Consultation on indexation and equalisation of GMP
in public service pensions schemes
Workforce, Pay and Pensions Team
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Dear Sir

Consultation on indexation and equalisation of GMP in public service pensions scheme

With reference to the current consultation on indexation and equalisation of GMP in public service pensions schemes, this is the response from Bath and North East Somerset Council as the administering authority for Avon Pension Fund which represents 36,370 actives, 40,050 deferred beneficiaries and 28,000 pensioners [incl. dependants]. The Fund has over 300 scheme employers consisting of local authorities, universities, colleges, academies and admission bodies including private contractors all who this issue could affect.

The consultation sets out three options on the treatment of indexation and equalisation on GMPs for scheme members reaching State Pension Age [SPA] from December 2018 as an interim arrangement has been put into place to cover those reaching SPA from the start of the New State pension coming into effect from 6 April 2016 and 5 December 2018.

Scope of response

This response addresses the consultation only in respect of those members of the Local Government Pension Scheme (LGPS) who reach State pension age after 5 December 2018 and who may be affected, and as such makes no comment on the wider implications either for other Public Service Pension Schemes (PSPS) or private sector schemes.

Accordingly this response addresses only questions 1 through 11 which are included in Appendix A

It is clear that the government’s initial proposals are not without material funding implications, administration costs and heavy operational resource requirements.

Some general information has been received from Mercers the Avon Pension Fund Actuary concerning the Operational and Funding/Financial impacts of each option which is set out in the following table

GMP INDEXATION	Operational Impact	Funding/Financial impact
Option 1 **Case by Case**	**Severe**	**Material**
a very complicated two-step process in respect of each member: Involves a "no worse off " test	huge administrative burden each year over many years complex details would need additional systems and resources	funding cost associated with the equalisation of GMPs. funding cost associated with uprating the benefits of those members who lose out under the new state pension system. Difficult to estimate without full details of the two step process/calculations, but expectation would be that this would be less than the c.£1 billion (aggregate across all LGPS funds) quoted in the other two proposals
Option 2 **Full indexation**	**Material**	**Severe**
This would be an extension to the policy that was announced in March 2016: LGPS would be required to meet the cost of fully indexing GMPs in respect of not just members who reach SPA from 6 April 2016 to 5 December 2018, but for all members who reach SPA after that date. All members would receive full GMP indexation (whether from the Fund alone, or from the Fund and state combined): there would be no need for a no-worse-off test.	this is would materially reduce the amount of administration required.	funding cost associated with the impact of providing full CPI indexation on GMPs for all members who reach state pension age after 5 Dec 2018. Also a future risk of inflation increasing above the 3% cap that would mean additional funding strain compared to current financial conditions. Costs have been estimated that the combined valuation deficit at 31 March 2016 across all LGPS funds could increase by c.£1billion under this proposal. GAD estimate is £1.5-£1.8b over 40yrs
Option 3 **Conversion of GMP to Scheme Benefits**	**Material**	**Severe**
This would mean converting the GMP on a simplified basis into scheme benefit. This approach would remove the burden of GMP legislation from public service schemes	Similar administration and costs as option 2	In practice, no real material difference between Option 2 and Option 3 with a 1:1 conversion ratio (other than for those rare cases where the GMP underpin bites).

Comments on the options
Option1: Case by Case

Although this option appears to provide the lowest cost solution it is easily the most complex option and has the potential for unknown additional costs resulting from increased administration, member challenge, mistakes and incorrect initial assumptions.

Administration is currently being increased as a result of earlier deadlines for end of year process to comply with regulations, and scrutiny from the Pensions Regulator code of practice and local pension board requirements. All this on top of the Scheme change to Career Average and an ever increasing employer base would make this option unworkable without a substantial resource requirement. .

Option 2: Full Indexation

Although potentially more expensive than option 1, this option appeals due to its continuation of a practice already in place within the scheme. It would not require changes to systems or procedures but would need communicating to those affected.
However this solution does require the maintaining of the GMP record and the administration of all legislation related to GMP for the next four or five decades.

Option 3: Conversion of GMP to Scheme Benefits

Although as option 2 potentially more expensive than option 1, this options appeals due its relative simplicity once in place. Although there would be an initial burden for implementation, the resulting record sets and calculations should be clean and straightforward for the affected members.
The conversion for these members will result in fewer GMP records having to be maintained and shorten the period over which the administration of all legislation related to GMP will be required.

Further considerations

It does seem at odds that a consultation to redress inequality proposes that all costs are loaded totally on the public sector pension schemes and ultimately theirs employers with the government passing its commitment on.

These options place all of the cost burden for indexation of pensions on the employers of the LGPS. The arrangements prior to April 2016 shared the cost between LGPS employers and the government through the AP element of state pension.

It is arguable that in the main both of those sources of funding consist of public entities and therefore moving the source from both to one will not impact as it all falls within the public purse.

However with the majority of affected LGPS members having been employed by local authorities, there is also an argument that the source of funding is being moved from general to local taxation.

Furthermore it would seem inequitable that the full cost of indexation is now falling on those employers within the LGPS who have no public funding either direct or indirect.

Therefore government should consider dealing with this issue via an addition to the New State Pension rather than putting the burden on the LGPS. Our actuary Mercer is putting forward a suggested alternative proposal to cover this which should be taken into account as being a fairer solution for all parties both local employers and central government.

Alternatively we ask that government provide funding to enable LGPS employers to meet this additional burden.

Yours faithfully

Alan South

Alan South
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Avon Pension Fund

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Response to questions 1 - 11 put by the consultation

Question 1: Which pension schemes (public and private) follow the PIA 1971 and SSPA and therefore may be affected by a policy change?

This response addresses the LGPS only which does follow PIA 1971 and the Social Security Pensions Act 1975

Question 2: Do you consider the case-by-case method to be an appropriate method to ensure that the abolition of AP does not create new gender inequality?

Not completely –the level of complexity and assumptions necessary for the calculation of old state pension and potential for changes to New State Pension could result in outcomes which have the opposite effect to that desired

Question 3: Does the case-by-case method adequately honour the previous commitment by government to fully index the GMP of public service scheme members?

No –Not fully as it only covers the government's commitment as originally set out.

Question 4: Do you consider full indexation to be an appropriate method to avoid the unequal pension payments to men and women that the abolition of the AP would otherwise lead to?

Yes, however due to the potential for difference in the treatment of GMPs prior to SPA.it does not address full 'Barber' equalization

Question 5: Do you consider full indexation to be an appropriate method through which to meet past indexation commitments to men and women in employment in the public services between 1978 and 1997?

Yes

Question 6: Do you consider conversion on a 1:1 basis to be an appropriate method to avoid the unequal pension payments to men and women that the abolition of the AP would otherwise lead to?

Yes, however it does not address full 'Barber' equalization due to the potential for difference in the treatment of GMPs prior to conversion.

Question 7: Do you consider conversion on a 1:1 basis an appropriate method through which to meet past indexation commitments to men and women in employment in the public services between 1978 and 1997?

Yes

Question 8: Under this methodology, how should government treat those in receipt of a public service pension but below State Pension Age?

Converted on a 1:1 basis

Question 9: Do you agree that conversion on an actuarial equivalent basis does not meet past indexation commitments to men and women in employment in the public services between 1978 and 1997?

Yes

Question 10: Which of the three policy options outlined in section 3 best match the criteria set out in the third paragraph in section 1.2?

Conversion of the GMP but see 11 below

Question 11: Are there alternative methodologies the government could consider?

Seek to find an option that splits costs more fairly and does not place full burden on scheme employers

Alternative proposals that deal with this should be fully considered first
See alternative proposal submitted by Mercers