

# A reminder of the Questions and answers for Non-Pensioners

---

**IMPORTANT: The GMP consultation has now ended.**

## The Scheme and your Guaranteed Minimum Pension (GMP)

### 1. Why might my Scheme pension need to change?

Your Scheme pension might need to change because we need to address an inequality relating to some Guaranteed Minimum Pension (GMP) benefits in the Scheme. The inequality arises because of the different way that GMP benefits are calculated and paid between men and women.

The requirement to address this inequality follows the outcome of a High Court legal case which affects members of defined benefit pension schemes across the UK, including this Scheme.

**Whilst your pension may change slightly, the changes proposed would not result in any reduction to your expected pension at your Scheme's normal retirement age, or the expected overall value of your pension in the future.**

### 2. What is Guaranteed Minimum Pension?

Your Scheme pension is made up of different parts, based on when you (or your spouse or civil partner) built it up. Guaranteed Minimum Pension (GMP) is one part.

GMP is linked to when there were two parts to the State Pension arrangement – the Basic State Pension and the State Earnings-Related Pension Scheme (SERPS, which later became the State Second Pension).

Workplace pension schemes could 'contract out' of the State Second Pension. This resulted in National Insurance savings for the employer and its members, and most schemes like ours took advantage of this option.

In exchange, the Scheme had to promise to pay members broadly at least as much pension as they would have received from SERPS.

This is the part of your Scheme pension that is known as GMP.

GMP was earned between 6 April 1978 and 5 April 1997, so if you were building up benefits in the Scheme during this time, some of your Scheme pension may be GMP.

The amount of GMP and the way it must be increased in payment is set by legislation.

GMPs are different for most men and women because the State Pension Age used to be different for men and women. As a result, men and women built up GMPs at different rates and GMPs are payable at different dates, from age 60 for women and age 65 for men.

This led to the inequality which the High Court legal case has said pension schemes must now seek to address.

### 3. What is the legal ruling?

Pension benefits have generally had to be equal for men and women since 17 May 1990.

However, the way UK Government treated GMPs was not adjusted in line with this. As a result, GMPs remain unequal in some cases.

The issue of GMPs within pension benefits has only been addressed recently following a separate High Court ruling. The High Court ruled in the members' favour in October 2018.

**The result of this ruling is that all affected pension schemes are legally required to address this inequality.**

Pensions earned between 1990 and 1997 must be equalised for the effect of unequal GMPs. This is commonly known in the pensions industry as 'GMP equalisation'. You may have read about GMP equalisation in the news or the Scheme's newsletter.

GMPs earned before 1990 are not covered by the court ruling and do not need to be equalised.

Our proposed method of achieving GMP equalisation (as permitted by the High Court ruling) is to simplify the structure of your benefits by converting your GMPs into a different form of pension.

#### **4. What needs to happen to address any inequality?**

##### **GMP equalisation**

There are different ways of equalising pensions for the impact of unequal GMPs.

Considering all available options carefully, and with expert guidance from our advisers, we propose applying a one-off calculation to equalise GMP earned between 17 May 1990 and 5 April 1997.

Based on your Scheme's normal retirement age, we would identify whether the value of your benefits would have been greater if you had been treated as the opposite sex for the period from 17 May 1990 to 6 April 1997. If it would have been greater, we will apply an uplift to your pension.

We would apply an uplift to any member whose benefits are lower in value than they would have been had they been of the opposite sex.

**Note: Not everyone will be affected, so only some members will receive an increase in their expected pension at their normal retirement age. We expect any such uplift to be quite small. No member will see a reduction to their expected pension at their normal retirement age, or the expected overall value of their pension in the future.**

To fulfil the GMP equalisation requirement, we propose carrying out a one-off calculation and converting all members' GMP into a different form of pension.

GMP conversion laws require that if a member has their GMP converted, all their GMP (including any GMPs built up before 1990 that do not need to be equalised) must be converted.

We have also decided to convert GMPs for all members who left the Scheme before 1990 and are not subject to equalisation. If we did not do this, it would create a significant administrative burden for the Scheme.

**Note:** only GMPs earned between 1990 and 1997 need to be equalised. If you did not earn GMP within this period, you will not be affected by GMP equalisation. However, your Scheme pension will still be simplified under our proposal for GMP conversion.

##### **GMP conversion**

To meet the equalisation requirement going forward and simplify future administration of the Scheme, we propose converting all GMP into a different form of pension using a one-off calculation. This is known as 'GMP conversion'. Converting GMP into a different form of pension will:

- Remove sex-based inconsistencies arising from GMP between male and female pensions (for pension earned from 1990 onwards) – providing each member with the more valuable of the two.
- Simplify your Scheme pension and the future administration of the Scheme, as they will no longer be tied to complex GMP legislation.
- Potentially provide greater flexibility in how you can take your Scheme benefits at retirement, because there are currently restrictions around how you can take GMP benefits.

Every deferred member with a GMP (whether or not their pension has been changed due to GMP equalisation) will have their GMP converted into a different form of pension.

If we did not address the GMP equalisation as a one-off calculation for all members with a GMP, the already complex administration of the Scheme would become even more complicated.

See question 5 for details of how we propose to convert all GMP into a different form of pension.

**Remember:** Equalising and converting GMPs in the Scheme as we propose may result in a very small increase in your expected pension at your normal retirement age (where an equalisation uplift is required).

**In all cases, your expected pension at your normal retirement age and the expected overall value of your pension will not be reduced. You will receive a personalised statement later in the process once the calculations are completed.**

## 5. What is your proposed method for GMP conversion?

Our proposed approach involves converting:

- the way your GMP increases between when you left the Scheme and when you retire, and
- the way your GMP increases in payment before your GMP age (age 65 for men and age 60 for women).

Your pension, built up between 6 April 1978 and 5 April 1997, is currently made up of a combination of pension elements.

Below, we explain how elements of your pension currently increase in the Scheme before and after retirement and how we propose these are changed following GMP conversion.

### Increases before retirement

Pension element	Current increase before retirement	Proposed increase before retirement
All GMP built up between 6 April 1978 and 5 April 1997	Increases on each 6 April except for the 6 April before your GMP age by a fixed rate* between when you left the Scheme and your GMP age (age 65 for men and age 60 for women).  *The fixed rate depends on when you left the Scheme and is set out in legislation.	If you left the Scheme before 6 April 2002, your converted GMP will increase at the same fixed rate, however, it will now increase each complete year between when you left the Scheme and your normal retirement age.  If you left the Scheme after 5 April 2002, your converted GMP will increase at the same rate as your non-GMP benefits that were built up before 6 April 1997 (see row below).
Non-GMP built up before 6 April 1997	Increases are set out in the Scheme rules depending on your category of membership	Unchanged

The changes before retirement on your GMP are being proposed because of the complicated way in which HMRC's tax rules work. Further detail of this, and any tax implications of our proposal are included in question 8.

Under these proposals:

- Your expected pension from your normal retirement age will likely be the same, but may increase marginally in some cases if you are impacted by the historical GMP inequality.
- For some members, particularly for those members who left the Scheme after 5 April 2002, your pension when you left the Scheme may be higher following these changes, but it will then increase at a slower rate up to retirement. If this happens, your expected pension at your normal retirement age will not be reduced.

- In rare cases, it may be that your pension when you left the Scheme will be slightly lower following these changes, but it will then increase at a faster rate up to retirement. If this happens, your expected pension at your normal retirement age will not be reduced.

### **Increases in retirement (when your pension is in payment)**

<b>Pension element</b>	<b>Current increase before retirement</b>	<b>Proposed increase in retirement</b>
GMP built up between 6 April 1978 and 5 April 1988	In line with non-GMP (see bottom row) before GMP age (age 65 for men and age 60 for women), then nil increasing from your GMP age.	Nil increasing immediately from retirement.
GMP built up between 6 April 1988 and 5 April 1997	In line with non-GMP (see bottom row) before GMP age (age 65 for men and age 60 for women), then CPI up to a maximum of 3% each year from your GMP age.	CPI up to a maximum of 3% each year immediately from retirement.
Non-GMP built up before 6 April 1997	Annual increase as set out in the Scheme rules depending on your category of membership	Unchanged

The changes in retirement on your GMP are being proposed to simplify the Scheme benefits and ensure equal treatment of converted GMP between men and women (as currently, there are different increases in retirement on GMP between men and women from age 60 to 65). **If the proposed change in retirement goes ahead, the expected value of your benefits would not be reduced.**

Please note, to ensure the value of your benefit is protected, the Scheme Actuary is legally required to certify that any change will not reduce the expected value of your benefits (based on the financial assumption used as part of the calculation process).

There will be no change to any pension you have built up in the Scheme after 5 April 1997.

### **6. Why are you proposing to convert GMPs?**

GMP equalisation is a complex and costly process, regardless of the method adopted. After much consideration and input from our advisers, we decided on our proposed GMP conversion approach.

The factors that influenced our decision include:

- the historical complexity in the Scheme,
- the opportunity to simplify the existing benefit structures, and
- the reduced tax implications of converting GMPs following the abolition of the Lifetime Allowance from 6 April 2024, and
- alignment with how the Scheme is operated now and in the future.

We are satisfied that our proposal is in the interest of the Scheme and its members.

### **7. Can the Trustee make the proposed change?**

Yes, pensions law does allow the Trustee to change the Scheme's benefits in this way with agreement from the Company. However, certain steps need to be taken first, given that the change we are proposing affects benefits that have already been built up.

We have taken legal and actuarial advice and are following guidance from the Department for Work and Pensions.

The Trustee is consulting with all affected members of the Scheme, as required by legislation.

The proposed change is also subject to law to the consent of the Scheme' sponsoring employer. The Trustee has discussed the proposals with the Company (FirstGroup) which has confirmed its agreement to the proposed change.

### **8. Why did I receive a letter but my friend did not?**

The trustees are running this exercise in stages and as such only a proportion of the eligible members are receiving details of any change to their pension at the current time.

### **9. Why is my friend getting a different figure to me?**

The change to your pension as a result of this exercise is calculated specifically for your membership of the scheme. For example, it takes into account your scheme service, the size of your pension benefits, the age you took retirement, whether you are a pensioner or a dependant. As such your change is not likely to be the same as any other member's figure.

### **10. Could there be any tax implications if the proposal goes ahead?**

The Trustee is required to carry out GMP equalisation.

If your pension is increased following GMP equalisation, when you decide to start receiving it, the additional pension would be taxed in the usual way.

Our proposals for GMP conversion have been designed to minimise any negative tax implications. However, there may be tax implications if:

- You are using all your annual allowance
- You have applied for Fixed or Enhanced lifetime Allowance protection after 15 March 2023

### **Annual Allowance**

The Annual Allowance is the annual limit on the amount of contributions paid to, or benefit built up, in all private pension schemes before the member has to pay tax. You can read more about this at [www.gov.uk/tax-on-your-private-pension/annual-allowance](http://www.gov.uk/tax-on-your-private-pension/annual-allowance).

If GMP is converted to a new form of pension before retirement, because of the way HMRC's tax rules work, members may use up some of their Annual Allowance in the tax year of conversion. In the majority of cases, we expect members to use up little or none of their Annual Allowance following the proposed changes in the tax year of conversion, but this will be confirmed in the personalised statement to be sent to you.

If you believe you are at or near the Annual Allowance limit, please get in touch using the details on the useful contacts section of the site.

### **Lifetime Allowance**

The Lifetime Allowance is a limit on the amount of pension benefit that an individual can receive from all pension schemes (whether lump sums or retirement income) without triggering an extra tax charge known as the Lifetime Allowance Charge. You can read more about this at [www.gov.uk/tax-on-your-private-pension/lifetime-allowance](http://www.gov.uk/tax-on-your-private-pension/lifetime-allowance).

Our proposal to convert GMP may only impact your Lifetime Allowance if you applied for Fixed or Enhanced protection after 15 March 2023 (or plan to do so). This is because you may have a higher protected Pension Commencement Lump Sum, which may be affected by our proposal to convert GMP.

If you have applied for Fixed or Enhanced Protection after 15 March 2023, or plan to do so in future, please get in touch using the contact details below so we can review and consider your circumstances in relation to this.

### **Your administrator**

If you have questions about your benefits please check the Scheme website in the first instance.

Please contact Aptia (formerly Mercer) the administrator, if:

- you think any of the figures or information on your personalised pension statement may be wrong, or
- you have any form of Protection regarding the Lifetime Allowance (e.g. Enhanced Protection, Primary Protection, Fixed Protection, Individual Protection), or you are due a back-payment and would like a tax-year breakdown statement
- 0370 850 0712
- [FirstPensions.UK.GMPe@Mercer.com](mailto:FirstPensions.UK.GMPe@Mercer.com)
- Aptia (formerly Mercer), Maclaren House, Talbot Road, Stretford, Manchester M32 0FP