



The ACA has called on the Pensions Minister to think again...

GMP EQUALISATION UNLIKELY TO BE ACHIEVED WHILST COSTING EMPLOYERS AN ESTIMATED £10 BILLION, SAYS ACA CHAIRMAN

15 June 2011 – Speaking at the annual lunch of the All-Party Parliamentary Group on Occupational Pensions, ACA Chairman, Stuart Southall has urged the Government to think again about how it approaches any attempt to equalise Guaranteed Minimum Pensions (GMPs) (see Endnote, *GMP Equalisation: what is it?*).

Addressing the Pensions Minister, Steve Webb MP, direct, who was the principal guest at the lunch, **Stuart Southall** said:

“Aside from one isolated case, I have never known any beneficiary query the possible inequality of GMPs and nor does it seem there is any legal consensus that equality is required by law or even achievable if it is.

“If Government feels it has to press ahead with an initiative which could cost industry £10 billion plus a significant implementation bill then would it not be best to do so with as much legal certainty as possible? The Association’s view, echoed by those of other pension bodies, is that this can only be achieved by an ECJ test case.

“In the absence of such a test case hard-pressed employers might be spending money they never needed to spend; or worse they might spend considerable sums now, only to find in years to come that they got it all wrong in European law and must spend even more. Much as the ACA’s members might benefit from all this extra work, I doubt this is an exercise any of us would derive any pleasure from nor indeed get any thanks for.”

Stuart Southall then summarised his views on the current state of play of pension policy:

“The ACA commends the Minister on the handling of the roll out of auto-enrolment and NEST and warmly welcomes his April paper on State pensions for the 21st century. Albeit with a considerable gestation period, these changes could both become valuable building blocks as we all seek an environment in which a reasonable standard of living can be achieved for, and on behalf of, the UK’s future pensioners.

“However, in the private sector, where the Coalition has undertaken to ‘**simplify the rules and regulations to help reinvigorate occupational pensions**’, most steps by sponsors have been backward. Indeed the retreat from defined benefit pension provision seems to echo Dunkirk in its speed and proportions; is there to be total obliteration or might we – with Government help – in some way engineer a miraculous escape and a later turning of the tide?

“We are encouraged by the cash balance reforms in the current Pensions Bill but of themselves these will not stem what the ACA’s practitioners see and our surveys show to be trends away from sponsor risk-taking and a growing levelling-down in response to the coming auto-enrolment obligations.

“Our clients need genuine de-regulation and much greater freedom of design if they are to offer private sector employees anything involving a sharing of risk.

“A world of pure defined contribution provision may be quite acceptable for the better off but, even with the NEST and new State pension building blocks, it is likely to be unfit for purpose for many middle and low earners. And worse, should we see a private sector marketplace where DC is the invariable model then the private/public sector pensions divide will still be too wide even after the changes which might flow from the excellent work of Lord Hutton.”

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GMP Equalisation: what is it?

The former Pensions Minister, Angela Eagle MP, made a statement on 28 January 2010 that legislation was to be brought forward by DWP, following (undisclosed) legal opinions, requiring pension schemes to make specific adjustments to benefits to compensate for the effects of unequal GMPs.

Following the ruling in the *Barber Case* by the European Court of Justice on 17 May 1990, trustees of pension schemes have had to pay equal benefits to comparable men and women in relation to service from that date. This ruling, which was based upon Article 141 of the Treaty of Rome, was formalised in UK domestic law by section 62 of the Pensions Act 1995. Most schemes implemented this requirement by equalising pension ages and overall benefit scales as between males and females.

However, virtually all schemes ignored the sex inequalities that existed concerning the calculation of GMPs (because these were always designed to broadly mirror unequal State benefits as was expressly permitted). GMPs may be unequal as between men and women because:

- Women are entitled to receive their GMP at age 60 compared to age 65 for men.
- Women accrue GMP at a faster rate in order to target equal levels of GMP at age 60 compared to age 65 for men.

Survivors’ benefits are another differential between men and women’s GMPs.

GMPs arose where pension schemes contracted-out of the earnings-related part of the state pension (SERPS and S2P). It is worth noting that benefits granted to men and women under SERPS and S2P are also unequal in the respects indicated above, but State pensions are not covered by the Treaty of Rome or the ruling in the Barber case. To date any attempt to equalise GMPs has invariably been confined to schemes in wind-up and even then only in some cases.

About the Association of Consulting Actuaries (ACA)

The **Association of Consulting Actuaries (ACA)** is the representative body for consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body. The ACA has 1,750 members working in around 75 firms. ACA Members are all qualified actuaries and all actuarial advice given by members is subject to the Actuaries' Code. The ACA forms the largest national grouping of consulting actuaries in the world.

The ACA provides the technical and administrative secretariat to the All-Party Parliamentary Group on Occupational Pensions and has done so since 1992.