

The National Grid Electricity Group of the Electricity Supply Pension Scheme



The Group Trustee is consulting with all affected pensioner and dependant members about the proposed method for addressing the historical Guaranteed Minimum Pension (GMP) inequality referred to in the cover letter. The letter also includes details of the consultation process.

August 2024

The following questions and answers help to explain our proposal. You can also find these on the Group website at <https://ngeg.pensions.nationalgrid.com/>.



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 will not go down. Depending on your circumstances, it may increase slightly or 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 like the Group, 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 out in 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?

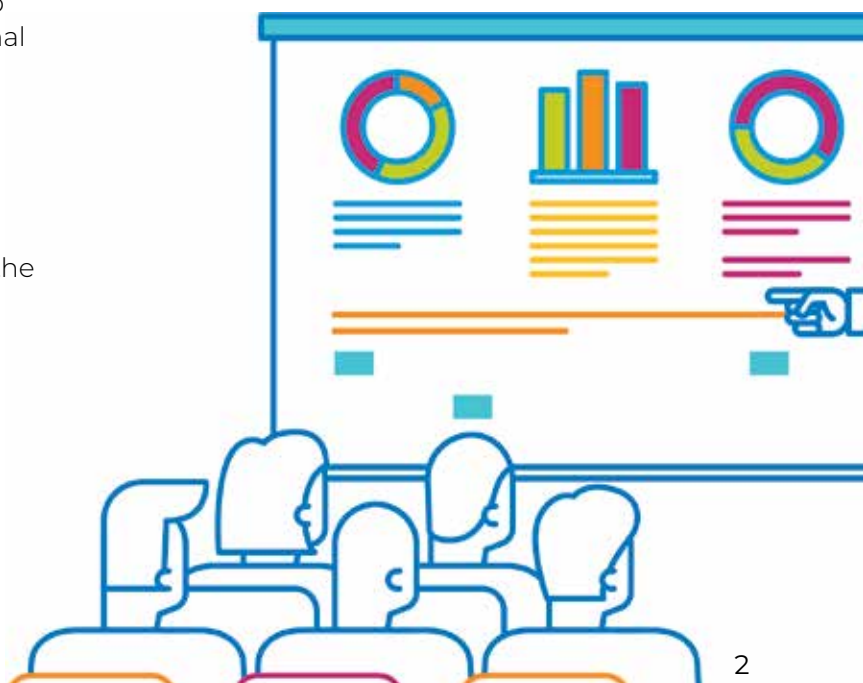
Pension benefits have generally had to be equal for men and women since 17 May 1990 following a legal ruling by the European Court of Justice. However, GMPs remain unequal because they have to be calculated and paid in line with legislation that had not changed.

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, including the Group, are legally required to address this inequality.



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'. The Group Trustee have raised awareness of this previously and 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.

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 we are consulting with you now. You don't need to respond if you're happy with the proposal. **You only need to 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.**



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 the Group Trustee would expect any uplift to be relatively small. No one will be worse off as a result of the changes.

To fulfil the equalisation requirement, and to simplify pensions, the Group Trustee is 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 the Group Trustee did not do this, it would create a significant administrative burden for the Group.

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

In order to meet the equalisation requirement going forward and to simplify future administration of the Group, the Group Trustee are proposing to convert all GMP into a different form of pension.

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.

See question 7 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.

For all pensions built up between 6 April 1978 and 5 April 1997, the Group Trustee would remove any adjustments to pension relating to GMP which may otherwise have occurred at the date GMP comes into payment (age 60 for women or 65 for men). 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 actuarial 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.

Pensions built up between 6 April 1978 and 5 April 1997 are currently made up of a combination of three pension elements, as shown in the table on page 5. The pension increases on the GMP and non-GMP element of your pension will not change, but the amount of pension that is subject to the different rates of pension increase in the future may change – please see the table on page 5.

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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

There will be no changes to the way pension increases are applied as part of GMP conversion.

In summary:

- The current total 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 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, the change as a result of converting GMP benefits 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 the Group Trustee are simplifying as part of the conversion process.
- Pensioner members whose spouse's (or dependant's) pension on death is below that required by GMP conversion legislation. In this circumstance, the increases on your Group pension may change to ensure your spouse's (or dependant's) pension on death meets the minimum required.

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; and
- 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 the Group Trustee 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. 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.

The proposals for GMP conversion have been designed to minimise any negative tax implications. For more details on the potential tax implications, please see the GMP Q&As on the Group website.

If you have Lifetime Allowance protections

If you have a form of Lifetime Allowance protection, please contact Railpen using the contact details provided so that the Group Trustee can review and consider your circumstances in relation to this.



Contact details

Our proposal and consultation

This Q&A has been designed to cover common questions impacted Group members may have on GMP conversion and GMP equalisation.

However, you may want to contact us if you:

- wish to provide feedback on our proposal by 4 October 2024 – please see the cover letter; or
- have specific Lifetime Allowance or pension tax issues – see question 11.

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General queries

If you have any general queries about the Group or your benefits, please contact Railpen in the usual way:

@ enquiries@railpen.com

☎ 02476 472540

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