Your pension may need to change soon

Questions and answers

The Trustee is consulting with all affected deferred members about the proposed method for addressing the historical inequality 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. You can also find these online, and we will add to them during the consultation period, if necessary, as members get in contact.

Go to **www.invesco.com/uk/en/global-footer/corporate-policies.html** or scan the QR code on the right and scroll down to 'Invesco UK Pension Scheme documents'.

1. Why might my Scheme pension need to change?

Your Scheme pension might need to change because we need to address an inequality relating to some historical benefits in the Scheme, following the outcome of a legal case. The case did not involve the Scheme, but the outcome does apply to pension schemes generally.

Your Scheme pension will not go down as a result of this change.

2. What is Guaranteed Minimum Pension?

Your Scheme pension is made up of different parts, based on when it was built up. Guaranteed Minimum Pension, or GMP, is one part.

GMP 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 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 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.

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 has only been addressed recently, following the court ruling mentioned above.

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'. You may be affected by GMP equalisation even if you don't have any GMP.

GMPs earned before 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.

If you would like to read the High Court ruling in full, you can access it from the link and QR code below.

www.bailii.org/ew/cases/EWHC/Ch/2018/2839.html

This document is long and complex and is not required reading.

4. What needs to happen to address any inequality?

To address any GMP inequality

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 carry out a one-off calculation to determine, when your pension is taken, whether the value of your benefits would have been greater if you had been treated as the opposite sex for the period from 17 May 1990 to 6 April 1997. If it would have been greater, we will apply an uplift to your pension.

Note: not everyone will be affected, so only some members will receive an uplift. For most members, we expect any such uplift to be quite small, while no member will be worse off as a result of the changes.

To meet the GMP equalisation requirement for deferred benefits

We are proposing to convert all members' GMP into a different form of pension. This will remove the requirement to do the opposite-sex calculation every year.

In addition, converting GMP into a different form of pension will:

- Remove sex-based inconsistencies between male and female pensions – providing each member with the more valuable of the two.
- Potentially provide greater flexibility in how you can take your Scheme benefits at retirement, because there are restrictions around how you can take GMP benefits.
- Simplify your future pension and the future administration of the Scheme, as they will no longer be tied to complex GMP legislation.

There are different ways of converting GMP. We are also consulting with you on applying GMP conversion individually at retirement.

This is designed to allow the Scheme to provide members with a very similar benefit while not being tied to the legislative demands of GMPs which are extremely complex from an administrative perspective.

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 Scheme pension will still be simplified under our proposal for GMP conversion.

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

5. What is your proposed method for GMP conversion?

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

For all pensions built up between 6 April 1978 and 5 April 1997, we would remove any adjustments relating to GMP which may otherwise have occurred at age 60 for women or 65 for men (impacting only those members currently below age 65).

Your pension built up between 6 April 1978 and 5 April 1997 is currently made up of different 'building blocks', based on when you joined or left the Scheme.

Before GMP conversion	Pension increase
Building block 1: GMP built up before 6 April 1988	Legislation provides no annual increase, however the Scheme provides increases in line with non-GMP (detailed below)
Building block 2: GMP built up from 6 April 1988 to 5 April 1997	Legislation provides annual increases in line with CPI up to 3%, however the Scheme provides increases in line with non-GMP (detailed below)
Building block 3: Non-GMP built up before 5 April 1997	<Upper Tier member=Y> <The annual increase in RPI to October, subject to a maximum of 5% per year> <Lower Tier member=Y> <Fixed 3% per year>

Using a simplified example, this is what happens at GMP conversion:

- When you retire, we would convert building blocks 1 and 2 into new 'non-GMP' building blocks 1 and 2. We may also need to adjust building block 3 to ensure the overall expected value of your benefits is unchanged.

- Each of the new building blocks could be slightly different in size after GMP conversion. However, the sum of the three new building blocks would not be lower than the sum of the three 'old' building blocks (and could be slightly higher if you require an uplift as a result of GMP equalisation). In other words, the starting annual amount of your Scheme pension would not be reduced. In some cases, it may increase slightly due to GMP equalisation.
- The new building blocks would increase in payment in the same way as the old building blocks. The overall expected value of your pension over your lifetime would not be reduced.

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).

There will be no changes to how your pension increases in the period before retirement.

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

For most members, the changes as a result of us converting GMP benefits is expected to be small.

However, there are a couple of exceptions where you may see a bigger change in how your Scheme pension increases each year after you retire:

- Currently, women retiring before age 60 and men retiring before age 65 see their pension increase in one way until age 60 (for women) or 65 (for men) and then in a different way in later years. This is due to the complex way GMPs must increase by law which we are simplifying 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 Scheme pension 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 Scheme pension and expected value of your Scheme pension would not be reduced.

7. Why are you proposing to convert GMPs?

GMP equalisation is a complex and costly process, no matter which method is adopted. We decided on our proposed GMP conversion approach after much consideration and input from our advisers.

The factors that influenced our decision include:

- the historical complexity in the Scheme,
- the opportunity to simplify the existing benefit structures, and
- alignment with how the Scheme is operated now and in the future.

We are satisfied that our proposal is in the interest of the Scheme and its members.

8. 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 is following guidance from the Department for Work and Pensions.

The Trustee is consulting with all affected members of the Scheme.

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

The Trustee is required to carry out GMP equalisation. If you receive an increase in your annual Scheme pension, this would be taxed in the usual way. As a result, there may be tax implications if the GMP equalisation exercise leads to an increase in the starting annual amount of your Scheme pension.

Our proposals for GMP conversion have been designed to minimise any negative tax implications. In almost all cases, our proposals mean that GMP conversion will not trigger any Lifetime Allowance tax charges above those that would have otherwise been payable. However, the tax arrangements for UK pensions are complex. **Please tell us if you have any Lifetime Allowance protections as the approach taken to GMP conversion may need to be modified for you to avoid inadvertently creating an additional tax charge.**

Lifetime Allowance

The Lifetime Allowance is a limit on the value of 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.

You can read more about this at **www.gov.uk/tax-on-your-private-pension/lifetime-allowance**.

The Lifetime Allowance for the tax year 2022/23 is £1,073,100.

Our default approach is that we will carry out the GMP conversion calculations immediately before we calculate your retirement pension and any tax-free lump sum which you can take. We think this will be most advantageous for most members and could lead to some members being able to take a higher tax-free lump sum.

Some members may have applied for protection to limit the effect of the Lifetime Allowance. These are covered in the HMRC link above but include Individual Protections, Fixed Protections, Enhanced Protection and Primary Protection.

Specifically, if you have applied for Enhanced Protection or Fixed Protection against the Lifetime Allowance, there is a risk that this could be lost if GMP is converted to a form of non-GMP pension. For members who have notified us that they have Enhanced Protection or Fixed Protection and where we calculate that these might be lost, we will calculate your benefits differently: We will first calculate your retirement pension and any tax-free lump sum and we will then carry out the GMP conversion calculations afterwards. This will mean that Fixed Protection will not be lost and it also minimises the consequences of losing Enhanced Protection, but it means you might not benefit from an increase in tax free lump sum which GMP conversion can sometimes provide.

If you have Enhanced Protection or Fixed Protection (including Fixed Protection 2014 or Fixed Protection 2016) **please get in touch using the contact details on page 3 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 the member has to pay tax.

You can read more about this at **www.gov.uk/tax-on-your-private-pension/annual-allowance**.

Members who left service before 6 April 2006: The Annual Allowance is not relevant for your benefits.

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 some time ago, your Scheme pension has not used up any of your Annual Allowance in recent years.

Because of the complexity of the rules from HMRC, carrying out GMP conversion when you retire could use up some of your Annual Allowance in that tax year.

- When you come to retire, if we calculate that you will use up to £4,000 of your Annual Allowance, we will proceed with the GMP conversion calculations as planned.

  Using up £4,000 of your Annual Allowance means that you will have slightly less Annual Allowance (£40,000 less £4,000 for most members) available to use in other pension arrangements. It does not mean that you will face a tax charge of £4,000.

- If we calculate that you would use up more than £4,000 of your Annual Allowance, we will first calculate your retirement pension and any tax-free lump sum and we will then carry out the GMP conversion calculations afterwards. Doing the calculations in this way means that you will not use any of your Annual Allowance, but it means you might not benefit from an increase in tax-free lump sum which GMP conversion can sometimes provide.

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 3 of your letter. You have until **31 May 2023** to do this. These are also the contact details to use if you have a general query about the Scheme or your benefits, or if you have any questions or feedback about our proposal.

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