

FAQs on the calculation of PPF compensation for the effect of Guaranteed Minimum Pensions (GMPs)

1. What's GMP?

Guaranteed Minimum Pensions (GMPs) are a defined benefit underpin broadly equal to SERPS (the State Earnings-Related Pension Scheme) which must be provided by schemes if they contracted out of SERPS.

They were introduced with contracting out in 1978, and could accrue up to 5 April 1997 when contracting out arrangements were changed.

Both defined benefit (DB) and (otherwise) defined contribution (DC) schemes could contract out and commit to pay GMPs.

2. So, what are you doing?

The Board has for some time been looking at the treatment of GMP for PPF compensation. Since becoming FAS Scheme Manager in July 2009 the Board has also been considering how the statutory requirements in relation to equality also apply to FAS assistance payments.

The technical Statement sets out the Board's method for making this calculation for PPF.

Our Statement only relates to the calculation of PPF compensation for DB pension schemes that have entered PPF assessment. It is not intended for schemes that remain outside of the PPF.

3. What's the underpin method?

The underpin method is the way in which the PPF will calculate compensation to take account of the effect of GMPs on member benefits. It works by testing when the GMP element of a member's benefits met the minimum statutory requirements. For example: adjusting the calculation of those benefits payable for a man at age 60 depending on whether the minimum has been met already or if it will be covered in future (e.g. at age 65).

4. How much difference will this make to members' benefits?

For nearly all members the change will have a very small impact on their overall compensation; the exact amounts will of course depend on their individual circumstances. For example, some PPF members could see some parts of their compensation coming into payment earlier than it would otherwise have done.

5. Will anyone see their compensation reduced as a result?

Nobody will receive less than the PPF compensation they are entitled to.

6. If the impact is small why are you doing this?

We are legally obliged to do this – we have no choice.

7. Will people who will benefit receive retrospective payments?

Yes.

8. Is using PPF resources on this a good use of levy payers' money?

It is something we have to address by law. The Statement includes standard pro-formas and examples to keep the cost of implementing as low as possible.

9. Why has it taken so long to come up with a solution?

It is a very complex area. The issue first arose more than 20 years ago and to date there has still been no industry consensus.

We have devised a solution for the calculation of PPF compensation.

10. Will it mean that schemes will spend longer in assessment while they adjust calculations for GMP for their members?

Trustees of schemes in a PPF assessment period that are expected to transfer to the PPF before 1 June 2013 are not expected to calculate compensation taking account of equalisation for GMPs and the Statutory Minimum prior to transfer. The PPF will adjust compensation for members of such schemes following transfer to the PPF using the approach set out in the Statement. This will avoid any delay in transferring such schemes to the PPF that would otherwise result from undertaking such calculations late in the assessment process.

Schemes transferring after 31 May 2013 will be expected to implement the methodology prior to completing the assessment process. Our pilot study demonstrated that implementation can be carried out alongside other assessment tasks with minimal impact on scheme progression.

11. Do you now expect other UK pension schemes to follow your lead?

This proposal only relates to pension schemes in a PPF assessment period. We are not seeking to set an industry standard. It is up to schemes to decide how they calculate their benefits for the effect of GMPs.

12. Why are you doing this while DWP are still considering their approach?

We are aware that DWP remain in dialogue with the Industry about the consultation on GMP's they ran earlier in the year. We have discussed our methodology with them (DWP) in the course of producing our Statement. We

are confident that our approach is appropriate for our requirements of schemes that enter a PPF assessment period whilst DWP are considering their approach for on-going live schemes.

13. If it increases scheme liabilities does it mean less money coming into the PPF once schemes transfer?

The obligation exists for schemes in assessment and those that transfer. There is, of course, a cost for performing any adjustments but this is a legal requirement which we are obliged to fulfil.

14. Could it prevent a scheme being rescued or being wound-up outside the PPF as it can no longer pay benefits greater than PPF levels of compensation?

We do not expect this change to have an impact on rescues or on schemes' ability to wind-up outside of the PPF. Schemes with section 143 valuations with funding levels greater than PPF levels of benefits will be expected to confirm that if GMPs had been equalised the scheme would still be overfunded on a PPF basis.

15. If it is such a complex process, will trustees be equipped to do this work successfully?

Our pilot study demonstrated that the methodology can be carried out successfully and practically by schemes.

16. When will DWP's revised equalisation guidance be issued?

This is a matter for DWP.

17. Does this mean that GMP equalisation and the application of the statutory underpin needs to be taken into account in the s143 valuation?

For the majority of schemes equalisation for GMPs does not need to be allowed for in the s143 valuation as this will only show that the funding position is lower. Further details are provided in the Statement. Please speak to your scheme delivery associate or PPF actuarial contact if the s143 valuation shows that your scheme is overfunded and you think that you may need to allow for GMP equalisation in the s143 valuation.

18. Does this mean that GMP equalisation and the application of the statutory underpin needs to be taken into account in s179 valuations?

No. Our position on s179 valuations remains unchanged i.e. that there is no need to allow for GMP equalisation in s179 valuations.

19. I am a trustee of a FAS qualifying scheme, what do I need to do?

FAS schemes have been required to equalise their GMPs since 9 April 2010, when DWP published guidance in respect of GMPs for FAS schemes that can be found here - <http://www.dwp.gov.uk/docs/fas-guidance-to-ensure-payments-equalised-basis.pdf> .

Data provided on the S1, in line with S1 guidance which can be found here http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/FAS_S1_Guidance.pdf

will enable the FAS to calculate assistance correctly using the underpin method. No additional action is required from FAS qualifying schemes as a result of the PPF's latest announcements.

20. What changes were made to the Statement between the version published in November 2011 and the revised version published in December 2012?

A summary of the main changes to the Statement is available [here](#).

21. Does the additional template need to be completed for all members of the scheme?

No. The additional template should be completed for all members of the Scheme who have a GMP (whether they have a GMP equalisation adjustment or not) and any members without their own GMP who are entitled to a GMP equalisation adjustment to PPF compensation.

22. Can the Trustees adopt a de-minimis limit when carrying out the GMP equalisation calculations?

No. The Trustees should ensure that the appropriate calculations are carried out for all affected members. It is expected that in the majority of cases the calculation of the GMP equalisation adjustments to PPF compensation and back-payments will be automated.

23. Do the Trustees need to write to all members to provide them of details of the adjustments and back-payments?

No. The Trustees may use their judgement in deciding if it is necessary to communicate small changes in PPF compensation to members.

24. The Statement indicates that an appropriate uplift should be applied to Dependants based on the changes that apply to pensioners. Should the Trustees apply the same uplift to male and female dependants?

Where there are clear differences in the GMP equalisation adjustments to PPF compensation that apply to males and females, it is expected that the Trustees may decide to take these into consideration when applying appropriate uplifts to dependants.

25. What process should be followed for a member who previously only had a pension tranche(s) with NPA of more than 60 and took their benefits after their 60th birthday but now, as a result of GMP equalisation, has a new NPA 60 tranche?

Should arrears in respect of the new tranche be calculated and paid from NPA 60, or should the tranche be 'late retired' up to when the member actually retired?

Whilst either approach is acceptable, applying a late retirement factor to the NPA 60 tranche would be our recommended approach.

This is because this approach is viewed as the simpler of the two to implement and using the approach of applying arrears could result in some members' residual pension being reduced post equalisation.

If you are still unsure of the best course of action to follow then please contact your SDA.

26. What treatment should be applied to transferred-in benefits with regard to adjustments for GMP equalisation?

Schemes should equalise transferred-in benefits with respect to GMP, as well as benefits accrued within the scheme. If sufficient data is available on these transferred-in benefits then the normal equalisation method set out in the Statement should be applied. However, in other cases where less data is available, trustees may have to make pragmatic assumptions in order to complete the calculations.