



Institute  
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## GMP Conversion

*"The mechanics of GMP conversion and why we expect it to feature as a growing trend in tackling the equalisation of GMP benefits."*

Pensions and the Law  
2013

17 September 2013



## GMP Conversion

"The mechanics of GMP conversion and why we expect it to feature as a growing trend in tackling the equalisation of GMP benefits."

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## Guaranteed Minimum Pension (GMP)

- GMP - minimum pension for employees who were contracted out of SERPS between 6 April 1978 and 5 April 1997.
- 'Broadly equivalent' to the amount the member would have received had they not been contracted out.
- Key differences between GMP and normal scheme benefits:
  - Revaluation/Increases
  - Survivors benefits



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## Equalisation and GMP

- Barber Case – UK pension schemes have to pay equal benefits to men and women from 17 May 1990.
- Most final salary schemes did not equalise GMP.
- Government view: GMP must be equalised.



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## Equalisation and GMP: The proposed method

- Early 2012 – DWP published draft legislation including methodology on GMP equalisation.
- Two calculations for each GMP payment:
  - The existing calculation
  - Calculation of GMP of the opposite sex
- The higher figure at each date a payment is due will be the correct GMP.
- PPF method – Calculate the higher overall GMP earned over the full period from 17 May 1990 to 5 April 1997.




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## Equalisation and GMP: The future

- Draft legislation has been widely criticised – too expensive and increases the administrative burden.
- Delayed in favour of a full package of legislative changes in Spring 2014.
- No further announcements expected before then.
- Not clear whether original methodology will stay or go.




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## GMP conversion: A solution?

- The government is considering how the GMP conversion process may be used alongside GMP equalisation.
- Section 14, Pensions Act 2007 – Schemes can amend their rules to covert GMPs into ordinary benefits, subject to certain requirements.
- Could reduce administrative costs and provide a solution for scheme's looking for clarity on GMPs.



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## The conversion conditions

- Sections 24A to 24H of the Pension Schemes Act 1993 – Rules for GMP conversion.
- 5 key conditions:
  1. Post conversion benefits must be 'actuarially equivalent'
  2. The amount of pension in payment will not be reduced
  3. Converted benefits cannot be money purchase
  4. Benefits for survivors must be retained
  5. Procedural requirements must be met.



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## Conditions 1 and 2: 'Actuarially Equivalent'

- Occupational Pension Schemes (Contracting Out) Regulations 1996 – amended in 2009 to give non-prescriptive guidance on what will be 'actuarially equivalent'.
- Regulation 69A(3) provides guidance for trustees:
  - obtain advice from the actuary on the appropriate assumptions
  - consider the advice and decide what assumptions to use
  - actuary to calculate the value of post-conversion rights




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## Conditions 1 and 2: 'Actuarially Equivalent'

- Regulation 69A(4): Actuary calculates the post-conversion rights, ignoring:
  - benefits which have been commuted
  - amounts already paid
  - amounts which became due to be paid before conversion
  - discretionary benefits which might be paid in the future
- Actuary must certify that calculations have been completed and the post-conversion benefits are 'actuarially at least equivalent'




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## Condition 4: Survivors Benefits

- Survivors benefits under Section 24D PSA 1993 and Regulation 69B of the Contracting Out Regulations.
- Widows: 50% of pension earned between 6 April 1978 and 5 April 1997; and
- Widowers, civil partners and partners in a same sex marriage: 50% of pension earned between 6 April 1988 and 5 April 1997.
- Government to review the position in relation to sex/sexual orientation discrimination and pension rights.




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## Condition 5: Procedural Requirements

- The trustees must ensure the following:
  - the employer consents in advance (s24E(2))
  - reasonable steps to consult 'earner' in advance (s24E(3)(a))
  - notify members/survivors affected before or as soon as reasonably practicable after conversion (s24E(3)(b))
  - notify HMRC (s24E(4)).




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## Amending the Scheme

- Section 24G – Trustees' statutory power to amend scheme by resolution.
- Not a listed change.
- Trustees can convert under statutory power even if the scheme's power of amendment does not allow the change.
- Trustees can convert GMP under the scheme before completion of a winding up.
- The Pensions Regulator has the power to void amendments.




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## Is GMP conversion the answer?

- Full draft legislation due in 2014, may confirm role of GMP conversion.
- Can already be used to get more clarity over GMPs and equalisation.
- Particularly helpful to schemes which are winding up or shortly to begin winding up.




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## GMP conversion: The benefits

- Trustees can reduce administrative burden and cost.
- One equalisation calculation as opposed to year by year comparisons.
- Bring matters to a certain conclusion when scheme is winding up.
- More flexibility for members e.g. PCLS and early retirement options
- Benefits easier to understand and communicate.



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## GMP conversion: The conclusion

- Most schemes will wait for formal GMP equalisation legislation.
- Others may be under pressure to deal with GMP equalisation now (i.e. those in winding up)
- Some may have a window of opportunity.
- GMP conversion – lesser of two evils?
- Potentially cheaper and more flexible.



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## Questions or comments?

