Abstract

Before 1978 in the United Kingdom, government paid all state pensions. However, in April 1978 private pension schemes were given the option to pay their members a part of the state pension as long as they followed the same rules. That part of the pension is called the Guaranteed Minimum Pension (GMP).

GMP is calculated considering several factors, such as the member’s age, sex and working lifetime. GMP payment age is different for male and female members, as well as the accrual rate, which is dependent on the working lifetime of the member. These differences led to inequalities in the GMP pension between male and female members that had the same service period.

In 2018, three female members, due to these inequalities, sued the trustees of the Lloyds Bank pension scheme. As an outcome of this judgment, all pension schemes in the UK were obliged to equalise GMP for all their members. In spite of the ruling, a clear way on how to proceed with the equalisation was not given, though some methods were proposed. As of now, schemes have the authority to choose the method they find most convenient.

As this is a very pressing problem, this paper is entirely devoted to it. After setting the framework, we present how GMP is calculated, analyse the different factors that cause inequalities and show how the equalisation is achieved through the proposed methods. A number of examples and illustrations are provided.

KEYWORDS: Pension Schemes, Guaranteed Minimum Pension, UK