GMP EQUALISATION Q&A

In August 2024, the Chair of the Group Trustee wrote to affected pensioner and dependant members with Guaranteed Minimum Pension (GMP) benefits. The Chair's letter explained how the Group is proposing to address an historical inequality relating to some members' GMP benefits.

This Q&A contains more information on GMPs and the Group Trustee's proposal. This information is relevant to affected pensioner and dependant members only – if you are affected by GMP equalisation you will have received a letter. If your pension does not include GMP and you did not receive a letter in August 2024, this information may not apply to you.

If your pension includes an element of GMP and the proposal goes ahead, your pension would change automatically in early 2025.

1. Why might my Group pension change?

The Group Trustee is legally required to address an historical inequality relating to some GMP benefits in the Group. The inequality arises because of the different way that GMP benefits are calculated and paid for men and women.

The requirement to address this inequality follows the outcome of a High Court case which affects members of salary-related (or 'defined benefit') pension schemes across the UK, including the Group, that were 'contracted-out' of the State Earnings-Related Pension Scheme (SERPS, which later became the State Second Pension) between 17 May 1990 and 5 April 1997.

As a result of addressing the historical inequality, your Group pension may increase slightly. Your Group pension will not go down. Depending on your circumstances, it may not change at all.

2. What is Guaranteed Minimum Pension?

Your Group pension is made up of different parts, based on when you built up your pension. If you were building up pension between 6 April 1978 and 5 April 1997, one part of your Group pension is likely to be Guaranteed Minimum Pension (GMP).

GMP is linked to when there were two parts to the State Pension arrangement – the Basic State Pension and State Earnings-Related Pension Scheme (SERPS).

Workplace pension schemes had the option to 'contract out' of SERPS . This resulted in National Insurance savings for the employer and its members, and most schemes decided to contract out.

In exchange, the Group had to promise to pay members broadly at least as much pension as they would have received from SERPS. This is the part of your Group pension known as GMP.

The amount of GMP, and the way it must be increased in payment, is set by legislation.

GMPs are different for most men and women because the State Pension Age used to be different for men and women. As a result, men and women built up GMPs at different rates and GMPs are payable at different dates. This led to the historical inequality which the Group Trustee is now seeking to address.

3. What is the legal ruling?

Pension benefits have generally had to be equal for men and women since 17 May 1990 following a legal ruling by the European Court of Justice. However, GMPs remain unequal because they have to be calculated and paid in line with legislation that had not changed.

The issue of GMPs within pension benefits has been addressed following a separate High Court ruling.

The case related to members of the Lloyds Banking Group's pension schemes who claimed discrimination on the basis that their GMPs were not equal to the GMPs of members of the opposite sex.

The High Court ruled in the members' favour in October 2018 and held that trustees of pension schemes with GMPs are under a legal duty to adjust benefits to address the historical inequality between men and women arising from unequal GMPs.

The result of this ruling is that all affected pension schemes are legally required to address this inequality, including the Group.

4. What is GMP equalisation?

Pensions earned between 1990 and 1997 must be equalised for the effect of unequal GMPs. This is commonly known in the pensions industry as 'GMP equalisation'. You may have read about GMP equalisation in the news.

You may be affected by GMP equalisation even if you don't have any GMP elements to your pension. Examples include members who ceased accruing benefits in the Group before 6 April 1978, as GMPs did not exist until this date. Also, if you are receiving a dependant's pension following the death of a member of the Group, but you were not married (or in a civil partnership) with that person, then GMPs are not paid to you.

GMPs earned before 1990 are not covered by the court ruling and do not need to be equalised.

The proposed change will enable the Group to resolve the issue of unequal GMPs – which is a legal requirement.

5. What is GMP conversion?

GMP conversion is one way of fulfilling the GMP equalisation requirement. It involves converting all GMP pension into a form of non-GMP pension. GMP conversion effectively removes the complex rules of GMP benefits, thereby simplifying pensions.

Trustees who propose to use GMP conversion as their method of addressing GMP equalisation, are required by law to consult with those members who would be affected. This is why the Group Trustee is consulting with affected Group members now.

If you have received a letter, you don't need to respond if you're happy with the proposal. You only need respond to the consultation if you have any comments or views on the conversion proposal and wish to provide feedback for the Group Trustee to consider.

To fulfil the equalisation requirement, and to simplify pensions, we are proposing to carry out a one-off calculation and convert all members' GMP into a different form of pension. GMP conversion laws require that if a member is having their GMP converted, all their GMP (including any GMPs built up before 1990 that don't need to be equalised) must be converted.

The Group Trustee has also decided to convert GMPs for anyone who left the Group before 1990 and so are not subject to equalisation. If we did not do this, it would create a significant administrative burden for the Group.

6. How will GMP equalisation and conversion work?

GMP equalisation

There are different ways of equalising pensions for the impact of unequal GMPs.

Having considered all available options carefully and with expert guidance from our advisers, the Group Trustee is proposing to apply a one-off calculation to equalise GMP earned between 17 May 1990 and 5 April 1997. As noted above, this method involves converting the GMP into non-GMP benefits.

The process involves identifying whether, over your expected lifetime, the total value of your Group pension built up between 17 May 1990 and 5 April 1997 is less than the equivalent total value of pension that a member of the opposite sex in the same circumstances would be entitled to.

An uplift would be applied to any Group member whose benefits are lower in value than they would have been had they been of the opposite sex. Any Group members who have been impacted in the past would be reimbursed with a one-off payment.

Note: Not everyone will be affected, so only a small number of Group members will receive an uplift to their pension, and/or a one-off payment to cover past underpayments. In most cases, we would expect any uplift to be relatively small. No one will be worse off as a result of the changes.

Note: Only GMPs earned between 1990 and 1997 need to be equalised. If you did not earn GMP within this period, you will not be affected by GMP equalisation. However, your Group pension will still be simplified under our proposal for GMP conversion (see below).

GMP conversion – more detail

As noted above, in order to meet the equalisation requirement going forward and to simplify future administration of the Group, we are proposing to convert all GMP into a different form of pension using a one-off calculation.

Converting GMP into a different form of pension will:

- Remove gender-based inconsistencies arising from GMP between male and female pensions (for pension earned from 1990 onwards) – providing each member with the more valuable of the two.
- Simplify your Group pension and the future administration of the Group, as they will no longer be tied to complex GMP legislation.

Every Group pensioner and dependant member with a GMP (whether or not their pension has been changed as a result of GMP equalisation) will have their GMP converted into a different form of pension.

If GMP equalisation is not addressed as a one-off calculation for all members with a GMP, the already complex administration of the Group would become even more complicated.

See question 7, below, for details of how the Group Trustee is proposing to convert all GMP into a different form of pension.

7. What is your proposed method for GMP conversion?

The GMP conversion laws set out a number of requirements that must be satisfied following conversion, and the converted benefit must satisfy all of these.

The calculations required to carry out GMP conversion are complex and will take some time for the advisers to work through. The impact for each Group member will be specific to their individual circumstances.

It is therefore not feasible to provide members with illustrations of the impact on their benefits as part of this consultation. Instead, a summary of the proposed GMP conversion approach is set out below.

It is proposed to make as small a change to benefits as possible, subject to legal and practical constraints.

Pensions built up between 6 April 1978 and 5 April 1997 are currently made up of a combination of three pension elements. The pension increases on each pension element will be unchanged, but the amount of pension that is subject to the different rates of pension increase in the future may change – please see the table below.

Pension element	Pension increase
GMP built up before 6 April 1988	No annual increase
GMP built up from 6 April 1988 to 5 April 1997	Annual increase in line with CPI up to 3%
Non-GMP built up before 5 April 1997	Annual increase in line with RPI up to a discretionary cap of 5% in line with the Scheme Rules

If you have not yet reached GMP age (age 60 for women and 65 for men), your pension will not yet be split into these different elements.

However, for all pensions built up between 6 April 1978 and 5 April 1997, the Group would remove any adjustments to pension relating to GMP which may otherwise have occurred at the date GMP comes into payment. These adjustments include increases to pension which some Group members could be entitled to at GMP age to ensure it at least meets the minimum level required under legislation.

Rest assured, if you would have been due an increase to your pension when you reach GMP age (for those currently under this age), you will still receive the full expected value of this increase if your pension is converted. This effectively means doing those checks in advance, so that they are not required in future.

There will be no changes to the way pensions increase or how pension increases are applied as part of GMP conversion for the vast majority of Group members. However, please see question 8, which sets out the circumstances under which different pension increases may apply.

In summary:

- The current annual amount of Group pension will likely be unchanged but may increase marginally in some cases. **The current annual amount of Group pension would not be reduced**.
- The split between different elements of Group pension may be slightly different. This means that future increases to the total annual amount of Group pension in the future may be marginally different. **The expected value of benefits paid from the Group to you and to any dependants on your death would not be reduced.**

To ensure that the value of your benefit is protected, the Group Actuary is legally required to certify that any change will not reduce the expected value of your benefits (based on the financial assumptions used as part of the calculation process).

There will be no change to any pension you have built up in the Group after 1997.

8. What is the difference between non-converted GMP and converted GMP?

For most members, where there is a change as a result of converting GMP benefits, the change is expected to be small.

However, there are a couple of exceptions where you may see a bigger change in how your Group pension increases in the future:

- Women currently under age 60 and men under age 65 may see a bigger change to how their Group pension increases between now and age 60 (for women) and 65 (for men). This is due to the complex way GMPs must increase by law which we are simplifying as part of the conversion process.
- Pensioner members may see changes to the way their Group pension increases if the amount payable to a spouse or dependant on death is below the minimum required by GMP conversion legislation.

9. Why are you proposing to convert GMPs?

GMP equalisation is a complex and costly process, no matter which method is adopted. The Group Trustee decided on the proposed GMP conversion approach after much consideration and input from its advisers, and from National Grid as the sponsoring employer.

The factors that influenced the decision include:

- the historical complexity in the Group
- the opportunity to simplify the existing benefit structures
- alignment with how the Group is operated now and in the future.

The Group Trustee is satisfied that the proposal is in the interests of the Group and its members.

10. Can the Group Trustee make the proposed change?

Yes, pensions law does allow the Group Trustee to change the Group's benefits in this way with agreement from National Grid. However, certain steps need to be taken first, given that the change we are proposing affects benefits that have already been built up.

The Group Trustee has taken legal and actuarial advice and is following guidance from the Department for Work and Pensions.

The Group Trustee is required to consult with all those who are in receipt of a pension from the Group and who would be affected by the GMP conversion proposal.

11. Does my Group pension include GMPs?

Your Group pension is made up of different parts, based on when you built up your pension. If you were building up pension between 6 April 1978 and 5 April 1997, one part of your Group pension is likely to be Guaranteed Minimum Pension (GMP).

If we proceed with the proposal to convert GMPs, your pension would change to a simplified Group pension that addresses the GMP inequality and will still increase in future, broadly in the same way that it does today.

12. Why is the Group Trustee consulting on this?

The Group Trustee is required to consult with all those who are in receipt of a pension from the Group and who would be affected by the GMP conversion proposal.

13. How long does the consultation run for?

The consultation period will last for around 60 days. It runs from early August to 4 October 2024.

14. Should I be concerned if I haven't received a letter?

If you are affected by GMP equalisation, you will have been sent a letter in August 2024. If you haven't received a letter, it's likely to be because you don't have a GMP element to your Group pension. You are likely to have a GMP element to your pension if you paid into the Group between 1978 and 1997. You can check your annual pension increase letter to see if your Group pension includes GMP.

If you believe you should have received a letter about GMP equalisation, please contact Railpen at **ngridgmp@railpen.com** or by phoning **0808 196 3694**.

Please note: The remaining questions and answers (numbers 15 - 19) are expected to be relevant for only a few members.

15. Could there be any tax implications if the proposal goes ahead?

The Group Trustee is legally required to carry out GMP equalisation. If you receive an uplift to your annual Group pension or any back-payments, these would be taxed in the usual way.

As a result, there may be tax implications if the GMP equalisation exercise leads to an increase in the current annual amount of your Group pension or the receipt of back-payments. Please see questions 16 – 19 below. The proposals for GMP conversion have been designed to minimise any negative tax implications.

16. What if I have Lifetime Allowance protections?

If you have a form of Lifetime Allowance protection, please contact Railpen so that we can review and consider your circumstances in relation to this:

Email: ngridgmp@railpen.com

Tel: 0808 196 3694

Post: National Grid Electricity Group of the Electricity Supply Pension Scheme, Railpen, 2 Rye Hill Office Park, Birmingham Rd, Coventry CV5 9AB.

17. More detail: what are the tax implications from GMP conversion/equalisation?

Changes arising from our GMP review may affect your income tax position because:

- Receiving a higher pension could move you into a different income tax band (and could affect any State benefits you receive).
- Receiving a one-off additional payment could move you into the next income tax band in the tax year you receive your one-off payment (and could affect any State benefits you receive). This could mean that you pay more tax than if you had received the higher pension when it was due.

If the project proceeds, the statement we will send early next year will show your one-off payment, if you are receiving one. If you require further detail or are concerned with the tax implications of your one-off additional payment, please contact Railpen.

If you started to receive your pension after 5 April 2006, any changes could affect your position in relation to the Lifetime Allowance. If you started to receive your benefits before 6 April 2006, the Lifetime Allowance is unlikely to affect you.

If we find that you should have received a higher starting pension at retirement, the percentage of the Lifetime Allowance you used up when your pension started will change (see below). In most cases, this will have no practical consequences.

However, for members with pension savings close to or over the Lifetime Allowance (i.e. at least £1 million) at the relevant time, a Lifetime Allowance tax charge could be payable.

Separately, if you have Enhanced Protection (protecting your pension rights built up before 6 April 2006), there is a small risk you could lose it due to any equalisation adjustment.

We explain more about the Lifetime Allowance below.

A note on the Lifetime Allowance

The Lifetime Allowance was the value of benefits you could draw from certain pension schemes on a tax favourable basis. For example, the standard Lifetime Allowance used to be set at £1,073,100 (2022/23 tax year). Benefits over the Lifetime Allowance were subject to a tax charge.

The Lifetime Allowance tax charge was removed following the 2023 Spring Budget. The Lifetime Allowance itself was abolished from the start of the 2024/25 tax year. However, this project relates to historic benefits – so we are expecting to apply the tax rules at the time you retired. More details about tax allowances are set out in this **document**.

Please remember that you are responsible for your Lifetime Allowance position and taking any steps that might be appropriate.

18. If my pension increases as a result of GMP equalisation, do I need to pay more tax because of the Lifetime Allowance?

If you started to receive your pension after 5 April 2006, any changes could affect your position in relation to the Lifetime Allowance. If you started to receive your benefits before 6 April 2006, the Lifetime Allowance is unlikely to affect you.

Although the Lifetime Allowance has been abolished from April 2024, GMP equalisation is a retrospective change to benefits and therefore members who were close to, or over their Lifetime Allowance at the point they retired, may have more tax to pay if their starting pension should have been higher.

If we find that you should have received a different starting pension at retirement, we will tell you how much of the Lifetime Allowance you used up at the time. This will replace any previous information you were given.

If we believe that any increase to your pension might have caused you to have to pay more tax due to the Lifetime Allowance, we will let you know.

However, please be aware that if you have savings in multiple pension arrangements, you may be liable for a retrospective tax charge based on the total of the pension benefits paid from all of your pension schemes. This may be the case even if you only have a small level of savings in your other pension schemes.

Each of your pension providers should have told you how much of the Lifetime Allowance you used up each time you put a pension into payment (or allocated money to drawdown), to help you work this out.

Remember, it is your responsibility to check your total benefits and determine whether you remain within the relevant tax limits.

19. I have Lifetime Allowance protection. Will any increase from GMP equalisation affect this?

There have been a number of different types of higher protected Lifetime Allowances that members could have applied for, including Primary Protection, Individual Protection, Fixed Protection and Enhanced Protection, which each have different rules. In general, a change to your benefits from GMP equalisation will not have an impact on any Lifetime Allowance protection that you may have, unless you had Enhanced Protection and retired prior to 6 April 2023,or you wish to maintain protections in relation to taking tax-free cash from a pension you have not yet started. However, we recommend that you tell us about any protections you have if you have not done so already.

Members with Enhanced Protection were allowed to build up benefits up to an 'appropriate limit,' with any 'relevant benefit accrual' beyond this limit resulting in a loss of protection. Any adjustment for GMP equalisation would need to be allowed for both as at 5 April 2006 and at the point you retire – i.e. both the start and end benefits that are assessed.

As such, situations where Enhanced Protection is lost as a result of GMP equalisation are expected to be rare. If you have Enhanced Protection and have not previously provided details of this to Railpen, it is important that you let them know so that they can try to assist you further.

Remember, it is your responsibility to check your total benefits and determine whether you remain within the relevant tax limits.