PPF default early / late retirement factors for GMP equalisation calculations

1. Introduction

Schemes in assessment that are transferring to the PPF after 31 May 2013 are required to equalise for GMPs, in line with the Statement[1] published in December 2012, before they transfer to the PPF. The PPF are aware that some schemes have gaps in the historic information relating to the methodology and factors used to calculate early and late retirement pensions. This information is required in order to calculate the GMP equalisation adjustment to PPF compensation for pensioners. In the published Statement the PPF confirmed that we would be producing details of appropriate default early and late retirement factors that could be used by scheme trustees in calculating GMP equalisation adjustments to PPF compensation in such cases.

2. Default Factors

The default factor sets are as follows:

Early retirement
5.5% per annum compound reduction applied to the pension revalued to the date of early retirement

Late retirement
11.5% per annum compound increase applied to the pension revalued to Normal Pension Age

---

The default early retirement factor for a member retiring 3 years 7 months before Normal Pension Age would be 0.8254 ($= 1 / 1.055 \wedge {}^{3\,7/12}$)

The default late retirement factor for a member retiring 2 years 4 months after Normal Pension Age would be 1.2892 ($= 1.115 \wedge {}^{2\,4/12}$)

In all cases the factors reflect the period before or after Normal Pension Age calculated to the nearest month.

Default factors have been quoted as a percentage per annum applied to the period that the member retired either before or after Normal Pension Age. This is seen as having the advantages of being:

    i.   applicable to both men and women;
    ii. extendable to any age; and
    iii. easy to generate with a formula in the necessary calculations.

3. Use of default factors

Where Trustees of schemes in assessment have:
- details of the method and factors used to calculate early or late retirement pensions; <u>and</u>
- the scheme calculated early or late retirement pensions by applying a single factor to either the pension revalued to the date of retirement or the pension projected to Normal Pension Age,
then the known scheme factors and methodology should be used in the GMP equalisation calculations.

The PPF default factors and methodology should be used for all other cases, namely:

1. for periods of retirement where the appropriate scheme factors or methodology are <u>not</u> available; and

2. for members where the scheme has used a more complicated method of calculating early or late retirement pensions such as the transfer value equivalence method.

4. Background on assumptions and methodology used in calculating the default factors

The PPF default factors are intended to be simple to apply and proportionate bearing in mind the relatively small size of the beneficiaries' GMP equalisation adjustments to PPF compensation.

The factors broadly represent actuarial equivalence based on assumptions that were typically used to calculate actuarial factors during the 1990s. Evidence suggests that the 1990s are the period where schemes are less likely to hold details of the factors and methodology used. The default factors were based on external advice and were also tested by the PPF for reasonableness.

More sets of actuarial factors were considered but analysis showed that the GMP equalisation adjustments to PPF compensation using a single set of factors produced results that were sufficiently close to the true adjustments achieved by using the theoretically accurate factors. Providing a single set of early and late retirement factors is therefore seen as maintaining the PPF's pragmatic and proportional approach to GMP equalisation set out in the published Statement.

[1]**Note:** The PPF's full Statement on Equalisation for GMPs and the application of a Statutory Minimum to PPF compensation can be found on the PPF website.

http://www.pensionprotectionfund.org.uk/TechnicalGuidance/Pages/Guaranteed_Minimum_Pension.aspx