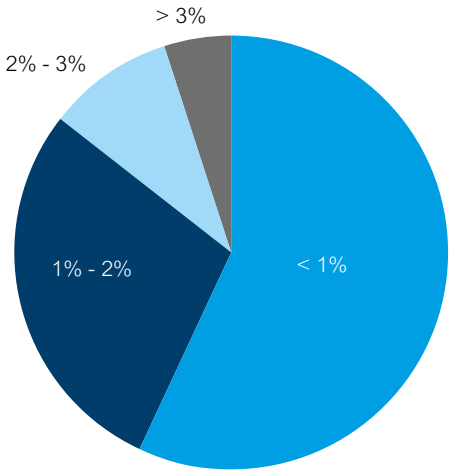
It's been a long time since schemes built up GMP benefits, and the requirement to equalise pension benefits is firmly established. But it was not until the Lloyds judgment on 26 October 2018 that the pensions industry finally received clarification that GMPs must be equalised for the period of 17 May 1990 to 5 April 1997.

If First Actuarial has recently carried out an actuarial valuation or accounting disclosures for sponsoring employers, we will have given you an indication of the impact of GMP equalisation on your scheme as part of that work. The pie chart below shows a breakdown of the estimated increase in liabilities across all schemes where we provide actuarial services.

What benefits are affected by GMP equalisation



Proportion of our schemes: GMP equalisation reserve/liabilities



In the Lloyds judgment, Mr Justice Morgan also considered the different methods of equalising GMPs. As a reminder, we've set these methods out, along with Mr Justice Morgan's views, in a table at the back of this document.

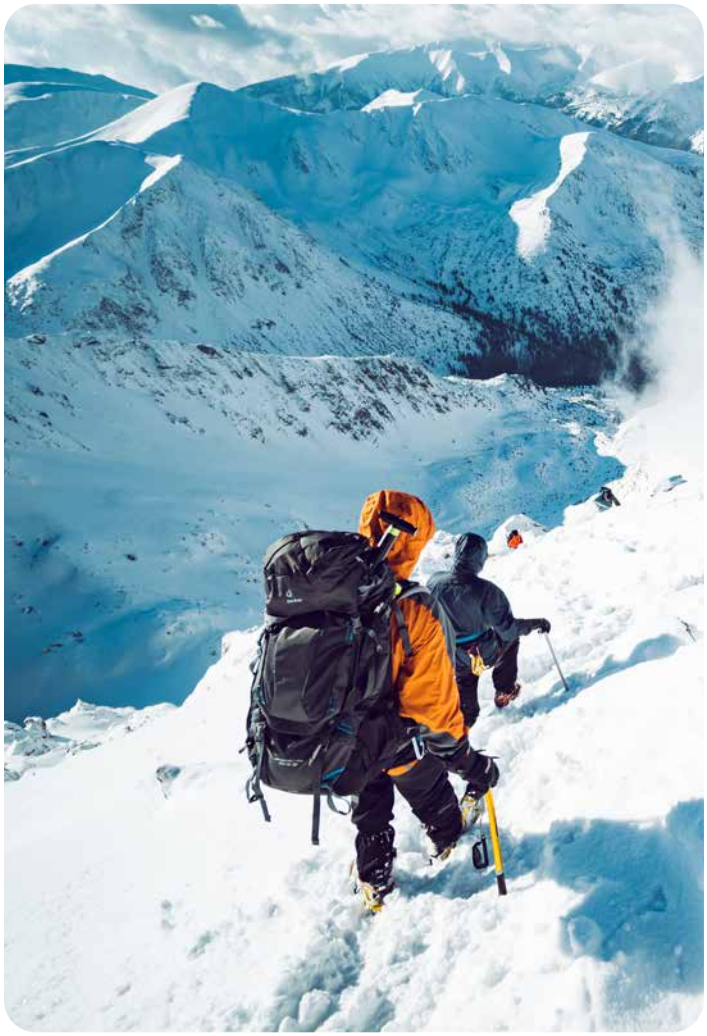
His view was that the following methods all provide equivalence of benefits:

- Method B – Compares equivalent male and female pensions each year, paying the highest.
- Method C1 – Compares accumulated male and female pensions each year, paying the pension derived from the higher accumulated amount.
- Method C2 – As C1, but with interest. Method C2 is the only method not requiring employer consent.

All of these methods involve a comparison each year between future pensions, and require dual records to be held for members.

In giving his view, Mr Justice Morgan applied the legal principle of minimum interference from the perspective of both the employer and the scheme member. Importantly, he subsequently agreed that an additional method D2 would also be permitted if the employer consented. This method allows a one-off calculation of a new pension expected to have the same value as an equalised pension.

In equalising GMPs, members with GMPs built up between 17 May 1990 and 5 April 1997 may receive a small top-up to their benefits. Those members receiving a pension may also receive a back payment to compensate for past inequalities. As a result, all schemes with GMPs will see an increase in the value of their scheme liabilities.



Lloyds Bank Group case: Methods

Method		Judgement	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 each year.	✓	✓	Pension comparison
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.	✓	✓	Pension comparison accumulated
C2	As per C1, but allowing for interest.	✓	✗	Pension comparison accumulated with interest
D1	A one-off calculation placing a value on the cashflows generated by one of the above methods, and then using this to provide a higher benefit of equal value.	✗		
D2	As per D1, but converting all GMP to non-GMP.	✓	✓	One-off calculation

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