

Consultation on the requirement under Section 171 of the Pensions Act 2004 to equalise compensation to allow for differences in the GMP formula

April 2008

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Chapter 1 – Executive summary and introduction

Introduction

- 1.1. The Board of the Pension Protection Fund is a statutory corporation established under the provisions of the Pensions Act 2004, and became operational on 6 April 2005. The Pension Protection Fund (PPF) has been established to pay compensation to members of certain occupational defined benefit and hybrid pension schemes, following an insolvency event of the sponsoring employer and where there are insufficient assets in the pension scheme to pay PPF levels of compensation.
- 1.2. The Board has sought advice on the meaning and implications of section 171 of the Pensions Act 2004 in the context of Guaranteed Minimum Pensions. A brief overview of the key issues involved (together with a simplified example) is set out at Appendix A for readers who may be unfamiliar with this topic.

Executive Summary

- 1.3. Under the Pensions Act 2004, the Board of the Pension Protection Fund has a duty to pay compensation on a basis that is no more or less favourable to a woman (or man) than it would be to a comparable¹ man (or woman), in respect of pensionable service on or after 17 May 1990. The Board has received legal advice² that, in meeting this requirement, it must take into account any differences in scheme benefits that have arisen due to differences in the calculation of Guaranteed Minimum Pensions (GMPs³) due to gender.
- 1.4. The Pensions Act 2004 also places responsibilities on trustees, in particular (for the purpose of this consultation document), in respect of their relationship with (and the information they should provide to) the Board, Trustees should co-operate with the Board so that it can complete a 'section 143'⁴ valuation to determine whether the scheme will enter the PPF. The section 143 valuation is based on the compensation members would receive if the scheme enters the PPF at the end of the assessment period.
- 1.5. The consequence of the trustees' statutory responsibilities and the Board's legal advice is that, to complete the section 143 valuation, trustees will have

¹ To be 'comparable' for this purpose, the man and woman must (broadly) have been employed on like work, work rated as equivalent, or work of equal value, by the same employer, and the work must have been considered pensionable service under the scheme.

² By providing this information to assist the consultation process, the Board does not waive legal professional or other privilege in its legal advice.

³ Terms used in this report that may not be familiar to all readers have been defined in a Glossary (in Appendix E).

⁴ During an assessment period, the Board is obliged under section 143 of the Pensions Act 2004, to complete a valuation of the pension compensation the Board will pay to scheme members, should the scheme enter the PPF. This is referred to as a 'section 143' valuation.

to consider the issue of any inequalities in the GMP calculation, when determining the compensation members would be entitled to if the scheme entered the PPF. The Board believes that trustees will have to choose between two general approaches:

- They must either determine whether a comparator exists for each member and, where one does, calculate an equalised amount of PPF compensation allowing for differences in the GMP formula; or
 - They must amend the scheme rules⁵ to achieve Benefit Equalisation for GMPs (without determining whether comparators exist).
- 1.6. In most cases, the increase in the scheme's liabilities as a result of equalising benefits to address differences in the calculation of GMPs will represent only a small proportion of a scheme's liabilities. The exact proportion will depend on the equalisation method chosen and each scheme's benefit and membership profiles.
- 1.7. Trustees will also incur administrative costs, which could be material to small schemes, but are unlikely to be so in larger schemes. If the scheme subsequently enters the PPF, these costs will effectively be met by the PPF.
- 1.8. **The proposals in this consultation document only apply directly to schemes that enter an assessment period** and are, or have been, contracted-out of the State Earnings-Related Pension Scheme, with members with GMP entitlements accrued on or after 17 May 1990.

Terminology

- 1.9. We use the phrases 'Benefit Equalisation for GMP' and 'equalise benefits for GMP' throughout this document to refer to the process of equalising individual scheme members' overall benefits, in order to address inequalities created because the formula for calculating GMPs differs for men and women. The pensions industry commonly refers to this concept as "GMP Equalisation". Whilst we have no difficulty with this shorthand, we have decided not to use this phrase in order to avoid any possible implication that we propose to equalise the GMP element itself. The calculation of GMP itself is set out in legislation and cannot be equalised, except following a change in law.

The Board's proposals

- 1.10. In the light of advice it has received, the Board believes that trustees of schemes or sections thereof (with members with GMPs accrued on or after 17th May 1990) entering an assessment period must consider whether they need to seek comparators and/or equalise benefits for GMPs, to calculate PPF compensation. The purpose of this consultation is:
- to explain to trustees and other stakeholders how the Board has reached this conclusion;

⁵ The Board understands that trustees will be able to amend the scheme rules under section 65 of the Pensions Act 1995.

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- to consider what steps it is appropriate to ask trustees to take to achieve the outcome the Board requires; and
- to ask whether stakeholders believe the steps the Board plans to take to help trustees of schemes in an assessment period to calculate PPF compensation are proportionate, or whether there are alternatives that will meet the trustees' and the Board's legal obligations, but impose a smaller burden on eligible schemes.

1.11. Whilst the Board welcomes comment on all aspects of the document, the specific questions asked relate to implementation and administrative issues.

1.12. In developing its proposed approach, the Board has remained conscious that its approach should not impose unnecessary and disproportionate costs on trustees.

Timetable for consultation on the Board's proposals

1.13. The publication of this consultation document will be followed by a three month consultation period ending on 28 July 2008.

1.14. The views of scheme trustees, sponsoring employers and their advisers on the proposals in this consultation document are extremely important to the Board. Details on how to respond can be found in Chapter 6.

1.15. The Board intends to publish a summary of consultation responses in Autumn 2008.

Chapter 2 – What the legislation says and the legal advice presented to the Board

The Board's responsibility to equalise

- 2.1. Section 171 of the Pensions Act 2004⁶ requires the Board to provide compensation on a basis that is no more or less favourable to a woman (or man) than the compensation it would pay to a “comparator”, i.e. a comparable¹ man (or woman) who was in pensionable service under the same occupational scheme. The duty applies to service on or after 17th May 1990.
- 2.2. The compensation the Board pays to members of schemes that enter the PPF following an assessment period is based on the scheme benefits that have been accrued, or are being paid, at the assessment date. Compensation is calculated using the scheme rules subject to certain recent rule changes, and certain rules having effect only on wind-up, being disregarded.⁷
- 2.3. A similar obligation to provide equal benefits to men and women applies to the trustees (section 62 of the Pensions Act 1995 broadly provides for the equal treatment of comparable male and female scheme members). So, in theory, it should be possible for the Board to rely on scheme rules to ensure that it can meet its obligations.
- 2.4. However, many of the schemes that are eligible for the PPF have been contracted out of the State Earnings-Related Pension (SERPS). If they were contracted out before 1997 they are likely to have members entitled to Guaranteed Minimum Pensions (GMPs) – the GMP calculation is set out in legislation⁸ and is different for men and women. GMPs also have different payment ages for men and women and are frequently revalued in deferment and in payment at different rates to other scheme benefits. As a result, if men and women have a right to a GMP then, even if they are identical in every respect apart from their sex, when they are pensioners they are likely to receive different benefits. If they leave a scheme before they are entitled to pension, the differences can emerge before they become pensioners.
- 2.5. There is no consensus about what, if any, action trustees are obliged to take to remove the effect of differences in treatment that emerge due to the GMP formula. Consequently, the Board believes that very few trustees (apart from

⁶Section 171 applies where—

(a) a woman has been employed on like work with a man in the same employment,

(b) a woman has been employed on work rated as equivalent with that of a man in the same employment, or

(c) a woman has been employed on work which, not being work in relation to which paragraph (a) or (b) applies, was, in terms of the demands made on her (for instance under such headings as effort, skill and decision), of equal value to that of a man in the same employment, and service in that employment was pensionable service under an occupational pension scheme.

⁷ Section 7 of the Pensions Act 2004 and guidance published on the PPF website (www.ppf.gov.uk) give more information on how pension compensation is calculated and paid.

⁸ Pension Schemes Act 1993, Section 14.

trustees of schemes that are winding up) have taken action to consider how GMPs affect their obligation to provide equal benefits. This means that the scheme benefits (and therefore the compensation paid by the Board) for pensioner and deferred members at the assessment date could be different, just because of the sex of the member.

- 2.6. The Board has received legal advice that, if it takes no action, this would compromise its responsibility under section 171 of the Pensions Act 2004 and that it should take a proactive approach to this issue. The Board has decided that, in the light of its advice on the meaning of the legislation and its obligations thereunder, it would be inappropriate for it to take no action.
- 2.7. As well as ensuring that the compensation paid following the assessment date is equal for comparable men and women, the Board must ensure (under section 166 of the Pensions Act 2004) that payments made before the assessment date have been made on an equal basis. If they have not, then the Board must make payments to members to address any differences. Although this does not affect the amount of pension compensation paid, it represents an extra cost to the PPF. Chapter 4 includes estimates of the cost of making these 'back-payments'.
- 2.8. Once a scheme has entered the PPF the calculation of compensation ignores GMPs (that is, the same rate of revaluation is applied to all deferred compensation and to compensation in payment, regardless of whether it could be considered to have been derived from GMP), although GMP will affect the payment age⁹. So, provided the compensation calculated at the assessment date is equal, and payment ages are the same for otherwise identical men and women, there is no need for the Board to address equalisation issues further.
- 2.9. The Board has received advice from its Counsel (Andrew Simmonds, QC) that it must adjust compensation to make up for inequalities between men and women caused by their GMP entitlement, where there is a comparator. Because the Board's freedom to act is limited by its statutory responsibilities (i.e. unlike trustees, the Board is obliged to establish that there are comparators before making such adjustments), Counsel has recommended that it may be preferable for equalisation to be addressed by trustees during the assessment period.

Schemes that have already entered the PPF

- 2.10. The Board proposes to take action to ensure that the compensation it pays to members of schemes that have already transferred to the PPF is equal, wherever possible. Because it is constrained by its statutory responsibilities, it must first determine whether a comparator exists in respect of each member. Where it determines that a comparator does exist, then it will calculate the pension compensation the comparator would have been entitled to, assuming

⁹ The Board has received advice that if a GMP element of pension is payable at a different normal pension age to the "excess" then the two tranches will be different parts of a pension for the purposes of paragraph 34(2) of Schedule 7 to the Pensions Act 2004. There are also provisions in the current Pensions Bill dealing with step ups and step downs. However, the implications of the advice received on Benefit Equalisation for GMP are more far reaching and the Board therefore intends to address these two issues together.

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no other differences between the member and the comparator apart from gender, and pay the higher amount to the member.

- 2.11. To do this, it will rely on records transferred to it by the trustees and employers when the scheme entered the PPF and information provided by members. Since their records should be comprehensive, it does not expect that trustees or scheme administrators previously associated with these schemes will be expected to provide material support in this exercise. There may well be a need, however, to collect further information from the insolvency practitioner (or solvent associated group companies).

Questions on Chapter 2

Question 2.1

Do you agree that the Board will have fulfilled its obligation to determine equal levels of compensation, in respect of members of schemes who have already entered the PPF, if it limits its search for comparators to the data already available to it? If not, what other searches should the Board undertake?

Chapter 3 – Trustees’ responsibilities during an assessment period

- 3.1. Once a scheme has entered an assessment period, under section 143 of the Pensions Act 2004, the Board is obliged to obtain a valuation. In practice, this is produced by the scheme actuary, with input from the trustees and the trustees’ other advisers. The payments that must be valued for the ‘section 143’ valuation are the compensation the Board must pay to members if the scheme subsequently enters the PPF. The current [guidance](#) for completing this valuation is available on the Board’s website.
- 3.2. As discussed in the previous Chapter, the compensation the Board pays must be the same for otherwise identical men and women, where a comparator exists. If the scheme has not equalised its benefits to remove any discriminatory effects caused by GMPs, it is likely that some adjustment must be made to the benefits to calculate the compensation correctly in respect of deferred and pensioner members.
- 3.3. The minimum action that the trustees would be required to take (in terms of its effect on the level of compensation taken into account for the section 143 valuation) would be to adjust compensation only where a comparator exists. This would satisfy the Board’s requirements. However, the Board anticipates that it is likely to be difficult and costly for trustees to determine whether there is a comparator for each member. It is also likely to result in much greater delays for members in completing the assessment period. The Board’s experience suggests that delay can cause distress to members. An alternative would be for trustees to equalise benefits by amending the scheme rules¹⁰ – thereby avoiding the need to determine whether a comparator exists.
- 3.4. The option of seeking comparators leads to a course of action that is problematic only because of the cost and difficulty of seeking comparators. Whilst it seems likely that comparators would eventually be found for most members, the Board’s view is that the administrative task of compiling evidence, particularly where the company is no longer active, might be very onerous. This option would not require any changes to the scheme’s rules and, if no comparators exist then, having established this, no further action will be required.
- 3.5. If comparators are found, or trustees adopt the option of amending the scheme rules without seeking to establish whether comparators exist, then there are several possible alternatives, and the trustees will have to balance the interests of all their members in determining the appropriate one to adopt. Please refer to Appendix B which summarises different ways the trustees could equalise benefits for GMPs under their rules and is a fundamental part of the proposals on which the Board is consulting. The Board favours partial application of method (2) in Appendix B for schemes in assessment.

¹⁰ The Board is obliged to ignore certain recent rule changes in determining the level of pension compensation to pay. However, a rule change to effect Benefit Equalisation for GMP would be made in respect the trustees’ statutory obligation under the Pensions Act 1995. Consequently, the Board would have to recognise the change in determining the scheme’s admissible rules.

- 3.6. This results in members receiving the higher of the (overall) pensions payable to two individuals who are equal in every respect except that one is male and the other female. "Partial application" means that only benefits paid, accrued rights (and revaluations) up to the assessment date need to be equalised. Compensation paid after the assessment date will then certainly be equal as between men and women because all PPF compensation is revalued using the same formula and therefore revaluation does not vary between men and women (or between GMP elements and other elements of benefit). Accordingly, this partial application is sufficient to satisfy the Board's obligations.

How should trustees equalise during an assessment period?

- 3.7. Nearly all schemes that enter an assessment period will either enter the PPF or wind up outside the PPF (perhaps after operating as a closed scheme); the alternative is a scheme rescue, which will be considered separately. If there is no scheme rescue, there will be no accrual under the scheme after the assessment date.

No scheme rescue

- 3.8. If the funding of the scheme suggests that it is reasonably certain that a scheme will enter the PPF then the trustees know it is likely that, after the assessment date, entitlement to benefit will depend on PPF compensation levels and rules, rather than scheme rules. So, provided the trustees change their rules to ensure that scheme benefits are equal at the assessment date, the Board believes they could be considered to have fulfilled any obligation to equalise under the Pensions Act 1995¹¹; they will also have satisfied the Board's need for compensation to be equal before transfer to the PPF.
- 3.9. If a scheme winds up outside the PPF (because the scheme's assets are sufficient to buy out benefits at least equal to the compensation the Board would have paid) the trustees are obliged to buy out scheme benefits, to the extent that they can. Some of these benefits represent GMPs and must retain the payment ages, and be given the increases, prescribed in legislation. If the trustees change their rules to ensure that benefits are equal at the assessment date, it is likely that inequalities will subsequently emerge in the future. Trustees should seek their own advice on whether equalising benefits only in respect of inequalities that have emerged up to the assessment date would fulfil the requirements under the Pensions Act 1995.
- 3.10. Trustees of some winding up schemes, with insufficient assets to cover all the benefits, have received legal advice that they need take no action to equalise benefits. The reason given is that the costs of implementing Benefit Equalisation for GMP would be disproportionate and could result in overall loss to members, without achieving the desired aim. Others have been told that, provided they take some pragmatic actions in the direction of Benefit Equalisation for GMP, then this would be sufficient¹².
- 3.11. Following Counsel's opinion, it is now the Board's clear view that trustees of schemes that have entered an assessment period can no longer do nothing. If

¹¹ The Board's opinion should not be considered a substitute for legal advice.

¹² This is not inconsistent with the draft good practice guidelines issued by the Pensions Regulator on 3 March 2008 on avoiding delays in winding up pension schemes.

they wish to avoid changing the scheme rules trustees must look for comparators and, if comparators exist, they must determine equal levels of compensation according to the Board's requirements; otherwise they must change the scheme rules so that benefits at the assessment date are equal. The Board anticipates that the latter may be the less administratively burdensome option for trustees and may result in fewer delays in progressing the assessment period. Trustees may wish to take a proportionate approach (weighing the likelihood of finding comparators) when determining their approach.

- 3.12. Because of the requirement to carry out a section 143 valuation of the compensation it must pay, the Board's opinion is that it would be reasonable and appropriate for trustees to change their rules to equalise benefits at the assessment date.
- 3.13. The Pensions Regulator (tPR) accepts that there are various approaches to issues arising during wind-up and that trustees should act proportionately and pragmatically, in the best interests of members, when deciding on the best approach to adopt for their scheme. With respect to schemes that have entered an assessment period, tPR agrees that equalising benefits for GMP using the method that the Board proposes would be a pragmatic way of addressing the difficulties of Benefit Equalisation for GMP, for schemes that enter the PPF at the end of the assessment period as well as those that ultimately wind up and buy out benefits outside the PPF.

Where there is a scheme rescue

- 3.14. If there is a scheme rescue, then a scheme can leave an assessment period without completing a section 143 valuation. The Board's concern is limited to how its compensation should be calculated so that it meets its duty to pay equal benefits. If trustees and employers can negotiate a scheme rescue before a section 143 valuation has been completed, then the Board has no obligations under s171 in respect of that scheme, so the actions that trustees take with regard to Benefit Equalisation for GMP are solely a matter for them.

Conclusion

- 3.15. The Board believes that trustees of schemes in an assessment period should either seek out comparators and equalise benefits where appropriate, or amend the scheme's rules to ensure that male members are entitled to the same level of post-16 May 1990 benefits at the assessment date as their female comparator would be, levelling up if necessary. The same would apply for female members of the scheme in relation to their male counterparts. In most cases, the Board believes the simplest action is likely to be changing the scheme rules.
 - For schemes that are certain to enter the PPF following the assessment period, no more action would be required. Members will receive slightly higher compensation on average from the PPF than they would have done if the rules had not been changed – in particular because all scheme members will receive levelled-up benefits, not just those where a comparator exists;
 - If it is not certain that a scheme will enter the PPF following the assessment period, then it is still likely to be simpler for trustees to change scheme rules

to equalise benefits at the assessment date. The trustees could consider adopting an approach that takes into account prospective revaluation, but this would be impractical if it resulted in benefits as at the assessment date that were unequal.

- If there is a scheme rescue before the section 143 valuation has been completed, then the trustees do not have to consider the calculation of PPF compensation when resolving whether, and how, to approach Benefit Equalisation for GMP.

- 3.16. If trustees seek out comparators, then this could result in lower pension compensation overall, relative to the effect of trustees changing their scheme rules. However, the process of discovering whether comparators exist would impose costs elsewhere and could delay the assessment process in a way that would be difficult for trustees, scheme members and scheme advisers.
- 3.17. In any case, trustees of schemes that have entered an assessment period should consider their overall responsibility to equalise and may want to seek legal advice to determine what they need to do to discharge their obligations. The Board believes that a scheme rule change as suggested is likely in most cases to be the most pragmatic and the least costly action for trustees, and the most beneficial solution for scheme members.

Questions on Chapter 3

Question 3.1

Do you agree that trustees should be able to consider changing the scheme's rules to equalise benefits to the level required by the Board or do you think that trustees should be required to seek out comparators?

Question 3.2

Do you agree that partial application of method (2), described in Appendix B, meets the Board's requirements under s171?

Question 3.3

Does your answer to question 3.2 change in respect of a scheme in assessment which appears to be funded at above 100% on a section 143 basis? (Note that, once the Board has implemented an approach to equalisation, no formal section 143 valuation will have been carried out pending the resolution of the problem of unequalised benefits, so the funding level will not have been formally established.)

Question 3.4

Are there matters about which trustees of schemes in an assessment period will need regulatory confidence (for example, guidance published by tPR or DWP) in order to feel that equalisation to the level required by the PPF satisfies their obligations under the Pensions Act 1995? If so, what are these matters?

Chapter 4 – The cost implications of Benefit Equalisation for GMP to schemes entering an assessment period

- 4.1. This Chapter gives some estimates of the increase in protected liabilities that could be caused by trustees implementing Benefit Equalisation for GMP, assuming they choose to change the scheme's rules so that, at the assessment date, scheme benefits are equalised as required by the PPF. It also provides estimates of the cost to the PPF of making back-payments to address the fact that unequal benefits have been paid in the past.

Where financial or demographic assumptions have been made, they have been adopted from those specified in version B2 of the document 'Guidance on assumptions to use when undertaking a valuation in accordance with Section 143 of the Pensions Act 2004' published on the PPF website¹³.

- 4.2. The cost for any particular scheme will depend on features of the scheme design and on its membership profile. For example, the following scheme features will affect the outcome:
- Normal pension age;
 - How pensions are indexed in payment and revalued in deferment.
- 4.3. The cost will also be affected by individual members' circumstances (apart from sex):
- Age;
 - Date of commencing pensionable service;
 - Date and reason for leaving;
 - How large the GMP is relative to their overall pension.
- 4.4. The ratio of GMP accrued between 17 May 1990 and 5 April 1997 (when GMP accrual ceased) to the pension accrued over the same period appears to be a dominant factor. It is likely to vary substantially from member to member, and from scheme to scheme, even for members of the same age and with the same benefit scale.
- 4.5. This means that the examples given here are unlikely to give more than an indication of the approximate cost for any given scheme.

¹³ http://www.pensionprotectionfund.org.uk/section_143_assumptions_guidance_sep06.pdf

Estimated cost of equalising at the assessment date for sample schemes

- 4.6. The examples in this section are intended to reflect the costs in a 'typical' works scheme, a 'typical' white-collar scheme, and a closed scheme. The costs are a percentage of the total protected liabilities before equalisation. The calculations ignore the administrative costs of implementing Benefit Equalisation for GMP and, in particular, the difficulties that might be encountered in gathering the data necessary to equalise benefits in 'real life'. This is considered in the next Chapter.
- 4.7. The schemes illustrated in Table 4.1 represent relatively mature schemes that were open to future accrual immediately prior to the assessment date. The GMP ratios approximately mirror the proportions that would occur in a scheme with 1/80ths final salary accrual, for people on average rates of pay.
- 4.8. The largest cost is for schemes with normal retirement age of 65. The cost is largely due to two factors:
 1. Men must be compensated for the fact that their female comparators receive or have received a larger GMP from an earlier age; and
 2. Since men have accrued higher GMP by the time they reach age 65, female pensioners might have to be compensated for the guaranteed increases on GMP that men get in retirement.

Table 4.1:

Scheme characteristics

| | |
|--|---|
| Membership: | 70% male; 30% female |
| Liabilities: | 50% pensioners; 20% deferred pensioners; 30% active members |
| GMP proportion: | active members and deferred pensioners 40%; pensioners 80% |
| 'Relevant service' ¹⁴ proportion: | active members and deferred pensioners 60%; pensioners 50% |

| Escalation on excess | Equalise at assessment date | | Cost of 'back payments' | |
|----------------------|-----------------------------|-----------|-------------------------|-----------|
| | Normal retirement age: | | Normal retirement age: | |
| | 60 | 65 | 60 | 65 |
| 0% | 2% | 5% | 0% | 0% |
| 3% | 1% | 4% | 0% | 1% |

4.9. The schemes modelled in Table 4.2 are similar to those in the previous example, except that the GMP ratios were chosen to mirror the proportions that would occur in a scheme with 1/60ths final salary accrual.

Table 4.2:

Scheme characteristics

| | |
|--------------------------------|---|
| Membership: | 70% male; 30% female |
| Liabilities: | 50% pensioners; 20% deferred pensioners; 30% active members |
| GMP proportion: | active members and deferred pensioners 20%; pensioners 40% |
| 'Relevant service' proportion: | active members and deferred pensioners 60%; pensioners 50% |

¹⁴ 'Relevant service' is used as a short hand for the period from 17 May 1990 to 5 April 1997.

| | Equalise at assessment date | | Cost of 'back payments' | |
|----------------------|-----------------------------|-----------|-------------------------|-----------|
| Escalation on excess | Normal retirement age: | | Normal retirement age: | |
| | 60 | 65 | 60 | 65 |
| 0% | 1% | 3% | 0% | 0% |
| 3% | 0% | 2% | 0% | 0% |

4.10. The schemes in Table 4.3 represent schemes that had been closed to future accrual before they entered the assessment period. The GMP ratios approximately mirror the proportions expected to occur in a scheme with a low rate of accrual and where the definition of pensionable salary excludes some pay that is subject to National Insurance contributions (for example, overtime or shift bonuses).

4.11. Schemes with a high proportion of pensioners and where a high proportion of the benefit represents GMP will incur the highest costs. Schemes are more likely to fall into this category if they have been closed for some time and where the membership was largely blue-collar.

Table 4.3:

Scheme characteristics

Membership: 70% male; 30% female

Liabilities: 80% pensioners; 20% deferred pensioners

GMP proportion: deferred pensioners 60%; pensioners 90%

'Relevant service' proportion: deferred pensioners 60%; pensioners 50%

| | Equalise at assessment date | | Cost of 'back payments' | |
|----------------------|-----------------------------|------------|-------------------------|-----------|
| Escalation on excess | Normal retirement age: | | Normal retirement age: | |
| | 60 | 65 | 60 | 65 |
| 0% | 4% | 11% | 2% | 1% |
| 3% | 4% | 11% | 1% | 1% |

Characterisation of schemes likely to incur higher costs as a result of Benefit Equalisation for GMP

4.12. To help trustees relate the results in the previous section to their own scheme's circumstances, the Board has attempted to categorise schemes into those where the cost in proportion to the liabilities is expected to be low and those where it is expected to be higher.

4.13. Some of the features identified are:

- Schemes with normal pension age of 60 are less likely to incur high costs than schemes with older normal pension ages.
- Where schemes have a normal pension age of 65, the cost of equalisation (as estimated using our assumptions and methodology) in the main only affects men's benefits, so, if the majority of the membership is female, costs should be contained.
- Schemes where GMP is a higher proportion of the total benefit are exposed to higher costs.

4.14. The results in table 4.4, which are based on the calculations in the previous section, summarise this analysis.

Table 4.4:

Sample estimates of the uplifts (increase in compensation) required to equalise men's benefits accrued between 17 May 1990 and 5 April 1997, to allow for Benefit Equalisation for GMP, assuming all the GMP is accrued over the relevant period and the scheme provides Limited Price Indexation to pensions in payment

| Percentage of pension that is GMP | NPA 60 | NPA 65 |
|-----------------------------------|----------|-------------------------|
| 100% | 5% – 10% | 40% – 90% ¹⁵ |
| 75% | 0% – 5% | 10% – 50% |
| 25% | 0% – 3% | 5% – 25% |
| 10% | 0% – 2% | 2% – 12% |

Question on Chapter 4

Should the Board require an appropriate adjustment to be made to schemes' section 179 liabilities to account for Benefit Equalisation for GMP? If so, should it require a standard adjustment or rely on the declaration that the liabilities are 'unlikely to be understated' to ensure an adequate adjustment is made?

¹⁵ The ranges of outcome are wide because the consequences of the various factors that affect the calculation become more significant as GMP becomes a larger proportion of the total benefit.

Chapter 5 – Implications for administration

Data issues

- 5.1. As well as having to decide which method to adopt when equalising benefits for GMP, trustees of schemes that have entered an assessment period will have to consider what extra data requirements the approach they adopt will impose. Some of the information they require might be difficult to collect: many of the data items will not have been required to pay benefits to members, so are unlikely to have been retained, or might only be available on paper records.
- 5.2. The Board requires trustees of schemes in an assessment period to carry out a data audit and review the application of scheme rules. These processes will involve a review of many data items: much of the data required for calculations to implement Benefit Equalisation for GMP (for example, reconciliation of GMPs with NISPI (National Insurance Services to the Pensions Industry)) would be needed to complete the assessment process, and so should not impose significant extra costs. Even so, some additional data will be required (for example, the split of GMP between pre 17 May 1990 accrual and post 17 May 1990 accrual).
- 5.3. If data is not readily available, the Board accepts that trustees will have to determine pragmatic, proportionate, approaches to re-creating the necessary records. In most cases it should be possible to agree the steps the trustees propose to take with their PPF case worker.
- 5.4. Following transfer into the PPF, members' compensation does not differentiate between GMP and non-GMP accrual. So, if the trustees adopt the approach suggested by the Board, determining the appropriate level of compensation can be carried out as a one-off adjustment. The method only needs to ensure that the deferred pension, or the in-payment pension, at the assessment date is equalised (including any entitlement to revaluation or pension increases already accrued).
- 5.5. During the assessment period trustees are obliged to pay benefits no greater than the level of compensation members would have received had the scheme entered the PPF on the assessment date, or the scheme benefit if less¹⁶. If the scheme transfers to the PPF at the end of the assessment period, then the Board is obliged to pay any benefits that have been underpaid prior to the start of the assessment period. Consequently, further adjustments to benefit levels may be necessary to address unequal payments made before the scheme enters the assessment period and to ensure that members have received the correct level of payment during the assessment period. Trustees will need to consider the implications of this when discussing recoveries of overpayments from members during the assessment period with their PPF caseworker.
- 5.6. Depending on the results of the consultation process, the Board plans to provide proformas to help administrators specify the data and calculations

¹⁶ Under section 138 of the Pensions Act 2004.

required to equalise benefits as at the assessment date. Some samples are provided in Appendix D.

5.7. The proformas required are likely to differ according to:

- The member's current status,
- Past status (if the member was deferred before retiring)
- Age at retirement
- Age at assessment date.

5.8. The Board has identified eight categories of member for which the process to achieve equal levels of compensation could differ. These are listed below in order of complexity; with the simplest first:

- i. Deferred members with a Date of Leaving (DOL) equal to the assessment date
- ii. Deferred members with a DOL before the assessment date
- iii. Retirement from active and age 60 or over at retirement
- iv. Retirement from active and under age 60 at assessment date
- v. Retirement from active and under age 60 at retirement but above age 60 at assessment date
- vi. Retirement from deferred and age 60 or over at retirement
- vii. Retirement from deferred and under age 60 at assessment date
- viii. Retirement from deferred and under age 60 at retirement but age 60 or over at assessment date

5.9. Providing a separate proforma for each category should help trustees understand the steps to follow to achieve equalisation. It will also help administrators to carry out manual calculations or develop automated calculation routines, including test cases.

5.10. Appendix D includes examples of some of the different calculations needed.

Estimates of cost of implementing an equalisation exercise

5.11. The table below provides an estimate of the cost per member of automating the process for carrying out a Benefit Equalisation for GMP exercise, on the basis that no records, or 5%, 10% or 20% of records, need correction (in addition to actions already required during the assessment process). The assumptions used to make this estimate are set out in Appendix C.

Table 5.1:

This shows the costs to the trustees of carrying out a Benefit Equalisation for GMP project as part of their duties during an assessment period. Only any data cleansing costs additional to those required already have been included.

| % member records needing extra correction for Benefit Equalisation for GMP purposes | Cost per member of Benefit Equalisation for GMP | | |
|---|---|--------------|----------------|
| | 500 members | 5000 members | 50,000 members |
| 0% | £30 | £ 3 | £ 0.3 |
| 5% | £31 | £ 4 | £ 1 |
| 10% | £32 | £ 5 | £ 2 |
| 20% | £34 | £7 | £ 4 |

5.12. If, in the case of schemes that have entered an assessment period, a consensus approach can be found to achieving Benefit Equalisation for GMP, then it might be possible to take advantage of economies of scale. Third-party administrators will have an incentive to re-use the tools needed for Benefit Equalisation for GMP, where possible. For schemes with in-house administration, pension software houses or administration specialists are likely to offer tools or services to carry out equalisation on the trustees' behalf. These developments would reduce the burden on the current administrator and the cost of the exercise. The Board sees financial and operational advantages in achieving such as consensus.

Questions

Question 5.1

Do you agree that third party administrators will develop and market approaches to achieving Benefit Equalisation for GMP if a consensus approach can be developed?

Question 5.2

The Board does not want to impose significant extra administrative burdens on trustees of schemes going through an assessment period. Do you have any suggestions as to how the effect of its proposals can be minimised?

Chapter 6 – The consultation process

Responding to the consultation

- 7.1. The Board of the Pension Protection Fund welcomes your views on the proposals included in this consultation document.
- 7.2. The Board will publish a summary of the responses it receives, and set out the approach it chooses to adopt to Benefit Equalisation for GMP, during the autumn of 2008.

Arrangements for submissions

- 7.3. The consultation period begins on 28 April 2008 and will end on 28 July 2008. Please ensure that your response reaches us by that date. If you would like further copies of this document it can be found at the Assessment Period section of the Pension Protection Fund website at www.pensionprotectionfund.org.uk.
- 7.4. Please email all consultation responses to GMPconsultation@ppf.gsi.gov.uk.
- 7.5. Please state whether you are responding as an individual or representing the views of an organisation. If you are responding on behalf of an organisation please make it clear who the organisation represents and, where applicable, how the views of the members were assembled.
- 7.6. The requirements of the Freedom of Information Act (2000) state that all information contained in the response, including personal information, may be subject to publication or disclosure. By providing personal information for the purpose of the public consultation exercise it is understood that a respondent consents to its disclosure and publication. If this is not the case, the respondent should limit any personal information which is provided, or remove it completely. If a respondent requests that the information given in response to the consultation be kept confidential, this will only be possible if it is consistent with the Freedom of information Act (2000) obligations and general law on this issue. Queries should be sent to Paul Reynolds, whose contact details may be seen in section 7.11 below.
- 7.7. Further information on the Freedom of Information Act (2000) can be found on the website of the Ministry of Justice.
- 7.8. In the event of any queries, please contact:

Stephen Rice
Chief Actuary
Pension Protection Fund
8th Floor Knollys house
17 Addiscombe Road
Croydon
CR0 6SR

Consultation on the requirement under Section 171 of the Pensions Act 2004 to equalise compensation to allow for differences in the GMP formula

Tel: 020 8633 4942

E-mail: Stephen.rice@ppf.gsi.gov.uk

Publishing a summary of responses

- 7.9. The Board will publish a summary of the responses it receives and set out the approach it chooses to adopt to Benefit Equalisation for GMP during the autumn of 2008.
- 7.10. The consultation is being carried out in line with the Code of Practice on Consultation. The code can be accessed at <http://www.cabinetoffice.gov.uk/regulation/consultation/>
- 7.11. The Board would welcome any feedback on the effectiveness of this consultation process. If you have any comments then please contact:

Paul Reynolds

Director of Corporate Affairs

Pension Protection Fund

9th Floor Knollys house

17 Addiscombe Road

Croydon

CR0 6SR

Tel: 020 8633 4968

Email: paul.reynolds@ppf.gsi.gov.uk

Appendix A

Background Issues

General Principles of Equalisation of benefits

On 17th May 1990 the European Court of Justice held in the Barber case that occupational pension schemes must provide equal benefits between comparable men and women. Unequal benefits primarily arose from different normal pension ages for men and women.

It took a number of years for the detailed implications of the Barber case to be clarified by the European Court, primarily in the Coloroll case in 1994. In summary, that case concluded that schemes are required to equalise upwards from May 17 1990 until the introduction of the Barber adjustments. In adjusting, schemes did not need to equalise for the period prior to 17 May 1990. For the period from 17 May 1990 until equalisation was implemented (known by practitioners as the “Barber window”) schemes needed to equalise “up” by increasing the benefits of the less favoured sex. At this time (from the implementation of the adjustments) schemes could reduce benefits for one sex in order to equalise, but only for the future. From 1994, therefore, most schemes took action to equalise pension ages, and other significant pension differences between men and women (with greater and lesser speed). Section 62 of the Pensions Act 1995 also formally incorporated the obligation to equalise benefits into domestic law.

One question which the Coloroll cases did not address, was whether action needed to be taken to address inequalities in Guaranteed Minimum Pensions.

Guaranteed Minimum Pensions – the specific issue

Guaranteed Minimum Pensions 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 and (otherwise) defined contribution schemes could contract out and commit to pay GMPs.

GMPs (and SERPS) are unequal between men and women for two main reasons:

- women accrue the same GMP as men, but over a shorter period (to allow for different state pension ages) – thus the “accrual rate” of a woman’s GMP is higher
- women are entitled to receive their GMP from age 60, men from age 65. If a member leaves service before state pension age, revaluation applies from that date until state pension age. Rate of revaluation of GMP are different to rates of increase to GMP in payment (and often from scheme’s own revaluation and increase rates applying to the “excess over the GMP”). This will usually have the effect (depending upon movements in RPI) that a man’s GMP will gradually “catch up” with a woman’s and may ultimately overtake it.

Example of the impact of equalisation to an individual Pension Protection Fund Member

The calculation of GMP is complicated, and so the implications of Benefit Equalisation for GMP are complicated too. This example is at a very high level to provide an understanding of the issues and how the additional costs may arise, and is not intended to convey the full extent of the implications of Benefit Equalisation for GMP.

Consider a man, M, born on 1 January 1965, who was employed by ABC Ltd from 1 January 1991 to 1 January 2008 when his employer became insolvent.

He was a member of the ABC Pension Scheme for all those seventeen years.

The Normal Pension Age of members of the ABC Pension Scheme is 65.

M's deferred pension at the date of leaving was £8,500 p.a.

M's total GMP at the date of leaving was £500 p.a.

M has a female comparator, F, whose age, period of scheme membership and earnings history are identical to his. Like M, F has a deferred pension of £8,500 p.a.. Her GMP is, however, £557 p.a. because it has accrued faster.

Assume cumulative compensation increases in deferment are 60% for 1 January 2008 to 1 January 2030, and are 50% for 1 January 2008 to 1 January 2025.

Before allowance for equalisation, M would be entitled to compensation, from 1 January 2030, of 90% of $£8,500 * 1.6 = £12,240$ p.a.

F's GMP would be payable from age 60 whereas the excess of her pension over her GMP would be payable from age 65.

F would be entitled to compensation, from 1 January 2025, of 90% of $£557 * 1.5 = £752$ p.a.

F would be entitled to additional compensation, from 1 January 2030, of 90% of $£(8,500 - 557) * 1.6 = £11,438$ p.a.

F's compensation is better than M's because her compensation in respect of her GMP is higher and has been paid earlier than M's compensation in respect of his GMP.

After allowance for equalisation, F's two tranches of compensation are therefore unchanged. M's compensation would, however, become the same as F's. M gains as a result of equalisation in that his GMP is increased to the same level as F's GMP, and it is paid five years earlier than it would have been without equalisation.

It should be noted that, for simplicity, M's pensionable service in the ABC Pension Scheme was all after 16 May 1990. Had any of it been on or before that date, then the GMP (and thus compensation) in respect of pensionable service before 17 May 1990 would have been unequal, but this would not infringe section 171 of the

Pensions Act 2004, because the Barber Judgment specifically excluded benefits accrued before that date.

Appendix B

Options for Benefit Equalisation for GMP considered by the Board

Benefit Equalisation for GMP as it applies to pension schemes

'Benefit Equalisation for GMP' is the term used in this document to refer to the process of equalising scheme benefits overall, in order to address inequalities created because the formula for calculating GMPs differs for men and women. The issue arises because Article 141 of The Treaty of Rome requires that the pay provided to comparable¹ men and women should be equal. The judgment from the Barber v GRE case at the European Court of Justice in May 1990 established that occupational pension benefits were pay and, as a result, trustees of pension schemes had to ensure that benefits accrued after 17 May 1990 did so on an equal basis for comparable men and women.

When trustees addressed this issue, they generally did so only in respect of discrimination caused by their benefit scales or retirement ages. However, members of pension schemes contracted-out of the State Earnings-Related Pension Scheme (SERPS) before April 1997 accrued entitlement to GMPs satisfying certain requirements set out in UK legislation that discriminate between the sexes. The Barber v GRE judgment did not resolve whether these elements of discrimination must be removed in addition to the equalising of the benefit scale and retirement ages. This has left uncertainty as to how equalisation of the overall benefit, for schemes with GMPs, should be achieved.

Although most schemes have taken some action to equalise the benefit formula/retirement ages, few open occupational schemes have taken any action to address inequalities in the GMP element of accrual. However, many pensions lawyers recognise that this is an issue.

The Department of Work and Pensions (DWP), in its response to a consultation on the draft Occupational Pension Schemes (Winding Up, winding up notices and reports etc)(Amendments) Regulations 2007¹⁷, said its 'position regarding the equalisation of GMPs is clear. It has always been our opinion ... that the GMP does not have to be equalised. It is the overall pension that must be equal between men and women.' This expressly leaves open the question of how to equalise the overall benefit in the context of unequal GMPs.

Trustees of schemes that have wound up have had to consider whether they need to take any action to address inequalities in the GMP formula as part of their responsibility to discharge the scheme's liabilities, but no consensus approach has been arrived at. The Pensions Regulator (tPR) is currently consulting on its draft good practice guidance to help schemes avoid delays in wind-up. In that document, tPR states that it does not take a view on whether trustees should equalise benefits for GMPs and does not endorse any particular approach, but encourages trustees to act pragmatically, taking into account the characteristics and funding position of their

¹⁷ <http://www.dwp.gov.uk/publications/dwp/2007/occ-pen-consult/occ-pen-emp-debt.pdf>

particular scheme. However, tPR has indicated that, for schemes that enter an assessment period, the Board's proposed approach would be a pragmatic way of addressing the issue. There is no UK legislation, and no case law, that points to a single acceptable solution to this issue. The main references in the public domain are:

- The 'Williamson Case', where a deferred pensioner complained to the Pensions Ombudsman who determined that individual GMPs themselves had to be equalised between the sexes (Williamson and Sedgwick Group Pension Scheme Trustee Limited, Case H00177, 2000). However, this was successfully appealed in the high court (Marsh Mercer Pension Scheme v. Pensions Ombudsman, [2001] 16 PBLR), though the appeal was granted on the basis that the Pensions Ombudsman did not have jurisdiction to make the determination, so the substantive point was never properly decided.
- The Pensions Regulator's draft good practice guide to help schemes avoid delays in wind-up, currently out for consultation, includes a section on Benefit Equalisation for GMP¹⁸.

Ways of achieving Benefit Equalisation for GMP

Four basic methods have been suggested to achieve Benefit Equalisation for GMP for pension schemes:

- 1) On retirement, the pension benefit should be projected forward for the pensioner and for a comparator of the opposite sex, in order to calculate which sex has the largest net benefit over their expected lifetime. The pension should then be paid as if the pensioner was of the sex that receives the higher amount over that period.
- 2) The comparison of the total male and female pension should be made when the pension comes into payment, and annually (or possibly more frequently¹⁹) once the pension is in payment. The pensioner should be paid the higher of the male or female estimate that applies in their particular case at each pension payment date.
- 3) The comparison of the male and female GMP and the male and female pension in excess of GMP should be made when the pension comes into payment, and annually (or possibly more frequently) once the pension is in payment. The pensioner should be paid the higher of the male or female GMP and the higher of the male or female excess over GMP that applies in their particular case at each payment date.
- 4) GMP is a partial, but not perfect, substitute for SERPS. If someone's GMP is less than the SERPS it represents then the state will pay an additional pension so that the aggregate amount equals the SERPS amount. Some have argued that the comparison made by the trustees should include the additional pension paid by the state.

¹⁸ Opra Update 3 (August 2003) was the predecessor to this guidance

¹⁹ The comparison will be required more frequently than annually if excess benefits are increased at a different time during the year to GMPs.

Particular issues for the Board

The method favoured by the Board, for schemes that have entered an assessment period, is a partial application of method (2), which results in members receiving the higher of the (overall) pensions payable to two individuals who are equal in every respect except that one is male and the other female.

The Court's judgment in the Williamson Case and the opinion of the Board's Counsel support method (2), but this has not been tested. For its own purpose, the Board only requires benefits to be equalised in respect of past payments, accrued rights (and revaluations) up to the assessment date. In fact, going further would give rise to inequalities. This is because all PPF compensation is revalued using the same formula and therefore revaluation does not vary between men and women (or between GMP elements and other elements of benefit); hence the approach is only a 'partial' application of method (2) as it applies to pension schemes. Trustees of schemes that do not enter the PPF might feel that partial application does not sufficiently meet their own obligations under the Pensions Act 1995.

We set out below why the Board did not favour the other possible methods.

Method (1) does not seem appropriate, because equalisation of employment and associated benefits is not measured using a 'lifetime' approach, and would be difficult to implement sensibly – for example, it could result in a member with a higher benefit having his or her accrued rights reduced.

Method (3) can give rise to apparently absurd outcomes. For example, at ages between 60 and 65 a woman's pension will comprise GMP and excess over GMP. A man with an otherwise equivalent working history would not have any GMP entitlement, so his pension would be wholly 'excess'. The 'logic' of method (3) would result in members receiving the woman's GMP and the man's 'excess', which could impose potentially significant additional costs.

Method (4) is not considered acceptable because the consequences of Article 141 of the EC Treaty and the Barber judgment relate to pay only and not to social security.

Appendix C

Assumptions used to calculate administration costs

Table C1 illustrates the possible cost of a Benefit Equalisation for GMP exercise for a medium sized scheme. The steps shown in the table are those considered to be industry good practice in developing pension calculations and amending pension records. The estimates of resource levels are based on industry experience of similar exercises. Other assumptions used are:

- The example scheme has 5,000 lives: 2,500 deferred members and 2,500 pensioner members.
- 500 of the deferred members were active immediately before assessment date.
- The scheme has pensioner members who are aged both under and over 60.
- 90% of the scheme members have all data fields required to complete the calculations populated in an electronic database.
- This work is carried out as a one-off project. If it were done in-house, the likely difference would be more time required to do the work, at much lower hourly rates, with probably some external help needed; the likely net result would be somewhat lower total cost but longer elapsed time to complete the work.

Table C1:

Estimate of administrative cost of carrying out Benefit Equalisation for GMP, assuming no additional data cleansing required (apart from that already needed to complete the assessment process)

| Activity | Number of hours resource level 1 | Number of hours resource level 2 | Number of hours resource level 3 | Total Cost |
|---------------------------|----------------------------------|----------------------------------|----------------------------------|----------------|
| Calculation Specification | | 28 | 8 | £3,800 |
| Calculation Setup | | | 28 | £3,400 |
| Results Testing | 36 | 19 | 7 | £5,600 |
| Calculation Live Run | | 2 | 7 | £1,000 |
| Results Writeback | | 2 | 10.5 | £1,500 |
| Total | 36 | 51 | 60.5 | £15,200 |

Detailed assumptions used to prepare Table C1

- Resource level 1 is assumed to be a junior administrator at £80 per hour
- Resource level 2 is assumed to be a senior administrator at £100 per hour
- Resource level 3 is assumed to be a technical systems support resource at £120 per hour
- 0.5 hours of junior administrator time to find missing data per member
- 10% of cases require same amount of assistance from senior administrator
- Calculation specification for each category takes 0.5 hours to write
- Calculation specification takes 1 hour per section to review
- Calculation set up take 1/2 day per section
- Test pack of 28 test cases
- 1.5 hours to complete a test case
- 0.5 hours to check a test case
- Remainder of testing time is liaising between system resource and administrators (1 day systems, 1 day administrator)

For the example scheme above, the cost per head is about £3. The work involves a large element of fixed costs, so (on the assumptions above) the cost per member is likely to be significantly higher for a smaller scheme.

Appendix D

Sample proformas and examples

Pension Protection Fund
GMP Equalisation Proforma - V2.3 Deferred Member – (Fixed Rate GMP Revaluation)

1. Basic Information

| | |
|-------------------------|------------------|
| Scheme/Fund Name | XYZ Pension Fund |
|-------------------------|------------------|

| | | | | | |
|-------------------------------|------------|-----|---|------------|------|
| Surname | Example3 | (1) | Date Joined Scheme (DJS) | 01/01/1982 | (7) |
| Title | Mr | (2) | Date of Leaving (DOL) | 30/11/2002 | (8) |
| Initials | A | (3) | Date of Retirement (DOR) | N/A | (9) |
| Member Reference No. | 1000001 | (4) | PPF Assessment Date (PAD) | 01/12/2005 | (10) |
| Sex | M | (5) | GMP Revaluation Rate *¹ | 1.0625 | (11) |
| National Insurance No. | YX9999999A | (6) | State Pension Date | | (12) |
| | | | | | (13) |

*¹ GMP revaluation rates based on the member's date of leaving are provided in Table 1

2. Member's pension at date of leaving the scheme

| | | | | | |
|----------------------|-----------|------|---|-----------|------|
| Total Pension at DOL | £2,500.00 | (14) | Pre 1997 Excess Pension | £1,500.00 | (17) |
| Pre 1988 GMP at DOL | £50.00 | (15) | Post 1997 Excess Pension | £850.00 | (18) |
| Post 1988 GMP at DOL | £100.00 | (16) | [NB: (14) should be the sum of (15) + (16) + (17) + (18)] | | |

3. Pension accrued from 1990 to 1997

| | | | |
|----------------------------------|---------|------|--|
| Total Pre 6/4/1997 Service | 15.2601 | (19) | (Expressed as a decimal in years and days) |
| Service from 6/4/88 to 05/04/97 | 9.0000 | (20) | (Expressed as a decimal in years and days) |
| Service from 17/5/90 to 05/04/97 | 6.8871 | (21) | (Expressed as a decimal in years and days) |
| 90 -97 Excess Pension | £676.97 | (22) | = (17) x (21) / (19) |
| Post 90 GMP | £76.52 | (23) | = (16) x (21) / (20) |
| 88-90 GMP | £23.48 | (24) | = (16) - (23) |

3. Opposite Sex Pension elements at Date of Leaving

GMP conversion factors based on age and sex are provided in Tables 2 and 3

| | | | |
|------------------------------------|-----------|------|---|
| GMP conversion Factor | 1.035 | (25) | |
| Opposite Sex Post 90 GMP at DOL | £79.20 | (26) | = (23) x (25) |
| Opposite Sex Pre 97 Excess Pension | £1,497.32 | (27) | = The maximum of 0 and [(14) - (15) - (24) - (26) - (18)] |

Consultation on the requirement under Section 171 of the Pensions Act 2004 to equalise compensation to allow for differences in the GMP formula

Opposite Sex post 1997 Excess Pension (28) = The maximum of 0 and [(14) - (27) - (26) - (24) - (15)]

4. Revaluation of Pension with Standard Sex GMP

Period between DOL and PPF assessment date in complete years (29)

Complete Tax years between DOL and PPF assessment date (30)

Non-GMP Revaluation Factor (31) (Non-GMP revaluation factors are provided in Table 4)

Pre 88 GMP at PAD (32) = (15) x (11)^(30)

Post 88 GMP at PAD (33) = (16) x (11)^(30)

Pre 1997 Excess Pension (34) = (17) x (31)

Post 1997 Excess Pension (35) = (18) x (31)

Total Pension at PAD (36) = (32) + (33) + (34) + (35)

5. Revaluation of Pension with Opposite Sex GMP

Pre 88 GMP at PAD (37) = (15) x (11)^(30)

Post 88 GMP at PAD (38) = [(24) + (26)] x (11)^(30)

Pre 1997 Excess Pension (39) = (27) x (31)

Post 1997 Excess Pension (40) = (28) x (31)

Total Pension at PAD (41) = (36) + (37) + (38) + (39)

6. Member's Pension at PPF Assessment Date

The member's pension at PAD will be the greater of (36) and (41), and the corresponding pension elements should be used which will be either (32) to (35) or (37) to (40)

7. Notes

a.) Revaluation used for non-GMP pension is the statutory minimum; scheme rules may require use of higher revaluation factors.

Pension Protection Fund
GMP Equalisation Proforma – V2.3 Pensioner member under SPA- (Fixed Rate GMP Revaluation)

1. Basic Information

| | | | |
|-------------------------|------------------|--|--|
| Scheme/Fund Name | XYZ Pension Fund | | |
|-------------------------|------------------|--|--|

| | | | | | |
|-------------------------------|------------|-----|---|------------|------|
| Surname | Example2 | (1) | Date Joined Scheme (DJS) | 01/01/1982 | (7) |
| Title | Mr | (2) | Date of Leaving (DOL) | 30/11/2002 | (8) |
| Initials | A | (3) | Date of Retirement (DOR) | 01/06/2004 | (9) |
| Date of Birth (DOB) | 01/06/1949 | (4) | PPF Assessment Date (PAD) | 01/12/2006 | (10) |
| Sex | M | (5) | GMP Revaluation Rate ^{*1} | 1.0625 | (11) |
| National Insurance No. | YX9999999A | (6) | Retail Price Index | 1.035 | (12) |
| | | | State Pension Age (SPA) | 01/06/2014 | (13) |

^{*1} GMP revaluation rates based on the member's date of leaving are provided in Table 1

2. Member's Pension at date of leaving the scheme

| | | | | | |
|----------------------|-----------|------|---|-----------|------|
| Total Pension at DOL | £2,500.00 | (14) | Pre 1997 Excess Pension | £1,500.00 | (17) |
| Pre 1988 GMP at DOL | £50.00 | (15) | Post 1997 Excess Pension | £850.00 | (18) |
| Post 1988 GMP at DOL | £100.00 | (16) | [NB: (14) should be the sum of (15) + (16) + (17) + (18)] | | |

3. Pension accrued from 1990 to 1997

| | | | |
|----------------------------------|---------|------|--|
| Total Pre 6/4/1997 Service | 15.2601 | (19) | (Expressed as a decimal in years and days) |
| Service from 6/4/88 to 05/04/97 | 9.0000 | (20) | (Expressed as a decimal in years and days) |
| Service from 17/5/90 to 05/04/97 | 6.8871 | (21) | (Expressed as a decimal in years and days) |
| 90-97 Excess Pension | £676.97 | (22) | = (17) x (21) / (19) |
| Post 90 GMP | £76.52 | (23) | = (16) x (21) / (20) |
| 88-90 GMP | £23.48 | (24) | = (16) - (23) |

4. Opposite Sex Pension elements at Date of Leaving

GMP conversion factors based on age and sex are provided in Tables 2 and 3

| | | | |
|------------------------------------|-----------|------|---|
| GMP conversion Factor | 1.128 | (25) | |
| Opposite Sex Post 90 GMP at DOL | £86.32 | (26) | = (23) x (25) |
| Opposite Sex Pre 97 Excess Pension | £1,490.21 | (27) | = The maximum of 0 and [(14) - (15) - (24) - (26) - (18)] |

Consultation on the requirement under Section 171 of the Pensions Act 2004 to equalise compensation to allow for differences in the GMP formula

Opposite Sex post 1997 Excess Pension (28) = The maximum of 0 and [(14) - (27) - (26) - (24) - (15)]

5. Revaluation of Pension with Standard Sex GMP to DOR

Period between DOL and DOR in complete years (29)

Complete Tax years between DOL and DOR (30)

Deferred Non-GMP Revaluation (31) (Non-GMP revaluation factors are provided in Table 4)

Pre 88 GMP at DOR (32) = (15) x (11)^(30)

Post 88 GMP at DOR (33) = (16) x (11)^(30)

Pre 1997 Excess at DOR (34) = (17) x (31)

Post 1997 Excess at DOR (35) = (18) x (31)

Total Pension at DOR (36) = (32) + (33) + (34) + (35)

6. Revaluation of Pension with Opposite Sex GMP to DOR

Pre 88 GMP at DOR (37) = (15) x (11)^(30)

Opposite Sex Post 88 GMP at DOR (38) = [(24)+(26)] x (11)^(30)

Opposite Sex Pre 1997 XS at DOR (39) = (27) x (31)

Opposite Sex Post 1997 XS at DOR (40) = (28) x (31)

Total Pension at DOR (41) = (37) + (38) + (39) + (40)

7. Member's Pension at PPF Assessment Date

The member's pension at PAD will be the greater of (36) and (41) increased to the PAD using non-GMP pension increases.

8. Notes

- a.) Revaluation used for non-GMP pension is the statutory minimum; scheme rules may require use of higher revaluation factors.
- b.) Statutory minimum pension increases are applied; scheme rules may require higher increases.
- c.) As the member has not reached SPA at the PAD, the highest pension at PAD will always be the same as at DOR.

Consultation on the requirement under Section 171 of the Pensions Act 2004 to equalise compensation to allow for differences in the GMP formula

Pension Protection Fund

GMP Equalisation Proforma - V2.3 Pensioner Member with DOR post age 60 - (Fixed Rate GMP Revaluation)

1. Basic Information

| | |
|-------------------------|------------------|
| Scheme/Fund Name | XYZ Pension Fund |
|-------------------------|------------------|

| | | | | | |
|---------------------------------|------------|-----|---|------------|------|
| Surname | Example3 | | Date Joined Scheme (DJS) | 01/01/1982 | (7) |
| Title | Mr | (1) | Date of Leaving (DOL) | 30/11/2002 | (8) |
| Initials | A | (2) | Date of Retirement (DOR) | 01/06/2004 | (9) |
| Date of Birth (DOB) | 01/06/1940 | (3) | PPF Assessment Date (PAD) | 01/12/2006 | (10) |
| Sex | M | (4) | GMP Revaluation Rate *¹ | 1.075 | (11) |
| National Insurance No. | YX9999999A | (5) | Post 97 Pen Increase Rate | 1.03 | (12) |
| State Pension Date (SPD) | 01/06/2005 | (6) | Post 88 GMP Pen increase Rate | 1.025 | (13) |

*¹ GMP revaluation rates based on the member's date of leaving are provided in Table 1

2. Member's Pension at date of leaving the scheme

| | | | | | |
|----------------------|-----------|------|---|-----------|------|
| Total Pension at DOL | £2,500.00 | (14) | Pre 1997 Excess Pension | £1,500.00 | (17) |
| Pre 1988 GMP at DOL | £50.00 | (15) | Post 1997 Excess Pension | £850.00 | (18) |
| Post 1988 GMP at DOL | £100.00 | (16) | [NB: (14) should be the sum of (15)+(16)+(17)+(18)] | | |

3. Pension accrued from 1990 to 1997

| | | | |
|----------------------------------|---------|------|--|
| Total Pre 6/4/1997 Service | 15.2601 | (19) | (Expressed as a decimal in years and days) |
| Service from 6/4/88 to 05/04/97 | 9.0000 | (20) | (Expressed as a decimal in years and days) |
| Service from 17/5/90 to 05/04/97 | 6.8871 | (21) | (Expressed as a decimal in years and days) |
| 90 -97 Excess Pension (estimate) | £676.97 | (22) | = (17) x (21) / (19) |
| Post 90 GMP (estimate) | £76.52 | (23) | = (16) x (21) / (20) |
| 88-90 GMP (estimate) | £23.48 | (24) | = (16) - (23) |

4. Opposite Sex Pension elements at Date of Leaving

GMP conversion factors based on Age and Sex are provided in Tables 2 and 3

| | | | |
|------------------------------------|-----------|------|---|
| GMP conversion Factor | 1.035 | (25) | |
| Opposite Sex Post 90 GMP at DOL | £79.20 | (26) | = (23) x (25) |
| Opposite Sex Pre 97 Excess Pension | £1,497.32 | (27) | = The maximum of 0 and [(14) - (15) - (24) - (26) - (18)] |

Consultation on the requirement under Section 171 of the Pensions Act 2004 to equalise compensation to allow for differences in the GMP formula

Opposite Sex Post 1997 Excess Pension (28) = The maximum of 0 and [(14) - (27) - (26) - (24) - (15)]

5a.) Revaluation of Pension with Standard Sex GMP to DOR

Period between DOL and DOR assessment date in complete years (29)

Complete Tax years between DOL and age 60 (30)

Complete Tax years between DOL and DOR (31)

Period between Age 60 and DOR (32)

Female GMP Late retirement Factor (33)

Deferred Excess Revaluation (34) (Non-GMP revaluation factors are provided in Table 4)

Pre 88 GMP at DOR (35) = If Male (15) x (11)^(31) OR if female (15) x (11)^(30) x (33)

Post 88 GMP at DOR (36) = if Male (16) x (11)^(31) OR if female (16) x (11)^(30) x (33)

Pre 1997 Excess at DOR (37) = (17) x (34)

Post 1997 Pension at DOR (38) = (18) x (34)

Total Pension at DOR (39) = (35) + (36) + (37) + (38)

5b.) Revaluation of Pension with Opposite Sex GMP to DOR

Opposite Sex Pre 88 GMP at DOR (40) = If Female (15) x (11)^(31) OR if Male (15) x (11)^(30) x (33)

Opposite Sex Post 88 GMP at DOR (41) = If Female [(24)+(26)] x (11)^(31) if Male x [(24)+(26)] x (11)^(30) x (33)

Opposite Sex Pre 1997 Excess Pension (42) = (27) x (34)

Opposite Sex Post 1997 Excess Pension (43) = (28) x (34)

Opposite Sex Total Pension at DOR (44) = (40) + (41) + (42) + (43)

6a.) Increases to pension with Standard Sex GMP to standard SPD

(If the member is Female do not complete this section and move on to section 7)

Period between DOR and SPD date in complete years (45)

Complete Tax years between DOL and SPD (46)

Pre 88 GMP at SPD (47) = (15) x (11)^(46)

Post 88 GMP at SPD (48) = (16) x (11)^(46)

Post 97 Pension at SPD (49) = (38) x (12)^(45)

Pre 97 XS at SPD (50) = Maximum of 0 and [(35) + (36) + (37) - (47) - (48)]

Consultation on the requirement under Section 171 of the Pensions Act 2004 to equalise compensation to allow for differences in the GMP formula

Total Pension at SPD (51) = (47) + (48) + (49) + (50)

6b.) Increases to pension with Opposite Sex GMP to opposite sex SPD

(If the member is Male do not complete this section and move on to section 7)

Opposite Sex SPD date (52)

Period between DOR and Opposite Sex SPD date in complete years (53)

Complete Tax years between DOL and Opposite Sex SPD (54)

Opposite Sex Pre 88 GMP at SPD (55) = (15) x (11)^(54)

Opposite Sex Post 88 GMP at SPD (56) = [(24)+(26)] x (11)^(54)

Opposite Sex Post 97 Pension at SPD (57) = (43) x (12)^(53)

Opposite Sex Pre 97 XS at SPD (58) = Maximum of 0 and [(40) + (41) + (42) - (55) - (56)]

Opposite Sex Total Pension at SPD (59) = (55) + (56) + (57) + (58)

7a.) Increase to pension with Standard Sex GMP to PAD

Period between SPD and PAD date in complete years (60)

Complete Tax years between SPD and PAD (61)

Period between DOR and PAD date in complete years (62)

Complete Tax years between DOR and PAD (63)

Pre 88 GMP at PAD (64) = If Male (47) OR if Female (35)

Post 88 GMP at PAD (65) = If Male (45) x (13)^(61) OR If Female (36) x (13)^(63)

Pre 97 XS at PAD (66) = If Male (50) OR if Female (37)

Post 97 Pension at PAD (67) = If Male (49) x (12)^(60) OR if Female (38) x (12)^(62)

Total Pension at PAD (68) = [(64) + (65) + (66) + (67)]

7b.) Increase to pension with Opposite Sex GMP to PAD

Opposite Sex Pre 88 GMP at PAD (69) = If female (55) OR If Male (40)

Opposite Sex Post 88 GMP at PAD (70) = If Female (56) x (13)^(61) OR If Male (41) x (13)^(63)

Opposite sex Pre 97 XS at PAD (71) = If Female (58) OR if Male (42)

Consultation on the requirement under Section 171 of the Pensions Act 2004 to equalise compensation to allow for differences in the GMP formula

Opposite Sex Post 97 Pension at PAD

| |
|---------|
| £927.01 |
|---------|

 (72) = Female (57) x (12)^(60) OR if Male (43) x (12)^(62)

Opposite Sex Total Pension at PAD

| |
|-----------|
| £2,664.47 |
|-----------|

 (73) = [(69) + (70) + (71) + (72)]

8. Member's Pension at PPF Assessment Date

The member's pension at PAD will be the greater of (68) and (73) revalued to the PAD using the revaluation used for Non-GMP

9. Notes

- a.) Revaluation used for Non-GMP pension is the statutory minimum; scheme rules may require use of higher revaluation factors.
 - b.) Statutory minimum pension increases are applied; scheme rules may require higher increases
-

Table 1 GMP Revaluation Factors

| Date Left Service | Increase Rate |
|---------------------------------------|----------------------|
| Between 6 April 1978 and 5 April 1988 | 8.50% |
| Between 6 April 1988 and 5 April 1993 | 7.50% |
| Between 6 April 1993 and 5 April 1997 | 7.00% |
| Between 6 April 1997 and 5 April 2002 | 6.25% |
| After 5 April 2002 | 4.50% |

Table 2 Male to Female GMP Conversion Factors

| Date of birth between (Inclusive) | | Male to Female Factor |
|--|------------|------------------------------|
| up to | 05/04/1934 | 1.0000 |
| 06/04/1934 | 05/04/1935 | 1.0500 |
| 06/04/1935 | 05/04/1936 | 1.1000 |
| 06/04/1936 | 05/04/1937 | 1.1500 |
| 06/04/1937 | 05/04/1938 | 1.2000 |
| 06/04/1938 | 05/04/1939 | 1.2500 |
| 06/04/1939 | 05/04/1940 | 1.2381 |
| 06/04/1940 | 05/04/1941 | 1.2273 |
| 06/04/1941 | 05/04/1942 | 1.2174 |
| 06/04/1942 | 05/04/1943 | 1.2083 |
| 06/04/1943 | 05/04/1944 | 1.2000 |
| 06/04/1944 | 05/04/1945 | 1.1923 |
| 06/04/1945 | 05/04/1946 | 1.1852 |
| 06/04/1946 | 05/04/1947 | 1.1786 |
| 06/04/1947 | 05/04/1948 | 1.1724 |
| 06/04/1948 | 05/04/1949 | 1.1667 |
| 06/04/1949 | 05/04/1950 | 1.1613 |
| 06/04/1950 | 05/04/1951 | 1.1563 |
| 06/04/1951 | 05/04/1952 | 1.1515 |
| 06/04/1952 | 05/04/1953 | 1.1471 |
| 06/04/1953 | 05/04/1954 | 1.1429 |
| 06/04/1954 | 05/04/1955 | 1.1389 |
| 06/04/1955 | 05/04/1956 | 1.1351 |
| 06/04/1956 | 05/04/1957 | 1.1316 |
| 06/04/1957 | 05/04/1958 | 1.1282 |
| 06/04/1958 | 05/04/1959 | 1.1250 |
| 06/04/1959 | 05/04/1960 | 1.1220 |
| 06/04/1960 | 05/04/1961 | 1.1190 |
| 06/04/1961 | 05/04/1962 | 1.1163 |

Table 3 Female to Male GMP Conversion Factors

| Date of birth between (Inclusive) | | Female to Male Factor |
|-----------------------------------|------------|-----------------------|
| up to | 05/04/1934 | 1.0000 |
| 06/04/1934 | 05/04/1935 | 0.9524 |
| 06/04/1935 | 05/04/1936 | 0.9091 |
| 06/04/1936 | 05/04/1937 | 0.8696 |
| 06/04/1937 | 05/04/1938 | 0.8333 |
| 06/04/1938 | 05/04/1939 | 0.8000 |
| 06/04/1939 | 05/04/1940 | 0.8077 |
| 06/04/1940 | 05/04/1941 | 0.8148 |
| 06/04/1941 | 05/04/1942 | 0.8214 |
| 06/04/1942 | 05/04/1943 | 0.8276 |
| 06/04/1943 | 05/04/1944 | 0.8333 |
| 06/04/1944 | 05/04/1945 | 0.8387 |
| 06/04/1945 | 05/04/1946 | 0.8438 |
| 06/04/1946 | 05/04/1947 | 0.8485 |
| 06/04/1947 | 05/04/1948 | 0.8529 |
| 06/04/1948 | 05/04/1949 | 0.8571 |
| 06/04/1949 | 05/04/1950 | 0.8611 |
| 06/04/1950 | 05/04/1951 | 0.8649 |
| 06/04/1951 | 05/04/1952 | 0.8684 |
| 06/04/1952 | 05/04/1953 | 0.8718 |
| 06/04/1953 | 05/04/1954 | 0.8750 |
| 06/04/1954 | 05/04/1955 | 0.8780 |
| 06/04/1955 | 05/04/1956 | 0.8810 |
| 06/04/1956 | 05/04/1957 | 0.8837 |
| 06/04/1957 | 05/04/1958 | 0.8864 |
| 06/04/1958 | 05/04/1959 | 0.8889 |
| 06/04/1959 | 05/04/1960 | 0.8913 |
| 06/04/1960 | 05/04/1961 | 0.8936 |
| 06/04/1961 | 05/04/1962 | 0.8958 |
| 06/04/1962 | or later | 0.8980 |

Consultation on the requirement under Section 171 of the Pensions Act 2004 to equalise compensation to allow for differences in the GMP formula

Table 4 Non GMP Revaluation Factors

| Number of complete years from leaving | | Factors for members reaching relevant date in: | | | |
|---------------------------------------|----|--|-------|-------|-------|
| | | 2008 | 2007 | 2006 | 2005 |
| | | | | | |
| | 1 | 1.039 | 1.036 | 1.027 | 1.031 |
| | 2 | 1.076 | 1.064 | 1.059 | 1.060 |
| | 3 | 1.105 | 1.097 | 1.088 | 1.078 |
| | 4 | 1.140 | 1.128 | 1.107 | 1.096 |
| | 5 | 1.172 | 1.147 | 1.126 | 1.132 |
| | 6 | 1.192 | 1.166 | 1.163 | 1.145 |
| | 7 | 1.212 | 1.205 | 1.176 | 1.181 |
| | 8 | 1.252 | 1.218 | 1.213 | 1.224 |
| | 9 | 1.266 | 1.257 | 1.257 | 1.250 |
| | 10 | 1.306 | 1.302 | 1.283 | 1.298 |
| | 11 | 1.353 | 1.330 | 1.334 | 1.327 |
| | 12 | 1.382 | 1.382 | 1.363 | 1.351 |
| | 13 | 1.435 | 1.412 | 1.387 | 1.400 |
| | 14 | 1.467 | 1.437 | 1.437 | 1.457 |
| | 15 | 1.493 | 1.489 | 1.496 | 1.616 |
| | 16 | 1.547 | 1.550 | 1.659 | 1.739 |
| | 17 | 1.611 | 1.719 | 1.785 | 1.838 |
| | 18 | 1.786 | 1.850 | 1.887 | 1.915 |
| | 19 | 1.922 | 1.955 | 1.966 | 1.974 |
| | 20 | 2.031 | 2.037 | 2.027 | - |
| | 21 | 2.117 | 2.100 | - | - |
| | 22 | 2.182 | - | - | - |

Appendix E

Glossary

17 May 1990 – date from which, as a result of a case in the European Courts, pension schemes have had to equalise benefits paid to comparable men and women.

5 April 1997 – date at which accrual of GMP in contracted-out schemes ceased.

Admissible rules – pension scheme rules, to the extent that they will be taken into account by the Board for calculating PPF compensation.

Assessment period – the period following a qualifying insolvency event, during which the Board determines whether the scheme will enter the PPF.

Assessment date – the date when the qualifying insolvency event occurs and the date on which PPF compensation calculations are based.

The Board – the Pensions Act 2004 established the ‘Board of the PPF’ to run the PPF. Often people do not distinguish between the PPF and the Board. This document refers to the fund that pays compensation as the PPF and the body that administers the fund as the Board.

Comparator – for the purpose of equality legislation, pay, services or benefits are expected to be ‘equal’ when a ‘comparator’ can be found. The definition of ‘comparator’ can differ, according to the equality legislation that applies. For the purposes of the requirement for PPF compensation to be equal, the comparator must be a person of the opposite sex who is employed by the same employer, on like work, or on work of equal value or rated as equivalent, and whose employment was pensionable under the scheme. A ‘notional’ comparator will not be sufficient.

Contracted-out – employers can elect to contract-out of the state’s additional pension (now the State Second Pension, but called the State Earnings-Related Pension, or SERPS, when GMP was accrued). The employer and its contracted-out employees then pay reduced rate national insurance contributions (and/or receive rebates) but, in return, a certain level of alternative pension provision must be made.

Full equalisation – equalising scheme benefits to allow for inequalities in the calculation of GMPs and GMP revaluation and/or increases, taking into account both past and future entitlement to revaluation and increases.

GMP – before 5 April 1997 defined benefit schemes that were contracted-out of SERPS had to provide pensions at least as big as the ‘guaranteed minimum pension’, or GMP. The calculation of GMP is set out in legislation.

Benefit Equalisation for GMP – the term used in this document to refer to equalising scheme benefits to allow for the unequal calculation of GMPs. Strictly, GMPs cannot be equalised, since the calculation is set out in legislation.

NISPI – part of HMRC (HM Revenue & Customs) that, amongst other things, provides services to occupational pension schemes that are contracted-out of the state additional pension.

Pensions Act 2004 – the Act that established the PPF (specifically, Part 2 of the Pensions Act 2004).

Consultation on the requirement under Section 171 of the Pensions Act 2004 to equalise compensation to allow for differences in the GMP formula

Pensions Ombudsman – the Pensions Ombudsman was established by the Pension Schemes Act 1993 to provide an avenue for members to gain redress from trustees if they felt that the scheme had not been properly run or administered and had been unable to get satisfaction through other means.

PPF compensation – the payments the Board makes to members of schemes that enter the PPF following an assessment period.

PF Normal Pension Age – the age at which the Board treats a tranche of compensation as due for payment.

Priority Order – the order in which trustees must use scheme assets to secure benefits, set out in the Pensions Act 1995. Broadly, benefits up to the level of PPF pension compensation are given first priority.

Protected liabilities – the cost of securing PPF compensation if the scheme entered the PPF, together with any other liabilities of the scheme that are not liabilities to the members and the estimated cost of winding up the scheme, calculated in accordance with requirements set out in the Pensions Act 2004.

Qualifying insolvency event – an insolvency event in relation to a scheme sponsor that results in a scheme, or section of a scheme, entering an assessment period.

Section 143 valuation – a calculation of the scheme's assets and protected liabilities that is required during an assessment period to determine whether the scheme will transfer to the PPF.

Section 179 valuation – a valuation of the scheme's benefits, adjusted to approximate the compensation its members would get if it were to transfer to the PPF, which is required to determine the levy paid by the scheme to the Board.

SERPS – the State Earnings-Related Pension Scheme, or state additional pension, accrued by eligible employees (who were not contracted-out of SERPS) between 6 April 1978 and 5 April 2002. After 2002 SERPS was replaced by the State Second Pension (S2P).

tPR/The Pensions Regulator – the organisation with responsibility for regulating occupational pension schemes, set up by the Pensions Act 2004.

Pension Protection Fund

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