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# GMP inequalities – is GMP conversion the answer?

David Everett



# What we are covering today

## The issue

- How GMP inequalities arise and why they matter
- What solutions are potentially available
- An outline of the GMP conversion solution

## The GMP conversion solution in depth

- Methodology
- Model building and processing

## Work outstanding

- Legislative difficulties
- Keeping the cost down



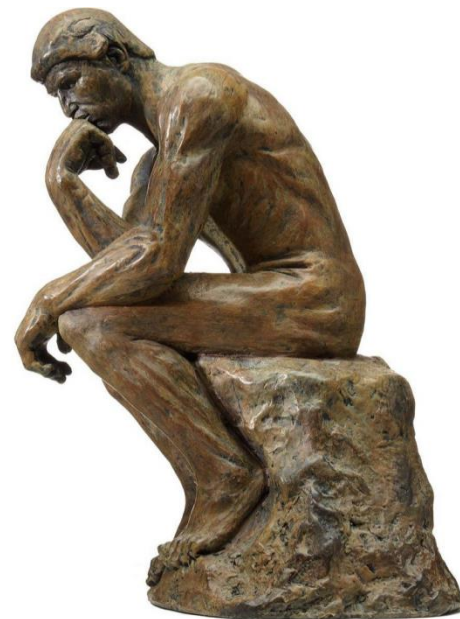
# The issue



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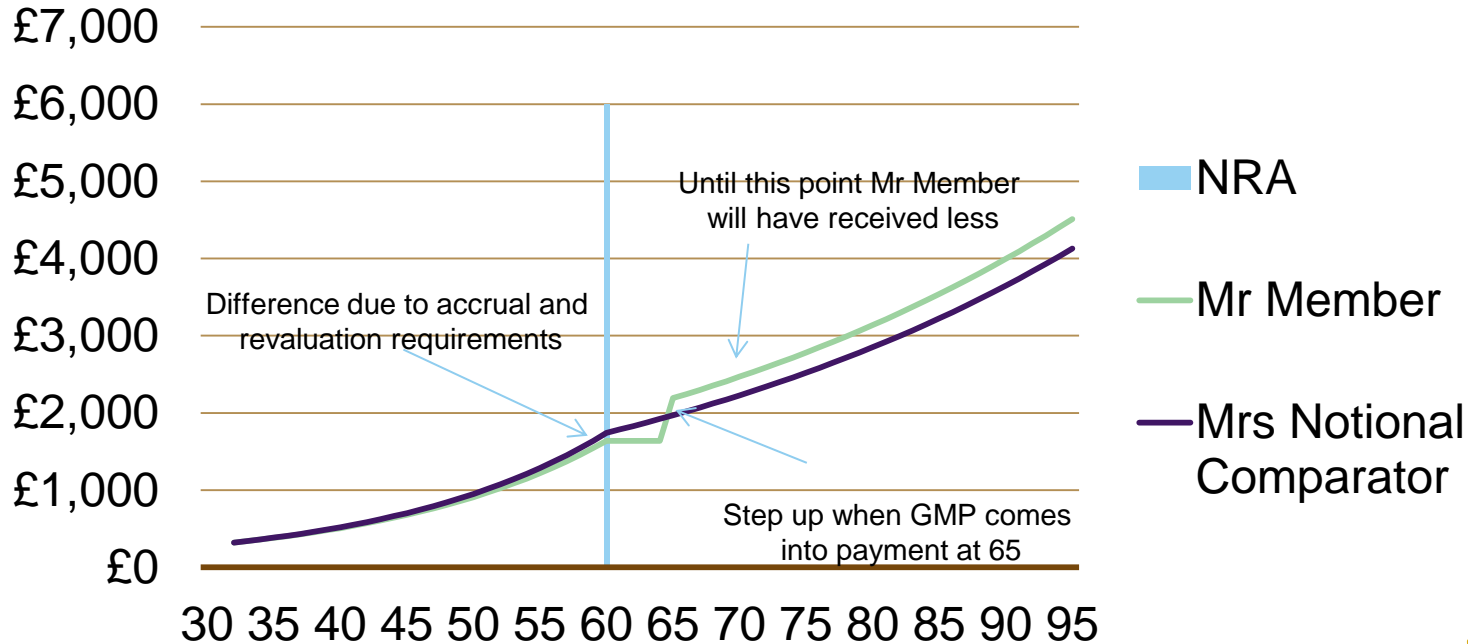
# How unequal GMPs create unequal scheme benefits

- DWP legislation requires that a woman's GMP accrues at a greater rate than that of a man in recognition that a woman's working life for State pension purposes was five years shorter than that of a man.
- An equal scheme pension becomes unequal due to further DWP legislation under which:
  - The rate of GMP revaluation may differ to that on the excess;
  - Increases on the GMP in payment may differ to that on the excess;
  - There is a potential uplift on the GMP on coming into payment set by reference to a sex discriminatory GMP pensionable age.



# An example of introduced inequality

*Equal pension on leaving at 30, unequal payments begin at 60, man loses out until 70*

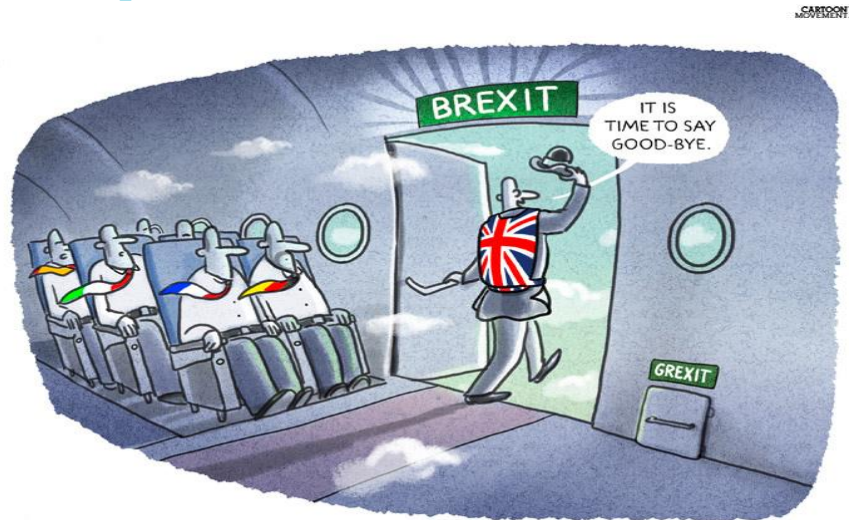


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# Why the issue needs to be tackled

*For GMPs (and excess) accrued 16 May 1990 – 5 April 1997*

- Because DWP believes that Allonby implies that the need to resolve GMP inequalities is not dependent on finding an actual opposite sex comparator
  - And they could lay the 2012 regulations to turn their interpretation of an ECJ judgment into UK law
- Because DWP is of the view that it is not appropriate to make the GMPs themselves equal



**Does Brexit affect any of this?**



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# What options are potentially available?

*Not all give certainty*

- Do nothing and wait for any discrimination claim
- Set up a dual record
  - Each year pay the greater of the member and the opposite sex comparator; or
  - Each year pay what is needed so that there is no disadvantage when looking at the accumulation of past payments
- Establish a compensatory actuarial value
  - By valuing either of the two above and subtracting the value of the member's benefits
  - By valuing the member and the opposite sex comparator separately
- Deliver the compensatory actuarial value
  - As a one-off special payment?
  - Through setting up a new benefit?
  - As part of a GMP conversion exercise



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# Why not the dual record system?

Could be delivering more than legally obliged

Pensions Admin systems will need to be materially amended

Expensive to set up and maintain

Difficult for members to understand

Cannot be certain that the adjustment is correct

For many the adjustment will be very small



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# The GMP conversion working group

*Objective – to see if GMP conversion could be used*

Association of  
Consulting  
Actuaries

Pensions and  
Lifetime Savings  
Association

Pensions  
Management  
Institute

Association of  
Pensions  
Lawyers

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Society of  
Pension  
Professionals

Association of  
British Insurers



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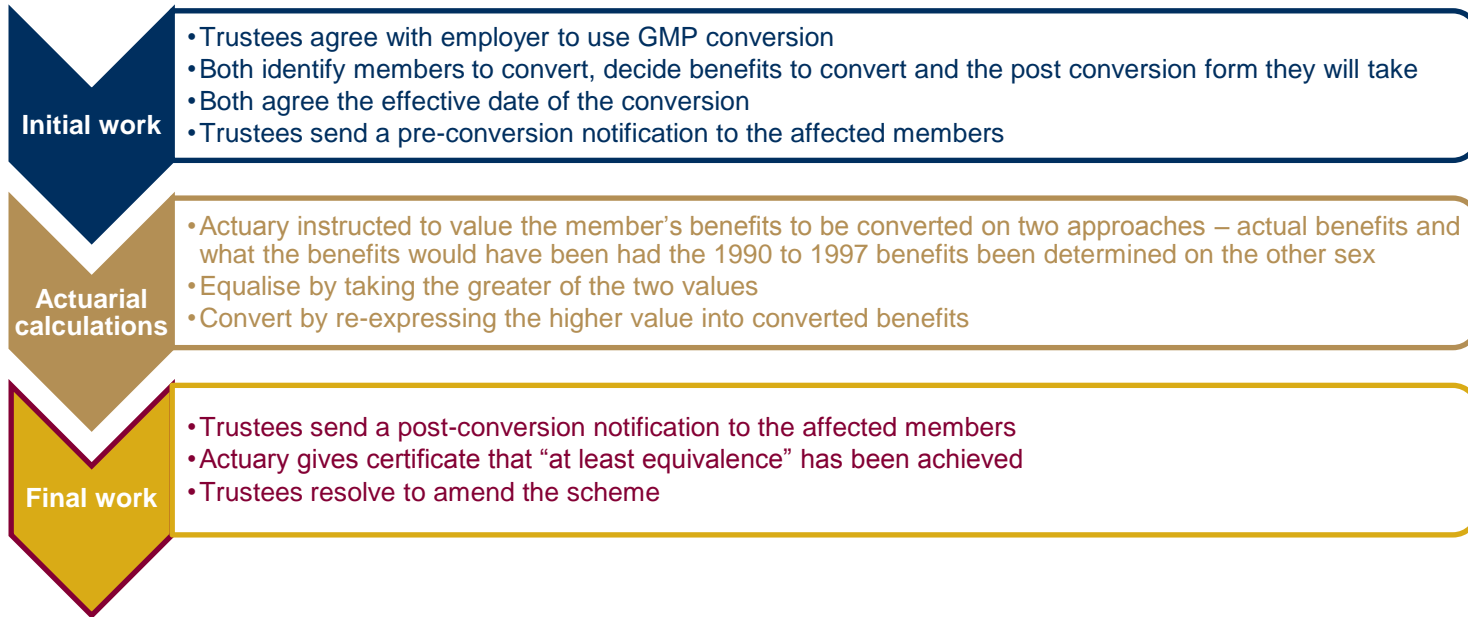
# Why GMP conversion to resolve GMP inequalities

- It preserves actuarial value and so is fair to affected members
- It will be much more popular with trustees than dual record keeping as
  - It is “once and done” so should be significantly cheaper to implement
  - It avoids fundamental rewrite of all admin systems, some of which are legacy and may not be able to cope
  - Members are more likely to understand it
- The Government says that the method put forward by the working group is acceptable



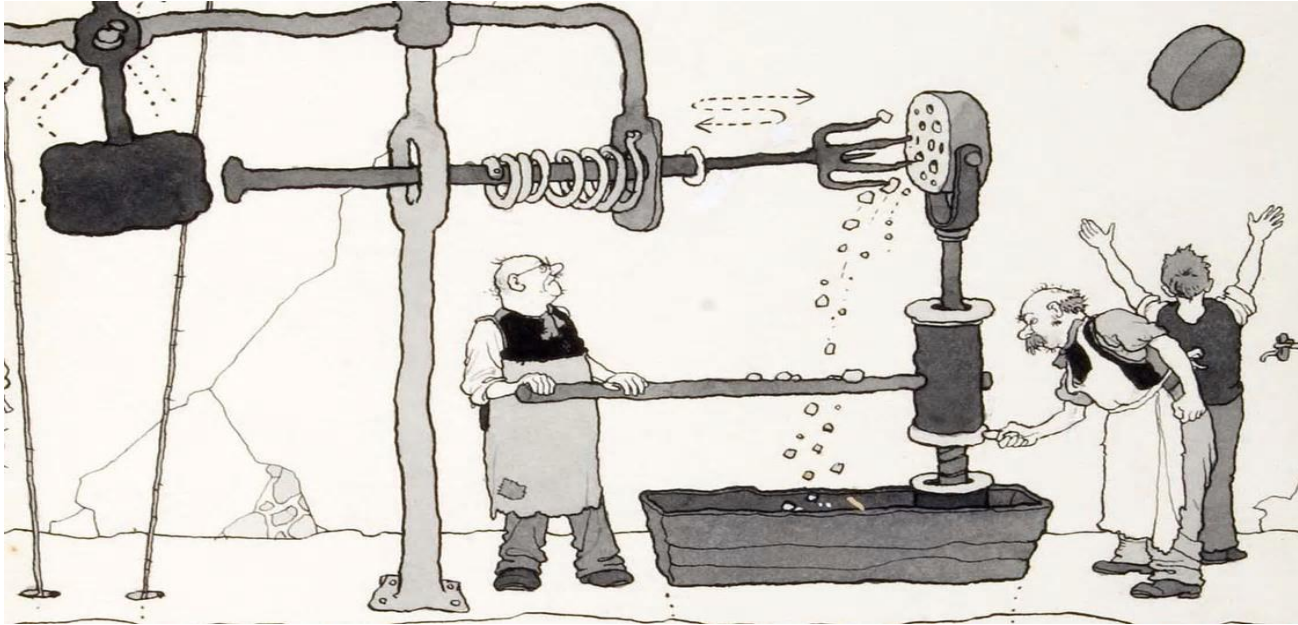
# How GMP conversion could work

*Largely within the current GMP conversion law*



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# The GMP conversion solution in depth



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# Methodology – Deferred Pensioners

## Subdivision

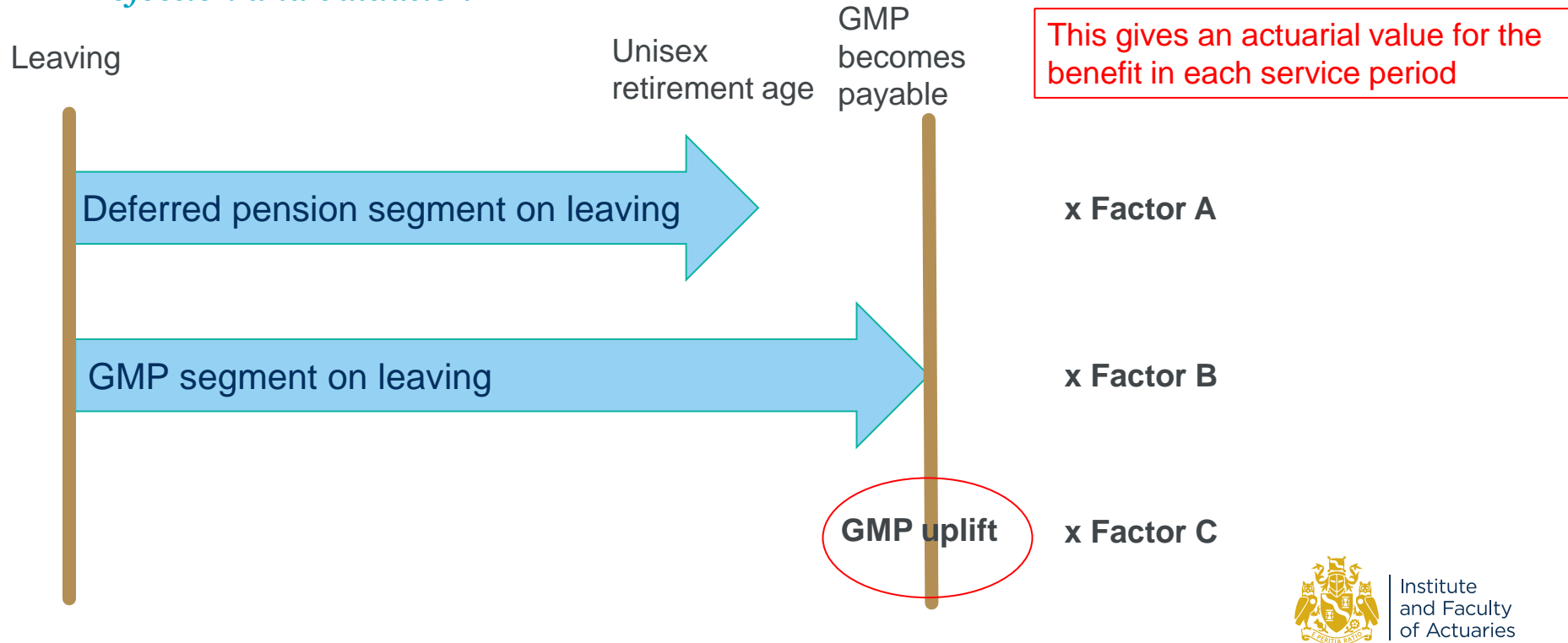
- Starting point is deferred pension (and GMP) on leaving
- Segment into service periods – three types:

	Service period	GMPs	Age at which benefits can be taken
1	Pre 6 April 1978	No GMPs accrued	Likely to have sex-based differences
2	6 April 1978 to 5 April 1988	Pre-1988 GMPs accrued	Likely to have sex-based differences
3	6 April 1988 to 16 May 1990	Post-1988 GMPs accrued	Likely to have sex-based differences
4	17 May 1990 to retirement equalisation day	Post-1988 GMPs accrued	The lower age would apply to the disadvantaged sex
5	Retirement equalisation day to 5 April 1997	Post-1988 GMPs accrued	A unisex (and potentially new) age applies
6	6 April 1997 onwards	No GMPs accrued	A unisex (and potentially new) age applies



# Methodology – Deferred Pensioners

## *Projection and valuation*



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# Methodology – Deferred Pensioners

## Valuation and uplift

- Add together those for segments 2-5 only → **Amount A**
- Repeat the process by projecting the benefits again, but:
  - only for segments 4 and 5
  - assuming of the opposite sex (with an opposite sex GMP)
- Multiply each benefit in segments 4 and 5 by Factor A, B and C as before
- Add together new values for segments 4 and 5 with old values for segments 2 and 3 → **Amount B**

	Service period	Amount A	Amount B
1	Pre 6 April 1978	X	X
2	6 April 1978 to 5 April 1988	Own sex	Own sex
3	6 April 1988 to 16 May 1990	Own sex	Own sex
4	17 May 1990 to retirement equalisation day	Own sex	Opposite sex
5	Retirement equalisation date to 5 April 1997	Own sex	Opposite sex
6	6 April 1997 onwards	X	X

**Conversion Budget = max (Amount A, Amount B)**

**GMP inequality uplift = max (Amount A, Amount B) – Amount A**




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# Methodology – Deferred Pensioners

## Conversion

**Conversion Budget = max (Amount A, Amount B)**

- Take the conversion budget (the value of segments 2-5 uplifted where applicable)
- Turn into a new deferred pension at date of leaving on the basis of actuarial equivalence
- The GMP no longer exists

Service period		Converted?
1	Pre 6 April 1978	No
2-5	6 April 1978 – 5 April 1997	
		
6	6 April 1997 onwards	No

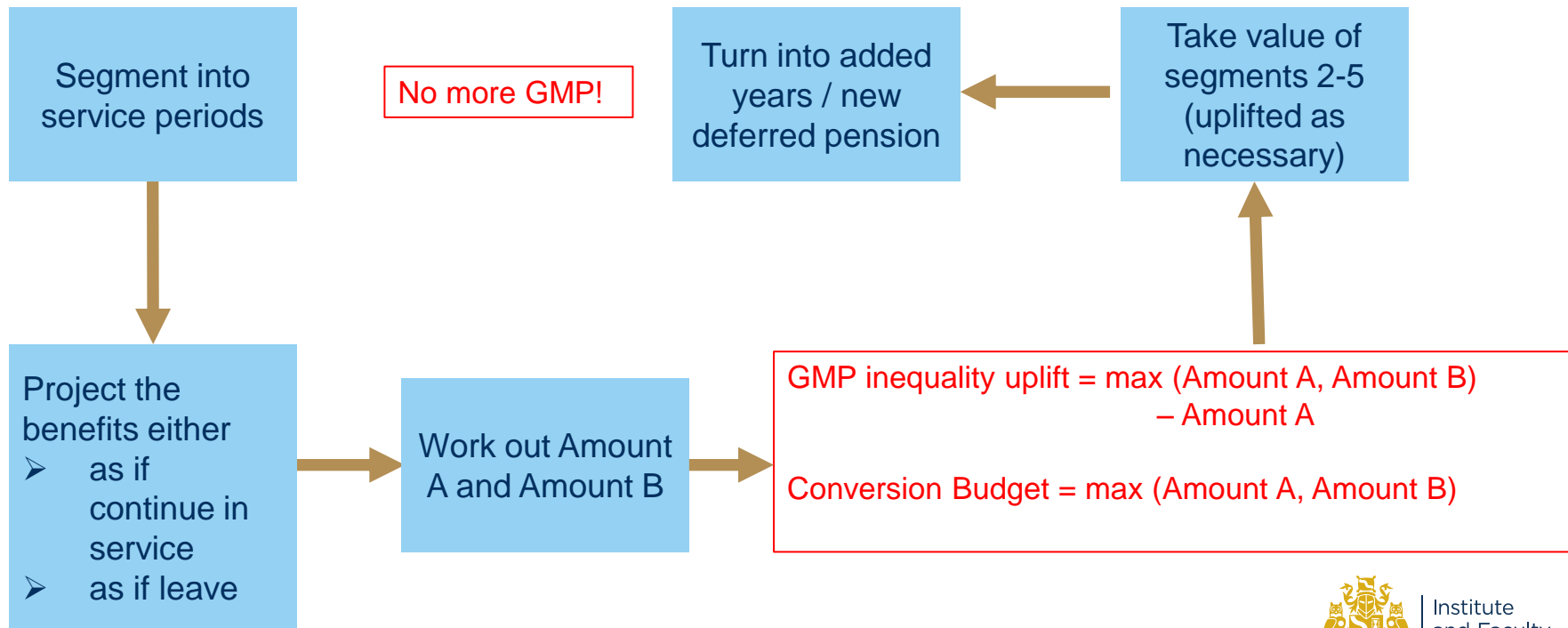


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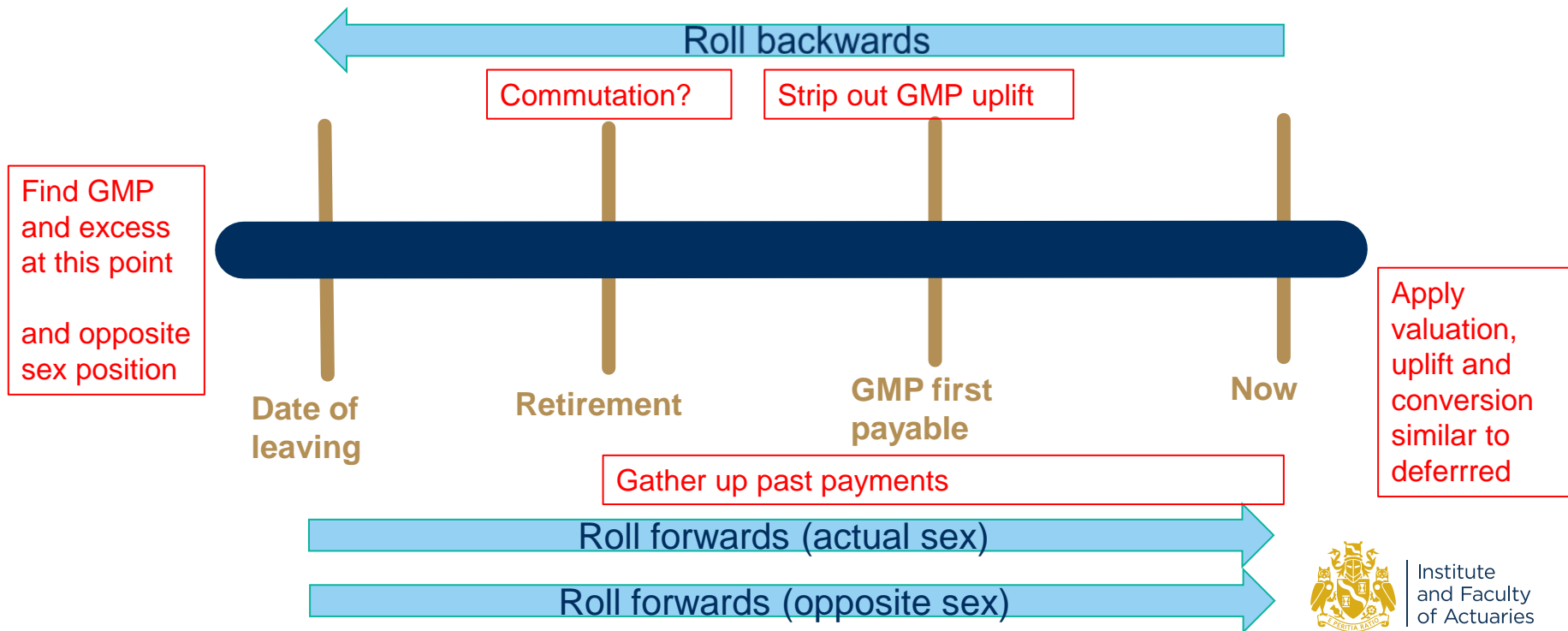
# Methodology – Actives

*Very similar for deferred pensioners*



# Methodology – Pensioners

*Roll back and roll forwards – for each segment*



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# Model building and processing

*Is far from straightforward*

- The processing tool will be very complex to build and test
- Considerable professional time will be needed in relation to each scheme.....



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# Model building and processing

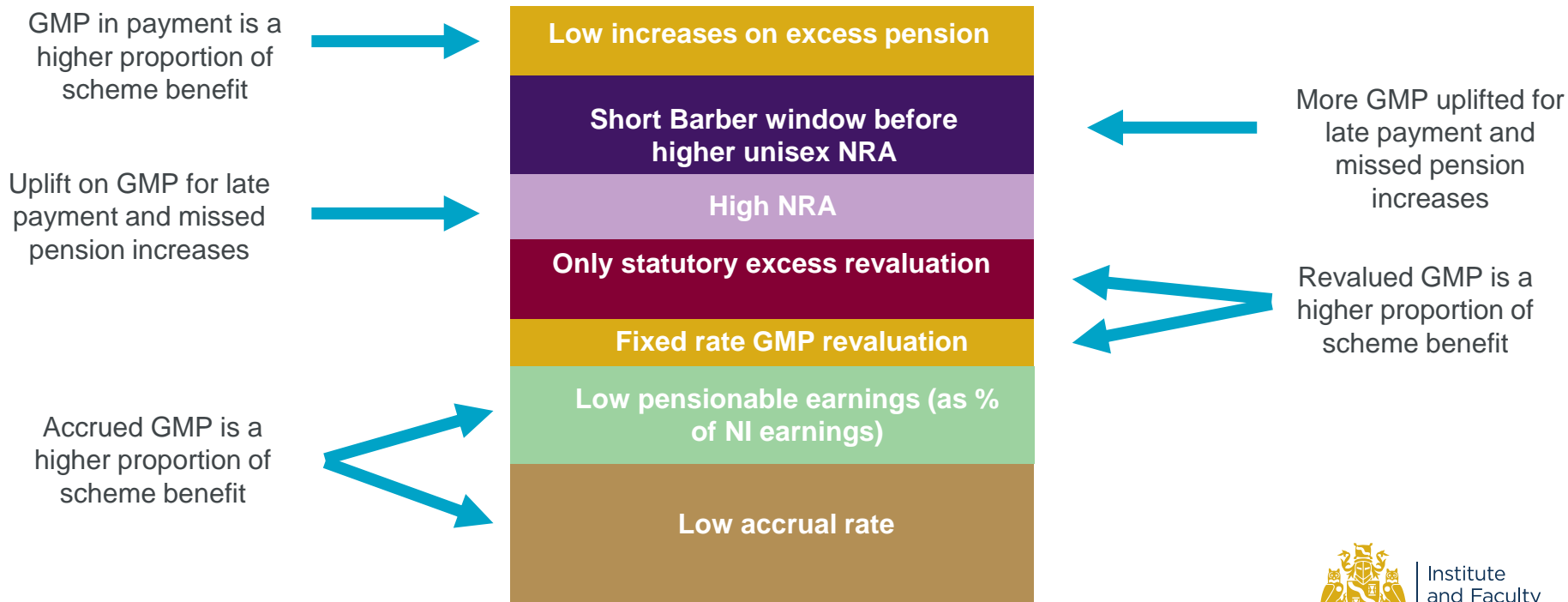
## Specimen results – deferred pensioners

% uplift (% of 90-97 benefits)	Number of members	Value of uplift (£)	Average uplift (£)	All members Value of 90-97 benefits (Amount A)	Uplift as % of Amount A	Total value	Uplift as % of Total value
No uplift	101	-	-	3,298,094	0.0%	8,885,641	0.0%
$0.00 < x < 1.0$	8	3,267	408	789,230	0.4%	2,065,786	0.2%
$1.0 \leq x < 2.0$	24	20,020	834	1,258,628	1.6%	3,341,934	0.6%
$2.0 \leq x < 5.0$	142	175,755	1,238	5,753,963	3.1%	12,323,989	1.4%
$5.0 \leq x < 10.0$	3	3,470	1,157	63,465	5.5%	66,829	5.2%
$10.0 \leq x < 20.0$	7	11,881	1,697	67,729	17.5%	609,770	1.9%
20.0 and above	3	9,206	3,069	44,398	20.7%	549,104	1.7%
No 90-97 service	413	-	-	-	n/a	20,062,636	0.0%
Totals	701	223,599	319	11,275,506	2.0%	47,905,688	0.5%



# Model building and processing

*What makes the equalisation uplift higher?*



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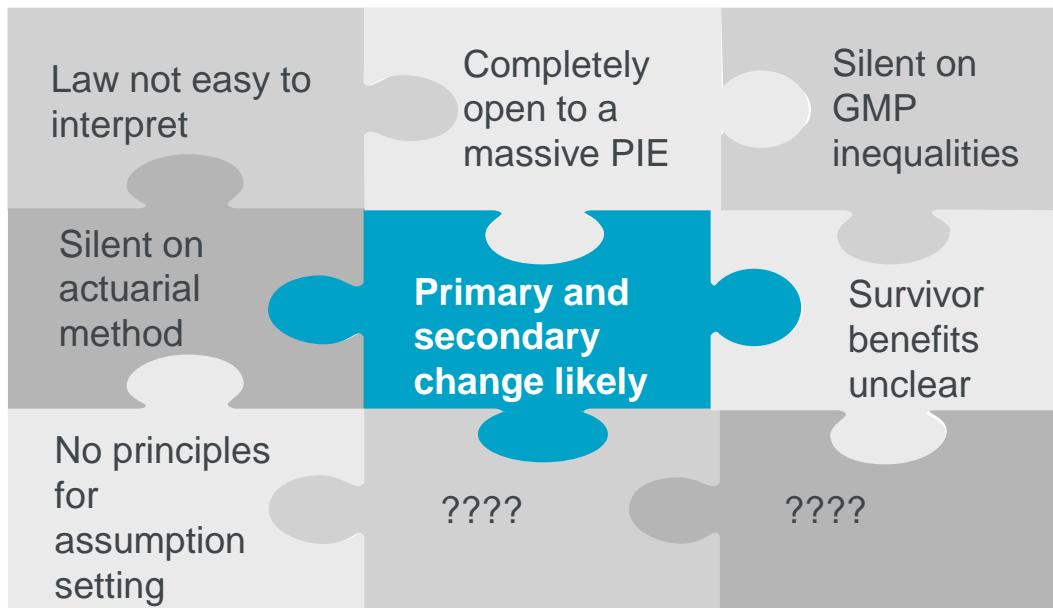
# Work outstanding



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# GMP conversion law difficulties

*Has not been tested so unsurprising that there are difficulties*



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# Pensions tax issues

*Inevitably there are problems – some quite serious*

Adjustments aimed in good faith at addressing GMP inequalities, whether through conversion or dual record keeping:

- ✓ **Should not** result in previous LTA testing having to be revisited;
- ✓ **Should be ignored** in assessing how much AA has been or will be used up;
- ✓ **Should not** cause the loss of the “deferred member carve out” in AA calculations;
- ✓ **Should not** cause any pre-existing LTA protections to fail

Measures needed are  
a combination of

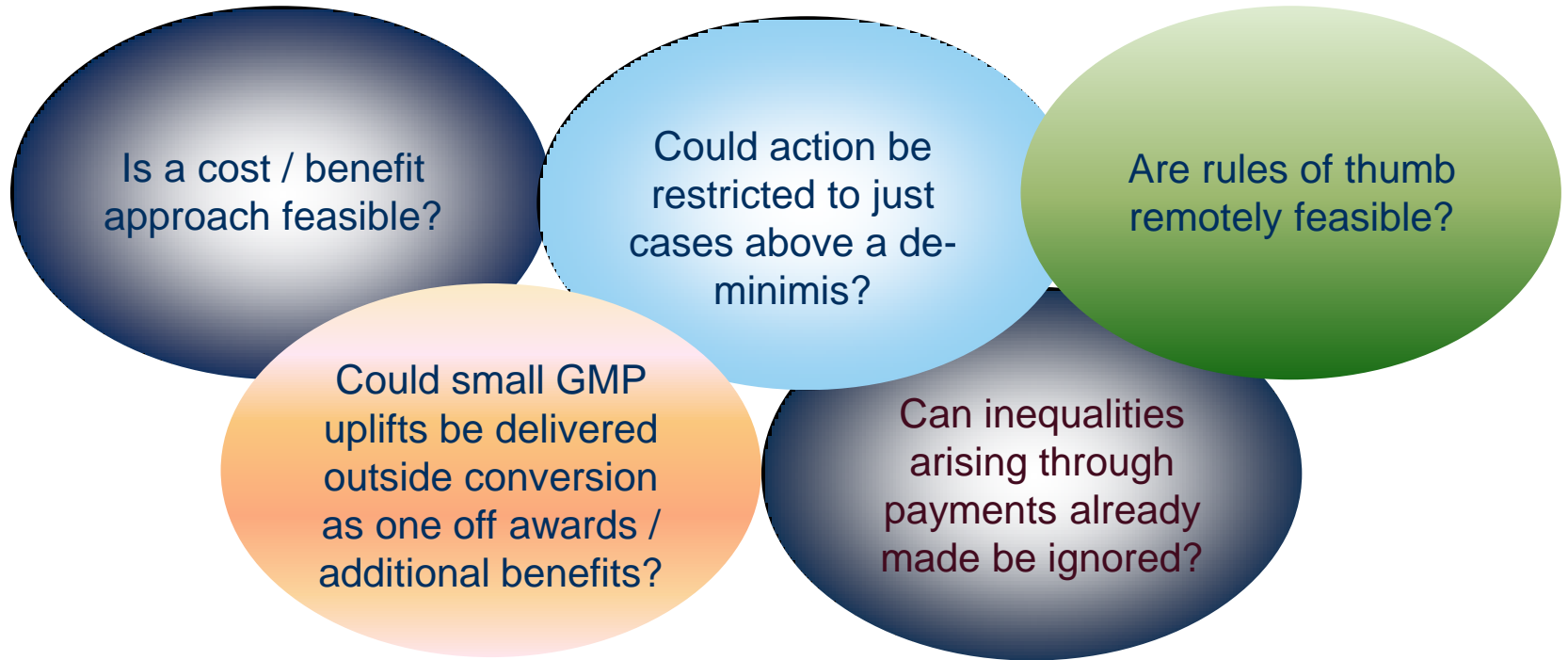
- Changes to pensions tax legislation
- Confirmation from HMRC that it agrees certain principles from existing legislation



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# Keeping the cost down



# What DWP needs to do next

- Reflect on the consultation responses
- Adjust important aspects of GMP conversion law (including primary)
- Work with HMRC to adjust aspects of pension tax law (including primary)
- Explore with the working group whether there are ways in which implementation costs can be kept as low as possible whilst ensuring that members are treated fairly
- Provide guidance to trustees on the issues thrown up by GMP conversion so as to facilitate this “once and done” solution



Go live April 2018?



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# Questions

# Comments

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