HYMANS ROBERTSON

Private & Confidential
Consultation on Indexation of GMP in Public Service Pension Schemes
Workforce, Pay and Pensions Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

18 December 2020

Dear Sir/Madam

Consultation on indexation and equalisation of GMP in public service pension schemes – Proposal to extend full indexation

Hymans Robertson LLP is pleased to provide its response to HM Treasury consultation dated 7 October 2020 on indexation and equalisation of GMP in public service pension schemes.

The Annex to this letter sets out our formal response to the specific questions set out in the consultation. We previously responded to the earlier consultation exercise on this topic in November 2016. Our responses to the substantive questions in this latest consultation exercise continue to reflect the views expressed previously.

About Hymans Robertson LLP

Hymans Robertson has grown up with the LGPS. The firm was founded to provide advice to the LGPS in 1921, just as the first funds were being created. Whilst our business has developed over the decades, working with the public sector remains at the heart of what we do.

We have a specialist public sector actuarial team, which employs over 60 people exclusively advising on the LGPS. Alongside our actuaries there is a team of 15 investment consultants, and a team of benefit/governance consultants, providing advice to our LGPS clients.

We believe that we are well placed, therefore, to respond to the questions posed by HMT in this latest consultation paper.

Yours faithfully

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Annex

Question 1: Do you consider an extension of full indexation until April 2024 to be appropriate to ensure that the government can meet its existing commitments, re-evaluate conversion as a long-term solution and resolve the handling of those cases where conversion could not be undertaken on a £1:£1 basis?

The commitment made by successive governments has been that members of public service schemes should receive full indexation of the GMP element of their pension. We believe, therefore, that action is required to ensure this continues beyond the end of the current extension of the interim period to 5 April 2021 in order to honour that commitment.

Ideally it would have been better had a permanent solution been in place ahead of 5 April 2021, but in the absence of a solution, an extension of the current "interim" solution would appear to be the only viable option at this time.

Question 2: Should the government consider an extension of full indexation to cover those reaching SPa beyond 5 April 2024? If so, how long should the government extend full indexation for, and why?

Given the current shortness of time in order to put in place any permanent solution ahead of 5 April 2021 we appreciate the desire to extend the current "interim" solution to 5 April 2024 in the first instance.

The latest consultation makes reference to the dwindling number of cases that might be impacted beyond 5 April 2024 and beyond. While we have continued concerns regarding the additional costs that have been transferred to scheme employers since 2016 as a result of full indexation, in order to provide certainty on this particular issue we can appreciate the argument that full indexation should now become the permanent solution. On that basis it would seem preferable to us that this is confirmed at the earliest opportunity, rather than extending any "interim" solution out beyond 2024.

Question 3: Should the government consider making full GMP indexation the permanent solution for all members due to reach SPa after 5 April 2021? If so, why do you think this is the most appropriate solution?

Full GMP indexation, either through the permanent adoption of the "interim" solution or via conversion of GMP to pension, has a number of reasons to commend it as a method of meeting past indexation of pension commitments.

In our 2016 consultation response we suggested that no solution is perfect, but in our view, on balance, the conversion of GMP to main scheme pension best met the objective of ensuring full indexation of GMPS and addressing issues of equality.

In terms of the current "interim" solution, it is clearly simple to administer, requires no additional IT or systems development on the part of government and largely addresses issues of indexation and inequality, while fully upholding the commitments on GMP indexation made by successive governments.

Our main concern, however, has always been one of cost, which we believe is still true today even though the remaining numbers of potential cases are reducing with the passage of time. As advisers to over half the Local Government Pension Scheme funds in the country, we have considered what the additional cost of full indexation might end up being for scheme employers, not all of which are directly funded via Government.

Assuming full indexation was at a level of around 2% - 2.5% p.a., calculations carried out on a sample of LGPS funds and extrapolated across the whole of the LGPS suggests that the cost may be in the region of £2bn. At higher levels of inflation, such as indexation of 5% p.a., the cost may be £8 - £9 bn. across the whole of the LGPS.

This is potentially a significant cost to the LGPS funds. As we have previously stated in our 2016 consultation response we would expect the government to provide additional funding or some level of compensation to fund additional pensions increase costs. Allowance for the longer-term indexation solution was built into our clients' funding strategies at the latest round of LGPS actuarial valuations in 2019 or 2020.

From a practical point of view administering authorities might also feel aggrieved at the time and cost required to have undertaken a full GMP reconciliation exercise, when ultimately a scaled back exercise might have been more appropriate.

However, given the dwindling numbers of cases that might be impacted beyond 2024 we believe, on balance, that it would appear reasonable for the current "interim" solution of full GMP indexation to be adopted as a permanent solution, notwithstanding the additional costs that will fall on scheme employers in funding those increases and any grievance felt by administering authorities in undertaking a full GMP reconciliation. The costs of administering any sort of alternative for the dwindling cases would at this stage seem inappropriate and unnecessary.

Question 4: Do you consider full GMP indexation to be an appropriate method in most cases to avoid unequal pension payments to men and women?

Yes, notwithstanding our concerns regarding costs, as we stated in our response to the previous consultation on this topic we believe full indexation would avoid the inequalities between men and women that would otherwise occur following the abolition of AP.

Question 5: How could the delivery of any of the policies outlined in this consultation, by way of a direction made under s. 59A of the SSPA 1975, impact on wider public sector or private sector schemes which are not providing 'official pensions' under the PIA 1971?

Questions 5 to 9, all broadly cover the impact and potential read across of adopting the policies outlined in the consultation. Our general thoughts on this topic are set out below.

There may be an issue for several private sector, or wider public sector, schemes given that different schemes will find themselves mirroring public sector indexation rules for different reasons, involving matters of history and choices made in legal draughtsmanship. Consequently it would be preferable if the Government could find a way to let those schemes make their own assessment of the necessity or desirability of following the public sector's lead, as appropriate to that diversity of circumstances.

Question 6: If wider public sector or private sector schemes which are not providing 'official pensions' are impacted by any of the policy options set out in this consultation, why were their pensions originally designed to mirror official pensions?

See our response to Q5

Question 7: Should the government take action to avoid any read across, from its decision following this consultation in respect of public service schemes, to any wider public sector or private sector schemes that are not delivering 'official pensions' under the PIA 1971?

See our response to Q5

Question 8: What considerations should the government take into account when deciding whether to take such action? In particular, why should government act so that the members of these schemes do not receive the benefits which they would otherwise receive under the scheme rules?

See our response to Q5

Question 9: Are there actions the government could lawfully take to avoid any read-across, from its decision following this consultation in respect of public service schemes, to any wider public sector or private sector schemes that are not delivering 'official pensions' under the PIA 1971?

See our response to Q5

Question 10: Are there wider issues relating to the GMP that are not mentioned here and which should be considered when the government decides its policy?

We have no comments to make under this section.