

AXA UK Group Pension Scheme

GMP Conversion Consultation Question and Answers:

The following is a summary of key questions arising in member feedback received by the Trustees as part of the GMP Conversion consultation which ran in Q4 2023, together with the Trustee's response to such themes.

The purpose of this document is not to reproduce each specific question raised during the consultation but, instead, to capture the key themes.

It may be that, because of the specific circumstances of a member (or a group of members) the deliberately general information provided below does not apply or is subject to additional considerations. If any members have questions about their specific circumstances, they should contact Capita, as Scheme Administrators.

General feedback

Q) Will my Normal Pension Age (NPA) change as part of the GMP Equalisation/Conversion exercise?

A) It is not proposed that your NPA will be changed as part of the conversion exercise.

Q) Will full details of the assumptions used for the conversion be made available to members?

A) The key assumptions used for the conversion calculations can be made available to members at their request.

Q) Will there be an independent assessment of the assumptions used for the conversion calculations?

A) The Scheme Actuary is responsible for certifying that, at the point of conversion, the benefits are of equal or greater value following conversion than they were prior to conversion based on assumptions agreed between the Trustee and Company, following actuarial advice.

The Scheme Actuary does not act alone and is part of a team of actuaries working on this exercise. The Trustee has established a GMP Equalisation Working Group, which includes the Scheme lawyer and representatives of the AXA Pensions Team who provide constructive feedback/input on all proposals as to how the conversion exercise would be carried out. The Trustee regularly meets with the Scheme Actuary and other advisors and will continue to ask questions in relation to any proposals or draft results of conversion calculations before they are implemented.

Q) In relation to the GRE and Equity & Law sections of the Scheme, is there any proposed change to the State Pension adjustment as part of the GMP Equalisation/Conversion exercise?

A) We can confirm that no change is being proposed to the Scheme benefit design in relation to the State Pension Age adjustment as part of the GMP Equalisation/Conversion exercise.

Q) I didn't build up GMP between 17 May 1990 and 5 April 1997. Am I affected?

A) There are two different, but related, matters which are mentioned in the consultation documents:

- (1) GMP equalisation: the process of addressing any sex-based differences arising from any GMP earned between 17 May 1990 and 5 April 1997
- (2) GMP conversion: the process of converting of all GMP benefits accrued in the Scheme between 6 April 1978 and 5 April 1997 into a different form of (non-GMP) benefits.

If you did not build up any GMP between 17 May 1990 and 5 April 1997, you are not in scope for the Scheme's GMP equalisation exercise. However, if you built up GMP before 17 May 1990, you are in scope for the proposed GMP conversion exercise.

Q) The main benefit of Conversion is to simplify the administration of the Scheme. Will this generate significant financial savings for the pension scheme sponsor?

A) No, it is not expected to significantly reduce existing costs. It is not the purpose of GMP Conversion to generate cost savings for the Scheme's sponsor.

GMP Conversion is one way of implementing GMP Equalisation in respect of future benefit payments. One of the advantages of GMP Conversion is that it would avoid the need to achieve GMP Equalisation by introducing an expensive and complex dual-record system to compare male and female benefit entitlements on a year-on-year basis for each member. Implementing a dual-record system (instead of GMP Conversion) would result in an increase in future administration costs.

Q) How is it possible to assess the correctness of the conversion assumptions (e.g. interest rates, inflation, mortality etc) or final conversion figures applied?

A) As part of the GMP Conversion process a number of assumptions will be proposed by the Scheme Actuary and agreed between the Trustee and AXA UK. We can confirm that appropriate discussion, feedback, and challenge is provided by the Trustee, the AXA Pensions Team and other Trustee advisors as to reasonableness of these assumptions.

While the Scheme Actuary's Conversion calculations would be based on a set of assumptions at a point in time (i.e. at the point of conversion), the assumptions have been set so that they are 'best-estimates'. In other words, based on the best information we have at the time, in the event that the assumptions are not borne out in practice, members are equally likely to be advantaged or disadvantaged.

Q) I have concerns regarding the costs incurred in achieving GMP equalisation compared with the level of adjustments expected to members' benefits.

A) The Trustee is legally required to carry out the GMP equalisation exercise.

Whilst the majority of members will only see a minor adjustment, there are certain groups of members who will receive a more significant uplift.

Q) I have concerns regarding the costs of the consultation exercise including the consultation documentation.

A) In order to complete a statutory GMP conversion exercise, there are certain procedural steps that the Trustee is legally required to take, including consulting with members.

The Trustee considered that the consultation communications should be prepared in a way that informs members as to the proposals (including the potential changes to benefits) and the reasoning behind the proposals, and gives members the opportunity to share their views, should they have any.

Q) Why can't you just apply an increase to all members with a Barber GMP elements?

A) The purpose of the GMP Equalisation exercise is to address any sex-based differences arising from any GMP earned between 17 May 1990 and 5 April 1997. This exercise may result in an uplift to a member's pension (and an arrears payment in relation to past instalments); however, individual calculations are required before this can be determined and different members will be affected in different ways to one another, depending on their benefits in the Scheme.

Q Why has it taken the AXA Scheme so long to address GMP Equalisation?

A) Achieving GMP Equalisation on a Scheme-wide basis is a complex process. We consider the Scheme to have progressed further through this process than average, when compared to other schemes. We have worked closely with our advisers to apply the lessons that have been learned from earlier exercises and utilise market experience and know-how generated by industry-wide working groups to formulate an efficient and member-focussed exercise.

It is a complicated project, involving detailed, individual calculations (including (i) for those in scope for GMP equalisation, calculations as to whether any uplift is due to the pension as a result of GMP equalisation and/or whether any arrears payment is due in respect of past instalments, and (ii) for those in scope for GMP conversion, calculation of the post-conversion benefits).

The Trustee has developed a comprehensive approach to GMP Equalisation and Conversion which is designed to be fair, member-focussed, and capable of being implemented efficiently in order that members who are due a GMP Equalisation uplift receive it without undue delay.

It is hoped that GMP Conversion would provide some simplification to the structure of benefits (by removing complex GMP rules), potentially making benefits easier for members to understand and for the Trustee to administer. In addition, removing the GMP rules will allow some members greater flexibility when they reach retirement.

Q) How will conversion be undertaken?

A) It is proposed that the Scheme Actuary will undertake a calculation for each member, which will utilise a set of assumptions agreed by the Trustee and Company to determine post-conversion benefits for each member (including a new date of leaving pension figure for deferred members). These post-conversion benefits would (based on the assumptions used) have the same actuarial value at the point of conversion as the pre-conversion benefits and (i) where a pension is in payment at the point of conversion, the same or higher current pension; or (ii) where member is a deferred member below Normal Pension Age at the point of conversion, the same or higher expected pension at Normal Pension Age. When assessing the value of the pre-conversion benefits and expected pension at Normal Pension Age, the Scheme Actuary will take account of any uplift that may be due as a result of GMP equalisation.

Q) The consultation period runs from 19th October to 15th December, which is less than 60 days.

A) The 60-day period required for certain pension consultations does not apply to the statutory GMP conversion process.

Nevertheless, the Trustee wanted to ensure that members had a substantial period to consider the proposed changes and share any questions or feedback they might have. The chosen duration of the consultation period was intended to achieve this.

Q) You say you will review all feedback in December 2023, is this a short period of time to consider feedback received?

A) During and after the consultation period, the Trustee considered feedback received. No decision was made before all feedback had been considered and the consideration of feedback continued into January 2024.

Q) I presume that a suitable audit trail will be maintained for each member and can be requested by a member to satisfy themselves that this work has been carried out correctly.

A) We can confirm that our Administrators, Capita, will maintain an audit trail of the original benefit structure prior to conversion and this will be stored on each member record. The Scheme Actuary, the Trustee and AXA Pensions Team will keep a full record of the methodology/assumptions used.

This information can be made available to members at their request.

Feedback specific to deferred members

Q) I am a deferred member and am aged over my GMP Payment Age (GPA). What provision will be made for loss of increments due after GPA but before I retire?

A) The Scheme Actuary's calculations are proposed to be based on non-pensioner members drawing their pension at Normal Pension Age (or date of conversion, if later) and would allow for any late retirement uplift that would apply to GMP for the period after GPA.

Q) The booklet states that '*the member's pension at retirement date is expected to be at least the same level it was pre-conversion*'. What does this mean?

A) This wording was primarily included to reflect the fact that we usually cannot know for sure, at the point of conversion, what a member's pension will be at a future date of retirement.

For example, it may depend on the rate of future inflation, which is unknown at the point of conversion and may differ from the actuarial assumptions made in the conversion calculations.

However, based on the assumptions used for conversion, at the point of conversion, the member's pension at normal retirement date is not expected to reduce as a result of conversion.

Q) Could the proposal to switch from GMP increases in deferment to statutory increases result in a significant reduction in the level of pension payments?

A) No.

A requirement for any GMP conversion exercise is that each member's benefits immediately after conversion would have to be certified by the Scheme Actuary as having the same or higher actuarial value as the benefits immediately before conversion.

Therefore, if –as a result of conversion, a member would have a lower rate of increases before retirement, the GMP conversion process would involve a further change to balance this out. The proposal is that, in such circumstances, equivalent actuarial value could be achieved in two ways:

- (1) Increasing a member's deferred pension to balance out the lower increase rate applying in deferment; and/or
- (2) Reallocating some of a member's pension so that a higher proportion of pension is due to receive a higher rate of increases once it is in payment.

Q) I'm in the Equity & Law section of the Scheme and am concerned about the change in basis of pre-retirement increases for GMP from Section 148 revaluation to Statutory revaluation that applies to my section of the Scheme. Can you provide some further information about this?

A) Statutory revaluation orders are linked to CPI inflation, whereas Section 148 orders are intended to increase GMP in deferment broadly in line with National Average Earnings. The proposed assumptions have been carefully considered by the Trustee based on actuarial advice.

Please see answer immediately above for more general information on how we will allow for a switch from GMP increases to statutory increases in deferment.

Q) The booklet states that it's very unlikely that the expected amount of pension at retirement date would decrease as a result of GMP conversion. In what scenarios would the expected level of pension at retirement date decrease at the point of conversion?

A) The text was mainly included to address scenarios which could potentially arise for members with lifetime allowance protections (to help prevent such protections being lost).

However, as a result of recent changes to the lifetime allowance regime, even for members with lifetime allowance protections, we consider it to be highly unlikely that the expected level of pension at retirement date would decrease at the point of conversion.

It is important to note that, even in such an unlikely event, the post-conversion benefits would be structured in such a way that, over the member's lifetime, they would have at least the same estimated actuarial value as the pre-conversion benefits, due to the way in which the post-conversion benefits would (in such a scenario) be expected to increase once in payment.

Q) My pension consists solely of Pre-88 GMP. After conversion will there now be an option to take part of the pension at retirement as a tax-free lump sum?

A) Yes, under current legislation. Following conversion, there will be no GMP restrictions on the option to take a tax-free cash lump sum or on early retirement. The removal of such restrictions is one of the reasons the Trustee proposes to carry out GMP conversion.

Currently, the Scheme is required to provide a minimum level of pension to members who have GMP. This currently means that the Scheme may have to limit a member's option to take part of the pension as a lump sum, because the exchange cannot currently reduce the pension below the

guaranteed minimum level of pension. However, following the proposed removal of the GMP rules, this restriction would no longer apply.

Q) I intend to draw my pension in April 2024 or sooner. How would GMP conversion be implemented for me?

A) If you retire in April 2024 or sooner, this is likely to be before GMP conversion would be implemented in relation to deferred benefits. Therefore, your pension would need to be put into payment on the basis of your current non-equalised and non-converted benefits.

GMP conversion would be implemented for your benefits in the future, as part of the exercise in relation to pensions in payment. At that point in time, consideration would be given to whether your pension needed to be uplifted for GMP equalisation (and whether any arrears payment is to be paid in respect of past instalments of pension).

Q) I intend to draw my pension shortly after April 2024. I am worried that my post-conversion pension at date of retirement will be lower than previous estimates.

A) Irrespective of the GMP conversion proposal, it is important to note that the retirement figures quoted on the Hartlink Online Portal (HoP) retirement illustrator or any retirement figures issued by Capita are provided for illustration purposes only and will change over time. The key reasons for this include that actual inflation may be different to assumed inflation, and the factors used for early and late retirement and cash commutation may change, as they are regularly reviewed by the Trustee to ensure they are still suitable.

We have not run all the relevant GMP equalisation and GMP conversion calculations to know what the impact would be on an individual basis. However, we can state that:

- at the point of conversion (based on the assumptions used for conversion), the pre-conversion benefits and post-conversion benefits will have the same actuarial value and the same expected pension at normal retirement age; and
- where a member is retiring shortly after the conversion date, there is limited time for a deviation between assumed inflation (one of the key actuarial assumptions used in calculating your expected post-conversion pension) and actual inflation.

This FAQ document is intended for the purposes of the consultation only and is not legally binding, nor does it create any benefit entitlement. The provisions governing the Scheme are set out in the Scheme's Trust Deed and Rules, which override this document. The benefits provided by the Scheme are subject to legislation (including tax legislation) from time to time in force.

The Scheme Trustee is not able to provide financial advice and nothing in this document is intended to be or should be considered financial advice.