THE PILKINGTON SUPERANNUATION SCHEME

Your pension may need to change at retirement

Questions and answers

The Trustee are consulting with active and deferred members about a proposed method for addressing the technical inconsistency 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 Scheme pension need to change?

Your Scheme pension might need to change because we need to address a technical inconsistency relating to some historic benefits in the Scheme, following the outcome of a recent High Court legal case. This is commonly known in the pensions industry as 'GMP equalisation', which you may have heard or read about in general press coverage.

This relates to a part of your pension referred to as Guaranteed Minimum Pension, see below for further details.

2. What is Guaranteed Minimum Pension?

Your Scheme pension is made up of different parts, based on when you built up your pension. Guaranteed Minimum Pension, or GMP, is one part that forms an underpin to your overall benefit.

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, which later became the State Second Pension).

Workplace pension schemes had the option to 'contract out' of the State Second Pension. 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 broadly at least as much pension as they would have received from SERPS. This is the part of your Scheme 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 Scheme during this time, some of your Scheme pension is GMP.

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

GMPs are different for 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 their 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, there has been longstanding uncertainty about whether this requirement should cover GMPs because they were based on State benefits in place at the time (which did not have to be equal) – and so GMPs have remained unequal (even when the State Pension Age itself was equalised).

The issue of GMPs within pension benefits has only been addressed recently, 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. The High Court ruled in the members' favour in October 2018 and confirmed that the overall benefits for men and women should be increased where necessary to make up for unequal GMPs (often referred to as 'GMP equalisation'). It also answered complex questions on how to calculate the increased benefits.

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

Pensions earned between 17 May 1990 and 5 April 1997 must now be equalised for the effect of unequal GMPs. GMPs earned before 17 May 1990 are not covered by the court ruling and do not need to be equalised. Our proposed change will enable the Scheme to resolve the issue of unequal GMPs – a legal requirement.

4. Will you write to every member?

Yes, but not every member will have GMP benefits.

Under the legal ruling, only GMP accrued between 17 May 1990 and 5 April 1997 needs to be equalised. However, the conversion legislation requires that if a member is having their GMP converted, then all their GMP (including GMP accrued prior to 17 May 1990) must be converted.

The Trustee is also proposing to convert GMPs for all members who left the Scheme before 17 May 1990 and who therefore are not subject to GMP equalisation. The reason for this is that it will greatly reduce the administration burden associated with GMP for the Scheme.

Active and deferred members will have their benefits equalised and converted when they come into payment at retirement. Further individual information will be provided when you are considering taking your retirement benefits.

5. What needs to happen to address any inequality?

<u>GMP equalisation</u>

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 on retirement to equalise for GMP earned between 17 May 1990 and 5 April 1997.

We would identify whether, over your expected lifetime, the total value of your pension at retirement 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.

We would then apply an uplift to the retirement benefits of any member whose benefits are lower in 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 pension on retirement, and these are generally expected to be quite small.

6. GMP conversion

In order to meet the equalisation requirement above and to simplify future administration of the Scheme, we are proposing to convert **all** GMP into a different form of pension using a one-off calculation on retirement.

Converting GMP into a different form of pension on retirement will:

- Remove sex-based inconsistencies arising from GMP between male and female pensions (for pension earned from 17 May 1990 onwards) – providing each member with a benefit that is worth the same as the more valuable of the two.
- Simplify your Scheme pension and the future administration of the Scheme, as they will no longer be tied to complex GMP legislation.

The conversion legislation requires that if a member is having their GMP converted, then all of their GMP (including any GMP built up before 17 May 1990) must be converted. We have also decided to convert GMPs for all members who left the Scheme before 17 May 1990 even though they are not subject to equalisation. If we did not do this, it would create a significant administrative burden for the Scheme.

Therefore, every active and deferred Scheme 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 on retirement.

Note: only GMPs earned between 17 May 1990 and 5 April 1997 need to be equalised. If you did not earn GMP within this period, you will not be affected by GMP equalisation. However, your Scheme pension will still be simplified under our proposal for GMP conversion (see below) on retirement.

7. What is your proposed method for GMP conversion?

We propose to make as small a change to benefits as possible.

For all pension built up between 6 April 1978 and 5 April 1997 (the period during which GMP accrued), we would remove any future adjustments relating to GMP which may otherwise have occurred at age 60 for women or 65 for men.

Our default approach is that we'll carry out the GMP conversion calculations immediately before we calculate your retirement pension and any tax-free lump sum which you can take. This default approach could lead to some members being able to retire earlier, or to take a higher tax-free lump sum than they would have been able to if there was no GMP conversion.

Before conversion:
Your pension built up between 6 April 1978 and 5 April 1997 is currently made up of a combination of three pension elements:

- GMP accrued prior to 5 April 1988 – No annual increases in payment
- GMP accrued after 5 April 1988 – CPI* linked increases in payment capped at 3% p.a.
- Pre 5 April 1997 non GMP pension – No annual increases in payment (but is eligible to receive non-statutory pension increases in payment if scheme funding permits)

(* Consumer Price Index)

Following conversion:

- The annual amount of Scheme pension at retirement will likely be unchanged but may increase in some cases. **The annual amount of Scheme pension at retirement will not be reduced.**
- The pension increases on each pension element will be unchanged, however, the split between different elements of Scheme pension may be slightly different. This means that future increases to the total annual amount of Scheme pension in the future may be different. **The expected value of your benefits will not be reduced.**
- Members who retire under GMP age (age 65 for men and age 60 for women) may be expecting to receive a 'step up' in their pension in the future when they reach GMP age, due to the complex way GMPs must increase by law. As part of the simplification any future 'step up' which would have been received at GMP age will be replaced by an increase in the value of your retirement benefits when they are converted on retirement.
- There is no change to any benefits earned after 5 April 1997.

- Dependant's benefit: There are currently specific spouse entitlements to GMP. The calculation of any subsequent dependant's benefits may be slightly adjusted as part of the simplifications we are making to your pension, whilst ensuring that the total value of benefits remains the same before and after conversion.
- There will be no changes to how your pension increases in the period before retirement.

To ensure that the value of your benefit is protected, the Scheme 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).

> **Remember:** Equalising and converting GMPs in the Scheme as we propose may result in a small increase in your pension on retirement and/or a change in the pension increases you receive in the future. In all cases, the current amount and expected value of your pension will not be reduced.

8. If I receive new non-increasing converted benefits, will these be eligible for non-statutory increases in the future if scheme funding permits?

No.

Currently GMP benefits are not eligible for non-statutory increases in the Scheme and the same will be true of any converted pension which replaces your existing GMP.

9. How will I know how my pension is affected?

We will provide further information when you retire.

10. Why are you proposing to convert GMPs on retirement?

We believe GMP conversion on retirement will be the simplest method for members to experience.

11. Were other methodologies considered to equalise benefits?

Yes. The Trustee considered the main methodologies. The alternative methods would create a greater administrative burden and may involve future changes to pensions in payment which may be less clear for members.

12. Can the Trustee make the proposed change?

Yes, pensions law does allow the Trustee to change the Scheme'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 has taken legal and actuarial advice and are following guidance from the Department of Work and Pensions and are consulting with all affected members of the Scheme.

13.Should there be a member vote?

No. We are required by law to equalise members' benefits and conversion is one of the methods permitted under that ruling. Your rights are not prejudiced under conversion. The Scheme Actuary will certify that the benefits you are expected to receive are at least equivalent to those you would have received prior to conversion.

14.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 GMP equalisation exercise leads to an increase in your benefits on retirement.

Our proposal for GMP conversion has been designed to minimise any negative tax implications. In almost all cases, our proposal means that GMP conversion will not trigger any tax charges above those that would have otherwise been payable under alternative GMP equalisation approaches.

Lifetime Allowance

The Lifetime Allowance is a limit on the value of pension benefits that can be drawn by an individual from all private pension schemes (whether lump sums or retirement income) and can be paid without triggering an extra tax charge. The Lifetime Allowance for the tax year 2022/23 is £1,073,100 so will only affect a very small number of members.

You can read more about the Lifetime Allowance and the different forms of protection on the HMRC website: www.gov.uk/tax-on-your-private-pension/lifetimeallowance.

Some members may have applied for protection to limit the effect of the Lifetime Allowance. These include Individual Protections, Fixed Protections, Enhanced Protection and Primary Protection. More information on the different forms of protection can be found here: www.gov.uk/guidance/pension-schemes-protectyour-lifetime-allowance.

Specifically, if you've applied for Enhanced Protection or Fixed Protection against the Lifetime Allowance, this could be lost if GMP is converted to a form of non-GMP pension before retirement.

For members with Enhanced Protection or Fixed Protection, we'll carry out the GMP conversion calculations differently. We'll first calculate your retirement pension and any tax-free lump sum and then carry out the GMP conversion calculations afterwards. This will mean that Fixed Protection will not be lost. It also minimises the tax implications of losing Enhanced Protection, in the very unlikely scenario that Enhanced Protection was lost due to GMP equalisation.

We've designed the retirement calculations so that, in most cases, this will lead to the same retirement pension and lump sum as the default approach [Qu7], but in some cases it might mean members with Enhanced Protection or Fixed Protection can only retire at the same age and with the same maximum tax-free lump sum as would have been the case if there was GMP equalisation but no GMP conversion.

If you have Enhanced Protection or Fixed Protection (including Fixed Protection 2014 or Fixed Protection 2016) please send us a copy of your Protection Certificate using the contact details on page 2 of your cover letter.

Annual Allowance

The Annual Allowance is the annual limit on the amount of contributions paid to, or benefits built up in, all private pension scheme before you have to pay tax. You can read more about this at www.gov.uk/tax-onyour-private-pension/annual-allowance.

Members who left service before 6 April 2006:

The Annual Allowance is not relevant for your benefits in the Scheme. Our default approach is that we'll carry out the GMP conversion calculations immediately before we calculate your retirement pension and any tax-free lump sum which you can take.

Members who left service after 5 April 2006:

You might be making pension savings in another pension arrangement and using up some of your Annual Allowance each year. But because you stopped building up benefits in the Scheme (or one of the predecessor schemes which merged into the Scheme) some time ago, your Scheme pension hasn't used up any of your Annual Allowance in recent years.

For members who left service after 5 April 2006, if GMP is converted to a form of non-GMP pension before retirement, your Scheme pension might start to use up some of your Annual Allowance.

We will therefore carry out the GMP conversion calculations differently for any members who left service after 5 April 2006. We'll first calculate your retirement pension and any tax-free lump sum and then carry out the GMP conversion calculations afterwards. This will mean that GMP conversion won't use up any of your Annual Allowance. We've designed the retirement calculations so that in most cases, this will lead to the same retirement pension and lump sum as the default approach [Qu7], but in some cases it might mean members who left service after 5 April 2006 can only retire at the same age and with the same maximum tax-free lump sum as would have been the case if there was GMP equalisation but no GMP conversion.

You have the right to make representations to the Trustees about the proposed method of GMP conversion. To do this, you can use the contact details on page [2] of your letter. You have until 28 February 2023 to do this.