

Your pension may need to change soon

Questions and answers

The Trustee is consulting with all affected members who are receiving a pension 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 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 – 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 pension that is known as GMP.

GMP was earned between 6 April 1978 and 5 April 1997, so if your benefits were built up during this time, some of your pension may be 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 Government 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?

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 apply a one-off calculation 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 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 apply an uplift to any member whose benefits are lower in value than they would have been had they been of the opposite sex, and, reimburse members who have lost out in the past with a one-off payment.

Note: not everyone will be affected, so only some members will receive an uplift to their pension and/or a one-off lump sum. 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 fulfil the equalisation requirement, we are proposing to carry out a one-off calculation and convert all members' GMP into a different form of pension.

If a member is having their GMP converted, 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 Scheme before 1990 and so are not subject to equalisation. If we did not do this, it would create a significant administrative burden for the Scheme.

Note: only GMPs earned between 1990 and 1997 need to be equalised. If your GMP does not relate to 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 right).

GMP conversion

In order to meet the equalisation requirement going forward 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.

Converting GMP into a different form of pension will:

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

Every Scheme 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.

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

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

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



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 a 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	<p><Upper Tier member=Y> <The annual increase in RPI to October, subject to a maximum of 5% per year></p> <p><Lower Tier member=Y> <Fixed 3% per year></p>

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

- 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 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 change to any pension that was built up in the Scheme after 1997.

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:

- Women currently under age 60 and men under age 65 may see a bigger change to how their Scheme pension increases between now and age 60 (for women) and 65 (for men). This is due to the complex way GMPs must increase by law which we are simplifying as part of the conversion process.
- Pensioner 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 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 proposed change is designed so as not to trigger any disproportionate tax implications.

However, there may be tax implications if the related GMP equalisation exercise leads to an increase in the current annual amount of your Scheme pension or the receipt of back- payments.

Our proposals for GMP conversion have been designed to minimise any negative tax implications as far as possible. 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) 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.

Some members may have applied for protection to limit the effect of the Lifetime Allowance. The protections are covered on the Government website (see link above), and include Individual Protections, Fixed Protections, Enhanced Protection and Primary Protection.

Specifically, if you have applied for Enhanced 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. If you have Enhanced Protection or Fixed Protection, we recommend you discuss your individual circumstances with an independent financial adviser (IFA).

It is your responsibility to flag any Lifetime Allowance protections. If you don't let us know, there could be significant adverse tax implications for you.

If you have Enhanced Protection, **please get in touch using the contact details below.**

You have the right to make representations to the Trustee about the proposed method of GMP conversion. You have until **31 May 2023** to do this, using any of the contact details below.



0333 207 9447 or **+44 333 207 9447** if calling from outside the UK, Monday to Friday, 9AM-5PM



Invesco.pensions@aon.com



Invesco Pension Scheme, Aon, PO Box 196, Huddersfield, HD8 1EG

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.