

# GMP Equalisation

## Information note to assist schemes preparing to submit s179 valuations and certify Deficit-Reduction Contributions (DRCs)

This information note relates primarily to the impact of the October 2018 Lloyds judgment and the principles which actuaries should adopt when applying this judgment to determine an interim allowance for GMP equalisation in section 179 valuations and certified Deficit-Reduction Contributions. For clarity, section 179 valuations (irrespective of their effective date) and certified Deficit-Reduction Contributions do not need to include any interim allowance for GMP equalisation in respect of past transfers resulting from the [November 2020 Lloyds judgment](#). Nor does the PPF propose to adjust submitted s179 valuations or certified Deficit-Reduction Contributions to reflect this latter judgment.

We note that the actual impact of the November 2020 Lloyds judgment will ultimately emerge in future s179 valuations once trustees have determined what action they are going to take in response to the judgment. For example, there may be a reduction in assets if top up payments are to be made in respect of past transfer values.

### **1. Does the [2018 Lloyds judgment](#) mean that GMP equalisation and any additional scheme liabilities as a result need to be taken into account in s179 valuations?**

The original Lloyds judgment was handed down in October 2018 and confirmed that GMP equalisation is within schemes' protected liabilities. We appreciate that most schemes will not yet have implemented GMP equalisation, and may still be at an early stage of considering which of the permissible equalisation methods to adopt. However, we anticipate that new submissions of s179 valuations by 31 March 2020 will have an effective date after the 2018 Lloyds judgment. It is our expectation that all valuations with an effective date after the 2018 Lloyds judgment will include an interim allowance for GMP equalisation, commensurate with the legal requirement. This information note sets out some principles for calculating such interim allowances which we hope actuaries preparing s179 valuations will find helpful. Once GMP equalisation has been implemented for a scheme, the s179 valuation should of course reflect the equalised liabilities and no interim allowance will be needed.

### **2. Which equalisation method should actuaries use when calculating an interim allowance for GMP equalisation in s179 valuations?**

If the trustees and employer have agreed upon the method that the scheme will adopt to implement GMP equalisation, that method should form the basis of the interim allowance in the s179 valuation. Otherwise, actuaries should select an appropriate and permissible equalisation method. We would expect the method chosen to be consistent with GMP equalisation figures calculated for other purposes (e.g. scheme funding valuations or company accounts), unless there are specific reasons for a different method to be used. This might include, for example, a relevant trustee decision which post-dates the earlier calculated figures.

**3. Does the principle of prudence apply to the calculation of an interim GMP equalisation allowance?**

We recognise the difficulties of applying the principle of prudence to an interim and to some extent speculative allowance, pending data cleansing, legal advice and clarity on the equalisation method that the scheme will ultimately adopt. Consequently, we are content for such allowances *in isolation* to be calculated on a best estimate basis. It should be noted that the principle of prudence continues to apply to *all* other elements of the protected liabilities, *without relaxation* (except in relation to liabilities arising from the November 2020 Lloyds judgment which, as noted above, can be disregarded).

**4. Does a best estimate approach require individual member-by-member calculations?**

Not necessarily. If the data available does not facilitate member-by-member calculations, or if such an approach would be disproportionately onerous, then high level calculations are acceptable. For example, the actuary could identify an appropriate segmentation of members and apply different GMP equalisation impacts to each group.

**5. How should the compensation cap be allowed for when calculating an interim GMP equalisation allowance?**

The compensation cap is applied to benefits after adjusting for GMP equalisation. If a scheme has members who are impacted by the compensation cap before adjusting for GMP equalisation, the actuary could exclude these members from the interim GMP equalisation allowance. If there are members who are not impacted by the compensation cap before adjusting for GMP equalisation, but who could be capped after GMP equalisation is applied, the actuary may consider it appropriate and proportionate to simply apply the cap for these members without further investigation. Alternatively, it is open to the actuary to calculate a best estimate of the impact of GMP equalisation for the affected members in order to avoid an overvaluation of the protected liabilities.

**6. How should backdated pension payments be allowed for when calculating an interim GMP equalisation allowance?**

Where backdated pension payments are not yet recognised as a liability in the scheme's accounts, they may be calculated using a best estimate approach, consistent with other elements of the GMP equalisation allowance. Where this applies, the relevant amount should be included in the protected liabilities.

**7. How do PPF compensation levels interact with GMP equalisation methodologies that require a comparison of 'member versus comparator' benefit levels each year?**

For the purpose of carrying out s179 valuations, there is no need to project a series of year by year comparisons when determining the impact of GMP equalisation on the protected liabilities. The comparison can be carried out once only, at the relevant time, with GMP equalisation assumed to be based on the resulting implied level of compensation.

**8. How can actuaries provide a certification that the protected liabilities are ‘unlikely to have been understated’, when the GMP equalisation element has been calculated on a best estimate approach and liabilities arising out of the 2020 Lloyds judgment in respect of historic transfers have been disregarded?**

If the interim GMP equalisation allowance in the s179 valuation has been calculated on a best estimate approach, the actuary should amend the certification provided to the trustees to reflect this. It is not our intention to specify a prescriptive form of words, as the actual wording will depend upon the circumstances and the exercise of the actuary’s professional judgment in communicating the assumptions and approximations made. For example, the certification could identify the equalisation method on which the interim allowance has been based, and the actuary’s rationale in using that method. Actuaries may find it helpful to include a statement along the following lines: *“I have taken account of the ‘Information note to assist schemes preparing to submit s179 valuations and certify Deficit-Reduction Contributions (DRCs)’ published by the Board of the Pension Protection Fund in January 2021. This states that:*

- *where, having regard to the 2018 judgment of the High Court in the case of ‘Lloyds Banking Group Pensions Trustees Limited vs Lloyds Bank Plc and others’, a s179 valuation includes an interim allowance for GMP equalisation, such allowance may be calculated using a best estimate basis rather than applying the principle of prudence;*
- *no allowance need be made in respect of impacts arising from the 2020 judgment of the High Court in the case of ‘Lloyds Banking Group Pensions Trustees Limited vs Lloyds Bank Plc and others’ if the trustees have not yet decided what action they will take in response to the judgment, or if the trustees are uncertain what impact (if any) it will have on the scheme assets and/or liabilities; and*
- *the principle of prudence applies to all other elements of the protected liabilities.”*

**9. Will there be scope to amend the block transfer certification wording on Exchange?**

The block transfer certification wording on Exchange is standardised and will not be amended. In particular, the following provisions will continue to appear:

*“I certify that this valuation has been carried out in accordance with the Pension Protection Fund (Valuation) Regulations 2005 and with the appropriate section 179 guidance and assumptions issued by the Board of the Pension Protection Fund...”*

*I certify that the calculated value of the protected liabilities (excluding the external liabilities) is, in my opinion, unlikely to be understated...”*

Actuaries submitting s179 and block transfer valuations on Exchange may rely on the status of this information note as s179 guidance to supplement version G8 of our published document ‘Guidance for undertaking the valuation in accordance with Section 179 of the Pensions Act 2004’.

[https://www.ppf.co.uk/sites/default/files/file-2018-10/s179-g8-april\\_2018.pdf](https://www.ppf.co.uk/sites/default/files/file-2018-10/s179-g8-april_2018.pdf)

**10. What sources of information are available regarding the impact of GMP equalisation?**

There are a variety of sources which can be used to develop an appropriate estimate of the impact for any particular scheme. As an overarching principle, high-level or generic impacts (for example, industry averages) should not be applied without considering how they should be tailored to the particular profile of the scheme's membership and benefit structure. Within this framework however, the actuary may consider that a bespoke approach would not be proportionate to the materiality of the impact.

Resources available may include any internal guidance issued by the actuary's employer, and surveys published by actuarial and accounting firms. Actuaries preparing s179 valuations may also wish to draw upon shared industry knowledge in this respect.

**11. Will you be adjusting previously submitted s179 valuations to take account of the Lloyds judgments?**

Where a s179 valuation was submitted for use in 2020/21 levy invoicing (or prior years) and is not replaced with a new submission by 31 March 2021, we do not propose to apply any adjustment for the 2021/22 levy year to take account of the 2018 or 2020 Lloyds judgments.

**12. When certifying DRCs under Option Alpha, should actuaries treat the additional compensation payable as a result of the Lloyds judgments as an augmentation?**

For the 2021/22 levy year, the impacts of the 2018 and 2020 Lloyds judgments should not be treated as an augmentation when certifying DRCs under Option Alpha.

***Published: January 2021***