

# A reminder of the Questions and answers for Pensioners

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

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

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

We need to address an inequality relating to some historical Guaranteed Minimum Pension benefits in the Scheme. This follows the outcome of a High Court legal case which affects members of pension schemes across the UK, including this Scheme.

Addressing this issue could result in a small increase to your pension from the Scheme if you (or your former spouse or civil partner) built up GMP in the Scheme (or predecessor schemes) between 17 May 1990 and 5 April 1997. In no cases will the current amount of your pension or the overall expected value of your pension be reduced due to this ruling.

The way we are proposing to address this issue also means we will need to change the pension of all members who have GMP in the Scheme, including those who (or whose former spouse or civil partner) only earned GMP before 17 May 1990. See question 4 for more information.

**Your Scheme pension will not go down as a result of this change.**

### 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 (or your spouse or civil partner) were building up benefits in the Scheme (or predecessor schemes) 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.

We would identify whether, over your expected lifetime, the total value of your pension (or your spouse or civil partner's pension) built up between 17 May 1990 and 5 April 1997 is less than the equivalent total value of pension that a member of the opposite sex in the same circumstances would be entitled to.

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 and reimburse members who have lost out in the past with a one-off payment.

**Note: not everyone with GMP earned in this period will have benefits which are lower in value than a member of the opposite sex would have earned, so only some members will receive an increase to their pension and/or a one-off payment. For most impacted members, we expect any such uplift and/ or one-off payment to be quite small.**

**In all cases, there will be no reduction to the current amount or overall expected value of your pension from the Scheme.**

#### **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.

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

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

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 current pension (where an equalisation uplift is required).

**In all cases, the current amount and expected 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?

We propose to make as small a change to benefits as possible.

For all pensions built up between 6 April 1978 and 5 April 1997, we would remove any adjustments relating to GMP which may otherwise have occurred at age 60 for women or 65 for men (impacting only those members currently below these ages).

Pension built up between 6 April 1978 and 5 April 1997 is currently made up of a combination of three pension elements. The pension in payment increases on each pension element will be unchanged, but the split of GMP and Scheme pension built up alongside GMP may need to change to meet applicable legislation.

| Pension element                                | Pension increase                                                                         |
|------------------------------------------------|------------------------------------------------------------------------------------------|
| GMP built up before 6 April 1988               | No annual increase after GMP payment age (60 for women, 65 for men)                      |
| GMP built up from 6 April 1988 to 5 April 1997 | Annual increase in line with CPI up to 3% after GMP payment age                          |
| Non-GMP built up before 5 April 1997           | Annual increase as set out in the Scheme rules depending on your category of membership. |

**There will be no changes to the pension in payment increases on each pension element as part of GMP conversion.**

- The current annual amount of Scheme pension will likely be unchanged but may increase marginally in some cases. **The current annual amount of Scheme pension would not be reduced. In some cases, it may increase slightly due to GMP equalisation.**
- The split between different elements of Scheme pension may be slightly different. This means that future increases to the total annual amount of Scheme pension in the future may be marginally different. **The expected value over your lifetime of your benefits would not be reduced.**

To ensure that 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 assumptions used as part of the calculation process).

There will be no change to any pension built up in the Scheme after 6 April 1997.

## **6. What is the difference between non-converted GMP and converted GMP?**

For most members, the changes as a result of us converting GMP benefits is expected to be small.

However, there are a couple of exceptions where you may see a bigger change in how your Scheme pension increases:

- Women currently under age 60 and men under age 65 may see a bigger change to how their Scheme pension increases between now and age 60 (for women) and 65 (for men). This is due to the complex way GMPs must increase by law which we are simplifying as part of the conversion process.
- Pensioner members whose spouse's (or dependant's) pension on death is below that required by GMP conversion legislation. In this circumstance, the Scheme will adjust your pension to ensure your spouse's (or dependant's) pension on death meets the minimum required.

**Note:** even if any of these apply to you, your current Scheme pension and expected value of your Scheme pension would not be reduced.

## **7. 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
- 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.

## **8. 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.

## **9. What is the view of FirstGroup (the 'Company')?**

To implement GMP equalisation via GMP conversion requires Company consent. The Company has confirmed it supports the Trustee in converting GMP into non-GMP pension.

## **10. 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 members figure.

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

The Trustee is 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.

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

The Trustee is required to carry out GMP equalisation.

If you receive an increase in your annual Scheme pension or any back-payments, these would be taxed in the usual way. As a result, there may be tax implications if the GMP equalisation exercise leads to an increase in the current annual amount of your Scheme pension or the receipt of back-payments.

Our proposals for GMP conversion have been designed to minimise any negative tax implications.

Choosing the Pension B (see further information on this in Section 2) option is more likely to lead to tax implications, which is one of the reasons we are providing you with paid-for financial advice.

### **If you have Lifetime Allowance Protection**

If you have any form of Protection regarding the Lifetime Allowance and haven't already told us about it (e.g. Enhanced Protection, Primary Protection, Fixed Protection, Individual Protection), please contact Aptia (formerly Mercer), the Scheme administrators, using the details below.

Note, if you are a dependant member then you do not need to notify us of any Lifetime Allowance protection that you may have.

If you have any form of Protection regarding the Lifetime Allowance, please get in touch using the details below.

### **Contact details**

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.

To contact Aptia:

**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**

## Section 2: A one-off choice for your pension

**IMPORTANT: The Pension B offer window has now ended. Not all pensioners were offered the choice of Pension B.**

### 1. Why are you offering me a choice (Pension B)?

We need to address the inequality with Scheme pensions, and by offering you a choice as part of doing so, we are providing you with flexibility. Once you read through your option pack, you will have the opportunity to manage how your pension changes in a way that best suits your circumstances. Please note that by taking the Pension B option, you will be giving up some (or all) future increases, which provide protection against future inflation. You will find more information to inform your choice in your personalised statement.

The decision is completely up to you. Even if you take the paid-for financial advice on offer from Origen, you do not have to take up the Pension B option.

#### **Pension A**

With Pension A, we carry out the necessary checks and calculations to equalise members' benefits for the effect of unequal GMPs. This is known as 'GMP equalisation'.

As part of this process, we are also proposing to simplify Scheme benefits by converting GMP in the Scheme into a form of non-GMP benefit. This is known as GMP conversion.

See Section 1: The Scheme and your Guaranteed Minimum Pension (GMP), questions 4, 5 and 6

#### **Pension B**

With Pension B, we carry out the same necessary checks and calculations as we do with Pension A:

- to adjust members' benefits for the effect of unequal GMPs, and
- to convert GMP in the Scheme into a form of non-GMP benefit.

We then work out a different pension amount. This involves giving up the annual pension increases your current pension (built up before 5 April 1997) would receive in exchange for a higher pension now. This is known as a 'pension increase exchange' or PIE option.

Your option pack will include full personalised details of how Pension B works.

### **Good practice**

There is a code of good practice for making an option like Pension B available. We have made sure that this option is in line with the code. Your option pack will have more details about the code.

### **Can I get help?**

The Company and the Trustee have appointed Origen Financial Services Limited (Origen), a regulated financial adviser, to help members understand their options and make the right choice for their circumstances.

**The Trustee will pay for you to receive advice or guidance from Origen. There will be no cost to you, regardless of your decision.**

You may also prefer to use your own financial adviser, in which case, you would need to meet the cost of that advice.

**You cannot choose Pension B without taking at least guidance from Origen (even if you take financial advice from your own financial adviser).**

Origen is authorised to give advice in the UK only. If you live overseas, Origen will only be able to give you generic guidance, unless you are a US citizen, in which case, Origen cannot provide you with guidance or advice.