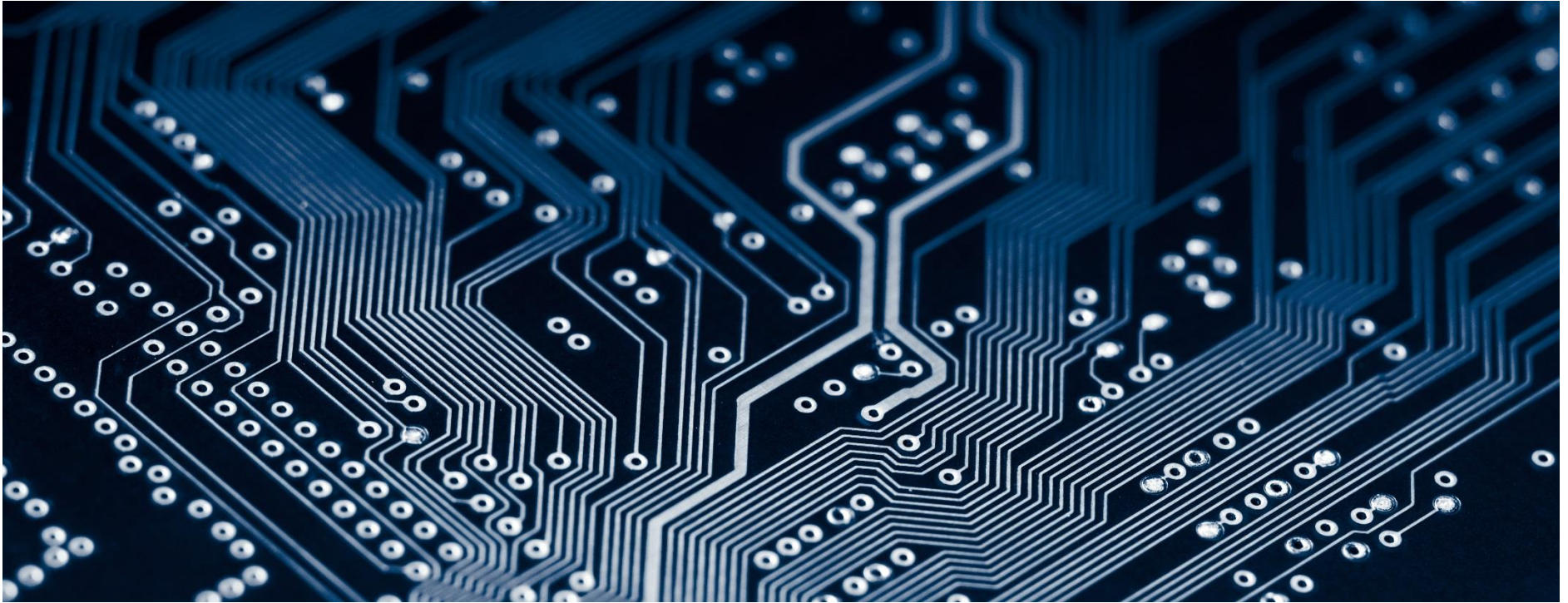




GMP Equalisation – Where next?

Prepared by Tom Yorath
Presentation to the ACA

QAS Institute[®]
and Faculty
of Actuaries
Quality Assurance Scheme

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A quick note.....

All views expressed this evening are my own – and not those of my firm

This evening's agenda....

Introduction

Worked examples

Practical issues

Conclusions

Q+A

I am assuming a working knowledge of GMP and the LBG case

Introduction

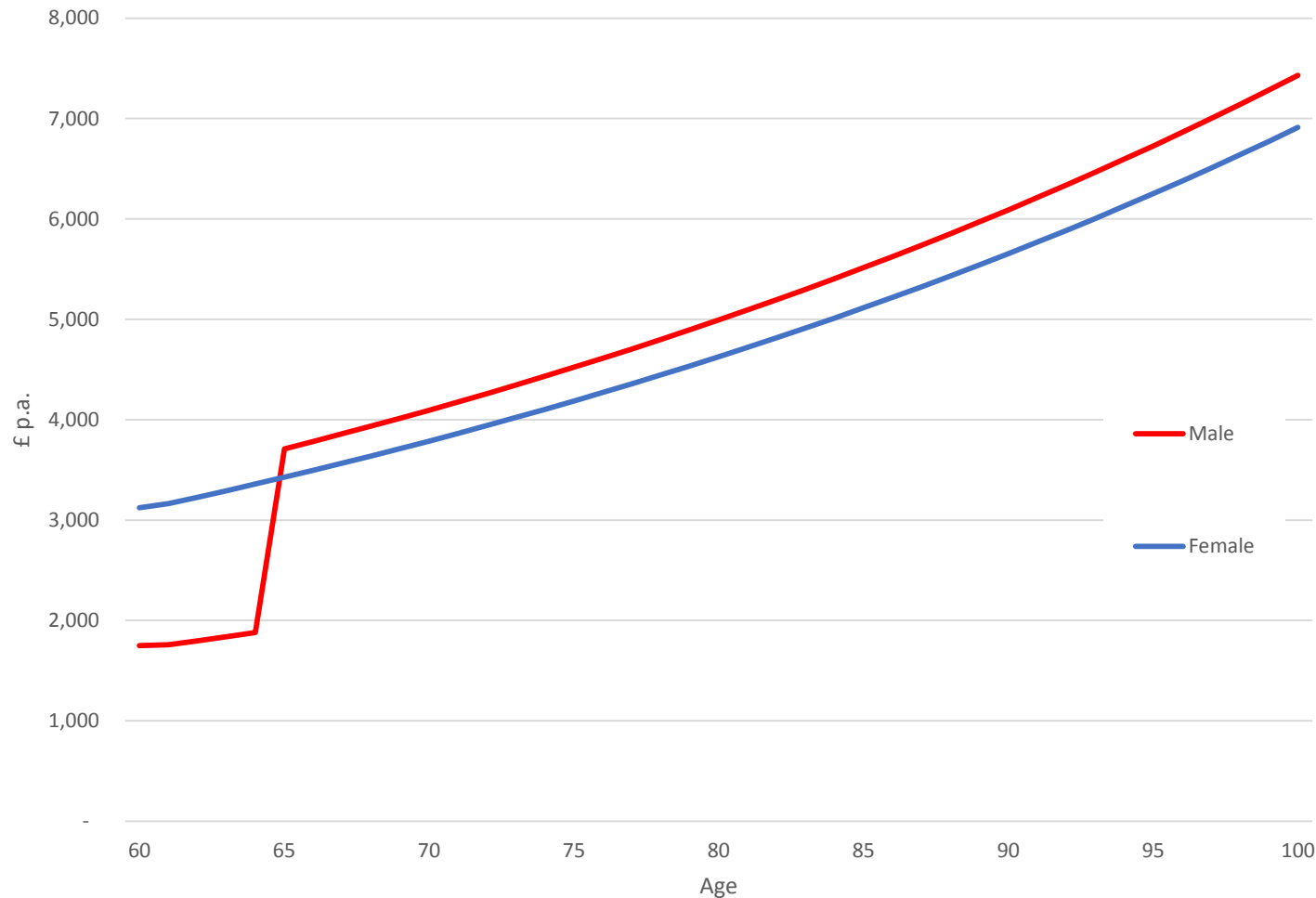
- After 28 years we finally have a way forwards
- Choice of methods, but two main questions:
 - Level of equalisation (A, B or C)
 - Delivery of equalisation (Dual records or conversion)
- Lots of this is easier said than done
- Further guidance needed (and expected) from industry bodies.

Some members are easy



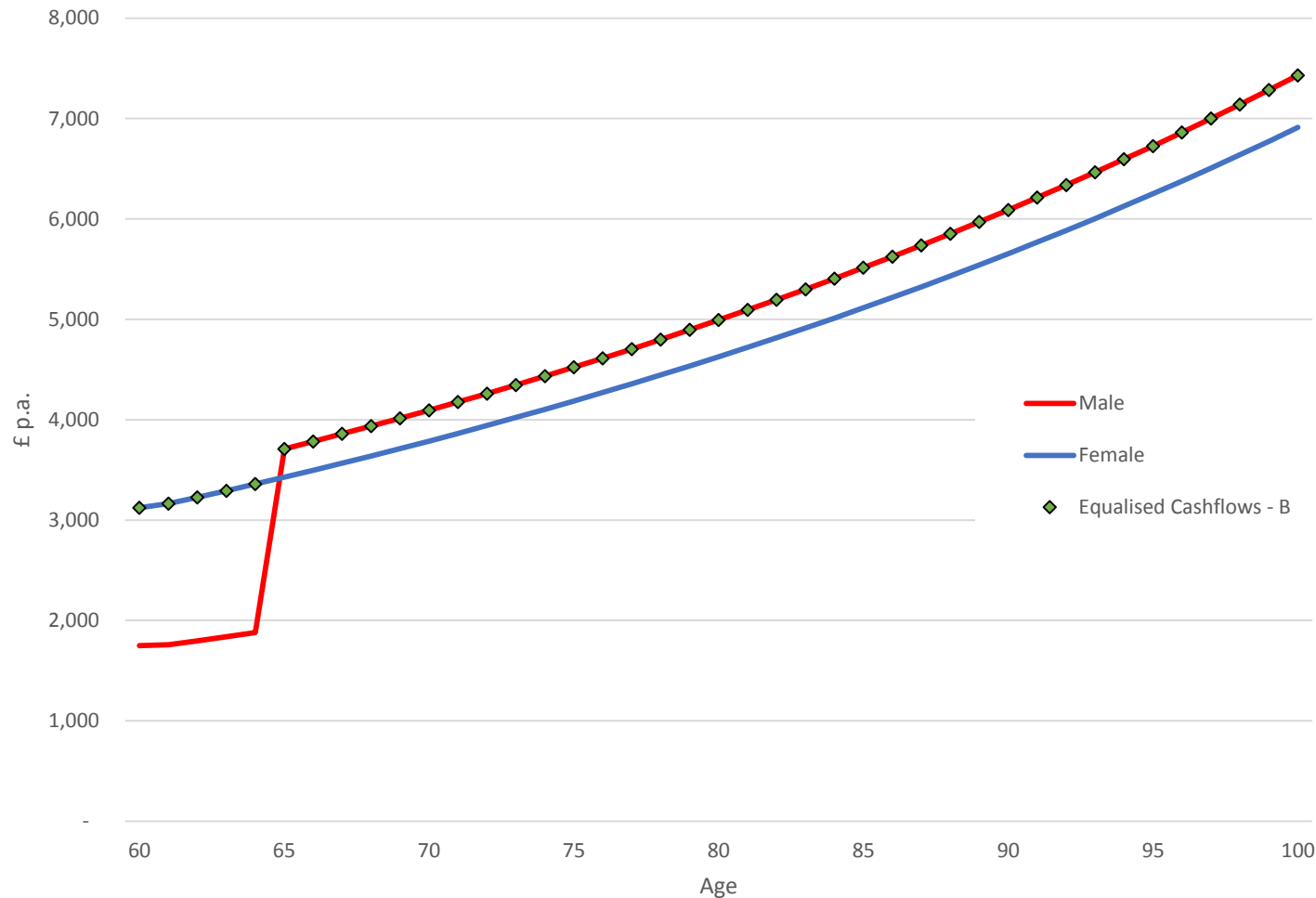
Lots of cases will look like this

Why this is so hard



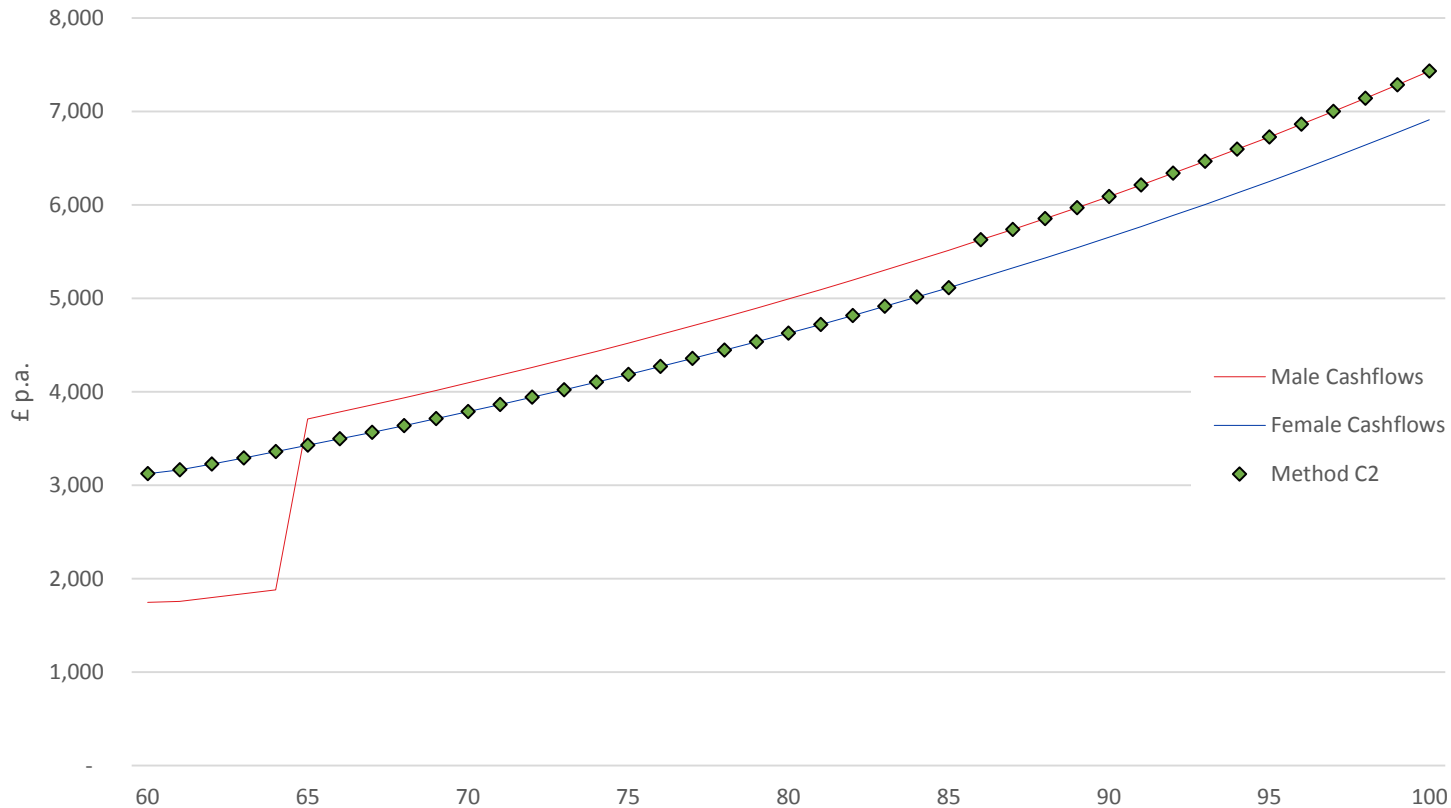
- Deferred members are hard as pension shapes can be very different
- In this example **expected difference** over member lifetime is nil.
- Clear wedge in cashflows – even if expected value is similar

What does Method B pay here?



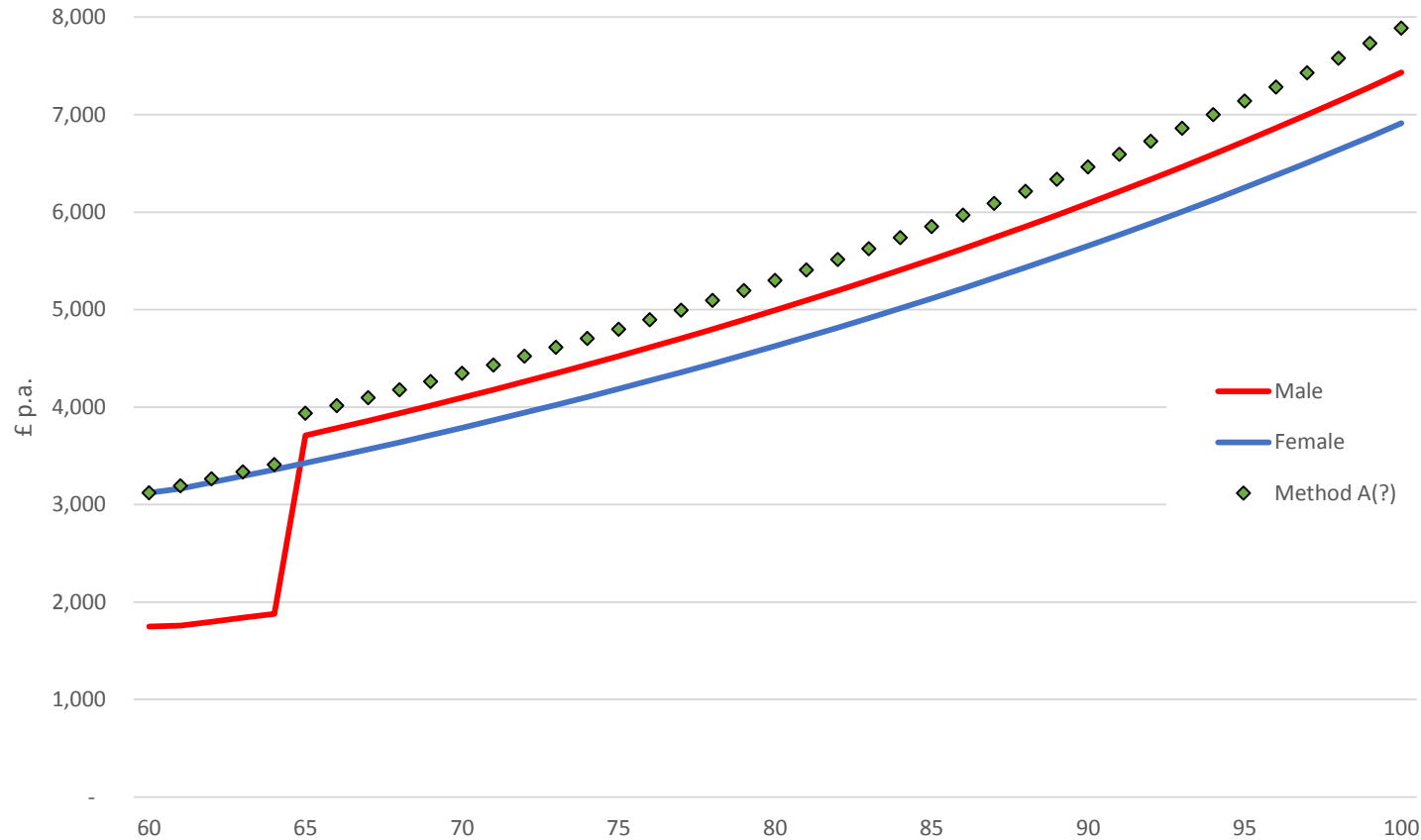
- Dual records “gets it right” over the course of a member’s life time
- Pays the same total to men and women
- Actual impact will depend on experience
- Method B creates a windfall (PV = £7.5K)
- Administratively burdensome

What does Method C pay here?



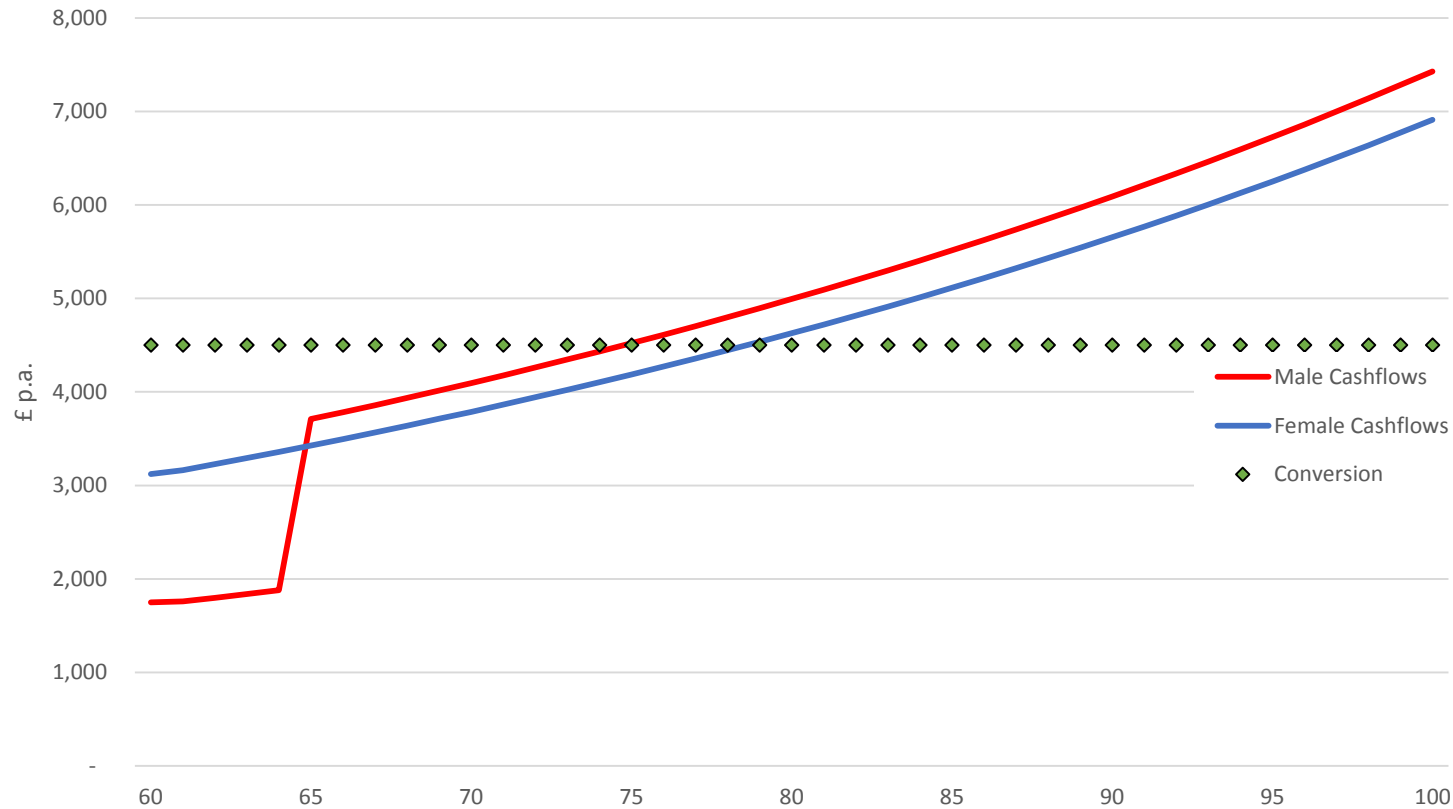
- Dual records “gets it right” over the course of a member’s life time
- Pays the same total to men and women
- Very little additional expected cost due to aggregation
- Even more administratively burdensome
- Lots of work to deliver no expected uplift (but saves the 7.5k windfall)
- Actual impact will depend on experience

What about Method A?



- Better each and every year
- AND
- Better each and every term
 - What constitutes a distinct term is not clear
 - Three versions of A put before the court

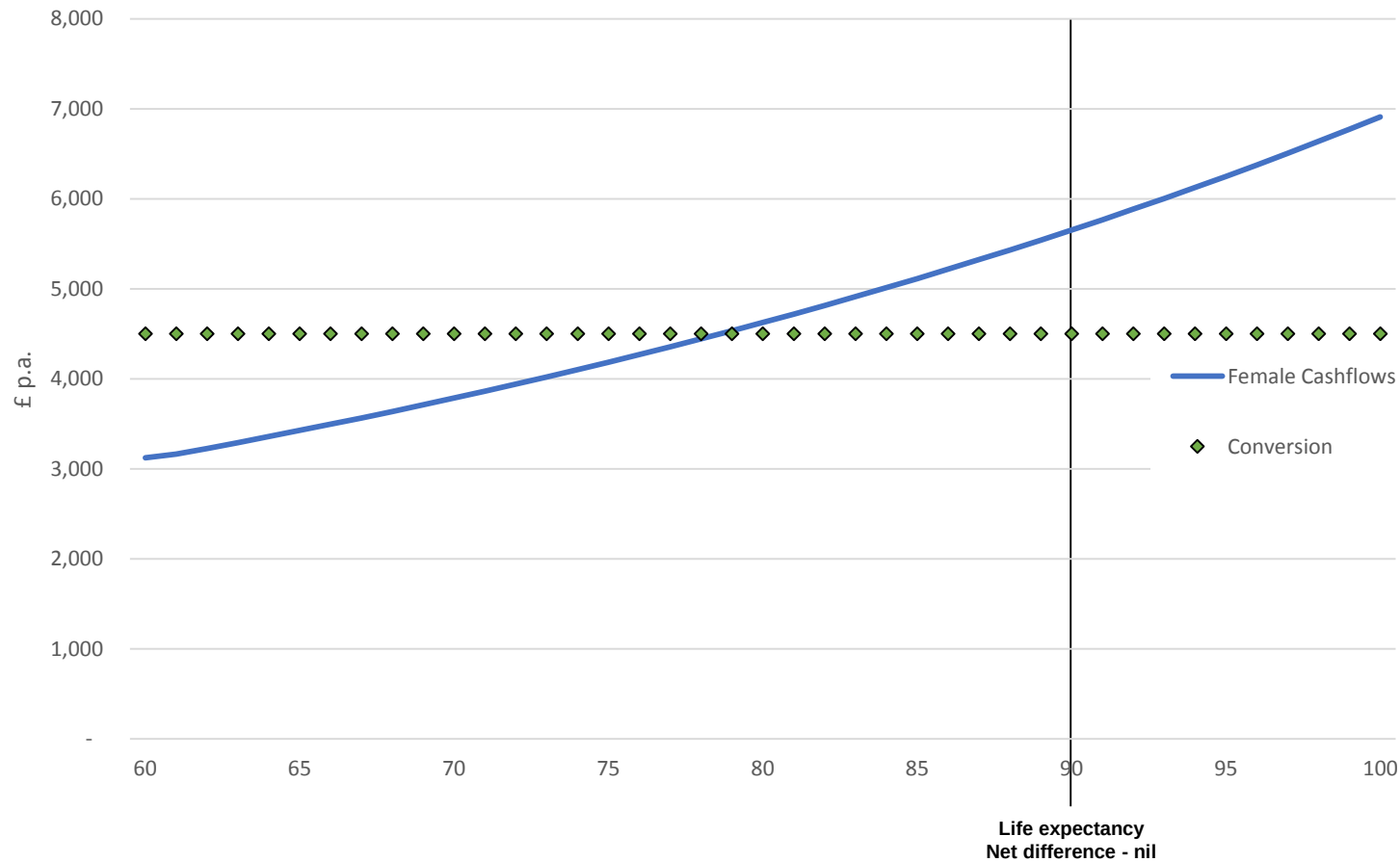
What about conversion?



- Preservation means no reduction in pension
- So convert to flat pension
- Simplified benefits ✓
- Equalised benefits ✓
- Easy to administer ✓

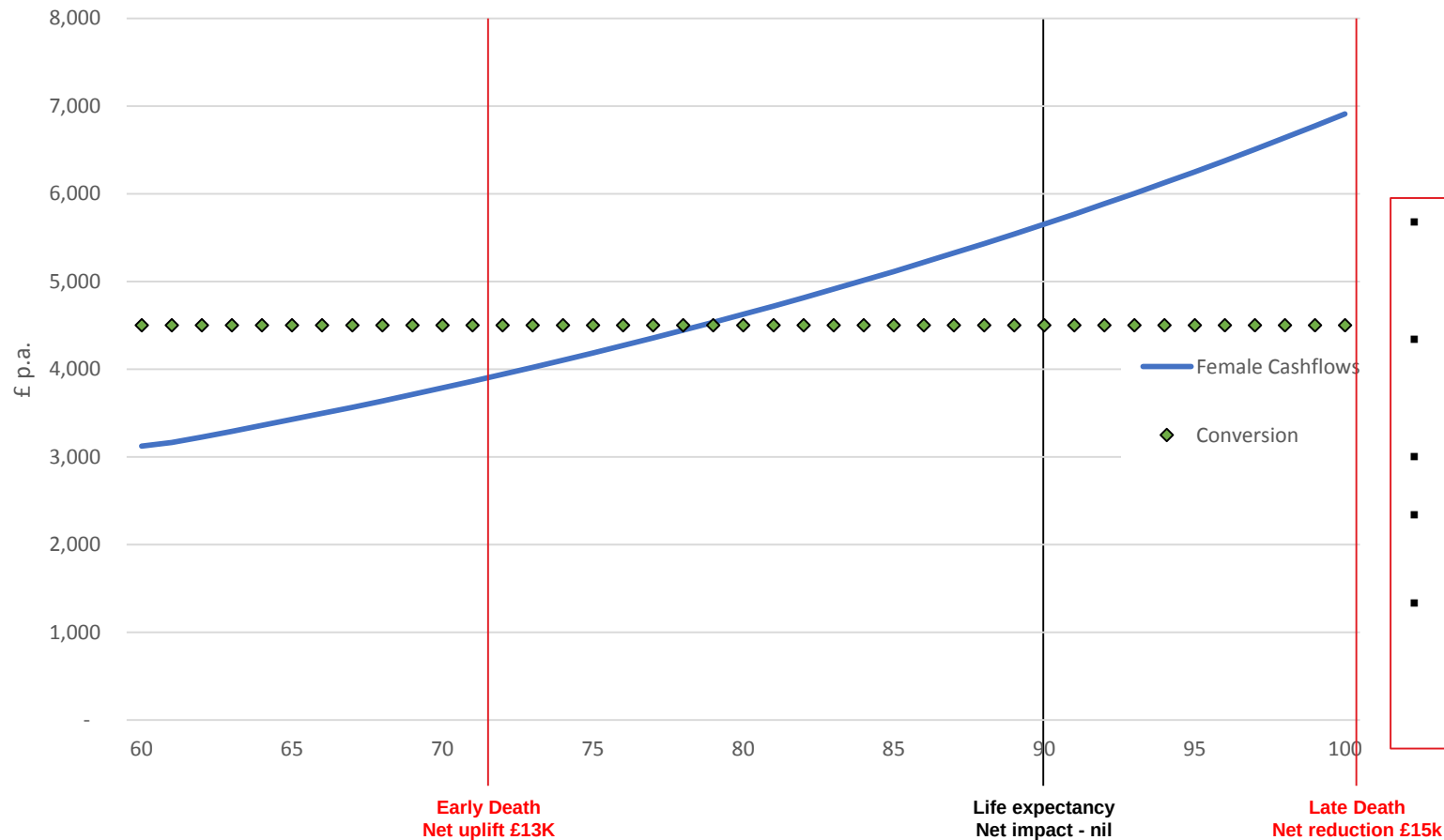
BUT

What about conversion?



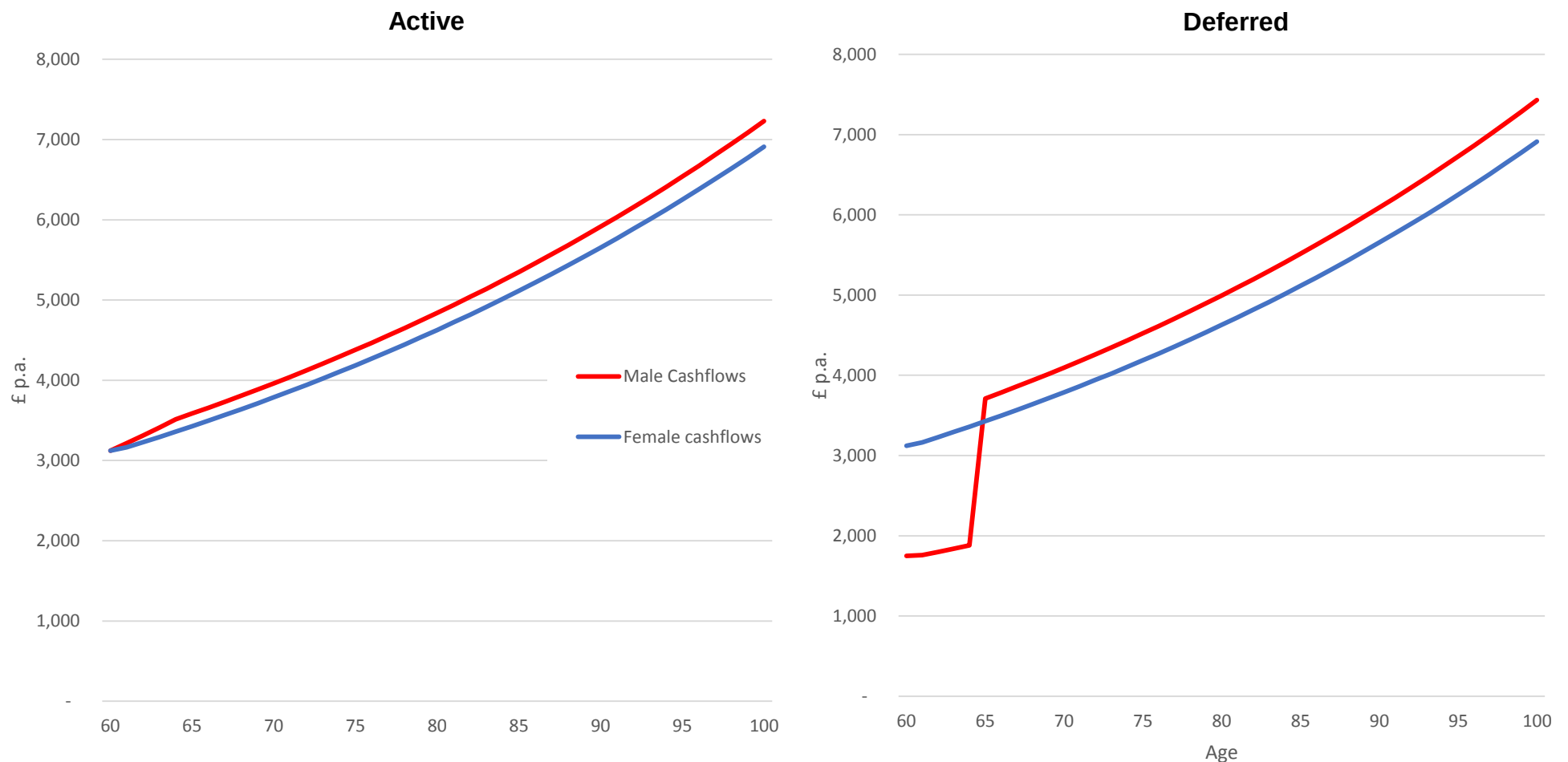
- Easier to look at one member (same principle applies to both)
- Member is made whole if they live as long as you (or your actuary) expects

What about conversion?



- Easier to look at one member (same principle applies to both)
- Member is made whole if they live as long as you (or your actuary) expects
- Not that simple!
- Members who live longer – will be out of pocket
- Inequality pre/post conversion can be orders of magnitude larger than original inequality we were trying to address

Active or deferred – What do you do on conversion?



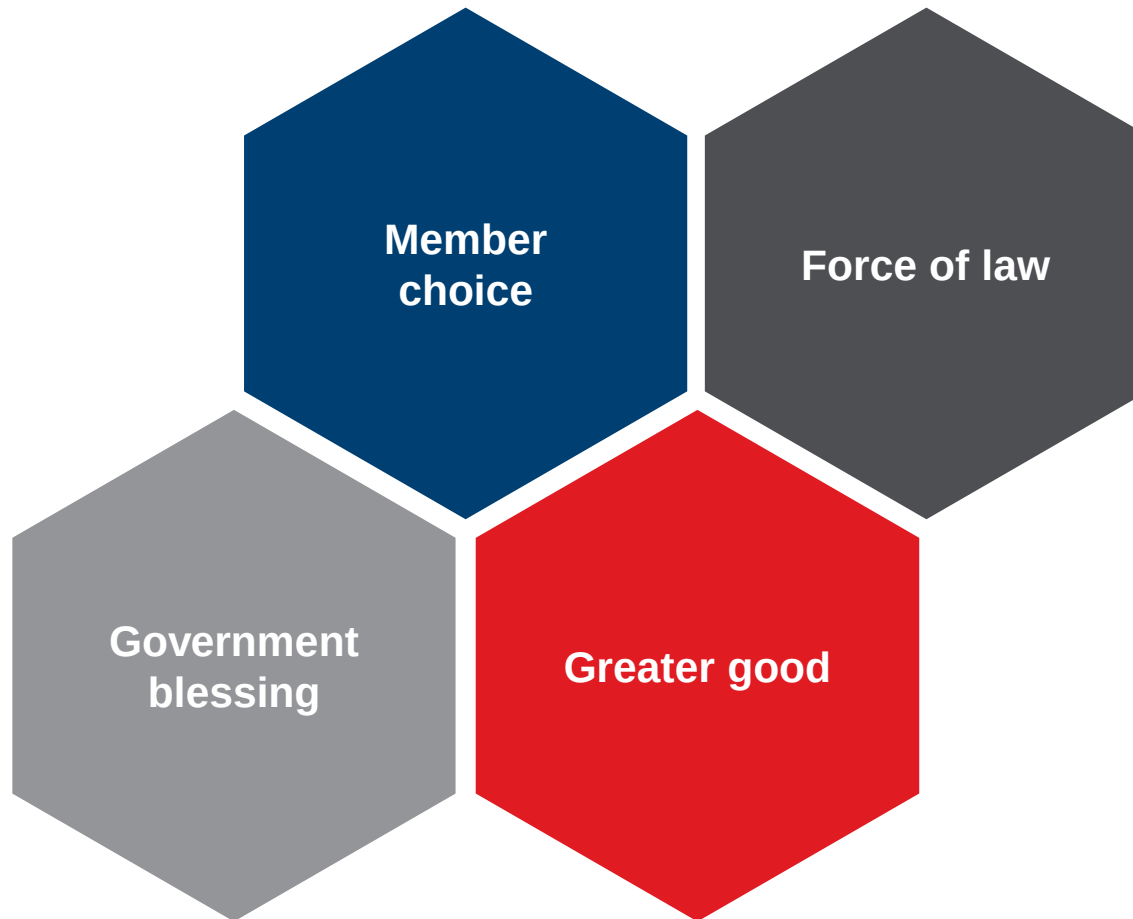
Waiting until retirement has its own set of pitfalls

Lots more to think about here

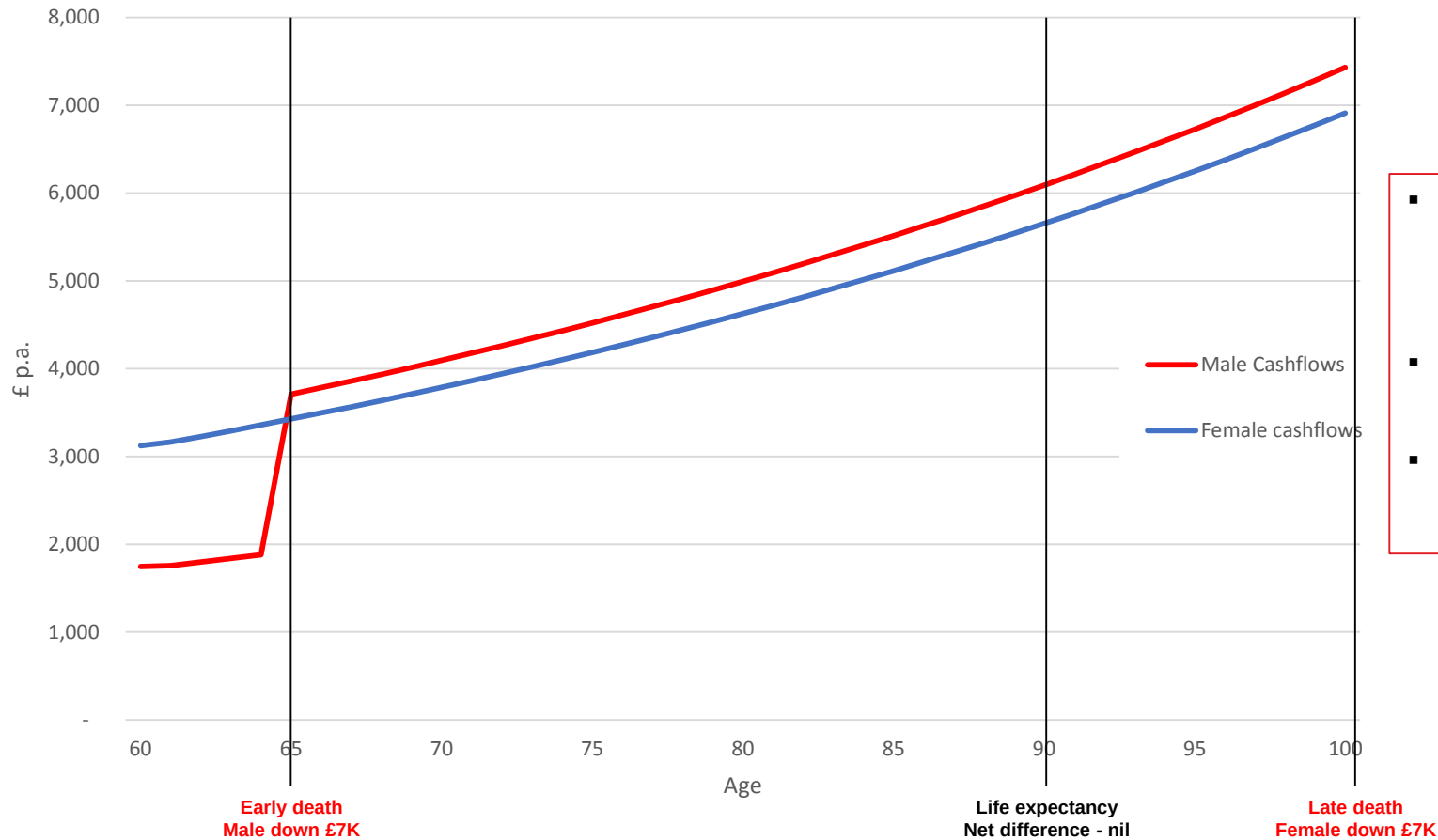
- **Inflation assumptions are hugely material**
 - In my example a 25bp IRP translates to 5k of pension to the member
 - Would also translate to a funding/accounting impact
- **Giving an increasing pension helps dampen this impact**
 - But very hard to give someone a lower pension – preservation
 - CPI/RPI gap becomes very material if changing flavour of inflation
 - So still easy to create winners/losers worth thousands of pounds
- **I've only considered pension accrued between 1990-1997**
 - Conversion requires all GMP to be in scope
 - Simplification probably requires all pension
 - Impact could easily be three or four times the level illustrated here
- **Underpins and guarantees are common and difficult to allow for**
 - Deterministically these might not bite
 - But what if they bite in 20% of scenarios?
 - Providing 20% of value will always be wrong

Material winners and losers are impossible to avoid

How to mitigate the issues



Same problems with De Minimis



- No difference in expected value – so De Minimis to Male and Female?
- Fine if member lives as expected.
- Same issue if member dies early/late

Transfers-in

- All sides agreed Transfers-in need to be equalised
- No obvious solution
- Are you trying to:
 1. Equalise for the effect of inequality in the transferring scheme
 2. Equalise for the effect of the way that you have implemented the transfers
- **Approach 1** seems most intuitive – but data will be incredibly limited
- **Approach 2** is more achievable but arguably won't achieve equality (and could make inequality worse!)
- Does this look different for:
 - Added years/Service credits
 - Paid up pensions

To conclude - there is a point that shouldn't be lost in all this

- Easy to think of this as a big implementation headache
 - 28 years' worth of problems stored up
 - No easy fix
- Average costs at scheme levels don't do this issue justice.
 - Most members will get nothing or very small uplifts due to the nature of their benefits and service
- Although they are a minority there are lots of cases of **real inequality**
 - Some cases of benefit enhancements of more than 20%
 - Considered year on year gap is even wider
- More clarity needed from Court, Government, tPR
- More work needed to be done by the industry
- **There is light at the end of the tunnel**

Any questions?

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