

GMP equalisation – it's coming soon

Were you a member of our scheme at any time between April 1978 and April 1997? If so this update in our series of articles on GMP may apply to you.

This article consolidates all we have said over the years, so you don't need to read anything earlier. We simply wanted to take this opportunity to tell you a bit more about what we are doing.

What is GMP Equalisation?

As a reminder. GMP stands for Guaranteed Minimum Pension. It's a minimum pension entitlement for members of Schemes like ours who were contracted out of the State Second Pension (or SERPS as it was known at the time), before April 1997. More information can be found in the attached appendix.

GMP historically built up at different rates for men and women, owing to different GMP payment ages (age 60 for females and age 65 for males). This means that the total pension for men and women in comparable situations (such as date of retirement and length of service) is unlikely to be equal. This is what we need to sort out – and it's called GMP equalisation.

What are the Trustees doing?

This is so complex we – and most other pension schemes – are taking legal advice on each step. We have made very real progress though.

- We have checked and reconciled every single one of our GMP member records with the records of HMRC. A fundamental first step.
- We have determined the adjustment calculation method and have agreed this with MoJ.
- We have rechecked every GMP member record and are correcting or updating any missing or ambiguous data items.
- GMP equalisation is now automatically included in any requested pension transfer value.
- We are now in a position to begin the required GMP calculations for each member.

What does this mean for me?

The equalisation of any GMP benefits has the potential to affect both men and women, but the important thing to know is that GMP Equalisation won't result in a drop in your pension entitlement.

Some members may be entitled to extra pension as well as potential back-dated payments. It's not possible yet to say how much that will be, but the likelihood is that, for the majority of those members affected, any increase in pension entitlement will be small.

What happens next?

We are starting on the individual calculations for each member. Our intention is then to write to anyone affected in early 2025, and to introduce any individual pension amount changes after the annual pension increase in April 2025.

In the meantime, we encourage you to go online (log into the members' area of the scheme website) and make sure that your email address and postal address are up to date; this is key to being able to get in touch with you about your GMP change.

As always, if you do have any queries about this or anything to do with your pension, you can contact the Scheme's administrators, Hymans Robertson by email at lscpensions@hymans.co.uk or by telephone on **0207082 6457**.

The headlines

- Agreement reached on how we will equalise men's and women's pension benefits.
- If it does affect you, it won't result in a drop in your pension entitlement.
- You don't have to do anything, if it applies to you, we will write to you early 2025.

Appendix – What is a GMP?

Introduction

At its very simplest, GMP is your “Guaranteed Minimum Pension” and is a type of pension which relates to your service in an occupational pension scheme between 6 April 1978 and 5 April 1997. It becomes a bit more complicated when you try to work out what it is and how the benefits are calculated; all of which we explain below.

GMP and State Pension

Until April 2016 the State Pension was split into two tiers: your Basic State Pension and an additional State Pension. The Basic State Pension was a flat rate pension payable to everyone who had sufficient National Insurance contributions. The additional State Pension was originally called the State Earnings Related Pension Scheme (SERPS), but from 2002 became known as the State Second Pension (S2P). **It is this part we are interested in when we talk about GMP.**

From 1978 to April 2016, sponsors of occupational pension schemes (such as the LSC Scheme) had the option to “contract out” of the additional State Pension. They could only do this on the condition that they provide benefits – above a minimum level – to replace the additional State Pension through your occupational pension scheme. By contracting out both you and your employer would pay less in National Insurance Contributions. However, you were also no longer entitled to the additional State Pension relating to the period you were contracted out.

So, what does this have to do with me?

If you were a member of the Scheme before 6 April 1997, then you are likely to have a GMP element to your pension.

The LSC Scheme contracted out, and during your years of membership the Scheme replaced some, or all, of the benefits you would have built up in SERPS or S2P with GMP. If you were in the LSC Scheme (or any other contracted out scheme with another employer) at any time between 6 April 1978 to 5 April 1997, the minimum level of pension your scheme must provide you with is called the Guaranteed Minimum Pension. This is also why GMP only relates to service up until 5 April 1997. From 6 April 1997, other tests were introduced to determine whether your occupational scheme pension was sufficient for you to be contracted out of the additional state pension.

GMP benefits

So, we have established that the GMP is a minimum pension, which your scheme needs to provide, and as such it forms part of your total pension benefits. Typically you will have pension over and above this which you will receive in line with the Scheme Rules.

However, and this is the crunch, there are separate rules which were set by the Government for determining your GMP benefits. The value of your GMP is specific to you and is worked out using a prescribed calculation, linked to your earnings and your scheme service between 1978 and 1997. This calculation method was changed for service from 5 April 1988, giving rise to the terms “Pre 88 GMP” and “Post 88 GMP”; which some of our members will already see on their pension payslips or benefit statements.

Unlike more recent changes to the state pension age, your GMP becomes payable from age 60 for women and 65 for men. It is also subject to the following increases:

If you are a deferred (i.e. non-retired) member, your GMP will revalue each year to the age at which GMP becomes payable in line with average UK earnings. This % figure is calculated and published each year in the Social Security Revaluation of Earnings Factors Order.

Once your GMP is in payment, the Scheme will increase it annually from April:

- For service up to 5 April 1988 (Pre 88 GMP): Zero increases
- For service from 6 April 1988 to 5 April 1997 (Post 88 GMP): increased by the Consumer Price Index (CPI) inflation determined in September, **subject to a minimum of 0% and a maximum of 3%.**

Depending on the timing of your State Pension Age, you may receive slightly different GMP increases to the above, prior to State Pension Age. This varies by individual member circumstances, so if you would like more information on this you should contact your Scheme administrator using the contact details at the end of this article.

Once you get to State Pension Age, inflationary increases above the 3% pa cap are applied to your state pension by the Department for Work & Pensions.

Why do we need to know about GMP?

As of 6 April 2016, the two tier state pension system was replaced with a single tier State Pension – and occupational pension schemes could no longer contract out of the additional state pension (as it no longer existed). This changed nothing for the LSC Scheme as it had already closed before April 2016.

However, two major changes were announced that could matter to members:

- HMRC stopped keeping track of members' GMPs. Trustees of occupational pension schemes (including the LSC pension Scheme) had to work with HMRC to confirm that the records that the trustees and HMRC hold for members' GMPs reconcile with one another.
- The High Court ruled that equalisation is required for all pension arrangements with GMP benefits. Pension schemes must check their records and make sure that the GMP part of pensions provide an equal value of benefits to both male and female members (this is called "GMP Equalisation"). This issue arose because GMP benefits were historically built up at different rates for men and women.

So, in summary, if you were a member of the Scheme before 6 April 1997, it is likely that early next year we will be writing to you regarding your GMP.

As always, if you do have any queries about this or anything to do with your pension, you can contact the Scheme's administrators, Hymans Robertson by email at lscpensions@hymans.co.uk or by telephone on **0207 082 6457**.