



GMP Equalisation Working Group Supplemental Guidance

Allowing for Anti-franking when achieving GMP Equality

September 2021

Supplemental Guidance on allowing for Anti-Franking when achieving GMP Equality

Section	Content	Page
1	Introduction	1
2	Anti-franking	1
3	Key anti-franking issues for GMP equality	2
	Appendix 1 – summary of techniques	i
	Appendix 2 – Examples	iii

Acknowledgments

PASA is grateful to the authors of the Guidance and members of the GMP Equalisation Anti-Franchising subgroup and their employers.

Kim Gubler (Board Sponsor) **PASA Board Director**

Felicity Boyce (Chair) **Aon**

Alasdair Mayes **Lane Clark & Peacock LLP**

Claire van Rees **Sacker & Partners LLP**

Duncan Buchanan **Hogan Lovells LLP**

Rebecca Morgan **ITM Limited**

Richard Akroyd **Willis Towers Watson**

Steve Nicholson **Equiniti**

1. Introduction

The Methodology Guidance issued in September 2019 included a short section on anti-franking. Following requests from the industry, this supplement to that Guidance examines the interaction of anti-franking and GMP equalisation in more detail, considering why anti-franking is important and suggesting approaches to deal with key areas of uncertainty. It doesn't provide a full manual for anti-franking calculations; we recommend schemes consult the relevant legislation/their legal advisors for the exact requirements.

2. Anti-franking

What is anti-franking?

GMP legislation contains complex rules (known as anti-franking) designed to make sure the revaluation provided to GMPs in deferment can't be offset against a member's other benefits (other than in limited circumstances). This is implemented by means of an 'anti-franking minimum pension' defined under legislation and underpins the scheme pension. In broad terms, this can result in pensions in payment being stepped up when a member reaches their GMP Age, or at retirement when a member remains in active pensionable service after their GMP Age.

Anti-franking shouldn't be confused with the GMP coverage requirement¹ for the total pension accrued prior to 06 April 1997 to be at least equal to the GMP. The coverage requirement applies in a wider variety of situations than anti-franking, but where anti-franking applies it'll exceed the coverage requirement.

In practice, schemes and their administrators adopt different methods for testing anti-franking and formal scheme rules rarely go into detail on the subject. When comparing benefits as part of an equalisation project this will usually be done on the basis of past practice.

Why does anti-franking matter for GMP equalisation?

Anti-franking only applies directly to certain members². For many schemes anti-franking may have little impact on the overall scheme liability or benefits payable for most members. However, for those members to whom anti-franking does apply, it can have a significant impact – which usually only applies to one sex. Anti-franking can therefore significantly impact GMP equalisation, including changing which sex is better off overall (see the difference between the Guy and Gary examples in Appendix 2 for a demonstration). In some schemes, most of the large uplifts required to achieve GMP Equality will be due to anti-franking.

¹ Formerly defined under Regulation 55 of the OPS (Contracting-out) Regulations. This was revoked after 05 April 2016, but should've been included in individual Scheme Rules, so in practice will remain in effect.

² Anti-franking applies directly to members who leave before NPA and then retire at NPA, and to members who leave active service at or over NPA, subject to certain additional conditions set out in the Pension Schemes Act 1993 s87. However, the preservation requirements for members taking early or late retirement to receive benefits at least equal in value to those they would've received had they retired at NPA means it may have an indirect effect on other members as well.

Which schemes will be affected by anti-franking?

Anti-franking legislation will apply to all schemes which need to achieve GMP Equality, although in most cases the underpin will be unlikely to bite. Members for whom anti-franking is particularly likely to be an issue include:

- Members with Normal Pension Age (NPA) < 65 where no increases are given on Pre97 excess in payment
- Members with NPA < 65, where the scheme doesn't give revaluations on GMP on retirement prior to GMP age, or where these revaluations are at a lower rate than statutory GMP revaluation
- Members who continue in service past age 60
- Members with high GMP proportions

Note even for schemes where the benefit structure is such that anti-franking uplifts aren't usually required, there may still be individual members (typically those with high proportions of GMP, or for whom the Later Earnings Addition applies) who are due uplifts.

All schemes should therefore consider anti-franking as part of achieving GMP Equality.

3. Key anti-franking issues for GMP equality

Implementation of whole of service test for equalisation of post 90 benefits

Anti-franking is defined under legislation as a whole of service test, with no consideration it might be applied to only part of a member's benefits. For members who commenced service prior to 17 May 1990, it's therefore legislatively unclear how anti-franking should be applied for equalisation purposes. Three potential techniques are explained below, but other techniques are also possible and have been used within the industry.

A. Ring-fence (90-97) Technique [See examples Guy, Gary and Edward]

The Methodology Guidance published in September 2019 set out the following technique, which 'ring-fences' 90-97 benefits:

- Comply with legislation and apply the anti-franking test to the member's whole (unequalised) benefit at the member's GMP Age or later date of retirement
- Compare the benefit of the member relating to service in the period 1990 to 1997³ (including relevant anti-franking and revaluation for the member's sex to that 1990 to 1997 pension in isolation as if it were the member's only benefit) which would've been payable to the comparator in respect of the same period (applying anti-franking and revaluation for the opposite sex to that 1990 to 1997 pension in isolation as if it were the comparator's only benefit). Where the comparator would have

³ You should carefully consider the extent to which benefits outside the 90-97 period affect the 90-97 benefits. For example, we would usually expect the NPA used would be consistent with that for the whole Scheme, even though the pension amounts are being calculated based on 90-97 service only.

a higher benefit an uplift would need to be provided to the member reflecting the difference between the two

We expect this technique to be the starting point used for discussion for many schemes, as it's relatively simple and will often be appropriate; we've therefore focused our examples later on this. However, it can give odd answers in some circumstances⁴.

Alternative techniques are possible. We set out two below. These also have their own disadvantages (including typically requiring more data and calculations than the ring-fencing technique) and aren't intended to be exhaustive. Appendix 1 sets out a comparison of these techniques to the Ring-Fence Technique.

B. DWP 2012 (Whole of Service Mixed Sex) Technique

The Department for Work and Pensions published examples (7 and 8) in its January 2012 consultation 'A possible method for equalising pensions for the effect of the Guaranteed Minimum Pension'⁵ which included an anti-franking technique. This worked as follows:

- Comply with legislation and apply the anti-franking test to the member's whole (unequalised) benefit at the member's GMP Age or later date of retirement
- Compare this total pension to a pension calculated as follows:
 - The Pre90 element consists of the member's pension
 - The Post90 element consists of the opposite sex's pension
 - The anti-franking minimum at each age consists of the sum of the following components:
 - The Pre90 minimum for the true sex. This will always include the member's Pre90 pension at cessation date, and any applicable increase in Pre90 excess pension, but will only include increases on Pre90 GMP if the true sex has reached GMP age
 - The Post90 minimum for the opposite sex. This will always include the comparator's Post90 pension at cessation date, and any applicable increase in Post90 excess pension, but will only include increases on Post90 GMP if the comparator has reached GMP age

To adopt this technique a scheme would need to determine how such a 'mixed sex' underpin would be calculated. This isn't covered by legislation and isn't completely described in the DWP examples. The chosen approach would then need to be coded.

C. Apportionment (Whole of Service Pure Sex) Technique

This technique performs the whole of service test, and then attempts to allocate part of the resulting uplift to the 90-97 period:

⁴ For example, consider a Scheme where nil pension increases are applied on excess pension accrued after 1 January 1989, but the Scheme has Fixed 3% increases on Pre89 excess. In this scenario, considering only 90-97 benefits may result in an uplift being due where no uplift would have been required on the full pension.

⁵<https://www.gov.uk/government/consultations/draft-occupational-pension-schemes-and-pension-protection-fund-equality-amendment-regulations-2012>. Note the DWP examples assume the female's GMP comes into payment immediately following the Cessation Date, and is therefore not subject to anti-franking; this guidance extrapolates the basic technique to a more general case.

- Comply with legislation and apply the anti-franking test to the member's whole (unequalised) benefit at the member's GMP Age or later date of retirement
- Apply the anti-franking test to the opposite comparator's whole benefit (including Prego pension) at the comparator's GMP age or later date of retirement
- Pro-rate the anti-franking step-ups in an appropriate manner for the 90-97 period only
- Compare the benefit for a member relating to 90-97 service only, with the member's step-up calculated in the previous step, with that for the equivalent pension for the comparator. If the comparator would have a higher benefit then an uplift will need to be provided to the member

To adopt this technique a scheme would need to determine how such pro-rating would be undertaken. This is not covered by legislation or court judgments. In practice there are several ways the pro-rating of the step-up could be done. For example, one possible technique is to pro-rate on the GMP at the anti-franking date. The approach taken could have a material impact on the uplifts members will receive.

The different techniques will have different requirements for the data held to administer the year-by-year approaches on an ongoing basis. For example, the Ring-fence technique requires you to hold three different pension streams (whole pension for true sex, true 90-97 and comparator 90-97), whereas the Apportionment method requires four streams (whole pension for true sex, true 90-97, whole pension for comparator sex and comparator 90-97). They'll also require differing amounts of data and calculations to perform the initial calculations. We therefore recommend you confirm with your current scheme administrator they can implement your preferred approach, and also consider the implications over the longer term. Future guidance on Administration of GMP Equalisation will explore in more detail the interaction of multiple pension streams with administration and payroll systems.

The examples in this Guidance all follow the 'ring-fencing' technique.

The later earnings addition, and associated anti-franking elements

The Later Earnings Addition, when combined with the Appropriate Addition and the requirement to give revaluations and increases on GMP, has the effect of preventing the late retirement factor on GMP from 'eating into' the salary increases due on the excess for members who continue in pensionable service after their Cessation Date⁶.

For a member who retires from active service, this can typically⁷ require an uplift to their pension equal to:

$$\text{GMP @ Cessation Date} \times (\text{GMP LRF factor between Cessation Date and Date of Leaving} - \text{Increase in Final Pensionable Salary between Cessation Date and Date of Leaving})^8$$

⁶ Prior to 06 April 1997, "Cessation Date" is a member's GMP date (for members who do not leave the Scheme prior to this). After 06 April 1997, some Schemes interpret it as GMP date and others as State Pension Date.

⁷ This makes several simplifying assumptions, including a member's pension definition doesn't include a State Pension Deduction, and that the Final Pensionable Salary doesn't decrease over the period. You should therefore refer directly to the legislation before applying it to individual schemes

⁸ This can also be written as: $\text{GMP @ Date of Leaving} - \text{GMP @ Cessation Date} \times \text{Final Pensionable Salary @ Date of Leaving} / \text{Final Pensionable Salary @ Cessation Date}$

This can result in uplifts which are as much as 50% or more of the GMP at Cessation Date, which is significant for equalisation purposes. The uplift will be *higher*, the *lower* the Final Pensionable Salary (FPS) increase. Note whilst the Later Earnings Addition itself is set to zero where salary increases are nil or negative, the other anti-franking elements will still combine to give an uplift in these scenarios.

Why is the later earnings addition particularly relevant for anti-franking?

Historically, few women have remained in pensionable service past age 60 and few men have remained past age 65. This has meant the Later Earnings Addition has been relevant for relatively few members. However, many men *have* historically remained in pensionable service past age 60, and under GMP Equalisation the opposite sex comparators' pensions will be subject to a Later Earnings Addition, which may be of a significant size.

Examples Guy and Gary in Appendix 2 demonstrate the potential impact.

Appendix 1 – Summary of techniques

Technique	True Sex AF Step-ups	Comparator AF Step-ups	Data/Legal/Actuarial Requirements for calculation of equalisation impact	Example Calculation of Minimum at GMPA for Member Who Retired at NRA 55 with Date of Exit (DOE) at 05 April 1997	Examples of situations where may differ to (a) Ring-fence (90-97) ⁹
(a) Ring-fence (90-97)	Calculated on whole period and then separately for 90-97 period in isolation	Calculated for 90-97 period in isolation	Medium/Low (Requires 90-97 pensions only and uses existing practices)	Normal true sex calculation and then Female at 60: 90-97 GMP@60 + 90-97 XS@DOE * Stat Revals to 55 ¹⁰ Male at 65: 90-97 GMP@65 + 90-97 XS@DOE * Stat Revals to 55	
(b) DWP 2012 (Whole of Service Mixed Sex)	Calculated on whole period	Calculated on whole period using a mixed sex benefit with tests at 60 and 65	High (Requires Prego true sex and Post90 benefits for both sexes and to agree detail of new “mixed sex” test)	Female True Sex: True Sex at 60: 78-97 FGMP@60 + Pre97 XS@DOE * Stat Revals to 55 Comparator at 60: 78-90 FGMP@60 + 90-97 MGMP@DOE + Pre97 XS@DOE * Stat Revals to 55 Comparator at 65: 78-90 FGMP@65 + 90-97 MGMP@65 + Pre97 XS@DOE * Stat Revals to 55 Male True Sex: True Sex at 65: 78-97 MGMP@65 + Pre97 XS@DOE * Stat Revals to 55 Comparator at 60: 78-90 MGMP@DOE + 90-97 FGMP@60 + Pre97 XS@DOE * Stat Revals to 55	A scheme with increases on pre 90 excess; some members with pre 78 service; a scheme which franks against Post97 increases

⁹ These are examples of situations where frankable elements are created that can be used to reduce any step-up. They're not intended to be exhaustive.

¹⁰ The deferred revaluations on excess pension strictly arise from the revaluation legislation, not the anti-franking legislation. However, as they apply in addition to the anti-franking minimum, they've been included here for simplicity. Some schemes aren't subject to the revaluation requirements; this doesn't stop anti-franking from applying, but the minimum above would no longer include excess deferred revaluations.

				Comparator at 65: 78-90 MGMP@65 + 90-97 FGMP@65 + Pre97 XS@DOE * Stat Revals to 55	
(c) Apportionment (Whole of Service Pure Sex)	Calculated on whole period then allocate part to 90- 97	Calculated on whole period then allocate part to 90- 97	High (Requires Prego and Post90 pensions for both sexes and to determine an appropriate method of apportionment of step-up to Post90 benefit)	<p>One of a number of different approaches to calculating the anti-franking step-up is as follows:</p> <p>Female at 60: $90-97 \text{ GMP}@60 / 78-97 \text{ GMP}@60$ $*\text{MAX}(0, (78-97\text{GMP}@60$ $+ \text{Pre97 XS@DOE * Stat Revals to 55) -$ $\text{Pen}@60 \text{ Pre AF})$</p> <p>Male at 65: $90-97 \text{ GMP}@65 / 78-97 \text{ GMP}@65$ $*\text{MAX}(0, (78-97\text{GMP}@65$ $+ \text{Pre97 XS@DOE * Stat Revals to 55) -$ $\text{Pen}@65 \text{ Pre AF})$</p> <p>Note that this gives an anti-franking step-up rather than the anti-franking minimum given under the other approaches. It is simple to convert between the two if you know the pension immediately prior to GMP age.</p>	A scheme with increases on pre 90 excess; some members with pre 78 service; a scheme which franks against Post97 increases

There are many situations where all techniques give the same outcome, for example:

- For members where no anti-franking uplift applies under all techniques¹¹
- For members with pensionable service only in the period 1990-1997

Outcomes can differ when ‘frankable’ elements are available from outside of the period 1990-97 e.g. increases on pre 97 excess, pre 78 service, Barber late retirement factors or where the Scheme franks against Post97 pension increases. All outcomes can give odd results in some circumstances that are a consequence of applying complicated legislation in a manner never intended.

¹¹ Note it's possible for members to have no uplift due under one technique but to be due one under another – for example, a member for whom the anti-franking minimum is exceeded by the Scheme pension when the whole pension is considered, but not when the 90-97 period is considered in isolation, would have an uplift due under the Ring-fence technique but not the DWP 2012 or Apportionment techniques.

Appendix 2 – Examples

Example: Guy – Later Earnings Addition Using Ring-Fence (90-97) Technique

This example is based on a previously issued example (DWP 2012 Example 3¹²). In this example, the anti-franking inequality is established using benefits attributable to 90-97 in isolation. The calculation is shown from retirement through to 31 December 2020.

The calculation shows, at outset, the opposite sex (female) pension is higher because of the later earnings addition; however, over time, the escalation on the higher true sex (male) GMP results in no advantage. There's no advantage to the opposite sex (female), so Guy's pension in payment does not require an uplift. However, there's a very small back payment due if Method B is adopted. The opposite would be the case if the member is the opposite sex female comparator.

Pension Scheme details	
Normal Pension Age	65
Accrual rate	60th
Increases to GMP in payment	Statutory increases on post 88 GMP
Increases to non GMP in payment	Nil
Scheme increase date	06 April
Member details	
Date of birth	01/04/1932
Date of joining scheme	01/04/1988
Last day of service (DOL)	31/03/1997 (day before 65)
Date of retirement	01/04/1997
Pensionable pay (age 60)	£15,000
Pensionable pay (age 65)	£18,000
Pension at DOL (age 65)	£2,700
Post 88 GMP at DOL	£1,200

Pension increases

While not modelled in these examples, it can be noted (as in other circumstances) the outcome of this example is sensitive to the level of pension increases provided by the scheme.

The example is based on the scheme not providing pre 1997 pension increases on GMP.

However, if for example the scheme provided LPI5 increases, Guy would require a top up to his pension and back payments

¹² The DWP 2012 Examples can be found at <https://www.gov.uk/government/consultations/draft-occupational-pension-schemes-and-pension-protection-fund-equality-amendment-regulations-2012>

90-97 True Sex (male)¹³

Post 90 scheme accrual dates	17/05/1990 – 31/03/1997
90-97 Pension at DOL	£2,062 (£2,700 * 6.874/9)
Male Post 88 GMP accrual dates	06/04/1988 – 05/04/1996 (GMP accrues up to the 05 April before age 65 for a male)
Post 90 GMP accrual dates	17/05/1990 – 05/04/1996
Post 90 GMP at DOL	£883 (£1,200 * 5.885/8)

90-97 Opposite sex (female)

Pensionable service went beyond age 60, so LEA is considered first before calculating the opposite sex (female) pension at DOL.

GMP Conversion factor for DOB up to 5/4/1934 ¹⁴	1.000
Allowance for the shorter period of female GMP accrual	0.1508 using 0.8877/5.885 as female GMP accrues 17/05/1990 – 05/04/1991 (GMP accrues up to the 5 th Apr before age 60 for a female)
Removal of the last five male section 148 revaluations	1.325
Addition of female GMP late retirement factors to date of leaving	1.5591 using 1.1369 * (1+260/700) (1.1369 = 1.03 * 1.03 * 1.018 * 1.022 * 1.03)
Post 90 GMP (female) at DOL	£156 (£883 * 0.1508 / 1.325 * 1.5591)
Post 90 GMP (female) at age 60	£100 (£883 * 0.1508 / 1.325)
Female GMP payment age	60
The net effect of the female LEA for the purposes of GMP Equality simplifies down to a formula of form	GMP@DOL – (GMP@60 x FPS@DOL / FPS@60) subject to minimum of zero
LEA Addition at DOL	£36 (£156 - £100 * £18,000 / £15,000))
90-97 Pension at DOL	£2,098 (£2,062 + £36)

The Pro-Rata approach steps are

1. Obtain true sex post 88 GMP at DOL. Where a GMP is in payment, then this can be calculated from the latest GMP in payment on payroll.
2. Obtain true sex post 90 GMP at DOL using contracting out dates
3. Derive the opposite sex post 90 GMP at DOL based on true sex post 90 GMP.

There's no need to obtain the opposite sex GMP accrued before 1990.

¹³ Three different approaches to obtaining the true and opposite sex Post 90 GMP were included in the PASA GMP Equalisation Data Guidance, Section C3. In this example, we have used the Pro-Rata approach.

¹⁴ GMP Conversion factors were published within Appendix 2 of the PASA GMPE Guidance on Data

Observations on the results – from Guy's perspective

Had Guy's benefits been equalised at the time he retired, initially he would've received the female comparator's pension as this was higher due to the application of the Later Earnings Addition:

- Using Method B, he would revert to his own pension after the GMP increase in 06 April 1998 (when he's 66)
- Using Method C1 or C2, he would continue to receive the (lower) female comparator's pension until early 2000, shortly before his 68th birthday. The switch date is slightly later for Method C2 because interest is allowed in the calculation but isn't material in this case

However, we're looking at the position at the end of 2020; at this point Guy's pension is £467 higher than the female comparator, so:

- On Method B there's no change in his pension – the higher pension is paid
- On Methods C1 or C2 it's necessary to first consider the accumulated past payments; Guy has received £5,165 more in higher pension payments than the female comparator (Method C1), equivalent to £5,854 with interest in line with the Lloyds judgment (Method C2). Hence, he should continue to receive his own pension on either Method C1 or C2

This is the case whether or not a limitation period is applied.

If Method B is used with no limitation period, Guy would also receive a small lump sum back payment equal to £21 plus interest due to the historic cross-over.

Results for a true sex female

If we reversed the genders so we started with a true sex female, then there would be an advantage to the opposite sex (male) and using the same calculation results the female member would receive higher benefits:

On all methods her pension would increase by £467 going forward, an increase of 21% of her post 17 May 1990 pension (she is owed money for GMP equalisation to date whatever limitation period is applied and Guy's current pension is higher than her own).

The female comparator would also receive a back payment, which would depend on the Method used. On Method C2, and assuming interest in line with the Lloyds judgment, the amount due would be £5,854 as above. Slightly higher payments would be due under Methods B and C1 (e.g. under Method B the original higher pension payment to the female comparator wouldn't be offset).

Cashflow

All figures are per annum. Rounding isn't shown.

Age	Date	True Sex (Male)			Opposite Sex (Female)			Difference (F-M)	Post88 GMP Increases	Non GMP Increases
		Post90 GMP	90-97 Non GMP (no increases)	90-97 Total	Post90 GMP	90-97 Non GMP (no increases)	90-97 Total			
65	01/04/1997	£883	£1,179 ¹⁵	£2,062	£156	£1,942	£2,098	£36 ¹⁶		
65	06/04/1997	£902	£1,179	£2,081	£159	£1,942	£2,101	£21	1.021	1.000
66	06/04/1998	£929	£1,179	£2,108	£164	£1,942	£2,106	-£2	1.030	1.000
67	06/04/1999	£957	£1,179	£2,136	£169	£1,942	£2,111	-£25	1.030	1.000
68	06/04/2000	£967	£1,179	£2,146	£171	£1,942	£2,113	-£33	1.011	1.000
69	06/04/2001	£996	£1,179	£2,175	£176	£1,942	£2,118	-£57	1.030	1.000
70	06/04/2002	£1,013	£1,179	£2,192	£179	£1,942	£2,121	-£71	1.017	1.000
71	06/04/2003	£1,030	£1,179	£2,209	£182	£1,942	£2,124	-£85	1.017	1.000
72	06/04/2004	£1,059	£1,179	£2,238	£187	£1,942	£2,129	-£109	1.028	1.000
73	06/04/2005	£1,091	£1,179	£2,270	£193	£1,942	£2,135	-£135	1.030	1.000
74	06/04/2006	£1,120	£1,179	£2,299	£198	£1,942	£2,140	-£159	1.027	1.000
75	06/04/2007	£1,154	£1,179	£2,333	£204	£1,942	£2,146	-£187	1.030	1.000
76	06/04/2008	£1,189	£1,179	£2,368	£210	£1,942	£2,152	-£216	1.030	1.000
77	06/04/2009	£1,224	£1,179	£2,403	£216	£1,942	£2,158	-£245	1.030	1.000
78	06/04/2010	£1,224	£1,179	£2,403	£216	£1,942	£2,158	-£245	1.000	1.000
79	06/04/2011	£1,261	£1,179	£2,440	£223	£1,942	£2,165	-£275	1.030	1.000
80	06/04/2012	£1,299	£1,179	£2,478	£230	£1,942	£2,172	-£306	1.030	1.000
81	06/04/2013	£1,327	£1,179	£2,506	£235	£1,942	£2,177	-£330	1.022	1.000
82	06/04/2014	£1,363	£1,179	£2,542	£241	£1,942	£2,183	-£359	1.027	1.000
83	06/04/2015	£1,380	£1,179	£2,559	£244	£1,942	£2,186	-£373	1.012	1.000
84	06/04/2016	£1,380	£1,179	£2,559	£244	£1,942	£2,186	-£373	1.000	1.000
85	06/04/2017	£1,393	£1,179	£2,572	£246	£1,942	£2,188	-£384	1.010	1.000
86	06/04/2018	£1,435	£1,179	£2,614	£254	£1,942	£2,196	-£419	1.030	1.000
87	06/04/2019	£1,470	£1,179	£2,649	£260	£1,942	£2,202	-£447	1.024	1.000
88	06/04/2020	£1,495	£1,179	£2,674	£264	£1,942	£2,206	-£467	1.017	1.000
88 8/12	31/12/2020	£1,495	£1,179	£2,674	£264	£1,942	£2,206	-£467		

¹⁵ While the non-GMP has been calculated and is shown, in actual fact this is cosmetic for Guy. The results aren't sensitive to the amount of non GMP because i) there's sufficient 90-97 pension to cover the true and comparator GMP and ii) as a result of the particular scheme design. This highlights the opportunity to side-step the historical data requirement and simplify the calculation by using the 'Forms' calculation approach for cases where the results are a function of just the post 90 GMP (please see the PASA Data guidance for information). This short cut is available on all the PASA examples in this paper (Mark, Guy, Gary and Edward). However, the short cut isn't always available – e.g. it wouldn't be if GMP wasn't covered; or for cases requiring an anti-franking step-up but increases are paid on pre 97 non GMP.

¹⁶ The 2012 DWP Example 3 result included a starting pension LEA difference of £122 in respect of all female GMP rather than £36 in respect of female post 90 GMP. Page 15 reads “the application of the equality rule means his entitlement is £2,822”, using the calculations here it should read £2,736 (£2,700 plus £36).

Example Gary – As Guy, but 10 years later

This example is based on the previous example for Guy, but Gary is 10 years younger than Guy and all events are 10 years later. The example now shows the impact where the female comparator no longer ceases to accrue GMP before the male does, as both sexes reach 06 April 1997 before they reach GMP age. With full GMP accrual, the calculation shows there is now a significant advantage to the opposite sex (female) comparator. This advantage applies from retirement and the advantage increases each year. Hence, an uplift is required for Gary. This is the same on whichever method is used.

Pension Scheme details

Normal Pension Age	65
Accrual rate	60th
Increases to GMP in payment	Statutory increases on post 88 GMP
Increases to non GMP in payment	nil
Scheme increase date	06 April

Member details

Date of birth	01/04/1942
Date of joining scheme	01/04/1988
Last day of service (DOL)	31/03/2007 (day before 65)
Date of retirement	01/04/2007
Pensionable pay (age 60)	£15,000
Pensionable pay (age 65)	£18,000
Pre 97 pension at DOL (age 65)	£2,700
Post 88 GMP at DOL	£1,200

Calculation shows only the pre 97 pension element for ease of presentation.

90-97 True Sex (male)¹⁷

Post 90 scheme accrual dates	17/05/1990 – 05/04/1997
90-97 Pension at DOL	£2,062 (£2,700 * 6.885/9.014)
Male Post 88 GMP accrual dates	06/04/1988 – 05/04/1997
Post 90 GMP accrual dates	17/05/1990 – 05/04/1997
Post 90 GMP at DOL	£918 (£1,200 * 6.885/9)

90-97 Opposite sex (female)

Pensionable service continued beyond age 60, so LEA is considered first before calculating the opposite sex (female) pension at DOL.

GMP Conversion factor for DOB between 6/4/41 and 5/4/1942 ¹⁸	1.2174
Removal of the last five male section 148 revaluations	1.214
Addition of female GMP late retirement factors to date of leaving	1.5425 using $1.1247 * (1+260/700)$ $(1.1247 = 1.017 * 1.017 * 1.028 * 1.03 * 1.027)$
Post 90 GMP (female) at DOL	£1420 (£918 * 1.2174 / 1.214 * 1.5425)
Post 90 GMP (female) at age 60	£921 (£918 * 1.2174 / 1.214)
Female GMP payment age	60
The net effect of the female LEA for the purposes of GMP Equality simplifies down to a formula of form	GMP@DOL – (GMP@60 x FPS@DOL / FPS@60) subject to minimum of zero
LEA Addition at DOL	£315 (£1420 - £921 * £18,000 / £15,000))
90-97 Pension at DOL	£2,377 (£2,062 + £315)

Method B, C1 and C2 Accumulation at 31/12/2020

£5,592 plus interest**Results for a true sex male**

Unlike the previous example of Guy, in Gary's case, the female comparator would also have earned GMP throughout her pensionable service. Here, the impact of the Later Earnings Addition in the female comparator is significant. In this case the female comparator's pension starts significantly ahead of the Guy's pension, and remains ahead. So, Guy should receive a pension uplift of £483 pa (a 20% uplift to his pension earned between 17 May 1990 and 05 April 1997) so he is receiving the female comparator's pension. Guy would also receive a significant back payment, which would be identical on all Lloyds methods (as at all points from retirement the female comparator has received a higher pension).

¹⁷ Three different approaches to obtaining the true and opposite sex Post 90 GMP were included in the PASA GMP Equalisation Data Guidance, Section C3. In this example, we have used the Pro-Rata approach.

¹⁸ GMP Conversion factors were published within Appendix 2 of the PASA GMP Equalisation Data Guidance

Cashflow

All figures are per annum. Rounding is not shown

Age	Date	True Sex (Male)			Opposite Sex (Female)			Difference (F-M)	Post88 GMP Increases	Non GMP Increases
		Post90 GMP	90-97 Non GMP (no increases)	90-97 Total	Post90 GMP	90-97 Non GMP (no increases)	90-97 Total			
65	01/04/2007	£918	£1,144	£2,062	£1,420	£957	£2,377	£315		
65	06/04/2007	£946	£1,144	£2,090	£1,463	£957	£2,420	£330	1.030	1.000
66	06/04/2008	£974	£1,144	£2,118	£1,506	£957	£2,463	£346	1.030	1.000
67	06/04/2009	£1,003	£1,144	£2,147	£1,552	£957	£2,509	£362	1.030	1.000
68	06/04/2010	£1,003	£1,144	£2,147	£1,552	£957	£2,509	£362	1.000	1.000
69	06/04/2011	£1,033	£1,144	£2,177	£1,598	£957	£2,555	£378	1.030	1.000
70	06/04/2012	£1,064	£1,144	£2,208	£1,646	£957	£2,603	£395	1.030	1.000
71	06/04/2013	£1,088	£1,144	£2,232	£1,682	£957	£2,639	£408	1.022	1.000
72	06/04/2014	£1,117	£1,144	£2,261	£1,728	£957	£2,685	£424	1.027	1.000
73	06/04/2015	£1,130	£1,144	£2,274	£1,749	£957	£2,706	£431	1.012	1.000
74	06/04/2016	£1,130	£1,144	£2,274	£1,749	£957	£2,706	£431	1.000	1.000
75	06/04/2017	£1,142	£1,144	£2,286	£1,766	£957	£2,723	£437	1.010	1.000
76	06/04/2018	£1,176	£1,144	£2,320	£1,819	£957	£2,776	£456	1.030	1.000
77	06/04/2019	£1,204	£1,144	£2,348	£1,863	£957	£2,820	£471	1.024	1.000
78	06/04/2020	£1,225	£1,144	£2,369	£1,894	£957	£2,851	£483	1.017	1.000
78 8/12	31/12/2020	£1,225	£1,144	£2,369	£1,894	£957	£2,851	£483	1.000	1.000

Example Edward – Anti-Franking Using Ring-Fence (90-97) Technique

This example is based on a previously issued example (DWP 2012 Example 7¹⁹) which illustrates different results depending on the approach taken to calculate anti-franking steps. The calculation solution is presented using benefits attributable to 90-97 in isolation.

The calculation shows there's no advantage to the opposite sex (female) as at 31/12/2020. At the outset, there's no difference in pension between the true sex (male) and opposite sex (female) starting pension. However, after the first increase, the opposite sex (female) pension is higher and a buffer is built up until male GMP payment age. At this point, the pension advantage is reversed when the true sex (male) steps is applied. Over time, the opposite sex (female) advantage is eroded and then swaps to the true sex (male).

Pension Scheme details

Normal Pension Age	60
Accrual rate	60th
Increases to GMP in payment	Statutory increases on post 88 GMP
Increases to non GMP in payment	nil
Scheme increase date	06 April

Member details

Date of birth (DOB)	06/04/1937
Date of joining scheme	06/04/1988
Last day of service (DOL)	05/04/1997 (day before 60)
Date of retirement (DOR)	06/04/1997
Pension at DOL (age 60)	£2,700
Post 88 GMP at DOL	£700

¹⁹ The DWP 2012 Examples can be found at <https://www.gov.uk/government/consultations/draft-occupational-pension-schemes-and-pension-protection-fund-equality-amendment-regulations-2012>

90-97 True Sex (male)²⁰

90-97 Pension at DOL	£2,066 (£2,700 * 6.888/9)
Post 90 GMP at DOL	£500 (supplied by NISPI GMP online checker)
Post 90 scheme accrual dates	17/05/1990 – 31/03/1997
90-97 Pension at DOR	£2,066
90-97 Minimum male pension at age 65	£2,268 ($2,066 + 500 * 0.403$) where 0.403 is from the GMP revaluation factor 1.07^{15} . Note no increases are paid on non GMP in this example. Another way to show this calculation is $(500.00 * 1.403 + (2,066 - 500.00) * 1.000)$ where 1.403 is the GMP revaluation factor.

The Ring-fence (90-97) technique treats 90-97 in isolation of pre 90 and post 97 so that these benefits are considered unchanged. Alternative approaches are possible.

The DWP example applied a whole of service approach and calculated mixed sex steps. This led to a larger male step and larger no loss result.

90-97 Opposite sex (female)

90-97 Pension at DOL	£2,066
Female post 90 GMP may be obtained using the Pro-Rata approach:	
Post 90 GMP (female) at DOL	£600 (obtained from the NISPI GMP online checker but also verifiable using a GMP conversion factor of 1.2)
90-97 Pension at DOR	£2,066

Results (for a true sex male)

Difference in pension (Female less Male) at 31/12/2020	-£140
Method B/C1/C2 Change in Pension at 31/12/2020	Nil
Method B back payment at 31/12/2020 (this result ignores any instalment where the male received more than the female)	£161 plus interest
Accumulated shortfall at 31/12/2020 before interest (i.e. net result of accumulated under- and over- payments)	-£2,349

²⁰ Three different approaches to obtaining the true and opposite sex Post 90 GMP were included in the PASA GMP Equalisation Data Guidance, Section C3. In this example, we suppose the Post 90 True and Post 90 Opposite Sex GMPs are obtained from the NISPI GMP Online Checker (a pro-rata approach would vary slightly).

Edward is a cross-over case. His pension at retirement is the same as that of the female comparator, but the comparator's GMP increases in payment between 60 and 65, so the female comparator will have received a higher pension in this period. Edward's pension receives a step at age 65 at which point the position is reversed.

If we are looking at the position at the end of 2020:

- on Method B there's no change in his pension – the higher pension is paid
- on Methods C1 or C2 it's necessary to first consider the accumulated past payments; Edward has received £2,349 more in higher pension payments than his female comparator (Method C1), equivalent to £2,716 with interest in line with the Lloyds judgment (Method C2). Hence he should continue to receive his own pension on either Method C1 or C2

This is the case whether or not a limitation period is applied.

If Method B is used (but only on Method B) with no limitation period, Guy would also receive a small lump sum back payment due to the historic cross-over equal to his pension shortfall up to age 65 plus interest.

Results for a true sex female

If we reversed the genders so we started with a true sex female, then there would be an advantage to the opposite sex (male) and using the same calculation results but reversing the signs:

Results (for a true sex female)	
Method B/C1/C2 Change in Pension at 31/12/2020	Uplift of £140
Method B back payment at 31/12/2020	£2,510 plus interest
(this result ignores any instalment where the female received more than the male)	

On all methods her pension would increase by £140 going forward, an increase of 6% ($=£140 / £2,461$) on her post 17 May 1990 pension (she is owed money for GMP equalisation to date whatever limitation period is applied and Guy's current pension is higher than her own). The female comparator would also receive a back payment, which would depend on the Method used.

Cashflow

All figures are per annum. Rounding is not shown

Age	Date	True Sex (Male)			Opposite Sex (Female)			Difference (F-M)	Post88 GMP Increases	Non GMP Increases
		Post90 GMP	90-97 Non GMP (no increases)	90-97 Total	Post90 GMP	90-97 Non GMP (no increases)	90-97 Total			
60	06/04/1997		£2,066	£2,066	£600	£1,466	£2,066 ²¹	£0	1.0000	1.0000
61	06/04/1998		£2,066	£2,066	£618	£1,466	£2,084	£18	1.0300	1.0000
62	06/04/1999		£2,066	£2,066	£637	£1,466	£2,103	£37	1.0300	1.0000
63	06/04/2000		£2,066	£2,066	£644	£1,466	£2,110	£44	1.0110	1.0000
64	06/04/2001		£2,066	£2,066	£663	£1,466	£2,129	£63	1.0300	1.0000
65	06/04/2002	£701	£1,567	£2,268 ²²	£674	£1,466	£2,140	-£127	1.0170	1.0000
66	06/04/2003	£713	£1,567	£2,280	£686	£1,466	£2,152	-£128	1.0170	1.0000
67	06/04/2004	£733	£1,567	£2,300	£705	£1,466	£2,171	-£129	1.0280	1.0000
68	06/04/2005	£755	£1,567	£2,322	£726	£1,466	£2,192	-£129	1.0300	1.0000
69	06/04/2006	£776	£1,567	£2,342	£746	£1,466	£2,212	-£130	1.0270	1.0000
70	06/04/2007	£799	£1,567	£2,365	£768	£1,466	£2,234	-£131	1.0300	1.0000
71	06/04/2008	£823	£1,567	£2,389	£791	£1,466	£2,257	-£132	1.0300	1.0000
72	06/04/2009	£847	£1,567	£2,414	£815	£1,466	£2,281	-£133	1.0300	1.0000
73	06/04/2010	£847	£1,567	£2,414	£815	£1,466	£2,281	-£133	1.0000	1.0000
74	06/04/2011	£873	£1,567	£2,439	£839	£1,466	£2,305	-£134	1.0300	1.0000
75	06/04/2012	£899	£1,567	£2,466	£864	£1,466	£2,331	-£135	1.0300	1.0000
76	06/04/2013	£919	£1,567	£2,485	£883	£1,466	£2,350	-£136	1.0220	1.0000
77	06/04/2014	£944	£1,567	£2,510	£907	£1,466	£2,373	-£137	1.0270	1.0000
78	06/04/2015	£955	£1,567	£2,522	£918	£1,466	£2,384	-£137	1.0120	1.0000
79	06/04/2016	£955	£1,567	£2,522	£918	£1,466	£2,384	-£137	1.0000	1.0000
80	06/04/2017	£965	£1,567	£2,531	£927	£1,466	£2,393	-£138	1.0100	1.0000
81	06/04/2018	£993	£1,567	£2,560	£955	£1,466	£2,421	-£139	1.0300	1.0000
82	06/04/2019	£1,017	£1,567	£2,584	£978	£1,466	£2,444	-£140	1.0240	1.0000
83	06/04/2020	£1,035	£1,567	£2,601	£995	£1,466	£2,461	-£140	1.0170	1.0000
83 8/12	31/12/2020	£1,035	£1,567	£2,601	£995	£1,466	£2,461	-£140		

²¹ No anti-franking test required at age 60 in respect of the opposite sex GMP accrued after 17 May 1990 as there's no gap between ceasing contracting out employment and that element coming into payment.

²² A step up at 65 is applied using a ring-fence (90-97) anti-franking test (see earlier workings)



Get in touch:

info@pasa-uk.com

www.pasa-uk.com