

**Conversion of Guaranteed Minimum Pensions: the Department for Work and Pensions consultation document on "The Occupational Pension Schemes (Contracting-out) (Amendment) Regulations 2009"**

A response by

**The National Association of Pension Funds**

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**Introduction**

1. The NAPF is the leading voice of workplace pensions in the UK, with over 1300 members, between them providing pensions to over 10 million working people. NAPF Member schemes hold assets of some £800bn.
2. We welcome the opportunity to respond to the consultation by the Department for Work and Pensions (DWP) on the topic of converting Guaranteed Minimum Pensions (GMPs) into ordinary scheme benefits.
3. The NAPF welcomes these regulations, designed to put into effect the Pensions Act 2007 provision to convert GMPs into benefits which are actuarially at least equivalent.
4. We give below brief responses to the six consultation questions set out on page 8 of the document. We then go on to make some additional comments.

**Response to Specific Questions**

5. **Q1 – Will the Regulations allow GMPs to be properly converted into ordinary scheme benefits (accrued from 1978-1997) whilst retaining the requirement for the converting scheme to pay a survivor's benefit?**

We can see no problems with the draft regulations enabling the conversion process described to go ahead. But we feel that trustees would take comfort from some guidance on determining actuarial equivalence, which will now be their responsibility. The Pensions Regulator, having been given the responsibility to oversee the conversion process, would be best placed to provide such guidance.

6. **Q2 – Are the roles of the trustee and actuary clearly defined and correctly balanced for the purposes of achieving actuarial equivalence?**

We believe they are.

7. **Q3 – Is it clear that the value of the post and pre conversion benefits should be actuarially equivalent on the conversion date? Should the regulations be more specific in setting out the conversion date?**

Given that these regulations amend "the 1996 Regulations" (referred to in the Explanatory Note), which themselves amend the Pension Schemes Act 1993, perhaps a word of clarification could be added to the Explanatory Note. A reference to paragraphs (d), (e) and (f) of the 1993 Act's section 24A would serve the purpose.

8. **Q4 – Do you, as an employer or trustee, consider that you will simplify your administrative processes by converting GMPs into scheme benefits? If so, when do you envisage this will happen?**

While we welcome the facility to convert being made available, we do not believe that many pension schemes will make early plans to introduce conversion, mainly for reasons of cost. We believe that those schemes which have taken action to equalise GMPs will be amongst the first to consider conversion.

9. **Q5 – Should GMP conversion be extended further? For example, should it be available in individual cases of early or ill health retirement?**

If the facility is being made available for conversion at the scheme level, we see no reason why trustees and employers should not be given the flexibility to apply conversion at an individual member level. In effect, trustees have already been given this ability by paragraph 24F(3) of the Pensions Act 1993 (inserted by section 14 of the Pensions Act 2007), in cases where a member of a non-GMP-converted scheme transfers benefits out of that scheme.

10. **Q6 – There are no plans to use the power to place restrictions on transfers out, provided for in the Pensions Act 2007. Do you think additional restrictions should be placed on onward transfers from schemes which have converted their GMP liabilities? For example, to require the receiving scheme to provide survivors' benefits on the same basis as the transferring scheme?**

We support the reasons given for not exercising the power. For individual transfers there is no compulsion on the member – and for bulk transfers the actuary's certification is designed to provide appropriate protection to the member.

#### **Other Comments**

11. The NAPF does not see many pension schemes taking up the facility provided by the Regulations. The conversion process is necessarily complex and, we believe, taking the necessary member communications into account, far more expensive than the estimates set out in the final paragraph of the consultation document. While there will certainly be the future ongoing administrative savings to consider, we feel that the initial costs will be enough to deter trustees and employers from undertaking GMP conversion as a stand-alone exercise.
12. We do see schemes approaching GMP conversion more readily at a time when they might introduce other changes – as part of a larger package of benefit changes where a scheme is being overhauled. We think that trustees and employers will see the process as being more cost effective under these circumstances.
13. Finally, and apart from the Regulations, we believe that trustees would greatly welcome guidance in this area. The consultation document provides a useful starting point and, as stated above, we anticipate that the Pensions Regulator would be responsible for developing appropriate material. We believe that useful guidance would make trustees feel less daunted about taking advantage of the new and welcome option.