GMP equalisation

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Agenda

GMP Conversion

PPF

FAS

Wind-ups

Ongoing schemes

GMP Conversion

DWP Department for Work and Pensions

GUARANTEED MINIMUM PENSION (GMP) CONVERSION

Government response to the consultation

January 2009

GMP conversion

Industry said:

Converting GMPs would require trustees to equalise overall scheme benefits (including the GMP) at the conversion date, thus incurring immediate rather than future costs. This was considered to be a deterrent for many schemes.

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GMP conversion

Government responded:

Schemes should have already equalised their benefits, taking account of the GMP rules, where necessary. It has always been the Government's position that the *Barber* judgement requires schemes to ensure overall benefits …are the same...

It is the Government's position that the GMP is not a separate pension but a calculation factor in determining overall benefits and thus does not have to be separately equalised.

PPF

Pension
Protection
Fund

The response to the April 2008 consultation on the requirement under Section 171 of the Pensions Act 2004 to equalise compensation to allow for differences in the GMP formula

October 2009

PPF – limit of scope

Recognised there is no consensus about what, if any, action trustees are obliged to take.

Careful to say expressly that proposals applied only to schemes entering assessment.

But that it would relate to payments both pre and post Assessment.

PPF

PPF's view of Trustees' choice was basically

- Equalise on a comparator[1] basis
- Equalise for everyone (by rule amendment)

"Board's clear view that trustees of schemes that have entered an assessment period can no longer do nothing"

(April 2008)

[1] Section 171 provides for the Board to establish that a "comparator" exists before making any adjustment for equalisation

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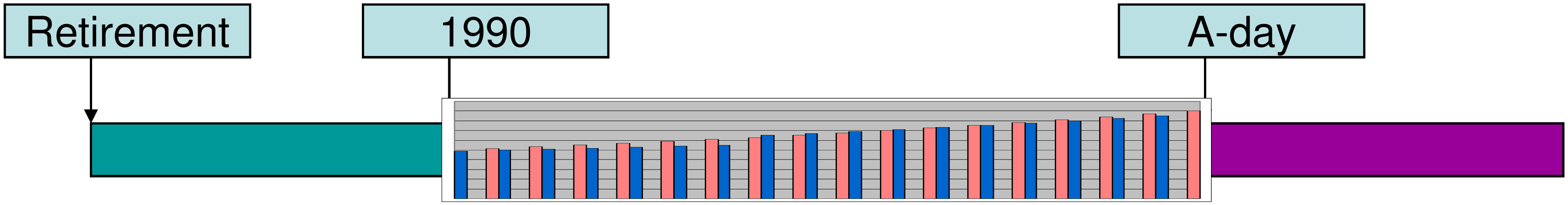
PPF - 4 ways to equalise

1. On retirement, look at total expected M / F retirement income
2. Do the comparison year on year
3. As 2, but separately for GMP and XS
4. Incorporate SERPS payments

PPF – ACA response

- Too complex (given PPF is a broad church)
  - Small % uplift based on broad calculations
- The examples significantly understate the true complexity
  - (Sex-differentiated) early / late retirement
  - (Sex-differentiated) commutation factors
  - Backwards comparison made for each year between 1990 / DoR and Assessment



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PPF - 4 ways to equalise

1. Rejected – “equalisation of employment benefits is not on a lifetime approach”
2. Do the comparison year on year (“partial application”)
3. Rejected – absurd
4. Rejected – Barber doesn’t relate to Social Security

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PPF – sting in the tail?

2.13.3 In some cases, equalisation can make a significant difference. A good example would be a male deferred pensioner aged 60 at the assessment date with a Normal Pension Age of 65. The reason that this sort of member might be more significantly affected is due to both:

- the larger proportion of the relevant pension that relates to the GMP (due to the higher rate of accrual of GMP for females compared to males); and
- the advice received from Counsel that the GMP should be considered as a **separate tranche** of pension **payable from the female's earlier State Pension Age**.

For this example the member would be entitled to receive the GMP tranche paid **unreduced** from the assessment date since the member was over normal pension age for this tranche.

PPF – sting in the tail?

If 2.13.3 is to be taken literally, then it pulls the effective NRA down to 60 for all post '90 GMP accrual

- eg NRA = 65 for everyone for all service
- But PPF now splits pension into GMP and XS
- Pays the post '90 GMP from 60 unreduced
    - No 90%, No Cap
- Pays the balance from 65

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PPF – subsequent developments

PPF Workshop 26 November 2009

- Recognition that pensioner data will be an issue…
- …but the intention is that method should use readily available data
- Some examples were discussed

Draft guidance due 18 March 2010, now June 2010…

FAS

Financial Assistance Scheme

Guidance on method and assumptions to use when undertaking a valuation under regulation 22 of the Financial Assistance Scheme Regulations 2005

The Financial Assistance Scheme

CONSULTATION 2010

FAS

- Unlike PPF, FAS operate a no worse off concept, tested at member level
- This has led to extraordinary complexity
- Effectively FAS replicates for each member of each scheme:
  - what would have happened on an insolvent buyout
  - with almost no shortcuts

FAS – Equalisation of benefits

35 Where a scheme that needs to equalise for the effect of GMPs … then the Valuation Actuary should calculate liabilities … on the benefit basis applying to their true and opposite sex …

At the liability level

Not on a "year on year" footing (c.f. PPF)

- Simpler than PPF
- Complexity reintroduced (asset share calc)

FAS v PPF (potentially!)

	FAS	PPF
Comparator	N	Y
GMP as separate tranche	N	Y
Year on year	N	Y
Flexibility to adopt “own solution”	Y	N
Overly complex	Y	Y

Wind-ups: in practice

- Experience gained from c.30 “solutions”
- Solvent and insolvent (FAS)
- Professional, independent trustee
- Close liaison with lawyers
- Fairly uniform approach

Wind-ups: in practice

Take Male GMP

Calculate pro-rata Barber GMP

- Limit accrual to age 60
- Limit the earnings revaluation to 60

Use M/F accrual rates to convert to Female

Revalue / apply GMP LRF to NRA

Gives proxy female-equivalent GMP

Apply value test if need be

Wind-ups: in practice

More akin to FAS than PPF

Not a year on year approach

Not using the NISPI service

- Fairly good approximation for most
- Fudge for F → M calculation in respect of c-out earnings between 60 and 65

Wind-ups: in practice

OK for deferreds

Major data issues for pensioners

- We might have pension at DOR
- But seldom at DOL
- And all the issues about reconstructing M/F cash com or e/r terms mentioned previously

Wind-ups: impact

3.1% on the liabilities of those affected

2.4% on the total liabilities

- Although some members get very much more

Plus backpayments

Ongoing schemes

Aware of only 1 scheme

- which takes a year on year approach
- i.e. dual administration

Data is going to be a barrier

Costs will be grim

The much-neglected GMP Conversion regs may now come into play…

Conclusion

"Out of intense complexities intense simplicities emerge"

Winston Churchill

The Elephant in the room