

A possible method for equalising pensions for the effect of the Guaranteed Minimum Pension

Part of the consultation on draft regulations

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This document is part of the consultation on the Draft Occupational Pension Schemes and Pension Protection Fund (Equality) (Amendment) Regulations 2012.

See – www.dwp.gov.uk/consultations/2012/pensions-equality.shtml

Introduction

1. On 17 May 1990 the Court of Justice of the European Union ruled that occupational pensions were deferred pay and, as such, schemes had to treat men and women equally: “the Barber judgment”.
2. This judgment was incorporated into UK domestic law and applies for any accruals from 17 May 1990. The relevant legislation is now in Sections 64 and 67 to 70 of the Equality Act 2010 (previously Section 62 of the Pensions Act 1995). It imports an equal treatment rule into occupational pension scheme rules. This means that, where a particular rule would treat a member of one sex less favourably than a member of the opposite sex, it must be read as though it did not treat that member less favourably.

The Guaranteed Minimum Pension

3. From 6 April 1978 to 5 April 1997, any employer who wanted to contract out of the state system had to ensure its defined benefit occupational pension scheme provided a pension at least as good as a statutory minimum - the Guaranteed Minimum Pension (GMP).
4. The GMP rules broadly followed those of the State Earnings Related Pension Scheme (see Sections 14 to 16 of the Pension Schemes Act 1993). Significantly for the purposes of this methodology, the GMP rules provide for a pension to be payable to a woman at age 60 and to a man at age 65, and for the accrual rate of a woman to be higher than for an equivalent man.
5. It has been the position of successive Governments that the Barber judgment and the Pensions Act 1995 did not require schemes to equalise that proportion of the scheme benefits representing the amount of the GMP. Rather it required schemes to equalise overall scheme benefits which accrue from 17 May 1990 and, for the period 17 May 1990 to 5 April 1997, this includes any inequality arising from the GMP legislation.
6. The Government understands the current position is that contracted-out schemes which hold GMP liabilities are already under an obligation to:
 - equalise pensions for the effect of the GMP for any accruals from 17 May 1990 to 5 April 1997. This flows from *Barber* and current domestic legislation; and
 - assume a comparator exists for the purposes of this exercise. This flows from a line of case law from the Court of Justice of the European Union, most notably the case of *Allonby* (see paragraphs 80 to 84 of that judgment), which imposes EU law obligations directly on schemes.

The position of this proposed methodology

7. The Government is aware that a degree of uncertainty exists as to how schemes should amend their benefits in order to equalise where a GMP entitlement exists. It wants to offer as much help to pension schemes as is possible and therefore is putting forward one possible method of equalising pensions that schemes could choose to use.
8. The Government is not placing any obligation on schemes to use this method nor does it comprise legal advice to schemes on how to equalise: it should not be treated as a definitive statement of how equalisation should be effected. It simply describes one way of equalising for the effect of the GMP legislation which the Government believes meets the equalisation obligation derived from EU law, codified in the Equality Act 2010. The Government does not assert this is the only way that equalisation can be achieved.
9. Where trustees are content that they have fully met their legal obligation regarding equalisation, they need take no further action. Further, if a scheme believes it needs to take action, it is for the trustees to decide what action is needed and this may not be equalising in the way described in this document.
10. Guidance has been published on how schemes entering either the Pension Protection Fund or the Financial Assistance Scheme should equalise prior to entry into these systems. This draft deals with a different situation, as ongoing schemes face different challenges. However, we believe it to be compatible with the overarching principles of the approach set out by the Board of the Pension Protection Fund in their published Technical Statement.

The equalisation method

11. This equalisation method requires an additional calculation to be made to compare what a member would get under the scheme rules and the relevant legislation if they were treated as being a person of the opposite sex. This '*opposite sex notional comparator*' is only needed for the benefits that accrue from 17 May 1990 to 5 April 1997.
12. The member's entitlement is the higher of the amount the member would get under the scheme rules in their own sex and the amount their opposite sex notional comparator would be paid.
13. The comparison is undertaken each time the amount of pension in payment is calculated (generally annually) and the scheme pays the higher amount.
14. So the scheme should consider two sets of questions.
15. The first set of questions is:

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- what age do I need to start paying this member a pension under the rules that apply to them?
- what age would I need to start paying a pension to this member's opposite sex notional comparator under the rules that would be applicable to them?

16. If the opposite sex notional comparator would be entitled to a pension earlier than applicable to the member under the rules, the pension due to the opposite sex notional comparator should be put into payment at that earlier age.

17. The second set of questions to be asked at each payment date thereafter is:

- what is the amount of the overall pension this member would be paid under the applicable rules (the unequalised calculation);
- what is the amount of the overall pension the member would be paid under the applicable rules if they had been a member of the opposite sex (the opposite sex notional comparator calculation);

and the higher of the two should then be paid as the member's entitlement.

18. For example¹ a man born on 1 April 1937 who was a member of a scheme with a normal retirement age of 60, and who was an active member of the scheme to that age, has an unequalised pension entitlement as in the third column below. If he had been a woman he would have been paid the amounts given in the fourth column. The suggested method of equalisation would see him being paid the amounts in the opposite sex notional comparator column for the first five years and then the amounts in the man's column thereafter.

Age	Rate of pension with effect	Man's unequalised calculation	Opposite sex notional comparator
60	01/04/1997	1,500	1,500
60	06/04/1997	1,500	1,510
61	06/04/1998	1,500	1,525
62	06/04/1999	1,500	1,540
63	06/04/2000	1,500	1,546
64	06/04/2001	1,500	1,561
65	01/04/2002	1,662	1,561
65	06/04/2002	1,674	1,571

¹ For clarity, the example assumes that the scheme pays no more than the statutory minimum revaluation and indexation and that the member joined the scheme after 17 May 1990.

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66	06/04/2003	1,686	1,580
67	06/04/2004	1,706	1,596
68	06/04/2005	1,727	1,613

19. In effect, the man gets the benefit of any increases paid by the pension scheme on his opposite sex notional comparator's GMP accrued on or after 17 May 1990, until he reaches age 65. At that age, as a consequence of his own sex GMP, plus anti-franking², the pension entitlement would be his unequalised calculation, as it is more advantageous. If this member had been a woman, her entitlement would begin as her unequalised calculation and then move to the opposite sex notional comparator calculation at age 65.
20. The calculation is more complex if a person has accruals covering the period before 17 May 1990 which do not have to be equalised (the "pre-Barber accruals") and also accruals covering the period from 17 May 1990, which do have to be equalised (the "post-Barber accruals").
21. Generally, the pre- and post- Barber GMP should be considered as components of the overall (pre- and post- Barber) scheme pension. In effect, a scheme will pay the higher of:
- the unequalised calculation for the whole of the period; and
 - the total of the unequalised calculation for the period up to the 16 May 1990 (the pre-Barber accruals) and the opposite sex notional comparator benefits accrued from 17 May 1990 (the post-Barber period).

Examples

22. This proposed methodology is demonstrated by way of illustrative examples which are attached. In order to explain the methodology as applied to the most straight forward cases, in the examples:
- the schemes have a normal retirement age of 60 or 65; and
 - provide only the statutory minimum in respect of revaluation and indexation.
23. The first group of examples deals with members who only have rights accrued between 1990 and 1997, i.e. no pre-Barber rights and no rights accrued following the cessation of the accruals of GMPs from 6 April 1997.

² The anti-franking rules are set out in Section 87 to 90 of the Pension Schemes Act 1993. The aim is to prevent any pension accrued in excess of the GMP being eroded to cover the revaluation applied to the GMP before it is put into payment.

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24. The second group of examples deals with members who have both pre- and post-Barber rights.
25. The examples have been designed so they work whether the scheme is considering a man or a woman member. If the scheme is considering a man, the woman is his opposite sex notional comparator. If it is considering a woman then the reverse is true. The examples have the man and the woman member starting with the same service and same earnings and thus the same overall pension.
26. The examples assume:
 - a man will have a right to a pension equivalent to his post-Barber opposite sex notional comparator's GMP at age 60 (Section 13(1) of the Pension Schemes Act 1993); and
 - if a man is not in work at age 60, the scheme would put the post-Barber opposite sex notional comparator's GMP into payment (Section 13(3) of the Pension Schemes Act 1993).

Annex A – Examples of equalisation

Member had post-Barber benefits only in scheme

	Normal Retirement Age 60
Example 1	Active Member. Retirement at NRA
Example 2	Deferred Member. Retirement at NRA
	Normal Retirement Age 65
Example 3	Active Member. Retirement at NRA
Example 4	Deferred Member. GMP at 60; scheme benefits at 65
Example 5	Deferred Member. GMP and scheme pension at 65
Example 6	Early retirement at age 60

Member had both pre- and post- Barber benefits in scheme

Example 7	Active Member: Retirement at age 60 in an NRA 60 scheme: Man
Example 8	Active Member: Retirement at age 60 in an NRA 60 scheme: Woman

All the examples consider retirements in the past in order to be able to use actual revaluation and indexation rates. However, the same principles would apply to payments in the future. All examples assume a scheme with:

Accrual rate:	1/60 th
Revaluation of GMP:	fixed rate
Increases to GMP in payment:	statutory increases for post-1988 GMPs
Increases to excess in payment:	nil
Revaluation of excess in deferment:	statutory minimum

The GMP opposite sex conversion factor and dates of GMP accrual have been used to estimate the equivalent GMP for a female. Alternatively, own and opposite sex GMPs for service from 6 April 1990 can be obtained from the National Insurance Services to the Pensions Industry (NISPI). NISPI leaflet CA19 “Using the Accrued GMP Liability Service” explains this calculation.

Example 1 – Active member: NRA 60 scheme: retirement at 60

At age 60 both the man and the woman start out with the same annual scheme pension of £1,500. The woman has £480 of her pension underpinned by the GMP.

- **The woman** is entitled to indexation on that part of her pension which is underpinned by the GMP.
- **The man**, therefore, through **the application of the sex equality rule** is paid the same amount of indexation as his opposite sex notional comparator, even though neither the normal scheme rules nor the GMP rules require him to be paid indexation at that age.

At age 65 the man has his revalued GMP calculated.

- **The man** is entitled to a GMP of £684. The pension he accrued also has the anti-franking legislation applied to it. His total unequalised calculation is now £1,662. As this is higher than the amount of £1,561 which is being paid to his opposite sex notional comparator, he will be entitled to £1,662 - his unequalised calculation.
- **The woman**, therefore, through **the application of the sex equality rule** is entitled to be paid the same as her opposite sex notional comparator as that pension is higher than her unequalised calculation.

Age	Rate of pension with effect	Male: non-equalised amount ³	Female: non-equalised amount
60	01/04/1997	1,500	1,500
60	06/04/1997	1,500	1,510
61	06/04/1998	1,500	1,525
62	06/04/1999	1,500	1,540
63	06/04/2000	1,500	1,546
64	06/04/2001	1,500	1,561
65	01/04/2002	1,662	1,561
65	06/04/2002	1,674	1,571

³ Amounts due once equalised are given in italics in this and other examples.

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66	06/04/2003	1,686	1,580
67	06/04/2004	1,706	1,596
68	06/04/2005	1,727	1,613
69	06/04/2006	1,748	1,629
70	06/04/2007	1,771	1,647
71	06/04/2008	1,794	1,666
72	06/04/2009	1,819	1,685
73	06/04/2010	1,819	1,685
74	06/04/2011	1,844	1,705

Detailed calculations

Member details

Date of Birth	01/04/1937
Date of joining scheme	01/04/1992
Last day of service	31/03/1997 (day before age 60)
Pensionable pay	£18,000

Pension details

Tax year of leaving	1996/97
GMP Fixed revaluation rate	7% (leavers between 6 April 1993 and 5 April 1997)
Reckonable service	5 years
Total Pension from age 60	£1,500 (5/60 x 18,000)

Male

GMP accrual dates	01/04/1992 to 31/3/1997
GMP accrual length	5 years
post '88 GMP at age 60	£522
excess over GMP at age 60	£978

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GMP opposite sex conversion factor	1.15	(based on tax year of birth)
Female		
GMP accrual dates	01/04/1992 to 05/04/1996 (5 Apr before SPA)	
GMP accrual length	4 years 5 days	
post '88 GMP at age 60	£480	(circa $522 \times 1.15 \times 4y\ 5d / 5y$) ⁴
Female excess over GMP at age 60	£1,020	

Female GMP pension increases		
Female post '88 GMP in payment	1.1279	(1.021 x 1.03 x 1.03 x 1.011 x 1.03)
Female pension in payment at 65	£1,561	[(480 x 1.1279) + 1,020]

Male anti-franking test at age 65		
Final Relevant Year	2000/2001	
Complete tax years from leaving to GMP age	4	(1997/98 to 2000/01 incl.)
Male GMP revaluation factor	1.311	
Male Pension before anti franking test	£1,500	(no pension increases)
Male Pension after anti franking test	£1,662	[1,500 + (522 x 0.311)]

⁴ The female post '88 GMP of £480 pa has been calculated on an approximate basis assuming uniform earnings accrual. It could further be adjusted to remove the 1996 revaluation of 2.8%, thereby reducing the GMP to around £470 pa. In practice, an accurately calculated opposite sex (female) GMP that also takes into account actual earnings in each tax year can be obtained from NISPI.

Example 2 – Deferred member: NRA 60 scheme: retirement at 60

At age 55, when they left scheme, both the man and the woman had accrued a pension of £1,500. Neither had any entitlement to a GMP at this stage.

At age 60

- **The woman's** unequalised calculation includes revaluation on both that part of her scheme pension underpinned by the GMP and the scheme excess which gives her £1,618, with a GMP underpin of £832. With the anti-franking legislation applied, her unequalised calculation is £1,815, with indexation on £832. This is her entitlement, as it is higher than her opposite sex notional comparator.
- **The man's** unequalised calculation produces an amount of £1,633 (revaluation applied to the scheme excess only) with no indexation. However, **the application of the sex equality rule** gives him entitlement to an equalised pension of £1,815 with indexation on £832 for the next five years, as this is what his opposite sex notional comparator would be paid.

At age 65

- **The man's** unequalised calculation produces an amount of £2,071, underpinned by a GMP of £959. As this is higher than the amount of £1,919 which is being paid to his opposite sex notional comparator, he will be entitled to an equalised pension of £2,071.
- **The woman** is getting a pension of £1,919, underpinned by a GMP of £936. As this is lower than the opposite sex notional comparator, **the application of the sex equality rule** increases her entitlement to £2,071.
- Indexation is paid on £959 to both the man and the woman.

Age	Rate of pension with effect	Male: unequalised amount	Female: unequalised amount
60	01/04/2002	1,633	1,815
60	06/04/2002	1,633	1,829
61	06/04/2003	1,633	1,844
62	06/04/2004	1,633	1,868
63	06/04/2005	1,633	1,894

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64	06/04/2006	1,633	1,919
65	01/04/2007	2,071	1,919
65	06/04/2007	2,099	1,947
66	06/04/2008	2,129	1,976
67	06/04/2009	2,160	2,006
68	06/04/2010	2,160	2,006
69	06/04/2011	2,191	2,036

Detailed calculations

Member details	
Date of Birth	01/04/1942
Date of joining scheme	01/04/1992
Last day of service	31/03/1997
Date of retirement	01/04/2002
Pensionable pay	£18,000

Pension details	
Tax year of leaving	1996/97
Fixed revaluation rate	7% (leavers between 6 April 1993 and 5 April 1997)
Reckonable service	5 years
Pension at exit	£1,500 (5/60 x 18,000)

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Male		
GMP accrual dates	01/04/1992 to 31/3/1997	
GMP accrual length	5 years	
post '88 GMP at exit	£522	
excess over GMP at exit	£978	
GMP opposite sex conversion factor	1.2174	(based on tax year of birth)
Female		
GMP accrual dates	01/04/1992 to 31/03/1997	
GMP accrual length	5 years	
post '88 GMP at exit	£635	(522 x 1.2174)
excess over GMP at exit	£865	

Male pension at 60		
Complete years between leaving and retirement	5	
Excess revaluation percentage	13.60 (based on 2001 revaluation order)	
Male excess revaluation	£133 (978 x 13.6%)	
Male pension at age 60	£1,633 (1,500 + 133)	

Female pension at age 60		
Female excess revaluation	£118 (865 x 13.6%)	
Final Relevant Year	2000/2001	
Complete tax years from leaving to GMP age	4	(1997/98 to 2000/01 incl.)
Female GMP revaluation factor	1.311	

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Female Pension before anti franking test	£1,618	(£1,500+118)
(note the "relevant sum" is assumed to include revaluation on excess)		
Female Pension after anti franking test	£1,815	[1,618 + (635 x 0.311)]
(note appropriate addition and later earnings addition are nil)		
Female GMP at age 60	£832	(635 x 1.311)
Female excess over GMP at age 60	£983	(1,815 – 832)

Female GMP pension increases		
Female post '88 GMP in payment	1.1247	(1.017 x 1.017 x 1.028 x 1.03 x 1.027)
Female pension in payment at 65	£1,919	[(832 x 1.1247) + 983]

Male anti-franking test at age 65		
Final Relevant Year	2005/2006	
Complete tax years from leaving to GMP age	9	(1997/98 to 2005/06 incl.)
Male GMP revaluation factor	1.838	
Male Pension before anti franking test	£1,633	(1,500 + 133)
(note the "relevant sum" is assumed to include revaluation on excess)		
Male Pension after anti franking test	£2,071	[1,633 + (522 x 0.838)]
(note appropriate addition and later earnings addition are nil)		

Example 3 – Active member: NRA 65 scheme: retirement at age 65

At age 56

The man and the woman joined the scheme at the same age. Both the man and the woman carried on working for the sponsoring employer after age 60 and the scheme, therefore, did not put anything into payment at that time.

At age 65

Both the man and the woman have accrued a scheme pension of £2,700.

- **The woman's** unequalised calculation produces an amount of £2,822. This includes a GMP, including increments for deferment, of £530 and after the anti-franking legislation has been applied.
- **The man's** unequalised calculation produces an amount of £2,700, including a GMP of £1,200. However, as the total is lower than the amount due to his opposite sex notional comparator of £2,822, **the application of the equality rule** means his entitlement is £2,822.
- Both the man and the woman have indexation applied on the female GMP of £530. As this GMP is lower than the male GMP of £1,200, the difference between the male and the female unequalised amounts decreases after age 65 and just after age 72 the position is reversed with the male unequalised amount becoming higher than the amount in payment. At that point, **the application of the equality rule** mean that both the man and the woman have an entitlement to the male amount and subsequently receive increases based on the male GMP.

Age	Rate of pension with effect	Male: unequalised amount	Female: unequalised amount
65	01/04/1997	2,700	2,822
65	06/04/1997	2,725	2,833
66	06/04/1998	2,762	2,849
67	06/04/1999	2,800	2,866
68	06/04/2000	2,814	2,873
69	06/04/2001	2,854	2,890
70	06/04/2002	2,877	2,900
71	06/04/2003	2,900	2,910

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72	06/04/2004	2,939	2,928
73	06/04/2005	2,982	2,947
74	06/04/2006	3,022	2,965
75	06/04/2007	3,068	2,985
76	06/04/2008	3,115	3,005
77	06/04/2009	3,164	3,027
78	06/04/2010	3,164	3,027
79	06/04/2011	3,213	3,049

Detailed calculations

Pension Scheme details

Normal pension Age	65
Accrual rate	1/60 th
Increases to GMP in payment	statutory increases for post '88 GMPs
Increases to excess in payment	nil

Member details

Date of Birth	01/04/1932
Date of joining scheme	01/04/1988
Last day of service	31/03/1997 (day before 65)
Date of retirement	01/04/1997
Tax year of leaving	1996/97
Reckonable service	9 years
Pensionable pay (age 60)	£15,000
Pensionable pay (age 65)	£18,000
Pension at age 60	£1,000 (4/60 x 15,000)
Pension at age 65	£2,700 (9/60 x 18,000)

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Man

Male GMP accrual dates	01/04/1988 to 05/04/1996 (5 Apr before SPA)	
Male GMP accrual length	8 years 5 days	
Male post '88 GMP at retirement	£1,200	
Male excess over GMP at retirement	£1,500	
GMP opposite sex conversion factor	1.00	(based on tax year of birth)

Woman

Female GMP accrual dates	01/04/1988 to 05/04/1991 (5 Apr before SPA)	
Female GMP accrual length	3 years 5 days	
Female post '88 GMP at age 60	£340	
(reflects shorter accrual and earnings escalation period)		
Female excess over GMP at age 60	£660	

Female post' 88 GMP increases	1.1369	(1.03 x 1.03 x 1.018 x 1.022 x 1.03)
Female GMP deferment increases 65	1/7% per complete week between 60 and 65	
Female GMP at 65	£530	[340 x 1.1369 x (1 + 260 /700)]

Later Earnings Addition

Relevant Sum at age 60	£1,000	(4/60 x 15,000)
Relevant sum recalculated using pay at 65	£1,200	(4/60 x 18,000)

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Excess over GMP at age 60	£660	
Later earnings addition	£132	$(1,200 - 1,000) \times 660 / 1,000$
Female anti-franking test at age 65		
The 'relevant sum' at age 60	£1,000	$(4/60 \times 15,000)$
Increase in GMP between 60 and 65	£190	$(530 - 340)$
The 'appropriate addition' $(5/60 \times 18,000)$	£1,500	(accrual between 60 and 65)
The 'later earnings addition'	£132	(see above)
Minimum pension at 65	£2,822	

Example 4 – Deferred member: NRA 65 scheme: retirement at 65

At age 60

In this example the man and the woman leave the scheme at age 60, at which point they both have accrued a pension of £1,500. They do not continue in employment after age 60.

- **The woman's** unequalised calculation is her GMP of £480, which has to be put into payment.
- **The man** has no unequalised calculation. However, as his opposite sex notional comparator is entitled to £480, **the application of the equality rule** means that the man becomes entitled to £480 scheme pension.
- Both are paid indexation between age 60 and 65: the woman under the GMP rules and the man as a consequence of **the application of the equality rule**.

At age 65

Both are entitled to their scheme pension, revalued to age 65.

- **The man's** unequalised calculation is £1,795, based on a GMP of £684 and the anti-franking legislation.
- **The woman's** unequalised calculation produces an amount of £1,700, underpinned by a GMP of £541. No anti-franking applies. However, as this is a lower amount than her opposite sex notional comparator, **the application of the equality rule** means that she has an entitlement to £1,795.
- They are both subsequently entitled to indexation based on £684.

Age	Rate of pension with effect	Male: unequalised amount	Female: unequalised amount
60	01/04/1997		480
60	06/04/1997		490
61	06/04/1998		505
62	06/04/1999		520
63	06/04/2000		526
64	06/04/2001		541

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65	01/04/2002	1,795	1,700
65	06/04/2002	1,807	1,709
66	06/04/2003	1,819	1,719
67	06/04/2004	1,839	1,734
68	06/04/2005	1,860	1,752
69	06/04/2006	1,881	1,768
70	06/04/2007	1,904	1,786
71	06/04/2008	1,927	1,805
72	06/04/2009	1,952	1,824
73	06/04/2010	1,952	1,824
74	06/04/2011	1,977	1,844

Detailed calculations

Pension Scheme details

Normal pension Age	65
Accrual rate	1/60 th
Increase to GMP before age 60 (women) or 65 (men)	fixed rate
Increases to GMP in payment	statutory increases for post '88 GMPs
Increases to excess in deferment	statutory revaluation
Increases to excess in payment	nil

Member details

Date of Birth	01/04/1937
Date of joining scheme	01/04/1992
Last day of service	31/03/1997 (day before 60)
Date of retirement	01/04/2002
Tax year of leaving	1996/97
Fixed revaluation rate	7% (leavers between 6 April 1993 and 5 April 1997)
Reckonable service	5 years
Pensionable pay	£18,000

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Pension at exit	£1,500	(5/60 x 18,000)
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Man		
Male GMP accrual dates	01/04/1992 to 31/3/1997	
Male GMP accrual length	5 years	
Male post '88 GMP at exit	£522	
Male excess over GMP at exit	£978	
GMP opposite sex conversion factor	1.15	(based on tax year of birth)
Woman		
Female GMP accrual dates	01/04/1992 to 05/04/1996 (5 Apr before SPA)	
Female GMP accrual length	4 years 5 days	
Female post '88 GMP at exit	£480 (circa 522 x 1.15 x 4y 5d / 5y)	
Female excess over GMP at exit	£1,020	

Complete years between leaving and retirement	5	
Excess revaluation percentage	13.60 (based on 2001 revaluation order)	
Female excess revaluation at 65	£139	(1,020 x 13.6%)
Male excess revaluation at 65	£133	(978 x 13.6%)
Female post' 88 GMP increases	1.1279	(1.021 x 1.03 x 1.03 x 1.011 x 1.03)
Female GMP at 65	£541	[480 x 1.1279]
Female pension from age 65	£1,700	(1,020 +139 + 541)
Male anti-franking test at age 65		

A possible method for equalising pensions for the effect of the Guaranteed Minimum Pension

Final Relevant Year	2000/2001	
Complete tax years from leaving to GMP age	4	(1997/98 to 2000/01 incl.)
Male GMP revaluation factor	1.311	
Male GMP at 65	£684	(522 x 1.311)
Male Pension before anti-franking test	£1,633	(1,500 + 133)
(note the 'relevant sum' is assumed to include revaluation on the excess)		
Male Pension after anti-franking test	£1,795	[1,633 + (522 x 0.311)]
(note the appropriate addition and later earnings addition are nil)		

Example 5 – Deferred member: NRA 65 scheme: retirement at 65

In this example, the man and the woman left the scheme at age 60 and went to work for another employer. The woman agreed to her GMP being deferred. The man agreed to the deferment of the payment he was entitled to as a consequence of the equality rule (the amount of scheme pension equivalent to his opposite sex notional comparator's GMP) They both retired at age 65.

At age 65

- **The woman's** unequalised calculation produces an amount of £1,901. This includes a GMP underpin of £742 and was anti-franked.
- **The man's** unequalised calculation produces an amount of £1,795, with a GMP underpin of £684. This includes the application of the anti-franking legislation. As this is lower than his opposite sex notional comparator, **the application of the equality rule** means that he has an entitlement of £1,901.
- They are both paid indexation based on £742.

Age	Rate of pension with effect	Male: unequalised amount	Female: unequalised amount
65	01/04/2002	1,795	1,901
65	06/04/2002	1,807	1,914
66	06/04/2003	1,819	1,927
67	06/04/2004	1,839	1,948
68	06/04/2005	1,860	1,972
69	06/04/2006	1,881	1,994
70	06/04/2007	1,904	2,019
71	06/04/2008	1,927	2,045
72	06/04/2009	1,952	2,071
73	06/04/2010	1,952	2,071
74	06/04/2011	1,977	2,099

Detailed calculations

Pension Scheme details

Normal pension Age	65
Accrual rate	1/60 th
Increase to GMP before age 60 (women) or 65 (men)	fixed rate
Increases to GMP in payment	statutory increases for post '88 GMPs
Increases to excess in deferment	statutory revaluation
Increases to excess in payment	nil

Member details

Date of Birth	01/04/1937
Date of joining scheme	01/04/1992
Last day of service	31/03/1997 (day before 60)
Date of retirement	01/04/2002
Tax year of leaving	1996/97
Fixed revaluation rate	7% (leavers between 6 April 1993 and 5 April 1997)
Reckonable service	5 years
Pensionable pay	£18,000
Pension at exit	£1,500 (5/60 x 18,000)

Man

Male GMP accrual dates	01/04/1992 to 31/3/1997
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A possible method for equalising pensions for the effect of the Guaranteed Minimum Pension

Male GMP accrual length	5 years	
Male post '88 GMP at exit	£522	
Male excess over GMP at exit	£978	
GMP opposite sex conversion factor	1.15	(based on tax year of birth)
Woman		
Female GMP accrual dates	01/04/1992 to 05/04/1996 (5 Apr before SPA)	
Female GMP accrual length	4 years 5 days	
Female post '88 GMP at exit	£480	(circa 522 x 1.15 x 4y 5d / 5y)
Female excess over GMP at exit	£1,020	
Excess revaluation percentage	13.60 (based on 2001 revaluation order)	
Female excess revaluation at 65	£139	(1,020 x 13.6%)
Male excess revaluation at 65	£133	(978 x 13.6%)

Female anti-franking test at age 65		
Female post' 88 GMP increases	1.1279	(1.021 x 1.03 x 1.03 x 1.011 x 1.03)
Female GMP deferment increases	1/7% per complete week between 60 and 65	
Female GMP at 65	£742	[480 x 1.1279 x (1 + 260 /700)]
Female Pension before anti-franking test	£1,639	(1,500 + 139)
(note the 'relevant sum' is assumed to include revaluation on the excess)		
Female Pension after anti franking test	£1,901	[1,639 + (742 - 480)]
(note the appropriate addition and later earnings addition are nil)		

A possible method for equalising pensions for the effect of the Guaranteed Minimum Pension

Male anti-franking test at age 65

Final Relevant Year	2000/2001	
Complete tax years from leaving to GMP age	4	(1997/98 to 2000/01 incl.)
Male GMP revaluation factor	1.311	
Male GMP at 65	£684	(522 x 1.311)
Male Pension before anti-franking test	£1,633	(1,500 + 133)
(note the 'relevant sum' is assumed to include revaluation on the excess)		
Male Pension after anti-franking test	£1,795	[1,633 + (522 x 0.311)]
(note the appropriate addition and later earnings addition are nil)		

Example 6 – Active member: NRA 65 scheme: early retirement

At age 60

Both the man and the woman had accrued a pension of £1,500. This is actuarially reduced to £1,200 for each of them. The woman has a GMP of £480.

- **The woman's** unequalised calculation is £1,200, underpinned by a GMP of £480.
- **The man's** unequalised calculation is also £1,200, which is the same as his opposite sex notional comparator.
- The woman is entitled to indexation on £480 from 61 to 65. Therefore, **the application of the equality rule** requires the man to be paid the same amount of indexation, even though neither the scheme nor the GMP rules provide for him to be paid indexation at that age.

At age 65

- **The woman** now has a pension of £1,261 with a GMP underpin of £541.
- **The man's** unequalised amount is £1,200 underpinned by a revalued GMP of £684. There is no anti-franking test applied in this calculation because he took early retirement. However, as this amount is lower than the amount paid to his opposite sex notional comparator, **the application of the equality rule** means that he continues to have an entitlement of £1,261 with indexation on £684.
- The difference between the man's unequalised amount and that of his opposite sex notional comparator narrows after 65, because the male rate pension has a higher GMP attracting increases. If the male rate pension becomes higher than the female rate pension, then **the application of the equality rule** would move them both to payments reflecting the man's unequalised amount.

Age	Rate of pension with effect	Male: unequalised amount	Female: unequalised amount
60	01/04/1997	1,200	1,200
60	06/04/1997	1,200	1,210
61	06/04/1998	1,200	1,225
62	06/04/1999	1,200	1,240

A possible method for equalising pensions for the effect of the Guaranteed Minimum Pension

63	06/04/2000	1,200	1,246
64	06/04/2001	1,200	1,261
65	01/04/2002	1,200	1,261
65	06/04/2002	1,212	1,271
66	06/04/2003	1,223	1,280
67	06/04/2004	1,243	1,296
68	06/04/2005	1,265	1,313
69	06/04/2006	1,285	1,329
70	06/04/2007	1,308	1,347
71	06/04/2008	1,332	1,366
72	06/04/2009	1,357	1,385
73	06/04/2010	1,357	1,385
74	06/04/2011	1,382	1,405

Detailed calculations

Member details

Date of Birth	01/04/1937
Date of joining scheme	01/04/1992
Last day of service	31/03/1997 (day before 60)
Date of retirement	01/04/1997 (5 years before NPA)
Pensionable pay	£18,000

Scheme details

Tax year of leaving	1996/97
Fixed revaluation rate	7% (leavers between 6 April 1993 and 5 April 1997)
Reckonable service	5 years
Pension before actuarial reduction	£1,500 (5/60 x 18,000)
Unisex Actuarial Reduction factor	4% pa
Pension after actuarial reduction	£1,200 [1,500 x (1 – 5 x .04)]

A possible method for equalising pensions for the effect of the Guaranteed Minimum Pension

Male

GMP accrual dates	01/04/1992 to 31/3/1997	
GMP accrual length	5 years	
post '88 GMP at exit	£522	
excess over GMP at exit	£678	(1,200 – 522)
GMP opposite sex conversion factor	1.15	(based on tax year of birth)

Female

GMP accrual dates	01/04/1992 to 05/04/1996 (5 Apr before SPA)	
GMP accrual length	4 years 5 days	
post '88 GMP at exit	£480	(circa 522 x 1.15 x 4y 5d / 5y)
excess over GMP at exit	£720	(1,200 – 480)

Female pension at age 65

Female post' 88 GMP increases	1.1279 (1.021 x 1.03 x 1.03 x 1.011 x 1.03)	
Female GMP at 65	£541	[(480 x 1.1279)]
Female Pension (incl. GMP) at 65	£1,261 (720 + 541)	

Male GMP test and pension at 65

Final Relevant Year	2000/2001	
Complete tax years from leaving to GMP age	4	(1997/98 to 2000/01 incl.)
Male GMP revaluation factor	1.311	
Male GMP at 65	£684	(522 x 1.311)
Male Pension at 65 (incl. GMP)	£1,200 (no increases between 60 and 65)	

The male pension in payment at 65 is higher than the GMP so no uplift is required;

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no anti-franking test is required.

Male excess pension at 65

£516

Example 7 – Male active member with pre- and post-Barber entitlement: NRA 60 scheme: retirement at 60

At age 60

- The opposite sex notional comparator would have entitlement to a pension of £2,700 underpinned by a GMP, with subsequent indexation on that amount.
- **The man** has an unequalised amount of £2,700. Under **the application of the equality rule**, he is entitled to indexation on the amount of pension equivalent to the female GMP which accrued from 17 May 1990 only.

At age 65

- **The man's** unequalised calculation produces an amount of £2,982 with a GMP of £982.
- This has to be compared with the amount he would be entitled to if his pre-Barber amount had been anti-franked (the unequalised period) and then added to the post-Barber opposite sex notional comparator amount due at age 65 (the equalised period). As his unequalised amount is the higher, he is entitled to £2,982.

Summary of pension amounts ⁵

Age	Rate of pension with effect	Male: unequalised amount	Male: unequalised amount + opposite sex notional comparator
60	06/04/1997	2,700	2,700
61	06/04/1998	2,700	2,718
62	06/04/1999	2,700	2,737
63	06/04/2000	2,700	2,744
64	06/04/2001	2,700	2,763

⁵ In this and the next example, the future increases on the post 1988 GMP element of the combined calculation from 65 have been calculated using the sum of unequalised pre-Barber post-88 GMP and the opposite sex notional comparator post-Barber GMP. It is assumed that the member is not entitled to the female GMP increase applied on 6 April 1997 (their 60th birthday) nor the male GMP increase applied on 6 April 2002 (their 65th birthday).

A possible method for equalising pensions for the effect of the Guaranteed Minimum Pension

65	01/04/2002	2,700	2,763
65	06/04/2002	2,982	2,781
66	06/04/2003	2,998	2,797
67	06/04/2004	3,026	2,824
68	06/04/2005	3,057	2,854
69	06/04/2006	3,086	2,882
70	06/04/2007	3,118	2,913
71	06/04/2008	3,152	2,946
72	06/04/2009	3,186	2,980
73	06/04/2010	3,186	2,980
74	06/04/2011	3,222	3,014

Detailed calculations

Member details

Sex	Male
Date of Birth	06/04/1937
Date of joining scheme	06/04/1988
Last day of service	05/04/1997 (day before age 60)
Pensionable pay	£18,000

Pension details

Tax year of leaving	1996/97
Fixed revaluation rate	7% (leavers between 6 April 1993 and 5 April 1997)
Reckonable service	9 years
Total Pension from age 60	£2,700 (9.000/60 x 18,000)
Pre-Barber pension from age 60	£633 (2.110/60 x 18,000)
Post-Barber pension from age 60	£2,067 (6.890/60 x 18,000)

GMP details

Male GMP pre Barber	£200
Male GMP post Barber	£500
Male total GMP	£700

Initial calculations

GMP opposite sex conversion factor	1.20	(based on tax year of birth)
Female GMP post Barber	£600	

Mixed sex pension at 60

The GMP underpin test at age 60 in respect of service before 6 April 1997 should be applied by comparing the opposite sex GMP notionally accrued from 17 May 1990 to 5 April 1997 against the whole pension accrued before 6 April 1997 (rather than carried out separately in respect of pre- and post 17 May 1990 service)

The male combined calculation at 60 would be calculated as:

the higher of:

- (i) Total scheme pension £2,700
- (ii) Post Barber opposite sex (female)GMP £600

So (i) applies giving a pension of **£2,700**; this is the same as the unequalised calculation.

Male GMP revaluation to age 65

Final Relevant Year	2001/2002
Complete tax years from leaving to GMP age	5 (1997/98 to 2001/02 incl.)
Male GMP revaluation factor	1.403

Own sex pension at 65

This will be the higher of:

- | | | |
|----------------------------------|--------|--------------------------------|
| (i) Total scheme pension | £2,700 | (incl. any pensions increases) |
| (ii) Pension after anti-franking | £2,982 | [2,700 + (700 x 0.403)] |

So (ii) applies and the unequalised amount at 65 is £2,982

Mixed sex pension at 65

The male combined amount at 65 would be calculated as:

The higher of:

- | | | |
|---|--------|--------------------------------|
| (i) Total scheme pension | £2,700 | (incl. any pensions increases) |
| (ii) Pension after anti-franking
using unequalised pre-Barber GMP and
opposite sex post-Barber GMP ⁶ | £2,781 | [2,700 + (200 x 0.403)] |

So (ii) applies giving a pension of £2,781. However, this is lower than the unequalised amount of £2,982, so the pension is paid at the unequalised amount at age 65.

⁶ The anti-franking test at age 65 in respect of service before 6 April 1997 should be applied over the whole period of the pension before 6 April 1997 (rather than carried out separately in respect of pre- and post- 17 May 1990 service.) The anti-franking calculation is only applied in respect of the male GMP accrued before 17 May 1990. No anti-franking test is required in respect of the opposite sex GMP accrued after 17 May 1990 since there was no gap between ceasing contracted-out employment and that element coming into payment.

Example 8 – Female active member with pre- and post-Barber entitlement: NRA 60 scheme: retirement at 60

At age 60

- **The woman** has an unequalised calculation of £2,700, underpinned by a GMP of £840.
- Her opposite sex notional comparator calculation produces the same amount - £2,700 – underpinned by the female GMP accrued over the post-Barber period.
- The woman is, therefore, better off with her unequalised amount to age 65, as the indexation on the full (pre- and post- Barber) GMP will be paid. In the combined calculation indexation is provided on the pre-Barber female GMP only and thus the amount will always be lower.

At age 65

- The woman's opposite sex notional comparator calculation would involve the post-Barber GMP being revalued to age 65 and the post-Barber pension amount anti-franked. This produces an overall amount of £2,901.
- **The woman's** unequalised amount is £2,804, underpinned by a GMP of £944. Therefore, under **the application of the equality rule**, she is entitled to be paid £2,901.

Summary of pension amounts

Age	Rate of pension with effect	Female: unequalised amount	Female: unequalised amount + opposite sex notional comparator
60	06/04/1997	2,700	2,700
61	06/04/1998	2,725	2,707
62	06/04/1999	2,751	2,715
63	06/04/2000	2,761	2,717
64	06/04/2001	2,788	2,725
65	01/04/2002	2,788	2,725
65	06/04/2002	2,804	2,901
66	06/04/2003	2,820	2,918
67	06/04/2004	2,847	2,945

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68	06/04/2005	2,876	2,976
69	06/04/2006	2,904	3,004
70	06/04/2007	2,935	3,036
71	06/04/2008	2,967	3,070
72	06/04/2009	3,001	3,104
73	06/04/2010	3,001	3,104
74	06/04/2011	3,035	3,139

Detailed calculation

Member details

Sex	Female
Date of Birth	06/04/1937
Date of joining scheme	06/04/1988
Last day of service	05/04/1997 (day before age 60)
Pensionable pay	£18,000

Pension details

Tax year of leaving	1996/97
Fixed revaluation rate	7% (leavers between 6 April 1993 and 5 April 1997)
Reckonable service	9 years
Total Pension from age 60	£2,700 (9.000/60 x 18,000)
Pre Barber pension from age 60	£633 (2.110/60 x 18,000)
Post Barber pension from age 60	£2,067 (6.890/60 x 18,000)

GMP details

Female GMP pre Barber	£240
Female GMP post Barber	£600
Female total GMP	£840

Initial calculations

Female excess over total GMP	£1,860
GMP opposite sex conversion factor	1.20 (based on tax year of birth)
Male GMP post Barber	£500 (600/1.2)

Mixed sex pension at 60

The GMP underpin test at age 60 in respect of service before 6 April 1997 should be applied by comparing the own sex GMP accrued from 6 April 1978 to 16 May 1990 against the whole pension accrued before 6 April 1997 (rather than carried out separately in respect of pre and post 17 May 1990 service)

The female combined calculation at 60 would be the higher of:

- (i) Total scheme pension £2,700
- (ii) Pre Barber own sex (female) GMP⁷ £240

So (i) applies giving a pension of £2,700; this is the same as the unequalised amount.

Male GMP revaluation to age 65

Final Relevant Year	2001/2002
Complete tax years from leaving to GMP age	5 (1997/98 to 2001/02 incl.)
Male GMP revaluation factor	1.403

⁷ Her male comparator would have no GMP for the post-Barber period.

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Female GMP pension increases from 60 to 65

Female post '88 GMP in payment 1.1235 (1.03 x 1.03 x 1.011 x 1.03 x 1.017)

The unequalised pension at 65

£2,804 [(840 x 1.1235) + 1,860]

Female GMP in payment at 65 £944 (840 x 1.1235)

Combined pension at 65

The female combined pension at 65 would be calculated as:

The higher of:

- | | | |
|--|--------|--------------------------------|
| (i) Total scheme pension | £2,700 | (incl. any pensions increases) |
| (ii) Pension after anti-franking
using female pre-Barber GMP and
opposite sex post-Barber GMP ⁸ | £2,901 | [2,700 + (500 x .0.403)] |

So (ii) applies giving a pension of £2,901. This is higher than the own sex pension of £2,804 so the female pension would be increased to the level of the combined pension at 65.

⁸ The anti-franking test at age 65 in respect of service before 6 April 1997 has been applied over the whole period before 6 April 1997 (rather than carried out separately in respect of pre- and post- 17 May 1990 service). The anti-franking calculation is applied in respect of the female GMP accrued before 17 May 1990 and the opposite sex GMP accrued from 17 May 1990. No anti-franking test is required in respect of the female GMP accrued before 17 May 1990 since there was no gap between ceasing contracted-out employment and that element coming into payment.