GMP equalisation

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first actuarial

Agenda

- What is a GMP?
- Why do we need to equalise?
- What do we need to equalise?
- How do we equalise?
- The plan

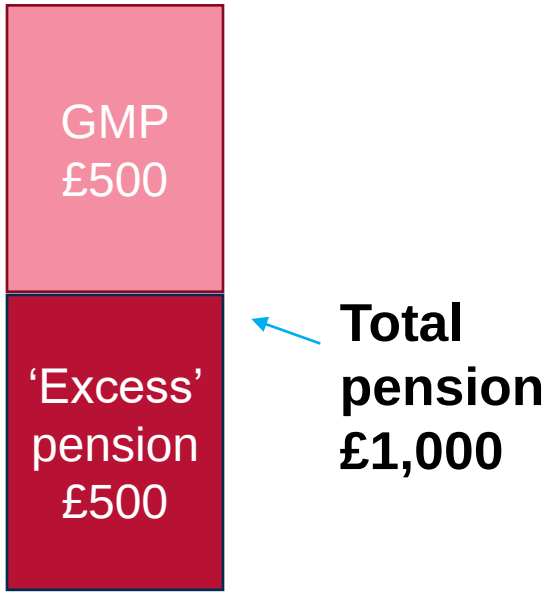
What is a GMP?

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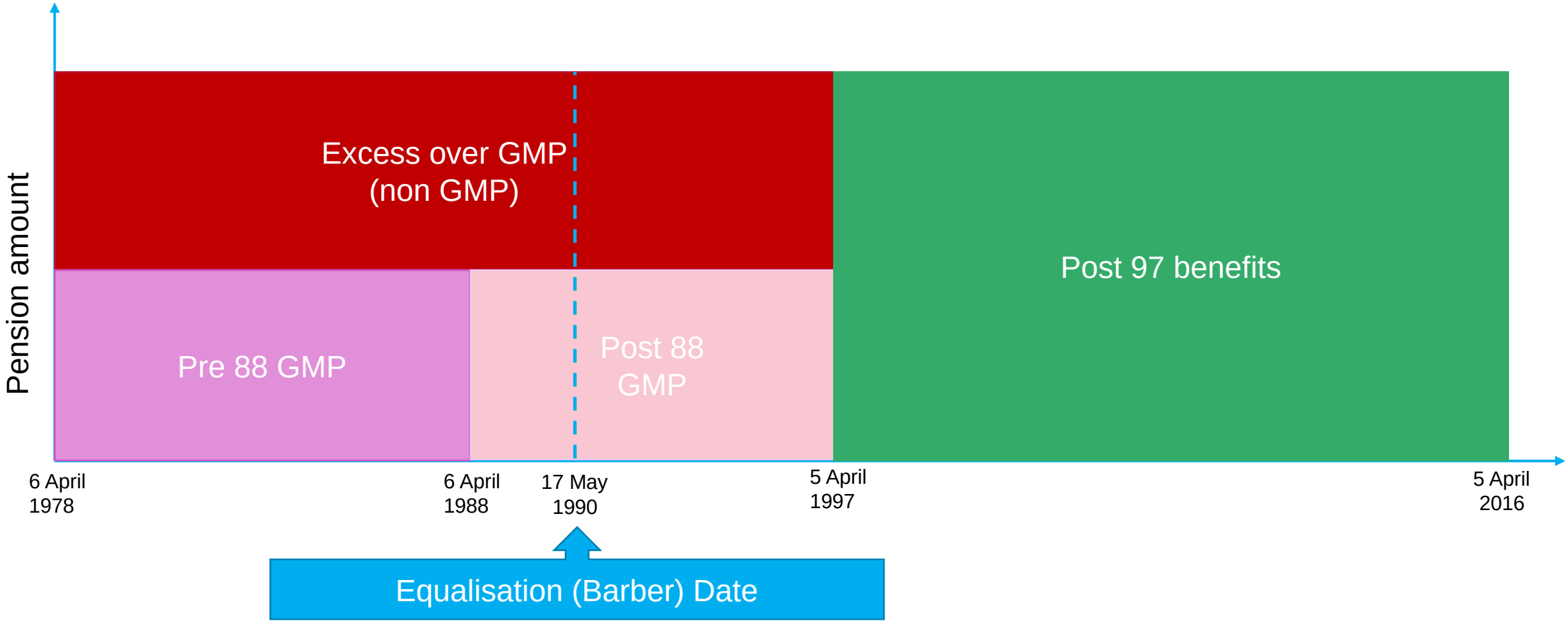
- Many employers chose to contract out schemes from the State Earnings Related Pension Scheme (SERPS)



- In return the Scheme provided a pension broadly equal to SERPS called the Guaranteed Minimum Pension



When did GMP build up?



Why do we need to equalise?

Equalisation: what is it?

The same pension regardless of gender

- Same retirement age
  - Was 65 for males, 60 for females in many schemes
  - NRAs equalised mainly in the 1990s ✓
- Same total pension on leaving scheme
  - Same for males and females in most schemes ✓
- Same benefit payments
  - But men and women build up GMPs on different terms ?

GMPs… Spot the Difference

	Male GMP	Female GMP
Accrual rate	Lower	Higher
Deferred revaluation rates	Same*	
GMP Payment Age	65	60
Late retirement factor	Same*	
Pension increase rates	Same*	

But applied to / from different ages (65 and 60)*

Why do we need to equalise?

- We always suspected we needed to equalise GMPs
- We hoped being a copy of state benefits (and set out in legislation) was enough to prevent this
- It isn't

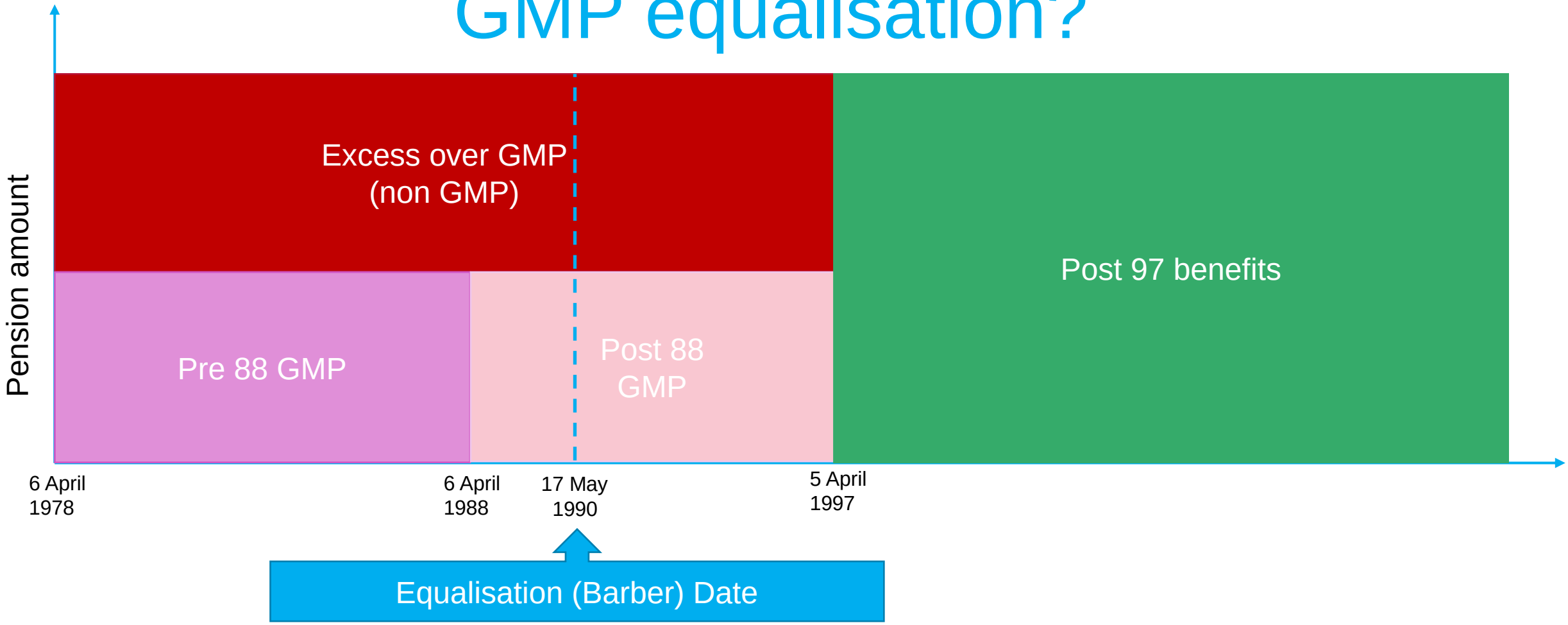
Lloyds Banking Group judgments

Question	Answer
October 2018	
Is the Trustee obliged to “equalise GMP” to give equal treatment in the overall pension?	Yes
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?	A choice – covered later
Any limitation period on back-payments?	Depends on Scheme rules
Should interest be paid on back-payments?	Yes: Base + 1%
November 2020	
Do trustees need to revisit past transfers out?	Yes

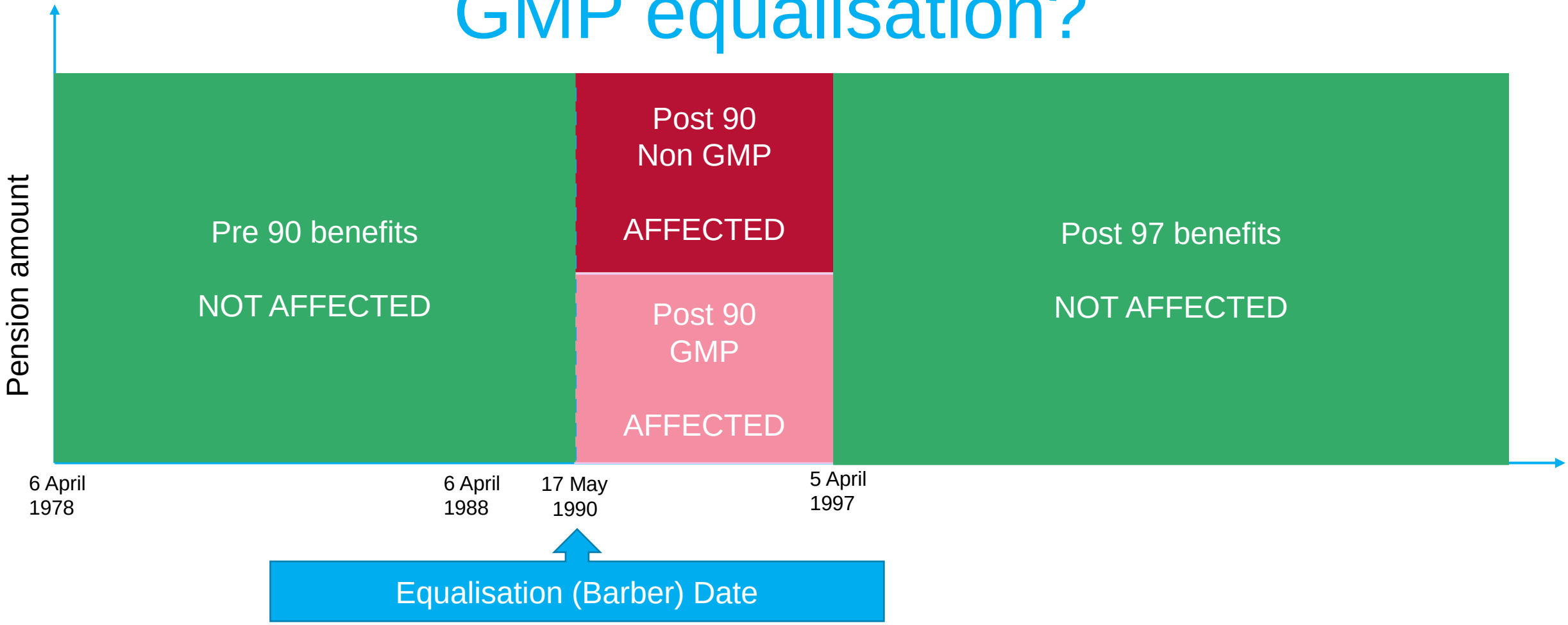


What do we need to equalise?

What benefits are affected by GMP equalisation?

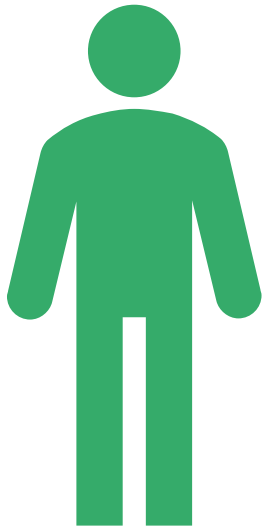


What benefits are affected by GMP equalisation?



Examples

Unequal benefits: Example 1

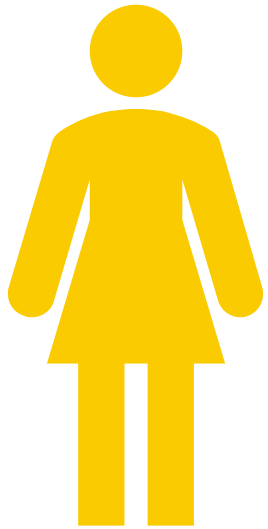


Male pension

£1,000 payable from age 65

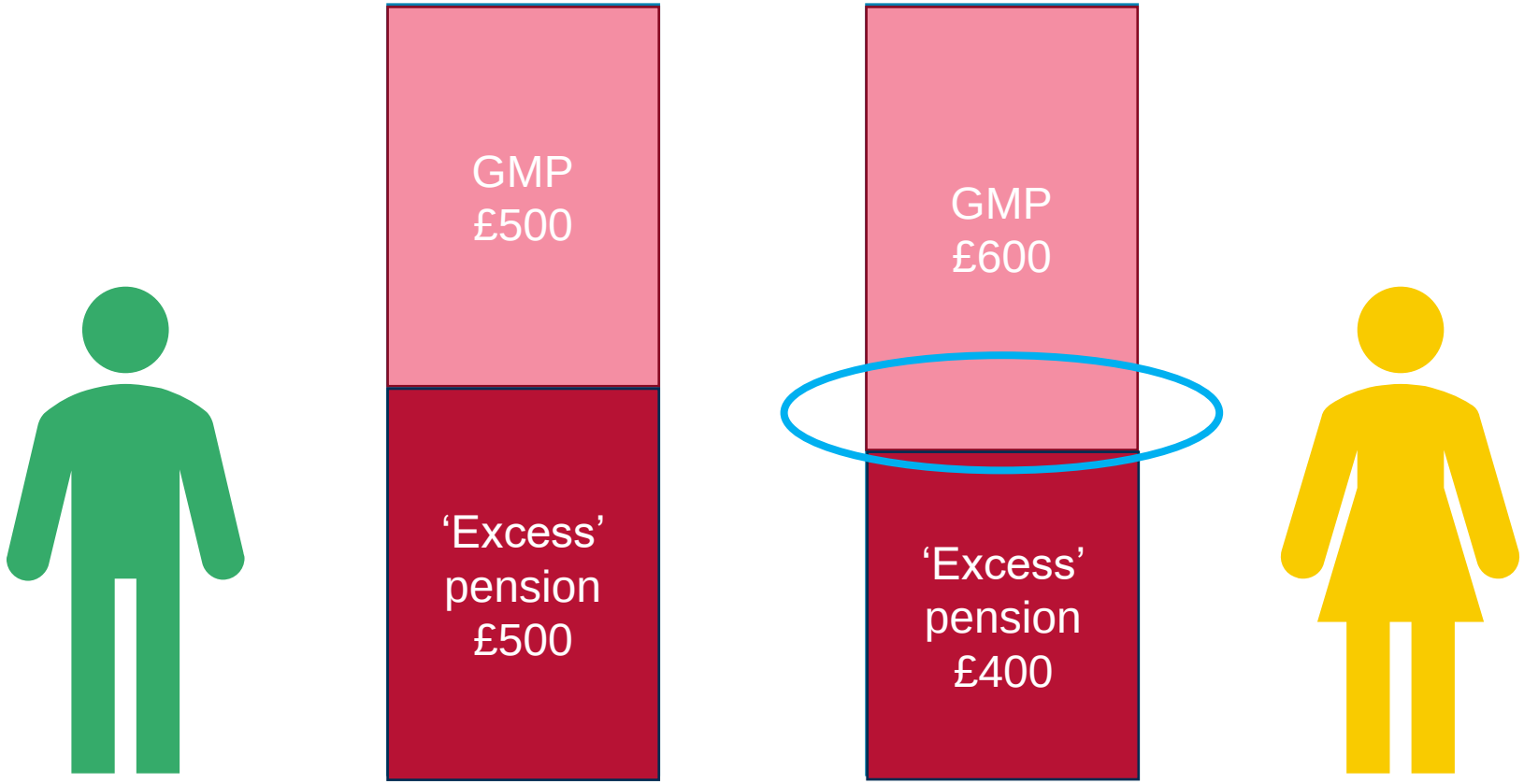
Female pension

£1,000 payable from age 65



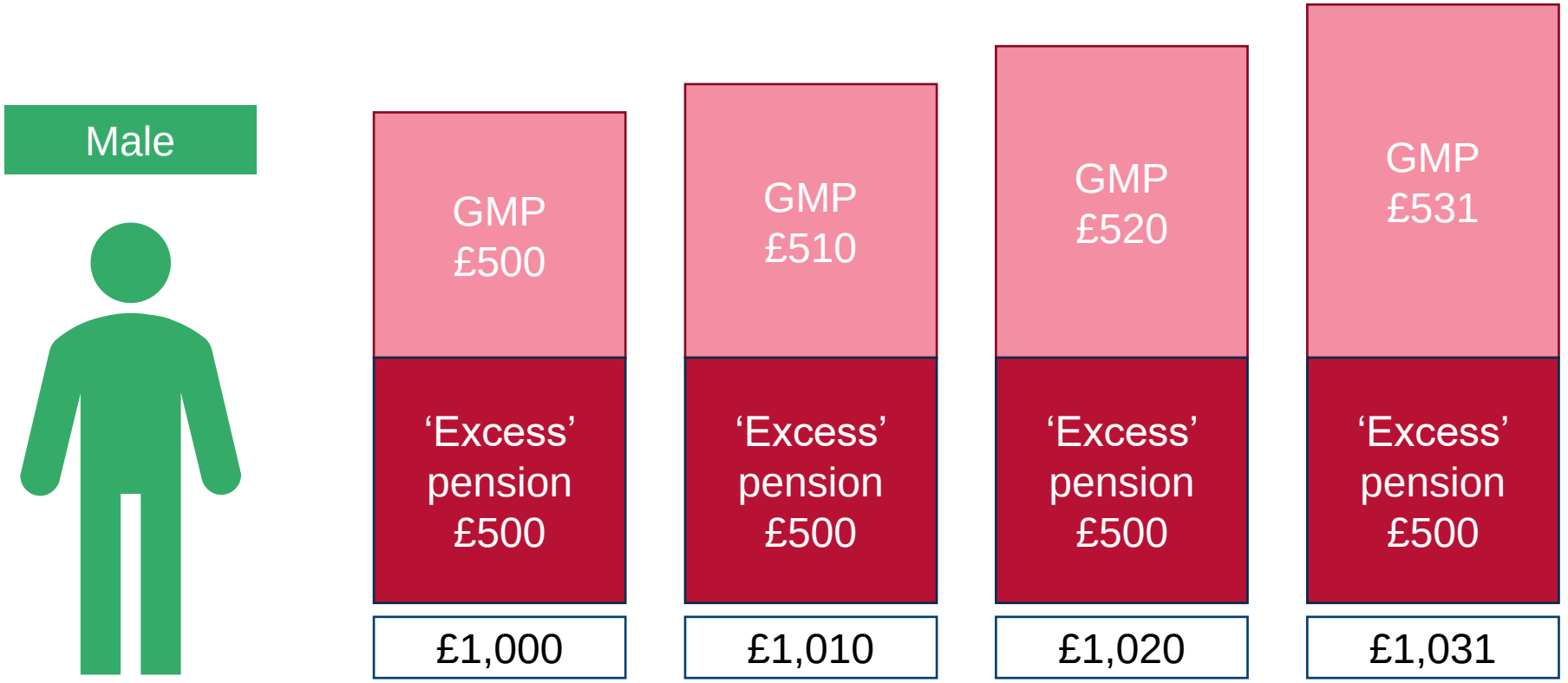
- Retire at 65
- Retire from active
- 0% increases on excess pension
- CPI (max 3%) increases on GMP

Unequal benefits: Example 1



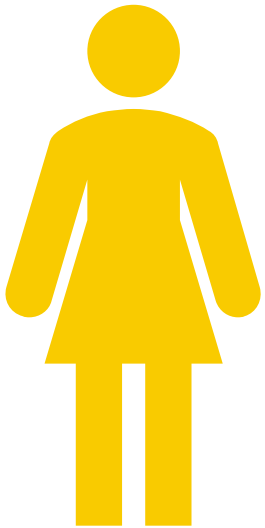
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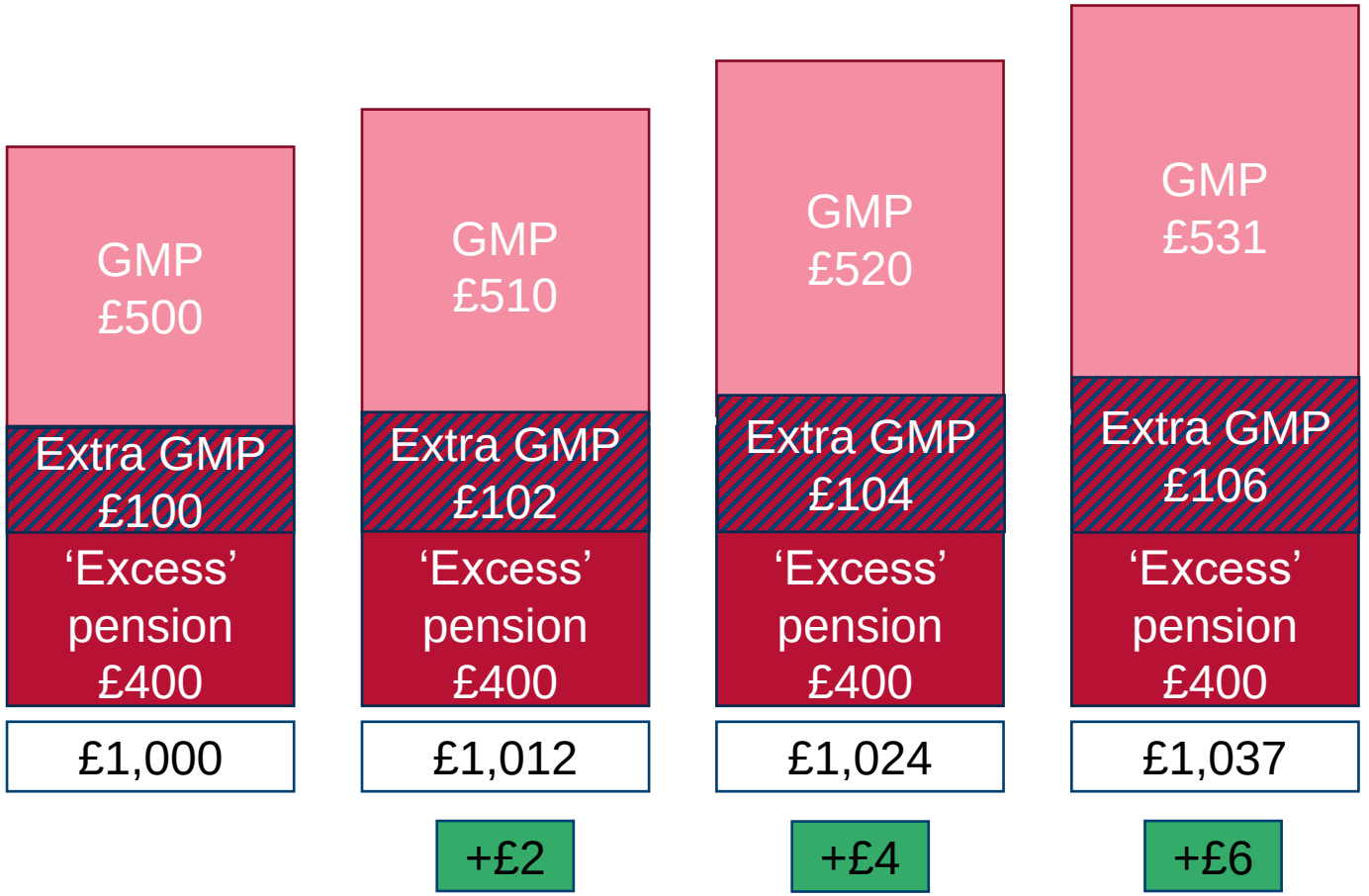
Unequal benefits: Example 1



Unequal benefits: Example 1

Female

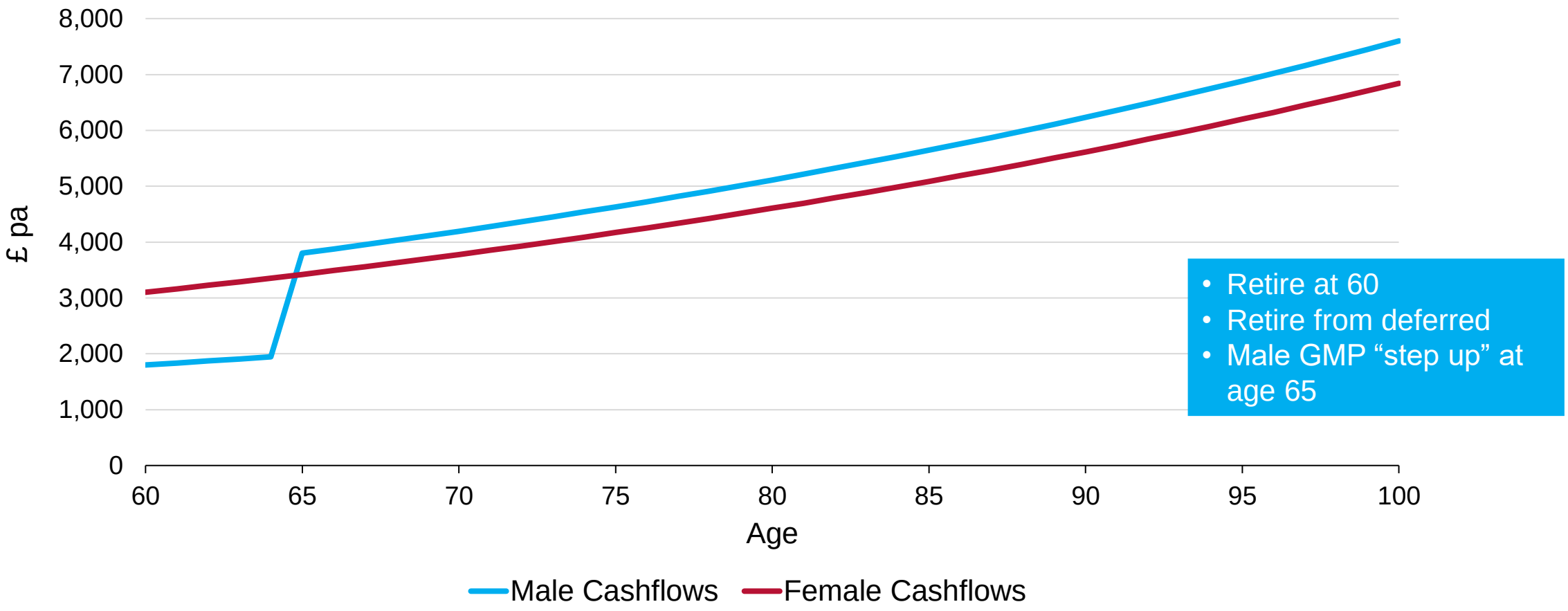




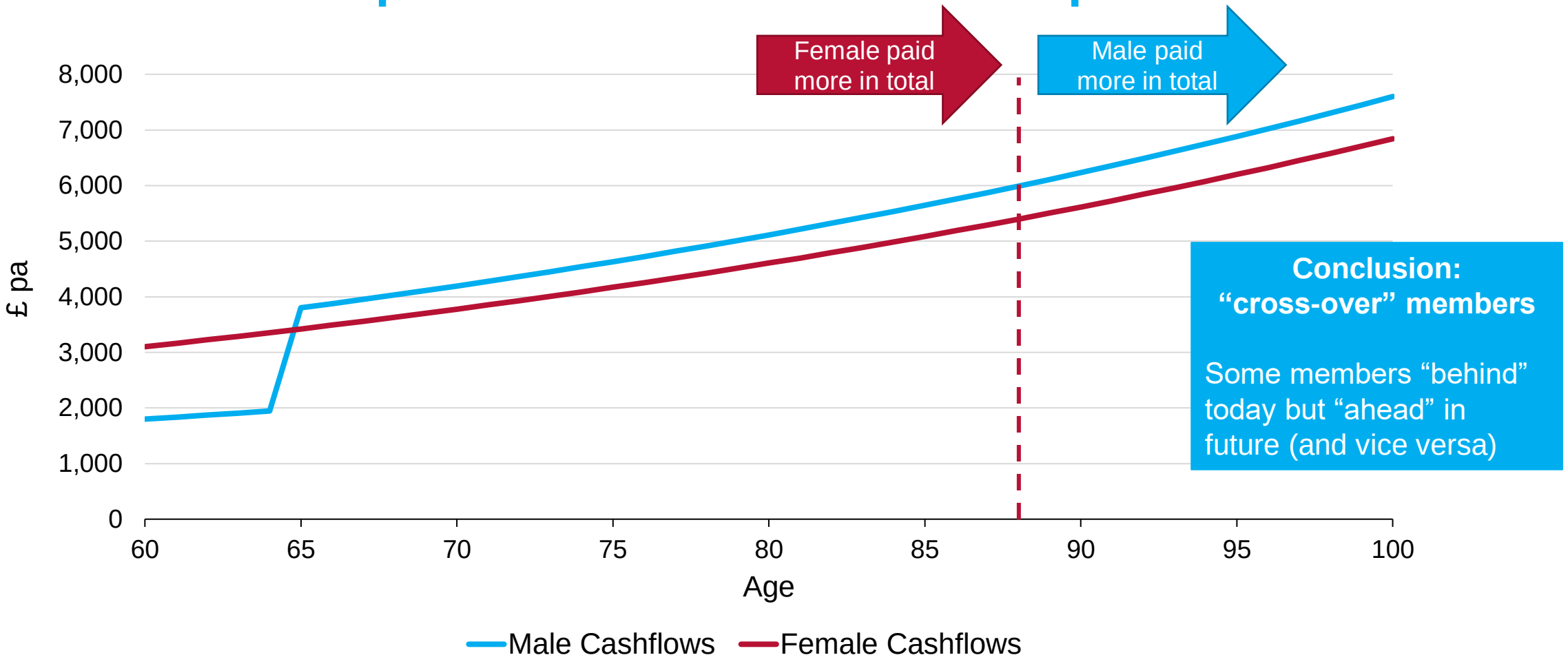
Conclusion:

The Male is worse off than the Female. This needs to be addressed

Unequal Benefits: Example 2



Unequal Benefits: Example 2



Conclusion: "cross-over" members

Some members "behind" today but "ahead" in future (and vice versa)

How do we equalise?

Lloyds Banking Group case: Methods

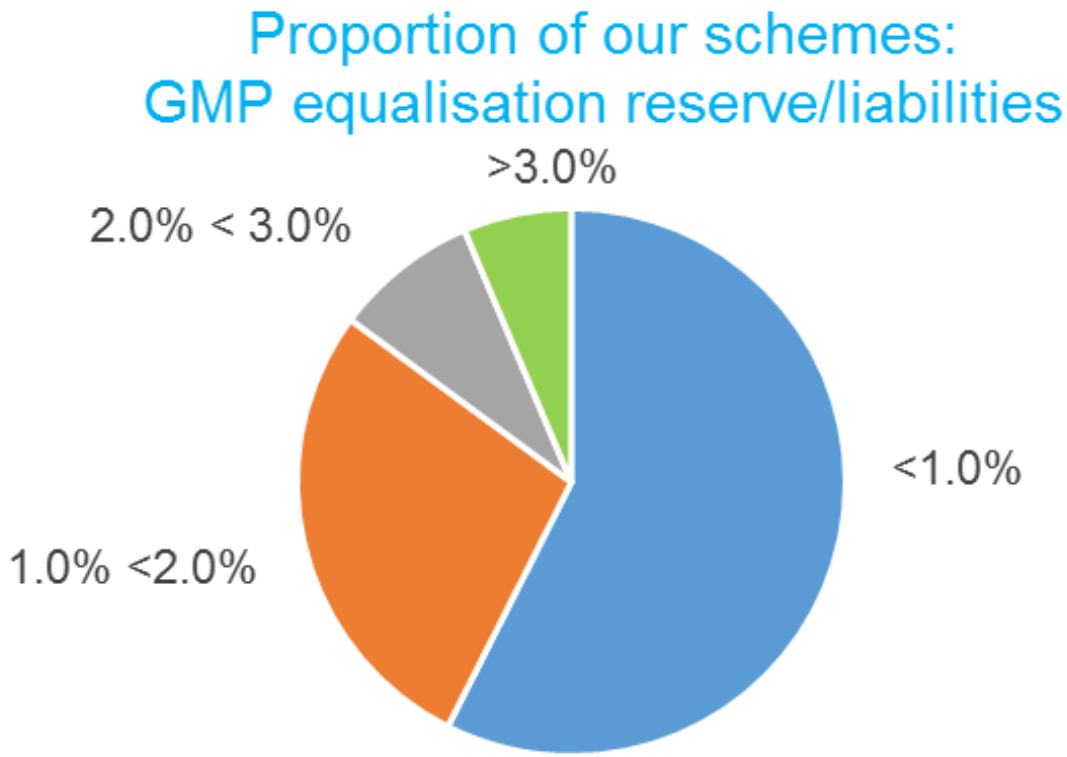
Method		Judgment	Employer consent	Approach
A	Equalise each unequal aspect of the benefit separately.	×		
B	Carry out an annual comparison of the male/ female pension and pay the higher amount each year.	✓	✓	Dual
C1	Pay the annual pension that would result in the accumulated pension paid to date being equal to the higher of the accumulated pension payable to either an unequalised male or female.	✓	✓	Dual and Accumulated
C2	As per C1, but allows for interest	✓	×	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 convert all GMP to non GMP	✓	✓	One off calculation

The plan

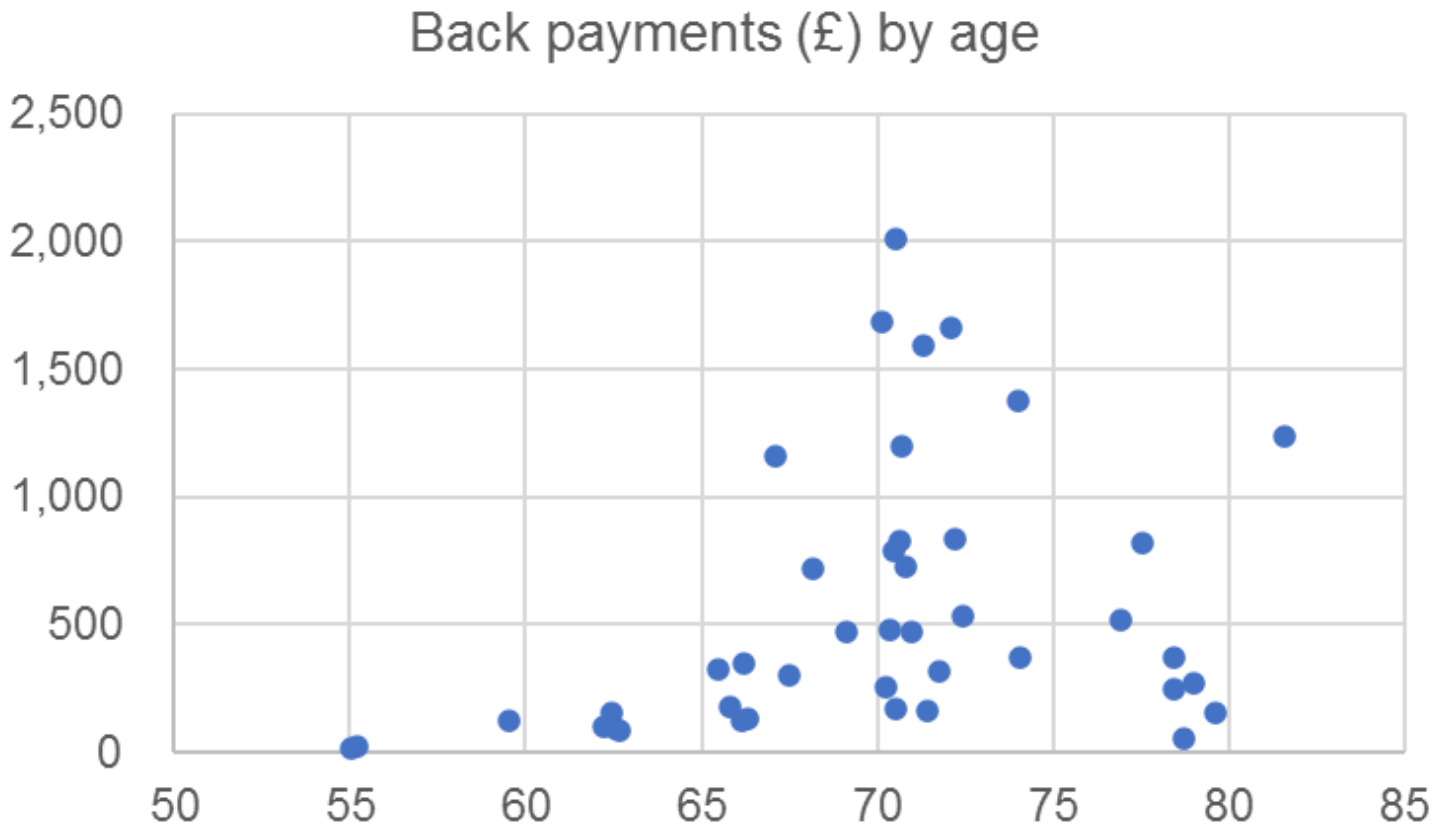
So what?

- Benefits may be wrong where GMP built up after 17 May 1990
- Legal requirement to correct
- Small increases to pensions for some deferreds and pensioners
- Pensioners due backpayments, some already dead
- Most of the uncertainty resolved by subsequent cases and industry guidance

The impact on pension schemes



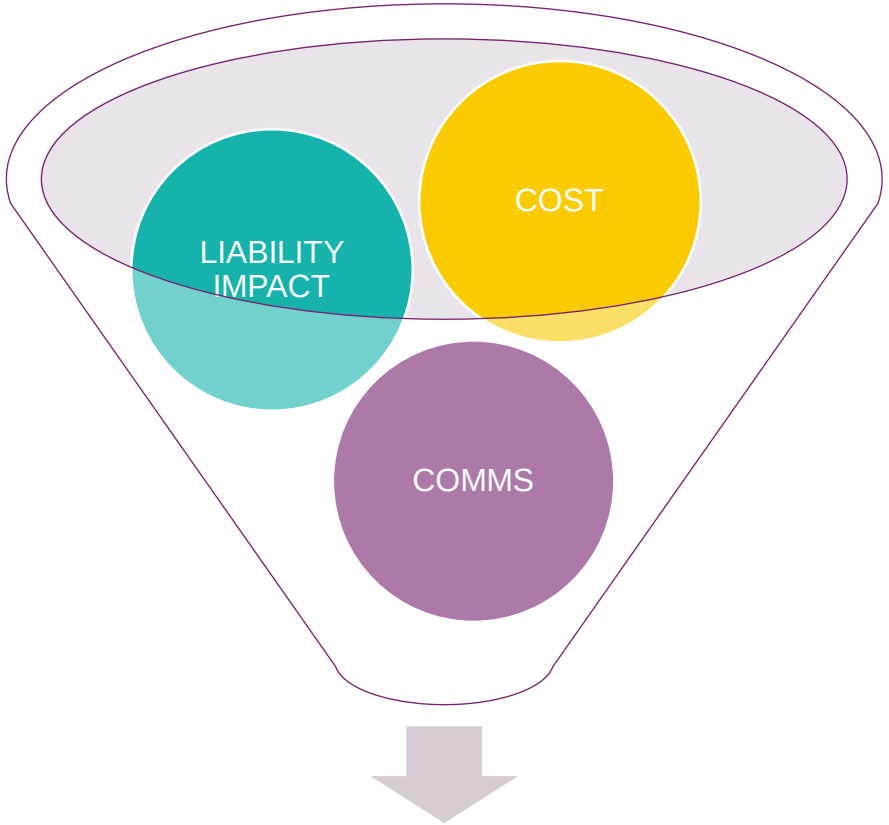
The impact on members



De miniwhat?

Can we choose not to uplift a member's benefit if the adjustment is very small?

Past Equalisation – Key Decision



FINAL METHOD FOR PAST EQUALISATION

Future Equalisation – Key Decision



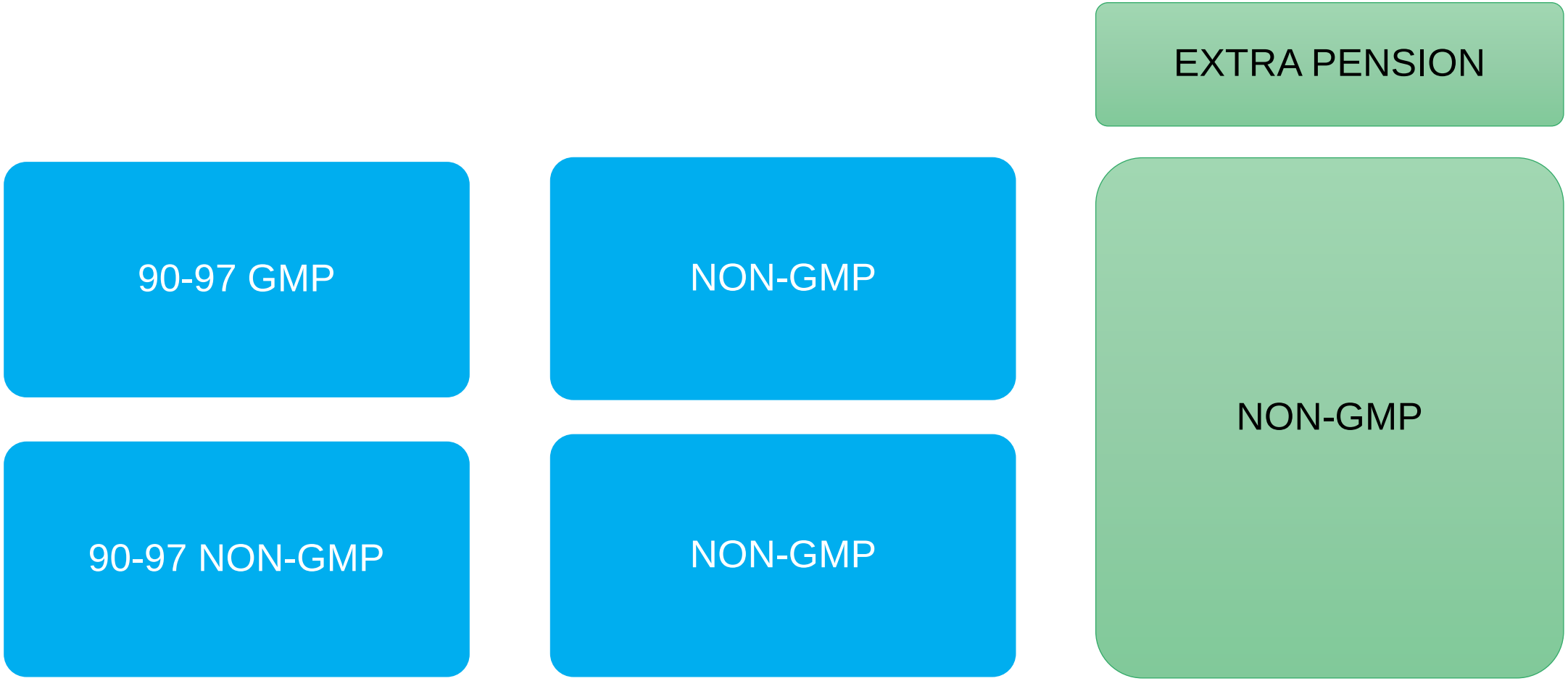
Comparison (aka C2 / dual records)

WHAT?	• Annual check
WHY?	• Valid method of equalising GMPs • No need for sponsor consent
HOW?	• Dual records
COSTS?	• Some upfront costs, some ongoing costs

Conversion

WHAT?	• One-off process whereby GMP turned into non-GMP • Can be applied to some or all affected members
WHY?	• Valid method of equalising GMPs • Simplified benefits (→ admin, investment, buyout)
HOW?	• Scheme Actuary performs calculations and signs off • Protections: DB, survivors, pension, actuarial value
COSTS?	• More significant upfront costs

Conversion



Future Equalisation – Key Factors

LIABILITY IMPACT

FUTURE STRATEGY

ADMINISTRATION COSTS

ADMINISTRATION SYSTEMS

COMMUNICATIONS

GMP conversion





Reasons for:

- GMP equalisation without dual records
- No increase in future administration costs (vs dual records)
- Some members may benefit from removal of GMP restrictions
- Opportunity to simplify benefits?
- Intending to buyout benefits or use a consolidator

Reasons against:

- Higher costs of implementation
- Reshaping benefit will result in winners and losers
- Difficult to communicate
- Disproportionate for some simple schemes
- Tax issues

Immediate Actions

STOP THE ROT

- PAY EQUALISED BENEFITS WHERE POSSIBLE
- TAKE STEPS TO LOCATE DATA / PROTECT LEGACY SYSTEMS

ASSESS YOUR SITUATION

- REVIEW GMP RECONCILIATION PROGRESS
- ENGAGE WITH ADMINISTRATION & SOFTWARE PROVIDERS
- ASK US TO REPORT ON PAST EQUALISATION COSTS & METHODS
- CONSIDER TRUSTEE KNOWLEDGE AND SKILLS

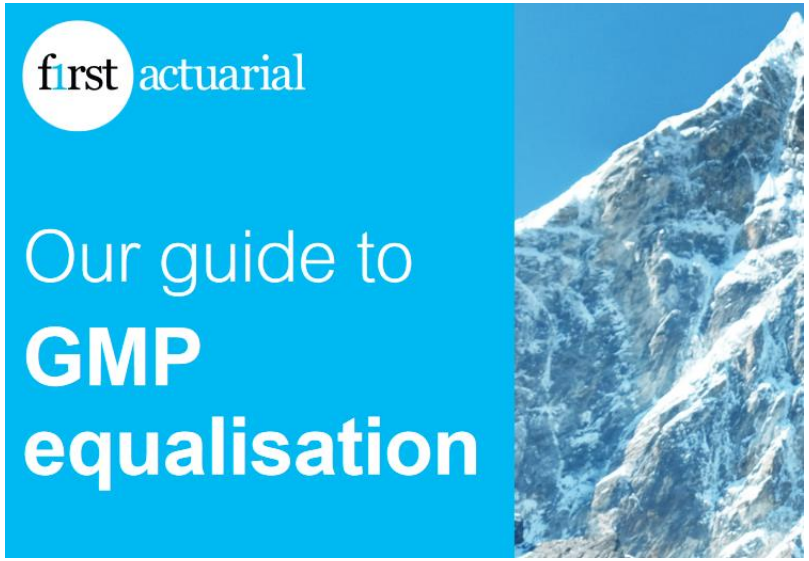
CONSIDER THE FUTURE

- FULL AUDIT OF DATA & BENEFITS?
- LONG TERM STRATEGY
- SPONSOR ENGAGEMENT
- LEGAL ADVISORS

Next steps

- Your consultant to investigate and report on your scheme
- Consider need for data / benefit audits
- First Actuarial plan and report back
- Further training www.firstactuarial.co.uk/knowledge-and-news/gmp-equalisation/
- Potentially revisit this training and our guides





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