

Item 10

London Borough of Enfield

UPDATE TO	Local Pension Board 28th March 2019
SUBJECT	Briefing Update – Guaranteed Minimum Pensions (GMP) Project
LEAD OFFICER	Tim O'Connor – Pension Manager
Date	12.03.2019

1. RECOMMENDATIONS

- 1.1 To note the contents of this update

2. EXECUTIVE SUMMARY

- 2.1 The purpose of this update is to highlight the on-going project work surrounding the reconciliation of GMPs as part of the pension’s administration team.

3. BACKGROUND

- 3.1 The option to contract out of the State Second Pension (S2P) came to an end in 2016 when the Single State Pension was introduced. Prior to April 1997 the minimum level of benefit the Defined Benefit scheme had to provide was known as a Guaranteed Minimum Pension (or GMP), which still forms part of some members’ benefits.
- 3.2 When contracting out ended in April 2016, HMRC (Her Majesty’s Revenue and Customs) ceased tracking contracted out rights and issued closure schedules to schemes so they could compare these against GMP amounts held on scheme records. This is known as a GMP reconciliation. The review covered every member who had pensionable service between 1 April 1978 and 5 April 1997.
- 3.3 HMRC will respond again with final confirmation and any bill outstanding (Appendix 1). This is due from April 2019 onwards, although no firm date has been indicated.
- 3.4 The Pensions Team will issue a full report once the response from HMRC which is due to be issued from April 2019 has been received. The Board will be kept informed and provided with updates.
- 3.5 A further issue relating to GMP equalisation also remains under discussion and we will keep the Board informed.

There will be a bill for any CEP (certified equivalent premiums) outstanding. This is an amount to buy people back into the state pension and funds pay this when a member takes a refund.

The number of CEPs that reporting on form CA1611 has picked up on is 563 members with a total outstanding CEP outstanding amount of £243,483.17.

The reporting function picks up post 31st March 2016 refunds, therefore it may well be that these can be discounted to tie in with contracting out ending.

This amount will not be paid until confirmation has been received from HMRC on the amount they believe is outstanding. Their figure could be higher or lower and there will be further analysis when HMRC update us. Where agreement with HMRC cannot be reached on a record, these become 'stalemate cases' and there is guidance from PASA which we can be referred to;

http://www.pasa-uk.com/system/files/Stalemate%20guidance%20formatted_1.pdf

Background to GMP equalisation

For many years, the Government and the pensions industry have been talking about what, if anything, to do about the complex issue of guaranteed minimum pension (**GMP**) equalisation. However, it has proven far too difficult to work out what should be done and how.

Following the European Court of Justice ruling in *Barber v Guardian Royal Exchange Assurance Group* (1990), trustees of pension schemes have been required to pay equal benefits to comparable men and women in relation to service from 17 May 1990. However, the law has not been clear about whether GMPs should also be equalised, or how this might be done. As a result, nearly all schemes have not equalised for the effects of unequal GMPs and the gender inequalities that exist because of GMPs still remain today.

28 years after the *Barber* ruling, a High Court hearing considering the issue of GMP equalisation ended. The High Court's ruling, that GMPs also need to be equalised could have widespread implications for thousands of other defined benefit schemes.

Why are GMPs unequal?

GMPs are a minimum level of pension broadly equal to the State Second Pension or State Earnings Related Pension Scheme (SERPS) which must be provided by schemes if they contracted out of the State Second Pension or SERPS between 6 April 1978 and 5 April 1997. Contracting-out meant that both the employer and employee paid lower National Insurance Contributions and employees built up a lower level of state pension. In return, an employer's pension scheme had to provide members with a minimum level of pension, the GMP.

In the past, State pensions were paid to men and women at different ages. This is still the case for GMPs. As a result, women and men built up GMPs at different rates and their GMPs are payable at different dates.

GMPs also become unequal for several other reasons:

- GMPs are normally higher for women than men;
- the revaluation rates for GMPs are usually higher than the revaluation rates in respect of non-GMP benefits; and
- the pension increases applied to non-GMPs in payment are often higher than pension increases applied in respect of the GMP.

Consultation response on indexation and equalisation of GMP in public sector pensions

<http://lgpslibrary.org/assets/cons/nonscheme/20161128LR.pdf>