



Electricity North West Group of the ESPS

Your pension may need to change

Questions and answers

The Group Trustee, in collaboration with the Company, is consulting with all affected non-pensioner members about the proposed method for addressing the Guaranteed Minimum Pension issue referred to in your cover letter. Your letter also includes details of the consultation process.

The following questions and answers help to explain our proposal.

1. Why might my Group pension need to change?

Your Group pension might need to change because we need to address a technical inconsistency relating to some historic benefits in the Group, following the outcome of a High Court legal case that needs to be addressed by many pension schemes in the UK. This relates to Guaranteed Minimum Pension (GMP). See question 2.

continued overleaf...

2. What is Guaranteed Minimum Pension?

Your Group pension is made up of different parts, based on when you built up your pension. Guaranteed Minimum Pension, or GMP, is one part.

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

Workplace pension schemes had the option to ‘contract out’ of the SERPS. This resulted in National Insurance savings for the employer and its members, and most schemes like ours took advantage of this option.

In exchange, the scheme had to promise to pay members at least as much pension as they would have received from SERPS.

This is the part of your Group pension that is known as GMP.

GMP was earned between 6 April 1978 and 5 April 1997, so if you were building up benefits in the Group during this time, some of your Group pension is 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.

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 that the right to equal pay for men and women applied to occupational pension schemes. This is known as the ‘Barber case’.

However, the way the UK Governments treated GMPs was not adjusted in line with this. As a result, GMPs remain unequal in some cases.

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

Three members of the Lloyds Banking Group’s pension schemes claimed discrimination on the basis that their GMPs were not equal to the GMPs of members of the opposite sex and this meant their overall pension was not equal either.

The High Court ruled in the members’ favour in October 2018.

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

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’.

GMPs earned before 1990 are not covered by the court ruling and no adjustment needs to be made for any inequality they produce. Equally, if you joined the Group after 5 April 1997, your benefits will not be affected.

Our proposed change will enable the Group to resolve the issue of unequal pension due to GMPs – a legal requirement. It also allows us to simplify the structure of your benefits by converting your GMPs into a different form of pension (more detail follows).

4. What needs to happen to address any inequality?

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, we are proposing to apply a one-off calculation (when you come to retire) to equalise for the effect of GMP earned between 17 May 1990 and 5 April 1997.

When you come to retire, we would identify whether, over your expected lifetime, the expected total value of your pension built up between 17 May 1990 and 5 April 1997 is less than the equivalent expected total value of pension that a member of the opposite sex in the same circumstances would be entitled to.

We would apply an uplift to any member whose benefits are lower in expected value than they would have been had they been of the opposite sex.

Note: not everyone will be affected, so only some members will receive an uplift to their starting pension at retirement, which in most cases is expected to be quite small.

To fulfil the equalisation requirement, we are proposing to carry out a one-off calculation for each individual member once they choose to retire (or on death, if earlier) to convert all GMP into a different form of pension.

The conversion legislation requires that if a member is having their GMP converted, then all their GMP (including any GMPs built up before 1990 that do not need to be equalised) must be converted. We have also decided to convert GMPs for all members 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.

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 once you come to retirement under our proposal for GMP conversion (see question 5). If you are affected by GMP equalisation, this will be communicated to you as part of the retirement process.

GMP conversion

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 at the point of your future retirement.

Converting GMP into a different form of pension will:

- Remove the inconsistencies between male and female pensions (for pension earned from 1990 onwards) arising from GMP— 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 member with a GMP (whether or not pension has been changed as a result of GMP equalisation) will have their GMP converted into a different form of pension once they come to retirement.

If we did not address the GMP equalisation as a one-off calculation at retirement for all active and deferred members with a GMP, the already complex administration of the Group would become even more complicated.

See question 5 for details of how we are proposing to convert all GMP into a different form of pension.

Remember: Equalising for and converting GMPs in the Group as we propose may result in a very small increase in your starting pension at retirement (where an equalisation uplift is required). In all cases, the current amount and expected value of your pension will not be reduced.

5. What is your proposed method for GMP conversion?

General principles for converting GMP

We propose to convert all GMP built up between 6 April 1978 and 5 April 1997 as follows:

- we would remove any adjustments which may otherwise have occurred at age 60 for women or 65 for men (affecting only those members currently below these ages), and
- we would change the way some elements of pension increase in payment as shown below.

GMP built up before 6 April 1988	GMP built up from 6 April 1988	Non-GMP excess built up
FROM No annual increase	FROM Annual increase in line with CPI up to 3%	FROM Annual increase in line with RPI as set out in the Group Rules
↓	↓	↓
TO Unchanged	TO Mixture of fixed 3% annual increases and no annual increases	TO Unchanged in most cases

We would work out a mix of these three types of pension to ensure that:

- The starting amount of Group pension payable at retirement will, in most cases, be unchanged, but may increase marginally for some members. **It would not result in any reduction to your starting pension.**
- The expected value over your lifetime, including any uplift due to GMP equalisation, would not be reduced.

To ensure that the expected 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 5 April 1997.

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

Broadly speaking, your future pension increases will remain unchanged with the exception that the majority of your GMP earned between 6 April 1988 and 5 April 1997 is proposed to increase in payment at 3% per year, with the remaining receiving no annual increases (rather than it all increasing in payment in line with CPI up to 3% per year which is what currently happens).

This change will allow us to more easily manage the funding and investment risks in the Group whilst still providing members with a benefit of equivalent expected value. Your pension will still increase each year, providing some protection against the effect of inflation. We need to convert GMP to a mixture of fixed 3% and nil-increasing pension at retirement to ensure the expected value of your Group pension is unchanged after GMP conversion.

For many members, the impact on how your Group pension increases as a result of us converting GMP benefits at retirement 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 retirement:

- If you retire (or on death, if earlier) before age 60 if you are a woman or before age 65 if you are a man. This is due to the complex way GMPs must increase by law which we are proposing to simplify as part of the conversion process.
- 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 in retirement may change to ensure your spouse's (or dependant's) pension on death meets the minimum required.

Note: even if any of these apply to you, your starting Group pension at retirement and the expected value of your Group pension would not be reduced.

7. Why are you proposing to convert GMPs?

If we do not convert GMPs, the Trustee will be required to carry out more than double the calculations that are currently needed to pay benefits. This would create a greater administrative burden, which, as well as being costly in the long run, creates a higher risk of errors.

8. Can the Trustee and Company make the proposed change?

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

The Trustee and Company have taken legal and actuarial advice and are following guidance from the Department of Work and Pensions.

The Trustee and Company are consulting with all affected members of the Group.

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

The proposed change is designed so as not to trigger any disproportionate tax implications.

However, there may be tax implications if the related GMP equalisation calculation leads to an increase in the annual amount of your Group pension at retirement. Specifically, it is possible that a small number of members would be affected by the Lifetime Allowance if the total of your pensions from all schemes exceeds the Lifetime Allowance.

You can read more about this at the HMRC link below:

www.gov.uk/tax-on-your-private-pension/lifetimeallowance

10. What happens if I retire before the GMP equalisation and conversion process is implemented by the Group?

If the proposal goes ahead as planned, it will take some time for the Group to implement. We are planning to have this in place for members who retire from around Autumn/Winter 2022. If you plan to retire before then, we will address the technical inconsistency at a slightly later date (and we will write to you separately when this is due to take place).

If this applies to you, you may also be entitled to arrears payments if the one-off calculation for GMP equalisation and conversion shows you should have received a higher starting pension at retirement. However, we expect any such payments to be very small.

11. What about my 'Protected Persons' status?

Some members of the Group are 'protected' under the Electricity (Protected Persons) (England and Wales) Pension Regulations 1990. You will not lose this protection as a result of any changes made to your pension.



You have the right to make representations to the Trustee and Company about the proposed method of GMP conversion. To do this, you can use the following contact details. You have until 6 August 2021 to do this.



0843 311 4530



pensions@enwl.co.uk



Electricity North West Pensions Team
304 Bridgewater Place
Birchwood Park
Warrington
Cheshire
WA3 6XG