

Update from the PPF on “equalisation for GMPs”
Stephen Rice FIA and Carolyn Wing FIA



“Equalisation for GMPs”

© 2010 The Actuarial Profession • www.actuaries.org.uk

Aim of today’s presentation

To provide an update of where we have got up to on
“equalisation for GMPs” in terms of:

- Background
- Calculations
- Timescales
- Effect on s143 valuations
- Allowance in s179 valuations

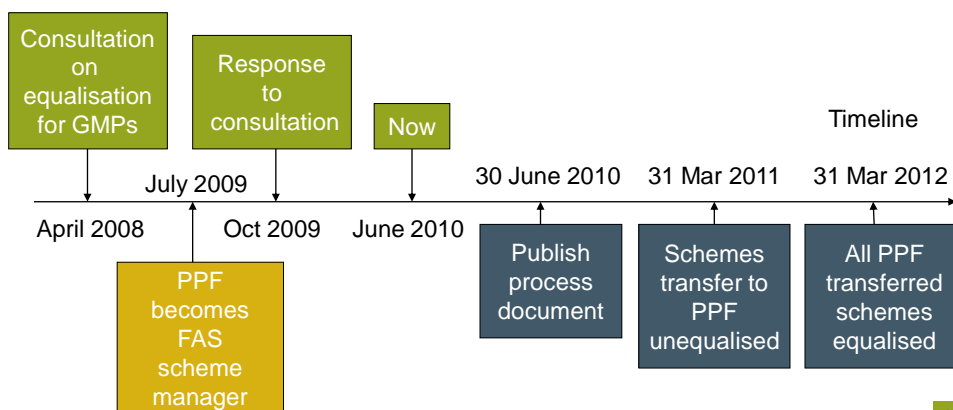
© 2010 The Actuarial Profession • www.actuaries.org.uk

1

Background

Pension
Protection
Fund

Requirement under s171 of Pensions Act 2004



© 2010 The Actuarial Profession • www.actuaries.org.uk

2

Method of equalisation

Pension
Protection
Fund

Suggested 4 different methods

Consultation
on
equalisation
for GMPs

- Partial application method (2) preferred approach
- Method compares members compensation at the “Relevant Time”* with that payable to equivalent member of the opposite sex – higher compensation paid
- Received general agreement of pensions industry that proposed method was suitable for the PPF

* “Relevant Time” is usually the day before the qualifying insolvency event.

© 2010 The Actuarial Profession • www.actuaries.org.uk

3

Other issues raised in consultation document

Pension
Protection
Fund

Comparators

- PPF only required to equalise for individuals with comparators
- Recent ministerial statement has established PPF need to equalise regardless of whether an individual has a comparator or not

(note this applies for equalisation for GMPs for PPF only)

Tranching of PPF compensation relating to GMPs

- Advice received stated that where the GMP had a statutory payment age earlier than scheme NPA then NPA of GMP element should be this statutory payment age.

© 2010 The Actuarial Profession • www.actuaries.org.uk

4

Both changes being addressed in same exercise “equalisation for GMPs”

Pension
Protection
Fund

Overall impact on compensation earned 17/5/1990- 5/4/1997

1. compensation being calculated at the level applicable to the sex that produces the higher figures; and
2. any compensation relating to the GMP having a NPA of the earlier of the scheme NPA and GMP payable



- Small increase in compensation under 1.
- Compensation equal to equivalent female GMP assigned an NPA of 60 (where scheme NPA is higher)



- Majority get no increase in compensation under 1.
- Schemes with NPA > 60, female GMP assigned an NPA of 60

© 2010 The Actuarial Profession • www.actuaries.org.uk

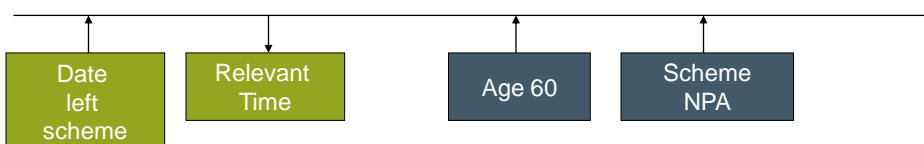
5

Calculations

Pension
Protection
Fund

Deferred pensioner at the "Relevant Time"

Timeline



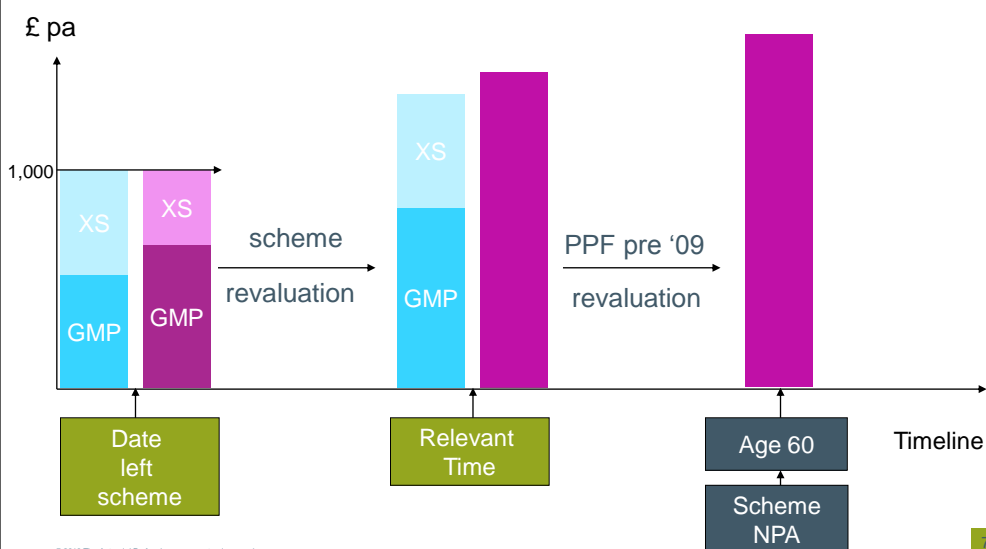
© 2010 The Actuarial Profession • www.actuaries.org.uk

6

Male deferred pensioner at the "Relevant Time" with NPA 60

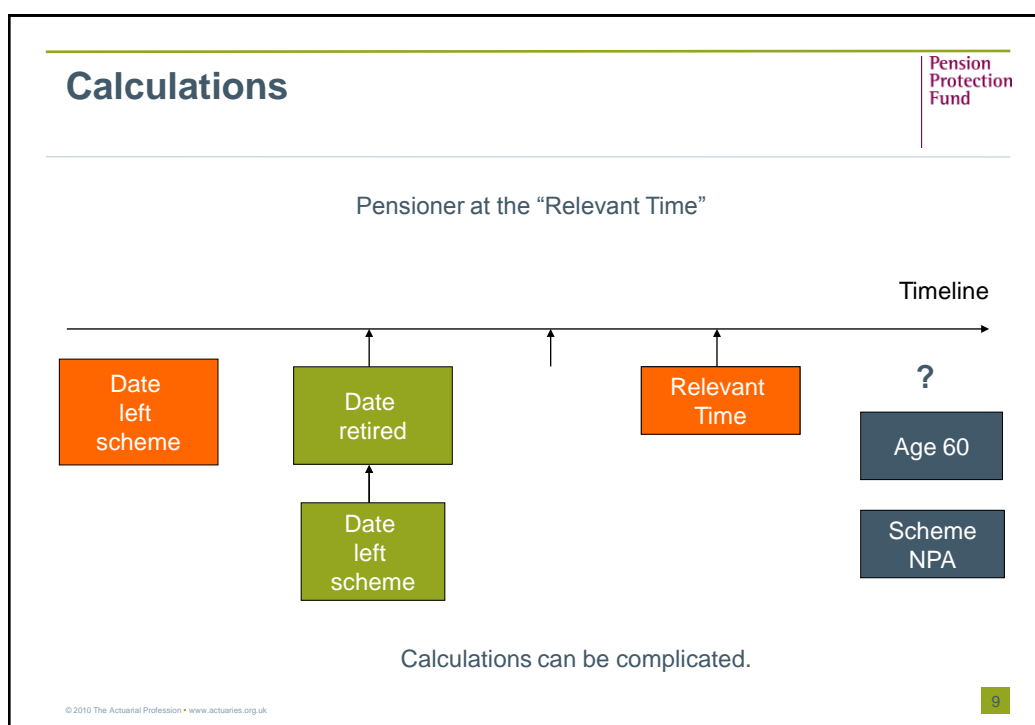
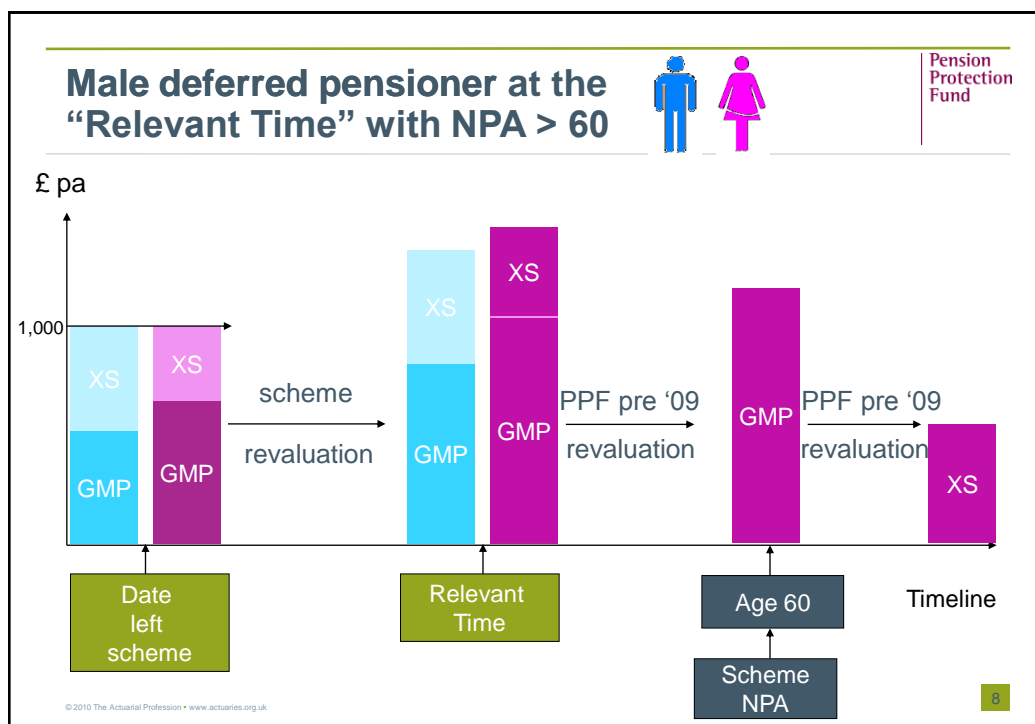


Pension
Protection
Fund



© 2010 The Actuarial Profession • www.actuaries.org.uk

7



Data needed for calculations

Pension
Protection
Fund

Members that have already transferred to the PPF

- Main constraint against calculating exact increases is a lack of detailed member data

PPF calculations use data from 3 sources

1. Individual member data – from PPF standard data interface
2. GMP data – from NISPI
3. General scheme information – collected for transferring schemes

The Board accepts that full data will not be available in all cases and that a pragmatic, proportionate approach will need to be taken where data is missing.

© 2010 The Actuarial Profession • www.actuaries.org.uk

10

Assumptions made in calculations

Pension
Protection
Fund

- Members have sufficient excess pension to turn into opposite sex GMP
- GMP accrued between 17/5/1990- 5/4/1997 can be obtained by for example pro-rating post 5/4/1988 GMP
- General scheme details can be used to pro-rating GMP between the different NPAs that apply in the GMP window
- Early / late retirement pensions are calculated by applying a single factor to the pension projected to date of early retirement or NPA
- etc

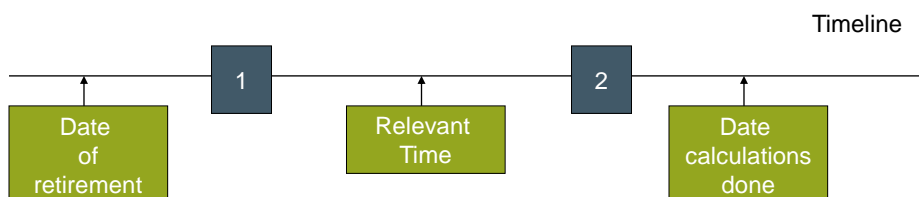
© 2010 The Actuarial Profession • www.actuaries.org.uk

11

Back-payments

Pension
Protection
Fund

- The Board required to ensure that any payments made before the Relevant Time have been made on an equal basis.
- As calculations will typically be being carried out after the Relevant Time there will be 2 lots of back-payments due.



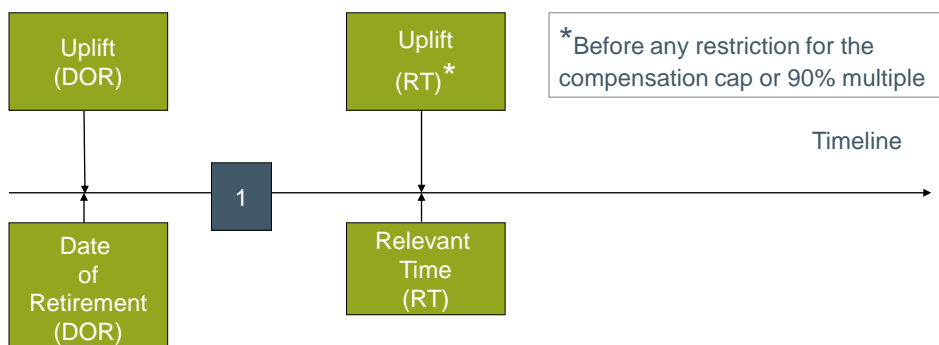
© 2010 The Actuarial Profession • www.actuaries.org.uk

12

Back-payments Period 1 back-payments

Pension
Protection
Fund

$$= (\text{Average uplift between DOR and RT}) \times (\text{Period DOR-RT}) \\ + \text{interest for late payment}$$



© 2010 The Actuarial Profession • www.actuaries.org.uk

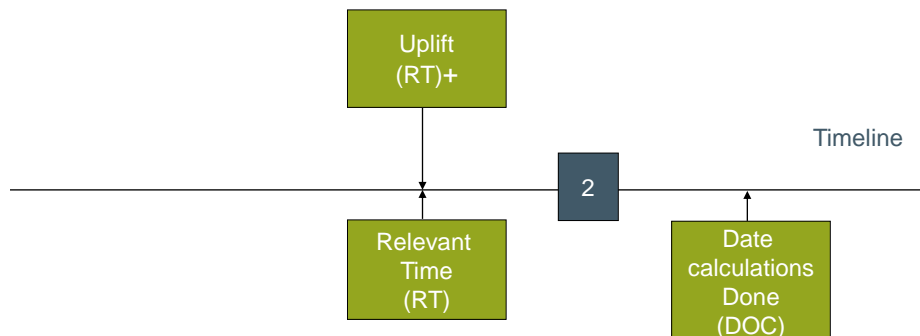
13

Back-payments Period 2 back-payments

Pension
Protection
Fund

$$= (\text{uplift at RT}) \times (\text{Period RT-DOC}) \\ + \text{interest for late payment}$$

+ After any restriction for the compensation cap or 90% multiple



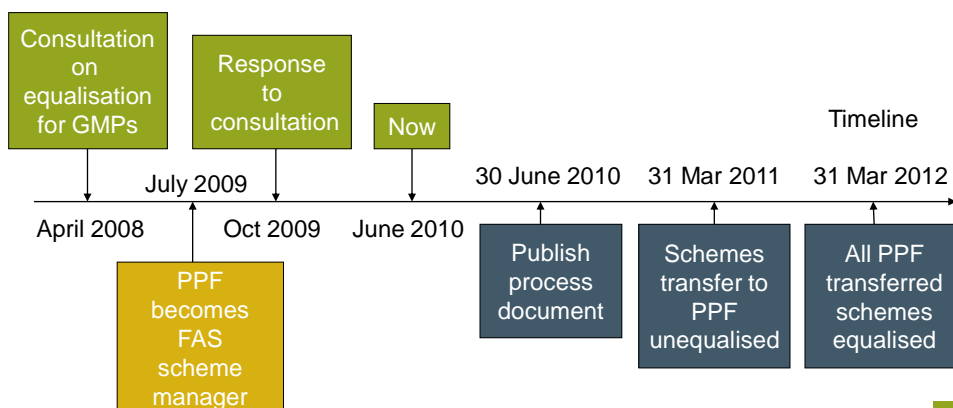
© 2010 The Actuarial Profession • www.actuaries.org.uk

14

Where are we up to?

Pension
Protection
Fund

- Due to publish process document by end of June
- This has already been sent out to a few stakeholders for comment
- Useful feedback has been received & will be incorporated into revised document
- Still need final sign off from the Board



© 2010 The Actuarial Profession • www.actuaries.org.uk

15

Why is process taking so long?

Pension
Protection
Fund

“Equalisation for GMPs” for the PPF encompasses 2 tasks:

1. Equalisation for GMPs

AND

2. Changes required to PPF compensation due to the application of legislations on statutory minimum requirements.

The Board of the PPF is now also the FAS scheme manager. It is desirable that the same approach is used for PPF and FAS.

© 2010 The Actuarial Profession • www.actuaries.org.uk

16

Next steps

Pension
Protection
Fund

Subject to the final agreement of the Board:

- Document published by 30 June 2010 setting out details of approach adopted.
- Letter will be sent to Trustees of all schemes in assessment (SIA) setting out details of timescales for equalisation.
- Webinar will be held in July to work through details of the calculations required and provide more information to stakeholders.
- Trustees of SIA should speak to their caseworker or PPF actuarial team contact if they have any concerns.

© 2010 The Actuarial Profession • www.actuaries.org.uk

17

Effect on s143 valuations

Pension
Protection
Fund

Schemes that transfer to the PPF after 31 March 2011 will need to have “equalised for GMPs”

- Anticipated that at least initially the calculation of equalised compensation may be carried out at the s143 stage.
- From 31 March 2011 overfunded schemes will need to demonstrate that they are overfunded on equalised compensation.
- s143 guidance allows approximations to be made in s143 valuations where these have been agreed in advance with the Board.
- PPF actuarial team contact and caseworker will be able to provide further information.

© 2010 The Actuarial Profession • www.actuaries.org.uk

18

Effect on s179 valuations

Pension
Protection
Fund

Question on allowance in s179 valuations in 2008 consultation?

- Virtually unanimous “No” received from Actuarial stakeholders.
- Board accepts that there are significant approximations in s179 valuations.
- Board recognises that some schemes lose out if no allowance is made.
- Board has decided that (for the moment) no change will be made to s179 guidance.
- Policy will be kept under review.

© 2010 The Actuarial Profession • www.actuaries.org.uk

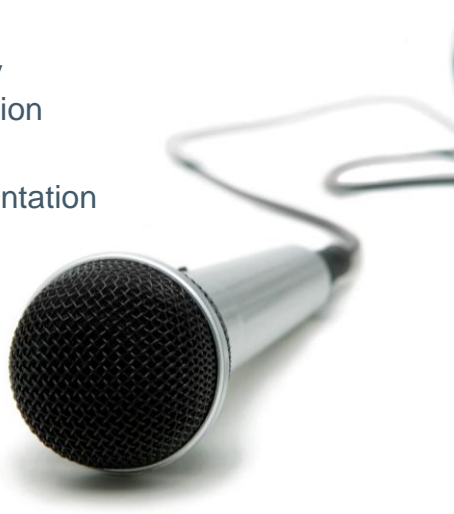
19

Questions or comments?

Pension
Protection
Fund

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenters.



© 2010 The Actuarial Profession • www.actuaries.org.uk

20