This is necessarily quite a technical note. We start with a simple example. It has a man and a woman who both worked long enough for BA to earn a full NAPS pension, whose working years include 1978 to 1997, and who reach(ed) state pension age on or after 6April 2016. Assume they are both on NAPS pensions of £10,000 a year and they live to receive 20 years of NAPS pension from now.

They receive 20 years' worth of NAPS pension, but changes to how part of this (called GMP) are calculated mean they now can expect not all of this 20 years' worth. If future inflation is 3% a year the man will lose £3,800 but the woman will lose £4,300 (in today's pounds) (around 40% of one year's pension). However, if future inflation is 6% a year the man will lose £9,900 but the woman will lose £11,100 (around 100% of one year's pension).

This expected loss is roughly proportional to the size of the BA pension. You can see it is slightly bigger for women than for men, also (not shown here) it is similar but slightly smaller for APS pensioners.

Now follows more detail and what ABAP intends to do about it.

There is a government consultation document on the effect of the Guaranteed Minimum Pension (GMP) on public pensions (not on APS/NAPS or other private pensions). The consultation closes on 20th Feb 2017. ABAP intends to reply on its members' behalf. Individuals can also reply. Here is a link to the consultation document.

https://www.gov.uk/government/consultations/indexation-and-equalisation-of-gmp-in-public-service-pension-schemes/consultation-on-indexation-and-equalisation-of-gmp-in-public-service-pension-schemes

This note contains what we are minded to say in our reply. First, here is a brief explanation of what GMP is and what it will do to some BA Pensions.

Those reaching State Pension Age (SPA) after 5Apr16 will have a subset of any APS/NAPS pension earned between 1978 and 1997 capped on future inflation rises: 0% cap on the 1978 to 1988 part, 3% cap on the 1988 to 1997 part. This subset is called the Guaranteed Minimum Pension (GMP)). **Those reaching SPA before 6Apr16 are unaffected.** The GMP was planned to be the equivalent of the state second pension (SERPS/S2P). As we (APS/NAPS pensioners) were contracted out from SERPS, that GMP amount is guaranteed, within our APS/NAPS pension. From 1978 to 1988 GMP was planned to be 25% of the excess of [one's pensionable pay, or the Upper Earnings Limit (currently £43,122), whichever is the smaller] over the Lower Earnings Limit (currently £5,840 pa). From 1988 to 1997 the 25% was replaced by 20%. It was assumed men would work 45 years (from 20 to 65) to get the full GMP, Women would work 40 years (from 20 to 60) to get the full GMP. Men's and Women's GMP would be paid from their (then) State Pension Age (SPA), of 65 or 60. The accrual of GMP stopped in 1997. The government was responsible for all the inflation rise of the pre-1988 GMP and for anything above 3% annual inflation on the post-1988 GMP. **The government will now not pay the inflation rates promised on the GMP to anyone reaching SPA after 5Apr16.** These pensioners will therefore get only the capped rises of 0% or 3% mentioned above. BA Pensions continues to pay post-1988 GMP inflation up to 3%. The government has agreed to continue to pay public pensioners (not APS/NAPS ones!) reaching SPA between 6April16 and 5December18 their full GMP inflation rises. The government consultation addresses 2 concerns. One is that there is implicit gender discrimination against women, who accrue GMP quicker than men (1/40 p.a. instead of 1/45 p.a.). Women also reach GMP age earlier than men (these GMP ages remain at 60 for women and 65 for men, unlike the SPA); full inflation is now not paid on GMP after reaching GMP age; A further point (not mentioned in the document) is that women generally live longer than men, so that inflation capping is longer at *both* ends of pension life for women (it starts earlier and usually goes on for longer than for men). The second government concern is that GMP inflation is still currently planned to be capped for public pensioners reaching SPA after 5December 2018; the paper discusses ways of alleviating this. The paper does not address this issue for private pensioners (e.g. APS and NAPS).

ABAP's concern is that private pensioners (e.g. APS and NAPS) are therefore being financially discriminated against. Now read on for our proposed submission. It starts with a calculation of the financial effect on BA APS/NAPS (as on other private) pensioners.

Consultation on indexation and equalisation of GMP in public service pension schemes – reply from ABAP

Before we comment on the consultation document, we try and estimate the GMP effect on British Airways (BA) pensions.

We have roughly estimated the effect on a BA pensioner who

- reaches state pension age after 5Apr16
- was employed and hence "contracted out" during the <u>entire</u> GMP years of 1978 to 1997 (19 years in total)
- worked long enough for BA to receive a full BA NAPS pension of £10,000 a year
- eventually receives the state pension for 20 years.

In the unlikely event of 0% inflation in the future, the inflation cap on GMP will of course have no effect on BA pensions.

However, assume inflation is always 3% a year in the future. 10 out of 19 years of the GMP part of a BA pension will have a 0% rise; the other 9 years will (just) keep the 3% rise. Say one lives 20 years from state pension age (roughly today's life expectancy for a 65 year old). The worst effect is on a pensioner with maximum GMP, one whose pensionable pay was generally in line with the upper earnings limit. We calculate that pensioner then gets 19.6, not the full 20.0 years worth (measured in today's pounds) of BA pension because of the GMP capping.

Now assume inflation is always 6% a year in the future. 10 out of 19 years of the GMP part of a BA pension will have a 0% rise; the other 9 years will be capped at a 3% rise. One lives 20 years from state pension age. If that pensioner has maximum GMP, they then get 19.0, not 20.0 years worth of BA pension because of the GMP capping.

Therefore one loses between 0.4 and 1.0 years' pension, because of the GMP cap, if future inflation is between 3% and 6% a year and one worked for all the 19 GMP years. These are average-based calculations. The number of years of pension loss is slightly bigger for women than men, and slightly bigger for NAPS pensioners than

APS pensioners. For higher pensions (than our assumed NAPS pension of £10,000 a year, or the APS equivalent), the loss is slightly smaller for NAPS and slightly bigger for APS pensioners; for lower pensions, the loss is slightly bigger for NAPS and slightly smaller for APS pensioners. This loss due to GMP compounds over time, so more of it occurs when the pensioner is older and possibly more in need.

In comparison, the RPI/CPI effect on a 20 years BA pension (i.e. using CPI rather than the roughly 1% a year higher RPI) reduces the full 20.0 years payment to 18.2 years, a loss of 1.8 years' pension.

The GMP effect on BA pensioners is not therefore as bad as the RPI/CPI effect, but could be up to around half of it (and of course BA Pensioners will be suffering both)!

HMRC has sent out letters to those recently reaching state pension age (if this was after 5Apr16) entitled "About your private pensions(s)" .The letters state the recipients' total weekly GMP but do not say anything about the GMPs effect on the BA pension inflation rise from April 2017. Nor do they split the individual's GMP into the 0% inflation and 3%-cap inflation parts. There have been communications from BA Pensions to pensioners about GMP but these have so far been unable to quantify an individual's GMP effect. BA has told BA Pensions the anomaly between private and public pension GMP treatment is the responsibility of the government (BA Pensions and ABAP do not dispute this ownership of responsibility).

Now we comment on the consultation document. The Introduction says "On 1 March 2016, the government announced that public service pensioners reaching SPA after 5 April 2016 and before 6 December 2018, would have the GMPs earned in public service fully indexed by the public service pension scheme. This eased the transition to the new State Pension for a group who would have been likely to lose, and ensured that men and women reaching SPA in that period continued to receive equal pension payments" We think it unreasonable that it is proposed only public service pensioners are to be protected from the GMP effect and not private sector pensioners, many of whom joined their schemes when that company was a nationalised industry, for example BA.

1.2 asks "does the policy proposal consider fairness to taxpayers in general". The proposal does not, because taxpayers in general will have to pay for it but only a subset, the public service pensioners, will benefit from it.

1.2 says "The government is separately consulting on a method by which private sector pension schemes can address the inequalities inherent in guaranteed minimum pensions." The government is therefore concerned about the (gender-based) inequalities for all but only concerned about the inflation-capping inequalities for some (the public sector pensioners). The gender inequality is minimal (around 0.1 years' pension) compared to the GMP inflation cap inequality. This is inconsistent and unreasonable.

1.3 and 2.2 say "it will consider whether it should meet the past commitments made to public service employees regarding full indexation of their public service pensions, including the GMP, in light of the wider gains many will receive from the transition to the new State Pension" This raises two points. Many BA pensioners assumed these past commitments (quoted in the consultation) also applied to their BA pensions, as BA was a nationalised industry when these quoted promises from ministers (in 2.2) were made in 1975 and 1978. It is unclear to us who will make the "wider gains from the transition to the new State Pension". Those reaching SPA *soon after* 5April 2016 appear to be caught between stools, in only being able to receive a state pension at the old level and being unable to increase this, *and* having their BA pension rises capped by the GMP effect. BA Pensioners qualifying for the new State pension will generally receive only the lower, old state pension amount, due to contracting out; there will be no gain in money from the new state pension.

2.4 says" The introduction of the NSP (New State Pension) and abolition of the AP (Additional Pension) removed the mechanism described above that provided public servants with fully indexed and equalised benefits overall" We simply ask "Why does it?" BA Pensioners reaching SPA before 6April 2016 will (rightly) continue to receive the inflation rises, paid by the government, for the GMP part of their BA Pension, even though they and the younger BA Pensioners (those reaching SPA after 5April2016) are both not part of the now discontinued SERPS / S2P / "Additional Pension".

"Interim Solution" says "On 1 March 2016 the government announced it would continue to price protect the GMP of public servants who reach SPA between 6 April 2016 and 5 December 2018 (when State Pension ages are equalised). This eases the transition to the New State Pension for those less able to build up New State Pension"…" Individuals who reach State Pension Age between these dates will have their GMP price protected by the public service pension schemes for life" The point here on "easing the transition to the New State Pension for those less able to build up New State Pension" implies those BA Pensioners in a similar position will indeed be financially penalised as there is no similar protection proposed for private pension schemes.

"Alternative Solutions" says "The government is interested in views from respondents to this consultation on whether there are alternative options not considered in the main body of this consultation document which would meet the government objective of avoiding the unequal pension payments to men and women that the abolition of the Additional Pension would otherwise lead to, and which at a minimum, protects those who lose out in the transition to the New State Pension, as a result of no longer receiving, in effect, indexation on their GMP." We think the best way of avoiding this objective is to continue paying GMP inflation rises to both public pensioners (the ones this consultation is concerned about) *and to private pensioners*.

Question 16 is "Why should government allow for members of schemes whose rules mimic/mirror those in the public services, to be deprived of the benefit of those rules?" We can think of no answer to this apart from "To save public money, albeit in a very unreasonable and discriminatory way".

2.4 says "…and have that fully indexed by the triple lock to make up for an estimated indexation loss" as an argument for the generous triple lock helping to reduce the GMP effect. The triple lock helps, but applies to *all* state pensions (i.e. also those reaching SPA before 6Apr16) so is not a specific compensation for these new pensioners. The triple lock is also only guaranteed until 2020.

Some BA Pensioners have looked into increasing their state pension by buying class 3 National Insurance (NI) contributions. There is conflicting advice on whether this is possible from DWP help lines. Some have rung and been told they already have enough (i.e. 35 or more) NI years and can not buy more, others have been told (even though they also have over 35 years NI contributions) the specific amounts they could pay for recent, unworked years. These amounts (around £700 for an extra, full, NI year) have recently been paid to and accepted by HMRC but we have yet to hear of any pensioners' state pension being increased by the £4.41 for each extra paid-in NI year. (£4.41 is 1/35 of the full new State Pension, which requires 35 NI years' payments). Buying extra years, when it is allowed, favours those who have the available money to do so; the scheme therefore discriminates against poorer pensioners.

We think this Class 3 NI payments scheme is too generous for those that qualify. The extra state pension payments received will cover the one-off payment made by the pensioner after about 3 years if this extra amount is taxed at 0%. The payback is still generous to 20% taxpayers (3.8 years payback) and even to 40% taxpayers (5 years payback). This is inconsistent with the current view of life expectancy inferred from the extra amount of state pension that those reaching SPA after 5Apr16 could get by deferring state pension payment (roughly 22 years life expectancy) and even those reaching SPA before 6Apr16 but deferring (a more generous, but out-of-date, 10 years life expectancy).

Why not just continue to guarantee the GMP inflation rises for all, just as they continue to be guaranteed for those reach SPA before 6Apr16, and fund this by increasing, by a suitable amount, the Class 3 payments required for further NI years?

To summarise:

- A BA pensioner on a full BA pension reaching state pension age after 5Apr16 and then living for a further 20 years typically loses between 0.4 and 1.0 years' pension, because of the GMP cap, if future inflation is between 3% and 6% a year
- It is discriminatory for public service pensioner to benefit from current and proposed GMP inflation protection while BA Pensioners (and other private pensioners, especially those in former nationalised industries) do not.
- As the solution is funded by the government, there is the added concern that many private pensioners not only suffer from the GMP cap, but all private pensioners have to pay for the government's public sector solution through their taxes.
- It is wrong to say the triple lock helps compensate those affected by the GMP cap. The triple lock is also only guaranteed until 2020.
- The recent HMRC communication to individuals on their GMP amount needs more detail and should also explain the effect on that person's future private pension inflation.
- It is unclear who can and cannot buy extra NI years to enhance their state pension. Clarity on this is needed as soon as possible, given the time limits that exist on Class 3 NI payments.
- The extra years Class 3 scheme is too generous and is inconsistent with other implicit forecasts of pensioner lifespan; making it less generous could fund a GMP inflation protection for all.
- Therefore surely the simplest and most reasonable solution is to continue paying GMP inflation on all public and private pensions?